

# **New EU Growth Plan for the Western Balkans (2024-2027) – added value, challenges and importance for the EU accession**

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## **Introduction**

The New Growth Plan for the Western Balkans (NGPWB) was proposed in November 2023 and adopted by the European Parliament in April 2024. It provides additional financial support to the region amounting to 6 bln EUR which includes 2 bln EUR in grants and 4 bln EUR of concessional loans. The support is contingent upon progress in reforms, which will be evaluated based on the reform agendas submitted by each of 6 participating countries (Albania, Bosnia and Herzegovina, Kosovo<sup>\*1</sup>, Montenegro, North Macedonia and Serbia). Namely, each country is obliged to submit a Reform Agenda containing specific socio-economic reforms, as well as fundamental reforms including the rule of law, democracy, respect of human rights and freedoms. As proposed by the European Parliament, the assessment will be based on the “Facility Scoreboard”, while the mismanagement of the funds will be controlled by the “Audit Board”, to be created by the European Commission (European Western Balkans, 2024). This article highlights the key elements of the NGPWB including the main issues that will be addressed and summarizes the criticism around the fundamental idea and proposed measures.

## **EU Growth plan – bringing Western Balkans closer to the EU**

Although always considered in line with the European Union political, security and economic interests (EU Commission, 2023), full membership of the Western Balkan countries has never been at the top of the EU political agenda over the last two decades. Ever since the global economic crisis, eurozone crisis, crisis in Ukraine in 2014, refugee crisis, Brexit, war between Russia and Ukraine, and the conflict between Israel and Palestinians, there have always been some other more urgent issues. In addition, WB regional disputes and political tensions have made the whole process burdensome. However, the interest in the region has never stopped. Only through the funding mechanism of the EU, the Instrument for Pre-Accession Assistance (IPA<sup>2</sup>) I (2007-2013) and IPA II (2013-2020), the EU provided around 6.6% and 5.9% of the average GDP respectively of the pre-accession funding (Jelic et al. 2024). COVID-19 Support Package to WB countries amounted to 3.3 bln EUR directed to health, public and affected

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<sup>1</sup> This designation is without prejudice to positions on status and is in line with UN Security Council resolution 1244 and the International Court of Justice Opinion on the Kosovo declaration of independence.

<sup>2</sup> IPA is the mean by which the EU has been supporting reforms in the enlargement regions providing both financial and technical assistance. The purpose of IPA is to help implementation of economic and political reforms and prepare the countries for rights and obligations following the EU membership.

business sectors. Furthermore, under IPA III and WB Guarantee Facility<sup>3</sup>, over the period 2021-2027, WB countries will have the opportunity to use up to 9 and 20 bln EUR funds respectively, to boost public and private investments, economic convergence, competitiveness and implement green and digital transition programmes (Economic and Investment Plan for the Western Balkans 2021-2027, WBIF, 2024).

The NGPWB is built upon 4 pillars:

1. **Economic integration with the single market.** This pillar aims to enable easier access of the WB companies and individuals to the EU single market. It focuses on the seven priority areas including:
  - Free movement of goods;
  - Free movement of services and workers;
  - Access to the Single Euro Payments Area (SEPA);
  - Facilitation of road transport;
  - Integration and de-carbonisation of energy markets;
  - Digital Single Market;
  - Integration into industrial supply chains
2. **Regional economic integration through the Common Regional Market.** The Common Regional Market means that economic cooperation in the WB region should follow the principles of the EU single market enabling free movement of goods, capital, services and people. Commitment to the common WB market will also be a precondition for reaping the benefits of the first pillar. The second pillar is related to the full implementation of the Central European Free Trade Agreement (CEFTA) adopted in 2006, under which only limited progress has been recorded so far.
3. **Fundamental reforms.** This pillar refers to acceleration of the reforms already incorporated in the negotiation framework and mainly associated with the judiciary, the functioning of democratic institutions, public procurement and anti-corruption. Progress in this area is often linked to implementation of politically unpopular reforms such as restructuring of the state-owned enterprises, enhancing efficiency of the judicial system, depoliticizing public administration, etc.
4. **Increased financial assistance through the Reform and Growth Facility for the Western Balkans.** This pillar includes details of the performance-based financial support that will be provided to the WB economies. About half of the envisaged financial support amounting to 6 bln EUR, including the entire grant allocation, will go to investments through already established Western Balkans Investment Framework (WBIF), while the rest will be directed to the national budgets.

