

01 | AUG 2024

POLICY STUDY
WESTERN BALKANS

10 years Berlin Process. Economic development in the Western Balkans since 2014

By Felix Schwickert, Dr Ricardo Giucci

Summary: GDP and carbon intensity

	WB6	ALB	BIH	KOS	MNE	MKD	SRB
GDP (USD, bn) ¹⁾	157.8	22.7	27.2	10.5	7.4	14.8	75.2
GDP/capita (USD, thsd) ¹⁾	9.2	8.0	7.9	5.9	11.7	8.1	11.3
GDP growth (real p.a.) ²⁾	3.1%	3.2%	3.0%	4.1%	3.4%	2.0%	3.1%
CO2/GDP (kg/USD) ³⁾	0.63	0.26	0.80	0.86	0.37	0.55	0.68
CO2/GDP (change) ⁴⁾	-15%	-36%	-21%	-19%	-12%	-10%	-9%

Sources: IMF, Our World in Data, respective National Statistics Institutes, OECD;

Notes: 1) 2023, current USD; 2) average from 2014 to 2023; 3) 2022, current USD 4) from 2014 to 2022, GDP in constant 2022 USD

Economic development

- » The WB6 economy grew on average by 3.1% p.a. in the last 10 years, proving resilient against emigration, the COVID-crisis and high inflation
 - KOS featured the highest average real growth (4.1% p.a.) and MKD the lowest (2.0% p.a.)
- » The region's aggregated GDP is comparable to that of UKR and its GDP/capita is higher than that of other EU-accession candidates (UKR, MDA, GEO)
- Resilient economic growth of WB6 in the last 10 years, defying multiple challenges

Carbon intensity (CO2/GDP)

- » Carbon intensity of the WB6 region is four times higher than that of the EU
- » Over the last 10 years, carbon intensity of the region decreased slower than that of the EU
- » Large differences within WB6: ALB has relatively low and rapidly decreasing carbon intensity, KOS and BIH have very high carbon intensities
- Very high and only slowly decreasing carbon intensity

Summary: foreign trade

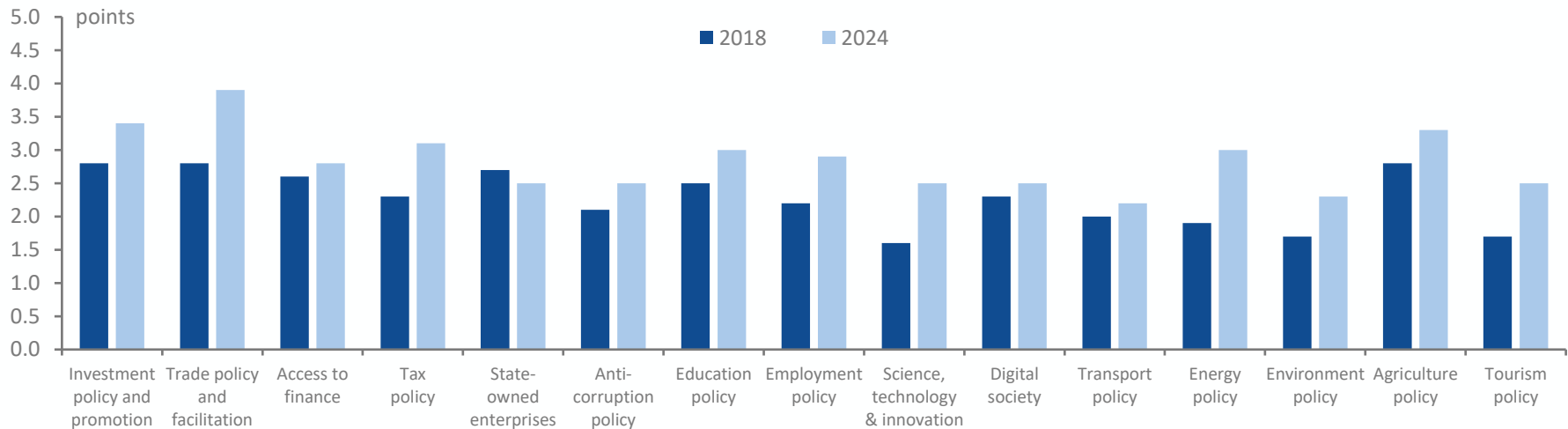
		WB6	ALB	BIH	KOS	MNE	MKD	SRB
Exports to	EU	66% →	71% ↓	73% →	32% →	36% →	79% ↓	62% →
	WB6	16% →	17% ↑	19% ↑	40% →	48% →	13% →	15% ↓
Imports from	EU	54% ↓	52% ↓	59% →	42% →	46% →	49% →	56% ↓
	WB6	8% ↓	6% ↓	12% →	16% ↓	26% ↓	9% →	5% →

Sources: respective national statistics institutes

Notes: goods only, percentage-numbers indicate share of overall exports/imports, arrows indicate trend of last 10 years

- » EU is by far the largest trading partner of WB6-countries and its share is relatively stable over time
 - All WB6-countries have bilateral free trade agreements with the EU
- » Within-WB6 trade plays only moderate role
 - Additionally, for most countries within-WB6 trade is concentrated on only one partner
- » No progress in regional trade integration, despite free trade agreement (CEFTA) and significant potential for additional regional trade ([see GET study from 2023](#))
- » Reasons, as shown in the GIZ's [“Report on Non-Tariff Measures in CEFTA”](#)
 - Procedural obstacles at customs, incl. access to information, release and clearance of goods
 - Product safety requirements, incl. sanitary & phytosanitary measures (SPS) and technical barriers to trade (TBT)
- Only moderate and stagnating regional trade integration due to prevailing non-tariff trade barriers

Summary: alignment of polices with EU standards



Source: OECD's [Western Balkans Competitiveness Data Hub](#)

- » The policy environments of all WB6-countries have on average converged towards EU standards since 2018 (when the OECD started to report on policy alignment with EU)
- » Substantial differences in convergence across different dimensions and countries
 - Strongest convergence in trade policy and facilitation (+1.1), no convergence in policies concerning state-owned enterprises (-0.2)
 - MNE has made biggest progress, while MKD made least progress since 2018
- » Despite progress, level of alignment achieved in 2024 still leaves much room for reform and varies greatly across dimensions
 - No country has reached EU standards in any of the 15 policy dimensions assessed
 - Big differences between countries: SRB & ALB lead the region, while BIH trails behind
- Significant convergence towards EU standards, but progress varies across dimensions & countries
- Ample scope for reforms remains

Summary: foreign direct investment

		WB6	ALB	BIH	KOS	MNE	MKD	SRB
Net inflows (% of GDP)	2022	6.9	7.6	2.6	8.6	14	6.4	7.2
	Avg. since 2014	5.8	7.9	2.5	4.7	10.9	3.7	6.7
Inward stock (% of GDP)	2022	72.3	60.3	38.1	57.1	91.2	54.5	81.3

Source: Worldbank, UN trade & development, IMF, Central Bank of Kosovo

- » Relatively high and increasing inflows, well above those of UKR & MDA and comparable to those of GEO in last 5 years
 - Reasons: low labour costs, tax incentives for investors, very few regulatory restrictions for FDI and existence of comprehensive legal frameworks to support investments
 - Crucial greenfield investments increased significantly since 2019 and shifted towards higher value-added sectors
- » Correspondingly, FDI stock also steadily increased
 - Mostly comprised of FDI from EU
 - Significant differences between WB6-countries: MNE had highest FDI stock (91.2% of GDP) in 2022 and BIH the lowest (38.1%)
- WB6 was able to attract relatively high FDI inflows in last years
- Increasing FDI stock, which is higher than that of UKR and MDA but smaller than that of GEO

Structure

1. Introduction
2. Economic overview of WB6 as a region
 - I. Economic growth and carbon intensity
 - II. Structure of foreign trade in goods
 - III. Alignment of policy environments with EU standards
 - IV. Foreign direct investment
3. Individual economic overview of all WB6-countries
 - I. Economic growth and carbon intensity
 - II. Structure of foreign trade in goods
 - III. Alignment of policy environments with EU standards
 - IV. Foreign direct investment

Introduction

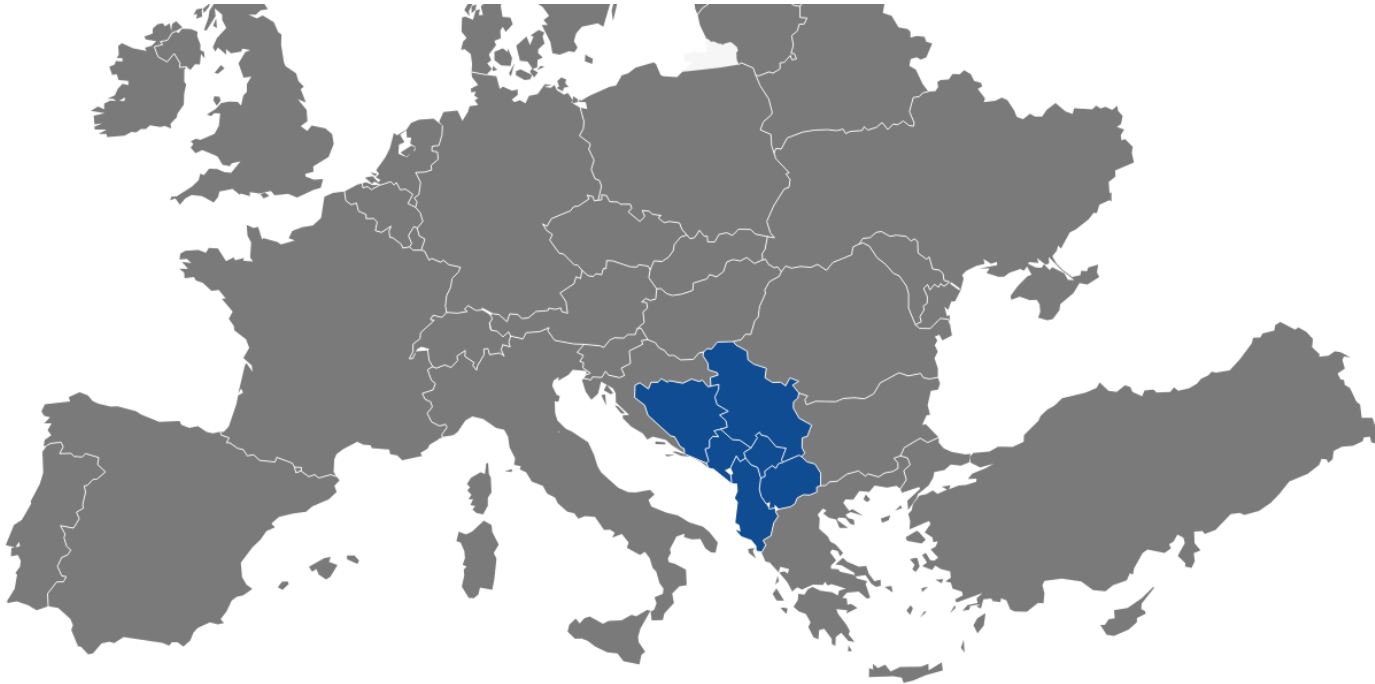
Motivation

- » In 2014, Germany initiated the Berlin Process with a summit in Berlin
- » The process involves 9 EU-member states, the WB6-countries, the UK, the EU institutions, international financial institutions and regional initiatives
- » It aims to foster regional integration in the Western Balkans and to support the EU-integration of the WB6-countries
- » In the last 10 years, multiple projects were introduced in order to facilitate intensified cooperation in the economic, political/security, social and ecological sphere
- » The official goals of the process are
 1. Resolution of outstanding bilateral and internal issues
 2. Achieving reconciliation within and between the societies in the region
 3. Enhancing regional economic cooperation
 4. Laying the foundations for sustainable growth

Aims of this policy study: assess the development of relevant indicators in the last 10 years

1. Economic growth
2. Carbon intensity
3. Importance of trade within the region and with the EU
4. Alignment of policy environments with EU standards based on OECD scores
5. Foreign direct investment

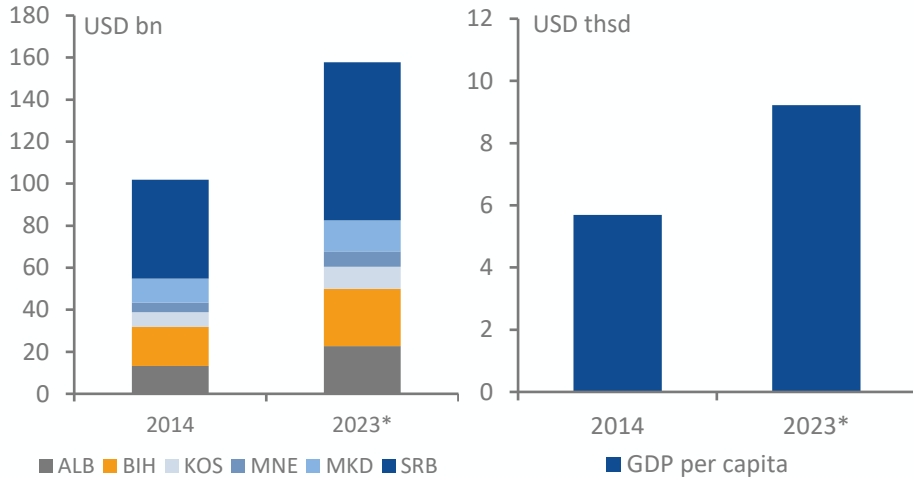
REGIONAL OVERVIEW



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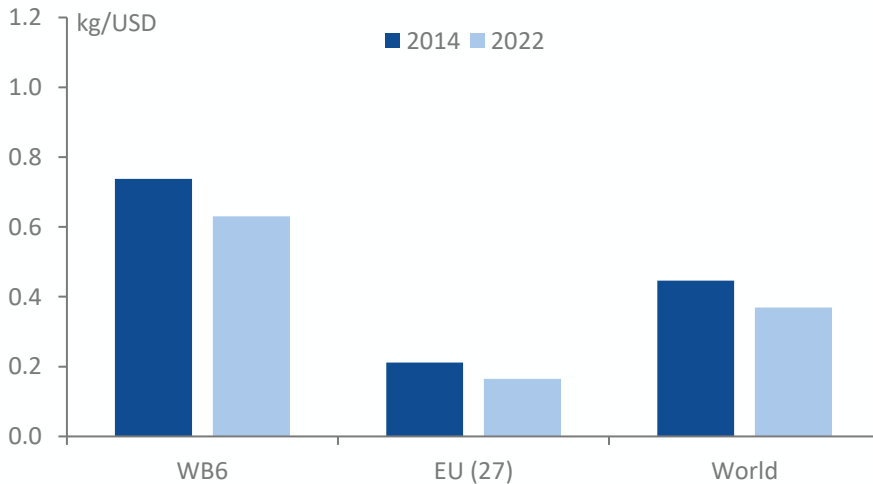
GDP and carbon intensity

Gross domestic product



Source: IMF; *estimate; Note: current USD

CO2 emissions per USD of GDP



Source: Our World in Data, IMF, Note: constant 2022 USD

Gross domestic product

- » GDP amounted to USD 157.8 bn in 2023
 - Slightly lower than GDP of UKR
- » GDP/capita of USD 9,200 in 2023
 - Higher than other EU candidate-countries: UKR (USD 5,300), MDA (USD 6,800) and GEO (USD 8,000)
- » Dynamic: average real GDP growth of 3.1% p.a. in the last 10 years
 - Resilient growth defying emigration and multiple negative external shocks: COVID, war in UKR and high inflation

