BETTER POLICIES FOR BETTER LIVES

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Western Balkans Competitiveness Outlook 2024

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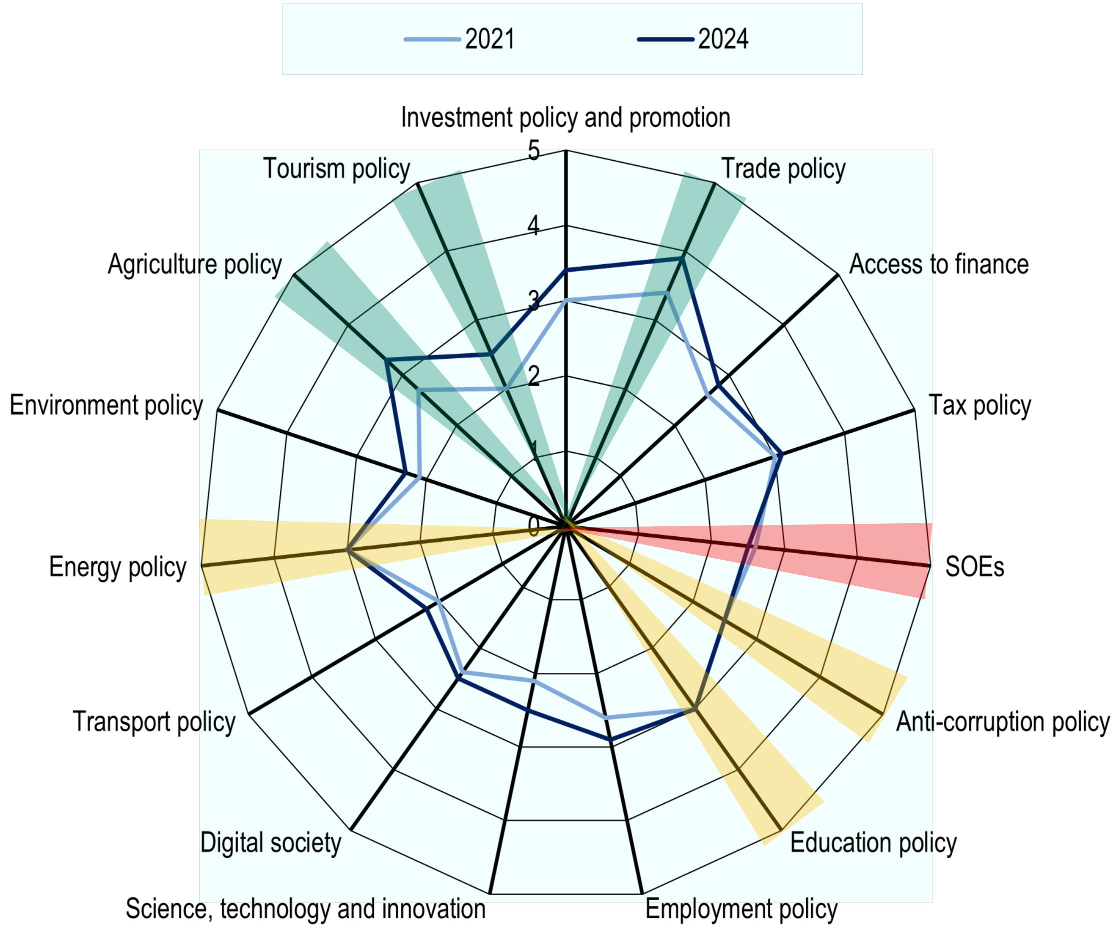
COMPETITIVENESS OUTLOOK 2024: OVERALL RESULTS

