At a Glance

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

• 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 is committed to helping 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 goals 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 EU members.

Kosovo is a potential candidate for EU membership, a process that was accelerated with the signing of the Stabilization Association Agreement with the EU in October 2015, in force since April 2016. The current Government, a coalition comprised of five larger political parties and several smaller ones, was voted into office on September 9, 2017. It controls a slim majority, only 61 out of 120 parliamentary seats.

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 current growth model relies heavily on remittances to fuel domestic consumption.

Kosovo’s growth strategy needs to be focused on addressing the infrastructure bottlenecks in energy, creating an environment more conducive to private sector development, equipping its young population with the skills demanded by 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 that foster inclusion.
The World Bank and Kosovo

Since 1999, the World Bank 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’s joining the World Bank Group (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 September 2017, the active IDA lending portfolio amounted to around 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) 2017–21 is to assist Kosovo in moving on a path toward more sustainable, export-oriented, and inclusive growth in order to provide its citizens more opportunities for a better life.

The CPF has 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.

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)

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.
**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 this is conditioned on the country’s ability to establish a stable political environment and a better business climate that together 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 the public investment projects could lead to slightly higher growth, especially in 2017, but to lower growth in 2018 due to a higher base.
Project Spotlight

Real Estate and Cadastre Project

Property transactions in the country were often unregistered due to weak services. That is changing through the Kosovo Real Estate Cadastre and Registration Project, aimed at improving tenure security and developing land and property markets in the country.

Tens of thousands of properties were left damaged, destroyed, or abandoned by the conflict in Kosovo in 1999, 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), which is aimed at improving tenure security and developing land and property markets in the country. Now, ownership is being registered and rights to property are being guaranteed.

In addition to the legacy of the conflict, in 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 recently 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, cadastre offices around Kosovo have been renovated and equipped to provide more efficient services. Time to register a transaction has dropped from 30 days before RECAP to 10 days today, increasing market efficiency and improving Kosovo’s rank for registering property in the Doing Business report from 73 (2012) to 33 (2017).

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 has 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.

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