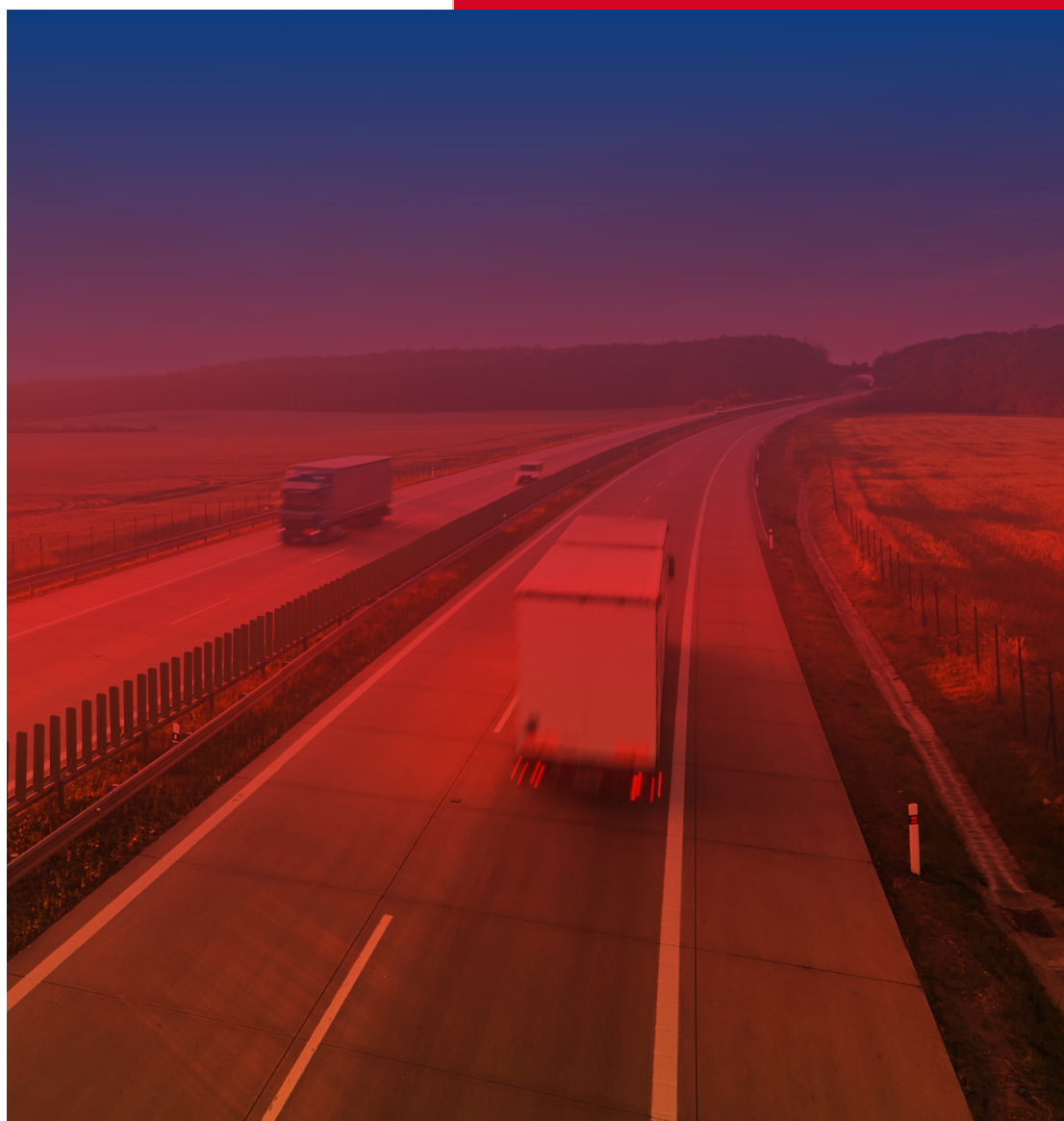


ECONOMIC ANALYSIS AND KEY PERFORMANCE INDICATORS



Title: Monitoring the Implementation of the Common Regional Market Action Plan (2021-2024) - Key Business Insights on Priority Action Points

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To contribute to the successful realization of the Action Plan 2021-2024 for the Common Regional Market (CRM AP), WB6 CIF and its Business Council commit to monitoring and documenting the tangible progress as felt by the business community of the region through regular progress reports. The reports will present an analysis of the viewpoints of the private sector on the state of implementation of the CRM AP, identify and propose priority measures from the viewpoint of the business community, and look at the way the common market functions in practice, in particular in key areas and for key market actors. This will help all stakeholders and policymakers – at the regional and national level – to assess the effects of policy actions already undertaken and to identify the right priorities and better respond to the needs of businesses.

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Abbreviations

CEFTA Central European Free Trade Agreement

EU27 European Union 27

FDI Foreign Direct Investments

GDP Gross Domestic Product

NTM Non-tariff measures

SPS Sanitary and phytosanitary

SQAM Standardization, quality assurance, accreditation, and metrology

TBT Technical barriers to trade

WB6CIF Western Balkans 6 Chamber Investment Forum

Foreword

The Western Balkans 6 Chamber Investment Forum and its Business Council committed to monitor the implementation of the Common Regional Market Action Plan, with the intention to provide continuous feedback to the policy makers, national authorities and all interested stakeholders on the reflections of the business community on the implementation of this key document of the regional economic agenda, in view of the direct and tangible improvements in the business climate in the region, easing doing intraregional business.

The full implementation of the Common Regional Market remains an issue of utmost priority for the region's business community, and despite the laggings in its implementation in the first year of the implementation of the Common Regional Market Action Plan, the results from the conducted survey confirm that the issues stated as action points in this document still remain valid requests of the regional business community and businesses across the region expect to see visible shifts in related to the issues selected as Key Priority Areas.

SECTION I

Credibility of regional economic policy under pressure of geopolitical risks in Europe

PART I

Credibility of regional economic policy under pressure of geopolitical risks in Europe

Actual inflation and energy crisis in Europe, deepened by the crisis in Ukraine, is pushing the European economy to a slowdown and potential recession in 2023. Based on the higher energy prices, which will remain in the mid-term period (compared to the annual average in the last ten years), the European economies are at risk of loss of competitive advantages on the international market, which could lead to the brink of the macroeconomic instability in significant number of countries (lower export income, higher budget deficit and debt burden) and consequently to the social issues (lower standard of living, increase of the share of the food-insecure population). If the political crisis in the Eastern Europe continues to escalate, bearing in mind other negative trends in the global economy (protectionism, deglobalization, tensions between the economic super powers, rise of interest rates etc.), the economic impact could be much more negative. According to the baseline scenario, which includes the diplomatic solution for the Ukrainian crisis in line with the international law, the European economic crisis could be shallow but much longer, compared to the pandemic 2020. However, there is a certain risk that the longer crisis or stagnation could erode the economic potential of many European countries.

The mentioned risks that are shaping the potential economic crisis in Europe are much more expressed in the group of emerging and developing countries, namely in the Western Balkans. Although there was a significant increase of the regional economic activity since 2015 (excluding the pandemic 2020), the region is facing an increase of external and internal risks that could essentially jeopardize the sustainability of local economies. As for the external risks, the main aspects that affect regional economy are: restrictive monetary policy of leading central banks (Federal Reserves and ECB) and rise of interest rates, anemic growth in the eurozone closer to stagnation, economic relations between the countries – key global market players, including geopolitical risks, “green agenda and process of decarbonization/carbon tax” etc. From the side of internal regional risks, the following issues should be highlighted: negative demographic trend (both natural and mechanic); inequality in terms of regional development; intra-regional political risks and corruption. Nevertheless, negative demographic trend is the main risk to the sustainability of the Western Balkans economy, since there is no sustainable growth in the countries in which the population declines. On the other hand, it is crucial to understand that every potential economic emigrant means one worker less, as well as one consumer less for the regional economy, thus making double negative impact.

According to the official censuses published by the national statistics, there are 18 million people living in the region, but the actual number of inhabitants is most likely somewhere between 14 and 15 million, due to vast emigration that has happened in the last decades. Regional economic and social policies, as well as the diplomatic and political actions by the local governments, should be taken toward the stabilization of the demography. Those actions are very challenging in the actual European crisis, including the increase of uncertainty, but there is a need for awareness that delaying the necessary measures could be much more problematic for economic and social potential. In the time of crisis, the credibility of the governmental policies, from the citizens and business community point of view, is crucial for the implementation of reforms toward a more attractive and sustainable social and economic environment, as the fundamentals of human welfare.

Credibility of economic policy

Managing economic policy in times of crisis should be very prudential in the sense to avoid macroeconomic instability. Referring to the three market players in economic relations: citizens, business and government, the burden of the crisis should not be put unequally on one of the sides. For instance, if the burden is too much on the citizens it will lead to the decrease of purchasing power, lower personal consumption and poverty. On the other hand, too much pressure on the companies leads to liquidity problems, loss of competitiveness, disinvestment, increase of unemployment and possibly a higher rate of bankruptcy. Finally, if the government takes the majority of the burden it could make a long-term damage to the macroeconomic stability, deep budget deficit and much higher gross financing needs, downgrade of the credit rating etc. The credibility of economic policy depends on the level of success of the following activities:

- Ability to stabilize and maintain the supply chain in the retail sector, to provide access to the basic goods with acceptable prices, and ability to overcome sudden deficits in stores (supporting the internal productions, temporary higher import, price limits on a reasonable level).
- Ability to support inflow of foreign direct investments (by maintaining the favorable investment environment) and to act toward the big investors/big market players to persuade them to preserve the existing and create new local and regional supply chains. Large foreign and domestic investors should be aware of the significance of local supply chains (nearshoring), while the interest of making relatively short-term profits should not blur the picture of economic system far in the horizon and beyond.
- Ability to maintain stable fiscal policy and to keep the budget criteria within the framework supported by the international financial institutions (IMF) and credit rating agencies, having in mind a more difficult access to the international capital market due to increase of the interest rates and risk premiums.
- Ability to put inflation under control and preserving the stability of foreign exchange rates. However, the rise of key policy rates, which leads to the higher price of capital in commercial banks (loans to citizens and companies), has a limited effect on this inflation since it is necessary to stabilize the energy market. On the other hand, a more aggressive increase of rates can further slowdown economic growth, and that is what economic policy makers fear. For this reason, the central banks should be careful when using the measure of restrictive monetary policy.
- Ability to provide the stability of energy system and to cover the needs of the citizens and companies, especially during the upcoming winter period. The potential restrictions of energy to companies could lead to lower production, loss of competitiveness and the access to the international market, disinvesting and workforce reduction. However, higher energy bills for citizens are linked to lower personal consumption and decline in demand for goods and services in the market.

Credibility of social policies

The preservation of the economic potential of citizens and the companies during the crisis is a necessary but not solely sufficient condition to increase the standard of living in the years to come. The legal and social reforms and urgent measures should not be delayed (to wait until the crisis is over), especially because it needs time to show results. Many economic emigrants who have decided to leave the region stated that a better economic condition is not the only reason they are not interested to return to their home countries. Among many reasons why they have decided to stay abroad permanently are: rule of law, health and social protection, education possibilities, environmental protection, including ecological standards etc. If the region intends to be more attractive for living, which could contribute to the stabilization of demography, the following actions should be conducted in the mid-term:

- Ecological standards in industrial production and daily life of the citizens should be significantly improved, which includes lower carbon emissions, building waste water processing plants, ecological obligations for foreign direct investors, restructuring the energy mix toward a higher share of renewable energy, but only with an acceptable level of risk for overall energy system stability.
- Importance and strength of the regional medical system has been tested during the pandemic, but except a relatively successful response to the pandemic and very devoted service of local medical staff, many problems in the health system across the region have been noticed. As the time passes, the lack of trained high-quality medical staff is evident, and it could be very challenging in the future. The health culture in the region is below the EU average, and it leads to a reduced quality of work and ability to work. Special attention toward the health system is urgently needed.
- The region has inherited a relatively good educational system (especially in the secondary and specialized schools as well as the universities), but over the time regional institutions of higher education have been sliding down on international ranking lists due to insufficient investing in research and development. The research units within the educational institutions should be supported by both governments and the business community in order to preserve the technological and technical competence in line with the modern standards (cooperation between the business and academic community). Adjusting the educational profiles in line with the needs of business is best exemplified by the dual education system that combines apprenticeships in companies and vocational education at vocational schools in one course. This approach should be strengthened and spread across the region.
- Although the local governments put a lot of effort to harmonize legislative framework in line with the European standards, the rule of law and fight against corruption in the region is still criticized by the European and international institutions. The predictability of the legal framework and the efficiency of the judiciary system, as components of favorable business and social environment, have to be improved in the upcoming period.
- Long-term demography support measures (support for purchasing a place to live, car purchase, subsidies for investing in working tools or for starting a family business, reasonable financial support to children until they turn 18, etc).

Credibility of regional integration process

Probably the main risk that the foreign investors have in mind when making plans to start or to extend their business operations in the region is the political risk, since the negative reputation from the 90s is still present. It is important to note that after the political crisis was over, local business people were the first to reestablish intra-regional cooperation based on their mutual economic interests.

Since the early 2000s regional business cooperation has been on the rise, especially after local economies entered the CEFTA agreement (2006). The business community clearly supported the political initiatives aimed at creating the Common Regional Market in the Western Balkans based on the four EU economic freedoms: free movement of people, goods, services and capital. While supporting initiatives that bring the regional economies closer, the business community has been relatively critical concerning the progress of said initiatives. Business people require tangible and measurable results and have been calling for a more efficient implementation in line with the given time framework (by the end of 2024).

The implementation of the Action Plan has been deemed as too slow by the business community, which is another message to the local governments to increase the efficiency of implementation of administrative measures and policies already declared by the top officials as a matter of mutual interest.

Credibility of EU integration policy

The regional business community is aware that the EU integration of the Western Balkans is a two-sided process. The local governments have declared full EU membership as the main political and economic goal, and they committed themselves to overcome the intra-regional political disputes and to harmonize internal legislative frameworks fully in line with European standards. However, that is a very long and uncertain process having in mind that local political interests sometimes are not in line with their economic interests. On the other hand, the EU reforms and revisions of enlargement policy is a very complex topic, since there is a lack of consensus between the existing EU member states. The fact that some countries had become EU members after the fast-track procedure prompted by geopolitical interests, is discouraging for the local public which is relatively tired of a prolonged, and in the last couple of years, almost stagnant process. The regional initiative of creating a common market based on the four economic freedoms with the final intent to become a part of the European Economic Area (as actual cooperation between the EU and EFTA) is meaningful as a temporary solution, but it should not be a substitution for the full EU membership of all six regional economies.

Having in mind that the region is on the path of EU integration and the fact that more than two thirds of regional trade is related to the European Union, plus that the majority of foreign direct investments are coming from the eurozone, the Western Balkans economies need more understanding from their European partners in order to go get a credibility boost regarding the EU-perspective:

- The region is an open market economy, integrated into the international market, but still below its potential.
- The production oriented regional economies are in the process of reindustrialization, and their sustainable growth model should not be only export oriented, but also focused on the domestic consumption. The sustainability of growth is based on two pillars: 1) attracting foreign direct investments into the economic branches of higher value added and 2) helping the local micro, small and medium size companies to be included into the supply chains of big market players (transnational companies and large domestic companies).
- The regional economies that have a significant share of tourism in the revenue mix need a stable environment and openness toward regional and foreign visitors, plus the adequacy of supporting branches (food production, various delivery of services and goods) and workforce, especially during the season.
- As the regional economy is dependent on foreign direct investments, which are noticeably lower in 2022 than in the previous year, it should also be welcomed from non-EU countries, in order to give a boost to the local economic dynamics.
- The existing free trade agreements with non-EU countries should be preserved, since it gives a tangible competitive advantage, and it has been used by many EU based companies which have opened business operations in Serbia.
- Some of the regional economies are highly dependent on import of energy from Russia (almost 100% dependency on natural gas imported from Russia). The import of energy has to be diversified, but it is wrong if one dependency is just replaced with the other.
- Since many businesses in the region are experiencing a labor shortage, especially in the processing industry, hospitality and transport, the inflow of refugees from Ukraine and immigrants from Russia would be significant for the economy.
- The foreign companies who decided to reduce or to suspend their business operation in Russia, should consider moving their facilities to the region.

- The regional funds necessary to support the local population and business are quite limited (especially after a significant expense during the pandemic), especially in the economies of smaller economic potential.
- The EU-integration process of the Western Balkans should speed up, while the regional integration process should be boosted by the authority of EU institutions.

The essence of the mentioned credibility is that the interpretation of undertaken measures by the local governments and the EU institutions, and their results, should not differ from the market reality and broader social environment, since it is individuals that participate in the market and are aware of the economic situation in the country.

Finally, the need of local governments to preserve credibility, supported by the EU institutions, in citizens and business communities point of view, could make the administrative decision-making system more efficient, leading to the implementation of already declared economic, social and integration measures toward a promising mutual future. In other words, better economic opportunities and an increased standard of living have been proven many times as the best way forward towards a peaceful, healthy and prosperous environment.

The outbreak of the war in Ukraine at the end of February 2022, as well as the introduction of the series of Western sanctions against Russia, simultaneously affected the business of many regional companies. Actual current crisis is the result of a plexus of external factors, and negative impact also spills over into the domestic economy. However, there is a certain time gap present in observing the full scale of consequences, considering that the crisis first appears in developed economies, and after a certain period of time spills over to the emerging markets and developing countries.

The biggest concern is the inflation, which reduces the purchasing power of the population and causes higher production costs. Along with lower demand and market realization, the general rise of prices leads to liquidity problems for many companies. The citizens consumption as the main component of the GDP is not only impacted by the inflation, but also by the increase of interest rates on existing loans. However, a huge problem for citizens would be the depreciation of national currencies if capital flight occurs (in a very pessimistic scenario which includes the escalation of the political crisis). The other negative component to the regional GDP is the increase of the foreign trade deficit due to higher prices of energy, raw materials and consumer goods imported from overseas markets.

It is difficult to predict what the economic dynamic will be in the following year, but a deeper economic crisis in Germany and the rest of the eurozone leading economies could trigger complex issues for the region. A huge problem for the regional economy would be if an increase in unemployment occurs, as a consequence of a bankruptcy wave during the energy and economic crisis that is becoming more and more possible in Europe. An increase in the number of unemployed would lead to an additional decrease in internal demand, and many people would decide to emigrate, which would have devastating consequences on an already difficult demographic situation.

According to the majority of economic analysts, even if the war in Ukraine stops today and some kind of armistice has been agreed, the economic consequences of these tremendous geopolitical events could last

more than a decade. However, Europe cannot achieve its economic potential without cooperation with America, Asia, Africa and other continents. The global market is characterized by international competition, but there are things of general interest, one of which is sustainability and that implies mutual understanding.

SECTION II

Key Survey results within the key areas of the common regional market

PART II

WB6CIF Key Survey results within the key areas of the common regional market

The WB6CIF define key performance indicators for monitoring development of common regional market based on statistical data, survey and chambers insights. The conclusions are define for the objectives of measurement development of main fields in sound indicators, in particular concerning fields of four freedoms.

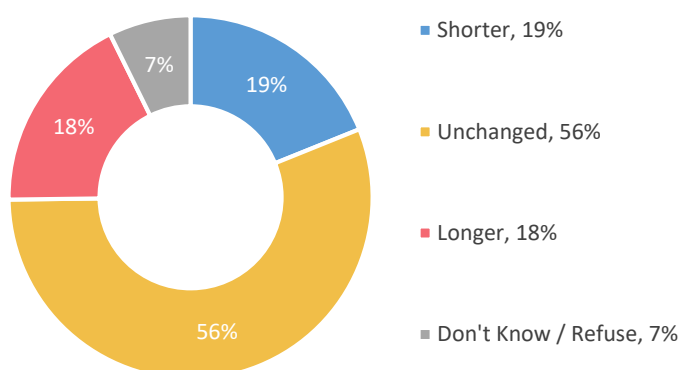
The set of Key areas presented below is the analytical approach to address this request. The set of indicators presented below complements other existing monitoring tools and its main purpose is to report the different areas identified as priorities for the Common Regional Market. Regular reporting based on public data sources could support all economies in providing timely policy response as identified challenges. The scope of this set of indicator is wide, as cover different parts of common regional market.

The list of indicators in this document is not rigid and will develop during the time and collecting additional data. As new data becomes available and policy priorities evolve, the survey will be evolve.

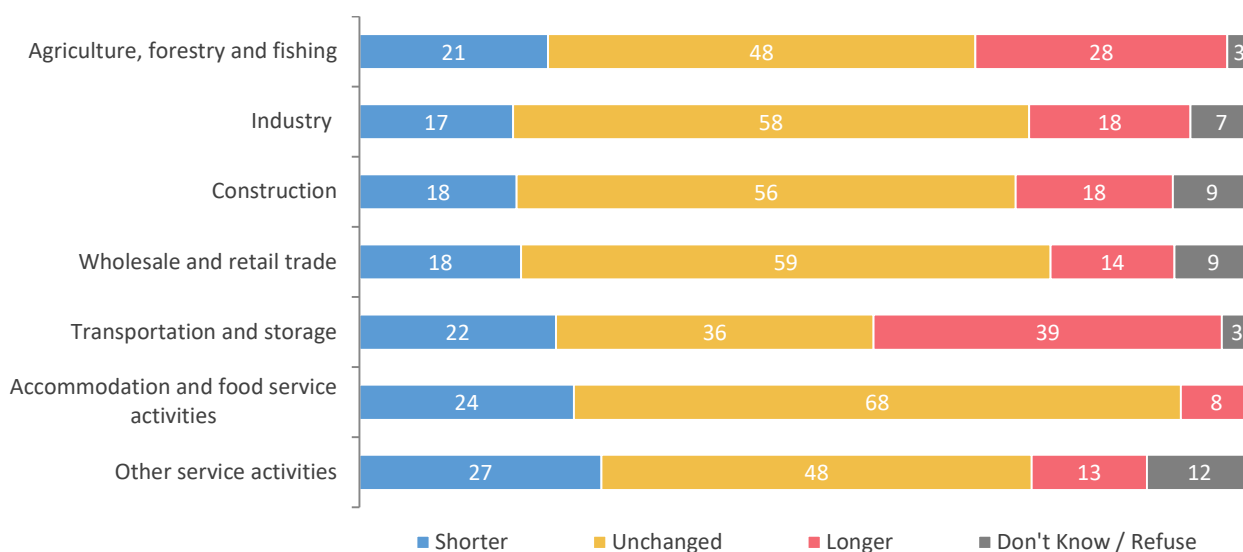
Key Area 1. **Border crossing**

Average waiting time at the border crossing facilities

The average waiting time at the borders within the Western Balkans region in 2022, according to the opinion of the largest number of companies (56%), is almost unchanged compared to the previous year, while for the same number of respondents (the fifths) the waiting time was longer (18%) or shorter (19%) than in 2021.

