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# MACROECONOMIC MOVEMENTS OF THE WESTERN BALKAN COUNTRIES ECONOMY

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**Abstract:** *The aim of this research is to determine based on a statistical analysis of the macroeconomic trends, the achieved level of recovery and development in the economy of the Western Balkan countries after 2008. In the global economic history, 2008 will be remembered as the year in which many developed and developing countries faced an economic crisis, which was reflected in the decline in general economic indicators.*

*Some experts explain economic crises and recession as accumulated imbalances in relations between basic macroeconomic aggregates and in that sense the crisis is just one of the stages in business cycles. The paper deals with theoretical views regarding this topic, and the conducted empirical research included four countries of the Western Balkans, Serbia, Croatia, Montenegro and Bosnia and Herzegovina. The survey gives a clear overview of the macroeconomic trends of the Western Balkan countries with appropriate explanations, which enabled the selection of countries by set criteria. Comparative analysis between countries pointed to good and bad macroeconomic trends in certain periods.*

**Key words:** *macroeconomic development, Western Balkan countries, economic crisis*

**JEL classification:** *O11, M21*

## INTRODUCTION

The general macroeconomic equilibrium is the goal of every national economy and for creators of economic policy. By quantitative and qualitative consideration of macroeconomic trends and reacting to the same, this goal is achievable. Grandov Zorka, Vojvodić Anka and Vučićević Marko (2011: 179) conclude that: „Economic and political changes in the European countries in transition (ECT)

and the transition to the market economy require changes in the micro and macro level of business, with the simultaneous building of legal and institutional infrastructure that should enable and support these changes.”

Competitiveness of the economy and economic development supported by human resources are the fields of the analysis of numerous authors. Attempts to solve the problem of unemployment have not showed much success in practice and the trends of economic development are not encouraging primarily due to the difficult social and economic reality. Petrović Jelena, Jovanović Marija and Mandžukić Ljiljan (2013) conclude that the main goals of each country's macroeconomic policy are economic growth and high employment, in addition to the stability of prices and balance of payments. A significant place is occupied by the problem of a high budget deficit, which has a tendency to reduce purchasing power, a large share of public debt in relation to GDP (gross domestic product), a decrease in lending activity of banks, and a decrease in industrial production (as measures of GDP) and return to recession. The negative effect of factors from abroad, such as a reduced inflow of foreign direct investment or a decrease in the export demand due to slow recovery of the main export partners, significantly slows down economic development.

The period after the economic crisis in 2008 was characterized by reduced economic activity with poor macroeconomic indicators in the countries of the Western Balkans. Only acceleration of economic activity and an increase in the level of employment contributed to the growth of consumption as the main driver of growth.

## **THEORETICAL CONSIDERATIONS**

As Josifidis Kosta claims (2010), the goals of macroeconomics are determined by national legislation, institutional arrangements, and above all, in the daily political context, the programs of political parties and their leaders.

### **Sustainable and stable growth of gross domestic product**

The requirement to measure national production arises from the need for international comparisons of national economies and the analysis of economic activities of a country in a given interval, with the aim of better planning the future flows of the certain country., the gross domestic product is usually taken as an adequate indicator of the state of one economy.

According to Kuzmanović Đurić Tatjana (2007: 61) gross domestic product (GDP) represents the total production of goods and services that has been realized in the national economy for one year, regardless of ownership. Also, GDP is defined as the most well-known and most frequently used macroeconomic aggregate of the National Accounts System. It represents the sum of manufactured goods and services in a given period of time (usually during one calendar year) in a national economy, regardless of ownership (Veselinović Petar, 2013: 16). GDP can also be viewed as: “an aggregate expression of the national production of goods and services” (Josifidis, 2010: 53).

### **Reducing the unemployment rate**

One of the key economic performances is the unemployment rate. Unemployment reacts simultaneously with the economy as a whole. It decreases and increases in line with business cycles. Unemployment is seen as a situation in which working-age population can not find a recruitment suitable to their qualifications. Unemployment appears completely equal in both developed and underdeveloped countries with a low level of living standard. As Veselinović (2013) indicates the inadequate utilization of the human potential of a country has a direct impact on its national economy and gross domestic product, which, among other things, results in low living standards and poverty.

In the focus of development priorities, the issue of high unemployment of human resources should also be addressed. The economic development process must also be supported by an adequately skilled workforce that will be able to ease the attractiveness of foreign direct investment and orientation toward agriculture and industry, the incentive of all forms of entrepreneurship, increasing production, exports and the like. The reform of the labor market, the education system (in the function of human resources development) and the employment system, with the aim of reducing the unemployment of the labor force, would certainly contribute to economic development. The problem of high unemployment carries with itself other consequences, such as political, social, demographic and other.

