

Economic context and the role of SMEs in the Western Balkans and Turkey

The economic context

All the economies of the Western Balkans and Turkey (WBT) assessed in this report are upper-middle income economies according to the World Bank's Atlas method, with the exception of Kosovo*, which is a lower-middle income economy (World Bank, 2019^[1]). While they all have the objective of joining the EU, they are each at different stages of the accession process (Box 1).

Table 2 summarises the WBT economies' basic structural indicators as of 2017. The service sector is the dominant sector in all seven economies, contributing most to gross domestic product (GDP) in terms of value added (52.3% on average) and generating the most employment (54.7% of total employment on average). It also shows that all seven economies had high unemployment rates in 2017, ranging from 11.1% in Turkey to 30.5% in Kosovo.

However, while the WBT economies have these main structural elements in common, in many other aspects they differ significantly (Table 2). These are outlined below, in order of population size.

Most strikingly, **Turkey** has a much larger population size, and higher GDP per capita, than the six Western Balkan economies. Turkey's population of 80.74 million is more than 11 times the size of Serbia's, which has the largest population of the six Western Balkan economies. With a GDP per capita almost twice that of the average Western Balkan economy in 2017, the Turkish economy is also more advanced. While still high at 11.1%, Turkey's unemployment rate was the lowest of all the WBT economies in 2017. Its economy is dominated by the services and industry sectors, with agriculture accounting for only 6.1% of GDP in terms of value added in 2017. However, the agriculture sector still contributed 19.4% to total employment in 2017 – the third highest share of all the WBT economies.

With a population of 7.02 million in 2017, **Serbia** is the largest economy of the Western Balkans. Its nominal GDP in 2017 corresponded to just under the combined GDP of Albania, Bosnia and Herzegovina, Kosovo and Montenegro. In 2017, Serbia had the lowest unemployment rate (13.5%) of the six Western Balkans economies and the second highest GDP per capita. Despite its modest contribution to GDP, agriculture accounted for 19.0% of employment, while the industry sector employed 24.4% of the active labour force in 2017.

Bosnia and Herzegovina, with a population of 3.5 million in 2017, is the third largest economy in the WBT region. In 2017, its GDP per capita was the second lowest of all the

* This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence.

WBT economies and its unemployment rate stood at 20.5%. Of all the WBT economies, the services sector plays the second most dominant role in Bosnia and Herzegovina, contributing 55.7% to GDP in terms of value added in 2017 – 3.4 percentage points more than the WBT average. Conversely, agriculture plays the least important role in the region, generating only 5.6% of GDP in terms of value added. However, it accounted for 19.1% of employment – the third highest contribution to employment of all the WBT economies.

Box 1. The WBT economies' EU accession status

At the time of writing, all the WBT economies were either candidates or potential candidates for accession, and accession negotiations were underway with three of them. Table 1 provides an overview of the economies' current EU accession status (as of 2018).

Table 1. Overview: WBT economies' EU accession status (2018)

	ALB	BIH	KOS	MKD	MNE	SRB	TUR
(Stabilisation and) Association Agreement with the EU in force	Since 2009	Since 2015	Since 2016	Since 2004	Since 2010	Since 2013	Since 1964
Potential candidate status	n/a	Since 2003	Since 2008	n/a	n/a	n/a	n/a
Candidate status	Since 2014	No	No	Since 2005	Since 2014	Since 2012	Since 1999
Accession negotiations opened	Planned for 2019	No	No	Planned for 2019	Since 2012	Since 2014	Since 2005
Negotiating chapters opened	No	No	No	No	30 / 35	14 / 35	16 / 35
Negotiating chapters closed	n/a	n/a	n/a	n/a	3 ^p / 35	2 ^p / 35	1 ^p / 35

Note: ^p provisionally; ALB – Albania; BIH – Bosnia and Herzegovina; KOS – Kosovo; MKD – North Macedonia; MNE – Montenegro; SRB – Serbia; TUR – Turkey.

In February 2018, momentum for EU accession by the Western Balkans economies was renewed by a statement from the European Commission seeking “a credible enlargement perspective for an enhanced EU engagement with the Western Balkans” (EC, 2018^[2]). This “perspective” mentions Serbia and Montenegro as the current front runners for accession and sets out the key steps and conditions in the negotiations for their possible accession by 2025.

Chapter 20 of the EU *acquis*, “Enterprise and industrial policy”, has been opened for Serbia, Montenegro and Turkey – this is the most relevant chapter for SMEs in the assessed economies. The chapter aims to strengthen competitiveness, facilitate structural change and encourage a business-friendly environment. Implementing the ten SBA principles is one of the requirements of this chapter. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey 2019* provide the monitoring and guidance for the economies to prepare and meet the requirements of Chapter 20”.

In 2017, **Albania** had a population of 2.87 million, making it the fourth largest economy of the WBT region. Its GDP per capita was slightly higher than that of Bosnia and Herzegovina, while its unemployment rate was lower, at 14.1% in 2017, the third lowest

in the region. Agriculture plays a much more important role in Albania than in the other six WBT economies, representing 19.0% of GDP in value added and employing 40.3% of the active labour force in 2017. Nonetheless, as in the other WBT economies, services and industry are the most important sectors of the Albanian economy in terms of both value added and employment.

North Macedonia has the fifth largest population of the seven assessed economies (2.08 million people in 2017) and the third highest GDP per capita in the Western Balkans. However, its unemployment rate – 22.4% of the active population – was the second highest of all WBT economies in 2017. As in the other WBT economies, the services and industry sectors make the largest contributions to both employment and to GDP in terms of value added. The agriculture sector still represents 7.9% of GDP – the third highest share of all WBT economies. However, it only accounts for 16.4% of total employment, less than in Albania, Bosnia and Herzegovina, Serbia and Turkey.

Table 2. Selected structural indicators (2017)

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
Population (million) ¹	2.87	3.50	1.83	2.08	0.62	7.02	80.74	14.09
Nominal GDP at current prices (EUR billion) ²	11.58 ^e	15.29 [*]	6.41	10.06 ^p	4.30	39.18	753.90	120.10
GDP per capita PPP (constant 2011 international \$) ¹	11 802	11 731	9 780	13 132	16 465	14 049	25 135	14 585
Unemployment (% of total active population) ³	14.1	20.5	30.5	22.4	16.4	13.5	11.1	18.4
Services, value added (% of GDP) ¹	47.5	55.7	45.8	54.6	59.1	50.0	53.4	52.3
Industry (including construction), value added (% of GDP) ¹	20.9	23.9	25.6	24.1	15.9	26.4	29.2	23.7
Agriculture, forestry, and fishing, value added (% of GDP) ¹	19.0	5.6	9.1	7.9	6.8	6.0	6.1	8.6
Employment in services (% of total employment) (modelled ILO estimate) ⁴	41.1	48.7	..	53.8	74.3	56.6	53.8	54.7
Employment in industry (% of total employment) (modelled ILO estimate) ⁴	18.6	32.2	..	29.8	18.0	24.4	26.8	25.0
Employment in agriculture (% of total employment) (modelled ILO estimate) ⁴	40.3	19.1	..	16.4	7.6	19.0	19.4	20.3

Note: ^e estimate; ^p provisional; ^{*} 2016 data due to unavailability of 2017 data; ILO – International Labour Organization; PPP – purchasing power parity. The WBT averages have been calculated as simple averages; data for Kosovo on employment in services, industry and agriculture were not available.

