

KOSOVO

Table 1 **2023**

Population, million	1.7
GDP, current US\$ billion	10.4
GDP per capita, current US\$	6142.0
Upper middle-income poverty rate (\$6.85) ^a	21.4
Gini index ^a	29.0
Life expectancy at birth, years ^b	79.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Estimated number, 2017 PPPs.
b/ Most recent WDI value (2022).

Economic activity picked up during the first quarter of 2024, on the back of robust consumption growth as prices stabilized. Over the medium term, growth is projected to strengthen further, fueled by consumption, rising real incomes, credit expansion, and increased public wages and transfers. A strengthened European Union (EU) accession process, backed by the EU growth plan, has the potential to improve trade integration, attract more FDI, and bolster economic growth.

Key conditions and challenges

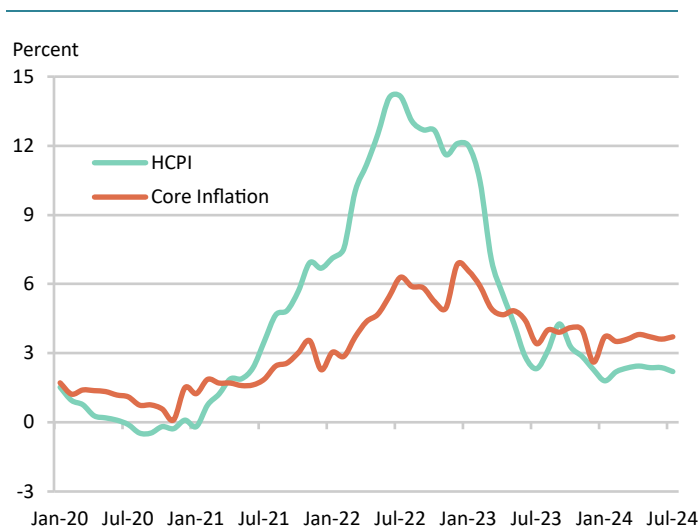
After a slowdown in 2023, Kosovo's growth accelerated in the first part of 2024, yet within the bounds of its structural constraints. The fiscal performance remained robust, with revenue growth continuing to be strong. However, the country is confronted with the need to undertake reforms that demand substantial fiscal resources. Key among these is the implementation of a new energy strategy, improvement of water security, and the acceleration of reforms aimed at bolstering human capital and connectivity. Kosovo's growth model relies mainly on consumption and construction investment, financed significantly by the country's diaspora. Recent growth trends in exports of ICT and other business services are encouraging. Foreign direct investments (FDI) in 2024 continue to increase but remain primarily focused on real estate. In 2023, labor force participation inched up to 40.7 percent. However, the working-age population has shrunk, partly due to ongoing outmigration. Visa liberalization with the EU has reduced costs and spurred an increase in international travel and higher service imports. The country lags peers in human capital development. To transition to a growth model that favors more and better-quality jobs, Kosovo should continue to maintain macroeconomic stability and accelerate reforms that target the closing of regulatory, human capital, and vital infrastructure

gaps. The positive trend in the national average for poverty reduction may obscure regional disparities. Poverty is more prevalent among people with lower education and children, so it is essential to emphasize human capital accumulation. A significant portion of Kosovo's workforce comprises the working poor, who face low wages and limited human capital. This situation is exacerbated by low labor force participation, especially among women, influenced by high reservation wages and attractive outside options, including migration.

Recent developments

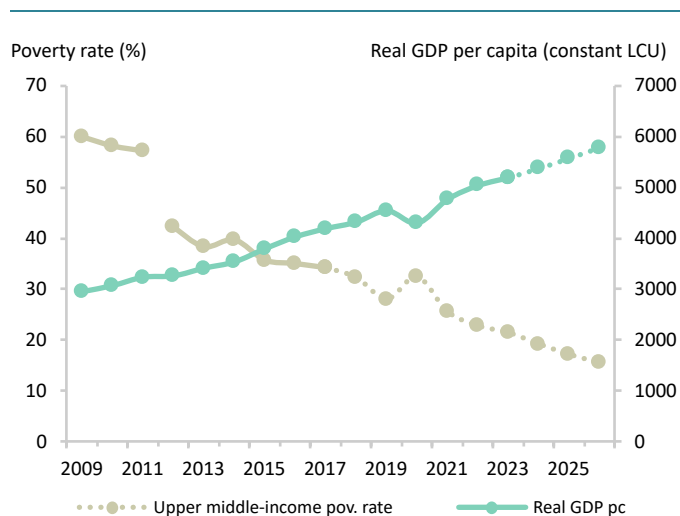
GDP growth accelerated in the first quarter of 2024, with provisional estimates indicating a 5.6 percent increase. Private consumption growth (9.7 percent y/y) provided the highest contribution. On the supply side, net taxes on products contributed most to the growth. Consumer inflation decelerated, averaging 2.1 percent between January and August 2024. Core inflation, however, remains elevated (3.6 percent by August). Labor market formalization continued in 2023, reflected in a 4.5 percent increase in formal employment. The current account deficit (CAD) for the first half of the year increased by ¼ from the same period of last year, driven by a higher deficit in the goods balance. Cumulative remittances' growth by July slowed down to 0.5 percent, compared to 11.3 percent during the same period of last year. By August 2024,

FIGURE 1 Kosovo / Consumer price inflation



Source: Kosovo Statistics Agency.