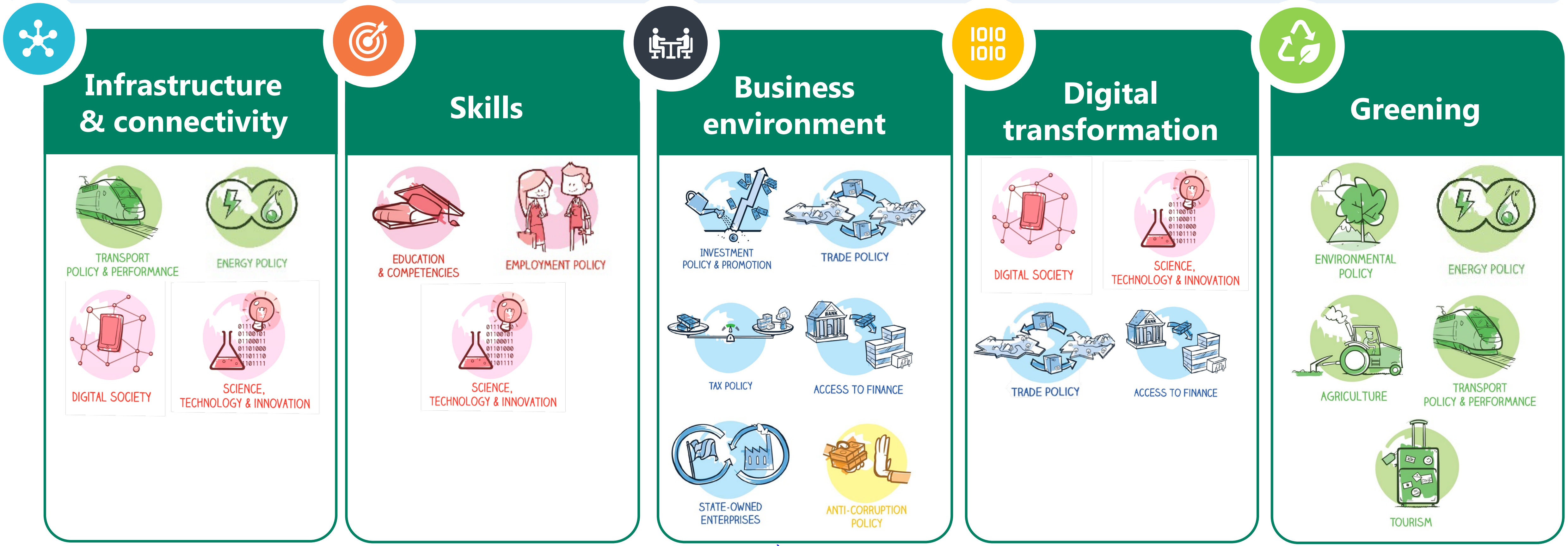
Assessment of the **15 policy areas** by more than **400 qualitative and quantitative indicators**.

- Since the *CO 2021*, **11 of 15 dimensions** saw a **score increase**.
  - Biggest increases observed in agriculture policy (+0.6), trade policy (+0.5) and tourism policy (+0.5).
- **3 dimensions** (anti-corruption, education and energy policy) saw their scores **stagnate**.
  - Weaker performance in education and energy stems from challenges in adapting to the impacts of the green and digital transition.
  - Few efforts were undertaken to further strengthen anti-corruption efforts.
- Only **1 dimension** – state-owned enterprises (SOEs) – saw a **decrease** in score.
  - The decline was largely due to poor outcomes in shielding SOEs from political interference



REGIONAL REPORT: POLICY CLUSTERS

- **Cluster approach** to leverage information from the 15 policy dimensions and produce a cross-dimensional analysis on **5 key areas**: (1) **Infrastructure and connectivity**, (2) **Skills**, (3) **Business environment**, (4) **Digital transformation**, (5) **Greening**.
- This new approach to the regional report highlights **areas key to economic growth and convergence**, effectively illustrating significant advancements alongside policy bottlenecks impeding progress.

