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Economic and social developments in south-east Europe: between growth, opportunities and the erosion of social rights

Abstract

This article, prepared by economists from the Southeast Europe Trade Union Economic Experts network, analyses the main economic and social developments within south-east Europe over the past decade, focusing on macroeconomic stability, income levels, labour productivity, social protection and workers' rights. Despite periods of growth and partial alignment with EU standards, the region continues to face significant challenges including structural weaknesses, low productivity, demographic pressures and persistent inequality compared to the EU average. The international financial institutions and the European Union have strongly influenced the shaping of economic policy in the region, often prioritising fiscal consolidation and structural reforms. However, it should be noted that, from the perspective of workers and trade unions, these processes frequently coincide with pressures on labour rights and the erosion of social protection. The study highlights the need for policies to ensure inclusive growth, stronger social dialogue and better labour protection for the region's workers, alongside macroeconomic stability.

Keywords*: macroeconomic stability; minimum wage; social protection and pensions; labour rights, social dialogue; migration and human capital*

Introduction

South-east Europe has undergone profound economic and social transformations over the past decade, driven by both internal dynamics and external pressures. Countries in the region have faced the dual challenge of consolidating macroeconomic stability while attempting to align with European Union standards in fiscal policy, social protection and labour rights. Although inevitable progress has been achieved, particularly in infrastructure development, trade integration and foreign direct investment, the region continues to lag behind the EU average in terms of living standards, productivity and institutional capacity (Eurostat 2025a).

Economic growth in these countries has generally been positive, yet uneven and vulnerable to global shocks. Structural weaknesses such as a reliance on remittances, limited industrial diversification, high levels of informal employment and low innovation capacity continue to constrain long-term development. At the same time, demographic challenges exacerbate existing vulnerabilities including population ageing and the large-scale emigration of skilled workers. The region's population has declined by 1.4 % since 2020, with fertility rates averaging 1.45 children per woman while over 18 % of tertiary-educated citizens live abroad (Eurostat 2025b).

The role of the international financial institutions, particularly the International Monetary Fund (IMF) and the World Bank, has been highly influential in shaping economic strategies across the region. Their emphasis on fiscal discipline and structural reforms has often clashed with social needs, particularly regarding wage dynamics, public sector employment and social spending. The European Union, through accession processes and alignment with the acquis, remains the most significant external anchor. Still, the pace of integration has been slow and uneven, leaving many reforms incomplete.

These developments carry both opportunities and risks for trade unions and workers. On the one hand, EU-oriented reforms and economic modernisation have opened space for higher standards and greater convergence with European practices. On the other, the weakening of collective bargaining, limited respect for labour rights and the erosion of social protection mechanisms point to a deepening of socioeconomic inequalities. In the first half of 2025 alone, over 142,000 people arrived in south-east Europe via mixed migration routes, adding further complexity to labour market and social policy debates. Against this backdrop, examining south-east Europe's key economic and social trends is both a valid scientific exercise and an urgent necessity as regards the policy debate and the development of trade union strategies.

Macroeconomic stability and growth

Macroeconomic stability has been one of the most significant achievements in south-east Europe, with countries maintaining moderate GDP growth, reduced inflation compared to earlier periods and relatively stable levels of public debt. However, disparities remain large within the region compared to the EU average.

According to the latest World Bank reports, economic growth in the western Balkans is expected to reach 3.2 % in 2025, with an anticipated acceleration to 3.5 % in 2026. Although modest, this points to a certain degree of resilience in the region despite global risks and weaker European demand (World Bank 2025). Similar projections from October 2024 had forecast growth of 3.7 % for 2025, indicating changes in the economic environment and downward revisions of growth expectations (Reuters 2024).

On the basis of Eurostat (2024) figures, average GDP growth in the EU amounts to 2 %. With south-east European countries expected to grow 3–4 % in 2025, albeit with lower real wages and higher unemployment than across the EU as a whole, this points immediately to a cumulative problem: formal economic convergence does not automatically translate into social convergence.

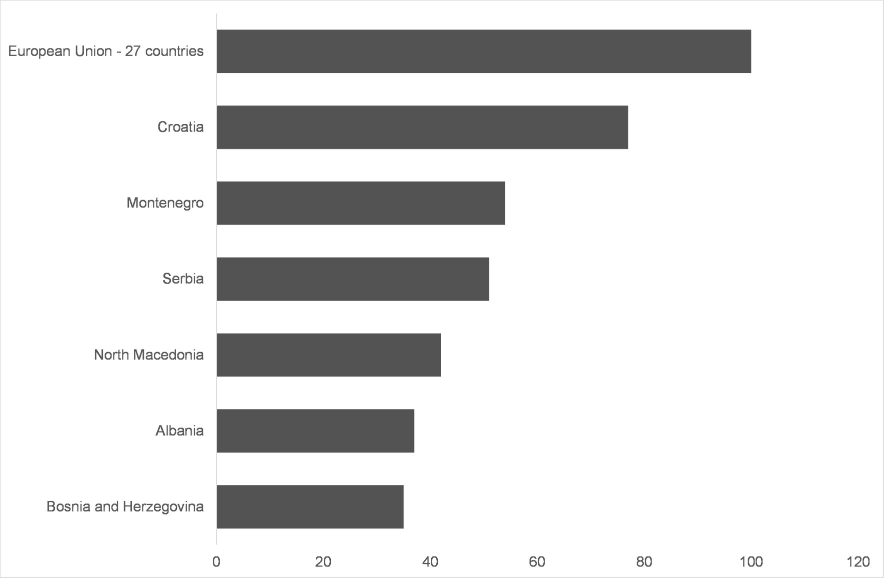
- in most cases, inflation in the region is higher than the EU average (EU 2.4 %; Serbia 4.5 %, Bosnia and Herzegovina 4.8 %), reducing workers' real purchasing power
- unemployment, particularly among young people, is significantly above the EU average (EU: 6.3 % in 2024; region: 8–12 %), which further limits the effect of formal convergence with EU standards.

This growth is being driven by rising consumption, increasing purchasing power and public investment, alongside some relief from inflationary pressures. However, significant risks continue to be present, these being linked to external shocks, political instability and climate change.