Sources: ¹ World Bank (2018^[3]), *World Bank Open Data* (database), <https://data.worldbank.org>; ² Eurostat (2018^[4]), *Eurostat* (database), <https://ec.europa.eu/eurostat/data/database>; ³ EC (2018^[5]), *EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018*, https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en; ⁴ ILO (2018^[6]) ILOSTAT, <http://www.ilo.org/ilostat>.

Kosovo, with a population of 1.83 million in 2017, is the second smallest economy of the WBT region. Compared to the other WBT economies, it had the lowest GDP per capita and the highest unemployment rate in 2017: at 30.5% of the active population, Kosovo's unemployment rate was 12.1 percentage points above the WBT average. In

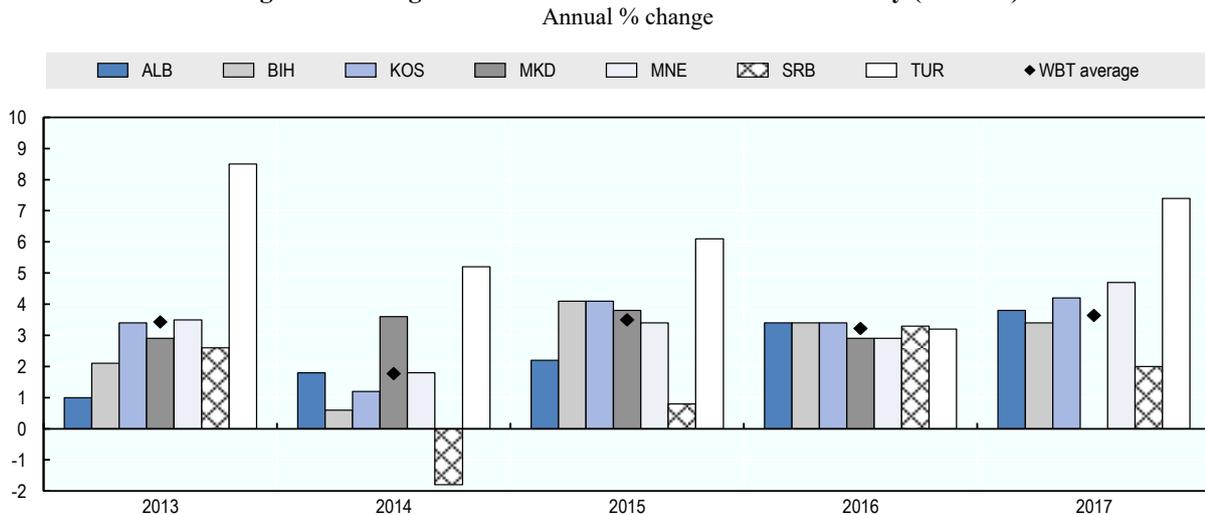
comparison to its WBT peers, Kosovo's services sector makes the lowest contribution to GDP in terms of valued added (45.8%), while industry contributes more to the economy's GDP than in the average WBT economy.

With a population of 622 471 in 2017, **Montenegro** is the smallest of the WBT economies. It is also the most developed of the six Western Balkan economies in terms of GDP per capita. While its unemployment rate is below the WBT average, 16.4% of its active labour force were unemployed in 2017 – the fourth highest rate of all WBT economies. The services sector employs by far the highest share of the active labour force of all the WBT economies (74.3%) and makes the highest contribution to GDP in terms of value added (59.1%). Conversely, agriculture makes by far the lowest contribution to employment.

Recent economic trends

Between 2013 and 2017, the WBT economies saw their GDP grow by 3.1% per year on average (Figure 1). Turkey saw the highest annual growth rates in all years except 2016. On average its GDP grew by 6.1% each year between 2013 and 2017. Compared to the other WBT economies, Albania's annual GDP growth rates increased the most over this period – from 1.0% in 2013 to 3.8% in 2017. Serbia recovered from negative growth in 2014 to reach the average GDP growth level for the WBT region in 2016. However, its GDP grew less dynamically in 2017 than the average for the WBT economies. North Macedonia saw its GDP growth stall completely (0%) in 2017.

Figure 1. GDP growth in the Western Balkans and Turkey (2013-17)



Note: WBT average has been calculated as simple average.

Source: EC (2018^[5]), *EU candidate countries' and potential candidates' economic quarterly (CCEQ): 3rd quarter 2018*, https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en.

StatLink  <https://doi.org/10.1787/888933937166>

Table 3 provides a selection of the main economic indicators for the WBT economies between 2013 and 2017. It reveals a relatively stable situation across most indicators on average.

For example, the inflation rate of the average WBT economy was relatively low and stable between 2014 and 2016. While the average inflation rate rose again in 2017 compared to the 2016 rate, four of the WBT economies had an inflation rate of 2% or lower that year. The government balance in the average WBT economy steadily improved, from -3.4% to -1.3% of GDP between 2013 and 2017. Yearly net foreign direct investment (FDI) measured as a percentage of GDP remained relatively stable and varied between 4.5% and 5.9% of GDP in the average WBT economy between 2013 and 2017. On average, the WBT economies have also opened up further to international trade, with an average increase of exports and imports of 5.5 and 3.8 percentage points of GDP respectively between 2013 and 2017. Current account balances in the region remained negative but relatively stable between 2013 and 2017, varying between -6.1% and -7% of GDP, while the average WBT economy's external debt increased from 69.7% to 73.8% of GDP.