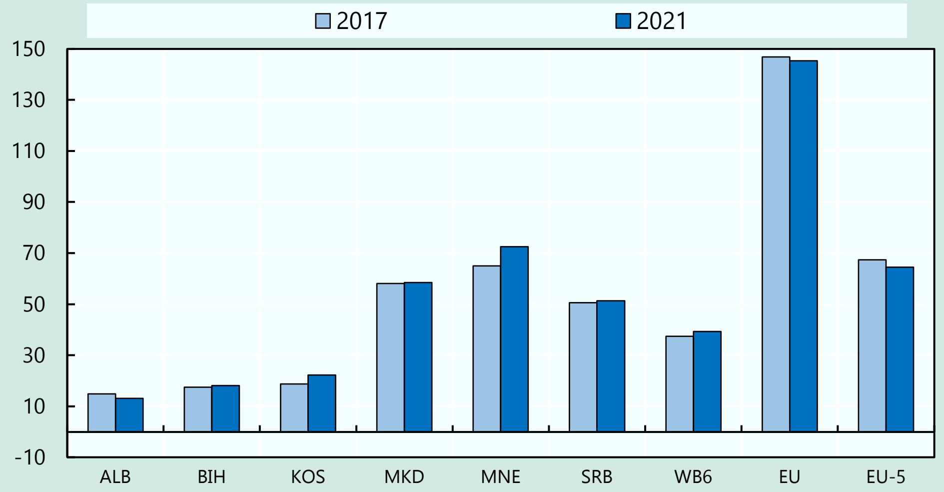


1. INFRASTRUCTURE AND CONNECTIVITY

The WB6 economies have improved the reliability and efficiency of their infrastructure…

- **The development of organised electricity markets advanced**, as evidenced by the launch of national day-ahead markets and the first regional power market coupling.
- **Barriers to market entry in the electronics communications sector were lowered to better support digital connectivity.**
- **Regional transport connectivity is gradually improving** through the establishment and operationalisation of common crossing points, allowing for smoother trade flows and enhanced co-operation.

Road infrastructure density (km by area of 100 km2)



Note: EU-5 comprises Austria, Bulgaria, Croatia, Greece and Romania. Data for Greece are not available.
Source: OECD (2023[2]), "Indicators: Transport infrastructure", https://stats.oecd.org/index.aspx?queryid=73638; Kosovo Agency of Statistics (KAS).

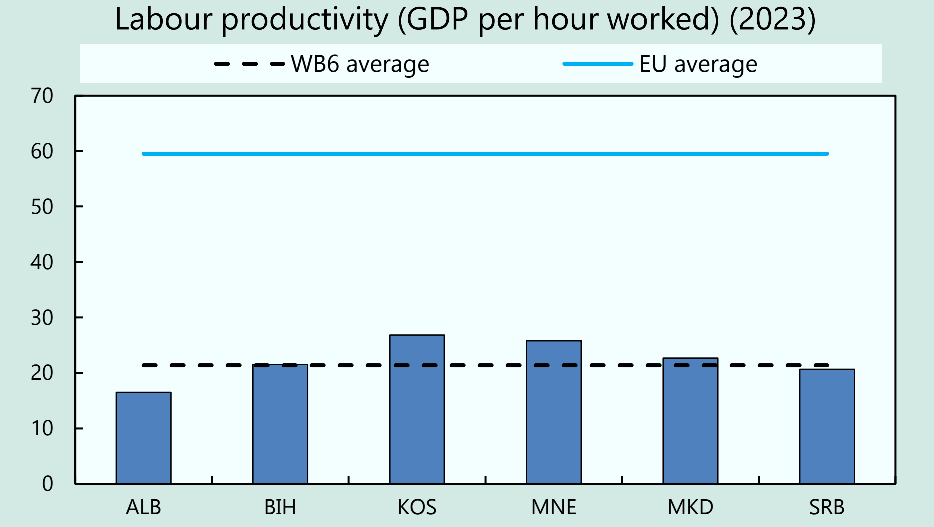
… but significant infrastructure gaps still remain.

