

THE INFLUENCE OF GOVERNMENT POLICIES AND DIFFERENCES IN THE STANDARD OF LIVING OF THE WESTERN BALKANS COUNTRIES COMPARED TO CROATIA AND SLOVENIA

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ABSTRACT

The Western Balkans (WB6) countries are in the process of joining the European Union, but government decisions have a significant impact on their integration. To be accepted to the EU, these countries' living standards must be equivalent to those of EU members. The aim of this paper is to assess and quantify how close the level of living standards in WB6 countries is to Croatia and Slovenia. The report analyzes and compares Western Balkan nations based on their per capita income from 2010 to 2023. The purpose of this paper is to examine the differences in living standards between the Western Balkan countries and Croatia and Slovenia. The countries (WB6) require around 21 years to achieve Croatia's standard of living, and approximately 30 years to get close to the standard of living in Slovenia. The government actions of these Western Balkan countries are the primary driving force behind the impact of boosting Balkan inhabitants' living standards.

Key words: government policies, standard of living, countries divergence, WB6.

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1. INTRUDUCTION

The Western Balkans (WB6) countries are on their different pathways toward European Union membership and integration.¹ These countries face a variety of concerns, including ethnic, legal, cultural, local, and religious issues. One of the challenges that these Western Balkan countries have been facing during their entire histories is corruption, which is the result of a lack of struggle by their competent institutions and is lowering the standard of living for their population.

GDP per capita is used to compare the economic well-being of various countries. A greater GDP per capita typically signifies a higher level of income and standard of living, and for this analysis, the nations (WB6) will be compared to Croatia and Slovenia. The country's economic and social well-being appears to be improving as GDP per capita continues to rise. Governments and politicians use GDP per capita to plan and assess the efficacy of economic initiatives. GDP per capita may be used to analyze a country's standard of living and economic progress. Countries with higher GDP per capita typically have more access to public services, education, and healthcare.

The Western Balkans countries regard integration into the European Union (EU) to be a top goal. The most negative phenomenon confronting Western Balkan countries is political clientelism, in which political parties provide services in exchange for personal gain, and with such a link between the political elite and certain groups of individuals, citizens face a lack of accountability from the political elite, which is influencing the differentiation of social layers in these countries.² "Today, the countries of the Western Balkans show clear elements of state capture, including links to organized crime and corruption at all levels of governance and public administration". Corruption, "state capture" and impunity are examples of phenomena".³ Corruption is primarily related to the political class's influence and pressure on the responsible authorities, which are interconnected phenomena that affect the non-development of social and economic well-being, resulting in a significant disparity

¹ European Union: EU engagement in the Western Balkans, *The Diplomatic Service of the European Union*, 28.05.2019, <https://www.eeas.europa.eu/eeas/factsheet-angazhimi-i-be-s%C3%AB-n%C3%AB-ballkanin-per%C3%ABndimor_sq>, last accessed on 04/02/2024.

² Lemestra, M. A.: *State Capture in Serbia and its influence on EU Enlargement*, Universiteit Utrecht & Universitat Konstanz, 2020.

³ European Court of Auditors: *EU audit in brief, introducing the 2022 annual reports of the European Court of Auditors*, Luxembourg: Publications office of the European Union, 2023, pp. 33 & 46.

in the standard of living of European citizens compared to citizens of the Western Balkans.^{4,5,6}

As a result, one of the primary conditions for integrating these nations into the European Union is a comparable standard of living to that of EU members. This research will examine the level of living in the Western Balkans, drawing comparisons between these nations and determining how near these countries are in terms of standard of living to European countries, focusing on Croatia and Slovenia. In the 1990s, all of these nations⁷, save Albania, were part of the former Yugoslavia.⁸

The EU has been developing plans to improve the Western Balkans by supporting economic growth and socioeconomic convergence. To help this process, a new financial instrument of 6 billion euros has been proposed for the Western Balkans for the period 2024-2027. The plan aims to increase economic integration in the European Union's Single Market by implementing fundamental rights reforms in accordance with EU standards, as well as improving long-term economic growth by attracting foreign investment, strengthening regional stability, and implementing specific social-economic reforms.⁹

Economic convergence is critical to the Western Balkans' reconciliation with the EU. Currently, the region's average GDP per capita is between 30% and 50% of the EU average.¹⁰ The growth of gross domestic product (GDP) per capita has increased in the Western Balkans, but their economies have made limited progress in comparison to the European Union, with GDP per capita

⁴ Transparency International & The Institute for Democracy and Mediation: *Annual report, Albanian*, Tirana: The Institute for Democracy and Mediation, 2021.

⁵ European Commission: *EC Country Reports 2023: Unveiling shared trends and persistent challenges in Western Balkans anti-corruption landscape*, <<https://europeanwesternbalkans.com/2023/12/04/ec-country-reports-2023-unveiling-shared-trends-and-persistent-challenges-in-western-balkans-anti-corruption-landscape/>>, last accessed on 04/12/2023.

⁶ Vlassis, I.: *Corruption on the Western Balkans: An Unresolved Issue for the Accession Candidates*, 2024, p. 1.

⁷ Ex Jugosllavia countries: Slovenia, Croatia, Bosnia and Herzegovina, Serbia, Montenegro, Kosovo, North Macedonia.

⁸ Albania eshte shteti i vetem i Ballkanit Perendimor i cili nuk ka qene ne ish Jugosllavi.

⁹ Dhimolea, A.: The Berlin Process and Regional Economic Integration, *Friedrich Ebert Stiftung*, 28.03.2024.

¹⁰ Delegation of the European Union to North Macedonia: *New Growth Plan for the Western Balkans – 6 billion euros in grants and loans to bring the region's economies closer to the EU*, 06.02.2024, <https://www.eeas.europa.eu/delegations/north-macedonia/plani-i-ri-irritjes-p%C3%ABr-ballkanin-per%C3%ABndimor-6-miliard%C3%AB-euro-grante-dhe-kredi-p%C3%ABr-t%C3%AB-sjell%C3%AB_sq?s=229>, last accessed on 23/11/2024.

in the Western Balkans being 38% of the EU average. These states have seen a small improvement from 35% five years ago to 32% 10 years ago.¹¹

A greater GDP per capita often signifies a higher income and standard of living. The sustained increase in GDP per capita indicates an improvement in economic well-being. Governments and politicians use GDP per capita to plan and assess the efficacy of economic initiatives. Countries with higher GDP per capita typically have more access to public services, education, and healthcare. The Western Balkan nations have a very poor quality of life, which reflects their economic struggles and low degree of development when compared to Croatia and Slovenia. In 1990, the living standard was similar, but there is now a significant disparity between Croatia and Slovenia compared to other Western Balkan nations. Furthermore, the nations' (WB6) economic performance is far lower than that of Croatia and Slovenia. Montenegro has the strongest economic performance among the WB6 nations, while Kosovo has the weakest.¹²

Governing policies have the power to raise a country's citizens' standard of living by influencing macroeconomic indicators such as reducing unemployment, poverty, and ensuring the sustainability of economic growth, raising citizens' standards of living, and distributing income increases equally. The findings of theoretical and empirical studies, as well as the experiences of other nations, reveal that governing capability has a substantial impact on a country's growth and level of life. A country's level of living is determined by its revenue, cost of living, and the wellbeing of its population, and government actions play an important role in raising the standard of living. The WB6 nations have a very poor quality of life, reflecting their economic struggles and low degree of development when compared to Croatia and Slovenia.

