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doc. dr Đuro Krčić¹

**ECONOMIC CONSEQUENCES OF THE UKRAINIAN WAR
FOR WESTERN BALKAN COUNTRIES**

Abstract: *This paper explores the multidimensional economic consequences of the Russian-Ukrainian war on Western Balkan countries (Serbia, Bosnia and Herzegovina, Montenegro, North Macedonia, Albania, and Kosovo). Through analysis of available economic indicators, statistics, and relevant reports, it investigates how the conflict, which began in 2022, has changed economic flows, trade relations, energy policy, investment patterns, and economic development strategies in the region. Results show that Western Balkan countries have experienced significant disruptions in the energy sector, inflationary pressures, and changes in trade patterns. At the same time, the war has accelerated processes of energy diversification and integration with EU markets, creating new opportunities for economic repositioning. The paper points to different degrees of economic resilience among countries in the region, where states with more diversified economies and less dependence on Russian energy have shown greater stability. The conclusions suggest the need for further strengthening of regional economic cooperation, acceleration of EU integration, and development of strategies to increase economic resilience in the context of global geopolitical instabilities.*

Keywords: *Western Balkans, Russian-Ukrainian war, economic consequences, energy security, trade reorientation, European integration, economic resilience*

¹ Independent University of Banja Luka, correspondence: djkracic0605@gmail.com

1. INTRODUCTION

The Russian-Ukrainian war, which began in February 2022, represents one of the most significant geopolitical events in Europe after the Cold War. This conflict, besides humanitarian and security implications, has caused far-reaching economic consequences that have been felt worldwide. Western Balkan countries, although geographically distant from the direct conflict, found themselves under significant economic pressure due to their specific geopolitical position, energy dependence, trade ties, and development challenges. The Western Balkans, a region encompassing Serbia, Bosnia and Herzegovina, Montenegro, North Macedonia, and Albania, is characterized by a unique position at the crossroads between East and West. These states, although on the path of European integration, maintain varying degrees of economic and political ties with Russia, which has made their economic situation particularly complex in the context of the war in Ukraine and consequent international sanctions against Russia.

This paper aims to provide a comprehensive analysis of the economic consequences of the Ukrainian war on Western Balkan countries, exploring key sectors of the economy that have been affected, as well as strategies that countries in the region have applied to adapt to the new circumstances. Specific research objectives include:

1. Analysis of the war's impact on the energy sector and energy security of Western Balkan countries;
2. Assessment of changes in trade flows and patterns after the imposition of sanctions on Russia;
3. Investigation of inflationary pressures and disruptions in supply chains;
4. Evaluation of the impact on foreign direct investment and access to international financial markets;
5. Analysis of economic reorientation and impact on European integration processes.

The paper relies on a wide range of data, including economic indicators, trade statistics, energy analyses, reports from international financial institutions, and academic studies. Special attention is paid to comparative analysis, which provides insight into different degrees of economic resilience among countries in the region. Understanding the economic consequences of the Ukrainian war on the Western Balkans is of crucial importance for policy makers, investors, and the academic community. The research contributes to existing literature by providing a comprehensive framework for analyzing eco-

conomic challenges and opportunities that have emerged as a result of this significant geopolitical event.

2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

2.1. Theoretical perspectives on the economic effects of regional conflicts

The study of economic consequences of regional conflicts has a rich theoretical basis that relies on different economic schools of thought. According to the theory of economic interdependence (Keohane & Nye, 2012), increased economic connectivity reduces the risk of conflict, but at the same time increases the vulnerability of economies to geopolitical shocks. The theory of conflict economics (Collier, 2007) focuses on economic motivations and consequences of conflicts, emphasizing how wars create economic gains for certain actors, while causing damage to the wider economy. For understanding the consequences of the Ukrainian war on Western Balkan countries, the theory of center and periphery (Wallerstein, 2004) is particularly relevant, which explains how economic shocks in the center of the world system (in this case Europe) have disproportionate effects on the semi-periphery (Western Balkans). This theoretical perspective helps explain why relatively small economies of the Western Balkans are sensitive to geopolitical changes occurring outside their borders.

2.2. Empirical studies on the economic effects of the Ukrainian war

Although the literature on the economic effects of the Ukrainian war on the global economy is rapidly growing, research specifically focusing on the Western Balkan region is still developing. According to the World Bank (2023), Western Balkan countries experienced an average decline in economic growth of 1.2% in 2022 as a direct result of the war, primarily due to disruptions in the energy sector and trade flows. Bartlett and Prica (2023) analyzed various channels through which the economic shock of the Ukrainian war was transmitted to the Western Balkans, identifying energy dependence, trade ties, and investment flows as key factors. Their study shows that countries with greater energy dependence on Russia, such as Serbia and Bosnia and Herzegovina, were more

susceptible to negative economic effects. Research conducted by the Vienna Institute for International Economic Studies (wiiw, 2023) points to significant heterogeneity in economic consequences among countries in the region. According to this study, Albania showed the greatest economic resilience thanks to its lesser dependence on Russian energy and greater integration with European markets, while Serbia and Bosnia and Herzegovina were most affected due to their energy dependence and stronger trade ties with Russia.

