FINANCETHINK OUT OF THE BOX

The changing architecture of state aid in the Western Balkans

KEY FINDINGS

- **Serbia dominates the region:** Serbia accounts for over 60% of total WB6 state aid yet records among the weakest innovation performance gains — a fundamental efficiency paradox.
- **COVID-driven peak**: Total WB6 aid surged from €772mn (2019) to €2.7bn (2020), confirming that state aid operates as a countercyclical, not structural transformation, instrument.
- **The innovation paradox:** Despite increased investment-oriented aid, all WB6 countries deteriorated in the Global Innovation Index 2018–2024. R&D expenditure remains critically low — Kosovo at 0.08% of GDP, EU average at 2.2%.
- **Structural divergence:** Four distinct policy models have emerged with no sign of regional convergence toward EU competition principles.
- **Volume ≠ impact:** Countries that reduced aid intensity (Albania, Montenegro) achieved comparable FDI and employment outcomes to high-spending counterparts.

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INTRODUCTION

State aid represents an important policy instrument through which governments support economic development, enhance competitiveness, and address market failures. By providing financial assistance in various forms — grants, tax incentives, and subsidies — public authorities can influence investment decisions, stimulate specific sectors, and promote broader socio-economic objectives, including employment, regional cohesion, and environmental sustainability. At the same time, the allocation of state aid requires careful monitoring to ensure transparency, efficiency, and alignment with competition principles, particularly in contexts where countries aim to harmonize with European Union state aid rules.

This analysis examines a comprehensive dataset of state aid measures covering the period from 2018 to 2024 across the six Western Balkan countries (WB6). The dataset includes detailed information on the volume of aid, types of instruments used, beneficiary sectors and policy objectives. The objective is threefold: to provide an overview of the evolution of state aid over time, highlighting patterns in total expenditure and cross-country variation; to explore how aid is allocated across sectors, forms, and policy objectives; and to assess the broader implications of these patterns for economic policy and EU integration.

METHODOLOGY

This brief is based on a structured dataset compiled from official national sources — government reports and institutional disclosures on state aid provision. It captures both the financial dimension of state aid and its policy characteristics, enabling a comprehensive multi-dimensional examination. The analysis primarily relies on descriptive statistical methods and trend analysis over the 2018–2024 period.

The approach includes:

- Aggregation of data by country and year to assess total state aid trends over time
- Grouping and categorization by sector, type, form, and objective to examine the structure of aid
- Comparative analysis across countries to highlight similarities and differences in state aid practices
- Trend analysis to identify changes in allocation patterns in a period of six years (2018 vs 2024)

STATE AID TRENDS: OVERVIEW

Total state aid in WB6 shows clear fluctuation over the period, with a pronounced peak in 2020–2021. Total state aid in WB6 increased sharply from approximately €772 million in 2019 to €2.7 billion in 2020 (Table 1). This peak is primarily driven by a substantial increase in Serbia, where state aid tripled in size compared to 2019, accounting for the majority of total aid in that year. Albania also recorded a sharp increase in 2020 (from €87 million in 2019 to €316 million) mainly due to significant allocation of public funds for operational aid. This surge strongly suggests the use of state aid as a crisis-response instrument, directly linked to the economic effects of the COVID-19 pandemic. Following this peak, state aid levels declined in 2022 and 2023. Preliminary data for 2024 indicate a further decrease, although this may reflect incomplete data for Serbia.

Significant disparities persist across countries. Serbia dominates throughout the period, with allocations several times higher than other countries, reflecting both economic size and active intervention policy. Kosovo shows extreme volatility — a dramatic spike in 2021 reaching an estimated 8.6% of GDP, driven by the Energy Support Programme (€193 million) and the Government Package for Economic Recovery (€420 million) - one of the highest single-year state aid intensities recorded in the broader European neighborhood. Bosnia and Herzegovina and North Macedonia demonstrate relative stability, while Montenegro displays a continuous structural decline, from approximately €47 million in 2018–2019 to below €10 million in 2024.

The data confirm that state aid in WB6 functions primarily as a countercyclical mechanism — reactive to crisis rather than structurally transformative. This distinction matters analytically: countercyclical aid stabilises the cycle but does not change its trajectory, while structural aid shifts the productive capacity of the economy. Overall, the data confirm that state aid is used both as a structural policy tool and as a countercyclical mechanism in times of crisis.

Table 1. Total (in million)— relative aid volume by country, 2018–2024

Cell colour intensity = share of total WB6 aid that year. Bold value = country peak year.

Country	2018	2019	2020	2021	2022	2023	2024
Albania	€56.5 7% of WB6	€87.4 9% of WB6	**€317 12% of WB6**	€47.2 2% of WB6	€63.8 5% of WB6	€88.3 6% of WB6	€80.6 19% of WB6
Bosnia & Herzegovina	€62.5 8% of WB6	**€141 14% of WB6**	€140 5% of WB6	€124 5% of WB6	€102 7% of WB6	€87.3 6% of WB6	€104 25% of WB6
Kosovo	€3.1 0% of WB6	€9.6 1% of WB6	€8.9 0% of WB6	€615,6 ▲ COVID peak	€37.8 3% of WB6	€126 8% of WB6	€176 42% of WB6
Montenegro	€47.6 6% of WB6	€47.5 5% of WB6	**€81.5 3% of WB6**	€35.9 2% of WB6	€13.7 1% of WB6	€15.2 1% of WB6	€9.8 2% of WB6
North Macedonia	€23.1 3% of WB6	€40.0 4% of WB6	€84.0 3% of WB6	€95.0 4% of WB6	**€116 8% of WB6**	€90.1 6% of WB6	€52.9 13% of WB6
Serbia	€579 75% of WB6	€655 67% of WB6	**€2,040 76% of WB6**	€1,470 62% of WB6	€1,040 76% of WB6	€1,140 74% of WB6	
WB6 Total	**€772mn**	**€980mn**	**€2,671mn**	**€2,387mn**	**€1,373mn**	**€1,547mn**	**€423mn**

