

# The World Bank in Kosovo Country Snapshot



An overview of the World Bank's work in Kosovo

April 2018

| KOSOVO                          | 2017  |
|---------------------------------|-------|
| Population, million             | 1.8   |
| GDP, current US\$ billion       | 7.0   |
| GDP per capita, current US\$    | 3,902 |
| Life Expectancy at birth, years | 71    |

## At a Glance

- Growth in 2017 is estimated at 4.4%, the top growth rate in the Western Balkans, due to investment and the export-driven recovery in external demand, which also improved external indicators.
- As a small land-locked economy, higher productivity and greater competitiveness would help Kosovo to fully exploit its growth potential and accelerate convergence to European Union (EU) living standards.
- Kosovo's population is the youngest in Europe, with an average age of 26 years. A well-trained labor force could be a comparative advantage and a key resource for economic growth.
- The World Bank Group is committed to supporting Kosovo in a range of areas, including maintaining macroeconomic stability, improving infrastructure networks and the business environment, improving the stewardship of its natural resources, and building human capital, all with the long-term goal of EU accession and economic prosperity.

## 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 European Union (EU) members. Kosovo is a potential candidate for EU membership, a process that was accelerated with the signing of the Stabilization Association Agreement in October 2015, in force since April 2016. The current Government was voted in on September 9, 2017.

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

Kosovo's current growth and poverty reduction strategy needs to address the infrastructure bottlenecks, particularly in energy; create an environment more conducive to private sector development; equip its young population with the skills demanded by employers; provide financial protection to citizens to achieve better health outcomes; and build up governance and rule of law.

Gender gaps in accessing economic opportunities remain one of the main challenges for Kosovo. 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 Group (WBG) has provided to Kosovo and/or managed roughly US\$440 million through more than 30 operations, including trust funds.

All Bank-supported projects prior to Kosovo 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 currently still eligible for IDA credit financing (on blend terms) due to its post-conflict fragility.

As of April 2018, the active IDA lending portfolio amounted to roughly US\$161 million across seven projects in the areas of energy, education, cadastre, agriculture, health, competitiveness, and water.

The main strategic objective of the WBG Country Partnership Framework (CPF) for the period 2017–21 is to assist Kosovo in moving toward more sustainable, export-oriented, and inclusive growth, in order to provide its citizens with more opportunities for a better life.

The CPF has three focus areas: (i) enhancing 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.

## WORLD BANK PORTFOLIO

No. of Projects: 7

Lending: \$161 Million (IDA Loans)

World Bank support is aimed at addressing Kosovo's energy crisis, which involves balancing 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.

### Active Projects (US\$, Million)

- Real Estate Cadastre and Registration Project (12.25)
- Agriculture and Rural Development Project (42.15)
- Energy Efficiency and Renewable Energy Project (31.0)
- Kosovo Health Project (25.5)
- Education System Improvement Project (11.0)
- Water Security and Canal Protection Project (24.53)
- Competitiveness and Export Readiness Project (15.27)

## Recent Economic Developments

The Kosovar economy has consistently grown above the Western Balkans average in the post-global financial crisis period, albeit from a low base. GDP per capita grew from US\$1,088 in 2000 to US\$3,902 in 2017.

Despite this tripling of income per capita over the past 17 years, however, Kosovo remains the third-poorest country in Europe.

During 2009–17, real GDP grew on average by 3.5%. Growth was driven primarily by household and government consumption, which contributed 2.8 percentage points to growth on average, buoyed by sizable remittances and foreign aid flows.

Growth in 2017 is estimated at 4.4%, the top growth rate in the Western Balkans, due to investment and the export-driven recovery in external demand, which also improved external indicators.

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 2009–17. Industry is small by regional standards, at 16.8% of GDP, of which manufacturing is about 10% of GDP. The agriculture sector remains relatively large at 11% of GDP.

The current account deficit (CAD) improved from 8.2% of GDP in 2016 to 5.1% in 2017 due to a recovery in exports of goods and services. Exports of goods increased by 23% on a yearly basis, though from a low base, thanks to higher base metal prices and the broad-based recovery in volumes of goods exports.

