



Regional Report  
East-Central and Southeast Europe

**Stuck in Reverse**

by Allan Sikk

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# Regional Report

## East-Central and Southeast Europe

### Stuck in Reverse

by Allan Sikk\*

Overview of the transformation processes in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Kosovo, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia



This regional report analyzes the results of the Bertelsmann Stiftung's Transformation Index BTI 2022 in the review period from February 1, 2019, to January 31, 2021. Further information can be found at [www.bti-project.org](http://www.bti-project.org).

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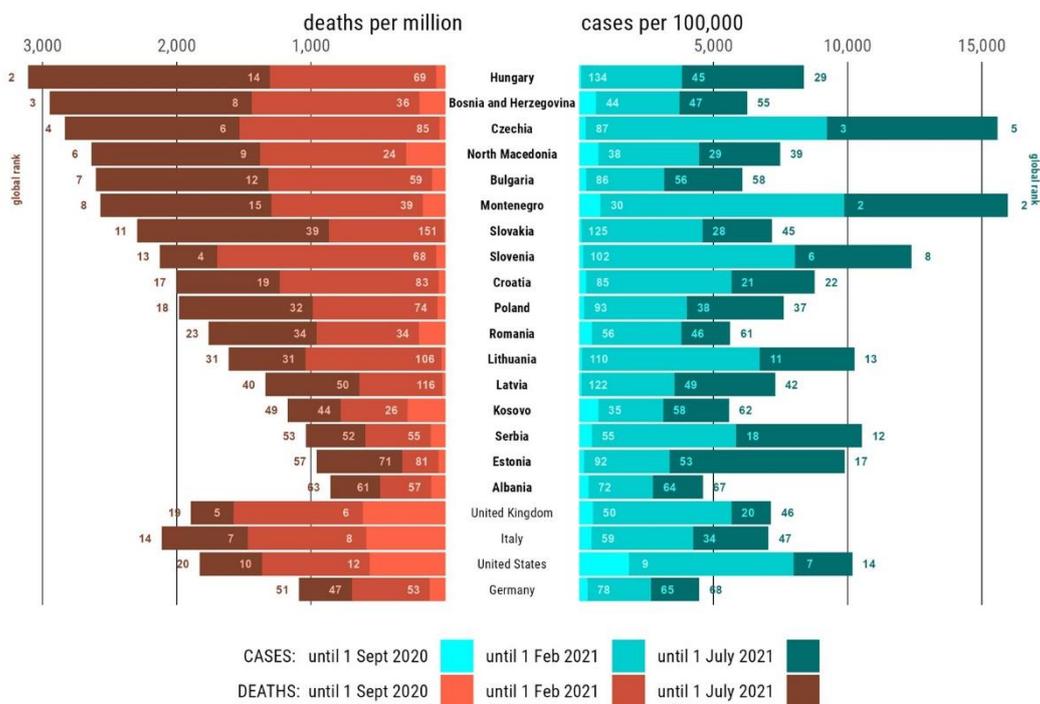
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## Introduction

Most countries in East-Central and Southeast Europe have struggled to consolidate their democracies and maintain good governance over the last two decades. The average level of democracy and the number of countries categorized as “consolidating democracies” increased between BTI 2006 and 2012 but has been in decline since 2012. The average Governance Index score for the region has also declined with little interruption. The decline in the regional economic transformation score is less steep, but remains below the level achieved a decade ago.

The trends recorded in 2019 and 2020 are no exception to earlier developments. Only Romania and North Macedonia experienced notable – but small – improvements in the overall democracy status score while the rest of the region was stuck in stagnation or decline. The continued slide toward autocracy observed in Serbia and Hungary has brought both countries close to joining Bosnia and Herzegovina in the group of “highly defective democracies.” Similarly, the slide toward autocracy in Bulgaria and Poland has underscored democratic defects in both countries. Despite these developments, the region remains the best-performing region of all BTI regions, because of its advantageous baseline position. Even Bosnia and Herzegovina, the region’s worst performer, remains above the global average in terms of political transformation. Poland and the Czech Republic fell, respectively, to the “moderate” and “good” governance categories, leaving the Baltic states as the only countries in the region featuring a “very good” standard of governance. Poland suffered the biggest decline while Romania saw the highest increase in its governance score, but mostly to compensate for what seems like a temporary setback in BTI 2020.

**Tab. 1: Regional Coronavirus pandemic development**



Based on data from: Hannah Ritchie, Edouard Mathieu, Lucas Rodés-Guirao, Cameron Appel, Charlie Giattino, Esteban Ortiz-Ospina, Joe Hasell, Bobbie Macdonald, Diana Beltekian and Max Roser (2020), "Coronavirus Pandemic (COVID-19)." Published online at OurWorldInData.org. <https://ourworldindata.org/coronavirus>

Already by the end of 2020, health care systems in many countries were strained, as were those education systems that had to adapt to online distance learning modules. Both challenges often underscored previously existing and significant inequalities, in particular those between rural or ethnic minority areas (especially Roma) and wealthier urban centers better equipped to heal the sick and educate the young. The lockdowns and the consequent decline in economic activities forced governments to spread out social safety nets to avoid an economic collapse and a hike in poverty levels. The combined impact of welfare systems' mounting needs and economic decline led to increased budget deficits and government debts. Increasing public debt was to a large extent sensible and unavoidable, although some governments were accused of weakening their fiscal discipline under the guise of COVID-19 mitigation. Yet, despite all these issues, at the end of the review period and even a few months beyond, the economic outlook for the region was cautiously optimistic, as forecasters generally agreed that the economic shock was smaller than feared and was likely to be short-lived.

