

# BUSINESS RESILIENCE IN THE WESTERN BALKANS AT TIMES OF REPETEAD SHOCKS

**Debora Revoltella, EIB**

2<sup>nd</sup> WBIF Strategic & Operational Board Meetings

**Rome, 21 June 2022**

# Key messages

---

- ▶ Shock after shock – new risks add to existing vulnerabilities
- ▶ The drivers of regional growth are also the drivers of resilience to shocks
- ▶ Policy should:
  - ▶ Focus on improvement of firms fundamentals
  - ▶ Support access to finance, via deepening of financial systems
  - ▶ Preserve the GVCs integration model, which is also a driver of innovation and diffusion of technology, as well as of the green transition

# Shock after shock

Annual real GDP growth (%)



IMF forecasts, \*Excluding Ukraine

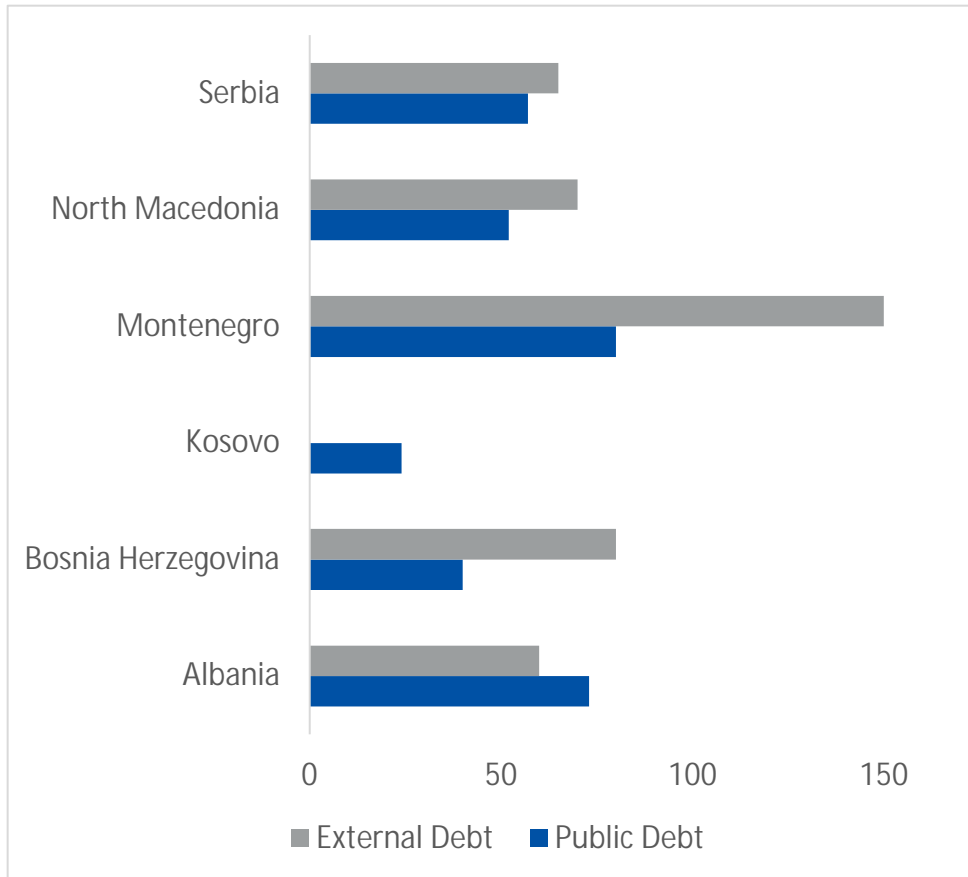
✓ Covid-19 severe shock, but swift rebound, with policy support life saving for firms: ex-ante simulations suggest support might have halved to 12% the share of firms facing a liquidity shortfall

✓ Conflict in Ukraine poses new risks:

- ✓ energy and commodity shock
- ✓ trade, tourism and FDIs
- ✓ financial conditions
- ✓ uncertainty

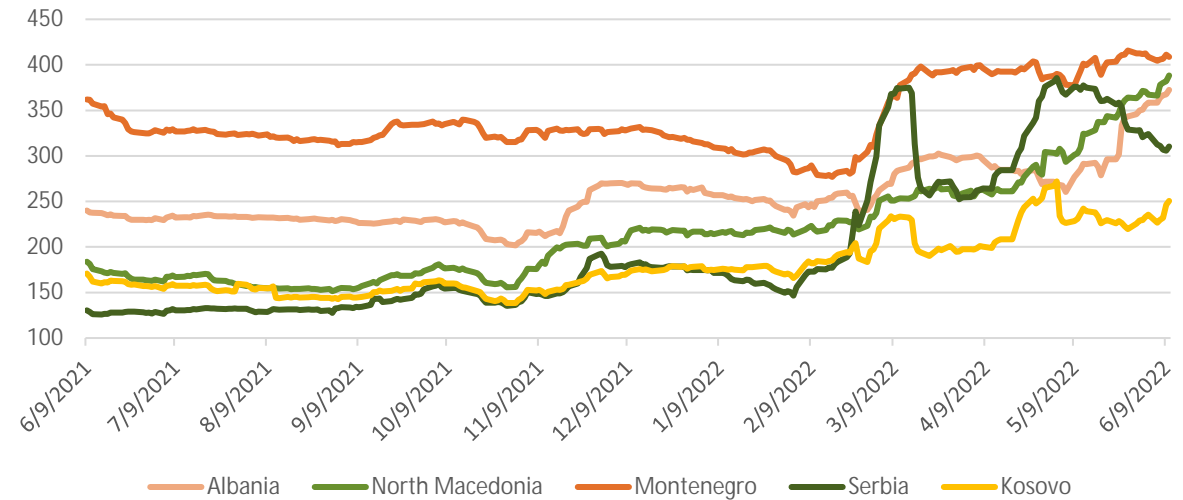
# The new shock adds to preexisting vulnerabilities, at times of global policy tightening

Public and External Debt (% of GDP)