In the context of this paper, the authors will build the main hypothesis to analyze the gap between the countries. The main hypothesis is: *"Government policies in the field of economic development, social distribution, and European integration have a statistically significant impact on the differentiation of the standard of living between the EU Member States (Croatia and Slovenia) and non-member countries of the Western Balkans (Kosovo, Albania, Serbia, Montenegro, North Macedonia, and Bosnia and Herzegovina)".* In the following sections, the authors will examine a variety of indicators in order to study and test the standard of living in various nations using this theory.

¹¹ Organisation for Economic Co-operation and Development: *Economic Convergence Scoreboard for the Western Balkans 2023*, Paris: OECD Publishing, 2023.

¹² Misini, Sh., Tosuni, G.: The effect of the war in Ukraine on the economic performance of Western Balkan countries, *InterEulawEast: Journal for the international and European law, economics and market integrations*, 10(1) 2023, p. 92.

2. LITERATURE REVIEW

Since the late 1980s, many macroeconomists have focused on government policies that affect the long-run pace of economic growth. In addition to fiscal and monetary policies, which are crucial in economic growth, additional elements impact and characterize a state's economic development. They are part of the core political, legal, and economic institutions.^{13,14} Economic policies can impact certain sectors of the economy by investing in human capital, legal infrastructure, strengthening political and legal stability, etc. A stable macroeconomic environment may promote a country's economic development by concentrating on inflation, fiscal policy, budget deficits, and tax burdens, all of which have a significant influence on a country's growth and economic development. Openness to trade with other nations has long been regarded as a predictor of a country's economic progress. Market openings or doors to other nations have a strong and beneficial association because they impact a country's growth and macroeconomic development. This may be accomplished through a variety of channels, including the use of absolute advantage, such as technological transfer, information dissemination, capacity utilization, etc.¹⁵ International trade is measured using two indicators: exports and imports.¹⁶ These two factors are critical to determining a country's economic progress or lack thereof. If a country's exports exceed its imports, it is considered more economically developed, and vice versa.

For a country to achieve quick economic growth, certain qualities must be present, such as the rate of expansion in capital per working hour, the increase in human capital with acceptable qualifications, and the increase in technical-technological advancement, among others. The main actions that the government should take to influence rapid economic growth include: creating stimulating mechanisms for export growth, encouraging savings and investments, encouraging market opening and integration, and encouraging market-appropriate professional education, among other things.¹⁷

¹³ Barro, J. R.: Determinants of economic growth in a panes of countries, *Annals of Economics and Financie*, 4 2003, pp. 443-478.

¹⁴ Barro, J. R.: Determinants of economic growth in a panes of countries, *Annals of Economics and Financie*, 4 2003, pp. 231-274.

¹⁵ Patrakos, G., Aranitidis, P., Pavleas, S.: Determinants of economic growth: The Experts' View. Department of Planning and Regional Development, School of Engineering, *Discussion Paper Series*, 13 (10) 2007, pp. 245-247.

¹⁶ Barro, J. R.: Determinants of economic growth in a panes of countries, *Annals of Economics and Financie*, 4 2003, p. 231-274.

¹⁷ Bade, R., Parkin, M.: *Foundations of macroeconomics*, 5th Edition, Pearson College Div, 2013, p. 468.

Many economists agree that how a state's government is managed has a significant influence on its success. Differences and perspectives among economists about state performance are tied to governance and state capacity, which influence the acceleration of a country's economic growth. According to empirical theories, the government's ability is the most important factor in a state's success. State capacity is one of the main characteristics that may have a significant impact on a state's performance via efficient markets. Institutions and strategies vary by country, depending on their initial conditions and political constraints, but all successful states with governance capacity can achieve long-term economic growth, which has a direct impact on a state's performance.¹⁸

Economic policies have a vital role and have long-term consequences for economic growth. Government policies can encourage investments that have an impact on a country's economic growth. They can also provide protection for investments made by both domestic and international firms. Institutional expenditures in health, education, and research directly contribute to boosting long-term living standards, which has a direct impact on economic growth.¹⁹

We have examined a variety of opposing theories and methods to the study of economic development and presented their strengths and flaws. Conflicting ideals may arise between countries. In this regard, we have the experience of China, where empirical data reveal that the Chinese economy has experienced a structural shift, resulting in the identification of the major economic factors involved in the economic growth process.²⁰ According to the Doing Business report, China has recently surpassed nations higher in the rankings due to advances in business regulation, credit, investor protection, and trade liberalization. Changes in the institutional platform resulting from economic policies focused on fiscal and monetary policies would have an impact on growth and economic stability.²¹

¹⁸ Wesbrot, M., Ray, R.: The scorecard on development 1960-2010: Closin the Gap? Economic & Social Affairs, *DESA Working Paper*, (106) 2011, pp. 2-4.

¹⁹ Organisation for Economic Co-operation and Development: *The Sources of Economic Growth in OECD Countries*, Paris: OECD Publications, 2003; Organisation for Economic Cooperaton and Development: Reducing income inequality while boosting economic growth: Can it be done?, *Economic Policy Reforms 2012. Going for Growth* (pp. 181-202), OECD Publishing, 2012.

²⁰ Tadaro, P. M., Smith, C. S.: *Economic develompment, 11th edition*, Boston: Pearson Education, 2012, pp. 19-35.

²¹ Fatas, A., Mihov, I.: The 4 I's of economic growth, INSEAD *The Business School for the World*, 2009, p. 10.

These key indicators can be used to make economic and sustainable progress: property rights, openness to international trade, developed financial markets that strengthen savings mobilization, macroeconomic stability, political stability, life security, competent and efficient civil services, a transparent and impartial regulatory and legal system, good governance with a focus on combating organized crime and corruption, and accountability.²²

The absence of incentive stimulation for the expansion of business operations inside production units stymies the country's actual economic growth, which is a necessary condition for the creation and stimulation of economic growth overall. Economic freedom is one of the most important aspects contributing to economic progress. People may make personal decisions when private property is legally protected and the legal system is efficient, among other things. These are the required conditions for long-term economic growth and development. Corruption in the courts, government bureaucracy, trade barriers, import prohibitions, excessive tax rates, and so on are unquestionably obstacles to enhancing the standard of living.²³

Policies that promote economic growth may be implemented by raising investments, lowering the budget deficit by encouraging private investment, focusing on fostering human capital investments, expanding infrastructure investments, and so on. Economic policies are meant to address disparities both domestically and internationally.²⁴

2.1. THE ROLE OF GOVERNANCE IN THE SOCIOECONOMIC PERFORMANCE OF THE STATE

Institutions are a major contributor to a country's economic prosperity. Institutions and policies vary between countries, both rich and poor. Today, the gap between poor and affluent countries is widening. Institutional changes resulting from the changes in economic policies in some countries have improved their economic situation and raised their citizens' standard of living, whereas in others, these changes have exacerbated the deterioration of the economic

²² Dollar, D., Kraay, A.: Growth is good for the Poor, *Policy Research Working Paper*, 2587 2001, pp. 1-4.

