INTERNATIONAL MONETARY FUND

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REPUBLIC OF KOSOVO

December 2024

2024 ARTICLE IV CONSULTATION AND THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; AND STAFF REPORT

In the context of the 2024 Article IV Consultation and Third Reviews Under the Stand-By Arrangement and the Arrangement Under the Resilience and Sustainability Facility, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis following discussions that ended on November 11, 2024, with the officials of the Republic of Kosovo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 4, 2024.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

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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PRESS RELEASE

PR 24/497

IMF Executive Board Concludes 2024 Article IV Consultation and the Third Reviews Under the Stand-by (SBA) and the Resilience and Sustainability Facility (RSF) Arrangements with Kosovo

FOR IMMEDIATE RELEASE

- The IMF Executive Board concluded the 2024 Article IV Consultation and the Third Reviews under the Stand-By (SBA) and the Resilience and Sustainability Facility (RSF) arrangements with Kosovo. This provides Kosovo access to an additional SDR 13.35 million (€16.7 million) under the SBA and SDR 15.5 million (€19.3 million) under the RSF.
- Kosovo's economic performance has been strong, with growth accelerating in 2024 and inflation falling sharply. The near-term outlook is favorable despite some downside risks.
- The authorities continue to show strong performance under both programs. All quantitative targets and structural conditions for the completion of the Third Review under the SBA were met. Most RSF Reform Measures (RMs) have been completed.

Washington, DC – December 23, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the 2024 Article IV Consultation[1] and the Third Reviews under the Stand-By (SBA) and the Resilience and Sustainability Facility (RSF) arrangements with Kosovo on a lapse-of-time basis.[2] The completion of the Reviews allows the authorities to draw SDR 13.35 million (€16.7 million) under the SBA and SDR 15.5 million (€19.3 million) under the RSF. This would bring total disbursements under the RSF to SDR 54.21 million (€67.7 million). The authorities continue to treat the SBA resources precautionary.

Kosovo's economy continues its robust performance. Supported by strong private consumption and a positive contribution from public investments, growth in 2024 is now expected to reach 4¼ percent. Inflation has rapidly decelerated—owing to slowing food and transportation services inflation—and is now expected to be at 1.8 percent on average for 2024. The external current account deficit is expected to widen in 2024 fueled by higher domestic demand, including due to strong private sector credit growth. The banking sector remains healthy—profitable and well-capitalized with low levels of non-performing loans. Growth in 2025 and over the medium term is expected to converge towards potential—around 4 percent, while inflation is forecast to remain around the ECB's 2 percent target. Downside risks to the outlook stem from higher commodity prices and a slowdown in advanced European economies. On the other hand, faster integration with the EU could provide important financing and boost reform momentum.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Performance under both arrangements has been strong. All end-June 2024 quantitative performance criteria (QPCs) and indicative targets (ITs) have been met. All ITs for end-September were also met.

A structural benchmark (SB) for end-June and a prior action on the submission of the 2025 budget in line with program commitments have also been met. Most reform measures agreed under the RSF have been implemented.

Executive Board Assessment

Activity has accelerated and inflation has receded rapidly, but structural vulnerabilities remain. Growth increased in 2024, supported by strong private consumption and rapidly declining inflation that boosted real incomes. However, the external balance has deteriorated with a widening trade deficit and lower remittances. Growth is expected to reach 4¼ percent in 2024 and stabilize around 4 percent in the medium term, while inflation will converge to the ECB's 2 percent target. Given the large investment needed to further accelerate growth to converge towards EU income levels, Kosovo should increase investments and the labor supply, while boosting competitiveness and diversifying exports.

Program performance has been strong. All QPCs and ITs for the Third Review of the SBA were met. ITs for September were also met. SBA structural conditionality and all but one RSF RMs were implemented, with RM2 on launching a wind power auction still pending. Policies required for the next reviews are progressing. Given expected financing flows for 2024–25, the authorities intend to continue treating the SBA as precautionary, but they may purchase if an adverse shock or shortfall in financing materializes. The SBA has anchored fiscal policies and supporting measures to increase fiscal transparency and accountability, such as the reduction of budgetary contingency reserves and dissemination of POE financial information. In the financial sector, the CBK is making strong progress on institutional and governance reforms, including regulating NBFIs and digital payments. The RSF is delivering tangible results in support of the authorities' ambitious green reforms. The recent auction for 100 MW of photovoltaic energy and the progress with announcing the 150 MW wind energy auction are testimony to progress increasing contributions of renewables in the energy mix. The authorities have proposed two new SBs for the Fourth Review of the SBA.

Fiscal policy should continue to balance sustainability and development objectives and be framed within a solid, rules-based fiscal framework. The 2025 budget envisages a fiscal impulse with full-year implementation of spending measures announced in 2024, a proposed increase in public wages, and the expected improvement in public investment execution. The increase of the deficit is consistent with Kosovo's fiscal rules and takes place against the backdrop of a disinflation, low debt, and overperformance vis-à-vis 2023–24 program fiscal targets. The program is fully financed with firm commitments in place for the remainder of the program. Reforms of the institutional fiscal framework are under preparation seeking consistency with EU approaches and striking a balance between fiscal prudence and the need for flexibility and growth-enhancing policies. Further strengthening tax capacity is crucial to provide fiscal space for priority social and capital spending.

Rapid credit growth calls for strong financial sector oversight, and reforms to upgrade regulatory framework, crisis preparedness and CBK governance should continue. While financial deepening resulting from the expansion in domestic credit can better support economic development, the CBK should watch for emergence of any potential risk. While implementation of 2019 FSSR recommendations has progressed well, further efforts are needed to modernize the banking sector regulatory framework, strengthen surveillance of housing, microfinance, and non-bank financial institutions, and reinforce the financial safety net and resolution system. The transition to a more modern banking supervision framework will require sufficient time for thorough preparation. The CBK should also review the phasing of new macroprudential requirements on capital adequacy.

The authorities should continue building buffers against possible shocks. Such shocks could arise from financial sector liquidity shortages or from volatility in government accounts. In case of adverse shocks, the CBK could provide liquidity support by deploying emergency liquidity assistance funds and the current repo line with the ECB. Readily-available Treasury deposits at the CBK would provide an additional cushion against such shocks. Still, staff analysis suggests that these deposits could be increased to provide greater insurance. Staff's most recent assessment suggests that the external position is weaker than the level implied by fundamentals and desirable policies. Gross international reserves stood at 92 percent of the IMF's reserve adequacy metric in 2023, and at 91 percent in September 2024.

Implementing comprehensive governance reforms is critical to boost growth potential. Anti-corruption and governance reforms reduce resource misallocation and improve the business environment, fostering inclusive growth. Milestones have been achieved in judiciary reform, but more is needed, particularly to promote alternative resolution schemes. On fiscal governance, a more holistic approach to budget execution would be welcome. Continuing application of transparency practices implemented under the program is recommended, particularly in reporting final uses of unallocated budget reserves.

Structural reforms are urgently needed to raise potential growth. Priority should be given to further advancing green reforms and decarbonization, implementing policies to boost female labor-force participation, attracting foreign capital—including from the diaspora—into productive sectors of the economy, and accelerating digitalization. While a national development bank could enhance access to finance, its establishment requires thorough analysis of benefits and costs and rigorous governance and operational provisions. Reducing informality is crucial to increase the number of pension trust (KPST) contributors and raise domestic savings. KPST should continue improving its investment practices to enhance returns and promote saving.

Kosovo: Selected Economic Indicators, 2022–25

Population: 1.80 million (2022) — Nominal GDP per capita (2023): $5,031

Gini index: 0.29 (2017) — Poverty rate: 19.8% (2018)

Quota (current): SDR 82.6 million

Main products and exports: Minerals, base metals, agricultural products, tourism.

	2022	2023	2024	2025
	Act.	Act.	Proj.	Proj.
Output				
Real GDP growth (percent)	4.3	4.1	4.3	4.0
Employment				
Unemployment rate (percent)	12.6	10.9	…	…
Prices				
Consumer prices (period average, percent)	11.6	4.9	1.8	2.0
GDP deflator	7.2	4.6	1.8	2.4
General government finance (percent of GDP)				
Revenue and grants	28.1	29.5	29.7	29.5
Expenditure	28.8	29.8	30.9	31.7
Overall balance, excluding IFI- and privatization- Financed capital projects (Fiscal rule definition)	-0.5	-0.1	-0.9	-1.6
Overall balance	-0.7	-0.2	-1.3	-2.1
Total public debt	20.1	17.5	17.9	20.2
Stock of government bank balance	3.9	2.8	2.7	3.4
Money and credit				
Non-performing loans (percent of total loans)	1.9	1.9	…	…
Credit to the private sector (eop, percent change)	16.0	12.9	13.3	11.8
Effective bank lending rate (eop, percent)	6.3	6.4	6.3	…
Balance of payments (percent of GDP)				
Current account balance	-10.3	-7.6	-9.8	-8.3
Remittance inflows	13.7	13.8	13.2	13.3
Net foreign direct investment	-6.8	-6.9	-5.7	-6.5
External debt	38.6	39.8	40.3	42.5

Sources: Kosovo authorities and IMF staff estimates.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KOSOVO

December 4, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. The SBA has served as insurance against adverse shocks while guiding reforms to strengthen fiscal and financial governance and foster growth. The RSF has supported climate reforms to increase generation of renewable energy, boost energy efficiency, enhance regional cooperation, and strengthen crisis preparedness and transition risk monitoring. With strong domestic consumption, growth has accelerated in 2024, while inflation has declined. The fiscal outturn has been positive. However, strong demand for imports and lower remittances have contributed to a deterioration of the external balance. Key risks include higher commodity prices, weaker activity in Europe, and tensions in northern Kosovo. Parliamentary elections will take place in February 2025.

Program. SBA and RSF implementation remain strong. Seven of eight RSF reform measures (RM) have been implemented. Actions for the last review are progressing well.

- **SBA.** All end-June QPCs and ITs have been met and the SB and PA implemented. All ITs for end-September were also met. The SBA will continue to be precautionary.

- **RSF.** RM2 on launch of a wind power auction has advanced but was delayed for technical reasons. Announcement of the auction is expected over coming weeks.

Policy Recommendations

- **Fiscal.** Fiscal policy should strengthen growth and safety nets while maintaining stability, strengthening revenues, and improving spending efficiency.

- **Financial.** Actions to promote financial deepening and inclusion and strengthen supervisory architecture to enhance resilience and crisis-preparedness are needed.

- **Structural.** Further institutional and governance reforms focusing on transparency and accountability are needed, along with actions to increase female labor force participation, strengthen business environment, and promote digitalization.

- **Climate.** Efforts should focus on climate resilience and adaptation, and support decarbonization by replacing coal with renewable-energy generation.

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

Discussions were held in Pristina, Republic of Kosovo, during October 28-November 11, 2024. The staff team comprised David Amaglobeli (head), Stephen Ayerst, Javier Kapsoli, Ezgi Ozturk (all EUR), and Selim Thaçi (local office). Mariano Moszoro (FAD) and Sebastián Sosa (regional resident representative) joined part of the mission. Hajdar Korbi and Yigit Yasar (OED) joined some meetings. Merita Kërnja (local office) assisted the mission. Sabiha Mohona (EUR) provided research assistance and Tina Kang (EUR) assisted in the preparation of the report. The mission met with Deputy Prime Minister Bislimi, Minister of Finance, Labor, and Transfers Murati, Minister of Economy Rizvanolli, Central Bank Governor Ismaili, and other senior officials. The mission also met with representatives of civil society, political parties, development partners, and the private sector.

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CONTEXT

1. **Kosovo has achieved important progress over the past 25 years, but development gaps remain.** Kosovo has established key economic institutions, a sound financial sector, and achieved macroeconomic stability. Between 2000–23, real GDP per capita growth averaged 3.1 percent, helping narrow the income gap with the EU. However, as of 2023, Kosovo's per capita income was the lowest in the Western Balkans, well below the EU average (Box 1). Unemployment levels, particularly among youth and women, are high, poverty is widespread, the infrastructure gap is large, and the economy depends on remittances to finance a large structural trade deficit. Over the last two years, steps have been taken to implement recommendations of past Article IV consultations (Annex I). Continued reforms are needed to strengthen the policy framework, increase infrastructure and social spending, and create a stronger enabling environment for private investment.

2. **Kosovo's democratic political system is characterized by fragmentation and polarization.** Kosovo has a sound legal framework, political institutions, and a multi-party democratic system. While divisions have contributed to frequent government changes, February 2025 elections make the current administration the first to complete its four-year constitutional term since independence in 2008.

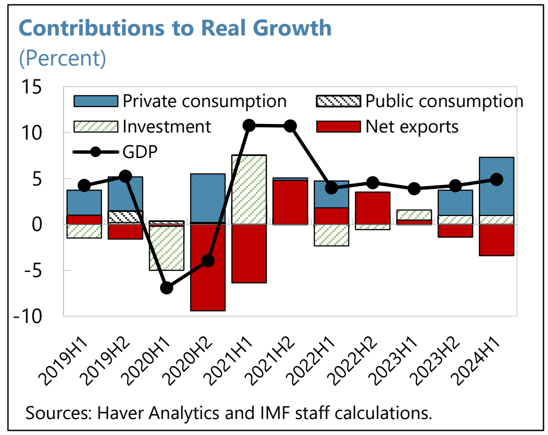
3. **The situation in northern Kosovo remains challenging.** The authorities took steps to enforce the role of euro as the sole legal tender on the entire territory of Kosovo and to close unlicensed Serbian banks, post offices, and parallel governing institutions. Recently, Kosovo started lifting restrictions on imports of Serbian goods imposed in 2023 for security reasons. This facilitated direct representation of Kosovo in the Central European Free Trade Agreement (CEFTA). The EU-facilitated dialogue between Kosovo and Serbia has resumed, albeit with limited progress. "Temporary and reversible" EU measures limiting new financing remain in place. Kosovo applied for EU membership in December 2022 but has not been granted the candidate status. However, from January 2024 Kosovars can travel in the EU visa-free. Under its New Growth Plan for the Western Balkans, in October 2024 the European Commission (EC) approved Kosovo's reform agenda alongside those of four other countries.[1]

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **Economic activity has accelerated in 2024.** Real GDP growth rose to 4.9 percent y/y in 2024H1—versus 3.9 percent y/y in 2023H1. This was driven primarily by a strong rebound in household consumption on the back of lower unemployment rates, rapid disinflation and higher real incomes and sustained credit growth. Investment also contributed positively, led by public

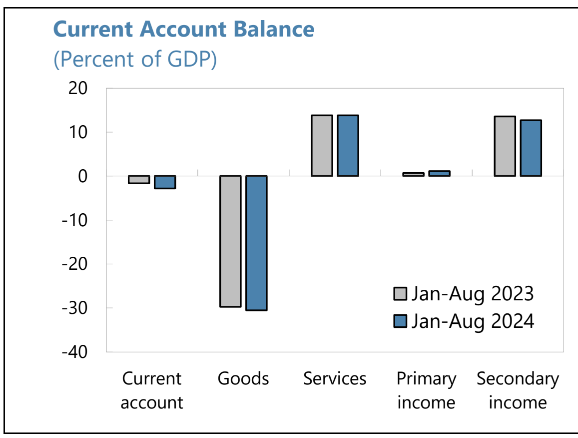
[1] The New Growth Plan for the Western Balkans amounts to €6 billion (comprising €2 billion in grants and €4 billion in concessional loans) for 2024–27 for the six Western Balkan countries, with disbursements conditioned on fulfilling specific reform agendas.

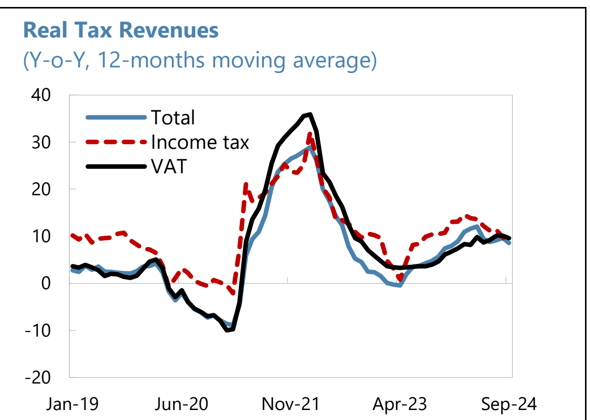
investment. Net exports continue to be a drag; stronger activity resulted in an increase in imports of goods and services. Employment in the formal economy grew by 3 percent in 2024H1.



5. Inflation decelerated faster than expected. Headline inflation fell to 0.2 percent y/y in September from 4¼ percent in September 2023. Slowing food (40 percent of the CPI basket) and transportation services inflation (18 percent)—reflecting normalization of prices in international commodity markets—were key drivers of disinflation. Core inflation, 40 percent of the basket, decelerated to 2 percent y/y in September from 4.0 percent in September 2023.

6. The external position weakened. The current account deficit (CAD) widened to 2¾ percent of GDP in the first eight months of 2024 from 1½ percent of GDP in the same period in 2023, due to growing imports of goods and services. Higher demand for international travel followed visa liberalization. The level of remittances remained unchanged in the first eight months of 2024, compared to 2023, reflecting sluggish activity in host countries. The increase in the CAD was financed by FDI (notably, diaspora real estate operations) and a reduction in commercial bank foreign deposits. Gross reserves reached €1.6 billion in September (91 percent of the ARA metric), above €1.4 billion posted at end-December 2023.





7. Fiscal outturns have been strong. The general government posted a 2½ percent of GDP surplus during January-September, below the 3 percent of GDP surplus in the same period of 2023. This was driven by strong revenue growth (6¾ percent y/y in real terms), led by indirect taxes (+8¾ percent). Direct taxes grew by 2½ percent y/y in real terms, influenced by a decline in property taxes; corporate income taxes (CIT) increased by 5¾ percent and personal income taxes (PIT) by 7¾ percent. The decline in property taxes, by 35 percent y/y, was related to a Constitutional Court ruling that allowed forgiveness of up to €100 in taxes per property (land and buildings). Strong revenue performance enabled the government to accommodate somewhat higher-than-programmed expenditures, which grew by 7 percent in real terms, driven by wages and investments.

The wage bill rose due to full implementation of a new law on public sector wages and an increase in the amount paid from court rulings.[2] Higher public investment spending reflected improved execution rates.

8. **The fiscal surplus increased government deposits at the CBK.** The total stock of deposits increased from €511 million in December 2023 to €834 million by September 2024.[3] Ample liquidity prompted the Treasury to resort to active cash management operations, placing €300 million in term deposits at the CBK.[4] The net issuance of domestic securities for budget financing remained negative (-€38 million) but showed an improvement versus 2023 (-€147 million).

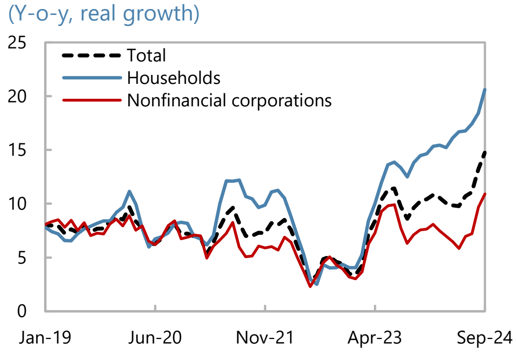
Government Deposits at the Central Bank
(In million of euros)

	2022	2023	2024 [1/]
Transferable deposits	586	511	534
Usable	347	240	247
Other	238	270	287
o/w PAK	*166*	*165*	*172*
o/w ELA	*46*	*46*	*46*
o/w RSF	*0*	*38*	*47*
Term deposits	0	0	300
Total	**586**	**511**	**834**

[1/] As of September.
Sources: Kosovo authorities and IMF staff estimates.

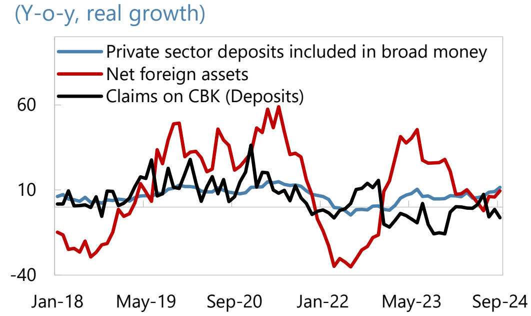
9. **Banks remain healthy and financial deepening continues.** Credit to the private sector, driven particularly by households, has grown strongly, financed by domestic deposits, along with a decline in net foreign assets (NFA) and reduced excess reserves at the CBK. Banks reported some easing of lending standards for households in the August 2024 Bank Lending Survey. Additionally, removal of fees on basic bank accounts and administrative actions aiming to combat informality seem to have contributed to strong credit to households. NPLs are low, increasing marginally from 1.9 percent last December to 2.04 percent in September. The liquid assets to total assets ratio declined slightly but remained at 22.7 percent in September. The loan-to-deposit ratio rose from 80.1 percent last December to 84.8 percent in September. Profitability has been strong, with the average return on assets at 2¾ percent in September, up from 2½ percent in December.

Credit to the Private Sector
(Y-o-y, real growth)



Sources: Central Bank of Kosovo; and IMF staff calculations.

Private Sector Deposits, Net Foreign Assets, and Claims on the CBK
(Y-o-y, real growth)



Sources: Central Bank of Kosovo and IMF staff calculations.

[2] Most of the rulings concerned unbudgeted allowances that teachers, doctors, and other public employees obtained through collective agreements. The National Audit Office has recommended spending units to provision for them to avoid additional charges from court proceedings.

[3] The increase in deposits also reflects spending seasonality—about one-third of annual spending is executed in the last quarter of the year.

[4] Term deposits were widely used until 2014 when euro interest rates fell below zero. Since March 2024, they have been reactivated.

10. The outlook is favorable. Growth is forecast at 4.3 percent in 2024 driven by robust domestic consumption and an increase in public investment, offsetting weaker-than-anticipated net exports. Slowing credit growth, heightened uncertainty, and weak external growth are also expected to contribute to the slowdown in the latter half of the year. Going into 2025, despite normalization in net exports, growth is expected to moderate slightly because of lower investments and weaker consumption growth, partly due to a strong base. Over the medium term, growth is expected to converge towards potential—around 4 percent. Annual average inflation is expected to drop to 1.8 percent in 2024 as food and energy inflation are expected to remain low including into 2025. In the medium term, given euroization, inflation is forecast to hover around the ECB target. The CAD is expected to be larger in 2024 and remain high over the medium term reflecting large capital investment needs.

11. Public debt is assessed as sustainable with low risk of sovereign distress (Annex II). Public debt, including guarantees, was 17½ percent of GDP at end-2023. An EBRD guarantee for the Deposit Insurance Fund expired in December 2023 (€24 million). Under the baseline, which envisages a scaling up of public investment, public debt is expected to rise over the medium term, reaching 29 percent of GDP by 2033. This remains comfortably below the 40 percent of GDP legal ceiling. Strong fiscal institutions and a solid track record of implementing prudent macroeconomic policies should keep general government financing requirements relatively moderate during the projection period.

12. The near-term outlook is subject to uncertainty and the balance of risks is tilted to the downside (Annex III).

- *Downside Risks.* Volatility in commodity prices from an escalation of conflicts in the Middle East and Ukraine could cause higher inflation. A slowdown in advanced European economies might reduce financial flows, particularly remittances, resulting in subdued consumption and growth and increasing external imbalances. A stronger-than-anticipated effect of policy easing on domestic demand could worsen external imbalances and contribute to domestic price pressures. Slower euro area disinflation would imply higher interest rates and lower credit demand. Escalation of tensions in northern Kosovo could reduce investment, tourism, and international support. Accelerated emigration could lead to labor shortages, impacting medium-term growth.

- *Upside Risks.* Progress in dialogue with Serbia could accelerate EU accession, increase support from partners, and reduce risk, raising foreign inflows. Structural reforms could also help boost potential growth above current projections.

13. Authorities' Views. The authorities broadly agreed with staff's assessment but expect stronger growth in 2025. They considered the decline in remittances during 2024 as temporary, reflecting EU visa liberalization from January 2024. They anticipate an acceleration in remittances in 2025, which coupled with continued strong credit growth and increased government spending, could lead to higher consumption growth than in 2024. Investments will provide an additional contribution, while net exports will remain a drag. They identified geopolitical tensions affecting commodity prices and unexpected weather-related developments as the main downside risks.

SBA AND RSF PROGRAM PERFORMANCE

14. SBA performance remains strong. Quantitative performance criteria (QPCs) for end-June on the fiscal balance and government deposits at the CBK were met comfortably. The continuous PC on non-accumulation of new external arrears was also met. Indicative targets (ITs) on contingent budget allocations and the stock of Treasury securities held by the CBK were also met. The authorities published quarterly and annual financial information of Publicly Owned Enterprises (POEs) (SB, end-June 2024).[5] The authorities have met a prior action on the submission of 2025 budget consistent with RSF and SBA objectives. All end-September ITs were fulfilled.

Status of Stand-By Arrangement Targets

(Millions of euros, unless otherwise indicated)

	June 2024				September 2024			
	QPC	Adjusted	Actual	Status	Indicative	Adjusted	Actual	Status
1. Quantitative performance criteria								
Floor on the overall balance of the general government 1/	-116	-91	196	Met	-174	-149	268	Met
Floor on the stock of general government deposits at CBK	591	499	720	Met	604	514	834	Met
2. Continuous performance criteria								
Ceiling on the accumulation of new external arrears on external debt contracted or guaranteed by the general government 2/	0	...	0	Met	0	...	0	Met
3. Indicative targets								
Ceiling on contingent budget allocations 3/	108	...	108	Met	108	...	108	Met
Ceiling on holdings of government debt by the CBK 2/	200	...	168	Met	200	...	166	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.

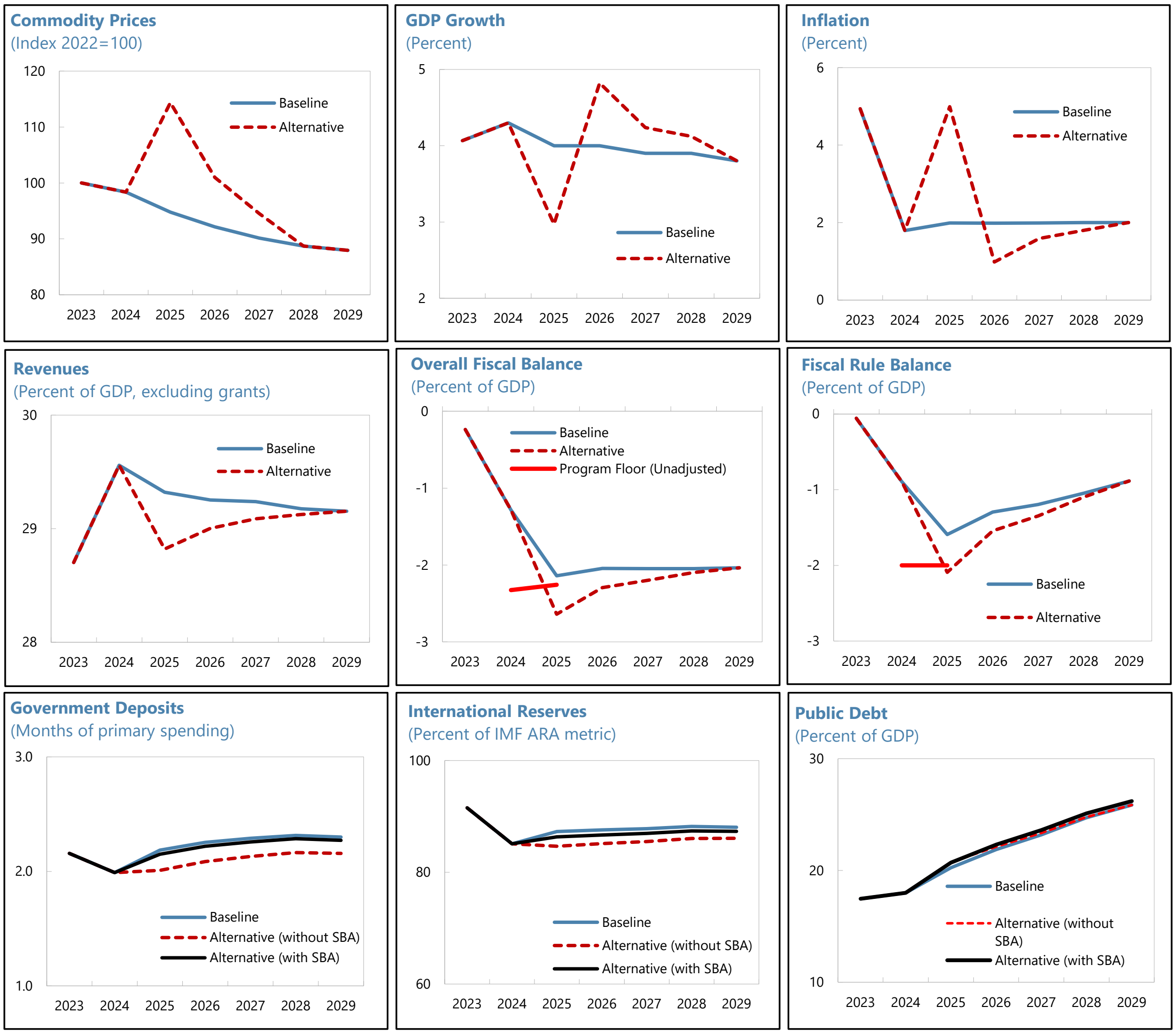
15. The SBA is helping safeguard the economy against adverse shocks. Against the backdrop of strong growth and disinflation, the widening CAD is a source of potential vulnerability. Pressures could materialize if official external financing falls short or commodity prices surge. This could lead to cuts in investment or social spending and/or depletion of buffers. An adverse scenario that considers energy and food price increases of 20 percent would lower GDP by 1½ pp below the baseline and reduce fiscal revenues by ½ pp of GDP in 2025 creating additional financing needs of about €50 million per year in 2025 (text figure). This could lead to cuts in investment or social spending and/or depletion of liquidity buffers. Access to SBA financing would ease pressures and help maintain GIR at levels around 90 percent of the ARA metric while protecting spending.

16. Work on the remaining RSF reform measure (RM2) for the wind power auction announcement is advancing but delayed. While the Ministry of Economy published an information brief in July for potential developers outlining plans for construction of two wind power plants with aggregate capacity of 150 MW and confirming an October tender launch (RM2, October

[5] The information includes income statements and balance sheets of 17 POEs and Treasury quarterly debt reports of the stock of debt of POEs managed by the central government. The Ministry of Economy is publishing annual audited financial reports for 8 POEs. Ministria e Financave, Punës dhe Transfereve - MFPT (rks-gov.net)

15), for technical issues, the auction announcement was delayed, and it is now expected to be made over coming weeks.[6]

Illustrative Adverse Scenario. Main Macroeconomic Variables



POLICY DISCUSSIONS

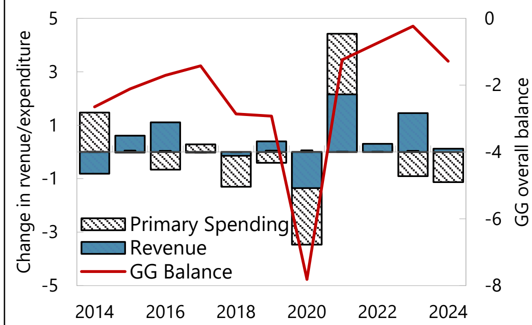
Strengthening institutional frameworks will help address bottlenecks and boost growth. This will require upgrading PFM institutions, increasing transparency and accountability, supporting financial sector deepening while increasing resilience, strengthening rule of law, redirecting diaspora inflows to the productive economy, integrating women in the labor market, and continuing the green transition.

