



# Empowering Convergence: Unleashing the Potential of the Private Sector in ENC-8 on the Road to EU Accession

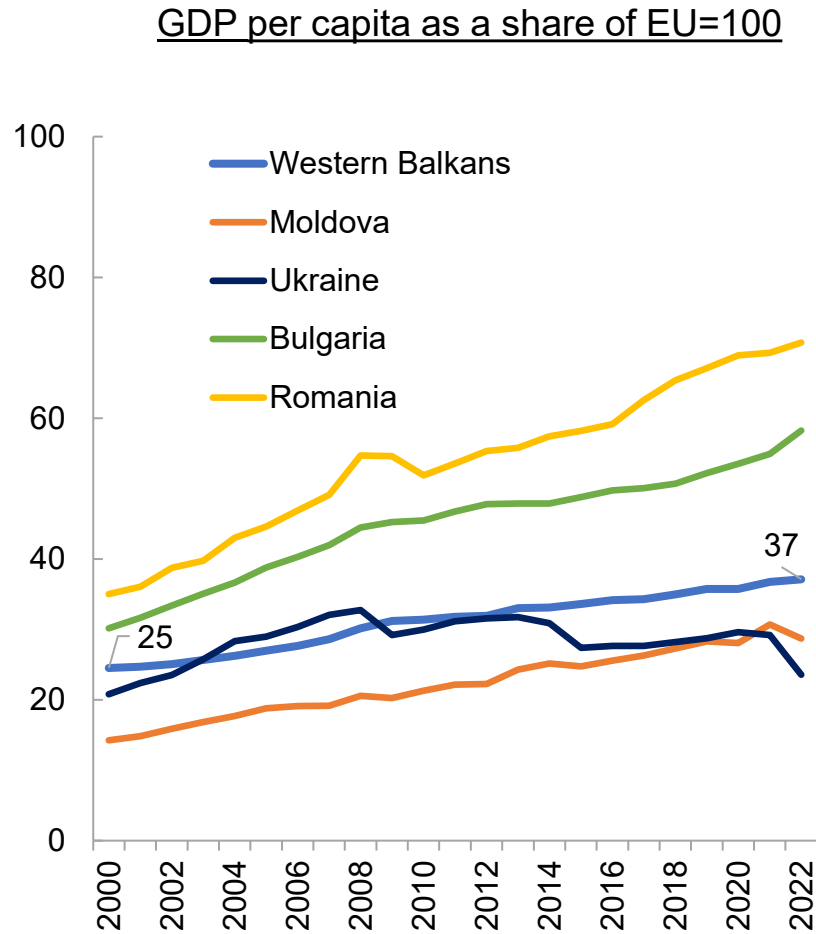
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Regional Director, Europe

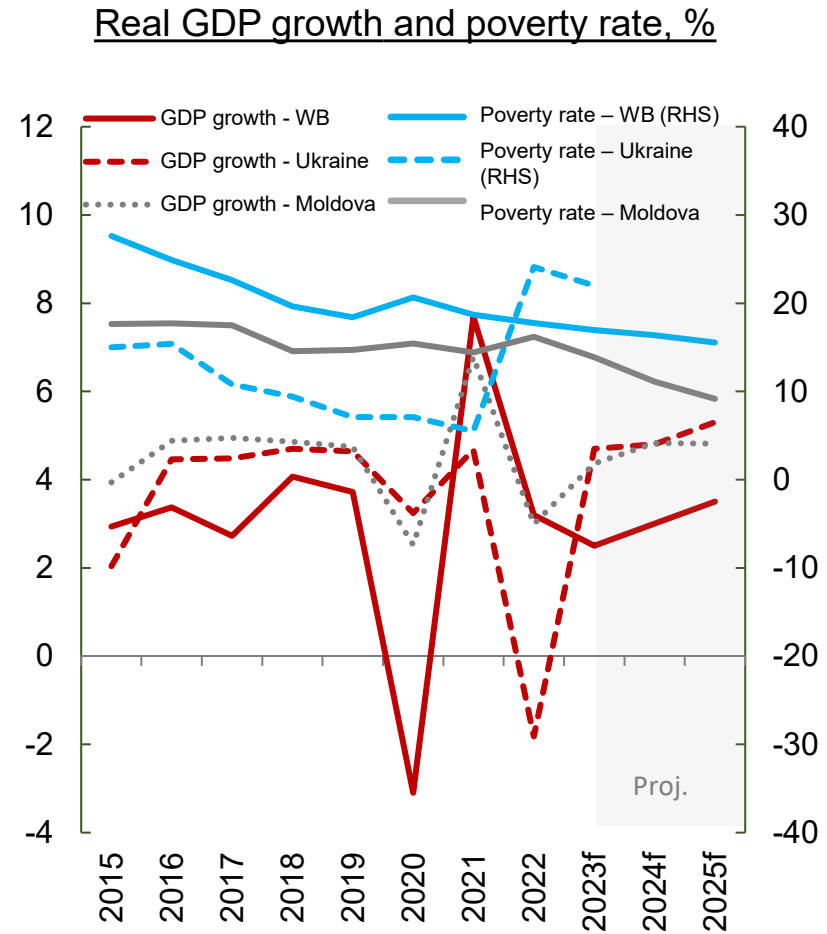
International Finance Corporation (IFC)

# ENC-8 Faces Uphill Struggles: Slow Income Convergence, Lingering Poverty

Slow progress in convergence to the EU income level, lagging aspirational peers (Bulgaria and Romania)



Source: IMF WEO October 2023.



