IMF Country Report No. 25/112

REPUBLIC OF KOSOVO

FOURTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR REPUBLIC OF KOSOVO

May 2025

In the context of the Fourth 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** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 19, 2025, following discussions that ended on March 21, 2025, with the officials of Republic of Kosovo on economic developments and policies underpinning the IMF arrangements under the Stand-By Arrangement and the Resilience and Sustainability Facility. Based on information available at the time of these discussions, the staff report was completed on May 2, 2025.
- A **Statement by the Executive Director** for Republic of Kosovo.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes the Fourth Review of Kosovo's Stand-By and Resilience and Sustainability Facility Arrangements

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund completed the Fourth and final review of Kosovo's Stand-By and Resilience and Sustainability Facility Arrangements. The completion of the review makes available SDR 13.352 million (€16.08 million) under the SBA and SDR 7.744 million (€9.32 million) under the RSF.

- The objectives of both programs have been successfully achieved. The economy has maintained healthy growth, inflation has notably decelerated, fiscal buffers have been rebuilt, and reforms have accelerated.

- Building on the progress made under the programs, the authorities should continue with prudent fiscal policies, strengthen the fiscal framework, and advance structural reforms in the fiscal and financial sectors.

Washington, DC – **May 20, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Fourth and final review of Kosovo's Stand-By and Resilience and Sustainability Facility Arrangements. The authorities have consented to the publication of the staff report and associated documents. The completion of the review makes available SDR 13.352 million (€16.08 million) under the SBA and SDR 7.744 million (€9.32 million) under the RSF. This will bring the total disbursements under the RSF to SDR 61.95 million (€74.61 million). The SBA, which so far has been treated as precautionary by the authorities, amounts to SDR 80.122 million (€96.50 million).

Kosovo's economic performance continues to be strong. In 2024, growth was 4.4 percent, driven by household consumption, supported by strong private credit and rising wages. Inflation decelerated sharply, reaching an average of 1.6 percent in 2024 down from 4.9 percent in 2022. The external current account deficit widened to 9 percent of GDP, as increases in consumption and investment led to higher imports; growth of remittances slowed. In 2025, despite heightened external uncertainty from rising trade tensions, growth is expected to remain strong at 4 percent, with inflation stabilizing at 2¼ percent.

Program implementation under both arrangements has been strong. All quantitative performance criteria for end-December 2024 were met. All indicative targets for end-December 2024 and for end-March 2025 were also met. Two structural benchmarks for this review—implementation of a cash forecasting function within the Treasury and the development of a roadmap for adopting the Supervisory Review and Evaluation Process to assess bank risk profiles—were implemented. The remaining RSF reform measure to launch an auction for the construction and operation of the wind power plant has also been implemented.

Following the Executive Board's discussion, Bo Li, IMF Deputy Managing Director and Acting Chair, issued the following statement:

"The Kosovo authorities have successfully implemented a Stand-By Arrangement and an Arrangement under the Resilience and Sustainability Facility. The SBA supported the authorities' economic program to reduce inflation and sustain strong growth, while safeguarding the economy against adverse shocks. The RSF supported the authorities' ambitious climate reform agenda.

"Prudent fiscal policies under the SBA, anchored in the authorities' rules-based fiscal framework, helped deliver low deficits and debt. In 2025, fiscal policy will aim to sustain growth amid heightened uncertainty, strengthen buffers against future shocks and continue addressing large developmental needs. An ongoing review of the fiscal framework seeks to align it with EU norms while supporting Kosovo's developmental objectives and maintaining fiscal discipline.

"The structural fiscal agenda has considerably advanced under the SBA. Revenue mobilization has improved through broadening the tax base, leading to higher tax collection. Public financial management reforms have enhanced capacity to assess fiscal risks, improved the quality of fiscal reporting, and increased fiscal transparency. Strengthening the public investment management system will help to further boost execution rates of public investment.

"The Central Bank of Kosovo (CBK) has been driving forward critical reforms to enhance governance and institutional quality, develop the financial sector and strengthen resilience. The banking sector continues to expand rapidly providing vital support to economic activity while maintaining strong capitalization, liquidity, and profitability. The CBK is strengthening its ability to monitor risks related to rapid private sector credit growth.

"Reform measures implemented under the RSF have been instrumental in advancing the authorities' ambitious strategic energy goals, including expanding renewable generation capacity, reducing pollution, improving energy efficiency, and enhancing regional cooperation. The authorities remain committed to making continued and meaningful progress across all these areas."

Kosovo: Selected Economic Indicators, 2022–25				
Population: 1.6 million (2024)	Nominal GDP per capita (2024): € 6,497			
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.	Prel.	Proj.
Output				
Real GDP growth (percent)	4.3	4.1	4.4	4.0
Employment				
Unemployment rate (percent)	12.6	10.9	…	…
Prices				
Consumer prices (period average, percent)	11.6	4.9	1.6	2.3
GDP deflator	7.2	4.6	2.0	3.8
General government finances (percent of GDP)				
Revenue and grants	28.1	29.5	30.0	29.8
Expenditure	28.8	29.8	30.3	31.9
Overall balance, excluding IFI- and privatization-financed capital projects (Fiscal rule definition)	-0.5	-0.1	-0.1	-1.6
Overall balance	-0.7	-0.2	-0.3	-2.1
Total public debt	20.0	17.5	16.9	18.3
Stock of government bank balance	3.9	2.8	3.1	3.4
Money and credit				
Non-performing loans (percent of total loans)	1.9	1.9	1.8	…
Credit to the private sector (eop, percent change)	16.0	12.9	18.3	15.8
Effective bank lending rate (eop, percent)	6.3	6.3	5.9	…
Balance of payments (percent of GDP)				
Current account balance	-10.3	-7.6	-9.0	-8.3
Remittance inflows	13.7	13.8	13.1	12.6
Net foreign direct investment	-6.8	-6.9	-6.1	-7.5
External debt	38.6	39.8	41.1	42.4

Sources: Kosovo authorities and IMF staff estimates.