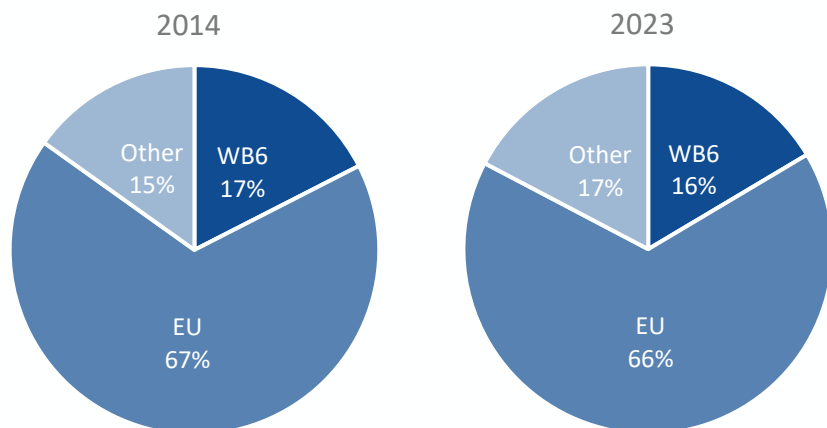
Resilient economic growth

Carbon intensity

- » On average, WB6-countries emitted 0.63kg CO2 per USD of GDP in 2022
 - Very high carbon intensity
- » Intensity of WB6 decreased slower than that of EU or the world's average over time
- » High and persistent carbon intensity

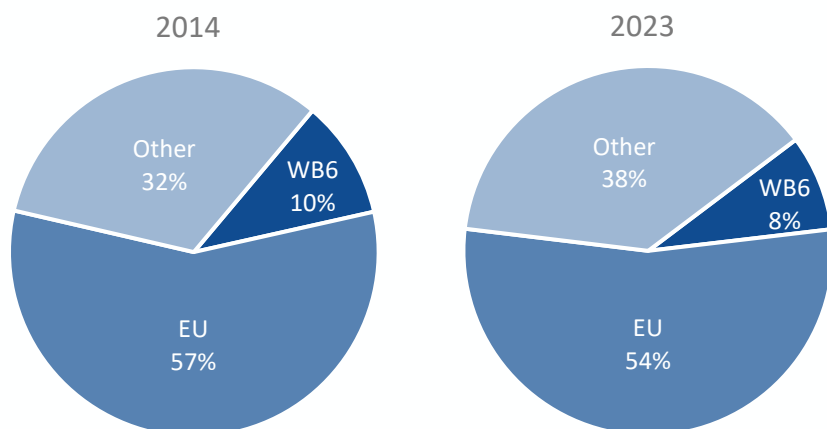
Foreign trade in goods

Destination of exports



Source: Respective National Statistics Institutes; Note: goods only

Source of imports



Source: Respective National Statistics Institutes; Note: goods only

Destination of exports

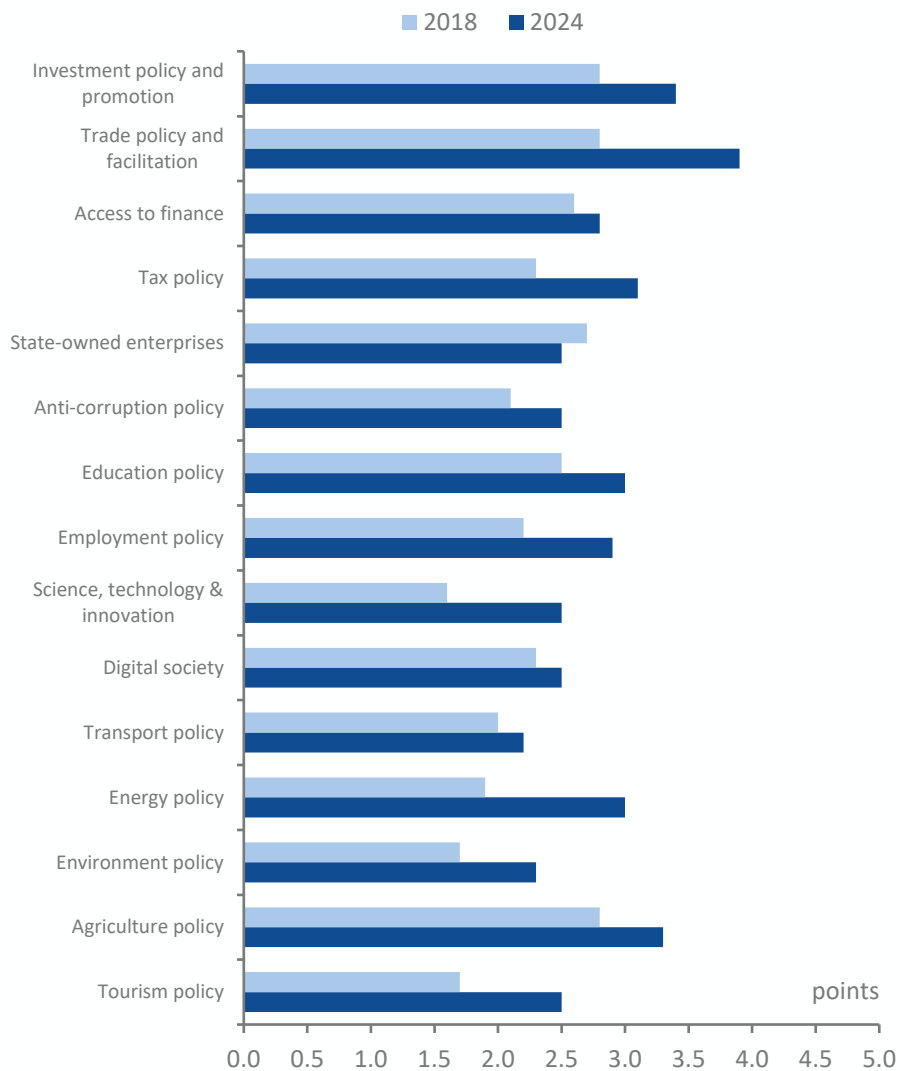
- » EU is the most important export-destination for WB6-countries
- » WB6 less relevant as export-destination, despite CEFTA
 - Within-WB6 trade remains below potential, trade complementarity would allow for higher importance of WB6
 - Reasons: obstacles at customs, non-harmonized product safety requirements
- » Geographic structure of exports very stable over the years

Source of imports

- » EU is the most important source of imports
- » WB6 plays no big role
- » EU and WB6 much less important for imports (62%) than for exports (82%)
- EU by far most important trading partner
- Within-WB6 trade plays only moderate role
- No progress in regional trade integration

Alignment of policies with EU standards

Alignment of policies with EU standards



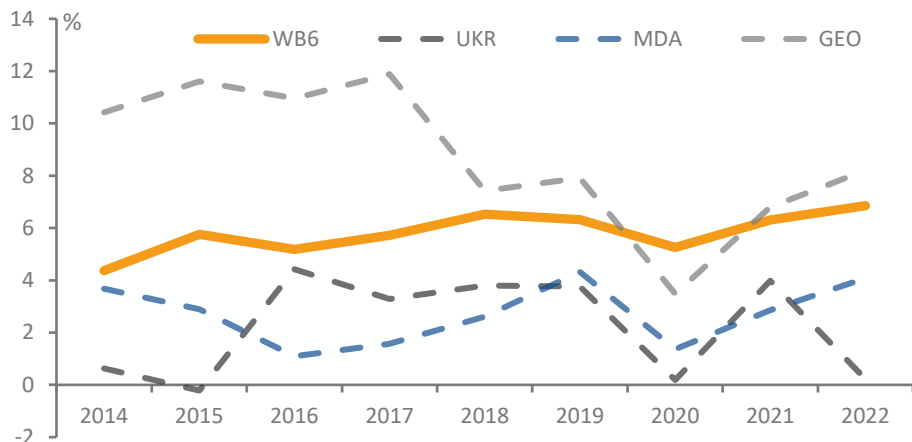
Source: OECD's [Western Balkans Competitiveness Data Hub](#)
 Note: An introduction to the scores can be found in the annex of this study

Alignment of policies with EU standards

- » Supporting WB6-countries in aligning their policy environments to EU standards is central to the Berlin Process
- » The policy environments of all WB6-countries have on average converged towards EU standards since 2018
- » Substantial differences in convergence across different dimensions
 - Strongest convergence in trade policy and facilitation (+1.1)
 - No convergence in policies concerning state-owned enterprises (-0.2)
- » Level of alignment achieved in 2024 also varies greatly across dimensions
 - Trade policy and facilitation best-aligned with EU-standards (3.9 in 2024)
 - Transport & environment policy environments still considerably lag EU-standards (2.2/2.3 in 2024)
- » Convergence with EU standards over time but still ample scope for reforms

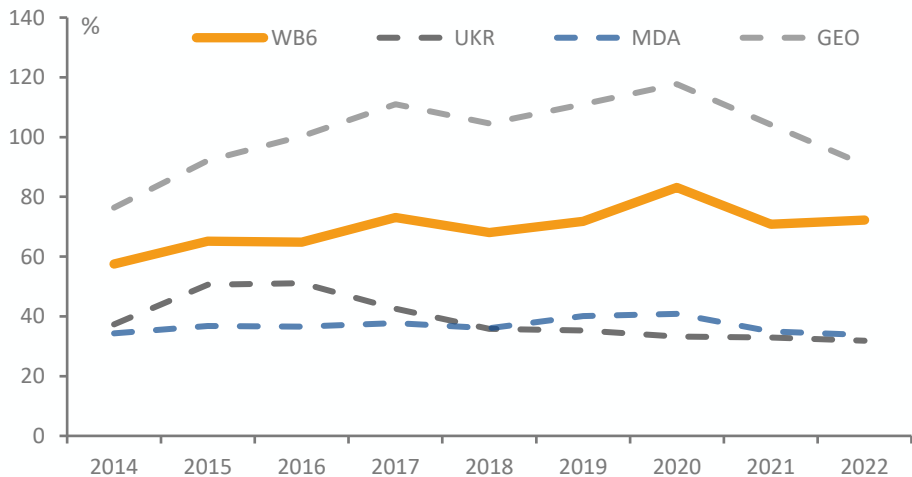
Foreign direct investment

Net FDI inflows (% of GDP)



Source: Worldbank, IMF

FDI inward stock (% of GDP)



Sources: UN trade & development, Central Bank of Kosovo, IMF

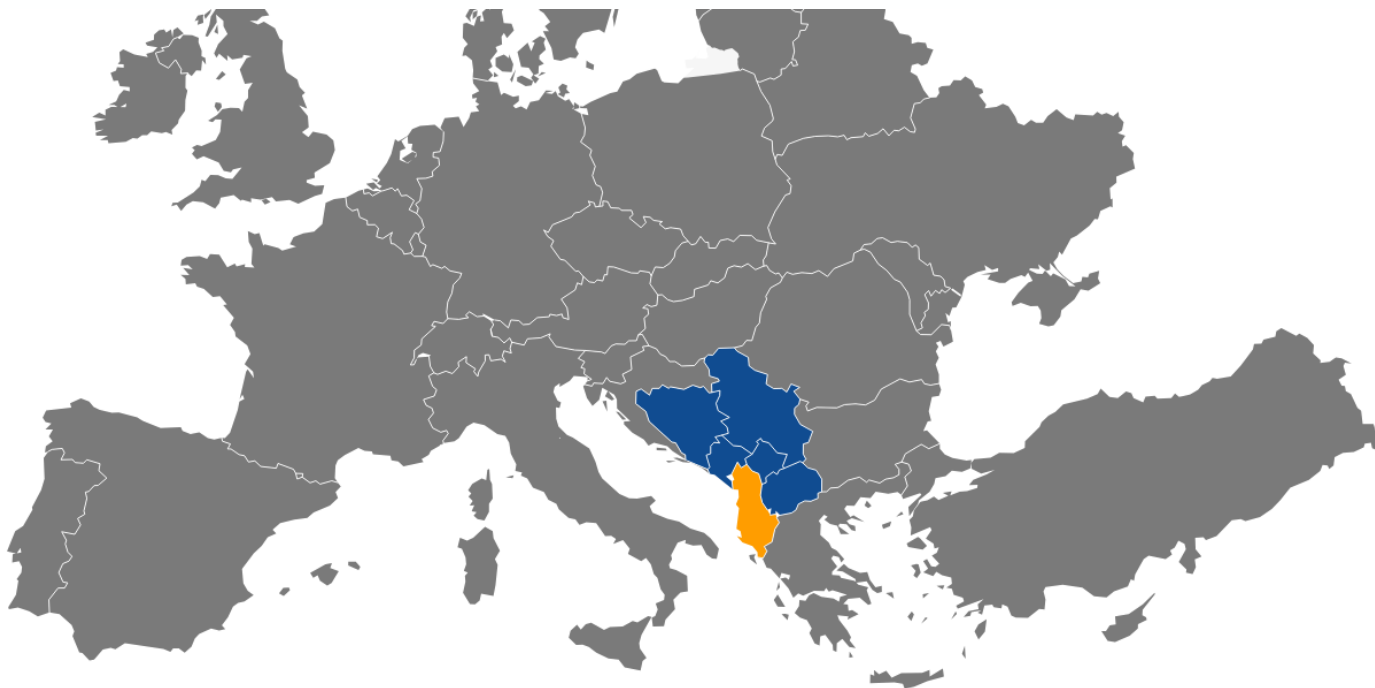
FDI inflows

- » Relatively high and steadily increasing inflows
 - Comparable to those of GEO since 2018
 - Well above those of UKR and MDA
- » Inflows attracted through:
 - Low labour costs & tax incentives
 - Few regulatory restrictions and existence of comprehensive legal frameworks to support investments
- » Historically, FDI has flown predominantly into less knowledge-intensive sectors
 - But since 2019, greenfield investments increased significantly and shifted towards higher value-added sectors

FDI stock

- » Correspondingly, FDI stock also steadily increased and is approaching that of GEO
 - Mostly comprised of FDI from EU
- Relatively high and continuous FDI inflows
- FDI stock increased steadily since 2014