Employment of the working-age population is one of the key issues for each country and its financial system. Restructuring the economy has just marked this issue. In addition to the level of gross domestic product, this is certainly the most effective indicator of the efficiency of one economy, and society as a whole. The first and key thing to boosting performance, not just the labor market, but also the national economy as a whole, is to improve labor supply in terms

of enriching both the unemployed and the employed, which implies significant investment in human capital. These are the fastest way to increase employment, and to reduce poverty but also to increase the ability of the population to invest funds into the banking sector.

According to Josifidis: “Unemployment rate is the ratio of the number of unemployed and the total workforce (the sum of employed and unemployed persons). It is closely linked to the growth rate of real output. The relationship between these two categories was defined by A. M. Okun who greatly contributed to the macroeconomics with the so-called Okun’s law, which stands that: The inverse relationship between the fluctuation of real output over its growth trend and the fluctuation of the unemployment rate around its equilibrium level (Josifidis, 2010: 224). In the example, this would look like this: a decrease or an increase in unemployment occurs when real output increases or decreases faster or slower than the potential product.

The tendency of reducing the number of unemployed due to demographic trends is an understandable flow, however, when there is a faster growth of employees than GDP growth, such a phenomenon does not have a foothold in demographic or economic factors. Such a movement is a source of worry. Employment growth (real growth, not growth due to changes or omissions in statistical coverage) faster than GDP growth reflects the decline in labor productivity and the rise in labor costs. This scenario reflects a decline in the competitiveness of a country’s economy. Thus, in normal circumstances, the decline in production entails a slower decline in the level of employment at a lower rate.

### **Improving living standards**

The living standard of the population can be shown through their purchasing power, i.e. through the quantity and quality of goods in the consumer basket. Material well-being represents the consumption of households and, by general understanding, defines the level of living standard. Measuring living standards is done through the income or consumption of households. However, a more reliable measure of living standard is consumption.

By analyzing the living standard of a particular country, more illustrations can be indirectly concluded. Thus, observing the underdeveloped countries, the low general living standard of the majority of the population is noted. According to Kuzmanović (2007) the status of this population manifests itself quantitatively and qualitatively in the form of low income (poor), inadequate housing, modest

health, limited education, high child mortality, short life expectancy and low business expectations, and in many cases the general sense of hopelessness and apathy.

As Veselinović (2013) states, the importance of living standards stems from the fact that people are the true wealth of each country and that the basic goal of economic (and social) development should be to create the conditions for the full satisfaction of their needs. Economic development, by itself, does not guarantee a higher standard of living for the population. A country that is more successful in achieving economic development does not automatically have to be more successful in raising living standards. It is important how funds are used and how they are distributed among members of society. Greater equity in the distribution of realized gross domestic product means that a greater number of people have the opportunity to satisfy their material, cultural and other needs to a greater extent, which is positively reflected on the living standard of the population.

Thus, the economic development and living standard of the population are interconnected and conditioned. Namely, higher household consumption contributes to higher production, and to economic development. Manufacturers are improving the system of work, making it more economical and efficient. Consumers meet their needs by increasing their physical and intellectual potentials to further ensure their survival. The problem of low living standards is reflected in a growing number of household members (as well as income per household member) and the ever-increasing cost of living since the arrival. It is quite understandable that under these conditions there is a tendentious decline in the quality of life of the population.

### **Low and stable inflation**

Based on the views of authors Becić Sonja and Krstić Ivan (2013: 200), the general economic equilibrium can be presented as a situation in which one economy operates in conditions of equilibrium, i.e. when aggregate supply and demand are equal. When the balance-equilibrium is considered globally, it is tied to the general price level. As there is global growth in the general price level, due to numerous instabilities, the term that describes this period is called the “century of inflation.”

The phenomenon of inflation can be briefly defined as a constant rise in the general price level. Inflation is characterized by universality, the ability to quickly overflow and spread, as well as durability. Its presence is particularly noticeable in developing countries due to lack of funding for development. In periods of slow

development, inflation is often used as an instrument for achieving certain goals, and in particular is meant to achieve a higher level of economic development and achieve employment growth. As has already been pointed out, high inflation also entails an increase in unemployment (Philips curve), a slowdown in economic growth and an ever-increasing recession. If the irreversible effect of inflation would be painfully described, it could be compared with a disease that destroys the human organism and never returns it to its original state. Thus, the economy that falls into the state of inflation, most often activated in times of wars and crises, does not reach the initial level after that.