While no single narrative fits each country in ECSE, a steady decline in all BTI dimensions was the overarching trend in the region. Six countries bucked the trend of regression in democracy and governance, and some countries (e.g., the Baltic states) managed the pandemic well in global and European comparison, although official fatality rates seem to underestimate the true death toll brought on by the coronavirus in other countries.<sup>1</sup> While the upticks in political transformation and governance scores are generally minor or have reversed earlier downticks, the overall downturn observed is attributed to a handful of countries (i.e., Poland, Serbia and Slovenia, in particular) without which the region would merely be stuck in the *status quo*. On the whole, though, the region remains stuck in reverse, that is, its average score is heading downward toward global averages. East-Central and Southeast Europe remains the global leader only because other regions outpace it in the race to the bottom.

## Political transformation

North Macedonia and Romania were the only two countries in the region that recorded significant improvements in their political transformation scores. **North Macedonia** consolidated its progress after the dramatic downfall of Nikola Gruevski, a long-term prime minister of the country. Some of the country's recent improvements represent a continuation of developments addressed in the last edition of the BTI, when the changes were too recent to be fully reflected in the scores. While North Macedonia has taken major steps forward in improving how democratic institutions function and in terms of freedom of expression, its democracy status score remains just below the regional average and the country faces substantial challenges with regard to interpersonal and interethnic trust as well as the prosecution of office abuse. While **Romania** climbed up the ladder from a "defective" to a "consolidating" democracy, the actual recorded score changes were modest and reflect a return to the country's earlier, more positive, trend after 2020's dip in scores. This upturn owes mostly to the replacement of the inefficient and corrupt government of Social Democrats (PSD) in November 2019 with a more democratically oriented and competent National Liberal Party (PNL). The former PSD leader and Deputy Prime Minister Liviu Dragnea was convicted of illegal use of public resources and jailed in May 2019 for three and a half years – heralding the prospect of office abuse being properly prosecuted in Romania.

The slide toward autocracy continued in Hungary, Poland and Serbia, which were joined by Bulgaria and Slovenia. Poland has clearly followed in Hungary's footsteps. With a steadily falling democracy score, **Poland** has gone from being the second-most democratic country (BTI 2016) among the EU member states included in the BTI survey to the third *least* democratic country (BTI 2022). Particularly salient problems in Poland include judicial independence, media freedom and, most recently, electoral integrity. **Serbia** recorded the biggest regional drop in terms of democracy as President Aleksandar Vučić (Serbian

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<sup>1</sup> "Tracking covid-19 excess deaths across countries," *The Economist*, 13 July 2021.  
<https://www.economist.com/graphic-detail/coronavirus-excess-deaths-tracker>

Progressive Party, SNS) tightened his grip on power. The democratic promise that Serbia showed a mere decade ago has all but vanished. A controversial parliamentary election was held under pandemic conditions in June 2020. Citing a bias in favor of SNS, the opposition boycotted the election, which recorded a record-low turnout. As a result, no viable opposition entered parliament. When the pandemic hit, Vučić declared a state of emergency without seeking immediate approval from parliament, thus acting in violation of the country's constitution. To be sure, all parliaments in the region have had to change how they operate. However, several governments have sought to undermine parliamentary checks and balances through, for example, the excessive use of fast-track procedures. In some cases, such as Hungary, parliament has agreed to the executive's efforts to rule by decree, and without set time limits. Serbia stands out as the only country in the region to have suspended its parliament altogether for more than 40 days.

Although **Slovenian** democracy remains robust compared to Serbia, Hungary and Poland, the country – until recently a bastion of democracy and good governance in the Western Balkans – suffered a major backlash. Prime Minister Janez Janša (Slovenian Democratic Party, SDS) assumed office early in the pandemic. Janša has openly drawn inspiration from Hungary, Poland and Donald Trump, whom he bizarrely congratulated as the “victor” of the November 2020 presidential elections. The SDS-led government has attacked the media, threatened the Slovenian Press Agency with severe funding cuts, and used the COVID-19 pandemic as a pretext to silence critical voices and curtail freedom of assembly. Ljubljana saw weekly anti-government protests demanding Janša's resignation and snap elections; the protesters were targeted with various fines and even arrests.

The democratic credentials of other countries were less spotless than previously – including Estonia, where the obstreperous radical right Conservative People's Party (EKRE) entered the government in 2019, regularly attacking the “liberal mainstream media” and, for example, LGBTQ+ organizations. LGBTQ+ communities continued to face challenges in Hungary and Poland. Hungary's attempts to suppress sexual minorities from the public sphere peaked in June 2021 with a same-sex education ban introduced behind the veil of harsher sentences for pedophilia, following a November 2020 constitutional amendment permitting only married (and heterosexual) couples to adopt children. The move not only satisfied the ideological desires of Fidesz but managed to divide the domestic opposition (between parties with a more liberal outlook and Jobbik, a hard-line conservative party), which had recently stepped up cooperation.<sup>2</sup> Poland courted controversy when several municipalities declared themselves to be zones free of “LGBT+ ideology” – with the tacit approval of the Law and Justice Party (PiS) and condemnation by the EU (that has denied structural funds to the municipalities involved).

