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**Western Balkans
Regular Economic Report
No. 26 | Fall 2024**

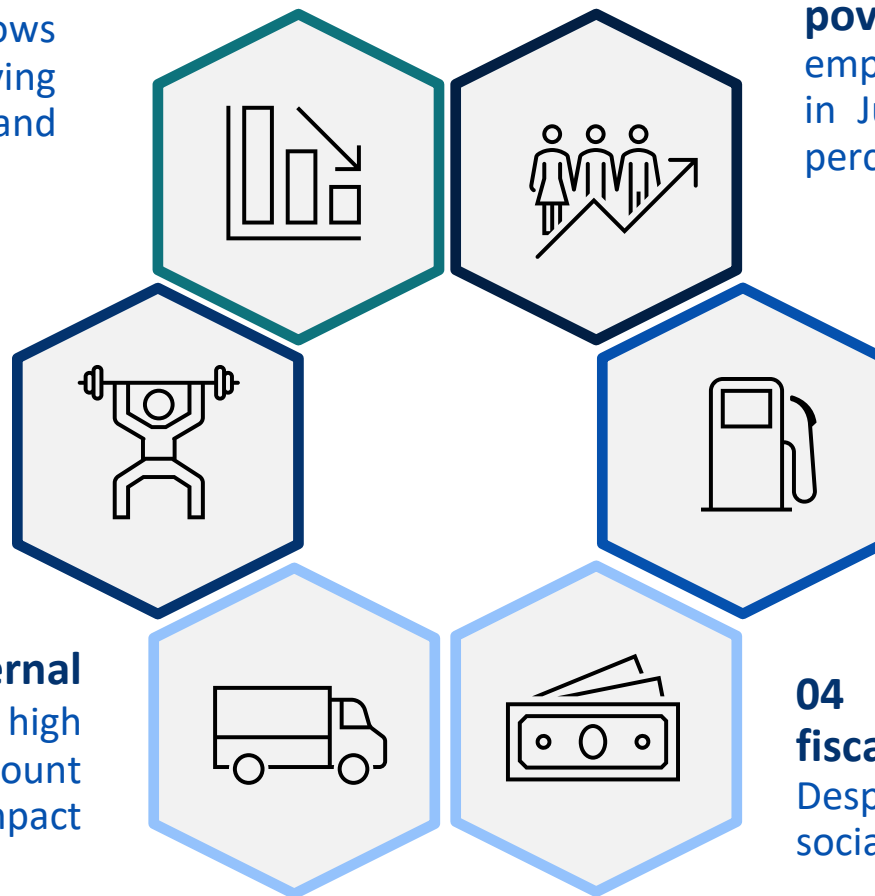
**Retaining the Growth
Momentum**

Western Balkans RER | Main messages for the Fall 2024 edition

01 | Growth accelerated but trajectories are diverging. Economic activity shows diverging trends, with consumption driving growth in some countries while external and fiscal challenges limit it in others.

06 | The outlook has improved, but retaining the growth momentum is essential. Stronger economic integration and structural reforms are both needed.

05 | Countries face growing external pressures. Weakened foreign demand and high energy costs are worsening current account balances, while sluggish EU labor markets impact remittances.



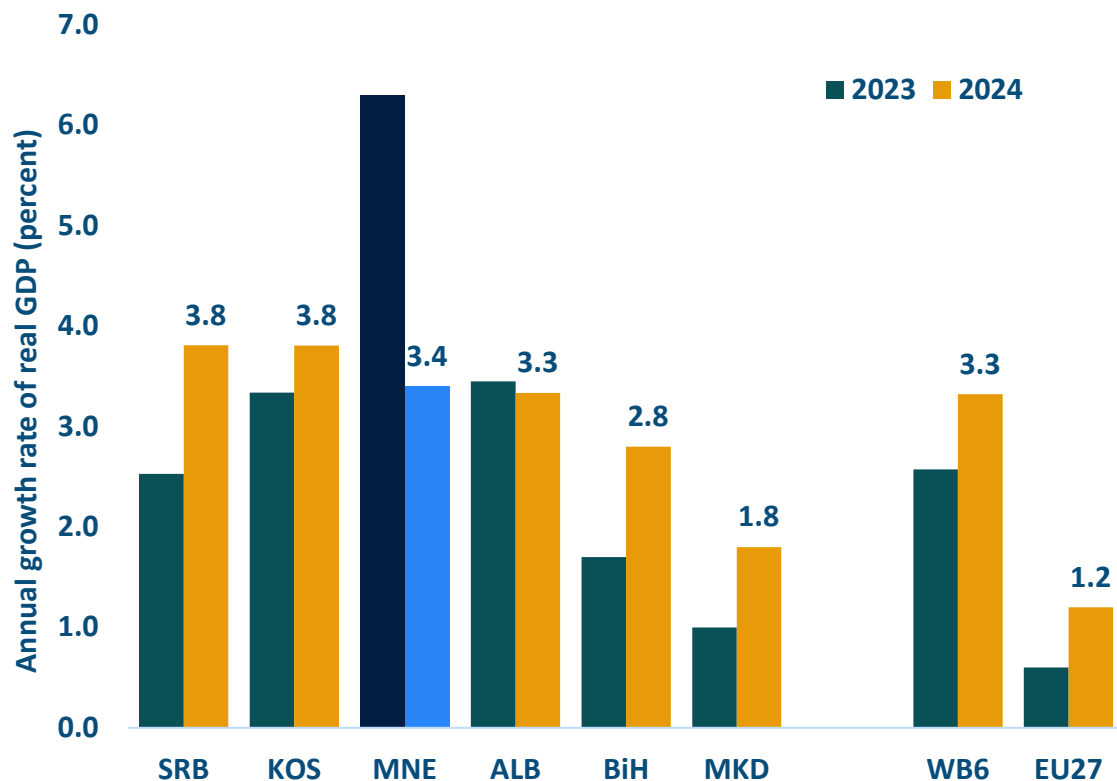
02 | Solid growth drives employment, but poverty reduction is slowing. The employment rate hit a historic high of 49 percent in June, with poverty projected to drop by 1 percent annually.

03 | Inflation is slowing, but at a reduced pace. Core inflation stays high, reflecting domestic price pressures like wages.

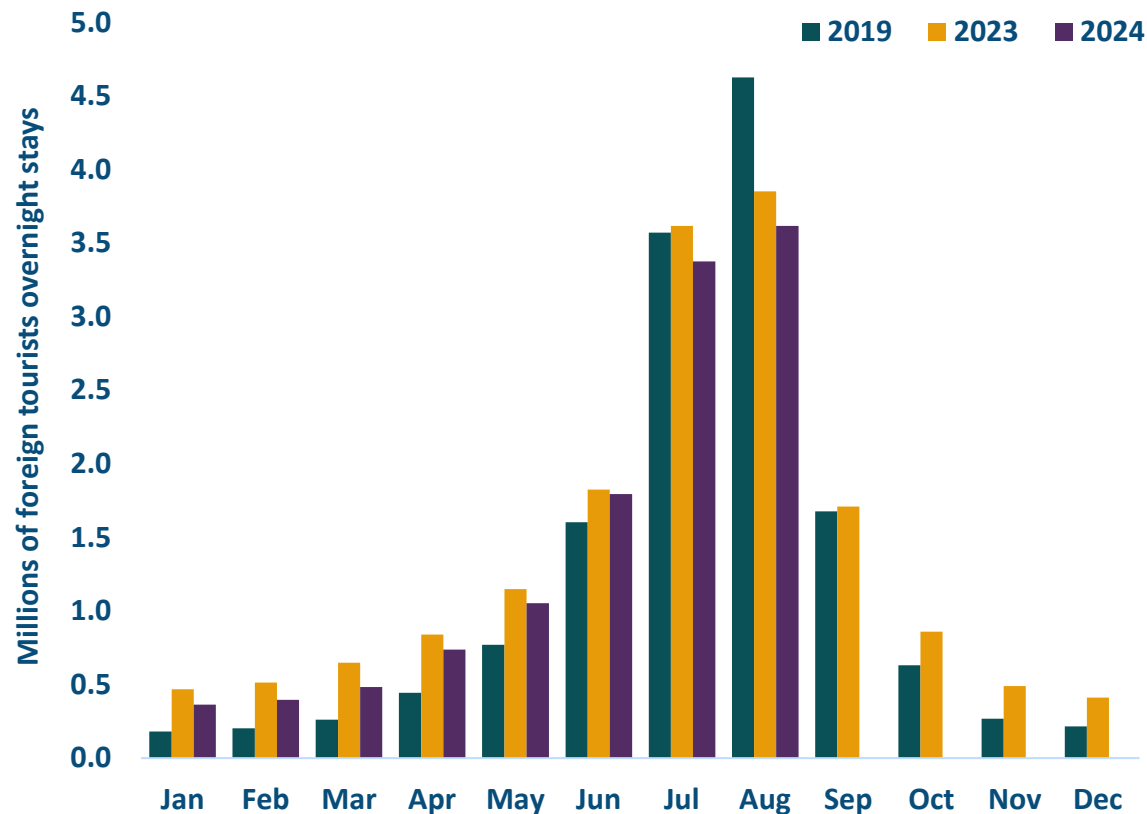
04 | After three years of consolidation, fiscal deficits are set to widen in 2024. Despite strong revenue, spending pressures on social benefits, pensions, and wages are intense.

Growth | Growth in Montenegro is estimated to slow to 3.4% in 2024 from a high base

After three years of strong post-pandemic growth, economic activity is expected to moderate...

