

CHALLENGES TO THE INTEGRATION OF THE WESTERN BALKANS INTO EUROPEAN UNION SUPPLY CHAINS

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Western Balkan economic integration with the European Union has advanced significantly over the past two decades, driven by trade liberalisation and significant EU foreign direct investment in the region. Yet integration remains incomplete. Though tariffs have been eliminated, firms in the region continue to face substantial trade costs to access the EU market. These costs stem from a range of non-tariff barriers, regulatory requirements and border-related frictions, which have become more pronounced over time.

This paper identifies the critical barriers currently shaping the trade relations between the EU and the Western Balkans. These include non-tariff measures, particularly sanitary and phytosanitary and technical regulations, inefficient cross-border infrastructure and the new EU regulatory frameworks, including the carbon border adjustment mechanism, the Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive.

Building on this analysis, the paper assesses the extent to which the current EU framework addresses these barriers. It shows that existing instruments, including Stabilisation and Association Agreements with Western Balkan countries, and the New Growth Plan for the Western Balkans, amount to an incomplete and ambiguous framework for reducing non-tariff barriers prior to full membership. A more targeted and differentiated approach is needed, allowing for a more flexible integration into EU value chains, alongside increased support for regulatory alignment, border efficiency and infrastructure improvements.

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1 Introduction

Russia's 2022 invasion of Ukraine and the geopolitical situation more broadly have given the European Union enlargement process a new dynamic. Several countries neighbouring the EU have begun to reconsider their relationships with the bloc to secure their strategic positions through closer economic ties. The EU meanwhile has given more importance to the integration of its neighbourhood. This provides a new opportunity for the integration into the EU of the Western Balkan countries. In this paper, we assess the state of play of Western Balkan trade integration with the EU single market, the trade barriers that impede further economic integration and how they could be alleviated.

The Western Balkan countries have been increasingly integrated into EU supply chains, also because of their geographic location as close neighbours of EU member states. Their integration into EU supply chains has been substantial and is underpinned by growing EU foreign direct investment (FDI) in the region, particularly from Germany, targeting manufacturing. All six Western Balkan economies (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) have had structured economic ties with the EU since the mid-2000s through Stabilisation and Association Agreements, which practically eliminated tariffs on industrial goods. Non-tariff barriers with the EU remain high, creating increasing economic costs for both local and foreign firms in the region. Long waiting times at borders and increasing numbers of EU regulations add to the difficulties caused by the current insufficient regulatory alignment with the single market.

To facilitate the economic growth of these countries, deeper integration with European supply chains is called for. We highlight two separate sets of issues. The first relates to the frontrunners in the EU accession process (Montenegro and Albania), which, at the time of writing, are already progressing strongly on their EU accession paths and thus full integration into the single market. The second set of issues relates to the remaining Western Balkan economies, which demand a more multifaceted policy approach, requiring not only adoption of regulatory reforms but also investment in (cross-border) infrastructure and customs controls, especially at identified transit bottlenecks with the EU.

In what follows, we unpack the EU-Western Balkans FDI-trade nexus, focusing on different barriers to integration into EU supply chains, and how these could be addressed through the current legal framework with the EU and beyond.

2 Integration of the Western Balkans into EU supply chains

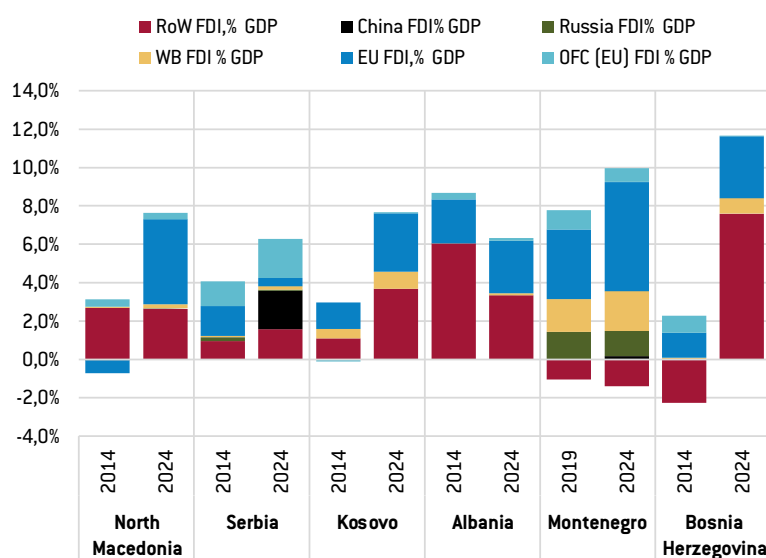
Foreign direct investment plays a central role in the growth model of the Western Balkans. Beyond providing capital, FDI facilitates the region's integration into European and global value chains, supports capital formation and can generate productivity-enhancing spillovers to domestic firms (Vujanović *et al*, 2022, 2023). The Western Balkans have relatively high levels of FDI inflows as a share of GDP, compared to the EU average and to EU countries along the eastern borders of the bloc,

according to World Bank data¹. This underlines the importance of FDI as a driver of economic activity and integration of the Western Balkans into European supply chains.

The EU is the dominant source of FDI in the region, with Germany in particular accounting for a substantial share of inflows to Western Balkan economies (Ruer and Vujanović, 2025). The share of EU-origin FDI increased between 2014 and 2024 in most countries (Figure 1). As of 2024, the EU FDI share in the recipient countries' GDP (excluding offshore financial centres, OFCs) ranged from 2.7 percent in Albania to 5.7 percent in Montenegro. Serbia was a notable exception: the relative importance of non-OFC EU investment declined from 1.6 percent of GDP in 2014 to 0.4 percent in 2024, and was effectively replaced by FDI from China and from EU-based OFCs (the Netherlands, Luxembourg, Malta, Ireland and Cyprus; see note to Figure 1). Other non-EU investors also played a role in specific cases. In Montenegro, for instance, Russia was a significant source of FDI, accounting for 1.3 percent of GDP in 2024.

Meanwhile, intra-regional investment has gained importance. FDI originating from Western Balkan economies themselves increased across all countries over the 2014–2024 period, suggesting a gradual strengthening of regional economic linkages.

Figure 1: FDI inflows (% of GDP)



Source: Bruegel based on national central banks and World Bank. Note: OFC (EU) includes the Netherlands, Luxembourg, Malta, Ireland and Cyprus, according to Zoromé (2007).

Part of the investments in the region could be less productive, however. OFC FDI reflects conduit FDI from third (possibly non-EU) countries routed through an EU OFC country, often for tax purposes. These

¹ In 2024, average FDI net inflows into the EU were equivalent to 1.5 percent of EU GDP. For comparison, the values for Bulgaria, Romania and Croatia were 3.1 percent, 1.9 percent and 4.9 percent, respectively. See World Bank, 'Foreign direct investment, net inflows (% of GDP) - European Union, Romania, Bulgaria, Croatia', <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=EU-RO-BG-HR>.

investments are considered less productivity-enhancing than investments originating from the ultimate EU investor (Casella, 2019; Vujanović *et al*, 2021).

The sectoral composition of FDI has evolved over time. Estrin and Uvalic (2016) showed that in 2010, inward FDI was predominantly directed towards non-tradable services, such as banking, telecommunications and real estate. More recent developments, however, point to the growing importance of manufacturing as a target for foreign investment, particularly in Serbia and North Macedonia (Krasniqi *et al*, 2022), reflecting a gradual shift toward export-oriented activities and suggesting deeper integration into supply chains. According to Western Balkan central bank statistics, from 2015 to 2024, roughly a fifth (20 percent) of FDI inflows into Serbia were directed to manufacturing only. A growing share is linked to Chinese FDI, which is concentrated in industrial activities, particularly in automotive and related supply chains². In North Macedonia and Bosnia and Herzegovina, 30 percent of FDI goes to manufacturing. The exceptions to these FDI industrial shifts are the smaller and more tourism service-oriented Western Balkan economies, Montenegro and Albania. According to data from their central banks, Montenegro hosts nearly half (48.9 percent) and Albania a quarter of FDI into real estate, with Albania also still attracting significant FDI into banking (18 percent of total)³.

