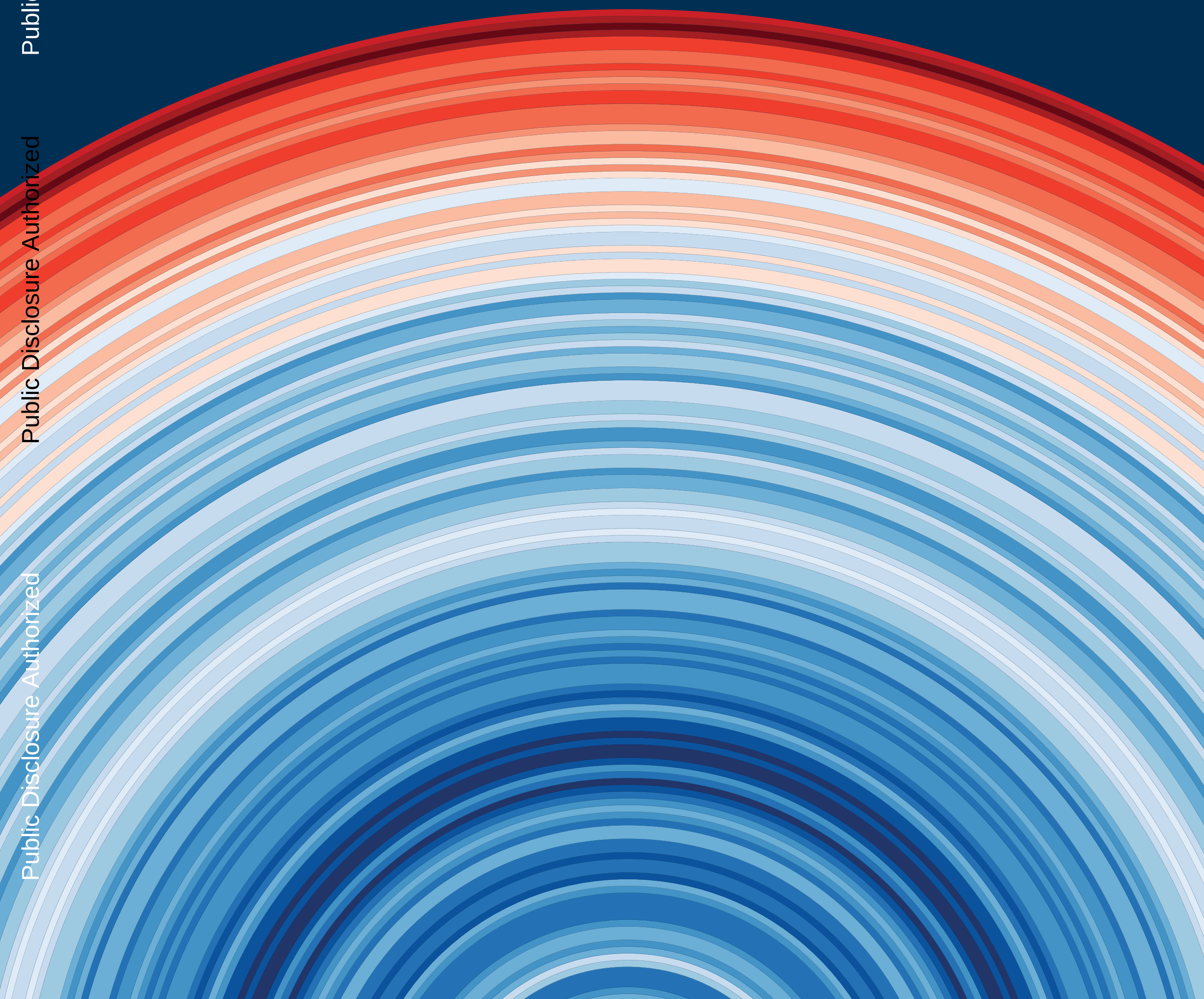
Western Balkans Regular Economic Report
No. 27 - Spring 2025

WORLD BANK GROUP

Adapting for Sustainable Growth



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Acknowledgements

This Regular Economic Report (RER) covers economic developments, prospects, and economic policies in the Western Balkans region: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.

The report is produced twice a year by a team led by Isolina Rossi, Richard Record, and Maryna Sidarenka (Task Team Leaders). This issue's core team included World Bank staff working on the Western Balkan countries (with additional contributions to specific sections): Christos Kostopoulos, Maryna Sidarenka, (Growth section), Sanja Madžarević-Šujster, Joana Madjoska (Labor section), Alexandru Cojocaru, Carlos Gustavo Ospino Hernandez, Anna Fruttero, Zurab Sajaia (Poverty section), Milan Lakićević, Esida Bujupi, Sanja Madžarević-Šujster, Tim Pionteck (Fiscal section), Vanessa-Paradis Olakemi Dovonou Lamissi, Tim Pionteck (Monetary section), Jane Hwang, Valeria Salomao Garcia, Gunhild Berg (Financial sector section), Sandra Hlivnjak, Angella Faith Montfaucon (External section), Richard Record, Lazar Šestović, (Outlook section), Sarah Coll-Black, Alicia C. Marguerie, Kevwe Sylvester Pela, Minah Kim (Spotlight).

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This Western Balkans RER and previous issues may be found at: www.worldbank.org/eca/wbrer/.

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Abbreviations

AE	Advanced Economies
BoA Bank of Albania	Benefit-to-Cost Ratio
CAD	Current Account Deficit
CAR	Capital Adequacy Ratio
CESEE	Central, Eastern and Southeastern Europe
CPI	Consumer Price Index
DFIs	Development Financial Institutions
DG ECFIN	The Directorate-General for Economic and Financial Affairs
EC	European Commission
ECA	Europe and Central Asia
ECB	European Central Bank
EIB	European Investment Bank
EMDEs	Emerging Markets and Developing Economies
ESI	Economic Sentiment Indicator
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FCI	Financial Condition Index
FDI	Foreign Direct Investment
FX	Foreign Exchange
GDP	Gross Domestic Product
GEPU	Global Economic Policy Uncertainty index
H1	First Half
H2	Second Half
HICP	Harmonized Indices of Consumer Prices
ICT	Information and Communications Technology
IIMF	International Monetary Fund
LFS	Labor Force Survey
LAA	Liter of absolute alcohol
lhs	left-hand scale
NBS National Bank of Serbia	Global Skills Partnerships
NCDs	Non-communicable diseases
NPLs	Non-Performing Loans
PDBs	Public Development Banks
PFM	Public Financial Management
PPG	Public and Publicly Guaranteed
Pp	Percentage point
PPP	Purchasing Power Parity
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
ROA	Return on Assets
rhs	right-hand scale
RS	Republika Srpska
SEPA	Single Euro Payment Area
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprises
SSBs	sugar-sweetened beverages
TEPU	Trade Policy Uncertainty index
UN	United Nations
US	United States
VAT	value-added tax
WDI	World Development Indicators
WHO	World Health Organization
yoy	year-on-year

WB6 Country Abbreviations:	
ALB	Albania
BiH	Bosnia and Herzegovina
KOS	Kosovo
MKD	North Macedonia
MNE	Montenegro
SRB	Serbia
WB6	

Note: All comparisons are year-on-year unless otherwise stated.

Adapting for Sustainable Growth

1. Overview

The six Western Balkan economies (WB6) have shown encouraging signs of economic resilience, but are increasingly being buffeted by multiple sources of uncertainty. As a group, the WB6 countries recorded GDP growth of 3.5 percent in 2024, up slightly from 3.4 percent in 2023. This implies a degree of convergence in living standards with European peers, as the economies of the WB6 have been growing at a faster rate than the EU average. Diversified sources of growth have helped the region during a period of sluggish external demand in Europe.

However, economic uncertainty—especially regarding shifts in global trade policy—has increased to levels that are clouding prospects for investment and growth in the region. This uncertainty could spill over to affect business confidence and consumer sentiment, impacting medium-term growth prospects. The primary impact channel for the WB6 is a potential slowdown in Eurozone economic activity, which in turn would affect the flow of trade (in both goods and services), investments and remittances with the region. At such a time, diversifying sources of growth and renewing the structural reform agenda would be the most effective ways of sustaining economic resilience.

Despite some late-year deceleration, the overall economic performance in 2024 reflected underlying resilience. Growth was supported by strong domestic demand and scaled-up public investment. With inflation falling back to single digits and ending the year 2024 at 3.3 percent, nominal wage growth was able to translate into real increases in purchasing power, in turn boosting consumption. A generalized shift back towards public capital investment was another major driver of growth. At the same time, a continued weak external environment including sluggish growth among key trading partners in the EU, negatively affected export dynamics in several economies in the region. Overall, GDP growth in 2024 is estimated at 2.6 percent in Bosnia and Herzegovina, 2.8 percent in North Macedonia, 3.0 percent in Montenegro, 3.9 percent in both Albania and Serbia, and 4.4 percent in Kosovo.

These growth dynamics were reflected in labor markets, although the pace of employment gains slowed during the course of 2024 across much of the region. Nevertheless, the WB6 employment rate increased by about 1.1 percentage point (pp). Positive contributions came from Bosnia and Herzegovina, North Macedonia and Serbia, while other countries experienced a decline or stagnation in the total numbers of employed. Stronger domestic demand underpinned employment growth in services. Agricultural employment increased only in Albania and North Macedonia, while in the other WB6 countries it continued to decline, despite increased subsidies to the agricultural sector to contain the impact of inflationary pressures. Public sector employment recorded an increase across all six countries, while employment growth in manufacturing was weaker, especially in countries facing subdued foreign demand. The labor force participation rate improved over the last year on a regional level, but gains were lower than in 2023.

Poverty in the six WB6 countries continued its downward trend, albeit at a slower pace than during the pre-pandemic period. Before 2019, the poverty rate decreased by almost 3 percentage points annually. In contrast, between 2022 and 2025, this rate has fallen by about 3 percentage points in total. This slowdown reflects a combination of weaker economic growth across the WB6 region and a series of shocks that have eroded households' purchasing power in recent years. In addition, the marginal impact of growth on poverty reduction has diminished due to structural labor market constraints. Further reductions in poverty will increasingly require more targeted policies either through labor market activation or better-targeted social transfers, as a high share of the remaining poor are characterized by long-term unemployment.

Following three years of fiscal consolidation, several WB6 countries saw rising fiscal deficits in 2024. Revenue performance was strong but higher recurrent spending pushed fiscal deficits higher. The region's average revenue-to-GDP ratio rose to 36.4 percent in 2024, up from 35.3 percent in 2023. However, public spending rose more sharply, reaching 38.6 percent of GDP in 2024, compared to 36.8 percent in 2023. As a result, the average fiscal deficit widened to 2.2 percent of GDP in 2024, an increase of 0.7 percent compared to in 2023. Albania and Kosovo were the only countries to see improvements in their fiscal balances, driven by under-executed capital spending and strong tax revenues. Serbia's fiscal deficit remained stable at 2.0 percent of GDP, supported by solid revenue performance. In contrast, Bosnia and Herzegovina, Montenegro, and North Macedonia all experienced rising fiscal deficits primarily due to higher government spending on wages, social benefits, and interest payments, alongside weaker revenue mobilization.

In line with global trends, inflation continued a downward trajectory in the WB6 countries during 2024, although the pace of disinflation varied across countries. However, price pressures started to increase again in early 2025. In 2024, average inflation in the WB6 countries decreased sharply to 3.3 percent in 2024, down from 9.3 percent in 2023. However, the pace of disinflation has varied across the region, with more persistence at year-end in Serbia (4.6 percent), North Macedonia (3.5 percent) and Montenegro (3.4 percent), while price pressures were more muted in Albania (2.2 percent), Bosnia and Herzegovina (1.7 percent) and Kosovo (1.6 percent). After a period of crises during which price pressures were primarily external, the main drivers of inflation are now domestic factors, including rising wages amid tightened labor markets and due to higher food prices following adverse weather events.

Demand for credit expanded across all segments in 2024, including corporate, household and consumer lending. Average credit growth rose during the first half of the year and continued to increase in the latter months. By end-2024, year-on-year credit growth for the WB6 countries reached an average of 12.3 percent, up from 6.5 percent at end 2023, marking the highest level of credit growth since 2009. The fastest growth rates were observed in Kosovo (17.8 percent), followed by Montenegro (15.5 percent) and Albania (12.1 percent). Return on assets in the banking sector improved slightly, while non-performing loans declined further to an historically low level of 3.4 percent for the WB6 region as a whole by September 2024. Banks' capital adequacy ratios, which had strengthened during 2023, remained stable throughout 2024, with a WB6 regional average capital adequacy ratio of 19.3 percent.

The WB6 countries experienced a deterioration in their external positions in 2024, primarily due to weaker trade balances and income accounts. The regional current account deficit (CAD) widened to 6.9 percent of GDP in 2024, up from 4.1 percent in 2023. Almost all countries (except Kosovo) saw weaker exports amid subdued economic activity in the EU, especially in Germany, to which the WB6 is closely linked through regional value chains. At the same time, imports increased due to stronger domestic consumption, and higher public capital investments in several countries. The regional merchandise trade deficit rose to 27.6 percent of GDP in 2024, up from 26.4 percent of GDP in 2023. After a multi-year period of rapid growth in the tourism sector, services exports slowed during the year. Net services exports for the WB6 region declined slightly to 12.1 percent of GDP in 2024, from 12.4 percent of GDP in 2023. However, this aggregate mask increases in Albania, Kosovo and North Macedonia, and decreases in Serbia, Montenegro and Bosnia and Herzegovina. Remittances declined as a share of GDP during 2024, partly reflecting weak economic conditions in host countries.

In a context of increased uncertainty, GDP growth for the WB6 region is projected to slow to 3.2 percent in 2025, before recovering to 3.5 percent in 2026. Growth prospects for the region are subject to a high degree of risks and reflect uncertainty associated with the potential slowdown in EU growth. Private consumption and public investment are expected to continue to play a key role in driving growth. Kosovo will remain the fastest-growing country in the WB6 region with GDP growth of 3.8 percent in 2025, albeit at a somewhat slower rate than seen in 2024. Serbia will be the second-fastest-growing country in the WB6 region, with growth reaching around 3.5 percent in 2025. Growth in Albania in 2025 is projected at 3.2 percent. In Montenegro, growth is expected to reach 3.0 percent in 2025. In Bosnia and Herzegovina growth is projected to reach 3.1 percent in 2025, while in North Macedonia, growth in 2025 is projected at 2.6 percent.

TABLE 1.1:

Western Balkans outlook, 2022–2027

	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth (percent)						
Albania	4.8	3.9	3.9	3.2	3.1	3.1
Bosnia and Herzegovina	4.2	2.0	2.6	2.7	3.1	3.5
Kosovo	4.3	4.1	4.4	3.8	3.8	3.8
North Macedonia	2.8	2.1	2.8	2.6	2.7	2.8
Montenegro	6.4	6.3	3.0	3.0	2.9	3.0
Serbia	2.6	3.8	3.9	3.5	3.9	4.2
WB6	3.5	3.4	3.5	3.2	3.5	3.7
Real GDP components growth (percent)						
Consumption	2.7	0.7	3.3	3.2	2.9	3.0
Investment	1.1	0.1	2.9	1.1	1.4	1.3
Net exports	-1.0	2.3	-2.7	-1.1	-0.8	-0.6
Exports	6.5	1.5	0.5	1.0	2.1	2.4
Imports (-)	7.5	-0.8	3.2	2.1	2.9	3.0
Consumer price inflation (percent, period average)	11.9	9.0	3.4	2.9	2.6	2.5
External sector (percent of GDP)						
Goods exports	28.1	24.2	22.1	21.2	21.1	20.9
Trade balance	-18.6	-14.1	-15.4	-16.4	-16.0	-15.8
Current account balance	-7.7	-4.1	-6.9	-7.6	-7.3	-7.0
Foreign direct investment	6.8	5.0	5.6	4.9	4.9	4.9
External debt	75.3	66.7	66.0	53.4	52.9	52.2
Public sector (percent of GDP)						
Public revenues	34.5	35.3	36.4	36.5	36.5	36.5
Public expenditures	36.9	36.8	38.6	39.2	39.0	38.8
Fiscal balance	-2.4	-1.5	-2.2	-2.8	-2.5	-2.3
Public and publicly guaranteed debt	49.6	45.1	45.2	45.9	46.1	45.6

Source: National statistical offices; Ministries of Finance; central banks and World Bank staff estimates.

Note: e = estimate; f = forecast.

Risks—both domestic and external—are clearly elevated, requiring an adaptive approach to sustain growth. On the external front, slower economic activity in the EU, as well as heightened global trade uncertainty, could negatively affect the growth outlook for the WB6 countries, with negative consequences in terms of demand for the region's goods and services exports as well as inward investment inflows. In addition, continued uncertainties stemming from the ramifications of Russia's ongoing invasion of Ukraine could disrupt trade and commodity markets, with negative implications for inflation and growth. Domestically, adverse political developments and uncertainties in several WB6 countries could lead to weakening business and consumer confidence and a slower implementation of the structural reform agenda. Finally, the economies of the WB6 region are increasingly vulnerable to extreme weather events, including droughts and floods, with potentially detrimental macro-fiscal implications. As a potential upside risk, a de-escalation of trade tensions and economic policy uncertainty could see stronger than expected exports and private investment, raising the region's rate of growth.

During periods of uncertainty, an accelerated pace of structural reforms would help support growth and convergence. Key priorities include addressing labor force barriers—particularly for women—increasing regional economic integration, improving governance standards, and strengthening market competition, all of which could boost productivity and long-term growth. For developing countries, the most effective response to higher trade protection abroad would be liberalization across trading partners. Faster EU accession-related reforms, such as entry into the Single Euro Payments Area and the implementation of "green lanes" to facilitate cross-border trade, could further support business confidence, investment, and job creation in the region.

The Spotlight in this edition of the Western Balkans *Regular Economic Report* examines how extreme climate events are amplifying existing labor market vulnerabilities and creating new challenges for workers and employers. Rising temperatures, heavy precipitations and other severe weather events, coupled with the global transition to a low-carbon economy, are reshaping sectoral employment patterns, particularly in energy, agriculture, and tourism. These changes are driven by direct climate impacts—such as heat stress, droughts, and floods—on workers, their families, and firms, and by structural shifts in employment demand and skills requirements. For example, tourism-dependent areas of the Western Balkans are increasingly vulnerable to extreme weather events that could reduce visitor numbers, disrupt revenues, and threaten local employment. Looking ahead, the impacts of a changing climate and the greening of the economy will require substantial workforce adaptation, including reforms to social protection systems and employment services, to better protect people and enable labor market transitions.

2. Sustained growth despite global challenges

GDP growth in the Western Balkans remained positive in 2024, despite a weaker performance in the latter part of the year. Economic growth was bolstered by strong domestic demand, driven by rising consumption and a surge in public investment in all WB6 countries. However, adverse external conditions and increasing pressures from slow growth in key EU trading partners, particularly Germany, weakened foreign demand for exports, especially in the latter part of the year. This negatively affected export dynamics, resulting in a negative contribution of net exports in all six WB6 countries. Overall, estimated growth for 2024 is 2.6 percent in Bosnia and Herzegovina, 2.8 percent in North Macedonia, 3 percent in Montenegro, 3.9 percent in both Albania and Serbia, and 4.4 percent in Kosovo (Figure 2.1).

On the demand side, consumption supported growth in all WB6 countries. The growth in consumption was driven by an increase in real incomes, fueled by lower inflation and rising wages in both the private and public sectors. The average headline inflation for the WB6 region declined to 3.3 percent in 2024, compared with 9.0 percent in 2023, although it remained higher than the EU27 average of 2.6 percent in 2024. Employment gains also bolstered well-being and positively contributed to consumption growth. In 2024, all WB6 countries reported rising employment and activity rates, along with declining unemployment rates (except for Kosovo). Higher consumer lending, which increased by an average of 13.4 percent in 2024 for the entire WB6 region, also supported consumption. In Montenegro, the contribution of consumption to growth was the highest among the WB6 countries at 7.6 percentage points, followed by Kosovo at 4.1 percentage points. These two countries also stood out in terms of consumer lending growth in 2024, with increases of 17 and 22 percent, respectively. In Albania and Serbia, consumption contributed 3.8 and 3 percentage points to growth, respectively, while in North Macedonia, and Bosnia and Herzegovina, it contributed 2.7 and 2.5 percentage points, respectively (Figure 2.2).

FIGURE 2.1:

GDP growth in a changing external environment

Real GDP growth, percent

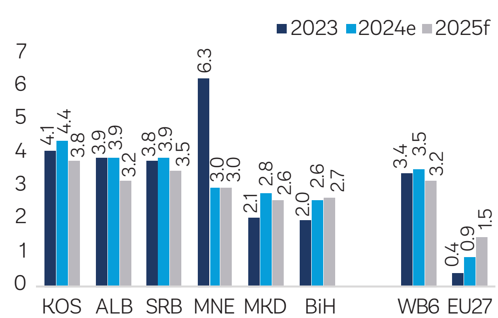
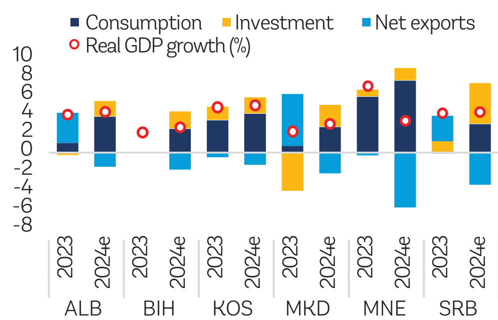


FIGURE 2.2:

Consumption and investments were the main drivers of economic growth[1]

Annual growth and percentage point contribution



Source: National statistical offices and World Bank staff estimates.

1 Contribution to growth of consumption and investments were adjusted for Albania in 2023 and for North Macedonia in 2023-2024 to reflect high contribution of statistical discrepancy for these countries: -2.6pp in Albania and -0.7pp and 2.1pp in North Macedonia.

Public and private investment was also a significant driver of growth, contributing positively to economic expansion across all WB6 countries. Unlike in 2023, when the contribution of investment to growth was modest and even negative for some WB6 countries, 2024 saw a recovery in investment trends. In Serbia, public investment, including financing for EXPO 2027, increased by 0.9 percentage point to reach 7.3 percent of GDP, the largest public investment outlay in the country in over a decade. This, together with strong net FDI inflows, led to a 4.3 percentage point contribution of investment to growth, the highest in the region. In North Macedonia, investment contributed to growth, supported by highway construction, a sharp contrast to 2023 when investment subtracted from growth. In Montenegro, higher-than-planned public investments and strong FDI inflows (6.6 percent of GDP) contributed 1.3 percentage points to growth. In Albania, Kosovo, and Bosnia and Herzegovina, a recovery in investment was also evident, with contributions ranging between 1.6 and 1.8 percentage points.

While domestic demand was the main catalyst for growth in 2024, net exports served as a drag. In four of the WB6 countries, both merchandise exports and imports as a percentage of GDP declined. However, the reduction in the share of exports was more significant, reflecting lower external demand and leading to a worsening trade deficit. In Montenegro, goods exports declined, while imports remained stable as a share of GDP. Kosovo is the only country in the WB6 region where goods exports increased, but imports grew even more, resulting in a slightly higher trade deficit. The balance of net services exports improved in three out of six countries (Albania, Kosovo and North Macedonia), while in Montenegro, it deteriorated by 2.7 percentage points of GDP, followed by Serbia (0.8 percentage points) and Bosnia and Herzegovina (0.6 percentage points). Consequently, all WB6 countries recorded a negative contribution of net exports to growth in 2024, estimated at 2.7 percentage points for the region (Figure 2.3). This development marks a shift from 2023, when net exports positively contributed to growth in the region.

FIGURE 2.3:

Trade was a drag on growth in 2024 in all WB6 countries

Net exports of goods and services, percentage point contribution to GDP growth

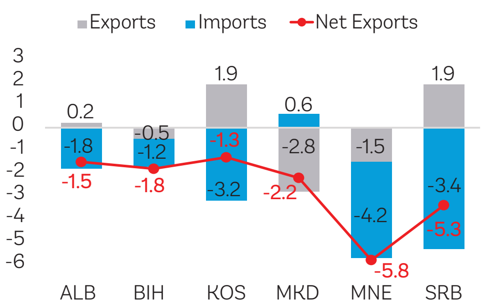
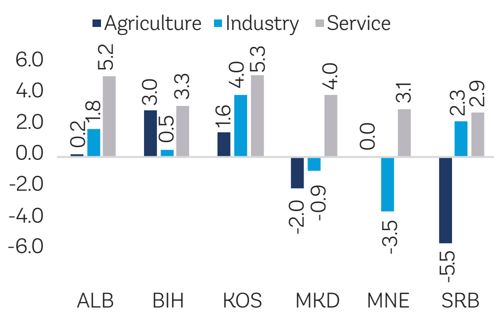


FIGURE 2.4:

The services sector drove growth, while industrial and agricultural output performance was uneven in 2024

Real growth rates by sectors, percent y-o-y



Source: National statistical offices and World Bank staff estimates.

The net export dynamics were different for each country, in some cases driven by lower demand from trading partners and in others by higher imports. On the one hand, in North Macedonia and Albania, lower demand from key trading partners was the driving force for reduced exports. In Montenegro, the negative contribution of net exports amounted to 5.8 percentage point (compared with just 0.3 of a percentage point in 2023), the largest in the region, and was driven by a 5-percent decline in tourist overnight stays and stagnant industrial production, especially in electricity. In North Macedonia, exports declined more sharply than imports, as the country felt the impact of lower demand in the EU, particularly for car parts. Consequently, the negative contribution of net exports amounted to 2.2 percentage point (compared with a 5.5 percentage point positive contribution in 2023). In Albania, lower merchandise exports and higher imports of goods, resulted in an overall negative contribution of net exports by 1.5 percentage point. Meanwhile, Serbia, Bosnia and Herzegovina, and Kosovo experienced higher import demand. In particular, in Serbia, net exports subtracted 3.4 percentage point from growth (compared with a 2.7 percentage point positive contribution in 2023) due to lower-than-expected export growth as external demand weakened, while imports remained high, partly explained by increased investment. In Bosnia and Herzegovina, worsening terms of trade and an increase in investment-driven imports resulted in negative net exports, which subtracted 1.8 percentage point from growth. Finally, in Kosovo, despite a positive performance of exports compared with imports, the net exports contribution was negative at 1.3 percentage point due to the substantially higher share of imports in GDP (Figure 2.3).

On the production side, the performance of real sectors was mixed across the WB6 countries. The services sector remained the main driver of growth for all six countries (Figure 2.4). For the WB6 countries except Kosovo and North Macedonia, services sector growth was lower than the previous year. Industrial performance varied across the WB6 countries. In Albania, industrial output recorded modest growth of 1.8 percent, supported by stronger construction performance. In Bosnia and Herzegovina, industrial output grew by only 0.5 percent in 2024 (after a 3.4 percent decline in 2023), as manufacturing was adversely impacted by spillover effects from declining manufacturing in Germany. Meanwhile, industrial output in Kosovo and Serbia was more resilient to external markets developments, thanks to robust performance in the manufacturing and construction sectors, resulting in industrial output growth of 4 percent in Kosovo and 2.3 percent in Serbia. In contrast, industrial output was stagnant in Montenegro by 3.5 percent due to a decline in electricity production, which was impacted by hydrometeorological conditions, and by 0.9 percent in North Macedonia, as the car industry underperformed. Finally, agricultural output declined in Serbia and North Macedonia due to severe drought. In Bosnia and Herzegovina, despite severe floods in 2024, agricultural output increased by 3 percent, replicating its 2023 performance. In Albania and Montenegro, agricultural output growth was muted, remaining at the same level as in 2023. In Kosovo, it recovered somewhat from a 3-percent decline in 2023 to 1.6 percent growth in 2024.

3. Labor markets remain tight[2]

Employment growth has moderated since the spring of 2024 across the WB6 countries, except for Bosnia and Herzegovina (Figure 3.1)**.** Nevertheless, the overall number of employed across the WB6 countries increased by about 83,800, on average, by December 2024 on an annual basis. Positive contributions came from Bosnia and Herzegovina, North Macedonia and Serbia, while other countries experienced a decline or stagnation in the total numbers of employed. However, employment levels across all WB6 countries, except for North Macedonia, are above the pre-crisis levels (Figure 3.2). This is consistent with the growth rebound post-crises, which is slower for North Macedonia than for the rest of its Western Balkan peers.

FIGURE 3.1:

Employment growth has slowed down since spring 2024.

Two-quarter averages, y-o-y employment growth, percent

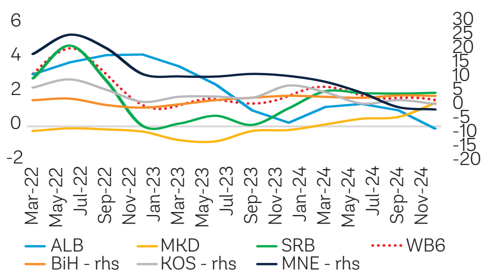
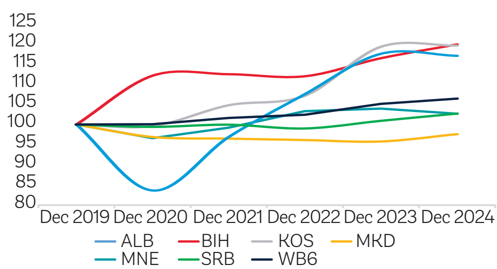


FIGURE 3.2:

In all WB6 countries, except North Macedonia, employment levels are above pre-crisis level.

December 2019=100



Source: National statistics offices and World Bank staff estimates.

Stronger domestic demand underpinned employment growth in services. In December 2024, the strongest employment growth was in services (3.6 percent y-o-y) and construction (2.2 percent y-o-y), while public administration employment strengthened again to 1.7 percent annual growth (Figure 3.3). Agricultural employment increased only in Albania and North Macedonia, while in the other WB6 countries it continued to decline, despite increased subsidies to the agriculture sector to contain the impact of food inflation and increase import substitution. Public sector employment recorded an increase across all WB6 countries, while employment growth in manufacturing was weaker, in fact declining in Bosnia and Herzegovina and Serbia given subdued foreign demand. The decline in employment in the construction sector reached double digits in North Macedonia, contrary to other countries in the region, and despite strong construction output growth reported.

The WB6 employment rate (15+) passed 49 percent in 2024, an annual increase of 1.1 percentage point (Figure 3.4). The largest annual increases were registered in Albania, Bosnia and Herzegovina, and Serbia, by 1.5, 1.4 and 1.2 percentage points, respectively. Albania is still the front-runner in the WB6 region, with the highest employment rate of 58.2 percent, although Montenegro gained speed over the past three years, reaching 56.4

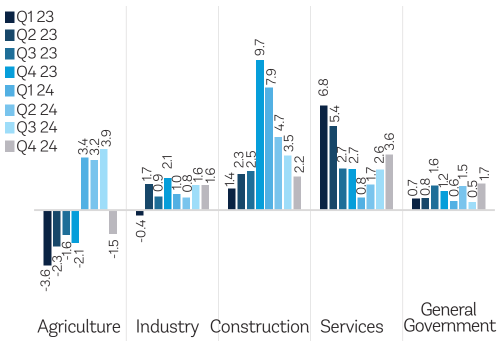
2 The analysis was affected by (1) incomplete publishing of quarterly Labor Force Survey (LFS) data for Albania and Kosovo for 2024, and by (2) revisions in Albania for 2023-2024, and Bosnia and Herzegovina, Montenegro, and North Macedonia for 2021-22 that reduced comparability with previous LFS data.

percent in 2024. At 51.4 percent, Serbia also reached new highs, supported by the stronger than expected growth performance. Although it increased slightly, the employment rate in Kosovo remains low, below 37 percent, reflecting structural challenges including low labor market participation, skills mismatches and gender disparities.