INTERNATIONAL MONETARY FUND

REPUBLIC OF KOSOVO

May 2, 2025

FOURTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE RESILIENCE AND SUSTAINABILITY FACILITY

EXECUTIVE SUMMARY

Context. This is the final review under the Stand-by Arrangement (SBA) and the Resilience and Sustainability Facility (RSF). The SBA has supported macroeconomic stability, provided insurance against shocks, and guided fiscal and financial reforms. The RSF has helped advance the authorities' strategic objectives to increase renewable energy generation, boost energy efficiency, and enhance regional cooperation. Growth accelerated in 2024, driven by private consumption, while inflation has declined sharply. The fiscal deficit was low in 2024, and public debt further declined. However, the current account deficit widened with higher imports and lower remittances growth. Following the February 9 parliamentary elections, a new coalition government has yet to be formed. The outlook is favorable, but risks include escalation of trade tensions, higher commodity prices, weaker activity in advanced Europe, and tensions in northern Kosovo.

Program. Implementation of both the SBA and RSF has been strong.

- **SBA.** All end-December 2024 QPCs and ITs have been met and two SBs were implemented. All ITs for end-March 2025 have been met (preliminary). The SBA is expected to remain precautionary.
- **RSF.** RM2 on the launch of a wind power auction was announced in December 2024 after a two-month delay.

Policy Recommendations

- **Fiscal.** Continue anchoring fiscal policy in the rules-based fiscal framework, strengthen further revenue collection and public investment management.
- **Financial.** Closely monitor credit market developments, enhance data collection and be ready to take policy actions, if needed.
- **Climate.** Continue the development of renewables and improvement in energy efficiency. Focus on reducing pollution, particularly from coal-powered plants.
- **Structural.** Implement reforms to strengthen the rule of law, improve the business environment, and drive digitalization to secure inclusive and sustainable growth.

Approved By:	
Mark Horton (EUR) and Anna Ivanova (SPR)	Discussions were held in Pristina during March 12–21, 2025. The staff team comprised David Amaglobeli (head), Stephen Ayerst, Phakawa Jeasakul, Javier Kapsoli, Ezgi Ozturk (all EUR), and Selim Thaçi (local office). Sebastián Sosa (regional resident representative) joined the concluding meetings. Hajdar Korbi (OED) participated in some meetings. Merita Kërnja (local office) assisted the mission. Sabiha Mohona and Cheryl Li (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, and representatives of the civil society, business, and international communities.

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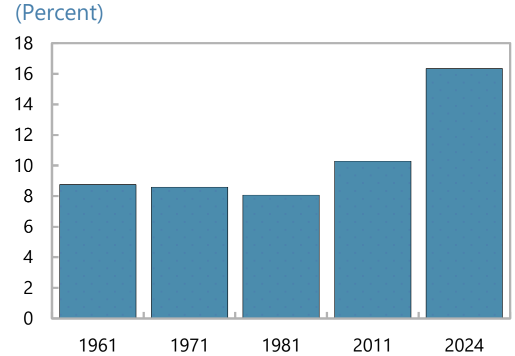
CONTEXT

1. **This review marks the successful conclusion of two-year reform programs.** The Stand-By Arrangement (SBA) has supported the authorities' efforts to rein in inflation after the post-pandemic surge, maintain healthy growth, rebuild buffers, and accelerate reforms. The program's precautionary status signaled the strength of economic policies and served as insurance against shocks while catalyzing other external resources. The Resilience and Sustainability Facility (RSF), the first RSF in Europe and approved concurrently with the SBA, has supported the authorities' green transition agenda. The objectives under the two programs have been achieved.

2. **The results of the February 9 parliamentary elections will lead to a new coalition government.** Following the certification of results by the Central Election Commission on March 27, coalition negotiations have begun in earnest. The *Vetëvendosje ("Self-Determination")* (VV) party, which held a slim majority in the previous Parliament, obtained 42.3 percent of the vote and 48 seats in Parliament; 61 seats are needed for a majority.[1] Although the outcome of coalition talks is yet unclear, policy continuity is likely as the main political parties are pro-EU and pro-reform and have prior governing experience. A new coalition is expected to hold a narrow majority, with the possibility of early elections in 2026, as failure to elect a new president with two-thirds of MPs participating—challenging for any coalition—will trigger a snap vote.[2]

3. **The 2024 census revealed a significant population decline driven by emigration and falling fertility.** The results published by the Kosovo Agency of Statistics (KAS) in December indicate a population of 1.6 million—9 percent lower than reported in the 2011 census.[3] The decline is the result of large emigration and lower fertility rates (1½ births per woman in 2022 versus 2 in 2011).[4] The census also showed an increase in the old-age dependency ratio and a decline in the share of the rural population (from 62 to 50 percent).

Old Age Dependency Ratio in Kosovo
(Percent)



Source: Population Census, different years.

4. **The situation in the north remains calm despite regional tensions.** In line with its policy of enforcing the central government authority in the north, the authorities have been closing offices of Serbian banks, postal services, and parallel governance structures. As these actions were not

[1] VV is followed by the Democratic Party (PDK) with 20.95 percent (24 seats), the Democratic League (LDK) with 18.27 percent (20 seats), and the Alliance for the Future of Kosovo (AAK) with 7.06 percent (8 seats). The other 20 seats are reserved for ethnic minorities.

[2] The mandate of President Osmani is set to expire in April 2026.

