

ECONOMIC MONITOR

KOSOVO

Overview

- » Economy to grow by 3.8% in 2024, after 4.1% in 2023; strong performance in regional comparison
- » Main drivers of growth: private consumption, but also higher public investment
- » After a peak in 2022, the rate of inflation continues to decrease; Jul-24: 2,2%
- » With an average salary of EUR 570 (in 2023), KOS remains wage competitive in the region
- » Current account deficit declined from over 10% in 2022 to 7.7% of GDP in 2023
- » Remittances account for almost 14% of GDP and are a key economic factor in the country
- » Low budget deficit in 2023 of 0.2% of GDP; deficit projected to increase to 1.4% of GDP in 2024, driven by lower reception of grants and higher expenditure
- » Strong increase of public investment (+ 1 pp of GDP) in 2023; but still large under-execution

Special issues

- » **FDI.** Inflows reached record high in 2023 (8.8% of GDP), but need to be diversified more
- » **Energy and climate policy.** New Draft National Energy and Climate Plan and Nationally Determined Contributions outline great ambitions in the energy and climate policy space

Basic indicators

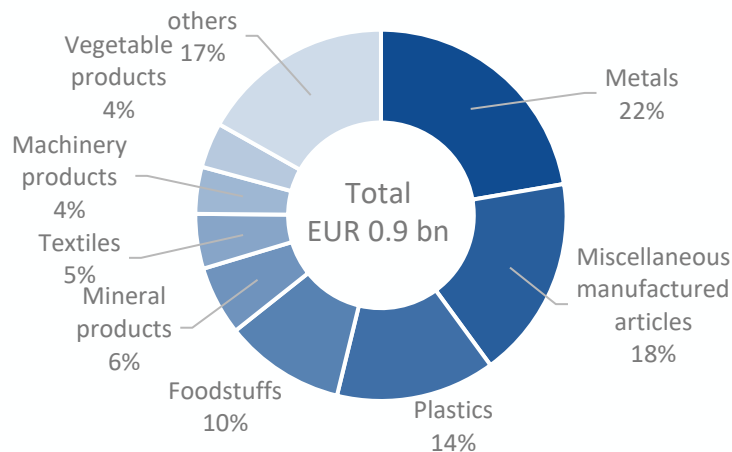
	KOS	ALB	SRB	MNE	BIH	MKD
GDP, USD bn	10.5	22.7	75.2	7.4	27.2	14.8
GDP/capita, USD	5,917	7,957	11,327	11,696	7,857	8,147
Population, m	1.6	2.9	6.6	0.6	3.5	1.8

Source: Kosovo Agency of Statistics, IMF; Note: Numbers for 2023, all estimates, figure for KOS own estimation based on 2024 census

Trade structure

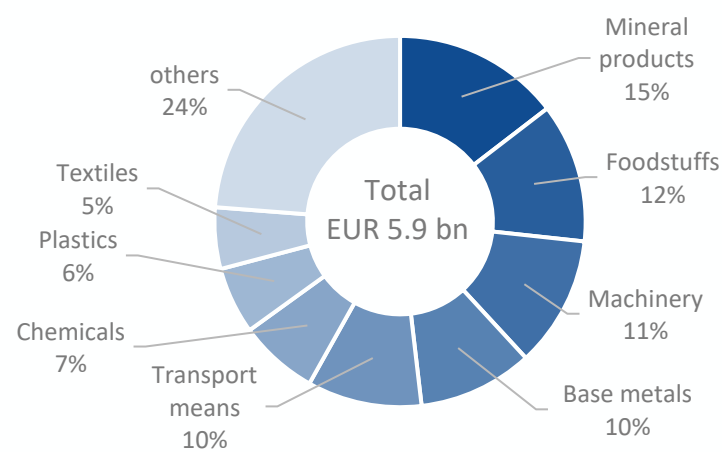
Exports

EU 32% | MKD 14% | ALB 13% | USA 12% | Others 29%



Imports

EU 42% | TUR 15% | CHN 11% | ALB 6% | Others 26%

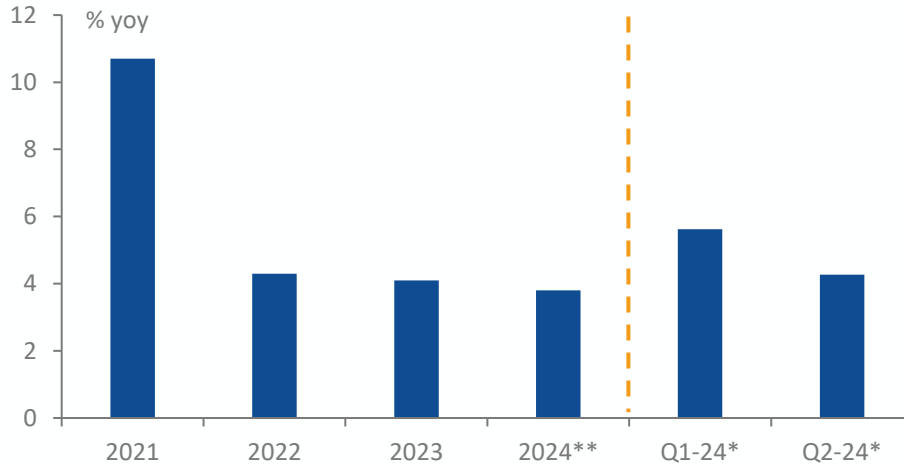


Source: Kosovo Agency of Statistics, 2023, only goods

Source: Kosovo Agency of Statistics, 2023, only goods

Economic growth

Real GDP growth



Sources: Kosovo Agency of Statistics, IMF; Notes: *preliminary KAS-data, **projection

Regional comparison of real GDP growth (% yoy)