GDP per capita in south-east Europe

The western Balkan economies continue to show a considerable gap in living standards compared to the European Union average. In 2024, GDP per capita in purchasing power standards (PPS) ranged from about 35 % of the EU average in Bosnia and Herzegovina to 54 % in Montenegro. Serbia (51 %), Albania (37 %) and North Macedonia (42 %) remain in the mid-range, reflecting structural constraints in productivity, investment and institutional development. Despite gradual progress, the region as a whole lags behind the EU, underscoring both the scale of the convergence challenge and the significant potential for catch-up growth.

Figure 1 – GDP per capita in PPS (% of EU average), western Balkans (2024)



Source: Eurostat (2025).

GDP per capita (PPS) is an indicator measuring economic output per person, adjusted for the differences in price levels between countries. Unlike nominal GDP per capita expressed in euros or dollars, which only reflects market exchange rates, GDP per capita in PPS eliminates the impact of price level differences. This makes it possible to compare real living standards and the volume of goods and services people can purchase across countries. This indicator is significant because it:

- provides a more accurate picture of material wellbeing across economies
- allows for a comparable convergence assessment between EU member states and candidate countries
- helps policymakers and researchers evaluate economic development, regional disparities and cohesion policy needs.

Table 1 – GDP per capita (PPS): volume indices of real expenditure per capita (in PPS, EU-27 = 100)

	2015	2020	2023	2024
EU-27	100	100	100	100
Albania	30	30	36	37e
Bosnia and Herzegovina	31	33	36	35
Croatia	61	66	76	77p
Montenegro	42	44	52	54p
North Macedonia	39	42	41	42e
Serbia	40	44	49	51p

Source: Eurostat. Data extracted on 15 September 2025.

Note: (e) estimated; (p) provisional.

Population

The region is characterised by depopulation, emigration (especially of young and skilled workers) and demographic ageing.

According to the United Nations Department of Economic and Social Affairs (UNDESA n.d.), the stock of migrants from the WB6[1] living abroad in 2024 was about 4.41 million; corresponding to a total emigration rate of well above 25 %, with the great majority of these being people of working age. Serbia, Bosnia and Herzegovina, North Macedonia and Albania are experiencing a continual outflow of people to EU countries (substantially Germany, Austria, Italy) and Scandinavia. This trend reduces the labour force, increases the pressure on pensions systems and creates shortages of workers in specific sectors (healthcare, construction, IT). As a result, the region is increasingly importing labour from Asia and Africa, often under even worse working conditions.

1 That is, Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

Table 2 – Population (total, 000)

	1990	2000	2024	2024 population as % of 1990 population
Albania	3,286.5	3,089.0	2,714.6	82.6
Bosnia and Herzegovina	4,448.6	4,159.7	3,164.2	71.1
Croatia	4,777.3	4,468.3	3,866.3	80.9
Montenegro	6.064	6.049	6.238	102.9
North Macedonia	2,063.7	2,026.4	1,792.1	86.8
Serbia	7,897.9	7,516.3	6,587.2	83.4

Source: World Bank (n.d.). Last updated: 7 January 2025.

The data in the table shows clear demographic trends across the western Balkans from 1990 to 2024:

- Albania faced major population loss, dropping by more than half a million people, primarily due to mass emigration after the fall of communism
- Bosnia and Herzegovina experienced a sharp population decline, losing more than 1.2 million people. This is strongly linked to the war in the 1990s, post-war emigration and low birth rates
- Croatia also shows a significant population decrease of nearly 1 million, reflecting emigration to western Europe and prolonged negative natural growth
- Montenegro is the only country in the region that shows relative stability, with its population in 2024 slightly higher than in 1990
- North Macedonia shows a smaller but steady decline, with the population shrinking by around 270,000 since 1990
- Serbia lost over 1.3 million people, with depopulation driven by emigration, ageing and declining fertility.

The region is experiencing significant and persistent temporary and permanent outflows of people which is shaping labour markets, public finances and long-term growth prospects. The economic effects of these flows are mixed and contingent on policy, sectoral structure and migrants' skill composition.

The positive channels include:

- remittances – stable foreign currency inflows that raise household consumption and can finance human capital investments (education, health), potentially have long-term benefits if channelled efficiently. In several western Balkan economies, remittances remain a major macroeconomic factor: in 2020, they amounted to roughly 9.9 % of GDP in Albania, 10.1 % in Bosnia and Herzegovina, 15 % in Montenegro, about 3.2 % in North Macedonia and approximately 8.6 % in Serbia. These inflows support household consumption, ease poverty and – in some places – finance investment in housing, education and small businesses.

- skills circulation and diaspora networks – emigrants can generate knowledge transfer, networks for trade and foreign direct investment (FDI) and return migration that may, under favourable conditions, bring human capital and entrepreneurship back to origin countries (a potential 'brain gain', or circulation effect). The recent literature highlights that skilled migration can produce nuanced outcomes: a 'brain drain' in one sense, but circulation and gain in another, depending on institutional absorptive capacity.

At the same time, substantial costs and risks arise:

- 'brain drains' and sectoral skill shortages. Large-scale emigration of healthcare workers, IT specialists or other high-skill groups causes immediate capacity constraints (for example, in hospitals or in high-value manufacturing) and long-term productivity losses if skills are not replaced or knowledge transfer is weak. The OECD and regional studies document notable skill shortages and the risk that these may hamper long-run productive investment
- labour market distortions. Outflows can push up labour costs in specific segments, forcing firms towards automation or contraction, while contributing to imbalances (youth unemployment coexisting with unfilled vacancies in care, construction, health and agriculture)
- dependence on remittances. Heavy reliance on remittance income can create macro-level vulnerabilities (exposure to shocks in destination economies) and reduce incentives for domestic structural reform if used predominantly for consumption rather than productive investment.

Empirical evaluation, therefore, requires a balancing of the short-term stabilising effects (remittances, poverty reduction) with the medium and long-term structural risks (the loss of skilled human capital, demographic decline, the heterogeneity of sectoral impacts). Recent cross-country and causal studies emphasise that the net outcomes depend strongly on:

a) the share of emigrants who later return with enhanced skills or networks
b) whether remittances finance productive investment
c) the capacity of institutions to absorb and put to use diaspora knowledge.

