

## THE EFFECT OF MONETARY POLICIES ON THE ECONOMY OF THE WESTERN BALKAN COUNTRIES

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**Abstract:** *Monetary policies have one of the key roles in the creation of economic policies of all countries of the world. Although the main task of monetary policy is to regulate the required amount of money, the objectives of monetary policy can have a development and stabilization character, which affects the entire economy of a country. In accordance with that, this paper analyzes development goals through economic growth and employment growth, as well as stabilization goals through price stability and balance of payments. The aim of this paper is to point out the effects of monetary policy on the economies of the Western Balkan countries, which have been striving for integration into the European Union for years. The research is based on a systematic review of theoretical frameworks and empirical verification of results. In addition to the introduction, the paper consists of three parts. The first part of the paper evaluates the monetary policies of the Western Balkan region over time, while the second part analyzes the development goals of these countries. The third part of the paper examines the stabilization goals of the countries of the Western Balkans. Finally, concluding remarks are given. The results of the research indicate that the monetary policies of the region are designed to be in line with the requirements of the EU, focusing on integration and socio-economic convergence with the EU. In addition, the Western Balkan countries record lower economic growth rates compared to the EU, while on the other hand they record significantly higher average inflation and unemployment, which is not in line with the goals of European integration in the future.*

**Keywords:** *monetary policy, EU integration, Western Balkans countries.*

### INTRODUCTION

Monetary policies play a key role in creating economic policies in all countries of the world. Although the primary task of monetary policy is to regulate the required amount of money, monetary policy goals can have a developmental and stabilization character, which affects the entire economy of a country. Accordingly, this paper analyzes development goals through economic growth and employment growth, as well as stabilization goals through price stability and the balance of payments.

The goal of the countries of the Western Balkans (Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Serbia) (Kosovo) (Figure 1) is to join the European Union, but also economic growth and an increase in the standard of living (Filipović & Ignjatović, 2022). By strengthening economic growth, the standard of living in the Western Balkans would

gradually approach that enjoyed by the citizens of the more advanced economies of the European Union, but structural reforms are necessary for this (World Bank, 2024).

**Figure 1.** *Western Balkans countries*



Source: <https://dijalog.net/pojam-zapadni-balkan-nestace-kada-citav-region-bude-u-evropskoj-uniji/>

The main goals of the monetary policy relate to the creation of an environment of low and stable inflation that will be in accordance with the EU accession criteria, greater trust and greater use of the domestic currency, greater flexibility and adaptability of the economy to various domestic and external shocks and changes in the domestic environment that will occur in the process of convergence towards the EU (Belgrade University, 2014).

The aim of this paper is to point out the effects of monetary policy on the economies of the countries of the Western Balkans, which have been striving for integration into the European Union for years. The research is based on a systematic review of theoretical frameworks and empirical verification of the results. The research questions of the article relate to the comparison of economic growth rates, inflation and unemployment in the countries of the Western Balkans region. The research results indicate that the monetary policies of the region are designed to be in line with EU requirements, focusing on integration and socio-economic convergence with the EU.

### **1. Evaluation of the monetary policy of the Western Balkans region**

These countries also share certain similarities (Filipović et al. 2024; Filipović & Ignjatović, 2023). Regional cooperation has become an important indicator for evaluating the countries of the Western Balkans, not only in the context of their approach to the European Union (Mašović, et. al., 2024)., but also for strengthening mutual economic connections. All regional initiatives and organizations strive for alignment with EU programs and policies, so the EU sees regional cooperation as one of the key criteria for progress towards membership. In addition, governments in the region rarely place regional cooperation high on the list of political priorities. However, many initiatives launched in the region did not yield significant results, mainly due to poor mutual relations and lack of capacity for their implementation. (Balkans Policy Research Group, 2021).

