

# REPUBLIC OF KOSOVO: SYSTEMATIC COUNTRY DIAGNOSTIC (SCD) UPDATE

## CONCEPT NOTE SUMMARY

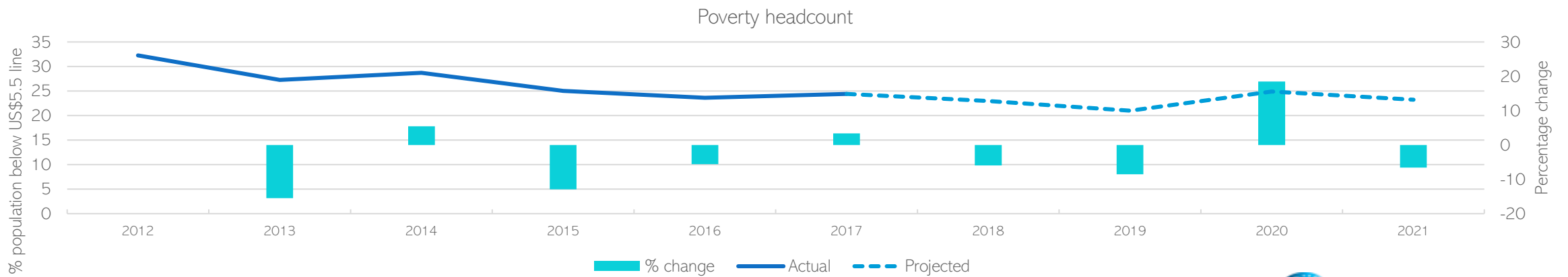
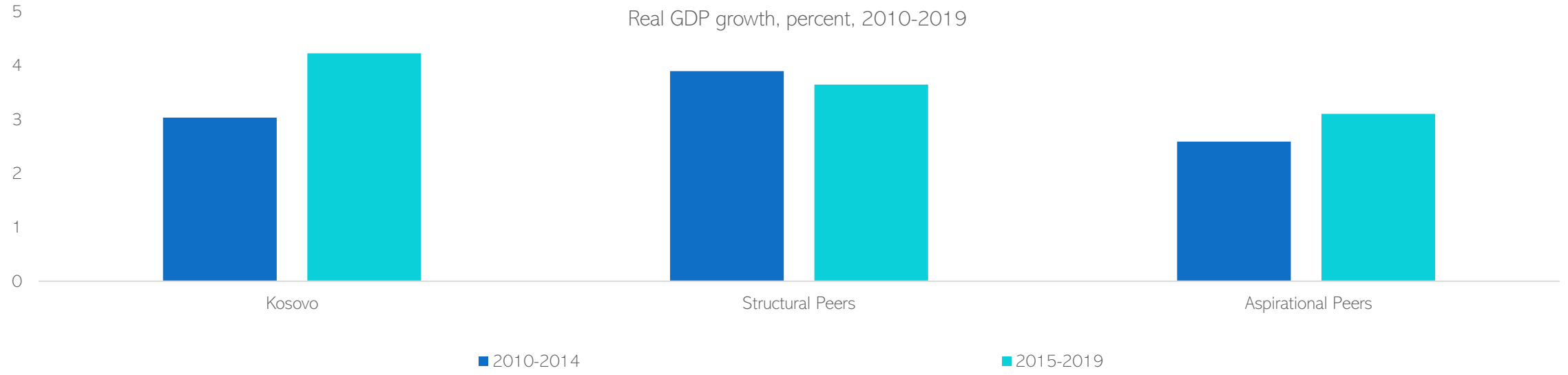


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**WORLD BANK GROUP**

Since independence, Kosovo has achieved substantial gains in economic growth and poverty reduction.



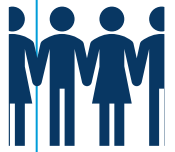
## Growth has accelerated over the last five years, exceeding the rates of structural and aspirational peers, but convergence with the EU remains a distant objective

- GDP per capita more than doubled between 2000 and 2020, and the annual GDP growth rate rose to an average of 4.2% during 2015-2019, but Kosovo's GDP per capita is still just one-fourth of the EU average.
- Remittances, diaspora tourism, consumer lending and social protection benefits fuel consumption, which is the main driver of growth. The role of investment is increasing, but productivity spillovers are limited.
- Poverty reduction was faster during the first half of the decade—before GDP growth accelerated. By 2019, one in five Kosovars still lived on less than US\$5.5 per day.
- Recent growth has been mostly jobless: employment rates improved marginally to 45% for men and 14% for women in 2019. However, formal employment grew by 10,000 per year during 2015-18, suggesting that informal workers are joining the formal labor market.
- Outmigration continues, and Kosovo relies heavily on its diaspora for remittances, service exports, and foreign direct investment. Between 2008 and 2018, half a million Kosovars emigrated to the EU alone, and remittance inflows remained broadly stable at about 11% of GDP.