The most significant policy implications – towards countries harnessing migration rather than being harmed by it – would thus be these:

1. activate the development potential of remittances. A pairing of remittance inflow channels with financial instruments that encourage saving and productive use (matched savings schemes, diaspora bonds, targeted credit lines for SMEs) would reduce the vulnerability of remittances to uses geared towards consumption and would increase their contribution to capital formation
2. mitigate 'brain drain' through mobility management. Promoting circular migration schemes, incentives for temporary labour mobility and return-and-reintegration programmes would make it easier for skilled emigrants to return with experience and capital. Bilateral and EU-level labour agreements can help manage legal pathways and skills matching
3. close the domestic skills gaps. Investing in targeted upskilling and vocational education tied to market needs (health, digital, green sectors) and the use of public-private partnerships to link training to employer demand would both

reduce the push factors for migration and improve the absorptive capacity in terms of returning talent

4. strengthen statistical monitoring and coordination. Given the heterogeneity of available data and the scale of mobility, were countries to improve the collection of migration statistics (labour permits, social security records, remittance tracking) this would assist in the design of calibrated, timely policy responses
5. regional cooperation. Migration is a regional reality, so the deployment of coordinated western Balkan and EU-level policies (labour mobility frameworks, skills recognition, diaspora engagement platforms) would produce better outcomes than isolated national measures.

Labour migration is neither a simple 'loss' nor a pure 'gain'. In the context of south-east Europe, it is – simultaneously – a safety valve, a source of foreign income, a driver of demographic change and a potential brake on productivity if skilled outflows are permanent and institutions fail to capture the advantages potentially brought by the diaspora. Policy, therefore, needs to shift from reactive containment to proactive management: to the design of incentives and institutions that convert migration-related flows (of people, money and knowledge) into durable development assets for origin countries.

Labour productivity in south-east Europe: state and challenges

Labour productivity, expressed as output per hour worked, is a key measure of economic efficiency and competitiveness. Figure 2 shows OECD data for 2020–23, averaged across these four years, which demonstrate significant variation across the western Balkans: from $18 in Albania to $33 in Montenegro, with Bosnia and Herzegovina standing at $23, Serbia and Croatia at $25 and North Macedonia at $31 (OECD 2025). In comparison, the EU average in this period was a little over $68 per hour worked. This means that productivity levels in the western Balkans amount to only 26–49 % of the EU average, at an average of c. 39 % (around $27 per hour worked), underlining the substantial development gap and the potential for convergence. The individual results compared to the EU average are set out in Table 3 and in Figure 2:

Table 3 – Labour productivity, western Balkans, and as % of EU average

Country/region	Labour productivity (USD PPP per hour, 2020–23)	% of EU average
Albania	17.55	25.7
Bosnia and Herzegovina	24.16	35.4
Croatia	25.50	37.4
Montenegro	33.11	48.6
North Macedonia	31.43	46.1
Serbia	23.55	34.5
Western Balkans (average)	26.70	39.2
European Union (average)	68.19	-

Source: OECD (2025).

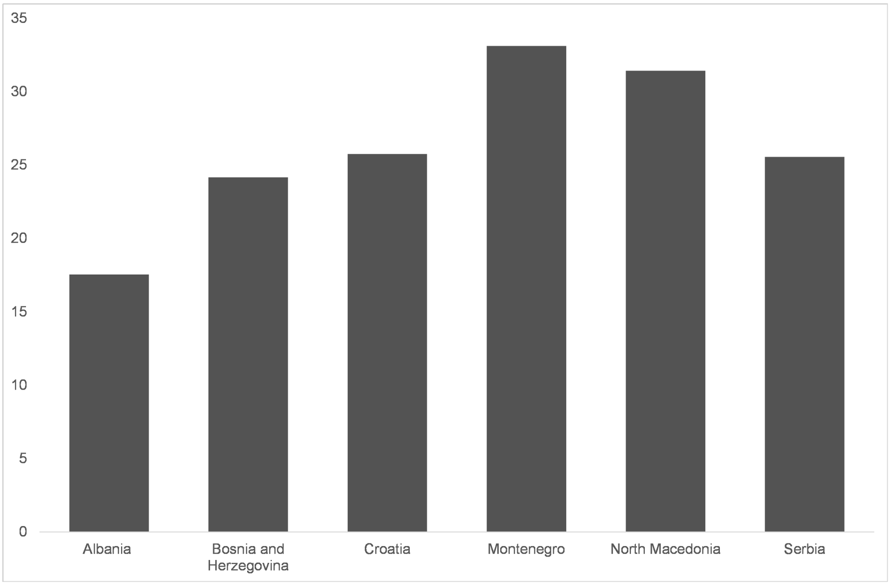
Note: these figures refer to the whole economy (i.e. all sectors combined) and are expressed at purchasing power parity (PPP), which adjusts for differences in price levels across countries. Regional averages are calculated as unweighted means of available country data. Figures for the western Balkans (WB6) are indicative and may be subject to revision as statistical capacities and data coverage improve.

Interestingly, Croatia's labour productivity is on a par with Serbia's and lower than those of both Montenegro and North Macedonia, despite it having a much higher GDP per capita. The OECD explains this apparent paradox by pointing to the heavy reliance of Croatia's economic structure on tourism and other low-productivity sectors. While these sectors contribute significantly to GDP, they employ large numbers of people in seasonal or low-wage jobs, keeping average productivity relatively low. In contrast, countries like Montenegro and North Macedonia have relatively higher shares of manufacturing and export-oriented industries which, typically, are more productive per hour worked.

Given that a high GDP per capita does not necessarily equate to high labour productivity if low-productivity sectors dominate the economy, a more accurate assessment of economic efficiency and competitiveness means that it is crucial to consider both GDP per capita and labour productivity alongside the structure of the economy.

The OECD's findings suggest that, while Croatia has made significant strides in economic development, the dominance of low-productivity sectors like tourism may be limiting its overall productivity growth. To enhance labour productivity, Croatia might consider diversifying its economic base, investing in higher value-added industries and fostering innovation and skills development across various sectors.

Figure 2 – Labour productivity per hour in south-east European countries, 2020–23



Source: OECD (2025).

Note: see footnote to Table 2.

Despite some progress, south-east Europe thus continues to lag significantly behind the EU average in terms of productivity and competitiveness. This persistent gap has narrowed only marginally over the past decade, reflecting structural bottlenecks such as low capital intensity, limited technological adoption and underdeveloped innovation ecosystems (EIB 2025).