While the values conflict (over gender, sexual minorities, and migration) has mostly stolen the limelight from ethnic and religious divides, these divides have deepened in some countries. During the review period, Bosnia and Herzegovina continued to struggle with centrifugal tendencies, as the largest Croat party advocates a creation of an ethnic Croat federal unit and the leadership of *Republika Srpska* an (unconstitutional) secession. Montenegro saw a growth of polarization and political conservatism, including increased church influence. These developments led to mass demonstrations: first against the transfer of ownership of Serbian Orthodox Church property to the state, others later decrying pro-Serbian citizenship policy changes. The latter were proposed by the technocratic government which, in 2020, ended the 30-year rule of the Democratic Party of Socialists (DPS). The more pro-Western (and nationalist, anti-Serbian) forces in Montenegro are increasingly worried about the new government aiming to have the country be placed once again under Serbia's wing and also accuse Serbia of stirring up tensions.

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<sup>2</sup> While the legislation caused an uproar from the leading voices in the EU, it also exposed tensions between member states – most West European leaders (but also Estonia and Latvia) cried foul while most East European leaders remained conspicuously neutral or jumped to Hungary's defense.

Some **elections** in the region were postponed by a few months because of the COVID-19 pandemic. However, the Serbian (see above) and Polish elections that took place under severe pandemic conditions were considerably more controversial than any delays. The Polish authorities insisted on holding presidential elections as scheduled in May 2020, in the midst of a lockdown. This was presumably intended to provide the incumbent Andrzej Duda (PiS) a “rally around the flag” boost and to limit the opposition’s opportunities to run a campaign. Hastily organized, postal voting proved to be a failure, and the election was re-run in the summer, with Duda only narrowly defeating Rafał Trzaskowski, the liberal mayor of Warsaw. PiS also maintained a narrow parliamentary majority in the Sejm but lost it in the Senate in 2019. The opposition made inroads in local elections in Bosnia and Hungary, where a joint opposition candidate defeated the Fidesz incumbent as the mayor of Budapest in October 2019. The 2020 parliamentary election in Romania provided a more mixed picture – while AUR (a new right-wing extremist party) entered the parliament with 9% of the vote, the election strengthened the position of the liberal PNL at the helm of the government. While in Lithuania, a coalition of established and new centrist parties was formed after the October 2020 elections, the 2019 election in Estonia catapulted the radical right EKRE into government as a junior partner (for a year). In 2019, Zuzana Čaputová won Slovakia’s presidential election in the wake of mass protests over the murder of an investigative journalist. Having campaigned on a liberal anti-corruption platform, her Progressive Slovakia party then flopped in the 2021 parliamentary elections, which brought to office Igor Matovič (Ordinary People and Independent Personalities, OĽaNO), another anti-corruption outfit with a more populist message. The 2020 election in Montenegro produced a shaky technocrat-led coalition, after the pro-Western DPS, tainted by corruption allegations, lost its majority following waves of protests. The success of progressive left-wing yet nationalist Vetëvendosje (Self-Determination, LVV) in 2019 heralded a fundamental change in Kosovo by breaking the circle of parties established in the wake of independence. While, the Albin Kurti-led coalition was short-lived, a snap election held in 2021 boosted his party’s (LVV) seat share in the fragmented Kosovo Assembly.

**Civil society** mobilized protests against pandemic restrictions in several countries (the Czech Republic, Serbia, Slovakia; see Governance section below) but these were overshadowed by anti-corruption and anti-government demonstrations that are a continuation of trends identified already in the BTI 2020 (i.e., substantial protest movements in Slovakia, Romania, Hungary, Poland). In the fall of 2019, Croatia saw its largest strike since the country’s transition to democracy, as schoolteacher unions demanded better pay and working conditions. The “One of Five Million” demonstrations against the SNS rule in Serbia that started in 2018 were only curtailed by pandemic restrictions. Anti-corruption protests in neighboring Montenegro in 2019 were followed by protests against the transfer to the state of the property of the Serbian Orthodox Church. Throughout the pandemic, thousands have protested on streets, on bikes, in cars, or from windows and balconies in Slovenia against the autocratic leanings of the Janez Janša government. Beginning in July 2020, hundreds of thousands demonstrated against the corruption and state capture that is associated with the Bulgarian Prime Minister Boyko Borisov in some of the longest and largest civil protests the country has seen. Beginning in October 2020, the upholding of a government-appointed Constitutional Tribunal of a harsh abortion ban law triggered the All-Poland Women’s Strike movement in Poland, the biggest mass demonstration since the fall of communism. In 2019, the Czech Republic also saw the largest countrywide demonstrations since the Velvet Revolution of 1989. The protests organized by “Million Moments for Democracy,” an apolitical civic movement, called for the defense of democracy and the rule of law, and the resignation of Prime Minister Andrej Babiš, who was mired in a scandal over EU grants to his businesses. The scope for protests was constrained to some extent in all of the region’s countries due to pandemic-related social distancing requirements, though the rules were allegedly abused by authorities to crack down on the opposition in some countries (e.g., Hungary, Poland, Serbia and Slovenia). During the review period, the freedom of association – which has been an issue in the region in the past (notably in Hungary) – was constrained in Bulgaria where the courts, citing a potential threat to national unity, have refused to register ethnic Macedonian NGOs. In addition, human rights and foreign-funded NGOs increasingly came under fire in the country.

