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DIGITAL INNOVATION AND ECONOMIC GROWTH IN SOUTHEAST EUROPE

The paper examines the role of digital innovation as a key driver of economic growth in Southeast Europe. The digital economy is defined as a complex ecosystem of economic activities based on the use of digital technologies, internet platforms, and digital infrastructure that transform traditional business models and industries. The study analyzes the main components of the digital economy, including digital services and platforms, digital infrastructure, and digital skills, which together shape the process of digital transformation in contemporary economies. Particular attention is given to the specific characteristics of Southeast European countries, a region that has undergone significant political and economic transitions in recent decades and continues to face structural challenges typical of developing and transition economies.

The research highlights the growing importance of digitalization in stimulating economic development through increased productivity, innovation, and market competitiveness. Empirical evidence, based on the Global Innovation Index and macroeconomic indicators such as GDP per capita, demonstrates a strong positive relationship between innovation performance and economic growth. A comparative analysis of selected countries in the region—including Croatia, Serbia, Bosnia and Herzegovina, and Slovenia—reveals differences in the level of digital infrastructure development, ICT employment, and the adoption of e-commerce. The results show that countries with stronger digital infrastructure, higher levels of digital literacy, and more developed innovation ecosystems tend to achieve better economic outcomes.

The paper also discusses the role of government policies, foreign investment, and European Union support programs in accelerating digital transformation and reducing the digital gap within the region. In addition, the study emphasizes the importance of human capital development and digital skills for fostering innovation, entrepreneurship, and labor market adaptability. The findings suggest that the digital economy significantly contributes to productivity growth, export expansion, and the creation of new employment opportunities, while also transforming public administration through the implementation of e-government services.

The study concludes that digital innovation represents a strategic opportunity for Southeast European countries to strengthen their economic competitiveness, enhance regional integration, and achieve sustainable long-term growth.

However, to fully realize these benefits, governments must continue investing in digital infrastructure, education, and regulatory reforms, while promoting closer cooperation between public institutions, the private sector, and academic communities.

Keywords: *business environment, innovation, economy, economic development, Southeast Europe, digital economy, market, digital transformation, digitization*

JEL classification: *F43, L86, O33, O47*



У статті розглядається роль цифрових інновацій як ключового рушійного фактора економічного зростання в Південно-Східній Європі. Цифрова економіка визначається як складна екосистема економічної діяльності, що базується на використанні цифрових технологій, інтернет-платформ та цифрової інфраструктури, що трансформують традиційні бізнес-моделі та галузі. У дослідженні аналізуються основні компоненти цифрової економіки, включаючи цифрові послуги та платформи, цифрову інфраструктуру та цифрові навички, які разом формують процес цифрової трансформації в сучасних економіках. Особлива увага приділяється специфічним характеристикам країн Південно-Східної Європи, регіону, який за останні десятиліття зазнав значних політичних та економічних переходів і продовжує стикатися зі структурними викликами, типовими для країн, що розвиваються, та перехідних економік.

Дослідження підкреслює зростаючу важливість цифровізації для стимулювання економічного розвитку шляхом підвищення продуктивності, інновацій та конкурентоспроможності ринку. Емпіричні дані, засновані на Глобальному індексі інновацій та макроекономічних показниках, таких як ВВП на душу населення, демонструють сильний позитивний зв'язок між інноваційною ефективністю та економічним зростанням. Порівняльний аналіз окремих країн регіону, включаючи Хорватію, Сербію, Боснію і Герцеговину та Словенію, виявляє відмінності в рівні розвитку цифрової інфраструктури, зайнятості в галузі ІКТ та впровадженні електронної комерції. Результати показують, що країни з сильнішою цифровою інфраструктурою, вищим рівнем цифрової грамотності та більш розвиненими інноваційними екосистемами, як правило, досягають кращих економічних результатів.