	2022	2023*	2024**	2025**
ALB	4.8	3.3	3.1	3.4
BIH	4.2	1.8	2.5	3.0
KOS	4.3	4.1	3.8	4.0
MKD	2.2	1.0	2.7	3.7
MNE	6.4	6.0	3.7	3.0
SRB	2.6	2.5	3.5	4.5
GER	1.8	-0.3	0.2	1.3
Eurozone	3.4	0.4	0.8	1.5

Source: IMF; Notes: *estimates **projection

GDP

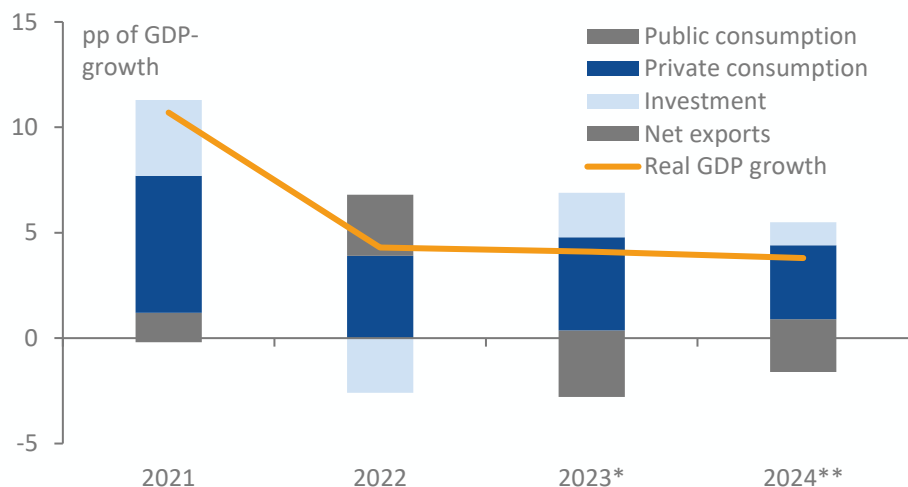
- » 2023: growth of 4.1%
- » 2024: growth of 3.8% forecasted
- » However: economy grew by 5.6% in Q1-24 and by 4.3% in Q2-24
- » Open: upward revision of 2024 forecast?
- » 2025: 4.0% growth expected

Regional comparison

- » Projected growth rates for Kosovo are at the higher end in regional comparison
- » Region's projected growth rates exceed those of Germany and Eurozone
 - Steady - although rather slow-paced - economic convergence to EU
- Projection of stable GDP growth at around 4%
- Strong performance in regional comparison

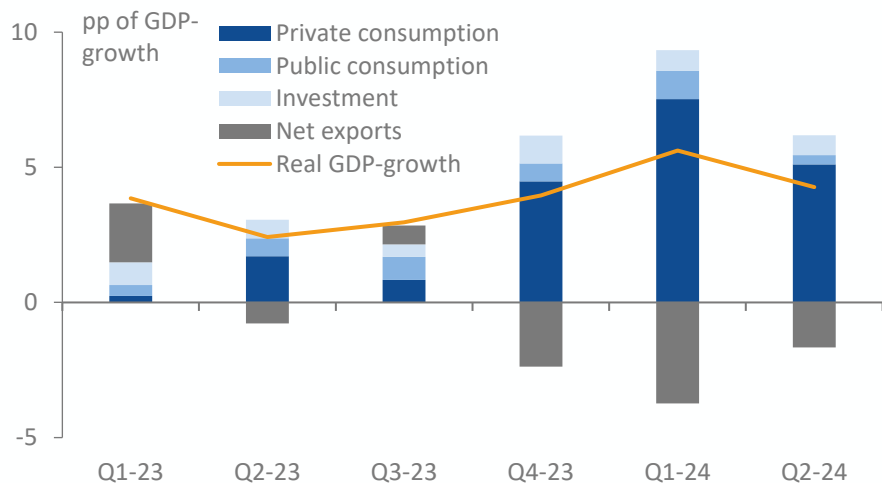
Drivers of GDP-growth

Contribution to real GDP-growth (yearly)



Source: IMF, Kosovo Agency of Statistics, Notes: *preliminary, **projection

Contribution to real GDP-growth (quarterly)



Source: Kosovo Agency of Statistics; Note: all figures preliminary

Drivers of GDP-growth in 2023

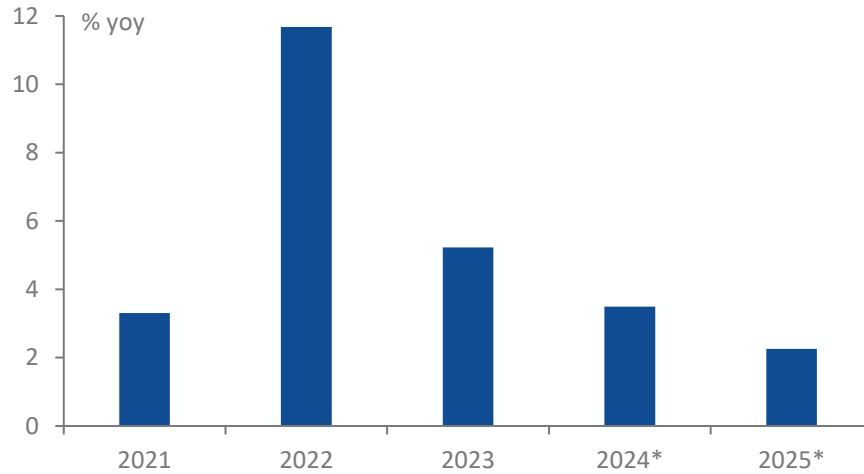
- » GDP-growth in 2023 driven mostly by private consumption
 - On the back of rising real wages, remittances and higher bank lending
- » Investment also contributed positively
 - Public investment picked up significantly from a low level in 2022
- » Negative net exports slowed growth down
 - Mainly caused by a slowdown in external demand from EU
- » Supply-side: trade & manufacturing sector key drivers of nom. GDP-growth

