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Business Climate Evolution in the Balkans: Correlations, Growth, and Structural Changes (2004–2020)

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Abstract

This research investigates the evolution of business regulatory environments in the Balkans over seventeen years (2004-2020). The paper uses data from the World Bank's Doing Business reports. We focus on the main indicator groups: Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Getting Credit, Protecting Minority Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Resolving Insolvency. A correlation analysis is performed within and across indicator groups for the purpose of estimating the degree of convergence among countries. Through this analysis, it is possible to identify countries showing greater similarity in terms of business environment, and how it changes in time. Moreover, it is estimated that the growth of each indicator from 2004 to 2020 provides a view of times of changes in business conditions. Our research objective is to analyse the impact of regulatory reforms, the pace of convergence of key business indicators towards the best global practices, and the divergence of improvement path across different areas of business regulations in different countries. The conclusions of this research may serve policymakers and other stakeholders interested in long-term institutional improvements in the Balkan Region.

The findings aim to shed light on regional patterns of regulatory reform, the pace of convergence toward global best practices, and the heterogeneity of progress across different areas of business regulation. Insights from this study offer valuable input for policymakers and investors interested in the long-term institutional development of the Balkan economies.

Keywords: Doing Business; Western Balkans; Regulatory Evolution; Correlation Analysis; Comparative Statistics

1. Introduction

The Western Balkan countries have targeted the European Union Integration since the fall of the Berlin Wall. Yet, such goal has not been achieved for countries like Kosovo, North Macedonia, Montenegro, Albania, Serbia and Bosnia & Herzegovina. Part of the reasons are the impact of the regulatory reforms these countries have implemented over the last three decades. Starting from 2004 until 2020, the World Bank has built a database measuring various development indicators. It is called ‘Doing Business’. In this research, we are investigating how the institutional reforms impacting easiness of doing business, as per the definition of the World Bank, in the Balkan countries have evolved, diverge among countries. The impact of the institutional reforms is measured by the change of doing business indices in time.

Properly comprehending the business climate in the Balkans requests positioning region’s organizational and economic progress within convergence and integration processes through reforms. The literature for the region highlights dynamics of transition, synchronization with European practices, and changing dynamics of growth and investments, many of which are captured by the indicators tracked by the Doing Business report.

Part of the previous research is focused on the economic convergence across the Balkan Countries and the EU. Hildebrandt and Moder (2015) investigate the synchronization of business cycles between Western Balkans and the European Union. The authors find there has been important improvement since 2009, driven by trade. Fiscal & monetary constraints in euroized/pegged economies such as Kosovo or Bosnia & Herzegovina shows the will of alignment with EU. While not a business indicator, macro synchronization builds a backdrop for institutional reforms with impact to insolvency, tax policy and contract enforcement. Gouveia (2014) researches the correlation of business cycle between EU and the Balkans, resulting in heterogeneity with regards to synchronization. North Macedonia and Croatia result in higher correlation with EU, while Serbia and Albania lag. Such differences represent structure bottlenecks in regulatory indicators such as construction permit and electricity access, aspects in which inefficiencies lower responsiveness to economic shocks. Koczan (2015) shows how the finances of the region adapted to the boom-bust cycle, resulting in augmented fiscal deterioration and debt accumulation in the post crisis period due to week institutional frameworks. Th research evidences the lack of reform momentum and persistent rigidities in expenditure and revenue collection. These indicators are linked to Doing Business categories such as paying taxes.

Some of the previous literature also focus on the impact of the quality of reforms in economic convergence between the Balkans and the EU. Nedić et al. (2020) measure the impact of institutional reform on economic growth in the Balkans. The research identifies government effectiveness and regulatory quality as the feature with highest significance in explaining growth of GDP/Capita. The research implies that improvement in the rule of law and regulatory institutions, part of the Doing Business metrics in enforcing contracts and registering property, has a direct positive impact on sustainable development and economic convergence with EU. González-Álvarez et al. (2025) examine the regional GDP convergence across the Balkans.