## The COVID-19 pandemic interrupted Kosovo's progress, and the pace and quality of the recovery are uncertain

- Due to the impact of COVID-19, Kosovo's GDP contracted by an estimated 6.9% in 2020.
- By the fourth quarter of 2020, signs of a recovery had emerged, and the GDP growth rate is expected to rebound to 4 percent in 2021, driven by fiscal stimulus and recovering diaspora tourism
- However, the recovery's trajectory remains uncertain and will depend on the pace of the vaccine rollout
- Kosovo has reported 100,000+ cases of COVID-19 and 2,200+ deaths. Its vaccination process has been the slowest in the Western Balkans
- The education system was unequipped to provide continuous remote learning, resulting in educational losses that will have negative long-term implications for human capital
- The fiscal stimulus (4.4% of GDP) and plummeting revenues (-9%) increased the fiscal deficit to -7.6% of GDP in 2020. By 2021, the debt stock is expected to rise by 9 percentage points of GDP from its 2019 level

## Kosovo has valuable advantages that could sustain a robust and inclusive recovery



A young population in an aging Europe



Low tax rates and labor costs



Excellent broadband infrastructure



Extensive mineral resources



Diverse natural attractions and cultural heritage

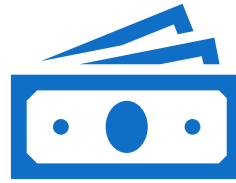


A robust, albeit unevenly implemented, legal framework



A large diaspora with skills, professional experience, connections, and capital

# To leverage its advantages, Kosovo must overcome its underlying development challenges



Deficient public financial management:  
low revenue mobilization and inefficient, untargeted spending

**Pathway 1: Maintaining macro-fiscal sustainability while investing in inclusive and green growth**

**Pathway 2: Boosting competitiveness; increasing the quality and quantity of foreign direct investment**

Stagnant private sector:  
low rates of firm growth and survival; limited employment creation



Economic and social vulnerability:  
Low labor-force participation and employment; gender and minority exclusion

**Pathway 3: Investing in human capital and accelerating social inclusion**

**Pathway 4: Making Kosovo green and resilient**

Environmental vulnerability:  
unsustainable resource use; high levels of pollution; disaster exposure



## Discussion Questions

**ARE THE FOUR PATHWAYS DESCRIBED IN THIS PRESENTATION ADEQUATE AND COMPREHENSIVE?**

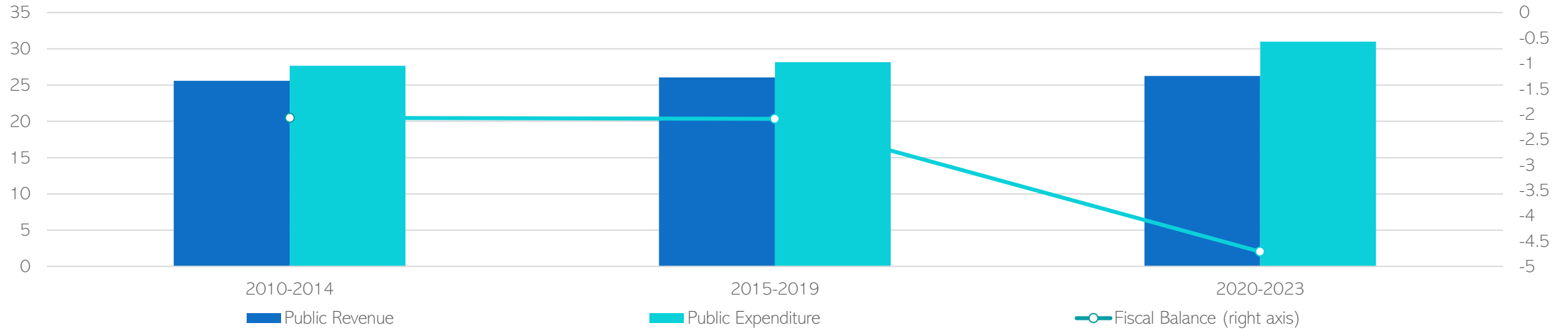
The SCD update will focus on reforms in four key areas: fiscal policy, the business environment, human capital, and a green recovery from the COVID-19 pandemic.