Drivers of GDP-growth in 6M2024

- » Strong GDP dynamic in 6M2024, supported by private consumption
- » Implication: strong increase in imports
- » Supply-side: surge in product tax-revenue (made up 48% of nom. growth in 6M2024)
- Acceleration of private consumption in 6M2024 is key driver of GDP-growth

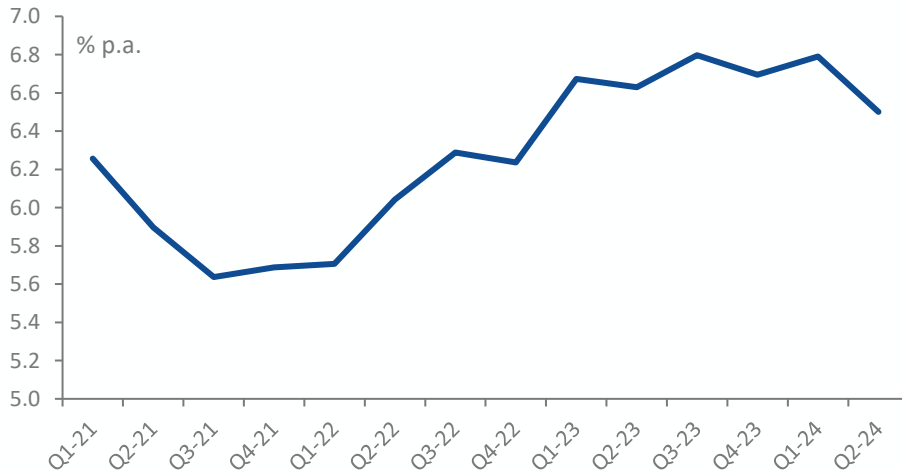
Inflation

Inflation (CPI)



Source: Central Bank of Kosovo, IMF; *projection. Note: period-average.

Interest rates on loans for investment



Source: Central Bank of Kosovo

Inflation

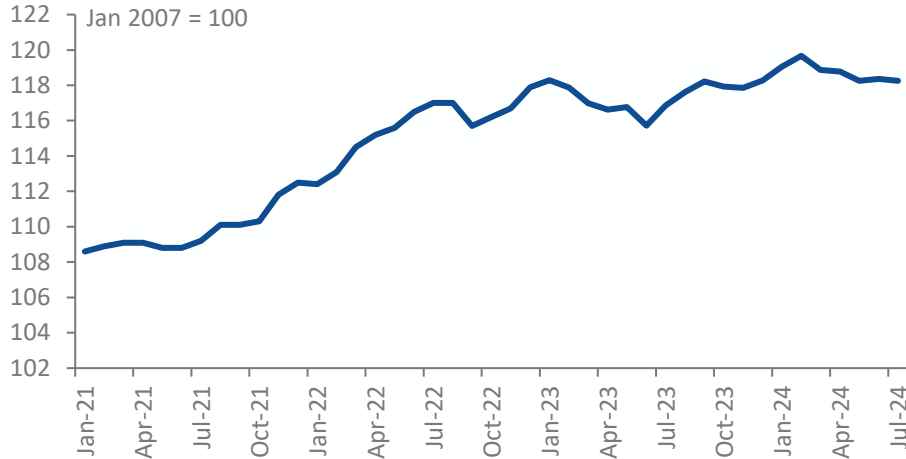
- » After a surge in 2022, mainly driven by high prices for food, transport and energy, inflation is on a declining trend
- » 2023: inflation was at 5.2% yoy
- » Further disinflation is expected in 2024
 - Jul-24: 2.2% yoy

Interest rates

- » Interest rates increased throughout 2022 as reaction of surging inflation
 - High interest rates stifled private investment in 2023
- » In Q2-24, interest rates started to decrease, reflecting expectations of base rate cuts by the ECB
 - Following recent base rate cuts, we expect interest rates in KOS to continue their decrease throughout 2024
- » **Decreasing inflation; room for lower interest rates and higher private investment**

Real effective exchange rate

Real effective exchange rate



Source: Central Bank of Kosovo, note: an increase implies a real appreciation

Regional comparison of average gross salary

Average gross salary (EUR) in 2023

ALB	648
BIH	995
KOS	570
MKD	892
MNE	987
SRB	1,011

Source: WIIW, Kosovo Agency of Statistics

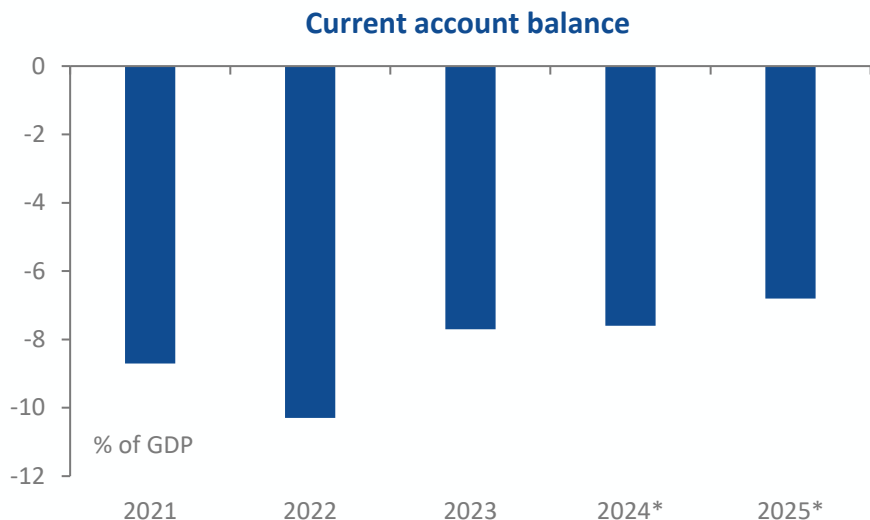
Real effective exchange rate

- » Kosovo uses the Euro as a legal tender
- » Since 2021: ongoing trend of real effective appreciation
- » However: trend interrupted in 2024
- » Real appreciation affects trade
 - Provides incentive to increase imports, but hurts exports

