

KOSOVO

Table 1 **2023**

Population, million	1.8
GDP, current US\$ billion	10.5
GDP per capita, current US\$	5926.7
Upper middle-income poverty rate (\$6.85) ^a	34.2
Gini index ^a	29.0
Life expectancy at birth, years ^b	76.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ Most recent WDI value (2021).

Amid a challenging external environment, GDP growth rose by an estimated 3.1 percent in 2023, on the back of lower international commodity prices, robust diaspora flows and strong credit growth. Over the medium term, growth is projected to stabilize at around 4 percent, supported by increasing real incomes and higher investment. However, higher commodity prices or tighter labor markets could lead to renewed inflation and lower private demand.

Key conditions and challenges

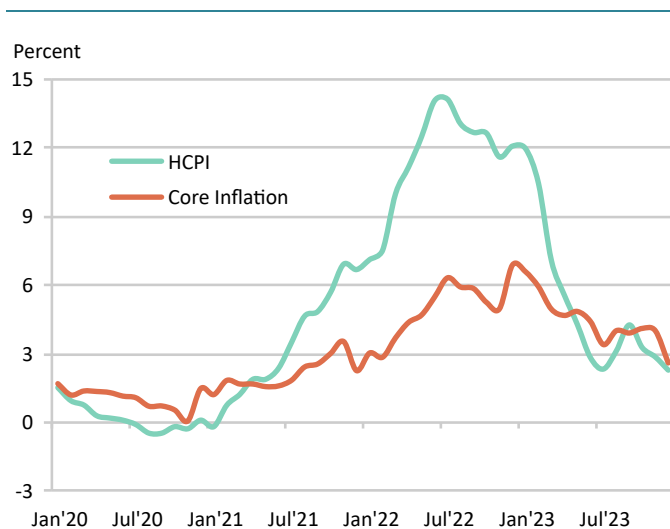
Kosovo is a unilaterally Euroized economy and a net importer of food and energy, reliant on outdated lignite power generation, which is insufficient to cover winter heating demand. Against this backdrop, stabilization in international food and energy prices positively impacted inflationary trends, the current account, and fiscal risks. Weaker growth in the EU and trading partners dampened demand for Kosovo's goods exports. In 2023, real GDP growth moderated to an estimated 3.1 percent, mainly on account of a lower contribution of exports. Despite recent gains in employment, only 39 percent of the working-age population was active in the labor market (22 percent for women) during 2022. Although the growth model has traditionally relied on consumption financed by remittances and diaspora spending, there has been a recent shift towards a more export-driven growth model. ICT services and manufactured goods exports have seen encouraging growth, in turn supporting job creation. More than half of foreign direct investments in 2023 remained focused on construction, but implementation of the new energy strategy could diversify investment. Kosovo's human capital outcomes fall behind peers. In addition, the working-age population shrank in 2022, likely due to outward migration. In the medium

term, growth is expected to reach around 4 percent, but risks remain elevated. Heightened geopolitical tensions may reignite inflation and scar investment confidence. A further increase in outward migration could negatively impact the supply and cost of labor. To accelerate poverty reduction, Kosovo needs to strengthen the drivers of job creation and enhance private sector productivity. To facilitate this transition and spur growth, it is critical to enhance the regulatory environment, reduce infrastructure gaps, and strengthen human capital.

Recent developments

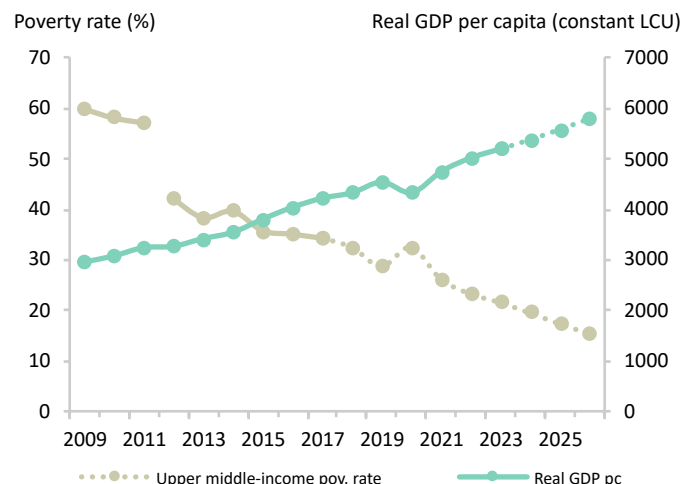
GDP growth reached 3 percent for the first three quarters of 2023. Compared to the same period of the previous year, growth was driven by resilient consumption (2.7 percent y/y), service exports (8.5 percent y/y), and investment activity (3.5 percent y/y); merchandise exports contracted by 6.7 percent y/y. On the supply-side, services continue to be a key contributor to growth. Agriculture recorded a positive performance (3.3 percent y/y), favored by decreasing input prices. In 2023, consumer inflation continued its downward path, averaging 5 percent. Food and beverage prices grew faster (8.6 percent y/y). In contrast, transport costs decreased (-1.9 percent y/y). Labor market formalization continued, as reflected in a 2.9 percent y/y increase in formal employment by November 2023. In 2023, the

