Strategers institute

**Policy Brief 260917**
September 17, 2026
www.strategers.org

## Policy Brief(*)

# From Accession to Convergence: Financing the European Future of the Western Balkans

## Key messages

- **Convergence remains too slow.** In 2025, GDP per capita at purchasing-power parity in the Western Balkans remained below 50% of the EU average, while labour productivity was around 40% of EU levels. Closing the gap requires faster productivity growth, stronger institutions and sustained investment in both physical and human capital.

- **Implementation is the central constraint**. The challenge is not only to mobilise finance, but to convert reforms and available resources into mature projects, stronger institutions, productive private investment, human-capital development and tangible improvements in citizens' lives. Weak administrative capacity, project readiness, shallow firm finance and demographic pressures reduce the return on integration and investment.

- **The next EU enlargement framework should be larger and finance measurable convergence.** The 2028–2034 framework should strengthen the link between reforms, investment and outcomes, with financing tied not only to reform milestones but also to measurable progress in productivity, income, employment, human capital and institutional performance. Under the right combination of structural reform, deeper Single Market integration and effective EU financing, GDP per capita could rise by about one-third within a decade.

*(*) The Policy Brief was presented and discussed at Strategers Discussion Series organized on 17 September 2026 under the same topic.*

## Context

The Western Balkans are closely integrated with the European Union through trade, investment, finance and the accession process, but income convergence remains modest. EU-Western Balkans trade in goods reached roughly half of the six economies combined nominal GDP in 2025, so the remaining gap concerns productivity, institutions and investment quality more than market direction (World Bank, 2026). Regional GDP per capita at purchasing-power parity rose from about 27% of the EU average in 2003 to just under 50% in 2025 (see Annex Table 1 and Figure 1). At current relative growth rates, full convergence would not be reached until around 2074. Labour productivity, also about 40% of the EU average, is the central constraint (OECD, 2025).

The near-term outlook adds urgency. The World Bank projects regional growth of only 2.8% in 2026, following a downward revision, and identifies faster reform implementation, stronger institutions and greater policy stability as conditions for higher potential growth. Demographic ageing, outward migration and low participation among women and young people further limit the labour supply. At the same time, the potential gain from successful accession is large (see Annex Figures 2–4): IMF analysis estimates that domestic reforms, deeper Single Market integration and effective EU funding could raise GDP per capita in the Western Balkans and Moldova by about one-third within a decade (World Bank, 2026; Ayerst et al., 2026).

The policy window is immediate. The EU Growth Plan and the €6 billion Reform and Growth Facility for 2024–2027 link financial support more closely to reforms and gradual Single Market integration (European Commission, 2023; European Parliament and Council, 2024). The Facility ends in 2027, while institutional reform and major investment require longer horizons. The Commission's proposed 2028–2034 Multiannual Financial Framework includes a €200 billion Global Europe instrument intended to strengthen support for candidate countries. The central choice is how to use that framework to convert accession finance into measurable productivity and income gains (European Commission, 2025).

Convergence also needs to become visible to citizens. Earlier access to practical Single Market benefits, better infrastructure and public services, digital and financial integration, and improved employment opportunities can translate accession into tangible improvements in everyday life and strengthen public support for reforms. Gradual integration should therefore be used to accelerate convergence while remaining complementary to the objective of full EU membership.

## Main Challenges and Evidence Based Insights

Evidence points to four connected constraints. Together they explain why deeper EU integration and substantial external financing have not produced faster convergence, and they define the principles that should shape the post-2027 framework.

**1. Investment and firm finance are not sufficiently productive.** Private investment is broadly comparable with the EU average, but remains too low for rapid catch-up and is not consistently directed toward higher-value production. Domestic credit to the private sector averaged 47.3% of GDP, compared with 86.0% in the EU, and an estimated 45% of firms were credit-constrained, against 6.2% in the EU. High borrowing costs, collateral requirements and limited equity finance weigh most heavily on smaller firms. The policy implication is to direct public support and risk sharing toward productive firms, innovation, exports, digitalisation and the green transition, rather than treating investment volume as the objective (OECD, 2025).