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The region of the Western Balkans is already integrating or rapidly approaching the European Union in many areas - such as trade, investments, energy, transport, telecommunications, scientific and research work, but also police cooperation and border protection. In some segments this process has already progressed a lot, while in others it is just at the beginning. Due to the strong economic connection with the EU, the economic crisis from the EU easily spread to the Western Balkans. After a brief recovery in the previous decade, the region fell back into recession and stagnation, leading to increased unemployment, corruption, organized crime and political instability. Also, due to the lesser involvement of the EU and its members, other powers such as Russia, China, Turkey and Saudi Arabia began to enter the region, gaining significant political and economic influence (The European Movement in Serbia, 2016).

In the last few years, many regional initiatives have been launched in the Western Balkans, and new ones still appear from time to time. However, these initiatives generally have weak structures, are easily subject to political crises and fail to bring major changes in regional cooperation or concrete benefits for citizens. Initiatives such as the Regional Economic Area (REA), "Mini-Schengen", the Common Regional Market (CRM) and the Modernization of Payments in the Western Balkans attracted the most attention (Balkans Policy Research Group, 2021).

The Regional Economic Area (REA) of the Western Balkans is an initiative that aims to create a single market within the region, modeled on the internal market of the European Union. Its main objective is to enable the free and unimpeded flow of goods, services, capital and highly skilled labor among the countries of the Western Balkans. REA is based on four key components: trade, investment, mobility and digital integration. Through this initiative, the countries of the region strive to improve mutual economic cooperation, facilitate business and prepare for future EU membership.

"Mini-Schengen" is an initiative launched in 2019 by Serbia, Albania and North Macedonia, with the aim of facilitating the free movement of people, goods, services and capital between the countries of the Western Balkans - similar to the Schengen zone in the EU. The idea is that citizens of those countries can travel without a passport, speed up customs procedures and increase economic cooperation. Later, this initiative was renamed Open Balkans, but the main goal remained the same – strengthening regional connectivity and preparing for EU membership.

The Common Regional Market (CRM) aims to establish a Western Balkans market that functions according to the rules and procedures of the European Union, which would gradually bring the region closer to the EU single market. The initiative received the support of the leaders of the countries of the region and builds on the experiences and achievements of the previous initiative - the Regional Economic Area (REA), which had variable results. The new Action Plan for CRM, to be implemented by the end of 2024, includes measures in four key areas: regional trade, investments, digitization and industry with innovations (Balkans Policy Research Group, 2021).

The "Modernization of Payments in the Western Balkans" project is part of the reforms within the Berlin Process and is being implemented with the support of the European Commission, the Regional Cooperation Council and the World Bank. Its goal is for the

countries of the Western Balkans to harmonize their payment systems with EU standards, in order to create a common regional market and improve their competitiveness and attractiveness for business. Due to the different level of development of payment systems in the region, modernization aims to adopt European legal and technical standards, in order to prepare the countries for joining the SEPA zone (Single Euro Payment Area). This would enable faster, simpler and cheaper mutual payments within the region, as well as with SEPA member countries. Currently, these payments are made through correspondent banks, which is the slowest and most expensive way to process transactions (National Bank of Serbia, 2024).

All countries of the Western Balkans have a common goal - membership in the European Union and express their readiness for mutual cooperation. However, unresolved conflicts and disputes between states create serious mistrust, which often leads to instability and hinders joint initiatives. This deep mistrust is an obstacle to both regional economic integration and progress towards the EU. In order for the region to progress, the countries of the Western Balkans will have to work on solving mutual problems and building better relations. Also, it is necessary to strengthen the capacities for implementing cooperation and place regional cooperation on a higher position among political priorities (Balkans Policy Research Group, 2021).

## **2. Development goals of the Western Balkan countries**

The Growth Plan for the Western Balkans aims to (European Commission, 2023):

- integrate the Western Balkan partners into the EU's single market,
- advance regional economic cooperation,
- deepen EU-related reforms
- increase pre-accession funding in view of accelerating socio-economic convergence of the Western Balkans to the EU.