- **Transport infrastructure across the region remains underdeveloped,** with railway and road density only at 27% and 45%, respectively, of EU levels.
- **Competition in energy markets is restricted by high degrees of market concentration**. Dominant market incumbents represent over 80% of the share of electricity traded on power markets.
- **Adaptation measures and policies** that proactively improve the resilience of critical infrastructure to potential threats **are still in their early stages**.

2. SKILLS

The regional labour market demonstrates robust performance…

- **Implementation of youth guarantee schemes has flourished**, curbing youth inactivity and unemployment.
- **Vocational education and training (VET) systems are undergoing modernisation**, with a growing emphasis on work-based learning.
- **Immigration policies have been revisited to meet growing labour demand**, as demonstrated by the 60% increase in the number of temporary foreign workers since 2018.



Source: ILOSTAT, "ILO Modelled Estimates (ILOEST database); World Bank (2024), "World Development Indicators", Government of Kosovo, "Economic Reform Programme (ERP) 2022-24". All data comes from 2023 except KOS (latest data available from 2019).

… nevertheless, challenges to skills development impede improved education and employment outcomes.

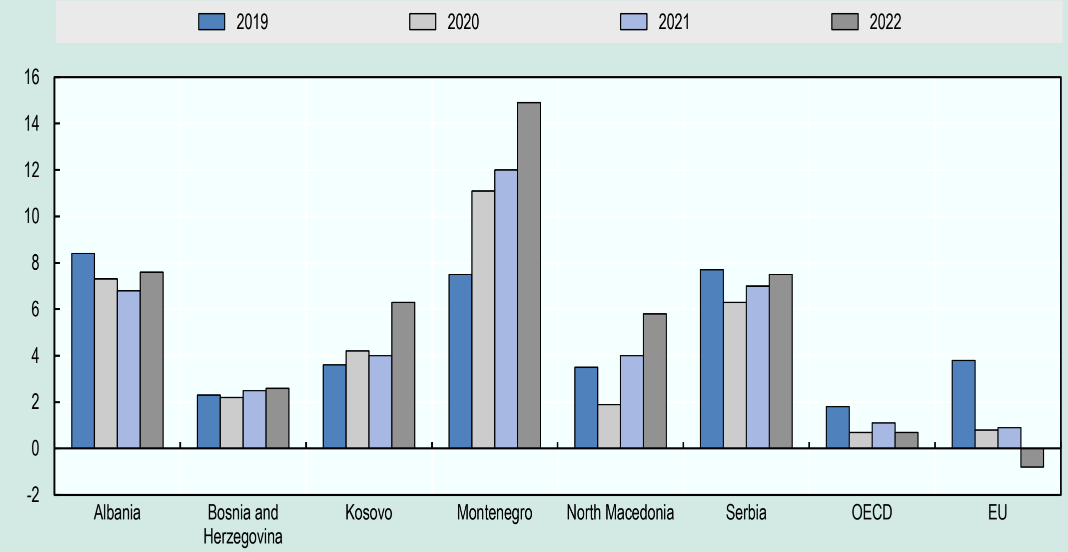
- **Labour productivity remains low,** with the Western Balkan average only 37% of EU levels.
- **The region faces widespread skills gaps and imbalances**, 31% of businesses note that the education system fails to provide necessary skills.
- **Students in the Western Balkans lag behind EU and OECD counterparts in learning outcomes**. In the 2022 PISA, 79% of 15-year-olds in the region were low performers in at least one subject.

3. BUSINESS ENVIRONMENT

A conducive policy environment has led to enhanced trade and investment…

- **With fewer statutory restrictions on FDI and generous fiscal incentives in place,** the region has attracted growing FDI.
- **The region improved trade facilitation based on OECD Trade Facilitation indicators** by digitalising customs procedures and streamlining import and export procedures.
- **Increased investment in innovation infrastructure supported the growth of the ICT sector**, with ICT service exports rising from USD 2 billion to USD 4.3 billion between 2018-22.

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.

… although persistent obstacles result in an unlevel playing field for businesses.

