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THE IMPACT OF NEOLIBERAL REFORM PROCESS ON THE DEVELOPMENT OF WESTERN BALKAN COUNTRIES *

The aim of this paper is to analyze the most significant indicators of macroeconomic stability and their trend movement (2000 to 2012) in order to examine the progress, stagnation or retrogression in the process of European integration in the Western Balkans. This paper summarizes the current position and the real economic possibilities of the Western Balkans to induce the speed and perspective of the EU accession.

Keywords: Western Balkans; eurointegration; macroeconomic indicators.

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ВПЛИВ ПРОЦЕСІВ НЕОЛІБЕРАЛЬНОГО РЕФОРМУВАННЯ НА РОЗВИТОК КРАЇН ЗАХІДНО-БАЛКАНСЬКОГО РЕГІОНУ

У статті проаналізовано найбільш суттєві макроекономічні показники країн Західно-балканського регіону за 2000–2012 рр. з метою оцінювання прогресу (стагнації або регресу) в їх розвитку в контексті євроінтеграції регіону. Детально описано сучасний стан досліджуваних країн, а також реальні економічні можливості для їх росту та розвитку в перспективі приєднання до ЄС.

Ключові слова: Західні Балкани; євроінтеграція; макроекономічні показники.

Табл 7. Літ. 15.

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ВЛИЯНИЕ ПРОЦЕССОВ НЕОЛИБЕРАЛЬНОГО РЕФОРМИРОВАНИЯ НА РАЗВИТИЕ СТРАН ЗАПАДНО-БАЛКАНСКОГО РЕГИОНА

В статье проанализированы наиболее значимые макроэкономические показатели стран Западно-балканского региона за 2000–2012 гг. с целью оценки прогресса (стагнации или регресса) в их развитии в контексте евроинтеграции региона. Детально описано современное состояние исследуемых стран, а также реальные экономические возможности для их роста и развития в перспективе присоединения к ЕС.

Ключевые слова: Западные Балканы; евроинтеграция; макроэкономические показатели.

Introduction. The Balkans is a historical and geographical term which emerged under the old Ottoman model and now describes Southeast Europe (Bideleux and Jeffries, 2007). The Western part of the Balkans is a political category for the countries of South-East Europe (SEE6) that are not members of the European Union; Serbia (Kosovo), Bosnia and Herzegovina, Montenegro, Macedonia and Albania, which vary in size, population and recent development trends. It is well known that Western Balkans countries have a long and much intertwined history. The 1990s brought drastic geographical changes, conflicts, and political turmoil that led to the disintegration of the Socialist Federal Republic of Yugoslavia (SFRY) and emergence of the Western Balkans as such (Bosnia and Herzegovina, Montenegro, Macedonia, and Serbia) without Albania.

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Throughout the decade of armed conflict, the term "Balkan" received a negative connotation, but the use of the term "Southeastern Europe" has become more popular, while the European Bank for Reconstruction and Development (EBRD) uses the term "Western Balkans" for the aforementioned part of the region without Croatia (Marjola, 2006).

Literature review. Development of market institutions and market economies that was not easy (Filipovic and Nikolic, 2008), was subject to political manipulation in these countries (Coremberg, 2014). Therefore, due to the lack of strategy and economic policy, the Western Balkans were forced to accept foreign experts and strategies of international financial institutions, the IMF and the World Bank (Petrovic and Jovic 2013). Confession transition strategy was based on the rapid decrease of most of the prices, foreign trade liberalization, subsidies cuts, currency devaluation and the proclamation of convertibility, the introduction of restrictive credit policies, opening borders to foreign capital inflow, privatizing most of state-owned enterprises. This whole process of transition reforms was conducted at an incredible rate, based on neoliberal postulates, in order to make some sort of "shortcut to capitalism", "open market economy closed", thus leading to production renewal and economic growth (Filipovic, 2014). Liberalization of trade and financial integration declared as the main engine of growth were, although the practice after 2000 has led to the establishment of a macroeconomic period of stability, economic boom, GDP growth, FDI inflow and bank loans (Williamson, 2004). On that basis, the countries in transition as well as other countries are not able to implement their own policies (Toskovic, Adzic and Markovic, 2014). Although there are slight differences in the time of occurrence of reforms in some countries the period of transition lasts for over two decades, which is certainly enough to do the assessment of the reforms and institutional environment.