FIGURE 3.3:

While employment in construction decelerated, in services it gained strength.

Employment level, 15+ years, percent, annual change

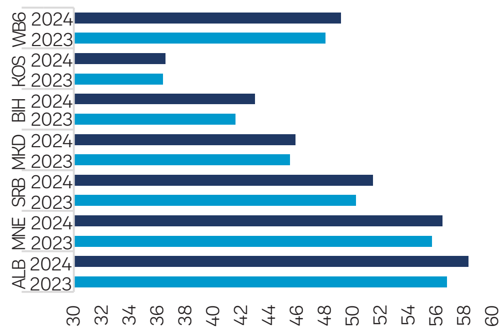


Source: National statistics offices and World Bank staff estimates.
Note: Note: employment growth is weighted average.

FIGURE 3.4:

Employment rates increased compared with 2023.

Employment rate, 15+ years, 2024-23, percentage change



Source: National statistics offices and World Bank staff estimates.

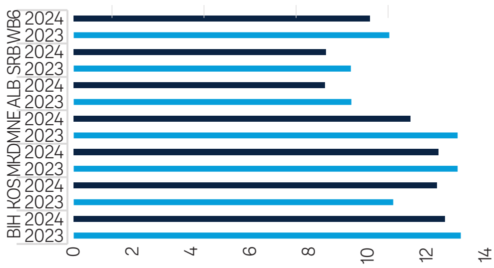
During 2024, unemployment declined across most of WB6 countries. The overall WB6 regional unemployment rate declined to 10.1 percent in 2024 (Figure 3.5). As of December 2024, 748,600 people were unemployed in the region—5.2 percent or 41,300 people less than one year ago. Bosnia and Herzegovina, Serbia, and North Macedonia recorded the largest declines on an annual basis in the number of unemployed. In most WB6 countries, people moved from unemployment into jobs; while in Albania, and Montenegro they moved to inactivity. Albania and Serbia reached a low single-digit unemployment rates in September 2024 before rising slightly to 8.6 and 8.8 percent, respectively. The unemployment rate in North Macedonia, despite declining by over 1.1 percentage point, was the highest among the WB6 countries, at 11.9 percent in December 2024.

Despite recent improvements, a combination of high levels of inactivity, a large informal sector, skills mismatches, and continued emigration dim youth labor market prospects. The regional youth unemployment rate of 24.3 percent in 2024 is more than double the overall rate, although it declined by 0.6 percentage points below the 2023 average (Figure 3.6). This is, however, 10 percentage points (pp) above the youth unemployment rate in the EU, which stood at 14.2 percent in December 2024. There were 155,000 young people unemployed in the WB6 countries at end-2024, some 13,800 fewer than at end-2023. The highest youth unemployment rates were recorded in Bosnia and Herzegovina and North Macedonia in 2024, where the youth unemployment rate increased to above 32 percent at the end of 2024, reflecting a slowdown in industrial production and decelerating trade.

FIGURE 3.5:

The unemployment rate declined in most countries in 2024

Unemployment rate, 15+ years, percent, and 2024-23, percentage change

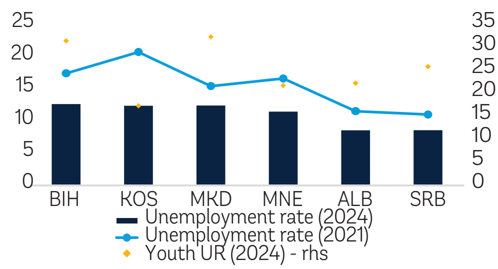


Source: National statistics offices and World Bank staff estimates.

FIGURE 3.6:

The youth unemployment rate is more than double the overall unemployment rate

15-24 years old, percent



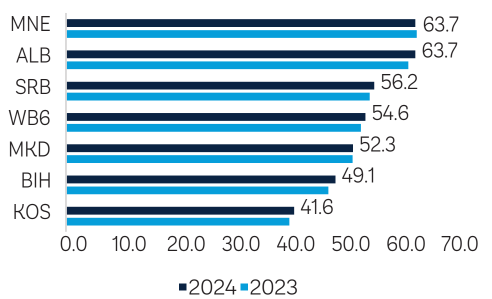
Source: National statistics offices and World Bank staff estimates.

The labor force participation rate improved over the course of 2024 on a regional level, but gains were lower than in 2023 (Figure 3.7)**.** The participation rate averaged 54.6 percent in 2024, which was 0.8 of a percentage point higher compared with 2023, with the gains coming from all WB6 countries, except for Montenegro. The labor force participation rate averaged 63.7 percent in Albania and Montenegro, a record for the region. In Kosovo, despite increasing moderately to 41.6 percent in 2024, the participation rate remains significantly low, with large gender disparities.

FIGURE 3.7:

More people joined the Western Balkan labor force in 2024

Percent of population aged 15+

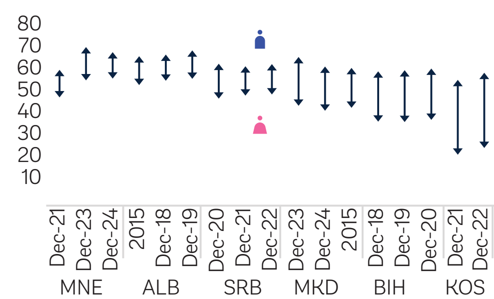


Source: National statistics offices and World Bank staff estimates.

FIGURE 3.8:

The female to male labor participation gap narrowed to 19 percentage points

Labor force participation, percent



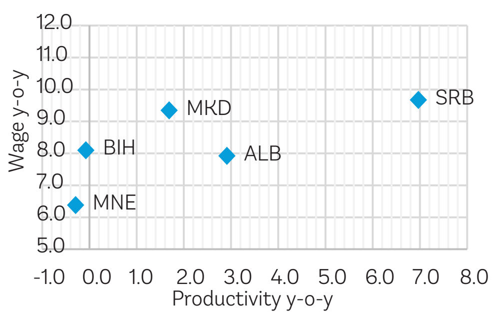
The improvement of the participation rate is the result of women as well as men entering the labor market (Figure 3.8). The most pronounced increase of female participation was seen in North Macedonia, at 1.3 percentage points, followed by Bosnia and Herzegovina at 1 percentage points, and Albania at 0.9 percentage points by December 2024. With a 56.9-percent female participation rate, Montenegro set the record for the WB6 region. Advances were also registered for the Albanian male participation (at 69.8 percent). Female participation rates are also above the regional average of 45 percent for Albania and Serbia, while the gender gap in Montenegro narrowed the most, by 3.1 percentage points during 2024. The female-to-male participation gap for the region declined slightly by 0.5 percentage points over 2024 to 19.2 percent, with stark differences across countries, being almost double for Kosovo. Increasing labor participation will be crucial to support future growth as aging and emigration erode the labor supply.

Average real wage growth across the WB6 countries remains strong amid persistent productivity constraints and labor shortages. Serbia recorded the highest average real wage increase in 2024, at 9.1 percent, followed by North Macedonia, at 9.0 percent. Albania, and Bosnia and Herzegovina recorded average real wage growth of around 8 percent, while Montenegro followed with 6.9 percent growth. Wage growth was at least double that of productivity growth in most WB6 economies (Figure 3.9). Bosnia and Herzegovina had the largest wage-productivity differential, while wage growth in Serbia was accompanied by a similar rise in productivity of 7 percent.

The rise in minimum wages in the WB6 region has continued, with some countries linking these increases to the educational attainment of employees. Since January 2025, the largest increase in the region was observed in the Federation of Bosnia and Herzegovina (FBiH), where the minimum wage rose by 60 percent to approximately €892.[3] In Republika Srpska, the minimum wage was set in the range from around €687[4] to around €1,023,[5] depending on the educational level of employees. As part of the regular indexation, minimum wages in Serbia and North Macedonia were increased by 13.2 and 8.1 percent for 2025, respectively. The highest minimum wage in the region remains in Montenegro after the previous year's increase, which also differentiates employees based on their education level. Meanwhile, the minimum wage in Albania remained unchanged at around €404, while Kosovo's minimum wage, at €350, continues to be the lowest in the region in nominal terms but the highest in terms of its share of the average wage in the country.

FIGURE 3.9:

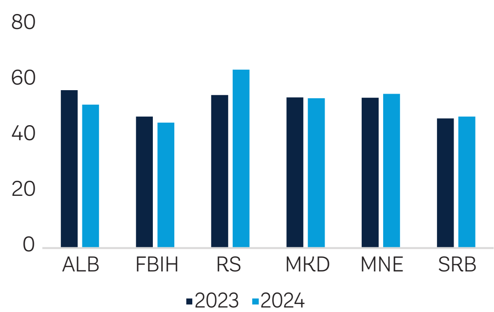
Average real wage and labor productivity in 2024



Note: GVA per employment, except for Albania.
Source: National statistical offices.

FIGURE 3.10:

Minimum wage as a share of average wage



Source: Eurostat, national statistical offices, national legal documents.

3 KM 1,744 in gross terms.
4 KM 1,344.3
5 KM 2,000

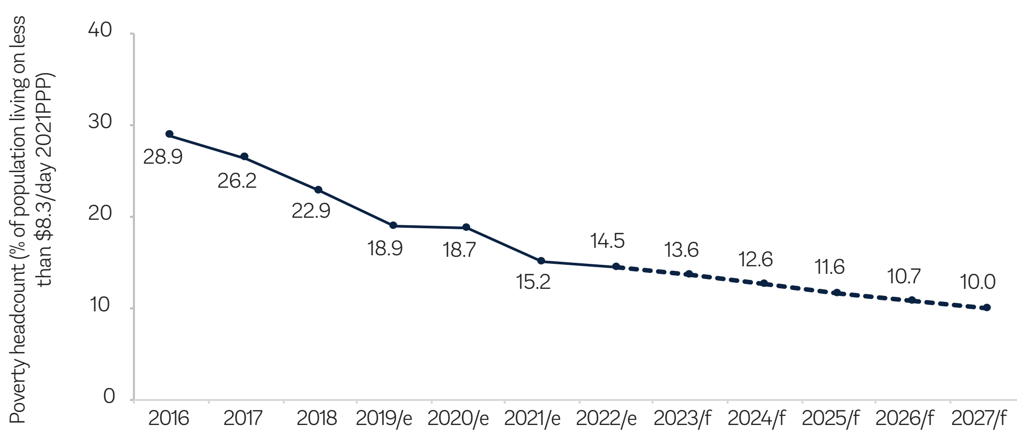
4. Low labor force participation hinders further poverty reduction

Poverty in the six WB6 countries continued its downward trend, albeit at a slower pace than during the pre-pandemic period. Before 2019, the poverty rate (measured at the US$6.85 per day adjusted for purchasing power parity [PPP] at 2017 prices) decreased by almost 3 percentage points annually. However, between 2022 and 2025, this rate has fallen by about 3 percentage points in total. This slower reduction is attributed to a combination of slower economic growth across the WB6 region and a series of shocks that have strained households' purchasing power in recent years, as well as due to the declining marginal impact of economic expansion in lifting the remaining poor above the poverty line. For example, high inflation during 2022–2023, driven by surging food and energy prices, has contributed to the erosion of households' real incomes in the region, particularly affecting the poor. In 2025, the poverty rate is estimated at around 11.1 percent, implying that around 1.5 million people in the WB6 countries have incomes below that threshold (Figure 4.1).

The broad outlook for continued reductions in poverty is positive, reflecting recent improvements in WB6 countries' labor markets. Between 2022 and 2023, most WB6 countries experienced reductions in their unemployment rates and increases in activity rates, which are expected to support poverty reduction over the projected period**.** However, labor force participation in the WB6 region remains low and below the EU average of 75 percent, constraining further progress in poverty reduction. In 2023, countries such as North Macedonia, Bosnia and Herzegovina, and Kosovo continued to have lower participation rates than the regional average of 54 percent. This highlights the urgent need for WB6 governments to promote policies aimed at enhancing labor force participation and increasing employment opportunities that could lead to more earning opportunities for households. In addition, deeper reductions in poverty will also require more targeted policies either in terms of labor market activation or social transfers, as a high share of the remaining poor are characterized by long-term unemployment.

FIGURE 4.1:

Poverty reduction continues, but in 2025 around 1.5 million people in the WB6 region are expected to remain in poverty

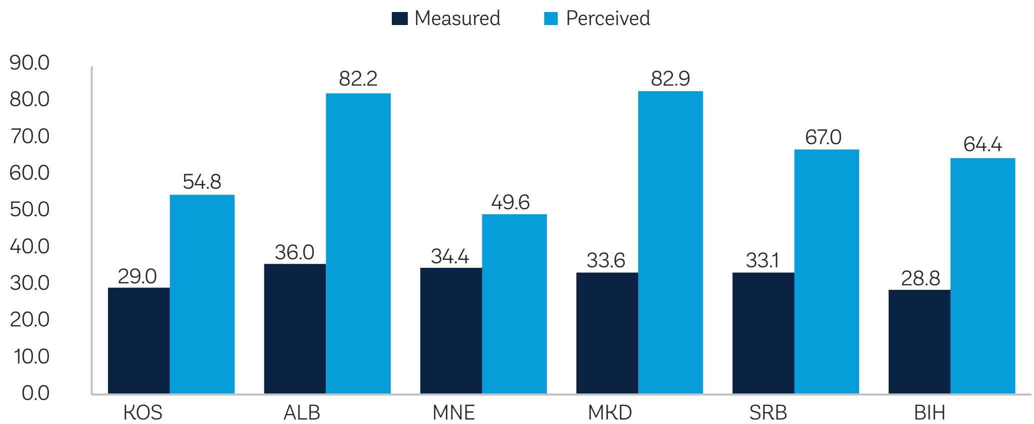


Note: Welfare is estimated in US dollars using 20172PPPs. Due to a lack of comparable data, the regional estimate excludes Bosnia and Herzegovina (BiH). Forecasts are based on GDP per capita in constant LCU, e = estimate, f = forecast.
Source: World Bank estimates and forecasts based on 2021 income data from the Survey of Income and Living Conditions (SILC) for Montenegro; 2018 for Albania, 2019 for North Macedonia, 2022 for Serbia; and 2021 for Kosovo.

Public sentiment regarding economic disparities remains a significant concern in the WB6 countries. Despite falling poverty rates, there is widespread perception that the gap between rich and poor remains very high, despite measured levels of economic inequality that are relatively low by international standards. Over 70 percent of adults in the WB6 countries agree or strongly agree with the statement that the gap between rich and poor should be reduced. This contrasts with the fact that all WB6 countries have Gini coefficients well below 40, the World Bank's threshold for classifying countries as having a high level of economic inequality. As Figure 4.2 shows, the relationship between measured inequality and perceptions thereof does not appear to be monotonic, such that lower levels of income inequality do not necessarily translate into lower perceptions of inequality. Worryingly, inequality is also perceived to be on the rise—some two-thirds of adults in the Western Balkans region, and over 80 percent of adults in countries such as Albania and North Macedonia—believe that the gap between the rich and the poor has increased over the course of the past four years. Studies suggest[6] that factors such as increased insecurity, the rise of non-standard forms of employment, labor market polarization, and greater inequality faced by younger cohorts compared with older ones throughout their lifecycle, contribute to these perceptions.

FIGURE 4.2:

Objective and subjective measures of inequality in the region differ



Note: Measured inequality is captured by the Gini Index, which takes values from 0 to 100. Perceived inequality is captured by the share of the population that thinks the gap between rich and poor in the past four years has become larger.
Source: Gini Index: World Bank estimate for each country from the latest available year (2018, ALB: 2022, MNE; 2021, BiH, KOS; 2022, SRB; 2019, MKD). The BiH index based on expenditure data, all other based on disposable income data. Perceived Inequality: Life in Transition Survey, 2022–2023.

Understanding the impact of perceived inequality on policy preferences is crucial in addressing economic disparities across the WB6 countries. Discrepancies between observed and perceived inequality matter because people's subjective perceptions of inequality, rather than objective measures, greatly influence their policy preferences.[7] Generally, how people perceive the gap between rich and poor correlates positively with their personal willingness to pay part of their income, or higher taxes, to alleviate

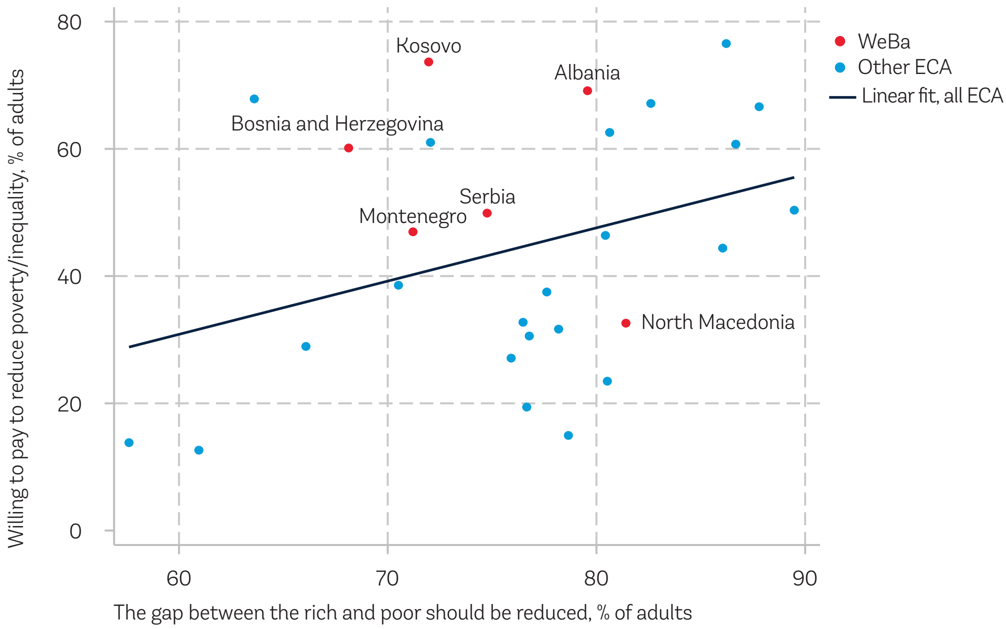
6 Bussolo, M., Davalos, M. E., Peragine, V., & Sundaram, R. 2018. Toward a New Social Contract: Taking on Distributional Tensions in Europe and Central Asia. Europe and Central Asia Studies. Washington, DC: World Bank.

7 Bussolo, M., Ferrer-i-Carnonell, A., Giolbas A., Torre, I. 2021. I Perceive Therefore I Demand: The Formation of Inequality Perceptions and Their Implications for Redistributive Policies. Review of Income and Wealth, 67(4), 861. https://doi.org/10.1111/roiw.12497 and Knell, M., & Stix, H. 2020. Perceptions of inequality. European Journal of Political Economy, 65, 101927.

poverty and inequality (Figure 4.3). Notably, with the exception of North Macedonia, a relatively high proportion of adults in the WB6 countries are willing to contribute financially toward narrowing this gap, reflecting the strong inequality beliefs prevalent in their countries. However, tackling these widely held perceptions of high inequality is a complex task that requires, among other priorities, improving job opportunities, particularly for young people, aligning skills with labor market demands, and adapting the social protection systems to the evolving jobs landscape (see Spotlight).

FIGURE 4.3:

Perceptions of a large gap between rich and poor correlate positively with the willingness to bear a financial burden to alleviate poverty and inequality



Note: The full wording of each question is as follows: Reduce Gap: "The gap between the rich and the poor should be reduced"; and "Would you be willing to give part of your income or pay more taxes, if you were sure that the extra money was spent on each of the following? [Assisting the poor / reducing inequality]".
Source: Life in Transition Survey, 2022–2023.

5. Fiscal pressures are rising again

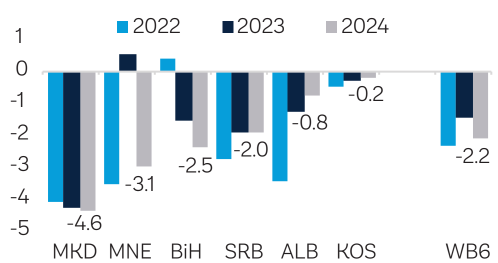
Following three years of fiscal consolidation, three out of six WB6 countries have increased fiscal deficits in 2024. While revenue performance was robust in most countries, higher recurrent spending has driven fiscal deficits higher. As a result, the region's average fiscal deficit has increased by 0.7 of a percentage point of GDP, reaching 2.2 percent of GDP in 2024 (Figure 5.1). Albania has seen an improvement in its fiscal balance, primarily due to under-executed capital expenditures and robust tax revenues. Meanwhile, Serbia's fiscal deficit remained at 2 percent of GDP, supported by strong revenue performance. In contrast, Bosnia and Herzegovina, Montenegro, and North Macedonia have experienced rising fiscal deficits primarily due to higher government spending on wages, social benefits, and interest payments, coupled with weak revenue mobilization or policy-driven revenue losses.

Revenue performance across the WB6 countries remained strong in 2024, with most countries benefiting from robust tax collection, compliance gains and steady economic activity. At the regional level, the government revenue-to-GDP ratio rose to 36.4 percent in 2024, up from 35.3 percent in 2023, reflecting an overall improvement across the WB6 region (Figure 5.2). Bosnia and Herzegovina registered the highest growth in budget revenues as percentage of GDP (an increase of 1.9 percentage points). Serbia, Albania, and Kosovo experienced solid revenue growth, with Serbia registering a 13.5-percent increase, driven by VAT and excise duties, and Albania recording a strong 10.3 percent year-on-year increase. Supported by recent tax administration reforms, Kosovo continues to experience a strong performance of tax revenues. During 2024, in Kosovo tax revenues grew by 9.3 percent, supported by a 10.6 percent increase in indirect taxes. However, in some WB6 countries, policy-driven tax reductions and weak revenue mobilization limited revenue growth. In Montenegro, the implementation of the pension contribution cuts under the Europe Now 2 program reduced revenues in the last two months of 2024. Nevertheless, overall revenues increased by 7 percent, mainly from VAT and corporate income tax, but also from excise revenue (see Box 5.1). Likewise, North Macedonia faced challenges with weak, albeit improving, domestic revenue mobilization, which constrains its fiscal space. In general, the WB6 region's tax-to-GDP ratios are below the EU average, characterized by low corporate and personal income tax rates, and a heavy reliance on taxes on goods and services and social security contributions.

FIGURE 5.1:

Fiscal deficits widened in many WB6 countries in 2024...

Fiscal balance, percent of GDP

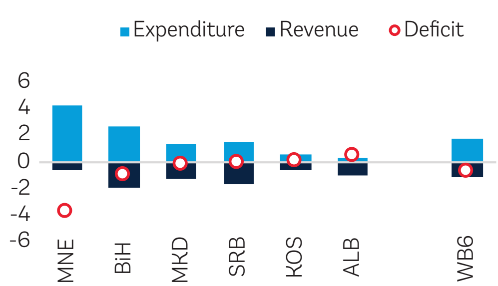


Source: National statistical offices, ministries of finance and World Bank staff estimates.

FIGURE 5.2:

...despite positive revenue performance across most of the region

Contribution to change in the fiscal deficit, percent of GDP, 2024e



Source: National statistical offices, ministries of finance and World Bank staff estimates.

In 2024, fiscal pressures intensified across the Western Balkans, driven by rising public expenditures, including from higher interest payments. Public expenditures across the WB6 increased in 2024, averaging 38.6 percent of GDP, up from 36.8 percent in 2023 (Figure 5.311). Montenegro recorded the highest expenditure share at 45.9 percent of GDP, primarily due to increased minimum pensions and capital spending. Bosnia and Herzegovina had the second-highest level of spending at 45.3 percent, while Albania (28.9 percent) and Kosovo (30.1 percent) reported the lowest shares. The average primary deficit of the WB6 countries increased in 2024, averaging 0.6 percent of GDP (up from 0.1 percent in 2023). Montenegro experienced the most significant deterioration, shifting from a surplus of 2.4 percent in 2023 to a deficit of 1.1 percent in 2024, followed by Bosnia and Herzegovina where primary deficit doubled from 0.7 percent to 1.4 percent in 2024. North Macedonia and Serbia faced moderate declines in their primary deficits, while Albania notably improved its surplus. Interest payments across the region rose slightly, averaging 1.6 percent of GDP, up from 1.4 percent in 2023.

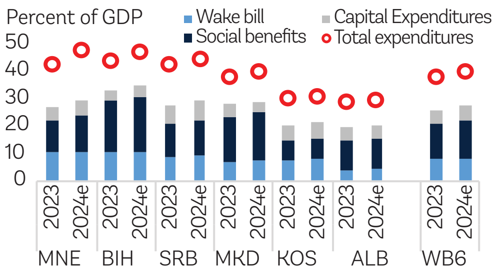
Expenditure increases were widespread, with social spending, primarily pensions, accounting for the largest share. Montenegro recorded the most significant increase, rising by 1.7 percentage points, driven mainly by higher minimum pensions, followed by Bosnia and Herzegovina with an increase of 2.8 percentage points (Figure 5.3). North Macedonia, Serbia, and Kosovo experienced more moderate growth, while Albania had the smallest rise at around 0.4 of a percentage point. Bosnia and Herzegovina, and North Macedonia allocated substantial shares of their budgets to pensions, with both countries spending nearly one-fifth of their GDP on social benefits in 2024. Ensuring the long-term sustainability of state pension systems remains a key challenge for most WB6 countries, given rising spending pressures, informality, and aging populations. In some countries - for example Kosovo - increases in spending also included delayed cost-of-living adjustments to pensions and revisions to existing family allowances schemes. Meanwhile, with the exception of Montenegro, public wage spending continued to grow as a share of GDP, with the WB6 countries' average wage bill increasing by 0.3 of a percentage point to 8.5 percent in 2024. North Macedonia and Serbia recorded the highest increases at 0.7 and 0.6 of a percentage point, respectively, while Albania, Kosovo, and Bosnia and Herzegovina saw moderate growth of 0.2–0.3 of a percentage point. Despite phased public sector wage hikes, Albania's wage bill remains the lowest as a share of GDP at 4.5 percent, significantly below the regional average. Montenegro was the only country where the share of the wage bill remained unchanged compared to 2023 at 10.6 percent of GDP, owing also to the removal, starting from October 2024, of pension contributions paid by employers at 5.5 percent of the gross wage.

Most WB6 countries are experiencing a rebound in capital spending, though with notable differences among them. The regional average increased from 5.2 percent of GDP in 2023 to 5.4 percent in 2024. Serbia led the region with a 0.9-of-a-percentage-point rise, reaching 7.3 percent, followed by Montenegro and Kosovo, which saw increases of 0.7 and 0.6 of a percentage point, respectively. Bosnia and Herzegovina also recorded moderate growth of 0.4 of a percentage point. However, despite the overall increase, under-execution of capital budgets remains a persistent issue across the region. North Macedonia, in contrast, experienced a sharp decline, with capital expenditure falling by 1.5 percentage points to 3.9 percent, while Albania remained unchanged at 5 percent. The EU Growth Plan for the Western Balkans, which channels financing through the Western Balkans Investment Framework, has the potential to further boost public investment in the medium term, but addressing inefficiencies in public investment management remains crucial to ensuring that these funds translate into tangible economic benefits.

FIGURE 5.3:

Capital spending rebounded...

Composition of estimated public spending, 2023 and 2024e, percent of GDP

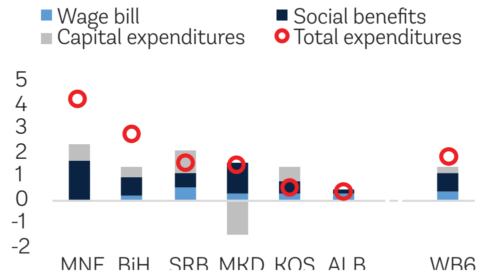


Source: National statistical offices, ministries of finance and World Bank staff estimates.

FIGURE 5.4:

...and almost all WB6 countries have turned to higher spending on social benefits

Contribution to change, 2024e, in percent of GDP



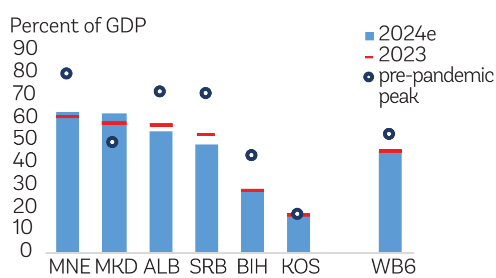
Source: National statistical offices, ministries of finance and World Bank staff estimates.

Regional public and publicly guaranteed (PPG) debt as percentage of GDP has remained broadly stable. By 2024, regional PPG debt reached 45.2 percent of GDP(Figure 5.5). All countries in the WB6 region, except Montenegro and North Macedonia, experienced reductions in their PPG debt-to-GDP ratios. Albania saw the most significant improvement, with a decrease of 3.3 percentage points, reflecting fiscal consolidation, robust economic growth, and appreciation of the Albanian lek. Supported by prudent fiscal management that have helped to keep deficits low, Kosovo experienced a continued decline in its PPG debt-to-GDP ratio from 17.5 percent in 2023 to 16.5 in 2024, maintaining the lowest ratio in the region. Conversely, North Macedonia experienced an increase by 4.3 percentage points, driven by persistently high fiscal deficits and increased issuance of domestic securities to enhance liquidity. North Macedonia remains the only country in the region where PPG debt-to-GDP exceeds pre-pandemic levels. Montenegro's PPG debt increased by 2.2 percentage points, primarily due to the issuance of a Eurobond intended to finance 2024 needs and establish a buffer for 2025. In Bosnia and Herzegovina, PPG debt-to-GDP declined by 1.3 percentage points, largely influenced by a favorable denominator effect, negative net borrowing, and slow project implementation and disbursement.

FIGURE 5.5:

Public and publicly guaranteed debt as a share of GDP declined to its lowest in a decade...

Public and publicly guaranteed debt, percent of GDP

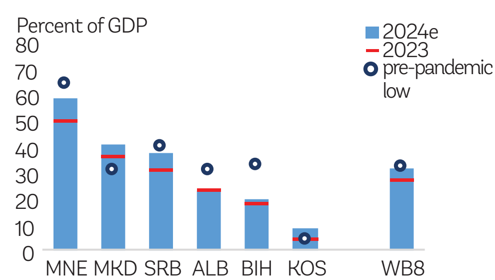


Source: National statistics offices and World Bank staff estimates.

FIGURE 5.6:

...as did external public and publicly guaranteed debt

External public and publicly guaranteed debt, percent of GDPë



Source: National statistics offices and World Bank staff estimates.

