

ECONOMIC MONITOR

KOSOVO

Overview

- » 2023: economic growth at 3.8%, driven by public investment and private/public consumption
- » Stabilisation of economic growth at around 4% predicted for 2024 and onwards
- » Disinflation: after a surge in inflation (2022: 11.6%) due to high global commodity prices, inflation is estimated at 4.7% in 2023 and is expected to further decrease in 2024
- » Strong public investment and FDI contributed to higher imports of goods in 2023; nevertheless, current account deficit decreased to 8.1% of GDP
- » Robust service exports and remittances counteract effects of high imports of goods
- » Slight increase in the budget deficit to 1.2% of GDP in 2023 following resumed public investment activities; positive feature

Special issues

- » **FDI.** Inflows at a record high (9% of GDP) and more diversified than in the last two years
- » **Green Card.** Lacking membership in the Green Card system is associated with negative economic implications for Kosovo's transport sector and tourism
- » **Energy and climate policy.** New Energy Strategy and Draft National Energy and Climate Plan outline great ambitions in the energy and climate policy space

Basic indicators

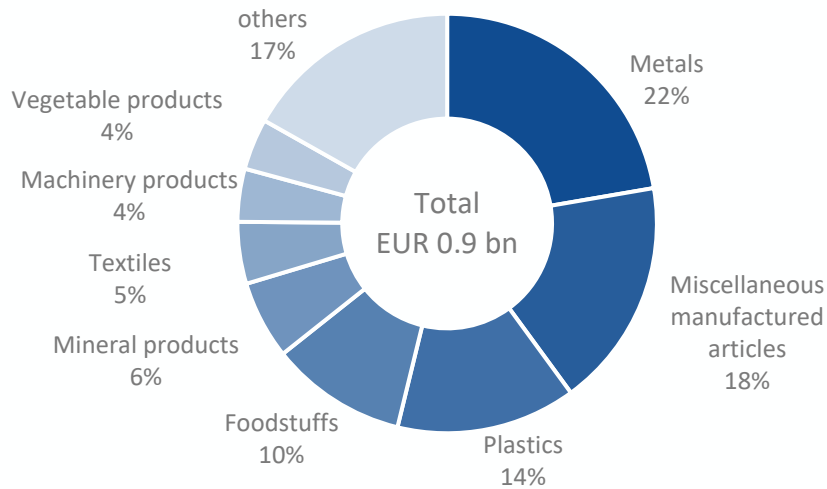
	KOS	ALB	SRB	MNE	BIH	MKD
GDP, USD bn	10.5	23.0	75.0	7.1	26.9	15.8
GDP/capita, USD	5,910	8,138	11,298	11,387	7,789	7,670
Population, m	1.8	2.9	6.6	0.6	3.5	2.1

Source: IMF; Note: Numbers for 2023, all estimates

Trade structure

Exports

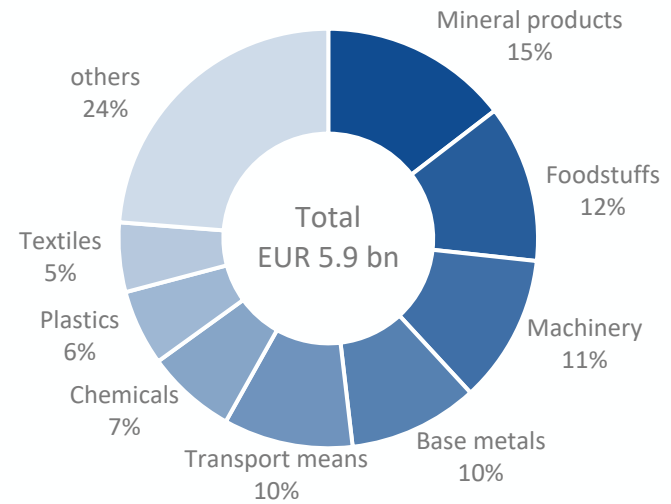
EU 32% | MKD 14% | ALB 13% | USA 12% | Others 29%



Source: Kosovo Agency of Statistics, 2023, only goods

Imports

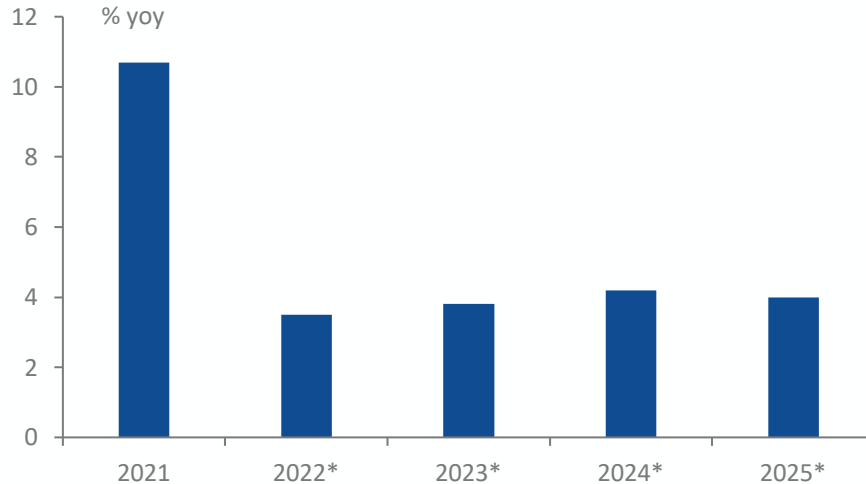
EU 42% | TUR 15% | CHN 11% | ALB 6% | Others 26%



