Despite the turmoil in the eurozone, continuation of the EU integration is the best prospect for economic growth for the countries of Southeastern Europe, leading economist of the World Bank for Europe and Central Asia Ron Hood stated. While presenting the latest, semi-annual World Bank report, he said that the economic growth of the regional countries is projected to be 2.5% in 2011 and 2.1% in 2012. In Serbia, economic growth is expected to be 2% in both 2011 and 2012.

Short-term recovery of the global economy in 2010 has been shaken this year by turbulences generated by various factors, from high oil prices to the debt crisis in Europe, to weak economic growth in the U.S. and economic slowdown in China, Russia, India and Brazil. The consequences of these developments are reflected on Southeastern European countries, mainly through trade, direct foreign investments, operation of foreign banks and wire transfers, Hood said. Therefore, the projections of economic growth range from 2.5% in 2011 to 2.1% next year. However, he added, even these modest projections can be exacerbated if the crisis deepens. Serbia is at the average level in the region, and Hood believes that in the future, adherence to fiscal rules will be crucial for the government in Belgrade to limit the amount of the budget deficit and public debt. He positively appraised the new arrangement with the IMF.

Economies of Southeastern European countries are largely associated with the EU member states, Hood emphasized. Trade with the EU is a key driver of economic growth in the region, as it makes from 30 to 50% of their gross domestic product, while sales of goods to the EU market represents almost 60 percent of total exports. In addition, the largest investments in the region comes from the EU, with a net inflow of direct foreign investments amounting to over 2% of the GDP. Operations of foreign banks is another important factor, as their share in total banking system of the region is about 89%, so that they directly affect the level of credit facilities. If the crisis deepens, the future funding might be limited. Hood said that there has been an increase in total debt, so that fiscal caution is recommended to countries in the region, with further consolidation of public expenditures. As governments used loans to cover budget deficits, there is less and less room for further borrowing, so that long-term prospects for their funding can thus be problematic. Hood said that there is also concern about the amount of foreign debt in the countries of Southeast Europe, which is something to be taken more care about in the future to avoid the risk zone.

High levels of youth unemployment and low labor force participation rate of women are characteristics of all countries in the region. The future economic growth will depend more on investments and productivity improvements that will strengthen the competitiveness and production capacity, and less on consumption, which is financed externally. Therefore, the Southeastern European countries should pursue structural reforms, which will enable a

greater inflow of foreign investments and faster economic development. Their economic policies should aim at stability and long-term growth, the World Bank leading economist Ron Hood concludes while presenting the regular six-monthly report.
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