

Deepening EU–Western Balkans Economic Integration

Scope and Economic Gains

Lev Ratnovski

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Deepening EU–Western Balkans Economic Integration: Scope and Economic Gains
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ABSTRACT: The paper examines opportunities for deeper economic integration between the EU and the Western Balkans and assesses their potential economic impact. It documents key quantified non-tariff barriers to Western Balkan–EU industrial goods trade—covering regulatory, customs, and border-logistics frictions—amounting to around 8–14 percent ad valorem equivalent. (Broader non-tariff barriers may be higher, consistent with prior IMF analysis.) Reducing these barriers, alongside deeper agri-food and services integration, could generate substantial gains, allowing the Western Balkans to capture roughly one-quarter to one-half of the economic benefits of full EU membership while supporting EU objectives related to nearshoring, supply-chain resilience, regional integration, and connectivity.

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WORKING PAPERS

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Contents

Executive Summary	5
1. Introduction	6
2. Scope for Deeper EU–WB Economic Integration.....	8
Area I. Goods Market Integration	8
Mutual Recognition of Conformity Assessment.....	8
Rules of Origin.....	9
Customs Integration	9
Agri-Food Market Integration	10
Area II. Logistics Integration.....	10
Resolving Border Delays	10
Facilitating Truck Driver Mobility under the Entry/Exit System (EES)	11
Transport Market Integration	12
Area III. Services Integration	12
Digital Integration.....	12
Professional Qualifications and Business Services.....	13
Financial Services Integration	13
Summing-Up Quantified Trade Barriers	14
Implementation Complexity and Potential Impact	14
3. Economic Gains from Deeper EU-WB Integration	15
Export Effects	15
GVC Participation and Growth Effects	16
Overall GDP Effect.....	17
4. Conclusions.....	19
References.....	21
Annex 1. Depth of EU Trade and Integration Frameworks—Detailed Table	22
Annex 2. Construction of GVC Indicators and Empirical Calibration of the Exports–GVC Participation Relationship	24
A. Data and construction of GVC participation indicators.....	24
B. Relationship between exports and GVC participation.....	24
C. Summary.....	25
References for Annex 2.....	25
 FIGURES	
1. EU Economic Footprint in the Western Balkans	7
2. The Western Balkans are Geographically Embedded within the EU Economic Space	7
3. Quantified Non-Tariff Barriers to WB–EU Industrial Goods Trade	14
4. GVC Participation Index: Historical Benchmark and Recent Convergence	16
 TABLES	
1. Depth of EU Trade and Integration Frameworks	8
2. Complexity and Potential Impact of Economic Integration Measures	15

Executive Summary

- **Rationale for deeper integration.** The Western Balkans are closely linked to the EU economy, yet significant frictions continue to impede trade and economic integration, while single market access falls short of arrangements available to certain other EU partners. Given potentially lengthy accession timelines, this paper assesses the scope for deeper integration before membership.
- **Areas for deeper integration.** Opportunities span goods, logistics, and services. Industrial integration offers the clearest gains because Western Balkan economies are already embedded in European production networks. Key areas include conformity recognition, rules of origin, deeper customs integration, and solutions to border delays and Entry/Exit System constraints on truck drivers. Agri-food integration would provide additional benefits, while services integration would lower key input costs and raise productivity and connectivity.
- **Implementation complexity and impact.** Measures differ in economic impact, implementation readiness, and continued relevance after accession. Border facilitation and customs integration could yield relatively rapid gains. Progress in other areas would require deeper regulatory convergence but offer large long-term benefits, reward reform, and help prepare the region for membership.
- **Potential trade impact.** The selected quantifiable barriers to industrial trade are estimated conservatively at roughly 8–14 percent in ad valorem equivalent terms. (Overall barriers may be higher because the bottom-up estimate is inherently incomplete and some important frictions—notably in agri-food and services—are not readily expressed as ad valorem equivalents, consistent with prior IMF estimates of broader EU trade barriers.) Applying standard medium- and long-run trade elasticities implies that removing them could raise Western Balkan goods exports to the EU by about 15–40 percent over the medium term and 40–70 percent over the longer run.
- **Potential economic impact.** The economic effect is estimated through deeper participation in global value chains (GVCs), which for the Western Balkans are predominantly European. Historically, a 1 percentage point rise in exports relative to GDP has been associated with about a 0.7 percentage point increase in GVC participation, while each 1 percentage point increase in GVC participation is associated with about 1.2 percent higher income per capita through export and productivity gains. Allowing for additional gains from agri-food and services integration, addressing the identified barriers could raise Western Balkan GDP per capita by around 8–15 percent over the long run—roughly one-quarter to one-half of the estimated gains from full EU membership.
- **Benefits for the EU.** Deeper integration would extend the effective reach of the single market, support nearshoring and resilience, and benefit EU firms operating in the region and southeastern EU regions through better connectivity.
- **Political economy.** Linking regulatory convergence to tangible market access could strengthen incentives for directly relevant reforms and anchor the Western Balkans more firmly in the European economic space. Measures may need to be designed carefully with a view to preserving incentives for broader institutional reforms, avoiding duplicative transitional arrangements, and limiting diversion of scarce administrative capacity from accession-related work.
- **Implementation.** The feasibility and benefits of integration measures would hinge on regulatory convergence and more effective administrative, regulatory, and judicial institutions, with more advanced countries and sectors able to move sooner.
- **Broader lesson.** The analysis illustrates that integration is not necessarily a binary choice between current arrangements and membership: intermediate forms of integration can generate economic gains before accession and may also support some reform incentives and accession preparedness.

1. Introduction

The economies of the Western Balkans (WB) are closely linked to the European Union. The EU accounts for the majority of the region's external trade, foreign direct investment, and banking-sector assets, while geographically surrounding the WB for most overland trade and transit (Figures 1 and 2). Yet, despite these ties and the region's long-standing EU accession perspective, many frictions continue to impede trade and economic integration between the WB and the EU. Indeed, in several important areas, integration arrangements between the EU and the WB remain less developed than those available to other close EU partner countries (Table 1).