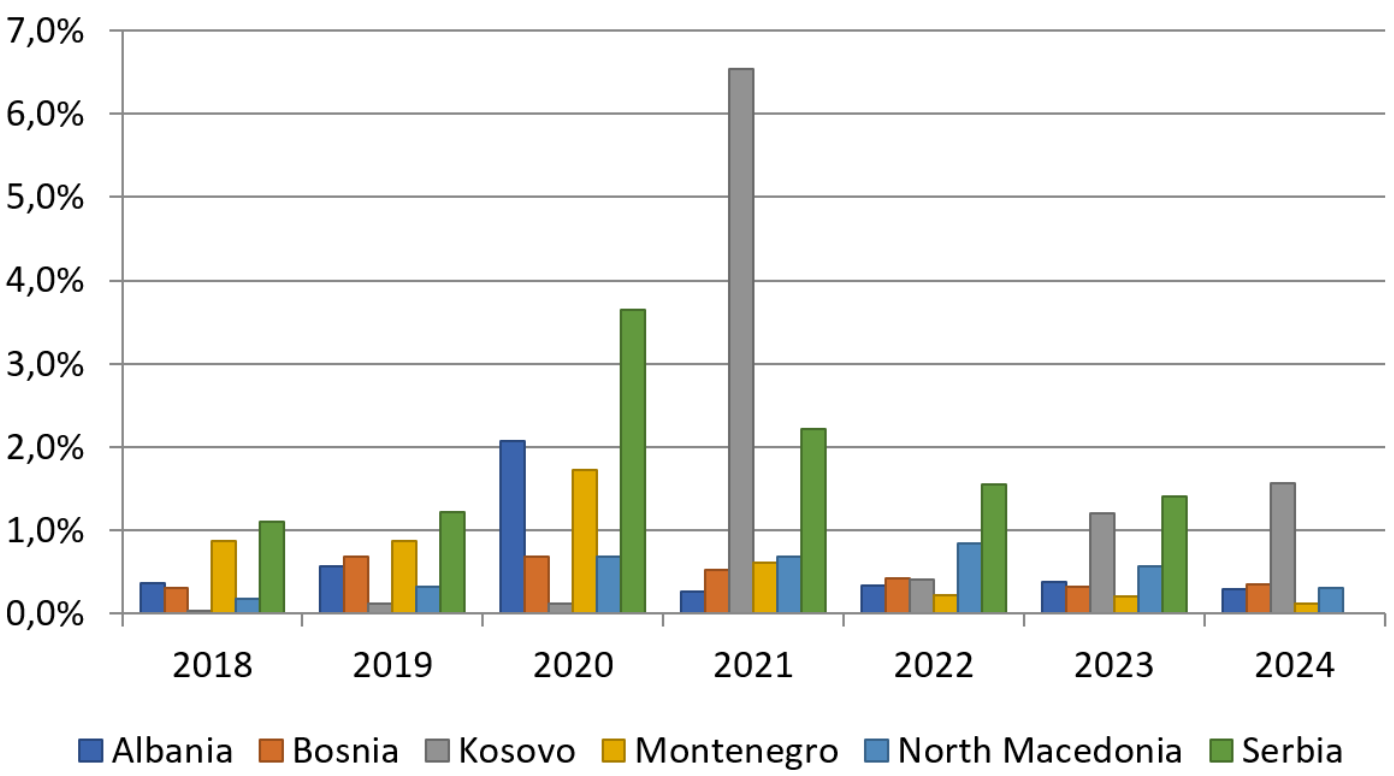
Source: State Aid Scoreboard Western Balkans, www.stateaid.financethink.mk

When controlling for GDP size, a different picture emerges. Expressing state aid as a percentage of GDP reveals the true intensity of government intervention and corrects for differences in economic scale. Countries with smaller economies — notably Kosovo and Montenegro — exhibit higher relative intensity in certain years despite lower absolute values (Figure 1). Kosovo's 2021 spike, at an estimated 6.5% of GDP, reflects one of the most intensive single-year interventions in the region's recent history, consistent with a catch-up development strategy. Serbia, dominant in absolute terms, shows a more moderate ratio when normalised by GDP, though it still ranks highest among WB6 in 2023. Montenegro's continuously declining ratio confirms a structural shift toward a less interventionist model. North Macedonia and Bosnia and Herzegovina hold stable, moderate positions throughout, likely reflecting gradual and balanced development strategies.

EU comparison: The EU maintained state aid at approximately 0.9% of GDP throughout this period. More significantly, at the current pace of income convergence, WB6 economies would require 30 or more years to reach EU average income levels (World Bank, 2024). State aid composition — not volume — is one of the key policy variables that could accelerate or constrain this trajectory, making the structural orientation of public support a core enlargement question, not merely a competition policy matter. More significantly, in the EU, over 30% of state aid is directed toward environmental protection and energy transition, and 15–20% toward R&D and innovation. In WB6, these categories combined represent a fraction of total expenditure in most countries, pointing to a structural gap not just in volume but in the composition and strategic orientation of public support.

