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THE MAJOR MACROECONOMIC TRENDS IN THE WESTERN BALKANS¹

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ABSTRACT

Macroeconomics is crucial to understand each country's development indicators and predict the short-term and long-term their consequences on the performance of economies. The research has been divided into key sections: economic growth, employment, productivity, investments, debts, and business dynamism. In the paper is concluded that is needed the new approach to regional cooperation and new strategy creation related to political and macroeconomic stability in the Western Balkans countries. All this must be accompanied by structural reforms.

KEY WORDS: Macroeconomics, economic growth, employment, productivity, investments, debts, business dynamism

INTRODUCTION

The major macroeconomic trends that are expected to have a strong impact on the future world, shaping conditions for change in the Western Balkans and, therefore, conditions for its development and growth. In this context is considered appropriate to analyze views of the sources of growth, taking into account the effect of Covid-19.

In order to more objectively assess the progress of these countries and their inclusion in global business flows, we will analyse some of the basic indicators of development, such as:

¹ original research paper

- economic growth,
- employment,
- productivity,
- investments,
- depts,
- business dynamism.

ECONOMIC GROWTH

World Bank data (2019) predict GDP growth for the Western Balkans countries of 3.8 percent by 2022. Analysed by countries of the region, the lowest GDP growth rate is projected for Northern Macedonia at 3.1 percent, and the highest for Serbia at 4 percent (Graph 1.).

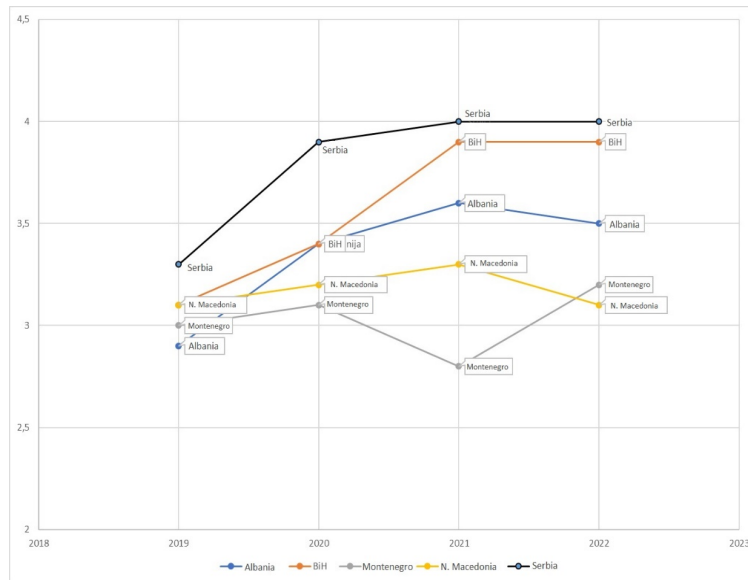
More than 12 million tourists visited the Balkan countries in 2019; one-fifth of their GDP comes from tourism and more than 25% of the export (RCC, 2019).

In Montenegro as a Mediterranean country, tourism has a great influence on GDP growth, i.e., its share in GDP is almost 25% (Monstat, 2019), which speaks of its importance for the entire Montenegrin economy. According to The Travel and Tourism Competitiveness 2019, Montenegro ranked 67th in 2019, while in 2017 it was ranked 72nd (WEF, 2019).

Guidelines for the development of Montenegrin tourism are defined in the document Montenegro tourism development strategy to 2020 (2008), which was adopted for the period from 2008 to 2020. The defined strategic goals include the application of the principles and goals of sustainable development in order for Montenegro to expand and improve its position as a global top tourist destination. This should consequently result in the creation of new jobs for the citizens of Montenegro.

The Government of the Republic of Serbia adopted the Tourism Development Strategy for the period 2016-2025 (2016), which clearly defines priority tourist products, tourist destinations, as well as the key source markets (Statistical Office of the Republic of Serbia, 2020).

Bosnia and Herzegovina does not have a sustainable development strategy adopted. In addition, implementation of Sustainable Development Goals in Bosnia and Herzegovina is currently underway (Imagine 2030, 2020).