The development of European integration in the Western Balkans. The Balkan region is more a political than a geographical definition of Southeast Europe (SEE), which is not yet a part of the European Union. SEE countries have passed through large systemic economic reforms or neoliberal transformation to market economy in the last two decades. On the basis of these reform and institution-building efforts big steps (political and national consensus) towards European integration were made. Since 2003, when the summit was held on the Stabilization and Association Agreement (SAA) in Thessaloniki (Greece), each country has been moving step by step towards EU membership fulfilling its obligations under the Stabilization and Association Process (Table 1).

Table 1. **Progress in the EU integration process**, authors compilation based on European commission data

	Albania	B&H	Macedonia	Montenegro	Serbia
Stabilization and Association Process	June 2006	June 2008	April 2001	October 2007	April 2008
Interim Trade Agreement came into force	December 2006	Jul 2008	Jun 2001	January 2008	December 2009
Visa Agreement came into force	December 2010	December 2010	January 2008	December 2009	December 2009
Candidate status	/	/	2005	December 2010	March 2012
Status to start negotiations	/	/	/	/	June 2013

In April 2009, *Albania* applied for EU membership, but in November 2010 the European Commission published an opinion in which the candidate status was denied. The reason was not meeting the criteria for membership and the implementation of the Copenhagen political criteria regarding governance and the rule of law, as well as internal political conflicts which prevented the required reforms. Thus, the progress report as of 2011 stressed the need to invest significant and sustainable efforts in all the areas identified in the previous opinion (2010). In March 2013, the European Commissioner for Enlargement Stefan File noted that reforms in Albania gained new momentum since the Prime Minister Edi Rama took power, and that the government is pursuing a proactive policy in reforms of the police and the judicial system.

Bosnia and Herzegovina is the only Western Balkans country that has not applied for membership in the European Union. The European Commission's latest reports highlights the limited progress achieved by Bosnia and Herzegovina in terms of structural and economic reforms, but also stressed that B&H requires stabilization of political situation and agreement on constitutional reforms. Head of the EU Delegation to Bosnia and Herzegovina, Peter Sorensen, believes there is progress in B&H, but it is necessary to amend the Constitution to become a functioning state. In order to achieve this goal it must have a single market, and it is necessary to carry out judicial reforms and fight corruption. Transitional justice in this country is in a crisis of international governance model that is built on the expansion of the role of international criminal law and policy harmonization with the EU accession project (Humphrey, 2012).

FYR Macedonia got a start date for the EU accession negotiations. Macedonia was granted candidate status in 2005, and in February 2008, the European Council has identified 8 key priorities for progress in the accession process. They relate to implementation of the commitments undertaken in the framework of the Stabilization and Association Agreement (SAA), dialogue between political parties, implementation of the Police Act, implementation of anti-corruption legislation, reform of the judiciary system and public administration, employment measures and business environment improvement (EBRD, 2013).

One of the unresolved issues for Macedonia's accession to the EU is the issue of the name, because Greece and the EU only recognized Macedonia under the name Former Yugoslav Republic of Macedonia. This is among other things, one of the reasons why Macedonia has not yet started negotiations with the Union.

Montenegro became a candidate for the EU in December 2010, while in October 2011 the European Commission issued a recommendation that it should open accession negotiations because Montenegro successfully implemented the key priorities set in the Progress Report, 2010. This country adopted amendments to the Judicial Council, the Law on Public Prosecution and Courts Act, but has not yet managed to adopt amendments to the Labor Act. According to the European Commission report Montenegrin authorities should continue the process of laws harmonization with the Constitution, fight against corruption and organized crime, increased media freedom, cooperation with civil society, preventing discrimination etc. June 2012 has been defined as the start for accession negotiations.

