

# Preface

Advancing an ambitious reform agenda, the six Western Balkan (WB6) economies have emerged over the last two decades as a group of small but growing open economies that are improving business conditions and attracting investment. Since 2000, reforms have contributed to a doubling of the region's GDP and a six-fold increase in export volumes.

Yet more needs to be done: the average gross domestic product per capita is still only one-third of the European Union's and unemployment levels remain too high, especially among young people. Many industries in the WB6 economies remain fragile, their technology largely outdated and their products not sufficiently competitive outside their region. Furthermore, wage increases in the export sector are outpacing productivity growth, thus blunting the region's competitive edge.

The persisting structural weaknesses of the Western Balkan region have been amplified by the COVID-19 pandemic crisis. Lockdown measures to protect citizens' lives have resulted in a sharp drop in economic activity, a collapse of exports and a rise in unemployment in most WB6 economies.

Innovative growth strategies are needed more than ever to support a post-pandemic recovery that is robust, inclusive and sustainable. Further reforms are necessary to ensure the region can avoid the middle-income trap and help unleash growth and investment in knowledge-based sectors with higher potential for value-added and quality jobs. Ultimately, a people-centred policy approach is needed to improve opportunities and living conditions by fostering human capital and well-being, areas where the WB6 economies can benefit from the experience of EU members and OECD countries. In this context, an important driver for balanced reform efforts is the prospect of accession to the European Union (EU).

This third edition of *Competitiveness in South East Europe: A Policy Outlook* provides a wide-ranging representation of economic performance, governance and regulation in the Western Balkan economies. It offers extensive guidance to steer structural reforms, supporting the Economic Reform Programmes and the EU's Economic and Investment Plan for the WB6, and – through its regional collaboration approach – regional economic integration of the Western Balkans. It draws on qualitative and quantitative information across 16 key policy dimensions, and is broken down into over 350 individual indicators that allow WB6 policy makers to directly compare economic performance across countries and benchmark themselves against OECD and EU averages. It also enables policy makers to track performance over time, by comparing outcomes against those reported in previous editions, published in 2016 and 2018. This 2021 edition clearly highlights that while uneven, progress is being made across all areas, together with increasing intergovernmental co-operation. For example, the WB6 economies are engaged in important initiatives to align their tax systems with recent international tax trends and have laid the foundations for a competitive energy market.

Importantly, this report illustrates the benefits of a strategic approach to driving economic reform, which is guided by in-depth evidence-based analysis. This publication was drafted in close collaboration with hundreds of WB6 government representatives as well as local and regional stakeholders and co-funded by the European Union. The WB6 governments provided rigorous qualitative self-assessments and statistical data. We would like to thank all those who have contributed to this collaboration. We very much hope that this *Competitiveness in South East Europe: A Policy Outlook* is used to strengthen the competitiveness of the WB6 countries to build more inclusive, prosperous and resilient economies for the citizens in this increasingly relevant region.



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