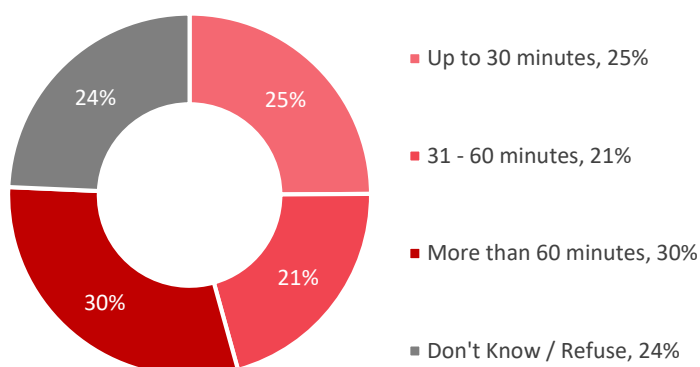


Companies from the transportation and storage (39%), agriculture, forestry and fishing (28%), construction (18%) and industry (18%) in the largest percentage estimate that the average length of time at the borders is longer. The largest number of respondents from Bosnia and Herzegovina (25%) marked average waiting time as longer. The largest percentage of respondents from Albania (38%) marked average waiting time as shorter. Also, average waiting time marked as shorter within companies in accommodation and food service (24%) and other service activities (27%).

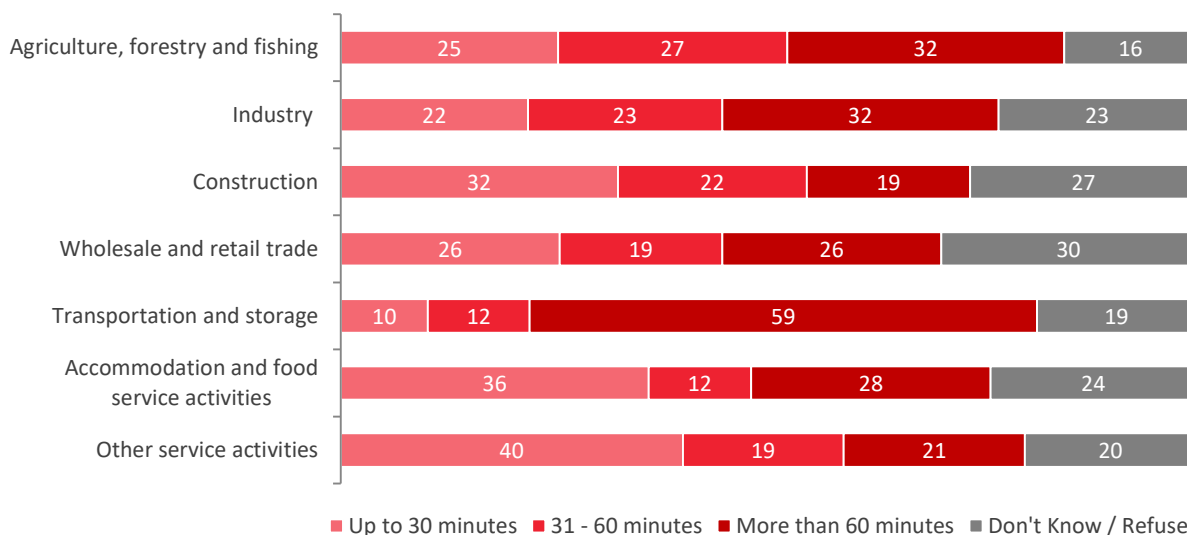


Specific time spent at the border crossing

When it comes to the specific time spent at the borders, about 46% of respondents estimate that the waiting time at the borders within the region is shorter than 60 minutes, while 30% marked that the waiting time is longer than 60 minutes.

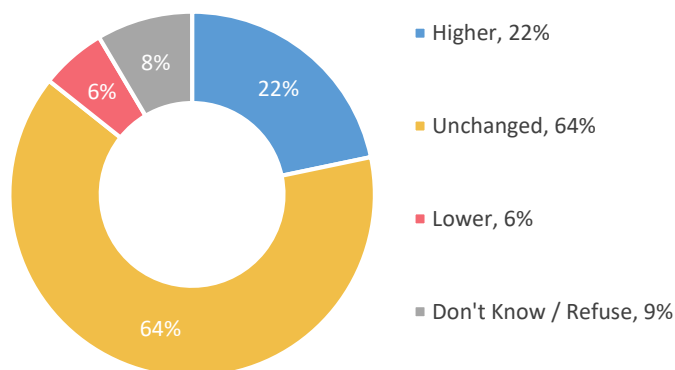


Companies from the transportation and storage sector spend the most time waiting at borders, that is, 59% of them believe that the waiting time at border crossings is longer than 60 minutes. Half of the companies from Bosnia and Herzegovina spend the more than 60 minutes waiting at borders, that is, 50% of them believe that the waiting time at border crossings is longer than 60 minutes.

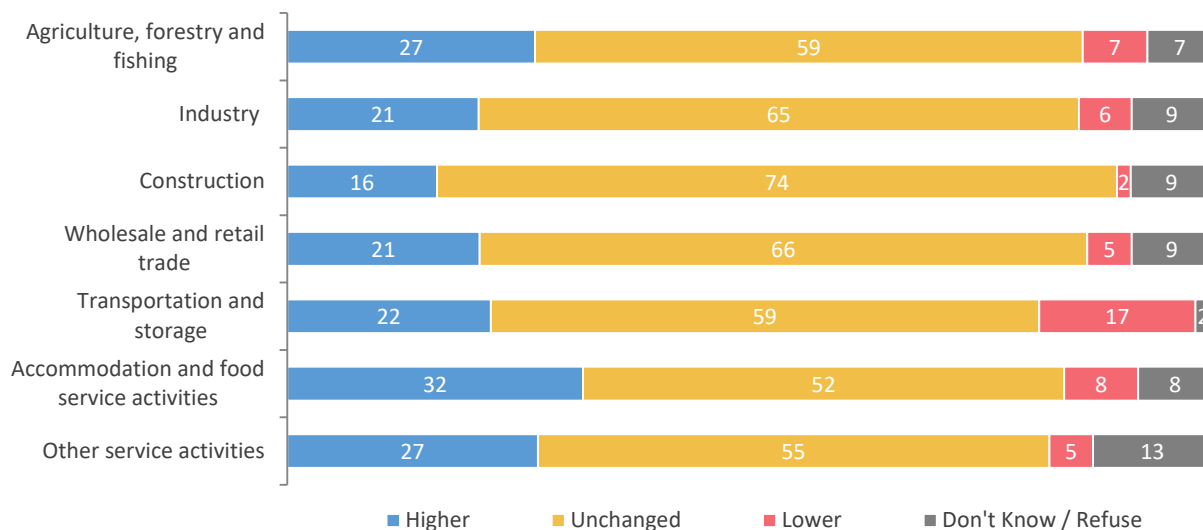


Level of efficiency of cross-border controls

About 22% of the respondents believe that the level of efficiency of cross-border controls is higher in 2022 compared to the previous year, while the largest number, 64% of them, believe that this level is unchanged, compared to 2021.

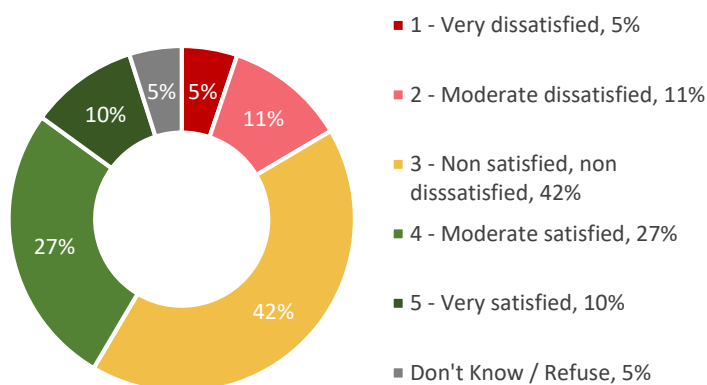


Efficiency of cross-border controls is indicated as unchanged for the largest number of companies from the construction (74%), wholesale and retail trade (66%) and industry (65%).

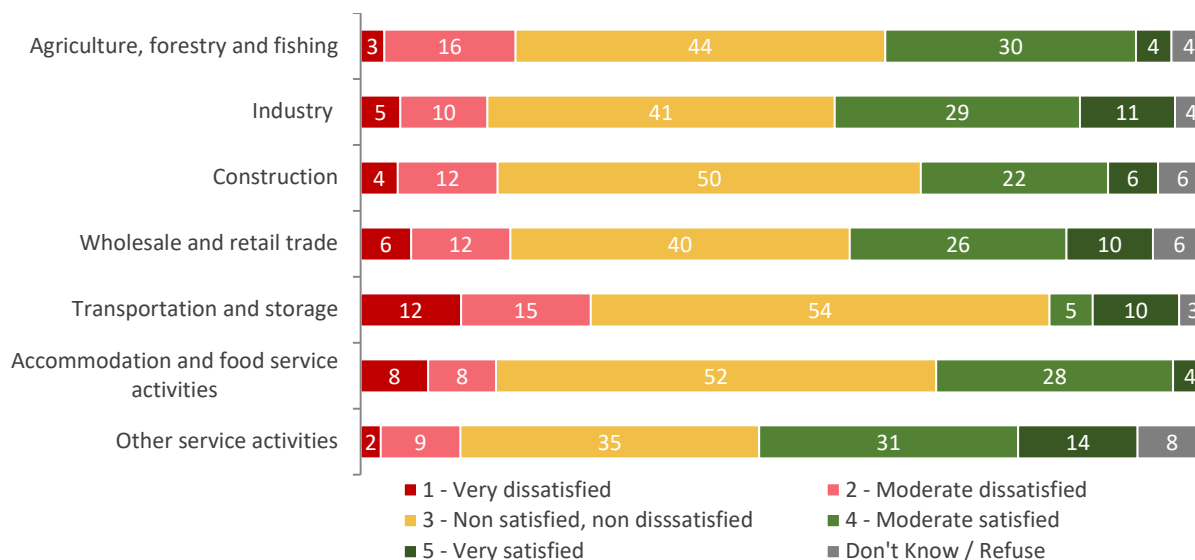


Satisfaction with the current situation at the border crossing facilities within the region

About 42% of the respondents consider the current situation at the border crossings to be normal, while 27% of companies consider the situation satisfactory.



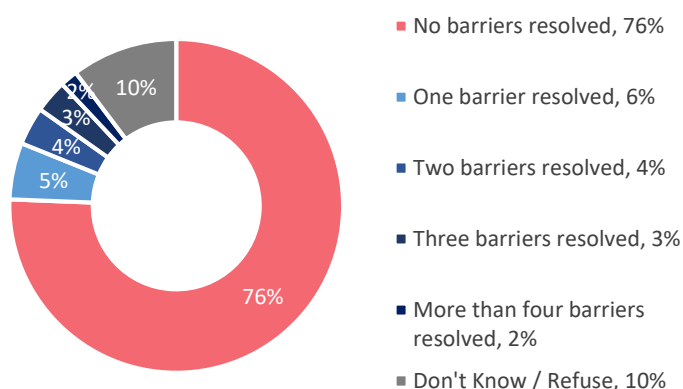
If we look at the responses of the companies depending on the sector, 12% of them in the transportation and storage sector rate the situation as the worst, while the most satisfied companies are from the agriculture, forestry and fishing industry, where 4% of them rate the situation as the best possible.



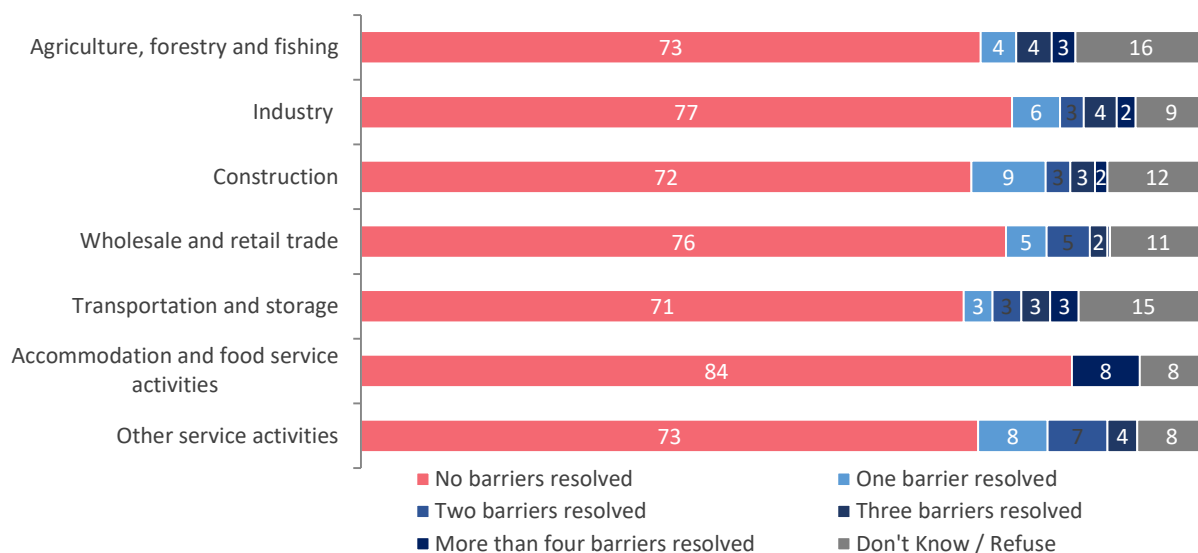
Key Area 2. Trade barriers

Number of trade barriers resolved in 2022

About 76% of the respondents estimate that none of their customs barriers has been resolved in 2022 and for 13% of companies there were one to three barriers resolved in 2022. For only 2% of companies, more than four barriers resolved in 2022.

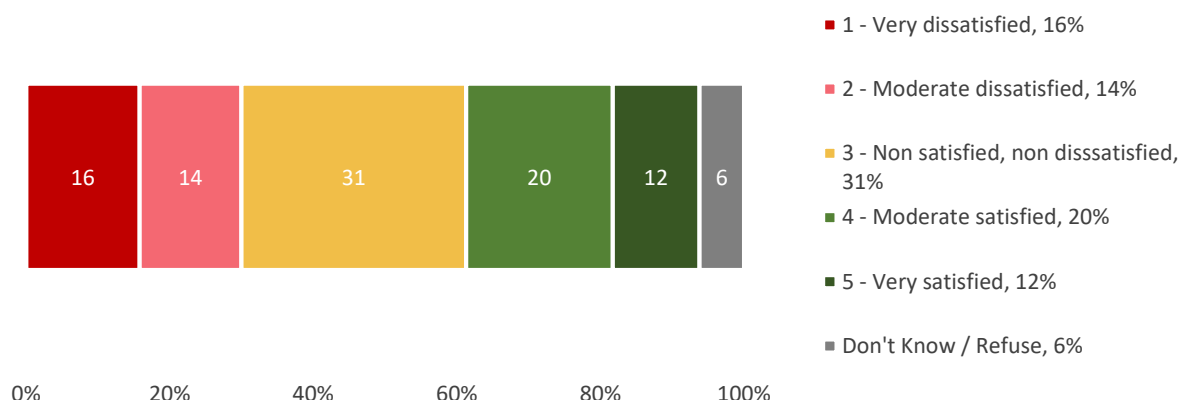


There has been progress in this segment and this relationship is present in almost every sector. For 77% companies in industry, customs barriers did not solve in 2022.

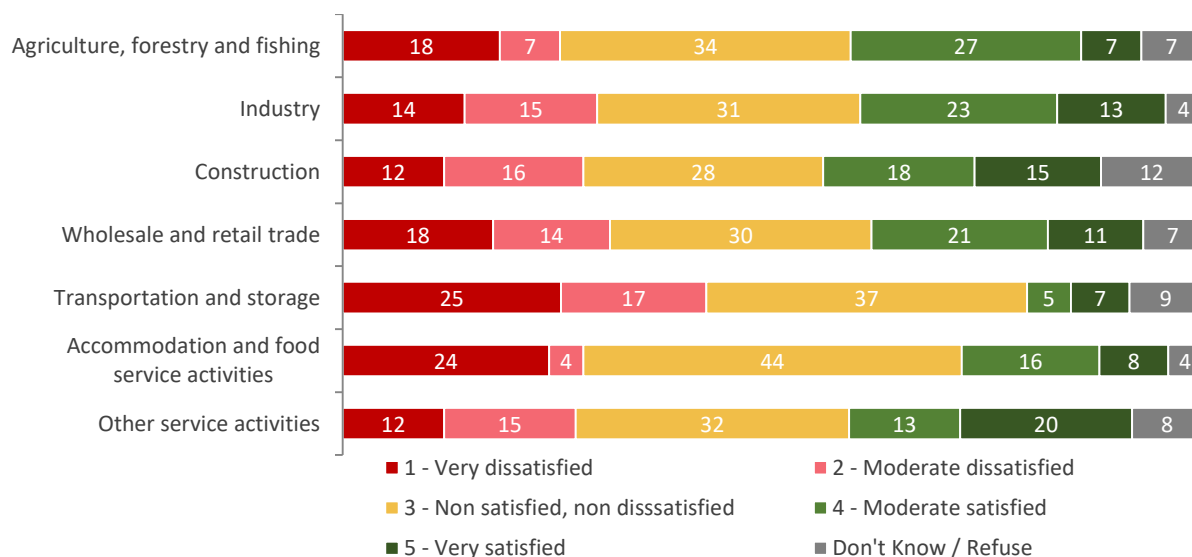


Level of satisfaction regarding the governmental efforts to reduce trade barriers in the region

When it comes to the level of satisfaction regarding the government's efforts to remove the trade barriers between the members, almost a third of the companies are satisfied with the efforts made. But, the largest number of them, about 31%, think they have a neutral attitude on this issue, i.e. on a scale of 1-5 they rated the situation with a score of 3.

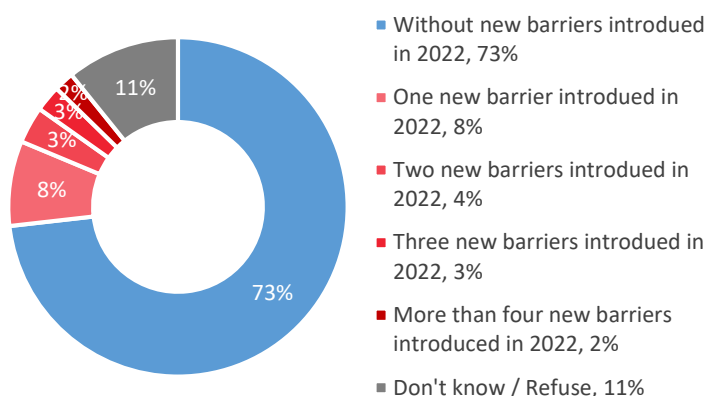


In addition, a third of the companies believe that the government's efforts are less than necessary and evaluate them as disappointing. In this question, an equal distribution of the attitudes of the companies in the sample was observed. The most satisfied with the Government's efforts are the companies from the agriculture sector, while the least satisfied are the companies from the transportation and storage and service sectors.

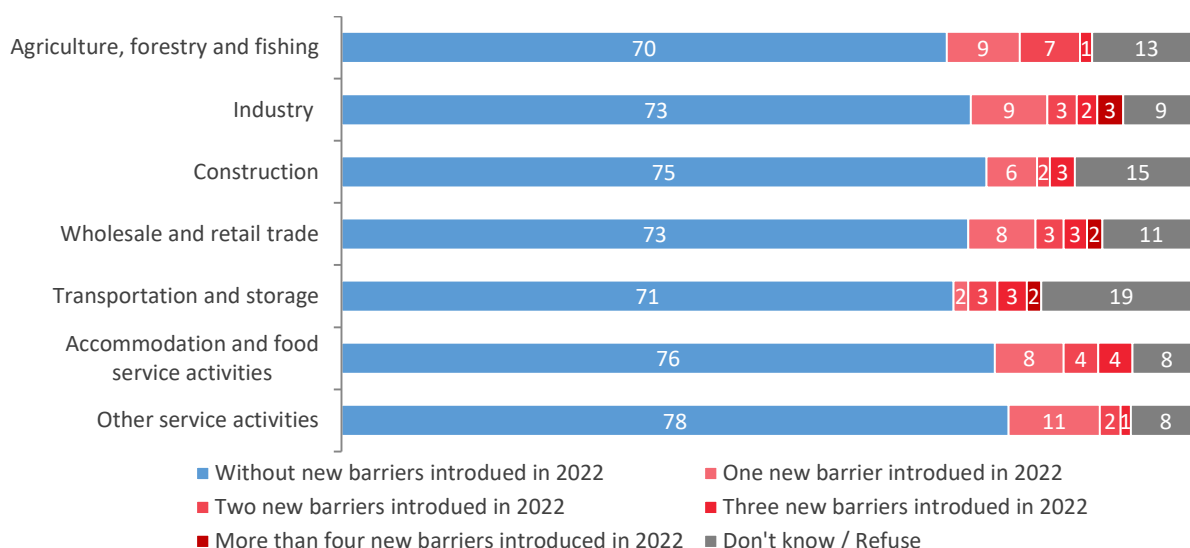


New trade barriers introduced in 2022

About 73% of companies from the Western Balkans region believe that there have been no new, unusual customs barriers in 2022, which is also the opinion of an almost identical number of companies from individual economies. Also, for 15% of companies there were one to three new barriers introduced in 2022. More than four new barriers introduced in 2022, by experience of 2% of surveyed companies.