Issues with judicial independence persist in several countries. While Slovakia made tangible progress, Albania and North Macedonia, both of which have made some progress, continue to face various challenges. These include, in particular, inefficiency in the court system, vetting procedures for judges, and corruption in the judiciary. In Serbia, the judiciary remains subject to political interference, and the courts are caught up in nepotism and slowed by a backlog of cases. In Poland, the PiS government, which has sweepingly politicized the courts, refused to comply with the EU Court of Justice rulings on disciplinary measures for judges.

**Tab. 2: State of political transformation**

consolidating democracies	defective democracies	highly defective democracies	moderate autocracies	hard-line autocracies
Score 10 to 8	Score < 8 to 6	Score < 6	Score > 4	Score < 4
Estonia	North Macedonia	Bosnia and Herzegovina		
Lithuania	Poland			
Czech Republic	Bulgaria			
Latvia	Albania			
Slovakia	Montenegro			
Slovenia	Kosovo			
Croatia	Hungary			
Romania ▲	Serbia			

The table follows the BTI 2022 index scores. Countries are ranked according to their system categorization and respective score in political transformation status assessment. Arrows mark a change of category compared with the BTI 2020.

## Economic transformation

The COVID-19 pandemic had an adverse economic impact on the region, which experienced one of the highest recorded rates of infection and COVID-related deaths globally. Four countries – Slovenia, the Czech Republic, Bosnia and Herzegovina, and North Macedonia – were in the global top 10 in terms of COVID-19-related deaths per capita at the end of January 2021, with Bulgaria, Hungary, Montenegro, and Croatia following close behind. The various forms of lockdowns and restrictions introduced curtailed economic activities, heavily affecting sectors that rely on the movement of people (tourism) or people socializing outside of their homes (hospitality and culture). But, overall, the impact was probably milder than initially feared, at least as of early 2021. First, the economic impact was smaller than anticipated – especially in countries where the economy relies more on industrial or agricultural production (as goods transport was less affected than travel) or information (as the coronavirus is not spread online). Thus, the economic downturn was less severe in Serbia and Lithuania (-1.0% and -0.9%, respectively<sup>3</sup>) than in Montenegro and Croatia, whose economies are heavily reliant on tourism (-15.2% and -8.4%, respectively). Second, the second wave of COVID-19 in late 2020 hit the region more severely than did the first wave – by the end of September 2020, none of the region's countries had numbered among the top 20 countries globally in terms of mortality rates. Third, the economic shock was dampened by the often generous government response measures that helped keep the level of unemployment and loan defaults down.

This, of course, prompts concerns about the medium-term economic prospects. While GDP is expected to recover quickly – particularly in the worst-affected economies – balancing government debt and budget deficits will take longer. At the beginning of the review period, most of the region's countries featured relatively low levels of public debt. At an average of 55.8% of GDP in 2020, this lagged well behind the EU average of 91.7%. Nonetheless, a few countries in the region recorded debt levels close

<sup>3</sup> EBRD Regional Economic Prospects (June 2021)  
<https://www.ebrd.com/what-we-do/economic-research-and-data/rep.html>.

to West European levels. Montenegro, in particular, continues to struggle with a higher than the EU average debt burden that surged from a (regionally speaking) high of 80% in 2019 to 109% in 2021. The country has struggled with the looming start of its loan repayments for the €2 billion Bar-Boljare highway (which connects the Adriatic coast to Serbia) that was built by Chinese contractors and financed by a loan from China, which already holds about a quarter of the small country's government debt. Montenegro has been in talks with various European creditors to make the loan burden more palatable. The concern for Europe is the risk of contagion spreading across the Western Balkans region if the small and medium-income country were to default.

While the situation is particularly troubling for Montenegro, most countries in the region will in the coming years face challenges in tackling the increased debt, especially if delayed austerity combines with a weak economic recovery. Government debt increased by more than 10 percentage points in 10 countries and by more than five percentage points in all of the region's countries. The IMF predicts further hikes in government debt for 2021 and 2022 in most countries,<sup>4</sup> with Estonia's government debt predicted to more than triple (from 8.4% in 2019 to 30.3% in 2022). Some governments (in Albania, the Czech Republic, and Estonia) were accused of using pandemic relief as a guise for allowing themselves greater fiscal flexibility. COVID-19 measures in other countries were improvised and wasteful (e.g., Slovenia and Serbia), and the increased government debt highlighted longer-term systemic issues in other countries (e.g., Lithuania's ability to fund its pension system).

