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How to Improve Economic Policy-Making in Western Balkans?

Lessons from the Global Economic Crisis

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How to Improve Economic Policy-Making in Western Balkans?

Lessons from the Global Economic Crisis

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Abstract

Pre-crisis high growth rates of the Western Balkans were fuelled by domestic demand financed through capital inflows from abroad. This, coupled with low domestic savings, increased vulnerability to the external shocks that followed.

Four main external transmission mechanisms relayed economic crisis to the region: global-scale exports collapse, reduction in remittances, reduced foreign bank lending, and sharp decline in foreign direct investments. Western Balkans public sector failed to provide an adequate response to the crisis. In absence of timely expenditure restructuring and consolidation reforms, most countries failed to adapt to a sharp revenue decline, resulting in deterioration of fiscal positions. There was no capacity for fiscal stimulus packages comparable to those of developed economies. Inability to adequately address the sharp revenue decline translated to most of these countries reverting to extensive borrowing. Although some of the financing was provided in support to public sector reforms, most of these reforms have been delayed. In addition, the failure to consolidate expenditures has, besides the reduction of public sector capital spending, crowded-out already insufficient private sector investments.

Main lessons for the future policy-making in the Western Balkans are as follows:

(i) growth agendas need to be revisited to include: focus on the supply side of economy, improvements to total factor productivity through capital deepening, boosting domestic saving and attracting foreign financing for tradable and exporting sectors, as well as fiscal consolidation and increased effectiveness and efficiency of public sector;

(ii) productive investments need to be stimulated through investment climate improvement and encouraging investments into export-oriented and import-substituting sectors;

(iii) infrastructure investments are needed;

(iv) productivity-enhancing investments need to be coupled with a skilled workforce (requiring investment in human capital, research and development, and education systems) , paid in line with its productivity; and

(v) inappropriate budgetary policies require immediate attention of the policy makers through definition of clear country-wide national priorities and freeing up fiscal space for capital expenditures conducive to private sector investments by reduction of current expenditures.

This should be supported by reinforced medium-term budget planning processes, documents and institutions, as well as by establishment of close monitoring of expenditure developments.

Keywords

Western Balkans, economic crisis, policy-making, growth agenda, investment, fiscal policy

Introduction[1]

Nowadays, there is little unknown as to how the recent crisis unveiled and about its spread throughout the world. Looking backwards, one can say that the 1990-ties 'prophecy' of Joseph Stiglitz in "Whither Socialism"[2] has indeed materialized. At the time, he simply summarized the problems that American institutions faced at that time as:

(a) insufficiently capitalized institutions with an incentive to take excessive risk were a result of inadequate capital requirements,

(b) incentives for banks to refrain from risk-taking were inadequate, and

(c) monitoring by regulators was inadequate.

Failure to address these warnings led to the point when the crisis became inevitable. The rest was a history. The history that has permanently changed the way the world operates, and even the way in which we think about our daily chores. It certainly has to change the way the economic policy is designed and implemented.

How did it all start?

Mid-2007 is often considered as the beginning of the global financial crisis. At its early stages, however, the implications of the crisis were largely perceived as limited. Initially, only few banks were affected, in particular those which were dependent on the wholesale markets for their financing or had investments in structured finance products. In September 2008, particularly after the default of Lehman Brothers, the global financial turmoil intensified, and an increasing number of financial institutions experienced serious liquidity problems and were forced to undertake massive asset write-downs with negative implications for their own credit quality.

As financial sector problems cannot be disentangled from the overall economy, financial sector crisis ultimately made an impact on the public sector finances. The "stumble" of the financial sector imposed additional burden to overall economies and public finances. It could have been expected that the liquidity problems of financial sector would lead to contraction of international trade and

1 Opinions expressed in this paper are personal and should not be attributed to the Institutions the authors are associated with.

2 Stiglitz, Joseph E: "Whither Socialism", The MIT Press, Cambridge, Massachusetts, 1994

capital flows, and eventually lead to fiscal problems in affected countries.

