

The World Bank in Kosovo Country Snapshot



An overview of the World Bank's work in Kosovo

April 2020

KOSOVO	2019
Population, million	1.9
GDP, current US\$ billion	7.9
GDP per capita, current US\$	4,409
Life Expectancy at birth, years	72.2

At a Glance

- Kosovo was projected to grow at about 4 percent in 2020. However, because of the COVID-19 outbreak, the economy is expected to contract by 4.5 percent as service exports and public and private investment plunge. If the outbreak is prolonged and containment measures are maintained through the third quarter of 2020, the recession may be longer and the revenue shortfall larger, limiting further policy responses.
- The Government has announced a stimulus package of 2.8 percent of GDP to support affected citizens, businesses, and professions. Adequate targeting of this package remains crucial to softening the economic and social impact of the crisis and moderating its effects on poverty.
- The World Bank is finalizing a program of activities to help Kosovo manage and mitigate the impact of the COVID-19 pandemic, which collectively is likely to exceed €120 million.

Country Context

Kosovo is a parliamentary republic. It declared independence on February 17, 2008 and is recognized as an independent country by more than 100 United Nations members and by 23 out of 28 members of the European Union (EU). Kosovo is a potential candidate for EU membership and signed a Stabilization Association Agreement with the EU in October 2015 that has been in force since April 2016. Early parliamentary elections were held in October 2019 but a new government has yet to be formed.

Although Kosovo's economic growth has outperformed its neighbors in the past decade and has been largely inclusive, it has not been sufficient to provide enough formal jobs, particularly for women and youth, or to significantly reduce the high rates of unemployment.

The growth model relies heavily on remittances to fuel domestic consumption but has recently shifted to more investment- and export-driven growth. To continue to grow, Kosovo needs to unleash productivity gains and create more quality jobs.

This will require addressing infrastructure bottlenecks and creating an environment more conducive to private sector development. Governance and the rule of law must be strengthened. Kosovo's young population needs to be equipped with the skills demanded by a modern economy, and the most vulnerable of its citizens protected by well-targeted and effective social programs.

Gender gaps in access to economic opportunities are another key challenge. Further actions are also needed to promote environmental sustainability, including the fulfillment of the EU's environmental acquis.

The World Bank and Kosovo

Since 1999, the World Bank has provided and/or managed roughly US\$470 million for Kosovo through approximately 40 operations, including trust funds.

All Bank-supported projects prior to Kosovo's joining the World Bank Group in 2009 were financed through grants from a variety of sources, principally the Bank's net income, the Trust Fund for Kosovo, the Post-Conflict Fund, and the International Development Association (IDA). Kosovo is currently still eligible for IDA credit financing (on blend terms) due to its post-conflict fragility.

As of October 2019, the active IDA lending portfolio amounted to roughly US\$204.3 million across nine projects in the areas of energy, education, agriculture, health, competitiveness, water, the information and communications technology sector, and cadaster reform.

The main strategic objective of the Bank's Country Partnership Framework (CPF) 2017–2021 is to assist Kosovo in moving on a path toward more sustainable, export-oriented, and inclusive growth in order to provide its citizens more opportunities for a better life. The CPF has three focus areas:

- (i) enhancing the conditions for accelerated private sector-led growth and employment,
- (ii) strengthening public service delivery and macro-fiscal management, and
- (iii) promoting reliable energy and stewardship of the environment.

Key Engagement

The World Bank is finalizing a program of activities to help Kosovo manage and mitigate the impact of the pandemic, including a new fast-track project to respond to urgent health sector priorities and protect household income; a restructuring of already approved projects to mobilize funds in

WORLD BANK PORTFOLIO

No. of Projects: 9

Lending: \$204.3 Million (IDA Loans)

support of small and medium enterprises (SMEs); and finally a development policy loan operation to support economic recovery and help finance the budget.

Collectively these activities are likely to exceed €120 million.

- Kosovo Digital Economy Project (\$25 Million)
- Agriculture and Rural Development Project (\$42.2 Million)
- Energy Efficiency and Renewable Energy Project (\$31.5 Million)
- Kosovo Health Project (\$17.3 Million)
- Education System Improvement Project (\$7.52 Million)
- Water Security and Canal Protection Project (\$24.5 Million)
- Competitiveness and Export Readiness Project (\$15.3 Million)
- Real Estate and Geospatial Infrastructure Project (\$16.5 Million)
- Financial Sector Strengthening Project (\$25 Million)

Recent Economic Developments

The Kosovar economy grew consistently above the Western Balkan average in the post-global financial crisis period, albeit from a low base. Kosovo's GDP per capita grew from US\$1,088 in 2000 to US\$4,409 in 2019. Despite this tripling of income per capita over the past 19 years, Kosovo remains the third-poorest country in Europe in terms of GDP per capita.

