The World Bank in Kosovo

Country Snapshot

An overview of the World Bank's work in Kosovo

October 2019

KOSOVO	2018
Population, million	1.8
GDP, current US$ billion	7.9
GDP per capita, current US$	4,312
Life Expectancy at birth, years	76.7

At a Glance

- Growth is expected to edge up to 4 percent in 2019, from 3.8 percent in 2018, making Kosovo one of the fastest growing economies in the Western Balkans, driven by consumption and service exports.

- However, as a small, land-locked country, higher productivity and greater competitiveness would help Kosovo fully exploit its growth potential and accelerate its convergence to European Union (EU) living standards.

- With an average age of about 30.2 years, Kosovo's population is the youngest in Europe. 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 or areas, including maintaining macroeconomic stability, improving infrastructure networks and the business environment, improving stewardship of its natural resources, and building human capital, all with the long-term goals of EU accession and a prosperous economy.

Country Context

Kosovo is a parliamentary republic. It declared independence on February 17, 2008 and is recognized as an independent country by more than 100 United Nations members and by 23 out of 28 members of the European Union (EU). Kosovo is a potential candidate for EU membership and signed a Stabilization Association Agreement with the EU in October 2015 that has been in force since April 2016. Early parliamentary elections were held on October 6, 2019, and a new government has yet to be formed.

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

To continue to grow and fully reap the benefits of EU integration, Kosovo needs to unleash productivity gains and create more quality jobs. This will require addressing infrastructure bottlenecks and creating an environment more conducive to private sector development. Governance and the rule of law must be strengthened.

Kosovo's young population needs to be equipped with the skills demanded by a modern economy, and the most vulnerable citizens protected by well-targeted and effective social programs. Gender gaps in accessing economic opportunities remain one of the country's main challenges. 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 and/or managed roughly US$460 million for Kosovo through around 40 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 currently still eligible for IDA credit financing (on blend terms) due to its post-conflict fragility. As of October 2019, the active IDA lending portfolio amounted to roughly US$204.3 million across nine projects in the areas of energy, education, agriculture, health, competitiveness, water, the information and communications technology sector, and cadaster reform.

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.

WORLD BANK PORTFOLIO

No. of Projects: 9

Lending: $204.3 Million (IDA Loans)

Key Engagement

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

- Kosovo Digital Economy Project ($25 million)
- Agriculture and Rural Development Project ($42.2 million)
- Energy Efficiency and Renewable Energy Project ($31.0 million)
- Kosovo Health Project ($17.3 million)
- Education System Improvement Project ($7.52 million)
- Water Security and Canal Protection Project ($24.5 million)
- Competitiveness and Export Readiness Project ($15.3 million)
- Real Estate and Geospatial Infrastructure Project ($16.5 million)
- Financial Sector Strengthening Project ($25 million)

The active portfolio also 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

The Kosovar economy grew consistently above the Western Balkan 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$4,312 in 2018. Despite this tripling of income per capita over the past 18 years, Kosovo remains the third-poorest country in Europe in terms of GDP per capita.

During 2009–18 real GDP grew on average by 3.5 percent. This strong growth performance is expected to continue in 2019 with a projected growth rate of 4 percent, driven by consumption and service exports and supported by investment.

The non-tradable sectors dominate output and employment in Kosovo. Services represent the largest sector in the economy, with a share of value added at more than 50 percent of GDP. Industry is small by regional standards at 17.5 percent of GDP, of which manufacturing is 11 percent. The agriculture sector remained relatively large at 8.3 percent of GDP in 2018.

The current account deficit (CAD) is projected to be 8.7 percent of GDP in 2019, despite the relatively good performance of exports, as imports are expected to rise from a higher base.

Kosovo is a euroized economy, and its headline macro-fiscal policies continue to be stable. The fiscal rules in place are supported by a healthy banking sector. The overall deficit is expected to be 2.9 percent of GDP at end-2019 but will be in line with the fiscal rule deficit ceiling of 2 percent, as the definition of the deficit excludes capital expenditures financed by international financial institutions (IFIs) and privatization proceeds.

Poorly targeted social protection spending remains high and continues to limit the fiscal space.

The stock of public debt is low but has been rapidly increasing in recent years. Public and publicly guaranteed debt is estimated at 17.7 percent of GDP for end-2019, the lowest in the Western Balkans, offering the country room to borrow on concessional terms for productive investments with a high rate of return. One-third of public debt is external, mainly from IFIs.

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 a low and declining ratio of nonperforming loans that was at 2.5 percent in February 2019.

Both credit and deposits continued to grow, reaching a year-on-year growth of 1 percent and 11.9 percent, respectively, at the end of August 2019.

Economic Outlook

Kosovo's medium-term growth outlook is positive and on an upward trend. This is subject to the country's ability to establish some political stability, however, and to maintain fiscal sustainability by limiting growth in current spending and creating a better business climate that enables productive investments. Near-term growth is expected to continue to be driven by investment and consumption.

This includes investment in public infrastructure, financed by privatization proceeds, including in new power generation capacity and in new donor-financed projects under the investment clause of the fiscal rule. A better absorption capacity of public investment projects could lead to slightly higher growth, especially in 2019–21.

Project Spotlight

Kosovo Energy Efficiency and Renewable Energy Project

The Orthopedics Clinic of the main hospital in Pristina has been upgraded with energy-efficiency and renewable-energy investments.

The World Bank is supporting Kosovo with an IDA credit of US$31 million to reduce energy consumption and fossil fuel use in public buildings through energy-efficiency and renewable-energy investments and to enhance the policy and regulatory environment for renewable energy and energy efficiency.

As part of the **Kosovo Energy Efficiency and Renewable Energy Project**, 32 public buildings, mainly health clinics and university buildings, have been upgraded for energy efficiency thus far. Works have started on another 25 buildings, and by the end of the current project, the aim is to have over 80 public buildings improved for energy efficiency.

These renovations have benefited over 7,500 employees and users and led to significant improvements in the comfort level of building users. Based on energy audit reports, energy consumption has been reduced by 49 percent, or 13,239 MWh/year, compared to the baseline.

The renovations will also reduce CO2 emissions by 4,700 tons annually. In addition to upgrades, the project has made it possible for the regional hospital in Gjakova, in western Kosovo, to renovate an entire building that will now be used for surgery.

Investing in energy efficiency in public buildings can save the public budget some €18 million every year. Energy efficiency also helps Kosovo enhance energy security by reducing seasonal energy imports, create local jobs, reduce local and global pollution, and meet its commitments under the EU's Energy Community Treaty.

The World Bank has also been working with the Government of Kosovo and the European Commission to establish and provide funding for the new Energy Efficiency Revolving Fund to support energy-efficiency improvements in municipal public buildings.

Going forward, the Fund will provide financing for retrofitting municipal public buildings and use energy cost savings to repay the investment costs, thereby creating a more sustainable financing mechanism. This would allow the Government to scale up energy-efficiency investments in more than 1,600 municipal public buildings.

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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