In contrast to the general downward trend in total PPG debt-to-GDP, external PPG as a percentage of GDP increased across the region in 2024. The region's external PPG debt-to-GDP ratio increased from 29.9 percent in 2023 to 30.5 percent in 2024, with all countries except Albania, and Bosnia and Herzegovina experiencing increases. Montenegro had the highest external PPG debt level, reaching 58 percent of GDP in 2024—a 5.7 percentage-point rise from the previous year—driven primarily by a significant Eurobond issuance and additional borrowing from international financial institutions later in the year, aimed at creating fiscal buffers for 2025. In 2024, North Macedonia contracted a €1 billion loan from Hungary, which was partly used to refinance the €500 million Eurobond maturing in January 2025. Other countries experienced more modest increases in their external PPG debt ratios, ranging from 0.9 of a percentage point in North Macedonia to 0.1 percentage points in Serbia. Kosovo continued to have the region's lowest external PPG debt at 7.6 percent of GDP. Throughout 2024 and early 2025, the World Bank provided financing through development policy loans, including €90.3 million for Kosovo, €153.7 million for Serbia, US$75 million for Bosnia and Herzegovina, and €80 million for Montenegro. These funds are intended to strengthen economic resilience and enhance environmental sustainability across the WB6 region. In addition, Serbia and Kosovo maintain active engagements with the IMF, which conducted reviews in December 2024 and approved additional access to €36 million for Kosovo[8] and €400 million for Serbia, with Serbia's financing treated as precautionary.

Despite some stabilization in global market conditions, borrowing costs for the WB6 countries have remained elevated due to ongoing economic uncertainty and higher interest rates. After a brief pause in 2022, most WB6 countries returned to international financial markets starting in 2023, encountering significantly tougher borrowing conditions and increased investor caution. In 2023, borrowing costs rose sharply: Serbia placed two Eurobonds worth a combined US$1.75 billion, with coupon rates of 6.25 and 6.5 percent; North Macedonia issued a €500 million Eurobond at 6.96 percent; and Albania raised €600 million at 5.9 percent—all considerably higher than the historically lower rates seen previously. This trend persisted into 2024, although borrowing costs eased slightly. Montenegro successfully issued a US dollar-denominated Eurobond in March 2024, securing US$750 million at a coupon of 7.25[9] percent, which attracted robust investor interest, exceeding the offering by over sixfold. Similarly, Serbia issued a €1 billion Eurobond in June 2024 at a coupon rate of 6 percent, highlighting continued but slightly improved financing conditions compared with 2023, yet still markedly above pre-pandemic borrowing costs. Nevertheless, yields on the existing Eurobonds of the WB6 countries decreased on average compared with six months ago (Table 5.1). Spreads with yields on German bonds have narrowed as well. As of early 2025, credit ratings across the WB6 countries indicate stable economic outlooks, with some noteworthy improvements (Table 5.2). Serbia achieved a significant milestone as Standard & Poor's upgraded its sovereign rating to BBB–, marking the country's entry into investment-grade status for the first time, reflecting prudent fiscal management and strong economic performance. This makes Serbia the only country in the WB6 region with the investment grade rating. Montenegro and Albania also experienced positive developments, both receiving an upgrade from Moody's to Ba3 with a stable outlook. North Macedonia retained its BB+ rating with Fitch, and Kosovo maintained a BB– rating, also from Fitch, both with stable outlooks. Albania's Ba3 rating, and Bosnia and Herzegovina's B3 rating remained unchanged according to Moody's, with stable outlooks highlighting continued cautious optimism.

8 Part of this amount is treated as precautionary

9 In March 2024, Montenegro hedged its US$750 million Eurobond by converting it into euros through a cross-currency swap, reducing the effective interest rate to 5.88 percent.

TABLE 5.1:

Yields on Western Balkan countries outstanding Eurobonds

	Coupon	Maturity	Yield in %					Spreads (basis points)
			28 Mar 2023	26 Sep 2023	5 Mar 2024	18 Sep 2024	10 Mar 2025	
Albania	3.5	16/06/2027	6.5	5.5	4.5	4.4	3.9	171.7
	3.5	09/10/2025	6.1	5.5	4.4	4.3	5.5	184.6
Montenegro	2.785	16/12/2027	8.4	6.8	6.2	5.1	4.4	218.0
	3.375	21/04/2025	7.3	5.9	5.1	4.1	4.2	50.8
North Macedonia	6.96	13/03/2027	-	6.0	5.2	5.0	4.3	214.9
	2.75	18/01/2025	6.4	6.0	5.6	-	-	-
	3.65	03/06/2026	-	-	-	-	4.2	56.2
Serbia	3.125	15/05/2027	5.8	6.2	4.5	4.1	3.9	166.9
	6.25	26/05/2028	-	6.8	5.9	5.1	5.6	357.3
Bosnia & Herzegovina, Republic of Srpska	4.75	01/01/2026	7.0	7.1	7.9	5.8	7.7	548.2

Source: https://www.boerse-frankfurt.de/en, accessed on 10 March 2025

Note: Spreads refer to spreads with yields on German bonds with the same or similar residual maturity.

TABLE 5.2:

Credit ratings of the Western Balkan countries

	Moody's	Standard & Poor's	Fitch
Albania	Ba3 (stable)	BB (stable)	—
Bosnia and Herzegovina	B3 (stable)	B+ (stable)	—
Kosovo	—	—	BB-(stable)
Montenegro	Ba3 (stable)	B+ (stable)	—
North Macedonia	—	BB- (stable)	BB+ (stable)
Serbia	Ba2 (positive)	BBB- (stable)	BB+ (positive)

Box 5.1: 'Sin' Taxes in the Western Balkans: Improving Public Health and Tax Revenues

The consumption of tobacco, alcohol and sugary drinks, which are usually subject to excise taxes, comes with substantial economic burdens due to higher health-care expenditures and reduced labor productivity. The effects for the whole economy are substantial; for example, the total estimated economy-wide cost of smoking only in Bosnia and Herzegovina was between 2.0 and 3.5 percent of GDP in 2019.[10] The Western Balkans suffer from high prevalence rates of smoking, alcohol consumption, and unhealthy diets, which are significant risk factors for non-communicable diseases (NCDs) such as heart disease, cancer, respiratory illnesses, and diabetes. These health risks contribute to increased mortality and morbidity, with cancer and cardiac mortality rates having increased in all WB6 countries since 2011 (Table 5.3). This leads to a further worsening of otherwise dire demographic trends across the Western Balkans.

TABLE 5.3:

Cancer and cardiac mortality rates per 100,000 people

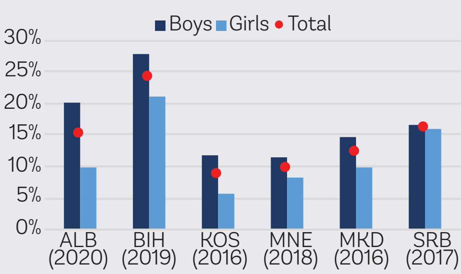
Cause of death, rate per 100,000 people	ALB	BiH	KOS	MNE	MKD	SRB
Neoplasms (2021)	165	272	72*	260	229	300
Neoplasms (2011)	120	235	57	232	224	283
% increase in 2021 vs. 2011	38	16	26	12	2	6
Cardiovascular diseases (2021)	528	569	255*	701	612	773
Cardiovascular diseases (2011)	358	481	237	614	620	744
% increase in 2021 vs. 2011	48	18	8	14	(1)	4

Note: *reference year for Kosovo is 2018.
Source: Kosovo Statistics Agency, Global burden of Disease database https://www.healthdata.org/research-analysis/about-gbd

An earlier initiation of unhealthy consumption habits leads to more severe health and economic consequences due to prolonged use. Statistics from a sample of European countries reveal that a staggering 76.1 percent of current smokers began smoking before the age of 18.[11] In the Western Balkan countries, 14.5 percent of total youth aged 13–15 years old is using tobacco products (Figure 5.7). Preventing the initiation of smoking among youth is crucial for human capital protection, as it yields long-term benefits for individuals and society.

FIGURE 5.7:

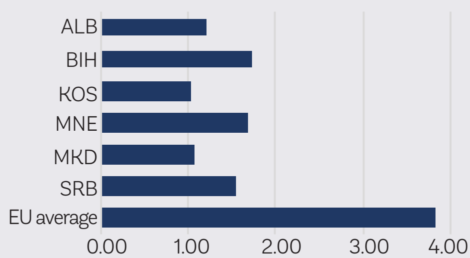
Youth tobacco use



Note: Latest available. The age interval is 13-15 years old. Tobacco use refers to smoked and smokeless tobacco.
Source: WHO: Global Youth Tobacco Survey

FIGURE 5.8:

Minimum cigarette excise (pack of 20, in €)



Source: European Commission, 2024

10 Economics for Health (2024). Gains from the Rise in Tobacco Excise Taxes in BiH. Link:https://www.economicsforhealth.org/files/research/968/ubl-pb-tax-modeling-revised-final-draft-for-approval-9.12-acg-md-dg-18.12..pdf

11 https://pmc.ncbi.nlm.nih.gov/articles/PMC7813769/

Higher prices of harmful products, such as cigarettes, alcohol, and sugar sweetened beverages, can be a deterrent of consumption. A primary concern today is that the consumption of these products is not steadily decreasing in Europe and the WB6 countries as, for example, the rise in incomes without sufficient changes in excise taxes has made tobacco products more affordable in most of the WB6 countries.[12] Moreover, the WB6 countries have excise rates on tobacco products, alcohol, and sugar-sweetened beverages (SSBs) well below the EU average (Figure 5.8).

Health excise taxes serve a dual purpose primarily: they correct market failures by reducing the consumption of harmful products and at the same time generate significant tax revenue for governments swiftly and efficiently.[13] Currently, the share of health tax revenues in GDP ranges between 1.1 and 2.5 percent in the WB6 countries (Table 5.4). The broader application and increase in health taxes in the WB6 countries that translates into higher prices of harmful products can help curb the prevalence of NCDs, thereby reducing public health spending and improving human capital. Furthermore, young people exposed to higher tobacco prices are, relative to adults, more likely to smoke less, be less inclined to start smoking, and more likely to quit if they have already started.[14]

TABLE 5.4:

Health tax revenues in the Western Balkans, 2023

Excise revenues	Per unit	ALB	BiH	KOS	MNE	MKD	SRB*
Alcohol	% of GDP	0.2%	0.2%	0.2%	0.3%	0.2%	0.2%
Tobacco	% of GDP	1.0%	1.9%	2.3%	1.4%	1.5%	1.6%
SSBs	% of GDP	-	0.1%	-	0.2%	-	-
Total Health Taxes	% of GDP	1.1%	2.2%	2.5%	2.0%	1.7%	1.8%
	% of total revenues	4.2%	5.3%	8.5%	5.3%	5.2%	4.4%

Note: MNE has separate excise duties on carbonated and non-carbonated water and sugar, cocoa and ice cream products, of which the sum is used in this table. *Numbers for Serbia are for the year 2022.
Source: Ministries of finance, the European Commission: Taxes in Europe Database 2022, World Bank staff calculations.

As part of the EU accession aspirations, the WB6 countries will need to revise their current tax frameworks to comply with the minimum standards set out in relevant EU directives. The EU directives create obligations for member states in terms of tax structure,[15] minimum tax rates,[16] benchmarks, product definitions, and tax administration for alcohol and tobacco excise taxes.[17] According to the Cigarette Tax Scorecard (Economics for Health),[18] the WB6 countries achieve good scores for tax structure, as in most instances a mixed approach of ad valorem and specific tax is applied to products. The current EU average[19] of the minimum specific excise is €192 per 1,000 cigarettes (Table 3). Montenegro, Bosnia and Herzegovina, and Serbia, although meeting the EU's minimum threshold, are at half to EU average, while Albania, North Macedonia, and Kosovo require significant increases to reach even the minimum

12 The Urgency of Improving Tobacco Taxation in Europe: Lessons from the Tobacconomics Cigarette Tax Scorecard, 3e. Conference of health tax reforms, Vienna, June 2024.
13 Health Taxes in North Macedonia. World Bank Policy Paper, February 2024.
14 Kjeld SG, Jørgensen MB, Aundal M, Bast LS. Price elasticity of demand for cigarettes among youths in high-income countries: a systematic review. Scand J Public Health. 2023 Feb;51(1):35-43.
15 Tax structure refers to the type of tax, tax base, other characteristics such as tiers and thresholds, and the scope of the tax.
16 The EU tobacco tax directive set a €90 minimum specific tax per 1,000 cigarettes, €60 per kilogram for fine-cut tobacco, and €12 per kilogram or 1,000 pieces for cigars and cigarillos.
17 Council Directive 2011/64/EU on Excise Duties on Tobacco.
18 https://www.economicsforhealth.org/cigarette-tax-scorecard/
19 The EU average includes only those countries with a minimum specific tax requirement.

rates of €90 per 1,000 cigarettes. With the current excise rates calendar for tobacco, North Macedonia would reach the EU minimum in 2030,[20] while Albania only in 2035. In Bosnia and Herzegovina, the specific tax on tobacco was last increased in 2019, while the minimum excise is being annually adjusted, but only marginally. As result, there was no meaningful effect on cigarette consumption.[21] Montenegro surpassed the EU minimum of €90 per 1,000 cigarettes in 2025, and any future adjustments will align with EU directive updates. This means that no price increases are currently planned after 2025, unless the EU goes along with the planned update of the Tobacco Tax Directive, which would more than double the current minimum tax rate.

However, meeting the minimum rates will not be sufficient to improve public health sustainably. Demand for 'sin' products has been growing due to their higher affordability, and weak tax administration unable to control informal trade and the illicit market. Simulations for Bosnia and Herzegovina predict an increase in consumption, number of smokers and deaths under the current tax policy. The quantity of cigarettes sold has, after a steady decline between 2010 and 2018, risen again after 2020, partially due to decline in illicit market share and sizable income growth, which increased affordability.[22] Serbia's excise law has cigarette excise duty linked to the consumer price index with biannual adjustments, yet these increases are capped at 2 percent. Also, substitution tobacco products such as fine-cut tobacco, cigars and cigarillos, and e-cigarettes, are taxed at lower rates if at all (Table 5.5). Currently, Bosnia and Herzegovina, Albania (except for local production), Serbia, and Montenegro only meet the EU minimum for fine-cut tobacco, while substantial increases are necessary in North Macedonia and Kosovo. However, the majority of fine-cut tobacco escapes paying tax altogether due to the informal nature of the trade. Importantly, the new nicotine products such as e-cigarettes, tobacco heaters and nicotine pouches, etc., need to be addressed by excise laws. As a positive example, the tobacco excise duty was expanded to electronic and heated tobacco products recently in Albania, as well as to water pipe, chewing tobacco, sniffing tobacco, non-combustible tobacco products and e-cigarette liquids in North Macedonia.

TABLE 5.5:

Excise rates for tobacco products (€ or percent), as of January 2025

Taxed Product	Per unit	ALB	BiH	XKX	MNE	MKD	SRB	EU average
Cigarettes	Ad valorem	-	42%	-	25%	9%	33%	26%
	specific per 1,000 pieces	68.95	42.18	55.00	53.50	56.12	41.77	116.91
	min. specific	-	91.53	-	91.50	56.12	86.01	191.98
Cigars & Cigarillos	Ad valorem	-	42%	-	-	9%	-	17%
	specific per 1,000 pieces	-	-	-	-	409.55 (193.71) *	243.35	111.45
	specific per kg	68.95	-	65.00	25.00	-	-	174.25
	min. specific	-	-	-	-	-	-	180.98
Fine-cut tobacco	Ad valorem	-	-	-	-	-	43%	39%
	specific per kg	68.95	30.91	73.22	60.00	60.00	39.55	130.38
	min. specific	-	-	-	-	-	60.21	181.87

Note: *MKD: cigar excise is €409.55, cigarillos are taxed with €193.71.
Source: European Commission, countries' excise laws, World Bank staff calculations.

20 North Macedonia's new excise calendar states annual specific excise increases of €3.70 per 1,000 cigarettes (€0.074 per pack) until 2030.
21 https://www.economicsforhealth.org/files/research/968/ubl-pb-tax-modeling-revised-final-draft-for-approval-9.12-acg-md-dg-18.12..pdf
22 https://www.economicsforhealth.org/files/research/969/isea-simulation-model-mne-24.12.2024-md2.pdf

Alcohol excise taxes in the WB6 countries are low as well, and unlike the EU Tobacco Tax Directive, the EU Alcohol Tax Directive sets a poor precedence. The EU minimum excise tax on alcohol[23] remains very low and has not seen increases in recent decades, making alcohol more affordable over time. Despite all WB6 countries currently complying with the EU directive's minimum tax for beer (€1.87 per liter of absolute alcohol [LAA]), these low rates are inadequate to promote moderate drinking or abstinence (Table 5.6). Regarding the €5.50 minimum per LAA for spirits, only Serbia falls short with its rate. For intermediate products, which require a minimum of €0.45 per liter of product, Montenegro (€0.10) and Serbia (€0.26) are below the threshold. In addition, excise taxes on still and sparkling wine are absent in half of the EU member countries, as the minimum tax rate is set at zero in the Directive. Positively, five of the WB6 countries have excises in place for still wine, the exception being North Macedonia. Furthermore, Albania and Montenegro have dedicated excise taxes for sparkling wine. However, most EU member countries have much higher rates than prescribed minimums, while in the WB6 countries current rates are insufficient to reduce the public health burden of alcohol consumption in the long term.

TABLE 5.6:

Excise rates for alcoholic beverages, in €

Taxed Beverage	Per liter of	ALB	BiH	KOS	MNE	MKD	SRB	EU average
Beer	pure alcohol	6.75	2.60*	8.00	5.00	6.45	4.60**	8.90
Distilled Spirits	pure alcohol	8.04	7.67***	8.00	12.50	5.48	4.57	17.85
Still Wine	finished product	0.95****	0.13	0.63	0.25	0.00	0.26	1.22
Sparkling Wine	finished product	0.49	0.13	0.63	0.35	0.00	0.26	2.01

Note: Assuming 5% alcohol content for beer and 12.5% alcohol content for wine. *BIH: discounted excise rate of €2 for SMEs **SRB taxes beer over 5% alc. With €5.20 ***BiH has a discounted rate for brandy: €4.09 **** ALB: €1.14 if alc. >12.5%, rates for SMEs lower: €0.29 if alc. <12.5%, €0.38 otherwise.
Source: European Commission, countries' excise laws, World Bank staff calculations.

SSB taxes have been implemented in various countries to address public health concerns related to excessive sugar consumption.[24] Findings from the United Kingdom suggests that a SSB tax leads to fewer dental caries, fewer overweight or obese children, and improvements in life expectancy, with the largest effect for children and adolescents in the most deprived areas.[25] Currently, there is no EU directive on SSB taxes. Bosnia and Herzegovina has applied a tax on soft drinks, but the current amount of just €0.005113 per liter fails to create a strong incentive for customers to switch to sugar-free alternatives. In Montenegro, a new excise duty on sugar, cocoa and ice cream products was introduced in 2023, together with a new excise on non-carbonated water with added sugar, complementing the existing excise duty on carbonated water of €0.25 per liter. Albania has an excise duty on energy drinks of 30 lek/liter, yet because of caffeine, not sugar.[26]

Effective health taxation in the WB6 countries hinges on the implementation of specific taxes that target consumption directly, such as in the case of Albania and Kosovo, ensuring both public health benefits and sustainable revenue generation. Specific taxes are preferred over ad valorem taxes as they more effectively reduce consumption by increasing prices, particularly for cheaper products. Targeting cheaper tobacco products is important, as findings

23 Directives 92/83/EEC and 92/84/EEC.
24 World Bank, 2023, Health Taxes Knowledge Note #4 - Unpacking the empirics behind health tax revenue https://thedocs.worldbank.org/en/doc/f1f068e38935e2f5d92b7edf365d5089-0350032023/kn4-health-tax-revenues
25 https://pmc.ncbi.nlm.nih.gov/articles/PMC11008889/
26 https://dogana.gov.al/english/c/171/198/258/legislation-on-excise

from Montenegro suggest that prices for cheaper products are raised by industry less than the tax increase.[27] Specific health taxes should be regularly adjusted for inflation and income growth to prevent products becoming more affordable over time. Tobacco taxes should be applied uniformly to all tobacco products to prevent switching to cheaper alternatives.[28] Alcohol taxes should be based on alcohol content to target high-alcohol-content beverages.[29] For SSBs, taxes should be based on sugar content, with tiered structures being preferable if administrative capacity allows, and should apply to all sugary drinks to avoid poor practices such as excluding fruit juices. When applied to sugar content rather than beverage volume, tax structure can also generate supply-side incentives for firms to lower sugar content, or to shift advertising to lower sugar products.

An increase in the excise tax on tobacco products in the WB6 countries would lead to reductions in tobacco consumption, increased government revenues, and notable public health benefits (Table 5.7), but raising excises should be complemented by other policy efforts. Prevention campaigns should focus on public education to reduce initiation and increase cessation rates. Policies should also aim to limit second-hand smoke exposure by enforcing no-smoking zones in public areas, which should be regularly controlled. Addressing illicit trade by strengthening tax and customs administration is crucial. In addition, subsidies for tobacco growing should be abolished also to align with the EU rules. Currently, North Macedonia subsidizes local tobacco farming by dedicating to it up 25 percent of all agriculture subsidies,[30] while Serbia abolished targeted subsidies for tobacco producers, although tobacco cultivation continues to be treated similarly to other crops and therefore receives subsidies.

TABLE 5.7:

Summary of impacts of rising tobacco excises

	ALB[31]	BiH[32]	KOS[33]	MNE[34]	MKD[35]	SRB[36]
Annual increase in excises, percent	5-8	15	10	15	16	15
Reduced consumption, percent	1.2	1-2.9		0.7	3.1-3.3	4.7-5.3
Increased government revenues, percent	4.0	114–159 mn BAM		12	11.5	7
Averted premature deaths	2,300	1,200		1,150	2,300	320–678
Reduced smoking initiation, percent			13	5.9		6,500 youth

27 https://www.economicsforhealth.org/files/research/969/isea-simulation-model-mne-24.12.2024-md2.pdf
28 Health impacts of alcohol and tobacco use on the working age population and youth, WHO, Conference of health tax reforms, Vienna, June 2024.
29 Alcohol and Sugar-Sweetened Beverages taxation in Europe. Health Tax Project, World Bank Global Tax Program, Conference of health tax reforms, Vienna, June 2024.
30 World Bank. 2024. North Macedonia Public Finance Review.
31 https://tobaccotaxation.org/cms_upload/pages/files/261_report-the-impact-of-tobacco-tax-increases_-albania.pdf
32 https://www.economicsforhealth.org/files/research/968/ubl-pb-tax-modeling-revised-final-draft-for-approval-9.12-acg-md-dg-18.12..pdf
33 Berisha, A. & Prekazi, B. 2023. Tobacco smoking initiation among youth in Kosovo (Tobacconomics Working Paper No.23/8/1).
34 Institute for Socio-economic Analysis. 2025. Strengthening Public Health and Fiscal Revenues in Montenegro: Tobacco Taxation as a Policy Tool, Economics for Health.
35 https://www.economicsforhealth.org/files/research/954/analytica-policy-brief-tobacco-tax-modeling-evidence-from-north-macedonia-final.pdf
36 https://www.economicsforhealth.org/files/research/892/tax-modeling-ies-2023.pdf

6. Persistent inflationary pressures

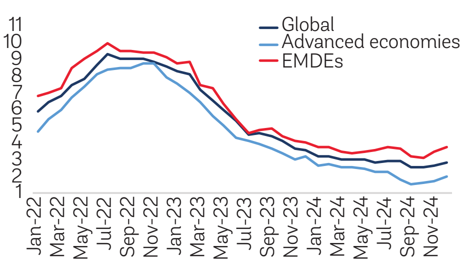
During 2024, global inflation continued its downward trajectory, largely driven by declining energy and goods prices, and the impact of tighter monetary policies. The median global headline inflation declined to 2.8 percent in September 2024, marking its lowest point since April 2021 (Figure 6.1). This decline was largely driven by rapid disinflation in advanced economies thanks to the combination of the lagged effects of tight monetary policies and the easing of supply chain disruptions. In the Euro area, headline inflation saw an uptick to 2.4 percent in December 2024, after dipping to 1.7 percent in September (from 2.9 percent in December 2023), mainly due to energy price base effects.

In the WB6 countries, headline inflation further eased in 2024, narrowing the inflation gap with the EU. However, price pressures started to increase again in early 2025. Mirroring global trends, average inflation in the WB6 countries decreased sharply to 3.3 percent in 2024 down from 9.3 percent in 2023 (Figure 6.2). Notably, inflation in the WB6 countries fell below the median rate in emerging markets and developing economies (EMDEs) in May 2024 for the first time since November 2021 and then dipped below 2 percent in most of the WB6 countries by September. However, inflation remained persistently high in Serbia, at 4.6 percent in 2024 (from 12.1 percent in 2023), and North Macedonia, at 3.5 percent (from 9.4 percent). Headline inflation in 2024 dropped to 2.2 percent in Albania, 1.7 percent in Bosnia and Herzegovina, 1.6 percent in Kosovo, and 3.4 percent in Montenegro. Despite this positive trend, a resurgence in food inflation due to adverse weather events earlier in 2024 led to a slight uptick in inflation during the fourth quarter.

FIGURE 6.1:

Global inflation continued to ease in 2024

Median inflation, percent, yoy

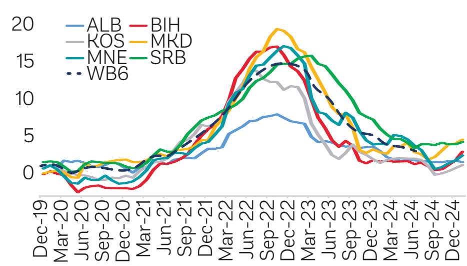


Source: World Bank Global Economic Prospects.

FIGURE 6.2:

Inflation heterogeneity among the WB6 countries persisted

WB6 headline inflation and CPI inflation, by country percent



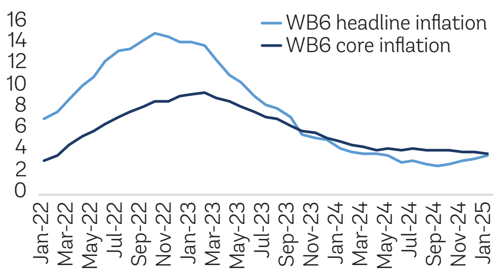
Source: Eurostat; World Bank Global Economic Prospects.

Core inflation in most WB6 countries remained highly persistent, reflecting, among other factors, continuing tight labor markets and rising wages. Core inflation in the WB6 countries remained on a stable downward trend throughout the entire year, reaching 4.1 percent in December 2024 (Figure 6.3). This was a notable decrease from the 5.3 percent recorded in December 2023, but still above the EU average. The core inflation gap between the WB6 countries and the EU stabilized at around 1.2 percentage points in 2024 compared with 1.9 percentage points in 2023. Core inflation in the region remained above headline inflation after October 2023, signaling persistent price pressures. This gap was particularly pronounced in Montenegro, where core inflation (6.1 percent) outstripped headline inflation by an average of 2.8 percentage points throughout 2024. Core inflation remained elevated at 5.2 percent in North Macedonia and Serbia, and above 2 percent in Kosovo (3.2 percent), Albania (2.5 percent), and Bosnia and Herzegovina (2.8 percent).

FIGURE 6.3:

During 2024, WB6 countries' core inflation remained persistently higher than headline inflation

Headline and core inflation, percent



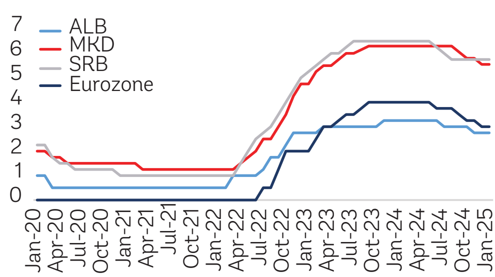
Source: Statistical offices and World Bank staff calculations.

In 2024, the Consumer Price Index (CPI) basket in the WB6 countries exhibited several common trends. In terms of prices of food and non-alcoholic beverages, the region experienced increases above the average CPI rates in all countries, with the exception of Albania. Vegetable prices increased in Albania and North Macedonia, while oils and fats led the food basket price increases in Kosovo, North Macedonia, and Serbia. Rental costs for housing were key drivers of CPI inflation in Albania, Bosnia and Herzegovina, and Serbia. Household maintenance, the repair of dwellings, and related services such as water supply and refuse collection experienced an uptick broadly across the WB6 region. Service-related inflation remained higher than the average inflation rate in all WB6 countries, with some variations in specific services: for example, in Albania and Serbia, medical services were significant contributors; in Bosnia and Herzegovina and Kosovo, financial services were key drivers; and in Montenegro and North Macedonia, recreational and cultural services stood out. Prices for hotels and restaurants were notable contributors to inflation in Albania, and Bosnia and Herzegovina, and even more substantial drivers in Montenegro, North Macedonia, and Serbia.

FIGURE 6.4:

Central banks continued easing monetary policies...

Policy rates, percent

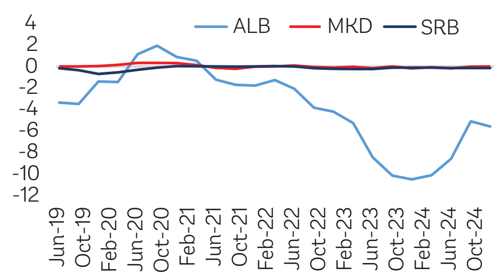


Source: National central banks and ECB.

FIGURE 6.5:

...while allowing for different degrees of exchange rate flexibility

Exchange rate changes, percent



Source: National central banks.

Central banks in the WB6 countries follow different approaches to monetary policy in response to shifting inflation and uncertain external conditions (Figure 6.4). For instance, the Bank of Albania maintained its base interest rate at 2.75 percent in February 2025, following a 25-basis-point cut in November 2024.[37] In 2024, inflation decreased faster than expected, affected by food and oil prices amid a strengthening of the Albanian lek. The Bank of Albania expects inflation to converge to its 3-percent target in 2025.[38] Meanwhile, the National Bank of North Macedonia reduced its policy interest rate by 20 basis points to 5.35 percent in February 2025, continuing with a careful normalization of the monetary policy, and acknowledging favorable trends in foreign reserves. Risks from domestic factors affecting aggregate demand and the potential for new protectionist measures may repeat inflationary pressures. In addition, volatility risks in commodity markets remain pronounced.[39] The National Bank of Serbia kept its key policy rate at 5.75 percent, where it has been since September. Although inflation is moving within the target band, geopolitical tensions and global market fragmentation pose risks for price stability, due to their impacts on trade flows, supply chains, and economic activity. In addition, uncertainties regarding the global prices of energy, primary commodities, and specific raw materials in the food industry pose risks.

37 Bank of Albania. Press release monetary policy decision February 5, 2025. https://www.bankofalbania.org/Monetary_Policy/Latest_monetary_policy_decision_and_calendar/Document_Title_41223_1.html
38 Bank of Albania. Quarterly Monetary Policy Report 2025/I.
39 National Bank of the Republic of North Macedonia. Regular meeting of the Monetary Policy Executive Board, February 5, 2025.https://www.nbrm.mk/ns-newsarticle-soopstenie-05022025-en.nspx

7. Credit growth has accelerated, calling for stronger oversight

During 2024, a positive trend in credit demand supported an acceleration in credit growth and banks' profitability across the WB6 countries. With rapid credit growth supported by banks' comfortable liquidity and capital levels, return on assets (ROA) improved slightly, while non-performing loans (NPLs) over total loans decreased by between 0.4 percent points, reaching 3.4 percent by September 2024—as to be expected during periods of significant credit expansion. Banks' capital adequacy ratios, which had strengthened during 2023, remained stable throughout 2024, with a WB6 regional average capital adequacy ratio (CAR) of 19.3 percent.