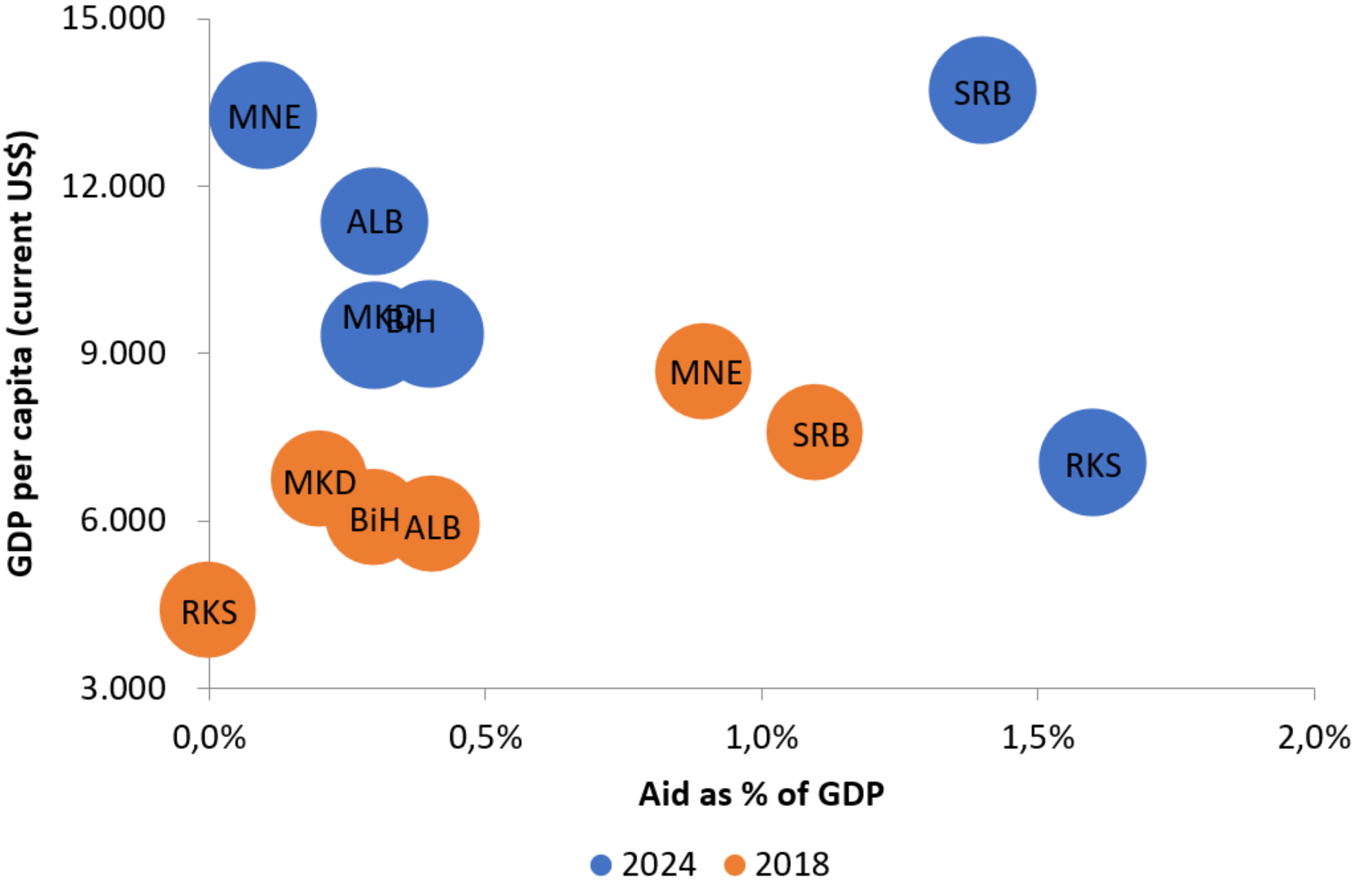
The relationship between state aid intensity and economic development level is illustrated in Figure 2. Despite the COVID-driven surge in total aid, WB6 GDP per capita as a share of EU average remained virtually unchanged between 2018 and 2024 — increasing only marginally from approximately 27% to 29% of the EU average (World Bank, 2024). This near-stagnation in relative income convergence, occurring alongside a period of historically high state aid expenditure, is the central analytical puzzle of this brief: aid volume increased dramatically, but structural convergence did not accelerate. The analysis confirms that intensity reflects deliberate policy choices more than income levels — countries at similar stages of development follow markedly different intervention models, from high and sustained support (Serbia) to minimal and declining aid (Montenegro).

Figure 1. State aid as % of GDP in WB6, 2018–2024



Source: State Aid Scoreboard Western Balkans, www.stateaid.financethink.mk; World Bank

Figure 2. State aid intensity and economic development in WB6, 2018 vs 2024



Note: Serbia 2024 uses 2023 data.
Source: State Aid Scoreboard WB6; World Bank

STATE AID OBJECTIVES

The distribution of state aid by objective reveals a dual policy approach: **growth-oriented** (strong focus on investment and competitiveness) and stabilisation-oriented (significant support during crisis periods), reflecting the need to balance structural development with short-term economic resilience.

A substantial share of state aid is allocated to investment and competitiveness support — the leading objective across the dataset — suggesting governments prioritize enhancing productive capacity, attracting investment, and supporting industrial development.

However, high allocation toward investment does not automatically translate into long-term economic benefits. Without clear targeting toward innovation, productivity upgrading, or value chain integration, investment aid risks encouraging low-value activities or race-to-the-bottom incentive schemes. This risk is not merely theoretical: countries with the highest share of investment-oriented aid — Serbia and Kosovo — recorded the largest GDP per capita gains between 2018 and 2024, but simultaneously the worst innovation performance outcomes. Serbia's GII ranking deteriorated by 3.2 positions and Kosovo has no rankable score, despite both countries significantly expanding investment aid.

Innovation gap: Despite the focus on investment, explicit support for research, innovation, and technological upgrading remains critically limited. Innovation-driven aid is essential for long-term productivity growth; its absence risks locking economies into low-cost, low-productivity development models. This is confirmed empirically: all WB6 countries for which data are available recorded deterioration in their Global Innovation Index ranking between 2018 and 2024. The European Innovation Scoreboard 2024 reinforces this — all WB6 economies are classified as 'Emerging Innovators' performing well below EU benchmarks, with Serbia reaching only 44% of the EU average and Bosnia and Herzegovina only 23%.

In EU Member States, environmental protection and energy objectives account for approximately 41% of total state aid, while R&D and innovation objectives represent a further 8% (European Commission State Aid Scoreboard, 2024). In WB6, the picture is starkly different. R&D support is not reported as a standalone objective but forms part of the broader category of technological development, innovation, and research — which in its entirety accounts for 1% of total regional allocations. Environmental protection, excluding Serbia as a significant outlier in both volume and policy model, represents only 0.5% of total allocations across the remaining five WB6 economies — rendering the green transition objective virtually absent from state aid policy across most of the region. This is a structural gap that explains why increasing aid volumes have not translated into innovation performance gains.