Despite the significant shock to **Croatia's** tourism industry, which is a pillar of its economy, the country recorded a slight overall increase in its economic transformation score, which is a rare exception amid the otherwise stagnant or worsening picture in the region. Improvement in some fundamentals, that is, low and decreasing gender inequality, solid health funding and steady progress in some environmental indicators (e.g., renewable energy and environmental spending), account for this gain. Also, the Croatian government's response to the COVID-19 pandemic was largely adequate, which meant that even though its tourism industry was hard hit, the country saw only a moderate rise in unemployment (from 7.8% in 2019 to 9.2% in 2020). In July 2020, Croatia, together with Bulgaria, joined the EU's Exchange Rate Mechanism (ERM) II, marking the final step taken before joining the eurozone in 2023 or 2024. However, Croatia will be struggling to lower its public debt (82.7% in 2020) to meet the Maastricht criterion of 60%, and Bulgaria, as the poorest EU member state with price levels well below the EU average, will struggle with inflation.

The **Czech Republic** saw a decline in its economic transformation score. The country recorded the region's third-largest decrease in GDP in 2020 (after Montenegro and Croatia, despite its low reliance on tourism), following sluggish growth in 2018 and 2019. The country had one of the worst COVID-19 case rates in the region – ending 2020 with the fifth-highest case rate per million globally. And although fiscal stability was a concern across the region, it was particularly pronounced in the Czech Republic because of tax cuts (criticized strongly by the central bank president) and the government's loose fiscal discipline in the runup to the 2021 elections. The budget deficit reached 6.2% of GDP while government debt increased from 30.2% in 2019 to 37.6% in 2020 and was projected to rise much further (44% in 2021). Some of the issues with Czech economic development have preceded the pandemic. Before 2020, equality of opportunity for all genders had been in decline, precarious employment had been on the rise (and was not addressed by the government's COVID-19 measures), and the Office for the Protection of Competition had been the target of criticism for failing to supervise public procurement processes and to resist political pressures (ÚOHS President was replaced in December 2020). Despite these negative trends, the Czech Republic remains the regional leader in terms of economic transformation, although it has lost most of its edge over other well-performing countries such as Estonia, Slovenia and Lithuania, which suffered much smaller declines in scores.

<sup>4</sup> IMF World Economic Outlook Database, April 2021.  
<https://imf.org/en/Publications/SPROLLS/world-economic-outlook-databases>

Several other countries faced a drop in output strength due not exclusively to the pandemic. Bosnia and Herzegovina has been suffering from falling foreign direct investment. Hungary and Slovenia recorded some of the region's biggest hikes in government debt. Increased debt levels in Romania yielded the adoption of the euro an unrealistic prospect any time soon. Slovakia has been heavily dependent on car exports that led to weakened growth already in 2019 because of sluggish growth in Germany and Brexit uncertainty. In Poland, PiS's policies have on the one hand ensured growth, employment and budget stability. However, this success has been overshadowed by blatant clientelism by which the government favors its support base (traditional families and pensioners). Also, like most other EU states in the region, the country's economic stability is reinforced by significant EU funding that accounts for as much as 25% of economic growth in Poland. Countries like Poland are thus potentially vulnerable to EU funding crises and the EU's unwillingness to continue funding for countries that violate the principles of the rule of law and basic human rights. This is particularly pertinent for Hungary and Poland, considering their quarrels with the EU and Article 7 proceedings over the rule of law crises in both countries. The challenges of debt and economic recovery could also prove tricky as the pandemic has exposed issues and inequalities in the social sector, and in health care and education systems. The vulnerability of people working in the growing gig economy sector became more obvious than ever as the efforts to mitigate the economic impact of the pandemic did not always reach people employed in non-traditional, precarious jobs. Inequal access to health care also became more evident, even in some of the region's wealthiest countries such as Estonia, Lithuania and Poland. Similarly, while some countries in the region proved fairly successful in moving to online learning (e.g., Estonia reaped the benefits of its earlier investments in e-learning), pupils' access to the internet, suitable ICT equipment and parents' technological expertise varied, both between more and less developed regions and between wealthier and poorer households. Also, women carried, on average, a disproportionately large share of the burden with regard to childcare and homeschooling, which adversely affected their income and career prospects.

Market organization suffered in several countries due to issues with competition policy. Competition policy in the Czech Republic has been subject to political pressure and insufficient oversight of public procurement, as Prime Minister Andrej Babiš has been mired in scandals involving EU funds that have found their way to businesses under his control. Hungary has often resorted to lax oversight on mergers in the media and banking sectors, citing their relevance in terms of national strategic importance. Hungary also maintains one of the highest shares of public tenders featuring a single bidder in the EU. The Polish Office of Competition and Consumer Protection (UOKiK) has made some politically motivated decisions. The public procurement system in Romania, especially at the local level, continues to suffer from clientelism and corruption. The system was further undermined by the government's decision to fast-track tender procedures during the pandemic. Competition oversight authorities in Serbia and Slovenia remain ineffectual. In Serbia, where excessive state aid to the large state-owned enterprises sector (which is under the ruling party's political control) continues and a bloated, inefficient public sector demonstrates no accountability, oversight authorities have yet to take any action to halt market concentration.

In contrast, banking systems in four countries showed improvement. Montenegro's previously fragmented banking sector was consolidated, while Slovenia successfully completed the privatization of NLB, the country's largest bank. The capital-to-assets ratio increased in Poland while solvency and the share of non-performing loans improved in Romania. In an important development, Latvia fundamentally reformed the governance of its financial sector and avoided being "graylisted" by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) in their report on Latvia in 2020.