The strong presence of EU firms in the Western Balkans is partly explained by the region's cost competitiveness: labour costs in the Western Balkans remain substantially below EU levels, with average monthly gross wages typically amounting to less than one-third of the EU average, and still below those in lower-income EU member states including Bulgaria, Romania and Croatia. This creates strong incentives for EU firms to locate labour-intensive activities in the region⁴.

The importance of EU investment in the Western Balkans is mirrored by the region's trade patterns. The EU is by far the largest trading partner of the Western Balkan countries, consistently accounting for more than 60 percent of total goods exports. This share has remained relatively stable, underscoring the persistent orientation of the region's exports towards EU markets (Figure 2). According to the 2024 Central European Free Trade Agreement (CEFTA) trade portal, the main EU export market for the Western Balkans is Germany (18.8 percent of total exports), mostly accounted for by exports from Serbia, Bosnia and Herzegovina and North Macedonia, for which Germany accounts for substantial export shares (15.5 percent, 14.4 percent and 32.3 percent of individual country's total exports, respectively)⁵. Other important EU export markets for the region are Italy (8 percent of exports),

² Branimir Jovanović, 'What's driving Chinese FDI in the Western Balkans – and what should be done about it?', *wiiw*, 12 June 2025, <https://wiiw.ac.at/what-s-driving-chinese-fdi-in-the-western-balkans--and-what-should-be-done-about-it-n-685.html>; Stefan Vladislavljev, 'How Did China Become the Largest Investor in Serbia?' *Choice*, 8 August 2023, <https://chinaobservers.eu/how-did-china-become-the-largest-investor-in-serbia>.

³ Data for Montenegro refers to 2025 balance-of-payments data and for Albania to sectoral FDI data inflows for 2024.

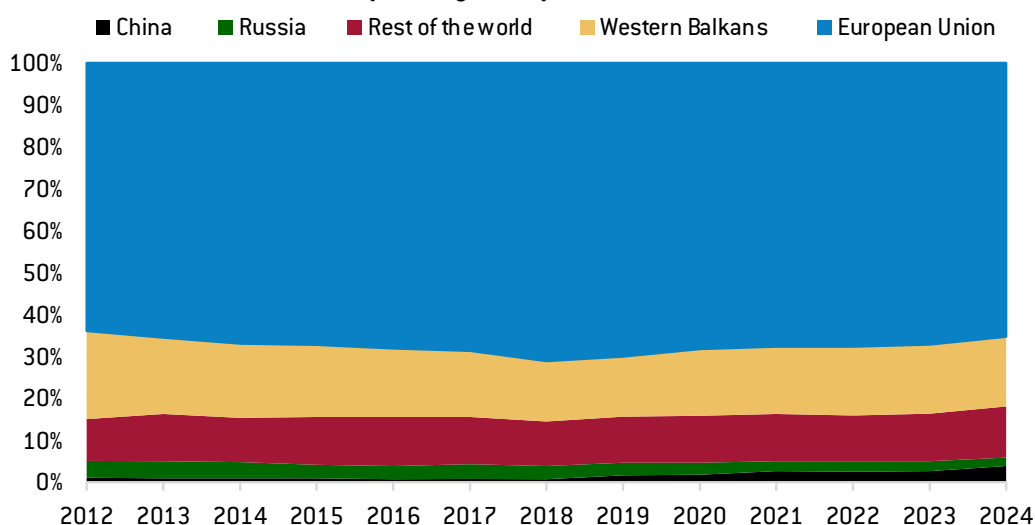
⁴ Average gross monthly earnings are €2868 in the EU, €933 in Bulgaria, €1220 in Hungary, €1259 in Romania, €1397 in Croatia and €829 for the Western Balkans (simple average for North Macedonia, Albania, Serbia and Bosnia Herzegovina); Eurostat, 2022 values.

⁵ Germany is also an important export market for Kosovo, accounting for about 11 percent of its exports. Albania's main export market is Italy, with 43.7 percent of its exported goods shipped to Italy, while Germany takes a modest share of 5.9

Croatia (5 percent), Hungary (4 percent) and Austria and Slovenia (3 percent each). These figures suggest more diversified export markets than countries with more liberal trade agreements with the EU (deep and comprehensive free trade agreements, DCFTAs). Moldova exports to the EU, for example, are heavily concentrated in a single neighbouring market: Romania⁶.

Other Western Balkan countries as a group represent the second most important export destination for individual Western Balkan countries. In contrast, exports to partners such as Russia remain comparatively limited, while China has recently emerged as a smaller export market, partly reflecting the presence of Chinese multinational firms operating in Serbia.

Figure 2: Shares of Western Balkan exports by main partners, 2012–2024



Source: Bruegel based on UNCTAD.

Exports of manufactured goods are an important gauge to measure the extent to which Western Balkan countries have integrated into European supply chains, rather than being just providers of basic materials. According to CEFTA (2024), manufactured goods accounted for roughly two-thirds (69 percent) of Western Balkan exports to the EU, with machinery and transport equipment alone comprising nearly one-third (32.1 percent).

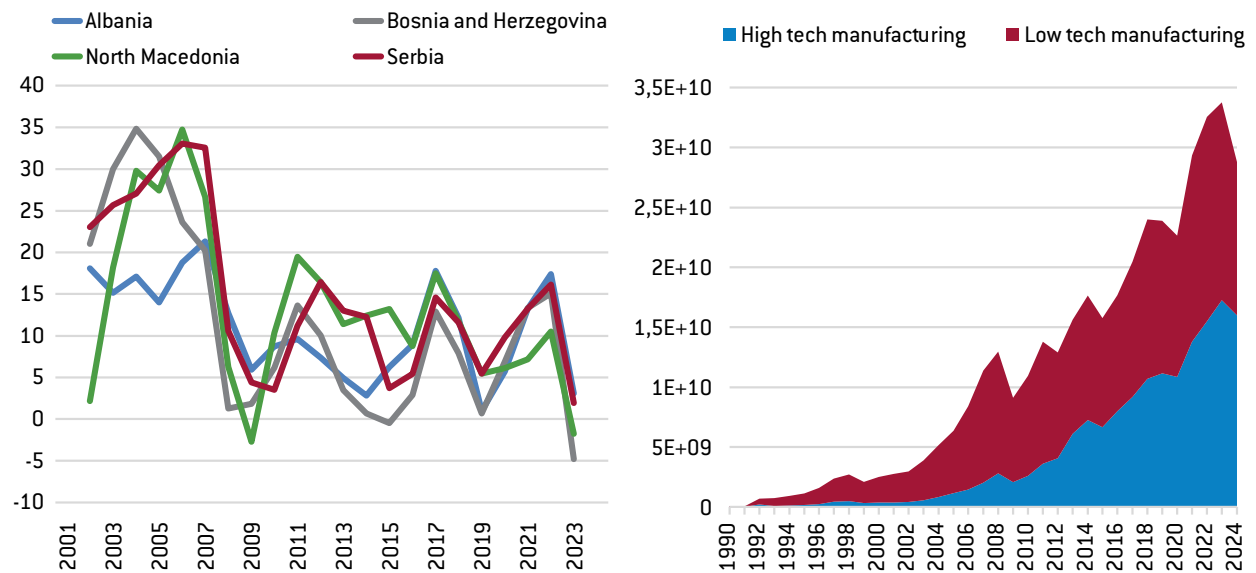
Figure 3 shows that manufacturing export growth was robust in the early 2000s, before slowing sharply after the Global Financial Crisis in 2008-2009. Since then, growth has resumed but remains moderate and uneven, with no sustained acceleration. This reflects the EU's trade policy towards the region. Liberalisation started in the early 2000s and was later formalised through Stabilisation and Association Agreements signed between the EU and individual Western Balkan countries (see section 3.1). Beyond liberalisation of tariffs, EU trade policy towards the region has remained largely intact ever since, reflected in the relatively stable growth of its manufacturing exports. Figure 4, Panel B

percent. Montenegro's export good market is more regional, with about a third of exported goods going to Serbia. See CEFTA, 'Total Trade in Goods – CEFTA 2025', <https://transparency.cefta.int/TradeStatistics/TradeInGoods>.