Source: Kosovo Agency of Statistics, 2023, only goods

Economic growth

Real GDP growth



Source: IMF, *estimate/forecast

Regional comparison of real GDP growth (% yoy)

	2022	2023	2024	2025
ALB	4.8	3.6	3.3	3.4
BIH	3.9	2.0	3.0	3.0
KOS	3.5	3.8	4.2	4.0
MKD	2.1	2.3	3.0	3.5
MNE	6.1	4.5	3.7	3.2
SRB	2.5	2.4	3.3	4.5
GER	1.8	-0.5	0.9	2.0
Eurozone	3.3	0.7	1.2	1.8

Source: IMF; all estimates/forecasts

GDP

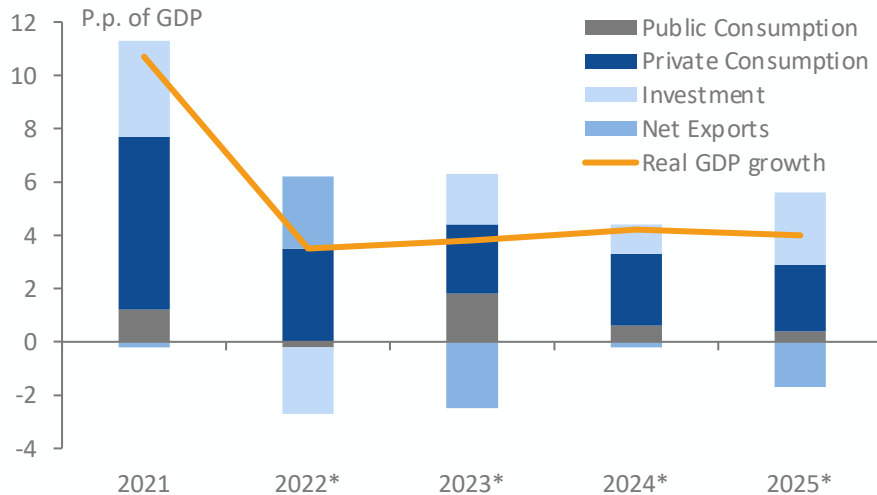
- » 2023: growth estimated at 3.8%; however, downward revision likely
- » Projection for 2024: growth rate of 4.2% yoy
- » Growth of the Kosovar economy is thus expected to stabilise at around 4%, which is quite substantial

Regional comparison

- » Projected growth rates for Kosovo are at the higher end in regional comparison
- » Region's projected growth rates are in strong contrast to developments in Germany and Eurozone, where growth is very slow or even negative
- Projection of stable GDP growth at around 4%
- Kosovo's GDP is expected to grow the most among WB-6 in the coming years

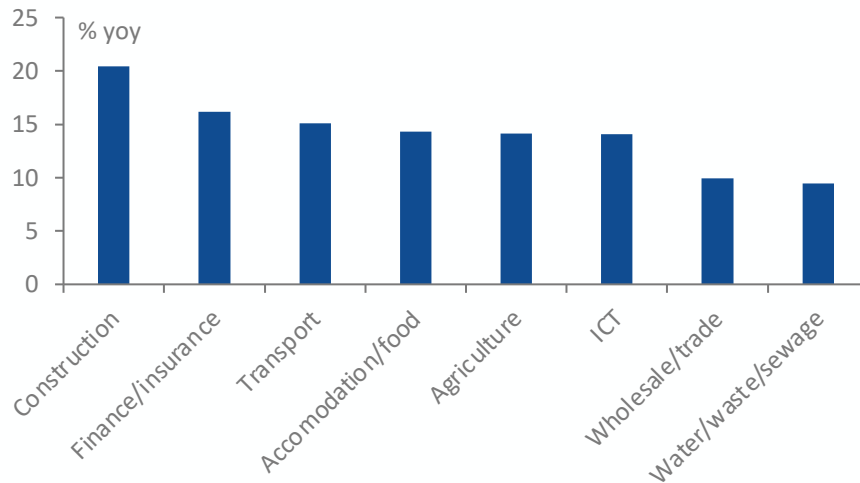
Drivers of GDP growth

Contribution to GDP growth (real)



Source: IMF; *estimate/forecast

Growth by sector (real)



Source: Kosovo Agency of Statistics, 9M2023, order descending by growth rate

Contribution to GDP growth

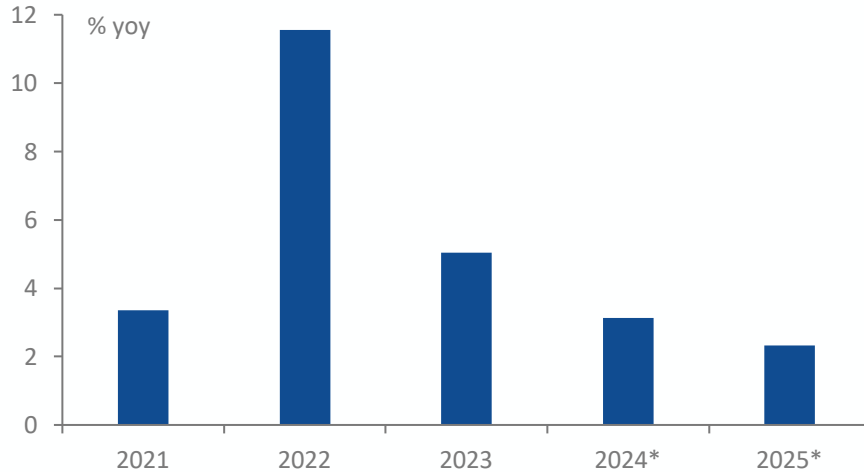
- » 2023: GDP growth driven by increase in public investment, private/public consumption
 - Negative contribution of net exports, due to rise in imports of goods
 - Private investment remains weak
- » Increase in public investment overcompensates weak private investment