This paper focuses on the impact of the global financial and economic crisis on Western Balkans countries with special attention on public sector developments, and attempts to draw lessons for the future economic policy-making. The rest of the paper is organized as follows: The second part provides an overview of the pre-crisis developments in the Western Balkans countries. The third part deals with the extent of the impact of the global economic crisis on these countries and with public sector's response to the crisis. Finally, the fourth part attempts to draw lessons on the future policy-making and improvements required for these countries to be better prepared to address external vulnerabilities in the future.

1. How did the Western Balkans countries enter the crisis?

Prior to the crisis, the Western Balkans countries enjoyed a period of solid economic growth, with an average real GDP growth rate of 5.4%. (See Table 1)

	2005	2006	2007	2008	2005 - 2008 Simple Average
Albania	5,8%	5,4%	5,9%	7,5%	6,2%
Bosnia and Herzegovina	3,9%	6,0%	6,2%	5,7%	5,5%
Croatia	4,3%	4,9%	5,1%	2,2%	4,1%
Kosovo	3,8%	3,4%	6,3%	6,9%	5,1%
FYR Macedonia	4,4%	5,0%	6,2%	5,0%	5,2%
Montenegro	4,2%	8,6%	10,7%	6,9%	7,6%
Serbia	5,4%	3,6%	5,4%	3,8%	4,6%
AVERAGE	4,5%	5,3%	6,5%	5,4%	5,4%

Table 1. Western Balkans Real GDP Growth Rates, 2005 - 2008
Data Source: International Monetary Fund, World Economic Outlook Database, September 2011

Table 1: The high growth rates were materializing on the back of strong domestic demand, as both public and private consumption was high, the latter being fuelled by strong wage and credit growth. In turn, strong demand was supported by the strong capital inflows from abroad that met high demand for loans. The pre-crisis period in all Western Balkans countries was characterized by extraordinary credit growth originating almost exclusively from foreign banks. As a result, current account deficits were high - in most countries they hit double-digit figures in 2008. (See Table 2, p. 11) .

While foreign capital inflows facilitated high growth rates, low (and in some cases even negative) domestic savings increased vulnerability to the external

	2005	2006	2007	2008	2005 - 2008 Simple Average
Albania	-6,1	-5,6	-10,4	-15,1	-9,3
Bosnia and Herzegovina	-17,1	-8,0	-10,7	-14,3	-12,5
Croatia	-5,3	-6,6	-7,2	-8,8	-7,0
Kosovo	-7,4	-6,7	-8,3	-15,2	-9,4
FYR Macedonia	-2,5	-0,9	-7,0	-12,8	-5,8
Montenegro	-8,5	-24,1	-39,5	-50,6	-30,7
Serbia	-8,7	-10,2	-16,1	-21,6	-14,1
AVERAGE	-7,9	-8,9	-14,2	-19,8	-12,7

Table 2. Western Balkans Current Account Balances, 2005 - 2008
Data Source: International Monetary Fund, World Economic Outlook Database, September 2011

shocks that followed. Hence, once the crisis unveiled there was no internal buffer to enable these countries to offset the sharp decline in both external demand and availability of external financing.

2. Economic crisis and policy (non-) response

The global economic crisis hit Western Balkans with some delay. Four main external transmission mechanisms[3] relayed the economic crisis to the region: global-scale exports collapse, reduction in remittances resulting from reduced labour demand in core market economies, reduced foreign bank lending to both households and businesses, and a sharp decline in foreign direct investments.