²³ Bade, R., Parkin, M.: *Foundations of macroeconomics*, 5th Edition, Pearson College Div, 2013, p. 467.

²⁴ Patrakos, G., Aranitidis, P., Pavleas, S.: Determinants of economic growth: The Experts' View. Department of Planning and Regional Development, School of Engineering, *Discussion Paper Series*, 13(10) 2007.

situation due to poor governance.²⁵ Economic development may occasionally exacerbate the disparity between the affluent and the poor at the state level, or in some states, inequality can lead to political instability, which causes economic instability and has serious consequences, including social unrest.²⁶

Building more efficient markets, establishing a strong investment infrastructure, and lowering government spending on luxury items all contribute significantly to governance capacity. This decrease in expenditures would have an impact on budgetary savings. These savings should be used to make capital projects that will benefit the country's population. Many economists base their views on case studies of rapid economic development over the previous fifty years, which they attribute to governance capacities and identify with the good governance model.²⁷ To achieve economic growth, a country must adapt its approach to investments, capital accumulation, and innovation. These are the key traits required to grow a country's economy today.²⁸

Furthermore, massive budget deficits might discourage private spending because consumers expect to pay greater taxes in the future to cover massive government deficits. In countries with a big budget deficit, residents' living standards suffer quickly. These cause significant economic and political challenges in the country. In countries with a big budget deficit, class disparities emerge, while the disparity in living standards rises, because the budget deficit will increase taxes and tariffs to repay debts in the near future. The wealthier classes can more easily pay these taxes and tax increases, whilst the middle and poor classes struggle to cope with them since they will immediately affect their standard of living.²⁹ Furthermore, when comparing the economic performance of the nations (EU6) to the countries of the European Union (27), there is a significant difference in the economic performance index between the EU6 and the EU27. According to the authors' findings (Misini & Tosuni, 2023), the Balkan nations' economic performance index is lower than the European Union average.³⁰

²⁵ Acemoglu, D.: *Introduction to modern economic growth*, Princeton & Oxford: Princeton University Press, 2009, p. 206.

²⁶ Cingano, F.: Trends in income inequality and its impact on economic growth, *Organization for Economic Co-operation and Development (ECD) Social, Employment and Migration Working Papers*, (163) 2014, p. 11.

²⁷ Khan, H. M.: Governance, economic growth and development since the 1960s. Economics & Social Affairs, *DESA Working Paper*, (54) 2007.

²⁸ Acemoglu, D.: *Introduction to modern economic growth*, Princeton & Oxford: Princeton University Press, 2009.

²⁹ Salvatore, D.: *International Economics*, 11th edition, Hoboken: John Wiley & Sons, 2013, p. 711.

³⁰ Misini, Sh., Tosuni, G.: An analysis of the impact of external shocks on the economic performance index of the European Union countries: the case of the Russian invasion of Ukraine, *Journal of Governance and Regulation*, 12(4) 2023, pp. 319-320.

Good governance protects the nation, state, and country against corruption and economic ruin. Good governance enables the civil liberties and economic freedoms required for a healthy economy. As a result, excellent governance will provide the poor with improved social services, increased employment opportunities, better health insurance, and greater transparency in all services. This would have a direct impact on improving the standards of living and reducing poverty.^{31,32} Income distribution is a very complicated issue for a country's economic and social position since governments influence income distribution directly and indirectly via their policies. To minimize budget deficits, governments should implement austerity measures and structural changes that will raise the living standards of the middle and lower classes. However, in times of crisis and low demand, economies require more state intervention for economic recovery. Economic recovery should be characterized by rising earnings and productivity, which will influence consumer spending but not increase debt levels.³³

The government's responsibility is to distribute revenue proportionally so that it affects all levels of the country's people. Weak economic development generates significant unemployment, and wealth distribution is skewed in favor of a tiny group of individuals, essentially treating workers as slaves and influencing the public by selling items at varying prices, among other things. Economic growth is more likely to eliminate poverty if money is distributed equitably. The truth is that if economic development is rapid, it will almost certainly reduce poverty and improve income distribution. Economic growth and wealth redistribution are equally vital for a country since they might be more successful in alleviating poverty.³⁴

Economic policies try to redress inequalities within the state.³⁵ As a hypothetical example, consider Nigeria, where the elements that have affected econom-

³¹ Iajya, V. et al.: The Effects of Information, Social and Financial Incentives on Voluntary Undirected Blood Donations: Evidence from a Field Experiment in Argentina, *NBER Working Paper Series*, 2013, p. 152.

³² Niza, F. C.: *The impact of patient financial incentives to promote blood donation and compliance with health care*. London School of Economics and Political Science, London: June 2014, p. 39.

³³ Lavoie, M., Stockhammer, E.: *Wage-led growth: concept, theories and policies*. Conditions of Work and Employment Branch, Geneva: International Labour Office, January 2013., pp. 33-34.

³⁴ Vijayakumar, S.: An Empirical Investigation on the Association between Small and Medium Enterprises and the Economic Growth of Sri Lanka, *Trends Economics and Management. University of Jaffna*, 7(15) 2013, pp. 71-72.

³⁵ Patrakos, G., Aranitidis, P., Pavleas, S.: Determinants of economic growth: The Experts' View. Department of Planning and Regional Development, School of Engineering, *Discussion Paper Series*, 13 (10) 2007.

ic growth over the previous 50 years include exceptionally high corruption and a general atmosphere that has failed to give stimulus or a more favorable investment climate. Nigeria has strong chances for economic growth and sustained economic development because of its natural richness, such as huge oil reserves, and development opportunities that were more favorable to Nigeria than other nations. Despite its inherent abundance, this country is now dealing with several unusual macroeconomic issues. Socioeconomic indicators show that if a country has a low income per capita, it will have the following consequences: reduced life expectancy, limited access to health care services, a lack of water, unprofessional education, a lack of sanitary items, and a lack of electricity. All of these factors indicate an impoverished state with a low standard of living.³⁶

Economic growth occurs when people are given the opportunity to make personal social choices, such as having their private property protected by law, having an efficient legal system, and being able to enforce contracts, all of which are necessary to create a climate conducive to development and economic freedom. While the primary impediments to economic growth are: corruption in the courts, corruption in the government, bureaucracy, market entry barriers, import bans, high tax rates, workers' health, labor market laws, fiscal evasion, informal economy, etc. All of this slows a country's economic progress. Hong Kong is the finest illustration of a country's transformation from a poor to a rich one via sustained economic expansion.³⁷

Hong Kong's economic development has resulted from fighting corruption in the courts, eliminating bureaucratic barriers, lowering taxes for foreign investment, favoring foreign investment, increasing the number of employees from foreign companies, and providing property rights through the country's institutions. These are the reasons that affected Hong Kong's transition from a poor to a wealthy country. Indeed, in order to have a beneficial influence on the economy, policymakers must have a visionary policy, a non-corrupt government, and a well-structured government for power governance staffed by competent individuals. These two traits have a significant impact on a country's economy and might be the most important contributors.³⁸

³⁶ Acemoglu, D.: *Introduction to modern economic growth*, Princeton & Oxford: Princeton University Press, 2009, pp. 26-28.

