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REPUBLIC OF KOSOVO

April 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT FOR THE REPUBLIC OF KOSOVO

In the context of the Request for Purchase under the Rapid Financing Instrument, 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 April 10, 2020, following discussions that ended on April 2, 2020, with the officials of the Republic of Kosovo on economic developments and policies underpinning the IMF arrangement under the Rapid Financing Instrument. Based on information available at the time of these discussions, the staff report was completed on April 3, 2020.
- A **Statement by the Executive Director** for the 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 Approves US$56.5 Million in Emergency Support to the Republic of Kosovo to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- *The COVID-19 pandemic will hit hard on Kosovo's economy, which is projected to contract by 5 percent in 2020.*
- *To address Kosovo's urgent balance of payments need, the IMF approved US$56.5 million (Euro 51.6 million) financial assistance under the Rapid Financial Instrument.*
- *The immediate challenge is to respond effectively to COVID-19 by strengthening health care and mitigating the effects on the sectors and households most affected by the crisis.*

WASHINGTON, DC – **April 10, 2020.** The Executive Board of the International Monetary Fund (IMF) today approved SDR 41.3 million (around US$ 56.5 million or Euro 51.6 million, 50 percent of quota) in emergency support for the Republic of Kosovo under the Rapid Financing Instrument (RFI) to meet urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic.

The RFI provides rapid and low-access financial assistance to member countries facing an urgent balance of payments need, without the need for a full-fledged economic program or reviews. It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, conflict and post-conflict situations. Financial assistance under the RFI is provided in the form of outright purchases.

The COVID-19 pandemic and the associated containment measures have severely weakened Kosovo's economic outlook. The economy is expected to contract by 5 percent in 2020 as tourism receipts, remittances, exports of goods, and FDI will decrease due to travel restrictions and the effect of COVID-19 in trading partners and remittance-originating countries. The deteriorated economic outlook is expected to result in external and fiscal financing gaps.

The authorities' policy response to the shocks has been timely and appropriate, with a temporary loosening of fiscal and financial policies. Fiscal actions so far target the sectors most affected by the shock and aim at supporting social and health spending.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, issued the following statement:

"The global COVID-19 pandemic has adversely affected Kosovo, creating an urgent balance of payments need. Externally, travel restrictions and the global recession have imposed a heavy toll on tourism, export of goods, remittances, and FDI. Domestically, heightened uncertainty and movement restrictions have disrupted supply and further constrained demand.

“In response to the COVID-19 pandemic, the authorities reacted quickly and put in place strict containment and mitigation measures to provide relief to the most impacted businesses and households, as well as created room in the budget for increased health spending. The Central Bank of Kosovo suspended loan repayments through end-April for sectors and individuals most affected by the crisis.

“As a result of these measures, the budget deficit is expected to widen and the debt likely to increase. The authorities, however, remain committed to macroeconomic stability; as long as these measures are temporary and the fiscal rule reinstated once the pandemic recedes, it is expected that the public debt will remain sustainable.

“The Fund stands ready to support Kosovo to combat the pandemic and help the economy to recover. “

INTERNATIONAL MONETARY FUND

REPUBLIC OF KOSOVO

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

April 3, 2020

EXECUTIVE SUMMARY

Context: The outbreak of COVID-19 in Europe and the associated containment measures will severely curtail growth to -5 percent in 2020. Tourism receipts, remittances, exports of goods, and FDI are all expected to plummet due to travel restrictions and the effect of the pandemic in trading partners and remittance-originating countries. Domestic containment measures and heightened uncertainty will hit demand. The authorities' policy response to the shocks has been timely and targeted. The impact of the pandemic and the fiscal measures to help cushion these shocks have created urgent fiscal and external financing needs.

Request for Fund support: Staff supports the authorities' request for financial assistance under the Rapid Financing Instrument (RFI) to address the urgent balance of payments need. The balance of payments financing need is expected to be temporary. In the attached letter, the authorities request an outright purchase of 50 percent of quota (SDR 41.30 million), with the full amount to become available upon Board approval.

Approved by **Mahmood Pradhan (EUR) and Daria Zakharova (SPR)**	Discussions were held remotely during April 1–2, 2020. The team comprised G. Di Bella (head), O. Luca, Z. Zhang (all EUR), E. Chang (FAD), S. Hakobyan (SPR), and S. Eble and S. Thaci (Resident Representative Office). R. Jarin (EUR) and M. Kernja (Resident Representative Office) assisted the mission. Mr. Mehmedi (OED) joined the meetings. The mission held discussions with Minister of Finance and Transfers Bislimi, Central Bank Governor Mehmeti, and other senior government officials.

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IMPACT OF COVID-19

1. **The outbreak of COVID-19 in Europe and the associated containment measures will severely curtail growth to -5 percent in 2020.** Tourism receipts, remittances and FDI are all expected to plummet due to travel restrictions and the effect of the pandemic in remittance-originating countries. Domestic containment measures and heightened uncertainty will hit demand. The use of deposit buffers by liquidity constrained households and businesses, and loan reprogramming will affect bank liquidity and constrain domestic credit, which is expected to decrease by about 4 percent in real terms.

2. **Before the COVID-19 outbreak, growth in Kosovo was expected to moderate to a little over 3.5 percent this year (4 percent in 2019), on the back of domestic political stalemate and softer growth in advanced Europe.** Inflation was projected to decline to 1.4 percent (2.7 percent in 2019), as the effect of the import tariffs on Serbia and Bosnia and Herzegovina petered out. While the fiscal deficit was expected at 2.8 percent of GDP, public debt—below 20 percent of GDP—was considered at low risk of distress. The banking sector was well capitalized and liquid. The external sector assessment suggested a moderate REER overvaluation (of around 5 percent), while gross international reserves were in line (or below) standard and multi-dimensional adequacy metrics.

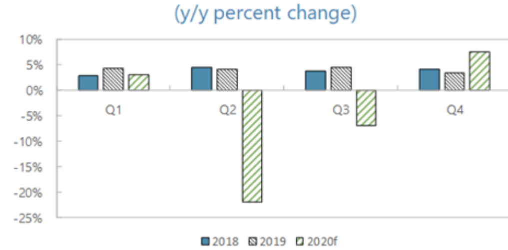
Kosovo: Selected Economic Indicators 2020
Pre- COVID19 and Current Projections
(Percent, unless otherwise indicated)

	2020	
	Pre-COVID19 Proj.	Current Proj.
Real GDP growth	3.6	-5.0
Price changes		
CPI, period average	1.4	1.3
CPI, end of period	1.9	1.6
General government budget (percent of GDP)		
Revenues and grants	26.1	24.4
Expenditures	28.9	29.2
Of which: Wages and salaries	8.7	9.5
Subsidies and transfers	8.5	11.5
Capital and net lending	6.9	2.9
Overall Balance (Fiscal rule) 1/	-1.5	-3.4
Overall balance	-2.8	-4.8
Stock of government bank balances	4.5	3.8
Total public debt 2/	18.2	20.7
Balance of Payments (percent of GDP)		
Current account balance, incl. official transfers	-6.3	-7.4
Of which: Official transfers 3/	2.9	3.0
Of which: Remittance inflows	12.1	11.1
Financial account	-4.9	-6.0
Errors and Omissions	1.6	1.5
Financial Sector		
Bank credit to the private sector (percent change)	8.2	-2.4
Deposits of the private sector (percent change)	5.8	-4.2
Memorandum items:		
GDP (millions of euros)	7,483	6,877

Sources: Kosovo authorities; and IMF staff estimates and projections.
1/ For fiscal rule purposes, excludes post-July 2015 investment projects fiannced with IFI loans and privatization proceeds.
2/ Includes guarantees.
3/ Total foreign assistance excluding capital transfers.

3. **The large decline in growth will significantly weaken public finances.** Fiscal revenues are expected to decrease by 12 percent in 2020, given abrupt falls in VAT and custom duties. Additional spending to mitigate the COVID-19 impact (for about 2.5–3.5 percent of GDP) will need to be accommodated mainly by spending reallocations, as the primary expenditure envelope is projected to decrease by 4.5 percent. The overall fiscal deficit will nonetheless soar to 4.8 percent of GDP, while the deficit according to the fiscal rule definition (which allows to accommodate investment financed by donors and privatization proceeds), is expected at 3.4 percent of GDP, much larger than the 2 percent of GDP ceiling. Though the looser fiscal stance is warranted to address

Kosovo: Quarterly Real GDP Growth Rate
(y/y percent change)



Sources: Kosovo Agency of Statistics (2018 Q1-2019 Q3) and IMF staff calculations (2019 Q4-2020 Q4).

the economic fallout of the virus outbreak, a larger fiscal deficit may compromise limited (euro-denominated) central government deposits.

4. The current account will deteriorate while external financing inflows will be cut by half, creating an urgent balance of payments need. Tourism receipts are projected to decrease by about 20 percent in 2020 as diaspora-related travel comes to a halt in Q2 due to travel restrictions, causing heavy losses to the hospitality industry.[1] Exports of goods will decrease by 17 percent due to the global recession, as Kosovo's foreign sales are largely composed by metals. Remittances are forecast to fall by 10 percent in 2020 because of the effect of the pandemic in remittance-originating countries. Compensation of Kosovans working abroad on temporary work permits is expected to decrease by 19 percent, as travel restrictions will reduce the number of work permits granted. All this will lead to a deterioration of the current and capital account deficits to 7.8 percent of GDP (5.6 percent of GDP in 2019). At the same time, FDI and other financial flows (which are heavily linked with the diaspora) are expected to be cut by half, to 3.6 percent of GDP in 2020 (7 percent in 2019). As a result, a Kosovo will face a temporary and urgent financing gap of 4.1 percent of GDP.

Kosovo: Financing Gap
(Euro millions, unless otherwise noted)

	2019	2020
Current and Capital Account Deficit (A)	**400**	**534**
percent of GDP	*5.6*	*7.8*
Current Account Deficit	392	525
Capital Account Deficit	8	9
Financial and FDI Inflows (B)	**495**	**250**
percent of GDP	*7.0*	*3.6*
FDI Inflows	201	152
Portfolio Investment	-59	21
Other Investment (inc. Errors and Omissions)	353	78
Financing Gap (C = A - B)	**-95**	**284**
percent of GDP	*-1.3*	*4.1*
Financing (D)	**0**	**75**
percent of GDP	*0.0*	*1.1*
IMF RFI Financing	0	51
Additional EU Grants	0	16
Additional WB Loans	0	8
CBK Reserve Accumulation (D - C)	**95**	**-209**
percent of GDP	*1.3*	*-3.0*

Source: IMF Staff calculations

POLICY ISSUES AND DISCUSSIONS

5. The government responded quickly to contain the propagation of COVID-19. Kosovo's first few cases of the virus were announced in mid-March and the number of confirmed cases reached 126 as of April 3. A "Coronavirus Management Committee" was set up to enhance preparedness and propose measures to contain the propagation of the virus. In addition, the government decreed the temporary closures of schools, universities and all non-essential businesses, social distancing, and travel and movement restrictions. Air travel between Kosovo and risk countries has been banned, and health monitoring in airports and borders increased.

6. Fiscal measures have rightly focused on mitigating the effect of the crisis on businesses and households and on creating room for increased health spending. The total cost of measures is estimated at 2.5–3.5 percent of GDP. Key actions include: (i) transfers to SMEs and other sectors most affected by the lockdown; (ii) advancing payment for social assistance schemes by one month to support families in need; (iii) extra allocations to the health ministry to

[1] Staff's current baseline assumes that these restrictions will not extend through Q3, which typically accounts for 55 percent of diaspora-related tourism.

procure medical gear; (iv) deferrals of corporate and personal income taxes, and VAT; (v) temporary removal of VAT on imports of wheat and flour; and (vi) deferral of public utilities payments until end April. These measures will be accommodated within a reduced total expenditure envelope through spending reallocations within goods and services and out of capital spending. Given the heightened uncertainty, staff urged the authorities to contain other fiscal risks, including those arising from the implementation of public administration reform (PAR) laws approved in 2019, and highlighted the need to limit fiscal risks of the proposed emergency measures.[2] Staff further advised to preserve buffers of the Privatization Agency of Kosovo (PAK). Staff broadly agreed on deferring VAT payments, but cautioned against deferring VAT filings and extending VAT removals or reductions. Staff further impressed on the authorities the importance of ensuring business continuity of PFM systems. The authorities agreed with staff.

