

## Further milestones in the economic development of south-eastern Europe

### Abstract

This article updates the authors' previous analysis of the economic position facing western Balkans countries. It analyses development between 2008 and 2018 in five countries from the region – Serbia; Bosnia and Herzegovina; Montenegro; North Macedonia; and Albania – and contrasts this with the three newest EU member states – Bulgaria; Romania; and Croatia. Its argumentation is based on the following parameters: GDP growth; GDP per capita; GDP at purchasing power parity; the share of investment in GDP; average monthly net wages; average monthly gross wages; inflation; the share of foreign and public debt share as a percentage of GDP; and balance of payments. In 2018, economic growth in the western Balkans reached 3.8 per cent, supported by increased public spending and, in Albania and North Macedonia, also by a rise in net exports. According to World Bank projections, western Balkans economies are projected to continue to expand in 2019-20, but this stable outlook is vulnerable and subject to risks, including not least the migration of well-educated and highly-skilled young people.

**Keywords:** gross domestic product (GDP), wages, inflation, investment, balance of payments, south-eastern Europe, migration

### Growth in gross domestic product in south-east Europe

Gross domestic product (GDP)<sup>1</sup> growth in western Balkan countries in 2018 was stimulated by higher public investment, consumption and new employment mostly in industry and services (96,000 jobs). In 2017, there had been a higher level of job creation in the western Balkans (some 171,200 jobs). In some countries, for example Serbia, Bosnia and Herzegovina, and Bulgaria, a fall in unemployment in 2018 stemmed from increased emigration and labour inactivity rather than from the creation of new jobs. At country level, labour market and social distortions remain evident in sizable regional and gender disparities (*inter alia* Sergi and Qerimi, 2008; Galgóczi and Sergi, 2012).

- 1 Eurostat definition (drawn from Eurostat website): Gross domestic product (GDP) is a measure of economic activity, defined as the value of all goods and services produced less the value of any goods or services used in their creation. The calculation of the annual growth rate of the volume of GDP is intended to allow comparisons of the dynamics of economic development both over time and between economies of different sizes. In measuring the growth rate of GDP in terms of volume, GDP at current prices is valued in the prices of the previous year, with the computed volume changes being imposed over the level of a reference year; this is called a chain-linked series. Accordingly, price movements will not inflate the growth rate.

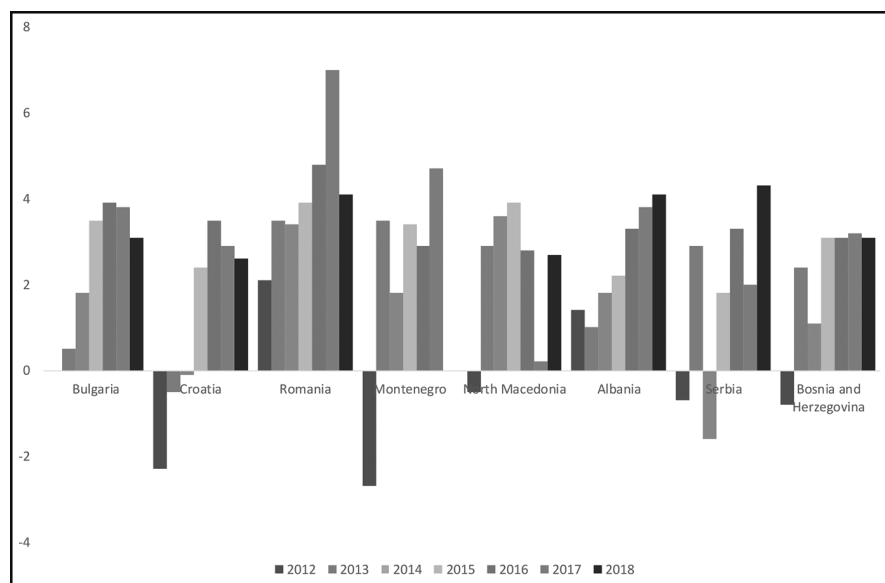
The GDP growth rate in 2018 amounted to: 4.5 per cent in Croatia, 4.3 per cent in Serbia, 4.1 per cent in Romania and Albania, 3.1 per cent in Bulgaria and in Bosnia and Herzegovina, 2.7 per cent in North Macedonia and 2.6 per cent in Montenegro (see Table 3, included at end).

Croatia evidently had the highest GDP growth rate in 2018 and this was also true for 2017 (4.7 per cent). However, there were some other countries, not the subject of this analysis, in which the growth rate in GDP was higher; for example, rising to 6.7 per cent in Ireland, 6.6 per cent in Malta, 5.1 per cent in Poland, 4.9 per cent in Hungary, 4.8 per cent in Latvia, 4.6 per cent in Iceland, etc.

For the past seven years, i.e. during the period 2012-2018, GDP in Serbia increased by 12 per cent and in Bosnia and Herzegovina by 15.2 per cent; it also increased by 15.5 per cent in North Macedonia, 16.6 per cent in Bulgaria, 17.6 per cent in Albania, 18.1 per cent in Montenegro and 28.8 per cent in Romania. This gives average annual economic growth for the past seven years of about 1.7 per cent in Serbia, 2.6 per cent in Montenegro and 4.1 per cent in Romania.

Observed over the whole period from 2012 to 2018, Romania had the highest GDP growth, but Bulgaria and Albania also recorded steady growth. The other observed countries – Croatia, Bosnia and Herzegovina, Montenegro, Serbia and North Macedonia – all had years in which GDP growth was negative, as Chart 1 records.

**Chart 1 – Real GDP growth rate, 2012-2018**



Source: Eurostat, 20 May 2019. Data for 2017 (in one case) and for 2018 (in several) are provisional; no data for Montenegro in 2018.

Gross domestic product in Serbia – the largest economy in the region – was worth €36.2bn in 2018,<sup>2</sup> some 0.07 per cent of the world economy. GDP in Serbia averaged €33.09bn between 2008 and 2018, reaching its all-time high in 2018 (while the record low was in 2000).

Between 1996 and 2018, the growth of GDP in Serbia averaged 0.68 per cent, rising to an all-time high of 6.90 per cent in the fourth quarter of 1997 and falling to a record low of -13.30 per cent in the second quarter of 1999.

