Western Balkans Competitiveness Outlook 2024

REGIONAL PROFILE KEY FINDINGS

OECD
BETTER POLICIES FOR BETTER LIVES

Co-funded by the European Union

OECD

BETTER POLICIES FOR BETTER LIVES

This brochure has been produced with the financial assistance of the EU. The views herein can in no way be taken to reflect the official position of the EU nor its member states.

OECD South East Europe Regional Programme

A PARTNER FOR PROSPERITY AND STABILITY

Since 2000, the OECD South East Europe Regional Programme (SEERP) has been providing the region's economies with comprehensive policy analysis and advice to boost sustainable and inclusive economic growth and to facilitate the region's socio-economic convergence towards the OECD and EU.

Using OECD methods, tools and standards, the SEERP has provided regular analytical assessments and policy recommendations to bolster competitiveness and regional integration, in close alignment with the region's EU integration efforts. It also acts as the central entry point for the Western Balkans to tap into diverse policy advice from the OECD by facilitating engagement with OECD bodies and fostering co-operation between OECD members and regional stakeholders, including policy makers, business leaders and civil society.
https://www.oecd.org/south-east-europe/programme/

WESTERN BALKANS COMPETITIVENESS OUTLOOK: A TOOL FOR MONITORING PROGRESS IN BUILDING COMPETITIVE ECONOMIES

Co-funded by the European Union, the OECD *Western Balkans Competitiveness Outlook* stands as a flagship publication of the SEERP is the most comprehensive assessment of economic reforms in the six Western Balkan (WB6) economies: Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia. Since 2016, it has provided the region's policy makers with a unique benchmarking tool, enabling them to compare economic policy performance over time. The report series also provides robust evidence and actionable policy recommendations based on OECD standards and good practices to help policy makers design better policies. Its 2024 release marks the fourth edition.

* This designation is without prejudice to positions on status and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

Western Balkans Competitiveness Outlook 2024

The fourth edition of the *Western Balkans Competitiveness Outlook* covers 15 policy areas and consists of seven reports: one regional and six economy profiles. These reports provide economy-specific analyses and actionable recommendations for enhanced competitiveness within each area.

The regional profile offers insights into policy progress and challenges across the five clusters, monitoring the region's convergence towards OECD and EU standards.

Economy-specific profiles complement the regional assessment, offering each WB6 economy an in-depth analysis of its policies supporting competitiveness.

They also track the implementation of the previous 2021 study's recommendations and provide new recommendations tailored to the economies' evolving challenges. These recommendations aim to inform structural economic reforms and facilitate the region's socioeconomic convergence towards the standards of the EU and OECD.

ALBANIA
https://doi.org/10.1787/541ec4e7-en

BOSNIA AND HERZEGOVINA
https://doi.org/10.1787/82e0432e-en

KOSOVO
https://doi.org/10.1787/ff74ae0e-en

MONTENEGRO
https://doi.org/10.1787/ead1588e-en

NORTH MACEDONIA
https://doi.org/10.1787/8207326d-en

SERBIA
https://doi.org/10.1787/3699c0d5-en

REGIONAL PROFILE
https://doi.org/10.1787/170b0e53-en

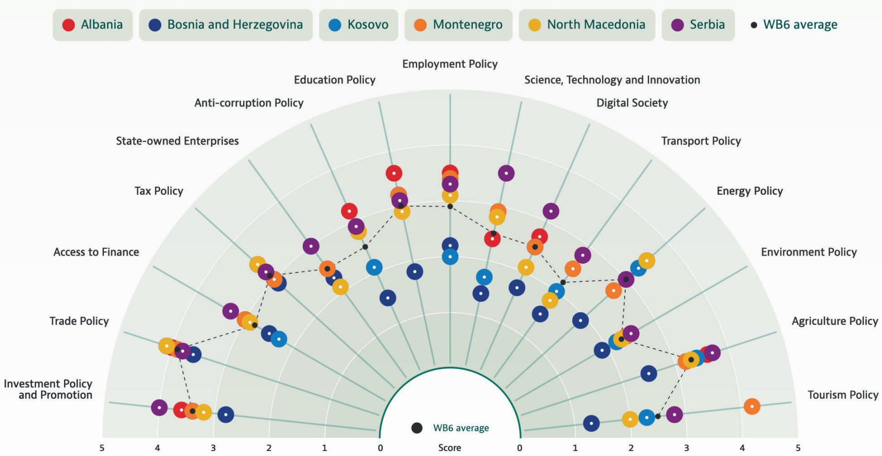
STRUCTURE OF THE WESTERN BALKANS COMPETITIVENESS OUTLOOK 2024

This edition introduces a novel approach that harnesses complementarities between these areas by organising findings into five policy themes crucial to accelerating socioeconomic convergence of the WB6 by fostering regional cooperation:

1. INFRASTRUCTURE AND CONNECTIVITY,
2. SKILLS,
3. BUSINESS ENVIRONMENT,
4. DIGITAL TRANSFORMATION,
5. GREENING.

Western Balkans Competitiveness Outlook Data Hub

Accompanying the reports is the introduction of the novel Data Hub, an interactive digital tool designed to showcase assessment results. Integrating data from the 2018, 2021, and 2024 editions, this tool supports monitoring and benchmarking of key economic reforms and policies across the WB6. Additionally, for the 2024 edition, it centralises access to both regional and economy-specific reports.





KEY FINDINGS BY CLUSTER

Five policy themes crucial to accelerating socioeconomic convergence


CLUSTER 1

INFRASTRUCTURE AND CONNECTIVITY

Well-developed and well-functioning infrastructure networks are the foundation for economic competitiveness, as they are necessary for trade, communications and economic activity. Composed of small economies that neighbour both each other and the European Union (EU), the Western Balkan region stands to gain from promoting the connectedness of its infrastructure networks, which can facilitate trade flows, the movement of people, and the efficiency of electronic communications and energy networks.

The WB6 economies have improved the reliability and efficiency of their infrastructure but still have a significant infrastructure gap with the European Union and struggle to converge to the EU level of infrastructure development and performance. Particularly, challenges persist in developing the density of transport infrastructure, the reliability of energy infrastructure and upgrading the region's digital infrastructure.

KEY ACHIEVEMENTS

- Substantial progress has been made in deploying organised markets for electricity in the region. With market coupling between Albania and Kosovo having taken place in early 2024, five out of six economies have organised day-ahead markets for electricity. This provides a key step towards further regional energy market integration and has the potential to improve price competitiveness and supply security.

- Policies to enhance the resilience of critical infrastructure are at an early stage in the region, and primarily focus on assessing rather than mitigating risks. Nevertheless, progress has been made, particularly in the cybersecurity field with the establishment of the Western Balkans Cyber Capacity Centre in 2023.