Poverty has decreased but remains high, with a continuing downward trend disrupted by recent shocks

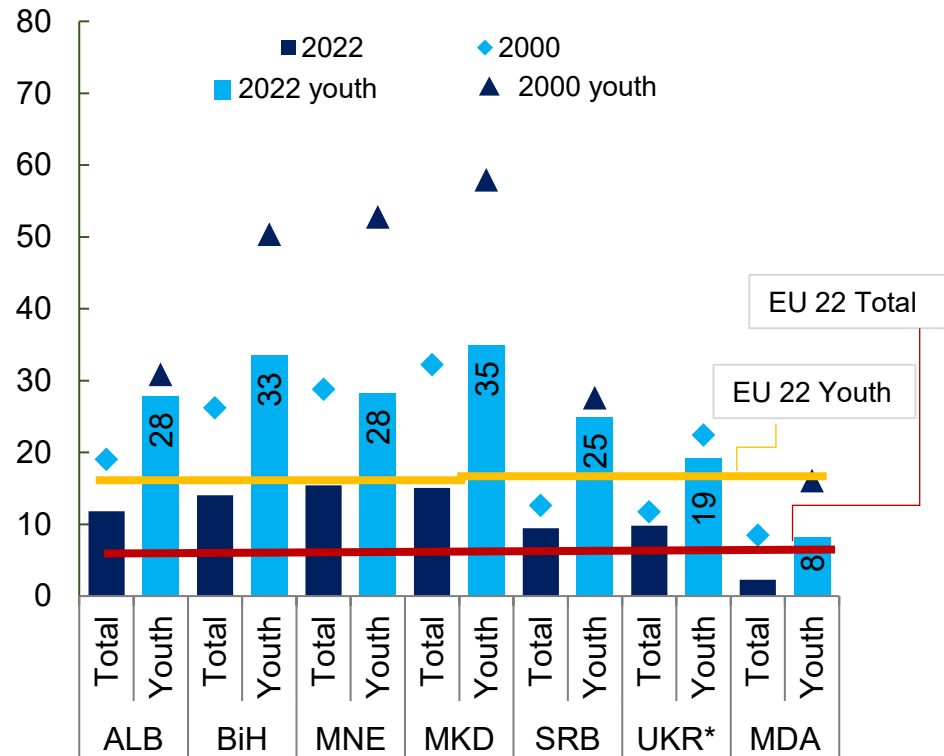
Source: IFC CELCE based on MPO September 2023. Poverty rate (upper middle-income poverty rate (\$6.85 in 2017 PPP) is the median for Albania, Montenegro, North Macedonia, and Serbia.

# ENC-8 Faces Uphill Struggles: Persistent Youth Unemployment Amidst European Aspirations

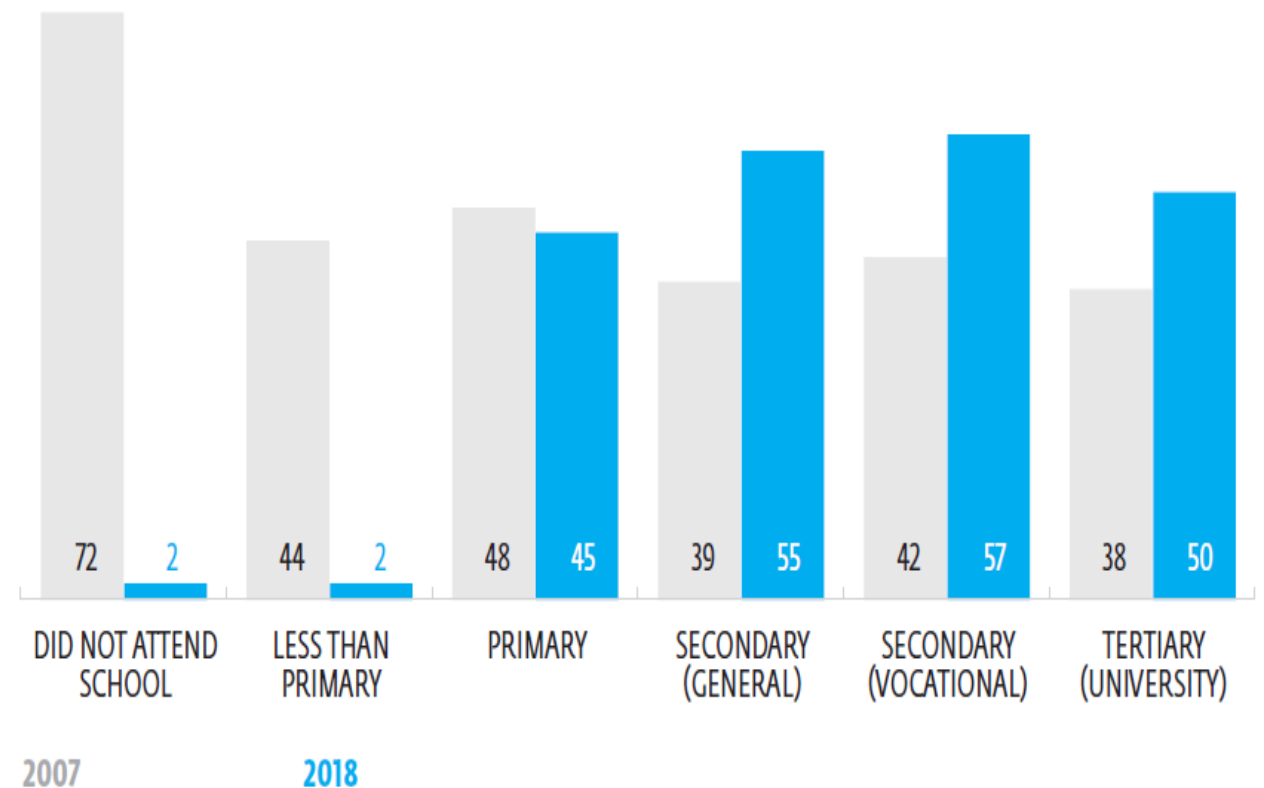
Unemployment nearly halved in 20 years but remains exceptionally high compared to EU level, especially for the youth

Fueling loss of skilled labor, as the educated youth who tend to emigrate is significantly higher than the less educated