Source: World Economic Outlook, World Bank

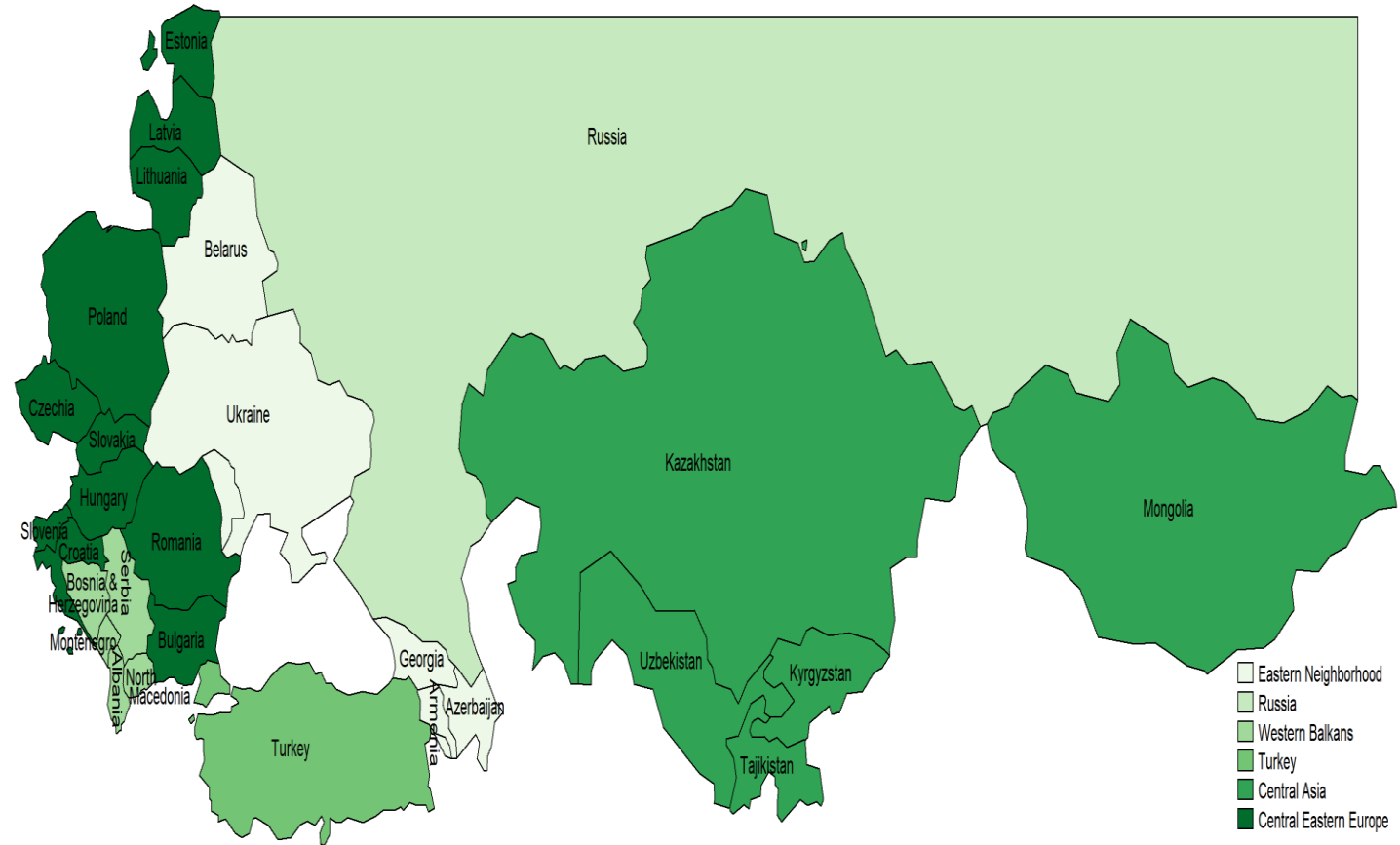
Spread of 5Y bonds compared to Poland (EUR denominated, bps)



	Fitch	Moody's	S&P
Serbia	BB+ stable	Ba2 stable	BB+ positive
North Macedonia	BB+ negative	n.a.	BB- stable
Kosovo	n.a.	n.a.	n.a.
Albania	n.a.	B1 stable	B+ stable
Montenegro	n.a.	B1 stable	B stable
Bosnia and Herzegovina	n.a.	B3 stable	B stable

# Business resilience in the pandemic and beyond

- ✓ **Unique data:** EIB-EBRD-WBG Enterprise Survey (ES 2019) and Covid-19 follow up Survey. 21,500 firms interviewed
- ✓ **Unique cooperation:** EIB, EBRD and IMF joint assessment
- ✓ **Unique business sector analysis:** barriers to growth, resilience to the pandemic, adaptation capacity, innovation, financing and climate action



# What did we learn during the pandemic? Structural features matter for firms resilience and adaptation

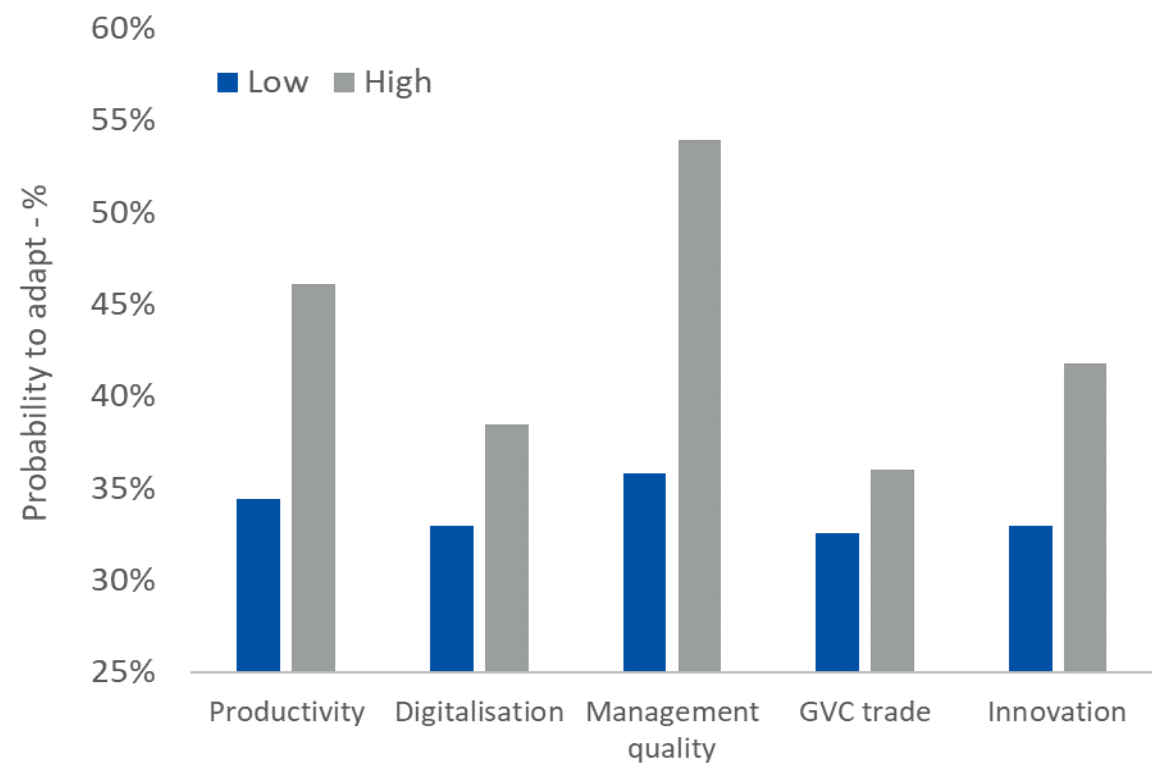
Resilience: probability of bankruptcy

reduced by:

- ✓ Being part of a group
- ✓ Having a pre-existing overdraft facility
- ✓ Being in a country which implemented stronger policy support for corporates

Adaptation: probability of firms to adapt

(based on WB firms characteristics, high vs low performers)



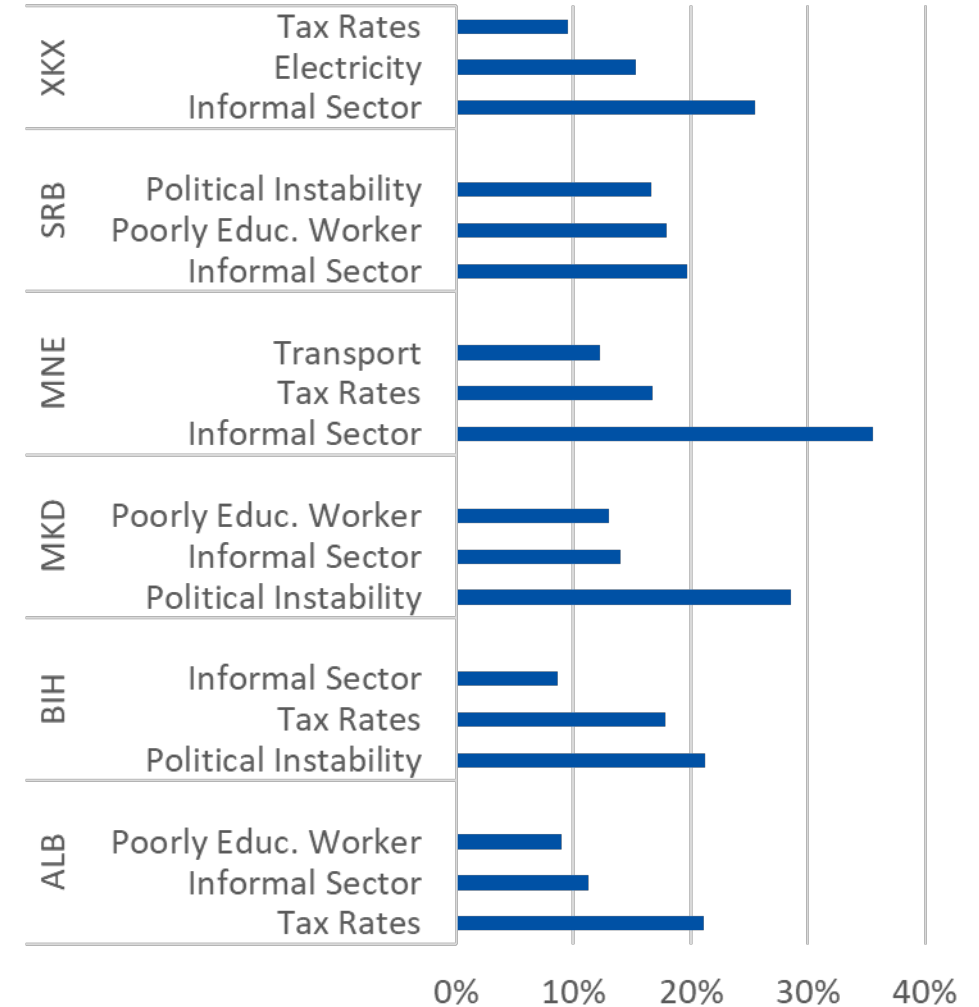
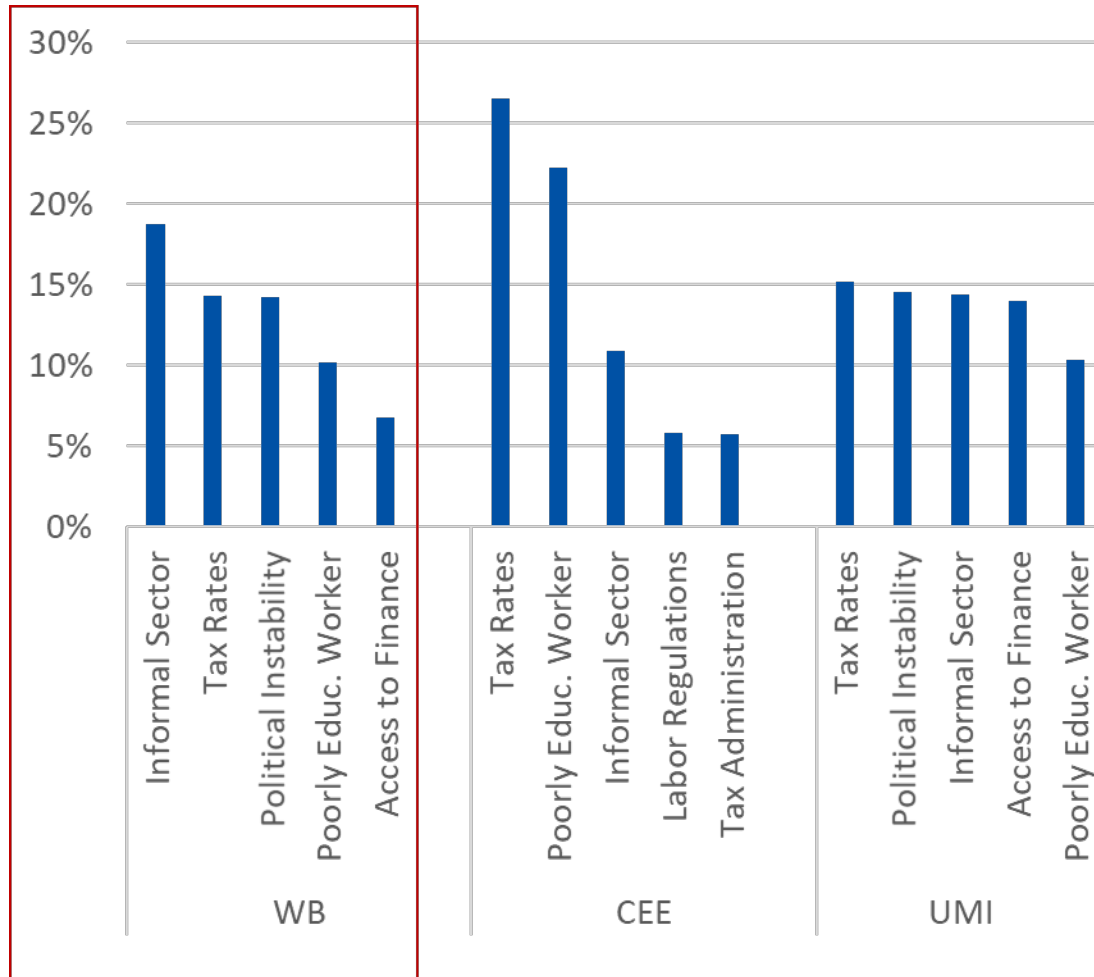
Source: Enterprise Survey- COVID Follow-up, whole sample ES 2019