Serbia in February 2010, the Interim Agreement on trade and trade-related matters, came into force and in June it was decided to unfreeze the Stabilization and Association Agreement, which has returned Serbia to the path towards EU member-

ship. In March 2012, Serbia has become an official candidate for membership, although it had unresolved situation regarding Kosovo, which has certainly affected the status of the candidate. After that, the European Commission announced that the EU accession negotiations will be opened as soon as Serbia achieves further significant progress in meeting further steps towards normalization of relations with Kosovo in accordance with the terms of the Stabilization and Association Process. In April 2013, after 10 rounds of exhausting dialogue in Brussels, there has been a significant agreement with a view to normalizing relations between Serbia and Kosovo. More concrete results in the implementation of this agreement would bring brighter future and lasting stability in the region. 28 June 2013, Serbia was given a date to start negotiations on the accession to the EU. It was thought that the acquisition of official candidate status and challenges arising from the talks given additional impetus for reform in accordance with the EU (European Commission, 2011). Already in September of the same year the SAA between the EU and Serbia came into force. The process of European integration have contributed to the institutional regulation of Serbia and the introduction of standards and the rights of economic rules of the game based on more market-oriented institutions than economic institutions in Serbia (Cveticanin, 2014). Harmonization of relations between Serbia and the EU, before the formal accession of Serbia to the EU, in addition to political and economic harmonization, should be conducted indepth, so that there is a considerable degree of socioeconomic and accepted norms agreed by the majority of enterprises in Serbia (Popovic, 2014).

Material and method. During the preparation of this paper, we used the existing database of the World Bank for 5 Western Balkans countries such as Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia. The period considered comprises 12 years (2000–2012) of the main macroeconomic aggregates such as GDP, GDP per capita, inflation, unemployment, foreign debt and FDI. At the beginning of our analysis we present the demographic picture of the Western Balkans and after that analyze each macroeconomic parameter individually.

Macroeconomics is complicated since a whole range of important variables interact with one another, probably at different speed (Bird, 2014). In the period 2000–2012, the birth rate of population in the Western Balkans is minimally increased or decreased in some cases, such as in Serbia (Table 2). GDP per capita in case of Albania decreased to 501.5 USD, in Bosnia and Herzegovina in the period of 12 years has increased to 3,120 USD, 2,817 USD for Macedonia, Montenegro for 5,431 USD (maximum), and in Serbia – 4,381 USD.

Table 2. Basic information on the Western Balkans countries, authors' compilation based on the World Bank data

	Population in 2000	Population in 2012	GDP per capita in 2000, USD	GDP per capita in 2012, USD
Albania	3304948	3162083	11885	687
B&H	3834364	3833916	1436	4556
Macedonia	2052129	2105575	1748	4565
Montenegro	611196	621081	1610	7041
Serbia	7516346	7223887	809	5190

According to the WB, the gross domestic product per capita (Table 3) in the period 2000–2012 in Albania rose to 2,885 USD, Bosnia and Herzegovina to 3,120 USD,

Table 3. Movement of the absolute amount of GDP per capita in Western Balkan countries, authors' compilation based on the World Bank data

GDP per capita	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Albania	1115	1245	1363	1745	2321	2621	2872	3381	4108	3846	3764	4109
B&H	1436	1482	1707	2148	2579	2822	3200	3950	4802	4433	4362	4754
Macedonia	1748	1664	1828	2286	2644	2864	3133	3892	4686	4434	4442	4962
Montenegro	1610	1897	2098	2784	3373	3665	4371	5939	7306	6713	6636	7253
Serbia	809	1518	2014	2614	3169	3391	3943	5277	6498	5498	5073	5964

Table 4. Movements of absolute inflation in Western Balkan countries, %, authors' compilation based on the World Bank data

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Albania	0.1	3.1	7.8	0.5	2.3	2.4	2.4	2.9	3.4	2.3	3.6	3.5	2.0
B&H	8	5	3.5	0.9	1.1	4.4	8.2	1.6	7.3	-0.4	3.1	3.7	2.0
Macedonia	6.6	5.2	2.3	1.1	0.9	0.2	3.2	2.3	8.3	-0.7	1.5	3.9	3.3
Montenegro	/	/	/	/	/	/	2.9	4.3	8.8	3.5	0.7	3.2	3.6
Serbia	71.1	95.0	19.5	9.9	11.0	16.1	11.7	6.4	12.4	8.1	6.1	11.1	7.3