The growth projection for Serbia has been revised upward for 2018 (to 3.5 per cent), but it had previously stood at an even larger figure (4.3 per cent), supported by a rise in both public and private investment. However, it is necessary for GDP growth to be over five per cent, and over a longer period of time, for the overall economy in Serbia to recover and reduce the extent to which it lags behind other central and eastern European countries. In order to achieve the desirable level of GDP growth, it is necessary to increase the share of investment in GDP from the current 18 per cent to 25 per cent or more.

Gross Domestic Product in Croatia was worth €51.5bn in 2018, representing 0.09 per cent of the world economy. Its GDP growth rate averaged 0.43 per cent between 2001 and 2018, reaching a peak of 3.70 per cent in the second quarter of 2005 and a record low of -4.60 per cent in the first quarter of 2009.

In Bosnia and Herzegovina, growth continues at a steady 3.1 per cent, driven primarily by consumption and an increase in public investment. Gross domestic product had a value of €16.8bn in 2018, which is around 0.03 per cent of the global economy. The GDP growth rate in Bosnia and Herzegovina averaged 0.35 per cent between 2009 and 2018, rising as high as six per cent in the fourth quarter of 2010 and falling to a low of -3.80 per cent in the fourth quarter of 2009.

In Montenegro, growth remains strong, due to energy and tourism investments and a speeding-up of the construction of the Bar-Boljare motorway (the Montenegrin section of the Belgrade-Bar motorway). Gross domestic product in Montenegro had a value of €4.3bn in 2017, i.e. around 0.01 per cent of the global economy. The annual growth rate of GDP in Montenegro averaged 2.86 per cent between 2001 until 2018, reaching a peak of 10.70 per cent in the fourth quarter of 2007 and falling to a low of -5.70 per cent in the fourth quarter of 2009.

Growth in North Macedonia is supported by improved investor confidence and a rise both in consumption and in exports. Gross domestic product in North Macedonia was worth €8.5bn in 2018, representing some 0.02 per cent of the global economy. The annual growth rate of GDP in North Macedonia averaged 2.71 per cent between 2001 and 2018, rising to a high of 10.70 per cent in the second quarter of 2005 while the low-point was -12.70 per cent, reached in the third quarter of 2001.

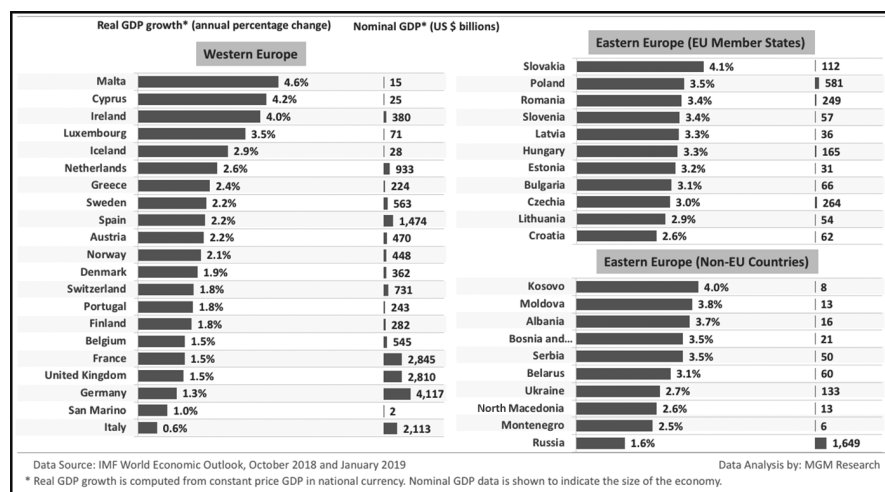
In Albania, growth is expected from a doubling in the level of hydro energy production thanks to strong rainfall, a solid tourism season that has led to a rise in the export of services and a pick-up in manufacturing. Gross domestic product in Albania was worth €10.97bn in 2018, i.e. 0.02 per cent of the world economy. The GDP growth rate in Albania averaged 0.91 per cent between 2005 and 2018, peaking at six

2 For all GDP values stated in this section, see also Table 4, included at end.

per cent in the second quarter of 2005 and falling to a low of -2 per cent in the first quarter of 2005.

IMF forecasts related to real GDP growth in 2019<sup>3</sup> indicate that the overall direction in western Balkan countries will be positive but not particularly strong either in terms of percentages or (particularly so) when viewed in terms of overall value.

**Chart 2 – Europe real GDP growth by regions and countries: 2019 forecast**

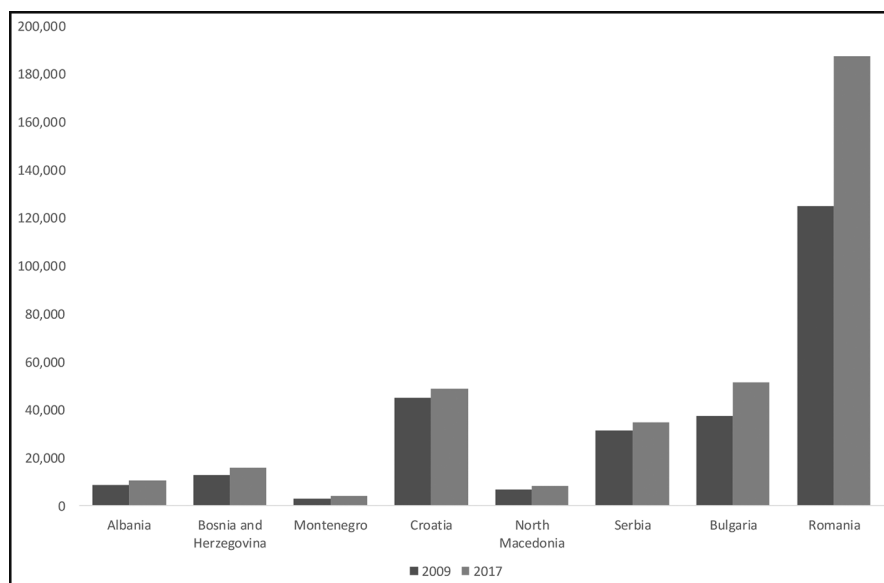


To speed up growth in the western Balkans region, and make it more sustainable, will require more investment and greater exports. Higher public investment may be a welcome sign, but this must be supported by more efficient and effective public spending if public investment programmes are to succeed. Private investment and increased export growth have proved to be sure and sustainable drivers of long-term growth elsewhere. However, investment in the region, which averaged 23 per cent in the 2009-16 period, is far below the 31 per cent average for upper-middle income countries.