Regional wage level

- » Despite the ongoing effective appreciation, wages in Kosovo remain low in regional comparison
- » In KOS, productivity growth outpaced real wage growth from 2015 to 2023, according to World Bank
 - Unique among WB6
- Wages remain competitive within the region, despite real appreciation in recent years

Current account



Sources: IMF; *projection

Current account

% of GDP	Goods balance	Service balance	Primary income	Secondary income (esp. remittances)	Current account balance
2022	-48.2%	15.4%	1.3%	21.2%	-10.3%
2023	-47.6%	16.9%	1.7%	21.3%	-7.7%
2024*	-45.7%	15.4%	1.5%	21.2%	-7.6%

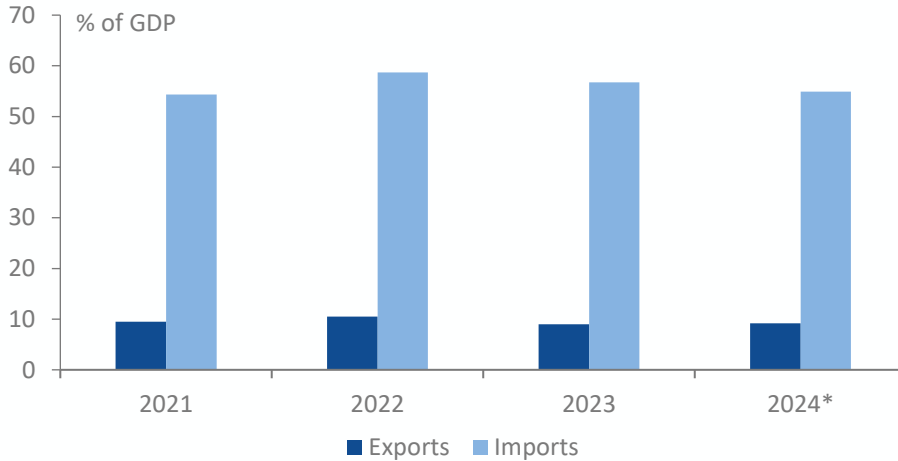
Source: IMF; *projection

Current account

- » Traditionally, KOS has a sizeable current account deficit
 - Driven by a large goods trade deficit
 - Mitigated by a service trade surplus and substantial remittances inflows (resulting in high secondary income)
- » 2023: current account deficit (CAD) narrowed to 7.7% of GDP
 - Goods trade deficit narrowed by 0.6 pp of GDP
 - Service trade surplus widened by 1.5 pp of GDP
- » Outlook 2024: CAD expected to remain unchanged
 - However: CAD widened by 2.2 pp of GDP in 6M2024, revision likely
- Substantial current account deficit
- Positive development in 2023

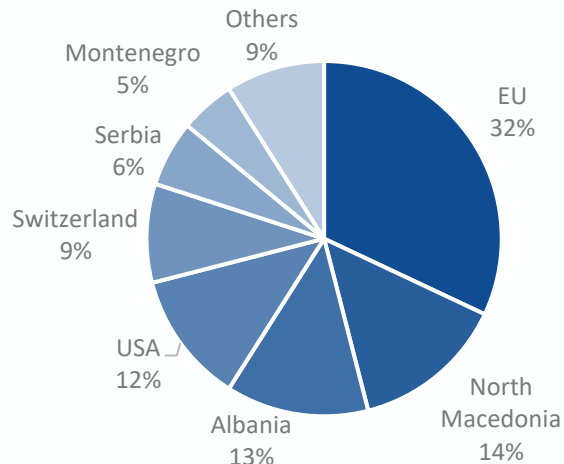
Trade in goods

Goods trade balance



Source: IMF; Note: *projection

Exports by countries



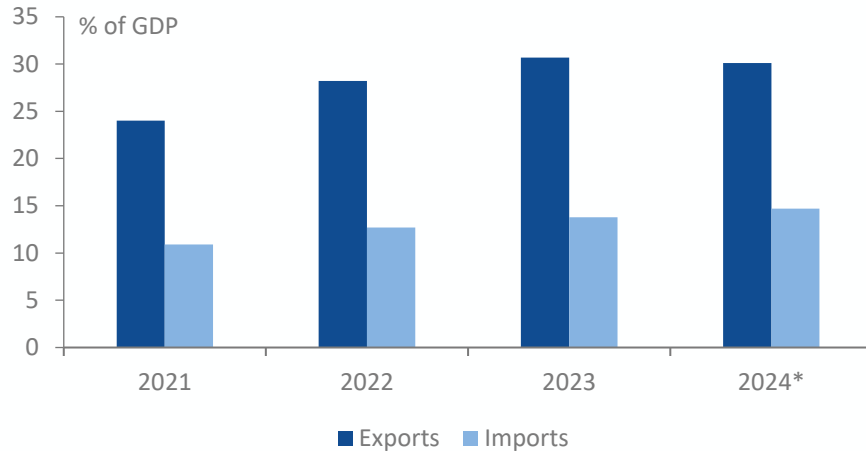
Source: Kosovo Agency of Statistics, 2023

Goods trade balance

- » General situation: large trade deficit (47.6% of GDP in 2023)
- » Deficit narrowed by 0.6 pp of GDP in 2023
 - Goods imports declined by 2 pp of GDP, mainly driven by a decrease in energy and food imports
 - Goods exports decreased by 1.5 pp of GDP, reflecting subdued demand from the EU (main export destination)
- » The goods trade deficit is expected to narrow further in 2024
 - On the back of a continued decline in imports (as % of GDP), driven by disinflation of import prices
 - Goods exports are expected to be stable
- » 6M2024: goods trade deficit remained unchanged
- Large goods trade deficit
- Deficit has narrowed slightly in 2023

