



## Kosovo

### Highlights

- **Economic growth has accelerated in 2024.** Real output growth picked up from 3.3 per cent in 2023 to 4.9 per cent year on year in the first half of 2024, driven by government social spending, which boosted private consumption, together with an increase in fixed investment.
- **Kosovo is on track with its International Monetary Fund (IMF) programmes.** In May 2024, the IMF Executive Board completed its second reviews of Kosovo's Stand-By Arrangement (SBA) and Resilience and Sustainability Facility (RSF) arrangement, making available about €16.4 million and €9.5 million of budgetary support, respectively, under each one.
- **The Assembly adopted a new law on renewable energy sources.** The law, adopted at the end of 2023, provides for a competitive bidding process to support renewable energy projects, replacing the previous system of feed-in tariffs. In April 2024, Kosovo concluded its first solar auction.

### Key priorities for 2025

- **Fiscal reforms to strengthen the revenue base should be high on the agenda.** The reforms should aim to close loopholes and reduce exemptions by amending tax legislation, and lower fiscal risks by improving the financial oversight and accountability of publicly owned enterprises.
- **Further strengthening of public investment management remains essential.** A recent update of the Public Investment Management Assessment highlighted some progress, such as improved budgeting practices for projects. However, significant challenges persist, particularly in the planning and implementation phases of the project cycle.
- **Application of the Digital Agenda 2030, in place since June 2023, should be accelerated.** The agenda provides a comprehensive framework for digital transformation, including 5G technologies and the digitalisation of businesses and public services. The latter is still in the early stages, with only 10 per cent of all public services offered online and most of them for information only.

### Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-5.3	10.7	4.3	3.3	4.0
Inflation (average)	0.2	3.4	11.7	5.2	2.5
Government balance/GDP	-7.8	-1.2	-0.7	-0.2	-1.1
Current account balance/GDP	-7.0	-8.7	-10.6	-7.6	-7.6
Net FDI/GDP [neg. sign = inflows]	-4.2	-4.0	-6.8	-6.5	-5.4
External debt/GDP	37.0	37.1	38.6	39.8	na
Gross reserves/GDP	17.0	16.2	15.4	15.0	na
Credit to private sector/GDP	51.6	50.8	52.8	55.4	na

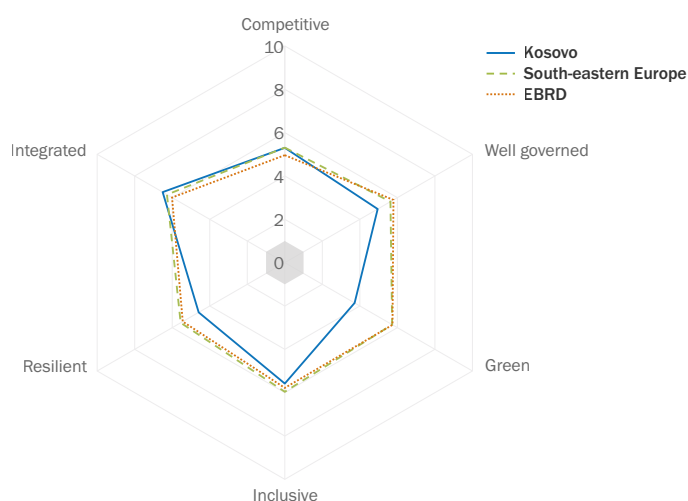
## Macroeconomic developments and policy response

**Economic growth is accelerating.** Real output expanded 3.3 per cent in 2023, driven by services, particularly tourism (probably related to the diaspora), and trade, while the contributions of industry and construction were smaller, but also positive. Real growth picked up to 4.9 per cent year on year in the first half of 2024, although growth in industry, construction and services was far lower (averaging around 2.7 per cent). There is a large discrepancy between data on sectoral value added and overall real gross domestic product (GDP) growth, indicating potential data-quality issues. On the expenditure side, real growth was driven by the recovery of private consumption, boosted by easing inflation, rising wages and one-off social transfers, as well as fixed investment. Net exports made a negative contribution due to the higher growth in imports of goods and services compared with exports. This was reflected in the current account deficit, which expanded by €150 million year on year, reaching 15 per cent of GDP in the first half of 2024. Foreign direct investment inflows continued in the first half of 2024, totalling around 7 per cent of GDP.