Growth by sector

- » Strong investment activity promoted 20.4% yoy growth in the construction sector
- » Strong development of the transport and the accommodation and food services sector
 - Linked with ongoing strong (diaspora) tourism
- Acceleration of public consumption & public investment as key driver of growth trend

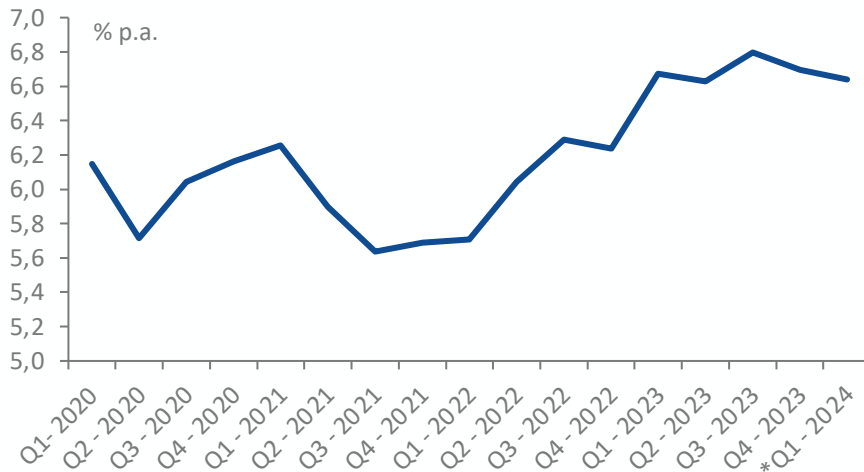
Inflation

Inflation (CPI)



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

Interest rate on loans for investment



Source: Central Bank of Kosovo; *estimate based on Jan-24; Note: period-average

Inflation

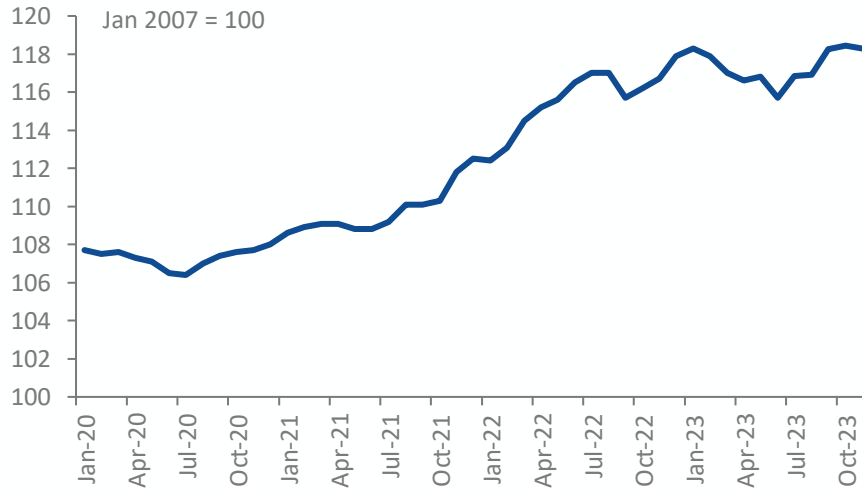
- » After a surge in 2022 mainly driven by high prices for food and energy imports, inflation is on a declining trend
- » 2023: inflation was at 5.0% yoy
- » Further disinflation is expected in 2024
- » Data for Jan-24 is in line with this expectation (1.8% yoy)

Interest rate

- » Interest rate increased multiple times throughout 2022 as reaction of surging inflation in Eurozone
- » Interest rates remained high in 2023
 - Reason for projected decrease in private investment
 - Overall investment projected to be stabilised by public investments
- Decreasing inflation; room for lower interest rate 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)

BIH	863
KOS	521
MKD	773
MNE	883
SRB	879

Source: respective Statistical Offices; 2022

Real effective exchange rate

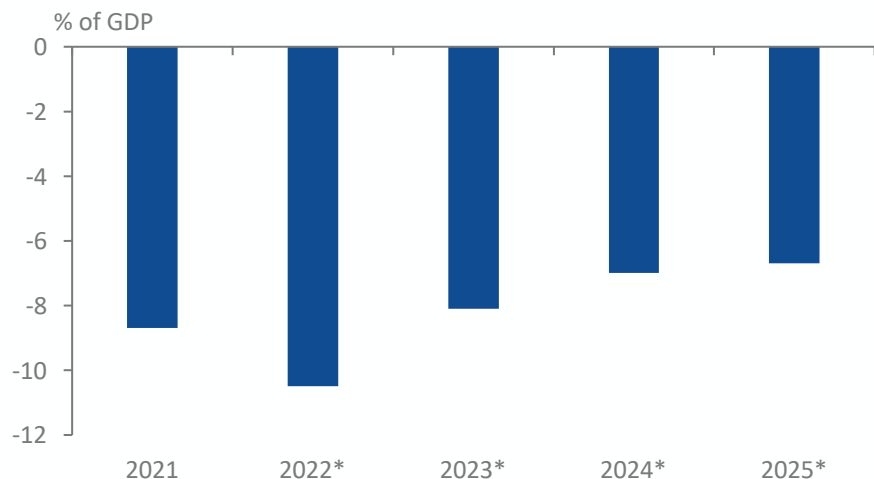
- » Since Kosovo is using the Euro as a legal tender, the exchange rate cannot serve as an absorber of shocks
- » Since 2020: ongoing trend of real effective appreciation, surge in 2022 and moderation in 2023, mirrors inflation
- » Real appreciation affects trade
 - Provides incentive to increase imports, but hurts exports
- » Real appreciation is a potential threat for the international competitiveness of Kosovo