- The energy crisis has pushed the WB6 economies to become increasingly aware of the need to improve their resilience to external supply shocks by preparing adequate emergency response plans and working on the diversification of their energy supplies. Most economies are looking to achieve this goal through an increased focus on the deployment of renewable energy sources, although more ambitious efforts are required to achieve both goals.

- Progress is being made in most WB6 economies to lower barriers to market entry in the electronic communications sector as a means of supporting digital connectivity. This is being achieved by the introduction of EU good practices in facilitating market access through alignment with the European Electronic Communications Code (EECC), with Albania and Serbia having made the most progress and other economies following suit.

REMAINING CHALLENGES AND RECOMMENDATIONS

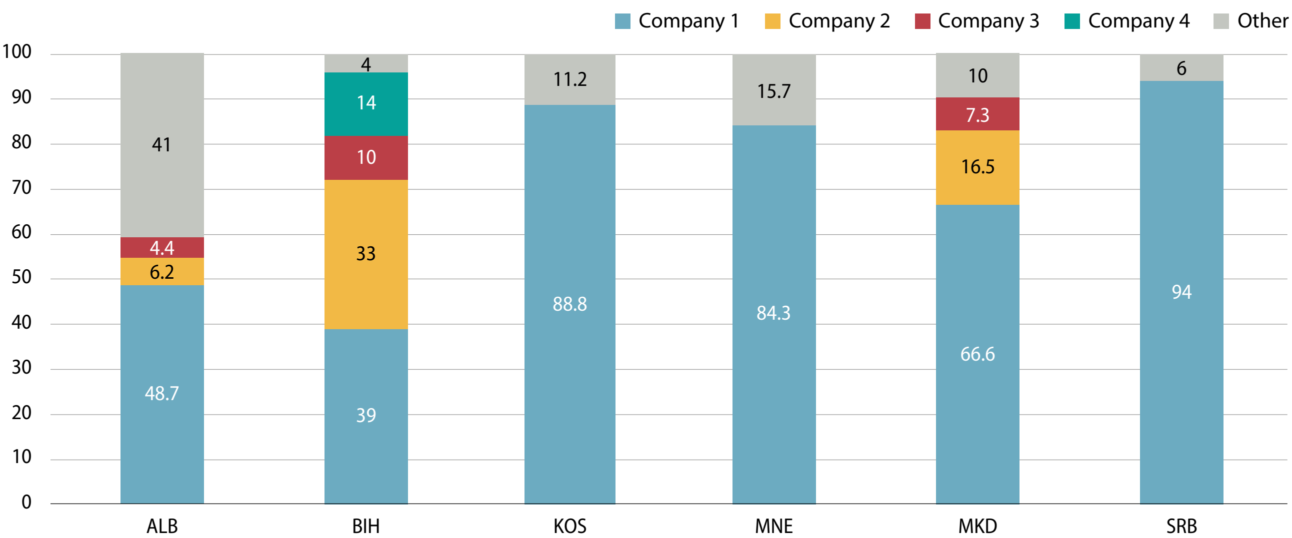
- **Develop robust cost-benefit analysis guidelines and impact assessment frameworks that assess a wide range of criteria.** Project appraisal and selection processes have significant room for improvement to ensure that investments are channelled into cost-effective and sustainable infrastructure projects. Albania, Montenegro and Serbia have made the most progress in improving their appraisal processes since the previous assessment, but have not yet been followed by the other WB6 economies. The WB6 economies should collaborate to standardise cost-benefit analysis guidelines and impact assessment frameworks for infrastructure projects, aligning them with EU and OECD standards that provide comprehensive guidelines outlining the criteria for assessing the economic, social and environmental impacts of infrastructure projects.

- **Increase investment and policy support for the development of the rail network and intermodal transport infrastructure.** The region's rail infrastructure is underdeveloped, at only 45% of the EU's level of rail infrastructure density in 2021. Moreover, despite some economies undertaking pilot investments into infrastructure such as intermodal terminals, policy frameworks for encouraging the use and regulation of intermodal infrastructure are underdeveloped in the region. Developing the region's rail network and implementing policies to support intermodal transport can be a major boost to the region's economic competitiveness by reinforcing its role as a key transport corridor.

- **Enhance the role of organised energy markets and enforce their de facto deregulation.** Insufficient competition in electricity markets and domination by powerful incumbents often constrain any benefits of the deployment of organised power markets. In all WB6 economies, except for Albania, dominant market incumbents represent more than 80% of the share of electricity traded on the market.

- **Introduce support mechanisms to encourage targeted research and development (R&D) and innovation at the regional level.** Although participation in regional and European research collaboration platforms has increased, it is constrained by the overall low competitiveness and development of the region's research and innovation infrastructure, underpinned by low human resources and insufficient financial support. Incentivising regional research, could stimulate both competition for research excellence but also intra-regional collaboration that may increase the region's participation in global research networks as a result of economies of scale.

FIGURE 1. **Market shares: % of traded electricity volumes in the day ahead timeframe in the WB6 economies (2022)**



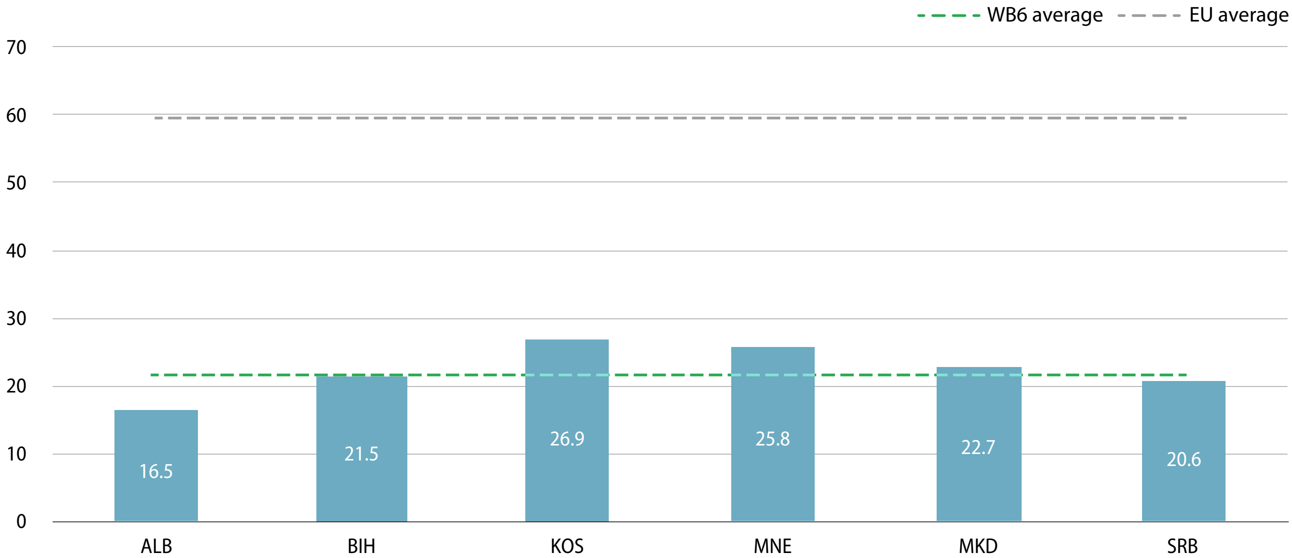
Note: Companies with a market share smaller than 4% are grouped under "Other". Please note that the market shares in Bosnia and Herzegovina most likely reflect a fragmentation of the electricity market along entity and cantonal lines, rather than actual competition in the market.