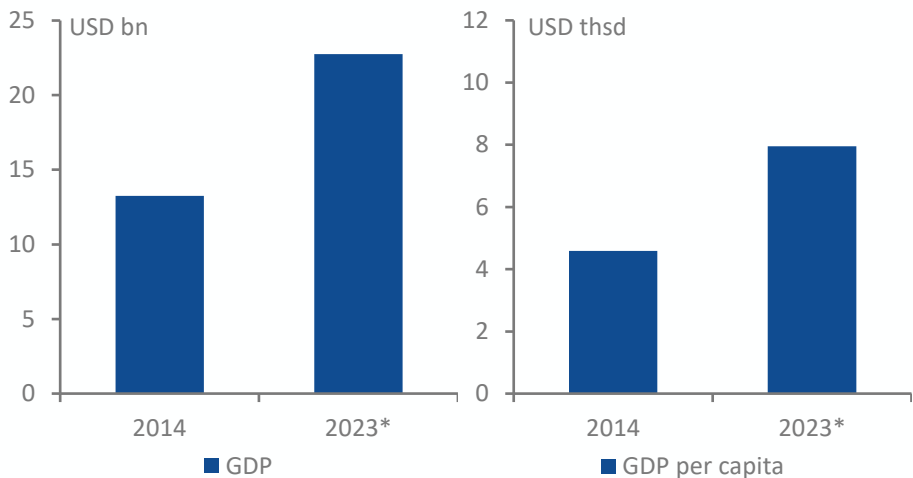
ALBANIA



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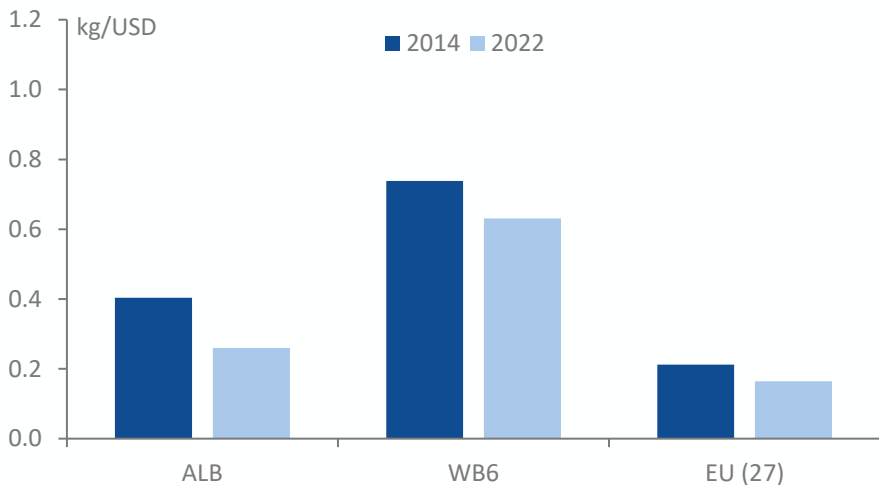
GDP and carbon intensity

Gross domestic product



Source: IMF; *estimate; Note: current USD

CO2 emissions per USD of GDP



Sources: Our World in Data, IMF, Note: constant 2022 USD

Gross domestic product

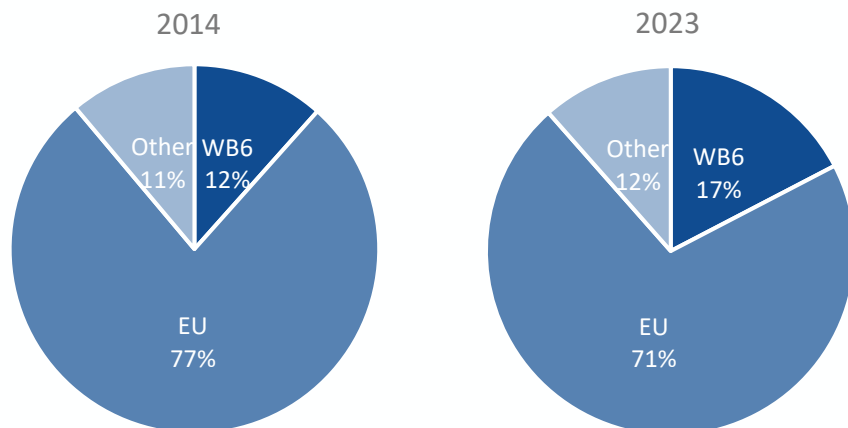
- » GDP stood at USD 22.7 bn in 2023
 - Third largest WB6-economy
- » GDP/capita amounted to USD 8,000 in 2023
 - In midfield of WB6, together with BIH & MKD
- » Dynamic: avg. real GDP-growth of 3.2% p.a. over last 10 years
 - Average among WB6
- Growth on a par with region's average

Carbon intensity

- » ALB emitted 0.26kg CO2 per USD of GDP in 2022
 - Lowest carbon intensity in the region
- » Carbon intensity decreased by 36% over the last 10 years
 - By far strongest decrease among WB6
- Low and strongly decreasing CO2 intensity

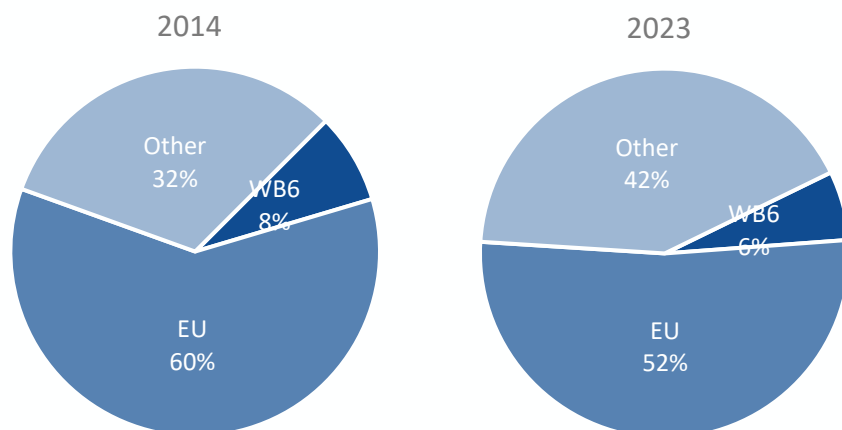
Foreign trade in goods

Destination of exports



Source: Albanian Institute of Statistics; Note: goods only

Source of imports



Source: Albanian Institute of Statistics; Note: goods only

Destination of exports

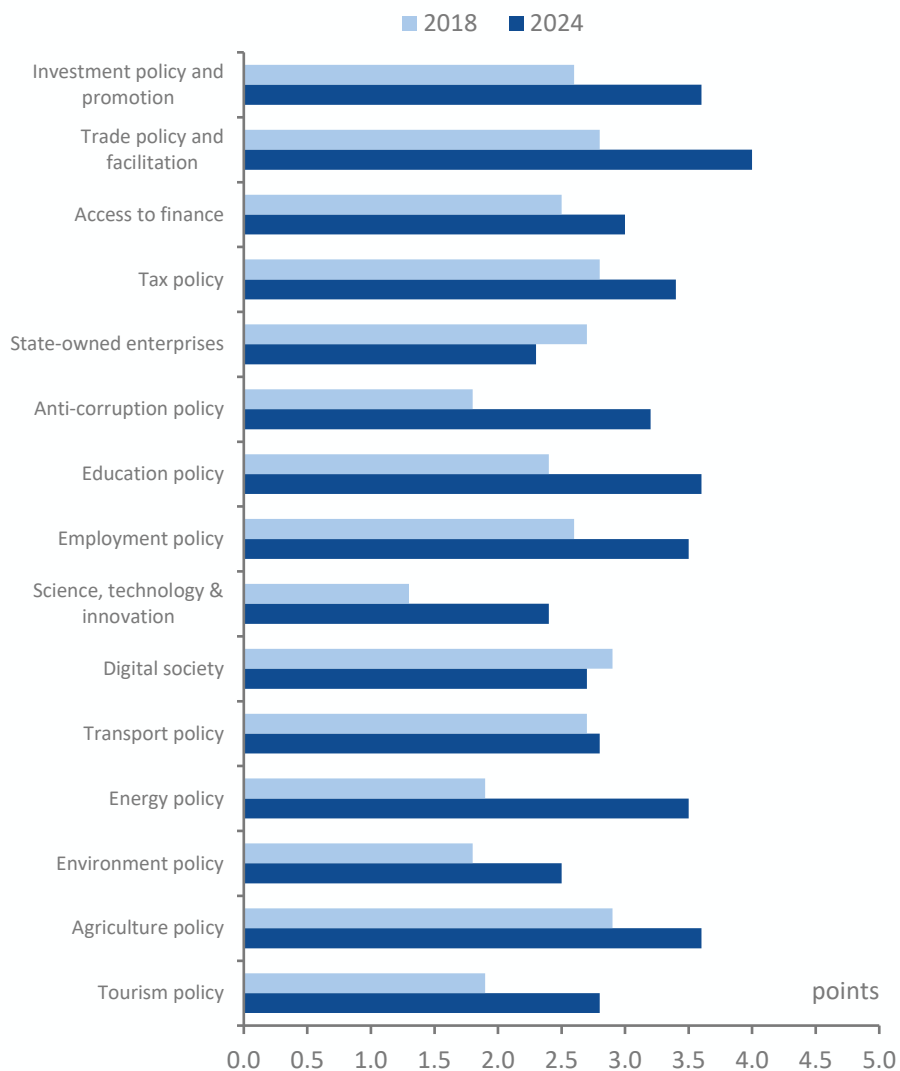
- » EU most important export destination, but importance declined over time
 - ITA accounted for 60% of exports to EU in 2023
 - Declining importance of EU caused by drop in importance of ITA and complete halt of exports to MLT
- » WB6 plays no big role yet, but regional integration progressing
 - Around 53% of exports to WB6 go to KOS

Source of imports

- » EU most important import source
 - But orientation away from EU over time
- » WB6 insignificant as source for imports, no progress over time
- EU by far most important trading partner, but importance decreasing
- WB6 plays no big role yet, but exports to WB6-countries increased over time

Alignment of policies with EU standards

Alignment of policies with EU standards



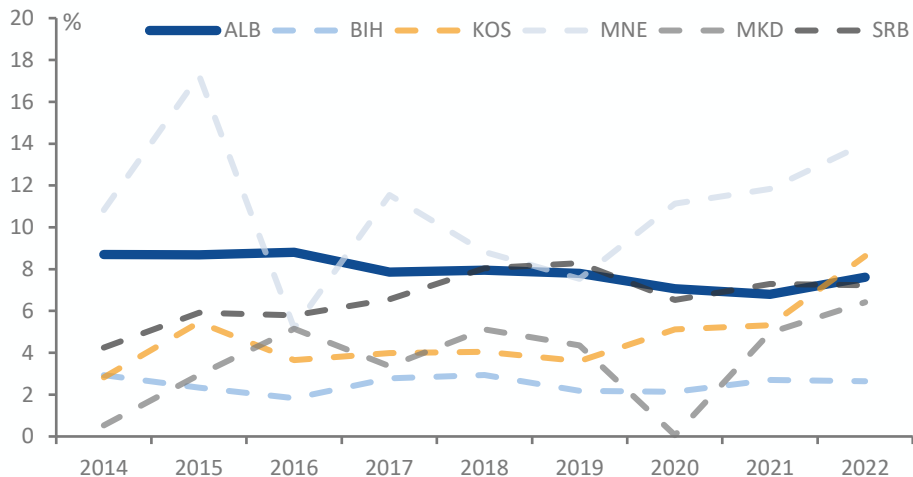
Source: OECD's [Western Balkans Competitiveness Data Hub](#)

Alignment of policies with EU standards

- » Above-average level of policy alignment in almost all dimensions in 2024
 - Only exceptions: state-owned enterprises and science, technology and innovation (STI)
- » Regional leader in anti-corruption, education and employment policy
- » On average, strong convergence over time
- » Especially strong progress in energy policy, mainly driven by advances in
 - Unbundling: energy suppliers have been legally and functionally separated from transmission network operators
 - Creation of markets: establishment of a power exchange (ALPEX) and a market for competitive balancing
 - Regional integration: market coupling with KOS
- » Strong progress over time and above-average level of alignment with EU-standards

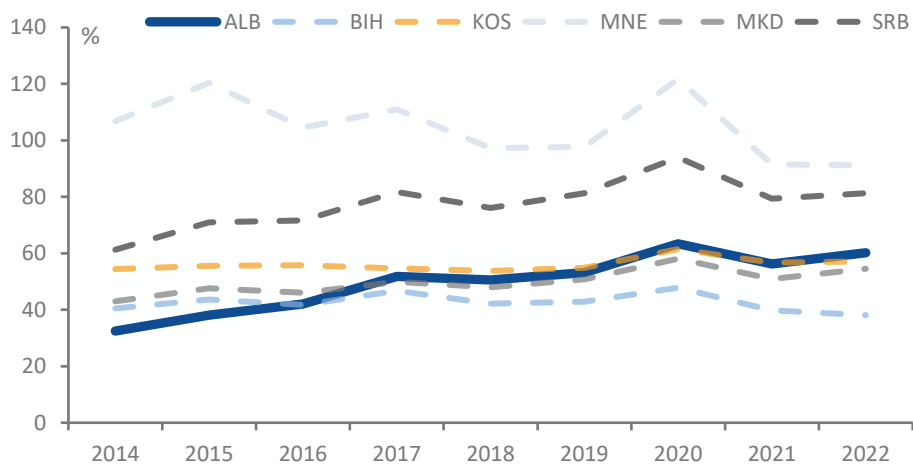
Foreign direct investment

Net FDI inflows (% of GDP)



Source: Worldbank, IMF

FDI inward stock (% of GDP)



Sources: UN trade & development, Central Bank of Kosovo, IMF

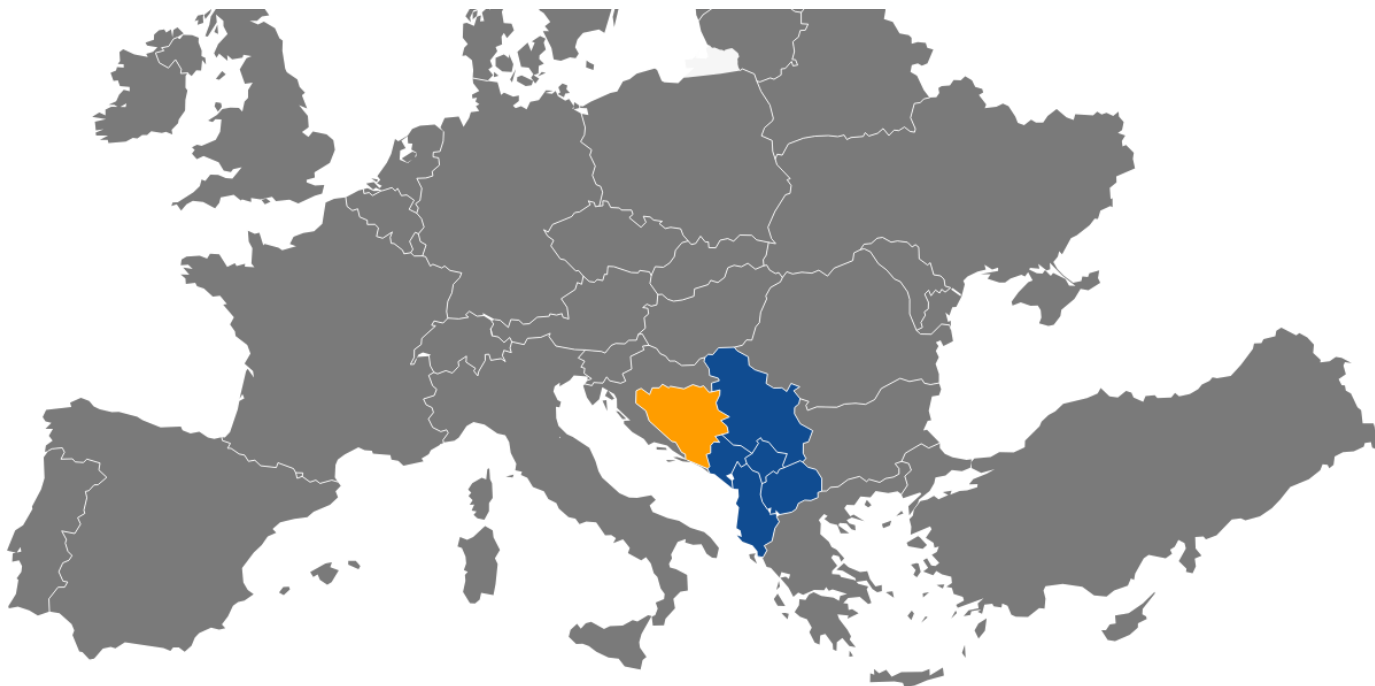
FDI inflows

- » ALB was able to consistently attract high FDI inflows in since 2014
 - Facilitated by relatively strong investment promotion policies