Regional wage level

- » Despite the ongoing effective appreciation, wages in Kosovo remain lowest within the region
- » BUT: further increase is expected, lowers Kosovo's wage competitiveness
- Real appreciation trend continues, but wages remain competitive within the region

Current account

Current account balance



Source: IMF, *estimate/forecast

Current account

EUR	Goods balance	Service balance	Primary income	Secondary income (esp. remittances)	Current account balance
2022*	-4,583	1,672	70	2,050	-791
2023*	-4,817	1,827	119	2,135	-736
Change	-234	155	49	85	55

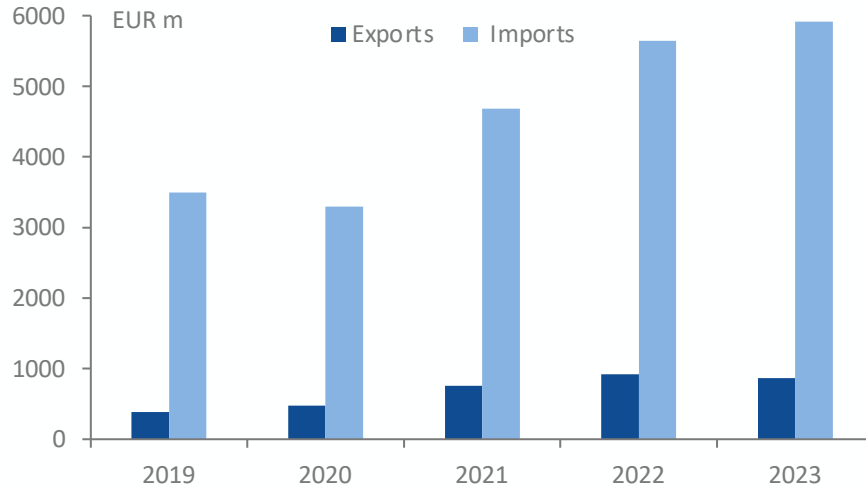
Source: IMF, *estimate/forecast

Current account

- » Despite increased imports in 2023, the current account deficit decreased
 - 2023 deficit at 8.1% of GDP compared to 10.5% in 2022
- » Main drivers: increases in service exports (mainly tourism) and remittances
 - Overcompensate large growth in goods imports following investment driven growth and FDI trends
- » Deficit is expected to further decrease to 7.0% of GDP in 2024
- Reduced current account deficit despite increased imports
- At the same time: deficit remains significant

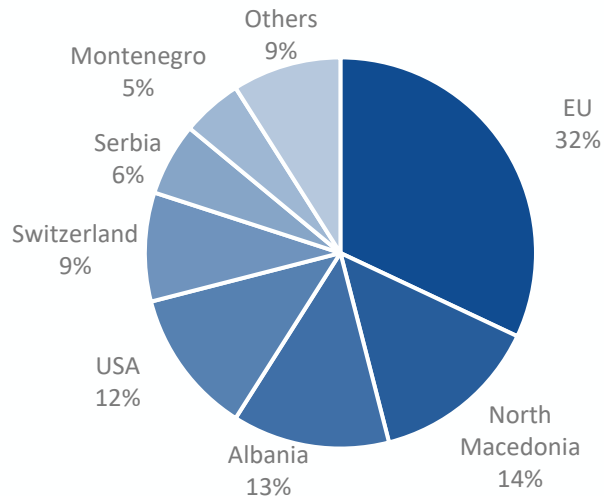
Foreign trade in goods

Foreign trade in goods



Source: Kosovo Agency of Statistics

Exports by countries



Source: Kosovo Agency of Statistics, 2023

Trade in goods

- » General situation: large trade deficit
 - Imports 2023: EUR 5,913 m
 - Exports 2023: EUR 863 m
- » Deficit further exacerbated in 2023

Imports

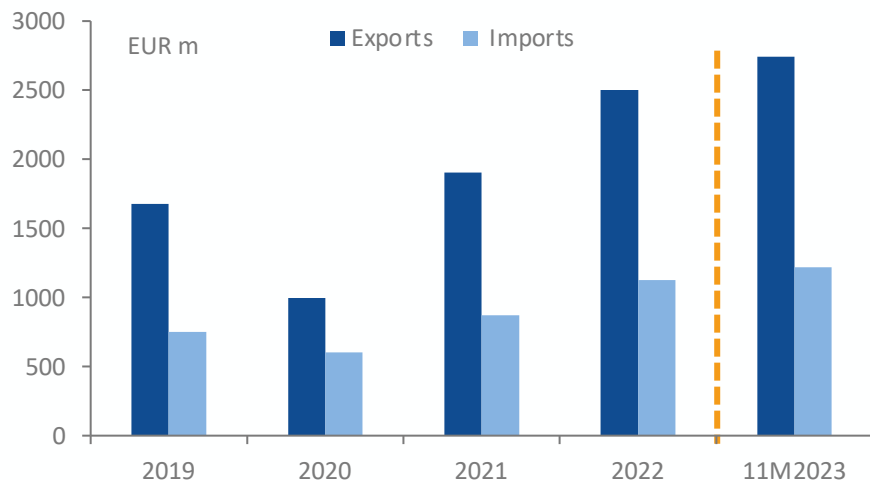
- » Goods imports continued to increase in 2023 (5% yoy)
 - Investment-driven growth and increase in FDI led to higher demand for imports
- » Growth despite decreased commodity prices for imports