У статті також обговорюється роль державної політики, іноземних інвестицій та програм підтримки Європейського Союзу у прискоренні цифрової трансформації та скороченні цифрового розриву в регіоні. Крім того, дослідження підкреслює важливість розвитку людського капіталу та цифрових навичок для сприяння інноваціям, підприємництву та адаптації ринку праці. Результати дослідження свідчать про те, що цифрова економіка значною мірою сприяє зростанню продуктивності праці, розширенню експорту та створенню нових можливостей працевлаштування, а також трансформує державне управління шляхом впровадження послуг електронного урядування.

У дослідженні робиться висновок, що цифрові інновації є стратегічною можливістю для країн Південно-Східної Європи зміцнити свою економічну конкурентоспроможність, посилити регіональну інтеграцію та досягти сталого довгострокового зростання. Однак, щоб повною мірою реалізувати ці переваги, уряди повинні продовжувати інвестувати в цифрову інфраструктуру, освіту та регуляторні реформи, одночасно сприяючи тіснішій співпраці між державними установами, приватним сектором та академічними спільнотами.

Ключові слова: *бізнес-середовище, інновації, економіка, економічний розвиток, Південно-Східна Європа, цифрова економіка, ринок, цифрова трансформація, цифровізація*

JEL classification: *F43, L86, O33, O47*

Problem Statement. The digital economy encompasses a set of economic activities based on the use of the internet and digital technologies. This concept is not limited to the IT sector alone but refers to the entire ecosystem in which digital processes and tools transform business models and traditional industries. The main elements of the digital economy include digital platforms, digital infrastructure and services, as well as e-commerce supported by technologies such as mobile communications, broadband internet, and cloud computing [8, p. 62].

The digital economy can often be divided into three interrelated components. The first component consists of digital services and platforms that enable

the exchange of goods and services over the internet. This includes online banking, e-commerce, digital marketing, as well as remote work platforms, various applications, and social networks [6, p. 118]. The second component is digital infrastructure, which includes technical resources such as data centers, telecommunications networks, software systems, and server equipment. Without a developed infrastructure, access to digital services would be inefficient or limited. The third component refers to digital skills and literacy, which relate to the ability of public institutions, individuals, and companies to effectively use digital technologies for innovation, work, and learning [12, p. 60].

Analysis of Recent Research and Publications. Southeast Europe comprises countries that have undergone complex economic and political transformations over the past several decades. The region includes Croatia, Serbia, Montenegro, Bosnia and Herzegovina, Albania, North Macedonia, and Bulgaria. In this part of Europe, the digital economy has experienced significant growth, yet it continues to face challenges typical of developing and transition economies. In recent years, the digital economy has become one of the key drivers of economic growth worldwide, and Southeast Europe has not been an exception. Increasing access to the internet and digital devices has enabled a larger number of users to access various services [9, p. 35].

According to data from the International Telecommunication Union (ITU), the average internet penetration rate in the region exceeds 70%, while in urban areas it can reach more than 90%. This wider use of the internet stimulates the growth of e-commerce, digital banking, and the use of digital platforms for communication, education, and entertainment. Additionally, the region has experienced significant growth in digital startups and technology companies targeting both global and local markets. However, the digital economy is not equally developed across the region. There are considerable disparities between and within countries; for example, infrastructure availability and digital literacy are significantly higher in urban centers than in rural areas. In other words, the speed and quality of internet connections remain below the European average in certain areas, which limits the full development of digital services [7, p. 115].

Digital infrastructure is a key prerequisite for the development of the digital economy. It includes telecommunications networks, broadband internet, data centers, and other technologies that enable data processing and transmission [10, p. 17].

In Southeast Europe, countries such as Serbia and Croatia are laying solid foundations through substantial investments in broadband network development, while countries such as Albania and Bosnia and Herzegovina still lag behind. These differences can be attributed to variations in levels of foreign investment, political systems, and economic capacities. For instance, in Bosnia and Herzegovina, the complex multi-level governance structure at both the entity and state levels complicates coordination in the development of digital infrastructure, thereby slowing the expansion of broadband internet access in certain parts of the country [10, p. 17].

The European Union provides significant financial support for improving digital infrastructure in the region through various programs and funds, particularly in countries aspiring to EU membership. Projects focused on the development

of 5G networks, as well as strengthening the capacities of telecommunications companies, are already underway, helping to reduce the digital gap both within the region and between Western and Southeast Europe [4].