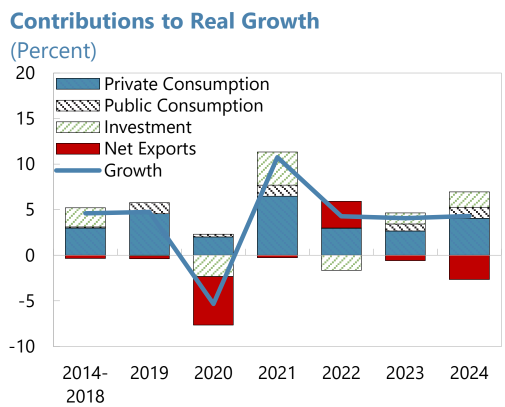
[3] Ethnic Serbs living in the north boycotted the census. The Kosovo Statistical Agency (KAS) estimated the total population in the four northern municipalities at 23,657, of which 19,449 are ethnic Serbs.

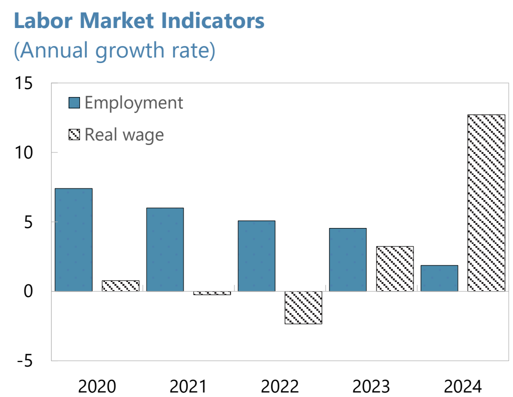
[4] The size of the diaspora is estimated by the World Bank at 800 thousand (International Mobility as a Development Strategy: Kosovo Country Report 2024).

coordinated through the EU-facilitated dialogue, in 2023 the EU imposed "temporary and reversible" measures.[5] These remain in effect. Recent tensions in Bosnia and Herzegovina and Serbia have not affected the north.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

5. **Activity picked up in 2024.** Growth is estimated at 4.4 percent in 2024, up from 4.1 percent in 2023. The result was driven by strong household consumption (4¾ ppts.) due to low inflation, significant growth in wage and private credit, and investments (1¼ ppts.) driven by real estate and improved public investment execution. Net exports were a drag on growth as imports rose due to strong domestic demand. Formal sector employment continued its upward trend, rising by 1.9 percent; real wages rose by 12¾ percent in 2024, supported by an increase in the minimum wage from September.[6]





Sources: Kosovo Authorities and Fund Staff estimations.

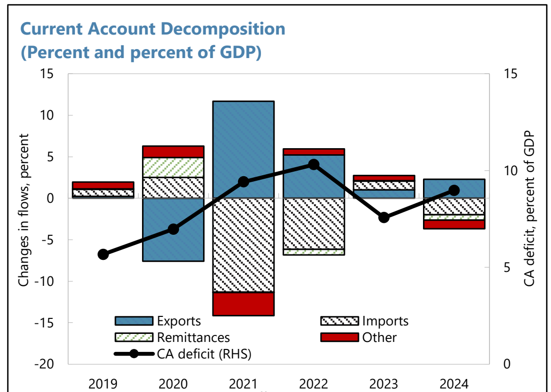
6. **Inflation receded markedly in 2024 but rebounded slightly in the first months of 2025.** Aided by lower food and energy prices, average inflation dropped to 1.6 percent in 2024 compared to 5 percent in 2023 and 11½ percent in 2022. Core inflation averaged 2½ percent, down from 4¼ percent in 2023. In the first quarter of 2025, y-o-y inflation was on average 2.1 percent, compared with ¾ percent during the last quarter of 2024. This was driven by food prices (40 percent of the CPI basket), similar to other European countries.

7. **The current account deficit (CAD) widened in 2024.** At 9 percent of GDP in 2024, the CAD was up from 7½ percent of GDP in 2023, driven by increased imports from strong consumption and investment and weaker remittances. Remittances growth decelerated to 1.4 percent in 2024 from 9.2 percent in 2023 (6½ percent pre-COVID average growth). Foreign demand for Kosovo's main exports—minerals and metals—was sluggish. The external position in 2024 was assessed as weaker

[5] Measures include suspension of new applications for EU funds and of high-level meetings with EU and EU member-state representatives.

[6] Employment data are based on Tax Administration of Kosovo (TAK) administrative data and cover only formal sector. Labor force survey information is available with a two-year lag.

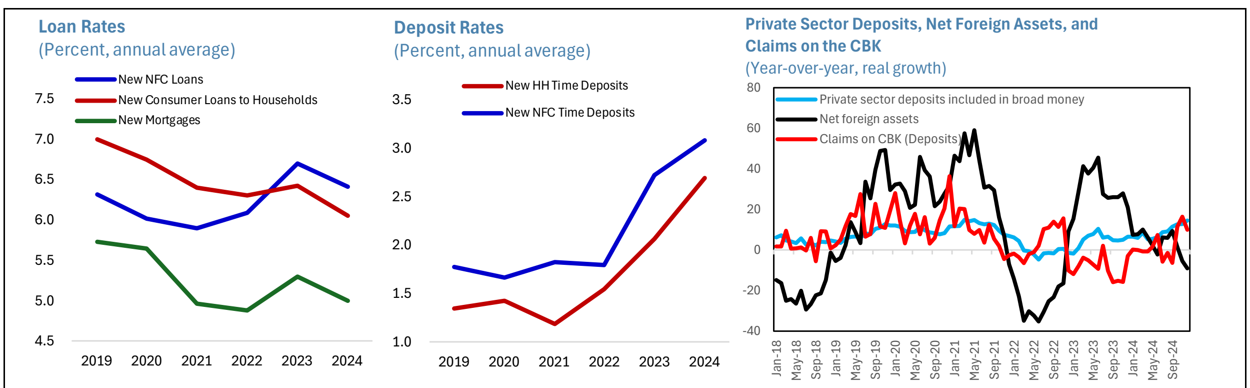
than the level implied by fundamentals and desirable policies, based on the results of the IMF's EBA-lite current account model (Annex I). The CAD in 2024 was financed by FDI, other investments, and unrecorded travel credits and remittances reflected in errors and omissions in the balance of payments.