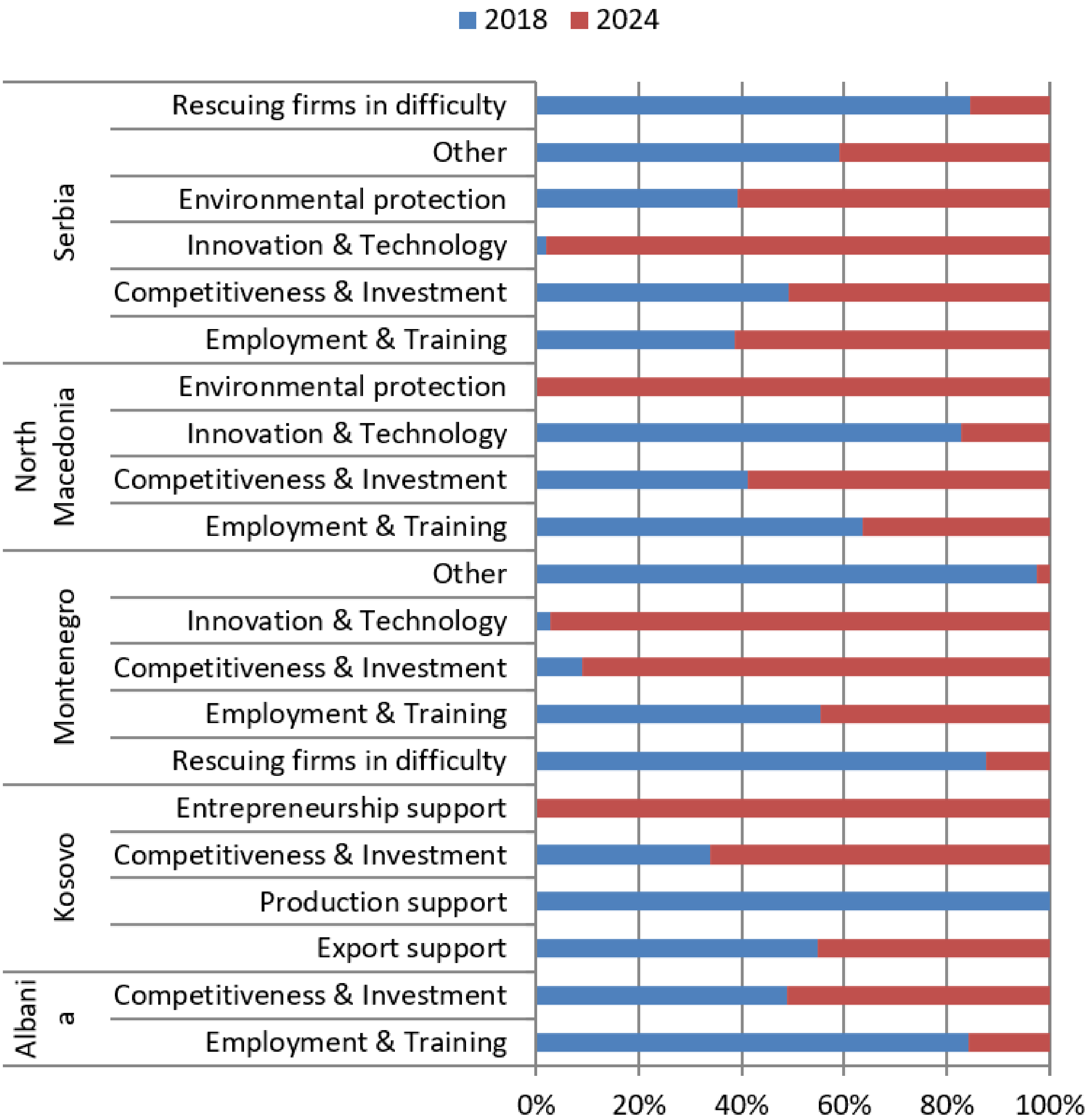
The second major category is aid to firms in difficulty, reflecting crisis-response measures during and after 2020, efforts to preserve jobs, and government stabilisation of key sectors — confirming state aid's role as a countercyclical instrument. Employment support also represents a meaningful share, underscoring its dual function as both an economic and social stabilisation tool. Environmental protection emerged as one of the fastest-growing objectives, particularly in Serbia, reflecting increasing alignment with EU Green Deal priorities, though this category remains geographically concentrated.

Shifts between 2018 and 2024 (Figure 3) reveal a gradual transition from crisis-oriented support toward competitiveness and development. The most striking trend is the strong increase in investment and competitiveness aid: Serbia increased allocations from €220mn to €446mn; Kosovo recorded the most dramatic relative shift, from only €1.4mn to €158mn; and North Macedonia more than tripled support in this category. This pattern suggests that governments increasingly view state aid as a tool for stimulating private investments, enhancing competitiveness and supporting economic development. At the same time, the concentration of aid in this category raises questions about effectiveness and targeting: **without stronger links to productivity and technological upgrading, competitiveness aid risks becoming a broad subsidy mechanism with limited structural impact.**

At the same time, aid aimed at rescuing firms in difficulty declined sharply — in Montenegro from €14.2mn to €0.4mn, and in Serbia from €41.8mn to €15.1mn — reflecting gradual withdrawal of emergency support and partial alignment with EU principles that discourage long-term support to non-competitive firms.

Overall, while the Western Balkans are moving away from purely crisis-oriented support, the transition remains uneven. Competitiveness and investment dominate state aid portfolios, but innovation and green transformation receive comparatively limited support outside Serbia — indicating that current frameworks still prioritise short-term expansion over deeper structural transformation. The evidence suggests that the problem is not insufficient state aid in the Western Balkans, but insufficiently targeted state aid: **the region allocates aid toward objectives with weak spillover effects and limited productivity returns,** while systematically underinvesting in the market failures — R&D, innovation infrastructure, green transition — where public support generates the highest long-term returns (Aghion et al., 2015; Edler & Fagerberg, 2017).

Figure 3. Share of state aid by objective, 2018 vs 2024.



Note: For Serbia, data for 2023 are showed
Source: State Aid Scoreboard Western Balkans, www.stateaid.financethink.mk