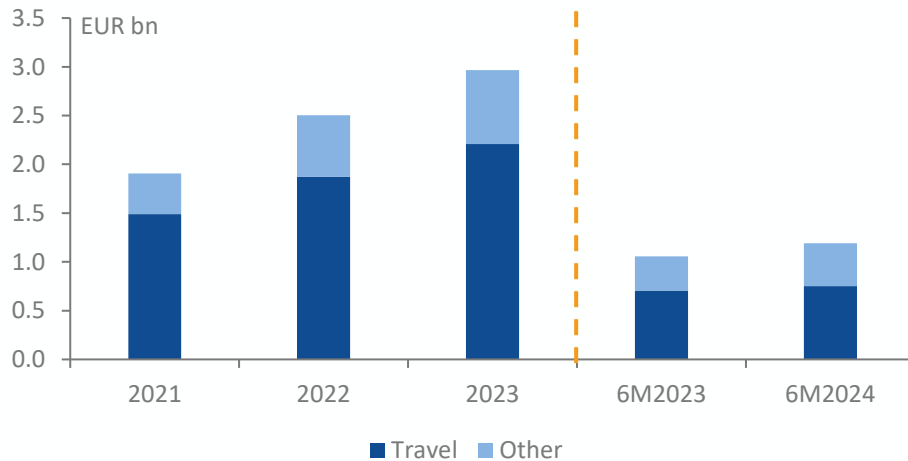
Trade in services

Service trade balance



Source: IMF, Note: *projection

Revenue from service exports (nominal)



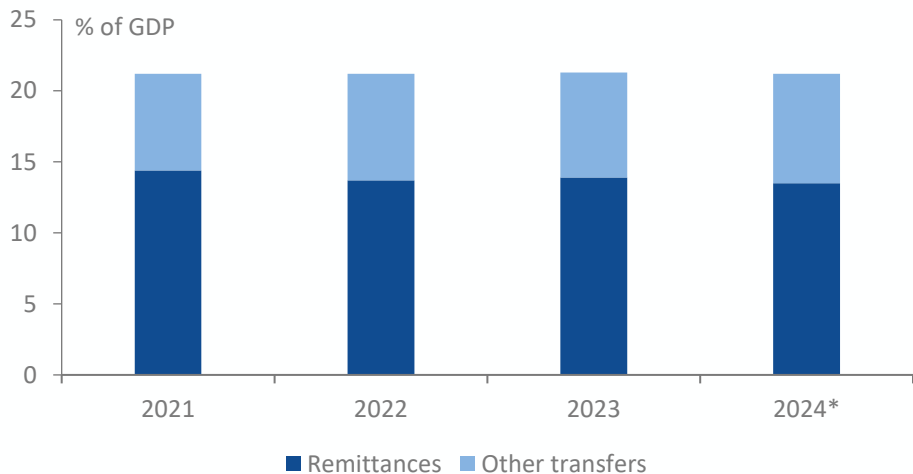
Source: Central Bank of Kosovo

Trade in services

- » General situation: positive service trade balance (16.9% of GDP in 2023)
- » Service trade balance surplus widened by 1.5pp of GDP in 2023
 - Driven mostly by the strong development of the tourism sector
 - An increase in telecommunications and IT service exports also contributed
- » For 2024, the IMF expects the service trade surplus to narrow
 - Due to visa liberalization: service imports are expected to outpace GDP-growth
 - Data from 6M2024 in line with this expectation
- » Most service exports are linked to tourism
 - Main type of tourism: diaspora tourism
- » The IT and telecommunication sectors are still relatively small but very dynamic
- **Continuing increase in service exports as a driving force for economic dynamics**