⁶ Romania takes roughly a third of Moldovan goods exports, while more distant markets from Moldova take substantially lower shares, for example Italy (6.7 percent), Germany (4.8 percent) and Bulgaria (3.2 percent).

shows that export growth has not been limited to low-tech manufacturing activities but has also included growing exports from the higher-tech sectors of auto-moto machinery and equipment, the shares of which have increased.

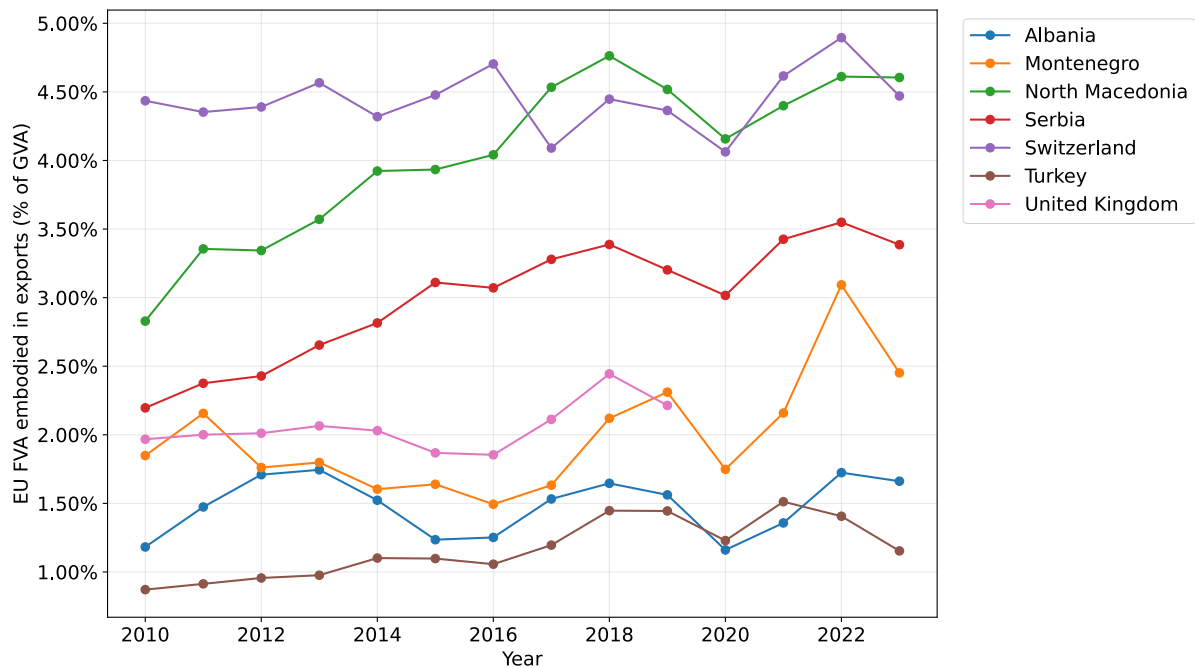
Figure 3: Exports of manufactured goods to EU



Source: Bruegel based on OECD. Note: manufacturing sectors included in the high-tech category: manufacture of chemicals and chemical products, manufacture of basic pharmaceutical products and pharmaceutical preparations, manufacture of computer, electronic and optical products, manufacture of electrical equipment, manufacture of machinery and equipment, manufacture of motor vehicles trailers and semi-trailers, manufacture of other transport equipment (Eurostat). The low-tech category contains all the other industrial activities.

To assess more directly the extent of integration of Western Balkan countries into EU supply chains, we examine the value added generated in these countries that is embedded in EU exports. This measure captures the extent to which production in the Western Balkans is an input into EU exports to third markets, and therefore, can be interpreted as an indicator of participation in cross-border value chains. A modest upward trend as a share of total domestic value added suggests a gradual increase in integration into supply chains over time, particularly for Serbia and North Macedonia (Figure 4). At the same time, the levels observed for Western Balkan countries are broadly comparable to those of other European economies closely integrated with the single market, including Türkiye, Switzerland and the United Kingdom. This points to the importance for Western Balkan countries of trade with the EU, and also of barriers to trade with the single market.

Figure 4: Valued added embedded in EU exports (% GVA)



Source: Bruegel based on Eurostat.

Taken together, these patterns point to a model of integration that is increasingly based on manufacturing activities embedded in European value chains, often driven by foreign investors. This type of integration relies on the timely cross-border movement of inputs across multiple production stages. As a result, it is sensitive to trade frictions including non-tariff barriers and border delays. These tend to increase costs and reduce the attractiveness of the region as a location for investment.

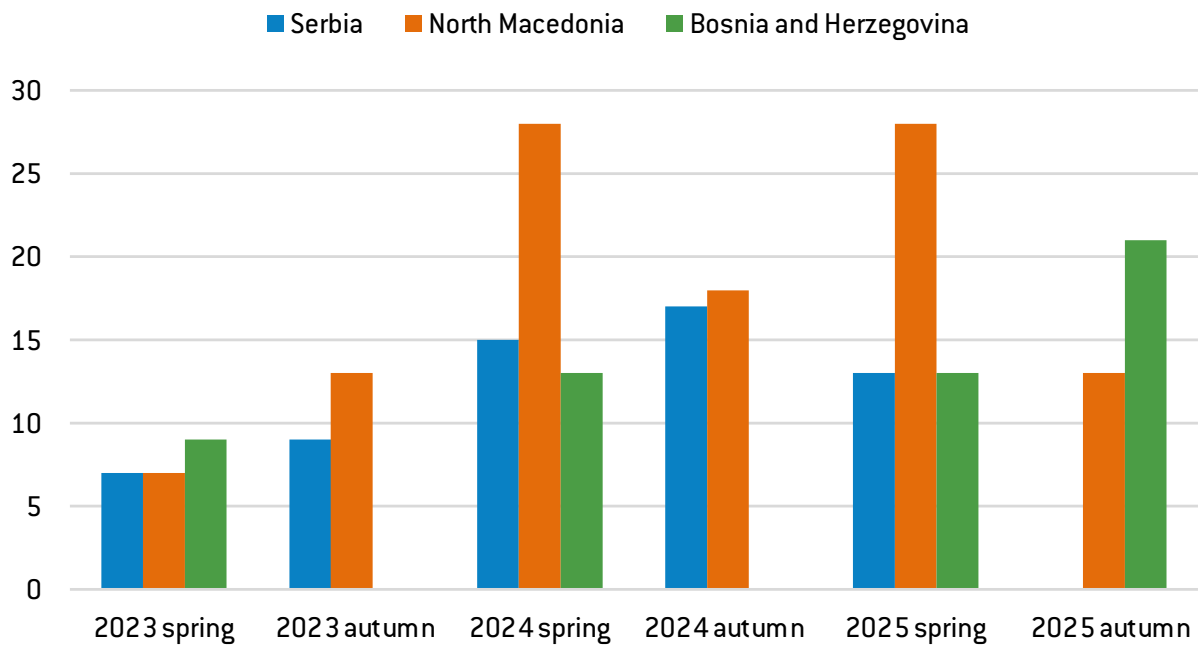
3 Trade barriers

Stabilisation and Association Agreements (SAAs) between the EU and Western Balkan countries have removed most traditional trade barriers, including tariffs on most products, except for certain agricultural and fishery products. However, non-tariff barriers (NTBs), new trade regulations and waiting time at the border continue to pose significant challenges to the region’s proper integration into EU supply chains.