FDI stock

- » High inflows led to strong and steady increase of FDI stock over the last years
 - Big increase from lowest stock in 2014 (32.5% of GDP) to third highest stock in 2022 (60.3% of GDP)
- » Importance of FDI from EU increased over time, making up 53% of the stock in 2022
 - Other important origin countries are CHE (18%), CAN (13%) and TUR (8%)
- » Energy sector (26.5%), extractive industry (15.3%) and financial services (12%) contribute most to FDI stock
- Strong attraction of FDI inflows in recent years, steadily growing FDI stock
- Level of FDI stock now in midfield of WB6

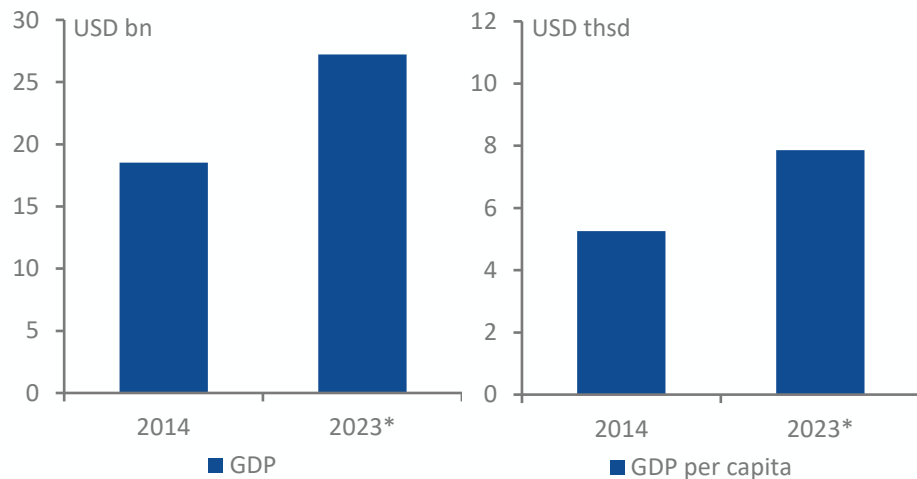
BOSNIA & HERZEGOVINA



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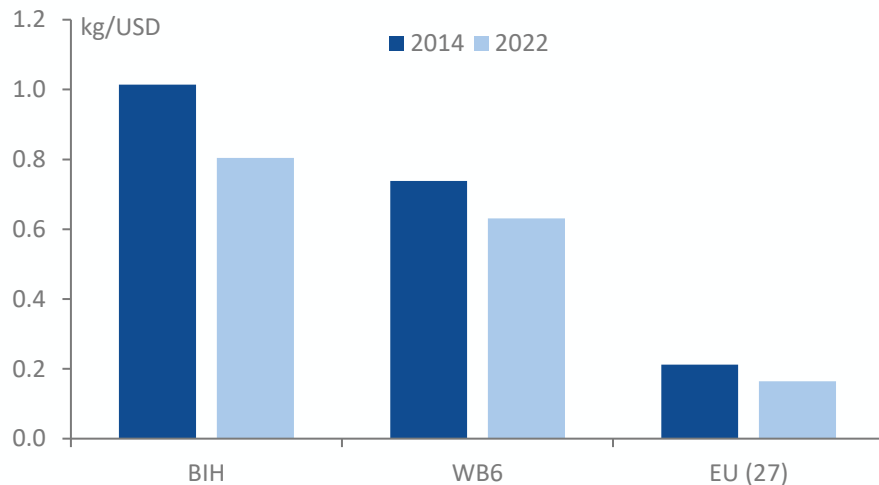
GDP and carbon intensity

Gross domestic product



Source: IMF; *estimate; Note: current USD

CO2 emissions per USD of GDP



Source: Our World in Data, IMF, Note: constant 2022 USD

Gross domestic product

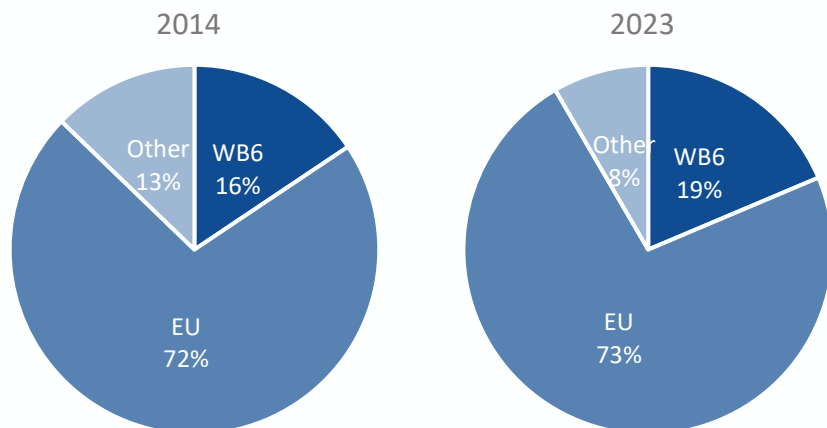
- » GDP amounted to USD 27 bn in 2023
 - Second largest economy of WB6
- » GDP/capita of USD 7,900 in 2023
 - In midfield of WB6, together with ALB & MKD
- » Dynamic: avg. real GDP growth of 3% p.a. over last 10 years; average among WB6
- Growth in line with region's average

Carbon intensity

- » BIH emitted 0.8kg CO2 per USD of GDP in 2022
 - Highest carbon intensity in the region, together with KOS
- » Carbon intensity decreased by 21% over the last 10 years
 - Together with KOS, second strongest decrease after ALB
- Very high carbon intensity, but good progress towards decreasing it

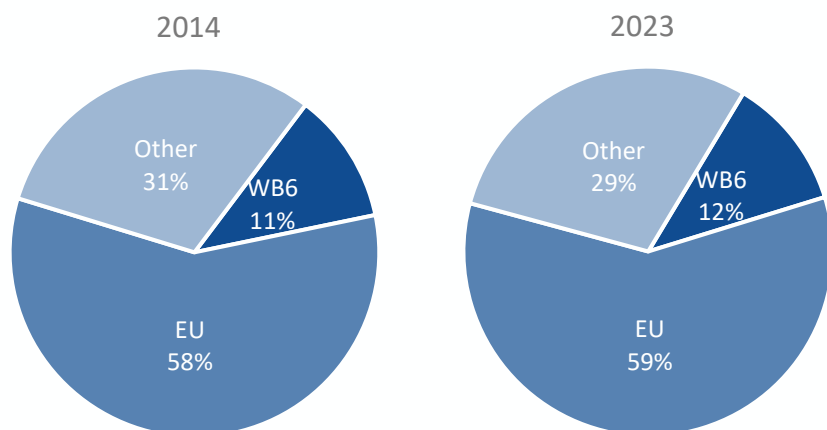
Foreign trade in goods

Destination of exports



Source: Agency for Statistics in Bosnia and Herzegovina; Note: goods only

Source of imports



Source: Agency for Statistics in Bosnia and Herzegovina; Note: goods only

Destination of exports

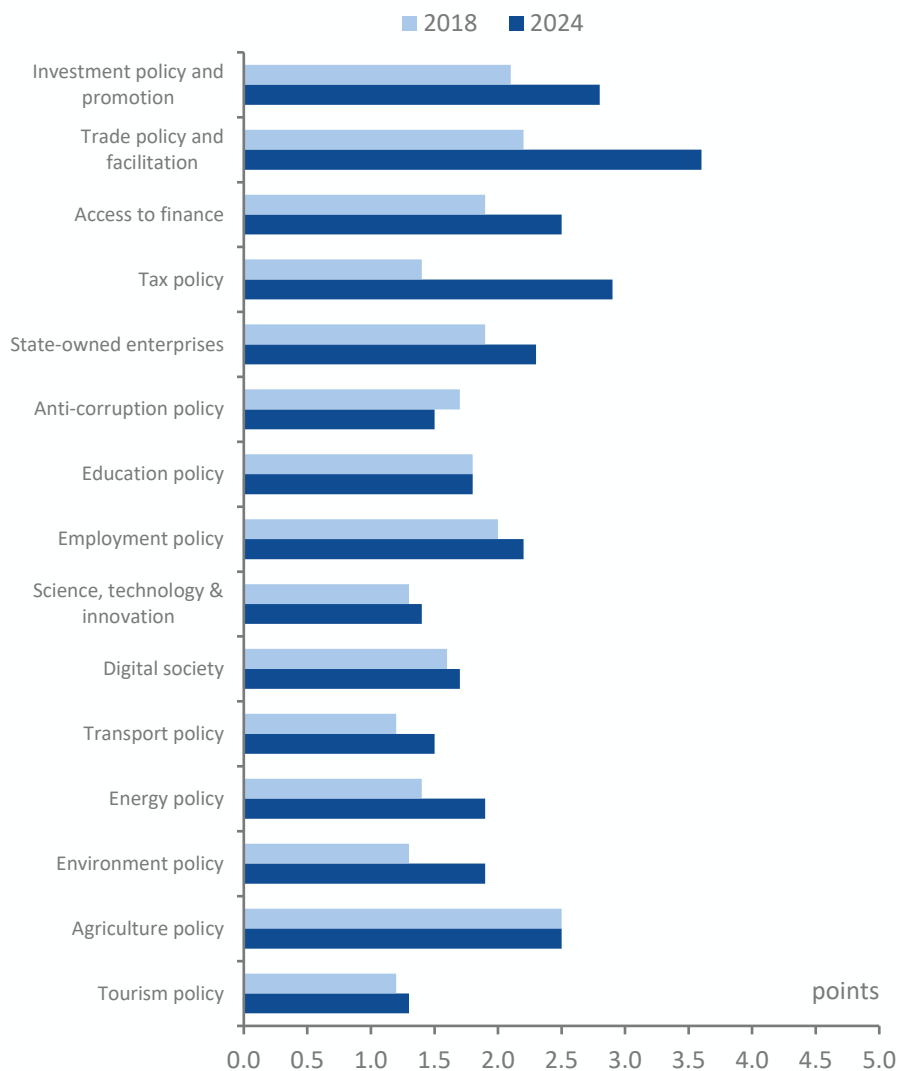
- » EU by far most important, stable over time
- » Much less exports go to WB6-countries
 - Within WB6, SRB by far most important (67% of exports in 2023)
 - SRB became more important export destination over time, driver of increased share of WB6-exports

Source of imports

- » EU by far most important & stable over time
- » WB6-countries play no big role
 - Most regional imports come from SRB (88% in 2023)
 - Importance of WB6 unchanged over time
- EU most important trading partner
- WB6 countries other than SRB play almost no role for BIH
- Structure of foreign trade stable over time

Alignment of policies with EU standards

Alignment of policies with EU standards



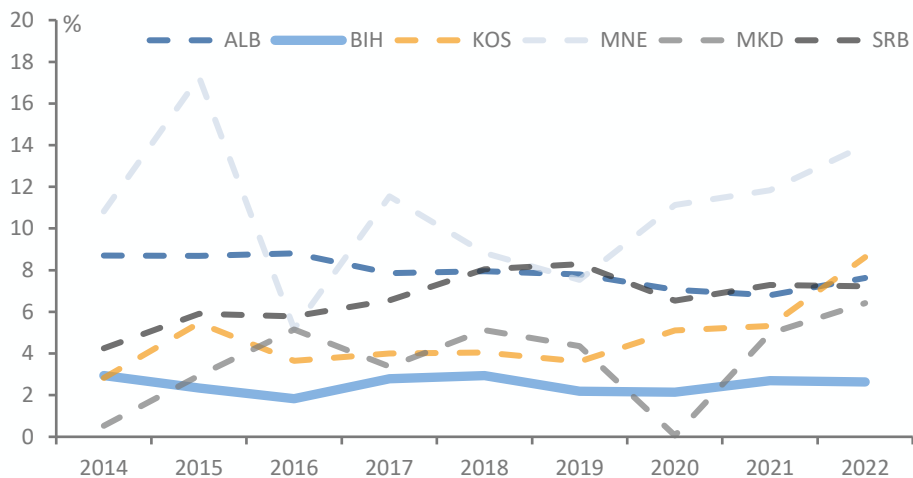
Source: OECD's [Western Balkans Competitiveness Data Hub](#)

Alignment of policies with EU standards

- » Level of alignment with EU standards below regional average in all dimensions
- » Lowest score in almost all dimensions
 - Exceptions: access to finance, state-owned enterprises & employment policy
- » Especially tourism & education policy significantly lag behind
- » Significant progress only in tax policy & trade policy and facilitation
 - E-filing for taxes has been implemented for most types of taxes and is increasingly adopted
 - Multiple export promotion programs have been implemented, offering e.g. B2B matchmaking & hosting trade fairs
 - Distinguished in the region through integration of environmental goals into trade policy development
- In most dimensions, BIH's policy environment is least-aligned with EU standards
- Only weak progress since 2018

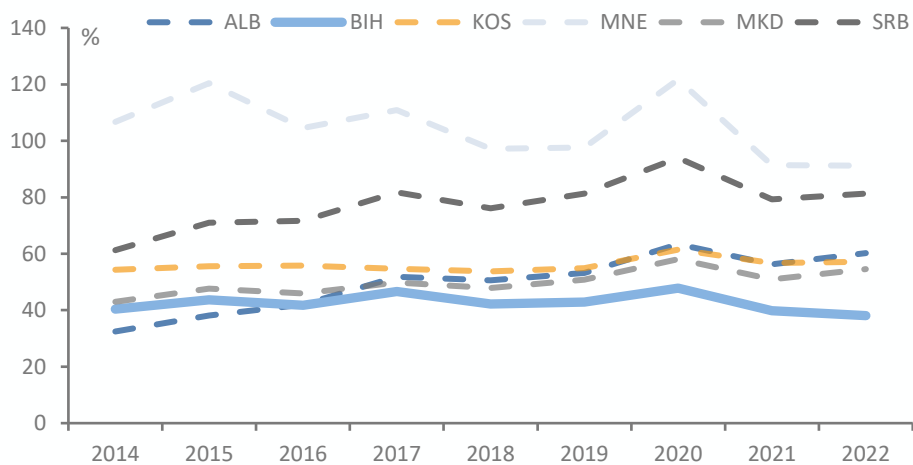
Foreign direct investment

Net FDI inflows (% of GDP)



Source: Worldbank, IMF

FDI inward stock (% of GDP)



Sources: UN trade & development, Central Bank of Kosovo, IMF

FDI inflows

- » BIH has constantly attracted only very little FDI over the last years
- » Main factors limiting FDI inflows include
 - Fractured legislative environment for investors
 - The judicial system, in which it is challenging to enforce contracts and resolve disputes if necessary

FDI stock

- » Correspondingly, BIH's FDI stock remained relatively low throughout the years
- » Manufacturing (29%), financial services (20%), telecommunications (10%) and trade (10%) contribute most to stock
- » Most important origin countries are AUT (15%), HRV (15%) and SRB (14%)
- Lowest FDI inflows and stock in the region
- Challenges in judiciary and fractured legislative framework deter investment