[6] Technical issues were related to discussions within the government about the appropriate shareholder structure and the financing mix for the Special Purpose Vehicle (SPV) to be created to implement the project.

A. Fiscal Policy for Stability and Growth

17. Revenue overperformance and spending restraint have contributed to strong fiscal outcomes. Deficits in the last three years have been declining, leading to the decline in public debt to 17½ percent of GDP in 2023. At 0.2 percent of GDP, the fiscal deficit was substantially lower than the 2023 program target because of higher tax collection and lower spending, including due slower investment execution. In 2024, the deficit is projected at 1¼ percent of GDP, again well below target. The higher deficit relative to 2023 is explained by implementation of recently-introduced spending measures and lower grants.[7]

Fiscal Balance Decomposition
(Percent of GDP)



Sources: Kosovo Treasury and IMF staff calculations.

18. Recent spending measures reflect delayed cost-of-living adjustments and a response to demographic challenges of a declining population. To encourage larger families, the government in July restructured the child allowance, increasing amounts and introducing an incentive for families with more than two children.[8] The allowance is not targeted and has an incremental cost of ½ percent of GDP *vis-à-vis* the 2023 budget execution. In October, the government announced a 20-percent increase in the basic pension and all other budget-financed pensions to compensate households for accumulated inflation of the last three years.[9] In addition, the authorities included as part of the 2025 budget, an increase in the rank coefficients in the law on public wages. This would allow implementation of a flat €110 increase for all public servants, implying a higher percentage increase for lower wage earners. The budget impact of new spending measures will be partly offset by strong growth and spending control in other areas. On the revenue side, to encourage formalization of wages, the zero-rated PIT income threshold was raised from €80 to €250 per month, with an estimated annual cost of ¼ percent of GDP. By contrast, agreement with *Elektrosever* to start

Policy Measures in 2024–2025
(In percent of GDP)

	2024	2025
Increase in wage coefficients	0.0	0.8
Increase in the PIT minimum liability threshold	0.1	0.3
Expansion of the child allowance	0.2	0.5
Increase in budget-financed pensions	0.1	0.9
Total	0.4	2.5

Sources: Kosovo Treasury and IMF staff estimates.
Note: The law mandates the increase of pensions by a cost of living index.

[7] In 2023, Kosovo received a large grant from the EU (€68 million) as part of an energy-support package agreed upon during the first EU-Western Balkans summit. At this summit, the EU committed to a €1 billion energy-support package for the region, including €500 million in grants to help families and SMEs.

[8] The allowance initially provided €20 monthly for children aged 0–2 and €10 monthly for children aged 2–16. Since August, families are receiving €20 for the first and second child. For families with three or more children, the allowance has increased to €30 per child.

[9] Budget-financed pensions include non-contributory and ex-contributory pensions, war-related benefits, and disability-related benefits. Only the increase in non-contributory pension is effective immediately; the others start in January 2025.

electricity bill collections for households in northern Kosovo will generate savings.[10] The authorities have increased the minimum wage from €130/€170 (below and above 35 years) to €350 monthly. The minimum wage law was enacted in 2011; since then, amounts have remained frozen, eroding the purchasing power significantly.

19. The 2025 budget is moderately expansionary, reflecting disinflation, low public debt, and large infrastructure and social needs.[11] The 2025 budget balances the need to sustain growth and development, while preserving macroeconomic stability. The projected deficit of 2.1 percent of GDP—based on the 2025 draft budget submitted to Parliament—reflects sustained strong revenue performance, an increase in social spending (pensions, social benefits) and wages to account for changes in the cost of living, and increased execution of public investment.[12] Additionally, the budget, in line with the transparency standard introduced by the SBA, will keep unallocated reserves aligned with the 2024 level. The budget law also ringfences RSF resources. The higher deficit is expected to be comfortably financed (¶23), while potential implications of a deterioration in the fiscal position are mitigated by sharply lower inflation and low public debt.

Operations of the General Government 2023–25
(Percent of GDP)

	2023		2024		2025	
	Program	Act.	Program	Proj.	CR 23/200	Proj.
Revenue	**28.8**	**29.5**	**27.6**	**29.7**	**27.4**	**29.5**
o/w Taxes	24.9	25.9	24.6	26.5	24.5	26.4
Expense	**31.0**	**29.8**	**29.8**	**30.9**	**29.5**	**31.7**
o/w Compensation of employees	7.6	7.9	7.6	8.4	7.6	8.6
o/w Use of goods and services	5.0	4.4	4.5	4.6	4.5	4.9
o/w Subsidies and transfers	11.2	11.2	10.7	10.7	10.3	10.9
o/w Investment	6.9	5.8	6.5	6.7	6.5	6.7
Overall balance	**-2.3**	**-0.2**	**-2.2**	**-1.3**	**-2.1**	**-2.1**
Memo						
Primary balance	-1.8	0.2	-1.7	-0.8	-1.5	-1.4
Public debt	21.0	17.5	22.3	17.9	23.2	20.2
Fiscal impulse	2.4	0.0	-1.0	0.4	0.1	1.1

Sources: Kosovo Treasury and IMF staff calculations

20. For the medium term, fiscal policy should continue to be guided by the rules-based framework, while balancing the need for macroeconomic stability and development objectives. The framework has served Kosovo well. With expiration of the investment clause from 2026, the deficit will be capped at 2 percent of GDP without adjustors, but with escape clauses for emergencies or natural disasters. Under the baseline, adhering to the deficit rule would keep debt well below its legal ceiling of 40 percent of GDP. Staff analysis shows that sustainability of the current monetary framework hinges on Treasury's capacity to hedge the financial sector and the budget against liquidity shocks (see SIP). This would require a stock of liquid deposits of at least 4¼ percent of GDP. The repo line with the ECB and the Privatization Agency's deposits could

[10] €55 million and €12 million were transferred by the budget in 2022 and 2023, respectively to cover debts to the European Interconnection System from unpaid electricity bills (NAO 2022, 2023).

[11] Kosovo's infrastructure gap is estimated at 60 percent of the EU average (Atoyan and others, 2018, Cipollone, 2018).

[12] Since 2023, the authorities have been implementing measures to boost the execution of public investment: (i) improving project planning by incorporating expropriation costs directly into the project envelope (structural benchmark, June 2023), (ii) providing additional budget resources to compensate for the impact of inflation in projects' cost structures, and (iii) prioritizing small projects that require less procedures and less coordination with stakeholders.

provide additional buffers in the near term; however, further strengthening the Treasury's liquidity buffers should remain a priority in the medium term to mitigate risks to macroeconomic stability.

21. Despite recent progress, there is potential for further bolstering revenue collections. This would create additional space for much-needed development spending. Revenue administration improvements, which drove recent increases in collections, reflect a focus on modern compliance risk management (with legislative changes), digital transformation, restructuring of the debt-collection function, strengthening of audit and dispute-resolution functions, and implementing a robust performance-assessment system.[13] While improvements in these areas need to continue, more efforts are required to strengthen the accuracy of the tax registry, expand external information sources, and manage operational risks. Moreover, strengthening IT systems is crucial. On tax policy, the authorities should focus on streamlining tax expenditures through amendments to the PIT, CIT, and VAT laws, with ongoing World Bank (WB) support. Efforts to increase tax progressivity and fairness are needed. The authorities should publish estimated revenue foregone from tax expenditures in their MTFF, allowing public reflection on the impact and opportunity cost of these benefits.

22. The new PFM law should prioritize improving public investment management, budget preparation, cash management, transparency, and fiscal risk administration. The new law, currently under preparation, aims to introduce legal foundations for program budgeting in the short term and results-based budget in the medium term. The law seeks to increase transparency in virements (budget reallocations), mandate cost-benefit analysis for legislative proposals with budgetary implications, improve the programming of court-mandated payments, and protect municipal budgets from discretionary changes during the budget process. Additionally, the new law will include a revision of the fiscal rules' framework, aiming at standardizing with EU rules. The revised fiscal framework should be consistent not only with debt sustainability but also with the large investments needed to gradually close the gap with EU. Building on the first standalone fiscal risk statement (2023), the authorities should strengthen capacity and complement single- with multi-year disclosures to allow a more comprehensive view of risks over time. To improve cash management, the authorities will issue a ministerial decree establishing the Liquidity Committee of the Ministry of Finance, Labor, and Transfers (MFLT) by introducing its regular meetings (at least quarterly) and expanding its mandate and coordinate cash plans with the CBK **(new end-January 2025 SB).** To enhance management of the public investment program, it is crucial to increase the oversight role of the MFLT. The recent IMF PIMA found that absence of robust feasibility and pre-feasibility studies at the planning stage is a critical weakness. Additionally, adopting a new law on public-private partnerships (PPPs) would streamline complex processes and boost PPPs while containing fiscal risks.[14]

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[13] These efforts are supported by Fund CD (Annex IV).

[14] PPPs in Kosovo remain largely underutilized. Currently they are limited to only five projects, three of which are operational.

23. The authorities' program is fully financed, with firm commitments for the remainder of the program period. Due to delays in the required parliamentary approval, budget financing in 2024 was limited to a $40 million OPEC loan with total external financing, including project loans, amounting to €124 million.[15] A $100 million WB Development Policy Loan is expected to be disbursed in 2025. The financing program for 2025 includes a €60 million advanced payment from the European Commission's Growth Plan for the Western Balkans with total external disbursements, including project loans, amounting to €224 million. The remaining financing is expected from the domestic market. In April, Kosovo received a BB− sovereign credit rating from Fitch, three notches below investment grade. The rating was confirmed in October with a stable outlook.

Financing Requirements 2023–25
(In millions of euros)

	2023		2024		2025	
	Program	Act.	Program	Proj.	CR 23/200	Proj.
Requirements	**537**	**323**	**582**	**475**	**592**	**556**
Deficit	225	23	232	131	236	244
Amortization	312	300	350	344	356	312
Sources	**537**	**323**	**582**	**475**	**592**	**556**
External	254	102	215	115	118	233
Multilateral and bilateral	254	102	215	115	118	233
Securities	0	0	0	0	0	0
Internal	283	221	367	360	474	323
Securities	348	107	445	387	498	427
Other	-65	114	-78	-27	-24	-104
o/w use of free-disposal Treasury balances	-39	107	-50	0	-31	-100
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**
Memo						
Stock of free-disposal Treasury balances	386	240	436	240	467	340

Sources: Kosovo Treasury and IMF staff projections.

24. While the pension system does not face long-term sustainability challenges, there are potential spending pressures related to adequacy and equity. The system comprises government-funded non-contributory, occupational, disability, legacy, and war-veteran pensions, as well as a fully-funded defined contribution scheme. With gradual phasing out of legacy and war-veteran pensions, and nominal GDP growth outpacing growth in nominal basic pension benefits, total spending on pensions is expected to decline despite aging. However, the adequacy ratio stands at 23 percent, raising questions about the system's ability to provide income security. By law, all budget-financed pensions should be indexed to the cost-of-living, if there are no budgetary restrictions. In practice, adjustments have been *ad hoc*. Consistently applying the indexation rule would better insulate pensioners. Additionally, a large inequality between (lower) non-contributory and (higher) war-veteran pensions calls for policies to rightsize the latter by tightening eligibility, using means-testing, or making them taxable. Reforming the current pension system would provide fiscal space for strengthening targeted social assistance programs such as the social assistance scheme (SAS).

25. The Kosovo Pension Savings Trust (KPST) should strengthen its investment practices to prevent future contingencies and promote savings. KPST, which manages the fully-funded defined-contribution system, has an investment portfolio of about 28 percent GDP. Due to high informality, it covers only about one-third of the working-age population. KPST investment returns were benchmarked against inflation until April 2024 when a new investment policy framed as a multi-fund scheme with specific benchmarks depending on the age and risk profile of contributors was introduced. Since 2001, nominal returns were 75 percent while accumulated inflation was 70 percent. Such a level of return on assets is low compared with other countries that have similar schemes. Low returns imply that individual accounts will be depleted faster at retirement, putting

[15] The Constitution requires a two-thirds parliamentary majority for assuming international financial obligations.

pressure on the government to increase non-contributory pensions. The new multi-fund structure introduces different benchmarks for three funds (standard, intermediate, conservative). A comprehensive assessment of KPST investment practices—including benchmarking against best practices—is recommended, with a view to increasing returns and promote savings.

Authorities' Views.

26. The authorities broadly agreed with staff's assessment. They noted the importance of protecting the most vulnerable from higher cost of living and highlighted the progressive nature of their policy measures, including the proposed wage increase. Strengthening the ability to better target social assistance is a priority, and the authorities referred to ongoing work on a pilot to reform the SAS with the WB. They also emphasized their strong track record in maintaining fiscal discipline and expect fiscal overperformance to continue. They agreed that the fiscal framework should be reviewed to ensure that it aligns with the country's developmental and macroeconomic stability needs.

B. Financial Sector Policies: Supporting Financial Deepening while Safeguarding Financial Stability

27. Kosovo's banking sector has significant potential for expansion. Kosovo has 11 banks, of which 8 are foreign-owned, with assets of nearly 80 percent of GDP. With other financial institutions less developed, banks account for two-thirds of financial sector assets and play a crucial role in intermediation. Nonetheless, according to the IMF's 2023 Financial Access Survey, only 20 percent of adults have borrowed from banks, well below the average of 34.2 percent in the five other Western Balkan countries. Additionally, 47 percent of females, and 69 percent of males (aged 15+) had bank accounts, compared to 72 percent of females and 75 percent of males in the other Western Balkan economies (World Bank Global Financial Inclusion 2021 Database). The sector is highly concentrated, which may be a contributing factor to the low pass-through of ECB policy rates to domestic rates (SIP).[16]

28. Developing a robust supervision and crisis-management system is important for safeguarding financial stability.

- *Banking Sector.* Rapid credit growth, which appears to be mainly driven by financial deepening, requires stronger oversight and vigilance against potential risks to macroeconomic stability. A new law on banks, adopted in July in the first reading, has laid the foundation for modern regulatory and supervisory practices. The CBK has initiated development of a Supervisory Review and Evaluation Process (SREP) manual, which will modernize the banking supervision framework. The CBK should conduct thorough preparatory work before transitioning. To this end, the CBK will develop a comprehensive roadmap for SREP adoption **(new end-February 2025 SB).**

[16] Concentration in the banking sector in Kosovo is higher than the EU average. Higher concentration in this sector suggests reduced competition and a diminished transmission of the ECB monetary policy rate changes to deposit rates during periods of tightening.

Finally, to enhance financial-crisis preparedness, the CBK should review the Emergency Liquidity Facility arrangement (ELA) and review and strengthen the deposit insurance system and coverage.

- *Non-Bank Financial Sector.* The CBK should promote development of the non-bank financial sector while strengthening its ability to monitor vulnerabilities. A new draft law on microfinance and non-bank finance institutions (NBFIs) is being prepared with support from the IFC. This law is expected to provide a comprehensive regulatory framework that will facilitate growth while establishing an appropriate safety net. A new regulation on liquidity risk management for NBFIs is under preparation. The CBK has finalized an on-site inspection manual for insurance companies and has conducted a few on-site inspections with the new manual. With WB support, the CBK has developed a roadmap to move towards a Solvency II regime, the EU's risk-based solvency regime for insurance and reinsurance. The authorities have also prepared, with USAID support, a note on designing the legal and regulatory framework for capital markets.

29. The CBK is well-equipped with macroprudential tools, but there is a need to strengthen and further operationalize the macroprudential policy framework. The framework has been effective since 2016 and includes capital-, borrower-, and liquidity-based measures. A Macroprudential Advisory Committee meets every quarter to assess systemic risks. Recent macroprudential policy changes were implemented in early 2020, introducing a 2½ percent capital conservation buffer, reducing the minimum leverage ratio requirement from 7 percent to 3 percent, and implementing an expected loan loss provisioning requirement in accordance with IFRS-9 and Basel Guidance on accounting for expected credit loss. Most recently, the CBK announced introduction of a Countercyclical Capital Buffer (CCyB) and a capital surcharge for Other Systematically Important (O-SII) banks, starting from June 2025. While additional capital buffers are welcome and appear manageable, the CBK should regularly reassess the ability of banks to meet new regulatory requirements and extend the phasing-in of the measure, if warranted. To further strengthen the macroprudential policy framework, institutional arrangements should be enhanced, including addressing information gaps and alleviating staffing constraints. Additionally, there is a need to reinforce the macroprudential policy mandate by explicitly referencing it in the CBK framework law.

30. The CBK is undertaking important institutional reforms. Collaboration between the IMF and the CBK has started on a Central Bank Transparency (CBT) assessment to benchmark against the international best practices, with a detailed review to be published in 2025H2. With support from IMF MCM, the CBK is also implementing a functional and organizational review to enhance operational efficiency. It has also been improving its risk-management function and is currently working towards implementing an enterprise risk-management framework. A new division for cybersecurity has been created to strengthen capacities. A regulatory framework for cybersecurity is under preparation with IMF TA.

31. Reforms in payment services are ongoing. The CBK, with WB support, prepared a new draft law on payment services, aligning with EU directives and the strategic goal of joining the Single Euro Payments Area (SEPA); the law was approved by the Government and submitted to Parliament.

Digitalization of financial transactions lags neighboring countries. In October, the CBK approved regulations on QR code standards which will be used for payment in retails sales and for invoice payments.[17] A recent survey by the Banking Association showed growing interest in digital payments. Efforts should focus on expanding digital payment infrastructure (including for instant payments), encouraging digital payments, strengthening financial literacy, and lowering costs for small businesses.

32. Efforts to strengthen the AML/CFT framework should accelerate. The government approved the draft law on AML/CFT in November, which is expected to fully comply with EU directives. Membership in the Council of Europe (COE) and MONEYVAL would provide further impetus for strengthening AML/CFT measures in line with the FATF standards. While the new law on crypto assets, approved by parliament in November 2024, has the potential to strengthen the AML/CFT regime for crypto assets, it does not fully comply with the FATF standards. Engaging key stakeholders will be crucial, including assessing practical implementation challenges of the proposed regime, ensuring consistency with other laws, and evaluating operational capacity and resource implications.

Authorities' Views

33. The authorities welcome healthy financial deepening. They emphasized progress in strengthening governance and the financial sector regulatory framework. They acknowledged that further advancements are needed to enhance micro and macroprudential supervision, strengthen financial crisis preparedness, and upgrade financial infrastructure. They emphasized timeliness of new macroprudential tools on CCyB and O-SII and agreed to have flexibility to revise phasing, if needed. They stressed the urgency of obtaining parliamentary approval of the laws on banks and on payment systems, crucial for the SEPA application. Additionally, they noted that before implementing the newly law on crypto assets, it was crucial to clearly define the roles and responsibilities of the CBK and other regulatory agencies, develop secondary legislation and build necessary operational capacity. They reiterated their commitment to the implementation of IMF Financial Sector Stability Review (FSSR) and Safeguards Assessment recommendations and strong interest in continued IMF CD.

C. Bolstering Sustainable and Inclusive Growth

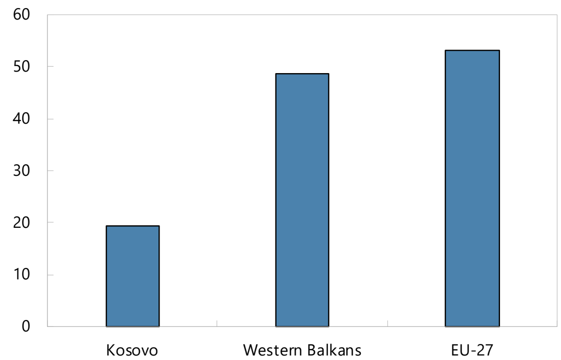
34. Reforms to boost female labor-force participation could yield considerable growth dividends. Kosovo has one of the lowest female labor-force participation (FLFP) rates globally, with a gender gap of about 30 percentage points. Moreover, a gender wage-gap exists. In the medium term, aging, and declining population trends call for inclusion of more women into the workforce to sustain growth.[18] Staff analysis indicates that if Kosovo were to reach the average FLFP rate of the Western Balkans (46¼ percent), about 180 thousand women could enter the labor force. Eliminating

[17] The CBK has adopted the QR code standard used in the EU and defined by the European Payments Council (EPC).

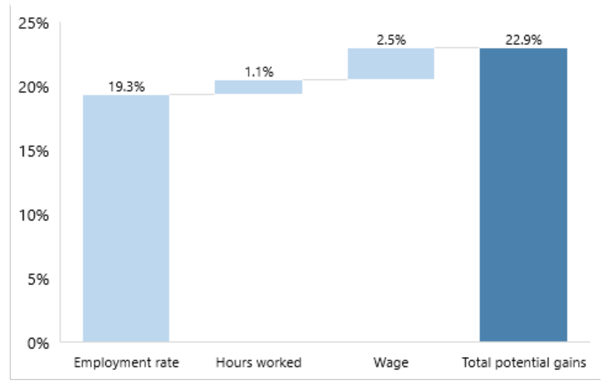
[18] According to preliminary results of the 2024 census, Kosovo population has declined by 8¾ percent *vis-à-vis* 2011.

the gender-participation gap could boost GDP by 19¼ percent (SIP). Policies to increase FLFP include facilitating access to childcare and increasing educational opportunities for women. Consideration should also be given to implementing gender-responsive budgeting.

Female Labor Force Participation
(Percent)



Potential Gain to GDP From Closing Labor Market Gender Gaps
(Percent of GDP)



Sources: World Development Indicators, Haver Analytics, Labor Force Survey, International Financial Statistics, and IMF staff calculations.

35. More efforts are needed to attract foreign capital, including from Kosovo's sizable diaspora, strengthen regional trade integration, and improve access to finance. Kosovo offers many benefits to foreign investors, such as low-cost labor, proximity to large European markets, preferential EU treatment of goods produced in Kosovo, and a relatively low tax burden. Kosovo's diaspora of about 600 thousand, one-third of the country's population, should be an important source of investments. Currently, the diaspora contributes mainly through remittances and real estate investments. It is important to diversify investments into energy, mining, and tourism, sectors with strong job creation potential. Recent implementation of a "Diaspora Investment Window" is a positive step but needs to be complemented with other policies. A new law on sustainable investments, adopted by Parliament last year and effective August 2024, aims to establish a new foreign investment agency, providing timely and comprehensive information on investment opportunities, administrative procedures, and taxation. Kosovo has also made an important step by partially removing the ban on finished goods from Serbia, assuming direct representation in CEFTA, and signing a new free trade agreement with the European Free Trade Association (EFTA).[19] The National Development Bank (NDB), currently under consideration, could potentially facilitate access to finance for underserved sectors. However, careful consideration is needed to ensure that NDB addresses specific market failures, operates with sufficient autonomy, does not compete with the private banking sector, and does not generate losses or risks for the government budget.

36. Enhancing transparency and governance is crucial to EU accession.[20] EU accession offers benefits such as access to the single market and EU structural and investment funds, increased mobility, and higher social, environmental, and consumer standards. As part of the accession process, countries need to demonstrate their capacity to apply EU laws (*Acquis Communautaire*).

[19] EFTA comprises Iceland, Liechtenstein, Norway, and Switzerland.

[20] Kosovo has not yet been granted official candidate status.

Most governance aspects are in Chapter 24 of the *Acquis*, focusing on independence, accountability, and transparency of the judicial system and fighting corruption. On the judicial system, some progress was achieved with implementation of a centralized criminal-record system and a case information management system, but more efforts are needed to promote use of alternative dispute resolution schemes (arbitration, mediation) to alleviate a backlog of court cases. On anti-corruption measures, the asset declaration system has been significantly improved with publication of public officials' declarations, but the Agency for Prevention of Corruption still needs to further strengthen its capacities. The National Audit Office (NAO) prepares and publishes comprehensive budgetary audit reports highlighting recurrent issues on central and municipal budget execution, but its enforcement powers are limited and should be strengthened.

37. Continued emphasis on digital adoption has potential to bring important social dividends. Progress is being made in digital infrastructure to provide access to households, companies, and educational institutions. However, more is needed to achieve faster digital adoption, including by developing and encouraging the uptake of digital public services, adopting govtech solutions for public finance, and strengthening interoperability standards. Digital adoption by households can help improve social outcomes, while govtech solutions can enhance revenue collection, boost fiscal transparency, and improve the efficiency of public spending (SIP).

Authorities' Views

38. The authorities recognize the importance of reforms to maximize benefits from EU integration. They highlighted that policies supporting better integration of women in the labor force could boost growth, while enhancing wages would be crucial to slow emigration. The authorities see improving the business climate and attracting foreign investment as key priorities, supported by better governance and digitalization. They also noted potential for the NDB to fill an important gap and expressed commitment to establishing it following best practices.

D. Growing a Green Economy

39. The RSF has been pivotal in supporting Kosovo's strategic objectives of accelerating decarbonization, improving energy efficiency, and enhancing regional energy cooperation.

- *Carbon Border Adjustment Mechanism (CBAM)*. A report assessing the impact of introducing CBAM was prepared using the Fund's Climate Policy Assessment Tool (RM4, ¶33, IMF Country Report No. 2024/147).[21] Based on the report, two specific measures were agreed with the EU as part of the growth agenda: (i) revision and adoption of secondary legislation for the implementation of the climate change law, and (ii) full implementation of Monitoring, Reporting, Verification, and Accreditation (MRVA) of greenhouse gas emissions. In addition, following the issuance of the instruction in April 2024 (¶34, IMF Country Report No. 2024/147) banks have

[21] The CBAM report is available on the Ministry of Economy's website.

started providing quarterly reports to the CBK on exporting firms that may be exposed to transition costs related to CBAM implementation (RM8).[22]

- *Decarbonization.* The energy strategy for 2022–31 set a target of reducing GHG emissions by at least 32 percent by 2031 and increasing electricity generation from renewable sources to 35 percent by developing new wind and solar (totaling at least 1,300 MW).[23] Following submission to Parliament of a new law on renewable energy (RM3) and its adoption earlier this year, the authorities have awarded the first 100 MW solar generation for €70 million of private investment (RM5). Construction of a new 100MW solar photovoltaic plant will begin soon for a €105 million investment. The authorities are advancing on announcing the first tender for 150 MW wind energy generation (RM2) with the IFC as transaction advisor.

- *Energy Efficiency*. Kosovo has committed to achieving 16 percent savings on final energy consumption by 2031, increasing energy efficiency of buildings and promoting efficient cogeneration. The Kosovo Energy Efficiency Fund (KEEF) approved plans to increase energy efficiency of residential buildings (RM6) and has launched the second round of a project to increase energy efficiency in houses with a €5 million EU-funded budget. The project involves subsidies for insulation of walls and roofs and replacement of windows and doors. A new energy efficiency law is under preparation. KEEF will continue looking for financial support from international development agencies and other donor to expand its operations.

- *Regional Cooperation.* Following preparations last year (RM7), the Albania-Kosovo power exchange (ALPEX) has continued cross-trading in the day-ahead market. The number of trading members of the power exchange has reached 32.

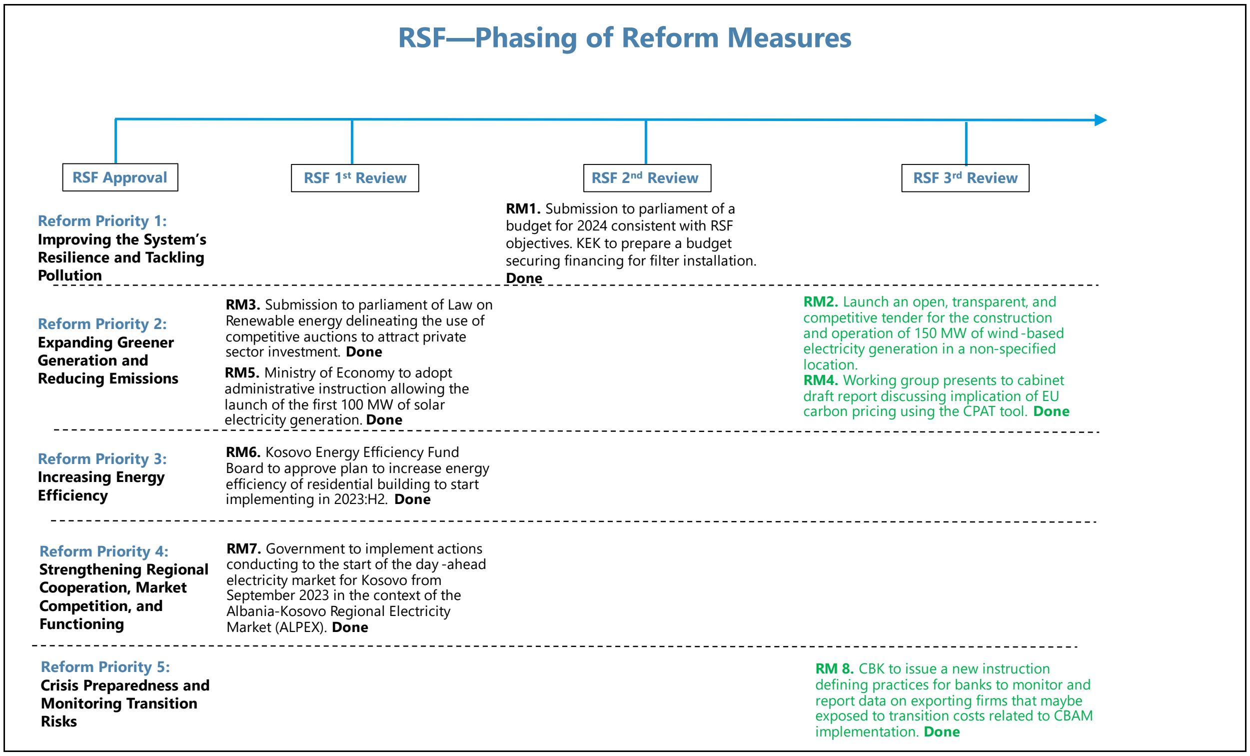
- *Electricity Losses.* The agreement with *Elektrosever* (¶18) involves an important reduction in electricity-distribution losses, currently estimated at 9¼ percent, of which 5½ percent are losses from unpaid electricity bills in the north.

Authorities' Views

40. The authorities reiterated their commitment to RSF objectives. They see an important role of the arrangement to support their green agenda. They highlighted initial implementation challenges as several RMs (e.g., solar and wind auctions) that required not only regulatory changes and complex financial models, but also time for operators to familiarize with the new procedures.

[22] The instruction issued by the CBK can be found on its website.

