

The changing dynamics of the Western Balkans on the road to European Union membership: an update

Marek Dabrowski and Luca Léry Moat

Executive summary

Marek Dabrowski (marek.dabrowski@bruegel.org) is a Non-resident Fellow at Bruegel

Luca Léry Moat (luca.moat@bruegel.org) is a Research Analyst at Bruegel

The slow pace of European Union enlargement to the Western Balkans can be attributed to EU member countries losing their political appetite for further enlargement in the 2010s and early 2020s, and to the fact that Western Balkan countries have failed to make visible progress in meeting the criteria for EU accession

The income per capita convergence of Western Balkan countries towards the German level (as a proxy for the EU) has been rather slow, with some acceleration in the second half of the 2010s and early 2020s. However, Western Balkan countries continue to suffer from several socio-economic vulnerabilities, including high unemployment rates (especially of young people) and low rates of participation of women in the workforce.

After the beginning of the war in Ukraine in 2022, the EU gave higher political priority to further enlargement. It opened a new eastern front of potential enlargement (Ukraine, Moldova and Georgia) and activated the stalled accession process in the Western Balkans. Bosnia and Herzegovina obtained candidate status in December 2022 and was approved for accession negotiations in March 2024. Accession negotiations with Albania and North Macedonia were started in July 2022. With the new government in Montenegro from the end of 2023, the accession negotiation with this most advanced candidate country moved forward.

Overcoming the legacy of the tragic conflicts in the 1990s is another key geopolitical challenge in the region. This involves the normalisation of Serbia-Kosovo relations and the reconciliation process inside Bosnia and Herzegovina.

In the economic sphere, speeding up income convergence with the EU requires further domestic economic reforms, accelerating intra-regional economic integration and creating new EU initiatives to support growth and social cohesion in the Western Balkans. Accelerating EU accession negotiations with indicative target dates, at least for frontrunners, can reduce the perception of geopolitical and economic uncertainty and stimulate foreign direct investment in flows.





1 Introduction

The Western Balkans is a geopolitical term coined by the governing bodies of the European

2 Progress in the accession

In June 2003, the Thessaloniki EU summit declared for the first time that Western Balkan countries were eligible to become EU members in the future (Council of the EU, 2003). Since then, only Croatia has completed the accession process, becoming an EU member on 1 July 2013.

One can distinguish the following milestones in the EU accession process (Dabrowski, 2014):

- Negotiation and signing of the association agreement with the EU, which includes a free trade component and political and legal provisions for starting the EU accession process;
- Formal EU membership application³;
- Obtaining EU candidate status;
- Opening membership negotiation;
- Concluding membership negotiation;
- Signing the accession treaty;
- Ratification of the accession treaty and entering the EU.

The most advanced EU candidate in the region (Montenegro) is still far from completing the negotiation process. Serbia is less advanced than Montenegro, and the other three countries (Albania, Bosnia and Herzegovina and North Macedonia) are at the beginning of accession negotiations. Kosovo is a potential candidate, but it must wait for formal candidate status and formal recognition of its independence by all EU member states.

Table 1 shows the main stages and timeline of the accession process of six Western Balkan countries and Croatia.

The first stage – negotiating, signing and ratifying Stabilisation and Association Agreements (SAAs) between the EU and individual countries – was completed by North Macedonia and Croatia early on but took longer for other countries. Usually, the free trade chapters of the SAA, which did not require completion of a lengthy ratification process in all EU member states (because it only needed approval by the European Parliament and the Council of the EU), entered into force earlier (sometimes much earlier, as in the case of Bosnia and Herzegovina).

Table 1: Western Balkan countries, EU accession progress

Country	SAA: entry into force	Membership application	EU candidate status	Decision to open accession negotiation	Status of accession process, April 2024
Albania	2009	2009	2014	2020/2022	Initial phase

³ Council of the EU, 2003; Montenegro, 2012; Serbia, 2012; EU, 2012; SAA

Individual Western Balkan countries submitted their EU membership applications soon after their SAAs entered into force or even before, as happened for Croatia, Montenegro and Serbia. Waiting for the EU's approval of candidate status took between one (Croatia and North Macedonia) and six (Bosnia and Herzegovina) years.