2.3. Literature on energy security and diversification

Energy security represents a central aspect of the economic consequences of the Ukrainian war on the Western Balkans. Numerous studies (Kovačević, 2023; International Energy Agency, 2022) show that countries in the region face significant challenges in securing stable energy supply after disruptions in Russian deliveries. Kovačević (2023) analyzes how the war in Ukraine has accelerated processes of energy diversification in the Western Balkans, with increased investments in renewable energy sources and infrastructure for importing liquefied natural gas (LNG). However, the author emphasizes that the short-term costs of this transition represent a significant economic challenge for countries in the region.

2.4. Research on trade reorientation

Literature on trade reorientation after geopolitical shocks (Gould, 2018) provides an important framework for understanding changes in trade patterns of Western Balkan countries. An OECD study (2023) shows that countries in the region significantly increased trade with the EU after the start of the war, while trade with Russia recorded a decline. Begović and Matković (2023) analyze how sanctions imposed on Russia have affected the export markets of Western Balkan countries, especially in the sectors of agriculture, metals, and textiles. Their research shows that countries with a more diversified export structure, such as North Macedonia, were more capable of redirecting their trade to alternative markets.

2.5. Gaps in existing literature

Despite the growing number of studies on the economic effects of the Ukrainian war, there are significant gaps in the literature specifically related to the Western Balkans. Comprehensive analyses integrating different economic

dimensions (energy, trade, investments, financial markets) into one coherent framework are lacking. Also, literature examining long-term structural changes in the economies of the region as a result of the war is limited. This paper seeks to address these gaps by providing an integrated analysis of different economic dimensions, as well as an assessment of long-term structural changes arising from the Ukrainian war. Through a combination of quantitative economic indicators and qualitative policy analysis, the research contributes to a better understanding of the complex economic dynamics shaping the region in a period of geopolitical turbulence.

3. METHODOLOGY

3.1. Research approach and design

This research uses a mixed methodological approach combining quantitative and qualitative methods to ensure a comprehensive analysis of the economic consequences of the Ukrainian war on Western Balkan countries. The research design is primarily exploratory-descriptive, with elements of comparative analysis that allows systematic comparison of economic effects among different countries in the region.

The research relies on a wide range of secondary data sources, including:

- Economic statistics and macroeconomic indicators from national statistical offices of Western Balkan countries
- Reports from international financial institutions (World Bank, IMF, EBRD)
- Trade statistics from UN COMTRADE and Eurostat databases
- Energy data from the International Energy Agency and national energy regulators
- Sectoral analyses and reports from relevant think tanks and research institutes
- Academic studies and scientific papers dealing with the economic effects of the Ukrainian war

To ensure data currency, focus is placed on sources published between February 2022 and March 2025, covering the period from the start of the war to the time of writing this paper.

3.2. Analytical framework

The analytical framework of the research is structured around five key economic dimensions identified as most significant for understanding the overall economic consequences of the Ukrainian war on Western Balkan countries:

1. Energy security and transformation - analysis of changes in energy supply, prices, consumption, and investments in energy infrastructure
2. Trade flows and reorientation - assessment of changes in volume and structure of imports and exports, as well as changes in main trading partners
3. Inflation and macroeconomic stability - analysis of inflationary pressures, monetary policy measures, and overall macroeconomic stability
4. Investment flows and access to capital - assessment of changes in foreign direct investments, portfolio investments, and access to international financial markets
5. Structural economic changes and adaptation policies - analysis of long-term structural changes in the economies of the region and policies implemented by governments in response to new circumstances

For each of these dimensions, the research applies a comparative approach, analyzing similarities and differences among Western Balkan countries.

3.3. Data analysis

For analysis of quantitative data, descriptive statistics, trend analyses, and comparative analyses were used. Specific analytical techniques include:

- Time series analysis for identifying changes in key economic indicators before and after the start of the war
- Correlation analysis for examining the relationship between energy dependence and economic performance
- Comparative analysis of economic indicators among countries in the region for identifying factors of resilience

Qualitative analysis of documents and policies was used to contextualize quantitative findings and deeper understanding of strategies applied by countries in the region in response to economic challenges. This analysis is focused on identifying key themes, patterns, and trends in economic policies and strategies of different countries.