A paper for the IMF (2025) has noted that firm-level productivity in the region is hampered by a 'missing middle' of dynamic, high-growth companies. Frontier firms are underperforming their EU peers due to smaller domestic markets, weaker integration in global value chains and restricted access to market-based financing. Young, high-potential firms face skill shortages, insufficient venture capital and regulatory barriers that slow the scaling-up process (Adilbish et al. 2025).

Meanwhile, human capital is a critical constraint. Eurostat data (2025b) shows tertiary attainment among those aged 25–34 in those states of the region that are already members of the EU reached 47.2 % compared to 38.5 % in neighbouring non-EU states, while early school-leaving rates stand at 10–12 % in parts of the Balkans (UNHCR 2025). Skills mismatches are widespread, with manufacturing, ICT and healthcare employers reporting persistent shortages. Research & development (R&D) expenditure averages just 0.6 % of GDP, far below the EU's 2.3 % target, limiting innovation-led growth.

Bridging this gap requires a multi-pronged strategy:

- human capital investment through education reform, vocational training and targeted reskilling to align with emerging sectors
- innovation and research support, including public-private partnerships, tax incentives for R&D and stronger intellectual property frameworks
- economic diversification to reduce reliance on low value-added sectors and remittances, while deepening integration into EU supply chains
- reform of labour relations to strengthen collective bargaining, improve working conditions and formalise informal employment, thereby boosting productivity and social cohesion.

Looking ahead, the prospect of EU accession – now back on the political agenda – offers a unique window for reform. The European Commission's 2025 Growth Plan for the western Balkans proposes accelerated access to the single market, increased pre-accession funding and sectoral integration in energy, transport and digital services. EIB modelling suggests that, if coupled with domestic reforms, this could catalyse productivity gains of 1–1.5 percentage points annually over the next decade.

However, without decisive action, the region risks entrenching a two-speed Europe, with south-east Europe remaining a low-productivity periphery. Therefore, the next policy cycle must prioritise not just meeting the benchmarks of the acquis, but embedding reforms that foster innovation, attract high-quality investment and ensure inclusive growth. Only then can south-east Europe realistically converge with EU living standards and secure sustainable prosperity.

Investments, infrastructure and human capital

Foreign direct investment and its structure

Over the past decade, south-east European countries have recorded increased levels of FDI, with Serbia as the region's largest recipient. According to UNCTAD (2023) on the basis of data from the National Central Bank, FDI has predominantly been directed toward the manufacturing industry (automotives, electronics and textiles), real estate and telecommunications. While these investments contribute to employment growth, their structure reflects a model based on low labour costs and subsidies rather than on developing high value-added activities.

Such an investment model raises questions about long-term sustainability – workers often continue to be confined to low-wage segments with limited opportunities for trade union organising.

Public investments and infrastructure projects

In the last ten years, all countries in the region have made significant use of international financial arrangements to improve infrastructure, primarily in the fields of transport and energy. The European Union, through the Economic and Investment Plan for the Western Balkans (2020–27), has provided substantial funding for regional connectivity, while the World Bank and the European Bank for Reconstruction and

Development (EBRD) have financed infrastructure projects focusing on the green transition and energy efficiency.

However, trade union reports point to several weaknesses:

- lack of transparency in the selection and implementation of projects
- limited effects on local employment (projects often engage foreign contractors and temporary labour)
- unequal regional distribution – larger cities and the main corridors receive most of the investment while rural areas are neglected.

Corruption trends in the western Balkans

Corruption remains a pervasive issue in the region, eroding trust and integrity, and having a major impact on both the public and the private sectors. In particular, corruption hinders economic development and fuels social inequality. Addressing it requires a comprehensive approach including transparent policies, accountability measures and an engaged citizenry dedicated to fostering ethical practices. In the words of François Valérian, chair of Transparency International, there is no doubt that the:

> International community and every nation must make tackling corruption a top and long-term priority.[2]

Transparency International's Corruption Perceptions Index scores countries from 0 (highly corrupt) to 100 (very clean) and offers a comparative lens on governance quality. It captures a difficult situation in the western Balkans. While the EU average is 64, the western Balkans are below this benchmark. In the late 2000s and early 2010s, EU accession prospects spurred legislative reforms, anti-corruption strategies and the creation of oversight bodies in countries including Montenegro, Serbia and North Macedonia. By the mid-2010s, however, momentum had faltered. Analysts began warning of state capture, eroding public trust and weakening accountability. Indeed, from 2015 onward, most countries' scores have plateaued or worsened. The 2024 version of the Index paints a troubling picture for the western Balkans, where entrenched political control, weak institutions and insufficient anti-corruption safeguards are undermining democratic governance.

Montenegro remains the region's best performer (with a score of 46), although this is still lower than the global average of 43. Recently, it has made only partial progress. Its Special State Prosecution has pursued some high-level cases, but the judiciary continues to be vulnerable to political capture, threatening to reverse the gains. Kosovo's three-point improvement to 44 reflects incremental institutional strengthening, while Albania's five-point jump (to 42) – the largest in the region – is linked to judicial reforms and high-profile prosecutions. The latter's specialised anti-corruption prosecution and courts (SPAK) have earned public trust by prosecuting former ministers, MPs and mayors, and even investigating a former president and

2 Taken from the webpage documenting the release of the 2024 Corruption Perceptions Index report, accessed 23 September 2025 at: https://www.transparency.org/en/cpi/2024.

prime minister. North Macedonia's drop to 40 follows renewed political scandals, while Serbia's decline to 35 reflects concerns over opaque procurement and politicised institutions. Public outrage over the fatal collapse of a Novi Sad railway station canopy in 2024 exposed opaque procurement practices and possible corruption in significant infrastructure projects. Large-scale initiatives, such as the EXPO and 'Serbia 2027' programmes, are being advanced through interstate agreements and special legislation that, together, bypass standard anti-corruption controls. Bosnia and Herzegovina, at 33, records its lowest score since 2012, hampered by fragmented governance, deep political divisions, systemic corruption and weak conflict of interest laws. Moreover, in Republika Srpska, the reintroduction of a 'foreign agent' law targeting independent media and civil society threatens to shrink the civic space still further. Judicial reforms intended to secure independence still fall short, lacking clear merit-based appointment rules and robust asset disclosure mechanisms.

Across the region, common patterns emerge: ruling parties are exploiting legal loopholes, weakening oversight bodies and using restrictive laws to target dissent. While the prospects of EU accession offer leverage for reform, progress depends on genuine political will to strengthen the rule of law, ensure judicial independence and implement transparent governance. Without these, the western Balkans risk remaining trapped in a cycle in which weak democracy enables corruption to flourish which, in turn, weakens democracy.