Veselinović (2013) considers inflation to have positive and negative effects on the economy of one country. Positive effects include:

- In the first place there is an incentive for the rate of growth and production. The general attitude is that the effect of inflation through the growth of money supply is overestimated and that it will lead to a slight increase in prices, rather than to the activation of unused capacities and labor.
- Additional issuing of money can currently improve the situation and encourage action, but can not accelerate the country's economic development in the long run.
- In periods of inflation, investments are low and seem profitable, especially those that are covered by bank loans, as interest rates often cover inflation. Access to this kind of financing is payable, as it returns to the lender significantly less, especially when it comes to long-term loans.
- In periods when inflation is present, consumption is stimulated, because it is not advisable to save money. Then consumption is more prevalent, as the population wants to transfer its assets into real assets.
- Regarding the negative effect of inflation on the economy of one country, a few can be distinguished:
  - Inflation affects the decreasing of purchasing power of money.
  - The growth in the price of one country in relation to the other country encourages an increase in imports and a decrease in exports, and the ultimate result is a decline in competitive advantage in the foreign market.
  - Business activities of business entities are losing on its importance and business uncertainty is present in the long run.
  - From the aspect of social activity, inflation has the most impact on the weakest population and saves those who do not need help.
  - Inflation growth forces households to spend more money in order to achieve and maintain the same level of consumption, i.e. the same level of living standard.

All things considered, it can be seen that all the negative effects of inflation are incomparably greater than the advantages it brings in terms of stimulating growth rates, increasing employment and creating an adequate business climate.

Only in conditions of moderate inflation it could be beneficial to economic development, especially in case when capacities and labor force are poorly used. Any progress in the level of inflation brings more unfavorable consequences than the benefits that it can bring to the economy of a country.

When it comes to the negative effect of inflation, we can consider its effects on the banking sector, by lowering the level of approved loans to enterprises and increasing the costs of refinancing operations. In developed economies, banks are rapidly adjusting to inflation by increasing interest rates on deposit potential and loans. Such a move increases the risk of inability to collect credit, which reduces their availability, but also increases banking costs. When inflationary expectations are high, clients who are usually not able to repay the approved loan are “drawn” into the financial sector. In order to prevent the emergence of problems, banks linearly reduce the availability of credit to all customers. Hence, inflation growth has detrimental effects on economic growth also through the financial sector.

## **EMPIRICAL OVERVIEW OF MACROECONOMIC MOVEMENT OF THE WESTERN BALKANS ECONOMY**

An important role in the functioning of one economy, company business operations, business operations of financial institutions, certainly have some macroeconomic trends, such as the movement of gross domestic product, consumer price index, unemployment rates and living standards. A review of macroeconomic trends in the economy of the Western Balkan countries generates a basis for conducting a comparative analysis of these movements.

### **Serbia**

When it comes to the movement of GDP in Serbia, there are two periods when the values had a negative sign. First, in 2009, when the results of the global economic crisis were noticed; then, in 2014, when large floods made Serbia's economy enter the recession period. A slight recovery followed in 2015. The growth of the economy is directed towards investments and exports (beyond the consumption-oriented concept) as key drivers of economic activity.

The first decline in GDP value occurred in 2009 in response to the 2008 global economic crisis. As one of the most important macroeconomic aggregates, the gross domestic product of the Republic of Serbia in 2010 increased by about 1%, which only recovered about half of the fall in production from the previous year. Economic recovery continued during the beginning of 2011 and was slightly accelerated compared to the last quarter of 2010. This does not mean that Serbia has left the zone of insufficient economic growth. The reason for the cyclical movement of GDP in percentages from positive to negative is the change in its constituent parts. The next decline in GDP values was caused mainly by the large floods that occurred in the spring of 2014 and due to low external demand. The consequences of this mild recession have been felt next year, followed by a moderate recovery.

The weather conditions at the beginning of 2017 had negative consequences on developments in agriculture, mining, energy and construction. The growth of the gross domestic product of Serbia in the first half of the year was 1.2% year over year supported by a series of positive movements in the manufacturing industry and most of the service sectors. Observed by the processing industry, the growth in the physical volume of production in the first half of the year was recorded in 18 out of 24 areas, or 85% of the manufacturing industry. Investing in new projects in certain areas of the manufacturing industry contributed to this growth, in addition to increased external demand. If the expenditure side is observed, GDP growth was stimulated by domestic consumption and investment. Household consumption has had a positive impact thanks to a reduction in unemployment and a rise in wages in the private sector. Macroeconomic and financial stability, better investment and business environment, as well as realization of infrastructure projects are factors which have contributed to the growth of investments (National Bank of Serbia, 2017).

