

balkan
wise



WESTERN BALKANS RISK OUTLOOK

Twenty years since the Thessaloniki Summit



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WHO WE ARE? A SHORT INTRODUCTION TO BALKANWISE

BalkanWise is your tool to understand the Western Balkans and its current affairs. Founded by 13 academics, policy analysts, and political thinkers, BalkanWise is dedicated to advancing new ideas for regional cooperation and providing customized services to governments, corporations, and multinational organizations.

With our extensive network of contributors, we offer fresh perspectives, insightful information, and innovative solutions to some of the region's most pressing issues. Our mission is to drive positive change across the region through the power of collaboration and partnership.

Our clients can expect high-quality products and services, including annual and quarterly risk reports, ad-hoc briefs, and analyses that provide timely insights into the region's current events and emerging trends.

We invite you to subscribe to our two newsletters. EarlyBird newsletter concisely summarizes possible opportunities and red flags that may have gone unnoticed by the wider public. Our unique Fen(j)er product will illuminate overlooked developments in the region that did not catch the public's eye.

Our clients also have access to WB6 decision-makers profiles, WB6 country reports, and our signature Western Balkans Risk Outlook. These products and related services are designed to meet the specific needs of our clients and help them navigate the Western Balkans' complex political and economic landscape.

Follow our work and stay up-to-date on the latest developments by visiting our website and signing up for our EarlyBird and Fen(j)er newsletters. Let's BalkanWise the future together!

PREFACE TO WESTERN BALKANS RISK OUTLOOK

Twenty years have passed since the EU - Western Balkans Summit in Thessaloniki when the EU provided its "unequivocal support to the European perspective of the Western Balkan countries." It was a time of hope and great expectations. Moreover, it seemed as if the "wind of change" would finally reach the Balkans. The region's citizens expected a quick end to the painful transition, and a well-trodden path to EU membership.

Twenty years later, there are almost no reasons for optimism. Of all the countries in the region, only Croatia became a member of the EU. Montenegro and Serbia started accession negotiations with the EU eleven and nine years ago, respectively, and the end of these negotiations is still not on the horizon. The rest of the region is even slower on its path to EU membership. More importantly, almost all the problems listed in the Thessaloniki Declaration (ethnic fragmentation, corruption, organized crime, democratic immaturity, etc.) have not yet been adequately addressed.

Even after twenty years, the Western Balkans has not overcome most of the problems of that time. The past is still a key theme in all efforts to stabilize and normalize the region. On the other hand, the future brings opportunities and challenges. The Western Balkans Risk Outlook (WBRO) is our contribution to all those that wish to look ahead and successfully anticipate and assess risks associated with the region's future.

Although the Western Balkans faces numerous risks, we have narrowed them to ten. The first three risks can be classified as external, and the region cannot influence their existence, but the region's governments can prepare well to avoid their potentially devastating consequences. The remaining seven risks are internal, and the current state of countries and societies in the region is the immediate cause of their occurrence. Hence, WBRO is addressed to all those who want to look twenty years ahead and contribute to efforts that will make this region a better place for all of its citizens.

Methodology

Western Balkans Risk Outlook (WBRO) identifies and assesses the risks faced by the Western Balkans. We base our forecast on carefully thought-out steps:

- Our team of experts with unique professional experiences and broad knowledge about the region develops a methodology for WBRO.
- A process of internal strategic planning and discussions with influential foreign and domestic actors from politics, science, and business precedes the drafting of the latest version of WBRO;
- In parallel, we thoroughly analyze data collected through relevant public opinion surveys and focus groups (in-house and from partners);
- We use the Delphi method to gather opinions and assessments of risks by leading regional experts in political science, security, economics, ecology, migration, etc.



- In the concluding phase of risk assessment, we rely on the qualitative evaluation of our experts.
- Based on our experts' judgment, we scale the likelihood and impact of the risk. The likelihood scale consists of five categories (Rare, Unlikely, Moderate, Likely, and Almost Certain), while the impact scale contains three categories (Low, Medium, and Significant).

WBRO is primarily intended for key political actors in the Western Balkans, the business community, and international stakeholders interested in the region. In front of you is a summary document that contains our main findings and assessments. The full version is exclusively available for our clients.

Stefan Šaranović

RISK 1 – PERSISTENTLY HIGH INFLATION

Risk Likelihood: Moderate.
Risk Impact: Medium.

The common risk facing all Western Balkans economies is the likelihood of persistently high inflation that erodes consumer confidence, instigates a wage-inflation spiral, and lowers the growth outlook in the foreseeable future. All economies in the region were already experiencing a rise in inflation when this issue was exacerbated by the European energy crisis and disruptions in global commodity markets triggered by the conflict in Ukraine. For example, in December 2021, inflation across the region varied from 3.7% in Albania to 7.9% in Serbia. Since then, inflation has grown further, reaching double-digit figures in all countries except Albania, making the region's inflation significantly higher than that of the EU.