**Tab. 3: State of economic transformation**

highly advanced	advanced	limited	very limited	rudimentary
Score 10 to 8	Score < 8 to 7	Score < 7 to 5	Score < 5 to 3	Score < 3
Czech Republic	Croatia	Hungary ▼		
Estonia	Bulgaria	Montenegro ▼		
Slovenia	Romania	Serbia		
Lithuania	North Macedonia	Albania		
Slovakia		Bosnia and Herzegovina		
Latvia		Kosovo		
Poland				

The table follows the BTI 2022 index scores. Countries are ranked according to their respective score in economic transformation status assessment. Arrows mark a change of category compared with the BTI 2020.

## Governance

The pandemic heavily tested governments' capacity for learning, policy coordination, and the efficient use of resources. Reacting to the rapid pace of developments was often complicated, and policy outcomes varied considerably over time and between countries. The responses were often hectic and either too harsh in terms of civil liberties or, alternatively, too weak in terms of public health. The outcomes in terms of infection and death rates ranged from good to poor in global comparison. While the health care and education systems faced serious stress tests, an outright collapse was avoided – though at certain points, some countries considered moving their COVID-19 patients to neighboring countries. In March 2021, the Czech Republic did in fact transfer patients to Germany and Switzerland. In two Balkan countries, the pandemic crisis was accompanied by two devastating earthquakes: Albania was hit in November 2019 with the year's deadliest earthquake (52 fatalities), and Croatia in December 2020.

Apart from the immediate pressures on health care, the COVID-19 pandemic posed challenges to policy learning. Governments needed to respond promptly and efficiently to a fast-developing situation clouded in uncertainty – while expert knowledge on the SARS-CoV-2 virus developed in real time. Many countries in the region adopted very strict measures in spring of 2020 that, in several cases, paid off. Slovakia, for example, featured one of the lowest death and case rates globally, which was partially due to its initially strict restrictions on those entering the country. Though somewhat higher, Latvia and Lithuania also featured exceptionally low rates. At the end of January 2021, North Macedonia, the region's worst-performing country during the first wave, ranked 24th globally in terms of the death rate and 38th in terms of its case rate.

Unfortunately, many of the region's countries were hit hard by the second wave of the pandemic in the fall of 2020. By the end of January 2021, most of the countries ranked among the 20 worst-hit countries worldwide either in terms of case or fatality rates. Slovenia and the Czech Republic were in top 10 of both indicators. These countries' initial success with a timely response may have resulted in their respective governments relaxing their rules too quickly and in skepticism over the severity of the pandemic.<sup>5</sup> Slovakia illustrates further problems that arose with responding to the COVID-19 crisis. In November 2020, the country conducted a mass antigen testing program, testing two-thirds of the population – but without consensus among experts on the exercise's usefulness. And while Slovakia got off to a good start with its vaccination program in early 2021, this was later overshadowed by Prime Minister Matovič's peculiar decision to sign a secret deal with Russia to acquire the Sputnik V vaccine. The deal

<sup>5</sup> Popic, T., & Moise, A. D. (2020). Coronavirus: why is eastern Europe's second wave so much worse than its first? *The Conversation*, 1 December. <https://theconversation.com/coronavirus-why-is-eastern-europes-second-wave-so-much-worse-than-its-first-150430>

was counterproductive on two levels – it eventually cost Matovič his job after just one year in office (though he retained a seat at the cabinet table as the minister of finance) and the demand for Sputnik V was eventually so low that Slovakia sold most of its doses back to Russia.

Slovakia was one of only two EU member states to authorize Sputnik V (in addition to Hungary) by mid-2021. Six countries in the Western Balkans ultimately authorized the vaccine, but Russia's "vaccine diplomacy" in the region seemed to flop. Despite the Hungarian government's propaganda,<sup>6</sup> Hungarians themselves showed a lukewarm interest in the Sputnik V vaccine. Hungary and Serbia nonetheless managed to increase their vaccination rates up by authorizing Western vaccines (to which countries outside of the EU had access through the COVAX scheme) as well as Russian and Chinese offerings. Serbia maintained one of the highest rates of vaccination in the region through the first half of 2021, while Hungary was the runaway leader in the region (and the EU) by April 2021.

Despite the obvious impact of COVID-19, the pandemic accounts only partially for the overall slide in the region's governance score. The biggest declines were registered in Poland, Slovenia, and Serbia, followed by the Czech Republic and Estonia. Each of three biggest losers, along with Hungary (for the fourth time in a row), recorded a deterioration in the score for **anti-democratic actors**. And in each case, the increasingly anti-democratic nature of the governments themselves – not outside actors challenging democratically elected governments – are not to blame. While consensus on the goal of ensuring a functioning market economic system persists, the consensus on the goal of democracy – or what it means – crumbled in this group of countries. Across the region, ruling parties are moving further and further away from liberal Western notions of democracy, advocating instead a homegrown "illiberal" form of democracy, drawing inspiration from Putin's Russia and the radical right in the West. The consensus slightly slipped even in Estonia, where the 2019 election brought a Trumpist, anti-globalist Conservative People's Party (EKRE) to the cabinet table – although its tenure lasted less than a year. This nearly ejected Estonia from the group of countries featuring "very good" governance. Nonetheless, the Baltic states remain the only three countries in the region to maintain this standard. Bosnia and Herzegovina, at the opposite end of the scale, remains the country with the weakest quality of governance in the region, marred by issues with functioning as a normal state at the federal level and increasingly authoritarian tendencies at the entity level. Though suffering, the quality of governance in Bosnia and Herzegovina remains stable, unlike Hungary, which is languishing under an increasingly worsening quality of governance.