Exports

- » 2023: exports decreased by 6% yoy, mainly caused by drop of base metal exports
- » Main export destination is the EU, followed by MKD and ALB
- » Higher investment and FDI led to a surge in imports in 2023

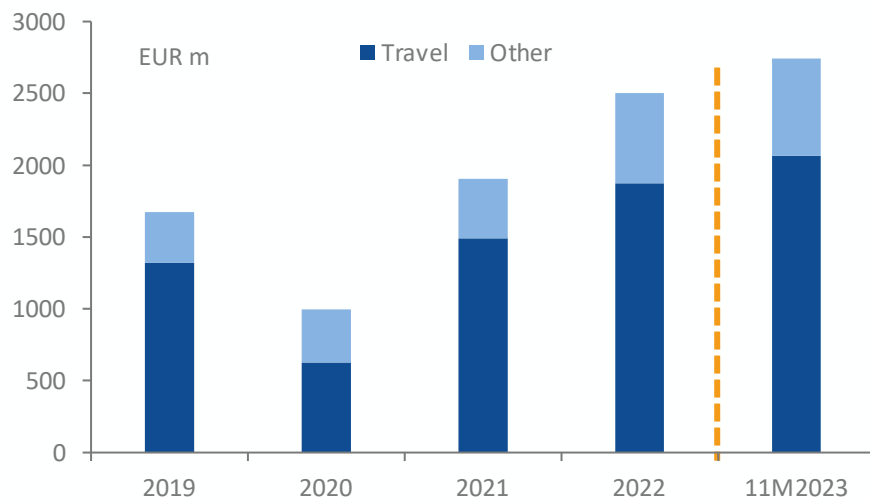
Foreign trade in services/tourism

Foreign trade in services



Source: Central Bank of Kosovo

Revenue from services exports



Source: Central Bank of Kosovo

Trade in services

- » General situation: traditionally, positive service trade balance
 - Imports 11M2023: EUR 1.2 bn
 - Exports 11M2023: EUR 2.7 bn
- » Tourism is the key driver of service exports in Kosovo and is thereby also becoming an important driver for economic growth

Exports

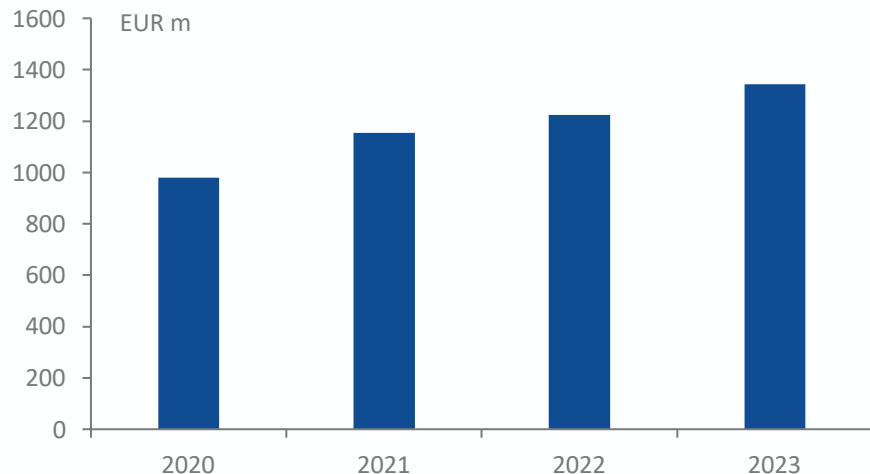
- » Surge in exports of touristic services in 2022 after post-Covid recovery in 2021
- » Main driver: (diaspora) tourism
- » Positive trend continues in 2023: already higher exports in 11M2023 than in 2022

Imports

- » Imports of services increased slightly in 2023
- Continuing increase in service exports as a driving force for economic dynamics