Croatia was the first of the Western Balkans countries hit by the crisis in mid-2008, while the other followed, and by the end-2008 all of them recorded a slowdown of economic activity. At the peak of the crisis, all the Western Balkans countries with an exception of Albania - which was the least opened economy in the region in the pre-crisis period and was thus the least hit by the external capital downturn in the crisis - recorded a contraction of economic activity. (See Chart 1, p. 12)

Both domestic and external demand contracted. As imports decline surpassed that of exports, current account deficits narrowed significantly in most of the countries. (See Chart 2, p. 12)

Western Balkans public sector failed to provide an adequate response to the crisis, especially in terms of the fiscal response. In the period preceding the crisis, in the light of favourable revenue developments supported by both economic recovery and accompanying reforms of taxation systems, most of the countries

3 Bartlett, Will: "The Social Impact of the Global Economic Crisis in the Western Balkans with a focus on the Republic of Macedonia", PECOB's papers series, European Institute, London School of Economics and Political Science, July 2010, pg. 9 – 10.

Chart 1. Western Balkans Real GDP Growth Rates, 2005 - 2011
Data Source: International Monetary Fund, World Economic Outlook Database, September 2011

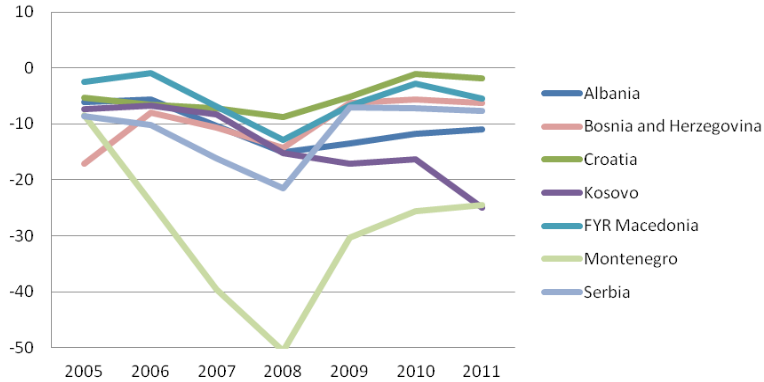

Chart 2. Western Balkans Current Account Balances, 2005 – 2011 (% of GDP)
Data Source: International Monetary Fund, World Economic Outlook Database, September 2011

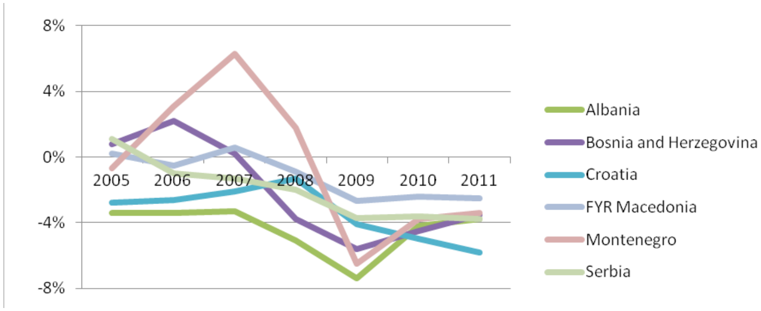

Chart 3. Western Balkans Fiscal Balances, 2005 – 2011 (% of GDP)
Data Source: International Monetary Fund, World Economic Outlook Database, September 2011

increased their expenditure levels[4], failing to generate additional public savings. As the crisis hit the region, in absence of timely expenditure restructuring and

4 For more details please see: EU Support to International Financial Institutions Coordination in the Western Balkans and Turkey (May 2011). "Assessment of Impact of Austerity Measures on National Investment Programs in the Western Balkans". and EU Support to International Financial Institutions Coordination in the Western Balkans and Turkey (November 2011) "Economic Trends in Western Balkans: Implications for Future Investments" (presentation given at the seminar with EU Delagation in Sarajevo and seminar with BiH Authorities).

