

Economic Development in Western Balkan Countries *Case of Albania*

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Abstract

This study analyses the economic performance of Western Balkan Countries (WBC) to identify the competitiveness and policies in each country. The focus will be in Albania, as part of this region, has undergone significant economic and political transformations during 2020–2023, facing ongoing challenges with different emergencies. By examining the economic performance of the Balkan countries, we will take in consideration economic indicators, their position during this period and economic dynamics. This analysis is based on a descriptive and comparative methodology, by evaluating macroeconomic indicators such as GDP growth, inflation rate, public debt, unemployment rate and trade balances. The results indicates that Western Balkans demonstrate fast post-pandemic recovery in 2021, especially Albania, supported by fiscal and monetary policies, despite facing multiple external shocks. This paper proposes the need for structural reforms, increased investment in human capital, and economic diversification to enhance long-term growth, improve labor productivity, and strengthen Albania's economic resilience within the Balkan region.

In this context our study relies the importance of regional cooperation, integration into European markets, and technological innovation as essential drivers of stable economic development. National strategies according with EU standards and improving institutional quality, Albania and its neighbors can build more inclusive economies, reduce vulnerabilities, and foster sustainable development across the Western Balkans.

Key words: Economic Development; Economic Growth; Inflation; Unemployment; Public Debt; Trade Balance; Western Balkan Countries.

1. INTRODUCTION

The economic performance of Western Balkan Countries is a key indicator in their competitiveness, resilience, and integration into the European and global economy. As

part of this region, Albania has reached significant economic and political transformations, particularly in recent years, while facing various emergencies. During the years under this analyze, Albania and other Balkan countries suffered various crises, including the COVID-19 pandemic, global energy shocks, and supply chain disruptions, which tested the stability of their economies. Despite these challenges, Albania has demonstrated strong economic recovery, largely driven by fiscal and monetary policy support. Through literature review is comprehended how different studies have dealt with the issue of the post-COVID-19 recovery process. (Ilollari, O., Papajorgji, P., & Civici, A. 2024).

This paper analyzes the economic performance of Western Balkan countries, with a particular focus in Albania, by examining key macroeconomic indicators such as GDP growth, inflation rates, public debt, unemployment, and trade balances. In order to improve growth dynamics, among other things, it is necessary to identify key drivers of growth and to model appropriate growth (Nedić, V., et al., 2020).

By using comparative and descriptive methodology this paper aims to identify the key indicators that affects economic performance of these countries. However, there are some challenges to effort including informality (Gjoni, A., et al., 2024), low labor productivity, and structural inefficiencies that impacts the sustainable economic growth. As Albania has implemented some economic reforms in the recent years (Demi, A., et al., 2021), investments in human capital, structural transformations, and economic diversification will be essential for sustaining progress and strengthening economic competitiveness within the region. A group of authors have identified in a research work that the effect of larger informal sector size is stronger in less developed economies (Özgür, G., et al., 2021).

This analysis will help policymakers to understand Albania's economic trajectory and formulate strategies and reforms to enhance regional competitiveness, economic development, and long-term growth.

2. METHODOLOGY

Comparing Albania's economic development with the Western Balkans through analyzing it with a focus on key macroeconomic indicators. Finding Albania's economic advantages and disadvantages as well as highlighting macroeconomic indicator trends are among the main objectives. This Paper, uses quantitative and qualitative methods, based on secondary data from different sources and studies. The elements of the methodology include literature review and an examination of various economic analyses related to the economic performance by implementing a descriptive analysis. A dynamic and comparative analysis of macroeconomic indicators has been conducted, examining factors and identifying trends for Albania and Western Balkan Countries.

