

BALKAN BAROMETER 2022 - SPECIAL SECURITY EDITION

IMPACT OF THE WAR IN UKRAINE ON THE WESTERN BALKANS

PUBLIC AND BUSINESS OPINION



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PUBLIC AND BUSINESS OPINION

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INTRODUCTION

This Special Security Edition of the Balkan Barometer aims to explore perceptions of public opinion and businesses in the Western Balkans in view of the impact and consequences of the war in Ukraine. In this context, the report comes as a specific additional instrument along with other reports commissioned by RCC, such as the Balkan Barometer and SecuriMeter, the objective of which is to provide updated information on citizens and/or business perceptions across a wide array of policy areas pertinent to the Western Balkans. By collecting and analysing perceptions, these reports are complementary tools for understanding and analysing developments in the region, including on Common Regional Market (CRM) and the Green Agenda for the Western Balkans (GAWB). This special report is focusing on exploring and assessing some of the key features of resilience in the Western Balkans, in specific relation to the impact and consequences of the war in Ukraine. In terms of its structure and methodology, in addition to an opening section on main findings, the report consists of two main parts: Public Opinion Survey with 3,000 participants from Western Balkan economies with 32 posed questions; and Business Opinion Survey - a survey of business perceptions in each of the Western Balkan economies with a total of 600 companies, and a total of 24 questions.

More specifically on public opinion, the report provides an analysis of public responses regarding the perceived risks from the war for their economies, potential instabilities and concerns for their resilience. Decisions taken by public authorities in the region regarding their economies' positioning towards the war and measures taken to cope with consequences are also thoroughly discussed based on data collected from the survey and additional research work. In addition to analysing important components of the impact in the region, such as inflation and energy security, the report focuses also on other related threats such as disinformation and cyberattacks, which have been present across the region in 2022.

Global economy and business operations have been affected and disrupted in the aftermath of the war. In the business opinion survey, the Western Balkan region companies have been asked to provide detailed responses regarding specific consequences, including perceived risks, economic losses, supply chain disruptions, shortages of raw materials, etc. Another important section of this part of the report relates to measures undertaken by public authorities to help and support businesses in coping with the impact of the war and how each of them can contribute in terms of effectiveness. Measures explored are tax exemptions, aid for gas and energy prices, investment in renewable energy, finding new markets for raw materials, etc. Long-term economic implications for business operations are also unpacked and discussed, aiming to grasp perceptions of companies' representatives regarding future concerns.

Coming at more than one year after the start of the war, the report tries to provide a comprehensive picture of the impact experienced, and threats perceived by Western Balkan societies (citizens and businesses). Annex III provides a complementary economic overview of the present situation in the Western Balkans through a number of economic data, with particular focus on economic consequences the war in Ukraine had and continues to have on the region. By complementing the

analysis and findings with additional desk research, the report could be useful for decision makers, scholars, researchers, and other active members of societies of the region. More specifically, findings of the report can provide a good basis for designing and elaborating policy measures to cope with challenges and risks faced by the region.

MAIN FINDINGS

The war in Ukraine has had considerable impact on the Western Balkan economies in a variety of aspects. More than 66% of respondents from the region believe that the war has put their economy at risk. Despite slight differences amongst economies, there is a general perception that the war has endangered stability in the region.

Economic impact of the war is perceived as the biggest concern, shared by 77% of survey participants. Security of food and gas worries 63% of Western Balkans respondents, who state that they fear shortages and increase in prices of primary goods.

Regional integration is a good strategy to strengthen resilience of economies in the war context. Extensive support has been registered amongst respondents for regional integration at 83%, as a useful path to cope with war implications. Regional integration is seen as a more efficient strategy even than increased cooperation with the EU and NATO (which stops at 70%).

Independence from Russian oil and gas is crucial for Western Balkans respondents. In relation to energy security, there is a broad consensus amongst the respondents from all economies that efforts should be increased to reduce dependence on Russian oil and gas, with an overall share of 73% supporting this statement. Remarkable support is also given to the strategy of investing in renewable energy (86%) to avoid energy threats in the future.

As per the economic sanctions against Russia, respondents from the region are divided in two distinctive groups. In economies such as Serbia and Bosnia and Herzegovina, a large majority opposes sanctions, whereas participants in Albania and Kosovo* are the strongest supporters. North Macedonia maintains a general neutral position towards the war and the sanctions package. The same attitude on sanctions is registered amongst businesses in the region. When it comes to economic sanctions against Russia, businesses of the region are quite divided. Companies from Albania and Kosovo* are firmly supportive of imposing sanctions (70% and 71%, respectively). Serbia and Bosnia and Herzegovina businesses are opposed to such actions (79% and 59%, respectively), considering more intense economic exchanges they have with Russia compared to other economies. Though providing clear support to the sanctions' packages, Albania and Kosovo* companies are at the same time the ones complaining most about damages suffered due to the sanctions (70% and 71%).

Fake news and disinformation after the start of the war in Ukraine have increased considerably, according to 78% of respondents, listing it as an important concern. When asked about sources and channels of information they consider reliable, traditional media (domestic and western) registers the highest support with 31%. This trust is particularly high in Kosovo*, where two-thirds of participants express their positive stance on traditional media. On the other hand, social and digital media are reputed as least reliable, especially from Albanian respondents.



* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

Cyber security is a major threat for the region, following the war in Ukraine. For 57% of respondents from the region cyber threats have increased in the last year. This perception is particularly high in Albania (78%), which also reflects the consequences of the massive cyberattacks experienced during 2022, when all government e-services shut down. Half of the Western Balkan respondents (more in Albania) consider public authorities not to be prepared for cyber threats.

Energy and food prices are the biggest consequences for businesses of the region. Two-thirds of the business community representatives in the Western Balkans perceive the war as very risky for their economic activities. Around 38% of respondents expect revenues to go down in the forthcoming period due to the war. Some of the most impactful consequences of the war for businesses of the region include the increase in energy prices (84%), cost of transport (78%) and food prices (70%).

As in the public opinion part of the survey, businesses of the region are divided in two main groups based on their attitude towards the war. On one side, businesses from Bosnia and Herzegovina and Serbia appear to be most immune to the war impact on losses, with around two thirds of respondents claiming they have not had such experience. The second group of economies registers more concerns in terms of economic and financial losses, starting from Montenegro with 61% of companies reporting losses, up to 87% of companies in Kosovo*. Albania and Kosovo* have also the highest share of businesses which claim to have experienced a great deal of losses (63%), with only 1% of companies in Kosovo* stating that they have had no effect (against 49% of Serbia and 33% of Bosnia and Herzegovina with no effect).

Other important repercussions in the region include difficulties in securing raw materials. While almost 4 out of 5 Albanian companies express having encountered difficulties with securing raw material, 3 out of 4 Serbian companies claim not to have had any problems. Shortage of labour and higher costs have also been important effects of the war in case of Albania (94%) and Kosovo* (80%).

Strategies for coping with war implications and risks should focus on fiscal measures and, in the long-term, invest in renewable energy, which is favoured by large majority of companies (72%) across the economies. On the other hand, when asked about short-term measures needed, businesses in the region favour tax exemptions (89%) and tax support for renewable energy (89%). Companies in the region manifest overall hesitation to integrate Ukrainian refugees in the labour market, with one-third claiming that it would have no impact on mitigating war effects. However, businesses of two of the economies, Albania and Bosnia and Herzegovina, disagree in this regard, with 79% and 57%, respectively, stating that this measure would benefit their economies.

Security of digital infrastructure is perceived at high risk by 80% of Albanian companies, 56% in Montenegro, and 52% in Kosovo*. On the contrary, 62% of businesses in Bosnia and Herzegovina and 57% of Serbian companies believe that there is no risk. At the regional level, businesses manifest a low level of awareness regarding cyber threats and the necessity for investing in cyber security, with only one-fourth stating to have planned such investments.

Finally, when asked about long-term implications of the war in Ukraine for their economic activities, businesses fear mostly a long-lasting inflation (62%), increase in general costs (62%), labour costs, supply chain disruption and slow economic recovery. A positive expectation was reported by the tourism sector, with the majority of companies expecting little or no negative impact in the long-term.

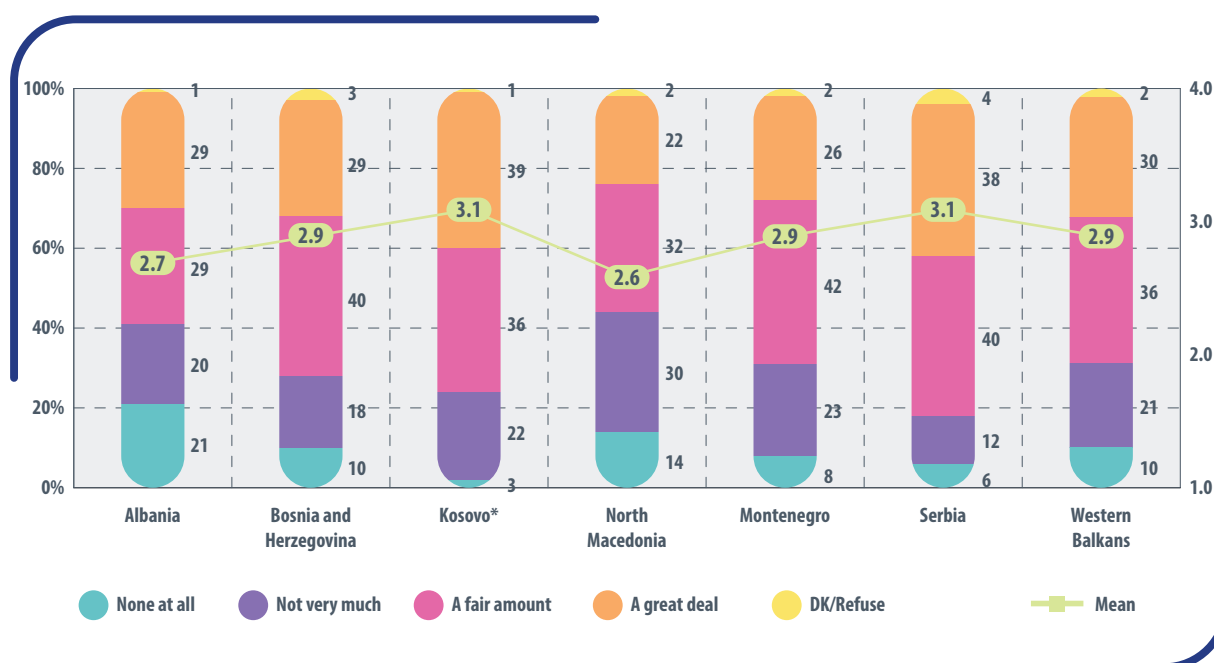
PART I. PUBLIC OPINION



As the data from this section will show, the war in Ukraine and its repercussions have considerably affected perceptions of respondents in the Western Balkans regarding threats and risks for them. About 66% of survey participants claim the war poses some level of risk for their economy. On the other hand, almost one third of them perceives low or no risk. It is important to notice some differences amongst the economies in this regard, which are consistent throughout the report. Respondents with the higher incidence of perceiving high risk are recorded in Kosovo* and Serbia, with 39% and 38% respectively (75% and 78% overall risk perceived, respectively). Higher perception of risk in these two economies could be linked to the highly sensitive matter of unsolved disputes, which often cause tensions, such as the vehicle plate impasse during 2022. The survey might have also grasped the tense situation existing in the fall of 2022 between the two, which lead to a temporary worrisome escalation at the end of the 2022 in the northern part of Kosovo*. Perceived tension is also the causal factor for the case for Bosnia and Herzegovina, which follows in third place (with 69% of respondents identifying risks for their economy). Another factor that might explain the higher concerns in these three economies, compared to the rest of the region, could also be the nature and motives of the war in Ukraine. They might fear the spill-over due to the links and/or similarities perceived in their own contexts.

Figure 1. What level of risk do you think the war in Ukraine poses to economy?

(All respondents, N=3000, scale from 1 to 4, share of total, %, mean)



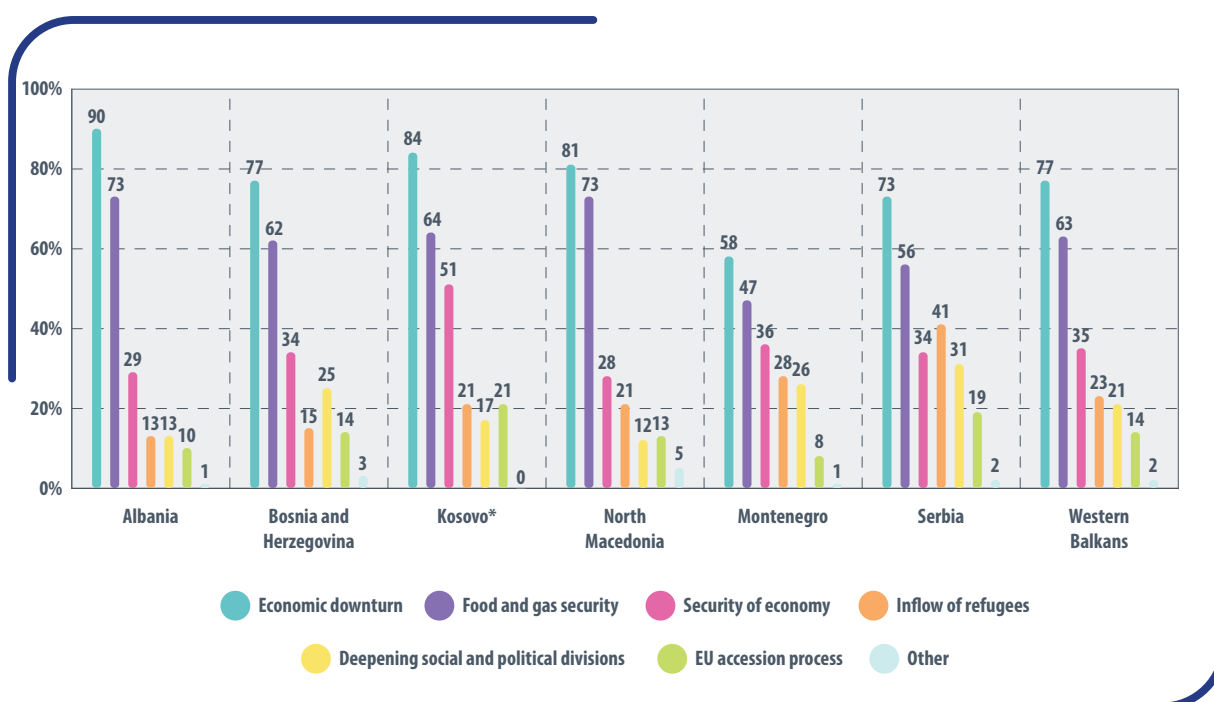
Most of Western Balkans respondents (77%) fear economic impact as the main source of concern from the war. Since the war started, most of the economies were suffering economic consequences during 2022, especially in terms of increase in prices of goods. In addition, 63% of respondents identify security of food and gas as the second most important concern. Other perceived effects are overall security of economy (35%) and inflow of refugees (23%). Concerns of economic downturn and food and gas security are particularly high in Albania (90% and 73%, respectively), while they are lowest in Montenegro with 58% and 47%. Though at the beginning of the conflict in February and March 2022 there were few concerns for cereal imports in the region (especially in Albania), these perceived fears

are not generally based on effective shortage or lack of gas or goods. They might be explained as indirect impact of price increase and instability throughout 2022.

Overall inflation in the Western Balkans has been considerably higher than in the EU (approximately 16% and 10%, respectively, according to Eurostat and IMF calculations¹) with food and gas prices being put in the spotlight as important contributors to this increase. Montenegro is mostly affected through its tourism sector, which accounts for 22% of GDP, and because tourists from Ukraine and Russia together make 20% of total visitors (in 2021).

Figure 2. What do you think is the most worrisome effect the war in Ukraine has on [Economy]?

(All respondents, N=3000, multiple answers, share of total, %)



Almost half of respondents (48%) believe that there is no possibility that the war in Ukraine could implicate their economies into more instabilities or even war. Though answers are quite similar across economies, a relatively higher optimistic perception is present in North Macedonia (58%), as the youngest NATO member. This slight difference in North Macedonia could be explained by the overall stance that political community has assumed in the public discourse with the aim of dismissing any public concerns for potential conflict in the region.² Several public declarations were heard in 2022 along these lines. On the other hand, figures are at lowest levels in Kosovo* and Serbia where half of respondents (51% and 50%, respectively) predict potential spill-over of the conflict to their economies. As explained above, this is due to the existing issues between the two economies and the events of 2022. Some of the politicians in these two economies and in others (see Albania and Bosnia and Herzegovina) have used the conflict to bring more attention to the region from the EU and international community, expressing fear for an expansion of conflict. This attitude might have influenced public perception in this regard.

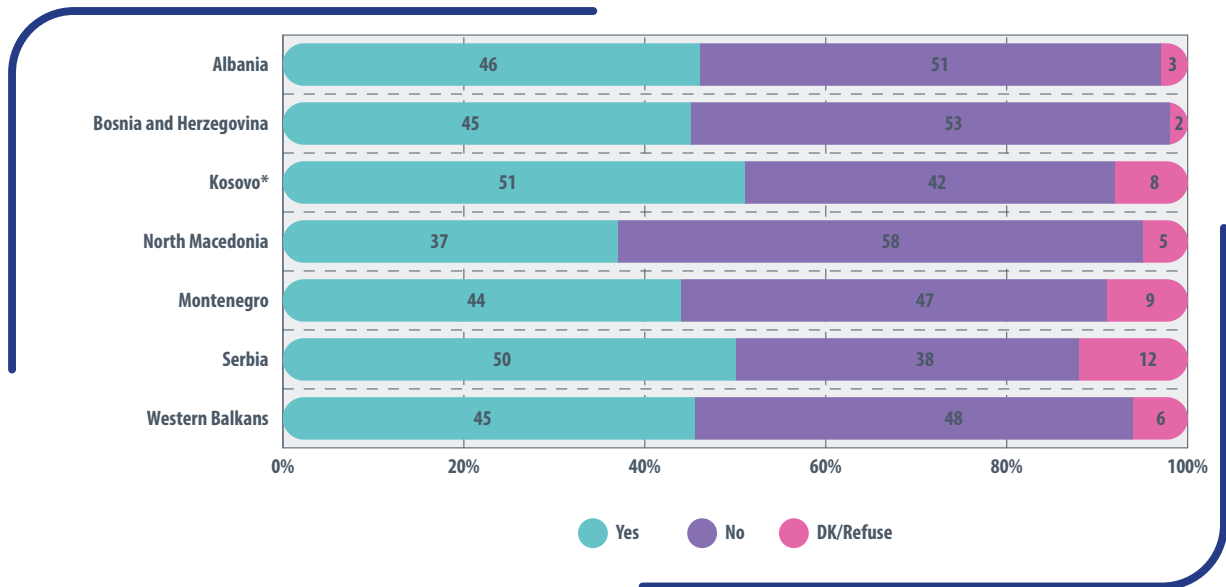
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1 IMF. [Inflation dynamics in the Western Balkans](#), Working paper no. 2023/49. (2023).

2 EurActiv. North Macedonia FM says we should not be worried by conflict in Balkans. (2022). https://www.euractiv.com/section/politics/short_news/north-macedonia-fm-says-we-should-not-be-worried-by-conflict-in-balkans/

Figure 3. Do you think it is possible that the war in Ukraine can cause instabilities or even war in [Economy]?

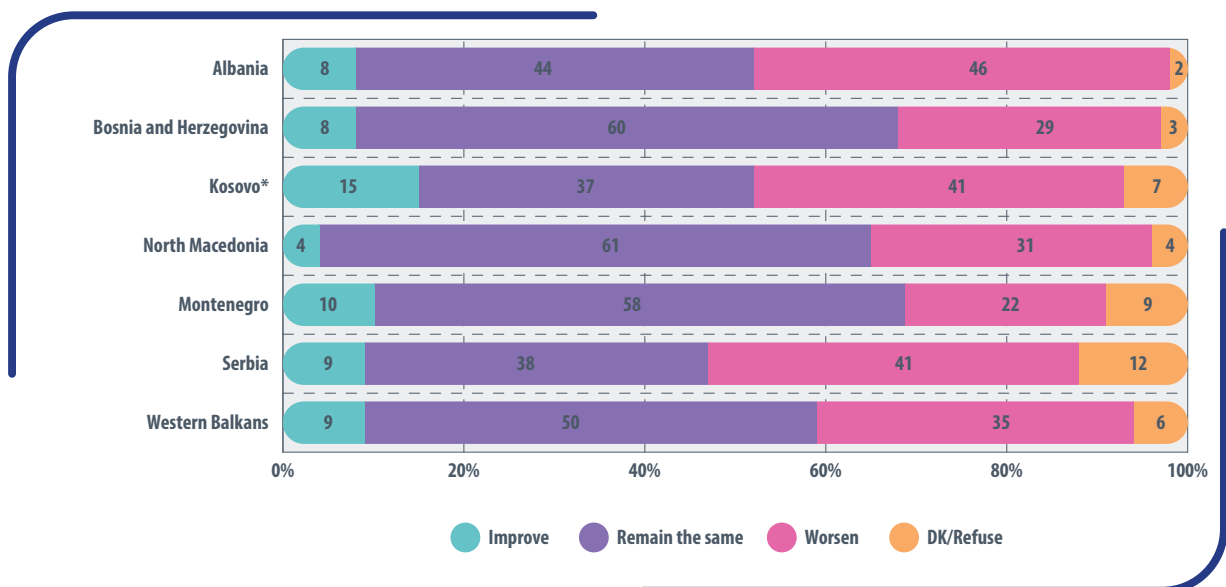
(All respondents, N=3000, share of total, %)



Half of respondents in the region believe that security resilience of their economy will remain the same if the war does not end soon. North Macedonia (61%), Bosnia and Herzegovina (60%) and Montenegro (58%) are at the top of the perception that security resilience will preserve its status quo, even if the war does not end this year. On the other hand, respondents from Albania are more pessimistic, with 46% claiming that resilience will worsen. Public perception of economic performance in Albania is somehow worse than in other economies, which is reflected in several responses throughout this survey. This perception could also be connected with the new waves of mass emigration affecting Albania in 2022 (according to Eurostat, Albanians were at the first place for seeking asylum in the EU and UK together, in 2022).

Figure 4. In case the war in Ukraine does not end within this year, do you expect the security resilience of [Economy] will:

(All respondents, N=3000, share of total, %)

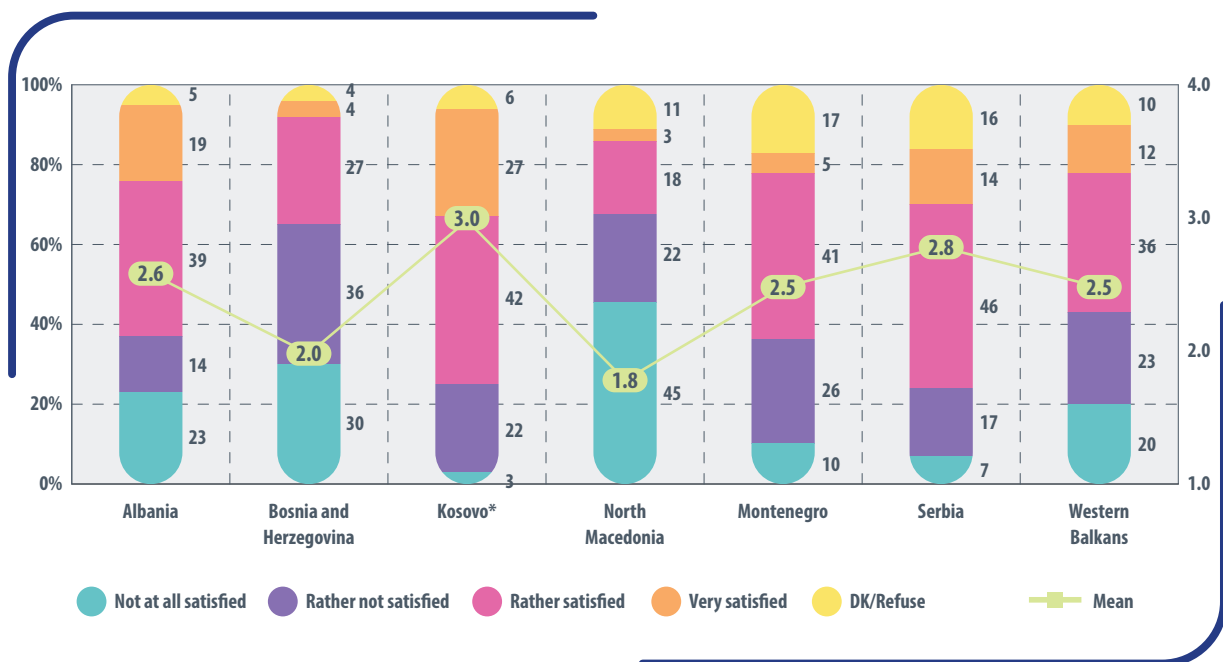


The way public authorities in each economy react to the war in Ukraine is an important component that directly affects respondents' perception of security. Regarding this component, Western Balkans respondents are quite divided in their opinions. Almost half of them (48%) are generally satisfied with the reaction of the authorities, while others, at a share not far from the former (43%) do not believe that their public authorities have done a good job in this situation. While at regional level figures between the two groups are quite close, considerable differences could be observed when comparing between economies. As expected, increased tensions during 2022 have mobilised the public opinion in support of their authorities' decisions in Kosovo* and Serbia. Direct perceived risks and threats could have an effect of making respondents more compact in their positions, expressing support for their respective authorities. As a result, though authorities of these economies have maintained quite different stances towards the war, public support has followed in both.

More specifically, more than two thirds of respondents in Kosovo* are generally satisfied with the way their authorities have reacted, and 60% have expressed same support in Serbia. On the other hand, least satisfied respondents are in North Macedonia where 45% are not at all satisfied with their authorities. Only 21% of respondents in this economy express some level of satisfaction in this regard. The impact in North Macedonia has been quite heavy and according to IMF, external price pressure has been higher in North Macedonia than in other economies in the region. In addition, the current ruling coalition in this economy has seen a weakening of public appreciation and support in terms of general policymaking. The decline in government popularity has been registered in other studies and reports³, with almost 60% of population claiming that the economy is going in the wrong direction and only 11% would vote for the ruling party at the end of 2022.

Figure 5. To what extent are you satisfied or dissatisfied with the way the authorities of [Economy] have reacted to the war in Ukraine?

(All respondents, N=3000, scale from 1 to 4, share of total, %, mean)

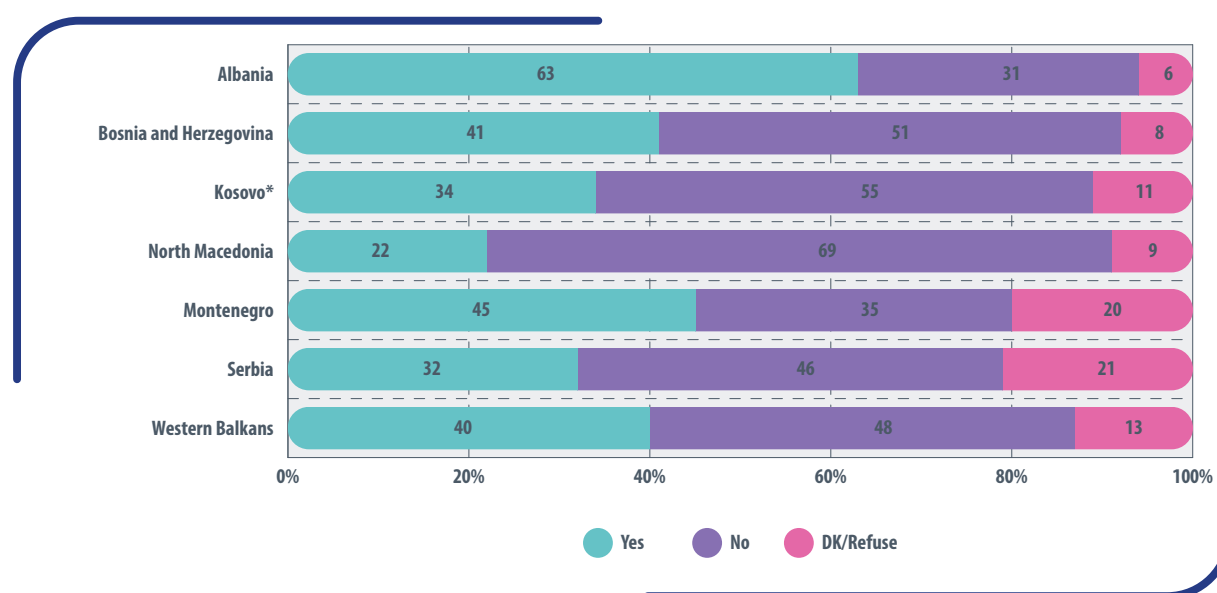


³ International Republican Institute. IRI North Macedonia Poll Finds Dissatisfaction with Country's Direction, Support for EU Membership, Increase in Positive Perceptions of Turkey and China. (2022). <https://www.iri.org/news/iri-north-macedonia-poll-finds-dissatisfaction-with-countrys-direction-support-for-eu-membership-increase-in-positive-perceptions-of-turkey-and-china/>

Another important question citizens of the region have been asked was related to the necessity of increasing military spending. Given the prolonged war in Ukraine and the perceptions on a potential involvement of other regions in the conflict, 40% of respondents from the Western Balkans express support for increasing military spending, while almost half (48%) oppose such action. The economies present quite diverse picture when compared to each other. Differences appear mainly accentuated between Albania and North Macedonia.

Figure 6. Do you think that the governments in the Western Balkans should boost military spending as an answer to the war in Ukraine?

(All respondents, N=3000, share of total, %)

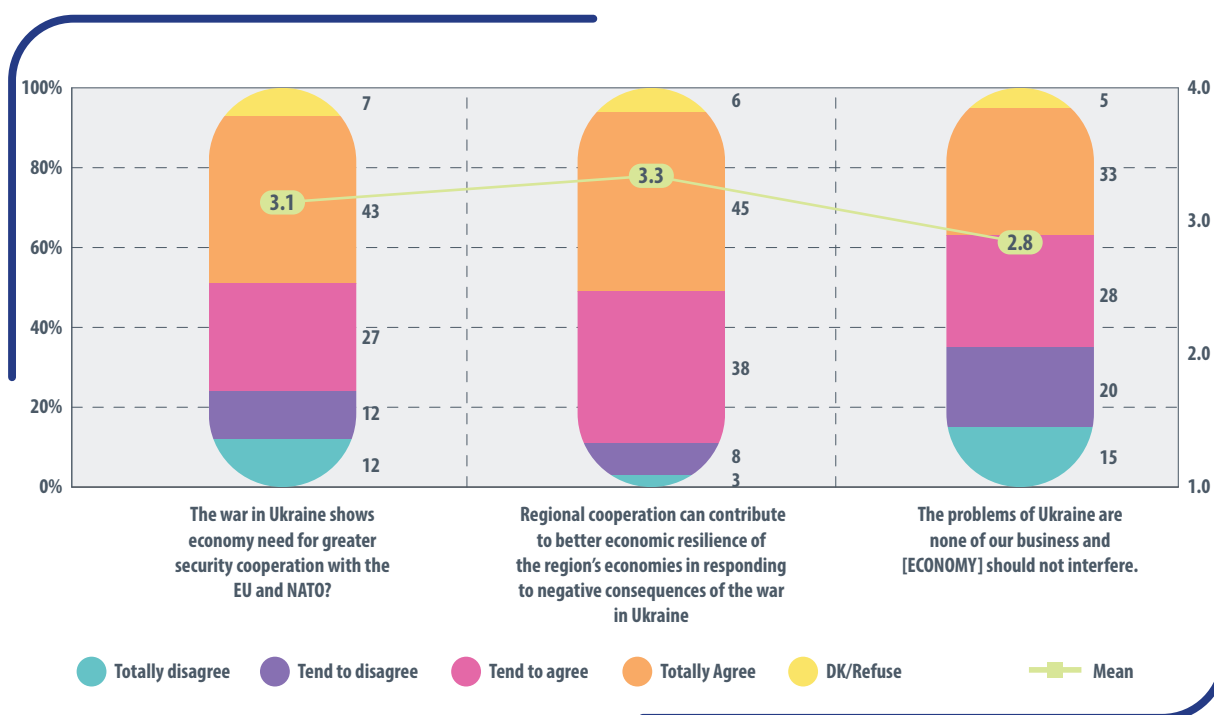


Respondents' attitude towards external cooperation and involvement is another important aspect regarding the impact of the war. Responses show large support for regional integration, with 83% of Western Balkans respondents claiming that economic resilience of the region can be improved by cooperating and integrating with each other. This would also help in facing negative consequences of the war. **In this context, regional cooperation is considered even more important than increased cooperation with the EU and NATO (70% in support).**

On the one hand, this might be linked with a perception of some respondents regarding the EU enlargement fatigue and of some others of not being NATO members. On the other hand, the risk of an expanded conflict seems to provide incentives for strengthening ties and relations in the region to help mitigate risks. This large support for regional integration above other agenda on increasing resilience is also due to the historical context and recent developments in the region, in particular the armed conflict happening not more than 25 years ago. In line with this attitude, it is relevant to note that a considerable majority of respondents (61%) favour a more neutral stance of the region, stating that the war is not an issue that the region should somehow interfere with.

Figure 7. To what extent do you agree or disagree with each of the following statements? Western Balkans

(All respondents, N=3000, scale from 1 to 4, share of total, %, mean)



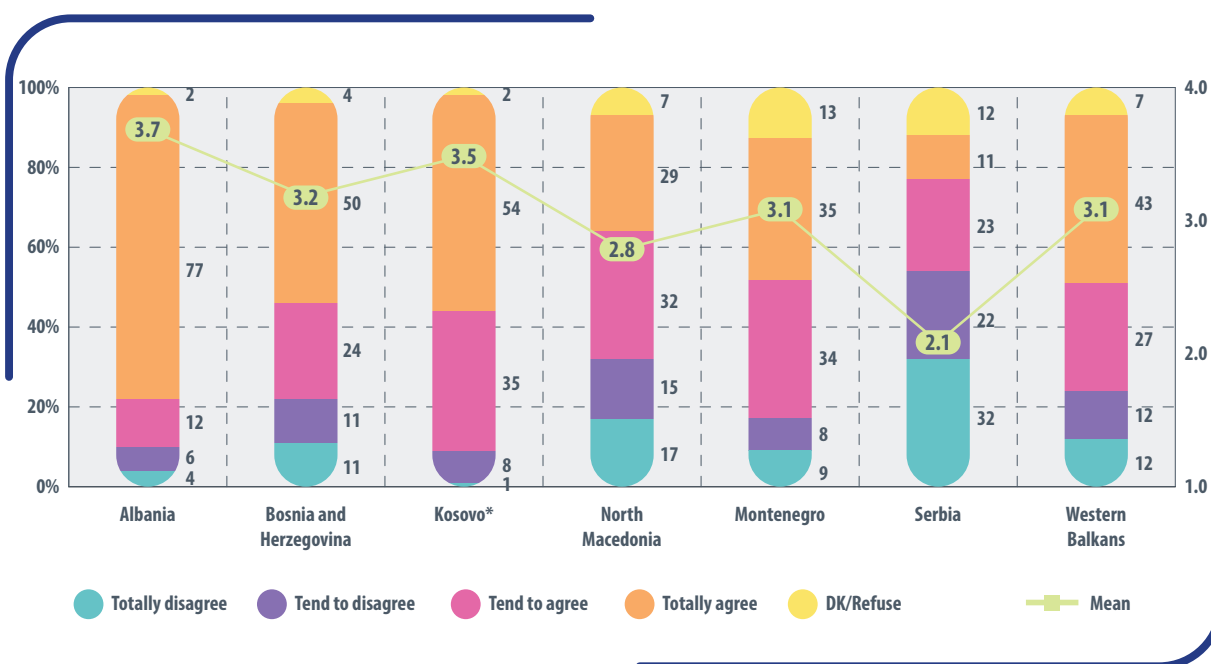
Respondents from Kosovo* and Albania are the ones showing stronger support for increasing cooperation with the EU and NATO, with 89% and 80%, respectively. Apart from the historical context behind this result, it is also in line with the overall orientation and alignment of these two economies in relation to NATO and the EU Common Foreign and Security Policy. As confirmed in the European Commission 2022 Report, Albania remains fully aligned in this area having reached a good level of preparation (which can be observed only in Montenegro, both economies being at the highest level of preparation in the region for Cluster 6). As a non-permanent member of the UN Security Council, Albania is praised in the report for its positions and for actively engaging in promoting and defending the rules-based international order, especially in the context of the war in Ukraine.⁴

On the other hand, this statement has been opposed by most respondents in Serbia (54%), followed by North Macedonia (32%). Serbia's position during the war and the resistance towards imposing sanctions against Russia is also reflected indirectly in the answers to the posed question. Only 11% of Serbians fully agree that cooperation with NATO and EU should increase, against 77% of respondents from Albania.