Credit growth at the WB6 regional level reached a new high by the end of 2024, consolidating the upward trend observed in the first half of the year. Average credit growth steadily increased during the first half of 2024 and continued to rise through into the latter months of the year. By December 2024, at the regional level, credit growth reached a year-on-year average of 12.3 percent, steadily increasing from 6.5 percent as of December 2023. This marked the highest level of credit growth seen since 2009. Despite individual country differences, across all WB6 countries credit growth was at least 9 percent. The highest levels of growth were seen in Kosovo at 17.8 percent, followed by Montenegro at 15.5 percent.

Corporate and household credit growth both surged, led by Kosovo and Montenegro. Reflecting sustained economic activity, corporate credit growth continued to narrow the gap with household credit growth, with the gap reaching its lowest level since July 2023. Corporate credit growth increased significantly, reaching 11.7 percent as of December 2024, up from 4 percent a year earlier. Kosovo, Montenegro, North Macedonia, and Albania all registered year-on-year corporate loan growth in excess of 10 percent in the last quarter of 2024. Household loan growth also increased, rising from 8.4 percent in December 2023 to 13.4 percent year-on-year in December 2024. Household credit growth was particularly high in Kosovo (22 percent) and Montenegro (17 percent), followed by Albania and Serbia. In Kosovo, higher credit growth reflects ongoing financial deepening, amid sustained economic activity.

Credit demand was a key driver of credit growth during 2024. The Central, Eastern and South-Eastern Europe (CESEE) Bank Lending Survey for the second half of 2024[40] indicates that in CESEE countries credit demand strengthened significantly, driven by retail business (mortgages and consumer credit). During the last 6 months of 2024, credit demand rebounded in 5 of the 6 WB6 countries covered in the CESEE Survey, supported by positive developments in both the corporate and household sectors. For example, in Kosovo credit demand expanded more than the regional average, supported by positive developments in the activity of small and medium-sized enterprise (SMEs), consumer credit and house purchase segments. In Bosnia and Herzegovina, credit demand increased in line with the regional average, driven by loans for households and SMEs. When looking at the supply of credit, the CESEE Bank Lending Survey shows that credit supply conditions tightened in North Macedonia and Albania. According to the survey results, factors contributing to the tightening of supply conditions in Albania included international factors associated to

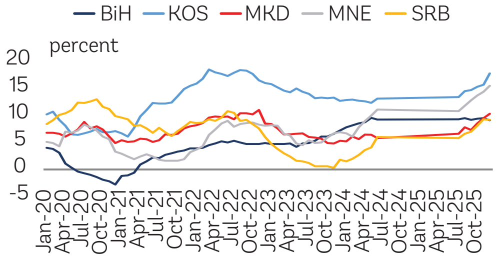
40 https://www.eib.org/attachments/lucalli/20240262_economics_cesee_bls_2024_h2_en.pdf. The countries covered by the survey are Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Kosovo, North Macedonia, Romania, Serbia and Slovakia.

the global market outlook, group capital constraints and EU regulations. In North Macedonia, key drivers of tighter credit supply conditions were primarily domestic factors, including changes in local bank regulation. Credit supply conditions stayed neutral in Kosovo and Bosnia and Herzegovina.

FIGURE 7.1:

Credit growth continues on an upward trend in H2 2024

Change in nonfinancial private sector credit outstanding, percent, yoy

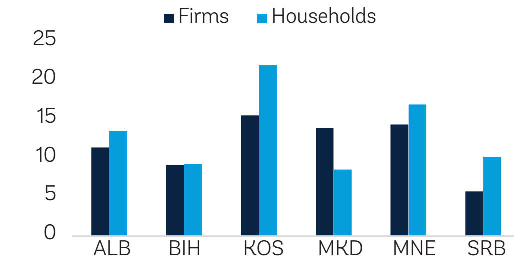


Source: IMF international financial statistics; central banks.

FIGURE 7.2:

Strong corporate credit growth narrowed the gap with household growth

Change in credit outstanding December 2024, percent, yoy



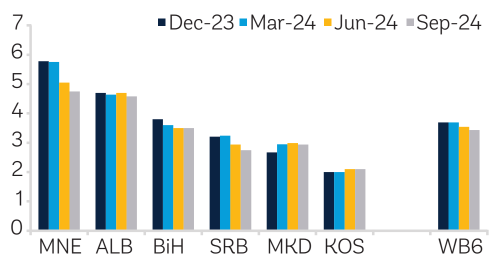
Source: WB6 central banks.

Asset quality remained relatively stable over 2024 in most WB6 countries. However, bolstered by improvements in Montenegro and Serbia, the average NPL ratio across the WB6 countries decreased by 0.3 of a percentage point as of September 2024, reaching historically low levels at 3.4 percent. Kosovo, Serbia, and North Macedonia reported the lowest NPL ratios at 2.1, 2.7, and 2.9 percent, respectively. Montenegro, despite a substantive improvement in asset quality with NPLs decreasing from 5.8 to 4.7 percent, continued to post higher-than-average NPL levels. The CESEE Bank Lending Survey forecasts further improvements for Albania and North Macedonia, but it anticipates a deterioration for Bosnia and Herzegovina, and Serbia during 2025.

FIGURE 7.3:

Asset quality presented no significant movements, with the exception of Montenegro

Non-performing loans, percent of total loans

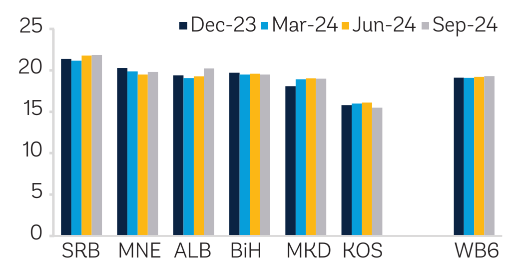


Source: IMF international financial soundness indicators; central banks

FIGURE 7.4:

Capital levels remained relatively stable

Capital adequacy ratios



Source: IMF international financial soundness indicators; central banks

Robust levels of capital adequacy and stable liquidity have supported the resilience of the WB6 banking sector. As of September 2024, the CAR for WB6 banks averaged 19.3 percent, significantly exceeding the regulatory minimum. Average capital levels have been relatively stable since June 2023 and are predominantly composed of high-quality Tier 1 capital. CARs of banks in Kosovo, despite being systematically among the lowest in the WB6 region at 15.5 percent, are still above the minimum regulatory CAR requirement of 12 percent. Liquidity levels in the WB6 countries have been stable for the past decade, with the liquidity ratio ranging between 28 and 29 percent (28.1 percent as of September 2024). Since 2020, North Macedonia and Serbia have consistently posted the lowest and highest liquidity ratios, respectively.

Despite recent cuts, high interest rates have persisted in most jurisdictions, continuing to support banks' profitability. The average ROA steadily increased (y-o-y), reaching 2.7 percent in September 2024, compared with 2.4 percent in September 2023—the highest level in over a decade. Since 2023, Serbian banks have shown strong profitability, above the WB6 average. In September 2024, they posted the highest profitability across the WB6 countries (3.1 percent), closely followed by Montenegro, at 3 percent. In Albania, which presented the lowest ROA (2.2 percent) across the WB6 countries, improvements have been stalling due to a decline in lending rates after a slow but steady increase since late 2022. The decline in interest rates in most jurisdictions in late 2024 is likely to impact interest margins, slowing or reversing the upward profitability trend observed since mid-2022.

Recent months have seen an acceleration in credit growth, which calls for stronger financial sector oversight, against potential risks to macroeconomic stability. Given the financial sector's growing exposure to the real estate market in some countries, such as Kosovo, enhancing the capacity for monitoring financial sector risks, including real estate sector price and indebtedness dynamics, is critical. While reported capital adequacy cushions of banks in WB6 countries suggest that a potential deterioration in asset quality would not significantly compromise their balance sheets in the near term, uncertainties and risks associated with the outlook remain substantial. Rapid credit growth can lead to a deterioration in asset quality and pressures on bank's balance sheets. Additionally, the rapid expansion of credit can exacerbate existing vulnerabilities within the financial system, making it more susceptible to external shocks. Several positive initiatives are under way - for example in Kosovo and Serbia - to modernize the financial sector regulatory and supervisory framework with the goal of strengthening the resilience of the sector and aligning it more closely with EU standards.

Several factors currently heighten the risks to the outlook for the financial sector, including ongoing geopolitical tensions, market volatility, and weak growth prospects in the Euro area. This context reinforces the necessity for continuous improvements in the surveillance of vulnerabilities and risks within individual banks and the banking systems. Surveillance should be underpinned by robust legal frameworks, an effective supervisory approach, and solid macroprudential tools, including loan-to-value and debt-to-income measures and the buildup of capital buffers as necessary, enabling early corrective actions to address emerging risks. Furthermore, in the current context of financial market development in the WB6 countries, well managed development financial institutions can play an important role in facilitating sustainable long-term finance in support of economic stability and growth (Box 7.1).

Box 7.1: Development financial institutions in the Western Balkans[41]

Public development banks (PDBs) are state-owned development financial institutions (DFIs) that have a socio-economic objective. PDBs worldwide consist of a highly diverse set of institutions concentrated primarily in high-income and upper-middle income countries While their core activity is lending, they also play a significant role in supporting investments and offer a variety of different products, service a range of segments, and most rely on international capital on top of local funding and development partner support.

The WB6 countries have many DBs and/or other DFIs focused on development finance, which could play a pivotal role toward these countries' EU accession goals. DFIs aim to provide financing for under-financed economic sectors and can focus on tackling market failures associated to information asymmetries or externalities that result in under provision of credit, provide countercyclical support, reduce market coordination failures associated to policy initiatives, and/or fill a catalyst role for nascent market segments. Given the ambition of WB6 countries to gain EU accession, these institutions could implement EU plans and intermediate funds, particularly for regional priorities.

The WB6 DFIs deploy a number of instruments and provide technical assistance to their targeted beneficiaries that could be better honed. They often leverage on a second-tier basis partial credit guarantees funds/schemes which, when properly utilized, backstop commercial bank lending to riskier economic segments. Some entities operate on a first-tier basis, competing with commercial banks, which duplicates existing financial services and leads to an unlevel playing field, negating the principle of competitive neutrality. Other DFIs provide technical assistance in the form of trainings, consulting and business matching which could be better honed.

Challenges prevent some of the WB6 countries from reaping the gains of effectively organized and administered DFIs. Several DFIs in the WB6 region suffer from political interference, poor governance and weak financial performance. More specifically, some DFIs suffer from having weak legal foundations, lax supervisory enforcement, and inadequate corporate governance structures, resulting in politically connected lending. At times, their weak operations result in mistargeting and market distortions, crowding out the private sector and financial underperformance that required recapitalization.

Global lessons should be taken into account when revaluating the role of DFIs. Authorities in the WB6 countries have been considering the establishment of new PDBs, transforming development funds into PDBs, and undertaking reforms of existing ones. Critical elements to ensure that DFIs add complementarity to the financial sector include: (i) mandate and corporate governance; (ii) oversight and (iii) risk management. DFIs should aim at identifying and servicing unmet market needs in order to crowd-in the private sector. Members of boards of DFIs should be qualified professionals, with a minority of public servants. DFIs should have financial sustainability requirements to provide incentives for adequate risk-taking and risk-pricing and should be subject to proper oversight. Finally, risk management functions should support financial sustainability objectives. This includes appropriately developed instruments and limited subsidies. PDBs should not take deposits from the public, should preferably operate through second-tier lending, be subject to appropriate prudential regulations and supervised by prudential supervisory authorities.

41 National Development Financial Institutions: Trends, Crisis Response Activities, and Lessons Learned https://documents1.worldbank.org/curated/en/542471633672135095/pdf/National-Development-Financial-Institutions-Trends-Crisis-Response-Activities-and-Lessons-Learned.pdf ; Greening National Development Financial Institutions: Trends, Lessons Learned, and Ways Forward https://openknowledge.worldbank.org/entities/publication/c36e3862-c356-426b-acf4-b663870a13f7

8. External pressures continue to rise, while debt remains moderate

WB6 countries are facing mounting external sector pressures amid a challenging global environment. Sluggish growth in key EU trading partners, particularly Germany, has weakened foreign demand for exports and expanded the current account deficit (CAD). Although oil prices have slightly moderated in 2024 compared with their peak in 2023 due to reduced demand from China, they remain high, keeping import costs elevated. Despite substantial foreign direct investment (FDI) inflows that finance much of the CAD, ongoing geopolitical tensions and evolving global trade policies heighten future risks. These disruptions could potentially lead to increased trade costs, supply chain disruptions, and broader market uncertainty. Consequently, the WB6 economies may face a potential deterioration of their external balances through 2025.

The external position of the WB6 countries worsened in 2024, driven primarily by a deterioration of their trade balances and declines in their income accounts. This change followed a significant reduction in the CAD in 2023, which saw a decrease of 3.6 percentage points compared with the previous year. Specifically, the CAD worsened from 4.1 percent of GDP in 2023 to an estimated 6.9 percent in 2024, though this is only slightly above the average for the past five years (Figure 8.1). All WB6 countries are projected to experience a more marked widening of their current accounts in 2024 (Figure 8.2). In Albania, the deterioration of the external position is mainly attributable to the rising trade deficit from continued decline in goods exports and rising imports, while primary and secondary income balances improved. In Bosnia and Herzegovina, trend was driven by a widening of the merchandise. In Kosovo, the CAD reached 9 percent of GDP in 2024, a deterioration of around 1.4 percentage points compared with 2023, driven by a worsening of the trade balance and lower secondary incomes. Similarly, in Montenegro and North Macedonia, the CAD widened due to a higher trade deficit, and a decline in service exports and net income accounts in Montenegro.

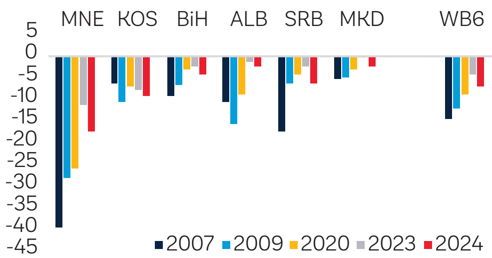
Merchandise exports and imports in most WB6 countries have decreased as a share of GDP. As demand from the WB6 countries' main trading partners has declined, almost all WB6 countries have felt the impact. The only country that registered growth in exports in 2024 was Kosovo, with an increase of 12.6 percent, including a 9.5 percent increase in goods exports and a 13.4 percent increase in service exports. Imports fell in all countries, except Bosnia and Herzegovina, Montenegro and Kosovo. Despite the decline in imports, this did not lead to a narrowing of the merchandise trade deficit, as the decline in imports was smaller than that of exports. The trade deficit increased by 1.1 of a percentage point compared with 2023, reaching 27.5 percent of GDP in 2024 (Figure 8.3). The challenging economic environment, with Euro area growth remaining weak in 2024, has weakened exports (as a percentage of GDP) and reduced demand for imports of intermediate goods within the region. Despite these challenges, demand for consumer goods imports remains robust, driven by private consumption, which is the main contributor to GDP growth in most WB6 countries.

At the regional level, during 2024, average net services exports declined as a percentage of GDP. Net service exports in WB6 countries decreased from 12.4 percent of GDP in 2023 to 12.1 percent of GDP in 2024 (Figure 8.4). Net service exports ranged from 3.3 percent of GDP in Serbia to 21.4 percent in Montenegro. The performance of net service exports at the country level was mixed. While Albania, Kosovo and North Macedonia experienced an increase in net service exports as a percentage of GDP, Serbia, Montenegro and Bosnia and Herzegovina experienced a contraction. Tourism and diaspora travel service exports continue to represent a significant component of service export in the region, although other sectors are gaining prominence. For example, in Kosovo the growth performance of modern services, such as IT and other business services, has been strong in recent years and is encouraging. This has contributed to diversify the export base and signals potential for further growth.

FIGURE 8.1:

The WB6 current account deficit has widened in 2024…

Percentage of GDP



Source: Regional central banks, World Bank staff calculations.

FIGURE 8.2:

…reflecting weakened export performance in many WB6 countries

Percentage of GDP

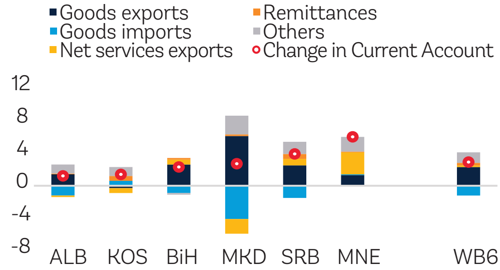
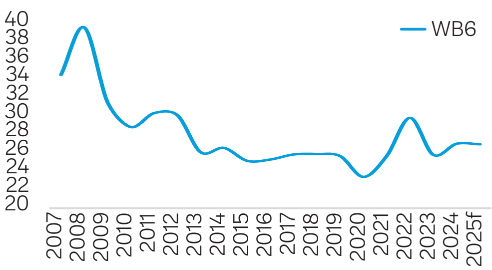


FIGURE 8.3:

The merchandise trade deficit picked up in 2024…

Percentage of GDP

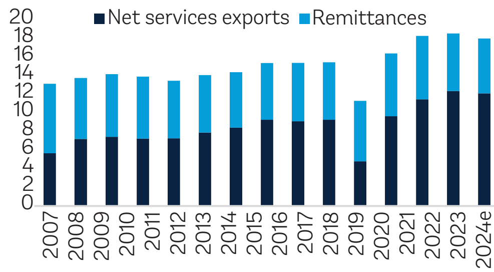


Source: Regional central banks, World Bank staff calculations.

FIGURE 8.4:

…while remittances and net services exports stagnated

Percentage of GDP



Remittances declined relative to GDP in almost all WB6 countries, reflecting weak activity in host countries. This could reflect signs of reverse migration and softening labor markets across the Euro area. Consequently, almost all WB6 countries saw a slight decline in remittances, from a peak of nearly 7 percent of GDP in 2022 to 6 percent in 2024. During 2024, net remittances decreased in percentage of GDP in Kosovo from 13.4 percent of GDP to 12.8 percent. Similarly, they declined in Serbia (0.6 of a percentage point), North Macedonia (0.2 of a percentage point), Montenegro (0.1 of a percentage point) and Albania (0.1 of a percentage point), while in Bosnia and Herzegovina remittances increased somewhat (0.4 of a percentage point).

At the regional level, around 79 percent of the CAD is financed by net FDI inflows in 2024. Over the past decade, the WB6 countries experienced a peak in FDI inflows in 2022 amounting to 6.8 percent of GDP. Since then, the trend has been somewhat mixed. Kosovo has continued to attract high FDI since 2022, with the highest share of these investments concentrated in real estate activities. In Serbia, net FDI continued to perform strongly, increasing by 7.9 percent in euro terms (reaching €4.6 billion in 2024), with an increase in investments originating from Asia. In Montenegro, net FDI growth was positive reaching 13 percent in 2024. In North Macedonia, net FDI as a percentage of GDP increased from 3.4 percent of GDP in 2023 to 7.1 percent in 2024. In Bosnia and Herzegovina FDI has remained relatively stable. At the regional level, net FDI inflows are projected to total 5.6 percent of GDP in 2024, 1.4 percent short of the external deficit. However, country-level variations are significant. In Albania and North Macedonia net FDI inflows fully finance, and in some cases exceed, the external deficit. In other countries, such as Montenegro and Kosovo, FDI is only expected to finance between 38 and 68 percent, respectively, of their external deficits in 2024. These inflows are predominantly in the form of equity investments and reinvestments, with a smaller proportion in inter-company loans (Figure 8.5).

FIGURE 8.5:

At the regional level, FDI inflows almost fully finance the current account deficit in 2024, although country differences are sizable...

Percentage of GDP

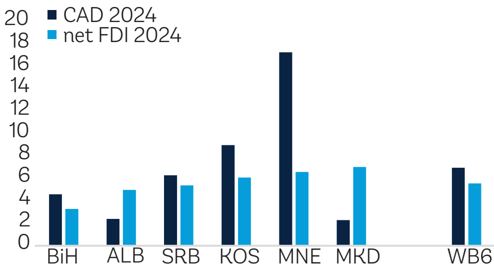
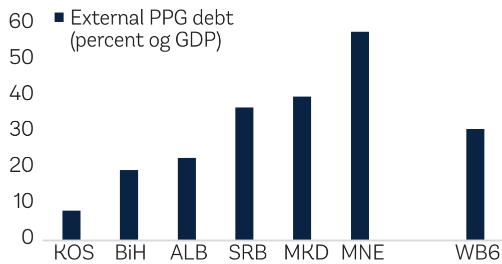


FIGURE 8.6:

...with the regional PPG external debt level projected to remain moderate in 2024

Percentage of GDP



Source: Regional central banks, World Bank staff calculations.

During 2024, the total external debt at the WB6 regional level slightly decreased from 66.7 percent of GDP to 66 percent, primarily due to a reduction in private external debt. However, this trend varied across countries. Albania and Montenegro saw a decline in total external debt, while the other WB6 countries experienced an increase. Specifically, Albania, Kosovo, and Montenegro recorded a decrease in private external debt as a percentage of GDP between 2023 and 2024. In contrast, North Macedonia and Bosnia and Herzegovina saw an increase in private external debt, while in Serbia it remained flat. During 2024, several countries experienced an increase in public and publicly guaranteed (PPG) external debt reflecting their dependence on external financing. These countries included Kosovo, Montenegro, North Macedonia and Serbia. PPG external debt as a share of GDP declined in Albania and Bosnia and Herzegovina.

Throughout 2024, most countries in the region experienced an increase in foreign exchange (FX) reserves. In Serbia, the National Bank of Serbia (NBS) continued to intervene in the foreign exchange market to prevent significant fluctuations in the exchange rate. Consequently, in 2024, the NBS became a net purchaser of foreign currency, leading to FX reserves reaching a record-high level of EUR 29.3 billion, equivalent to 9.6 months of imports of goods. In Albania, the flexible exchange rate regime has effectively acted as a shock absorber, helping the economy in navigating external pressures. Over the past two years, the lek has appreciated by a cumulative 15.5 percent against the euro, falling below 100 lek per euro in August 2024. This appreciation has been driven by strong export earnings, remittances, and investment inflows. During the first nine months of 2024, the Bank of Albania intervened in the foreign exchange market, purchasing foreign currency equivalent to about 2.6 percent of the 2023 GDP. These interventions helped boost foreign reserves to cover 6 months of imports by September 2024. Notably, all countries, except for Kosovo, exceeded the standard metric of 3 months of imports. The region's reliance on external financing underscores the importance of maintaining investor confidence and macroeconomic stability. Additionally, structural reforms aimed at enhancing competitiveness and diversifying the export base are crucial for long-term economic resilience.

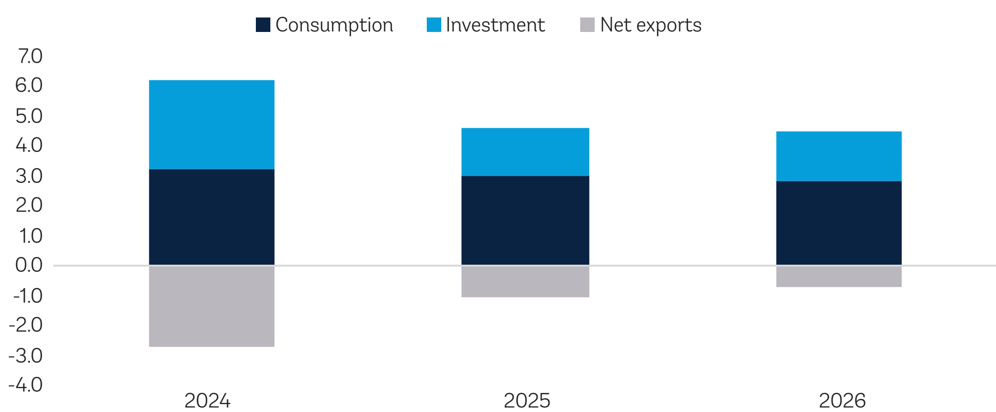
9. Heightened uncertainty clouds the regional economic outlook

Following a year of moderate growth in 2024, the global economy in 2025 appears to be set for a period of sharply heightened uncertainty, resulting in a growth rate that will be insufficient to foster sustained economic development and poverty reduction. Global economic policy uncertainty—especially regarding trade —has increased in recent months to record levels that are clouding prospects for investment and growth. In the ECA region, following years of successive negative shocks, GDP growth is expected to reach 2.5 percent in 2025, amid depleted fiscal space. Similarly, GDP growth in the Euro area has been revised downward[42]. Increased economic policy uncertainty and further ramifications stemming from Russia's invasion of Ukraine and the conflict in the Middle East will all weigh on Europe's outlook. In addition, an increase in the frequency of extreme weather events could hurt short-term growth while amplifying the slowdown in the fundamental drivers of longer-term growth.

GDP growth in the WB6 region is projected to slow to 3.2 percent in 2025 as the region absorbs the indirect impact of policy uncertainty. Private consumption and, to a lesser extent, public investment are expected to be the main drivers of growth, especially in Kosovo and Serbia. Net exports are expected to subtract from growth over the projection period, reflecting the impact of weakening export growth and slowing activity among key trading partners, especially in the EU. Private investment is expected to be negatively impacted by policy uncertainty, especially in sectors where the WB6 economies are closely integrated into EU-centric value chains. Recent international trade policy shifts could also contribute to a further slowdown in export growth in some countries, with negative consequences on external balances. In the current context, however, it is difficult to gauge their full impact as policy shifts may continue to unfold.

FIGURE 9.1:

Contribution to growth in WB6 countries, in percentage points



Source: World Bank staff estimates and projections

42 ECB, March 2025

In 2025, Kosovo, Serbia and Albania will see comparatively stronger rates of growth in the WB6 region, with relatively weaker growth rates expected in Montenegro, Bosnia and Herzegovina and North Macedonia. Kosovo will remain the fastest-growing country in the region, with GDP growth expected to reach 3.8 percent in 2025, albeit at a slower rate than seen in 2024. The key driver will be consumption (contributing by 4 percentage points to growth) with investment contributing 1.3 percentage points. Serbia is expected to be the second-fastest-growing country in the WB6 region, with growth averaging 3.5 percent in 2025, and with similar drivers of growth (consumption contributing by 3.1 percentage points and investment by 1.4 percentage points). The other WB6 countries will grow in the range of 2.6–3.2 percent in 2025, in line with or below the WB6 regional average. In North Macedonia, growth is expected to reach 2.6 percent in 2025 supported by an increase in public spending. In Bosnia and Herzegovina, stronger real incomes are expected to boost private consumption, with growth projected to reach 2.7 percent in 2025. In Albania and Montenegro, consumption and investment are expected to be key contributors to growth, with 2025 growth in Albania projected at 3.2 percent and in Montenegro projected at 3 percent (Table 9.1).

Growth in the Western Balkans is expected to pick up in 2026 and 2027 on the assumption of increased global economic certainty, stronger exports and improved business confidence. Growth for the WB6 as a whole is projected at 3.5 percent in 2026 and 3.7 percent in 2027 as individual country growth rates move closer to their potential. This moderate growth acceleration would be supported by increased investment, resilient consumption and a gradual recovery in net exports.

TABLE 9.1:

Real GDP growth, by country

	2024	2025	2026	2027
Albania	3.9	3.2	3.1	3.1
Bosnia and Herzegovina	2.6	2.7	3.1	3.5
Kosovo	4.4	3.8	3.8	3.8
North Macedonia	2.8	2.6	2.7	2.8
Montenegro	3.0	3.0	2.9	3.0
Serbia	3.9	3.5	3.9	4.2
Western Balkans	**3.5**	**3.2**	**3.5**	**3.7**

While headline inflation fell in 2024, inflationary pressures have started re-emerging in early 2025 in some WB6 countries, and core inflation remains high in several of them. Inflation is expected to gradually decline to below 3 percent over the course of 2025, but trends across the WB6 countries are diverging, with inflationary pressures on the rise in the first months of 2025, and uncertainty remaining high. Possible inflationary effects from trade policy shifts, together with sustained services inflation, could lead to more persistent inflation in 2025 and 2026. In Kosovo, inflation is expected to stabilize at around 2 percent over the medium term. Albania is expected to experience a marginal increase in inflation pressures in 2025 and 2026, driven by persistent domestic price pressures, while the other WB6 countries are expected to experience a gradual decline in consumer price inflation. The most significant decrease in inflation is expected to take place in Serbia, where inflation has remained more elevated compared with other WB6 countries.

Risks, both domestic and external, are clearly elevated, requiring an adaptive approach to sustain growth. On the external front, slower economic activity in the EU, as well as heightened trade policy uncertainty, would negatively affect the growth outlook, with negative consequences for the demand for the regions' goods and services exports, business confidence as well as inward investment inflows and remittances. Recent trade policy shifts may impact export and investment activity in several countries in the region. In addition, continued uncertainties stemming from the ramifications of Russia's invasion of Ukraine could disrupt commodity markets and trade, with negative implications for inflation and growth. At the domestic level, adverse political developments, elections and uncertainties in a number of countries of the Western Balkans could lead to weakening business confidence and a slower implementation of the structural reform agenda. High current account deficits, as well as dependence on external financing and remittances, expose several countries to risks associated with external shocks. Finally, most economies in the WB6 region are increasingly vulnerable to droughts, floods, wildfires and other extreme weather events, with potentially detrimental macro-fiscal implications.

In the face of significant economic uncertainties, the WB6 countries will need to carefully calibrate their monetary and fiscal policies. In addition to accelerating the implementation of the structural reform agenda, it is crucial for the countries in the region to find an appropriate policy stance that balances the need for caution with the imperative to support sustainable economic growth. For countries with independent monetary policies, a proactive approach to monetary policy can help absorb shocks and contain inflationary pressures. Maintaining fiscal policy prudence, including building buffers, is a priority during times of uncertainty. This balanced approach will help ensure that the region can weather external shocks while fostering an environment conducive to sustainable growth.

The WB6 countries can enhance their growth prospects by accelerating the implementation of structural reforms. The WB6 countries continue to face substantial challenges, such as low labor market participation, high levels of informality, and sluggish productivity growth. These issues hinder economic progress and limit the potential for sustainable development. By focusing on key areas such as improving access to finance, enhancing connectivity, and facilitating trade, these countries can create a more conducive environment for economic activity and higher competitiveness. In addition, fostering domestic private sector development is crucial for generating employment opportunities and driving innovation, which are essential for long-term growth.

The implementation of EU accession-related reforms can provide a significant impetus to WB6 regional growth. For instance, reforms aimed at facilitating access to the Single Euro Payments Area (SEPA) could streamline financial transactions, enhance economic integration with the EU and support growth. Additionally, implementation of reforms under the New Growth Plan for the Western Balkans will be important for boosting competitiveness and fostering economic convergence with the EU. Trade facilitation reforms, which simplify and expedite the movement of goods across borders, are now more important than ever in reducing trade costs and can play a pivotal role in enhancing regional trade and attracting foreign investment. By accelerating the implementation of these reforms, the WB6 countries can not only improve their economic outlook but also strengthen their resilience and bolster their position within the broader European economic landscape.

