



MACROECONOMIC DYNAMICS AND GDP TRENDS IN THE WESTERN BALKANS: 2019–2024

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ABSTRACT

This paper examines macroeconomic dynamics and gross domestic product (GDP) trends in the Western Balkans over the period 2019–2024, with particular emphasis on the effects of the COVID-19 crisis and the subsequent phase of recovery. Using a comparative macroeconomic approach based on officially published data from international financial institutions, the study analyzes GDP growth rates, cross-country differences, and variation in the pace of recovery across the region. The results show a sharp contraction in 2020, especially in tourism-dependent economies, followed by a strong rebound in 2021 largely driven by base effects and fiscal support measures. However, during 2022–2024 growth moderated, reflecting inflationary pressures, energy price shocks, weaker external demand, and persistent structural restrictions. Despite certain signs of stabilization, significant heterogeneity remains, linked to differences in economic structure, institutional capacity, and exposure to global shocks. The findings deepen understanding of macroeconomic performance in the Western Balkans during periods of crisis and normalization, while offering policy-relevant insights for strengthening economic resilience, accelerating structural transformation, and supporting more sustainable long-term growth.

1 INTRODUCTION

The Western Balkans represent a region that has historically undergone significant political, economic, and social transformations. Although not formally a unified economic entity, the region

comprises six interconnected economies that share similar structural characteristics, historical legacies, and development challenges. Over the past three decades, these economies have gradually transitioned from socialist systems to

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market-based economies. This process has been supported by international institutions such as the World Bank and the International Monetary Fund (World Bank, 2024; International Monetary Fund [IMF], 2024). Initiatives aimed at economic integration with the European Union constitute an important driver of structural reforms. However, uneven progress in democratization and institutional strengthening continues to constrain regional convergence (Gill & Raiser, 2012).

The period from 2019 to 2024 represents a particularly dynamic phase in the economic development of the Western Balkans. The year 2019 can be regarded as the last “normal” year prior to the onset of a major global crisis. The COVID-19 pandemic in 2020 led to a sharp contraction in GDP across all countries in the region. The effects were especially severe in tourism-dependent economies such as Montenegro and Albania (European Bank for Reconstruction and Development [EBRD], 2023). This contraction was structurally uneven and revealed deeply rooted vulnerabilities in the regional economies. These include insufficient diversification, strong dependence on the service sector, low levels of investment, and a high degree of import dependence (Boljka & Mencinger, 2020).

The economic recovery observed in 2021 was strong across the region but largely short lived, driven primarily by base effects. According to economic convergence models, developing economies are expected to experience higher growth rates following negative shocks (Barro & Sala-i-Martin, 2004). Nevertheless, limited structural reforms and weak institutional quality continue to constrain the growth potential of the Western Balkans (Fetai, 2015). During the period 2022–2024, regional economies entered a phase of decelerating growth, driven by global inflationary pressures and the energy crisis. This slowdown was further reinforced by weaker economic activity in the European Union, the main trading partner for all Western Balkan countries (World Bank, 2023).

In addition to global shocks, countries in the region face specific internal structural challenges. Constraining factors such as labor emigration, declining birth rates, weak institutional capacity, political fragmentation, and corruption represent long-term obstacles to development. These structural challenges continue to limit growth potential across the region (Zuk & Polgar, 2019).

Demographic trends further deteriorate labor market conditions by widening the gap between the supply and demand for skilled labor. Although remittances play an important role in sustaining household consumption, they cannot substitute for structural investments. Such investments are necessary to improve productivity and support long-term growth.

The economic structures of the Western Balkan countries vary considerably. Serbia has the most diversified economy, characterized by a strong ICT sector and a relatively developed manufacturing industry (Stojev & Petreski, 2022). Montenegro and Albania are predominantly dependent on tourism, rendering them particularly vulnerable to global shocks. North Macedonia and Bosnia and Herzegovina exhibit limited growth due to low productivity and persistent institutional weaknesses (Mukherjee & Kurokawa, 2021).