Trade costs arising from trade barriers pose challenges not only to regional exporters but also to European investors in the region that export abroad. Figure 10 shows the extent to which German foreign firms active in Serbia, Bosnia and Herzegovina and North Macedonia perceive trade barriers as a significant risk to their business operations. This risk is particularly pronounced in North Macedonia, where almost one-third (28 percent) of German firms in late 2025 viewed trade barriers as a major business risk – an increase of 21 percentage points compared to spring 2023. Similar concerns are evident in Serbia and Bosnia and Herzegovina, where 13 percent of surveyed German firms identify

trade barriers as a business risk (based on German Chamber of Commerce surveys; AHK, 2025). As shown in Figure 10, the perception of risks has increased over time.

Figure 5: German companies in Western Balkans stating that trade barriers pose business risks to their operation, % of total



Source: Bruegel based on German Chamber of Commerce (AHK) World Business Outlook editions, 2022-2025.

While AHK (2025) (Figure 5) does not specify explicitly which trade barriers firms face when exporting outside the Western Balkans, it is clear from the following analysis that these primarily consist of NTBs, as trade with the EU is tariff-free across most sectors.

3.1 Tariffs

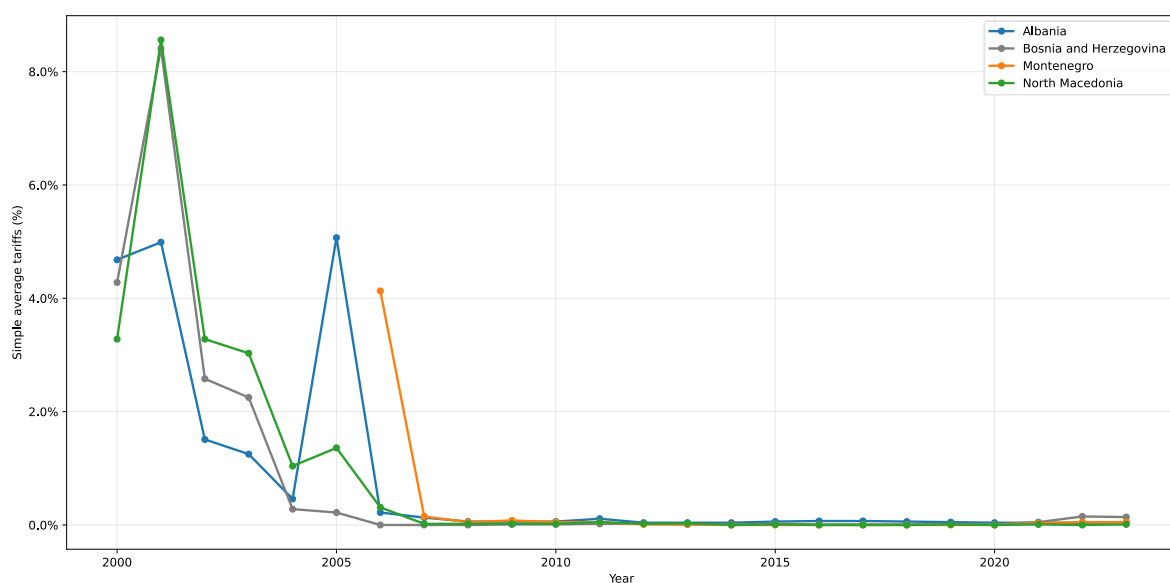
With few exemptions, tariffs have ceased to be a significant barrier to Western Balkan integration with the EU. Figure 6 shows the simple average of tariffs applied on Western Balkan exports to the EU for four Western Balkan countries. While in 2000, tariff rates were still substantial, they have been largely eliminated since the mid-2000s.

Initially, the move to eliminate EU tariffs came not through comprehensive free trade agreements with Western Balkan countries, but rather through unilateral EU tariff reductions. Under normal circumstances, World Trade Organization rules do not allow for such unilateral reductions as they

would violate the most-favoured nation (MFN) principle. However, the EU received a waiver from the WTO membership in order to apply tariff reductions⁷.

Since then, the EU has concluded conventional free trade agreements as part of the SAAs. The first SAA was concluded with North Macedonia in 2004, followed by Albania (2006), Montenegro (2010), Serbia (2013), Bosnia and Herzegovina (2015) and Kosovo (2016). These free trade agreements eliminated all tariffs with a few exemptions for agricultural goods⁸. Furthermore, intra-regional trade in order to strengthen supply chain integration has been facilitated through the Central European Free Trade Agreement (CEFTA), brokered by the EU and in place since 2007 (see Steinbach *et al*, 2025).

Figure 6: EU tariffs on Western Balkan countries, simple average



Source: Bruegel based on WITS.

3.2 Trade costs related to non-tariff measures are high

While tariffs have been mostly eliminated, substantial trade barriers are still in place, especially through NTBs. These are sector-specific regulations designed to ensure the circulation of high-quality (import) products within a market (in this case the single market). The most prominent NTBs include sanitary and phytosanitary measures (SPSs) and technical barriers to trade (TBTs). SPSs primarily apply to food and agricultural imports, with the objective of protecting human, animal and plant health. TBTs relate primarily to manufacturing imports and set rules on product characteristics (including packaging, labels and terminology), production processes and methods to safeguard national security, the environment and consumer safety.

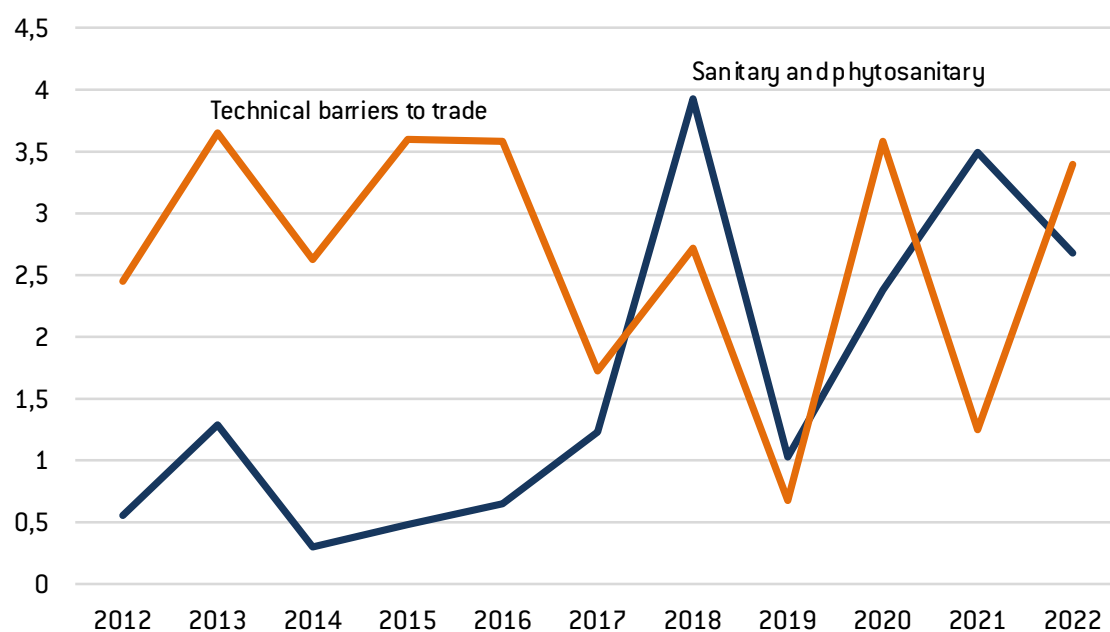
⁷ See WTO decision of 28 July 2021, 'European Union request for an extension of the waiver for the application of autonomous preferential treatment to the Western Balkans',

<https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:WT/L/1114.pdf>.