	Public External Debt		Total Public Debt (Internal and External)		Total External Debt (Public and Private)	
	2008	2011	2008	2011	2008	2011
Albania	18,4%	26,3%	54,7%	59,4%	29,8%	38,5%
BiH	17,2%	27,0%	31,2%	39,6%	48,9%	58,0%
Croatia	8,9%	14,2%	29,3%	38,2%	85,1%	99,9%
FYR Macedonia	17,0%	20,2%	20,6%	26,3%	49,2%	62,5%
Montenegro	15,7%	33,6%	31,9%	44,0%	95,1%	99,3%
Serbia	19,5%	28,3%	33,4%	44,1%	66,7%	75,3%
WB Average	16,1%	24,9%	33,5%	41,9%	62,5%	72,3%

Table 3. Western Balkans Public Debt: Before and After the Crisis
Data Source: Latest IMF data available as of October 2011 (World Economic Outlook from September 2011; and for Albania Article IV Consultations Staff Report from October 2011, for Bosnia and Herzegovina Article IV Consultations Staff Report from December 2010, for Croatia Article IV Consultations Staff Report from July 2011, for Kosovo Article IV Consultations Staff Report from July 2011, for Macedonia First Review Under the Precautionary Credit Line from September 2011, for Montenegro Article IV Consultations Staff Report from May 2011, for Serbia Stand By Request from October 2011)

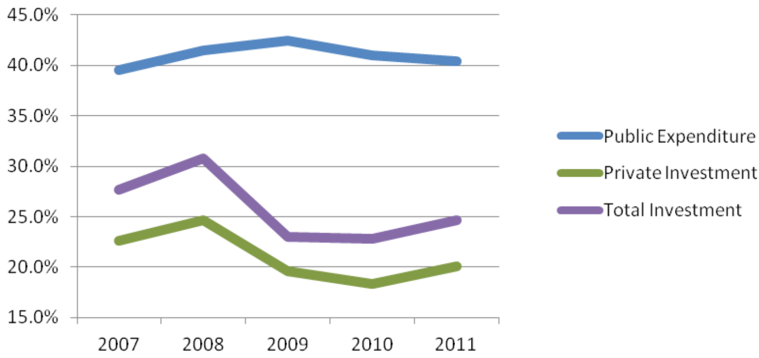

Chart 4. Western Balkans Public Expenditure vs. Private Investments, 2005 – 2011 (percent of GDP)
Data Source: Latest IMF data available as of October 2011 (World Economic Outlook from September 2011; and for Albania Article IV Consultations Staff Report from October 2011, for Bosnia and Herzegovina Article IV Consultations Staff Report from December 2010, for Croatia Article IV Consultations Staff Report from July 2011, for Kosovo Article IV Consultations Staff Report from July 2011, for Macedonia First Review Under the Precautionary Credit Line from September 2011, for Montenegro Article IV Consultations Staff Report from May 2011, for Serbia Stand By Request from October 2011) .

consolidation reforms, all of the Western Balkans countries failed to adapt to a sharp revenue decline; this resulted in deterioration of fiscal positions, and all the countries recorded significant increases of fiscal deficits. (See Chart 3) . There was no capacity for fiscal stimulus packages comparable to those of developed economies.

In addition, inability to adequately address the sharp revenue decline – that would include adjustment of current expenditures – most of the Western Balkans countries reverted to extensive borrowing, both from international financial institutions and from domestic sources, including issuance of short-term bonds and treasury bills, to finance high current expenditures. As a result public debt significantly increased compared to the pre-crisis period. (See Table 3, p. 13) .

Although some of the financing was provided in support to reforms in public sector, most of these reforms have been delayed. Although various governments' policy documents do specify reduction of current expenditures in the medium term, measures undertaken to date fail to produce major impact.

Finally, in light of the reduced availability of financing, it appears that the failure to consolidate expenditures has, besides the reduction of public sector capital spending, crowded-out already insufficient private sector investments. Already low before the crisis, private investments recorded a major decline of around 6 percentage points in 2009, and continued to decline in 2010. (See Chart 4, p. 13) .

In light of prolonged decrease in availability and unfavourable terms for both domestic and foreign financing, it is unlikely that the pre-crisis levels of investments will be re-established in the near term.