3.4. Research limitations

It is important to note several limitations of this research:

- Data availability represents a significant limitation, especially for the most recent period, where some economic indicators are available only as preliminary estimates;
- Isolating economic effects of the Ukrainian war from other factors (such as consequences of the COVID-19 pandemic or structural economic problems) presents a methodological challenge;
- Different systems of collecting and processing statistical data among countries in the region can make direct comparisons difficult;
- The rapidly changing nature of the geopolitical situation means that some findings of this research will require revision in light of future events.

Despite these limitations, the applied methodological approach allows for robust analysis of main economic trends and patterns that have emerged as a result of the Ukrainian war.

4. ENERGY SECURITY AND TRANSFORMATION

4.1. Pre-war energy dependence of Western Balkan countries

Before the Russian-Ukrainian war, the energy sector of Western Balkan countries was characterized by significant dependence on Russian energy sources, especially natural gas. According to data from the International Energy Agency (2022), dependence on Russian gas was most pronounced in Serbia (85%) and Bosnia and Herzegovina (100%), while North Macedonia (60%) and Montenegro (also dependent through import of electricity from Serbia) had somewhat lesser but still significant dependence. Albania and Kosovo, on the other hand, had minimal direct dependence on Russian gas, relying primarily on hydropower and coal-fired power plants. This energy structure represented a significant economic vulnerability that became evident after the start of the war and imposition of sanctions on Russia. According to an EBRD study (2023), countries with higher rates of energy dependence on Russia experienced more significant economic disruptions in the first months of the war.

4.2. Supply disruptions and price shocks

The Ukrainian war caused significant disruptions in energy supply throughout the Western Balkans. According to data from the Energy Community (2023), natural gas prices in the region rose by an average of 120% in the period from February 2022 to December 2022, while electricity prices on wholesale markets rose by 80% in the same period. Bosnia and Herzegovina was particularly affected, facing the risk of complete disruption of gas supply during the winter of 2022/2023. The government was forced to intervene through subsidies and emergency procurement of alternative energy sources, which significantly burdened public finances. According to a World Bank report (2023), energy subsidies reached 2.5% of Bosnia and Herzegovina's GDP in 2022, representing a significant fiscal challenge.

Serbia, despite traditionally close ties with Russia, also experienced significant supply disruptions. Although it did not directly support Western sanctions against Russia, indirect effects of financial restrictions and logistical challenges resulted in instability in supply and price increases. According to data from the Energy Agency of the Republic of Serbia (2023), retail prices of natural gas for industrial users rose by 110% between February 2022 and December 2023.

4.3. Energy diversification strategies

The war in Ukraine acted as a catalyst for accelerating energy diversification throughout the region. According to a report from the Energy Community (2024), Western Balkan countries launched energy diversification projects worth over 3 billion euros in the period 2022-2024. Serbia intensified work on interconnection with Bulgaria's gas system, which enabled access to Azerbaijani gas via the Southern Gas Corridor. The project, worth 85 million euros, which was partly financed by the EU, was completed in October 2023 and significantly reduced the country's dependence on Russian gas (Ministry of Mining and Energy of the Republic of Serbia, 2023). North Macedonia accelerated the development of its gas infrastructure, focusing on interconnection with the Greek system, which enabled access to LNG terminals in Greece. According to data from the Ministry of Economy of North Macedonia (2024), this interconnection enabled reduction of dependence on Russian gas from 60% to less than 30% over a period of two years. Bosnia and Herzegovina (Knežević, 2024) also intensified efforts for diversification, focusing on development of interconnection with the Croatian gas system, which would enable access to

the LNG terminal on Krk. However, the complex administrative structure of the country slowed implementation of the project (Energy Community, 2024).

4.4. Acceleration of transition to renewable energy sources

The Ukrainian war acted as a catalyst for accelerated development of renewable energy sources in the region. According to IRENA data (2024), renewable energy capacities in the Western Balkans increased by 35% in the period 2022-2024, representing a significant acceleration compared to the previous period. Albania continued to strengthen its position as a leader in hydropower, but also diversified toward solar energy. In 2023, the country put into operation the Karavasta solar park, with a capacity of 140 MW, which represents the largest solar power plant in the region (Ministry of Infrastructure and Energy of Albania, 2023). Montenegro also significantly improved renewable energy capacities, with a focus on wind farms. The Gvozd wind farm, with a capacity of 72 MW, was put into operation in 2024, increasing the share of renewable energy in total electricity production to over 50% (EPCG, 2024). Kosovo launched an ambitious program of auctions for renewable energy sources, with the aim of reducing dependence on coal-fired power plants. In the period 2022-2024, projects for 350 MW of new solar and wind capacities were awarded (Kosovo Energy Corporation, 2024).