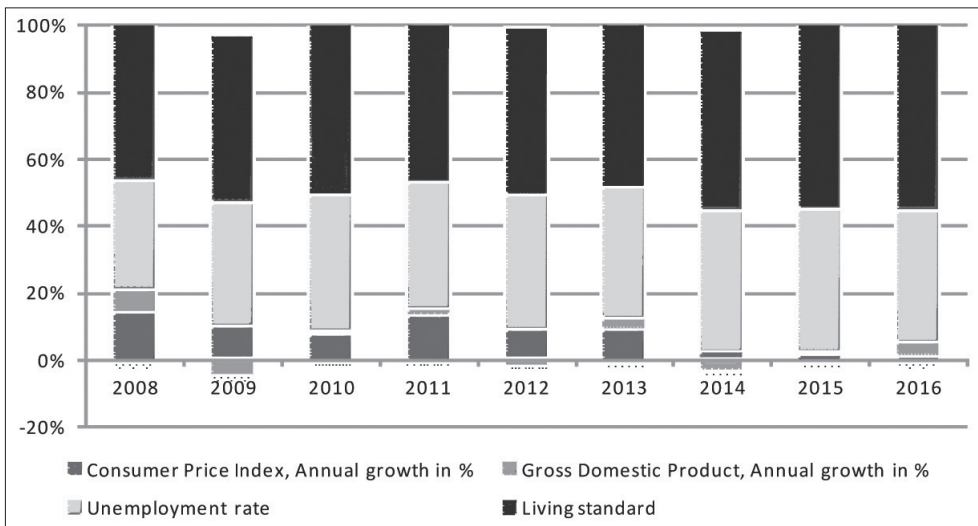
Unemployment in Serbia reached the highest value in 2012, as much as 22.2% of the total workforce. The high unemployment rate due to the reduced production volume is one of the reasons for the decline in GDP in 2009. Also, the reduced aggregate demand (both domestic and foreign) affected the volume of GDP, which had a negative impact on the expectations related to the development of the Serbian economy. The National Employment Service has registered about 724 thousand of unemployed in 2015. The unemployment rate in Serbia decreased to 19%, in Croatia 16.7%, while Macedonia had 27.9% of the unemployed, Albania 16.1%, Montenegro 19.1%. Although the previously mentioned data on the decline in employment and the growth of unemployment do not fully



correspond (much higher decline in employment than the increase in unemployment), it is certain that the crisis has major adverse effects on our labor market. Based on an expert assessment, this macroeconomic risk had a tendency to grow during the period 2008-2015 (when it recorded a slight decrease) and had an effect on the further progress of economic activity, until new productive jobs are created through investments and further growth of economic activity.

Serbia is facing several key problems that hinder economic development. This is, above all, the excessive influence of the state on the economy, the underdeveloped private sector, low investments, poor infrastructure, the participation of the gray economy, etc. For these reasons, it is urgent to take measures for the reconstruction of state enterprises and public administration as well as to improve business environment and financial stability.

The following chart shows the movement of macroeconomic indicators in Serbia, where slight improvement in the living standard of the population, unemployment rates, stable inflation and GDP growth can be noticed in the last three years of the analyzed period.



**Chart 1:** Macroeconomic trends in the economy in Serbia

**Source:** Author, based on NBS data

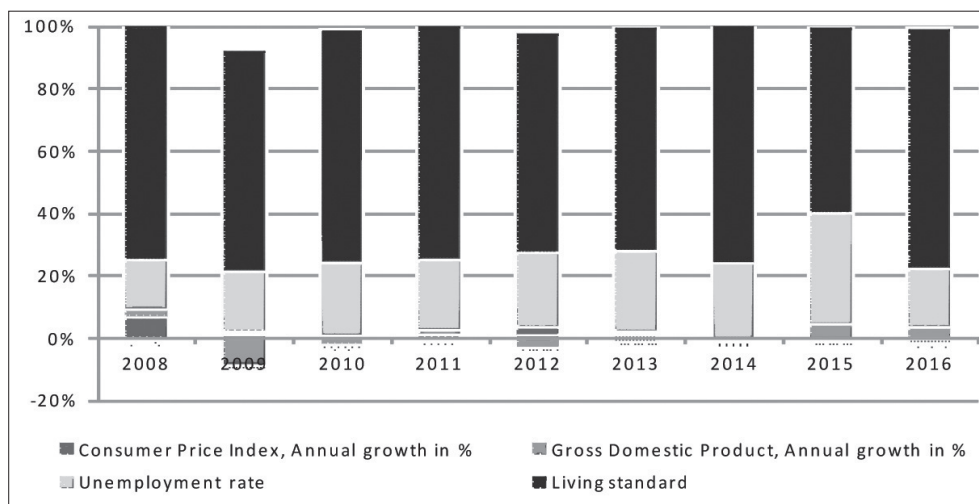
## Croatia

When it comes to macroeconomic developments in Croatia, it can be said that the global economic crisis of 2008 made deep structural problems becoming more visible and more important. Some of them relate to a weakly competitive export industry, large private debt, a neglected labor market and inadequate public financial management. These problems escalated even further due to the unfavorable environment, so the economic adjustment slowed down, and the recession deepened. Therefore, the decline in GDP value refers to reduced domestic demand, and especially investment. Its decline is also the result of the weakness of the economy due to the decline in exports, the reconstruction of the shipbuilding sector. Domestic demand declined, but in 2013 there was a slight recovery attributed to joining the European Union, higher household spending and greater hospitality activities. In 2014, there was an increase of 0.5% and in 2015 of 1.2%, as a reflection of improving access to European structural and investment funds. The further GDP growth is stopped by fiscal adjustment (European Commission - Main Economic and Financial Affairs Office, 2014, page 17).

