IMF Country Report No. 24/147

REPUBLIC OF KOSOVO

June 2024

SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND REQUEST FOR MODIFICATION OF REFORM MEASURE—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF KOSOVO

In the context of the Second Reviews Under the Stand-by Arrangement and the Arrangement Under the Resilience and Sustainability Facility and Request for Modification of Reform Measure, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 31, 2024, following discussions that ended on April 3, 2024, with the officials of Republic of Kosovo on economic developments and policies underpinning the IMF arrangements under the Stand-By Arrangement and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the staff report was completed on May 14, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Republic of Kosovo.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes Kosovo's Second Reviews Under the Stand-By Arrangement and the Arrangement Under the Resilience and Sustainability Facility and Request for Modification of Reform Measure

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed on May 31, 2024, the second reviews of Kosovo's Stand-By Arrangement (SBA) and Resilience and Sustainability Facility (RSF) Arrangement, making available SDR 13.354 million (about €16.5 million) and SDR 7.744 million (about €9.5 million), of budget support under each facility, respectively.

- Kosovo's economic activity continues to expand at a robust pace, despite a challenging external environment, and inflation has declined markedly.

- Program implementation remains strong. The SBA continues to anchor prudent macroeconomic policies and to support structural reforms to strengthen fiscal and financial sector governance. The RSF has proved instrumental in supporting the authorities' ambitious green agenda and catalyzing additional climate financing.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the second reviews of Kosovo's Stand-By Arrangement (SBA) and Resilience and Sustainability Facility (RSF) Arrangement. Completion of the reviews makes available SDR 13.354 million (about €16.5 million) under the SBA and SDR 7.744 million (about €9.5 million) under the RSF arrangement. The Kosovo authorities continue to treat the SBA as precautionary.

Kosovo's economy continues to perform well, despite a challenging environment. Real GDP growth moderated to 3.3 percent in 2023 amid subdued external demand and is projected to accelerate to 3.8 percent in 2024, driven by domestic demand. Inflation has decelerated sharply, reaching 2 percent year-over-year in the first quarter of 2024. Fiscal policies have remained prudent, with an overall fiscal deficit of 0.2 percent of GDP in 2023, reflecting strong tax collections. The overall deficit is projected to widen to about 1½ percent of GDP in 2024, with higher investment spending and lower grants. The banking system remains liquid, well capitalized, and profitable, with a low level of non-performing loans and ample coverage of provisions.

Following the Executive Board's discussion, Mr. Li, Deputy Managing Director and Acting Chair of the Board, issued the following statement:

The Kosovo authorities continue to advance their economic program and structural reform and climate agenda, supported by the Stand-By Arrangement (SBA) and the Arrangement Under the Resilience and Sustainability Facility (RSF). Program performance under both arrangements remains strong. All quantitative targets have been met, and all structural benchmarks and reform measures for the second reviews have been implemented.

Fiscal outturns have exceeded expectations, reflecting the authorities' commitment to prudent fiscal policies. The SBA has continued to support the authorities' rules-based fiscal framework while fostering implementation of reforms to strengthen fiscal and financial sector governance. Rebuilding government liquidity buffers will be important to safeguard an adequate level of international reserves. Progress has been made in enhancing tax compliance and managing fiscal risks. Further strengthening public investment management remains key.

The Central Bank of Kosovo (CBK) is committed to advance an ambitious institutional and governance reform agenda. The adoption of a new Law on Banks should provide a modern regulatory framework for the financial sector. Measures to support digitalization, promote financial inclusion, strengthen the AML/CFT framework, and introduce greener considerations into the supervisory toolkit will help strengthen CBK capacities and operations. Kosovo's first ever sovereign credit rating is a positive development that could help attract new foreign investors.

The authorities are advancing an ambitious green agenda. The RSF has supported efforts to strengthen the regulatory framework and increase policy space to attract private investment into green energy. The successful completion of a pilot competitive auction for solar electricity generation and a first auction for wind electricity generation are important steps in the authorities' plan to expand renewable energy capacity. The authorities are also taking steps to strengthen regional integration and promote competition in electricity markets, while preparing for implementation of carbon pricing. Reducing emissions and improving air quality, increasing energy efficiency, improving targeting of energy subsidies, and enhancing energy security are important goals of Kosovo's green agenda. Timely implementation of C-PIMA recommendations will help support the green transition.

Kosovo: Selected Economic Indicators, 2019–24

(Percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024
					Prel.	Proj.
Real GDP growth	4.8	-5.3	10.7	4.3	3.3	3.8
Contribution to growth (percentage points of GDP)						
Consumption	5.8	2.3	7.7	4.0	4.0	4.4
Private	4.6	2.0	6.5	3.9	3.7	3.5
Public	1.2	0.3	1.2	0.0	0.3	0.9
Investment	-0.1	-2.3	3.6	-2.6	0.9	1.1
Net Exports	-0.3	-5.3	-0.2	2.9	-1.6	-1.6
Exports	2.2	-8.6	17.0	6.7	2.5	2.0
Imports	-2.5	3.3	-17.2	-3.7	-4.1	-3.6
Real growth rate (percent)						
Consumption	6.2	2.4	7.6	3.0	4.1	4.4
Private	5.6	2.5	7.3	4.6	4.3	4.0
Public	10.1	2.1	9.0	0.2	2.3	7.0
Investment	2.9	-7.6	13.0	-3.2	3.1	3.9
Exports	7.6	-29.1	76.8	18.9	6.3	4.8
Imports	4.5	-6.0	31.4	5.4	6.2	5.4
Official unemployment (percent of workforce)	25.7	26.0	21.3	…	…	…
Price changes						
CPI, period average	2.7	0.2	3.3	11.6	4.9	2.9
GDP deflator	1.0	1.4	6.1	7.2	5.0	2.8
General government budget (percent of GDP)						
Revenues and grants	27.0	25.6	27.8	28.1	29.6	28.8
Expenditures	29.9	33.5	29.0	28.8	29.9	30.4
Of which: Wages and salaries	8.7	9.8	8.4	7.3	7.9	8.1
Subsidies and transfers	8.9	12.8	10.6	12.0	11.2	11.0
Capital expenditure	7.6	5.6	5.3	4.8	5.8	6.0
Overall Balance (Fiscal rule) 1/	-0.8	-6.5	-0.9	-0.5	-0.1	-1.2
Overall balance	-2.9	-7.8	-1.2	-0.7	-0.2	-1.6
Stock of freely available government bank balances	5.1	3.4	3.8	3.9	2.8	3.1
Total public debt 2/	17.7	22.5	21.6	20.1	17.5	18.8
Balance of Payments (percent of GDP)						
Current account balance, incl. official transfers	-5.7	-7.0	-8.7	-10.3	-7.7	-7.6
Of which: Official transfers 3/	3.4	4.1	2.9	3.3	3.2	3.1
Of which: Remittance inflows	12.1	14.5	14.4	13.7	13.9	13.5
Financial account	-2.3	-8.3	-4.6	-7.4	-4.4	-5.1

Of which: Direct investment, net	-2.7	-4.2	-4.0	-6.8	-6.5	-5.4
Portfolio investment, net	0.8	-1.2	3.5	1.5	4.6	0.9
Other investment, net	-1.8	-3.5	-6.2	-2.9	-2.1	-2.0
Reserve change	1.3	0.7	2.1	0.8	-0.5	1.4
Errors and Omissions	3.5	-1.6	3.4	2.4	2.6	1.8
Savings-investment balances (percent of GDP)						
National savings	28.9	26.4	27.2	24.9	26.5	25.6
Public savings	4.4	-2.8	3.9	3.8	4.7	4.3
Private savings	24.5	29.3	23.3	21.1	21.8	21.3
Investment	34.6	33.4	36.0	35.2	34.2	33.2
Public investment	7.6	5.6	5.3	4.8	5.8	6.0
Private investment	27.0	27.8	30.6	30.5	28.4	27.2
Current account, including. official transfers	-5.7	-7.0	-8.7	-10.3	-7.7	-7.6
Financial Sector						
Non-performing loans (percent of total loans)	1.9	2.5	2.1	1.9	…	…
Bank credit to the private sector (percent change)	10.0	7.1	15.6	16.0	12.8	8.0
Deposits of the private sector (percent change)	15.5	10.9	12.4	12.7	11.3	7.6
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5	…	…
Memorandum items:						
Foreign Reserves (millions of euros, IMF Definition)	1,141	1,149	1,293	1,370	1,449	1,567
Foreign Reserves (% of ARA metric)	126	120	107	96	92	92
GDP (millions of euros)	7,056	6,772	7,958	8,896	9,653	10,301
GDP (millions of euros; projections in 2023 budget)	7,056	6,772	7,958	8,956	9,843	10,605
GDP per capita (euros)	3,959	3,766	4,499	5,026	5,451	5,814
Real GDP growth per capita	5.6	-6.2	12.6	4.2	3.3	3.7
Output gap (% of GDP)	1.2	-6.2	-0.5	-0.5	-0.7	-0.5
Population (million)	1.8	1.8	1.8	1.8	1.8	1.8

Sources: Kosovo authorities; and IMF staff estimates and projections.
1/ The "fiscal rule" caps the overall fiscal deficit at 2 percent of GDP, excluding investment financed with privatization receipts and donor financing contracted after 2015, as well as PAK-related current expenditure; the IMF calculates expenditures from carried-forward own-source revenue (OSR) as the difference in the municipal OSR stock.
2/ It does not include contingent debt of former Yugoslavia. Beginning in 2020, it includes Euro 120 million of debt with KPST.
3/ Total foreign assistance excluding capital transfers.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KOSOVO

May 14, 2024

SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND REQUEST FOR MODIFICATION OF REFORM MEASURE

EXECUTIVE SUMMARY

Recent developments, outlook, and risks. Kosovo's economy has continued to perform well, despite a challenging external environment. Real GDP growth moderated to 3¼ percent in 2023 amid subdued external demand. Inflation has decelerated sharply, reaching 2 percent y/y in the first quarter of 2024. Growth is projected to accelerate to 3¾ percent in 2024, driven by domestic demand. Key risks to the outlook include commodity price spikes due to geopolitical tensions, weaker activity in advanced European economies, and an escalation of tensions in northern Kosovo.

Performance under the Stand-by (SBA) and Resilience and Sustainability Facility (RSF) arrangements. Program implementation remains strong. All quantitative performance criteria and indicative targets have been met, and all structural benchmarks and reform measures for the second reviews have been implemented. Actions required for subsequent reviews are progressing well.

- **SBA.** The SBA remains on track. Fiscal performance has exceeded expectations. Treasury deposits at the CBK declined in 2023 due to delayed external budget financing but remained above the program's adjusted floor. The fiscal deficit is projected to increase to about 1½ percent of GDP this year, due to higher investment and lower grants. The CBK continues to advance an ambitious institutional reform agenda. The SBA will continue to be precautionary.

- **RSF.** The green agenda supported by the RSF continues to be advanced. The Law on Climate Change—establishing a framework for the promotion, planning, and monitoring of climate change policies—and the Law on Renewable Energy—creating a framework to attract private capital into renewable energy—were recently approved by Parliament. Green electricity generation capacity is being expanded. A pilot competitive auction for 100 MW of solar electricity generation was completed successfully, and an auction for 150 MW of wind-based electricity generation (the first in Kosovo) is under preparation. Day-ahead auctions in market-coupling mode for Albania and Kosovo, which started in January, should help strengthen regional integration and promote competition in electricity markets.

Approved By
Mark Horton (EUR) and Anna Ivanova (SPR)

Discussions were held in Pristina during March 18–27, 2024. The staff team comprised Sebastián Sosa (head), Stephen Ayerst, Javier Kapsoli, Ezgi Ozturk (all EUR), and Selim Thaçi (IMF local office). Gabriel Di Bella (outgoing mission chief) participated in the concluding meetings. Merita Kërnja (IMF local office) assisted the mission. Sabiha Mohona provided research assistance and Tina Kang assisted in the preparation of the report. The mission met with Deputy Prime Minister Bislimi, Minister of Economy Rizvanolli, Minister of Finance, Labor, and Transfers Murati, Minister of Environment, Spatial Planning, and Infrastructure Aliu, Central Bank Governor Ismaili, and other senior officials and representatives of the business and donor communities.

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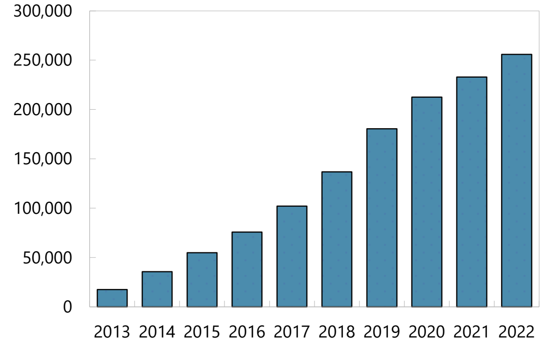
CONTEXT

1. Kosovo's economy continues to expand, but growth momentum has slowed. Negative spillovers from subdued growth in key trading partners and countries where the Kosovar diaspora is concentrated (e.g., Germany, Switzerland), are weighing on activity. Monetary policy tightening in the euro area has been gradually transmitting into higher interest rates in Kosovo's fully-euroized economy. Lower energy and food prices have improved terms of trade and helped reduce inflation. The recent EU visa liberalization could affect the labor force and deepen skill shortages, resulting in lower medium-term growth.[1] Based on the experience of other Western Balkan countries, the initial impact of visa liberalization may be moderate. However, Kosovo is already facing sizeable emigration outflows, which are a drag on potential growth. Parliamentary elections are scheduled to take place in early 2025.

Kosovo Emigration to the European Union
(EU new work permits issued, cummulative)



Sources: Eurostat and IMF staff calculations.

2. Developments in Kosovo's northern municipalities continue. A positive development was mutual permission for entry of vehicles with Kosovo and Serbia license plates in the other respective jurisdiction, overcoming a long-standing matter. Adoption of a new regulation by the Central Bank of Kosovo (CBK) on cash operations may affect transfers from Serbia to Kosovo Serbs (¶26). Next steps are being assessed, including in the context of EU-facilitated negotiations. An initiative on the status of mayors in the four northern municipalities did not advance, due to low voter turnout. The EU has not reversed 2023 measures to promote de-escalation.[2]

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

3. Growth slowed in 2023. Real GDP growth decelerated to 3.3 percent in 2023 from 4.3 percent in 2022, on the back of subdued external demand. Growth was mainly driven by private consumption, which was supported by strong growth of credit to the private sector and positive labor market conditions—including solid employment growth and higher real wages. Public investment (with record-high execution rates) also contributed positively. Although exports of services remained strong, supported by diaspora-related tourism, the contribution of net exports turned negative. Employment has continued to grow (3¾ percent in November y/y).

[1] Since January 1, Kosovo citizens do not require visas to enter the Schengen area. Several stakeholders have expressed concerns that it could accelerate emigration, particularly for young and highly qualified individuals.

[2] Measures include suspension of high-level meetings and postponement of new financial support.

4. **Inflation has declined markedly.** After peaking at 14½ percent in mid-2022, headline inflation fell to 2 percent y/y in the first quarter of 2024, driven by falling energy and food prices. Core inflation, which peaked at almost 6 percent y/y in early 2023, declined to 2.8 percent in December. Average nominal wages increased by 11 percent y/y during the Q1-Q3:2023, driven by the public sector (15½ percent) due to implementation of the new law on public sector wages.

5. **The external current account deficit (CAD) narrowed from 10¼ percent of GDP in 2022 to 7¾ percent of GDP in 2023.** This was mostly driven by lower energy and food import prices and strong service exports, notably travel receipts. Remittances remained strong at about 14 percent of GDP. The CAD has continued to be financed mainly by foreign direct investment (FDI)—concentrated in real estate (65 percent). Foreign reserves reached about €1½ billion (92 percent of the ARA metric) by end-2023. The external position at end-2023 is assessed to be weaker than implied by fundamentals and desirable policy settings (Annex I).

6. **The banking system remains sound.** Banks are well capitalized—with ample provision coverage—highly liquid, and profitable. NPLs have remained low. Real credit growth has been robust, particularly household lending. Lending and deposit rates have inched up in line with ECB policy tightening, although the passthrough has been weak.

B. Outlook and Risks

7. **Growth is projected to accelerate to 3.8 percent in 2024.** Activity is expected to be driven by domestic absorption, mainly private consumption—fueled by higher real disposable income, supported by strong diaspora-related inflows and higher real wages. Public investment is projected to scale up, reflecting higher execution rates. Net exports will continue to be a drag on growth amid weak demand in advanced European economies and higher imports. A small negative output gap is expected to remain in 2024–25. Average annual inflation is expected to decline below 3 percent in 2024, converging to 2 percent by 2025, reflecting subdued import prices.

8. **The CAD is projected to narrow gradually, financed primarily by non-debt creating flows.** The CAD will remain broadly stable in 2024, with an improved trade balance of goods, a weaker balance of services, and still strong remittances. The CAD will continue to be financed mostly by FDI. Gross international reserves (GIR) are projected to reach almost €1.6 billion (92 percent of the ARA metric) by end 2024. Over the medium term, the CAD will continue to narrow gradually, with GIR projected to increase to near 100 percent of the ARA metric.

9. **Public debt is assessed as sustainable, with a low risk of sovereign debt distress** (Annex II). General government debt declined further to 17½ percent of GDP in 2023, including state guarantees of ¼ percent of GDP. Public debt is projected to rise over the medium term, reaching 26¼ percent of GDP by 2033, reflecting a scaling up of public investment needed to address large infrastructure gaps. These levels of public debt are comfortably below the authorities' fiscal rule

ceiling of 40 percent of GDP.[3] Given a strong fiscal institutional framework and a track record of prudent macroeconomic policies, gross financing needs are expected to remain manageable over the projection period.

10. Uncertainty is high with risks to the outlook tilted to the downside (Annex III).

- ***External Risks.*** New commodity price spikes from geopolitical shocks—including from the Israel-Gaza conflict and the war in Ukraine—supply disruptions, or more persistent underlying inflation could prolong tight monetary conditions in the euro area. Higher commodity prices would adversely impact Kosovo through weaker terms of trade, higher inflation, lower private demand, and increased financing needs. More subdued activity in advanced European economies would reduce remittances, tourism, and FDI. Continued tightening of financial conditions could put pressure on banks' asset quality and affect private sector credit. Although the EU measures are not expected to impact growth significantly in the short term, if sustained over time they would affect medium-term financing and growth.

- ***Domestic Risks.*** Risks from escalation of tensions in northern Kosovo could affect growth by lowering FDI, tourism, and donor support. An increase in domestic political polarization could delay parliament approval of external loans.[4] Over the medium-term, an acceleration of emigration could lead to a shrinking labor force and worsening skill mismatches. On the upside, substantial progress in the dialogue with Serbia and the EU accession process could boost confidence, investment, and growth. "Near shoring" operations by European firms could also boost FDI.

11. In addition to a strong track record of prudent policies, Kosovo has sizeable buffers to mitigate shocks. These include low public debt, a liquid and well-capitalized banking system, the precautionary SBA, the existence of Emergency Liquidity Assistance (ELA), and the temporary Repo Line (€100 million) of the Central Bank of Kosovo (CBK) with the European Central Bank (ECB), recently extended through January 2025.

PROGRAM PERFORMANCE AND POLICY DISCUSSIONS

A. Stand-By Arrangement

The SBA has continued anchoring the authorities' rules-based fiscal framework and bolstering reforms to strengthen fiscal and financial governance. Reforms efforts focus on enhancing the quality of public financial management, boosting the effectiveness of public spending, and preserving gains from improved tax compliance. The SBA is expected to remain precautionary in the absence of exogenous shocks or weaker-than-expected budget financing.

[3] Kosovo has a strong rules-based fiscal framework. Rules include (i) a limit on public debt of 40 percent of GDP and (ii) a 2 percent-of-GDP deficit ceiling, excluding capital expenditure financed by donors and privatization receipts.

[4] A qualified majority of 2/3 of votes in parliament is required to contract external liabilities.

12. Program implementation has been strong. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December were met. QPCs for the overall fiscal balance and the stock of general government deposits at the CBK were fulfilled with comfortable margins. ITs on contingent budget allocations and the stock of government securities held by the CBK were also met. All ITs for March 2024 were also met. Structural benchmarks (SBs) for end-November 2023 were achieved. These include publication of a standalone fiscal risks assessment as part of the budget bundle, finalization of a draft new Law on Banks in line with FSSR recommendations, and issuance of a new CBK circular clarifying the role and responsibilities of its Supervisory and Executive Boards. The draft Law on Banks was submitted to parliament in May (SB, January 2024), following an extensive process of consultations with stakeholders, including the IMF.

Status of SBA Targets

(Millions of euros, unless otherwise indicated)

	September 2023				December 2023				March 2024			
	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status	Target	Adjusted	Actual	Status
1. Quantitative performance criteria												
Floor on the overall balance of the general government 1/	-169	-132	295	Met	-225	-195	-23	Met	-58	-45	119	Met
Floor on the stock of general government deposits at CBK	571	530	803	Met	566	410	512	Met	579	474	513	Met
2. Continuous performance criteria												
Ceiling on the accumulation of new external arrears on external debt contracted or guaranteed by the nonfinancial public sector 2/	0	...	0	Met	0	...	0	Met	0	...	0	Met
3. Indicative targets												
Ceiling on contingent budget allocations 3/	358	...	358	Met	358	...	358	Met	108	...	108	Met
Ceiling on holdings of government debt by the CBK 2/	200	...	179	Met	200	...	180	Met	200	...	173	Met

1/ Defined as cumulative flows over the fiscal year

2/ Applies on a continuous basis

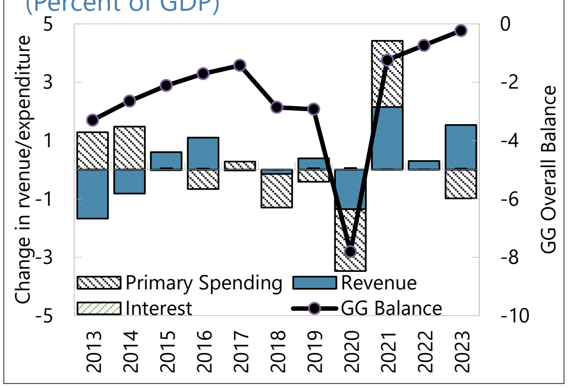
3/ Total budgetary contingent allocations as defined in the Technical Memorandum of Understanding

Fiscal Policies and Reforms

13. The fiscal outturn has overperformed program targets. The overall fiscal deficit amounted to 0.2 percent of GDP in 2023, well below the adjusted program limit of 2 percent of GDP. This was driven by strong tax collection (1 percentage point of GDP higher than in 2022), reflecting efforts to enhance compliance and solid activity. After increasing by 8 percent in 2023, tax revenue growth in real terms accelerated strongly in 2024Q1, reaching 15½ percent y/y.[5] Strong tax revenue performance has been primarily driven by VAT and PIT. Moreover, Kosovo received grants from the EU energy support package amounting to €67.5 million (0.7 percent of GDP) in 2023. Meanwhile, public expenditures increased by 1 percentage points of GDP, mostly due to higher investment on the back

Fiscal Balance Decomposition

(Percent of GDP)



[5] While efforts to strengthen compliance are expected to continue (¶17), a slight decline of tax revenues in percent of GDP is projected over the medium term due to the implementation of FTAs with the EU and Türkiye, which will impact custom duties and VAT on imports (which account for 2/3 of total VAT revenues).

of strong execution (70 percent of the budget allocation, compared to an average of 60 percent in previous years). However, public investment was still lower than programmed.[6] Current spending remained broadly flat, with a reduction in subsidies and current transfers offsetting the increase in the wage bill due to implementation of the new public sector wage law (½ percent of GDP). In December, the government granted an across-the-board payment to children and pensioners (¾ percent of GDP) to compensate for higher living costs.[7]

14. Public debt declined in 2023, amid a challenging financing environment. Two external budget support loans planned for 2023 did not materialize: a USD100 million from a World Bank DPO and USD40 million from the OPEC Fund for International Development (OFID). The World Bank operation was rescheduled for 2024; it was approved by the Bank's Board of Directors in March and is expected to be disbursed later this year. The OFID loan was initially extended through March and after several failed attempts for approval by parliament, it is still pending. Meanwhile, net domestic financing was negative (-€142 million), as planned domestic placement of government securities was affected by the lack of an operating Board of Directors at Kosovo's Pensions Savings Trust (KPST), since KPST cannot participate in the market without Board authorization.[8] Against this background of negative net domestic financing and delayed foreign budget support loans, the government drew down its free-disposal deposits at the CBK to implement its fiscal plan (1.1 percent of GDP). In this context, public debt declined to 17½ percent of GDP from 20 percent in 2022.

15. The fiscal stance is expected to be moderately expansionary in 2024. The overall deficit is projected to widen to about 1½ percent of GDP in 2024, within the fiscal rule limits.[9] The small fiscal impulse is appropriate given the weaker growth momentum, moderate slack, and the marked decline in inflation. The higher deficit is mostly driven by lower grants and moderately higher expenditure. The latter mostly reflects the impact of the public sector wage law: (i) higher wage coefficients;[10] (ii) base effects, as implementation of the law started in February 2023; and (iii) a recent Constitutional Court ruling repealing the

Operations of the General Government 2022–24
(Percent of GDP)

	2022	2023		2024
	Actual	Program	Act.	Proj.
Revenue	**28.1**	**28.8**	**29.6**	**28.8**
o/w Taxes	24.9	24.9	26.0	25.9
Expense	**28.8**	**31.0**	**29.9**	**30.4**
o/w Compensation of employees	7.3	7.6	7.9	8.1
o/w Use of goods and services	4.1	5.0	4.4	4.9
o/w Subsidies and transfers	12.0	11.2	11.2	11.0
o/w Investment	4.8	6.9	5.8	6.0
Overall balance	**-0.7**	**-2.3**	**-0.2**	**-1.6**
Memo				
Primary balance	-0.3	-1.8	0.2	-1.1
Fiscal impulse	-0.5	2.4	0.0	0.7

Sources: Kosovo Treasury and IMF staff estimates.

[6] Historically, capacity constraints have kept public investment execution below planned levels.

[7] This payment, approved on December 13, granted €100 to all pensioners and children under 16 years. Funds for these benefits came from the budgetary contingency reserve.

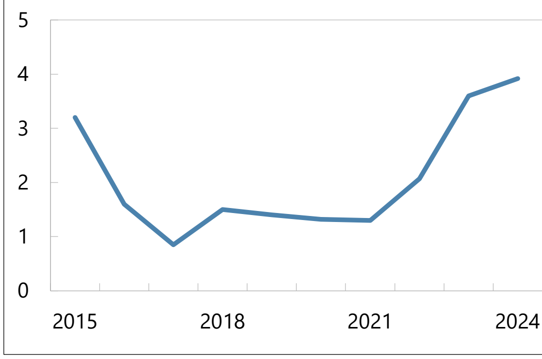
[8] To prevent the recurrence of this problem, a new regulation has been adopted, making the Board's authorization no longer required for KPST investment decisions.

[9] The 2024 approved budget envisages—assuming full execution of all budgetary items, notably investment—a deficit of 2¾ percent of GDP, or 2 percent of GDP excluding investment clause spending, in line with fiscal rule limits.

[10] The new law defines coefficient ranges which, coupled with the monetary value of the coefficient, are used to set wages across the public sector. The value of the coefficient was increased from €105 in 2023 to €110 in 2024.

transitional allowance cut envisaged for 2024 (¶16). Public investment is also expected to increase on the back of continued strong execution. Interest payments are expected to increase moderately, as financing costs for the Treasury have risen in line with tightened financial conditions in the euro area. On the other hand, lower spending is expected from the delinking of war veterans' benefits from minimum wage increases and from the natural reduction in closed pension categories (war veterans and ex-contributory pensions).

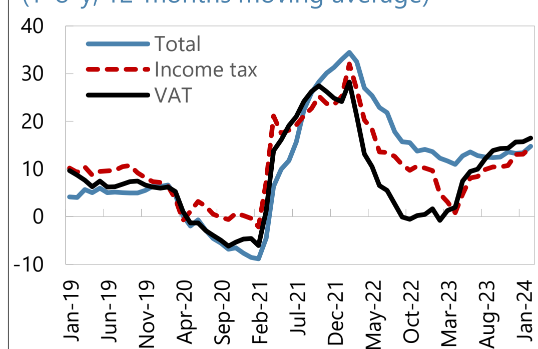
Treasury Borrowing Costs
(3-year notes average coupon, in percent)



16. Recent Constitutional Court (CC) rulings have created additional fiscal costs and contingent liabilities. In January, the CC repealed several articles of the public sector wage law adopted last year. Among other provisions, the CC ruling repealed the reduction of the transitional allowance introduced to compensate employees facing a wage cut under the new public wage system. The allowance, which amounted to 100 percent of the gap between the old and new (lower) wages in 2023, had been reduced to 50 percent of this gap in 2024. The CC ruling against the reduction of the allowance has a fiscal cost of about 0.2 percent of GDP this year. Moreover, the CC repealed a past decision by ERO—Kosovo's energy regulator—in place during 2012–17, effectively increasing electricity bills for consumers across Kosovo to cover the cost of unpaid electricity in the four northern municipalities. The CC ruling stipulates the reimbursement of such overpayments to affected consumers.[11] To implement this ruling, ERO adopted a decision envisaging a reduction of about €1 of monthly electricity payments during June 2024–October 2030 for all consumers that had overpaid in the period 2012–17.

17. Continued efforts to strengthen tax administration are needed to further enhance revenue mobilization. The Tax Administration of Kosovo (TAK) is implementing its action plan adopted last year, which aims to strengthen compliance. TAK is targeting high-income and non-filer individuals providing services without proper records, through intense scrutiny and verification of income and assets using different sources of information. A risk-based approach for tax auditing is being implemented. TAK's digitalization efforts aim at strengthening tax compliance and accountability.[12] However, introducing a modern IT system remains critical to ensure progress in reform implementation. The Fund is supporting TAK's efforts to design a modern data warehouse, with a

Real Tax Revenues
(Y-o-y, 12-months moving average)



[11] Total overpayment during this period is estimated at €40.8 million (0.4 percent of GDP).

[12] TAK is considering compliance-enhancing measures to strengthen e-invoice and cash management.

view to accelerate a more data driven compliance approach. A new law on tax procedures came into force in January, simplifying rules for taxpayers' registration, introducing requirements for digital payment transactions, and improving the accuracy of the taxpayer registry. The law also shortens the period to amend filings and claim tax refunds, increases penalties for noncompliance, and reduces the threshold for non-bank transactions from €500 to €300. Finally, further efforts are needed to enforce tax debt collection aiming at reducing the stock of tax debt.[13]

18. The authorities continue to make efforts to strengthen tax policy frameworks. A new tax policy division has been created within the Ministry of Finance, Labor, and Transfers (MFLT), but staffing challenges remain substantial. The MFLT is preparing—with World Bank support—a review of tax expenditures and amendments to the Laws on Personal Income, Corporate Income, and Value Added Taxes, aimed at strengthening the equity of the tax system and improving revenue mobilization. The Fund is planning to provide technical assistance on tax policy analysis with a view to increase fairness and efficiency, including by strengthening PIT progressivity, reviewing business taxation, and aligning the CIT rate with the new EU harmonized global minimum rate. Expanding the tax base at the municipal level, particularly for property taxes, would also help mobilize revenues.

19. Continue strengthening public investment management (PIM) remains critical. A recent Public Investment Management Assessment (PIMA) update noted some progress, including enhanced budgeting practices for projects. Spending units are now required to include expropriation costs in project envelopes and are authorized to register multiannual commitments in the budget system. However, challenges remain, notably at the planning stage of the project cycle and during implementation. Reform priorities include strengthening the appraisal and review processes and creating a single prioritized pipeline of appraised projects covering all sectors and funding sources. A central PIM support function at the MoFLT could contribute to high-quality appraisals, strengthening the review estimates of capital expenditure in the budget, and monitoring of major projects. Efforts to strengthen public procurement frameworks are also ongoing. A new law, fully aligned with the EU Acquis, is planned to be submitted to parliament in the fourth quarter of this year.