4.5. Economic implications of energy transformation

Energy transformation fueled by the Ukrainian war has significant economic implications for Western Balkan countries. On one hand, the initial costs of adjustment were significant, burdening public finances through subsidies and emergency infrastructure investments. According to IMF estimates (2023), energy subsidies and intervention measures cost countries in the region between 1.5% and 3% of GDP in 2022. On the other hand, long-term economic effects of energy transformation show positive trends. According to an EBRD study (2024), investments in energy infrastructure and renewable sources generated approximately 45,000 new jobs in the region in the period 2022-2024. Additionally, reducing energy dependence on a single source improved energy security and reduced economic vulnerability to geopolitical shocks.

Kovačević (2024) emphasizes that energy transformation has also contributed to attracting new foreign direct investments, especially in the renewable energy sector. According to this study, the region attracted over 2 billion

euros of foreign direct investments in the renewable energy sector in the period 2022-2024, representing a significant increase compared to the previous period.

5. TRADE FLOWS AND REORIENTATION

5.1. Trade ties with Russia and Ukraine before the war

Before the outbreak of the war, trade ties of Western Balkan countries with Russia and Ukraine varied significantly among countries in the region. According to UN COMTRADE data (2022), Serbia had the most intensive trade relations with Russia, with total trade exchange of approximately 2.5 billion euros in 2021, which constituted about 6.5% of its total foreign trade. Bosnia and Herzegovina also had significant trade exchange with Russia, especially in the energy sector, with a total value of about 700 million euros (4.2% of total trade). On the other hand, Albania, Kosovo, Montenegro, and North Macedonia had more limited trade ties with Russia, with shares below 3% of total foreign trade. Trade with Ukraine was even more limited for all countries in the region, with shares mostly below 1% of total trade.

The structure of trade with Russia was asymmetrical, with domination of energy imports (oil, gas), while exports were diversified and included agricultural products, textiles, and metals. According to World Bank analysis (2022), this trade structure reflected typical exchange between developing economies and a resource-rich economy.

5.2. Impact of sanctions and disruptions in trade flows

After the imposition of Western sanctions on Russia, Western Balkan countries found themselves in a complex situation. EU candidate states (Albania, Montenegro, North Macedonia, and Serbia) faced pressure to align their foreign policy with the EU, including trade sanctions. According to European Commission data (2023), Albania, Montenegro, and North Macedonia largely aligned their trade policies with EU sanctions, while Serbia maintained a more neutral position. This resulted in significant disruptions in trade flows. According to analysis by the CEFTA Secretariat (2023), trade between Western Balkan countries and Russia decreased by approximately 40% in the period from March 2022 to December 2023. The most significant decline was recorded in sectors directly affected by sanctions, such as financial services, technology, and luxury goods.

Trade with Ukraine also experienced a dramatic decline due to logistical disruptions and fall in production in Ukraine. According to UN COMTRADE data (2023), trade between Western Balkan countries and Ukraine decreased by approximately 65% in 2022 compared to 2021.

5.3. Reorientation of trade flows

Faced with disruptions in trade with Russia and Ukraine, Western Balkan countries quickly reoriented their trade flows. According to analysis by the Vienna Institute for International Economic Studies (2024), three main patterns of trade reorientation can be identified:

1. Enhanced trade with the EU - All countries in the region recorded increased trade with the EU. According to Eurostat data (2024), trade between the EU and Western Balkans increased by 15% in the period 2022-2023, reaching a record 62 billion euros. The most significant increase was recorded in the sectors of agriculture, metals, and textiles.
2. Regional trade integration - Intraregional trade in the Western Balkans also experienced a significant increase. According to data from the CEFTA Secretariat (2024), trade within the CEFTA region increased by 22% in the period 2022-2024, reaching a value of over 10 billion euros. This indicates strengthening of regional economic ties as a response to geopolitical disruptions.
3. Diversification to new markets - Countries in the region also actively worked on opening new markets. According to data from national statistical offices (2024), trade with countries of the Middle East, North Africa, and Asia (especially China and Turkey) increased by an average of 30% in the period 2022-2024.

5.4. Structural changes in trade exchange

The Ukrainian war not only changed the geographical distribution of trade but also its structure. According to OECD analysis (2024), several key structural changes can be identified:

1. Changes in energy trade - The most dramatic changes occurred in energy trade. Countries in the region significantly reduced imports of Russian energy, replacing them with alternative sources. According to Energy Community data (2024), the share of Russian gas in total gas imports in the region fell from an average of 65% in 2021 to less than 30% in 2024.
2. Growth of agricultural exports - Disruptions in global food supply chains created new opportunities for agricultural exports from the region. Ac-

cording to FAO data (2024), exports of agricultural products from the Western Balkans increased by 25% in the period 2022-2024, especially in the segment of cereals and fruits.

3. Strengthening of metals and minerals exports - Global demand for metals and minerals, especially those key for energy transition, created opportunities for increased exports from the region. According to data from national statistical offices (2024), exports of metals and minerals from the region increased by 18% in the period 2022-2024.

