

# Chapter 10

## The Impact of Macroeconomic Indicators on Unemployment Rate: Western Balkan Countries

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### **ABSTRACT**

*The aim of this chapter is to study the impact of the selected macroeconomic indicators on unemployment rate in the region of Western Balkan countries and, more specifically, Albania, Serbia, Macedonia, Montenegro, Bosnia-Herzegovina, and Kosovo. This research is based on the time period 2000 to 2017 and includes five countries and the econometric model used in here is panel data. Data are retrieved from official and trustable sources such as World Bank and International Monetary Fund (IMF). The methodology used is the vector autoregressive model (VAR), unit root test, Hausman test, Granger causality test. All the macroeconomic variables, inflation, interest rates, GDP, and FDI are found to have a significant impact on unemployment rate of this group of countries. The novelty of this study remains the fact that this analysis is performed for the Western Balkan countries as a group. The results can serve and can be taken into consideration when applying similar econometric analysis in the future researches or implementing new policies that influences the macroeconomic factors.*

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## **INTRODUCTION**

The Western Balkans is a geopolitical term coined by the governing bodies of the European Union in the early 2000s and referring to those countries in south-eastern Europe that were not EU members or candidates at the time but could aspire to join the bloc (Dabrowski and Myachenkova, 2018). At the very beginning the Western Balkan region was composed of Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Serbia and Croatia. Since 2013 Croatia is part of European Union. As all the countries or the regions, the Western Balkans (WB) have their ups and downs. In the 1990s, the Western Balkans suffered from different conflicts, which negatively impacted the political, economic and social environment in this region. Meanwhile, the prospect of EU accession and the global boom in 2000s made possible some emerged reforms within the institutions and pushed the economy to recover. These positive steps were seen as promotor of economic growth of the whole region. But again, the financial crisis of 2007 has its negative impact even in this region.

One specific to this region is that the Western Balkan countries have huge similarities in the culture, social norms, languages, background and historical past. As so, these countries are considered as group highly affecting each other and becoming like this as a single zone. The study of this region is crucial to understand the gaps and ambiguities showing up. If the WB countries are considered a “common zone”, the steps toward a prosperous economy and a better future would be much easier since they do influence each other and, somehow, they consider the countries of the region their competitor. In the last years all the countries except Albania have seen much faster growth of exports than of GDP. And what is crucial, the exports toward EU have increased faster than the rest of the region. Another indicator supporting the non-economic nationalism of the WB countries is that apart from Albania and Serbia, all the other countries use euro or have fixed exchange regime based on the euro. According to Gligorov, in 2017, the intra-ethnic political competition and growing exports in Western Balkan countries have been supportive of democracy and free trade and have kept in check nationalism and protectionism respectively.

Labor market in the selected region has high unemployment rate. Unemployment is an important issue which affects society politically and economically. A large number of authors have been writing through years about the problems that labor market presents, emphasizing unemployment. Western Balkan economies have a considerable number of similarities among them in terms of labor market conditions and developments. Their remarkable challenge is high unemployment rate.

Unemployment rate is defined as the proportion of the nation’s non-institutionalized population sixteen years and older that is out of work, actively looking for a job, and available for work (Frumkin, 1998). If the number of people who are forced to register for work to receive particular benefits but express unwillingness to work is large, then the unemployment rate will increase even though the number of persons actually seeking work may remain relatively constant (Miller, 1983). There are several reasons of high unemployment, mentioning the most important one, the economic crisis that affects the whole economy. Albania and Kosovo, in 2009 which was the recession period, were the only Western Balkan countries that could maintain positive growth.

People are unemployed because of different reasons, and these reasons divide unemployment into six main categories (Mankiw, 2003). The first one is frictional unemployment, which is a short-run unemployment that comes from the condition of searching for a new job. The second type is structural unemployment, which is a persistent unemployment that happens when wages in labor markets do not balance supply and demand. The third and most often type of unemployment is cyclical unemployment, which is related with the ups and downs of the economy. The fourth type of unemployment is the sea-

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