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Growth Performance in Transition Economies: Evidence from The Western Balkans and The Role of Key Macroeconomic Indicators

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Abstract

This paper examines the ability of macroeconomic fundamentals and external financial flows to signal economic growth regimes in transition economies, with the Western Balkans as a sample. We create an annual dataset for six economies over 2015–2024, covering exports, FDI, unemployment, inflation, remittances, and GDP growth. GDP growth is changed into a binary variable (lower vs. higher growth) and two ensemble algorithms Random Forest and Extreme Gradient Boosting (XGBoost) are applied to the data. The cross validated results indicate that both models are able to achieve a very high level of predictive accuracy (Random Forest ?0.97; XGBoost?0.98), thus nonlinear interactions between macroeconomic indicators are substantial. The feature-importance profiles indicate that exports and remittances are the major factors that explain growth differentiation, while FDI, unemployment, and structural factors at the country level play secondary roles and inflation contributes slightly. These results emphasize the role of external-sector dynamics as the main growth engines in small open transition economies. It is worth noting that the Western Balkan economies, according to the results, display diverse but still predictable growth patterns, which are mostly determined by their export capacity and the continuation of the diaspora-related inflows. The study finds that machine-learning methods represent a very powerful instrument for revealing these structural differences and enhancing growth evaluation in the Western Balkan region.

Keywords: Export Capacity, External Dependence, Growth Differentiation, Remittance-Driven Growth, Small Open Economies