Inflation measured by the consumer price index recorded a decrease in 2013 to 2.2% in Croatia, primarily due to unpaid taxes and regulated prices.

The unemployment rate was also hit by the recession and in 2016 it was 14.7%. The highest rates were recorded in 2012 and 2013, when they were 20.9% and 21.5%, which is certainly lower compared to Serbia and Bosnia and Herzegovina during that period. Further growth in unemployment has been hampered by employment in an already growing public sector. Problems are found in legislation that raises labor costs and hinders the creation of new jobs. Unemployment rates are below average in relation to the European Union average, and this disproportion is the result of a lack of fiscal space for the implementation of social policy measures. In their research Krnić and Radošević state that "Croatia has one of the smallest work contingents in Europe, and at the same time belongs to the countries with the highest unemployment rate" (Krnić Branko and Radošević Dubravko, 2014: 14).

The following chart shows the movements of the explained macroeconomic indicators in Croatia, where the last year of the analyzed period can be assessed as the best in terms of the highest living standard of the population, the lowest unemployment rate and GDP growth, but with negative inflation growth.



**Chart 2:** Macroeconomic trends in the economy in Croatia

**Source:** Author, based on: [www.dzs.hr](http://www.dzs.hr), [www.imf.org](http://www.imf.org), [www.data.worldbank.org](http://www.data.worldbank.org)

## Montenegro

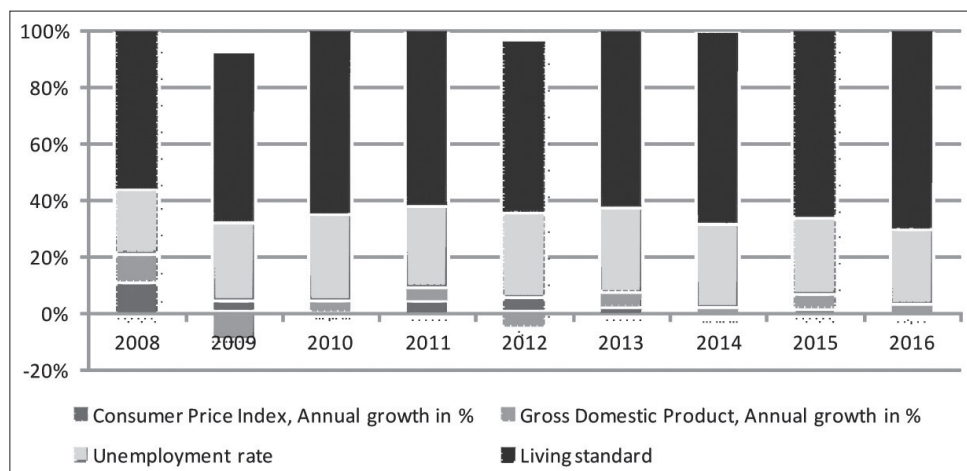
When it comes to macroeconomic developments in Montenegro, as a small and open economy, it did not escape the crisis from other markets, which was reflected on the functioning of the Montenegrin market. According to the data of the Central Bank of Montenegro, in 2016, the economy recorded an economic growth of 2.9%. In this period, growth was achieved in the agriculture, forestry and fishing industry, financial activities and insurance activities, construction, electricity supply, while the decline was recorded in the trade, tourism, processing industry, etc. GDP growth rates have been in most of the period 2008-2016 had higher values than other countries in the analysis, which can be seen in the summary chart of the observed countries.

Inflation, measured by the consumer price index, was 1% in 2016, while its average annual value was -0.3%. Compared to other countries in the region, Montenegro had, in all analyzed periods, a lower average annual value compared to Serbia (except for 2008 and 2009), while Croatia and Bosnia and Herzegovina had approximate values.

When it comes to the unemployment rate, in 2016 it was 17.1%. Based on the data in the next chart, it can be noted that the highest unemployment rate was in 2008 when the global economic crisis took place, and in 2014 signs of mild

recovery were noticed. Compared to Croatia, Montenegro recorded similar unemployment rates, while Serbia and Bosnia and Herzegovina had a worse value for this indicator of economic development.

The following chart shows the movement of the explained macroeconomic indicators in Montenegro, where their instability can be noticed during the analyzed period.