Table 3. Selected economic indicators for the Western Balkans and Turkey (2013-17)

	ALB					BIH				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Inflation (annual % change) ¹	1.9	1.6	1.9	1.3	2	-0.1	-0.9	-1.0	-1.1	1.2
Government balance (% of GDP) ¹	-5.2	-5.2	-4.1	-1.8	-2.0	-2.0	-2.0	0.6	1.2	2.5
Current account balance (% of GDP) ²	-9.3	-10.8	-8.6	-7.6	-6.9	-5.3	-7.4	-5.4	-4.9	-4.8
External debt (% of GDP) ²	60.5	56.1	63	61.9	63.2	61.7	61.6	62.3	62.4	61
Net FDI (% of GDP) ¹	9.6	8.2	8.0	8.7	8.6	1.2	2.8	1.7	1.6	2.0
Exports of goods and services (% of GDP) ¹	28.9	28.2	27.3	28.9	31.5	31.8	32.8	33.6	34.4	39.4
Imports of goods and services (% of GDP) ¹	47	47.2	44.5	45.7	46.6	51.1	54.6	51.4	50.5	55.5
	KOS					MKD				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Inflation (annual % change) ¹	1.8	0.4	-0.5	0.3	1.5	2.8	-0.3	-0.3	-0.3	1.4
Government balance (% of GDP) ¹	-3.1	-2.2	-2.0	-1.2	-0.8	-3.8	-4.2	-3.5	-2.7	-2.7
Current account balance (% of GDP) ²	-3.6	-6.9	-8.6	-7.9	-6.6	-1.6	-0.5	-2.0	-2.7	-1.3
External debt (% of GDP) ²	30.2	31.2	33.3	33.2	32.6	66.1	64.9	68	70.7	77.1
Net FDI (% of GDP) ¹	5.3	2.7	5.3	3.6	4.5	2.8	2.3	2.2	3.6	2.3
Exports of goods and services (% of GDP) ¹	21.9	22.5	21.9	22.2	27	42.3	47.7	48.7	50	55.1
Imports of goods and services (% of GDP) ¹	49.6	51.2	50.4	50.8	53.8	60.4	64.9	65	64.7	68.8
	MNE					SRB				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Inflation (annual % change) ¹	1.8	-0.5	1.4	0.1	2.8	7.9	2.1	1.4	1.1	3.1
Government balance (% of GDP) ¹	-4.6	-2.9	-8.3	-3.6	-5.3	-5.5	-6.6	-3.5	-1.2	1.1
Current account balance (% of GDP) ²	-14.5	-12.4	-11	-16.2	-16.3	-6.1	-6	-3.5	-2.9	-5.2
External debt (% of GDP) ²	153.5	163.1	161.8	158.8	160.2	74.8	77.1	78.3	76.5	69.5
Net FDI (% of GDP) ¹	9.6	10.2	16.9	9.4	11.3	3.8	3.7	5.1	5.2	6.2
Exports of goods and services (% of GDP) ¹	41.3	40.1	42.1	40.6	41.1	41.2	43.4	43.8	47.2	49.3
Imports of goods and services (% of GDP) ¹	61.4	60	60.6	63.1	64.5	51.9	54.2	52.9	54.2	57.5

	TUR					WBT average				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Inflation (annual % change) ¹	7.5	8.9	7.7	7.8	11.1	3.4	1.6	1.5	1.3	3.3
Government balance (% of GDP) ¹	0.1	0.1	1.3	-1.3	-2.0	-3.4	-3.3	-2.8	-1.5	-1.3
Current account balance (% of GDP) ²	-6.7	-4.7	-3.7	-3.8	-5.6	-6.7	-7.0	-6.1	-6.6	-6.7
External debt (% of GDP) ²	41.1	43.5	46.7	47.8	53.3	69.7	71.1	73.3	73	73.8
Net FDI (% of GDP) ¹	1.4	1.4	2.1	1.6	1.3	4.8	4.5	5.9	4.8	5.2
Exports of goods and services (% of GDP) ¹	22.3	23.8	23.3	22	24.8	32.8	34.1	34.4	35	38.3
Imports of goods and services (% of GDP) ¹	28.1	27.6	26	24.9	29.3	49.9	51.4	50.1	50.6	53.7

Note: For inflation figures, the consumer price index was used for all WBT economies except Montenegro and Kosovo, where the harmonised index of consumer prices was used instead. The FDI figures for Kosovo are not net, but reflect inflows.

Sources: ¹ EC (2018_[5]), “EU candidate countries’ and potential candidates’ economic quarterly (CCEQ): 3rd quarter 2018”, https://ec.europa.eu/info/publications/economic-and-financial-affairs-publications_en; ² EBRD (2018_[7]), *Transition Report 2018-19: Country Assessments*, <https://2018.tr-ebd.com/downloads>.

Albania’s economy has expanded, driven by a favourable domestic and external environment. GDP growth reached 3.8% in 2017, mainly reflecting increases in capital investments, but also growing private consumption. Capital investments gained momentum due to two energy-related projects, the Devoll hydropower plants and the Trans Adriatic Pipeline. Private consumption has picked up following accelerating job creation, increasing wages and growing household credit. However, growth is expected to become more subdued, with the two energy projects projected to end by 2020 (EC, 2018_[8]).

Since 2015, **Bosnia and Herzegovina** has sustained annual GDP growth rates of more than 3.4% (Figure 1). This trend has been mainly driven by an increase in private consumption and exports (EC, 2018_[5]). In the medium term, growth is expected to pick up, provided that structural reforms continue to be implemented by the new government (World Bank, 2018_[9]). The main short-term risk is the possibility of delays in forming the government, which could hold back the reform agenda (World Bank, 2018_[9]).

Kosovo’s economy has maintained consistent growth in recent years (Figure 1). Despite managing these positive growth rates, however, Kosovo was still one of the poorest economies in Europe in 2017 in terms of GDP per capita. The economy is characterised by limited regional and global economic integration, and a high dependence on remittances from the Kosovar diaspora. Remittances are an important source of income for many households, and accounted for 12% of GDP in 2017 (EC, 2018_[10]).

Following a solid growth period which saw GDP increase annually by 3.3% on average between 2013 and 2016, the economy of **North Macedonia** stagnated in 2017 (Figure 1). Growth in 2017 suffered from political uncertainty in the first half of that year, due to delays in forming a government following the parliamentary elections in December 2016. This caused public and private investment to drop, offsetting increased exports and higher household spending underpinned by higher employment and wages (EC, 2018_[11]).

With GDP growing 4.7% in 2017, **Montenegro** registered the highest growth rate among the six Western Balkan economies that year (Figure 1). However, Montenegro also had the highest external debt in the WBT region, amounting to 160.2% of GDP in 2017. Montenegro also has a considerable trade imbalance – with imports in 2017 amounting to 64.5% of GDP, compared to just 41.5% for exports. Consequently, the

economy has the largest current account deficit in the region, at 16.3% of GDP in 2017, 9.6 percentage points higher than the WBT average.

Following negative growth in 2014, **Serbia's** GDP growth recovered in 2015 and reached 2% in 2017 (Figure 1). Over the short to medium term, economic growth is expected to pick up, driven by increased investment and the recovery of consumption – as wages increase and its fiscal consolidation programme gradually expires. Economic activity continues to be supported by strong export expansion and rising investment, including FDI (EC, 2018^[5]).

Turkey is the world's 18th largest economy and its GDP per capita continues to catch up with the more advanced OECD economies. Annual GDP growth rates averaged 6.1% over 2013-17, the highest rate of all WBT economies (Figure 1). At 7.4% in 2017, Turkey's GDP growth was among the highest worldwide, exceeding both market expectations and official projections (OECD, 2018^[12]). Demand in 2017 was stimulated by expansionary fiscal measures and the Credit Guarantee Fund. However, strong demand has resulted in high consumer price inflation, which averaged 11.1% in 2017.