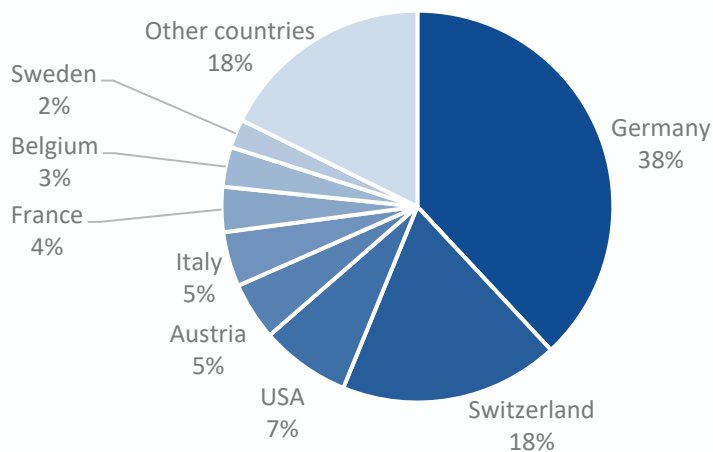
Remittances

Remittances inflows



Source: Central Bank of Kosovo

Remittances by countries of origin



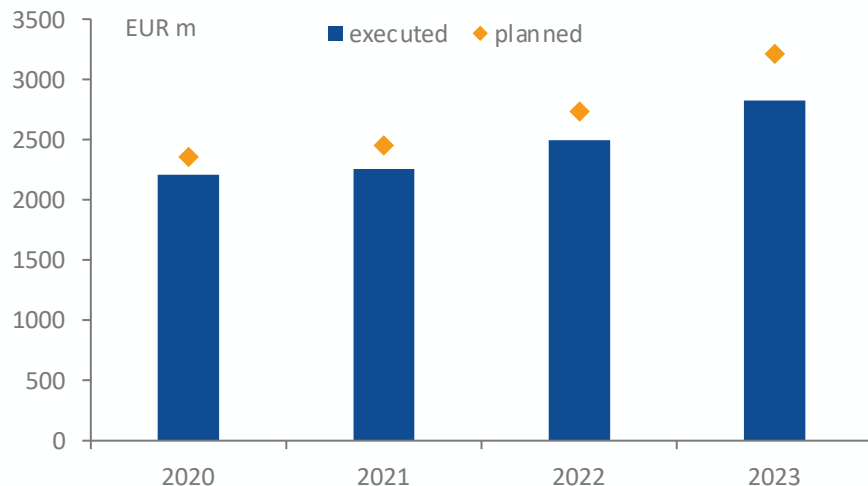
Source: Central Bank of Kosovo, 9M2023

Remittances

- » Remittances are a key factor for Kosovo's economy
 - Key source of income for consumption and imports
 - 2023: EUR 1.3 bn; estimated 13% of GDP
- » Most important source of income
- » 2023: remittances grew 10% yoy, despite weak economic situation in destination countries of Kosovar emigrants
- » Most remittances came from Germany, followed by Switzerland and the United States
- **Remittances prove to be resilient and remain an important economic factor**

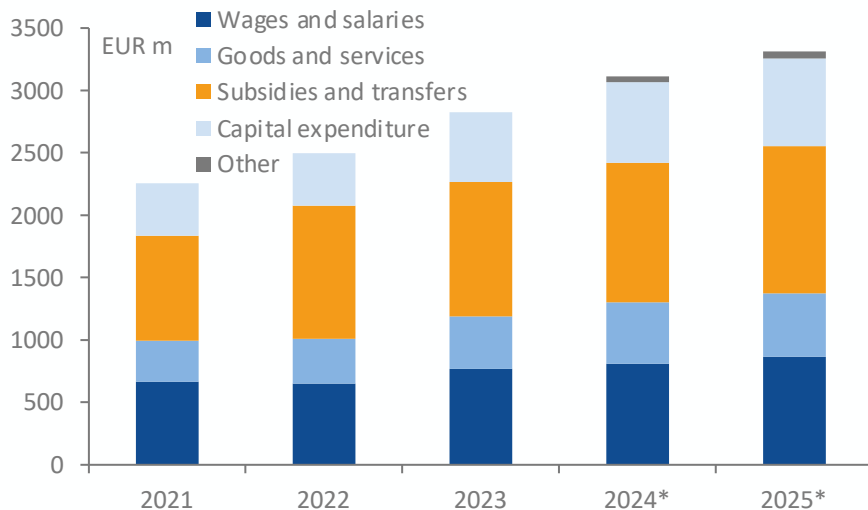
Public finances

Planned and executed public expenditure



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

Public expenditure



Source: Kosovo Agency of Statistics, *IMF forecast

Public finance

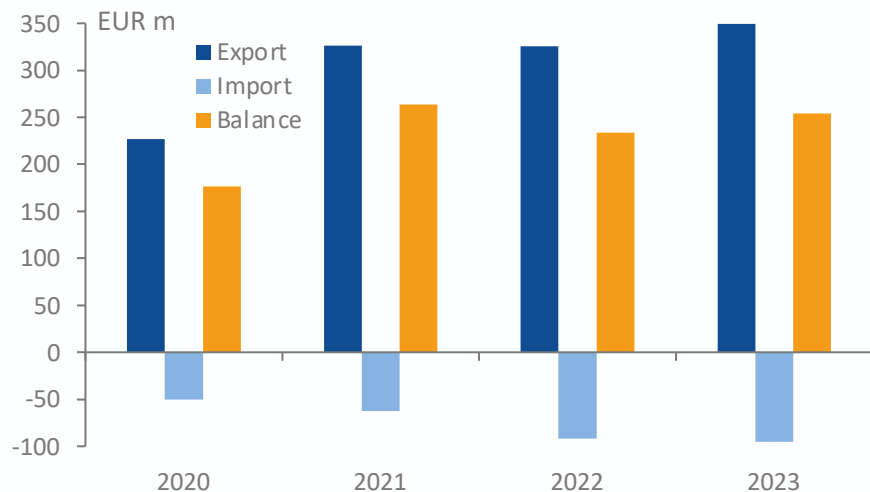
- » 2023: public expenditure rose by 13% yoy to EUR 2.8 bn
- » Reasons for higher expenditure
 - Capital expenditure (32% yoy), caused by surge in public investment
 - Expenditures on goods and services (18% yoy)
 - Expenditure on wages and salaries (17% yoy), following the new law on public wages

Assessment

- » Higher public investment 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 88% of planned budget
- **Increased public investment**

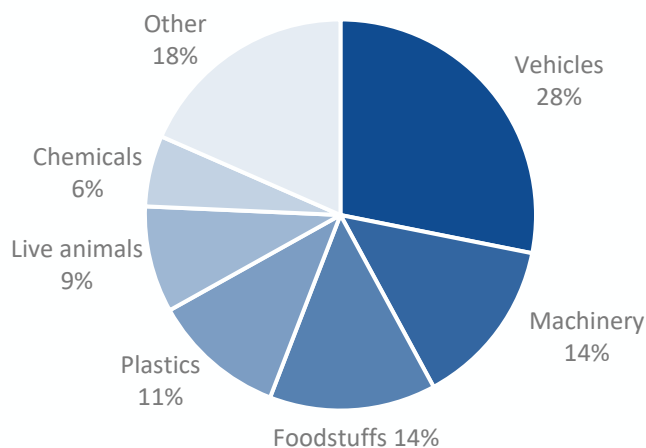
Bilateral trade between Germany and Kosovo