**Poland** suffered the biggest decline in governance overall and now numbers among those countries demonstrating a "moderate" quality of governance. The PiS-led government is actively exploiting cleavages to mobilize its political support and is increasingly blatantly anti-democratic in its actions. It managed to break down the Social Dialogue Council through political interference – a development that elicited criticism even from the usually sympathetic, iconic Solidarity trade union. Poland's international credibility has suffered because of the EU Article 7 proceedings over the state of the rule of law, plans to withdraw from the Istanbul Convention, and its response to EU energy and refugee policies.

One of the key challenges to the countries in the Western Balkans is the dissipating prospect of EU membership. There are, undeniably, doubts over the willingness and capacity of the EU to accept any new members in the near future, but several aspiring member states are also evidently struggling with the integration process. Although Montenegro has opened all 33 negotiation chapters, it has only closed three (over eight years, most recently in 2017). While EU accession remains Serbia's main strategic goal, the process has significantly decelerated – only two negotiation chapters opened in 2019 and none in 2020. The EU has recently refused to start accession negotiations with Albania and North Macedonia. These were first blocked in 2019 by France (supported by the Netherlands and Denmark on Albania only), which argued that the EU needs reforms first, and again in December 2020. Albania has struggled

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<sup>6</sup> Spencer, J (2021). 'Sputnik Campaign Fails to Launch in Hungary', *Wall Street Journal*, 30 April.

with the functioning of its Supreme Court and the need to depoliticize its electoral laws. North Macedonia, having made significant strides in satisfying most conditions for membership in NATO, joined in March 2020. However, its hopes of EU accession negotiations were crushed in December 2020 by a Bulgarian veto over the non-recognition of the Macedonian language (which it sees as a dialect of Bulgarian) and national identity (including non-recognition of the Macedonian minority in Bulgaria). Bosnia and Herzegovina and Kosovo are even less likely to start accession talks anytime soon because both face more existential issues with stateness and international recognition.

Somewhat surprisingly, among the biggest improvements in the region were recorded in the indicator of **civil society traditions**. Civic engagement intensified in Albania and Croatia. Initially, this was related to relief efforts following the earthquakes, but these efforts later benefited the COVID-19 response. Civil society played an important role in the pandemic response in those countries that already featured strong civil society traditions, such as the Czech Republic and Poland. Increased levels of volunteering, civil society engagement, and trust in civil society organizations were also visible in Kosovo, Latvia, Lithuania and Serbia.

**Tab. 4: Quality of governance**

very good	good	moderate	weak	failed
Score 10 to 7	Score < 7 to 5.6	Score < 5.6 to 4.3	Score < 4.3 to 3	Score < 3
	Mongolia	Georgia ▼	Azerbaijan	Belarus ▼
		Ukraine	Uzbekistan	Turkmenistan
		Moldova	Russia	
		Armenia	Tajikistan	
		Kazakhstan		
		Kyrgyzstan		

The table follows the BTI 2022 index scores. Countries are ranked according to their respective score in the Governance Index. Arrows mark a change of category compared with the BTI 2020.

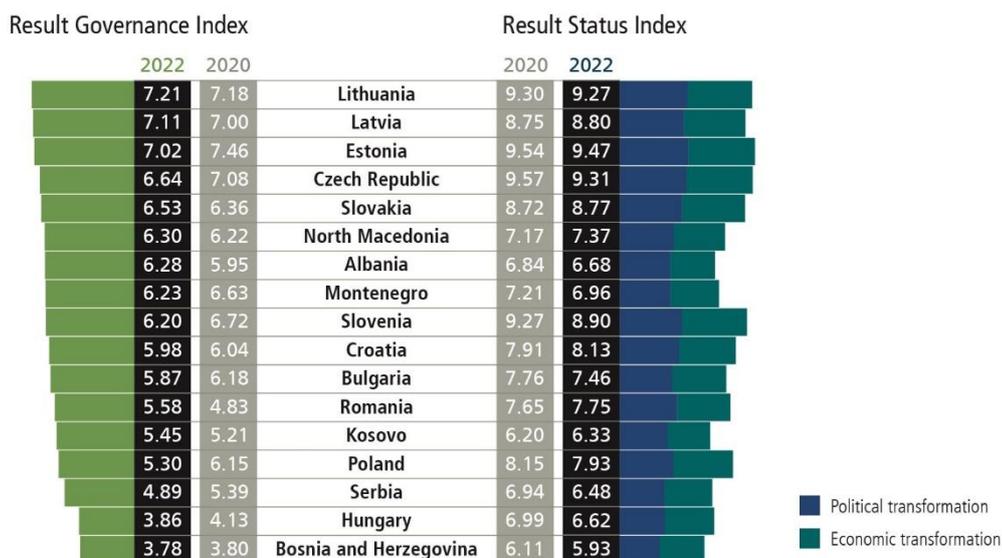
## Outlook

East-Central and Southeast Europe remains the best-performing BTI region, but has nonetheless undergone a steady decline with regard to political transformation for the seventh time in a row. The outlook for the region remains pessimistic – it is hard to imagine that any major leaps forward will be achieved in the short term. However, as the results of the BTI 2022 show, the increasing mobilization of civil society against corrupt or undemocratic governments as well as the growing solidarity demonstrated during the pandemic may bode well for longer-term prospects in many countries.