With a growth in public investment, there is also ample room to push up private investment. Building up the financial sector to increase domestic savings and attract FDI towards the tradeable sectors of the economy would benefit the region by reinforcing the long-term sustainability of its growth.

Higher exports are doing more to support growth in most western Balkan countries, but the incomplete trade integration of the region – average exports within the region are only about 40 per cent of GDP – limits their growth potential.

3 MGM Research, February 8 2019, available online at: <https://mgmresearch.com/world-gdp-growth-rankings-2019-forecast/>.

**Chart 3 – GDP at current market prices (€m)**

Source: Eurostat

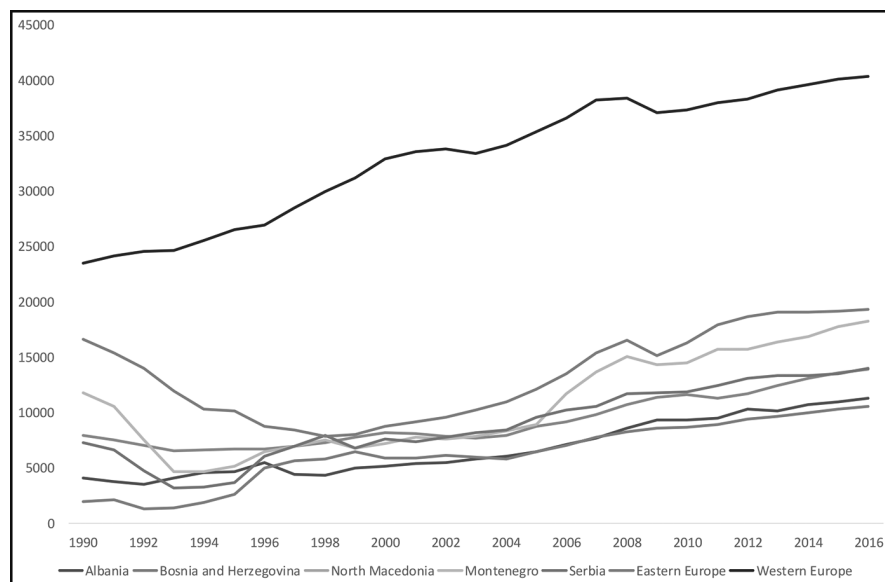
### GDP per capita

GDP per capita in 2018 (provisional, some figures for 2016 and 2017 as the latest reported by Eurostat) equalled €4,000 in Albania, €4,700 in North Macedonia, €6,100 in Serbia, €6,900 in Montenegro, €7,800 in Bulgaria, €10,400 in Romania and €11,900 in Croatia. Eurostat does not have figures for Bosnia and Herzegovina, but the figure of \$5,674 available via the Maddison Project (see also below) translates into an amount of €4,957 at the prevailing exchange rate at the end of 2018.

Comparing 2018 with 2012, per capita GDP growth was as follows: 11.2 per cent in Croatia, 20.1 per cent in Serbia, 24.5 per cent in Albania, 25.3 per cent in Bulgaria, 29 per cent in North Macedonia, 31.3 per cent in Montenegro and 44.2 per cent in Romania.

As we can see, in 2018 Croatia had both the highest GDP per capita and the lowest growth compared to 2012.

**Chart 4 – GDP per capita, western Balkans countries in comparative perspective, 1990-2016 (\$)**



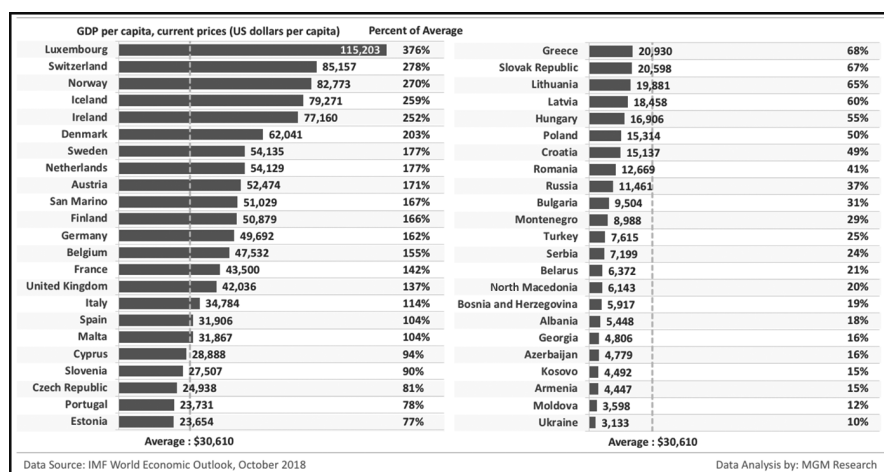
Source: Maddison Project Database (2018). Real GDP per capita, US dollars, at 2011 prices.

According to data from the World Bank, there is a strong association between per capita GDP and a country's human capital index, with more advanced economies having the type of human capital that promotes productivity (Qerimi and Sergi, 2012). The developed and the most competitive countries focus on attracting and training qualified workers but this leads to less developed countries, including those of the western Balkans, failing to retain such workers. Overall, high-educated emigration from the western Balkans region is six times higher than in the rest of the world.

Western Balkans countries have not managed to keep up in terms of income with the EU-15 or the group of central and east European countries that joined the EU from 2004 onwards (Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Slovakia and Slovenia). The future competitiveness of the region's economies is at further risk if the large-scale emigration of well-educated or highly-skilled young people continues.

From 1990 onwards, declining birth rates, an ageing population, low (or negative) growth rates and a shrinking of the population have characterised the western Balkans. These demographic trends are expected to continue in the following decades and further emigration could worsen the situation, resulting in an irreparable loss of the region's population.

Chart 5 – Europe GDP per capita, 2019 forecast



### GDP at purchasing power parity (PPP) during 2018

For the purposes of comparison, we also use the publicly available data from the International Monetary Fund (IMF)<sup>4</sup> to rank the countries of the world based on their gross domestic product on a purchasing power parity (GDP PPP)<sup>5</sup> basis. GDP comparisons using PPP are valid because PPP takes into account the costs of local goods, services and inflation rates in one country relative to each other.