Sources: Kosovo authorities and IMF staff calculations.

8. The general government posted a small deficit in 2024, the second year in a row. The deficit was 0.3 percent of GDP, below expectations and essentially flat relative to 2023.[7] Higher revenues (by ½ percent of GDP) largely offset the increase in public investment (0.6 percent of GDP) while current spending remained constant (¶15). The debt-to-GDP ratio fell to 16.9 percent of GDP, the lowest level since 2017, due to negative net domestic borrowing and expiration of a €24 million EBRD guarantee for the Deposit Insurance Fund (DIFK).[8] Public debt is assessed as sustainable with low risk of sovereign distress (IMF, 2024, Annex II).

9. The banking sector remains healthy amid strong credit expansion. Private sector credit grew by 17 percent in real terms in 2024, mainly driven by households (20½ percent y/y real), as lending rates declined. Deposit growth also accelerated as deposit rates rose, while growth in banks' NFA decelerated. All prudential indicators remain strong, with liquidity ratios declining slightly and return on assets increasing to 2¾ percent in December 2024, up from 2½ percent in December 2023.



Sources: Central Bank of Kosovo and IMF staff calculations.

10. The medium-term outlook remains broadly unchanged. Growth is expected to moderate slightly in 2025—to 4 percent—amid increased uncertainty and will be driven by domestic absorption, particularly household consumption, though at a slower rate due to rising inflation reducing disposable income. Given the structural trade deficit, net exports will continue to contribute negatively to growth. Over the medium term, growth is forecast to hover around its potential.

[7] Relative to CR24/364, the deficit was 1 percentage point of GDP lower on account of higher revenues (0.4 percentage point) and lower spending (0.6 percentage point).

[8] The Law of State Debt defines a debt ceiling of 40 percent of GDP and includes guarantees as part of public debt.

Inflation is projected to increase in 2025 due to a recently announced increase in electricity tariffs and higher food prices.[9] Given unilateral euroization, inflation should remain around the ECB's 2 percent target in the medium-term. The CAD is expected to improve to 8¼ percent of GDP in 2025 because of projected lower commodity prices, particularly oil, and to strengthen gradually over the medium-term. However, the CAD would remain high because of the structural trade deficit. Credit to the private sector is expected to continue growing at double-digit rates in 2025, but at a slower pace than in 2024.

11. Risks to the outlook are tilted to the downside and stem from external headwinds.

- *External risks*. Higher trade barriers could reduce external demand and disrupt FDI and supply chains, resulting in tighter financial conditions and higher inflation (Annex II). Other near-term risks include: (i) a slowdown in major European economies; and (ii) an intensification of geopolitical conflicts disrupting external financing flows, commodity markets, tourism, supply chains, and FDI. On the upside, stronger progress in EU integration and accession could help mobilize additional foreign financing and accelerate growth. An adverse scenario with energy and food price shocks could create additional financing needs of €50 million in 2025 (Annex III). The impact from the escalation in trade tensions will be felt mostly indirectly through a slowdown in major European economies.

- *Domestic risks*. An escalation of tensions in northern Kosovo could reduce investment, tourism, and international assistance. Delays in government formation could slow reforms. Domestic demand pressures could result in higher external imbalances, requiring a fiscal policy response to counter them.

SBA AND RSF PROGRAM PERFORMANCE

12. All quantitative and qualitative targets under the SBA were met.

- *End-December 2024 quantitative performance criteria (QPCs) and Indicative Targets (ITs) were met.* Floors on the fiscal deficit and on the stock of government deposits at the Central Bank of Kosovo (CBK) were comfortably exceeded. The continuous performance criterion on non-accumulation of new external arrears was also met. ITs on contingent budget allocations and holdings of Treasury securities by the CBK were met.

- *All end-March 2025 ITs were met*. Based on preliminary information, all ITs for March-2025 were fulfilled.

[9] Following the conclusion of a technical review, the Kosovo Energy Regulator (ERO) set new tariffs that will be, on average, 16 percent higher for consumers. The new tariffs became effective in May.

Status of the Stand-By Arrangement Targets
(Millions of euros unless otherwise indicated)

	December 2024				March 2025			
	QPC	Adjusted	Actual	Status	Indicative	Adjusted	Actual	Status
1. Quantitative performance criteria								
Floor on the overall balance of the general government 1/	-232	-189	-29	Met	0	0	69	Met
Floor on the stock of general government deposits at CBK	616	505	575	Met	560	472	566	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	...	173	Met	200	...	179	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.

- *Structural benchmarks (SBs) for the fourth review were completed on time.* In January, the Ministry of Finance, Labor, and Transfers (MFLT) issued a decision establishing a Liquidity Committee with cash-forecasting functions (SB for end-January). In February, the CBK published a roadmap for adoption of the Supervisory Review and Evaluation Process (SREP) for assessing bank risk profiles (SB for end-February).