³⁷ Bade, R., Parkin, M.: *Foundations of macroeconomics*, 5th Edition, Pearson College Div, 2013.

³⁸ Vijayakumar, S.: An Empirical Investigation on the Association between Small and Medium Enterprises and the Economic Growth of Sri Lanka, *Trends Economics and Management. University of Jaffna*, 7(15) 2013, p. 68.

To perform well, a country must: rule the law equally (rather than unilaterally); have no corruption or bureaucracy; have a more favorable fiscal policy for foreign investments; have property security from the state; have adequate health care for the company's employees; have economic freedom; have a quality education; have qualified workers based on current circumstances, etc. As a result, all of these traits are indicative of the state's strong governance performance, which will have an impact on the well-being of all the citizens.

When there is no long-term economic growth in underdeveloped nations, the politicians profit the most, and organizations are formed to solicit bribes to support this or that enterprise. These groups resist structural changes. If a poor country wants to grow richer, its residents and businesses simply need to invest more. If the private sector is unable to meet this need, the government can intervene to stimulate investment. Governments play a significant effect in the volatility of the private sector in general. There are several elements that might influence economic growth and alter the responsible institutions of a country. They include the rule of law, political stability, rules (taxes and customs), administrative procedures, inequality, risk, investment return rate, institutional quality, etc.³⁹

Economic policymakers are divided into two groups: those who work in government institutions, where they draft macroeconomic policies based on nominal economic values, and those who analyze the country's actual economic situation, such as analysts, economic experts, non-governmental organizations, institutes, and others. Government institutions use nominal GDP numbers, neglecting actual economic realities. We cannot have economic growth with increased taxes and duties since increasing taxes and duties reduces the standard of life for the population of that country by raising prices. A country's standard of living is determined by its revenue, living costs, and the well-being of its population.⁴⁰

The results of theoretical and empirical studies, as well as experiences from many nations, reveal that a country's governing capacity has a substantial impact on its economic development. If we have genuine economic growth and a decent quality of life, this is a result of excellent governance; yet, if we have a poor standard of living, high unemployment, and poverty, this is due to institutional misgovernance in that nation.

³⁹ Fatas, A., Mihov, I.: *The 4 I's of economic growth*, INSEAD *The Business School for the World*, 2009, p. 10.

⁴⁰ Cato Institute: *2009 Annual Report*. Washington: Cato institute, 2009.

3. METHODOLOGY

The paper will examine the standard of living in the Western Balkans⁴¹ by comparing it to the countries that were part of the former Yugoslavia, whose countries were nearly on par with the standard, and which are now part of the European family: Croatia and Slovenia.

This paper will examine some of the countries' most important macroeconomic indicators, assessing and concluding on the performance of the quality of life as well as the differences between these nations. The investigation will incorporate secondary data from World Bank, International Monetary Fund, and OECD studies, among other sources. Similarly, the authors will employ secondary data from the competent authorities of the states. This research uses annual data from 2010 to 2023.

GDP per capita is a frequently used statistic for comparing the degree of economic well-being of various nations and understanding the quality of living of a country's population; hence, the formula that will be used to quantify the standard of living is:

$$\text{Standard living} = \frac{\text{Real GDPt}}{\text{Population}} \quad (1)^{42}$$

$$\text{GDP per capita} = \frac{\text{GDP of the Country}}{\text{Population of the Country}} \quad (2)^{43}$$

$$\text{Standard living} = \frac{\text{Real GDP-WB6}}{\text{Population}} \quad (3)^{44}$$

$$\text{Standard living} = \frac{\text{Real GDP-Cr,Sl}}{\text{Population}} \quad (4)^{45}$$

Furthermore, other additional factors were investigated to perform a more thorough scientific investigation, and within the framework of the formulae given before, this formula with more variables was also analyzed.

$$y_{\text{tcP}} = \beta_0 + \beta_{\text{HB}} + \beta_{\text{M}} + \beta_{\text{D}} + \beta_{\text{LE}} + \beta_{\text{PH}} + \beta_{\text{HDI}} + \beta_{\text{C}} + \beta_{\text{EPI}} + \beta_{\text{HDI}} + \beta_{\text{EDI}} \quad (5)^{46}$$

⁴¹ Albania, Montenegro, Serbia, North Macedonia, Kosovo, Bosnia and Herzegovina.

⁴² t-time (2010-2023).

⁴³ Formula for GDP per capita.

⁴⁴ WB6-countries (Albania, Serbia, Montenegro, Kosovo, Bosnia and Herzegovina, North Macedonia).

⁴⁵ Cr- Croatia, Sl – Slovenia (ex countries in Yugoslavia, in Union European)

⁴⁶ The formula analyzes the following variables: t-time; c-countries; p-performance; Hospital beds (per 1,000 people); Mortality rate, under-5 (per 1,000 live births (2023)); Death rate

A country's average standard of living is calculated by dividing its real GDP by its population, often known as real GDP per capita. This indicator of living standards is directly tied to labor productivity. Economic well-being and the standard of living are compared between countries using GDP per capita. A higher GDP per capita often signifies a higher income and standard of living. To demonstrate how GDP per capita may be used to compare different nations, consider the Western Balkans as a whole, as well as the two former Yugoslavian republics that are now members of the European Union with Croatia and Slovenia.

To get accurate and up-to-date statistics on the standard of living in these nations, credible sources such as the World Bank, the International Monetary Fund (IMF), and other competent institutions are often employed.

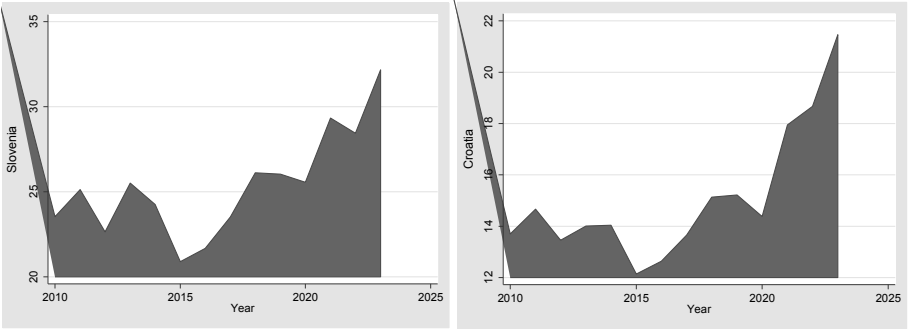
The standard of living is a powerful indicator to compare the economic well-being of different countries. It plays a key role in economic analysis and in the formulation of policies to improve the welfare of citizens.

4. ANALYSIS OF DATA

The analysis will include data from 2010-2023, allowing for a comparative analysis of the standard of living and well-being between the two former Yugoslavian countries (Croatia and Slovenia) that are members of the European Union and the Western Balkans countries that were part of former Yugoslavia. Albania is the only state in the Western Balkans that did not belong to the former Yugoslavia. The following study compares Croatia and Slovenia's per capita incomes from 2010 to 2023.