The subsequent steps took even longer. In the earlier EU enlargements (including countries that joined the EU in 2004 and 2007), obtaining candidate status was equal to starting membership negotiations. Turkey was the first candidate for which these two decisions were split: it obtained EU candidate status in 1999 but was only allowed to start accession negotiations in 2005.

For the Western Balkan candidates, such a split became the norm. North Macedonia is the most stark case. It obtained candidate status in December 2005 but was only approved to start accession negotiations by the Council of the EU in July 2020, despite several positive recommendations issued earlier by the European Commission. Worse, the first Intergovernmental Conference occurred two years later due to the problems with the Council approving a negotiation agenda.

Albania had to wait five years to obtain candidate status after submitting its membership application in 2009, then six years for the formal approval of the start of accession negotiations in July 2020, and two additional years for their actual opening in July 2022. Its bad luck was that its membership bid was decided in one package with North Macedonia, which faced exceptional geopolitical headwinds.

The accession decisions concerning Montenegro and Serbia were taken faster, and they were able to start membership negotiations earlier – in 2012 and 2014, respectively. However, negotiations then stagnated (Dabrowski and Myachenkova, 2018). As of June 2024, all 33 screened chapters are open for Montenegro, but only three (science and research, education and culture, and external relations) have been provisionally closed. However, the sixteenth

of the REM's potential merits (Dabrowski, 2020), time was needed for its negotiation, approval and start of implementation.

As mentioned, some EU countries abused the unanimity requirement in the enlargement decision-making process to meet their national interests or other domestic political agenda goals.

negotiations in March 2024. On 8 November 2023, the European Commission announced a new Growth Plan for the Western Balkans for 2024-2027, worth €6 billion (of which €2 billion is grants and €4 billion concessional loans; European Commission, 2023). The Council presidency and the European Parliament provisionally approved this package on 4 April 2024. Apart from providing additional financial assistance to the region, the EU aims to accelerate its economic convergence, set incentives to speed up governance and economic reforms, normalise Serbia-Kosovo relations, accelerate integration of candidates into the Single European Market (beyond the SAA provisions) and boost intra-regional integration through the Common Regional Market.

3 Economic and social convergence

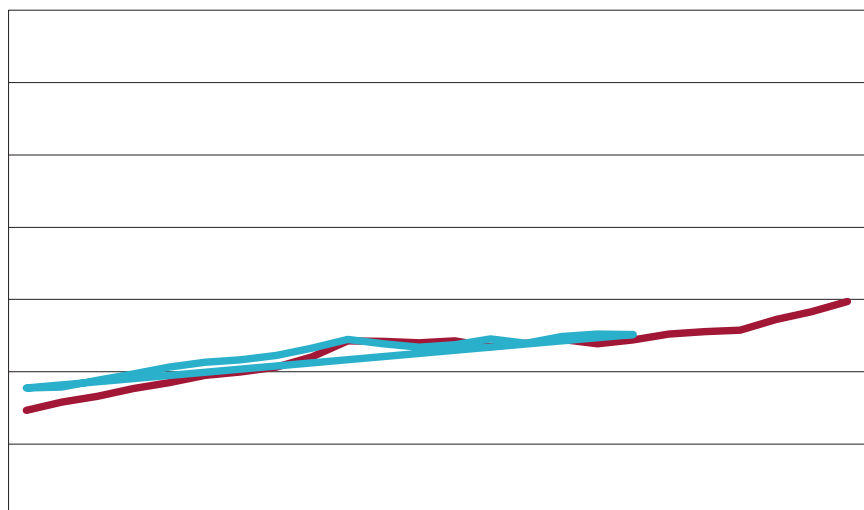
3.1 Economic convergence

In the second half of the 2010s, economic growth somewhat accelerated compared to the first half of the decade, when the region was negatively affected by the global and European financial crises. The COVID-19-related recession in 2020 was on average shallower for the Western Balkan countries than in the EU.

The post-COVID-19 recovery in 2021-2022 was rapid in the entire region (Record, 2022). However, in 2023, growth slowed due to the sluggish economic performance of key euro-area trading partners and the toll of inflation on household consumption (EBRD, 2023).