Table 5. Movement of absolute unemployment rates in Western Balkan countries, %, authors' compilation based on the World Bank data

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Albania	16	17	17	15.8	14.8	14.3	13.8	12.5	12.8	13.5	13.3	16	
B&H	/	/	/	/	/	/	31.8	29.7	23.9	24.1	27.2	27.6	28.1
Macedonia	32.2	30.5	31.9	36.7	37.2	37.3	36	34.9	33.8	32.2	32	31.4	31
Montenegro	/	/	/	/	/	/	/	19.4	16.8	19.1	19.7	19.7	19.6
Serbia	/	/	/	/	18.5	20.8	20.8	18.1	13.6	16.6	19.2	23	23.9

2,717 USD for Macedonia, 5,431 USD for Montenegro and Serbia 4.381 USD. The highest GDP per capita in 2012 was in Montenegro, the smallest country in the Western Balkans (7,041 USD), while the lowest was in Albania – 4,000 USD per capita. Serbia got 1,851 USD less than Montenegro.

From 2000 till today, inflation suffered big jumps and drops (Table 4). Albania is the country where these jumps were the lowest, 0.1% in 2000 rose to 7.8% in 2002. In 2013 it stood at 1.9%, while in Serbia it 2000 was 71.1%, or even 63.9% more than 2013. Today, inflation is low in all countries, and in Serbia it is significantly below the target range, but higher than the target of the central bank (CB). However, looking at all these countries in 2013 Serbia had the highest inflation of 7.7%, while Bosnia and Herzegovina had the smallest, -0.1%.

Unemployment remains high throughout the region and it is one of the biggest problems of these countries. Young people cannot find jobs, thus leaving the region to work elsewhere. Emigration certainly exacerbates the situation at the labor market, which initiates guidance-oriented policies to ensure job creation. The World Bank confirmed it would focus on encouraging private enterprise, improving skills, management of internal and international mobility and reducing institutional incentives for job creation. This again emphasizes the reduction of state functions strictly with the neoliberal concept. Table 5 shows the trends in unemployment as macroeconomic indicators in the countries of the Western Balkans in the period 2010–2012. Unemployment in Bosnia and Herzegovina increased from 2010 to 2012 by 0.9%, and in Serbia – for whopping 4.7%. In Macedonia it decreased by 1%, while in Montenegro – by 0.1% in 2013. The unemployment rate in the region is still very high. It exceeds the average of 24%, and is most threatening for such population groups, as young people, women and low skilled workers.

The best year, when these countries receive the most foreign direct investment (Table 6), was 2011, except for Montenegro. Its largest inflow was in 2010 – about 759 mln, which is about 140 mln more than in 2012. In Serbia, as in other countries of the Western Balkans, the largest in flow of foreign capital was in 2011, nearly 2.5 mln more than 2012, when Serbia had presidential elections.

It is evident that the Western Balkans are under high indebtedness, which in combination with high fiscal and trade deficits makes the country dependent on foreign borrowing. Rule-balanced budget should include a corrective mechanism, activated automatically in the event of significant deviations from the medium-term objectives or adaptation strategies. The mechanism aims to correct deviations, including cumulatively impact of the accumulation of debt dynamics and should be applied to temporary derogations justified by exceptional circumstances (Adam and Iacob, 2012). Thus, in 2012 the most indebted country was Serbia with account overdrawn of 4 mln, followed by Bosnia and Herzegovina with 1.6 mln and Albania with 1.3 mln. It is necessary to say that several countries in the region face fiscal challenges that have arisen as a combination of weak growth and failure to rein public spending, which led to an increase in fiscal deficit and public debt. In the financial sector, pressures around deleveraging are still ongoing, and the level of non-performing loans have exceeded 20% of the total loans. It is believed that Serbia in the next 5 years will be bearing the risk of high load repayment of private debt so that the forthcoming investment cycle must be based precisely on FDI (Filipovic, Andrejevic and Vucenov,

Table 6. Movement of absolute volumes of FDI in Western Balkans, authors' compilation based on the World Bank data