(per 1,000 people) (2023); Life expectancy at birth, total (years) (2023); Poverty headcount ratio at \$ 2.15 a day (2017 PPP) (% of population) (2023); Human Development Index (HDI) (2023/2024); Corruption level; Environmental Performance Index (EPI) (2024); Education Development Index (EDI 2021). We cannot use this algorithm to examine similar data from 2010 to 2023 since some nations lack data, have data gaps between years, and have obsolete data. There was no data chronology to evaluate these variables between 2010 and 2023. The data from the previous year for each nation, together with the years, serves as the foundation for the study.

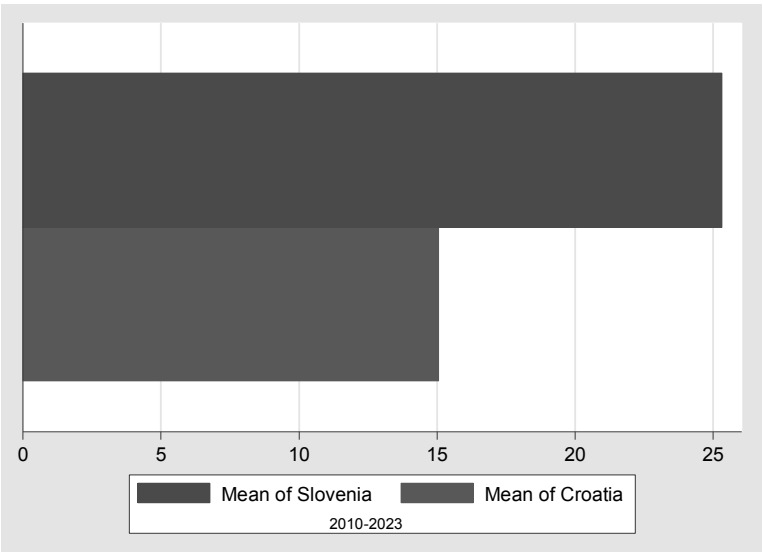
Graph 1. Croatia and Slovenia (GDP per capita, current US \$)



Source: author’s calculation

Graph 1 shows that our revenue fluctuates over various time periods. From the investigated period, 2015 was one of the years in which Slovenia had the lowest quality of life in terms of value, at \$20,890.2, while the highest standard of living was achieved in 2023 is \$32,163.5. Croatia’s standard of living has also fluctuated; the year 2015 had a lower standard than previous years, but the year 2023 reveals that Croats had the greatest standard of living for these years, valued \$21,459.8. The average standard of life in Croatia and Slovenia over these times is shown below.

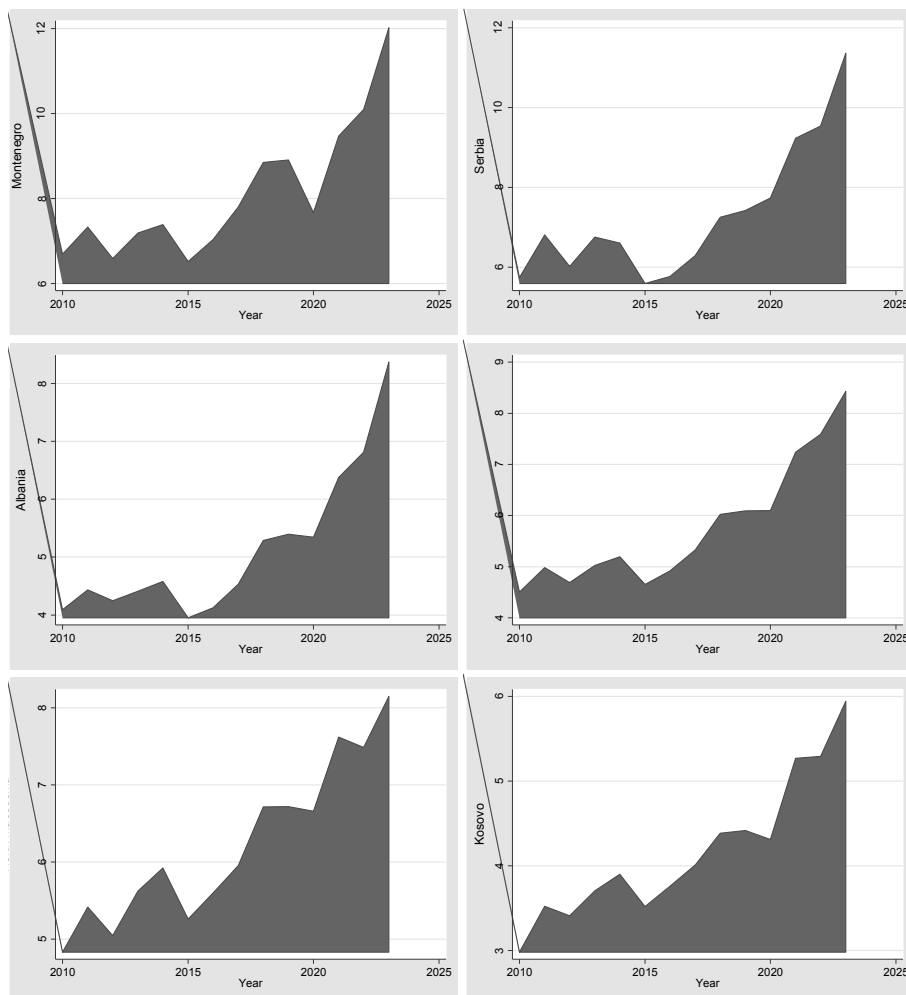
Graph 2. Means standard of living Croatia and Slovenia (2010-2023)



Source: author’s calculation

Graph 2 shows Croatia and Slovenia's average standard of living from 2010 to 2023. Croatia's average per capita income is \$15,077.40, whereas Slovenia's average is \$25,342.20. The authors present Graph 3 below, which analyzes and compares the standard of living in Western Balkan nations (Montenegro, Serbia, Albania, Bosnia and Herzegovina, North Macedonia, and Kosovo).

Graph 3. Standard of living WB6 (2010-2023), (GDP per capita, current US \$)



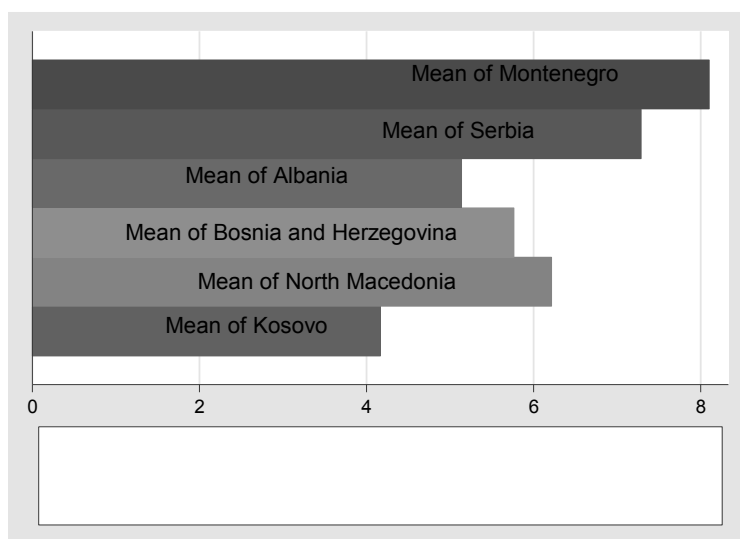
Source: author's calculation

In the structure of Graph 3, which analyzes the standard of living for the Western Balkans countries, we see that Montenegro (\$6,517), Serbia (\$5,589), and

Albania (\$3,952) in 2015 had the lowest per capita income, while the highest incomes in 2023 were achieved by Montenegro \$12,016, Serbia \$11,361, and Albania \$8,367.