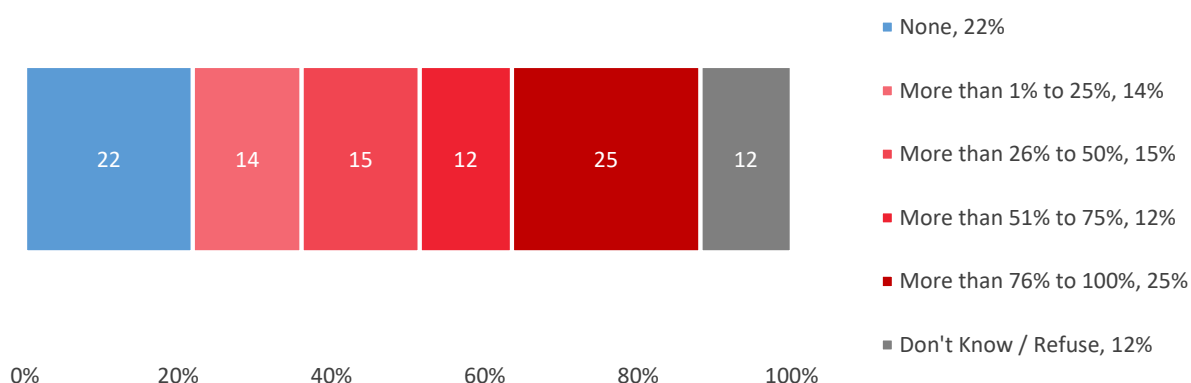


About 73% of companies from the Western Balkans region believe that there have been no new, unusual customs barriers in 2022, which is also the opinion of an almost identical number of companies from individual economies, with the exception of Kosovo, where 35% of the respondents did not want to answer this question. In the Western Balkan region, companies from the service activities estimate that there has not been a single new trade barrier in 2022.

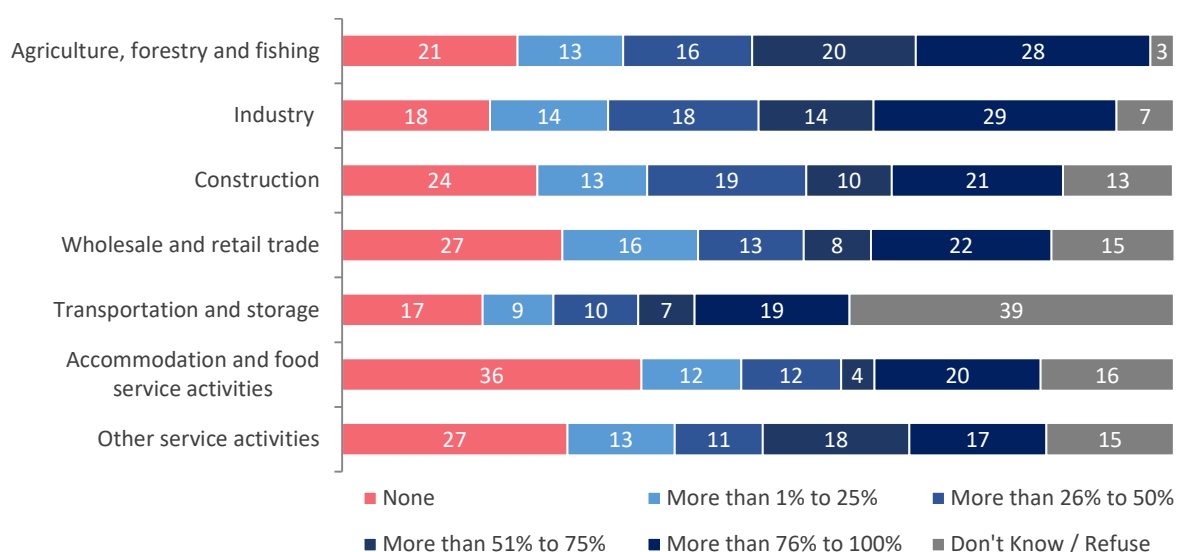


Share of products that companies can trade within the region with test results and certificates obtained in the domestic economy (without requirement of any additional testing or certification in other regional economy)

A fifth of the respondents believe that more than $\frac{3}{4}$ of their product portfolios are properly certified in their home country and that as such they have a simpler and easier reception among other members of the Western Balkans, while also a fifth of the respondents completely refuted this claim.



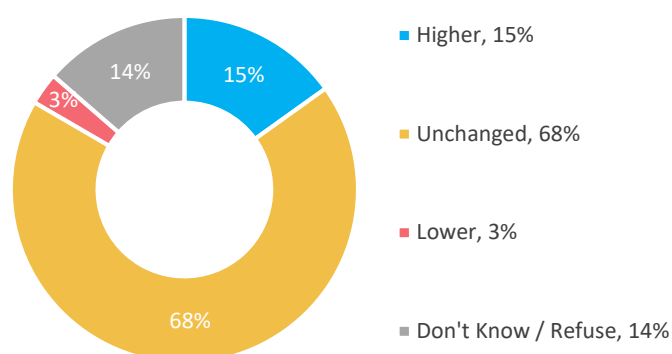
When it comes to the sectors overview, regarding the share of products that companies can trade within the region with test results and certificates obtained in the domestic economy (without requirement of any additional testing or certification in other regional economy), 48% of respondents from agriculture, forestry and fishing marked they can trade with more than 51% of products. However, the largest number of companies within one sector, about 27% in wholesale and retail trade and in service activities, stated they do not have products that cannot be traded.



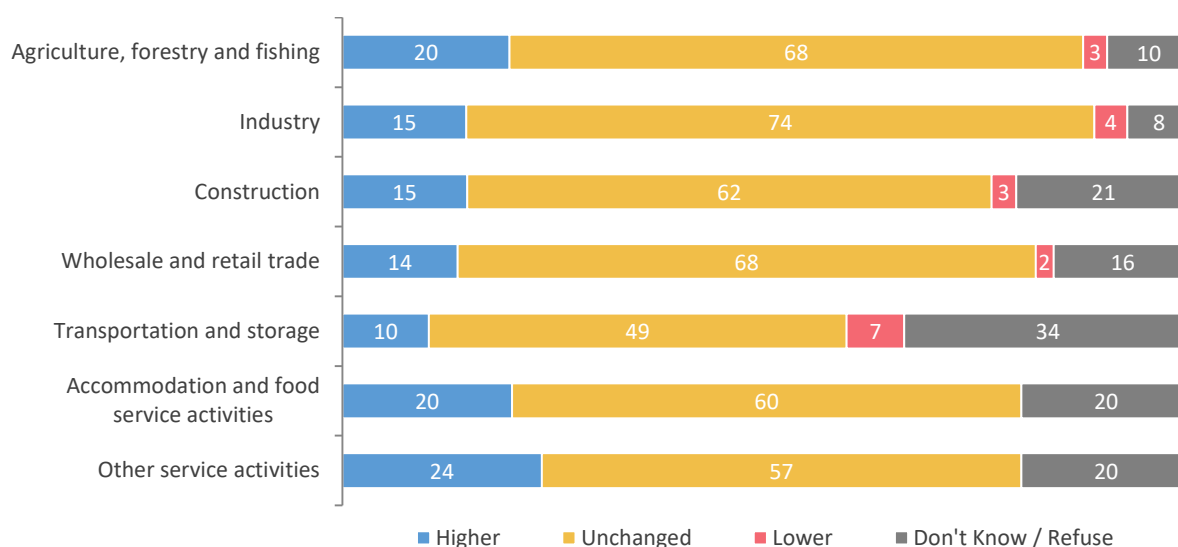
Key Area 3. Mutual recognition of test results and certificates for traded products

Companies benefit from the mutual recognition of test results and certificates for traded products in the region

The benefits that companies have had in 2022 from the mutual recognition of test results and certificates for products traded in the Western Balkans, compared to 2021, are unchanged for 68% of the respondents, while 15% of them believe that they have greater benefits than that. If taking into account that 14% of companies did not answer this question, it can be concluded that the situation on this issue in 2022 has remained unchanged, compared to the previous year, but that there is a moderate optimism of a smaller number of companies.

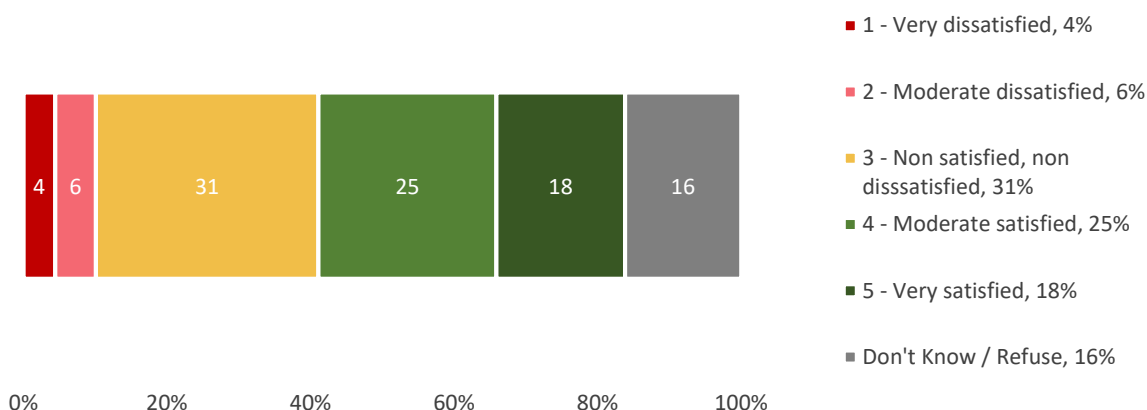


When it comes to the sectors of the regional economy, about 24% of companies from the service activities sector believe that they have benefits from mutual recognition of certificates, which puts this sector in first place in terms of the amount of benefits when it comes to this economic indicator.

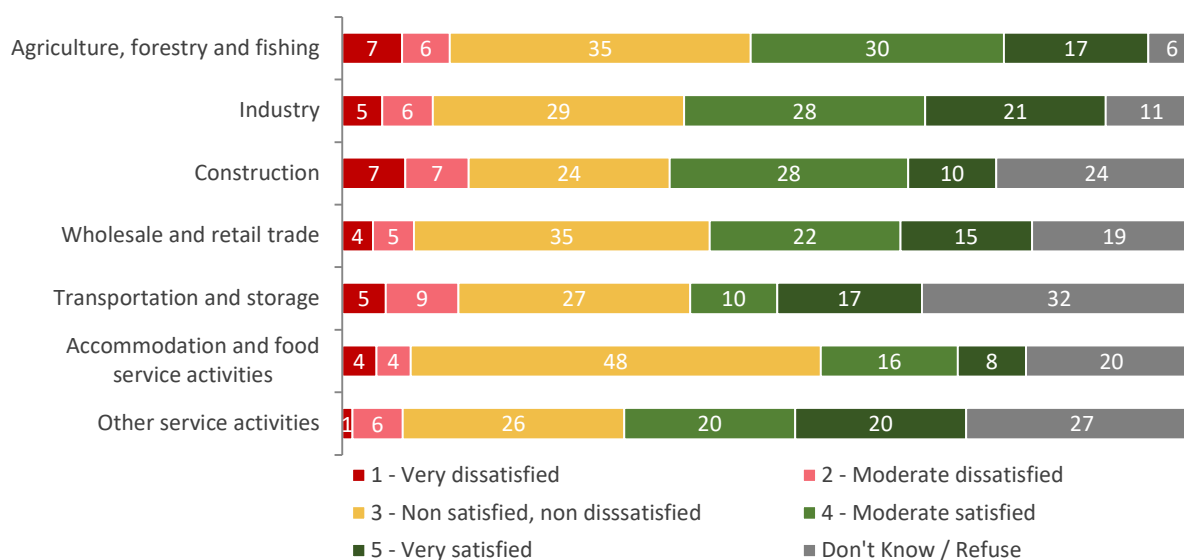


Level of satisfaction regarding the mutual recognition of test results and certificates for traded products in the region

About 40% of companies point out that, they are satisfied with mutual agreements for the traded products in the region, while one third believe that the situation is unchanged in 2022.



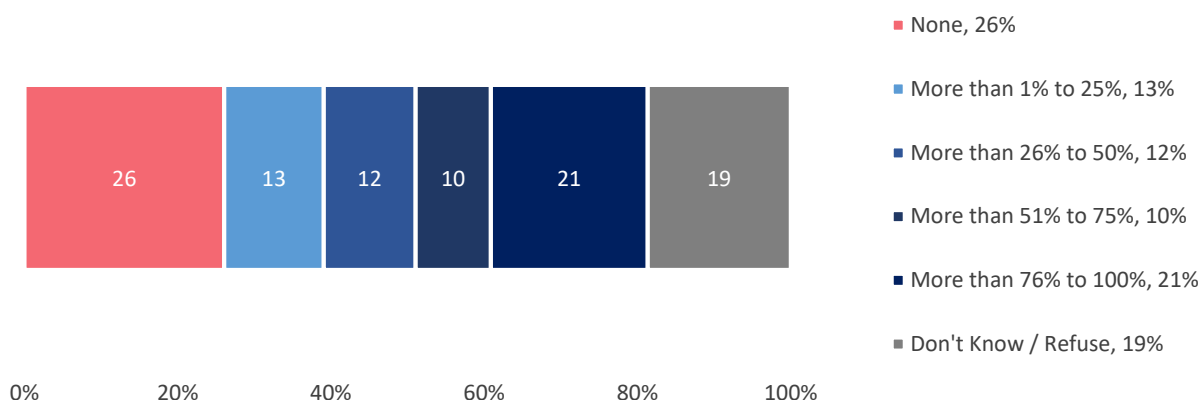
If we look at the structure by sectors of the economy, the results differ only for the accommodation and food preparation sector, where 48% believe that the situation in this regard is unchanged compared to the previous year, and only 8% evaluate the situation as satisfactory.



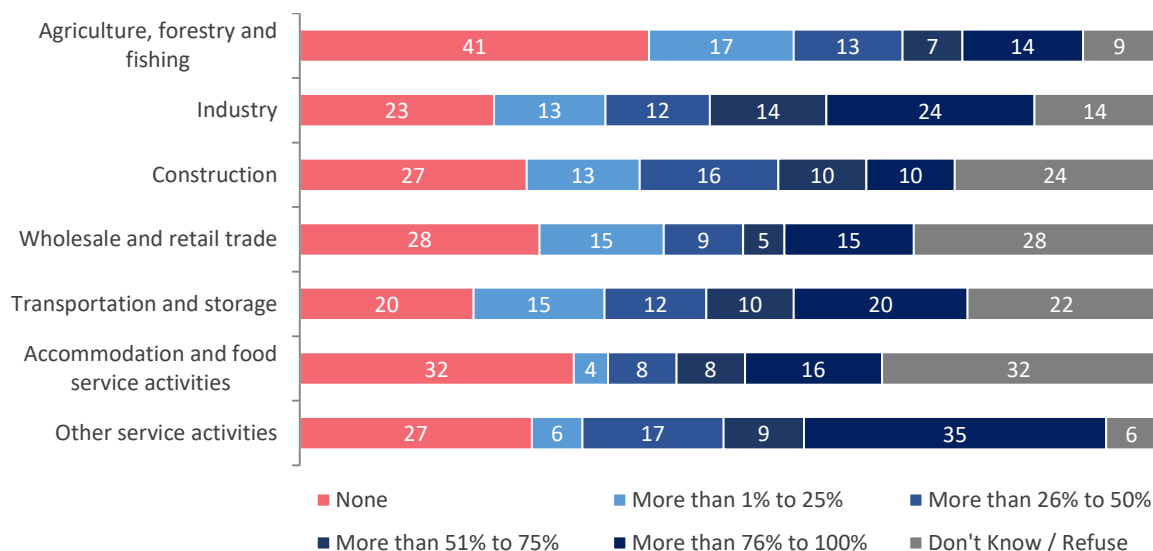
Key Area 4. **Services**

The share of services that companies are allowed to provide across the region without authorisation from the local authorities

Almost a quarter of the respondents (25%) have stated they are allowed to provide less than half of their services in the region without authorisation from the local authorities. One third of the respondents (31%) have stated they can provide more than 50% of their services without authorisation.

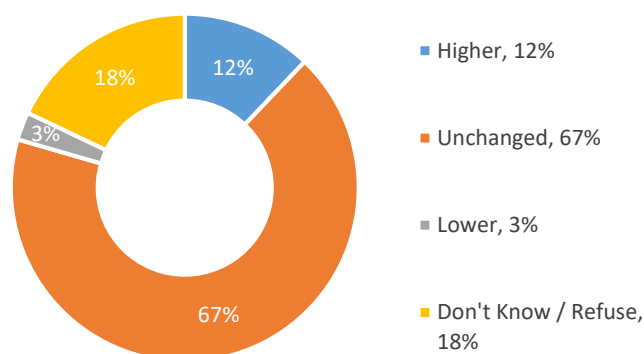


Local authorisation is the biggest constrain for respondents in agriculture, forestry and fishing sector (41% of respondents stated they cannot provide any service in WB6 without local authorisation). On the other side are respondents from other service activities sector, from which 35% stated they can provide more than 75% of their services without local authorisation.

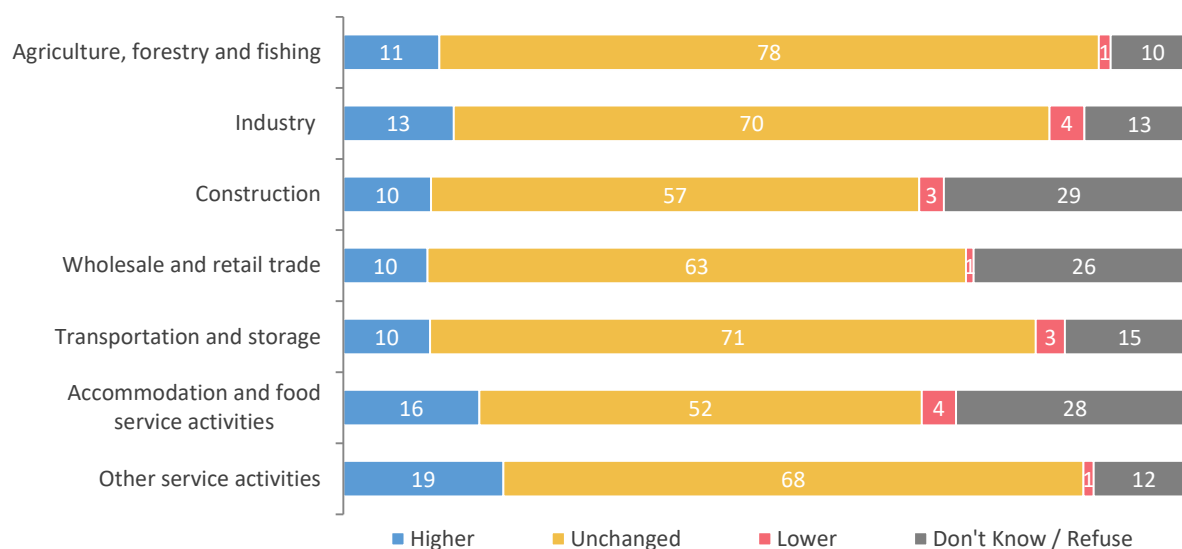


Companies that benefit from the mutual recognition arrangements for services provision

Two thirds of the respondents (67%) have stated their benefits from the mutual recognition arrangements for services provision in WB6 in 2022, as compared to 2021, remain unchanged.

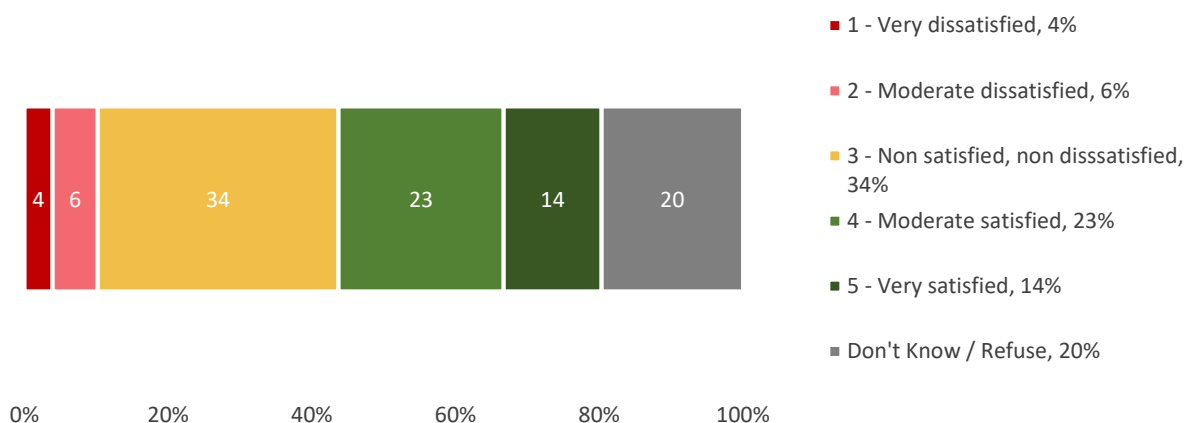


Benefits are the lowest for the respondents from Bosnia and Herzegovina and Serbia, as well as for the respondents from the service activities and retail trade sectors.

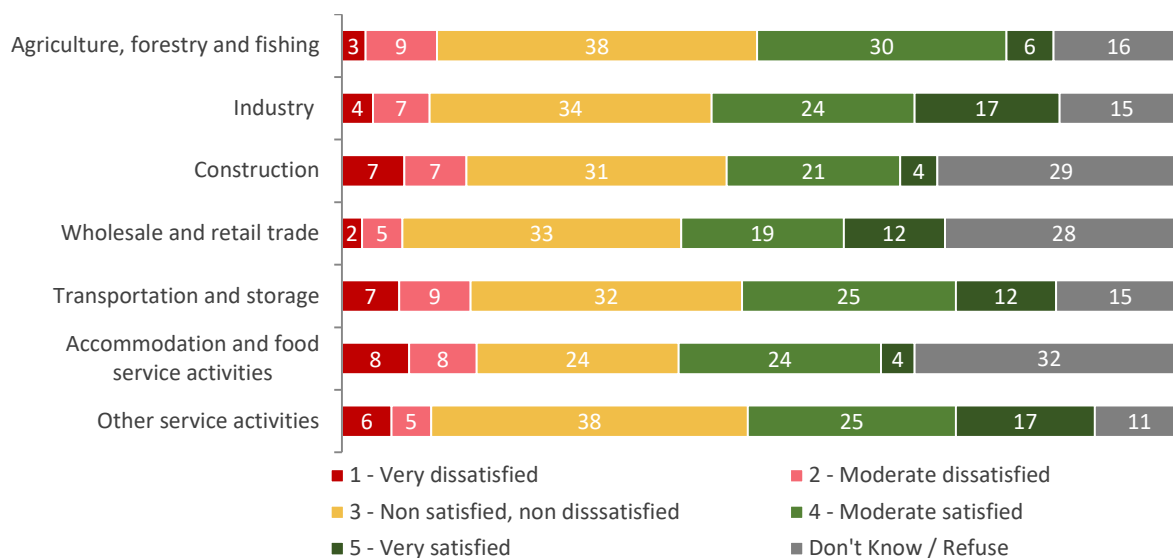


Level of satisfaction regarding the mutual recognition arrangements for services provision in the region

One third of the respondents in the survey have stated that they are moderate satisfied (23%) or very satisfied (14%) regarding the mutual recognition arrangements for services provision in the region, and one third of the respondents have stated that their satisfaction is neutral.