Source: ACER (2023), *Progress of EU electricity wholesale market integration: 2023 Market Monitoring Report*. https://www.acer.europa.eu/sites/default/files/documents/Publications/2023_MMR_Market_Integration.pdf.

CLUSTER 2 SKILLS

Skills play a pivotal role in enhancing competitiveness. Systemic issues such as large-scale emigration, gaps in education and training infrastructure, and limited innovation capacity can constrain labour productivity growth: in 2023, the WB6 had an average labour productivity level that was only 36% of that of the EU (Figure2). A highly skilled population not only boosts the region's productivity, but also ensures an innovative, resilient workforce that can adapt to the constantly evolving needs of the labour market. Ensuring the development and effective use of skills is particularly important as the region advances on its EU accession journey.

FIGURE 2. **Labour productivity (GDP per hour worked) (2023)**



Source: ILOSTAT (2024), ILO Modelled Estimates (ILOEST database), https://ilostat.ilo.org/topics/labour-productivity/ (ALB, BIH, MNE, MKD, SRB).
Labour productivity was calculated for KOS using GDP data from the World Bank (World Bank (2024), World Development Indicators, https://databank.worldbank.org/source/world-development-indicators#) and hours worked from government reports (Government of Kosovo, "Economic Reform Programme (ERP) 2022-2024, https://kryeministri.rks-gov.net/wp-content/uploads/2022/08/Economic-Reform-Programme-2022-24.pdf).

The WB6 economies have made some progress on skills policies in recent years and are increasingly (albeit slowly) converging towards EU levels. Despite these positive regional trends, there is still significant scope to strengthen policies and improve outcomes related to education, employment and innovation.

KEY ACHIEVEMENTS:

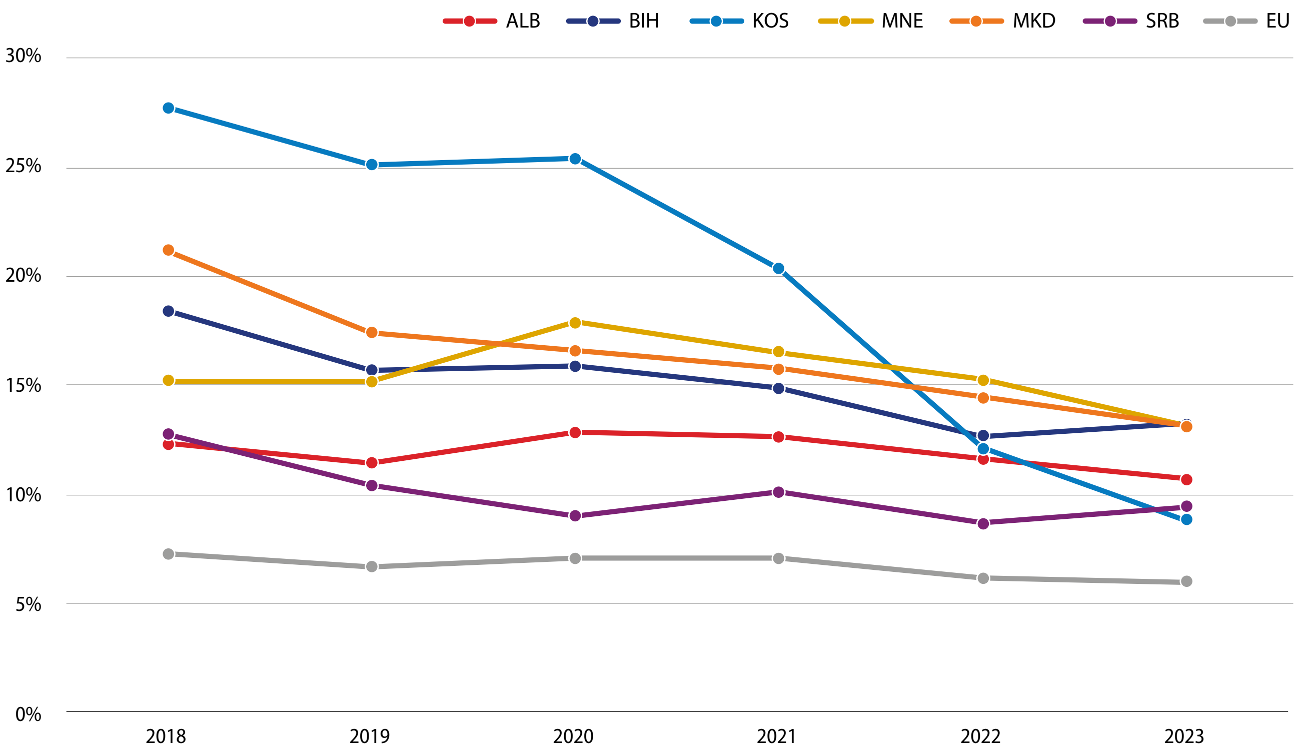
- All WB6 economies have seen their unemployment rates decrease since 2018 (Figure 3). In fact, they have made considerable strides in implementing their respective Youth Guarantee schemes, which aim to improve the school-to-work transition and reduce youth inactivity and unemployment rates. Specifically, five of the six economies have adopted implementation plans, with most either planning or already rolling out pilot programmes.

- All WB6 economies have made progress towards modernising their vocational education and training (VET) systems, primarily through the enhanced promotion of work-based learning (WBL). This serves as a key step towards strengthening the labour market relevance of VET programmes and improving the employment outcomes of participants.

- The region's widespread adoption of common digital competence frameworks and the inclusion of information and communication technology (ICT) courses in primary and secondary school curricula have advanced how students' acquisition of digital skills is supported. These strengthened policy measures reflect a concerted push to give students the skills demanded by current and future labour markets.

- To expand the region's skills pool, recent measures have sought to open labour markets and increase the recruitment of regional and international talent. The 2023 memorandum of understanding for the mutual recognition of professional qualifications among the WB6 economies serves to increase intra-regional mobility, while ongoing strategies and initiatives seek to better engage and attract migrants and diaspora communities.

