

EURO-PHOENIX'S CEO LES NEMETHY EXCLUSIVELY FOR ADN

Post-Brexit, EU Will Lose Its Status as World's Largest Trading Bloc

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financing, if available, would probably require a substantially higher interest rate."

Euro-Phoenix's CEO said that the growing trend among youth and middle-aged people to leave Albania is a major issue, not only in Albania, but also in Hungary, and throughout the region.

Speaking of the eventual repercussions of the Brexit, he believes that repercussions would be massive - the harder the form of Brexit, the more massive the repercussions. "Most affected will be the UK itself, (the greatest victim of "tissue tear" as discussed above) followed by those parts of Europe currently most integrated with the UK economy, such as Ireland, the Netherlands, Belgium, Cyprus, certain regions of Germany and France. Fortunately for Albania and the Balkans, there is relatively little economic integration with the UK," said Mr. Nemethy.

In a comment on the future of the 'Berlin Process' Les Nemethy did not expect that its main pillars, namely "connectivity and regional cooperation" to be diminished, but he thinks that the initiative does not have the benefit of any dedicated budget, institutions or legislation. "Hence I view it

more as a statement of intent. Actions are always stronger than words."

Asked on the significance of the decision of the Hungarian Government to subsidize the Budapest to Tirana flights, his comment was: "The same is true for flights to other Balkan destinations such as Pristina and Podgorica. This would not be the case unless the Hungarian Government saw a strategic importance in revitalizing relations with the region. The Hungarian Government has stated on numerous recent occasions that it will do everything within its means to support Albania's EU accession."

In addition he said that much could still be done to "whiten" the economy, suppress organized crime, improve medical care, improve quality of education available locally, etc. "There are many measures which could be taken to stem the Diaspora. We talk about the importance of voting in a democratic system. Young people are voting with their feet," said Mr. Nemethy in the following interview:

- Mr. Nemethy the 'Brexit' process is underway. Which, according to you, might be any eventual repercussions for the European Union countries when it is over?

- It depends on what form

of Brexit is taken. Does the UK crash out of the EU without an agreement? (In which case trade may presumably still take place under WTO rules). Or will there be some form of agreement?

The important thing to bear in mind is that over the past few decades of the UK belonging to the EU, the UK and continental European economies have becoming inextricably intertwined, part of the same value chain. For example, did you realize that wings for Airbus aircraft are assembled in the UK? There would be huge costs involved in transferring these operations, or building tariffs into the cost of Airbus aircraft.

Brexit, and even the threat of Brexit, loosen these value chains. As an example of the threat of Brexit loosening value chains: the European Medicines Agency, EMA, (the European equivalent of the FDA) has already announced its move from London to Amsterdam. Even if there is the softest form of Brexit, this will have considerable impact on the UK economy, and pharmaceutical industry, beyond the direct loss of jobs.

Economists predict an improvement in national income whenever there is economic integration, and negative effects whenever there is disintegration. While there will always be winners and losers, there are many more winners than losers from integration. The harder the form of Brexit, the greater the loss - as the tissue of these value chains get torn up. And operations designed to serve a European market from a UK base will need to shrink, possibly even close.

Economists always talk about economies of scale which larger markets permit. Post-Brexit, EU companies will have an addressable market of 60 million fewer people. The EU will lose about 12% of its population and 13% of its GDP. Once again, the degree to which the market

is diminished will depend on whether Brexit takes a harder or softer form.

The IMF forecast that the UK would grow by approximately 4% less by 2030 as a result of a hard Brexit, but that the growth within the remaining 27 countries would diminish by approximately 1.5%. In short, to answer your question: repercussions would be massive - the harder the form of Brexit, the more massive the repercussions.

- In your view, will it have the same impact on all the countries of the Club given the different state of the economies of the member countries?

- Most affected will be the UK itself, (the greatest victim of "tissue tear" as discussed above) followed by those parts of Europe currently most integrated with the UK economy, such as Ireland, the Netherlands, Belgium, Cyprus, certain regions of Germany and France. Fortunately for Albania and the Balkans, there is relatively little economic integration with the UK. But already in Central Europe, even agricultural producers in Eastern Poland are concerned about possible loss of UK markets.