**Chart 3:** Macroeconomic trends in the economy in Montenegro

**Source:** Author, based on the data from: [www.monstat.org](http://www.monstat.org), [www.imf.org](http://www.imf.org), [www.data.worldbank.org](http://www.data.worldbank.org)

## Bosnia and Herzegovina

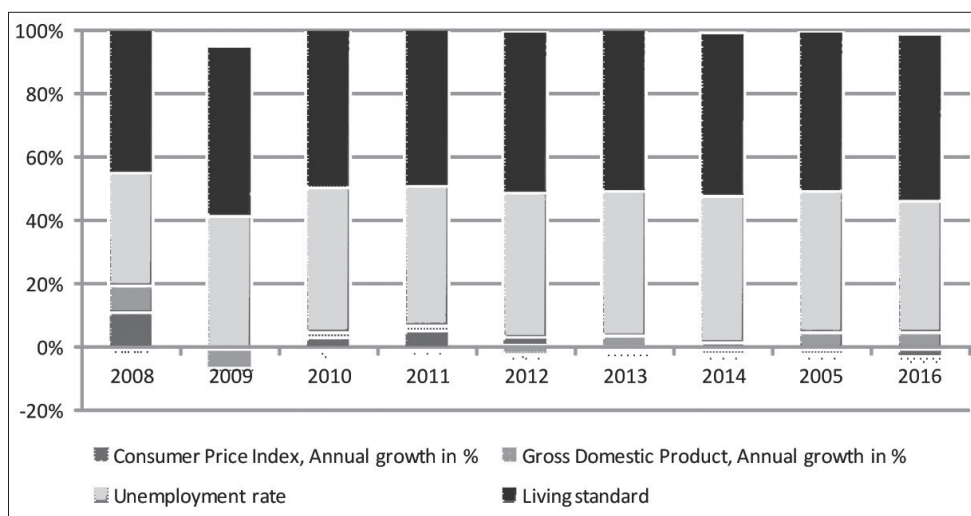
With regard to macroeconomic developments in Bosnia and Herzegovina, according to the report of the Council of Ministers - the Directorate for Economic Planning, economic growth slightly increased in 2016, when it was 3.144% compared to 2015 when it amounted to 3.077% (Council of Ministers - Directorate for Economic Planning, 2017: 7). However, in Serbia, in the same period, economic growth increased several times, from 0.8% to 3.8% in 2016. A similar situation existed in Croatia, where growth was 3.165% in 2016, and in 2015 it was 2.347%. Montenegro has not achieved economic growth in this period. The progress of countries in the region contributed to the export demand of Bosnia and Herzegovina, while domestic demand was not high due to reduced foreign investment in consumption.

According to the report of the Council of Ministers - Directorate for Economic Planning, due to the economic growth in 2016, unemployment was reduced from 27.7% to 25.4%, although according to this indicator Bosnia and Herze-

govina was among the first in the countries of the region. Interesting is the fact that there is a big difference between the registered data on the labor force and the survey data, which indicates the existence of a significant informal labor market (gray economy). This increase in the number of employees with disinflation positively affected the growth of private consumption (Council of Ministers - Directorate for Economic Planning, 2016: 13).

Inflation, measured by the consumer price index, in 2016, its average annual value was -1.3%. Compared to other countries in the region, Bosnia and Herzegovina had approximate values as Croatia, while Montenegro and Serbia had approximate values in almost all analyzed periods. According to all of the above, it can be concluded that disinflation did not negatively affect the production and employment level due to the decrease of the producers' revenues (due to the fall in world prices and cheaper raw materials and energy) (Council of Ministers - Directorate for Economic Planning, 2017: 7).

The following graph shows the movements of the explained macroeconomic indicators in Bosnia and Herzegovina, where in the last five years of the analyzed period, we can see the constant in the values of the indicators of living standard of the population and the unemployment rate and GDP growth, but with negative inflation growth.



**Chart 4:** Macroeconomic trends in the economy in Bosnia and Herzegovina

**Source:** Author, based on the data: [www.dzs.hr](http://www.dzs.hr), [www.monstat.org](http://www.monstat.org), [www.imf.org](http://www.imf.org), [www.data.worldbank.org](http://www.data.worldbank.org)

Currently, the living standard of the population in the countries of the region is below the average of the countries of the European Union (EU28). While in the EU the average is about 60%, in 2016 it was in Serbia 37%, Croatia 60%, Bosnia and Herzegovina 31%, and in Montenegro 46%. In the period 2008-2016 Croatia recorded the highest values of the indicator of living standard, followed by Montenegro, Serbia and Bosnia and Herzegovina. In order to improve the living standard of the population, it is necessary to improve economic growth and development.

### **COMPARATIVE ANALYSIS OF MACROECONOMIC MOVEMENTS OF THE ECONOMY IN THE WESTERN BALKANS COUNTRIES**

Comparative analysis and comparisons of data across countries will contribute to a clearer consideration of the trends in macroeconomic determinants determinants in the countries of the region - Serbia, Croatia, Montenegro and Bosnia and Herzegovina.