**2. Weak institutions reduce the return on public and private investment.** Governance, competition, procurement, regulatory quality and public-sector capability determine whether projects become functioning assets and whether firms have incentives to expand. IMF analysis attributes roughly two-thirds of the potential income gain from accession to productivity, supported by stronger institutions, better governance and a more dynamic private sector. Funding conditions should therefore test implementation quality and economic results, not only formal compliance with reform steps (Ayerst et al., 2026). Implementation capacity and accountability are therefore part of the productivity agenda. Monitoring should test not only whether reforms have been formally adopted, but whether they have been implemented and, where delivery falls short, identify the reasons for non-implementation and the corrective action required.

**3. Human capital and demographic pressures are becoming binding constraints on convergence.** Weak learning outcomes, skills mismatches, low labour-force participation, ageing and emigration are reducing the region's productive capacity and its ability to implement reforms and investment. Human-capital development should therefore encompass education and vocational training, digital skills, healthcare, care services, social inclusion and measures that raise participation, particularly among young people and women. The World Bank estimates that participation rates comparable with similar EU economies could make more than 2.8 million additional workers available. Investment in people must therefore advance alongside infrastructure and productive investment if convergence is to be sustainable (World Bank, 2026).

**4. Implementation capacity, project maturity and fragmented financing constrain delivery.** The Reform and Growth Facility conditions €6 billion of support on agreed reforms and channels at least half of the envelope through the Western Balkans Investment Framework. Yet financing can produce results only where institutions have the capacity to prepare, appraise and implement mature projects. Administrative capacity is increasingly stretched, while the preparation and delivery cycles of major transport, energy, environmental, digital and human-capital investments often extend beyond the Facility's four-year horizon. Reform Agendas, IPA III, the WBIF, national budgets, international financial institutions and private capital therefore need a shared multiannual pipeline in which project readiness, reform implementation and finance reinforce each other (European Parliament and Council, 2024). The principal funding layers and their best uses are summarised in Annex Table 2.

## Policy Recommendations

The European Union and the six Western Balkan governments should adopt five connected actions. Each action assigns responsibility, establishes a sequence and links financing to observable results.

There is no one-size-fits-all implementation model. The six economies differ in income and capital gaps, employment, institutional capacity, fiscal space, financial depth, accession stage and sectoral structure (see Annex Table 1). Common outcomes and safeguards should therefore be combined with country-specific sequencing, targets, technical assistance and a financing mix suited to each economy.

Across these country-specific approaches, the framework should integrate rule of law and fundamental rights, governance and public administration, competitiveness and productive investment, green infrastructure and connectivity, and human capital, with EU integration operating horizontally across these areas.

**1. Establish an EU Western Balkans Convergence Framework for 2028–2034.** The European Commission, Council and European Parliament should work with the six governments to create a predictable successor to the Reform and Growth Facility. By the end of 2027, each government should agree a convergence baseline, integrate its Reform Agenda with the national budget and investment pipeline, identify projects ready for continuation, and assign delivery responsibility. Each major reform area should identify the investment, institutional capacity and implementation measures needed to translate reform commitments into measurable economic and social outcomes. During 2028–2030, financing should depend on verified reforms and project readiness. During 2031–2034, allocations should increasingly reward demonstrated results and shift commercially viable investments toward blended finance and private capital. The proposed Global Europe instrument provides the budgetary opportunity for this framework (European Commission, 2025) while more funds to be allocated and more effectively implemented.

**2. Link disbursement to convergence outcomes as well as reform milestones.** The Commission and participating governments should publish a compact regional dashboard covering GDP per capita relative to the EU, labour productivity, employment and participation, private investment and credit, export performance, digital skills and carbon intensity. Payments should continue to depend on agreed reform conditions, but an independent review by 2030 should also assess whether supported measures improve these outcomes. Monitoring should therefore function as an implementation-management tool, not merely a reporting mechanism. The OECD Economic Convergence Scoreboard provides an existing measurement base (European Parliament and Council, 2024; OECD, 2025).