Are there any additional policy areas that the analysis should address?

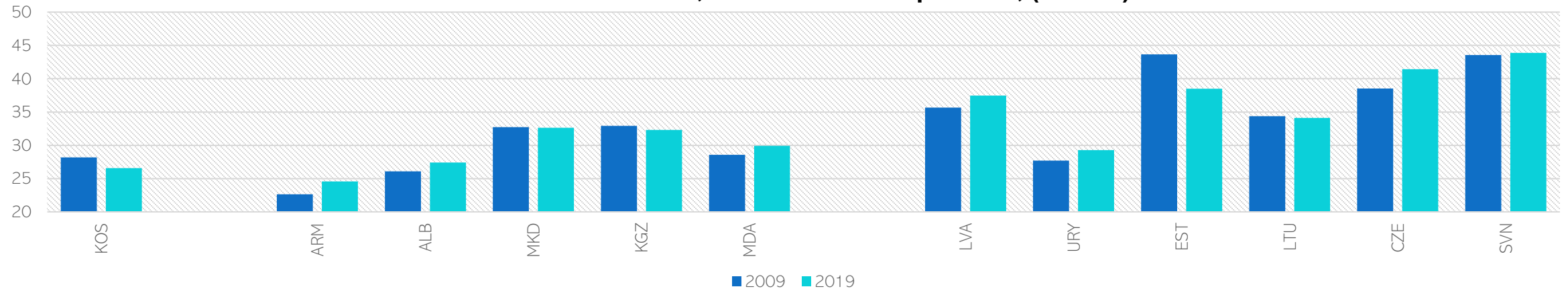


# Pathway 1: Maintaining macro-fiscal sustainability while investing in inclusive and green growth

## Key Fiscal Indicators, Kosovo (% GDP)

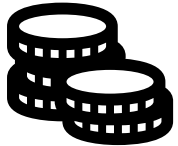


## Public Revenues, Kosovo and Comparators, (% GDP)





## Fiscal Policy



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How have fiscal management challenges and the allocation of public resources affected you and your community?

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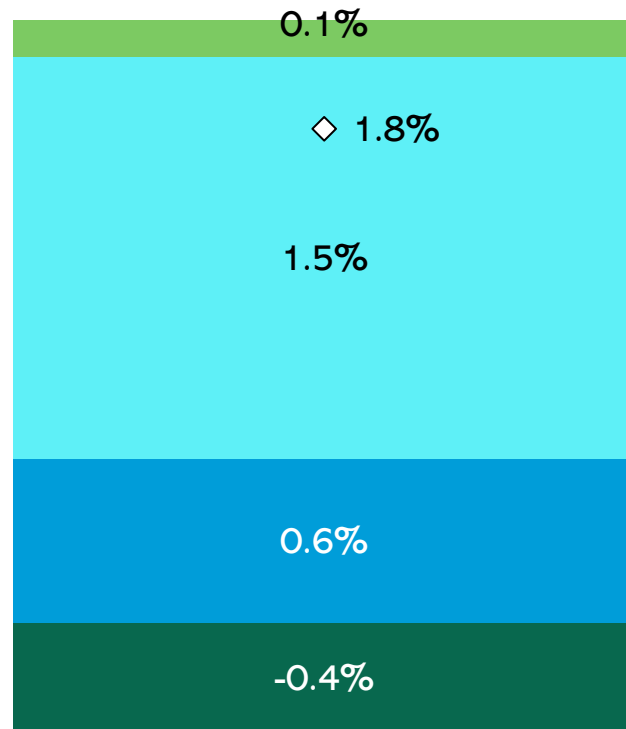
How would you prioritize the fiscal policy challenges identified in this presentation?

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Are there any additional revenue- or expenditure-side issues that should be included in the analysis?