20. The SBA has continued underpinning fiscal reforms and measures in other areas.

- ***Unallocated Budgetary Reserves.*** The SBA has supported the reduction of discretionary budget reserves, with a view to strengthen transparency and accountability. Such reserves have been reduced from 3¾ percent of GDP in 2023 to 1 percent in GDP in the 2024 approved budget. Moreover, the

Uses of the Budgetary Reserves 2023

Measure	Mill. euro
To pay October-December wages and salaries for some spending units	65.1
Support for pensioners and families	62.4
Support for overcoming the energy crisis	52.6
Defense Support	25.8
Energy efficiency measures for Individual housing units	10.0
Energy efficiency measures to mitigate the impact of the energy crisis	10.0
Support for education	5.9
Support for family liquidity	5.4
Employment support for non-majority communities	3.0
Other measures	72.7
Total	**312.9**

Sources: Kosovo Annual Financial Report and IMF staff estimates.

[13] The stock of tax debt amounts to €525 million (6 percent of GDP).

government has started publishing the rationale, use, and impact of these reserves in the Treasury quarterly reports.

- ***Reserve Adequacy.*** Government deposits at the CBK play a key role in safeguarding an adequate level of reserves in Kosovo's unilaterally euroized economy. At end-2023, free-disposal deposits amounted to 2½ percent of GDP, down from 4 percent of GDP at end-2022.[14] The authorities have expressed their commitment to gradually restore liquidity buffers.

Balance of Government Accounts at the CBK
(In million of euros)

	2022	2023
Treasury main account	347.3	240.5
PAK	165.9	165.3
ELA	46.0	46.0
Other	26.3	58.8
o/w RSF	*0.0*	*37.8*
Total	**585.5**	**510.5**

Sources: Treasury Annual Audited Reports and IMF staff estimates.

- ***Fiscal Risks.*** The SBA is supporting the improvement of fiscal risk management. The authorities started to produce annual, standalone fiscal risks analyses as part of the budget documents (SB, end-November 2023). The analysis leverages on FAD's Fiscal Risks Assessment Tool (FRAT) to identify the main fiscal risks. It focuses on risks stemming from publicly owned enterprises (POEs), guarantees to sub-national governments, on-lending operations with service-provider public companies, public-private partnerships (PPPs), contingent costs from litigations, and more generally, from exogenous macroeconomic shocks affecting the budget's parameters. Going forward, the fiscal risk statement should be annexed to the Medium-term Expenditure Framework and updated in the budget documentation. Anchoring the fiscal risk statement in the Law on PFM (currently under preparation) would support its sustainability. A specialized Fiscal Risk Unit (FRU) has been created within the MFLT, which is already staffed. The new unit is primarily working on the identification and monitoring of fiscal risks, but it is expected that it will also propose strategies to cope with eventual materialization of these risks.[15] The Fund is supporting the FRU with technical assistance.

- ***POEs.*** Improving governance and management of publicly-owned enterprises (POEs) would strengthen transparency, improve the quality of public services, and limit fiscal risks. To enhance transparency, the government is publishing quarterly financial data on POE performance (including POE debt data) and will produce and publish annual financial reports (SB, June 2024). A new law creating a Sovereign Wealth Fund (SWF) was approved by parliament, aiming to enhance POE management and attract private investment.[16] The SWF is designed as a holding controlling the assets of several profitable public enterprises.

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[14] Liquidity buffers also include emergency liquidity assistance (ELA) funds and a temporary Repo Line (€100 million) of the CBK with the European Central Bank (ECB) extended through January 2025. Government deposits also include some unused resources from municipalities and RSF funds earmarked for the purposes of the arrangement.

[15] Monitoring and management of fiscal risks should include those stemming from the new PPPs set up to expand renewable energy generation (¶29).

[16] Several articles of the SWF law are currently being reviewed by the Constitutional Court.

21. The authorities' program is fully financed. There are firm financing commitments in place for the next 12 months, with good financing prospects thereafter. The financing plan includes the already approved World Bank DPO (¶14).[17] Domestic debt issuance is expected to provide positive net financing, while government deposits at the CBK are programmed to increase to rebuild liquidity buffers. EU restrictive measures still in place do not affect the program's financing as the baseline does not include EU budget support. An initial disbursement under the EU's Growth Plan for the Western Balkans may be implemented by end-2024, but this is not included in the baseline.[18] On April 19, Fitch Ratings assigned Kosovo a Long-Term Foreign-Currency Issuer Default Rating (IDR) of "BB- ", three notches below investment grade, with a stable outlook. This is Kosovo's first ever sovereign credit risk assessment, which could help attract new potential foreign investors.[19] However, tapping international bond markets is not envisaged in the baseline. Absent adverse exogenous shocks or lower-than-programmed external financing, the SBA is expected to remain precautionary.

Financing Requirements 2022–24
(In millions of euros)

	2022	2023	2024 Baseline	2024 Adverse
Requirements	**337**	**323**	**508**	**558**
Deficit	66	23	165	215
Amortization	271	300	344	344
Sources	**337**	**323**	**508**	**558**
External	111	102	182	247
Multilateral and bilateral	111	102	182	247
o/w SBA	*0*	*0*	*0*	*66*
Securities	0	0	0	0
Internal	226	221	327	311
Securities	219	107	404	404
Other	7	114	-77	-93
o/w use of free-disposal Treasury balance	*4*	*107*	*-50*	*-66*
Financing gap	**0**	**0**	**0**	**0**
Memo				
Stock of free-disposal Treasury balance	347.3	240.5	290.5	306.5

Sources: Kosovo Treasury and IMF staff projections.

Western Balkans: Sovereign Credit Ratings

Country	S&P	Moody's	Fitch
Kosovo			BB-
Other Western Balkan Countries			
Serbia	BB+	Ba2	BB+
North Macedonia	BB-		BB+
Albania	B+	B1	
Montenegro	B	B1	
Bosnia and Herzegovina	B	B3	

22. An adverse scenario illustrates the role of the SBA in smoothing the adjustment in case of a negative temporary shock materializes (Box 1). The downside scenario considers a 20 percent commodity price increase compared to the baseline. Staff's simulations show that the negative terms-of-trade shock would lead to higher inflation, lower GDP growth, a widening output gap, lower fiscal revenues, and higher fiscal deficit and financing needs. Under these circumstances, SBA financing could facilitate an orderly adjustment and protect much-needed reserve buffers.[20]

[17] A second World Bank DPO, planned to be disbursed in 2025, is currently under negotiation.

[18] The new Growth Plan was adopted by the European Commission in November 2023. It will be implemented through the Reform and Growth Facility for the Western Balkans, amounting to €6 billion (€2 billion in grants and €4 billion in concessional loans) for 2024–27, with disbursements conditioned on countries fulfilling specific reforms.

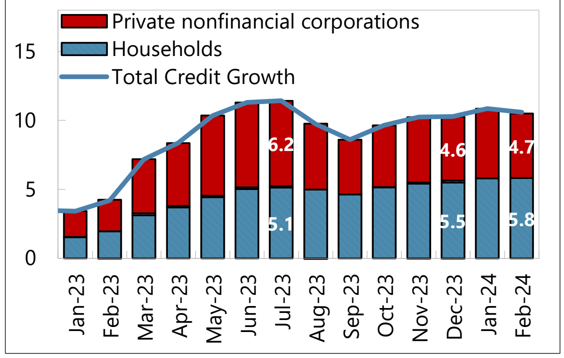
[19] A sovereign credit rating may also reduce the cost of foreign capital for financial institutions in Kosovo (e.g., microfinance institutions), as international investors typically charge a higher risk premium in the absence of a rating.

[20] The program includes a consultation clause to recalibrate policies should shocks prove stronger and more persistent than expected.

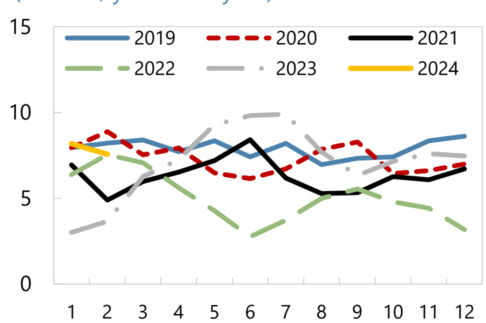
Financial Sector Policies and Reforms

23. Financial soundness indicators remain strong. The Tier 1 capital ratio increased to 14.7 percent in February 2024 (up from 13.5 percent in end-2022), well above the regulatory minimum of 9 percent. Credit to the private sector in real terms has continued to grow at robust rates (10.6 percent y/y in February), with lending to households growing faster than lending to corporates (15.4 and 7.6 percent, respectively). Bank deposits have also been expanding (5 percent y/y in February). The liquidity ratio has declined slightly but remains high (23.7 percent in February). Profitability has remained high, with average return on assets at over 2½ percent in 2023. Bank lending rates have been on an upward trend since mid-2022 reflecting the ECB policy tightening although the passthrough has been moderate, with lending and deposit rates increasing by less than 1 percentage points each. NPLs have remained low at around 2 percent. However, tighter financial conditions may weigh on banks' asset quality and affect credit to households and corporates.

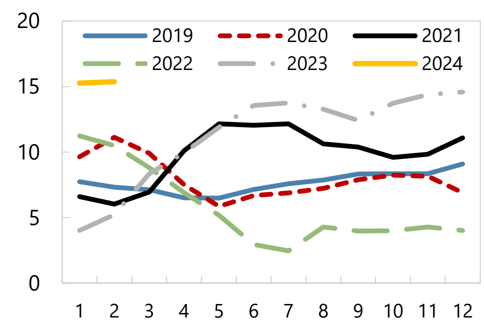
Contribution to Real Credit Growth
(Percent, y-o-y)



Real Credit to Private Non-financial Corporations Growth
(Percent, year-over-year)



Real Credit to Households Growth
(Percent, year-over-year)



24. Financial sector reforms supported by the SBA are progressing as planned.

- ***Financial Sector Governance.*** The CBK finalized a draft Law on Banks aiming to improve bank licensing criteria, standardize operations, organization, and management, and strengthen recovery, resolution, and liquidation (SB, end-November 2023). The draft Law underwent public consultation in February and was submitted to Parliament in May (SB, end-January 2024). A new draft law on Law on Microfinance Institutions is being prepared, with support from the International Finance Corporation (IFC), with a view to sending it to parliament by end-2024. The CBK is working, with WB support, on a new draft Law on Payment Services in line with EU directives, which will be submitted to the government by June 2024. Finally, the authorities are working, with USAID support, to develop capital markets, including by designing the legal and regulatory framework for introducing capital markets in Kosovo.

- ***CBK Governance.*** The CBK is working on implementation of the recent Fund Safeguards Assessment recommendations, such as improving internal auditing (including by developing IT audit skills) and strengthening the CBK Charter. In January, two deputy governors were appointed, completing the Executive Board, in line with the new organizational structure approved in November 2023. The roles and responsibilities of the Supervisory Board, including procedures to structure information requests, confidentiality, and secrecy arrangements, were reviewed and new "Rules of Procedure" were issued (SB, end-November 2023).[21] The CBK is working to enhance risk management, with the appointment of a new director of the risk management department and a new high level, inter-departmental Risk Committee, established in April. More efforts are needed to address cybersecurity challenges. IMF TA has continued supporting the CBK's reform efforts in these areas.

- ***Monitoring Financial Stability Risks.*** The CBK is working to further strengthen its stress testing frameworks, with IMF support. The Statistical Agency (KAS), in collaboration with the CBK, has been developing a property-price index, supported by the IMF Statistics Department. A roadmap for this initiative has already been published (SB, end-September 2023). The Law on Cadaster of Immovable Property, approved by parliament in December 2023, will support the development of mortgage credit by lowering the risk of this lending type and will provide a useful source of data for the property-price index.

25. The authorities are working to address AML/CFT gaps. They are implementing changes to the AML/CFT legal framework and have prepared a concept document on the new law on AML/CFT, which aims at full compliance with the EU directives.[22] To this end, the Law on Implementation of Targeted International Financial Sanctions was adopted in 2023 and the draft Law on Beneficial Ownership Registry—which passed the first reading in Parliament in February—is expected to be approved by mid-2024. In addition, the authorities have updated the National Risk Assessment.[23]

26. The CBK has adopted a new regulation on cash operations. The regulation aims to enhance the payments system, tighten control of currency in circulation, protect the integrity of the financial system, fight against counterfeit money, and combat money laundering and financing of terrorism. It enforces the constitutional mandate of using only the euro as legal tender and bans the

[21] This review process benefited from two IMF MCM-led workshops—in July 2023 and January 2024.

[22] Kosovo's membership in the Council of Europe (CoE)—currently under consideration—would pave the way for membership in MONEYVAL, which is a FATF-style regional body and the permanent AML/CFT monitoring body of the CoE. Kosovo applied for CoE membership in May 2022 and in April 2024 the Parliamentary Assembly of the CoE (PACE) recommended that Kosovo be invited to become a member. A final decision by the CoE Committee of Ministers is expected in May.

[23] Kosovo has also continued to build a track record of investigations, prosecutions, and convictions in the fight against corruption. However, more efforts are required, in particular to tackle high-level corruption.

operation of financial institutions not licensed by the CBK. It also prohibits the circulation of €500 banknotes to discourage large cash transactions. By limiting the use of the Serbian dinar, the regulation may impact Kosovo Serbs, who receive wages, pensions, and other transfers from Serbia in dinars. Negotiations with Serbia—facilitated by the EU—are ongoing, to find a solution to ensure that Kosovo Serbs continue to receive financial support from Serbia in a way that is consistent with the new CBK regulation.

B. Resilience and Sustainability Facility

RSF ownership has been strong. Reform efforts have focused on strengthening the regulatory framework, mobilizing private capital, expanding green electricity generation, improving the efficiency of energy markets, and reducing air pollution and emissions. The RSF has proved instrumental in supporting the authorities' ambitious green agenda, envisaged in the 2022–31 Energy Strategy.

27. Implementation of reforms supported by the RSF has been strong. RM1 (end-October) was implemented timely. A 2024 budget consistent with RSF objectives (allocation for expansion of renewable energy and implementation of a new definition of vulnerable consumers) was submitted to Parliament in October (¶29),[24] while Kosovo Energy Corporation (KEK)'s budget plan includes a contingent allocation of €12.5 million to complement EU financing for the installation of the filters in Kosova B power plant (¶32). RM4 (end-March) and RM8 (end-March) were completed in April (¶33 and ¶34, respectively), while RM2 has been rescheduled from end-June to mid-October (¶29), to reflect the updated timeline agreed between the government and IFC (the new transaction advisor). RSF reforms have been instrumental to making progress towards the ambitious targets outlined in Kosovo's Energy Strategy for 2022–31.[25]

28. A law promoting the use of renewable energy sources was approved by Parliament. The law, fully transposing EU directives, was approved April 8. The law seeks to modernize the energy sector, reducing carbon intensity and increasing energy efficiency. It establishes a general framework to attract private capital into renewable energy using competitive auctions, regulates the use of PPPs to expand green energy capacity, and establishes market prices as the reference for regulatory purposes, among other provisions. The law also sets the grounds for feed-in premiums and feed-in tariffs, among other schemes, and provides benefits to wind, solar, biomass, biogas, and geothermal energy generation.

[24] The design of electricity subsidies was revamped to better target budgetary support to vulnerable energy consumers. Specifically, the MFLT, with WB and Millennium Challenge Corporation (MCC) assistance, redefined the universe of vulnerable energy consumers. The program subsidizes part of the electricity bill for households with monthly incomes lower than €150 (i.e., the poverty line as defined by the WB), with the actual subsidy amount also considering household composition.

[25] The gains of implementing RSF RMs (installation of filters in the thermal power plant, new capacity in green electricity generation, and improved energy efficiency in residential buildings) are potentially large. Using the IMF's CPAT model, staff analysis suggests that, in steady state, the direct gains of these reforms could be 1 percent of GDP per year, or over 10 percent of GDP through 2050 expressed in present value terms. See staff report for the First Review for details.

29. Tangible progress is being made to expand green energy generation capacity. Kosovo's energy strategy aims to increase the share of renewable energy to at least 35 percent by 2031 (from about 9 percent in 2023). The RSF is contributing to progress towards this goal, as well as to achieving higher energy security and the phasing out of coal-based power generation.

- The Ministry of Economy has successfully concluded the first competitive auction to construct and operate a 100 MW solar photovoltaic (PV) plant in Rahovec, with USAID support.[26] Six companies (from Egypt, France, Germany, Türkiye, and Switzerland) submitted bids, with five shortlisted for an e-auction held March 29. The winner was a consortium led by a Swiss construction company, which offered the lowest price (€48.88 per MWh, well below the ceiling price of €75 per MWh). The winner plans to invest about €70 million and will be awarded a 30-year concession contract and a 15-year power-purchase agreement—the first of its kind established under a competitive mechanism in Kosovo. The additional solar energy generation capacity is expected to be in place by 2026.

- Building on lessons learned from this first solar auction, the government is planning to launch a first competitive auction for 150 MW of wind generation (RM2, rescheduled to mid-October from end-June 2024). The Ministry of Economy, with continued assistance from USAID, has signed an agreement with IFC to support the process as transaction advisor. This will help implement the auction and increase the credibility of the project, making it more attractive for potential foreign investors. To implement this project, the authorities have committed resources for about €70 million to attract private capital into wind-based generation through a PPP. The 2024 budget includes a below-the-line allocation in a sub-account of the Treasury Single Account to this end and defines that these resources will be transferred to the entity holding the state's stake in the project (RM1, end-October 2023). All relevant technical documents are expected to be presented to the PPP Committee by August, defining the entity that will hold the state's share on the PPP. Upon PPP Committee approval, the government will launch an open, transparent, and competitive tender to select the PPP private partner by mid-October. The RM2 due date has been rescheduled and aligned with the timeline agreed between the government and IFC.

- Procurement for the installation of 100 MW of additional solar electricity generation capacity on KEK property—with total financing of about €105 million—is planned to start in June. Financing includes a loan from KfW (€29 million), a European Investment Bank (EIB) loan (€33 million), and a grant (€32 million) channeled through the EU's Western Balkans Investment Framework (WBIF).[27] Upon completion, the new plant is expected to produce around 169 GWh of electricity and displace 174,000 tons of CO2 per year.

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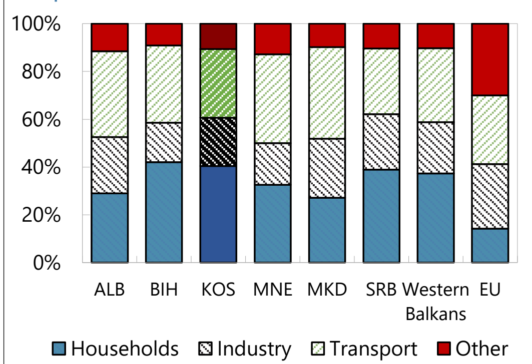
[26] Launching this pilot auction was a RM under the RSF (RM5, May 2023).

[27] The WBIF is a joint financial platform of the European Commission, financial organizations, EU Member States, and Norway aimed at enhancing cooperation in public and private sector investments in the Western Balkans thus facilitating European integration.

30. The Albanian Power Exchange (ALPEX) is now fully operating under the market coupling mode.[28] On January 31, ALPEX launched day-ahead auctions in market-coupling mode for the two bidding zones (Albania and Kosovo).[29] Work on the introduction of an intraday wholesale electricity market is underway. As the market gains depth and liquidity, market-determined reference prices would gradually replace those set by ERO in the competitive auctions to attract private capital to renewable energy generation. This process would benefit from increased regional integration. To this end, the ERO has signed a memorandum of understanding with Greece's and North Macedonia's power operators aiming to establish a regional day-ahead electricity market coupling. These initiatives and achievements will strengthen regional integration and promote competition in electricity markets, essential to attract private investment.[30]

31. Further efforts are required to substantially increase energy efficiency. Households account for 40 percent of overall energy consumption in Kosovo, compared to 14 percent, on average, in EU countries. Lack of insulation in residential buildings, and inefficient and often obsolete heating systems are the primary sources of high energy intensity. To tackle this problem, the Kosovo Energy Efficiency Fund (KEEF), supported by EU IPA funds and in partnership with municipalities, is implementing energy savings programs in social multi-apartment buildings. These include subsidies to support the improvement of exterior and roof thermal insulation, installation of efficient heating systems, and installation of LED lighting. Previously, similar programs were implemented in private residences. A new law of energy efficiency, aiming to strengthen the role of the KEEF, is expected to be submitted to parliament later this year.

Energy Consumption by Sector
(In percent)



32. Actions to improve air quality continue, although significant challenges remain. Air quality in Kosovo is among the lowest in Europe, with ambient air concentrations of particulate matter with a diameter of 2.5 micrometers or less (PM2.5) about four times higher than recommended WHO guidelines. This is mostly due to the high dependance (over 90 percent) on two

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[28] ALPEX is a joint venture owned by the Transmission System Operators of Albania (OST) and KOSTT, established in 2020 and based both in Tirana and Pristina. Seventeen Albanian and four Kosovo companies are currently part of the platform. The market started operating in Albania in 2023.

[29] The RSF supported previous actions conducive to the start of the day-ahead market for Kosovo (RM7, June 2023).

[30] On April 3, ALPEX upgraded its Europex membership from associate to full. Europex is an association of European energy exchanges with 33 members. It represents the interests of exchange-based wholesale electricity, gas, and environmental markets, focusing on developments of the European regulatory framework for wholesale energy trading.

old and inefficient coal-fired thermal power plants (Kosova A and B) for energy generation.[31] To reduce emissions, KEK has planned the replacement of the dust filters in Kosova B, which would substantially reduce air pollution.[32] EU funding for the project, amounting to €76.4 million, has been secured, while KEK's 2024 budget includes a contingent allocation of €12.5 million (RM1, end-October 2023). However, the project—originally planned for 2024—has been delayed to 2025 due to problems with the consortium that will implement it.[33] A investment project (of about €50-60 million) for the modernization and rehabilitation of two KEK plants—including modernization of turbines, cooling towers, and heaters—is planned for 2025, aiming to reduce emissions and increase production capacity. KEK is also planning a project to reduce sulphur oxides (SOx), expected to start in 2026 and financed by IPA funds (with a total investment of €96 million).

33. A technical working group has prepared, with IMF support, a report assessing the impact of a gradual recognition of the negative externalities of brown energy. The working group is led by staff from the Ministry of Environment, Spatial Planning, and Infrastructure, and includes representatives from the Ministries of Finance, Labor, and Transfers; Economy; and Industry, Entrepreneurship, and Trade; as well as from KOSTT and KEK. The working group used the IMF's CPAT to assess the possible impact of a gradual recognition of the negative externalities of brown energy use and examine the impact of the upcoming implementation of the EU carbon border adjustment mechanism (CBAM). The IMF has provided extensive TA on use of CPAT. A report—describing alternative scenarios and policy options—was presented to Cabinet in April (RM4, end-March 2024).

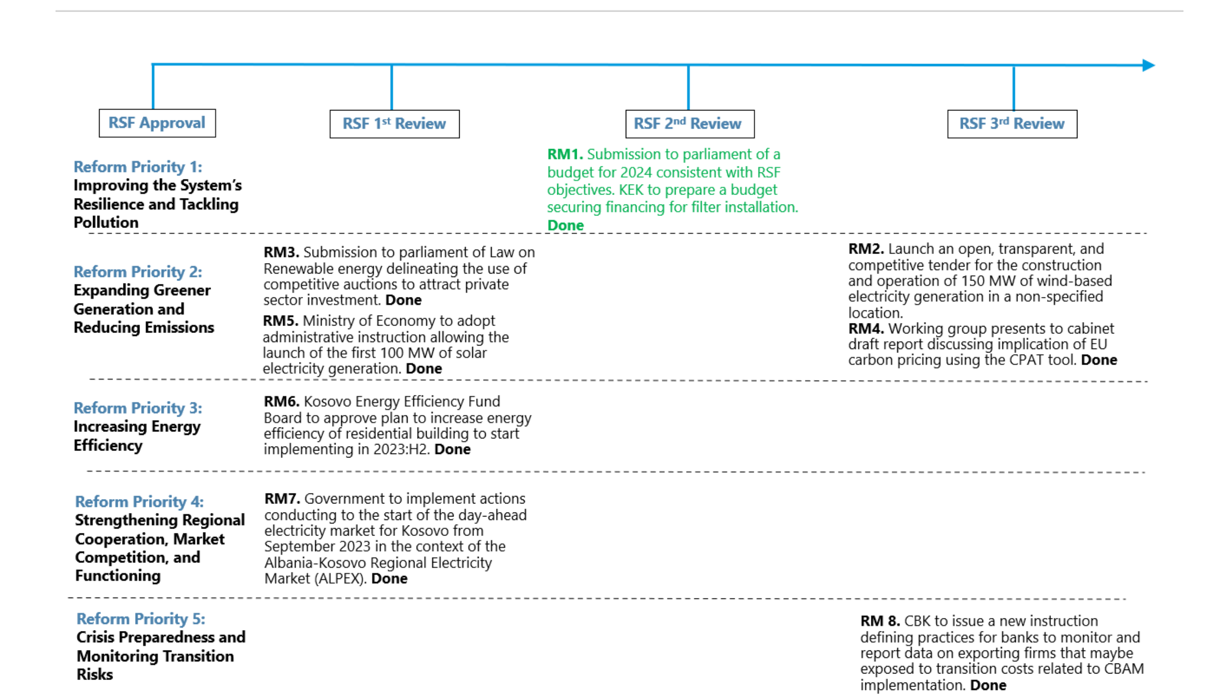
34. The CBK is contributing to the green agenda, with efforts on greening the financial system. In April, the CBK issued instruction to banks to standardize practices to monitor and report data (with an implementation timeline) related to climate risks, on firms that may be exposed to CBAM-transition costs (RM8, end-March 2024). This will help identify energy transition costs in Kosovo's banking sector. Moreover, to better manage environmental and climate-related risks arising from the banking sector, the CBK—in collaboration with the WB—is working to strengthen the regulatory and supervision framework. In December, the CBK became a member of the Sustainable Banking and Finance Network (SBFN) to advance its sustainable finance practices and has also requested membership in the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

[31] These power plants burn lignite extracted from nearby mines. Lignite—also denominated brown coal—has lower energy density and higher moisture content than other types of coal and therefore produces much more pollution in absence of pollution control technologies (World Bank, 2019).

[32] The project is expected to align emissions from Kosova B to EU standards. Dust emissions would be reduced from 300–700 mg/Nm^3 to 20 mg/Nm^3 and NOx emissions from 700–850 mg/Nm^3 to 200 mg/Nm^3.

[33] A company that is part of the consortium has filed for bankruptcy, and a new consortium is expected to be formed in 2024, with a view to start the project in 2025. The value of the contingent allocation is indicative and may change pending agreement with EU partners.

RSF—Phasing of Reform Measures



35. **Proper implementation of C-PIMA recommendations will be important to supporting the green transition.** Key recommendations include: (i) embedding a climate perspective in the appraisal and selection of capital projects; (ii) strengthening the linkages between the Climate Change Strategy and sectoral and spatial plans; and (iii) managing climate risks.[34] While the authorities plan to start integrating climate planning into PIM frameworks by implementing C-PIMA recommendations, implementation is still at an early stage, and they are evaluating how to best prioritize the recommended measures. The World Bank's Country Climate and Development Report (CCDR), expected to provide a holistic assessment of climate change mitigation and adaptation challenges and priorities, should be finalized in 2024.

PROGRAM ISSUES

36. **The SBA remains on track.** End-December QPCs on the overall fiscal balance and general government deposits at the CBK were met by large margins, with ITs on contingent budget allocations and the stock of government securities held by the CBK also fulfilled. All ITs for March 2024 were also met. SBs for end-November 2023 (publication of a standalone fiscal risks assessment as part of the budget bundle; finalization of a draft new Law on Banks in line with FSSR recommendations; and issuance of a new CBK circular clarifying the role and responsibilities of the Supervisory and Executive Boards) were implemented. The draft Law on Banks was submitted to parliament in May (SB, January 2024). The TMU has updated the IT on discretionary budget

[34] Previous staff analysis using the DIGNAD model suggests that potential gains of C-PIMA-like policies are sizeable.

allocations to reflect the 2024 approved budget figures. Other macroeconomic assumptions required to monitor the program have also been updated.

37. RSF program implementation remains strong. The RM for the second review (RM1, end-October) was timely met: the 2024 budget law ringfenced RSF resources to cover the State's stake in the wind-energy generation PPP and included a new definition of vulnerable consumers, while KEK's budget included a €12.5 million allocation for the installation of the filters. Preparation of a report assessing the implications of EU CBAM implementation for Kosovo using CPAT (RM4, end-March), and CBK issuance of new instructions defining practices for banks to monitor and report data on firms exposed to transition costs (RM8, end-March), were both implemented in April. RM2, associated with the launching of a competitive auction for 150 MW of wind-based electricity generation, has been rescheduled from end-June to mid-October 2024, in line with the revised timeframe agreed between the government and IFC—the new transaction advisor.

38. The authorities have indicated that they plan to continue treating the SBA as precautionary. Subject to the approval by the IMF Executive Board, the completion of the second reviews will make available an additional SDR 13.354 million (about €16.5 million) under the SBA and SDR 7.744 million (about €9.5 million) under the RSF.

39. Kosovo's capacity to repay the Fund remains adequate. As of February 2024, Kosovo has 68.75 percent of quota outstanding, after drawing on the Rapid Financing Instrument in April 2020 and the ongoing RSF. If the full amount of the SBA is purchased, Kosovo's stock of outstanding debt to the IMF would peak in 2024 at 1.1 percent of GDP while debt service would peak in 2027 at ¼ percent of GDP (Table 8). Risks revolve around adverse external shocks and are mitigated by Kosovo's strong track record of implementing prudent policies and repaying the Fund and by low risk of sovereign debt distress.

STATISTICS

40. The authorities are making efforts to improve the quality of national statistics, but challenges remain.

- ***National Accounts.*** The IMF Statistics Department (STA) and other agencies have been supporting KAS to strengthen national accounts compilation systems. Pending tasks include the implementation of proper reconciliation between quarterly and annual figures of GDP and components. Further efforts are needed to develop adequate price indices required to compute volume estimates of value added in several NACE sectors.[35]

- ***Government Finance.*** The Treasury has also made progress—with assistance from STA—on reporting under the GFSM 2014 but work on fully integrating stocks and flows is still ongoing. Further efforts are needed to produce fiscal accounts on an accrual basis. In the meantime, more

[35] NACE is the statistical classification of economic activities in the European Community.

frequent reporting of accounts payable is important to properly gauge the fiscal position under the current cash accounting reporting standards.[36]

STAFF APPRAISAL

41. Activity is growing and inflation has receded, but lingering risks remain. Growth is expected to accelerate in 2024, supported by strong private consumption—fueled by higher real disposable income—and public investment. Robust diaspora-related inflows, a scale up in public investment execution, and the implementation of the authorities' green agenda are expected to sustain growth over the medium term. Average annual inflation is expected to remain below 3 percent in 2024, on the back of lower import prices. However, uncertainty remains high with risks tilted to the downside. These include commodity price spikes due to geopolitical tensions, weaker activity in advanced European economies, an escalation of tensions in northern Kosovo, and increased domestic political polarization. Higher interest rates in the Eurozone are gradually being transmitted into higher bank lending rates and financing costs for the Treasury. The impact of the EU visa liberalization appears to be limited in the short term but continued emigration flows—especially of young, educated segments of the population—would exacerbate labor and skill shortages, hurting medium-term growth.

42. The SBA has continued to anchor prudent macroeconomic policies. Fiscal policy is projected to provide a moderate stimulus in 2024, which is appropriate given the growth slowdown, moderate slack, the marked decline in inflation, and low levels of public debt. The SBA has supported the reduction of budgetary discretionary reserves, which helps strengthen transparency and accountability, and an increase in public investment. Rebuilding government liquidity buffers will be important to safeguard an adequate level of reserves in Kosovo's fully-euroized economy. Foreign reserves are projected to range between 95 and 100 percent of the IMF ARA metric over the medium term.

43. The SBA is supporting structural reforms to strengthen fiscal and financial sector governance. Progress has been made in strengthening tax administration and managing fiscal risks. Further enhancing public investment management frameworks remains critical. The new Law on Banks should provide a modern regulatory framework for the financial system. The CBK is advancing an ambitious institutional and governance reform agenda. Measures to support digitalization, promote financial inclusion, strengthen AML/CFT frameworks, and introduce greener considerations in the supervisory toolkit will help strengthen CBK capacities and operations.