[23] The recent World Bank Country Climate and Development Report (CCDR) for the Western Balkans discusses climate related risks and opportunities for Kosovo along with policies (Box 2).



PROGRAM MODALITIES

41. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing the economic reform program and set out policy commitments for the final part of the programs. The Technical Memorandum of Understanding issued at the Second Reviews remains valid for the final reviews.

42. Two new SBs are proposed to strengthen the last part of the SBA. A new SB is proposed to strengthen Treasury cash management by establishing the Liquidity Committee (end-January 2025). Additionally, a SB is proposed to support implementation of the new supervisory framework by developing a roadmap for SREP adoption (end-February 2025).

43. Safeguards Assessment (SA). The CBK is making steady progress in implementing SA recommendations regarding the functioning of the CBK governing bodies. However, several SA recommendations require amendments to the CBK framework law, including clarifying the responsibilities of these bodies, enhancing oversight powers of the CBK Governing Board, refining procedures for appointment of key CBK officials, and expanding the CBK's financial supervisory mandate. These amendments are currently under preparation and will be discussed with Fund staff and then submitted to the Parliament in 2025. Work on strengthening the CBK's risk management and cybersecurity policies is ongoing.

44. Kosovo's capacity to repay the Fund remains adequate. If the precautionary SBA is fully disbursed, Kosovo's debt and debt service to the IMF would peak at 1.6 in 2024–25 and 0.3 percent of GDP in 2024, respectively. Risks from external shocks are mitigated by Kosovo's strong track record in repaying the Fund and by the low risk of debt distress.

45. Capacity Development. Kosovo's CD strategy is anchored on the key program objectives of strengthening the rules-based fiscal framework, improving governance and transparency, strengthening the financial sector supervision and regulation, and improving the quality of data compilation. CD has supported implementation of past IMF advice (Annex IV).

STATISTICS

46. Despite progress, challenges remain to improve the quality of the statistics.

- *National Accounts*. The IMF Statistics Department (STA) has been supporting the Kosovo Agency of Statistics (KAS) in strengthening national accounts compilation. Priorities are improving the quality of quarterly GDP figures, developing flash estimates of quarterly GDP, and implementing a transparent GDP-revision policy. Improvements to estimation process are needed for the development of consistent and reliable national accounts data, which are crucial for surveillance.

- *Price Statistics*. A priority is to develop and publish the first-ever Residential Property Price Index (RPPI), crucial for monitoring financial sector risks. The RPPI is to be published by mid-2025.

- *Census*. During April-May 2024, KAS conducted a census, the first since 2011. Preliminary data released in May point to a significant population decline. Final data are expected to be released in December.

- *Government Finance*. The priority is producing statistics on an accrual basis consistent with the EU directive on budgetary frameworks. NAO has recurrently reported issues with accounts receivable/payable that cannot be identified in cash-basis Treasury reports. Arrears should be reported quarterly.

- *Special Data Dissemination Standard (SDDS)*. Building on good performance under GDDS and following an MoU signed among CBK, KAS, and MFLT in August 2024, the authorities recently expressed formal intention to subscribe to SDDS. They have appointed a country coordinator and are working with STA to meet SDDS subscription requirements.

- *Data Issues*. Macroeconomic statistics are broadly adequate for surveillance. The main data gaps and potential CD support needed to improve data quality are shown in Annex V.

STAFF APPRAISAL

47. Activity has accelerated and inflation has receded rapidly, but structural vulnerabilities remain. Growth increased in 2024, supported by strong private consumption and rapidly declining inflation that boosted real incomes. However, the external balance has deteriorated with a widening trade deficit and lower remittances. Growth is expected to reach 4¼ percent in 2024 and stabilize around 4 percent in the medium term, while inflation will converge to the ECB's 2 percent target. Given the large investment needed to further accelerate growth to converge towards EU income levels, Kosovo should increase investments and the labor supply, while boosting competitiveness and diversifying exports.

48. Program performance has been strong. All QPCs and ITs for the Third Review of the SBA were met. ITs for September were also met. SBA structural conditionality and all but one RSF RMs were implemented, with RM2 on launching a wind power auction still pending. Policies required for the next reviews are progressing. Given expected financing flows for 2024–25, the authorities intend to continue treating the SBA as precautionary, but they may purchase if an adverse shock or shortfall in financing materializes. The SBA has anchored fiscal policies and supporting measures to increase fiscal transparency and accountability, such as the reduction of budgetary contingency reserves and dissemination of POE financial information. In the financial sector, the CBK is making strong progress on institutional and governance reforms, including regulating NBFIs and digital payments. The RSF is delivering tangible results in support of the authorities' ambitious green reforms. The recent auction for 100 MW of photovoltaic energy and the progress with announcing the 150MW wind energy auction are testimony to progress increasing contributions of renewables in the energy mix. The authorities have proposed two new SBs for the Fourth Review of the SBA.

49. Fiscal policy should continue to balance sustainability and development objectives and be framed within a solid rules-based fiscal framework. The 2025 budget envisages a fiscal impulse with full-year implementation of spending measures announced in 2024, a proposed increase in public wages, and the expected improvement in public investment execution. The increase of the deficit is consistent with Kosovo's fiscal rules and takes place against the backdrop of a disinflation, low debt, and overperformance *vis-à-vis* 2023–24 program fiscal targets. The program is fully financed with firm commitments in place for the remainder of the program. Reforms of the institutional fiscal framework are under preparation seeking consistency with EU approaches and striking a balance between fiscal prudence and the need for flexibility and growth-enhancing policies. Further strengthening tax capacity is crucial to provide fiscal space for priority social and capital spending.

50. Rapid credit growth calls for strong financial sector oversight and reforms to upgrade regulatory framework, crisis preparedness and CBK governance should continue. While financial deepening resulting from the expansion in domestic credit can better support economic development, the CBK should watch for emergence of any potential risk. While implementation of 2019 FSSR recommendations has progressed well (Annex VI), further efforts are needed to modernize the banking sector regulatory framework, strengthen surveillance of housing, microfinance, and non-bank financial institutions, and reinforce the financial safety net and resolution system. The transition to a more modern banking supervision framework will require sufficient time for thorough preparation. The CBK should also review the phasing of new macroprudential requirements on capital adequacy.

51. The authorities should continue building buffers against possible shocks. Such shocks could arise from financial sector liquidity shortages or from volatility in government accounts. In case of adverse shocks, the CBK could provide liquidity support by deploying emergency liquidity assistance funds and the current repo line with the ECB. Readily-available Treasury deposits at the CBK would provide an additional cushion against such shocks. Still, staff analysis suggests that these deposits could be increased to provide greater insurance. Staff's most recent assessment suggests that the external position is weaker than the level implied by fundamentals and desirable policies (CR No. 24/147). Gross international reserves stood at 92 percent of the IMF's reserve adequacy metric in 2023, and at 91 percent in September 2024.

52. Implementing comprehensive governance reforms is critical to boost growth potential. Anti-corruption and governance reforms reduce resource misallocation and improve the business environment, fostering inclusive growth. Milestones have been achieved in judiciary reform, but more is needed, particularly to promote alternative resolution schemes. Continuing application of transparency practices implemented under the program is recommended, particularly in reporting final uses of unallocated budget reserves.

53. Structural reforms are urgently needed to raise potential growth. Priority should be given to further advancing green reforms and decarbonization, implementing policies to boost female labor force participation, attracting foreign capital—including from the diaspora—into productive sectors of the economy, and accelerating digitalization. While a national development bank could enhance access to finance, its establishment requires thorough analysis of benefits and costs and rigorous governance and operational provisions. Reducing informality is crucial to increase the number of pension trust (KPST) contributors and raise domestic savings. KPST should continue improving its investment practices to enhance returns and promote saving.

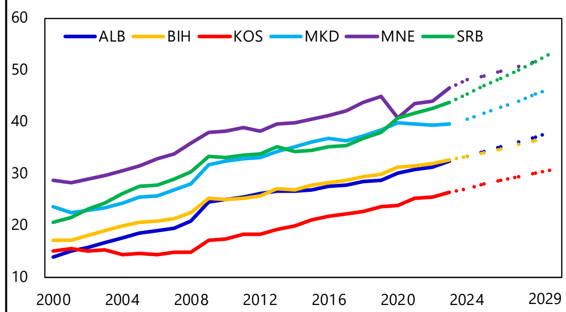
54. Staff supports the authorities' request for completion of the Third Reviews under the SBA and RSF arrangements. Based on strong macroeconomic performance, good progress on the implementation of structural reforms under the SBA and RSF, and continued strong program ownership, staff supports completion of the third reviews.

55. It is expected that the next Article IV consultation with Kosovo will be held on the 12-month cycle.

Box 1. Kosovo's Economic Convergence and Quality of Governance

Despite progress over the past 25 years, Kosovo still has a large income gap with Western European countries. From 2000–23, real GDP per capita growth averaged 3.1 percent, outpacing the EU15 average (0.8 percent). This level of growth allowed Kosovo to double its per capita income in real terms. However, Kosovo's convergence remains the lowest in the region, with per capita income at 26 percent of Germany's in 2023, trailing other Western Balkan countries.

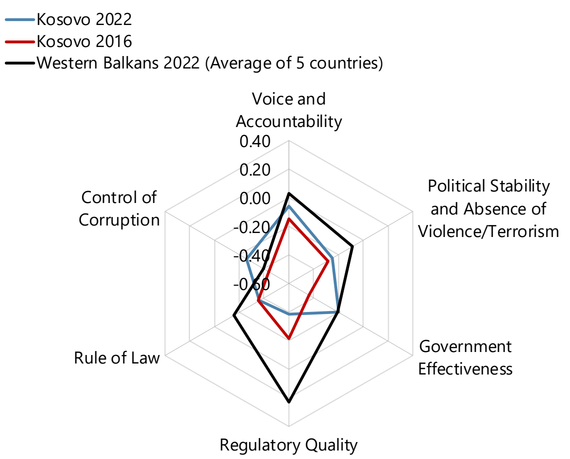
Western Balkans: GDP Per Capita 2000-2029
(Percent of per capita GDP of EU15 average at PPP)



Source: World Economic Outlook, IMF.
Notes: Each line represents the per capita GDP PPP of respective country in percent of average EU 15 per capita GDP PPP in the same year. Dotted lines indicate projections.

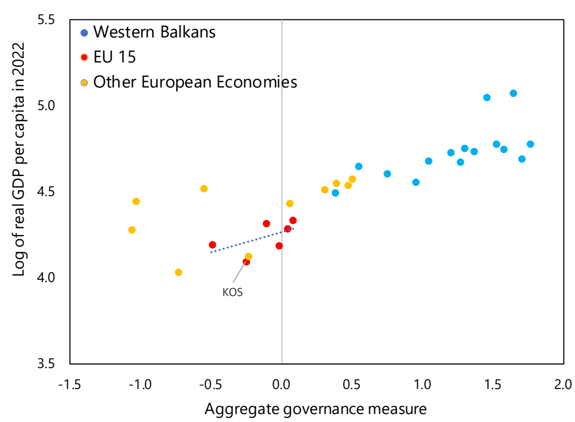
The quality of governance is a key factor behind convergence (WEO 2002). Good governance enables countries to advance development, boost growth, build human capital, and strengthen social cohesion (Kaufmann, Kraay, and Mastruzzi, 2023). Although, Kosovo improved in five of six governance dimensions between 2016–22, except for control of corruption, its performance was weaker compared to other Western Balkan countries and other European countries when per capita income levels are factored in. This limited progress hinders Kosovo's convergence and underscores the need for reforms to strengthen institutional capacities.

World Bank Governance Indicators
(Ranges from -2.5 (weak) to 2.5 (strong) governance)



Source: World Bank Governance Indicator, 2023 Update.
Notes: These indicators are based on over 30 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. Each governance indicator ranges from -2.5 (weak) to 2.5 (strong) governance. This indicators do not represent IMF's assessment of the quality of governance.

Europe: Relationship Between Income and Governance Quality



Sources: IMF World Economic Outlook, October 2024 and World Bank Governance Indicator, 2023 Update.
Notes: Aggregate governance measure is the average of six indicators that are based on over 30 underlying data sources reporting the perceptions of governance of a large number of survey respondents and expert assessments worldwide. Each governance indicator ranges from -2.5 (weak) to 2.5 (strong) governance. This measure does not represent IMF's assessment of the quality of governance.

Significant growth acceleration is needed for Kosovo to progress with convergence with the EU-15 average GDP per capita in the shortest timeframe. Assuming the EU-15 average real GDP per capita growth remains at 0.8 percent, as between 2001–24, Kosovo needs to grow at 4 percent annually to reach half of the projected EU-15 average GDP per capita within 20 years. To achieve this target within 15 or 10 years, Kosovo would need to grow annually by 5¼ percent and 8 percent, respectively. These are considerably higher rates than over the past 25 years. Sustaining accelerated growth demands substantial improvements in governance, institutional strength, and other factors, such as investments in human and physical capital, which drive growth performance.

Box 2. World Bank Country Climate and Development Report (CCDR)

The recently published CCDR on the six Western Balkan countries discusses climate risks, opportunities, and policy priorities to integrate climate change and development goals.

Challenges. Electricity and heat account for nearly two-thirds of emissions in Kosovo, with lignite representing a considerable portion of the energy mix. In terms of CO2 emissions per unit of PPP-adjusted GDP, Kosovo is 2.5–3.5 times more carbon intensive than the EU-27. Without GHG or carbon pricing and other policy, emissions in the Western Balkan countries are projected to plateau around 10–15 percent higher in 2050, with limited penetration of renewable energies.

Risks. Average temperatures have increased by 1.2°C and precipitation has decreased by 0.2 percent since 1961–80. The Western Balkans region faces risks from rising frequency of extreme weather events, which disproportionately affect vulnerable groups, increasing inequality. Extreme heat will increase heat-related deaths by an estimated 5–10 percent by 2100 and reduce outdoor working hours. Air pollution will reduce life expectancy. Instances of wildfires, flash floods, and landslides will continue to rise. At 4 percent of 2050 GDP Kosovo is expected to experience significant damage to its economy from climate hazards, although the lowest in the Western Balkans (along with North Macedonia).

Opportunities. Kosovo can significantly expand its renewable energy generation, improve energy efficiency, and adopt sustainable agricultural practices to enhance food security. Estimated benefits from adaptation measures substantially outweigh their economic costs (National Institute of Building Sciences, 2019; Global Commission on Adaptation, 2019).

Policies. The CCDR recommends for Kosovo and the other Western Balkan countries adaptation and mitigation policies:

- *Resilience and Adaptation*. Strengthen disaster management and social protection. Boost water security, forestry, biodiversity, and agriculture through training and technology adoption. Upgrade infrastructure for climate resilience. Reform education and labor systems for climate transition. Additional annual average adaptation investment needs (heat stress, droughts, floods) are estimated at 1.4 percent of GDP for Kosovo for 2025–50.

- *Decarbonization.*[1] Implement energy pricing reforms through market liberalization, strengthen regulatory institutions, increase environmental taxes, and pursue targeted social protection along with revenue recycling. Support sector transitions in coal, transport, residential, industrial, and agriculture sectors through regulations, technology adoption incentives, and labor market facilitation for displaced labor. Adapt the workforce by retraining for changing labor market needs. Additional annual average mitigation investment needs are estimated at 2.9 percent of GDP for Kosovo for 2025–50.[2]

Financing and Economic Management. Fiscal policies need to ensure balance between maintaining macroeconomic stability and creating space for adaptation and mitigation and buffers against uncertainty. Foreign financing—including from EU pre-accession funds, issuance of green bonds, reprioritization of public spending, strengthening domestic revenue collection and mobilizing private investments will be needed to meet additional spending needs. In addition, greater financial sector oversight with climate risk stress testing and integrating climate risk into risk management is warranted. Increasing regional economic integration, including in the energy sector, would help achieve economies of scale and better align electricity supply and demand needs. Other recommendations include creating a climate-change committee with advisory roles and requiring obligatory climate-oriented review of policy documents.

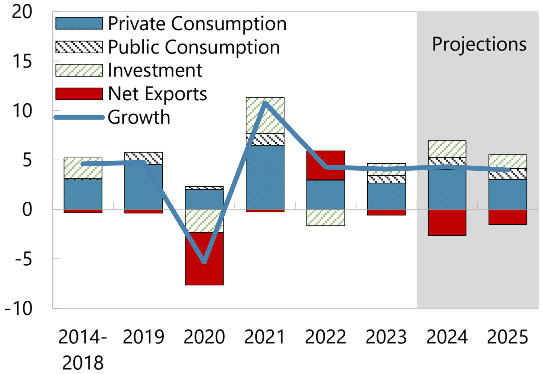
1/ Unlike other Western Balkan countries Kosovo does not have an NDC target as it is a non-signatory to UNFCCC. Kosovo's climate objectives are reflected in its National Energy and Climate Plans (NECP) and its energy strategy for 2023–31.

2/ Additional resilience and adaptation and decarbonization spending needs include both private and public investment, where most investment is assumed will be covered by the private sector. Additional investments are model-based estimates and are not necessarily additive.

Figure 1. Kosovo: Real Sector Developments

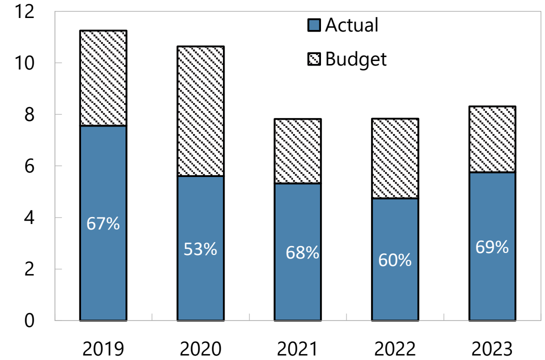
Growth slowed in 2023 with weaker net exports and is accelerating in 2024 supported by domestic demand.

Contributions to Real Growth
(Percent)



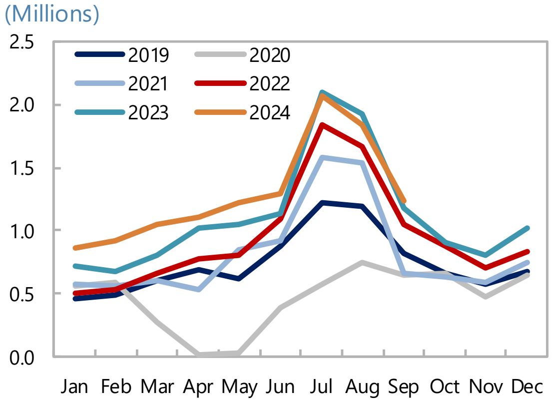
Public investment execution improved in 2023.

Government Capital Expenditure
(Percent of GDP)



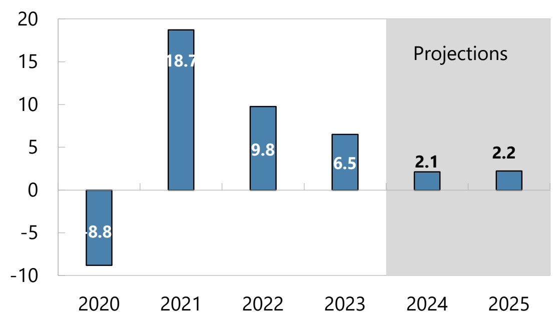
Diaspora-related tourism has supported activity and demand…

Number of Passenger Coming In and Out
(Millions)



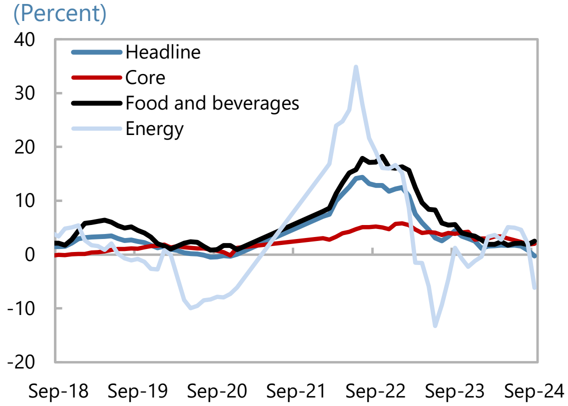
…although the overall contribution of diaspora-related flows to growth has moderated.

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



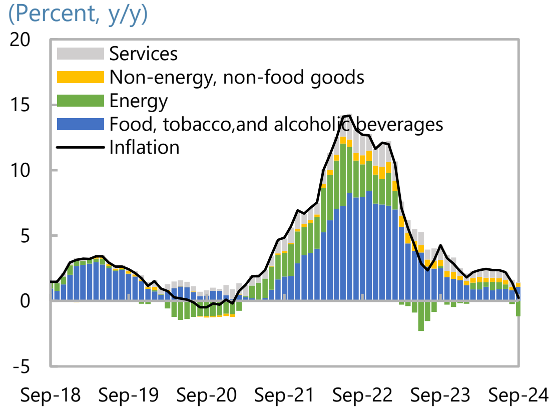
Headline inflation declined sharply…

Inflation
(Percent)



…on the back of slowing energy and food price inflation.

Inflation Decomposition
(Percent, y/y)

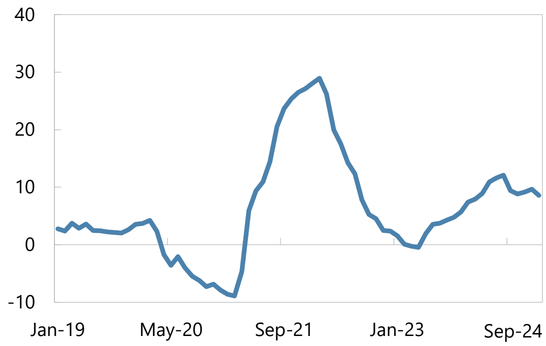


Sources: Haver Analytics, Ministry of Finance, Labor, and Transfers, Kosovo Agency of Statistics, Central Bank of Kosovo, Ministry of Internal Affairs (Police Border Control), *World Economic Outlook*, and IMF staff estimates.

Figure 2. Kosovo: Fiscal Developments

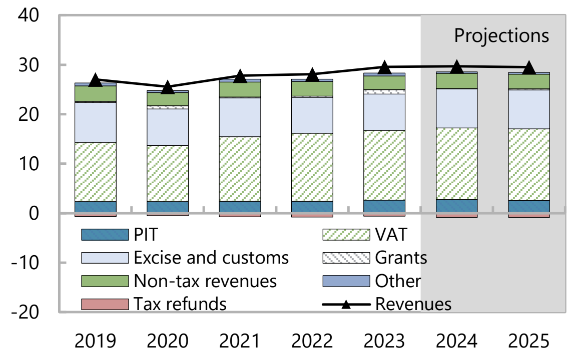
Tax revenues continue growing at a strong pace…

Real Tax Revenues
(Y/y growth, 12-months MA, %)



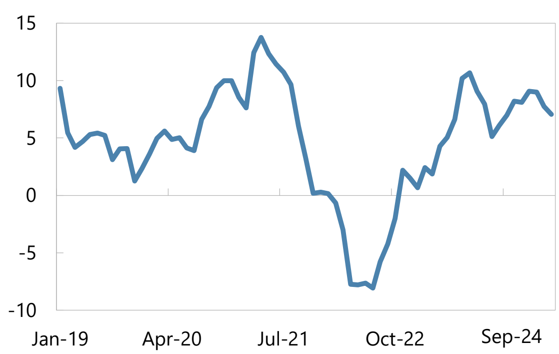
…supported by efforts to strengthen tax compliance and strong economic activity.

Revenue Composition
(Percent of GDP)



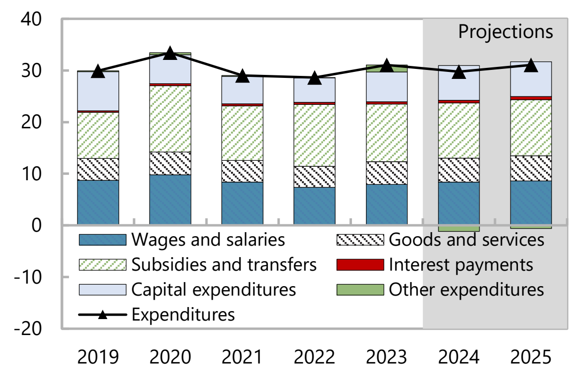
Expenditure has been growing moderately…

Real Expenditure Growth
(Y/y growth, 12-months MA, %)



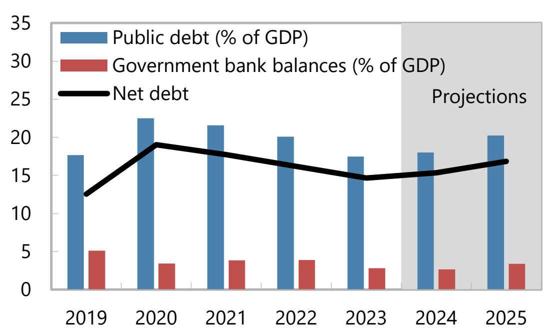
…primarily reflecting higher investment execution.

Expenditure Composition
(Percent of GDP)



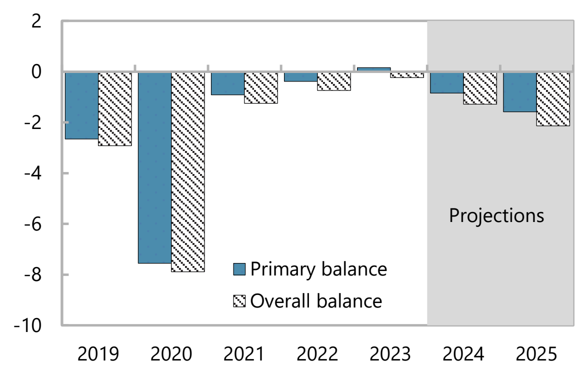
Public debt remains low and sustainable…

Public Debt and Government Bank Balance
(Percent of GDP)



…with fiscal policies well-anchored by the fiscal rule.

Fiscal Balance
(Percent of GDP)

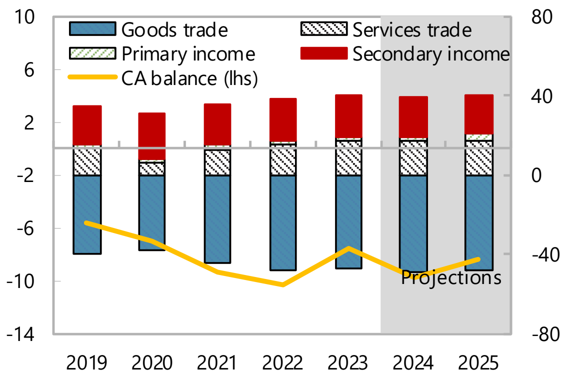


Sources: Ministry of Finance, Labor, and Transfers, Central Bank of Kosovo, and IMF staff calculations.

Figure 3. Kosovo: External Sector Developments

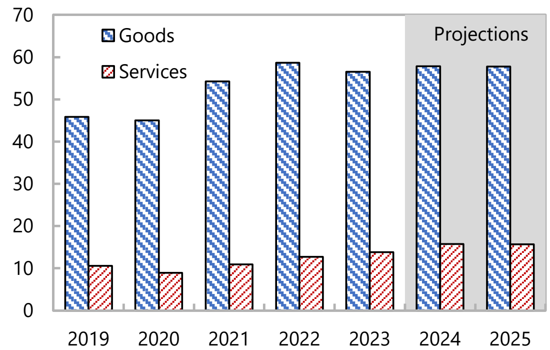
The external current account deficit is widening…

Contributions to the Current Account Balance
(Percent of GDP)



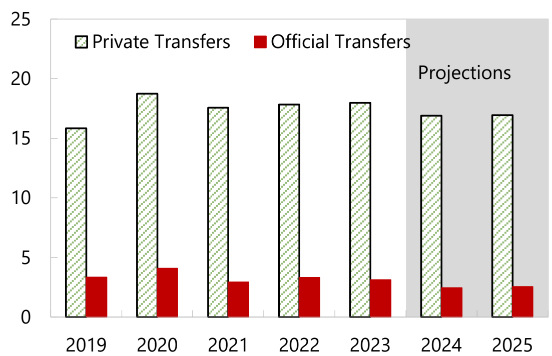
…on the back of larger services imports…

Imports of Goods and Services
(Percent of GDP)



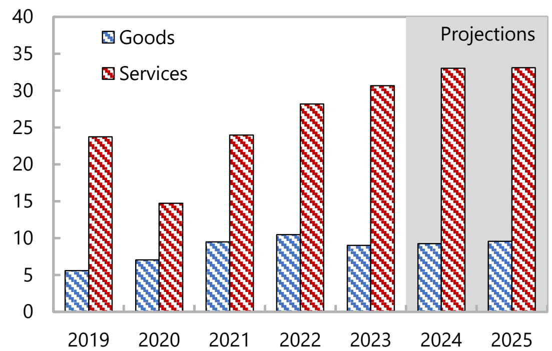
…and softening remittances…

Secondary Income Transfers
(Percent of GDP)



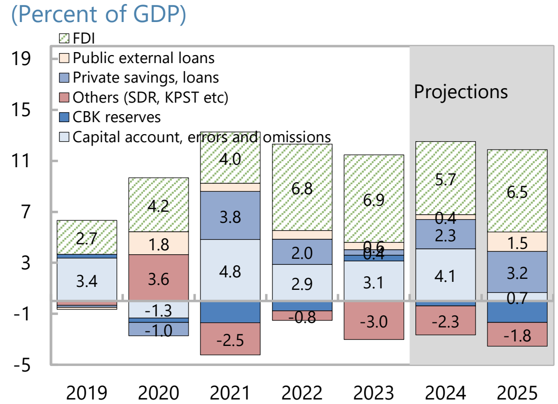
…while exports of goods and services remain broadly stable.

Exports of Goods and Services
(Percent of GDP)



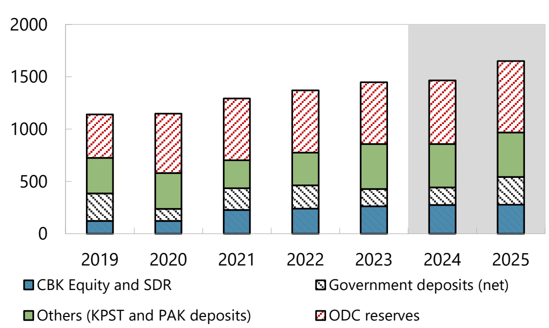
The external current account will be mainly financed by FDI and official external loans…

Financing of Current Account
(Percent of GDP)



…with reserve adequacy remaining close to the IMF benchmark.

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

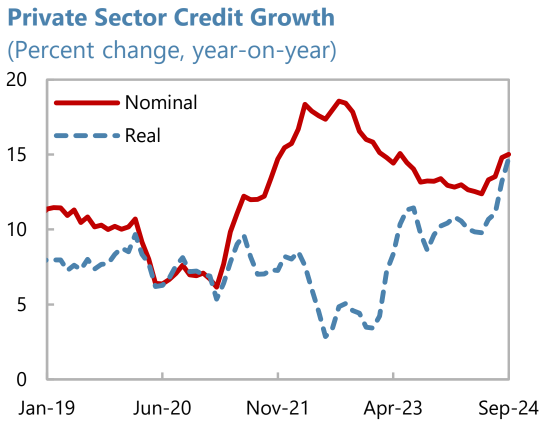


Sources: Haver Analytics, Kosovo Agency of Statistics, Ministry of Finance, Labor, and Transfers, *World Economic Outlook*. and IMF staff estimates.