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.

current account deficit narrowed, reaching 7.7 percent of GDP, from 10.3 percent in 2022, largely due to a reduction of import costs and strong service export performance. Remittance inflows remained strong in 2023, growing 10 percent y/y. Net FDI inflows increased by 12 percent y/y, on account of quadrupling reinvested earnings; equity and debt investments dropped by 8 percent y/y. By year-end, the fiscal deficit reached 0.2 percent of GDP, driven by continued positive revenue growth. Nominal tax revenues grew by 13 percent, reflecting compliance and formalization gains. Meanwhile, budget expenditures increased by 13.2 percent, driven by increases in capital expenditures (32.4 percent). In 2023, public and publicly guaranteed debt (PPG) fell to 17.2 percent of GDP, down from 20 percent in 2022, driven by an improvement in the budget balance. The financial sector remains robust. By December 2023, credit increased by 13 percent y/y, while capital buffers and asset quality remained adequate, with non-performing loans remaining stable at 2 percent. Poverty is estimated to have decreased

in 2023 to 21.7 percent, driven by growth and higher employment.

Outlook

GDP growth is expected to accelerate to 3.7 percent in 2024, supported by continued stabilization of international prices. Tailwinds from the post-pandemic recovery are fading while the drag from external market uncertainty remains high. GDP growth is expected to pick up towards Kosovo's potential of around 4 percent, driven by resilient diaspora inflows and a gradual pickup in investment. Continued stabilization of international prices helped by the unwinding of the energy shock, is expected to boost consumer and investor confidence. Together with resilient labor markets, these factors are expected to support private consumption. Higher public and private investments in energy generation associated with the implementation of the energy strategy, as well as energy reforms, are expected to boost investment. Exports are

expected to remain resilient on the back of strong diaspora-driven service exports, and a pickup in goods exports, driven by a recovery in foreign demand, continued diversification into non-commodity goods and regulatory reforms. Growth acceleration and further labor market outcome improvements (on top of a 5-percentage point increase in employment from 2020 to 2022) are expected to contribute to further poverty reduction. Nevertheless, an increase in commodity prices could lead to renewed inflation. The CAD is expected to narrow, driven by strong service exports and a continued decline in commodity prices, although at a slower than expected pace due to the drag in goods exports. Driven by increases in capital spending, the fiscal deficit is expected to widen to around 1 percent, remaining within the fiscal rule limit. Persisting uncertainties associated to both geopolitical tensions and domestic politics, and a further slowdown in the EU entail significant risks. Accelerating the economic convergence with the EU requires prioritizing reforms in the fiscal, governance, education, and energy sectors.

TABLE 2 Kosovo / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	10.7	4.3	3.1	3.7	3.9	3.9
Private consumption	7.3	3.4	2.9	3.1	3.8	4.0
Government consumption	9.0	0.2	6.7	1.4	3.8	3.2
Gross fixed capital investment	13.0	-3.2	3.6	7.5	4.4	4.1
Exports, goods and services	76.8	18.9	6.9	3.0	4.0	5.0
Imports, goods and services	31.4	5.4	5.7	3.8	3.9	4.4
Real GDP growth, at constant factor prices	7.8	5.2	3.1	3.7	3.9	3.9
Agriculture	-2.5	4.5	3.4	2.3	2.5	1.8
Industry	7.8	4.0	3.7	3.5	4.0	4.2
Services	9.7	6.1	2.6	4.0	4.1	4.1
Inflation (consumer price index)	3.4	11.6	5.0	2.9	2.5	2.2
Current account balance (% of GDP)	-8.7	-10.3	-7.7	-7.5	-6.6	-5.8
Net foreign direct investment inflow (% of GDP)	4.0	6.3	6.4	5.2	5.3	5.7
Fiscal balance (% of GDP)	-1.3	-0.5	-0.2	-1.1	-1.1	-1.1
Revenues (% of GDP)	27.4	27.9	29.3	28.5	28.4	28.6
Debt (% of GDP)	21.1	19.7	17.2	17.9	18.1	19.1
Primary balance (% of GDP)	-0.9	-0.1	0.2	-0.6	-0.7	-0.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	26.2	23.4	21.7	19.7	17.6	15.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

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.