The uneven convergence, part of their finding, highlight the need for local focus in improving the business climate. The variability in regional growth may partly mimic divergence in Doing Business Indicators such as property registration, contract enforcement, and cross-border trade logistics. Sanfey et al. (2016) focus on how the Western Balkans can narrow the economic gap with EU, emphasizing greater investment, innovation and trade integration are the way forward. According to the authors, while EU accession serves as anchor for reforms, many countries underperform because of institutional weakness and non-programmed reform implementation. The paper emphasizes the need for continuous improvement of regulatory buddies, focusing on property rights, licensing, public-sector governance. Botric (2012) analyses the industry level trade trends between the EU and the region. The study emphasizes the low competitiveness characterizing Western Balkans and relative strength in vertical niches. Weak export diversification may come because of the underlying institutional lags in contract enforcement, custom administration, firm entry regulation, also related to Doing Business report.

A few papers have investigated how Doing Business Indicators drive Foreign Direct Investments in the Balkans. Osmani (2015) models the relationship between Doing Business ranking and FDI in the Balkans. While reforms might have improved the regulatory environment, the research shows such improvement is not proportionally translated into FDI increase, especially in North Macedonia. Such misalignment questions the effectiveness of reforms which impact starting a business and resolving insolvency, in an ecosystem where limitations such as corruption or judicial bureaucracy prevail. Bajrami & Krasniqi (2019) investigate Kosovo, digging deeper on the connection between improvements of Doing Business metrics and foreign direct investment inflow. The authors find that, while regulatory reforms are formally implemented, open institutional challenges such as legal uncertainty and weak governance do not encourage investors. The research suggests that enduring improvements in the business climate are preceded by deeper reforms that raise significantly institutional credibility.

Other authors have investigated the impact of reforms in economic and institutional landscape of the Western Balkans in general. Rapacki (2014) assess the depth and effectiveness of reforms in the Western Balkans, evidencing progress in trade and privatization, yet institutional weakness in regulation and governance. The author explains how more advanced countries in structural and institutional reforms experienced more intense growth, while other countries with weaker reforms such as Bosnia & Herzegovina and Serbia faced weaker growth. The research suggests that improving business environment required broad-based intervention in institutional reforms beyond superficial legal adjustment. Hogic (2024) provides a critical view on the Western Balkans reform agenda, specifically on judicial reform and anti-corruption implementation strategy, which does not address broader institutional and socio-economic weaknesses. The authors highlights that a limited scope derives in poor outcomes in governance and rule of law performance. The research suggests more comprehensive reforms like education, digitalization and service delivery with the purpose of enhancing the institutional environment.

The new progress report from the World Bank (2024) highlights that, although growth in the Balkans is promising, it remains insufficient for fast convergence with EU economic reality. This is largely influence by the weakness of the business environment related reforms related to custom facilitation and digital payment system. Those areas are directly or indirectly related to Doing Business Indicators. EBRD's (2023) convergence investigation implies that implementation of reforms targeting EU-alignment, such as regulatory harmonization in trade, tax and insolvency, can be considered a precondition for unlocking EU's Growth Plan funding and integration benefits. Darvas and Dominguez (2024) highlight the fact that the WB accession delays are caused also by the heterogeneity in regulatory alignment across countries, supporting the need for analysis the aggregate depth of reforms and cross-country coordination.

All the research cited above highlight the multifaceted patterns of institutional progress in the Balkans. As convergence with EU has progressed, both in terms of business cycle and legal harmonization, challenges persist in building regulatory changes with direct impact and measurable outcomes. Analysing the correlation of changes in Doing Business Indicators across Balkan countries constitutes an original way to assess how institutional divergence contributes to economic divergence and integration barriers of countries in the region with EU.

Many empirical research have aimed to investigate the individual impact of Doing Business reforms on economic outputs and multiple methods of convergence patterns between EU and Western Balkans. Yet, there seems to be a gap in empirical analysis of the internal coordination of reform desired outcomes across Balkan countries. This paper aims to fill the gap by understanding whether business environment improvements, measured by Doing Business report constituents, show regional coordination. Comprehending whether this coherence is present or not can provide valuable insights about the impact of EU-driven propagated reform agendas, if WB countries move in coordination towards institutional integration, or whether they follow a non-synchronous integration path.

Considering the above, there are two research objectives:

1. Aim to quantify the regulatory progress of each country in the study across key reform indicators over a period of 16 years.

2. Most importantly, assess whether reform output progress in one country aligns with the advancements of others, according to the correlation analysis.

Following this approach, the presents a novel contribution to the literature through quantifying the regional alignment of institution reforms. Outcomes are relevant for understanding the current state of institutional development in the region and inform with data possible regional coordination for EU accession.