3. KEY MAKROECONOMIC INDICATOR ANALYSIS

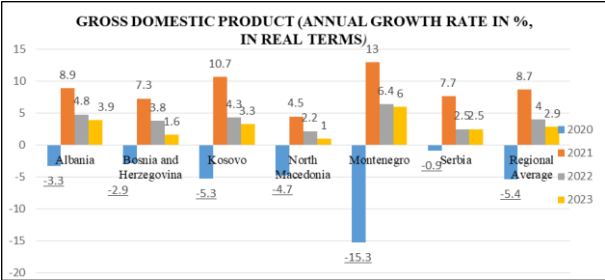
The macroeconomic indicators used to evaluate the economic performance of Albania in comparison to other countries. The Albanian economy is primarily oriented towards services, agriculture, and industry (Puci. 2018). The GDP growth rates of the Western Balkan countries between 2020 and 2023 reveal significant economic fluctuations influenced by the COVID-19 pandemic, post-pandemic recovery, and external economic shocks such as the global energy crisis (Uku, S., et al., 2024).

The pandemic emergency impacted the region in 2020, in all Western Balkan economies there was a decrease in economic growth. Montenegro was hit hardest, with a (-15.3%) contraction, reflecting its heavy dependence on tourism, which collapsed due to global travel restrictions. Kosovo (-5.3%), North Macedonia (-4.7%), and Albania (-3.3%) suffered significant declines, while Serbia (-0.9%) showed the most resilience. However, the recovery in 2021 was robust across the region, with moderated growth in all countries. Kosovo (10.7%) and Montenegro (13.0%) had the strongest rebounds, fueled by increased tourism, remittances, and government stimulus.

By 2022, economic growth started to moderate across the region due to external pressures, including rising inflation, energy price shocks, and supply chain disruptions. The Harmonized Index of Consumer Prices (HICP) is used to calculate inflation for the entire Euro area in a paper of a group of authors inflation is defined as consumer price index which is also used in Albania to estimate economic inflation (Ilollari, O., et al., (2024).

As shown in the *Chart 1* below, the annual growth of each of these countries during 2020-2023, 2020 is the year that had a bad economic performance. While all countries maintained positive growth, Albania recorded a 4.8% GDP increase, above the regional average (4.0%), Montenegro (6.4%), while North Macedonia (2.2%) and Serbia (2.5%) experienced weaker expansions. In 2023, Albania remained one of the best-performing economies in the region. North Macedonia and Bosnia and Herzegovina had the lowest growth rates, highlighting economic stagnation and limited recovery capacity.

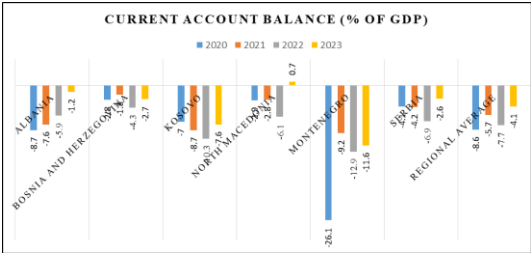
Chart 1: Gross Domestic Product (annual growth rate in %, in real terms)



Source: Own Elaboration referred to European Commission and Ministry of Finance (2024).

In the *Chart 2* below is identified the current account balance for WBC during 2020-2023 and regional average. The deterioration of the current account deficit was primarily influenced by the widening of goods trade deficits, a reduction in secondary income surpluses (mainly remittances), and in some cases, a decline in service trade surpluses.

Chart 2: Current Account Balance (% of GDP)



Source: Own Elaboration referred to European Commission and Ministry of Finance (2024).

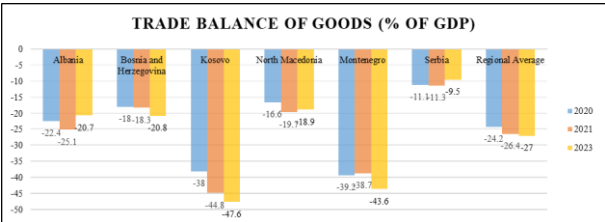
As shown in the *Chart 2* the pandemic emergency (Covid-19) during 2020 affected trade, remittances, and Foreign Direct Investment (FDI), leading to significant current account deficits in all countries of the region. In 2021, as economic recovery accelerated, current account deficits improved slightly for most countries. Albania's deficit narrowed to (-7.6%), supported by a revival in tourism, exports, and remittances. Montenegro reports a major progress from (-26.1%) to (-9.2%). However, Kosovo's deficit widened to (-8.7%) while Serbia and North Macedonia maintained relatively stable deficits. In 2022, the Russia–Ukraine war and rising global inflation Albania, continued to improve, reducing its deficit to -5.9%, by growing exports in some economic sectors (Nguyen Thi, H., et al., 2024).