Economic convergence toward the European Union remains a strategic objective for the region. However, Western Balkan economies are still in a prolonged transition phase, constrained by substantial structural and institutional limitations. This study analyzes quantitative indicators of GDP growth. It also explores deeper systemic factors that shape economic development. In addition, it examines the constraints that limit the region's ability to achieve higher growth. Finally, it considers how these restrictions affect the stability and sustainability of economic performance.

The main research question is whether institutional quality and sectoral composition explain cross country differences in post pandemic recovery across the Western Balkans.

2 METHODOLOGY

The methodological approach employed in this study is based on a combination of quantitative and qualitative methods. This mixed-methods design enables a more comprehensive understanding of economic growth dynamics in the Western Balkan countries. Given the complexity of economic processes, a single analytical perspective is insufficient. The economies of the region also differ profoundly in their structural characteristics. Therefore, multiple analytical approaches are required to provide an integrated picture of macroeconomic developments (World Bank, 2023; International Monetary Fund [IMF], 2024).

The primary quantitative indicator used in the analysis is gross domestic product (GDP) growth. GDP is considered the most relevant measure of economic activity because it removes the effects of inflation. It also allows for meaningful comparisons across economies over time and across different levels of development (Krugman et al., 2018). GDP data were obtained from international institutional sources, including Eurostat, the World Bank, and the IMF, ensuring methodological consistency and reliability of the time series (World Bank, 2024).

In addition to GDP, the analysis incorporates complementary macroeconomic indicators such as inflation, unemployment, exports, imports, public debt, and foreign direct investment. These indicators provide additional context for interpreting changes in economic activity. They also help identify structural weaknesses and potential comparative advantages within the economies of the region (European Bank for Reconstruction and Development [EBRD], 2023).

Descriptive statistical methods are used to present the main trends. Comparative analysis is then applied to assess differences across countries, over time, and with respect to key structural characteristics. The comparative approach is particularly important in studies of the Western Balkans. These economies display different levels of diversification, institutional capacity, and dependence on external economic factors (Boljka & Mencinger, 2020).

Qualitative methods are applied to interpret institutional factors, political stability, governance capacity, and the quality of public policies. According to institutional economics, the quality of institutions has a direct effect on investment, productivity, and innovation. It also plays a crucial role in determining long-term economic growth, especially in transition economies (Acemoglu & Robinson, 2012; Fetai, 2015).

The theoretical framework of this study is grounded in several well-established economic models. It draws on the neoclassical growth model (Solow, 1956), endogenous growth theories (Lucas, 1988; Romer, 1990), and institutional development theory (Acemoglu & Robinson, 2012). It also incorporates insights from the Keynesian approach to economic stabilization (Keynes, 1936). These models provide a

foundation for understanding the deeper causes of growth and economic slowdowns in the region.

The visual component of the analysis includes graphs and tables illustrating GDP trends across different countries. Data visualization facilitates the identification of patterns, structural differences, and cyclical movements, as well as efficient cross-country comparison (Zuk & Polgar, 2019).

GDP growth rates are year on year growth rates from World Bank WDI (series NY.GDP.MKTP.KD.ZG), seasonally unadjusted; data were accessed on 15 December 2025.

Finally, the study adopts a methodological approach that integrates empirical findings with theoretical models. This combination allows for a deeper interpretation of economic dynamics and supports the identification of possible causal relationships. By combining quantitative and qualitative methods, the analysis provides a more holistic perspective. This perspective is especially valuable for the Western Balkan economies. These countries find themselves at the intersection of economic transition, European Union integration, and ongoing structural modernization.