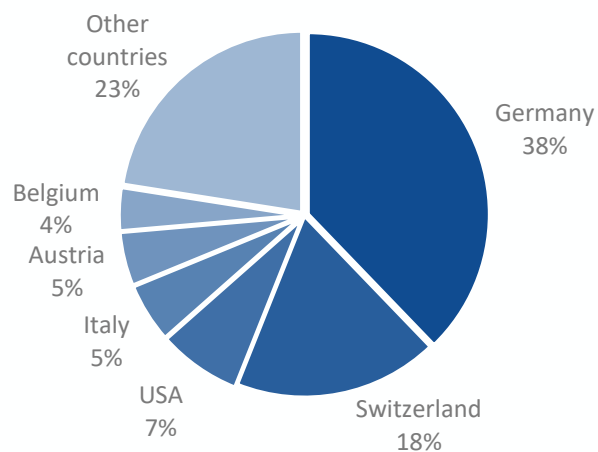
Secondary income

Secondary income



Source: IMF, Note: *projection

Remittances by countries of origin



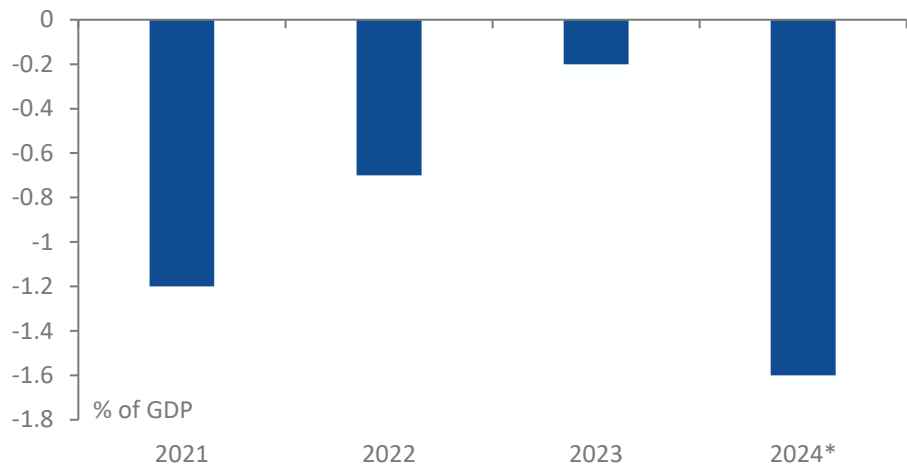
Source: Central Bank of Kosovo, 6M2024

Secondary income

- » Remittances are a key factor for Kosovo's economy
 - Key source of secondary income
 - Enables larger consumption and imports
- » 2023: remittance inflows amounted to 13.9% of GDP (EUR 1.3 bn)
- » Dynamic: remittances have remained very stable (as % of GDP) over the last years
 - Have kept pace with KOS' real growth rate of around 3% to 4% p.a.
 - Despite weak economic growth in destination countries of KOS emigrants
- » Most remittances came from DEU, followed by CHE and the USA in 6M2024
 - Analogous to previous years
- Remittances have proven to be resilient and remain an important economic factor

Public finances

Public budget

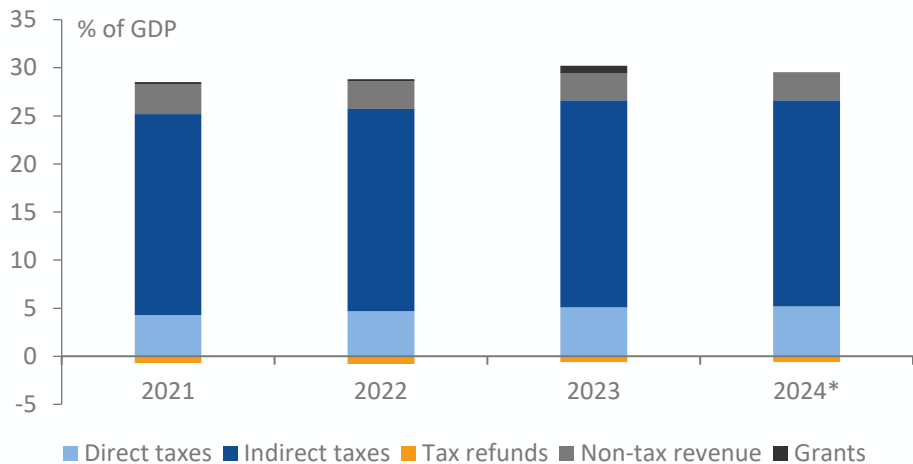


Source: IMF; Note: *projection

Public budget

- » 2023: fiscal deficit narrowed substantially to 0.2% of GDP
 - Driven by a substantial increase in revenues (1.5 pp of GDP)
 - Despite an increase in government spending (1.1 pp of GDP)
- » 2024: budget deficit is projected to increase by 1.5 pp of GDP
 - Driven by lower reception of grants and moderately higher expenditure to stimulate growth

Public revenues



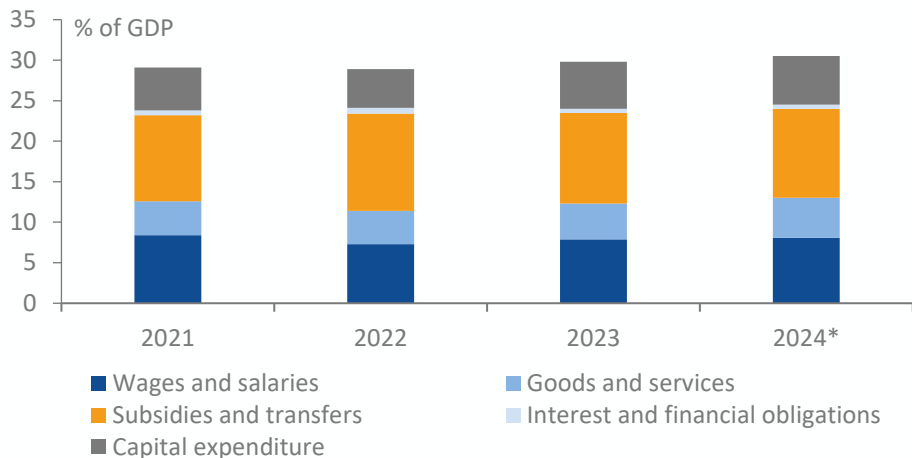
Source: IMF; Notes: *projection

Public revenues

- » Increase in revenues driven by higher base, but also enhanced tax collection
 - Especially tax revenues from VAT and PIT increased substantially
- » Additionally, KOS received grants from the EU energy support package (0.7% of GDP)
- **Public budget consolidated on the back of strong tax collection and grants**

Public finances

Public expenditure



Source: IMF; Notes: *projection

Public investment



Source: Kosovo Agency of Statistics, Official Gazette of the Republic of Kosovo

Public expenditure

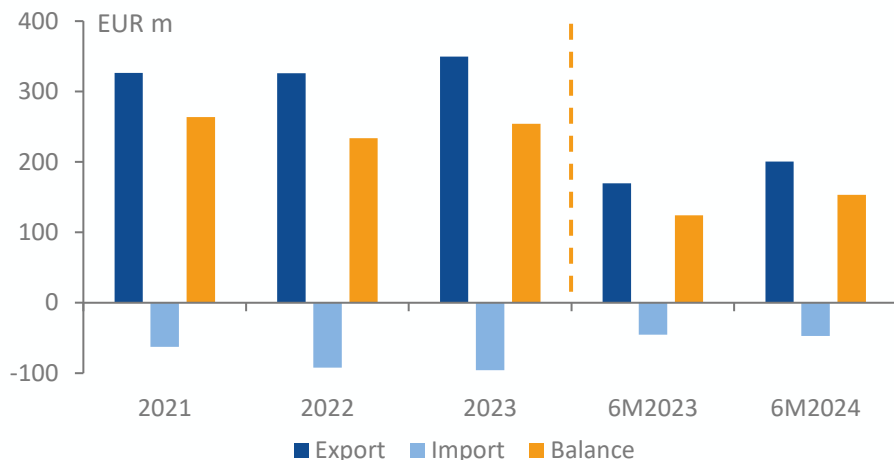
- » 2023: public expenditure increased by 1 pp of GDP
 - Mostly driven by higher public investment (1 pp of GDP)
 - Public wages and salaries also picked up (0.5 pp of GDP), following a new law on public wages
 - In Dec-23, KOS government paid out a transfer to children and pensioners to compensate for inflation