SME sector performance in the Western Balkans and Turkey

In relative terms, Serbia had the largest number of SMEs per inhabitant in 2017, followed by Montenegro and Turkey (Table 4). On average, there were 37 SMEs registered in the WBT economies for every 1 000 inhabitants in 2017.

Table 4. Number of SMEs per 1 000 inhabitants (2017)

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	WBT average
SMEs per 1 000 inhabitants	15.4	8.5	20.3	26.5	48.8	50.9	38.3	37.0

Note: Data for Albania, and Kosovo are for 2016. Data on the number of SMEs for North Macedonia are provisional. For Albania, only SMEs operating in Statistical Classification of Economic Activities in the European Community (NACE) Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94, due to the unavailability of data. For Bosnia and Herzegovina, the data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.

Sources: Statistical offices of the six Western Balkan economies and Turkey; World Bank (2018^[3]), *World Bank Open Data* (database), <https://data.worldbank.org>.

Table 5 provides the latest data for the seven WBT economies on the number of SMEs, their employment and value added, as well as their share of exports, broken down by enterprise size. It shows that SMEs in the Western Balkans and Turkey, just as in the EU, hold a dominant place in the economy.

In 2017, SMEs made up 99.7% of all enterprises in the Western Balkans and Turkey, ranging from 99.1% in Bosnia and Herzegovina to 99.9% in Kosovo. Micro enterprises make up by far the highest share: they accounted for 90.4% of all enterprises in the WBT on average in 2017, ranging from 87.9% in Albania to 96.2% in Serbia. The share of small enterprises ranged from 3% in Serbia to 17.3% in Bosnia and Herzegovina, while the share of medium-sized enterprises ranged between 0.66% in Serbia to 4.09% in Bosnia and Herzegovina. Large enterprises make up only 0.3% of all businesses in the

average WBT economy, ranging from 0.14% in Kosovo to 0.88% in Bosnia and Herzegovina.

SMEs make a significantly smaller contribution to business sector employment, value added and total exports than their numerical representation in the economy. Even so, in 2017 SMEs still accounted for 73.2% of total business sector employment, 64.4% of the business sector's value added and 60.3% of exports in the average WBT economy. Although SMEs make up more than 99% of all enterprises in all WBT economies, their contribution to employment, value added and exports differ significantly between the seven economies. In Montenegro, about four out of five business sector employees were working in an SME, while in Bosnia and Herzegovina and Serbia the figure was only about two in three. The differences among the WBT economies are even more pronounced when it comes to value added: while SMEs only accounted for 54.1% of the business sector's value added in Turkey, they accounted for 80.97% in Kosovo. Disparities between the WBT economies are greatest when it comes to SMEs' share of exports, with SMEs accounting for 97.33% of all of Kosovo's exports, but only 31.58% of exports for North Macedonia.

Table 5. SME sector statistics (2017 or latest year available)

	ALB		BIH		KOS		MKD		MNE		SRB		TUR	
	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share	Number	Share
Number of enterprises														
Micro	38 946*	87.87%*	23 317	77.70%	34 611*	93.12%*	49 689 ^p	90.01% ^p	28 578	94.36%	344 279	96.23%	2 896 357	93.42%
Small	4 236*	9.56%*	5 199	17.33%	2 182*	5.87%*	4 572 ^p	8.28% ^p	1 376	4.54%	10 583	2.96%	170 088	5.49%
Medium	991*	2.23%*	1 227	4.09%	322*	0.87%*	794 ^p	1.44% ^p	284	0.94%	2 372	0.66%	28 592	0.92%
Large	151*	0.34%*	265	0.88%	52*	0.14%*	148 ^p	0.27% ^p	48	0.16%	521	0.15%	5 375	0.17%
SMEs	44 173*	99.66%*	29 743	99.12%	37 115*	99.86%*	55 055^p	99.73%^p	30 238	99.84%	357 234	99.85%	3 095 037	99.83%
Employment														
Micro	121 537*	30.74%*	64 906	14.01%	62 450*	34.92%*	123 077 ^p	31.91% ^p	51 569	38.96%	415 762	31.42%	5 646 664	35.26%
Small	86 221*	21.81%*	105 631	22.80%	40 727*	22.77%*	87 466 ^p	22.68% ^p	26 263	19.84%	213 380	16.12%	3 363 973	21.01%
Medium	98 440*	24.90%*	125 614	27.11%	33 075*	18.49%*	77 801 ^p	20.17% ^p	28 182	21.29%	244 320	18.46%	2 871 407	17.93%
Large	89 113*	22.54%*	167 186	36.08%	42 588*	23.81%*	97 384 ^p	25.25% ^p	26 352	19.91%	449 963	34.00%	4 131 591	25.80%
SMEs	306 198*	77.46%*	296 151	63.92%	136 252*	76.19%*	288 344^p	74.75%^p	106 014	80.09%	873 462	66.00%	11 882 044	74.20%
Value added (in EUR million)														
Micro	651.5*	19.36%*	883.8	11.90%	39.9*	13.16%*	890.3 ^p	20.93% ^p	0.7*	44.68%*	4 241	21.99%	34 218.7	14.54%
Small	772.4*	22.95%*	1 709.1	23.02%	61.5*	20.29%*	956.4 ^p	22.48% ^p	0.7*	44.68%*	2 963	15.36%	42 433.7	18.03%
Medium	759.4*	22.57%*	1 847.9	24.89%	144.1*	47.52%*	867.1 ^p	20.38% ^p	0.4*	25.80%*	3 723	19.30%	50 613.8	21.51%
Large	1 181.9*	35.12%*	2 984	40.19%	57.7*	19.03%*	1 539.9 ^p	36.20% ^p	0.5*	29.52%*	8 359	43.34%	108 051.5	45.92%
SMEs	2 183.4*	64.88%*	4 440.1	59.81%	245.6*	80.97%*	2 713.8^p	63.80%^p	1.1*	70.48%*	10 927	56.66%	127 266.2	54.08%
Share of exports														
Micro	..	9.11% ⁿ	..	11.03%	..	54.85%*	..	7.43%*	..	49.37%*	..	7.95%	..	..
Small	..	17.50% ⁿ	..	21.32%	..	33.55%*	..	10.13%*	..	..	..	11.05%	..	56.20%
Medium	..	34.58% ⁿ	..	28.89%	..	8.93%*	..	14.03%*	..	25.97%*	..	20.25%	..	..
Large	..	38.80% ⁿ	..	38.76%	..	2.67%*	..	68.43%*	..	24.67%*	..	60.75%	..	43.80%
SMEs	..	61.19%ⁿ	..	61.24%	..	97.33%*	..	31.58%*	..	75.33%*	..	39.25%	..	56.20%

Note: * 2016 data due to unavailability of 2017 data; ^p provisional data; ⁿ national size class definition. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.