44. The RSF is delivering strong results, supporting implementation of the authorities' ambitious green agenda. The RSF has supported reforms to strengthen the regulatory framework and increased policy space to attract private investment into green energy. Good progress is being made to expand green energy generation capacity. Steps are being taken to strengthen regional

[36] A recent TA mission recommended compiling data on outstanding invoices and use these to estimate accrual numbers for certain expenditure categories.

integration and promote competition in electricity markets, essential to attract private investment. Reducing emissions and air pollution, enhancing energy security, improving targeting of energy subsidies, and increasing preparedness for implementation of carbon pricing are also important goals.

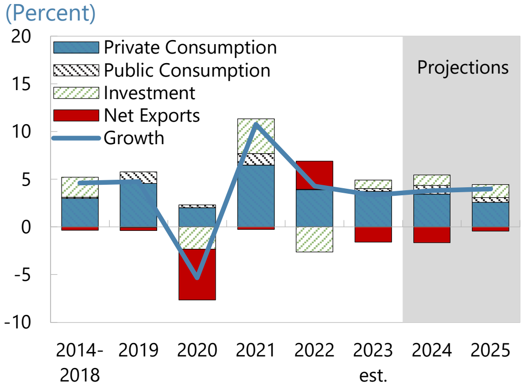
45. The authorities' program ownership remains strong. All QPCs and ITs for the second review have been met. SBA and RSF structural conditionality have been implemented as planned and policies required for the next reviews are progressing. Given expected financing flows for 2024–2025, the authorities intend to continue treating the SBA as precautionary but may decide to purchase if an adverse shock materializes.

46. Staff supports the authorities' request for completion of the second reviews under the SBA and RSF arrangements and the proposed modification of an RSF reform measure. Based on strong macroeconomic performance, good progress on the implementation of structural reforms agreed under the SBA and RSF, and continued strong program ownership, staff supports the completion of the second reviews. Staff also supports the modification of the timeline for implementing RM2.

Figure 1. Kosovo: Real Sector Developments

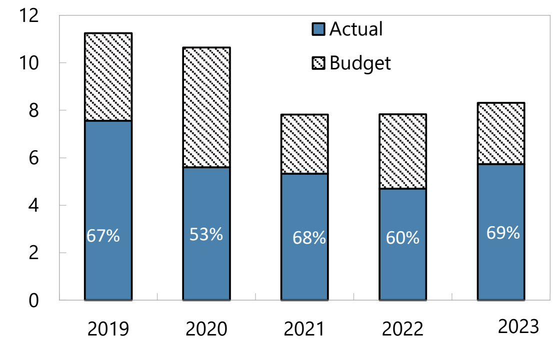
GDP growth slowed in 2023 due to weaker net exports and is projected to accelerate in 2024 supported by domestic demand.

Contributions to Real Growth
(Percent)



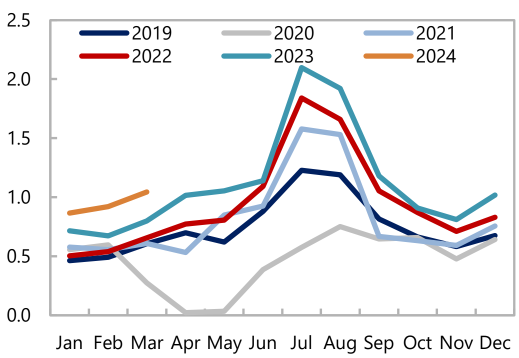
Public investment execution improved in 2023…

Government Capital Expenditure
(Percent of GDP)



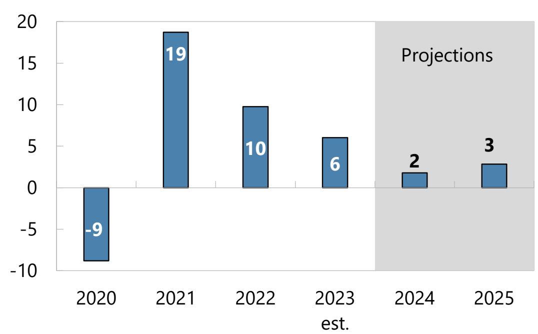
…and diaspora-related tourism has supported activity and demand…

Number of Passenger Arrivals
(Millions)



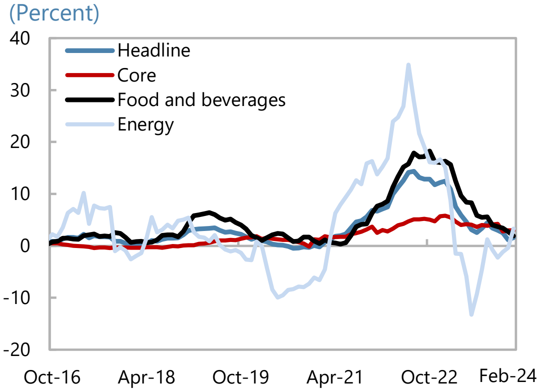
…although the overall contribution of diaspora-related flows to growth has moderated.

Change in Diaspora Support via Travel, Remittances and FDI
(Percentage points of GDP)



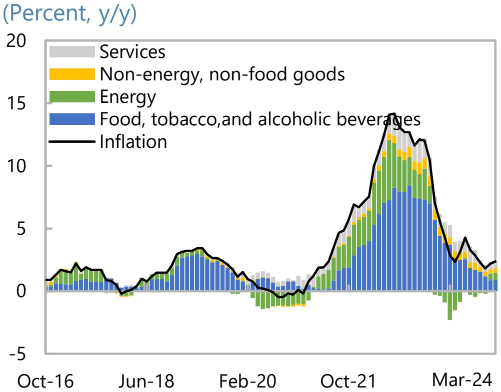
Headline inflation declined markedly…

Inflation
(Percent)



…driven by lower energy and food prices.

Inflation Decomposition
(Percent, y/y)

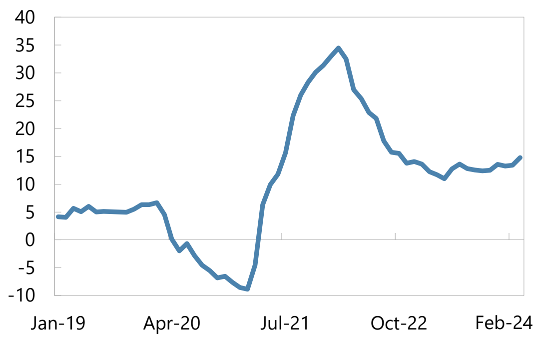


Sources: Haver Analytics, Ministry of Finance, Labor, and Transfers, Kosovo Agency of Statistics, Central Bank of Kosovo, Ministry of Internal Affairs (Police Border Control), *World Economic Outlook*, and IMF staff estimates.

Figure 2. Kosovo: Fiscal Developments

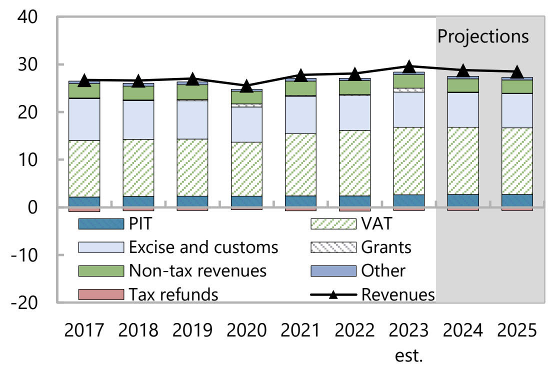
Revenue growth was strong in 2023…

Real Tax Revenues
(Percent, Y/Y growth, 12-month MA)



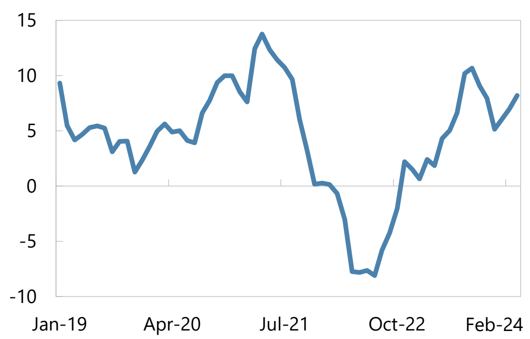
…supported by efforts to strengthen tax compliance and solid economic activity.

Revenue Composition
(Percent of GDP)



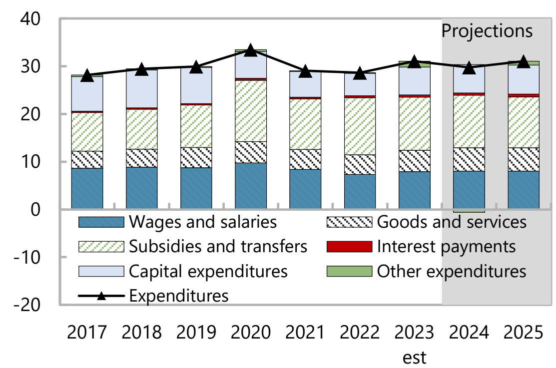
Expenditure has been growing moderately…

Real Expenditure Growth
(Percent, Y/Y growth, 12-month MA)



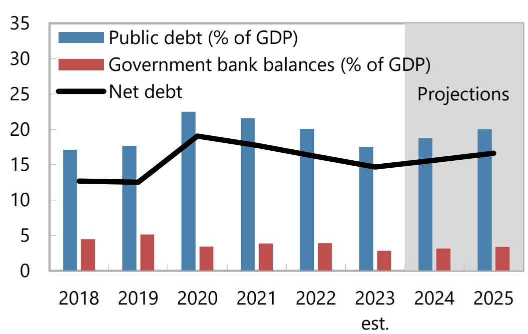
…primarily reflecting higher investment execution.

Expenditure Composition
(Percent of GDP)



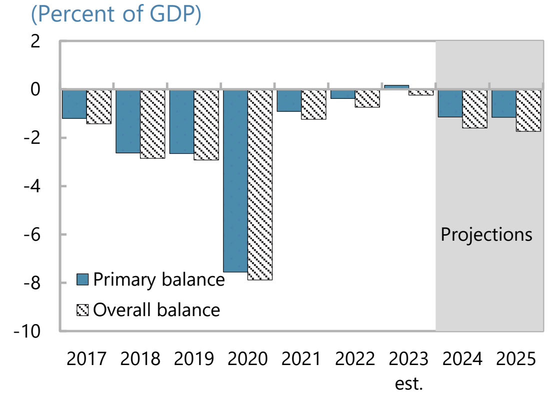
Public debt remains low and sustainable…

Public Debt and Government Bank Balance
(Percent of GDP)



…with fiscal policies anchored by the fiscal rule.

Fiscal Balance
(Percent of GDP)

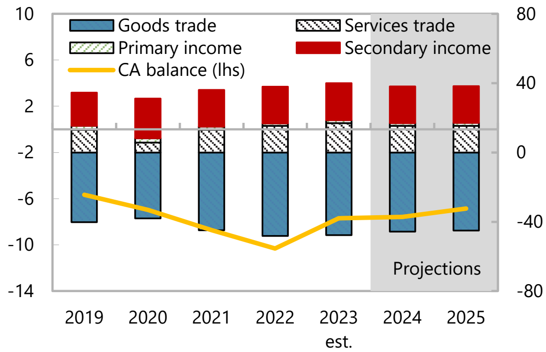


Sources: Ministry of Finance, Labor, and Transfers, Central Bank of Kosovo, and IMF staff calculations.

Figure 3. Kosovo: External Sector Developments

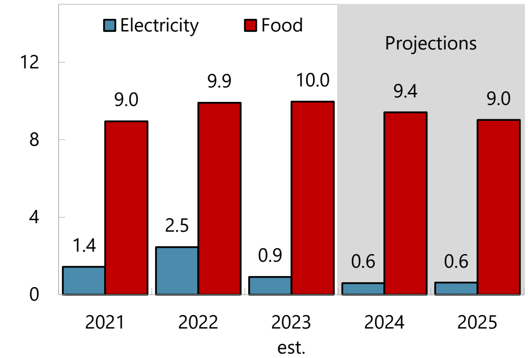
The current account deficit is narrowing…

Contributions to the Current Account Balance
(Percent of GDP)



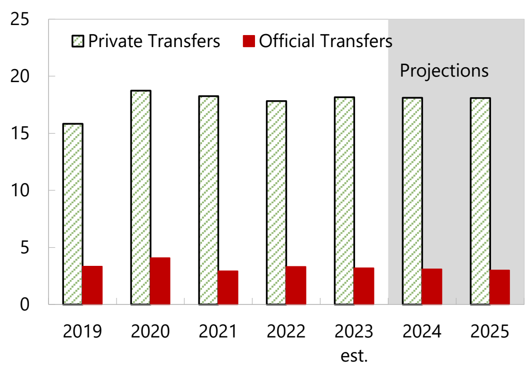
…on the back of lower commodity prices.

Imports of Goods
(Percent of GDP)



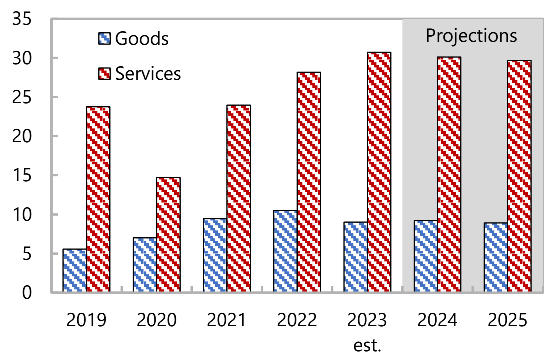
Remittances will remain large as share of GDP…

Secondary Income Transfers
(Percent of GDP)



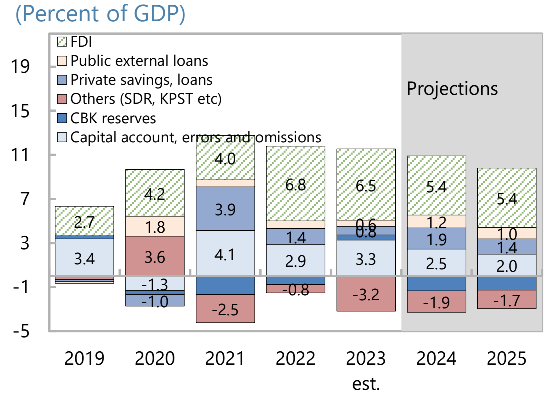
…while exports of goods and services will remain broadly stable.

Exports of Goods and Services
(Percent of GDP)



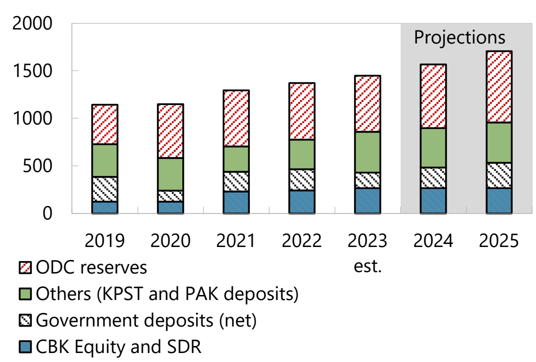
The current account will be mainly financed by FDI and official external loans…

Financing of Current Account
(Percent of GDP)



…with reserve adequacy expected to remain close to the IMF metric benchmark.

CBK Reserve Assets: Sources of Funding 1/
(Millions of euros)



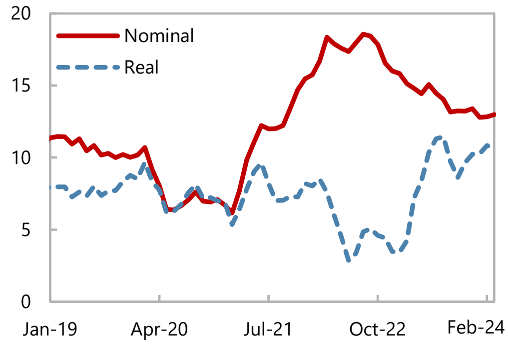
Sources: Haver Analytics, Kosovo Agency of Statistics, Ministry of Finance, Labor, and Transfers, *World Economic Outlook*. and IMF staff estimates.

1/ Government deposits are net of holdings of government securities. Other deposits include transferable deposits, deposit insurance fund deposits, insurance companies deposits etc.

Figure 4. Kosovo: Financial Sector Developments

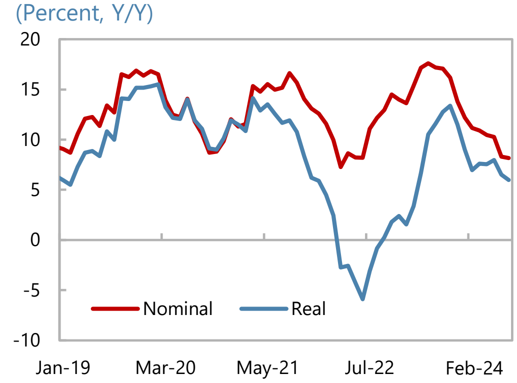
Real credit growth to the private sector has been robust…

Private Sector Credit Growth
(Percent change, year-on-year)



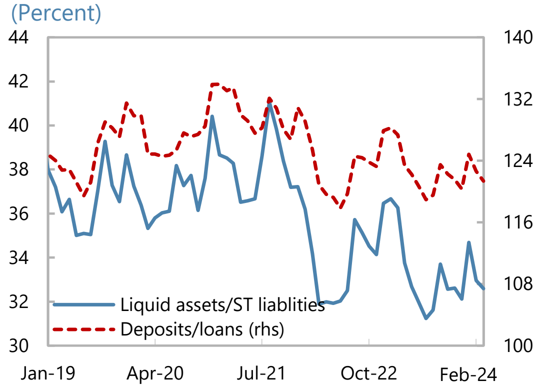
…and real deposit growth has remained solid, although it has decelerated recently.

Bank Deposits Growth
(Percent, Y/Y)



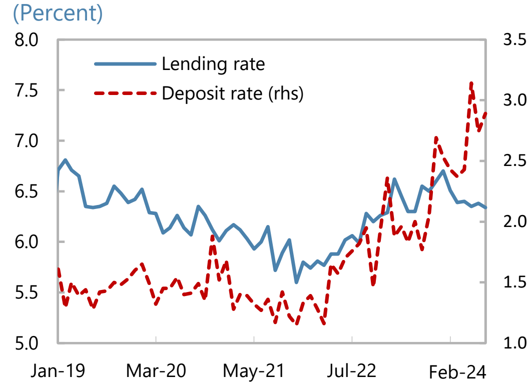
Bank liquidity ratios remain comfortable.

Liquidity
(Percent)



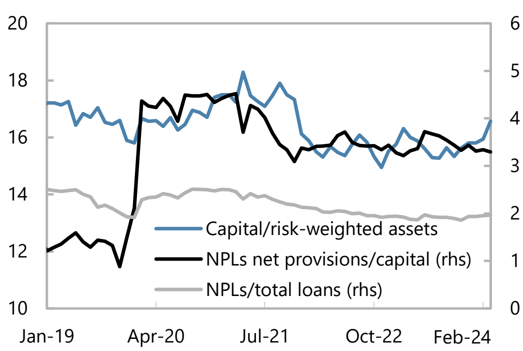
Interest rates are increasing, reflecting tighter monetary conditions in the euro area.

Lending and Deposit Rates
(Percent)



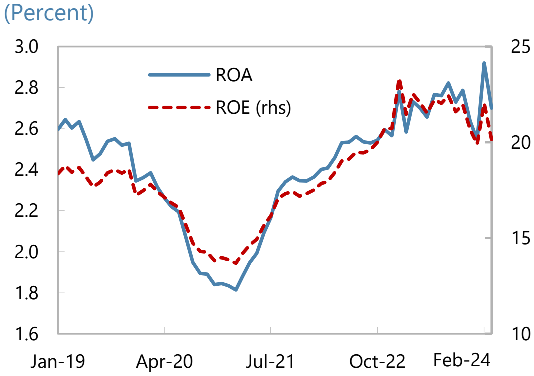
NPLs remain low and capital buffers remain adequate…

Asset Quality and Capital Adequacy
(Percent)



…and profitability has remained high.

Profitability
(Percent)



Sources: Central Bank of Kosovo and IMF staff estimates.

Box 1. An Illustrative Adverse Scenario

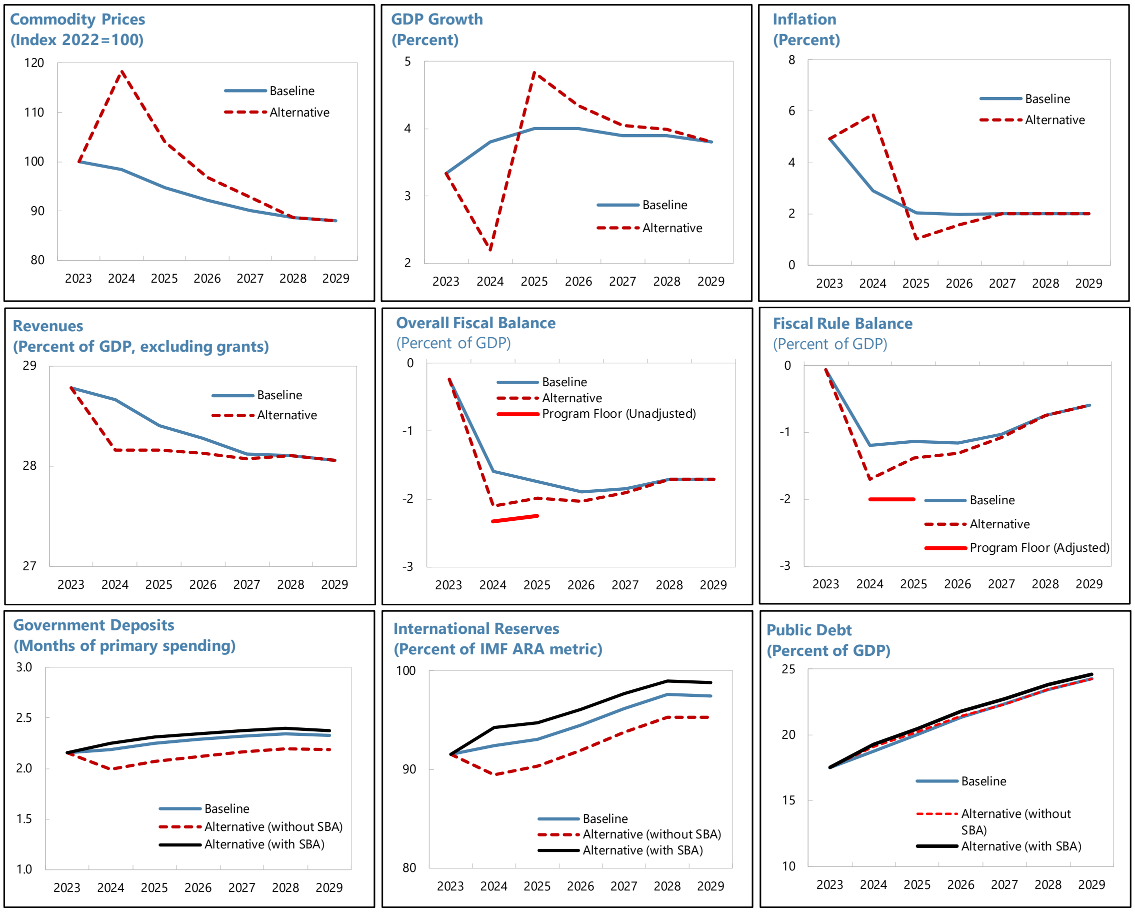
Kosovo, a net importer of energy and food, is exposed to international commodity price shocks. The external environment remains highly uncertain, dominated by risks stemming from geopolitical tensions, including from conflicts in Ukraine, Gaza, and the Red Sea. Geopolitical shocks could trigger a new spike in energy prices, which could in turn cause higher food prices. For Kosovo, this scenario would imply a negative terms of trade shock.

To assess the possible impact of these shocks, staff has prepared an illustrative adverse scenario. It considers an increase in international energy and food prices of 20 percent *vis-a-vis* the baseline. The scenario assumes that commodity prices begin to gradually recover, while staying higher than in the baseline until 2028.

Kosovo's economy would be negatively affected in such an adverse scenario. The terms-of-trade shock would lead to higher inflation, lower GDP growth, a widening output gap, lower fiscal revenues, and higher fiscal and external financing needs. The largest negative impact would occur in 2024, when GDP growth would be about 1½ pp below the baseline. This would affect fiscal revenues, which would be lower than in the baseline by about ½ pp of GDP in 2024–25. This would create additional financing needs of about €50 million per year in 2024–25. Absent new sources of financing, either a fiscal adjustment of similar magnitude (in the past through lower investment) or a reduction of government liquidity buffers would be needed. The latter would also imply lower international reserves, which are critically needed to maintain financial stability in Kosovo's fully-euroized economy.

Under such circumstances, access to SBA financing would mitigate a costly adjustment and/or loss of reserves. Staff would recommend letting automatic stabilizers operate and a higher fiscal deficit. SBA purchases would allow GIR to remain at levels around 95 percent of the ARA metric, while protecting public investment and social spending.

Box 1. Figure 1. Illustrative Adverse Scenario. Main Macroeconomic Variables



Sources: IMF staff calculations and Kosovo authorities.

Table 1. Kosovo: Selected Economic Indicators, 2019–29

(Percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Act.				Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP growth 1/	4.8	-5.3	10.7	4.3	3.3	3.8	4.0	4.0	3.9	3.9	3.8
Contribution to growth (percentage points of GDP)											
Consumption	5.8	2.3	7.7	4.0	4.0	4.4	3.1	3.2	3.2	3.2	3.1
Private	4.6	2.0	6.5	3.9	3.7	3.5	2.6	2.5	2.5	2.5	2.5
Public	1.2	0.3	1.2	0.0	0.3	0.9	0.5	0.6	0.6	0.6	0.5
Investment	-0.1	-2.3	3.6	-2.6	0.9	1.1	1.3	1.8	1.9	2.1	1.7
Net Exports	-0.3	-5.3	-0.2	2.9	-1.6	-1.6	-0.4	-1.0	-1.1	-1.3	-0.9
Exports	2.2	-8.6	17.0	6.7	2.5	2.0	1.3	2.3	2.0	2.0	1.8
Imports	-2.5	3.3	-17.2	-3.7	-4.1	-3.6	-1.7	-3.3	-3.1	-3.2	-2.7
Real growth rate (percent)											
Consumption	6.2	2.4	7.6	3.0	4.1	4.4	3.1	3.2	3.2	3.2	3.1
Private	5.6	2.5	7.3	4.6	4.3	4.0	3.0	3.0	3.0	3.0	3.0
Public	10.1	2.1	9.0	0.2	2.3	7.0	3.9	4.5	4.4	4.2	3.9
Investment	2.9	-7.6	13.0	-3.2	3.1	3.9	4.8	6.6	6.5	7.2	5.6
Exports	7.6	-29.1	76.8	18.9	6.3	4.8	3.1	5.5	4.8	4.6	4.1
Imports	4.5	-6.0	31.4	5.4	6.2	5.4	2.5	4.8	4.5	4.7	3.9
Official unemployment (percent of workforce)	25.7	26.0	20.8	12.6	…	…	…	…	…	…	…
Price changes											
CPI, period average	2.7	0.2	3.3	11.6	4.9	2.9	2.0	2.0	2.0	2.0	2.0
GDP deflator	1.0	1.4	6.1	7.2	5.0	2.8	2.5	2.8	2.7	2.5	2.1
General government budget (percent of GDP)											
Revenues and grants	27.0	25.6	27.8	28.1	29.6	28.8	28.5	28.4	28.2	28.2	28.1
Expenditures	29.9	33.5	29.0	28.8	29.9	30.4	30.3	30.3	30.1	29.9	29.8
Of which: Wages and salaries	8.7	9.8	8.4	7.3	7.9	8.1	8.1	8.1	8.1	8.1	8.1
Subsidies and transfers	8.9	12.8	10.6	12.0	11.2	11.0	10.6	10.4	10.1	9.9	9.7
Capital expenditure	7.6	5.6	5.3	4.8	5.8	6.0	6.1	6.2	6.3	6.4	6.5
Overall Balance (Fiscal rule) 2/	-0.8	-6.5	-0.9	-0.5	-0.1	-1.2	-1.1	-1.2	-1.0	-0.7	-0.6
Overall balance	-2.9	-7.8	-1.2	-0.7	-0.2	-1.6	-1.7	-1.9	-1.9	-1.7	-1.7
Stock of freely available government bank balances	5.1	3.4	3.8	3.9	2.8	3.1	3.4	3.6	3.8	3.9	4.0
Total public debt 3/	17.7	22.5	21.6	20.1	17.5	18.8	20.0	21.3	22.3	23.4	24.3
Balance of Payments (percent of GDP)											
Current account balance, incl. official transfers	-5.7	-7.0	-8.7	-10.3	-7.7	-7.6	-6.8	-6.4	-6.1	-5.9	-5.6
Of which: Official transfers 4/	3.4	4.1	2.9	3.3	3.2	3.1	3.0	3.0	3.0	3.0	3.0
Of which: Remittance inflows	12.1	14.5	14.4	13.7	13.9	13.5	13.5	13.1	12.6	12.6	12.6
Financial account	-2.3	-8.3	-4.6	-7.4	-4.4	-5.1	-4.8	-3.5	-3.0	-3.0	-3.0
Of which: Direct investment, net	-2.7	-4.2	-4.0	-6.8	-6.5	-5.4	-5.4	-5.2	-5.0	-4.8	-4.8
Portfolio investment, net	0.8	-1.2	3.5	1.5	4.6	0.9	1.8	1.8	2.0	2.0	2.3
Other investment, net	-1.8	-3.5	-6.2	-2.9	-2.1	-2.0	-2.5	-1.4	-1.2	-1.4	-1.3
Reserve change	1.3	0.7	2.1	0.8	-0.5	1.4	1.3	1.3	1.2	1.2	0.9
Errors and Omissions	3.5	-1.6	3.4	2.4	2.6	1.8	1.4	2.3	2.5	2.3	2.0
Savings-investment balances (percent of GDP)											
National savings	28.9	26.4	27.2	24.9	26.5	25.6	26.5	27.3	28.1	29.0	29.7
Public savings	4.4	-2.8	3.9	3.8	4.7	4.3	4.2	4.2	4.3	4.6	4.7
Private savings	24.5	29.3	23.3	21.1	21.8	21.3	22.3	23.1	23.8	24.4	25.0
Investment	34.6	33.4	36.0	35.2	34.2	33.2	33.3	33.8	34.2	34.9	35.3
Public investment	7.6	5.6	5.3	4.8	5.8	6.0	6.1	6.2	6.3	6.4	6.5
Private investment	27.0	27.8	30.6	30.5	28.4	27.2	27.3	27.6	27.9	28.6	28.8
Current account, including. official transfers	-5.7	-7.0	-8.7	-10.3	-7.7	-7.6	-6.8	-6.4	-6.1	-5.9	-5.6
Financial Sector											
Non-performing loans (percent of total loans)	1.9	2.5	2.1	1.9	1.9	…	…	…	…	…	…
Bank credit to the private sector (percent change)	10.0	7.1	15.6	16.0	12.8	8.0	7.4	7.0	6.9	6.9	6.5
Deposits of the private sector (percent change)	15.5	10.9	12.4	12.7	11.3	7.6	7.6	7.8	7.7	7.5	7.0
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5	15.8	…	…	…	…	…	…
Memorandum items:											
Foreign Reserves (millions of euros, IMF Definition)	1,141	1,149	1,293	1,370	1,449	1,567	1,707	1,854	2,007	2,164	2,289
Foreign Reserves (% of ARA metric)	126	120	107	96	92	92	93	94	96	98	97
GDP (millions of euros)	7,056	6,772	7,958	8,896	9,653	10,301	10,979	11,738	12,523	13,332	14,133
GDP (millions of euros; projections in 2024 budget)	7,056	6,772	7,958	8,936	9,794	10,563	…	…	…	…	…
GDP per capita (euros)	3,959	3,766	4,499	5,026	5,451	5,814	6,194	6,619	7,058	7,510	7,879
Real GDP growth per capita	5.6	-6.2	12.6	4.2	3.3	3.7	3.9	3.9	3.8	3.8	2.7
Output gap (% of GDP)	1.2	-6.2	-0.5	-0.5	-0.7	-0.5	-0.2	0.0	0.0	0.0	0.0
Population (million)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ Consumption and Investment include contribution from change in statistical error

2/ The "fiscal rule" caps the overall fiscal deficit at 2 percent of GDP, excluding investment financed with privatization receipts and donor financing contracted after 2015, as well as PAK-related current expenditure; the IMF calculates expenditures from carried-forward own-source revenue (OSR) as the difference in the municipal OSR stock.