Graph 1. GDP growth for the countries of the Western Balkans with projections until 2022

Source: Radovic-Markovic, and Djukanovic (2022). *Macroeconomics of Western Balkans in the Context of the Global Work and Business Environment*, IAP - Information Age Publishing, Inc., US

North Macedonia ranked 14th in Southern Europe in tourism industry or generated around 253.00 million US Dollar. This corresponds to 2.1. Percent of it's the GDP in 2020 (WorldData. info, 2021).

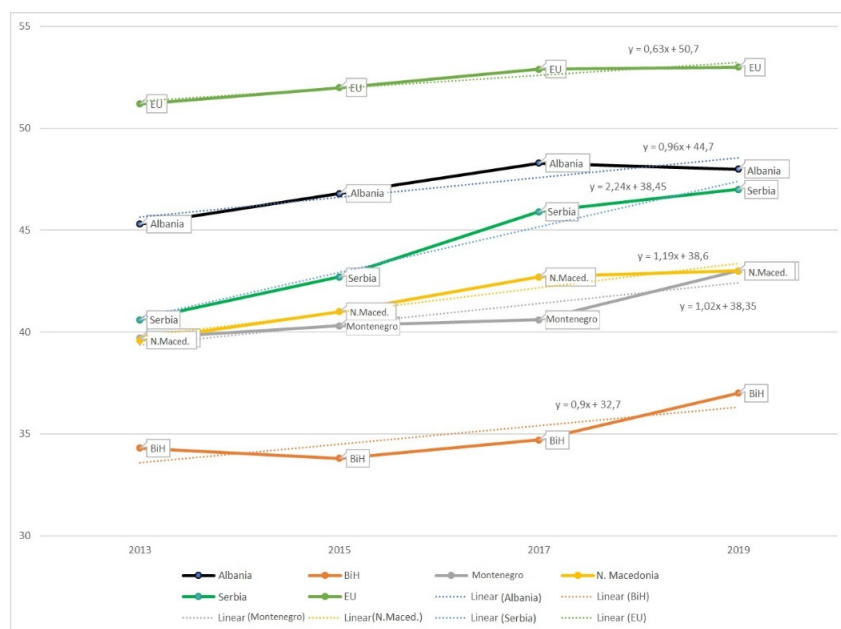
In the last almost 10 years, Serbia has been recording double-digit growth especially concerning foreign tourists. In 2019, it generated 3.7 million arrivals and 10.1 million tourist nights, with an estimated tourism contribution of 6.57% to the GDP (Statistical Office of the Republic of Serbia, 2020).

A slight increase in GDP is expected for Montenegro, i.e., from 3% in 2019 to 3.2% in 2022. However, such positive prognoses are subject to the influence of numerous risks, i.e., will depend on geopolitical and trade disputes to stagnation in the pace of structural reforms (World Bank, 2019).

These predictions were made before a new recession caused by the coronavirus could be foreseen. Therefore, economic growth rates will have to be adjusted. Some reports made after the crisis in mid-March 2020 expect a serious European recession of -4% in 2020, with a significant decline in production and employment (Pavlova, March 18, 2022).

EMPLOYMENT

In the countries of the European Union, a crawling growth of the employment rate was recorded in the observed period 2013-2019 (Graph 2), while all the countries of the Western Balkans recorded a higher growth than the EU countries with the highest employment.



Graph 2. Growth rate trend of employment rate in the countries of the Western Balkans in relation to the EU, 2013-2019

Source: Radovic-Markovic, and Djukanovic (2022). *Macroeconomics of Western Balkans in the Context of the Global Work and Business Environment*, IAP - Information Age Publishing, Inc., US

Growth rates among the countries of the Western Balkans are in Albania and Serbia, while the most unfavourable situation is in Bosnia and Herzegovina. Namely, in the observed period, Serbia recorded the highest growth of the employment rate, i.e., from 40.6 in 2013 to 49.7 in 2019 or an increase of 9.1 percentage points (World Bank, 2019a).