Germany does not depend too much on imports from the UK, but it might lose a large market for exports, particularly in the automotive area.

To provide just a few more examples:

• A Belgian source suggests 42,000 job losses in Belgium in the case of a hard Brexit, 10,000 job losses in the case of a soft Brexit.

• Northern Ireland will no longer have access to EU funding, which has helped build communities.

Of course, the number of Central and Eastern European workers in the UK is likely to fall. Even the tens of thousands of workers who commute from Northern Ireland into the UK is likely to suffer.

- Mr. Nemethy, we have

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"It is excellent progress that Albania has increased its borrowing ability on the Euro-bond market, in terms of being able to raise more capital (EUR 450 million compared to EUR 300 million) at lesser interest rate (5.75% compared to 7.5%)," has said Mr. Les Nemethy, CEO and founder of Euro-Phoenix Financial Advisor Ltd (www.europhoenix.com), author of "Business Exit Planning", former World Bank official working in Albania and an occasional contributor to Albanian Daily News.

In an exclusive interview with Albanian Daily News Mr. Nemethy noted that this newly issued bond expires in 2020. "In today's volatile economic markets, I see danger in taking on relatively short-term indebtedness. Of course, this is not just something the Government of Albania can automatically obtain. Longer-term



Anti-Brexit protests in London (file photo)

been used to see the 'Brexit' as a matter concerning only the European Union. Do you think that its impact could influence on other countries out of the block, particularly those closely linked with the EU, and in addition, in what way the 'Brexit' vacuum can be filled when countries like China are 'watching'?

- Post-Brexit, the EU will lose its status as being the largest trading bloc in the world, losing the title to the United States. This has to affect views in China, indeed the world over.

In the political sphere, the UK has punched above its weight within the EU, in terms of defense and foreign policy. (The EU's foreign policy towards China has been very influenced by inputs from the UK). Post-Brexit, the loss of the UK policy voice may see a diminution of the EU's liberal approach towards China. It remains to be seen how much of a defense agreement the UK will negotiate with the EU.

Many non-European countries, particularly English-speaking ones, have often looked to the UK as the 'gateway to Europe'. This role is likely to diminish. The area in which this gateway effect is most prominent is the financial sector. London may lose its status as financial capital of Europe, although rival cities like Frankfurt still have a long way to go to catch up to London. (I was recently in Frankfurt, and talked to a number of people there who see great opportunity in Frankfurt's new possible role).

- As a follow up, Sir, might the enlargement process of the Western Balkans be affected by what is going on in the EU?

- I quote from an EU policy

paper: "Brexit might actually move EU enlargement ahead, in order to maintain the momentum and reassure the credibility of the European project." (EU Policy Hub, Policy Brief, June 27, 2016).

It is hard to imagine that the massive requirements on EU staff to negotiate and implement Brexit will not draw away resources from the EU's Balkan enlargement; however the theoretical possibility exists that Balkan enlargement will continue uninterrupted.

The UK and Germany were considered drivers of the Balkan enlargement process, France being considered as the "go slow" country. It will be interesting to see how a balance will be struck between Germany and France in the post-Brexit era on the issue of Balkan enlargement.

Then there is the issue of whether Brexit will affect the desire of the EU 27 population to continue enlargement, given the difficulty of keeping together what they've got. The rise of nationalism throughout Europe, of which Brexit may be considered a part, does not bode well for integration. This is a story that still has to play out.

- The 'Berlin Process' launched by Chancellor Merkel seemed to go unnoticed in London where the annual Summit was held. In 2019, Poland will take up the presidency of the process. Do you think that the process might get steam under the presidency of Poland which incidentally is a member of the Vishegrad group and all its four members (Poland, Hungary, Czech Republic and Slovakia) are keen on promoting relations with WB?

- I do not expect the main pillars of the Berlin process, namely "connectivity and regional cooperation" to be diminished, although the 'Berlin process' does not have the benefit of any dedicated budget, institutions or legislation. Hence I view it more as a statement of intent. Actions are always stronger than words.

The Visegrad countries see themselves as having considerable expertise to offer in preparing for, negotiating and implementing an EU accession.