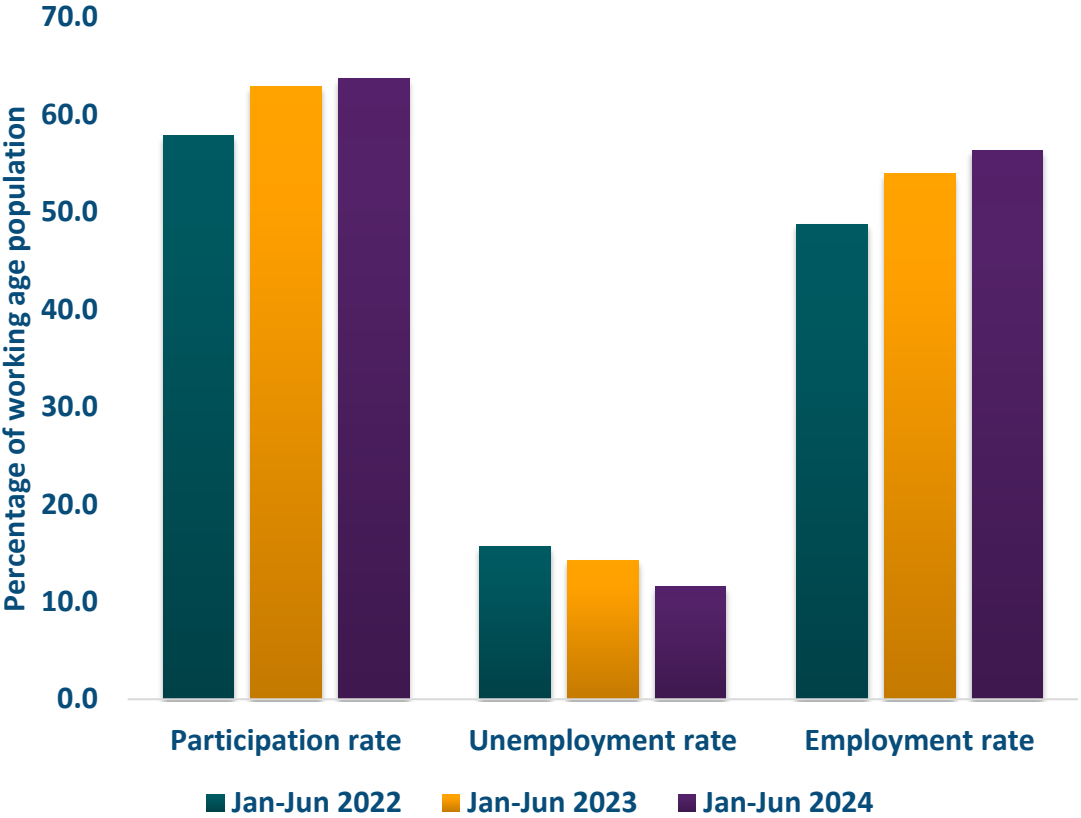


...as tourism arrivals and overnight stays decline, primarily due to a 30% drop in Russian tourists.

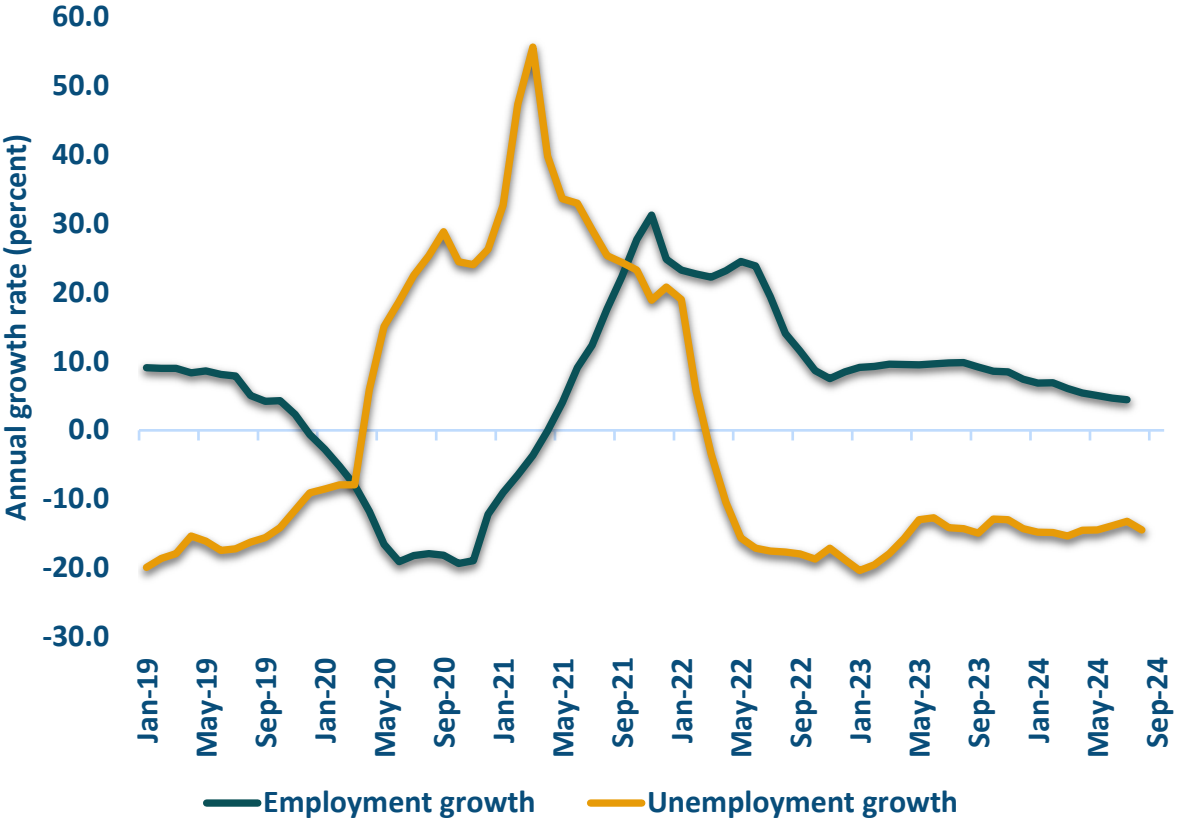


Labor market | Employment reached a new historical high - again

The employment and activity rates reached a new high, and unemployment rate a historic low in 2023.

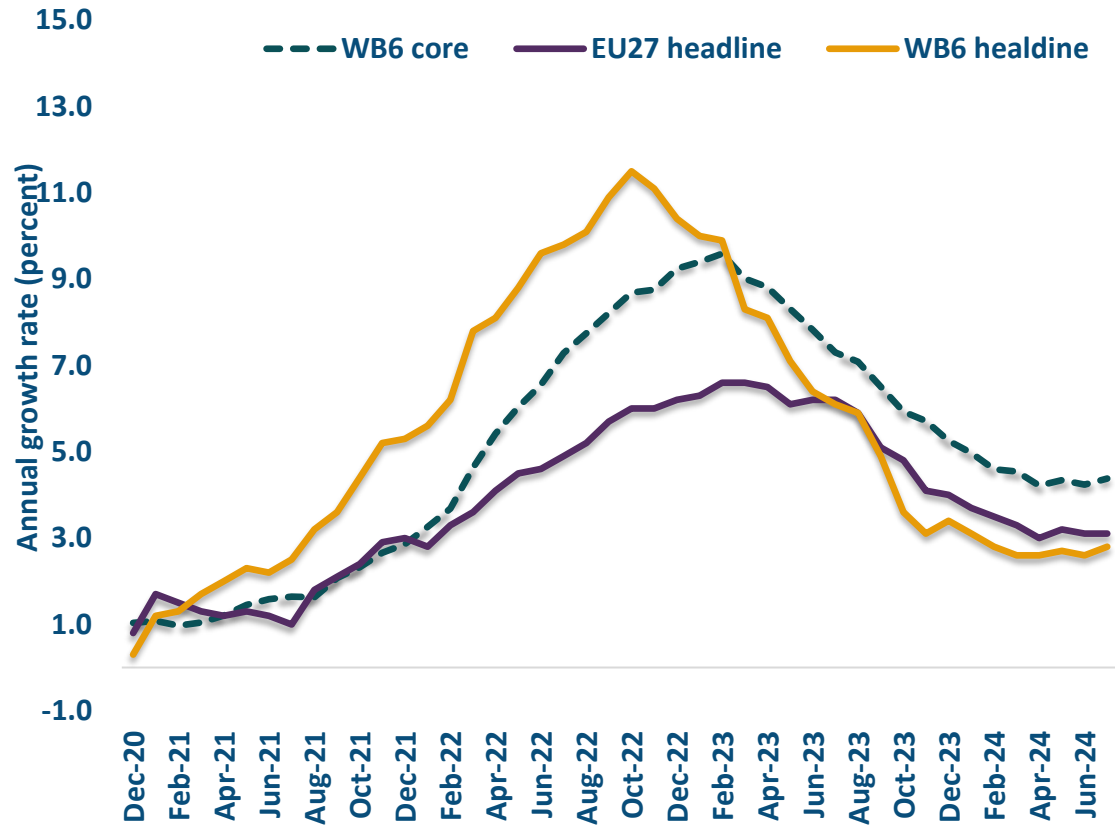


Administrative data show that job creation moderated in Q3.