4 European Commission. Albania 2022 Report. (2022). <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Albania%20Report%202022.pdf>

Figure 8. To what extent do you agree or disagree with each of the following statements: The war in Ukraine shows economy need for greater security cooperation with the EU and NATO.

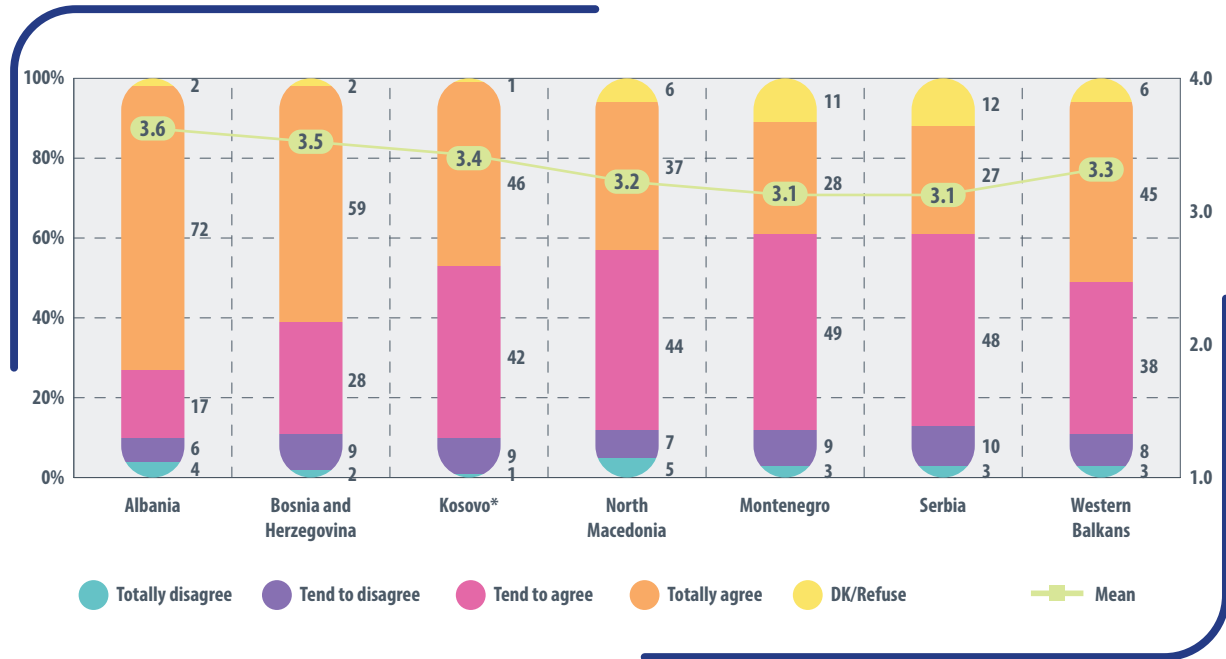
(All respondents, N=3000, scale from 1 to 4, share of total, %, mean)



Differently from the responses on the EU and NATO, regional cooperation is strongly praised across all economies, going from an overall support of 75% in Serbia to 89% in Albania. This positive perception of the importance of good neighbourly relations and increased integration is an important reflection in trying to understand how they see economic resilience. Respondents who disagree with the statement on regional cooperation are also at a similar (low) level across economies, ranging from 10% to 13%. These results suggest a very encouraging message and a good momentum for pushing forward with the regional integration agenda. These perceptions take stock of the considerable developments that have taken place in the context of regional integration, including the Berlin Process and EU-Western Balkans Summits. Beyond the display of political engagement by the EU and economies of the region, there have also been tangible results that affect people's lives. Some of these achievements include the approval of Green Lanes, signing of the three agreements in the area of Free Movement of People under Common Regional Market (namely the agreements on Freedom of Movement with Identity Cards, Recognition of Higher Education Qualifications and Recognition of Professional Qualifications for Doctors of Medicine, Dentists and Architects) at the Berlin Process Summit in November 2022, and EU-WB Roaming Declaration, signed at the EU-WB Summit in December 2022. With the regional integration agenda moving forward and having a direct impact on the lives of citizens across the region, positive perceptions increase in relation to the response and resilience regarding the war in Ukraine.

Figure 9. To what extent do you agree or disagree with each of the following statements: Regional cooperation can contribute to better economic resilience of the region’s economies in responding to negative consequences of the war in Ukraine.

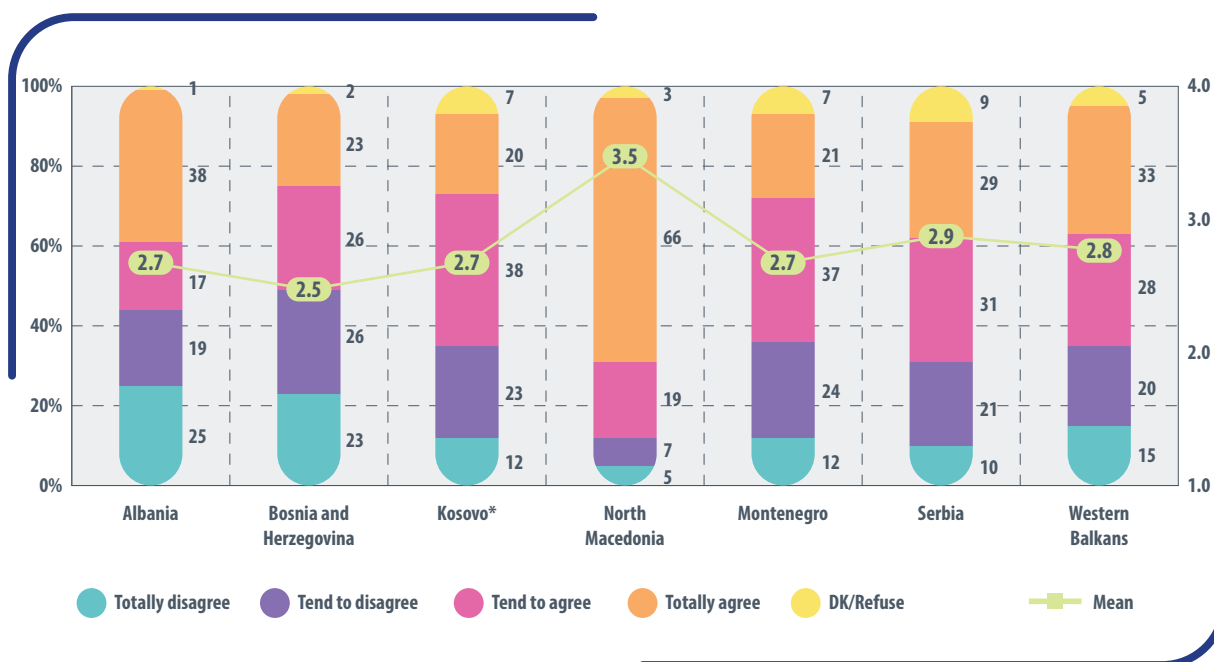
(All respondents, N=3000, scale from 1 to 4, share of total, %, mean)



When asked about the extent to which the situation in Ukraine should become a concern for their economy in such a way to require interference, respondents from the Western Balkans are quite sceptical and hesitant. Only one third disagree with the statement, advocating for some form of engagement with the current situation. The highest number of respondents who claim that the Ukraine war is their economy’s concern is Bosnia and Herzegovina (49%), followed by Albania (44%). On the contrary, North Macedonia registers a strong majority of persons maintaining quite a neutral or distanced position on the Ukraine situation, claiming they should not interfere. 66% of respondents in North Macedonia fully agree with this statement, while another 19% tend to agree. Therefore, 85% of respondents does not consider the war to be their economy’s concern. Having recently joined NATO, respondents of North Macedonia might perceive potential conflicts as tied to their commitment under the alliance and not as a matter concerning their economy individually.

Figure 10. To what extent do you agree or disagree with each of the following statements: The problems of Ukraine are none of our business and [Economy] should not interfere.

(All respondents, N=3000, scale from 1 to 4, share of total, %, mean)



The approach of North Macedonia respondents towards the war and its required actions is also confirmed by the following figure. Economic sanctions against Russia were undertaken at the early stages of the war by all the economies, which condemned its actions, with the US and the EU member states at the forefront. Some of the economies of the region reacted quite promptly joining the sanctions' package immediately, in a few days space, such as Albania, Kosovo*, North Macedonia and Montenegro. In case of Serbia, sanctions were not imposed, though the Serbian government adopted the conclusions of the "National Security Council", declaring that they respect the territorial integrity of Ukraine.

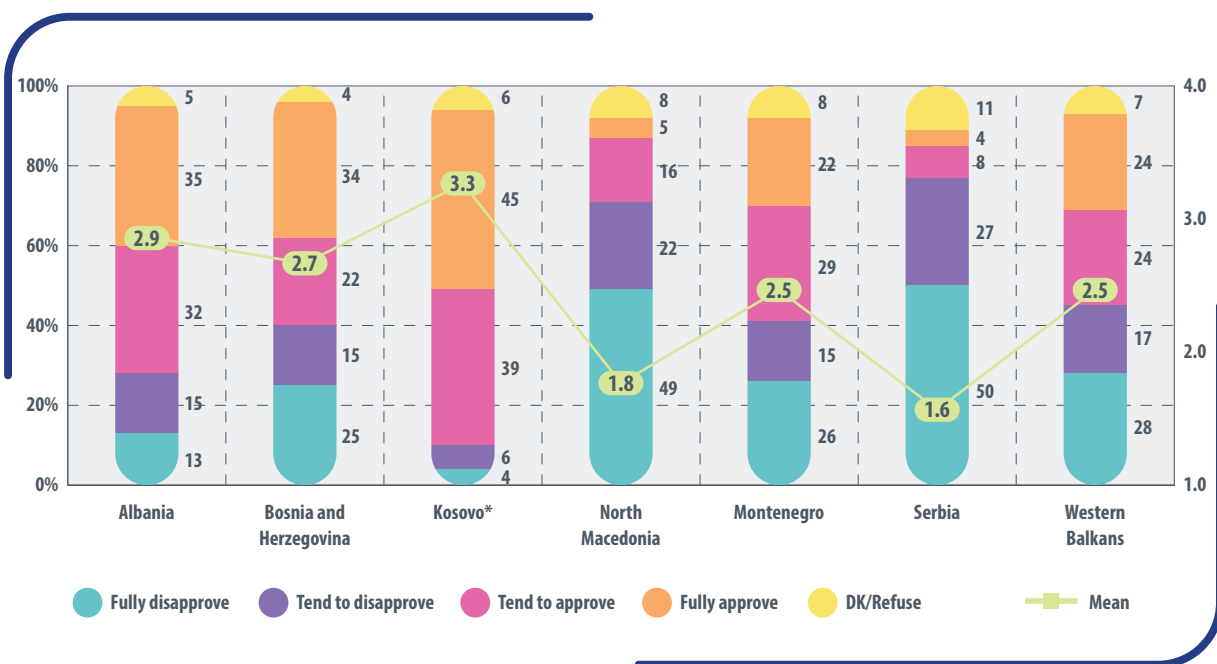
Despite the sanctions and the positioning of the region's governments, there is a difference grasped in the respondents' answers regarding economic sanctions. The firm stance of political authorities is not entirely matched with people's perceptions, who might have suffered the consequences of economic sanctions during 2022 through increased prices of consumption goods imported from Russia and Ukraine (mostly cereals, oil, gas, etc.). The biggest difference is registered between economies, in particular amongst the respondents of Kosovo* and North Macedonia. Around 84% of Kosovo* participants expressed overall support for economic sanctions against Russia. Economic relations between the two are at a very low level, hence the impact from sanctions has not been directly perceived by Kosovo* respondents. In addition, this strong support might be fuelled by additional reasons connected to the relationship history of Kosovo* with the US and the one of Serbia with Russia. On the other end of the spectrum, North Macedonia respondents once again demonstrate their reluctance towards involvement in the disputes regarding the war. About 71% of them are against the imposition of economic sanctions against Russia. Almost half of respondents strongly oppose this decision. Though authorities of North Macedonia joined quite early the package of sanctions⁵ and even provided tanks⁵ and ammunition to Ukraine, citizens have a different stance.

5 Reuters. North Macedonia donates tanks to Ukraine as it modernises own military. (2022). <https://www.reuters.com/world/europe/nmacedonia-donates-tanks-ukraine-it-modernises-own-military-2022-07-29/>

This is also validated by other surveys and studies implemented in the same period, where 63% are against the sanctions.⁶

This considerable divergence of opinions and positions between the people and public authorities is unique in North Macedonia, when compared to the other economies of the region. This result is indirectly substantiated by the declining support and trust in public authorities, registered at the end of 2022 in North Macedonia.⁷ The political developments and perceived instability of the recent years might have affected the overall positions of respondents towards decisions of their public authorities. Less than a third of youth in this economy believe that they are going in the right direction⁸, while some disappointment can be registered towards international community. While these perceptions are not unique to North Macedonia solely, the existing gap and detachment between respondents and public authorities regarding this matter is quite important. This might affect decision-making capacities of public authorities, and positioning in regional and international affairs in the near future. In view of the parliamentary elections in North Macedonia next year, this divergence and these topics might be exploited by political parties for election purposes.

Figure 11. To what extent do you approve [Economy] joining economic sanctions against Russia?
(All respondents, N=3000, scale from 1 to 4, share of total, %, mean)



Two thirds of respondents of the region are firmly against providing weapons to Ukraine as a form of support in the current war. The highest number of people sharing this position can be found in Serbia where 87% oppose sending weapons to Ukraine, followed by North Macedonia with 81% (though as explained, the North Macedonia government already sent tanks). Only 3% of Serbians are in favour of sending weapons. Albanian respondents are on the opposite side of this position, demonstrating

6 China-CEE Institute. North Macedonia external relations briefing. (2022). https://china-cee.eu/wp-content/uploads/2022/12/2022er11_North-Macedonia.pdf

7 WFD. Youth in North Macedonia: Optimism, Apathy or Disappointment. (2022). <https://www.wfd.org/what-we-do/resources/youth-north-macedonia-optimism-apaty-or-disappointment>

8 *ibid.*

once again their stance towards the war. More than half (56%) deem sending weapons to Ukrainian military acceptable while 40% oppose this decision. In the remaining economies, the portion of respondents in favour of sending weapons ranges between 21% and 27%. The region appears divided in this matter, presenting similar attitudes and positions to the EU member states' public opinion. As an example, more than 50% of Italians are against sending weapons to Ukraine, while in Hungary this group reaches 76%. In favour of sending weapons is 47% of Germans, 42% of Romanians and 60% of Spain respondents.⁹ Domestic politics, historical relations and context determine a variety of positions throughout the EU, as for the Western Balkans too.

Figure 12. Would you support [Economy] providing weapons to the Ukrainian military in response to the current situation in Ukraine?

(All respondents, N=3000, share of total, %)

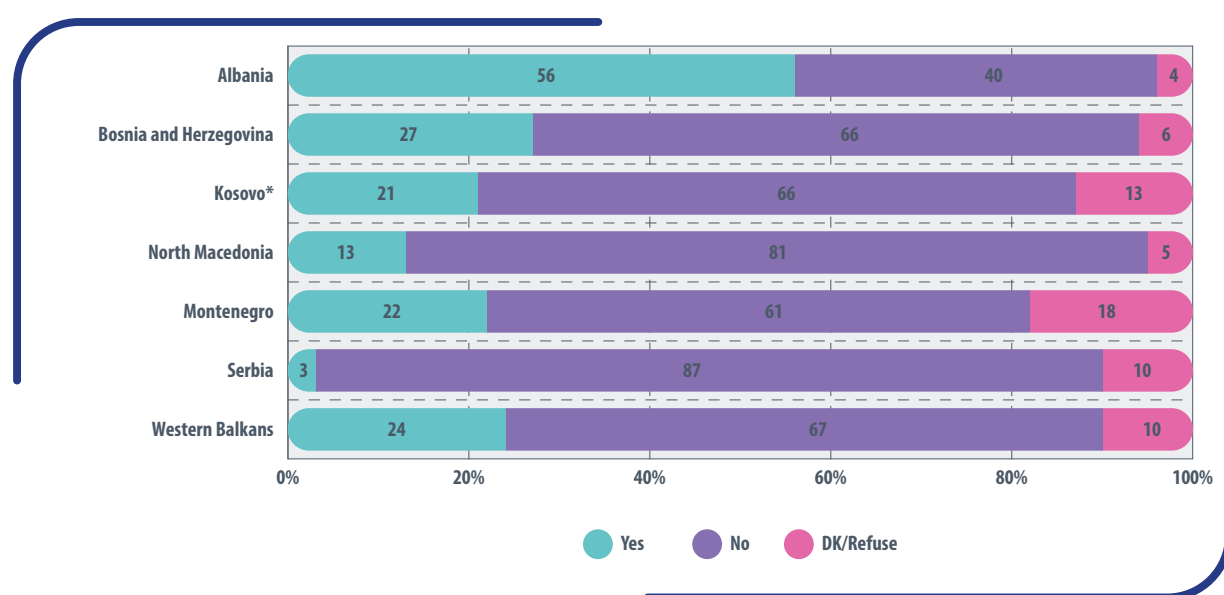


Figure 13 provides perceptions of respondents on several potential consequences of the war in Ukraine in their own economy. There is a broad agreement amongst Western Balkans respondents (92%) that their purchasing power has deteriorated due to the shortage of energy supply and the raise of food prices. Almost 85% believe also that these two factors have had a considerable impact on security and political instability in their economy. The risk of energy supply shortage has been high in North Macedonia and Kosovo*. However, in general, these concerns have not been substantiated by the developments during 2022. The Western Balkans energy supply is largely dependent on fossil fuel, except for Albania which relies mostly on hydropower plants.¹⁰ Energy prices have increased considerably throughout the region, especially in Bosnia and Herzegovina and Kosovo*, reaching almost 25%.¹¹ In addition to energy shortage, perceptions on food prices are also based on factual figures. Inflation in this sector has been double-digit across the region, with highest peak in Montenegro, North Macedonia and Bosnia and Herzegovina (all around 20% of inflation in food

⁹ European Parliament. Public opinion on the war in Ukraine. (2023). <https://www.europarl.europa.eu/at-your-service/files/beheard/eurobarometer/2022/public-opinion-on-the-war-in-ukraine/en-public-opinion-on-the-war-in-ukraine-20230316.pdf>

¹⁰ European Council on Foreign Relations. Power of need: Energy security in the Western Balkans. (2022). <https://ecfr.eu/article/power-of-need-energy-security-in-the-western-balkans/>

¹¹ IMF (2023) "Inflation dynamics in the Western Balkans", Working paper no. 2023/49.

<https://www.imf.org/en/Publications/WP/Issues/2023/03/03/Inflation-Dynamics-in-the-Western-Balkans-530338>

sector).¹² Faced with these challenges, respondents of the region are overwhelmingly convinced that authorities in their economies should take economic measures to limit this negative impact, with 68% in full support of this statement and another 24% tending to agree with it.

According to experts, one of the alternative long-term solutions to better cope with similar crisis in the future is to become more independent from Russian gas and oil. This is particularly important for Serbia, Bosnia and Herzegovina, and North Macedonia, which are heavily dependent on Russia in this respect. Generally speaking, dependence of the region on natural gas is quite low, therefore, impact deriving from the war and sanctions is not expected to be important. The economies that use natural gas to a greater extent (i.e. Serbia) are still importing from Russia. On the other hand, indirect impact (through increase in energy product prices) has affected the region due to affected EU member states, which had stronger dependence on Russian natural gas. Though a large share tends to agree (31%) or fully support this statement (42%), almost 21% of respondents oppose this solution. This divergence in opinions becomes even sharper when involving the discussion on economic sanctions and their impact. Namely, half of Western Balkans citizens are not willing to suffer the consequences of sanctions if they mean rising the prices of fuel and gas. Only 16% are supportive of this sacrifice.

A very positive response is observed on the topic of renewable energy. The survey shows that there is a high level of awareness amongst the respondents who attribute a significant role to such vision, expressing broad support (86%) for investing in renewable energy because of the war. Almost 70%¹³ of energy in the Western Balkans is produced from coal (with Albania being the exception, due to its hydropower plants dominating the sector). The coal plants of the region pollute six times more than allowed, being in breach of the Energy Community Treaty for the fifth time in a row. The level of sulphur dioxide emitted in 2020 compared to the legal limit was 9.9 times higher in Bosnia and Herzegovina, 6.1 times higher in Serbia, and 5.5 times higher in North Macedonia.¹⁴

In the recent years, there have been some investments in solar and wind-generated power, though not at a considerable scale. The EU has been quite active in helping the Western Balkans to shift from coal-based to more sustainable sources of energy, including a commitment of €1 billion at the EU-Western Balkans Summit in Tirana in December 2022. This is considered a crucial geostrategic investment and a strategic action of the EU in the region.

Several initiatives and strategies in this sector are already being implemented, such as Green Agenda for the Western Balkans, Regional Energy Efficiency Programme, Green for Growth Fund, Coal Regions in Transition in the Western Balkans, etc. Adopting a medium- and long-term strategic approach in this sector might have multiple positive effects in terms of energy independence, increasing energy security, and lowering pollution (some of the most polluted cities of Europe are to be found in the Western Balkans).

Another important impact from the war have been the waves of refugees fleeing from Ukraine. Participants in the survey were asked whether their economy should host such people and two thirds of them demonstrated a positive response. Only 12% of respondents are categorically against introducing new measures to welcome Ukrainians fleeing the war.

12  *ibid.*

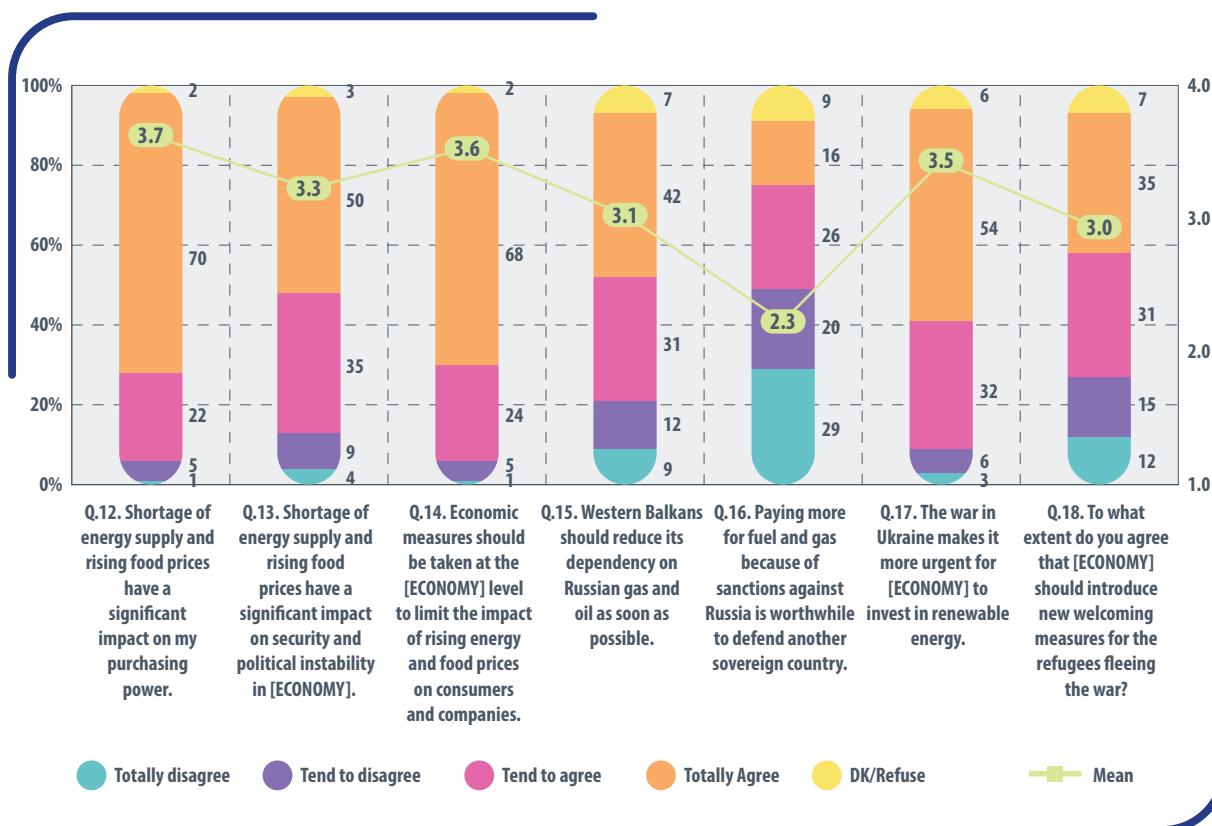
13 European Network of Transmission System Operators for Electricity: Statistical Factsheet 2021

14 CEE Bankwatch Network. Comply or Close. How Western Balkans coal plants breach air pollution laws and what governments must do about it. (2022). <https://www.complyorclose.org/wp-content/uploads/2022/06/En-COMPLY-OR-CLOSE-2022.pdf>

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Figure 13. To what extent do you agree or disagree with each of the following statements?
Western Balkans.

(All respondents - N=3000, share of total, %, mean)



Breaking down Figure 13 by economy, there are many similar patterns recorded amongst the respondents. Regarding the impact of energy shortage and price increase on individual purchasing power, there is a consensus across economies. North Macedonia respondents are most worried, with 85% fully supporting the statement on the described impact (Figure 14). However, when asked about the impact on security and political instability, Bosnia and Herzegovina respondents are most concerned (Figure 15), with 96% expressing general agreement on perceiving this fear (85% in full support of the statement). This is in line with other survey findings, reflecting a fragile stability of the political scene in Bosnia and Herzegovina, facing the impact of the war.

Figure 14. To what extent do you agree or disagree that energy supply and rising food prices have a significant impact on your purchasing power.

(All respondents - N=3000, share of total, %, mean)

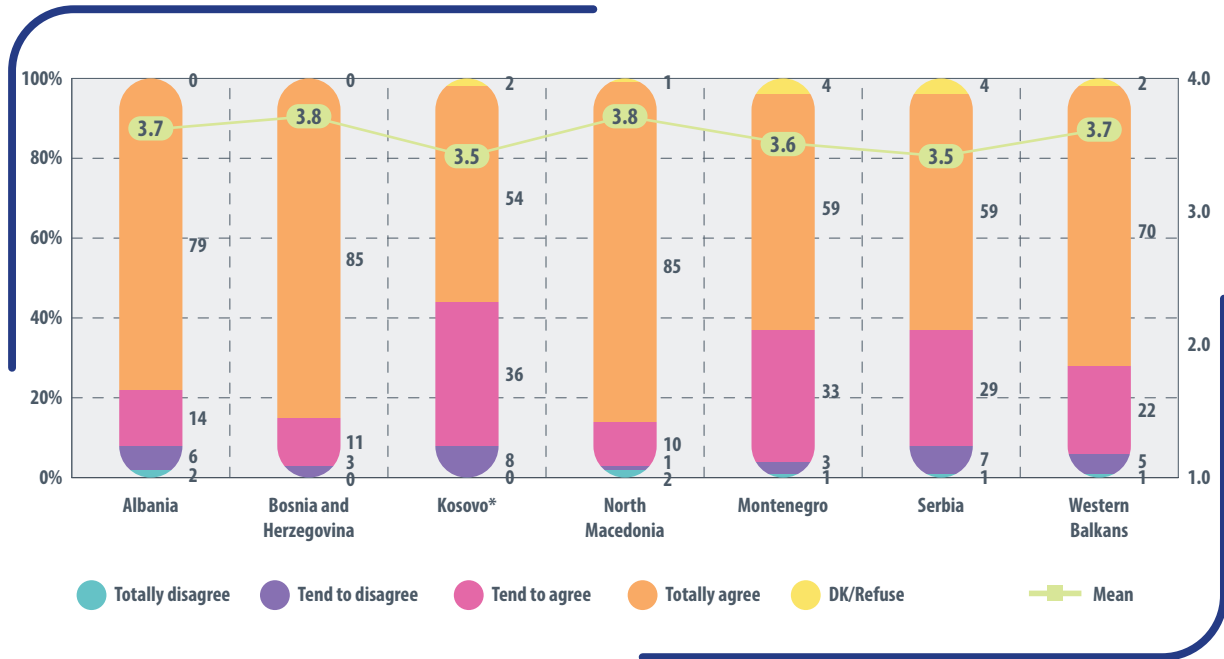
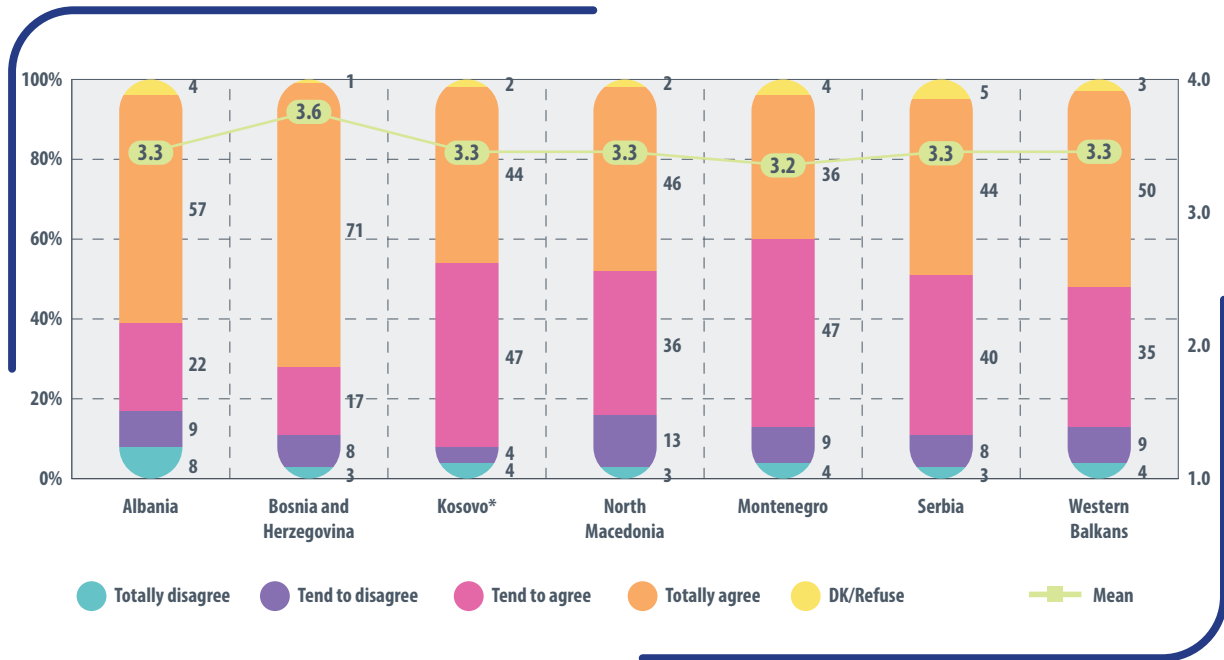


Figure 15. To what extent do you agree or disagree that shortage of energy supply and rising food prices have a significant impact on security and political instability in [Economy].

(All respondents - N=3000, share of total, %, mean)



Economic measures to soften the economic consequences of the war find a broad consensus amongst the respondents in each economy. People from Bosnia and Herzegovina and Albania are the most supportive of this action, with 87% and 80%, respectively, strongly advocating for such measures (Figure 16). On the other hand, Kosovo* respondents are less worried, with only 47% considering this an immediate priority. Kosovo* government introduced some measures (declaration of state of emergency in the energy sector, subventions for disadvantaged groups, quarterly economic packages, etc.) at a quite early stage of the conflict, and this might have contributed to this perception. However, these measures have not represented a major difference when compared to actions implemented by other economies.

Figure 16. To what extent do you agree or disagree that economic measures should be taken at the [Economy] level to limit the impact of rising energy and food prices on consumers and companies.

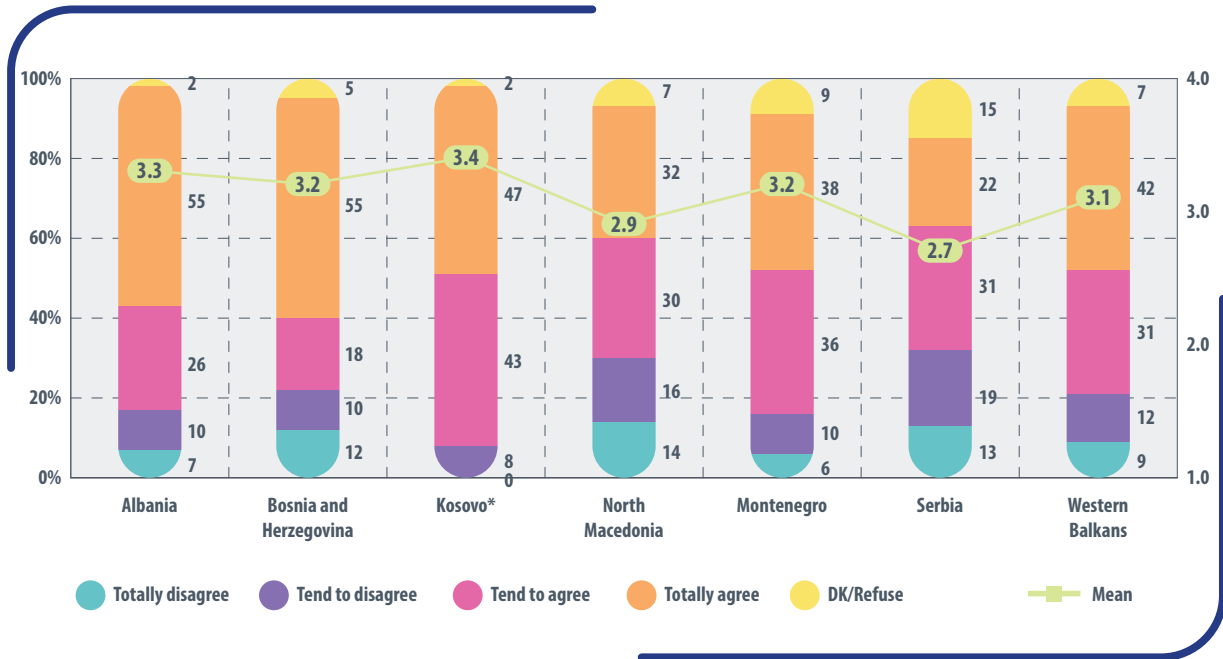
(All respondents - N=3000, share of total, %, mean)



Respondents maintain similar positions across economies regarding the need for independence from Russian gas and oil, with some minor differences (Figure 17). Advocating for this approach is slightly more pronounced in Kosovo* and Albania, with 90% and 81% of respondents, respectively, expressing general support for reducing dependence on such Russian goods. It should be mentioned that both economies have fare less dependency already, due to their low trade flows with Russia in general. Respondents from Serbia and North Macedonia are more concerned with adopting this solution by generally disagreeing with the statement proposal (32% and 30% respectively).

Figure 17. To what extent do you agree or disagree with each of the following statements: Western Balkans should reduce its dependency on Russian gas and oil as soon as possible.

(All respondents - N=3000, share of total, %, mean)



Kosovo* respondents are more willing to pay the price of economic sanctions against Russia in terms of bearing the fuel and gas price increase (Figure 18). Around 62% express general support for this statement. On the other hand, Serbians appear to disagree more with this consequence, which is in line with their opposition to the sanctions. Only 5% of respondents are fully willing to accept the price increase in support of the sanctions, and 20% is generally in line with this approach. Renewable energy, pushed also by the war in Ukraine, is embraced almost equally in all economies. From 79% in Serbia, up to 91% of respondents in Albania and Kosovo* tend to or fully support such direction (Figure 19).

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Figure 18. To what extent do you agree or disagree with each of the following statements: Paying more for fuel and gas because of sanctions against Russia is worthwhile to defend another sovereign country.

