

Regional summit of governors, ministers of finance and directors of tax administrations



Western Balkans
- Status report and perspective -
Aleksandar Vlahović





World growth forecast

- The geopolitical and geo-economic context is extremely complex
- Prolonged "poly crisis" under the influence of additional factors - multiple simultaneous crises with different causes and possible solutions
 - Starting in 2020 - global supply chains are disrupted
 - War in Ukraine, 2022 year - food and energy supply problem - inflation and rising cost of living globally
 - War in the Middle East, 2023 - increased geopolitical tensions and further deepening of the "poly crisis"
 - Acute environmental concerns
 - Negative impact of climate change
 - Geo-economic fragmentation and new barriers
- Despite everything, the global economy has shown an enviable degree of resilience. Avoided global recession.
- The end of the cycle of monetary tightening - complete stability possible by the end of 2025?
- Europe is the most affected and still faces two basic challenges

World growth forecast for 2025 and 2026 (%)

	2024	2025	2026	2025 IMF April report
<i>World</i>	<i>3,2</i>	<i>3,1</i>	<i>3,0</i>	<i>2,8</i>
<i>Euro zone</i>	<i>0,7</i>	<i>1,0</i>	<i>1,2</i>	<i>0,8</i>
<i>Germany</i>	<i>-0,2</i>	<i>0,4</i>	<i>1,1</i>	<i>-0,1</i>
<i>Italy</i>	<i>0,7</i>	<i>0,7</i>	<i>0,9</i>	<i>0,4</i>
<i>USA</i>	<i>2,8</i>	<i>2,2</i>	<i>1,6</i>	<i>1,8</i>
<i>Russia</i>	<i>4,1</i>	<i>1,3</i>	<i>0,9</i>	<i>1,5</i>
<i>China</i>	<i>5,0</i>	<i>4,8</i>	<i>4,4</i>	<i>4,0</i>
<i>India</i>	<i>6,3</i>	<i>6,4</i>	<i>6,6</i>	<i>6,2</i>

Source: OECD, March 2025

Inflation forecast for 2025 and 2026 (%)

	2025	2026	IMF 2025 April
<i>G-20</i>	3,8	3,2	3,6
<i>Euro zone</i>	2,2	2,0	2,0
<i>Germany</i>	2,4	2,0	2,1
<i>Italy</i>	1,7	1,9	1,7
<i>USA</i>	2,8	2,6	3,0
<i>Russia</i>	9,9	6,3	9,3
<i>China</i>	0,6	1,4	0,0
<i>India</i>	4,5	4,1	4,2
Source: OECD, March 2025			



Western Balkans

- After slowing down in 2023 (growth of 2.6%), in the past year growth is accelerating and averages 3.5%.
- The continuation of the war in Ukraine, as well as the still present high inflation, had a negative impact on growth in the Euro Zone - the key trading partner of the Western Balkans. Therefore, last year's growth was based on domestic sources. Expansionary fiscal policy, inflationary pressures. Growth driven by consumption and investment.
- After the Covid pandemic, there is a clear duality in the pace of growth of the countries of the Western Balkans. Countries whose development is dominantly based on the real sector (industry, agriculture, energy) are more affected by the decline in economic activity in the EU (especially Germany). These are BiH, North Macedonia and, to some extent, Serbia. Conversely, countries dominated by the service sector (tourism, transport, other) benefit significantly from robust demand growth. Montenegro, Albania and to some extent Kosovo.
- After three years of fiscal consolidation, fiscal deficits are growing. The growth in the deficit is a consequence of high pressures on consumption and increased investment expenditure, despite the strong performance of revenues. The deficit increased by 1pp on average.



Western Blakans

- Deterioration of fiscal performance, despite solid growth rates, affected the growth of public debt (0.4pp). Growth was achieved in Montenegro and N Macedonia, while a decline was recorded in the other countries of the ZB.
- Inflation mostly in the acceptable corridor, three times lower on average compared to 2023 (3.4%). The problem is still high inflationary expectations. Also, high core inflation. Fear of rising prices again?
- Significantly worsened external balance. CAD on average less than FDI. A particular increase in the deficit in Serbia and Albania (3 and 4 times, respectively). Large gap between CAD and FDI in Montenegro (-17.3% vs. 6.6%)
- The financial sector of the WB countries remains strong and resilient. Achieved growth in credit activity of around 12.3% on average (rapid growth in the household sector). NPL stable at 3.4%. Recorded growth in RoA profitability of 2.4%. The CAD ratio was 19.3%, significantly above the regulatory minimum.
- The good performance of the labor market continues, but at a slower pace. Average unemployment rate 10.1%. Youth unemployment problem 24.3% (EU average 13.8%).
- Real wages rose. The problem: faster wage growth than productivity.