To the best of the authors' knowledge, this is the first research attempting to shed light regarding the similarity in business reform progress among Balkan countries. This research is expected to contribute with:

1. *Cross-Indicator Correlation Analysis Across Countries:* Most of the existing research focus on impact of individual Doing Business indicators in economic growth or FDI growth. Our study analyses the relationship (correlation) between changes in multiple regulatory indicators across countries. Such multidimension shed light in areas where reforms impacting areas like contract enforcement or tax policy are coherent or divergent across the Balkans.

2. *Comparative Institutional Dynamics in the Western Balkans:* Current literature analyses institutional changes on individual countries/regional aggregate. Our research applies a comparative longitudinal framework with the purpose of showing how regulatory changes impact diverge or converge between Kosovo, Montenegro, Croatia, North Macedonia, Serbia, Albania in 16-year time span. This approach uncovers regional asymmetries not easily evidence in a broader EU convergence analysis.

This paper continues with a brief description of Methodology and data used. In section 3 is performed an empirical analysis of the overall progress of the main doing business indicators for each country. Section 4 examines the cross-country correlations of the main doing business indicators. Concluding remarks are summarized in section 6.

2. Methodology and Data

In this study are used the Doing Business report database constituents, built from the World Bank, over the 2004-2020 period, for the Balkan countries including North Macedonia, Kosovo, Bosnia & Herzegovina, Serbia, Croatia, Montenegro and Albania. The reason we include Croatia is comparing the similarities and differences legal reforms impacting businesses has had in a country of the region already integrated in the EU and those who were not. The indicators compared are Starting a business score, dealing with construction permit score, getting electricity score, registering property score, getting credit score, protecting minority investors score, paying taxes score, trading across borders score and enforcing contracts score.

The reasoning to choose 9 Doing Business constituents as indicators for progress in this research is based on the respective relevance in representing policy and similar approach in existing literature investigating the institutional reforms. The indicators measure the key areas frequently targeted by regulatory reform programs under EU accession frameworks and institutional support from international bodies. According to Sanfey et al. (2016), areas such as property rights, licensing, public governance are the most impactful ones in terms of economic catch-up. Nedic et al. (2020) and Koczan (2015) highlight the importance of regulatory framework around insolvency, tax administration, and contract enforcement as drivers of long-term convergence and economic growth. In summary, the indicators selected are not only relevant for institutional assessment, they are supported by the appearance in empirical papers investigating reform impact and economic progress.

Two types of analyses are performed:

1. The aggregate change is computed of each of the 9 indicators mentioned in the previous paragraph for each country, for countries that have reported a score consistently from 2004 to 2020. This help identify which country have implemented the most effective reforms per macro-group (indicator), which has eventually resulted in the overall improvement of the Doing Business Score.

2. The pairwise correlation of the yearly % change of the score of each indicator is computed across all countries. This helps identify similarity or big divergences in progress for each indicator across Balkan countries and, where feasible, relate such change to results from 1 above.

The use of the two metrics mentioned above enables to observe both intensity and coherence of the impact of regulatory reforms over time. Specifically, the aggregate change shows the countries making/facing the most and least significant improvement/deterioration as a consequence of specific regulatory reforms. This follows the approach proposed by Rapacki (2014), where it is emphasized the importance of measuring the depth and effectiveness of reforms in multiple institutional pillars.