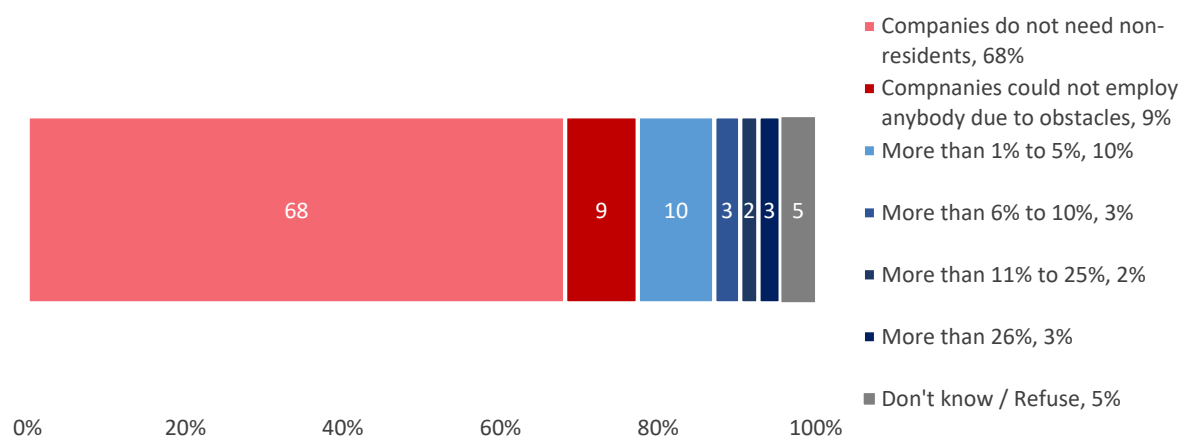
The highest share of the respondents who are very satisfied are from North Macedonia and Serbia, as well as from the sector of industry and service activities.



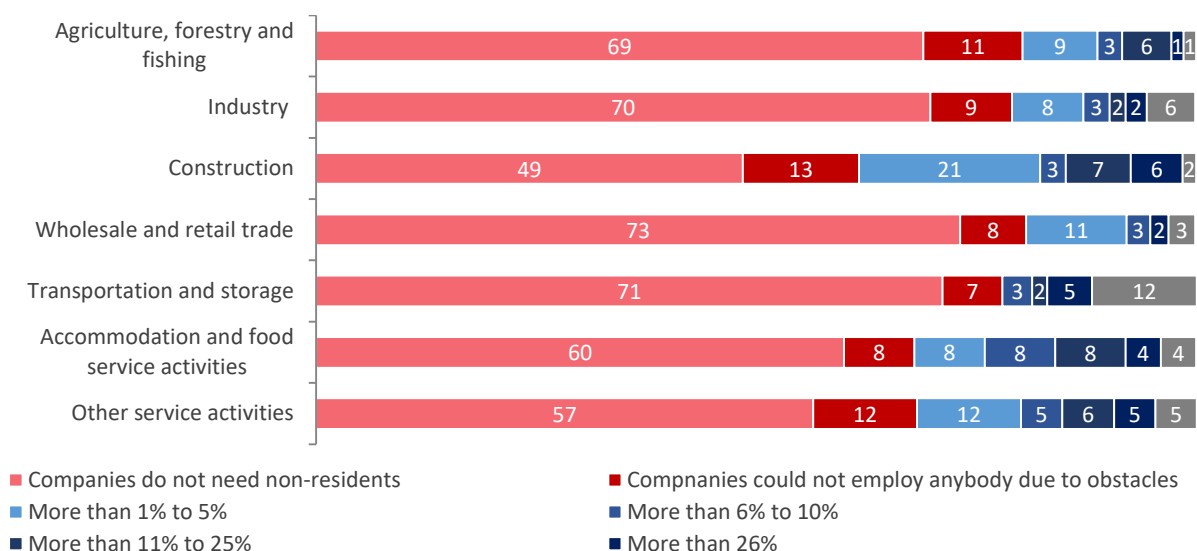
Key Area 5. Labour force

Share of residents from other regional economies (non-residents) as a total number of employees

Two thirds of the respondents have stated that they do not need to employ residents from other regional economies (non-residents). On average, 9% of the respondents have stated that they could not employ anybody due to obstacles.

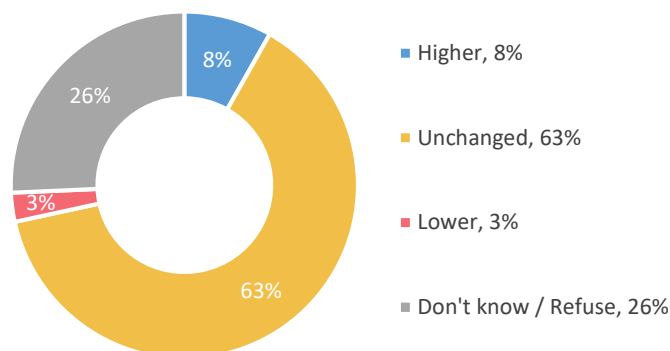


The lowest share of the respondents who could not employ residents from other WB6 economies are from Montenegro (7%) and Serbia (8%), as well in the transportation and storage sector (7% of the respondents from this sector).

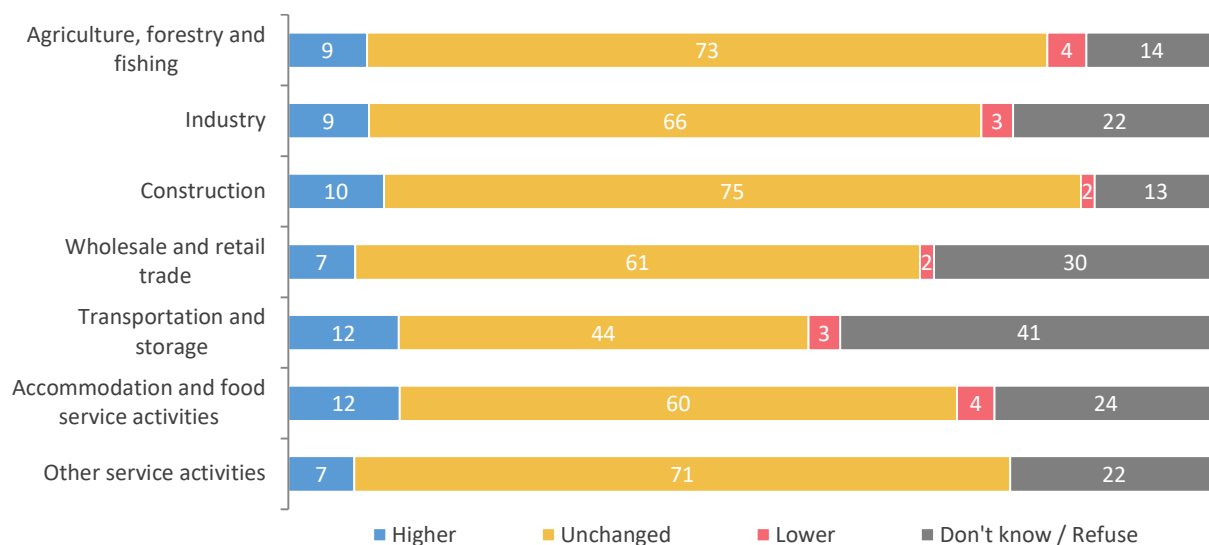


Companies benefit from the mutual recognition arrangements regarding employment of non-residents

Two thirds of the respondents have stated that their benefits from the mutual recognition arrangements regarding employment of residents from other regional economies in 2022, as compared to 2021, is unchanged.

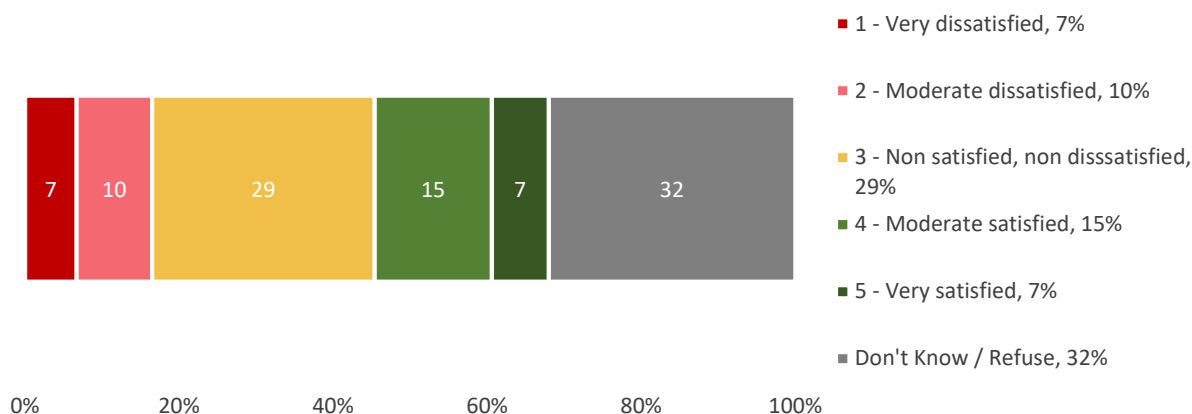


Benefits are the highest for the respondents from Kosovo and Albania, as well as for the respondents from accommodation and food service activities.

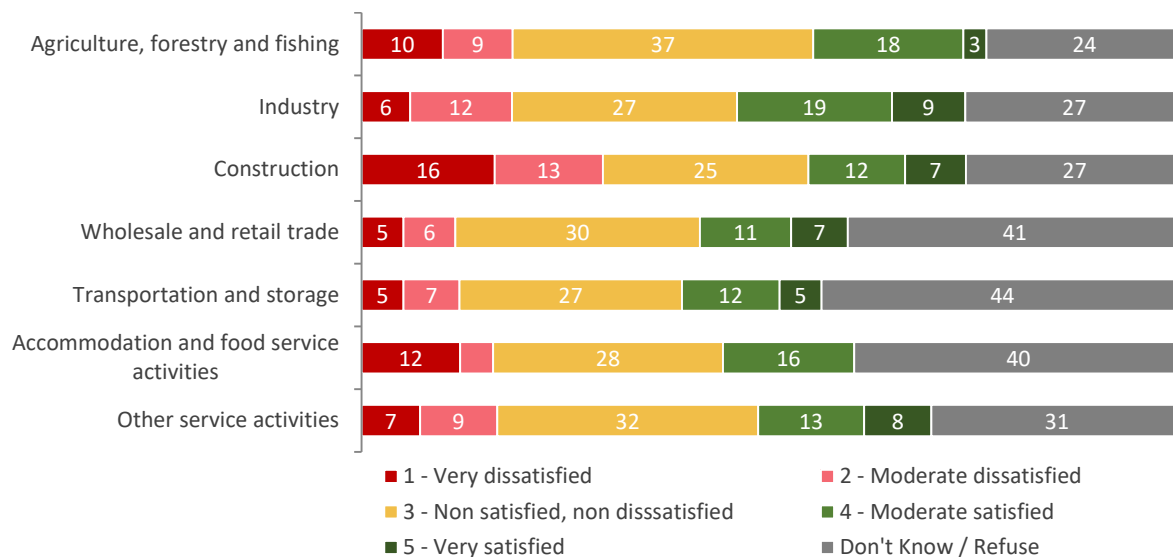


Level of companies' satisfaction regarding the flow of regional workers and their quality

Less than one third of the respondents in the survey (29%) have stated that their satisfaction regarding the flow of regional workers and their quality is neutral and one fifth of the respondents have stated that they are satisfied or very satisfied.



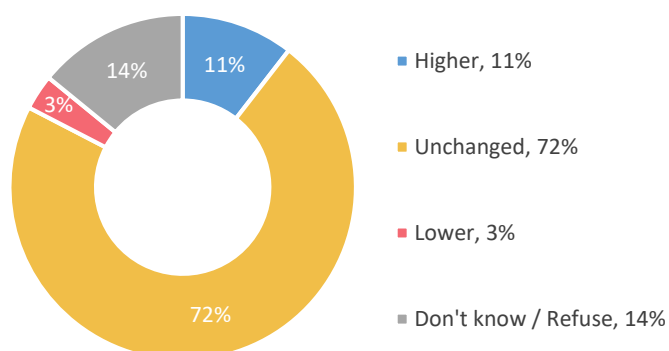
The highest share of the respondents who are very satisfied is from Serbia, as well as from the sector of construction.



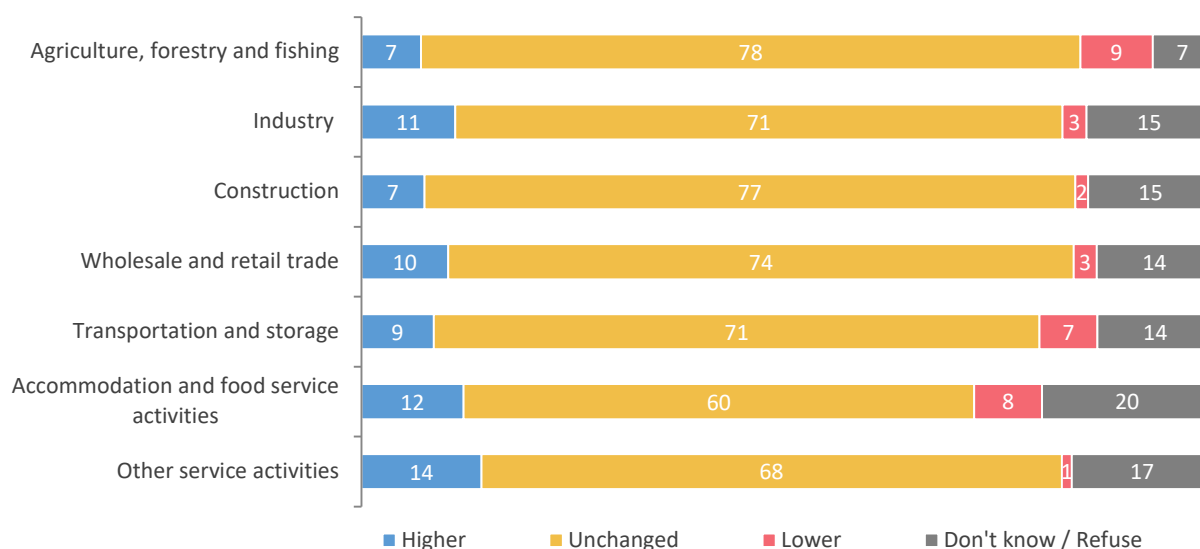
Key Area 6. Cross-border capital transfers

Companies benefits from the measures facilitating cross-border capital transfers in WB6 in 2022, as compared to 2021

More than two thirds of the respondents (72%) have stated that their benefits from the measures facilitating cross-border capital transfers in the region in 2022, as compared to 2021, are unchanged.

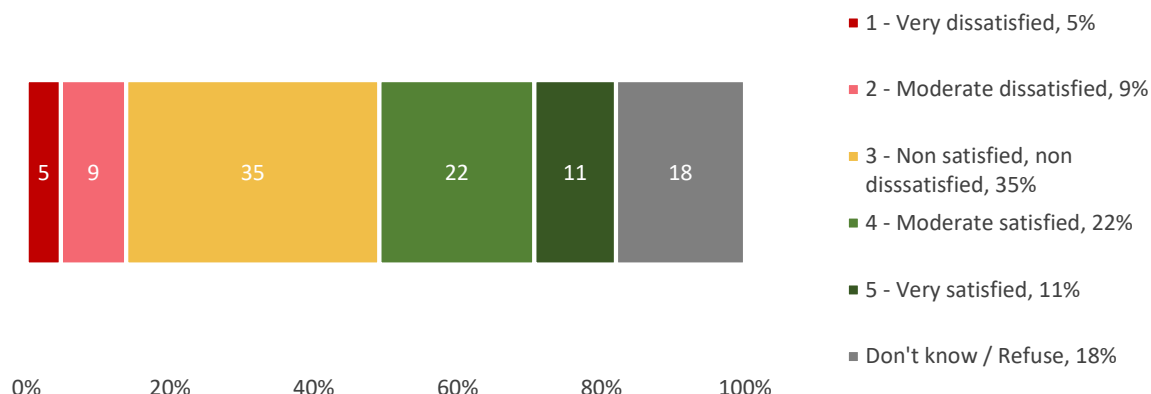


Benefits are the highest for the respondents from Kosovo and Albania, as well as from the service activities.

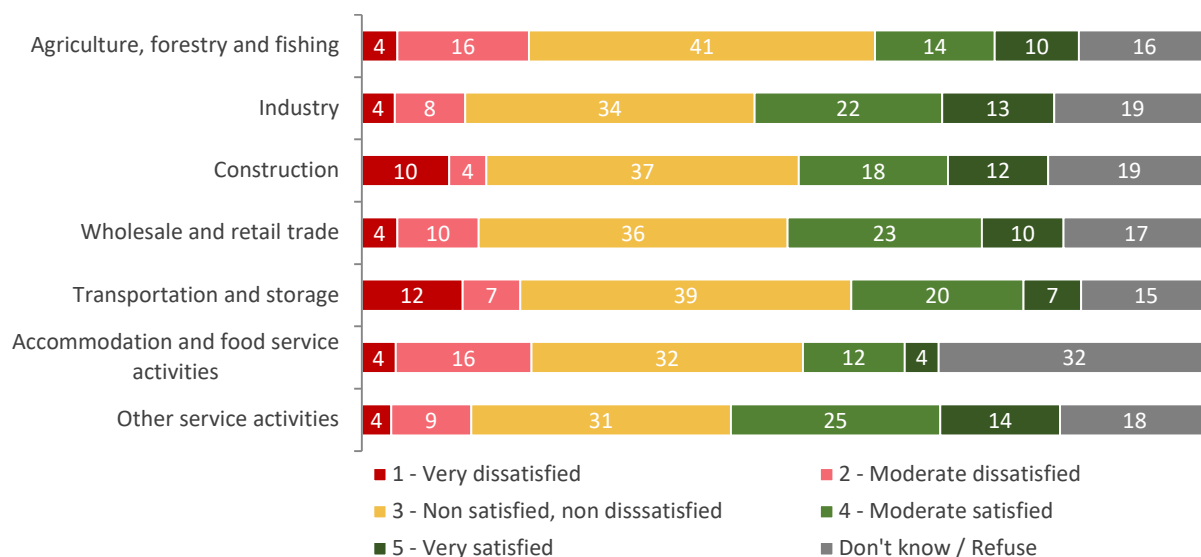


Level of satisfaction regarding the actual situation regarding the cross-border capital transfers in the region

One third of the respondents (35%) in the survey have stated that their satisfaction with the actual situation regarding the cross-border capital transfers in the region is neutral and another one third of them have stated that they are satisfied (22%) or very satisfied (11%). For 14% of respondents, it is very or moderate dissatisfied.



The highest share of the respondents who are very satisfied is from North Macedonia and Serbia, as well as from the sectors of service activities, industry and construction.



SECTION III

Personal Views Presented by Successful Business People in the Region

PART III**Personal Views Presented by Successful Business People in the Region****Potential Benefits of the Regional Integration Process**

The regional market is quite important for the local business community, since many companies distribute their products across the whole region. A large number of suppliers come from the region, and a close connection among them was established in the past. The regional market is of essential importance for many firms for their business operations, especially in terms of sustainable and long-term export strategy.

The business people strongly believe that creating a regional common market would be significantly beneficial for the intra-regional economy. The regional single market would make it easier to move products between the companies in the region, without customs tariffs or procedural delays, thus largely contributing to sales volume and revenues. Moving employees and experts from country to country would be much easier with simplified procedures for work permit and qualification recognition.

The regional market presents a singular opportunity for companies to invest in the logistic sector by taking advantage of the enormous benefits of moving goods arriving from the sea toward various countries of the Western Balkans. Reduction of customs procedural obstacles that create considerable costs in time and money, as well as various tariffs, taxes and licensing requirements could significantly increase the benefits of doing business in the region. The regional single market would also boost e-commerce for retail companies, thus enabling timely delivery of products directly to the location of any client regardless of their residence country within the region.

In general, the business community is very supporting to any viable option that makes regional business cooperation more efficient and helps every market be stronger and more sustainable. For instance, the Open Balkan Initiative might prove to be the exact right move for the whole region, but should be expanded and include all the Western Balkans market.

Regional integration initiatives will improve the flow of goods and people in the region, which can improve competitiveness in the regional market. Easier and more efficient movement of goods, people and good practices implementation would certainly be the best part of the regional integration process.

Last but not least, the regional integration process and integration to EU, leads to a bigger market, which will bring greater opportunities for business growth. In addition, the regional integration will result in the free movement of goods, services, capital, people, common approach in capital investments, digitalization projects, innovations, etc.

Evident Progress in Implementation of Regional Cooperation

According to the business people, some progress regarding the regional economic integration process has been made. However, most of the work lies ahead. For example, facilitations resulting from investments made at the border between Albania and North Macedonia have had a small but noticeable effect. It has

become clear that measures to facilitate the regional economic integration have become now more urgent than ever to cope with the devastating effects of the war in Ukraine and the aftermath of the Covid-19 pandemic.

The right steps toward the single market have been taken, and the procedures regarding the movement of people and goods have been shortened and simplified, which has been overall described as a good start. Transport companies have quite clear insight into the regional changes, especially those who directly organize the regional transport, including the paperwork, and they see that the things are going better than before.

Although there are companies satisfied with the direction and ambitious approach so far, there are also companies that do not notice some significant improvement from these measures taken in the previous period, or they consider them not being on the satisfactory level.

Main Obstacles to Doing Business in the Western Balkans Region

Border waiting times for product movement continues to be a major problem. The time for action is now, and businesses must make pressures on the government for clear implementation timelines that will make the near future more predictable. Additionally, there are technical costs that companies have to include in their price, which makes their products less competitive on the regional market. The business community has stated the existence of formal and informal barriers in the markets, and highlighted that administrative coordination and regulations could always benefit from an approach that is more efficient.

The access to the finances in our country has always been very limited, as the local commercial banks do not like to finance business projects except for the construction and real estate. The suggestion to the governments was to take the role of providing guarantees for those businesses with R&D and production related projects, to allow access to the credit lines otherwise they remain unavailable for some companies through commercial banks. Many companies have described themselves as credit-constrained, claiming that when applying for loans they have been either rejected or discouraged.