Western Balkans

- GDP growth in 2025 3.2%, and 3.5% and 3.7% in 2026 and 2027
- Risks to future growth remain high. The key risk is the continuation of the weak performance of the Eurozone economy (weaker investments and trade activity with the WB) Also, a whole series of internal risks (economic and political)
- Despite faster average growth than the CEE countries and the entire EU, it is insufficient to achieve a tangible convergence of the WB with the EU in the medium term. The GDP (PPP) of the WB remains, on average, at the level of 40% of the EU on average
- A chance for faster convergence is the new EU Growth Plan for the WB, promoted in 2023. Resources are provided for eliminating the infrastructure gap, as well as for the continuation of structural reforms. Efforts to integrate the WB countries (trade, transport, workforce) an additional stimulus for faster growth

Western Balkans – macro parameters (2024/2025) – WB Spring Report 2025

	Serbia	Albania	BIH	N Maced	Montenegro	Kosovo	WB 6
GDP growth (%)	3,9/3,5	3,9/3,2	2,6/2,7	2,8/2,6	3,0/3,0	4,4/3,8	3,5/3,2
Inflation (%)	4,6/3,1	2,2/3,0	1,7/3,0	3,5/2,5	3,4/2,9	1,6/1,9	3,4/2,9
Defic (% GDP)	-2,0/-3,0	-0,8/-2,1	-2,5/-2,2	-4,6/-4,2	-3,1/-4,0	-0,2/-1,0	-2,2/-2,8
Public debt (% GDP)	47,5/47,3	54,2/53,7	27,2/26,9	62,4/64,0	63,0/66,2	16,6/17,4	45,2/45,9
Public reven (% GDP)	40,9/41,1	28,1/28,4	42,7/43,3	34,0/34,5	42,7/41,4	29,9/30,1	36,4/36,5
Prim deficit (% GDP)	-0,1/-0,9	1,2/0,2	-1,4/-1,2	-2,7/-2,3	-1,1/-1,8	0,2/-0,7	-
CAD (% GDP)	-6,3/-7,0	-2,4/-3,7	-4,1/-4,9	-2,3/-2,8	-17,3/-18,5	-9,0/-8,7	-6,9/-7,6
FDI (% GDP)	5,4/4,8	5,0/5,6	3,6/3,5	7,1/2,5	6,6/6,9	6,1/6,0	5,6/4,9
Public invest. (% GDP)	7,3/7,3	5,0/5,5	4,1/4,2	3,9/4,4	5,7/5,8	6,3/6,7	Na
Unen/Youth Unen (%)	8,6/23	9,4/21,7	12,7/30,1	12,4/29,0	11,5/26,2	10,9/17,3	10,1/24,3
Work force participat (%)	56,2/na	63,7/na	49,1/na	52,3/na	63,7/na	40,7/na	54,6

2025 Forecast – Growth and Inflation

	Growth (%)	Inflation (%)
<i>Serbia</i>	3,5	4,0
<i>Albania</i>	3,8	2,4
<i>BiH</i>	2,8	2,2
<i>North Macedonia</i>	3,2	3,4
<i>Montenegro</i>	3,2	3,3
<i>Kosovo</i>	4,0	2,2

Western Balkans – comparative analysis



	Economic Freedom		CPI	
	2025 (177)	2024 (176)	2024 (180)	2023 (180)
Serbia	64	60	105	104
Albania	50	48	80	98
BIH	70	67	114	108
Kosovo	78	75	73	83
N. Macedonia	73	71	88	76
Montenegro	67	83	65	63

Western Balkans – comparative analysis



	Global freedom status vs. Democracy		Index on censorship		Index of media freedom	
	2024 (100)	2023 (100)	2024 Ukupni rang	2024 Media rang	2024 (180)	2023 (180)
Serbia	57 (43)	60 (46)	6 N	7 PR	98	91
Albania	68 (46)	67 (46)	5 SN	5 SN	99	96
BIH	53 (36)	52 (38)	6 N	6 N	81	64
Kosovo	60 (38)	60 (38)	4 PN	4 PN	75	56
N. Macedonia	67 (46)	68 (47)	6 N	6 N	36	38
Montenegro	69 (46)	67 (47)	4 PN	4 PN	40	39

Credit rating

	STANDARD & POOR'S	FitchRatings	MOODY'S
Serbia	BBB- / stabel	BB+ / positive	Ba2 /positive
Albania	BB/ stable	-	Ba3 /stable
BIH	B +/ stable	-	B3 / stable
Kosovo	-	BB- / stable	-
North Macedonia	BB- / stable	BB+ / stable	-
Montenegro	B+ / stable	-	Ba3 / stable

Western Balkans – path to EU

Bosnia and Herzegovina -

Candidate country

Dec 2022 officially granted candidate country status. In 2024, EU decided to open negotiations.

Serbia - Candidate country

Opened chapters – 22 out of 34
Provisionally closed chapters - 2

Montenegro - Candidate country

Opened chapters - 33
Provisionally closed chapters - 6

Kosovo – Potential candidate

In April 2016, the Stabilisation and Association Agreement entered into force. Visa Liberalisation from January 2024

Albania - Candidate country

March 2020: EU decides to open accession negotiations
July 2020: draft negotiating framework presented to the Member States.. July 2022 start of negotiations.
Two chapters are opened in 2024

North Macedonia - Candidate country

March 2020: EU decides to open accession negotiations
July 2020: draft negotiating framework presented to the Member States. July 2022 start of negotiations



Conclusion

- ❑ The economic prospects of the WB are strongly influenced by external geopolitical risks
- ❑ The traditional structure of the economy does not ensure faster convergence
- ❑ The key drivers of growth are public investment and FDI
- ❑ Transparency and economic justification of public investments questionable
- ❑ FDI directed towards traditional sectors, cheap labor and high availability. Such a growth model exhausted. The net effect of FDI on CAD is decreasing
- ❑ Structural reforms remain a condition for faster growth and a visible increase in living standards:
 - Reform of public institutions (quality and independence) as a stimulus for the growth of domestic private investments
 - Reform of public enterprises
 - Human capital (education and health)
 - Gaps in critical infrastructure that increase costs for the economy (green transition)

Thank you for your attention!