Since the mid-2010s, Western Balkan economies have renewed their income per-capita convergence with Germany (Figure 1), thanks to better growth performance in the post-pandemic years. However, these levels remain low relative to Germany (and the EU), ranging from one-quarter of German income in Kosovo to just over two-fifths in Montenegro. They are also lower compared to Croatia – from one-third in Kosovo to two-thirds in Montenegro.

Figure 1: GDP *per capita* in current international \$, PPP adjusted, Germany = 100, 2000 - 2023



Source: Bruegel based on IMF WEO April 2024. Notes: IMF staff estimates start after 2021 (Albania and Kosovo), 2022 (Bosnia and Herzegovina and Serbia) and 2023 (Germany, Montenegro and North Macedonia).

In 2023, all six Western Balkan economies (Croatia not included) were classified as upper-middle-income countries, according to the World Bank Atlas method. This category includes countries with a gross national income (GNI) per capita of between \$4,466 and \$13,845. Montenegro had the highest GNI per capita in 2022 at \$10,480, followed by Serbia at \$9,290. The other four nations were all at the lower end of the category. Kosovo reported the lowest level at \$5,660.

The remaining income per-capita gap with higher-income EU member states may be one of the reasons for the reservations of some EU governments against fast enlargement. It will mean higher transfers from the EU budget¹⁰ and stronger incentives for mass intra-EU movement of the labour force. On the other hand, accession can accelerate the income convergence process, as happened in countries that joined the EU in 2004, 2007 and 2013 (Darvas, 2024).

3.2 Macroeconomic stability

The dominant monetary regimes in the region – a fixed peg to the euro in North Macedonia, a euro-denominated currency board in Bosnia and Herzegovina and unilateral euroisation in Kosovo and Montenegro – helped to disinflate rapidly after high inflation/hyperinflation episodes in the 1990s and early 2000s and provided a macroeconomic and financial stability anchor. However, they led to the import of higher inflation from the euro area when the latter experienced price stability problems in 2021-2023. With inflation in the euro area gradually declining in 2023-2024, a similar trend has been observed in the Western Balkan region.

In the long term, unilateral euroisation and pegs to the euro may help with faster trade, investment and financial integration with the EU.

Despite the negative fiscal impact of the COVID-19 pandemic, all Western Balkan countries except North Macedonia improved their gross-public-debt-to-GDP ratios, compared to 2015. However, in Montenegro and Albania, they continue to exceed 60 percent, a high level for emerging-market economies. Continuation of the fiscal consolidation effort is necessary.

3.3 Social challenges: demography and a dysfunctional labour market

Historically, dysfunctional labour market mechanisms have been a major social and economic challenge in the Western Balkan region. They have generated high levels of unemployment, inactivity and informal employment. They have limited the rate of potential growth in Western Balkans, other things being equal. They have also been responsible for higher levels of income inequality (Jusić, 2018).

Dysfunctional labour markets in Western Balkan countries can create obstacles in their full and effective integration with the European single market. They create additional pressure for outward migration from the region, mainly to the EU. If not improved during the EU accession process, they will increase the number of EU countries suffering from similar problems.

In 2022, total unemployment was highest in North Macedonia at 14.4 percent and lowest in Serbia at 8.7 percent (Figure 2a). These high unemployment levels are driven by high levels of youth unemployment (Figure 2b). Modest gains in total employment from 2010 to 2015 disproportionately benefited older and highly educated workers, whereas low-skilled and less-educated young workers were relative losers (World Bank/WIIW, 2017).

However, all Western Balkan countries have made progress since 2015. Unemployment has followed a linearly decreasing trend everywhere. Youth unemployment has also fallen, most notably in Bosnia and Herzegovina where rates fell from over 60 percent to just over 30 percent in 2022. However, they are still higher than in Croatia.

¹⁰ Owing to the EU's budgetary rules, the EU budget is not expected to be significantly larger in the future.

Figure 2: Unemployment, total (% of total labour force) and youth unemployment rate

—

Source: Bruegel based on World Bank WDI.