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Albania	143	207	135	178	341	262	325	652	1,240	1,343	1,089	1,049	920
B&H	146	118	267	381	709	623	845	1,804	1004	138	443	471	334
Macedonia	215	447	105	117	323	145	427	733	611	259	300	507	332
Montenegro	/	/	/	/	/	/	/	937	975	1,549	758	556	618
Serbia	51	177	567	1,405	1,028	2,050	4,968	3,431	2,996	1,935	1,340	2,700	1,185

Table 7. Movement in absolute volumes of foreign debt in Western Balkans, authors' compilation based on the World Bank data

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Albania	1.12	1.15	1.18	1.55	1.60	2.10	2.46	2.89	4.23	4.3	5.00	6.03	6.93
B&H	2.79	2.68	3.16	4.48	5.57	6.37	7.13	9.24	9.81	11.32	9.93	10.1	10.57
Macedonia	1.47	1.49	1.69	1.88	2.82	2.98	3.29	4.17	4.45	5.24	5.34	6.30	6.67
Montenegro	/	/	/	/	/	/	0.879	1.29	1.5	2.35	1.60	2.35	3
Serbia	11.5	12.47	11.49	14.25	14.56	16.15	19.88	26.21	30.49	33.81	32.93	31.7	34.43

2011). Since the beginning of the XXth century, Serbia has recorded the highest level of external debt, which rose to 22.9 bln USD in 12 years (Table 7).

In Southeastern Europe 2013 was the year of growth, but growth in the region as a whole was only 2%. Due to neoliberalism alocice, but as the major consequences of the global economic crisis today, many Western Balkans countries face fiscal challenges, due to weak growth and poor control of public spending, increase in fiscal deficit and public debt. Unlike 2012, when all the countries of the Western Balkans were in recession, in 2013 there was a significant increase by about 2%. According to the latest report by the World Bank in May 2014, the economies of the Western Balkans began recovery from the recession of 2012 and 2013, achieved the average growth of 2.2%. In 2013, all 5 countries of South Eastern Europe (including Kosovo) achieved positive growth, with FYR Macedonia and Montenegro recorded the growth rate of about 3%. According to the EBRD forecasts, the biggest GDP growth in 2014, Macedonia should have about 2.7%, while Serbia should have the lowest 1.7%, which is certainly more than at the beginning of the year – 0.4%. In the future, the anticipated growth in the Western Balkans region will be, due to growing foreign demand, 1.9% in 2014 and 2.6% in 2015, although there are significant risks that decrease the prospects for growth due to the recent floods in the region, which in mid-May of 2014 hit particularly hard Bosnia and Herzegovina and Serbia. Unprecedented rains caused a humanitarian crisis, dozens of dead, millions of displaced people left without water and electricity, houses, crops and livestock were lost, while main roads were cut off. This definitely had huge negative impact on the economic growth in 2014, although the damage assessment and reconstruction has already begun. According to reports by the EBRD, the recovery in Southeast Europe will continue, but the rate of growth will remain rather modest. Kosovo as the poorest economy in the region, is expected that growth will reach 3.5%. Regarding the banking sector, the World Bank states still have been requiring action in the financial and fiscal sector through (WB, 2013): limiting the high level of non-performing loans (upward); re-start the growth of loans to solvent corporate clients; investment decisive consolidation efforts to restore the fiscal balance; of public debt reduction to stimulate economic activity.

The priority for the Western Balkans should become strengthening the macroeconomic fundamentals and policies to enhance macroeconomic productivity and resistance to external turmoil. Also, these priorities impose structural reforms that are long delayed, and which should enable growth and job creation to achieve macroeconomic and fiscal stability, improve competitiveness and strengthen the fight against corruption. However, progress in deepening structural reforms is still hesitant in the whole region of the Western Balkans.