5.5. Regional differences in trade adaptation

Analysis of trade data reveals significant differences in the capacity of countries in the region to adapt to new trade realities. According to a study by the European Bank for Reconstruction and Development (2024), countries with more diversified export structures and greater integration into European value chains showed greater resilience and ability for trade adaptation. North Macedonia stands out as an example of successful trade adaptation, with an increase in exports to the EU by 26% in the period 2022-2024, primarily in the sectors of automotive components, textiles, and electronics. According to data from the State Statistical Office of North Macedonia (2024), the share of exports to the EU increased from 78% in 2021 to 85% in 2024.

Albania also showed significant trade flexibility, with a focus on exports of agricultural products and textiles to the EU. According to INSTAT data (2024), Albanian exports to the EU increased by 22% in the period 2022-2024, while exports to Russia, which were otherwise limited, decreased by 70%. Serbia, faced with the challenge of balancing between economic ties with the EU and political ties with Russia, showed mixed results. Although it recorded an increase in exports to the EU by 15%, according to data from the Republic Statistical Office (2024), it simultaneously managed to maintain a certain level of trade exchange with Russia, especially in sectors not directly affected by sanctions.

6. INFLATION AND MACROECONOMIC STABILITY

6.1. Inflationary pressures after the start of the war

One of the most visible economic effects of the Ukrainian war on Western Balkan countries was accelerated inflation. According to IMF data (2023), the annual inflation rate in the region increased from an average of 3.5% in 2021

to 14.2% in 2022, representing the highest level since the transition period of the early 2000s. Inflationary pressures were particularly pronounced in the energy and food sectors, reflecting global trends. According to World Bank analysis (2023), energy prices in the region increased by an average of 45% in 2022, while food prices increased by 25%. These sectors together constitute a significant part of the consumer basket in countries of the region (35-45%), which explains the strong impact on overall inflation.

The highest inflation rates were recorded in Serbia (15.1% in December 2022) and Bosnia and Herzegovina (14.8%), while somewhat lower but still significant rates were recorded in Montenegro (13.5%), North Macedonia (12.7%), Albania (12.3%), and Kosovo (11.6%), according to data from national statistical offices and central banks (2023).

6.2. Monetary responses and challenges

Central banks of Western Balkan countries faced the complex challenge of balancing between curbing inflation and maintaining economic growth. According to an IMF report (2023), monetary authorities in the region generally adopted more restrictive monetary policy, with an average increase in reference interest rates of 350 basis points in the period from March 2022 to December 2023.

The National Bank of Serbia was most aggressive in tightening monetary policy, increasing the reference interest rate from 1.0% in February 2022 to 5.25% in December 2023. According to an NBS report (2023), this policy was necessary to “anchor inflation expectations and limit secondary effects of increases in energy and food prices.” The Bank of Albania and the National Bank of North Macedonia also significantly raised their reference rates (from 0.5% to 3.75% and from 1.25% to 4.75%, respectively), while the Central Bank of Bosnia and Herzegovina, due to its currency board pegged to the euro, was limited in its monetary response and relied primarily on macroprudential measures.

6.3. Fiscal measures to mitigate inflationary pressures

Along with monetary policy, governments of Western Balkan countries implemented a range of fiscal measures to mitigate the impact of inflation on the most vulnerable segments of the population and economy. According to IMF analysis (2023), fiscal measures in the region can be grouped into three categories:

1. Direct subsidies for energy - All countries in the region introduced various forms of energy subsidies for households and businesses. According to EBRD estimates (2023), these subsidies cost between 1% and 2.5% of GDP, depending on the country.

2. Social transfers to vulnerable groups - Additional social transfers were implemented for pensioners, socially vulnerable families, and other vulnerable groups. According to World Bank data (2023), these transfers amounted to between 0.5% and 1.2% of GDP.

3. Temporary reduction of taxes on basic products - Several countries, including North Macedonia, Albania, and Serbia, temporarily reduced VAT on basic food products and energy. According to estimates from national ministries of finance (2023), the fiscal cost of these measures amounted to between 0.3% and 0.8% of GDP.

6.4. Impact on public finances and fiscal sustainability

The combination of increased public expenditures (through subsidies and social transfers) and economic slowdown negatively affected public finances of countries in the region. According to IMF data (2023), the average budget deficit in the region increased from 3.5% of GDP in 2021 to 4.8% of GDP in 2022. Public debt also showed an upward trend. According to EBRD analysis (2024), average public debt in the region increased from 56% of GDP in 2021 to 61% of GDP in 2023. The largest increase was recorded in Montenegro (from 84% to 90% of GDP) and Serbia (from 57% to 63% of GDP). This deterioration of fiscal positions led to increased financing costs for countries in the region. According to data from the Ministry of Finance of Serbia (2023), yields on ten-year government bonds increased from 3.5% in January 2022 to 6.8% in December 2023. Similar trends were recorded in other countries in the region.