3 THEORETICAL FRAMEWORK

Understanding economic growth in the Western Balkan countries requires the establishment of a solid theoretical framework grounded in the leading schools of economic thought. This section presents the most relevant models and approaches that explain how economic growth emerges and which factors accelerate or constrain it. It also examines how institutional and structural conditions shape macroeconomic outcomes in the region. The theoretical framework draws on the seminal contributions of economists such as Solow (1956), Romer (1990), Lucas (1988), Acemoglu and Robinson (2012), and Keynes (1936). In addition, the framework incorporates findings from contemporary research on post-socialist and transition economies (Barro & Sala-i-Martin, 2004; European Bank for Reconstruction and Development [EBRD], 2023).

Classical economists Adam Smith, David Ricardo, and Thomas Malthus laid the foundations of modern economic theory. In their view, economic growth arises from the division of labor, capital accumulation, and efficient allocation of resources

within a free market system. The classical model assumes self regulating markets and a minimal role for the state in economic activity. Although these assumptions may appear overly simplistic in the contemporary context, they remain analytically useful for post-socialist economies. These countries have undergone a transition from centrally planned systems to market-based frameworks.

In the Western Balkans, the transition toward a market economy has been marked by price liberalization, enterprise privatization, and increasing trade openness. These processes rely to a large extent on classical principles of competition and efficiency (World Bank, 2024). However, due to weak institutions, competitive markets have not been fully developed, which limits the effectiveness of the classical growth model.

The neoclassical growth model proposed by Solow (1956) represents a cornerstone of modern macroeconomics. In this framework, economic growth depends on:

- capital accumulation,
- population (labor force) growth,
- technological progress (treated as an exogenous factor).

A key assumption of the neoclassical model is the existence of diminishing returns to capital. This means that each additional unit of capital contributes progressively less to output growth. According to Solow, sustained long-term growth is possible only through technological advancement.

Applied to the Western Balkans, this framework suggests that regional economies with limited investment and low levels of technological development face significant barriers. These barriers limit their capacity to generate sustained and higher rates of economic growth. Under such conditions, these economies are likely to achieve only moderate growth rates (EBRD, 2023). At the same time, low productivity and insufficient savings rates slow the convergence process described by Barro and Sala-i-Martin (2004). This helps explain why Western Balkan countries often lag behind the growth performance of Central European economies.

Endogenous growth theory emerged as a response to the limitations of the neoclassical approach. Romer (1990) and Lucas (1988) argue

that technological progress is not exogenous but rather endogenous, resulting from:

- investment in research and development (R&D),
- human capital formation,
- innovation,
- knowledge accumulation.

This framework suggests that economies can accelerate growth through sustained investment in technology, education, and research.

In the context of the Western Balkans:

- investment in R&D remains low,
- the share of high technology sectors is limited,
- emigration of young and skilled workers erodes human capital (Zuk & Polgar, 2019).

These factors indicate that the region has not fully exploited the potential of endogenous growth, which helps explain why long-term growth trends remain insufficient for rapid economic convergence.

Keynes (1936) emphasized the importance of aggregate demand and government intervention, particularly during periods of economic crisis. According to the Keynesian framework: the state should intervene through public spending, stimulate investment, support employment, when the economy enters a recession.

This approach was clearly applied during the COVID-19 pandemic, when Western Balkan governments introduced: wage subsidies, financial assistance to firms, tax deferrals.

Empirical evidence suggests that these measures mitigated the decline in GDP, which is consistent with the Keynesian theory of economic stabilization (Mukherjee & Kurokawa, 2021).

One of the most influential contemporary approaches is institutional economics. Acemoglu and Robinson (2012) argue that long-term economic growth depends on institutional quality, the rule of law, political stability, protection of property rights, and low levels of corruption.

Inclusive institutions foster growth, whereas extractive institutions lead to stagnation.

In the Western Balkan countries, institutional deficiencies include: slow reform implementation, political fragmentation, corruption and weak public administration (Fetai, 2015).

The EBRD (2023) emphasizes that institutional constraints represent the most significant barrier to long-term growth in the region surpassing even infrastructure limitations or capital shortages.