7. Staff's updated assessment of public debt indicates that it will remain sustainable (Annex 1). Assuming the deviation from the fiscal deficit rule is temporary and that the rule is reinstated from 2022 onwards, public debt will increase to about 28 percent of GDP by 2025. As Kosovo does not have external market access, extending the maturity of domestic debt, diversifying the sources of financing, and making more use of the available IFI loans for capital investment projects remain key policy priorities to contain financing risks.

8. The Central Bank's decision to suspend loan repayments by borrowers affected by the COVID-19 (through end-April) is appropriate, but staff strongly cautioned against weakening provisioning or capital standards. The Central Bank of Kosovo (CBK) together with the Kosovo Banking Association decided to suspend the payment of loan instalments for businesses and individuals from March 16 to April 30, with the option to extend it further. Suspension decisions will be made by banks on a case-by-case basis, and be targeted to sectors and individuals most affected by the crisis. The CBK will apply regulatory forbearance on loan provisions and capital requirements on reprogrammed loans. The banking system is in a position to absorb this measure, as banks' NPLs remain low and liquidity and capital buffers comfortably within regulatory limits. Staff strongly cautioned against any weakening of provisioning or capital standards and urged the CBK to work with banks on capital restoration plans over a reasonable period in case minimum capital gets compromised. Staff highlighted that forbearance does not offer permanent solutions, and thus, that bank-specific plans will help to gradually restore capital and liquidity ratios after the crisis has passed. Staff urged for intensive supervision of banks with more concentrated portfolios and riskier clients. The authorities concurred.

ACCESS AND CAPACITY TO REPAY THE FUND

9. The Kosovan authorities have requested a purchase under the Rapid Financing Instrument in the amount of SDR 41.30 million (about Euro 51 million), equivalent to 50 percent of quota. The proposed RFI purchase (0.7 percent of GDP) would contribute

[2] PAR laws aim, among other objectives, to reduce compensation fragmentation, but risk ballooning the wage bill.

towards closing around 20 percent of the external financing gap in 2020. The remaining gap will be covered by other donor resources (additional EU grants and World Bank financing for 0.4 percent of GDP) and reserve losses (3 percent of GDP). The RFI objectives are to provide support to address urgent balance of payments needs, containment and mitigation efforts, and preserve fiscal buffers. The RFI could also catalyze support by other IFIs, which are actively exploring options. No prior actions are proposed.

10. Kosovo's capacity to repay its obligations to the Fund is adequate (Table 8). IMF credit outstanding after the RFI (at end-2020) will amount to 114 percent of quota. The associated servicing risks are mitigated by the country's low indebtedness. The debt sustainability analysis shows debt to be sustainable with a sufficient buffer to remain sustainable even after the impact of the virus (Annex 1). Moreover, Kosovo has appropriate capacity to repay the Fund, and has a good track record of timely payment of external obligations.

11. The authorities are committed to undergo an update of the safeguards assessment before Board approval of any subsequent arrangement to which the safeguards policy applies. The central bank has already given authorization for IMF staff to hold discussions with its external auditors, and to have access to the CBK's most recent external audit reports. As the RFI will be channeled to budget support, the CBK and the Ministry of Finance have signed a memorandum of understanding on a framework for their respective responsibilities to service financial obligations to the IMF. The last safeguards assessment was concluded in July 2015 and all the assessment's recommendations have since been implemented.

OUTLOOK AND RISKS

12. Although events remain fluid and the outlook very difficult to predict, staff expect a strong GDP contraction in 2020, followed by a recovery later in the year and in 2021. The balance of payments financing need is expected to be resolved within one year without major policy changes. However, strong downside risks require contingency plans, greater donor support and a possible upper-credit-tranche-level Fund arrangement.

13. Risks to the outlook are strongly tilted to the downside, as the decline in exports, remittances, and government revenues might be larger than in the baseline. Externally, the COVID-19 pandemic can result in weaker-than-expected growth if blanket containment measures extend through Q3, which would severely affect activity in advanced Europe and tourism and remittance flows to Kosovo. Domestically, the negative effect of the COVID-19 pandemic can be significantly larger than in the baseline if heightened uncertainty further disrupts demand. These factors could further reduce GDP growth by an additional 6 percentage points. The recession and the travel bans may also expose vulnerabilities in uncollateralized bank loans and further negatively impact the hospitality and construction sectors, which are heavily dependent of diaspora-related flows. As a result, several small banks with more aggressive risk-taking behavior may be affected. An illiquid secondary market for government securities may create risks for some banks' deposit funding.

14. The fluid political situation and internal disagreements about how to advance the dialogue with Serbia pose an additional risk. Despite the successful no-confidence vote in late March, the Assembly and caretaker government continue to operate. The no-confidence vote was mainly triggered over disagreements within the governing coalition on the elimination of the tariff on imports from Serbia and Bosnia and Herzegovina. The President has initiated dialogue with all parties represented in the Assembly with the intention to ensure a seamless political transition.

STAFF APPRAISAL

15. Staff support the authorities' request for a purchase under the RFI in the amount of SDR 41.30 million (50 percent of quota), given the strong impact of the COVID-19 shock on Kosovo's economy and the urgent balance of payments need that it has prompted. The short-term economic outlook is deteriorating quickly owing to the effect of the pandemic in remittance-originating countries, and blanket containment measures and travel bans are hitting both supply and demand strongly. Although events remain fluid and the outlook is very difficult to predict, staff expect a strong GDP contraction in 2020, followed by a recovery later in the year and in 2021. Fiscal actions so far adequately target the sectors most affected by the shock and aim at supporting social and health spending. The use of the escape clause to accommodate a deficit above the 2 percent of GDP ceiling is appropriate. Staff also broadly supports the temporary measures announced by the CBK to suspend the payment of loan instalments for businesses and individuals affected by the COVID-19, but strongly cautioned against weakening provisioning or capital standards.

16. The Kosovan authorities remain committed to ensuring fiscal and debt sustainability. Kosovo's implementation of the fiscal rule and of generally sound banking sector policies have been at the core of macroeconomic stability and sustained growth over the past few years. After the current crisis, it will be crucial to rebuild fiscal buffers through fiscal consolidation to enhance preparedness for future shocks. Bank-specific plans will be needed (where appropriate) to gradually restore capital and liquidity ratios after the crisis has passed. Rebuilding fiscal and bank buffers is essential given the absence of a lender of last resort as Kosovo is unilaterally euroized. Staff stands ready to assist the authorities in addressing both the immediate and the medium-term policy challenges and supporting a strong and sustainable economic recovery.

Table 1. Kosovo: Select Economic Indicators, 2017–2025

(Percent, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Proj.	Proj.			Projections		
Real GDP growth	4.2	3.8	4.0	-5.0	7.5	3.7	3.8	3.9	4.0
Contribution to growth (percentage points of GDP)									
Consumption	1.5	5.2	3.0	0.4	2.5	4.2	3.6	3.3	3.6
Private	1.6	4.0	2.3	-0.4	2.9	3.7	3.5	3.2	3.3
Public	-0.1	1.2	0.6	0.8	-0.4	0.5	0.2	0.2	0.3
Investment	1.5	2.3	0.7	-5.7	4.7	0.8	1.7	1.7	1.8
Net Exports	1.2	-3.7	0.2	0.2	0.3	-1.3	-1.5	-1.2	-1.3
Exports	4.0	1.0	1.5	-3.4	4.1	1.3	1.1	1.4	1.5
Imports	-2.8	-4.7	-1.2	3.7	-3.8	-2.6	-2.6	-2.6	-2.8
Real growth rate (percent)									
Consumption	1.5	5.4	2.8	-0.6	3.6	3.9	3.6	3.5	3.3
Private	1.8	5.0	2.5	-1.5	4.4	4.0	4.0	3.8	3.6
Public	-0.5	7.5	4.0	5.0	-1.2	3.0	1.2	1.4	1.7
Investment	5.6	8.1	2.3	-20.9	21.0	2.6	6.2	6.4	6.1
Exports	16.8	3.8	5.4	-13.7	17.8	4.5	3.9	5.3	5.0
Imports	5.4	9.0	2.1	-7.9	8.5	4.6	4.8	4.9	4.9
Official unemployment (percent of workforce) 1/	30.5	29.6	25.9	…	…	…	…	…	…
Price changes									
CPI, period average	1.5	1.1	2.7	1.3	1.6	1.8	1.8	1.9	1.9
CPI, end of period	0.5	2.9	1.2	1.6	1.9	1.8	1.8	1.8	1.8
GDP deflator	1.4	1.0	1.9	1.6	1.1	1.5	1.7	1.8	1.5
Real effective exchange rate (average; -=depreciation) 2/	0.6	2.7	-0.1	…	…	…	…	…	…
Terms of Trade	98	97	96	95	93	92	92	92	91
General government budget (percent of GDP)									
Revenues and grants	26.2	26.1	26.5	24.4	25.5	25.5	25.5	25.5	25.6
Expenditures	27.4	29.0	29.4	29.2	28.2	27.7	27.8	28.0	28.1
Of which: Wages and salaries	8.6	8.8	8.6	9.5	8.8	9.1	9.1	9.1	9.1
Subsidies and transfers	8.0	8.3	8.8	11.5	8.8	8.5	8.3	8.0	7.7
Capital and net lending	7.0	7.9	7.4	2.9	5.6	5.2	5.7	6.2	6.7
Overall Balance (Fiscal rule) 3/	-1.1	-1.5	-0.7	-3.4	-2.1	-1.5	-1.5	-1.5	-1.5
Overall balance	-1.2	-2.9	-2.8	-4.8	-2.7	-2.3	-2.4	-2.5	-2.5
Stock of government bank balances	4.6	4.5	5.2	3.8	4.5	4.5	4.5	4.5	4.5
Total public debt 4/	16.2	16.9	17.5	20.7	22.7	24.1	25.4	26.8	28.1
Balance of Payments (percent of GDP)									
Current account balance, incl. official transfers	-5.4	-7.6	-5.5	-7.4	-5.1	-5.6	-6.0	-6.1	-6.4
Of which: Official transfers 5/	3.1	3.4	3.4	3.0	2.5	2.3	2.2	2.1	2.0
Of which: Remittance inflows	11.8	11.9	12.0	11.1	11.8	12.0	12.1	12.2	12.4
Financial account	-4.3	-5.0	-2.6	-6.0	-3.2	-3.8	-4.1	-4.2	-4.5
Of which: Direct investment, net	-3.3	-3.4	-2.8	-2.2	-3.2	-3.2	-3.2	-3.2	-3.2
Portfolio investment, net	0.2	-3.0	0.8	-0.3	-0.2	1.4	0.8	0.4	0.5
Errors and Omissions	1.3	2.7	3.0	1.5	2.0	2.0	2.0	2.0	2.0
Savings-investment balances (percent of GDP)									
National savings	19.5	18.5	20.3	13.9	19.8	19.2	19.6	20.4	20.9
Public savings	5.8	5.0	4.4	-2.3	2.9	2.9	3.3	3.7	4.2
Private savings	13.7	13.5	15.9	16.1	16.9	16.3	16.3	16.7	16.7
Investment	28.1	29.5	29.2	24.3	27.4	27.2	27.9	28.6	29.3
Public investment	7.0	7.9	7.4	2.9	5.6	5.2	5.7	6.2	6.7
Private investment	21.0	21.6	21.8	21.4	21.8	22.0	22.2	22.4	22.6
Current account, excl. official transfers	-8.5	-10.9	-8.9	-10.4	-7.6	-8.0	-8.2	-8.2	-8.4
Financial Sector									
Non-performing loans (percent of total loans) 6/	3.1	2.5	2.0	…	…	…	…	…	…
Bank credit to the private sector (percent change)	11.5	10.8	10.0	-2.4	9.1	6.6	6.8	7.1	7.4
Deposits of the private sector (percent change)	5.3	9.3	15.6	-4.2	12.4	8.1	7.0	7.1	7.1
Regulatory capital to risk weighted assets 6/	18.1	17.0	16.6	…	…	…	…	…	…
Memorandum items:									
GDP (millions of euros)	6,414	6,726	7,125	6,877	7,476	7,870	8,305	8,784	9,276
GDP per capita (euros)	3,566	3,752	3,959	3,805	4,120	4,320	4,541	4,783	5,031
GNDI per capita (euros)	4,172	4,391	4,667	4,456	4,880	5,132	5,407	5,707	6,017
Real GDP growth per capita	3.4	4.1	3.6	-5.4	7.1	3.3	3.4	3.5	3.6
Population (millions)	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/ 2019 as of Q4 2019.
2/ 2019 as of November 2019.
3/ For fiscal rule purposes, only projects post-July 2015 apply.
4/ Includes guarantees, but no longer includes former Yugoslavia debt which has been reclassified as a contingent liability.
5/ Total foreign assistance excluding capital transfers.
6/ 2019 as of November 2019.