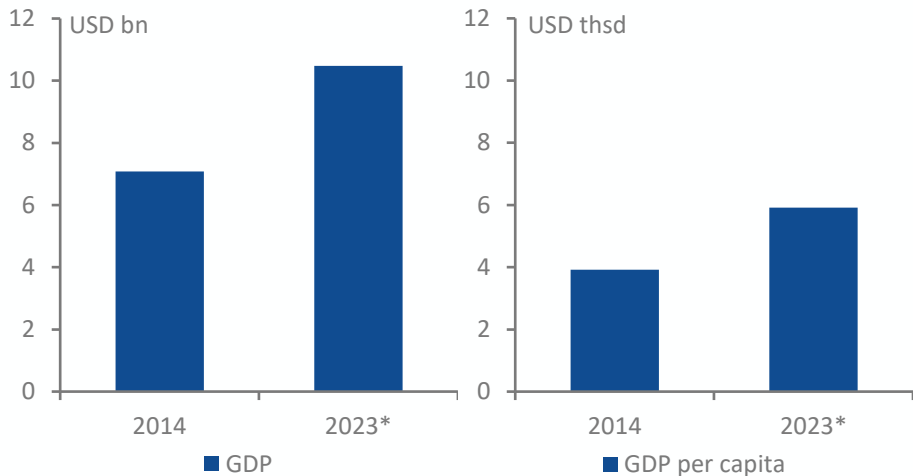
KOSOVO



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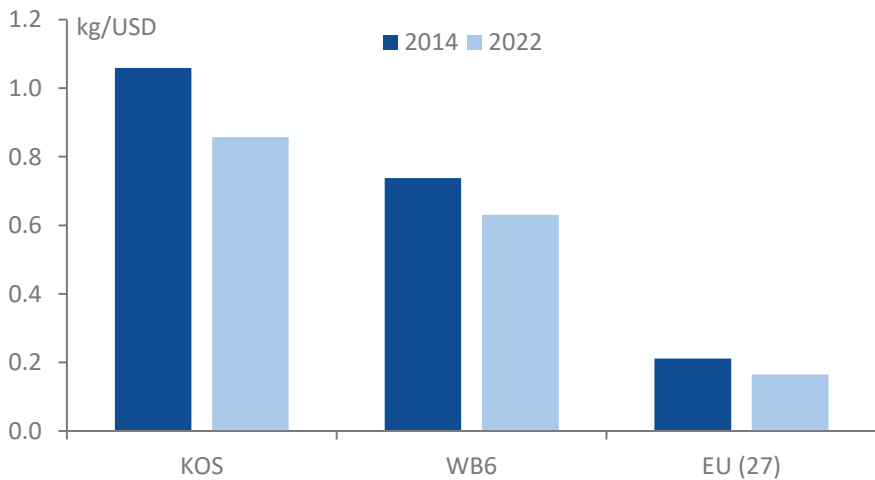
GDP and carbon intensity

Gross domestic product



Source: IMF; *estimate; Note: current USD

CO2 emissions per USD of GDP



Source: Our World in Data, IMF, Note: constant 2022 USD

Gross domestic product

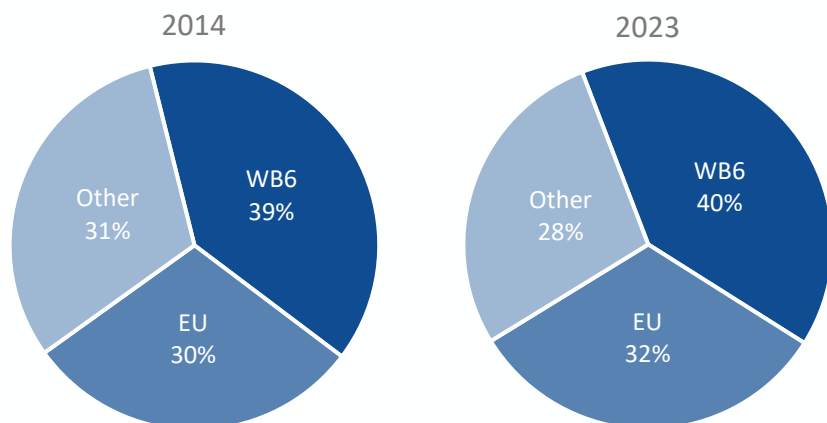
- » GDP of USD 10.5 bn in 2023
 - Second smallest economy after MNE
- » GDP/capita stood at USD 5,900 in 2023
 - Lowest among WB6
- » Dynamic: avg. real GDP-growth of 4.1% p.a. since 2014
 - By far strongest growth among WB6
- High growth, strong recovery after COVID

Carbon intensity

- » KOS emitted 0.86kg CO2 per USD of GDP in 2022
 - Highest carbon intensity in the region, together with BIH
- » Carbon intensity decreased by 19% over the last 10 years
 - Together with BIH, second strongest decrease after ALB
- Very high carbon intensity, but good progress towards decreasing it

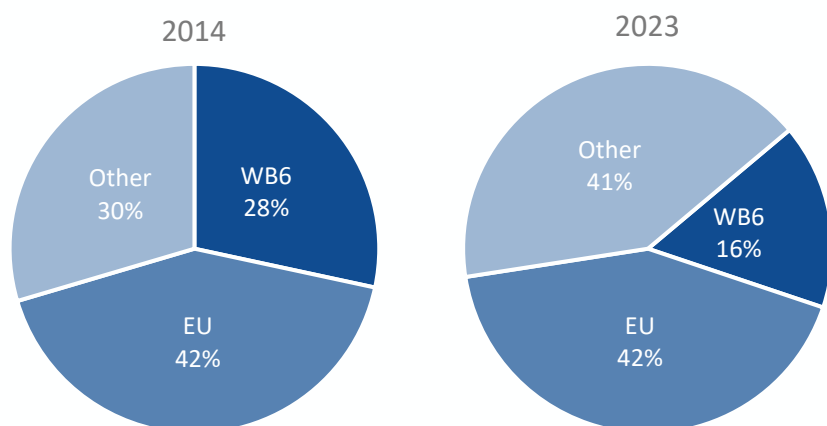
Foreign trade in goods

Destination of exports



Source: Kosovo Agency of Statistics; Note: goods only

Source of imports



Source: Kosovo Agency of Statistics; Note: goods only

Destination of exports

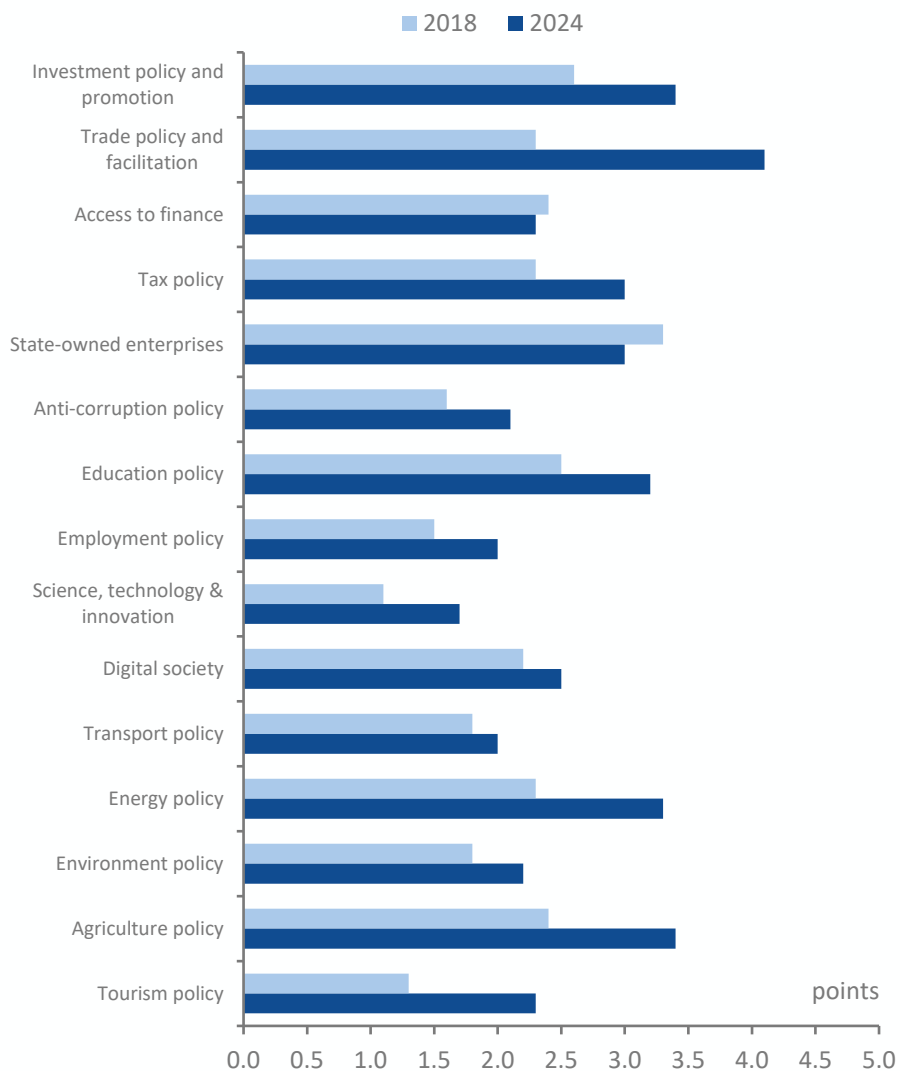
- » WB6-countries main export destinations
 - Relatively diverse structure within WB6, with MKD (35%) and ALB (33%) most important export destinations in 2023
- » EU less important, DEU and CHE largest export destinations within the EU
- » Export-structure rather stable over time

Source of imports

- » WB6-countries play little role in 2023, large reorientation away from WB6 over time
- » Main reason for reorientation: policy measures disrupted trade with SRB and BIH
 - Nov-18 – Jun-20: 100% tariff on imports from SRB and BIH
 - Since Jun-23: de-facto ban on import of consumption goods from SRB
- WB6 countries important destinations for exports, less important as import-sources
- Big decline in importance of WB6 for imports

Alignment of policies with EU standards

Alignment of policies with EU standards



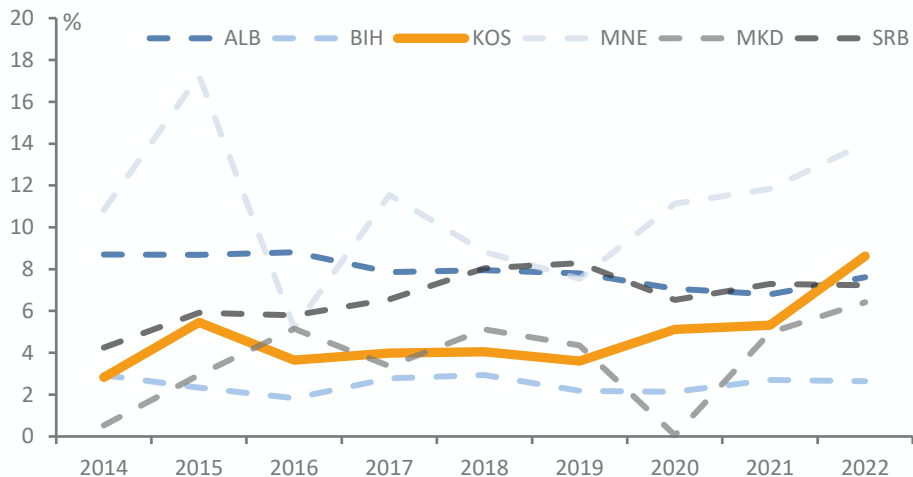
Source: OECD's [Western Balkans Competitiveness Data Hub](#)

Alignment of policies with EU standards

- » Level of alignment very mixed in regional comparison
 - Lowest score in employment policy and access to finance among WB6
 - Scores for trade policy and facilitation and policy towards state-owned enterprises among highest in the region
- » Progress made since 2018 varies greatly across dimensions
- » Strongest progress in trade policy and facilitation, despite partial ban on imports from SRB
 - Regulatory transparency was strengthened by increasing the number and quality of public consultations
 - Trade policy was enhanced by new Foreign Trade Law, that is aligned with WTO agreements and EU standards
- » Level of alignment with EU standards varies greatly across dimensions

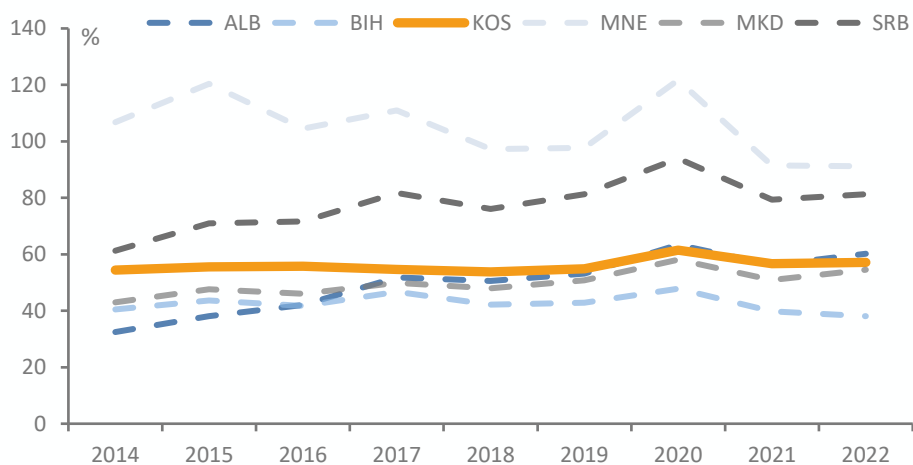
Foreign direct investment

Net FDI inflows (% of GDP)



Source: Worldbank, IMF

FDI inward stock (% of GDP)



Sources: UN trade & development, Central Bank of Kosovo, IMF

FDI inflows

- » Inflows into KOS increasing since 2020, with acceleration in 2022
 - In 2022, KOS was able to attract a record-level of 8.6% of GDP, second only to MNE
- » BUT: On average ca. 60% of FDI flows are diaspora-driven investments into the construction and real-estate sector
 - Only very limited attraction of FDI into the manufacturing or service sector
 - A small domestic market, limited regional integration and tensions with SRB impede FDI inflows into manufacturing

FDI stock

- » FDI stock remained stable over time and is in midfield of WB6
- Increasing inflows in last years; stock stable and in midfield of WB6
- FDI mostly consists of investments into construction and real estate by diaspora