**3. Build a single national reform and investment pipeline.** Finance ministries and EU-integration institutions should coordinate line ministries around project preparation, permits, procurement, co-financing, implementation and maintenance. The WBIF, EIB, EBRD and other international financial institutions should provide appraisal, blending and technical expertise. Major projects should pass common readiness tests before financing is committed, and technical assistance should build permanent administrative capability. National audit institutions and parliaments should publish delivery results, debt exposure and contingent liabilities.

**4. Match each financing instrument to its purpose and risk.** Grants should support institutional reform, skills, project preparation and cross-border public goods. Concessional loans should finance economically justified infrastructure with manageable fiscal and operating costs. Guarantees and risk-sharing instruments should be used where they can mobilise additional private investment. Every decision should assess debt sustainability, additionality, maintenance costs and the risk that pressure to spend will advance projects before they are ready. National budgets should be used strategically to co-finance and maximise the impact of EU grants and other external resources, while preserving fiscal sustainability. The scale and pace of capital inflows should also be consistent with domestic implementation and macroeconomic absorption capacity in order to limit fiscal, inflationary and other macroeconomic risks. Annex Table 2 maps the available financing layers to their most appropriate uses.

**5. Bring forward productivity-enhancing integration and human capital development.** The EU and Western Balkan governments should use the Common Regional Market to advance transport and energy connectivity, digital infrastructure, regulatory recognition, cross-border payments, green investment and the development of human capital. This should include stronger investment in education, vocational training, digital skills, healthcare and measures that increase labour-force participation, particularly among young people and women. Only about 34% of adults in the Western Balkans have at least basic digital skills, compared with 56% in the EU. Earlier access to practical Single Market benefits, combined with better skills, stronger human capital and higher participation, would raise productivity, ease labour shortages and increase the return on domestic and foreign investment before formal membership (OECD, 2025; Regional Cooperation Council, 2024; World Bank, 2026).

Across all five actions, success should be measured not by commitments, formal compliance or absorption alone, but by implemented reforms, functioning assets, stronger human capital, productive private investment and measurable progress in economic and social convergence.

**Risks of non-implementation.** Without action, weak project preparation and implementation capacity would continue to delay delivery and increase fiscal exposure. Formal compliance could substitute for productivity and convergence results; firms would remain constrained by finance and skills; and outward migration and brain drain would further weaken the region’s human-capital base. If reforms do not produce visible improvements in citizens’ lives, public support for difficult reforms may also weaken. Missing the 2027–2028 transition would weaken alignment of the next EU budget with accession reforms and erode enlargement credibility and public confidence (European Commission, 2025; OECD, 2025; World Bank, 2026).

## Conclusions and Expected Impact

A convergence framework would raise the value of existing EU and national resources by linking them to reform delivery, project quality and earlier economic integration (see Annex Table 2). Under the combined effect of structural reform, deeper Single Market participation and effective EU financing, GDP per capita could rise by about one-third within a decade, with productivity accounting for roughly two-thirds of the income gain (Ayerst et al., 2026). This is a conditional estimate, not an automatic return from higher spending. The estimated drivers and transmission channels are shown in Annex Figures 2–4.

The objective should be to create a reinforcing convergence cycle: reforms strengthen implementation and institutions; stronger institutions improve the quality of investment; productive investment and human-capital development generate visible improvements for citizens and firms; and higher productivity, public confidence and institutional capacity enable the region to make more effective use of future EU, national and private financing.

The expected benefits extend beyond income. Better institutions and infrastructure should lower the cost of doing business and cross-border trade; deeper financial markets should help productive firms expand; and skills, care and labour-market reforms should widen access to employment. Higher participation could also ease labour shortages by drawing on the region's substantial underused workforce. Institutionally, common readiness standards, transparent milestones and independent evaluation should improve accountability and reduce fiscal and implementation risks (World Bank, 2026).