10. Spotlight: From Climate Shocks to Green Careers - Supporting Workforce Transitions in the Western Balkans

I. Vulnerable Economies, Fragile Workforces: The Extreme Weather and Green Transition Challenge in the Western Balkans

Extreme weather and the energy transition are compounding existing labor market vulnerabilities in the Western Balkans, threatening worker productivity and economic growth. Despite progress in reducing unemployment over the past decade, the region still faces significant structural challenges. In 2024, unemployment averaged 10.1 percent, with notable variation across countries (ranging from 8.6 percent in Albania and Serbia, to 12.6 percent in Bosnia and Herzegovina)[43]. Youth employment remains a critical concern, with an average unemployment rate of 25 percent—rising to 28.8 percent in Bosnia and Herzegovina—while female labor force participation is notably lower at 45 percent, compared to 64.2 percent for males. Inactivity reaches 45.4 percent of the working age population on average, peaking at 58.4 percent for Kosovo. High informality rates and the outward migration of skilled workers—nearly one in four people from the region lives abroad—further constrain growth prospects. On the one hand, increasing weather hazards—such as extreme heat, droughts, floods, and shifting rainfall patterns—reduce worker productivity, increase occupational health risks, damage productive assets, and disrupt key economic sectors reliant on stable weather conditions, such as agriculture, construction, and tourism.[44] On the other hand, green policies, particularly those linked to the energy transition and GHG emissions reductions, are beginning to create structural shifts in employment, posing both challenges and opportunities for workers and industries across the region. Understanding the nuances of these dual forces is critical in designing policies that protect workers and promote a just and equitable transition to a more resilient economy in the Western Balkans.

II. Climate Hazards: A Threat to Worker Productivity and Earnings

Damage from extreme weather varies across economies in the Western Balkans, with some sectors being more vulnerable than others.[45] The frequency and intensity of natural hazards is increasing, with heightened risks of flash floods, coastal flooding, wildfires and landslides. These hazards often occur simultaneously or in sequence, resulting in compounding risks, with the six Western Balkan countries more exposed and vulnerable than Organization for Economic Cooperation and Development (OECD) countries (Figure 10.1). Modeling carried out by the World Bank estimates that the impact of weather hazards, namely riverine floods, droughts, and labor heat stress, will reduce the level of Gross Domestic Product (GDP) in 2050 by 16 percent in Serbia, 14 percent in Bosnia and Herzegovina, 8 percent in Montenegro,

43 Source: National statistics offices and World Bank staff estimates. Labor force participation rate, unemployment rate and inactivity rate are computed over people aged 15 and older. Youth refer to those between the ages of 15 and 24.

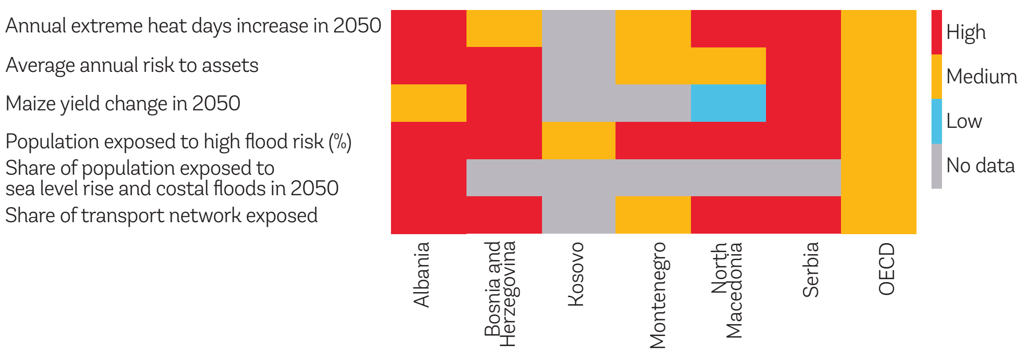
44 Burke, M., Hsiang, S. M., & Miguel, E. 2015. Global non-linear effect of temperature on economic production. Nature, 527(7577), 235–239; Dell, M., Jones, B. F., & Olken, B. A. 2012. Temperature shocks and economic growth: Evidence from the last half century. American Economic Journal: Macroeconomics, 4(3), 66–95 and Hsiang, S. M. 2016. Climate econometrics. Annual Review of Resource Economics, 8(1), 43–75, 3.

45 Unless stated otherwise, the sections below draw on World Bank. 2024. “Western Balkans 6 – Country Climate Development Report.”

7 percent in Albania, and 4 percent in both Kosovo and North Macedonia.[46] These impacts vary across sectors. Tourism, which generates over one-quarter of GDP in Montenegro and Albania, is increasingly at risk from extreme weather events, coastal erosion, and rising temperatures, threatening businesses and employment.[47] Agriculture, a key employer in Albania (35 percent), Bosnia and Herzegovina (17 percent), and Serbia (12.8 percent), is among the sectors most vulnerable to weather-related shocks.[48] For instance, severe flooding in Albania in 2017 inundated 15,000 hectares of crops, impacting thousands of families. In Serbia, a drought in 2024 resulted in significant crop loss. Meanwhile, hydropower-dependent countries such as Montenegro and Albania face energy disruptions due to declining water availability, while Serbia, and Bosnia and Herzegovina's reliance on hydropower and coal-based energy further exacerbates risks, as declining water levels reduce hydroelectric output, wildfires damage power infrastructure, and rising temperatures undermine thermal power plant efficiency. In Kosovo, where 97 percent of electricity comes from aging lignite-fired power plants, extreme weather threatens energy security by reducing thermal efficiency and exacerbating air pollution, with health and economic consequences.[49]

FIGURE 10.1:

Climate risk and vulnerability in the Western Balkans, compared with OECD countries



Source: World Bank Climate Change Group in: World Bank. 2024. "Western Balkans 6 – Country Climate Development Report."

46 Percent reduction in 2050 GDP under trend growth from selected impact channels, namely riverine floods, droughts (through the impact on maize and wheat), and labor heat stress obtained with the climate-enhanced macro-structural model of the World Bank, MFMOD, under RCP 4.5. World Bank. 2024. "Western Balkans 6 – Country Climate Development Report."

47 For example, Albanian cities such as Vlora, Shkodra, and Tirana are experiencing worsening extreme heat and air pollution, with urban heat island effects disproportionately affecting certain neighborhoods. While these cities attract visitors, increased heat stress and deteriorating air quality could pose challenges for tourism and outdoor activities.

48 Albania and Bosnia and Herzegovina: 2023 data from the World Development Indicators; Serbia: 2024 Labor Force Survey.

49 Kittner, N., & Kammen, D. M. 2018. The battle for replacing coal with renewable energy in Kosovo.

Climate hazards have a direct impact on people, lowering incomes and damaging productive assets. In the Western Balkans, rising temperatures and declining precipitation have already begun to impact workers. The International Labour Organization (ILO) estimates that heat stress will affect countries in the Western Balkans differently, with the highest estimated loss in Albania, where 0.07 percent of working hours are projected to be lost in 2030, equivalent to about 700 full-time jobs.[50] Heat stress increases the risk of workplace accidents, with heat-related fatalities often occurring during the first days in a new job, and making the performing of tasks harder.[51] Rising temperatures also contribute to increased absenteeism due to heat-related illnesses, further reducing worker productivity. The direct impact of natural hazards on jobs in the Western Balkans was witnessed during the 2014 floods, with damage to economic and transport infrastructure leading to 33,500 wage workers losing their jobs in Bosnia and Herzegovina, and 51,800 jobs temporarily being lost in affected municipalities in Serbia.[52] More recently, the October 2024 floods in Bosnia and Herzegovina caused severe economic and employment disruption, displacing 1,100 households, destroying 800 homes, and severely impacting agriculture and small enterprises.[53]

The impacts of weather hazards in the Western Balkans are often localized, affecting rural, isolated, and economically declining areas. A spatial analysis carried out for the Western Balkans County Climate and Development Report (CCDR) highlights key 'hotspots'—locations where extreme weather hazards overlap with socioeconomic vulnerabilities. For example, flooding tends to be more frequent in rural, declining municipalities in Bosnia and Herzegovina, and Serbia, even though the risk of flooding is highest along the Danube and Sava rivers, which flows through Belgrade and other secondary cities in Serbia. The risk of landslides and wildfires is prominent in hilly and mountainous areas, which are often remote and economically struggling regions. This pattern is evident in southern Bosnia and Herzegovina, as well as southern Albania. Mountainous municipalities near the Albania-North Macedonia border face some of the highest landslide risks in the region while also being among the most rural and isolated communities. While weather hazards thus may affect less people than if they occurred in more populated areas, there is a risk that these events will exacerbate existing vulnerabilities across the Western Balkans, disproportionately affecting people living in areas experiencing higher rates of unemployment and lower economic activities, who will struggle to recover from these events.

The negative impacts of natural hazards on labor productivity, incomes, and assets can push people into poverty. The losses due to extreme weather events overwhelmingly fall on poor and vulnerable households.[54] Beyond living in more vulnerable areas, poor people have limited access to savings, credit and insurance to help them manage losses of income or assets.[55] While current data on damage and losses in the region tend to focus on the impacts of disasters on public assets and infrastructure, some recognition of, and evidence on, the

50 International Labour Organization (ILO), 2019. Working on a warmer planet: the impact of heat stress on labour productivity and decent work. Geneva: ILO.

51 Eurofound 2024, Job quality side of climate change, Working conditions and sustainable work series, Publications Office of the European Union, Luxembourg.

52 Given that this event occurred in 2014, it is possible that many of the affected workers in Bosnia and Herzegovina regained employment over time, though specific longitudinal data on job recovery is not provided in the available statistics.

53 United Nations Bosnia and Herzegovina (UN BiH). 2024. Multi-sector Initial Rapid Assessment (MIRA) – October 2024 Floods; International Organization for Migration (IOM). 2025. Flood and Landslide Response Situation Report – Bosnia and Herzegovina, February 2025.

54 Hallegatte, S., Vogt-Schilb, A., Bangalore, M., & Rozenberg, J. 2017. Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters. Climate Change and Development Series. Washington, DC: World Bank

55 Brunckhorst, B., Hill R., Mansuri G., Nguyen T., and Doan M. 2023. "Climate and equity: A framework to guide policy action." Poverty and Equity Global Practice. Washington, DC: World Bank.

human impact of shocks is emerging.[56] For example, the post-disaster needs assessment of the 2019 earthquake in Albania found that poverty rates increased in the affected regions by 2.3 percent.[57] In Serbia, the 2014 floods pushed an estimated 125,000 people into poverty—an increase of nearly 7 percent in the poverty headcount.[58] In addition, studies indicate that households or neighborhoods with lower income levels are more susceptible to urban heat island effects, with negative implications for their health, which can affect their ability to work.[59]

III. Climate Policies: Driving Transformations in the Workforce

All Western Balkan countries are committed to reducing GHG emissions. Five countries (except Kosovo) as signatories to the United Nations Framework Convention on Climate Change (UNFCCC) and the 2015 Paris Agreement, adopted GHG emission reduction targets in their updated Nationally Determined Contributions (NDCs) submitted in 2021–22. The requirement to transpose European Union (EU) legislation as part of the EU accession process is also driving national commitments. All six countries pledged to the 2020 Sofia Declaration, aiming to align with the EU's 2050 net-zero target and phase out coal subsidies.[60] These commitments, along with the EU's Carbon Border Adjustment Mechanism (CBAM), are expected to significantly impact the region's economies, which remain among the most carbon- and energy-intensive in Europe.

As the Western Balkan countries seek to mitigate GHG emissions and promote environmental sustainability, labor markets will undergo transformations, with job losses, structural changes, and new opportunities emerging.[61] While polluting "brown" industries will see job losses due to decarbonization efforts, other sectors, particularly green sectors, will experience new employment opportunities driven by investments in renewable energy, energy efficiency, and sustainable infrastructure. Green jobs are a growing share of employment and are expected to expand further, globally and in the region, provided that the right policies are implemented.[62] Only a minority of these are totally new occupations (1 percent), with most green jobs either being existing jobs experiencing an increase in demand or jobs experiencing skills changes.[63] Beyond job creation, many existing positions will undergo substantial transformation in their task content, requiring workers to reskill or transition to new roles. The primary challenge will be in addressing mismatches between available skills and the geographic location of new employment opportunities.

56 Fitzgibbon C, Coll-Black S, Pop L. Towards Adaptive Social Protection in Europe and Central Asia: A Synthesis Report (English). Washington, DC: World Bank Group.

57 Government of Albania. 2020. Albania: Post-Disaster Needs Assessment. Volume A Report/Tirana, February 2020. Tirana: Government of Albania.

58 Government of Serbia. 2014. "Serbia Floods 2014," Recovery Needs Assessment.

59 World Bank. 2020. Analysis of Heat Waves and Urban Heat Island Effects in Central European Cities and Implications for Urban Planning. Washington, DC: World Bank.

60 National commitments are also motivated by concerns within countries about air pollution and the impact of climate change. For a discussion of these national climate change policies and plans, see World Bank. 2024. "Western Balkans 6 – Country Climate Development Report."

61 The transition to greener forms of production, distribution and consumption that reduce the carbon footprint of goods and services, as well as promote environmental sustainability is often called the green transition or greening process, which is playing out alongside broader changes in the use of technology and other global trends.

62 In this Spotlight, we use an occupation-specific measurement to identify green jobs at the task level, based on O*NET classification and distinguishing between Green Increased Demand, Green Enhanced Skills, and Green New and Emerging jobs. Note that there are alternative approaches to green jobs measurement based on output-based measurement (production of environmentally beneficial goods and services), process-based measurement (roles that reduce environmental impact), or entity-level measurement (categorizing entire industries or firms as green using input-output modeling).

63 While the proportion of jobs classified as "green" varies depending on definitions and methodologies, this share is expected to grow significantly, as research indicates a strong link between economic development and green job creation, with 24 million new green jobs projected by 2030. Studies in Latin America show that a one percent increase in GDP per capita is associated with a 0.4 and 4.1 percentage point rise in new/emerging and enhanced skills green jobs, respectively. See Winkler, H.J., Di Maro, V., Montoya, K., Olivieri, S., and Vazquez, E.J., 2024. Measuring Green Jobs: A New Database for Latin America and Other Regions. World Bank Group. Green jobs creation estimate is from International Labour Office, 2018. World employment and social outlook 2018: Greening with jobs. International Labour Organisation (ILO). Geneva: ILO.

Energy and mining sector workers in the Western Balkans are already experiencing these impacts, with wider risks to local communities. One of the most significant transitions is already occurring in coal mining regions (in Serbia, Bosnia and Herzegovina, and Kosovo), where the gradual phasing-out of lignite mining and coal-fired plants is set to have substantial labor market consequences. The phasing-out of coal in Serbia, and Bosnia and Herzegovina is driving job losses, with Serbia projecting 12,000 job cuts by 2030 (based on the country's National Energy and Climate Plan) and Bosnia and Herzegovina, which was already experiencing a steady decline in coal mining employment, risking up to 17,000 direct and indirect jobs.[64] Decarbonization policies further affect employment in thermal power plants, with ongoing restructurings in major state-owned electricity utility companies. The local labor markets in some municipalities will be further affected and are at risk of economic decline, given their heavy economic dependence on the coal sector (see Box 10.1) and already high unemployment rates.

Box 10.1: The Human Impact of Coal Transition in Bosnia and Herzegovina

In Bosnia and Herzegovina (BiH), coal has long been the foundation of local economies, particularly in Tuzla, Zenica-Doboj, Central Bosnia and Herzegovina, and southern parts of Republika Srpska. The industry supports not just the 14,600 workers directly employed in coal mining, but also an additional 2,400 employed upstream in firms supplying inputs or directly supporting the sector's value chain. In municipalities such as Tuzla, Banovići, Ugljevik, Breza, and Kakanj, coal-related employment accounts for over 20 percent of local jobs on average (and up to 50 percent of local jobs in some of these municipalities), making the transition away from fossil fuels a major economic and social challenge. The push for renewable energy, the EU's decarbonization targets, and the introduction of the CBAM, combined with the difficult economic situation of the sector exhibiting low returns, is accelerating the decline of BiH's coal sector. By 2030, the industry could lose half of its workforce, driven by declining demand and the planned closure of selected mines or pits, and the downsizing of related thermal power plants. The situation is particularly urgent in Zenica and will become so in Breza and Kakanj, where shutdowns are expected to close more than 5,500 direct jobs within the next decade. In towns where mining is the dominant employer, the loss of coal jobs could push local unemployment rates to 40–50 percent, placing extreme pressure on households and the broader regional economy. The coal transition is particularly difficult for older workers, many of whom have spent decades in the sector and are not competitive in the labor market. Beyond job losses, the decline of coal has wider economic and social consequences. The local labor market of some of those coal municipalities will be at risk of economic decline and the budgets of local governments may be further affected given that coal revenues account for a significant percentage of municipal budgets, reaching 60 percent in Banovići and Kakanj, for example. Local businesses, from small shops to transport providers, will also suffer, as the loss of coal wages could lead to income declines of 30–50 percent. These economic pressures will likely accelerate youth out-migration, as younger generations leave coal-dependent towns in search of better opportunities elsewhere, further weakening the local economy and contributing to regional demographic decline.

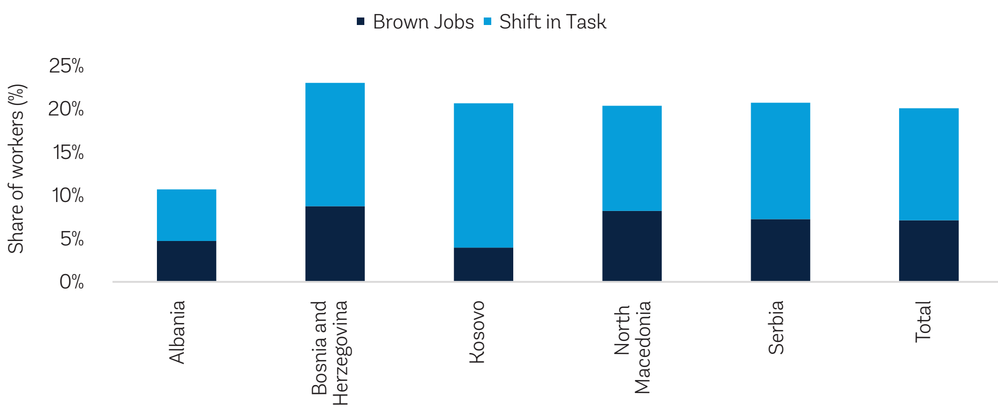
Source: Ferre, Celine; Oruc, Nermin; Pela, Kevwe Sylvester; Ruppert Bulmer, Elizabeth N. 2023. Jobs Diagnostic for Bosnia and Herzegovina – Implications of Coal Transition (English). Jobs Series; Issue No. 31, Washington, DC: World Bank Group.

64 Ferre, Celine; Oruc, Nermin; Pela, Kevwe Sylvester; Ruppert Bulmer, Elizabeth N. 2023. Jobs Diagnostic for Bosnia and Herzegovina – Implications of Coal Transition (English). Jobs Series; Issue No. 31 Washington, DC: World Bank Group

Beyond the immediate impacts of the phasing-out of coal, many more occupations will be at risk due to the green transition, affecting around one in five workers in the Western Balkans. Across Western Balkan countries, about 20 percent of the employed workforce is deemed "at risk" in the short to medium term, which corresponds to about 2.8 million workers (see Box 10.2 for methodology). Jobs "at risk" comprise both jobs in highly polluting industries ("brown jobs") and non-brown jobs that require significant shifts in task content due to the green transition (called "shift in task"). "Brown jobs", in which workers are at risk of displacement and therefore income loss, make up 7 percent of total employment across Western Balkan countries (varying from 4 percent in Kosovo to 9 percent in Bosnia and Herzegovina). However, an additional 13 percent of workers may not lose their jobs in the short run but will require substantial upskilling due to significant shifts in task content (ranging from 6 to 17 percent across countries, the highest share being in Kosovo). For these people, there is a risk of decreasing productivity followed by job loss in the medium term, in the absence of retraining. Compared with other Western Balkan countries, Albania has the lowest overall share, with 11 percent of its workers at risk of displacement, given its economy and energy production structure.[65] Across the region, the mining and quarrying sector, which includes coal mining, and the manufacturing sector, are the most vulnerable to the green transition. In contrast, the services sector faces comparatively lower risks across countries, as does the agriculture, forestry and fisheries sector.[66] In this regard, countries with a higher share of employment in those two sectors, such as Albania, face an overall lower number of workers at risk. Recognizing this variability, Western Balkan labor markets will be broadly affected by the ongoing structural transformation due to the green transition, much beyond the direct job losses of brown industries.

FIGURE 10.2:

Share of jobs "at risk" due to the green transition in total employment, by country



Source: World Bank staff calculations.

Note: Jobs at risk due to the green transition include **"brown jobs"** at risk of displacement identified from the most polluting industries and "non-brown" jobs with a significant shift in task (**"shift in task"**), following O*NET 'Green Economy' classification. See Box 10.2 for detailed definitions and underlying methodology used. World Bank staff calculations based on the methodology of Gukovas, Garrote-Sanchez, Makovec (forthcoming, 2025). Estimates for Montenegro are unavailable due to the lack of 3-digit occupational data.

65 This is due to Albania's energy production structure, which relies on hydropower rather than coal, and a higher proportion of workers in Albania being employed in agriculture, forestry and fisheries, and services, sectors that are typically associated with fewer task shifts, than in other Western Balkan countries, further reducing its labor market's vulnerability to the green transition.

66 This does not suggest that the agriculture, forestry and fisheries sector is not at risk due to environmental degradation or other challenges. However, this is beyond the scope of this analysis.

Box 10.2: Data and methodology: workers in occupations at risk of displacement ("jobs at risk")

In the analysis that follows, **brown jobs** and jobs **with significant shift in task content** are together classified as **"occupations or jobs at risk"** in the short to medium run due to the green transition. Those occupations that are not at risk are classified as safe and referred for clarity as **"occupations not at risk"**. More specifically:

– "**Brown jobs**" are defined as occupations that are much more likely to be in industries that are among the top 5 percent most pollution-intensive industries (in the United States) based on their level of emissions per worker, including CO_2 emissions and GHG emission intensity. These jobs are considered at high risk of direct displacement or reallocation due to ongoing efforts to reduce GHG emissions in the short to medium run.

– **Jobs requiring a significant shift in task conten**t (referred as "**shift in task**") due to new environmental policies, sustainable technologies, and green business practices are identified using the O*NET 'Green Economy' classification. Those jobs are considered at risk in the medium run given the extent of the change in task content, which would require workers to either undergo substantial upskilling or to be displaced and transition to a different job.

Additional methodological details on how those occupations are identified are provided in the Annex. The overall methodology used is based on Gukovas, R. M., Garrote-Sanchez, D., & Makovec, M. (forthcoming). Who's at risk of the Green Transition? An analysis of the Extensive and Intensive Margin across countries in Europe and Central Asia.

The analysis uses the most recent and available microdata of the Labor Force Survey (LFS) for each of the Western Balkan countries, namely Albania 2018, Bosnia and Herzegovina 2023, Kosovo 2022, North Macedonia 2023, and Serbia 2023. Montenegro is not included given lack of 3-digit occupational-level data in the LFS, which is required for this analysis.

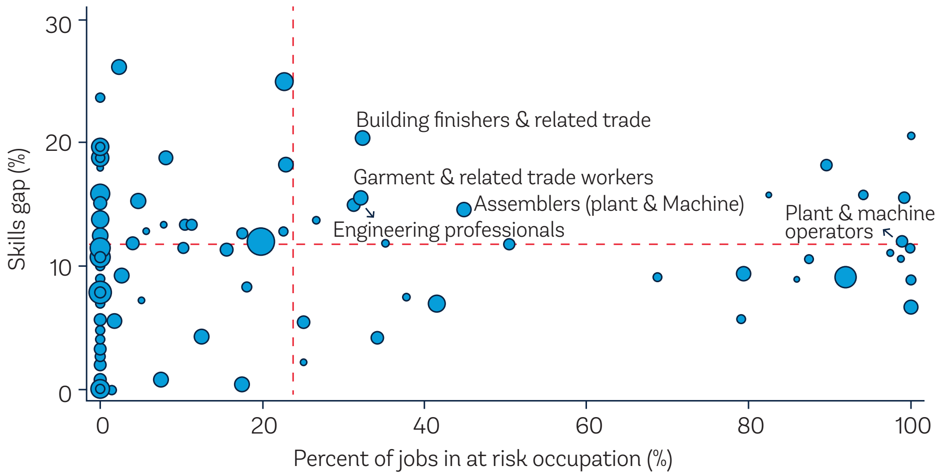
The transition challenge will differ among affected workers, with some experiencing longer and more costly transitions due to larger skills gaps, affecting close to half of the workers in jobs at risk. Among workers in jobs at risk due to the green transition, not all will face difficulty in transitioning to alternative jobs equally. Some will require minimal retraining, while others will face significant skill mismatches, making the transition more difficult. Workers in at-risk occupations who face large skill gaps (the upper quadrant in Figure 10.3) account for 9 percent of all workers.[67] As a result, these workers will endure more costly transitions to new jobs because of substantive skills gaps, although this varies across "brown" and "shift task" occupations (Figure 10.4). While not all workers will necessarily have to undertake these transitions at the same time, this provides a benchmark for the extent of job transitions required in the region. It is noteworthy that retraining needs are not evenly distributed within countries, with certain workforce segments—depending on education level and other demographic factors—facing higher barriers to transition. These barriers are compounded by the lack of employment opportunities for which the skills gap could be reasonably closed in some areas (as in some coal communities, for example Banovići in Bosnia and Herzegovina) offering comparable salaries and working conditions, at times necessitating workers to relocate. Workers' preferences in terms of reservation wage, sector, or mobility can be far from the reality of the local labor market.[68]

67 This is equivalent to roughly 50 percent of workers in at risk occupations. In this analysis, skill gaps are measured with respect to the closest occupation "not at-risk", which would be the occupation with highest share of similar skills required and not affected by the green transition, available in the local labor market. Occupations "not at-risk" are defined in opposition to occupations at-risk. The location of these occupations, or any need for relocation, is not considered. Refer to Box 10.2 and the Annex for complete definition and methodology details.

68 This is documented for coal mine workers in Banovići and Zenica, two municipalities in Bosnia and Herzegovina, through an Employment, Skills and Preferences survey (results publication forthcoming).

FIGURE 10.3:

Dimensions of workers' vulnerability in the green transition: job displacement risk and skills gap challenges to occupations not at risk

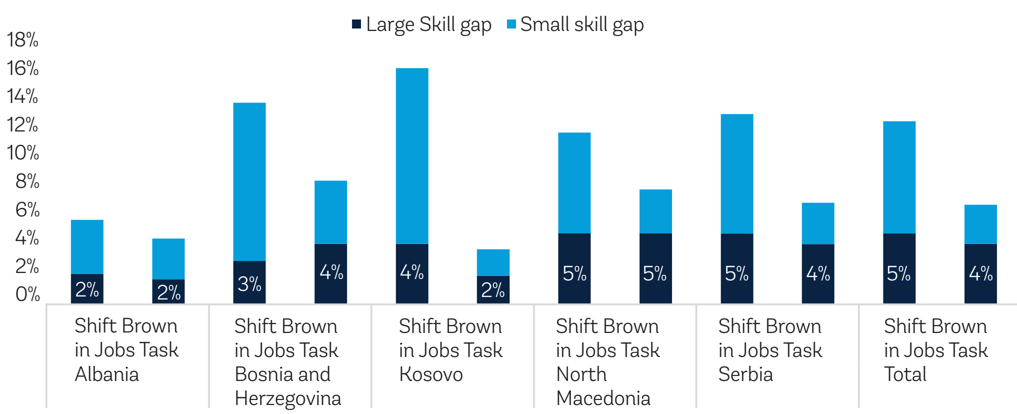


Source: World Bank staff calculations.

Note: On the horizontal axis, "Occupations at risk" correspond to "brown jobs" and jobs which are not brown but are considered to undergo significant shift in their task content ("shift in tasks"). On the vertical axis, "Skills gap" is the share of skills missing when comparing skills required in the current occupation and skills required in the closest occupation not at risk. The skills gap (a continuous variable between 0 and 1) measures the distance between an occupation and the nearest safe occupation. A skills gap equal to or exceeding the median skills gap (≥0.117) is considered large while those less than the median and not equal to zero is considered small. The bubble size represents the size of employment in different occupations across Western Balkans. Authors calculations based on the methodology of Gukovas, Garrote-Sanchez, Makovec (forthcoming, 2025). Estimates for Montenegro are unavailable due to the lack of 3-digit occupational data. Refer to Box 10.2 and Annex for full methodology details.

FIGURE 10.4:

Share of workers in at-risk occupations by skills gaps to occupations not at risk



Source: World Bank staff calculations.

Note: Jobs at risk due to the green transition include **"brown jobs"** at risk of displacement identified from the most polluting occupations and "non-brown" jobs with a significant shift in task ("**shift in task**"), following O*NET 'Green Economy' classification. See Box 10 for detailed definitions and underlying methodology used. Authors calculations based on the methodology of Gukovas, Garrote-Sanchez, Makovec (forthcoming, 2025). Estimates for Montenegro are unavailable due to the lack of 3-digit occupational data. The skills gap (a continuous variable between 0 and 1) measures the distance between an occupation and the nearest safe occupation. A skills gap equal to or exceeding the median skills gap (≥0.117) is considered large while those less than the median and not equal to zero is considered small.

IV. Who is most vulnerable to the green transition?

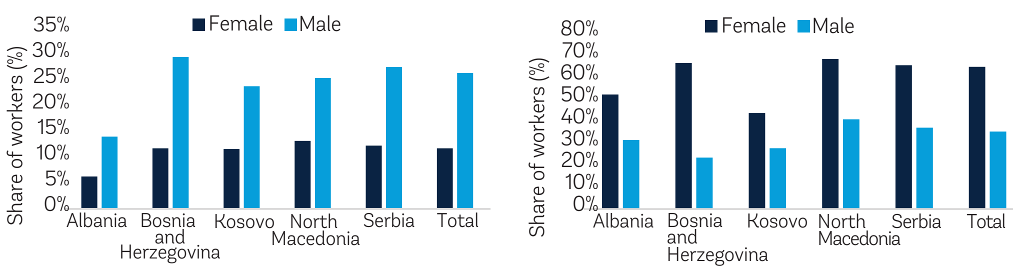
Although male workers are more exposed, with 27 percent of them in jobs at risk, their current jobs equip them with more transferable skills than women, who exhibit larger skills gaps. Overall, male workers are more exposed to the negative effects of green policies than female workers, as they are more prone to work in "brown jobs" such as in heavy or extractive industries or in occupations affected by task transformation. While this varies across countries (from 14 percent in Albania to 30 percent in Bosnia and Herzegovina), men are systematically more at risk (Figure 10.5b). However, among male workers in occupations at risk, fewer tend to have larger skills gaps between their current position and the closest occupation not at risk, making their transitions smoother than those of female workers in occupations at risk (Figure b). In other words, while men are more at risk of having to transition to new jobs, those transitions will be overall smoother for them than for women. While female workers tend to be better educated than male workers, women are often in lower-paying, lower-skilled services sector jobs. This limits their ability to transition to new occupations in the future - especially in industries better positioned for adaptation to green policies, as those later transitions tend to rely more on transferable skills and less on degrees. Underrepresentation in technical and vocational training further exacerbates this mismatch, while societal norms shape career choices, discouraging women from entering STEM fields and technical professions, which are critical pathways to better employment and in particular to green jobs (which are associated with a higher wage premium).[69] As a result, women face greater challenges in transitioning to alternative employment, making their job transitions harder than men.

FIGURE 10.5:

Male workers are more likely to work in jobs at risk, but among workers in jobs at risk, women will endure more difficult job transitions

a. Occupations at risk by gender (% of workers in jobs at risk)

b. Skills gaps by gender (% of workers with large skills gaps, conditional on being in a job at risk)



Source: World Bank staff calculations.