13. **The remaining RSF Reform Measure (RM) to launch an auction for a 150MW wind power plant was implemented with a two-month delay.** On December 18, the government initiated the auction through a Request for Qualifications, and by September, the successful bidder will be awarded a Power Purchase Agreement (PPA) for at least 15 years.[10] The authorities have been benefiting from advisory and transactional support by USAID and IFC.[11] The decision to implement the project as a PPA leaves unused the corresponding RSF resources ringfenced by the 2025 Budget Law for increasing renewable capacity. The authorities should draw on the experience of a similar PPA on solar implemented in 2023 (RM5) and monitor and transparently disclose all PPP-related fiscal risks in future fiscal risk statements.

POLICY DISCUSSIONS

Continued fiscal reforms, including updates to the fiscal framework, are needed to support growth and stability, and advance EU accession. Financial sector reforms should prioritize strengthening risk oversight and crisis management, upgrading the regulatory framework, and boosting inclusion. Climate and energy reforms should build on progress made through RSF-supported measures.

[10] The PPA will be awarded as a Contract for Difference (CfD), stabilizing prices for investors. If the market price falls below the strike price, the government covers the difference, and if they exceed it, the investor repays the excess.

[11] With cancellation of USAID operations, the authorities requested IFC support for the wind project. More generally, USAID portfolio of projects, which usually ran for a few years, amounted to $144 million (1¼ percent of GDP) in support for revenue administration, digitalization, energy, judiciary, access to finance, and investment promotion, among others.

A. Reforming Fiscal Institutions

14. The strong 2024 fiscal outturn primarily reflected a sustained effort to mobilize revenues. Owing to administrative measures focused on combating noncompliance and smuggling and to growing consumption and higher imports, tax revenues continued their steady rise during 2024, the fourth year in a row. Non-tax revenues also grew strongly on the back of higher central government fees. Against this backdrop, further reforms to enhance tax administration and streamline tax expenditures are needed to sustain the revenue mobilization momentum. In line with previous advice, these reforms should aim at eliminating exemptions and preferential treatments, simplifying rules to ease compliance and administration, strengthening digitalization and human resource management, and enhancing data quality and availability.

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

	2023	2024		2025	
	Act.	Program	Prel.	CR 23/200	Proj.
Revenue	**29.5**	**27.6**	**30.0**	**27.4**	**29.8**
o/w Taxes	25.9	24.6	26.6	24.5	26.2
Expense	**29.8**	**29.8**	**30.3**	**29.5**	**31.9**
o/w Compensation of employees	7.9	7.6	8.2	7.6	8.5
o/w Use of goods and services	4.4	4.5	4.5	4.5	4.8
o/w Subsidies and transfers	11.1	10.7	10.8	10.3	10.8
o/w Investment	5.8	6.5	6.4	6.5	7.2
Overall balance	**-0.2**	**-2.2**	**-0.3**	**-2.1**	**-2.1**
Memo					
Primary balance	0.2	-1.8	0.1	-1.5	-1.4
Public debt	17.5	22.3	16.9	23.2	18.3
Fiscal impulse	0.0	-1.0	-0.5	0.1	2.0

Sources: Kosovo Treasury and IMF staff calculations

15. Spending increased in 2024, resulting from accelerated investment execution; current spending remained unchanged. Despite several initiatives to provide higher social benefits (reform of the children allowance, a one-off €100 payment for children and pensioners, and an increase in basic pensions), the authorities managed to keep current spending in check. Other transfers to private and public entities were reduced and implementation of non-basic pension increases delayed.[12] Public investment program execution rose to 76 percent, up from 69 percent in 2023 and 65 percent in 2022. Spending reform priorities should include rules-based determination for compensation and social benefits, more targeting of social assistance, and further improvement in public investment management. The latter requires strengthening the gatekeeping role of the MFLT by selecting projects for implementation that have gone through thorough feasibility studies, in line with IMF Fiscal Affairs Department recommendations.

General Government Spending 2023-25
(Percent of GDP)

	2023/2022	2024/2023	2025/2024
Change in total spending	0.9	0.5	1.6
Current	-0.1	0.0	0.7
Capital	1.1	0.6	0.9

Sources: Kosovo Authorities and IMF staff estimates.

[12] While all state-funded pensions were increased by 20 percent, only the increase of basic pensions was effective from October 2024. All other pension increases started in January 2025.

16. Government deposits at the CBK increased by 12½ percent in 2024. Thanks to a low fiscal deficit, the government accumulated higher CBK balances—an essential buffer against shocks—reaching €575 million by end-2024, up from €511 million a year earlier. Strong seasonal cash flows and attractive interest rates prompted the Treasury to resume active cash management in April 2024, placing €300 million in term deposits at prevailing market interest rates for the first time since 2014. These term deposits, along with deposits of the Privatization Agency of Kosovo (PAK), are not immediately accessible. In an emergency, the Treasury can access term deposits before maturity or borrow from PAK. Additional measures to increase financial buffers could be taken by the CBK (¶26).

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

	2022	2023	2024	2025 1/
Transferable deposits	586	511	429	370
Usable	374	261	137	80
Other	212	249	292	290
o/w PAK	*166*	*165*	*179*	*177*
o/w ELA	*46*	*46*	*46*	*46*
o/w RSF	*0*	*38*	*67*	*67*
Term deposits	0	0	146	196
Total	**586**	**511**	**575**	**566**

1/ As of March, 2025.
Sources: Kosovo authorities and IMF staff estimates.