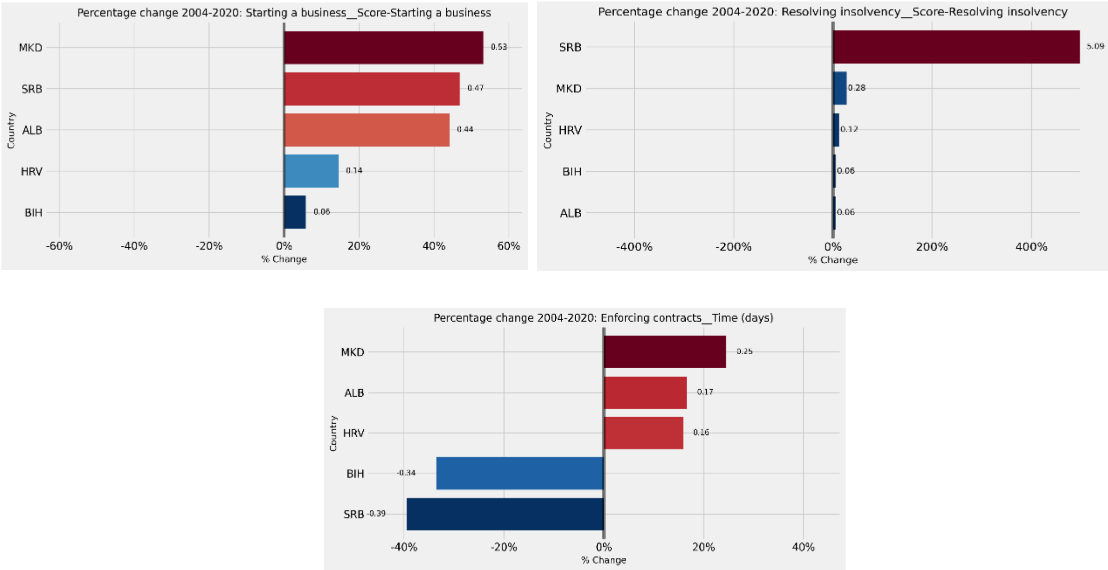
Correlation of yearly changes provides an indicator of whether reform paths are aligned across economic realities – key in measuring regional integration and policy coordination, as proposed by González-Álvarez et al. (2020) and Gouveia (2014). Both metrics help shed light into the outcome of reforms and whether such reforms were synchronized across Western Balkans. Following the suggestions of Hildebrandt and Moder (2015), where it is argued that macroeconomic convergence alone does not imply regulatory synchronization, correlation of key Doing Business constituents become valuable in assessing institutional convergence because of the progress due to reforms.

Next section examines the aggregate changes per indicator across countries, during the whole observation period.

3. Aggregate Progress in Doing Business Indicators

This section examines the aggregate progress for some of the indicators, part of the doing business report for the countries considered in this research. Figure 1 represents the aggregate changes of three different scores, starting a Business, Resolving Insolvency and Enforcing Contract, measured from the first observation year (2004) to the last (2020) for 5 different countries, Nort Macedonia, Serbia, Albania, Croatia (HRV) and Bosnia & Herzegovina.

Figure 1: Aggregate changes Starting a Business, Resolving Insolvency, and Enforcing Contract scores over 2004-2020 period



Source: Authors' Computations

North Macedonia is the country that has shown the highest progress into facilitating the start of a business through reforms, showing an aggregate improvement of 53% in 16 years. It is followed by Serbia (47%) and Albania (44%). The countries that have not made much progress into this area are Croatia (14% improvement), probably limited from the regulatory framework of the EU after accession, and Bosnia & Herzegovina (6%).

In terms of contract enforcement, an indicator mentioned in our case with time (the shorter the better), Serbia and Bosnia & Herzegovina have marked significant progress, decreasing the time for contract execution through legal & regulatory bodies by 39% and 34% respectively. North Macedonia, Albania and Croatia have shown regress in this case, as time (measured in days) for contract execution has increased with +25%, +17% and +16% respectively as compared with 2004.

The progress that Serbia has achieved in resolving insolvency through reforms, achieving 5 times better score in 16 years, is remarkable. It is followed by North Macedonia, with a modest improvement of 28%. While Croatia improvement is somehow guided from the EU legal framework, the progress of Bosnia & Herzegovina and Albania are very modest (6%) in the matter of policy efforts in improving bureaucracy around insolvency.

In summary, Serbia seems the country having spent most efforts in reforms resulting in the highest overall improvement of Doing Business Indicators considered in this section over the 2004-2020 period, namely Starting a Business, Resolving Insolvency and Enforcing Contract.

The empirical outputs of this section constitute a foundation for interpreting whether progress occurred in isolation or as part of a coordinated regional trend. As aggregate enhancements show the countries with most/least progress, they do not give any clue with regards to the harmonization efforts of reforms.

From a policy point of view, the results in this section shed light on the countries successfully implementing reforms with measurable outcomes in key regulatory areas. Serbia's substantial progress in insolvency and starting a business might be considered as a role model for neighbouring countries that have lagged on such reforms, for instance. Policymakers in the Balkans can use the examples of success to benchmark reform design and implementation, specifically in areas where bureaucratic bottlenecks continue to slow down progress. The stagnation or regression in some areas, such as contract enforcement in Albania or North Macedonia, outlines where targeted reform should prioritize and capacity-building measures should be put in place as soon as possible to hedge the possibility of institutional drift, especially with respect to EU Integration.