Source: Enterprise Survey- COVID Follow-up, only WB firms  
Adaptability: Firms starting or increasing any of the three following activities: online sales, delivery or remote work arrangement

# Informal sector, political instability and skills as major bottlenecks for businesses

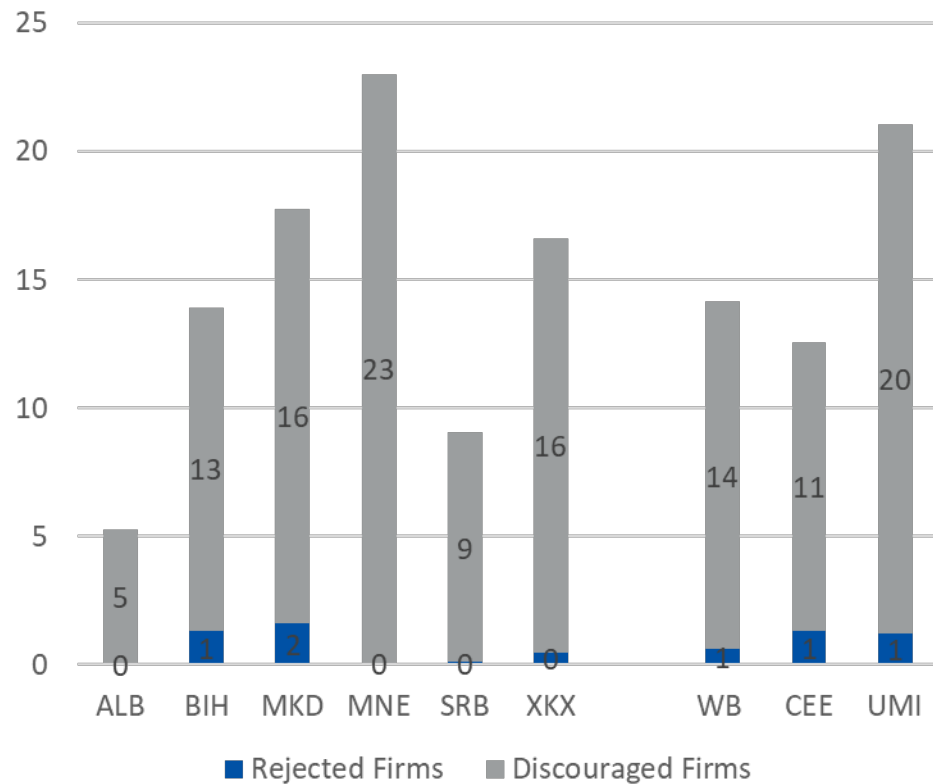
Corporate Use

Top business environment obstacles, % of firms

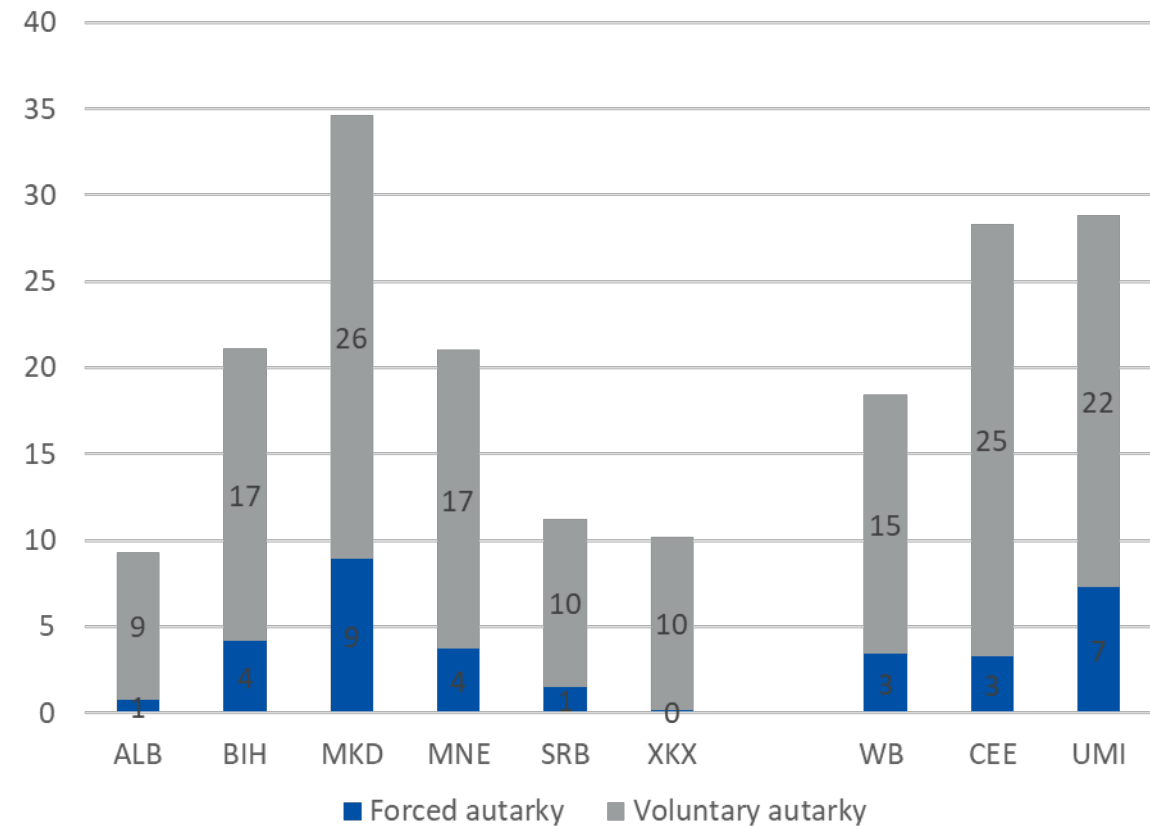