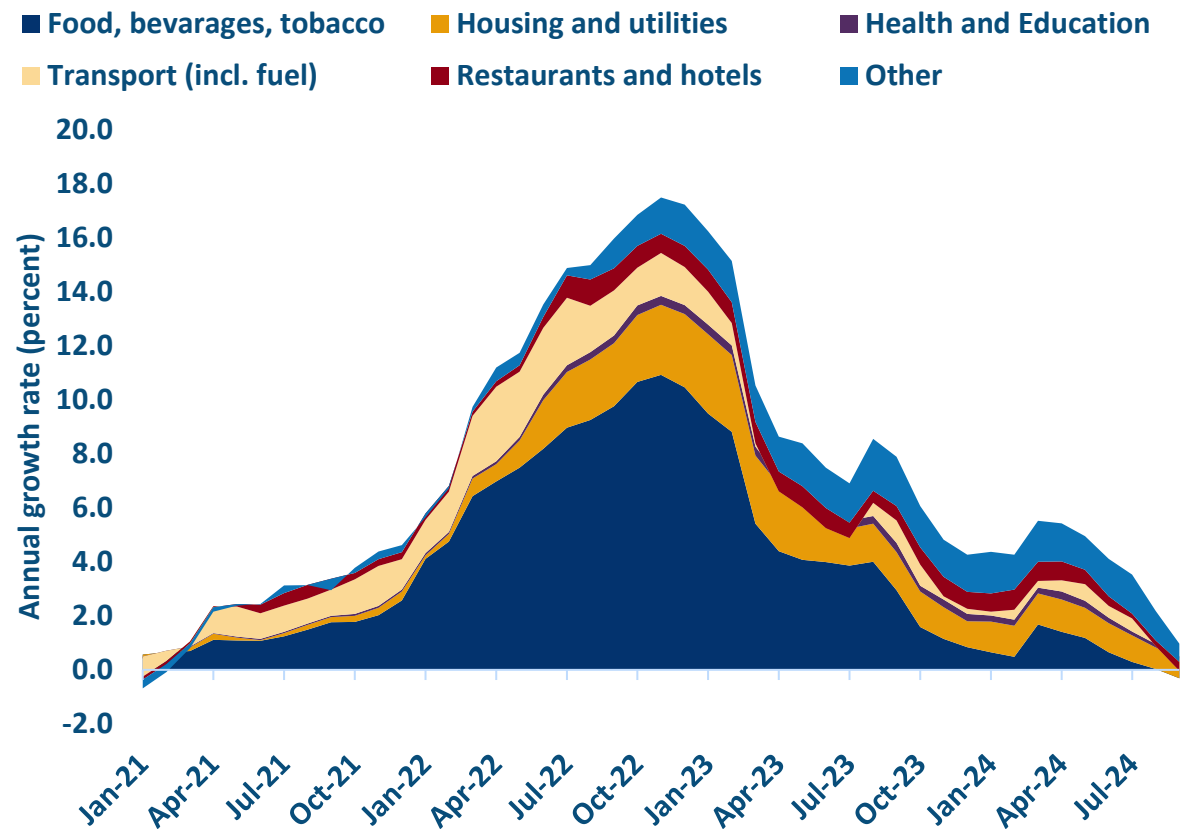


Inflation | Inflation decelerated significantly over the past few months, but core inflation remains elevated

Western Balkan countries' core inflation remains high and above headline inflation.

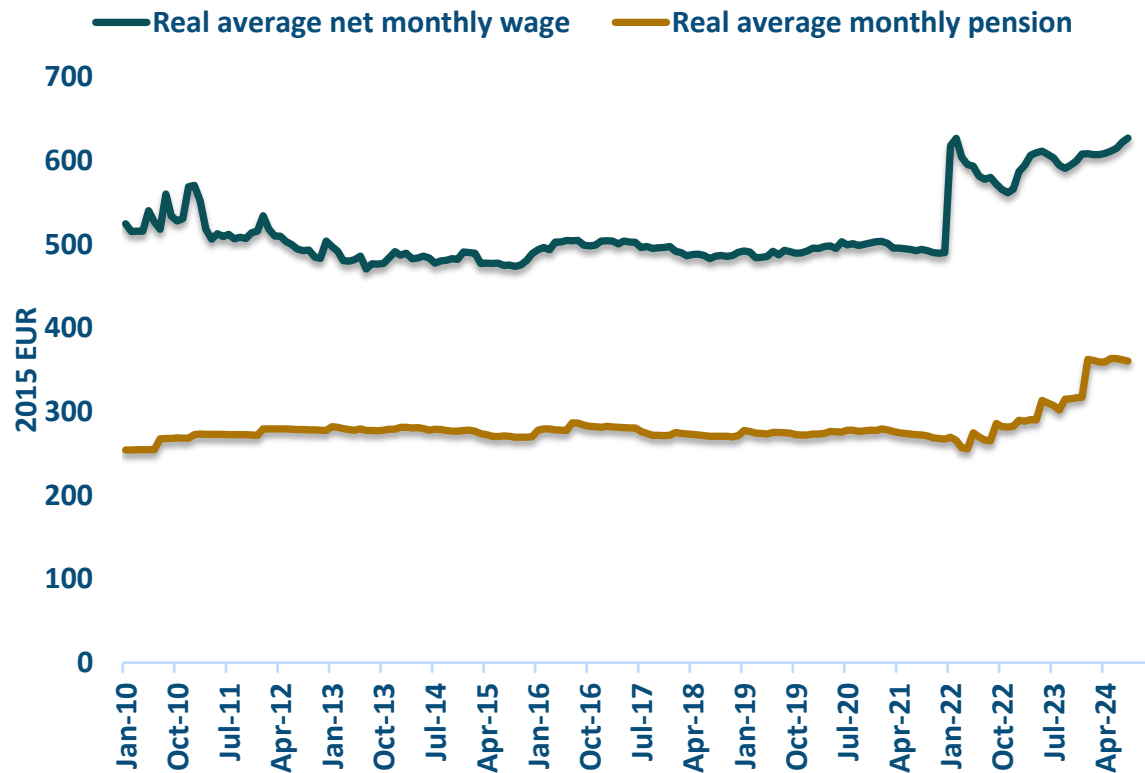


Monthly inflation slowed significantly, recording a negative growth rate in September due to falling food and fuel prices.

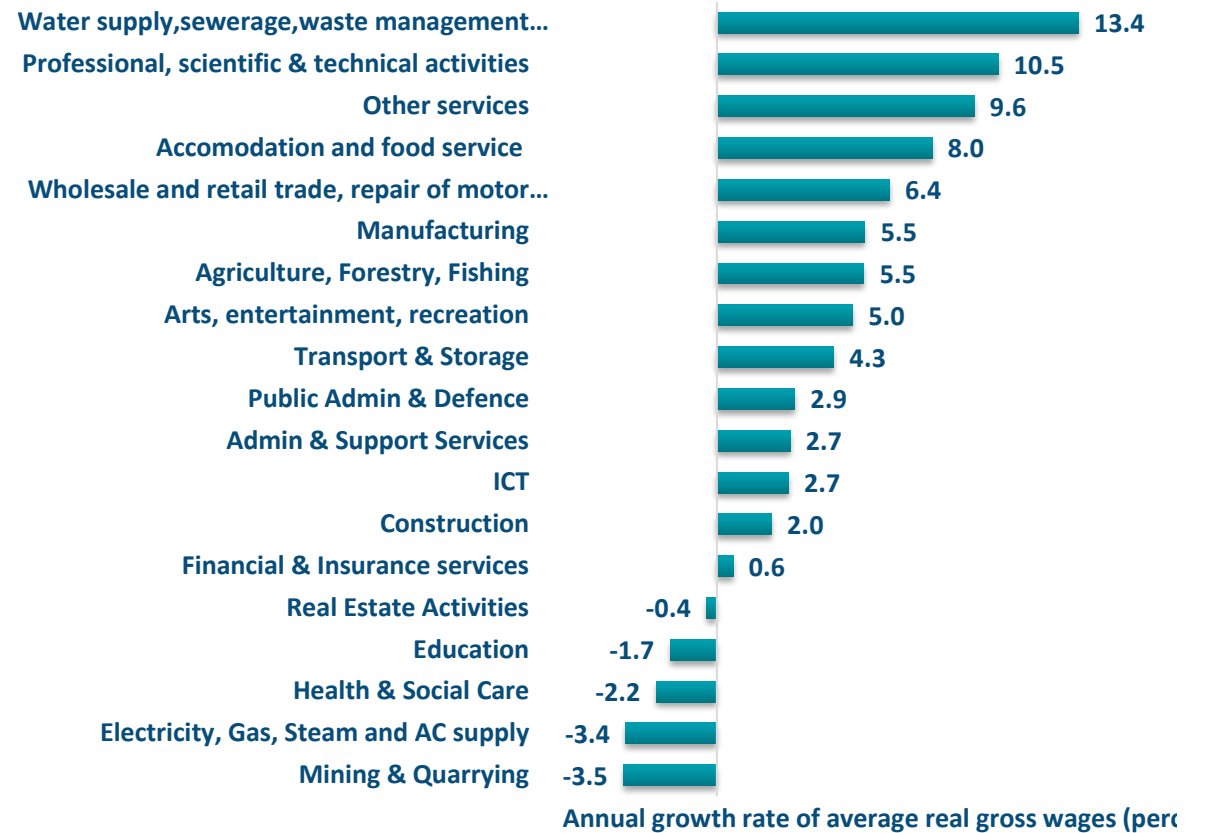


Wages | Real wages continued to grow in line with slowing inflation and a tight labor market

Real average wages continued to grow, while the increase in minimum pensions contributed to a 21% growth in the average real pension in the first eight months of 2024.