Of the 192 countries ranked, China leads the world GDP PPP rankings with an 18.7 per cent share of world total GDP PPP during 2018. China is followed by the United States, India, Japan and Germany with a GDP PPP share of, respectively, 15.2 per cent, 7.8 per cent, 4.1 per cent and 3.2 per cent of world total GDP PPP in 2018.

World total GDP PPP reached \$135 trillion during 2018, and these top five countries account for 49 per cent of the world total GDP PPP – see Table 1.

4 International Monetary Fund (IMF) *World Economic Outlook* database, April 2019 edition.

5 GDP Purchasing Power Parity (GDP PPP) is gross domestic product converted to international dollars using purchasing power parity rates. The purchasing power parity (PPP) exchange rate (or conversion rate) between two countries is the rate at which the currency of one country needs to be converted into that of a second country to ensure that a given amount of the first country's currency will purchase the same volume of goods and services in the second country as it does in the first.

**Table 1 – Top five countries in terms of GDP PPP**

		Total GDP PPP (\$bn)	Per cent
1.	China	25,270	18.7
2.	United States	20,494	15.2
3.	India	10,505	7.8
4.	Japan	5,594	4.1
5.	Germany	4,356	3.2
	Total	66,219	49.0

The GDP PPP of six countries in south-east Europe (Serbia, Croatia, Bosnia and Herzegovina, Albania, North Macedonia and Montenegro) account for \$360bn (0.27 per cent of the world total GDP PPP) – see Table 2.

**Table 2 – Six south-east European countries in world GDP PPP rankings**

		Total GDP PPP (\$bn)	Per cent
80.	Serbia	123	0.091
82.	Croatia	107	0.079
110.	Bosnia and Herzegovina	47	0.035
121.	Albania	38	0.028
126.	North Macedonia	33	0.024
154.	Montenegro	12	0.009
	Total	360	0.266

### Investment share in GDP

All the western Balkan countries within the purview of this article actively promote investment as a key engine of economic growth and sustainable development. The share of investment in GDP in 2018 varied widely, however: 15.6 per cent in Bosnia and Herzegovina; 19.2 per cent in Bulgaria; 20.2 per cent in Serbia; 20.6 per cent in Croatia; 22.8 per cent in Albania; 23.5 per cent in Romania; 31.7 per cent in North Macedonia; and 33.9 per cent in Montenegro.

It is not only the share of investment in GDP that matters, but also its structure. In Serbia, for example, there is a small share of domestic private (around 10 per cent) and public (around 3 per cent) investment, alongside a substantial share of foreign direct investment (around 5 per cent). Statistically, foreign direct investment inflows have increased substantially over the past two decades. Progress has been made in several fields, with reforms of the investment climate contributing to making the region an increasingly attractive destination for foreign businesses, while the proce-



dures to start a business have generally become more transparent and straightforward.

Western Balkans economies have modernised their investment policy frameworks by adopting new investment and investment-related laws. Investment promotion agencies have been modernised to improve their key functions – investment promotion and facilitation – while investor protection standards are very well-placed. However, there are plenty of remaining challenges. One of these challenges is how to improve further the clarity, transparency and predictability of the regulatory framework for investment. For example, none of the western Balkans economies has established a foreign investment negative list which clearly delimits the sectors in which foreign investment is prohibited or conditional (natural resources) and the conditions that may apply in the case of the latter. Authorities should also provide more support to small businesses instead of giving major subsidies for large foreign investors which frequently suffer from a lack of transparency, being often based on secret arrangements between government and foreign investors in spite of such subsidies being paid out of taxpayers' money).

Raising investment levels, under the right conditions, can raise overall output through factor accumulation and by the introduction of new techniques and processes which boost productivity and living standards.

Levels of FDI inflows into the economies of the region increased substantially throughout the 2000s response to the move from centrally-planned to market-oriented economies. Flows increased by 20-27 per cent a year in economies such as Albania, Bosnia and Herzegovina, and North Macedonia (UNCTAD, 2017).<sup>6</sup>

Since 2013, western Balkans economies have been attracting around \$5bn in foreign investment annually, about half of which has, each year, been going to Serbia (between 47 per cent and 52 per cent depending on the year), as a result of its relatively large economy.<sup>7</sup> However, foreign direct investment in Serbia has, for the most part, involved a low-skilled labour force and do not entail the transfer of modern technology. Also, as a rule, they are followed by substantial subsidies (€10,000 per new employee).

In relative terms, however, Montenegro and Albania have been the leading economies for FDI inflows measured as a percentage of gross domestic product, whereas the lowest ratios in 2016 were in Bosnia and Herzegovina (1.7 per cent) and North Macedonia (3.6 per cent). Even so, Montenegro's FDI inflows fell by two-thirds in 2016 compared to the previous year, thus lowering its ratio of FDI to GDP significantly.

These figures reflect the important role that foreign direct investment plays in the western Balkans. For the past two decades, foreign investment in western Balkans

6 UNCTAD (2017) *World Investment Report 2017: Investment and the Digital Economy* United Nations Conference on Trade and Development, Geneva, available at: <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1782> [last accessed 2 December 2017].

7 OECD (2018) *Competitiveness in South East Europe: A Policy Outlook 2018* Competitiveness and Private Sector Development, OECD Publishing: Paris, available at: <http://dx.doi.org/10.1787/9789264298576-en>.

economies has primarily come from western Europe – Germany, Austria, Italy, Netherlands and Switzerland – as well as from the Russian Federation. Investment in the region has also come from neighbouring countries – Croatia, Greece, Slovenia and Turkey – and also from North America.

Regular and intense dialogue with the EU is mainly dedicated to the promotion of European standards in the region and to assistance with the creation of functional open market economies capable of coping with the competitive pressures of the EU single market. The EU has allocated one billion euros in grants for the 2014-2020 period, via the Western Balkan Investment Framework, to finance infrastructure connectivity projects under the WB6 initiative. Those funds also leverage the loans of the international financial institutions. The EU has, so far, supported 31 projects with grants worth €698.2m, with a total investment value of €2.4bn.

In addition to infrastructure projects, the WB6 process facilitates the implementation of standards and reform measures, including simpler border crossing procedures, railway reforms, intelligent transport systems, road safety schemes, unbundling and third party access to infrastructure.