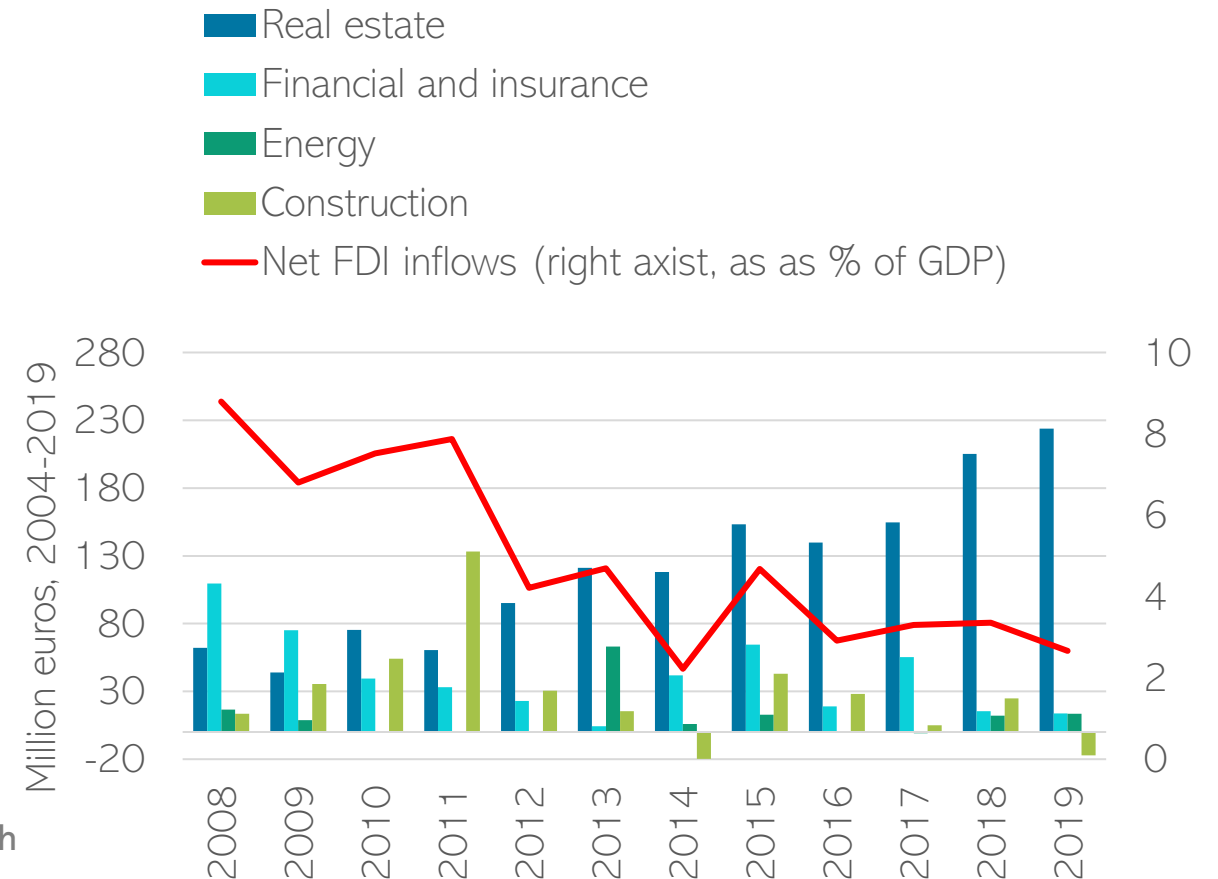
# Pathway 2: Boosting competitiveness; increasing the quality and quantity of foreign direct investment

TFPR Growth 2014–17 (% change)



■ Exit ■ Entry ■ Covariance ■ Within ◇ Aggregate productivity growth

Net FDI and Economic Growth by Sector , 2008-2019



## The Business Environment



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What issues related to the business environment or infrastructure have affected you and your community?