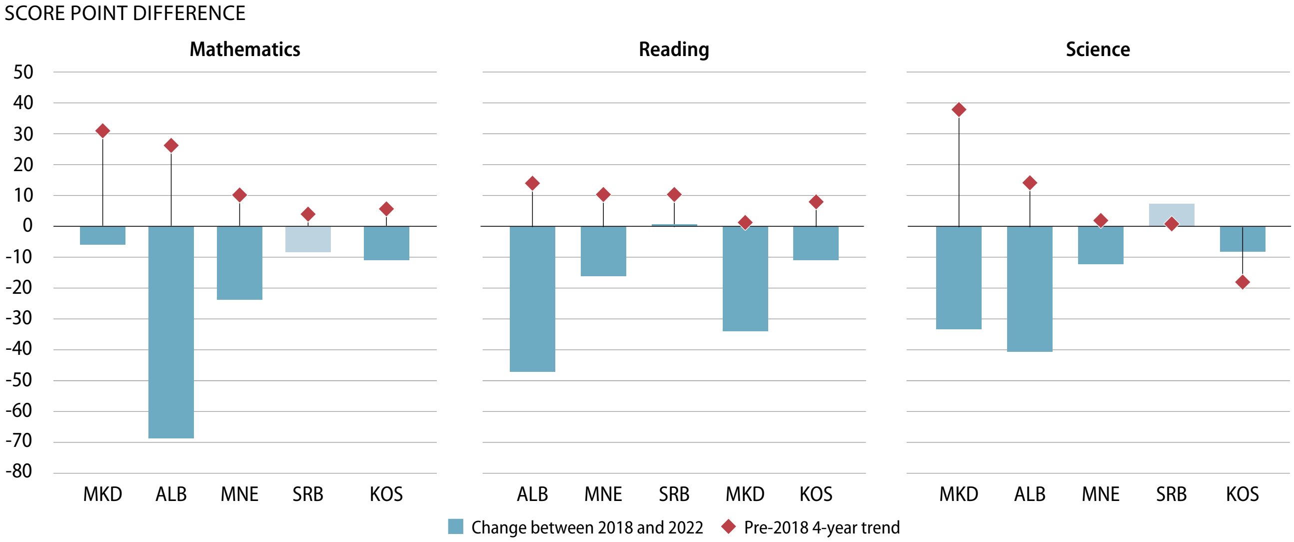
FIGURE 3. **Unemployment rates in the Western Balkans**



Note: Unemployment rates are all modelled ILO estimates except KOS, which uses national estimates.

Source: World Bank (2024), World Development Indicators: Unemployment, total (% of total labor force) (modeled ILO estimate), https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?skipRedirection=true&view=map; World Bank (2024), Western Balkans Regular Economic Report: Invigorating Growth, https://documents1.worldbank.org/curated/ en/099040524061582128/pdf/ P5006481fb98fb0db1a9401e200293e761d.pdf"

FIGURE 4. **Short- and long-term changes to the Western Balkan economies' performance in PISA**



Note: Statistically significant differences are shown in a darker tone. Ranked, within each chart, in descending order of the pre-2018 trend for the corresponding subject.

Sources: OECD (2019), *PISA 2018 Results (Volume I): What Students Know and Can Do*, https://doi.org/10.1787/5f07c754-en;
OECD (2023), *PISA 2022 Results (Volume I): The State of Learning and Equity in Education*, https://doi.org/10.1787/53f23881-en.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **Scale up initiatives for improving the quality and inclusivity of the education systems.** The WB6 economies continue to struggle with delivering quality education, which impacts the development of students' foundational skills. In the 2022 Programme for International Student Assessment (PISA), most 15-year-olds (79%) in the region were low performers in at least one of the three tested subjects (mathematics, reading, science), compared to an OECD average of 45% (Figure 4).

- **Ensure adequate financing for education.** Education spending in the region is both insufficient, standing at 20% lower than the EU average, and inefficient. Over 80% of WB6 economies' education budget is allocated to salaries for teachers, despite a relatively higher student-to-teacher ratio than the EU (nearly 16 students to 1 teacher in the WB6 vs. 13 to 1 in the EU). Despite donor funding, there is limited room for investment in essential areas such as updated technologies or infrastructure, which could constrain students' learning and academic achievement.

- **Continue to bolster skills intelligence systems.** Skills intelligence systems in the WB6 economies are notably underdeveloped. Irregular analyses, decentralised data collection and the overarching lack of predictive tools limit the efficacy of intelligence systems to inform policy makers and the public about current and future skills needs. There is a need to further enhance skills intelligence to ensure the accurate assessment and planning of current and future skills needs.

- **Develop incentives to enhance the attractiveness of flexible adult learning opportunities, particularly those focused on developing skills for the digital and green transitions.** Despite a shrinking labour force due to an ageing population and declining birth rates, WB6 economies have made limited efforts to better engage adults in the labour force. The participation of adults in lifelong learning in the region is half that of in the EU, and activation policies only marginally address the needs of older unemployed individuals. These factors significantly limit opportunities for adults to adapt to constantly evolving skills demands, hindering them from maintaining relevant, up-to-date knowledge and competences.

- **Enhance the innovation capacity.** Investment in R&D is critically low. In five out of six economies, R&D expenditure (as a percentage of gross domestic product, GDP) does not surpass 20% of EU levels, posing a serious barrier to the region's innovation capacity and the development of skilled researchers.

CLUSTER 3 BUSINESS ENVIRONMENT

A favourable business environment with transparent regulations, efficient administrative procedures and effective contract enforcement is essential for attracting investment, fostering entrepreneurship and driving economic growth. By implementing reforms to streamline processes and reduce red tape, promote transparency, and strengthen the rule of law, the WB6 economies can unlock their full potential, attract more investment and position themselves as an attractive destination for businesses seeking growth opportunities in South East Europe.

The WB6 economies have made some progress on policies foster an enabling business environment policies in recent years and are increasingly (albeit slowly) converging towards EU levels. Despite these positive regional trends, there is still scope to strengthen policies and improve outcomes related to access to finance, business taxation, level playing field, trade and foreign investment.