Total and youth unemployment rate, %



Education level and expressed desire to emigrate, Albania



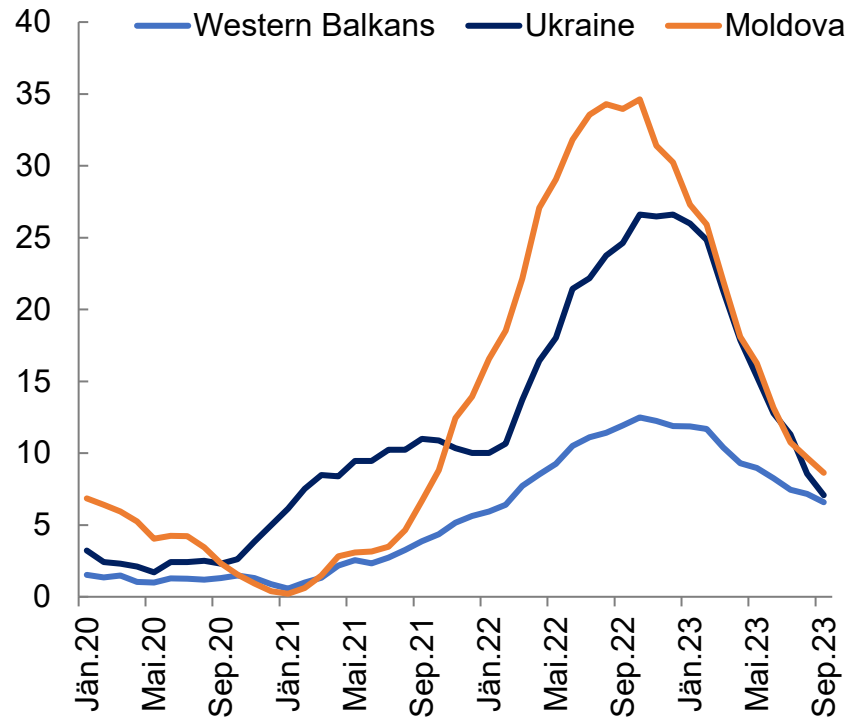
Source: IFC CELCE based on WB WDI Notes: Youth unemployment corresponds to 15-64 ages. Note(\*); 2021, latest available.

Source: Albania CPSD, the Center for Economic and Social Studies, Potential Migration Survey, 2007 and 2018.

# ENC-8 inadequately prepared for the recent shocks: soaring inflation which triggered steep rate hikes ...

Soaring inflation to historic highs with **disproportionate impact** on the vulnerable...

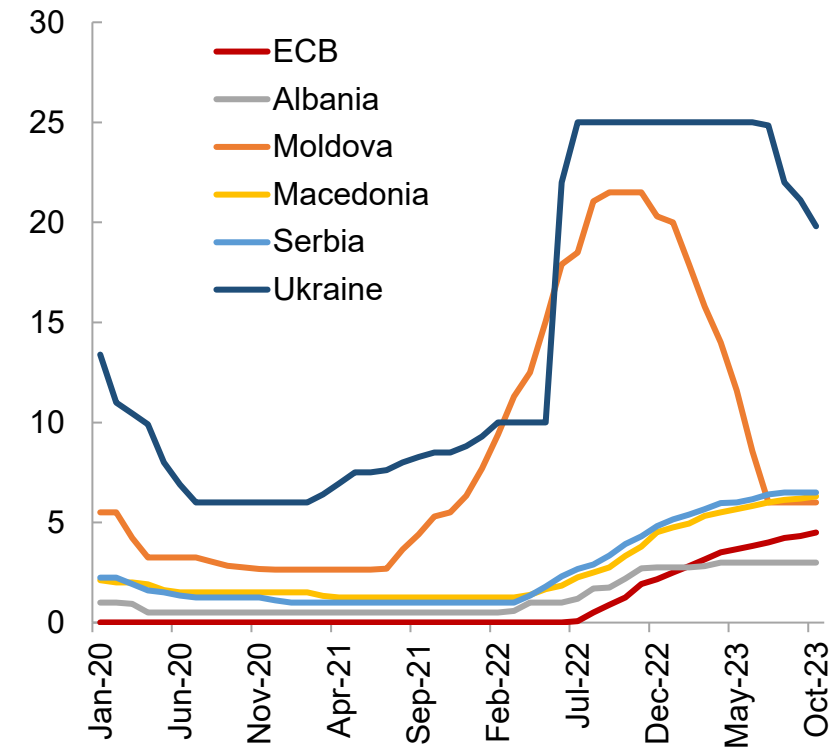
WB, Ukraine, and Moldova average inflation (y/y), %



Source: IFC CELCE based on Eurostat and Department of Economic and Social Affairs.

...triggering a **swift policy reversal** with a steep rise in lending rates...

Policy interest rates, %

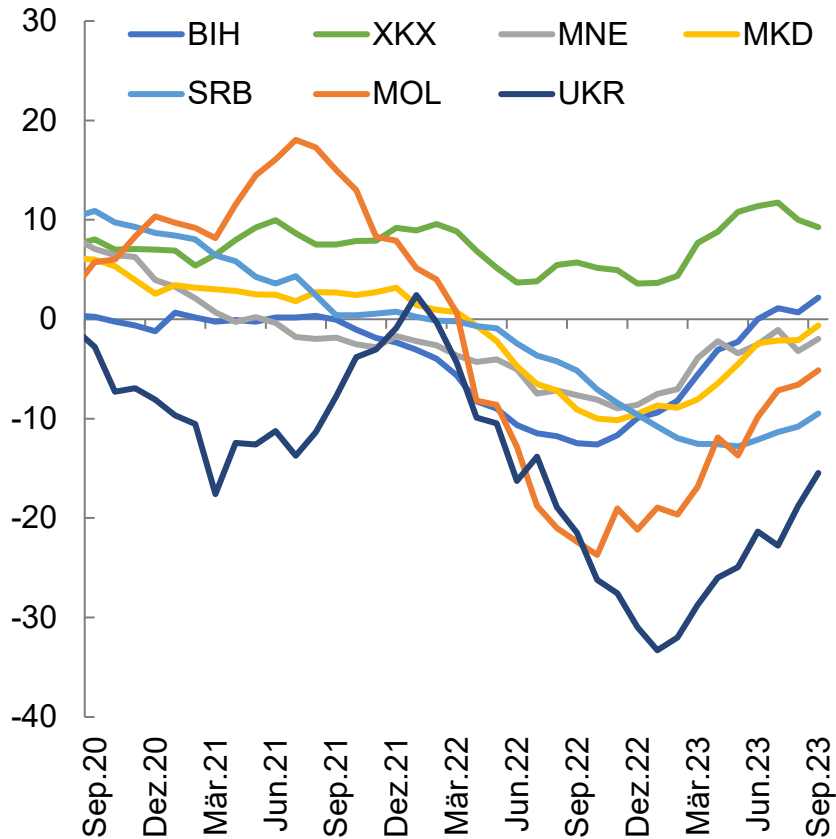


Source: IFC CELCE based on Haver Analytics.