The Polish Ministry of Foreign affairs seems to place emphasis on civil society and cultural aspects of the 'Berlin Process'. My prediction is that under the Polish presidency, we will not see a big bang on political or economic integration, rather a progress on issues like dealing with organized crime and corruption, which the EU considers a precursor to political integration.

- There have been certain political exchanges of visits between Albania and Hungary. Also, the direct flight between Budapest and Tirana has re-started. Do you think that Hungary is in process of revitalizing its relations, especially economic ones, with Albania and WB in general? Figures show the number of Hungarian tourists is significantly up.

- It is significant that the Hungarian Government is actually subsidizing the Budapest to Tirana flights. The same is true for flights to other Balkan destinations such as Pristina and Podgorica. This would not be the case unless the Hungarian Government saw a strategic importance in revitalizing relations with the region. The Hungarian Government has stated on numerous recent occasions that it will do everything within its means to support Albania's EU accession.

There is always an increase in tourism, cultural ties, and business travel between countries when direct flights are introduced. This is natural. It is a great first step towards integration.

- Mr. Nemethy, Albania's parliament said it has approved the decision of the government to issue a new Eurobond in international capital markets worth

up to 500 million euro. In 2015, Albania issued a 450 million euros five-year Eurobond carrying a coupon of 5.75%, down from 7.5% in its first 300 million euros Eurobond issued in 2010. As a seasoned specialist and close watcher of Albanian financial affairs, how do you consider such an undertaking?

- It is excellent progress that Albania has increased its borrowing ability on the Eurobond market, in terms of being able to raise more capital (EUR 450 million compared to EUR 300 million) at lesser interest rate (5.75% compared to 7.5%).

Note that this newly issued bond expires in 2020. In today's volatile economic markets, I see danger in taking on relatively short-term indebtedness. Of course, this is not just something the Government of Albania can automatically obtain. Longer-term financing, if available, would probably require a substantially higher interest rate. It would require a further increase in creditworthiness of the Albanian Government, backed by an even stronger Albanian economy, to obtain cheaper long-term financing. (Note that the interest rate on US 10-year treasuries is just over 3%).

If there were a Lehman-type collapse before the bond prior to 2020, it may be difficult to refinance the bond. In a worst-case scenario, this might even cause default. Longer-term bond financing allows for more time to create the conditions for repayment (e.g. economic growth, etc.)

- Efforts are being made by Albanian authorities to increase the foreign investors' interest in Albania. But while many 'economic forums' have been organized with participation of different countries investors are hesitant to come. In your view which are some of the main reasons?

- There is a considerable way to go to improve attractiveness of Albania in terms of an investment destination. Measures that would help include:

- Increasing transparency, diminishing corruption.
- Improving the regulatory environment, including tax-

tion system.

- Human capital formation.

- Improving insecurity of property rights.

While promoting the country at international forums is important, waving the flag is not enough. Several years ago, my company, Euro-Phoenix, polled foreign investors in a Balkan country (other than Albania), as part of a competitiveness project. The picture that emerged was not pretty. The issue is that new investors will inevitably talk to those investors already present. Their experience will have a huge impact on subsequent investors. For example, GE and Suzuki were early investors in Hungary in the early 1990's. Their positive reports on the Hungarian business environment helped attract subsequent investment.

- In conclusion, Mr. Nemethy, there is a growing trend among youth and middle-aged people to leave Albania. Where do you see the reasons of such a 'fever' which is leading to a decrease of the population of this Balkan country?

- I agree that this is a major issue, not only in Albania, but also in Hungary, and throughout the region. While youth can inevitably obtain better jobs, in terms of responsibilities and salaries, outside the region, I believe more young people would stay at home if the Government were to create the right kind of environment. Throughout the region, for example, there is a strong preference by Governments to assist those people and companies close to the Government - whether job opportunities, grants, supply contracts, etc. This means that those not close to the Government might be more inclined to leave. This is true in other countries as well; there is a question of degree.

Much could still be done to "whiten" the economy, suppress organized crime, improve medical care, improve quality of education available locally, etc. There are many measures which could be taken to stem the Diaspora.

We talk about the importance of voting in a democratic system. Young people are voting with their feet.