The new EU Growth Plan for the Western Balkans ( represents a chance to stimulate economic growth through reforms and investments, especially in the area of the green economy. To accelerate this growth, these countries should improve trade both within the region and with the European Union, integrate their payment systems, address demographic and labor market challenges (full focus on human capital development), and improve education and health systems (which are crucial for the transition from middle to upper income levels) (World Bank, 2024).

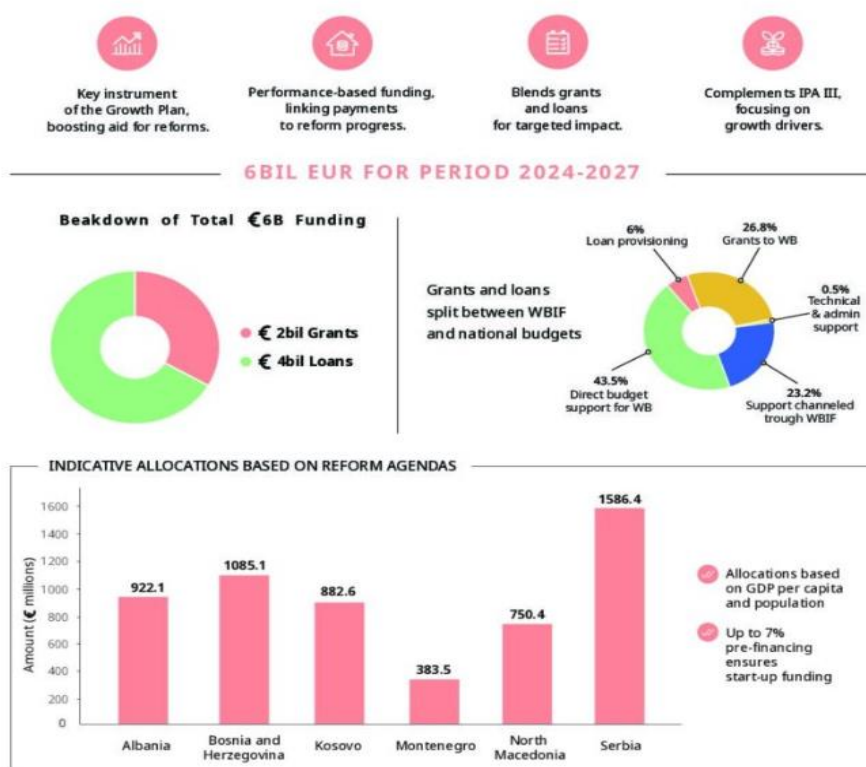
The European Commission presented the Economic and Investment Plan for the Western Balkans, which aims to encourage long-term recovery of the economy and stronger economic connection of the Western Balkans with the European Union. The focus is on supporting the green and digital transition, implementing key reforms for progress towards EU membership and bringing the region closer to the EU single market. All these activities aim to contribute to sustainable economic development and the creation of new jobs (European Commission, 2020).

The plan predicts ten main investment initiatives that include important areas for economic development, such as sustainable transport and energy connectivity, green and digital transformation, strengthening the private sector and support in health, education and social protection. Special focus is placed on young people, through programs that encourage youth

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employment. The European Commission will consider the costs, benefits and impact of priority areas and proposed projects within the framework of the green and digital transition, in order to enable their successful and efficient implementation (European Commission, 2020). Also, the Western Balkans still needs to improve its investment by implementing more economic, administrative and legal reforms and developing the infrastructure network (Mashovic et al., 2024).