A recent World Bank study (2019) has shown that growth in the region, should measures of regional integration be put in place, would be above 4 per cent per year in the period between 2018 and 2022, which would result in €15-17bn more in nominal GDP across the region and which would encourage further growth.

The sectoral distribution of foreign direct investment varies across the region. Financial services and telecommunications account for large shares of foreign investment, notably as a result of privatisations.

Financial intermediation accounts for between 17 and 28 per cent of the FDI stock across different economies; while transport and communications account for between 2 and 28 per cent.

Manufacturing is the leading sector for FDI in North Macedonia (36 per cent of FDI stock), while contributing 32 per cent of Serbia's FDI stock and 28 per cent of that of Bosnia and Herzegovina, stemming from the decisions of EU investors to locate export-oriented activities in these economies to serve domestic markets while benefiting from lower production costs. Special economic zones in North Macedonia and Serbia have significantly contributed to the rise of manufacturing in the post-crisis period (OECD, 2017).

Meanwhile, construction is also an important sector in Serbia (taking 7 per cent of the stock of FDI) and North Macedonia (5 per cent).

As we can see, Serbia has been able to attract a considerable amount of foreign investment. Its manufacturing sector is diversified, with projects in the automotive industry (Fiat, Michelin, Leoni, Yura, Continental, Johnson Electric); in the electronics industry (Siemens, Gorenje, Bosch); in information and communications technology (Microsoft, IBM); in food (Pepsico, Coca-Cola, Rauch, Nestlé, Carlsberg); and in the textiles industry (Benetton, Calzedonia, Golden Lady, Pompea). The most important partner countries of Serbia in textiles are EU member states (Italy, Germany, France, Austria and Slovenia), as well as the Russian Federation, Turkey and China.

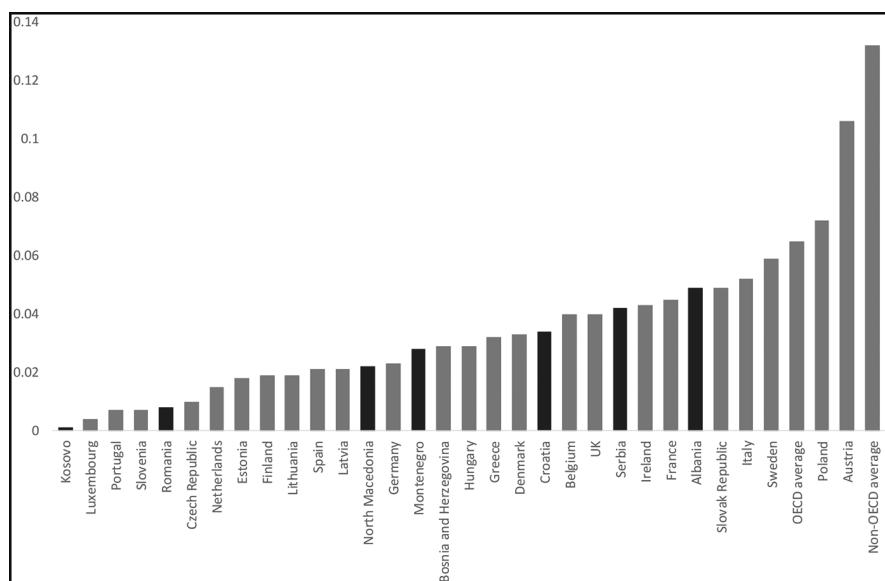
Montenegro has also attracted large investments from the Russian Federation over the past decade (contributing 13 per cent of its FDI stock). Its main foreign direct investment sectors are commodities (aluminium), property and tourism.

More recently, investors from China and the middle east have also been taking an interest in the western Balkans region. Chinese companies have invested in large energy, infrastructure and manufacturing projects in Albania, Bosnia and Herzegovina, and Serbia.

Middle eastern countries, on the other hand, are looking to realise property investments. In Bosnia and Herzegovina, investors from the Gulf are putting money into the property market, building shopping centres, holiday resorts and residential buildings. One of the largest projects is the \$2.6bn investment in building an entire tourist city in the Bjelašnica mountains.

Western Balkans economies are open to foreign direct investment – they maintain only a handful of restrictions, making regimes for foreign investment less restrictive than the average among OECD countries as measured by the OECD's *FDI Regulatory Restrictiveness Index*.<sup>8</sup> The *Index* only covers statutory measures which discriminate against foreign investors: foreign equity limits; screening and approval procedures; restrictions on key foreign personnel; and other operational measures. Other important aspects of an investment climate are not considered (for example: the implementation of regulations and state monopolies, preferential treatment for export-oriented investors and special economic zone regimes). Western Balkans countries also sit favourably within the *Index* against EU member states.

8 OECD (2019) *FDI Regulatory Restrictiveness Index database* available at: [www.oecd.org/invvestment/fdiindex.htm](http://www.oecd.org/invvestment/fdiindex.htm) [(last accessed 14 May 2019)]. See also Sergi (2003 and 2004).

**Chart 6 – OECD FDI Regulatory Restrictiveness Index (2019)**

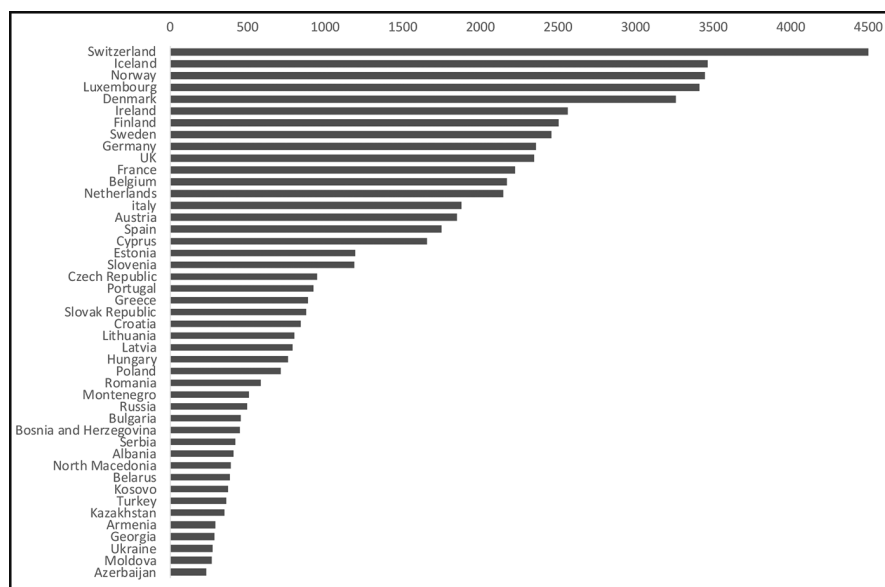
Source: OECD (2018), *FDI Regulatory Restrictiveness Index* (open = 0; closed = 1). Chart based on a selection of countries included in the *Index* from the western Balkans and the EU.