The next section addresses this gap through assessing the correlations of impact of reform across countries in time, thus connecting individual reform success to regional alignment trends.

4. Cross Country Correlation Analysis

This section examines the cross-country correlation of changes per indicator group over the full observation period. The indicator groups include Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Getting Credit, Protecting Minority Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Resolving Insolvency. Figure 2 summarizes all correlation statistics among 9 indicator groups.

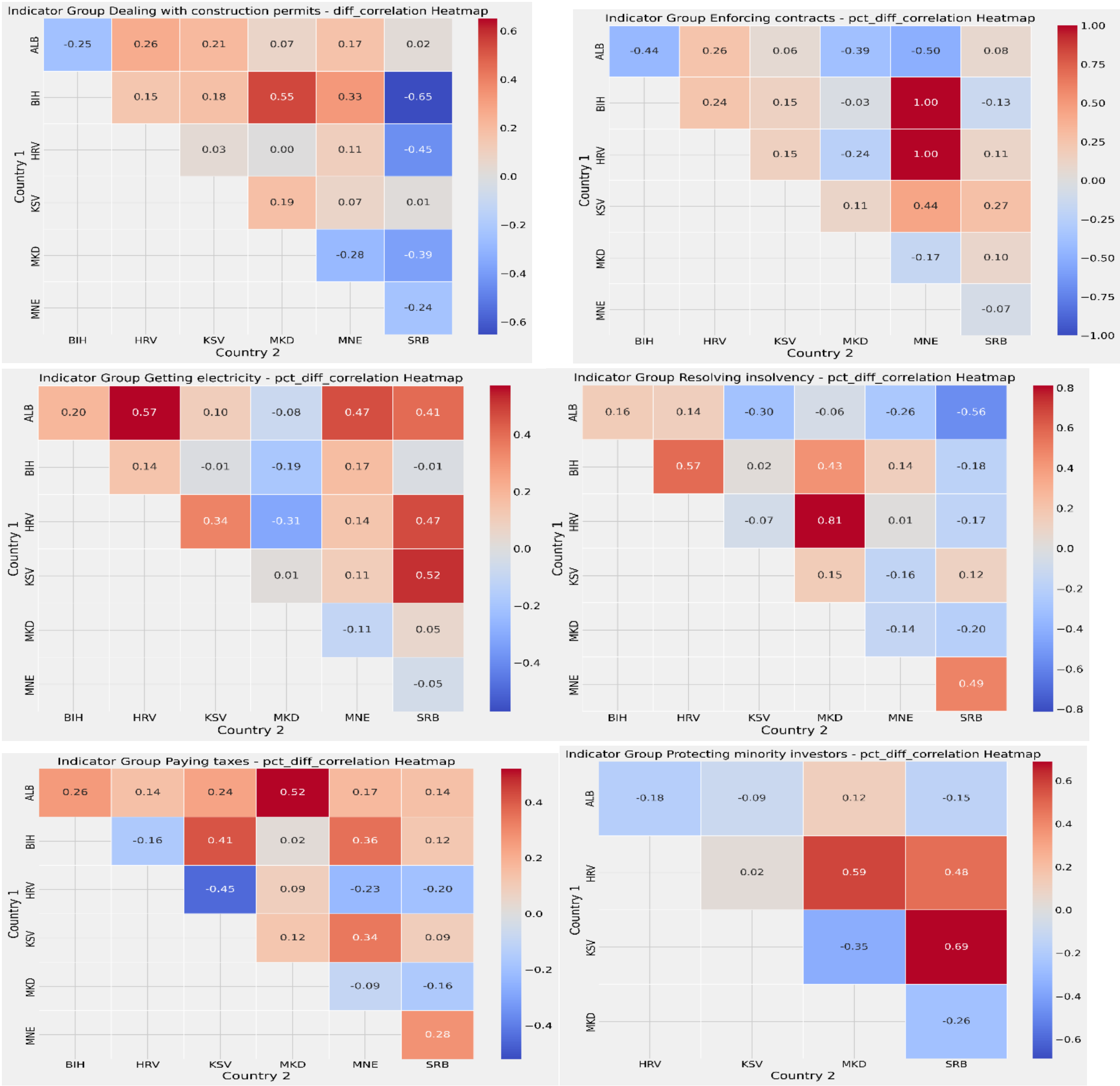
In terms of dealing with construction permits, progress seems quite similar between North Macedonia and Bosnia & Herzegovina (pairwise correlation 0.55). On the contrary, progress between Serbia and Bosnia & Herzegovina trends in different directions (pairwise correlation -0.65). The progress of Kosovo in terms of construction permit reforms seems quite unrelated with Croatia, Serbia and Montenegro. The same is observed for the relationship of the construction permit index between Albania and North Macedonia. Overall, it is not observed strong relationship regarding impact of reforms to improvement of construction permit processes among Balkan countries over the 2004-2020 period.