17. The approved 2025 budget targets a deficit of 2.1 percent of GDP. Given the 2024 outturn of nearly balanced budget, the fiscal position in 2025 budget is expansionary. This is consistent with Kosovo's fiscal rules and appropriate due to large developmental needs, and low inflation and debt. However, beyond 2025, fiscal policy should be oriented towards building fiscal buffers and enhancing crisis preparedness, especially, in the face of heightened global policy uncertainty, while addressing external imbalances. The budget includes the cost-of-living adjustment in all state-funded pensions and a public sector wage hike, resulting from one unit increase in salary coefficients across the pay scale. This policy provides higher wage increases to those at the lower end of the pay scale.[13] These policies will increase current spending by 0.7 percentage point of GDP. Capital spending is expected to increase by 0.9 percentage point of GDP, reflecting enhanced execution rates. Revenues, in percent of GDP, are expected to remain about the 2024 level. The budget law keeps the unallocated reserve at 1 percent of GDP, compared with 3¾ percent of GDP at the start of the SBA. Financing is expected mainly from external sources, including a World Bank loan ($100 million) that is pending parliamentary

Financing Requirements 2024–25
(In millions of euros)

	2024		2025	
	Program	Prel.	CR 23/200	Proj.
Requirements	**582**	**352**	**592**	**531**
Deficit	232	30	236	234
Amortization	350	322	356	297
Sources	**582**	**352**	**592**	**531**
External	215	131	118	234
Multilateral and bilateral	215	131	118	234
Securities	0	0	0	0
Internal	367	221	474	298
Securities	445	253	498	351
Other	-78	-32	-24	-53
o/w change in usable balance (+ = use)	-50	105	-31	-50
Financing gap	**0**	**0**	**0**	**0**
Memo				
Stock of usable balance	463	156	494	206

[13] The Law on Public Salaries outlines a structured compensation model across the payline. Base wages are defined as the product of a rank coefficient (with values ranging from 18 for the highest ranked position—the President—to 2, the lowest ranked position) and a monetary value, defined every year in the annual budget law (currently €110). When the monetary value increases, every worker in the payline receives the same percentage increase. By increasing rank coefficients, employees with lower salaries receive larger compensation increases.

ratification.[14] The baseline also includes a 7 percent advance payment from the EU's New Growth Plan for the Western Balkans (€62 million), which also requires parliamentary ratification.[15] In case of financing shortfalls, the authorities could draw on the SBA (Annex III).

18. Implementation of the new mandatory public health insurance scheme will be gradual and contingent on meeting certain conditions. Despite previous efforts, Kosovo remains the only Western Balkan country without public health insurance.[16] In December 2024, Parliament approved the Law on Public Health Insurance, establishing a new health insurance fund financed by a 7-percent contribution rate on incomes, split evenly between employees and employers. However, TAK can start collecting contributions gradually and only after certain prerequisites, such as the list and pricing of covered services, are put in place. Spending from the new fund could partially replace the current budgetary spending on healthcare. Despite its passage, the Law has yet to be enacted, as it awaits a Constitutional Court ruling following a challenge on procedural grounds. Assuming full implementation and based on current formal employment figures, TAK could collect about 1¾ percent of GDP in contributions, which will become part of general government revenue. The overall fiscal implications of the new scheme will depend on the final implementation details.

19. Reforms to the institutional fiscal framework are underway. The MFLT, with World Bank support, is working on a new Budget Framework Law (BFL) to update the framework in place since 2008. The BFL will modernize fiscal rules, aligning them more closely with the EU's new fiscal governance framework. Kosovo's fiscal framework has a strong track record, making it essential to balance updates with the need to preserve its core strengths. Key considerations include maintaining simple and transparent rules without exclusions, upholding transparency standards and the size agreed under the SBA for unallocated reserves, and minimizing the use of virements (reassignments) while clearly defining when they are necessary. Given the significance of these reforms, a thorough analysis of the new law and proper calibration of fiscal rules are important. Such analysis could be prepared in collaboration with Fund staff, if requested by the authorities.

20. The SBA has supported reforms to strengthen fiscal governance and address structural challenges. Thanks to prudent policies, fiscal deficits during the program were low, and general government debt is projected to drop to 18.3 percent of GDP in 2025 from 20 percent in 2022. While significant progress has been made in strengthening fiscal institutions, structural gaps remain. Further efforts are needed to enhance the efficiency and effectiveness of public spending, revise tax policies, and strengthen budget preparation. Progress achieved in assessing fiscal risks should be expanded to cover PPPs such as the ones the authorities are implementing in the energy sector. The

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[14] The Constitution requires a two-thirds majority in parliament to undertake international financial obligations.

[15] The EC Reform and Growth Facility for the Western Balkans amounts to €6 billion (€2 billion in grants and €4 billion in concessional loans) of which €883 million (€253 million in grants) is earmarked for Kosovo. In October 2024, the European Commission approved Kosovo's reform agenda, along with four other countries. The main policy priority areas are: (i) governance, public administration reform and PFM, (ii) green and digital transition, (iii) private sector development and business environment; (iv) human capital development and retention, and (v) fundamentals and rule of law.

[16] A public mandatory health insurance scheme was introduced in 2014 but was never implemented as the allotted budget funding was diverted to pay veteran's benefits.

program's fiscal legacy is significant and should serve as a foundation for further strategic reforms in the future.

- *Transparency and accountability.* Public companies now publish quarterly financial reports online. The annual budget law package includes a standalone report on fiscal risks. The Treasury has significantly reduced the size of its unallocated reserves and is disclosing information on their use.

Uses of the Discretionary Budget Reserve
(As of September 2024)

Measure	Mill. euro
Payment for ICC ruling in favor of Contourglobal (ICC Case No. 26388)	16.0
Subsidies for households' energy consumption	11.0
Subsidies for school supplies	6.5
Subsidies to support energy-efficient appliances	5.0
Trepca mine	4.0
Diaspora investment window	3.0
Other	11.2
Total	56.8

Source: Treasury financial reports.

- *Revenue mobilization.* A new Customs and Excise Code has simplified procedures, cutting time and costs for businesses. The Tax and Customs authorities are implementing strategic plans to strengthen compliance and reduce smuggling. A new Law on Tax Procedures took effect in January 2024. Overall, tax administration reforms have contributed to revenue improvements, with the tax-to-GDP ratio projected to reach 26.2 percent in 2025 from 24.9 percent in 2022.