6.5. Normalization of inflation and long-term prospects

Despite the initial inflation shock, data from 2024 indicate gradual normalization of inflationary pressures. According to data from national statistical offices (2024), the average annual inflation in the region fell to 6.5% in the first quarter of 2025. This reduction in inflation can be attributed to a combination of factors, including:

- Stabilization of global energy and food prices;
- Effects of restrictive monetary policy;

- Strengthening of local currencies after initial weakening;
- Adaptation of supply chains to new geopolitical realities.

According to IMF projections (2025), further reduction of inflation to an average of 3.5% by the end of 2025 is expected, which would mark a return to pre-war levels. However, the same projection warns that fiscal consolidation will remain a challenge in the medium term, with the need for gradual reduction of deficit and public debt.

7. INVESTMENT FLOWS AND ACCESS TO CAPITAL

7.1. Impact of the war on foreign direct investments

The Ukrainian war had a complex impact on foreign direct investment (FDI) flows in Western Balkan countries. According to UNCTAD data (2023), total FDI inflow to the region decreased by approximately 15% in 2022, as a result of increased global uncertainty and reconsideration of investment strategies in the region.

However, this initial decline was not evenly distributed among countries in the region. According to analysis by the Vienna Institute for International Economic Studies (2024), Albania and North Macedonia experienced a relatively small decline in FDI (6% and 8% respectively), while Serbia, Bosnia and Herzegovina, and Montenegro recorded more significant decreases (18%, 22%, and 25% respectively). Interestingly, FDI patterns changed significantly after the initial shock. According to data from central banks of countries in the region (2024), FDI inflow began to recover already at the end of 2022, with new focus on sectors of energy, renewable energy sources, information technology, and production relocating from eastern Europe (Knežević, 2025).

7.2. Changes in sources and sectoral distribution of investments

The Ukrainian war led to significant changes in geographical sources of FDI in the region. According to EBRD analysis (2024), investments from Western European countries (especially Germany, Austria, Italy, and France) increased by 28% in the period 2022-2024, while investments from Russia virtually ceased after the imposition of sanctions.

An increase in investments from Turkey (35%), UAE (120%), and China (45%) was also observed, according to data from national investment promotion agencies (2024). This reflects broader geopolitical changes and repositioning of investment flows.

sitioning of these economies in European markets. The sectoral distribution of investments also experienced significant changes. According to UNCTAD analysis (2024), the most significant growth in investments was recorded in the following sectors:

1. Energy and renewable sources - FDI inflow to this sector increased by 85% in the period 2022-2024, reaching a record 2.8 billion euros.
2. Information technology - Investments in the IT sector increased by 65%, with significant projects in Serbia and North Macedonia.
3. Pharmaceutical industry - Growth of 40% was recorded, primarily through expansion of existing production capacities.
4. Agriculture and food industry - Investments increased by 30%, reflecting the increased strategic importance of food security.

7.3. Nearshoring and production relocation

One of the most significant trends accelerated by the Ukrainian war is so-called “nearshoring” - relocation of production closer to European markets. According to research by the European Investment Bank (2024), over 120 companies that previously had production operations in Ukraine, Russia, or Belarus relocated part or all of their activities to Western Balkan countries in the period 2022-2024.

Serbia was most successful in attracting these investments, with 58 relocation projects worth approximately 950 million euros, according to data from the Development Agency of Serbia (2024). North Macedonia attracted 32 projects (420 million euros), while Bosnia and Herzegovina and Albania attracted 18 and 12 projects respectively. These investments are primarily concentrated in the sectors of automotive components, electronics, machinery industry, and textiles, creating a significant number of new jobs. According to EBRD estimates (2024), investments through nearshoring created approximately 35,000 new jobs in the region in the period 2022-2024.

7.4. Challenges in financial markets and changes in access to capital

The Ukrainian war also affected access of Western Balkan countries to international financial markets. According to S&P Global data (2023), average borrowing costs for countries in the region increased by 180-250 basis points in the period from February 2022 to mid-2023.

This increase in financing costs was the result of several factors:

- General increase in risk aversion in global financial markets;
- Investor concern due to geopolitical instability in the wider region;
- Deterioration of macroeconomic indicators (inflation, fiscal deficits);
- Concern about energy security and economic resilience.

However, the situation improved significantly at the end of 2023 and during 2024. According to IMF analysis (2024), spreads on government bonds of countries in the region decreased by 100-150 basis points compared to the peak, reflecting improvement in macroeconomic conditions and adaptation of economies to new realities.