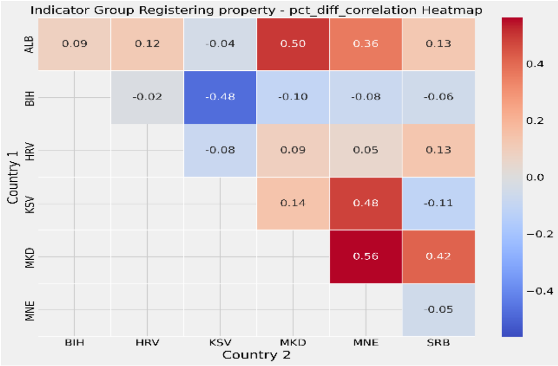
Regarding contract reinforcement, there is a strong positive relationship observed between progress in time of Montenegro with Bosnia & Herzegovina and Croatia. Albania seems to move in opposite direction as compared with Montenegro, North Macedonia, and Bosnia & Herzegovina regarding contract reinforcement improvement. There is no relationship regarding such progress between Albania & Kosovo North Macedonia & Bosnia & Herzegovina and Albania & Serbia. Overall, except Montenegro, we would argue there is a weak relationship between progress of the Balkan countries towards improving contract enforcement in time, based on Doing Business report indicators.

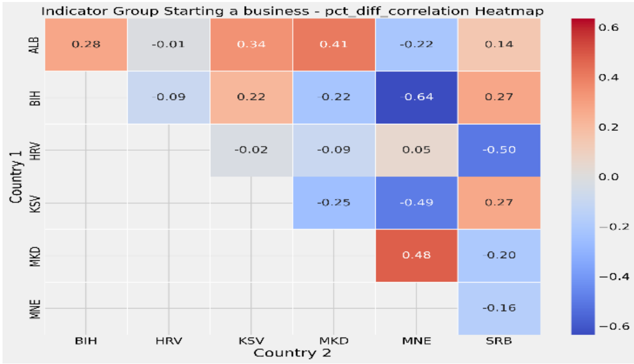
With reference to progress regarding the electricity infrastructure, there is a relatively strong positive correlation between the progress of Albania & Croatia (0.57) and Kosovo & Serbia (0.52). There is a weak negative correlation between Croatia and North Macedonia (-0.31). Overall, the correlation among Balkan countries regarding progress in the electricity infrastructure is low.

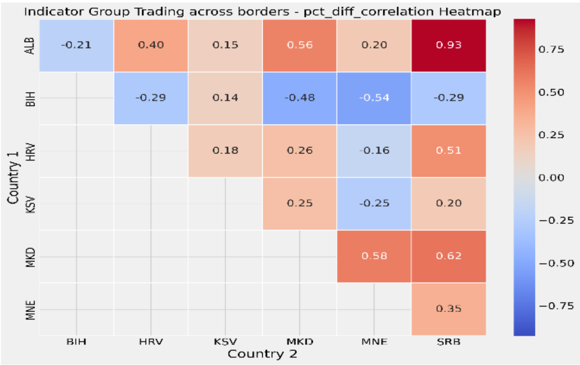
Albania and North Macedonia show the highest correlation regarding the progress on easiness of paying taxes (0.52) while Kosovo and Croatia show the highest negative correlation (-0.45). Also, this indicator group is categorized by low correlation among Balkan countries.

Figure 2: Cross Country Correlation for 9 Indicator Groups of the Doing Business Report









Kosovo and Serbia show a very similar progress path regarding the impact of reforms protecting minority investors (correlation 0.69), followed by North Macedonia and Croatia (0.59). The rest of the correlations among Balkan countries with regards to the progress on protecting minority investors are quite low.

North Macedonia and Montenegro show the highest similarity regarding the progress of the impact of reforms registering the property (correlation 0.56). Kosovo and North Macedonia show the strongest negative correlation regarding this matter (-0.48). The rest of the relationships among countries regarding % changes of the property registration indexes is weak.