⁸ In some cases, these tariffs have been waived through autonomous tariff measures.

NTBs do not necessarily hamper trade, but differences between trade partners in terms of NTBs increase compliance costs, bureaucratic hurdles and transaction costs (Ghodsi *et al*, 2025; Castelli *et al*, 2025). UNECE (2021), based on a survey carried out in Serbia, found that compliance requirements (eg laws and regulations) have outpaced the ability of agencies to conduct quality checks, of small and medium sized enterprises (MSMEs) to keep up with obligations. Consequently, thus far, it is mostly large firms operating in the Western Balkans that are able to take advantage of the opportunities offered by the better access to the EU single market. UNECE (2021) reported that there are “*explanatory costs*” related to difficulties in understanding the regulatory requirements, especially in times of more intensive activity to align with the EU acquis: “*micro and small size firms allocate 40 per cent of their weekly working hours to achieve compliance with documentary requirements*” (UNECE, 2021, 69). This illustrates that even if a Western Balkan country’s regulatory framework is aligned with the EU acquis, implementation is challenging in practice.

Figure 7: Trade costs associated with sanitary and phytosanitary and technical barriers to trade imposed on Western Balkan imports by the EU (*ad-valorem* equivalents)



Source: Bruegel, based on Ghodsi *et al* (2025).

To better understand the economic impact of NTBs, using the methodology of Ghodsi *et al* (2025)⁹, we calculate the *ad-valorem* equivalents – expressed as percentage tariff equivalents – of TBTs and SPSs faced by Western Balkan firms exporting to the EU. The costs incurred by exporting firms to comply

⁹ The *ad-valorem* equivalents of TBTs and SPSs are calculated in four steps, from very granular level (product HS 6-digit product level) to regional level. The first step involves calculating import demand elasticities. The second step involves finding instruments to identify NTBs (TBTs and SPSs) with an empirical model. These instrumented NTMs are used in the third step as independent variables to estimate the effects of NTMs (elasticity) on trade. The fourth step involves using two elasticities (calculated in the first and third steps) for measuring *ad-valorem* equivalents of NTMs at product level, which we then aggregate to trade-partner level (EU) and then average for the Western Balkans. Each step is empirical and explained in detailed in Ghodsi *et al* (2025), and in intuitive way in Box 1 of Steinbach *et al* (2025).

with EU regulations are significant and rising (Figure 7), partly because of the growth in exports to the EU of products that are more heavily regulated.

Our results suggest that from 2012 to 2017, for Western Balkan exporters to the EU, trade costs associated with TBT compliance were on average four times higher than those associated with SPS compliance. However, between 2017 and 2022 (the most recent year available), these costs converged to roughly the same level. Over this period, compliance with TBTs and SPSs generated regulatory costs equivalent to an additional tariff of around 3 percentage points on import prices, highlighting the substantial impact of regulatory compliance costs when exporting to the EU.

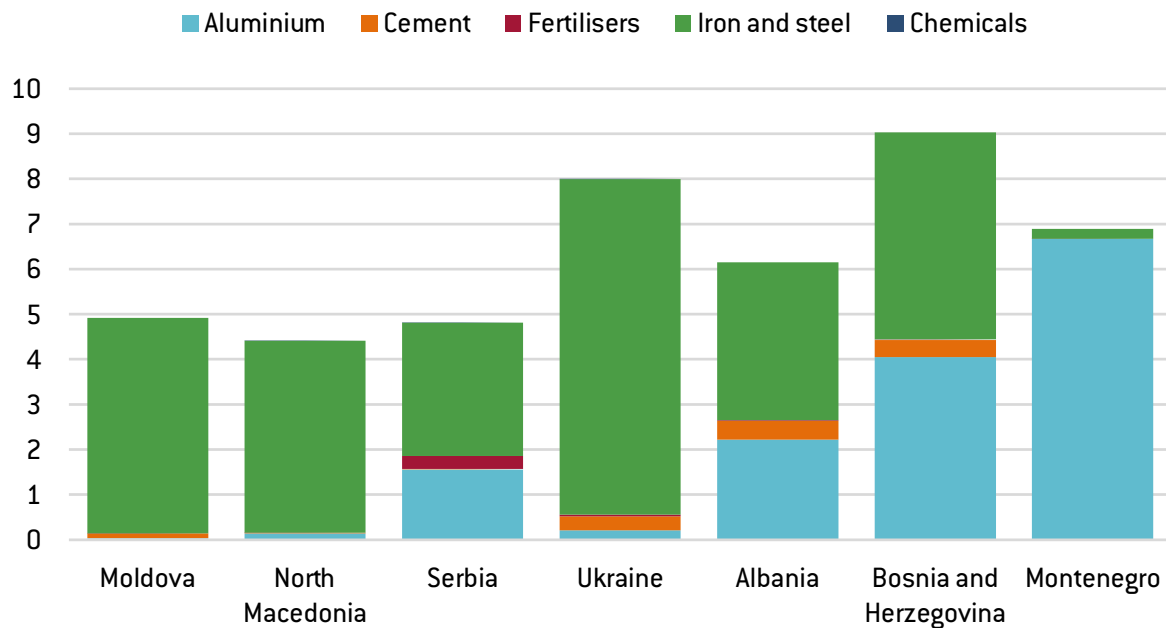
3.3 Non-tariff barriers are taking on new forms

While the EU accession process leads to regulatory convergence and facilitates a reduction in SPS and TBT-related costs, emerging EU trade policies are simultaneously increasing the cost of trade. Such policies try not just to regulate the characteristics of a traded good, but its production processes. They target broader concerns such as environmental and labour standards across global supply chains. Examples include the EU carbon border adjustment mechanism (CBAM, Regulation (EU) 2023/956), in place as of 1 January 2026, the EU Corporate Sustainability Due Diligence Directive (CSDDD, Directive (EU) 2024/1760) and Corporate Social Responsibility Directive (CSRD, Directive (EU) 2022/2464). All three laws impose compliance obligations primarily on large firms operating in or supplying the EU market¹⁰.

CBAM is intended to mitigate carbon leakage related to certain goods covered by the EU emissions trading system (ETS), including electricity, aluminium, cement, fertilisers, chemicals and iron and steel. The Western Balkan countries are among the most exposed to CBAM-related products because their geographical proximity and strong trade linkages with the EU (Bahí *et al*, 2026). Based on 2024 data, total trade exposure to CBAM-covered goods ranged from 7.16 percent in North Macedonia to 29.9 percent in Montenegro. However, when electricity – partly sourced from renewables in most countries except Kosovo (Vujanović *et al*, 2025) and traded through the regional grid – is excluded, the share of CBAM-affected goods in total EU goods trade falls to between 4.4 percent in Serbia and 9 percent in Bosnia and Herzegovina (Figure 8).

¹⁰ Small or micro firms are not excluded explicitly from CBAM in the legislation, but a 50-tonne annual threshold introduced in late 2025 effectively exempts most small importers. See European Commission news of 20 October 2025, 'Officially published: Simplifications for the Carbon Border Adjustment Mechanism (CBAM)', https://taxation-customs.ec.europa.eu/news/officially-published-simplifications-carbon-border-adjustment-mechanism-cbam-2025-10-20_en.

Figure 8: CBAM-product (excluding electricity) exposure by country, % of total exports to the EU



Source: Bruegel based on CEPII. Note: electricity is excluded as it is traded through the transmission system (grid) and not via freight transport.