In September 2025, Albania made global headlines by appointing 'Diella', an AI-generated virtual minister tasked with overseeing public procurement in the attempt to make tenders '100 % free of corruption' by removing human discretion from contract awards. 'Diella' will review, approve and publish procurement decisions in real time, aiming to close one of the region's most persistent channels for corruption. Such innovations are unprecedented; however, technology alone cannot dismantle entrenched patronage networks without parallel reforms in enforcement, transparency and judicial independence.

While Albania's experiment may serve as a test case for other states grappling with similar procurement vulnerabilities, systemic corruption is deeply embedded in the region despite over a decade of EU-driven reform agendas. Political will often falters once initial reforms are enacted, anti-corruption bodies are frequently undermined by political interference and, while civil society and investigative journalism play a vital role in exposing abuses, they too have their own weaknesses and are under attack. Progress is fragile without a stronger rule of law and an independent judiciary.

Data connected with the Index suggest that isolated improvements — such as in Albania and Kosovo — are possible, but reversing long-term stagnation will require more concerted efforts. Otherwise, the western Balkans risks further democratic backsliding, diminished EU accession prospects and the continued erosion of public trust.

Human capital and labour force development

Human capital remains one of south-east Europe's most critical challenges in the context of realising sustainable economic development. Despite gradual progress in education reform and some EU-supported initiatives, the region still faces systemic weaknesses:

- high emigration rates, particularly among young and highly educated workers, leading to a persistent ‘brain drain’
- mismatches between education systems and labour market needs, especially in technical and digital skills
- underinvestment in research, innovation and lifelong learning programmes.

International institutions such as the World Bank, OECD and the European Commission emphasise the importance of human capital to economic convergence, but trade unions in the region highlight instead the social dimension of this issue. The loss of skilled labour reduces economic competitiveness and undermines the potential for strengthening workers’ rights and social dialogue.

Here, the sustainability of growth based on foreign investment and public infrastructure depends primarily on whether south-east European countries can invest more systematically in education, training and workforce retention. Without such measures, the gap between the EU averages in productivity and also in wages are likely to persist.

Education and labour productivity in south-east Europe: causes and consequences

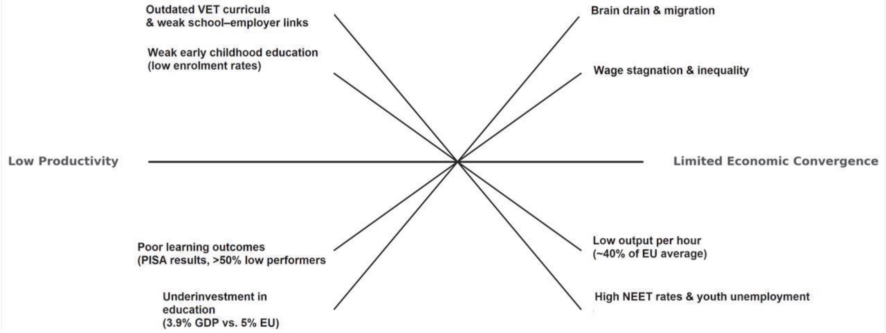
One of the central structural challenges for south-east Europe lies in the persistent link between educational outcomes and labour productivity performance. The essential background is that the region systematically underinvests in education, resulting in outdated curricula, insufficient infrastructure and limited professional development for teachers, all of which reduce the quality of learning at both primary and secondary levels. Moreover, early childhood education is underdeveloped, with enrolment rates significantly below EU averages, undermining the foundation for lifelong skills acquisition.

The consequences of these systemic weaknesses are visible in international assessments such as PISA (Programme for International Student Assessment). Alarmingly, more than half of students are ‘low performers’ in core skills (mathematics, reading, science) compared to about 27 % in the OECD/EU. This indicates that a large share of the future workforce is entering the labour market without adequate foundational skills. Similarly, vocational education and training often fails to equip graduates with competencies that correspond to the demands of a modern economy due to weak ties with employers and insufficient practical training.

These educational deficits translate directly into low labour productivity. Even when employment rates improve, the economic value generated per worker is low, limiting the prospects for wage growth, improved living standards and overall convergence with the EU. The mismatch between labour market needs and available skills also exacerbates unemployment, underemployment and high rates of particularly young people not in employment, education or training (NEET).

At macroeconomic level, weak productivity growth constrains the region’s ability to attract investment and integrate effectively into global value chains. At societal level, it perpetuates inequality, accelerates labour migration and undermines social cohesion. In this sense, the cycle of low educational investment → poor learning outcomes → low productivity → limited economic convergence represents a structural trap that the western Balkans must urgently address.

Figure 3 – Link between education and labour productivity in south-east Europe



Source: authors' own elaboration.

Challenges and structural gaps

There are a number of issues which need to be highlighted when it comes to developing the policy agenda around the issues raised by an underdeveloped labour force:

- basic and secondary education outcomes remain below EU standards: PISA results show regional performance at around 80–82 % of EU averages in mathematics, for example, alongside general low proficiency in core skills
- public investment in education is insufficient: the region allocates about 3.9 % of GDP to education, well below the EU average of 5 %
- early childhood education and care continue to be underdeveloped: only around half of children aged between three and the start of compulsory schooling are enrolled in some form of provision, more than 40 percentage points below the EU level
- the proportion of NEET youth is high at about 21.6 %, although it has declined compared to earlier periods
- vocational education and training (VET) faces persistent structural weaknesses: the outdated curricula, insufficient technical equipment, limited practical training and weak links between schools and businesses also reduce graduates' ability to acquire market-relevant skills
- lifelong learning and adult education are increasingly present in policy strategies, but participation rates continue to be low
- limited investment in R&D further constrains the region's capacity to adapt and innovate in line with labour market and technological shifts.

Implications for economic development and EU integration

The main development issues that arise from these challenges and structural gaps are as follows:

- persistently low labour productivity suggests that, even with rising employment rates, economic growth is modest regarding value added per worker or per hour worked. This constrains convergence in income per capita with EU levels
- skills shortages hinder firm competitiveness, the ability to attract foreign investment and capacity within the region in terms of adapting to the digital and green transitions, risking marginalisation within the European integration process
- high NEET rates and insufficient early education coverage risk long-term social and economic exclusion, weaker adaptability to labour market demands and greater inequality.