Bosnia and Herzegovina, North Macedonia, and Kosovo fluctuated year after year, with the lowest in 2010, Bosnia and Herzegovina \$4,506, North Macedonia \$4,833, Kosovo \$2,981, and the highest in 2023, Bosnia and Herzegovina \$8,426, North Macedonia \$8,146, Kosovo \$5,943. We compare the standard of living in the following nations to the Western Balkans average.

Graph 4. Means standard of living WB6 (2010-2023)



Source: author's calculation

Graph 4 depicts the Western Balkan nations' average standard of living from 2010 to 2023. In this graph, we can see that Montenegro has a higher average quality of living than other Western Balkan nations, with an average of more than \$8,000. Serbia ranks second on this list, with a living standard of more than 7,000 dollars. The third nation is North Macedonia, with an average income of more than \$6,000. Bosnia and Herzegovina ranks fourth, with an average of more than \$5,000. Albania is the sixth country, with an average over \$5,000. Kosovo ranks sixth in terms of average quality of living, exceeding the threshold of more than \$4,000, and is the country with the lowest standard of living in the area when compared to other Western Balkan countries.

The paper's analysis will also include additional analyses to compare the standard of living, social well-being, and quality of life of citizens in these coun-

tries, such as education, healthcare, environmental quality, corruption, human development index (HDI), life expectancy, poverty rates, etc. We have included a table with many variables that examine healthcare access, life expectancy, and poverty rates.

Table 1. Healthcare, life expectancy and poverty

COUNTRY	a. Hospital beds (per 1,000 people) 2010 2020		b. Mortality rate, under-5 (per 1,000 live births (2023))	c. Death rate (per 1,000 people) (2023)	d. Life expectancy at birth, total (years) (2023)	e. Poverty headcount ratio at \$ 2.15 a day (2017 PPP) (% of population) (2023)
Slovenia	4.5	4.3	2	10.4	81.3	0.5%
Croatia	5.7	5.6	5	14.8	78.5	1.2%
Montenegro	3.9	3.8	4.7	12.7	76.8	3.1%
Serbia	5.1	5.3	5.2	15.2	75.9	2.9%
Albania	3	2.9	9	7.1	78.2	3.8%
North Macedonia	4.5	4.2	5	11.9	75.6	4.2%
Bosnia and Herzegovina	2.3	2.3	6	12.3	77.1	3.5%
Kosovo	No data	2.1	10	5.9	76.5	5.1%

Source: OECD Health Statistics, 2023⁴⁷ and World Health Organization, 2020⁴⁸, World Bank, (2023)⁴⁹

In the following section of the paper, the authors will examine each of the metrics indicated in Table 1, which reflect access to healthcare, life expectancy and poverty.

a) HEALTHCARE, LIFE EXPECTANCY AND POVERTY

1. Hospital beds (per 1,000 people)

The World Health Organization recommends a minimum of 5 secondary beds per 1,000 inhabitants to ensure minimum health access and coping capacities

⁴⁷ Organisation for Economic Cooperation and Development: Health Statistics, DATA, 2023, <<https://www.oecd.org/en/topics/health.html>>, last accessed on 12/12/2024.

⁴⁸ World Health Organization: *Handbook of Global Health*, Cham: Springer, 2020, p. 1.

⁴⁹ World Bank Group: Advancing social protection in the Western Balkans: Opportunities for reform, 2023, p. 1-11.

of the health system, while the optimal number for countries is 6-7 beds per 1,000 inhabitants. The World Health Organization recommends a minimum of 5 beds per 1,000 population for crisis prevention.

According to the table above, two time periods have been split to determine if nations have made progress in terms of the number of beds per 1,000 people. The average for the Western Balkan nations (WB6) is 3.5-4.5 beds per 1,000 people. Serbia is the top-performing Western Balkan country in comparison to other non-EU countries; when compared to Croatia, they are close in terms of bed count, but Serbia outperforms Slovenia. Croatia outperforms all of the other nations included in the table. Kosovo has the lowest performance among the nations, with 2.1 beds per 1,000 people, followed by Albania, which has 2.9 beds per 1,000 people. If we look at the world's most industrialized countries, Germany has 8 beds per 1,000 people, whereas Japan has 13 beds per 1,000 people. Countries with fewer than four beds per 1,000 people experience 20-30% more preventable deaths, according to studies.⁵⁰

2. Mortality rate, under-5 (per 1,000 live births)

Under-5 mortality rates in the Balkans reflect disparities in access to health care, socioeconomic status, and infrastructure. The greatest rates are recorded in Albania (9 deaths per 1000 live births) and Kosovo (10 deaths per 1000 live births), which are most likely due to health service shortages and reduced health investment.⁵¹ The European Union average is 3.8, which includes primary care. Slovenia has the lowest score of these nations, at 2, whereas Croatia is comparable to Serbia and North Macedonia, according to the table above. Progress remains behind EU expectations, highlighting the need for targeted investments in infant care and poverty alleviation.⁵²

⁵⁰ Bassat Orellana, Q. et al.: *GBD 2016 Healthcare Access and Quality Collaborators, measuring performance on the Healthcare Access and Quality Index for 195 countries and territories and selected subnational locations: A systematic analysis from the Global Burden of Disease Study 2016*. Institute for Health Metrics and Evaluation, University of Washington, 2018.

⁵¹ World Bank Group: *Advancing social protection in the Western Balkans: Opportunities for reform*, 2023, <<https://documents1.worldbank.org/curated/en/099051023035542858/pdf/P17623002691fc0cd0b5380c99a9264fd90.pdf>>, last accessed on 12/10/2024.

⁵² United Nations Children's Fund (UNICEF): *Annual Report 2021. UNICEF Kosovo Programme*, Prishtine: UNICEF Kosovo, 2022.

3. Death rate (per 1,000 people)

Crude mortality rates (per 1,000 persons) in the Balkan region reflect demographic and health-care differences, with rates greater in older populations and areas experiencing emigration-driven depopulation. Serbia (15.2) and Croatia (14.8) have the highest mortality rates per 1,000 inhabitants, indicating older populations (median age 43+), whereas Albania (7.1) and Kosovo (5.9) have younger demographics (World Bank, 2023). Bosnia and Herzegovina (12.3), Montenegro (12.7), and North Macedonia (11.9) fall in the middle, while rural-urban disparities in health-care access increase mortality in remote locations. Slovenia (10.4), despite its aging population, has high-quality healthcare that meets EU standards. These trends illustrate the role of age, migration, and health-care system efficiency in determining death rates throughout the Balkans.