The model of economic growth in Serbia, which was present before the economic crisis itself, relied on large inflows of funds from abroad with low levels of domestic savings. High level of indebtedness is the result of low investments and a high deficit of current external payments. In the post-crisis period, it is necessary for the state to mobilize its capacities in order to suppress the effects of the global crisis, inflation and to fight against unemployment, so that citizens have the means to save. It is believed that: "As a result of the growing tendency towards the global economy and the pressures of the economic and financial crisis in transition countries, attracting foreign direct investment is seen as a very important instrument for improving economic development, accelerating transition, and fostering economic growth" (Grandov Zorka, Stankov Biljana, Đokić Maja, 2013: 174). Grandov Zorka, Stankov Biljana and Roganović Milijana (2014: 164) conclude on the basis of the examples of Serbia and Romania: "Previous experience has shown that only the application of tax incentives is not enough to attract foreign investors, but that they come to light only after the country creates appropriate investment climate and apply non-tax incentives. Therefore, it is very important that, in addition to the above, provide financial support to foreign investors in Serbia and Romania, primarily in the form of granting non-refundable funds under various government programs.

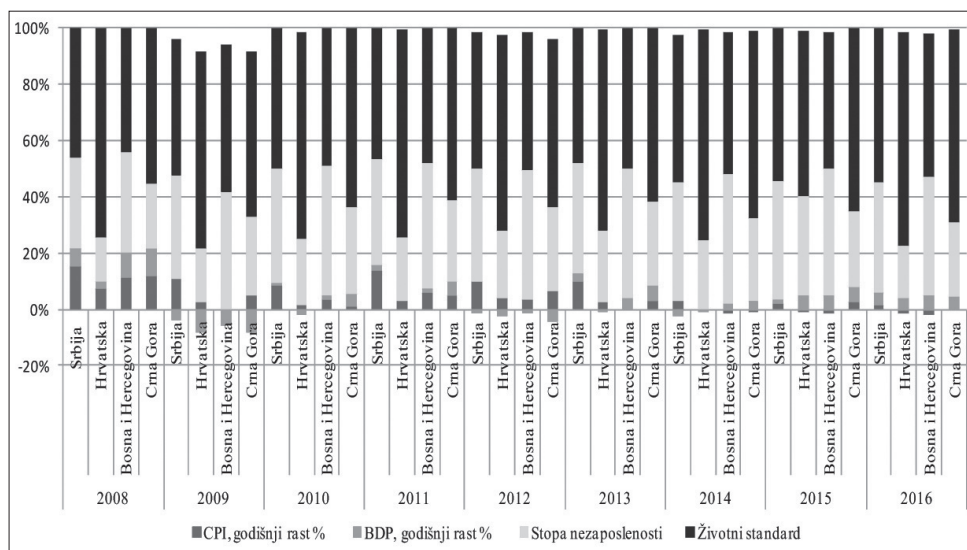
Based on the previously explained macroeconomic trends in the economy, Serbia has lower unemployment rates compared to Croatia. The average annual growth

of the consumer price index is mostly visible in Serbia, then in Montenegro, Bosnia and Herzegovina and at the end the lowest rate is achieved by Croatia. GDP trends indicate the highest values in Montenegro, then in Bosnia and Herzegovina, Serbia and Croatia.

The generator of the development of the economy of Montenegro in the last few years was an inflow of capital. Significant amounts of funds were directed towards start-up projects in the field of tourism, towards the energy sector in terms of the construction of hydroelectric power plants, towards the public sector in the direction of the construction of the highway (Central Bank of Montenegro, 2017). According to Žugić, the governor of the supreme monetary institution: “I do not find investment in infrastructure wrong because it will create future benefits and increase the safety of traffic” (Montenegrin Financial Portal, 2018). A single capital investment for the operation of the highway will increase economic activity, but it will also increase public debt, and in this regard, it is disputable whether it is wise to enter into such ventures. Therefore, an important fact when approving large infrastructure projects is that the development component ensures the sustainability of public debt.

In order to achieve macroeconomic equilibrium as the desirable goal, price stability, low unemployment rate, domestic and external equilibrium with constant economic growth and development are necessary. For Bosnia and Herzegovina, this goal is achievable if we approach improvements in budget management, fiscal consolidation and adequate public debt management, as well as creating conditions for increasing competitiveness and employment levels.

The following chart summarizes all the macroeconomic determinants of the economic development of the Western Balkans in the period 2008-2016. As a general conclusion, it can be stated that the 2008 global economic crisis affected the economic growth of all observed countries. The decline in GDP in 2012 in Montenegro, for example, was conditioned by the reduced activity in agriculture, fishery, forestry, construction and manufacturing. In Croatia, the decline in GDP is linked to the strengthening of negative trends in the domestic economy and problems in the eurozone. For Serbia, 2012 was also a bad year as a result of political uncertainty and worsening weather conditions. In Bosnia and Herzegovina, the decline in GDP was the result of reduced economic activity. Recovery from the effects of the economic crisis was recorded in all analyzed countries in 2013, except Croatia. Also, the floods in 2014 had a negative impact on Serbia and Croatia.