Figure 1. Inflation in EU and WB countries

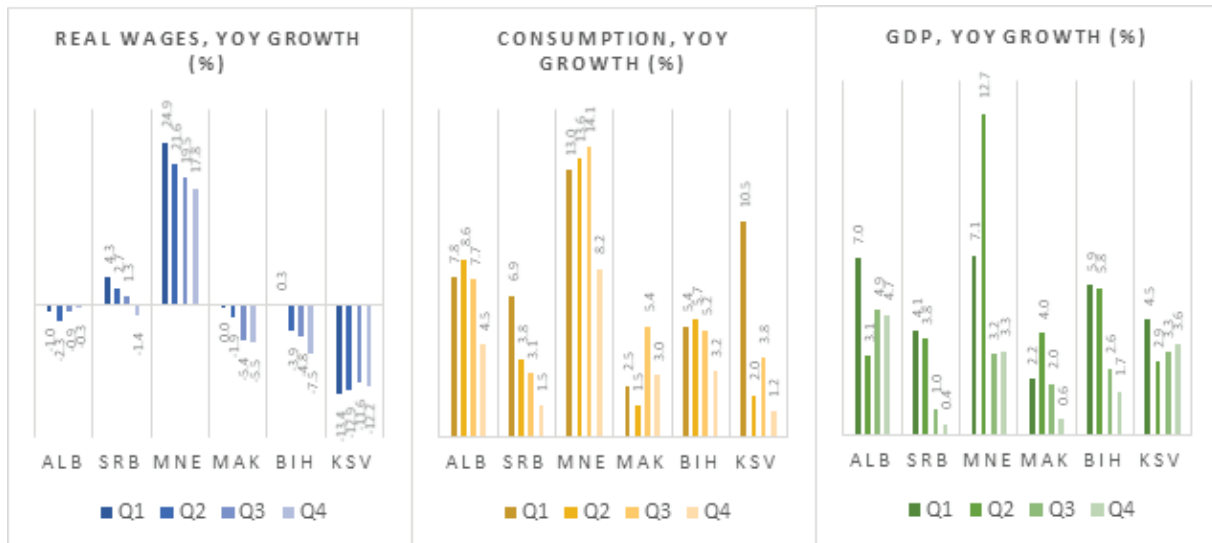


Note: Harmonized CPI for EU, CEE, and Kosovo; CPI for rest.

Source: National Statistics Offices and Eurostat

Rising inflation has put pressure on households' disposable income as the growth of real wages stalled and turned negative during 2022 in almost all economies in the region (a notable exception being Montenegro). Amidst monetary policy tightening and rising borrowing costs, this diminished household spending and contributed to lower growth in the year's second half. Namely, after a robust post-pandemic recovery in 2021 and the first half of 2022, growth across the region halved in the second half of 2022 (Figure 2).

Figure 2. WB6: Quarterly dynamics of real wages, GDP, and final households' expenditure in 2022.



Source: Calculations are based on data from national statistical offices

Available data suggests that inflation remains persistent at the start of 2023, although for most countries (except for Serbia), the inflation peak has passed – Figure 1. This trend broadly aligns with relevant forecasts projecting that inflation across the region will remain relatively high in 2023, albeit on a downward path, with private consumption and economic growth remaining muted compared to 2022 – Table 1. Bringing back inflation to its targets is likely to be one of the top priorities for the region's policymakers, as it could reinvigorate consumer confidence and boost the economic growth outlook. In 2023, the growth outlook is projected to remain below pre-pandemic levels, with an additional uptick in 2024. In addition, recent positive economic developments in the EU, which is set to avoid the recession, will undoubtedly be beneficial, as the EU is the leading trading partner for the countries in the region.

However, downside risks remain. Still uncertain and difficult to predict, the European and US-China geopolitical situation could lead to further global economic disruptions, adversely affecting the macroeconomic environment of the economies in the Western Balkans – e.g., adverse terms of trade shock and continuing increase in inflation. Thus, although risks are mostly out of the control of governments and policymakers, a moderate risk of a high inflation-low growth environment persisting in the foreseeable future exists.

Table 1. Medium-term macro outlook, selected indicators

| | GDP growth | | | Consumption | | | Inflation | | |
|------------|------------|-------|-------|-------------|-------|-------|-----------|-------|-------|
| | 2022E | 2023F | 2024F | 2022E | 2023F | 2024F | 2022E | 2023F | 2024F |
| Albania | 4.8 | 2.6 | 3.4 | 7.1 | 2.6 | 3.2 | 6.7 | 4.3 | 3.4 |
| Montenegro | 6.6 | 2.9 | 3.2 | 12.2 | 1.4 | 3.6 | 13.0 | 6.1 | 3 |
| North M. | 2.2 | 2.5 | 2.8 | 3.1 | 2.4 | 2.2 | 14.1 | 7.9 | 4 |
| Serbia | 2.3 | 2.4 | 3 | 3.8 | 2.9 | 3.1 | 11.9 | 10.6 | 5.6 |
| BiH | 4.0 | 2.5 | 2.3 | 4.9 | -0.5 | 2.2 | 14.0 | 6.1 | 3 |
| Kosovo | 3.6 | 3.5 | 3.9 | 4.4 | 2.6 | 2.5 | 11.6 | 4.9 | 2.5 |

Notes: Figures given in %, y-o-y growth rates. E – Estimate (national statistical offices). F – Forecast (For Albania, Montenegro, North Macedonia & Serbia: ECFIN Autumn 2022 Economic Forecast; for Kosovo Article IV Report IMF, for BiH GDP projections taken from World Bank GEP report while Consumption and Inflation projections taken from CBBH).

If adverse risks materialize, the impact could be significant depending on how the Western Balkans' governments react. Protracted high inflation could form high inflation expectations, which would pressure private companies to increase wages and salaries for employees to shield their purchasing power. In this case, the resulting rise in unit labor costs for companies would most probably be transferred to the final prices of goods and services sold, thus fueling and keeping inflation high for a prolonged period (wage-inflation spiral), lowering the growth outlook. In addition, if social pressures mount, in the absence of sound fiscal governance and accountability across the region, the governments could opt for ad hoc regulated increases in nominal wages and salaries or instigate social transfers such as salary top-offs. This approach is not effectively a viable option for governments in the region, which, after large Covid stimulus packages, do not have enough fiscal space to enact such policies without adversely affecting fiscal positions and increasing debt burdens.

Milan Krstić

RISK 2 – ENERGY SECTOR CRISIS

Risk Likelihood: Likely.
Risk Impact: Medium.

The energy sectors in the Western Balkans have multi-faceted vulnerabilities that have created a fertile ground for disruption in energy production and supply. In particular, the risks for the crisis in this sector lie in poorly managed and outdated facilities for electricity production and overdependence on the supply of Russia's natural gas.

During the last two years, many electro-energy systems in the region faced severe challenges. The reasons which caused these challenges in energy production were diverse – from poor management of a state-owned electric utility power company in Serbia and the use of low-quality coal for its thermal power-plants to the draughts which reduced the potential of hydro power-plants to produce adequate amount of electricity in Albania. The necessity for the substantial reconstruction of electricity power systems is best reflected in the facts that the major power-plant “Kosovo A” was out of operation for several months in the fall of 2022, while minor accidents also caused Montenegrin coal power-plant “Pljevlja” to be briefly out of service last September.

