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COMPARATIVE ANALYSIS OF MACROECONOMIC INDICATORS OF THE WESTERN BALKAN COUNTRIES

Summary: *The Western Balkans covers a small market consisted of six countries with less than eighteen million consumers and a total gross domestic product (GDP) of $144 billion, which is less than 1 percent of EU GDP. The region still lagging significantly behind the rest of Europe, with an average income per capita of only $7,650, which is only 14 percent of the EU average ($54,100). This paper is an insight into macroeconomic indicators for the observed countries, as well as their econometric-statistical analysis.*

Key words: *Western Balkans, macroeconomic indicators, comparison, economic growth*

JEL classification: *E60, E66, F63, F02*

INTRODUCTION

After the end of the conflict, the countries of the Western Balkans started the process of transition.
All the countries of the Western Balkans have opened up to global trade, expanded the role of the private sector, revoked regulations that silenced the development of businesses, and started building supporting institutions for the market economy. Banking systems were built up with the support of foreign capital and expertise. The results of these efforts were manifested in stable economic growth, a significant increase in income and living standards, and greater macroeconomic stability. However, the region is still significantly behind the EU average in most macroeconomic variables

1. REGION OF THE WESTERN BALKANS

A number of studies have looked into the key features of FDI in Eastern Europe – its volume, forms, origins, destination by economic activity, and case studies (Hunya 2001; Kalotay and Kalman 2010; Benacek et al. 2000), as well as the determinants of FDI based on econometric research (Bevan and Estrin 2004; Janicki and Wunnava 2004; Dikova and van Witteloostuijn 2007). Despite the growing literature on FDI in transition economies, there has been relatively little research on FDI in the Western Balkan countries.
The countries of the Western Balkans (WB) cover an important geostrategic area. The economics, resource and traffic position of the Western Balkans is important for Europe and the Eurasian region (Popović, Eric and Stanković 2017).

With the collapse of the Cold War and the policies existed in such a political environment, the Balkans included four communist states: Albania, Bulgaria, Yugoslavia and Romania. The term Western Balkans is often encountered in literature today. It was used by the European Union to mark the countries that emerged after the breakup of the former Yugoslavia (SFRJ), excluding Slovenia, but with the addition of Albania. The term was introduced into the official documents of the European Union after the establishment of a special regional Council of Ministers of the Union for the Western Balkans. Therefore, the countries of the Western Balkans are the following: Montenegro, Serbia, Bosnia and Herzegovina, North Macedonia and Albania. Some sources will also include Slovenia and Croatia in the countries of the Western Balkans, which have been full members of the European Union since January 2004 (Slovenia), i.e. from July 2013 year (Croatia).
Considering that the European Union has been expanding and accepting new members since the 1970s, one of its goals is the integration of the countries of the Western Balkans. At the Council of Europe in Copenhagen, the European Union committed itself to expanding its membership, while encouraging and spreading liberal values and norms. With the fall of the communist regime in the former Yugoslavia and the new independent states in the post-war period, they tended to emphasize their liberal-democratic values and European identity. Western Balkan (WB) economies are lagging behind more advanced post-transitional countries in terms of economic development and the quality of the institutional framework and public services (Mikulić 2021).
The expansion process also depends on the integration capacity, i.e. the ability of the European Union to accept new member countries, which consists of the following elements:
• market and service capacity
• the capacity of the labor market to absorb new members
• capacity of EU finances
• the ability of EU institutions to function with new members
• the ability of European society to accept new members and
• the ability of the Union to ensure strategic security
Based on the recommendations and criticisms of the European Commission, some authors have offered a summary of what the Copenhagen criteria mean:
a) functional democracy:
- the constitution must ensure democratic freedoms such as political pluralism, freedom of speech and religious freedom;
- independent judiciary;
- free and fair elections and recognition of the opposite parliament parties;
- respect for basic freedoms specified in the Council of Europe convention on respect for human rights and basic freedoms;
- respect for minorities, including the signing and ratification of the Framework Convention of the Council of Europe on the Protection of National Minorities;
b) functional market economy:
- liberalization of prices and trade;
- removal of barriers to entry to/from the market;
- the legal system that regulates property rights and enabling the enforcement of laws and contracts;
- macroeconomic stability, including sustainable public finances;
- a well-developed financial sector that enables savings to be converted into productive investments;
c) the ability to withstand the pressure of competition in the European Union:
- functional market economy;
- sufficient amount of human and physical capital (including infrastructure and education);
- market integration within the European Union;