Table 2. Kosovo: Consolidated Government Budget, 2017–2025 1/
(Excluding donor designated grants, millions of euros)

	2017	2018	2019		2020		2021		2022		2023	2024	2025
	Act.	Act.	Budget	Proj. 4/	Draft Budget	Proj.	MTEF	Proj.	MTEF	Proj.	Proj.	Proj.	Proj.
Revenue and grants	1,682	1,757	1,949	1,889	2,021	1,677	2,159	1,907	2,276	2,005	2,114	2,236	2,373
Revenue	1,682	1,757	1,939	1,877	2,010	1,653	2,149	1,907	2,265	2,005	2,114	2,236	2,373
Taxes	1,496	1,564	1,731	1,662	1,784	1,453	1,924	1,683	2,032	1,768	1,862	1,967	2,087
Direct taxes	238	268	289	292	313	226	327	291	347	307	324	343	363
Personal income tax	137	153	163	166	175	137	182	176	192	185	195	207	218
Corporate income tax	75	87	91	95	101	61	105	84	110	89	94	100	106
Property tax	22	24	30	27	33	24	37	26	41	27	29	31	33
Other	3	4	4	5	4	5	4	5	4	5	6	6	6
Indirect taxes	1,315	1,344	1,492	1,415	1,521	1,272	1,648	1,447	1,737	1,520	1,601	1,691	1,795
VAT	756	799	905	846	934	741	989	886	1,048	943	1,006	1,076	1,154
Excise	432	419	465	435	460	418	511	451	533	470	493	519	553
Customs	126	124	120	130	123	112	142	108	152	104	98	93	86
Other	1	2	2	4	4	2	5	3	5	3	3	3	3
Tax refunds	-58	-48	-50	-46	-50	-46	-51	-55	-52	-59	-63	-67	-72
Nontax revenues	186	193	208	215	226	199	224	224	233	237	252	269	287
Interest income	…	2	4	3	4	3	4	3	3	3	3	3	3
Fees and other charges	39	34	44	40	46	42	50	44	53	46	48	51	54
Municipal own-source revenues	43	46	57	50	50	45	50	54	50	58	64	70	76
Other, including Central own-source revenues	103	110	103	122	126	110	120	124	127	130	137	145	153
Grants	0	0	11	12	11	24	11	0	11	0	0	0	0
Expenditure	1,759	1,949	2,379	2,091	2,440	2,008	2,535	2,110	2,603	2,183	2,311	2,455	2,608
Current expenditure	1,307	1,419	1,590	1,561	1,669	1,809	1,710	1,693	1,757	1,776	1,841	1,911	1,986
Wages and salaries	550	592	620	616	650	650	691	660	730	718	756	797	843
Goods and services	226	250	337	294	352	338	357	343	360	349	356	363	370
Subsidies and transfers	512	558	600	627	632	789	629	657	633	671	686	702	718
Current reserves	0	0	5	0	5	0	5	0	5	0	0	0	0
Interest payment	19	19	28	23	30	31	28	32	30	38	43	49	55
Capital expenditure	452	530	789	531	771	199	825	417	846	407	471	545	622
Budget-financed capital expenditure	452	446	515	385	520	151	616	369	647	347	398	457	527
PAK-financed capital expenditure	0	84	151	132	85	10	0	0	0	0	0	0	0
IFI-financed capital expenditure	0	0	123	14	166	39	209	49	199	61	73	88	95
Primary balance	-59	-176	-406	-182	-394	-303	-351	-174	-301	-144	-157	-174	-183
Overall balance	-78	-192	-430	-203	-420	-331	-376	-203	-328	-179	-197	-219	-234
Overall balance (Fiscal rule) 2/	**-71**	**-102**	**-146**	**-50**	**-140**	**-236**	**-159**	**-154**	**-120**	**-118**	**-125**	**-132**	**-139**
Overall cyclically adjusted balance	-91	-220	…	-269	…	-277	…	-196	…	-177	-198	-221	-235
Statistical discrepancy	6	12	…	-1	…	0	…	0	…	0	0	0	0
Financing	72	180	426	204	510	331	376	203	328	179	197	219	234
Foreign financing	46	-12	127	-12	147	10	162	-32	180	20	24	26	44
Drawings/ Borrowings, incl. official financing	8	10	54	25	45	16	…	8	…	8	8	8	8
Donor financing for new projects	0	0	123	14	166	39	…	49	…	61	73	88	95
IMF financing	95	0	0	0	45	51	…	0	…	0	0	0	0
Amortization/ Repayments	-57	-22	-50	-50	-110	-95	…	-88	…	-48	-56	-69	-59
Domestic financing	9	183	320	171	345	311	125	185	133	119	143	173	180
Domestic borrowing (net)	95	102	135	115	130	167	130	308	130	176	192	215	212
Drawings	370	627	…	360	…	444	…	627	…	532	577	676	694
Amortization	-275	-319	…	-245	…	-278	…	-319	…	-355	-385	-461	-481
Change in GG Deposits at the CBK	-95	58	…	47	…	145	…	-113	…	-48	-40	-32	-22
Change in PAK deposits (- = increase)	-10	83	…	113	…	7	…	-40	…	-30	-20	-10	0
Privatization receipts	-17	-9	…	-44	…	-10	…	-40	…	-30	-20	-10	0
Use of privatization revenues	6	93	153	157	91	17	2	0	2	0	0	0	0
o/w for PAK-funded investment clause projects	0	86	151	150	85	10	0	0	0	0	0	0	0
o/w for PAK-related current expenditure	6	6	2	7	6	7	2	0	2	0	0	0	0
Change in municipalities OSR (– = increase)	-6	-15	23	-7	22	40	6	0	6	0	0	0	0
Change in GG free bank balances (- = increase)	-79	-10	-21	-59	18	98	88	-73	15	-18	-20	-22	-22
Change in other GG bank balances (- = increase)	0	0	…	0	…	0	…	0	…	0	0	0	0
Other financing	9	22	11	9	11	0	11	0	11	0	0	0	0
Equity (Sale of State Assets)	17	9	…	44	…	10	…	40	…	30	20	10	0
Memorandum items													
Bank balance of the general government	292	302	340	370	340	263	247	336	231	354	374	395	417
Of which: ELA	46	46	46	46	46	46	46	46	46	46	46	46	46
Total public debt 3/	1,041	1,138	1,468	1,245	1,517	1,422	1,845	1,698	2,158	1,894	2,111	2,352	2,608
External debt	423	417	659	409	595	419	793	387	975	407	431	457	501
Domestic debt	618	721	810	836	922	1,003	1,052	1,311	1,182	1,487	1,680	1,894	2,107
Of which: guarantees	44	44	…	44	…	44	…	44	…	44	44	44	44
Contingent liabilities: debt of the former Yugoslavia	287	198	…	181	…	162	…	141	…	117	97	69	65

Sources: Kosovo authorities; and IMF staff estimates and projections.

1/ Does not yet reflect the GFSM 2014 methodology.

2/ For fiscal rule purposes, IFI and PAK-financed projects post-July 2015 are excluded from the fiscal deficit. Following the LPFMA, the fiscal rule deficit also excludes expenditures from carried-forward own-source revenue (OSR) and PAK-related expenditure.

3/ The stock of public debt no longer includes the former Yugoslavia debt, which has been reclassified as a contingent liability.

4/ Based on current legislation and preliminary budget execution as of end-December 2019.

Table 3. Kosovo: Consolidated Government Budget, 2017–2025 1/

(Excluding donor designated grants, percent of GDP)