Note: "Occupations at risk" correspond to "brown jobs" and jobs that are not brown but are considered to undergo significant shift in their task content "shift task". "Skills gap" is the share of skills missing when comparing skills required in the current occupation and skills required in the closest occupation not at risk. Refer to Box 10.2 and Annex for full methodology details. World Bank staff calculations are based on the methodology of Gukovas, Garrote-Sanchez, Makovec (forthcoming). Figure 5b focuses only on workers with large skills gaps (a skills gap equal to or exceeding the median skills gap (≥0.117) is considered large, see Annex). Since large and small skills gaps sum to 100 percent, the unreported share corresponds to workers with small skills gaps.

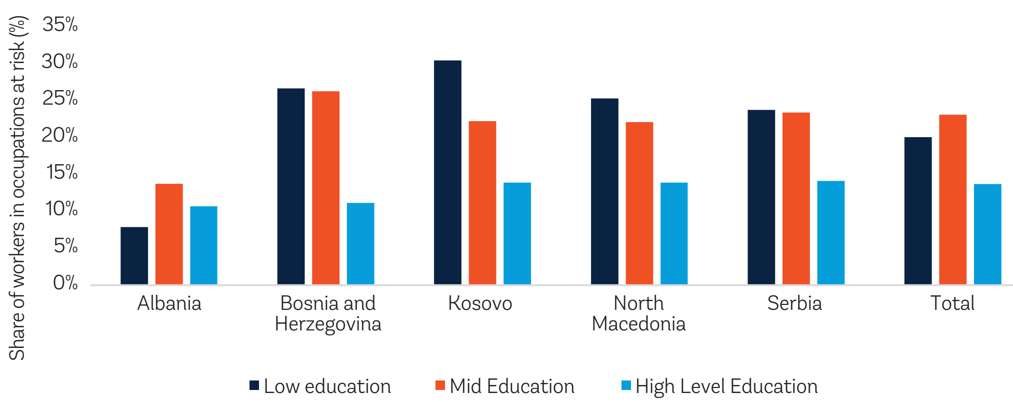
69 IMF (2022). "Transitioning to a Greener Labor Market: Cross-Country Evidence." IMF Working Paper No. 22/146. Washington, DC: International Monetary Fund and European Training Foundation (ETF). 2024. Gender Dimension of Labour Market Transitions: Implications for Activation and Skills Development Policies of the EU Neighbouring Countries. European Training Foundation.

While all age groups are impacted by the green transition, young workers exhibit more severe skills gaps to alternative jobs and green occupations. All age groups are impacted by the green transition in terms of jobs at risk. However, young people tend to exhibit larger skills gaps to alternative safe occupations than older workers, which means larger retraining needs. For example, 50 percent of those aged 15–34 years old have a substantial skills gap, which is 10 percentage points more than among those aged 55–64 years old. Generally, these skills gaps decrease with age. Worryingly, in terms of the transition to green occupations, most younger workers will face large skills gaps, which tend to be lower among older workers, suggesting a mismatch between education and training, and labor market needs, as well as their tendency to carry-out more junior tasks.[70]

Workers with low or medium levels of education work more frequently in occupations at risk. Across the Western Balkans, workers with high levels of education are significantly less likely to see their jobs displaced or experience a significant task change compared with those with low and mid-education levels (Figure 10.6). Albania's economic and energy structure again sets it apart from regional trends where, while facing overall lower levels of risk, mid-educated workers are most vulnerable. High-educated workers in at-risk jobs face smaller skills gaps to transition to safer (not-at-risk) jobs in the region. Considering that in the medium- to long-term green occupations are the safest, then low-educated workers consistently lag with large skills gaps, as those occupations require skills usually associated with higher levels of education (e.g., STEM studies).[71] This poses a critical challenge for countries in the Western Balkans to take advantage of opportunities that will emerge from the green transition, given the region's overall lower levels of human capital development. These gaps in skills among workers also point to the critical role that social protection systems will play in enabling workers to successfully navigate the green transition.

FIGURE 10.6:

Workers with high education level are less at risk than those with lower levels of education



Source: World Bank staff calculations.

Note: "Occupations at risk" correspond to "brown jobs" and jobs that are not brown but are considered to undergo significant shift in their task content. Low level of education corresponds to no education and primary education, mid-education corresponds to secondary education (upper and lower secondary) and high-level corresponds to above secondary education. Refer to Box 10.2 and Annex for full methodology details. World Bank staff calculations are based on the methodology of Gukovas, Garrote-Sanchez, Makovec (forthcoming).[70 71]

70 More specifically, 90 percent of workers aged 15–24 and 88 percent among works aged 25–34 have a large skills gap to green occupations. Importantly, it is somewhat expected that youth recently out of the education system possess more transferable skills. However, this analysis considers the skills composition of the current occupations held by youth, which tend to be more junior in nature.

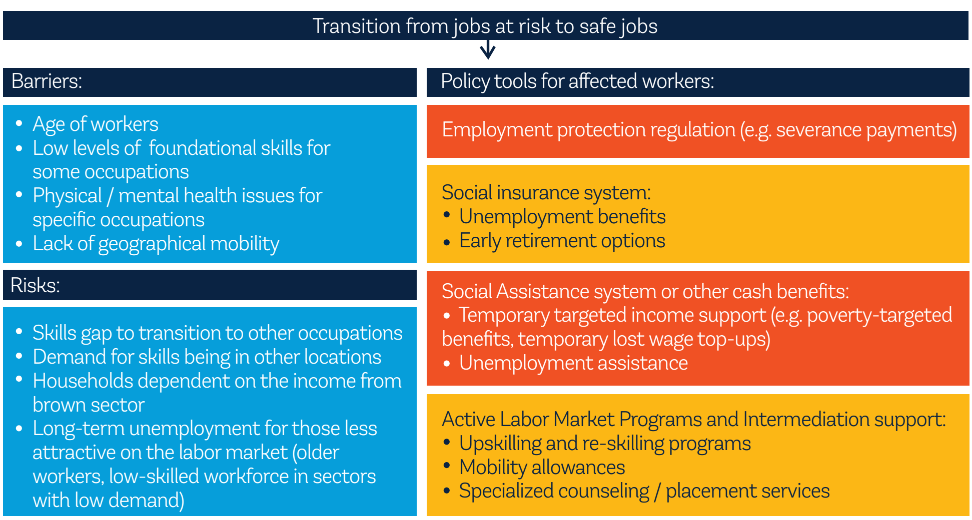
71 Low-educated workers have the largest skills gap to green occupations at 91 percent, compared with 86 percent for mid-educated workers and 62 percent for highly educated workers. While these estimates vary across countries, the overall trend remains consistent across the Western Balkans.

V. Gaps in social protection threaten labor income and job transitions in the Western Balkans

Social protection systems can help workers navigate the impacts of extreme weather and green policies thereby helping to ensure that no one is left behind. As described in Figure 10.7, a range of social protection instruments help workers adapt to changes in the labor market. Most of these instruments are found within the established social protection systems in the Western Balkans, although their reach and effectiveness differ across individual employment situations and countries. Given the current design of these instruments and the funding allocated to them, in the face of employment shocks, there are critical gaps for informal sector workers, new labor market entrants, and those people for whom the loss of labor income pushes them into poverty but who remain ineligible for social assistance, making these groups particularly vulnerable. Beyond these gaps in income support, workers in occupations at risk will require reskilling and upskilling to remain productive and employed. Such training opportunities in the Western Balkans tend to be limited, with low provision and weak links to the private sector. Investments in the Public Employment Services (PESs) are limited and tend to focus on promoting the activation of unemployed vulnerable groups, leaving many other jobseekers with little support. Finally, there is little scope for social protection systems to provide temporary support in the face of weather hazards to prevent people from falling into poverty. These issues are explored in the paragraphs below.

FIGURE 10.7:

Social protection instruments are critical for supporting employment shocks and labor market transitions



Source: World Bank staff

Income support for employment shocks arising from climate hazards or green policies

Labor regulations and unemployment insurance provide income support to displaced workers, although gaps in coverage leave many workers vulnerable. With large-scale retrenchments expected as a result of green policies, severance payments serve as a first layer of protection for displaced workers, with unemployment benefits offering a second layer.[72] These income support measures are particularly important in areas with unfavorable labor markets for jobseekers. All Western Balkan countries mandate severance pay in their labor laws, and all except Kosovo have established unemployment insurance systems. Analysis suggests that these schemes will protect most workers in brown occupations, with estimated coverage rates ranging from 91 percent in North Macedonia to 67 percent in Albania.[73] Workers at risk due to a significant change in task content are somewhat less well covered, with estimated average coverage rates falling from 83 percent among workers in brown jobs to 75 percent among those facing a shift in tasks.[74] Informal employment and the failure to meet eligibility requirements for labor market entrants, such as among youth, further exclude some workers. In all countries, coverage of unemployment benefits is lowest among new market entrants.[75] Notably, despite relatively high overall coverage rates, administrative data reveal a more complex reality, as many registered jobseekers in the Western Balkans receive no unemployment benefits. This is mainly due to high long-term unemployment, which limits eligibility under benefits designed for short-term labor transitions, pointing to the limitations of unemployment benefits for workers at risk who may experience prolonged transitions (see Annex,).[76] For these people, navigating their labor market transition means relaying on savings and informal networks.

While many workers are eligible for income support, analysis suggests that the level and duration of this support is likely insufficient to enable successful employment transitions. Across most countries in the Western Balkans, severance packages tend to offer short-term financial relief, with the severance structures heavily tenure-based (Table 10.1). This means that benefits are inexistant or significantly lower for newer labor market entrants, reducing their financial cushion during employment transitions, as observed during the COVID-19 crisis. While most workers in the Western Balkans are eligible for unemployment insurance, these benefits provide on average moderate to low levels of income replacement[77], and are not necessarily based on workers' previous wages (as in Albania and the Federation of Bosnia and Herzegovina; Figure 10.8). In Montenegro, the average benefit relative to the beneficiary's previous income is the lowest among neighboring countries. Such design parameters mean that households will face a relatively important loss of income when unemployed, especially for households with a single breadwinner.

72 Severance is a one-off payment provided by an employer upon termination of a formal contract (based on tenure and nature of termination), while unemployment benefits provide ongoing financial support for a limited period to eligible unemployed individuals, helping smooth income and enabling them to seek a good job match. Severance payments act as a form of insurance against unexpected job loss, providing relative short-term income stability, and are especially important in the absence of unemployment benefits or when these systems are weak. Unemployment benefits, which are typically funded through payroll tax, aim to mitigate income loss and allow jobseekers to find a better job match, which improves productivity in the long run, and prevent households from falling into poverty.

73 World Bank staff calculations, based on the identification of workers at risk described in the previous section. Access to unemployment benefits during job transitions depends on workers' pension contributions, with eligibility requiring a minimum contribution period. Assumptions used for the analysis are presented in Annex.

74 In some countries, workers at risk and facing a large skills gap are even less well protected, with only 52 percent of these workers in Albania eligible for unemployment benefits.

75 An average of 10 months of continuous contributions in the region is required to initiate eligibility for unemployment benefits.

76 In North Macedonia, for example, only between 4 and 6 percent of all registered jobseekers receive the benefit per month. In Serbia, unemployment benefits are claimed by only 6 percent of the registered unemployed. Source: administrative data from respective Public Employment Services.

77 In the Federation of Bosnia and Herzegovina, at the lower levels of the salary distribution, the replacement rate is relatively high, but this rate is moderate (and further decreasing) for those at average wage and above.

TABLE 10.1:

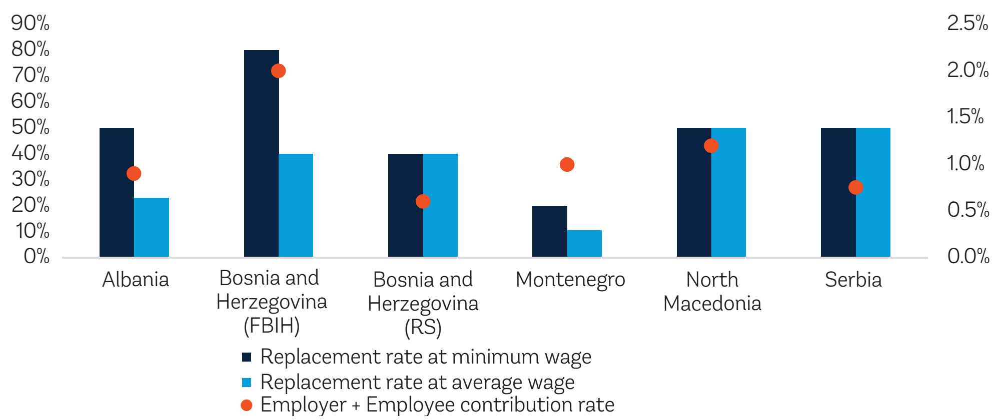
Severance payments offer some short-term financial relief

Country	Severance pay for redundancy dismissal (in weeks of salary)			
	For a worker with 1 year of tenure	For a worker with 5 years of tenure	For a worker with 10 years of tenure	Average for workers with 1, 5, and 10 years of tenure
Western Balkans				
Albania	0	10.7	21.4	10.7
Bosnia and Herzegovina	0	7.2	14.4	7.2
Kosovo	0	8.7	13	7.2
Montenegro	1.3	6.5	13	6.9
North Macedonia	4.3	10.8	15.2	10.1
Serbia	1.4	7.2	14.4	7.7
Selected EU countries				
Bulgaria	4.3	4.3	4.3	4.3
Croatia	0	7.2	14.4	7.2
Czech Republic	8.7	13	13	11.6
Greece	8.7	13	26	15.9
Hungary	0	8.7	13	7.2
Poland	4.3	8.7	13	8.7
Portugal	1.7	8.6	17.1	9.1
Romania	0	0	0	0
Slovenia	0.9	4.3	10.8	5.3
Spain	2.9	14.3	28.6	15.2

Source: World Bank, Employing Workers database, 2020.[78]

FIGURE 10.8:

Equivalent replacement rates and contribution rates for unemployment insurance benefits



Source: World Bank staff calculations based on parameters identified in Annex, based on the following data sources: For minimum wage and average wage (excluding FBIH and RS): SEE Jobs Gateway Database. Minimum wage and average wage (FBIH & RS), as well as Employer + Employee contribution rate: Agency for Statistics of Bosnia and Herzegovina; World Bank (2024).[79]

Note: Equivalent replacement rates are computed as the percentage of earnings at minimum wage (blue) or at average net wage (orange) that is replaced by unemployment benefits after job loss. Those two cases serve as benchmarks for the real wage replacement

78 World Bank. (2020). Employing Workers Dataset. World Bank Group. Accessed March 7, 2025. https://www.worldbank.org/en/research/employing-workers/data. The table does not reflect any policy changes introduced after 2020.

79 World Bank (2024). Western Balkans Labor Market Brief 2022. Vienna Institute for International Economic Studies (wiiw) & World Bank. https://data.wiiw.ac.at/seejobsgateway.html.

rate that a worker would face.

For older workers, early retirement is no longer an option when faced with unemployment, as fiscal pressure is gradually preventing the use of early transition windows to the region's pension systems. An estimated 19 percent of all workers who are in occupations at risk and face a large skills gap to safe occupations are aged 55 to 64 years—an age group that is often more likely to experience unemployment than younger groups in the Western Balkans and for whom the cost of retraining may offer limited returns. While pension programs could potentially facilitate workforce transitions through early retirement options for displaced older workers with few employment prospects, their long-term sustainability faces mounting pressure due to demographic shifts. Beyond structural adjustments to their pension schemes in response to these issues, all countries are starting to integrate into their models the need for productive aging, in other words, maintaining people longer in the labor market and supporting their productivity as they age. Legislation that phases out early retirement windows is one signal of this direction with, for example, North Macedonia having abolished general early retirement, and Bosnia and Herzegovina and Montenegro gradually phasing out early retirement windows.[80]

Social assistance in the Western Balkan countries offers little, if any, temporary support, in response to job or income losses, given their strict eligibility criteria and limited funding. The share of social assistance funding going to the poorest families is much lower across the Western Balkans than in the rest of the Europe and Central Asia region. This is due to minimal spending on last-resort income support (LRIS) programs and a large share of social assistance spending being allocated to war veterans and their families, and people with disabilities, among other categorical groups.[81] As a result of these factors, people who fall into poverty but are able to work are often excluded from social assistance, with variation across countries. In Kosovo, for example, the presence of children, caregiving and dependency of family members, and an inability to work are eligibility criteria for the LRIS, although reforms are underway to remove these disincentives to work. In both entities of Bosnia and Herzegovina, to be eligible for the LRIS, a household must have no members who are able to work. In contrast, extremely poor households with adults who can work are eligible for support in Albania and North Macedonia.[82] Thus, although temporary social assistance is likely needed to support people who lose labor income and are not eligible for unemployment benefits from falling deeper into poverty, such support is currently not forthcoming.

Reskilling and upskilling, ALMPs and employment services to enable transitions to new employment

Public Employment Services in the Western Balkans are not equipped to support affected workers through the challenges ahead. While demands on employment services are large, low funding and limited capacity constrain the reach and effectiveness of employment services and programs[83] in the Western Balkans. While the EU invests an average of 1.19 percent of GDP in labor market programs, spending in the region is significantly lower, with Montenegro allocating 0.5 percent, Bosnia and Herzegovina allocating 0.4 percent (average

80 In all countries, the early retirement, proportional to the service period, remains available for hazardous and arduous occupations. Review of the hazardous occupations and analyzing reform options to better integrate hazardous and non-hazardous service periods in underway in North Macedonia.

81 Brodmann, S., Coll-Black S., and von Lenthe, C. 2023. Advancing Social Protection in the Western Balkans: Opportunities for Reform. Washington, DC: World Bank.

82 Provided that these households are assessed as being eligible based on the proxy means test in Albania and means test in North Macedonia.

83 Employment services refer to the range of services and resources that are available to both employers and job seekers to facilitate the matching of workers to available jobs. Some examples of labor market services include job placement, matching, career counseling.

between Federation of Bosnia and Herzegovina and Republika Srpska), North Macedonia 0.4 percent, Serbia 0.3 percent, Kosovo 0.1 percent, and Albania below 0.1 percent.[84] This affects the ability of PESs to deliver quality employment services to jobseekers. Even as retrenchments start to affect brown industries, PESs in the Western Balkans already face high caseloads, ranging from 816 in Serbia to 2,184 in Kosovo (as at 2020), well above the ILO recommended caseload of 100. While some countries are moving toward allowing private sector involvement in service provision, outsourcing remains absent in some and either ineffective or delayed in others.

The scale of active labor market programs (ALMPs) is limited, and their menu of programs is not geared toward addressing the effects of weather-related hazards and green policies on workers. Spending on ALMPs is consistently less than half of labor market spending, with larger shares dedicated to passive support (such as unemployment benefits), aapart from Republika Srpska.[85] This results in small programs and a limited range of options, with subsidized training and retraining opportunities underrepresented. Wage subsidy programs, which are over-represented among ALMPs, target specific groups of jobseekers but do not target sectors or occupations that could be better aligned with new sectorial trends emerging from the green transition. Critically, the effectiveness of ALMPs is significantly hindered by the lack of robust connections to employers and their labor market needs.

Without access to market-relevant retraining opportunities, workers will struggle to transition to new occupations or stay productive in their changing jobs; however, training options are limited. Retraining and continuous skills development opportunities in the Western Balkans are fragmented, available through various channels: (i) ALMPs offered by PESs that are typically subsidized and targeted at specific unemployed groups; (ii) private training providers; and (iii) workplace-based training for current employees. However, the provision of training across these three channels is low and underfunded. First, as discussed above, the public provision for and budget allocated to such upskilling and reskilling through the PESs is limited, with simple wage subsidies or wage subsidies for on-the-job training preferred. The private market for training provision, which could serve both current workers (firm externally conducted training) and unemployed (through PES outsourcing arrangements) is underdeveloped and mostly concentrated in economic hubs. Finally, firms in the Western Balkans invest little in training their workforce, prioritizing immediate labor needs over long-term investment in workforce skills and prioritizing on-the-job training that relies heavily on internal capacity rather than dedicated internal or external trainers. Low retention rates[86] in employer-led training further discourage firms from investing in workforce development due to concerns about poaching and high turnover, a challenge worsened by the proximity to hiring markets in EU countries. Beyond the weak provision overall, the procurement and monitoring systems are not in place for PESs to adequately leverage private provision of training. In addition, while some countries have a rather structured public training system around Technical and Vocational Educational and Training (TVET) and Vocational Education and Training (VET) systems (e.g., Albania), in others, such as Bosnia and Herzegovina, the public training sector is weak. Publicly led training generally struggles with curriculum

84 This includes active and passive labor market programs as well as employment services. Brodmann, S., Coll-Black S., and von Lenthe, C. 2023. Advancing Social Protection in the Western Balkans: Opportunities for Reform. Washington, DC: World Bank.

85 In 2018 in Republika Srpska, the share is close to half.

86 In Kosovo, for instance, only 26 percent of trainees remain with their employer post-training (Millan et al., 2023) – Millan, Natalia; Anusic, Zoran; Koettl-Brodmann, Stefanie; Coll-Black, Sarah; Rigolini, Iamele P.; Von Lenthe, Cornelius Claus. 2023. Western Balkans Social Protection Situational Analyses: Kosovo. Washington, DC: World Bank Group.

misalignment and a lack of structured employer partnerships, a challenge shared with TVET.[87] As a result, without co-financing mechanisms, tax relief, or structured incentives, employer-led training in the region is likely to remain fragmented, ad hoc, and insufficient to address long-term labor market demands.

Protecting people from the negative effects of climate hazards on incomes and assets

Social protection programs are unable to respond when climate shocks damage people's assets or lower their income and consumption, beyond the provision of modest one-off support in some areas. While weather hazards can disrupt employment in vulnerable sectors, such as tourism, or when extreme weather events occur, such as flooding, for many other people, these impacts will be in the form of lost assets, constrained access to services and, for some, higher prices. Such impacts have the potential to drive people into poverty without temporary social protection support. Currently, however, social protection systems in the region are unable to flexibly respond to such emerging needs, as described in the paragraphs above. The notable exception is the one-off financial assistance (OFA) programs in Kosovo, North Macedonia, Bosnia and Herzegovina, and Serbia which, while designed to respond to household-level idiosyncratic shocks, have been deployed during weather-related disasters, such as floods.[88] Countries have also taken steps to expand the reach of their programs for energy vulnerable consumers, which provide targeted assistance to help households to pay their energy or electricity bills during the winter months.[89] North Macedonia is the only country that has established the legal basis to expand its national poverty-targeted social assistance program to additional poor households affected by natural disasters. Building flexibility into social assistance programs addresses the constraints witnessed during the COVID-19 pandemic, when social assistance programs could not assist poor individuals who had lost income but did not fit the categorical eligibility criteria.[90]

Investments in digital delivery systems provide a foundation for building such shock-response capacities. The social protection programs in all countries are embedded in strong institutions, with dedicated front-line staff, and are underpinned by digital information systems. However, levels of interoperability of these digital systems between programs and with other government ministries vary. Where these systems are advanced, as in North Macedonia, interoperability has enhanced application and verification processes, providing a foundation to rapidly enroll new beneficiaries affected by extreme weather shocks. Experience from the COVID-19 pandemic response in Albania and Montenegro points to how existing social assistance beneficiary registries could be leveraged to rapidly identify poor households for support, especially if linkages with early warning systems were established to inform an early response. However, this aim would need to be embedded into program design, as set out in legislation, backed by sufficient funding, and an alignment of social protection and disaster risk management policies.

Overall, social protection systems in the Western Balkans could be much better harnessed to protect households from

87 Across the six countries, employers frequently report dissatisfaction with vocational graduates' job readiness, citing outdated curricula and insufficient work-based learning opportunities. See Special Topic in World Bank. 2020. Western Balkans: Labor Market Trends 2020. Washington, DC: World Bank Group.

88 Social services, which are generally underdeveloped in the region, are envisioned to provide lifesaving support to disaster-affected households in North Macedonia and Serbia (such as shelter for displaced populations).

89 These initiatives have largely been in response to increases in energy prices arising from climate policies or Russia's invasion of Ukraine. However, they offer an example of how these programs could be used to response to colder, longer winters or hotter summers.

90 See, for example: Brodmann, S., Coll-Black S., and von Lenthe, C. 2023. Advancing Social Protection in the Western Balkans: Opportunities for Reform. Washington, DC: World Bank.

weather-related shocks. Figure 10.9 presents an assessment of the capacity of the social protection systems in the Western Balkans to respond to climate shocks along four pillars: (i) programs and delivery systems; (ii) data and information; (iii) financing; and (iv) institutional arrangements. Based on this assessment, Western Balkan countries are rated as 'emerging' or 'established' in their readiness and ability to utilize their social protection systems in response to shock.

FIGURE 10.9:

Assessment of the readiness of social protection systems in the Western Balkans to scale-up

	Programs and delivery systems	Data and information	Institutional arrangements	Financing
Albania	Established	Established	Emerging	Nascent
Bosnia and Herzegovina	Emerging	Emerging	Emerging	Nascent
Kosovo	Emerging	Emerging	Nascent	Nascent
Montenegro	Established	Established	Emerging	Nascent
North Macedonia	Established	Established	Established	Emerging
Serbia	Established	Established	Established	Established

Source: Fitzgibbon C., Coll-Black, S. 2023. Findings of the World Bank Stress Test in the Western Balkans Draft. Washington, DC: World Bank.

Note: For each of the four pillars (programs and delivery systems, data and information, financing, and institutional arrangements), a set of questions was qualitatively assessed using existing studies, research, and consultation to devise a rating from one and five, indicating progress from latent to advanced, based on the methodology detailed in: World Bank. 2021. Stress Testing Social Protection: A Rapid Appraisal of the Adaptability of Social Protection Systems and Their Readiness to Scale Up – A Guide for Practitioners. Washington, DC: World Bank Group.

VI. Moving Forward: Creating Resilient and Inclusive Social Protection Systems

Workers are affected by both weather hazards and green policies, requiring support and protection to navigate those challenges, to sustain gains in poverty reduction and economic growth in the region. Both climate hazards and green policies will increase the likelihood of job loss, with acute risks in specific sectors and localized areas, either due to their inherent exposure to climate hazards or the nature of their economic activities (e.g., coal extraction). While labor markets in the Western Balkans are mostly formal, gaps in the protection offered by social protection policies put workers and their families at risk of poverty and long-term unemployment. Beyond the immediate response to these employment shocks, forward-looking interventions are required to enable workers and unemployed people to reskill to take on different jobs or upgrade their existing skills to respond to the changes in demand for skills induced by green policies. These investments will ensure no one is left behind in the green transition, while enabling firms to seize new opportunities by promoting labor mobility, and keeping workers aligned with evolving demand and job requirements. While training for the stock of workers is needed, adequate training for the future workforce is required too. This will ultimately require investments in the educational curricula of schools and teachers, as well as the development of the research and development capacities of universities to take advantage of the opportunities of the green transition. These efforts will require strong coordination with the private sector to ensure market needs are taken into account. While recognizing the need to invest in the future workforce, the paragraphs below, as summarized in Table 10.2, focus on protecting and retraining the existing workforce, given their risk of heightened unemployment. To this end, this section considers measures that policy makers in the Western Balkans could consider so that no one is left behind.

TABLE 10.2:

Policy recommendations

Policy recommendation	Responsible institution
Reform training systems and ALMPs to prepare workers with skills needed for the green transition	
Invest in larger-scale upskilling and reskilling programs including by reforming their financing and design to expand opportunities for lifelong learning, including on-the-job.	Ministries of Labor, Public Employment Services, with Ministries of Economy
Invest in labor-market responsive training for workers and unemployed (curricula, instructors, infrastructure, equipment, firm incentives).	Ministries of Labor, Public Employment Services, Private Sector Associations
Establish solid Labor Market Information Systems to identify on a regular basis change in skills demand and new occupations associated with the greening of the labor market.	Ministries of Economy and/or Ministries of Labor, coordination with multiple institutions including Statistical Agencies
Strengthen the labor protection system, balancing the need for flexibility to allow firms to adapt	
Strengthen labor income protection systems, including for informal workers, to respond to a likely increase in employment shocks.	Ministries of Labor, Ministries of Social Protection
Consider targeted labor mobility schemes for retrenched workers in communities highly affected by industry shutdowns.	Ministries of Labor
Enhance flexibility of social protection systems to better protect people from weather-related shocks	
Modify social protection legislation to allow programs to respond to shocks, aligning with disaster risk management and environmental legislation.	Ministries of Social Protection, municipalities
Put in place social protection delivery systems that can rapidly expand to reach new people.	Ministries of Social Protection, municipalities where relevant
Establish disaster risk financing instruments that will fund the expansion of social protection systems when shocks occur.	Ministries of Finance, Ministries of Social Protection

Reform training systems and ALMPs to prepare workers with skills needed for those jobs that are not at risk from green transition

Invest in larger-scale upskilling and reskilling programs, including by reforming their financing and design to expand opportunities for lifelong learning, including on-the-job training. Ensuring that workers can successfully transition into safe, sustainable jobs requires a coordinated approach to financing and delivering reskilling programs at scale.[91] Based on the analysis of jobs at risk and the current costs of locally provided training, estimates suggest that retraining workers in at risk occupations with significant skill gaps would range from US$122.7 to US$173.7 million in Albania to US$2.69 to US$3.81 billion in Serbia.[92] Moving to green jobs, which can serve as an upper bound, is estimated to be on average three times more costly. Without co-financing mechanisms, tax relief, or structured incentives, employer-led training will continue to be *ad hoc* and short term. As labor markets shift due to green policies and automation, governments would need to establish sustainable funding models that incentivize private sector engagement while ensuring that workers have access to affordable, flexible training pathways. A key policy is to establish funds co-financed by governments, employers, and international partners to subsidize training costs, particularly for

91 The design and financing of these programs should recognize the high rates of emigration in the region, and thus could consider global skills partnerships and other innovations, as well as careful consideration of these aspects when designing incentives for firm-driven training investments, as detailed in the Fall 2024 Regional Economic Report.

92 The estimation focuses on workers in at-risk occupations with significant skills gaps. Montenegro was excluded from the analysis due to data limitations in assessing workers in at-risk occupations. Unit costs are assumed uniform across countries and based on local retraining / upskilling costs collected in 2024 in Bosnia and Herzegovina. The cost range is based on the duration of training.

workers in high-risk sectors such as coal, heavy industry, and traditional manufacturing, ideally with scope to offer training before workers are dismissed. Funding to support such investments towards a just transition is expected from the EU Growth Plan.[93] Tax incentives, wage subsidies, and public-private partnerships in the training sector can further encourage growth of this private market, and incentivize firms to invest in long-term workforce development, shifting the focus from short-term skills acquisition toward sustainable employment transitions. PESs also have a role to play in expanding the scale of retraining programs and their reach to a broader range of vulnerable groups, such as current workers facing significant task changes. The German PES in Bremen, for example, finances the upskilling and reskilling of ArcelorMittal's workers given changes in steel production, which have arisen due to decarbonization policies and the transition to green steel. Given the cost of retraining, structured financing mechanisms should ensure that workers, especially those in occupations or sectors already identified at risk, have access to retraining/upskilling programs and industry-driven certification programs. However, training cannot be a one-time intervention.