While the coupling of the Western Balkan and EU electricity markets, as planned in the European Commission’s ‘New growth plan for the Western Balkans’, covering 2024-2027 (Vujanović *et al*, 2025; European Commission, 2023), will effectively lead CBAM electricity trade-related costs drop to zero by 2028, exporters of other goods – aluminium, iron, steel and cement – will have to bear these costs when exporting to the EU unless ETSs are established in the Western Balkans. Though geographical proximity and closer trade links should justify the sooner-than-later implementation of ETSs, only Montenegro at time of writing has an ETS, priced below EU levels¹¹. This suggests difficulties not only in implementing ETSs but also in imposing carbon price levels comparable to those EU, owing to the lower levels of economic development of these countries.

The CSDDD requires firms to identify, prevent, mitigate and remedy adverse human rights and environmental impacts across their supply chains. Likewise, the CSRD requires EU companies to report on the sustainability impacts of their activities, in line with the 2019 European Green Deal. The CSDDD will apply in phases from 2028–2029, while the CSRD is at time of writing being implemented. Unlike CBAM, which targets specific carbon-intensive industries, these regulations operate across all industries, but are limited to large EU and non-EU companies operating in the EU.

For Western Balkan exporters, CSDDD and CSRD imply compliance with these standards must be demonstrated in both their own operations and across their lower-tier suppliers, since non-compliance can effectively exclude upstream suppliers from European value chains. As these regulatory

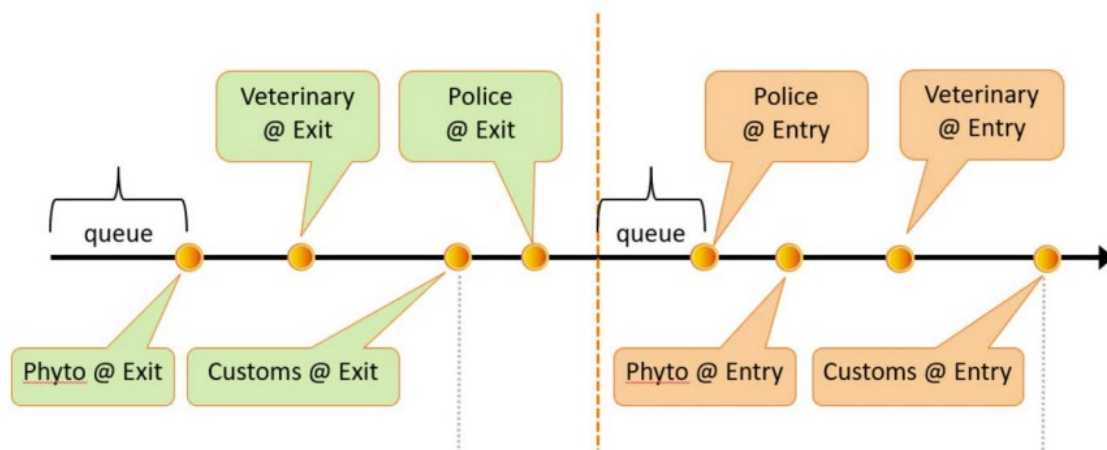
¹¹ Montenegro, the smallest Western Balkan economy, has an ETS with a carbon price of €24/tonne, compared to the EU level of about €80. Under CBAM, importers pay the difference between the two prices to the EU.

requirements are new, there are so far no assessments of their trade-related costs. While they could lead to some additional bureaucratic costs, they also provide an opportunity as Western Balkan suppliers can build trust with EU customers and replace competitors that exit supply chains because they cannot or do not meet these standards.

3.4 Cross-border infrastructure

Beyond compliance costs, NTBs also create additional trade costs via necessary customs, veterinary and sanitary inspections, including border checks. At the Western Balkan-EU (Schengen) border, checks are conducted twice, once on the Western Balkan side and once on the EU side, leading to longer clearance times (Figure 9). This is coupled with different working hours at the border and differing procedural approaches on both sides, making the process highly inefficient (UNECE, 2021).

Figure 9: Double cross-border checkpoints between the Western Balkans and the EU



Source: CEFTA (see https://greencorridors.cefta.int/assets/Waiting_Time_Methodology.pdf).

In addition to phytosanitary, veterinary and customs checks, truck drivers undergo police controls on both sides of the border. These have been digitalised through the Entry/Exit System (EES), part of the EU's integrated border management framework applicable to all non-EU citizens, including truck drivers¹². While this tool offers better control of migration flows and Schengen area border control, through digital tracking of exact entry and exit, its introduction has implications for freight trade as the rules tighten enforcement of visa rules for professional truck drivers. This has implications for supply-chain integration in the region as it increases the operational costs for the region's transport industry, increasing pressure on trade with the EU too (Box 1).

¹² See 'Entry/Exit System (EES)', <https://travel-europe.europa.eu/en/ees>.

Box 1: EES prolongs waiting times and faces discontent from the region's suppliers

The EES has been operational since 12 October 2025 and has been fully applied since 10 April 2026.

The EES electronically records the time and place of entry and exit for third-country nationals, enabling precise calculation of their permitted stay in the Schengen area. For truck drivers from the Western Balkans, this stay is limited to 90 days within any 180-day period. Although the 90/180-day rule was already in place, replacing passport stamps with a digital register makes enforcement stricter and reduces flexibility when planning trips, as the calculation period is based on the exact hours rather than exact day. This comes in addition to the Schengen area being expanded to three countries bordering the Western Balkans – Croatia (since 2023), Romania and Bulgaria (since 2024) – significantly enlarging the territory where the 90/180-day rule applies. If the 90-day rule is broken, truck drivers face potential deportation, fines and entry bans¹³.

The EES also entails biometric data collection and photographing, which increases waiting times at border crossings. Longer delays and less flexible use of truck drivers raise transport costs for the region's manufacturing sector. Overall, there is concern that the Western Balkan transport sector could shrink as a result¹⁴. The issue has led to protests by truck drivers across the Western Balkans¹⁵. Options being considered by the European Commission include limited facilitation for cross-border workers, which do not cover most transport routes, and extended work visas to replace reliance on short-term visas¹⁶.

Border waiting times vary depending on the crossing point. Freight transport along northern Serbia's borders with Hungary and Croatia faces particularly long delays compared to other crossings. The Transport Community¹⁷ calculated (though during the COVID-19 pandemic) that waiting at the border can last from half an hour for the North Macedonia-Greece border crossing, to as long as 3.5 hours for the Serbia-Croatia and Serbia-Hungary border crossings. The wait at the border in the first quarter of 2026 was much longer – up to seven hours for these two Serbian border crossings. According to Gómez *et al* (2024), reducing waiting time at Western Balkan borders by three hours would be

¹³ Fatos Bytyci, 'Western Balkan truck drivers block border cargo terminals over EU entry rules', *Reuters*, 26 January 2026, <https://www.reuters.com/world/western-balkan-truck-drivers-block-border-cargo-terminals-over-eu-entry-rules-2026-01-26/>.

¹⁴ *New Union Post*, 'Schengen rules at EU borders risk seriously affecting producers in the Western Balkans', 6 February 2026, <https://newunionpost.eu/2026/02/06/western-balkans-eu-border-rules-risks/>.

¹⁵ Truck drivers from Montenegro, Serbia, North Macedonia and Bosnia and Herzegovina blocked freight border crossings into the Schengen area in early January 2026. Protests have been called off and resumed on several occasions. See *EWB*, 'Montenegrin truck drivers end the blockades of the border terminals towards the Schengen Area', 29 January 2026, <https://europeanwesternbalkans.com/2026/01/29/montenegrin-truck-drivers-end-the-blockades-of-the-border-terminals-towards-the-schengen-area/>.

¹⁶ Nikola Radišić, 'Iz Brisela bez rješenja za prevoznike: Vize ili "prilagodite se pravilma EES-a!"', *N1*, 30 March 2026, <https://n1info.ba/vijesti/iz-brisela-bez-rjesenja-za-prevoznike-vize-ili-prilagodite-se-pravilma-ees-a/>.