(All respondents - N=3000, share of total, %, mean)

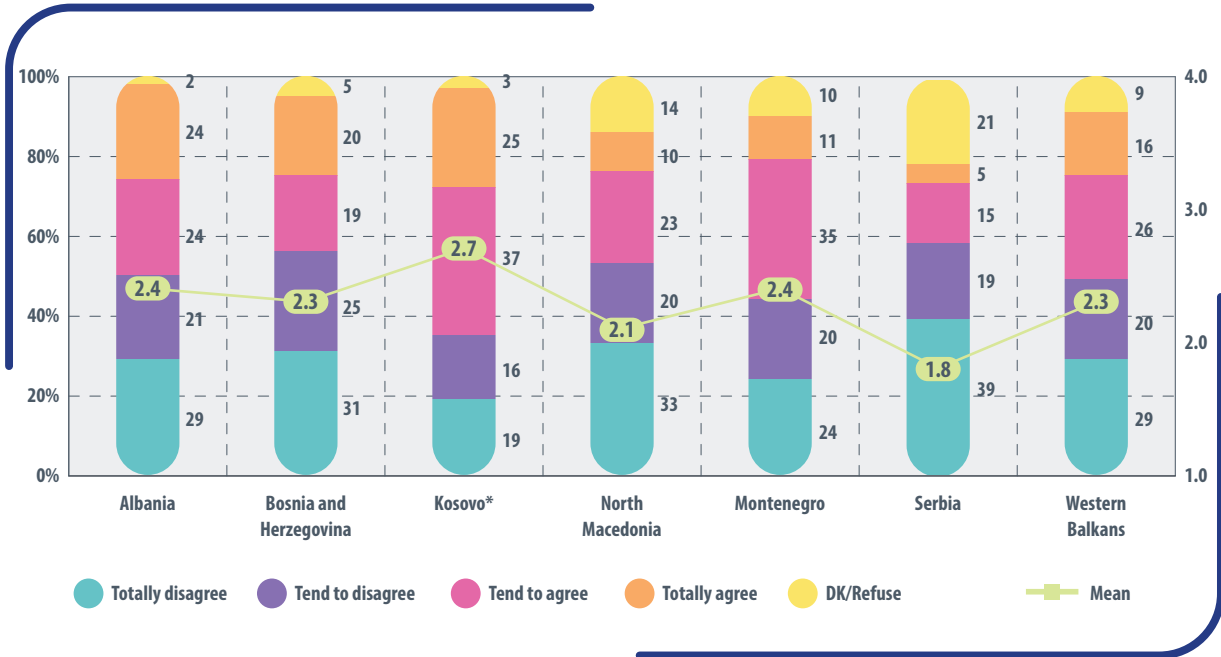
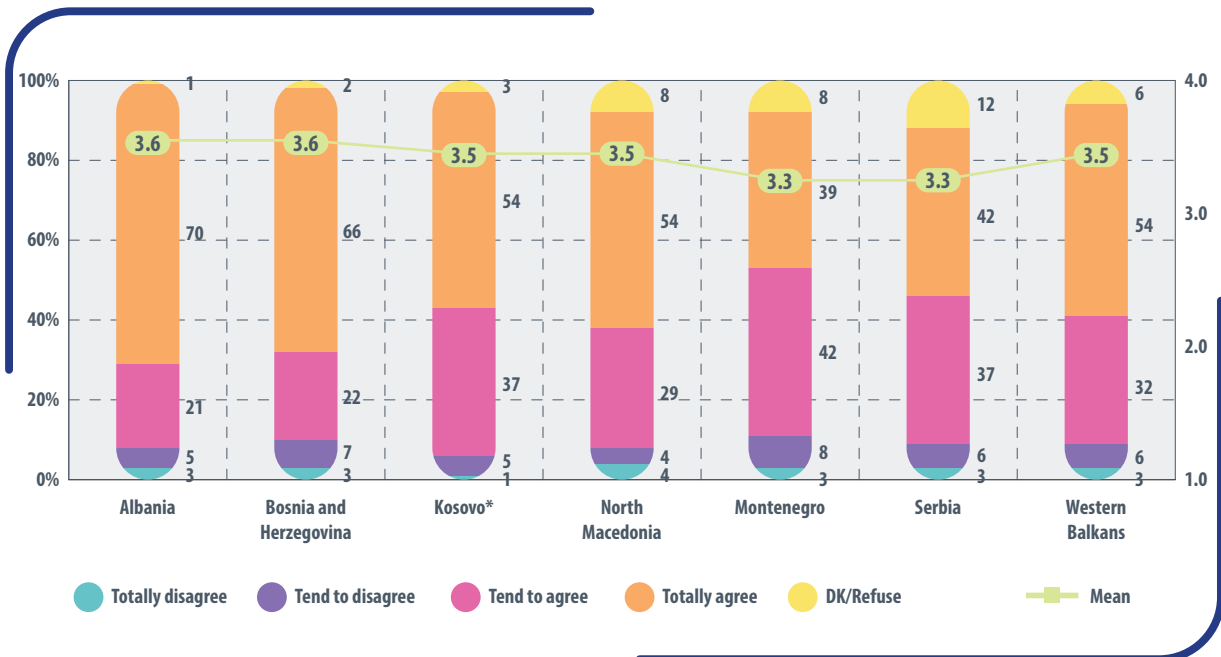


Figure 19. To what extent do you agree or disagree with each of the following statements: The war in Ukraine makes it more urgent for [Economy] to invest in renewable energy.

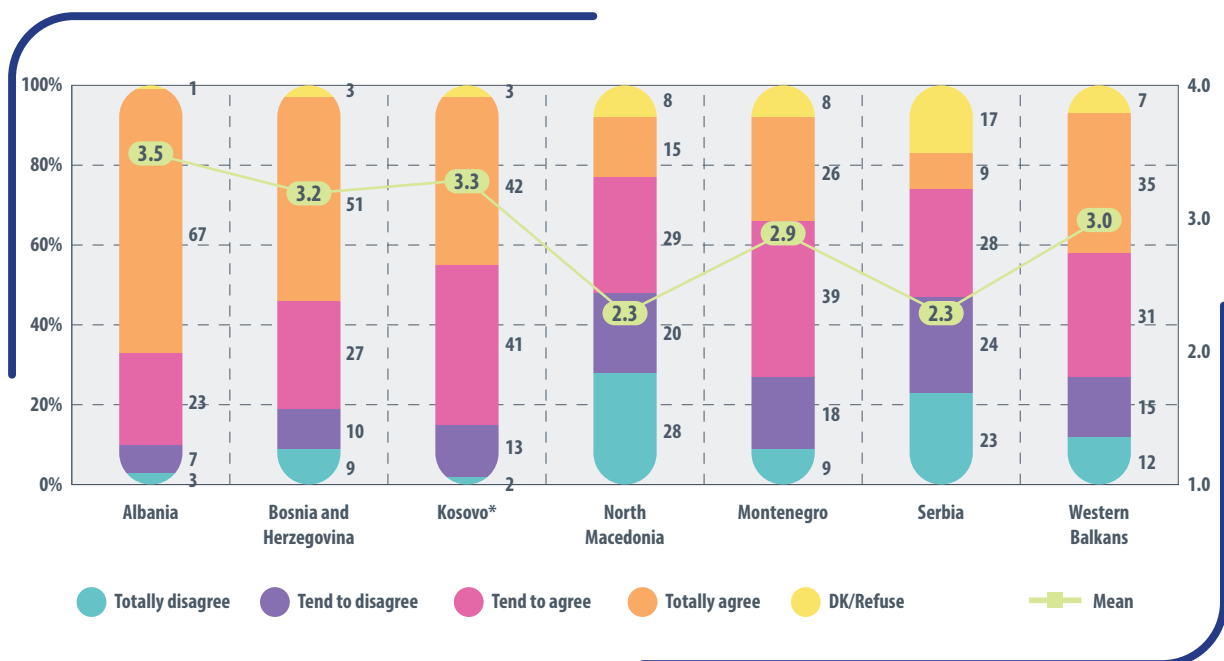
(All respondents - N=3000, share of total, %, mean)



Differently from the overall patterns of the previous few figures, the approach and stance towards war refugees presents a more diverse response across Western Balkan economies (Figure 20). When asked about the introduction of new measures to welcome Ukrainian refugees, respondents from North Macedonia and Serbia are more hesitant to get along with such decision (48% and 47%, respectively, expressing overall opposition). This result might be seen in line with the general position of respondents from these two economies regarding the approach towards the war and Russia, assuming a sort of distance or neutral attitude. The remaining economies of the region appear to be keener on accepting the introduction of such measures for refugees, going from a general support by 65% in Montenegro to 90% of respondents in Albania.

Figure 20. To what extent do you agree or disagree with each of the following statements: To what extent do you agree that [Economy] should introduce new welcoming measures for the refugees fleeing the war?

(All respondents - N=3000, share of total, %, mean)



Accuracy of information and its impact have become considerably important in the recent years, especially in the current war context. Disinformation adopts various forms in the context of the Western Balkans, going from distortion of news for political purposes, to rushed and unverified information due to lack of clear rules and ethical concerns in the media landscape.¹⁵ Deriving damages are quite substantial in terms of decrease in public trust, and in affecting individual lives or group image.¹⁶ In this regard, survey participants were asked specifically on the situation in Ukraine and their perception regarding a potential increase in fake news, disinformation, and propaganda activities.

Western Balkan economies present a very worrying picture in this regard, with a large majority of respondents claiming that they believe that these practices have increased. Bosnia and Herzegovina and Serbia appear to be most affected by such perception, with 87% and 85% of respondents,

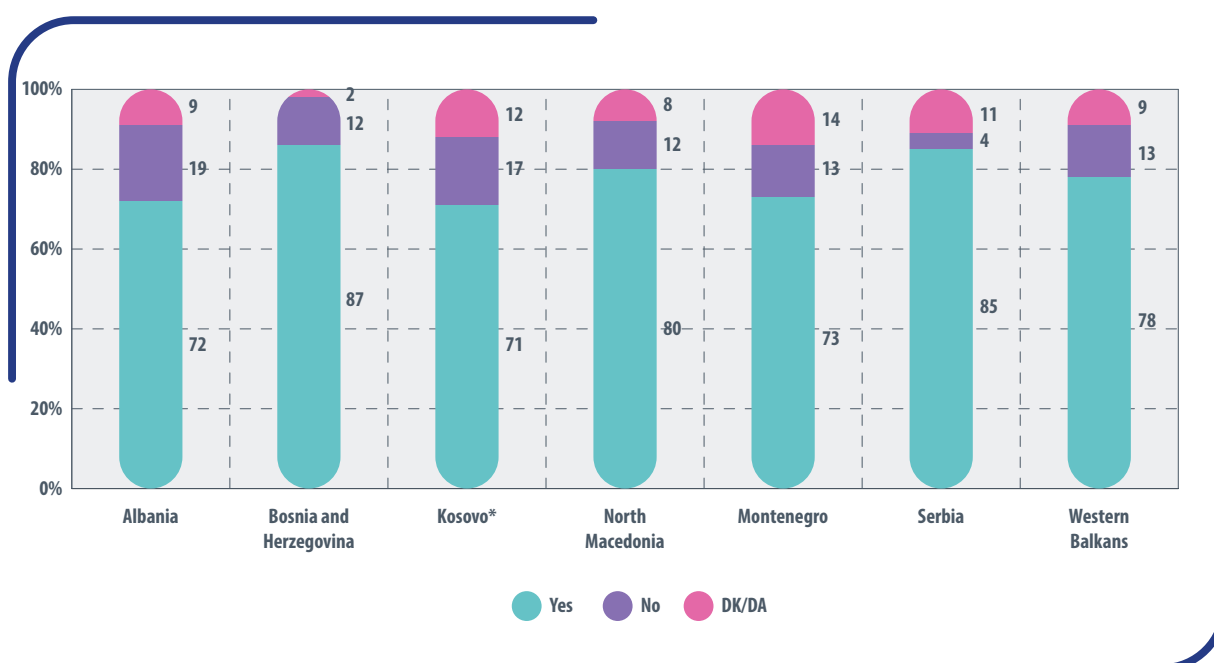
¹⁵ European Parliament. Mapping Fake News and Disinformation in the Western Balkans and Identifying Ways to Effectively Counter Them. (2021). [https://www.europarl.europa.eu/RegData/etudes/STUD/2020/653621/EXPO_STU\(2020\)653621_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2020/653621/EXPO_STU(2020)653621_EN.pdf)

¹⁶ Selimi, Ferid & Skenderi, Besnik. (2023). The impact of fake news in online media in the Albanian language on the Western Balkans and its threat to citizens' lives. 10.17605/OSF.IO/X8DAH.

respectively, claiming that the war in Ukraine has brought an increase in such activities. Though at a high level as well, respondents from Kosovo* (71%), Albania (72%) and Montenegro (73%) seem less concerned. Not countering disinformation flows and patterns with active measures and initiatives can bring major consequences to the region. First, public trust in democratic institutions could deteriorate further, increasing the gap between people and their representatives. Second, ethnic and religious divisions can grow further, since disinformation practices find an easy prey in exploiting existing and dormant tensions. Another potential risk relates to the role of malicious foreign players that aim to cause instabilities, and could use various channels for dissemination of tensions within the region. Though the Western Balkans is more vulnerable to disinformation than the EU, these practices are well-known for impacting democratic institutions even in EU member states.¹⁷

Figure 21. In your view, has there been an increase in [Economy] since the war in Ukraine in the flow of various fake news, disinformation, semi-information, and propaganda activities related to the situation in Ukraine?

(All respondents, N=3000, share of total, %)



When discussing sources of information, it is important to explore more in-depth perceptions regarding the main channels used. Figure 22 displays a quite gloomy picture in terms of general trust towards information instruments that participants use. There are three sources of information Western Balkans respondents consider most reliable: domestic media (31%), western media (31%), and friends and family (30%). On the other hand, the most unreliable sources are celebrities and influencers (62% distrusting them), social media (54%) and digital media (50%). It is important to point out that the general confusion and mistrust existing about information channels is substantiated further by the fact that, on average, one third of respondents is quite neutral towards all the sources, claiming to consider them neither reliable nor unreliable.

17 European Parliament. Disinformation and propaganda – impact on the functioning of the rule of law in the EU and its Member States. (2019). [https://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_STU\(2019\)608864](https://www.europarl.europa.eu/thinktank/en/document.html?reference=IPOL_STU(2019)608864)

Figure 22. Who do you consider to be the reliable source of information regarding the war in Ukraine? Western Balkans

(All respondents, N=3000, scale from 1 to 5, share of total, %)

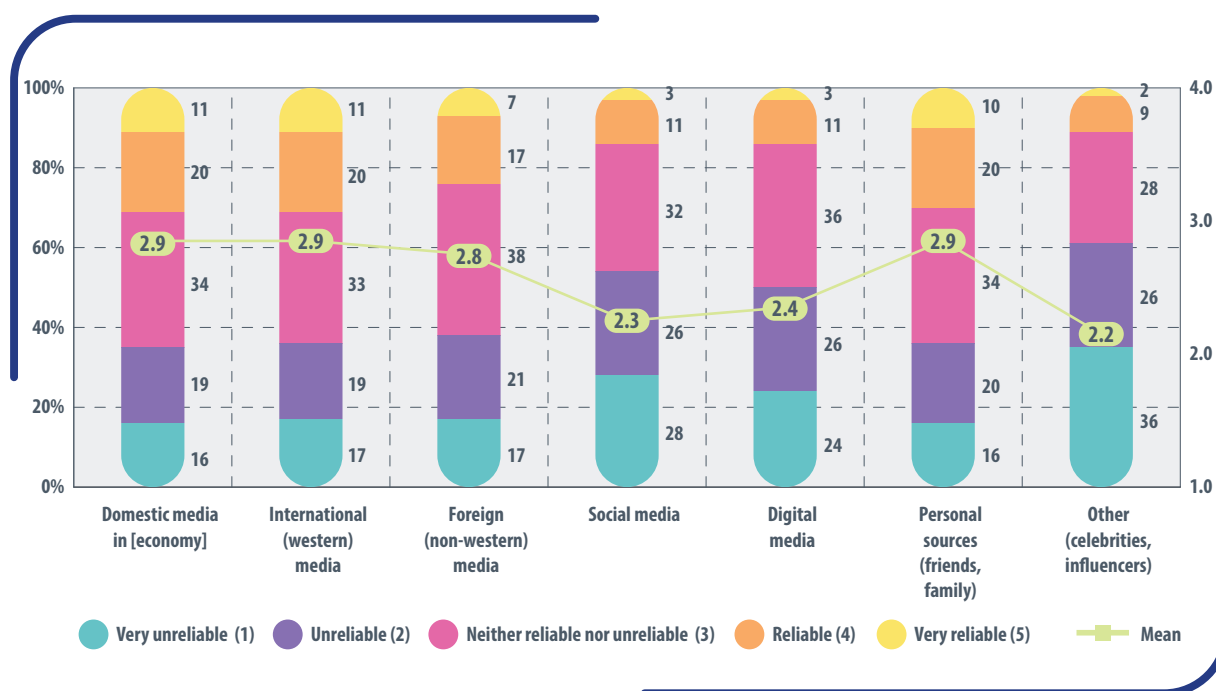


Figure 22 is unpacked further for each of the information sources listed, exploring perceptions in each economy. Domestic media is mostly trusted in Kosovo*, with a considerable share (66%) of respondents confirming the overall reliability. This contrasts visibly responses from the other economies, especially Serbia and Albania, where only 18% and 20% of participants respectively manifest trust in domestic media (Figure 23). More than 54% of Albanians and 43% of Serbians do not consider domestic media as reliable. Based also on other international reports and studies, the picture deriving from these responses might reflect the overall status of media freedom and pluralism in the respective economies.¹⁸¹⁹ Domestic media is often perceived as colluded with political actors and not impartial or independent. Media ownership is a considerable problem in many cases, since owners pay service to political parties and receive a return, either through their other businesses in other sectors or directly through advertisements.²⁰

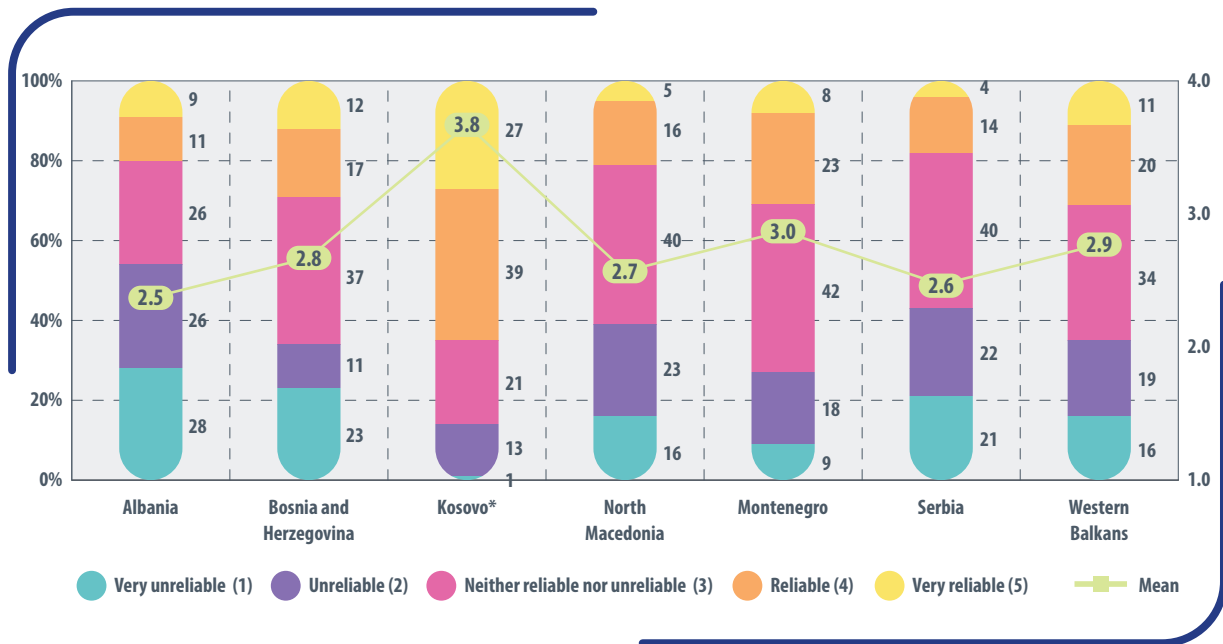
18 SafeJournalists. Indicators on the Level of Media Freedom and Journalists' Safety in the Western Balkans. Comparative Analysis (2022). <https://safejournalists.net/wp-content/uploads/2022/09/comparative-analysis-2022-1.pdf>

19 Balkan Insight. Media Freedom Remains Major Concern in Balkans, Watchdog Says (2022). <https://balkaninsight.com/2022/05/03/media-freedom-remains-major-concern-in-balkans-watchdog-says/>

20 Southeast European Leadership for Development and Integrity. Media Capture in the Western Balkans: From captured states to captured media. (2022). <https://seldi.net/wp-content/uploads/2022/12/Media-Capture-in-the-Western-Balkans.pdf>

Figure 23. Do you consider domestic media in [economy] to be a reliable source of information regarding the war in Ukraine?

(All respondents, N=3000, scale from 1 to 5, share of total, %)



Kosovo* respondents register the highest level of trust in the reliability of international western media, with 65% (Figure 24), followed by Albania with 41% (double the reliability of domestic media). On the other hand, Serbia's respondents have the lowest trust in international western media, with only 1% finding them very reliable and 5% reliable. For two thirds of Serbians, these sources are generally not reliable, reflecting a perception of a difficult relation of the economy with western media.

Figure 25 explores opinions on foreign non-western media. Again, Kosovo* is at the forefront in trusting these sources, with 45% claiming general reliability. In this case, Albania registers the highest scepticism with a majority (61%) finding these sources unreliable. Only 10% of Albanians expresses a general trust in non-western media. A very similar pattern is recorded also amongst Serbian respondents, where half of them do not trust non-western media, and only 12% consider them reliable.

Figure 24. Do you consider international (western) media to be a reliable source of information regarding the war in Ukraine?

(All respondents, N=3000, scale from 1 to 5, share of total, %)

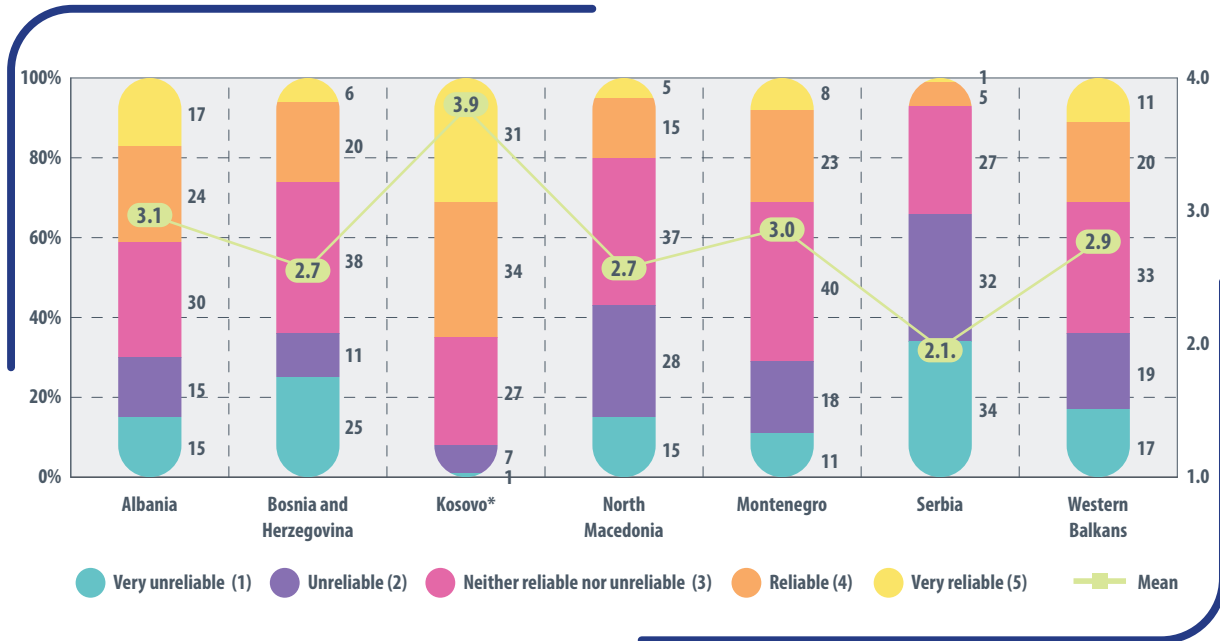
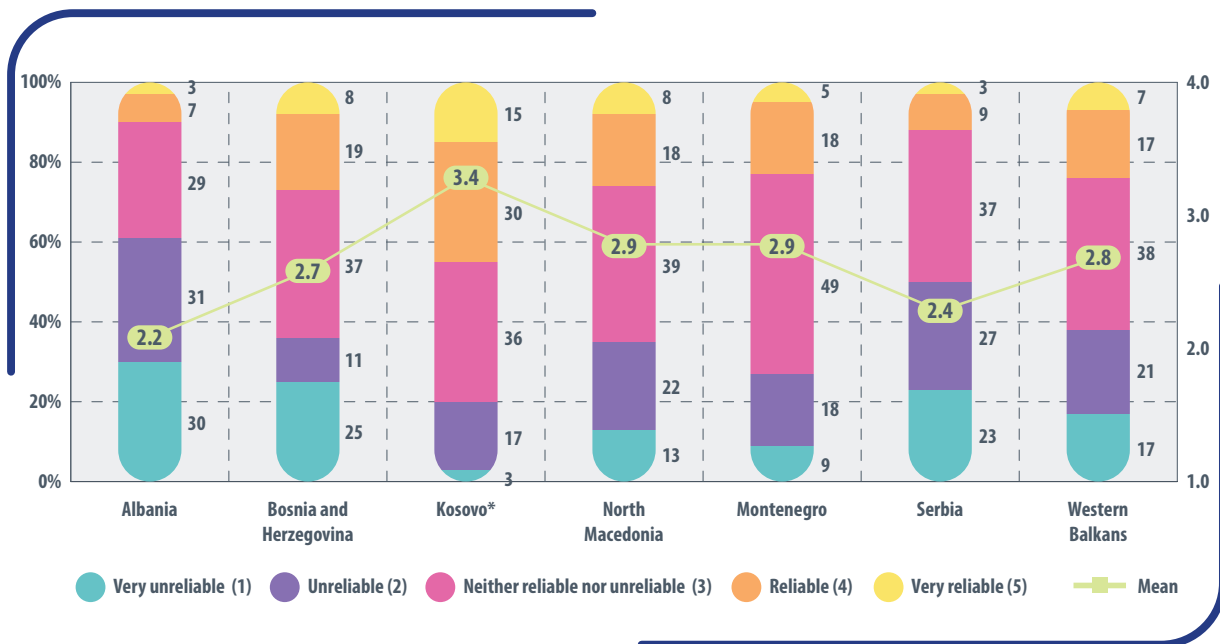


Figure 25. Do you consider foreign (non-western) media to be a reliable source of information regarding the war in Ukraine?

(All respondents, N=3000, scale from 1 to 5, share of total, %)



Social media is considered as one of the most unreliable sources of information across the economies. Figures are particularly high in case of Albania (74%), followed by Bosnia and Herzegovina (59%) and Serbia (56%). As Figure 26 shows, a large share of respondents from Montenegro and North

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Macedonia assumes a neutral stance, finding social media neither reliable nor unreliable (43% and 42%, respectively).

Similarly, perceptions on reliability of digital media show similar results. Albania is at the front of mistrust with 73%, followed again by Serbia with 53%. Almost half of respondents in Montenegro does not have a position on this channel of information. Overall, across economies, trust in digital media is quite low, ranging from 10% in Albania up to 18% in Bosnia and Herzegovina (Figure 27).

Figure 26. Do you consider social media to be a reliable source of information regarding the war in Ukraine?

(All respondents, N=3000, scale from 1 to 5, share of total, %)

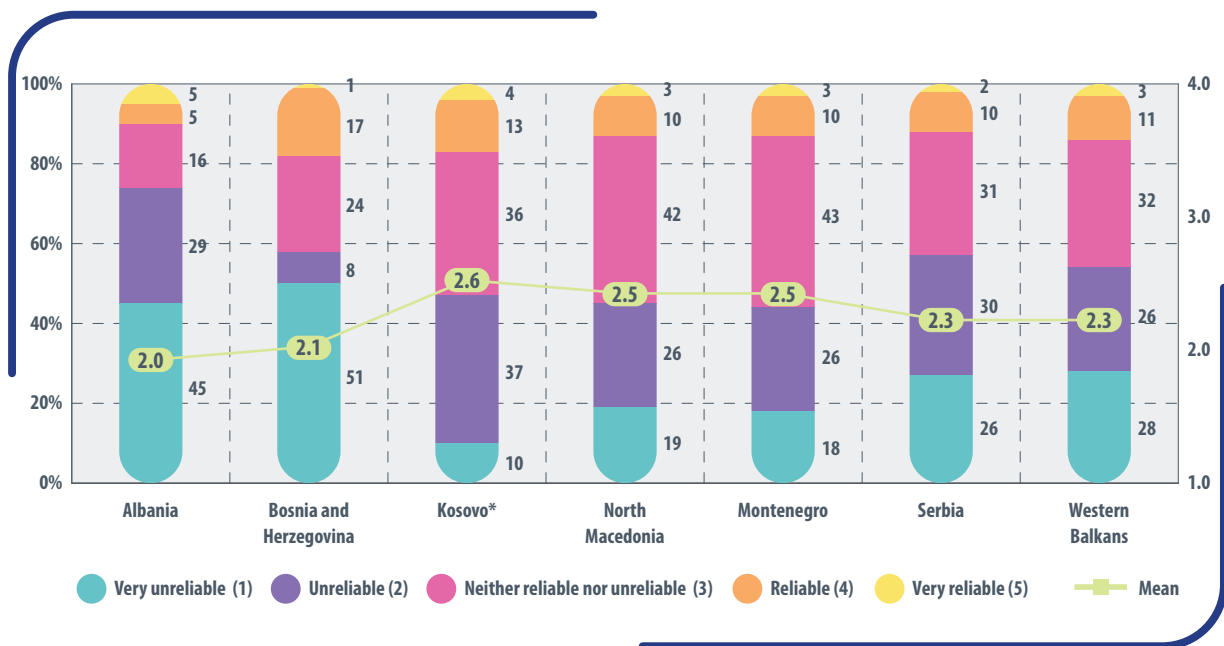
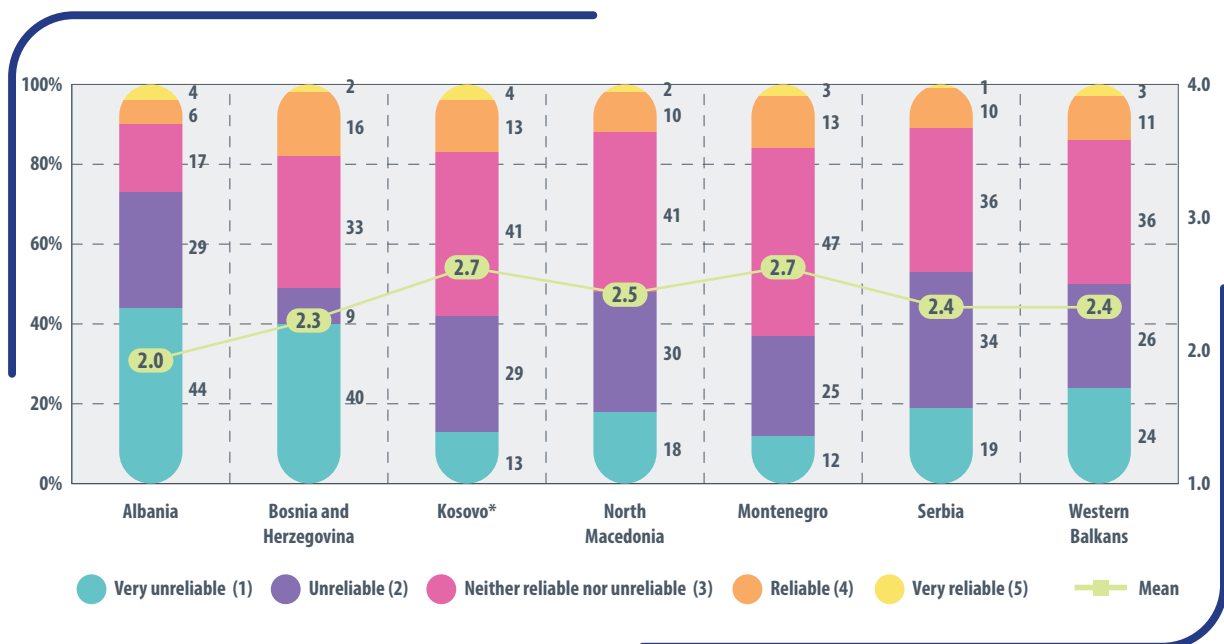


Figure 27. Do you consider digital media to be a reliable source of information regarding the war in Ukraine?

(All respondents, N=3000, scale from 1 to 5, share of total, %)



Personal sources, family, and friends appear to be a considerably reliable source of information for Western Balkans respondents. However, the share of people who find these channels reliable and those who find them unreliable are quite similar, apart from Kosovo*. Around 58% of respondents in Kosovo* trust family and friends regarding receiving reliable information, and only 12% find them unreliable. Bosnia and Herzegovina registers the lowest trust (26%) with a large share of 40% who claim that these sources are unreliable (Figure 28).

Respondents across economies seem to agree on the low level of reliability of celebrities and influencers as sources of information. Albanians (72%) and Macedonians (68%) are most sceptical towards this type of information channel, with only 6% of respondents in North Macedonia finding them reliable (Figure 29).

Figure 28. Do you consider personal sources (friends, family) to be reliable sources of information regarding the war in Ukraine?

(All respondents, N=3000, scale from 1 to 5, share of total, %)

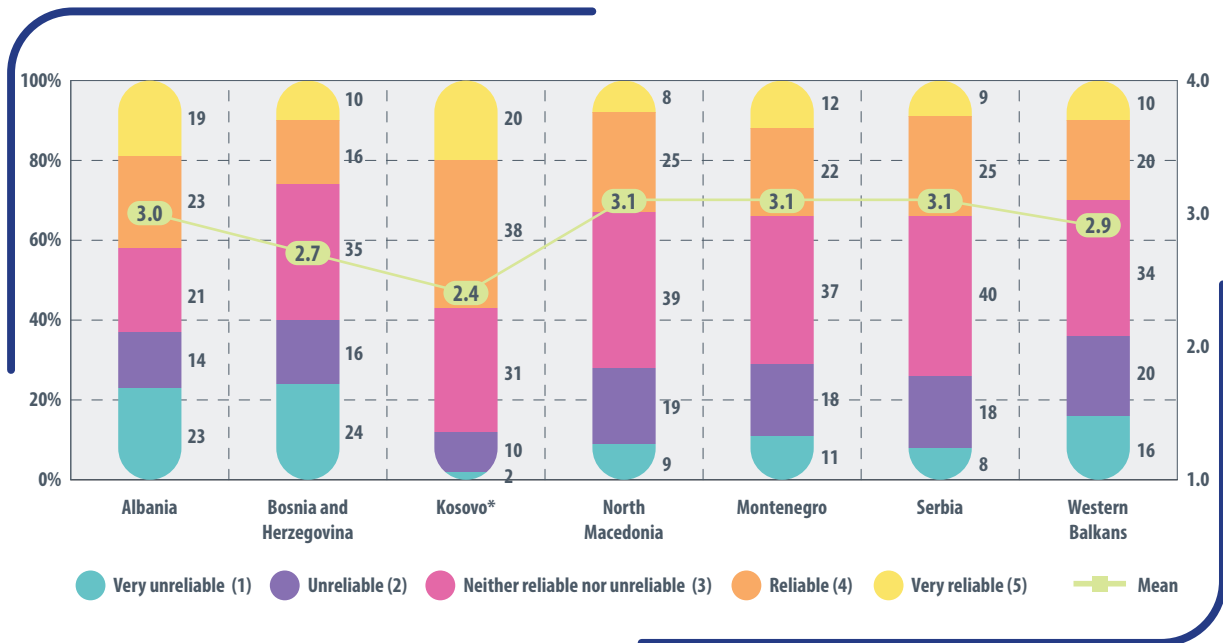
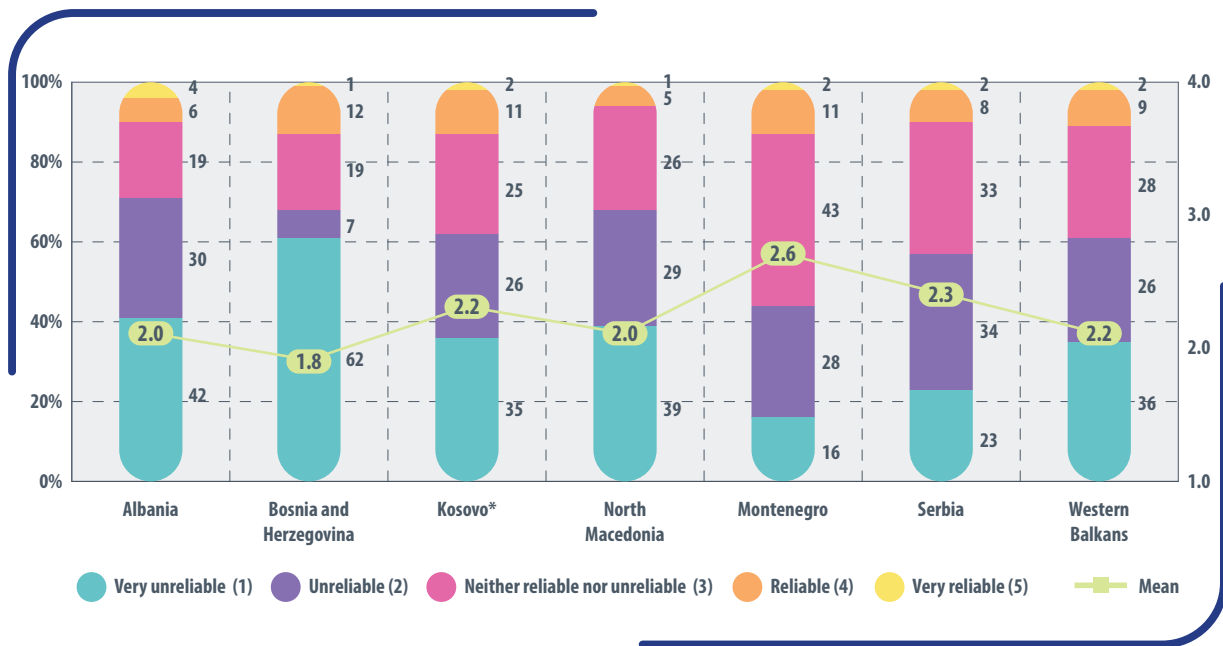


Figure 29. Do you consider celebrities and influencers to be reliable sources of information regarding the war in Ukraine?