3. Economic policy-making: what should be done differently?

The impact of the global economic crisis and the inability of Western Balkans countries to deal with the consequences revealed all the weaknesses of the economic policies these countries pursued to date. In light of the challenges ahead, originating from external sources but reinforced by the absence of appropriate policy responses, it is evident that fundamentals of economic policies need to change to reduce the extent of crises impact on the Western Balkans economies. Some of the Western Balkans countries have already made initials steps towards new growth models, some have started addressing some of the structural weaknesses, but overall further efforts are needed to make these economies more self-sustainable and resilient to external shocks.

3.1. Growth agendas need to be revisited

In the period leading up to the recent crisis, the Western Balkans economies grew mostly through demand. Resulting private consumption boom was financed by foreign capital inflows from the Western European banks, which stood more ready than before to lend to the Balkans – partially due to unprecedented macroeconomic flourishing of the region, but partially also reflecting the risk-taking behaviour of the financial sector, described in the opening section of this paper.

Consequently, the demand increase driven primarily by consumption was reflected in high current account deficits (see Chart 2) , as well as high debt (see Table 3) . Rapid credit growth in turn increased credit risk that materialised in fast-growing share of non-performing loans over the past couple of years. Moreover, wage growth outpaced productivity, since productive investments as well as investments in development of human capital remained at low levels. While most of the investments in Western Balkans countries were in the construction sector, those aiming to upgrade to more sophisticated technologies remained negligible. Coupled with inadequate labour skills, this led to a decline in competitiveness of most of the countries in the region.

This unprecedented credit growth financed from foreign financial markets and competitiveness decline resulted in unique external vulnerability of the Western Balkans region. Consequent fall in economic activity of the Western Balkans during global crisis has thus been sharper in comparison to other regions.

As it becomes evident that the transition-related improvements that contributed to economic growth in the region through total factor productivity increase are almost exhausted (this primarily concerns privatisation effects) , elevated and sustainable improvements to total factor productivity would need to be generated through further reallocation of resources and firm turnover as well as from within-sector productivity improvements. Thus, capital deepening will be crucial.

In the future, as availability of external financing (both public and private) is likely to remain suppressed, it is a must for the countries in the region to boost domestic savings (both public and private) , attract as much of the international financing as possible, and direct it more towards tradable and exporting sectors

This suppressed availability of foreign financing in the next period in turn also requires fiscal consolidation (particularly having in mind the increased debt levels discussed above) .

Overall, there is a need to focus more on the supply side of economy, which can be supported through export diversification and especially innovation, as the labour cost advantages of the region have been minimised. One absolute must for the post-crisis recovery will be improvement of the business environment and competitiveness. In addition to improvement of institutions and overall governance (including regulatory framework and anti-corruption framework) , this requires necessary labour market reforms and especially increased investments in human capital and research and development. Regional cooperation can also be a powerful tool in recovery of the region.

Finally, while looking forward, current issues must not be overlooked. While the financial sector in most of the countries in the region remained resilient to the first wave of global crisis, recent developments in the broader region and possible impact they will have on the banking sector – including in the countries with large presence in the Western Balkans – required continued efforts to continue and improve banking sector supervision.

The need to revisit the current growth model reveals major areas where policies would need to be adjusted to reduce vulnerabilities of the economies in the region and maximize their growth potential. The list is not exhaustive, but provides a basic menu of actions to be pursued[5].