STATE AID TYPE AND POLICY MODELS

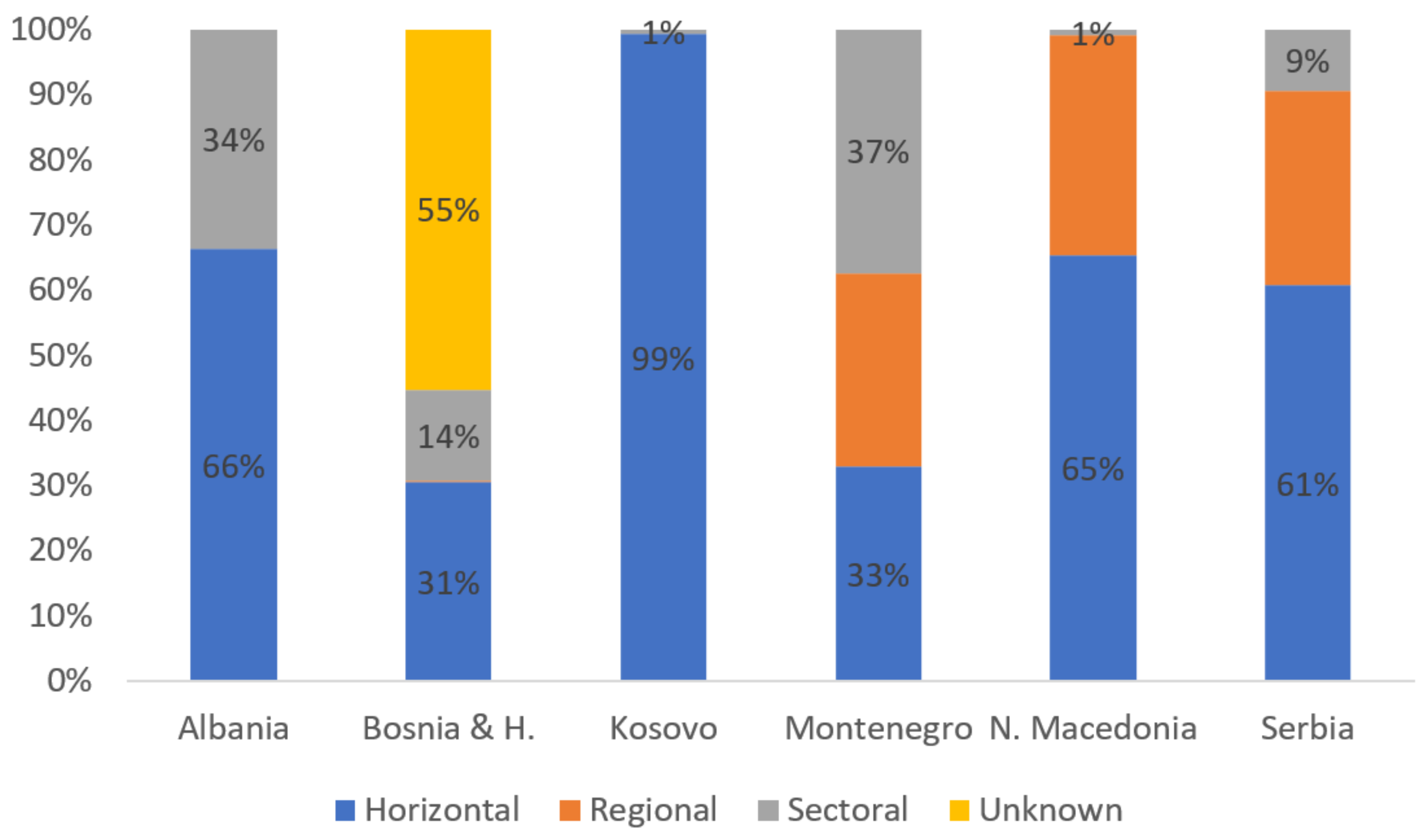
The structure of state aid by type provides important insights into the overall policy orientation of WB6 governments and the extent to which state intervention is aligned with modern competition and development principles. The data in Figure 4 show a clear dominance of horizontal aid — approximately €6.4 billion cumulative — followed by regional aid (€2.3 billion) and sectoral aid (€1.1 billion). Horizontal aid accounts for the largest share of total state aid, representing more than half of all allocations. This is significant because horizontal aid is generally considered the least distortive form of state intervention under EU state aid principles (Bacon, 2013), typically targeting competitiveness, investment, employment and training, technological development, R&D, and environmental protection — cross-cutting economic objectives rather than directly protecting individual industries. The strong presence of this type suggests gradual alignment with EU competition policy standards.

Regional aid represents the second-largest category, reflecting the continued importance of reducing regional inequalities and encouraging investment outside major economic centres. Sectoral aid is the smallest category, but remains analytically significant as the most distortive form of state aid, directly favouring specific industries. Taken together, the distribution by type suggests a gradual transformation of state intervention models in the region. The dominance of horizontal aid represents a positive trend from the perspective of market competition, EU integration, and long-term economic modernisation. However, this dominance should be interpreted cautiously. In practice, formally horizontal schemes may still disproportionately benefit large firms, foreign investors, or politically connected sectors — particularly where transparency and monitoring mechanisms remain weak. Moreover, while horizontal aid dominates quantitatively, the earlier analysis of objectives confirms that innovation and technology still receive relatively limited support within this category. As a result, state aid may contribute more to short-term growth and investment attraction than to long-term productivity gains and structural transformation. The alignment with EU principles is thus partial: the form is increasingly correct, but the strategic content has not yet followed.

EU alignment gap. Comparing the type structure with EU practice reveals an important policy gap — not in volume, but in what horizontal aid is used for. In the EU, horizontal aid is heavily concentrated in environmental protection, energy transition, and R&D and innovation — categories that account for nearly half of all EU state aid (European Commission, 2024).

In WB6, horizontal aid is predominantly directed toward investment promotion and competitiveness support, with environmental and innovation objectives representing a much smaller share. This suggests that convergence in aid type has not yet been matched by convergence in aid purpose, and that the region's horizontal aid is structurally oriented toward short-term economic expansion rather than knowledge-based transformation.

Figure 4: State aid structure, by type (2018–2024 cumulative)



Source: State Aid Scoreboard Western Balkans, www.stateaid.financethink.mk

While horizontal aid dominates at the regional level, the country-level structure reveals substantial differences in how WB6 governments design and implement intervention policy — and, more fundamentally, how they position the state in relation to markets. These differences reflect not just distinct policy preferences, but distinct development models. To assess their alignment with EU principles, it is useful to first establish what those principles require in practice.

EU framework: what good practice looks like. Under Article 107 TFEU, state aid is in principle prohibited unless it serves a well-defined objective of common interest, addresses a genuine market failure, and causes minimum distortion to competition.

The General Block Exemption Regulation (GBER) exempts from notification primarily horizontal aid measures targeting innovation, R&D, regional cohesion, environmental protection, SME development, and training — provided they respect strict intensity thresholds and transparency requirements. While the GBER covers specific, narrowly defined local infrastructures, broad or discretionary, sectoral aid falls outside the block exemption and is subject to individual notification precisely because it favours specific industries. In practice, the EU has progressively shifted its state aid philosophy away from reactive support — rescue aid, general investment subsidies, open-ended tax exemptions — toward transformative, output-linked instruments. Bacon (2013) identifies this shift toward horizontal, market-correcting aid as the central evolution in EU competition policy over the past three decades. The empirical literature reinforces this direction: aid effectiveness depends not on volume but on the specificity of market failures targeted — industrial policies allocated to competitive sectors or that foster competition generate productivity growth, while broadly directed subsidies raise employment and investment without improving Total Factor Productivity (Aghion et al., 2015; Criscuolo et al., 2019). Against this benchmark, four distinct models emerge from the WB6 data.

