

Good morning, thank you very much for coming and listen to me. I first want to thank the organisers for inviting me here. This is the second time I am talking on these issues in Greece, in Athens in less than a month. And I think I probably have to take it not personally but as an increase interest in Greece, anyway in the Balkans.

So, I am very happy that I can share with you my views of these issues. I am not speaking as a national, anybody who works with any government. So, this is how my talk has to be taken.

I also want to just make one point and try to be brief. I think the point I want to make is in endeavoured in the context of what our people have been speaking here about and we will see how to react.

The subject of my talk is “recovery in the Balkans” and there is a question mark because I am rather sceptical on that matter.

The point I want to make is essentially a very simply one, there is relatively small tradable sector in the Balkans. In other words there are limited exporting capacities in, practically, all Balkan countries, especially if you don't have entrance to the sea, which may concentrate tourism. But much of the Balkans are essential in the central land, so that is an issue.

And that of course is also supported by the ...misalignment, which is basically the topic I will be discussing.

Here, luckily, is a visible chart. Here I have compared the export in minimum sales, and in southeast Europe. And can all of these, more or less, take lines for the companies in the southeast Europe.

As you can see the contest is dramatic. What transition has ...for the member states, especially for central European members states is dramatically increased the export capacity, and this is not really

happening in the Balkans in this period. This is the same in colours, just to see it.

The other way to look at it is to see how exports are covered by imports, and then the red line, the red part is the import capacity seems to be large. Bosnia has about 65% of GDP imports....So, it is a very inconvenient situation.

This is also capital we can look from the other way. Here I have only 2006, the dynamic is much different. You can see the ...in the Balkans after the year 2000, of much less than the so called European Union member states in central Europe.

You can you gather from the previous slides and this one, is that this foreign investments have not really gone into the ...sector. So, in the Central Europe they haven't actually strengthened the export sector.

This is the basic point I want to make, that the transition so far, the development so far has a ...increase in the tradable sector or has not the increase of the...sector in the Balkans, as it has done in the Central Europe countries.

We can look from the countdowns point of view, this is quarterly for the last 2 years before the crisis, so that you can see that these are relatively large, count to count, deficits throughout this region, such as Montenegro.

Now I want to stop and just say that this development has answers even under pre-crisis conditions. Obviously at some point in time this process has had to stop, because at some point in time these countries would not just be able to find count to count deficits. So, that is one thing.

What it implies is that it is really changing adjustment, which means that you need to change in terms of ...sector, in favour of the ...sector.

And in a way this is what the crisis, independently of the previous developments, has been putting on the table of the Balkan countries.

One cannot really assume that this foreign investment that we have seen in the last several years, they haven't, actually, been mentioned the previous experience of the Central European countries, but even at that point, at the level, it can be expected to continue, especially in the form of credits.

But even in the form of foreign investments, it is not considerable, at least in the medium term, that we will have that kind of ...of foreign currency. So, we really need to see weather you are capable of ...the relationship in the world, and in that sense it can be addressed.

And as you can see here, this is not going to be easy in the Balkans, for one reason, because most of the Balkans is on ...,and as you can see here, even the crisis, the yellow line, even the crisis you have is an issue.

In cases in which you had some ...like in Albania, this can change, but you can see in Croatia, in Macedonia, they have a hard time dealing with this question.

Serbia, for instance, has even developed a sharper relation, as you can see the red line. And some are really changing the adjustment, but if you stand this you shall have, it is not in colour, if you see this

issue ...again. Probably the most successful country is Turkey, but that is a bit outside of what we are discussing.

You can see Serbia, if you can see the white thing, it is going back after March of this year.

So, that is the main point I want to make, you need a change in the Balkans if you really want to restart the growth.

This, as I showed, I don't see happening, even if you devalue, and devaluation is costly. So, there are relatively, in my opinion, modest expectations for 2010. In fact most of the countries do not seem to have too much growth.

If you have a growth of 1%-2%, given the statistics in the region, are almost indistinguishable. And if you take into account, which is the most important criteria, and that is for the potential growth rate in the region, it is a little bit between 5 and 6, you are going to continue to increase the gap in the year 2010 also. And of course in 2009 that has been a significant recession. In some places if you calculate viable potential growth, then of course it has been ..some countries.

Lets say in Serbia, if Serbia ends up with -3 this year and the potential rate is about 5 or 6, that is a loss of almost 10% of GDP.

We also cannot expect very much because there is a need to increase private and public, because most governments on the issue, immediately over time will have to be leverage% and this is going to be in the private sector.

And that to GDP ratio is not very high, the risk has shorten up very, very fast and you can really select this....., so that is how the corporations have to have de-leverage, which is going to be costly.

There is a prospect of countries are expecting to speed up closely in 2011, but still think are no potential. And to my mind this is to be based basically on the ..thinking so far. It may happen, we don't see at the moment which policies of all forms are going to support that kind of development.

So, what kind of policy you need? You need to increase exports. So if you are thinking of investing in this region, I think most of the investors are not really looking the private sector. You should start looking there, otherwise these countries will not be able to sustain this kind of profitability.

There will have to be made major policies of adjustment, in the region, whether it comes with the rates, caps, and all the devaluations, that is the question. But that certainly needs to happen.

And there will be needed institutional reforms, which are most difficult in this region.

I want to end on a note of about regional cooperation, because that is one possibility also discussed very much in the countries and outside the countries. There are lot of initiatives.

First of all the region that is now outside of the European Union in the Balkans is really rather small. Croatia will join the European Union most probably in January 2012. Slovenia does not delay that, which I doubt it will happen.

So, we are really talking about Serbia, Bosnia, Macedonia, Albania, Kosovo and Montenegro. Altogether are very small area.

Still in this area you could improve trade and investment possibilities. The idea being that you want to make this whole region, from an investment point of view, one investment destination, or one

investment target, this so called accumulated system of preferential treatment.

I think also you will need for that to work in coordination, which is hard to come by at the moment, but that is basically necessarily if you really want to have the risk of doing business throughout the region going down simultaneously in all the countries.

Unfortunately this small remaining region, which is still outside of the European Union, and I understand now that there is an aim for this whole region generally....in 2014, which is from a metaphorical point of view, I would say allowedable but it is not really realistic. But it is a very nice idea.

To do that you really have to solve quite a number of problems, and I will mention only three.

One is you have to deal with the identity in history, this should be in principal.

Another thing is to deal with more complicated issues of remaining feelings of injustice, mainly the Bosnia.

And then you have the territorial problem, a couple of territorial problems, which are the most difficult to solve.

And with list of problems, I thank you very much for your patience and for your attention. Thank you very much.