3.2. Attracting and stimulating productive investments

Attracting and stimulating productive investments is certainly one of the prerequisites to resume growth. Despite recent improvements countries in the re gion still suffer from unfavourable investment climate. According to the latest

5 For more details please see: EU Support to International Financial Institutions Coordination in the Western Balkans and Turkey: "Synopsis of Findings on the Need for New Growth Initiatives in the Western Balkans", Brussels, Belgium, May 2011

	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
FYR Macedonia	6	1	12	16	12	3	3	8	18	22
Montenegro	14	13	19	23	8	6	17	5	24	4
Albania	16	11	20	17	3	2	18	11	20	25
Croatia	17	15	11	22	16	23	6	14	13	14
Serbia	18	17	22	20	3	14	16	10	21	12
Bosnia and Herzegovina	20	24	14	21	16	15	15	9	23	9
Kosovo	21	25	21	14	8	25	5	17	25	2

Table 4. Doing Business in Western Balkans (Ranking among 25 Eastern Europe and Central Asia Countries)
Data Source: World Bank, Doing Business 2011

	2008	2009	2010	2011
Albania	32,5%	29,0%	25,9%	25,0%
BiH	28,2%	21,0%	19,6%	20,7%
Croatia	27,7%	24,9%	21,6%	22,1%
FYR Macedonia	28,6%	25,9%	25,4%	27,4%
Montenegro	38,2%	26,8%	22,0%	22,0%
Serbia	29,7%	23,0%	22,8%	24,7%
WB AVERAGE	30,8%	25,1%	22,9%	23,7%
NMS	27,8%	20,2%	20,8%	21,9%
EU 16	22,1%	18,9%	19,2%	19,7%

Table 5. Total Investment (% of GDP)
Data Source: For EU data EUROSTAT and for Western Balkans countries latest IMF data available as of October 2011 (for Albania Article IV Consultations Staff Report from October 2011, for Bosnia and Herzegovina Article IV Consultations Staff Report from December 2010, for Croatia Article IV Consultations Staff Report from July 2011, for Kosovo Article IV Consultations Staff Report from July 2011, for Macedonia First Review Under the Precautionary Credit Line from September 2011, for Montenegro Article IV Consultations Staff Report from May 2011, for Serbia Stand By Request from October 2011).

"Doing Business" report[6] with exception of Macedonia, Western Balkans countries are not in the top 50 world-wide destinations in terms of ease of doing business. The second-best is Montenegro at 56th place, while Kosovo and Bosnia and Herzegovina occupy 117th and 125th place, respectively, i.e., at the bottom of the ranking.

In times when availability of international capital is scarcer than ever, these rankings are not good enough. Governments should be aware of the urgency to implement remaining reforms to remove barriers to investors that plan or alrea-

6 The World Bank and International Finance Corporation: "Doing business in a more transparent world", Washington D.C., USA, 2012

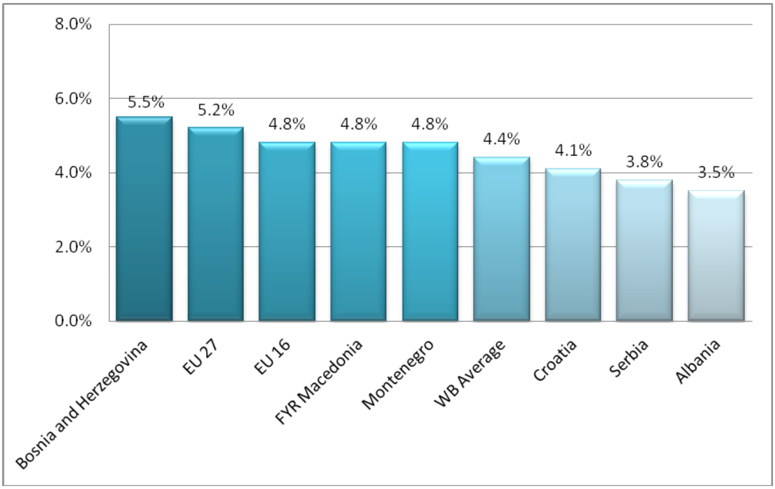

Chart 5. Education Expenditures, 2008 (% of GDP)
Data Source: For EU data EUROSTAT and for WB data IMF and EFPs/PEPs, extracted from presentation "Social Sector Expenditure in the Western Balkans" of EU Support to International Financial Institutions Coordination in the Western Balkans and Turkey (May 2011)

dy conduct business in the region, while making efforts to retain those that may be considering withdrawing from the region. Investments into export-oriented and sectors producing import substitutes should be encouraged.