Some economic branches are at essential risks. For example, as for the dairy industry the biggest risks are always those regarding the sustainability of primary milk producers, as well as those related to supply chains for raw materials necessary for production process. On the other hand, the sugar production industry is also facing long-term problems.

Many fast moving and modern technologies do not have access to the skilled workforce, which means that they have to spend approximately two years per person to educate them for their business processes. The base of the workforce is also very weak, and lately the trend has been for the young educated individuals to leave the country making it even more difficult to find people interested in staying and working locally. Hopefully, by opening up our borders within the region, some of companies will be able to attract more young people from the region to move. A connection between educational institutions and business community should also be stronger, so the educational policies could be based on the real needs of the market, as well as on the good political and business plan for the future period. At the moment, it seems like the plans related to the education of our youth do not exist and are the result of individual ideas and commercial aspirations. The certification institutions should be available and supportive. For example, for the companies that need CE certificates for their products, within the region one or two institution should be accredited for providing such services for all the regional companies.

Companies in all the Western Balkans economies claim that systemic corruption is a major obstacle to opening and then operating a business. On the other hand, potential political instability and intra-regional disputes could be of very negative effect on doing business.

General Business Uncertainties and Risks

While all the above-mentioned obstacles contribute to various extends to the sustainability of the regional business, the availability of work force remains the biggest risk in the current period as population displacement towards more economically developed countries continues to be a rising trend. This lack of human resources is particularly felt in the blue-collar workforce affecting greatly the production and logistic sectors.

The current crisis in Europe has undoubtedly had a significant impact on all businesses. Factors such as inflation, high energy prices, and interest rates have increased costs, thus diminishing net profit. The negative effects in consumers buying power can only erode revenue, while forecasts of what is to come soon has increased the risk of workforce shortage adding to already-existing difficulties of filling job positions in our companies, especially in sectors such as logistics, warehousing and IT. Geopolitical risks make it more difficult to invest and expand in the region due to political and economic uncertainties.

The regional economy will be under huge pressure due to higher costs of raw materials in the energy sector but also the food industry, which can arise a potential wave of bankruptcy. However, the majority of companies do not think that the actual crisis in Europe can influence their sustainability in a short period, but in a longer term, it can slow down the growth due to small market presence and higher costs. The business people agree that a challenging period is coming for the economy in the region.

Advice for the Regional Governments

The message to the regional governments would be to apply tax reductions and improve legal environment, and more importantly, to speed up agreements with the rest of the Western Balkan countries to have free movement of products in the region and facilitated trade policies. The current geopolitical situation and energy crisis should actually emphasize the need of the utilities and governments to invest into solutions, which will increase the efficiency of the energy produced, and reduce losses and stealing of the energy.

The Government should start to build a national strategy for agriculture for the next ten years with proper experts from the business community. In a healthy economy, the role of the government should be to set the frame, rules and regulations for the business environment and regional cooperation, so that the markets can develop dynamics under sustainable conditions. Companies need dedication, synergy with real sector, and concrete measures to help companies. The government should comply with a local business community on all changes in regulations and policies.

The business community encourages the governments to implement more control over the imported goods in order to protect local consumers from low quality products, while supporting domestic producers at the same time.

More conferences and other communication channels between businesses and governments would be beneficial for all sides.

Companies would like to see more planning in the area of education, to know that the regional educational facilities have adapted to modern business requirements and have estimation of the needs for the future period.

Providing guarantees for local companies, perhaps through some expert commissions which could estimate the quality of the programs and projects, so that the access to the commercial credit lines would be easier.

Advice for Business People in the Region

Companies should be very careful with their investments in the future period, and pay attention to costs due to a potential recession Europe is facing.

Companies should think of a broader picture and sustainable business based on a long-term business strategy in order to avoid chasing short-term profits. The supply of retail sector, primarily the basic food, should be stable and maintained in order to cover the essential needs of the regional population.

Bigger economic activity inside the region is necessary, as well as finding partnerships and synergies, changing know-how, increasing the trust and confidence in order to make the region more competitive and suitable for future challenges. A strong regional business will lead to the higher competitiveness on both the EU and global market.

Advice for the business people in the region is to try to diversify their business to cope with a fast-changing environment and uncertain future. Furthermore, to create collaboration with companies outside their country (within the region).

Our experience shows that participation in B2B events is very beneficial and we would encourage all to take part in any future event of such kind. In addition, if we wish to see some changes, we have to be proactive and communicate with each other and governments.

SECTION IV

Macroeconomic overview 2021 – Western Balkans region

PART IV

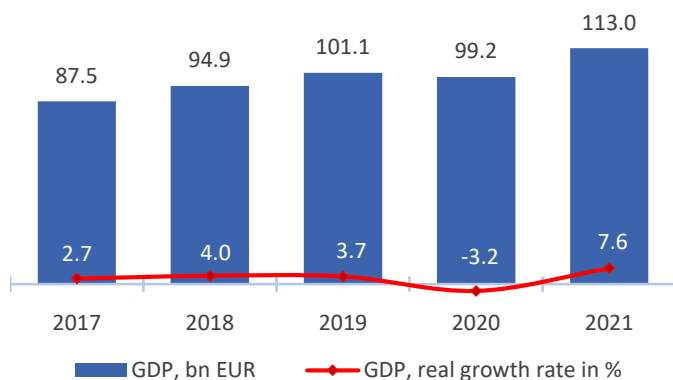
Macroeconomic overview 2021 – Western Balkans region

Short overview

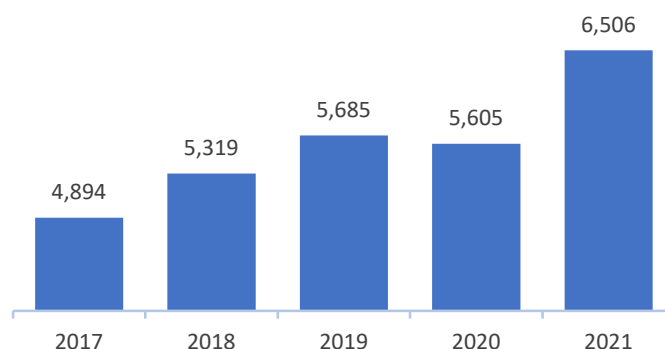
According to the volume of the GDP, the total value of all products produced in 2021 in the Western Balkans amounted to EUR 113.0 billion, which represents the nominal increase of 14.0% in compared with the previous year. Despite of this, if we look at the EU average, Western Balkans is significantly behind the EU economies. The GVA of the Western Balkans economy accounted nearly 86.0% of the region's total GDP and the main drivers of Western Balkans economy by activities are manufacturing, construction and real estate activities.

In recent years, there has been a trend of population decline in this region, so in 2021, according to official data, there were a total of 17.4 million people in this region. The GDP per capita was on EUR 6.506 places Western Balkans countries in the group of middle-low level countries, despite the fact that he made a step ahead in the last observed year. The real GDP growth in 2021 was 7.6% which is the largest increase in observed period of last 5 year, but the higher growth rate in 2021 was actually the consequence of the low base in previous year, but also of negative factors that were in force during 2020.

Western Balkan's GDP, in EUR billion and real growth rate, in %



GDP per capita of Western Balkans, in EUR



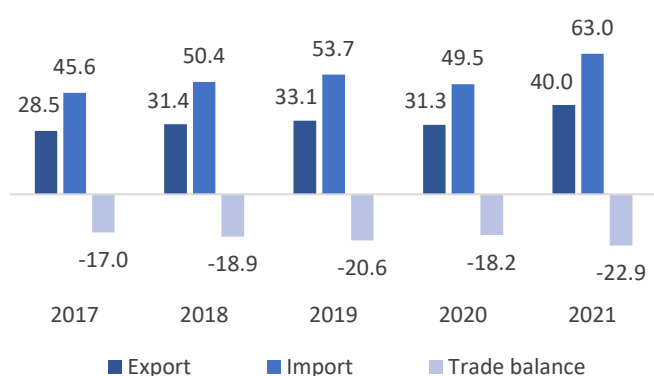
Source: wiiw.

When it comes to goods exports, the export from Western Balkans in 2021 reached EUR 40.0 billion, which completely exceeded the volume of exports from the pre-pandemic year 2019 (EUR 33.1 billion). Region's exports are significantly increase in 2021 (by 27.8%) and constitute only 35.4% of the region's total GDP.

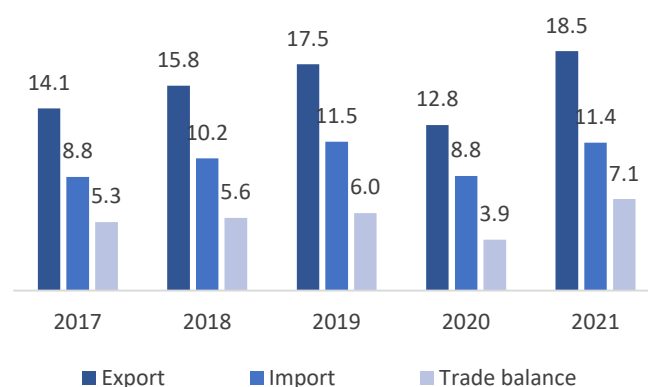
On the other hand, Western Balkan's imports in 2021 reached a record EUR 63.0 billion, which is 55.7% of the total GDP, which means that Western Balkans can be rated as a region highly dependent on imported components, such as raw materials and repromaterials. In 2021, the main export products of Western Balkans economy were electrical machinery and equipment; machinery, mechanical appliances, nuclear reactor; iron and steel; chemical products, mineral fuels, furniture, plastic products etc. On the other hand, the main import products in the same year were mineral fuels; electrical machinery and equipment; machinery and mechanical appliances; plastic products; vehicles other than railway or tramway; pharmaceutical products etc.

Region's service sector has been developing rapidly in recent years, and in 2021, exports reached EUR 18.5 billion, which is slightly above the level of pre-pandemic exports. It can almost certainly be said that the pandemic slowed down the exports of this region in 2020, but in the last observed year total value of export surpassed his pre-pandemic level. Region's import of services slowed down slightly during 2020 and after continuous growth since 2014, in the last observed year, it recorded nearly the record value (EUR 11.4 billion).

**Foreign trade of goods of Western Balkans,
in EUR billion**



**Foreign trade of services of Western Balkans,
in EUR billion**



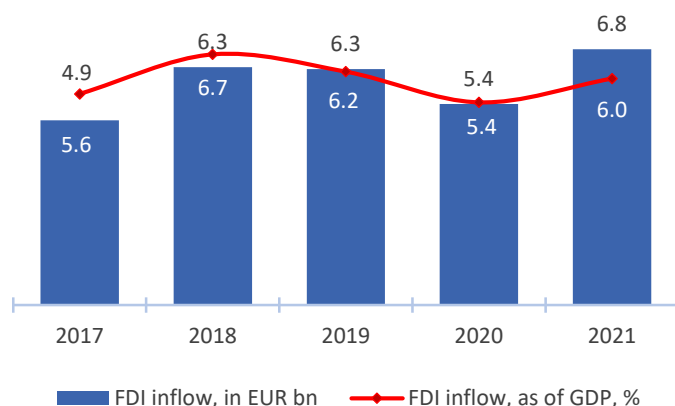
Source: wiiw.

In 2021, 6.6 million employees were officially registered in the Western Balkans economy with a slight year-on-year decline of about 2.5%, with a total of 1.1 million unemployed. The number of unemployed persons has been in continuous annual decline since 2017, and in this five-year period the number of unemployed persons decreased by a total of 200.0 thousand. The unemployment rate in Western Balkans is 13.9%. The average gross salary in Western Balkans was EUR 693, which, despite the year-on-year increase, is significantly below the EU average.

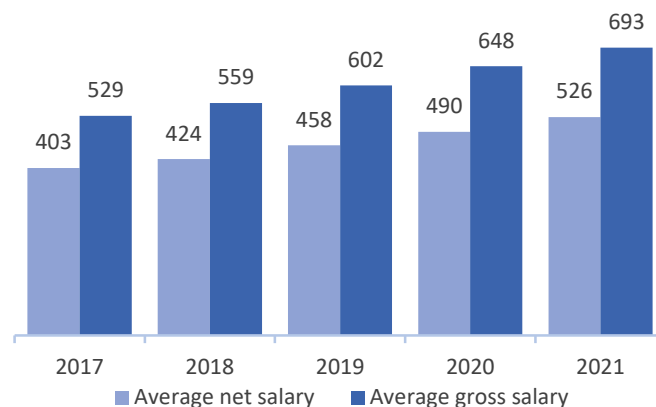
A total FDI inflow in this region, during 2021, amounted to EUR 6.8 billion which represents a significantly increase in compared with the pandemic year (2020), which was 27.3%. On the other hand, gross fixed capital investments of Western Balkans in the period 2018-2020 was relative stable and amount to EUR 18.0 billion, which is about 16.0% of the region's GDP.

The total gross reserves of Western Balkans, including gold, at the end of December 2021 amounted to EUR 36.3 billion, which is about 32.1% of the total GDP of this region. Bearing in mind the value of total gross reeserves in 2017, EUR 22.2 billion, a significant improvement was achieved in this monetary field, that is, the value of this indicator in 2021 was increased by 63.0%.

**FDI inflow in Western Balkans,
in EUR billion and their share in GDP, in %**



**Average gross and net salary
in Western Balkans, in EUR**



Source: wiiw.

Outlook

A return to growth saw significant job creation, helping to reverse some of adverse impact of the pandemic. Rapid growth in 2021 saw the creation of 227,300 new jobs in the Western Balkans. Strong domestic and external demand, coupled with a resumption in tourism and construction, helped drive the employment rate to a historical high of 45.8% of the working-age population.

Employment demand helped reduce poverty across all six Western Balkan economies. The poverty rate is estimated to have fallen by 2.9% in 2021, reversing the 1.4% increase in poverty of 2020. This is equivalent to 408,000 people being lifted out of poverty in 2021, meaning that net poverty has now fallen below pre-pandemic levels.

Strong revenue performance helped reduce fiscal deficits across the region. For most economies in the Western Balkans in 2021, the buoyant recovery in economic activity together with higher inflation fueled nominal growth in revenues that outpaced expenditures. The average deficit for the region dropped by 4 percentage points of GDP compared to 2020, and public debt declined to 56.5% of GDP in 2021.

Inflation is on the rise due to a combination of factors. Stronger global growth since mid-2020 has placed upward pressure on commodity prices and on shipping costs, feeding through into higher imported inflation across the Western Balkans.

Financial stability remains sound due to support measures, but vigilance will be needed given exceptional uncertainty. The financial systems of the Western Balkan economies have remained resilient through the pandemic, with adequate capital and liquidity buffers and the maintenance of asset quality. Policy support, including borrower relief measures, coupled with a growth recovery has helped reduce banking sector risks and even increase commercial bank profitability.

2021 saw especially strong growth in trade as the region benefited from a recovery in global demand, but the conflict between Russia and Ukraine is expected to disrupt this trend. Exports surged by 39.2% and imports by 29.0% in 2021, as the economies of the Western Balkans profited from a strong and broad-based recovery in demand for the region's goods and services.

There are several channels of impact from the war in Ukraine on the economies of the Western Balkans. Among these, it is certain that inflation will be even higher, because of additional increases in food and energy prices, and that lower exports, disruptions in supply chains, and lower tourism revenues would also likely lead to a slowdown in growth.

The economies of the Western Balkans now face an unusually uncertain outlook. The baseline projection for GDP growth in 2022 in the Western Balkans is now 3.1%, a downward revision by almost one percentage point.

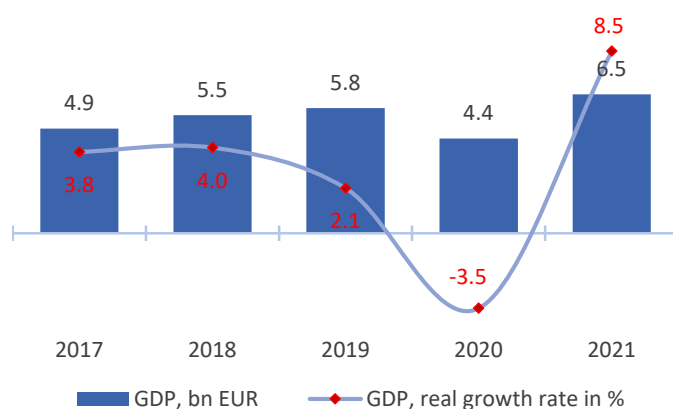
Macroeconomic overview 2021 – Albania

Short overview

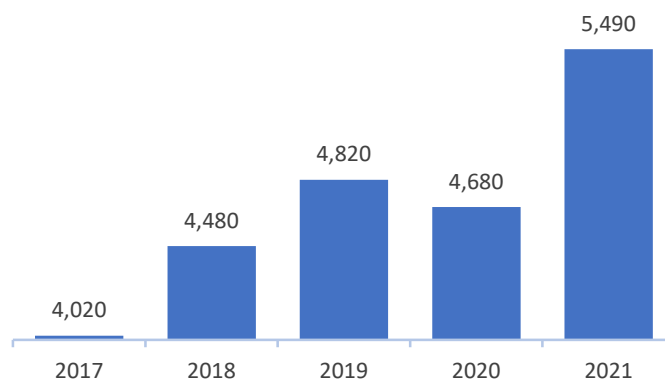
According to the volume of the GDP, Albania is the third economy of the Western Balkans with the total value of all products produced in 2021 of EUR 15.4 billion, right after Serbia and B&H. After the crisis caused by the pandemic COVID-19, the nominal increase of Albania's GDP in 2021 amounted to 16.2% and reached EUR 15.4 billion which is the record value of this economic indicator. Despite of this, if we look at the EU average, Albania is significantly behind the EU economies. The GVA of the Albanian economy accounted 87.5% of the country's total GDP and the main drivers of Albanian economy by activities are agricultural, forestry and fishing (19.3% of the country's total GDP), wholesale, retail trade, repair of motor vehicles (11.2%) and real estate activities (6.2%).

In recent years, there has been a trend of population decline in this country, so in 2021, according to official data, there were a total of 2.8 million people in this country. The GDP per capita was on EUR 5.490 places Albania in the group of middle-low level countries, despite the fact that she made a step ahead in the last observed year. The real GDP growth in 2021 was 8.5% which is above the Western Balkans average, but the higher growth rate in 2021 was actually the consequence of the low base in previous year, but also of negative factors that were in force during 2020.

Albania's GDP, in EUR billion and real growth rate, in %



GDP per capita of Albania, in EUR



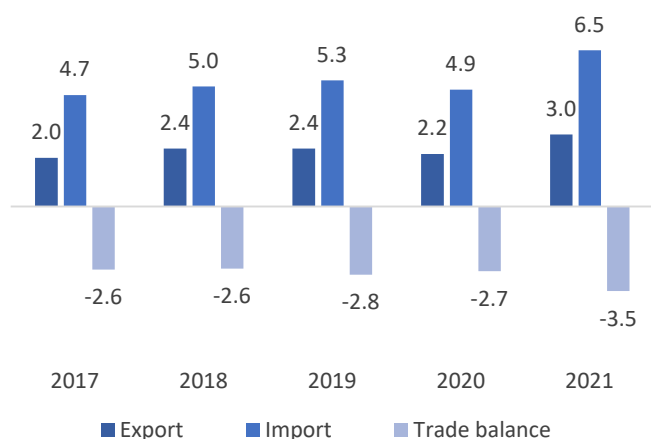
Source: wiiw.

When it comes to goods exports, the export from Albania in 2021 reached EUR 3.0 billion, which completely exceeded the volume of exports from the pre-pandemic year 2019 (EUR 2.4 billion). Albania's exports are significantly behind the exports of Serbia, North Macedonia and B&H and constitute only 19.5% of the country's total GDP. On the other hand, Albania's imports in 2021 reached a record EUR 6.5 billion, which is 42.4% of the total GDP, which means that Albania can be rated as a country highly dependent on imported components, such as raw materials and repromaterials. When it comes to the influence of Albania's foreign trade on the Western Balkans region, the share of this country's exports in the total exports of Western Balkans is 7.5%, while on the import side this percentage is 10.4%. In 2021, the main export products of Albanian economy are footwear, gaiters and the like; mineral fuels and oils; apparel and clothing accessories; iron and steel; electrical machinery and equipment etc. On the other hand, the main imported products

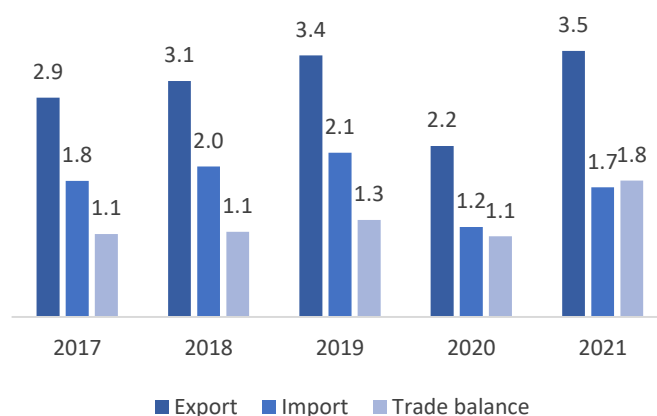
are mineral fuels and oils; machinery, mechanical appliances, nuclear reactors; electrical machinery and equipment; vehicles other than railway or tramway rolling stock; iron and steel etc.

Albania's service sector has been developing rapidly in recent years, and in 2021, exports reached EUR 3.4 billion, which is also the level of pre-pandemic exports. It can almost certainly be said that the pandemic slowed down the exports of this country in 2020, which according to the value of this indicator is right behind Serbia, which during the previous year exported as much as EUR 6.4 billion. Albania's import of services slowed down significantly during 2020 and after continuous growth since 2014, in the last two observed years, it recorded below average values. Total contribution of travel and tourism sector to GDP is around 11%.

**Foreign trade of goods of Albania,
in EUR billion**



**Foreign trade of services of Albania,
in EUR billion**



Source: wiiw.

In 2021, 1.2 million employees were officially registered in the Albanian economy with a slight year-on-year growth of about 0.4%, with a total of 165.0 thousand unemployed. The number of unemployed persons has been in continuous annual decline since 2014, and in this eight-year period the number of unemployed persons decreased by a total of 55.0 thousand. The unemployment rate in Albania is 11.5%, which is a record level. The average gross salary in Albania was EUR 467, which, despite the year-on-year increase, is significantly below the EU average.