3/ It does not include contigent debt of former Yugoslavia.

4/ Total foreign assistance excluding capital transfers.

Table 2. Kosovo: Consolidated Government Budget, 2019–29 (Euro million)[1]

(Including donor designated grants and PAK operations)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Act.				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**1,905**	**1,736**	**2,212**	**2,499**	**2,860**	**2,964**	**3,131**	**3,331**	**3,533**	**3,758**	**3,977**
Revenue	1,885	1,693	2,195	2,479	2,778	2,952	3,119	3,319	3,521	3,746	3,965
Taxes	1,662	1,507	1,948	2,217	2,506	2,667	2,815	2,989	3,169	3,371	3,565
Direct taxes	292	267	342	414	490	531	561	593	634	676	720
of which: Personal income tax	166	158	190	216	256	278	296	316	338	360	384
of which: Corporate income tax	95	85	114	160	185	201	209	218	233	248	265
of which: Property tax	27	23	36	35	46	49	52	56	60	64	67
Other	5	1	2	4	3	3	3	3	4	4	4
Indirect taxes	1,415	1,273	1,665	1,870	2,077	2,203	2,325	2,471	2,614	2,779	2,934
VAT	846	770	1,038	1,220	1,366	1,454	1,537	1,633	1,732	1,843	1,951
Excise	435	398	501	517	555	597	637	681	726	773	819
Customs	130	102	125	133	156	152	151	158	156	163	165
Other	4	3	1	0	0	0	0	0	0	0	0
Tax refunds	-46	-33	-59	-67	-61	-66	-71	-75	-80	-85	-89
Nontax revenues	223	186	247	262	272	285	304	331	353	375	400
Other revenue	7	3	9	6	6	2	2	2	2	2	2
Grants	19	43	17	20	81	12	12	12	12	12	12
Budget support	12	34	0	10	68	0	0	0	0	0	0
Project grants (DDGs)	8	9	17	10	14	12	12	12	12	12	12
Expenditure	**2,111**	**2,265**	**2,311**	**2,565**	**2,882**	**3,129**	**3,322**	**3,553**	**3,765**	**3,987**	**4,218**
Current expenditure	1,578	1,886	1,887	2,142	2,321	2,512	2,657	2,825	2,980	3,136	3,299
Wages and salaries	617	661	668	653	767	830	885	946	1,009	1,074	1,139
Goods and services	298	302	332	363	427	503	537	574	612	652	691
Subsidies and transfers	628	868	843	1,065	1,079	1,130	1,169	1,215	1,264	1,315	1,367
Current reserves	0	0	0	0	0	0	0	0	0	0	0
DDGs and other expenditure	5	0	0	0	0	0	0	0	0	0	0
Interest payments	23	26	31	35	42	49	66	90	94	95	101
Interest - internal	11	17	21	25	28	28	41	59	62	61	65
of which: on external debt	12	10	10	10	14	20	25	31	32	34	37
Other net PAK expenditure	6	24	13	25	5	0	0	0	0	0	0
Capital expenditure	534	380	424	423	561	617	665	728	785	851	920
Budget-financed	366	265	364	348	490	560	585	630	670	710	750
PAK-financed	132	54	0	0	0	0	0	0	0	0	0
External	36	60	60	75	71	57	80	98	115	141	170
of which: Non-Investment Clause	21	31	31	47	42	3	1	1	0	0	0
of which: "Investment Clause"	13	26	20	17	18	42	67	85	103	129	158
Fiscal balances											
Primary balance	-188	-507	-72	-34	16	-118	-127	-133	-139	-135	-142
Interest income, net	-19	-26	-32	-36	-41	-45	-48	-48	-47	-46	-45
Overall balance	**-207**	**-529**	**-99**	**-66**	**-23**	**-165**	**-191**	**-222**	**-232**	**-228**	**-242**
"Fiscal rule" deductions from the overall balance	151	128	27	17	18	42	67	85	104	131	161
Overall balance ('Fiscal rule" definition) 2/	**-55**	**-443**	**-72**	**-49**	**-5**	**-123**	**-125**	**-136**	**-129**	**-100**	**-84**
Overall cyclically adjusted balance	-255	-425	-101	-69	-79	-157	-195	-234	-244	-240	-254
Financing	**207**	**529**	**99**	**66**	**23**	**165**	**191**	**222**	**232**	**228**	**242**
Foreign financing (net)	-10	127	44	63	56	121	114	76	83	85	95
Budget Support	0	156	67	11	38	131	93	30	30	30	30
External Financing for Projects	39	59	56	100	65	51	78	98	117	144	175
Amortization of external debt	-50	-89	-79	-48	-46	-61	-56	-52	-64	-89	-110
Domestic financing (net)	217	402	55	3	-33	44	77	146	149	143	147
Net Domestic debt issuance	115	170	145	-4	-147	121	131	202	207	203	199
Change in CBK deposits	43	211	-100	23	75	-50	-50	-50	-50	-50	-40
Treasury	-70	127	-106	4	74	-50	-50	-50	-50	-50	-40
PAK	113	84	7	19	1	0	0	0	0	0	0
Other Financing (Net POE and other)	15	9	4	-22	33	-27	-4	-6	-8	-10	-12
Equity (Privatization)	44	12	6	6	6	0	0	0	0	0	0
Memorandum items											
Overall balance (MOF) 3/	-208	-513	-102	-46	-26	-166	-193	-223	-233	-230	-243
Pandemic-related fiscal measures	…	296	310	…	…	…	…	…	…	…	…
Treasury free disposal bank balances	362	233	306	347	273	323	373	423	473	523	563
Total public debt 4/	1,247	1,523	1,717	1,787	1,692	1,934	2,198	2,506	2,799	3,126	3,430
External debt	452	557	607	671	721	842	956	1,032	1,115	1,200	1,295
Of which: onlending	50	43	46	47	43	42	46	51	59	68	78
Of which: guarantees	43	32	31	30	29	29	29	29	29	29	29
Domestic debt	795	965	1,110	1,116	970	1,092	1,242	1,474	1,684	1,926	2,135

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ It does not yet reflect the GFSM 2014 methodology.

2/ The "fiscal rule" caps the overall fiscal deficit at 2 percent of GDP, excluding investment financed with privatization receipts and donor financing contracted after 2015, as well as PAK-related current expenditure; the IMF calculates expenditures from carried-forward own-source revenue (OSR) as the difference in the municipal OSR stock.

3/ Excludes DDGs, revenues held in trust, and additional net PAK expenditure.

4/ The stock of public debt no longer includes the former Yugoslavia debt, which has been reclassified as a contingent liability. Beginning in 2020, it includes Euro 120 million of debt with KPST.

Table 3. Kosovo: Consolidated Government Budget, 2019–29 (Percent of GDP)[1]

(Including donor designated grants and PAK operations)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	Act.				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**27.0**	**25.6**	**27.8**	**28.1**	**29.6**	**28.8**	**28.5**	**28.4**	**28.2**	**28.2**	**28.1**
Revenue	26.7	25.0	27.6	27.9	28.8	28.7	28.4	28.3	28.1	28.1	28.1
Taxes	23.6	22.3	24.5	24.9	26.0	25.9	25.6	25.5	25.3	25.3	25.2
Direct taxes	4.1	3.9	4.3	4.7	5.1	5.2	5.1	5.1	5.1	5.1	5.1
of which: Personal income tax	2.3	2.3	2.4	2.4	2.7	2.7	2.7	2.7	2.7	2.7	2.7
of which: Corporate income tax	1.3	1.3	1.4	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9
of which: Property tax	0.4	0.3	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Indirect taxes	20.1	18.8	20.9	21.0	21.5	21.4	21.2	21.0	20.9	20.8	20.8
VAT	12.0	11.4	13.0	13.7	14.1	14.1	14.0	13.9	13.8	13.8	13.8
Excise	6.2	5.9	6.3	5.8	5.7	5.8	5.8	5.8	5.8	5.8	5.8
Customs	1.8	1.5	1.6	1.5	1.6	1.5	1.4	1.3	1.2	1.2	1.2
Tax refunds	-0.6	-0.5	-0.7	-0.8	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Nontax revenues	3.2	2.8	3.1	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Other revenue	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.3	0.6	0.2	0.2	0.8	0.1	0.1	0.1	0.1	0.1	0.1
Budget support	0.2	0.5	0.0	0.1	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Project grants (DDGs)	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure	**29.9**	**33.5**	**29.0**	**28.8**	**29.9**	**30.4**	**30.3**	**30.3**	**30.1**	**29.9**	**29.8**
Current expenditure	22.4	27.8	23.7	24.1	24.0	24.4	24.2	24.1	23.8	23.5	23.3
Wages and salaries	8.7	9.8	8.4	7.3	7.9	8.1	8.1	8.1	8.1	8.1	8.1
Goods and services	4.2	4.5	4.2	4.1	4.4	4.9	4.9	4.9	4.9	4.9	4.9
Subsidies and transfers	8.9	12.8	10.6	12.0	11.2	11.0	10.6	10.4	10.1	9.9	9.7
Current reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DDGs and other expenditure	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	0.3	0.4	0.4	0.4	0.4	0.5	0.6	0.8	0.8	0.7	0.7
of which: on external debt	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.3	0.3
Other net PAK expenditure	0.1	0.4	0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	7.6	5.6	5.3	4.8	5.8	6.0	6.1	6.2	6.3	6.4	6.5
Budget-financed	5.2	3.9	4.6	3.9	5.1	5.4	5.3	5.4	5.4	5.3	5.3
PAK-financed	1.9	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.5	0.9	0.8	0.8	0.7	0.5	0.7	0.8	0.9	1.1	1.2
Non-Investment Clause	0.3	0.5	0.4	0.5	0.4	0.0	0.0	0.0	0.0	0.0	0.0
of which: "Investment Clause"	0.2	0.4	0.3	0.2	0.2	0.4	0.6	0.7	0.8	1.0	1.1
Fiscal balances											
Primary balance	-2.7	-7.5	-0.9	-0.4	0.2	-1.1	-1.2	-1.1	-1.1	-1.0	-1.0
Overall balance	**-2.9**	**-7.8**	**-1.2**	**-0.7**	**-0.2**	**-1.6**	**-1.7**	**-1.9**	**-1.9**	**-1.7**	**-1.7**
"Fiscal rule" deductions from the overall balance	2.1	1.9	0.3	0.2	0.2	0.4	0.6	0.7	0.8	1.0	1.1
Overall balance ('Fiscal rule" definition) 2/	**-0.8**	**-6.5**	**-0.9**	**-0.5**	**-0.1**	**-1.2**	**-1.1**	**-1.2**	**-1.0**	**-0.7**	**-0.6**
Overall cyclically adjusted balance	-3.6	-6.3	-1.3	-0.8	-0.8	-1.5	-1.8	-2.0	-1.9	-1.8	-1.8
Financing	**2.9**	**7.8**	**1.2**	**0.7**	**0.2**	**1.6**	**1.7**	**1.9**	**1.9**	**1.7**	**1.7**
Foreign financing (net)	-0.1	1.9	0.6	0.7	0.6	1.2	1.0	0.6	0.7	0.6	0.7
Budget Support	0.0	2.3	0.8	0.1	0.4	1.3	0.8	0.3	0.2	0.2	0.2
External Financing for Projects	0.6	0.9	0.7	1.1	0.7	0.5	0.7	0.8	0.9	1.1	1.2
Amortization of external debt	-0.7	-1.3	-1.0	-0.5	-0.5	-0.6	-0.5	-0.4	-0.5	-0.7	-0.8
Domestic financing (net)	3.1	5.9	0.7	0.0	-0.3	0.4	0.7	1.2	1.2	1.1	1.0
Net Domestic debt issuance	1.6	2.5	1.8	0.0	-1.5	1.2	1.2	1.7	1.7	1.5	1.4
Change in CBK deposits	0.6	3.1	-1.3	0.3	0.8	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
Treasury	-1.0	1.9	-1.3	0.0	0.8	-0.5	-0.5	-0.4	-0.4	-0.4	-0.3
PAK	1.6	1.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing (Net POE and other)	0.2	0.1	0.0	-0.2	0.3	-0.3	0.0	-0.1	-0.1	-0.1	-0.1
Equity (Privatization)	0.6	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items											
Overall balance (MOF) 3/	-2.9	-7.6	-1.3	-0.5	-0.3	-1.6	-1.8	-1.9	-1.9	-1.7	-1.7
Pandemic-related fiscal measures	…	4.4	3.9	…	…	…	…	…	…	…	…
Treasury free disposal bank balances	5.1	3.4	3.8	3.9	2.8	3.1	3.4	3.6	3.8	3.9	4.0
Total public debt 4/	17.7	22.5	21.6	20.1	17.5	18.8	20.0	21.3	22.3	23.4	24.3
External debt	6.4	8.2	7.6	7.5	7.5	8.2	8.7	8.8	8.9	9.0	9.2
Of which: onlending	0.7	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6
Of which: guarantees	0.6	0.5	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Domestic debt	11.3	14.3	13.9	12.5	10.1	10.6	11.3	12.6	13.4	14.4	15.1

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ It does not yet reflect the GFSM 2014 methodology.

2/ The "fiscal rule" caps the overall fiscal deficit at 2 percent of GDP, excluding investment financed with privatization receipts and donor financing contracted after 2015, as well as PAK-related current expenditure; the IMF calculates expenditures from carried-forward own-source revenue (OSR) as the difference in the municipal OSR stock.

3/ Excludes DDGs, revenues held in trust, and additional net PAK expenditure.

4/ The stock of public debt no longer includes the former Yugoslavia debt, which has been reclassified as a contingent liability. Beginning in 2020, it includes Euro 120 million of debt with KPST.

Table 4. Kosovo: Central Government Cashflow Table 2019–29

(Millions of euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Financing Needs	501	818	340	337	323	508	503	485	595	622	652
Overall balance	-207	-529	-99	-66	-23	-165	-191	-222	-232	-228	-242
Amortization	294	289	241	271	300	344	311	263	363	394	410
External	50	89	79	48	46	61	56	52	64	89	110
Domestic	245	200	162	223	254	283	255	211	298	305	300
Financing Sources	499	822	349	339	328	509	503	485	594	622	652
External Debt	39	215	123	111	102	182	171	128	147	174	205
Budget Support	0	104	67	11	0	93	93	30	30	30	30
External Financing for Projects	39	59	56	100	65	51	78	98	117	144	175
Investment Clause (2016 and after)	14	26	20	17	18	42	67	85	103	129	158
Non-Investment Clause	21	31	31	47	42	3	1	1	0	0	0
Disbursements for on-lending	4	3	5	36	6	6	10	12	14	15	17
Use of IMF Credit	0	52	0	0	38	38	0	0	0	0	0
of which: RSF	*0*	*0*	*0*	*0*	*38*	*38*	…	…	…	…	…
Domestic Debt	460	606	225	228	225	327	332	357	447	447	447
Gross Domestic Debt Placements	360	370	307	219	107	404	386	413	506	508	499
KPST one-off financing	0	0	0	0	0	0	0	0	0	0	0
Other Financing (Net POE)	13	15	13	-24	24	-27	-4	-6	-8	-10	-12
Commercial Bank Deposits	0	-1	0	3	12	0	0	0	0	0	0
Equity (Privatization, PAK and other)	44	12	6	6	6	0	0	0	0	0	0
Change in government assets (-=increase)	43	211	-100	23	75	-50	-50	-50	-50	-50	-40
of which: RSF	*0*	*0*	*0*	*0*	*-38*	*38*	*0*	*0*	*0*	*0*	*0*
Errors and Omissions	1	-4	-9	-2	-5	0	0	0	0	0	0

Sources: Kosovo authorities and IMF staff estimates and projections.

Table 5a. Kosovo: Program Monitoring—External Financing Requirements and Sources 2019–29

(Millions of euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Act.			Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Gross External Financing Requirements	**495**	**519**	**864**	**985**	**660**	**881**	**890**	**900**	**917**	**946**	**917**
Current Account Deficit	400	472	695	917	742	780	751	753	765	788	792
Change in Reserves (+ = increase) (without RSF)	95	46	169	68	-82	101	139	148	153	158	125
B. Gross External Financing Sources	**495**	**519**	**864**	**985**	**660**	**881**	**890**	**900**	**917**	**946**	**917**
Capital Transfers, net	-9	17	62	38	63	66	69	73	76	80	84
Portfolio Flows, net	-59	82	-277	-136	-440	-95	-198	-213	-250	-273	-320
Direct Investment, net	188	287	320	603	623	554	591	605	626	646	685
Other Investment, net (excl. Central Government)	140	117	446	199	145	86	164	93	71	100	90
Central Government External Borrowing, net (without RSF)	-12	123	45	62	17	83	114	76	83	85	95
Net Errors and Omissions	246	-107	268	218	253	188	150	267	312	307	283
Financing Gap (B-A)	0	0	0	0	0	0	0	0	0	0	0
RSF disbursement (not linked to RM cost)	---	---	---	---	38	38	---	---	---	---	---
Change in Reserves (+ = increase) (with RSF)	95	46	169	68	-44	139	139	148	153	158	125

Sources: Kosovo authorities and IMF staff estimates and projections.

Table 5b. Kosovo: Balance of Payments 2019–29

(Millions of euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Act.			Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-400	-472	-695	-917	-742	-780	-751	-753	-765	-788	-792
Balance on Goods and Services	-1,915	-2,182	-2,532	-2,914	-2,967	-3,120	-3,258	-3,388	-3,524	-3,716	-3,892
Goods Balance	-2,840	-2,573	-3,567	-4,287	-4,598	-4,707	-4,950	-5,218	-5,489	-5,833	-6,162
Exports, f.o.b.	393	475	753	932	871	948	979	1,068	1,167	1,260	1,357
Imports, f.o.b.	3,233	3,048	4,320	5,219	5,469	5,655	5,929	6,286	6,656	7,093	7,519
Services Balance	925	392	1,035	1,373	1,631	1,587	1,692	1,830	1,966	2,117	2,269
Receipts	1,674	995	1,906	2,505	2,965	3,101	3,256	3,482	3,694	3,923	4,145
Payments	749	603	871	1,132	1,334	1,514	1,565	1,652	1,728	1,807	1,875
Primary Income	161	164	151	116	166	155	191	212	241	250	262
Compensation of employees, net	257	262	263	287	338	367	394	419	445	471	498
Investment income, net	-92	-95	-110	-171	-173	-212	-203	-207	-204	-221	-236
Secondary Income	1,354	1,545	1,686	1,882	2,060	2,186	2,315	2,423	2,518	2,678	2,838
Government, net	237	277	234	296	308	319	329	352	376	400	424
Other transfers (including remittances), net	1,118	1,269	1,452	1,586	1,752	1,866	1,986	2,071	2,142	2,278	2,414
Capital account	-9	17	62	38	63	66	69	73	76	80	84
Financial account	-163	-562	-365	-661	-427	-526	-532	-413	-376	-402	-425
Direct investment, net	-188	-287	-320	-603	-623	-554	-591	-605	-626	-646	-685
Assets	66	59	100	175	193	206	220	235	251	267	283
Liabilities	255	346	421	778	816	760	810	840	877	913	968
Portfolio investment, net	59	-82	277	136	440	95	198	213	250	273	320
Other investment, net	-129	-240	-491	-261	-200	-207	-279	-169	-153	-186	-185
Change in reserve assets (with RSF)	95	46	169	68	-44	139	139	148	153	158	125
RSF disbursement (not linked to RM BoP costs)					38	38	0				
Net errors and omissions 1/	246	-107	268	218	253	188	150	267	312	307	283
Overall balance	0	0	0	0	0	0	0	0	0	0	0
				(In percent of GDP)							
Current account, incl. official transfers	-5.7	-7.0	-8.7	-10.3	-7.7	-7.6	-6.8	-6.4	-6.1	-5.9	-5.6
Balance on Goods and Services	-27.1	-32.2	-31.8	-32.8	-30.7	-30.3	-29.7	-28.9	-28.1	-27.9	-27.5
Exports of Goods	5.6	7.0	9.5	10.5	9.0	9.2	8.9	9.1	9.3	9.5	9.6
Exports of Services	23.7	14.7	24.0	28.2	30.7	30.1	29.7	29.7	29.5	29.4	29.3
Imports of Goods	45.8	45.0	54.3	58.7	56.7	54.9	54.0	53.6	53.2	53.2	53.2
Imports of Services	10.6	8.9	10.9	12.7	13.8	14.7	14.3	14.1	13.8	13.6	13.3
Primary Income	2.3	2.4	1.9	1.3	1.7	1.5	1.7	1.8	1.9	1.9	1.9
Secondary Income	19.2	22.8	21.2	21.2	21.3	21.2	21.1	20.6	20.1	20.1	20.1
Capital account	-0.1	0.3	0.8	0.4	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Financial account	-2.3	-8.3	-4.6	-7.4	-4.4	-5.1	-4.8	-3.5	-3.0	-3.0	-3.0
Direct investment, net	-2.7	-4.2	-4.0	-6.8	-6.5	-5.4	-5.4	-5.2	-5.0	-4.8	-4.8
Portfolio investment, net	0.8	-1.2	3.5	1.5	4.6	0.9	1.8	1.8	2.0	2.0	2.3
Other investment, net	-1.8	-3.5	-6.2	-2.9	-2.1	-2.0	-2.5	-1.4	-1.2	-1.4	-1.3
Change in Reserve assets	1.3	0.7	2.1	0.8	-0.5	1.4	1.3	1.3	1.2	1.2	0.9
RSF disbursement (not linked to RM BoP costs)	---	---	---	---	0.4	0.4	---	---	---	---	---
Net errors and omissions 1/	3.5	-1.6	3.4	2.4	2.6	1.8	1.4	2.3	2.5	2.3	2.0
Memorandum items:											
Public debt service to export ratio (percent)	3.0	6.7	3.4	1.7	1.6	2.0	1.9	1.8	2.0	2.4	2.7
Public debt service to exports and remittances (percent)	2.1	4.0	2.3	1.3	1.2	1.5	1.4	1.4	1.5	1.8	2.0
External public and private debt (percent of GDP) 2/	31.2	37.0	37.1	38.6	39.9	39.6	40.0	39.2	38.3	37.7	37.1
Net foreign assets of CBK 3/	937	969	1,061	1,147	1,283	1,401	1,540	1,687	1,840	1,997	2,122
Gross international reserves with RSF 3/	1,141	1,149	1,293	1,370	1,449	1,567	1,707	1,854	2,007	2,164	2,289
Gross international reserves without RSF 3/	1,141	1,149	1,293	1,370	1,411	1,491	1,707	1,854	2,007	2,164	2,289
Total RSF disbursements	---	---	---	---	38	38	---	---	---	---	---
Gross international reserves in months of prospective imports 3/	3.8	2.7	2.4	2.4	2.4	2.5	2.6	2.6	2.6	2.6	2.6
Gross international reserves, excl. PAK and KPST deposits at CBK 3/	863	900	1,100	1,176	1,131	1,270	1,409	1,557	1,709	1,867	1,992

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ Errors and omissions are thought to be mostly comprised of unidentified private remittances and unidentified FDI.

2/ The former Yugoslavia debt has been reclassified as a contingent liability and is no longer included in the stock of public debt.

3/ CBK's NFA and GIR data exclude CBK's holdings of domestic government securities.

Table 6. Kosovo: Central Bank and Commercial Bank Survey, 2019–29

(Millions of euros, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
			Act.			Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Central Bank											
Net foreign assets	937	969	1,061	1,147	1,283	1,401	1,540	1,687	1,840	1,997	2,122
Foreign assets	1,219	1,223	1,371	1,448.7	1,449.4	1,580	1,706	1,854	2,007	2,164	2,289
Foreign liabilities	281	254	310	302	167	180	167	167	167	167	167
Net domestic assets	-236	-211	-335	-353	-348	-397	-447	-497	-547	-597	-636
Net claims on central government	-238	-213	-347	-355	-351	-400	-450	-500	-550	-600	-640
Government securities	184	201	216	197	180	180	180	180	180	180	180
Liabilities to central government	738	527	626	604	531	580	630	680	730	780	820
PAK (privatization) fund	275	191	185	166	166	165	165	165	165	165	165
Government deposits	444	317	423	420	345	395	445	495	545	595	635
IMF subscription	18	18	18	18	19	19	19	19	19	19	19
Claims on other sectors	2	2	12	3	2	2	2	2	2	2	2
Monetary base	468	706	667	726	831	900	988	1,084	1,186	1,292	1,376
Liabilities to other depository corporations	415	566	589	594	591	670	750	838	932	1,030	1,106
Deposits included in broad money	53	139	78	132	241	230	238	246	254	262	270
Other items, net 1/	233	52	59	68	103	104	105	106	107	108	110
Commercial banks											
Net foreign assets	639	843	836	1,023	1,266	1,191	1,238	1,308	1,381	1,455	1,553
Assets	866	1,117	1,107	1,337	1,582	1,511	1,556	1,627	1,699	1,774	1,871
Liabilities	-227	-274	-271	-315	-316	-320	-318	-319	-318	-319	-319
Net domestic assets	3,629	3,909	4,463	4,956	5,482	6,001	6,491	7,016	7,569	8,152	8,716
Claims on the CBK	415	566	589	594	590	670	750	838	932	1,030	1,106
Net claims on the central government	275	240	297	251	198	257	293	347	403	458	512
Claims on central government	287	254	312	265	227	287	322	377	433	488	541
Liabilities to central government	-13	-14	-15	-14	-30	-30	-30	-30	-30	-30	-30
Net claims on other public entities	-88	-140	-170	-235	-207	-221	-236	-252	-267	-284	-301
Claims on other public entities	3	4	0	0	0	0	0	0	0	0	0
Liabilities to other public entities	-92	-143	-170	-235	-207	-221	-236	-252	-267	-284	-301
Credit to private sector	3,028	3,242	3,747	4,347	4,902	5,295	5,685	6,082	6,501	6,947	7,398
Deposits of the private sector	3,688	4,091	4,597	5,183	5,767	6,208	6,680	7,204	7,757	8,335	8,919
Demand deposits	2,225	2,597	3,090	3,370	3,759	4,052	4,363	4,712	5,079	5,464	5,852
Time deposits	1,463	1,493	1,508	1,813	2,007	2,156	2,316	2,491	2,678	2,872	3,067
Other items, net 2/	580	661	702	797	982	984	1,050	1,120	1,193	1,271	1,349
Memorandum items:											
Broad money (12-month percent change)	12.0	15.3	12.1	11.3	10.7	7.2	7.5	7.8	7.6	7.4	7.0
Gross international reserves, excl. PAK and KPST deposits at CBK	863	900	1,100	1,176	1,131	1,270	1,409	1,557	1,709	1,867	1,992
Deposits of the private sector (12-month percent change)	15.5	10.9	12.4	12.7	11.3	7.6	7.6	7.8	7.7	7.5	7.0
Credit to the private sector (12-month percent change)	10.0	7.1	15.6	16.0	12.8	8.0	7.4	7.0	6.9	6.9	6.5
Deposits of the private sector (percent of GDP)	52.3	60.4	57.8	58.3	59.7	60.3	60.8	61.4	61.9	62.5	63.1
Credit to the private sector (percent of GDP)	42.9	47.9	47.1	48.9	50.8	51.4	51.8	51.8	51.9	52.1	52.4
Excess reserves of commercial banks	187	302	285	248	213	224	266	311	354	399	423

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ Includes shares and other equity.

2/ Includes shares, other equity, and deposits from central government, local governments and POEs.

Table 7. Kosovo: Selected Financial Soundness Indicators, 2019–23

(Percent, unless otherwise indicated)

	2019	2020	2021	2022	2023
Total Assets (% GDP) 1/	67.5	79.1	74.9	76.0	78.1
Capital adequacy					
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5	15.8
Tier 1 capital to risk weighted assets	14.2	14.7	14.4	13.5	13.9
Capital to assets	11.2	11.7	11.1	9.4	9.8
Asset quality					
NPL to total loans	1.9	2.5	2.1	1.9	1.9
NPL net of provisions to capital	1.5	4.5	3.4	3.4	3.3
Large exposures to capital	81.8	89.5	89.8	78.2	71.7
Liquidity					
Liquid assets to total assets	28.8	30.1	28.8	26.8	25.1
Deposits to loans	129.2	133.9	130.9	127.9	124.8
Liquid assets to short-term liabilities	38.7	40.4	37.2	36.5	34.7
Profitability					
Return on average assets	2.1	1.7	2.1	2.6	2.5
Return on average equity	17.2	14.0	17.3	20.7	19.9
Interest margin to gross income	80.6	79.2	76.5	76.4	79.3
Non-interest expense to gross income	48.1	46.1	45.4	43.8	43.8
Market risk					
Net open currency position to capital	4.7	3.5	1.5	1.8	0.6

Source: Central Bank of the Republic of Kosovo.

1/ Includes all other depository corporations.

Table 8. Kosovo: Indicators of Fund Credit, 2022–48
(In millions of SDR, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048
Existing and prospective Fund credit																											
Disbursements	0.0	31.0	97.7	13.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRA 1/	0.0	0.0	66.8	13.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	31.0	31.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit	41.3	62.0	139.0	142.1	142.1	127.0	88.7	63.6	61.9	61.9	61.9	61.9	58.5	52.3	46.1	39.9	33.7	27.5	21.3	15.1	8.9	2.7	0.0	0.0	0.0	0.0	0.0
GRA	41.3	31.0	77.1	80.1	80.1	65.1	26.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	31.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	58.5	52.3	46.1	39.9	33.7	27.5	21.3	15.1	8.9	2.7	0.0	0.0	0.0	0.0	0.0
Obligations																											
Principal/repurchases	9.9	10.3	20.7	10.3	0.0	15.0	38.4	25.0	1.7	0.0	0.0	0.0	3.5	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	2.7	0.0	0.0	0.0	0.0
GRA 1/	9.9	10.3	20.7	10.3	0.0	15.0	38.4	25.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	2.7	0.0	0.0	0.0	0.0
Charges and interest	0.8	2.2	5.2	7.6	7.6	7.5	6.3	4.3	3.5	3.5	3.5	3.5	3.5	3.2	2.9	2.6	2.3	2.0	1.7	1.4	1.1	0.8	0.5	0.4	0.4	0.4	0.4
GRA 1/	0.8	2.1	3.1	4.5	4.5	4.4	3.2	1.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
RSF	0.0	0.2	2.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	2.8	2.5	2.2	1.9	1.6	1.3	1.0	0.7	0.4	0.1	0.0	0.0	0.0	0.0
Fund obligations (repurchases and charges) in percent of																											
Quota	12.9	15.2	31.3	21.7	9.2	27.3	54.1	35.5	6.3	4.2	4.2	4.2	8.4	11.4	11.0	10.7	10.3	9.9	9.5	9.2	8.8	8.4	3.9	0.5	0.5	0.5	0.5
GDP	0.1	0.1	0.2	0.1	0.1	0.1	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	0.2	0.3	0.5	0.3	0.1	0.4	0.7	0.4	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves	0.6	0.7	1.3	0.8	0.3	0.9	1.6	1.0	0.2	0.1	0.1	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Government revenue	0.3	0.4	0.7	0.5	0.2	0.5	0.9	0.6	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
External debt service, public	14.5	16.9	25.7	17.7	7.3	18.7	29.0	16.2	2.7	1.7	1.6	1.5	3.1	4.1	3.8	4.3	3.9	3.6	3.4	3.1	3.0	2.8	1.3	0.2	0.2	0.2	0.2
Fund credit outstanding in percent of																											
Quota	50.0	75.0	168.3	172.0	172.0	153.8	107.3	77.0	75.0	75.0	75.0	75.0	70.8	63.3	55.8	48.3	40.7	33.2	25.7	18.2	10.7	3.2	0.0	0.0	0.0	0.0	0.0
GDP	0.4	0.5	1.1	1.0	1.0	0.8	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	1.0	1.3	2.8	2.7	2.5	2.1	1.4	0.9	0.8	0.8	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves	2.4	3.5	7.2	6.7	6.1	5.1	3.3	2.3	2.1	2.1	2.0	2.0	1.8	1.6	1.3	1.1	0.9	0.7	0.5	0.4	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Government revenue	1.3	1.8	3.8	3.7	3.4	2.9	1.9	1.3	1.2	1.1	1.1	1.0	0.9	0.8	0.7	0.5	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External public, debt	4.9	7.0	13.4	12.0	11.0	9.1	5.9	3.9	3.7	3.6	3.5	3.4	3.1	2.7	2.4	2.0	1.6	1.3	1.0	0.7	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items																											
Quota (SDR million)	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6
Gross domestic product (euro million)	8,896	9,653	10,301	10,979	11,738	12,523	13,332	13,865	14,420	14,997	15,597	16,220	16,869	17,544	18,246	18,976	19,735	20,524	21,345	22,199	23,087	24,010	24,971	25,969	27,008	28,089	29,212
Exports of goods and services (euro million)	3,436	3,836	4,049	4,235	4,550	4,860	5,183	5,494	5,824	6,173	6,544	6,936	7,352	7,794	8,261	8,757	9,282	9,839	10,429	11,055	11,719	12,422	13,167	13,957	14,794	15,682	16,623
Gross international reserves (euro million)	1,370	1,449	1,567	1,707	1,854	2,007	2,164	2,229	2,296	2,365	2,436	2,509	2,584	2,662	2,742	2,824	2,909	2,996	3,086	3,178	3,274	3,372	3,473	3,577	3,684	3,795	3,909
Government revenue (euro million)	2,499	2,860	2,964	3,131	3,331	3,533	3,758	3,946	4,144	4,351	4,568	4,797	5,037	5,288	5,553	5,831	6,122	6,428	6,750	7,087	7,441	7,813	8,204	8,614	9,045	9,497	9,972
External debt service, public (euro million)	59	61	81	81	83	96	123	144	153	163	174	184	178	184	193	163	172	179	186	194	194	194	194	194	194	194	194
Total external debt, public (euro million)	671	721	842	956	1,032	1,115	1,200	1,296	1,343	1,386	1,424	1,455	1,496	1,532	1,559	1,609	1,650	1,684	1,711	1,690	1,690	1,690	1,690	1,690	1,690	1,690	1,690

Source: IMF staff estimates and projections.