¹⁷ The Transport Community is a treaty-based international organisation in the field of transport and mobility. Its members are six Western Balkan parties: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia, and the EU, while observers include Ukraine, Moldova and Georgia. See <https://www.transport-community.org>.

equivalent to a 2 percent reduction in tariffs, indicating a high economic charge, as in the case of regulatory misalignment related to SPSs and TBTs.

Figure 10: Transport infrastructure through the region and identified bottlenecks



Source: Bruegel based on Transport Community.

The position of the Balkans as a crossroads between the EU and the eastern Mediterranean, and between southern Europe (Greece) and central-eastern Europe, makes road transport in the region important well beyond the Western Balkan–EU trade nexus. The highway running through North Macedonia and Serbia (Skopje-Belgrade-Budapest), known as Pan-European Corridor-X, belongs to the TEN-T network and is the shortest and fastest route connecting Greece and central Europe. For Turkey and the wider Middle East, the highway through Bulgaria and Serbia is the main route for transport to the EU. Western Balkan roads carry intensive transit between Greece and Turkey and central Europe under the Common Transit Convention¹⁸ (covering the EU and eight partners, including North Macedonia, Serbia and Montenegro), straining customs capacity and lengthening queues, especially at Serbia’s borders with Hungary and Croatia, which are the two main crossing points between the region and the EU (Figure 10).

¹⁸ The Common Transit Convention permits goods to be transported across third countries under the authority of customs bodies, setting out the obligations on traders and customs authorities and allowing common supervision between the contracting parties. It involves the EU and EFTA states, Türkiye, North Macedonia, Serbia, the United Kingdom, Georgia, Ukraine, Moldova and Montenegro. See EUR-Lex, ‘Convention on a common transit procedure’, <https://eur-lex.europa.eu/EN/legal-content/summary/convention-on-a-common-transit-procedure.html>.

4 The current framework for alleviating non-tariff barriers is incomplete

The EU has recognised the need to integrate the Western Balkans better into EU value chains – an objective stated explicitly in the European Commission ‘New growth plan for the Western Balkans’ (NGP) for the 2024-2027 period (European Commission, 2023). The NGP ties progress in integrating with the value chain with “*full alignment with the EU acquis*”. Free movement of goods could be facilitated using the clause in SAAs on Agreement on Conformity Assessment and Acceptance (ACAA) of Industrial Products (ACAA), conditional on “*alignment with the relevant horizontal EU product acquis*” (European Commission, 2023). However, the NGP refers only indirectly to part of the acquis (discussed in section 4.1), without an explanation of how the process should be sequenced in practice. The European Commission recognises that for further goods-market integration, SAAs should be amended to selectively extend EU single market rules and related rights to the Western Balkans once “*conditions are met*” (European Commission, 2023)¹⁹.

This ambiguity allows multiple interpretations, including treating the opening of all clusters in the EU accession negotiation as a *de-facto* precondition for lowering non-tariff barriers, making the target of integrating the region into EU supply chains before the Growth Plan expires in December 2027 unrealistic. The approach potentially equates EU membership with integration into the EU single market (Mihajlovic and Macek, 2024).

The NGP adds another layer of conditionality by linking these benefits to the simultaneous opening of “*the relevant sectors and areas to all their neighbours at the same time, in line with the Common Regional Market*” (European Commission, 2023). This creates further ambiguity in relation to integration of the Western Balkans into the EU supply chain, as the region’s biggest trade partner is the EU, while furthering regional trade would materially benefit Kosovo, Bosnia and Herzegovina and Serbia, which, because of political obstacles, have had lower capital flows. It is unclear how such Common Regional Market-based conditionality, especially outside the Bosnia–Serbia–Kosovo triangle, would materially advance single market integration, especially as the entire region is positioned at the lower end of the supply chain (Steinbach *et al*, 2025).

4.1 Regulatory alignment

Given that further opening of the single market to the Western Balkan countries is conditional on regulatory alignment, we examine the degree to which this is true in the regulatory framework indirectly assessed as important for integration into EU supply chains. These reforms relate to alignment with the EU’s body of law (the *acquis communautaire*) as part of accession negotiations.

¹⁹ The NGP states that “*Once it has been determined by the Commission that there is acquis alignment and the rules are being effectively implemented – and also that there is no significant risk to the level-playing field in the EU single market... a decision could be taken by the institutions of the SAA to grant reciprocal internal market treatment in the specific area concerned*” (European Commission, 2023). This creates ambiguity as there is no definition of ‘effectively implemented’ or ‘specific area’.

They cover several key policy areas, each organised into ‘chapters’ for the purposes of the negotiation process:

- Free movement of goods (chapter 1) and capital (chapter 4), which aim to remove barriers to trade and investment;
- Non-tariff barriers (chapter 12), focusing on regulatory requirements such as standards, certifications, and sanitary and phytosanitary rules;
- Transport and connectivity (chapters 14 and 21), including improvements to the road network to better link with the EU single market;
- Customs and border infrastructure (chapter 29), to facilitate smoother trade flows;
- Climate policy (chapter 27), particularly alignment with the EU ETS;
- Company law (chapter 6), including sustainability reporting and accountability requirements, such as those under the CSRD (see section 3.3).

Table 1: Alignment with the EU *acquis* relevant for the EU supply-chain integration

	Albania	Montenegro	North Macedonia	Serbia	BH	Kosovo		Moldova
1. Free movements of goods	Light Green	Light Green	Light Green	Light Green	White	Light Green		Light Green
4. Free movement of capital	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green		Light Green
12. Food Safety, veterinary & phytosanitary policy	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green		Light Green
14. Transport policy	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green		Light Green
21. Trans-European networks	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green		Light Green
29. Custom Union	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green		Light Green
27. Environment and climate change	Light Green	Light Green	Light Green	Light Green	Light Green	Light Green		Light Green
6. Company law	Light Green	Dark Green	Light Green	Light Green	Light Green	Light Green		Light Green

Source: Bruegel, based on European Commission (2025) staff reports available at https://enlargement.ec.europa.eu/enlargement-policy/strategy-and-reports_en. Note: numbers in the first column show negotiating chapter numbers.

Table 1 presents, in a colour-matrix format, each country’s level of preparedness in relation to the EU *acquis* and these reform packages. The darker the colour, the greater the progress made, with white representing an early stage of preparation, shades of green different levels of moderate regulatory

alignment, and blue showing advanced regulatory alignment²⁰. Moldova, which has concluded a DCFTA with the EU, is included for comparison.

The matrix shows that the countries are least aligned with the ‘environment and climate change’ part of the *acquis*, including the ETS, suggesting that CBAM burdens may stay in place for some time.

Alignment is much better for regulation related to NTBs relevant for movement of goods, infrastructure and accounting standards, with Montenegro, Serbia and North Macedonia having similar levels of preparedness.

Serbia is the only Western Balkan EU candidate for which the European Commission (2025) can credibly talk about concrete next steps on an ACAA or ACAA-like agreement; for others, the reports still focus on more basic alignment and institutional capacity in relation to the free movement of goods.

As neither Serbia nor North Macedonia is identified as a frontrunner in the 2025 European Commission reports, their relatively strong progress in regulatory alignment appears to reflect the importance for them of the EU as a trade partner. This is particularly evident in areas such as TBTs and SPS (Chapter 12) and the free movement of goods (Chapter 1), where alignment is closely linked to supply-chain integration. Comparing these chapters on NTBs with Moldova’s alignment under the DCFTA, Serbia and North Macedonia show similar levels of preparedness, with North Macedonia outperforming both in food safety and phytosanitary policy.