# Evidence of access to finance issues – firms credit constrained or in autarky

## Financially constrained firms, % of firms



## Financial autarky firms (voluntary, involuntary), % of firms



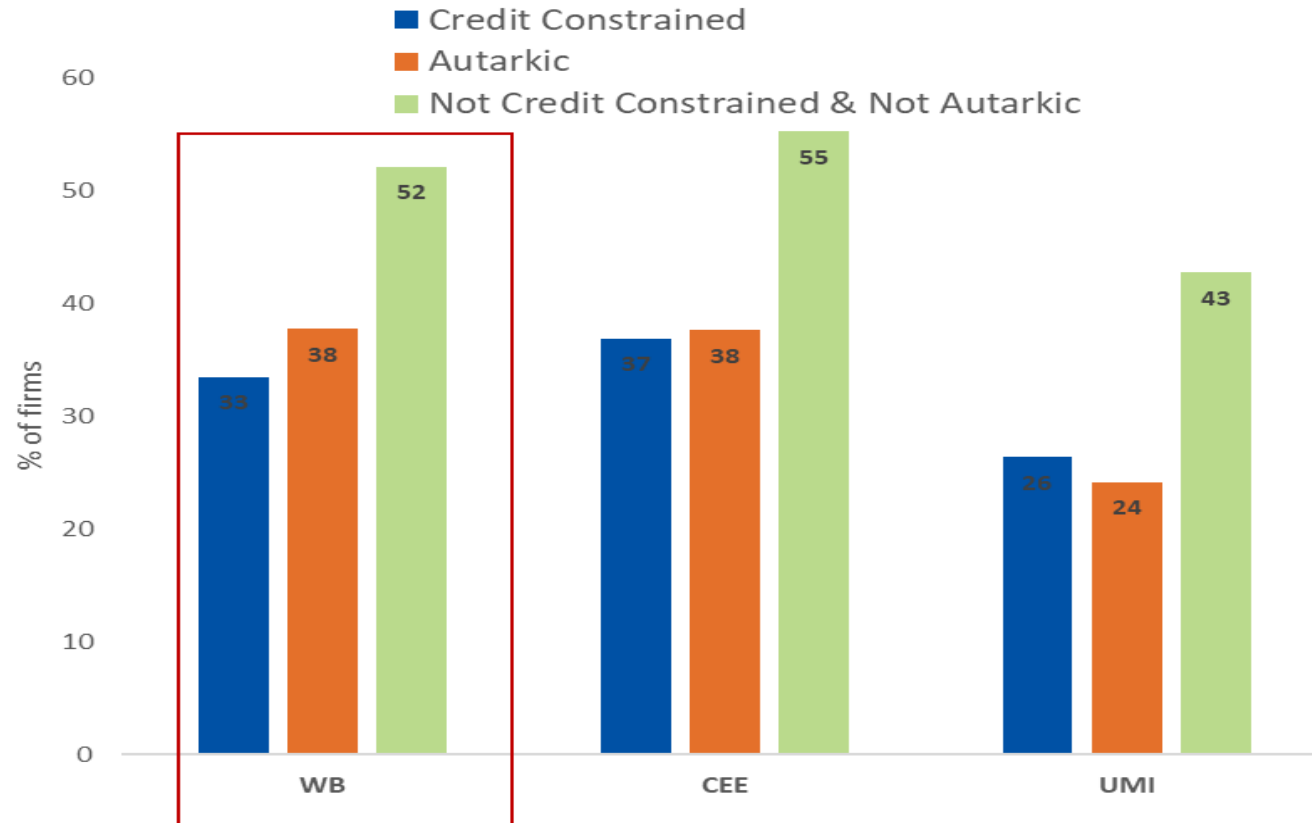
Source: Enterprise Survey  
Note: Share of all firms



# Access to finance matters – constrained and autarkic firms lose growth opportunities

Corporate Use

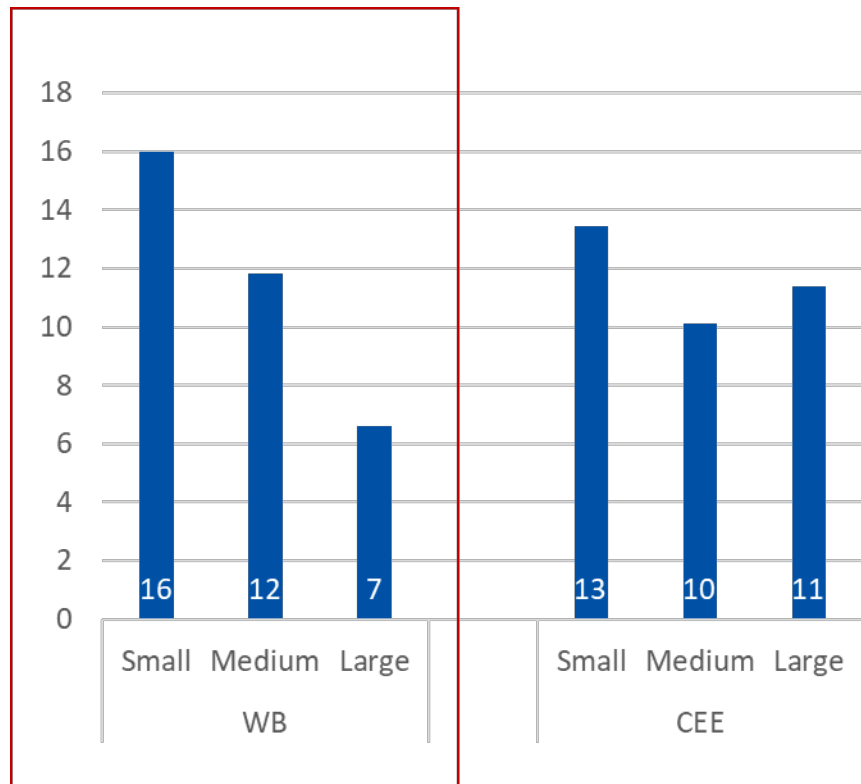
Share of firms investing based on financing availability