4. Life expectancy at birth, total (years)

Life expectancy at birth in the Balkans reflects socioeconomic disparities and different healthcare system effectiveness. Slovenia (81.3 years) leads the area, nearing the EU average due to increased healthcare spending and lifestyle variables, whereas Kosovo (76.5) and Albania (78.2) are hampered by inadequate rural healthcare access and low investment. Montenegro (76.8), Serbia (75.9), and North Macedonia (75.6) are closely related, with premature mortality connected to cardiovascular illness and air pollution in industrial metropolitan centers. Bosnia and Herzegovina (77.1) and Croatia (78.5) have very large gender differences, with women outliving men by more than 5 years, a pattern linked to occupational dangers and male smoking rates. Despite advances, regional disparities persist, emphasizing the importance of focused public health measures to combat noncommunicable illnesses and prepare the population for aging.⁵³

5. Poverty headcount ratio at \$ 2.15 a day (2017 PPP) (% of population)

Table 1 shows that, with a poverty rate of \$2.15 per day, Kosovo has the highest rate among Western Balkan nations at 5.1%, followed by North Macedonia at 4.2%. Slovenia has the lowest rate (0.5%), followed by Croatia (1.2%).

⁵³ World Bank Group: Advancing social protection in the Western Balkans: Opportunities for reform, 2023, <<https://documents1.worldbank.org/curated/en/099051023035542858/pdf/P17623002691fc0cd0b5380c99a9264fd90.pdf>>, last accessed on 12/10/2024.

b) THE HUMAN DEVELOPMENT INDEX (HDI) CORRUPTION INDEX, ENVIRONMENTAL QUALITY, AND EDUCATIONAL DEVELOPMENT

1. The Human Development Index (HDI)

The table below includes the Western Balkans nations as well as two European Union countries, Slovenia and Croatia.

Table 2. Countries for Human Development Index (HDI)⁵⁴

COUNTRY	HDI (2023)	Range Global	Categoria ⁵⁵
Slovenia	0.920	25	Very high
Croacia	0.858	40	Very high
Montenegro	0.832	49	Very high
Serbia	0.806	63	Very high
Albania	0.791	72	High
North Macdonia	0.770	78	High
Kosovo*	0.750	85	High
Bosnia dhe Herzegovina	0.745	88	High

Source: UNDP, 2023/2024.

In the context of this table, we can see that the Human Development Index (HDI) for the Western Balkans (2023/2024) according to the UNDP report (2023/2024) puts Slovenia on the level with other nations, followed by Croatia, which has results that are near to European Union norms. Montenegro and Serbia rank higher than Albania, North Macedonia, Kosovo, and Bosnia and Herzegovina. Albania and Kosovo have made progress but are lagging behind due to a poor economy and corruption, while Bosnia and Herzegovina is at the bottom due to political divisions, negative reputations, and delayed change. Slovenia stands out as one of the most developed Balkan countries, with an HDI comparable to Western European standards. Below is a table with the Corruption Perceptions Index (CPI) for the Western Balkan nations, based on the most recent data (2024) from Transparency International and other credible sources.

⁵⁴ United Nations Development Programme: *Human Development report 2023/2024, Educational Development Index (HDI 2021)*, New York, 2024, <<https://hdr.undp.org/content/human-development-report-2023-24>>, last accessed on 18/11/2024.

⁵⁵ Category: very high: HDI ≥ 0.800; high: HDI 0.700–0.799; avarage: HDI 0.550–0.699

Table 3. Corruption Index in the Western Balkans (2024)⁵⁶

COUNTRY	Point CPI (2024) (0-100) ⁵⁷	Range Global (2024)
Slovenia	60	36
Croatia	47	63
Montenegro	46	65
Kosovo	44	73
Albania	42	80
North Macedonia	40	88
Serbia	35	105
Bosnia and Herzegovina	33	114

Source: Transparency International, 2024

According to the most recent Transparency International data (2024), the Western Balkan countries continue to exhibit significant disparities in the battle against corruption. Slovenia and Croatia remain the region's least corrupt countries, while Bosnia and Herzegovina continues to rank at the bottom with only 33 points. Albania has improved its rankings as a result of judicial changes, Kosovo has risen by three points, while Serbia and North Macedonia have experienced troubling falls. This research sheds light not only on the existing condition, but also on the outstanding issues that impede the region's honest growth.

Below is a summary of how corruption is interpreted and analyzed in numerous Western Balkan nations, as well as in several other countries throughout the world.

Table 4. Some nations have interpretation points (CPI)⁵⁸

POINTS CPI	Interpretation	Nations (2024)
80–100	Extremely low corruption	Denmark (90)
60–79	Low corruption	Slovenia (60)
40–59	Moderate problems	Kosovo (44), Albania (42)
20–39	High levels of corruption	Serbia (35), Bosnia (33)
0–19	Very high/systematic corruption	Somalia (12)

Source: Transparency International, 2024.

⁵⁶ Transparency International: *Corruption Perceptions Index*, 2024, <<https://www.transparency.org/en/cpi/2024>>, last accessed on 24/11/2024.

⁵⁷ The Corruption Perceptions Index (CPI) scores range from 0 (very corrupt) to 100 (very clean).

⁵⁸ Transparency International: *Corruption Perceptions Index*, 2024, <<https://www.transparency.org/en/cpi/2024>>, last accessed on 24/11/2024.

Analyzing this table, certain nations, such as Slovenia (60), are on the cusp of minimal corruption according to EU norms. Kosovo (44) and Albania (42) are classified as moderately corrupt, difficulties owing to uninvestigated crimes, whilst Bosnia (33) has significant corruption due to a split political system and a lack of coordination in the operation of the legal system.

In the following tables, the authors present the environmental development index and the education development index for the nations under consideration.

Table 5. Environmental Quality index and Educational Development index in the Western Balkans, Slovenia, and Croatia^{59,60}

COUNTRY	Enironmental quality (EPI 2022) ⁶¹	Point EPI (0-100)	Educational development index (HDI 2021) ⁶²	Point HDI (0-1)
Slovenia	Very High	67.3	Very High	0.918
Croacia	High	59.2	High	0.858
Montenegro	Mean	53.3	Mean	0.832
Serbia	Mean	51.9	Mean	0.802
North Macedonia	Mean	51.3	Mean	0.770
Albania	Mean	50.1	Mean	0.790
Bosnia and Herzegovina	Mean	49.5	Mean	0.780
Kosovo	No data ⁶³	N/A	Mean	0.762

Source: UNDP, 2024 & Yale University Environmental Perfornce Index, 2024.

The table's data clearly shows a division in environmental quality and educational progress between Western Balkan nations, Slovenia, and Croatia. Slovenia and Croatia have very high values, particularly in HDI (0.918 and 0.858) and EPI (67.3 and 59.2), indicating a more developed infrastructure, a cleaner environment, and a more efficient education system that is closely aligned with EU norms. Meanwhile, Western Balkan nations such as Mon-

⁵⁹ Block Block, S. et al.: *2024 Environmental Performance Index*, New Haven, CT: Yale Center for Environmental Law & Policy, 2024.