To reach the quality of retraining programs and ALMPs needed, invest in the conditions needed for labor-market responsive training. In addition to their limited scale and reach, public training provision across countries in the Western Balkans fails to meet private sector demands due to its misalignment with labor market needs. For current workers, VET systems provide opportunities that are limited in scale compared with needs and are missing links to PESs to be efficiently used to retrain displaced workers. In addition, training programs tend neither to be informed by labor market trends, nor designed in accordance with private sector needs. The same holds true for other ALMPs. Governments should expand employer engagement in curriculum design, ensuring that these programs integrate green skills and digital competencies. As industries evolve, workers need lifelong learning opportunities to adapt to new technologies, environmental regulations, and changing job demands. This requires integrating modular approaches and certifications, enabling workers to upskill progressively over time. Earlier investments in reskilling would also strengthen the demand for and supply of late-career labor, increasing employment opportunities for older workers. Critically, these shortcomings are also visible in the TVET system, where, without coordinated public-private efforts, TVET institutions will continue to struggle with outdated curricula, weak employer linkages, and low participation in workplace-based learning programs.

Invest in solid Labor Market Information Systems (LMISs) to identify changes in skill demand and emergence of new occupations associated with the greening of the labor market. Investing in LMISs is crucial for understanding and addressing the dynamics of both labor supply and demand. Frequent labor market tracking provides insights into employment trends, sectoral shifts, geographical mismatches, and emerging skills demands. This enables the design of targeted training programs or curricula realignments in the education sector, including for the needs of the green economy, as well as the design of targeted interventions (e.g., mobility incentives). However, the availability of accurate, comprehensive, and up-to-date data, is a pre-condition for LMISs. For that, governments should invest in underlying information systems in respective relevant institutions, promote coordination and data-sharing across institutions generating relevant data, and build internal capacity for analytics generation and dissemination.

93 See for example: https://enlargement.ec.europa.eu/news/commission-approves-reform-agendas-albania-kosovo-montenegro-north-macedonia-and-serbia-paving-way-2024-10-23_en

Strengthen the labor protection system, while balancing the need for flexibility to allow firms to adapt

Strengthen labor income protection systems, including for informal workers, to respond to a likely increase in job-related shocks. While analysis suggests that many displaced workers in the Western Balkans are likely eligible for unemployment benefits, the extent to which they support successful labor market transitions is unclear. A thorough review, including contribution rates, replacement rates, conditions and processes to open rights, as well as their duration, is warranted across all countries, taking into consideration the need to allow firms to adapt flexibly to economic challenges while also protecting workers. Gaps in unemployment benefits and social assistance leave informal workers, new market entrants, and workers who fall into poverty due to job loss, particularly vulnerable. Countries across the globe are introducing innovations to extend the coverage of income support instruments (whether social insurance or alternative non-contributory instruments) for low-income workers, who tend to be informal. Examples include the establishment of dedicated financial products, including individual savings accounts, accompanied, at times, by matching grants from governments and behavioral nudges, such as through automatic reminders.[94] While these innovations are often dedicated to expanding pension access, they may offer ideas for extending the coverage of unemployment insurance in the Western Balkans. Australia's scalable, means-tested unemployment protection system also offers insights: providing non-contributory income support based on financial need rather than employment history, it has proven effective in maintaining inclusivity and economic stability. In addition, there may be a need to selectively consider targeted labor mobility schemes for workers who are faced with few employment opportunities in the local labor market when industries shutter, such as older workers in the coal mine communities described in Box 10.1 , to assist them to relocate to other areas within their countries.

Enhance the flexibility of the social protection system to better protect people from weather shocks

Modify legislation to allow social protection programs to expand coverage to additional vulnerable people in response to natural disasters. Despite ongoing reforms, social protection systems are currently unable to respond flexibly to extreme weather events, beyond modest payments through OFA and increasing payments to existing beneficiaries in some countries. The ability to expand horizontally to new beneficiaries quickly through social protection programs requires that legislation be modified, setting out transparent eligibility criteria and the grounds upon which such temporary support would be triggered. Such support should be carefully targeted to affected populations, specifically people who are poor and vulnerable, with no access to insurance or other support. Given that extreme weather shocks in the Western Balkans are often localized, in addition to building the legal framework to allow national programs to respond to shocks, governments should establish localized response modalities. The OFAs, which exist in all countries except Albania, and have been used to respond to local shocks in some cases, could be modernized to achieve this objective. This would require the establishment of operational procedures for OFA to provide both one-off and recurrent payments, as needed, the use of established delivery systems (see below) and robust monitoring. Aligning these policy objectives with disaster risk management would provide the basis for intersectoral coordination and action. In addition, a better understanding of the individual and household impacts of weather hazards is needed to inform the design of any temporary expansions of social protection programs to better ensure that it is targeted to the people most in need of such support.

94 See, for example, Bosh, M., et al. 2019. How to promote retirement savings for low-income and independent workers: the cases of Chile, Colombia, Mexico and Peru. IDB Technical Note, 1777. Inter-American Development Bank.

Put in place social protection delivery systems that can rapidly expand to reach new beneficiaries. To be effective, reforms to the social protection legislative framework need to be complemented with investments in delivery systems to enable the quick identification of people in need of support, their enrolment and payment, supported by robust complaints and grievance mechanisms. This includes: (i) investments in the interoperability of social protection information systems with other government databases to allow for rapid identification of eligibility; (ii) investments in integrated social registries, where appropriate; and (iii) the establishment of standard operating procedures to ensure system capacity during disasters, supported by capacity building and staff training. All six countries have put in place digital systems to support the delivery of their social assistance programs, which provide the basis for further investments to support the rapid identification and enrollment of people in need of support when a disaster strikes. For example, in Ukraine, during the COVID-19 pandemic, unemployment benefits could be applied for through the Diya app, which was widely used.[95] In 2022, when severe flooding affected Pakistan, investments in the delivery systems of the Benazir Income Support Program (BISP), the national cash transfer program, allowed the government to provide a one-time payment to 1.76 million poor households in flood affected areas. The data from the National Socio-economic Registry, through which BISP identifies households eligible for support, together with flood exposure maps, identified areas where families most vulnerable to the floods were concentrated, helping channel scare resources.[96]

Finally, dedicated financing is required both for these systems investments but, more critically, to quickly fund the expansion of the social protection system when shocks occur. The economic benefits of targeted, temporary social protection support are greater when provided early to affected people, even before the climate hazard has occurred.[97] For this, funding needs to be arranged in advance, such that it can be rapidly deployed when needed. Given the limited recognition of the role of social protection in disaster response, there have been no efforts to model the disaster risk financing requirements for a social protection response to any climate event in the region.[98] Such analysis would be required to determine the amount that should be allocated to fund the expansion of social protection programs, within a national disaster risk financing strategy. There could be scope to employ revenue recycling from carbon prices to limit the additional fiscal burden that this would entail.[99]

VII. Conclusion

The Western Balkans stands at a critical juncture, with an urgent need to reform its social protection systems for the challenges ahead. As extreme weather intensifies and the global transition to a low-carbon economy accelerates, the region must confront structural vulnerabilities in its labor markets while seizing opportunities for sustainable economic transformation. Rising temperatures, extreme weather events, and sectoral shifts—particularly in energy, agriculture, and tourism—are already disrupting employment patterns, exacerbating existing labor market fragilities, and deepening economic disparities. Without urgent reforms to and investments in social protection

95 By the end of 2021, 12 million individuals or around a quarter of Ukraine's population used Diya, which is a smartphone application. See: Coll-Black, Sarah; Von Lenthe, Cornelius; Brodmann, Stefanie; Shaw, William; Sandford, Judith; Gonzalez, Alejandro; Rigolini, Jamele. 2023. Social Protection in a World of Crisis: Learning from the Response to the COVID-19 Pandemic in Eastern Europe and the South Caucasus. Social Protection and Jobs Discussion Papers; No. 2304, June 2023. Washington, DC: World Bank

96 These delivery systems include the National Socio-economic Registry through which BISP identifies household eligible for support. Guven M. Z Fnu, GN Jamy. The Evolution of Benazir Income Support Programme's Delivery Systems: Leveraging Digital Technology for Adaptive Social Protection in Pakistan (English). Washington, D.C.: World Bank Group.

97 See, for example, the discussion of early action in World Bank. 2024. Rising to the Challenge: Success Stories and Strategies for Achieving Climate Adaptation and Resilience. World Bank.

98 For a discussion of disaster risk financing, see World Bank Group. 2014. Financial Protection Against Natural Disasters: An Operational Framework for Disaster Risk Financing and Insurance. Washington, DC.

99 Western Balkans 6 – Country Climate Development Report.

systems in the Western Balkans, these trends will further destabilize livelihoods, increase unemployment, and widen socioeconomic inequalities, disproportionately affecting vulnerable workers in sectors sensitive to extreme weather events and those that are carbon-intensive, and in areas that are already faced with multiple forms of deprivation. The urgency of these reforms cannot be overstated. Delayed action will lead to deeper economic and social fractures, risking widespread job displacement, rural-urban migration pressures, and long-term productivity losses. Conversely, proactive policies can position the Western Balkans as a leader in environmental-conscious economic transformation, attracting investment, fostering innovation, and ensuring that no worker or community is left behind.

Annex I: Methodology Employed in Estimating Jobs at Risk, Skills Gaps and Transitions

This annex elaborates the methodology described in Box 10.2, as follows:

Brown jobs are identified in two steps, following Vona et al. (2018) and using employment data from the United States. Industries (at the four-digit NAICS-level) are first ranked based on their pollution-intensity, measured as emissions per worker, for at least three pollutants, including CO_2 emissions and criteria air pollutants regulated by Environmental Protection Agency (i.e., CO, VOC, NOx, SO_2, PM10, PM2.5 and lead). Once ranked, the top 5 percent industries are selected, with leads to **62 industries identified as "brown" or having the highest pollution intensity**. These industries tend to employ workers in fields such as manufacturing, mining, quarrying, and oil and gas extraction, construction and extraction, installation and maintenance, production, and transportation. In a second step, and because some occupations in those industries may not be that much at risk (e.g., managerial types of positions), brown jobs are identified as those most prevalent among those polluting industries compared with other industries of the United States economy (by selecting occupations with a probability of being conducted in polluting sectors seven times higher than in any other occupation). In transposing this methodology to the Labor Force Survey data in the Western Balkans, the occupation level data are aggregated from US SOC at the 8-digit level to ISCO at the 4-digit level, creating a composite indicator of how likely an occupation is brown (ranging from 0 to 1) in the ISCO 3-digit classification used in Europe. Occupation exceeding the median intensity threshold for at risk occupations (≥0.293) are classified as brown jobs. This threshold is based on a continuous variable estimating the share of jobs within each occupation that are either brown or will require significant task transformation due to the green transition. To account for potential overlap between brown and transitioning jobs, a retraining share is calculated as the average of an upper bound (assuming no overlap) and a lower bound (assuming full overlap). The median of this retraining share variable, excluding zero values, is 0.239.

Jobs requiring a significant shift in task content (referred as "**shift in task**") are identified using the O*NET 'Green Economy' classification, category 3 corresponding to occupations expected to undergo significant changes in task content as a result of new environmental policies, sustainable technologies, and green business practices. These occupations are not in specific industries; rather, they are determined at the occupation level, based on expected skill and task changes. Those occupations are expected to remain in demand but will require upskilling and retraining to match new requirements in the short to medium term. Similar to brown jobs, a threshold of 0.239 is applied to identify occupations that will require substantial change in task content.

Skills gaps are a continuous variable (between 0 and 1) representing the gap between a given occupation and the closest occupation considered safe (occupation not at risk). If the gap is greater than the median skills gap (i.e., ≥0.117) it is considered a substantial skills gap. The closest occupation is computed using Jaccard Similarity Index (JSI), which measures the skill similarity between every pair of occupations. Then the skills gap is calculated as the share of skills in the closest occupation that are not in use in the occupation of origin. The skills composition of the occupation is based on O*NET on includes attributes of knowledge, skills and abilities. This measure represents the cost of transitioning workers to new jobs.

Finally, "**green jobs**" are defined based on the O*NET 'Green Economy' program classification, where the "greenness" of an occupation is determined by the extent to which its tasks and skills align with environmentally sustainable activities. Based on methodology by Gukovas, Garrote-Sanchez, Makovec (forthcoming) an occupation is considered green if it has a greenness score greater than 0.04 (median value of greenness across all occupations). Green occupations are a subset of occupations not at risk.

The analysis uses the most recent and available microdata of the Labor Force Survey (LFS) for each of the Western Balkan countries, namely Albania 2018, Bosnia and Herzegovina 2023, Kosovo 2022, North Macedonia 2023, and Serbia 2023. Montenegro is not included given a lack of occupational-level data in the LFS, which are required for this analysis.

Annex II

The assumptions detailed in Table 10.1 below are used to simulate unemployment benefits for Albania, Bosnia and Herzegovina, Serbia, and North Macedonia. Estimates for Montenegro are unavailable due to the lack of three-digit occupational data, preventing the estimation of the share of people at risk from the transition and, consequently, the unemployment benefit cost. In the case of Kosovo, there is no formal Unemployment Insurance (UI) or Unemployment Assistance (UA) program, meaning individuals who lose their jobs do not receive specific unemployment benefits.

	Albania	**Bosnia and Herzegovina**	**North Macedonia**	**Serbia**	**Montenegro**
Minimum required contribution period (months)	12	8 in FBiH, 12 in RS, 12 in Brcko	9	12	
Min. and max. benefit amount	Flat rate 12,000 lek/month	FBiH: No min or max since it is the flat rate based on national average net monthly salary (1,310 BAM) RS: minimum 30% of the average wage salary in RS previous year, maximum average wage salary in RS for the previous year. No min/max for Brcko.	Maximum: 80% of national average net wage	Minimum: 80% of minimum wage; Maximum: 160% of minimum wage.	
Duration of the unemployment benefit after 1 year of contribution (weeks)	13	12 in FBiH, 8 in RS, 4 in Brcko	4	13	
Duration of the unemployment benefit after 5 years of contribution (weeks)	39	24 in FBiH, RS and Brcko	17	26	
Duration of the unemployment benefit after 10 years of contribution (weeks)	52	36 in FBiH and RS, 24 in Brcko	26	26	

Replacement rate	Flat rate (not wage replacement). 50% of national minimum wage (i.e., 12,000 lek/ month in 2018).	FBiH: Flat rate (not wage replacement). 40% of the average net monthly salary in FBiH the last three months. Wage replacement in RS and Brcko: RS 40% of the individual's average salary over the last three months (increased to 50% after 15 years of contributions); Brcko 45% of the individual's average salary over the last three months (increased to 50% after 15 years of contributions)	Wage replacement: 50% of the average monthly net wage of the employee for the last 24 months.	Wage replacement: 50% of the average salary in the last 6 months.	Since 2019, the unemployment benefit (UB) has been set at 120 percent of the wage coefficient (€90), resulting in a gross UB of €108 per month.
	Additional 5% for each dependent child until the age of 18 (provided that they are enrolled in school), and until 25 for those in tertiary education. The total additional payments of 5% per child may not exceed 30% of the fixed rate.		After the first 12 months, qualifying recipients receive 40% of average monthly net wage.		
Coverage	Employees who report they are entitled to social security scheme benefits or their employer pays social security contributions on their behalf (Only employees are considered since they are the only group that answers questions regarding social security contributions.)	RS & Brcko: FBiH: Employees/ employers who report they contribute to pension, are eligible	Employees/ employers/ self-employed who report they are registered in pension and disability insurance fund of the RM and private pension insurance funds.	Employees/ employers/ self-employed who report they exercise pension and disability insurance rights at their job.	

Employment status	Assume that a respondent is currently working if their occupation code for the main job is available in the survey.	Assume that a respondent is currently working if their occupation code for the main job is available in the survey.	Assume that a respondent is currently working if their occupation code for the main job is available in the survey.	Assume that a respondent is currently working if their occupation code for the main job is available in the survey.
Citizenship	Assume that it does not matter to receive UB.	Assume that it does not matter to receive UB.	Assume that it does not matter to receive UB.	Assume that it does not matter to receive UB.
Country of place of work for main job	Assume that if country of place of work is outside of the country, the person is not eligible.	Assume that if the country of place of work is outside of the country, the person is not eligible.	Country of place of work for MKD is not available. Thus, assume those who are contributing are eligible.	Assume that if country of place of work is outside of the country, the person is not eligible.

Country Notes

Albania

- Growth remained strong in 2024, at around 3.9 percent, driven by private consumption, tourism, and construction, while inflation pressures eased.
- Poverty slightly declined amid ongoing job and wage expansion. Rising geopolitical tensions and uncertainty in trade policy pose risks to the medium-term outlook, as prospects hinge on external demand and continuity in structural reforms.
- European Union (EU) accession efforts are expected to support convergence and long-term growth.

Key conditions and challenges

Albania is an open economy, leveraging its EU proximity for exports, investment, and remittances. Growth has averaged 3% annually over the 10 years, yet Albania's per capita income remains one-third of the EU average (2021 real US$). Despite structural challenges, the economy has shown resilience to 2019-2022 crises, averaging 4.2 percent growth per annum in 2022–2024, supported by increased trade with the EU, a strong tourism sector, and hydropower production, which meets up to 90 percent of energy demand in normal rainfall years. The exchange rate has appreciated significantly in recent years, reflecting sustained inflows from export earnings, remittances, and foreign investment. While signaling economic strength, this also made Albanian goods less competitive abroad. Structural challenges restraining long-term growth and income convergence include outmigration, an aging population, weak labor force skills, and fiscal pressures from weather-related risks. Addressing these challenges requires raising additional government revenues and increasing spending efficiency, alongside accelerating EU-aligned reforms to enhance productivity, the business environment, and market integration. While poverty has declined, inclusive growth policies and stronger social protection are needed to support vulnerable groups.

Recent developments

Growth held steady at 4 percent in the first three quarters of 2024, mirroring the 2023 performance. Services and construction led the expansion, while industry and agriculture slowed. On the demand side, private consumption and investment drove growth, while net exports weighed negatively, due to a slowdown in goods exports. Economic sentiment indicators suggest higher domestic confidence (Figure 1). The employment rate averaged 68.6 percent in 2024, with male and female employment rates rising by 2.0 and falling by 0.3 percentage points, respectively. Unemployment declined to 9.4 percent, with youth unemployment (15–29) remaining high at 18.9 percent. Administrative data shows that the average wage grew by 9.8 percent in 2024, with increases across all economic sectors. Overall, poverty declined by 1.7 percentage points to reach 17.3 percent. In 2024, inflation more than halved relative to 2023, averaging 2.2 percent, mainly due to lower import-driven pressures. Domestic inflationary pressures are now the main driver of rising consumer prices. As of December 2024, fiscal performance remained robust, with revenues growing by 10.4 percent versus 8.0 percent for expenditures. Capital spending was sluggish but gained momentum late in the year, ending 2024 with an 87 percent execution rate. Cash balances remained stable, ensuring ample liquidity. The primary surplus adhered to fiscal rules, while the overall budget deficit stayed low at 0.8 percent of GDP. Public debt continued to decline, reaching 54.2 percent of GDP in 2024, driven by fiscal consolidation and exchange rate appreciation. Credit expansion remained strong through December 2024, growing by 12 percent y-o-y, with double-digit increases for both private businesses and households. Gross non-performing loans declined to 4.2 percent in December 2024 from 4.7 percent in 2023. During Q1-Q3 2024, the current account deficit widened to an estimated 1.5 percent of GDP but remained below the five-year average. This was mainly due to a rising trade deficit resulting from the continued decline in goods exports and rising goods imports, while primary and secondary income balances improved. Net foreign direct investment (FDI) continued performing strongly, increasing by 6.1 percent y-o-y. Foreign currency reserves reached USD 6.6 billion as of December 2024, up from USD 6.4 billion in the previous year.

Outlook

Economic growth is expected to moderate to 3.2 percent in 2025 and 3.1 percent in the medium-term, amidst global trade policy uncertainty and the evolving global outlook. Poverty is projected to decline to 16 percent. Inflation is expected to increase and reach the 3 percent target and fluctuate around that level in the medium-term. This trajectory will be shaped by ongoing domestic pressures, including wage growth, as well as disrupted supply chains driven by shifts in trade policy. The current account deficit is expected to fluctuate around 3.7 percent of GDP from 2025, rising to 4.1 percent by 2027 but remain below the historical average. While major public capital investments will drive higher imports, continued improvements of service exports will help keep the deficit below historical levels. Albania's primary fiscal balance is expected to remain positive from 2025 onward, averaging 0.4 percent of GDP. This projection assumes partial execution of capital expenditures and does not fully reflect the Medium-Term Revenue Strategy 2025-2027. Meanwhile, public debt will decline further, reaching an average of 52.8 percent of GDP over 2025–2027. Risks to the outlook include heightened geopolitical tensions and further uncertainty surrounding global trade and economic policies. These factors could further impact near-term growth in the EU, which remains Albania's key economic partner. Domestic fiscal risks from public-private partnerships and state-owned enterprises add to vulnerabilities. However, effective EU Growth Agenda implementation and strong tourism receipts represent upsides to the uncertainty.

ALBANIA - Selected Economic Indicators

ALBANIA	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth (percent)	4.8	3.9	3.9	3.2	3.1	3.1
Composition (percentage points):						
Consumption	4.3	1.0	3.8	2.5	2.4	2.5
Investment	0.3	-0.3	1.6	1.9	1.5	1.5
Net exports	0.2	3.2	-1.5	-1.3	-0.9	-0.8
Exports	5.4	3.3	0.2	1.3	1.3	1.3
Imports (-)	5.2	0.1	1.8	2.5	2.1	2.1
Consumer price inflation (percent, period average)	6.7	4.8	2.2	3.0	3.0	3.0
Public revenues (percent of GDP)	26.6	27.2	28.1	28.4	28.5	28.3
Public expenditures (percent of GDP)	30.3	28.5	28.9	30.5	30.1	30.2
Of which:						
Wage bill (percent of GDP)	3.9	4.2	4.5	4.8	4.8	4.7
Social benefits (percent of GDP)	11.3	10.7	10.9	10.8	10.7	10.8
Capital expenditures (percent of GDP)	5.2	5.0	5.0	5.5	5.7	5.9
Fiscal balance (percent of GDP)	-3.6	-1.3	-0.8	-2.1	-1.6	-1.9
Primary fiscal balance (percent of GDP)	-1.8	0.7	1.3	0.2	0.6	0.3
Public debt (percent of GDP)	60.3	54.5	51.7	51.2	50.3	49.4
Public and publicly guaranteed debt (percent of GDP)	64.1	57.5	54.2	53.7	52.7	51.9
Of which: External (percent of GDP)	30.0	26.2	24.0	23.2	22.2	21.7
Goods exports (percent of GDP)	10.7	8.4	7.0	8.0	8.0	9.0
Goods imports (percent of GDP)	34.4	29.3	28.1	29.1	29.4	29.7
Net services exports (percent of GDP)	13.3	15.4	15.6	14.5	14.0	14.1
Trade balance (percent of GDP)	-10.4	-5.5	-5.5	-6.6	-7.4	-6.6
Net remittance inflows (percent of GDP)	4.6	4.3	4.2	4.2	4.1	4.0
Current account balance (percent of GDP)	-5.9	-1.2	-2.4	-3.7	-4.0	-4.1
Net foreign direct investment inflows (percent of GDP)	6.6	5.8	5.0	5.6	5.9	6.2
External debt (percent of GDP)	54.0	46.3	40.1	39.4	38.7	38.6
Real private credit growth (percent, period average)	2.9	-1.8	7.8	-	-	-
Nonperforming loans (percent of gross loans, end of period)	5.0	4.7	4.2	-	-	-
Unemployment rate (percent, period average)	10.9	10.1	9.4	-	-	-
Youth unemployment rate (percent, period average)	24.9	23.6	21.7	-	-	-
Labor force participation rate (percent, period average)	62.4	62.4	63.7	-	-	-
GDP per capita, PPP (current international $)	19,430	21,208	22,035	22,740	23,445	24,172
Poverty rate (percent of population)	21.7	19.0	17.3	16.0	14.9	13.8

Source: Country authorities, World Bank estimates and projections.

Bosnia and Herzegovina

- Real growth improved to 2.6 percent in 2024, driven by increased consumption and investment.
- Commodity prices remained high, but overall inflation slowed to 1.7 percent owing to drop in energy prices.
- The fiscal deficit widened due to higher spending on wages, goods and services. Public debt levels remained moderate.

Key conditions and challenges

To begin EU accession negotiations, Bosnia and Herzegovina (BiH) must address 14 predominantly political measures concerning democracy, the rule of law, fundamental rights, and public administration. Concurrently, advancements in internal market integration, state institutional consolidation, enhancing state supervisory and regulatory institutions, and reducing an excessively large public sector are required to complete economic criteria. BiH has benefited from macroeconomic stability over the past decade through three key policy anchors: the Euro-linked currency board, the nationwide collection of indirect taxes, and EU accession prospects. Macroeconomic stability has been supported by fiscal prudence: during 2015-2019, fiscal surpluses were 1-3 percent of GDP. Although fiscal deficits have re-emerged during, and after, the pandemic, public debt levels remain relatively low, at approximately 34 percent of GDP. Despite achieving real income growth of 3 percent annually since 2015, per capita GDP remains only one-third of the EU27 average. The official poverty rate fell from 16.9 percent in 2015 to 13.5 percent in 2021, but significant vulnerability to economic shocks remains, with 40 percent of adult population reporting not being able to make ends meet for more than 1 month in the case of loss of the main source of household income. Higher poverty rates are linked to lower labor market participation and educational attainment, with all-elderly households, and those with more than 2 children or members with disability being most vulnerable. Low investment rates and a private consumption-led growth model create challenges for achieving faster economic convergence with the EU27. Accelerating key structural reforms, including improving the oversight and management of state-owned enterprises, enhancing the business environment, improving youth employment policies, reducing labor costs, and transitioning from coal to green energy, is crucial.

Recent developments

In 2024, real growth improved to 2.6 percent, up from 1.9 percent in 2023, reflecting two offsetting forces. First, domestic demand increased by 4.4 percent due to higher consumption and investment. Second, net exports decreased by 23 percent owing to worsening terms-of-trade and an increase in investment-driven imports. A slowdown in inflation bolstered real disposable income, and private consumption. Average monthly net wages increased by 7.8 percent y-o-y in December 2024. However, industrial production growth continued to decline, contracting 4 percent annually. Inflation slowed to 1.7 percent in 2024, from 6.1 percent the year before. Prices of most goods and services increased faster than food prices, resulting in core inflation (2.8 percent) outpacing food inflation (2.1 percent) in 2024. This deceleration in inflation resulted from a drop in transport prices and a deceleration in prices of housing, water, electricity, and gas. Labor force participation improved during the first three quarters of 2024 (LFS). Unemployment fell to 12.2 percent, a 0.5 pp drop compared to the end of 2023, while the economic activity rate increased by 1 pp to 49.6 percent. However, improvements were driven by those with at least tertiary education; with more subdued improvements among those with lower educational attainment.

Higher government spending contributed to an estimated consolidated fiscal deficit of 2.5 percent of GDP in 2024, 0.9 pp larger than the year before, owing to high wages and spending on goods and services. Meanwhile, the current account deficit (CAD) widened to 4.6 percent of GDP in 2024 – 2.3 pp higher than in 2023 – as the merchandise trade deficit widened to 22.2 percent of GDP. In 2024 almost three-fourths of the CAD was financed by the FDI inflows, mainly into the foreign-owned banking sector. Nevertheless, total external debt remains relatively low, below 50 percent of GDP.

Outlook

Real GDP growth in BiH is projected to increase to 2.7 percent in 2025, and 3.1 percent in 2026, with stronger real incomes boosting private consumption. Inflation is expected to increase mainly driven by an increase in the price of food and services, triggered by the global economic uncertainty and implementation in 2025 of the FBiH Government Decision to increase the minimum wage by 60 percent. The introduction of subsidies in 2025 to compensate employers for contributions (health and pension) will also add to the deficit, as will the expected set of fiscal laws intended to reduce the aggregate contribution rate from 41.5 to 36 percent. In the short-term the attention of policy makers is on meeting the legislative requirements for initiating EU accession negotiations, with only little space for economic structural reforms in 2025, besides fiscal. By 2027, real output growth is projected to reach 3.5 percent, supported by investments and consumption stemming from improved economic conditions in the EU and strengthening domestic labor markets. Robust growth in private consumption and higher imports of consumer goods are expected to see the CAD deteriorate slightly but stabilize below 4.8 percent of GDP despite some medium-term pickup in exports of goods and services. The outlook has significant downside risks. A potential escalation of global economic uncertainty and domestic political frictions could lead to lower investments and delay essential economic structural reforms. Ongoing conflicts in Ukraine and the Middle East could also constrain the EU's economy, further affecting demand for BiH exports, FDI and remittances. Inflation, reduced aggregate demand, and limited remittance inflows pose additional challenges for poverty reduction. Maintaining pro-poor growth and improvements in welfare at the bottom of the income distribution, as well as improving the sustainability of the pension fund and the well-being of the elderly, will require improved labor market participation, particularly at the lower end of educational attainment.

BOSNIA AND HERZEGOVINA - Selected Economic Indicators

BOSNIA AND HERZEGOVINA	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth (percent)	4.2	1.9	2.6	2.7	3.1	3.5
Composition (percentage points):						
Consumption	-	-	2.5	4.2	2.3	2.8
Investment	-	-	1.8	-0.2	0.8	0.6
Net exports	-	-	-1.8	-1.3	0.0	0.1
Exports	-	-	-0.5	-0.5	0.9	1.0
Imports (-)	-	-	1.2	0.8	0.9	0.9
Consumer price inflation (percent, period average)	14.0	6.1	1.7	3.0	1.8	1.4
Public revenues (percent of GDP)	40.2	40.8	42.7	43.3	43.5	43.9
Public expenditures (percent of GDP)	39.7	42.5	45.3	45.4	44.6	44.0
Of which:						
Wage bill (percent of GDP)	10.3	10.8	11.0	11.5	11.3	11.1
Social benefits (percent of GDP)	17.4	19.0	19.8	19.8	19.8	19.9
Capital expenditures (percent of GDP)	3.5	3.7	4.1	4.2	4.1	3.9
Fiscal balance (percent of GDP)	0.5	-1.6	-2.5	-2.2	-1.1	-0.1
Primary fiscal balance (percent of GDP)	1.1	-0.7	-1.4	-1.2	-0.1	0.7
Public debt (percent of GDP)	29.3	26.4	25.4	24.9	24.5	23.9
Public and publicly guaranteed debt (percent of GDP)	31.5	28.5	27.2	26.9	27.4	26.5
Of which: External (percent of GDP)	24.9	21.0	19.6	19.2	18.8	18.3
Goods exports (percent of GDP)	35.9	31.1	29.2	26.2	25.5	24.7
Goods imports (percent of GDP)	58.2	51.6	51.7	48.9	47.6	46.4
Net services exports (percent of GDP)	8.7	8.8	8.5	7.6	7.3	6.8
Trade balance (percent of GDP)	-13.6	-11.7	-14.0	-15.1	-14.8	-14.9
Net remittance inflows (percent of GDP)	7.9	7.6	8.0	7.8	7.6	7.5
Current account balance (percent of GDP)	-4.4	-2.3	-4.1	-4.9	-4.7	-4.8
Net foreign direct investment inflows (percent of GDP)	3.1	3.4	3.6	3.5	3.5	3.4
External debt (percent of GDP)	51.5	47.3	48.1	46.1	44.2	42.3
Real private credit growth (percent, period average)	-8.1	-0.7	7.2	-	-	-
Nonperforming loans (percent of gross loans, end of period)	5.4	3.8	3.2	-	-	-
Unemployment rate (percent, period average)	15.4	13.2	12.7	-	-	-
Youth unemployment rate (percent, period average)	35.1	30.1	30.1	-	-	-
Labor force participation rate (percent, period average)	47.6	47.8	49.1	-	-	-
GDP per capita, PPP (current international $)	17,898	18,256	18,731	19,311	19,987	20,747

Source: Country authorities, World Bank estimates and projections.