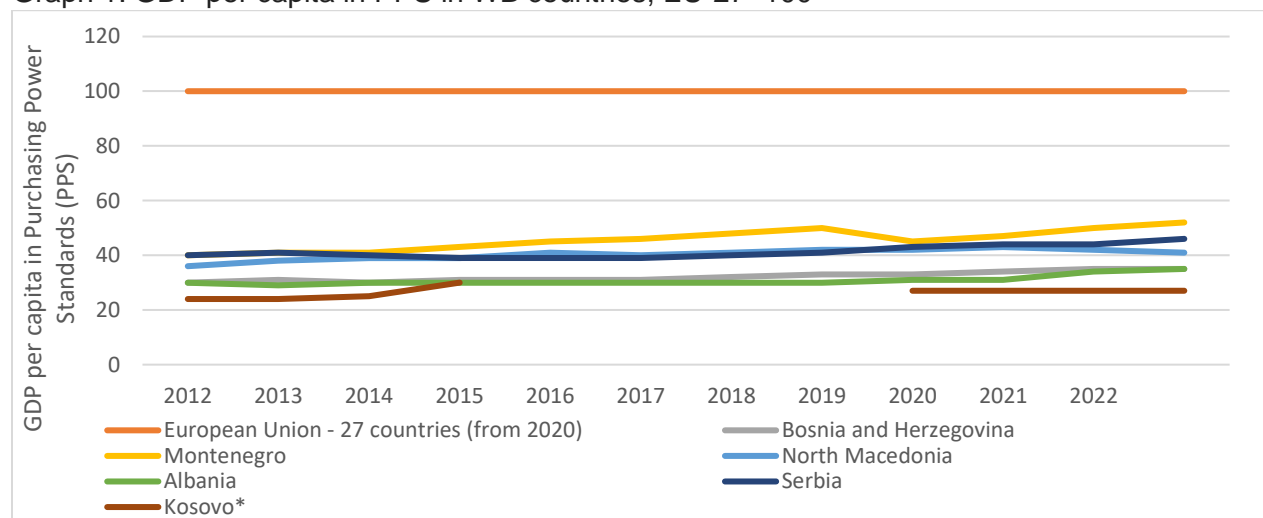
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<sup>3</sup> WB Guarantee Facility is a part of the Economic and Investment Plan for the Western Balkans (2021-2027) which helps attracting public and private investments in 10 selected priority areas including green transition, digitalization, good governance, etc. The purpose of the WB Guarantee Facility is to reduce both cost of financing and the risk for investors.

## A brief insight into the issues that the EU Growth plan aims to tackle

Given the already established accession framework, as well as active mechanisms of financial support including IPA III and WB Guarantee Facility, it is rational question to ask why the NGPWB and complementary financial injection is provided. While in the case of COVID-19, the support package aimed to offset the lock-down effects on small businesses, transport, tourism and other affected sectors as well as to support health system resilience, the NGPWB intends only to improve existing approach. There are two interrelated reasons which motivated the EU to provide additional push. The first one refers to challenges arising from the conflict between Russia and Ukraine which made the EU even more determined to bolster its strategic footprint and visibility in the WB region. The war has had noticeable impact on the EU growth which decreased from 3.6% in 2022 to only 0.6% in 2023. Growth in the Western Balkans also deteriorated from 3.4% to 2.4% (World Bank, 2024). The second argument refers to slow convergence of the WB with the EU. Although the region reduced the gap in GDP per capita at purchasing power parity over the last two decades for about 11 percentage points, now being at 38% of the EU average (Graph 1), if the trend continues, the full convergence will be achieved in about 5 decades (World Bank, 2024). The results presented in the Graph 1 also depict noticeable differences among the WB-6 indicating that Montenegro GDP account for 52% of the EU-27 average, while the Kosovo stood up at 27%. Additionally, less developed economies like Kosovo and Bosnia and Herzegovina grew at slightly higher pace if compared to Montenegro as the WB-6 top-performer.