Table 2. State aid models in the WB6

Model	Countries	Characteristics	EU alignment
High-intervention developmental	Serbia	Large-scale horizontal, regional and sectoral; subsidies, tax exemptions, environmental aid	Medium — volume aligned in form but fiscal instruments and CSAC independence diverge from GBER and Chapter 8 requirements
Horizontal / market-oriented	Kosovo, N. Macedonia	Horizontal dominance; limited sectoral; growing guarantees	Medium-High — correct structural direction; notification procedures and R&D targeting need strengthening
Selective	Montenegro, Albania	Greater sectoral share; declining volume (Montenegro); new law adopted 2025	Low-Medium — sectoral aid requires individual notification under EU rules; enforcement capacity not yet in place
Fragmented	Bosnia & Herzegovina	Inconsistent classification; ‘unknown’ category; ethnic-based vetoes in institutions	Low — institutional governance deficit blocks both substantive and procedural alignment; key opinion priority unimplemented

Sources: European Commission Progress Reports 2024 (EC, 2024); TFEU Article 107; GBER Regulation (EU) 651/2014.

Based on the European Commission Progress Reports 2024–2025, the following assessment maps each country's state aid model against its current level of preparation in competition policy under Chapter 8 of the accession framework.

Albania is assessed as having some level of preparation in competition policy. The framework Law on State aid largely reflects Articles 107 and 108 TFEU, but implementing legislation remains only partly aligned. The operational independence of the State Aid Commission has yet to be guaranteed, as it remains an arm of the Ministry of Finance and Economy, and its enforcement track record needs to be significantly improved — the Commission has never issued a decision on illegal or incompatible aid. The sectoral character of Albania's aid — concentrated in tourism, water supply, and sport — reflects a selective intervention model that is the least compatible with EU competition principles.

Bosnia and Herzegovina has only some level of preparation on competition policy, with no progress recorded and all recommendations from previous years unimplemented. The 2024 Progress Report identifies a structural governance problem: both the Competition Council and the State Aid Council have not yet removed ethnic-based decision-making procedures — decisions require support by at least one representative from each constituent people to be adopted — which directly undermines institutional independence. Most state aid measures are put in place by granting authorities without notification or prior approval, and the State Aid Council issued only one decision during the reporting period.

This institutional blockage means that Bosnia and Herzegovina's fragmented classification structure is not merely a technical problem — it reflects a fundamental governance deficit that prevents meaningful state aid control regardless of the volume or type of aid granted.

Kosovo is assessed as having some level of preparation in competition policy. The key state aid concern is institutional: the State Aid Commission's mandate has expired and no new Commission has been established, leaving state aid control effectively on hold. For the third consecutive year, annual reports on state aid have not been submitted to the Assembly. The horizontal orientation of Kosovo's aid is a positive structural signal, but meaningful alignment with EU procedures requires a functioning institutional framework as a precondition.

Montenegro is assessed as moderately prepared in competition policy. The adoption of a new Law on State Aid Control in July 2025 is a crucial step toward alignment, but needs to be followed by implementing legislation. Ongoing investigations into potentially unlawful state aid — including support to national carriers and infrastructure projects — remain unresolved. The structural decline in Montenegro's absolute aid volume reflects fiscal consolidation rather than deliberate policy modernisation toward EU standards.

North Macedonia is assessed as having some level of preparation in competition policy. The Law on State aid and its implementing legislation need to be further aligned with the EU acquis, the state aid inventory lacks transparency, and the enforcement capacity of the Commission for the Protection of Competition — which is also responsible for state aid control — needs to be strengthened.

The horizontal orientation of North Macedonia's aid is broadly consistent with EU principles, but institutional capacity remains insufficient for effective enforcement.

Serbia is assessed as moderately prepared in competition policy, with no progress recorded in 2024. The 2024 Progress Report identifies the continued existence of fiscal state aid schemes — under corporate income tax, personal income tax, and free zone legislation — as not yet aligned with the EU acquis, with a time bound action plan for alignment yet to be adopted. This directly corresponds to the data: Serbia's heavy reliance on tax exemptions and direct subsidies is not just large in volume but structurally misaligned with the EU acquis. The continued presence of these fiscal schemes, combined with incomplete alignment of implementing legislation, means that Serbia's model is large and partially horizontal in classification, but not yet genuinely aligned in practice.

5.1 Sectoral State Aid

The sectoral distribution of state aid across the Western Balkans reveals significant changes in government priorities between 2018 and 2024. While the overall scale of sectoral aid remains smaller than horizontal aid, the data demonstrate important shifts toward selected strategic sectors. The sectoral structure varies substantially across countries, reflecting different economic models, institutional capacities, and policy priorities. Table 3 illustrates a gradual reorientation of support away from traditional industrial sectors toward service-oriented and strategically visible activities such as media, tourism, and transport.

One of the most important trends is the decline of support for traditional sectors such as mining, while sectors linked to connectivity, communication, and services gained importance. Transport remained a consistently supported sector across the region, reflecting the continued priority given to infrastructure, mobility, and regional integration. Tourism emerged as an increasingly important recipient of state aid, particularly in economies with sea access — Albania and Montenegro.

Serbia experienced the most significant sectoral restructuring, shifting from support for traditional sectors such as mining (€41.8mn in 2018, reduced to zero) toward large-scale support for media. State aid provided to national broadcasting services reached €116 million in 2024, indicating increasing government involvement in communication and public information sectors — which may also raise concerns regarding market neutrality and transparency. North Macedonia maintained very limited sectoral aid overall, with only modest increases in manufacturing and energy support, suggesting continued preference for horizontal rather than sector-specific intervention. Bosnia and Herzegovina increasingly concentrated sectoral aid on transport infrastructure, reflecting growing focus on connectivity and regional integration. Kosovo provides no sectoral state aid from 2022 onwards, consistent with its highly horizontal model.

The structure of state aid across WB6 reveals a region in transition: while most countries increasingly rely on horizontal, less distortive forms of support, significant differences remain in intervention intensity, sectoral selectivity, and institutional maturity. The sectors currently receiving the most support — media, tourism, transport — are among the lowest in R&D intensity and export sophistication in the European context. By contrast, the sectors most capable of driving productivity convergence — ICT, advanced manufacturing, green technology — receive minimal or no dedicated sectoral support across most WB6 economies. This inversion between where aid flows and where returns are highest is the central structural challenge of WB6 industrial policy, and one that aligns with the broader finding that state aid effectiveness depends less on volume than on the strategic selection of supported activities (Criscuolo et al., 2019).

The dominance of horizontal aid in most countries suggests partial convergence toward EU competition policy standards. Despite this trend, sectoral aid remains important in Albania and Serbia, indicating that traditional industrial policy approaches remain influential. With the exception of Serbia and partly North Macedonia, regional aid remains limited, suggesting that territorial cohesion is not yet a major focus of state aid policy in most WB6 economies.