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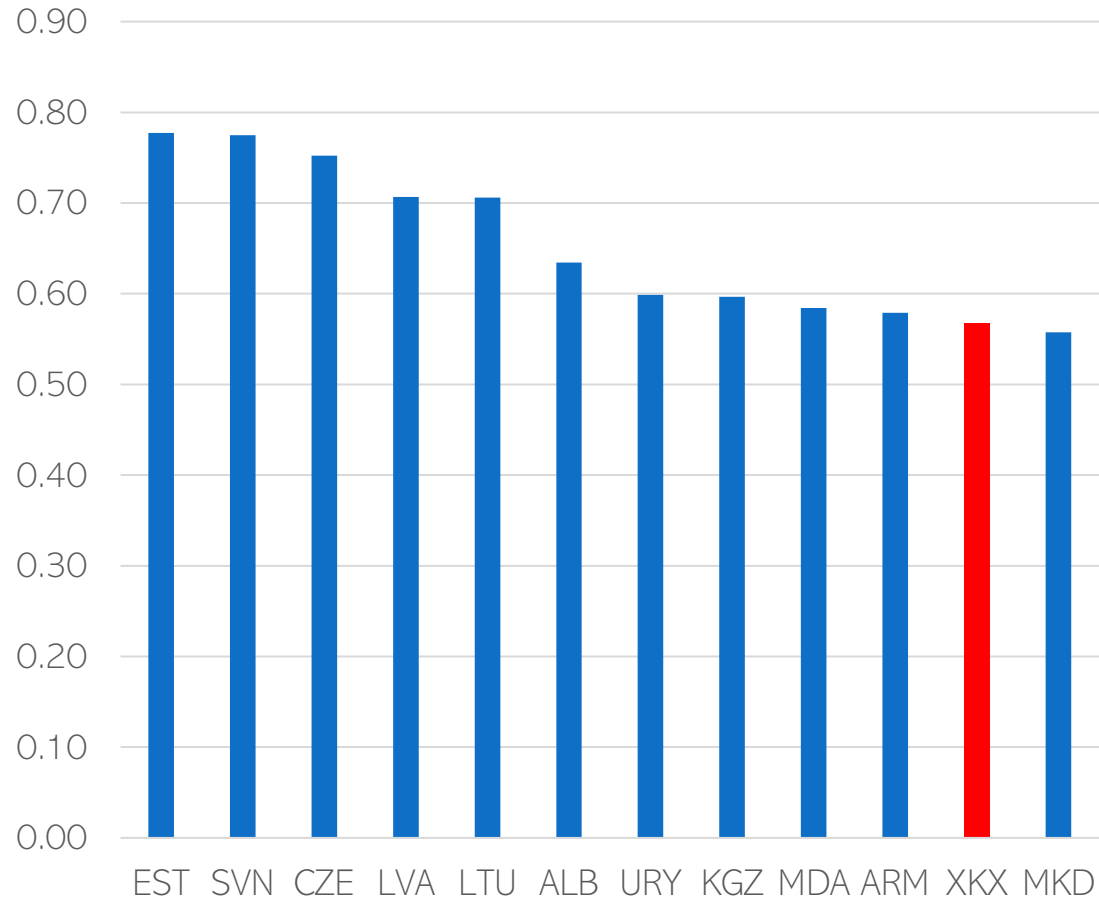
How would you prioritize the constraints on business and investment identified in this presentation?