	2017	2018	2019		2020		2021		2022		2023	2024	2025
	Act.	Act.	Budget	Proj. 4/	Draft Budget	Proj.	MTEF	Proj.	MTEF	Proj.	Proj.	Proj.	Proj.
Revenue and grants	26.2	26.1	27.4	26.5	26.9	24.4	27.2	25.5	28.6	25.5	25.5	25.5	25.6
Revenue	26.2	26.1	27.2	26.3	26.7	24.0	27.0	25.5	28.5	25.5	25.5	25.5	25.6
Taxes	23.3	23.2	24.3	23.3	23.7	21.1	24.2	22.5	25.6	22.5	22.4	22.4	22.5
Direct taxes	3.7	4.0	4.0	4.1	4.2	3.3	4.1	3.9	4.4	3.9	3.9	3.9	3.9
Personal income tax	2.1	2.3	2.3	2.3	2.3	2.0	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Corporate income tax	1.2	1.3	1.3	1.3	1.3	0.9	1.3	1.1	1.4	1.1	1.1	1.1	1.1
Property tax	0.3	0.4	0.4	0.4	0.4	0.3	0.5	0.3	0.5	0.3	0.3	0.4	0.4
Other	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
Indirect taxes	20.5	20.0	20.9	19.9	20.2	18.5	20.7	19.4	21.9	19.3	19.3	19.2	19.4
VAT	11.8	11.9	12.7	11.9	12.4	10.8	12.4	11.8	13.2	12.0	12.1	12.2	12.4
Excise	6.7	6.2	6.5	6.1	6.1	6.1	6.4	6.0	6.7	6.0	5.9	5.9	6.0
Customs	2.0	1.8	1.7	1.8	1.6	1.6	1.8	1.4	1.9	1.3	1.2	1.1	0.9
Other	0.0	0.0	0.0	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Tax refunds	-0.9	-0.7	-0.7	-0.6	-0.7	-0.7	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8
Nontax revenues	2.9	2.9	2.9	3.0	3.0	2.9	2.8	3.0	2.9	3.0	3.0	3.1	3.1
Grants	0.0	0.0	0.1	0.2	0.1	0.3	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Expenditure	27.4	29.0	33.4	29.4	32.5	29.2	31.9	28.2	32.8	27.7	27.8	28.0	28.1
Current expenditure	20.4	21.1	22.3	21.9	22.2	26.3	21.5	22.6	22.1	22.6	22.2	21.8	21.4
Wages and salaries	8.6	8.8	8.7	8.6	8.6	9.5	8.7	8.8	9.2	9.1	9.1	9.1	9.1
Goods and services	3.5	3.7	4.7	4.1	4.7	4.9	4.5	4.6	4.5	4.4	4.3	4.1	4.0
Subsidies and transfers	8.0	8.3	8.4	8.8	8.4	11.5	7.9	8.8	8.0	8.5	8.3	8.0	7.7
Current reserves	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Interest payment	0.3	0.3	0.4	0.3	0.4	0.5	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Capital expenditure	7.0	7.9	11.1	7.4	10.3	2.9	10.4	5.6	10.6	5.2	5.7	6.2	6.7
Budget-financed capital expenditure	7.0	6.6	7.2	5.4	6.9	2.2	7.8	4.9	8.1	4.4	4.8	5.2	5.7
PAK-financed capital expenditure	0.0	1.2	2.1	1.9	1.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFI-financed capital expenditure	0.0	0.0	1.7	0.2	2.2	0.6	2.6	0.6	2.5	0.8	0.9	1.0	1.0
Primary balance	-0.9	-2.6	-5.7	-2.6	-5.2	-4.4	-4.4	-2.3	-3.8	-1.8	-1.9	-2.0	-2.0
Overall balance	-1.2	-2.9	-6.0	-2.8	-5.6	-4.8	-4.7	-2.7	-4.1	-2.3	-2.4	-2.5	-2.5
Overall balance (Fiscal rule) 2/	**-1.1**	**-1.5**	**-2.0**	**-0.7**	**-1.9**	**-3.4**	**-2.0**	**-2.1**	**-1.5**	**-1.5**	**-1.5**	**-1.5**	**-1.5**
Statistical discrepancy	0.1	0.2	...	0.0	...	0.0	...	0.0	...	0.0	0.0	0.0	0.0
Financing	1.1	2.7	6.0	2.9	6.8	4.8	4.7	2.7	4.1	2.3	2.4	2.5	2.5
Foreign financing	0.7	-0.2	1.8	-0.2	2.0	0.1	2.0	-0.4	2.3	0.3	0.3	0.3	0.5
Drawings/ Borrowings, incl. official financing	0.1	0.2	0.8	0.3	0.6	0.2	...	0.1	...	0.1	0.1	0.1	0.1
Donor financing for new projects	0.0	0.0	1.7	0.2	2.2	0.6	...	0.6	...	0.8	0.9	1.0	1.0
IMF financing	1.5	0.0	0.0	0.0	0.6	0.7	...	0.0	...	0.0	0.0	0.0	0.0
Amortization/ Repayments	-0.9	-0.3	-0.7	-0.7	-1.5	-1.4	...	-1.2	...	-0.6	-0.7	-0.8	-0.6
Domestic financing	0.1	2.7	4.5	2.4	4.6	4.5	1.6	2.5	1.7	1.5	1.7	2.0	1.9
Domestic borrowing (net)	1.5	1.5	1.9	1.6	1.7	2.4	1.6	4.1	1.6	2.2	2.3	2.4	2.3
Drawings	5.8	9.3	...	5.1	...	6.5	...	8.4	...	6.8	7.0	7.7	7.5
Amortization	-4.3	-4.7	...	-3.4	...	-4.0	...	-4.3	...	-4.5	-4.6	-5.3	-5.2
Change in GG Deposits at the CBK	-1.5	0.9	...	0.7	...	2.1	...	-1.5	...	-0.6	-0.5	-0.4	-0.2
Change in PAK deposits (- = increase)	-0.2	1.2	...	1.6	...	0.1	...	-0.5	...	-0.4	-0.2	-0.1	0.0
Privatization receipts	-0.3	-0.1	...	-0.6	...	-0.1	...	-0.5	...	-0.4	-0.2	-0.1	0.0
Use of privatization revenues	0.1	1.4	2.1	2.2	1.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w for PAK-funded investment clause projects	0.0	1.3	2.1	2.1	1.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w for PAK-related current expenditure	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in municipalities OSR (– = increase)	-0.1	-0.2	0.3	-0.1	0.3	0.6	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Change in GG free bank balances (- = increase)	-1.2	-0.2	-0.3	-0.8	0.2	1.4	1.1	-1.0	0.2	-0.2	-0.2	-0.2	-0.2
Change in other GG bank balances (- = increase)	0.0	0.0	...	0.0	...	0.0	...	0.0	...	0.0	0.0	0.0	0.0
Other financing	0.1	0.3	0.2	0.1	0.2	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Equity (Sale of State Assets)	0.3	0.1	...	0.6	...	0.1	...	0.5	...	0.4	0.2	0.1	0.0
Memorandum items													
Bank balance of the general government	4.6	4.5	4.8	5.2	4.5	3.8	3.1	4.5	2.9	4.5	4.5	4.5	4.5
Of which: ELA	0.7	0.7	0.6	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Total public debt 3/	16.2	16.9	20.6	17.5	20.2	20.7	23.2	22.7	27.2	24.1	25.4	26.8	28.1
External debt	6.6	6.2	9.2	5.7	7.9	6.1	10.0	5.2	12.3	5.2	5.2	5.2	5.4
Of which: guarantees	0.7	0.7	...	0.6	...	0.6	...	0.6	...	0.6	0.5	0.5	0.5
Nominal GDP (millions of euros)	6,414	6,726	7,125	7,125	7,520	6,877	7,946	7,476	7,946	7,870	8,305	8,784	9,276

Sources: Kosovo authorities; and IMF staff estimates and projections.

1/ Does not yet reflect the GFSM 2014 methodology.

2/ For fiscal rule purposes, IFI and PAK-financed projects post-July 2015 are excluded from the fiscal deficit. Following the LPFMA, the fiscal rule deficit also excludes expenditures from carried-forward own-source

3/ The stock of public debt no longer includes the former Yugoslavia debt, which has been reclassified as a contingent liability.

4/ Based on current legislation and preliminary budget execution as of end-December 2019.

Table 4. Kosovo: General Government Cashflow, 2017–2025
(Millions of euros, unless otherwise indicated)

	2017 Actual	2018 Actual	2019 Proj.	2020 Proj.	2021 Projections	2022 Projections	2023 Projections	2024 Projections	2025 Projections
Financing Needs	489	454	557	606	683	600	657	771	796
Fiscal deficit (overall balance)	78	192	203	331	203	179	197	219	234
Amortization	332	252	295	372	407	404	441	530	540
External	57	22	50	95	88	48	56	69	59
Domestic	275	230	245	278	319	355	385	461	481
Fiscal reserve (change in bank balance)	79	10	59	-98	73	18	20	22	22
Financing Sources	483	442	558	606	683	600	657	771	796
External	103	10	39	105	56	68	80	95	103
Donor financing	8	10	39	54	56	68	80	95	103
Donor financing (incl. pre-2015 project loans)	8	10	25	16	8	8	8	8	8
IFI- project loans (Investment clause)	0	0	14	39	49	61	73	88	95
Bond placements	0	0	0	0	0	0	0	0	0
IMF disbursements	95	0	0	51	0	0	0	0	0
Domestic	379	431	519	501	627	532	577	676	694
Securities	370	332	360	444	627	532	577	676	694
Privatization revenues	6	93	157	17	0	0	0	0	0
Commercial banks (loans/ drawings on deposits)	0	0	0	0	0	0	0	0	0
Own source revenue	-6	-15	-7	40	0	0	0	0	0
Other financing sources	9	22	9	0	0	0	0	0	0
Statistical discrepancy	6	12	-1	0	0	0	0	0	0
Memorandum items:									
Government bank balance (stock)	292	302	361	263	336	354	374	395	417
Government bank balance (stock), percent of GDP	4.5	4.5	5.1	3.8	4.5	4.5	4.5	4.5	4.5
PAK Deposits with CBK (stock)	471	388	275	268	318	358	388	408	418
Public domestic debt, net of guarantees (stock)	574	677	792	959	1,267	1,443	1,638	1,853	2,064
Commercial banks	243	257	287	287	359	390	444	502	558
CBK (Central Bank)	194	189	184	161	151	151	151	151	151
KPST (Pension fund) 1/	95	209	299	489	669	772	842	916	996
PAK (Privatization fund) 2/	0	0	0	0	0	0	0	0	0
Other domestic	42	21	22	21	40	45	50	55	60
Others 3/	0	0	0	0	48	86	151	228	299

Sources: Kosovo authorities; and IMF staff estimates and projections.

1/ KPST Law caps GoK debt holding at 30 percent of its assets.

2/ PAK is allowed to invest in GoK securities only since May 18, 2018 and currently holds no securities.

3/ Residual covered by other investors and/or additional KPST purchases of government securities, a possible Eurobond placement (to be shown as public external debt), or a lower fiscal deficit (to be shown as lower financing needs).

Table 5. Kosovo: Balance of Payments, 2017–2025 1/

(Millions of euros, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections					
Current account	**-349**	**-509**	**-392**	**-525**	**-384**	**-443**	**-500**	**-532**	**-596**
Balance on Goods and Services	-1,637	-1,882	-1,908	-1,890	-1,949	-2,106	-2,268	-2,413	-2,598
Goods Balance	-2,464	-2,738	-2,840	-2,638	-2,892	-3,082	-3,284	-3,501	-3,749
Exports, f.o.b.	378	377	393	328	351	367	386	409	432
Imports, f.o.b.	2,843	3,114	3,233	2,965	3,243	3,449	3,670	3,910	4,180
Services Balance	827	856	932	748	943	976	1,017	1,087	1,150
Receipts	1,359	1,562	1,676	1,432	1,720	1,804	1,900	2,031	2,159
Payments	531	706	744	684	777	828	883	943	1,009
Primary Income	127	113	154	119	189	205	225	244	265
Compensation of employees, net	217	237	257	209	289	311	334	359	386
Investment income, net	-86	-121	-99	-86	-96	-102	-106	-111	-117
Secondary Income	1,161	1,260	1,362	1,246	1,376	1,458	1,543	1,637	1,737
Government, net	200	226	240	189	186	185	184	185	184
Other transfers, net	961	1,034	1,123	1,056	1,190	1,273	1,359	1,452	1,553
Capital account	**-12**	**-11**	**-8**	**-9**	**-9**	**-10**	**-10**	**-11**	**-11**
Financial account	**-346**	**-422**	**-281**	**-147**	**-357**	**-334**	**-383**	**-396**	**-468**
Direct investment, net	-212	-226	-201	-152	-243	-253	-267	-282	-298
Assets	43	46	66	47	50	51	55	57	60
Liabilities	255	272	266	199	293	304	321	339	358
Portfolio investment, net	15	-200	59	-21	-16	111	64	33	42
Other investment, net	-149	3	-139	25	-98	-192	-180	-147	-212
Net errors and omissions 1/	84	184	215	103	150	157	166	176	186
Financing Gap	**70**	**87**	**95**	**-284**	**115**	**38**	**39**	**29**	**46**
Financing	**0**	**0**	**0**	**75**	**0**	**0**	**0**	**0**	**0**
IMF RFI	0	0	0	51	0	0	0	0	0
Additional EU Grants	0	0	0	16	0	0	0	0	0
Additional WB Loans	0	0	0	8	0	0	0	0	0
Reserve assets	**70**	**87**	**95**	**-209**	**115**	**38**	**39**	**29**	**46**
				(In percent of GDP)					
Current account, excl. official transfers	-8.5	-10.9	-8.9	-10.4	-7.6	-8.0	-8.2	-8.2	-8.4
Current account, incl. official transfers	-5.4	-7.6	-5.5	-7.6	-5.1	-5.6	-6.0	-6.1	-6.4
Balance on Goods and Services	-25.5	-28.0	-26.8	-27.5	-26.1	-26.8	-27.3	-27.5	-28.0
Exports of Goods and Services	27.1	28.8	29.0	25.6	27.7	27.6	27.5	27.8	27.9
Imports of Goods and Services	52.6	56.8	55.8	53.1	53.8	54.3	54.8	55.2	55.9
Primary Income	2.0	1.7	2.2	1.7	2.5	2.6	2.7	2.8	2.9
Secondary Income	18.1	18.7	19.1	18.1	18.4	18.5	18.6	18.6	18.7
Official	3.1	3.4	3.4	2.8	2.5	2.3	2.2	2.1	2.0
Other	15.0	15.4	15.8	15.4	15.9	16.2	16.4	16.5	16.7
Capital account	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Financial account	-5.4	-6.3	-3.9	-2.1	-4.8	-4.2	-4.6	-4.5	-5.0
Direct investment, net	-3.3	-3.4	-2.8	-2.2	-3.2	-3.2	-3.2	-3.2	-3.2
Portfolio investment, net	0.2	-3.0	0.8	-0.3	-0.2	1.4	0.8	0.4	0.5
Other investment, net	-2.3	0.1	-1.9	0.4	-1.3	-2.4	-2.2	-1.7	-2.3
Net errors and omissions 1/	1.3	2.7	3.0	1.5	2.0	2.0	2.0	2.0	2.0
Financing Gap	1.1	1.3	1.3	-4.1	1.5	0.5	0.5	0.3	0.5
Financing	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0
Reserve assets	1.1	1.3	1.3	-3.0	1.5	0.5	0.5	0.3	0.5
Memorandum items:									
Public debt service to export ratio (percent)	4.0	1.7	3.0	5.8	4.6	2.5	2.8	3.2	2.6
Public debt service to exports and remittances (percent)	2.8	1.2	2.1	4.1	3.2	1.8	1.9	2.2	1.8
External public and private debt (percent of GDP) 2/	20.9	20.8	20.4	20.7	19.8	19.8	19.8	19.8	20.0
Net foreign assets of CBK 3/	939	934	938	804	1,022	1,112	1,194	1,268	1,339
Gross international reserves 3/	1,168	1,164	1,142	939	1,103	1,181	1,243	1,292	1,357
Gross international reserves in months of imports 3/	3.7	3.5	3.8	2.8	3.1	3.1	3.1	3.0	…
Gross international reserves, excl. PAK and KPST deposits at CBK	683	769	864	655	770	808	840	869	923

Sources: Kosovo authorities; and IMF staff estimates and projecti

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 have been revised to exclude the CBK’s holdings of Kosovar government securities.