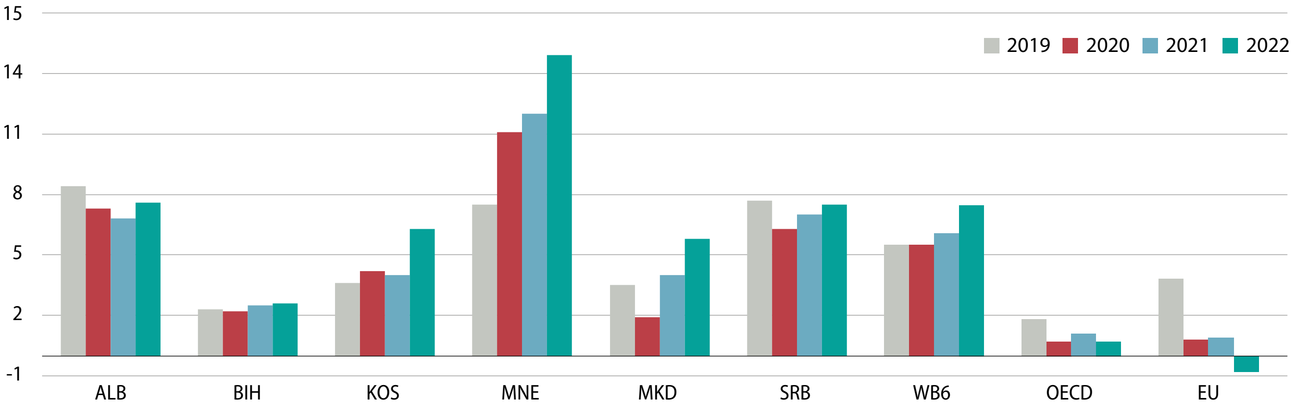
KEY ACHIEVEMENTS

- On the back of improved legal and regulatory frameworks, the WB6 economies have bolstered banks' liquidity and solvency. This has resulted in substantial liquidity buffers, offering the potential for further expansion of financing activities to support investment and growth.
- Tax administrations across the region have significantly eased the administrative burden on businesses by enhancing key services and streamlining procedures. The expansion of tax services has increased information accessibility, while the growing use of electronic filing and payment has streamlined compliance, making it easier and more efficient.
- Supported by the continued reduction or removal of statutory restrictions on foreign direct investment, as well as continued overall improvements in the business environment, the WB6 economies have attracted substantial inflows of foreign direct investment, averaging 3.5 times more than the European Union (EU) over the last five years (Figure 5).
- The region has taken substantial steps towards regional economic integration, showcasing its commitment to align with the EU. This includes harmonising trade policies, reducing trade barriers and enhancing intra-regional customs infrastructure.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **Leverage a regional approach in establishing a common capital market aligned with the EU acquis, including environmental and social standards.** Facing liquidity challenges, capital markets remain marginal in the financial landscape of the WB6 economies. At the same time, alternative finance avenues such as private equity or crowdfunding have not been developed, resulting in businesses disproportionately relying on banks for funding investments.

FIGURE 5. **Net FDI inflows (% of GDP)**



Source: UNCTAD (2023), UNCTADstat: Data Centre, https://unctadstat.unctad.org/wds/;
World Bank (2023), *Western Balkans Regular Economic Report No.24: Toward Sustainable Growth*, https://openknowledge.worldbank.org/handle/10986/40496.

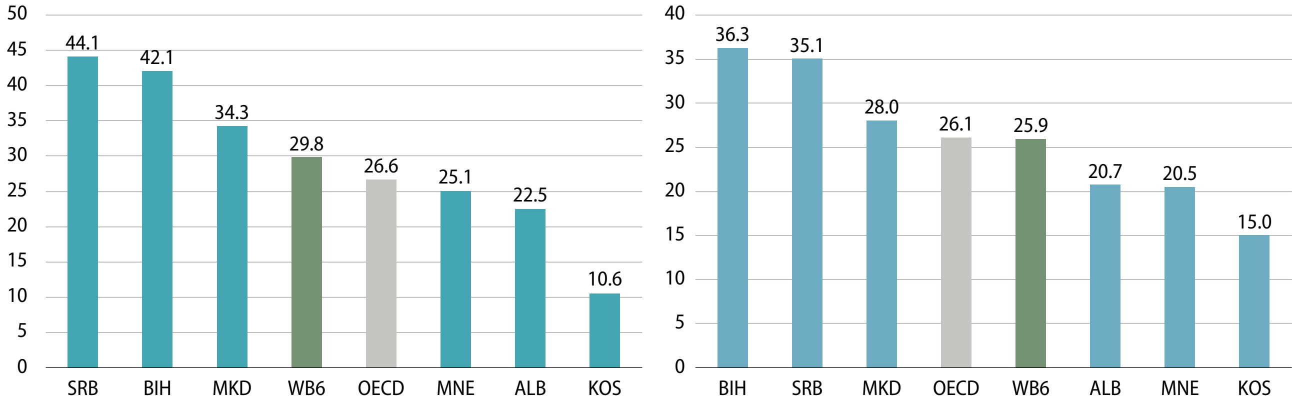
- **Revisit tax policies to better combat informality.** High, flat social security contributions (SSC) rates increase the cost of low-skilled labour, contributing to the region's high levels of informality. Yet, few economies have enacted reforms to reduce the burden of SSCs, despite the looming additional strain posed on tax revenues by demographic shifts, such as an ageing population and high levels of emigration (Figure 6).

- **Ensure the continuity of anti-corruption policy frameworks by avoiding gaps between the validity of old and new policy documents.** Persistent corruption undermines the competitiveness of the WB6 economies, as evidenced by businesses perceiving corruption as a significant obstacle to their operations and growth. The lack of sustained, long-term strategic frameworks for combating corruption makes it difficult to address high corruption levels.

- **Develop state ownership policies and establish, or strengthen, central ownership or coordination entities.** Region-wide, state-owned enterprises (SOEs) lack centralised ownership institutions and clearly defined ownership policies, hindering fair competition. The level playing field is further distorted as SOEs across the region are frequently loss-making, yet benefit from continued state support.

- **Increase the uptake of alternative dispute resolutions.** Further progress in contract enforcement and dispute resolution is needed. An average civil or commercial court case takes 572 days to resolve, more than double the EU average of 234 days, while alternative dispute resolution mechanisms remain underutilised. Creating a centralised portal containing all necessary legislation and a step-by-step guide to ADR could also streamline and facilitate the procedure for companies.

FIGURE 6. **Share of social security contributions in tax revenues (left) and Social security contributions rates (right) in the WB6 economies and the OECD (2022)**



Source: OECD (2024), OECD Tax Database, https://www.oecd.org/tax/tax-policy/tax-database/.

CLUSTER 4 DIGITAL TRANSFORMATION

Digital transformation affects all sectors and permeates many facets of society, cutting across traditional boundaries and impacting governance, economy, education and beyond. Embracing digital transformation at a national level requires collaborative efforts across government, industry, academia and civil society to drive innovation, enhance efficiency and ensure inclusive development in an increasingly interconnected world. Fostering digital transformation at the regional level demands the synchronised efforts of all the WB6 economies.

The WB6 economies have made some progress in digitalisation in recent years, and are slowly converging towards EU levels. However, a fundamental reimagining of business models and operations, government decision-making processes, and co-ordination mechanisms across the entire economy is still needed.