1/ Based on the projection as of April 25, 2024. Charges and interest calculations are preliminary. It includes prospective purchases under the precautionary SBA. Kosovo belongs to the RST interest group C. Based on the RST rate of interest of 5.028 percent as of April 25, 2024.

Table 9. Kosovo: SBA Quantitative Performance Criteria, 2023–25

(Millions of euros, unless otherwise indicated)

	2023			2024						2025
	December			March			June	Sept.	Dec.	March
	Target	Adjusted	Actual	Indicative	Adjusted	Actual	Target	Indicative	Target	Indicative
1. Quantitative performance criteria										
Floor on the overall balance of the general government 1/	-225	-195	-23	-58	-45	119	-116	-174	-232	0
Floor on the stock of general government deposits at CBK	566	410	512	579	474	513	591	604	616	560
2. Continuous performance criteria										
Ceiling on the accumulation of new external arrears on external debt contracted or guaranteed by the nonfinancial public sector 2/	0	…	0	0	…	0	0	0	0	0
3. Indicative targets										
Ceiling on contingent budget allocations 3/	358	…	358	108	…	108	108	108	108	108
Ceiling on holdings of government debt by the CBK 2/	200	…	180	200	…	173	200	200	200	200

1/ Defined as cumulative flows over the fiscal year

2/ Applies on a continuous basis

3/ Defined as total budgetary contingent allocations; applies on a continuous basis. For details see the Technical Memorandum of Understanding.

Table 10. Kosovo: Prior Actions and Structural Benchmarks Under the SBA

		Target date	Status	Comments
Prior Actions				
1	The government submits a budget for 2024 consistent with SBA and RSF objectives; KEK budget plan for 2024 includes an allocation to complement EU financing for the installation of a filter in the B-2 unit.	October 2023	Met	
2	The government submits a budget for 2025 consistent with RSF and SBA objectives.	October 2024	Ongoing	
Structural Benchmarks				
Fiscal Governance				
1	Government starts publishing publicly-owned enterprises' (POEs) annual financial reports; and quarterly data on POE performance.	June 2024	Ongoing	
2	Government starts publishing within the Treasury quarterly report, the rationale and intended impact, use and beneficiaries of contingency allocations to boost transparency.	July 2023	Met	
3	Government starts publishing annual fiscal risk analysis together with budget submission to Parliament.	November 2023	Met	
4	Government approves new Customs Code.	June 2023	Met	
5	Tax administration agency (TAK) adopts new action plan to reduce informality.	July 2023	Met	
6	The Ministry of Finance, Labor, and Transfers, to adopt budget circulars making expropriation costs a mandatory item for the submission of projects financed with both domestic and external resources.	June 2023	Met	
Financial Sector Governance				
1	KAS to finalize roadmap to produce a residential housing price index and compile related surveillance data in collaboration with CBK.	September 2023	Met	
2	Finalization of draft Law on Banks in line with FSSR recommendations.	November 2023	Met	
3	Finalization of new "Rules of Procedure" clarifying roles and responsibilities of the CBK Supervisory Board in relation to the Executive Board based on Kosovo's legal framework.	November 2023	Met	
4	Submission to Parliament of Law on Banks in line with FSSR recommendations.	January 2024	Not met	Implemented in May 2024

Table 11. Kosovo: Reform Measures Under the RSF

	Measure	Target date	Status	Comments
Reform Measures				
Improving the System's Resilience and Tackling Pollution; Protecting and Empowering Consumers (Energy Pillars 1 and 5)				
RM1	Submission to Parliament of a Budget for 2024 consistent with RSF objectives (allocations for expansion of renewable energy and for implementation of new definition of vulnerable energy consumers); KEK to prepare budget plan securing financing to secure the installation of filters in one unit of Kosova B in 2024.	October 2023	Met	
Expanding Greener Generation and Reducing Emissions (Energy Pillar 2)				
RM2	The government will launch by mid-October 2024 an open, transparent, and competitive tender for the construction and operation of 150 MW of wind-based electricity generation capacity in a non-specific location.	October 2024	Ongoing	
RM3	Submission to Parliament of Law on Renewable Energy delineating the use of competitive auctions to attract private sector investment in renewable electricity generation.	September 2023	Met	
RM4	Working group presents to Cabinet draft report discussing implications of EU carbon price initiatives for Kosovo, using the CPAT tool.	March 2024	Not met	Implemented in April 2024
RM5	Ministry of Economy to adopt Administrative Instruction allowing the launching of first auction for 100 MW of solar electricity generation during 2023 to be financed by the private sector.	May 2023	Met	
Increasing Energy Efficiency (Energy Pillar 3)				
RM6	Kosovo Energy Efficiency Fund Board to approve plan to increase energy efficiency of residential buildings to start implementation in 2023:H2	July 2023	Met	
Strengthening Regional Cooperation, Market Competition and Functioning (Energy Pillar 4)				
RM7	Government to implement actions conducive to the start of the day-ahead electricity market for Kosovo from September 2023 in the context of the Albania-Kosovo Regional Electricity Market (ALPEX).	June 2023	Met	
Crisis Preparedness and Monitoring Transition Risks				
RM8	Central Bank to issue new instruction defining practices for banks to monitor and report data on exporting firms that may be exposed to transition costs related with CBAM implementation.	March 2024	Not met	Implemented in April 2024

Table 12. Kosovo: Schedule of Reviews and Purchases/Disbursements Under the SBA and RSF

(Amount of purchase/disbursement)

	Available on or after	Amount of Purchase (millions of SDRs) Total	Percent of Quota Total	Conditions
	May 25, 2023	20.031	24.3	Board approval of the SBA
	May 25, 2023			Board approval of the RSF
		Stand-By Arrangement 1/		
1.	October 15, 2023	20.031	24.3	First Review and Observance of SBs and QPCs for end-June 2023
2.	February 20, 2024	13.354	16.2	Second Review and Observance of SBs and QPCs for end-December 2023
3.	September 15, 2024	13.354	16.2	Third Review and Observance of SBs and QPCs for end-June 2024
4.	February 20, 2025	13.352	16.2	Fourth Review and Observance of SBs and QPCs for end-December 2024
	Total	80.122	97.0	
		Resilience and Sustainability Facility Arrangement		
1.	October 15, 2023	7.744	9.4	Observance of RM 5
2.	October 15, 2023	7.744	9.4	Observance of RM 6
3.	October 15, 2023	7.744	9.4	Observance of RM 7
4.	October 15, 2023	7.744	9.4	Observance of RM 3
5.	February 20, 2024	7.744	9.4	Observance of RM 1
6.	September 15, 2024	7.744	9.4	Observance of RM 2
7.	September 15, 2024	7.744	9.4	Observance of RM 4
8.	September 15, 2024	7.742	9.4	Observance of RM 8
	Total	61.950	75.0	

Source: IMF staff estimates.

1/ The authorities indicated that they do not intend to make these purchases unless unexpected financing gaps arise.

Annex I. External Sector Assessment

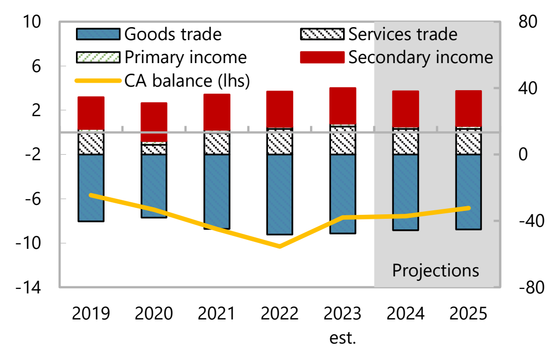
The current account deficit narrowed in 2023, driven mostly by lower food and energy import prices and strong services exports. The deficit was mainly financed by continued FDI in real estate and unrecorded travel credits and remittances (reflected in errors and omissions). The external position is assessed to be weaker than the level implied by fundamentals and desirable policies in 2023. At 92 percent of the IMF's reserve adequacy (RA) metric, the level of gross international reserves in 2023 is considered broadly adequate.

External Balance

1. Kosovo's current account deficit narrowed to 7.7 percent of GDP in 2023 from 10.3 percent in 2022. Concretely:

- **The goods trade deficit narrowed by 0.6 pp of GDP due to lower energy and food prices.** Goods imports declined by 2 pp of GDP, driven by the decline in imports of food, electricity, and mineral products. Other imports increased by 1.1 pp of GDP in 2023. Exports of goods decreased by 1½ pp of GDP due to a decline in exports of minerals, base metals, and furniture. Following a 20-month closure due to high electricity prices, nickel production resumed in June 2023, but the producer abstained from immediate exports, opting to build up stocks due to unfavorable export prices. Moreover, mattress exports declined by around 50 percent in 2023, primarily due to reduced demand.

Contributions to the Current Account Balance
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

- **The net balance of services improved by 1½ pp of GDP.** This was driven by higher travel credits (which account for three-fourths of total exports of services) and exports of telecommunication and IT services.

- **The primary income balance improved by 0.4 pp of GDP and the secondary income balance improved by 0.1 pp of GDP compared to 2022.** The improvement in primary balance was driven by higher net compensation of employees (0.3 pp of GDP), and a slight improvement in net investment income (0.1 pp of GDP).

2. The current account deficit in 2023 was mainly financed by FDI and unrecorded travel credits and remittances as reflected in errors and omissions. More specifically:

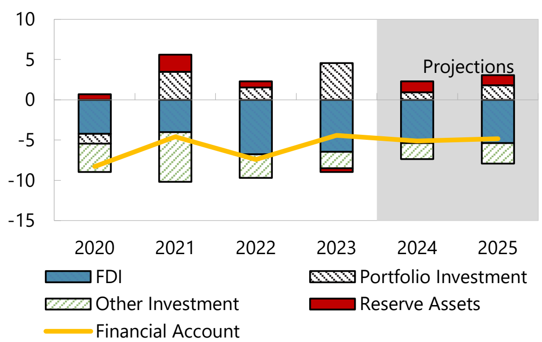
- **Net FDI inflows** are estimated at 6.5 percent of GDP in 2023, slightly down from 6.8 percent of GDP in 2022, due to a slowdown in diaspora real estate investments.

- **Net portfolio investment** showed net outflows estimated at 4.6 percent of GDP in 2023, compared to 1.5 percent of GDP in 2022, mainly attributed to the increase in KPST's and other depository corporations' external investments, given the limited domestic government bond issuance in 2023.

- **Net other investment** showed net inflows of 2.1 percent of GDP in 2023, reflecting net loan and trade credit inflows.

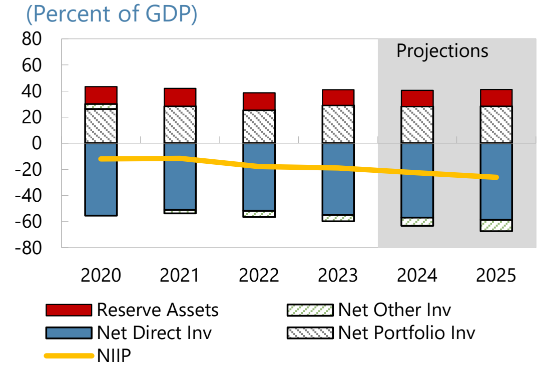
- **Errors and omissions** amounted to 2.6 percent of GDP in 2023, reflecting unrecorded inflows of FDI, travel credits and remittances.

Contributions to the Financial Account Balance
(Percent of GDP)



Sources: Haver Analytics, IMF staff calculations.

Net International Investment Position
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

3. **The Net International Investment Position (NIIP) improved slightly, (0.9 pp of GDP) in 2023,** in line with the narrowed current account deficit and an increase in external assets.

4. **In the medium term, the current account deficit is projected to narrow gradually, with declining imports and increasing exports in percent of GDP.** The goods trade deficit is expected to continue offsetting services trade surpluses. The NIIP is projected to decline in the medium term, mainly due to expected increase in net foreign direct investment.

Assessment of the External Position

5. **Kosovo's external position in 2023 is assessed to be weaker than the norm implied by medium-term fundamentals and desirable policy settings.** The current account model suggests that in 2023 the cyclically adjusted current account balance of -7.7 percent of GDP is more negative than the model-derived cyclically adjusted norm of -4.7 percent of GDP, yielding a current account gap of -3 percentage points of GDP, which is equivalent to a REER overvaluation of about 10 percent of GDP. [1] Like previous assessments, a significant portion of the current account gap is attributed to model residuals. These may mirror unaccounted factors, such as substantial errors and omissions in

[1] The results from the "REER model" suggest a larger REER gap, but the short time series available for Kosovo (15 years) make the conclusions from this approach less robust. The EBA-lite methodology can be found at https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/07/03/The-Revised-EBA-Lite-Methodology-47088.

the balance of payments, totaling approximately 2.6 percent of GDP in 2023, which mostly reflect unrecorded exports of services and remittances, signaling an overestimation of the size of the current account gap.

Annex I. Table 1. Kosovo: EBA-Lite Model Results (2023)

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-7.7**	
Cyclical contributions (from model) (-)	0.1	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-7.8**	
CA Norm (from model) 2/	**-4.7**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-4.7**	
CA Gap	**-3.0**	**-5.6**
o/w Relative policy gap	5.6	
Elasticity	-0.3	
REER Gap (in percent)	**10.5**	**19.2**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Reserve Adequacy Assessment

6. Gross international reserves (GIR)—mainly funded by commercial bank reserves and government deposits—increased to €1.45 billion in 2023 from €1.37 billion in 2022. Government deposits declined by €75 million to €345 million by end-2023, with commercial banks' reserves stable around €590 million. KPST deposits increased to €152 million by end-2023 from €29 million in 2022 and PAK deposits remained unchanged, at €166 million.

7. Kosovo's GIR adequacy assessment, presented in Table 2, uses standard and alternative GIR definitions as follows:

- ***Standard definition:*** GIR include the sum of nonresidents' currency and deposits, securities, monetary gold and SDR, reserve position in the Fund, and other items.
- ***CBK's definition:*** Standard GIR net of PAK and KPST deposits.
- ***Staff's alternative definition:*** Standard GIR net of banks' excess reserves.

8. GIR, using standard rules of thumb, are estimated to have remained broadly stable in 2023. Standard GIR remained stable at 2.4 months of (next year's) imports in 2023. Over the medium term, Kosovo's GIR are expected to converge to around 2.8 months of next year's imports and to increase in percent of short-term external debt.

Annex I. Table 2. Kosovo: Traditional Reserve Adequacy Ratios

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.			Projections			
Standard Definition of GIR										
Import cover (months of next year's imports)	2.7	2.4	2.4	2.4	2.5	2.6	2.7	2.7	2.8	2.8
Reserves to short-term external debt (%)	147	133	117	110	113	112	115	121	128	134
Reserves to Broad Money (%)	29	29	28	27	27	27	28	28	28	28
Conservative (CBK) Definition of GIR										
Import cover (months of next year's imports)	2.1	2.1	2.1	1.9	2.0	2.1	2.2	2.3	2.4	2.4
Reserves to short-term external debt (%)	115	113	100	86	92	93	97	103	111	117
Reserves to Broad Money (%)	23	25	24	21	22	23	23	24	24	24
GIR, net of banks' excess reserves										
Import cover (months of next year's imports)	2.0	1.9	2.0	2.2	2.2	2.2	2.3	2.3	2.2	2.2
Reserves to short-term external debt (%)	108	103	96	98	99	98	100	104	104	108
Reserves to Broad Money (%)	22	23	23	24	24	24	24	24	23	22

Source: IMF staff calculations.

9. **GIR amounted to 92 percent of the IMF standard RA metric at end-2023 and are projected to increase to 98 percent in the medium term.**[2] IMF (2011) suggests the following reserve adequacy (RA) metric for an economy with fixed exchange rate:

$$RA = 10\%\ X + 30\%\ STD + 10\%\ BM + 20\%\ OPL$$

Where X is export revenues, STD is short-term external debt, BM is broad money and OPL is other external liabilities. Table 3 shows the path of standard GIR, GIR using a more conservative measure excluding KPST and PAK deposits, and an alternative measure excluding the excess reserves. In addition, a modified RA metric is used to reflect Kosovo's reliance on remittance inflows (R) and to account for the risk of domestic deposit (D) outflows in a euroized economy. GIR are expected to increase to 98 percent of standard RA metric by 2028–29. GIRs would also increase over the medium term in terms of the modified RA metric as well as based on the more conservative measure excluding KPST and PAK deposits.

10. **While reserve adequacy metrics using the alternative GIR measure excluding excess reserves are projected to slightly deteriorate in the medium term, Kosovo has shown capacity to absorb a moderate fiscal financing or bank liquidity shock.** As a euroized economy lacking a lender of last resort, reserve adequacy should also be assessed by capacity to mitigate shocks to fiscal financing and for bank emergency liquidity assistance (ELA).

- ***Fiscal Buffers.*** Government deposits at the CBK (excluding PAK deposits) stood at €345 million at end-2023, down from €420 million at end-2022, sufficient for 1.3 months of projected expenditure plus debt amortization in 2023. This is higher than the suggested benchmark of one-month government spending proposed in IMF (2013).[3] In addition, PAK deposits placed at the CBK (€165 million as of end-2023) are also government assets.

[2] IMF (2011) Assessing Reserve Adequacy, IMF Policy Paper.

[3] See IMF (2013) Republic of Kosovo: Selected Issues Paper.

- ***Bank Liquidity Buffers.*** Kosovo's banks generally have high liquidity ratios, and it is expected that the largest banks would receive liquidity support from their parent groups in emergency times. However, banks' ability to respond to a system-wide liquidity shock could be limited by: (i) some liquid assets are in the form of Kosovo government bonds, which may not be immediately tradable in case of substantial stress; and (ii) the coverage of deposit insurance is not high enough to substantially reduce the risks of bank runs. The CBK's GIRs excluding commercial banks' deposits are about 18 percent of banks' short-term liabilities as of end-2023, which should be sufficient to absorb a moderate to severe liquidity shock. In addition, the €100 million repo line of the CBK with the ECB was extended through end-January 2025.[4] Moreover, efforts have been made to enhance banks' crisis preparedness and monitoring of banks' liquidity risks. The CBK is reviewing the size of ELA and considering options to strengthen the available financing pool for deposit insurance purposes.

Annex I. Table 3. Kosovo: Reserve Adequacy Metrics for Euroized Economies

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.	Projections					
Standard GIR (millions of euros)	1149	1293	1370	1449	1567	1707	1854	2007	2164	2289
Percent of RA metric	120	107	96	92	92	93	94	96	98	97
Percent of RA modified metric	92	84	77	73	74	75	76	78	79	78
Conservative GIR (millions of euros)	900	1100	1176	1131	1270	1409	1557	1709	1867	1992
Percent of RA metric	94	91	82	71	75	77	79	82	84	85
Percent of RA modified metric	72	72	66	57	60	62	64	66	68	68
GIR, net of excess reserves (millions of euros)	847	1008	1122	1296	1380	1488	1601	1716	1749	1852
Percent of RA metric	88	83	79	82	81	81	82	82	79	79
Percent of RA modified metric	68	66	63	66	65	65	66	66	63	63

Source: IMF staff calculations.

Notes: Standard GIR = CBK Foreign Assets excluding IMF Quota + Reserve Position in the IMF

Conservative GIR = Standard GIR - CBK Liabilities with PAK & Pension Funds

RA metric = 10%*M2 + 30*ST External Debt + 10%*Exports +20%*Other External Liabilities

RA modified metric = 15%*M2 + 30*ST External Debt + 10%*Exports +20%*Other External Liabilities+ 10%*Remittances

11. Under an adverse scenario (and assuming no use of IMF financing), standard GIRs as a share of the RA metric will be below 95 percent during 2024–29. The lower projected GIRs in the adverse scenario reflect the larger fiscal and current account deficits in 2024–25 that would be financed by reserve assets.

[4] To address potential liquidity risks during the pandemic, the CBK negotiated a repo line to borrow euro liquidity from the ECB, against collateral consisting of euro-denominated marketable debt securities issued by euro area governments and supranational institutions of €100 million. In early 2024, the repo line was extended until January 31, 2025.

Annex II. Application of the Sovereign Risk and Debt Sustainability Framework

A. Assessment

1. **Under the baseline scenario, public debt is sustainable and at low risk of sovereign stress.** Public debt is projected to rise moderately (by about 9 percent of GDP) over the medium-term, reaching 26¼ percent of GDP by 2033, significantly below the fiscal rule limit of 40 percent of GDP.[1] Policies are firmly backed on fiscal rules, and Kosovo has a proven track record of sound macroeconomic policies.

B. Background

2. **Kosovo's public debt is well below its limit of 40 percent of GDP.** Public debt fell from 20 percent of GDP in 2022 to 17½ percent of GDP in 2023. Lack of external budget support and restrictions in the domestic securities market resulted in the need to drawdown free-disposal Treasury deposits at the CBK to meet the authorities' spending program needs.[2] Thus, free disposal deposits declined from 4 percent of GDP in 2022 to 2½ percent of GDP in 2023.[3] Kosovo's public debt includes of consolidated general government debt and guarantees. External debt (about 40 percent of total debt) mainly comprises liabilities to the World Bank and European Union institutions. Domestic debt (57½ percent of total debt) comprises Treasury notes with maturities between 3–7 years held by the pension fund (46 percent), banks (24 percent), and other public institutions (22 percent). Treasury guarantees to the EBRD account for the rest (1.7 percent of total debt and about ¼ percent of GDP).[4] On lending operations with public companies are reported as part of the debt stock (€40.8 million).

Structure of Public Debt 2023

	% GDP	% Debt
Multilateral and bilateral external debt	7.2	41.0
Domestic debt	10.1	57.4
Guarantees	0.3	1.7
Total	**17.5**	**100.0**

Sources: Kosovo Treasury and IMF staff estimates.

[1] Kosovo has a strong rules-based fiscal framework. Fiscal rules include (i) a limit on public debt of 40 percent of GDP and (ii) a 2 percent-of-GDP deficit ceiling, excluding capital expenditure financed by donors and privatization receipts (investment clause).

[2] Limited domestic demand for bonds was in part explained by delays in the appointment of members of the pension trust fund (KPST) Board, a key player in the domestic debt market. The latter has been resolved.

[3] In a unilaterally euroized economy such as Kosovo, government deposits at the CBK are critical to maintain financial stability, providing buffers to mitigate potential adverse shocks.

[4] Includes two guarantees with the EBRD—a credit line for the Deposit Insurance Fund (€24 million) and a guarantee for the Pristina Urban Transport Company (€4.6 million).

C. Risk Analysis

3. The medium-term risk assessment of the staff is low.

- **The gross financing need (GFN) Financeability module points to low risk of sovereign stress.** GFNs average 4½ percent of GDP over 2024–29 under the baseline, with limited short-term debt rollover needs. The GFN index is estimated at 2.7, below the low-risk threshold (7.6) and well below the high-risk threshold (17.9).

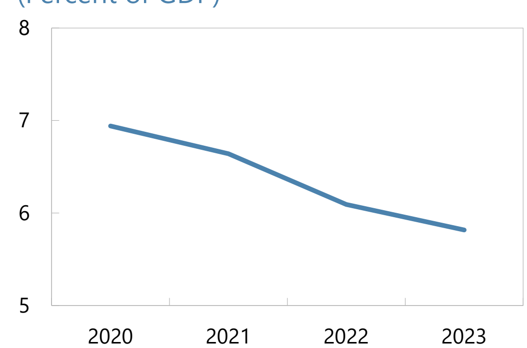
- **The debt fanchart module points to moderate risk of sovereign stress.** Public debt is projected to increase from 17¼ percent of GDP in 2023 to 26¼ percent of GDP in 2033. The probability of debt non-stabilization is high—but from a very low starting point (less than half the public debt ceiling of 40 percent of GDP). Uncertainty, proxied by the fanchart width, is high, reflecting volatility due to exposure to external shocks, including dependance on remittances to offset large trade imbalances. These factors combined result in a debt fanchart index of 1.46, slightly above the low-moderate threshold (1.13). However, as the index is mainly driven by an increasing debt-to-GDP ratio from a very low starting point with debt closely linked to higher public investment (partly financed by IFIs and European institutions), staff assesses risk as moderate.

- **The overall Medium-Term Index (MTI) indicates low risk.** The MTI is 0.19, below the low-risk threshold (0.257). Therefore, the mechanical signal points to low risk of sovereign stress.

D. Long-Term Assessment

4. Long-term risks are assessed as moderate. The main long-term risks stem from costs of health care (because of demographic trends and related high medical costs growth) and climate change mitigation. In both cases, the debt-to-GDP ratio would breach the 40 percent of GDP limit. The pension system is not expected to generate large spending pressures in the medium term because of Kosovo's particular pension scheme, characterized by a universal pillar zero non-contributory pension and a fully funded defined contribution (DC) scheme.[5] The other two significant components of pension spending—ex-contributory pensions (those who contributed to the extinct Yugoslav pension fund) and war veteran pensions—are expected to decline gradually over the long term, continuing the trend observed in the past few years.

Pension Spending
(Percent of GDP)



[5] The fully funded scheme is managed by KPST, a trust fund holding assets of 28 percent of GDP by end-2023.

Annex II. Box 1. SRDSF Key Macroeconomic and Financing Assumptions

Macroeconomic Assumptions

- Real GDP is projected at 3¾ percent in 2024. Over the medium term, growth is expected to hover around 4 percent, mainly driven by domestic absorption.
- Inflation is expected to decline further in 2024—to about 3 percent, on average. In the medium-term, given full euroization, it should converge towards 2 percent.
- The primary deficit is expected to remain at around 1 percent of GDP during the projection period, as fiscal costs of FTEs weaken revenues while investment is expected to remain high given large infrastructure gaps and development needs.
- Gross international reserves are assumed to increase from 15 percent of GDP to about 16 percent of GDP in 2029, primarily driven by higher Treasury liquidity buffers (bank balances) consistent with the needs of a fully-euroized economy.

Financing Assumptions

- External official financing. Two budget support operations with the World Bank are expected in 2024 and 2025 (US$100 million—about €93 million—each). After 2025, a small amount of budget support is assumed every year. The New Growth Plan for the Western Balkans could provide an additional source of budget support. Budget support loans from KfW and AFD have been under consideration but are not included in our baseline.
- External private financing. No international market issuances are considered in the baseline.
- Domestic market financing. Net issuance of T-bills and/or T-notes are projected to remain positive at about €150–200 million per year during the projection period. Financing costs are expected to moderate gradually starting in 2025.

E. External Debt Sustainability Analysis

5. **The external debt-to-GDP ratio increased by 1.2 pp of GDP to 39.9 percent of GDP in 2023,** continuing the upward trend observed in recent years (with a cumulative increase of 7 pp of GDP during 2019–22). Private sector external debt (not publicly guaranteed) increased by 1.5 pp in 2023, offsetting the decline of around ¼ pp of GDP in public and publicly guaranteed debt due to the rescheduling of two budget support operations initially anticipated for 2023 to 2024. In the medium term, the external debt-to-GDP ratio is projected to remain stable around 37 percent of GDP, as the impact of narrowing current account deficit will be offset by an increase in IFI loans.

Annex II. Table 1. Kosovo: Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low , reflecting a low level of vulnerability in the medium and long-term horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low consistent w ith a low financeability mechanical signal, and despite a moderate but borderline signal in the fanchart module. Altough public debt w ill increase over the medium term, it w ill remain below the 40 percent of GDP rule limit.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test	...	...	
Long term	...	Moderate	Long-term risks are assessed as moderate. Debt is projected to increase but from a very small level. Risks from population aging are moderate given a pension structure w ith a strong self-funded component and a still young population.
Sustainability assessment 2/		Sustainable	Public debt-to-GDP ratio is projected to increase moderately and remain below the 40 percent of GDP rule limit in the medium term given a strong rules-based fiscal framew ork and a track record of prudent macroeconomic policies.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Kosovo is at a low overall risk of sovereign stress and debt is sustainable. Debt is expected to rise modertely over the projection period, but it w ill remain below the legal ceiling. The rules-based fiscal framew ork has been instrumental to preserve prudent macroeconomic policies. The authorities need to continue w orking on reforms to improve the efficiency and effectiveness of public spending. This w ould allow them to build a stronger level of buffers, w hich is critical in an unilaterally euroized small open economy.

Source: IMF staff calculations.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress w ithout its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases w here there is a disbursing IMF arrangement. In surveillance-only cases or in cases w ith precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases w here there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases w ith IMF arrangements w ith normal access, the qualifier indicating probability of sustainable debt ("w ith high probability" or "but not w ith high probability") is deleted before publication.