# ... leading to sharp slowdown in credit growth

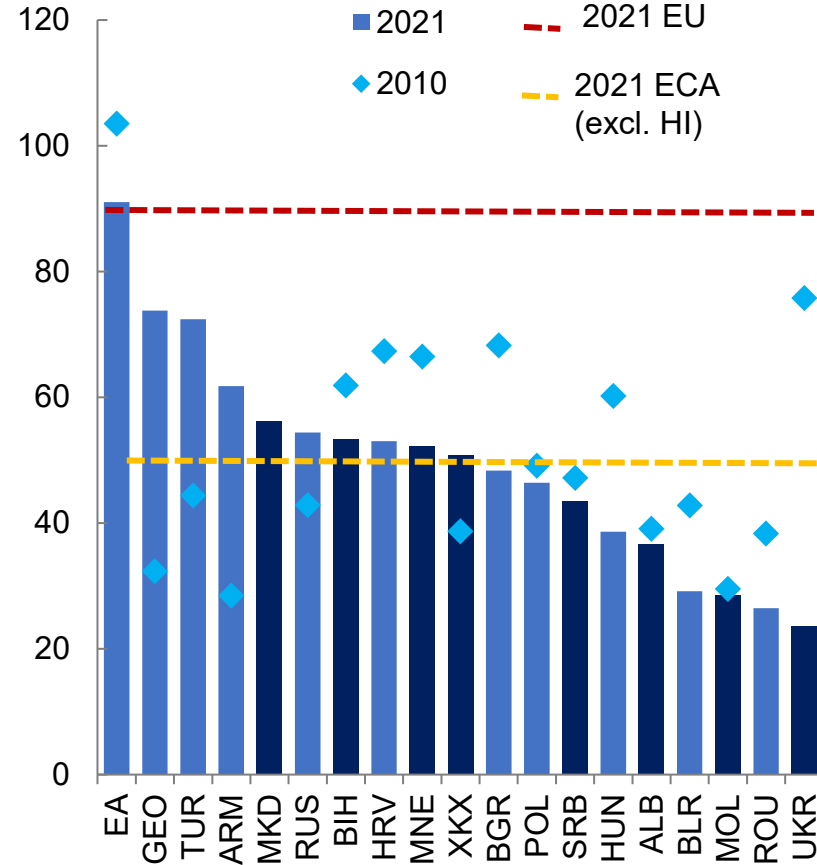
...tapering off credit growth, negative in real terms in most ENC-8...

Real private credit growth (y/y), %



Source: Haver Analytics  
Note: Real growth calculated deflating with CPI

Domestic credit to private sector, %GDP



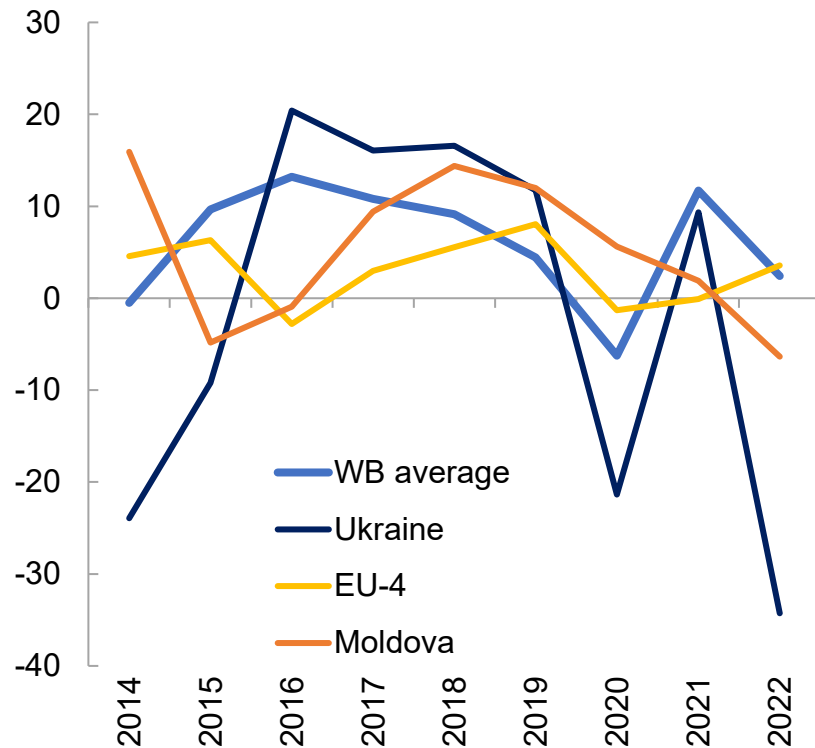
Source: IFC CELCE based on WB WDI.

Recent credit deceleration came on top of an already low credit penetration in ENC8...