Due to these issues, many countries in the region had to import expensive electricity from surrounding EU member states in recent years. Further import of electricity, particularly during the winter, could increase prices for end-users (citizens and enterprises). Consequently, this increase could negatively impact the business and economic activity in the region and send a negative signal to potential new investors who count on low electric energy prices - one of the most critical regional comparative advantages. The substantial increase in prices could also diminish the living standard of the citizens already affected by inflation's effects and might trigger social and political turbulences in some parts of the region. However, a substantial price increase remains unlikely due to significant support provided by the EU through Energy Support Package.

Higher energy prices are also related to the ongoing rift between the EU and Russia. Namely, Serbia, Bosnia and Herzegovina, and North Macedonia highly depend on Russia's natural gas supply. The Western Balkans' most significant natural gas consumers are from Serbia, including its industry, local heating plants, and households. In North Macedonia, natural gas is mainly used for heating (80%) and electricity production (20%). Bosnia and Herzegovina now consume around 250 million cubic meters of gas, much less than 15 years ago (and almost eight times less than Serbia currently consumes). These three countries have only short-term contracts with Gazprom, ensuring currently affordable prices. If Russia decides to increase the price when contracts expire or to force the countries to start paying in rubles (as it tried with Bulgaria or Germany), this would also have a direct negative effect on businesses and citizens in the region.

This effect would be comparatively lower than if the trade were canceled entirely, as all these three countries are vulnerable to potential disruptions in natural gas supply. Their natural gas imports are not crucial to the Russian economy, and Kremlin could afford to stop the flow as an instrument of political pressure. Although unlikely, the possibility for this outcome may increase if Serbia decides to align with some of the EU sanctions against Russia or if Bosnia and Herzegovina makes further progress in its accession to NATO. However, it is noteworthy that Russia has not entirely canceled its export to many EU and NATO countries, so it seems doubtful that Kremlin would retaliate with such a harsh measure, risk antagonizing the pro-Russian public sentiment in the region, and reduce its soft power in Serbia and Bosnia and Herzegovina.

The other possibility is that the EU decides to block the transit of Russian natural gas over its territory and into the Western Balkans. However, this is also an unlikely scenario as it could spur anti-EU sentiments throughout the region. Considering the EU's attention to this region's political and social stability, it is doubtful that Brussels will apply such a measure before finding alternative routes for natural gas supplies. Some steps toward this diversification have been made. In particular, the infrastructure works enabling the region to import natural gas from Azerbaijan and import LNG from the U.S. are in progress as LNG terminals are being built in Montenegro and Albania, while new pipelines in the region should connect it with Croatia and Greece.

Stevan Nedeljković | Marko Dašić

RISK 3 – DESTABILIZING FOREIGN INFLUENCE

Risk Likelihood: Unlikely.
Risk Impact: Moderate.

The Western Balkans and its surroundings have been historically an area of collision between the spheres of interest of the great powers. As such, the region has never been exceptionally resilient to foreign influences. Today's situation in the Western Balkans is not significantly different despite the decades-long Euro-Atlantic integration process that resulted in a solid pro-western sentiment through most of the region and NATO membership for Albania, North Macedonia, and Montenegro. The slow-down of this integration process, supported by the diverging priorities of the U.S. and EU, has created a geopolitical vacuum. Consequently, several actors, notably Russia and China, increased their footprint in the region. Their increased presence and diverging interests vis-à-vis those of the West bear a risk to the region's stability. In particular, the risk to the Western Balkans' stability correlates with broader trends of great power rivalry.

For this reason, the ongoing conflict in Ukraine and its trends can potentially impact the stability of the Western Balkans. The Western Balkans is important to Russia. It is one of the last stances of Moscow's influence in Europe, and the Kremlin pays attention to the positioning of the region's countries concerning the war in Ukraine. Kremlin also relies heavily on shared history, culture, religion, and investments to maintain its presence in the area. It does not hesitate to fuel unresolved conflicts or finance the region's far-right populists.

There is a risk that this destabilizing influence will rise in the foreseeable future. Namely, the Russian aggression against Ukraine persuaded Serbia and Republika Srpska, Moscow's traditional partners from the Western Balkans, to distance themselves from the Kremlin and broadly align with the West. Consequently, Kremlin's tools to impact the broader region are diminishing while its soft power levers and investments in the energy and banking sectors in the Western Balkans are under increased scrutiny. In response, Moscow might retaliate to return Serbian decision-makers to their pro-Russia stance. This approach would likely undermine the region's stability, but the overall impact of this retaliation remains moderate due to Russia's limited tools to influence decisions made by Serb strongmen, particularly Aleksandar Vucic and Milorad Dodik.

In parallel with the war in Ukraine, another global issue detrimental to the stability in the Western Balkans is the relationship between China and the EU. China's footprint in the region is substantially different from Russia's. Beijing has no deep historical or cultural ties to the region, and interests in the region are primarily economic. Except for Kosovo, all other WB6 members are a part of the Belt and Road

Initiative and the 14+1 initiative (formerly 16+1 and 17+1), China's format for cooperation with Central and Eastern European countries. The growth of Chinese influence in the Western Balkans coincides with the World Economic Crisis (2008). Since then, Beijing has become a critical lender and investor in infrastructure, transportation, energy, and mining. The Balkan Investigative Reporting Network has identified 135 projects in the Western Balkans in which China directly or indirectly participates, worth more than 32 billion dollars.

Although the EU is the Western Balkans' largest trading partner, China's share of trade with the region is constantly growing, as is the external debt of several Western Balkans countries vis-à-vis China, raising concerns of the debt trap, particularly in Montenegro. Considering Western Balkans' economic over-dependence on the EU and China, possible drift or deterioration of economic ties between them would have a colossal economic impact on the region. Considering the formal relationship between the region and the EU through the EU accession process, Western Balkans' economies would be expected to align their foreign and trade policies with the EU. This alignment could impact the region's trade with China, initiate capital flight, prevent future investments, and stall major infrastructure works conducted by Chinese companies.

Milica Andrić Rakić

RISK 4 - ESCALATING CONFLICTS IN KOSOVO AND BOSNIA

Risk Likelihood: Unlikely.
Risk Impact: Significant.

Almost two decades have passed since the last organized and violent conflict erupted in the Western Balkans. However, the region is still burdened by unresolved political issues that could reignite violence. The two most prominent issues that could escalate into conflicts are the decades-long dispute between Kosovo and Serbia and the ongoing political stalemate in Bosnia and Herzegovina.