Table 6. Kosovo: Central Bank and Commercial Bank Survey, 2017–2025

(Millions of euros, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections					
Depository Coporations									
Net foreign assets 1/	1,418	1,422	1,577	1,345	1,650	1,827	1,919	1,998	2,092
Net domestic assets	2,535	2,857	3,209	3,193	3,413	3,622	3,885	4,184	4,519
Central Bank									
Net foreign assets 1/	939	934	938	804	1,022	1,112	1,194	1,268	1,339
Foreign assets 1/	1,243	1,240	1,219	1,016	1,180	1,258	1,320	1,369	1,434
Foreign liabilities	303	306	281	212	159	146	127	101	94
Net domestic assets	-464	-430	-420	-328	-491	-549	-599	-640	-675
Net claims on central government	-474	-432	-421	-329	-493	-550	-600	-642	-677
Claims on central government	355	349	316	264	224	224	224	224	224
Of which: government securities	194	189	184	161	151	151	151	151	151
Liabilities to central government	828	781	738	593	717	774	824	865	900
PAK (privatization) fund	471	388	275	268	318	358	388	408	418
Government deposits	340	375	444	306	380	397	417	439	463
Of which: bank balance	274	302	370	263	336	354	374	395	419
IMF subscription	17	18	18	18	18	18	18	18	18
Claims on other sectors	10	2	1	1	1	1	1	1	1
Monetary base	428	455	468	427	482	515	549	583	619
Liabilities to other depository corporations	332	343	415	376	425	454	483	513	544
Deposits included in broad money	97	112	53	51	57	62	66	71	76
Other items, net 2/	48	49	51	50	49	47	46	46	47
Commercial banks									
Net foreign assets	479	488	639	541	629	715	725	730	752
Assets	710	692	866	764	856	947	958	968	993
Liabilities	-231	-204	-227	-224	-228	-232	-233	-239	-241
Net domestic assets	2,999	3,286	3,629	3,521	3,904	4,171	4,483	4,824	5,194
Claims on the CBK	331	343	415	376	425	454	483	513	544
Net claims on the central government	234	247	275	275	346	377	431	489	545
Claims on central government	243	257	287	287	359	390	444	502	558
Liabilities to central government	-10	-10	-13	-13	-13	-13	-13	-13	-13
Net claims on other public entities	-48	-55	-88	-85	-93	-98	-103	-109	-116
Claims on other public entities	2	4	3	4	4	4	4	4	4
Liabilities to other public entities	-50	-59	-92	-88	-96	-101	-107	-113	-120
Credit to private sector	2,483	2,751	3,028	2,955	3,226	3,438	3,673	3,932	4,221
Deposits of the private sector	2,919	3,190	3,688	3,532	3,970	4,290	4,592	4,917	5,265
Demand deposits	1,754	1,913	2,225	2,132	2,403	2,602	2,790	2,991	3,205
Time deposits	1,165	1,277	1,463	1,400	1,568	1,688	1,803	1,927	2,059
Other items, net 2/	559	584	580	530	562	596	616	637	682
Memorandum items:									
Gross international reserves, excl. PAK and KPST deposits at CBK 1/	683	769	864	655	770	808	840	869	923
Deposits of the private sector (12-month percent change)	5.3	9.3	15.6	-4.2	12.4	8.1	7.0	7.1	7.1
Credit to the private sector (12-month percent change)	11.5	10.8	10.0	-2.4	9.1	6.6	6.8	7.1	7.4
Deposits of the private sector (percent of GDP)	45.5	47.4	51.8	51.4	53.1	54.5	55.3	56.0	56.5
Credit to the private sector (percent of GDP)	38.7	40.9	42.5	43.0	43.1	43.7	44.2	44.8	45.3
Mandatory reserves of commercial banks at the CBK 3/	136	149	172	165	185	200	214	229	245
Excess reserves of commercial banks at the CBK 3/	196	195	243	211	240	254	269	284	298

Sources: Kosovo authorities; and IMF staff estimates and projections.

1/ Data have been revised to reclassify the CBK's holdings of Kosovar government securities as claims on the central government.

2/ Includes shares and other equity.

3/ Projections are made using the 2017 ratio of mandatory reserves to deposits.

Table 7. Kosovo: Financial Soundness Indicators, 2017–2019 1/

(Percent, unless otherwise indicated)

	2017	2018	2019
Structure			
Number of banks	10	10	10
Foreign	8	8	8
Share of total assets	88.1	86.8	86.7
Domestic	2	2	2
Share of total assets	11.9	13.2	13.3
Capital adequacy			
Regulatory capital to risk weighted assets	18.1	17.0	16.6
Tier 1 capital to risk weighted assets	16.2	15.5	14.9
Capital to assets	12.6	12.2	11.9
Asset quality			
NPL to total loans 2/	3.1	2.5	2.0
NPL net of provisions to capital	1.1	1.5	1.3
Large exposures to capital	81.7	65.9	77.2
Sectoral breakdown of loans			
Agriculture	2.2	2.5	2.0
Manufacturing	9.8	9.9	10.2
Trade	32.7	31.8	32.0
Other services	12.5	13.2	13.0
Construction	5.5	5.7	5.7
Households	36.2	36.3	36.3
Liquidity			
Liquid assets to total assets	28.9	29.0	27.2
Deposits to loans	124.4	122.8	124.9
Liquid assets to short-term liabilities 3/	38.2	40.0	36.5
Profitability			
Return on average assets	2.5	2.3	2.3
Return on average equity	19.4	18.3	18.6
Interest margin to gross income	71.2	78.4	80.1
Non-interest expense to gross income	46.5	48.2	47.0
Market risk			
Net open currency position to tier 1 capital	1.2	3.8	2.7

Sources: Central Bank of the Republic of Kosovo

1/ 2019 as of November 2019. Calculations do not include the bank (BKP) in liquidation process.

2/ Loans classified as doubtful or loss.

3/ Short-term liabilities are deposits, short-term borrowing, and other liabilities (up to one year maturity).

Table 8. Kosovo: Indicators of Capacity to Repay the Fund, 2017–25
(Percent, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Projections					
Fund obligations based on existing credit (in SDR millions)									
Principal	33.2	3.5	24.6	54.3	43.1	9.9	0.0	0.0	0.0
Charges and interest	1.9	2.4	2.2	1.6	0.7	0.1	0.0	0.0	0.0
In millions of SDRs	35.0	5.9	26.7	55.9	43.8	10.0	0.0	0.0	0.0
In millions of Euros	41.9	7.2	33.2	69.0	53.9	12.3	0.0	0.0	0.0
In percent of gross international reserves	3.6	0.6	2.9	7.4	4.9	1.0	0.0	0.0	0.0
In percent of exports of goods and services	2.4	0.4	1.6	3.9	2.6	0.6	0.0	0.0	0.0
In percent of debt service	60.8	21.1	53.3	67.1	56.7	22.2	0.0	0.0	0.0
In percent of GDP	0.7	0.1	0.5	1.0	0.7	0.2	0.0	0.0	0.0
In percent of quota	42.4	7.1	32.4	67.6	53.0	12.1	0.0	0.0	0.0
Outstanding Fund credit									
In millions of SDRs	135.4	131.9	107.3	53.0	9.9	0.0	0.0	0.0	0.0
In millions of Euros	161.9	160.5	133.1	65.5	12.2	0.0	0.0	0.0	0.0
In percent of gross international reserves	13.9	13.8	11.7	7.0	1.1	0.0	0.0	0.0	0.0
In percent of exports of goods and services	9.3	8.3	6.4	3.7	0.6	0.0	0.0	0.0	0.0
In percent of debt service	235.1	473.8	213.7	63.7	12.8	0.0	0.0	0.0	0.0
In percent of GDP	2.5	2.4	1.9	1.0	0.2	0.0	0.0	0.0	0.0
In percent of quota	163.9	159.7	129.9	64.2	12.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in SDR millions)									
Principal	33.2	3.5	24.6	54.3	43.1	9.9	10.3	20.7	10.3
Charges and interest	1.9	2.4	2.2	2.0	1.1	0.5	0.4	0.2	0.0
In millions of SDRs	35.0	5.9	26.7	56.3	44.2	10.4	10.7	20.9	10.4
In millions of Euros	41.9	7.2	33.2	69.6	54.5	12.8	13.2	25.7	12.8
In percent of gross international reserves	3.6	0.6	2.9	7.4	4.9	1.1	1.1	2.0	0.9
In percent of exports of goods and services	2.4	0.4	1.6	4.0	2.6	0.6	0.6	1.1	0.5
In percent of debt service	60.8	21.1	53.3	67.3	56.9	23.0	17.2	25.0	15.9
In percent of GDP	0.7	0.1	0.5	1.0	0.7	0.2	0.2	0.3	0.1
In percent of quota	42.4	7.1	32.4	68.2	53.6	12.6	13.0	25.3	12.5
Outstanding Fund credit with RFI disbursement									
In millions of SDRs	135.4	131.9	107.3	94.3	51.2	41.3	31.0	10.3	0.0
In millions of Euros	161.9	160.5	133.1	116.5	63.0	50.8	38.1	12.7	0.0
In percent of gross international reserves	13.9	13.8	11.7	12.4	5.7	4.3	3.1	1.0	0.0
In percent of exports of goods and services	9.3	8.3	6.4	6.6	3.0	2.3	1.7	0.5	0.0
In percent of debt service	235	474	214	113	66	91	50	12	0
In percent of GDP	2.5	2.4	1.9	1.7	0.8	0.6	0.5	0.1	0.0
In percent of quota	163.9	159.7	129.9	114.2	62.0	50.0	37.5	12.5	0.0
Memorandum items:									
Gross international reserves (in millions of Euros)	1,168	1,164	1,142	939	1,103	1,181	1,243	1,292	1,357
Exports of goods and services (in millions of Euros)	1,737	1,938	2,069	1,760	2,071	2,171	2,285	2,439	2,591
Debt service (in millions of Euros) 1/	69	34	62	103	95	55	63	77	67
Debt service (in millions of Euros), with RFI 1/	69	34	62	103	96	56	77	103	80
Quota (in SDR millions)	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6
Euro/SDR Exchange Rate	1.20	1.22	1.24	1.23	1.23	1.23	1.23	1.23	1.23

Source: IMF staff estimates and projections.
1/ Total public external debt service, including IMF repayment.

Annex I. Debt Sustainability Analysis

General government debt is projected to increase on account of a large deficit in 2020, reflecting the impact of COVID-19, and then from moderate primary deficits through 2025. Nevertheless, debt is assessed as sustainable in the baseline and stress scenarios. Risks result from shocks to growth and contingent liabilities, and from an increasingly reduced capacity of the domestic market to absorb higher government debt, as Kosovo does not have external market access. Extending the maturity of debt and diversifying the sources of financing remain key policy priorities to contain financing risks.