(All respondents, N=3000, scale from 1 to 5, share of total, %)



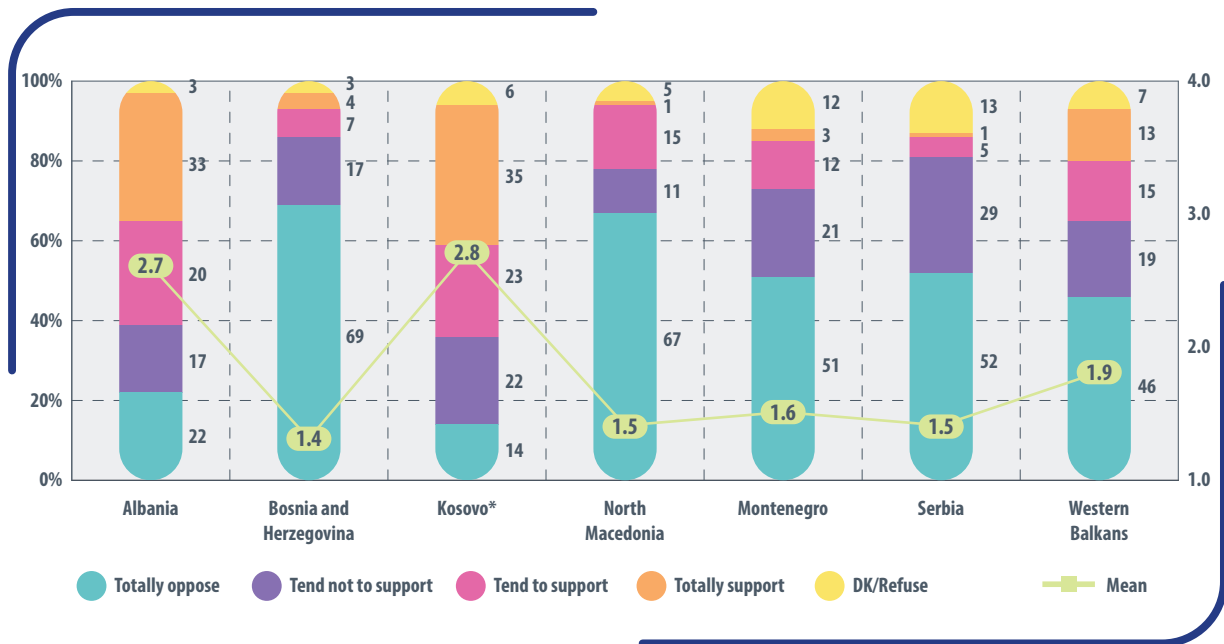
The phenomenon of “foreign fighters” has been affecting the Western Balkans in the past, though a major decline in this activity was registered in the recent years. Official figures show that this phenomenon was almost extinct after 2016 due to aggressive countermeasures by governments of the region, and developments in conflict zones. As an example, when compared to the peak year (2013), Kosovo* went from 320 individuals to zero in 2016, Albania from 200 to zero in the same period, and Bosnia and Herzegovina from 115 to zero.²¹ However, related to the war in Ukraine, respondents from Western Balkans seem to tailor their answers to the general alignment and stance of their economy towards the war.

More specifically, participants from Albania and Kosovo* express general support for departures of individuals from their economy to Ukraine, with 59% and 58% respectively. This major diversion from other economies is mostly linked to a support for the US positioning in the war and the historic ties and loyalty perceived by respondents from Albania and Kosovo* towards the US. Therefore, despite not having any major connection to Ukraine, be it historical, religious, or other, only 39% in Albania and 36% in Kosovo* oppose the possibility of this type of support. On the other hand, respondents from Bosnia and Herzegovina and Serbia are at the highest level for contrasting this type of departures, with 86% and 81% against, respectively. At the regional level, most respondents (65%) are opposed to supporting “foreign fighters” from their economy to go to a war zone in Ukraine, and only 28% agree with this option.

21 Hollon, A. Declining Number of Foreign Fighters in the Balkans. (2018). <https://commons.lib.jmu.edu/cgi/viewcontent.cgi?article=1005&context=ese>

Figure 30. To what extent do you support the departures of individual “foreign fighters” from [Economy] to a war zone in Ukraine?

(All respondents - N=3000, share of total, %, mean)



At regional level, Western Balkans respondents are divided in two groups when it comes to their perception of increased exposure regarding cybersecurity due to the war in Ukraine. Almost half of participants (57%) manifests overall concern for their personal information to be stolen or misused. On the other hand, 37% do not see this as a potential risk. At the economy level, Albanian respondents are the most concerned for their personal data, with 78% of them expressing their fear, against 47% of North Macedonia (the lowest in the region). Apart from Albania (and, to a lesser extent, Kosovo*), the rest of the economies present similar perceptions regarding threats to personal information. The case of Albania is specific, due to events that took place in 2022, when all personal information of Albanian citizens was exposed and published online (including sensitive data, salary, etc.). This major scandal undermined public trust in institutions which register and manage citizens' data. Though not directly linked to the war in Ukraine, Albanian respondents' perceptions reflect the unsafe period the economy went through in 2022 in terms of data protection.

Figure 31. The war in Ukraine brings cybersecurity challenges to a new level of risk exposure. To what extent are you worried about the possibility that your personal information could be stolen or misused?

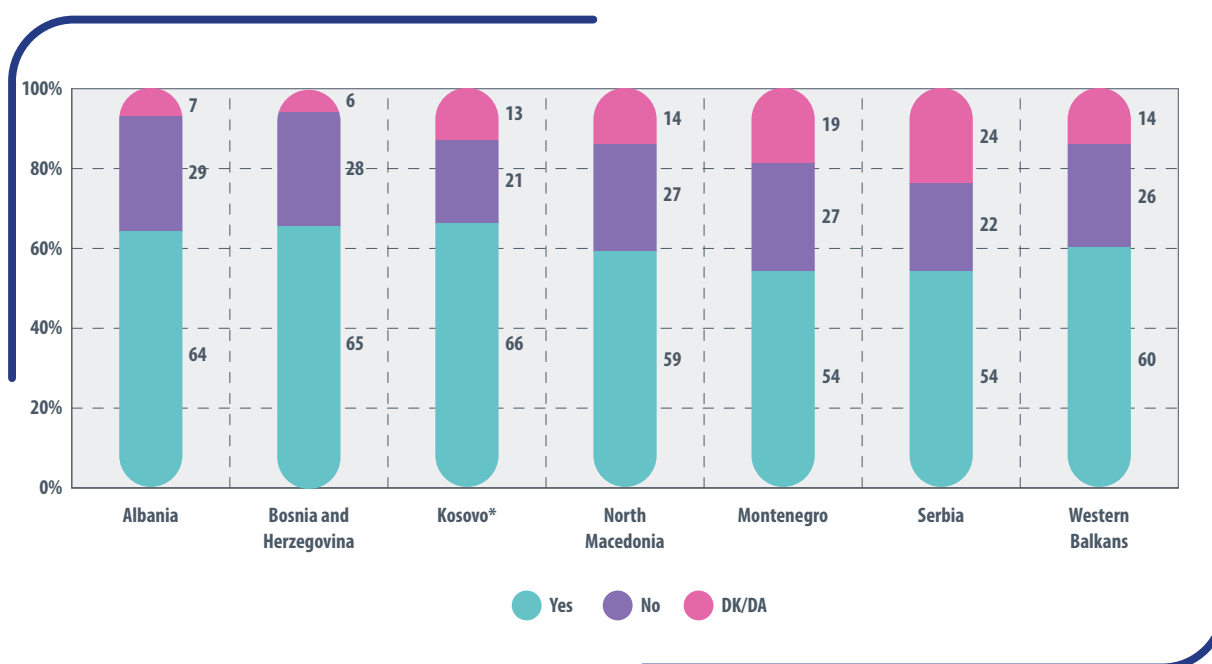
(All respondents - N=3000, share of total, %, mean)



Around 60% of respondents of the region think that the war in Ukraine can increase threats and risks for government e-services. Only a quarter of participants feels safe in this regard. This level of concern is equally distributed amongst the economies, maintaining a level of concern that goes from most worried Kosovo* respondents (66%) to relatively less preoccupied Serbian and Montenegro respondents, with 54% in both economies expressing their worry for government e-services. These results could be a direct reflection of the 2022 developments across the region, where several cyberattacks of public institutions have taken place within the span of three months, more specifically in Albania (July), Kosovo* (July), Montenegro (August) and Bosnia and Herzegovina (September).

Figure 32. Do you think Government e-services are more in danger from cyberattacks after the war in Ukraine in comparison to the pre-war period?

(All respondents, N=3000, share of total, %)



Albanian respondents show the highest mistrust in their institutional preparation and response to cyberattacks, with 71% expressing a negative opinion. The year 2022 recorded a series of challenges for Albania in this regard. A massive cyberattack was launched against the online platform of government services (e-Albania), paralysing the system for several weeks. Though databases were recovered safely, the incident exposed structural weaknesses against such powerful attacks. The same alleged group (called HomeLand justice) attacked again in late 2022, focusing on the banking system, penetrating the database of clients, and exposing hundreds of accounts and their details. In addition, other databases were breached and published, such as, allegedly the one from police, border control system, etc.

A major cyberattack to government services was also registered in Montenegro in August 2022. Government servers were hit by a type of malware that locks and encrypts files and data, and then demands for payment to unlock them. For several weeks, public administration worked offline. On 26 August, the “National Security Agency” of Montenegro blamed Russian services for the attack, while on 31 August the Minister for Public Administration claimed that a known criminal gang operating through extortions was behind the attack.

Respondents from other economies perceive similar risk though at lower levels than Albania. Bosnia and Herzegovina registers the highest percentage of respondents who believe that their authorities are prepared for cyberattacks, reaching an overall 56%. At the regional level, respondents are divided in almost equal parts, with 43% claiming that institutions are generally prepared to respond to these threats, while 44% consider the preparation insufficient.

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Figure 33. To what extent do you agree that [Economy] institutions are prepared to respond to the increased cyberattacks after the war in Ukraine?

(All respondents - N=3000, share of total, %, mean)



PART II. BUSINESS OPINION



The war in Ukraine has had direct and indirect economic consequences in the Western Balkans. The high increase in energy and food prices has produced an inflation rate which has not been seen for many years.²² While inflation in the EU is below 10%, the Western Balkans ended 2022 with a staggering 16%. Though inflation in energy sector has affected the Western Balkans, price increase in this area is still much lower than in the EU. On the other hand, processed and unprocessed food have been the major contributing sectors to the high inflation in the Western Balkans, especially when compared to the EU. This might be explained by the following: first, agriculture sector is less regulated in the Western Balkans thus more exposed to higher volatility in domestic food prices. Second, cereals and vegetable oils, which experienced the global shock, constitute a larger portion of the food basket of the region (9.4%) when compared to the EU (3.2%). Last, weather conditions were quite negative in 2022 (major drought in Bosnia and Herzegovina and Serbia), affecting domestic agriculture production and increasing prices.²³

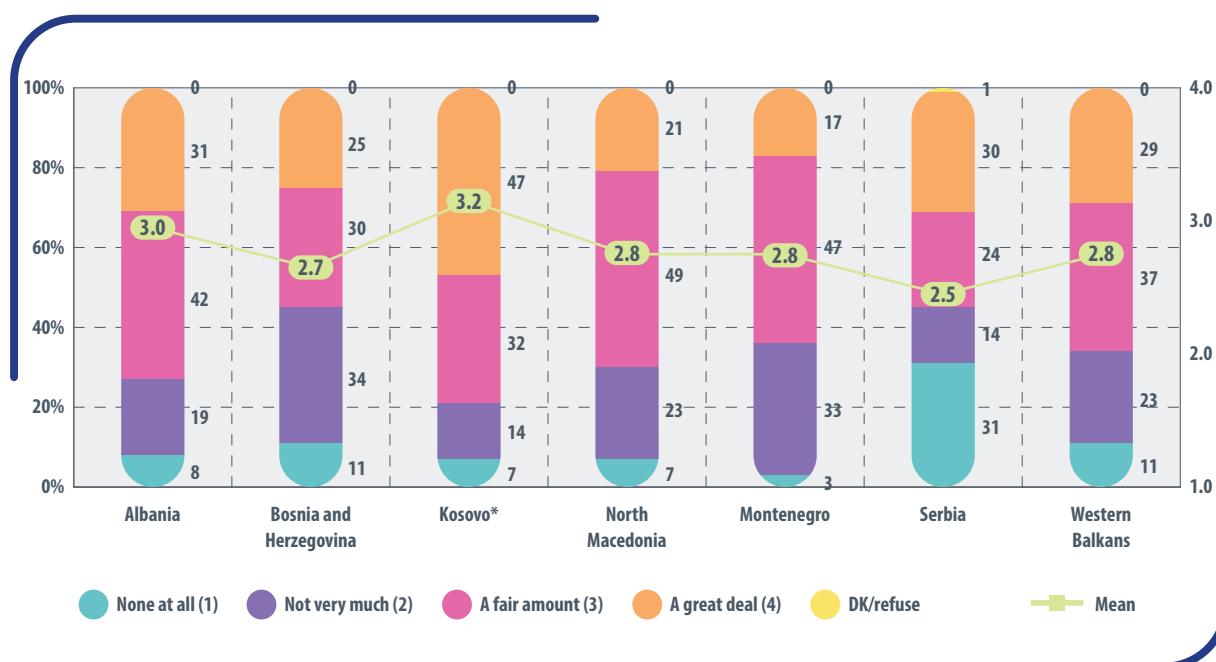
Although coming from a positive 2021, which dragged its effects for a good part of 2022, pressure coming from higher prices poses risks to business community in the region. Towards the last part of the year, when this survey was implemented, the impact became more visible, and the concerns grew even further. Figure 34 tries to capture the general perceptions of risk by Western Balkans businesses due to the war in Ukraine. As the analysis will show in other figures as well, it is important to note that these perceptions of companies in single economies are not necessarily reflected or matched by the official figures (such as in case of the inflation in the energy sector). Hence, they also depend on general business environment in the respective economy and the actions the government is undertaking to tackle challenges. Respondents from Bosnia and Herzegovina and Serbia are the less worried about their business activity due to the war. In both economies, around 45% of business representatives are not concerned. However, more than half of respondents claim the opposite. Kosovo* businesses claim to perceive the highest risk coming from the war, with 47% considering it a great concern and another 32% being worried to some extent (for a total of 79%). Businesses of Albania and North Macedonia follow with a total of 73% and 70%, respectively.

22 The World Bank. Western Balkans Regular Economic Report: Fall 2022. (2022). <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>

23 IMF. [Inflation dynamics in the Western Balkans](https://www.imf.org/en/Publications/WP/Issues/2023/03/03/Inflation-Dynamics-in-the-Western-Balkans-530338), Working paper no. 2023/49. <https://www.imf.org/en/Publications/WP/Issues/2023/03/03/Inflation-Dynamics-in-the-Western-Balkans-530338>

Figure 34. What level of risk do you think the war in Ukraine poses to your business?

(All respondents - N=600, share of total, %, mean)



A direct impact of the war is related to the expected revenues. Companies in Kosovo*, Albania and North Macedonia are the most concerned regarding their revenues for 2022, with 59%, 47% and 44%, respectively. The other three economies appear less concerned, with only a quarter of businesses claiming that they expect a decrease in revenues. Businesses are more optimistic in Bosnia and Herzegovina and Serbia, where 29% and 26%, respectively, expect an improvement in revenues. In addition, almost half of respondents in these two economies anticipate no major changes and expect the situation to remain the same. As already mentioned, to some extent, risk perceptions might be tied more to domestic economic policy environment and responses rather than the actual impact of the war. To illustrate this further, it is important to point out that the trade in the Western Balkans is mostly connected to EU. According to Eurostat²⁴, more than 81% of the region's exports go to the EU and only 2.7% of products go to Russia. Region's imports stand at 60% from the EU and less than 4% from Russia. Serbia is the only economy in the region with relatively substantial exports to Russia. Therefore, a direct impact is less expected since economies of the region are not dependent on Russia's economy. Even for Serbia, the impact is not relevant since it has not imposed sanctions yet.

24 Eurostat. Enlargement countries – international trade in goods statistics. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Enlargement_countries_-_international_trade_in_goods_statistics&oldid=564286

Figure 35. How do you expect revenues of your business to develop in the course of 2022 compared to the previous year?

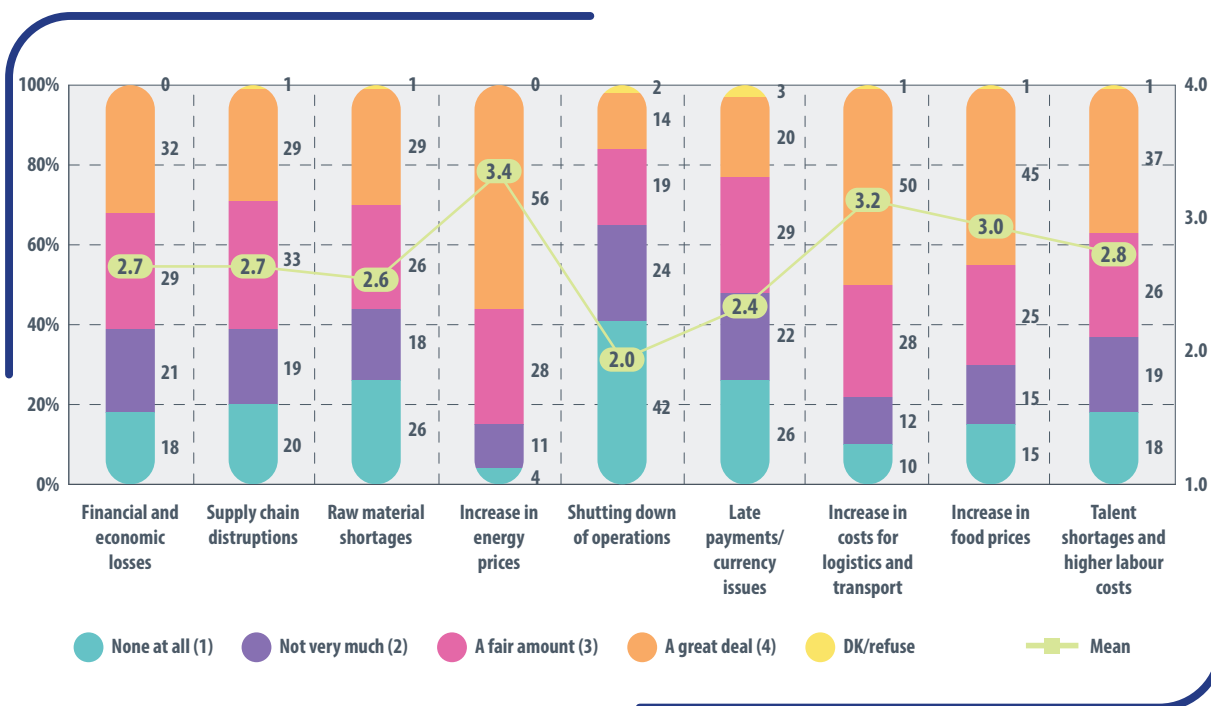
(All respondents - N=600, share of total, %)



Though general revenues from business activities are expected to be relatively affected, increase in energy prices is considered the main negative experience from the war. Figure 36 shows that 84% of region’s businesses state that they have experienced an increase in energy prices, considering it an important source of concern. Because of this and the increase in fuel prices, costs of logistics and transport are the second most felt effect of the war, with 78% of companies admitting the impact. Other negative consequences experienced by businesses include increased food prices (70%), shortage and higher labour costs (63%), financial and economic losses, and supply chain disruption (both at 61%). Despite many negative effects experienced, a positive note is related to relatively low share of companies declaring shutting down their operations, at 33%. However, these components vary across economies, as the following figures demonstrate.

Figure 36. Has your business experienced any of the following amidst the war in Ukraine? Could you please rate each?

(All respondents - N=600, share of total, %, mean)



The following group of figures (37-45) explores the abovementioned consequences at economy level. As it will emerge from the survey, economies are divided into two main groups in terms of their perceptions of war impact to their activities. Figure 37 has collected responses and perceptions related to financial and economic losses, which is one of the key indicators in terms of impact on economic activities of companies. On one side, businesses from Bosnia and Herzegovina and Serbia appear to be most immune to the war impact on losses, with around two thirds of respondents claiming they have not had such experience. Both economies have continued their economic exchanges with Russia.

The second group of economies registers more concerns in terms of economic and financial losses, starting from Montenegro with 61% of companies reporting losses, up to 87% of companies in Kosovo*. Albania and Kosovo* also have the highest share of businesses which claim to have experienced a great deal of losses (63%), with only 1% of companies in Kosovo* stating that they had no effect (against 49% of Serbia and 33% of Bosnia and Herzegovina). In case of Serbia, maintaining trade flows with Russia might have redirected some of Russia’s trade flows in search of new trade channels after the sanctions. Latest figures from the last quarter seem to suggest this explanation.

A similar picture is presented regarding supply chain disruptions (Figure 38), although differences across economies are less than for economic losses. Kosovo* is again at the front of the ranking with 82% of businesses having experienced such disruptions, followed by Albania and Montenegro, at 76% and 75%, respectively. On the other hand, Serbia and Bosnia and Herzegovina again show less impact on their business activities, with 68% and 53%, respectively, claiming that they have not experienced disruptions in the supply chain. Companies of North Macedonia are more divided regarding this factor, registering 44% which have not experienced such negative impact, while 56% state having had such experience in general.

Figure 37. Has your business experienced financial and economies losses amidst the war in Ukraine?

(All respondents - N=600, share of total, %, mean)

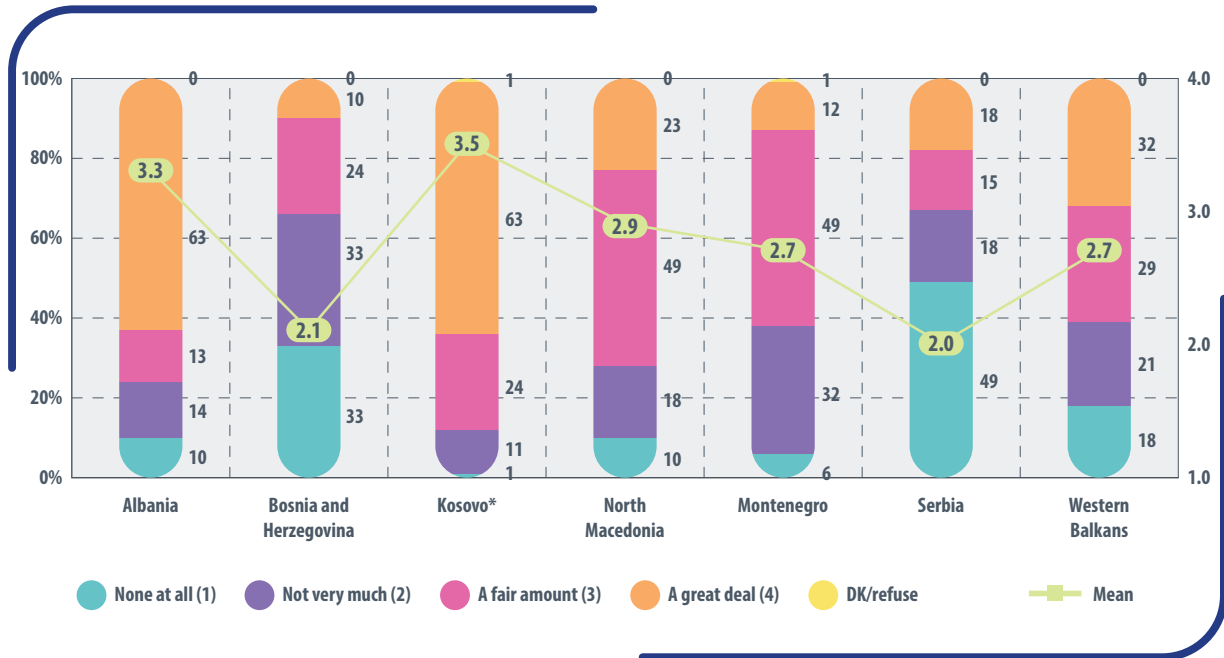
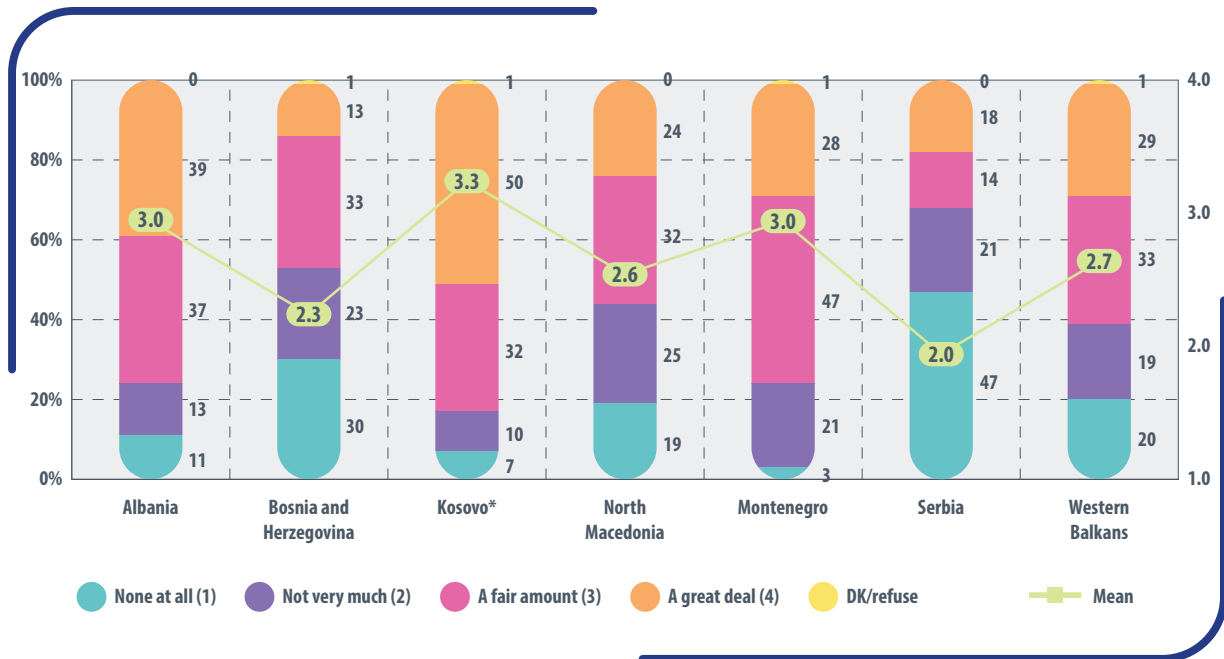


Figure 38. Has your business experienced supply chain disruptions amidst the war in Ukraine?

(All respondents - N=600, share of total, %, mean)

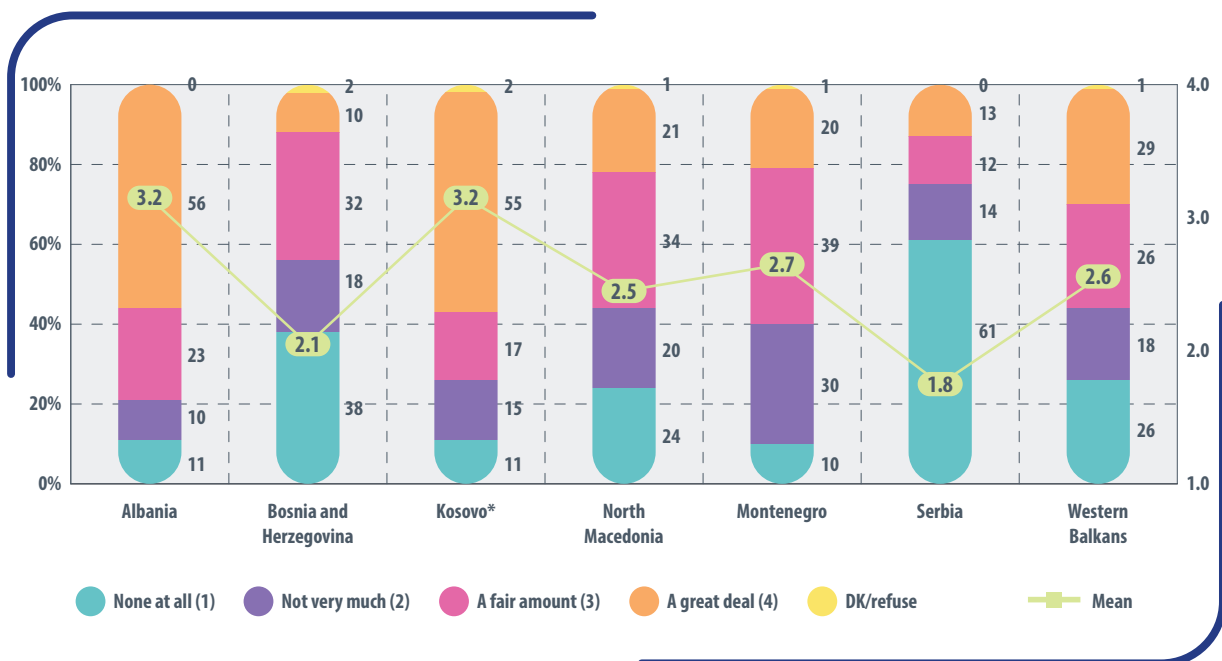


Shortage of raw materials is another important concern of companies worldwide and reported as one of the effects of the war, considering that both Russia and Ukraine are important exporters in several sectors. This has been particularly sensitive in the area of minerals,²⁵ causing a global disruption and impacting the Western Balkans as well, though to a lesser extent. Businesses from Western Balkan economies maintain the same patterns as above in replying to this question, presenting some important differences, especially between Albania and Serbia (Figure 39). While almost 4 out of 5 Albanian companies express having encountered difficulties with securing raw material, 3 out of 4 Serbian companies claim not to have had any problems in this area. This major difference can be explained with Serbia's more diversified trade channels in contrast to Albania importing largely from the EU (hence experiencing indirectly the effects of the war, since EU member states implemented sanctions against Russia, thus blocking imports). The other economies present a more equally distributed share of perceptions, with Bosnia and Herzegovina registering the highest share (amongst the remaining four) of companies which do not recall experiencing shortages of raw material (56%).

As showed in Figure 40, one area where businesses across all economies display the same experiences is the increase in energy prices. Serbia and Bosnia and Herzegovina are again less impacted, with 25% and 19% of companies, respectively, denying such experience. However, the share of businesses which have been affected is quite similar in all economies, ranging from 90% in Albania to 75% in Serbia. The energy sector has been suffering considerably in 2022, putting increased pressure on economic activities. However, this is also an indirect impact since the region's dependence on Russian gas and oil is at low levels.

Figure 39. Has your business experienced raw material shortages amidst the war in Ukraine?

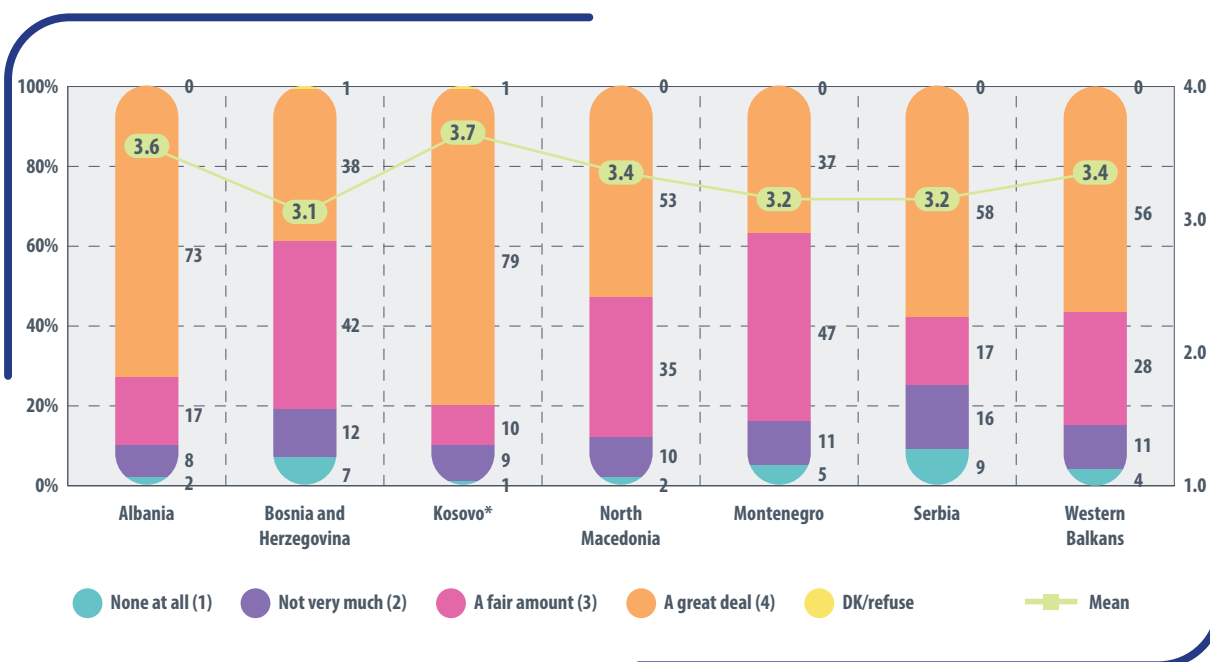
(All respondents - N=600, share of total, %, mean)



²⁵ OECD. The supply of critical raw materials endangered by Russia's war on Ukraine. (2022). <https://www.oecd.org/ukraine-hub/policy-responses/the-supply-of-critical-raw-materials-endangered-by-russia-s-war-on-ukraine-e01ac7be/>

Figure 40. Has your business experienced increase in energy prices amidst the war in Ukraine?

(All respondents - N=600, share of total, %, mean)



When exploring extreme impact and measures taken during 2022 due to the war, Albanian businesses constitute an exception to their counterparts in other economies. Companies were asked if they had to shut down economic operations because of the war (Figure 41), and a resounding 83% of Albanian businesses claim to have had to shut down operations amidst the war in Ukraine. However, this response is not validated by the official statistics in terms of number of companies shutting down their activity in 2022 (which is far less than during the first year of the pandemic). If related to shutting down business operations only partially, this is more difficult to verify, though the registered perception remains quite high. Responses from Albanian businesses appear to be a unique case, especially when compared to the other economies in the region. In Serbia (95%) and Bosnia and Herzegovina (90%) businesses have experienced no form of shutting down their operations. Kosovo* registers the lowest number in this regard, amongst the remaining economies, but is still at 50% of respondents claiming to not have had such experience. The Albanian case requires more in-depth analysis in this context since it had a considerable impact on the average figure for Western Balkans.

Figure 42 provides a snapshot of business perceptions in terms of late payments and currency issues due to the war. Similar to the above, Albania displays a remarkable share of companies which have experienced such negative effects (83%). Though Albanian companies are closely linked to Italian counterparts (that have had a massive impact because of the war) more than other economies in the region, the response from Albanian businesses is still at quite high figures compared to the rest of the region. Serbia and Bosnia and Herzegovina are still the most immune economies in this regard, with almost 80% and 73% of businesses, respectively, stating that they had no late payments in 2022 due to the war. Again, figures for Albania might suggest a broader dissatisfaction with business environment and lack of government actions to support them throughout the crisis rather than actual experiences in this direction.