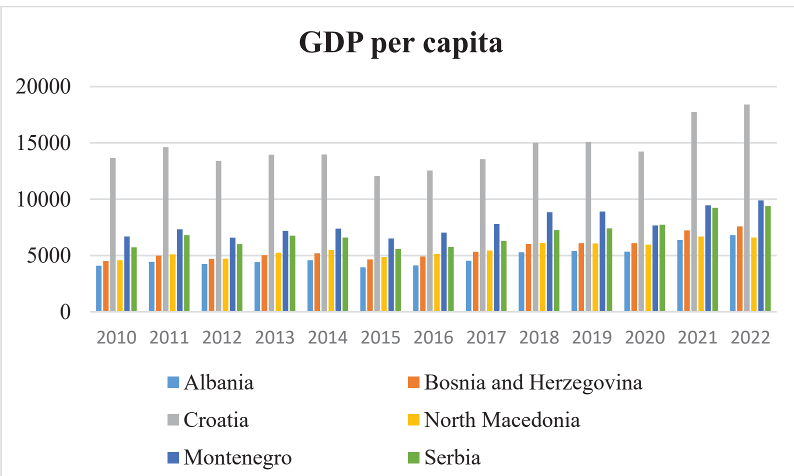
- sufficient share of small companies, because the predominance of large companies could mean unwillingness to adapt to market conditions.

2. MACROECONOMIC INDICATORS OF THE WESTERN BALKAN COUNTRIES

All countries of the Western Balkans, according to the level of realized income per capita, belong to the category of countries with a higher middle income (according to the definition of the World Bank, countries that earn per capita between 4,046 and 12,535 dollars enter this category).

Comparing the level of GDP of the individual countries of the WB, excluding Croatia, with the EU average, it can be seen that all the countries of the region have a rather low level of gross domestic product per capita compared to the average of the European Union, but also that Serbia and Montenegro stand out in the last few years, as countries with a higher level of income compared to other countries of the Western Balkans. This especially applies to Serbia, which increased its gross domestic product per capita from $5,585 in 2015 to $9,393 in 2022.

The average GDP per capita for the WB countries is 8053.36 USD, which is 21.7% of the average for the countries of the Western Balkans, and 63.6% of the world average. It is important to note that during the access into the European Union in 2013, the level of gross domestic product per capita of Croatia reached $13,838, which represented at that time a level of exactly 40% of the average of the countries of the European Union.



Graph 1. GDP per capita for the observed countries (Author's calculation based on World Bank data)

Graph 2 shows GDP growth of up to 3% in the period before COVID 19, and in 2020, all countries recorded a decline (Croatia and Montenegro saw a greater decline due to the lack of tourist arrivals). All observed countries recorded significant growth in 2021 and significantly lower growth in 2022.

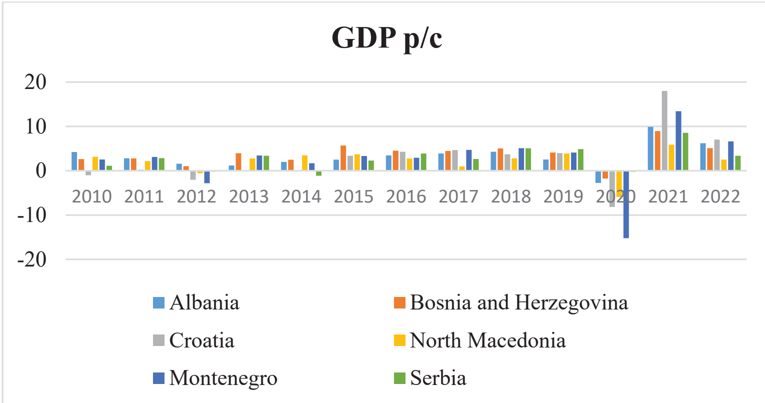


Chart 2. GDP growth rates (Author's calculation based on World Bank data)

Fiscal deficits are moderate in all observed countries, with a larger deficit, except in the case of Montenegro.