Annex II. Figure 1. Kosovo: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/		GG (chosen)				
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	No	Not applicable
CPS / NFPS / GG: expected	4	State governments	No	Not applicable
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen coverage	chosen coverage	chosen coverage	Missing from recommended coverage	Missing from recommended coverage

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	chosen	chosen		

5. Debt consolidation across sectors:

Consolidated	Non-consolidated
	chosen

Color code: chosen coverage; Missing from recommended coverage; Not applicable

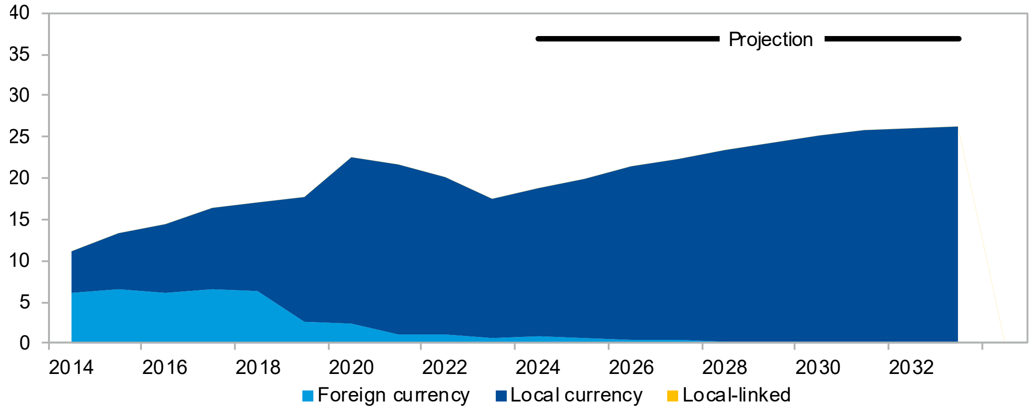
Reporting on Intra-government Debt Holdings

Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

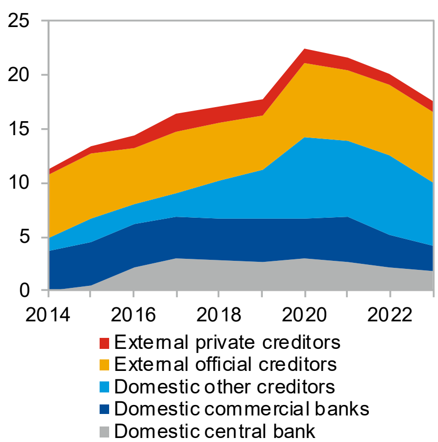
Annex II. Figure 2. Kosovo: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



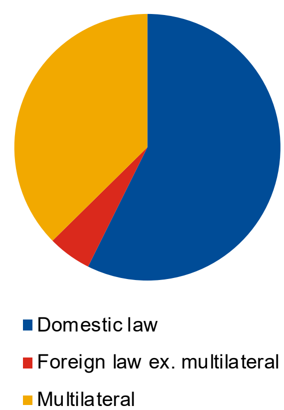
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



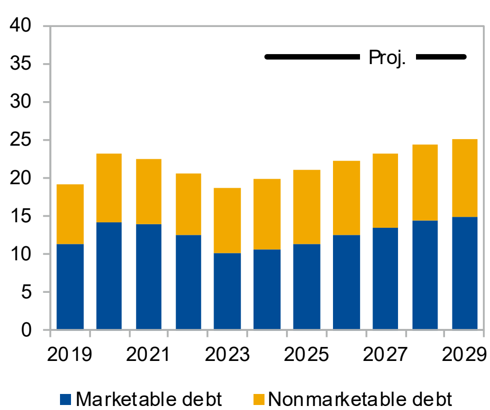
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



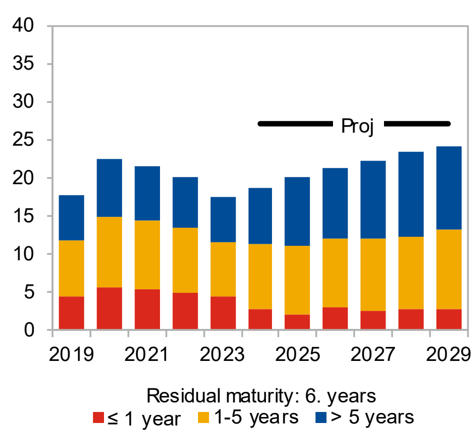
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

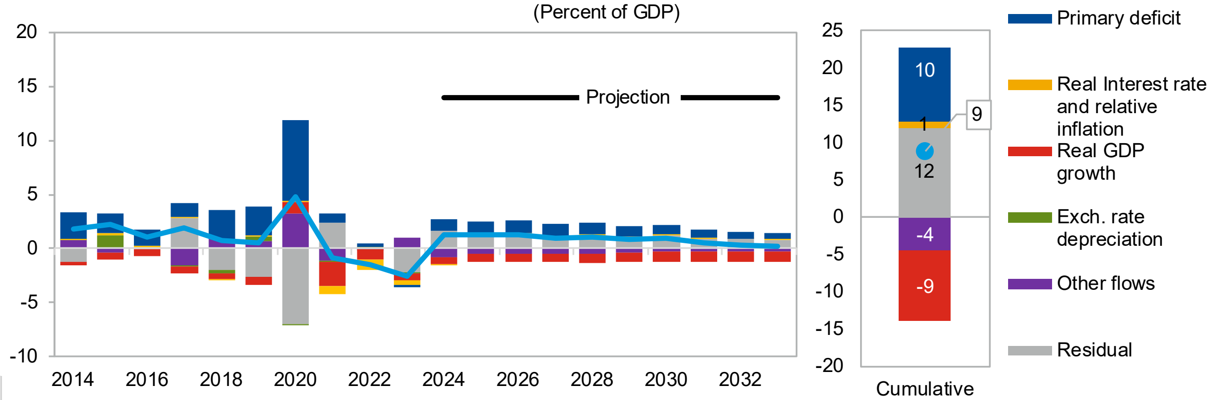
Annex II. Table 2. Kosovo: Baseline Scenario

(Percent of GDP, unless indicated otherwise)

	Actual	Medium-Term Projection						Extended Projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	17.5	18.8	20.0	21.3	22.3	23.4	24.3	25.2	25.8	26.1	26.3
Change in public debt	-2.6	1.3	1.2	1.3	1.0	1.1	0.8	1.0	0.5	0.3	0.2
Contribution of identified flows	-0.3	-0.4	0.0	0.1	0.0	-0.1	-0.2	-0.3	-0.4	-0.5	-0.6
Primary deficit	-0.2	1.1	1.2	1.1	1.1	1.0	0.9	0.8	0.8	0.7	0.6
Noninterest revenues	29.6	28.8	28.5	28.4	28.2	28.2	28.2	28.2	28.2	28.2	28.2
Noninterest expenditures	29.4	29.9	29.7	29.5	29.3	29.2	29.1	29.0	28.9	28.9	28.8
Automatic debt dynamics	-1.2	-0.7	-0.6	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-0.9	-1.0
Real interest rate and relative inflation	-0.5	-0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Real interest rate	-0.5	-0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.6	-0.6	-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	-1.0
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	1.0	-0.8	-0.5	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	1.0	-0.8	-0.5	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3
Contribution of residual	-2.2	1.6	1.2	1.3	1.0	1.2	1.0	1.3	0.9	0.9	0.8
Gross financing needs	3.4	4.8	4.3	3.8	4.7	4.4	4.5	4.4	4.6	4.5	4.5
of which: debt service	3.6	3.7	3.2	2.7	3.6	3.4	3.5	3.6	3.9	3.9	3.9
Local currency	3.4	3.5	3.0	2.5	3.5	3.3	3.5	3.5	3.8	3.8	3.8
Foreign currency	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Memo:											
Real GDP growth (percent)	3.3	3.8	4.0	4.0	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Inflation (GDP deflator; percent)	5.0	2.8	2.5	2.8	2.7	2.5	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	8.5	6.7	6.6	6.9	6.7	6.5	6.0	6.0	6.0	6.0	6.0
Effective interest rate (percent)	2.4	2.3	3.0	3.8	3.6	3.3	3.0	2.8	2.7	2.6	2.6

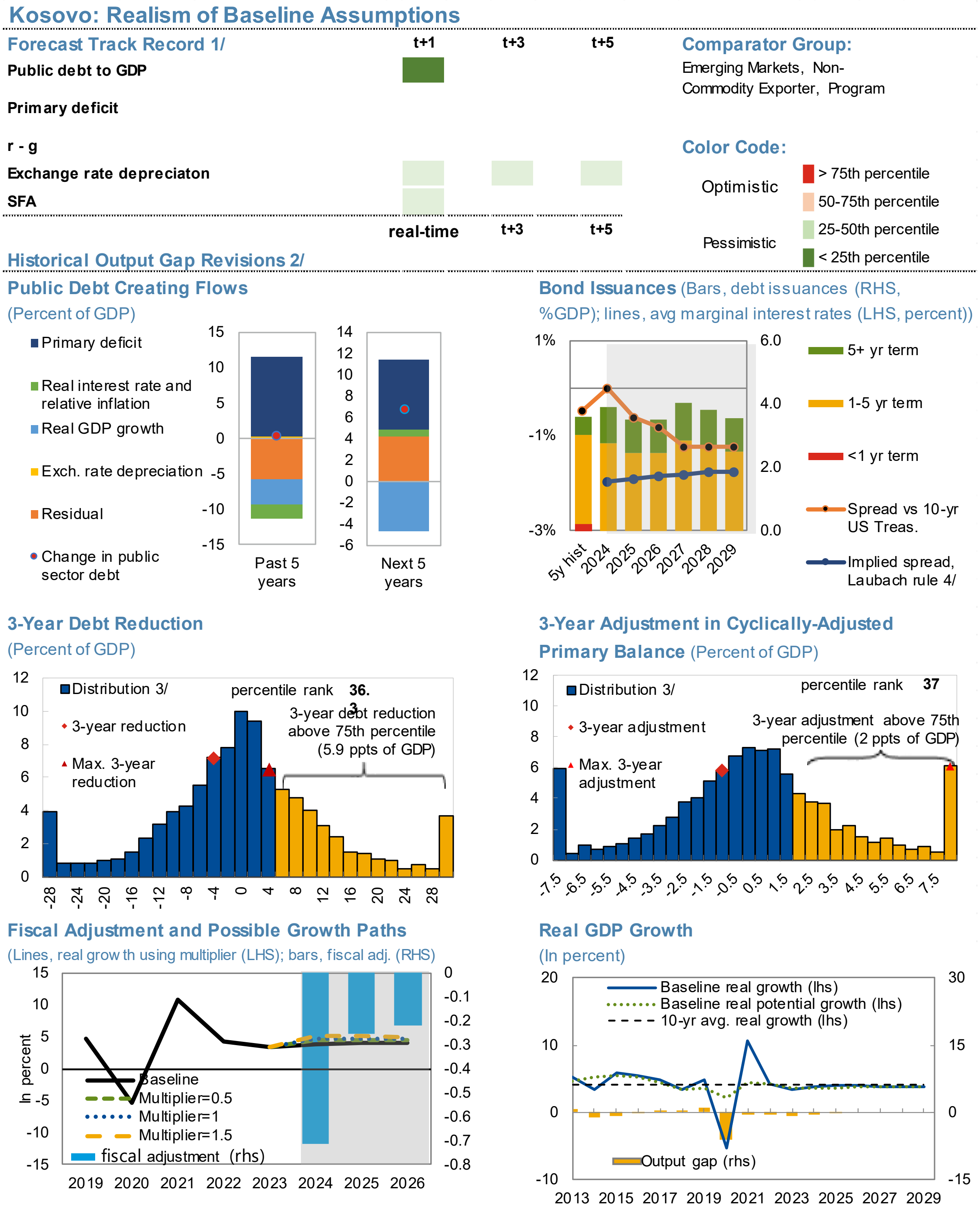
Contribution to Change in Public Debt

(Percent of GDP)



Staff commentary: The rules-based fiscal framework limits the deficit to 2 percent of GDP, excluding donor-financed investment. However, recurrent underexecution of investment would result in fiscal balances below the target,

Annex II. Figure 3. Kosovo: Realism of Baseline Assumptions



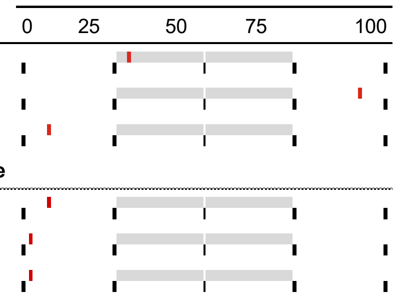
Commentary: The recovery from COVID-19 will impart complicated effects on the growth path. However, realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

Annex II. Figure 4. Kosovo: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

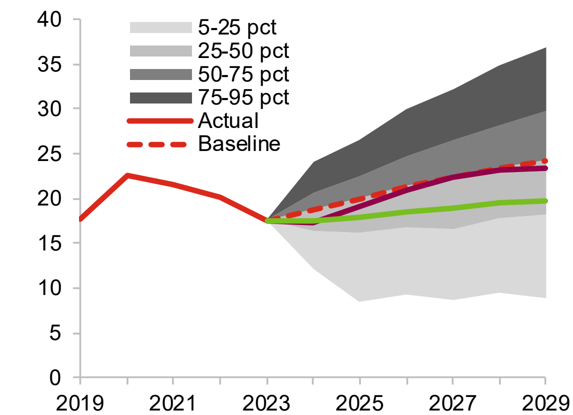
(Percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	27.9	0.4	…
	Probability of debt not stabilizing (pct)	83.5	0.7	…
	Terminal debt level x institutions index	16.1	0.4	…
	Debt fanchart index	**…**	**1.5**	**Moderate**
GFN finance-ability module	Average GFN in baseline	4.4	1.5	…
	Bank claims on government (pct bank assets)	3.1	1.0	…
	Chg. in claims on govt. in stress (pct bank assets)	0.6	0.2	…
	GFN financeability index	**…**	**2.7**	**Low**

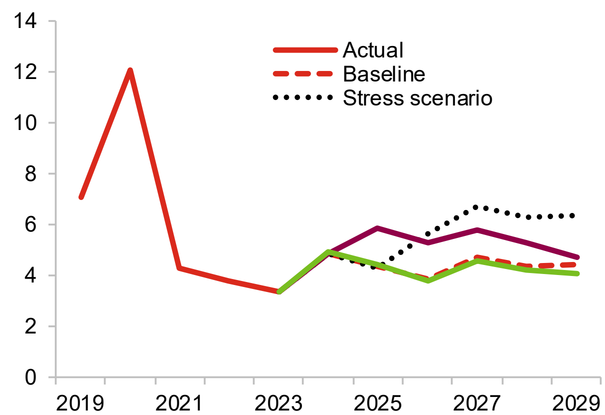


Legend: Interquartile range Kosovo

Final Fanchart (Pct of GDP)



Gross Financing Needs (Pct of GDP)

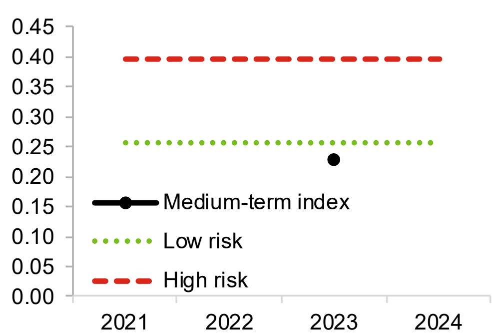


Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-term Index

(Index number)



Medium-term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.3
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	…	0.2, Low

Prob. of missed crisis, 2024-2029 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 58.0 pct.

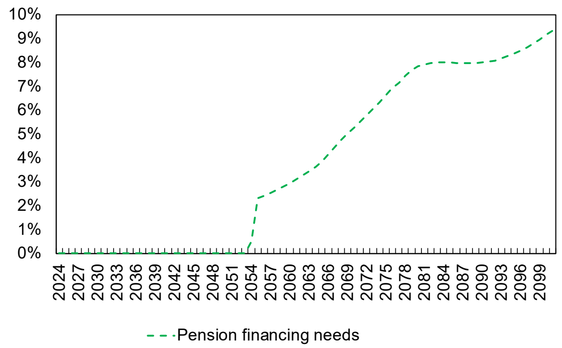
Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to moderate level of risk, while the GFN Financeability Module suggests low level of risk. In a standard stress scenario, which assumes the real GDP growth to decline by 1 percentage point for 2 years in 2024-25, interest rates rise by up to 200 bps, and a depreciation equal to the largest of the last 10 years (19.8 percent)

Annex II. Figure 5. Kosovo: Long-Term Risk Assessment

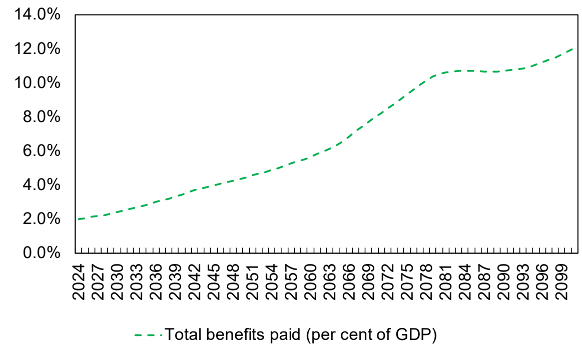
Demographics: Pension

Permanent Adjustment Needed in The Pension System (Pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	0.00%	1.77%	4.73%

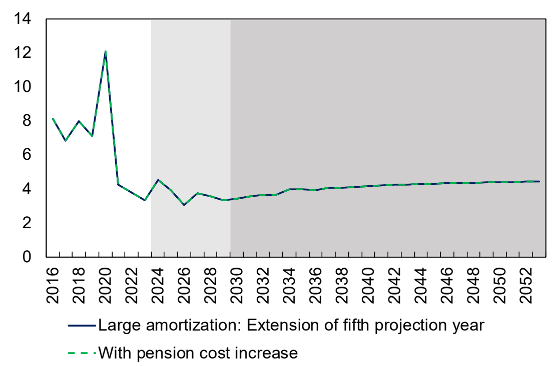
Pension Financing Needs



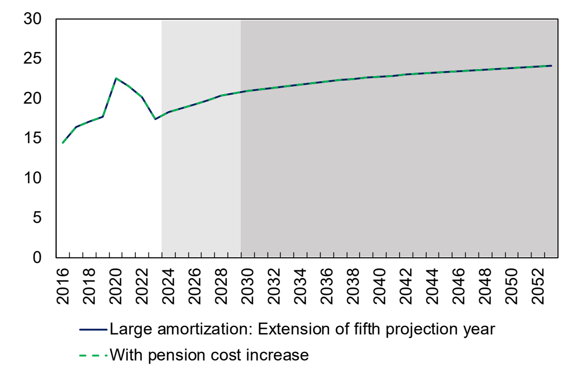
Total Benefits Paid



GFN-to-GDP Ratio

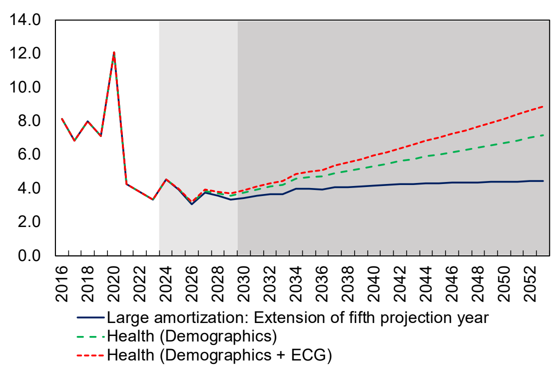


Total Public Debt-to-GDP Ratio

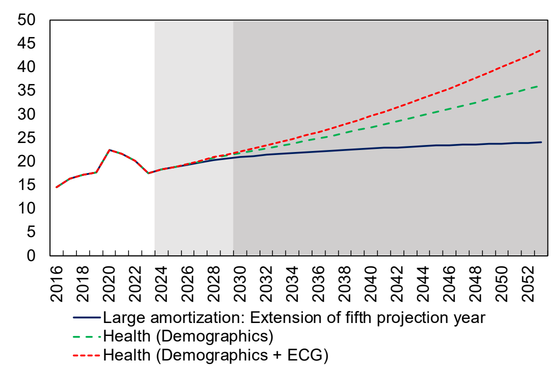


Demographics: Healthcare

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

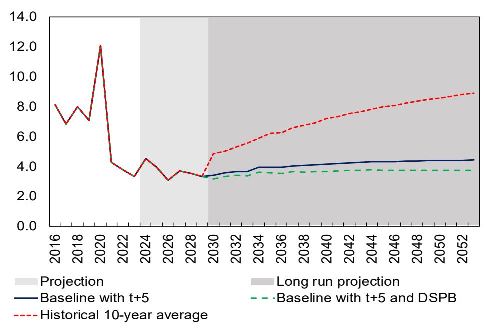


Annex II. Figure 5. Kosovo: Long-Term Risk Assessment (Concluded)

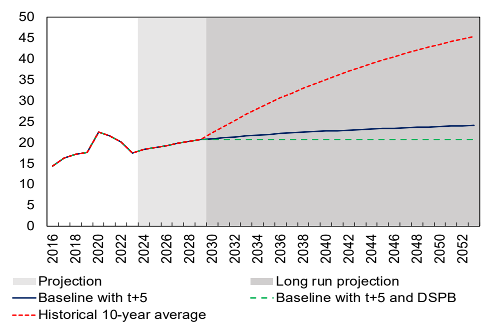
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	

Overall Risk Indication	

GFN-to-GDP Ratio

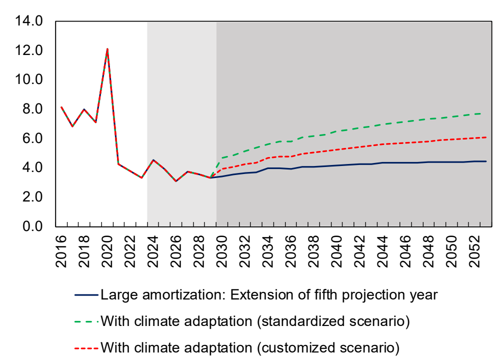


Total Public Debt-to-GDP Ratio

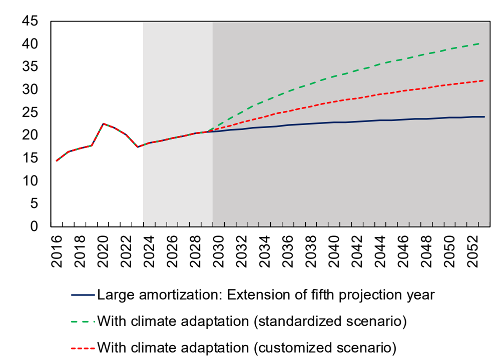


Climate Change: Adaptation

GFN-to-GDP Ratio

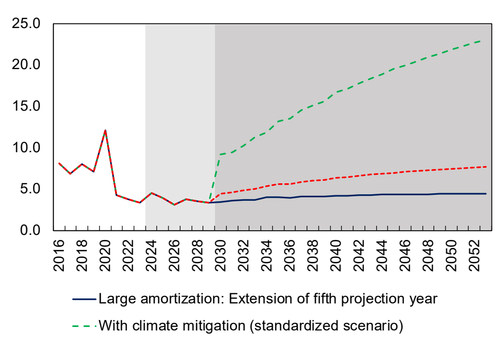


Total Public Debt-to-GDP Ratio

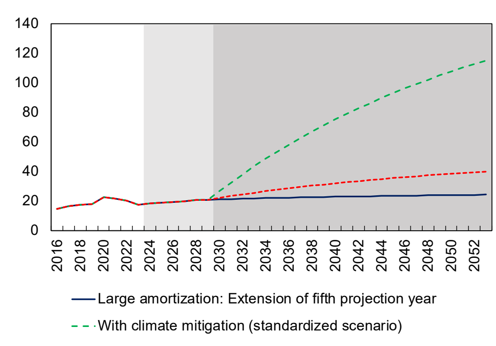


Climate Change: Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

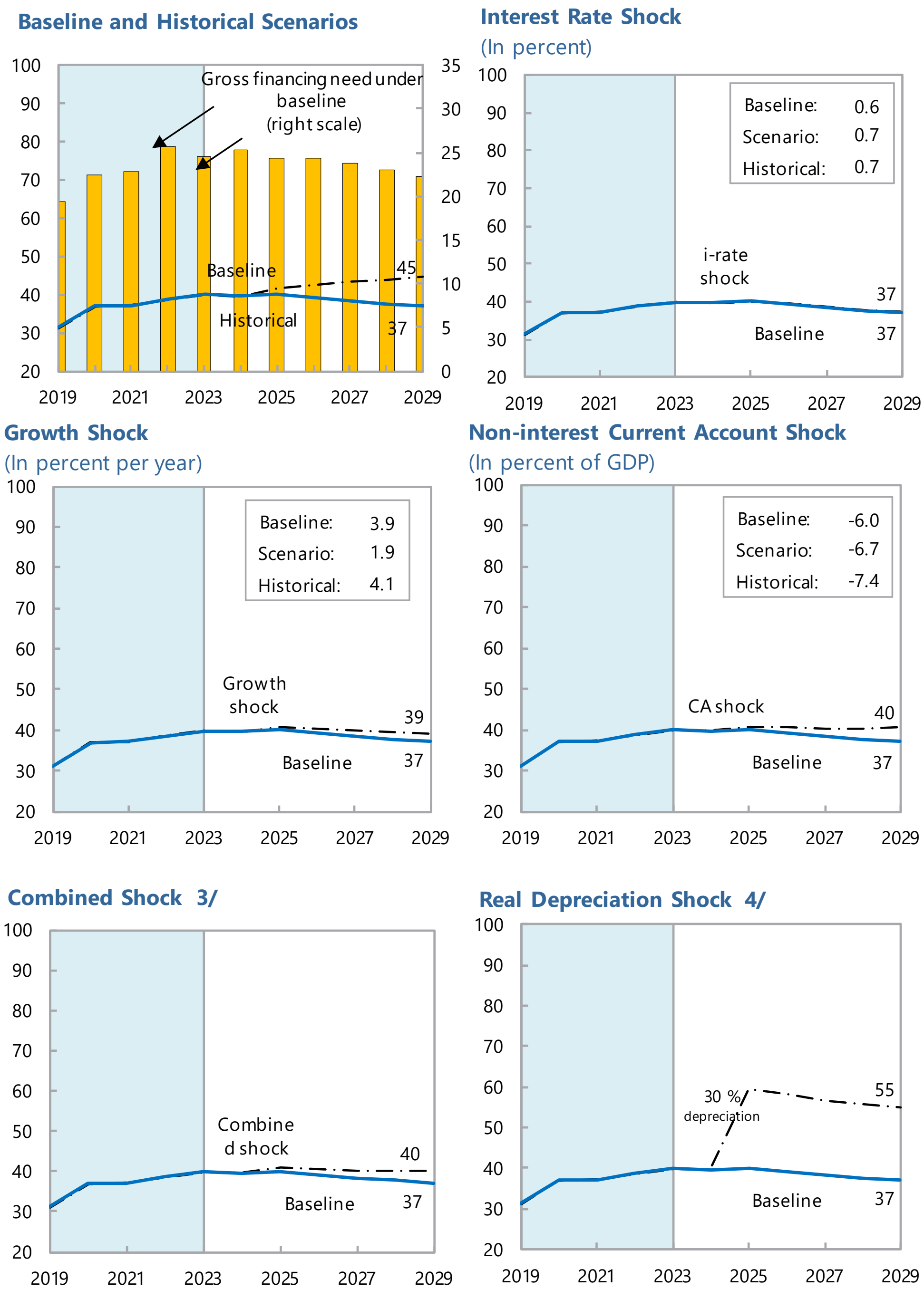


Annex II. Table 3. Kosovo: Decomposition of Public Debt and Debt Service by Creditor, 2023–25[1]

	Debt Stock (end of period) 2023			Debt Service 2023	2024	2025	2023	2024	2025
	(In mil, EUR)	*(Percent total debt)*	*(Percent GDP)*	*(In mil. EUR)*			*(Percent GDP)*		
Total	1,691.6	98.3%	17.4%	337.3	396.2	349.8	3.5%	3.8%	3.1%
External	692.8	41.0%	7.1%	60.6	90.2	93.2	0.6%	0.9%	0.8%
Multilateral creditors[2,3]	647.1	38.3%	6.7%	51.6	75.8	74.9	0.5%	0.7%	0.7%
IMF	75.5	4.5%	0.8%	14.7	28.7	15.7	0.2%	0.3%	0.1%
World Bank	337.1	19.9%	3.5%	24.5	26.0	27.9	0.3%	0.2%	0.2%
EBRD	21.5	1.3%	0.2%	9.3	8.9	13.0	0.1%	0.1%	0.1%
Other Multilaterals	213.1	12.6%	2.2%	3.1	6.1	9.2	0.0%	0.1%	0.1%
o/w: EU	100.0	5.9%	1.0%	0.2	0.2	0.2	0.0%	0.0%	0.0%
Council of Europe Dev. Bank (CEB)	45.8	2.7%	0.5%	0.4	0.4	2.0	0.0%	0.0%	0.0%
European Inv. Bank (EIB)	53.6	3.2%	0.6%	1.2	3.1	4.5	0.0%	0.0%	0.0%
Islamic Dev. Bank (ISDB)	13.6	0.8%	0.1%	1.2	1.3	1.3	0.0%	0.0%	0.0%
OPEC Fund for Int. Dev (OFID)	0.0	0.0%	0.0%	0.2	1.2	1.2	0.0%	0.0%	0.0%
Bilateral Creditors[2]	45.7	2.7%	0.5%	8.9	7.3	6.6	0.1%	0.1%	0.1%
Paris Club	16.9	1.0%	0.2%	7.2	5.2	3.0	0.1%	0.0%	0.0%
o/w: KfW Dev. Bank	16.9	1.0%	0.2%	7.2	5.2	3.0	0.1%	0.0%	0.0%
Non-Paris Club	0.5	0.0%	0.0%	1.0	1.0	1.1	0.0%	0.0%	0.0%
o/w: Saudi Fund for Dev. (SFD)	0.5	0.0%	0.0%	1.0	1.0	1.1	0.0%	0.0%	0.0%
Bonds	0.0	0.0%	0.0%	0.0	0.0	0.0	0.0%	0.0%	0.0%
Commercial creditors	28.3	1.7%	0.3%	0.8	1.1	2.6	0.0%	0.0%	0.0%
o/w: Uni Credit Bank	23.2	1.4%	0.2%	0.7	1.1	2.1	0.0%	0.0%	0.0%
Raiffeisen Bank International (RBI)	5.1	0.3%	0.1%	0.1	0.1	0.5	0.0%	0.0%	0.0%
Domestic	970.2	57.4%	10.0%	276.7	305.9	256.6	2.9%	2.9%	2.3%
T-Bills	…								
Bonds	970.2	57.4%	10.0%	276.7	305.9	256.6	2.9%	2.9%	2.3%
Loans	…								
Memo items:									
Collateralized debt[4]	…								
o/w: Related									
o/w: Unrelated									
Contingent liabilities	28.6	1.7%	0.3%						
o/w: Public guarantees	28.6	1.7%	0.3%						
o/w: Other explicit contingent liabilities[5]	…								
Nominal GDP	9,694.8			9,694.8	10,452.2	11,231.1			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/All creditors are included.
3/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)
4/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.
5/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements). For Kosovo, public guarantees onlending are already included in debt stock.

Annex II. Figure 6. External Debt Sustainability: Bound Tests[1, 2]



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2025.