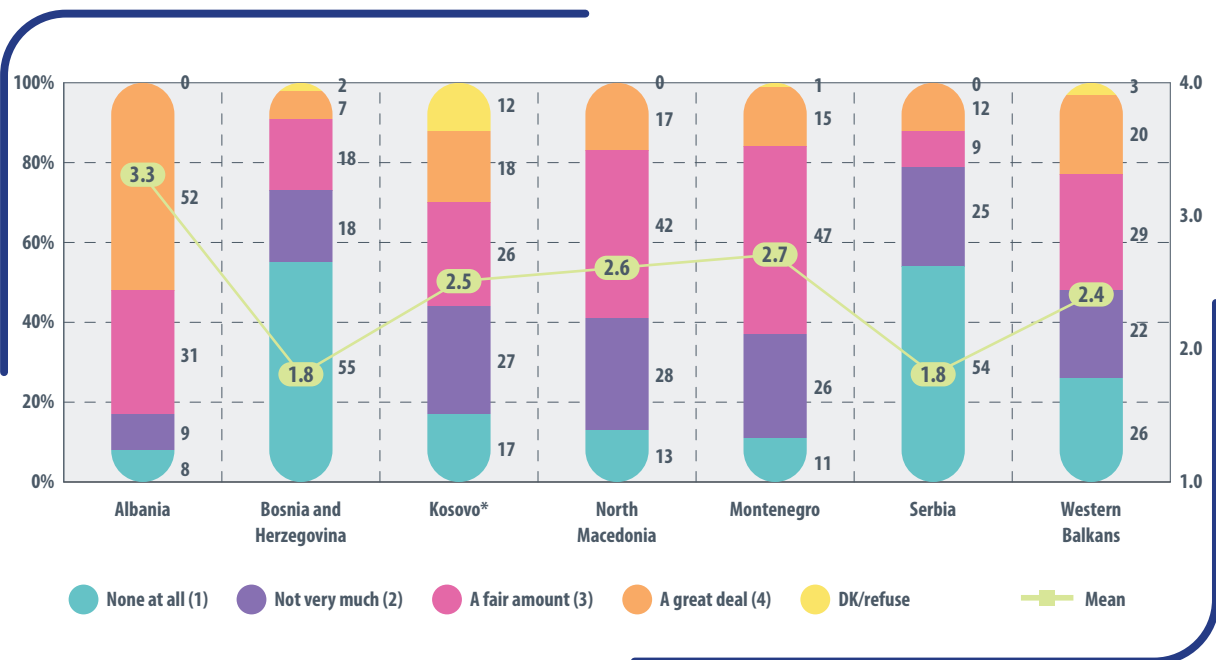
Figure 41. Has your business experienced shutting down of operations amidst the war in Ukraine?

(All respondents - N=600, share of total, %, mean)



Figure 42. Has your business experienced late payments/currency issues amidst the war in Ukraine?

(All respondents - N=600, share of total, %, mean)



Increase in logistics and transport costs has been a shared negative experience amongst the economies of the region, mostly due to the abovementioned increase in fuel prices. Figure 43 shows that Albania is still at the front with businesses complaining over such increase in costs (96%), while Serbia and

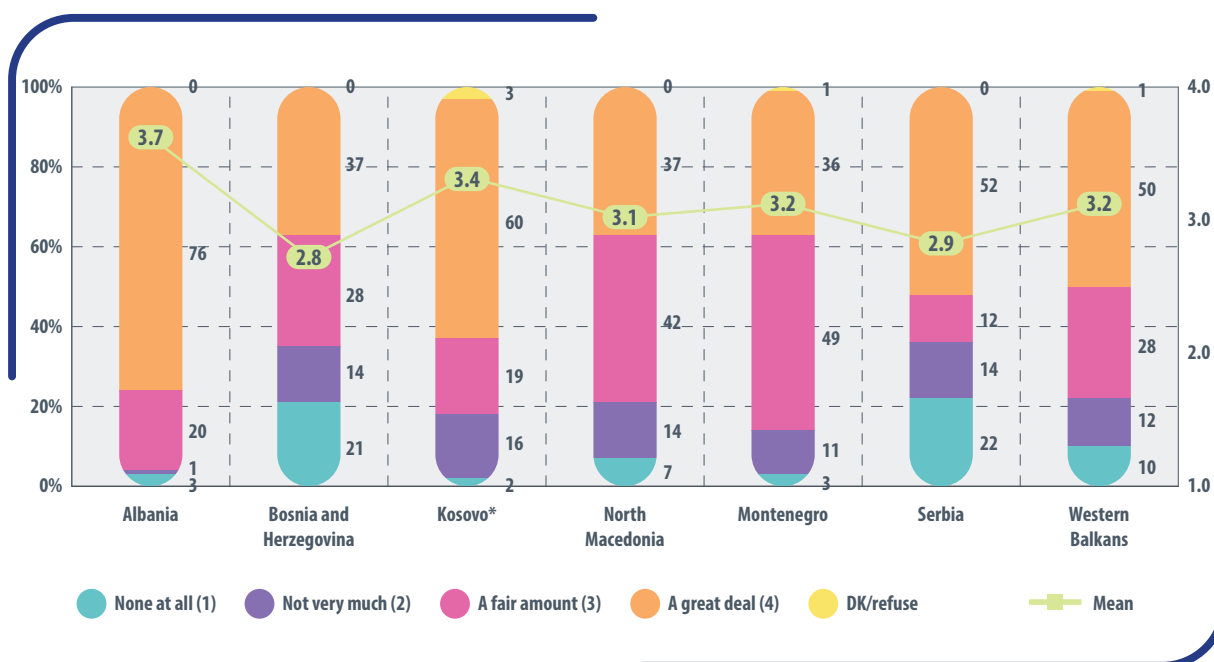
Bosnia and Herzegovina companies fare slightly better, with only 64% and 65%, respectively, stating that they have experienced increase in costs of logistics and transport.

Inquiry regarding increase in food prices is another important element of the survey, which presents a divisive picture within the region (Figure 44). Companies from Albania (94%), Kosovo* (90%), and Montenegro (76%) declare to have experienced such negative effect in their activities. On the other hand, North Macedonia, Serbia, and Bosnia and Herzegovina seem to have had a relatively lower impact. Approximately half of their businesses have not experienced worrying increase in food prices due to the war.

Shortage of labour and higher costs have been crucial in case of Albania (94%) and Kosovo* (80%). This result is validated by official statistics since, especially Albania is experiencing new waves of mass migration. In 2022, Albanians held the first place in the world for asylum seekers in the EU and UK combined.²⁶ This has caused direct shortcomings in the labour market and many sectors are experiencing difficulties. However, this trend had started before the war; therefore, it is difficult to attribute this to the current situation. The other four economies are doing better than Albania and Kosovo* in this regard, with approximately half of companies not registering such impact (Figure 45).

Figure 43. Has your business experienced increase in costs of logistics and transport amidst the war in Ukraine?

(All respondents - N=600, share of total, %, mean)



26 Eurostat. Annual Asylum Statistics. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Asylum_statistics&oldid=558844#First-time_applicants_.E2.80.93_881_220_in_2022

Figure 44. Has your business experienced increase in food prices amidst the war in Ukraine?

(All respondents - N=600, share of total, %, mean)

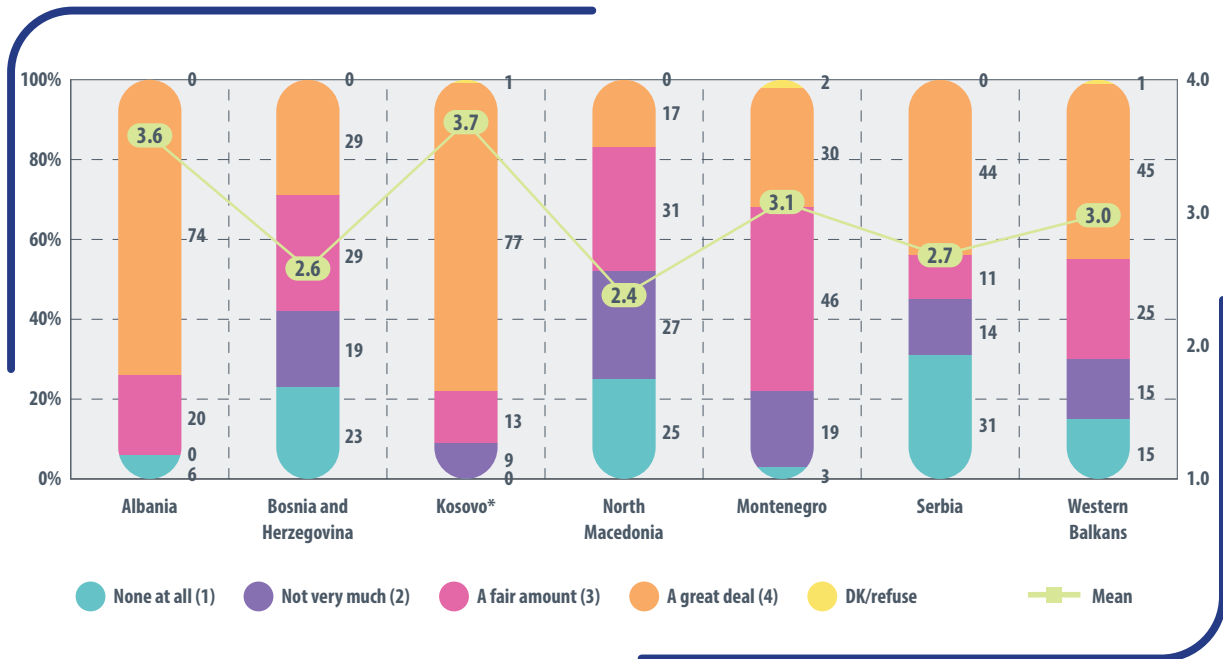
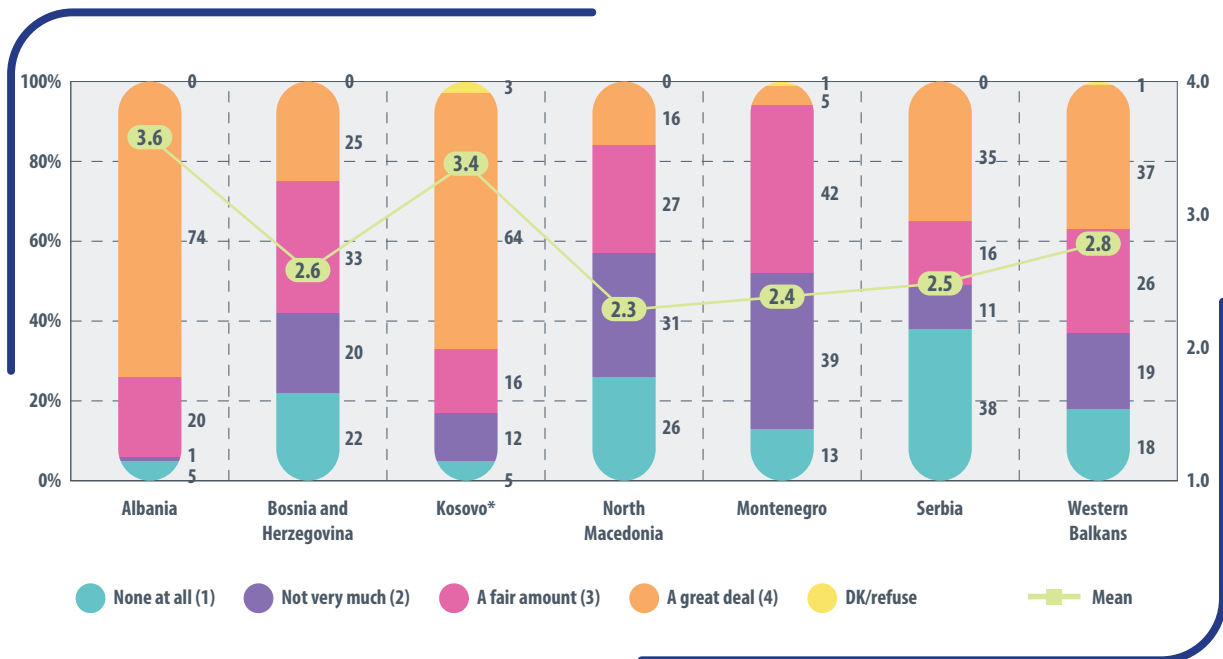


Figure 45. Has your business experienced talent shortages and higher labour costs amidst the war in Ukraine?

(All respondents - N=600, share of total, %, mean)

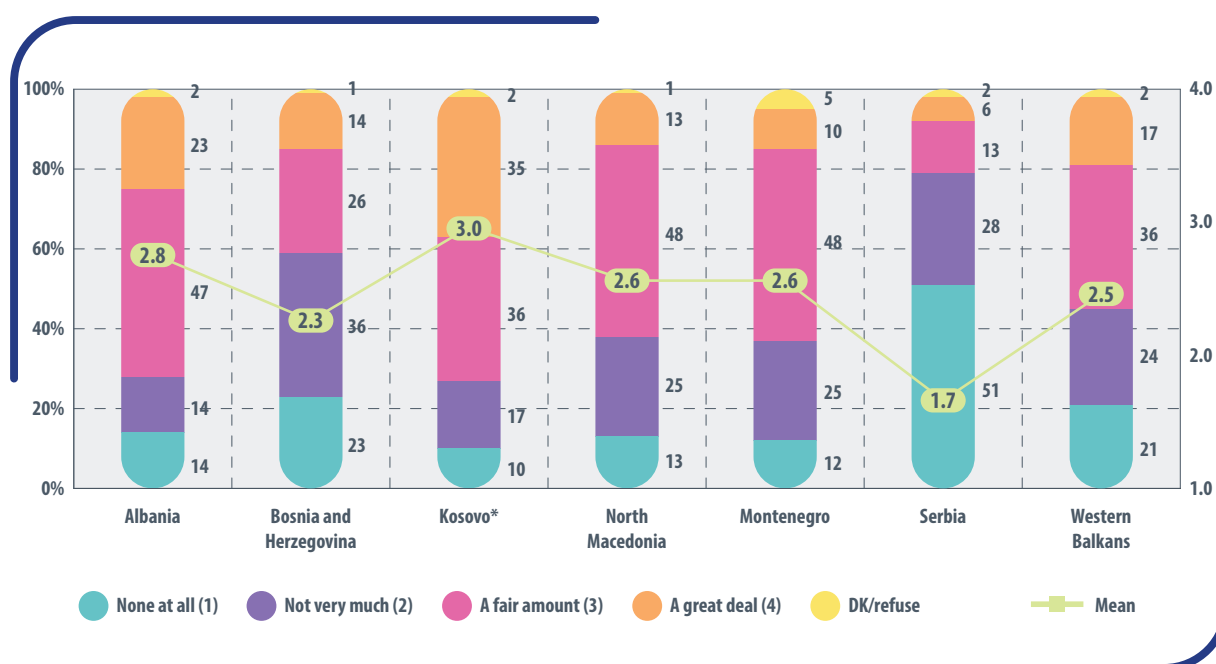


As expected, businesses in the region have been affected differently by the economic sanctions adopted by the EU against Russia. Figure 46 shows that almost 80% of Serbian companies have not been affected by the sanctions, bearing in mind that Serbia has not adopted them. Bosnia and

Herzegovina also maintains a high share of businesses which have not perceived sanctions as a direct burden for them (59%). On the other hand, the other four economies have experienced an impact of the sanctions going from 71% and 70% of businesses in Kosovo* and Albania, respectively, to a lower 58% in Montenegro. This division in two groups reflects the approach adopted towards sanctions, on one side, and the structure of economic and trade relations of each economy in terms of partners, on the other.

Figure 46. To what extent is your business affected by sanctions adopted by the EU or other countries over the war?

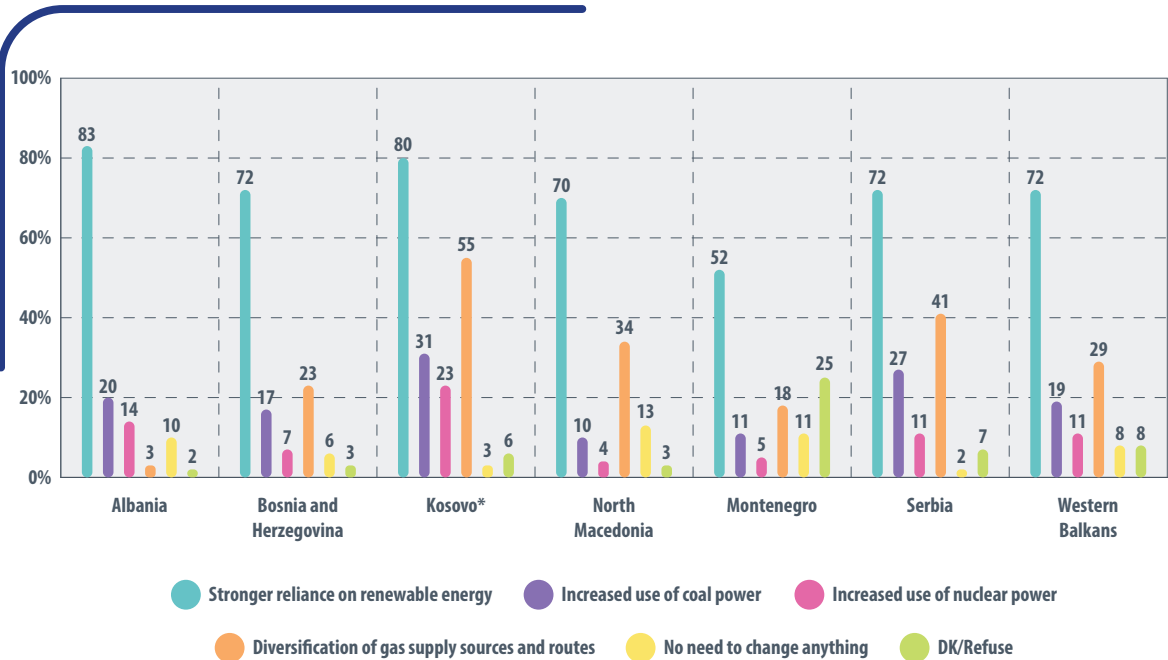
(All respondents - N=600, share of total, %, mean)



Concerns on the future of energy supply is at the top of factors worrying Western Balkans businesses. In this regard, the survey tried to explore thoughts of respondents on potential alternatives and strategies that they consider effective for the future. Figure 47 shows that renewable energy is highly appraised by companies of the region as the best strategy for plans on energy. Albanian businesses are at the peak of this expression of support (83%), while only half of companies from Montenegro are in the same line. All economies, except Albania, consider diversification of gas supply sources and routes as the second most relevant strategy, especially businesses in Kosovo* (55%) and Serbia (41%). In Albania, this support is as low as 3%, given the almost non-existent infrastructure and gas network for business and household usage. On the other hand, the presence of Trans Adriatic Pipeline (TAP) across Albanian territory might be a factor that leads companies to perceive that this alternative has already been adopted for the future.

Alongside an overwhelming support for renewable energy, it is peculiar to note that at the third-place companies place the increased use of coal power. Businesses from Kosovo* (31%) and Serbia (27%) are at the front of proposing such alternative. Last, the data indicate a minor yet present support for nuclear power, especially in Kosovo* with 23% of businesses.

Figure 47. In your view, following the outbreak of war in Ukraine, which strategies are most efficient for future energy supply? (Multiple answers)
 (All respondents - N=600, share of total, %, mean)

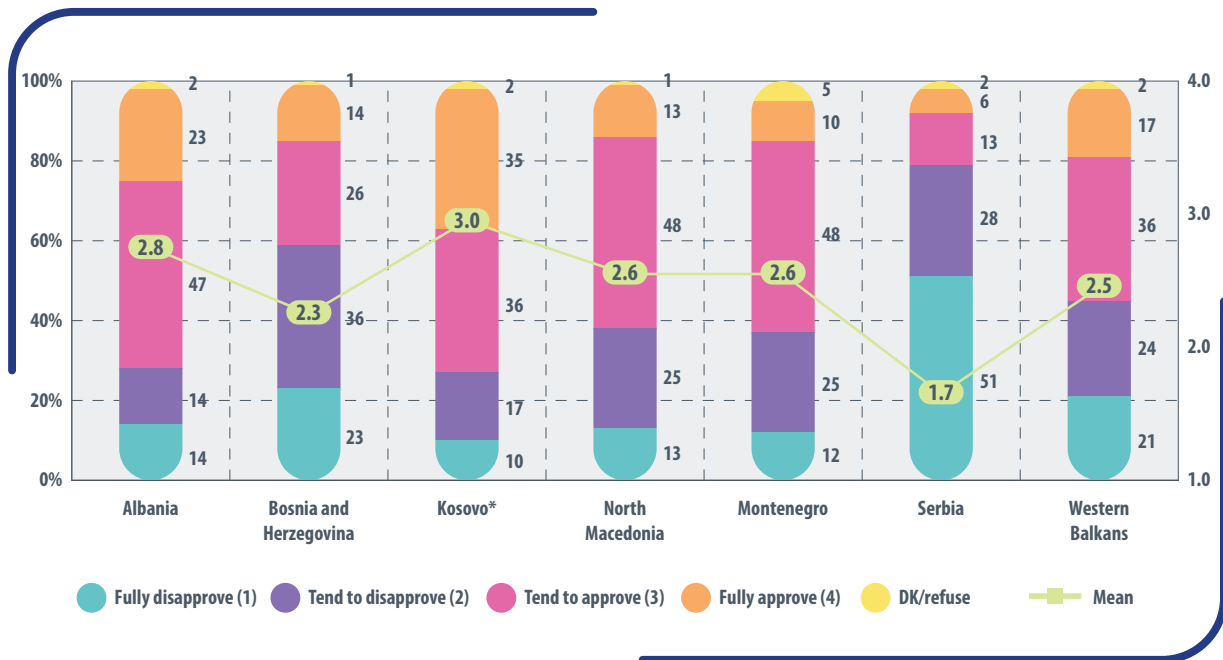


Adopting economic sanctions against Russia has been a controversial topic in the region throughout 2022. While some economies aligned relatively fast with EU and US position, others appeared more reluctant. Figure 48 captures this division within the region. Almost four out of five Serbian companies oppose majority of sanctions, followed by Bosnia and Herzegovina businesses with almost 60%. The other economies present higher support for sanctions, with Kosovo* companies in the lead with 71% in favour, followed by Albania (70%). At the regional level, opinions are divided in quite similar shares, with 53% approving the sanctions to some extent, while 45% not supporting them. When comparing business responses regarding sanctions with public opinions, figures are quite similar for each economy, except for North Macedonia. While only 21% of respondents from the public expressed support for the sanctions, 61% of North Macedonia businesses approve them. On the other hand, businesses might be more prone to support public authorities' decisions in this regard since they were amongst the first to approve an economic package a few days after the conflict started.²⁷

27 <https://www.intellinews.com/north-macedonia-adopts-400mn-package-to-ease-economic-crisis-caused-by-russian-ukrainian-conflict-237532/>

Figure 48. To what extent do you approve [Economy] joining economic sanctions against Russia?

(All respondents - N=600, share of total, %, mean)



Digital infrastructure is key to competitiveness and economic growth, and, amongst other elements, requires constant efforts in terms of security to face current challenges. Though not directly linked to the war in Ukraine, Albanian companies are the most affected in terms of security of digital infrastructure. Four out of five confirm that they perceive security not to be at its best. As already mentioned, the year 2022 was very turbulent for Albania's digital system which suffered severe cyberattacks. Government e-services were shut down and businesses could not use them for several weeks. This has left a mark on their operational activities, which might be reflected in the responses to the survey. Economies with less concerns for security of digital infrastructure are nominated by companies in Bosnia and Herzegovina and Serbia, where businesses that identify threats in this regard stand at only 29% and 31% respectively. Rather than strictly related to actual perception of digital security, these positions are aligned with the general patterns of responses in each economy when asked about components related to the war.

Figure 49. To what extent has the war in Ukraine compromised the security of digital infrastructure in [Economy]?

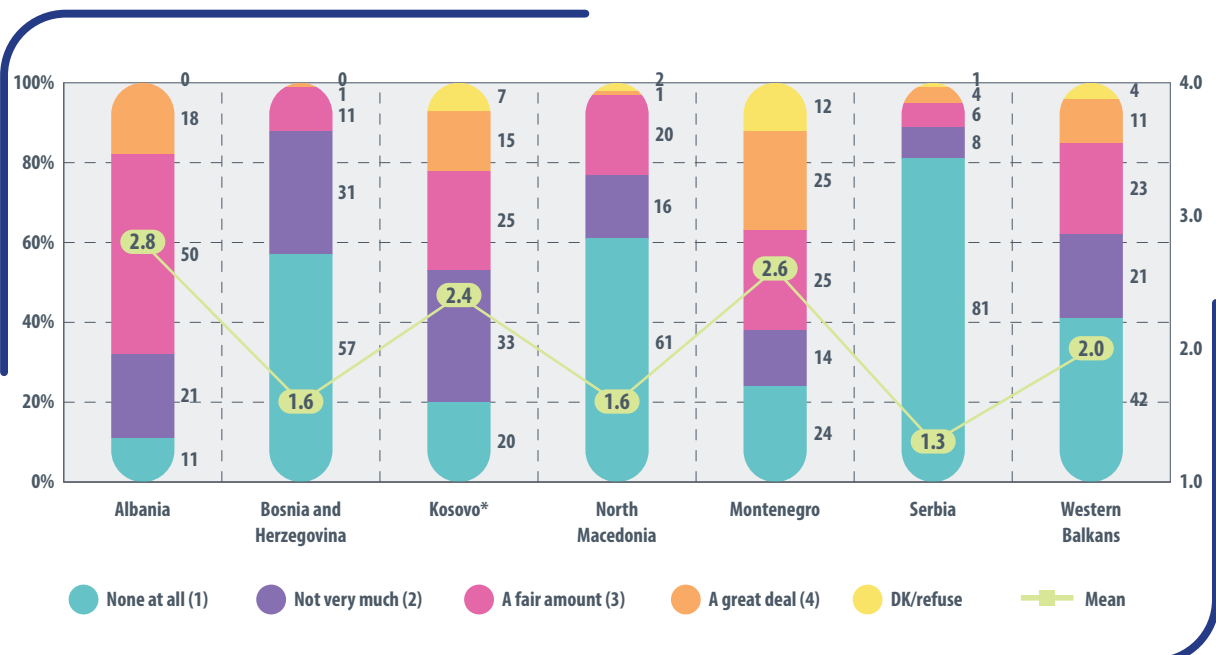
(All respondents - N=600, share of total, %, mean)



Like Figure 49, when asked about cyber activities in businesses processes after the war in Ukraine, Albania is again home to most concerned companies with 68% claiming to have suffered from such attacks (Figure 50). Montenegro follows in the second place, with half of interviewed companies claiming to have experienced such challenge, which might refer to the attacks experienced in August 2022. Cyber activities are of little concern for the other economies, especially for companies in Serbia (89%), Bosnia and Herzegovina (88%), and North Macedonia (77%).

Figure 50. To what extent have you suffered from an increased cyber activity in your infrastructure/processes after the war in Ukraine?

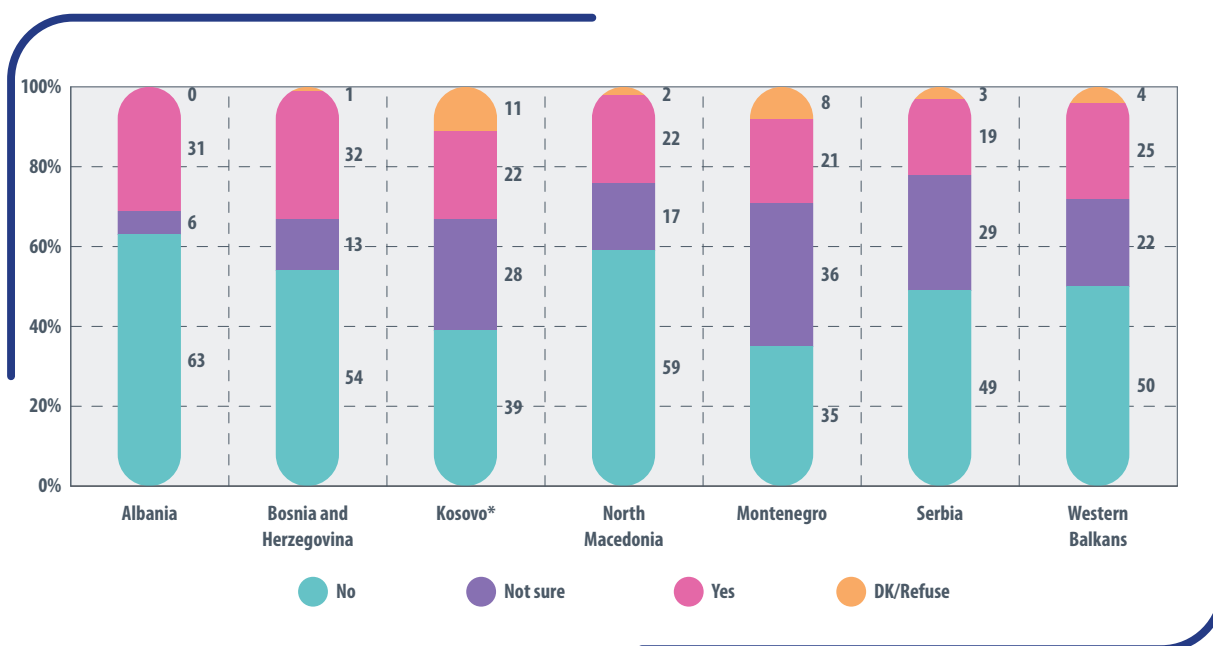
(All respondents - N=600, share of total, %, mean)



Despite having different experiences in terms of the level of cyber activities against their processes, businesses of the region demonstrate a similar level of awareness of the importance of investing in cyber security. As an example, though 68% of Albanian companies claim to have experienced these activities, only 31% of them declare to have planned investments in cyber security. This figure is even below the 32% of companies from Bosnia and Herzegovina (where only 11% of businesses have experienced cyberattacks). Paradoxically, Albania presents the highest share of companies to not invest in cyber security, despite the negative experiences in 2022. At the regional level, half of interviewed companies have not made such plans and only a quarter of them have invested in cyber security (Figure 51).

Figure 51. Have you invested or you plan to invest more in cyber security after the war in Ukraine to ensure sustainability of your processes?

(All respondents - N=600, share of total, %, mean)



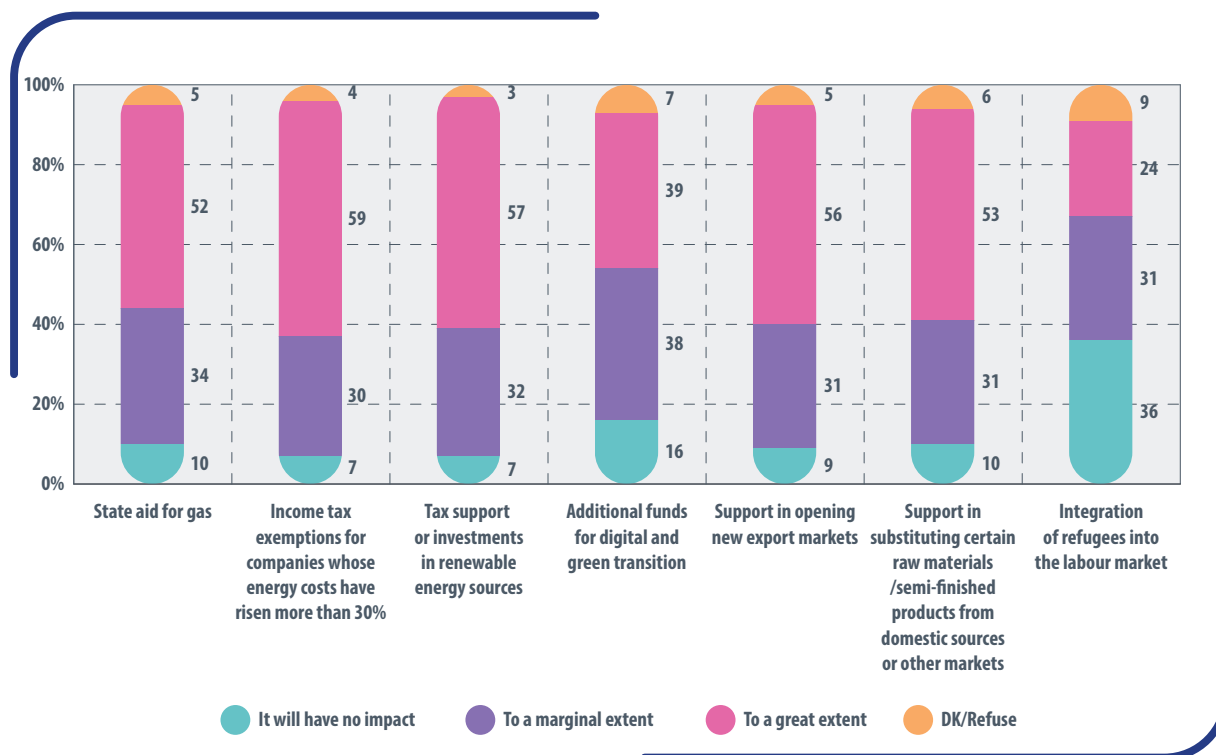
In these times of crisis, from the pandemic to the war in Ukraine, businesses of the region have often appealed to public authorities to intervene with economic measures and support them to face the challenges. Figure 52 has collected the main proposals businesses in the Western Balkans advocate for in their economies. Most of the proposed measures are shared by similar amounts of companies, with an average of half of them considering these measures appropriate for mitigating the impact of the war on their economy. This includes state aid for gas (52%), income tax exemptions (59%), tax support for investments (57%), new export markets (56%), etc. A slight scepticism is expressed in the case of additional funds for digital and green transformation (16% claiming them not beneficial), since these measures might be perceived as longer term and not helping with immediate needs of companies.

However, the largest opposition is recorded with the last proposed measure, integration of refugees in the labour market, with more than one third of companies against. Only one out of four companies of the region considers this measure to have potentially large effect. When compared to EU companies, Western Balkans businesses demonstrate similar challenges and preferences for measures. More specifically, fiscal relief to allow breathing space for companies has been highlighted. Other measures include support to cope with energy prices and investment in renewable energy.²⁸

28 Eurochambers. Eurochambers Economic Survey. (2022). <https://www.eurochambres.eu/wp-content/uploads/2022/11/EES-2023-Eurochambres-Economic-Survey-Report.pdf>

Figure 52. To what extent do you think the following measures by the Government would mitigate the consequences and impact of the war on [Economy]?

(All respondents - N=600, share of total, %, mean)



In the following sequence of figures (53-59), the measures proposed in Figure 52 have been unpacked and explored for each economy. State aid for gas is considered a straightforward and practical measure that would alleviate the immediate burdens faced by companies in the region (Figure 53). Support for this measure is quite high amongst Serbian companies (90%) and slightly less important for businesses from Kosovo* (82%). Opinions of companies from the other economies fall between these two figures, confirming a high-level support for this type of intervention.

Figure 54 deals with exemptions from income tax for companies which have suffered the rise of energy costs. This measure is highly supported and deemed effective by most companies in each economy, ranging from a very high share in North Macedonia (96%) to slightly lower one in Kosovo* (82%). Intervening on tax burden is seen as a fast instrument for improving business ability to cope with the consequences of the war.

Figure 53. To what extent do you think that state aid for gas would mitigate the consequences and impact of the war on [Economy]?