Source: Statistical offices of the six Western Balkan economies and Turkey.

Most SMEs in the Western Balkans and Turkey operate in the distributive trade sector (Table 6). In 2017 (or the latest year available), the share of all SMEs operating in this sector ranged from 28.2% in Serbia to 50.6% in Montenegro. Consequently, it is not surprising that the distributive trade sector also accounted for most of SMEs' contribution to employment, followed by manufacturing and other services (Table 7).

Table 6. Distribution of SMEs by sector (2017 or latest year available)

	ALB*	BIH	KOS*	MKD ^p	MNE	SRB*	TUR	WBT average
Agriculture, forestry and fishing	..	3.3%	2.8%	..	1.8%	1.8%	..	..
Mining and quarrying	1.0%	0.7%	0.4%	0.3%	0.3%	0.1%	0.2%	0.4%
Manufacturing	12.6%	16.3%	12.5%	13.3%	12.1%	15.7%	12.6%	13.6%
Utilities	1.1%	2.0%	0.4%	0.7%	1.2%	0.6%	0.3%	0.9%
Construction	5.7%	7.3%	7.0%	8.1%	16.8%	7.1%	7.3%	8.5%
Distributive trade	33.3%	33.6%	44.1%	40.4%	50.6%	28.2%	36.4%	38.1%
Transportation and storage	2.7%	6.7%	3.4%	9.9%	7.5%	10.2%	14.7%	7.9%
Information and communication	2.7%	3.7%	2.3%	3.0%	5.2%	3.5%	1.2%	3.1%
Other services	40.9%	26.2%	27.1%	24.3%	4.5%	32.8%	27.3%	26.2%

Note: * 2016 data due to unavailability of 2017 data; ^p provisional data. For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. For Albania, North Macedonia and Turkey, data for the agriculture, forestry and fishing sector are not available and thus not reflected in the sectoral distribution. The sector classification generally follows the NACE Rev.2 classification of productive economic activities with the following exceptions: “Utilities” represents the sum of “Electricity, gas, steam and air conditioning supply” (D) and “Water supply, sewerage, waste management and remediation activities” (E); “Distributive trade” covers “Wholesale and retail trade; repair of motor vehicles and motorcycles” (F); and Other services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.

Sources: Statistical offices of the six Western Balkan economies and Turkey.

Table 7. SMEs' employment share by sector (2017 or latest year available)

	ALB*	BIH	KOS*	MKD ^p	MNE	SRB*	TUR**	WBT average
Agriculture, forestry and fishing	..	2.0%	2.0%	..	1.3%	2.7%	..	..
Mining and quarrying	2.0%	1.1%	1.0%	0.6%	0.8%	0.4%	0.7%	0.9%
Manufacturing	21.8%	28.9%	17.2%	26.0%	14.9%	27.8%	23.9%	22.9%
Utilities	3.3%	4.0%	1.6%	2.1%	4.5%	3.3%	0.6%	2.8%
Construction	10.7%	9.7%	10.2%	9.2%	16.3%	7.4%	14.2%	11.1%
Distributive trade	24.0%	27.1%	33.0%	30.3%	44.5%	27.1%	26.0%	30.3%
Transportation and storage	2.9%	5.9%	3.4%	8.6%	9.3%	5.3%	8.0%	6.2%
Information and communication	3.1%	3.5%	3.9%	3.7%	5.0%	3.4%	1.4%	3.4%
Other services	32.3%	17.9%	27.7%	19.5%	3.4%	22.5%	25.3%	21.2%

Note: * 2016 data due to unavailability of 2017 data; ** 2015 data due to unavailability of more recent data; ^p provisional data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. For Albania, North Macedonia and Turkey, data for the agriculture, forestry and fishing sector are not available and thus not reflected in the sectoral distribution. The sector classification generally follows the NACE Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" and (D) "Water supply, sewerage, waste management and remediation activities" (E); "Distributive trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.

Sources: Statistical offices of the six Western Balkan economies and Turkey.

Only four of the seven WBT economies have data on SME value added by sector: Albania, Bosnia and Herzegovina, North Macedonia and Serbia. In all four, SMEs in the distributive trade and manufacturing sectors accounted for the most value added (Table 8).

Table 8. SMEs' share of value added by sector (2017 or latest year available)

	ALB*	BIH	KOS	MKD ^p	MNE	SRB*	TUR	WBT average
Agriculture, forestry and fishing	..	0.9%	..	..	..	3.6%	..	..
Mining and quarrying	3.3%	1.3%	..	0.8%	..	0.4%	..	..
Manufacturing	16.7%	25.2%	..	20.1%	..	25.1%	..	..
Utilities	5.5%	3.4%	..	2.7%	..	2.6%	..	..
Construction	16.5%	8.6%	..	13.3%	..	8.7%	..	..
Distributive trade	27.9%	31.4%	..	31.3%	..	25.1%	..	..
Transportation and storage	4.2%	6.9%	..	9.9%	..	7.5%	..	..
Information and communication	3.3%	5.1%	..	5.6%	..	5.7%	..	..
Other services	22.6%	17.1%	..	16.3%	..	21.2%	..	..

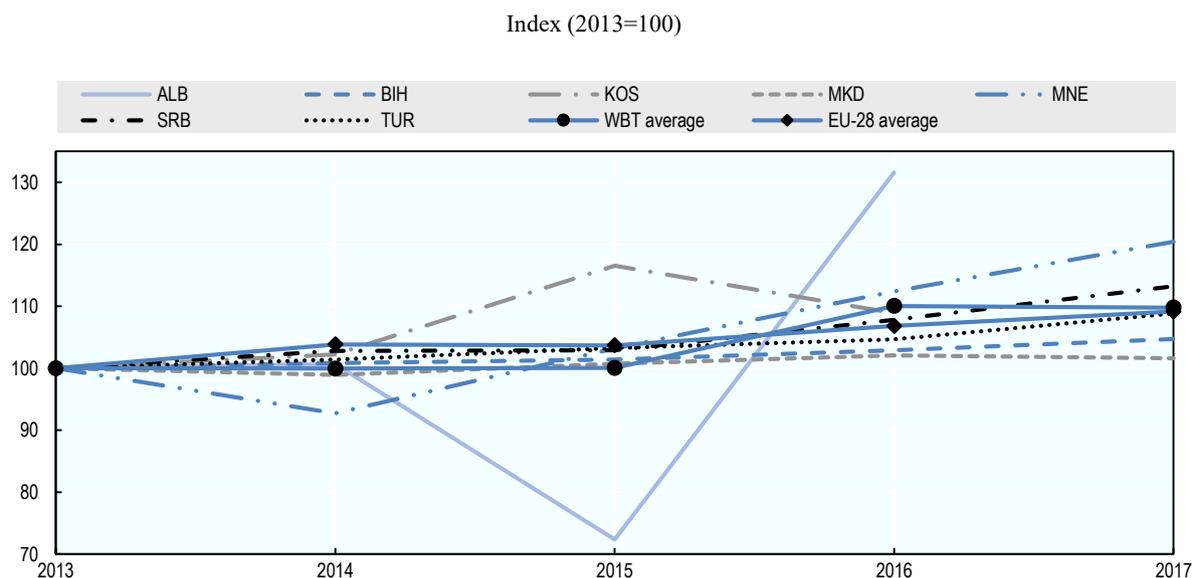
Note: * 2016 data due to unavailability of 2017 data; ^p provisional data. For Bosnia and Herzegovina, data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. For Albania, data for the agriculture, forestry and fishing sector are not available and thus not reflected in the sectoral distribution. Data for Kosovo, Montenegro and Turkey not available. The sector classification generally follows the NACE Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" and (D) "Water supply, sewerage, waste management and remediation activities" (E); "Distributive trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.