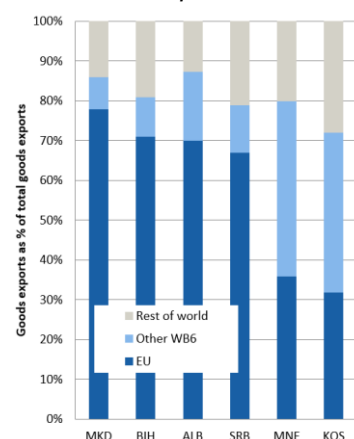
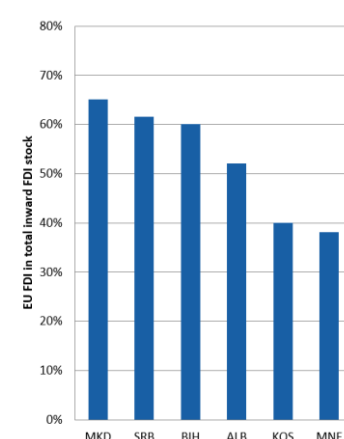
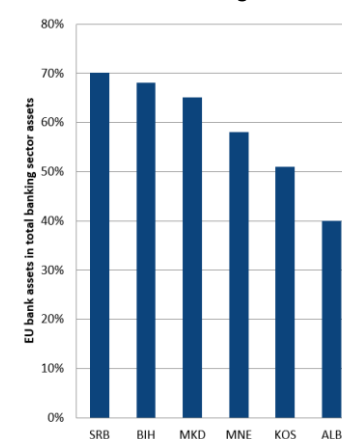
Deeper economic integration would generate significant benefits for both the Western Balkans and the European Union. For the WB, lower trade costs and improved market access would strengthen participation in European value chains, attract investment, and accelerate income convergence with the EU. For the EU, deeper integration would support nearshoring, supply-chain resilience, regional economic integration, and connectivity in a region geographically embedded within the Union's economic space. It would also expand an important export market in which the EU already runs a substantial trade surplus while strengthening opportunities for European firms already operating in the Western Balkans.

The EU–WB relationship is anchored primarily in the accession process. This orientation is reflected in the Stabilization and Association Agreements (SAAs), which remain the principal framework for EU–WB relations nearly two decades after their adoption. Designed as transitional instruments to support accession, they provide less scope for progressively deepening market integration than several more recent EU arrangements with partner countries. As Table 1 illustrates, customs unions, deep free-trade agreements, and sector-specific arrangements have either achieved deeper integration or established mechanisms for expanding market access as regulatory convergence advances.

With growing recognition that the accession process may remain lengthy at least for some WB countries, policymakers in both the EU and the region have increasingly advocated exploring ways to deepen economic integration ahead of membership while preserving accession as the ultimate objective.¹

Against that backdrop, this paper examines opportunities for deepening EU–Western Balkans economic integration. It identifies concrete "building blocks" for progressively advancing integration and assesses the potential economic gains. The remainder of the paper proceeds as follows. Section II examines opportunities for deeper integration across goods markets, logistics, and services. Section III quantifies the resulting economic gains. Section IV concludes.

¹ Recent examples include the joint Frankfurter Allgemeine Zeitung op-ed by Albanian Prime Minister Edi Rama and Serbian President Aleksandar Vučić (February 2026), which argued for granting WB countries access to elements of the EU single market and greater participation in EU decision-making prior to accession; Chancellor Friedrich Merz's letter to EU leaders (May 2026), which called for exploring "innovative solutions" for long-standing candidate countries, including deeper access to the single market and closer involvement in EU institutions; and the Franco-German non-paper "A New Momentum for Enlargement" (June 2026), which proposed a framework of "structured gradual integration" through a series of pre-accession "building blocks" extending market access and participation as reforms advance.

Figure 1. EU Economic Footprint in the Western Balkans**A. Share of exports****B. Share of FDI stock****C. Share of banking assets**

Sources: Eurostat, *International Trade in Goods Statistics — Enlargement Countries* (2023); Kosovo Statistics Agency, *External Trade Statistics* (2023); Monstat (2023); OeNB, "Foreign Investors in the Western Balkans" (2025) and GEO-POWER-EU Interdependence Database for FDI shares; national central bank annual reports and IMF staff estimates for EU-headquartered bank asset shares. Banking shares are indicative based on known ownership of major banking groups (Raiffeisen, Erste, UniCredit, Intesa Sanpaolo, NLB, OTP, ProCredit, Alpha, Eurobank, Piraeus).

Figure 2. The Western Balkans are Geographically Embedded within the EU Economic Space

Image: Wikimedia Commons, license CC BY-SA 4.0.

Table 1. Depth of EU Trade and Integration Frameworks

	WB SAAs	Türkiye CU	DCFTAs	UK TCA	CETA	EEA
Deepening mechanism	Static	Static	Dynamic	Static	Static	Dynamic
Rules of origin	Partial	Eliminated	Partial	Partial	Partial	Partial
Conformity recognition	None	Extensive	<i>Envisioned</i>	None	Partial	Full
SPS (agri-food) standards	Limited	Limited	<i>Envisioned</i>	Limited	<i>Envisioned</i>	Extensive
Customs procedures	Limited	Extensive	<i>Envisioned</i>	Partial	Partial	Extensive
Transport facilitation	Limited	Partial	<i>Envisioned</i>	Partial	Limited	Full
Trade in services	Limited	None	<i>Envisioned</i>	Partial	Wide	Full
Digital trade	None	None	<i>Envisioned</i>	Partial	Partial	Full
Investment liberalization	Partial	None	Partial	Partial	Wide	Full
Dynamic reg. alignment	Limited	Partial	<i>Envisioned</i>	Partial	Partial	Full
Procurement	Limited	None	Partial	Partial	Wide	Full

Source: IMF staff analysis. See Annex for a detailed table.

2. Scope for Deeper EU–WB Economic Integration

This section identifies three broad areas for deepening EU–WB economic integration: goods market, logistics, and services. For goods trade and logistics, the discussion quantifies the remaining non-tariff barriers using ad valorem equivalent (AVE) estimates from the literature and other available sources. To ensure consistent interpretation, the estimates are deliberately conservative: judgmental assumptions err on the side of understating rather than overstating the barriers. It concludes by considering the combined magnitude of these barriers and distinguishing between integration measures according to their implementation complexity and potential economic impact.

Area I. Goods Market Integration

The near-complete elimination of tariffs under the SAAs provides a strong foundation for deeper EU–WB goods market integration. Reducing the remaining non-tariff barriers would lower trade costs and deepen the participation of WB firms in European value chains. The three principal barriers considered for industrial goods—conformity assessment, rules-of-origin compliance, and customs procedures—operate through distinct channels, but the available evidence suggests that they are of broadly comparable importance; the paper therefore assigns them similar AVE ranges. Agri-food integration is discussed separately, given the distinct role of sanitary and phytosanitary requirements.

Mutual Recognition of Conformity Assessment

Without mutual recognition of conformity assessments, industrial goods moving across the WB–EU border may face repeated testing, certification, sampling, and inspection even where equivalent procedures have already been completed domestically. Cadot, Gourdon, and van Tongeren (2018) estimate such conformity-related costs at about 4–6 percent AVE for major industrial sectors, combining

information costs, product or process adaptation, and conformity assessment. Information and adaptation costs are likely to be modest for many WB firms, given substantial alignment with EU requirements and integration into EU production chains. By contrast, evidence from WB economies identifies non-recognition of certification and duplicative sampling and inspection as important trade barriers (Handjiski et al., 2010). On this basis, this paper applies an AVE range of 1½–3 percent to the costs potentially removable through mutual recognition.