Graph 1. GDP per capita in PPS in WB countries, EU-27=100



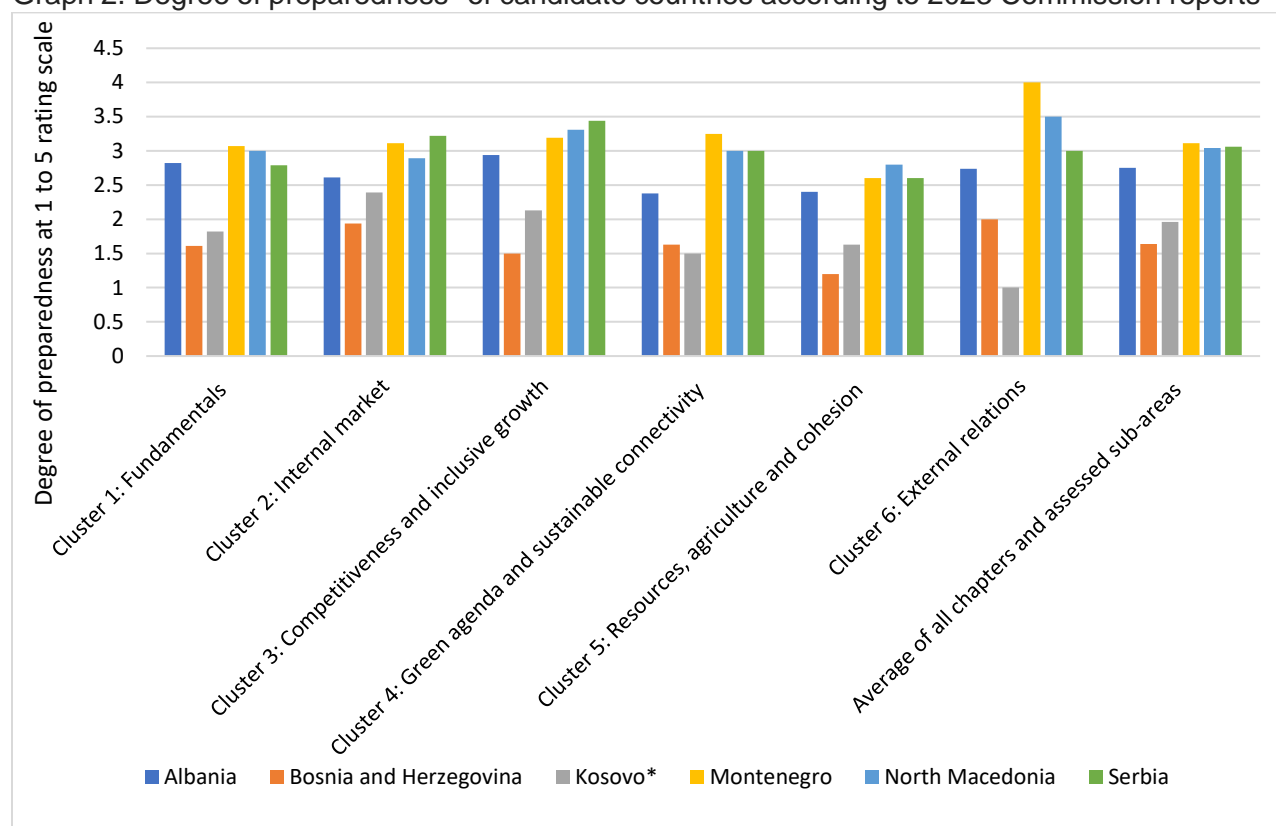
Source: EUROSTAT

\*\* Data for Kosovo extracted from the OECD Western Balkans Competitiveness Outlook 2024: Kosovo