Digital skills and literacy, or the ability to use digital technologies, represent one of the most important factors for successful digital transformation. Despite the growing interest in IT and digital skills across Southeast Europe, significant challenges remain. Formal education systems in many countries are not fully aligned with the constantly evolving demands of the labor market. Many students lack access to high-quality courses that would adequately prepare them for participation in the digital economy. Additionally, a pronounced generational gap exists: younger populations tend to be more digitally literate, while older generations face challenges in accessing and using newer technologies [1, p. 132].

In response to these challenges, various initiatives led by non-governmental organizations, public institutions, and the private sector are increasingly present across the region, offering workshops, training programs, and initiatives aimed at improving digital competencies. The growing number of IT companies and startups, particularly in Slovenia, Serbia, and Croatia, indicates that investments in human capital are gradually yielding tangible results [3, p. 279].

The digital economy in the region is developing across several key sectors, such as [9, p. 36]:

- E-commerce: Online sales have increased significantly, especially in urban areas. However, issues such as logistics, regulatory gaps, and consumer trust continue to hinder broader market expansion.
- Software and IT industry: This sector is experiencing the fastest growth in the region. Croatia and Serbia are leading countries in the export of software solutions worldwide, while Bosnia and Herzegovina shows strong potential but also faces challenges related to institutional support and regulatory stability.
- Marketing and digital media: A large number of companies use digital channels to engage consumers and advertise, creating new dimensions of market competition and service development.
- Digital finance: Digital wallets and mobile banking are becoming increasingly popular, although market penetration remains lower compared to Western Europe. Nevertheless, this sector holds significant potential for growth and innovation.

The aim of the paper is to analyze contemporary digital innovations and economic growth in Southeast Europe, as well as to highlight the importance of these digital innovations for the overall economic growth of countries in the region.

Results. The Global Innovation Index (GII) is the result of a collaboration between one of the world's leading graduate business schools, INSEAD, and the World Intellectual Property Organization (WIPO), a specialized agency of the United Nations.

Economic growth is determined by a number of factors, one of which is innovation, which has become increasingly important in the context of globalization and rising international competition. The significance of the GII lies in its role in creating an environment where innovation factors are continuously assessed, providing a key tool for improving innovation policies. The report focuses on what

countries and companies are doing, as well as what they should do, to support and stimulate innovation. This index is one of many research studies used to rank countries in terms of innovation performance. According to various indices, the leading countries are Singapore, Sweden, and Switzerland.

The GII is calculated as a simple average of two sub-indices: the Innovation Input Sub-Index and the Innovation Output Sub-Index. Both sub-indices consist of several pillars. The Innovation Input Sub-Index is the average of five pillars that represent the enablers of innovative activities within a national economy: human capital and research, institutions, business and market sophistication, and infrastructure. The Innovation Output Sub-Index measures the results of innovative activities and is calculated as the average of two pillars: knowledge and technology outputs, and creative outputs. Despite consisting of only two pillars, this sub-index carries equal weight in the calculation of the overall GII as the Input Sub-Index. Table 1 presents an overview of GDP per capita in 2012 as a measure of economic development in Southeast European countries, along with their ranking and GII scores for the same year [2, p. 27].

Table 1

Comparison of 10 Selected Countries*

	GDP per capitain 2012 (\$)	GII	
		Rank	Score
Romania	8,863	52	37.8
Bulgaria	7,202	43	40.7
United Kingdom	38,592	5	61.2
	GDP per capitain 2012 (\$)	GII	
		Rank	Score
Germany	43,742	15	56.2
France	44,008	24	51.8
Switzerland	81,161	1	68.2
Estonia	16,583	19	55.3
Croatia	14,457	42	40.7
Serbia	6,081	46	40.0
Montenegro	7,317	45	40.1

*Source: [2, p. 27]

The analysis indicates a high degree of correlation between GDP per capita (representing the level of economic growth) and GII scores (representing the level of innovation within a country). The correlation coefficient between GDP per capita and GII results is 0.89, which suggests a strong linear relationship between these two economic indicators, as shown in Fig. 1.