3.3. Infrastructure investments

Infrastructure investments are needed, as quality infrastructure is one of the important factors that influence investment decisions. However, according to the 2011 EBRD Transition Report[7], except for Croatia Western Balkans countries scored 3 or below for the level of infrastructure development, still far below that of an industrial market economy. Moreover, despite higher shares of investment (see Table 5) , the absolute levels of investment in Western Balkans are significantly below that of the EU countries. The need for and sources of continued investment in infrastructure remain an important challenge for Western Balkans countries.

3.4. Productivity-enhancing investments coupled with skilled workforce

Productivity-enhancing investments need to be coupled with a skilled workforce, and the one that is paid in line with its productivity. This implies removal or reduction of unnecessary or extensive labour taxation burden, reforms in the labour markets and significant increase of investments in human capital and research and development. Moreover, education systems need to improve in order to facilitate growth.

The theoretical growth literature emphasizes at least three mechanisms

7 European Bank for Reconstruction and Development: "Crisis and Transition: The People's Perspective", Transition Report 2011, European Bank for Reconstruction and Development, London, UK, 2011

through which education may affect economic growth[8]. First, education can increase the human capital inherent in the labour force, which increases labour productivity and thus transitional growth towards a higher equilibrium level of output. Second, education can increase the innovative capacity of the economy, and the new knowledge on new technologies, products and processes promotes growth. Third, education can facilitate the diffusion and transmission of knowledge needed to understand and process new information and to implement successfully new technologies devised by others, which again promotes economic growth (see Chart 5, p. 17).

3.5. Inappropriate budgetary policies

Inappropriate budgetary policies require immediate attention of the policy makers in Western Balkans countries. In order to stimulate growth, a number of competing investment priorities need to be addressed and required financial resources are likely to remain scarce in the medium term. Hence, governments should attempt to free up fiscal space for capital expenditures, at least those con ducive to private sector investments.

This would require significant reduction of current expenditures in most of the Western Balkans countries, most notably those related to wages and social transfers. However, before prioritisation of expenditure, a consensus on country-wide national priorities needs to be established amongst the competing priorities. More often the list of priorities is rather comprehensive, and not linked with identifiable available financing.

It is not in the scope of this paper to discuss in details national development strategies of the Western Balkans countries. However, it is worth noting that the recent mapping exercise undertaken in the context of coordination of donor activities in the social-economic domain clearly indicates that most of these strategies lack clear focus. Almost all the countries identified one or more priorities in almost every sector that was observed; this in turn may indicate the inability of policy makers to agree on a more-narrowly identified set of financeable priority activities in selected sectors. This in turn would facilitate coordination of donors active in a country/region[9].

Required resources need to be clearly identified and to remain in focus of fiscal policies. Furthermore, strong fiscal discipline needs to be re-established and maintained in spite of mounting expenditure pressures.

Political economy seems to be playing an important role in current determination of fiscal priorities. As a result, difficult trade-offs are often impossible, and fiscal restraints are not imposed. In some countries even the medium-term budget planning has significantly deteriorated as the process became victim of political dynamics.

As most of the Western Balkans countries are either candidates or potential candidates for the EU membership, while Croatia has already signed the Acces-

8 Hanushek, E. A. and Woessman L.: "Education and Economic Growth", Chapter prepared for the International Encyclopedia of Education, 3rd Ed., February 2008, available at: http://edpro.stanford.edu/hanushek/admin/pages/files/uploads/hanushek_woessmann%20%2020010%20international%20encyclopedia.pdf, last access on 10 December 2011.