Public investment

- » 2023: surge in public investment (1 pp of GDP) is a positive feature, esp. after sizeable under-execution in the past
- » Contribution to short- and long-term growth
- » At the same time: budget execution remains a problem; only 69% of planned public investment executed
- Increased public expenditure, mainly due to better investment execution

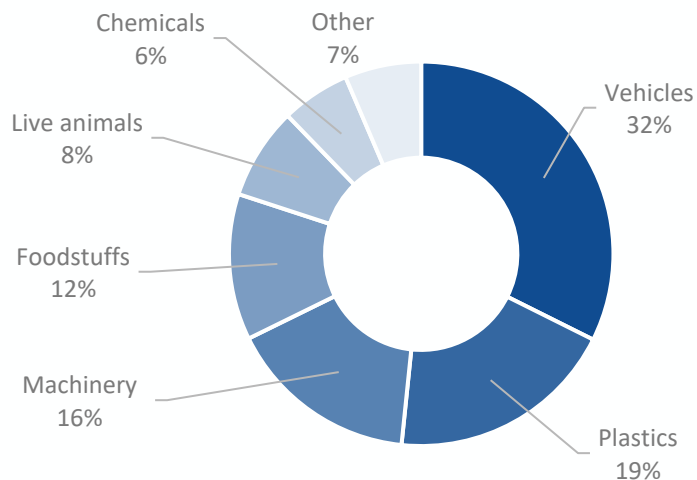
Bilateral trade between Germany and Kosovo

German trade with Kosovo



Source: Federal Statistical Office of Germany, goods

German exports to Kosovo



Source: Federal Statistical Office of Germany, 6M2024, goods

Bilateral trade volume

- » 2023: positive development of bilateral goods trade; higher exports and imports
 - Exports to KOS: EUR 350 m
 - Imports from KOS: EUR 96 m
- » 6M2024: positive dynamic continued

German exports to Kosovo

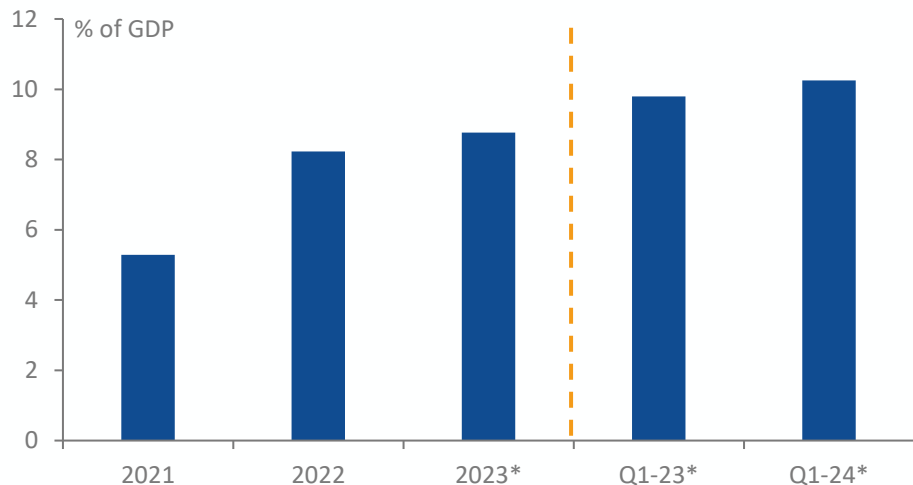
- » 6M2024: German exports to Kosovo surged by 18.2% yoy
- » Main exported goods were vehicles, plastics and machinery

German imports from Kosovo

- » 6M2024: imports increased by 3.6% yoy
 - Positive trend from 2023 continued
- Bilateral trade continued positive dynamic in 2023 and 6M2024

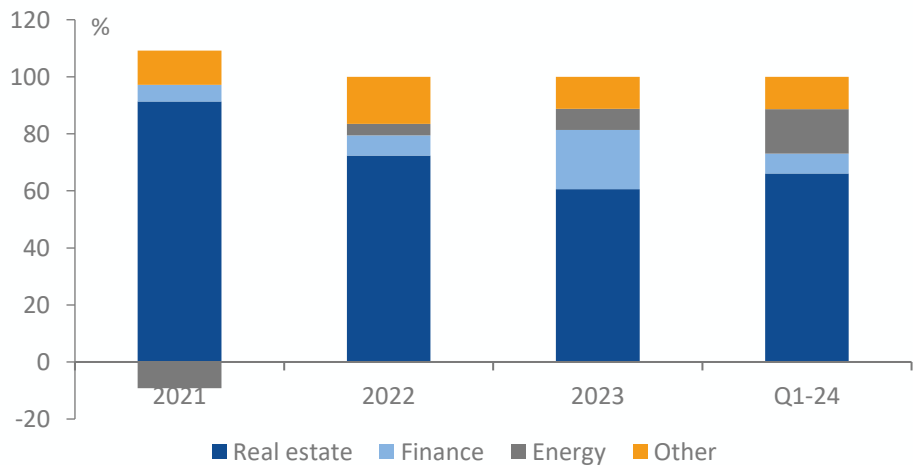
Foreign direct investment: latest developments