Progress toward 2034 should be reported annually through a small public dashboard. It should track GDP per capita relative to the EU, labour productivity, employment and participation, private investment and private-sector credit, export performance, digital skills and selected green-transition indicators. For reforms or investments that fall behind agreed milestones, the dashboard should also identify the main implementation constraint and the corrective action required, allowing monitoring to explain not only whether progress occurred, but why it did or did not occur. The desired outcome is a region measurably closer to EU productivity and living standards, supported by stronger institutions and better able to finance growth through productive private investment.

## References

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## Highlights from the Discussion:

**Lilyana Pavlova (Former Vice-President, European Investment Bank):** “We have a real window of opportunity for enlargement, and gradual integration gives us the chance to turn that political momentum into tangible economic benefits even before full membership. The real challenge for the Western Balkans is not simply to finance development, but to accelerate convergence with the European Union. Reforms are essential, but reforms alone do not create convergence. They must go hand in hand with strong institutions, well-prepared bankable projects and investment. When these elements move together, every euro of European financing can become a multiplier – unlocking private capital, raising productivity and delivering real economic transformation. That is the convergence architecture we need.”

**Stefano Ellero (Head of Cooperation, EU Delegation in the Republic of North Macedonia):** “There is a significant difference between the scale and type of EU financing available during accession and that available to Member States, which also illustrates the economic opportunity associated with membership. Yet the immediate challenge is to make effective use of the resources already available. This requires government ownership, multiannual planning and budgeting, mature infrastructure and reform projects, and sufficient administrative capacity. EU financing can support convergence, but only when reforms are implemented and projects are effectively delivered.”

**Academician Abdylmenaf Bexheti (President, Fiscal Council of the Republic of North Macedonia):** “Fiscal convergence is not only about meeting numerical targets; it also requires convergence in the underlying structure and productivity of the economy. With limited fiscal space and elevated public debt, stronger fiscal discipline is essential, together with tax reform, fewer inefficient exemptions, action against tax evasion and the informal economy, as well as spending review to reduce inefficient expenditures and create more fiscal space while supporting capital expenditures, a combined with greater efficiency of state-owned enterprises and further digitalisation of the fiscal system. The fundamental challenge remains implementation – turning fiscal and structural reforms from formal commitments into measurable economic improvements.”

**Armen Grigoryan (UNDP Resident Representative in the Republic of North Macedonia):** “Economic convergence cannot be separated from human development. Stronger institutions and governance, investment in human capital and the green transition should advance together as mutually reinforcing priorities – Governance, Green and Social. Financing alone will not deliver convergence unless it generates higher productivity and tangible improvements in people's lives through substantive investments in ESGs. Demographic pressures and brain drain make this particularly urgent: investment in youth, local development, digital transformation and human capital is essential if the region is to create opportunities that encourage people to build their future at home.”

**Maja Stevkova Sterjeva (President, Macedonian Banking Association, RNM):** “The availability of finance and financial instruments is not necessarily the main constraint; increasingly, the challenge is having bankable projects, adequate infrastructure and the human capital needed to implement them. Financial modernization – from instant payments to digital banking and other modern financial services – can also make convergence more tangible in citizens' everyday lives.

Ultimately, finance produces results only when it is matched with viable projects, institutional capacity, the right skills and the confidence to use new financial solutions."

**Sultanija Bojceva Terzijan (Director, Monetary Policy, National Bank of the Republic of North Macedonia)** "The central bank supports convergence primarily by safeguarding price and financial stability and by creating the conditions for well-functioning financial markets. At the same time, sound regulation should enable financial innovation and further development of the financial sector. Progress in digitalisation, fintech, payment services, SEPA integration and financial inclusion demonstrates how institutional and regulatory development can support economic modernisation. Sustainable convergence therefore requires both macro-economic stability and a financial system capable of supporting innovation, competition and productive economic activity."

**Suzana Peneva (State Counsellor, Ministry of Finance, RNM):** "The central issue is not simply whether financing is available, but whether we have the right reforms, instruments and projects to use it effectively. With constrained fiscal space, public resources should increasingly support investments with longer-term growth effects, while capital investment and human development need to advance together. Reform implementation also requires continuity beyond a single political cycle: sustained commitment is essential if European financing and domestic resources are to translate into productive investment and lasting economic convergence."

