

2014 Economic and Fiscal Programmes of Albania and Bosnia and Herzegovina:

The Commission's country assessments

The document contains the Commission's assessments of the Economic and Fiscal Programmes (EFPs) of two potential candidate countries, Albania and Bosnia and Herzegovina. The annual submission and assessment of EFPs is part of the economic and fiscal surveillance procedure for potential candidate countries. These countries, which were promised the prospect of joining the EU when they are ready but are not yet recognised as candidates, are required to submit EFPs outlining a medium-term policy framework, including public finance objectives and structural reform priorities. The programmes are also an opportunity to help these countries develop the institutional and analytical capacity necessary to participate in the EU's economic governance framework.

In 2013 net exports helped sustain modest growth in both countries. Energy exports were particularly strong, while weak domestic demand subdued imports. In the medium term, both programmes expect a gradual firming of growth. Domestic demand is forecast to strengthen and take over as the main growth engine in both countries.

However, a sustained economic recovery will require a revival of lending, which has been under stress in both countries. A strong investment revival could also be constrained by glaring weaknesses in the business environment, such as uncertain property rights and deficiencies in the rule of law. Finally, renewed external headwinds could emerge if the economic situation in the EU deteriorates, as it is the main trade and investment partner of both countries.

External imbalances remain a source of macroeconomic vulnerability. Despite recent improvements in export performance, the trade deficit is high in both countries, reflecting a narrow production base and weak competitiveness. This calls for a strong focus on attracting productive FDI. Both countries have large untapped potential in some sectors, such as tourism, that could be better exploited by improving the investment climate.

Improved growth prospects are seen underpinning a process of fiscal consolidation, but the underlying measures are often unclear. In Albania, persistent fiscal imbalances and a string of missed deficit targets have led public debt to rise to levels that are very high by regional standards. In Bosnia and Herzegovina, the deficit and debt levels are more moderate, but debt servicing costs are rising, crowding out productive spending. Against this background, both countries intend to consolidate public finances and reduce the level of debt.

Labour markets remain in dire straits. The weak economy has led the unemployment rate to rise to more than 17 % in Albania and stands at 28 % in Bosnia and Herzegovina. The high headline rates are compounded by the prevalence of long-term as well as youth unemployment. Generating job-rich growth and improving the quality of education and training to address skills mismatches therefore remain major challenges.