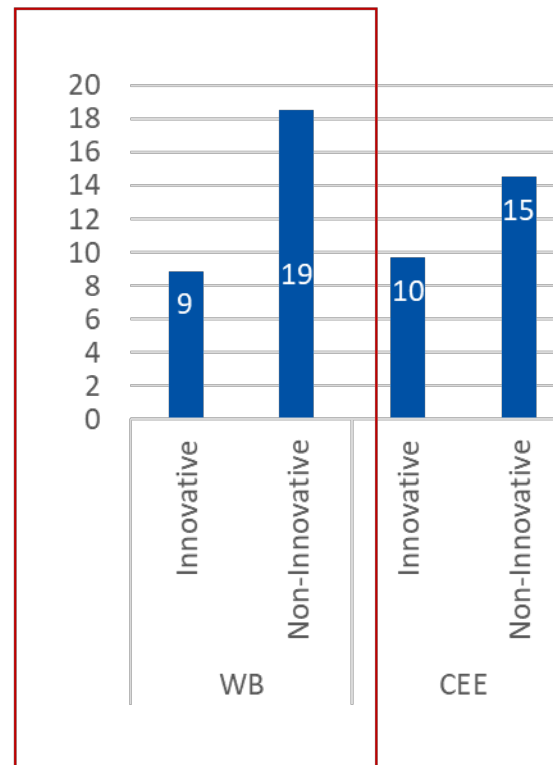
Source: Enterprise Survey

# Financial deepening to address SMEs and young innovative firms

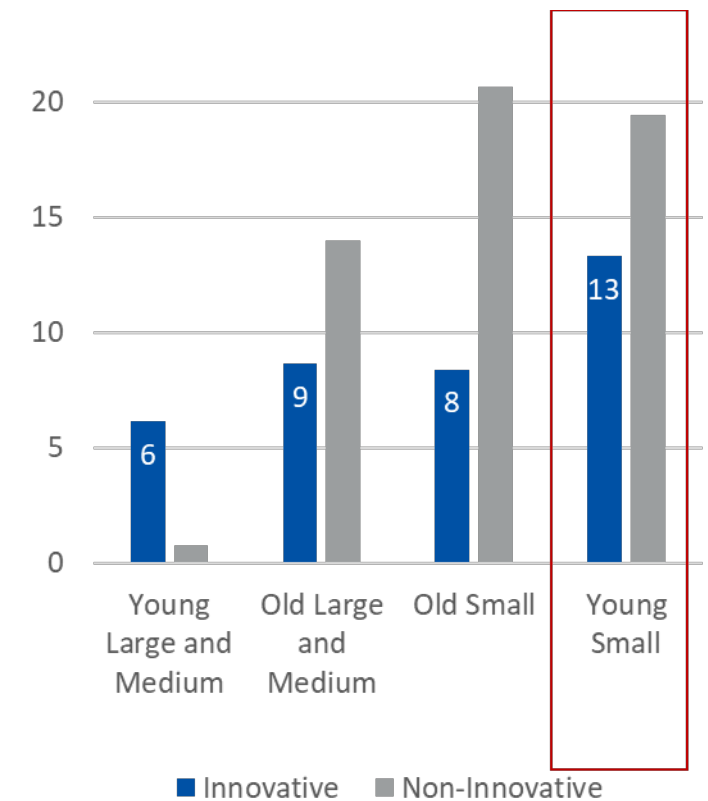
Credit constrained firms by size, % of firms