Policy directions

Trade unions in the western Balkans need to think about articulating a set of policy recommendations that centre on workers and their rights in connection with the skills agenda. From a labour movement perspective, priority should be given to ensuring adequate public investment in education, particularly at primary and secondary levels. This includes modernising curricula and infrastructure, and providing continuous professional development for teachers to guarantee equitable access to quality education for all children.

Unions should also stress the importance of expanding early childhood education, recognising it as a crucial foundation for lifelong learning and addressing long-term inequalities in access to skills and employment opportunities. Furthermore, trade unions can actively strengthen the linkages between education and the labour market**,** particularly through vocational education and training. By advocating practical training, apprenticeships and that curricula be aligned with real labour market needs, unions can help ensure that young people acquire the skills that translate into decent work.

The labour movement is also responsible for promoting lifelong learning and adult education. In the context of rapid digitalisation and the green transition, unions should support policies that make reskilling and upskilling more accessible, especially for vulnerable workers who risk exclusion. Equally important is the call for greater investment in research and development, which directly affects innovation capacity, industrial policy and, ultimately, the sustainability of employment in the region.

Finally, trade unions should advocate the development of targeted youth employment and skills programmes to reduce the existing persistently high NEET rates. Such programmes should be inclusive and forward-looking, and be designed to facilitate smoother transitions from school to work, strengthening social cohesion and economic resilience.

Innovation in south-eastern Europe: untapped potential compared to the European average

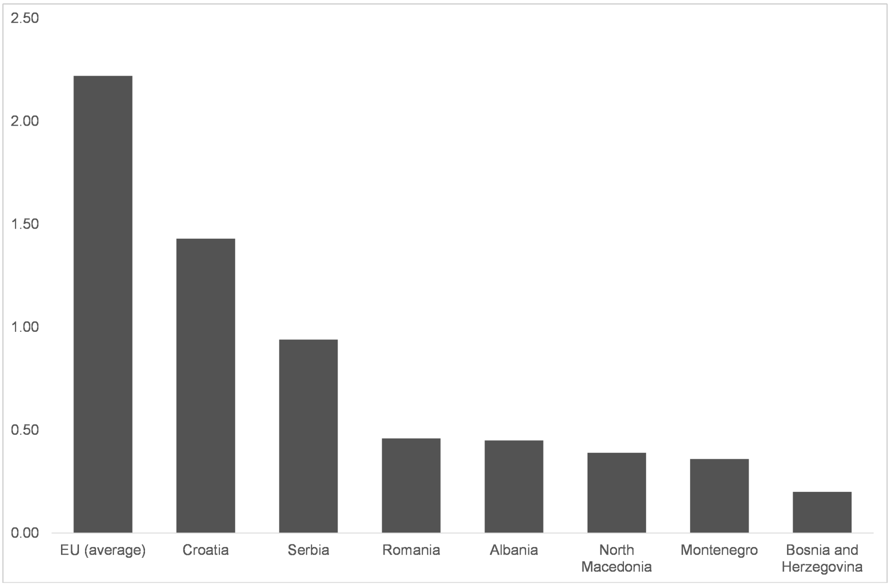
When examining the landscape of innovation in south-eastern Europe, a narrative of duality emerges. On the one hand, the region shows signs of momentum – an increasing number of firms adopting new technologies, a growing interest in digital and green projects, and selective examples of thriving start-up ecosystems. On the other, structural weaknesses and historical imbalances are preventing this momentum from transforming itself into making a broad and sustained contribution to productivity and competitiveness. Compared to the European Union average, where R&D expenditure reached about 2.2 % of GDP in 2023, most south-east European countries operate at significantly lower levels – often around or below 0.5 % (see Figure 4). This numerical gap is not just a statistic: it reflects insufficient institutional resources, a weaker role for the private sector in funding R&D, limited networks of venture capital and a persistent disconnect between universities and industry that hampers the commercialisation of research.

Most south-east European countries thus have R&D intensity significantly below the EU average; some exceptions (e.g. Croatia) are closer to the EU average but still fall well short of the more robust European leaders. Differences in years and data sources also reflect the problem of uneven statistical monitoring in the region – one of the practical challenges in policy formulation.

As a result, even when innovation does occur in the region, its multiplier effect on productivity and growth is weaker than in the EU. Foreign direct investment often brings technology and managerial practices – which are valuable – but too often follows a 'silo model',[3] in which added value is concentrated in the hands of large investors while local academic and entrepreneurial actors remain marginal. Hence, policies that deliberately expand investment in human capital (via education and lifelong learning), and which also create channels for academia-industry cooperation and broader access to venture capital, are crucial not as mere costs but as investments capable of reshaping the region's development trajectory.

3 In the context of innovation systems, the silo model refers to a fragmented and isolated mode of organisation in which institutions, sectors or policy domains operate independently with limited interaction and knowledge exchange. Such a structure often leads to inefficiencies, duplication of effort and a lack of constructive collaboration between the key actors – universities, industry and government – that are essential for fostering innovation. South-east European countries, much like other transition economies, frequently face challenges rooted in this silo-based approach where ministries, agencies and research institutions pursue separate agendas without effective coordination. Overcoming the silo model and moving toward a networked or ecosystem-based model of innovation is widely recognised as a prerequisite for enhancing competitiveness and achieving sustainable economic growth.

Figure 4 – R&D expenditure as % of GDP (latest available data)



Sources: EU (average), Eurostat,[4] 2023; Croatia, DZS/GII,[5] 2022/23; Serbia: Statistical Office of Serbia,[6] 2023; Romania, World Bank,[7] 2022; Albania, World Bank/EIS/GII,[8] 2021–23; North Macedonia, World Bank/GII,[9] 2022–23; Montenegro, GII/national sources,[10] 2019–20; Bosnia and Herzegovina, World Bank/GII, 2023.[11]

Note: data drawn from national statistics, international databases and the Global Innovation Index/WIPO country profiles. The reported percentages are each country's most recent available indicators, with the reference year specified; where national data series are limited (e.g. Albania, Montenegro), international estimates and reports documenting trends have been used.