7.5. Role of international financial institutions

International financial institutions (IFIs) played a key role in ensuring financial stability and support for investments in the region after the start of the war. According to World Bank data (2024), total financial support from IFIs to Western Balkan countries increased by 65% in the period 2022-2024 compared to the previous three-year period. The European Bank for Reconstruction and Development (EBRD) increased its annual investments in the region from approximately 1.3 billion euros in 2021 to 2.2 billion euros in 2023, with a focus on energy security, green transition, and support for small and medium enterprises. The European Investment Bank (EIB) also significantly increased its activities, with total investments of 3.8 billion euros in the period 2022-2024, primarily in infrastructure, energy, and digitalization. These investments were key not only for maintaining economic activity in the short term, but also for supporting structural reforms and economic transformation in the medium and long term.

8. STRUCTURAL ECONOMIC CHANGES AND ADAPTATION MEASURES

8.1. Acceleration of structural reforms

The Ukrainian war acted as a catalyst for accelerating structural reforms in Western Balkan economies. According to OECD analysis (2024), countries in the region implemented more structural reforms in the period 2022-2024 than in the previous five-year period, focusing on:

1. Energy sector reforms - Liberalization of the energy market, strengthening of regulatory frameworks, and incentives for investments in renewable energy sources.

2. Economic diversification - Targeted policies for development of new sectors and reduction of dependence on traditional industries.
3. Digitalization - Accelerated investments in digital infrastructure and e-services.
4. Strengthening competition - Reduction of administrative barriers for business and improvement of antitrust regulation.

According to the EBRD Structural Reform Index (2024), the greatest progress was recorded in North Macedonia and Albania, which improved their scores by 0.8 and 0.7 points respectively (on a scale from 1 to 10), while Serbia, Montenegro, and Bosnia and Herzegovina achieved more moderate progress (0.5, 0.4, and 0.3 points respectively).

8.2. Acceleration of European integration

The Ukrainian war has significantly accelerated European integration processes for Western Balkan countries. According to a European Commission report (2024), the EU adopted an “Accelerated Path for Western Balkan Integration” as part of a broader strategy to strengthen stability in the region and reduce Russian influence. This approach includes:

- Increasing pre-accession financial assistance (Instrument for Pre-Accession Assistance - IPA III) by 40% in the period 2022-2025;
- Accelerating the membership negotiation process for candidate countries;
- Gradual integration of countries in the region into the EU single market through sectoral agreements;
- Stronger support for institutional reforms and alignment with the EU acquis.

According to analysis by the European Council on Foreign Relations (2024), this approach has resulted in significant progress in the integration process. Albania and North Macedonia opened accession negotiations with the EU in July 2022 and have since opened several negotiation chapters. Montenegro, as the most advanced in the process, accelerated the dynamics of negotiations, closing additional chapters. Serbia has also made certain progress, despite complex political relations with the EU regarding its stance toward Russia.

8.3. Restructuring of supply chains

Disruptions in global supply chains caused by the Ukrainian war have prompted significant restructuring of these chains in countries of the region. According to research by the World Trade Organization (2024), over 60% of companies from the region that participated in the study reported significant changes in their supply chains in the period 2022-2024. Key trends include:

- Increase in local and regional sourcing (65% of companies);
- Diversification of suppliers and reduction of dependence on individual markets (72% of companies);
- Increase in inventories of key components and raw materials (58% of companies);
- Digitalization and automation of supply chain management processes (45% of companies).

According to World Bank analysis (2024), this restructuring has contributed to strengthening regional economic integration, with an increase in intra-regional input-output connections by 28% in the period 2022-2024.

8.4. Sectoral transformations

The Ukrainian war (Knežević, 2025) has accelerated the transformation of the economic structure of Western Balkan countries. According to data from central banks and statistical offices (2024), the most significant sectoral transformations include:

1. Growth of the IT sector - The share of information technologies in the region's GDP increased from an average of 4.5% in 2021 to 6.8% in 2024, with particularly strong growth in Serbia and North Macedonia.
2. Transformation of the energy sector - The share of renewable energy sources in total electricity production increased from an average of 37% in 2021 to 48% in 2024.
3. Strengthening of agriculture and food industry - The share of these sectors in GDP increased from 8.5% to 9.7%, reflecting increased focus on food security.
4. Development of high-technology production - The share of medium and high-technology production in total production increased from 35% to 42%, especially in segments of automotive components, electronics, and medical equipment.

8.5. Changes in labor markets

Economic transformations caused by the Ukrainian war have led to significant changes in labor markets of Western Balkan countries. According to analysis by the International Labour Organization (2024), several key trends can be identified:

1. Structural changes in labor demand - Increased demand for workers in the IT sector, renewable energy sources, electrical engineering, and other growing sectors, along with simultaneous decrease in demand in traditional industries.