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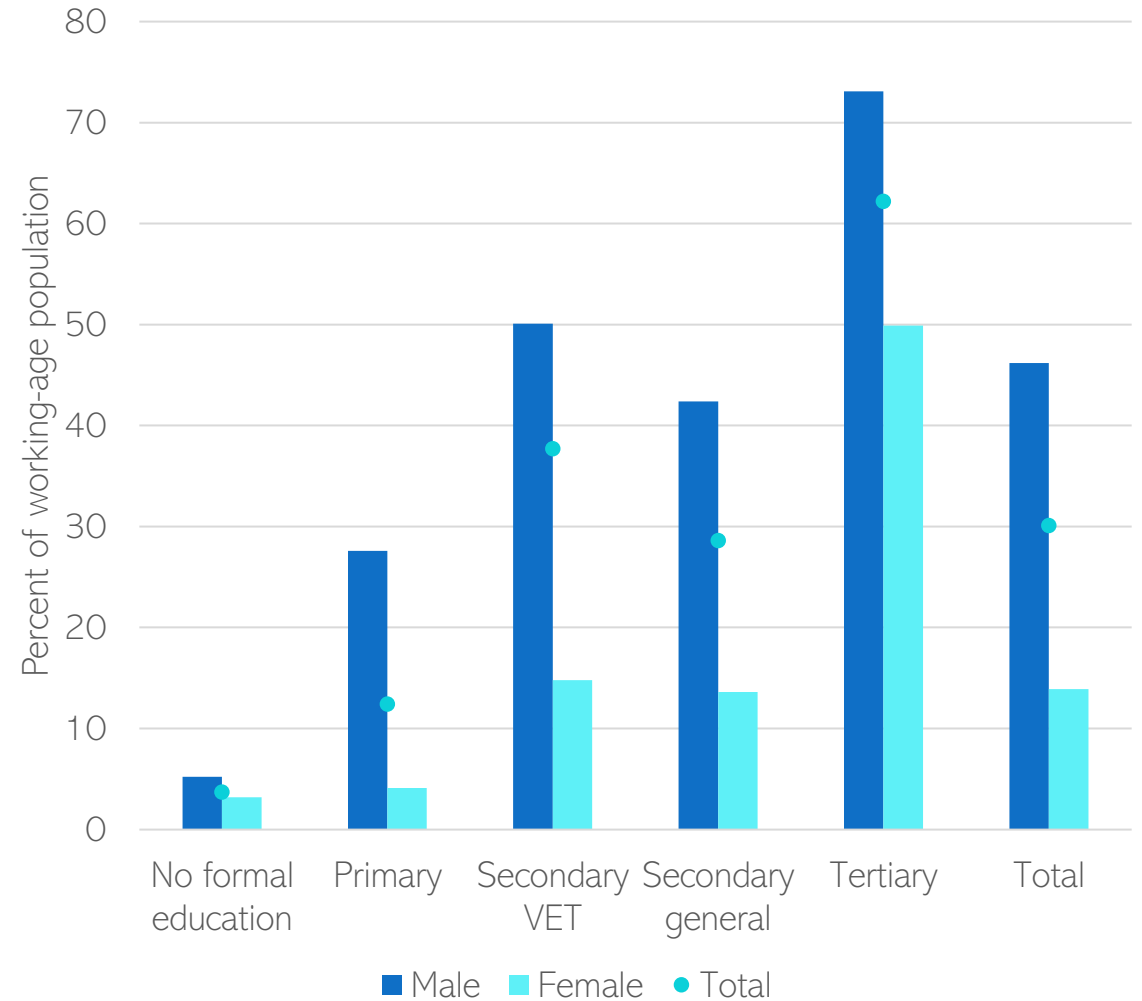
Are there any additional constraints that should be included in the analysis?

## Pathway 3: Investing in human capital and accelerating social inclusion

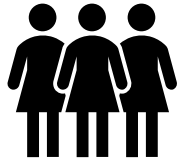
HUMAN CAPITAL INDEX 2020



Employment Rates by Education Level, 2019



## Human Capital



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How has Kosovo's limited stock of human capital affected you and your community?

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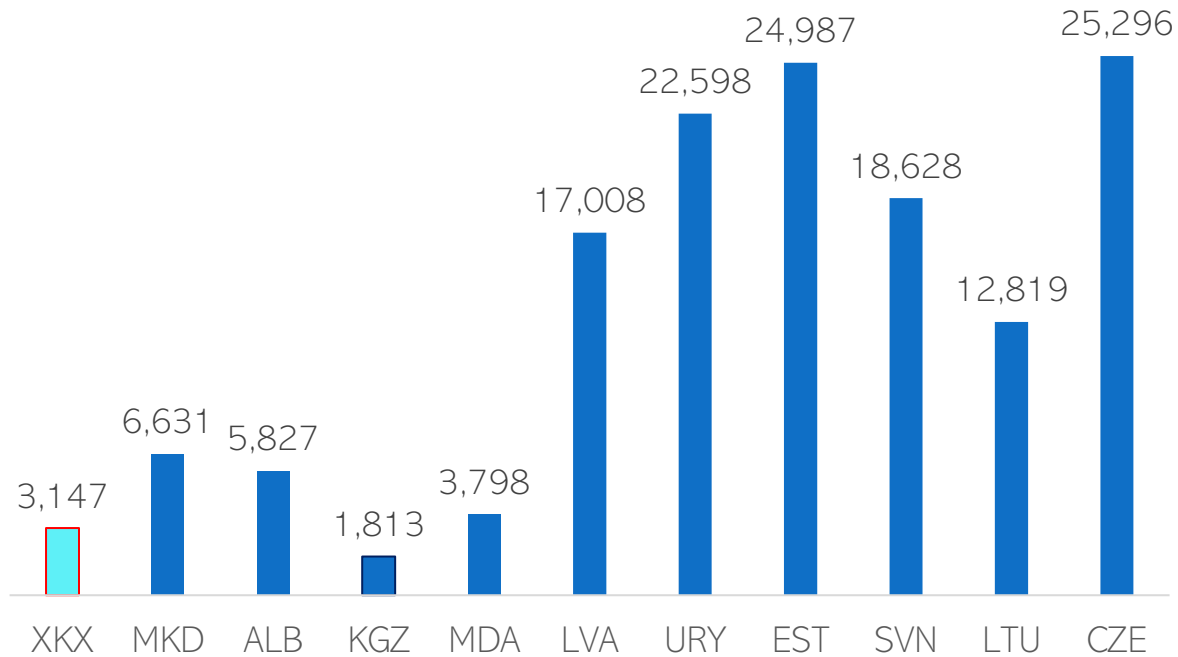
How would you prioritize the human capital development challenges identified in this presentation?