A. Key Assumptions

1. Macroeconomic assumptions. Real GDP is expected to contract by 5 percent in 2020, 8.6 percentage points below the pre-pandemic baseline, largely due to a near-cessation of travel and diaspora tourism, sharp demand and supply shocks on account of aggressive virus containment measures, and falling remittances. Growth is projected to gradually recover toward the pre-COVID-19 baseline reaching 4 percent by 2025. Headline inflation is projected at 1.3 percent in 2020, gradually increasing to 1.9 percent over the medium term. The fiscal deficit will increase sharply to 4.8 percent of GDP in 2020 (2.8 percent in 2019), due to revenue losses and increased spending on COVID-19-related measures. The fiscal rule deficit, excluding IFI-financed projects and projects financed by non-debt creating financial flows (privatization proceeds), is expected to reach 3.4 percent of GDP in 2020 and then decline to 1.5 percent of GDP by 2025, well below the 2-percent of GDP fiscal rule deficit ceiling. This reflects a lower budget execution following historical trends and increasingly limited capacity of domestic agents to absorb government debt.

2. Public debt. Public debt consists of general government debt and explicit guarantees issued by the government. Implicit contingent liabilities with respect to PAK financing (about 1.5 percent of GDP)[1], PPPs, and POEs debt (estimated at around 5–7 percent of GDP) are not included. At the end of 2019, domestic debt made up two-thirds of total debt. The external public debt is largely owed to multilaterals, namely the IDA, EIB, EBRD, and the IMF.

3. Financing assumptions. In 2020, large near-term fiscal financing needs arising from the impact of COVID-19 are assumed to be closed by drawdowns from existing government bank balances, official financing from World Bank resources and EU grants, the use of Fund credit under the RFI window, and larger domestic issuance of government bonds. Over the forecast period, the average maturity of domestic debt would gradually increase from 2.4 to 3 years, as the stock of short-term debt is projected to decrease from 4.8 percent of total debt in 2019 to less than 1 percent by 2025. IFI financing would reach a cumulative 403 million euros by 2025. Provisions made to maintain a prudent buffer of 4.5 percent of GDP in government deposits with the CBK would require additional financing of 1.9 percent of GDP during 2021–2025.

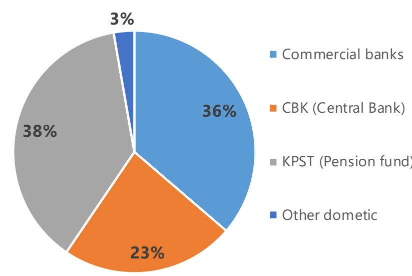
[1] This reflects potential legal obligations of PAK to reimburse claims related to privatization.

B. Public DSA

4. Under the baseline scenario, general government debt is projected to increase over the medium term but remain within sustainable levels. The debt stock will grow from 17.5 percent of GDP in 2019 to 28.2 percent of GDP by 2025, assuming a moderate increase in absorption of IFI financing for new capital investments and fiscal rule deficits below the legal ceiling after 2021.

5. Gross financing needs remain below the sustainability threshold, but vulnerabilities remain. Gross financing needs increase to 10.2 percent of GDP in 2020 and then decline, averaging 8.4 percent over the period 2020–2025 (6.9 percent during 2015–2019), reflecting the impact of COVID-19 in 2020 and assumptions of moderate primary deficits thereafter. Nevertheless, vulnerabilities may result from the increasingly reduced capacity of the domestic market to absorb higher government debt, as Kosovo does not have external market access. Therefore, efforts to increase the average maturity of domestic debt stock should continue. The government should also aim to diversify the sources of financing by expanding the investor base (to include more public entities, individuals, private businesses, and insurance companies, which currently hold less than 5 percent of the total domestic debt) while reducing the CBK holdings of government securities and without increasing the exposure limit for KPST to more than 30 percent of its assets. At the end of 2019, KPST was holding 38 percent of government debt. Simultaneously, other new instruments could be explored, such as retail or external bonds, provided Kosovo makes progress in reducing country risk and improves its international market access.

Government Securities by Holder
(2019, projections) 1/



1/ The total stock of governmnet securities at the end of December 2019 was €792 million.
Sources: MoF, IMF staff calculation

6. Additional standardized tests indicate that public debt is sensitive to contingent liability shocks. Should guarantees be requested for the new power plant project, this could lift debt above the 30 percent of GDP ceiling considered prudent for Kosovo. Similarly, contingent liabilities shocks associated with a financial sector shock, POEs (modeled at 5 percent of GDP) and the financing of PAK (1.5 percent of GDP) would have a large impact on the debt profile. Nevertheless, the public debt level does not breach the high-risk threshold of 70 percent in any of the stress test scenarios. Gross financing needs do not exceed the threshold either, although they exceed 12 percent in the standard contingent liability shock scenario. The standard heat map and debt profile vulnerabilities analysis further suggest that public debt held by non-residents constitutes a limited vulnerability at the beginning of the forecast period, declining over time as the composition of debt increasingly shifts toward domestic debt (baseline scenario).

Figure 1. Kosovo: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(Percent of GDP unless otherwise indicated)

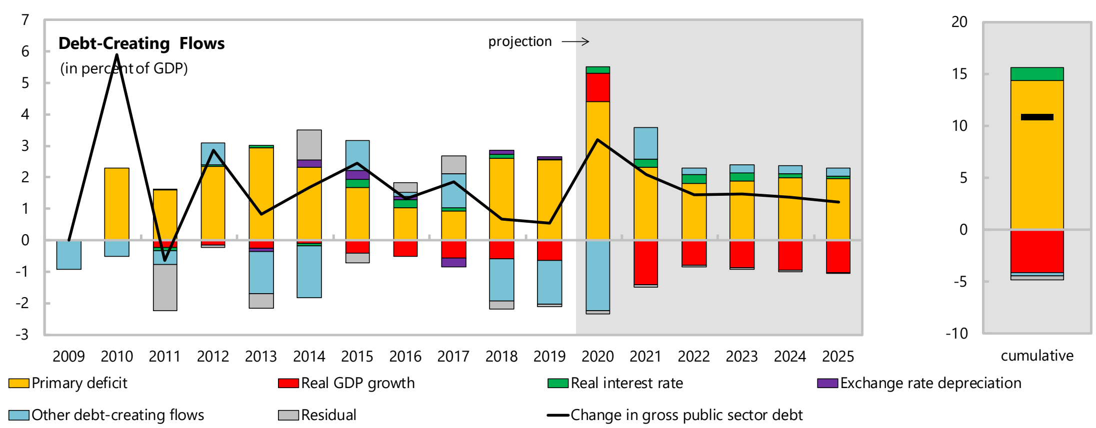
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2013-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025
Nominal gross public debt	12.7	16.9	17.5	20.7	22.7	24.2	25.7	27.0	28.2
Of which: guarantees	0.3	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Public gross financing needs	7.3	6.6	7.0	10.2	8.3	7.0	7.9	8.8	8.4
Real GDP growth (in percent)	3.4	3.8	4.0	-5.0	7.5	3.7	3.8	3.9	4.0
Inflation (GDP deflator, in percent)	1.4	1.0	1.9	1.6	1.1	1.5	1.7	1.8	2.0
Nominal GDP growth (in percent)	4.9	4.9	5.9	-3.5	8.7	5.3	5.5	5.8	6.1
Effective interest rate (in percent) [4/]	2.6	1.9	2.1	2.7	2.6	2.8	2.9	2.4	2.3

As of March 26, 2020		
Sovereign Spreads		
EMBIG (bp) 3/		N/A
5Y CDS (bp)		N/A
Ratings	Foreign	Local
Moody's	n.a.	n.a.
S&Ps	n.a.	n.a.
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2013-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.6	0.7	0.6	3.2	2.1	1.4	1.5	1.4	1.2	10.8	
Identified debt-creating flows	1.4	0.9	0.6	3.3	2.1	1.5	1.5	1.4	1.3	11.1	
Primary deficit	1.8	2.6	2.6	4.4	2.3	1.8	1.9	2.0	2.0	14.4	-0.7
Primary (noninterest) revenue and grants	25.2	26.1	26.5	24.3	25.5	25.4	25.4	25.4	25.4	151.5	
Primary (noninterest) expenditure	27.0	28.7	29.0	28.7	27.8	27.2	27.3	27.4	27.4	165.9	
Automatic debt dynamics [5/]	-0.2	-0.3	-0.5	1.1	-1.2	-0.5	-0.6	-0.8	-1.0	-2.9	
Interest rate/growth differential [6/]	-0.2	-0.5	-0.6	1.1	-1.2	-0.5	-0.6	-0.8	-1.0	-2.9	
Of which: real interest rate	0.1	0.1	0.0	0.2	0.3	0.3	0.3	0.1	0.1	1.2	
Of which: real GDP growth	-0.4	-0.6	-0.6	0.9	-1.4	-0.8	-0.9	-0.9	-1.0	-4.2	
Exchange rate depreciation [7/]	0.0	0.1	0.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	-1.3	-1.4	-2.2	1.0	0.2	0.2	0.2	0.3	-0.3	
Privatization/ other financing (negative)	-0.1	-0.5	-0.7	-0.1	-0.7	-0.5	-0.4	-0.2	-0.1	-2.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in the GG balances at CBK (negative)	-0.1	-0.9	-0.7	-2.1	1.6	0.7	0.6	0.5	0.4	1.7	
Residual, including asset changes [8/]	0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.3	



Source: IMF staff.

1/ Public sector is defined as general government and includes public guarantees, defined as guaranteed loans and international loans subordinated by the Ministry of Finance to companies providing essential public services.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

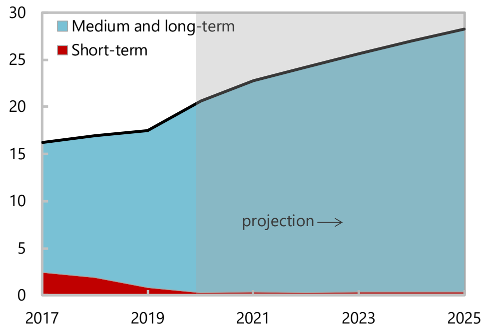
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

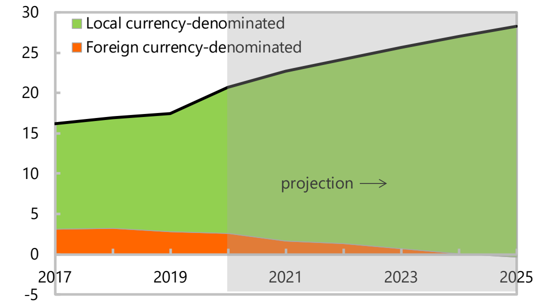
Figure 2. Kosovo: Public DSA — Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



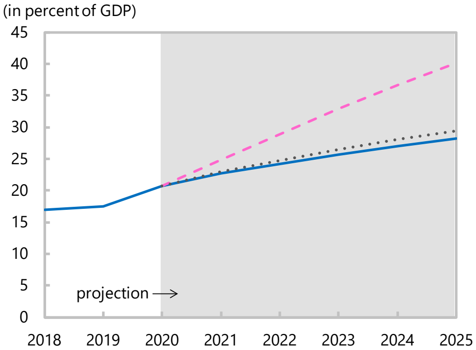
By Currency
(in percent of GDP)