Observed employment trends for the last two years (2018-2020), it can be stated that employment growth continued in all countries of the region. This is confirmed by data that show that employment in June 2019 in the Western Balkans was higher by 2.4 percent compared to the same period last year. This created 149,430 new jobs in the labour market compared to the same period in 2018 (World Bank, 2019b).

The unemployment rate in Serbia dropped to 9.7 percent at the end of 2019 from 12.9 percent in the corresponding period of the previous year. The number of unemployed decreased by 24.6 percent and the number of employed increased by 4.3 percent. Meanwhile, the employment rate rose 2.3 percent from a year earlier (Trading Economics, 2020).

The WEF analysis (2019a) shows that the unemployment rate in Montenegro was 15.5% during 2019. According to Monstat data (2019), out of the total number of active population or 289.5 thousand, 85.7 percent were employed and 14.3 percent unemployed.

The latest data from the Employment Agency of Montenegro (March 14, 2020) show that 35,429 unemployed persons (20,516 women) were registered, which shows a slight increase of 111 persons or 0.31 percent. This was expected, given that the coronary virus pandemic had started in Montenegro and some employers had immediately started laying off workers.

The registered unemployment rate for December 2019 was 32.6 percent in Bosnia and Herzegovina, making this country the leader in the region Bosnia & Herzegovina Agency of Statistics (2019). Based on the data of the Bosnia & Herzegovina Agency of Statistics (2019), the unemployment rate in BiH in 2019 was 15.7 percent and was lower than in 2018 by 2.7 percentage points. On the other hand, the employment rate in 2019 amounted to 35.5 percent and is higher than the previous year by 1.2 percent.

Experiences of highly developed countries show that the majority (79%) of employees seeking flexibility in work during the Covid 19 (Radović-Marković, et.al.2021). According to Ishay (2019), the Gallup survey of good governance is a key factor in improving employee productivity and innovation. Remote employees require a different management style, so managers need to make sure they master the appropriate skills. Achieving these benefits requires strong, consistent leadership and constant communication. Founders and managers must set an example, be transparent and work to communicate the company's mission, values and goals.

GENDER GAP IN EMPLOYMENT

In the female part of the population of the Western Balkans, there are reduced activity rates, lower incomes, high total unemployment, but also higher employment in less profitable sectors, with less representation compared to men in management positions, as well as among entrepreneurs (European Movement of Montenegro, 2013). Thus, in 2018, women's unemployment in the Western Balkans was 57% of the total number of unemployed (Global Markets, 2019). "Women are still struggling to achieve economic security. It is true that, compared to men, more women graduate from college, but only two out of five women in the Western Balkans has or are looking for work. It is estimated that every year the countries of the Western Balkans lose on average up to 18% of their GDP due to gender differences in the labour market (Global Markets, 2019).

In Montenegro, there is insufficient protection of women in the labour market, especially those working in the informal economy (strongly expressed in tourism and hospitality), which results in increasing existential insecurity. The National Development Strategy of Montenegro 2008-2030 (2007) states that women in Montenegro can realize their potential and contribute to the overall sustainable development of society if they achieve equality as social actors. One of the key tasks of Montenegrin society is the economic and political empowerment of women and the adoption of gender-sensitive regulations and policies.

LABOUR PRODUCTIVITY

The combination of GDP and employment data makes it possible to estimate labour productivity. According to the latest World Bank report (2020),

labour productivity has fallen in the Western Balkans by 5.4 percentage points. Since 2013 labour productivity growth in this region is almost zero. Consequently, the countries of the Western Balkans are less competitive on the international market compared to the EU countries, which have many times higher labour productivity.

According to the data of the World Bank (2019), in Northern Macedonia, in the first half of 2019, real net wages increased by 2 percent and in Serbia by 7.2 percent compared to the same period last year. Real wage growth was not in line with labour productivity.

The highest growth rates of minimum wages had Albania (18 percent), Montenegro (15 percent) and Serbia (11 percent) (World Bank, 2019b).