A total FDI inflow in this country, during 2021, amounted to EUR 1.0 billion which represents a slight increase in compared with the pandemic year (2020), which was 10.1%. On the other hand, gross fixed capital investments of Albania in the period 2018-2020 stagnate and amount to an almost unchanged EUR 3.0 billion, which is about 22.6% of the country's GDP.

When it comes about fiscal sector, the share of total public debt in GDP at the end of 2021 was 73.2%, which is significantly above the allowed limit of Maastricht, while the fiscal balance is in a deficit of 4.5%. The public debt increased by almost 10 percentage points during the pandemic, which is a consequence of the Government's need to stimulate economic development as well as recovery from the coronavirus pandemic. Current account is also in deficit at the 7.7%, while an average inflation in 2021 was close to 2.0%.

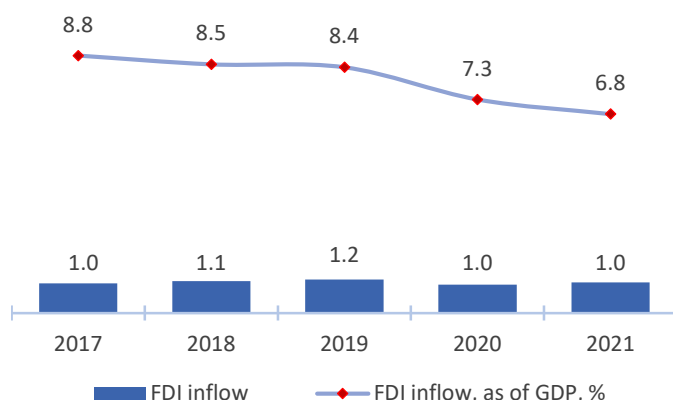
The total gross reserves of Albania, including gold, at the end of December 2021 amounted to EUR 5.0 billion, which is about 32.2% of the total GDP of this country. The share of NPLs in the country's GDP was also

reduced to 5.7% in 2021, which is a significant decrease compared to the previous year, by 2.5 percentage points. Bearing in mind the value of this indicator in 2013, 23.2%, a significant improvement was achieved in this monetary field, that is, the share of NPLs in the GDP of the country in 10 years was reduced practically 4 times.

For the last 3 years, the exchange rate against the euro has been relatively stable, and in 2021, it was necessary to allocate 122-123 albanian lek for 1 euro, and for the last 10 years, the average exchange rate of the national currency against the euro has been appreciating more and more every year. On the other hand, significant annual oscillations are shown by the domestic currency in relation to the US dollar, and in the last observed year for 1 US dollar it was necessary to set aside about 103 albanian lek.

For the last 10 years, the central bank of Albania has been conducting an expansive monetary policy, and almost every year the reference interest rate has been reduced, until at the end of 2021 it is 0.5%, which is a record low value of this monetary indicator. The long-term expansionary monetary policy may also have the consequences of an increase in inflation, which has slightly accelerated in the last three years, but it can be concluded that it is under control (2.0%).

**FDI inflow in Albania,
in EUR billion and their share in GDP, in %**



Source: wiiw.

Outlook

In 2022, Albania's economy is expected to face a major struggle with high inflation caused by the war in Ukraine, the remediation of the consequences of global interruptions in international supply chains, as well as several very important energy challenges. Economists from Vienna Institute (WiiW) expect that the real GDP growth in 2022 will increase by 3.5% and considering the current business challenges this projection should be viewed as optimistic.

The average inflation during 2022 will be around 6.1%, while the current account deficit of the balance of payments is expected to increase to more than 8%. Economists expect that a high inflow of remittances from abroad as well as growing employment will make it possible to mitigate the consequences of cautious spending. The central bank reacted to the high inflation by increasing the reference interest rate, which currently stands at 1.25%, so great pressure is expected on the monetary market.

According to the first estimates, the tourism sector expects an above-average season, but it should be borne in mind that this sector of the economy is still in the process of recovering from the pandemic, knowing that it suffered the greatest consequences of the pandemic.

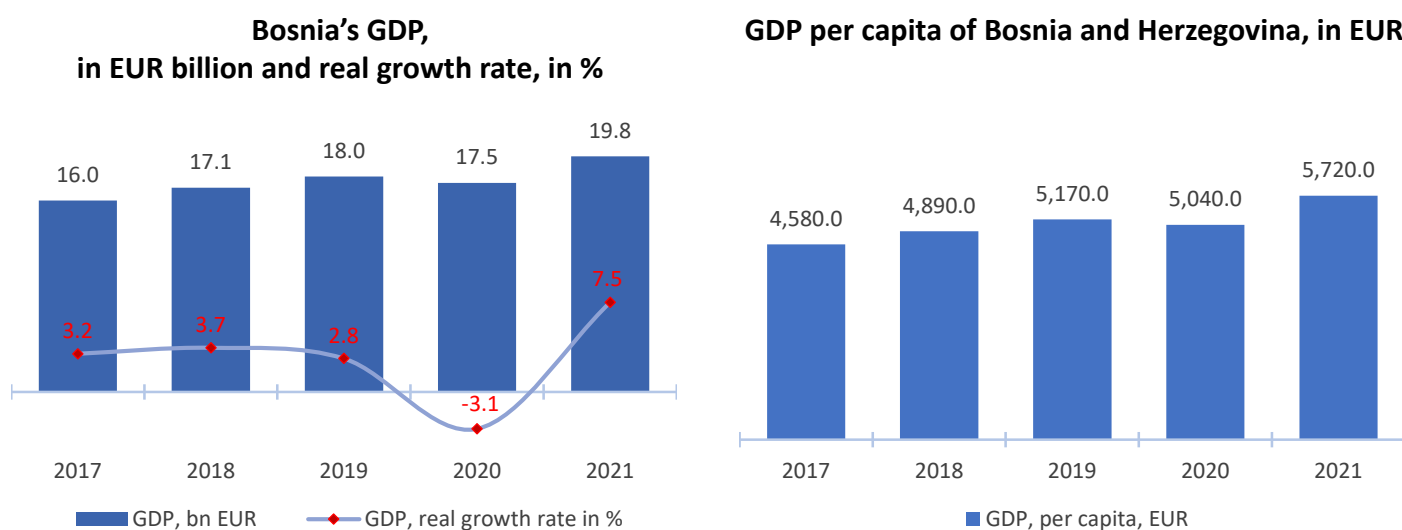
For 2022, International Monetary (IMF) is projected inflation at 5.5%, while the real GDP growth will account 2.0% which will be direct consequence and influence of Ukrainian crisis on albanian economy.

Macroeconomic overview 2021 – Bosnia and Herzegovina

Short overview

According to the volume of the GDP, B&H is the second economy of the Western Balkans with the total value of all products produced in 2021 of EUR 19.1 billion, right after Serbia. After the crisis caused by the pandemic COVID-19, the real growth of Bosnia's GDP in 2021 amounted to 7.1% and reached EUR 19.1 billion which is the record value of this economic indicator. This GDP level surpassed a level from 2019 which is marked as pre-pandemic year. Despite of this, if we look at the EU average, B&H is significantly behind the EU economies. The GVA of the Bosnian economy accounted 85.6% of the country's total GDP and the main drivers of Bosnian economy by activities are manufacturing (14.4% of the country's total GDP), wholesale, retail trade, repair of motor vehicles (14.3%) and public administration, defence, compuls. soc. security (7.2%).

In recent years, there has been a trend of population decline in this country, so in 2021, according to official data, there were a total of 3.4 million people in this country. The GDP per capita was on EUR 5.540 places B&H in the group of middle-low level countries, despite the fact that she made a step ahead in the last observed year. The real GDP growth in 2021 was 7.1% which is on the Western Balkans average, but the higher growth rate in 2021 was actually the consequence of the low base in previous year, but also of negative factors that were in force during 2020.



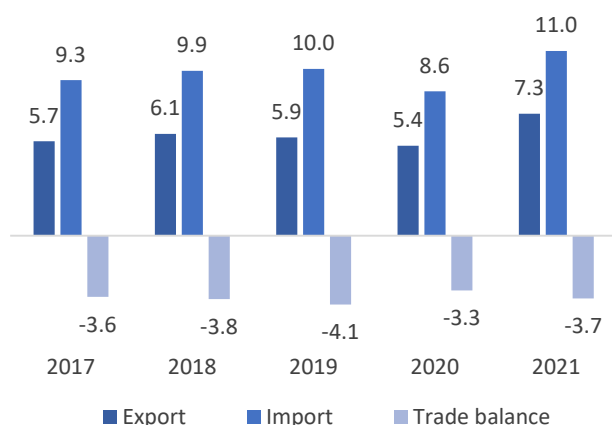
Source: wiiw.

When it comes to goods exports, the export from B&H in 2021 reached EUR 7.3 billion, which completely exceeded the volume of exports from the 2018 which was the record export year (EUR 6.1 billion). Bosnia's exports are significantly behind the exports of Serbia, but greater than other Western Balkans countries and constitute 38.2% of the country's total GDP. On the other hand, Bosnia's imports in 2021 reached a record EUR 11.0 billion, which is 57.9% of the total GDP, which means that B&H can be rated as a country highly dependent on imported components, such as raw materials and repropmaterials. When it comes to the influence of Bosnia's foreign trade on the Western Balkans region, the share of this country's exports in the total exports of Western Balkans is 18.2%, while on the import side this percentage is 17.5%. In 2021, the main export products of Bosnian economy are furniture; mineral fuels and oils; electrical machinery and

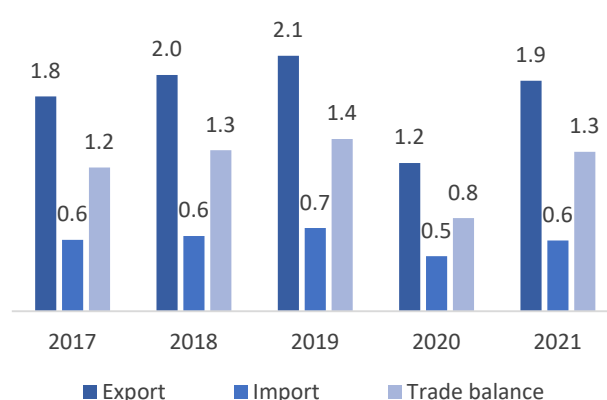
equipment; iron and steel products; wood and articles of wood etc. On the other hand, the main imported products are mineral fuels and oils; machinery, plastics and other products; vehicles other than railway or tramway rolling stock; iron and steel; aluminum; pharmaceutical products etc.

Bosnia's service sector has been developing rapidly from 2014 and in 2021, exports reached EUR 1.9 billion, which is below of the pre-pandemic level (EUR 2.1 billion). It can almost certainly be said that the pandemic slowed down the exports of this country in 2020, which according to the value of this indicator is right behind Serbia and Albania, which during the previous year exported as much as EUR 7.8 billion and EUR 3.5 billion, respectively. During 2020, Bosnia's import of services slowed down significantly and remained stable from 2015.

**Foreign trade of goods
of Bosnia and Herzegovina, in EUR billion**



**Foreign trade of services
of Bosnia and Herzegovina, in EUR billion**



Source: wiiw.

In 2021, 823.6 thousand employees were officially registered in the Bosnian economy with a slight year-on-year growth of about 1.3%, with a total of 241.8 thousand unemployed. The number of unemployed persons has been in continuous annual decline until 2019, but from the pandemic year this indicator recorded a significantly growth (for 2 year, the number of employees are higher for 92.4 thousand). The unemployment rate in B&H is 17.4%. The average gross salary in Bosnia was EUR 788, which is a slightly below the Montenegro (EUR 793) and slightly above Serbia (EUR 772).

A total FDI inflow in this country, during 2021, amounted to EUR 438.9 million which represents a slight increase in compared with the pandemic year (2020) and share of total FDI inflow in total country's GDP was 2.5%. On the other hand, gross fixed capital investments of B&H increased until 2019 and amount to EUR 4.0 billion in 2020, which is about 22.8% of the country's GDP.

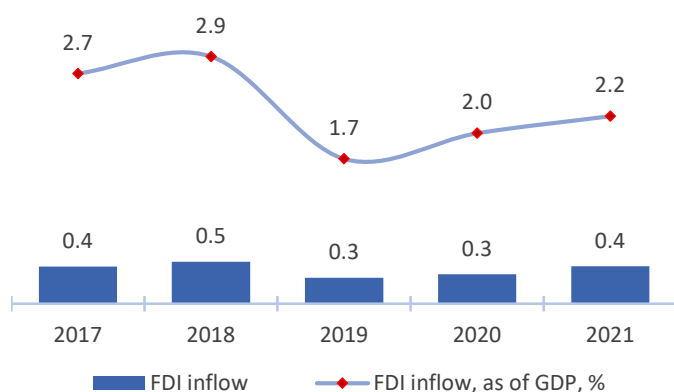
When it comes about fiscal sector, the share of total public debt in GDP at the end of 2021 was 34.2%, which is significantly below the allowed limit of Maastricht, while the fiscal balance is in a deficit of 0.3%. The public debt decreased by around 2.4 percentage points during the pandemic. Current account is also in deficit at the 2.1%, while an average inflation in 2021 was close to 2.0%.

The total gross reserves of B&H, including gold, at the end of December 2021 amounted to EUR 8.4 billion, which is about 42.3% of the total GDP of this country. The share of NPLs in the country's GDP was also reduced

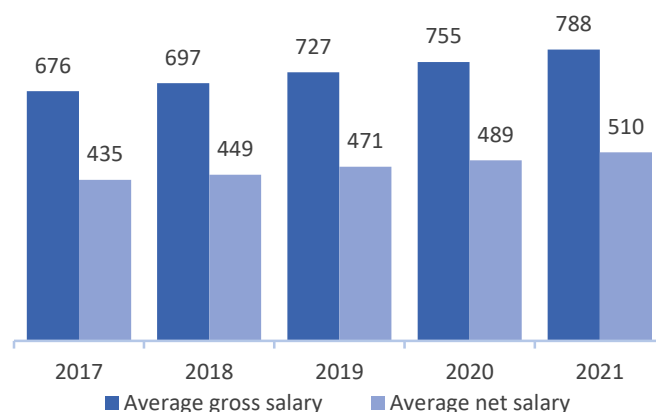
to 5.3% in 2021, which is a significant decrease compared to the previous year, by nearly 2.0 percentage points. Bearing in mind the value of this indicator in 2013, 15.1%, a significant improvement was achieved in this monetary field, that is, the share of NPLs in the GDP of the country in 10 years was reduced practically 3 times.

For the last 3 years, the exchange rate against the euro has been relatively stable, and in 2021, it was necessary to allocate 2.0 KM for 1 euro. On the other hand, significant annual oscillation are shown by the domestic currency in relation to the US dollar, and in the last observed year for 1 US dollar it was necessary to set aside about 1.0 KM. At the end of 2021, lending interest rate for B&H was 3.2%. Lending interest rate of B&H fell gradually from 12.7 % in 2002 to 3.2 % in 2021.

**FDI inflow in Bosnia and Herzegovina,
in EUR billion and their share in GDP, in %**



**Average gross and net salary
in Bosnia and Herzegovina, in EUR**



Source: wiiw.

Outlook

In 2022, Bosnia's economy is expected to decline to 2.4% in 2022, from 7.1% in 2021, and remain subdued in the medium term. Average annual inflation is expected to accelerate to 6.5% this year from 2% last year and soften gradually afterward. While the impact of the war in Ukraine on confidence and the financial sector in B&H appears now contained, Bosnia's economy remains exposed to higher commodity prices, slower economic growth in Europe, and tighter financial conditions.

The fiscal position turned to a surplus of 0.8% of GDP in 2021 from a deficit of 4.7% in 2020. Revenues collected by the Indirect Tax Authority reached a record-high level last year, driven by rebounding private consumption and higher prices. External financing was also ample, including from the IMF and the European Union. The fiscal position is expected to register a small deficit in 2022 as the economy slows down and the authorities take expansionary measures to counter rising costs of living.

For 2022, International Monetary (IMF) is projected inflation at 6.5%, while the real GDP growth will account 2.5% which will be direct consequence and influence of Ukrainian crisis on bosnian economy.

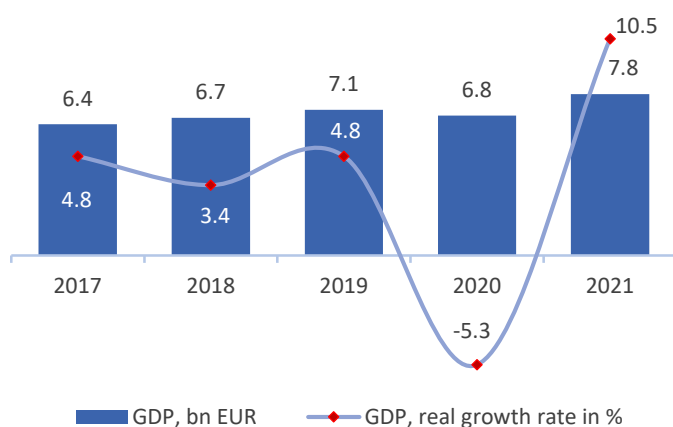
Macroeconomic overview 2021 – *Kosovo

Short overview

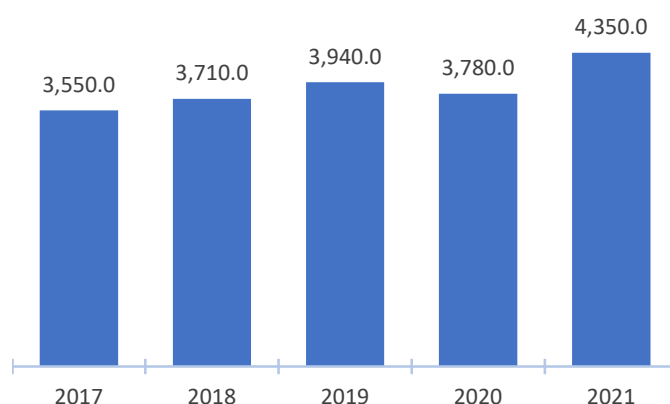
According to the volume of the GDP, *Kosovo is the fifth economy of the Western Balkans with the total value of all products produced in 2021 of EUR 7.8 billion, only above Montenegro. After the crisis caused by the pandemic COVID-19, the nominal increase of *Kosovo's GDP in 2021 amounted to 15.4% and reached EUR 7.8 billion which is the record value of this economic indicator. The GVA of the *Kosovo's economy accounted 82.6% of the country's total GDP and the main drivers of *Kosovo's economy by activities are manufacturing (13.4% of the country's total GVA), wholesale, retail trade, repair of motor vehicles (12.8%) and construction (7.7%).

In recent years, there has been a stable trend in this country, so in 2021, according to official data, there were a total of 1.8 million people in this country which is on the average such as in previous years. The GDP per capita was on EUR 4,355 places *Kosovo in the group of middle-low level countries. The real GDP growth in 2021 was 10.5% which is above the Western Balkans average, but the higher growth rate in 2021 was actually the consequence of the low base in previous year, but also of negative factors that were in force during 2020.

**Kosovo's GDP,
in EUR billion and real growth rate, in %**



GDP per capita of *Kosovo, in EUR

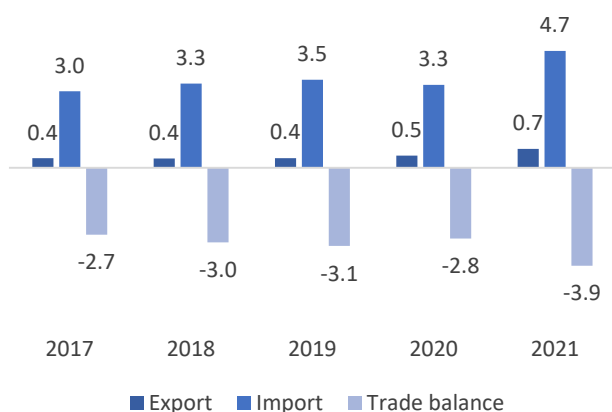


Source: wiiw.

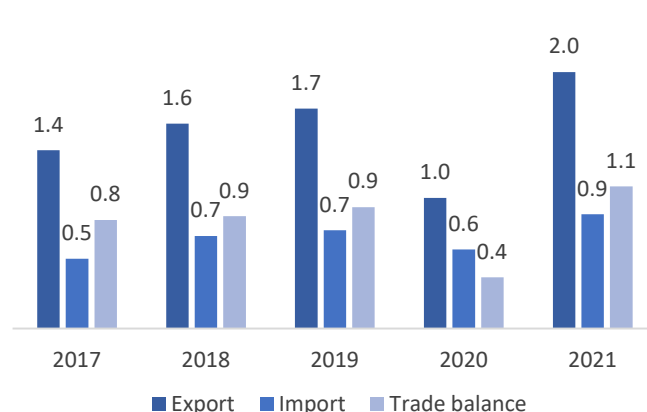
When it comes to goods exports, the export from *Kosovo in 2021 reached EUR 750.0 million, which is nearly than 2 times higher in compared with the volume of exports from the 2019. *Kosovo's exports are second smallest exports in Western Balkans, only above Montenegro, and constitute 9.6% of the country's total GDP. On the other hand, *Kosovo's imports in 2021 reached a record EUR 4.7 billion, which is 59.5% of the total GDP, which means that *Kosovo has one of the biggest foreign trade deficit in that region (EUR 3.9 billion in 2021). When it comes to the influence of *Kosovo's foreign trade on the Western Balkans region, the share of this country's exports in the total exports of Western Balkans is 1.9%, while on the import side this percentage is 7.4%. In 2021, the main export products of *Kosovo's economy are base metals; plastic, rubber and other articles; prepared foods, beverages, alcoholic beverages and tobacco; plant products; mineral products etc. On the other hand, the main imported products are machinery, mechanical and electrical equipment; prepared foods, beverages, alcoholic beverages and tobacco; mineral products; base metals; means of transport; chemical products etc.

In 2021 *Kosovo's service sector exports reached EUR 1.9 billion, which is more than double in compared with the pandemic year (EUR 995.0 million). It can almost certainly be said that the pandemic slowed down the exports of this country in 2020, which according to the value of this indicator is right behind Serbia and Albania, which during the previous year exported as much as EUR 7.8 billion and EUR 3.5 billion, respectively. From 2016 (except pandemic year), *Kosovo's import of services surpassed EUR 1.0 billion.

**Foreign trade of goods of Kosovo,
in EUR billion**



**Foreign trade of services of Kosovo,
in EUR billion**



Source: wiiw.