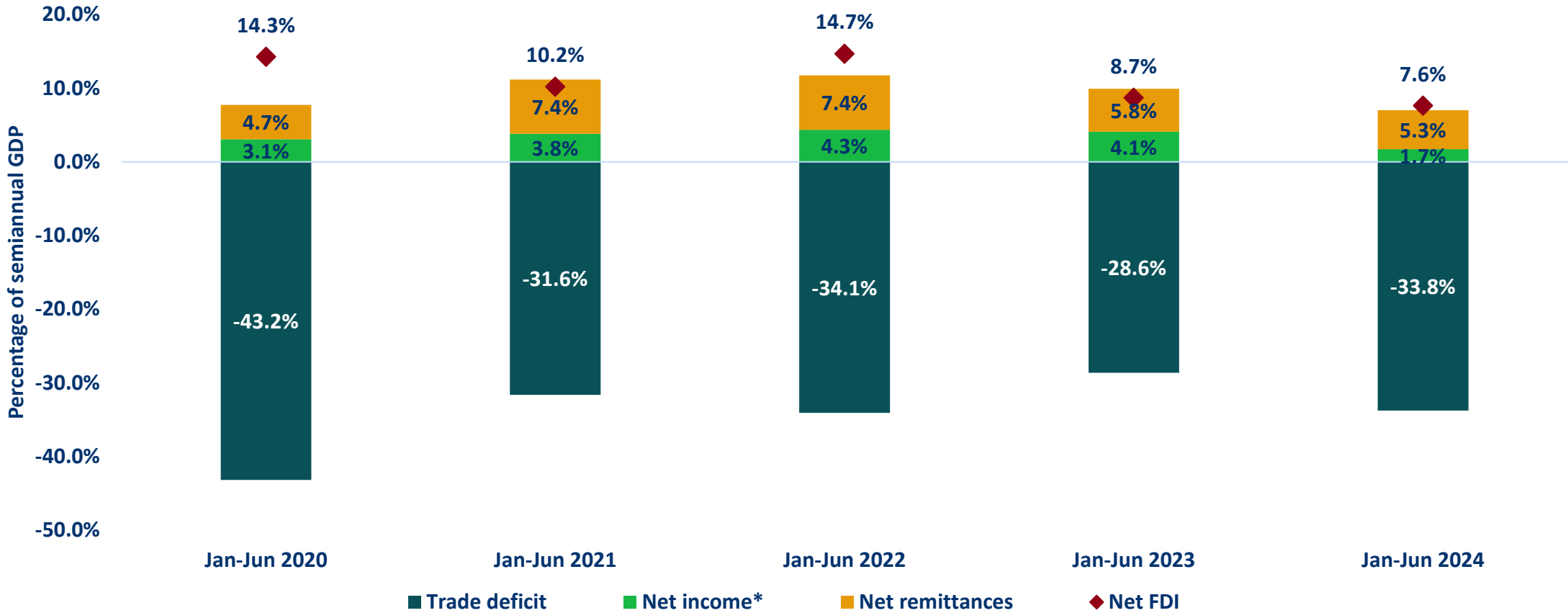


Almost all sectors recorded real growth in average gross wages.



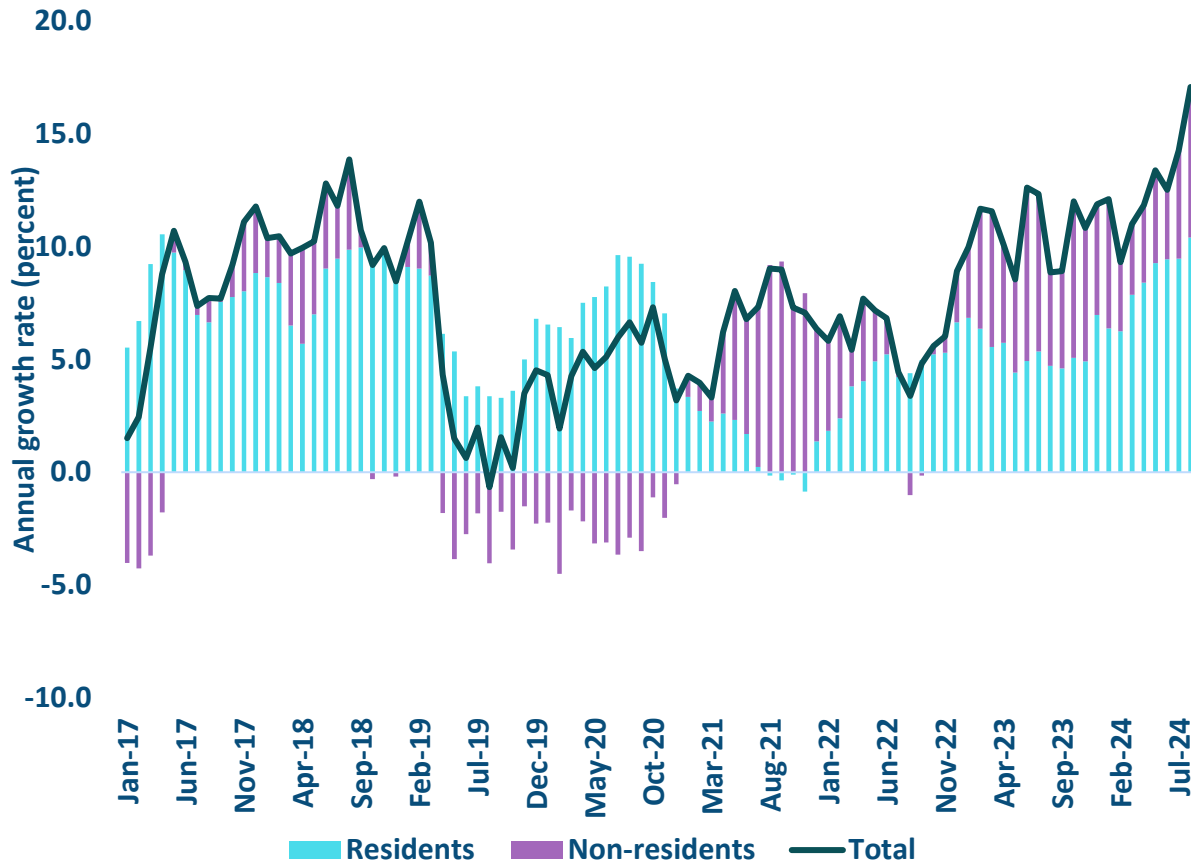
External | Declining exports and net income accounts widened the current account deficit

The current account deficit widened due to a growing trade gap from slower exports and declining net income. Net FDI remained at a slightly lower level, covering less than 30% of the deficit.

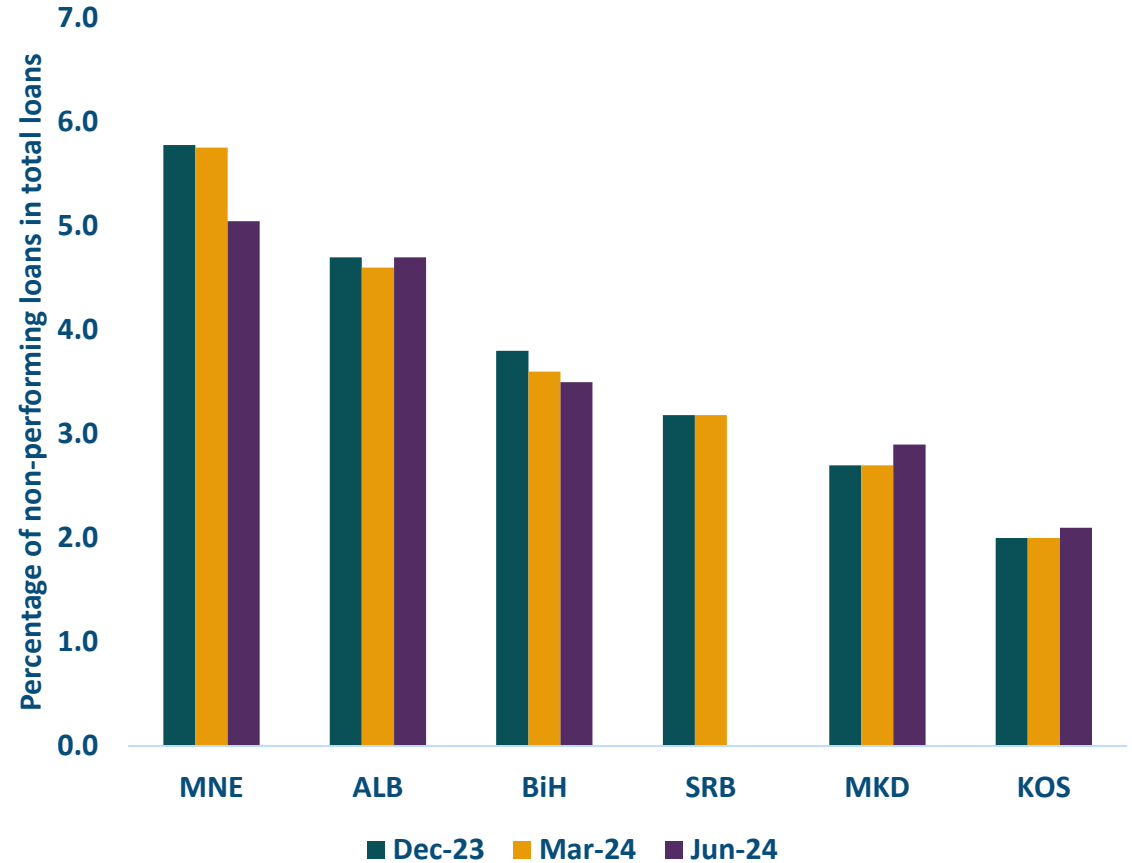


Financial | The financial sector continues to prove resilient despite heightened external risks

Credit growth has been strong in 2024, accelerating sharply since March.