The reviewed theoretical approaches indicate that:

- the neoclassical model explains moderate growth and limited convergence,
- endogenous growth theory explains long-term weaknesses stemming from insufficient investment in knowledge,
- the Keynesian approach accounts for short-term stabilization effects,
- institutional theory explains persistent political and structural barriers to growth.

This combination of theoretical perspectives closely corresponds to the actual economic processes observed in the Western Balkan economies.

4 ANALYSIS OF GDP TRENDS BY WESTERN BALKAN COUNTRIES (2019–2024)

This section provides a detailed analysis of macroeconomic developments in Serbia, North Macedonia, Bosnia and Herzegovina, Montenegro, and Albania. The analysis is based on data from the World Bank, the International Monetary Fund (IMF), Eurostat, and national statistical institutions (World Bank, 2024; International Monetary Fund [IMF], 2024; Eurostat, 2024).

The objective is to identify growth patterns and structural differences among countries, as well as to explain why the region has exhibited varying degrees of resilience to global shocks.

Table 1. Comparative GDP Growth Rates (%)

Year	Serbia	North Macedonia	Bosnia and Herzegovina	Montenegro	Albania
2019	4.7	3.6	2.7	4.1	2.2
2020	-1.0	-4.5	-4.0	-15.0	-4.0
2021	7.9	4.5	7.0	13.0	8.7
2022	2.6	2.8	3.0	3.6	4.0
2023	3.8	2.1	2.5	3.2	3.5
2024	3.9	2.3	2.3	3.0	3.4

Note. GDP growth rates are derived from World Bank WDI (NY.GDP.MKTP.KD.ZG), supplemented where necessary with IMF and Eurostat

estimates. Annual values, not seasonally adjusted. Data accessed 15 December 2025.

The data in Table 1 reveal strong fluctuations in GDP growth across Western Balkan economies. All countries recorded a contraction in 2020, with particularly severe declines in Montenegro (-15.0%) and Albania (-4.0%). The following year brought a sharp rebound, especially in Montenegro (13.0%) and Serbia (7.9%). However, during 2022–2024 growth moderated to more sustainable but comparatively modest levels (see Table 1, Serbia 3.9% in 2024), indicating the combined effects of external shocks and structural limitations.

4.1 Serbia

Serbia is the largest economy in the region and demonstrated the highest resilience to the COVID-19 pandemic. While most countries in the region experienced double digit contractions in 2020, Serbia recorded a decline of only -1%, one of the best performances in Europe (EBRD, 2023). This outcome can be attributed to a strong industrial base, the expansion of the ICT sector, public infrastructure investments, and Keynesian demand support measures (Keynes, 1936; Mukherjee & Kurokawa, 2021).

Post-pandemic growth in 2021 was high (7.9%), consistent with convergence models predicting accelerated growth following a recessionary period (Barro & Sala-i-Martin, 2004).

In the subsequent years, growth stabilized at moderate levels (2.6–3.9%). This pattern reflected the slowdown in the euro area, inflationary pressures, rising energy prices, and constraints on productivity growth (Krugman et al., 2018).

The development of the ICT sector, which accounts for a significant share of Serbia's exports, indicates potential for endogenous growth (Romer, 1990; Lucas, 1988). However, infrastructural and institutional barriers continue to slow more rapid modernization.

Mechanisms and supporting indicators

- ICT exports have expanded and now represent a significant share of total exports.
- Employment increased in ICT, construction, logistics, and infrastructure programs.
- Large fiscal packages (≈11–13% of GDP) mitigated the pandemic shock.

- Diversification and fiscal stimulus increased resilience, although institutional barriers still constrain productivity growth.

4.2 North Macedonia

North Macedonia entered the 2019–2024 period with moderate growth (3.6%), but the pandemic led to a significant contraction (-4.5%). The economy is structurally vulnerable due to a limited industrial base, high import dependence, and insufficient diversification (World Bank, 2024).