**Evgenija Serafimovska-Kirkovski (Head of NIPAC Office, Ministry for European Affairs, RNM):** "The next stage of convergence requires a transparent connection between reforms, measurable indicators, project pipelines and financing. Performance assessment, blended finance and technical assistance can help transform priorities in transport, energy, digitalisation, human capital and the environment into mature investments. Looking beyond the current Reform Agenda, the 2028–2034 framework should integrate rule of law and fundamental rights, governance and public administration reform, competitiveness, green infrastructure and connectivity, and human capital, with EU integration serving as a horizontal objective across all these areas."

**Dr. Aleksandra Nakeva Ruzin (Fiscal Policy and Public Financial Management Expert, WBG Consultant):** "The Reform Agenda introduced something that the accession process has often struggled to provide sufficiently: reforms that are time-bound, politically prioritised and linked to financial incentives. To support economic transformation, however, the 2028–2034 framework should not simply follow the current reforms–milestones–financing conditionality; it should establish explicit and measurable convergence outcomes, as well as a much stronger reform–investment nexus. Productivity, income, wages and competitiveness should also be complemented by intermediate convergence indicators that allow us to assess not only whether the reforms have formally been completed, but also whether they are helping us achieve the intended economic impact. That, in my view, is how the accession process can become not only a mechanism for institutional and legislative alignment, but a stronger engine of economic convergence between the Western Balkan economies and the EU."

**Dr. Nina Fiti Nedelkovska (Former Country Representative of the Republic of North Macedonia at the Board of Directors World Bank):** "Achieving convergence requires investment in people alongside investment in physical infrastructure. Human capital must therefore be recognized as a strategic development priority, supported by sustained investment in education, healthcare, and social protection. A stronger human-capital foundation enhances productivity, builds resilience, and equips citizens to benefit more fully from the opportunities generated by economic integration. Without meaningful progress in human development, financing and infrastructure investment alone will not be enough to secure sustainable convergence with the European Union."

**Prof. Dr. Fatmir Besimi (Strategers Institute, Skopje):** "The central message from our discussion is that accession must increasingly become a process of measurable economic convergence. Financing is indispensable, but it is a means, not the objective. The real test is whether reforms, EU integration and investment translate into higher productivity, better jobs, stronger institutions and improved living standards. This requires moving from fragmented, short-term financing towards a coherent convergence architecture that connects reforms with mature investment pipelines, human-capital development and the mobilisation of private capital. Looking towards 2028–2034, we should measure success not simply by funds absorbed or reforms formally completed, but by the economic and social outcomes they produce. If reforms, investment and gradual Single Market integration reinforce each other, the accession process can become a much stronger engine for closing the development gap between the Western Balkans and the European Union."

**Acknowledgements.** Strategers Institute acknowledges the contributions of participants at the Strategers Discussion Series held on 17 September 2026.

**Disclaimer.** This Policy Brief is informed by the analysis and insights emerging from the Strategers Discussion Series and does not necessarily represent the individual views of participants or their institutions.

## Annex

### Table 1. Macroeconomic and Policy Indicators of the Western Balkans and Moldova

Percent of EU-14 and EU-27 Averages; Latest Available Annual Data[1]