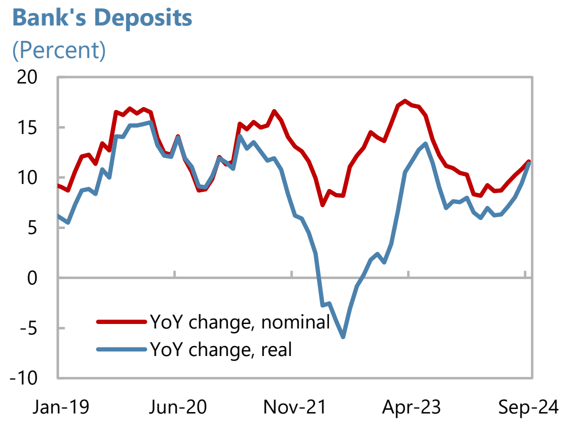
1/ Government deposits are net of holdings of government securities. Other deposits include transferable deposits, deposit insurance fund deposits, insurance companies deposits etc.

Figure 4. Kosovo: Financial Sector Developments

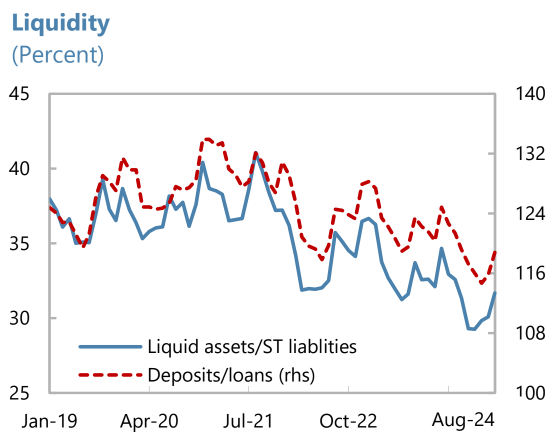
Real credit growth to the private sector has been robust…



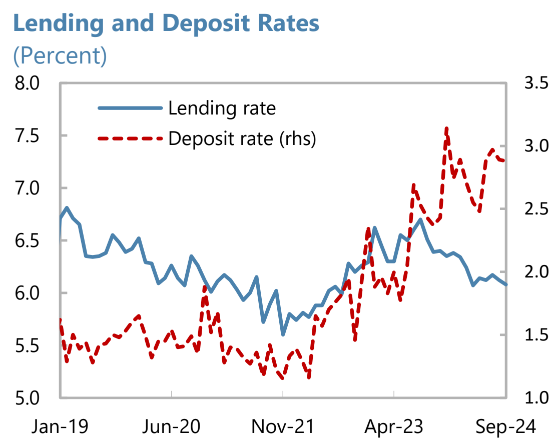
…and real deposit growth has remained solid, although it has decelerated recently.



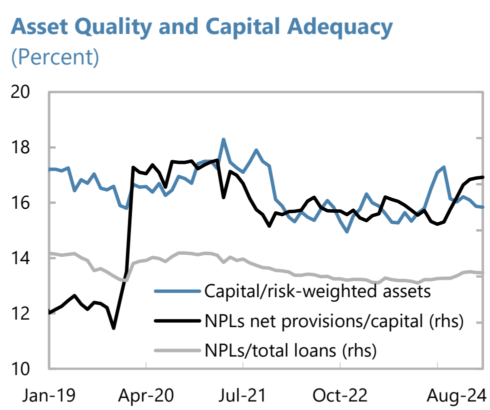
Bank liquidity ratios remain comfortable.



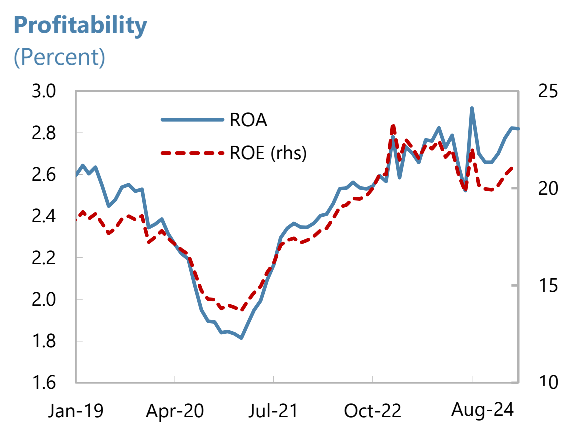
Interest rates are increasing, reflecting tighter monetary conditions in the euro area.



NPLs remain low and capital buffers remain adequate…



…and profitability has remained high.



Sources: Central Bank of Kosovo and IMF staff estimates.

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

(Percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
		Act.				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP growth 1/	4.8	-5.3	10.7	4.3	4.1	4.3	4.0	4.0	3.9	3.9	3.8
Contribution to growth (percentage points of GDP)											
Consumption	5.8	2.3	7.7	3.0	3.4	5.4	4.2	3.5	3.6	3.6	3.6
Private	4.6	2.0	6.5	3.0	2.7	4.1	3.0	2.9	2.9	2.9	2.9
Public	1.2	0.3	1.2	0.0	0.8	1.2	1.1	0.5	0.6	0.6	0.6
Investment	-0.1	-2.3	3.6	-1.7	1.2	1.7	1.4	1.5	1.4	1.6	1.4
Net Exports	-0.3	-5.3	-0.2	2.9	-0.6	-2.7	-1.5	-1.0	-1.1	-1.2	-1.1
Exports	2.2	-8.6	17.0	6.7	2.9	4.8	2.5	2.5	2.4	2.0	1.9
Imports	-2.5	3.3	-17.2	-3.7	-3.5	-7.5	-4.1	-3.5	-3.5	-3.2	-3.0
Real growth rate (percent)											
Consumption	6.2	2.4	7.6	3.0	3.5	5.4	4.2	3.5	3.6	3.6	3.6
Private	5.6	2.5	7.3	3.4	3.1	4.8	3.6	3.5	3.5	3.5	3.5
Public	10.1	2.1	9.0	0.2	5.9	9.2	8.1	3.5	4.3	4.2	4.0
Investment	2.9	-7.6	13.0	-3.2	3.9	6.0	4.8	5.3	4.9	5.4	4.7
Exports	7.6	-29.1	76.8	18.9	7.2	11.6	5.7	5.6	5.2	4.2	4.2
Imports	4.5	-6.0	31.4	5.4	5.3	11.2	5.7	4.9	4.7	4.3	4.1
Official unemployment (percent of workforce)	25.7	26.0	20.8	12.6	10.9	...	...	...	...	...	...
Price changes											
CPI, period average	2.7	0.2	3.3	11.6	4.9	1.8	2.0	2.0	2.0	2.0	2.0
GDP deflator	1.0	1.4	6.1	7.2	4.6	1.8	2.4	2.0	1.9	1.9	2.0
General government budget (percent of GDP)											
Revenues and grants	27.0	25.6	27.8	28.1	29.5	29.7	29.5	29.4	29.4	29.3	29.3
Expenditures	29.9	33.5	29.0	28.8	29.8	30.9	31.7	31.5	31.5	31.4	31.3
Of which: Wages and salaries	8.7	9.8	8.4	7.3	7.9	8.4	8.6	8.7	8.7	8.7	8.7
Subsidies and transfers	8.9	12.8	10.6	12.0	11.2	10.7	10.9	10.9	10.9	10.8	10.7
Capital expenditure	7.6	5.6	5.3	4.8	5.8	6.7	6.7	6.5	6.4	6.5	6.5
Overall Balance (Fiscal rule) 2/	-0.8	-6.5	-0.9	-0.5	-0.1	-0.9	-1.6	...	...	...	...
Overall balance	-2.9	-7.8	-1.2	-0.7	-0.2	-1.3	-2.1	-2.0	-2.0	-2.0	-2.0
Stock of freely available government bank balances	5.1	3.4	3.8	3.9	2.8	2.7	3.4	3.6	3.8	4.0	4.1
Total public debt 3/	17.7	22.5	21.6	20.1	17.5	17.9	20.2	21.8	23.1	24.7	25.8
Balance of Payments (percent of GDP)											
Current account balance, incl. official transfers	-5.7	-7.0	-9.4	-10.3	-7.6	-9.8	-8.3	-7.7	-7.1	-6.6	-6.0
Of which: Official transfers 4/	3.4	4.1	2.9	3.3	3.1	2.4	2.5	2.6	2.7	2.8	2.9
Of which: Remittance inflows	12.1	14.5	14.4	13.7	13.8	13.2	13.3	13.3	13.3	13.3	13.3
Financial account	-2.3	-8.3	-4.6	-7.4	-4.4	-5.7	-7.7	-7.0	-6.4	-5.9	-5.4
Of which: Direct investment, net	-2.7	-4.2	-4.0	-6.8	-6.9	-5.7	-6.5	-6.1	-5.8	-5.3	-5.1
Portfolio investment, net	0.8	-1.2	3.5	1.5	4.5	-0.4	-0.3	-0.2	0.0	0.1	0.2
Other investment, net	-1.8	-3.5	-6.2	-2.9	-1.6	0.1	-2.6	-1.9	-1.8	-1.8	-1.5
Reserve change	1.3	0.7	2.1	0.8	-0.5	0.4	1.7	1.2	1.1	1.1	1.0
Errors and Omissions	3.5	-1.6	4.0	2.4	2.5	3.5	0.0	0.0	0.0	0.0	0.0
Savings-investment balances (percent of GDP)											
National savings	28.9	26.4	26.5	24.9	26.4	24.0	25.3	26.1	26.7	27.5	28.1
Public savings	4.4	-2.8	3.9	3.8	4.7	5.4	4.4	4.2	4.2	4.3	4.3
Private savings	24.5	29.3	22.7	21.1	21.7	18.6	20.9	21.9	22.5	23.2	23.8
Investment	34.6	33.4	36.0	35.2	33.9	33.8	33.6	33.8	33.8	34.0	34.1
Public investment	7.6	5.6	5.3	4.8	5.8	6.7	6.7	6.5	6.4	6.5	6.5
Private investment	27.0	27.8	30.6	30.5	28.1	27.0	26.9	27.3	27.4	27.5	27.6
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	12.9	13.3	11.8	10.1	9.7	9.3	9.0
Deposits of the private sector (percent change)	15.5	10.9	12.4	12.7	11.3	9.2	7.6	7.0	6.9	6.8	6.9
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5	16.5	...	...	...	...	...	...
Memorandum items:											
Foreign Reserves (millions of euros, IMF Definition)	1,141	1,149	1,293	1,370	1,449	1,466	1,651	1,788	1,929	2,075	2,218
Foreign Reserves (% of ARA metric)	126	120	107	96	92	85	87	88	88	88	88
GDP (millions of euros)	7,056	6,772	7,958	8,896	9,680	10,279	10,949	11,611	12,296	13,018	13,787
GDP per capita (euros)	3,959	3,766	4,486	5,049	5,491	5,828	6,205	6,576	6,961	7,366	7,797
Real GDP growth per capita	5.6	-6.2	12.3	5.0	4.0	4.2	3.9	3.9	3.8	3.8	3.7
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 externally by supranational financial institutions. The exclusion is valid only until 2025.

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**	**3,049**	**3,232**	**3,418**	**3,616**	**3,819**	**4,041**
Revenue	1,885	1,693	2,195	2,479	2,778	3,038	3,211	3,396	3,595	3,798	4,020
Taxes	1,662	1,507	1,948	2,217	2,506	2,725	2,888	3,056	3,235	3,417	3,618
Direct taxes	292	267	342	414	490	509	534	564	598	633	670
of which: Personal income tax	166	158	190	216	256	281	283	301	319	338	358
of which: Corporate income tax	95	85	114	160	185	199	211	220	233	247	261
of which: Property tax	27	23	36	35	46	29	40	43	45	48	51
Other	5	1	2	4	3	0	0	0	0	0	0
Indirect taxes	1,415	1,273	1,665	1,870	2,077	2,300	2,447	2,590	2,741	2,894	3,063
VAT	846	770	1,038	1,220	1,366	1,488	1,587	1,678	1,776	1,873	1,984
Excise	435	398	501	517	555	643	685	727	770	815	863
Customs	130	102	125	133	156	168	175	185	195	206	216
Other	4	3	1	0	0	0	0	0	0	0	0
Tax refunds	-46	-33	-59	-67	-61	-85	-93	-98	-103	-109	-115
Nontax revenues	223	186	247	262	272	314	322	341	360	380	402
Other revenue	7	3	9	6	6	2	2	2	2	2	2
Grants	19	43	17	20	81	11	21	21	21	21	21
Budget support	12	34	0	10	68	0	11	11	11	11	11
Project grants (DDGs)	8	9	17	10	14	11	11	11	11	11	11
Expenditure	**2,111**	**2,265**	**2,311**	**2,565**	**2,882**	**3,180**	**3,466**	**3,655**	**3,868**	**4,085**	**4,321**
Current expenditure	1,578	1,886	1,887	2,142	2,321	2,487	2,731	2,903	3,075	3,240	3,427
Wages and salaries	617	661	668	653	767	862	940	1,015	1,075	1,138	1,205
Goods and services	298	302	332	363	427	475	536	537	568	602	637
Subsidies and transfers	628	868	843	1,065	1,079	1,101	1,190	1,262	1,337	1,404	1,482
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	48	65	90	95	96	103
Interest - internal	11	17	21	25	29	28	41	60	63	62	66
of which: on external debt	12	10	10	10	15	20	24	30	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	694	735	751	793	846	894
Budget-financed	366	265	364	348	490	640	673	653	677	705	725
PAK-financed	132	54	0	0	0	0	0	0	0	0	0
External	36	60	60	75	71	54	72	98	116	141	169
Fiscal balances											
Primary balance	-188	-507	-72	-34	16	-86	-173	-150	-160	-174	-181
Interest income, net	-19	-26	-32	-36	-41	-45	-48	-48	-47	-46	-45
Overall balance	**-207**	**-529**	**-99**	**-66**	**-23**	**-131**	**-234**	**-237**	**-252**	**-267**	**-281**
"Fiscal rule" deductions from the overall balance	151	128	27	17	18	40	60	…	…	…	…
Overall balance ('Fiscal rule" definition) 2/	**-55**	**-443**	**-72**	**-49**	**-5**	**-91**	**-174**	…	…	…	…
Overall cyclically adjusted balance	-255	-425	-101	-69	-79	-122	-247	-258	-273	-288	-302
Financing	**207**	**529**	**99**	**66**	**23**	**131**	**234**	**237**	**252**	**267**	**281**
Foreign financing (net)	-10	127	44	63	56	54	177	97	105	115	116
Budget Support	0	156	67	11	38	66	162	50	50	50	50
External Financing for Projects	39	59	56	100	65	49	71	99	119	146	176
Amortization of external debt	-50	-89	-79	-48	-46	-61	-56	-52	-64	-81	-110
Domestic financing (net)	217	402	55	3	-33	77	57	140	147	151	165
Net Domestic debt issuance	115	170	145	-4	-147	104	171	196	205	212	217
Change in CBK deposits	43	211	-100	23	75	-8	-100	-50	-50	-50	-40
Treasury	-70	127	-106	4	74	0	-100	-50	-50	-50	-40
PAK	113	84	7	19	1	-8	0	0	0	0	0
Other Financing (Net POE and other)	15	9	4	-22	33	-27	-14	-6	-8	-10	-12
Equity (Privatization)	44	12	6	6	6	8	0	0	0	0	0
Memorandum items											
Treasury free disposal bank balances	362	233	306	347	273	273	373	423	473	523	563
Total public debt	1,247	1,523	1,717	1,787	1,692	1,839	2,206	2,530	2,843	3,209	3,552
External debt	452	557	607	671	721	751	928	1,026	1,130	1,245	1,361
Of which: onlending	50	43	46	47	43	42	46	51	59	68	78
Of which: guarantees	43	32	31	30	29	4	4	4	4	4	4
Domestic debt	795	965	1,110	1,116	970	1,088	1,278	1,504	1,712	1,964	2,191

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 externally by supranational financial institutions. The exclusion is valid only until 2025.

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**	**29.5**	**29.7**	**29.5**	**29.4**	**29.4**	**29.3**	**29.3**
Revenue	26.7	25.0	27.6	27.9	28.7	29.6	29.3	29.3	29.2	29.2	29.2
Taxes	23.6	22.3	24.5	24.9	25.9	26.5	26.4	26.3	26.3	26.3	26.2
Direct taxes	4.1	3.9	4.3	4.7	5.1	5.0	4.9	4.9	4.9	4.9	4.9
of which: Personal income tax	2.3	2.3	2.4	2.4	2.6	2.7	2.6	2.6	2.6	2.6	2.6
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	0.3	0.4	0.4	0.4	0.4	0.4
Indirect taxes	20.1	18.8	20.9	21.0	21.5	22.4	22.3	22.3	22.3	22.2	22.2
VAT	12.0	11.4	13.0	13.7	14.1	14.5	14.5	14.5	14.4	14.4	14.4
Excise	6.2	5.9	6.3	5.8	5.7	6.3	6.3	6.3	6.3	6.3	6.3
Customs	1.8	1.5	1.6	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Tax refunds	-0.6	-0.5	-0.7	-0.8	-0.6	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Nontax revenues	3.2	2.8	3.1	2.9	2.8	3.0	2.9	2.9	2.9	2.9	2.9
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	0.2	0.2	0.2	0.2	0.2
Budget support	0.2	0.5	0.0	0.1	0.7	0.0	0.1	0.1	0.1	0.1	0.1
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**	**29.8**	**30.9**	**31.7**	**31.5**	**31.5**	**31.4**	**31.3**
Current expenditure	22.4	27.8	23.7	24.1	24.0	24.2	24.9	25.0	25.0	24.9	24.9
Wages and salaries	8.7	9.8	8.4	7.3	7.9	8.4	8.6	8.7	8.7	8.7	8.7
Goods and services	4.2	4.5	4.2	4.1	4.4	4.6	4.9	4.6	4.6	4.6	4.6
Subsidies and transfers	8.9	12.8	10.6	12.0	11.2	10.7	10.9	10.9	10.9	10.8	10.7
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	0.2	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	6.7	6.7	6.5	6.4	6.5	6.5
Budget-financed	5.2	3.9	4.6	3.9	5.1	6.2	6.1	5.6	5.5	5.4	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
Fiscal balances											
Primary balance	-2.7	-7.5	-0.9	-0.4	0.2	-0.8	-1.6	-1.3	-1.3	-1.3	-1.3
Overall balance	**-2.9**	**-7.8**	**-1.2**	**-0.7**	**-0.2**	**-1.3**	**-2.1**	**-2.0**	**-2.0**	**-2.0**	**-2.0**
"Fiscal rule" deductions from the overall balance	2.1	1.9	0.3	0.2	0.2	0.4	0.5	…	…	…	…
Overall balance ('Fiscal rule" definition) 2/	**-0.8**	**-6.5**	**-0.9**	**-0.5**	**-0.1**	**-0.9**	**-1.6**	…	…	…	…
Overall cyclically adjusted balance	-3.6	-6.3	-1.3	-0.8	-0.8	-1.2	-2.3	-2.2	-2.2	-2.2	-2.2
Financing	**2.9**	**7.8**	**1.2**	**0.7**	**0.2**	**1.3**	**2.1**	**2.0**	**2.0**	**2.0**	**2.0**
Foreign financing (net)	-0.1	1.9	0.6	0.7	0.6	0.5	1.6	0.8	0.9	0.9	0.8
Budget Support	0.0	2.3	0.8	0.1	0.4	0.6	1.5	0.4	0.4	0.4	0.4
External Financing for Projects	0.6	0.9	0.7	1.1	0.7	0.5	0.7	0.9	1.0	1.1	1.3
Amortization of external debt	-0.7	-1.3	-1.0	-0.5	-0.5	-0.6	-0.5	-0.4	-0.5	-0.6	-0.8
Domestic financing (net)	3.1	5.9	0.7	0.0	-0.3	0.8	0.5	1.2	1.2	1.2	1.2
Net Domestic debt issuance	1.6	2.5	1.8	0.0	-1.5	1.0	1.6	1.7	1.7	1.6	1.6
Change in CBK deposits	0.6	3.1	-1.3	0.3	0.8	-0.1	-0.9	-0.4	-0.4	-0.4	-0.3
Treasury	-1.0	1.9	-1.3	0.0	0.8	0.0	-0.9	-0.4	-0.4	-0.4	-0.3
PAK	1.6	1.2	0.1	0.2	0.0	-0.1	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	-0.1	-0.1	-0.1	-0.1	-0.1
Equity (Privatization)	0.6	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items											
Treasury free disposal bank balances	5.1	3.4	3.8	3.9	2.8	2.7	3.4	3.6	3.8	4.0	4.1
Total public debt	17.7	22.5	21.6	20.1	17.5	17.9	20.2	21.8	23.1	24.7	25.8
External debt	6.4	8.2	7.6	7.5	7.5	7.3	8.5	8.8	9.2	9.6	9.9
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	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt	11.3	14.3	13.9	12.5	10.0	10.6	11.7	13.0	13.9	15.1	15.9

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 externally by supranational financial institutions. The exclusion is valid only until 2025.

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	475	546	498	616	661	684
Overall balance	-207	-529	-99	-66	-23	-131	-234	-237	-252	-267	-281
Amortization	294	289	241	271	300	344	312	261	364	395	403
External	50	89	79	48	46	61	56	52	64	81	110
Domestic	245	200	162	223	254	283	255	209	300	314	293
Financing Sources	499	822	349	339	328	475	546	498	616	661	684
External Debt	39	215	123	111	102	115	233	149	169	196	226
Budget Support	0	104	67	11	0	37	153	50	50	50	50
External Financing for Projects	39	59	56	100	65	49	71	99	119	146	176
Investment Clause (2016 and after)	14	26	20	17	18	40	60	87	105	130	159
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	29	*10*	0	0	0	0
of which: RSF	*0*	*0*	*0*	*0*	*38*	*29*	*10*	…	…	…	…
Domestic Debt	460	606	225	228	225	360	313	348	447	465	458
Gross Domestic Debt Placements	360	370	307	219	107	387	427	404	505	526	510
KPST one-off financing	0	0	0	0	0	0	0	0	0	0	0
Other Financing (Net POE)	13	15	13	-24	24	-18	-14	-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	-8	-100	-50	-50	-50	-40
of which: RSF	*0*	*0*	*0*	*0*	*-38*	*-29*	*76*	*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**	**918**	**985**	**651**	**1,017**	**1,164**	**1,029**	**1,012**	**1,000**	**974**
Current Account Deficit	400	472	749	917	733	1,008	914	892	871	853	832
o/w RSF reform costs	*0*	*0*	*0*	*0*	*0*	*0*	*76*	*0*	*0*	*0*	*0*
Change in Reserves (+ = increase) (without RSF)	95	46	169	68	-82	9	251	137	141	146	143
B. Gross External Financing Sources	**495**	**519**	**918**	**985**	**651**	**1,017**	**1,088**	**1,029**	**1,012**	**1,000**	**974**
Capital Transfers, net	-9	17	62	38	63	66	73	76	80	84	84
Portfolio Flows, net	-59	82	-277	-136	-432	44	34	26	3	-9	-28
Direct Investment, net	188	287	320	603	664	588	707	705	710	694	706
Other Investment, net (excl. Central Government)	140	117	446	199	99	-41	110	124	115	116	95
Central Government External Borrowing, net (without RSF)	-12	123	45	62	17	0	167	97	105	115	116
Net Errors and Omissions	246	-107	322	218	241	359	-3	0	0	0	2
Financing Gap (B-A)	0	0	0	0	0	0	-76	0	0	0	0
RSF disbursement (not linked to RM cost)	0	0	0	0	38	29	10	0	0	0	0
Residual financing gap (+ = Overfinancing)	**0**	**0**	**0**	**0**	**38**	**29**	**-66**	**0**	**0**	**0**	**0**
Change in Reserves (+ = increase) (with RSF)	95	46	169	68	-44	38	185	137	141	146	143

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**	**-749**	**-917**	**-733**	**-1,008**	**-914**	**-892**	**-871**	**-853**	**-832**
Balance on Goods and Services	-1,915	-2,182	-2,532	-2,914	-2,972	-3,217	-3,379	-3,489	-3,611	-3,768	-3,937
Goods Balance	-2,840	-2,573	-3,567	-4,287	-4,599	-4,996	-5,283	-5,532	-5,838	-6,130	-6,451
Exports, f.o.b.	393	475	753	932	871	951	1,046	1,155	1,236	1,320	1,405
Imports, f.o.b.	3,233	3,048	4,320	5,219	5,469	5,946	6,329	6,688	7,074	7,450	7,856
Services Balance	925	392	1,035	1,373	1,626	1,778	1,905	2,043	2,227	2,362	2,514
Receipts	1,674	995	1,906	2,505	2,967	3,394	3,624	3,869	4,150	4,400	4,667
Payments	749	603	871	1,132	1,340	1,615	1,720	1,825	1,923	2,038	2,153
Primary Income	161	164	151	116	199	221	330	322	318	338	363
Compensation of employees, net	257	262	263	287	338	424	437	449	460	481	506
Investment income, net	-92	-95	-110	-171	-140	-197	-105	-125	-141	-142	-142
Secondary Income	1,354	1,545	1,632	1,882	2,041	1,988	2,134	2,275	2,422	2,577	2,743
Government, net	237	277	234	296	302	251	279	307	338	371	406
Other transfers (including remittances), net	1,118	1,269	1,398	1,586	1,739	1,737	1,856	1,968	2,084	2,206	2,336
Capital account	**-9**	**17**	**62**	**38**	**63**	**66**	**73**	**76**	**80**	**84**	**84**
Financial account	**-163**	**-562**	**-365**	**-661**	**-429**	**-583**	**-844**	**-815**	**-791**	**-769**	**-746**
Direct investment, net	-188	-287	-320	-603	-664	-588	-707	-705	-710	-694	-706
Assets	66	59	100	175	189	203	216	229	243	257	272
Liabilities	255	346	421	778	853	791	923	934	953	951	978
Portfolio investment, net	59	-82	277	136	432	-44	-34	-26	-3	9	28
Other investment, net	-129	-240	-491	-261	-154	12	-287	-222	-219	-231	-211
Change in reserve assets (with RSF)	95	46	169	68	-44	38	185	137	141	146	143
RSF disbursement (not linked to RM BOP costs)	…	…	…	…	38	29	10	…	…	…	…
Net errors and omissions 1/	246	-107	322	218	241	359	-3	0	0	0	2
					(In percent of GDP)						
Current account	**-5.7**	**-7.0**	**-9.4**	**-10.3**	**-7.6**	**-9.8**	**-8.3**	**-7.7**	**-7.1**	**-6.6**	**-6.0**
Balance on Goods and Services	-27.6	-29.9	-31.6	-32.5	-30.4	-31.1	-30.8	-30.1	-29.4	-28.9	-28.6
Goods Balance	-40.7	-35.6	-44.6	-48.0	-47.2	-48.4	-48.2	-47.7	-47.5	-47.1	-46.8
Exports, f.o.b.	5.6	6.6	9.4	10.4	8.9	9.2	9.5	9.9	10.1	10.1	10.2
Imports, f.o.b.	46.4	42.2	54.0	58.4	56.1	57.6	57.7	57.6	57.5	57.2	57.0
Services Balance	13.1	5.8	13.0	15.4	16.8	17.3	17.4	17.6	18.1	18.1	18.2
Receipts	23.7	14.7	24.0	28.2	30.6	33.0	33.1	33.3	33.7	33.8	33.8
Payments	10.6	8.9	10.9	12.7	13.8	15.7	15.7	15.7	15.6	15.7	15.6
Primary Income	2.3	2.4	1.9	1.3	2.1	2.2	3.0	2.8	2.6	2.6	2.6
Compensation of employees, net	3.6	3.9	3.3	3.2	3.5	4.1	4.0	3.9	3.7	3.7	3.7
Investment income, net	-1.3	-1.4	-1.4	-1.9	-1.4	-1.9	-1.0	-1.1	-1.1	-1.1	-1.0
Secondary Income	19.2	22.8	20.5	21.2	21.1	19.3	19.5	19.6	19.7	19.8	19.9
Government, net	3.4	4.1	2.9	3.3	3.1	2.4	2.5	2.6	2.7	2.8	2.9
Other transfers (including remittances), net	15.8	18.7	17.6	17.8	18.0	16.9	16.9	16.9	16.9	16.9	16.9
Capital account	**-0.1**	**0.3**	**0.8**	**0.4**	**0.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.6**	**0.6**
Financial account	**-2.3**	**-8.3**	**-4.6**	**-7.4**	**-4.4**	**-5.7**	**-7.7**	**-7.0**	**-6.4**	**-5.9**	**-5.4**
Direct investment, net	-2.7	-4.2	-4.0	-6.8	-6.9	-5.7	-6.5	-6.1	-5.8	-5.3	-5.1
Assets	0.9	0.9	1.3	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Liabilities	3.6	5.1	5.3	8.7	8.8	7.7	8.4	8.0	7.7	7.3	7.1
Portfolio investment, net	0.8	-1.2	3.5	1.5	4.5	-0.4	-0.3	-0.2	0.0	0.1	0.2
Other investment, net	-1.8	-3.5	-6.2	-2.9	-1.6	0.1	-2.6	-1.9	-1.8	-1.8	-1.5
Change in reserve assets (with RSF)	1.3	0.7	2.1	0.8	-0.5	0.4	1.7	1.2	1.1	1.1	1.0
RSF disbursement (not linked to RM BOP costs)	…	…	…	…	0.4	0.3	0.1	0.1	0.1	0.1	0.1
Net errors and omissions 1/	3.5	-1.6	4.0	2.4	2.5	3.5	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Public debt service to export ratio (percent)	3.0	6.7	3.4	1.7	1.6	1.9	1.7	1.6	1.8	2.0	2.4
Public debt service to exports and remittances (percent)	2.1	4.0	2.3	1.3	1.2	1.4	1.3	1.3	1.4	1.5	1.9
External public and private debt (percent of GDP) 2/	31.2	37.0	37.1	38.6	39.8	40.3	42.5	43.6	44.7	45.4	46.1
Net foreign assets of CBK 3/	937	969	1,061	1,147	1,283	1,299	1,484	1,621	1,762	1,908	2,051
Gross international reserves with RSF 3/	1,141	1,149	1,293	1,370	1,449	1,466	1,651	1,788	1,929	2,075	2,218
Gross international reserves without RSF 3/	1,141	1,149	1,293	1,370	1,411	1,437	1,641	1,788	1,929	2,075	2,218
Total RSF disbursement (Euro million)	---	---	---	---	38	29	10	---	---	---	---
Gross international reserves in months of prospective imports 3/	3.8	2.7	2.4	2.4	2.3	2.2	2.3	2.3	2.3	2.3	2.3
Gross international reserves, excl. PAK and KPST deposits at CBK 3/	863	900	1,100	1,176	1,131	1,169	1,354	1,490	1,632	1,778	1,921

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	1,299	1,484	1,621	1,762	1,908	2,051
Foreign assets	1,219	1,223	1,371	1,448.7	1,449.4	1,470	1,651	1,788	1,929	2,076	2,218
Foreign liabilities	281	254	310	302	167	170	167	167	167	167	167
Net domestic assets	-236	-211	-335	-353	-348	-347	-447	-497	-547	-597	-636
Net claims on central government	-238	-213	-347	-355	-351	-350	-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	530	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	345	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	836	920	1,006	1,096	1,191	1,293
Liabilities to other depository corporations	415	566	589	594	591	607	682	760	842	929	1,023
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	116	117	118	119	120	122
Commercial banks											
Net foreign assets	639	843	836	1,023	1,272	1,143	972	809	633	453	274
Assets	866	1,117	1,107	1,337	1,587	1,434	1,275	1,118	950	770	592
Liabilities	-227	-274	-271	-315	-316	-291	-303	-309	-317	-317	-318
Net domestic assets	3,629	3,909	4,463	4,956	5,484	6,187	6,948	7,688	8,474	9,302	10,175
Claims on the CBK	415	566	589	594	590	607	682	760	842	929	1,023
Net claims on the central government	275	240	297	251	193	258	304	357	412	469	528
Claims on central government	287	254	312	265	224	289	335	388	444	501	559
Liabilities to central government	-13	-14	-15	-14	-31	-31	-31	-31	-31	-31	-31
Net claims on other public entities	-88	-140	-170	-235	-207	-239	-255	-270	-284	-301	-319
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	-239	-255	-270	-284	-301	-319
Credit to private sector	3,028	3,242	3,747	4,347	4,909	5,561	6,217	6,842	7,504	8,204	8,942
Deposits of the private sector	3,688	4,091	4,597	5,183	5,767	6,296	6,778	7,250	7,749	8,279	8,850
Demand deposits	2,225	2,597	3,090	3,370	3,760	4,079	4,389	4,701	5,028	5,377	5,753
Time deposits	1,463	1,493	1,508	1,813	2,007	2,218	2,389	2,550	2,721	2,902	3,097
Other items, net 2/	580	661	702	797	989	1,033	1,142	1,247	1,358	1,476	1,599
Memorandum items:											
Broad money (12-month percent change)	12.0	15.3	12.1	11.3	10.7	9.4	7.5	7.0	6.8	6.8	6.9
Gross international reserves, excl. PAK and KPST deposits at CBK	863	900	1,100	1,176	1,131	1,169	1,354	1,490	1,632	1,778	1,921
Deposits of the private sector (12-month percent change)	15.5	10.9	12.4	12.7	11.3	9.2	7.6	7.0	6.9	6.8	6.9
Credit to the private sector (12-month percent change)	10.0	7.1	15.6	16.0	12.9	13.3	11.8	10.1	9.7	9.3	9.0
Deposits of the private sector (percent of GDP)	52.3	60.4	57.8	58.3	59.6	61.3	61.9	62.4	63.0	63.6	64.2
Credit to the private sector (percent of GDP)	42.9	47.9	47.1	48.9	50.7	54.1	56.8	58.9	61.0	63.0	64.9
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, 2019–24

(Percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	Sep-24
Total Assets (% GDP) 1/	67.5	79.1	74.9	76.0	77.9	77.5
Capital adequacy						
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5	16.5	15.6
Tier 1 capital to risk weighted assets	14.2	14.7	14.4	13.5	14.6	13.9
Capital to assets	11.2	11.7	11.1	9.4	10.4	10.2
Asset quality						
NPL to total loans	1.9	2.5	2.1	1.9	1.9	2.0
NPL net of provisions to capital	1.5	4.5	3.4	3.4	3.2	4.1
Large exposures to capital	81.8	89.5	89.8	78.2	61.7	63.8
Liquidity						
Liquid assets to total assets	28.8	30.1	28.8	26.8	25.1	22.7
Deposits to loans	129.2	133.9	130.9	127.9	124.8	117.9
Liquid assets to short-term liabilities	38.7	40.4	37.2	36.5	34.7	31.1
Profitability						
Return on average assets	2.1	1.7	2.1	2.6	2.5	2.8
Return on average equity	17.2	14.0	17.3	20.7	19.8	20.7
Interest margin to gross income	80.6	79.2	76.5	76.4	79.4	80.2
Non-interest expense to gross income	48.1	46.1	45.4	43.8	44.0	44.2
Market risk						
Net open currency position to capital	4.7	3.5	1.5	1.8	0.6	1.2

Source: Central Bank of the Republic of Kosovo.