**Chart 5:** Summary overview of macroeconomic trends in the economy of the Western Balkans (by the country)

**Source:** Author, based on data from: [www.dzs.hr](http://www.dzs.hr), [www.monstat.org](http://www.monstat.org), [www.imf.org](http://www.imf.org), [www.data.worldbank.org](http://www.data.worldbank.org)

Based on all analyzed macroeconomic trends in the economy, it can be concluded that there were two waves of negative economic growth in 2008 and 2012 for all observed countries. Montenegro can be distinguished as the country with the highest GDP growth values in the observed period, followed by Bosnia and Herzegovina, Serbia and Croatia. Natural disasters, that is May 2014, have had a negative impact on economic growth in Serbia, Bosnia and Herzegovina and Croatia. Serbia stands out as the country with the highest unemployment rate, followed by Bosnia and Herzegovina, Montenegro and Croatia. The global economic crisis has deepened the unemployment problem in Serbia. The period of privatization should have enabled the expansion of employment. However, the process of labor restructuring in privatized companies only fictitiously increased the employment rate. If the period by 2012 is analyzed, it can be noticed that all countries had the inflation where Serbia re-emerges as the country with the highest inflation rates, followed by Croatia, Montenegro, Bosnia and Herzegovina. During 2014, for most countries (except Serbia), negative inflation growth is expected result of the crisis and increased savings, reduced wages and low living standards. With regard to the movement of the living standard, this indicator did not have any significant changes during the observed period. According to the standard of living standard, Croatia took the first place, followed by Montenegro, Serbia and Bosnia and Herzegovina.



Therefore, regarding the observed countries in the region, Serbia is the country with the highest rates of unemployment and inflation, with the lowest GDP values in the last years of the analyzed period.

## CONCLUSION

Research in social sciences is accompanied by certain limitations that are distinguished by different criteria. As far as this research is concerned, the fact is that the research covered the period in which the economic crisis occurred and that the period after it is characterized by the cyclical movement of individual variables, which can result in statistically significant deviations compared to their long-term movement. Therefore, the movement of variables in the post-crisis period should be considered with a certain degree of caution. This limitation during the research also represents a challenge that should be overcome in the future period. Thus, further research will try to carry out the analysis by periods, i.e. analysis of the macroeconomic trends of the economy before the crisis, during the crisis and after the crisis. The assumption is that by this segmentation of the analysed period, this restriction would be corrected in relation to the deviation of movement in relation to long-term tendencies.

Based on the analyzes of the macroeconomic trends of the economy in Serbia, Croatia, Montenegro, Bosnia and Herzegovina, it has been shown that Serbia is the country with the highest unemployment and inflation rates, with the lowest rates of GDP and the level of living standard below the level of Croatia and Montenegro in the last years of the analyzed period. Also, macroeconomic developments in the Western Balkan countries are below the level of countries that are members of the European Union. As the Western Balkan countries pursue a policy of joining the European Union, they should intensify efforts to improve macroeconomic indicators and maintain macroeconomic stability. It can be concluded that the countries of the Western Balkans are striving to achieve the target level of employment in the long run, and also living standards, not only in the domestic but also in the wider market, and it is necessary to harmonize the employment policy with the development plan, as well as to direct the economy towards the production and implementation of strategically defined goals.

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## MAKROEKONOMSKA KRETANJA PRIVREDE ZEMALJA ZAPADNOG BALKANA

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**Rezime:** Cilj ovog istraživanja je da na osnovu statističke analize makroekonomskih kretanja privrede zemalja Zapadnog Balkana, nakon 2008. godine, utvrdi dostignuti stepen oporavka i razvoja. U svetskoj ekonomskoj istoriji će 2008. godina biti zapamćena kao godina u kojoj se velik broj kako razvijenih, tako i zemalja u razvoju suočio s ekonomskom krizom što se odrazilo kroz pad opštih privrednih pokazatelja. Pojedini stručnjaci objašnjavaju ekonomske krize i recesiju kao nagomilane neravnoteže u odnosima između osnovnih makroekonomskih agregata i u tom smislu kriza je jedna od faza u privrednim ciklusima. Makroekonomska kretanja privrede u zemljama Zapadnog Balkana međusobno se razlikuju. U radu su obrađeni teorijski stavovi o ovoj temi, a sprovedenim empirijskim istraživanjem obuhvaćene su četiri zemlje Zapadnog Balkana, Srbija, Hrvatska, Crna Gora, i Bosna i Hercegovina. Istraživanje daje jasan pregled makroekonomskih kretanja privrede zemalja Zapadnog Balkana uz prikladna objašnjenja, što je omogućilo selektovanje zemalja po zadatim kriterijumima. Komparativna analiza između zemalja ukazala je na dobra i loša makroekonomskih kretanja u pojedinim periodima.

**Ključne reči:** makroekonomska kretanja, zemlje Zapadnog Balkana, ekonomska kriza

**Jel klasifikacija:** O11, M21