Recommendations. In the reporting period (2000–2012) the analyzed indicators had different trends. According to the WB, the gross domestic product per capita, as one of the most important indicators grew and achieved a massive increase, with certain differences. From 2000 to date, inflation has suffered from big jumps and drops. Today, inflation is low in all these countries, and in Serbia is significantly below the target range, even higher than the target of the central bank. However, looking at all these countries, in 2013 Serbia still had the highest inflation rate, while Bosnia and Herzegovina had the smallest. Unemployment, especially among youth across the

region, remains very high and is one of the biggest problems for all these countries. This implies a negative indicator of emigration of a large number of both unskilled and highly educated people of different professions, who cannot find jobs. The FDI level in the last few years was relatively low for all WB countries, with the exception of Albania. This fact is caused by extremely poor investment conditions due to the global financial crisis that began in 2008.

Albania is the only country in the region that managed to avoid recession. However, according to EBRD estimates progress on further democratic transition remains unequal. This country should focus on sustainable private sector development, building up entrepreneurial spirit, investing in high priority projects. The basic point for further development of Albania should relate to the improvement of energy and environmental policy, improving the competitiveness of commerce and, strengthening both private and public sectors with infrastructures but also strengthen the financial sector. *Bosnia and Herzegovina* should have a greater focus of sustainable growth and development, but also has to encourage business environment development. This country has been struggling for years to strengthen the connection between the two entities, instead of cooperation with neighboring countries and greater exploitation of its natural resources of the country. Further development of B&H should lead to restructuring and expansion of the private sector, opening the economy to broader regional markets, and more efficient resource use. *The Former Yugoslav Republic of Macedonia (FYROM)* should continue its integration at both regional and global marketplace. It should take advantage of the proximity of landlocked name to allow access to the Mediterranean. Its development should relate to the improvement of transport corridors, intensifying cooperation with the EU, promoting private investments and business reforms. *Montenegro* has become more focused on the implementation of market reforms as defined by the EU agreement. Therefore, efforts towards the EU are the main anchor for its comprehensive reform. Business environment has improved in total, and authorities have taken positive steps to facilitate access to credit and reduce tax burden on businesses. To continue the development Montenegro must remove administrative barriers and improve infrastructure, which represents bottlenecks and hamper the competitiveness of companies. Serbia achieved steady progress on key reforms directed towards eurointegration. Serbian economy has struggled in recent years significantly to fulfill its economic growth due to the global economic crisis which brought macroeconomic imbalances (high unemployment, especially among youth, as well as significant regional disparities of income). Short-term prospects for Serbia, as well as for other countries in the region, are linked to global turmoil and poor prospects for recovery of the euro zone. Current economic difficulties in Serbia are connected with large fiscal deficit and high level of public debt, both of which should be reduced to sustainable levels. Serbia is a relatively small economy struggling legacy with high unemployment rate and limited loans capacity.

Conclusions. The Western Balkans countries have achieved mixed progress in the recent decade the results can be seen through the improvement or deterioration of macroeconomic stability of each country. The values of the analyzed macroeconomic indicators show that the countries under study achieved different results. Some countries have their acts agreed with policies and reforms thus generating economic

progression. The analysis concluded that the path of market economy in the Western Balkans was rather very long and difficult. These countries due to lack of strategy and economic policy have been forced to accept foreign experts and strategies of international financial institutions (IMF, the World Bank etc.). The implementation of such strategies proved to be counterproductive as the current state all these countries demonstrates, through the values of the most important macroeconomic indicators. So far the most alarming fact is the minimum increase the birth rate in the region, especially in Serbia.

All these countries have gone through a deep and unique neoliberal transformation process towards market. Although there are slight differences in the time of reforms, the transition lasts for over two decades, and this is certainly enough to do the assessment of the reform and institutional environment. Confession transition strategy is based on rapid decrease of most of prices, foreign trade liberalization, subsidy cuts, devaluing the currency and proclamation of convertibility, restrictive credit policies, opening borders to foreign capital, privatizing most of state-owned enterprises. This whole process of transition was conducted at incredible rates and basing on neoliberal postulates mostly. Under neoliberalism dominance and facing major consequences of the global economic crisis today, Western Balkans countries experience fiscal challenges, due to a combination of weak growth and poor control of public spending, an increase in fiscal deficit and public debt. In the future there is a high risk of load due to private debt repayment so that the forthcoming investment cycle must be based mostly on FDI.

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