It should be however noted that convergence is not only about the GDP but includes many other development aspects. According to the OECD Economic Convergence Scoreboard, prepared as a background for the Berlin Process WB Leaders' Summit held in Tirana in October 2023, WB-6 are proceeding relatively well in terms of improvement of the business climate mainly due to removing administrative barriers to global trade and investments, as well as achieving higher degree of openness. The weakest results have been identified under Skills component mainly referring to poor educational outcomes, low participation in informal training and lifelong learning,

and the lack of investments in research and development which stood at 0.5% of GDP in average, about 4.5 times lower if compared to the EU average. Recorded economic convergence trends occurred mainly as a result of rising employment and consumption rather than increased labour productivity and private investments. In addition to the increase of labour productivity, achieving convergence requires significant improvement in governance. Analyzing the EU Commission's annual assessments of a country's level of preparedness at 1 to 5 rating scale, with 5 considered "well advanced", Mihajlovic and Macek (2024) showed relatively low level of preparedness in fundamentals and resource management and a moderate result in the field of competitiveness and inclusive growth (Graph 2).

Graph 2. Degree of preparedness\* of candidate countries according to 2023 Commission reports



Source: Mihajlovic & Macek (2024).

\*1- Early level of preparedness for membership 2 - Some level 3 - Moderate level 4 - Good level 5 - Very advanced level

### Critical issues – the essence, size, limits and envisaged results of the New Plan

Albeit bringing optimism with regards to reviving the accession process, there is a noticeable criticism over the essence of the plan and the size of the envisaged financial injection. Praising the plan for imposing greater conditionality with regards to disbursement of funds and clarifying the common regional market as being step towards rather than alternative to the single market, Jovanovic is showing skepticism over the size of the financial support. He noticed that under the grant component of the program it will be injected about 500 mln in the entire region which is

around 0.3 - 0.4% of the annual GDP of WB-6. Croatia as the EU member, with a 4 times smaller population than the WB-6 countries in total, will receive about 6 bln within the NextGenerationEU fund solely, 12 times more in *per capita* terms (Jovanovic, 2024). Additionally, the focus of the plan is rather narrow since apart from freedoms of movement, it failed to address other important aspects of the regional market such as poverty, inequality, FDI attraction policy, healthcare and education system which also require common approach. Another source of criticism arises from its predominantly economic approach which to the large extent neglected the importance of integrating the WB countries into the EU institutions and decision-making process (Mihajlovic and Macek, 2024).

Over the medium to long term, the EU integration policies will have to take into account other important development aspects which, although being beyond the focus of the NGPWB, might determine the envisaged results. One refers to negative demographic trends which could represent an important limit for the achievement of the development objectives. According to the UN estimates, WB countries will lose about one third of the population resulting from low fertility rates and emigration (UN, 2024). Another issue represents losing enthusiasm about the EU integration process and potential rising euroscepticism of the local population. As per recent estimates of the Balkan Barometer, only 34% of the WB-6 population in average believed that accession would take place by 2030, a reduction of 7 percentage points since 2021 (Balkan Barometer, 2023).

## **Conclusion**

The proposed NGPWB including its financial mechanism, monitoring framework and conditionality, represents an impetus for the EU integration. Given its size and priority areas its potential effects are however limited, thus it should not be overvalued either in terms of economic outcomes or implementation of in-depth structural reforms. WB region needs more predictable and merit-based accession framework based on parallel political and economic integration processes. Otherwise, the EU support may even result with strengthening populist regimes who take the credits of greater economic integration and recorded GDP growth, while not being interested to work on improvement of the institutional efficiency and democratic governance mechanisms. This could be already noticed in the WB since recorded moderate economic progress has been hardly followed by institutional development. As argued by Zacharia (Zacharia, 2004), people sometimes tend to prioritize economic development and stability over democratic governance, and this could be the case in the WB countries. Similar frameworks in the future should have good governance and institutional capacities in the main focus insisting on rigorous public policy evaluations as important policy making concept.

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