Table 3· Granted sectoral state aid, by sector, difference 2024 vs 2018, in million EUR

	Albania	Bosnia and Herzegovina	Montenegro	North Macedonia	Serbia
Culture	1.1	-	-3.2	-	-
Energy	-	-	-	0.5	-
Sport	7.7	-	-0.4	-	-
Manufacturing	-	-	1.9	0.23	-
Media	-	-1.8	-0.5	-	116
Mining	-	-	-	-	-42
Tourism	38.8	-	0.4	-0.3	-41.8
Transport	1	13.1	-13.4	-	12.5
Water supply	-6.7	-	-	-	-

Note: For Serbia, data for 2023 are showed
Source: State Aid Scoreboard Western Balkans, www.stateaid.financethink.mk

STATE AID INSTRUMENTS

The evolution of state aid instruments in the Western Balkans between 2018 and 2024 reveals important changes in the way governments support economic activity and intervene in the market. Overall, the data suggest a gradual shift from traditional direct support mechanisms toward more diversified and increasingly indirect forms of aid — particularly tax exemptions and guarantees. Substantial differences remain across countries, reflecting varying policy priorities, institutional capacities, and economic structures.

One of the most notable regional trends is the growing importance of tax-based support (Table 4). Tax exemptions increased significantly in Serbia and Albania, indicating stronger reliance on fiscal incentives to attract investment and stimulate competitiveness. Compared to direct grants or subsidies, tax exemptions are often politically and fiscally attractive as they reduce immediate budget expenditures. However, they may reduce transparency and make it more difficult to assess real beneficiaries and the economic effectiveness of state aid.

Subsidies continue to play a dominant role in Serbia, where both subsidies and tax exemptions expanded substantially between 2018 and 2024. Serbia also demonstrates the widest diversification of instruments, combining subsidies, tax incentives, guarantees, soft loans, and other forms.

Another major trend is the increasing use of guarantees in Kosovo, where they grew from negligible levels in 2018 to become one of the largest state aid instruments in 2024. This suggests a shift toward more market-oriented support mechanisms aimed at facilitating access to finance and mobilising private investment. Compared to direct subsidies, guarantees are generally considered less distortive and more financially sustainable, although they create contingent fiscal risks if poorly managed. North Macedonia maintained a relatively balanced instrument structure, with moderate growth in grants and tax exemptions alongside stable subsidy levels. Montenegro experienced a significant reduction across almost all forms of state aid, suggesting either fiscal consolidation or reduced intervention capacity.

Table 4: Aid instruments by country, 2018 vs 2024 (€mn) — selected instruments

Instrument	Serbia		Albania		Kosovo		Montenegro		N. Macedonia	
	2018	2024	2018	2024	2018	2024	2018	2024	2018	2024
Subsidy	240	457 +90%	-	-	-	-	20	6.3 -69%	5.2	5 -4%
Tax exemption	270	438 +112%	20	44 +127%	-	-	-	-	4.4	6.2 +41%
Grant	-	-	37	36 -2%	3	3 +0%	17	3.3 -81%	11	40 +267%
Guarantee	123	15 -88%	-	-	0.3	173 +57433%	1	- -100%	-	-
Soft loans	9.9	10 +3%	-	-	-	-	-	-	-	-
Loan	-	-	-	-	-	-	9.4	- -100%	-	-
Custom ex.	-	-	-	-	-	-	-	-	2.4	0.9 -62%
Other	-	217 new	-	-	-	-	-	-	-	-

Overall, the data indicate that state aid systems in the Western Balkans are gradually becoming more diversified and partially aligned with modern state aid practices. Nevertheless, direct subsidies and tax incentives remain dominant, while more sophisticated financial instruments are still unevenly developed across the region. The increasing use of indirect and less transparent instruments also highlights the need for stronger monitoring, evaluation and accountability mechanisms to ensure that state aid contributes effectively to long-term competitiveness, productivity growth, and sustainable economic development.

STATE AIDAND ECONOMIC PERFORMANCE

The comparison of changes in state aid intensity and selected economic indicators between 2018 and 2024 reveals a complex and uneven relationship between government intervention and economic performance across the Western Balkans (Table 5). The data suggest that higher state aid intensity does not automatically translate into stronger economic outcomes; rather, effectiveness depends on aid structure, targeting, and broader economic conditions.

Country-level findings. Serbia recorded the highest GDP per capita increase (+$2,056 in constant 2015 terms), accompanied by a moderate rise in state aid intensity (+0.3 p.p.), substantial FDI inflows (€1,515mn), and declining unemployment — suggesting that its diversified system contributed to investment attraction, particularly through competitiveness support and tax incentives. Kosovo experienced the largest increase in state aid intensity (+1.6 p.p.) and simultaneously achieved the strongest unemployment reduction (−16.9 p.p.) alongside solid FDI growth (€541mn), indicating that the sharp expansion of investment-oriented aid and guarantees supported labour market recovery. However, Kosovo remains among the lower-income economies in the region, confirming that high intervention intensity alone is insufficient for rapid income convergence. North Macedonia and Bosnia and Herzegovina both recorded significant unemployment reductions (−8.9 and −7.7 p.p. respectively) despite only marginal changes in aid intensity, suggesting that labour market improvements are partly driven by broader macroeconomic factors rather than state aid volume alone. Montenegro reduced aid intensity sharply (−0.8 p.p.) while still achieving GDP per capita growth and moderate FDI — demonstrating that economic progress can occur with declining intervention, particularly in service and tourism-driven economies. Albania similarly reduced intensity (−0.1 p.p.) while recording solid growth and strong FDI (€506mn).

The innovation paradox. All countries for which data are available recorded deterioration in their Global Innovation Index ranking between 2018 and 2024 — Serbia −3.2, Albania −5.5, Montenegro −6.7, Bosnia and Herzegovina −7.7. This decline is analytically significant because it occurred despite increases in investment-related state aid and broader economic improvements. The European Innovation Scoreboard 2024 reinforces this finding, classifying all WB6 economies as ‘Emerging Innovators’ performing well below EU benchmarks: Serbia reaches 44% of the EU average, Montenegro 45%, North Macedonia 40%, Albania 36%, and Bosnia and Herzegovina only 23%. The innovation gap column in Table 2 quantifies the structural deficit in R&D investment — all countries fall between −1.25 and −2.12 percentage points below the EU average of 2.2% of GDP. Serbia, the region’s highest state aid spender, allocates only 0.95% of GDP to R&D; Kosovo allocates an estimated 0.08% — more than 27 times below the EU average. These figures confirm that state aid, despite its substantial volume, is not generating the productivity gains needed for genuine EU convergence.

