KOSOVO COUNTRY SNAPSHOT


table

<table>
<thead>
<tr>
<th>KOSOVO</th>
<th>2016</th>
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<tbody>
<tr>
<td>Population, million</td>
<td>1.8</td>
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<tr>
<td>GDP, current US$ billion</td>
<td>6.6</td>
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<tr>
<td>GDP per capita, current US$</td>
<td>3,641</td>
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<td>Life Expectancy at birth, years (2014)</td>
<td>71</td>
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**Country Context**

Kosovo is a parliamentary republic. It declared independence on February 17, 2008 and is recognized as an independent country by 114 out of 193 United Nations members and by 23 out of 28 EU members. Kosovo is a potential candidate for EU membership and accelerated its integration process with the signing of the Stabilization Association Agreement in October 2015, which entered into force in April 2016.

The current governing coalition includes the two biggest political parties in the country—the Democratic Party of Kosovo (PDK) and the Democratic League of Kosovo (LDK)—and controls a majority of over two-thirds of seats in parliament, with regular parliamentary elections scheduled for late spring/early summer 2018.

Although Kosovo’s economic growth has outperformed its neighbors and been largely inclusive, it has not been sufficient to sufficiently reduce the high rates of unemployment; provide formal jobs, particularly for women and youth; or reverse the trend of large-scale outmigration. The current growth model relies heavily on remittances to fuel domestic consumption.

Kosovo’s current growth strategy needs to be focused on addressing the infrastructure bottleneck in energy, creating an environment more conducive to private sector development, equipping its young population with the right skills to make them attractive to employers, and building up governance and the rule of law to fully reap the benefits of EU integration, unleash productivity gains, and create quality jobs and inclusion.

At a Glance

• As a small land-locked economy, higher productivity at home and greater competitiveness abroad are necessary for Kosovo to unlock its growth potential and accelerate convergence to European Union (EU) living standards.

• With an average age of about 26, Kosovo’s population is the youngest in Europe, and a well-trained labor force could be a comparative advantage and a key resource for economic growth.

• The World Bank Group (WBG) is committed to continuing to help Kosovo maintain macroeconomic stability, improve infrastructure networks and the business environment, improve stewardship of its natural resources, and build human capital, with the aim of achieving its long-term goal of EU accession and building a prosperous country.
The World Bank and Kosovo

Since 1999, the World Bank has provided to Kosovo and/or managed roughly US$400 million through more than 30 operations, including trust funds. All Bank-supported projects prior to Kosovo’s joining the WBG 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 still currently eligible for IDA credit financing (on blend terms) due to its post-conflict fragility. As of March 2017, the active IDA lending portfolio amounted to US$124 million across six projects in the areas of energy, education, cadastre, agriculture, health, and water.

The WBG is finalizing a new Country Partnership Framework (CPF) to be presented for Board discussion in May 2017, in close consultation with the Kosovo authorities. The WBG has conducted a Systematic Country Diagnostic (SCD) for Kosovo, which underpins the upcoming CPF.

The main strategic objective of the new CPF is to help Kosovo move toward more sustainable, export-oriented, and inclusive growth in order to provide its citizens more opportunities for a better life. The CPF will have 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

World Bank–financed projects have been designed to strengthen the business climate and improve competitiveness.

Support to alleviate Kosovo’s energy constraints is one continuing element of the Bank’s broader strategy to boost economic development as well as improve competitiveness and environmental management. Bank support is aimed at addressing Kosovo’s energy crisis, which involves seeking to balance energy security and energy affordability with efforts to minimize socio-environmental externalities in order to mitigate adverse environmental, public health, and economic impacts on affected citizens.

The active portfolio includes an Energy Efficiency and Renewable Energy Project, which aims to reduce energy consumption and fossil fuel use in public buildings and to support Kosovo in enhancing the policy and regulatory environment for renewable energy and energy efficiency.

Two projects have been appraised and negotiated in 2017 and will be presented for approval before the end of June: the Competitiveness and Export Readiness Project and the Additional Financing for the Agriculture and Rural Development Project.