Serbia's refusal to accept Kosovo's independence and acknowledge its statehood effectively blocks the EU integration process for both sides. Similarly, Kosovo's refusal to establish the previously agreed Association/Community of Serb-majority municipalities stagnated the EU-facilitated normalization process between the two sides, initiated in 2012. Consequently, the ongoing EU-led dialogue between the two sides has been overburdened with their unwillingness to honor most of the reached agreements, often resulting in high tensions and crises. Increased tensions occur most often in the Serb-majority populated north of Kosovo. Indeed, this small area of the Western Balkans (approximately 1000 square kilometers or less than 10% of the territory of Kosovo) holds the risk of escalation of violence that could impact the stability of the broader region.

Most recently, in November 2022, approximately 3,000 Kosovo Serbs resigned from Kosovo public institutions in this northern part of Kosovo, dramatically reducing the functionality of these institutions and their provision of services to citizens in the area. This massive resignation was triggered by the Kosovo government's decision to impose Kosovo license plates on Serbians driving vehicles licensed by Serbia's authorities.

To break the cycles of crisis management and minimize the potential for further escalation in this part of Europe, the EU and the US increased their diplomatic engagement resulting in an interim normalization agreement reached by Kosovo and Serbia in February 2023, followed by an implementation annex in March 2023. The crux of the implementation annex is the institutionalization of the Kosovo Serb community through the Association/Community of Serb-majority municipalities that will be granted an appropriate level of self-management. The Association/Community is supposed to take over the administration of the services in Serb-majority areas that, to this day, are provided by Serbia, such as education, healthcare services, and social welfare services.

If the latest agreement is implemented, the establishment of the Association/Community will likely include the negotiations over the return of the Kosovo Serbs to police, judiciary, and local administration

and the stabilization of the security situation. Despite the mediators' optimism, stalling or a complete lack of implementation of the European proposal is still possible. If Kosovo and Serbia fail to agree on the return of Kosovo Serbs to police and other institutions in the north, this could prompt the international community to either push the existing missions, like EULEX, to take over the policing and judicial system in the north or support the unilateral formation of Association/Community of Serb-majority municipalities. Both options raise the risk of creating an institutional vacuum and subsequent power struggle in the north of Kosovo that could spark a conflict.

The risk of escalation of violent conflict in Bosnia and Herzegovina is associated with the potential for an adequate political settlement between Serbs, Bosniaks, and Croats. The decade-and-a-half-long political stalemate among these three ethnic groups is unlikely to change in the foreseeable future. The attempts to implement general electoral reform (especially in the Federation of Bosnia and Herzegovina, an entity consisting of cantons with a Bosniak or Croat majority) have not been successful. The lack of constitutional reform which would, inter alia, implement the Sejdic-Finci verdict of the European Court of Human Rights leaves Bosnia and Herzegovina at the margins of both EU and NATO integrations, even though it formally got the EU Candidate Country status in 2022.

Secessionist rhetoric of the current political leadership of Republika Srpska, a Bosnian entity with a Serb majority, together with Croatian claims that they are majorized and marginalized in the Federation of Bosnia and Herzegovina by Bosniak majority, became a regular part of the political landscape. However, considering that neighboring Serbia and Croatia support the integrity of Bosnia and Herzegovina, the possibility for a direct attempt at unilateral secession of the Republika Srpska or cantons with a Croatian majority seems to be very low at the moment, despite the ambitions of local politicians and public opinion of Serbs and Croats in Bosnia and Herzegovina.

Western stakeholders are expected to spotlight this issue more, considering their fear of the increasing Russian political influence among Serbs in Bosnia and Herzegovina. The decision of the UN Security Council last fall to extend the EU military mission mandate in the country for a year (reached unanimously, with Russian support) assured the remaining of the EU military overlay and provided continuity and stability. However, without substantial agreement and compromise between the three constitutive nations, the situation will remain fragile, and the potential for escalation of conflict will continue to exist, although current chances seem to be relatively low.

Đorđe Milošević | Dušan Milenković

RISK 5 – VOLATILE NATURE OF REGIMES

Risk Likelihood: Almost Certain.
Risk Impact: Medium.

Democracy as the norm in the Western Balkans is constantly challenged, and the related volatile nature of regimes bears considerable risks. Global indicators of its key features, including the rule of law and media freedom, have stagnated for over a decade. According to Freedom House (FH), all six region's regimes can be classified as Transitional or Hybrid. On the other hand, the Economist Intelligence Unit classifies most of them as flawed democracies. For this document, we mirror the FH's classification and describe all six region's regimes as hybrid, although we recognize some positive democratic trends triggered by recent electoral changes in Skopje, Pristina, and Podgorica.

Hybrid regimes allow democratic institutions and processes such as parliaments and elections but restrict or manipulate them to maintain the power of the ruling elite, party, or leader. This feature is perhaps most evident through the unconstrained decision-making of the region's strongmen, most often in the roles of prime ministers and presidents, who maintain their rule through charisma and dominant presence in public, coupled with weak public institutions and pro-regime media outlets.

The volatile nature of hybrid regimes in the Western Balkans has been the main feature of the region's post-Cold War societies. For decades, these societies swung from being led by autocrats to democrats and back, each having a specific impact on these transitions. The single characteristic identified in all six Western Balkans societies is the negative impact of these transitions. They are, almost without exceptions, followed by intense political unrest, near-conflict events, deterioration of the state functionality and system of institutions, and with significant potential for cross-border spillover effects. These transitions will likely last for years, heavily impacting the development trajectory of the region's societies. Consequently, the certainty of change of government - a key feature of democracy - is often observed as a serious political risk for long-term foreign investments and projects in the Western Balkans. This observation is also held as a perception by many citizens in the region.

The WB6 Snapshot: political power and state economic resources in the Western Balkans are primarily distributed through personalized networks of key patrons and their clients. In these systems, power is based on mutual dependency: political leaders secure the loyalty of individuals or groups by providing them with access to goods, services, or jobs. In return, clients are expected to show unwavering support for their patrons. This process creates a system of reciprocal relationships where political and economic power is not distributed based on merit, democratic, or market principles but instead through loyalty and favoritism.