Credit constrained firms by innovation, % of firms



Credit constrained firms by innovation, age and size, % of WB firms

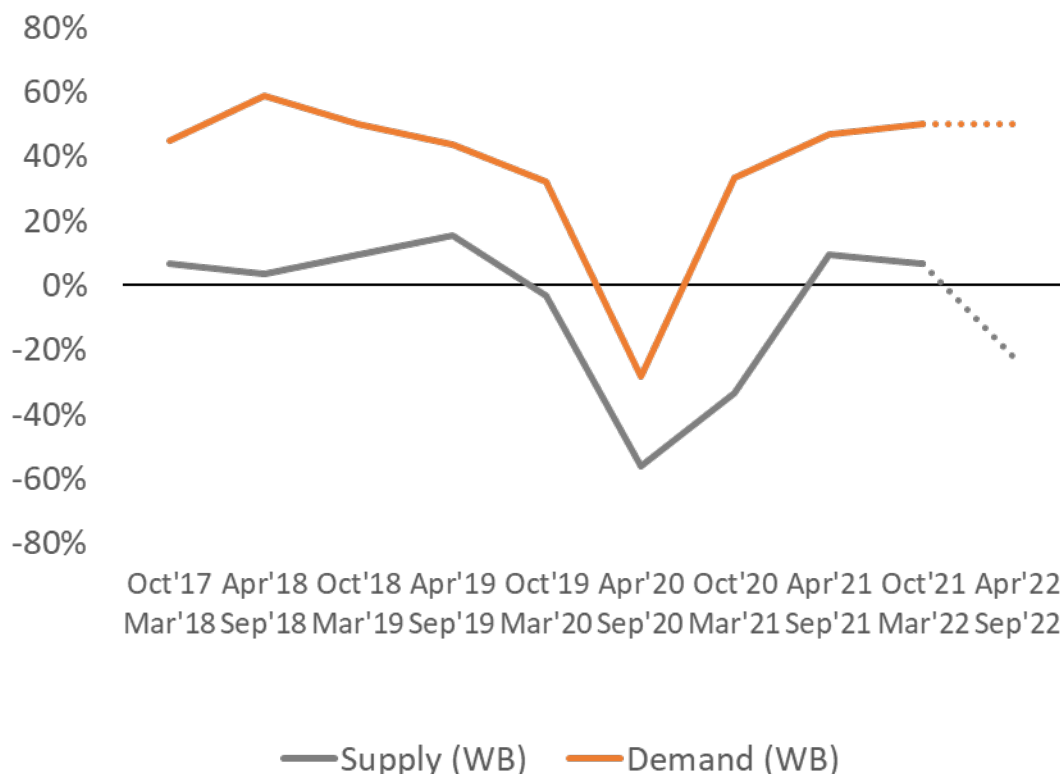


Note: Share of firms of total survey population

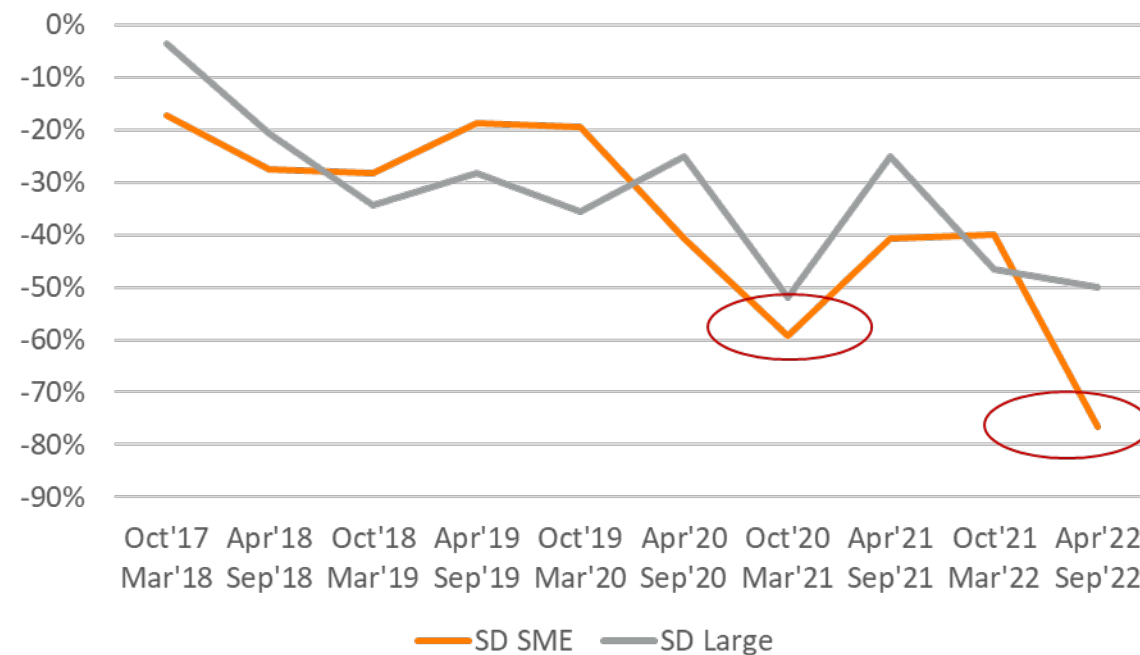
Source: Enterprise Survey

# Dealing with finance gap is even more crucial in the new shock – the EIB Bank Lending Survey shows widening demand-supply gaps

Demand and Supply conditions in the WB, net percentages



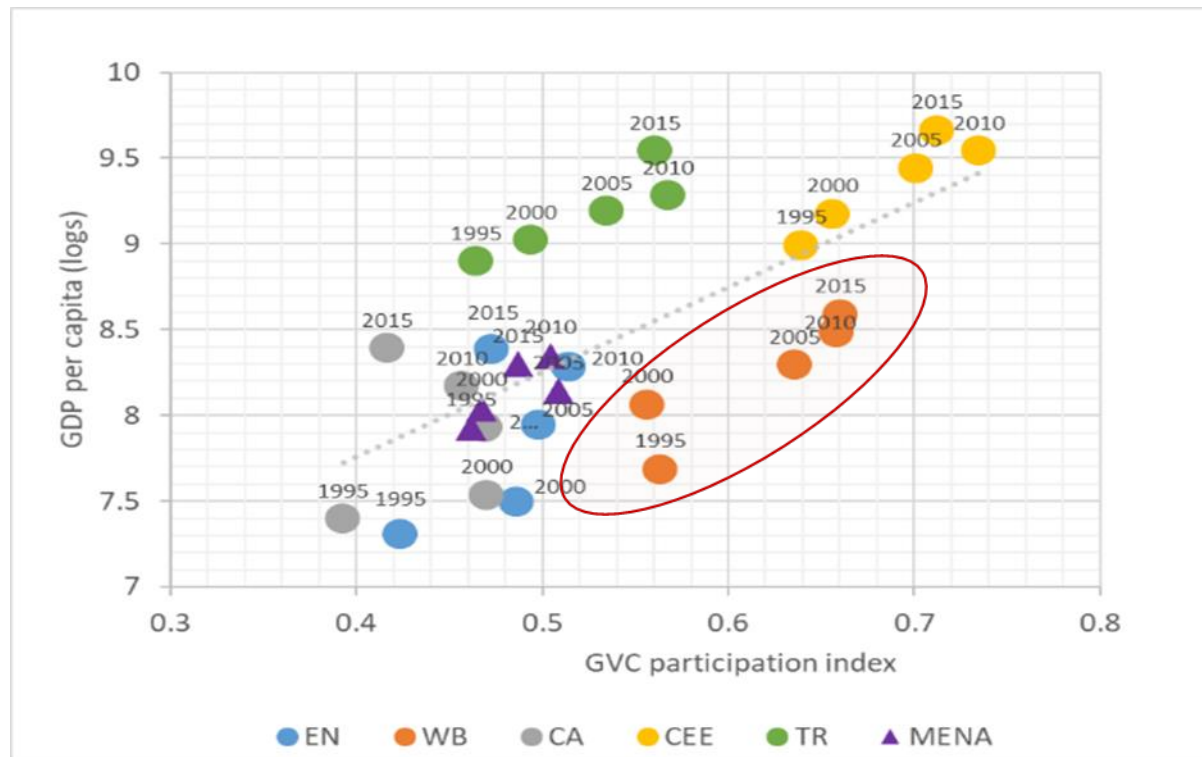
Demand / Supply gap of each period in the WB, difference in net percentages