### Net average monthly wages

In 2018, in the countries within our purview, the average net monthly wage amounted to: €393 in North Macedonia, €408 in Albania, €420 in Serbia, €451 in Bosnia and Herzegovina, €457 in Bulgaria, €511 in Montenegro, €585 in Romania and €843 in Croatia.

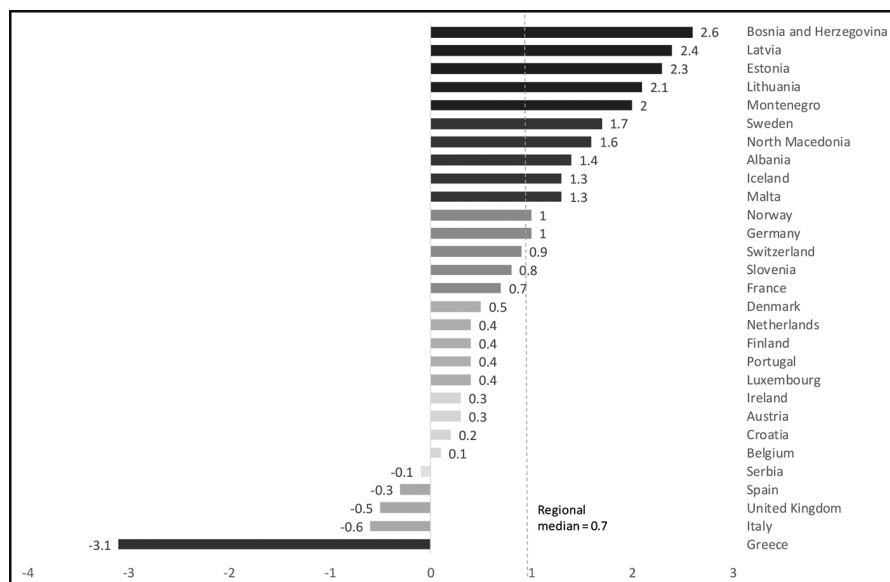
The real pay rise (or drop) in 2018 equalled to: -2.3 per cent in Montenegro, -0.6 per cent in Albania, 0.6 per cent in Bosnia and Herzegovina, 2.3 per cent in North Macedonia, 2.7 per cent in Croatia, 4.4 per cent in Serbia, 5.9 per cent in Bulgaria and 12 per cent in Romania.

Chart 7 – Net average monthly wage in European countries, 2018



According to the real growth rate in 2018 (4.4 per cent), Serbia ranks third after Romania and Bulgaria. However, in the period from 2009 to 2017, the net average wage in Serbia increased by only 0.5 per cent. Namely, the real pay rise/drop in this period was as follows: 2009 0.2 per cent; 2010 0.7 per cent; 2011 0.2 per cent; 2012 1.1 per cent; 2013 -1.5 per cent; 2014 -1.5 per cent; 2015 -2.1 per cent; 2016 -2.5 per cent; and 2017 0.9 per cent. Between 2001 and 2008, the average net wage in Serbia increased from €102 to €402 and, in the following ten years, by only €18.

**Chart 8 – Average real wage growth in northern, southern and western Europe, by country, 2008-2017**



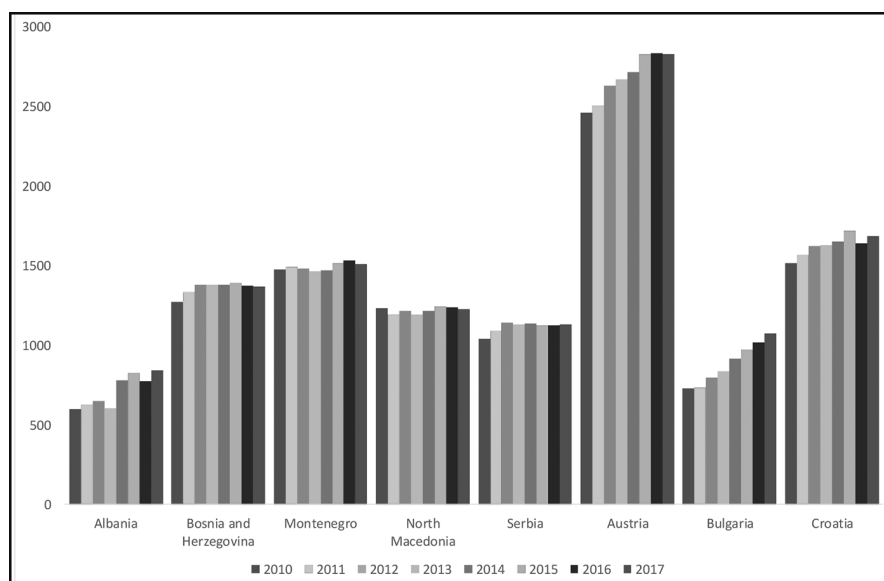
Source: ILO (2019) *Global Wage Report 2018/19*, Figure A2.

### Average monthly gross wages

Wage levels differ within the wider region and in comparison with the countries under observation. Measured in purchasing power parities (PPP), which account for price level differences among countries, the highest wage levels (see Table 6, included at end) were found in Montenegro and in Bosnia and Herzegovina, whereas Albania lagged far behind and at the lower end of the wage scale. In comparison, all western Balkans countries (except Albania) reported higher wage levels than Bulgaria. In all countries, wage levels were significantly lower than in Austria.

Most western Balkans countries recorded high wage growth prior to the crisis of 2007/2008. The growth in real wages was, in some cases, double that found in EU peer countries. As in the peer countries, however, growth then decelerated sharply in the western Balkans. Post-crisis, growth accelerated in the peer countries, but this was not true for most of the western Balkans.