During 2023, Albania shows the most significant improvement, reducing its deficit to (-1.2%), the best performance in the region apart from North Macedonia 0.7%. This suggests a better situation in the level of exports, rising remittances, and trade balance management.

In the *Chart 3* below is presented the trade balance of goods as a percentage of GDP for 6 (six) Western Balkan countries (Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro, and Serbia), along with the regional average, for the years 2020-2023.

Albania and Bosnia & Herzegovina exhibit moderate trade deficits. While Albania's deficit remains consistently negative, it does not fluctuate as drastically as in other countries. Bosnia & Herzegovina follows a similar pattern, maintaining a negative trade balance but with a less pronounced deficit compared to Kosovo or Montenegro.

Chart 3: Trade Balance of Goods (% of GDP)

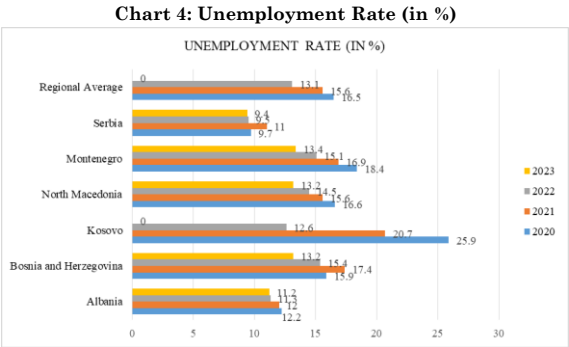


Source: Own Elaboration referred to European Commission and Ministry of Finance (2024).

In the *Chart 4* below are given the developments in the labor market have been positive and are continuously recovering following the decline in economic activity caused by the pandemic. Throughout 2023, the labor market has continued the downward trend in the

unemployment rate and the upward trend in employment levels. These trends reflect the positive dynamics of the overall economic situation in Albania.

In general, the unemployment rate in the region decreased in most economies, starting from 9.4% in Serbia to around 13.5% in Bosnia and Herzegovina. Unemployment rates in the region reached their lowest historical levels, but they still remained high compared to EU countries.

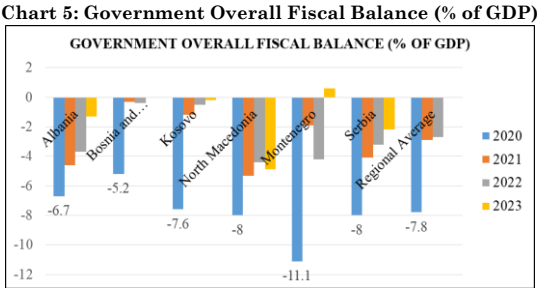


Source: Own Elaboration referred to European Commission and Ministry of Finance (2024).

Unemployment rate in the Western Balkans is a concept which structurally changed from socialism period to nowadays, which resulted in massive job losses, low productivity, skill mismatches, and informality (Osmani, N., et al., 2024).

The data of unemployment for Western Balkans for the period under analysis reflects gradual improvements in employment, negatively affected from the lock down in 2020, and government policies, emergencies and recent years reforms. The chart 4 above identifies that Kosovo had the highest unemployment rate (25.9%), Bosnia and Herzegovina (15.9%), North Macedonia (16.6%), and Montenegro (18.4%) also saw high unemployment levels due to the concentration in services sector. Albania, with an unemployment rate of 12.2% in 2020, was below the regional average (16.5%), showing a relatively resilient labor market.

