



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

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed on May 31, 2024, the second reviews of Kosovo's Stand-By Arrangement (SBA) and Resilience and Sustainability Facility (RSF) Arrangement, making available SDR 13.354 million (about €16.5 million) and SDR 7.744 million (about €9.5 million), of budget support under each facility, respectively.
- Kosovo's economic activity continues to expand at a robust pace, despite a challenging external environment, and inflation has declined markedly.
- Program implementation remains strong. The SBA continues to anchor prudent macroeconomic policies and to support structural reforms to strengthen fiscal and financial sector governance. The RSF has proved instrumental in supporting the authorities' ambitious green agenda and catalyzing additional climate financing.

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

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

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

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

been met, and all structural benchmarks and reform measures for the second reviews have been implemented.

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

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

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

Kosovo: Selected Economic Indicators, 2019–24

(Percent, unless otherwise indicated)

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

<i>Of which:</i> Direct investment, net	-2.7	-4.2	-4.0	-6.8	-6.5	-5.4
Portfolio investment, net	0.8	-1.2	3.5	1.5	4.6	0.9
Other investment, net	-1.8	-3.5	-6.2	-2.9	-2.1	-2.0
Reserve change	1.3	0.7	2.1	0.8	-0.5	1.4
Errors and Omissions	3.5	-1.6	3.4	2.4	2.6	1.8

Savings-investment balances (percent of GDP)

National savings	28.9	26.4	27.2	24.9	26.5	25.6
Public savings	4.4	-2.8	3.9	3.8	4.7	4.3
Private savings	24.5	29.3	23.3	21.1	21.8	21.3
Investment	34.6	33.4	36.0	35.2	34.2	33.2
Public investment	7.6	5.6	5.3	4.8	5.8	6.0
Private investment	27.0	27.8	30.6	30.5	28.4	27.2
Current account, including official transfers	-5.7	-7.0	-8.7	-10.3	-7.7	-7.6

Financial Sector

Non-performing loans (percent of total loans)	1.9	2.5	2.1	1.9
Bank credit to the private sector (percent change)	10.0	7.1	15.6	16.0	12.8	8.0
Deposits of the private sector (percent change)	15.5	10.9	12.4	12.7	11.3	7.6
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5

Memorandum items:

Foreign Reserves (millions of euros, IMF Definition)	1,141	1,149	1,293	1,370	1,449	1,567
Foreign Reserves (% of ARA metric)	126	120	107	96	92	92
GDP (millions of euros)	7,056	6,772	7,958	8,896	9,653	10,301
GDP (millions of euros; projections in 2023 budget)	7,056	6,772	7,958	8,956	9,843	10,605
GDP per capita (euros)	3,959	3,766	4,499	5,026	5,451	5,814
Real GDP growth per capita	5.6	-6.2	12.6	4.2	3.3	3.7
Output gap (% of GDP)	1.2	-6.2	-0.5	-0.5	-0.7	-0.5
Population (million)	1.8	1.8	1.8	1.8	1.8	1.8

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

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

2/ It does not include contingent debt of former Yugoslavia. Beginning in 2020, it includes Euro 120 million of debt with KPST.

3/ Total foreign assistance excluding capital transfers.