Deeper integration in conformity assessment would not be unprecedented. The EU maintains mutual recognition arrangements with Türkiye, while several CEE accession countries—including Poland and Czechia—obtained conformity recognition arrangements several years before joining the EU. The established institutional vehicle for conformity recognition is the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). An ACAA would require continued regulatory convergence and stronger conformity-assessment institutions in the WB. Greater use of ACAAs by the EU could provide one mechanism for extending market access in line with demonstrated convergence.

Rules of Origin

Rules of origin (ROO) require firms to demonstrate that sufficient value added originates within the preferential trade area to qualify for tariff-free access. For the WB, diagonal cumulation under the Pan-Euro-Mediterranean (PEM) Convention reduces these frictions by allowing qualifying inputs from participating economies to count toward origin requirements.² Firms nevertheless incur documentation and certification costs and may need to adjust their sourcing to satisfy product-specific rules. Compliance costs are estimated at about 2 percent under NAFTA and 3–3.5 percent under the older PANEURO regime (Cadot, de Melo, and Portugal-Pérez, 2007).³ Allowing for the broader cumulation possibilities and procedural simplifications under the revised PEM Convention, this paper applies an AVE range of 1½–3 percent to rules-of-origin compliance costs.

The most comprehensive way to eliminate ROO-related costs would be a customs union, such as the EU–Türkiye Customs Union, where a common external tariff (CET) removes the need for rules of origin in bilateral trade. This would require WB alignment with the EU's CET and substantially limit the region's independent trade policy vis-à-vis third countries—a trade-off that may nevertheless prove economically worthwhile given the importance of the EU market for the WB. A less ambitious approach would involve simplifying compliance within the existing framework, building on the ongoing digitalization of proofs of origin, wider use of exporter self-certification, and streamlined requirements for low-risk traders and SMEs.

Customs Integration

Additional frictions arise from incomplete customs integration between the WB and the EU. The Common Transit Convention (CTC), to which several WB economies are parties, allows goods to transit multiple customs jurisdictions under a single electronic procedure without completing separate transit formalities at each border. However, the WB economies do not capture its full benefits because customs cooperation with the EU remains incomplete: limited information exchange and the lack of mutual recognition of

² EU, EFTA, WB, Ukraine, Moldova, Georgia, and selected Southern Mediterranean economies.

³ Total ROO costs—including administrative and input-sourcing costs—under the older PANEURO regime, which allowed more limited cumulation, are estimated at up to about 8 percent.

customs controls, risk assessments, and trusted-trader programs result in duplicative procedures, additional documentation, and greater reliance on physical inspections.

Moisé and Sorescu (2013) estimate that in non-OECD Europe and Central Asia improved customs procedures and automation could reduce trade costs by about 2.3 and 2.0 percent, respectively, for a combined effect of over 4 percent. As these estimates cover broader reforms, including domestic customs reforms, and border waiting times are assessed separately below, this paper applies an AVE range of 1½–3 percent to customs frictions amenable to deeper EU–WB cooperation.

Deeper integration could involve modernization of WB customs administrations, CTC accession by the remaining WB countries, and stronger EU–WB customs cooperation through expanded pre-arrival information exchange, mutual recognition of trusted traders, and greater reliance on each other's controls and risk assessments.⁴ Comparable arrangements with Türkiye show that concerns over customs integrity, institutional capacity, and data protection can be addressed through appropriate safeguards.

Agri-Food Market Integration

A major obstacle to EU–WB agri-food trade is the limited recognition of equivalent sanitary and phytosanitary (SPS) controls and insufficient coordination of border inspections. Exporters therefore face certification, inspections, delays, and potentially substantial fixed costs for establishment approval and farm-to-table traceability. Because these costs vary widely across products and producers, they cannot be credibly summarized in a single ad valorem equivalent.

Deeper integration is more demanding than for industrial goods, as easing controls requires close regulatory alignment, adequate inspection and laboratory capacity, reliable traceability, and credible enforcement throughout the supply chain. The EU–Mercosur agreement illustrates that improved market access can coexist with full EU sanitary and phytosanitary requirements. For the Western Balkans, however, compliance and integration should be easier because their regulatory systems and production structures are already increasingly aligned with and oriented toward the EU market. Progressive recognition of equivalent control systems and reduced duplicative checks could become feasible as implementation capacity strengthens.

Area II. Logistics Integration

The WB's geography is a major economic asset, placing the region in proximity to the EU's economic core while also serving as an important transit corridor between the EU core, the Union's southeastern regions, and Türkiye. Deeper logistics integration would deepen the integration of the WB into European value chains while strengthening broader European connectivity.

Resolving Border Delays

Physical border delays remain a major impediment to EU–WB trade and regional connectivity. In 2021, the European Commission estimated that trucks spend roughly 28 million hours waiting annually at EU–

⁴ The EU–WB Green Lanes initiative already moves in this direction through electronic pre-arrival data exchange and advance risk assessment at selected crossings. Initially developed during the pandemic, it has since expanded into a broader customs-facilitation framework involving neighboring EU member states. The deeper integration considered here would build on these arrangements by generalizing information exchange and extending cooperation toward mutual recognition of controls, risk assessments, and trusted-trader programs across the EU–WB border.

WB borders, with direct economic costs of around 1 percent of regional GDP⁵—approximately €1 billion per year or 2 percent AVE. Industry reports suggest that delays have intensified further since 2021. On this basis, we assign a current AVE range of 2–2½ percent to border-delay frictions.

The economic impact of border delays extends beyond their direct cost. Their unpredictability, amplified by seasonal congestion, disrupts just-in-time production, deters export-oriented investment and nearshoring, and limits participation in European value chains. Because most WB overland trade and transit crosses the EU, delays also constrain access to third-country markets.

Border-delay reduction combines relatively high potential economic impact with comparatively low implementation complexity. Key crossings often face insufficient inspection capacity, limited operating hours, weak coordination between neighboring authorities, and no digital traffic management. Given current trade volumes and waiting costs, investments in bottleneck relief are likely to yield high returns, with recent regional projects costing only a fraction of estimated annual losses from delays.⁶

Facilitating Truck Driver Mobility under the Entry/Exit System (EES)

The implementation of the EU's Entry/Exit System (EES) has made the existing 90-in-180-days Schengen presence limit systematically enforceable for WB truck drivers. The geography implies that drivers serving WB–EU trade cover relatively short distances within the WB and much longer distances inside the EU, plausibly spending at least three-quarters of their driving time in the Schengen area. Depending on journey and rest patterns—and given that partial days of presence count as full days—they may conservatively require around 120 days, and plausibly as many as 150 days, of Schengen presence during each 180-day period. Previously, the practical impact of the 90/180 rule was limited because cumulative stays were not systematically recorded; digital entry–exit registration removes this flexibility.