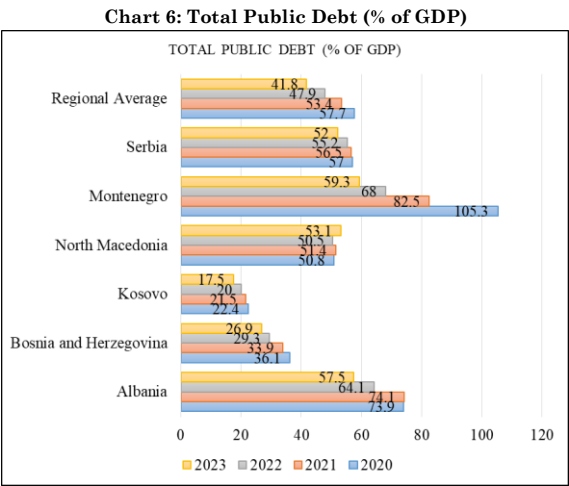
However, in 2021, unemployment slightly declined in Albania (12.0%), while other countries, such as Bosnia and Herzegovina (17.4%) and Serbia (11.0%), reflecting last year’s reforms.



Source: Own Elaboration referred to European Commission and Ministry of Finance (2024).

The *Chart 5* shows the government fiscal balance during 2020-2023 in the WBC, as a key indicator reflecting the difference between government revenues and expenditures. The data for these countries from 2020 to 2023 shows improving fiscal positions post-pandemic, with Albania making significant progress in deficit reduction.

Western Balkan Countries during 2020 had large fiscal deficits due to pandemic-related spending, economic contractions, and lower tax revenues. Albania's deficit fell significantly from (-6.7%) in 2020 to (-4.6%) in 2021, then to (-3.7%) in 2022, and further to (-1.3%) in 2023. Kosovo deficit decreased to (-0.2%) in 2023. Bosnia and Herzegovina with (-0.4%) in 2022, showing a strong fiscal balance compared to regional average. Meanwhile, Macedonia with deficits of (-4.9%) in 2023, indicates challenges in balancing process.



Source: Own Elaboration referred to European Commission and Ministry of Finance (2024).

Public debt in the Western Balkans during 2020-2023 decreased in a moderated trend, averaging a drop from 57.7% to 41.8% of GDP. This trend was driven by post-pandemic fiscal consolidation and economic growth.

Albania, which had a high debt level of 73.9% of GDP in 2020, reduced it to 57.5% by 2023, reflecting strong fiscal management and economic expansion. Montenegro, the most indebted country in 2020 at 105.3% of GDP, brought its debt down to 59.3%, though it still faces financial challenges.

Kosovo maintained the lowest debt levels, declining from 22.4% to 17.5%, reinforcing its fiscal resilience. Serbia had a decrease from 57.0% to 52.0% of the public debt, while North Macedonia's maintains stable level of public debt, fluctuating slightly around 50%.

Bosnia and Herzegovina achieved one of the most significant reductions, from 36.1% to 26.9%, identified by a strong fiscal discipline.

4. CONCLUSIONS

Albania's economy performed better in 2021, growing by 8.9%, and then expanded by 4.9% in 2022. Macroeconomic stability and managed inflation, which fell to 4.0% as a

result of price stabilization, helped growth stay positive in 2023. Additionally, the labor market improved, with an 11.81% unemployment rate.

Trade dynamics results in a smaller trade imbalance in Western Balkan Countries. By identifying that imports fell in a greater scale than exports during 2023. Economic sustainability was conducted even by Albania's inflation rate, which was significantly lower than the EU average and lower than that of other Western Balkan nations.

As identified in the data analyzed in this paper, results that Albania and Montenegro have larger debt loads than other nations in the region. Despite the Western Balkans' efforts in lowering fiscal deficits, nations like Serbia and North Macedonia continued to handle risks. Albania, however, improved its fiscal position significantly, bringing its deficit down to -1.3% by 2023.

Albania should implement structural reforms, to ensure long-term economic development, rise productivity, and invest in human capital. Prioritizing technological advancements, private sector growth, and skill development will be important issues to sustaining economic development. Education reforms, in particular, will play a vital role in maintaining competitiveness and aligning with EU economic standards. Western Balkan Countries despite Economic Development and indicators to achieve this, have to complete all the recommendations for the integration process in the EU.

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