Source: EIB CESEE Bank Lending Survey H1 2022

# GVC participation: a crucial driver of regional growth and firms transformation

## Participation in GVCs and per capita Real GDP (1995-2015)

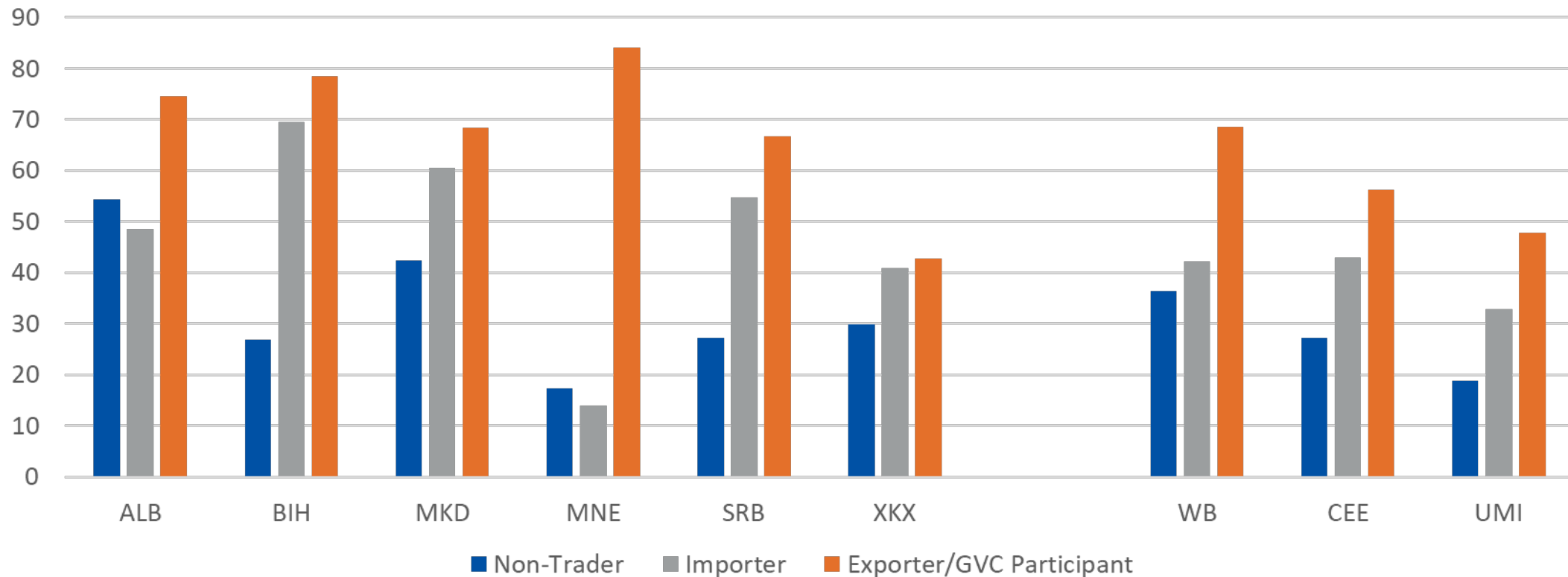


- ✓ EU confirmed as trade facilitator and driver of innovation
- ✓ Asymmetric returns across firms: Productivity and growth premia for superstar exporters, large firms and firms engaging in trade & innovation
- ✓ Risks for SMEs to be left over

# Export/GVC linked to innovation: evidence of causality through better management and transfer of technology

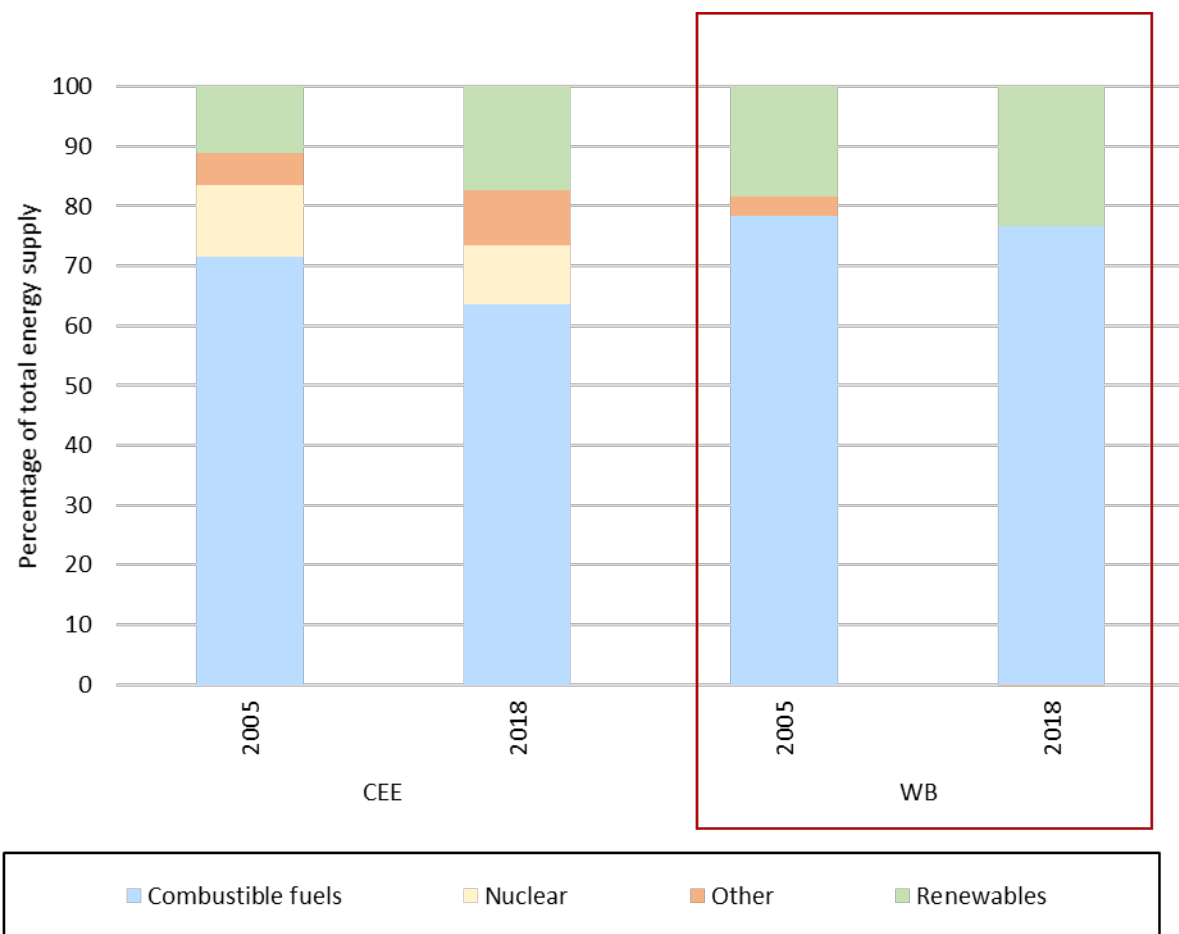
Corporate Use

Share of Innovators, % of firms within trading profile



# Energy security vs the net zero transition. How to drive change?

## Breakdown of primary energy supply, by fuel type



- ✓ Energy security vs the energy transition - incentives to transform
- ✓ Firms' investment propensity: influenced by green managerial practices and credit constraints
- ✓ Firms' green managerial capacity and ESG influenced by:
  - ✓ Customer pressure, energy taxes and experience with climate risk
  - ✓ firm size, foreign ownership, exporters, listed firms

# Conclusions

---

- ✓ In the pandemic, **firms' resilience** influenced by policy support, but also by group support and access to liquidity. **Adaptation** was very much dependent on firms structural features
- ✓ **The war again testing resilience - structural features matter!**
  - ✓ GVCs a source of growth, with trade and innovation intertwined
  - ✓ Access to finance a driver of resilience, adaptation and investment - with financial deepening needs
  - ✓ Energy security as new priority intertwined with net zero transition
  - ✓ Long term structural shifts (digital, global value chain, climate change) aligned with EU for further catching-up and accelerating development