Post-pandemic growth of 4.5% in 2021 was insufficient to offset deeper structural limitations. This is confirmed by EBRD advisory models, which identify weak governance frameworks and low productivity as the primary growth limiting factors (EBRD, 2023).

Growth during 2022–2024 (2.1–2.8%) remained below the regional average. This outcome is consistent with endogenous growth theory, which emphasizes the role of human capital and innovation deficits in prolonged stagnation (Romer, 1990; Lucas, 1988).

Mechanisms and supporting indicators

- Exports rely heavily on lower-value manufacturing.
- Youth unemployment remains relatively high.
- Foreign direct investment ($\approx$ 3–4% of GDP) remains moderate.
- Limited innovation and human-capital development slow post-pandemic recovery.

4.3 Bosnia and Herzegovina

Bosnia and Herzegovina is characterized by a complex political and administrative structure, recognized as one of the most significant institutional risks in the region (Acemoglu & Robinson, 2012; Fetai, 2015).

In 2019, GDP growth was moderate (2.7%), followed by a contraction of -4.0% in 2020. Although 2021 recorded strong growth (7.0%), this was driven primarily by demand recovery, diaspora remittances, and fiscal spending rather than structural reforms (World Bank, 2024).

Institutional fragmentation reduces policy effectiveness and slows convergence processes (Zuk & Polgar, 2019). Growth during 2022–2024 (2.3–3.0%) reflects low resilience to external shocks and weak productivity performance.

Mechanisms and supporting indicators

- Remittances account for roughly 9–10% of GDP, sustaining consumption rather than investment.
- Foreign direct investment remains low ($\approx$ 3% of GDP).
- Regulatory divergence across entities increases transaction costs.
- Institutional fragmentation limits policy effectiveness and private-sector expansion.

4.4 Montenegro

Montenegro exhibits the highest GDP volatility in the region. As one of Europe's most tourism dependent economies, it experienced a contraction of -15% in 2020, followed by growth of 13% in 2021.

These fluctuations largely reflect the economic structure dominated by tourism and services (EBRD, 2023). According to aggregate demand theory, economies dependent on a single sector tend to display pronounced cyclical instability (Keynes, 1936).

The 2022–2024 period shows moderate growth (3.0–3.6%) but without significant structural transformation, suggesting that volatility cycles are likely to persist.

Mechanisms and supporting indicators

- Tourism accounts for over one-quarter of GDP in peak years.
- Labor markets show strong seasonality.
- Public debt remains elevated, limiting fiscal space.
- Dependence on a single sector generates high vulnerability to demand shocks.

4.5 Albania

Like Montenegro, Albania is highly dependent on tourism and services. The pandemic resulted in a contraction of -4%, followed by strong growth of 8.7% in 2021.

This pattern aligns with research indicating that small open economies experience large fluctuations during global shocks (Mukherjee & Kurokawa, 2021).

Growth stabilized during 2022–2024 (3.4–4.0%). However, endogenous growth models warn that economies reliant on low-technology sectors

cannot achieve rapid long-term convergence (Romer, 1990).

Mechanisms and supporting indicators

- Service-based growth dominates output and exports.

- Large-scale migration and remittances ($\approx 8\text{--}9\%$ of GDP) support consumption.
- FDI is moderate and concentrated mainly in real estate and services.
- Growth driven by services and remittances is insufficient to sustain rapid convergence.

