**ARTICLE: The Western Balkans Post-Crisis Potential Output**

**Please see below explanations (marked in blue) on how we have incorporated referees’ suggestions:**

**Internal Reviewer: Major Issues**

1. The literature review is very limited. Although the authors acknowledge a lack of the research for WB countries, empirical papers that are focused on other sample of countries still might be useful to be presented to the reader. Hence, the literature review should be extended.
   * **Response:** Literature review is now extended throughout the paper.
2. Explanation of methodology is rather limited and not very clear to the reader. The author needs to provide more details how these calculations have been implemented.
   * **Response:** Explanation of methodology is now extended. In addition, all of the data and calculations are updated, given that, due to delay in the publication process (by SEE Journal of Economics and Business) data from original paper was outdated.
3. The authors estimate potential output while in the concluding section discuss these results and provide some policy implications which are not supported by the research. Please, correct your last section and be aware what is your research and your findings.
   * **Response:** *Conclusion* chapter is now revised to focus more on the direct results of the paper. However, please note that, since the results from the research (shrinking gap between the potential and real GDP) point to the fact that that the economies may need underlying change of the growth model (rather than just better utilization of current production factors which would be primarily needed if the large gap between potential and real GDP existed), the paper does briefly mention potential policy areas for structural reforms (but this part is now significantly shortened).
4. Provide more explicit (theoretical or statistical) rationale why you exclude 2009 in your calculations. It is not enough to say that this is “a structural brake”, hence, we exclude it. Structural brakes are very often the most interesting for investigation.
   * **Response:** The explanation is extended now (it is explained why 2009 and 2010 are defined as „crisis period“, with two business cycles before and after this period showing pre and post-crisis potential output trends).
5. The main point of your research is Table 1 which remains unexplained.
   * **Response:** The explanation is extended now and Table is updated. Table and Figures are given at the end of the manuscript, as per current manuscript preparation instruction. In addition, explanation is included on connection between the Table 1 and the Figures.
6. Please, think and explain your statement that you aim to investigate whether WB “countries will be able to achieve strong growth rates comparable to pre-crisis growth”. In my opinion, your methodology cannot answer this question, at least without acknowledging great caution. Economic growth is a very complex phenomenon and so far over 50 determinants are identified to be important (Easterly, 2009).
   * **Response:** Wording is adjusted now to focus more on the research in the paper (to say that the paper aims to examine whether potential output trends have changes in post-crisis period compared to pre-crisis period).

**Internal Reviewer: Minor Issues**

1. The paper is not written strictly following the manuscript preparation instructions. This must be corrected.
   * **Response:** Paper structure and formatting adjusted to the current manuscript preparation instructions.
2. References are not used properly in the text as well as in the reference list. Again, please see SEE instructions.
   * **Response:** References adjusted to the current manuscript preparation instructions.
3. Paper does not have page numbers. Again, see SEE instructions.
   * **Response:** Page numbers added.
4. The paper needs more references. E.g. Section 2.1. has theoretical explanations at different points without proper referencing; Section 2.2. similar situation.
   * **Response:** Referencing is improved now.
5. Section 5 starts with “Figures 1 to 7” and they are missing in the paper.
   * **Response:** Figures are now at the end of the paper, in line with the current manuscript preparation instructions.
6. Some minor language issues needs corrections – e.g. p. 4, “seminar works” instead “seminal work”; p. 5 “ifficult financing” instead “difficult financing”; p 5. References, pg?? used instead p. ?; p7 Ct, “t” should be the same as in the formula;
   * **Response:** Corrections introduced. Additionally, the spelling has been aligned to English (United States).
7. Section 4. You discuss expectations in the Euro-area in 2012. Can you revise it now?
   * **Response:** This section has been revised to include updated information (including the information about the euro-area 2012 downturn).

**External Reviewer**

1. Abstract should be shortened. There is no need for definitions in abstract
   * **Response: A**bstract is now shortened in line with the current manuscript instructions.
2. Last sentence of paragraph 5 in 2.2., starting with “Main disadvantage of multivariate approaches ...” is not so clear,
   * **Response:** Sentence is rewritten and clarified.
3. It would be useful to explain why only SEE countries were selected for the analysis, and if it would be useful to compare them with another region.
   * **Response:** Brief explanation is added. Comparison to other regions were not planned in the research proposal and is not the focus of the paper, however some figures for other regions from other research (such as euro area or central, eastern and south-eastern Europe) are now included.
4. Review of literature, section 2.3, could be improved. First, there are many information there (e.g. paragraphs 4 and 5), which would be better placed in introduction. Second, entire section would be better placed before discussion of alternative methodologies (section 2.2). Third, some paragraphs from other sections (e.g. part of paragraph 3 in section 5, or paragraph 2 in section 6) can be moved here.
   * **Response:** Literature review is extended. Old section 2.2 (*Review of the Research of Potential Output in Western Balkans***)** moved before old section 2.3 (*How is Potential Output Estimated*), so that the order of these two sections is now switched. Former paragraph 4 from the previous section 2.2 moved to the Introduction, while former paragraph 5 is now extended (with additional paragraphs added to include more reference and focus more on findings of other research, in order to be more in line with this section). Paragraph 3 from former section 5 (former sections 4 and 5 on *Data* and *Analyses and Results* are now merged in one section on *Data and Results*) is adjusted and the part of the paragraph giving a general reference is moved to section on *Review of Research*. Paragraph 2 from section with *Conclusions* is moved to *Introduction* section*.*
5. A concluding paragraph in section 2.3 would be helpful. Maybe you can move first paragraph from section 3 to the end of section 2.2,
   * **Response:** The first paragraph of section 3 (*Methodology*) is now moved to the end of section on *How is Potential Output Estimated.*
6. Also, paragraph 3 from section 3 could be moved to section 2.2,
   * **Response:** Paragraph3 from section 3 (*Methodology*) moved to the section *How is Potential Output Estimated*.
7. Section 5, first paragraph starts with “Figures 1 to 7 ...”. I don’t see them. Also, second sentence in this paragraph is not clear,
   * **Response:** Figures are added at the end of the article, as per current manuscript preparation, and the referred sentence is explained additionally.
8. It would be useful to expand explanation of the results from Table 1, e.g. why Macedonia has positive change under optimistic scenario,
   * **Response:** Explanation is expanded (taking into account new updated figures and calculations).
9. Finally, and probably the most important, I recommend rewriting entire section 6. Current version of conclusions is quite specific and is not completely based on the findings presented in the paper. Conclusions should be more focused and flow better from the previous sections of the paper.
   * **Response:** *Conclusion* chapter is now revised to focus more on the direct results of the paper. However, please note that, since the results from the research (shrinking gap between the potential and real GDP) point to the fact that that the economies may need underlying change of the growth model (rather than just better utilization of current production factors which would be primarily needed if the large gap between potential and real GDP existed), the paper does briefly mention potential policy areas for structural reforms (but this part is now significantly shortened).

**Finally, please note that this revised article is now longer than recommended 4,000-6,000 words, but is in line with the current manuscript preparation instructions (**<http://www.efsa.unsa.ba/ef/ba/submission-guidelines>**), which note that the „*articles of shorter or longer length are also acceptable*“.**

**We thank the reviewers for their valuable comments and stand ready for any further explanations needed!**