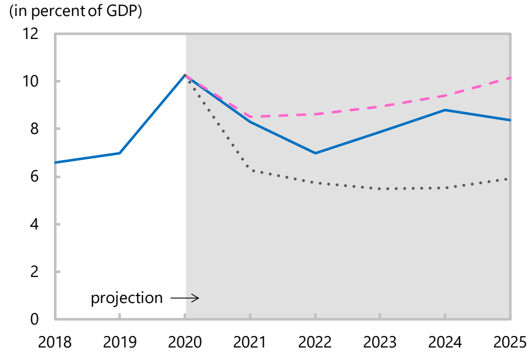
Alternative Scenarios

Baseline — Historical — Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



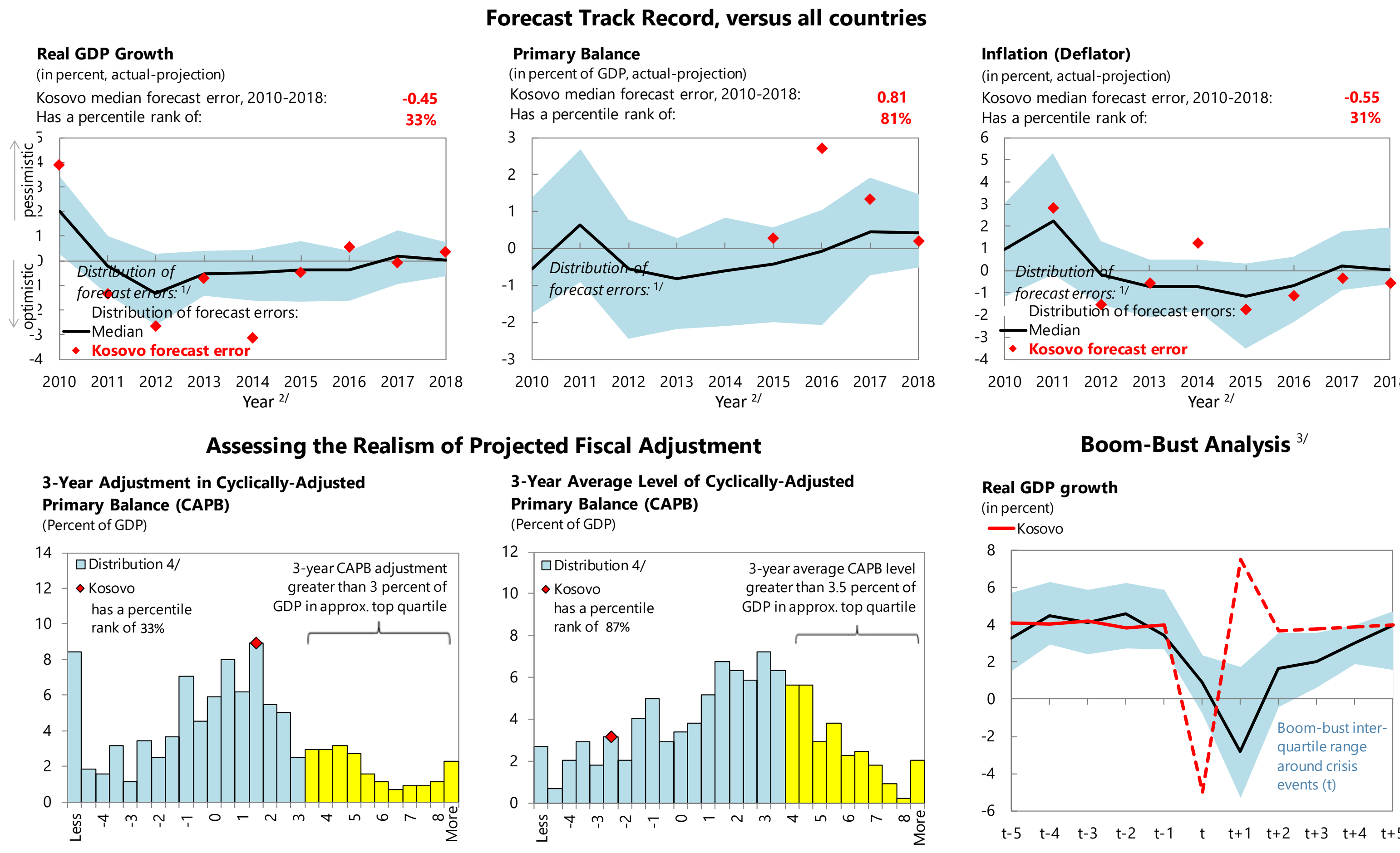
Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	7.5	3.7	3.8	3.9	4.0
Inflation	1.6	1.1	1.5	1.7	1.8	2.0
Primary Balance	-4.4	-2.3	-1.8	-1.9	-2.0	-2.0
Effective interest rate	2.7	2.6	2.8	2.9	2.4	2.3
Constant Primary Balance Scenario						
Real GDP growth	-5.0	7.5	3.7	3.8	3.9	4.0
Inflation	1.6	1.1	1.5	1.7	1.8	2.0
Primary Balance	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4
Effective interest rate	2.7	2.9	3.4	3.6	3.3	3.2

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	3.5	3.5	3.5	3.5	3.5
Inflation	1.6	1.1	1.5	1.7	1.8	2.0
Primary Balance	-4.4	-2.0	-2.0	-2.0	-2.0	-2.0
Effective interest rate	2.7	2.9	3.1	3.2	2.7	2.5

Source: IMF staff.

Figure 3. Kosovo: Public DSA — Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

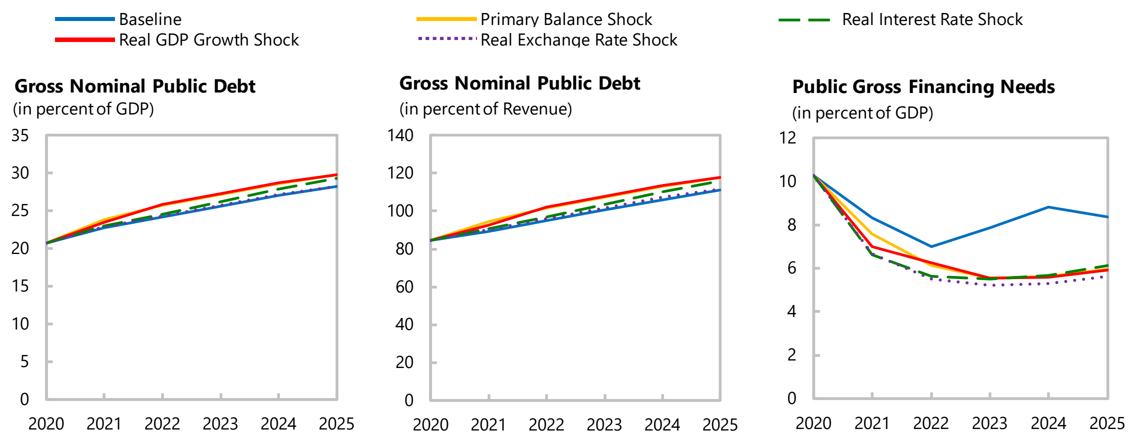
3/ Kosovo has had a positive output gap for 3 consecutive years, 2017-2019. For Kosovo, t corresponds to 2020; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

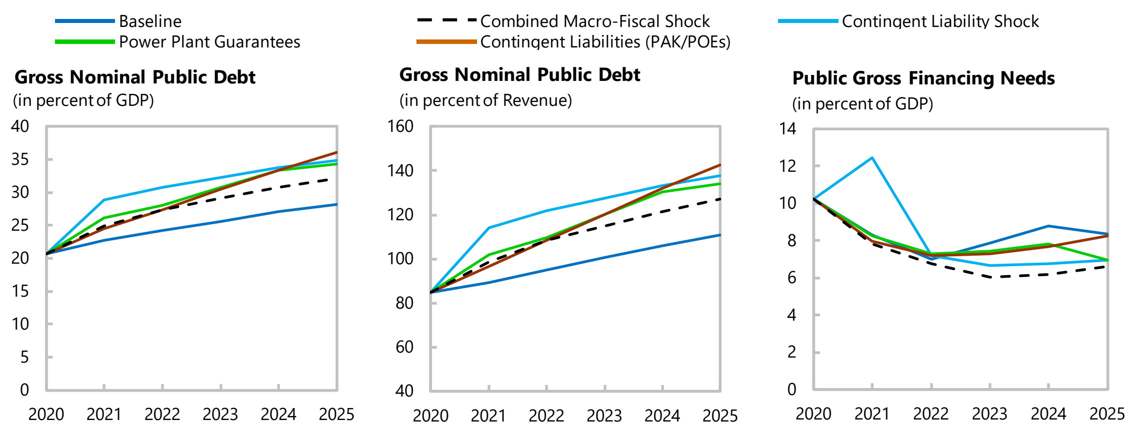
REPUBLIC OF KOSOVO

Figure 4. Kosovo: Public DSA — Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	7.5	3.7	3.8	3.9	4.0
Inflation	1.6	1.1	1.5	1.7	1.8	2.0
Primary balance	-4.4	-3.4	-2.1	-1.9	-2.0	-2.0
Effective interest rate	2.7	2.9	3.4	3.6	3.2	3.0
Real Interest Rate Shock						
Real GDP growth	-5.0	7.5	3.7	3.8	3.9	4.0
Inflation	1.6	1.1	1.5	1.7	1.8	2.0
Primary balance	-4.4	-2.3	-1.8	-1.9	-2.0	-2.0
Effective interest rate	2.7	2.9	4.0	4.5	4.2	4.2
Combined Shock						
Real GDP growth	-5.0	6.6	2.8	3.8	3.9	4.0
Inflation	1.6	0.9	1.3	1.7	1.8	2.0
Primary balance	-4.4	-3.4	-2.4	-1.9	-2.0	-2.0
Effective interest rate	2.7	2.9	4.0	4.5	4.3	4.2

Real GDP Growth Shock	2020	2021	2022	2023	2024	2025
Real GDP growth	-5.0	6.6	2.8	3.8	3.9	4.0
Inflation	1.6	0.9	1.3	1.7	1.8	2.0
Primary balance	-4.4	-2.6	-2.4	-1.9	-2.0	-2.0
Effective interest rate	2.7	2.9	3.4	3.6	3.2	3.0
Real Exchange Rate Shock						
Real GDP growth	-5.0	7.5	3.7	3.8	3.9	4.0
Inflation	1.6	5.6	1.5	1.7	1.8	2.0
Primary balance	-4.4	-2.3	-1.8	-1.9	-2.0	-2.0
Effective interest rate	2.7	2.9	3.3	3.5	3.1	2.9
Contingent Liability Shock						
Real GDP growth	-5.0	6.6	2.8	3.8	3.9	4.0
Inflation	1.6	0.9	1.3	1.7	1.8	2.0
Primary balance	-4.4	-7.9	-1.8	-1.9	-2.0	-2.0
Effective interest rate	2.7	3.6	4.1	4.1	3.6	3.3

Source: IMF staff.

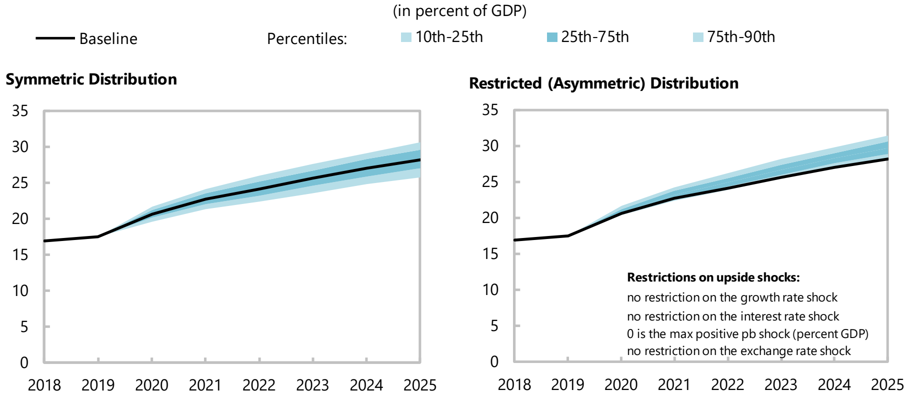
Figure 5. Kosovo: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

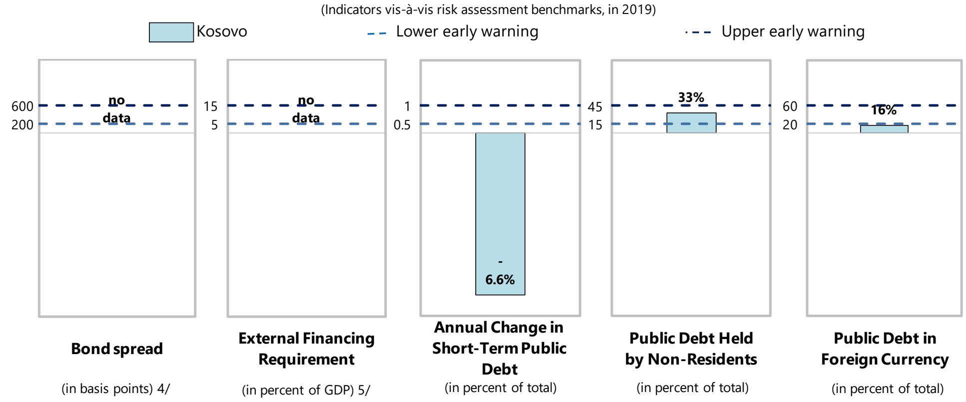
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 27-Dec-19 through 26-Mar-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

Pristina, April 3, 2020

Dear Ms. Georgieva:

1. The COVID-19 pandemic and associated blanket containment measures have hit Kosovo's economy hard. The short-term economic outlook is deteriorating quickly owing to the effect of the pandemic in remittance-originating countries, and travel bans are hitting both supply and demand strongly. The large decline in economic activity is significantly weakening public finances and has opened a sizable financing gap in our external accounts.