Annex II. Table 4. Kosovo: External Debt Sustainability Framework, 2019–29

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2019	2020	2021	2022	2023			2024	2025	2026	2027	2028	2029	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	31.2	37.0	37.1	38.6	39.9			**39.6**	**40.0**	**39.2**	**38.3**	**37.7**	**37.1**	**-4.5**
Change in external debt	0.7	5.8	0.2	1.5	1.2			-0.2	0.4	-0.8	-0.9	-0.6	-0.5	
Identified external debt-creating flows (4+8+9)	2.2	2.8	2.8	1.1	2.8			1.7	1.8	1.6	1.7	1.7	1.7	
Current account deficit, excluding interest payments	5.4	6.8	8.7	10.1	7.4			7.3	6.6	6.2	5.9	5.7	5.4	
Deficit in balance of goods and services	27.1	32.2	31.8	32.8	30.7			30.3	29.7	28.9	28.1	27.9	27.5	
Exports	29.3	21.7	33.4	38.6	39.7			39.3	38.6	38.8	38.8	38.9	38.9	
Imports	56.4	53.9	65.2	71.4	70.5			69.6	68.3	67.6	67.0	66.8	66.5	
Net non-debt creating capital inflows (negative)	-1.8	-5.4	-0.5	-5.3	-1.9			-4.5	-3.6	-3.3	-3.0	-2.8	-2.6	
Automatic debt dynamics 1/	-1.4	1.4	-5.5	-3.7	-2.8			-1.2	-1.3	-1.3	-1.2	-1.2	-1.2	
Contribution from nominal interest rate	0.2	0.1	0.0	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2	
Contribution from real GDP growth	-1.4	1.7	-3.4	-1.4	-1.2			-1.4	-1.5	-1.5	-1.4	-1.4	-1.3	
Contribution from price and exchange rate changes 2/	-0.3	-0.4	-2.1	-2.5	-1.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-1.5	2.9	-2.6	0.4	-1.5			-1.9	-1.4	-2.4	-2.6	-2.3	-2.2	
External debt-to-exports ratio (in percent)	106.4	170.2	111.2	100.0	100.3			100.8	103.8	101.2	98.6	96.9	95.3	
Gross external financing need (in millions of euros) 4/	1366.1	1514.9	1822.3	2287.4	2366.1			2604.0	2678.0	2846.6	2971.6	3073.8	3146.5	
in percent of GDP	19.4	22.4	22.9	25.7	24.5	10-Year	10-Year	25.3	24.4	24.3	23.7	23.1	22.3	
Scenario with key variables at their historical averages 5/								**39.6**	**41.6**	**42.5**	**43.2**	**43.9**	**44.6**	**-5.3**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	4.8	-5.3	10.7	4.3	3.3	4.1	4.0	3.8	4.0	4.0	3.9	3.9	3.8	
GDP deflator in Euro (change in percent)	1.0	1.4	6.1	7.2	5.0	2.6	2.5	2.8	2.5	2.8	2.7	2.5	2.1	
Nominal external interest rate (in percent)	0.8	0.4	0.1	0.6	0.7	0.7	0.3	0.6	0.6	0.6	0.6	0.6	0.5	
Growth of exports (Euro terms, in percent)	6.7	-28.9	80.9	29.2	11.6	15.4	27.6	5.6	4.6	7.4	6.8	6.6	6.1	
Growth of imports (Euro terms, in percent)	4.3	-8.3	42.2	22.3	7.1	10.6	13.5	5.4	4.5	5.9	5.6	6.1	5.6	
Current account balance, excluding interest payments	-5.4	-6.8	-8.7	-10.1	-7.4	-7.4	1.5	-7.3	-6.6	-6.2	-5.9	-5.7	-5.4	
Net non-debt creating capital inflows	1.8	5.4	0.5	5.3	1.9	2.8	2.7	4.5	3.6	3.3	3.0	2.8	2.6	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex III. Risk Assessment Matrix

A. Global Risks[1]

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
Conjunctural risks		
High **Intensification of regional conflict(s).** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High The direct impact is expected to be minimal due to limited linkages with Israel, Gaza, Russia and Ukraine. However, an escalation of the war would affect Kosovo through higher commodity prices, supply disruptions, tighter financial conditions, and lower growth in countries where the diaspora resides, limiting tourism flows and remittances. An intensification of the conflict in the Middle East could disrupt oil supply chains resulting in higher oil prices.	Design well-targeted and temporary policy interventions to support households to cope with additional commodity price shocks. Promote energy savings through pass-through rates of international electricity prices for non-vulnerable clients, especially for peak-hour consumption. Accelerate broad-based structural reforms to boost competitiveness, expand renewable energy production, and gradually reduce the dependency on diaspora-related flows by increasing exports and domestic production.
High **Commodity price volatility.** A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High Higher energy and food prices will transmit to consumer prices and dampen household disposable income, leading to lower consumption growth. Higher energy prices will also increase firms' input costs, negatively impacting profits and investment plans.	Design well-targeted and temporary policies to cope with additional commodity price shocks. Accelerate broad-based structural reforms to boost competitiveness, make the energy matrix greener, and increase public investment absorption. Promote energy savings through well-designed measures to increase efficiency in the use of energy; and by passing through international electricity prices for non-vulnerable clients, especially for peak-hour consumption.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
Medium **Abrupt global slowdown.** Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. **China:** Sharper-than-expected contraction in the property sector weighs on private demand, further amplifies local government fiscal strains, and results in disinflationary pressures and adverse macro-financial feedback loops. **Europe:** Intensifying fallout from Russia's war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn. **U.S.:** Amid tight labor markets, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction.	**High** An economic slowdown in Europe will weigh on Kosovo's growth through reduced consumption, investment, exports, and lower diaspora flows, weighing on the strength of Kosovo's external inflows.	Design well-targeted and temporary policies to cope with shocks. Accelerate broad-based structural reforms, including greening the energy matrix and reducing diaspora dependency through policies to increase exports and domestic production. Further strengthen the monitoring of financial risks and establish contingency plans to address fiscal risks.
Medium **Monetary policy miscalibration.** Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets, and weakening the credibility of central banks.	**Medium** Increased inflation could lead to increase social discontent in Kosovo. Tighter financial conditions could put pressure on banks' asset quality.	Design well-targeted and temporary policies to cope with additional commodity price shocks. Fiscal transfers should be targeted to better mitigate the impact of inflation on the most vulnerable. Strengthen the capacity of the CBK to monitor bank credit and liquidity risks; stand ready to take supervisory actions.
Medium **Systemic financial instability.** High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	**Medium** Increased financial market volatility in the euro area can result in increased interest rates and risk premia for Kosovo.	Strengthen the capacity of the CBK to monitor bank credit and liquidity risks; stand ready to take supervisory actions. Strengthen CBK governance to identify roles and responsibilities when facing financial instability. Improve the monitoring of key sectors such as the real estate sector.

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
Medium **Sovereign debt distress.** Domino effects from high global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access.	**Low** Kosovo's debt remains moderately low (around 20 percent) and is projected to remain well-within the country's debt limit in the medium term.	Maintain prudent fiscal policies anchored by existing fiscal rules. Strengthen debt management and continue working towards obtaining a sovereign risk rating.
Medium **Social discontent.** High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	**Medium** Social discontent can result in economic losses as well as in costly policy proposals.	Establish clear and sustainable indexing mechanism for this and other social transfers. More broadly, transfer programs should be strengthened to target the budget's assistance on the vulnerable.
Structural Risks		
High **Deepening geo-economic fragmentation.** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**Medium** A global economic slowdown due to geo-economic fragmentation will weigh on Kosovo's growth through reduced consumption, investment, exports, and lower diaspora flows that may lead to a higher current account deficit.	Design well-targeted and temporary policies to cope with additional shocks. Accelerate broad-based structural reforms, including greening the energy matrix and reducing diaspora dependency through policies to increase exports and domestic production.
Medium **Cyberthreats.** Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	**Medium** Sharp financial market fluctuations can disrupt the normal operation of corporates and financial institutions.	Improve the physical and regulatory infrastructure to monitor and mitigate cyberthreats. Have contingent plans to address tail-event scenarios.
Medium **Extreme climate events.** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium** Kosovo is prone to several natural hazards (droughts, wildfires, landslides, and floods), that can inflict considerable damage to economic activity, lead to fiscal costs, and affect vulnerable populations. Extreme climate events at the global level affect Kosovo through higher food prices.	Continue work on the National Environment and Climate Plan. Strengthen preparedness through contingent fiscal and financial plans to mitigate the impact of climate events. Maintain appropriate fiscal buffers to ensure capacity to respond swiftly. Improve the targeting of transfer programs to ensure that support only reach the most vulnerable households. Implement C-PIMA recommendations.

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
	Structural Risks	
Medium **Disorderly energy transition. A** disorderly shift to net-zero emissions (e.g., owing to shortages in critical metals) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	**Medium** Stricter trade regulations, such as CBAM, could negatively affect Kosovo's growth prospects, as well as the country's attractiveness to foreign investors.	Continue work on the National Environment and Climate Plan. Expand green generation and invest in reducing emissions and increasing energy efficiency. Strengthen regional cooperation, market competition, and functioning of the electricity market. Strengthen in-house planning and analysis on carbon pricing and feebate design, including through the use of CPAT.

B. Domestic Risks

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
	Geopolitical Risks	
High **Intensification of tensions in northern Kosovo.** Heightened tension in Kosovo's northern municipalities.	**High** Tensions in Kosovo's northern municipalities delay progress in the EU-facilitated Dialogue with Serbia. This may lead to a continuation of EU measures, constraining access to EU and bilateral financing. It would also affect confidence, investment, and growth.	Abide by the EU-sponsored dialogue and implement EU-SAA provisions.
	Demographic Risks	
High **Acceleration of emigration triggered by the recent EU visa liberalization.** Visa liberalization exacerbates high emigration rates, especially among the youth.	**High** Higher emigration rates could lead to a shrinking labor force and worsening skill mismatches. In the long term, it can hamper productivity and growth prospects.	Monitor closely the visa-free travel and the number of Kosovar citizens that receive work permit in EU countries. Implement reforms to strengthen rule of law, tackle corruption, improve the business environment, and investment climate.

Appendix I. Letter of Intent

Republika e Kosovës

Republika Kosova - Republic of Kosovo

Prishtinë, May 13, 2024

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Ms. Georgieva:

Our economic program, supported by the Stand-By Arrangement (SBA) and the Resilience and Sustainability Facility (RSF) arrangement approved by the IMF Executive Board on May 25, 2023, aims at maintaining macroeconomic and financial stability and advancing an ambitious reform agenda to further strengthen fiscal and financial governance and boost inclusive growth, as well as supporting our ambitious green agenda. The attached Memorandum of Economic and Financial Policies (MEFP) describes progress made so far and sets out the economic policies that the Government and the Central Bank of the Republic of Kosovo intend to implement under the SBA and RSF.

We remain committed to implement policies aimed at maintaining macroeconomic and financial stability, including a prudent fiscal policy. Our structural reform agenda has focused on tackling informality, strengthening the quality of public spending, reducing infrastructure gaps, protecting vulnerable households, strengthening financial governance, and continue advancing in the EU accession process. We are improving structural fiscal policies, with a view to strengthen public financial management, enhance revenue mobilization, manage fiscal risks, and improve the volume and quality of public investment.

A critical part of our agenda envisages climate change mitigation and adaptation policies. Our focus has been on expanding green energy capacity, improving the efficiency of energy markets, fostering regional integration, reducing pollution and emissions, and supporting vulnerable groups. To this end, we have taken concrete measures to increase green electricity generation. On March 29, we successfully concluded the first competitive auction of 100MW of solar capacity. Preparatory work for an auction of additional 150MW of wind generation is currently ongoing. In December 2023, a new Law on Climate Change was adopted, aimed at establishing a framework for the promotion, planning, and monitoring of climate change policies. The law on Renewable Energy, which transposes EU directives, was adopted by Parliament in April 2024. On January 31, ALPEX launched day-ahead auctions in market-coupling mode for the two bidding zones (Kosovo and Albania). Finally, the CBK has issued instructions for banks to monitor and report data on exporting firms exposed to transition costs related to CBAM implementation.

The Government and the Central Bank of Kosovo request the completion of the second reviews of the SBA and RSF arrangements based on the full implementation of both programs' targets and reforms. All end-December 2023 quantitative performance criteria (QPCs) and all indicative targets (ITs) were met. All structural benchmarks (SBs) under the SBA and all reform measures (RMs) under the RSF envisaged for the second review were completed.

We will continue to treat the SBA as precautionary, but we may consider purchases if downside risks materialize, including shortfalls of programmed external financing. We will maintain close policy dialogue with the IMF to achieve program objectives, including on any changes to our current policies and reform agenda that falls under the scope of the MEFP. Timely information needed to monitor the economic situation and implementation of policies relevant to the program will be provided, as agreed under the attached Technical Memorandum of Understanding (TMU), or at the IMF's request. In keeping with our commitment to transparency, we agree to the publication of this letter, the MEFP, the TMU, and the accompanying Executive Board documents.

Sincerely yours,

/S/

Albin Kurti
Prime Minister

/S/

Hekuran Murati
Minister of Finance, Labor, and Transfers

/S/

Ahmet Ismaili
Central Bank Governor

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

1. **The Government and Central Bank of Kosovo remain fully committed to the economic reform program supported by the Stand-By Arrangement (SBA) and reform measures under the Resilience and Sustainability Facility (RSF) arrangement.** The SBA and RSF arrangements were approved by the IMF Executive Board on May 25, 2023. The first reviews of the programs were completed by the Board on November 15, 2023. This memorandum outlines in detail our progress towards meeting the objectives under the SBA and RSF arrangements and our plans to advance these objectives during the remainder of the programs. Tables 1, 2, and 3 summarize performance to date and the quantitative targets going forward, progress on structural benchmarks under the SBA, as well as progress on reforms supported by the RSF arrangement.

I. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

2. **Economic activity in 2023 remained solid.** After strong growth performance in 2022, real GDP expanded by 3.3 percent in 2023, despite adverse spillovers from the ECB anti-inflationary policies that impacted economic activity in our main trade partners. After peaking at 14½ percent y o-y in July 2022, inflation has declined sharply on the back of lower commodity prices—mainly food and oil, reaching 2.2 percent in February 2024. Moreover, the current account deficit narrowed to 7½ percent of GDP in 2023—from 10¼ percent of GDP in 2022—driven by lower commodity prices and strong inflows from remittances and tourism.

3. **Real GDP growth is projected to strengthen in 2024.** Growth is expected to accelerate to about 4 percent in 2024 driven by strong private consumption and public investment, and a recovery in private investment (particularly in energy projects and construction). We expect the fiscal stance to be moderately expansionary and contribute to close the slightly negative output gap. The fiscal expansion will be mostly driven by investment in infrastructure. Inflation is projected to reach about 2.5 percent in 2024, converging to 2 percent over the next year. The current account deficit is expected to range between 7-8 percent of GDP in 2024, primarily financed by non-debt creating FDI inflows.

II. ECONOMIC POLICIES AND REFORMS UNDER THE SBA

4. **We have made significant progress in the implementation of our ambitious reform agenda under the SBA.** The end-December 2023 Quantitative Performance Criteria (QPCs) on the general government balance and stock of government deposits at the Central Bank of Kosovo (CBK) were met with some margins. Similarly, Indicative Targets (IT) on the size of the unallocated budget reserves and the holdings of government's debt by the CBK were also met. We continue to observe the continuous performance criterion (PC) on non-accumulation of external arrears. We have started the publication of a stand-alone fiscal risks report (end-November 2023 structural benchmark, SB). The CBK has issued new rules of procedure clarifying responsibilities of its Supervisory Board in relation with the Executive Board (end-November 2023 SB). We have also finalized the new draft Law on Banks in line with FSSR recommendations (end-November 2023 SB) and submitted it to parliament in May (end-January 2024 SB). We have already been publishing quarterly economic and

financial data for publicly owned enterprises (POEs) and will start publishing POE's annual financial reports (end-June 2024 SB).[1]

Fiscal Policies and Reforms

5. **The overperformance of 2023 fiscal targets reflect our commitment to prudent fiscal policies.** The fiscal balance posted a deficit ¼ of percent of GDP, compared to 2¼ percent of GDP under the program. This strong outturn reflected stronger revenues and was achieved despite a large boost in public investment—up by over 30 percent compared to 2022. The expanded fiscal space allowed us to implement, in December, a €100 financial support to all children and pensioners to help them cope with the increase in the cost of living (at a total cost of €68 million or ¾ percent of GDP). Temporary delays in the disbursement of programmed budget support loans and lower-than-programmed net domestic financing, resulted in a decrease in fiscal buffers, which, after adjusters, remained within program parameters.[2] In this context, public debt declined to 17½ percent of GDP in 2023, well below our 40 percent of GDP debt ceiling. As delayed disbursements occur throughout 2024 and net domestic financing increases, we expect fiscal buffers to recover and remain within program targets.

6. **The 2024 budget is consistent with our rules-based fiscal framework and program objectives and is fully financed.** Our fiscal policy for 2024 will continue to be anchored by the 2 percent of GDP deficit ceiling rule—excluding investment funded by privatization and donors. Budget implementation is expected to result in a moderate fiscal impulse, which is appropriate given the economy's cyclical position and declining inflation.[3] Budget financing will include increased net domestic issuance of government debt and World Bank budget support (a US$100 million Development Policy Operation, DPO). This would allow our gross international reserves to remain at about 95 percent of recommended IMF reserve adequacy metric and government deposits to remain above the SBA program floor over the duration of the program. An initial payment under the EU's Growth Plan for the Western Balkans—introduced in November 2023—may be implemented by end-2024.

7. **The SBA will continue to mitigate downside risks.** While available financing and existing fiscal buffers ensure program financing and adequate international reserve levels under the baseline, an increase in commodity prices would lead to lower growth and fiscal revenues and higher financing needs. A financing gap may also arise if planned external budget support operations fail to materialize. In the meantime, we plan to continue treating the SBA as precautionary.

8. **We are implementing a medium-term revenue strategy to enhance tax compliance.** We adopted, in June 2023, an updated Customs and Excise Code to further align it with the European

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[1] https://mfpt.rks-gov.net/Thesari/Page/969

[2] Delayed disbursements from 2023 include US$100 million World Bank Development Policy Operation (DPO) and a US$40 million loan from the OPEC Fund for International Development. The latter was extended through March, when it expired.

[3] In January 2024, the Constitutional Court requested a revision of several articles of the public sector wage law within 6 months. While abiding to the ruling, we will strive to meet the fiscal targets under our program.

Union customs code and excise acquis (end-June 2023 SB). To further mobilize revenues, the Tax Administration of Kosovo (TAK) adopted a new action plan to reduce informality (end-July 2023 SB). To facilitate compliance, TAK has strengthened process automation to provide new electronic services to taxpayers. Additionally, a new law on tax procedures was approved by the National Assembly in January 2024. The law reduces the time to amend filings and claim tax refunds, increases penalties for noncompliance, and reduces the threshold for non-bank transactions from €500 to €300. With assistance of the World Bank, we are preparing a comprehensive review of tax expenditures, which in time will serve us to propose policies that would further increase fiscal space and tax fairness.

9. We are taking further action to improve public financial management and the efficiency and effectiveness of government spending.[4]

- ***Transparency.*** We have reduced the size of the contingent budgetary allocations (as defined in the attached TMU) from 3¾ percent of GDP in 2023 to 1 percent in GDP in the 2024 budget (IT). To promote accountability about the use of these resources, the Treasury quarterly financial reports will continue publishing information on the use, intended impact, rationale, and beneficiaries of them (end-July 2023 SB).

- ***Social Benefits.*** Electricity tariffs will continue to ensure that the electricity sector's financial flows remain balanced in 2024, without the need of blanket government subsidies. The government, in collaboration with the World Bank (WB), has revised the definition of vulnerable energy consumers to ensure that beneficiaries are chosen based on means-testing procedures. Moreover, any newly proposed social scheme will be targeted and sustainable. In this regard, the results of the Census (which started in April 2024) will provide valuable data for designing targeted and effective social schemes and benefits.

- ***Public Investment.*** We are committed to make further progress with the budget planning, execution, and monitoring of investment projects. In this context, recommendations from PIMA and C-PIMA reports will serve as an important source of analytical work and will guide our work and efforts.[5] We will continue making efforts to improve the PIP absorption—since 2023, budget organizations are required to include needed expropriation costs as part of project envelopes (end-June 2023 SB), with a view to ensure that no new projects can be included in the budget without properly accounting for expropriations costs. We will strive to accelerate the implementation of projects under the investment clause, and to ensure that evaluation and technical project documentation on new externally financed projects, is appropriately finalized before signing the corresponding financial agreements.

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[4] A new Law on Public Financial Management, prepared with WB support and aiming to enhance the effectiveness of public expenditure and improve fiscal governance, is expected to be sent to parliament by end-2024.

[5] Republic of Kosovo: Technical Assistance Report-Public Investment Management Assessment Update and Climate PIMA (imf.org)

- ***Procurement.*** We are preparing a new procurement framework, including a new Public Procurement Law fully aligned with the EU acquis.[6] The new law aims to build on recent developments on e-procurement to build an efficient, transparent, and accountable procurement system. We also plan to invest heavily on capacity development—with IFIs assistance—to increase the number of specialized professionals to avoid bottlenecks and delays.

10. Strengthening POE operations will translate into better public service provision and mitigate fiscal risks. The collection analysis, and dissemination of POE financial data will continue to help us monitor performance, identify challenges, contain fiscal risks, and increase accountability. To this end, we have been publishing, on a quarterly basis, economic and financial data for all POEs and will start publishing POE annual financial reports (end-June 2024 SB). We also have been publishing information on government on-lending to POEs in our treasury quarterly financial report. We will continue to use this information to strengthen our fiscal risks assessment and recommend corrective actions as needed. To strengthen POE management and attract private capital, large POEs will be transferred to a new Sovereign Wealth Fund (SWF). Although the law creating the SWF was approved by parliament in December 2023, it is currently under review by the Constitutional Court. The approved law envisaged that the SWF will not create contingent liabilities for the state and will not impose investment obligations on the pension fund (KPST). KPST will continue focusing exclusively on investing the funds from workers' contributions with a view of maximizing profits which in turn will be reflected in higher pensions for their customers.

11. We remain committed to monitoring and containing fiscal risks, as well as to upgrading the framework for public sector statistics. Since November 2023, we are producing a stand-alone annual fiscal risks report (end-November 2023 SB) which leverages on the IMF Fiscal Risk Assessment Tool (FRAT). We plan to continue improving the report with IMF assistance. The report focuses on risks stemming from the operation of POEs, litigations against the state, and debt guarantees. To strengthen fiscal reporting, we will continue to work, with IMF support, on the implementation of a plan to disseminate fiscal accounts using the GFSM 2014 reporting standards.

Financial Sector Policies and Reforms

12. We will continue to preserve international liquidity buffers to support financial stability. The CBK will not increase its holdings of domestic government securities beyond the ceilings agreed in the program (IT). Moreover, the CBK is committed to continue managing its foreign reserves in line with best international practices to ensure liquidity, security and returns—in that order. The CBK has established a working group to review the Emergency Liquidity Assistance (ELA) framework, including its regulation and operations manual, and the review of the relevant regulation is ongoing. The European Central Bank (ECB) has granted an extension of the temporary Repo Line for the CBK, of €100 million, until end-January 2025. This provides additional precautionary buffers to address potential euro liquidity needs and maintain the stability of our financial system. In addition, the CBK is making efforts to strengthen the functioning of the intraday,

[6] The European Union (EU) acquis is the collection of common rights and obligations that constitute the body of EU law and is incorporated into the legal systems of EU Member States.

overnights and REPO interbank liquidity markets, as part of central security depository (CSD) functionality improvements, including its interface with the clearing system. With this aim, we have signed a contract for an IT-system upgrade and the project is ongoing. Moreover, we will continue working on options to strengthen the financing pool available for deposit insurance purposes.

13. Strengthening the governance of the financial sector is an essential priority of the CBK. We finalized the new draft Law on Banks, establishing improved licensing criteria for banks and standards for their operations, organization, and management, while strengthening the bank resolution framework, all in line with international best practice (end-November 2023 SB) and submitted it to parliament in May (end-January 2024 SB). In addition, with support from the International Finance Corporation (IFC) we are revising the draft Law on Microfinance Institutions, with a view to submit it to parliament before end-2024. We have also been working on a new Law on Payment Services in line with EU directives, supported by the World Bank under the EU funded project for Modernization of the Payment Systems of the Western Balkans Countries, aiming to be sent to the government by end-June 2024. As of March 2024, about 350 thousand bank accounts with fees have been converted to basic accounts, introduced to improve financial inclusion.

14. The CBK is committed to implement recommendations of the recent IMF safeguards assessment. We adopted an annual work program, which includes fundamental and systemic discussions of all key oversight matters as required by the CBK charter. In parallel, the Audit Committee has strengthened its planning to exercise its responsibilities as established by the CBK charter. Moreover, the CBK Internal Audit Department adopted an action plan to strengthen IT audit skills and started including information on outstanding recommendations and an aging analysis of recommendations into its quarterly reports. In parallel, the CBK is working to strengthen the functioning of the risk management department, including by selecting a new Director, and a new high-level inter-departmental Risk Committee established in April. Finally, the CBK Board is planning to develop an action plan to strengthen cyber resilience, including by the recruitment of experts in cybersecurity and the development of a cybersecurity policy and framework.

15. The CBK will undertake a comprehensive review of its organizational structure, with the aim of enhancing and strengthening its organizational functions. This will be achieved by making a distinction between key functions related to its mandate as a central bank from the supporting functions, to improve efficiency and foster greater accountability within its various departments. Moreover, the CBK aims to adapt more swiftly to market dynamics, bolster its regulatory oversight capabilities, strengthen its macroprudential policy making, and optimize its operations. This review, planned for September 2024, will focus on improving the compensation scheme to retain adequate staffing with specific skills and position itself as a more resilient institution. By aligning compensation with skills and responsibilities, the CBK aims to ensure retention of specific skills crucial for the central bank's functions.

16. We will continue to improve our capacity to effectively monitor and analyze financial sector risks. The banking system remains robust, with strong capital positions, high liquidity buffers, strong asset quality, and high profitability. Bank liquidity and capital ratios remain well above regulatory minima, and NPLs ratios are below 2 percent. We will continue to monitor financial sector risks closely, focusing on pockets of vulnerabilities in the financial sector. We are working to upgrade the CBK's top-down stress testing framework to identify financial stability risks, with IMF assistance. We are also developing internal rules formalizing the allocation of roles and responsibilities of stress testing functions across CBK departments and the dissemination of stress testing results. Moreover, Kosovo Agency of Statistics (KAS), in collaboration with the CBK, is working to strengthen surveillance of the residential housing sector. To this end, KAS has produced a roadmap to create a housing price index and related surveillance data with the assistance of the IMF's Statistics Department and has started the compilation of the required data (end-September 2023 SB).[7] In December, KAS produced an experimental index for Q1-Q2 2023 in line with EU standards. Further IMF assistance is expected this year, with a view to start publishing the new index in 2025.[8] The Law on Cadastre of Immovable Property, approved by parliament in December 2023, will support the development of mortgage credit by lowering the risk of this lending type.

17. The CBK has issued new regulations on cash operations. These regulations operationalize the constitutional mandate of using the euro for payments, stating that only institutions licensed by the CBK can carry out banking and financial activities in Kosovo. The regulations, which also ban the circulation of €500 banknotes, aim to control the amount of money in circulation, protect the integrity of the financial system, fight against money counterfeit, and combat money laundering and terrorism financing. As a result of these regulations, about 180 thousand €500 banknotes have been withdrawn from circulation.

18. We will continue with our efforts to enhance AML/CFT functions. The CBK signed an MOU with the FIU in 2023 in the spirit of cooperation and mutual interest and aims to facilitate the exchange of information and the building of supervisory capacities for compliance with international standards. The Law on implementation of Targeted International Financial Sanctions was adopted last year and the draft Law on Beneficial Ownership Registry has passed the first reading in parliament in February 2024. In addition, the Ministry of Finance, Transfers, and Labor has prepared a concept document on the new law on AML/CFT, which aims at full compliance with EU standards, and updated the National Risk Assessment.[9] Membership approval to the Council of Europe—currently under consideration by the Council—would in turn pave the way for Kosovo's membership of MONEYVAL. The recent adoption of CBK regulation of cash operations will support our efforts to tackle money laundering and financing of terrorism. The CBK is working to enhance its AML/CFT framework, by adopting a Risk-Based supervisory framework, a crucial milestone in its preparation

[7] This roadmap has been published in KAS' website (https://askapi.rks-gov.net/Custom/92db7591-c858-4a52-a34c-cab637814895.pdf).

[8] KAS is also making efforts to improve the quality of national account statistics. In response to a request from KAS, an IMF technical assistance mission on national accounts statistics visited Pristina in December 2023, aiming at (i) assessing the consistency and reliability of the annual and quarterly estimates and (ii) advising on the revisions policy and dissemination practices. The IMF will provide follow-up technical assistance during the second half of 2024 to review the quarterly GDP methods and assist in improving the estimates of the components of GDP by expenditure.

[9] The government is working on a new "National Strategy on Preventing and Fighting the Informal Economy, Anti-Money Laundering and the Financing of Terrorism and Financial Crimes" for 2024–28 that articulates our efforts in these areas.

for SEPA integration. This manual will serve as a comprehensive guide, outlining risk-based approaches to AML supervision, thereby strengthening CBK's capabilities in combating financial crime effectively.

III. REFORMS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

19. The RSF program supports the implementation of our energy and climate reform agenda. RSF financing has expanded our fiscal space to implement actions aimed at increasing the share of renewables in energy generation, decreasing emissions and pollution, fostering energy security, strengthening competition in electricity markets, and protecting vulnerable energy consumers.

20. We are committed to advance in the implementation of climate mitigation and adaptation policies. The Law on Climate Change was approved by parliament in December 2023. This law establishes a framework for the promotion, planning and monitoring of climate change policies. It strengthens the Climate Change Council and its Secretariat, as well as the Climate Science Advisory Board. It has also enabled the preparation of the "Climate Change Adaptation Strategy" and the "National Energy and Climate Plan" (NECP). We are currently working to incorporate comments on the NECP provided by the Energy Community Secretariat. The Climate Change Law also enables the involvement of the Climate Change Council Secretariat to advise the central government and municipalities on how to include climate change mitigation and adaptation components in public projects. These efforts reflect our commitment to accelerate the green transition and reduce emissions and pollution and are in line with our roadmap in the context of the Sofia Declaration and the Green Agenda for the Western Balkans. In parallel, we are evaluating options to ensure a smooth transition out of coal. Furthermore, the World Bank's Country Climate and Development Report (CCDR) for Kosovo is expected to be completed in 2024. The CCDR will provide a holistic assessment of climate change mitigation and adaptation challenges and priorities.

21. The law on renewable energy sources was approved by parliament in April. The law—approved by our government in October (End-September 2023 Reform Measure, RM)—transposes EU directives and establishes a general framework to attract private capital into renewable energy using competitive auctions and allows the construction of new renewable electricity capacity through public-private partnerships (PPP), among other provisions. The Ministry of Economy has begun working on the secondary legislation and administrative instructions that will accompany the law.

22. We have taken steps to increase the share of green electricity generation. We are committed to increase the renewable energy share to 35 percent by 2031, in line with our Energy Strategy, which will require additional electricity generation capacity of around 1300 MW.

- To attract private financing into renewable electricity production we launched, in May 2023, a first competitive auction for 100 MW of PV electricity generation to be installed in public lands with support from USAID (end-May 2023 RM). A final electronic auction among 5 qualified bidders was held on March 29, and the winner—announced in April—will be awarded a 15-year power purchase agreement (PPA). The additional generation capacity is expected to be in place in 2026.

- The procurement process for the installation of 100 MW of solar electricity generation capacity in Kosovo Energy Corporation (KEK) premises—with total financing of about €105 million from KfW, the European Investment Bank (EIB), the Western Balkans Investment Facility (WBIF), and KEK—is planned to start in June.

- Capitalizing on lessons from the first competitive auction, we will launch—with IFC, IMF, and USAID assistance—an open, competitive, and transparent tender to build about 150 MW of wind-based electricity generation (modified RM, proposed for October 15 from end-June 2024). To that end, we committed resources for about €70 million to attract private capital into wind-based generation through a PPP. We have signed an agreement to have IFC as transaction advisor, which will help us implement the auction and increase the credibility of the project, making it more attractive for potential investors. Those resources are allocated in a sub-account under the Treasury Single Account created to that end (end-October 2023 RM). We will present all documents belonging to the auction and associated PPP to the PPP committee chaired by the Minister of Finance, Labor, and Transfers by end-August 2024.

23. The regional electricity market between Albania and Kosovo (ALPEX) has started operations. After the testing phase, the day-ahead electricity market in Kosovo was officially launched on January 31 and trading is ongoing. Furthermore, work on the introduction of an intra-day wholesale electricity market is underway. As the market gains depth and liquidity, market-determined reference prices will gradually replace those established by ERO in the competitive auctions to attract private capital to renewable energy generation. This will require market integration with additional players, especially from countries in Southeast Europe, such as Greece and North Macedonia. In this regard, ALPEX has signed a memorandum of understanding with power operators of Greece and North Macedonia, aiming at establishing a common day-ahead electricity market coupling.

24. We have prepared, with IMF support, a report assessing the potential impact of a gradual recognition of the negative externalities of brown energy. The report was prepared by a working group with representatives from the Ministries of Finance, Labor, and Transfers; Economy; Environment, Spatial Planning, and Infrastructure; and Industry, Entrepreneurship, and Trade, as well as from KOSTT and KEK. The working group used the IMF's Climate Policy Assessment Tool (CPAT) to assess the possible impact on emissions, pollution, activity, and inequality of a gradual recognition of the negative externalities of brown energy use. The report, which examines the impact of the upcoming implementation of the EU carbon border adjustment mechanism (CBAM) considering alternative scenarios and policy options was submitted to the Cabinet in April (end-March 2024 RM). We have posted the report in the Ministry of Environment, Spatial Planning, and Infrastructure's website.

25. Kosovo's Energy Efficiency Fund (KEEF) has substantially advanced the implementation of programs to increase energy efficiency. KEEF has co-financed, funded by a €20 million EU grant received in 2023, interventions such as thermal insulation, replacing windows and doors, installation of LED lighting among others covering mainly in private residences and social housing provided in collective buildings owned by municipalities. Additionally, in some cases and in collaboration with the central administration, homeowners can apply for an upgrade of appliances. KEEF is discussing with the CBK and commercial banks—with the EU support (through the WBIF)—more efficient schemes for application of the retail sustainable scheme, given the large number of applicants. A new law of energy efficiency, sponsored by the Ministry of Economy, is currently undergoing consultations with stakeholders and is expected to be approved by the government in the coming months. The law seeks to enshrine the role of the KEEF as the key institution regarding energy efficiency.