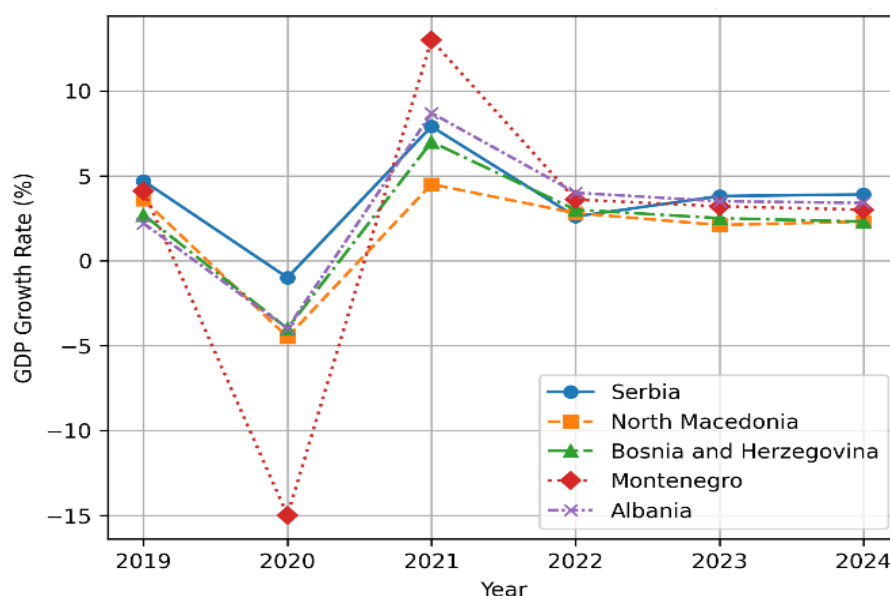


Figure 1. GDP Growth Trends in the Western Balkans (2019–2024)

Note: GDP growth rates from World Bank WDI (NY.GDP.MKTP.KD.ZG), harmonized where needed with IMF and Eurostat. Annual values, not seasonally adjusted. Accessed 15 December 2025.

Figure 1 confirms the pattern shown in Table 1. The abrupt decline in 2020 (e.g., -15% in Montenegro and -4% in Bosnia and Herzegovina) was followed by a rapid recovery in 2021. Growth subsequently slowed across the region, with most economies converging toward rates of around 2–4% by 2024.

5 REGIONAL COMPARATIVE ANALYSIS OF GDP TRENDS (2019–2024)

Regional comparative analysis enables deeper understanding of structural similarities and differences in economic performance across the Western Balkans. Despite national specificities, countries share common characteristics: transition status, strong dependence on the European Union, high import reliance, and limited industrial capacity (World Bank, 2024). However, the intensity and persistence of economic cycles vary significantly, indicating deeper structural differences.

Table 2 highlights notable differences in inflation, unemployment, and FDI. Inflation in 2022

exceeded 14% in Bosnia and Herzegovina and North Macedonia, compared with 6.7% in Albania. Unemployment remained particularly high in Montenegro (14.9%) and North Macedonia (14.4%). FDI inflows ranged from about 3.2% of GDP in Bosnia and Herzegovina to more than 6% in Serbia (see Table 2).

Table 2. Key Macroeconomic Indicators (2022–2024)

Country	Inflation 2022	Unemployment 2023	FDI (% of GDP)
Serbia	11.9%	8.2–8.3%	6.2%
North Macedonia	14.2%	14.4%	3.8%
Bosnia and Herzegovina	14.6%	14.0%	3.2%
Montenegro	13.2%	14.9%	6–8%
Albania	6.7%	11.2%	5.4%

Note. Data are taken from World Bank WDI, IMF, Eurostat, and EBRD databases. Accessed 15 December 2025.

5.1 Common Regional Macroeconomic Pattern

All regional economies follow a similar macroeconomic trajectory:

Phase 1: Pre-pandemic moderate growth (2019)

Growth rates of 2–4% align with neoclassical growth predictions for economies with limited capital accumulation (Solow, 1956).

Phase 2: Pandemic-induced contraction (2020)

The scale of declines varied widely, confirming that structural factors rather than the global shock alone determine recession depth (Mukherjee & Kurokawa, 2021).

Phase 3: Post-pandemic rebound (2021)

All countries experienced strong growth (4.5%–13%), largely reflecting base effects rather than structural transformation (Barro & Sala-i-Martin, 2004).

Phase 4: Deceleration during 2022–2024

Driven by inflation, energy price volatility, geopolitical tensions, and declining EU demand (Krugman et al., 2018).