German trade with Kosovo



Source: Federal Statistical Office of Germany, goods

German exports to Kosovo



Source: Federal Statistical Office of Germany, 2023, goods

Bilateral trade volume

- » Positive development of bilateral trade in 2023; higher exports and imports
 - Exports to KOS: EUR 350 m
 - Imports from KOS: EUR 96 m

German exports to Kosovo

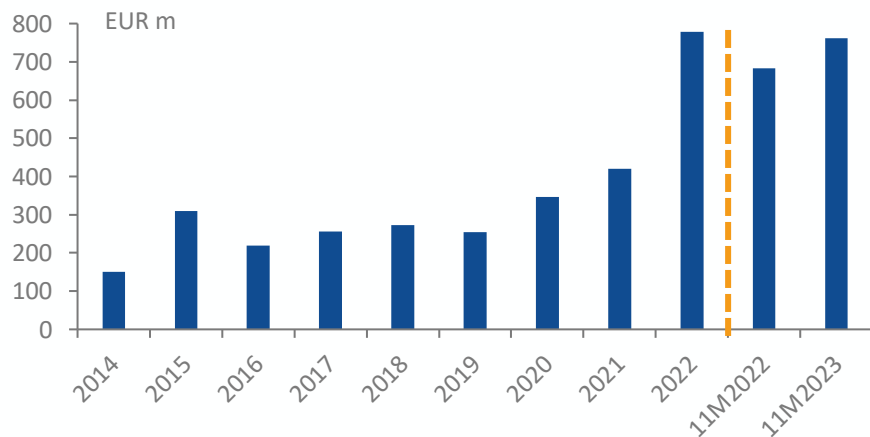
- » 2023: German exports to Kosovo increased by 7.3% yoy
- » Main exported goods were vehicles, machinery, and foodstuffs

German imports from Kosovo

- » 2023: imports increased by 4% yoy
 - Stabilisation after surge of 47% yoy in 2022
- Bilateral trade showed positive dynamics in 2023 with increased imports and exports

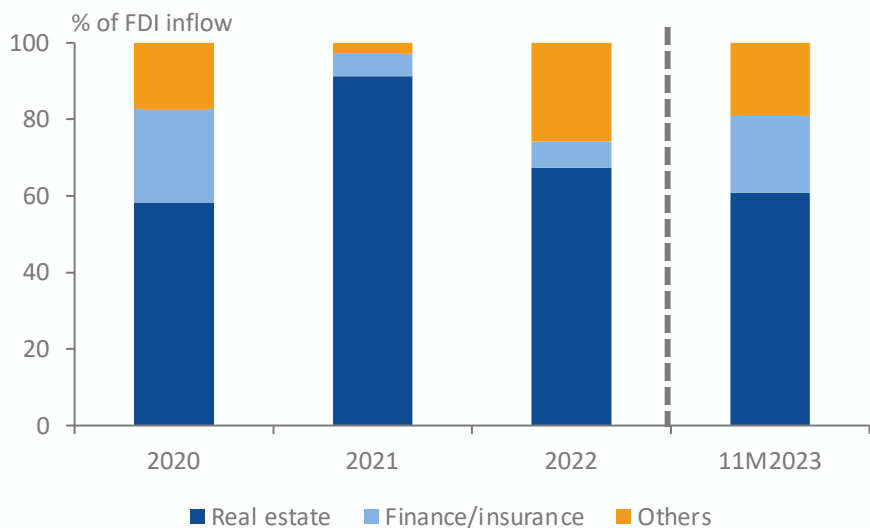
Foreign direct investment: latest developments

FDI inflows to Kosovo



Source: Central Bank of Kosovo

FDI inflows to Kosovo by economic activities



Source: Central Bank of Kosovo

FDI inflows

- » 2022: record FDI inflows as real-estate projects halted during pandemic resumed
- » 11M2023: positive development of previous year continues
 - FDI inflows at EUR 761 m in 11M2023 with growth of 11.5% yoy
 - More diversification in inflows as contribution of financial and insurance sector rose to 20%: mostly due to re-invested earnings
 - Service sector ranks third in FDI attraction: mostly small-scale projects in marketing and telecommunication
- » Traditionally: diaspora-driven FDI activities in the real estate sector most important
- FDI inflows at a record high and more diversified than in the last two years

Foreign direct investment: regional comparison

Regional comparison of FDI inflows

FDI inflows in 9M2023 (% of GDP)

BIH	3.7
KOS	9.0
MKD	3.6
MNE	5.8
SRB	6.4

Source: respective central banks

Regional comparison of FDI stock per capita

FDI per capita (EUR)

ALB	3,983
BIH	2,579
KOS	3,041
MKD	3,408
MNE	8,349
SRB	7,534

Source: respective central banks; values for Dec-22

FDI inflows

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

FDI stock

- » Continued growth of FDI stock is an opportunity for the Kosovar labour market
 - Increases number of jobs for underutilised Kosovar labour force, prevents emigration
- » BUT: FDI stock remains low, KOS had second lowest FDI per capita among WB-6
- » Strong recent FDI inflows, but still comparatively low FDI stock