KEY ACHIEVEMENTS

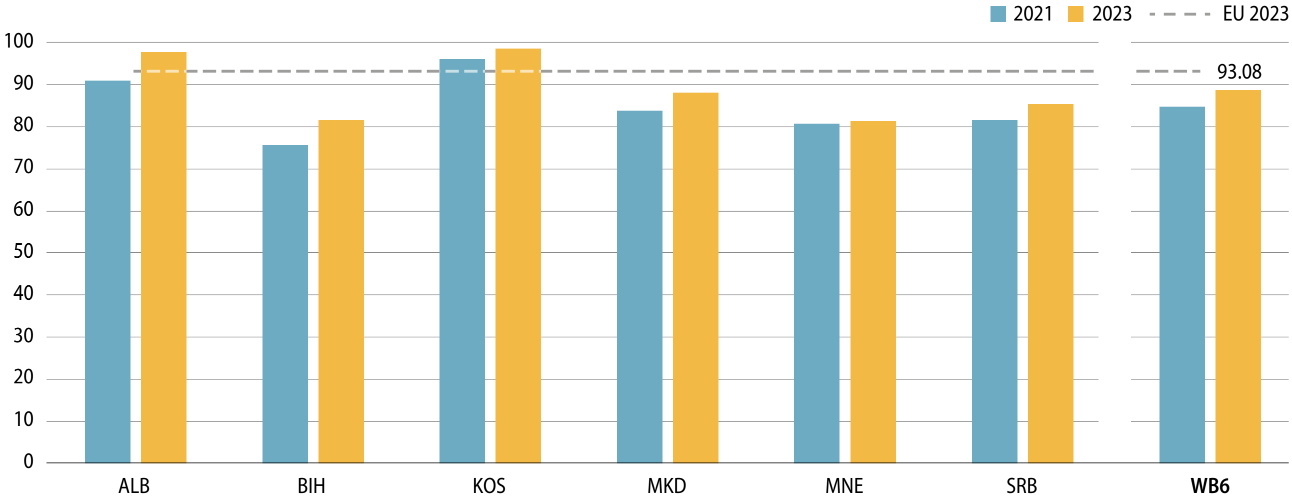
- Broadband coverage and quality have improved, with an annual increase of 3.8 percentage points in available fibre connections, rising from 29.2% in 2021 to 33.0% in 2022. Four economies have joined the Balkans Digital Highway initiative to improve high-speed broadband access at local and regional levels. Furthermore, the region is increasingly implementing initiatives to address connectivity disparities between urban and rural areas – these developments further helped to boost access to internet across the region (Figure 7).

- Spurred by concerns over digital threats and data breaches, WB6 economies are increasingly focusing on improving public perception and capacity regarding privacy and data protection. Notable advancements have been made in updating policy and legal frameworks regarding cybersecurity, and privacy and data protection.

- Progress has been made in digitalising government services, including investment in digital infrastructure and user-centric e-service portals. Economies have also made headway in developing key enablers for digital government, such as improving relevant legislation, implementing electronic identification and payment systems, and integrating these systems with national e-service portals. All the WB6 economies have joined the Digital Europe Programme, which provides opportunities for businesses and public administration to participate in projects that deploy innovative digital technologies across the EU.

- The WB6 economies are increasingly focusing on supporting small and medium-sized enterprises (SMEs) to adopt digital technologies, develop e-commerce and e-business, and engage in digital innovation. Efforts have been intensified to promote information and communication technology (ICT) investment through programmes that offer monetary support for purchasing ICT equipment and services, as well as consulting and mentoring services.

FIGURE 7. **Access to internet**



Source: World Bank (2024), World Development Indicators: Individuals using the Internet (% of the population), https://data.worldbank.org/indicator/IT.NET.USER.ZS.

REMAINING CHALLENGES AND RECOMMENDATIONS

- **Address persisting e-accessibility issues in public sector websites and integrate accessibility standards and requirements into the public procurement of ICT.** The lack of electronic accessibility of digital government services, public websites and applications in the WB6 exacerbates the marginalisation of people with disability. The non-binding nature of accessibility rules in some Western Balkan economies, and coordination deficiency in enforcing them in others, perpetuates inequality and exclusion, as these individuals face barriers to accessing critical government information, services and benefits.

- **Step up support to help businesses' digital transformation.** Insufficient funding limits the number of businesses benefiting from ICT adoption, with only 63.7% of WB6 enterprises having a website, compared with 78.1% in the EU. This creates challenges for the digitalisation efforts of businesses, particularly given the shortage of digitally skilled workers. This gap often creates a heavy reliance on EU and donor support across most regional economies.

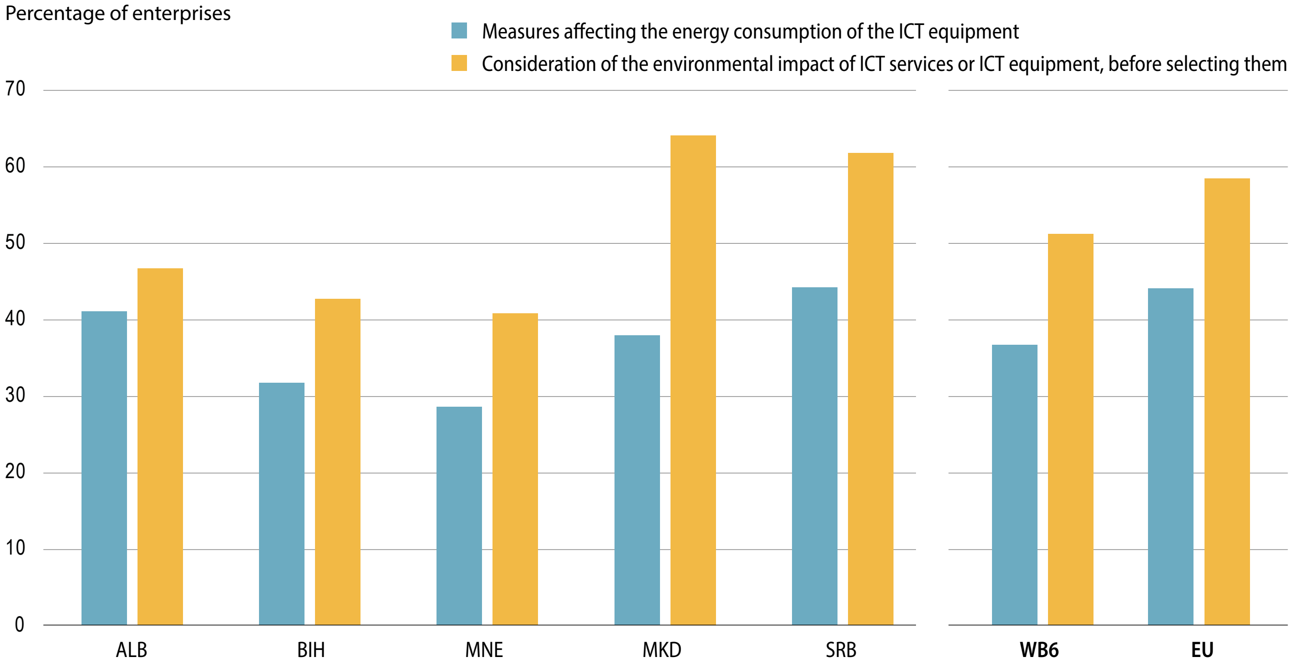
- **Improve regional interoperability and advance towards European interoperability to achieve full integration into the European Digital Single Market.** Limited cross-border interoperability hampers WB6 economies' aspirations to facilitate the free movement of workers and citizens across the region and join the European Digital Single Market. To overcome this obstacle, the region should prioritise efforts to enhance regional interoperability, aligning with the revised European Interoperability Framework.