This indicates that countries which recognize the importance of innovation and invest in it benefit through economic growth. However, it is understandable that the situation is different in less developed countries. These countries face numerous obstacles and often lack sufficient resources for innovation.

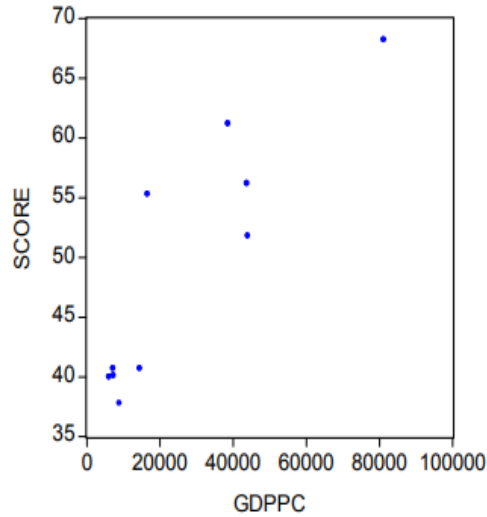


Fig. 1. Relationship between GDP per capita and GII scores

Source: [2, p. 27]

They can benefit from innovation only after reaching a certain level of development. In other words, in the early stages of economic development, it is crucial for countries to understand the importance of innovation and remain open to it. Government support in the field of innovation is therefore essential for these countries. Switzerland has the highest GII score in the world, making it the most innovative country. It ranks among the top ten in almost every pillar.

The following section presents the main indicators of the digital economy for Serbia in comparison with neighboring countries, Croatia and Bosnia and Herzegovina, for the period 2014–2024. The analysis focuses on broadband internet penetration, with data on employment in the ICT sector and e-commerce included where available (Table 2).

Table 2

Digital Economy Indicators*

Country	Broadband Internet (%) 2024	ICT Employment (%) 2024	E-commerce (%) 2024
Serbia	100.0	4.3	59.6
Bosnia and Herzegovina	99.4	4.8	43.9
Croatia	87.5	4.3	59.3

*Source: [5, 2025]

Fig. 2 presents the main indicators of the digital economy for 2024, based on Eurostat data. Serbia records the highest broadband internet usage rate (100%), followed by Bosnia and Herzegovina with 99.4%, while Croatia lags behind in this segment with a rate of 87.5%.

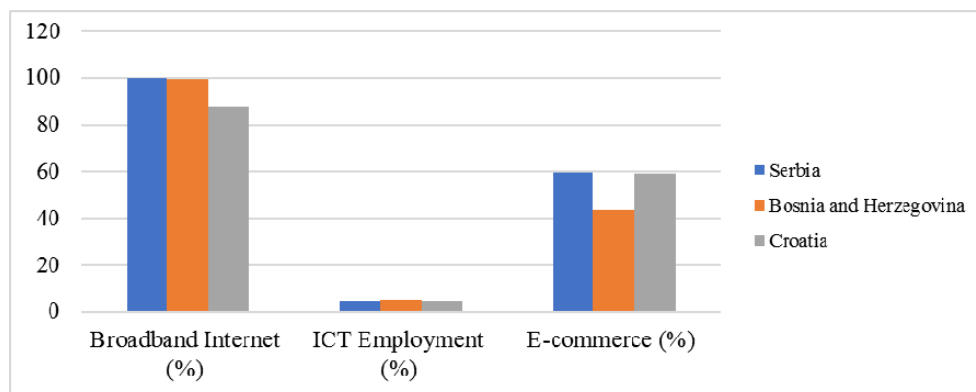


Fig. 2. Comparison of digital economy indicators for Serbia, Bosnia and Herzegovina, and Croatia

Source: [5]

When it comes to employment in the ICT sector, all three countries show similar values, ranging between 4% and 5%. The most pronounced differences are observed in the field of e-commerce, where Croatia and Serbia have a significantly higher share of internet users (around 59%), while Bosnia and Herzegovina lags behind with 43.9%. The digital economy in Southeast Europe has become a topic of increasing political and academic interest, as the region has significant potential for technological innovation and progress, while at the same time facing numerous challenges related to its political, economic, and infrastructural complexity.

