



Changing Geopolitical Landscape

Economic implications for CESEE countries

Gent Sejko

Governor

Bank of Albania

ECB - July, 2023



Content:

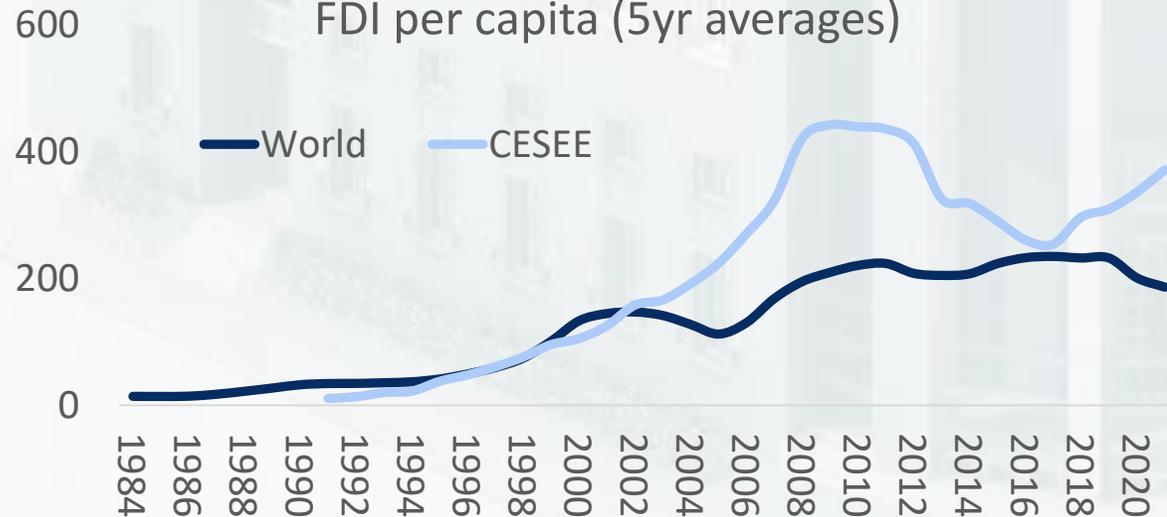
- 1. Globalization and trade intensification**
- 2. A fragmenting geopolitical landscape**
- 3. Positive implications**
- 4. Albania/BoA and EU integration**

1. Globalization and trade intensification

Global trade flows to GDP (% , 5yr averages)



FDI per capita (5yr averages)



Source: UNCTAD, IMF, WTO

- Increased globalization of trade, capital and labor markets, have led to a range of positive spillovers:
 - Higher FDIs have increased productivity, employment and wages, in developing countries
 - Global production and trade have kept consumer prices low across developed countries
- The CESEE region is a major success story:
 - In 1992 average FDI flows in CESEE countries were about USD 10 per capita
 - Now, they stand at around USD 370 per capita
- Higher FDIs, increased trade and the transfer of know-how have facilitated growth and economic convergence for the CESEE region countries.

2. A fragmenting geopolitical landscape

- The geopolitical landscape is changing rapidly following Russia's war of aggression in Ukraine
- This could lead to a fragmentation of the world order into politically affiliated blocks
- If this fragmentation is permanent:
 - An overall negative impact on EU economic activity is to be expected over the long-term
 - EU is rich in capital but has a demographic deficit, a shrinking population and is poor in natural resources. Energy imports remained at 55% of total EU consumption needs, over the past two decades
 - This makes energy independence either difficult or quite costly to achieve
 - Negative demographic trends, growing energy and security costs and de-globalization will lead to fiscal and financial strains
- The long-term costs of economic fragmentation will negatively affect non-EU CESEE countries as well, due to:
 - Close geographical proximity to EU
 - Intense trade and financial flows
 - Political and societal ties

3. Positive implications

However, some potential upsides for the countries in the CESEE region are present over the short to medium term

- CESEE region is well-placed to experience increased FDIs due to increased EU investors' interest :
 - a natural option to relocate production close by;
 - a familiar environment for EU investment;
 - an increasing level of sophistication in addition to improvements in the rule of law and business environment.
- Changing geopolitical environment has meant a stronger political commitment by the EU towards a full integration of the CESEE region. The result is a renewed push on the EU enlargement process and EU integration for candidate and potential candidate countries.
- The EU integration process leads to positive spillovers in:
 - growing financial support
 - a reduction in perceived risks across the private sector
 - an acceleration of structural reforms.

4. Albania/BoA and EU integration

- The EU integration process for Albania is the ultimate long-term strategic goal. It is also a driver for:
 - Structural reforms
 - Align policies and regulations
 - Upgrade domestic institutions
 - Improve business and investment climate
- The Bank of Albania has also a crucial role in the process.
 - *First*, we should remain committed to our mandate of price stability, even in this challenging environment, as precondition to financial stability and long term growth.
 - *Second*, we should align our policies, regulations and practices with those of the ECB and ESCB.
 - *Third*, we should accelerate our efforts towards developing our financial and payment systems, seeking to carefully integrate them with the EU ones.
- The ECB should also seek to assist us – wherever possible – in this process



Thank You