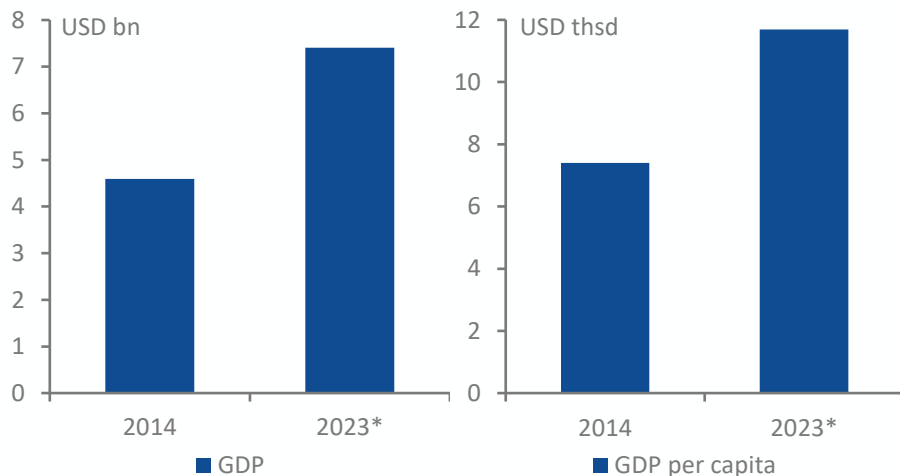
MONTENEGRO



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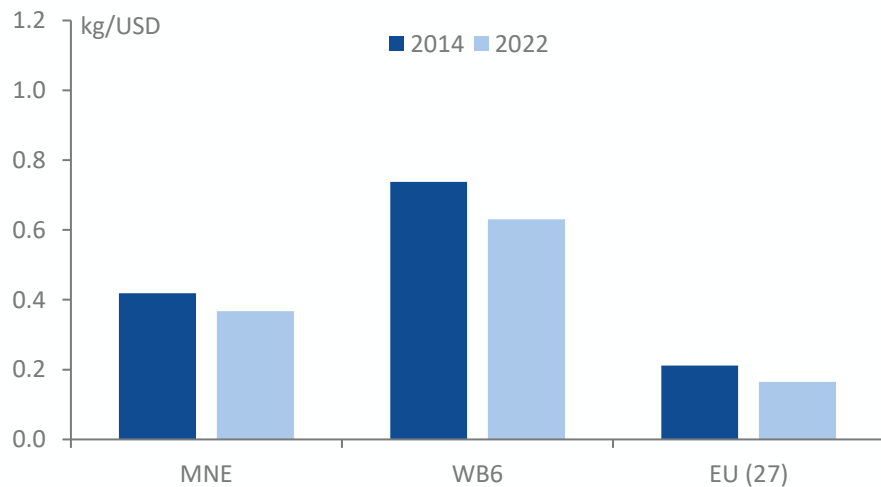
GDP and carbon intensity

Gross domestic product



Source: IMF; *estimate; Note: current USD

CO2 emissions per USD of GDP



Source: Our World in Data, IMF, Note: constant 2022 USD

Gross domestic product

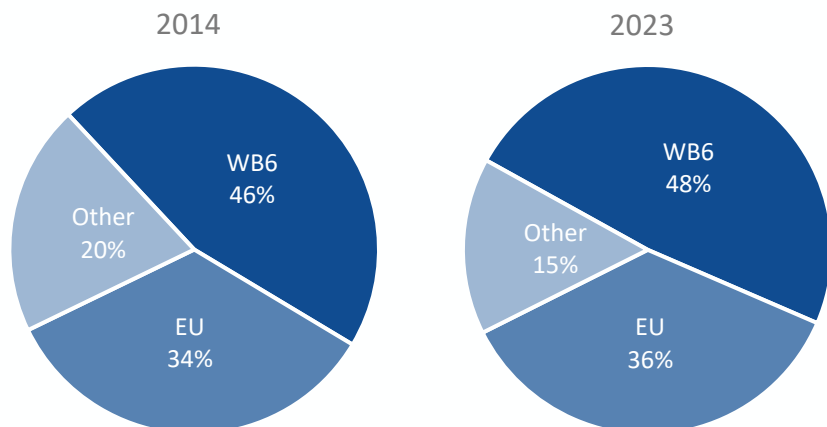
- » GDP amounted to USD 7.4 bn in 2023
 - Smallest WB6-economy
- » GDP/capita stood at USD 11,700 in 2023
 - Highest among WB6, together with SRB
- » Dynamic: avg. real GDP-growth of 3.4% p.a. since 2014
 - Slightly above average of WB6, despite strong contraction (-15.3%) in 2020
- Strong growth, but dependent on tourism

Carbon intensity

- » MNE emitted 0.37kg CO2 per USD of GDP in 2022
 - Second-lowest carbon intensity in WB6
- » Carbon intensity decreased by 12% over the last 10 years
 - Among WB6-countries with weakest decrease
- Relatively low carbon intensity, but little progress in decreasing it further

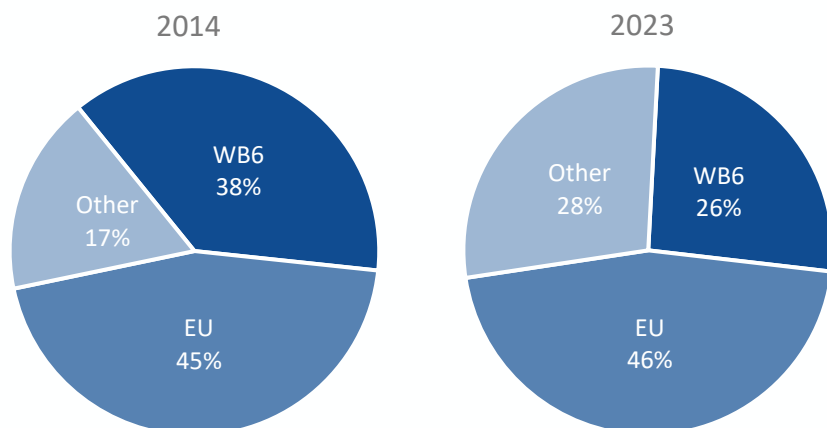
Foreign trade in goods

Destination of exports



Source: Statistical Office of Montenegro; Note: goods only

Source of imports



Source: Statistical Office of Montenegro; Note: goods only

Destination of exports

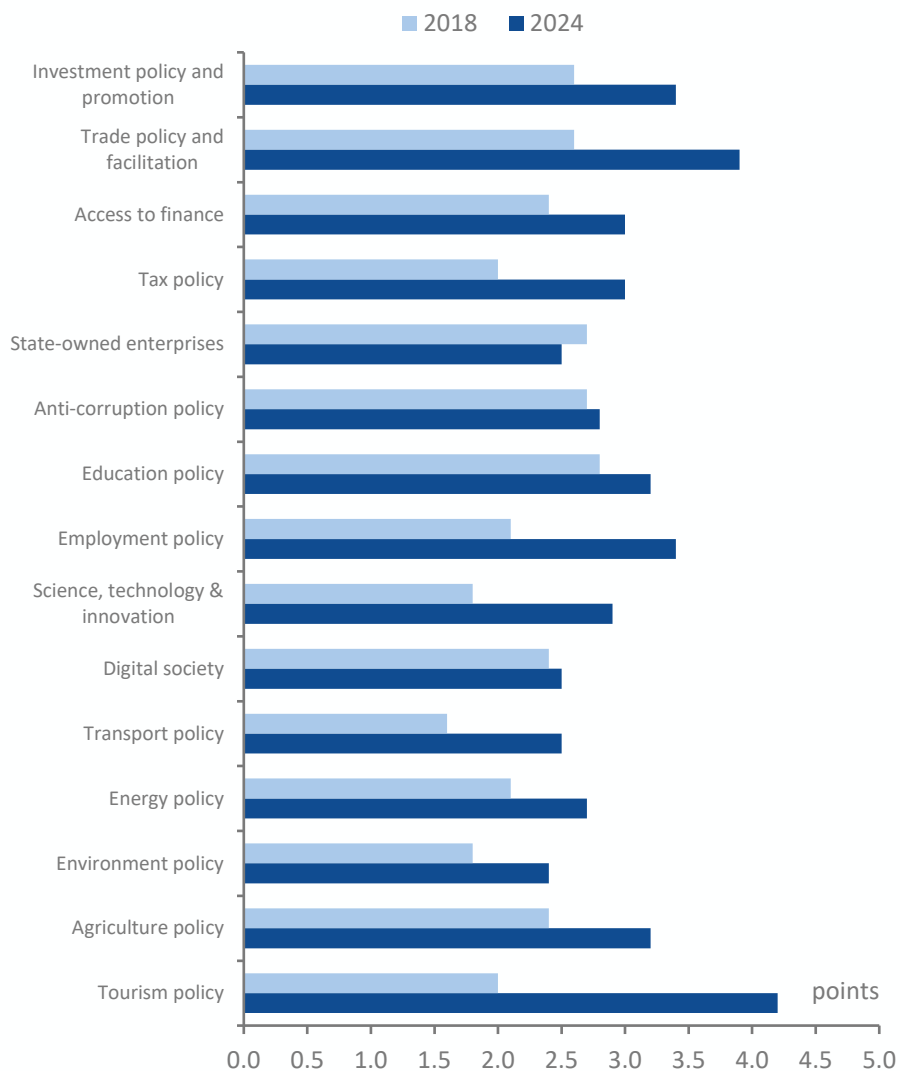
- » WB6 most important export destination
 - Within WB6, SRB (58%) and BIH (23%) biggest partners in 2023
- » 84% of exports went to WB6 or EU in 2023
- » Importance of WB6 and EU increased over time; positive development

Source of imports

- » EU most important source of imports, stable over time
- » WB6 relatively important
 - 67% of regional imports came from SRB in 2023, 18% from BIH
- » Importance of WB6-countries (SRB and BIH) decreased significantly over time
 - Substituted by imports from CHN
- WB6 countries are important trading partners, both for exports and imports
- Strong decrease of imports from WB6, trade with EU remains stable

Alignment of policies with EU standards

Alignment of policies with EU standards



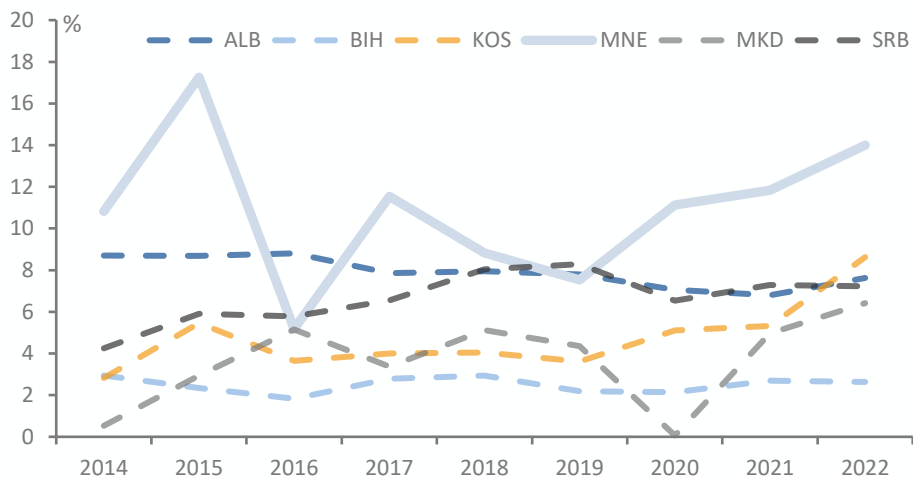
Source: OECD's [Western Balkans Competitiveness Data Hub](#)

Alignment of policies with EU standards

- » Level of policy sophistication mostly above regional average
 - Regional leader in tourism policy
 - Only sophistication of tax and energy policy is below WB6-average
- » On average, strongest progress since 2018
 - Strong progress in several dimensions: tourism, trade, tax and employment policy & policy towards STI
- » Biggest progress achieved in tourism policy
 - A tourism development and a smart specialization strategy were adopted to guide tourism promotion initiatives
 - Strong implementation of both strategies achieved; initiatives focus on promoting sustainable tourism
 - Efficient platforms for dialogue between national & local administration and public & private sector established
- Level of alignment compares well to peers
- MNE made strongest progress since 2018

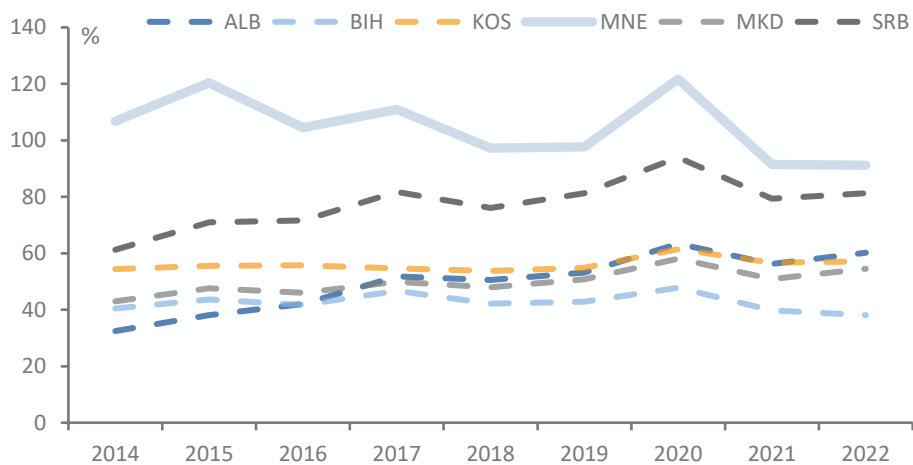
Foreign direct investment

Net FDI inflows (% of GDP)



Source: Worldbank, IMF

FDI inward stock (% of GDP)



Sources: UN trade & development, Central Bank of Kosovo, IMF

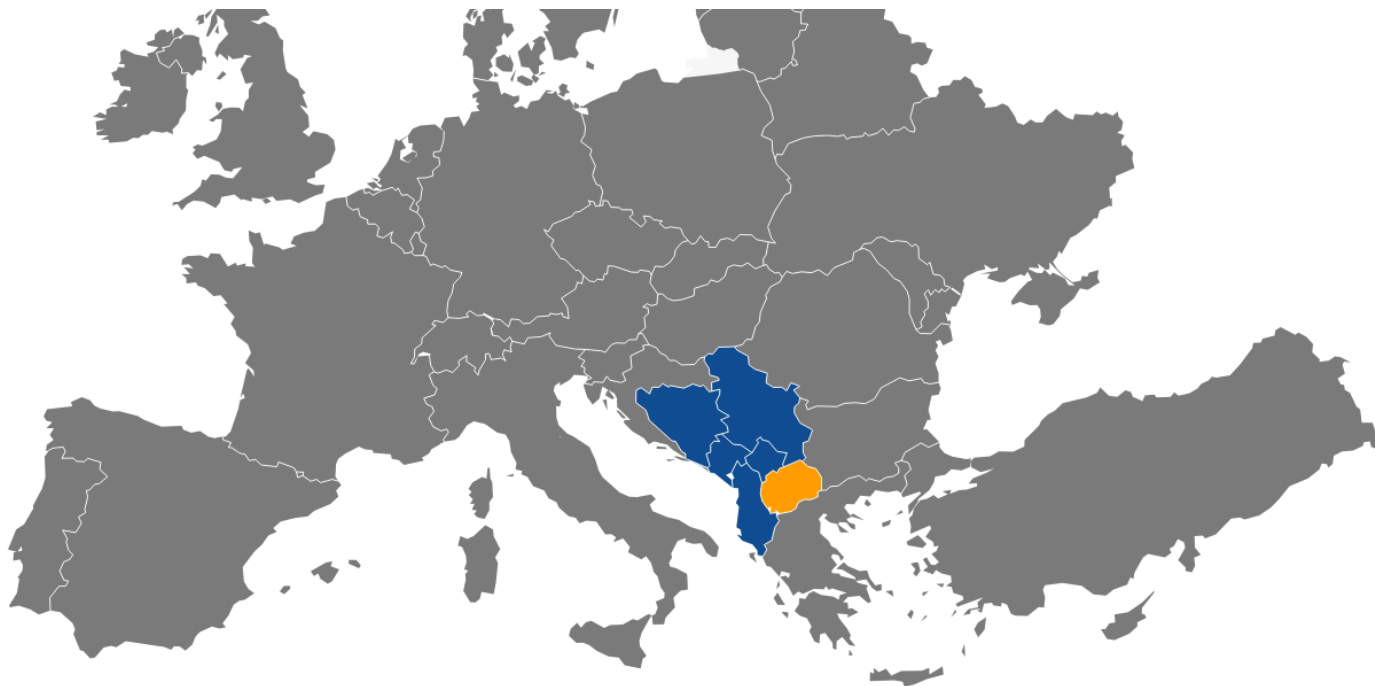
FDI inflows

- » Although volatile, FDI inflows into MNE are on average by far the highest in the region
 - Inflows reached 14% of GDP in 2022
- » EU is main source of FDI inflows, accounting for 33% of total inflows in 2022
 - Following war in UKR, importance of RUS strongly decreased to only 3% in 2022, from around 15% in previous years
- » Tourism, real estate and energy sectors attract most FDI