However, popular mobilization is not synonymous with change. Poland maintains extremely strict abortion policies despite the All-Poland Women's Strike. Demonstrations in Serbia have largely slid like water off of a duck's back for the Vučić regime. In the Czech Republic, the relevance of the Million Moments for Democracy movement (despite the parallels drawn with the Velvet Revolution) has faded as its founder refused to cooperate with opposition parties and founded his own party. Prime Minister Andrej Babiš remains in office. The mass protests in Bulgaria and Montenegro may have merely contributed to instability rather than introduce significant change, such as that seen in Slovakia. Yet, the 2017-2018 anti-corruption protests in Romania clearly helped turn the tide against the worst excesses of corruption. Notably, electoral change has not always – or even mostly – benefited nativist or anti-democratic actors. Parliamentary elections held in Bulgaria in April 2021 highlight how elections can punish corrupt incumbents. The conservative Citizens for the European Development of Bulgaria (GERB) party, which had

long dominated Bulgarian politics, was defeated by a motley crew of new, mostly mainstream, parties. The most successful of the lot, There Is Such a People (ITN), which was founded by one of the country's best-known entertainers and is distinctly populist, emerged from the July 2021 snap elections with the most votes.

Even though opposition parties in Hungary and Poland have improved their capacity to coordinate their challenges to incumbents, the extent of state capture, as well as Fidesz and PiS' capacity to undermine democratic mechanisms, is overwhelming. Given this state of affairs, neither country is likely to return to the fold of consolidated democracies soon. The threat of EU Article 7 procedures could compel these governments to think twice about taking any further steps to repress liberties or erode democratic institutions. But it could also elicit an even more authoritarian response from them, especially if the EU's bark remains worse than its bite. The authoritarian tendencies of SDS have damaged Slovenia's international credibility and resulted in an awkward hostility emerging between EU leaders and many member states when Slovenia took over the EU presidency in July 2021. However, the outlook for Slovenia remained more positive than for some of its neighbors – in early 2021, the government lost its parliamentary majority, and the protest movement succeeded in denouncing a controversial water protection law in a July 2021 referendum. Considering SNS's grip on power, progress remains unlikely in Serbia. The draw of EU membership, which has acted as a catalyst for reforms in the region in the past, remains an elusive prospect, not least because Serbia is increasingly torn between its dual loyalties to the West and to Russia.



The fading prospect of EU membership does not help the cause of reforms in other Western Balkan countries at a time when incumbent (mostly pro-European) parties are seen as ineffective and corrupt, while China and Russia are stepping up their soft power in the region. Several countries in the region have relied on funding, medical equipment and vaccines from China and Russia to overcome the worst shortages. Montenegro and North Macedonia face significant risks of internal polarization, at least to some extent spurred by neighbors (Serbia and Bulgaria). Relations between countries in the Western Balkans remain volatile. Serbia's relations with Kosovo have improved somewhat in recent years. However, Kosovo's new prime minister, Albin Kurti, is notably more nationalist than his predecessors, and has even publicly supported a merger with Albania – although this is prohibited by Kosovo's constitution and Albania has little appetite for stoking Serbia's hostility. Issues of statehood are endemic to Kosovo and Bosnia and Herzegovina, and the countries are unlikely to benefit from any vigorous initiatives from

the EU, considering its pre-occupation with a host of other matters such as COVID-19, climate change, energy security, difficulties with Hungary and Poland, relations with its eastern neighborhood and even the prospect of some delayed Brexit fallout.

Finally, there is still considerable uncertainty regarding the final impact of COVID-19. As mentioned above, budget deficits are likely to become a hot potato that will be passed around the hands of future governments. However, the pandemic itself may yet have unpleasant surprises up its sleeve. At the time of this writing, the coronavirus remains a prevalent issue and disruptive future waves are not only possible, but likely, as the virus has demonstrated its capacity to mutate into variants that are (partly) resistant to existing vaccines. In some countries, the vaccination campaign itself has been slower than expected or has decelerated due to the combined effects of a poor supply of (popularly trusted) vaccines and endemic vaccine hesitancy. By mid-2021, less than 15% of the population in Albania, Bulgaria and Kosovo had received one vaccine dose.

It is thus difficult to predict how the economic forecasts may change if more devastating waves of COVID-19 were to materialize. Such developments could put already strained health care systems and public budgets under additional stress and may affect national, European and global consumer confidence as well as investor confidence. Furthermore, the impact of COVID-19 on long-term illnesses resulting from or being overlooked during the pandemic can put further pressure on health care systems in the future. Likewise, gaps in children's education may have a long-lasting impact on economic development and patterns of inequality throughout the region.

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