2. To address the challenges created by the ongoing crisis, the Ministry of Finance and Transfers has announced a number of measures to mitigate its effects on businesses and households, to create room for increased health spending, and has deferred the payment of several taxes. Moreover, the Central Bank of Kosovo (CBK) has decided to temporarily suspend the payment of loan instalments for businesses and individuals from March 16 to April 30, with the option to extend it further, in order to ease liquidity shortfalls.

3. Against this background, the government of Kosovo requests emergency financing from the IMF in the amount equivalent of SDR 41.30 million (about Euro 52 million), corresponding to a purchase of 50 percent of Kosovo's quota under the Rapid Financing Instrument (RFI). IMF assistance will be used to provide support to address urgent balance of payments needs, for containment and mitigation efforts, and to preserve fiscal buffers. We expect that this support will have a catalytic effect in helping secure additional financial resources to ease the pressure on our balance of payments, allowing us to further preserve buffers, which are essential in our unilaterally euroized economy.

4. We remain committed to ensuring fiscal and debt sustainability. Our implementation of the fiscal rule and of sound banking sector policies have been at the core of macroeconomic stability and sustained growth over the past few years. We are aware that after the current crisis, it will be crucial to rebuild fiscal buffers through fiscal consolidation to enhance preparedness for future shocks. Bank-specific plans will be needed (where appropriate) to gradually restore capital and liquidity ratios after the crisis has passed. Rebuilding fiscal and bank buffers is essential given the absence of a lender of last resort. While the urgent need for financial assistance and our focus on immediate measures to deal with the crisis make it unfeasible to engage in discussions of a multiyear program at this stage, we will analyze together with IMF staff the appropriateness of such engagement to address underlying structural issues once the crisis has subsided.

5. In line with the IMF's safeguards policy, we stand ready to collaborate with IMF staff in undertaking a safeguards assessment. The CBK has already given authorization for Fund staff to hold discussions with the central bank's external auditors, and to have access to the central bank's most recent external audit reports. As the RFI will be channeled to budget support, the CBK and the Ministry of Finance have signed a memorandum of understanding on a framework for their respective responsibilities to service financial obligations to the IMF.

6. We will continue to maintain the dialogue with the IMF to explore solutions to Kosovo's balance of payments difficulties, will avoid measures or policies that would compound these difficulties, and will consult with IMF staff on the implementation of fiscal and financial policies. We will continue to provide Fund staff with all the data and information necessary to monitor short-term economic events and evaluate our policies. The country will comply with the provisions of the IMF's Articles of Agreement, including those related to the imposing new or intensifying existing restrictions on the making of payments and transfers for current international transactions and also bilateral payments under Article VIII, and will implement public policies under that framework and avoid additional trade restrictions for balance of payment purposes.

7. We look forward to an early approval of emergency financial assistance by the IMF. We authorize the IMF to publish this letter and the request for a purchase under the RFI.

Sincerely yours,

/s/ Besnik Bismini Minister of Finance and Transfers	/s/ Fehmi Mehmeti Governor of Central Bank of Kosovo
/s/ Vjosa Osmani Speaker of the Assembly of Kosovo	/s/ Hashim Thaçi President of the Republic of Kosovo

Statement by Mr. Kaya, Executive Director,
and Mr. Mehmedi, Advisor to the Executive Director on the Republic of Kosovo
April 10, 2020

On behalf of our Kosovar authorities, we would like to express our deep gratitude to the Executive Board, management and staff for the timely response to their request for a disbursement under the Rapid Financing Instrument (RFI) in the amount of SDR 41.30 million or 50 percent of quota to help overcome the exogenous shock caused by COVID-19 and its immense impact on the people of Kosovo, the health system, and the economy. A disbursement under the RFI will be an essential component of the authorities' policy response to mitigate the economic and health effects from the COVID-19 outbreak, including by closing the financing gap this year. The authorities trust that the fast disbursement by the IMF will also catalyze additional donor support, including from the World Bank, the European Union, and other bilateral donors.

Kosovo has made significant progress in recent years, including under recent Fund arrangements, in preserving fiscal discipline and maintaining low debt levels, further strengthening the health and resilience of the financial sector and moving forward with the structural reform agenda. The implementation of the fiscal rule and of sound banking sector policies have been at the core of macroeconomic stability and sustained growth over the past few years. Growth reached 4 percent in 2019 (and was expected to grow at a similar pace in 2020), the overall fiscal rule deficit was reduced to 0.3 percent of GDP (well below the 2-percent of GDP fiscal rule deficit ceiling) while the usable bank balance reached 5 percent of GDP at end-2019. The banking sector also remained well-capitalized, profitable, and liquid, owing to robust macroeconomic fundamentals and very strong prudential policies, while private sector credit growth was growing at a healthy double-digit.

The COVID-19 Pandemic and its impact on the economy

Kosovo reported its first case of COVID-19 infection on March 13. As of April 6, the number of cases has surged to 170. The authorities responded in a swift, concerted, and commensurate manner to contain the spread of the virus. The early response to the pandemic was based on a national contingency health plan and the creation of the "Coronavirus Management Committee" which emphasized containment, preparedness, and enhancement of testing capacities. In addition to strengthening health policy responses, the authorities took a range of stringent containment measures. As many other countries in Europe, Kosovo is in effect in a lockdown.

As a result, the short-term economic outlook is deteriorating quickly with tourism receipts, remittances, FDI, domestic demand, export of goods and services and investment expected to fall. Several sectors of the economy, particularly the traditional drivers of growth, including trade, hospitality industry, construction, agriculture, and manufacturing are also severely affected by the pandemic.

The impact of the pandemic on output will be significant and crucially depend on how long the epidemic lasts. The authorities' preliminary estimates, which are underpinned by the assumption that "social distancing" restrictions start easing in Q3, expect the economy to contract from -2 to -4 percent of GDP this year, 6-8 percentage points below the pre-pandemic baseline. largely due to a near-cessation of travel and diaspora tourism in Q2, sharp demand and supply shocks on account of containment measures and falling remittances. However, the authorities assume a V-shaped recovery in Q4 of this year and in 2021.

The large GDP contraction this year will negatively impact the health of public finances as fiscal revenues in 2020 are expected to decrease by approximately 8 percent, compared to staff's forecast of 12 percent, given the drop in VAT and custom duties. The fiscal deficit will also increase due to the fall in tax revenues and the looser fiscal stance to accommodate increased spending on COVID-19-related spending. The fiscal rule deficit is expected to jump to close to 5 percent of GDP in 2020 (on the account that capital expenditures are not reduced significantly), triggering the use of the escape clause under the fiscal rule to accommodate a deficit above the 2 percent of GDP ceiling. The near-term fiscal financing needs (3 percent of GDP) are expected to be closed by the drawdown of government bank balances, official financing from the EU and the World Bank, IMF financing, higher domestic issuance of government bonds, and reprioritization of spending. Public debt is also expected to jump to over 22 percent of GDP this year. The current account will also deteriorate while external financing inflows will be cut by almost 50 percent, resulting in a steep financing gap. While the potential use of deposit buffers by liquidity constrained households and businesses, and loan reprogramming could potentially affect banks' liquidity and constrain domestic credit, the banking sector is well capitalized and liquid and able to withstand the impact of COVID-19 outbreak.

The authorities' policy response

The government responded quickly to contain the propagation of COVID-19 and fiscal measures have been timely, temporary, and targeted and aimed at saving lives and protecting households while assisting viable firms to prevent layoffs. To address the challenges created by the pandemic, the authorities initially allocated additional funding to the Ministry of Health; deferred corporate income and personal income taxes, and VAT; advanced payments for social assistance schemes by additional three months amount to support poor households and vulnerable groups; and removed VAT on imports of wheat and flour;.

In addition, with the pandemic severely affecting firms and households, the government of Kosovo passed on March 30 an emergency package of temporary and targeted fiscal measures to assist the hard-hit individuals and firms while allocating additional health spending. Some of the key measures include: (i) transfers to SMEs and other sectors most affected by the lockdown, including wage subsidies, coverage of pension contributions for subsidized wage workers for the next two months, and coverage of rent for businesses of up to 50 percent for two months (ii) payment of EUR 130 for the next 3 months to those that have lost their job during the crisis; (iii) interest rate subsidy and support to exporters; (iv) additional sum of thirty (€30) Euros per month to all beneficiaries of social assistance and pension schemes who receive a monthly payment lower than one-hundred (€100) Euros, for April, May and June; (v) bonus payments (for two months) for the healthcare workers and police (vi) and targeted liquidity support to firms. The total cost of the emergency package is estimated at around 2.5 percent of GDP. The government remains committed to ensuring transparency, good governance, and accountability in terms of the implementation arrangements for the package of measures through which funds will be distributed to the employees and to the companies. All measures will be embedded in the budget process.

While no exchange rate measures are possible as Kosovo is unilaterally euroized, the Central Bank of Kosovo (CBK) together with the Kosovo Banking Association decided to suspend the payment of loan installments for businesses and individuals starting from March 16 until April 30, and the suspension could be extended depending on how the crisis evolves. Suspension decisions will be made by banks on a case-by-case basis and will be targeted to sectors and individuals most affected by the crisis. The CBK will apply regulatory forbearance on loan provisions and capital requirements on reprogrammed loans. The CBK has also functionalized the Business Continuity Committee within the CBK and the Inter-Institutional Committee, which includes representatives from the CBK, Ministry of Finance, and Kosovo Banking Association.

The authorities underscore that the banking system is able to absorb the announced measures as the NPL ratio is very low and liquidity and capital buffers are comfortably above the regulatory requirements. Since the measures were announced, the liquidly ratio for the banking sector has remained unchanged at around 35 percent while deposits have slightly increased. The CBK remains committed to ensuring the well-functioning of the financial system in Kosovo, including through enforcing adequate provisioning and capital requirements.

Conclusion

The authorities are confident that the policies outlined in their Letter of Intent will enable an effective use of the requested disbursement under the RCF in these extraordinary circumstances. They are hopeful that Fund financing will catalyze strong support by the donor community.

The Kosovo authorities remain committed to preserving macroeconomic stability while ensuring fiscal and debt sustainability through the implementation of prudent fiscal policies and of sound banking sector policies. The authorities will closely engage with the Fund to explore solutions to Kosovo’s balance of payments difficulties. Once the pandemic recedes, the authorities concur with the need to rebuild fiscal buffers through growth-friendly fiscal consolidation to enhance preparedness for future shocks. They also acknowledge that bank-specific plans may be needed to gradually restore capital and liquidity ratios after the crisis has passed.

Once the crisis has subsided and the situation normalizes, the authorities stand ready to engage with the IMF staff to discuss a multiyear upper-credit trench arrangement to foster the recovery, address underlying structural issues, and put growth on a higher trajectory over the medium term.