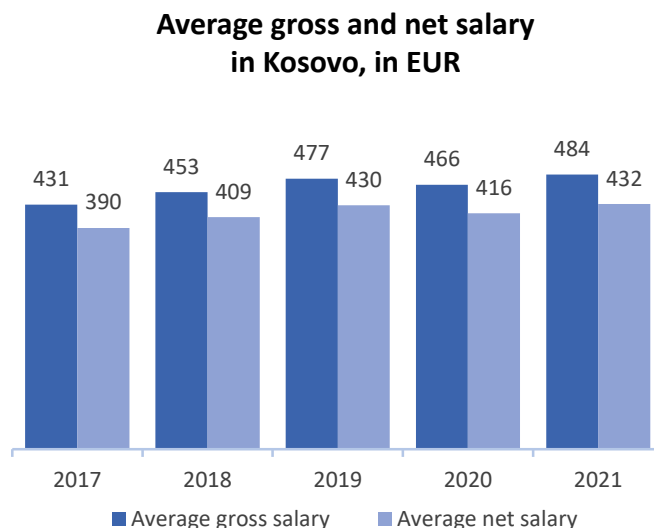
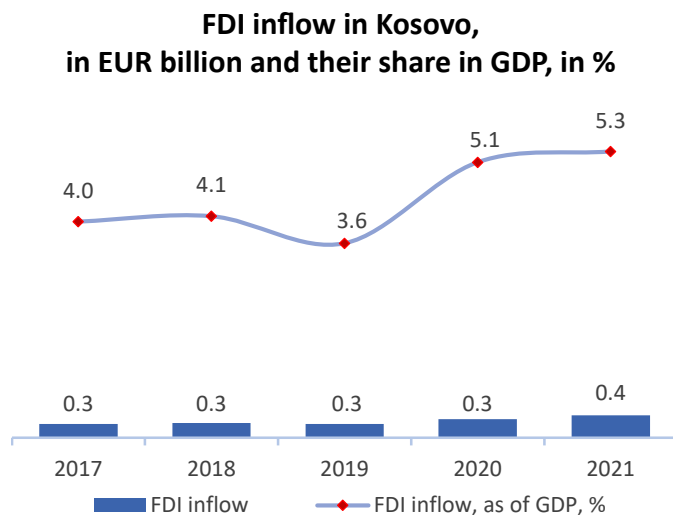
In 2021, 375.0 thousand employees were officially registered in the *Kosovo's economy and with a total of 120.0 thousand unemployed. The number of unemployed persons has been more fluctuated during previous ten years, but from the pandemic year this indicator recorded a significantly growth (for 2 year, the number of employees are higher for 27.9 thousand). The unemployment rate in *Kosovo is 24.5%. The average gross salary in *Kosovo was EUR 484, which is a slightly above of the last Albania (EUR 467). This level of average wages is significantly behind the EU average.

A total FDI inflow in this country, during 2021, amounted to EUR 415.3 million which represents a solid increase in compared with the pandemic year (20.1%) and share of total FDI inflow in total country's GDP was 5.3%. On the other hand, gross fixed capital investments of *Kosovo growing from year to year and in the last three years amounted to stable EUR 2.0 billion, which is about 25.7% of the country's GDP.

When it comes about fiscal sector, the share of total public debt in GDP at the end of 2021 was 21.5%, which is significantly below the allowed limit of Maastricht. Current account is also in deficit at the 8.6%, while an average inflation in 2021 was around to 3.4%.

The total gross reserves of *Kosovo, including gold, at the end of December 2021 amounted to EUR 1.1 billion, which is about 14.1% of the total GDP of this country. The share of NPLs in the country's GDP was also reduced to 2.3% in 2021, which is a slightly decrease compared to the previous year, by nearly 40 basis points. Bearing in mind the value of this indicator in 2013, 8.7%, a significant improvement was achieved in this monetary field, that is, the share of NPLs in the GDP of the country in 10 years was reduced practically 4 times.

At the end of 2021, key reference rate for *Kosovo was 5.8%. Lending interest rate of *Kosovo fell gradually from 12.2% in 2012 to 5.8 % in 2021.



Source: wiiw.

Outlook

The war in Ukraine represents a severe shock for *Kosovo. While direct trade and financial channels with conflict countries are negligible, the impact of the increase in the international prices of food and energy on *Kosovo's imports could be as high as 5.5% of GDP. While the momentum from last year's recovery is still strong, the shock will inevitably affect demand and economic activity in 2022. Although the pandemic and the war represent serious challenges, they have also spurred interest from investors to relocate to Europe. Maintaining sound macroeconomic policies and financial stability, as well as advancing the implementation of reforms will be essential to attract foreign direct investment to *Kosovo.

Higher inflation, which on the back of increased import prices is expected to reach more than 10% in 2022, calls for targeted and temporary support to help vulnerable households. The authorities have responded swiftly with subsidies for agricultural inputs, wage bonuses and temporary increases in pension benefits and social transfers. At the same time, they have appropriately refrained from tax cuts, which disproportionately benefit those who are better off and are costly and difficult to reverse. The increase in electricity tariffs in February to reflect the larger electricity import bill together with the implementation of electricity subsidies for about 20% of households were also appropriate policy moves. A reversal of the tariff increase would lead to a larger current account deficit and represent a serious burden for the budget. The planned budgetary review for 2022 should describe how support programs are reaching the most vulnerable, as well as how the appropriate functioning of the electricity value chain is being preserved in the face of the current electricity subsidies.

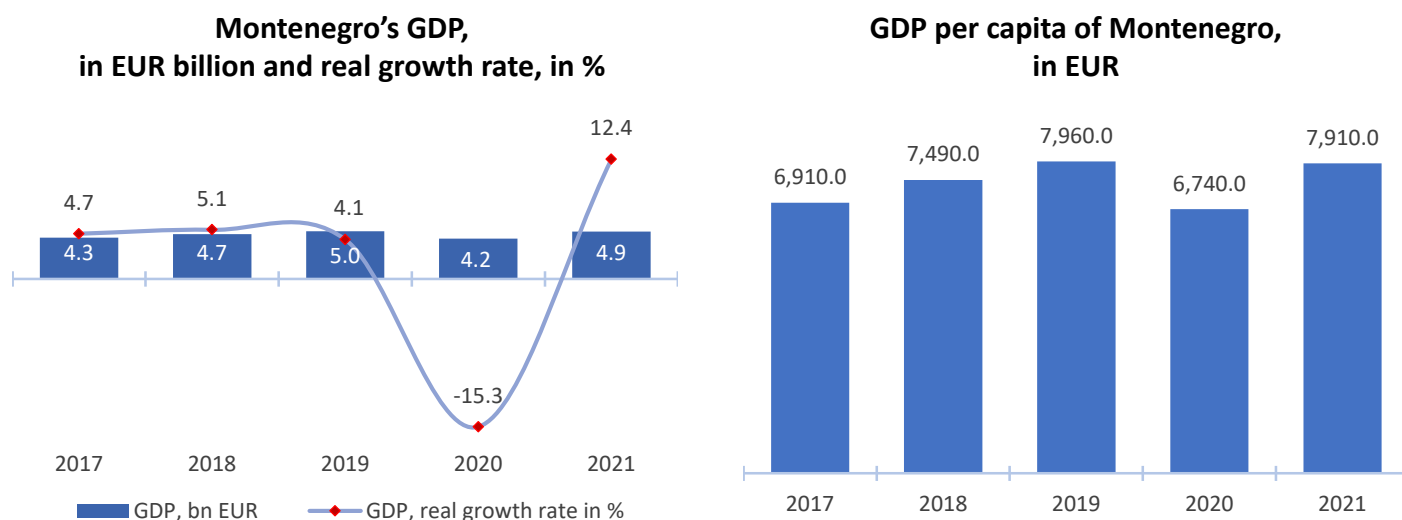
For 2022, International Monetary (IMF) is projected inflation at 9.5%, while the real GDP growth will account 2.8% which will be direct consequence and influence of Ukrainian crisis on *Kosovo's economy.

Macroeconomic overview 2021 – Montenegro

Short overview

According to the volume of the GDP, Montenegro is the sixth economy of the Western Balkans with the total value of all products produced in 2021 of EUR 4.9 billion, positioning on the last place among Western Balkans economies. After the crisis caused by the pandemic COVID-19, the nominal increase of Montenegrin GDP in 2021 amounted to 17.3% and reached EUR 4.9 billion which is the same value of this economic indicator from 2019, which is marked as pre-pandemic year. The GVA of the Montenegrin economy accounted 82.8% of the country's total GDP and the main drivers of Montenegrin economy by activities are wholesale, retail trade, repair of motor vehicles (13.0% of the country's total GDP), public administration, defence, compulsory social security (7.8%) and agriculture, forestry and fishing (7.6%). Travel and tourism sector is one of the main driver of country's total GDP and accounts for some 25% of total value of produced products during the whole year.

In recent years, there has been a stable trend in this country, so in 2021, according to official data, there were a total of 621.0 thousand people in this country which is on the average such as in previous years. The GDP per capita was on EUR 7.909 and places Montenegro on the top of Western Balkans economies if we compare values of this indicator. The real GDP growth in 2021 was 12.4% which is above the Western Balkans average, but the higher growth rate in 2021 was actually the consequence of the low base in previous year, but also of negative factors that were in force during 2020. This real GDP growth is the highest among other Western Balkans economies.



Source: wiiw.

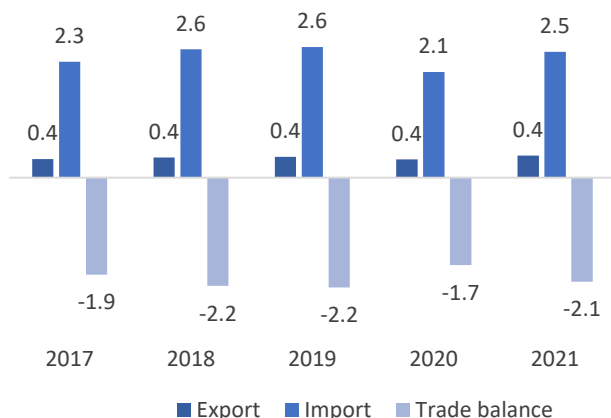
When it comes to goods exports, the export from Montenegro in 2021 reached EUR 437.0 million, which is around 19.4% higher in compared with the volume of exports from the 2019. Montenegrin export is the smallest export in Western Balkans and constitute 8.9% of the country's total GDP. On the other hand, Montenegrin import in 2021 reached a record EUR 2.5 billion, which is 51.0% of the total GDP, which means that Montenegro has foreign trade deficit by EUR 2.1 billion in 2021).

When it comes to the influence of Montenegrin foreign trade on the Western Balkans region, the share of this country's exports in the total exports of Western Balkans is 1.1%, while on the import side this percentage

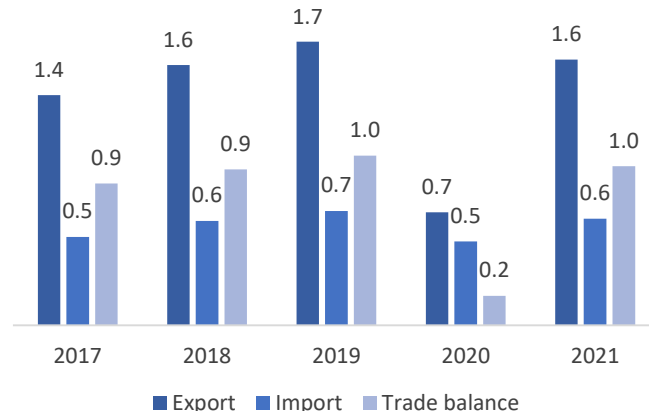
is 4.0%. In 2021, the main export products of Montenegrin economy are aluminium and other products; mineral fuels and oils; wood and wood products; iron and steel; machinery and mechanical appliances etc. On the other hand, the main imported products are mineral fuels and oils; machinery and mechanical appliances; electrical machinery and equipment; pharmaceutical products; vehicles other than railway or tramway rolling stock; iron and steel etc.

In 2021 Montenegrin service sector exports reached EUR 1.6 billion, which is more than double in compared with the pandemic year (EUR 679.0 million). It can almost certainly be said that the pandemic slowed down the exports of this country in 2020, which according to the value of this indicator is on the last position among region's countries. From 2017 (except pandemic year), Montenegrin import of services surpassed EUR 500.0 million.

**Foreign trade of goods of Montenegro,
in EUR billion**



**Foreign trade of services of Montenegro,
in EUR billion**



Source: wiiw.

In 2021, 212.6 thousand employees were officially registered in the Montenegrin economy and with a total of 42.2 thousand unemployed. In last observed year, the number of unemployed persons has been on the lowest level. The unemployment rate in Montenegro is around 23.5%. The average gross salary in Montenegro was EUR 793, which is the highest average wages in the region. Nevertheless, this level of average wages is significantly behind the EU average.

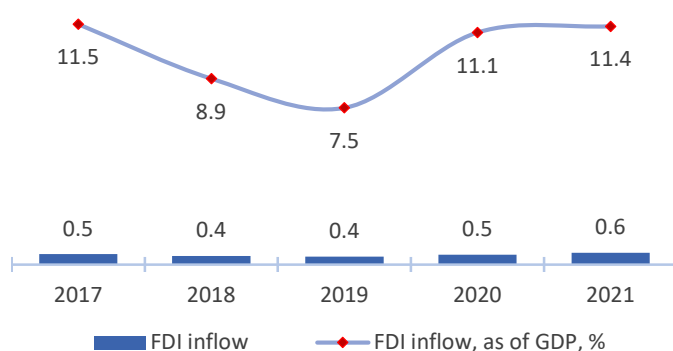
A total FDI inflow in this country, during 2021, amounted to EUR 561.3 million which represents a solid increase in compared with the pandemic year (51.0%) and share of total FDI inflow in total country's GDP was 11.4%. On the other hand, gross fixed capital investments of Montenegro represents a small variations from year to year and in the last four years amounted to stable EUR 1.2 billion, which is about 27.9% of the country's GDP.

When it comes about fiscal sector, the share of total public debt in GDP at the end of 2021 was 84.8%, which is significantly above the allowed limit of Maastricht and, also, the highest share of public debt in GDP in the Western Balkans, among individual members. Current account is also in deficit at the 9.3%, while an average inflation in 2021 was around to 2.4%.

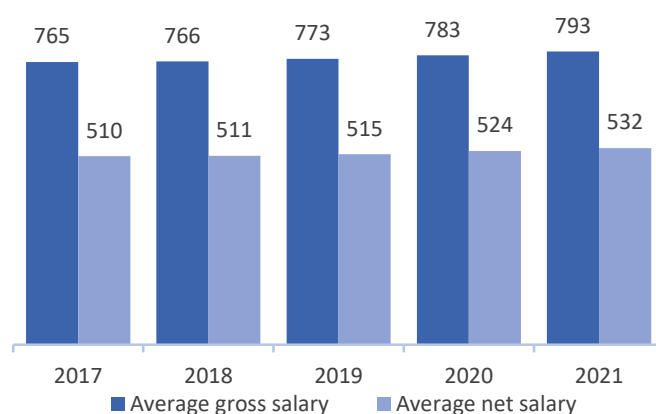
The total gross reserves of Montenegro, including gold, at the end of December 2021 amounted to EUR 1.7 billion, which is about 35.6% of the total GDP of this country. The share of NPLs in the country's GDP was also reduced to 6.2% in 2021, which is a slight increase compared to the previous two years. Bearing in mind the value of this indicator in 2010, 18.3%, a significant improvement was achieved in this monetary field, that is, the share of NPLs in the GDP of the country in 11 years was reduced practically 3 times.

At the end of 2021, key reference rate for Montenegro was 5.2%. In last ten years, Central bank of Montenegro implements an expansionary monetary policy and in 2021 key interest rate was on historical low level.

**FDI inflow in Montenegro,
in EUR billion and their share in GDP, in %**



**Average gross and net salary in Montenegro
in EUR**



Source: wiiw.

Outlook

The war in Ukraine is casting a long shadow over the global economic and financial outlook. This year's challenging environment could worsen further next year due to deteriorating growth prospects in Europe, the US, and Asia. Global financial conditions are likely to remain tight. Credit spreads on emerging country debt have climbed significantly higher along with global interest rates. It is a distinct possibility that access to international credit might even be sharply curtailed next year.

Montenegro's economy is similarly entering a period of high uncertainty. First quarter growth 2022 in Montenegro was strong at 7.2% (y-o-y). Available information suggests private consumption has remained strong during the second quarter, as well. The strength of this year's summer tourist season depends on whether lower arrivals from Russia and Ukraine will be balanced by higher arrivals from elsewhere. Policy makers should prepare in advance, for the risk of sharply slower global growth next year. Montenegro's rich natural endowments in renewable energy have not shielded it from global inflationary pressures, as food, fertilizer, gasoline, and construction materials prices have soared. Furthermore, IMF staff is of the view that inflation is not completely imported. Rising wage pressures due to the recent minimum wage increase and tax reforms also appear to be playing a role.

The global economic outlook is likely to remain unfavorable, and financial conditions could further tighten next year—strong advance preparation would serve Montenegro well. Fiscal policy should focus on three key priorities—safeguarding revenues, stronger expenditure controls, and securing adequate financing. The banking system is well capitalized and liquid. Rising global risks call for continued strong supervisory vigilance.

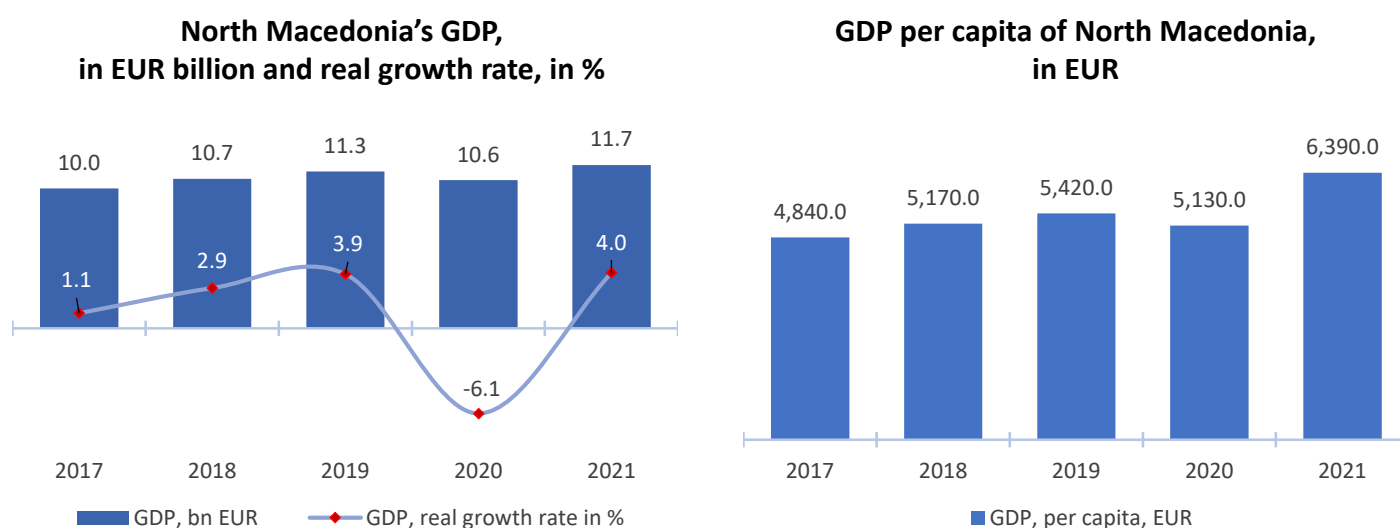
For 2022, International Monetary (IMF) is projected inflation at 6.8%, while the real GDP growth will account 3.8% which will be direct consequence and influence of Ukrainian crisis on Montenegrin economy. 2.0% which will be direct consequence and influence of Ukrainian crisis on Albanian economy.

Macroeconomic overview 2021 – North Macedonia

Short overview

According to the volume of the GDP, North Macedonia is the fourth economy of the Western Balkans with the total value of all products produced in 2021 of EUR 11.7 billion. After the crisis caused by the pandemic COVID-19, the nominal increase of North Macedonian GDP in 2021 amounted to 10.3% and reached EUR 11.7 billion which is the higher value of this economic indicator from 2019, which is marked as pre-pandemic year. The GVA of the North Macedonian economy accounted 87.6% of the country's total GDP and the main drivers of Montenegrin economy by activities are manufacturing (13.2% of the country's total GDP), real estate activities (10.5%) and agriculture, forestry and fishing (8.6%).

In recent years, there has been a decline trend in this country, so in 2021, according to official data, there were a total of 1.8 million people in this country. The GDP per capita was on EUR 6.389 and places North Macedonia on the third place among Western Balkans members, right after Montenegro and Serbia with EUR 7.909 and EUR 7.801, respectively. The real GDP growth in 2021 was 4.0% which is below the Western Balkans average and the smallest predicted growth among region's countries.

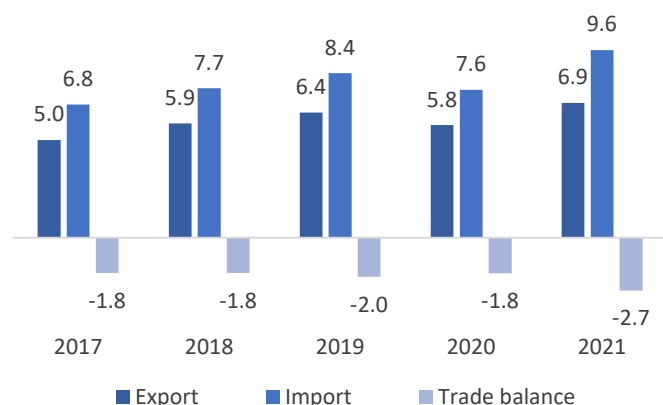


Source: wiiw.