FIGURE 2 Kosovo / Actual and projected poverty rate and real GDP per capita



Source: World Bank. Notes: see Table 2.

the government ran a fiscal surplus and tax revenues grew by 11 percent, reflecting increased compliance and formalization gains. Meanwhile, expenditures increased by 14 percent, driven by increases in wage spending. In the first quarter of 2024, public and publicly guaranteed debt (PPG) fell to 15.8 percent of GDP, down from 17.5 percent in 2023. The financial sector remains robust. By July 2024, credit increased by 13.6 percent (y/y) and non-performing loans remained stable at 2 percent. Poverty reduction is projected to continue, with a decline of 2.2 percentage points in 2024 (from 21.4 percent in 2023) due to slightly higher growth. However, growth has been skewed towards urban centers, leading to increased inequality. Another important dimension is susceptibility to shocks and its welfare consequences. In 2022, price increases reached levels not seen in decades, and energy price shocks posed concerns for the most vulnerable groups. Similarly, geopolitical tensions and subsequent supply-chain disruptions have heightened worries about their effects on those at the lower end of the economic distribution.

Outlook

GDP growth is projected to accelerate to 3.8 percent in 2024 and gradually converge towards 4 percent over the medium term. Growth is likely to be spurred by consumption, underpinned by rising incomes, credit, and public spending. Public infrastructure and private real estate investments, along with post-2025 renewable energy investments, are also expected to contribute to growth. On the production side, services and construction will provide the highest contribution. Merchandise exports will remain subdued in 2024, gradually recovering by 2026. International price stabilization is expected to slow domestic consumer price inflation to 2 percent in 2024. However, upward pressure on wages could keep core inflation higher. Outmigration and increased travel spending abroad, associated with visa liberalization, represent a drag on growth. The CAD is expected to deteriorate in 2024 but improve starting in 2025. Real estate FDI is projected to

increase, but more greenfield and productive FDI is needed. Driven by higher current and capital expenditures, the fiscal deficit is expected to edge up to 1.1 percent of GDP in 2024 and remain in line with fiscal rules over the medium term. An increase in spending pressures associated with the upcoming electoral cycle represents a risk. Continued geopolitical uncertainty, including that associated with the domestic political context, also entails risk. A reinforced EU accession process could enhance growth prospects. With growth expected to accelerate, poverty is also projected to decrease. A tighter labor market is anticipated to boost wages. While outmigration has sparked concerns about human capital losses, migration can also incentivize the optimal use of domestic human capital. The declining population could be offset by increasing female labor force participation, constrained by lack of childcare services. Expanding childcare services would not only improve labor market opportunities for women but also enhance children's school readiness through better early childhood education (ECE).

TABLE 2 Kosovo / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	10.7	4.3	3.3	3.8	3.9	4.0
Private consumption	7.3	3.4	3.9	4.8	3.7	3.9
Government consumption	9.0	0.2	2.3	6.7	5.3	5.9
Gross fixed capital investment	13.0	-3.2	3.0	5.7	5.2	4.5
Exports, goods and services	76.8	18.9	6.3	6.0	4.1	4.8
Imports, goods and services	31.4	5.4	5.9	6.9	4.4	4.7
Real GDP growth, at constant factor prices	7.8	5.2	2.3	3.8	3.9	4.0
Agriculture	-2.5	4.5	3.0	3.0	2.5	1.8
Industry	7.8	4.0	1.6	1.8	4.0	4.2
Services	9.8	6.1	2.5	5.1	4.1	4.3
Inflation (consumer price index)	3.3	11.6	4.9	2.0	1.9	1.8
Current account balance (% of GDP)	-8.7	-10.3	-7.6	-8.1	-7.6	-7.5
Net foreign direct investment inflow (% of GDP)	4.0	6.3	6.8	7.1	7.0	6.9
Fiscal balance (% of GDP)	-1.3	-0.5	-0.3	-1.1	-1.7	-1.9
Revenues (% of GDP)	27.4	27.9	29.4	29.2	29.4	29.6
Debt (% of GDP)	21.1	19.7	17.2	17.2	18.1	18.9
Primary balance (% of GDP)	-0.9	-0.1	0.2	-0.7	-1.3	-1.4
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	25.5	22.8	21.4	19.2	17.1	15.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

a/ Calculations based on ECAPOV harmonization, using 2017-HBS. Actual data: 2017. Nowcast: 2018-2023. Forecasts are from 2024 to 2026.

b/ Projection using neutral distribution (2017) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.