The resulting constraint would significantly reduce the availability of WB-based trucking services. It would reduce employment opportunities for WB drivers, shift some activity toward higher-cost EU-based providers, raise WB–EU trade costs, and add demand to an EU labor market already facing a substantial shortage of professional truck drivers.⁷

The UNCTAD–World Bank Trade-and-Transport Dataset reports a trade-weighted average road-freight rate of about 5 percent ad valorem for trade between the WB and core EU markets. Direct driver costs account for around one-third of road-haulage operating costs (AECOM, 2014). Allowing for other labor-related operating costs—including dispatch, administration, compliance, and fleet management—brings labor share to about 40 percent of total freight costs. If labor costs are twice as high for EU-based carriers and restrictions require their use for one-half to three-quarters of WB–EU trade, the resulting additional cost is approximately 1–1½ percent AVE.

This is a long-run, steady-state estimate. Adjustment costs during the transition could be substantially larger. Expanding the capacity of EU-based carriers to serve the WB market may require establishing or

⁵ https://enlargement.ec.europa.eu/document/download/db6ac527-a3f3-4a7b-b077-8b89df3320da_en. The estimate corresponds to about 10 hours of wait time per truck crossing. The direct costs include driver and vehicle idle time, inventory carrying costs, spoilage risks for time-sensitive goods, and other logistics expenses.

⁶ For example, the expansion of cargo-processing facilities at the Batrovci border crossing between Serbia and Croatia cost approximately €8 million, while the Gradiška border-crossing project between Bosnia and Herzegovina and Croatia—including the new Sava bridge, border facilities, and associated motorway connections—cost approximately €30–50 million.

⁷ European Commission identifies the shortage of qualified drivers as a persistent structural constraint in European road haulage (AECOM, 2014).

enlarging local operations, developing commercial networks, acquiring vehicles, recruiting drivers, and reorganizing logistics. These adjustments would take months if not years.

Possible EU-level policy options include exemptions from Schengen presence limits or dedicated visas for professional truck drivers, building on existing exemptions for air, rail, and inland waterway crews.^{8,9} The potential for a significant disruption to regional freight markets and associated adjustment costs increases the economic significance of this issue.

Transport Market Integration

WB road haulers generally have access to bilateral WB–EU transport but remain excluded from cabotage and cross-trade—that is, transport within or between EU member states. Moreover, cross-border haulage often remains subject to administratively burdensome national permit requirements. Together, these restrictions limit backhauls and combined deliveries, reduce vehicle utilization, and increase empty running and administrative costs.

Even within the EU, where cabotage is permitted but restricted, more than 60 percent of surveyed operators reported that the rules constrained operational flexibility (AECOM, 2014). Analysis of EU–Türkiye transport permit liberalization estimated consumer savings equivalent to about 0.6 percent of the value of road imports, alongside substantial trade gains (ICF, 2014). Treating this as a lower-bound benchmark and allowing for additional producer-side efficiency gains, the paper applies a conservative AVE range of $\frac{1}{2}$ –1 percent to deeper road-transport integration.

A deeper-integration scenario would remove bilateral and transit permit requirements and provide limited cabotage and cross-trade rights, conditional on alignment with EU road-transport rules and effective enforcement. The EU agreements with Ukraine and Moldova remove permit requirements for bilateral carriage and transit but do not extend to cabotage, while the UK TCA provides limited cabotage and cross-trade rights. A possible WB arrangement could combine elements of these approaches.

Area III. Services Integration

Despite the importance of services, EU–WB integration remains constrained by regulatory barriers, restrictions on cross-border provision, and non-recognition of professional and digital credentials. Unlike for goods trade and logistics, these barriers cannot be credibly summarized as an AVE because they differ fundamentally across sectors and often affect market access and business models rather than transaction costs alone.

Digital Integration

Potential areas for digital integration include mutual recognition of electronic signatures and digital IDs, facilitating cross-border data flows by removing data-localization requirements, and further alignment with

⁸ Professional truck drivers are distinguishable from other travelers through CMR consignment notes, tachograph records, operator licenses, and the operation of commercial freight vehicles.

⁹ A more ambitious integration scenario would be to extend Schengen participation to the WB before EU accession. Schengen already includes four non-EU countries—Switzerland, Norway, Iceland, and Liechtenstein. Although this would require strong confidence in border management, migration governance, and institutional capacity, the WB are surrounded by the EU and already cooperate closely with Frontex. Beyond addressing EES-related frictions, participation would facilitate tourism, labor mobility, business travel, services trade, and cross-border investment.

the EU’s digital regulatory framework. These measures would reduce trade costs and support deeper integration of the WB into the European digital economy.

Telecommunications and payments illustrate the scope for pre-accession digital integration. The planned extension of the EU’s Roam Like at Home (RLAH) to the WB will eliminate roaming charges between the region and the EU. While this has required negotiations and political approvals, the EU’s agreements with Ukraine and Moldova included built-in pathways for extending the EU roaming regime upon regulatory alignment, simplifying implementation. The inclusion of WB countries in the Single Euro Payments Area (SEPA) similarly shows how elements of digital integration can advance before accession.

Professional Qualifications and Business Services

Professionals in regulated occupations—including engineers, architects, accountants, and other business-service providers—often face administrative obstacles to working across borders. This reduces services trade and constrains the development of knowledge-intensive sectors in the WB.

Deeper integration could involve broader mutual recognition of professional qualifications. Comparable mechanisms already exist within the EU single market and under the UK TCA, which allows professional bodies to negotiate mutual-recognition agreements. A similar framework represents one possible model for the WB.

Financial Services Integration

European banking groups account for a large share of banking assets in the WB, but financial institutions lack the cross-border passporting arrangements available within the EU single market. Capital markets remain fragmented, limiting access to finance and cross-border investment, while non-bank sectors in the WB—including life insurance, private pensions, investment funds, and asset management—remain underdeveloped relative to the EU.

Deeper integration could involve closer regulatory and supervisory cooperation and continued alignment with the EU financial acquis. As convergence advances, one option would be progressive extension of selected elements of the EU framework to the WB, enabling greater cross-border provision of financial services.