Service exports grew by 17% in 2017 compared to 2016, driven by the travel expenditures of the diaspora. Imports grew by 9.7% year-on-year (y-o-y), driven by domestic demand.

Kosovo is a euroized economy, and its headline macro-fiscal policies continue to be stable. The fiscal rules are supported by a healthy banking sector. The fiscal deficit was 1.4% in 2017. The stock of public debt is low, but has been rapidly increasing in recent years.

Public and publicly guaranteed debt are estimated at 15.8% of GDP in 2017, the lowest debt level in the Western Balkans, offering the country 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.

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 and low and declining ratios of nonperforming loans (3.1% in December 2017).

Both credit and deposits have continued to grow at an accelerated rate in the past several years, reaching a y-o-y growth of 11.5% and 6.3%, respectively, in 2017.

## Economic Outlook

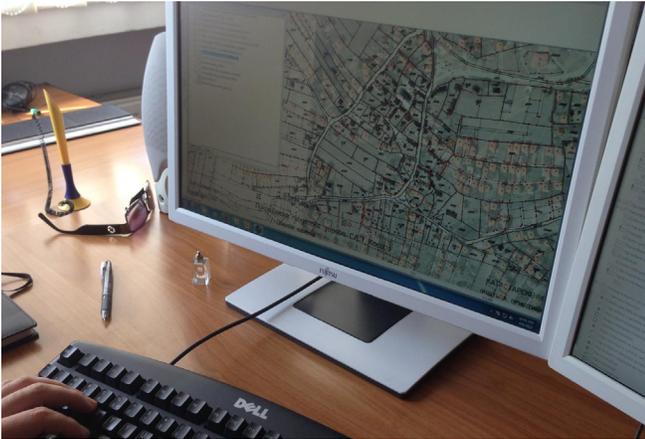
Kosovo's medium-term growth outlook is positive and on an upward trend, but needs a stable political environment and better business climate that enable productive investments.

Near-term growth is expected to continue to be driven by investment and consumption, including investment 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 public investment projects could lead to a slightly higher growth, especially in the 2018–20 period.

## Project Spotlight

### Real Estate and Cadastre Project (RECAP)



Property transactions are often unregistered due to weak services. That is now changing thanks to the Kosovo Real Estate Cadastre and Registration Project.

Tens of thousands of properties were left damaged, destroyed, or abandoned by the 1999 conflict in Kosovo, and property transactions in the country were often unregistered due to weak services.

This is changing, however, through Kosovo's Real Estate Cadastre and Registration Project (RECAP).

RECAP aims to improve tenure security and develop land and property markets in the country. Today, ownership is being registered and rights to property guaranteed. In addition to the legacy of the conflict, over the past two decades, many cities in Kosovo have also experienced rapid, unplanned urban expansion that has included informal settlements and illegal construction.

The Government has introduced a program for landowners to legalize their property rights, and municipalities are working to integrate the new developments into existing plans.

RECAP, financed with US\$12 million from the World Bank, has been assisting the Government in updating cadastral information and building a geospatial data infrastructure. Under the Bank-financed project, municipal cadastre offices around Kosovo have been renovated and equipped to provide more efficient services. The time needed to register a transaction has dropped from 30 days to 10 days, increasing market efficiency and improving Kosovo's rank for registering property in the Doing Business report, from 73 (in 2012) to 34 (in 2018).

A new IT system has been launched in almost all municipal cadastral offices and a national Geoportal established, with a growing number of users. As part of the project, cadastre staff have received training in management, customer service, and technical skills. The project also has an active gender component to raise awareness of the importance of women's property rights.

RECAP is scheduled to close in June 2018. A new project is under preparation that will build on the progress of RECAP and make important investments in IT and geospatial infrastructure, focusing on improving service delivery to citizens and businesses in Kosovo.

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>



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#### More about the World Bank in Kosovo

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