PUBLIC AND FOREIGN DEBT

The public debt in Montenegro has increased significantly in the last ten years or more. Namely, compared to 2008, when it amounted to only 29% of GDP, it doubled in the next five years, i.e., according to the indicators of the Ministry of Finance of Montenegro, it reached 1.707 million euros, or 51.3 percent of GDP in October 2012 (Radović-Marković, et al., 2013). However, at the end of 2012, the state debt of Montenegro decreased to 47.9 percent of GDP. According to the data of the Ministry of Finance, the public debt of Montenegro at the end of 2019 amounted to around 3.833 billion euros, which is 79.8 percent of the gross domestic product (GDP). In addition to Montenegro's high public debt in 2019, it was 66.5 percent in Albania, while it was 52.4 percent in Serbia at the end of November (European Commission, 2020).

In response to the effects of the crisis, international financial institutions have recommended policies of fiscal consolidation and structural reforms in the Western Balkans. This has influenced the implementation of austerity measures in recent years in these countries to overcome the external and public debt, which have not been generally accepted among the inhabitants of these countries but have yielded results.

The greater capacity of EU countries to service their gross foreign debt creates a qualitative difference between their debt and the debt of the Western Balkan countries (Bartlett and Prica, 2017).

INVESTMENTS

The Western Balkans is struggling to attract foreign investment and has therefore been working on reforms in recent years, with the ultimate goal of improving the business climate and fostering further integration in the regional and global markets (Jirasavetakul and Rahman 2018; World Bank 2019). Using its favourable geographical position, skilled workforce and lower wage costs than in Central Europe, the region had a large inflow of FDI in 2019.

According to the "World Investment Report 2019" of the UN Conference on Trade and Development (UNCTAD, 2019), Serbia had the largest inflow of foreign direct investment in the region with a growth of 44 percent (\$ 4.1 billion), while Bosnia and Herzegovina had a growth of 4 percent (\$ 468 million) and Albania of 13 percent (\$ 1.3 billion). Northern Macedonia has tripled direct investment in the last two years, i.e., from \$ 205 million in 2017 to \$ 737 million in 2019 (UNCTAD, 2019).

Montenegro is the only one in the region to record a 12 percent drop in direct investment. Namely, although Montenegro records the inflow of foreign investments, which in 2019 amounted to 712.8 million euros, at the same time 398 million euros flowed out of the country, which is 3.9 percent more than in the same period in 2018 (Central Bank of Montenegro, 2020). Further, in Montenegro, the structure of foreign investments has been changing in recent years, so that more has been invested in tourism, the banking sector and energy, while real estate investments are decreasing. The European Investment Bank in the Western Balkans (EIB) invests its funds in all countries in the region. Thus, it has provided EUR 40 million for Montenegro for the reconstruction of five main roads and thus improve the road network, which will contribute to tourism, trade and regional integration. Tunnels and several bridges will be reconstructed, for which 1.5 million EUR of non-refundable technical assistance has been allocated for Montenegro within the ERI program (EIB, 2019). It is also the first project in the Western Balkans to be supported by ERI by awarding grants.

Hungary's recently established "Western Balkans Green Centre" plans to make about 1.2 million euros available to launch green investments in Albania, Bosnia and Herzegovina, Montenegro, Northern Macedonia and Serbia (Reporting Democracy, 2020). In this way, the "Green Centre" wants to help the region on the path to sustainable development, and at the same

time to increase the international competitiveness of Hungarian companies that intend to invest in the green economy. In addition, they expect to be able to support the region's green transition and create new jobs.

China has been strengthening its influence in this region since 2015, given that geographically, the Western Balkans is the final part of new China's silk sea route. In a short time, China has become the leading investor in some countries of the Western Balkans and is ranked as the number one foreign investor in Serbia (Krastev, 2018).

Chinese investors invest mainly in infrastructure, such as (Tomchev, 2017, p. 2):

- reconstruction of the Belgrade-Budapest railway;
- construction of the Bar-Boljare highway (which connects Montenegro and Serbia);
- construction of a highway between Albania and Montenegro;
- construction of highways in Albania, Bosnia and Northern Macedonia.