- **Strengthen cyber resilience by enhancing co-operation in combating cybercrime, ensuring adequate resources and investing in a skilled workforce to address cyber threats effectively.** A lack of important reforms for protecting critical infrastructure and tangible initiatives to enhance cybersecurity capacities in public administration leave the region particularly sensitive to data breaches and misuse. Inadequate resources and capacities of the relevant institutions persist, with understaffing a common issue across most regional economies.

- **Develop green digital policies and integrate green digital technology considerations into horizontal and sectoral policies.** The region has yet to develop policies to ensure the integration of green digital technologies and environmentally sustainable practices into digitalisation processes. Despite some measures in businesses (Figure 8), the WB6 economies have not formally assessed the environmental footprint of the digital sector in the public and private spheres, and have yet to evaluate the environmental impact of government and business digitalisation. Programmes and initiatives specifically designed to foster a green digital sector are absent.

FIGURE 8. **Green digital measures in businesses (2022)**

Percentage of enterprises



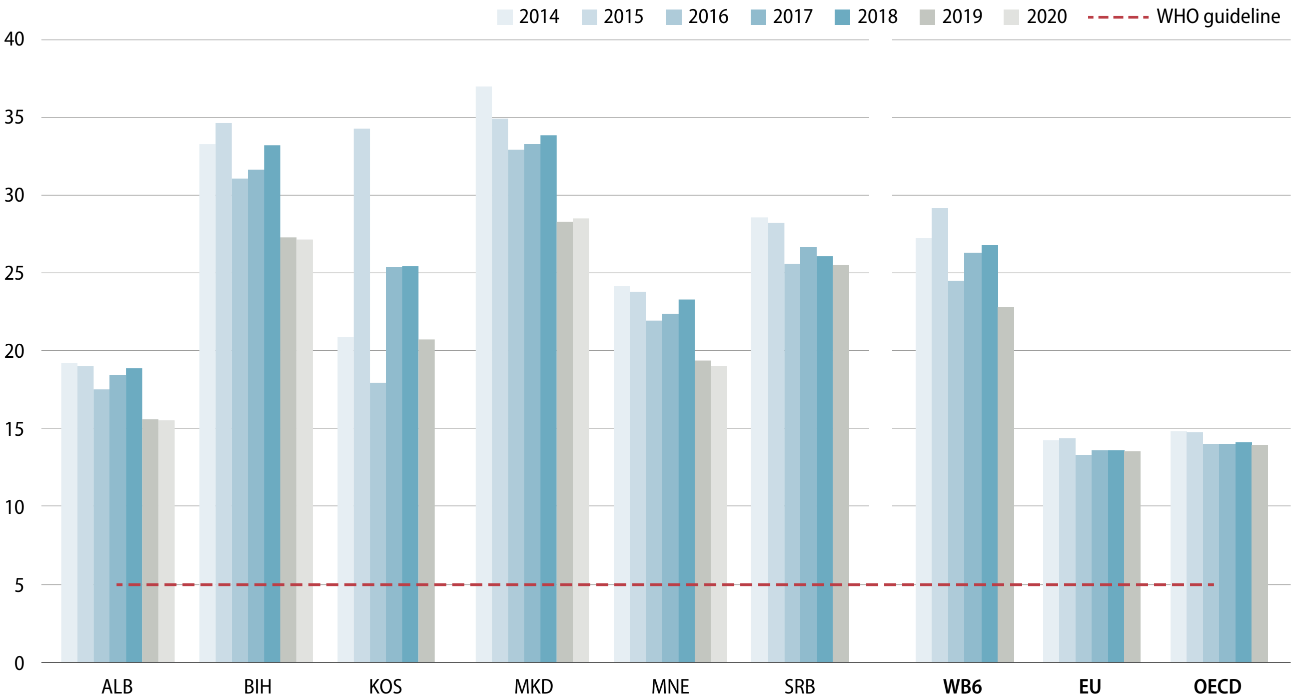
Note: No data available for Kosovo. Data for Albania not available on indicator, The enterprises considered the environmental impact of ICT services, or ICT equipment, before selecting them.

Source: Eurostat (2024), ICT and environment by size class of enterprise, https://ec.europa.eu/eurostat/databrowser/view/isoc_e_envs/default/table? lang=en&category=isoc.isoc_e.

CLUSTER 5 GREENING

Environmental pressures and climate change threaten the WB6 economies, affecting growth and competitiveness. At the 2020 Sofia Summit, the WB6 committed to the Green Agenda, aiming for carbon neutrality by 2050 and aligning with the European Green Deal. This involves fostering a circular economy, combating pollution, and protecting biodiversity. Transitioning to renewable energy and low-carbon transportation is crucial for energy security and competitiveness. Effective policies for adaptation will be essential for resilience against climate change and embracing the circular economy is crucial for sustainable growth and reducing environmental impacts.

FIGURE 9. **Annual mean population exposure to $PM_{2.5}$ air pollution, Western Balkans, EU, OECD (2014-20)**
In micrograms per cubic metre (µg/m3)



Note: $PM_{2.5}$ is fine particulate matter. Data for EU-28, OECD, Albania, Bosnia and Herzegovina, Montenegro, and North Macedonia are OECD estimates. Data for EU-28, OECD, and Serbia are only available until 2019. Data for Kosovo come from the Kosovo Environmental Protection Agency, only available until 2019.

Sources: OECD (2022), "Exposure to $PM_{2.5}$ in countries and regions", https://stats.oecd.org/Index.aspx?DataSetCode=EXP_PM2_5; for KOS: Kosovo Environmental Protection Agency (2020), Report on the state of the environment, https://www.ammk-rks.net/assets/cms/uploads/files/Publikime-raporte/ANG_Web.pdf.

The WB6 economies have made some progress in developing regulations and policies to facilitate the green transition in recent years, gradually aligning with the developments outlined in the Green Agenda for the WB6. Although progress has been made, the region needs to further enhance the implementation and impact of greening policies to ensure sustainable economic opportunities.

KEY ACHIEVEMENTS

- In acknowledgement of the increasing impact of climate change on their competitive landscapes, all WB6 economies have developed regulatory and policy frameworks setting targets for decarbonisation, aligning with the regional goal of achieving climate neutrality by 2050. These frameworks, in line with the COP28 agreement on phasing out fossil fuels, lay the groundwork for future actions, and prioritise sustainability and resilience.

- While reliance on fossil fuels in key emitting sectors persists, WB6 economies are actively expanding the adoption of renewable energy sources by implementing de-risking mechanisms and renewable support schemes. Efforts to enhance energy efficiency have also been strengthened.