In the short and medium term, narrowing the gap with the EU requires a combination of measures: raising, and better allocating, public R&D expenditures; stim-

4 Eurostat 'R&D expenditure' accessed 12 December 2024 at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=R%26D_expenditure.
5 Croatian Bureau of Statistics (DZS) 'Research and Development, 2023' accessed 15 November 2024 at: https://podaci.dzs.hr/2024/en/76946. GII – Global Innovation Index.
6 Statistical Office of the Republic of Serbia (RZS) 'Research and development activity, 2024'.
7 World Bank 'Research and development expenditure (% of GDP)', accessed 23 September 2025 at: https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS.
8 ibid.
9 ibid.
10 'Montenegro ranking in the Global Innovation Index 2024' accessed 16 September 2024 at: https://www.wipo.int/edocs/gii-ranking/2024/me.pdf.
11 World Bank 'Research and development expenditure (% of GDP)' accessed 23 September 2025 at: https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS.

ulating private investment through tax incentives and public-private programmes; strengthening regional innovation systems; and focusing on sectors where south-east European countries already show comparative advantages (IT, specific high value-added manufacturing segments and green technologies). Innovation can only move from sporadic, episodic examples to becoming a permanent driver of competitiveness and inclusive economic growth in the region through the application of such a multilayered strategy.

EU integration and structural reforms

The EU integration process has served as a key anchor for reforms in south-east Europe, providing political and economic incentives. Countries in the region have made varying degrees of progress toward EU membership: Croatia joined in 2013, while others remain candidates or potential candidates.

Table 4 – Western Balkan countries' EU accession progress

Country	SAA: entry into force	Membership application	EU candidate status	Decision to open accession negotiation	Status of accession process, September 2025
Albania	2009	2009	2014	2020/2022	4/5 clusters open; hoping to join by 2030
Bosnia and Herzegovina	2015	2016	2022	2024	Preparatory stage
Croatia	2005	2003	2004	2005	EU member since 1 July 2013
Montenegro	2010	2008	2010	2012	All clusters opened and some chapters closed; hoping to join by 2028
North Macedonia	2004	2004	2005	2020/2022	Initial phase
Serbia	2013	2009	2012	2013	All clusters opened (though not all chapters); two chapters closed

Source: authors' own elaboration.

The convergence process has required substantial reforms in governance, the rule of law and economic policy. These reforms have included market liberalisation, privatisation and improvements in regulatory frameworks. However, the pace of reforms has often been uneven and subject to political instability.

FDI has been a major driver of modernisation, particularly in manufacturing, banking and telecommunications. Infrastructure development, supported by EU funds and international donors, has improved regional connectivity. Yet, human capital continues to be a constraint and there are persistent challenges – as explored above – particularly in terms of education systems, skills mismatch and the emigration of highly skilled workers.

The EU has made significant regional investments through the Instrument for Pre-Accession Assistance (IPA funds) and the Economic and Investment Plan for the Western Balkans. The focus has been on:

- improving infrastructure and regional connectivity
- strengthening institutions and the rule of law
- promoting the green and digital transitions.

However, the social dimension of European integration continues to be underdeveloped. Although the EU promotes the European Pillar of Social Rights, in negotiations with the region's countries the emphasis is placed more on economic competitiveness and market liberalisation than on labour rights.

Trade union implications:

- a critical approach must be developed towards the programmes of the international financial institutions and the inclusion of trade unions in decision-making must be insisted on
- trade unions must use the European integration process to advocate strengthening social standards and moving closer to the EU welfare state model, rather than focusing solely on economic criteria
- strengthening regional cooperation among trade unions is crucial to mitigating the adverse effects of policies encouraging competition between countries by reducing labour costs.

Wages, employment and labour rights

Wage dynamics in south-east Europe remain heavily influenced by minimum wage policies, a critical instrument of social policy in the region. While minimum wages have been increasing nominally, they are well below EU averages and are often insufficient to secure decent living standards.

Table 5 – Minimum (gross) wage in south-eastern Europe, 2020–25 (euro/month)

Country	2020	2021	2022	2023	2024	2025
Albania	209.1	242.5	268.6	375.8	398.7	407.6
Croatia	546.1	562.8	622.5	700.0	840.0	970.0
Montenegro	331.3	331.3	532.5	532.5	532.5	670.4

North Macedonia	342.1	358.9	430.0	484.0	542.0	584.0
Serbia	344.4	366.1	401.9	460.6	544.2	618.7

Source: Eurostat; data downloaded 12 August 2025.

Wages and productivity in south-east Europe

An important dimension in assessing labour market performance in south-east Europe is the relationship between productivity and wage levels. While the productivity indicators show a gradual convergence of the Western Balkans toward the EU27 average (see above), wage levels are disproportionately low. This discrepancy suggests that the remuneration of labour in the region does not correspond to its productive potential.

Table 3 and Figure 2 reported average output per hour data across the region, amounting to less than 40 % of the EU average. At the same time, average net wages are approximately 578 euros in Albania, 915 in Serbia, 1,003 in Montenegro and 1,028 in Croatia, while the average gross monthly wage in the EU27 exceeds 3,400 euros. In relative terms, this means that, while productivity in the region stands at 25–50 % of the EU benchmark, wage levels are often below 30 % of the EU average. This suggests the existence of a structural wage gap, reflecting weak collective bargaining, limited institutional enforcement of labour rights and labour market segmentation.

The implication is twofold. First, the region's competitive advantage based on low wages is being sustained at the expense of workers, rather than reflecting genuine productivity differences. Second, underpayment relative to productivity discourages labour force participation and contributes to the persistence of emigration pressures. Reducing this misalignment – through stronger wage-setting institutions, productivity-linked collective agreements and gradual alignment with EU labour standards – would not only improve social outcomes but also support long-term convergence by retaining human capital within the region.

Table 6 – Productivity and wages in south-east Europe relative to EU27

Country	**Productivity (USD/hour)**	**Productivity (% of EU27)**	**Average wage (€/ month, net or gross*)**	**Wage (% of EU27 average)**
Albania	17.60	~25 %	~€578 (net)	~17 %
Bosnia and Herzegovina	24.20	~35 %	~€650 (net)	~19 %
Croatia	25.50	~40 %	€1,476 (gross) / €1,028 (net)	~43 %
Montenegro	33.10	~50 %	~€1,003 (net)	~29 %
North Macedonia	31.40	~50 %	~€700 (net)	~20 %

Serbia	25.60	~35 %	~€915 (net)	~27 %
EU27 average	68.20	-	~€3,417 (gross)	-

Sources: OECD (2025); Eurostat (2023).