⁶⁰ United Nations Development Programme: *Human Development report 2023/2024, Educational Development Index (HDI 2021)*, New York, 2024, <<https://hdr.undp.org/content/human-development-report-2023-24>>, last accessed on 18/11/2024.

⁶¹ Enironmental Quality from data UNDP, 2024.

⁶² Educational Development index from data Yale University, 2024.

⁶³ Kosovo is not included in EPI reporting owing to its political situation.

tenegro, Serbia, North Macedonia, Albania, and Bosnia have average scores on both indices, with EPIs ranging from 49.5 to 53.3 and HDIs ranging from 0.770 to 0.832, showing a lack of investment in environmental preservation and quality education. Despite the paucity of EPI data, Kosovo has the lowest HDI (0.762), indicating a need for significant improvements. Overall, the table shows a significant disadvantage for Western Europe, where problems such as corruption, bad management, and previous conflicts have led to these nations' underdevelopment.

While international agencies like the World Bank release fresh reports in 2024, data updates frequently relate to past eras. This suggests that, while the reports are fresh, the data utilized in them may not reflect current economic changes.

It is critical to study disparities in the Western Balkan countries, particularly economic disparity; yet, the absence of continuous and up-to-date data for each country makes this research challenging. For example, the most recent statistics for Kosovo are up to 2017, Albania up to 2019, and Bosnia and Herzegovina to 2015. These time gaps make it impossible to conduct a cohesive and trustworthy examination of regional income disparity. As a result, such an analysis cannot be performed in this work and will have to be created later, when the data is more precise and harmonized.

5. DISCUSSION OF THE FINDINGS

Western Balkan republics are pursuing integration procedures with the European Union, but in order to do so, they must achieve specific requirements and adhere to a standard comparable to that of the European Union.

As a result, this paper focused on the examination of two European Union nations, Croatia and Slovenia, in order to compare the standard of living of countries with ambitions for European integration, namely the Western Balkans. The paper's study examines how Croatia and Slovenia's living standards compare to the six Western Balkan countries.

Many variables were examined in this paper, beginning with the dependent variable: standard of living in relation to the independent variables: *GDP per capita*; *healthcare*; *life expectancy*; *poverty*; *the Human Development Index (HDI)*; *corruption index*; *environmental quality*; and *educational development index*. According to the concrete data, Kosovo, Bosnia and Herzegovina, and Albania have poorer access to health than other Western Balkan nations, eliminating Croatia and Slovenia from this research. The nations nearest to Croatia and Slovenia are Serbia, Montenegro, and North Macedonia. Furthermore, based on the other variables, we can conclude that Kosovo, Albania, and

Bosnia and Herzegovina have the lowest standard of living when compared to other Western Balkan countries outside the European Union, while Montenegro, Serbia, and North Macedonia do better.

According to the findings, the six Western Balkan countries lag well behind European Union countries in terms of living standards. **Kosovo** is one of the Western Balkans countries with the lowest level of life when compared to the other five countries. Kosovo's present quality of life is based on statistics from 2023, but Croatia had this standard of living in 2002, and when we compare the standard of living between Kosovo and Slovenia, we find that Slovenia had a greater standard in 1991 than Kosovo has now. After Kosovo, **Albania** has the lowest average standard of living among Western Balkan countries. Albania's present quality of life (2023) is comparable to Croatia's in 2003 and Slovenia's in 1994. **Bosnia and Herzegovina** ranks third in terms of lowest average living standard, after only Kosovo and Albania. Bosnia and Herzegovina today have the same quality of life that Croatia did in 2003, although Slovenia had this standard of living in 1994. **North Macedonia** has the standard of living now (2023) that Croatia had in 2003, and Slovenia in 1994. Serbia now enjoys the same quality of living as it did in 2023, which Croatia had in 2003 and Slovenia in 1994. **Montenegro** has the highest quality of life among the Western Balkans' five nations, i.e. Montenegro outperforms Kosovo, Serbia, Albania, North Macedonia, and Bosnia and Herzegovina in terms of economic prosperity. Montenegro's present quality of life is comparable to that of Croatia in 2006-2007 and Slovenia in 2002-2003.

European economic integration and regional collaboration may also improve living conditions by expanding trade and investment. This is especially significant for nations in the Western Balkans, where regional integration may assist in overcoming historical barriers and increasing Balkan populations' living standards.

6. CONCLUSION

The influence of government policies is the primary factor in enhancing or reducing the standard of life for the population of a given country. Government policies rife with corruption demonstrate that they reduce or cannot enhance the standard of living for their population. Furthermore, government actions cited in the name of patriotism or nationalism in order to get votes demonstrate that enhancing the quality of life in their country is done slowly and methodically.

The influence of government policies on living standards is an important aspect in determining a country's economic development. Effective policies may generate considerable economic growth, reduce inequality, and raise living standards.

Comparative analyses of various policy approaches can reveal significant information about the most successful techniques for accomplishing these objectives.

The Western Balkan nations have a substantially poorer quality of living than the two countries (Croatia and Slovenia) that are members of the European Union and were previously part of Yugoslavia. The Western Balkan nations have goals for European integration, yet their quality of life is substantially different from that of EU countries. Countries like Croatia and Slovenia require several years to get to the standard of living they have.

As a consequence, when these Western Balkan nations are analyzed for the time periods 2010-2023, the data suggest that they require 21 years to attain the same standard of living as Croatia, and 30 years to catch up with Slovenia. In addition, only Montenegro stands out in contrast to other Western Balkan nations in terms of the quality of living and economic well-being. Montenegro would take 17-18 and 21 years to achieve Croatia's and Slovenia's standard of living, respectively.

Government policies may create prosperity by boosting residents' standards and economic well-being, but they can also stifle prosperity and citizens' quality of life. The Western Balkan states have seen a symbolic increase in their standard of living. However, in order to move faster towards their integration into the European Union, they must move with the gait of a rabbit in order to be offered a standard comparable to that of the European Union's countries.

The present investigation tests the following hypotheses: *"Government policies in the field of economic development, social distribution, and European integration have a statistically significant impact on the differentiation of the standard of living between EU Member States (Croatia and Slovenia) and non-member countries of the Western Balkans (Kosovo, Albania, Serbia, Montenegro, North Macedonia, and Bosnia and Herzegovina)".* The conclusion is that there is a very strong connection between government policies in raising the standard of living for the Western Balkan countries, which have a significantly lower standard of living than Croatia and Slovenia.

However, the lack of economic progress in terms of boosting the quality of living more quickly and permanently is attributable to the corruption and populist nationalization employed by these regimes. To raise the standard of living for their citizens, these countries must implement deep reforms such as: reforms in justice, reforms in social sectors, elimination of corruption, reduction of inter-ethnic and national hatred, cooperation between countries, opening the doors to a common market between these countries, and improving governmental efficiency by removing institutions from the political elites of these countries, among other things. The cancer of non-development of the standard

of living for the citizens of these Balkan countries are the political elites, who enrich themselves at the expense of the citizens within a short period, causing a decline in the standard of living of the Balkan citizens, and then these political elites engage and perform artificial patriotism among their population through institutions captured by them, such as the media, the army, the police, state administration, etc.

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