# ...and decelerating investments flows ...

...leading to a **deceleration of investment**

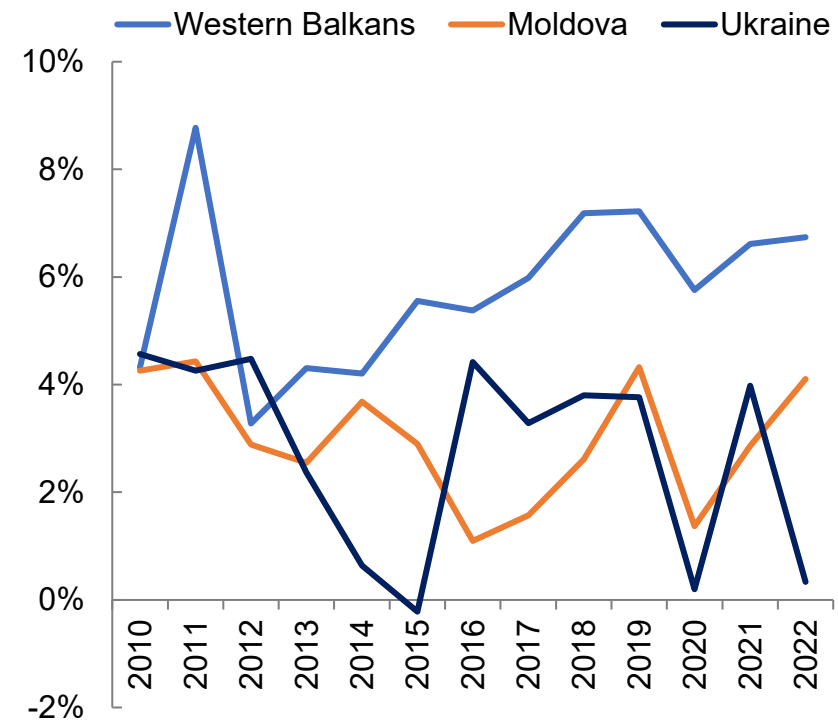
Real gross fixed capital formation (y/y), % change



Source: IMF WEO October 2023.  
\* Excludes North Macedonia due to data availability.

While **geopolitical fragmentation disrupted FDI flows**, in particular to Ukraine and Moldova...

FDI inflows, % of GDP



Source: WB Fall 2023 ECA Economic Update.

# Beyond recent shocks, convergence is held back by legacy structural challenges

## Low productivity



- Incomplete **transition**
- Shallow **financial markets**
- Obsolete **infrastructure**
- Underdeveloped **land markets**
- Low uptake of **innovation**
- Unfinished **SOE restructuring agenda**

## Inclusion



- Inadequate provision of **quality public services**
- Persistence of **gender gaps**
- **Youth and female unemployment**
- **Aging population**
- **Urban-Rural Divide**

## Climate



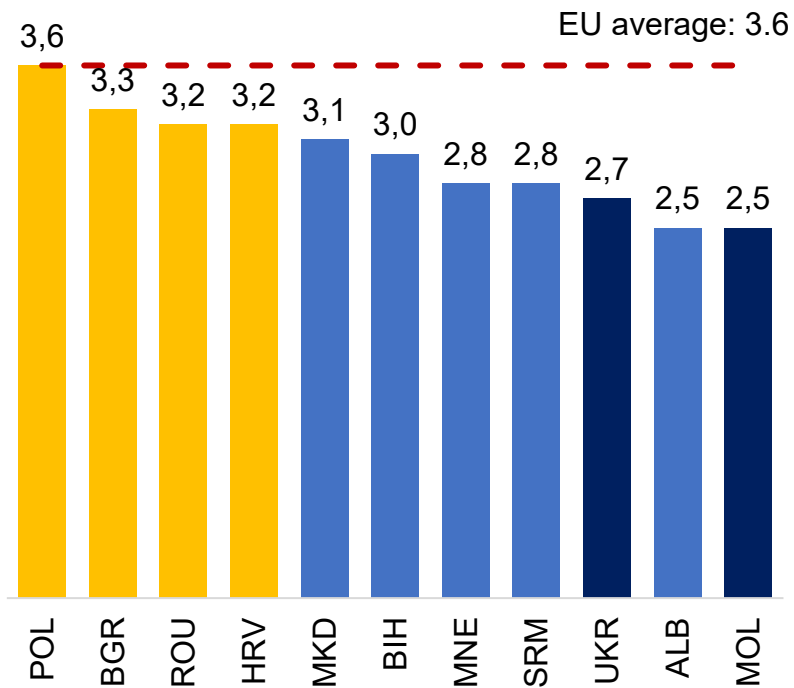
- **Inefficient power, transport & buildings (SOE link)**
- **Slow uptake of RE**
- **Old technology, obsolete and highly polluting coal power plants**
- **Natural hazards: floods, droughts, heatwaves**