During 2009–19, real GDP grew on average by 3.6 percent. The non-tradable sectors dominate output and employment in Kosovo. Services represent the largest sector in the economy, with a share of value added at more than 50 percent of GDP in 2019. Agriculture accounted for 8.7 percent of GDP in 2019. Despite the improvement in the labor markets over the past decade, only three out of 10 people are employed among the working-age population.

Kosovo is a euroized economy, and its headline macro-fiscal policies continue to be stable. The fiscal rules in place are supported by a healthy banking sector. Kosovo ended 2019 with a deficit of 2.8 percent of GDP. The fiscal rule deficit of 0.3 percent of GDP was in line with the fiscal rule deficit ceiling of 2 percent, as the definition of the deficit excludes capital expenditures financed by international financial institutions (IFIs) and privatization proceeds. Poorly targeted social protection spending remains high and continues to limit fiscal space.

The stock of public debt is low but has been rapidly increasing in recent years. Public and publicly guaranteed debt is estimated to have been 17.6 percent of GDP at end-2019, the lowest in the Western Balkans, offering room to borrow on concessional terms for productive investments with a high rate of return. Roughly one-third of public debt is external, mainly from IFIs.

The financial sector in Kosovo, which is dominated by the banking sector, is healthy and sound. Banks

are well capitalized and profitable, with high capital adequacy ratios above the regulatory limits and a low and declining ratio of nonperforming loans—the lowest in the region at 2 percent at end-2019. Both credit and deposits continued to grow, reaching a year-on-year growth of 10 percent and 16 percent, respectively, in the banking sector.

Economic Outlook

The outlook is clouded by the COVID-19 outbreak globally and regionally. The pandemic and associated global and regional slowdown will also weigh down on Kosovo's 2020 economic performance.

The contraction of economic activity in 2020 will be driven by a decline in travel service exports and diaspora tourism as well as lower investment. The magnitude of the contraction will depend on the duration and containment of the epidemic both in Kosovo and globally. A rebound is expected in 2021, following the contraction in economic activity in 2020.

Mitigating the economic impact of the epidemic and its effects on poverty, while maintaining macro fiscal sustainability, is crucial to accelerating an economic recovery. In the medium term, advancing structural reforms will be necessary to reverse the negative economic impact of the outbreak and improve the country's resilience to future negative shocks.

The epidemic has proved the importance of well-functioning social protection mechanisms that can identify vulnerable groups and protect them from adverse economic shocks while preserving fiscal buffers. Sustaining high and inclusive growth also requires boosting Kosovo's productivity by improving the business climate through reducing unnecessary administrative burdens on firms, investing in human capital and infrastructure, and improving the rule of law to provide a level playing field for all firms and individuals.

Project Spotlight

World Bank Support to Mitigate the Economic Impact of COVID-19 in Kosovo



The Competitiveness and Export Readiness Project for Kosovo helps to support product certification for export markets, strengthen the capacity of export-oriented firms, and reduce the cost of business inspections.

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Considering that project activities were designed in 2017, their aim was to support the establishment of a favorable business environment and enhance competitiveness so businesses can grow and export. Following a recent request from the Government of Kosovo, the World Bank is working to restructure the project to support SMEs that have been hit by the crisis.

The **Financial Sector Strengthening Project** (US\$25.00 million) aims to provide funds to the Kosovo Credit Guarantee Fund, enabling it to issue partial credit guarantees to support access to finance to eligible micro, small, and medium enterprises, including specific segments and sectors that are strategically important to the sustainable growth of Kosovo's economy.

Given the economic impact of the COVID-19 pandemic on the economy, it is urgent to mobilize these funds to facilitate SMEs' access to commercial credit.

Two projects already in the portfolio, the **Competitiveness and Export Readiness Project for Kosovo** and the **Financial Sector Strengthening Project**, are expected to contribute to the post-COVID-19 economic recovery, with some restructuring and adaptation.

The objective of the **Competitiveness and Export Readiness Project for Kosovo** (US\$15.27 million) is to support



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