1/ Includes all other depository corporations.

Table 8. Kosovo: Indicators of Fund Credit, 2023–49

(In millions of SDR, unless otherwise indicated)

	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	2049
Existing and prospective Fund credit																											
Disbursements	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	0.0
GRA 1/	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	0.0
RSF	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	0.0
Stock of existing and prospective Fund credit	62.0	139.0	142.1	142.1	142.1	142.1	129.8	116.5	103.1	89.8	76.4	59.6	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	0.0
GRA	31.0	77.1	80.1	80.1	80.1	80.1	67.9	54.5	41.2	27.8	14.5	1.1	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	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	0.0
Obligations																											
Principal/repurchases	10.3	20.7	10.3	0.0	0.0	0.0	12.2	13.4	13.4	13.4	13.4	16.8	7.3	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	0.0
GRA 1/	10.3	20.7	10.3	0.0	0.0	0.0	12.2	13.4	13.4	13.4	13.4	13.4	1.1	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	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	0.0
Charges and interest	2.1	3.6	5.9	6.3	6.3	6.4	6.3	5.8	5.2	4.7	4.1	3.6	3.0	2.7	2.4	2.1	1.8	1.6	1.3	1.0	0.8	0.5	0.4	0.4	0.4	0.4	0.3
GRA 1/	2.1	1.9	3.3	3.6	3.6	3.6	3.5	3.1	2.5	2.0	1.4	0.9	0.5	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	0.3
RSF	0.0	1.7	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.5	2.2	2.0	1.7	1.4	1.2	0.9	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Fund obligations (repurchases and charges) in percent of																											
Quota	15.0	29.4	19.6	7.7	7.7	7.7	22.4	23.1	22.5	21.8	21.2	24.7	12.4	10.7	10.4	10.1	9.7	9.4	9.1	8.7	8.4	3.9	0.5	0.5	0.5	0.5	0.4
GDP	0.2	0.3	0.2	0.1	0.1	0.1	0.2	0.2	0.2	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	0.0	0.0	0.0	0.0
Exports of goods and services	0.4	0.7	0.4	0.2	0.1	0.1	0.4	0.4	0.3	0.3	0.3	0.3	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	0.0
Gross international reserves	1.0	2.0	1.2	0.4	0.4	0.4	1.1	1.1	1.0	0.9	0.9	1.0	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.0
Government revenue	0.5	1.0	0.6	0.2	0.2	0.2	0.6	0.6	0.5	0.5	0.4	0.5	0.2	0.2	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
External debt service, public	24.6	36.3	24.6	9.4	8.1	6.8	15.8	15.3	14.0	12.8	11.7	14.1	6.9	5.7	6.5	5.9	5.5	5.1	4.7	4.6	4.4	2.0	0.3	0.3	0.3	0.3	0.2
Fund credit outstanding in percent of																											
Quota	75.0	168.3	172.0	172.0	172.0	172.0	157.2	141.0	124.8	108.7	92.5	72.1	63.3	55.8	48.3	40.8	33.3	25.8	18.3	10.8	3.3	0.0	0.0	0.0	0.0	0.0	0.0
GDP	0.8	1.6	1.6	1.5	1.4	1.3	1.2	1.0	0.9	0.7	0.6	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	2.0	3.9	3.7	3.5	3.2	3.1	2.6	2.2	1.9	1.5	1.2	0.9	0.7	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves	5.2	11.6	10.5	9.7	9.0	8.4	7.5	6.5	5.6	4.7	3.9	3.0	2.5	2.2	1.8	1.5	1.2	0.9	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Government revenue	2.7	5.6	5.4	5.1	4.8	4.6	4.0	3.4	2.9	2.4	1.9	1.4	1.2	1.0	0.8	0.7	0.5	0.4	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External public, debt	10.5	22.3	18.7	16.9	15.4	14.0	12.3	10.7	9.1	7.7	6.5	4.9	4.2	3.6	3.0	2.5	2.0	1.5	1.1	0.6	0.2	0.0	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)	9,680	10,279	10,949	11,611	12,296	13,018	13,787	14,339	14,912	15,509	16,129	16,774	17,445	18,143	18,869	19,624	20,408	21,225	22,074	22,957	23,875	24,830	25,823	26,856	27,930	29,048	30,210
Exports of goods and services (euro million)	3,837	4,345	4,670	5,024	5,386	5,720	6,063	6,427	6,813	7,221	7,655	8,114	8,601	9,117	9,664	10,244	10,858	11,510	12,200	12,932	13,708	14,531	15,403	16,327	17,306	18,345	19,445
Gross international reserves (euro million)	1,449	1,466	1,651	1,788	1,929	2,075	2,137	2,202	2,268	2,336	2,406	2,478	2,552	2,629	2,708	2,789	2,873	2,959	3,047	3,139	3,233	3,330	3,430	3,533	3,639	3,748	3,860
Government revenue (euro million)	2,860	3,049	3,232	3,418	3,616	3,819	4,010	4,210	4,421	4,642	4,874	5,118	5,374	5,642	5,924	6,221	6,532	6,858	7,201	7,561	7,939	8,336	8,753	9,191	9,650	10,133	10,639
External debt service, public (euro million)	62	81	81	82	96	115	144	153	163	174	184	178	184	193	163	172	179	186	194	194	194	194	194	194	194	194	194
Total external debt, public (euro million)	721	760	928	1,025	1,130	1,245	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	1,690

Sources: IMF staff estimates and projections.

1/ Based on the projection as of November 7, 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 4.377 percent as of November 7, 2024.

Table 9. Kosovo: SBA Quantitative Performance Criteria, 2024–25

(Millions of euros, unless otherwise indicated)

	2024							2025
	June			Sept.			Dec.	March
	QPC	Adjusted	Actual	Indicative	Adjusted	Actual	QPC	Indicative
1. Quantitative performance criteria								
Floor on the overall balance of the general government 1/	-116	-91	196	-174	-149	268	-232	0
Floor on the stock of general government deposits at CBK	591	499	720	604	514	834	616	560
2. Continuous performance criteria								
Ceiling on the accumulation of new external arrears on external debt contracted or guaranteed by the general government 2/	0	…	0	0	…	0	0	0
3. Indicative targets								
Ceiling on contingent budget allocations 3/	108	…	108	108	…	108	108	108
Ceiling on holdings of government debt by the CBK 2/	200	…	168	200	…	166	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 2025 consistent with RSF and SBA objectives.	October 2024	Met	
Structural Benchmarks				
Fiscal Governance				
1	Government starts publishing publicly-owned enterprises' (POEs) annual financial reports; and quarterly data on POE performance.	June 2024	Met	
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	
7	The Ministry of Finance, Labor, and Transfers to issue a ministerial decree establishing the Liquidity Committee by introducing its regular meetings (at least quarterly) and expanding its mandate and coordinate the cash plans with the CBK	January 2025	Ongoing	
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
5	CBK to develop a roadmap for SREP adoption.	February 2025	Ongoing	

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	Not met	
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. Implementation of Past Article IV Recommendations

Recommendation	Status
Fiscal Policy	
The implementation of the new law regulating public wages needs to begin in 2023.	*Partially implemented*. The new law on public wages was implemented in February 2023. However, in December 2023 the Constitutional Court repealed key provisions of the law, including the basic salary section and the performance, labor conditions, transitional and experience allowances.
Blanket allocations for contingencies as a form of risk management need to be accompanied by a description of their possible use.	*Some progress.* As part of the ongoing SBA the Treasury is publishing, in its quarterly financial reports, information about the allocation and ex-post uses of the budgetary contingency reserve.
New and existing programs to mitigate the impact of surging energy costs need to be temporary and targeted.	*Implemented*. The electricity subsidy program was redesigned to better target budgetary support to vulnerable energy consumers. The Ministry of Finance, Labor, and Transfers, with World Bank and Millennium Challenge Corporation support, redefined the set of vulnerable energy consumers and changes the calculation of energy subsidies. The program was implemented from November 2023 to May 2024 benefiting 61,000 families.
Consistent progress in the implementation of the 2018 IMF's Public Investment Management Assessment's (PIMA) recommendations can help address remaining shortcomings in social infrastructure and unreliable domestic energy supply.	*Limited progress*. Spending units are now required to include expropriation costs in project costing and are authorized to register multiannual commitments in the budget system. However, many recommendations of the PIMA, particularly those with higher policy implications, are yet to be implemented.
Gradually raising CIT and PIT rates closer to regional averages, rationalizing exemptions, and special regimes, applying excises on coal, and reporting tax expenditures, would further increase fiscal space, strengthen tax policy quality, and increase transparency.	*Not implemented.*
Financial Policies	
The CBK should further strengthen monitoring of bank credit and liquidity and stand ready to take supervisory action. Improve monitoring of the residential housing sector.	*Some progress.* As part of the ongoing SBA program, and with the support from IMF Statistics Department and the CBK, a detailed workplan to produce a residential property price index (RPPI) was prepared by KAS. The plan envisages allocating

Recommendation	Status
	adequate staff resources, securing regular transmission of data from other government agencies, and developing the procedure for the RPPI compilation. KAS is expected to prepare an update of previously developed experimental RPPI in 2025.
The CBK should further strengthen monitoring of bank credit and liquidity and stand ready to take supervisory action. The CBK should consider bank-to-bank capacities when evaluating bank credit quality assessments.	*Implemented*. Following the approval of the Regulation on Liquidity, which encompasses the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), the CBK is now aligned with Basel III requirements. These regulations entered into force on January 1, 2023. This alignment ensures that financial institutions maintain sufficient liquidity buffers and stable funding, enhancing the resilience of the banking sector in line with international standards. CBK has already implemented a series of regulatory measures aimed at enhancing capital adequacy and risk management practices within the banking sector, with regular updates to ensure alignment with international standards. The CBK has also strengthened its supervisory framework and is conducting stress tests and closely monitoring risk exposure.
Continued implementation of the 2019 FSSR recommendations.	Annex VI provides information on the implementations of the 2019 FSSR recommendations.
Continued implementation of the 2021 Safeguard Assessment recommendations remains essential.	*Strong progress*. The CBK is working on implementation of the Safeguard Assessment recommendations, such as improving internal auditing (including by developing IT audit skills), strengthening the CBK Charter, and preparing amendments to the CBK Law.
Strengthening the CBK's organizational chart and clarifying the roles and responsibilities of the Board and Executive Board is essential going forward.	*Implemented*. One deputy Governor was appointed in October 2023, and the remaining two deputy governors were appointed to the Executive Board in January 2023. Rules of Procedure were issued in November 2023.
CBK profits should be reserved, including to cover CBK costs during periods of low	*Limited progress.* The CBK invests part of its portfolio abroad and in 2023 they profited €27 million from their investments, and for the first-time

Recommendation	Status
international interest rates, and increase the CBK's capacity to provide liquidity assistance.	distributed dividends of €10 million of the profits to the Kosovo Budget.
Structural Policies	
Increase green electricity generation to promote energy security and reduce GHG emissions.	*Strong progress*. The authorities have developed a comprehensive energy strategy with a clear and time-bound action plan and have requested support under the RSF. The authorities have started 350 MW in new renewables projects, which include the construction of the first major solar plant in Rahovec for private sector investment of €70 million, another solar plant near Pristina for the cost of about €105 million financed by foreign development banks, and a major wind farm, the construction of which is expected to start in 2025 and will be procured as PPP.
Tackling non-technical losses through stronger penalization of theft, while continuing to seek options to implement the Brussels' agreement energy protocols.	*Some progress*. Non-technical losses related to unpaid energy consumption in four northern municipalities are no longer shouldered by the budget. The new licensed company for that region, Elektrosever, is billing customers in the north. Financial loses—if any—are not going to be borne by the Treasury. Some progress also been made by KEDS, a distribution company, which together with Police has taken number of actions to remove illegal connections to the grid.
A gradual implementation of carbon pricing would strengthen price signals, promote a more efficient use of energy, and reduce carbon intensity.	*Some progress*. The authorities have established a working group that prepared a draft report discussing the implications of the EU carbon price initiative for Kosovo as part of the RSF. As part of the Energy Strategy for the Republic of Kosovo 2022-2031, the authorities had announced intentions of increasing carbon pricing starting in 2025.
Hiring additional commercial court judges will help reduce the case backlog, increase economic security, and reduce informality.	*Some progress*. The number of judges in the commercial court now stands at 18, including the chairman. Since the establishment of this court, 10,600 cases been solved as of the end of June. With the help from USAID, a new strategy 2024–25 has been drafted. According to TAK, its administrative measures to strengthen compliance have reduced informality.

Recommendation	Status
Establishing the beneficial ownership registry will further strengthen transparency and tackle conflicts of interest in public procurement.	*Some progress*. The government passed the first reading of the law "On the Registry of Beneficial Owners" in February 2024.
Closing AML/CFT gaps in line with FATF standards and building prosecution and law enforcement capacity to handle money laundering and conduct financial investigations, are also essential.	*Some progress.* The Ministry of Finance, Transfers and Labor has prepared a concept document on the new law on AML/CFT that aims for compliance with the EU directives and has updated the National Risk Assessment. The CBK signed an MOU with the FIU in 2023 to facilitate the exchange of information and the building of supervisory capacity for compliance with international standards.
The law on targeted international financial sanctions should also be implemented.	*Implemented*. The law was adopted in 2023.

Annex II. 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 over the medium-term, reaching 29 percent of GDP by 2033, below the authorities' fiscal-rule limit of 40 percent of GDP.[1] Policies are firmly backed by fiscal rules, and Kosovo has a proven track record of implementing sound macroeconomic policies.

B. Background

2. **Kosovo's public debt is well below its 40 percent of GDP legal ceiling.** Public debt includes consolidated general government debt and guarantees. Public debt fell from 20 percent of GDP in 2022 to 17½ percent of GDP in 2023 and further to 16 percent of GDP in 20204H1. Lack of external budget support and restrictions in the domestic securities market resulted in a drawdown of Treasury deposits at the CBK in 2023 from 4 percent of GDP in 2022 to 2½ percent of GDP in 2023.[2] [3] External debt (about 40 percent of total debt) mainly comprises liabilities to the WB and EU. 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—CBK (22 percent). In December 2023, an EBRD guarantee for the Deposit Insurance Fund (€24 million) expired. Currently, only an EBRD guarantee for the Pristina Urban Transport company remains active (€4 million).

Structure of Public Debt
(In percent of GDP)

	2023	2024H1
Multilateral and bilateral external debt	7.2	6.8
Domestic debt	9.9	9.3
Guarantees	0.3	0.0
Total	**17.4**	**16.1**

Sources: Kosovo Treasury and IMF staff estimates.

C. Risk Analysis

3. **Staff assess the risk of medium-term sovereign stress as 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 2.9, below the low-risk threshold (7.6) and well below the high-risk threshold (17.9).

[1] 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 external funds (investment clause). The exclusion will expire in 2025.

[2] Limited domestic demand for bonds was explained by delays in the appointment of members of the pension trust fund (KPST) Board, the main player in the domestic debt market.

[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 (SIP).

- **The debt fanchart module points to moderate risk of sovereign stress.** Public debt is projected to increase from 17½ percent of GDP in 2023 to 29 percent of GDP in 2033. The probability of debt non-stabilization is high—but from a very low starting point. Uncertainty, proxied by the fanchart width, is high, reflecting volatility due to exposure to external shocks, including dependance on remittances to offset large structural trade imbalances. These factors combined result in a debt fanchart index of 1.63, 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 initial point with debt closely linked to higher public investment (partly financed by IFIs and European institutions), staff assesses the risk as moderate.

- **The overall Medium-Term Index (MTI) indicates low risk.** The MTI is 0.21, 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 (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 legal 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 scheme. [4] Two other significant components of pension spending—ex-contributory pensions (those who contributed to the former Yugoslav pension fund) and war-veteran pensions—are expected to decline over the long term.

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

Macroeconomic Assumptions

- Real GDP is projected at 4¼ 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 in 2024—to about 2 percent. In the medium-term, given full euroization, inflation should remain at 2 percent.

- The primary deficit is projected at around 1½ percent of GDP in 2025 on account of recent social benefits and wage measures. Over the medium term, the expiration of the investment clause in 2025 will result in a 2.0 percent of GDP ceiling to the general government deficit.

- Gross international reserves are expected to increase from 15 percent of GDP by end-2023 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. For 2024 only an operation with the OPEC Fund for International Development is included (US$40 million or €37 million). A budget support operation with the World Bank is expected to be disbursed in 2025 (US$100 million or €93 million). An advanced payment from the EC New Growth Plan for the Western Balkans (€60 million) is expected in 2025. After 2025, about €50 million in

[4] The fully funded scheme is managed by KPST, a trust fund that held assets for 28 percent of GDP by end-2023.

Annex II. Box 1. SRDSF Key Macroeconomic and Financing Assumptions (Concluded)

budget support loans are expected every year. They could come from EC New Growth Plan for the Western Balkans or other partners (e.g., KfW). No official international market issuances are considered in the baseline.

- External private financing. No private 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 €100–250 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 by1.1 ppt. of GDP to 39.8 percent of GDP in 2023, continuing the upward trend observed in recent years (with a cumulative increase of 8 ppt. of GDP during 2019–22). Private sector external debt (not publicly guaranteed) increased by 1.2 ppt. in 2023, offsetting the decline of around 0.1 ppt. of GDP in public and publicly guaranteed debt due to the rescheduling of two budget support operations initially anticipated for 2023 to 2024. In 2024, the external debt-to-GDP ratio is expected to increase by 0.7 ppt. of GDP to 40.4 percent of GDP, mainly because of a widening current account deficit. In the medium term, the external debt-to-GDP ratio is projected to remain stable at around 46 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

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 with a low financeability mechanical signal, and a moderate signal in the fanchart module. Although public debt will increase over the medium term, it will do so from a low starting point, remaining below the 40 percent of GDP legal ceiling.
Fanchart	Moderate	…	
GFN	Low	…	
Stress test	…	…	
Long term	…	Moderate	Long-term risks are assessed as moderate. Debt is projected to increase but from a small level. Risks from population aging are moderate given a pension structure with a strong self-funded component and a young population.
Sustainability assessment	Sustainable	Sustainable	Public debt-to-GDP ratio is projected to increase in the medium-term but remain below the 40 percent of GDP limit stated in the rules-based fiscal framework.
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Kosovo is at a low overall risk of sovereign stress, and its debt is sustainable. To address the large infrastructure gap, debt is expected to rise but within the fiscal framework limits. The authorities need to work on structural reforms to improve the efficiency and effectiveness of public spending. This would allow them to build strong liquidity buffers required to hedge the financial sector in a unilaterally euroized 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 without 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 where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

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

Comments

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
	chosen			

1a. If central government, are non-central government entities insignificant? n.a.

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

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

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen	chosen	chosen	missing	missing

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

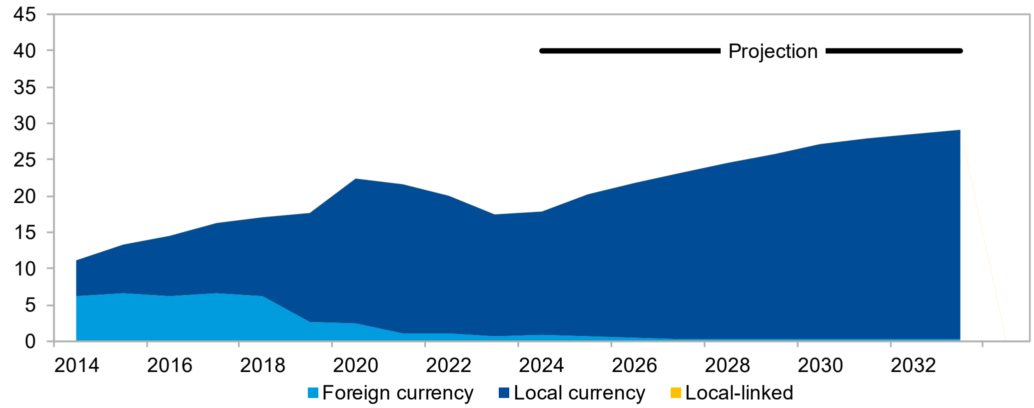
				#	Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State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

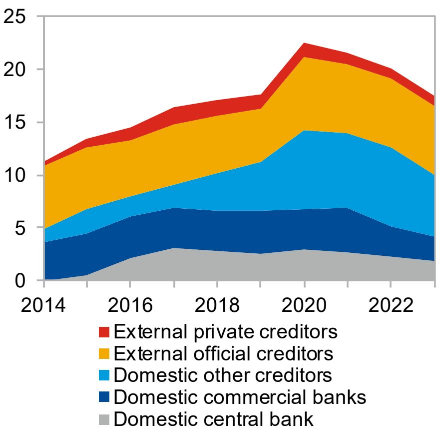
Kosovo: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



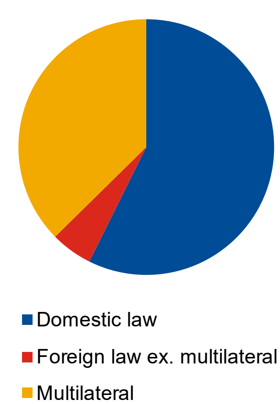
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



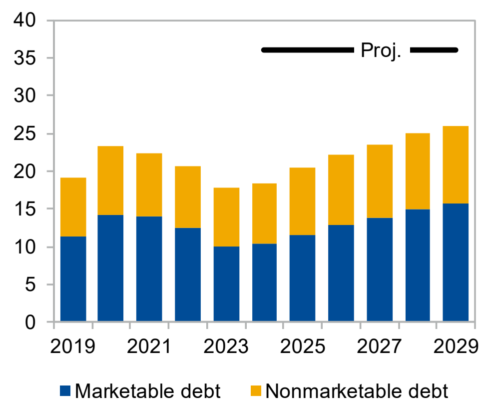
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



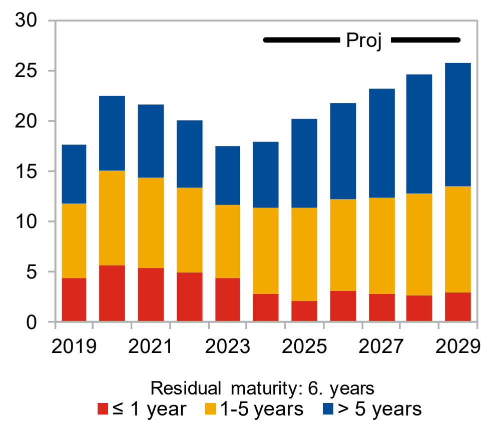
Note: The perimeter shown is general government.

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.