Summing-Up Quantified Trade Barriers

The quantified frictions discussed above—conformity assessment, rules-of-origin compliance, customs procedures, border delays, EES-related transport costs, and transport market frictions—together imply non-tariff barriers to EU–WB goods trade of approximately 8–14 percent AVE.

The arithmetic sum should be interpreted cautiously. Frictions may be subadditive when several barriers occur during the same border crossing: a shipment already delayed by customs clearance may incur only modest additional costs from further inspections or documentation. Conversely, they may be superadditive, especially in just-in-time production networks, where multiple sources of delay reduce reliability and can disrupt production schedules.

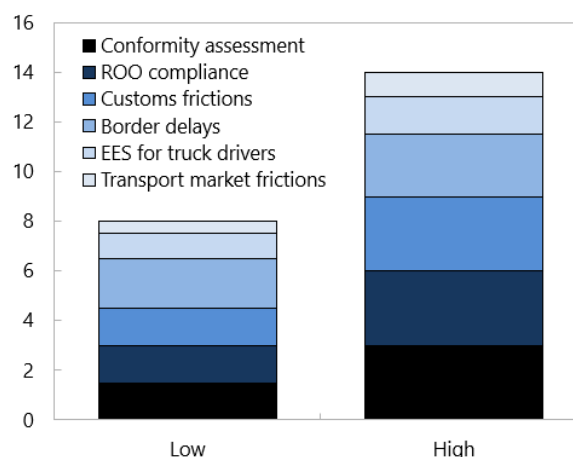
Because the estimate is based on a bottom-up assessment of identifiable barriers and its individual components are deliberately conservative, it should be viewed as a lower bound rather than a comprehensive measure of remaining trade frictions. It excludes barriers not expressed in comparable AVEs—notably those affecting agri-food and services trade—as well as frictions that may exist but have not been separately identified.

For comparison, gravity-based studies infer larger aggregate non-tariff barriers between the EU and external partners. IMF (2025), for example, estimates barriers at around 40 and 50 percentage points above intra-EU levels for EU–US and EU–rest-of-world trade, respectively. These estimates are not directly comparable: gravity models infer latent trade costs from observed trade patterns rather than quantifying specific policy barriers and depend on strong identifying assumptions. Still, they suggest that the barriers quantified here may capture only part of the cost of remaining outside the EU single market. Aggregate barriers facing the WB are likely lower than for other external partners, given their regulatory convergence with the EU and the strong EU orientation of their trade. Gravity-based estimates specific to the EU–WB relationship would likely be imprecise given the small number of WB economies.

Implementation Complexity and Potential Impact

The measures discussed above differ significantly in their potential economic impact and implementation complexity. Table 2 classifies them along these two dimensions. Border-delay reduction, resolution of EES-related constraints, and customs integration combine potentially substantial economic benefits with comparatively limited regulatory change. Conformity recognition, agri-food integration, transport market access, and financial integration are institutionally more demanding but would generate gains by bringing the WB closer to the level of integration observed within the EU single market while preparing the region institutionally to membership. Digital integration and recognition of professional qualifications could further deepen services market integration, although their aggregate economic impact may be more modest.

Figure 3. Quantified Non-Tariff Barriers to WB–EU Industrial Goods Trade
(Percentage points; AVE; low and high estimates)



Source: IMF staff calculations.

Note: EES costs are steady state and can be larger on impact as EES is introduced.

Table 2. Complexity and Potential Impact of Economic Integration Measures		
	Lower complexity	Higher complexity
Higher economic impact	Border delays EES solution Customs integration	Conformity recognition (ACAAs) Agri-food integration ROO elimination Transport market integration Financial integration
Lower economic impact	RLAH, SEPA ROO simplification	Digital integration Professional qualifications
<i>Source: IMF staff analysis.</i>		

3. Economic Gains from Deeper EU-WB Integration

Export Effects

Lower barriers to EU–WB trade would substantially increase WB exports. Trade responses strengthen over time as firms adjust sourcing, form new commercial relationships, reorganize production, and invest. Medium-term trade-cost elasticities are commonly estimated at around 2–3, while long-run elasticities may exceed 5 after full adjustment (Boehm, Levchenko, and Pandalai-Nayar, 2023; Fontagné, Guimbard, and Orefice, 2022).

Applying a medium-term elasticity of 2–3 to the estimated 8–14 percent reduction in quantifiable trade barriers implies a 15–40 percent increase in WB goods exports to the EU relative to baseline. On a current export base of around €35 billion, this corresponds to €5–14 billion in additional annual exports, or about 3–8 percent of regional GDP.

Over the longer run, an elasticity of around 5 implies a potential export increase of 40–70 percent, or €14–25 billion annually at current prices—equivalent to about 8–14 percent of regional GDP. While necessarily approximate, these estimates point to a large trade response after firms have adjusted production and investment.

Export growth should not be translated mechanically into GDP gains. On the one hand, lower trade barriers would also raise imports, including intermediate inputs as WB firms integrate more deeply into European production networks. OECD TiVA data show that domestic value added in manufacturing exports is lower in more GVC-integrated economies—around 40–45 percent in Hungary and Slovakia, 50–60 percent in Czechia and Poland, and 65–70 percent in Bulgaria and Romania. The WB are probably near the upper end of this range today, but the share would decline with deeper integration.

On the other hand, the gains from deeper integration extend beyond the value added embodied directly in exports. Specialization, scale economies, technology transfer, foreign investment, managerial upgrading, competition, and knowledge spillovers can raise productivity across the economy, including in firms and sectors that do not export directly.

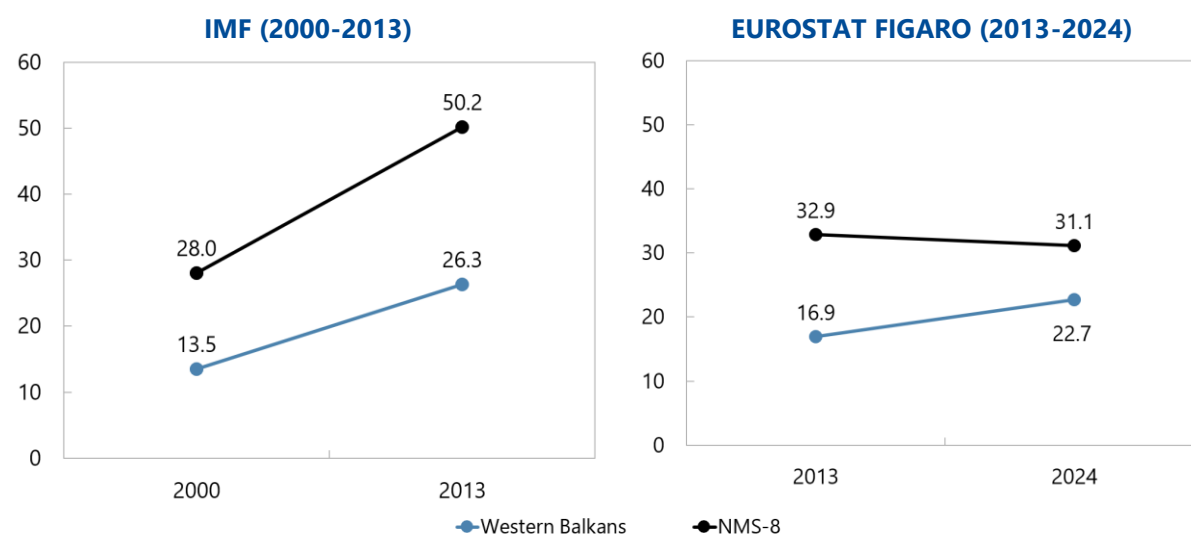
Export growth is therefore best viewed as an indicator of the trade response, not as a direct measure of GDP effects. Assessing the GDP impact requires a framework that captures both increased imports and the broader productivity gains from production-network integration.