FDI stock

- » Despite moderate decrease since 2014, MNE remains the region's leading investment destination
 - Mainly due to its coast's attractiveness
 - Investment attraction policies average in the region
- Inflows and stock highest in the region
- Driven by attractiveness of MNE's coast

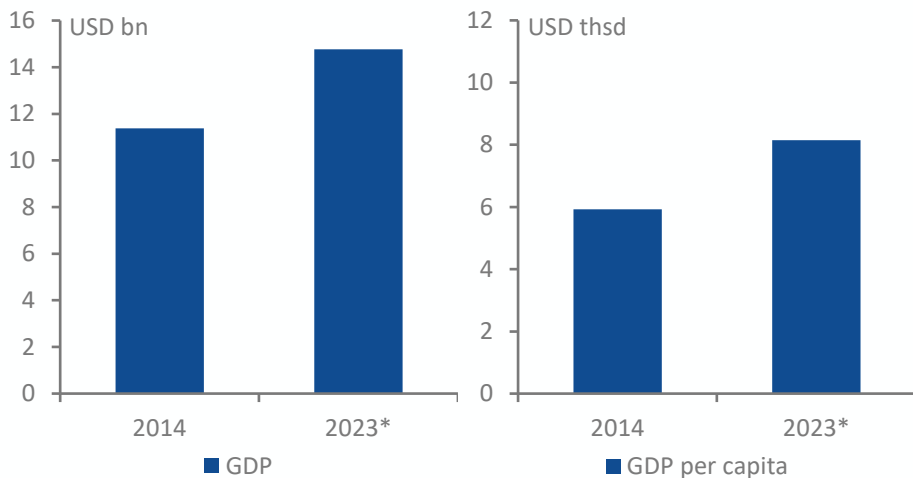
NORTH MACEDONIA



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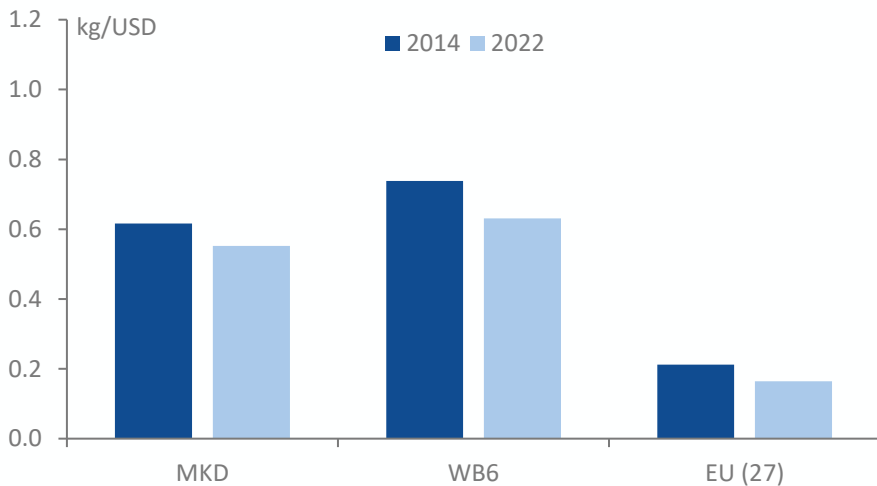
GDP and carbon intensity

Gross domestic product



Source: IMF; *estimate; Note: current USD

CO2 emissions per USD of GDP



Source: Our World in Data, IMF, Note: constant 2022 USD

Gross domestic product

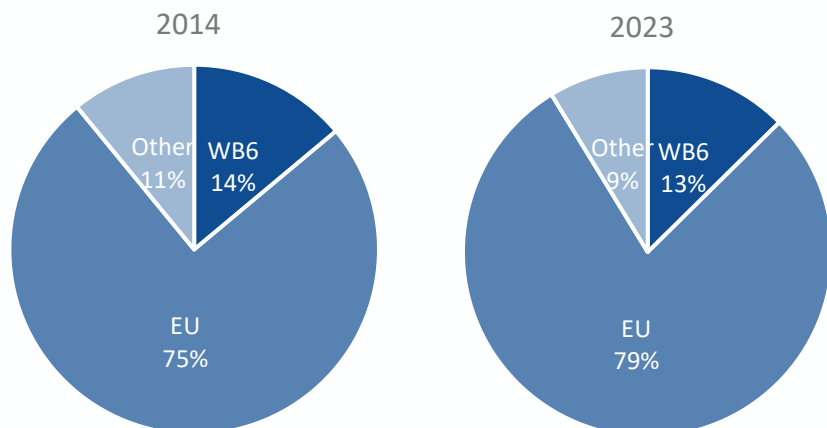
- » GDP of USD 14.8 bn in 2023
 - Third smallest economy of WB6
- » GDP/capita stood at USD 8,100 in 2023
 - In midfield of WB6, together with ALB & BIH
- » Dynamic: avg. real GDP-growth of 2% p.a. since 2014
 - By far lowest among WB6
- Relatively weak growth in last 10 years

Carbon intensity

- » MKD emitted 0.55kg CO2 per USD of GDP in 2022
 - Carbon intensity in midfield of WB6
- » Carbon intensity decreased by 10% over the last 10 years
 - Among WB6-countries with weakest decrease
- Persistently high carbon intensity

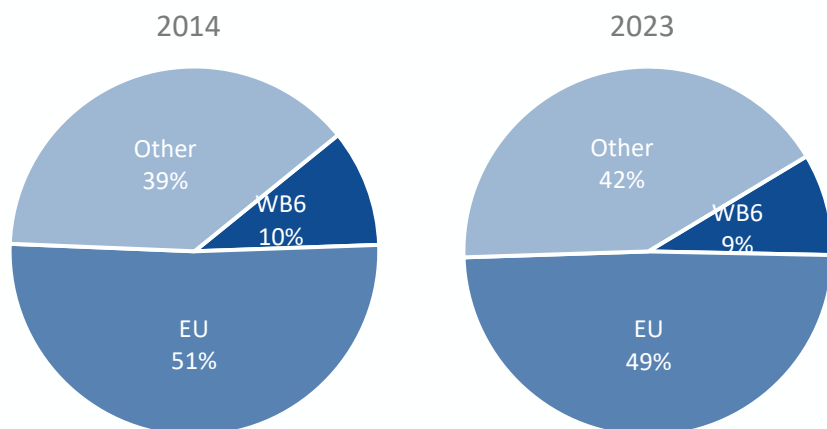
Foreign trade in goods

Destination of exports



Source: State Statistical Office of the Republic of North Macedonia; Note: goods only

Source of imports



Source: State Statistical Office of the Republic of North Macedonia; Note: goods only

Destination of exports

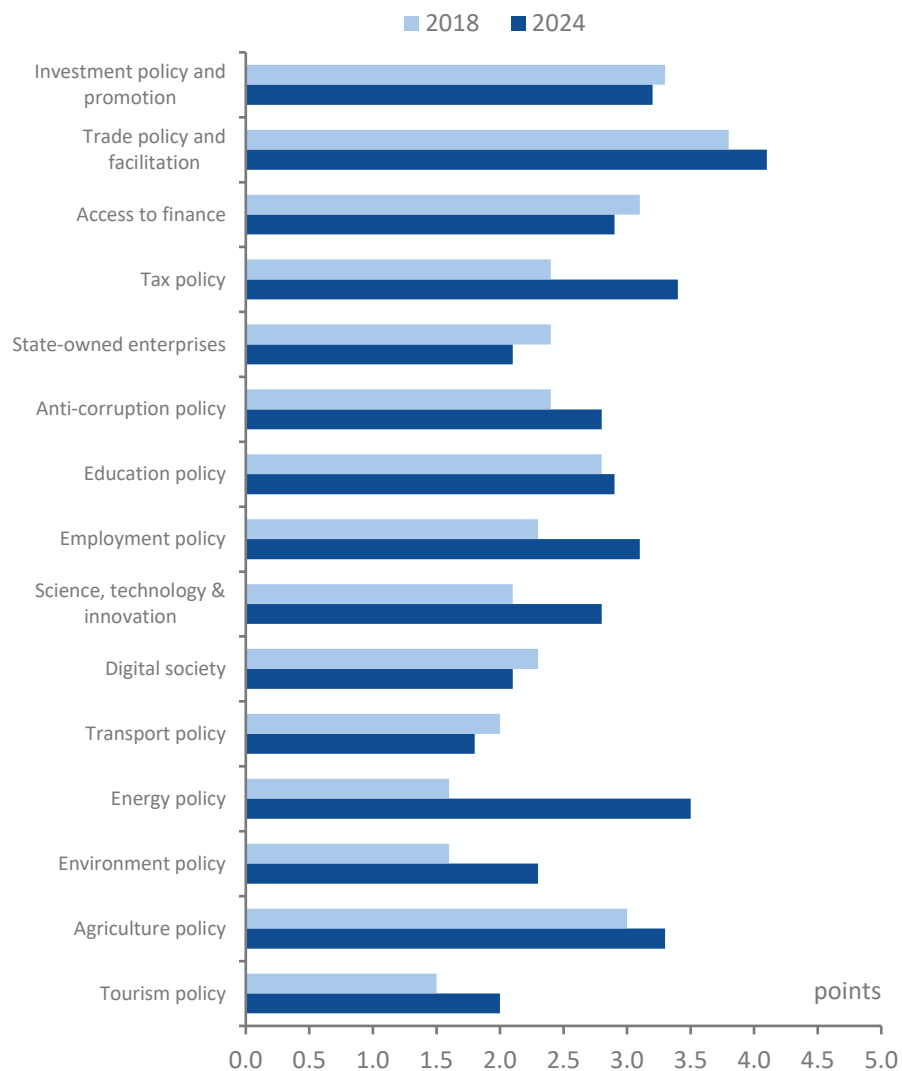
- » EU is by far most important export destination
 - 56% of exports to EU went to DEU in 2023
 - Importance of EU increased over time
- » Importance of WB6 relatively low and stable

Source of imports

- » EU biggest import-destination, relatively stable over time
- » WB6-countries play almost no role for imports
- » EU and WB6 much less important as source of imports (58%) than as destination for exports (92%)
- EU important and stable trading partner, especially for exports
- Trade with other WB6-countries plays no big role for MKD
- This did not change throughout last 10 years

Alignment of policies with EU standards

Alignment of policies with EU standards



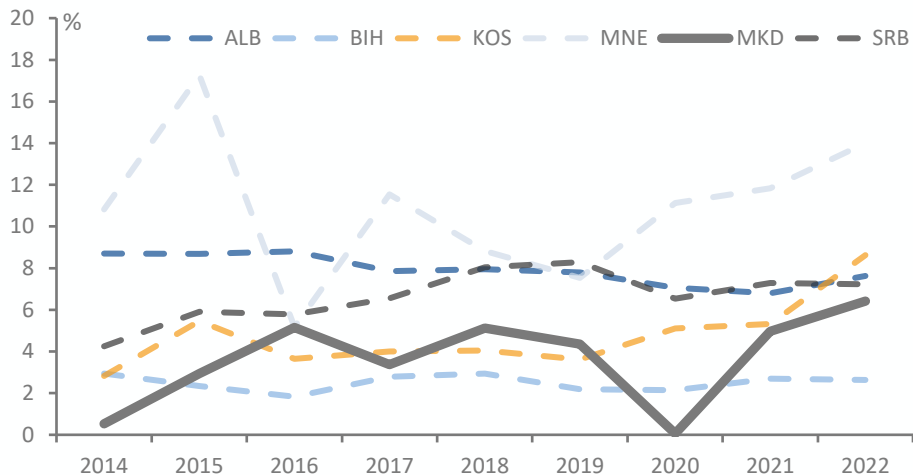
Source: OECD's [Western Balkans Competitiveness Data Hub](#)

Alignment of policies with EU standards

- » Level of alignment roughly in line with regional average in most dimensions
- » In five dimensions, policy environments are now less aligned with EU standards than they were in 2018
 - Access to finance, state-owned enterprises, investment policy, digital society, transport policy
 - In these dimensions, no or very little progress was achieved
 - Because EU standards evolve over time, these policy dimensions are now less aligned than they were in 2018
- » Strong progress in energy policy
 - First WB6 economy to adopt its National Energy and Climate Plan (NECP)
- Very weak progress since 2018
- Multiple dimensions are stagnating entirely

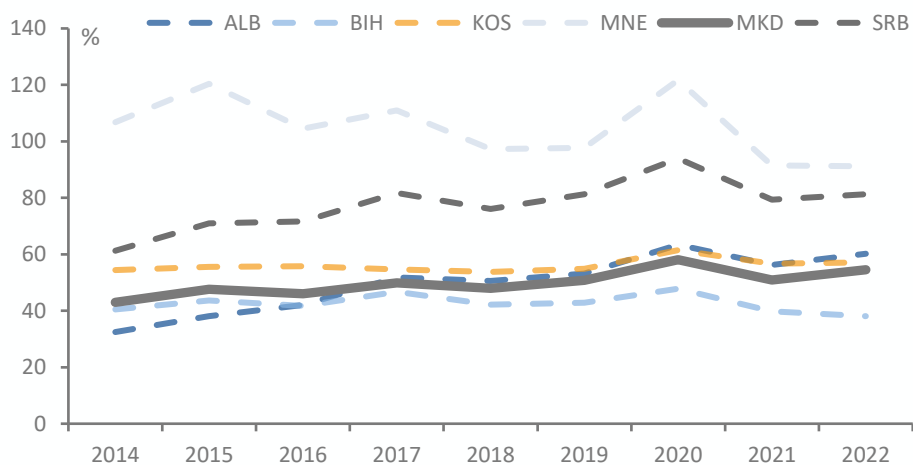
Foreign direct investment

Net FDI inflows (% of GDP)



Source: Worldbank, IMF

FDI inward stock (% of GDP)



Sources: UN trade & development, Central Bank of Kosovo, IMF

FDI inflows

- » Inflows have generally been increasing, starting from a very low level in 2014
 - Almost no inflows in 2020, but strong post-pandemic recovery
- » In 2022, most inflows came from the EU (65%), followed by GBR (9%) and TUR (8%)
- » MKD attracts FDI into manufacturing via its 15 industrial zones, which offer multiple cost and tax incentives to investors

FDI stock

- » FDI stock increased moderately since 2014 and is comparable to KOS and ALB
- » Stock is mostly comprised of manufacturing (35%), financial & insurance (22%) and wholesale & retail trade (13%) in 2022
 - Sectoral composition of stock is very stable over time
- » Increasing success in FDI attraction
- » Moderately increasing FDI stock