Croatia is considered one of the regional leaders in the development of the digital economy. Its membership in the European Union since 2013 has enabled access to structural programs and funds that promote digital transformation. The Croatian government actively implements digitalization strategies aimed at improving infrastructure, supporting the startup ecosystem, and developing e-government services.

Croatia's digital infrastructure is well developed, with high-speed internet widely available in urban areas and across most of the national territory. Levels of digital literacy are increasing, while government support through tax incentives and grants has created a favorable environment for entrepreneurship and innovation. However, challenges remain, including the digital divide between rural and urban areas and the need to improve digital competencies among the older population. Croatia serves as a strong example of how EU integration and a coherent digital strategy can accelerate the development of the digital economy [10, p. 19].

Serbia is one of the most dynamic IT markets in Southeast Europe, recognized for its strong community of programmers and a large number of IT companies successfully operating beyond national borders. Cities such as Niš, Belgrade, and Novi Sad have emerged as regional hubs for technological startups and innovation. Digital infrastructure is rapidly expanding, supported by government initiatives focused on modernizing telecommunications networks and implementing 5G technologies. Additionally, the Government of Serbia provides incentives and

subsidies for IT companies, along with programs that promote coding and digital education among young people [3, p. 281].

However, Serbia still faces challenges related to its regulatory environment—particularly in the areas of e-commerce and data protection—where further reforms are needed. There is also a need for better alignment between the labor market and the education system in order to bridge the skills gap.

Slovenia, as a member of the European Union, boasts one of the most advanced digital ecosystems in the region. Its digital transformation strategy encompasses a wide range of initiatives, from the development of smart cities to the digitalization of public services, as well as the promotion of innovation and research [6, p. 120].

Slovenia has a highly developed digital infrastructure, with near-universal internet access and a high level of digital literacy. Furthermore, the country has demonstrated effective cooperation between the public and private sectors in fostering digital innovation, which is evident in the success of numerous technology companies and startups [6, p. 120].

Through its membership in the European Union, Slovenia has utilized development and research funds and established programs that support the internationalization of its IT sector. However, challenges remain in adapting the labor market to rapid technological changes, as well as in ensuring continuous workforce upskilling. North Macedonia is undergoing accelerated digital transformation, marked by significant investments in digital infrastructure and e-services. The government is implementing governance reforms, improving the accessibility of public services, and promoting digital literacy among citizens [7, p. 118].

Although still in the development phase, the IT sector in this country is steadily growing, particularly in software engineering. Educational initiatives aimed at young people in IT fields are also expanding, while international cooperation contributes to sectoral development. Key challenges include limited regulatory capacity, administrative inefficiency, and insufficient financial resources for infrastructure modernization. In other words, bridging the digital divide between rural and urban areas remains a priority.

A comparison of these countries reveals that, although all Southeast European countries share similar opportunities and challenges, membership in the European Union emerges as a decisive advantage—providing access to funding, capacity-building programs, and policy frameworks. Croatia and Serbia are leading in the development of the IT sector, while Slovenia represents a model of a holistic approach to digital transformation [12, p. 67].

On the other hand, Bosnia and Herzegovina, despite having a growing IT base and a pool of talented professionals, needs to focus on improving infrastructure, intergovernmental coordination, and regulatory frameworks. Learning from the experiences of neighboring countries can help accelerate the development of the digital economy and improve regional competitiveness [12, p. 67].

The digital economy is not only a technological shift but also a fundamental driver of macroeconomic development, influencing productivity, labor market structures, innovation, and overall economic growth. In Southeast Europe, digitalization has significant implications for economic potential, global integration, and competitiveness. One of the most important effects of digitalization

is the increase in productivity across various sectors. The adoption of automation, digital tools, and software solutions enables firms to improve efficiency, reduce production and distribution costs, and optimize resource management [11, p. 207].

In the economies of Southeast Europe, companies that adopt digital technologies generally report higher revenues and export growth, particularly in sectors such as manufacturing, IT services, finance, and logistics. Additionally, the digital economy facilitates access to international markets, thereby strengthening economic resilience and expanding trade.