GVC Participation and Growth Effects

Global value chains (GVCs) involve economic activity spanning multiple countries. Unlike exports, which measure cross-border sales, GVC participation captures the extent of cross-country production integration. It raises GDP through export growth and productivity gains from specialization, scale, improved inputs and technology, foreign investment, and knowledge spillovers (World Bank, 2020). For the WB, whose industrial intermediate-goods trade is concentrated on the EU, deeper integration into European production networks would mean greater GVC participation.

Figure 4 illustrates the WB's scope for further GVC integration. Participation is measured as the sum of backward linkages—foreign value added in a country's exports—and forward linkages—domestic value added in other countries' exports—with the total expressed as a percentage of GDP. The first panel, based on IMF (2019), shows that GVC participation rose rapidly in the new member states (NMS-8) during their first post-accession decade, while the WB remained behind. The second panel uses more recent FIGARO data, which are not directly comparable in levels, and shows that the WB subsequently closed about half of the gap with the NMS-8 but still lag by around 8½ percentage points.¹⁰ The figure also cautions that GVC participation does not rise indefinitely. Following its large post-accession increase, participation in the NMS-8 broadly stabilized as exports relative to GDP also leveled off.

Figure 4. GVC Participation Index: Historical Benchmark and Recent Convergence
(Percent of GDP)



Sources: LHS: IMF (2019) based on EORA MRIO data; RHS: Eurostat FIGARO and IMF staff estimates. The underlying GVC datasets cover non-overlapping time periods and are not comparable in levels due to methodological differences. NMS-8 includes CZE, EST, HUN, LTU, LVA, POL, SVK, SVN; WB-4 (RHS) includes ALB, MNE, MKD, SRB.

¹⁰ The NMS-8 comprise Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. The WB for FIGARO-based estimation comprise Albania, Montenegro, North Macedonia, and Serbia due to data availability.

To calibrate the likely effect of deeper EU integration on GVC participation, the analysis combines the earlier export-growth estimates with new empirical evidence, documented in Annex 2, on the relationship between changes in exports and GVC participation relative to GDP across countries and time horizons.

The central stylized fact is that GVC participation moves closely with exports, with a stable relationship across specifications. For the NMS-8, a 1 percentage point increase in exports relative to GDP is associated with a 0.7–0.75 percentage point increase in GVC participation relative to GDP. A similar coefficient of around 0.7 is obtained for the WB-4 over 2010–24. The preferred specifications have an R^2 of about 0.98, reflecting the close accounting and economic relationship between exports and GVC participation.

Historical World Bank–Eora data for four WB economies over 2000–15 yield lower estimates of around 0.6, possibly reflecting earlier-stage production networks or differences in data construction. For a scenario in which deeper integration brings the WB closer to the production-network structure of the new EU member states, the evidence therefore supports using a rounded coefficient of 0.7.

The 0.7 coefficient applied to the projected long-run increase in WB exports of 8–14 percentage points of GDP implies a 6–10 percentage point increase in GVC participation. The upper end would bring the WB broadly in line with the 2024 GDP-weighted NMS-8 level. This appears plausible for well-integrated economies remaining outside the single market, particularly since the NMS-8 average remains well below the GVC participation of manufacturing-oriented economies such as Slovakia, Hungary, and Czechia.

This GVC estimate can be translated into GDP gains using the World Bank’s (2020) *World Development Report* estimate that a 1 percentage point increase in GVC participation is associated with about 1.2 percent higher income per capita. This relationship captures both export and productivity gains, within exporting sectors and across the wider economy. Applied to a 6–10 percentage point increase in GVC participation, it implies a long-run gain in GDP per capita of roughly 7–12 percent.

Overall GDP Effect

The GVC-based estimate captures gains from the quantified industrial-goods and logistics integration, but not the full range of measures considered in Section 2. Deeper agri-food integration would generate additional gains in agriculture, food processing, transport, and logistics, although these are difficult to quantify because SPS barriers are product-specific and may be prohibitive rather than marginal.

Services integration could add further gains. Finance, transport, telecommunications, digital, and business services are both traded outputs and key production inputs, so greater competition and cross-border provision would lower costs and raise productivity across sectors. Model-based studies surveyed by Francois and Hoekman (2010) suggest that broad services liberalization can generate welfare gains of around 0.5–2 percent of GDP, while Arnold, Javorcik, and Mattoo (2011) find that services reforms raise productivity in downstream manufacturing.

These effects may not be mechanically additive to the GVC estimate, as some may overlap with gains already captured through deeper GVC participation and broader productivity improvements.

Nevertheless, allowing for additional gains from agri-food and services integration would raise the estimated overall long-run GDP impact from 7–12 percent for quantified industrial-goods and logistics measures to a plausible range of 8–15 percent.

These gains are substantial but smaller than those associated with full EU membership. Recent estimates—including by the IMF's *Regional Economic Outlook: Europe* (October 2024), Beyer, Li, and Weber (2025), and IMF (2026) *Departmental Paper*—suggest that EU accession could deliver economic gains of 30–35 percent of GDP per capita under the right policies. On this basis, the gains estimated here could capture roughly one-quarter to one-half of the economic benefits of European integration before accession, with the remaining gains linked to institutional convergence, labor mobility, EU transfers, and full participation in the single market.

The gains from deeper integration would vary across firms, sectors, and countries. Reducing fixed trade costs—such as conformity assessment and customs procedures—could particularly benefit smaller firms by facilitating entry into EU markets, thus strengthening competition and economic dynamism. The relative importance of individual measures would also differ across the region: integration into just-in-time manufacturing networks is especially relevant for Serbia and North Macedonia; agri-food integration for Albania, Bosnia and Herzegovina, and North Macedonia; and improved land transport for Serbia, Kosovo, and North Macedonia. Where access to specific elements of the EU market depends on regulatory and institutional convergence, more advanced countries would benefit sooner and more fully.