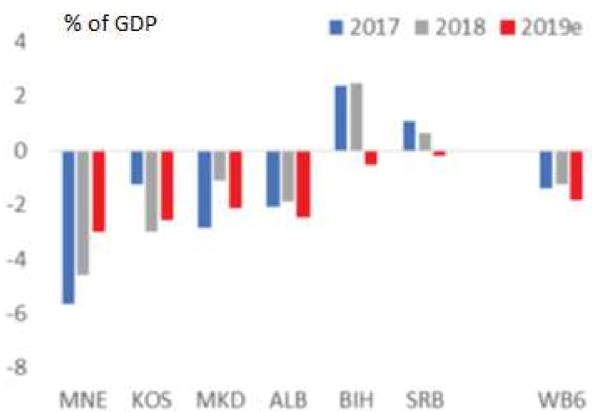
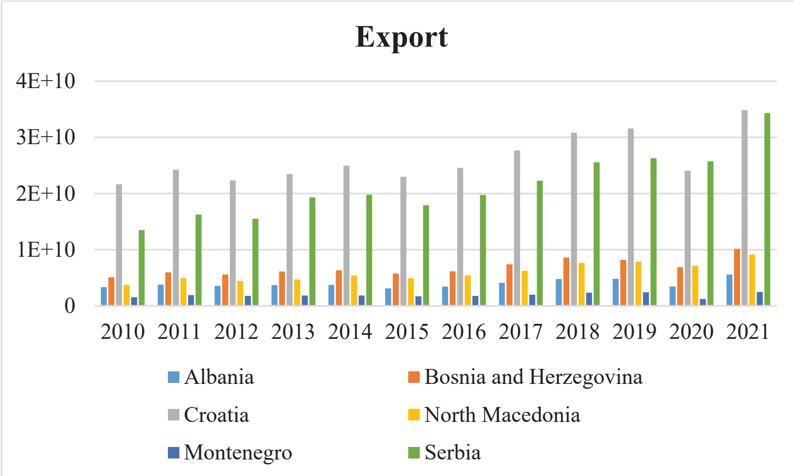


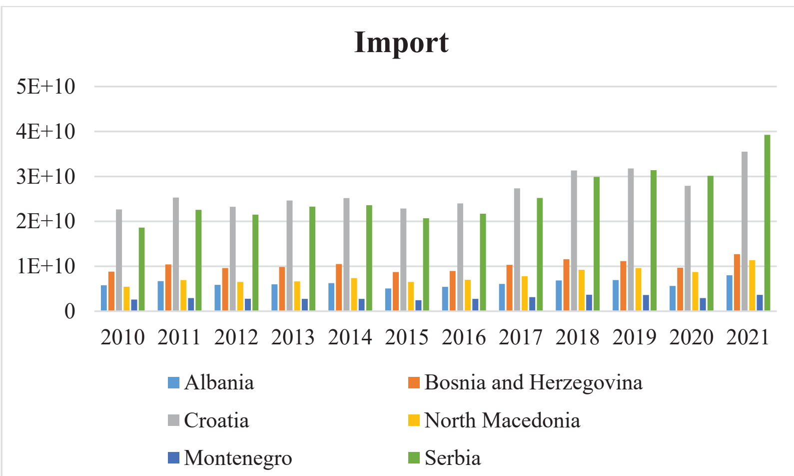
Chart 3. Fiscal deficit (The World Bank n.d.)

In terms of exports, Croatia maintained a dominant position until 2020, when Serbia took the first position, and in 2021, Croatia would take over that position again, but at a slightly higher level compared to Serbia. Other countries have a significantly lower level of exports (Graph 4).



Graph 4. Exports in WB countries (Author's calculation based on World Bank data)

The situation is similar when it comes to imports (graph 5). Croatia and Serbia achieved significantly higher levels of imports compared to the other observed countries.



Graph 5. Imports in WB countries (Author's calculation based on World Bank data)

The level of external debt for the countries of the Western Balkans is given in graph 6. Serbia has a significantly higher level of external debt compared to the other observed countries. However, the most of the external debt, when it comes to Serbia, was used for investments. The next country in terms of external debt is Bosnia and Herzegovina, followed by other countries.