**Figure 2.** Growth plan for Western Balkan



Source: <https://epi.org.mk/post/30461?lang=sq>

### **3. Stabilization goals of the Western Balkans countries**

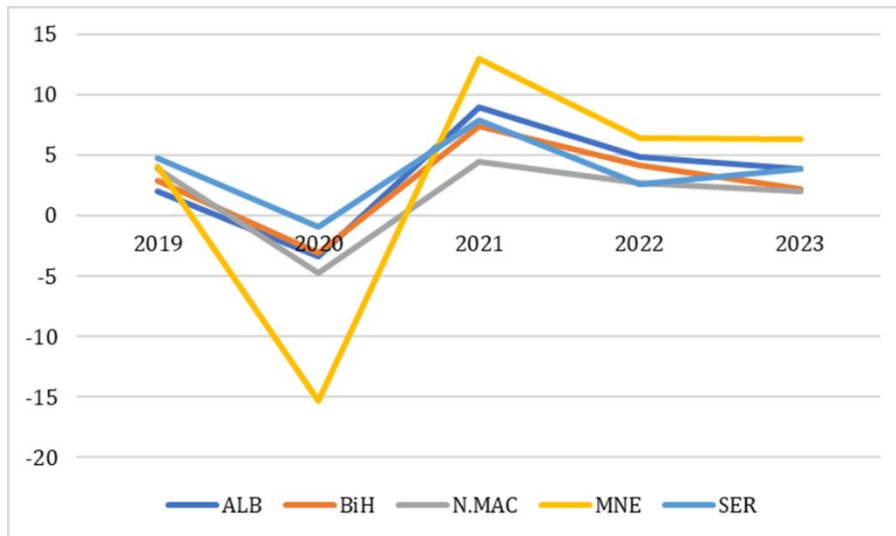
The stabilization goals of the Western Balkans are related to:

- economic growth,
- controlled inflation and
- reduction of unemployment.

Accordingly, the work analyzed data for the period 2018-2023 for the Western Balkans region.

Economic growth is in the period 2019-2023. averaged 2.9% (Western Balkans), 6.6% (EU). The growth in the Western Balkans is expected to accelerate to 3.4% (2025) and 3.5% (2026) (Figure 3) supported by easing price pressures and growing availability of credit and a resilient labor market (World bank, 2025).

**Figure 3.** *Economic growth (%), Western Balkans, 2018-2023.*

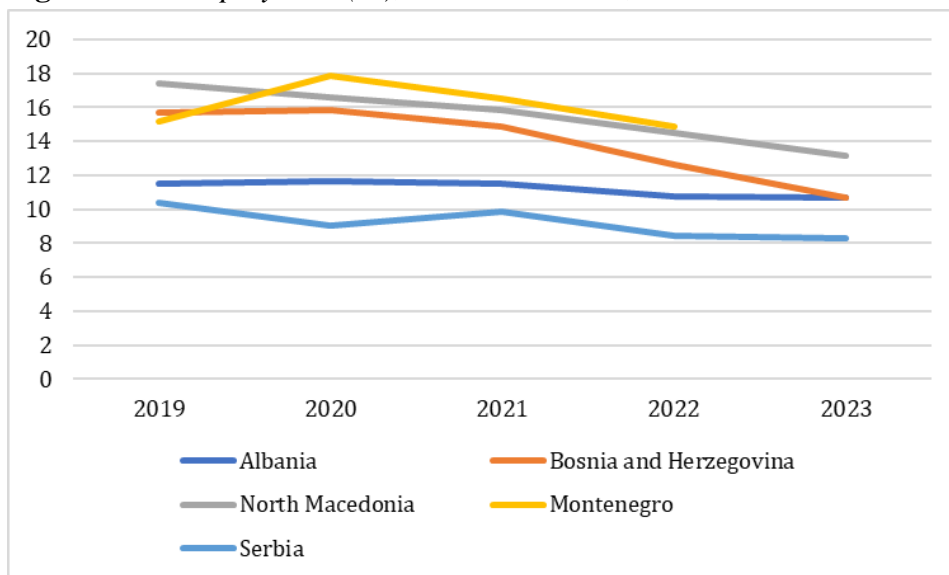


Source: World bank, 2025.

As almost a quarter of the citizens of the Western Balkan countries currently live abroad, better management of the global workforce from the Western Balkans could be a key driver of economic development in this region. While emigration can lead to challenges, such as labor shortages, there are also clear opportunities to use migration for economic benefits (World Bank, 2024).