Deeper economic integration with the WB would also benefit the EU, although the relative effect would be much smaller given that the EU economy is about 140 times larger. Faster WB income convergence would raise demand for EU exports, while lower trade frictions would strengthen regional supply chains and returns on European investment.¹¹ Benefits would be larger for EU countries and firms already closely linked to WB production networks, and for southeastern EU regions gaining from better transport and economic connectivity. More broadly, deeper integration would support EU competitiveness, nearshoring, resilience, and the WB's anchoring in the European economic space.

¹¹ Deeper integration could create localized adjustment pressures for some EU firms and workers, particularly in sectors with similar production structures. Given the small size of the Western Balkans relative to the EU market, however, such effects will likely be limited and offset by gains from supply-chain integration and lower input costs.

4. Conclusions

This paper analyzes the existing trade-policy framework, options for deeper economic integration, and the associated trade-offs. It is intended as an analytical contribution and should not be interpreted as offering prescriptive policy recommendations; relevant policy recommendations consistent with the analysis of this paper are set out in prior IMF surveillance and European Department policy work.¹²

This paper identifies a broad set of areas—spanning goods, logistics, and services—in which economic integration between the EU and the Western Balkans could deepen even before accession. The headline result is that a sufficiently ambitious package could raise Western Balkan GDP per capita by around 8–15 percent over the long run—roughly one-quarter to one-half of the estimated gains from full EU membership.

The integration options examined in this paper—some already available to other third countries—show that integration need not be a binary choice between current arrangements and membership. Intermediate steps could progressively deepen EU market access as regulatory convergence advances, with potential implications for the timing of measures, reform incentives, and preparation for participation in the single market.

For the EU, deeper integration would extend the effective reach of the single market, support nearshoring and resilience, and benefit firms and southeastern regions already closely connected to Western Balkan production and transport networks.

The political-economy effects are mixed. Earlier integration could anchor the Western Balkans more firmly in the European economic space and strengthen incentives for directly relevant regulatory reforms by linking convergence to tangible market access. It could, however, weaken incentives for broader institutional and governance reforms, divert scarce administrative resources from accession-related work, create transitional systems that later become redundant, or reduce pressure on the EU side to advance accession. The extent of these risks would depend, among other factors, on whether front-loaded integration is linked to progress on the wider reform agenda and whether the measures remain useful after membership.

¹² Recent IMF surveillance and European Department work has emphasized deeper economic integration with the EU as a means of accelerating Western Balkan convergence, including through trade facilitation, integration into EU value chains, and financial integration. In bilateral surveillance, the [2026 Bosnia and Herzegovina Article IV consultation](#) recommended accelerating structural and EU-accession reforms to deepen market integration, advance trade facilitation, and promote deeper integration into EU value chains. The [2026 Serbia PCI review](#) noted that trade-facilitation reforms would support EU integration, while the [2026 Kosovo Article IV consultation](#) called for progress toward SEPA participation to facilitate deeper financial integration with Europe. Other Article IV consultations emphasized the broader convergence gains from EU integration: the [2024 Albania consultation](#) assessed potentially large gains from reforms, investment, and integration into the EU Single Market; the [2025 North Macedonia consultation](#) estimated that EU integration could raise income per capita by about 30 percent over 15 years; and the [2025 Montenegro consultation](#) highlighted trade integration, capital inflows, and productivity as key channels through which accession could accelerate convergence. At the regional level, the [October 2024 *Regional Economic Outlook: Europe*](#), including its note “Accelerating Europe’s Income Convergence through Further Integration,” found that past EU enlargements generated large long-run income gains and argued that further enlargement combined with deeper Single Market integration could magnify convergence gains. In a [May 23, 2025 speech in Ljubljana](#) on policy priorities in Central, Eastern, and Southeastern Europe, the IMF European Department Director argued for continued trade openness and for EU-level reforms to complement domestic reforms. In [November 2025 remarks at the College of Europe in Tirana](#) focused specifically on the Western Balkans, the Director described EU accession as providing Single Market access and a reform anchor, and reiterated that domestic reforms should be complemented by reforms that deepen the Single Market, with positive spillovers to the Western Balkans.

The size and durability of the gains depend in large part on institutional reform. Lower formal barriers will have limited effects where customs administration is weak, implementation is uneven, competition is constrained, or judicial enforcement is uncertain. The estimates therefore reflect economic integration accompanied by adequate institutional improvement—not legal alignment alone.

Finally, while intra-regional integration can be helpful, it cannot substitute for EU–Western Balkan integration. EU integration is economically and institutionally more important: regional production links are closely intertwined with EU-oriented value chains, while EU rules provide the natural template for deeper integration. Its ability to proceed at different speeds across countries could also strengthen reform incentives by allowing deeper market access to advance with regulatory and institutional convergence.

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Annex 1. Depth of EU Trade and Integration Frameworks—Detailed Table

	WB SAAs	Türkiye CU	DCFTAs	UK TCA	CETA	EEA
Deepening mechanism	Static Accession-linked; requires repeated unanimity-based EU decisions	Static CU since 1996; no upgrades since 2016; not automatic	Dynamic Market access deepens as EU standards adopted	Static Joint Partnership Council; not automatic	Static Joint Committee; not automatic	Dynamic EEA-relevant acquis incorporated through Joint Committee
Rules of origin	Partial Proof required; PEM cumulation reduces burden	Eliminated Common external tariff; no ROO; agri- food and coal/steel excluded	Partial Proof required; PEM cumulation; simplification roadmaps	Partial Proof required; full bilateral but no broad diagonal cumulation	Partial Proof required; product-specific rules	Partial Proof required; less restrictive due to full cumulation
Conformity recognition	None EU-accredited labs required; ACAAs not concluded	Extensive Standards aligned; conformity bodies mutually recognized; little/no retesting	Envisioned Foreseen as approximation deepens	None EU-based labs required	Partial Mutual recognition in 11 product categories; more under negotiation	Full Full recognition
SPS (agri-food) standards	Limited No equivalence; extensive border controls	Limited CU excludes agri- food; no equivalence	Envisioned Equivalence foreseen as alignment advances; binding approximation roadmaps	Limited No equivalence; full SPS checks; partial relief for Northern Ireland only	Envisioned Not yet granted in practice for most products	Extensive Excludes plant health
Customs procedures	Limited MKD/MNE/SRB in CTC but benefits not realized; manual controls prevalent; no mutual recognition of controls	Extensive Harmonized tariff and procedures for CU goods; close customs cooperation	Envisioned Approximation to EU Customs Code with binding timelines; customs pre- clearance foreseen	Partial Trusted-trader mutual recognition	Partial Joint customs committee; advance rulings; limited pre- clearance	Extensive Common transit and close customs cooperation, but not a customs union