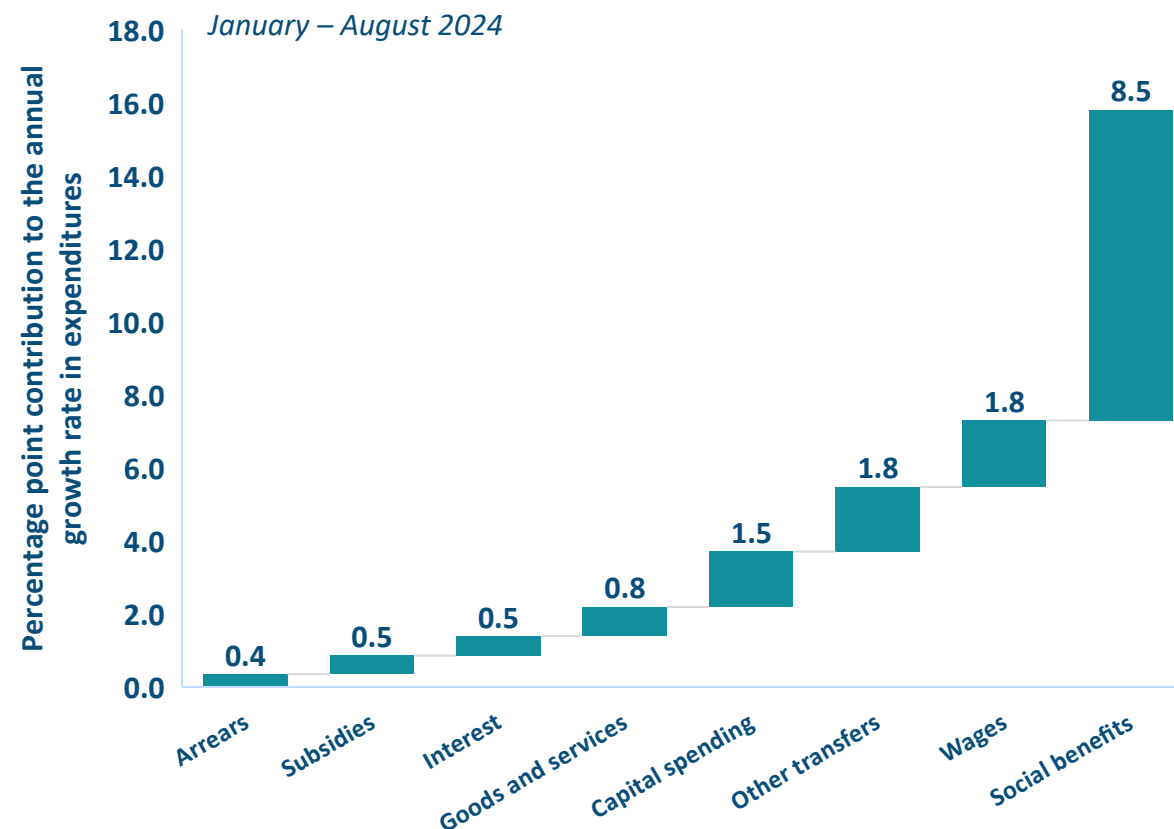
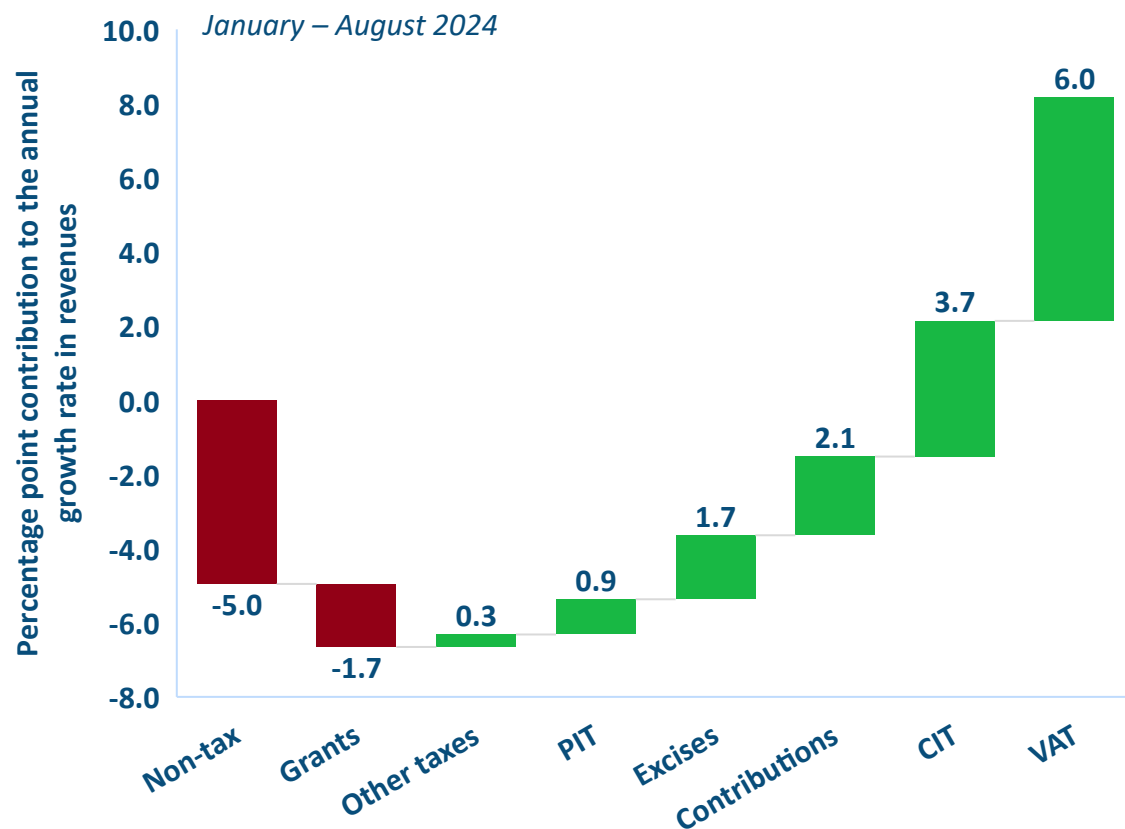
NPLs declined significantly but remain the highest in the Western Balkans.



Fiscal | Strong fiscal performance continued into 2024, with the central government posting a fiscal surplus exceeding 1 percent of GDP.

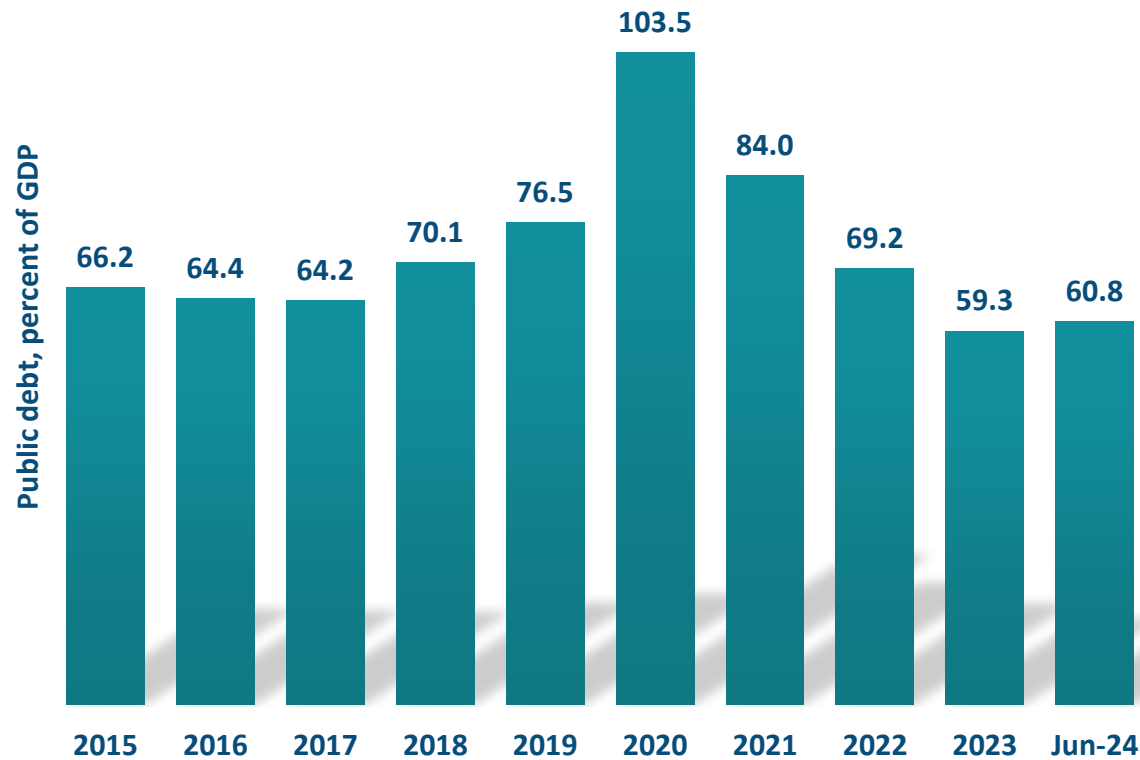
Revenue performed solidly, growing by 8.2 percent y/y in the first 8 months, despite the absence of one-offs from 2023...

...and despite a strong increase in expenditures, primarily due to an increase in the minimum pensions.