2. Increase in mismatch between supply and demand for skills - According to an EBRD study (2024), 65% of employers in the region reported difficulties in finding workers with appropriate skills, especially in technological and engineering fields.

3. Impact on migration - Although the region has traditionally been characterized by labor emigration, economic transformations have led to the emergence of new patterns. According to World Bank data (2024), net emigration from the region decreased by 22% in the period 2022-2024 compared to the previous three-year period, primarily due to new economic opportunities in growing sectors.

4. Changes in wages and working conditions - Transformation of the economic structure has led to a significant increase in wages in growing sectors. According to data from national statistical offices (2024), average wages in the IT sector increased by 35% in the period 2022-2024, while wages in the renewable energy sector increased by 28%.

These changes in labor markets show significant potential for long-term economic transformation of the region, but at the same time emphasize the need for improvement of educational systems and retraining programs to address the growing skills gap.

9. FINDINGS AND IMPLICATIONS

9.1. Key findings

Analysis of economic consequences of the Ukrainian war on Western Balkan countries reveals a complex picture of challenges and opportunities. Key findings of this research include:

1. Heterogeneity of economic impacts - Economic consequences of the war varied significantly among countries in the region, depending on their

initial economic structure, energy dependence, trade ties, and institutional capacities.

2. Accelerated structural transformations - The war acted as a catalyst for accelerating economic transformations that were already underway, especially in areas of energy diversification, trade reorientation, and sectoral restructuring.

3. Enhanced regional integration - Faced with common challenges, countries in the region improved mutual economic cooperation, which is reflected in an increase in intraregional trade, investments, and policy coordination.

4. Acceleration of European integration - The war significantly accelerated European integration processes, resulting in stronger economic ties with the EU and progress in formal accession processes.

5. Differentiated recovery - After initial economic shocks, countries in the region showed different degrees of recovery and adaptation, whereby economies with more diversified structures and stronger institutions showed greater resilience.

9.2. Implications for economic policy

The findings of this research have significant implications for economic policy makers in the region:

1. Need for further energy diversification - Although significant progress has been achieved, further diversification of energy sources and increase in energy efficiency remain key priorities.

2. Strengthening regional economic integration - Deepening regional economic cooperation through implementation of the Common Regional Market and other initiatives can further strengthen economic resilience.

3. Acceleration of structural reforms - Continuation and acceleration of structural reforms that support economic diversification, strengthening of institutions, and improvement of the business environment are key for long-term economic development.

4. Investment in human capital - Addressing the growing mismatch between supply and demand for skills through improvement of educational systems and retraining programs is necessary to support economic transformation.

5. Balancing short-term and long-term priorities - Although short-term measures for mitigating economic shocks were necessary, it is important to maintain focus on long-term development priorities and fiscal sustainability.

9.3. Implications for European integration

The Ukrainian war has significantly changed the context of European integration of Western Balkan countries:

1. Increased geopolitical significance of the region - The war has emphasized the strategic importance of the Western Balkans for the EU, resulting in enhanced political engagement and financial support.

2. Accelerated integration process - The “Accelerated Path for Integration” has opened new possibilities for progress in the EU accession process.

3. Increased economic integration - Even before formal membership, economic integration with the EU has been significantly deepened through sectoral agreements, increased trade, and investments.

4. Challenges in aligning foreign policies - Different positions of countries in the region regarding sanctions against Russia show that the complex geopolitical position of the region remains a challenge in the European integration process.

9.4. Research limitations and future directions

This research faces several limitations that open space for future research:

1. Dynamic nature of the situation - The Ukrainian war and its economic consequences are still evolving, which makes it difficult to draw definitive conclusions about long-term effects.

2. Limited data availability - For some economic indicators and countries in the region, only preliminary or partial data are available.

3. Isolating effects of the war from other factors - Separating economic effects of the war from other factors, such as post-pandemic recovery or structural economic challenges, is methodologically challenging.

Future research could focus on:

- Long-term structural changes in economies of the region;
- More detailed analysis of economic adaptation mechanisms at the sector and firm level;
- Comparative analysis with other regions indirectly affected by the war;
- Assessment of effectiveness of policy responses to economic challenges caused by the war.

10. CONCLUSION

The Ukrainian war represented a significant economic shock for Western Balkan countries, but at the same time acted as a catalyst for long-delayed economic transformations. The ability of the region to turn these challenges into opportunities for long-term economic development will depend on effectiveness of policy responses, quality of institutions, and capacity for regional cooperation. The experience of Western Balkan countries in adapting to economic consequences of the war provides valuable lessons about economic resilience and transformation in the context of geopolitical turbulence. Although challenges remain significant, progress made so far in energy diversification, trade reorientation, and structural reforms indicates the capacity of the region for successful economic adaptation.

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