North Macedonia and Croatia show a strong positive relationship (correlation 0.81) regarding the impact of reforms facilitating insolvency matters. It is followed by Bosnia & Herzegovina and Croatia (0.57). Albania and Serbia show a relatively strong negative relationship (correlation -0.56).

Regarding easiness of starting a business, there is a strong negative correlation between the progress of Bosnia & Herzegovina and Montenegro (-0.64). The rest of the relationship regarding the progress on the easiness of starting a business are quite low among Balkan countries.

There is a high positive relationship on the progress of trading across borders between Albania and Serbia (correlation 0.93). It is followed by the correlation between North Macedonia and Serbia, which is more moderate (0.62). There is a moderately strong negative relation on the progress of trading across borders between Bosnia & Herzegovina and Montenegro (-0.54).

The correlation analysis aims to show a second analytical perspective by not only focusing on countries individual progress, but the similarity of progress of countries in the region over time. By assessing pairwise co-movements of each indicator, it is possible to observe if countries moved together on specific reforms or followed different paths. It enriches the comprehension of regional coordination on institutional progress, adding to the absolute performance analysis discussed in the previous section.

This section investigates the correlation of progress for 9 indices representing different aspects of doing business, as measured & reported by the World Bank. Trading across borders shows the strongest regional cohesion, led by Albania and Serbia, who show high positive correlation, indicating reform path alignment. Moderate cohesion is observed in insolvency regulation and protecting minority interest. Other doing business indices, such as dealing with construction permits, paying taxes, starting a business, result in weak or negative relationship. As selected reforms show more alignment across countries, most indicators display weak convergence, suggesting the lack of harmonization of reforms in the region with the purpose of joining the EU also through better regional alignment.

Correlation analysis shows significant implications with regards to regional cooperation and EU integration strategies. Low/no convergence in most indicators implies that the agenda of reforms might have been implemented in isolation, underutilizing the possibility for knowledge sharing and coordinated objectives in the region. Albania and Serbia, for instance, show very similar progress on trade facilitation, while the divergence in tax reform and contract enforcement reflects opportunities for coordinated plans. Policy initiatives such as Berlin Process or CEFTA may leverage these findings to target specifically cross-country working groups with the purpose of harmonizing reforms in slower progressing economic realities on specific indicators. This will serve to reduce fragmentation and improve region’s readiness for EU integration.

5. Conclusions

This research investigates the progress and coherence of doing business reforms in the Balkans, through analyzing Doing Business Indicators published from the World Bank over the period 2004-2020. Empowered with a dual approach – aggregate individual improvement and correlation analysis on year-to-year indicators that measure impact of reofrms – we provide insights on the depth and coordination of regulatory reforms.

The research finds that countries like Serbia and North Macedonia have made important progress as compared with neighbours in key areas such as starting a business, resolving insolvency. Indices covering contract enforcement and registering property imply mixed conclusions, where some countries show regress and others stagnation. The cohesion in reforms in the region, as measured by correlation, varies widely across indicator groups. Albania and Serbia show very similar trends into trading across borders, yet no other strong relationship has been observed among Balkan countries in indices covering Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Getting Credit, Protecting Minority Investors, Paying Taxes, Enforcing Contracts, and Resolving Insolvency.

These observations highlight the fact that, despite all regional economies have adopted business reforms, the implementation path is fragmented. Regional convergence is less likely because of the lack of institutional and economical synchronization, as evidenced from the correlation results in this paper. These results are important for local policymakers and other stakeholders interested in EU integration, whose regional alignment in reform and eventually impact will facilitate the economic and institutional integration of the whole region in the EU. Regional convergence among key doing business and institutional indicators might result in less challenging integration in the EU of individual countries, rather than working individually fragmented on their own. The latter might be worth investigating in future empirical research.

Considering a practical point of view, the empirical results of this paper provide actionable guidance to policymakers. For instance, countries with solid performance due to individual reforms may serve as benchmark, and as a consequence a source of learning and policy diffusion from other countries. Moreover, the observed lack of coordination across most indicators highlight the need for a better organized & motivated regional cooperation on institutional reforms. Aligning reform strategies, in areas like insolvency regulation, tax administration and contract enforcement, may help accelerating the convergence with EU standards and improvement of the business environment in terms of predictability and higher level of integration in the region.

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