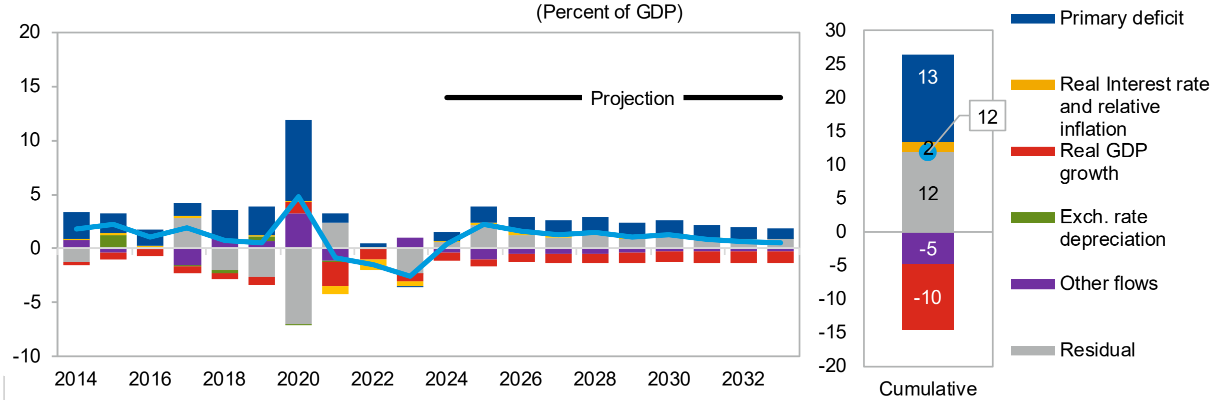
Annex II. Table 2. Kosovo: Baseline Scenario

(Percent of GDP, unless indicated otherwise)

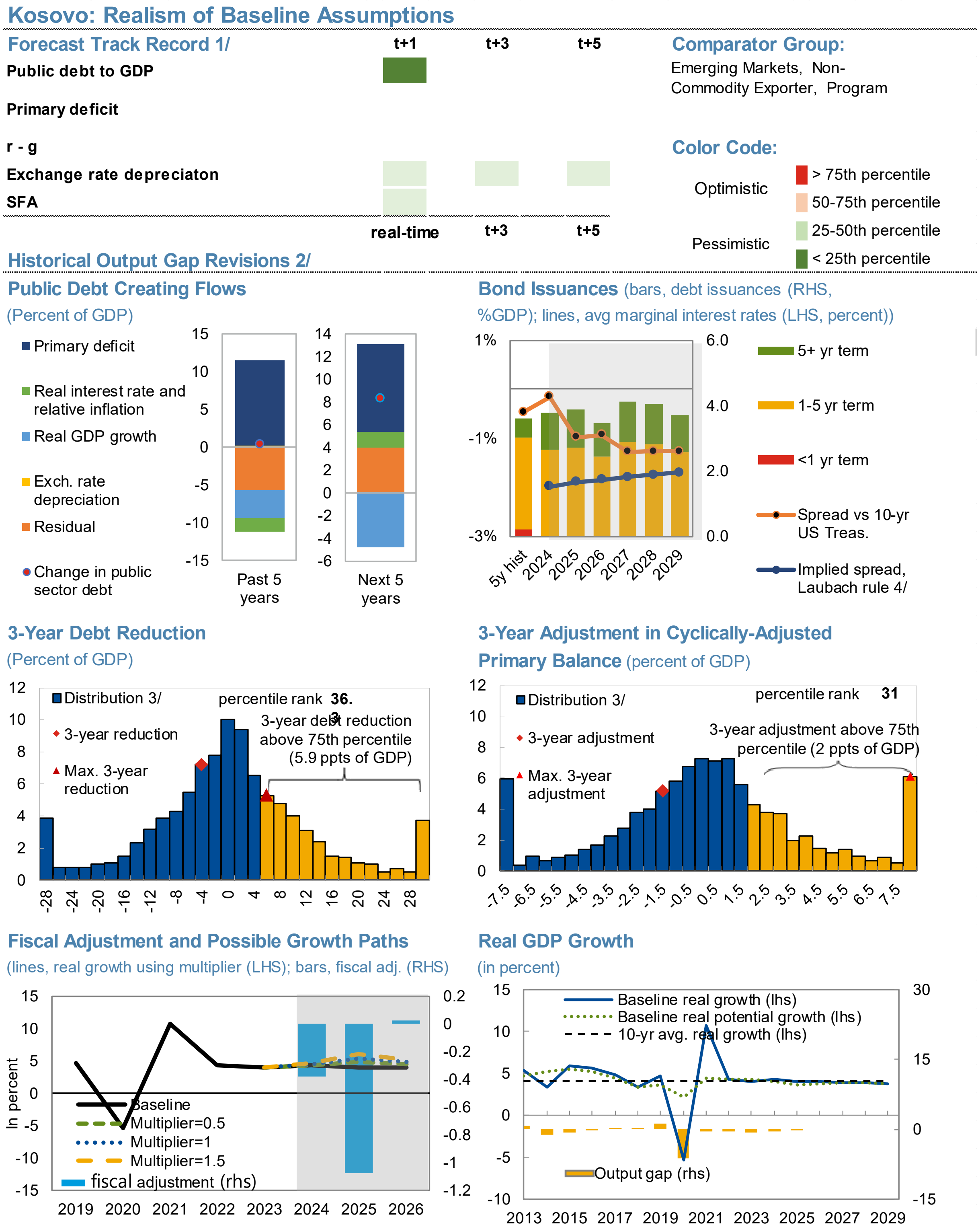
	Actual	Medium-Term Projection						Extended Projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	17.5	17.9	20.2	21.8	23.1	24.7	25.8	27.1	27.9	28.5	29.0
Change in public debt	-2.6	0.4	2.3	1.6	1.3	1.5	1.1	1.3	0.8	0.6	0.5
Contribution of identified flows	-0.4	-0.2	0.0	0.4	0.3	0.3	0.2	0.0	-0.1	-0.2	-0.4
Primary deficit	-0.2	0.8	1.6	1.3	1.3	1.3	1.3	1.2	1.1	1.1	1.0
Noninterest revenues	29.5	29.6	29.5	29.4	29.4	29.3	29.3	29.3	29.3	29.3	29.3
Noninterest expenditures	29.3	30.5	31.1	30.7	30.7	30.6	30.6	30.5	30.4	30.3	30.3
Automatic debt dynamics	-1.2	-0.6	-0.6	-0.4	-0.5	-0.6	-0.7	-0.9	-1.0	-1.0	-1.0
Real interest rate and relative inflation	-0.4	0.1	0.1	0.4	0.3	0.3	0.2	0.1	0.0	0.0	0.0
Real interest rate	-0.4	0.1	0.1	0.4	0.3	0.3	0.2	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	-0.8	-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	1.0	-0.4	-1.0	-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	-0.4	-1.0	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3
Contribution of residual	-2.2	0.6	2.2	1.3	1.0	1.3	0.9	1.3	1.0	0.9	0.9
Gross financing needs	3.4	4.5	4.7	4.0	5.0	4.8	4.9	5.0	5.2	5.2	5.2
of which: debt service	3.6	3.7	3.2	2.7	3.7	3.4	3.6	3.8	4.1	4.2	4.2
Local currency	3.4	3.6	2.9	2.5	3.6	3.4	3.5	3.7	4.0	4.1	4.2
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)	4.1	4.3	4.0	4.0	3.9	3.9	3.8	3.8	3.8	3.8	3.8
Inflation (GDP deflator; percent)	4.6	1.8	2.4	2.0	1.9	1.9	2.0	2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	8.8	6.2	6.5	6.0	5.9	5.9	5.9	6.0	6.0	6.0	6.0
Effective interest rate (percent)	2.5	2.3	3.1	3.8	3.6	3.2	2.9	2.8	2.6	2.6	2.5

Contribution to Change in Public Debt

(Percent of GDP)



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



Commentary: The recovery from COVID-19 will impart complex 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

Kosovo: Medium-Term Risk Analysis

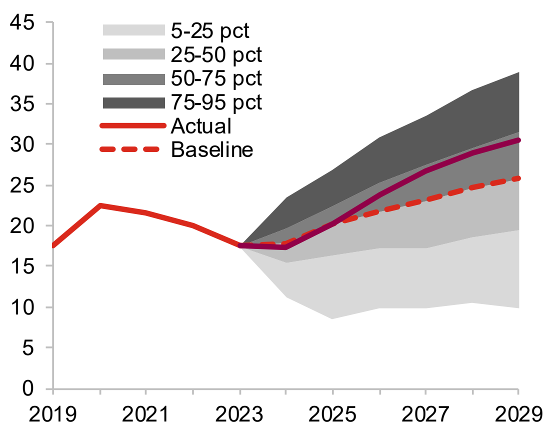
Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

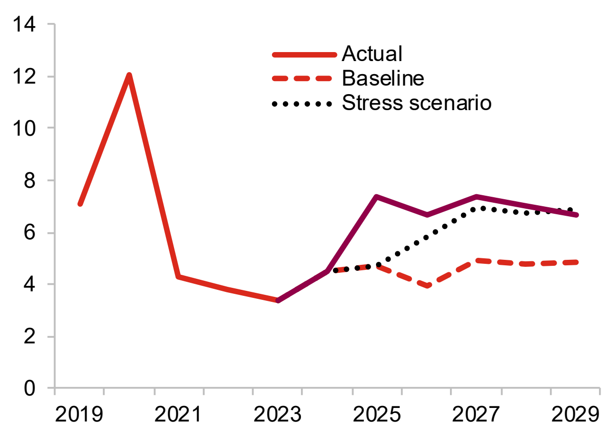
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program (0 / 25 / 50 / 75 / 100)
Debt fanchart module	Fanchart width	29.1	0.4	…	
	Probability of debt not stabilizing (pct)	98.6	0.8	…	
	Terminal debt level x institutions index	17.3	0.4	…	
	Debt fanchart index	**…**	**1.6**	**Moderate**	
GFN finance-ability module	Average GFN in baseline	4.6	1.6	…	
	Bank claims on government (pct bank assets)	3.1	1.0	…	
	Chg. in claims on govt. in stress (pct bank assets)	0.9	0.3	…	
	GFN financeability index	**…**	**2.9**	**Low**	

Legend: Interquartile range; Kosovo

Final Fanchart (Percent of GDP)



Gross Financing Needs (Percent of GDP)

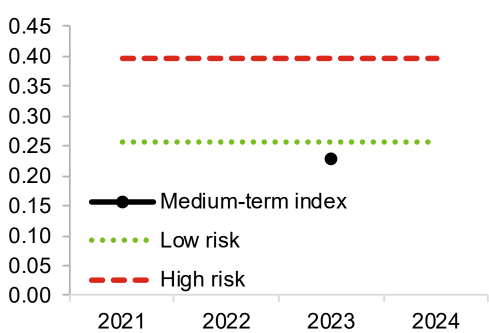


Triggered stress tests (stress tests not activated in gray)

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	0.4
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): 52.3 pct.

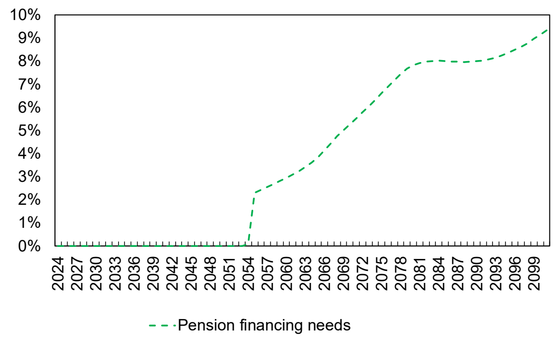
Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to moderate level of risk, while the GFN Financeability Module suggests low level of risk. In a standard stress scenario, which assumes the real GDP growth to decline by 1 percentage point for 2 years in 2024-25, interest 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

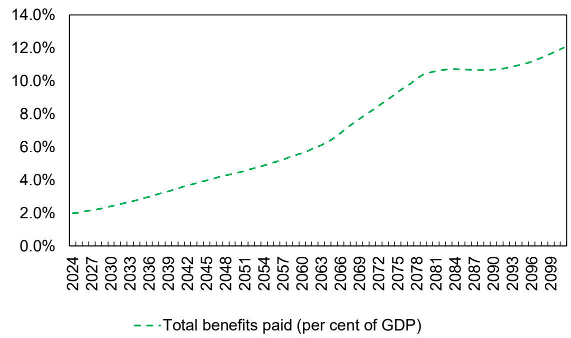
Demographics: Pension

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%	1.73%	4.65%

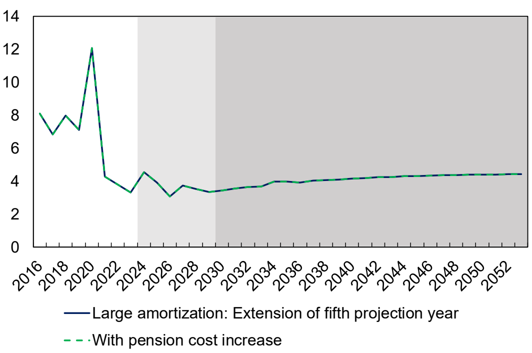
Pension Financing Needs



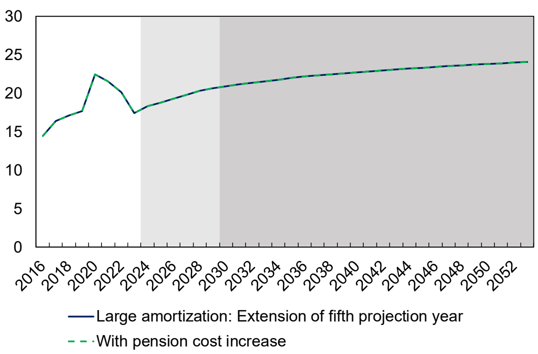
Total Benefits Paid



GFN-to-GDP Ratio

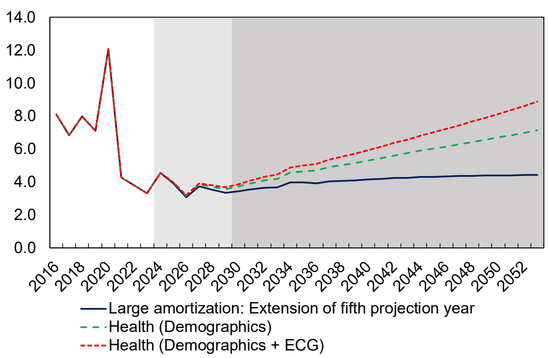


Total Public Debt-to-GDP Ratio

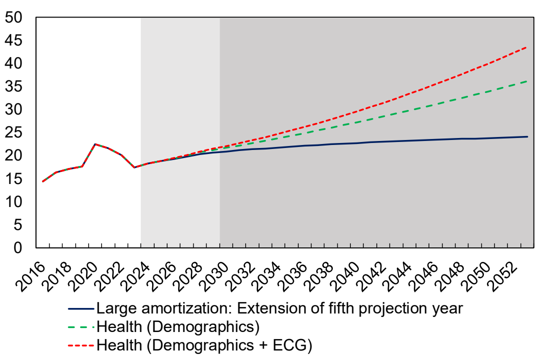


Demographics: Healthcare

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



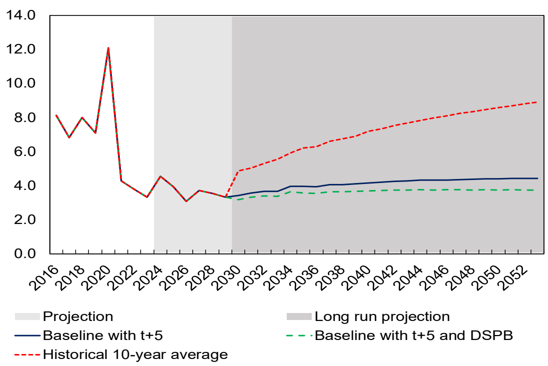
Annex II. Figure 5. Kosovo: Long-Term Risk Assessment (Concluded)

Large Amortization

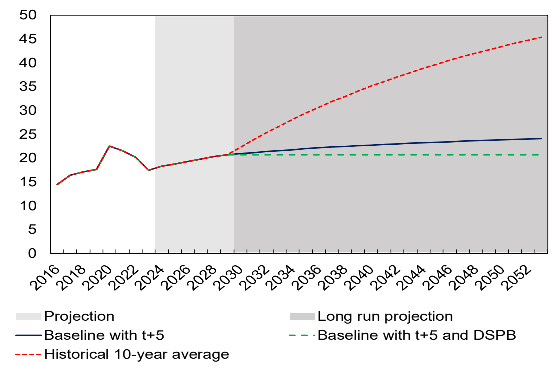
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP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

Overall Risk Indication	

GFN-to-GDP Ratio

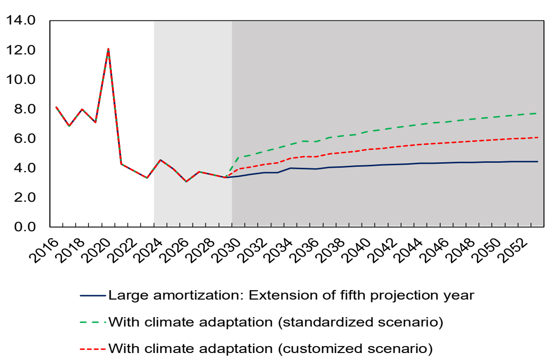


Total Public Debt-to-GDP Ratio

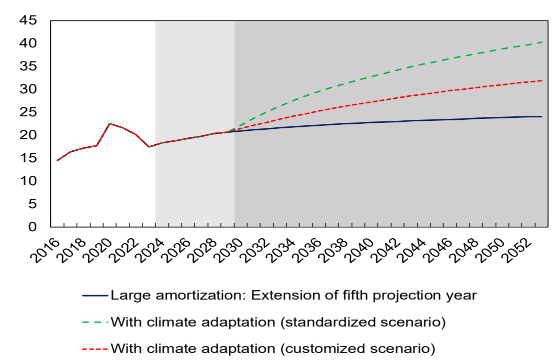


Climate Change: Adaptation

GFN-to-GDP Ratio

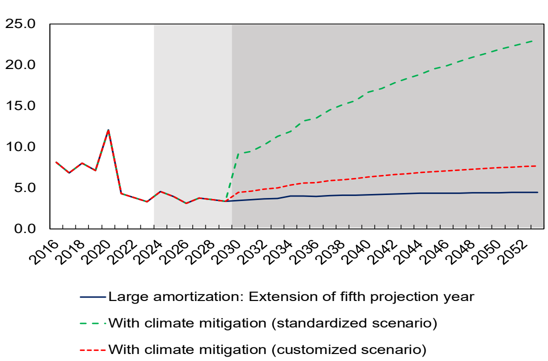


Total Public Debt-to-GDP Ratio

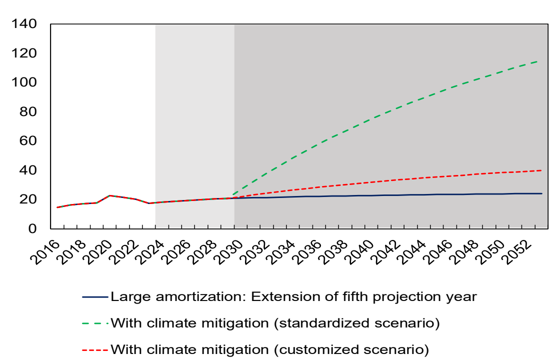


Climate Change: Mitigation

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)			Debt Service					
	2023			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%	17.5%	337.3	396.2	349.8	3.5%	3.9%	3.2%
External	692.8	41.0%	7.2%	60.6	90.2	93.2	0.6%	0.9%	0.9%
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%	0.3%	0.3%
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%	0.1%	0.0%
o/w: KfW Dev. Bank	16.9	1.0%	0.2%	7.2	5.2	3.0	0.1%	0.1%	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%	3.0%	2.3%
T-Bills	…								
Bonds	970.2	57.4%	10.0%	276.7	305.9	256.6	2.9%	3.0%	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	9,679.9			9,679.9	10,278.9	10,949.5			

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.

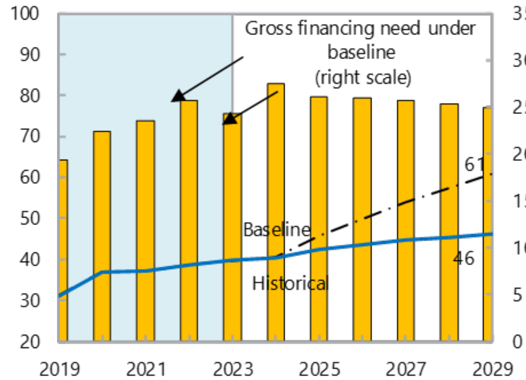
3/ Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

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.

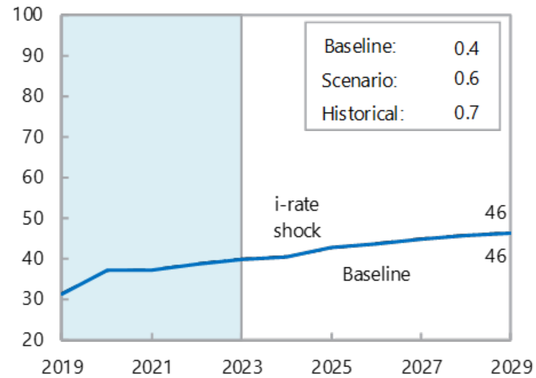
5/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements). For Kosovo, public guarantees onlending are already included in debt stock.

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

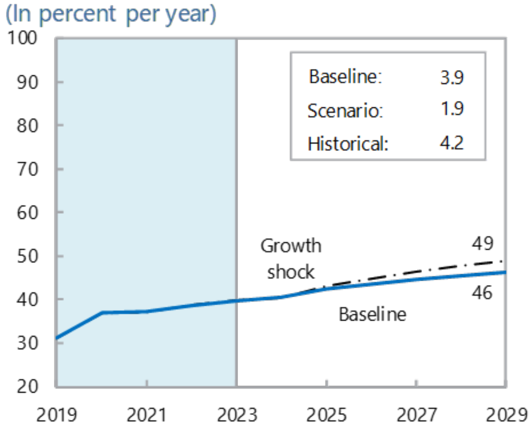
Baseline and Historical Scenarios



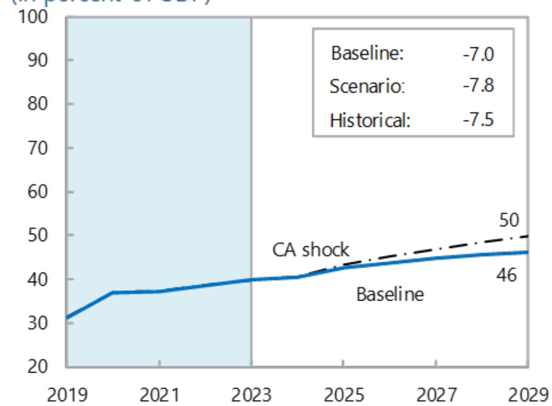
Interest Rate Shock
(In percent)



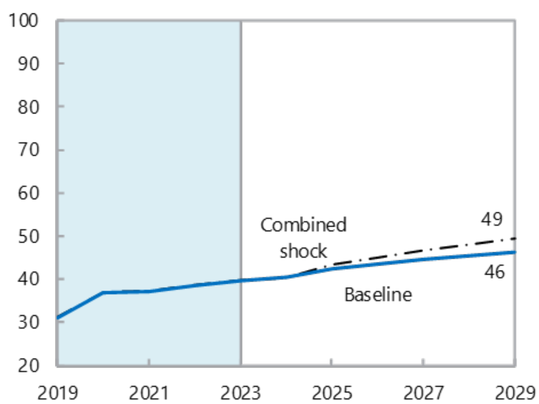
Growth Shock
(In percent per year)



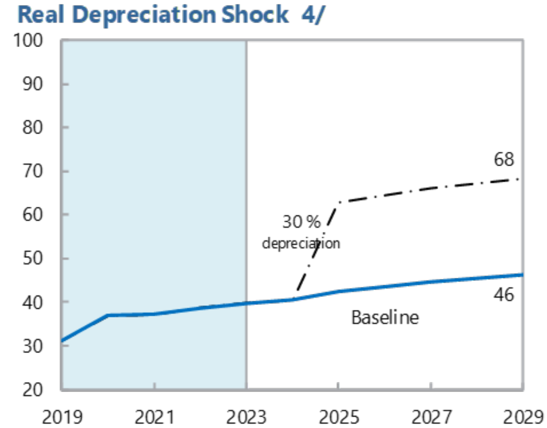
Non-interest Current Account Shock
(In percent of GDP)



Combined Shock 3/



Real Depreciation Shock 4/



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/**
1 **Baseline: External debt**	31.2	37.0	37.1	38.6	39.8			**40.4**	**42.5**	**43.6**	**44.7**	**45.4**	**46.1**	**-7.3**
2 Change in external debt	0.7	5.8	0.2	1.5	1.1			0.7	2.1	1.1	1.0	0.8	0.7	
3 Identified external debt-creating flows (4+8+9)	2.2	2.8	3.4	1.1	2.0			2.1	0.0	-0.2	-0.3	-0.4	-0.5	
4 Current account deficit, excluding interest payments	5.4	6.8	9.4	10.1	7.3			9.5	8.2	7.5	6.9	6.4	5.9	
5 Deficit in balance of goods and services	27.1	32.2	31.8	32.8	30.7			31.3	30.9	30.1	29.4	28.9	28.6	
6 Exports	29.3	21.7	33.4	38.6	39.6			42.3	42.6	43.3	43.8	43.9	44.0	
7 Imports	56.4	53.9	65.2	71.4	70.3			73.6	73.5	73.3	73.2	72.9	72.6	
8 Net non-debt creating capital inflows (negative)	-1.8	-5.4	-0.5	-5.3	-2.4			-6.1	-6.8	-6.3	-5.8	-5.3	-4.9	
9 Automatic debt dynamics 1/	-1.4	1.4	-5.5	-3.7	-2.9			-1.3	-1.4	-1.4	-1.4	-1.5	-1.5	
10 Contribution from nominal interest rate	0.2	0.1	0.0	0.2	0.3			0.3	0.2	0.2	0.2	0.2	0.2	
11 Contribution from real GDP growth	-1.4	1.7	-3.4	-1.4	-1.4			-1.6	-1.5	-1.6	-1.6	-1.6	-1.6	
12 Contribution from price and exchange rate changes 2/	-0.3	-0.4	-2.1	-2.5	-1.7			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-1.5	2.9	-3.3	0.4	-0.9			-1.4	2.1	1.3	1.3	1.1	1.2	
External debt-to-exports ratio (in percent)	106.4	170.2	111.2	100.0	100.3			95.6	99.7	100.8	101.9	103.4	104.8	
Gross external financing need (in millions of euros) 4/	1366.1	1514.9	1876.7	2287.4	2356.6			2831.9	2855.0	3013.4	3154.6	3301.8	3445.2	
in percent of GDP	19.4	22.4	23.6	25.7	24.3	10-Year	10-Year	27.6	26.1	26.0	25.7	25.4	25.0	
Scenario with key variables at their historical averages 5/								**40.4**	**45.8**	**49.9**	**53.8**	**57.3**	**60.7**	**-6.3**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	4.8	-5.3	10.7	4.3	4.1	4.2	4.0	4.3	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	4.6	2.5	2.5	1.8	2.4	2.0	1.9	1.9	2.0	
Nominal external interest rate (in percent)	0.8	0.4	0.1	0.6	0.8	0.7	0.3	0.8	0.4	0.4	0.4	0.4	0.4	
Growth of exports (Euro terms, in percent)	6.7	-28.9	80.9	29.2	11.7	15.4	27.6	13.2	7.5	7.6	7.2	6.2	6.2	
Growth of imports (Euro terms, in percent)	4.3	-8.3	42.2	22.3	7.2	10.6	13.5	11.0	6.4	5.8	5.7	5.5	5.5	
Current account balance, excluding interest payments	-5.4	-6.8	-9.4	-10.1	-7.3	-7.5	1.6	-9.5	-8.2	-7.5	-6.9	-6.4	-5.9	
Net non-debt creating capital inflows	1.8	5.4	0.5	5.3	2.4	2.9	2.7	6.1	6.8	6.3	5.8	5.3	4.9	

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 (July 26, 2024)[1]

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
Conjunctural risks		
High **Intensification of regional conflict(s).** Escalation or spread of the Israel-Gaza conflict, 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 in Ukraine could 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 result 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 higher 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.** Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures, and food insecurity 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 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
High **Social discontent.** High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing.	**Medium** Social discontent could 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.
Medium/Low **Global growth surprises:** **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. **Medium** **Acceleration.** Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions. **Low**	**High** An economic slowdown in Europe will weigh on Kosovo's growth through reduced consumption, investment, 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 uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	**Medium** Increased inflation could lead to increase social discontent in Kosovo.	Given its unilateral euroization, monetary policy miscalibration is related to ECB not to the CBK. Design targeted and temporary policies to cope with additional commodity price shocks. Fiscal transfers should be more 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 elevated policy uncertainty (including 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 could 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. Improve the monitoring of key sectors such as the real estate sector.

B. Domestic Risks

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
Geopolitical Risks		
High **Escalation of tensions in northern Kosovo.** Rising tensions in Kosovo's northern municipalities.	**High** An escalation of tensions in Kosovo's northern municipalities could delay progress in the dialogue with Serbia and constrain access to EU and bilateral financing. It may also reduce investment, tourist arrivals, and international support.	Engage in the EU-sponsored dialogue and implement EU-Stabilization and Association Agreement 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** Accelerated emigration to the EU 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

Annex IV. Capacity Development Strategy

A. Background

1. Kosovo benefits considerably from IMF CD across major areas, although absorption capacity is a challenge. Kosovo relies on IMF CD to support implementation of the authorities' reform agenda, to build and strengthen institutions, and to improve policy frameworks. Close coordination with other international partners is important. Significant staff turnover contributes to relatively weak absorption.

Recent IMF CD engagement has included:

- **FAD** support on tax policy (diagnostic of the tax system and of analytical capacity); revenue administration (TADAT performance assessment, data warehouse development, compliance risk management, institutional organization and performance assessment of tax administration, IT modernization, tax audit, tax debt collection, large taxpayer office); public financial management (development of independent fiscal oversight, managing fiscal risks, medium-term expenditure frameworks, public investment management, recording of arrears and multi-year contractual commitments, cash management); and expenditure policy (sustainability, adequacy and equity of pensions).

- **MCM** support on financial supervision and regulation (FSSR, micro and macro-prudential policies, risk-based supervision, insurance supervision, IFRS implementation, stress testing, cyber-risk supervision); and central bank operations (CBK governance, foreign exchange reserve management, and CBL operational risk management).

- **STA** support on price statistics (CPI inflation, residential property price index); national accounts statistics (GDP); government finance statistics (compilation and dissemination of GFS in accordance with the guidelines of the GFSM 2014 and the ESA 2010); and financial institutions statistics (review of monetary data based on the IMF standardized report forms for central banks, other depository corporations and other financial corporations).

In addition, **FIN** conducted a safeguards assessment for the CBK, which led to focused CD to address some of the weaknesses identified by the assessment.

B. Near-Term CD Priorities

- **Tax Policy.** Establishing capacity for regular tax expenditure analysis, evaluating tax reform proposals, improving environmental and natural resource taxation, property taxation, and other tax topics relevant for further alignment with EU and OECD standards.

- **Revenue Administration.** Sustaining recent efforts to enhance taxpayer compliance, digitalization, data analytics and designing a modern data warehouse.

- **Public Financial Management.** Strengthening cash forecasting, support in implementation of the recent PIMA recommendations, budget preparation and gender budgeting, continued support to strengthen monitoring and managing fiscal risks.

- **Financial Sector Supervision.** Preparations for the introduction of SREP approach and assessment of implementation of 2019 FSSR recommendations, strengthening capacity for stress testing. Continued improvement is needed for both bank and non-bank financial institutions data.

- **Central Bank Operations.** Finalization of inventory of the draft law on the Central Bank of Kosovo and central bank operational risk management.

- **National Account Statistics.** Implementation of proper reconciliation between quarterly and annual figures of GDP and components.

- **Price Statistics.** Developing adequate price indexes required to compute volume estimates of value added in different sectors.

- **External Sector Statistics.** Analysis of large errors and omissions to help identify their sources and develop more accurate methods for compiling external sector statistics.

Annex V. Data Issues

Annex V. Table 1. Kosovo: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	A	A	A	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	B	A	A		
Granularity 3/	B		A	A	B		
			B		A		
Consistency			B	C		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. The data collection and dissemination have some shortcomings but are broadly adequate for surveillance. However, there are some issues related to: i) large revisions to national accounts of more than one percentage point in previous years and inconsistency in quarterly and annual data releases; ii) lack of real GDP data released in chain-linked prices; iii) long release lags for some data series (e.g., labor market statistics); iv) lack of granularity in data (e.g., industrial production); v) large errors and omission that are substantially higher than median Fund membership, averaging 2.2 percent of GDP over 2018-2022.

Changes since the last Article IV consultation. No major changes in KAS and CBK since the last Artivle IV consulation. Tax administration is now publishing business turnover, number of employees, tax declerations, reimbursements compared to the previous AIV.

Corrective actions and capacity development priorities. The Kosovo Agency of Statistics received TA on National Accounts in September 2024. Implementation of recommendation from this TA, and the previous mission, would help to improve the national account statistics and address some of data adequacy shortcomings.

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff does not use any data and/or estimates in the staff report in lieu of official statistics

Other data gaps. Timely release of quarterly data on wages, employment, and unemployment would help with assessing the overall health of the economy. Publication of real estate market prices in development by KAS. Timely report of arrears (at least on a quarterly basis). Large errors and omissions in the BOP data could be improved.

Annex V. Table 2. Kosovo: Data Standards Initiatives

Kosovo participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since May 2017. Kosovo intends to join the SDDS.