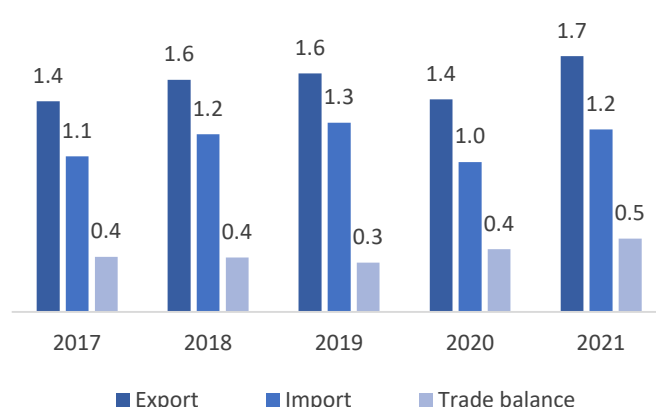
When it comes to goods exports, the export from North Macedonia in 2021 reached EUR 6.9 billion, which is around 7.6% higher in compared with the volume of export from the 2019. North Macedonian export is the third largest export in Western Balkans and constitute 59.0% of the country's total GDP. On the other hand, North Macedonian import in 2021 reached a record EUR 9.6 billion, which is 82.1% of the total GDP, which means that North Macedonia has foreign trade deficit by EUR 2.7 billion in 2021). When it comes to the influence of North Macedonia foreign trade on the Western Balkans region, the share of this country's exports in the total exports of Western Balkans is 17.3%, while on the import side this percentage is 15.3%. In 2021, the main export products of North Macedonia economy are chemical products; electrical machinery and equipment; machinery and mechanical appliances; iron and steel; furniture, bedding, mattress supports etc. On the other hand, the main imported products are natural and cultured pearls; electrical machinery and equipment; mineral fuels and oils; inorganic chemical products; machinery and mechanical appliances; iron and steel etc.

In 2021 North Macedonia service sector exports reached EUR 1.7 billion, which is higher by 7.2% in compared with the pandemic year (EUR 1.6 billion). It can almost certainly be said that the last observed year was record year for this indicator. Since 2014 (except pandemic year), Macedonian export of services continuously growing. On the other hand, in the same year, a total import of services amount to EUR 1.2 billion.

Foreign trade of goods of North Macedonia, in EUR billion



Foreign trade of services of North Macedonia, in EUR billion



Source: wiiw.

In 2021, 795.1 thousand employees were officially registered in the Macedonian economy and with a total of 147.9 thousand unemployed. In last observed year, the number of unemployed persons has been on the lowest level. The unemployment rate in North Macedonia is around 15.7%. The average gross salary in Montenegro was EUR 696 and this level of average wages is significantly behind the EU average.

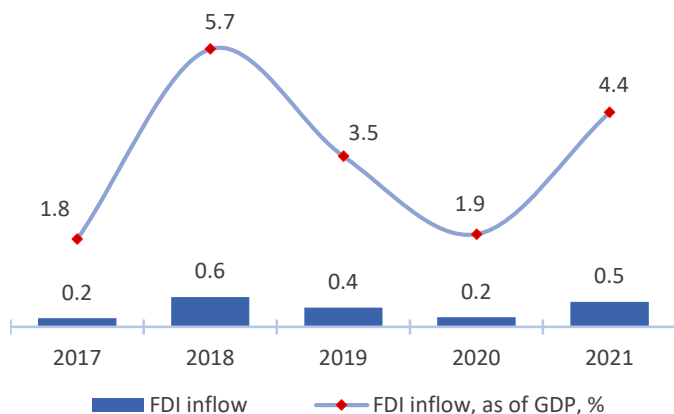
A total FDI inflow in this country, during 2021, amounted to EUR 512.0 million which represents a solid increase in compared with the pre-pandemic year (28.4%) and share of total FDI inflow in total country's GDP was 4.4%. On the other hand, gross fixed capital investments of North Macedonia represents a small variations from year to year and in the every observed years amounted to nearly EUR 2.1 billion, which is about 20.1% of the country's GDP.

When it comes about fiscal sector, the share of total public debt in GDP at the end of 2021 was 51.8%, which is significantly below the allowed limit of Maastricht. Current account is also in deficit at the 3.5%, while an average inflation in 2021 was around to 3.2%.

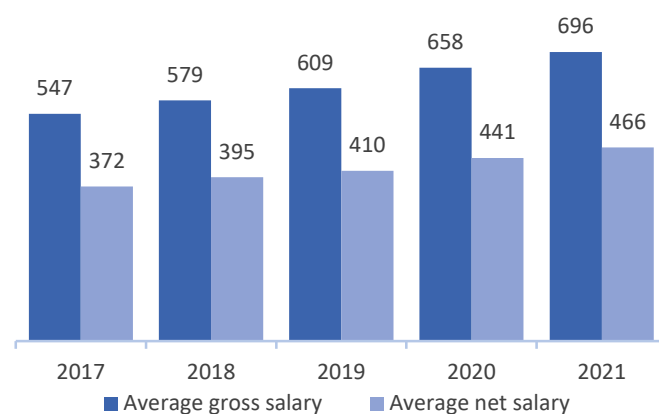
The total gross reserves of North Macedonia, including gold, at the end of December 2021 amounted to EUR 3.6 billion, which is about 31.0% of the total GDP of this country. The share of NPLs in the country's GDP was also reduced to 3.2% in 2021, which is a slightly decrease compared to the previous years. Bearing in mind the value of this indicator in 2013, 11.1%, a significant improvement was achieved in this monetary field, that is, the share of NPLs in the GDP of the country in 9 years was reduced practically 4 times.

At the end of 2021, key reference rate for North Macedonia was 1.3%. In last ten years, Central bank of North Macedonia implements an expansionary monetary policy and in 2021 key interest rate was on historical low level.

**FDI inflow in North Macedonia,
in EUR billion and their share in GDP, in %**



**Average gross and net salary in North Macedonia,
in EUR**



Source: wiiw.

Outlook

After growth moderated in Q4 2021, the economy likely cooled further in the first quarter of 2022. Industrial output volume in January–March averaged higher than in the previous quarter, thanks to a rebound in manufacturing activity in March. Moreover, a 16.8% increase in industrial turnover on the non-domestic market in Q1 pointed to robust foreign demand. That said, declining employment levels within the industrial sector and spikes in consumer prices likely dampened household spending. Retail sales growth also averaged at the lowest level in a year, further suggesting weaker private consumption. In Q2, a record-high inflation rate is eroding real disposable incomes and consumer confidence, boding poorly for spending. In addition, the war in Ukraine and lingering supply shocks should be weighing on industrial activity amid rising global commodity prices, input shortages and logistical delays.

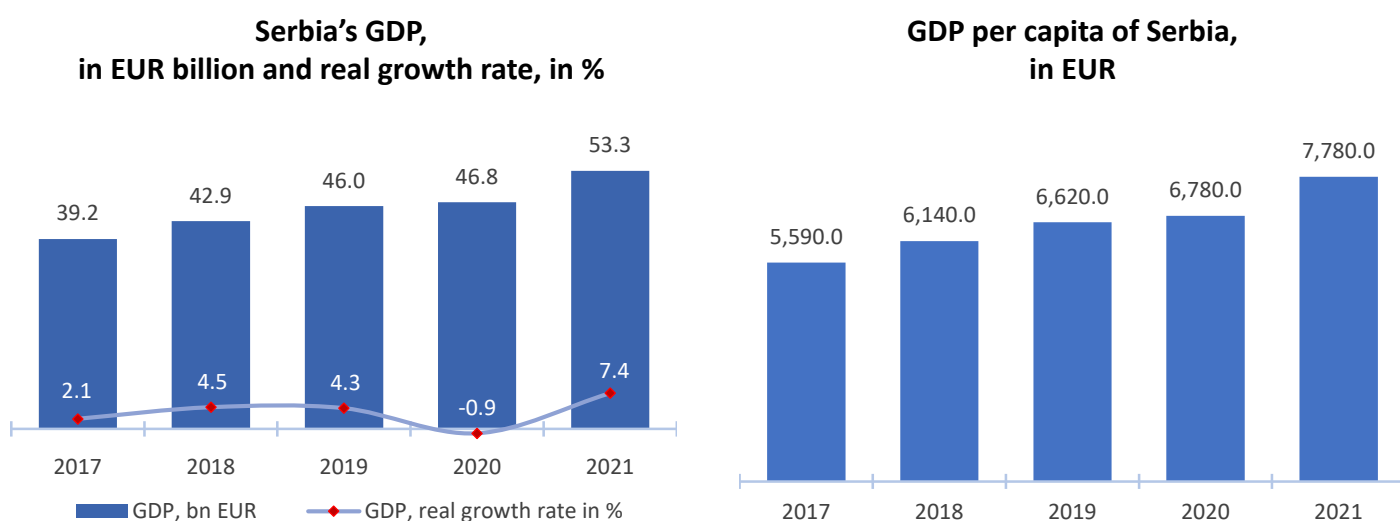
Growth should slow markedly from 2021's reading due to lingering supply shocks and more than decade-high global commodity prices knocking private spending and the external sector. That said, fiscal stimulus and excess savings should support domestic demand, while EU funds should buy fixed investment. The fallout from the war in Ukraine and energy uncertainty pose risks. For 2022, International Monetary (IMF) is projected inflation at 6.9%, while the real GDP growth will account 3.2% which will be direct consequence and influence of Ukrainian crisis on Macedonian economy.

Macroeconomic overview 2021 – Serbia

Short overview

According to the volume of the GDP, Serbia is the first economy of the Western Balkans with the total value of all products produced in 2021 of EUR 53.3 billion. After the crisis caused by the pandemic COVID-19, the nominal increase of Serbia GDP in 2021 amounted to 13.9% and reached EUR 53.3 billion which is the higher value of this economic indicator from 2019, which is marked as pre-pandemic year. Serbia's GDP makes up almost 50% of the whole Western Balkans GDP. The GVA of the Serbian economy accounted 83.1% of the country's total GDP and the main drivers of Serbian economy by activities are manufacturing (13.3% of the country's total GDP), wholesale, retail trade, repair of motor vehicles etc. (11.3%) and real estate activities (7.0%).

In recent years, there has been a decline trend in this country, so in 2021, according to official data, there were a total of 6.8 million people in this country. The GDP per capita was on EUR 7.801 and places Serbia on the second place among Western Balkans members, right after Montenegro with EUR 7.909. The real GDP growth in 2021 was 7.4% which is above the Western Balkans average.



Source: wiiw.

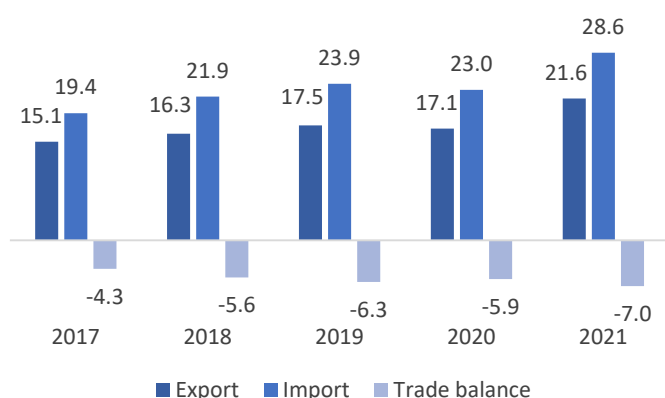
When it comes to goods exports, the export from Serbia in 2021 reached EUR 21.6 billion, which is around 23.3% higher in compared with the volume of export from the 2019. Serbian export is the largest export in Western Balkans and constitute 40.6% of the country's total GDP. On the other hand, Serbian import in 2021 reached a record EUR 28.6 billion, which is 53.6% of the total GDP, which means that Serbia has foreign trade deficit by EUR 7.0 billion in 2021).

When it comes to the influence of Serbian foreign trade on the Western Balkans region, the share of this country's exports in the total exports of Western Balkans is 54.0%, while on the import side this percentage is 45.4%. In 2021, the main export products of Serbian economy are electrical machinery and equipment; machinery and mechanical appliances; plastics and articles; iron and steel; rubber; edible fruits and nuts etc.

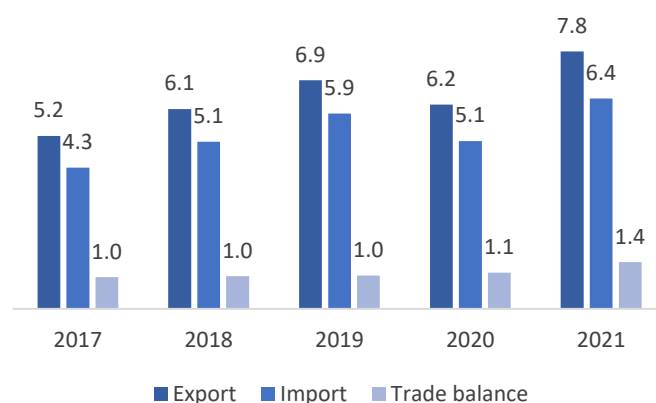
On the other hand, the main imported products are electrical machinery and equipment; machinery and mechanical appliances; mineral fuels and oils; plastics and articles; vehicles other than railway or tramway rolling stock; pharmaceutical products etc.

In 2021 Serbia service sector exports reached EUR 7.8 billion, which is higher by 26.0% in compared with the pandemic year (EUR 6.2 billion). Bearing in mind progressive growth of this sector, especially ITC, in last ten years, it can almost certainly be said that the next year will be a record year for this indicator. On the other hand, in the 2021, a total import of services amount to EUR 6.4 billion.

**Foreign trade of goods of Serbia,
in EUR billion**



**Foreign trade of services of Serbia,
in EUR billion**



Source: wiiw.

In 2021, 2.8 million employees were officially registered in the Serbian economy and with a total of 352.4 thousand unemployed. In last observed year, the number of unemployed persons has been higher than 65.9 thousand in compared with the pandemic year. The unemployment rate in Serbia is 11.0%. The average gross salary in Serbia was EUR 772 and this level of average wages is significantly behind the EU average, but the second largest in region, right after Montenegro EUR 793.

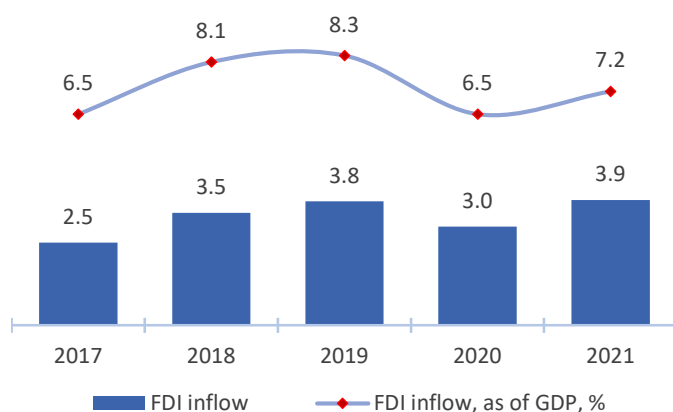
A total FDI inflow in this country, during 2021, amounted to EUR 3.2 billion which represents a great increase in compared with the pandemic year (27.0%) and share of total FDI inflow in total country's GDP was 7.2%. On the other hand, gross fixed capital investments of Serbia represents a great increase from 2014 to 2021 and in that period volume of this investment is almost double. In last observed year gross fixed capital investments amounted to nearly EUR 10.0 billion, which is about 21.4% of the country's GDP.

When it comes about fiscal sector, the share of total public debt in GDP at the end of 2021 was 57.1%, which is slightly below the allowed limit of Maastricht. Current account is also in deficit at the 4.4%, while an average inflation in 2021 was around to 4.1%.

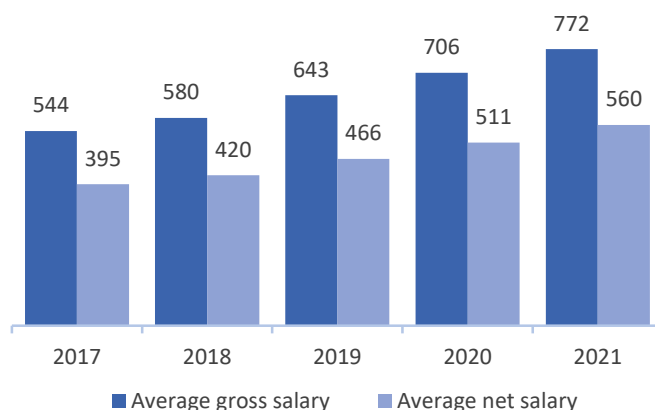
The total gross reserves of Serbia, including gold, at the end of December 2021 amounted to EUR 16.4 billion, which is about 30.9% of the total GDP of this country. The share of NPLs in the country's GDP was also reduced to 3.5% in 2021, which is a slightly decrease compared to the previous years. Bearing in mind the value of this indicator in 2015, 21.6%, a significant improvement was achieved in this monetary field, that is, the share of NPLs in the GDP of the country in seven years was reduced practically 6 times.

At the end of 2021, key reference rate for Serbia was 1.0%. In last ten years, Central bank of Serbia implements an expansionary monetary policy and in 2021 key interest rate was on historical low level.

**FDI inflow in Serbia,
in EUR billion and their share in GDP, in %**



**Average gross and net salary in Serbia,
in EUR**



Source: wiiw.

Outlook

Growth is expected to decelerate in 2022, and the risks to the growth outlook are tilted to the downside. The Serbian economy was projected to grow at around 4%–4.5% annually. However, the war in Ukraine and resulting sanctions imposed on Russia will have an impact on Serbia's exports, foreign direct investment (FDI), remittances, and tourism revenues. As such, economic growth for 2022 has been revised downward to 3.2%. Over the medium term, the economy is expected to grow steadily at around 3% annually. Poverty reduction is expected to stagnate in 2022 as higher inflation is eroding income gains. For 2022, International Monetary (IMF) is projected inflation at 7.7%, while the real GDP growth will account 3.5% which will be direct consequence and influence of Ukrainian crisis on Serbian economy.

Conclusions

- ☐ There is a certain progress in implementation of the Common Region Market Action Plan, but the goal to create a single market by the end of 2024 will hardly be achieved.
- ☐ A relatively long waiting time at the borders within the Western Balkans still an issue.
- ☐ Trade barriers for goods are still obstacles for the regional companies oriented on the Western Balkans regional market.
- ☐ Close to 70% of surveyed companies, do not see concrete progress in terms of free movement of goods and services.
- ☐ Significant number of companies do not use an opportunity to employ the workers from the regional economies.
- ☐ Significant number of companies do not see any progress in terms of cross-border capital transfers.
- ☐ The business people strongly believe that creating a regional single market would be significantly beneficial for the intra-regional economy and higher international competitiveness.
- ☐ The business community is very supporting to any viable option that makes regional business cooperation more efficient and helps every market be stronger and more sustainable.
- ☐ Some progress regarding the regional economic integration process has been made, however, most of the work lies ahead.
- ☐ The access to the finances in the region country has always been very limited, especially in terms of startups, micro and small companies.
- ☐ Many fast moving and modern technologies do not have access to the skilled workforce.
- ☐ The local governments should provide the tax reductions and improve legal environment, and more importantly, to speed up agreements with the rest of the Western Balkan countries to have free movement of products in the region.
- ☐ The local governments should start to build a regional strategy for agriculture and energy sector for the next ten years with proper experts from the business community.
- ☐ Companies should be very careful with their investments in the future period, and pay attention to costs due to a potential recession Europe is facing.
- ☐ Bigger economic activity inside the region is necessary, as well as finding partnerships and synergies, changing know-how, increasing the trust and confidence in order to make the region more competitive and suitable for future challenges.
- ☐ Companies should think of a broader picture and sustainable business based on a long-term business strategy in order to avoid chasing short-term profits.
- ☐ Regional economic and social policies, as well as the diplomatic and political actions by the local governments, should be taken toward the stabilization of the demography.
- ☐ Delaying the necessary measures could be much more problematic for economic and social potential.

- ☐ In the time of crisis, the credibility of the governmental policies, from the citizens and business community point of view, is crucial for the implementation of reforms toward a more attractive and sustainable social and economic environment, as the fundamentals of human welfare.
- ☐ The need of local governments to preserve credibility, supported by the EU institutions, could make the administrative decision-making system more efficient, leading to the implementation of already declared economic, social and integration measures toward a promising mutual future.
- ☐ Better economic opportunities and an increased standard of living have been proven many times as the best way forward towards a peaceful, healthy and prosperous environment.

Methodology

The WB6CIF CRM Survey (Common Regional Market Implementation) covers Western Balkans companies of all sizes and types of ownership. The Questionnaire is conducted on the sample of size n=1.126. The data collection period: September and October 2022.

The framework for the choice of the sample is active companies that do business in Western Balkans. The main objective of the Survey requires a sample of companies with the aim to collect detailed information regarding business obstacles and information within sectors. The findings are presented through the frequency of answers, i.e. medium values. No weighting of the obtained results was performed. The seasonal component was not excluded from the data. The report presents information on business operations of the economy, available to the chambers in the Western Balkans region, based on contacts with members through their organizational units. Data sources: wiiw database, statistical offices, WB6 CIF Calculations, WB6 CIF Survey, Western Balkans chambers.

The survey sample frame was constructed in order to compile the Western Balkans companies with key information like the sector/economic branches of activity, the company size and, most importantly, the contact details. With this objective, the team examined Western Balkans business registers and based selection on the criteria of availability of data and number of companies in registers. As there is no single database that provided a sufficiently comprehensive register for every national economy, a combination was used from the WB6 CIF chamber's data and data available on databases Dun&Bradstreet Hoovers package and Boniteti International. The WB6CIF evaluation methodology involves actor-oriented questionnaires, established with the aim to collect information regarding key business areas. The Activity was co-financed within EU funded project "EU support to the WB6 CIF".

The survey focused on four main areas: Credibility of regional economic policy under pressure of geopolitical risks in Europe, WB6CIF Key Survey results within the key areas of the common regional market, Personal Views Presented by Successful Business People in the Region, Macroeconomic overview 2021 – Western Balkans region.

<p>Classification of non-tariff measures (NTM) by chapter ¹</p> <p>1. Imports:</p> <p>1.1 Technical measures</p> <ul style="list-style-type: none"> A Sanitary and phytosanitary measures B Technical barriers to trade C Pre-shipment inspection and other formalities <p>1.2 Non-technical measures</p> <ul style="list-style-type: none"> D Contingent trade-protective measures E Non-automatic import licensing, quotas, prohibitions, quantity-control measures and other restrictions not including sanitary and phytosanitary measures or measures relating to technical barriers to trade F Price-control measures, including additional taxes and charges 	<ul style="list-style-type: none"> G Finance measures H Measures affecting competition I Trade-related investment measures J Distribution restrictions K Restrictions on post-sales services L Subsidies and other forms of support M Government procurement restrictions N Intellectual property O Rules of origin <p>2. Exports</p> <ul style="list-style-type: none"> P Export-related measures
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¹ Classification in accordance with the International Classification of Non-tariff Measures prepared by UNCTAD (available at: [International Classification of Non-tariff Measures - 2019 edition \(unctad.org\)](https://unctad.org/en/publications-and-statistics/publication/ictim-2019-revision-en.aspx)).

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