The Chinese need a presence in the Balkans in order to get closer to other European markets. In this regard, China is not facing resistance from small countries in the Balkans, given their investment needs and intention to reduce the gap for highly developed EU countries as soon as possible (the Western Balkans account for around 1% of EU GDP and are one of the most underdeveloped regions of Europe) (Radović-Marković, et.al. 2021).

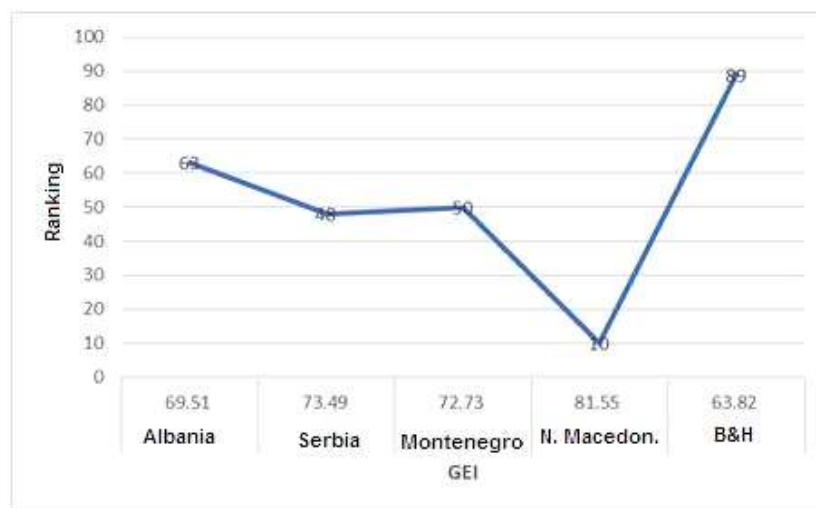
INNOVATION CAPACITY AND BUSINESS DYNAMISM

According to the WEF report (2019), Montenegro was ranked 69th out of 141 economies in terms of "innovation capacity". In relation to Montenegro, Bosnia and Herzegovina was ranked worse according to the same report in terms of "innovation capacity", i.e., it is at the bottom of this list with 117 place and is also the worst positioned of all five analysed countries in the region. Slightly better positioned than Bosnia and Herzegovina were Northern Macedonia with 97th place and Albania with 110th place. According to the same report, Serbia was the best ranked country in the Western Balkans with 59th position on the basis of "innovation capacity".

Various changes in the business environment have greatly affected the "business dynamism", i.e., on the establishment and closure of companies, their productivity and competitiveness. Business dynamics statistics show that Montenegro was in 50th place according to WEF indicators (2019),

while Serbia was 54th immediately following Montenegro. According to the same report, Albania was ranked 63rd, followed by Northern Macedonia 65th and Bosnia and Herzegovina ranked 117th out of 141 countries.

Observed for 2019, according to the Doing Business List, Northern Macedonia was the highest ranked country (10th place) among 137 countries covered. Serbia and Montenegro are closely ranked (48th and 50th position respectively) Bosnia and Herzegovina is ranked the worst (89th place) (Graph 3.).



Graph. 3. Western Balkan Countries Ranking by Doing Business List, 2019
Source: World Bank, 2019

It is necessary to emphasize the importance of a proper understanding of the importance of scientific infrastructure in the field of research on the growth of "innovation capacity", so that national policies in this area can be formed.

CONCLUSION

It is necessary to change the approach to regional cooperation and create new strategies related to political and macroeconomic stability in the Western Balkans countries.

The priority must be to improve the business environment to attract domestic and foreign investment for development. In this context, attracting investment can be an important driver of development and reducing the gap with advanced economies. Specifically, fiscal policy that prioritizes encouraging increased investment in infrastructure, human capital, and R&D, can help the economy reach a higher level of development. All this must be accompanied by structural reforms. In addition, greater investment in social protection measures could contribute to overall social well-being and prosperity. It is also necessary to effectively address the issues of transition to a changing global trade regime, strengthen innovation capacity and constantly meet the key challenges arising from global processes.

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