# Large gaps in connectivity, governance and competitiveness: weighing heavily on the private sector growth



## ENC-8 are lagging on trade logistics

Logistics performance index, 1-5 best

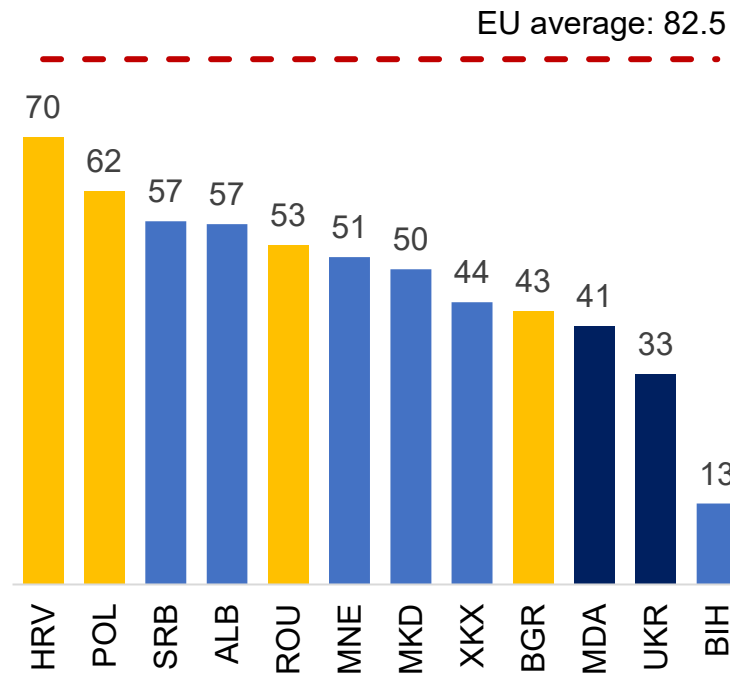


Source: Trade logistics index

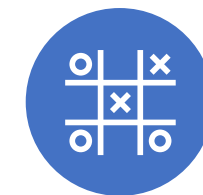


## Government effectiveness is mixed...

Government Effectiveness: Percentile Rank, 0-100 best

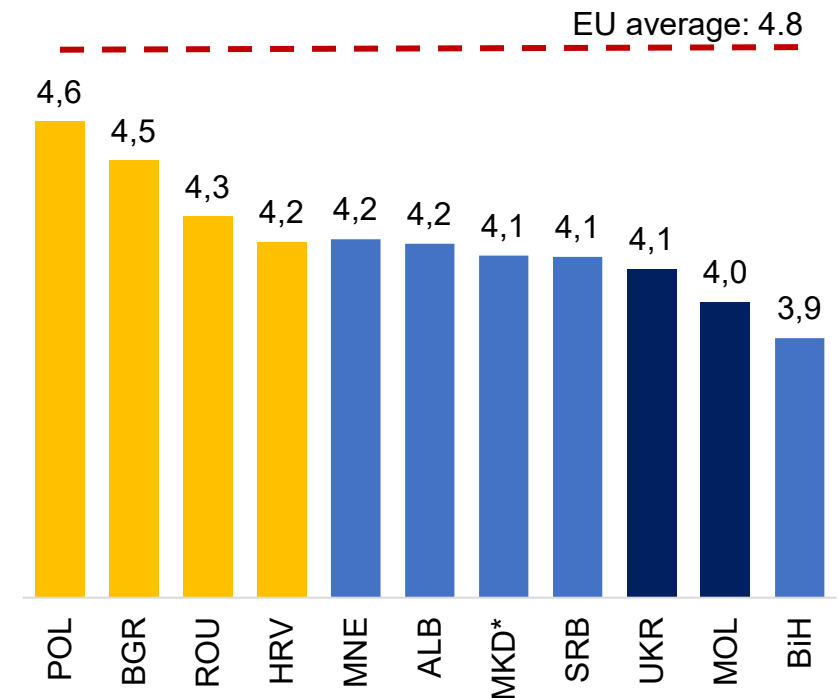


Source: World Bank governance indicators



## ... leading to a lack of competitiveness

Global Competitiveness Index, 1-7 best



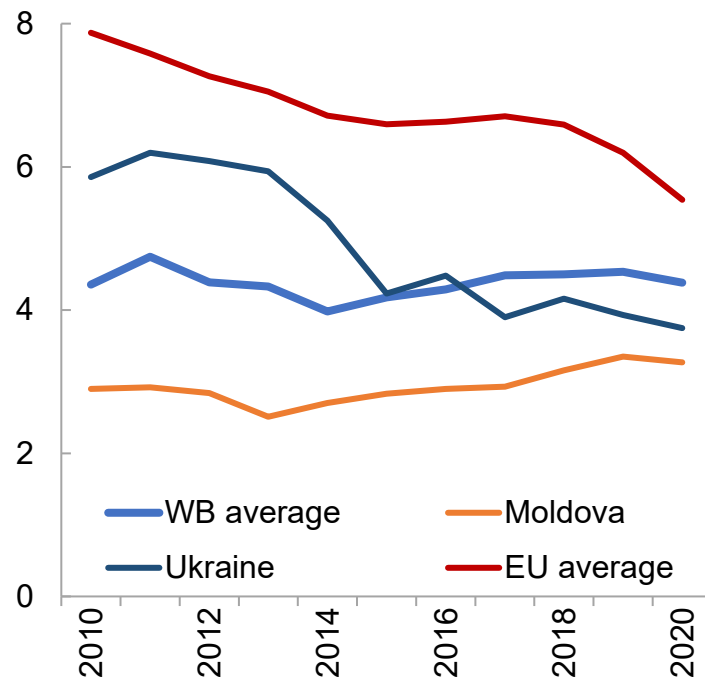
Source: World Economic Forum, The Global Competitiveness Report, (2017-18)  
 (\*) North Macedonia value is for 2016-17.



# Environmental Convergence Amidst Economic Challenges: Contrasting Pathways in ENC-8 and the EU

**CO2 Emissions lower than the EU; yet little progress over the past decade**

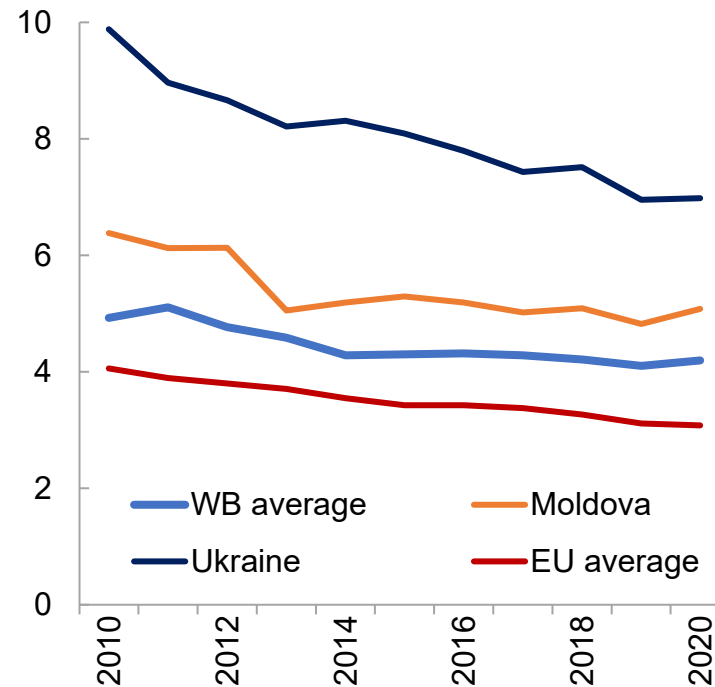
CO2 emissions, metric tons per capita



Source: WDI.  
\* WB average excludes Kosovo due to data availability.