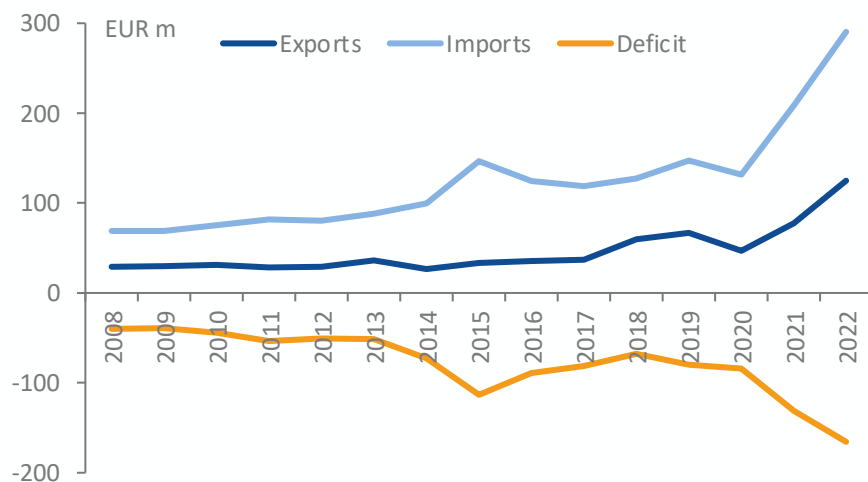
Green Card

Member countries of the Green Card system



Source: own display

Trade in transport services



Source: Central Bank of Kosovo

Current situation

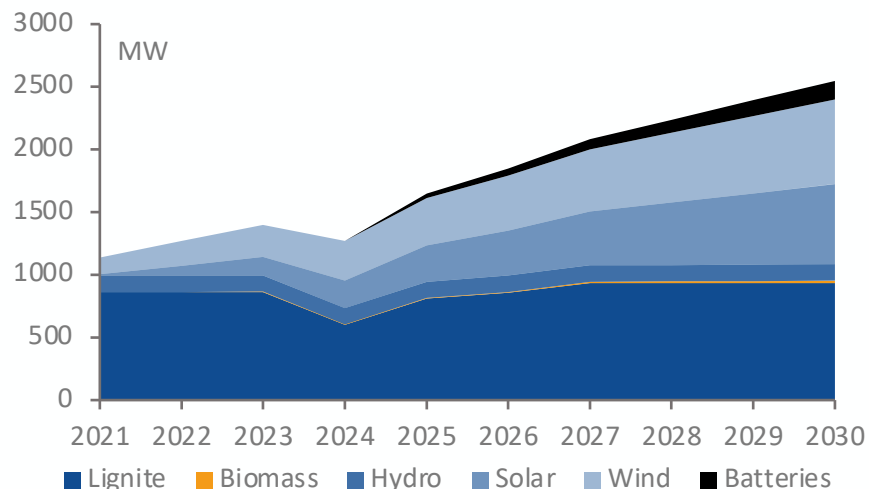
- » KOS not a member of the Green Card system
- » Main obstacle: UN membership is a requirement to join the system
- » Consequence: KOS vehicles leaving KOS and foreign vehicles entering KOS are required to buy extra an insurance at the border
- » Potential solution: drop UN membership requirement for Green Card system statutes

Economic implications

- » Additional financial and transactions costs for the KOS transport sector and tourists
- » Makes KOS an unattractive location for transport companies
 - Trade deficit in transport services
 - Relocation of transport companies
- » Tourists coming to KOS face long waiting times at the border to purchase insurance
- Lacking Green Card membership as obstacle to growth for the transport and tourist sector

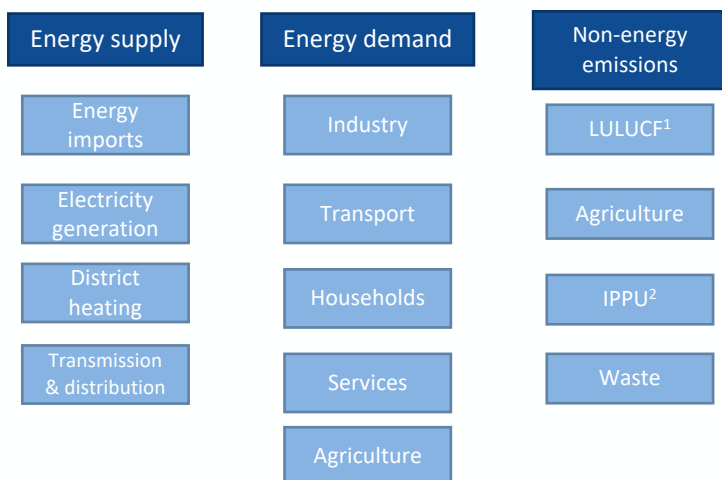
Energy and climate policy ambitions

Electricity generation and storage capacities (expansion targets)



Note: Expansion targets based on Energy Strategy. Available capacities of lignite units are based on exp. schedule for unit retrofits. Sources: Ministry of Economy, ERO, KEK, DH Gjakova, own analysis

Sectoral breakdown NECP Kosovo



¹ Land Use, Land-use Change and Forestry

² Industrial Processes and Product Use

Energy strategy 2022-2031

- » In 2023, Kosovo has adopted its new energy strategy, outlining key priorities until 2031
- » Key target: strong increase in RES capacity
 - 600 MW additional wind farms
 - 600 MW additional utility-scale solar PV
 - 100 MW rooftop solar PV
- » 170 MW of flexible regulation capacity in the form of battery storage
- » Reduction in lignite-based electricity generation

National energy and climate plan (NECP)

- » Building on the energy strategy and other documents, Kosovo's NECP outlines cross-sectoral plans for energy and climate policy
- » Draft NECP was submitted to the Energy Community Secretariat in Jul-23, with support of the German Economic Team
- **Great ambitions regarding 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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