Sources: Statistical offices of the six Western Balkan economies and Turkey.

On average, between 2013 and 2016, the SME sector in the Western Balkans and Turkey has continued to grow in terms of numbers of businesses, their contribution to employment, value added and – to a lesser extent – the economies' exports. While the number of SMEs grew on average by 10%, and their contribution to business sector employment by 6% and to business sector value added by 14%, their share of exports only grew by 0.3% over the period. These elements are discussed in further detail below.

Growth in the number of SMEs

While the number of SMEs in the seven WBT economies grew by 10% between 2013 and 2016 on average, the number of SMEs in the EU only grew by 6.8%. Albania (31.6%), Montenegro (12.4%) and Kosovo (8.9%) witnessed the biggest increases over that period (Figure 2).

Figure 2. Growth in the number of SMEs (2013-17)

Note: 2017 data for Albania and Kosovo are not available. The 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Turkey.

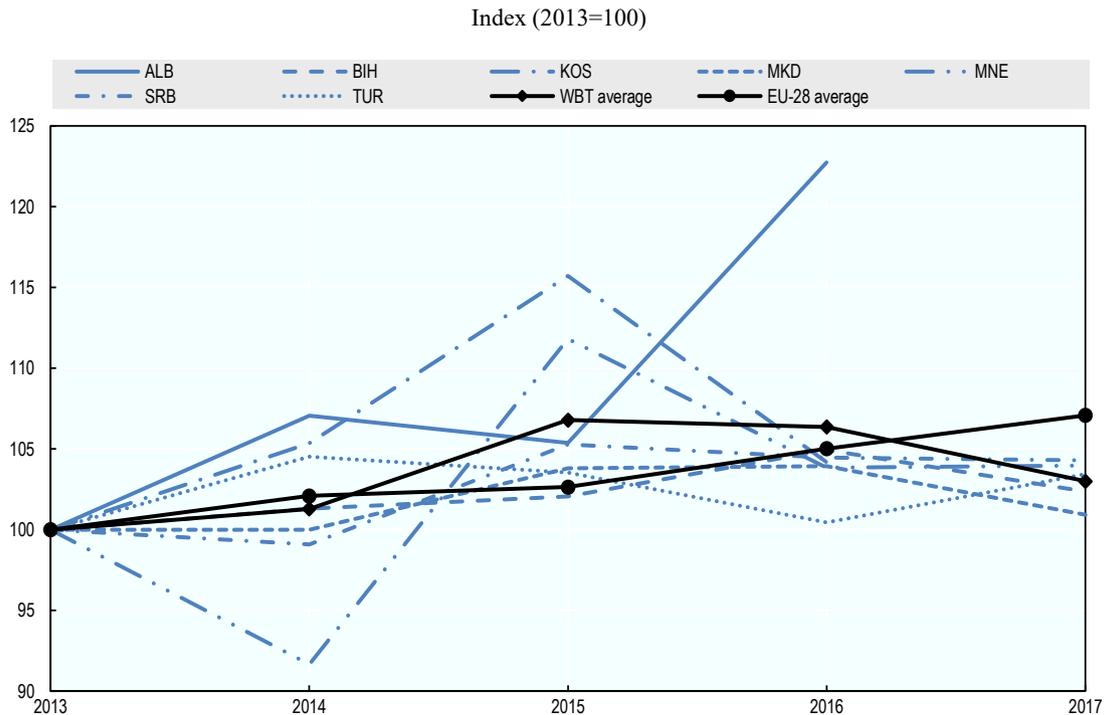
Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018^[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

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Growth in employment

In the average WBT economy, SMEs' contribution to employment increased by 6.3% between 2013 and 2016, slightly above the EU average of 5%. Albania saw the largest increase by far in SMEs' share of employment, by 22.7% between 2013 and 2016, followed by Bosnia and Herzegovina (4.9%), Serbia (4.5%) and Kosovo (4.2%) (Figure 3).

Figure 3. Growth in employment by the SME sector (2013-17)



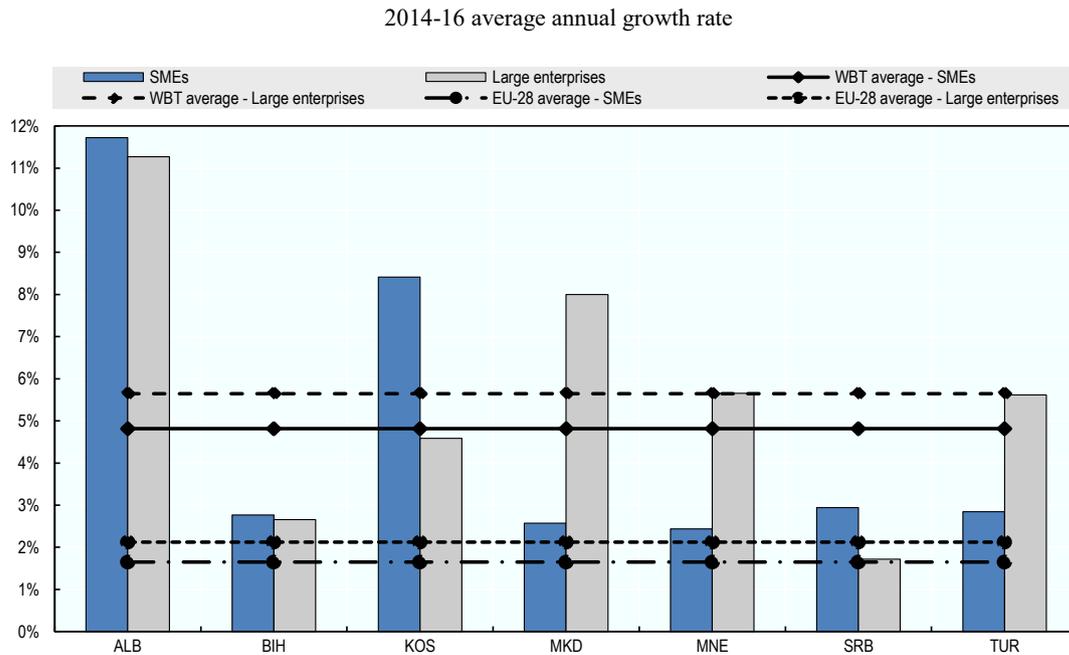
Note: 2017 data for Albania, Kosovo and Serbia are not available. The 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia and Turkey.

Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018^[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

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SMEs in the WBT had a slightly lower average annual employment growth rate than large enterprises between 2014 and 2016. However, in Albania, Bosnia and Herzegovina, and Kosovo, the average employment growth rates for SMEs outstripped those of large enterprises over that period (Figure 4).

Figure 4. Annual employment growth: SMEs versus large enterprises (2014-16)



Note: For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.

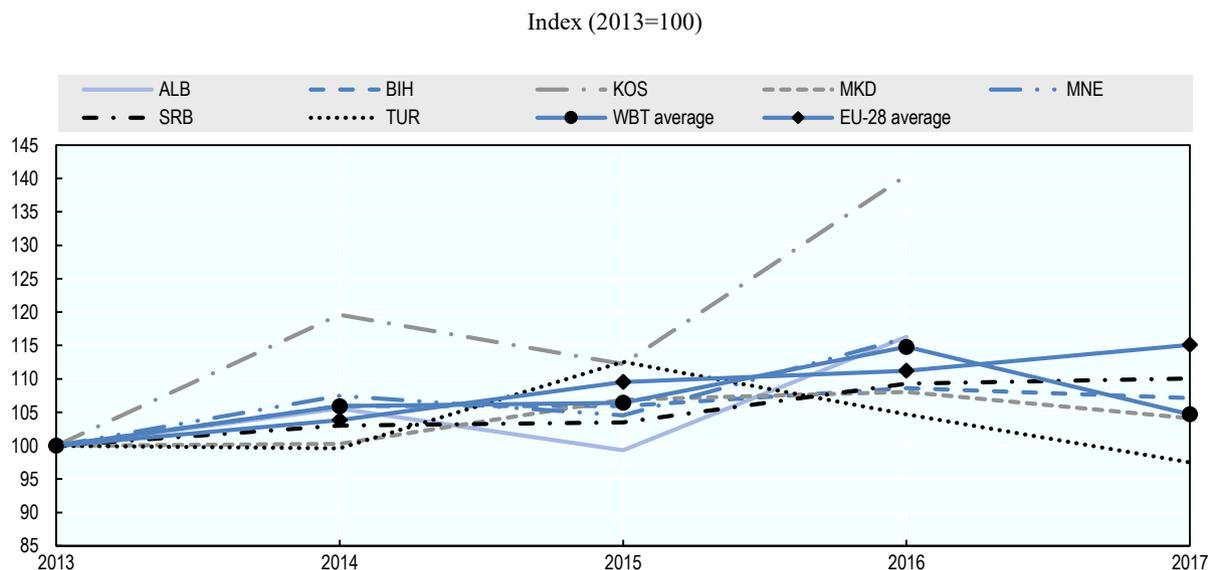
Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018^[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).:

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Value added generated by SMEs

The value added generated by SMEs in the average WBT economy grew by 14.8% between 2013 and 2016, compared to 11.2% in the EU (Figure 5). Kosovo (40.5%), Albania (16.3%) and Montenegro (16.1%) witnessed the strongest increases over that period.

Figure 5. Growth in value added generated by the SME sector (2013-17)

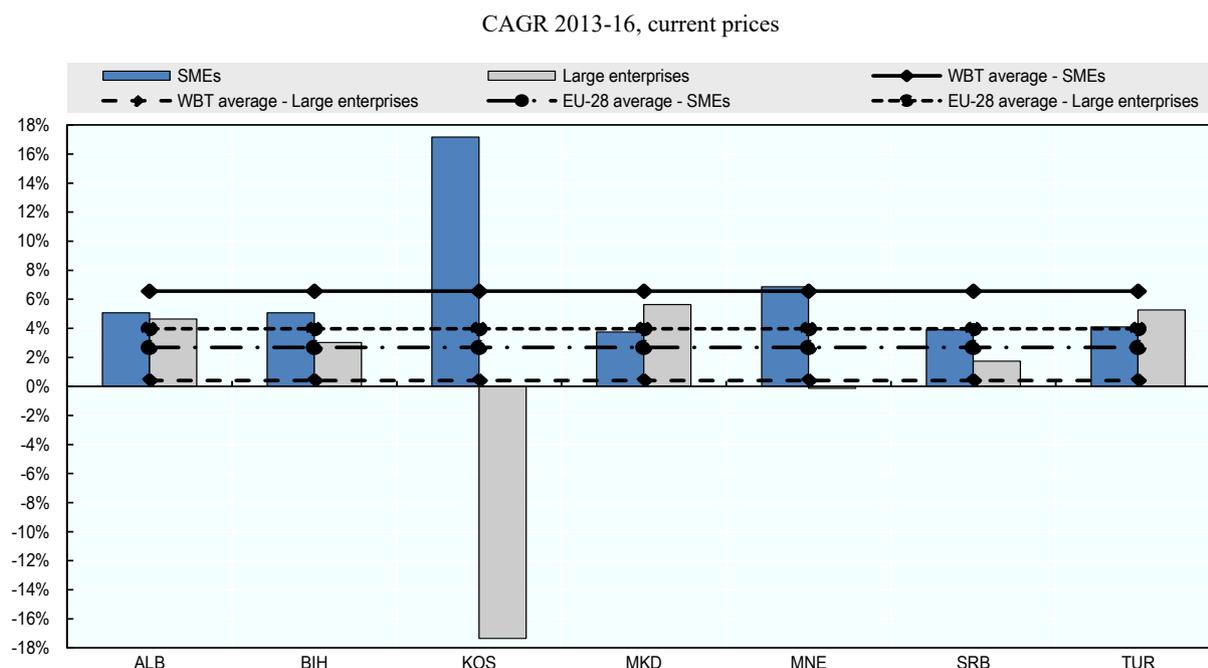


Note: 2017 data for Albania and Kosovo were not available. 2017 data for North Macedonia are provisional. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska. The WBT average for 2017 only includes Bosnia and Herzegovina, North Macedonia, Serbia and Turkey.

Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018^[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

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Between 2013 and 2016, SMEs had a higher compound annual growth rate (CAGR) of value added than large enterprises in all WBT economies except North Macedonia and Turkey. Indeed, on average, the CAGR of SMEs' value added was more than 6% higher than for large enterprises for that period. In Kosovo, the CAGR of SMEs increased by 17.2%, while the rate for larger enterprises decreased by 17.4% over the same period (Figure 6).

