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.

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

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

**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.

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

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

**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)

2009 2019
Fiscal Policy

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

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

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)**

- 0.1%
- 1.8%
- 1.5%
- 0.6%
- -0.4%

**Net FDI and Economic Growth by Sector, 2008-2019**

- Real estate
- Financial and insurance
- Energy
- Construction
- Net FDI inflows (right axis, as % of GDP)

**Million euros, 2004-2019**

-20  0  20  40  60  80  100  120  140  160  180  200  220  240  260  280


**Exit**  **Entry**  **Covariance**  **Within**  **Aggregate productivity growth**
What issues related to the business environment or infrastructure have affected you and your community?

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

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

Percent of working-age population

No formal education
Primary
Secondary VET
Secondary general
Tertiary
Total

Male
Female
Total

EST
SVN
CZE
LVA
LTU
ALB
URY
KGZ
MDA
ARM
XKK
MKD
How has Kosovo’s limited stock of human capital affected you and your community?

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

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
<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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<tbody>
<tr>
<td>How have Kosovo’s environmental challenges affected you and your community?</td>
<td>How would you prioritize the opportunities for a green and resilient post-pandemic recovery identified in this presentation?</td>
</tr>
<tr>
<td>Are there any additional issues related to environmental sustainability and green growth that should be covered in the analysis?</td>
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