This underscores the role of the EU as a key trade partner in driving regulatory alignment in trade-related areas, even when progress on accession is constrained by democratic backsliding (Serbia) or political vetoes (North Macedonia). Thus, economic links are important drivers of regulatory alignment even with SAAs. For Albania, most of the chapters are also above, below or at moderate level of preparedness, while Kosovo and Bosnia and Herzegovina are at an earlier stage of preparedness. Interestingly, though Kosovo is not a candidate country, it is better aligned with the EU *acquis* than the EU candidate Bosnia and Herzegovina, showing that alignment is not necessarily tied to actual candidate status. Likewise, Albania is considered a frontrunner, but it is behind North Macedonia and Serbia in terms of alignment on internal market reforms.

5 Policy recommendations

For the Western Balkan countries, integration into European supply chains is the most promising route to economic development. As the EU represents the vast majority of trade and foreign investment activities in Western Balkan countries, reducing trade barriers with the EU would be highly economically beneficial. The NGP recognises this, and it is a motivating factor driving economic

²⁰ European Commission (2025) staff reports apply the following preparatory statuses: early stage of preparation, between early and some level of preparedness, some level of preparation, between some and moderate level of preparation, moderate level of preparation, between moderate and good level of preparation, good level of preparation, between good and well advanced, and well-advanced alignment. The last three stages usually correspond to provisionally closed chapters.

reforms in the Western Balkans, but it offers no clear path to the elimination of non-tariff barriers and barriers remain substantial. Infrastructure, border procedures and the substantial non-tariff barriers impede further integration, tied with high economic costs in the region.

Given the nature of some of the non-tariff barriers, such as regulatory discrepancies, the reduction of many non-tariff barriers will have to come in lockstep with EU membership process and reforms that explicitly address cross-border regulatory differences. Western Balkan countries differ greatly in their ability to make further progress in this regard. For these reasons, the future should bring *different* policy designs to further countries' progress towards the EU.

For Albania and Montenegro, given their current progress and commitment to EU-related reforms, it could be all about reforms, which would 'guarantee' integration into the EU and thus into European value chains²¹. Yet, these countries are the least affected by non-tariff barriers, given that their economies and FDI are more services-oriented. By contrast, countries that are further away from EU membership but also more heavily dependent on trade in goods with the EU demand a different policy approach.

This distinction becomes more pronounced in light of potential EU accession dynamics. As the only two Western Balkan economies with sea access, the accession of Albania and Montenegro would leave Bosnia and Herzegovina, Kosovo, North Macedonia, and Serbia effectively EU-landlocked. Though Albania and Montenegro are not expected to join the Schengen area on their eventual EU accession, and would remain outside the EES system for some time (Box 1), border controls between these two and the other Western Balkan countries will become stricter. Furthermore, with the potential EU accession of Albania and Montenegro, trade with the EU would rise significantly for the remaining four Western Balkan economies: from 65 percent to 70 percent, as calculated from 2024 data. This will make it even more important to alleviate non-tariff barriers. This challenge is particularly acute for Kosovo, for which regional trade is heavily concentrated with Albania (Steinbach *et al*, 2025).

For Bosnia and Herzegovina, Kosovo, North Macedonia and Serbia, the challenge is rather the limited and uneven progress on regulatory alignment needed to tackle non-tariff measures. While an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) is being discussed with Serbia for selected industrial sectors, this remains at an early stage for other Western Balkan countries and does not follow automatically from the existing SAAs. To improve the situation, countries should focus on regulatory alignment, including by providing adequate resources for sanitary and phytosanitary inspections. But even then, MSMEs will struggle to comply with the rules, risking longer-term exclusion from EU supply chains. The adoption of new production processes, in line with EU regulations, must be supported by further EU technical assistance and human capital development.

²¹ At the time of writing, Montenegro and Albania are 'front runners' in the EU accession process, while an *ad-hoc* working group is discussing drafting of the Accession Treaty with Montenegro.

Beyond traditional trade barriers, CBAM affects a significant share of the Western Balkan goods trade with the EU and creates strong incentives for Western Balkan countries to introduce their own emissions trading systems (Bahí *et al*, 2026). The introduction of ETSs should be actively supported and financially facilitated by the EU. CBAM revenues from the region could be used to help build the necessary regulatory and administrative capacities. EU financial assistance could support MSMEs with regulatory-alignment costs, especially exporters of cement, aluminium and fertilisers (Figure 8), which will still face CBAM even if electricity market coupling occurs around 2028 (Vujanović *et al*, 2025).

In terms of infrastructure, Serbia is a particularly difficult case. It is the largest Western Balkan economy with central infrastructure in the region, handling the majority of third (and EU)-country goods moving through the region. Yet, Serbia has exhibited democratic backsliding that puts it among the laggards in the Western Balkan enlargement countries. As trade becomes more geopolitical, Serbia should focus on fundamental reforms and trust-building with the EU, including in the context of trade and EU investment. The country already has a moderate level of preparedness on internal market regulation and is even ahead of one enlargement frontrunner – Albania – in this respect. Thus, unlocking progress in reforms tackling the rule of law is a bigger obstacle in Serbia than regulatory alignment related to integration into the single market. The EXPO 2027 trade fair to be held in Serbia²² should be used to highlight the attractiveness of the country for EU foreign investors, as the event is expected to attract a large number of visitors and EU stakeholders.

More investment in cross-border infrastructure – especially highways, which remain underdeveloped – is needed. Such investment could be supported by international organisations, EU funds and the Western Balkans Investment Framework (WBIF)²³, particularly as potential future EU-landlocked status should facilitate rather than hinder trade-driven growth. The same framework should also support rail freight infrastructure, which as of early 2026 is properly developed only along the Hungary–Serbia corridor, largely as a consequence of Chinese investment²⁴.

The EU and Western Balkans should also improve the efficiency of border procedures at every crossing into the EU. The ‘Green Lanes’ initiative²⁵, under the umbrella of the Regional Cooperation Council, CEFTA and the Transport Community, is important. Green Lanes has established a legal and technical framework for one-way electronic exchange of customs data on EU-bound consignments, allowing border authorities to complete risk analysis and clearance before goods reach the border. However, its implementation has been limited to border crossings between North Macedonia and Greece, and between Serbia and Bulgaria, where waiting times are lower than at border crossings between Serbia and Hungary and Croatia (see Figure 10). Hence, the Green Lanes initiative needs to be implemented

²² See <https://expobelgrade2027.org/en/about>.

²³ The WBIF is the EU's main regional instrument for designing and funding major investment projects in the Western Balkans, with a particular focus on infrastructure and sectors linked to the green transition. See <https://www.wbif.eu/>.

²⁴ *The Economist*, ‘China's first railway project in the EU is open at last’, 5 March 2026, <https://www.economist.com/china/2026/03/05/chinas-first-railway-project-in-the-eu-is-open-at-last>.

²⁵ See CEFTA, ‘Green Corridors/ Green Lanes’, undated, <https://cefta.int/what-we-do/cross-cutting-trade-areas/green-lanes/>.

effectively, with priority given to the Serbia/Hungary and Serbia/Croatia crossing, the two identified bottlenecks. Furthermore, the EU should facilitate smoother border procedures through technical measures and administrative cooperation.

Infrastructural bottlenecks must be addressed not only for EU-Western Balkans trade, but also because the Western Balkans is a major transit corridor for freight from Greece and Bulgaria going to central Europe. One long-term solution would be to build highway infrastructure across Romania and Bulgaria, effectively removing the need for this freight to transit Serbia and North Macedonia. In the medium term, Kosovo, Bosnia and Herzegovina and Albania, should sign the Common Transit Convention with the EU (see section 3.4) to allow transit of EU freight and to alleviate the concentrated transit pressure.

The Western Balkans is at the crossroads. The renewed political momentum for EU enlargement and progress made in some candidate countries create the conditions for further integration into European supply chains. But this requires the momentum to be maintained, the EU to remain credible in its willingness to enlarge and Western Balkan countries to build trust and show that they are serious about the necessary reforms.

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