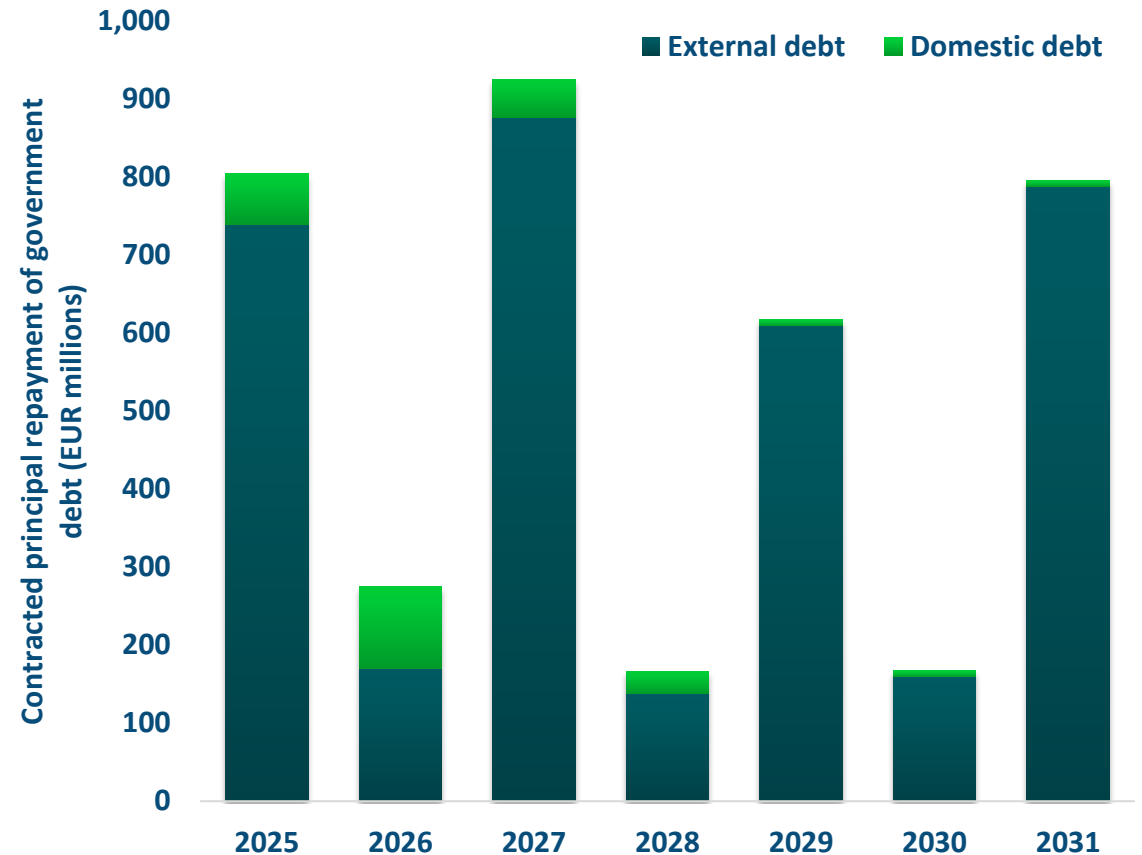


Public debt | Public debt increased slightly, following the Eurobond placement in March

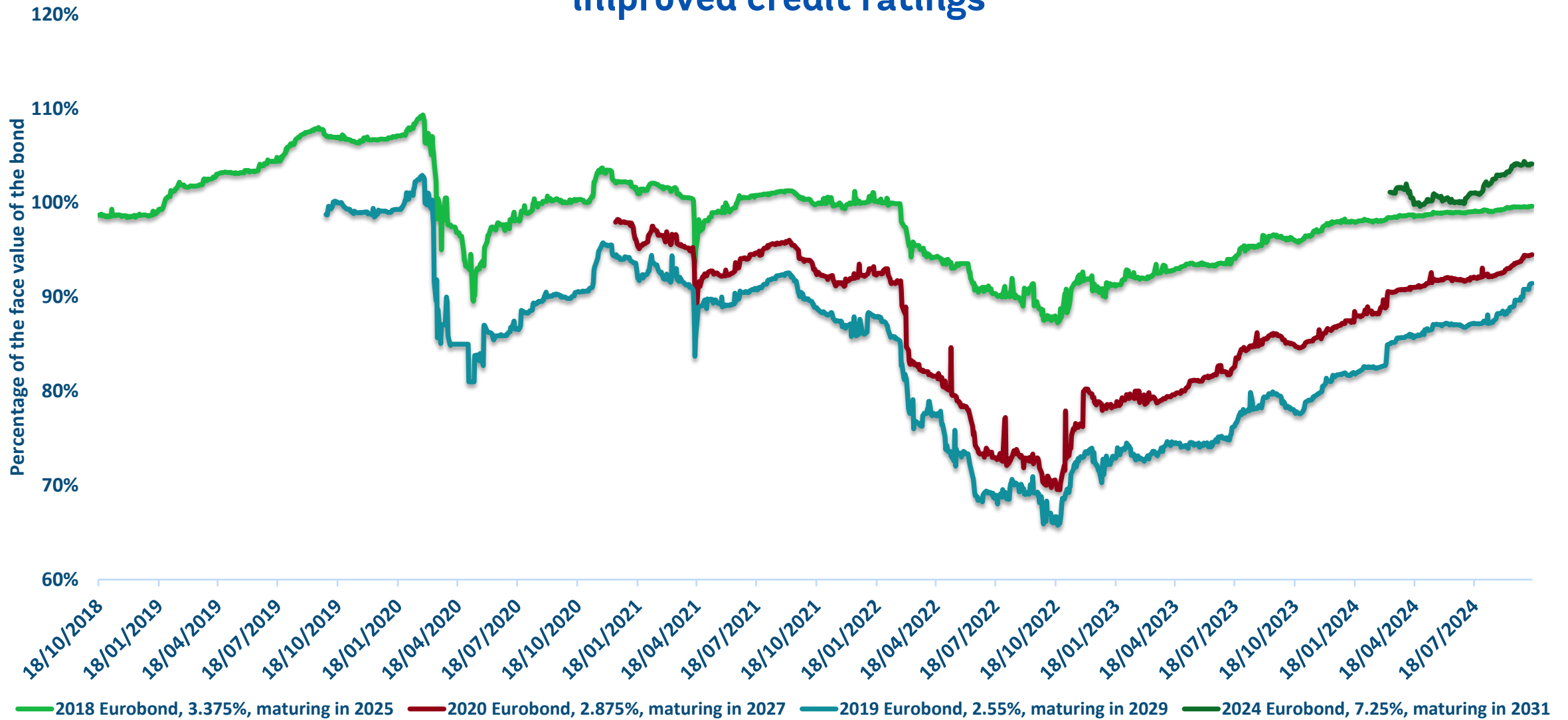
After falling to 59.3% of GDP in 2023, public debt increased slightly following the issuance of the Eurobond in March.



Large and uneven debt repayments require careful fiscal and debt management.



Public debt | Rising prices of the outstanding Eurobonds indicate investor confidence and improved credit ratings



Public debt | Yields on outstanding bonds have decreased, consistent with credit rating upgrades.

	Coupon	Maturity	Yield in % (28 Mar 2023)	Yield in % (26 Sep 2023)	Yield in % (10 April 2024)	Yield in % (15 Oct 2023)	Spreads (basis points)*
Albania	3.5	16/06/2027	6.5	5.5	4.6	4.1	211.04
	3.5	09/10/2025	6.1	5.5	4.5	4.2	126.58
Montenegro	2.785	16/12/2027	8.4	6.8	5.6	4.8	279.13
	3.375	21/04/2025	7.3	5.9	4.7	4.0	102.45
North Macedonia	6.96	13/03/2027	-	6.0	5.1	5.0	299.15
	2.75	18/01/2025	6.4	6.0	5.8	6.4	348.00
Serbia	3.125	15/05/2027	5.8	6.2	4.5	3.8	182.49
	6.25	26/05/2028	-	6.8	5.8	5.2	319.23
Bosnia & Herzegovina, Republic of Srpska	4.75	01/01/2026	7.0	7.1	7.4	5.5	324.35

Source: Börse Frankfurt, World Bank staff calculations.

*The spread (in basis points) indicates the difference in yields between the selected bond and the German bond with the same or similar maturity.

Outlook | The outlook has improved, but *retaining the growth momentum* will require stronger economic integration and structural reforms.

Real GDP growth, percent				
	2023	2024e	2025f	2026f
ALB	3.4	▬ 3.3	▬ 3.4	↓ 3.4
BIH	1.7	↑ 2.8	↓ 3.2	↓ 3.9
KOS	3.3	↑ 3.8	▬ 3.9	↑ 4
MKD	1.0	↓ 1.8	↓ 2.5	▬ 3
MNE	6.3	▬ 3.4	↑ 3.5	↑ 3.2
SRB	2.5	↑ 3.8	↑ 4.2	▬ 4
WB6	2.6	↑ 3.3	↑ 3.7	↓ 3.7

Note: Arrows indicate upgrade (green), downgrade (red), no change (grey) compared with Spring 2024

Domestic risks

- Political developments
- Fiscal implications of the proposed reforms

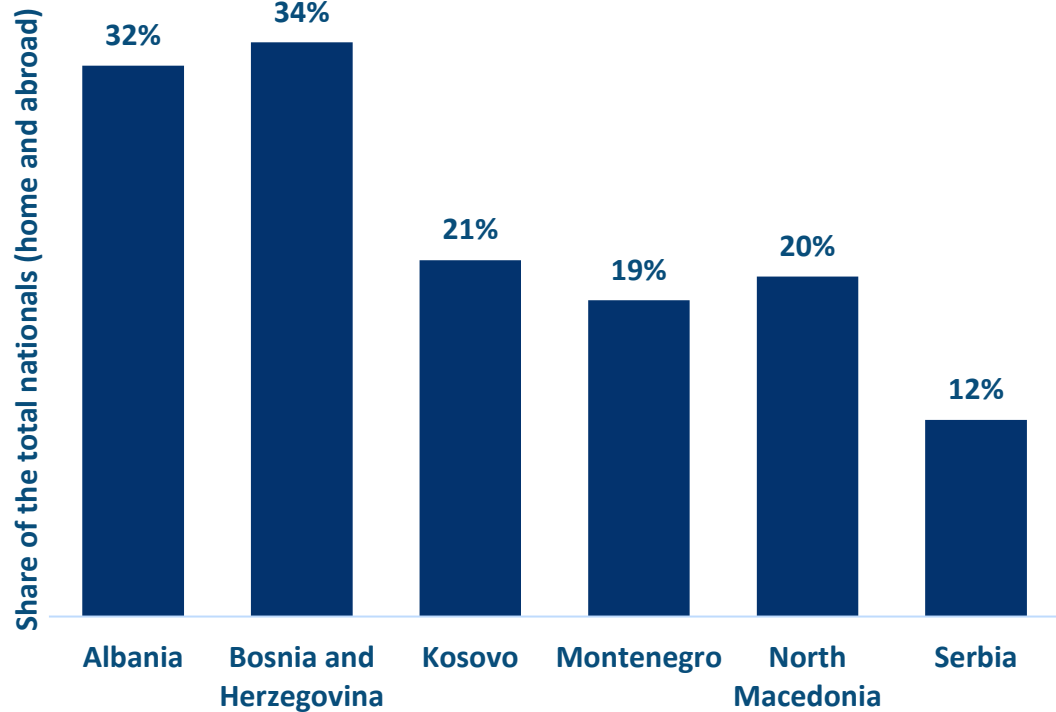
External risks

- Slowdown/stagnation in EU growth
- Geopolitical tensions
- Rebound in or prolonged global inflation