Unemployment is in the period 2019-2023. averaged 11% (Western Balkans), and 6.6% (European Union) (Figure 4). The highest level of unemployment in region, was recorded in Montenegro (15.5%), North Macedonia (15.5%), Bosnia and Herzegovina (14%), and followed by Albania (11%) and Serbia (9.2%) (World bank, 2025).

**Figure 4.** *Unemployment (%), Western Balkans, 2018-2023.*

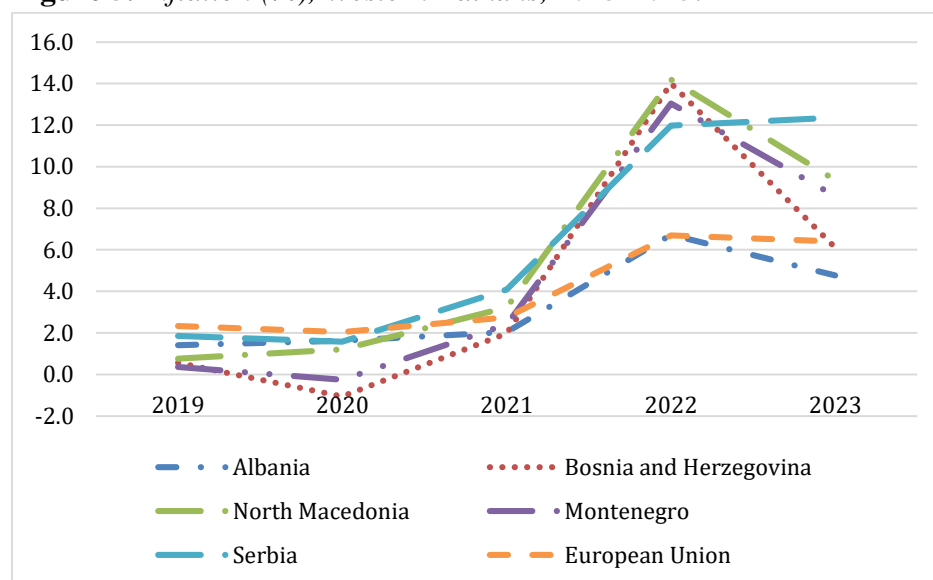


Source: World bank, 2025.

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Reducing inflation is one of the biggest tasks of the countries of the Western Balkans, especially in Serbia. According to the data World bank (2025) in the period 2019-2023. year, the regional average was 4.9% (Western Balkan), 4% (European Union). The highest level of inflation was recorded by Serbia (6.4%), followed by North Macedonia (5.8%), Montenegro (4.8%), Bosnia and Herzegovina (4.3%) and Albania (3.3%) (Figure 3). The highest level of inflation in Serbia was 12.4% (2023).

**Figure 5.** Inflation (%), Western Balkans, 2013-2013.



Source: World bank, 2025.

## DISCUSSIONS/CONCLUSIONS

Monetary policies are key in creating economic policies in all countries of the world. In addition to the fact that the primary task of monetary policy is to regulate the required amount of money, monetary policy goals can have a developmental and stabilization character, which certainly affects the overall economy of an economy. The Growth Plan for the Western Balkans aims to integrate the Western Balkan partners into the EU's single market, advance regional economic cooperation, deepen EU-related reforms increase pre-accession funding in view of accelerating socio-economic convergence of the Western Balkans to the EU. The stabilization goals of the Western Balkans are related to economic growth, controlled inflation and reduction of unemployment. Effects of non-compliance with stabilization: the region's monetary policies designed to be in line with EU requirements, focusing on specific actions or policies that support integration and socio-economic convergence with the EU; the countries of the Western Balkans record lower rates of economic growth compared to the EU, while on the other hand they record a significantly higher average of inflation and unemployment. This has been the case for the last 30 years, however, there is still a desire for European trends. The Western Balkans should adjust their monetary policies to better meet the goals of EU integration in the future.



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