Figure 6. Growth in value added: SMEs versus large enterprises (2013-16)

Note: CAGR: compound annual growth rate. For Albania, only SMEs operating in NACE Rev. 2 sectors 05-96 are included, excluding SMEs operating in sectors 64-66, 84 and 94 due to unavailability of data. For Bosnia and Herzegovina data do not include unincorporated enterprises. Due to the unavailability of state-level data, data for Bosnia and Herzegovina have been calculated by aggregating the data of the Federation of Bosnia and Herzegovina and the Republika Srpska.

Sources: Statistical offices of the six Western Balkan economies and Turkey; EC (2018^[13]), *SME Performance Review*, https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en (accessed on 30 November 2018).

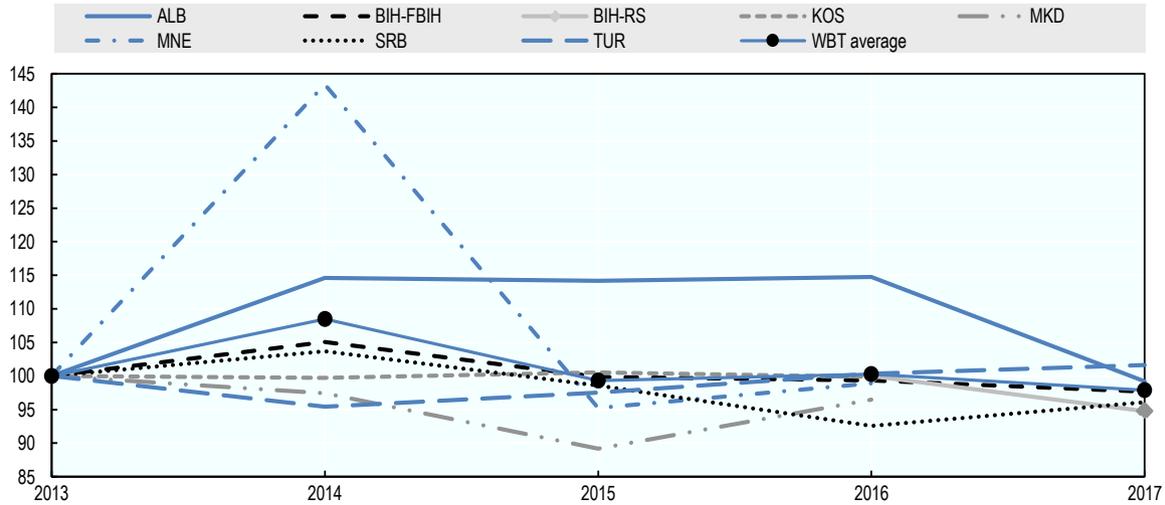
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Export performance of SMEs

On average, SMEs' share of exports only grew by 0.3% between 2013 and 2016 in the WBT economies. Although Montenegro witnessed a strong increase in SMEs' share of exports in 2014, it fell slightly below the WBT average in 2015. In Albania, SMEs' share of exports increased in 2014 by 14.6% compared to 2013, but fell back to the 2013 level in 2017 (Figure 7).

Albania and Montenegro saw the highest average annual growth rates in SMEs' share of exports over 2014-16. In North Macedonia, Serbia and Turkey, large enterprises had a higher annual average export share growth rate than SMEs (Figure 8).

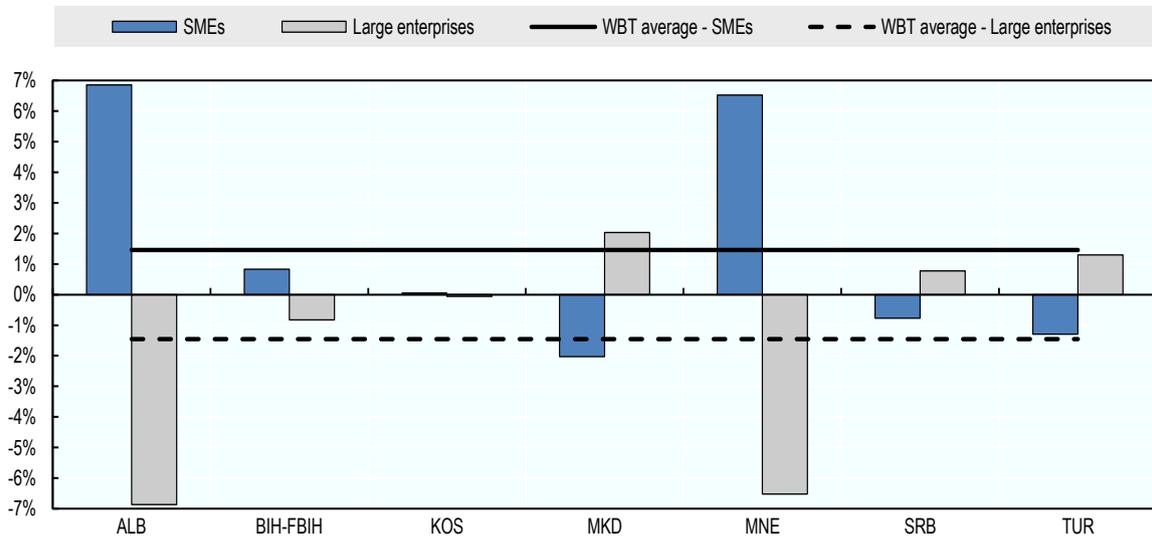
Figure 7. Growth of SMEs' share of exports (2013-17)
Index (2013=100)



Note: 2017 data for Kosovo, Montenegro, North Macedonia and Serbia are not available. Due to the unavailability of data, the national definition of SMEs was used for Albania. Data for the Republika Srpska only available as of 2016. The WBT average for the years 2013, 2014 and 2015 do not include the Republika Srpska. The 2017 WBT average only includes Albania, the Federation of Bosnia and Herzegovina, the Republika Srpska, Serbia and Turkey.

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Figure 8. Annual growth in share of exports: SMEs versus large enterprises
2014-16 average annual growth rate



Note: Due to the unavailability of data, the national definition of SMEs was used for Albania. For Bosnia and Herzegovina, only data for the Federation of Bosnia and Herzegovina were available. Data for the Federation of Bosnia and Herzegovina do not include unincorporated enterprises.

Sources: Statistical offices of the six Western Balkan economies and Turkey.

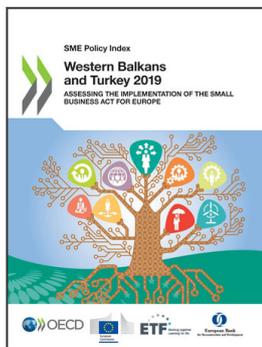
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