The digital economy significantly transforms labor market structures. The emergence of new jobs in IT, e-commerce, and digital marketing creates employment opportunities, especially for highly educated individuals and young people. However, digital transformation also brings challenges, as automation may replace certain traditional occupations, creating a need for continuous workforce reskilling.

In Southeast European countries, labor markets often struggle with a shortage of digital skills and a mismatch between employer demands and educational systems.

Countries that successfully integrate digital technologies can promote inclusive growth and reduce youth unemployment, while those that lag behind risk deepening existing socio-economic inequalities. The digital economy serves as a powerful catalyst for entrepreneurship and innovation. In Southeast Europe, technology companies and startups increasingly contribute to economic diversification and competitiveness by offering products and services capable of competing in global markets. Countries that invest in digital incubators, entrepreneurial education, and venture capital are more likely to develop sustainable innovation ecosystems. Such initiatives not only stimulate economic growth but also enhance regional cooperation and knowledge exchange.

Furthermore, digitalization is transforming the functioning of the public sector. The introduction of digital administration, e-government, and open data initiatives increases accountability, transparency, and efficiency, while simultaneously reducing corruption. Southeast European countries that have implemented effective digital services demonstrate higher levels of public trust in institutions, as well as improved cooperation between the private sector and government. These reforms are essential for creating a favorable business environment and achieving sustainable economic development [11, p. 208].

Conclusion. The digital economy is one of the most important drivers of modern macroeconomic development, particularly in Southeast Europe. Due to global digitalization and rapid technological changes, countries in the region face numerous challenges, as well as significant opportunities to strengthen their economies.

The analysis shows that access to European funds and membership in the European Union can significantly accelerate digital transformation, as demonstrated by the cases of Croatia and Slovenia. In contrast, countries that are not members of the European Union, such as Serbia, North Macedonia, and Bosnia and Herzegovina, need to intensify efforts to strengthen infrastructure, regulatory frameworks, and education in order to close the digital gap and create a favorable environment for digital development.

The impact of the digital economy on macroeconomic performance is reflected in increased productivity, innovation, job creation, and improved efficiency of the public sector. However, this transformation requires systemic cooperation between educational institutions, government bodies, and the private sector, along with the adaptation of labor markets to new technological demands.

For Serbia, the main challenges relate to improving coordination between different levels of government, as well as strengthening capacities for innovation and digital education. The growth of the IT sector, investments in digital infrastructure, and the adoption of European standards could serve as key drivers of regional competitiveness and accelerated development.

Finally, the digital economy should be viewed not only as a technological transition but also as a strategic opportunity for Southeast Europe to achieve inclusive, sustainable, and innovation-driven economic growth and to overcome structural barriers. Investments in digital potential and continuous reform efforts can significantly improve the quality of life of citizens while ensuring greater economic stability in the years to come.

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The research highlights the growing importance of digitalization in stimulating economic development through increased productivity, innovation, and market competitiveness. Empirical evidence, based on the Global Innovation Index and macroeconomic indicators such as GDP per capita, demonstrates a strong positive relationship between innovation performance and economic growth. A comparative analysis of selected countries in the region—including Croatia, Serbia, Bosnia and Herzegovina, and Slovenia—reveals differences in the level of digital infrastructure development, ICT employment, and the adoption of e-commerce. The results show that countries with stronger digital infrastructure, higher levels of digital literacy, and more developed innovation ecosystems tend to achieve better economic outcomes.

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capital development and digital skills for fostering innovation, entrepreneurship, and labor market adaptability. The findings suggest that the digital economy significantly contributes to productivity growth, export expansion, and the creation of new employment opportunities, while also transforming public administration through the implementation of e-government services.

The study concludes that digital innovation represents a strategic opportunity for Southeast European countries to strengthen their economic competitiveness, enhance regional integration, and achieve sustainable long-term growth. However, to fully realize these benefits, governments must continue investing in digital infrastructure, education, and regulatory reforms, while promoting closer cooperation between public institutions, the private sector, and academic communities.

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