* Wage data for the western Balkans are generally reported in net terms, while EU27 averages are gross. This implies that the relative wage ratios shown for the WB countries are somewhat understated.

Collective bargaining coverage varies significantly, with relatively higher levels in Croatia compared to minimal coverage in Albania. The weakening of collective bargaining institutions reflects broader challenges to trade union influence.

Labour markets in the region are characterised by persistent unemployment, particularly among young people, and high levels of informal and precarious employment.

Migration has further reduced the available labour force, with significant numbers of workers leaving for better opportunities in EU countries. This dynamic is creating additional pressure on pensions systems and social protection.

The International Trade Union Confederation, in its Global Rights Index (ITUC 2024), classifies most countries in the region as having 'systematic violations of workers' rights'.

As regards the policy response, trade unions within the region ought to take close account of the following points:

- regional trade union cooperation must be strengthened in order to reduce the effects of 'social dumping' and mutual competition between countries based on low labour costs
- a priority is the extension of collective bargaining coverage and the insistence on its *erga omnes* application
- trade unions must develop new forms of organising in sectors with precarious and migrant workers.

Fiscal systems, pensions and social protection

South-east Europe's taxation and social contribution systems are generally regressive: they heavily rely on indirect taxes and high social contributions on labour. This structure disproportionately burdens low income workers and limits disposable incomes.

Pensions systems across the region face sustainability challenges due to demographic decline, high levels of emigration and limited fiscal space. Reforms have often included raising retirement ages and tightening eligibility; this reduces benefits adequacy and increases social tensions.

Social protection systems are underdeveloped and inadequately funded everywhere. The share of GDP taken by public expenditure on social protection ranges from 12–15 % in Albania and North Macedonia to around 20 % in Croatia, whereas the EU average exceeds 25 %.

The main challenges include:

- low coverage of poor households by social benefits
- fragmentation of assistance programmes
- lack of effective mechanisms for protecting the unemployed and vulnerable groups.

In some countries (e.g. Serbia, Bosnia and Herzegovina), trade unions warn that social benefits do not reach the level required for a decent standard of living.

Coverage gaps persist, especially for informal workers, while benefit levels are frequently insufficient to reduce poverty or ensure social inclusion. The erosion of welfare state functions highlights the social costs of the development model which has been adopted.

It is clear that international financial institutions such as the IMF and the World Bank have played a decisive role in shaping economic and fiscal policies in south-east Europe. Their recommendations have often emphasised fiscal discipline, privatisation and labour market flexibility which, while contributing to macroeconomic stability, have also resulted in social costs. Meanwhile, the EU accession process has reinforced many of these policy directions, conditioning financial and technical assistance on implementing fiscal consolidation and structural reforms. However, the social impact of these measures has been less considered, leading to a tension between economic convergence and social cohesion.

Trade unions have criticised fiscal dominance over social priorities, arguing that such a policy mix has tremendous costs in terms of social and human capital, not least in that it undermines collective bargaining, weakens social protection and accelerates migration.

Artificial intelligence as a key driver of productivity and economic growth

South-eastern Europe continues to face deep structural challenges that hinder its economic convergence with the European Union, yet the region's economies possess significant untapped potential. Their geographic proximity to the EU, relatively flexible labour markets and growing ICT sectors provide a foundation for technological leapfrogging – provided that transformative technologies are strategically adopted. Among these, artificial intelligence (AI) represents the most promising lever for accelerating productivity growth, fostering economic modernisation and enabling structural transformation.

AI offers three key advantages which are particularly relevant to south-eastern Europe:

1. closing productivity gaps: By automating routine processes, enhancing decision-making and enabling data-driven efficiency, AI could substantially raise productivity in low efficiency sectors such as agriculture, construction, healthcare, public administration and logistics. This is crucial in economies where large employment sectors are technologically outdated
2. addressing demographic decline: AI-enabled automation and augmentation can help offset labour shortages occasioned by shrinking workforces due to ageing and migration. For example, AI applications in healthcare could alleviate

pressure on limited medical staff, while digital learning tools could mitigate shortages in the education system

3. boosting competitiveness and integration: Widespread adoption of AI could strengthen the region's integration into European and global value chains by modernising industries and services. In a context where EU firms are restructuring supply chains closer to home, the western Balkans could position themselves as attractive nearshoring destinations if they were to embrace advanced digital solutions.

Despite these opportunities, the region currently lags in AI readiness. The digital infrastructure is uneven, regulatory frameworks are fragmented and most small and medium-sized enterprises – the backbone of employment – lack the resources and knowledge to adopt advanced technologies. Without proactive policies, there is a serious risk that AI adoption will remain concentrated in a few ICT hubs, exacerbating inequalities and reinforcing the structural gap with the EU.

Therefore, south-eastern Europe should recognise AI as a strategic development priority. If supported by targeted investment in infrastructure, digital skills and innovation ecosystems, AI could unlock an extraordinary opportunity for rapid modernisation, productivity convergence and sustainable economic growth. Conversely, failure to adopt and diffuse AI broadly across sectors would leave the region further marginalised in the European and global economy.

Conclusion

Over the past decade, south-east Europe has charted a path of economic expansion that is both notable and uneven. While integration into European and global value chains, infrastructure upgrades and rising foreign direct investment have driven convergence in some economies, others remain constrained by structural weaknesses, limited innovation capacity and persistent institutional gaps. This divergence has been compounded by demographic decline, skills outflows and labour market segmentation, eroding the region's traditional social model and straining welfare systems.

The past ten years have also revealed the fragility of social cohesion when growth is not inclusive. Wage disparities, high informal employment and weakened collective bargaining have deepened inequalities, while underinvestment in education and healthcare risks locking in the productivity gaps. Yet, these challenges coexist with significant opportunities. The EU's renewed enlargement momentum, alongside targeted 'Growth Plans' and pre-accession funding, offer a unique policy window to embed structural reforms that strengthen competitiveness, rebuild social protections and align governance with EU standards.

For policymakers, the imperative is clear: develop accession-driven reforms which meet the requirements of the acquis and which, at the same time, craft a forward-looking development strategy that balances economic dynamism with social resilience. This means investing in skills, fostering innovation ecosystems and ensuring that the benefits of growth are broadly shared. In doing so, south-east Europe can transform its uneven progress into sustainable convergence, positioning the region as a resilient and competitive part of the European project.

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