**The fiscal balance was better than expected in 2023, leaving room for expansionary policy, in line with declining inflation.** Inflation peaked at 14.2 per cent year on year in July 2022, mainly as a result of higher food and oil prices, and has fallen steadily since then, reaching 0.4 per cent in October 2024, the lowest level in the region. The general government deficit was 0.2 per cent of GDP in 2023, far below the projected 2.25 per cent, driven by higher revenues, which offset a substantial increase in public investment (more than 30 per cent compared with 2022). Despite this surge, capital spending remained significantly below target. The resulting fiscal space enabled the government to provide one-off financial support of €100 per person to all children and pensioners in December 2023, at a total cost of €68 million, or 0.75 per cent of GDP. The 2024 budget provides a moderate fiscal impulse, financed by a rise in the net domestic issuance of government debt and World Bank budgetary support (a US\$ 100 million [€91.3 million] Development Policy Operation). Government debt is low, at around 17 per cent of GDP at the end of 2023, far below the maximum 40 per cent allowed by the country's fiscal rules, providing room for further public investment.

**The economy is expected to continue growing, but the short-term outlook is subject to downside risks.** Real GDP growth is forecast to accelerate to 4 per cent in 2024 and 2025, supported by robust private consumption, as well as an increase in public infrastructure investment. Downside risks to the outlook include slower-than-planned implementation of public investment projects and prevailing geopolitical uncertainty, which may affect trade flows and the availability of international funding. Upside potential, in contrast, exists in the possibility of faster structural reform and additional financing provided under the EU's Growth Plan.

### Assessment of transition qualities (1-10)



## Structural reform developments

### **Under the EU's Growth Plan for the Western Balkans, Kosovo is slated to receive**

**€882.6 million in 2024-27.** Disbursements are conditional on the country fulfilling reforms set out in the reform agenda. Key areas of reform include: the rule of law, democracy and freedom of the media, judicial performance and integrity, the fight against corruption, the digitalisation of public services and cybersecurity, decarbonisation policy and renewables deployment, and overall private-sector development.

**Progress is being made under the ongoing disbursement programmes with the IMF.** A two-year precautionary SBA serves as a liquidity buffer in case downside risks materialise, while the RSF provides affordable financing to support Kosovo's climate change mitigation and adaptation efforts. The IMF's second review of the two programmes was completed successfully in May 2024, giving the government access to €16.4 million from the SBA and €9.5 million from the RSF.

**Kosovo's parliament, the Assembly, approved a law promoting the use of renewable energy sources.** This law, approved in April 2024, fully transposes EU directives and aims to modernise the energy sector by reducing carbon intensity and enhancing energy efficiency. Among other things, it provides a basic framework for renewable energy through competitive auctions, regulates the use of public-private partnerships to expand green energy capacity and sets market prices as the benchmark for regulatory purposes. In March 2024, Kosovo concluded its first solar auction. To encourage more private-sector investments in renewable energy through corporate power purchase agreements, secondary legislation would need to be adopted.

**Day-ahead market coupling between the Kosovan and Albanian electricity markets under the Albanian Power Exchange (ALPEX) has begun.** Operations started at the beginning of 2024. ALPEX, which became operational in Albania in March 2023, aims to establish a more competitive market in Albania and Kosovo and to provide electricity to both countries at more favourable prices.

**The Central Bank of Kosovo continues to advance the institutional reform agenda.** The draft Law on Banks, approved by the government in May 2023, aims to improve financial-sector stability, among other things, by raising basic capital requirements and setting the criteria for the establishment and licensing of banks, their organisation and sound management. The central bank is also working to strengthen its governance structures, with IMF support, in line with its newly adopted five-year plan. The plan also envisages the modernisation of the country's financial market infrastructure and competitiveness through infrastructural development and the harmonisation of the regulatory framework with that of the EU.

**A new Law on Administration of Tax Procedures has been adopted.** The new law, approved by the Assembly in December 2023, amended the legal requirement for the formalisation of economic activities or undeclared work. It also regulates information-gathering and -sharing with third parties, such as commercial banks and other countries. Other amendments include the requirement to reduce cash transactions to a maximum of €300 per transaction.

**The Tax Administration of Kosovo adopted an annual action plan to shrink the informal economy.** The action plan, passed in July 2023, aims to address the incorrect or non-declaration and non-payment of personal income-tax obligations and to identify high-income taxpayers who do not file or incorrectly file personal income-tax obligations.

### **An important milestone has been reached on the Energy Roadmap between Kosovo and Serbia.**

The signing of a commercial contract between distribution company KEDS and the newly established Elektrosever in December 2023 marks progress in putting electricity regulation and billing into operation. The conclusion of this contract has enabled billing to start in four municipalities in the north of Kosovo, reducing fiscal risks. ●