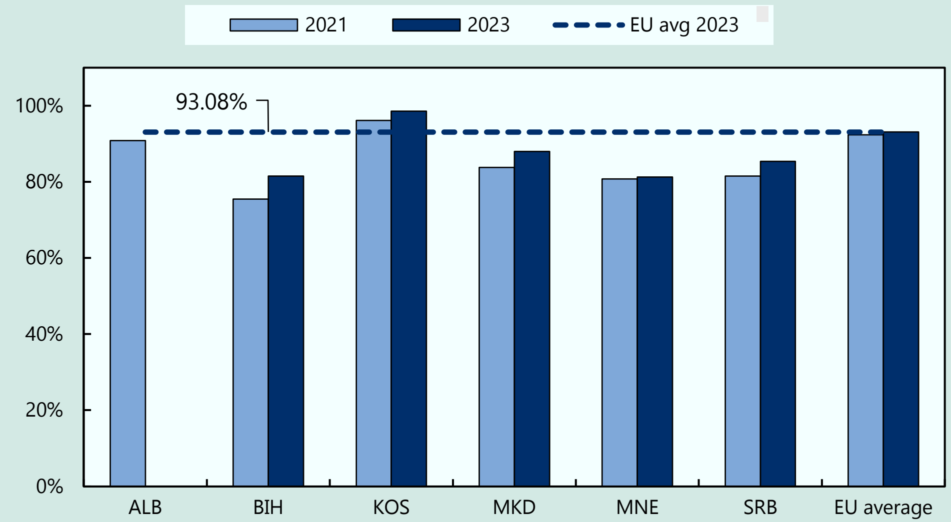
- **SOEs in the region are often loss-making and lack centralised and clear ownership policies.**
- **Businesses view anti-corruption and informality as an obstacle to their growth**.
- **Small and medium-sized enterprises (SMEs) struggle with securing sufficient access to finance.**

4. DIGITAL TRANSFORMATION

Digitalisation has been increasingly leveraged in the region…

- **Access to Internet improved across most WB6 economies**, approaching the EU average.
- **Government services are increasingly digitalised**, with user-centric e-service portals growing in scope and quality.
- **Students' acquisition of digital skills has advanced** with the adoption of digital competence frameworks.

Percentage of individuals using the Internet



Source : World Bank (2024), "World Development Indicators: Individuals using the internet (% of the population)," https://databank.worldbank.org/source/world-development-indicators#.

… although its transformative potential has not been fully realised.

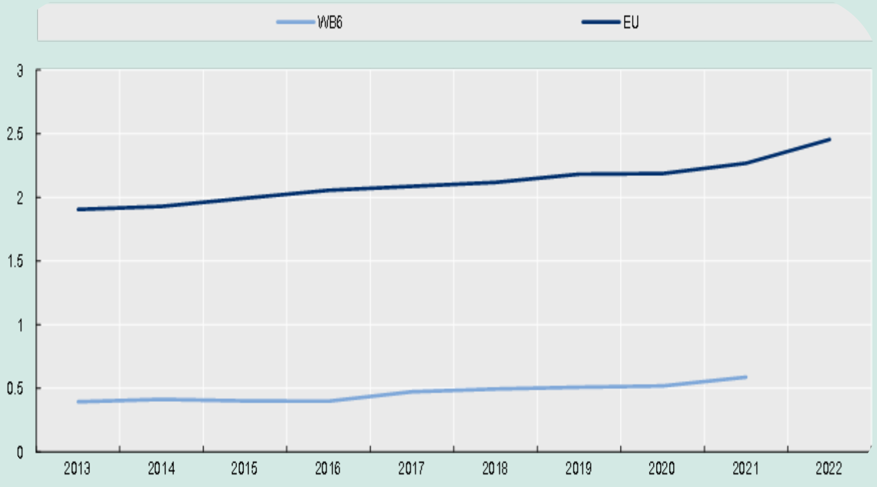
- **Insufficient public support limits the number of businesses benefiting from ICT adoption.**
- **Lack of reforms for protecting critical infrastructure leave the region sensitive to data breaches and misuse**, highlighting the importance of enhancing cybersecurity capacities in public administration.
- **Limited digital skills within the workforce and a shortage of ICT talent hinder innovation**. Digital upskilling initiatives are lagging behind in most WB6 economies.