9 For more details please see: EU Support to International Financial Institutions Coordination in the Western Balkans and Turkey (March 2011): "Overview of Socio Economic Priorities of Western Balkans Countries and IFI Advisory Group Members",

sion Treaty, it is likely that the reinforced EU governance package[10] that entered into force towards the end of 2011[11] will play an increasingly important role in shaping of future fiscal policy design and implementation.

The package seems highly relevant and appropriate for the Western Balkans countries, as it develops broader and enhanced surveillance of fiscal policies, but also of macroeconomic policies and structural reforms. Moreover as countries enter the later stages of the EU accession process, these recommendations will become a compulsory course of action for EU membership.

Consequently, the following measures could be instrumental in improving fiscal policy-making in the countries of the region, aiming to ensure fiscal sustainability, reduce macro-economic imbalances and ensure competitiveness:

(a) **Reinforce medium-term budget planning processes, documents and institutions**. Structures and processes in place that determine how fiscal policy is undertaken are a key to the fiscal decisions taken and the quality of fiscal policy documents. Setting minimum requirements for the quality of institutions should trigger a substantial improvement of the budgetary decisions, as it became evident that institutional weaknesses have interfered with the ability of these institutions to ensure effective economic governance.

Ensure that consolidated multi-annual fiscal frameworks are of sufficient quality and comprehensive coverage, and that presented numbers are clearly linked to fulfilment of medium-term budgetary objectives. These objectives should subsequently be included in annual budget documents, and accompanied by measures required to accomplish them. Such objectives need to ensure fiscal sustainability. There should be one set of objectives reflected in all the national policy documents, rather than different objectives when compared to, for example, their economic and fiscal programmes or pre-accession economic programmes.

(b) **Establish and maintain close monitoring of expenditure developments**. In order to restore fiscal discipline, and the goal of public sector expenditure consolidation and reduction, a clearly-defined cap should be introduced on the overall expenditure growth to ensure that extra expenditures are financed either through other expenditures cuts, or an increase in revenue.

4. Instead of a conclusion

Consumption-based, externally-financed growth model of Western Balkans countries made them vulnerable to external shocks. As the shocks materialized towards the end of 2008, countries faced contraction of economic activity and increasing fiscal difficulties. The recovery that followed was fragile, and the latest developments in the region may continue to have an adverse impact on the

10 European Union: «EU Economic Governance «Six Pack» - State of Play», Memo/11/647, Brussels, Belgium, 28 September 2011

11 European Union, "EU Economic Governance "Six-Pack" enters into force", Memo 11/898, Brussels, Belgium, 12 December 2011

countries' economies. Policy-makers need to react fast to reduce negative impact of changes in their external environment. The immediate priorities requiring attention of economic policy-makers include, but are not limited to, restoring fiscal discipline and creating preconditions to resume economic growth. Nonetheless, as recent regional and global developments shape up the future economic trends, it is beyond any doubt that in years to come a serious attention should be paid to redefining the growth model in these countries and make sure that all the preconditions for its implementation are met. This will be the only way to create a sound new basis for sustainable growth in the future.

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Renzo Daviddi

Dr. Renzo Daviddi took up the position of the Deputy Head of the Delegation of the European Union to Bosnia and Herzegovina on 15 March 2011. He arrived at this position after having served for about four years as Head of the European Commission Liaison Office in Kosovo. He is not new to Bosnia and Herzegovina, having been previously posted in Sarajevo as the Head of Political and Economic Section of the EC Delegation. Before joining the European External Action Service, Dr. Daviddi held several positions within the Directorate General for Economic and Financial Affairs of the European Commission.

Dr. Daviddi has an extensive knowledge on the economic and political realities of countries in transition, and most notably of the Western Balkans. He has also a wide-ranging knowledge of Community policies and the functioning of the Union, especially EU enlargement. His previous academic career (at the European University Institute, at Bocconi University in Milan and European Institute of Public Administration in Maastricht) was mostly focused on international economic and financial matters and transition issues. He has published several articles and edited four books on transition economics and EU enlargement matters .

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