Annex V. Table 3. Kosovo: Table of Common Indicators Required for Surveillance

As of September 9, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Kosovo[8]	Expected Timeliness[6,7]	Kosovo[8]
Exchange Rates	Nov-24	Oct-24	Monthly	Monthly	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep-24	Oct-24	Monthly	Monthly	M	M	1M	2W
Reserve/Base Money	Sep-24	Oct-24	Monthly	Monthly	M	M	2M	25D
Broad Money	Sep-24	Oct-24	Monthly	Monthly	M	M	1Q	25D
Central Bank Balance Sheet	Sep-24	Oct-24	Monthly	Monthly	M	M	2M	25D
Consolidated Balance Sheet of the Banking System	Sep-24	Oct-24	Monthly	Monthly	M	M	1Q	25D
Interest Rates[2]	Sep-24	Oct-24	Monthly	Monthly	M	M	...	25D
Consumer Price Index	Oct-24	Nov-24	Monthly	Monthly	M	M	2M	30D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Sep-24	Oct-24	Monthly	Monthly	A	M	3Q	2M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Sep-24	Oct-24	Monthly	Monthly	Q	M	1Q	2M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Sep-24	Nov-24	Quarterly	Quarterly	Q	Q	2Q	2M
External Current Account Balance	Aug-24	Oct-24	Monthly	Monthly	Q	M	1Q	60D
Exports and Imports of Goods and Services	Sep-24	Oct-24	Monthly	Monthly	M	M	12W	40D
GDP/GNP	2024Q2	Sep-24	Quarterly	Quarterly	Q	A	1Q	10M
Gross External Debt	2024Q1	Jul-24	Quarterly	Quarterly	Q	Q	2Q	90D
International Investment Position	2024Q2	Sep-24	Quarterly	Quarterly	A	Q	3Q	90D

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[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 funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VI. Implementation of Key FSSR Recommendations

1. Enhance Central Bank Governance

No	Key Recommendations	Priority[1]	Timeframe[2]	Comments
1	Restart the process to appoint a fourth non-executive member to the Central Bank Board in accordance with the Central Bank Law. (¶26)	H	ST	The last non-executive member of the CBK Board was appointed, completing the composition of the Board.
2	Review the effectiveness of the operation of the CBB. (¶27)	MH	MT	The CBK Board approved the Rules of Procedure in accordance with the recommendation in FSSR and Safeguards Assessment. Also, the Annual Work Plan for the CBK Board and the Audit Committee was approved to enhance the effectiveness and oversight of the Board's operations.
3	Enhance the composition of the Executive Board and review its effectiveness. (¶29–30)	H	ST	The new Governor was appointed in Aug. 2023, the Deputy Governor for Banking Operations was appointed in Oct. 2023, and the two remaining Deputy Governors were appointed in Jan. 2024, completing the Executive Board composition. The position of Deputy Governor for General Functions was filled after being vacant for several years, ensuring that all departments are now represented and the CBK governance benefits from having three Deputy Governors to avoid concentration of power in accordance with the recommendations of the FSSR.
4	Review and update the organizational structure of the CBK and refresh documented roles and responsibilities to ensure the structure is clear to all staff at all levels. (¶28)	H	ST	Based on the recommendation, the new organizational structure, along with the description of roles and responsibilities, was approved in November 2023.
5	Review the effectiveness of other decision-making structures and committees. (¶24)	MH	MT	The Executive Board has reviewed the Terms of the Macroprudential Committee and established the Risk Committee for the first time, in accordance with the recommendations. The Macroprudential Committee is now chaired by the Financial Stability Department, and consists of the Governor and Executive Board members, and the representatives from other relevant departments, such as Banking Supervision, Insurance Supervision, Licensing, and Standardization.The CBK also reviewed the role and composition of the Investment Committee, with the support by the IMF MCM Department.
6	Embed risk management within the CBK and its governance arrangements. (¶31)	MH	MT	The Risk Committee was established in April 2024. A new Director has been recruited for the Risk Management Department. An IMF TA supported the review of the Committee's terms and the definition of its roles and functions. The composition, functions, and reporting structure of the Committee were clearly outlined, and its first meetings have already been held.

2. Effective and Efficient Financial Supervision and Regulation

No	Key Recommendations	Priority[1]	Timeframe[2]	Comments
	Banking sector			
1	Undertake an in-depth analysis of the staffing requirements that are currently needed and will be needed in day-to-day supervision and policy. (¶36, 53)	H	IM	Human resources capacity in the Banking Supervision Department was consolidated for the appropriate skills and competencies. Three senior and one junior bank supervisor were hired, facilitating two internal transfers and two from the private banking sector to further enhance team's expertise, as of end-September 2024. In October 2024, job advertisements for the remaining vacant positions in the
2	Remove any remaining doubt concerning the protection of staff against the costs of defending their actions and/or omissions made while discharging their duties in good faith. (¶38, 54)	H	IM	The CBK Law defines the institution's obligation to protect its staff in this aspect. The internal processes need to be revised to ensure that financial support is automatically approved once the criteria are met, without being subject to any discretionary approval.
3	As part of the ongoing review of the list of Regulations, ensure that necessary risks and issues are dealt with (e.g., country and transfer risks, cyber risk, and certain aspects of market risk) and re-examine existing ones to ensure that they reflect the latest thinking. (¶39, 54)	MH	ST	Regulation on Country and Transfer Risk Management Principles has been approved in April 2024. In addition, the D&O liability insurance under BBB policy is being introduced.
4	In relation to the applications for banking licenses, require full details of the business and professional history of directors and senior management, as well as for principal shareholders of the proposed bank. (¶41, 54)	MH	ST	It is addressed with the changes in the new law on banks, currently under consideration in Parliament.
5	Intensify efforts with the ECB to participate in the Raiffeisen supervisory college and to be party to its resolution and recovery plans. (¶42, 54)	H	IM	CBK has signed a memorandum of understanding with the European Banking Authority, which indirectly includes cooperation with the Austrian regulator. Efforts to establish participation in the Raiffeisen Supervisory College are ongoing.
6	Introduce a formal regime for regular meetings with the banks' external auditors. (¶44, 54)	MH	ST	Regular meetings are taking place.
7	Integrate stress tests exercises with the financial stability area and communicate the results to the banks. (¶54, 99, 107)	H	MT	Stress test integration is concluded. Close cooperation with DAESF is established. The integration of the stress test between DAESF and DMB took place during the year 2021, but it is necessary to advance the inclusion of DMB in the process of compiling the stress test.
8	Establish supervisory procedures that would be required during periods of stress and conduct periodic tests on the operational procedures for granting of ELA. (¶47, 54)	H	ST	An inter-departmental group is developing the Crisis Management Framework, including (i) a revised emergency liquidity support regulation, (ii) a TOR for the Committee on the Supervision and Coordination of the Implementation of Emergency Liquidity Support, (iii) internal procedure on emergency support for liquidity, (iv) solvency tests and deductions (haircuts) for collateral, (v) an internal crisis communication strategy.The ELA framework will be finalized by end-2024.
9	Develop tools for a more thorough assessment of credit risk, based on granular data from the CR. (¶48, 54)	MH	MT	Credit Register methodology was amended to require financial institutions to report a number of new data points, which will complement the current database and provide additional sources for thorough assessments of credit risk. The amended methodology has been sent to financial institutions for comment, and the CBK is currently reviewing and revising the methodology for data collection to enhance it.
10	Require banks to define scenarios forecasting disturbances to payment and settlement systems, for the purpose of operational risk management. (¶46, 54)	H	IM	The Payment System Department has begun to provide information on the use of the intraday liquidity facility on a quarterly basis for DMB.
11	Improve offsite monitoring tools for a better comprehension of banks' exposure to liquidity risk. (¶50, 54)	H	IM	Liquidity risk remains high in CBK's supervisory agenda. Supervisory activities in closely monitoring of this risk have been intensified. The CBK is collecting weekly data on the deposit movements and their compositions in relation to the concentration in large deposits, LCR calculation, data related to the loans, loan to deposit ratio, etc.
12	Finalize the implementation of repo (repurchase agreement) facilities between the CBK and financial institutions, maturing over the intraday lag. (¶52, 54)	H	IM	Regulation on the Repurchase of Securities with the CBK was approved and entered into force in April 2019. Following the approval, there were continous REPO transactions in the market, executed through the Central Securities Deposity system (CSD). The CBK can provide the list REPO and Intraday transactions in the market.
13	Implement Basel III liquidity standards. (¶49, 54)	H	ST	Following the approval of the Regulation on Liquidity (LCR and NSFR), the CBK has been in line with Basel III requirements. The respective regulations entered into force on January 1, 2023.

No	Key Recommendations	Priority[1]	Timeframe[2]	Comments
	2. Effective and Efficient Financial Supervision and Regulation			
No	**Key Recommendations**	**Priority[1]**	**Timeframe[2]**	**Comments**
	Insurance sector			
1	Update the premium rate pricing of the mandatory motor third-party liability (MTPL) product and develop a process to regularly review the pricing as risk factors evolve. (**¶59, 71)**	**H**	**ST**	The CBK, with World Bank support, is reviewing the current methodology on the assessment of risk exposure for the MTPL. The plan is to introduce additional risk factors for the non-life insurance companies when calculating the risk exposure of individuals and calculate the premium accordingly. This will serve as a foundation towards a fully liberalized MTPL market. The CBK plans updating the data by end-2024 to facilitate the testing of the risk factor-based premium model in 2025. The implementation will start in 2026.
2	Assess the viability for the insurance industry of continuing to apply the taxes and fees, and obligations to pay for claims related to uninsured drivers. (**¶70–71)**	**H**	**ST**	This recommendation is expected to be implemented after the changes to the VAT law.
3	Enhance the supervision of the market conduct of insurance companies by ensuring the CBK has adequate powers and resources to implement effective market-conduct supervision. (**¶62, 64, 71)**	**MH**	**MT**	The CBK has recently established a new Consumer Protection Department to enhance oversight and support for financial consumers. Within this department, a dedicated division focused on market conduct has been created. A new Director of Department has been recruited in June 2024, whilst staff selection and recruitment for Market Conduct division is ongoing. Furthermore, the new amendments to the Risk-Based Manual include market conduct risk, as a separate category, which will ensure that consumer protection is prioritized alongside traditional risk factors.
4	Develop a framework of escalating supervisory actions for the insurance sector from preventative and corrective measures to enforcement. (**¶55)**	**H**	**ST**	The CBK is working towards transition to a risk-based supervisory approach. With the IMF TA support, Escalating Supervisory Actions for the Insurance Sector has been drafted and has recently been approved (October 2024) by the CBK, as part of the Risk-Based Manual, which will come into force in 2025.
5	Reconsider crisis management processes for the insurance industry, particularly the practice of installing CBK employees as administrators and liquidators. (**¶61, 71)**	**MH**	**MT**	CBK has appointed its employees as administrators and liquidators mainly due to the lack of necessary profiles in the market. In the past, interested liquidator candidates from the market did not meet the required qualifications. Therefore, CBK is committed to implement the recommendation in a longer run, but in cases where potential candidates from abroad will not meet the required criteria, it will continue to use internal resources. The CBK has already issued an Expression of Interest and a roster of professionals interested in, or seeking to become administrators or liquidators has been developed.
6	Implement the risk-based supervision (RBS) manual that has been developed. (**¶68, 71)**	**MH**	**ST**	Manual is currently being used in examinations and the CBK is working towards its transition to a risk-based supervisory approach. All these documents, along with other recommendations received from the TA, have been incorporated and approved by the CBK, which are expected to come into force at the beginning of 2025
7	Enhance onsite supervision practices for insurance. (**¶67, 71)**	**H**	**ST**	The issue of expense management has been addressed through the regulation on expense management in insurance companies that was changed at the beginning of 2020, which limited the level of expenses for different categories. This regulation has recently been amended.
8	Develop a program for the implementation of Solvency II that takes into account the circumstances of the insurance industry in Kosovo and the resources and resource needs of the CBK. (**¶75)**	**M**	**LT**	A Roadmap to Solvency II was developed with support from the World Bank. However, given the complexity of the regulations and the detailed requirements involved, a TA was requested in implementing these measures. It is a long-term project with gradual approach and multi-phases.
	3. Improved Monitoring of Systemic Risks and Enhanced Financial Stability Governance			
No	**Key Recommendations**	**Priority[1]**	**Timeframe[2]**	**Comments**
1	Review the CBK's institutional arrangements and governance in support of financial stability and macroprudential policy. (**¶95, 101)**	**H**	**ST**	Financial Stability and Economic Analysis department, with the new organizational structure in place since 2024, reports directly to the Governor, a member of the Executive Board. Furthermore, since April 2024, the department chairs the Macroprudential Advisory Committee (MAC), and holds the Secretariat of the MAC.
2	Amend the CBL to strengthen the legal basis for CBK's macroprudential policy powers. (**¶93, 103)**	**MH**	**LT**	Macropudential supervision is addressed in the new draft law on Banks. Additionally, the financial stability and macroprudential policy will also be strengthen in new CBK law.
3	Dedicate more resources to EAFSD for financial stability analysis, and "streamline" the deliverables, including the Financial Stability Report. (**¶102)**	**H**	**IM**	This is a continuous process as recruitment of adequately skilled professionals is very important for this function. Recruitment of the adequate skills for FSAED proved challenging, given the increased competition in the market - against a low competitive power of the CBK. Efforts to ensure adequate resources for the key functions such as FSDEA are ongoing, and CBK's initiative in revising its compensation scheme relative to the market could prove more effective.
4	Complete a full review of macroprudential data gaps and develop a strategy to close them. (**¶98, 104)**	**H**	**ST**	Data gaps and issues were identified through the process undertaken since 2022 by the FSEAD. While the closure of some of the data gaps is underway, through revised Credit Registry Regulation and Supervisory Regulatory Framework (FinRep and CoREP), the Department plans to build its own databases for systemic risk monitoring, in line with increased capacities.
5	Establish an Interagency Real Estate Working Group to close the information gaps around real estate in Kosovo. (**¶104)**	**MH**	**ST**	KAS undertook the project of constructing the index of the Real Estate Residential Prices and the CBK played an important supportive role. While the CBK has provided valuable support in this initiative, the responsibility for developing the real estate index falls primarily under the competence of KAS. The Statistics Department of the CBK has been fully committed to aligning its activities with its duties and responsibilities.
6	More closely monitor developments in nonfinancial sector balance sheets, including by cooperating with the KAS on the use of surveys. (**¶98, 106)**	**M**	**MT**	Various institutional initiatives are under way to close the data gap on Private Sector balance sheets and income statements. CBK is in its final stage of consolidating the Financial Accounts unit in Statistics Department. Meanwhile, FSEAD plans to design and conduct regular surveys with the private sector, in its efforts to properly assess risks.
7	Explore ways to better harness Credit Registry (CR) data for macroprudential policy purposes. (**¶105)**	**MH**	**ST**	DFSEA regularly assess indebtedness and lending patterns. The department also calculates probability of defaults and derives disaggregated exposures for stress-testing purposes. The active use of CRK data by the department have contributed to the identification of data improvements needed, as reflected in a new forthcoming CRK regulation. The Statistics Department is compiling financial account statistics for non-financial corporations, with a first draft to be ready by mid-2025. For the household sector, following the consolidation
8	Deepen CBK's stress testing competency and network analysis. (**¶99, 107–108)**	**MH**	**MT**	The CBK's stress testing capacity, including macroprudential stress testing, has been improved.
9	Consider the use of macroprudential policies, including LTV and DSTI for consumer and mortgage lending. (**¶109)**	**H**	**IM**	The CBK has proposed the implementation of the Countercyclical Capital Buffer (CCyB) and the Capital Surcharge for Other Systemically Important Institutions (O-SII) as specific macroprudential policy measures. Going forward, with the enhancement in the CRK database, the CBK plans to explore the use of borrower-based measures.

4. Develop Securities Markets

No	Key Recommendations	Priority[1]	Timeframe[2]	Comments
1	Ask the Government to establish a cross-agency task force on the development of capital markets in Kosovo. **(¶83)**	**M**	**MT**	A working group comprising the Ministry of Finance, Labor and Transfers, the CBK, the Ministry of Trade and Industry, and the USAID experts engaged in drafting the concept note on capital market development. The engagements of the working group have been completed, and the drafting of the concept document has been concluded.
2	Provide assistance to the MoF in drafting key pieces of capital markets legislation in order to provide a sound framework. **(¶84)**	**M**	**LT**	The drafted concept document is currently under review by the Ministry of Finance and has been sent to institutions for comments. The internal consultation process has been finalized, and the concept document will be sent for public consultation at end 2024.
3	Increase expertise and knowledge on capital markets at CBK. **(¶85)**	**M**	**MT**	The CBK has strengthened its cooperation with the EBRD, specifically with the Capital Markets Department, to enhance the capacities and knowledge of CBK employees in capital markets. As part of this collaboration, the EBRD has granted 16 certifications to CBK staff in capital markets, aimed at building their expertise and understanding in this critical area. Additionally, World Bank's RAMP program has extensively been used for this purpose.
4	Ensure existence of pre-conditions for capital markets activity. **(¶87)**	**M**	**LT**	The CBK has upgraded its Central Securities Depository (CSD) system, which is also integrated with its clearing and payments system. The CSD can support the issuance and trading of new instruments. In addition, the CBK will continue to upgrade its existing infrastructure to provide the necessary conditions for pre-trade and post-trade processes. A TA will be needed for this new function.

5. Financial Inclusion and Deepening (Impact on Financial Stability)

No	Key Recommendations	Priority[1]	Timeframe[2]	Comments
1	Establish a National Strategy on Financial Inclusion. **(¶119, 126)**	**H**	**ST**	Having a national strategy on financial inclusion would involve multiple institutions. The CBK has financial inclusion as an objective in its 2024–28 Strategic Plan. It established the Consumer Protection Department in November 2023 to improve market conduct and financial inclusion. Work is ongoing for a new publicly available platform on the CBK website to compare interest rates and financial products, which would improve financial literacy, consumer protection, and inclusion.
2	Further enhance data collection by the CR and utilize credit history data for financial stability purpose. **(¶128)**	**MH**	**MT**	CBK is amending its Credit Register methodology, which will require new data points to complement the current database and provide additional sources for thorough assessments of credit risk. The amended methodology has been shared with the financial institutions for review. CBK has engaged with the IFC to enhance the digital financial services, including data collection from the CRK.
3	Advance the regulation and technical readiness for mobile payment and electronic signature. **(¶122, 129)**	**MH**	**MT**	The Law on Electronic Identification and Trust Services in Electronic Transactions was adopted in 2021. A draft Law on Payment Services was submitted to the Parliament. The CBK has adopted the Instruction for QR Code to promote mobile retail payments via interoperability and provision of a consistent user experience. The National Retail Payments Strategy 2021-26, supported by the World Bank's SECO-funded Payments and Remittances Program and in consultation with other public and private sector authorities in the field of payments, was drafted to modernize the national payment system based on international best practices and standards.
4	Reconcile the laws regarding MFIs' legal status and address the issue of Nongovernmental Organizations (NGO) MFIs' conversion. **(¶124, 131)**	**H**	**ST**	In cooperation with the IFC, a working group has been established to review the Law on Microfinance Institutions. The issue of MFIs legal status will be addressed with the new law.

6. Enhanced Financial Statistics for Financial Stability Monitoring and Analysis

No	Key Recommendations	Priority[1]	Timeframe[2]	Comments
1	Harmonize reporting of Financial Soundness Indicators (FSI) and address remaining methodological issues. (**Annex I**)	**MH**	**ST**	There are discrepancies between the FSI reports and the FSEAD Monthly Information Report due to use of different methodologies. The revision of the metadata is expected to be completed by end 2024.
2	Ensure methodological consistencies of monetary statistics with the international standards. (**Annex I**)	**MH**	**MT**	The publication of monetary and financial statistics for other depository corporations, the central bank, pension funds, and microfinance institutions is in full compliance with international standards.

[1] Priority: High (H); Medium High (MH); Medium (M)

[2] Timeframe: Immediate (IM) <6 months; Short-Term (ST) <12 months; Medium-Term (MT) 12–24 months; Long-Term (LT) 24–48 months.

Appendix I. Letter of Intent

Republika e Kosovës

Republika Kosova - Republic of Kosovo

Prishtinë, November 29, 2024

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

Dear Madam Managing Director:

This year marks the 15th anniversary of Kosovo's membership in the International Monetary Fund (IMF). During this period, Kosovo has achieved remarkable progress in maintaining macroeconomic stability, strengthening institutional frameworks, and enhancing living standards of its citizens. Kosovo's partnership with the IMF has been instrumental in these achievements.

More recently, our strong commitment to implement policy reforms is yielding results, with growth picking up, while in parallel ensuring prudent fiscal management and financial stability. The current Stand-by-Arrangement (SBA), approved by the IMF's Executive Board in May 2023, continues to anchor our reform agenda and safeguard against potential adverse shocks. Moreover, Kosovo became the first European country to access the IMF's Resilience and Sustainability Facility (RSF), which provided an important impetus to our efforts to decarbonize the economy, strengthen energy efficiency and improve regional cooperation.

The attached document provides updates and complement the Memoranda of Economic and Financial Policies (MEFP) and Technical Memoranda of Understanding (TMU) of May 9, 2023, October 30, 2023, and May 13, 2024. It updates recent economic developments, summarizes program performance under the SBA and RSF arrangements and details our economic policies for the remainder of the program period.

Our program focuses on supporting economic activity and social cohesion while maintaining prudent fiscal policies, fostering financial sector development while safeguarding its stability, and strengthening institutions and implementing structural reforms. Strong program performance resulting in significantly lower fiscal deficits, lower public debt levels and better macroeconomic outcomes than envisaged at the time of the programs' approval, is a testament of our commitment to prudent policies. We will continue this policy path, including implementing reforms that strengthen revenue collection and create space for priority social and public infrastructure spending, strengthen labor market outcomes, create a business environment conducive for increased private sector investments, and bolster institutional frameworks and governance.

Kosovo's climate policy agenda, supported by the RSF, is ambitious and foresees direct transition from fossil fuel to renewables. A key element of our strategy is to raise the share of renewable energy to 35 percent of our needs by 2031. Legislative reforms to attract private investment into renewables have facilitated crucial resources for renewable projects and catalyzed development partner support. Overall, there are wind and solar projects of more than 600 megawatts in new renewable generation capacity that have already been authorized by the government for construction, including those supported by power purchase agreements or direct financing. By providing a blueprint for development of large-scale renewable energy projects, the RSF has set the stage for successful implementation of future green energy plans. Beyond these achievements, we have also successfully launched regional energy cooperation.

To support our ongoing efforts, we request the completion of the Third Reviews of the SBA and RSF arrangements based on implementation of both programs' targets and reforms. All end-June 2024 Quantitative Performance Criteria (QPCs) and all Indicative Targets (ITs) were met. We have also completed the remaining Structural Benchmark (SB) under the SBA and have met the prior action on submission of a 2025 budget consistent with RSF and SBA objectives. The reform measure (RM) on the launch of an open, transparent, and competitive tender for the construction and operation of 150-megawatt wind-based electricity generation capacity, originally planned for mid-October, was delayed for technical reasons, and is expected to be completed over coming weeks. To demonstrate our strong commitment to program objectives, we have agreed to implement two new SBs, one in the PFM and the other in financial sector area, as discussed in the MEFP.

We intend to continue to treat the SBA as precautionary, but we may consider purchases if downside risks materialize, including shortfalls of programmed external financing. Given the completion of RSF Reform Measures (RM) 4 and 8, we request the disbursement of associated two tranches in the total amount of SDR 15.5 million (approximately €19.3 million). While we expect the announcement of the wind auction (RM2) in December 2024, we will request the associated disbursement (SDR 7.74; approximately €9.7 million) at the time of the next review.

We believe that the measures and policies set forth in the attached MEFP will serve to achieve the established objectives. We stand ready to take any additional measures that may prove necessary and will consult with the IMF on the adoption of such measures and before making changes to the policies set out in the MEFP in accordance with the IMF's policies on such consultations. Timely information needed to monitor the economic situation and implementation of policies relevant to the program will be provided, as previously agreed. In keeping with our commitment to transparency, we agree to the publication of this letter, the MEFP, 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 (1)

Attachment I. Memorandum of Economic and Financial Policies

This memorandum outlines recent economic developments, our progress towards meeting the objectives under the IMF-supported Stand-By Arrangement (SBA) and the Resilience and Sustainability Facility (RSF) and our policy priorities and plans, including during the remainder of the two programs. Tables 1, 2, and 3 summarize performance to date and the quantitative targets going forward, progress on structural benchmarks under the SBA and progress on reforms supported by the RSF.

I. RECENT DEVELOPMENTS AND OUTLOOK

1. **Driven by strong domestic demand, growth accelerated during 2024 and is expected to be stronger than projected at the time of the Second Reviews.** Following 4.1 percent growth in 2023, real GDP grew by 4.9 percent year-on-year in the first half of 2024 driven by an increase in private consumption, despite a negative net export contribution. A shift in domestic demand towards public consumption and an increase in public investment in the second half of the year will support growth, despite some envisaged slowdown in private consumption. Going forward, increases in wages and pensions are expected to support real incomes leading to an acceleration of private consumption going into 2025. Along with an improving external environment and increased investment, including in renewables, headline growth will remain strong.

2. **Inflation is decelerating rapidly and is expected to normalize by the end of 2024.** Headline inflation has declined steadily from its peak of 14.5 percent in July 2022 driven by a combination of declining energy and food prices. After remaining relatively stable over the first seven months, year-on-year inflation fell to only 0.2 percent in September driven by a sharp decline in energy prices. Consistent with previous dynamics, we expect a moderate inflation in the fourth quarter that will slightly increase headline inflation for the year. We expect inflation to remain moderate going into future years.

3. **Rising imports and a slowdown in the growth of remittances have contributed to widening of the external current account deficit.** The current account deficit widened in the first eight months of 2024 compared to the same period last year, on the back of increasing imports growth (11.7 percent year-on-year compared to 4 percent year-on-year same period in 2023) and a slowdown in net remittance growth (1.2 percent year-on-year compared to 9.6 percent year-on-year same period in 2023). We expect a slightly higher increase in remittances in the rest of the year, but overall, the pace will be slower than previously experienced. Due to expected increase in public consumption, and private and public investment in the remaining part of the year, we expect imports to continue growing and the current account deficit to widen further. In 2025, we expect services balance to improve on the back of lower outflow and higher inflow, along with a larger growth in remittances, which will in turn narrow the current account deficit.

4. **Fiscal performance has been robust during 2024.** Strong tax collection and the seasonal pattern of spending led to a 3 percent of GDP fiscal surplus over the January-August period. Tax revenues grew by 10¾ percent year-on-year, reflecting both buoyant economic activity and the impact of administrative reforms implemented by the Tax Administration of Kosovo (TAK) to enhance

compliance and reduce informality. As these additional resources imply a structural expansion of our tax base, they would allow us to implement main priorities of our spending agenda without weakening the medium-term fiscal sustainability within our rules-based fiscal framework. Our expenditure policies focus on the objectives of protecting the vulnerable populations from the rising cost of living (through increases in entitlements and social benefits) and responding to the challenges of adverse demographics (restructuring the children allowance with a view of boosting fertility rates). Additionally, we have significantly improved public investment execution by implementing comprehensive project cost budgeting and prioritizing smaller, rapidly-executable projects over larger initiatives that require extensive coordination with development partners.

5. The financial sector has continued to grow rapidly, supported by strong and sustainable growth of credit. Real credit, driven mostly by an increase in household loans, grew at double-digit rates as a sign of financial deepening observed over the years. Although deposits also grew, they did so at a slower pace compared to credit. As a result, to meet the growing demand for credit banks reduced their foreign (bank deposits) and domestic (deposits at the CBK) liquid assets. Bank profitability remained strong while Non-Performing Loans (NPLs) edged up only slightly, exceeding 2 percent over the last few months. Forborne loans (loans restructured due to financial difficulties) as of September 2024 decreased to 0.4 percent from 1.4 percent in 2023, and 2.1 percent in 2022. The improvements in credit conditions have been targeted at low-risk customers with strong credit profiles. Going forward, the CBK will continue strengthening its monitoring of bank credit and liquidity, and its assessment of financial sector risks.

II. ECONOMIC POLICIES AND REFORMS UNDER THE SBA

6. Our policies are steered toward maintaining macroeconomic stability, rebuilding buffers, and supporting inclusive growth and development.

A. Fiscal Policy and Reforms

Macro-Fiscal Policies

7. Supporting economic and social objectives in a fiscally-responsible way remains the cornerstone of our policy strategy. Cognizant of the large revenue potential, the government's fiscal agenda has focused on enhancing revenue collection through the reduction in tax evasion. At the same time, we have maintained prudent spending policies and used additional revenues mainly for implementing the new law on public wages, providing targeted relief to those most affected by the cost-of-living increase—children and pensioners, and ramping up execution of the public investment program. Thanks to these prudent fiscal policies, the general government deficit declined to just ¼ percent of GDP in 2023—its lowest level since 2009—and well below the 2¼ percent of GDP program target. We also expect the fiscal overperformance to continue in 2024 and the deficit to reach about 1¼ percent of GDP (relative to a program target of 2.2 percent of GDP). The lower fiscal deficits have translated into lower public debt, which declined in 2023 to 17½ percent of GDP from its peak level of 22½ percent of GDP in 2020.

8. **We have continued to meet the program's fiscal targets in 2024.** Both end-June 2024 Quantitative Performance Criteria (QPC) on the general government deficit and on the stock of government deposits at the CBK were met with comfortable margins. Similarly, Indicative Targets (ITs) on the holdings of government treasuries by the CBK and the size of unallocated reserves in the budget were also met. We continue to observe the continuous performance criterion on non-accumulation of new external arrears. We have started publishing quarterly financial information on public companies (end-June 2024 structural benchmark, SB) to increase transparency and accountability with our citizens. We have also fulfilled all ITs established for end-September 2024.

9. **The government has submitted to Parliament a budget for 2025 consistent with SBA and RSF programs' objectives** (a prior action for the completion of the Third Reviews). The draft budget for 2025, which was prepared in consultation with our international partners, is fully compliant with our rules-based fiscal framework and reflects the government's continued commitment to fiscal discipline. Based on the budget and expected execution trends, the fiscal deficit for 2025 is expected to reach 2.1 percent of GDP, implying a somewhat expansionary fiscal stance compared to the projected outcome for 2024. This figure is underpinned by maintaining strong tax revenue collection, improved execution of public investments, and somewhat higher current spending. The deficit is expected to be equally financed through foreign budget support loans and domestic debt issuance, while we aim at further accumulation of fiscal buffers at the CBK.

10. **The 2025 budget reflects several important national policy priorities.** Responding to the need to strengthen the quality of public administration and protect public employees from higher cost of living, we have included in the budget a phased increase of €110 in the monthly salary—€55 from January and an additional €55 from July. This increase will add about €80 million to spending in 2025 compared with 2024 and is consistent with the fiscal rule on public wages, which requires that the aggregate wage bill should not increase by more than the rate of growth in the nominal GDP in the previous year. We decided to use this mechanism rather than the traditional increment to the monetary value of the pay coefficients, so that the percentage increase will support more strongly lower-wage earners in the public administration. The budget also reflects the full impact of the increase in social benefits implemented since July 2024. We have included about €60 million to finance the expansion of the child allowance program and €100 million to finance the 20 percent increase to pension schemes paid from the state budget. The former aims to support families with children to boost fertility rates, which are declining across the region. The latter reflects the need to respond to the erosion in the real value of pension benefits, which had not been indexed to inflation since early 2022. To offset some of this increase in spending we have rationalized other transfers, including subsidies to public companies. The draft budget also limits the size of unallocated reserves and includes a clause ringfencing the RSF resources for its exclusive use on interventions related to our green agenda.

11. **The 2025 budget will also prioritize public investments.** After the investment budget reached 65 percent execution in 2023, we aim to further increase the execution rate for 2025 closer to 80 percent. The public investment program includes the rehabilitation and construction of railways, the construction of regional roads and highways, and the connection of the main airport to

the railway network, among others. The emblematic FLOWS, critical to enhance water security for the Anamorava region, is also included.