(All respondents - N=600, share of total, %, mean)

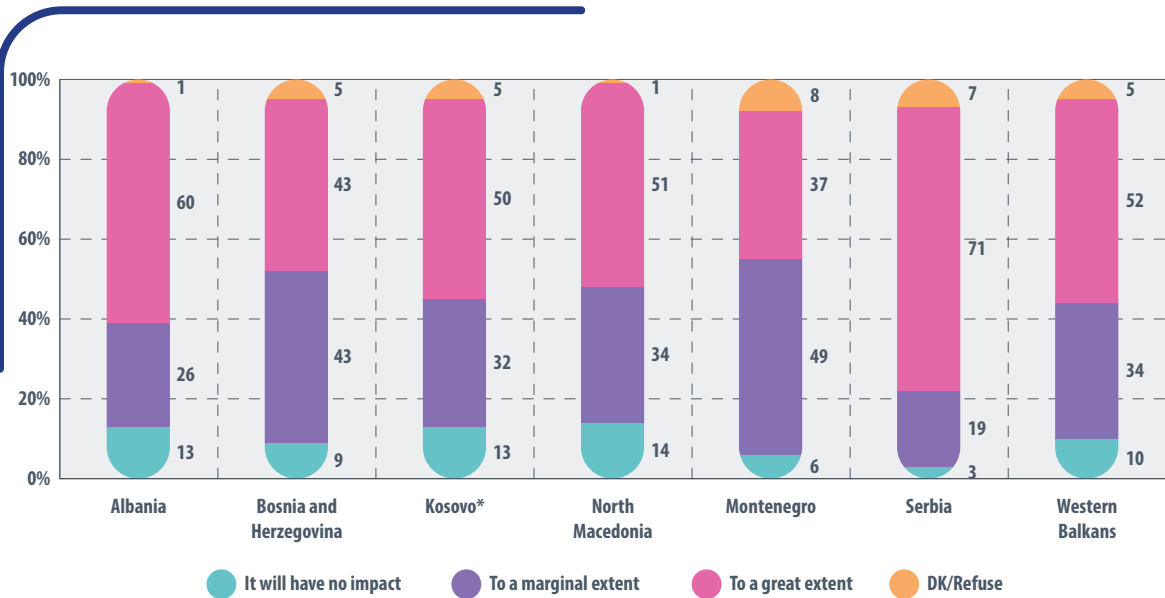
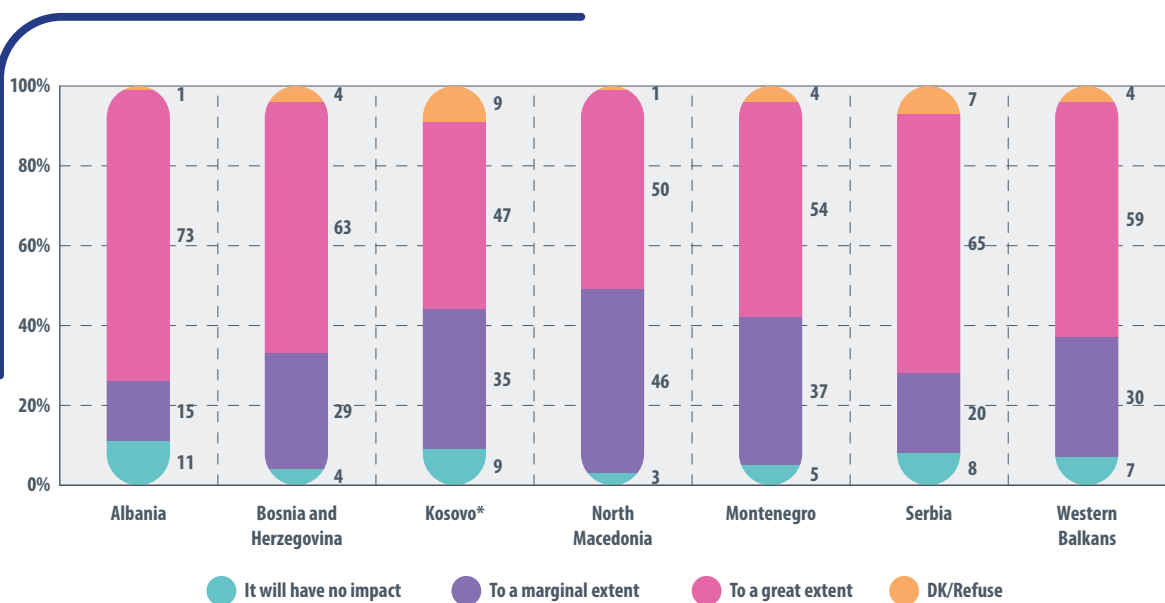


Figure 54. To what extent do you think that income tax exemptions for companies whose energy costs have risen more than 30% would mitigate the consequences and impact of the war on [Economy]?

(All respondents - N=600, share of total, %, mean)



Support for investing in renewable energy is also seen favourably by companies in the region. Around 94% of respondents in North Macedonia support this measure and 87% in Serbia and Kosovo* (Figure 55). The other economies are also characterised by large support, in-between the above shares. The

recent EU announcement of a large financial package in support of renewable energy and for coping with current shortcomings in the region will further encourage companies to pursue this direction (especially if supported through government measures).

The idea of additional funding for digital and green transition, though supported by a large majority across all economies, faces some resistance, especially in North Macedonia (26%), and Albania and Kosovo* (with 20% each). The biggest supporters of this measure are to be found amongst the companies of Bosnia and Herzegovina, where 88% of respondents consider it an effective strategy for mitigating the impact of the war. As already mentioned, the opposition faced by this measure (though relatively low) is due to the lack of information and the perception that it is a long-term solution, not necessarily effective for coping with immediate needs (Figure 56).

Figure 55. To what extent do you think that tax support for investments in renewable energy sources would mitigate the consequences and impact of the war on [Economy]?

(All respondents - N=600, share of total, %, mean)

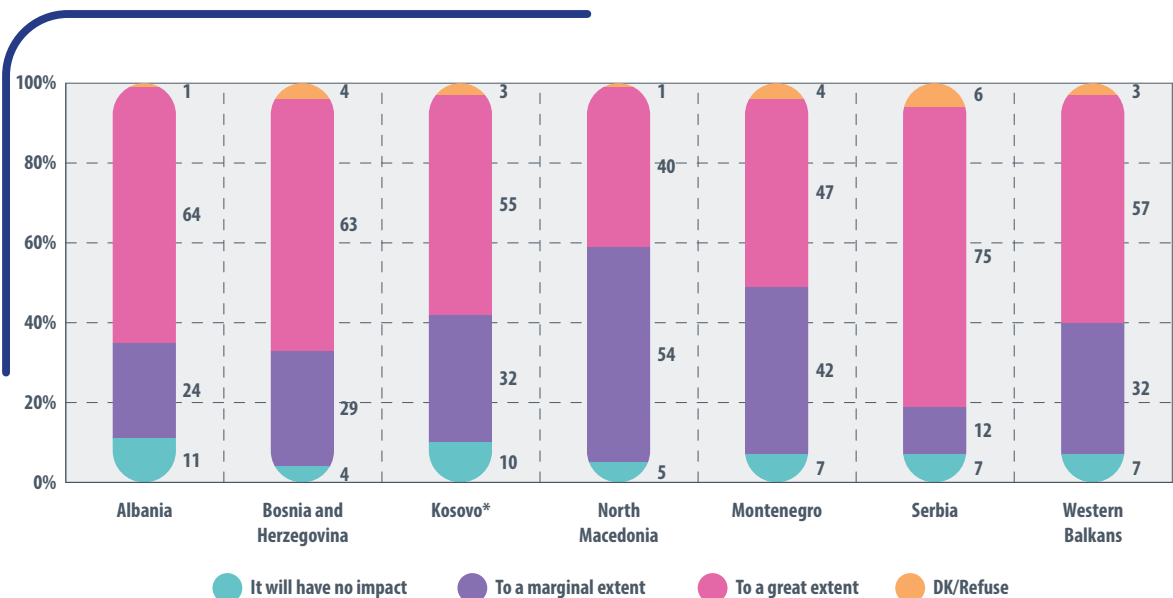
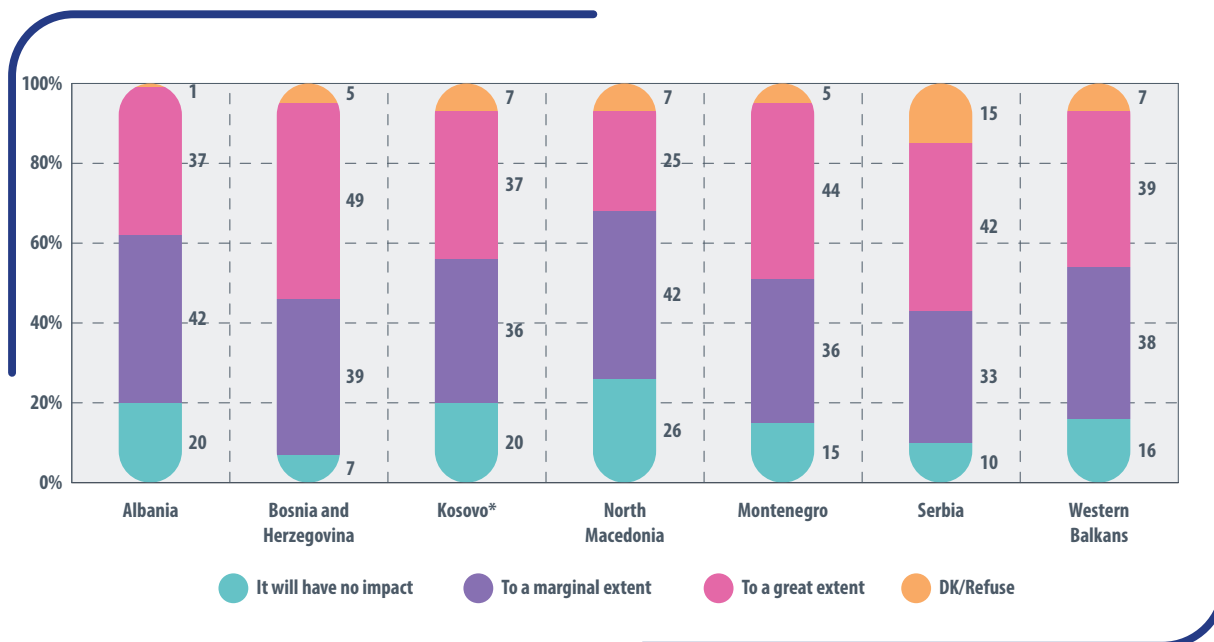


Figure 56. To what extent do you think that additional funds for digital and green transition would mitigate the consequences and impact of the war on [Economy]?

(All respondents - N=600, share of total, %, mean)



Receiving support for exploring and opening new export markets is considered an effective solution by most of the companies in each economy (Figure 57). Responses are at similarly high levels across the region, favouring this option to cope with challenges from the war. Especially in Serbia and Kosovo*, companies are strongly convinced of the validity of this measure, with 77% and 67% of them, respectively, showing firm support for its adoption. The highest share of businesses opposing this measure as ineffective is to be found amongst the Albanian respondents, where 15% of them consider it as not useful. Rather than concentrating efforts on reaching new markets, companies might prefer measures helping them domestically and making them competitive, since they are already well connected with most important markets.

In relation to raw materials and the impact of war on economic activities of businesses in the region, Figure 58 shows that companies from Serbia and Kosovo* are again the ones strongly favouring measures and support for coping with this issue (70% and 68%, respectively). Businesses from Albania and Montenegro, on the other hand, register the highest share of scepticism regarding this measure, though at low levels when compared to the overall sample (17% and 16%, respectively). Results from this figure indicate that some economies are relatively more concerned and more dependent on raw materials from Ukraine, Russia and markets related to them than others.

Figure 57. To what extent do you think that support in opening new export markets would mitigate the consequences and impact of the war on [Economy]?

(All respondents - N=600, share of total, %, mean)

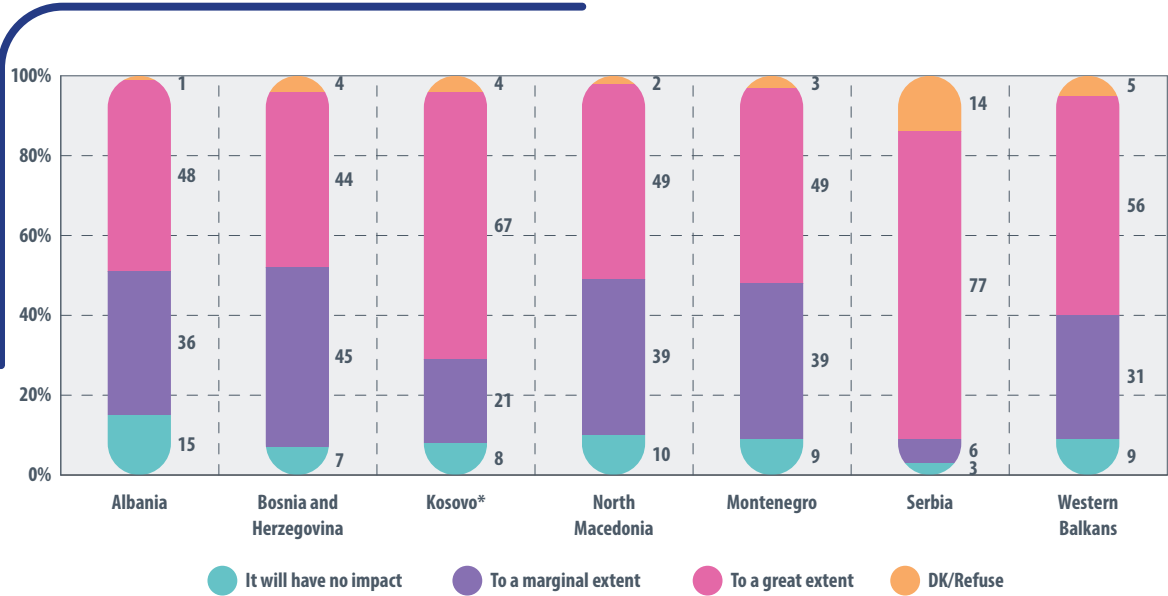
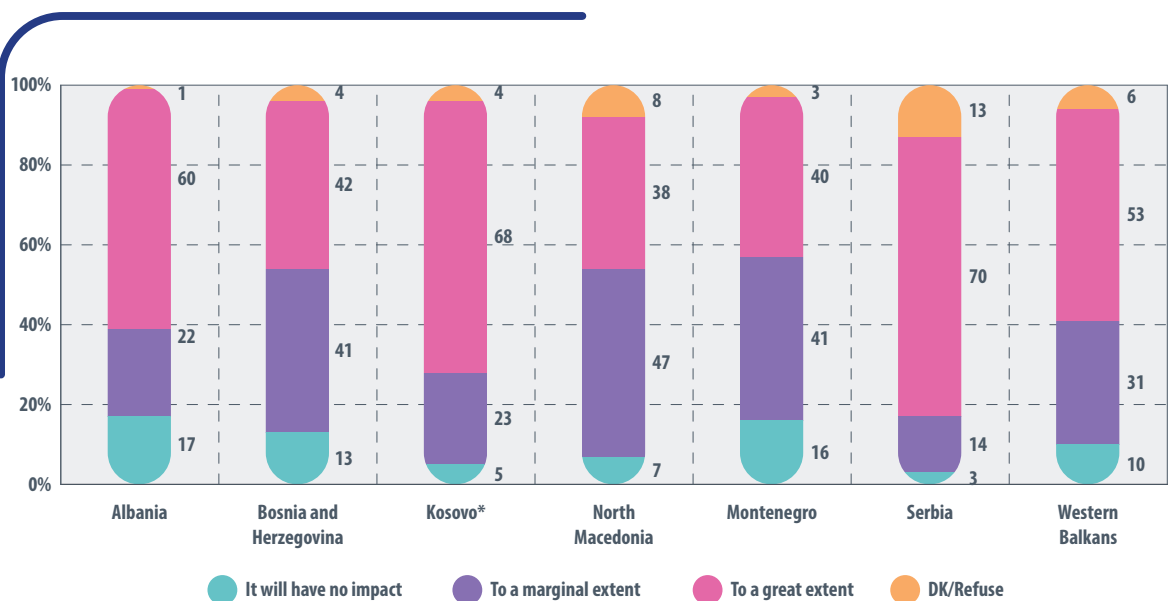


Figure 58. To what extent do you think that support in substituting certain raw materials/semi-finished products from domestic sources or other markets would mitigate the consequences and impact of the war on [Economy]?

(All respondents - N=600, share of total, %, mean)



Half of North Macedonia companies are against the integration of refugees in their labour market as a solution to the consequences of the war (Figure 59). Businesses from Montenegro and Serbia show similar positions regarding this measure. On the other side of this stands Albania, where only 20% of companies oppose this proposal, while almost 80% of them see it as a positive instrument. This can be explained by the massive shortage of labour force in this economy, due also to mass migration in recent years. In this regard, in the recent years Albanian authorities have already announced introduction of programmes for welcoming migrants from Asia to work in Albanian factories. This measure has been viewed positively by the business community, which is also reflected in the responses to this survey regarding refugees from Ukraine.

These differences of position between economies of the region might be based on several factors. In case of North Macedonia and Serbia, both economies have been a main route or corridor for refugees from war zones and other areas towards the EU, which is not the case for Albania and Kosovo*. This has put much pressure on their public administration and even caused tensions and incidents at the border/boundary with the EU.²⁹ On the other hand, these economies have registered a relatively high number of asylum-seekers. Almost 130,000 new arrivals to government centres were registered in Serbia in 2022 alone. This figure is more than double compared to 2021.³⁰ As a comparison, in 2021 only about 10,000 refugees entered Albania.³¹ Another reason is related to bureaucratic procedures for integrating refugees into the labour market, as the North Macedonia example and experience so far show. Work permits cannot be issued to migrants if they do not have residence permits³² (which are also complicated to obtain).

Figure 59. To what extent do you think that integration of refugees into the labour market would mitigate the consequences and impact of the war on [Economy]?

(All respondents - N=600, share of total, %, mean)



29 RadioFreeEurope. Serbia Cracks Down on Refugees And Migrants Amid EU Pressure. (2022). <https://www.rferl.org/a/serbia-refugees-migrants-eu/32169521.html>

30 UNHCR Serbia Updated. (2022). <https://reliefweb.int/report/serbia/unhcr-serbia-update-december-2022>

31 Institute of Statistics. Foreigners in Albania. (2021). <https://www.instat.gov.al/media/10428/foreigners-in-albania-2021.pdf>

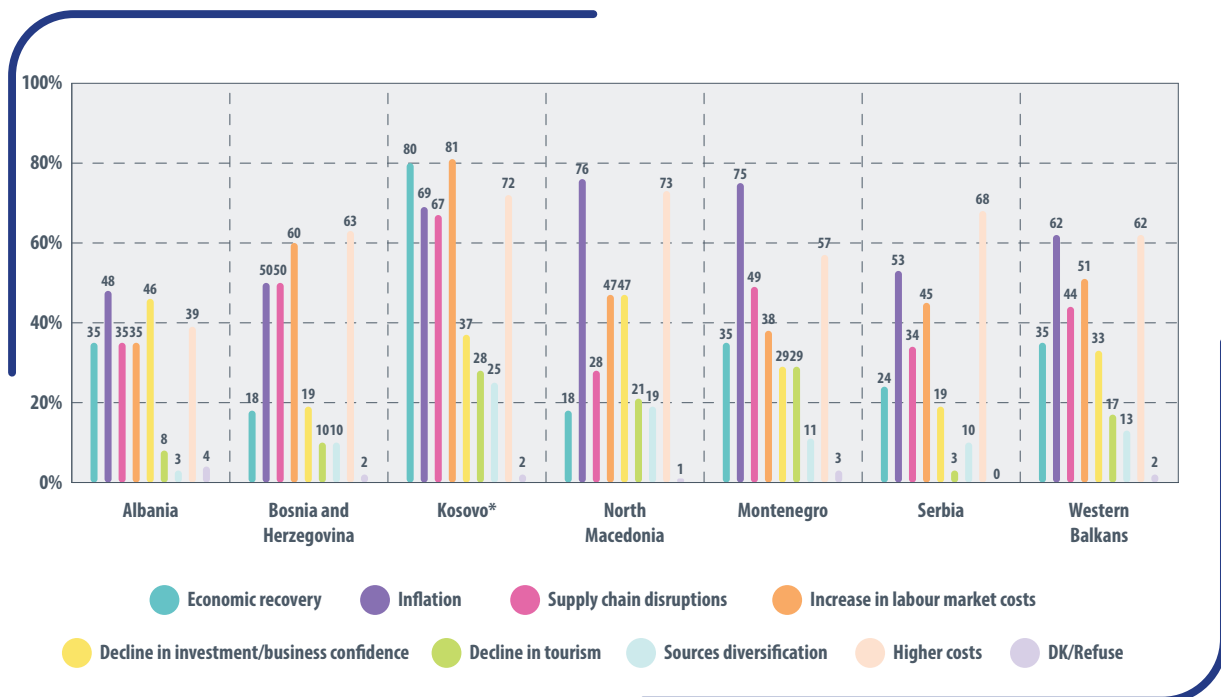
32 Integral Human Development. Country Profiles: North Macedonia. <https://migrants-refugees.va/country-profile/north-macedonia/>

Finally, companies in the Western Balkans were interviewed regarding their opinions on long-term economic effects of the war on their business operations, at economy and regional level. Figure 60 demonstrates a very diverse picture across economies, with differences in perceptions and concerns. Economic recovery is a major concern mostly for Kosovo* companies (80%), followed by Bosnia and Herzegovina (50%). It appears that in other economies other factors are perceived as more worrying. Thus, inflation is a common denominator in terms of concerns, selected mostly by companies from North Macedonia (76%), Montenegro (75%), Kosovo* (69%), and Serbia (53%).

Supply chain disruption is perceived as a risk in Kosovo* (67%), Bosnia and Herzegovina (50%) and Montenegro (49%). A staggering 81% of Kosovo* companies point out the increase in labour market costs as the biggest concern for their economy, followed by Bosnia and Herzegovina (60%), North Macedonia (47%) and Serbia (45%). Decline in investments and trust in business environment is relatively high in North Macedonia (47%) and Albania (46%). The figure demonstrates positive expectations for tourism sector, where a low share of companies claiming negative expectations is registered in all economies. Overall, as figure 60 shows, companies from economies of the region are faced with similar challenges, though their perceptions of the importance of each of them vary. Business confidence is also at lowest levels amongst EU companies.³³ Their major concerns relate to the access to affordable energy and raw materials, in addition to skills shortages and increased labour costs. Financing conditions and disruptions of the supply chains follow the list of most worrying factors for EU businesses.

Figure 60. What do you expect to be long-term economic implications of the war in Ukraine on your business operation at economy and regional level? (Multiple answers)

(All respondents - N=600, share of total, %, mean)



33 Eurochambers. Eurochambers Economic Survey. (2022). <https://www.eurochambres.eu/wp-content/uploads/2022/11/EES-2023-Euochambres-Economic-Survey-Report.pdf>

Annex I. Note on methodology - Public opinion survey

Methodology used for Public Opinion Survey was quantitative research, and data collection method was CATI (Computer Assisted Telephone Interviewing).

The survey was conducted via telephone interviews, using databases of mobile and landline telephone numbers extracted from the economy-level representative surveys. The interviews were carried out by trained interviewers from Data Centrum Research Institute in Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia and Serbia. The survey was implemented during September-October 2022.

Questionnaire

The survey questionnaire was provided by the RCC. The Public Opinion Survey questionnaire was composed of a total of 32 questions, including the demographics (region, size of settlement, gender, age, education, nationality, marital status, household income and self-assessed social status of the respondent). The questionnaire was originally written in English and subsequently translated into relevant local languages. In Kosovo*, both Albanian and Serbian versions of the questionnaire were used, and in North Macedonia, the questionnaire was translated and used in Macedonian and Albanian languages.

RCC reviewed and approved all the translated versions of the questionnaire. Since CATI methodology was used in the research, all questionnaires were converted to a digital form and installed on interviewers' tablets. The programmed questionnaires were reviewed by a responsible person in each economy.

Interviewers

The survey was conducted by experienced interviewers in all economies. All interviewers were trained and given instructions with general description of the questionnaire, method of selecting addresses for interviews and respondent selection method, and were trained to understand survey goals, interviewing method and eligible respondent selection.

Sample

Public Opinion Survey was conducted amongst N=500 respondents in each economy, aged 18+ with the total of 3,000 respondents for the entire Western Balkans region.

For the Public Opinion Survey, the target respondents were persons:

- 18+ years old who reside in private households,
- Residents of the economies included in the survey.

To achieve a fully representative sample of the targeted population, each economy used their own databases extracted from economy-level representative surveys. The sample was proportionally distributed with quota applied per age group and gender, based on the official population data of CENSUS in each economy. Random sampling technique was used for the selection of sample within the telephone numbers of consortium databases (landline and mobile contacts, including randomly generated landline numbers around actual contacts, to reduce the impact of delisted phone numbers) - random digit dialling (RDD) was applied. As the Consortium recommended, the number of call attempts per contact was 3 times, and the time elapsed between a busy call and another attempt was 30 minutes; without redialling the number where the interview was rejected.



Method

Methodology used for Public Opinion Survey was quantitative research, and data collection method was CATI (Computer Assisted Telephone Interviewing).

The survey was conducted via telephone interviews, using databases of mobile and landline telephone numbers extracted from the economy-level representative surveys.



LOI/ Response Rate

Duration of Interview \approx 10-15 minutes. Response rate varied from 15 to 22% of the total contacts.



Sampling

N= 500 in each economy (3,000 in total) with residents in the respective cities/villages.

Male and female, 18+ years old!

The sample was proportionally distributed with quota applied per age group and gender, based on the official population data of CENSUS in each economy.



Specific Issues

Lately, there has been an increase of mistrust and fear amongst the respondents as regards possible misuse of their personal data, experienced especially in Albania and Montenegro, which saw cyberattacks in the past months.

Figure 61. Sample structure by region

Economy	Region	%
Albania	Berat	5
	Diber	5
	Durres	9
	Elbasan	11
	Fier	11
	Gjirokaster	3
	Korce	7
	Kukes	3
	Lezhe	5
	Shkoder	7
	Tirane	28
Vlore	6	
Bosnia and Herzegovina	Unsko-sanski	7.8
	Posavski	1.2
	Tuzlanski	12.6
	Zenicko-dobojski	10.4
	Bosansko-podrinjski	0.6
	Srednjobosanski	7.2
	Hercegovacko-neretvanski	6.2
	Zapadno-hercegovacki	2.6
	Sarajevski	11.8
	Kanton 10	2.4
	Region Banja Luka	15.6
	Region Dobo	6.2
	Region Bijeljina	4
	Region Pale	2.8
	Region Zvornik	3
	Region Istocna Hercegovina	3.2
Distrikt Brcko	2.4	

Economy	Region	%
North Macedonia	Skopje	31.8
	Northeast	7.6
	Eastern	10.2
	Southeast	8.2
	Southwest	9.4
	Vardarski	7.8
	Pelagonian	12.2
	Pologsky	12.8
Montenegro	Sjeverni region	28.2
	Centralni region	47.4
	Juzni region	24.4
Serbia	Beograd	21.8
	Juzna i Istocna Srbija	22.4
	Centralna i Zapadna Srbija	29.2
	Vojvodina	26.6
Kosovo*	Pristina	22.6
	Prizren	11.2
	Mitrovice	11.2
	Peje	10
	Ferizaj	12.6
	Gjilan	10.2
	Gjakove	5.8

Figure 62. Sample structure by gender

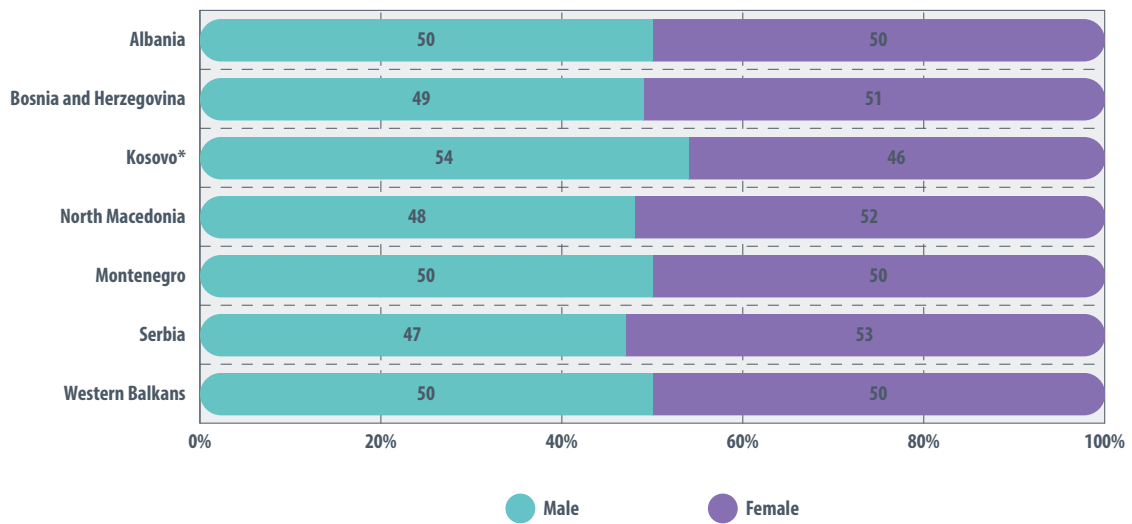


Figure 63. Sample structure by age

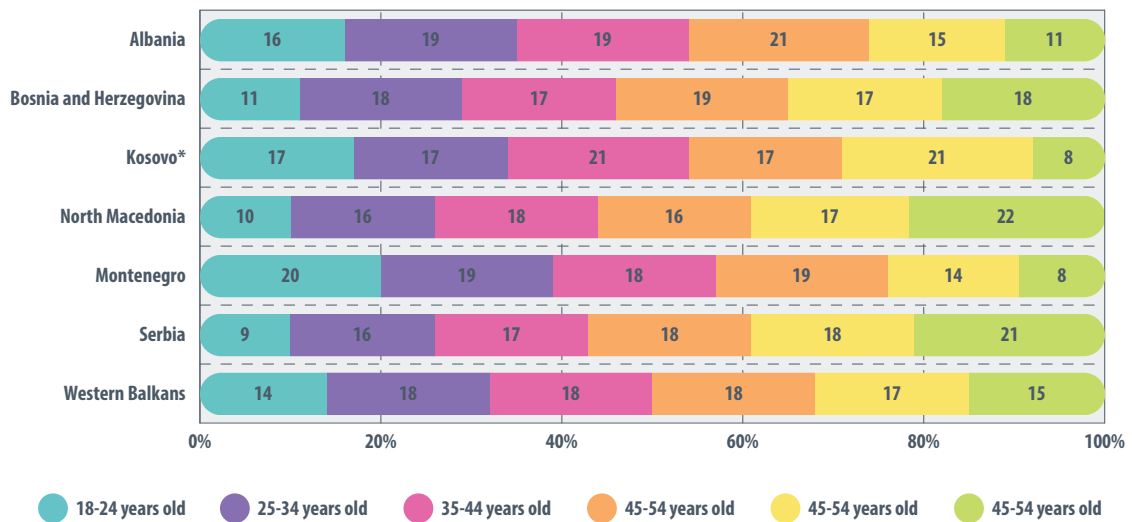


Figure 64. Sample structure by education

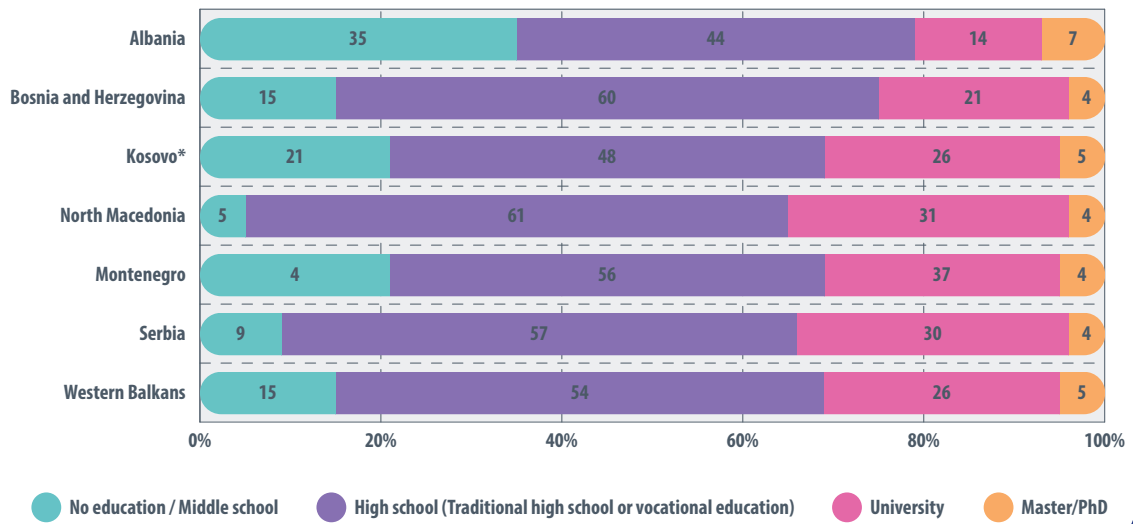
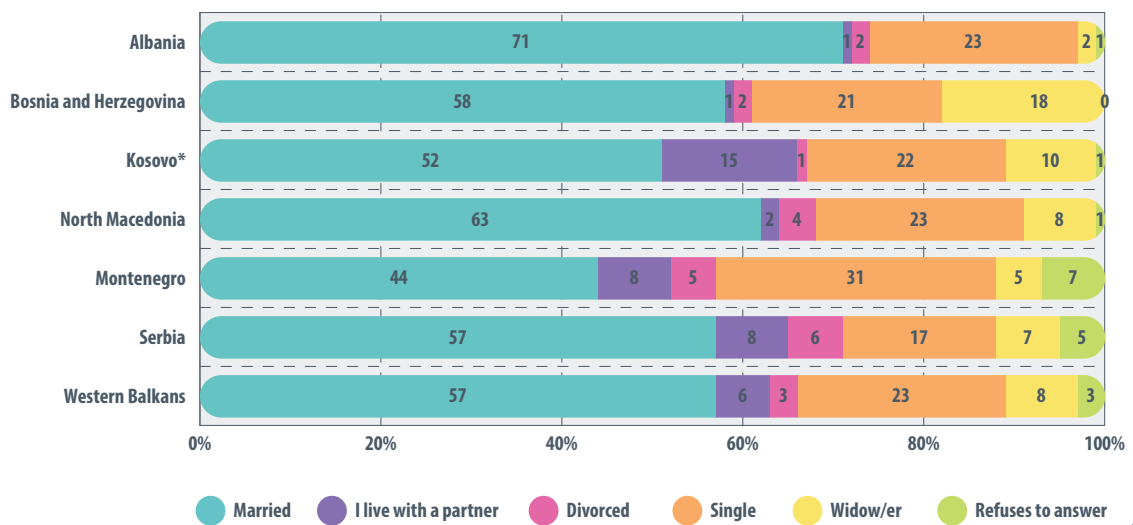


Figure 65. Sample structure by marital status



Annex II. Note on methodology - Business opinion survey

Methodology used for Business Opinion Survey was quantitative research, and data collection method was CATI (Computer Assisted Telephone Interviewing).

The survey was conducted via telephone interviews, using databases of mobile and landline telephone numbers of business representatives. The interviews were carried out by trained interviewers from Data Centrum Research Institute in Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia and Serbia. The survey was implemented during September-October 2022.

Questionnaire

The survey questionnaire was provided by the RCC. The Business Opinion Survey questionnaire was composed of 24 questions, including the business demographics.

The questionnaire was originally written in English and subsequently translated into relevant local languages. In Kosovo*, both Albanian and Serbian versions of the questionnaire were used, and in North Macedonia, the questionnaire was translated and used in Macedonian and Albanian languages.

RCC reviewed and approved all the translated versions of the questionnaire. All questionnaires were converted to a digital form and installed on interviewers' laptops/tablets. The programmed questionnaires were reviewed by a responsible person in each economy.

Interviewers

The survey was conducted by experienced interviewers in all economies. All interviewers were trained for the specific project and were given written and verbal instructions with general description of the questionnaire, method of selecting the companies and respondent selection method. In addition to the instructions, all interviewers were trained to understand survey goals, interviewing method and eligible respondent selection (a member of company's management board/team). Project coordinators reviewed digital questionnaires together with the interviewers and emphasized some important elements.

Sample

Business Opinion Survey was conducted amongst N=100 respondents in each economy, with a total of 600 respondents for the entire Western Balkans region. For the Business Opinion Survey, the target respondents were persons:

- members of company's management board/team, decision-makers in the respective enterprises.

The sample was prepared using the latest official data of the "National Business Registers" in each of the economies.



Method

Business Opinion Survey was implemented in the form of CATI (Computer Assisted Telephone Interviewing). Databases of mobile and landline telephone numbers, and contacts of business representatives were used in each economy.



LOI/ Response Rate

Duration of Interview ≠ 9-13 minutes Response rate varied from 10 to 16 % of the total contacts.



Sampling

N= 100 in each economy (600 in total) with business representatives!
Any of the management positions: Chief Executive, President, Vice President, Owner/proprietor, Partner, Director, General Manager, Manager, or Finance Officer.

With different sectors and business types.

Sampling was proportionally distributed according to the size/number of employees by using the Statistical Business Register in each economy.



Specific Issues

Short LOI allowed smooth implementation of the project. Enterprise surveys are always challenging regarding scheduling the interviews with business representatives, and on few occasion the interviewers has to schedule them few days in advance.

Another challenge faced related to the quota of micro enterprises of 1 to 4 or 4 to 9 employees. As official data usually covers micro enterprises in the interval of 1 to 9 employees, it was challenging to identify enterprises with 4+ employees.