**Energy intensity declines but still remains much higher than the EU**

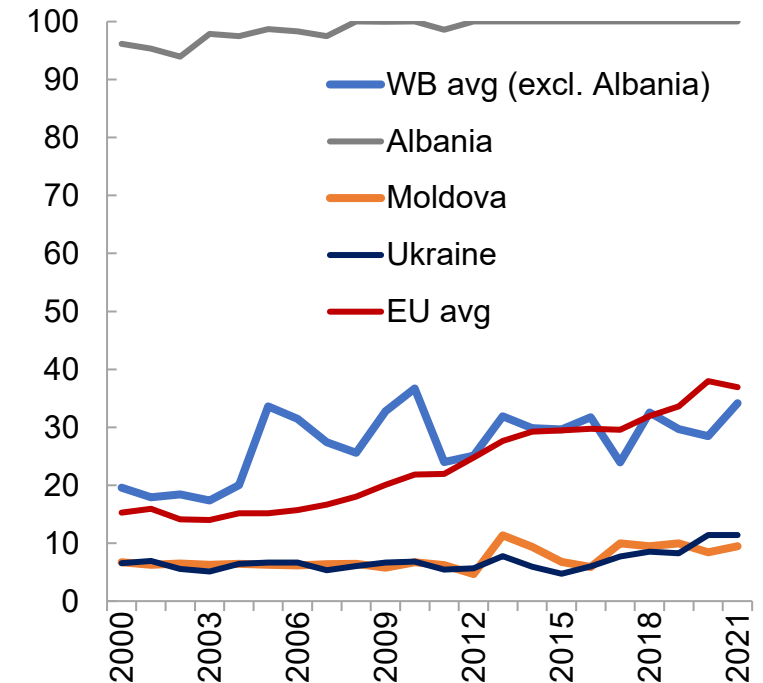
Energy intensity level of primary energy, MJ/\$2017 PPP GDP



Source: WDI.  
\* WB average excludes Kosovo due to data availability.

**ENC-8 lags the EU in the uptake of Renewable energy resources**

Renewable energy share of electricity generation, %



Source: IRENA.

# While emerging trends create new opportunities



## Energy

Realigning regional energy markets & accelerating **green transition**



## Nearshoring

Reshaping regional trade and production patterns & new **transport corridors**



## Geopolitics

**EU integration:** Pushing reforms & momentum for addressing “incomplete transition”



## Digital

Fostering **digitalization** across all industries

# Governments must mitigate shocks but also seize reform opportunities for private sector development



## Banking and financial institutions

- Strengthen **creditor rights**
- Develop markets for **trading NPLs** and other distressed assets
- Limit state-ownership in banking
- Develop non-bank financial institutions such as **leasing, factoring and insurance**



## Encourage competition and reform state-owned enterprises

- Develop a strategy for **limiting SOE ownership**.
- **Level the playing field** for private and public operators
- **Unbundle service delivery** by SOEs in the energy and transport sectors.



## Support the green transition

- Create enabling conditions for private investment in **renewable energy**.
- Develop financial instruments to encourage **GHG mitigations**
- Encourage agricultural transition and climate resilience through investments in technology and infrastructure that limit climate risks.



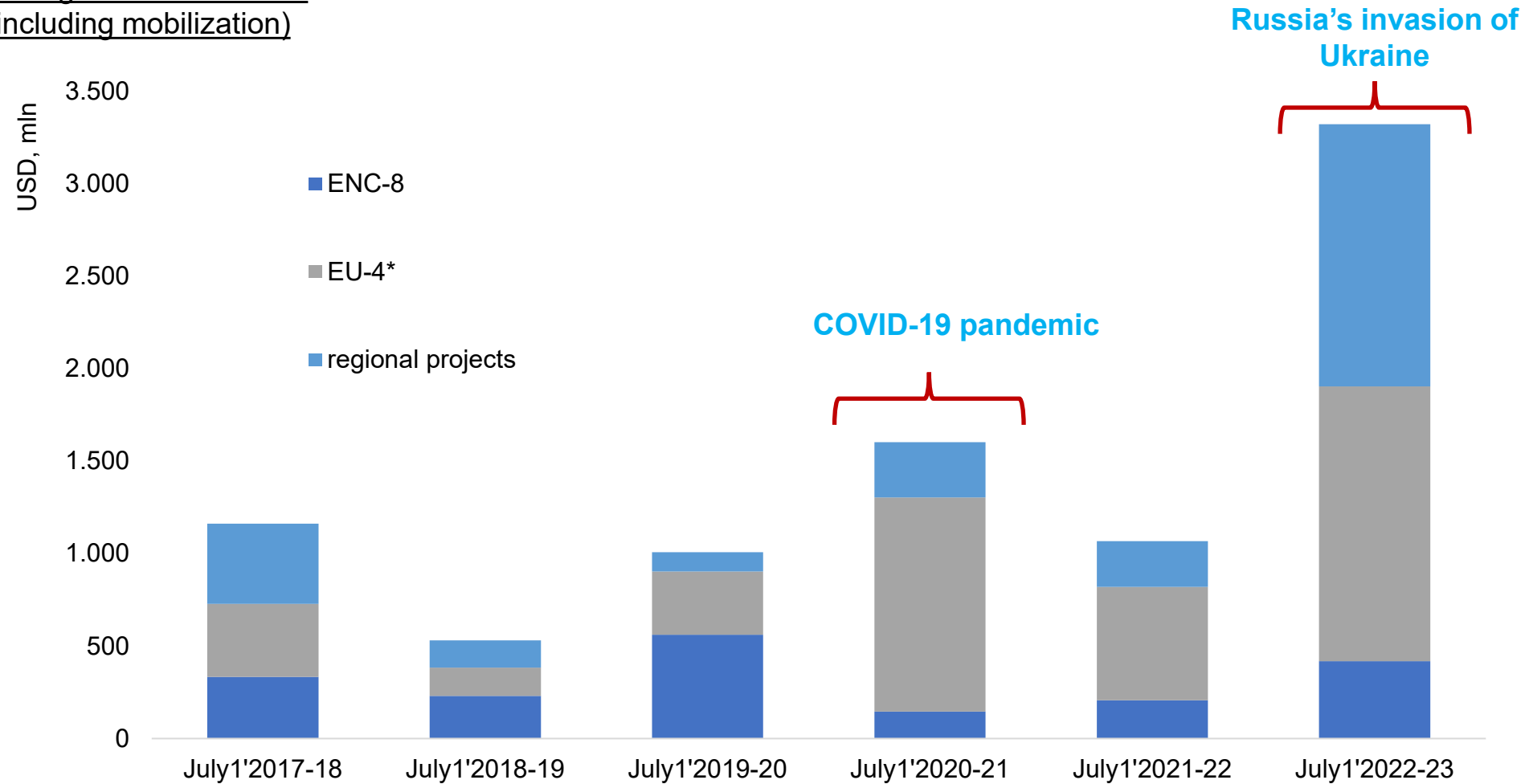
## Aligning legislation with the EU

- **Trade policy** harmonization and facilitation.
- **Transport and logistics networks** with the EU
- Align **investor protection rights** with those of the EU