- Depollution initiatives are underway, with substantial investments earmarked for water supply and sanitation infrastructure across all WB6 economies in response to escalating water and soil pollution levels. The Western Balkans Soil Partnership has also made a regional commitment to safeguard soils from contaminants.

- Amidst the current economic backdrop emphasising the risks of depending on globalised linear supply chains and low-cost virgin raw materials, the Western Balkans has witnessed a notable shift towards transitioning to a circular economy. Driven by whole-of-society initiatives, policy frameworks have been developed that provide clear guidance on priority sectors for maximising economic and environmental benefits, as well as fostering value creation in circular production and consumption.

REMAINING CHALLENGES AND RECOMMENDATIONS

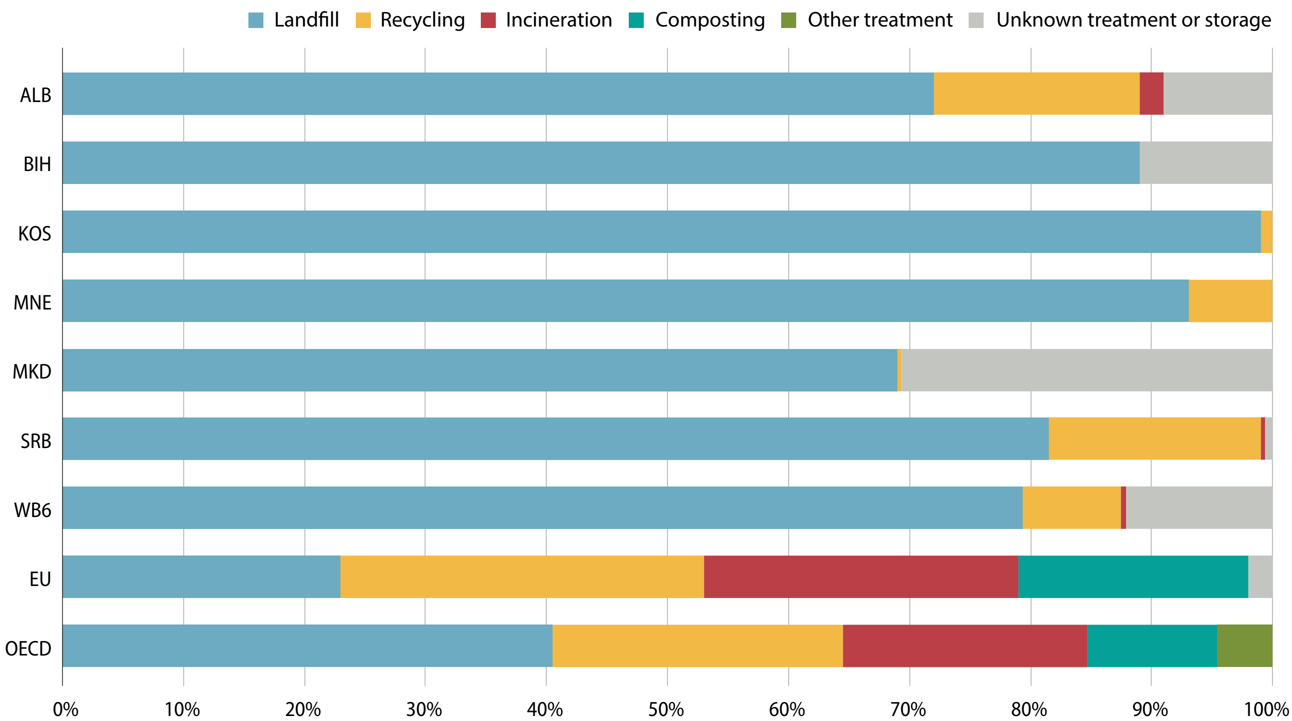
- **Prioritise comprehensive capacity building and financial support for the private sector to address new obligations related to climate change mitigation measures and the CBAM.** While all WB6 economies have committed to achieving carbon neutrality, they are still in the early stages of addressing the socio-economic impact of decarbonisation on affected businesses, regions and populations. Notably, access to green finance and training for the private sector on compliance with increasing mitigation measures remains limited, particularly in response to the European Union's (EU) Carbon Border Adjustment Mechanism.

- **Develop an all-inclusive land-use policy framework and strengthen institutional coordination between different ministries responsible for land-use issues related to climate, biodiversity and agriculture.** The protection and restoration of ecosystems, which is essential for ensuring the sustainable economic development of the region, is advancing at slow pace. Overarching land-use management frameworks are lacking, hampering the effective planning, monitoring and use of land resources to maximise economic, social and environmental benefits. Moreover, economic activities such as tourism, mining and agriculture continue to threaten biodiversity conservation and ecosystem health.

- **Improve air quality by decreasing emissions from energy production and industrial processes.** Despite recent policy improvements, the Western Balkans has seen limited initiatives to address air pollution (Figure 9). It remains a crucial environmental and health concern, and there is a need to further improve air quality monitoring systems.

- **Improve policies on waste management.** The WB6 economies have witnessed a constant increase in waste generation per capita, and effective waste management remains a significant challenge throughout the region, placing substantial pressure on already strained resources, infrastructure and ecosystems. The recycling rate of municipal waste among the economies (7.1% on average) remains over 40% lower than in the EU, leading to increased resource depletion (Figure 10).

FIGURE 10. **Municipal waste treatment in the Western Balkans (2021)**



Note: Data for BIH are from 2019, and data for the OECD are from 2020.

Sources: Respective Statistical Offices of WB6 economies; for Bosnia and Herzegovina, EEA (2022), Municipal waste management in the Western Balkan countries, https://www.eea.europa.eu/publications/municipal-waste-management-in-western; for OECD, OECD (2023), Municipal waste, Generation and Treatment, https://stats.oecd.org/index.aspx?DataSetCode=MUNW.

Western Balkans Competitiveness Outlook 2024

The regional profile presents assessment findings across five policy clusters crucial to accelerating socio-economic convergence: infrastructure and connectivity, skills, business environment, digital transformation and greening. Economy-specific profiles complement the regional assessment, offering each WB6 economy an in-depth analysis of their policies supporting competitiveness. They also track the implementation of the previous Competitiveness Outlook 2021 recommendations and provide additional ones tailored to the economies' evolving challenges. These recommendations aim to inform structural economic reforms and facilitate the region's socio-economic convergence towards the standards of the EU and OECD.

The complete publication can be accessed at:
https://doi.org/10.1787/170b0e53-en

For more information:

Marzena Kisielewska
marzena.kisielewska@oecd.org
Head of the South East Europe Division
OECD

Umur Gökçe
Umur.gokce@oecd.org
Economic Advisor
OECD

OECD
BETTER POLICIES FOR BETTER LIVES

https://www.oecd.org/south-east-europe/

@OECDglobal @MKseeurope

Co-funded by
the European Union