| | GDP (per capita, PPP) | | Capital stock (per capita, PPP) | | Employment rate (ages 15-64) | | Government effectiveness (WGI) | | Control of corruption (WGI) | | Rule of law (WGI) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | EU-14 | EU-27 | EU-14 | EU-27 | EU-14 | EU-27 | EU-14 | EU-27 | EU-14 | EU-27 | EU-14 | EU-27 |
| Albania | 29.3 | 34.6 | 27.0 | 31.4 | 95.3 | 94.6 | 73.3 | 79.2 | 51.2 | 57.9 | 68.1 | 72.6 |
| Bosnia and Herzegovina | 28.7 | 33.9 | 20.7 | 24.0 | 76.5 | 76.0 | 49.8 | 53.8 | 48.7 | 55.1 | 63.8 | 68.0 |
| Kosovo | 25.6 | 30.3 | - | - | 53.6 | 53.2 | 64.1 | 69.2 | 55.5 | 62.8 | 71.7 | 76.4 |
| Montenegro | 43.3 | 51.1 | 27.8 | 32.4 | 90.4 | 89.8 | 74.7 | 80.6 | 60.7 | 68.6 | 74.5 | 79.4 |
| North Macedonia | 37.1 | 43.8 | 26.0 | 30.3 | 81.7 | 81.1 | 64.8 | 69.9 | 53.6 | 60.6 | 65.8 | 70.1 |
| Serbia | 41.2 | 48.6 | 23.3 | 27.1 | 92.4 | 91.7 | 68.1 | 73.5 | 47.5 | 53.7 | 66.3 | 70.7 |
| Moldova | 24.6 | 29.1 | 14.4 | 16.8 | 69.9 | 69.4 | 72.0 | 77.7 | 54.6 | 61.7 | 67.2 | 71.6 |
| Average of WB and MDA | 32.8 | 38.7 | 23.2 | 27.0 | 80.0 | 79.4 | 66.7 | 72.0 | 53.1 | 60.0 | 68.2 | 72.7 |

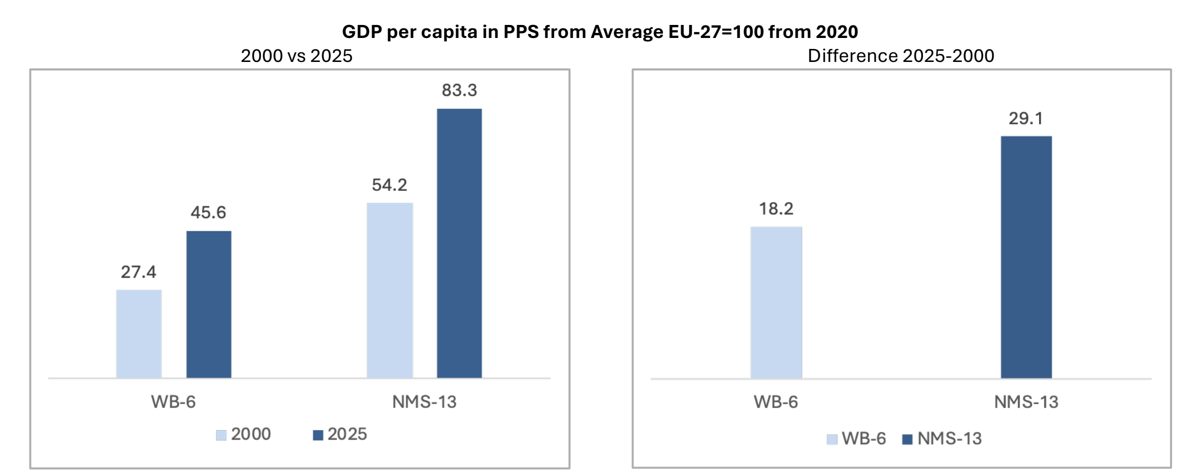
Source: IMF World Economic Outlook; IMF ICSD; Eurostat; national statistics offices; World Bank Worldwide Governance Indicators (WGI); IMF staff calculations; Ayerst, S. et al. (2026).
Note: ICSD = Investment and Capital Stock Dataset. 1 The data refer to the latest available data, that is, 2025 for GDP, 2018 for capital stock, 2025 and 2024 for the employment rate, and 2024 for governance. Government effectiveness, control of corruption, and rule of law are indicators that range from 0 (lowest) to 100 (highest) across countries and time.