# IFC stepped up to the challenge, delivering on its countercyclical role during the crises

## IFC countercyclical lending while crises disrupt commercial flows

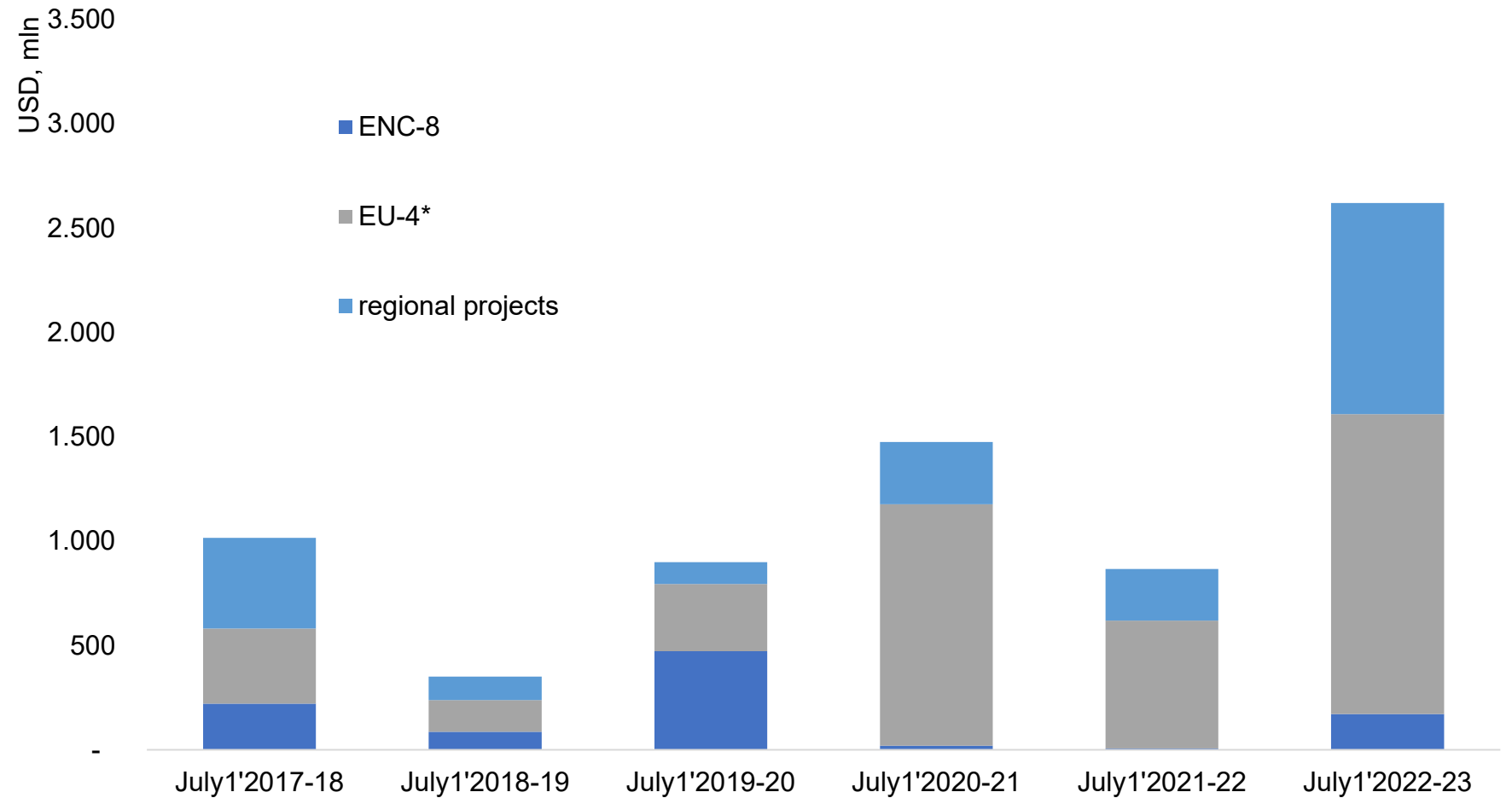
IFC original commitments  
(including mobilization)



\* EU4: Bulgaria, Croatia, Poland, Romania

# ... supporting green finance

IFC original commitments  
(own account + core  
mobilization)



IFC is increasingly supporting the climate change challenge with innovative solutions

# ..and delivering innovative solutions to the region's challenges: supporting productivity, inclusion and climate change

## PRODUCTIVITY



### Sophistication & deepening of financial markets

MREs, SRTs, DCM, Local currency instruments

### Industrial infrastructure

Logistics hubs, warehouses, industrial parks

### Transport infrastructure

Middle Corridor opportunities

### Digital economy

e.g., PE / VC, tech entrepreneurs, telecom, broadband

## INCLUSION



### MSME & agri finance

e.g., MSME finance & RSFs

### Gender finance

e.g., loans to WMSMEs, mortgages to women

### Access to basic services

Housing finance, PPP for low-income housing and healthcare provision`

## Climate change



### Climate finance via banks

green MREs, green mortgages, blue and green bonds

### Clean energy

utility scale RE, upstream off-shore wind & green hydrogen, storage

### Green buildings & commercial infra

green retail, green logistics, eco-industrial parks

### Electromobility

ebuses, metal / e-waste recycling, e-batteries, EV loans

**IFC is aiming to deliver greater impact in** competitive value chains, sustainable agribusiness, industrial decarbonization, SOE commercialization (esp. infrastructure), healthcare (esp. PPP) , gender (esp. promoting women to leadership corporate roles)