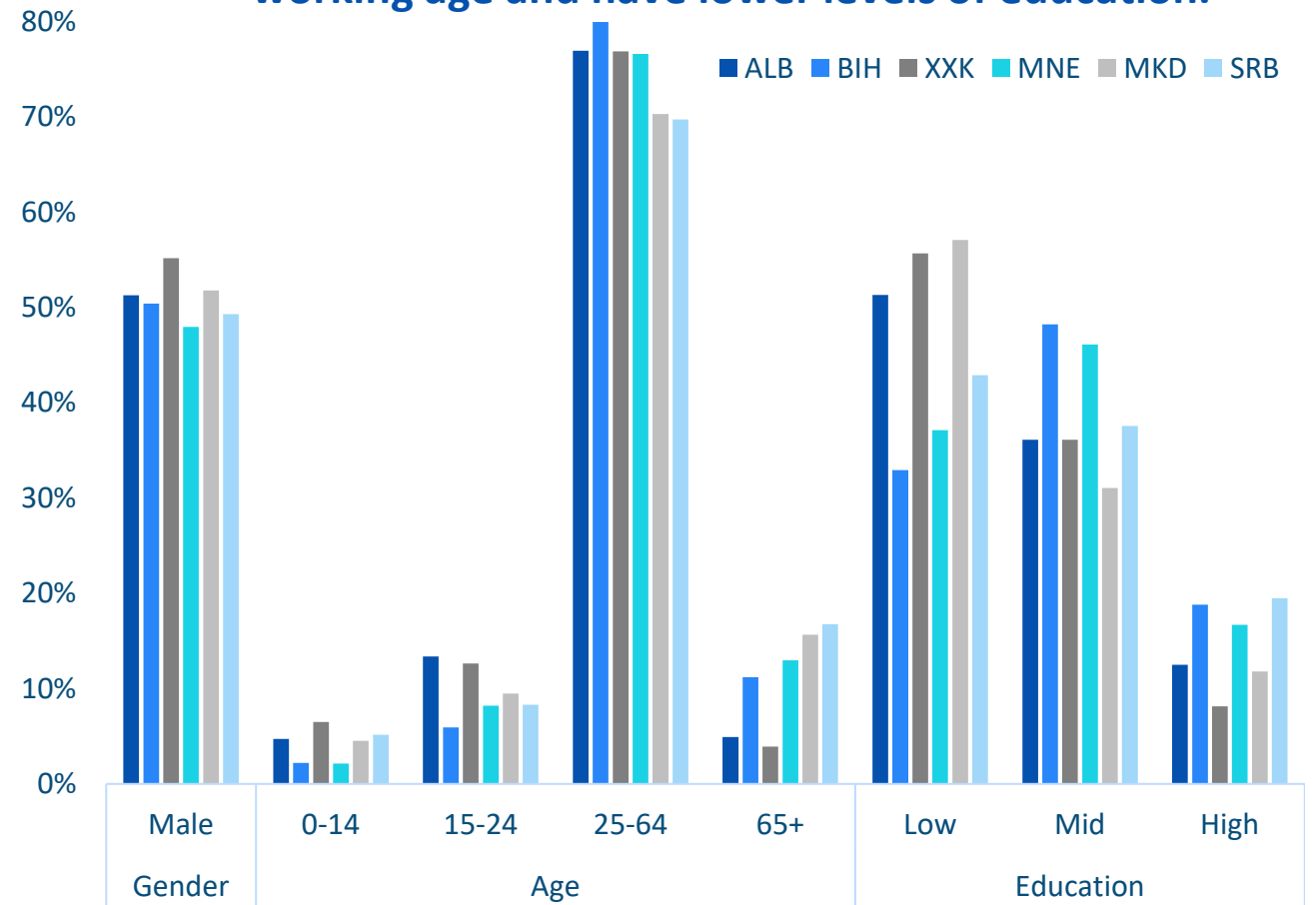
➤ *The EU's Growth Plan provides new financing and opportunities to accelerate integration with the EU. Expanding SEPA to some WB6 countries by 2025 would support market integration and remove financial barriers.*

Spotlight | Migration is a reality for many in the Western Balkans, with 5 million people living abroad and with similar migrant profiles

Nearly 1 in 4 people from the Western Balkans lived abroad in 2021.



The majority of emigrants from the Western Balkans are of working age and have lower levels of education.

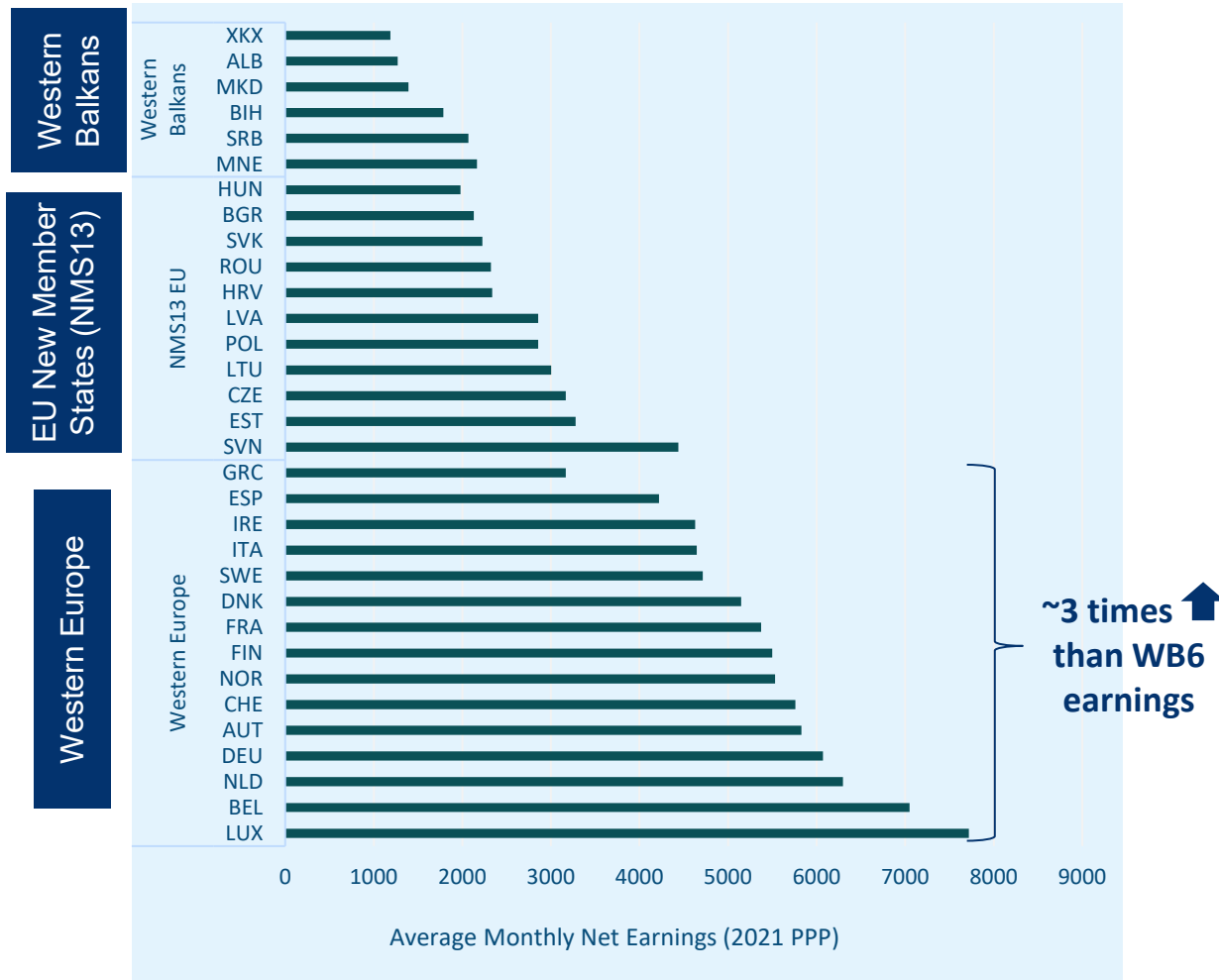


Source: World Bank KNOMAD (2022)

Spotlight | Factors leading to emigration are multifaceted...

Economic motives are a key driver...

But other factors also play a role...



Migration policies in destination countries



Family reunification



Dissatisfaction with the quality of education and health systems

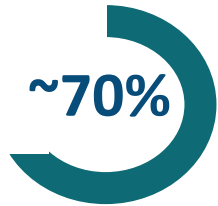


Perceived corruption

Source: Eurostat, Ilostat (2023) and World Bank World Development Indicators

Spotlight | Migration can help alleviate poverty, generate employment and increase firms' exports in origin countries

Poverty-alleviation through remittances



of WB6 emigrants send remittances back home



Remittances range from GDP share of

2.5% in  to

13.4% in 



Increase in poverty in absence of remittances

- Evidence from 

Employment generation

Returnees helped improve employability and wages of non-migrants in Albania

A 1 pp increase in returnees increased employment of non-migrants by **0.6%** in that district and their wages by **2.5 - 5.9%**

Source: Hausmann and Nedelkoska (2018).