26. Reducing air pollution is one of our main priorities. KEK has finalized technical preparatory work that would allow the installation of filters in each of the units of "Kosova B" power plan to bring pollution levels from these units to EU standards.[10] Although KEK's 2024 Budget Plan includes a contingent allocation of €12.5 million to complement secured EU financing for the installation of the filter in the Kosova B2 Unit (end-October 2023 RM), the project is delayed because of issues with the consortium that will implement it. A new consortium is planned to be formed in 2024, with a view to implement the project in 2025. The value of the contingent allocation is indicative and may change pending agreement with our EU partners. We will continue to liaise with EU partners to explore ways to secure the absorption of €70 million of the 2018 EU IPA grant for the installation of these filters at the shortest possible delays. KEK is also planning to invest €50–60 million in a rehabilitation and modernization project for two of its plants, which will reduce emissions and increase production capacity. This project is planned to be implemented in 2025. Finally, KEK is seeking IPA resources to finance a project to reduce Sulphur oxides (SOx). The project is expected to cost €96 million and start in 2026.

27. We have improved the targeting of electricity subsidies to support vulnerable energy consumers. The subsidies aim to cover part of the electricity bill for households with monthly incomes lower than €150/household and consider the household composition. More than 60,000 households have qualified and are now receiving this subsidy. The 2024 budget includes an allocation that secures the implementation of this program (end-October 2023 RM). While import electricity prices have eased since mid-2023, we intend to minimize the use of untargeted subsidies should electricity prices rebound, by ensuring that the permanent component of price signals is passed through to non-vulnerable consumers.

28. We plan to start integrating climate planning into public investment management frameworks to support the green transition. To this end, we will start working on implementing recommendations from the IMF Climate Public Investment Management Assessment (C-PIMA), conducted last year.

[10] This action will result in a decrease of pollution in and around Pristina, as 80 percent in emissions are the result of coal burning for electricity generation.

29. The CBK will start collecting data on the possible impact of the Carbon Border Adjustment Mechanism (CBAM) on Kosovo's exports. In April, the CBK prepared an instruction to standardize bank practices to monitor and report data related to climate risks, including transition risks related to CBAM implementation (end-March 2024 RM). This will allow to better identify energy transition costs in Kosovo's banking sector. The CBK is also working to upgrade the stress testing framework to consider the impact of energy price increases and take the necessary steps to develop green financing, in collaboration with our international partners.

30. The CBK is preparing a strategy for the management and supervision of climate-related financial risks in the financial sector. By October 2024, the CBK will prepare and adopt a comprehensive strategy for the supervision of climate-related risks in the financial sector, with the support of the World Bank (FinSAC). The overarching goal of this strategy would be to address the increasing challenges posed by climate change by ensuring that banks, non-bank financial institutions, and insurance companies properly manage climate-related risks. Moreover, the CBK became a member of the Sustainable Banking and Finance Network (SBFN) in December, to advance its sustainable finance practices and fortify the financial system's resilience to climate-related and environmental risks.

IV. PROGRAM MONITORING

31. Monitoring. Program implementation will continue to be monitored through QPCs, ITs, two continuous PC, prior actions, SBs, and RMs. The program features reviews every six months. The QPCs for end-June 2024 and end-December 2024, and ITs for end-March and end-September 2024, along with continuous QPCs, and other ITs, are set out in Table 1. The SBA prior actions and SBs are set out in Table 2. RSF RMs are set out in Table 3. The attached updated TMU describes the definitions and methods to be used to assess program performance and information requirements to ensure adequate monitoring of the targets.

32. Standard IMF Consultation Clause. We are confident that our policies are adequate to achieve the program objectives and will take any additional measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of any revision contained in this Memorandum, in accordance with the Fund's policies on such consultation.

Table 1. Kosovo: SBA Quantitative Performance Criteria 2023–25

(Millions of euros, unless otherwise indicated)

	2023			2024						2025
	December			March			June	Sept.	Dec.	March
	Target	Adjusted	Actual	Indicative	Adjusted	Actual	Target	Indicative	Target	Indicative
1. Quantitative performance criteria										
Floor on the overall balance of the general government 1/	-225	-195	-23	-58	-45	119	-116	-174	-232	0
Floor on the stock of general government deposits at CBK	566	410	512	579	474	513	591	604	616	560
2. Continuous performance criteria										
Ceiling on the accumulation of new external arrears on external debt contracted or guaranteed by the nonfinancial public sector 2/	0	…	0	0	…	0	0	0	0	0
3. Indicative targets										
Ceiling on contingent budget allocations 3/	358	…	358	108	…	108	108	108	108	108
Ceiling on holdings of government debt by the CBK 2/	200	…	180	200	…	173	200	200	200	200

1/ Defined as cumulative flows over the fiscal year

2/ Applies on a continuous basis

3/ Defined as total budgetary contingent allocations; applies on a continuous basis. For details see the Technical Memorandum of Understanding.

Table 2. Kosovo: Prior Actions and Structural Benchmarks Under the SBA

		Target date	Status	Comments
Prior Actions				
1	The government submits a budget for 2024 consistent with SBA and RSF objectives; KEK budget plan for 2024 includes an allocation to complement EU financing for the installation of a filter in the B-2 unit.	October 2023	Met	
2	The government submits a budget for 2025 consistent with RSF and SBA objectives.	October 2024	Ongoing	
Structural Benchmarks				
Fiscal Governance				
1	Government starts publishing publicly-owned enterprises' (POEs) annual financial reports; and quarterly data on POE performance.	June 2024	Ongoing	
2	Government starts publishing within the Treasury quarterly report, the rationale and intended impact, use and beneficiaries of contingency allocations to boost transparency.	July 2023	Met	
3	Government starts publishing annual fiscal risk analysis together with budget submission to Parliament.	November 2023	Met	
4	Government approves new Customs Code.	June 2023	Met	
5	Tax administration agency (TAK) adopts new action plan to reduce informality.	July 2023	Met	
6	The Ministry of Finance, Labor, and Transfers, to adopt budget circulars making expropriation costs a mandatory item for the submission of projects financed with both domestic and external resources.	June 2023	Met	
Financial Sector Governance				
1	KAS to finalize roadmap to produce a residential housing price index and compile related surveillance data in collaboration with CBK.	September 2023	Met	
2	Finalization of draft Law on Banks in line with FSSR recommendations.	November 2023	Met	
3	Finalization of new "Rules of Procedure" clarifying roles and responsibilities of the CBK Supervisory Board in relation to the Executive Board based on Kosovo's legal framework.	November 2023	Met	
4	Submission to Parliament of Law on Banks in line with FSSR recommendations.	January 2024	Not met	Implemented in May 2024

Table 3. Kosovo: Reform Measures Under the RSF

	Measure	Target date	Status	Comments
Reform Measures				
Improving the System's Resilience and Tackling Pollution; Protecting and Empowering Consumers (Energy Pillars 1 and 5)				
RM1	Submission to Parliament of a Budget for 2024 consistent with RSF objectives (allocations for expansion of renewable energy and for implementation of new definition of vulnerable energy consumers); KEK to prepare budget plan securing financing to secure the installation of filters in one unit of Kosova B in 2024.	October 2023	Met	
Expanding Greener Generation and Reducing Emissions (Energy Pillar 2)				
RM2	The government will launch by mid-October 2024 an open, transparent, and competitive tender for the construction and operation of 150 MW of wind-based electricity generation capacity in a non-specific location.	October 2024	Ongoing	
RM3	Submission to Parliament of Law on Renewable Energy delineating the use of competitive auctions to attract private sector investment in renewable electricity generation.	September 2023	Met	
RM4	Working group presents to Cabinet draft report discussing implications of EU carbon price initiatives for Kosovo, using the CPAT tool.	March 2024	Not met	Implemented in April 2024
RM5	Ministry of Economy to adopt Administrative Instruction allowing the launching of first auction for 100 MW of solar electricity generation during 2023 to be financed by the private sector.	May 2023	Met	
Increasing Energy Efficiency (Energy Pillar 3)				
RM6	Kosovo Energy Efficiency Fund Board to approve plan to increase energy efficiency of residential buildings to start implementation in 2023:H2	July 2023	Met	
Strengthening Regional Cooperation, Market Competition and Functioning (Energy Pillar 4)				
RM7	Government to implement actions conducive to the start of the day-ahead electricity market for Kosovo from September 2023 in the context of the Albania-Kosovo Regional Electricity Market (ALPEX).	June 2023	Met	
Crisis Preparedness and Monitoring Transition Risks				
RM8	Central Bank to issue new instruction defining practices for banks to monitor and report data on exporting firms that may be exposed to transition costs related with CBAM implementation.	March 2024	Not met	Implemented in April 2024

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) supplements those dated on May 9, 2023, and October 30, 2023, by further defining and (or) clarifying structural benchmarks under the SBA and reform measures under the RSF. It also updates macroeconomic data as needed. All definitions remain as in the TMU dated May 9, 2023 (TMU-Program) or as modified in the TMU dated October 30, 2023, unless modified below.

I. SBA QUANTITATIVE PERFORMANCE CRITERIA

1. **Program exchange rates.** For the purposes of the program, the exchange rates of the Euro for the duration of the program are those shown in Table 1 of this TMU.

2. **Balance of Accounts Payable.** For reference, the balance of accounts payable was €24.4 million at end-2022; €28.9 million at end-June 2023; €24.6 million at end-September 2023; and €33.0 million at end-December 2023.

3. **External Budget Support Grants.** Programmed external budget support grants are specified in the Table "Stand-By Arrangement: Economic Assumptions" of this TMU.

4. **Budget Support Loans.** Programmed disbursements of external budgetary support loans are specified in the Table "Stand-By Arrangement: Economic Assumptions" of this TMU.

5. **GG Deposits.** For reference, GG deposits at the end-December 2023 amounted to €510.5 million (€345.2 million in the TSA and €165.3 million in PAK deposits).

Stand-By Arrangement: Economic Assumptions
(Cumulative floor in euro millions, unless otherwise indicated)

	2024				2025
	Q1	Q2	Q3	Q4	Q1
External budget support grants	0	0	0	0	0
External budget support loans	0	0	0	93	0
PAK balance (net)	0	0	0	0	0
General government revenues (excluding grants)	694	1,358	2,184	2,952	733
Primary current spending	476	1,232	1,848	2,464	500
Capital spending from Investment Clause					
Programmed	20	40	60	80	15
Target	33	65	98	130	30
Memorandum					
Nominal GDP				10,310	
Euro-SDR Exchange rate average				1.233	
Euro-SDR Exchange rate EoP				1.232	
Euro-USD Exchange rate average				0.926	
Euro-USD Exchange rate EoP				0.927	

Note: The World Bank loan (of US$100 million) originally programmed for 2023 as per Table 1 of the TMU dated October 30, 2023 has been reprogrammed for 2024.

6. **Central Bank of Kosovo (CBK) holdings of Kosovo government securities.** For reference, the stock of government securities held by the CBK at end-2023 amounted to €180 million.

7. **Contingent Budget Allocations.** Contingent allocations in the 2024 approved budget include those in the following budgetary lines: "Contingencies in the Ministry of Finance, Labor and Transfers" (€20.9 million), "Contingency for Energy" (€7.5 million), "Contingent Expenditures" (€10 million), "Economic Revival Program" (€69.7 million), and "Unforeseen Expenditures" (€9.8 million), for a total of €108 million. The program includes a ceiling for all contingent allocations (i.e., considered jointly) of €108 million in 2024. The 2025 budget will include contingent allocations that,

jointly, will not surpass €108 million. This ceiling will apply on a continuous basis. This ceiling will apply on a continuous basis.

II. SBA PRIOR ACTIONS AND STRUCTURAL BENCHMARKS AND RSF REFORM MEASURES

8. The government will launch by October 15, 2024, an open, transparent, and competitive tender for the construction and operation of about 150 MW of wind-based electricity generation capacity in a non-specific location. The project uses budgetary resources of up to €70 million to attract private capital into green generation and capitalizing the lessons from the first competitive solar auction for 100 MW, launched in 2023. In March, the government signed an agreement to have IFC as transaction advisor, which will help implementing the auction and increase the credibility of the project, making it more attractive for potential investors. By end-August, the government, with support from IFC as well as USAID and in consultation with the IMF, will prepare all relevant technical documentation and present it to the PPP committee. The proposal, in line with Kosovo's PPP law, will define a PPP for the project with a private partner to be chosen through an open, transparent, and competitive tender. The technical documentation will define the entity that will hold the state's share on the PPP and will define how the resources allocated in the sub-account under the Treasury Single Account will be transferred to the project. After PPP Committee approval, the government will launch, by October 15, 2024, an open, transparent, and competitive tender to select the state's private partner in the PPP. The successful bidder will be that with the most advantageous offer for the state overall.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KOSOVO

May 14, 2024

SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY AND REQUEST FOR MODIFICATION OF REFORM MEASURE—INFORMATIONAL ANNEX

Prepared By	The European Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2024)

Membership Status:
Joined: June 29, 2009; Article XIV.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	82.60	100.00
Fund holdings of currency	88.35	106.96
Reserve Tranche Position	20.07	24.29

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	134.54	100.00
Holdings	124.73	92.71

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
Emergency Assistance[1]	25.81	31.25
RSF Arrangements	30.98	37.50

Latest Financial Arrangements:

Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RSF	May 25, 2023	May 24, 2025	61.95	30.98
Stand-By	May 25, 2023	May 24, 2025	80.12	0.00
Stand-By	July 29, 2015	August 04, 2017	147.50	135.40

Outright Loans:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RFI	Apr 10, 2020	Apr 15, 2020	41.30	41.30

[1] Undrawn outright disbursements (RFI and RCF) expire automatically 60 days following the date of commitment, i.e. Board approval date.

Overdue Obligations and Projected Payments to Fund[2]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	15.49	10.33			
Charges/Interest	2.23	2.15	1.97	1.97	1.97
Total	17.72	12.47	1.97	1.97	1.97

Implementation of HIPC Initiative: **Not Applicable**

Implementation of Multilateral Debt Relief Initiative (MDRI): **Not Applicable**

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Safeguards Assessments

The 2023 safeguards assessment, conducted in connection with the Stand-By Arrangement and a Resilience and Sustainability Facility arrangement for Kosovo and approved by the IMF Executive Board in May 2023, found that the CBK continues to maintain robust internal controls in its operations and financial reporting. Financial reporting and external audit arrangements are broadly aligned with international standards, as is internal audit. The CBK has robust controls over its central banking operation. Strengthening of the risk management and cybersecurity is ongoing.

Exchange Rate Arrangements

The de jure and de facto exchange rate arrangements are no separate legal tender. Since unilateral adoption of the euro, this currency is a legal tender in Kosovo. Kosovo is not part of the euro area and the CBK is not part of the European System of Central Banks. Kosovo has accepted the obligations of Article VIII Section 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system that is free of multiple currency practices and restrictions on making of payments and transfers for current international transactions, except for restrictions maintained solely for reasons of international or national security, which have been notified to the Fund pursuant to Decision No. 144.

Article IV Consultation

The last Article IV consultation was concluded on January 25, 2023. As Kosovo is currently under an IMF-supported financial arrangement, Article IV Consultations are under the 24-months cycle. The next consultation is expected to happen together with the Third reviews of the SBA-RSF arrangements.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

FSAP and ROSC Participation

An FSAP mission was conducted during September 19–October 2, 2012. The FSSA included the ROSC for compliance with Basel Core Principles. Kosovo has not had a data or a fiscal transparency ROSC. A FSSR mission was completed in May 2019 with a follow-up mission completed in January 2023, with specific focus on CBK governance.

Technical Assistance

Since 1999, the Fund has provided technical assistance and policy advice to UNMIK and, since September 2008, to Kosovo. Technical assistance has centered on the Fund's core competencies, notably in the areas of fiscal policy, the banking and payments systems, and macroeconomic statistics. Assistance has also contributed to developing key aspects of the legal and institutional framework needed for a market economy. More recently, TA has been provided on the following issues:

Statistics

- Residential Property Price Index (June 2023); National Account Statistics (November 2023); follow-up mission on National Account Statistics (planned on August 2024); follow-up mission on Residential Property Price Index (planned on FY 2025); SDSS Workshop (planned on June 2024).

Fiscal Sector

- Fiscal Risk Management (March 2022); POE Fiscal Risk Management (July 2022); Taxpayer Compliance Risk Management (November 2022); Revenue Administration Workshop (February-March 2023); Public Investment Management Assessment Update and Climate PIMA (May 2023); Safeguards Assessment (June 2023); Developing a Cash Forecasting Framework (July 2023); Tax Audit Community of Practice (September 2023); Development of Data Analytics Capacity in Support of Compliance Risk Management (September–October 2023); Government Finance Statistics (February 2024); FRAT and FRS Training (March 2024); RA: Developing a blueprint for capturing, transformation, and integration of data to design a modern data warehouse (May 2024).

Monetary and Financial Sectors

- CBK Governance (July–April 2021); Development of Supervisory Methodologies and Manual for Internal Capital Adequacy Assessment Process (September–October 2021); Insurance Regulation and Supervision (June 2022); Follow up Technical Assistance on Insurance Regulation and Supervision (January 2024); the CBK Board Workshop (July 2023 and June 2024); Risk Management (March 2024); FX Reserve Management (March–April 2024);

Resident Representative

Mr. Sebastian Sosa, Regional Resident Representative for the Western Balkans, based in Vienna, took up his post on September 1, 2023, and oversees Kosovo's local office.

RELATIONS TO OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

EBRD: https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?1=1&filterCountry=Kosovo

European Investment Bank: Kosovo and the EIB

World Bank: https://www.worldbank.org/en/country/kosovo/overview

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for surveillance. However, the Kosovo Agency of Statistics (KAS) still experiences shortages of financial and human resources.
National Accounts: Through intensive TA from the European Commission (Twinning Project), improvements have been made to the national accounts, but significant challenges remain. Compilation methods used for annual national accounts (ANA) are broadly in line with the 2008 SNA/ESA2010. The quality and timeliness of annual nominal and real GDP data has been improved, and data on GDP by economic activity and by expenditure are now published simultaneously in an excel format on the website of the Kosovo Statistical Agency with a lag of 10 months. Although quarterly national accounts series provide a first estimate of the annual GDP by April every year, it would be advisable to further reduce the time lag in the dissemination of ANA. Quarterly GDP data can be inconsistent with annual data (upon publication), requiring significant revisions, and improvements in methodology are required. Kosovo needs to improve existing and develop additional high-frequency (monthly) indicators, with priority given to indicators relevant to Kosovo's economy such as wholesale and retail trade data and services. In December 2023, the Kosovo Statistics Agency has released the experimental data of the GDP by income approach for period 2021-2022, and the experimental data of GDP by statistical regions.
Labor Markets: Producing reliable labor force data is challenging given the large share of the informal economy, although quarterly labor data has been published since 2016. Publication of quarterly labor market statistics is done with a 3-quarter lag.
Consumer Price Index: A monthly Consumer Price Index (CPI) has been produced since 2002 and is published monthly (with a 13-day lag). The index uses a Classification of Individual Consumption according to Purpose (COICOP)-compatible item classification with 352 elementary aggregates. A new index was introduced in December 2014, with new weights largely based on National Accounts data aimed at bringing the CPI in line with the European Harmonized Index of Consumer Prices (HICP). It targets all products and services purchased by all households (resident and non-resident) in Kosovo. HICP is now available from January 2010 onward. The HICP was rebased from 2002 to 2015 in January 2016. Both CPI and HICP are used to measure consumer inflation, the latter enabling comparisons between member states within the EU. Kosovo receives TA from Eurostat.
Government Finance Statistics (GFS): Monthly reports on budget execution of the general government (central government and municipalities) on a cash basis are provided five weeks after the end of each month. GFS are broadly compiled following the GFSM 2014 framework, but they still do not cover the extrabudgetary units' data. In addition, the budget classification is not consistent with the GFSM 2014 because: (i) data is on cash basis, not accrual; (ii) lending for

policy purposes (similar to subsidies) is included after calculating the primary balance; (iii) capital transfers should be included in current expenditure instead of capital expenditure; (iv) memorandum of understanding (MOU) should be properly classified depending on their final purpose; and (v) annual budget documents should specify both current and capital spending related to individual projects. While data is generally adequate, strengthening monitoring and disclosure of arrears will be important.
Monetary and Financial Statistics: Monetary data are compiled broadly consistent with the IMF's *Monetary and Financial Statistics Manual and Compilation Guide 2016* (*MFSMCG*). The CBK reports monetary data on a monthly and timely basis, using Standardized Report Forms for the central bank, other depository corporations, and other financial corporations, which are published in the *International Financial Statistics*. Due to difficulties with obtaining adequate source data needed for estimation of Euro currency in circulation, the CBK ceased compiling currency in circulation in 2006, underreporting broad money. The CBK reports some series of the Financial Access Survey, including the two indicators adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (commercial bank branches per 100,000 adults and ATMs per 100,000 adults).
Financial Sector Surveillance: The CBK reports Financial Soundness Indicators (FSIs) monthly prior to 2019 and quarterly thereafter, according to the *Financial Soundness Indicators Compilation Guide*. 7 core FSIs and 10 encouraged FSIs for deposit takers are available through the IMF's FSI webpage.
External Sector Statistics: CBK provides to STA quarterly balance of payments and international investment position data following the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) staring with 2013: Q1 reference data. Authorities also participate in: a) the Coordinated Direct Investment Survey with inward and outward data starting with 2010; b) the Coordinated Portfolio Investment Survey with annual data starting from December 2010 and semiannual data starting from June 2013, including encouraged items (currency of denomination, sector of the holder, sector of the issuer, and cross-sector classification); and the Quarterly External Debt Statistics. Direction of trade data are available on a monthly basis. Overall, the accuracy, periodicity, and timeliness of external sector statistics have improved in recent years. The authorities are currently working towards reporting the international reserves and foreign currency liquidity template.

II. Data Standards and Quality	
The country participates in the enhanced General Data Dissemination System (e-GDDS) and a National Summary Data Page regularly disseminates e-GDDS data to the public since May 11, 2017.	Kosovo has not had a Data ROSC.

Kosovo—Table of Common Indicators Required for Surveillance
(As of April 10, 2024)

	Date of Latest Observation	Date Received/ Reported Online	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Feb/2024	Mar/2024	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar/2024	Apr/2024	M	M	M
Reserve/Base Money	Feb/2024	Mar/2024	M	M	M
Broad Money	Feb/2024	Mar/2024	M	M	M
Central Bank Balance Sheet[1]	Feb/2024	Mar/2024	M	M	M
Consolidated Balance Sheet of the Banking System	Feb/2024	Mar/2024	M	M	M
Interest Rates[2]	Feb/2024	Mar/2024	M	M	M
Consumer Price Index	Jan/2024	Feb/2024	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	M2/2024	April/2024	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	M2/2024	April/2024	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4/2023	Feb/2024	Q	Q	Q
External Current Account Balance	Jan/2024	Mar/2024	M	M	M
Exports and Imports of Goods	Jan/2024	Mar/2024	M	M	M
GDP/GNP[8]	Q4/2023	Mar/2024	Q	Q	Q
Gross External Debt	Q4/2023	Mar/2024	Q	Q	Q
International Investment Position[6]	Q4/2023	Mar/2024	Q	Q	Q

[1] CBK's NFA and GIR data have been revised for the period 09/2015 - 07/2018 to exclude the CBK's holdings of Kosovar government securities. CBK balance sheet and survey data have been revised for the period 09/2015 - 07/2018 to reclassify the CBK's holdings of Kosovar government securities as claims on the central government.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary and extra budgetary funds) and local governments (municipalities).
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA).
[8] GNDI data not available.

Statement by Daniel Palotai, Executive Director for Republic of Kosovo
May 31, 2024

On behalf of the Kosovo authorities, I thank Mr. Sosa and his team for the productive discussions and the well-structured comprehensive report, which confirms the authorities' strong program implementation and ownership both under the SBA and the RSF. Given the strong fiscal outcome, the authorities will continue to treat the SBA as precautionary.

Recent developments

Kosovo's economy demonstrated resilience in a challenging external environment with real GDP growth of 3.3 percent in 2023. Although lower than the 4.3 percent growth in 2022, which can mostly be attributed to weaker external demand in goods, the exports of services increased by 18 percent, continuing the strong performance in previous years. At the same time, due to higher nominal growth, the balance of traded goods to GDP improved slightly. Robust private sector demand and significant improvements in the execution of public investments were the primary contributors to sustained economic momentum. Positive developments were also recorded in the labor market, with increases in both employment and real wages.

Fiscal performance remains strong, with the budget balance showing further improvement. Budget revenues increased by 14.4 percent, with tax revenues maintaining solid performance. Within tax revenues, property tax collection, which is the main source of income for the local-level government, experienced a 33 percent rise. Additionally, there has been a marked improvement in the shift from border to internal tax collection. In 2023, internally collected taxes increased by 18.4 percent, compared to a 9.4 percent rise in border collection. This trajectory of revenue collection over recent years is a result of legal, policy and operational reforms undertaken by the authorities, as detailed below.

Budget expenditures increased by 13 percent, reflecting various changes in spending patterns across categories. Notably, compared with 2022, capital expenditures rose by 32 percent, increasing their share in the total budget from 16.6 percent in 2022 to 19.4 percent in 2023. This is a result of the authorities' efforts to enhance capacities and streamline procedures for budget planning, execution and monitoring of capital projects, in line with PIMA and C-PIMA recommendations. On the current spending, the implementation of the new wage law and the necessity to maintain a growing inventory of public sector capital assets, drove expenditures on wages and goods and services higher by approximately 18 percent each. However, this rise was partially offset by lower spending on subsidies and transfers. Consequently, current spending overall went up by 9 percent.

The budget deficit was 0.26 percent of GDP, down from 0.52 percent of GDP in 2022, thus still well below both the legally binding ceiling of 2 percent of GDP and program targets. This favorable fiscal outcome was primarily supported by higher revenues, prudent planning and budget execution. Public debt also declined to just above 17 percent of GDP from 19.7 percent the previous year. So far in 2024, revenues and expenditures for January-April are higher than the same period of 2022, and in line with budget expectations.

The banking sector continues to grow. Banks are well-capitalized, liquid, and profitable and asset quality and soundness indicators continue to improve. Compared with 2022, as of December 2023, total assets of the sector increased by 11.5 percent, with the outstanding loans balance experiencing a 13 percent rise. New lending to firms and households increased by 7 percent and 14 percent respectively, whereas non-performing loans remained below two percent, indicating effective credit risk management strategies. The overall increase in asset size, loans and deposits is continuing in 2024. It is pertinent to acknowledge that the tightening of monetary policy within the euro area pushed interest rates slightly higher.

Outlook and risks

Over the next three years, economic performance is expected to improve, with average GDP growth projected to be around 4.2 percent. In terms of contribution, no significant changes from current and past trends are anticipated. Private sector demand is likely to remain strong, while exports and investments will continue to be important sources of economic growth. Although much will depend on the external environment, inflation is projected to stabilize at around 2 percent.

On the fiscal front, expanded economic activity combined with additional measures to enhance tax collection is expected to result in higher revenues. During the next 3 years, total revenues are projected to grow on average by around 6 percent. Direct taxes are expected to grow faster, thus increasing their share while the trend of the shift from border to internal collection will continue. On the expenditure side, the authorities are committed to adhering to strict, prudent expenditure management principles and the implementation of all budget rules, including the deficit rule, wage rule, and debt rule. Total spending is projected to increase at a higher rate than revenues, primarily due to a higher execution rate of capital investments. As a result, the budget deficit is projected to be higher, but still below 2 percent of GDP.

The banking sector is expected to maintain its strong performance. While its balance sheet is projected to expand, additional risk management measures will be enforced, as detailed under structural reforms, to ensure quality growth and maintain soundness indicators.

While uncertainties persist, including those related to the external economic environment and regional and global geopolitical developments, short-term risks remain balanced. On domestic risks, as part of the overall approach to prudent fiscal management, the authorities, with the support of the SBA and leveraging the IMF's technical assistance report on using the Fiscal Risk Assessment Tool (FRAT), have started to produce fiscal risks analyses in the context of the annual budget, focusing on publicly owned enterprises, guarantees to sub-national governments, and other potential domestic risks as well as identify potential sources of risks from the external environment. A dedicated fiscal risk unit has been set up and is in charge of these tasks.

Structural reforms

As part of the government work program, reform efforts continued across sectors, including with the support of the SBA and RSF. To improve tax compliance, various measures have been taken. For example, with the entry into force of a new law on tax procedures as well as with the implementation of the previously adopted tax compliance action plan, requirements for taxpayers' registration have been simplified, the time required to claim tax refunds has been shortened, and penalties for not complying with the tax legislation have increased. For the coming period, the authorities aim to reduce the stock of outstanding tax debt, whereas on tax policy and legislation, with support from the World Bank, they are reviewing tax expenditures and proposing amendments to the Laws on Personal Income, Corporate Income, and Value Added Taxes, to strengthen the equity of the tax system and improve revenue mobilization. Further, in the context of the ongoing work to prepare a National Strategy on Preventing and Fighting the Informal Economy, Anti-Money Laundering and the Financing of Terrorism and Financial Crimes, a concept document that identifies key areas of needed changes to the law on AML has been prepared and the actual amendments to the law fill follow.

Guided by the PIMA and C-PIMA recommendations, the authorities aim to further strengthen procedures and systems to enhance public investment management, including by addressing procurement-related aspects through the revision of the procurement law. These actions are intended to improve the execution rate of capital projects, ensuring more effective and efficient allocation of public resources.

On the financial sector, the Central Bank of Kosovo (CBK) finalized a new Law on Banks that, among other, intends to improve licensing criteria, standardize operations, organization, and management, and strengthen, recovery, resolution, and liquidation in line with FSSR recommendations. Also, in line with the new organizational structure of the CBK structure, two deputy governors were appointed earlier this year. To further strengthen the financial sector's legal and governance framework, the CBK, with the support of the IFC, aims to finalize a new law on Microfinance Institutions by end-2024. Also, with the support of the World Bank, a new draft law on Payment Services is expected to be approved during 2024. Furthermore, leveraging the recommendations from the recent Fund Safeguards Assessment report, the CBK will continue with its efforts to further strengthen internal control systems, such as enhancing audit-related skills, and improve risk management practices.

RSF-linked reforms have already yielded strong results. Actions and reforms are focusing on strengthening the regulatory framework, mobilizing private capital, expanding green electricity generation, improving the efficiency of energy markets, and reducing air pollution and emissions.

With the support of USAID, the authorities successfully concluded the first competitive auction for constructing and operating a 100 MW solar photovoltaic plant. This auction saw participation of investors from many countries, with a consortium led by a Swiss construction company winning the bid. The project, valued at approximately €70 million, will be operational under a 30-year concession contract and a 15-year power-purchase agreement, setting a precedent for competitive mechanisms in Kosovo. The additional solar energy generation capacity is expected to be in place by 2026. Building on this success, the government plans to launch a competitive auction for 150 MW of wind generation. With continued assistance from USAID and support from the International Finance Corporation (IFC) as the transaction advisor, this initiative aims to attract significant private capital into wind-based generation through a PPP. Furthermore, procurement for an additional 100 MW of solar electricity generation capacity on the current public sector energy company (KEK) property is scheduled to begin in June. This project, with total financing of approximately €105 million, is supported by loans from KfW and the European Investment Bank (EIB), as well as a grant from the EU's Western Balkans Investment Framework (WBIF).

A new law promoting the use of renewable energy sources, fully transposing EU directives, was approved by Parliament on April 8. This law aims to modernize the energy sector, reduce carbon intensity, and increase energy efficiency. It establishes a general framework to attract private capital into renewable energy through competitive auctions, regulates the use of PPPs to expand green energy capacity, and sets market prices as the reference for regulatory purposes. The law also introduces feed-in premiums and tariffs, providing benefits to various renewable energy sources, including wind, solar, biomass, biogas, and geothermal energy.

In the financial sector, steps are being taken to monitor and report climate risks more effectively. In December, the CBK issued instructions to banks to standardize practices for monitoring and reporting climate-related data for their business clients, helping identify energy transition costs for exporting firms. The CBK has also joined the Sustainable Banking and Finance Network (SBFN) and is seeking membership in the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) to advance its sustainable finance practices.