Wage setting in most western Balkans countries occurs primarily at company level (rather than in a centralised way, i.e. at industry level, such as in Austria). Montenegro is the only exception; here, collective bargaining takes place at national level, at sector/branch level and also at enterprise level.

**Chart 9 – Average monthly gross total wages, PPP, 2010-2017**

Source: World Bank Group (2019) *SEE Jobs Gateway Database*.

## Inflation

In 2018, inflation amounted to 4.2 per cent in Romania, 5.2 per cent in Bulgaria, 10 per cent in Croatia, 12.3 per cent in Albania, 12.7 per cent in Serbia, 17.9 per cent in Montenegro, 18.4 per cent in Bosnia and Herzegovina and 21.5 per cent in North Macedonia.

As we can see, the lowest inflation rate was in Romania, and the highest in North Macedonia; but that it was high everywhere in the countries under study.

## Public and foreign debt share in GDP

The share of public debt in GDP in 2018 equalled 22.6 per cent in Bulgaria, 28.3 per cent in Romania, 32.9 per cent in Bosnia and Herzegovina, 38.3 per cent in North Macedonia, 53.6 per cent in Serbia, 59 per cent in Albania, 70.9 per cent in Montenegro and 74.5 per cent in Croatia.

Meanwhile, the share of foreign debt in the same year equalled 39.5 per cent in Bosnia and Herzegovina, 47 per cent in Romania, 60 per cent in Montenegro, 62.8 per cent in Serbia, 73.7 per cent in North Macedonia, 76.2 per cent in Croatia, 83 per cent in Bulgaria and 84 per cent in Albania.

The lowest public debt share is thus in Bulgaria, while Bosnia and Herzegovina has the lowest foreign debt share. Conversely, the highest public debt share is in Croatia, while Albania records the highest foreign debt share.

## Balance of payments

The balance of payments as a share of GDP amounted to: -18.5 per cent in Montenegro, -6.3 per cent in Albania, -5.2 per cent in Serbia, -4.6 per cent in Romania, -4.5 per cent in Bosnia and Herzegovina, -1.9 per cent in North Macedonia, 2.9 per cent in Croatia and 3.9 per cent in Bulgaria.

This we can see that only two countries (Croatia and Bulgaria) had a positive payments balance.

## Conclusions

According to our analysis of the economic parameters we listed at the outset, it can be concluded that the economic situation has been more advantageous in the three countries which are EU member states (Romania, Bulgaria and Croatia) than in the countries of the western Balkans (Serbia, Bosnia and Herzegovina, Montenegro, North Macedonia and Albania). Slow annual growth rates and an average GDP per capita which is only one-third of that of European Union member states indicate that the region still has a significant gap (and significant problems) in comparison with EU countries.

Apart from other things, western Balkans countries are, as they were ten years ago, characterised by low economic growth rates, low salaries, a high share of the grey economy in GDP, widespread corruption, huge income inequalities and high unemployment rates (Sergi and Qerimi, 2007 and 2008). In the last two decades, however, western Balkan countries have emerged as open economies that are making progress in liberalising investment and improving business conditions (Galgoczi and Sergi, 2012). Even so, despite growth in key manufacturing sectors, wage increases in the export sector go beyond productivity growth, thus blunting the region's competitive edge.

Innovative growth strategies are needed to ensure that the region can circumvent the middle income trap, while structural reforms could help pave the way for more inclusive and sustainable growth in knowledge-based sectors (Gradev *et al.* 2012). The privatisation process must take place in the interests of improving the production and market characteristics of companies that are put up for sale, while the structural adjustment load must not be transferred exclusively to employees. Employees must be adequately looked after through job creation or other appropriate social programmes. The conditions for long-term investment to enhance economic performance and citizens' well-being could also be improved. Here, an important driver of reform is the prospect of accession to the European Union, where western Balkans economies are likely to benefit from the recent experiences of Bulgaria, Croatia and Romania.

## References

- Adekola, Abel and Bruno S. Sergi (2016) *Global Business Management: A Cross-Cultural Perspective* Routledge.
- Bagatelas, William T. and Bruno S. Sergi (2017) 'The Balkans "Brain Drain" – Its Meaning and Implications' *South-East Europe Review for Labour and Social Af-*



- fairs (Migration Waves in Eastern Europe [1990-2015]: A Selection from 16 Years of SEER)*: 93-98.
- Eurostat *Real GDP growth rate* (product codes: tec00115 and tec00001), updated on 8 May 2019.
- Galgóczi, Bela and Bruno S. Sergi (2012) 'Social and Economic Trends in South-east Europe' *South-East Europe Review for Labour and Social Affairs in Eastern Europe* 15(1): 51-60.
- Gradev, Grigor, Enisa Salimović and Bruno S. Sergi (2013) 'Developments of the Economies, Macroeconomic Indicators and Challenges in South-East European Countries' *SEER Journal for Labour and Social Affairs in Eastern Europe* 16(3): 251-277.
- International Labour Organization (ILO) (2019) *Global Wage Report 2018/19* ILO: Geneva, available at: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_650553.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_650553.pdf).
- International Monetary Fund (IMF) *World Economic Outlook* database, October 2018, January 2019 and April 2019 editions.
- Kosanović, Rajko, Sanja Paunović and Bruno S. Sergi (2017) 'Comparative analysis of wages in central and eastern Europe' *SEER Journal for Labour and Social Affairs* 20(2): 159-179.
- Bolt, Jutta, Robert Inklaar, Herman de Jong and Jan Luiten van Zanden (2018) *Re-basing 'Maddison': new income comparisons and the shape of long-run economic development* Maddison Project Working Paper 10, available at: <https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2018>
- MGM Research, February 8 2019 (online), available at: <https://mgmresearch.com/world-gdp-growth-rankings-2019-forecast/>
- OECD (2018) *Competitiveness in South East Europe: A Policy Outlook 2018* Competitiveness and Private Sector Development, OECD Publishing: Paris, available at: <http://dx.doi.org/10.1787/9789264298576-en>.
- OECD (2019) *FDI Regulatory Restrictiveness Index database* available at: [www.oecd.org/investment/fdiindex.htm](http://www.oecd.org/investment/fdiindex.htm) [(last accessed 14 May 2019)].
- Qerimi, Qerim and Bruno S. Sergi (2012) 'The Effects of Economic Freedom on Institutional Performance in Western Balkans Countries' *International Journal of Business Governance and Ethics* 7(1): 18-36.
- Sergi, Bruno S, Sanja Paunović and Rajko Kosanović (2018) 'Analysis of the main trends in wages, employment and poverty in south-eastern Europe' *SEER Journal for Labour and Social Affairs* 21(2): 201-218.
- Sergi, Bruno S. and Qerim Qerimi (2008) *The Political Economy of Southeast Europe from 1990 to the Present: Challenges and Opportunities* New York: Continuum.