- *Expenditure efficiency.* A means-tested (monthly income below €150 per family member) subsidy for vulnerable households to support payment of electricity bills was introduced in September 2023. War veterans' benefits were delinked from the minimum wage. With support from the World Bank, the authorities have been piloting a new Social Assistance Scheme (SAS) since September 2024, which aims at improving the equity of the social safety net, transitioning from categorical to means-testing methods.

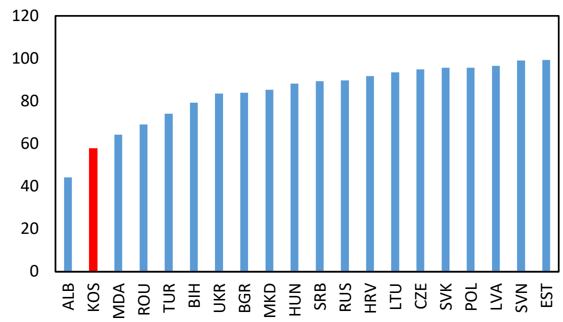
- *Public Investment Management (PIM).* Improvements in PIM have resulted in stronger execution rates, with capital spending projected to increase to 6.9 percent of GDP in 2025, up from 4.8 percent in 2022. Despite progress, more efforts are needed, including to strengthen the design stage of the project cycle to solidify the MFLT's role as the system gatekeeper.

- *Cash management.* The liquidity committee was set up to better support the Treasury's cash management needs, particularly by introducing cash forecasting functions and improving coordination among stakeholders (SB, end-January 2025).

B. Enhancing Financial Sector Resilience

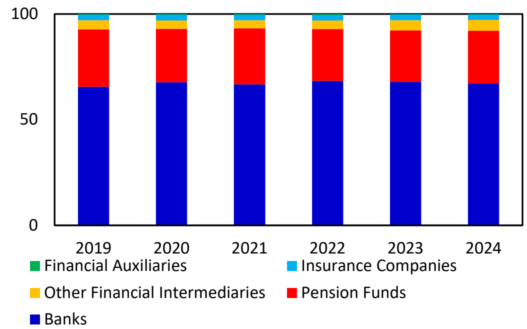
21. The financial sector has grown rapidly in the last two years, and there is potential for further development. Reflecting financial deepening, lending to nonfinancial corporates grew by 14 percent and to households by 21 percent in 2024. The financial system is dominated by 11 banks (67 percent of total assets) and a publicly managed mandatory defined contribution pension fund (25 percent of total assets). However, other financial intermediaries—micro-finance and other non-bank financial institutions—are expanding quickly and account for about 9 percent of total private sector credit. Insurance penetration is low and capital markets and asset management businesses remain largely underdeveloped. Financial inclusion has improved, with the number of bank or e-money account holders increasing to 58 percent of the population aged over 15 years in 2021; though still relatively low compared to European peers. The use of digital payments has increased, but further efforts to improve payment infrastructure, including better connectivity with European systems, would yield significant benefits.

Financial Inclusion: Percentage of Population with a Financial Institution Account, 2021



Sources: World Bank, Global Financial Inclusion Database.

Distribution of Financial Sector Assets
(In percent of financial corporations' total assets)



Source: Central Bank of Kosovo

22. Persistently strong credit expansion calls for close monitoring of systemic risk, and potentially, additional macroprudential measures. Rapid credit expansion has been supported by increasing formalization of the economy, greater financial inclusion, declining lending rates, and a burgeoning real estate market. Against this backdrop, financial soundness indicators remain strong—with a low share of non-performing loans, high liquidity, and solid profitability—while bank lending standards appear broadly unchanged. However, several potential vulnerabilities warrant attention. Competition among banks for deposits has intensified, resulting in higher deposit rates, which coupled with lower lending rates, have reduced net interest margins. Additionally, while households' debt-servicing capacity remains broadly stable, nearly 30 percent of households are considered risky with their debt-service-to-income ratio exceeding 50 percent. A significant share of credit is channeled into real estate, including mortgages, consumer loans for housing purchases, and business loans for development projects. It is crucial to address real estate data gaps, particularly housing price trends. Should excessive risk-taking emerge, targeted macroprudential measures such as sectoral capital buffers and borrower-based tools should be deployed to mitigate systemic risk.

23. Banks are on track to meet higher regulatory capital requirements following adoption of macroprudential measures in September 2024. The CBK introduced a countercyclical capital buffer (CCyB), with a positive neutral rate of 2 percent and capital surcharges for other systemically-important institutions (O-SIIs) ranging between 0.5–1.5 percent. Banks must comply by July 1. These tools help build buffers, including through capital injections or issuance of subordinated debt.

24. The CBK has made significant progress to enhance the financial system's resilience. Guided by IMF Financial System Stability Review (FSSR) recommendations, the focus of the SBA was on enhancing CBK governance, strengthening banking regulation and supervision, and enhancing risk monitoring. In line with these objectives, the CBK has revised the "Rules of Procedure" for its Governing Board, implemented an internal reorganization, adopted a three-year roadmap for implementing the Supervisory Review and Evaluation Process (SREP) to enhance banking supervision

(SB, end-February 2025), and improved data reporting requirements for its credit registry. Furthermore, the Law on Banks, adopted by Parliament in December 2024 but later challenged in the Constitutional Court, will help improve licensing criteria and corporate governance, strengthen the CBK's supervisory powers, and reinforce the resolution regime.[17]

25. An ongoing review of the CBK Law provides an opportunity to further strengthen governance. The review will guide amendments to the CBK Law and other relevant secondary frameworks such as the by-laws and internal procedures. These will aim to address recommendations from the IMF's Safeguards Assessment and FSSR, including rebalancing responsibilities between the Governing and the Executive Boards, strengthening the Governing Board's oversight role, refining appointment procedures for deputy governors and the chief internal auditor, establishing fallback mechanisms in case leadership positions become vacant, and explicitly defining the CBK's macroprudential mandate and powers. In addition to a recently concluded governance audit by a peer central bank, the ongoing Central Bank Transparency Code assessment, supported by IMF TA, will provide further insights to inform the review of the CBK Law.