Figure 66. Sample structure by respondent's position

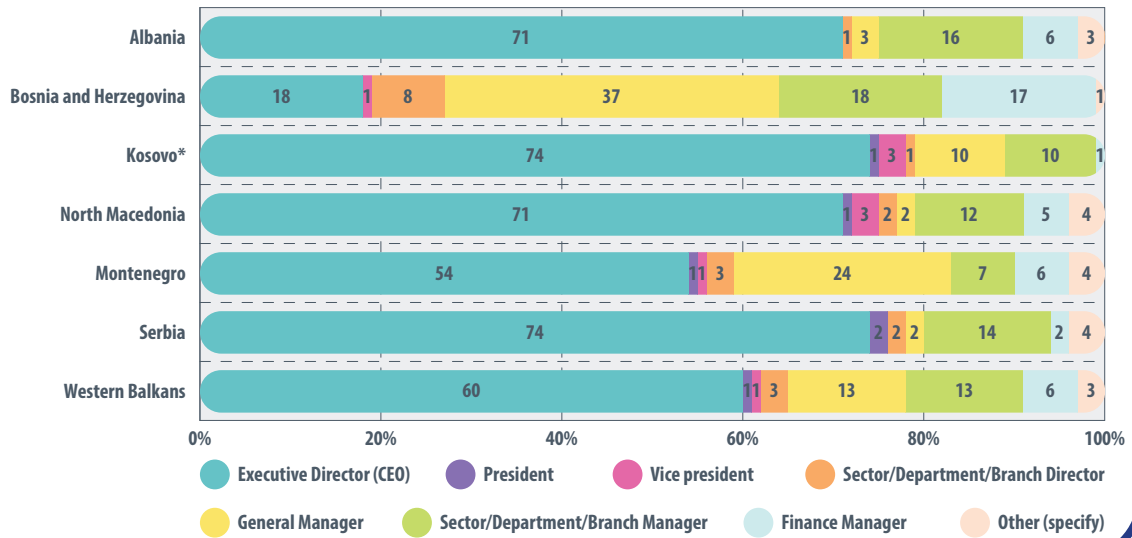


Figure 67. Sample structure by largest shareholder

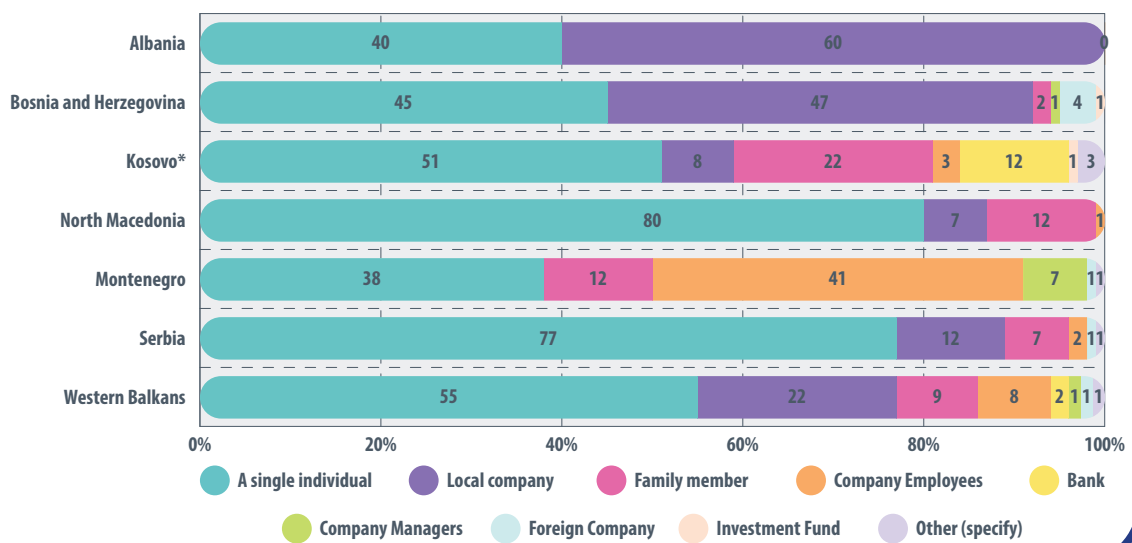


Figure 68. Sample structure by number of employees

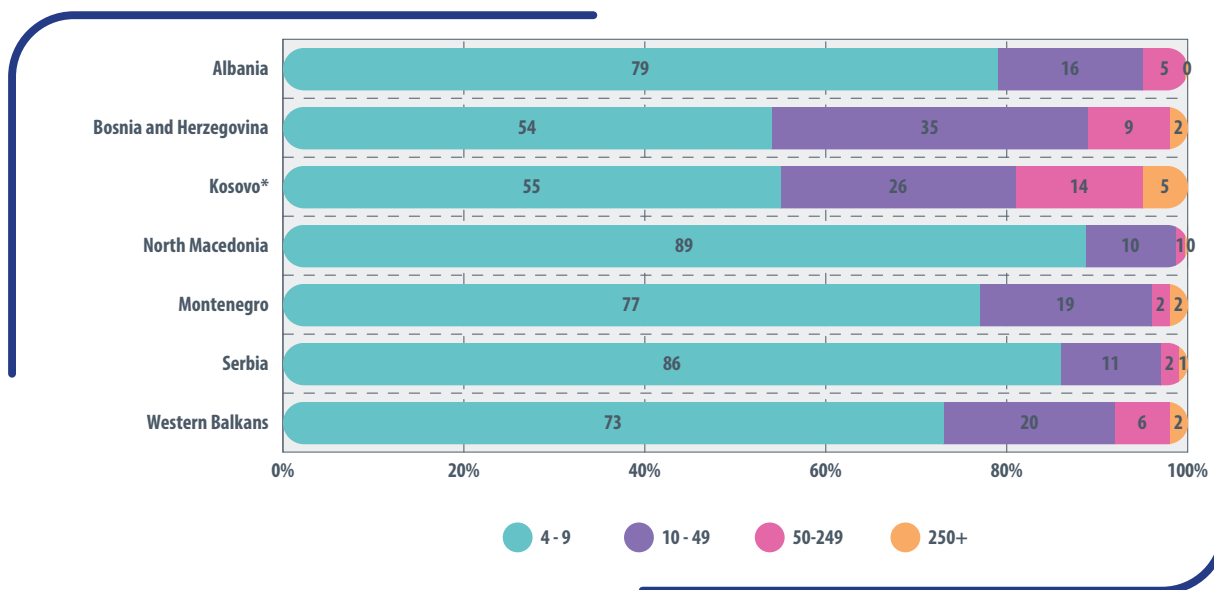


Figure 69. Sample structure by business area

	Albania	Bosnia and Herzegovina	Kosovo*	North Macedonia	Montenegro	Serbia	Western Balkans
Wholesale and retail trade	19	25	28	22	26	7	21
Manufacturing industry	12	21	15	15	4	36	17
Construction	31	8	16	5	15	9	14
Services for Hotel and Tourism	6	3	6	5	15	11	8
Transportation and storage	1	6	2	10	6	13	6
Professional, scientific and technical activities	0	7	2	12	12	4	6
Other service activities	6	4	5	6	5	0	4
Repair of motor vehicles and motorcycles	3	1	2	11	2	3	4
Activities related to the production of goods and services, for personal use	9	0	1	0	5	0	3
Information and communication	1	4	2	1	1	5	2
Agriculture, forestry and fishing	1	2	0	4	1	4	2
Financial activity and insurance	3	2	2	0	0	4	2
Public health and social work activities	0	4	1	5	0	0	2
Administrative activity and technical support	0	3	0	1	4	1	2
Water supplier: wastewater management, controller of waste disposal processes and other related activities	3	2	2	0	0	0	1
Art, fun and relaxation	0	1	2	1	2	0	1
Real Estate Agency	1	2	0	0	0	2	1
Education	0	3	1	1	0	0	1
Mining	1	1	0	0	0	1	1
Supplier of electricity steam and air conditioner	1	1	1	0	0	0	1
Other	2	0	12	1	2	0	3
TOTAL:	100	100	100	100	100	100	100

Figure 70. Sample structure by ownership

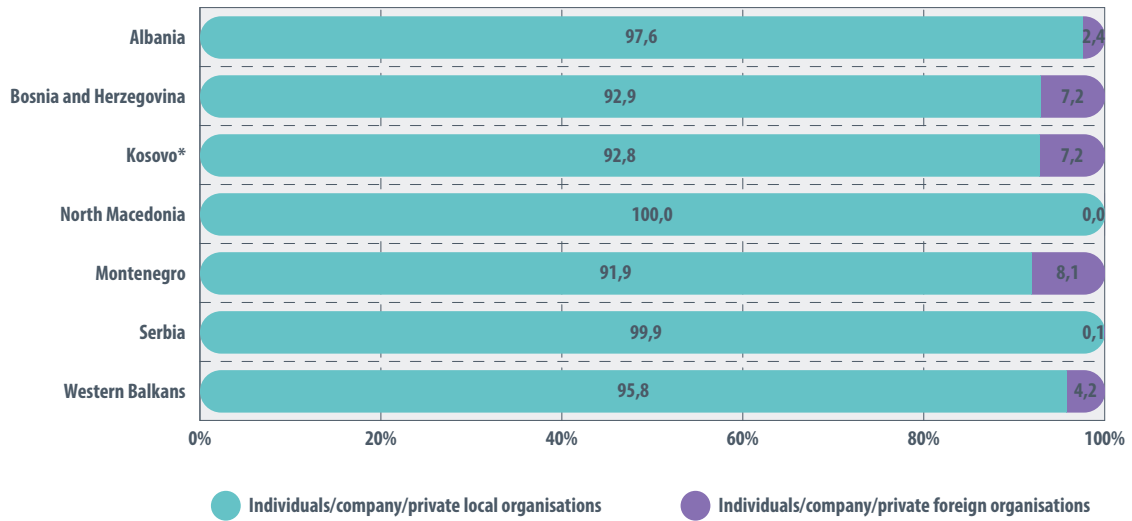


Figure 71. Sample structure by gender of respondent

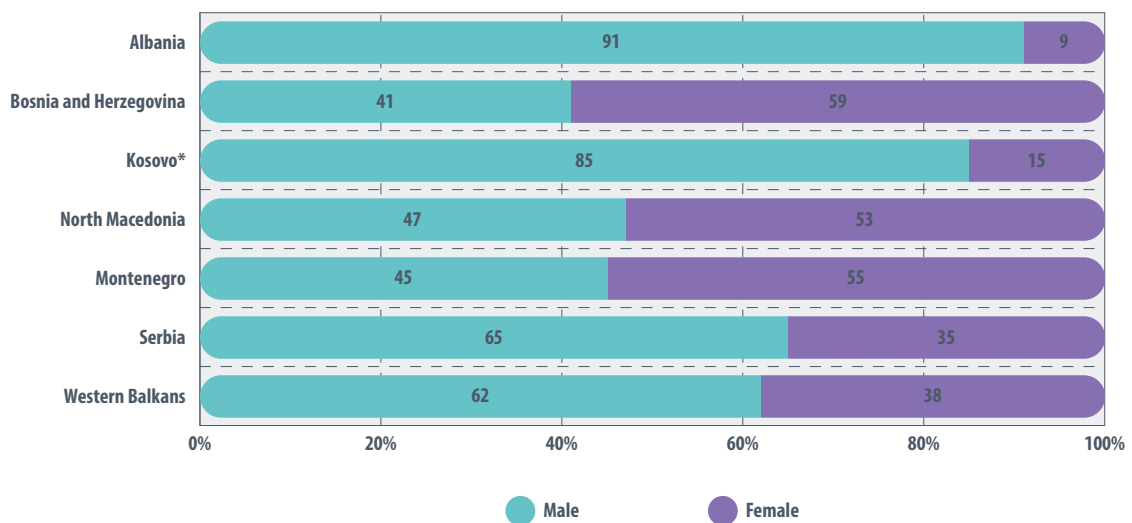


Figure 72. Sample structure by age of respondent

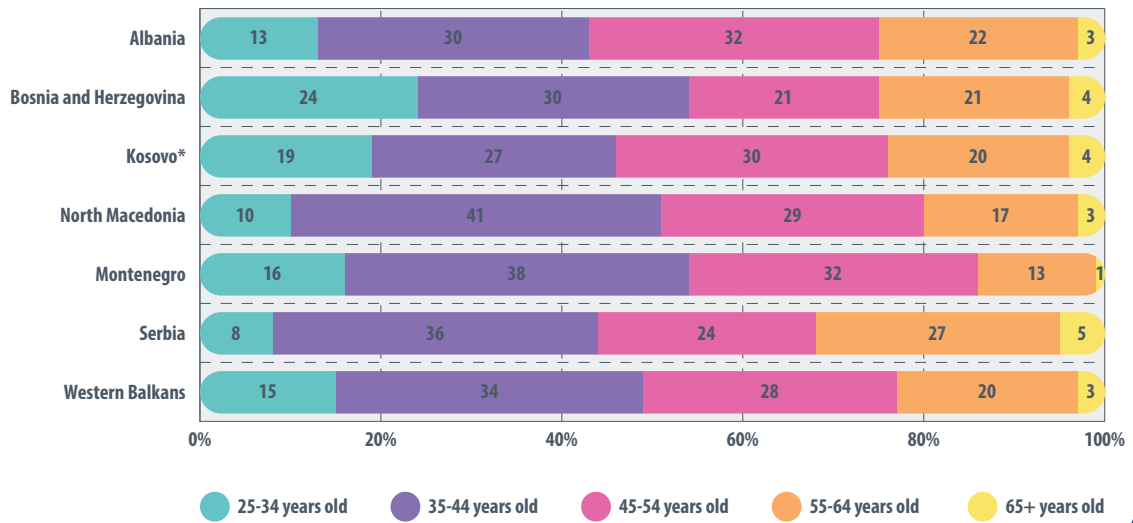
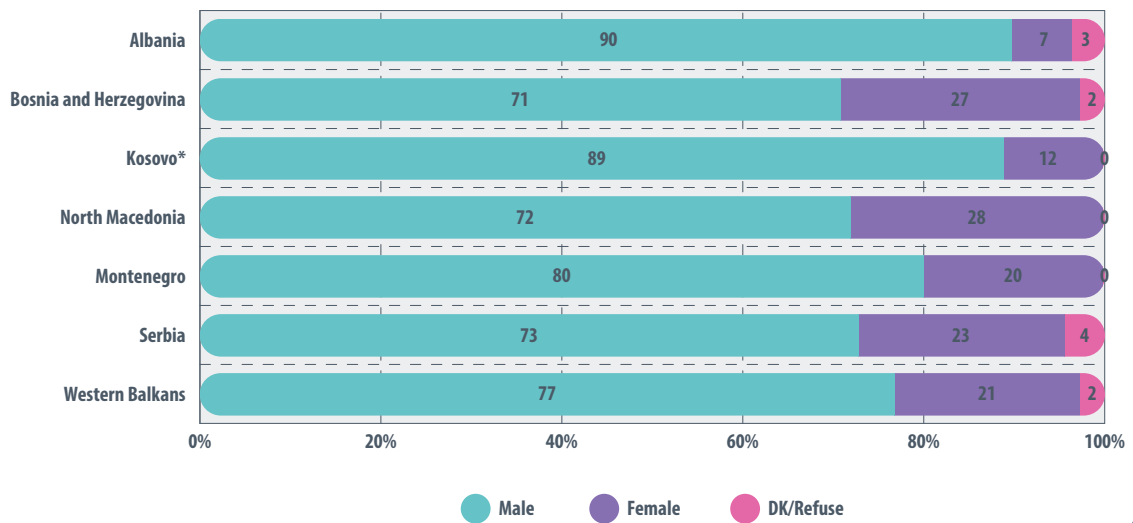


Figure 73. Sample structure by gender of the CEO



Annex III. Economic brief: Impact of the war in Ukraine on the Western Balkans

OVERVIEW

INTRODUCTION

Methodology and Limitations

AN ECONOMIC PERSPECTIVE ON THE WESTERN BALKANS CONSIDERING THE IMPACT OF THE WAR IN UKRAINE

1. Recent Economic Developments

2. Economic Outlook

CONCLUSIONS AND RECOMMENDATIONS

OVERVIEW

The aggression of the Russian Federation against Ukraine, which transformed very fast into a full-scale war, has been happening for more than one year and the repercussions of this conflict are felt at the global and regional levels. The scope of this economic brief is to identify the economic consequences the war in Ukraine had and continues to have on the Western Balkans (WB). Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia have felt the consequences of the war in Ukraine both at the political and economic levels even though they are not in geographical proximity to Ukraine. As the conflict is still having a negative global economic impact, the Western Balkans is particularly vulnerable as the second most affected European region after Eastern Europe.

At the beginning of 2022, the region had been experiencing a period of GDP growth after the hardships of the COVID-19 pandemic were starting to fade away only to be replaced by almost historic high inflation and skyrocketing energy prices in the second part of the year as a direct consequence of the war. While at first the economies proved to be somehow resilient facing the high food and energy prices and the government was able to help with subsidies for the most vulnerable households and businesses in most economies, a continuation of the superposed crises in 2023 does not seem to be good news for the region, with economic growth slowing down even more. Likewise, the future of the economies remains interconnected with the principal external financing or trading partners like the European Union member states, the United States, China or the Russian Federation and their individual economic development.

The brief is composed of three main sections that assemble a comprehensive view of the matter by combining the most recent international and regional economic data with public and business perspectives on the influence of the war in Ukraine on the Western Balkan economies. The introduction describes the methodology used to create this brief as well as the limitations encountered in this endeavour. The main section is comprised of two chapters. The first one presents the recent developments and how the region has dealt with inflation, energy prices and other economic issues that appeared since the beginning of the conflict. The second chapter covers the outlook for 2023 and the economic risks and challenges that might occur in the near future and have the power to destabilise the region's economy. Both main sections include an analysis of responses, from the public and business perspectives, in each of the six economies, which try to reveal how people and businesses see the connection between the economic issues they are facing in their region and the war in Ukraine. Lastly, the conclusions and recommendations section seek to emphasize some of the main issues the Western Balkans is facing in its economic development since the war started, including some of the ways to overcome the challenges.

INTRODUCTION

Methodology. The main scope of this brief is to analyse the recent economic developments in the Western Balkans as a region in general and to also look at the particularities of each economy (Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia). The goal is to discern whether these economic evaluations are directly linked or partially connected to the war in Ukraine or whether they could be explained by other types of evolutions (one such example is the COVID-19 crisis and the post-pandemic recovery). To do so, we employed publicly available data sources, which are investigated and critically assessed based on qualitative and quantitative approaches. The qualitative analysis was done using mainly sources from 2022 and 2023, from relevant international institutions (particularly the World Bank, OECD, and the IMF) that periodically publish reports on the economic development around the world, as well as news, academic articles, and public policy reports. In terms of quantitative research, the analysis was done using a series of business and public opinion surveys ordered by the Regional Cooperation Council between October and November 2022 in order to understand how Western Balkans citizens and businesses perceive the impact of the war in Ukraine on their respective economies. European Commission's data on consumer expectations were also used. The decision to combine these two methods, by using economic experts' data as well as the citizens and business perceptions, is justified by the goal of obtaining a more complex report that comprises both objective and subjective views on the matter. Also, comparing the two sets of data can further confirm if the business and public stakeholders can correctly determine which economic developments are directly linked to the war in Ukraine and which are not. Furthermore, contrasting objective economic data with economic perceptions is meant to present a balanced view of the topic under investigation.

Limitations. Considering that most of the latest available data on the Western Balkans are from fall 2022, the only exception being the prospective GDP growth for the region for 2023, published in January of this year (2023) and the Western Balkans Regular Economic Report No. 23 (2023), and the fact that in the months from the beginning of the war economic developments have been changing very fast, making them harder to be predicted than normally, some data, like inflation's trajectory in 2023, might need to be considered with reservations until new forecasts are published later in the year. Furthermore, central banks full annual reports that offer complex insight in each Western

Balkan economy have not been made available yet. In addition, it is important to mention that most of the data used comes from international economic reports and local English written data, while economic sources in the WB region's languages have not been used to prepare this analysis. Moreover, the analysis is descriptive and does not make any causal claims, for which better research designs would be needed. Even in the context of an analysis that would use observational data to assess causal relations, distinguishing between the direct effect of the war and other types of events would remain a challenging task.

AN ECONOMIC PERSPECTIVE ON THE WESTERN BALKANS CONSIDERING THE IMPACT OF THE WAR IN UKRAINE

1. Recent Economic Developments

Global and European. In the past three years, the global economy was repeatedly struck by crisis after crisis, starting with the spread of coronavirus that brought about various lockdown periods around the globe which disrupted regular economic dynamics, and arriving in 2022 to Russia's invasion of Ukraine that has complicated matters even further. Today, the main economic consequence of these events is the deceleration of global growth, at a slower pace than during the 2009 recession, but still in the top three weakest paces of the last thirty years.³⁴ Thus, in 2022, the real GDP growth at the global level was estimated to decrease to 2.9 percent, after having a 5.9 percent growth one year earlier.³⁵ While the cost of living was already rising around the world, the war worsened the inflationary pressure by increasing food and energy prices significantly. The central banks' response to inflation has tightened financial conditions by increasing market-based measures of real interest rates. The labour market has been affected as well, as in many economies unemployment rates are at one of the lowest levels in the past two decades and the proportion of people seeking employment and actual vacancies is also very low.³⁶

Needless to say that given the geographical position of the Russian aggression against Ukraine, Europe has been one of the continents most affected by the war not only economically but also in terms of military security and social security, as the invasion triggered an immense human displacement crisis³⁷ as well. Throughout 2022, European economies proved to be more robust than initially expected³⁸, especially if we consider the energy crisis, mainly related to natural gas shortages, that emerged as a repercussion of most European states' attitude and sanctions against the Russian Federation. The European Union (EU), for example, has had a milder-than-expected deceleration in growth of 3.6 percent in 2022, from 5.4 percent in 2021.³⁹

Western Balkans. Throughout 2021 a post-COVID-19 recovery was observed within all the economies slowly re-entering a stabilised rate of economic growth of 7.8 percent that soon shattered

34 World Bank (2 January 2023), Global Economic Prospects, World Bank, Washington DC.

35 World Bank (2 January 2023), Global Economic Prospects, World Bank, Washington DC.

36 OECD (September 2022), OECD Economic Outlook, Interim Report: Paying the Price of War, OECD Publishing, Paris.

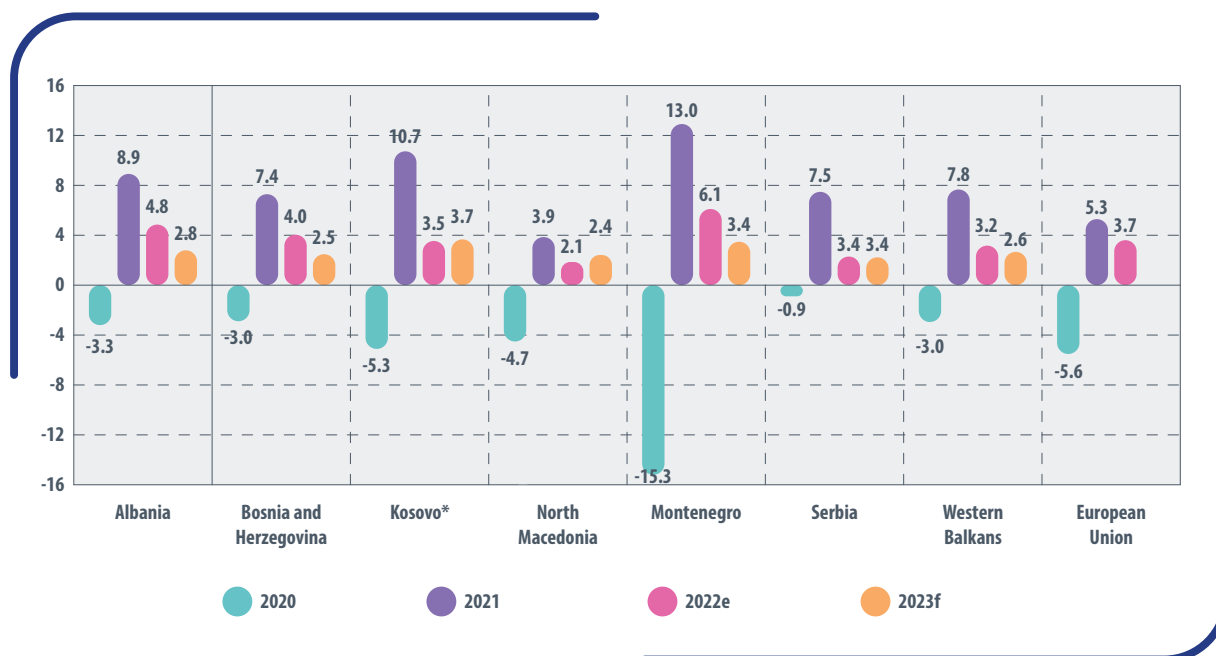
37 World Bank (Fall 2022), Social Protection for Recovery: Europe and Central Asia Economic Update, World Bank, Washington DC.

38 International Monetary Fund (January 2023), World Economic Outlook Update: Inflation Peaking amid Low Growth, International Monetary Fund, Washington, DC.

39 Eurostat (31 January 2023), Preliminary flash estimate for the fourth quarter of 2022 [Online]. <https://ec.europa.eu/eurostat/documents/2995521/15725194/2-31012023-AP-EN.pdf/d6c60a83-0dc6-04aa-774d-0fefc772ef68>

as a result of the Russian invasion of Ukraine to an estimated 3.2 percent for 2022⁴⁰; unsurprisingly, the war is taking part in the economic developments of the globe, in general, and of the region, in particular (Figure 1).

Figure 1 - Real GDP growth 2020-2023f



The Western Balkan economies are some of Europe’s most vulnerable as they are not fully protected by the economic cushion of the European Union, even if the latter has announced more economic support to the region in order to make and keep tighter ties⁴¹, one example being the €500 million energy support package announced at the end of October.⁴² Starting from this premise, this report aims to understand how great the impact of the war in Ukraine weighs on these economies. Firstly, looking at recent business and public opinion surveys taken in each economy of the region it can be observed that most people also believe that the war in Ukraine poses a certain amount of risk on the economies of their region. The greater public perspective shows that almost one third of respondents think the war in Ukraine poses a great risk to their economy, with another third thinking it can pose a certain risk. The most concerned about the direct economic consequences of the conflict is Serbia, and the least concerned is North Macedonia.

The perceptions survey⁴³ reports that many entrepreneurs as well as citizens of the region understand that some of the recent economic changes and challenges are not necessarily particular to the Western Balkans but are consequences of the full-scale armed conflict happening in Ukraine after the Russian invasion. However, in the following pages, we will see that not all the negative developments can be

40 World Bank (Spring 2023), Western Balkans Regular Economic Report: Testing Resilience, No.23, World Bank, Washington DC.

41 European Western Balkans (17 May 2022), EU Foreign Affairs Council discusses the impacts of war in Ukraine on the Western Balkans, European Western Balkans [Online]. <https://europeanwesternbalkans.com/2022/05/17/eu-foreign-affairs-council-discusses-the-impacts-of-war-in-ukraine-on-the-western-balkans/>

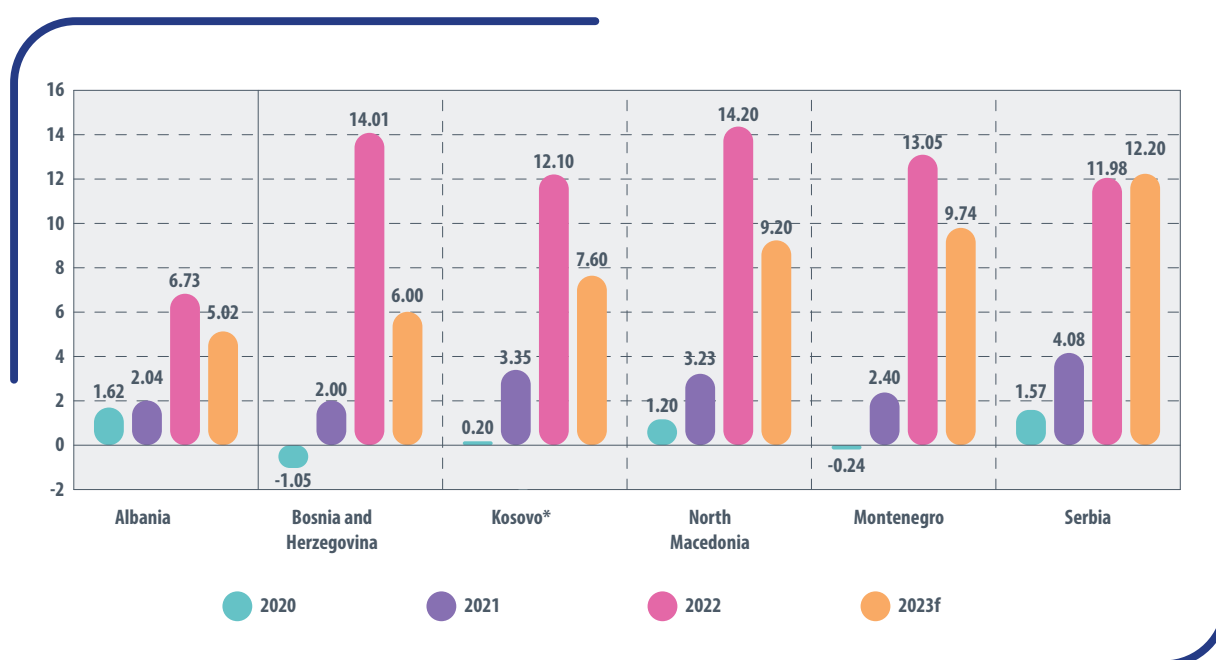
42 Euroactiv (27 October 2022), EU announces €500 million energy support package for Western Balkans [Online]. <https://www.euroactiv.com/section/enlargement/news/eu-announces-e500-million-energy-support-package-for-western-balkans/>

43 Regional Cooperation Council, Balkan Barometer 2022 – Special Security Edition Business Opinion Survey.

blamed on the war in Ukraine as the international economic system is very complex and the threat perception might be bigger than the threat itself.

Current Economic Challenges. Even if economic growth was above the forecasts, the region continues to face a mixture of challenges triggered mainly by inflation rates much higher than seen in the last two decades as a result of increased food and energy prices which affects both purchasing power and business credibility. In early 2023, price pressure remained elevated and consumer price inflation seemed to show signs of easing after it peaked in late 2022 in most of the economies in question (Figure 2).

Figure 2 - Average Yearly Inflation Rate (%) 2020-2023f



These economic challenges – inflation and high prices⁴⁴ (Table 1) – are seen all over Europe and in some other parts of the world. Russia’s invasion of Ukraine plays an important part in these developments. Here, we consider unstable energy prices coming from Europe’s position and sanctions towards the Russian Federation as well as another readjustment of the supply chain not so long after the one provoked by the Covid-19 pandemic. However, other factors are influencing these economic outcomes such as the region’s synchronization with the European Union or the weather’s influence on agriculture and energy production as 2022 proved to be a dry year.⁴⁵ Also, some economists mention that inflation in the region appeared even before the war started, the latter event only intensifying it.⁴⁶

44 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

45 World Bank (Spring 2023), Western Balkans Regular Economic Report: Testing Resilience, No.23, World Bank, Washington DC.

46 Nemanja Rujević (June 2022), ‘Poor become poorer’: Western Balkans hit hard by war in Ukraine [Online]. <https://www.helvetas.org/en/eastern-europe/about-us/follow-us/helvetas-mosaic/article/June%202022/poor-become-poorer-western-balkans-hit-hard-by-war-in-ukraine>

Table 1 - Distributional analysis of the welfare impact of rising food and energy prices⁴⁷

Economy	Average	Albania	Bosnia and Herzegovina	Kosovo*	Montenegro	North Macedonia	Serbia
Household Budget Survey year		2018	2015	2017	2015	2019	2019
Income data from EU SILC-C year		2019	N/A	2017	2018	2019	2019
Food price increase (% , July 2022, y-o-y)	21.9	13.9	25.5	22.1	25.4	24.3	20.3
Energy price increase (% , July 2022, y-o-y)	13.1	4.5	18.2	15.3	15.7	15.8	9.1

When discussing challenges, it is also important to visit the business owners' perceptions. In their list of negative experiences they had to deal with as a result of the war, the biggest challenge proved to be the increase in energy prices (56% of the respondents said that it affected them greatly and 28% responded it affected them 'a fair amount'), followed by the increase in costs of logistics and transport and increase in food prices. The increased energy prices were rated as a 'great deal/fair amount' of an issue by 90% of Albanian business owners surveyed, 89% of the respondents in Kosovo*, followed by North Macedonia (88%), Montenegro (84%), Bosnia and Herzegovina (80%) and Serbia (75%). In terms of increased costs of logistics and transport, Albania is again the economy where 96% of business people responded it posed a fair to a great deal of a problem since the war started. Montenegro follows with 85%, Kosovo* and North Macedonia with 79%, Bosnia and Herzegovina with 65% and Serbia with 64%. Other issues mentioned are talent shortages and higher labour costs, financial and economic losses as well as supply chain disruptions. On the other hand, most of the respondents have stated that the conditions have not obliged them to shut down the operations. In terms of talent shortages and higher labour costs, Albania stands far from the crowd as 74% of respondents said it is a very important matter and 20% think it has a 'fair amount' of importance, emphasizing again that job hunting emigration and brain drain are still important issues in this economy.⁴⁸



⁴⁷ To assess the impact of higher prices on consumption in all six Western Balkan economies, the World Bank analysis uses the latest harmonised Household Budget Survey (HBS) in each economy, which provides granular information on consumption items. To measure the impact on internationally comparable income poverty rates and to model the mitigating effect of government transfers, the analysis uses the latest available EU Survey of Income and Living Conditions (SILC), which reports household income (including government transfers). To assess the combined effect of the two channels, the analysis assumes that the percentage change in welfare of each percentile is equal in the HBS and the SILC. To simulate the impact of higher prices, poverty estimates are nowcasted in 2019 based on real GDP per capita growth.

⁴⁸ Regional Cooperation Council, Balkan Barometer 2022 – Special Security Edition Business Opinion Survey.

Investment. Investment, private consumption, and export were the main pillars of economic growth in the region, the first two outpacing the latter. The contribution of investment to growth was higher in 2021 and 2022, contributing with 3.7 and 2.1 percentage points (pp) respectively, while between 2012 and 2019, investment contributed 1 pp on average to GDP growth. Private consumption was supported by the increase of private credit as well as the raise in wages and remittances.

Trade. Export growth is observed mainly in Kosovo*, Albania, Montenegro, and Serbia. For instance, in Kosovo* exports (mainly in manufactured goods) have increased by 29.4 percent y-o-y. However, even if the exports of both goods and services have remained sturdy across the region, the pace of growth is slowing down, while import expenditures are increasing fast due to the higher prices of imported food and energy supplies. Consequently, commercial exchanges and foreign direct investments remain very tightly connected and are greatly influenced by the economic development of the main trading partners and investors, largely represented by European Union member states with advanced economies.⁴⁹ Western Balkan economies are greatly dependent on imports of raw materials, energy, and processed goods. In 2022, most of the economies widened their current account deficits (CADs), with external imbalances in double digits in Kosovo*, Montenegro or Serbia. For instance, Kosovo* had the largest CAD of 11.3 percent of GDP. Therefore, the after-effects of the war in Ukraine and the post-pandemic supply chain disruption have deteriorated the external sector of the region and skyrocketed the cost of imports as high prices also climbed sharply in the region and beyond.