Kosovo

- Economic performance in 2024 was positive, amid a declining trend in poverty, strong private consumption and decreasing inflation. Prudent fiscal policy has helped keep the fiscal deficit and debt low.
- GDP growth in the medium term is expected to reach 3.8 percent, supported primarily by consumption
- However, economic uncertainty, especially in global trade policy, could impact exports and growth in 2025 and 2026.

Key conditions and challenges

Kosovo's economy continued its robust performance during 2024, although structural challenges hinder faster progress in income growth and poverty reduction. A track record of prudent fiscal management and continued improvements in revenue generation, framed within a solid rule-based fiscal framework, have supported stability over the course of the years. Balancing sustainability with development objectives requires further efforts in enhancing tax revenue mobilization. Kosovo needs to generate additional resources for its growing investment needs, including in the areas of energy, infrastructure, human capital and connectivity. Improving the effectiveness of public financial management remains critical to sustained revenue mobilization. Low firm dynamism and access to finance continue to hamper private sector development and employment creation. Net exports subtracted from growth in the last decade driven by low export competitiveness and import dependence. Economic uncertainty – especially regarding global trade policy – could impact prospects for investment and growth. To create a more conducive environment for private sector development and increase competitiveness, Kosovo's growth model requires further diversification of its production and export base. The recent performance of the ICT and other business services sectors represents a positive change in this direction. Despite a declining trend, poverty remains high and characterized by significant regional disparities. Poverty is more prevalent among people with lower education and families with children, hence accelerating human capital accumulation remains a priority. Gains in gender equality have been modest. Low labor force participation and employment, especially among women, remain key constraints to poverty reduction. Accelerating convergence with EU per capita income levels requires improvements in the governance framework and higher investments in human and physical capital, and the implementation of the structural reform agenda.

Recent developments

Despite a challenging external environment, real GDP growth remained robust in 2024, averaging 4.4 percent supported by declining inflation and higher wages. Private consumption continued to sustain growth in Q4 (4.2 percent), alongside a pickup in gross capital formation (9 percent). Exports of goods and services continued to increase in Q4 (11.1 percent). On the supply side, manufacturing and construction activity growth remained strong in Q4 (4.3 percent and 3.9 percent, respectively). After averaging 1.6 percent in 2024, consumer inflation reached 1.7 percent by February 2025. However, domestic price pressures continued to persist, as reflected in the increase in the production and construction cost index during 2024. Formal employment increased by 2.4 percent between January and September 2024. The current account deficit (CAD) increased, reaching 9 percent of GDP in 2024, driven by a deterioration of the goods balance. Remittances inflow growth was modest (1.4 percent), reflecting weaker activity in origin countries. Fiscal outturns have been positive with preliminary data for 2024 indicating a deficit of 0.2 percent of GDP. Robust tax revenue growth (9.3 percent), particularly from indirect taxes (10.6 percent), combined with rising, but still under-executed capital expenditures (16.7 percent) contributed to this outcome. The financial sector remains stable and financial deepening continues. In 2024, the average (y/y) increase of new loans was 22 percent. Bank asset quality remains satisfactory, with non-performing loans remaining stable at 2 percent by September 2024. Poverty reduction is projected to have continued, with a decline of 3 percentage points in 2024 due to higher growth.

Outlook

GDP growth is expected to reach 3.8 percent in 2025 and 2026, driven by consumption and investment activity. Higher wages, credit growth and a high level of public transfers are expected to support consumption. An increase in social spending and wages, and increased execution of public investment is expected to drive the fiscal deficit to 1 percent of GDP in 2025. The outlook is subject to a high degree of uncertainty and risks. A further slowdown in EU activity, as well as heightened trade uncertainty, has the potential to negatively affect growth through reduced demand of goods and services exports and decreased inward investment flows. At the domestic level, delays in forming a new government could negatively impact investment and the implementation of the structural reform agenda. Geopolitical uncertainty, and that associated with the domestic political context, also entail risk. Kosovo has a lower elasticity of poverty reduction in response to economic growth compared to its peers. Therefore, further progress in reducing poverty will depend on the ability to sustain higher growth rates in the future. A tighter labor market could help boost wages, but policies to increase the quality of education and skills of lower educated workers could provide an additional boost. The decline in population, partly due to outmigration, could be offset by increasing female labor force participation, currently constrained by factors such as lack of childcare services. Expanding childcare services would improve labor market opportunities for women and enhance children's school readiness through better early childhood education (ECE), while also creating additional job opportunities.

KOSOVO - Selected Economic Indicators

KOSOVO	2022	2023	2024[e]	2025[f]	2026[f]	2027[f]
Real GDP growth (percent)	4.3	4.1	4.4	3.8	3.8	3.8
Composition (percentage points):						
Consumption	2.7	3.4	4.1	4.0	4.2	4.2
Investment	-1.1	1.4	1.6	1.3	1.3	1.3
Net exports	2.7	-0.5	-1.3	-1.7	-1.9	-1.9
Exports	6.4	2.8	1.9	1.3	1.1	1.1
Imports (-)	3.7	3.3	3.2	3.0	3.0	3.0
Consumer price inflation (percent, period average)	11.6	4.9	1.6	1.9	2.0	2.0
Public revenues (percent of GDP)	27.9	29.3	29.9	30.1	29.8	29.5
Public expenditures (percent of GDP)	28.4	29.6	30.1	31.2	31.1	31.0
Of which:						
Wage bill (percent of GDP)	7.3	7.9	8.0	8.2	8.1	8.1
Social benefits (percent of GDP)	8.1	7.0	7.6	7.2	7.1	7.1
Capital expenditures (percent of GDP)	4.7	5.7	6.3	6.7	6.9	6.3
Fiscal balance (percent of GDP)	-0.5	-0.3	-0.2	-1.0	-1.3	-1.5
Primary fiscal balance (percent of GDP)	-0.1	0.1	0.2	-0.7	-0.9	-1.1
Public debt (percent of GDP)	19.7	17.2	16.6	17.4	17.9	18.8
Public and publicly guaranteed debt (percent of GDP)	20.0	17.5	16.6	17.4	17.9	18.8
Of which: External (percent of GDP)	7.2	7.2	7.6	8.7	9.1	9.5
Goods exports (percent of GDP)	10.5	9.0	9.5	9.1	8.6	8.4
Goods imports (percent of GDP)	58.7	56.6	57.0	56.8	56.0	55.8
Net services exports (percent of GDP)	15.4	16.9	17.2	16.0	18.2	17.6
Trade balance (percent of GDP)	-32.8	-30.7	-30.3	-31.7	-29.2	-29.8
Net remittance inflows (percent of GDP)	13.4	13.4	12.8	11.9	11.3	11.1
Current account balance (percent of GDP)	-10.3	-7.6	-9.0	-8.7	-7.8	-7.3
Net foreign direct investment inflows (percent of GDP)	6.3	5.9	6.1	6.0	6.0	6.0
External debt (percent of GDP)	38.6	39.8	40.4	42.5	43.6	44.7
Real private credit growth (percent, period average)	5.2	8.8	12.2	-	-	-
Nonperforming loans (percent of gross loans, end of period)	2.0	2.0	1.9	-	-	-
Unemployment rate (percent, period average)	12.6	10.9	-	-	-	-
Youth unemployment rate (percent, period average)	21.4	17.3	-	-	-	-
Labor force participation rate (percent, period average)	38.6	40.7	-	-	-	-
GDP per capita (US$)	5,445	6,158	6,643	7,144	7,745	8,188
Poverty rate (percent of population)	22.2	19.5	16.4	14.4	12.4	10.5

Source: Country authorities, World Bank estimates and projections.

Montenegro

- • Montenegro experienced strong post-pandemic growth, which moderated to 3 percent in 2024 and is projected to remain at 3 percent in 2025, amid global uncertainties.
- • While public debt is sustainable, expected to average 65.6 percent of GDP from 2025-2027, uneven debt repayments pose a vulnerability that requires careful fiscal management.
- • EU accession remains a strategic priority, amidst progress on economic reforms and political stability.

Key conditions and challenges

Montenegro, with its small open economy and EU aspirations, has demonstrated resilience despite being susceptible to external and domestic shocks. As a euroized economy, it relies heavily on fiscal policy for macroeconomic stability. The country's heavy dependence on tourism, coupled with environmental degradation, highlights the need for an improved approach to sustainable development. Following a 15.3 percent contraction in 2020, the economy recovered quickly in 2021-23, averaging an annual growth of 8.6 percent. However, growth slowed to 3 percent in 2024, primarily due to a weaker-than-expected tourism season. In 2022, Montenegro initiated significant fiscal reforms to stimulate job creation and raise wages under the Europe Now program, which included abolishing healthcare contributions, adopting progressive income taxation, introducing a tax allowance, and increasing the minimum wage. In 2024, the government implemented the second phase of this program, further raising minimum pensions and wages, and halving pension contributions. These measures, while leading to a tax revenue shortfall, even with increased indirect tax collections, are expected to keep the budget deficit at above 3 percent in the medium term. Even though Montenegro successfully reduced its public debt from 103.5 percent of GDP in 2020 to 61.3 percent in 2024, a lumpy debt repayment profile in 2025-2027 further adds to the fiscal challenges. After three years of political instability following the 2020 elections which represented the first major power shift in 30 years, Montenegro's government, formed in October 2023 and reshuffled in July 2024, has made EU accession its priority. In June 2024, a positive Interim Benchmark Assessment Report marked a crucial step toward closing chapters and moving closer to EU membership. Yet, the delay in the 2025 budget adoption highlights continuing political challenges.

Recent developments

GDP growth slowed from 6.3 percent in 2023 to 3.0 percent in 2024. Although private consumption and investment remained robust, supporting growth, a 5 percent decline in tourist overnight stays and stagnant industrial production due to a decline in electricity production, negatively impacted net exports and overall growth. Meanwhile, employment continued to expand across all sectors. 2024 LFS data show an employment rate of 56.4 percent and an activity rate of 64.3 percent, with unemployment falling to 11.5 percent. By December 2024, average net monthly wages had risen to €1,012, marking a 21.7 percent y/y real increase following the pension contributions cuts. Inflation dropped to 3.4 percent in 2024, a significant decrease from 8.6 percent in 2023. Poverty (income below

$6.85/day in 2017 PPP) is projected to have declined to 8.9 percent in 2024. The financial sector remains robustly capitalized and liquid, with strong credit growth. As of December 2024, the capital adequacy ratio stood at 19.4 percent, and non-performing loans dropped to 4.1 percent from 5.8 percent a year ago.

In 2024, the current account deficit (CAD) widened due to lower service exports and a decline in net income accounts. Net FDI grew by 13 percent, covering just over a third of the CAD, with the remainder covered by new debt. The fiscal deficit rose to 3.1 percent of GDP in 2024. Despite the absence of one-off revenues that contributed to a budget surplus of 0.6 percent of GDP in 2023, revenues still grew strongly by 7 percent. The largest contributions to revenue growth came from VAT and CIT. Meanwhile, expenditures increased by 17 percent, primarily due to higher social spending (including higher minimum pensions) and increased capital expenditures. Public debt is estimated at 61.3 percent of GDP, with around 4 percent of GDP held in deposits.

Outlook

Amid an unfavorable global outlook and trade policy uncertainties, GDP growth is projected to average 3 percent during 2025-27, primarily driven by private consumption and investments. Higher net real wages, credit growth, and solid employment are expected to drive a 3 percent growth in 2025, despite the closure of the thermal power plant for reconstruction, which will require increased energy imports. The CAD is projected to widen to 18.5 percent of GDP in 2025 due to higher energy imports, with just over a third of it financed by net FDI, the rest financed through new borrowing. Inflation is expected to soften to 2.9 percent in 2025 and further to 2.3 percent in 2026. Poverty is projected to decline to 7.5 percent in 2027. Most of the poor are chronically unemployed, students, or out of the labor force, mainly in the northern region. Thus, reducing poverty requires targeted policies alongside sustained economic growth. The fiscal deficit is expected to increase in 2025 to approximately 4 percent of GDP before gradually declining to 3.6 percent in 2027. Implementing additional fiscal consolidation measures would enhance fiscal performance. Public debt is expected to rise to around 65.8percent of GDP in 2027. Ensuring debt sustainability will necessitate fiscal discipline, particularly given the significant financing needs over 2025-27 and elevated external financing costs. Downside risks include extended geopolitical and trade uncertainties that could have significant additional adverse indirect effects on Montenegro's growth through its main trading partners.

MONTENEGRO - Selected Economic Indicators

MONTENEGRO	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth (percent)	6.4	6.3	3.0	3.0	2.9	3.0
Composition (percentage points):						
Consumption	8.1	5.9	7.6	5.2	3.7	3.5
Investment	3.3	0.7	1.3	1.1	0.9	0.9
Net exports	-5.0	-0.3	-5.8	-3.4	-1.6	-1.4
Exports	9.4	4.3	-1.5	0.0	1.5	1.7
Imports (-)	14.3	4.5	4.2	3.4	3.2	3.0
Consumer price inflation (percent, period average)	13.0	8.6	3.4	2.9	2.3	2.0
Public revenues (percent of GDP)	39.2	42.2	42.7	41.4	41.8	41.9
Public expenditures (percent of GDP)	42.9	41.6	45.9	45.5	45.6	45.6
Of which:						
Wage bill (percent of GDP)	10.5	10.6	10.6	10.6	10.5	10.5
Social benefits (percent of GDP)	11.3	11.9	13.6	13.8	13.8	13.8
Capital expenditures (percent of GDP)	6.0	5.0	5.7	5.8	5.8	5.8
Fiscal balance (percent of GDP)	-3.7	0.6	-3.1	-4.0	-3.7	-3.6
Primary fiscal balance (percent of GDP)	-2.1	2.4	-1.1	-1.8	-1.3	-1.2
Public debt (percent of GDP)	69.2	59.3	61.3	64.6	66.5	65.8
Public and publicly guaranteed debt (percent of GDP)	70.9	60.8	63.0	66.2	68.0	67.2
Of which: External (percent of GDP)	61.8	52.3	58.0	60.1	61.9	60.0
Goods exports (percent of GDP)	12.9	10.2	8.9	8.1	8.6	8.8
Goods imports (percent of GDP)	58.0	52.9	53.0	53.6	53.3	52.5
Net services exports (percent of GDP)	22.2	24.1	21.4	21.2	20.6	20.2
Trade balance (percent of GDP)	-22.9	-18.6	-22.7	-24.3	-24.1	-23.5
Net remittance inflows (percent of GDP)	6.5	4.7	4.6	4.7	4.7	4.6
Current account balance (percent of GDP)	-12.9	-11.3	-17.3	-18.5	-18.1	-17.4
Net foreign direct investment inflows (percent of GDP)	13.2	6.2	6.6	6.9	6.9	6.9
External debt (percent of GDP)	158.7	129.6	127.6	..	..	..
Real private credit growth (percent, period average)	-4.9	-2.3	7.2	-	-	-
Nonperforming loans (percent of gross loans, end of period)	6.3	5.8	4.1	-	-	-
Unemployment rate (percent, period average)	14.7	13.1	11.5	-	-	-
Youth unemployment rate (percent, period average)	29.4	23.3	26.2	-	-	-
Labor force participation rate (percent, period average)	58.9	63.9	63.7	-	-	-
GDP per capita, PPP (current international $)	27,027	30,887	33,148	34,814	36,638	38,782
Poverty rate (percent of population)	10.5	9.3	8.9	8.5	8.0	7.5

Source: Country authorities, World Bank estimates and projections.

North Macedonia

- Growth in 2024 edged up, supported by services and highway construction, while industrial production declined due to falling external demand for automotive supply-chain products.
- Inflationary pressures resurfaced at the end of 2024, despite continued efforts to control domestic prices. As public sector wages, pensions, and subsidies increased, fiscal consolidation has been postponed to 2025.
- The outlook remains positive, supporting a decline in poverty, but underlying structural vulnerabilities are rising.

Key conditions and challenges

Growth strengthened in 2024, predominantly driven by public investment and public consumption. Poverty, as measured by the upper middle-income poverty line of USD 6.85 per day, is estimated to have declined marginally in 2024 due to easing inflation and rising real wages vis-à-vis 2023. Fiscal sustainability remains a key challenge. The average fiscal deficit with the State Roads Enterprise, which has remained at 5 percent of GDP since 2021, is expected to decrease to 4 percent—by the end of the projection horizon. Newly introduced fiscal rules on the deficit and debt were breached in 2024 led by higher social transfers, public sector wages, and interest payments. Fiscal consolidation efforts will be needed ahead of large Eurobond repayments due in 2026-2028. At the same time, a continuous buildup of price pressures, including due to real wage growth above productivity increases, prolonged inflationary pressures. Containing further wage growth, eliminating anti-competitive practices, and enabling enforcement of competition rules can foster competition and reduce markups and thus price pressures. The long-term growth prospects are strongly tied to the pace of reform implementation and structural transformation of the economy. Implementation of the Reform Plan that would advance the European Union (EU) accession process, as well as focusing on labor, energy, digital, and governance reforms could bring important growth dividends.

Recent developments

After a significant revision of national accounts, real GDP growth moved up to 2.8 percent in 2024. Output growth was driven by government consumption and investments, while net exports dived into negative territory. On the production side, growth was led by services and construction, largely related to highways, while manufacturing battled with weak external demand for car-supply parts. Labor market indicators (15+) improved further in 2024, with a 0.4 pp increase in the employment rate and 0.1 pp increase in the participation rate to 45.8 percent and 52.3 percent, respectively, but gains were not uniform. While the total unemployment rate dropped to 12.4 percent, this was driven by those with primary and secondary education. The unemployment rate among those with higher education increased by 1.7 pp. The youth unemployment rate (15-24) remains high at 28.9 percent. Headline inflation went up from a 3-year low of 2.2 percent in August 2024 to 5 percent in February 2025, in part due to high food prices despite the introduction of price and margin caps for over 1,000 products. Both core inflation and producer prices surged above 5 percent, as wages, albeit decelerating, continued growing. As inflation decelerated to 2.7 percent in March 2025, the Central Bank kept the main policy rate unchanged at 5.35

percent. The fiscal deficit (general government) increased to 4.6 percent of GDP in 2024, with significant under-execution of capital spending and reallocation to rising current spending. The public debt to GDP ratio surged to 62.4 percent, with arrears at 4.1 percent of GDP in 2024. The stability of the banking sector has been strengthened with an increase in the capital adequacy ratio to a historical high of 19 percent in Q3 2024, and solvency at above pre-pandemic value, while the liquidity rate has been steady, around 20 percent. Credit growth, at 11.2 percent at end-2024, picked up by close to 6 pp relative to end-2023, while the NPL ratio remained stable at 2.6 percent at end-2024. The current account deficit deepened to 2.25 percent of GDP in 2024, as the trade deficit widened to 20 percent, financed by strong foreign direct investment (FDI) inflows, services exports and remittances. External debt stood at 76.9 percent of GDP in Q3 2024, of which 56.4 percent is long-term.

Outlook

The medium-term outlook remains positive, but underlying vulnerabilities are rising. The recent shifts in global trade policy and increased uncertainty, while having a low direct impact, will indirectly affect the economy through multiple channels. Growth is expected to average 2.8 percent during 2025-2027, below earlier projections, as higher spending on public investment projects is offset by slowing private consumption and exports. Headline inflation is projected to remain above the long-term average until 2027, but to fall towards the 2 percent target thereafter. Supported by the positive growth outlook, the USD 6.85 poverty rate is projected to decline by a further 1.4pp by the end of 2027, but implications of rising trade policy costs on the labor market and poverty remain uncertain in the short-term, and improvements in the labor market participation among youth and those with lower levels of education would be needed to sustain poverty reduction in the medium-to-long term. The medium-term growth forecast relies on the assumption of the accelerated pace of EU accession negotiations and stronger reform effort to support the structural transformation of the economy. Low diversification of products and markets undermines the focus of an export-led long-term growth strategy. Moreover, the persistence of low productivity, inefficient capital allocation, weaker external demand, and inflation-suppressed consumption continue to overshadow the projection horizon. In this context, advancing on the EU Reform Plan, including on green transition goals, is crucial for fostering sustainable growth over the medium to long term.

NORTH MACEDONIA - Selected Economic Indicators

NORTH MACEDONIA	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth (percent)	2.8	2.1	2.8	2.6	2.7	2.8
Composition (percentage points):						
Consumption	3.6	0.7	2.7	1.7	1.7	1.7
Investment	4.6	-4.1	2.3	1.0	1.3	1.5
Net exports	-5.4	5.5	-2.2	-0.1	-0.3	-0.4
Exports	7.4	-0.5	-2.8	-1.0	1.6	2.2
Imports (-)	12.8	-6.0	-0.6	-0.9	1.9	2.6
Consumer price inflation (percent, period average)	14.2	9.4	3.5	2.5	2.3	2.0
Public revenues (percent of GDP)	31.6	32.7	34.0	34.5	34.5	34.8
Public expenditures (percent of GDP)	35.9	37.1	38.6	38.7	38.4	38.3
Of which:						
Wage bill (percent of GDP)	6.4	6.8	7.5	7.5	7.4	7.4
Social benefits (percent of GDP)	16.2	16.6	18.0	17.6	17.1	16.8
Capital expenditures (percent of GDP)	4.1	5.3	3.9	4.4	4.5	4.6
Fiscal balance (percent of GDP)	-4.3	-4.4	-4.6	-4.2	-3.9	-3.5
Overall fiscal balance with the Public Enterprise for State Roads included (percent of GDP)	-4.7	-4.6	-4.8	-4.4	-4.2	-3.8
Primary fiscal balance (percent of GDP)	-3.2	-2.9	-2.7	-2.3	-1.8	-1.2
Public debt (percent of GDP)	49.6	49.7	53.8	55.1	56.3	57.1
Public and publicly guaranteed debt (percent of GDP)	58.0	58.1	62.4	64.0	63.6	63.1
Of which: External (percent of GDP)	38.7	39.1	40.0	37.3	37.3	37.0
Goods exports (percent of GDP)	56.2	49.7	43.6	41.8	42.0	42.0
Goods imports (percent of GDP)	82.9	67.8	63.7	61.1	61.5	62.2
Net services exports (percent of GDP)	5.8	5.0	6.9	7.2	7.5	8.5
Trade balance (percent of GDP)	-20.9	-13.0	-13.2	-12.1	-12.0	-11.7
Net remittance inflows (percent of GDP)	2.7	2.3	2.1	2.0	2.0	2.0
Current account balance (percent of GDP)	-6.1	0.4	-2.3	-2.8	-2.4	-2.0
Net foreign direct investment inflows (percent of GDP)	5.0	3.4	7.1	2.5	2.3	2.0
External debt (percent of GDP)	82.8	76.8	79.2	78.8	78.1	77.7
Real private credit growth (percent, period average)	-4.0	-2.9	3.5	-	-	-
Nonperforming loans (percent of gross loans, end of period)	2.8	2.7	2.6	-	-	-
Unemployment rate (percent, period average)	14.4	13.1	12.4	-	-	-
Youth unemployment rate (percent, period average)	32.5	29.3	29.0	-	-	-
Labor force participation rate (percent, period average)	55.2	52.3	52.3	-	-	-
GDP per capita, PPP (current international $)	20,329	20,756	21,337	21,892	22,483	23,112
Poverty rate (percent of population)	17.7	17.4	16.6	16.0	15.7	15.2

Source: Country authorities, World Bank estimates and projections.

Serbia

- The growth rate of the Serbian economy in 2024 is estimated at 3.9 percent.
- Growth of GDP is expected to slow down in 2025, with risks tilted to the downside.
- The incidence of poverty declined to 7.7 percent in 2024 and is projected to continue to decline albeit at slower rate, as the remaining poor are often characterized by chronic unemployment and thus not benefiting from economic growth.

Key conditions and challenges

Growth in 2024 is estimated at 3.9 percent, y/y, higher than the previously projected 3.5 percent, thanks to a better-than-expected performance of the construction and services sectors in the first half of the year. However, a severe drought that hit Serbia in the summer of 2024 significantly impacted agriculture and contributed to a growth slowdown in the second half of the year. On the expenditure side, consumption and investment were the main drivers of growth in 2024 while net exports had a marginal negative contribution. Consumption started to recover due to the continued increase in real incomes (both in the public and private sectors). However, there is still a high degree of volatility associated with agriculture (and related food industry) output. This underscores the critical need for Serbia to introduce policy and investment measures to mitigate the negative impact of increasing weather shocks and to promote private sector participation in these measures. Over the medium term, under the baseline scenario, the Serbian economy is expected to grow at around 3.5-4 percent, based on higher public investment. With limited space for future stimulus packages, structural reforms are needed to accelerate private sector-led growth.

Recent developments

Relatively strong growth in 2024 was driven by a recovery of private sector consumption and investment. On the other hand, net exports made a small negative contribution to growth in 2024 due to lower-than-expected export growth, as external demand weakened, and imports remained at a high level (in part explained by increased investment). Manufacturing remained resilient to external developments (i.e. lower demand from the EU), with output growing by 3.1 percent y/y. Labor market indicators continued to improve in 2024. The unemployment rate averaged 8.6 percent in 2024, and the employment rate continued to increase (reaching a record high level of 51.4 percent) even though informal employment declined marginally. Wages increased by 14.2 percent in nominal terms (9.2 percent in real terms) in 2024 compared to 2023. Pensions on average were 19.4 percent higher in 2024 than in 2023 (in nominal terms). The poverty level (based on the upper-middle income line of $6.85/day in 2017 PPP), stayed at an estimated 7.3 percent between 2022 and 2023, as private consumption growth was modest, affected by the high inflation and the phasing out of government support programs, which had fueled the strong post-COVID-19 recovery of 2021. Inflation started to decline gradually in the first half of 2024 before increasing again in the second half of the year. The inflation index edged up again due to an increase in food prices, rents, and communal services. The NBS lowered the key policy rate to 5.75 percent in September 2024 and has kept it unchanged since. Budgetary revenues overperformed significantly in 2024 (up 13.5 percent in nominal terms, or 8.5 percent in real terms, y/y), primarily thanks to a higher-than-planned collection of contributions for social insurance, VAT, and excises. Over the same period, expenditures increased by 13.1 percent in nominal terms (8.1 percent in real terms). As a result, the consolidated fiscal deficit increased only slightly in nominal terms but remained the same as a share of GDP at 2 percent. Public debt hovered around 48 percent of GDP throughout 2024 and reached 47.6 percent at the end of December. The current account deficit increased significantly in 2024 to reach 6.3 percent of GDP (compared to 2.4 percent in 2023). The trade balance widened by 22 percent in euro terms in 2024, to reach 9.8 percent of GDP. At the same time the surplus in services trade decreased by 11 percent in euro terms, while the surplus in net transfers declined by 5 percent. The net income deficit increased by 31 percent. Net FDI inflows continued to perform strongly, increasing by 7.9 percent in euro terms (to reach EUR 4.6 billion in 2024). Foreign currency reserves increased to a record high level of EUR 29.3 billion by year-end. Overall credit increased by 10 percent (y/y) through December 2024. However, loans to businesses increased by only 5.6 percent by year-end (y/y). Gross nonperforming loans declined to 2.5 percent in December 2024.

Outlook

The Serbian economy is expected to grow at around 3.5-4 percent over the medium term, driven primarily by consumption and, to some extent, by investment. However, there are downside risks. Downside risks relate to the performance of SOEs which might require support from the budget, external demand for Serbian exports might decrease given uncertainty in trade policy, and the impact of extreme weather on agriculture and infrastructure could be significant. Inflation is expected to decline gradually and stay within the NBS target band over the medium term. The fiscal deficit is now projected to increase compared to 2023/2024 since the government embarked on large-scale public infrastructure spending plans. Sustained economic growth will continue to lift more Serbians out of poverty. However, the remaining poor are increasingly concentrated among pensioners, the long-term unemployed, or those completely out of the labor force. Thus, targeted social assistance or other direct channels will become essential to ensure further poverty reduction.

SERBIA - Selected Economic Indicators

SERBIA	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth (percent)	2.6	3.8	3.9	3.5	3.9	4.2
Composition (percentage points):						
Consumption	2.5	-0.1	3.0	3.1	3.3	3.4
Investment	1.0	1.2	4.3	1.4	1.6	1.5
Net exports	-0.8	2.7	-3.4	-1.0	-1.0	-0.6
Exports	8.9	1.6	1.9	2.1	3.2	3.6
Imports (-)	9.7	-1.1	5.3	3.0	4.2	4.2
Consumer price inflation (percent, period average)	11.9	12.1	4.6	3.1	3.0	3.0
Public revenues (percent of GDP)	41.3	39.4	40.9	41.1	40.8	40.8
Public expenditures (percent of GDP)	44.1	41.4	42.9	44.1	43.9	43.8
Of which:						
Wage bill (percent of GDP)	9.2	8.8	9.4	9.7	9.7	9.8
Social benefits (percent of GDP)	12.5	12.5	13.1	13.3	13.4	13.2
Capital expenditures (percent of GDP)	6.8	6.4	7.3	7.3	7.3	7.4
Fiscal balance (percent of GDP)	-2.9	-2.0	-2.0	-3.0	-3.0	-3.0
Primary fiscal balance (percent of GDP)	-1.4	-0.4	-0.1	-0.9	-0.9	-1.0
Public debt (percent of GDP)	50.5	46.0	45.3	47.3	46.8	46.3
Public and publicly guaranteed debt (percent of GDP)	52.9	48.4	47.5	47.3	46.8	46.3
Of which: External (percent of GDP)	34.0	33.7	33.8	36.5	36.0	36.0
Goods exports (percent of GDP)	42.4	37.1	34.6	34.2	33.6	32.3
Goods imports (percent of GDP)	57.2	46.0	44.5	45.9	45.1	43.8
Net services exports (percent of GDP)	3.6	4.1	3.3	3.1	3.2	3.2
Trade balance (percent of GDP)	-11.2	-4.8	-6.6	-8.6	-8.3	-8.3
Net remittance inflows (percent of GDP)	5.9	4.9	4.3	4.4	4.4	4.2
Current account balance (percent of GDP)	-6.6	-2.4	-6.3	-7.0	-6.7	-6.5
Net foreign direct investment inflows (percent of GDP)	6.8	5.6	5.4	4.8	4.9	4.7
External debt (percent of GDP)	66.0	60.4	60.5	60.4	60.0	57.7
Real private credit growth (percent, period average)	-2.7	-9.2	0.8	-	-	-
Nonperforming loans (percent of gross loans, end of period)	3.4	3.2	2.5	-	-	-
Unemployment rate (percent, period average)	9.5	9.4	8.6	-	-	-
Youth unemployment rate (percent, period average)	24.3	25.0	23.0	-	-	-
Labor force participation rate (percent, period average)	54.7	55.4	56.2	-	-	-
GDP per capita, PPP (current international $)	24,655	26,305	27,985	29,866	31,776	33,807
Poverty rate (percent of population)	8.3	8.2	7.7	7.0	6.2	5.8

Source: Country authorities, World Bank estimates and projections.

Adapting for Sustainable Growth

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