The FDI efficiency paradox. The aid efficiency indicator — FDI net inflows per percentage point of GDP spent on state aid — reveals a counterintuitive pattern. Albania, with an efficiency ratio of 1,699, and Montenegro, at 967, attract comparatively more FDI per unit of aid than Kosovo (345) despite spending significantly less. Albania attracted €506mn in FDI while actually reducing state aid intensity; Kosovo attracted a comparable €541mn while increasing intensity by 1.6 p.p. Neither higher nor lower aid intensity reliably predicts FDI outcomes, suggesting that institutional quality, rule of law, and investment climate factors play a stronger role than the volume of public subsidies in shaping investor decisions. Serbia’s ratio is not calculable due to incomplete 2024 data, but its structural dominance in both aid and FDI volumes makes direct comparison with smaller economies methodologically limited.

Table 5. Economic Outcomes & Innovation Indicators, change 2018–2024

Country	State Aid Intensity Δ (p.p.)	GDP/ capita change (const. 2015 USD)	Unemp. reduction (p.p)	FDI net inflows €mn	GII Ranking change	R&D exp. % GDP ~2023	EIS Score % EU avg 2024	Aid efficency [1]	Innovation gap [2]
Albania	-0.1	+1,655	-1.6	506	-5.5	0.18%	36%	1,699	-2.02%
Bosnia & Herzegovina	+0.1	+1,370	-7.7	40	-7.7	0.20%	23%	114	-2.00%
Kosovo	+1.6	+1,622	-16.9	541	n/a	0.08%	n/a	345	-2.12%
Montenegro	-0.8	+1,380	-2.0	114	-6.7	0.40%	45%	967	-1.80%
N. Macedonia	+0.1	+930	-8.9	408	+0.0	0.38%	40%	1,308	-1.82%
Serbia	+0.3	+2,056	-5.5	1,515	-3.2	0.95%	44%	-	-1.25%

Note: The unemployment rate shows modelled ILO estimates, except for Kosovo where national estimates are shown.
Source: World Bank; World Intellectual Property Organization; OECD Economic Convergence Scoreboard (2025); European Innovation Scoreboard (2024)

Overall, there is no simple linear relationship between state aid intensity and economic performance in the Western Balkans. Countries with modest or declining intensity achieved positive outcomes, while higher intervention did not produce proportionally stronger gains. The evidence converges on a single structural conclusion: the problem in WB6 is not insufficient state aid, but insufficiently targeted state aid. Resources flow toward instruments — subsidies, tax exemptions — and objectives — investment promotion, firm rescue — that generate short-term economic activity without building the productive capacity needed for genuine EU convergence. The policy implication is not to increase state aid budgets, but to reorient their composition toward the market failures — R&D underinvestment, innovation infrastructure gaps, green transition barriers — where public support generates the highest long-term social returns (Aghion et al., 2015; Edler and Fagerberg, 2017; Criscuolo et al., 2019).

CONCLUSION AND RECOMMENDATIONS

The analysis of state aid in the Western Balkans between 2018 and 2024 reveals a region characterised by high diversity in both the scale and structure of government intervention. While all WB6 economies use state aid as an instrument to support economic development, competitiveness, and stabilisation, the intensity, objectives, and instruments of support differ significantly across countries.

A central finding is the dominant position of Serbia, which consistently records the highest levels of state aid in both absolute and relative terms, combining large-scale horizontal, regional, and sectoral support with extensive use of subsidies and tax exemptions. Kosovo and North Macedonia rely more heavily on horizontal and investment-oriented support, representing the most structurally aligned models in the region. Montenegro demonstrates a limited and contracting state aid framework, driven more by fiscal consolidation than deliberate policy modernisation. Bosnia and Herzegovina exhibits the most fragmented structure, where governance deficits prevent meaningful alignment regardless of aid volume.

The analysis shows a gradual shift from crisis-oriented and sector-specific support toward broader competitiveness and investment objectives. Competitiveness and investment support became the dominant objective in most countries by 2024, indicating increasing emphasis on private sector development and economic modernization. However, support for innovation, technology, and environmental transformation remains comparatively limited outside Serbia. State aid in the region is still more focused on short-term economic expansion than on long-term productivity growth and structural transformation. Tax exemptions and guarantees have become increasingly important, reflecting movement toward more indirect and market-oriented forms of support, while direct subsidies continue to play a major role — particularly in Serbia.

[1] Aid efficiency = FDI net inflows (€mn) per 1 percentage point of GDP spent on state aid in 2024

[2] Innovation gap = country R&D expenditure (% GDP) minus EU average (2.2%)

Overall, state aid systems in WB6 are evolving and partially converging with EU competition policy principles through the increasing dominance of horizontal aid. However, substantial challenges persist: state aid still appears reactive and stabilisation-oriented rather than fully transformative and productivity-driven. To increase the positive impact of state aid, the following three priority reforms are recommended:

1. Reorient state aid toward knowledge and innovation.
All WB6 economies should set a binding target of allocating at least 15% of annual state aid expenditure toward R&D, digital transformation, and high-value-added industries by 2028. Currently, this entire objective category (part of the broader category) accounts for less tnak 1% of total regional allocations. Without a structural shift in aid composition, the region risks entrenching a low-cost, low-productivity growth model that undermines long-term EU convergence. This priority should be coupled with expanding direct R&D co-financing schemes for SMEs and science-industry collaboration.

2. Improve aid efficiency and transparency, not just volume.
The evidence shows no reliable link between state aid intensity and economic outcomes: Albania and Montenegro reduced aid intensity while maintaining solid FDI and employment gains, whereas high-spending Serbia recorded deteriorating innovation rankings. Governments should introduce mandatory ex-post evaluation of major aid schemes, publish beneficiary-level data aligned with EU transparency requirements, and progressively replace broad investment subsidies and tax exemptions with targeted, output-linked instruments — guarantee schemes, innovation vouchers, and conditional performance grants. A reduction of untargeted sectoral aid (particularly in Albania, Montenegro, and Serbia) would free resources for higher-impact allocations.

3. Accelerate alignment with EU Green Deal and competition standards.
Environmental protection aid remains geographically concentrated — Serbia accounts for the overwhelming majority — and analytically fragmented across the region. All WB6 governments should adopt a minimum green aid floor of 20% of total state aid expenditure by 2030, consistent with EU accession conditionalities and the Western Balkans Green Agenda. Simultaneously, Bosnia and Herzegovina urgently needs to harmonise its classification framework across entity-level governments and align with EU state aid notification procedures. Institutional capacity-building in state aid monitoring and enforcement is a precondition for meaningful EU integration across the entire region.

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