Increased exports and productivity

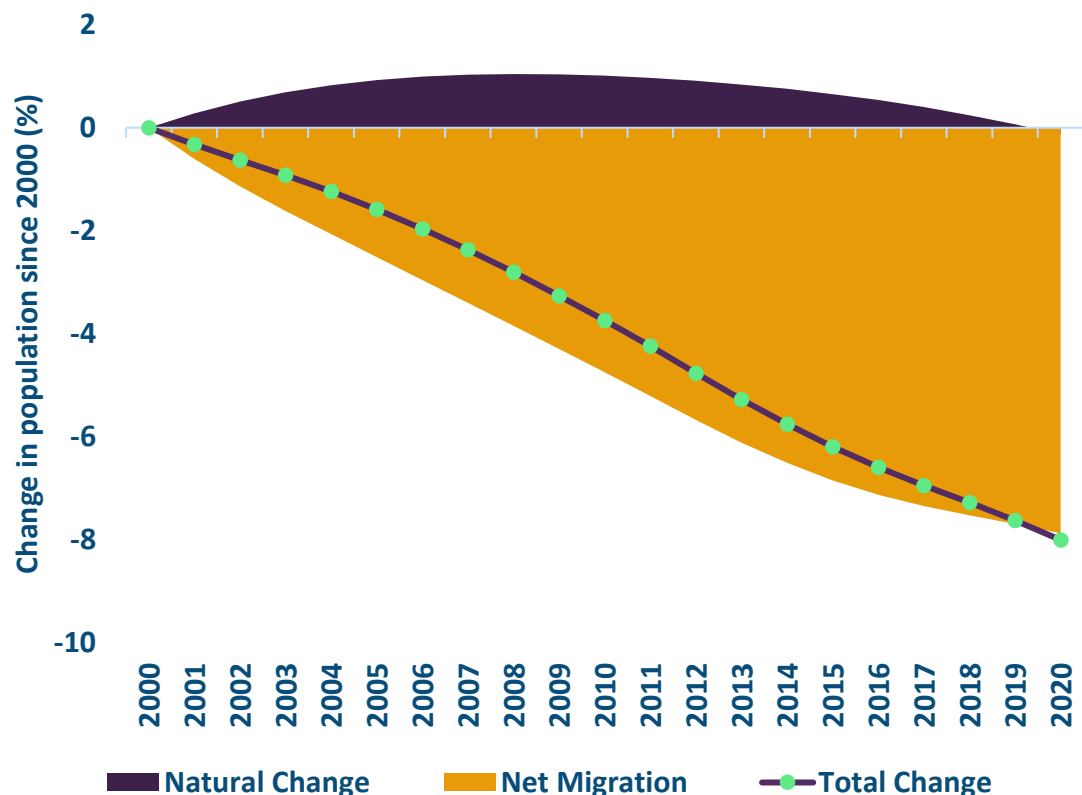
The global workforce in WB6 boosts exports, particularly in the knowledge-intensive sectors

Industries with **10%** more returnees after the war exported by **1 – 1.6%** more

Source: Bahar et al. (2024).

Spotlight | Foreign workers are increasingly recruited to address labor shortages in the WB6 countries

The Western Balkan countries have lost almost 8% of their population since 2000 due to emigration.



1.1 million
foreign-born individuals residing in the WB6

Annual issuance of work visas has risen by **4x and 3x** in Serbia and Montenegro since 2015

Foreign workers are increasingly arriving from farther places (e.g., Asia)

There is also a rise in Ukrainian refugees since 2021 **92,000** in the WB6 and **66%** in Montenegro alone

Spotlight | WB6 countries have made progress in developing migration strategies and institutions, but challenges persist



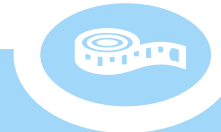
Data

- Limited data availability
- Standardization and system interoperability challenges



Governance

- Gaps in long-term policy cohesiveness
- Overlapping roles and responsibility
- Limited horizontal and vertical coordination
- Imperfect links between migration pathways for foreigners and economic needs



Tailored Services

- Pre-departure:
 - Limited information and training
- During migration:
 - Imperfect social protection access
 - Limited diaspora outreach and lack of incentives for return
 - Limited services for integration of foreigners
- Upon return:
 - Fragmentation, low utilization and restriction of services to limited groups



Bureaucratic Barriers

- Challenges in transferring personal records
- Limited recognition of foreign skill credentials
- Burdening administrative requirements to access services
- Limited regulations on recruitment agencies
- Lengthy processes to admit foreign workers



Capacity

- Reliance on more volatile donor funding
- Understaffed agencies to engage with diaspora, returnees and foreign workers
- Insufficient resources for M&E

Spotlight | The vision: Leveraging benefits of a mobile workforce



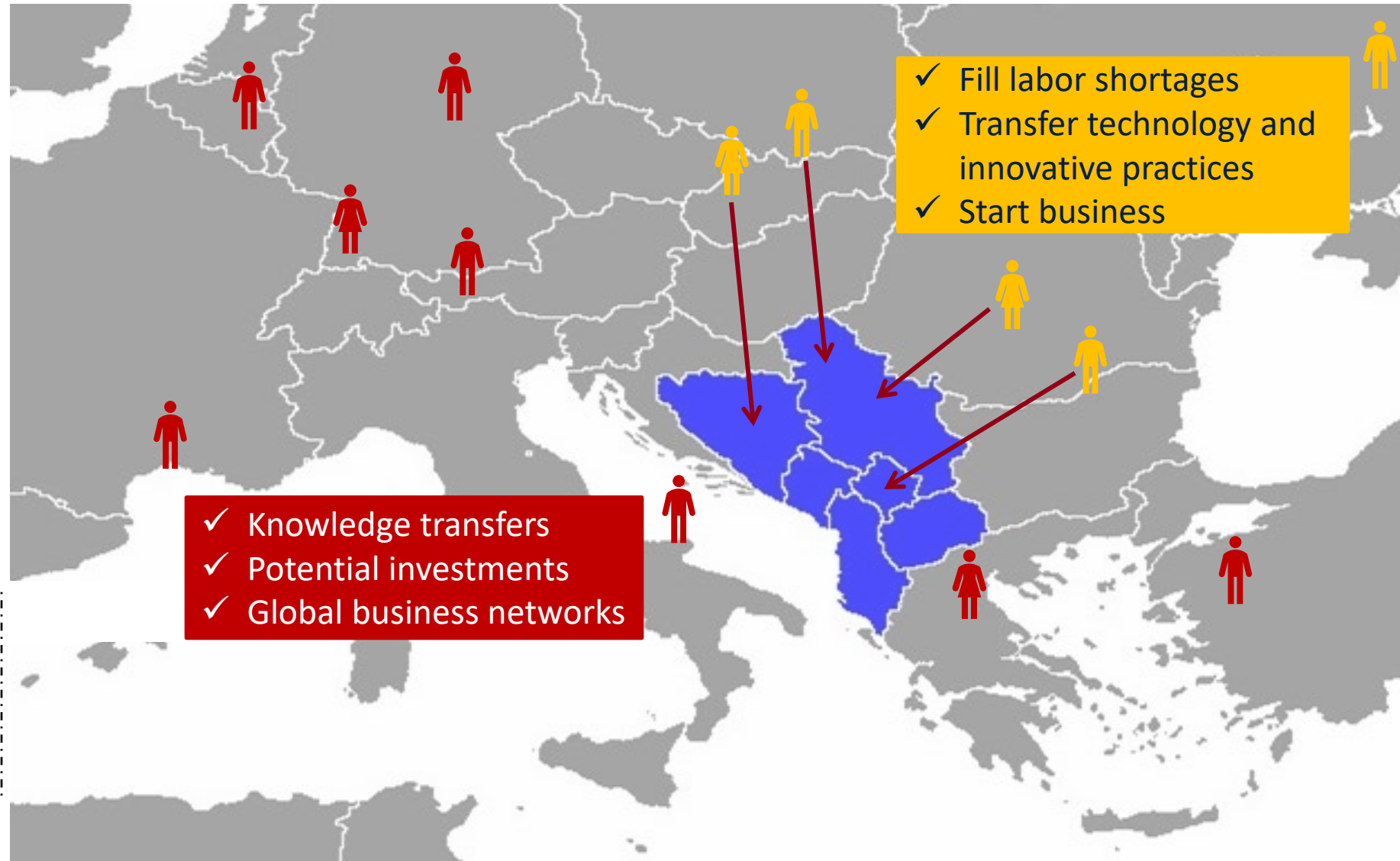
Global Workforce



Migrants who will eventually return





Migrants who will not return



Spotlight | There are several actionable policy measures that countries can take to unlock the development potential of migration

Strengthening migration governance framework

-  Application of migration lens to strategic documents
-  Develop skills training and mobility programs (eg: GSPs)
-  Expand the depth and breadth of Bilateral Labor and Social Security Agreements

Expanding protection and service provision throughout the migration cycle

-  Improving emigrants' social protection
-  Pre-departure training and information
-  Robust consular services
-  Lower remittance costs
-  Strengthen and scale-up diaspora channels
-  Information on tax incentives for returnees
-  Services to reintegrate returnees

Developing a fit-for-purpose immigration system

-  Investment in labor skills monitoring systems and linkages to migration policy
-  Increase attention on foreign workers' labor market integration

Leveraging data and technology to improve service effectiveness

-  Digitalization for integrated migration management and service delivery systems
-  Strengthen data collection for Social Registry, covering short-and-long term migration



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Thank you!

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