Structural Fiscal Policies

12. Further strengthening revenue administration remains central to sustaining our robust tax collection performance. We advanced our revenue framework in 2024 with the implementation of the new Law on Tax Procedures in January and the Customs and Excise Code in May. The new customs framework marks an important step toward modernizing our customs and excise system, streamlining services and processes for citizens and businesses while introducing advanced technologies for enhanced monitoring and control of imported goods. To support implementation, we will strengthen customs administration capacity through a 20 percent increase in staffing and further deployment of advanced technologies, including artificial intelligence solutions, to enhance business intelligence and investigation capabilities. The Tax Administration of Kosovo (TAK) continues to strengthen its administrative and operational capacity, with particular focus on taxpayer compliance, audit effectiveness, and investigative capabilities. Digital transformation stands at the forefront of TAK's modernization agenda. Building on the mandatory e-filing and e-payment systems introduced in 2022, TAK has launched a comprehensive Taxpayer Portal that enables online tax declarations, payments, and real-time updates of taxpayer information. To advance its transition toward data-driven tax administration, TAK is leveraging new opportunities under the Law on Tax Procedures to expand access to third-party data. TAK is in the process of establishing data-sharing arrangements with commercial banks, the CBK, and other government agencies to enable systematic access to bulk third-party data for enhanced compliance monitoring.

13. We are undertaking a comprehensive modernization of the Law on Public Financial Management and Accountability (LPFMA). The LPFMA has served as the cornerstone of our fiscal framework since its enactment in 2008. While LPFMA has effectively supported fiscal policy implementation, accumulated amendments and emerging PFM needs necessitate a systematic overhaul, which we are developing in collaboration with international partners. The law also seeks to increase transparency on virements, mandates cost-benefit analysis for legislation with budgetary impact, enhances the budgetary treatment of court rulings—a recurrent problem identified by the National Audit Office, and protects municipal budgets from discretionary changes during the budgeting process. Additionally, as the LPFMA contains main elements of our rules-based fiscal framework, we plan to revise it with the aim to better align with the European Union rules.

14. We plan to strengthen our capacity to forecast government cash flows. This will allow us to ensure that budgeted expenditures are smoothly financed and excess cash better managed. To this end, we plan to issue the ministerial decree establishing the Liquidity Committee of the Ministry of Finance, Labor, and Transfers (MFLT) by introducing its regular meetings (at least quarterly) and expanding its mandate and coordinate the cash plans with the CBK **(new SB for end-January 2025).** The newly constituted Liquidity Committee will have a goal to produce rolling, short-term cash flow forecasts.

B. Financial Sector Policies and Reforms

Enhancing Financial Supervision and Regulation

15. The CBK will continue to enhance its capacity to monitor credit expansion and analyze associated risks. In the first three quarters of 2024, the real (adjusted for inflation) credit growth reached 15 percent year-on-year, with credit to non-financial corporations and households growing by 11 percent and 21 percent, respectively. In the same period, real deposit growth stood at 13 percent. While deposit growth financed the bulk of credit expansion, in addition banks reduced their foreign deposit holdings and their excess reserves at the CBK. Easing of bank lending standards, including an extension in loan maturities, lower borrowing rates, softening of collateral requirements, and new product offers for the diaspora, helped increase the demand for credit, while maintaining prudent lending practices with well-target customer profiles. About two-thirds of new loans to households are for consumption and about one-fifth for mortgages. Moreover, according to the banks, consumption loans are often used by customers for financing large purchases or renovation, such as for houses, apartments, or cars, with loan destination documented properly and paid only through bank transfer, as required by CBK regulation. Our recent regulation on the removal of fees on basic bank accounts has helped to attract many previously unbanked customers to the financial sector, while rising wages and TAK's efforts to combat informality may also have played a role in facilitating credit access. While we view this credit expansion as a positive sign of financial deepening, the CBK maintains robust surveillance to identify and address potential financial stability risks.

16. The CBK will start a work program on the adoption of the Supervisory Review and Evaluation Process (SREP). As the banking sector is developing rapidly, we plan to modernize our supervisory and regulatory framework and practices. To this end, we initiated work to adopt a SREP manual to transform current banking supervision and align it with the EU's SREP framework. The CBK will develop and publish a comprehensive roadmap for the adoption of SREP **(new SB for end-February 2025).** This roadmap, to be formally adopted by the CBK's Executive Board, will outline the necessary steps for the formal adoption of SREP as the primary assessment framework for banking supervision. Key elements of the roadmap will be the preparation of an initial draft of SREP manual, piloting the draft manual for the assessment of a few banks, updating the draft manual based on the feedback from the pilot exercise, and finalizing the manual. In addition, the roadmap will detail plans to train the staff, organize outreach and consultations with domestic banks and other stakeholders about SREP, and set a target date for the full implementation of the SREP manual.

17. The CBK will continue strengthening the supervision and regulation of non-bank financial institution, in line with the FSSR recommendations. Financial stability in the insurance sector has been enhanced through the implementation of strict capital requirements, which have improved governance practices and profitability in the sector. Amendments to insurance supervision manual based on risk-based insurance supervision, prepared with support of IMF's TA, is approved by the CBK Executive Board, with the aim of starting implantation by early 2025. In addition, insurance firms will be required to adopt IFRS17 standards for their financial statements starting in 2026. To this end, with the support from the World Bank, the CBK has developed a roadmap for the

IFRS17 transition. As part of the ongoing restructuring of the CBK, the supervision function of pension funds will be integrated under the insurance supervision department. Moreover, we remain committed to strengthening legislations on microfinance institutions. With support from IFC and a private law firm, we have prepared a workplan and a concept note for the new Law on Microfinance Institutions, and we plan to draft the Law. We will also initiate an amendment to the recently adopted Law on General Administrative Procedures to remove inconsistencies with the legislation that grants special regulatory powers to the CBK.

Strengthening Central Bank Governance

18. The CBK has implemented several reforms regarding its governance and operational structure. In line with the recent IMF's Safeguard Assessment and IMF FSSR recommendations, the CBK Charter has been strengthened, the roles and responsibilities between the Executive Board and the Governing Board have been clarified, and a new organizational structure has been adopted. The CBK is focused on enhancing operational efficiency, improving internal control systems, and refining risk management practices. To benchmark against international best practices, the CBK has initiated a Central Bank Transparency (CBT) assessment, with IMF TA planned for the first half of 2025 and a detailed review report expected by the end of 2025. Furthermore, an inventory of necessary changes in the CBK Law, aligned with these ongoing reforms, has been drafted. The CBK will continue working on a new CBK Law to reflect all changes outlined in this inventory and incorporate recommendations from the CBT assessment, with an expected submission of the Law to the Government by the end of 2025.

Operationalizing Macro-Prudential Policies

19. We are introducing new macro-prudential policy instruments to enhance the resilience of the banking sector. Kosovo's banking sector remains well capitalized with capital ratios (15.6 percent) above the minimum requirements (12 percent) in 2024. However, they are relatively low in comparison with regional peers, partly due to higher capital surcharges implemented in other jurisdictions. Based on the current strong performance of the banks and with the efforts to further strengthen the resilience of the banking sector, the CBK has introduced additional capital surcharges. In line with the FSSR recommendations as well as best international practices, the CBK's Executive Board has recently taken a decision to adopt a positive neutral Countercyclical Capital Buffer (CCyB). This implies a capital surcharge when macro-financial risks are neither elevated nor subdued, or when information to timely assess systemic risk build-up is absent, along with the releasability of these buffers to absorb losses stemming from shocks. Additionally, to reduce both the probability and the impact of potential failure of a systemically important bank, with the same decision the CBK Executive Board adopted a capital surcharge for Other Systemically Important Institutions (O-SII). The decision on implementing these policies with an ultimate objective of reaching CCyB at 2 percent and O-SII buffer at a range between 0.5–1.5 percent by June 2025 has been shared with the banks in September 2024. The CBK is actively working to incorporate these policies into the capital adequacy regulation, with completion expected by end-December 2024. We believe that these macro-prudential changes will help enhance the resilience of the sector, without adverse impact on the banks' financial conditions or lending. This is confirmed with initial sensitivity analyses conducted by the CBK staff under various threshold scenarios and dividend distribution ratios, which suggest that all banks have the requisite quality and level of tier 1 capital to meet new buffer requirements before June 2025. The CBK is committed to continuously conduct such impact analyses on the banks' ability to absorb additional capital requirements and revise phasing if necessary.

20. In parallel, the CBK is advancing the framework for borrower-based measures using credit registry data, as recommended by the FSSR. To this end, the revision of the Credit Registry Regulation to enhance both the coverage and the reporting system will be completed soon. With additional information, such as updated revenue information of the borrower or the loan destinations of uncollateralized loans, the CBK will be able to analyze the credit risk better.

Improving Crisis Preparedness and Risk Management

21. To enhance financial crisis preparedness, we will enhance the capacity of the Deposit Insurance Fund of Kosovo (DIFK) and reinforce liquidity backstops. The DIFK's current deposit coverage limit is €5,000 per bank—unchanged since 2018—with premiums ranging between 0.45–1.5 percent of insured deposits per annum. Based on the 2024 Review of the Deposit Insurance Limit, we plan to review the possibility of increasing the deposit insurance coverage and adjust the annual premium range to 0.75–1.5 percent, effective January 2025. Moreover, the CBK will seek to extend the temporary repo line of €100 million with the European Central Bank (ECB) beyond its January 2025 expiration date. The extension of this line is crucial as it provides a buffer against potential euro liquidity needs and helps maintain the stability of the financial system. Additionally, a CBK working group will conduct the review of the Emergency Liquidity Assistance (ELA), which at €46 million has been unchanged in size since its introduction and has never been used. We will also strengthen crisis governance by reviewing the roles and responsibilities of the Financial Stability Committee—originally defined in a 2019 memorandum of understanding between the CBK and MoFLT—and incorporate its updated mandate into the CBK Law. For now, we will update the memorandum of understanding to review the composition and mandate if needed, to reflect needed changes and inter-institutional coordination.

22. The CBK will continue improving its enterprise risk management by establishing a cybersecurity framework. As part of the CBK's annual work plan, an action plan to strengthen the CBK's cyber resilience, based on the World Bank's cybersecurity assessment of the CBK, has been approved. Within this plan, we established a new Division for Cyber Security within the Department of Information Technology and Security, which will provide IT infrastructure, develop, and maintain applications, and assess and monitor information security. We started hiring cybersecurity experts for this division and have planned to allocate a budget next year for outsourcing part of the cybersecurity services. We started developing a cybersecurity strategy and framework with an aim to finalize it by end-2024 and initiated negotiations with service providers for periodic external penetration testing to discover potential security vulnerabilities in critical IT applications.

23. The CBK remains committed to close AML/CFT gaps. Several legislative changes have been made. A new AML/CFT risk-based supervision manual was approved in March, and the improvements resulting with this new approach have been recognized by both bank auditors and banks, as it has led to the identification of more risk cases of ML/FT. Additionally, a draft Law on AML/CFT has been approved by the government in November 2024. In June, a new regulation on the information accompanying the transfer of funds, a crucial milestone for SEPA integration, was adopted. Finally, the Law on Beneficial Ownership is approved in the parliament.

Improving Financial Infrastructure

24. We are taking all necessary steps to integrate Kosovo into the Single Euro Payments Area (SEPA). On October 14, 2024, we submitted a pre-application for SEPA membership to the European Commission's DG-FISMA and to the European Payment Council. The formal review of Kosovo's draft application can take place after necessary legal and regulatory framework has been adopted. To this end, with the support of the World Bank, we have drafted a new Law on Payment Services, which has been approved by the Government and submitted to Parliament. In addition, we have prepared 20 regulations on payment services, which will be approved by the CBK Board immediately after the Parliamentary adoption of the Law on Payment Services. We expect to submit formal SEPA application in Spring 2025 and upon successful review, Kosovo could join SEPA by the end of 2025. Participation in SEPA offers significant benefits. It will enhance the safety, speed, and cost-effectiveness of cross-border payments and support further integration of Kosovo into the EU. A recent analysis, conducted by a group of German experts, suggests that integrating into SEPA could save about €55 million each year for remittances and foreign trade payments by lowering transfer fees. Furthermore, the CBK is working on the development of an instant payment system.

25. We remain committed to the development of the domestic capital market and strengthening reserve management capacity at the CBK. With the support of USAID, we completed and secured government approval in early 2024 of a capital markets development concept note. The adoption of the concept note paves the way for the development of relevant legislation to regulate the issuance and trading of corporate securities. The development of the domestic capital market could help diversify funding sources for businesses in Kosovo beyond traditional bank financing and create alternative and more liquid investment opportunities for diaspora investors, who have historically concentrated their investments in real estate. To support market infrastructure development, the CBK has enhanced its Central Securities Depository (CSD) system with new instrument capabilities and integrated it with its clearing and payments system. We have also started strengthening technical expertise of the relevant CBK staff with support from the EBRD's Capital Markets Department and the World Bank's Reserve Advisory and Management Partnership (RAMP) program, of which CBK became a member in October 2023, focusing on asset portfolio and risk management expertise.

26. We will clearly define with respective institutions the implementation arrangements for the new law on crypto assets by adopting a framework fully aligned with the EU legislation and after the adequate internal capacity has been developed. The Parliament approved a Law on Crypto Assets in November 2024, which aims to regulate the licensing, authorization and supervision of operators carrying out activities related to the issuance, offering, trading, advising on, portfolio management and storage of crypto assets. The Law designates responsibilities for licensing operators to the CBK, the Financial Intelligence Unit (FIU), and TAK. We plan to initiate internal consultations with all relevant stakeholders for the effective implementation of the adopted Law, by defining clearly the roles and responsibilities of the institutions involved through secondary legislation with basic requirements to further strengthen licensing, regulation, and supervision. In addition, the financial literacy and prospective customers/investors protection awareness and proper disclosure on the risk involved is critical to be addressed. We will ensure that the criminal law framework is updated, and that supervisors, law enforcement agencies, the FIU have clearly defined roles, functions, and powers, the capacity, and tools to fulfil their respective mandates.

III. REFORMS UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY ARRANGEMENT

27. We remain committed to further advance RSF-supported reforms. The RSF has been pivotal in implementing our climate change mitigation and adaptation policies, including the approval of the Law on Climate Change in December 2023. The RSF has supported implementation of 2022–31 Energy Strategy, which targets increasing the renewable energy share in electricity consumption to 35 percent by 2031. Projects undertaken during the RSF will allow us to substantially increase generation based on renewables once completed, foster energy security, strengthen competition and regional integration in the energy market, prepare for the introduction of a carbon pricing system, and protect vulnerable energy consumers.

28. We are actively making progress in expanding renewable-based energy generation.

- A first solar auction of 100 megawatts was successfully concluded in March 2024 and we signed in May an agreement for the development of the project. The process was open, transparent, and well-received by bidders.

- A first wind auction for 150 megawatts is undergoing (RM2). The draft criteria were published in July with support from IFC and USAID. While technical issues resulted in some delays, we plan to announce the auction over coming weeks.

- A 100 megawatts of solar electricity plant located between Obilic and Fushe Kosova with a total cost of €105 million is under construction. The project is being spearheaded by the state-owned Kosovo Energy Corporation (KEK). Funding is provided by the EIB, KfW and the WBIF.

29. The integrated electricity market between Albania and Kosovo (ALPEX) has continued its operations. ALPEX started operations in February 2024 for the Kosovo Bidding Zone, which also marked the market coupling between Albania and Kosovo for the Day-Ahead Market (DAM). Since then, it has continued its operations, providing benefits such as price certainty for next-day operations, allowing generators to plan production, maintaining grid stability, and reducing market volatility. In September, the Kosovo subsidiary of UK-based multinational energy trading company Energy Financing Team (EFT) has become a trading member of the power exchange. With the joining of EFT, ALPEX has 32 members. In September 2024, a total volume of 52,549 MWh was traded on ALPEX DAM for the Albania Bidding Zone and 41,407 MWh for the Kosovo Bidding Zone. In both zones the average market clearing price was 130.21 €/MWh.

30. Major progress has been made in reducing commercial electricity losses. Our electricity distribution network has been suffering from significant commercial losses (9¼ percent) which was primarily explained by unpaid electricity from consumers living in four municipalities in the north (5½ percent). In line with the guidelines for the implementation of the Energy Agreement agreed with Serbia in 2022, *Elektrosever*, a Serbian state-owned company, obtained a license to operate in northern Kosovo. Since February 29, 2024, *Elektrosever* has been issuing bills for customers in northern Kosovo. Therefore, the company is responsible for any commercial liability that could emerge from its operations in the north. This will also provide important fiscal relief as uncollected bills from the north were paid from the Kosovo state budget.

31. We continue making progress in implementing energy efficiency measures. Substantially reducing energy intensity through increased energy efficiency is a strategic objective of our Energy Strategy. To this end, the Kosovo Energy Efficiency Fund (KEEF) continues to support home improvements in poorly insulated private residences and public housing buildings financed by the EU Energy Support Package. Interventions primarily focus on improving thermal insulation, replacing windows and doors, and upgrading heating systems. We will continue working on the preparation of a new energy efficiency law and seeking additional financing from international aid agencies and other donors to expand KEEF operations.

C. Structural Reforms

32. We are implementing a comprehensive strategy to enhance the business climate and attract foreign investments, especially from the diaspora. In July, we introduced the Diaspora Window in collaboration with the Kosovo Credit Guarantee Fund and USAID, aimed at attracting investments from our diaspora. Through this initiative, we can now guarantee investment loans for the diaspora of up to €3 million. The Kosovo Credit Guarantee Fund has allocated approximately €732 million in loans to micro, small, and medium-sized enterprises, including start-ups and women-owned businesses. Additionally, we have participated in the EU's SME Pillar of the Single Market Program, and we are dedicated to aligning our legislation with the EU Late Payment Directive in commercial transactions by mid-2025. With an average population age of 34 years (compared with 45 years in the EU), Kosovo has a young, educated, and multilingual workforce. We believe that our commitment to enhancing the business environment will soon lead to larger growth in foreign investment in Kosovo.

33. We are committed to strengthening regional trade integration. Following the steps taken by relevant institutions to strengthen security, we have eased restrictive security measures on truck transports from Serbia, previously introduced in June 2023 on security concerns. This development has helped revive our role in the Central European Free Trade Agreement (CEFTA), which includes seven Balkan countries and Moldova. A significant milestone was achieved in October when Kosovo assumed direct representation in CEFTA, replacing the United Nation's Mission in Kosovo (UNMIK). Further expanding our trade network, in September we concluded negotiations on a comprehensive free trade agreement between Kosovo and the European Free Trade Association (EFTA) members—Iceland, Liechtenstein, Norway, and Switzerland.

34. We are determined to make meaningful progress in the fight against corruption. We have set up an effective system of asset declaration whereby about 11 thousand public officials, nearly 100 percent of all who are required, declare their assets every year. All declarations are filed electronically and are available by viewing for Kosovo citizens online. In the 2025 annual budget, we have doubled the allocations for Kosovo's Agency for Prevention of Corruption and increased its staffing levels by more than one-third compared with 2023. The additional resources will allow the Agency to conduct better quality verifications of declarations, including through automation. We also plan to soon launch a new portal that will provide citizens of Kosovo with a mechanism for reporting corruption cases involving public officials. We plan to develop and adopt a new national strategy and medium-term action plan for the fight against corruption in line with best international practices.

35. We have recently announced of our intention to establish the National Development Bank of Kosovo (NDBK). It will provide a mechanism to promote private sector investments by supporting the underserved sectors of the economy and engage in direct lending operations, on-lending via commercial banks, and de-risking instruments. To ensure sound governance and operational efficiency, as we establish the NDBK, we have partnered with the World Bank and other development partners. We aim to follow best international practices for development banks. Consistent with these practices, we will prohibit the NDBK from accepting deposits and structure its operations to complement, rather than compete with the commercial banking sector. The NDBK's funding structure will rely on wholesale borrowing, supported by government guarantees where appropriate. We will also ensure that the NDBK's activities align with and complement those of the Credit Guarantee Fund of Kosovo, which will continue its mandate of providing credit guarantees to micro, small and medium enterprises through risk-sharing arrangements with financial institutions.

36. Recognizing the importance of digital transformation, we are implementing comprehensive reforms to encourage faster digital adoption and enhance government technology solutions. Our Digital Agenda of Kosovo 2030 (DAK 2030), adopted in 2023, has set ambitious targets, including the achievement of the nationwide 5G coverage, complete digitalization of core public services, and full adoption of electronic medical records. In line with this agenda and with World Bank support, our investments in digital infrastructure have yielded one of Europe's highest internet coverage rates. Our reform agenda also focuses on advancing the government digital transformation by enhancing interoperability standards and the whole of government platform, and upgrading the e-Kosovo portal that provides a one-stop window to provide seamless access to public services.

D. Statistics

37. We remain committed to providing high quality, timely, and transparent statistics to support effective policymaking. Economic statistics are crucial for the design and calibration of effective policies. The Kosovo Agency of Statistics (KAS) is improving the reliability and coverage of national accounts data by closing gaps identified in the IMF Statistics Department (STA) TA in late 2023 and August follow up. During April-May 2024, KAS conducted the population and housing census that will provide the most up-to-date demographic, social, and economic data. The final census report will be released in December 2024. KAS published a roadmap on the development of a new Property-Price Index, with STA support, and will start publishing the index in summer 2025. Given the financial sector's growing exposure to the real estate market, this index will enhance the ability of the CBK to monitor financial sector risks. We are working towards global standards to enhance the credibility and transparency of our economic policies and data. In August 2024, the CBK, KAS, and MFLT signed a memorandum of understanding to express a formal intention to subscribe to the Special Data Dissemination Standards (SDDS) and are working with STA to meet the subscription requirements. The subscription to the SDDS will be a major step toward the availability of timely and comprehensive statistics.

IV. PROGRAM MONITORING

38. 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, ITs for end-March and end-September 2024, ITs for end-March 2025, 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 TMU describes the definitions and methods to be used to assess program performance and information requirements to ensure adequate monitoring of the targets.

39. 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 2024–25

(Millions of euros, unless otherwise indicated)

	2024							2025
	June			Sept.			Dec.	March
	QPC	Adjusted	Actual	Indicative	Adjusted	Actual	QPC	Indicative
1. Quantitative performance criteria								
Floor on the overall balance of the general government 1/	-116	-91	196	-174	-149	268	-232	0
Floor on the stock of general government deposits at CBK	591	499	720	604	514	834	616	560
2. Continuous performance criteria								
Ceiling on the accumulation of new external arrears on external debt contracted or guaranteed by the general government 2/	0	…	0	0	…	0	0	0
3. Indicative targets								
Ceiling on contingent budget allocations 3/	108	…	108	108	…	108	108	108
Ceiling on holdings of government debt by the CBK 2/	200	…	168	200	…	166	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 2025 consistent with RSF and SBA objectives.	October 2024	Met	
Structural Benchmarks				
Fiscal Governance				
1	Government starts publishing publicly-owned enterprises' (POEs) annual financial reports; and quarterly data on POE performance.	June 2024	Met	
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	
7	The Ministry of Finance, Labor, and Transfers to issue a ministerial decree establishing the Liquidity Committee by introducing its regular meetings (at least quarterly) and expanding its mandate and coordinate the cash plans with the CBK	January 2025	Ongoing	
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
5	CBK to develop a roadmap for SREP adoption.	February 2025	Ongoing	

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	Not met	
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

INTERNATIONAL MONETARY FUND

REPUBLIC OF KOSOVO

December 4, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION AND THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—INFORMATIONAL ANNEX

Prepared By

The European Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2024)

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

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	82.60	100.00
Fund holdings of currency	72.85	88.20
Reserve Tranche Position	20.13	24.37

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	134.54	100.00
Holdings	123.33	91.67

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
Emergency Assistance [1]	10.33	12.50
RSF Arrangements	38.72	46.88

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	38.72
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

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		10.33			
Charges/Interest	0.73	2.24	2.09	2.09	2.09
Total	0.73	12.56	2.09	2.09	2.09

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

[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.

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 Resilience and Sustainability Facility arrangement for Kosovo approved by the IMF Executive Board in May 2023, found that the Central Bank of Kosovo (CBK) continues to maintain robust operational controls and financial reporting and external audit arrangements broadly aligned with international standards. While the CBK's internal audit maintains a high degree of independence, some operational gaps were identified, including related to IT audit and the pace of implementation of internal audit recommendations. Risk management and cybersecurity capacity are other areas that require strengthening. Besides closing these gaps, other recommendations included strengthening CBK and financial reporting.

Exchange Rate Arrangements

The de jure and de facto exchange rate arrangements are no separate legal tender. Kosovo unilaterally adopted the euro, which is the 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 in accordance with Executive Board Decision No. 144-(42/51).

Article IV Consultation

The previous Article IV consultation was concluded on January 25, 2023. This Article IV Consultation is following the 24-months cycle, reflecting that Kosovo is currently under an IMF-supported financial arrangement. With conclusion of the current arrangement in May 2025, it is expected that Kosovo will revert to a 12-month consultation cycle.

FSAP and ROSC Participation

A Financial Sector Assessment Program (FSAP) mission was conducted during September 19-October 2, 2012. The FSAP included a Financial Sector Stability Assessment report, which in turn included Reports on the Observance of Standards and Codes (ROSC) with respect to compliance with Basel Core Principles. Kosovo has not had a data or fiscal transparency ROSC. A Financial Sector

Stability Review (FSSR) mission was completed in May 2019 and found that nearly all 2012 FSAP recommendations as well as other IMF Monetary and Capital Markets Department (MCM) TA recommendations since 2012 had been implemented. The main FSSR recommendations included enhancing central bank governance, strengthening financial sector supervision and regulation, improving monitoring of systemic risks and bolstering financial stability governance, developing domestic securities markets, supporting financial inclusion and deepening, and upgrading financial statistics.

Capacity Development (CD)

From 1999, the Fund provided CD and policy advice to the UN Mission in Kosovo (UNMIK), and from September 2008 to the independent Republic of Kosovo. CD has centered on the Fund's core competencies, notably in fiscal policy, 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, CD has been provided on the following issues:

Statistics

- Residential Property Price Index (June 2023 and June 2024); Producer Price Statistics (June 2024); National Accounts Statistics (November 2023 and August 2024); Government Finance Statistics (June 2022 and February 2024).

Fiscal Sector

- *Revenue Administration*—Developing a Blueprint For a Modern Data Warehouse (January 2024, April-May 2024); Debt Management (September 2024); Data Analytics and Data Driven Compliance Risk Management (September 2023 and September 2024); Revenue Administration Workshop (February-March 2023); Tax Audit Community of Practice (September 2023); Progress with Strategies to Enhance PIT (October 2022 and October 2023); IT Modernization (November 2022); Taxpayer Compliance Risk Management (November 2022 and September 2024); Restructuring the Regional Tax Office Network (June-July 2022); Accelerating Tax Administration Reform (March-April 2022); Large Taxpayer Compliance (April 2022), TADAT Assessment (December 2022).

- *Public Financial Management*—Implementing Cash Flow Forecasting (July 2023 and July 2024); Gender and Climate Budgeting (February-March 2024), Training on Fiscal Risk Assessment Tool (March 2024); Public Investment Management Assessment Update and Climate PIMA (May 2023), Management of Fiscal Risks Related to Publicly Owned Enterprises (POEs) (March 2022 and July 2022).

Monetary and Financial Sectors

- Financial Supervision and Regulation—Strengthening Cybersecurity Regulation and Supervision (August 2024); Insurance Supervision (January 2024); Risk-Based Supervision and Pillar 2 (September-October 2022)
- Central Bank Operations and Governance—Central Bank Risk Management (March 2024); Central Bank Governance—Follow-up to FSSR 2019 (January 2023)
- Financial Sector Stability Review (January, April, and October 2019)

Resident Representative

Mr. Sebastian Sosa, Regional Resident Representative for the Western Balkans, took up his post (in Vienna, Austria and also covering Albania, Montenegro, and North Macedonia) on September 1, 2023. Mr. Sosa oversees the IMF's local office in Pristina.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

International Financial Institution	Hyperlink
The World Bank Group	https://www.worldbank.org/en/country/kosovo/overview
The European Bank for Reconstruction and Development (EBRD)	https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?1=1&filterCountry=Kosovo
European Investment Bank (EIB)	https://www.eib.org/en/projects/country/kosovo

Relations with the World Bank Group

The World Bank supports the Kosovo authorities in advancing reforms through its Development Policy Operations (DPOs). The first DPO was approved by the World Bank Board in March 2024. All prior actions have already been completed, and the DPO is currently awaiting parliamentary approval. A new DPO under preparation is designed around the following key measures: establishing a permanent program to provide targeted financial support to vulnerable consumers in the electricity sector (complementing RM1 of the IMF RSF); improving energy efficiency by streamlining the process and enforcement of energy performance certifications (EPCs) for buildings (complementing RM6 of the RSF); establishing a legal framework for the transition to market-based support mechanisms in the renewable power generation sector to diversify the energy supply mix towards renewables and while phasing out of coal (complementing RM2, RM3, and RM5 of the RSF); and strengthening the legal framework for climate change policy.

International Finance Corporation (IFC). The World Bank Group's IFC has been supporting the Ministry of Economy as a transaction advisor for the wind auction (RSF RM2).

Relations with the European Bank for Reconstruction and Development (EBRD)

To date, the EBRD has committed €679 million in public and private sector investments in Kosovo. About 43 percent of these investments are through financial institutions, 41 percent is for transport, energy, municipal and environmental infrastructure, and the remaining 16 percent is in the form of direct investments in industry, commerce and agribusiness. The share of green investments was about 50 percent as of 2023. In addition to financing operations, the EBRD supported the Kosovo authorities in enhancing the regulatory framework for Power Purchase Agreements (PPAs), in energy efficiency, in the conduct of bidding processes for renewable energy projects, in strengthening the financial and operational efficiency of utility companies in the wastewater sector, and in capacity building of some publicly-owned enterprises.

The Kosovo Country Strategy 2022–27 guides the EBRD's operations. The strategy has outlined the following priorities: (a) Develop a more competitive and inclusive private sector to foster economic recovery and growth; (b) Support green economy transition in Kosovo through a more sustainable energy mix and greater resource efficiency; (c) Strengthen regional integration, connectivity, and foreign investment.

Relations with the European Investment Bank (EIB)

The EIB has been active in Kosovo since 2007, initially financing private sector telecommunications companies. In 2013, a Framework Agreement was signed with Kosovo to finance priority projects in areas vital for the country's development, including the environment, transport, telecommunications, and energy infrastructure. The EIB's involvement facilitates co-financing of projects with other partners and supports the implementation of the Western Balkans Investment Framework (WBIF) and the Western Balkans Enterprise Development and Innovation Facility (WBEDIF). To date, the EIB has signed contracts for 9 projects in Kosovo totaling €370.8 million. These projects are distributed across the transport sector (48 percent), telecommunication (26 percent), credit lines (18 percent) and water/sewerage (10 percent). The EIB is also financing the construction of a 100 MW solar photovoltaic project on the Kosovo Energy Corporation (KEK) premises. The work on this project is ongoing, with the aim of having this project operational by the end of 2026.