Figure 3: Annual percentage change in 15-64 working age population, in %, 2014 – 2020

4 External economic relations and the role of the EU

In economic terms, Western Balkan economies are already highly integrated into the European single market in terms of trade, investment and labour flows. Progress in EU accession can further strengthen these trends.

4.1 Trade

The Western Balkan countries have high and increasing levels of trade openness measured as a percentage of GDP (Figure 5). This is normal for small economies since there are fewer

Figure 5: Imports and exports of goods and services, % of GDP, 2000 – 2022

Source: Bruegel based on World Bank WDI.

Figure 7: Stock of inward FDI, % of GDP, 2022

Figure 8: Personal remittances, received, % of GDP

Source: Bruegel based on World Bank WDI.

5 Governance challenges

Measuring governance performance is not a methodologically easy task. The most common way of measuring its various dimensions is using composite numerical indices produced by global development institutions and non-governmental organisations. However, such indices

Figure 9: Freedom House Nations in Transit democracy scores, 2005-2023

Source: Smeltzer and Karppi (2024).

We assess the governance performance of the Western Balkan countries from the Free-

Figure 10: World Bank's World Governance Indicators, voice and accountability (estimate), 2005-2022

Source: World Bank's World Governance Indicators, <https://www.worldbank.org/content/dam/sites/govindicators/doc/wgidataset.xlsx>.

Two indicators – the rule of law (Figure 11) and control and corruption (Figure 13) – place Western Balkan countries in the negative territory, ie scores below zero. Changes in

Figure 12: World Governance Indicators, regulatory quality (estimate), 2005-2022

Source: World Bank World Governance Indicators, <https://www.worldbank.org/content/dam/sites/govindicators/doc/wgidataset.xlsx>.

The control of corruption scores sharply decreased in Bosnia and Herzegovina after 2013, North Macedonia after 2014 (after earlier improvement) and Serbia after 2014. There has been limited progress in this area in Montenegro, Kosovo and Albania. The regulatory quality scores look a bit better. All Western Balkan countries, except for Kosovo

states directly and serves as a land bridge between the southeast of the EU (Greece and Bulgaria) and its central European part. It can also help minimise interference from external powers such as Russia and China.

References

- Bartlett, W. and N. Oruc (2021) 'Regional Cooperation Council, available at <https://www.rcc.int/pubs/120/labour-markets-in-the-westernbalkans-2019-and-2020>
- Brunnbauer, U. (2022) 'Side Effects of "Phantom Pains": How Bulgarian Historical Mythology Derails North Macedonia's EU Accession,' *Journal of Balkan Studies*, 70(4): 722-739, available at <https://doi.org/10.1515/soeu-2022-0064>
- Council of the EU (2003) 'Thessaloniki European Council 19 and 20 June 2003: Presidency Conclusions,' Document 11638/03, Council of the European Union, available at http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/76279.pdf
- Dabrowski, M. (2014) 'EU cooperation with non-member neighbouring countries: the principle of variable geometry,' *Journal of Economic Surveys*, 28(1): 1-119, CASE - Center for Social and Economic Research, available at <https://www.case-research.eu/sites/default/files/publications/CNR%20119.pdf>
- Dabrowski, M. (2020) 'Can the EU overcome its enlargement impasse?' *Bruegel*, 27 February, available at <https://www.bruegel.org/comment/can-eu-overcome-its-enlargement-impasse>
- Dabrowski, M. and Y. Myachenkova (2018) 'The Western Balkans on the road to the European Union,' *Bruegel*, 04/2018, Bruegel, available at <https://www.bruegel.org/policy-brief/western-balkans-road-european-union>
- Damgaard, J., T. Elkjaer and N. Johannesen (2024) 'What is real and what is not in the global FDI network?' *Journal of International Money and Finance*, 140: 102971, available at <https://doi.org/10.1016/j.jimonfin.2023.102971>
- Darvas, Z. (2024) 'Twenty years of European east-west household income convergence,' *Bruegel*, 6 June, Bruegel, available at <https://www.bruegel.org/analysis/twenty-years-european-east-west-household-incomeconvergence>
- Darvas, Z., M. Demertzis, C. Martins, B. McWilliams, L. L ry Moat, E. Ribakova and N. Poitiers (2023) 'The Western Balkans on the road to the European Union,' *Bruegel*, study requested by the INTA Committee, European Parliament, available at [https://www.europarl.europa.eu/RegData/etudes/STUD/2023/702591/EXPO_STU\(2023\)702591_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2023/702591/EXPO_STU(2023)702591_EN.pdf)
- Darvas, Z., M. Dabrowski, H. Grabbe, L. L ry Moat, A. Sapir and G. Zachmann (2024) 'Ukraine's path to European Union membership and its long-term implications,' *Bruegel*, 05/2024, Bruegel, available at https://www.bruegel.org/sites/default/files/2024-03/PB%2005%202024_2.pdf
- EBRD (2023) 'Regional Cooperation Council,' *Bruegel*, European Bank for Reconstruction and Development, available at <https://www.ebrd.com/rep-0923.pdf>
- European Commission (2020) 'Enhancing the accession process - A credible EU perspective for the Western Balkans,' COM(2020) 57 final, available at <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM:2020:57:FIN>
- European Commission (2023) 'New growth plan for the Western Balkans,' COM(2023) 691 final, available at <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52023DC0691>