FDI inflows to Kosovo



Source: Central Bank of Kosovo, Kosovo Agency of Statistics; Note: *preliminary

FDI inflows to Kosovo by economic activities



Source: Central Bank of Kosovo

Volume of inflows

- » 2023: FDI inflows at 8.8% of GDP
 - Surpassing record level from 2022
- » Q1-24: inflows of 10.3% of GDP
 - Further increase, very positive development

Sectoral composition of inflows

- » Traditionally: diaspora-driven FDI activities in the real estate sector most important
- » 2023: increase in share of financial sector, mostly due to re-invested earnings
- » Q1-24: share of energy sector increased substantially
- » Outlook: share of renewable energy (RE) is expected to increase in next years
 - KOS increases efforts to attract FDI into RE projects: e.g. EUR 1.2 bn through RE auctions
- FDI inflows at a record high, but need to be diversified more

Foreign direct investment: regional comparison

Net FDI inflows (% of GDP)

	2023
ALB	7.1
BIH	3.5
KOS	8.8
MKD	4.5
MNE	7.2
SRB	6.5

Sources: UN Trade & Development, Central Bank of Kosovo

FDI stock (% of GDP)

	2023
ALB	60.8
BIH	39.3
KOS	64.9
MKD	56.3
MNE	82.4
SRB	80.3

Source UN Trade & Development; Central Bank of Kosovo

FDI inflows

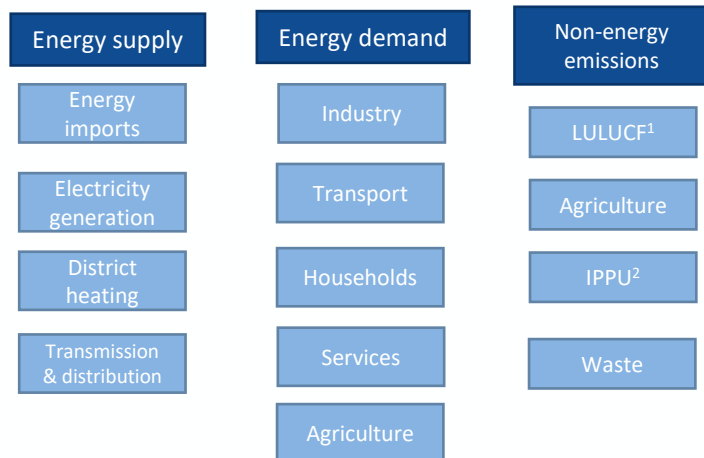
- » 2023: KOS had the highest net FDI inflows (as % of GDP) in the region
- » German beacon-projects in 2023
 - Munda (textile lighting systems): new production plant
 - Zilonis (heat pumps): new branch
 - Limbach Group (medicine): new laboratory

FDI stock

- » FDI stock is in midfield in regional comparison
 - 64.9% of GDP at the end of 2023
- » Increased by 7.8 pp of GDP throughout 2023
 - Very positive development, surpassing ALB
- » Strong recent FDI inflows
- » Correspondingly, large increase in FDI stock

Energy and climate policy ambitions

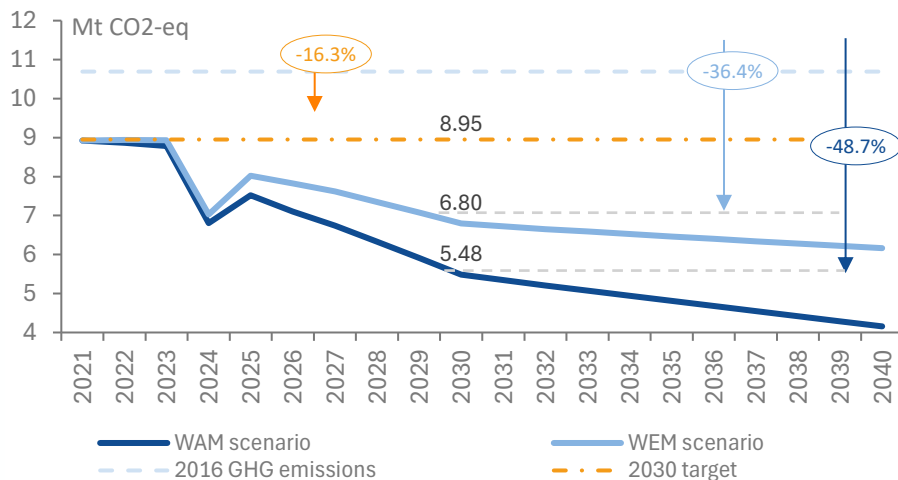
Sectoral breakdown NECP Kosovo



Source: own depiction

Notes: ¹ Land Use, Land-use Change and Forestry, ² Industrial Processes and Product Use

NECP targets and trajectory for GHG emissions reduction



Source: own depiction

Note: Results from draft NECP, the quantitative effects of the PaMs outlined in NECP might be revised following the outcomes of the public consultations.

National energy and climate plan (NECP)

- » NECP: outlines cross-sectoral plans for energy and climate policy until 2030, building on sectoral strategies
 - Mandatory for KOS as member state of the Energy Community (EnC)
 - First draft submitted in July 2023
- » Based on the policies presented in the first NECP draft, KOS is projected to meet the 2030 EnC targets related to GHG emissions, renewable energy and energy efficiency
- » Draft NECP is currently under revision based on feedback from the EnC, with support of the German Economic Team

Nationally Determined Contributions (NDC)

- » In addition: Voluntary submission of Nationally Determined Contributions (NDC) planned for COP29
- » Focus on both climate mitigation and adaptation, as well as climate finance
- **Great ambitions in energy and climate policy**

About the German Economic Team

Financed by the Federal Ministry for Economic Affairs and Climate Action, the German Economic Team (GET) advises the governments of Ukraine, Belarus*, Moldova, Kosovo, Armenia, Georgia and Uzbekistan on economic policy matters. Berlin Economics has been commissioned with the implementation of the consultancy.

**Advisory activities in Belarus are currently suspended.*

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