5. GREENING

Revised regulations and policies reflect increasing priority allotted to greening…

- **Renewable energy consumption in the region notably exceeds the EU average**. The WB6 economies has a renewable energy share of 29.3% of total energy consumption, compared to 23.0% in the EU.
- **Climate change mitigation frameworks have been strengthened**, with all WB6 economies possessing long-term climate change strategies and policy frameworks that set decarbonisation targets.
- **Policy frameworks for the transition to a circular economy provide guidance on priority sectors for maximising economic and environment benefits**.

Resource productivity (EUR/kg)



Note : No data available for Kosovo and no data for Bosnia and Herzegovina before 2015.
Source : Eurostat (2023), "Resource productivity", https://ec.europa.eu/eurostat/databrowser/view/env_ac_rp$defaultview/default/table.

… but the region must accelerate its green transition to ensure more sustainable economic growth.

- **Resource productivity remains three times lower than in the EU**, which negatively impacts non-renewable resource supply.
- **The carbon intensity of the Western Balkans is almost twice that of the EU**.
- **Policies supporting the decarbonisation of businesses remain insufficient.**

WAY FORWARD: KEY POLICY RECOMMENDATIONS

Better future-proof the region's workforce

- **Expand trainings** available to support reskilling and upskilling with **green and digital skills.**
- Bolster **skills intelligence systems** to better anticipate and plan for current and future skills needs.
- Ensure the labour market **relevance of curricula** of VET and higher education programmes

Strengthen efforts to foster a level playing field

- **Strengthen corruption prevention bodies** by ensuring their **independence** and allocating sufficient human and financial **resources**.
- Develop **state ownership policies** for SOEs to increase accountability and efficiency.
- Combat **informal employment** with **better-designed tax policies** and challenges of tailored measures for a growingly digitalised **economy**.

Accelerate the implementation of green transition measures

- Increase **support** for the **private sector**, including through **green finance and capacity building**, to address obligations related to **climate change mitigation**.
- **Reduce air pollution** by decreasing emissions from energy production and industrial processes.
- Foster **public-private partnerships** to further advance the transition to a **circular economy**.

The Competitiveness Outlook is an inclusive exercise…

6 National co-ordinators

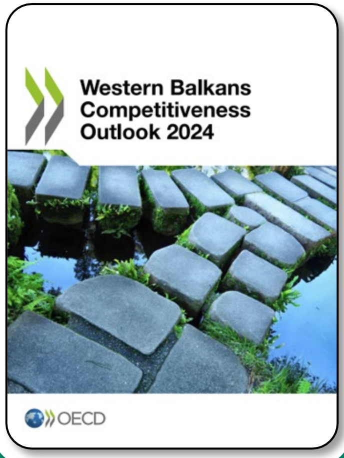
Overseeing co-ordination of entire assessment process

120 Dimension contact points from WB Administrations

Managing and assisting with the completion of assessment questionnaires and reviewing drafts

5 Regional organisations

Reviewing and providing inputs on reports



THANK YOU

to the 1 200 individuals who contributed!

6 National Statistical Office co-ordinators

Providing data for questionnaires and reports

European Commission & 6 EU Delegations in the WB

Valuable review of economy-specific and regional reports and financial assistance

8 OECD Directorates, IEA & ITF

Reviewing questionnaires and reports

850 other stakeholders
(Administrations, civil society, private sector, academia)

Attending fact-finding missions and offering inputs to the assessment and drafts reports

Thank you for your attention!

For additional information, please contact:

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OECD South East Europe Regional Programme

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