WORLD BANK PORTFOLIO

No. of Projects: 6
Lending: $124 Million (IDA Loans)
Recent Economic Developments

Albeit from a low base, the Kosovar economy has had a consistently higher growth rate in the post-global financial crisis period than the Western Balkan country average. Kosovo’s GDP per capita grew from US$1,088 in 2000 to US$3,641 in 2016. Despite this tripling of income per capita, however, Kosovo remains the third-poorest country in Europe.

During 2008–16, real GDP grew on average by 3.4%. Growth was driven primarily by household and government consumption, which contributed 2.8 percentage points to growth, buoyed by sizable remittances and foreign aid flows. Growth in 2016 is estimated at 3.6%—the top growth rate in the Western Balkans—due to consumption and an investment-driven recovery in domestic demand, which also fueled imports.

The non-tradable sectors dominate output and employment in Kosovo. Services represented the largest sector in the economy, with a share of value added at 54% of GDP during 2008–15. Industry is relatively small by regional standards at 16% of GDP, of which manufacturing is about 10%. Agriculture remains relatively large at 11% of GDP.

The current account deficit (CAD) widened from 10.4% of GDP in 2015 to 11.5% in 2016. The deterioration of the external balance was due to an increase in the trade deficit by 3.2% year-on-year (y-o-y), although it remained flat as a share of GDP. Driven by domestic demand, imports grew by 6.7% y-o-y. On the other hand, exports of goods fell by 4.6% y-o-y as a result of the lower prices of base metals.

Macroeconomic stability in Kosovo is based on full euroization, a fiscal policy that follows a fiscal rule, and on a healthy banking sector. The fiscal deficit declined further in 2016 to 1.3% of GDP, thanks to healthier revenues and the slow execution of the capital budget.

The stock of public debt is low, though it has been rapidly increasing in recent years. Public and publicly guaranteed debt is estimated at 14.6% of GDP for 2016, the lowest debt level in the Western Balkans, offering room to borrow on concessional terms for productive investments with a high rate of return. Half of the public debt is external, mainly from international financial institutions (IFIs).

The financial sector in Kosovo is healthy and sound. The banking sector dominates the financial sector and is well capitalized and profitable, with high capital adequacy ratios and low levels of (and declining) nonperforming loans (NPLs) at 4.9% in December 2016. Both credit and deposits continued to grow at an accelerated rate in recent years, reaching a y-o-y growth of 10.4% and 8.4%, respectively, in 2016.

Economic Outlook

Kosovo’s medium-term growth outlook has an upside potential but is subject to the establishment of a stable political environment and a better business climate that enables investments. Near-term growth is expected to continue to be driven by investment and consumption.

On the investment side, this includes investments in the energy sector to build new generation capacity and new donor-financed projects under the investment clause of the fiscal rule. A better absorption capacity of the public investment projects could lead to a slightly higher growth, especially in 2017, but to a lower growth in 2018 due to a higher base.
Project Spotlight

Agriculture and Rural Development

Since 2012, the World Bank has been supporting the development of the agriculture sector in Kosovo through the Agriculture and Rural Development Project.

The project’s objective is to improve the productivity of and access to markets by project beneficiaries in the horticulture and livestock subsectors of Kosovo and to strengthen the institutional capacity of the Ministry of Agriculture, Forestry and Rural Development. The project supports a grant program that finances investments in modern agricultural technologies for improved production and processing by semi-commercial and commercial farmers and agro-processors of Kosovo.

The project is a US$20.15 million IDA credit. It has also received approximately US$11.0 million from the Government of Denmark to scale up the reach and impact of the grant program. The project has provided grants to approximately 700 beneficiaries for a variety of investments related to greenhouse, barn, and cow shed construction; milk collection and storage facilities; new orchard development; collection, sorting, and packaging equipment for fruits and vegetables; and farm machinery.

Smallholder farmers are being increasingly integrated into the remunerative livestock and horticulture value chains. The grant program is also providing economic opportunities to women and youth with built-in mechanisms to encourage their participation. Overall, the program is contributing to increasing exports, promoting import substitution, creating jobs, and improving rural incomes.

The World Bank is proposing to scale up and expand the reach of the project through an additional IDA credit in the amount of US$22.0 million. Over a four-year period, the additional credit will support the implementation of ongoing project activities as well as the rehabilitation of the Radoniqi and Dukagjini irrigation scheme located in an area well known for its horticultural production.

The “Country Snapshot” is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at http://www.worldbank.org/kosovo