- European Council (2022) 'European Council meeting (23 and 24 June 2022) – Conclusions,' Document EUCO 22/24, available at <https://www.consilium.europa.eu/media/57442/2022-06-2324-euco-conclusions-en.pdf>
- European Council (2023) 'European Council meeting (14 and 15 December 2023) – Conclusions,' Document EUCO 20/23, available at <https://www.consilium.europa.eu/media/68967/europeancouncilconclusions-14-15-12-2023-en.pdf>
- Jusi, M. (2018) 'Inequality in Southeast Europe,' Friedrich-Ebert-Stiftung, May, available at <https://library.fes.de/pdf-files/bueros/sarajevo/14451.pdf>
- Kostadinov, A. (2023) 'Western Balkans and Russia: Assessing the Trade Impact of Sanctions,' 2, Institute for Digitalization, Economy and Innovation, Skopje, available at <https://idei.org.mk/wp-content/uploads/2023/09/Statistical-bulletin-2-Sanctions-on-Russia.pdf>
- Mihajlovic, M. (2024) 'Serbia's Challenging Journey to the EU: Reforms Required for Membership,' 3 April, available at <https://cep.org.rs/en/blog/serbias-challengingjourney-to-the-eu-reforms-required-for-membership/>
- Mihajlovic, M., S. Blockmans, S. Subotic and M. Emerson (2023) 'Template 2.0 for Staged Accession to the EU,' European Policy Centre and the Centre for European Policy Studies, available at <https://cdn.ceps.eu/wp-content/uploads/2023/08/Template-2.0-for-Staged-Accession-to-the-EU.pdf>
- OECD (2020) 'The COVID-19 Crisis in the Western Balkans: Economic Impact, Policy Responses, and Short-Term Sustainable Solutions,' Organisation for Economic Co-operation and Development, available at <https://www.oecd.org/south-east-europe/COVID-19-Crisis-Response-Western-Balkans.pdf>
- Record, R., S. Madzarevic-Sujster and T. Stucka (2022) 'Overlapping crises in the Western Balkans,' 23 May, Brookings, available at <https://www.brookings.edu/articles/overlapping-crises-in-thewestern-balkans/>
- Smeltzer, M. and A. Karppi (2023) 'Digital Booklet,' Freedom House, available at https://freedomhouse.org/sites/default/files/2024-04/NIT_2024_Digital_Booklet.pdf
- Steinbach, A. (2024) 'The rocky road to EU accession for Western Balkan countries: obstacles and lessons from the Eastern European Partnership,' 08/2024, Bruegel, available at <https://www.bruegel.org/working-paper/rocky-road-eu-accession-western-balkan-countries-obstacles-and-lessons-eastern>
- World Bank/WIIW (2017) 'Western Balkans Labor Market Report,' World Bank Group and Vienna Institute for International Economic Studies, available at <https://www.worldbank.org/en/region/eca/publication/western-balkan-labor-market-report>