The most prominent case of mutual dependency can be observed in Montenegro. Former president Đukanović ruled this country for over 30 years in different roles - as the prime minister, president of the country, or from the shadows, as the president of the ruling party. Due to minimal limitations on the president's institutional powers, he overtly used state resources to reward his supporters and create a patronage network that secured his position of power. On several occasions, Đukanović blurred the line between his leadership over a state and an organized criminal group. Most famously, in the early 2000s, Italian prosecutors requested an arrest warrant against Đukanović. He was supposed to be indicted for overseeing multi-million-dollar tobacco-smuggling between Montenegro and Italy. However, due to his diplomatic immunity as Montenegro's Prime Minister at the time, he was neither charged nor arrested and therefore did not stand trial.

Although Đukanović's recent election losses and a new generation of political leaders, with 37-years old president-elect Jakov Milatović being one of them, could spark pro-democratic reforms in Montenegro, the new ruling political elite will not necessarily change the way of doing politics. New public officials in the Western Balkans are often constrained by previously established undemocratic structures and already mentioned weak public institutions. As a result, they are lured to centralize their authority to a handful of trusted appointees. At the same time, the new public officials are pressured by polarized societies and high-priority issues. Domestically, these are primarily economic development and unemployment, particularly in rural areas. Externally, these differ throughout the region, from Kosovo to political instability and non-functionality in Bosnia and Herzegovina.

This entrenchment of hybrid regimes and deterioration of public institutions in the last decade has been, in varying ways, supported by all major powers. Although the European Union and the US allocated significant funds to promote good governance and strengthen democratic institutions in the Western Balkans, their political priorities often conflicted with the region's democratic aspirations. Western Balkans' leaders who have sided with the West on its perceived strategic aims have been championed for their pragmatism despite their role in state capture and democratic deterioration.

Simultaneously, China's and Russia's presence in the region further strengthened and enriched the ruling elites, being their direct counterparts in infrastructure and energy investment projects. The Western Balkans' infrastructure and energy fields are controlled mainly by state-owned companies, which have been perceived as highly corrupt and directly linked to state leaders. It is estimated that Chinese-led projects in the Western Balkans amounted to over 32 billion Euro in the last 15 years and that most of the region is almost 100% dependent on importing Russian natural gas. Therefore, it is likely to assume that some financial resources from these projects have been siphoned to several political leaders who directly control state-owned companies.

Considering significant financial resources, firm control over state-owned enterprises and media, and the long history of autocratic tendencies, the regimes in the region will continue to be exposed to rough transitions without a clear pathway to democracy. This status quo entails future strategic election ma-

nipulation by ruling elites to remain in power and introducing tailor-made laws that will primarily serve the interests of the ruling elite and their clients. Alternative to their current entrenchment requires the willingness of the leaders to diffuse power currently concentrated in the hands of the few. This remains highly unlikely throughout the region. The first test to this is Montenegro, and particular attention should be paid the formation of the new government, following the recent parliamentary elections.

Tijana Rečević

RISK 6 – INCREASING CRIME AND VIOLENCE

Risk Likelihood: Likely.
Risk Impact: Significant.

Push and pull factors that foster different types of crime in the Western Balkans region are multifaced, stemming from its geography, post-conflict legacy, political instability, and underdevelopment. All of these tend to aggravate the worsening economic conditions in the region. For this reason, we will likely see an increase in an already concerning level of crime and violence in the foreseeable future. If the economic stalemate continues, inflation rates rise, and employment opportunities drop, the illegal means of gaining wealth will likely become the last resort for many citizens. Thanks to the corrupted political elites and states' limited capacities to combat them, transnational organized crime networks will likely thrive further, making the rich richer and the poor poorer.

While the political economy of criminal is deeply entrenched on all societal levels, the rising grievances and citizens' mistrust in the governments' efforts to fight crime and corruption in their communities might spur new waves of social unrest in countries in the region. Therefore, rather than breaking in 2023, the vicious cycle of poverty, crime, and weak institutions that has characterized the region's transition decades is more likely to spin even faster, detrimental to its chances of achieving development goals and consolidation of peace. While the scales and structures of criminality vary among the Western Balkans countries, general trends and weaknesses remain similar in all crime categories.

In terms of 'conventional crime,' a two-decade-long trend of its overall decline is unlikely to reverse in 2023 because peace and democratic dividends have, despite many obstacles, indeed increased the Western Balkans societies' resilience to crime and violence. Nevertheless, some recent developments warn that prolonged economic hardship, democratic backsliding, and political discontent could jeopardize this trend and increase citizens' susceptibility to 'traditional' forms of crime and violence. The share of different sorts of property crimes, for instance, remains high and seems to be rising, especially among the youth and disadvantaged groups of the population, in many countries in the region. The areas with overlapping jurisdictions, unharmonized legislation, and weak institutional coordination, such as parts of Bosnia and Herzegovina or North Kosovo, have become 'hot spots' for fraud and thefts of different commodities. Moreover, a further worrying development is the apparent rise in crimes that have a violent component. Even though homicide rates in most of the region's countries remain below the European average (except for Albania and Montenegro), the number of homicides is also rising, primarily as a spillover of organized crime. Violent incidents related to the drug wars, as were numerous 'hit and run' actions in Belgrade, Podgorica, and other capitals, are increasingly frequent in the entire region. Finally, domestic violence, primarily directed against women and girls, remains exceptionally high in the entire region.

Despite increased state efforts, violence against women and girls in Albania remains a serious concern, with more than half of the female population having experienced one or more forms of violence. The number of women killed in domestic or intimate partner violence in Serbia during the first three months of 2023 approached the femicide rate for half of 2023, signaling that things may get even worse by the end of the year. Families' financial struggles tend to increase frustrations and aggravate mental health problems, which in societies with strong patriarchal cultures frequently lead to increased violence against women and girls.