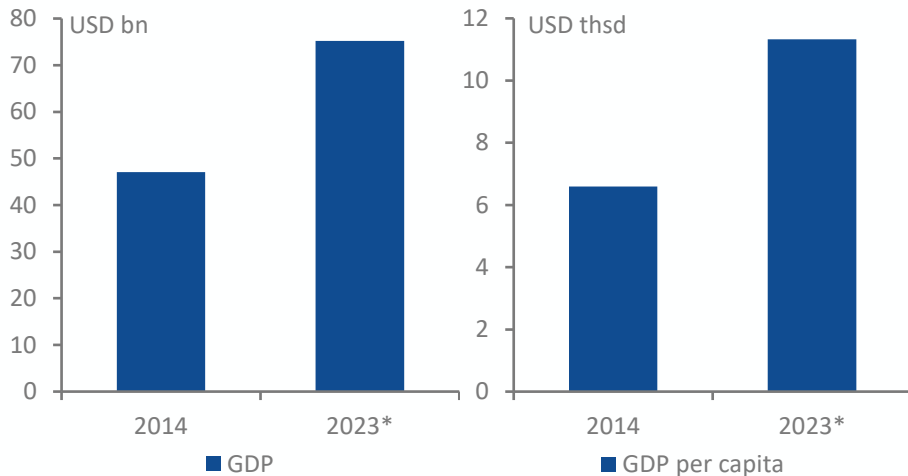
SERBIA



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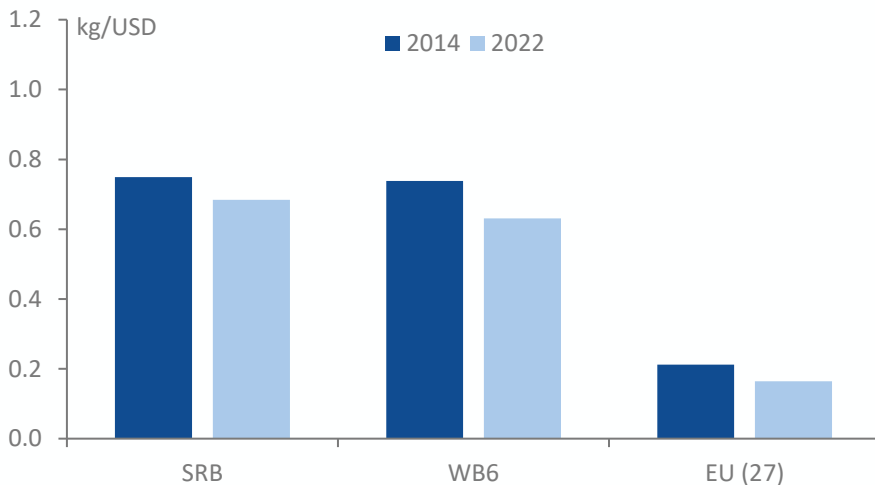
GDP and carbon intensity

Gross domestic product



Source: IMF; *estimate; Note: current USD

CO2 emissions per USD of GDP



Source: Our World in Data, IMF, Note: constant 2022 USD

Gross domestic product

- » GDP amounted to USD 75.2 bn in 2023
 - Almost as large as all other WB6-countries taken together
- » GDP/capita stood at USD 11,300 in 2023
 - Highest among WB6, together with MNE
- » Dynamic: avg. real GDP-growth of 3.1% p.a. in the last 10 years
 - Average among WB6

➤ Moderate growth, least affected by COVID

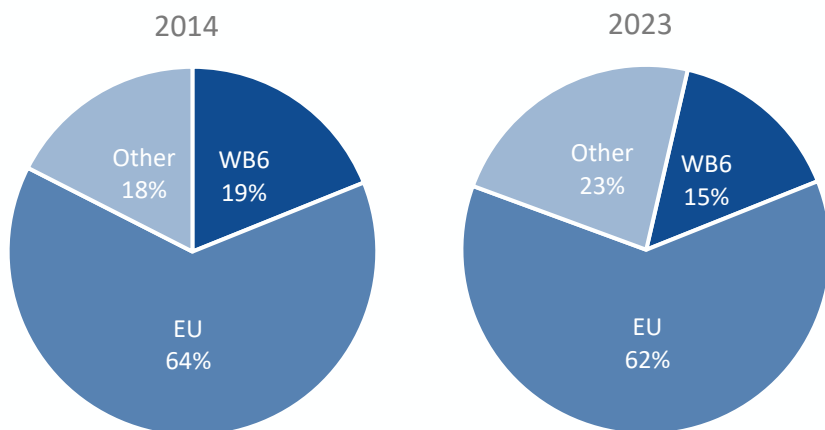
Carbon intensity

- » SRB emitted 0.68kg CO2 per USD of GDP in 2022
 - Carbon intensity in midfield of WB6
- » Carbon intensity decreased by 9% over the last 10 years
 - Among WB6-countries with weakest decrease

➤ Persistently high carbon intensity

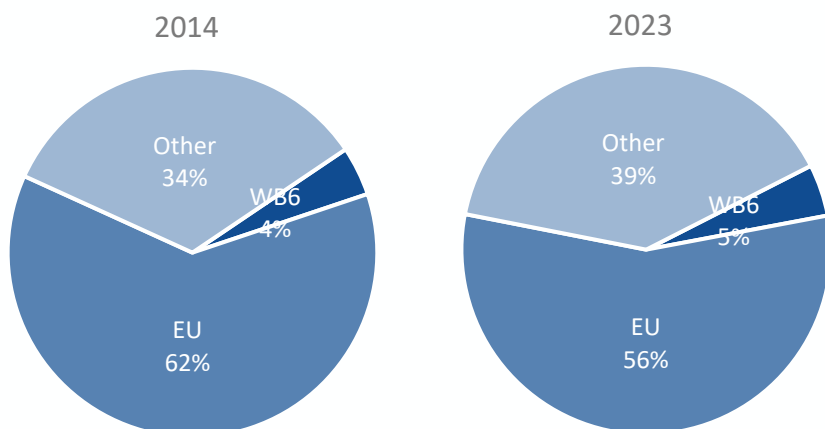
Foreign trade in goods

Destination of exports



Source: Statistical Office of the Republic of Serbia; Note: goods only

Source of imports



Source: Statistical Office of the Republic of Serbia; Note: goods only

Destination of exports

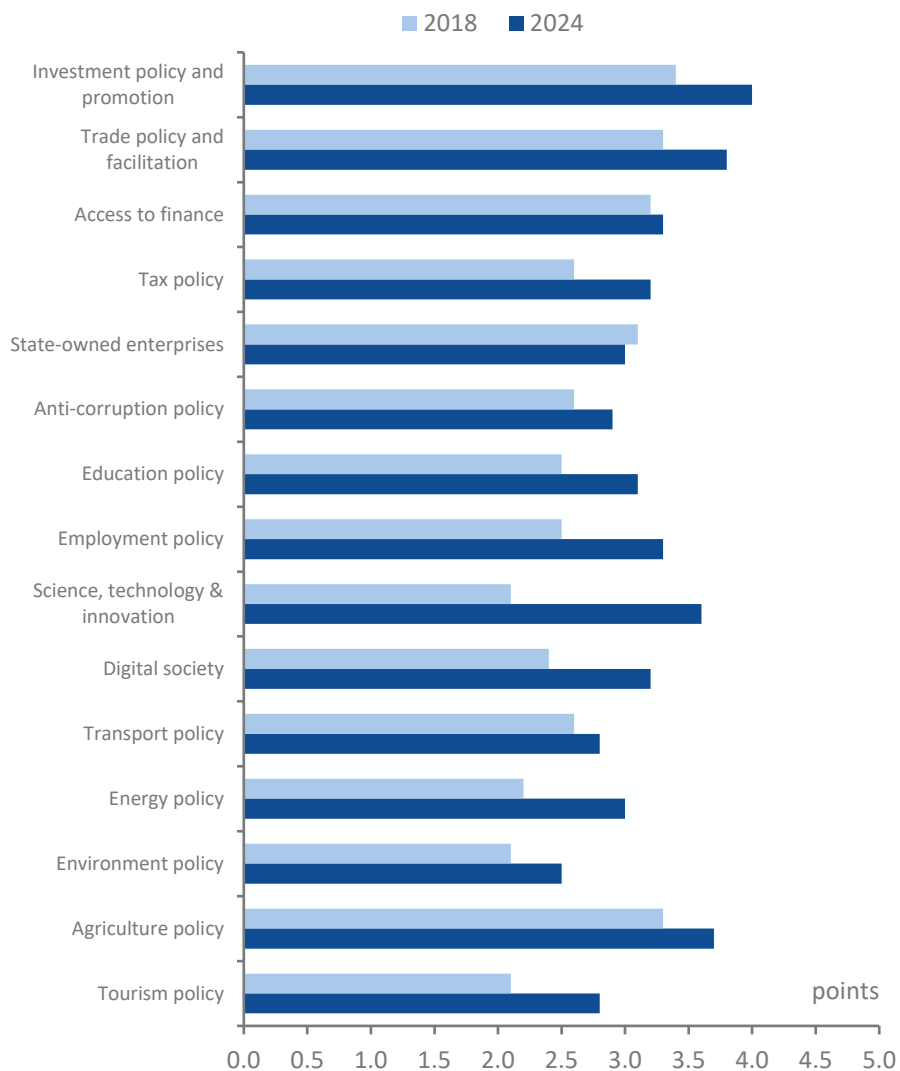
- » EU most important, share is stable over time
- » WB6-countries much less important
 - Reorientation away from WB6 since 2014
 - All WB6-countries less important now
 - Substituted by exports to CHN

Source of imports

- » EU still most important source of imports
 - But large decrease of importance
 - General reorientation away from EU to CHN and TUR
 - DEU as most important source of imports withstood trend, share increased over time
- » WB6-countries play almost no role
- EU-countries are main trading partners, but importance decreasing
- Only little trade with WB6 and negative trend over last 10 years

Alignment of policies with EU standards

Alignment of policies with EU standards



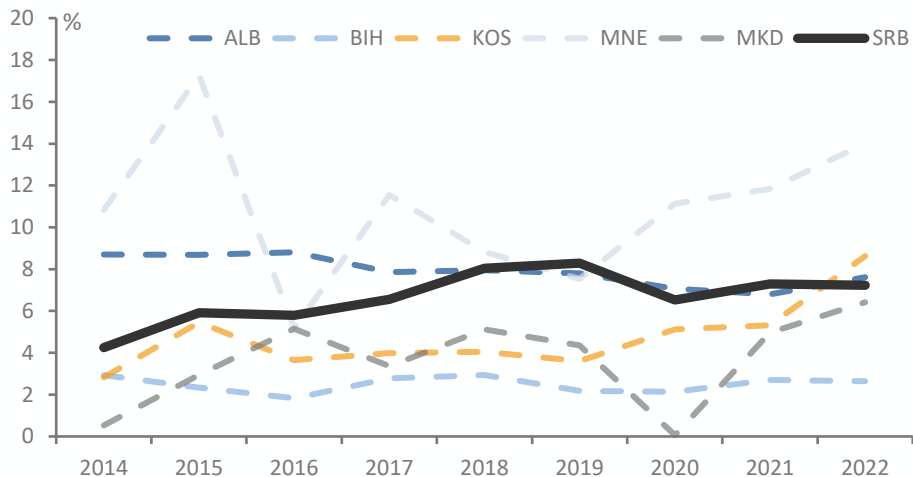
Source: OECD's [Western Balkans Competitiveness Data Hub](#)

Alignment of policies with EU standards

- » On average, SRB's policy environments are best-aligned to EU-standards
- » Above-average scores in almost all dimensions
 - Regional leader in investment policy and promotion, access to finance, science, technology and innovation (STI), digital society and agriculture policy
- » Average progress since 2018 only moderate
- » But strong progress in the STI dimension
 - A new ministry that exclusively focuses on STI was created in 2022
 - A national science fund was created in 2019 and continuously expands its operations since then
 - SRB's network of Science and Technology business parks has been extended
- On average, SRB's policy environments are the most sophisticated in the region

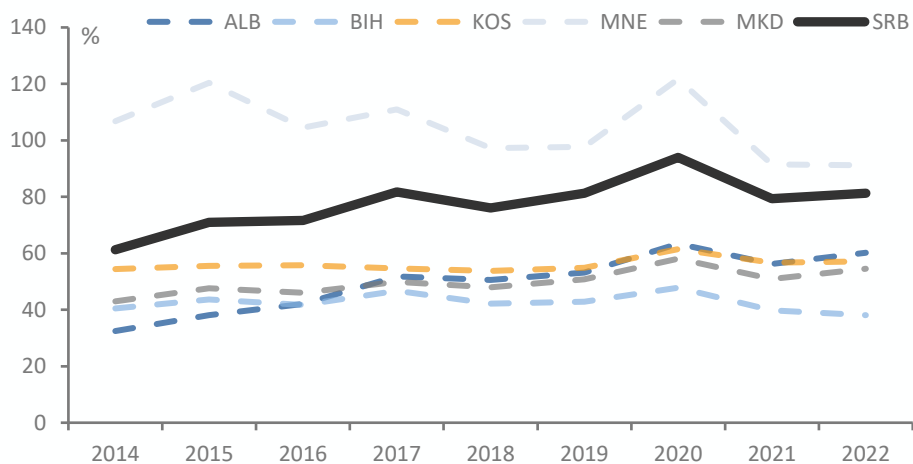
Foreign direct investment

Net FDI inflows (% of GDP)



Source: Worldbank, IMF

FDI inward stock (% of GDP)



Sources: UN trade & development, Central Bank of Kosovo, IMF

FDI inflows

- » Inflows increased steadily over time, reaching 7.2% in 2022
 - In 2022, FDI from the EU nearly halved (to 33% of inflows), while Chinese FDI more than tripled (to 32%) in comparison to previous years
- » Inflows are concentrated in construction & real estate and in manufacturing, bolstering SRB's productive capacity
 - Cost-based incentives, subsidies, reimbursements and tax incentives are designed to attract FDI into manufacturing sectors

FDI stock

- » Correspondingly, stock increased from 61% to 81% of GDP
 - SRB accounts for around 60% of the regions total FDI stock
- » Strong FDI attraction since 2014
- » High and increasing FDI stock

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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Annex. Introduction to OECD scores

- » One of the main aims of the Berlin Process is to support WB6-countries in reforming their policy environments to bring them closer to EU standards
- » The OECD's Western Balkans Competitiveness Outlooks are the most comprehensive assessment of the region's policy-alignment with EU standards
- » Policy alignment is assessed through scores across 15 relevant policy-dimensions
 - Scores range from 0 (lowest) to 5 (highest – full alignment)
 - Each score is based on average on 10 underlying qualitative indicators
 - Scores reflect the design, implementation and performance of policies, processes and institutions
- » In this study, scores from the second (2018) and the most-recent publication (2024) are shown
 - Scores from the first Competitiveness Outlook (2016) indicated policy-alignment with the headline targets of the South East Europe 2020 Strategy (SEE 2020) instead of with EU standards and are thus not used here
- » By comparing the scores from 2018 to those from 2024 it can be assessed to which extent countries have converged towards EU best practices over the years
 - EU standards are subject to change over time
 - Requirements for reaching a given level of alignment are thus adjusted in each new publication
- » The methodology is described in detail at the newly launched [Western Balkans Competitiveness Data Hub](#)