However, development of exports has remained robust in the Western Balkans. Bosnia and Herzegovina has the highest growth in exports, up by 6.1 pp of GDP compared to 2021, followed by North Macedonia with a 4.4 pp of GDP increase. On the other hand, Serbia is the only economy where exports of goods declined in GDP terms compared to the previous year. The external imbalances were also stabilised by foreign direct investments (FDI), the most attractive economies for the inflows being Serbia (adding up to 5.5 percent of GDP), Albania (6.3 percent) and Montenegro (10.3 percent), which financed on average 78 percent of CADs.⁵⁰

In terms of the trade activity between the Western Balkan economies and Russia or Ukraine there are no reliable numbers at the moment as the central banks have not released the trade reports for 2022 at the time of our research. However, Russia's bad relationship with the European Union member states is affecting its attractiveness on the Western Balkans markets. For example, even if Serbia's trade with the Russian Federation increased somewhat in 2022, to 6.1% from 4.7% before⁵¹, the reason behind the numbers lies mostly in high gas prices as well as bigger oil imports that were sold at a better price due to Russia's increasing isolation.⁵² A different example is Albania's increased imports from both Russia and Ukraine in the first half of 2022.⁵³

Labour Market. The first half of 2022 has brought historically high employment levels in several Western Balkan economies because of high demand in sectors such as ICT, transport, commerce and tourism. Approximately 170,000 jobs were created in Serbia and 50,000 in Kosovo* in the last year



49 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

50 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

51 Statistical Office of Serbia, External Trade [Online]. <https://www.stat.gov.rs/en-us/oblasti/spoljna-trgovina/>

52 Maxim Samorukov (24 April 2023), Surviving the War: Russia-Western Balkan Ties After the Invasion of Ukraine [Online]. <https://carnegieendowment.org/politika/89600>

53 Alice Taylor (13 May 2022), Albania increases imports from Ukraine, Russia [Online]. https://www.euractiv.com/section/politics/short_news/albania-increases-imports-from-ukraine-russia/

and a half. The employment rate for the Western Balkans touched 46 percent in 2022, and while is still under the European Union average of 61 percent, it represents the region's highest percentage up to date. Therefore, unemployment rates have declined in most Western Balkan economies. Increased employment has been observed for youth as well, with more than 30,000 young persons finding jobs in the region, especially in Serbia and Bosnia and Herzegovina. On the other hand, labour shortage is still an issue and economies such as Serbia, Albania or North Macedonia are thinking about solutions in this regard, including changing the work permit regulations to allow cross-border/boundary mobility.⁵⁴

Poverty. The Western Balkan economies have been making some progress in 2021 regarding this particular topic and during the post-COVID recovery, poverty decreased by 3.5 pp (corresponding to lifting an estimated 547,000 persons out of poverty). However, the war in Ukraine, together with other factors presented above, has brought about new inflationary pressure which caused a moderated decline in 2022 of approximately 1 pp.⁵⁵ While in the European Union 8.6% of the population could not afford a proper meal every second day in 2022, in economies such as Serbia or Montenegro the impact is almost double going to 15%.⁵⁶ In this context, it can be assumed that higher energy and food costs will have a deeper impact on the region. In addition, it is important to emphasize that low-income households spend a higher proportion of their income on food and energy. Hence, the rise in the actual cost of living handled by the poor in the Western Balkans is much higher than official consumer price inflation figures propose. In order to design effective policies to protect the less well-off and promote economic growth, it is very important to consider the unevenness of inflation rates across different types of households.⁵⁷

Fiscal Policy. Against new types of pressure, fiscal deficit levels remain high in all Western Balkan economies and are expected to increase by 0.4 pp of GDP compared to the levels of 2021. The energy crisis and inflation have also increased public expenditure for most of the governments and some of it went towards measures expected to diminish the impact of inflation on vulnerable households. North Macedonia, Kosovo*, and Albania are also working on energy subsidies. With the exception of Bosnia and Herzegovina and Kosovo*, public expenditure has decreased in 2022 by an average of 0.5 pp of GDP y-o-y, after consolidating by 3.5 pp of GDP in 2021.⁵⁸

Financial Sector. The initial impact of the war on financial sector in the Western Balkans was controllable and limited. Even if some European banking groups were affected by sanctions as a result of their relationship with Russia, Western Balkans subsidiaries of these groups were less involved as they are mainly funded by local deposits. Loan growth has remained strong in the region with an average of 10.2 percent y-o-y as of mid-2022, increasing continuously since 2021, capital buffers are mostly stable and bank liquidity has faintly declined in 2022.⁵⁹ Furthermore, financing costs are increasing while external demand is decreasing because of monetary tightening in the advanced



54 Sanja Madzarevic-Sujster, Richard Record, Christos Kostopolous (16 November 2022), Future Development. The Western Balkans heading toward another storm [Online]. <https://www.brookings.edu/blog/future-development/2022/11/16/the-western-balkans-heading-toward-another-storm/>

55 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

56 Nemanja Rujević (June 2022), 'Poor become poorer': Western Balkans hit hard by war in Ukraine [Online]. <https://www.helvetas.org/en/eastern-europe/about-us/follow-us/helvetas-mosaic/article/June%202022/poor-become-poorer-western-balkans-hit-hard-by-war-in-ukraine>

57 World Bank (Spring 2023), Western Balkans Regular Economic Report: Testing Resilience, No.23, World Bank, Washington DC.

58 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

59 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

economies that the Western Balkan economies are most dependent on such as the European Union member states, the United States or China.

Economic Particularities by Economy. Looking at the GDP growth at market prices for each economy we can see that it was estimated at 3.5 percent in Albania, 4 percent in Bosnia and Herzegovina, 3.1 percent in Kosovo*, 5.9 percent in Montenegro, 2.1 percent in North Macedonia, and 2.5 percent in Serbia for 2022 (Figure 1).⁶⁰

Albania. With consistent growth in the first part of 2022, Albania's GDP started decreasing in the second part of the year as a result of rising inflation, harsher financial conditions, and weaker foreign demand. Fiscal pressure was mainly created by subventions for vulnerable households and SMEs facing high food and energy prices. Poverty is likely to continue its descendent path, but at a much slower rate.⁶¹

Bosnia and Herzegovina. In the second half of last year, GDP started to reduce its growth speed. In the same period, employment hardly improved, while unemployment remained high, especially amongst young people, persisting at 16.7 percent in 2022. Food and energy costs increased fast, with food prices rising to 25.5 percent in mid-2022, resulting in an inflation rate of 19.3 percent in the first part of the year, with the poor being most affected by the situation. High inflation is expected to erode even more the real disposable income making private consumption slow down, with net exports declining as well.⁶²

Kosovo*. The economy's growth was moderated at the beginning of last year and remained more stable than in other economies in the region. Sturdy tax revenue collection continues to support the fiscal position, helped by tax compliance and higher inflation measures. The economy is still experiencing high uncertainty as a consequence of the ongoing war in Ukraine and the energy crisis, and a clever way forward is to keep maintaining buffers that respond to the changing macroeconomic environment. Also, as Kosovo* is experiencing a current export ascendant path, the growth of merchandise exports reaching 29.4 percent in mid-2022. It is important in the medium to long term to impose measures that encourage competitiveness and private sector development, as the current account deficit still deteriorated last year imports growing as well with 26 percent in the same period of last year.⁶³

Montenegro. Private consumption and tourism sector recovery were the pillars of growth in 2022. However, inflation still arrived at historical highs, peaking in November 2022 at 17.5 percent and was opposed mainly by an increase in real disposable income. Near-term fiscal consolidation is required due to the high public debt. Perpetuation of the war in Ukraine could greatly reduce the growth prospects for Montenegro and its commercial partners. In the short and medium term, it will be difficult to keep affordable financing both at domestic and external levels as monetary tightening is accelerating and a more stable political scene could take strong commitments to confront the crises.⁶⁴

60 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

61 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

62 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

63 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

64 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

North Macedonia. Inflation has affected its population disproportionately, with the poor being most affected in 2022. The main concerns for North Macedonia's economy are elevated debt (gross external debt represented 77.4 percent of GDP in mid-2022), limited fiscal space and increased cost of financing, while further fiscal support needs to focus on most vulnerable households and businesses. In the near future, lower internal and external demand, high costs and liquidity shortages could lead to an increase in poverty rate⁶⁵, estimated at 21 percent of the population considering the latest available data.⁶⁶

Serbia. In 2022 the economy faced both internal and external challenges, but remained on a growing path, especially in the first part of the year. As a result of high prices in food and energy, inflation accelerated faster than initially expected and is still on the ascending pace rising to 15.8 percent in January 2023, after remaining at 15.1 percent in November and December.⁶⁷ The labour market improved as employment reached a record level of 50.9 percent and financial sector performance remained sturdy. While the growth outlook remains somehow balanced for this year, there are still risks of spillover effects coming from the prolonged war in Ukraine and its developments.⁶⁸

2. Economic Outlook

Global and European. While the global economy has not entered a new recession yet, World Bank data offers insight that global growth is still expected to decelerate abruptly to 1.7 percent in 2023, after an estimation of 2.9 for 2022. The most recent data is 1.3 percentage points lower than previous economic forecasts reflecting the effects of deteriorating financial conditions, measures imposed to contain high inflation and constant disruptions caused by the war in Ukraine.⁶⁹ In Europe, the fight of central banks against inflation will continue throughout 2023 as tightening macroeconomic policies are still needed to topple it.⁷⁰ However, looking at data for the European Union, the average inflation rate is projected to fall from 9.2 percent in 2022 to 6.4 in 2023. The labour market is also defying earlier estimations as it was keeping its all-time low of 6.1 percent in early January 2023. With a more positive economic outlook than expressed back in autumn, the European Union's economy will most probably escape a recession this year.⁷¹

Western Balkans. The first World Bank's *Global Economic Prospects report*⁷² of 2023 offers a scenario of growth slowing down to 2.5 percent in 2023 for the Western Balkans region. Looking at the GDP growth at market prices for each economy forecasted for 2023, we can see that it will slow down in some economies. This is the case of Albania slowing down to 2.8 percent, Bosnia and Herzegovina

65 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

66 World Bank (October 2022), Poverty & Equity Brief (Europe & Central Asia): North Macedonia [Online]. https://databankfiles.worldbank.org/public/ddpext_download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/current/Global_POVEQ_MKD.pdf

67 Savic Misha (9 February 2023), Serbia Lifts Rates Again as Inflation Stays Far Above Goal, Bloomberg [Online]. <https://www.bloomberg.com/news/articles/2023-02-09/serbia-lifts-rates-again-as-inflation-stays-stuck-far-above-goal>.

68 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

69 World Bank (January 2023), Global Economic Prospects, World Bank, Washington DC.

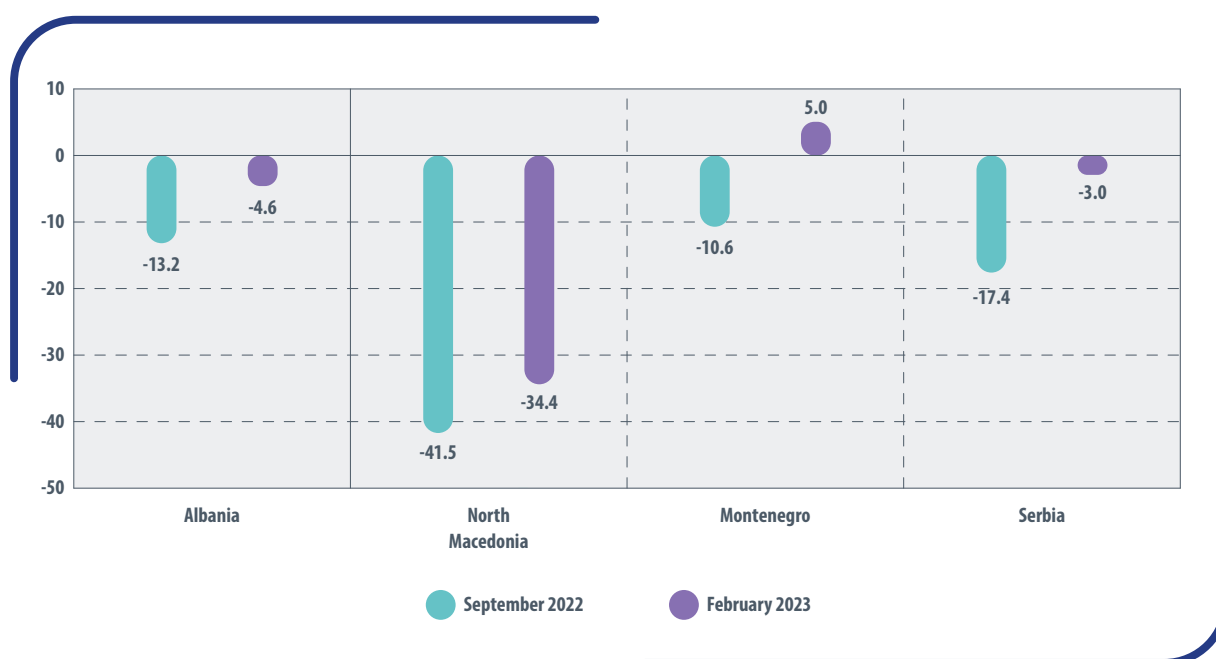
70 International Monetary Fund (October 2022), Regional economic outlook. Europe: the fog of war clouds the European outlook, International Monetary Fund, Washington, DC.

71 European Commission, Winter 2023 Economic Forecast: EU economy set to avoid recession, but headwinds persist [Online]. https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/winter-2023-economic-forecast-eu-economy-set-avoid-recession-headwinds-persist_en

72 World Bank (January 2023), Global Economic Prospects, World Bank, Washington DC.

to 2.5 percent, Montenegro to 3.4 percent and Serbia to 2.3 percent. Kosovo* and North Macedonia are estimated to slowly increase to 3.7 and 2.4 percent this year respectively (Figure 1).⁷³ In terms of consumers' expectations for the general economic situation over the next 12 months (Figure 3), European Commission's data offers information for some of the Western Balkan economies. Thus, in Montenegro we can see that the CCI for the general economic situation over the next 12 months grew the most in the last six months with 15.6 percentage points, being the only positive indicator. It is followed by Serbia with a growth of 14.4 pp, Albania with 8.6 pp growth and North Macedonia with 5.7 pp. Unfortunately, the European Commission's CCI does not provide data for Kosovo* and Bosnia and Herzegovina.⁷⁴

Figure 3 - CCI for the general economic situation over the next 12 months⁷⁵



Compared to the previous year, both sides, economic data and public perceptions, tackle the economic situation for 2023 with more optimism and fewer chances of big destabilising economic events, even if there is no real growth on the horizon.

Future Challenges. The Western Balkans is expected to enter a period of uncertainty that economists think will transform into the 'perfect storm'⁷⁶ as a consequence of both external and internal factors that have a direct impact on the economies of the region. In the latest World Bank's economic report for the Western Balkans, this 'storm' is identified as a convergence of indirect

⁷³ World Bank (Spring 2023), Western Balkans Regular Economic Report: Testing Resilience, No.23, World Bank, Washington DC.

⁷⁴ European Commission, Consumers Seasonally Adjusted Data (total sector) [Online]. https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys/download-business-and-consumer-survey-data/time-series_en#consumers

⁷⁵ The consumer confidence indicator (CCI) is calculated as the average of balances (in percentage points) of responses to the questions on the past and foreseeable financial situation of households, expected economic situation in general, and intentions to make major purchases over the next 12 months.

⁷⁶ Sanja Madzarevic-Sujster, Richard Record, Christos Kostopolous (16 November 2022), Future Development. The Western Balkans heading toward another storm [Online]. <https://www.brookings.edu/blog/future-development/2022/11/16/the-western-balkans-heading-toward-another-storm/>

demand and future supply shockwaves that can push further inflation and diminish the confidence of consumers and investors⁷⁷.

On this matter, if we look at the expectations about the long-term economic implications of the war in Ukraine on their business operations at the local and regional levels, 62% of business owners around the region agree that there are two major ones: inflation and higher costs. These are followed by increases in labour market costs (51%), supply chain disruptions (44%) and economic recovery (35%). Most concerned with long-term economic repercussions seem to be business leaders in Kosovo* who are mainly concerned with increased labour market costs (81%), economic recovery (80%) and higher costs (72%). In North Macedonia the primary issues are inflation (76%), higher costs (73%) and increase in labour market costs/decline in investment and/or business confidence (both at 47%). Montenegrin business owners also think inflation (75%) will be one of the most pressing long-term issues, followed by higher costs (57%) and supply chain disruptions (49%). In Serbia, higher costs (68%), inflation (53%) and increase in labour market costs (45%) are perceived as the main issues. Bosnia and Herzegovina's business leaders also see higher costs (63%) as the main issue, closely behind are increased labour market costs (60%) and inflation/supply chain disruption (50%). Albanian respondents are more equally distributed around more risks starting with inflation (48%), decline in investment/business confidence (46%), higher costs (39%) and economic recovery/supply chain disruptions/ increase in labour market costs (39%).⁷⁸

Another issue pointed out by Emanuel Salinas, the World Bank Country Manager for Albania, is the need for human capital, which is considered one of the most important assets for Albania that has transformed the economy in the last 30 years⁷⁹. Unfortunately, immigration remains a practice Albanians seek when they do not feel they can find real opportunities internally and the economy is shaping accordingly. However, while inflation higher costs and supply chain disruption can be linked to a certain degree with the war in Ukraine, other labour market issues, such as the need for human capital, are issues that were present in certain Western Balkan economies long before the start of the conflict with deeper roots in the economic and geopolitical particularities of the region.

Investment and Trade. As seen above, 2022 brought a slowdown in exports while imports increased due to high prices of energy and food. As a result, current account deficits in the region continue to expand. Foreign direct investment (Figure 4) and remittances have remained robust throughout 2022 and are expected to continue. North Macedonia, Serbia and Bosnia and Herzegovina remain the economies with the strongest investment prospects. Nonetheless, the general trade and investment outlook continues to remain tied with the region's primary investing and trading partners, mainly European Union economies.⁸⁰ While for most economies trade and investment have been and continue to be the main pillars of growth and stability, there are some exceptions. In Montenegro, tourism proves to be the most promising sector as last year it made almost one billion euros in tourism revenues only. Considering that Montenegro's 2021 GDP was approximately 5.5 billion euros, it could account for almost one fifth of its 2022 GDP.⁸¹

77 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

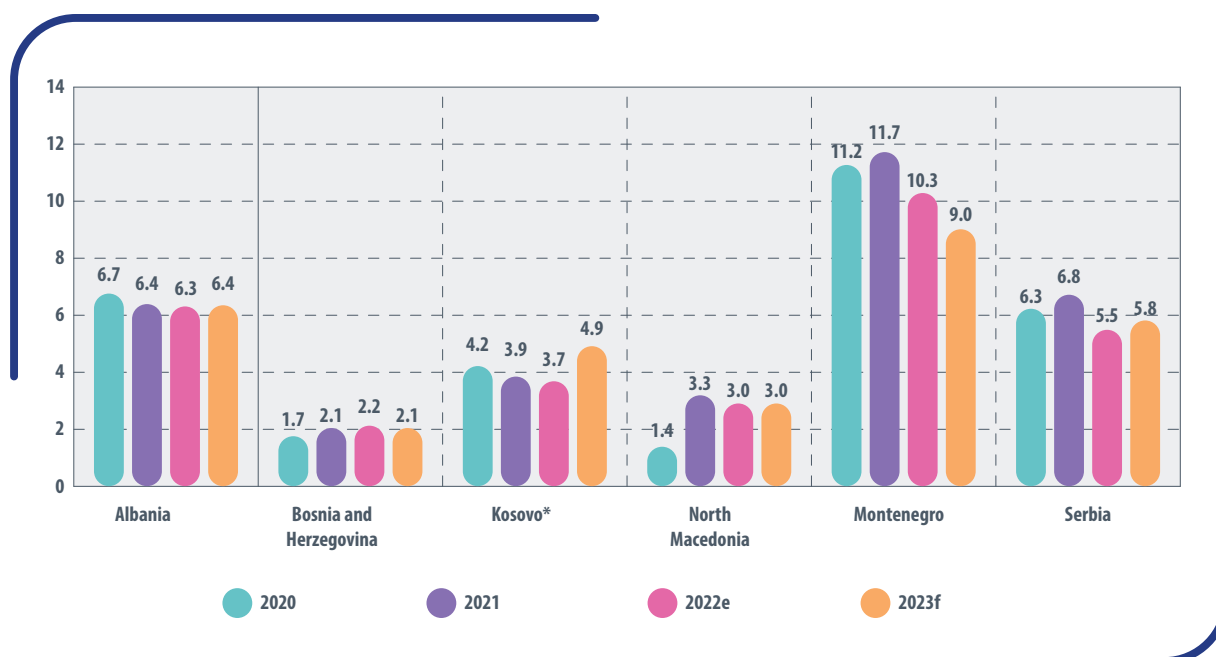
78 Regional Cooperation Council, Balkan Barometer 2022 – Special Security Edition Business Opinion Survey.

79 Emanuel Salinas, World Bank Country Manager for Albania (9 January 2023), Human Capital is Albania's Most Important Asset: Interview with Emanuel Salinas, Monitor Magazine [Online]. <https://www.worldbank.org/en/news/opinion/2023/01/09/human-capital-is-albania-most-important-asset-interview-with-emanuel-salinas>

80 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

81 Zoran Radosavljevic (21 February 2023), Montenegro made €1 billion from tourism in 2022, PM says, Euroactiv [Online]. <https://www.euractiv.com/section/politics/news/montenegro-made-e1-billion-from-tourism-in-2022-pm-says/>

Figure 4 - Net foreign direct investment inflows (percent of GDP) 2020-2023



Labour Market and Poverty. As the consequences of energy crisis are more profoundly experienced, the labour market might tend to slow down in 2023. This tendency could already be seen in North Macedonia and Serbia in 2022. As the increase in food and energy prices is still high in the region and will remain so for a while, poverty reduction is expected to slow down in 2023 as well, with a decrease of under 1 percentage point (1pp being the equivalent of 144,000 people), lifting less people from poverty than in the previous years.⁸²

Fiscal Policy and Financial Sector. It becomes increasingly hard for governments to respond to crises with limited fiscal space, high public debt, and a bigger cost of financing. Public and publicly guaranteed (PPG) debt continues to be elevated in most economies, even if there was a recent drop in debt-to-GDP ratios. On average, PPG as a share of GDP declined to 52.7 percent in 2022 and it was most prominent in Montenegro where it reached 11.3 pp. On the other side, Serbia entered 2023 with an increase by 1 pp in PPG as percent of GDP. Going further, North Macedonia and Kosovo* have the most work to do as PPG as a percent of GDP is still above their pre-pandemic levels. North Macedonia alone the PPG debt increased by 10 pp in 2020-2021 and decrease is taking longer. External PPG debt is expected to further decline after having done so in 2022 as well. Serbia is the only economy that might have an increase in external PPG debt to GDP, given that there was an increase of 1pp in 2022. A scenario of prolonged conflict in Ukraine can put at risk the financial stability of the economies with second-round spillover effects, so is the responsibility of the authorities to further monitor credit risks and loans, and prevent a new build-up of non-performing loans (NPLs). NPLs are expected to further decline after arriving at a regional average of 4.4 percent in 2022, under the 5 percent threshold EBA defines as high NPL ratio. However, Montenegro (7.2 percent), Bosnia and Herzegovina (5.4 percent), and Albania (5.2 percent) have entered 2023 with higher NPL ratios.⁸³

82 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

83 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

Internal Turmoil. Inside the region, the way governments will continue to deal with the fiscal pressure, higher expenditure rates and the way in which they will prioritise support to the vulnerable will have consequences on the economic stability of the region. When asked which are the government methods that can help business best in the current situation, more than half of business owners agreed with income tax exemptions for companies whose energy costs have risen more than 30%, tax support for investments in renewable energy sources, and support in opening new export markets and in substituting certain raw materials/semi-finished products from domestic sources or other markets. The measure that 36% think will have no impact is the integration of refugees into the labour market. Income tax exemptions for companies whose energy costs have risen more than 30% is perceived to be the measure that can help business to a great extent by 73% of business leaders in Albania, 65% in Serbia, 63% in Bosnia and Herzegovina, 54% in Montenegro, 50% in North Macedonia and 47% in Kosovo*. Also, on the energy crisis, another solution the central authorities can provide for a green future of the Western Balkans is tax support for investments in renewable energy sources. 75% of Serbian business owners agree to a great extent that this measure can help, followed by Albania (64%), Bosnia and Herzegovina (63%), Kosovo* (55%), Montenegro (47%) and North Macedonia (40%).⁸⁴

If we look at the general public response, considering the direct influence of the war in Ukraine on Western Balkan economies, around 80% of respondents or more agree with the following: the shortage of energy supply and rising food prices have a significant impact both on each citizen's personal purchasing power as well as on the stability of the economies.⁸⁵ In order to see the bigger picture, World Bank economic reports for the region also suggest that food prices have an increased impact on households and it is disproportionate in nature, with the less wealthy being the most disadvantaged. Energy prices have also risen, even if not as much as food prices, and both are expected to negatively change the financial well-being of citizens all around the region. However, when considering the overall stability and growth of the economies in the region, they proved to be more robust than initially expected⁸⁶. In this context, 92% of the region's respondents fully agree or tend to agree that governments should take economic measures to limit the impact of high prices for all types of consumers (people and businesses), while 73% agree to various extents to reduce dependency on Russian gas and oil in the future, with Kosovo* (90%) agreeing the most, followed by Albania (81%), Montenegro (74%), Bosnia and Herzegovina (73%), North Macedonia (62%) and Serbia (53%).⁸⁷

Regional Cooperation. The risk of political polarisation within and between the economies of the Western Balkans continues to remain present to different degrees throughout the region, and the economic consequences of the war in Ukraine mentioned throughout the text do not create a better context. Thus, future tensions can only cause negative economic outcomes. The alternative to this is enhanced regional cooperation. Opposing some isolationist economic trends, economic integration seems to be the key to going forward. The majority of businesses in the Western Balkans confirm once again that the benefits they are receiving through the 2006 Central European Free Trade Agreement⁸⁸ and similar regional and/or multi-lateral agreements in crucial sectors could prove to be solutions

84 Regional Cooperation Council, Balkan Barometer 2022 – Special Security Edition Business Opinion Survey. Regional Cooperation Council, Balkan Barometer Special Security Edition 2022 Public Opinion Survey.

85 Regional Cooperation Council, Balkan Barometer Special Security Edition 2022 Public Opinion Survey.

86 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

87 Regional Cooperation Council, Balkan Barometer Special Security Edition 2022 Public Opinion Survey.

88 World Bank (Fall 2022), Western Balkans Regular Economic Report: Beyond the Crises, No.22, World Bank, Washington DC.

for economic growth. On this topic, businesses and citizens are on the same page, as 83% of the respondents to the Western Balkans public opinions surveys fully agree or tend to agree with the fact that regional cooperation can contribute to better economic resilience of the Western Balkans while facing the consequences of the war in Ukraine. When looking at each economy's situation, 89% of Albanian respondents agree to various extents with this idea, followed by Kosovo* (88%), Bosnia and Herzegovina (87%), North Macedonia (81%), Montenegro (77%) and Serbia (75%).⁸⁹

Economic Interdependence and the Risk of External Spillovers. As we have seen repeatedly in the last three years, global events can make or break further the economies of the region. The end of the war in Ukraine is, unfortunately, not near and the shockwaves of 2022 have not been felt at full intensity in the Western Balkans yet. A further escalation of the conflict can push energy and food prices even higher while breaking new negative records on inflation levels. At the same time, the profound interconnection between the Western Balkan economies and advanced economies such as the European Union member states can also pose great risks as they are also facing a slowdown in growth and are imposing tight monetary measures that could, in terms of the region translate into bigger financing costs and weaker external demand. For instance, while the European Union's outlook has improved in its winter forecast⁹⁰ and future risks appear to be more balanced, the monetary tightening is set to continue, pressing on business activity, and exerting a drag on investment both inside the Union as well as outside of it.

Political tensions could also be the cause of more issues with negative economic impacts in the near future. European Union accession has been an aspiration in Western Balkan economies for many years. Some are closer to the final stages of negotiation, and some are just beginning their journey. However, since the beginning of the war, the European Union has put more emphasis on the situation in Eastern Europe and has offered candidacy status to three economies from that region. While the European Union has publicly declared that the relationship with the Western Balkans is as important as ever⁹¹, there are still economies in the region that have very close ties with the Russian Federation or China and have been more reluctant to be amongst the first to publicly condemn the conflict in Ukraine. For example, 51% of Serbian business leaders fully disapprove of the idea of joining economic sanctions against Russia, while 28% tend to disapprove. Bosnia and Herzegovina also remains on the disapproval side (59% fully or tending to disapprove the idea), with the respondents from the other economies being more prone to fully/tend to approve: Albania (70%), Kosovo* (71%), North Macedonia (61%), and Montenegro (58%). Public perspective is also following the same course when tackling the topic of joining economic sanctions against Russia, the answers tending to be polarised depending on the economy of origin. Respondents from Serbia tend to or fully disapprove of the idea in a proportion of 77%, followed by North Macedonia with 71%, while the approval rate (to different degrees) in Kosovo* is 84%, with other economies being somewhere in the middle but mostly open to approving the idea of sanctions: Albania (67%), Bosnia and Herzegovina (56%), and Montenegro (51%). However, the tendency to disagree grows for most economies when asked if paying more for fuel and gas because of sanctions against Russia is worthwhile to defend another sovereign country.⁹² Thus, in the medium



89 Regional Cooperation Council, Balkan Barometer Special Security Edition 2022 Public Opinion Survey.

90 European Commission, Winter 2023 Economic Forecast: EU economy set to avoid recession, but headwinds persist [Online]. https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/winter-2023-economic-forecast-eu-economy-set-avoid-recession-headwinds-persist_en

91 European Council (6 December 2022), EU-Western Balkans Summit in Tirana [Online]. <https://www.consilium.europa.eu/en/meetings/international-summit/2022/12/06/>

92 Regional Cooperation Council, Balkan Barometer Special Security Edition 2022 Public Opinion Survey.

to long run, depending on the favourable or unfavourable developments regarding the region's relations, in general, and those of each economy, in particular, with the European Union will greatly impact the (region's) economy.⁹³

European Union's Funding. European Union funds and reform can still tackle the negative economic effects of the war in the region. An example of this is the recent Economic and Investment Plan for the Western Balkans that can help with developments in inclusive growth and the green and digital transition.⁹⁴ However, some economies with internal political tensions might not absorb the European Union funds in a timely manner, and this can have further consequences. In this context, looking at the public opinion surveys, it could be easily noted that the vast majority of respondents totally agree or tend to agree that, in the context of the war in Ukraine, better cooperation with the European Union or NATO will improve economic security.⁹⁵ The economies with respondents most in favour of this idea are Albania and Kosovo* with 89% of them agreeing, followed by Bosnia and Herzegovina with 74%, Montenegro with 69%, and North Macedonia with 61%. Only 34% agree with the statement in Serbia, while 22% tend to disagree and 32% totally disagree with the positive contribution of economic collaboration with the European Union or NATO.

For example, the latest negotiations with the European Union brought Albania access to important funds that could be used to grow the economy if they commit to the reforms needed to access this financial help.⁹⁶ Bosnia and Herzegovina's main opportunity and challenge is the recent granting of candidate status from the European Union. Advancing economic and political reforms that could provide stability is key for better economic performance in the future.⁹⁷ The energy transition sector is one such example where the economy has both the support of the European Union and the United Nations Development Programme if it is eager to act.⁹⁸ The most recent financial opportunity for North Macedonia comes from the European Commission which proposes up to 100 million euros in financial assistance to help with the external economic balance, as it has been greatly affected by the dependency on imports of energy, as well as external debt repayments.⁹⁹ In December 2022, Kosovo* has applied for EU membership, but a reply is still missing due to the fact that, among other things, there are five EU member states that are non-recognisers. Nevertheless, this path remains one that can bring positive prospects for this economy in the future.

Green Opportunities. While in the European Union member states energy crisis is accelerating some decisions on the green transition goal of having a climate-neutral Europe by 2050, the Western Balkans proved to be slower than most of their fellow Europeans in stepping back from the conventional energy industries. However, this is not the case for Albania and Montenegro, which had 41% and 40%,



93 Grigorij Mesežnikov (23 May 2022), How Putin's War May Affect the Western Balkans. Russia's competitive footprint in the Western Balkans has long been unmistakable, Visegrad Insight [Online]. <https://visegradinsight.eu/how-putins-war-may-affect-the-western-balkans/>

94 World Bank (Fall 2022), Social Protection for Recovery: Europe and Central Asia Economic Update, World Bank, Washington DC.

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96 Enio Jaço, President of AmCham Albania (13 January 2023), The 2023 challenges – are bigger than the previous year, American Chamber of Commerce Albania [Online]. <https://amcham.com.al/the-2023-challenges-are-bigger-than-the-previous-year/>

97 European Union External Action (15 February 2023), Bosnia and Herzegovina: High Representative/Vice President Josep Borrell met with the new tripartite Presidency [Online]. https://www.eeas.europa.eu/eeas/bosnia-and-herzegovina-high-representativevice-president-josep-borrell-met-new-tripartite_en

98 European Union External Action Bosnia and Herzegovina (6 February 2023), 2023 can be a year of action for energy transition in Bosnia and Herzegovina [Online]. <http://europa.ba/?p=76701>

99 European Commission (6 February 2023), EU-North Macedonia: Commission proposes up to €100 million in assistance for North Macedonia [Online]. https://ec.europa.eu/commission/presscorner/detail/en/ip_23_561

respectively, of the energy coming from renewables in 2021.¹⁰⁰ North Macedonia is also expected to have solar electricity surpluses from May to October this year.¹⁰¹ As a boost for transition, in December 2022 the European Union proposed its new Energy Support Package for the Western Balkans of 1 billion EUR in EU grants that has the scope to help face the current energy crisis while at the same time promoting its clean energy transition.¹⁰² Mainly considering the energy crisis provoked by the war, 72% of business owners in the Western Balkans believe that stronger reliance on renewable energy is the key to future energy supply, followed from far by diversification of gas supply sources and routes with 29%. This is an argument that business leaders are ready to embrace green future for the Western Balkans. When looking at each economy, Albanian business people (83%) are most eager to make the transition; Kosovo* is not far behind (80%), followed by Serbia and Bosnia and Herzegovina (both with 72%), North Macedonia (70%) and Montenegro (52%).¹⁰³

Furthermore, general public opinion surveys also revealed that 86% of respondents fully agree or tend to agree with the fact that the war in Ukraine can be an impulse for the Western Balkans to invest in renewable energy. Agreeing most with the previous statement are Albanians and Kosovars with 91%, followed closely by respondents from Bosnia and Herzegovina (88%), North Macedonia (83%), Montenegro (81%) and Serbia (79%).¹⁰⁴ The transition itself will be a challenge, but it might offer many opportunities for financial sectors of the region. Greening the financial system by developing green finance instruments is a great opportunity for the Western Balkans, which will also improve the chances of better collaboration with the European Union and member states financial systems.

100 Lottie Limb (7 February 2023), Sweden, Finland, Latvia: Which EU countries use the most renewable energy?, Euronews [Online]. <https://www.euronews.com/green/2023/01/20/which-european-countries-use-the-most-renewable-energy>

101 Igor Todorović, North Macedonia expects surplus green electricity from May to October, Balkan Green Energy News [Online]. <https://balkangreenenergynews.com/north-macedonia-expects-surplus-green-electricity-from-may-to-october/>

102 European Commission (December 2022), Western Balkans. Focus on Energy Factsheet [Online]. <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-12/Factsheet%20focus%20on%20energy.pdf>

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CONCLUSIONS AND RECOMMENDATIONS

This report aimed to offer an overall description of the present economic situation of the Western Balkans region and economies after the start of the Russian invasion of Ukraine and the links between the two. The main conclusion taken from the analysis is that the war in Ukraine had and continues to have an impact on the Western Balkans region, and both objective economic data as well as public and business perception reveal that the consequences are clearly visible in the elevated inflation rates and high prices of food and energy. These factors are also seen as the biggest challenges going further for governments and the people. It is important to also mention that these economic developments cannot be seen purely as consequences of the ongoing conflict because they derive from other local and external factors, some of them preceding the war in Ukraine, and further research can be pursued to better identify the nuances of the matter.

Additionally, other key economic findings that are worth considering forward are the estimated slowdown in GDP growth for the region as a whole, with four out of six economies (only Kosovo* and North Macedonia are estimated to slowly increase) following along with a slowdown in the labour market and poverty decrease. On the optimistic side of things, the stability of the region was mainly held by foreign investments and development of exports that remained robust even in this less predictable environment. Going further, while one-third of business owners remain sceptical about their profits as a direct consequence of the war, most consumers believe that 2023 will be a better year from an economic perspective than 2022 was.

In terms of challenges, the biggest ones seem to come from outside of the region. A prolonged war in Ukraine or a harsher escalation of the conflict and the EU's reaction to it can bring about subsequent waves of economic issues for the Western Balkans. Similarly, any conflict in the region, internal or external, can have similar effects. How the government of each economy further handles the situation can also be a challenge as a deepening economic scarcity can lead to people's frustrations and riots.

In terms of recommendations, there are many points to be made. Additional research is needed at the regional and local levels to understand why some Western Balkan economies are more attractive for foreign direct investment than others and what can be done further. The governments need to try to come up with financial attractiveness strategies for all economies as investment proved to be one of the pillars of stability in the region in the current context. Another important strength in the region was export growth. However, current account deficits (CADs) have grown due to the higher costs of imports, and this is another matter that should be better looked at and tackled by the governments so as not to lose the export improvement in the future.

Similarly, as objective data shows that there is no better time for the region to make the switch to renewable energy, and the public and business perception are encouraging and approving this, further interdisciplinary research is needed to open doors and make this a reality. Furthermore, Western Balkan economies have the full support of the European Union and funds have been and

will be granted to this end in the future, and the region should maximize this potential. As some economies, such as Albania and Montenegro, are in more advanced stages of producing and using green energy, regional cooperation is important in order to faster learn and implement some green best practices.

Naturally, regional cooperation should not end here. The Western Balkan economies have many commonalities, from a shared history and a desire to have a future in the European Union, to more economy-related aspects such as those already mentioned in this brief. Thus, there are many sectors of cooperation that can benefit the economies, which might contribute to the political stability of the region.

Besides regional cooperation, 70% of the citizens of the Western Balkans interviewed for this brief believe that the key to economic security in the region is more enhanced cooperation with the European Union and NATO members. A question follows: as democratic economies, why not listen to the will of people if opportunities arise?

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