While the regional 'outlook' of conventional crime is not great, the situation with organized crime is dreadful. Highly resilient and adaptable to different political and economic circumstances, organized crime in the Western Balkans seems to benefit from the current global and regional momentum. In addition to the immediate consequences of economic slowdown, such as higher unemployment rates (especially among the youth), the open conflicts and insurgencies in the regions' vicinity, from Ukraine, via South Caucasus, to the Middle East, increase the demand for the long-established Balkan smuggling routes. Although some seizures and investigations have recently intensified in Montenegro, the leading regional hub for cigarette smuggling, the efforts towards the illicit production and transport of tobacco through the entire region are far from sufficient, and new hubs seem to emerge.

The same holds for the smuggling of heroin and cocaine from the world's biggest producers in Latin America and the Middle East to the biggest markets in Western Europe. Moreover, an increase in the domestic production, not only of cannabis but also of synthetic drugs, has been recorded in the past years, especially in Bosnia and Herzegovina and Serbia, which has become the largest regional market for synthetic drugs. The smuggling of arms also seems to rise, judging by the increased reports on the Balkan origin of weapons and explosives found at various warring parties in Ukraine and the Middle East and among different mafias and gangs across Europe. Similarly, the human smuggling and trafficking, sparked by the migration crisis in 2015 and sustained by the ongoing ones, remains a serious concern since the number of refugees and migrants 'stranded' in the region remains high, pushing them towards desperate ways to leave it. Thus, while some are decades-long and some are new, both routes and actors in the regional networks of transnational organized crime remain extremely busy and are unlikely to scale down throughout 2023.

The sustainability of the regional criminal 'ecosystem' is enabled by the close ties criminal networks have with prominent politicians and high-ranking officials in all countries in the region. In return for financial gains, the political elites grant criminals channels for money laundering and impunity. The overall democratic backsliding in the region has weakened the regional capacities for fighting transnational organized crime, as the law enforcement agencies and security sector actors were among the first to be 'captured' by the ruling parties and criminal networks. The prosecution and judiciary in all countries remain weak, without sufficient professional autonomy and impartiality from the politics. Most cases of serious organized crime, with an obvious indication of state involvement, remain unprocessed, and

even when verdicts are made, they are rarely final. Very few cases of high-level corruption are brought to the courts, and the widespread corruption in the judiciary and public administration remains a significant roadblock to any progress in fighting crime in the Western Balkans.

Certain progress has been made in some countries, such as Albania, where criminal proceedings and financial investigations were conducted in several cases involving high-ranking state officials. While North Macedonia also made advancements in investigating high-level corruption and financial misdeeds, the suspension of how the replacement prosecutor was elected in 2022 cast a shadow on future positive developments. With the stalemate of the European perspective, the incentives for necessary reforms and actions concerning judiciary reform, adoption of key strategic documents, the establishment of referral mechanisms, and regional exchange of intelligence are likely to scale down in most of the countries, which is why the progress in fighting organized crime is expected to remain at best 'limited.' The more vulnerable the region becomes in terms of the rule of law and democratic governance, the more attractive it is both as a trafficking route and the final destination of criminal enterprise.

The signals that the region's citizens are getting tired of the impact of corruption and crime have been emerging. When asked to rank the major security threats, citizens regularly name these two as far more prominent threats than external security ones. Citizens' trust in law enforcement institutions is very low in the entire region, with the judiciary being the lowest-ranked of all institutions in all countries. Despite citizens' perceptions that police are heavily corrupted and controlled by organized crime and powerful politicians, trust in police is still marginally higher, most likely due to the continued dominance of an authoritarian political culture.

Nevertheless, while they know how widespread and entrenched corruption and crime are in their societies, the mobilizing potential of these issues does not seem to be at the critical point. First, the citizens of all countries in the region feel relatively safe, sometimes even more so than residents of the European nations with the lowest crime rates. One reason is that the 'normalization' of corruption and crime has resulted in a lack of hope that the institutional situation could improve. This is why citizens attach their sense of safety primarily to their ability to 'take justice into their own hands' (a vast majority of citizens in Serbia would not turn to the police if they witnessed or suffered a crime).

A second and possibly major reason for the lack of more widespread social protests against organized crime and corruption is the firm grip that governments in the region have over citizens' political behavior. In addition to 'regular' clientelism and populist political and economic packages, what is particularly worrisome is the governments' increasing reliance on various forms of intimidation, often 'outsourced' to professional political protesters, football hooligans, and private security companies that are hired to meddle into the citizens' protests and suppress any more significant outbreak of social unrest. Nonetheless, a deteriorating socio-economic situation in the entire region that compels a growing number of citizens to accept working conditions that are far from fair and safe could perhaps serve as a 'tip on the scales' that will mobilize citizens' grievances and turn them into a force for political changes already in 2023.

Đorđe Milošević | Dušan Milenković

RISK 7 – OVERWHELMED HEALTH SECTORS

Risk Likelihood: Almost Certain.
Risk Impact: Medium.

Healthcare systems in the Western Balkans face risks that are likely to overwhelm them and negatively impact the health of the region's citizens. These challenges include low levels of public expenditure and investments in healthcare systems, outmigration of health professionals, progressive aging of populations, and an increase in chronic disorders, including cardiovascular diseases, cancers, respiratory diseases, and diabetes.

The key culprit for this situation is that Western Balkans' healthcare systems are among the most under-resourced in Europe. Available data shows that, on average, public spending on health in the region is below 5% of GDP, well below the European Union's (EU) average of 7.9%. The region's country with the highest public health expenditure is Bosnia and Herzegovina, spending approximately 9.0% of its GDP. However, this high expenditure is undermined by Bosnia and Herzegovina's weak financial management structures and complex health systems, with 13 public health insurance funds and 14 ministries in charge of health, all over-employed with bureaucrats and underemployed with health professionals.

Low public expenditures throughout the Western Balkans trigger high out-of-pocket costs, such as diagnostic services and medications. This additional financial burden for patients amounted to almost a third of the total health spending in the Western Balkans, not including widespread informal payments and petty corruption. In comparison, out-of-pocket costs in the EU average approximately 20% of total health spending. High out-of-pocket healthcare costs in the Western Balkans are further problematic as they promote inequality and unfairness by limiting access to appropriate healthcare to socioeconomically disadvantaged groups.