Transport facilitation	Limited Permit-based bilateral access only; no cabotage or cross-trade rights; EES driver presence limits	Partial No permit quotas; broad bilateral and transit access; EES applies but less binding	Envisioned Progressive road access and operator license recognition; cabotage conditional on regulatory alignment	Partial Bilateral and transit rights; up to two cross-trade operations per journey; no cabotage	Limited Air transport liberalized; road transport not substantive	Full Including cabotage
Trade in services	Limited Basic provisions; no financial passporting; no qualification recognition	Not covered CU covers goods only	Envisioned Progressive liberalization of professional services; finance to deepen with alignment	Partial Financial services largely excluded; qualification recognition limited	Wide Finance, professional services, telecoms, maritime	Full Including financial passporting and qualification recognition
Digital trade	Not covered No e-commerce, e-signature, or data flow provisions; roaming integration in negotiation	Not covered No provisions	Envisioned E-commerce, e-signatures, data flows, and telecoms approximation with binding timelines; roaming integration	Partial E-commerce chapter; no data localization; electronic contracts recognized; no roaming	Partial E-commerce; no data localization; e-authentication; telecoms cooperation	Full Digital Single Market
Investment liberalization	Partial National treatment for establishment, subject to sectoral restrictions	Not covered Customs union does not cover investment	Partial Establishment and capital-movement rights; sectoral restrictions remain	Partial Market-access and national-treatment commitments, subject to reservations	Wide Broad investment market access and national treatment, subject to reservations	Full Freedom of establishment and capital movement
Dynamic reg. alignment	Limited No binding deadlines; no result in market access	Partial Must track EU product legislation to maintain CU benefits	Envisioned Binding deadlines; non-implementation triggers review of market access	Partial Non-regression clause; level-playing-field provisions	Partial Regulatory dialogue; no binding alignment	Full EEA-relevant acquis continuously incorporated
Procurement	Limited Basic non-discrimination and approximation commitments	Not covered	Partial Binding alignment with EU procurement rules	Partial Large national tenders covered; sub-national only partially	Wide Broad access to procurement at federal, provincial and municipal levels	Full Same terms as member states

Source: IMF staff analysis.

Annex 2. Construction of GVC Indicators and Empirical Calibration of the Exports–GVC Participation Relationship

A. Data and construction of GVC participation indicators

Eurostat FIGARO (2026 vintage) directly publishes global value chain (GVC) indicators for EU economies. The underlying industry-by-industry inter-country input-output tables also separately identify Albania, Montenegro, North Macedonia, and Serbia, but do not publish the corresponding indicators. These were therefore reconstructed for this paper. Bosnia and Herzegovina and Kosovo are not separately identified; the FIGARO-based Western Balkan sample consequently covers four economies (WB-4).

The reconstruction follows the country-perspective methodology in Eurostat (2024), based on Arto, Dietzenbacher, and Rueda-Cantuche (2019). Forward participation measures domestic value added embodied in other economies' exports, while backward participation measures foreign value added embodied in an economy's own exports. Overall GVC participation is the sum of forward and backward participation. Intra-EU trade is treated as international trade. Regional indicators are constructed by aggregating the underlying values and GDP across economies, rather than by averaging country ratios.

The reconstruction was validated against Germany, for which—alongside other EU countries—Eurostat publishes the indicator directly. Applying the same procedure produced GVC participation of 44.06 percent of exports in 2013 and 44.82 percent in 2023, compared with Eurostat's published values of 44.1 and 44.8 percent, respectively; the differences reflect rounding.

Given the large volume of input-output data that must be processed for each economy and year, the WB-4 indicators were calculated for selected benchmark years: 2010, 2013, 2016, 2019, 2022, and 2024. These are approximately three-year intervals. The final interval is two years because 2024 is the latest available FIGARO table; using it incorporates the most recent information rather than ending the exercise in 2022.

The historical Western Balkan series covers 2000–15 and is based on the Eora multi-region input-output database used in IMF (2019). Eora and FIGARO differ in country coverage, balancing procedures, and decomposition methods. They are therefore used as separate empirical exercises and are not compared directly in levels. Exports-to-GDP ratios and nominal GDP used to express the reconstructed FIGARO indicators relative to GDP are from the World Bank's World Development Indicators.

B. Relationship between exports and GVC participation

The calibration estimates: $\Delta_h GVC_{it} = \beta \Delta_h X_{it} + \alpha_i + \lambda_t + \varepsilon_{it}$, where GVC is forward plus backward participation as a percentage of GDP, X is exports as a percentage of GDP, h is the change horizon, α_i denotes country fixed effects; λ_t denotes year or period fixed effects; and ε_{it} is the error term.

For the NMS-8, the regressions use annual observations for 2010–24 and changes over one, three, and five years; the preferred specifications include country and year fixed effects. For the WB-4 FIGARO sample, the regression uses country-level changes over the five consecutive benchmark intervals—2010–13, 2013–16, 2016–19, 2019–22, and 2022–24—and includes country fixed effects. This yields 20 observations. A regression using the GDP-weighted regional aggregate provides an additional check. The

Eora regression uses annual changes for Albania, Bosnia and Herzegovina, Montenegro, and Serbia over 2000–15, with country fixed effects.

Sample and specification	Coefficient	Std. error	R ²	Obs.	Fixed effects
NMS-8, annual changes	0.741***	(0.025)	0.981	112	Country, year
NMS-8, three-year changes	0.720***	(0.019)	0.983	96	Country, year
NMS-8, five-year changes	0.737***	(0.017)	0.982	80	Country, year
WB-4 FIGARO, benchmark changes	0.707***	(0.030)	0.976	20	Country
WB-4 Eora, annual changes	0.570***	(0.051)	0.725	60	Country

Notes: The dependent variable is the change in forward plus backward GVC participation, in percentage points of GDP; the explanatory variable is the corresponding change in exports as a share of GDP. Standard errors are in parentheses. The estimates are calibration relationships, not causal effects. *** denotes significance at the 1 percent level.

C. Summary

The results are highly consistent across samples, databases, and horizons. The preferred WB-4 FIGARO country-panel estimate is 0.707, almost identical to the NMS-8 estimates. The longer Eora panel yields a somewhat lower coefficient of about 0.6. The paper therefore uses a rounded coefficient of 0.7 for its central calibration.

References for Annex 2

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