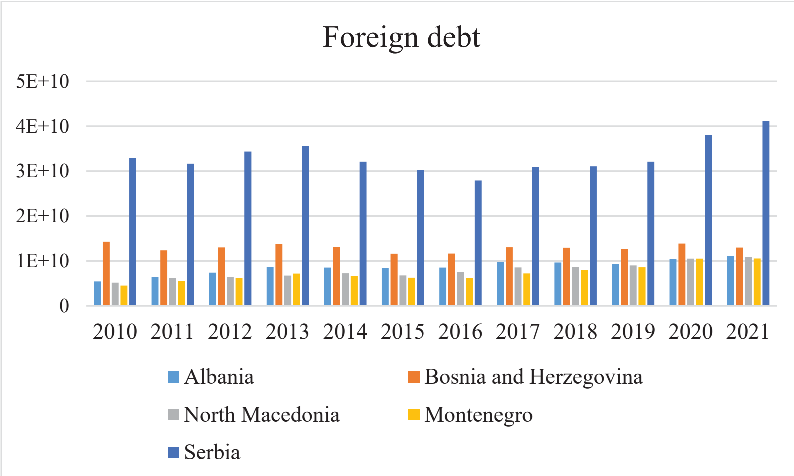
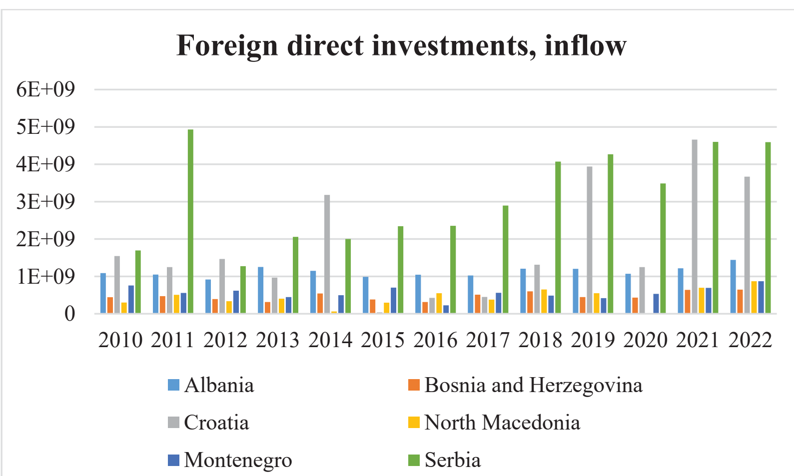


Chart 6. External debt in WB countries (Author's calculation based on World Bank data)

All observed countries become dependent on foreign capital, which owns vital parts of the economy (Stanojević 2020, 343-362). One of the reasons for the significant growth of gross domestic product per capita in Serbia compared to other countries in the region is the higher level of direct foreign investments. Data from the World Bank shows, as shown in the graph 7, that the level of foreign direct investments has grown every year in the countries of the Western Balkans, reaching its peak in 2018 for the value of $7.32 billion. According to these data, it can be it can be concluded that in the period 2014-2020, $40.26 billion was invested in all countries of the Western Balkans, out of which more than $21.42 billion was invested in Serbia.
A similar could be concluded in the case of Albania, which is the second largest in direct foreign investments and which, similar to Serbia, had a significant increase in gross domestic product per capita in the mentioned period.
Some authors claim (Busse and Groizard 2008) that a favourable business environment and a high quality of regulation are necessary in order to realize the favourable effect of foreign direct investments. These findings confirm the importance of a favourable legal and regulatory environment for economic growth and investments in the countries of the Western Balkans.



Graph 7. Inflow of foreign direct investments (Author's calculation based on World Bank data)

3. ECONOMETRIC-STATISTICAL ANALYSIS OF THE INFLUENCE OF SELECTED INDICATORS ON GDP PER CAPITA

The Western Balkans achieved intensive economic growth in the period before the economic crisis of 2007/2008. The mentioned growth was based on the growth of domestic consumption stimulated by the rapid growth of loans, and as a result, it had the growth of the deficit of the balance of payments and the growth of private sector debt. During the crisis period, there was a decrease in the demand for export products from the countries of the region, a credit crisis, a decrease in the inflow of remittances from abroad, and a decrease in foreign direct investments. The crisis led to a general decline in economic activities, an increase in the budget deficit, public and external debt. In 2009, GDP fell down in Bosnia and Herzegovina, Macedonia, Montenegro and Serbia, while in Albania GDP growth was slower compared to the pre-crisis period.
In macroeconomic analyses, GDP growth rate is the most reliable indicator of national progress.

The empirical research data were processed in the statistical program SPSS, through regression and correlation analysis. The correlation coefficient is an indicator of the degree of quantitative agreement between the variables. The coefficient of simple linear correlation in the basic set is denoted by r and can take values only in the interval from -1 to 1, i.e.
$-1 \leq r \leq 1$
A rough approximation of the height of the connection - correlation coefficient is:
r ±0.00 to ±0.20 no or insignificant association; r ±0.20 to ±0.40 light connectivity; r ±0.40 to ±0.70 significant association; r ±0.70 to ±1.00 high or very high correlation (mathematical)).