5.2 Structural Factors Explaining Growth Differentials

Key differentiation factors include:

1. *Economic diversification*

Diversified economies exhibit more stable growth, while tourism dependent economies display higher volatility (Romer, 1990).

2. *Institutional quality*

Institutional variation significantly affects long-term growth prospects (Acemoglu & Robinson, 2012; EBRD, 2023).

3. *Demographic factors*

Declining fertility, emigration, and brain drain reduce human capital and constrain endogenous growth (Lucas, 1988).

4. *Trade dependence on the EU*

Heavy trade concentration with the EU increases vulnerability to external cycles (Eurostat, 2024; World Bank, 2023).

5. *Foreign direct investment structure*

FDI is largely directed toward low-productivity sectors, limiting long-term growth potential (Zuk & Polgar, 2019).

5.3 Synchronization of Economic Cycles

Research indicates high synchronization of recessions, recoveries, and inflation cycles across the Western Balkans due to trade integration, migration flows, euro pegged exchange rate regimes, and EU dominated financial systems (Mukherjee & Kurokawa, 2021).

Table 3 summarizes structural strengths and vulnerabilities rather than quantitative indicators. Serbia's diversification, North Macedonia's policy stability, and Montenegro's reliance on tourism illustrate how structural characteristics influence growth patterns observed earlier (see Table 1 and Table 2). Countries with stronger institutional frameworks and more diversified production structures tend to display greater resilience.

Table 3. Key Differences Among Western Balkan Countries

Country	Strength	Weakness
Serbia	Diversification, ICT	Institutional issues
North Macedonia	Policy stability	Weak industry
Bosnia and Herzegovina	Private sector	Political fragmentation
Montenegro	Tourism, FDI	High dependence, public debt
Albania	Tourism, integration	Corruption, emigration

Note. The table is based on synthesis of assessments from the World Bank, IMF, Eurostat, and EBRD reports, complemented by the author's interpretation. Accessed 10 December 2025.

5.4 Conclusion of the Regional Analysis

The primary differences among countries lie not in shock responses, but in economic structure, institutional quality, and shock absorption capacity. Economies with stronger institutions and diversification exhibit more stable growth, while tourism or remittance dependent economies display higher volatility.

6 CONCLUSION

The analysis of GDP dynamics in the Western Balkans during 2019–2024 shows that the region

remains highly exposed to external shocks. At the same time, limited diversification, persistent limitations in institutional capacity, and growing demographic pressures continue to shape its growth performance.

The strong rebound in 2021 was largely cyclical, driven by base effects and fiscal stimulus. The slowdown after 2022 reflected inflationary shocks, volatile energy prices, and weakening external demand. Sustainable convergence with the European Union therefore cannot rely primarily on short-term stabilization measures. It depends much more on structural transformation, productivity growth, and institutional strengthening.

In this context, several policy priorities emerge.

First, tourism-dependent economies should diversify toward higher-value and less seasonal segments and strengthen backward linkages with domestic suppliers, reducing vulnerability to global shocks.

Second, targeted programs are needed to retain and attract skilled labor, including incentives for return migration, stronger university–industry cooperation, and support for innovative start-ups.

Third, public investment in research, development, and innovation should be strategically concentrated in a few priority sectors, accompanied by transparent competitive funding and effective technology-transfer mechanisms.

Fourth, improving the investment climate requires digitalized administrative procedures, predictable regulation, and stronger anti-corruption safeguards.

Finally, policies that support productivity upgrading in small and medium-sized enterprises through technology adoption, export promotion, and improved access to finance, can foster more resilient growth. Such measures can also strengthen competitiveness and create more sustainable long-term development. Such policies can also contribute to greater economic inclusion and long-term competitiveness.

Overall, the region's ability to move from cyclical recovery to sustained development will depend on the consistent implementation of these reforms. It will also require stronger government capacity to coordinate economic, institutional, and demographic policies within a coherent long-term framework.

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