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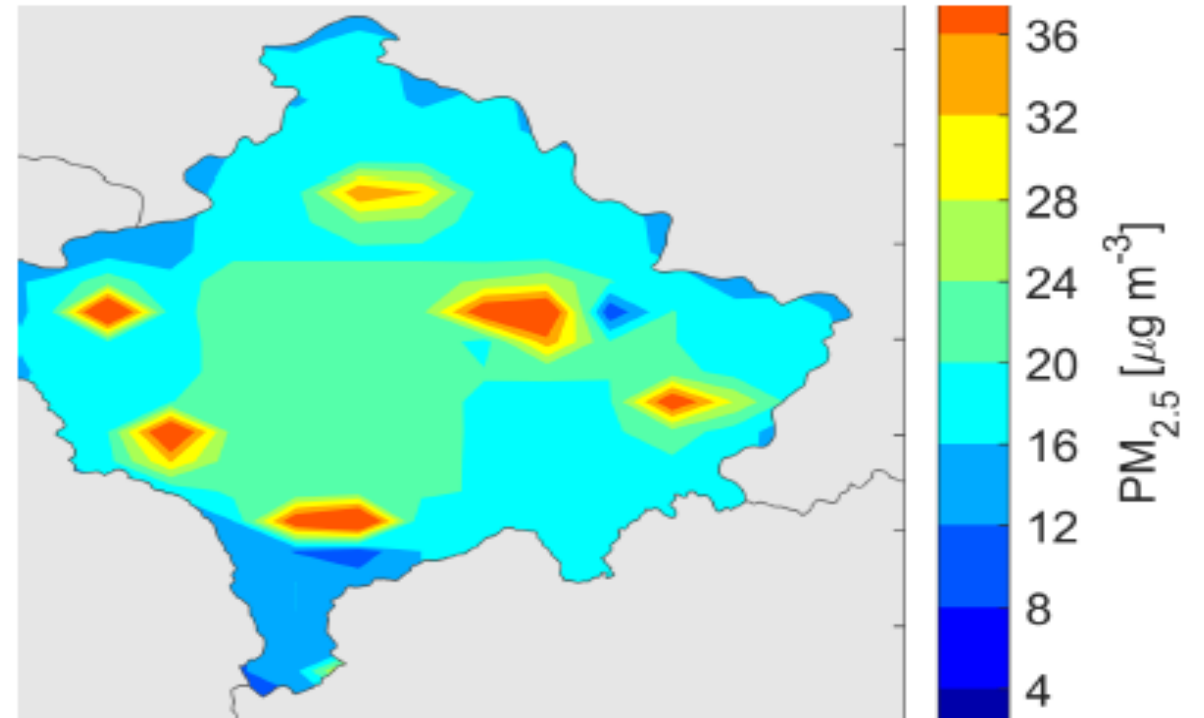
Are there any additional issues related to education, health, employment, and economic inclusion that should be covered in the analysis?

## Pathway 4: Making Kosovo green and resilient

Value Added per Worker in Agriculture, Forestry, and Fishing, 2018 (in constant 2010 US\$)



Air-Pollution Heatmap



## The Green Recovery



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How have Kosovo's environmental challenges affected you and your community?

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How would you prioritize the opportunities for a green and resilient post-pandemic recovery identified in this presentation?

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Are there any additional issues related to environmental sustainability and green growth that should be covered in the analysis?