### Table 2. Western Balkans financing framework for convergence to EU

| Layer/source | Scale or status | Main channels and instruments | Best use |
|---|---|---|---|
| **EU MFF policy frame** | Current 2021–2027 MFF; proposed 2028–2034 MFF includes EUR 200bn Global Europe | Country and regional envelopes; performance reserve; multiannual programming | Predictable reform and investment horizon; future design remains under negotiation |
| **EU programmes** | Programme-specific budgets and access conditions | Horizon Europe, Digital Europe, Erasmus+, Single Market Programme and relevant CEF windows | Knowledge, networks, skills, standards and cross-border infrastructure |
| **IPA III** | EUR 14.162bn for 2021–2027 for Western Balkans and Türkiye | Grants, budget support, technical assistance and sector programmes | Institutions, acquis alignment, human capital and project preparation |
| **Reform and Growth Facility** | EUR 6bn for 2024–2027: EUR 2bn grants and EUR 4bn concessional loans | Performance-based releases and WBIF investment channel | Reform Agendas, macro-fiscal support and high-priority investment |
| **WBIF and IFIs** | Grants blended with sovereign/private loans, guarantees and technical assistance | EIB, EBRD, CEB, World Bank and bilateral financial institutions | Appraised energy, transport, digital, environmental and private-sector investment |
| **National budgets** | Domestic revenue, borrowing and counterpart finance | Capital budgets, co-financing, maintenance and public investment management | Ownership, operation, affordability and fiscal discipline |
| **Development agencies** | Bilateral grants, concessional finance and expertise | Technical cooperation, policy support, preparation and co-financing | Targeted capability and demonstration projects aligned with national systems |
| **Private capital** | Local banks, institutional investors, FDI, firms, funds and PPP equity/debt | Loans, bonds, equity, guarantees, funds and project finance | Scalable productive investment where risks and returns can be transparently allocated |

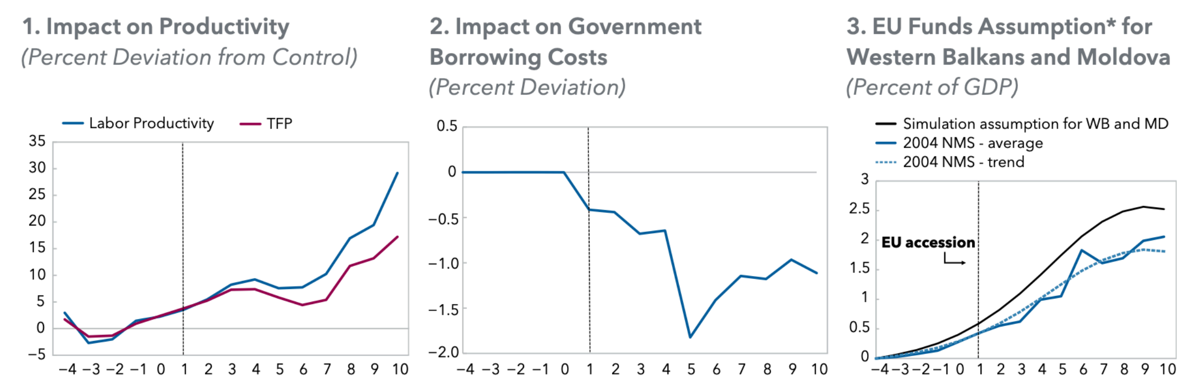
Source: Strategers Institute synthesis based on European Commission (2025) and WBIF (2026). Programme access and the 2028–2034 MFF remain subject to applicable agreements and final EU decisions.