Low public expenditures in health also impact the number of health professionals in the region's healthcare systems. According to the World Health Organization data, the overall numbers of physicians and nursing professionals in the region remain significantly below the EU's average of approximately 400 physicians and 915 nursing professionals per 100 000 inhabitants. The highest numbers of health professionals relative to population size in the Western Balkans were recorded in Serbia, with approximately 280 physicians per 100 000 inhabitants, and Bosnia and Herzegovina, with approximately 580 nurses per 100 000 inhabitants.

Driven by low public health expenditures, the region also experiences a significant outmigration of health professionals. While there is no reliable data on outmigration in the region, it is estimated that between 700 and 800 doctors leave Serbia each year, while 200 doctors left Kosovo in 2022 alone. Most commonly, they migrate to Germany. This migration is primarily driven by better employment prospects and significantly higher salaries than those provided in the Western Balkans – the result of low public expenditures in health in the region. However, in addition to the direct effects of low expenditures, the side effects are considerable, further exacerbating healthcare professionals' outmigration. These include poor working conditions, limited opportunities for continuous medical development, and poor health workforce management reflected in the scarcity of doctors in the Western Balkans' rural areas.

The progressive aging of the populations stemming from general emigration from the Western Balkans combined with a low fertility rate in the region is creating additional challenges to already fractured healthcare systems. A related concern in Albania and Kosovo is the quality of neonatal care, as their child mortality rates are almost three times the EU average. As a result of these challenges, the percentage of the population aged 65+ has grown substantially in the last 20 years. Consequently, the demand for healthcare in the Western Balkans will inevitably grow in the upcoming years as, on average, seniors tend to need more frequent healthcare. This demand is especially a concern in rural areas in the Western Balkans, where shortages of doctors exist, and where some hospitals had to close their operating rooms because of a lack of relevant specialists.

The aging population is correlated with an increase in chronic disorders. However, the Western Balkans is also prone to high levels of tobacco and alcohol consumption and relatively poor air quality - all significant contributors to the increase in cardiovascular diseases, cancers, respiratory diseases, and diabetes. The region has one of the highest smoking rates worldwide, while it is estimated that air pollution in the Western Balkans causes 30,000 premature deaths per year. In addition, weak preparedness for natural disasters, such as floods and earthquakes, often disrupts already overwhelmed healthcare sectors, limiting the possibility of immediate and appropriate care for those in immediate need.

The most significant risk for healthcare sectors in the Western Balkans lies in the convergence of the challenges described and the unexpected events, such as the COVID-19 pandemic. During several pandemic peaks, all six healthcare sectors in the Western Balkans were overwhelmed and unable to provide quality care to COVID-19 patients and those who suffered from other diseases.

Sanja Vojvodić

RISK 8 – INCREASING HABITAT DESTRUCTION

Risk Likelihood: Almost Certain.
Risk Impact: Significant.

The Western Balkans is facing several disturbing climate and environmental risks that are very likely to increase habitat destruction and significantly impact the human population throughout the region. These risks encompass rising temperatures, extreme air and water pollution, biodiversity decline, and severe deforestation, often accompanied by inadequate urbanization. Most of these risks resulted from the amalgamation of climate change's effects with the mismanagement of the local environment.

The region is already experiencing severe climate disturbances in the form of rising temperatures. European Commission dubs the region one of the most affected by climate change in Europe, while the Regional Cooperation Council predicts that temperatures will increase between 1.7 and 4.0°C, possibly exceeding 5.0°C by 2100 (depending on the global efforts in GHG reduction). Moreover, the subtropical climate will continue to spread further north. Consequently, the United Nations Development Programme expects summer heat waves in Western Balkans to claim more lives than those saved by warmer winters in the foreseeable future. The rising temperatures and prolonged heat waves accompanied by increased intensity and frequency of droughts, flash floods, landslides, and wildfires will particularly impact the economies of North Macedonia and Bosnia and Herzegovina.

Similar to the disproportionate impact of climate change on the Western Balkans vis-à-vis Europe, the region's population is considerably more exposed to air pollution than the citizens of the EU member states. This environmental risk is detrimental to health in the Balkans. The Skopski region in North Macedonia, and Podunavska oblast in Serbia, had the most relative premature deaths in 2020 in Europe, with 265 and 263 per 100,000 inhabitants, respectively. Old and inefficient coal-fired thermal power plants and inferior household heating create enormous ambient air pollution in the region's large cities, especially in Belgrade, Sarajevo, Skopje, and Tirana. In winter months, these cities are often ranked among the ten most polluted capitals in the world.

The entire region also lags considerably behind the EU average on wastewater treatment. Consequently, the Western Balkans' generally poor state of the waters opens up several water-related cascading risks. Although modest in efforts and still falling short, Bosnia and Herzegovina leads the region with 47% of safely treated domestic wastewater flows, closely followed by Montenegro with 45%. On the other hand, wastewater treatment efforts are dire in Serbia (27%), Albania (13%), and North Macedonia (9%). Particular issues occur during wet weather, when enormous piles of unregulated waste end up in the Drina waterways between Bosnia and Herzegovina, Montenegro, and Serbia, practically clogging

critical watercourses. Those management problems are further exacerbated by rising temperatures and increasing “once in a hundred years” floods which endanger public health, livelihoods, and surrounding ecosystems.

Cognate of the already mentioned risks is unfurled biodiversity decline as one of the most important consequences of climate change coupled with poor management. To fulfill their obligations from the Paris Agreement and EU 2030, among other issues, Western Balkans countries are expected to deepen the quality, expand protected areas, and preserve natural habitats while ensuring the survival of species and their populations. However, the region’s political will to protect biodiversity is frail. Regarding species protection, Montenegro has by far the worst performance on the international Species Protection Index (0.47/100), which is somewhat counterintuitive given its one of the leading positions in Europe regarding flora and fauna richness and ecosystem diversity. Furthermore, excessive logging and unrestrained deforestation are prevalent, with Albania displaying the highest tree-cover loss in the past 20 years. Apart from severe deforestation, there are also many examples of inadequate urbanization in highly protected areas in Serbia (such as Fruška gora, Tara, and Kopaonik).

The urgent need to halt the risk of increasing habitat destruction in the Western Balkans is overridden by weak political will and limited public debate. Although the countries signed the Sofia Declaration on the Green Agenda in 2020, they are very slow in preparations for its implementation. Furthermore, an extensive survey covering Serbia, Bosnia and Herzegovina, and Montenegro showed that main stakeholders, including representatives of the executive and legislative authorities, the academic community, NGOs, or media, do not share a sense of urgency and need to rapidly carry out the process of decarbonization of the energy sector.