- Sergi, Bruno S. and Qerim Qerimi (2007) 'Fighting Corruption and Organised Crime as a Means of Socio-economic Development in South-east Europe' *South-East Europe Review for Labour and Social Affairs* 10(2): 81-94.
- Sergi, Bruno S. (2003) 'FDI and the Balkans: A Regional Investment Agency and Regional Centred Economic Choices to Shape this Decade' *South-East Europe Review for Labour and Social Affairs* 6(1-2): 7-16.
- Sergi, Bruno S. (2004) 'Understanding the EU-factor: The Balkan Regions as Recipients of FDI and Industries' *South-East Europe Review for Labour and Social Affairs* 7(4): 7-20.
- UNCTAD (2017) *World Investment Report 2017: Investment and the Digital Economy* United Nations Conference on Trade and Development, Geneva, available at: <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1782> [last accessed 2 December 2017].
- World Bank Group (2019) *Western Balkans Regular Economic Report Spring 2019* World Bank: Washington DC, available at: <http://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>.
- World Bank Group *The Jobs Gateway in South Eastern Europe* database, available at: <https://www.seejobsgateway.net/charts> [last accessed 14 May 2019].

## Annex

**Table 3 – Real GDP growth rate, 2008-2018, change in relation to previous year of GDP volume (per cent)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Albania	7.5	3.4	3.7	2.5	1.4	1.0	1.8	2.2	3.3	3.8	4.1
Bosnia and Herzegovina	5.4	-3.0	0.9	1.0	-0.8	2.4	1.1	3.1	3.1	3.2	3.1
Croatia	7.2	-5.8	2.7	3.2	-2.7	3.5	1.8	3.4	2.9	4.7	4.5
Montenegro	2.0	-7.3	-1.5	-0.3	-2.3	-0.5	-0.1	2.4	3.5	2.9	2.6
North Macedonia	5.5	-0.4	3.4	2.3	-0.5	2.9	3.6	3.9	2.8	0.2	2.7
Serbia	5.7	-2.7	0.7	2.0	-0.7	2.9	-1.6	1.8	3.3	2.0	4.3
Bulgaria	6	-3.6	1.3	1.9	0	0.5	1.8	3.5	3.9	3.8	3.1
Romania	9.3	-5.5	-3.9	2	2.1	3.5	3.4	3.9	4.8	7.0	4.1

Source: Eurostat, 20 May 2019.

**Table 4 – GDP at market prices, current prices, 2008-2018 (€m)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Albania	8,800	8,675	8,997	9,226	9,356	9,450	9,618	9,831	10,157	10,545	10,974
Bosnia and Herzegovina	13,086	12,679	12,969	13,412	13,408	13,692	13,988	14,617	15,290	16,042	16,759
Montenegro	3,103	2,994	3,125	3,265	3,182	3,363	3,458	3,655	3,954	4,299	:
Croatia	48,139	45,145	45,156	44,826	43,983	43,779	43,431	44,606	46,640	48,990	51,468
North Macedonia	6,772	6,877	7,108	7,275	7,241	7,453	7,724	8,022	8,250	8,270	8,490
Serbia	33,704	31,317	31,546	32,188	31,969	32,894	32,371	32,946	34,046	34,744	36,239
Bulgaria	:	37,318	38,231	41,292	41,947	41,858	42,824	45,289	48,129	51,663	55,182
Romania	:	125,214	125,409	131,925	133,147	143,802	150,458	160,298	170,394	187,517	202,884

: not available

Source: Eurostat, 20 May 2019.

**Table 5 – Average monthly gross wages at exchange rates in Euro**

	2010	2011	2012	2013	2014	2015	2016	2017
Albania	252.33	259.97	269.95	259.03	325.34	335.11	333.75	371.52
Bosnia and Herzegovina	622.04	649.65	659.67	660.23	659.31	659.11	665.04	675.57
Montenegro	715.00	722.00	727.00	726.00	723.00	725.00	751.00	765.00
North Macedonia	491.36	497.38	498.45	503.79	508.33	522.17	532.85	547.10
Serbia	460.49	517.24	507.66	536.59	523.64	506.45	515.55	543.74
Austria	2,709.00	2,763.15	2,838.70	2,898.66	2,949.59	3,010.17	3,081.67	3,128.23
Bulgaria	331.37	350.65	373.81	396.31	420.13	448.87	484.87	530.37
Croatia	1,053.49	1,047.99	1,046.97	1,047.55	1,041.73	1,057.96	1,029.03	1,079.22

**Table 6 – Average monthly gross wages total, PPP**

	2010	2011	2012	2013	2014	2015	2016	2017
Albania	601.96	627.56	649.79	605.03	782.58	824.14	773.17	842.84
Bosnia and Herzegovina	1,271.39	1,334.78	1,381.25	1,382.51	1,383.18	1,395.86	1,374.14	1,368.75
Montenegro	1,478.80	1,497.25	1,485.90	1,465.19	1,473.09	1,515.11	1,536.26	1,513.48
North Macedonia	1,234.88	1,196.92	1,219.73	1,192.94	1,215.56	1,243.73	1,237.37	1,228.71
Serbia	1,042.39	1,095.25	1,142.72	1,134.14	1,137.60	1,128.08	1,125.72	1,130.48
Austria	2,461.43	2,507.44	2,636.75	2,671.53	2,721.88	2,832.17	2,840.25	2,830.41
Bulgaria	732.62	738.00	797.52	837.35	916.02	972.17	1,018.74	1,074.44
Croatia	1,517.01	1,567.32	1,624.29	1,631.32	1,654.41	1,723.60	1,643.27	1,687.00