The coefficient of linear correlation between two variables in the sample, r , is calculated as:

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - \left(\sum X\right)^2}\sqrt{n\sum Y^2 - \left(\sum Y\right)^2}}$$

Coefficient of determination, R Square, which is expressed by the formula:

$$R^2 = \frac{a\sum_{i=1}^{n} y_i + b\sum_{i=1}^{n} x_i y_i - n\cdot \bar{y}^2}{\sum_{i=1}^{n} y_i^2 - n\cdot \bar{y}^2}, \quad 0 \leq R^2 \leq 1$$

and determines how much of the change in the dependent variable is explained by the change in the independent variable. Adjusted R-Square adjusts the R-Square statistic so that an independent variable that has a relationship with a dependent variable increases the adjusted R-Square, and any variable without a strong correlation leads to a decrease in R-Square.
Starting from the null hypothesis that the influence of government spending on the level of GDP is significant, the data were processed in the statistical program SPSS for the observed countries, in the period 2010-2021. The significance level meets the needs of the research (significance level <0.05).
Analysing the data in the table 1, a significant correlation between state spending and GDP can be observed in all countries, except in the case of Macedonia, where there is an easy correlation. Other countries have a significant influence of state spending on the level of GDP, with Albania and Serbia having a leading role. Coefficients of determination (R Square) show that as much as 91% of GDP changes depend on state spending in the case of Albania, 86% in the case of Serbia, 70% in the case of Montenegro, 64% for Bosnia and Herzegovina and the smallest is 45% in the case of Macedonia.

The adjusted R square shows a significant correlation in the case of Albania and Serbia, and a weak correlation in the case of the other countries.

Table 1. Impact of government spending on GDP (Authors)

Country/Indicator	Significant	R	R Square	Adjusted R
Albania	0,000	0.955	0.913	0,904
BiH	0,002	0,800	0,640	0,605
N.Macedonia	0,016	0,676	0,457	0,402
Montenegro	0,001	0,840	0,706	0,676
Serbia	0,000	0,928	0,860	0,846

However, when it comes to the impact of foreign direct investments on the level of GDP, the level of significance does not satisfy further analysis, except in the case of Albania, which has a very strong connection between these two variables. Although Serbia has a high level of FDI inflows, the analysis indicates a significant dependence of the GDP level on other influencing factors.

Table 2. The impact of foreign direct investments on GDP (Authors)

County/Indicator	Significant	R	R Square	Adjusted R
Albania	0,000	0,955	0,913	0,904
BiH	0,149	0,,443	0,197	0,116
N. Macedonia	0,620	0,160	0,025	-0,72
Montenegro	0,872	0,052	0,003	-0,97
Serbia	0,135	0,457	0,209	0,130

CONCLUSION

Integration into the European Union remains a strategic priority for all countries of the Western Balkans. In addition to political criteria, the integration process will also determine economic progress, which has slowed down significantly in recent years. Slow economic development, structural problems, political crises and numerous unresolved problems between the countries of the Western Balkans have contributed to the slow progress in the process of European integration of the countries in the region.

According to the indicators, in the last few years, the region has achieved economic growth (a trend of 3.5% in 2019, and 3.8% in 2020). However, the GDP per capita in the Western Balkans is less than a third of the richest European Union member country, Germany, while the average level of foreign direct investments per capita in the Western Balkans is less than half of the direct foreign investments per capita of the European Union member states from Eastern Europe and it is only one seventh of the European average.

Croatia became a member of the European Union when it reached 40% of the European Union average. If the same criteria were applied to Bosnia and Herzegovina, Bosnia and Herzegovina have reached a level of $15,294 gross domestic product per capita in 2021 and it achieved $6,848.

The analysis showed that the level of GDP significantly depends on government spending in all countries of the Western Balkans. Such a situation is sustainable as long as the level of external debt is moderate and if it is used for investment purposes, which is not the case in some countries such as Bosnia and Herzegovina.

Preserving macroeconomic stability is crucial for sustainable growth. Countries facing high fiscal deficit and public debt should urgently address these issues. In the entire region, investments are needed in sectors exposed to import competition in order to strengthen exports and reduce the large trade and current account deficits of the balance of payments. In all countries, except for Serbia, it is necessary to build an attractive investment environment and make significant efforts to attract foreign direct investments.

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