Miodrag Pantović

RISK 9 – IMPACT OF DEMOGRAPHIC CHANGE

Risk Likelihood: Almost Certain.
Risk impact: Significant.

Demographic trends in the Western Balkans have been uniquely grim. The most recent census in Serbia showed that there are approximately 586,000 citizens less in 2022 compared to 2011, a decline of 8,1%. In the same period, the number of citizens that are aged 65 years and over increased from 17.4 to over 22,1%. Relatedly, the 2021 census in North Macedonia showed a decline of 11.4% compared to the official population estimates for 2011. This census also showed that the Macedonian population is increasingly ageing, as the share of the old population (age group 65 and over) grew from 11.8% to 17.2% during the mentioned timeframe. A similar situation is in all other countries in the region although precise and recent data is absent due to irregular censuses and limited capacities of statistical offices. However, relevant estimates for the future of the region are bleak. For example, it is likely that Bosnia and Herzegovina and Albania could lose more than half of their current populations by mid-century.

In the recent decades, demographic trends in the Western Balkans resemble both the challenges faced by developed countries, such as low birth rate and aging population, and those of developing countries, such as growing emigration and high rates of rural-to-urban migration. This double challenge of depopulation of the region affects all six governments to various degrees, including Kosovo which still has the lowest median age in Europe, albeit increasing rapidly as its youth aspires to pursue their futures elsewhere. The depopulation of the Western Balkans puts significant pressure on pension and healthcare systems, an increasingly important political issue throughout the region due to growing number of pensioners and decreasing number of medical workers (particularly nurses). In addition, outmigration from rural areas decreases prospects for their further development while outright emigration from the region to the West diminishes economies that once aimed to catch up with its neighbours in the European Union.

The region, thus, remains a large net exporter of skilled labour to the richer countries of the European Union, primarily Germany. However, it would be an overstatement to argue that this emigration is a “brain drain” – phrase that has been traditionally used to describe the migratory situation in the region. The Western Balkans’ best and the brightest, at least in the STEM sector, are increasingly deciding to stay in the region as opportunities for telecommuting and freelancing are becoming abundant. It is the manual labour that is increasingly scarce in the Western Balkans as drivers, builders and other manual workers are finding better paid opportunities in the European Union. As the result, the region is experiencing serious shortages in manual labour that increases the risks of the unfavourable impact of the demographic trends.

To offset this issue and address unexpected drops in economic productivity, the governments in the region have initiated procedures that will ease the influx of foreign labour force, primarily from South and Southeast Asia. This process is taking place for the first time in the region's history and carries a vast number of uncertainties, particularly in the spheres of politics and culture of the region known for its entrenchment in conservatism. A significant concern also associated with this process are weak labour laws and particularly their sections on foreign labour. Substantial violations of labour rights of foreign workers have been already recorded throughout the region, raising a concern of systematic labour exploitation in the countries that are aspiring EU member states.

Snežana Bajčeta | Predrag Zenović

RISK 10 – INCREASING IMPACT OF FAKE NEWS

Risk Likelihood: Unlikely.
Risk Impact: Significant.

Over the past few decades, there have been dramatic changes in how information is produced, disseminated, consumed, and perceived. This phenomenon did not bypass the Western Balkans. This region has a complex public information landscape influenced by political, economic, social, and technological factors. According to Vibrant Information Barometer, the region's countries mostly scored halfway and have been classified either "slightly vibrant" or "somewhat vibrant" which assumes that people have the rights, means, and capacity to access a wide range of information but that there is still a significant amount of misinformation and hate speech in circulation which influence public discourse. Particular risks associated with this complex landscape in the region are related to fake news. Various actors in the Western Balkans spread fake news, including individuals, political groups, media outlets, and foreign actors.

According to fact-checking media in Montenegro, Bosnia and Herzegovina, and Serbia, the average number of fake news on the war in Ukraine in this region is 10 per day, and most of them circulate on Facebook. A particular challenge for these global social media platforms in the region is that misinformation is primarily shared through local languages. Furthermore, the moderation of information in the digital sphere is not entrusted entirely to professionals (journalists, editors, newsrooms...), but shared between humans and algorithms with no regulatory or ethically defined principles of accountability towards public information. In comparison to the Western Balkans, the new EU policies for media, journalism, digital platforms, and digital markets (Digital Service Act, Media Freedom Act, Digital Market Act, Code of Practice on Disinformation...) tend to regulate these challenges. For the authorities in Western Balkans, the governance harmonization and inclusion of a wide range of (new) stakeholders (i.e. digital platforms, fact-checkers...) is not expected in foreseeable future.

Along with social media, certain traditional media outlets are also being identified as sources of misleading information. Some are highly politically instrumentalized, such as the Russian state-funded news website and radio station Sputnik, while others include Serbian legacy media, mainly Večernje novosti online and printed edition, the Informer daily, and Pink and Happy TV stations. A common feature of these legacy media outlets is a lack of transparency related to their ownership, funding, and operations, making it difficult for the public to assess their reliability and motives. Moreover, their biased selection coverage and (mis)interpretation of sources of information undermine reasoned debate between different arguments.

The debate programs on these TV stations usually legitimize disinformation and „half-truths,” while conspiracy theories are a significant resource for entertainment programs. Topics of the highest relevance in the region, such as Covid-19, relations between Serbia and Kosovo, or the war in Ukraine, reinforce these information patterns. In addition, the public information infrastructure throughout the region is fragile and unstable. This is often characterized by unpunished threats and attacks on journalists, government influence, strong political and economic influences followed by the rise of populism, and limited access to information required for investigative journalism.

Media systems in the region are characterized by an unconsolidated journalistic profession reflected in a divided community, non-transparent media ownership structures, and an “advocacy” instead of an “objective” tradition. The Western Balkans media thus struggles with inherited and global challenges to consolidate a democratic, inclusive, open, deliberative public sphere, which would provide accurate, reliable, balanced, comprehensive, and unbiased information on politically and socially relevant issues by and for all interested actors.

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