### Figure 1. Convergence of the Western Balkans with the EU 2000-2025



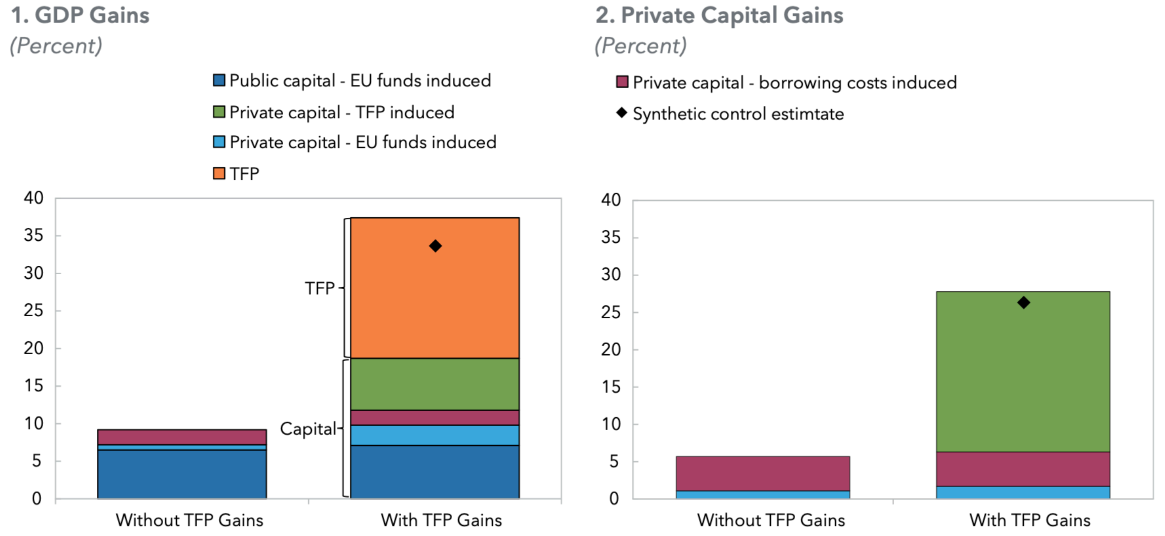

Source: Strategers Institute calculation from Eurostat.
Note: No data for Kosovo. Instead of 2000, data available for Bosnia and Herzegovina is 2005 and Montenegro 2006.

### Figure 2. EU Accession Effects: Key Drivers




Sources: European Commission; Eurostat; Haver; and IMF staff calculations; Ayerst, S. et al. (2026).
Note: The analysis only includes EU funds that are mostly for public investment, that is, the Cohesion Fund and European Regional Development Fund, based on the “modeled annual expenditure on the ground” published by the European Commission in collab- oration with BERGEN. T0 = 2003. Horizontal axis: years after accession. EU = European Union; MD = Moldova; NMS = new member states; TFP = total factor productivity; WB = Western Balkans.

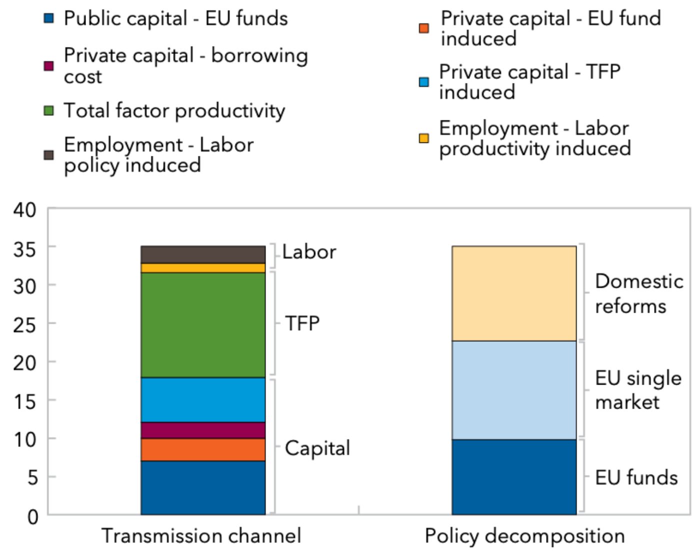
**Figure 3. Western Balkans and Moldova: Gains 10 Years after Accession**




Sources: European Commission; Eurostat; European Bank for Reconstruction and Development; Haver; national central banks; IMF staff calculations; Ayerst, S. et al. (2026).
Note: EU = European Union; TFP = total factor productivity.

**Figure 4. Decomposition and Transmission Channels of EU Accession Gains**

*(Percentage Points of GDP after 10 Years)*




Sources: IMF staff calculations; Ayerst, S. et al. (2026).
Note: EU = European Union; TFP = total factor productivity.