26. The ongoing reforms will help strengthen financial regulation and supervision, systemic risk oversight, crisis preparedness, and the financial safety net to safeguard financial stability. Important actions include:

- *Banking supervision*. SREP implementation will modernize risk-based supervision and be accompanied by an improved data management system and technical expertise development. Supervisory intrusiveness will be increased, with supervisors expected to promptly challenge banks' excessive risk-taking and/or unjustified activity.

- *Crypto-assets regulation*. Following adoption of the Law on Crypto-Assets, the CBK is developing secondary legislation with IMF TA to create a robust regulatory regime that ensures adequate consumer protection, effective financial integrity oversight, and limited exposure of the banking sector to crypto-assets.

- *Regulation of insurance companies and nonbank financial institutions (NBFIs).* As a step toward a full liberalization of the mandatory motor vehicle third-party (MTPL) insurance market, the authorities plan to refine MTPL premium calculations by incorporating additional risk factors to capture insurers' risk profiles. A roadmap for implementing IFRS 17 accounting standards in the insurance sector has been developed, with adoption planned in 2026. Additionally, a new Law on NBFIs is being prepared to strengthen the regulatory framework for lending, leasing, factoring, and foreign exchange operations. The Law will also require certain NBFIs to change their form of organization from non-profit to commercial entities, improving corporate governance and market-based funding.

[17] Kosovo's Constitution allows ten or more members of Parliament to contest the constitutionality of any law on substantive and procedural grounds. On December 5, the Parliament adopted a number of laws using fast-track procedure, and subsequently, several members of Parliament from the opposition challenged most of these laws on procedural grounds, including the laws mentioned in paragraphs 25, 27 and 28.

- *Systemic risk oversight*. The macroprudential policy framework will be operationalized, supported by a solid legal foundation. Additional efforts are required to strengthen systemic risk assessment capacity, develop technical capability for calibrating macroprudential measures, and enhance communication on financial stability issues with the public.

- *Resolution regime.* The new Law on Banks reinforces the legal foundation for the bank resolution framework, which needs to be operationalized by developing secondary legislation and internal procedures, advancing the work on recovery and resolution planning, and setting up a resolution fund.

- *Deposit insurance.* The authorities plan to increase deposit insurance coverage, supported by larger premiums and additional government funding, to bolster confidence in the banking sector. Going forward, the adequacy of the Deposit Insurance Fund of Kosovo's funding should be reviewed within the broader context of operationalizing the bank resolution framework.

- *Systemic liquidity management.* Given euroization, the CBK has limited capacity to provide liquidity support during crises. Recent extension of the ECB's €100 million repo line until January 2027 will reinforce liquidity backstops. A holistic approach for systemic liquidity risk management is needed, including strengthening liquidity risk monitoring, developing contingency planning, and enhancing the emergency liquidity assistance framework.

27. While the CBK has made significant progress in enhancing payment systems, further efforts are needed to improve financial inclusion and digitalization. Key steps toward accession to the Single European Payments Area (SEPA) have been taken. In December, the CBK submitted the SEPA pre-application after passage of relevant laws in Parliament—although these were later challenged in the Constitutional Court—and adoption of relevant regulations by the CBK. In January, the CBK joined a collaborative project with the Bank of Italy to create an instant payments system for the Western Balkan countries. Known as TIPS Clone, this initiative will provide local infrastructure that can serve as a bridge to European systems once Kosovo secures SEPA membership. Recent initiatives, including the introduction of fee-free basic bank accounts and an online platform for comparing financial products, have benefited customers, boosting competition and financial literacy.

28. Efforts to strengthen the AML/CFT framework should continue. An amendment to the Law on AML/CFT, approved by Parliament in December but later sent to the Constitutional Court or review, will help align the AML/CFT legal framework with the EU framework and FATF standards. Key changes include expanding reporting requirements to include virtual asset service providers and strengthening requirements on consumer due diligence and information associated with fund transfers. In addition, the Law on the Registry of Beneficial Owners entered into force in October, establishing a centralized registry of beneficial ownership. The Law requires all commercial entities and NGOs to disclose information on their ultimate beneficiaries. The Financial Intelligence Unit and the CBK should continue enhancing risk-based AML/CFT supervision.

C. Accelerating the Green Transition

29. The RSF has been instrumental in advancing plans to achieve ambitious targets to increase renewable generation capacity, reduce pollution, improve energy efficiency, and enhance regional cooperation. In November 2024, Kosovo adopted its first voluntary Nationally Determined Contribution (NDC) despite not being a member of the Paris Agreement. Kosovo committed to reduce emissions by 16.3 percent by 2030 and has the potential to achieve a 42 percent reduction compared to 2016 levels, conditional on access to climate finance. The government also targets to increase the share of renewables in the final energy consumption to 32 percent by 2030. Against this backdrop, the RSF has helped the authorities with:

- *Renewable energy*. Two major renewable projects—photovoltaic (RM5) and wind-based (RM2)—have been launched, which will add 250 MW to Kosovo's generation capacity. Once fully operational, these projects will effectively double the installed renewable capacity. Additionally, in May 2024, the authorities enacted the Law on the Promotion of Renewable Energy (RM3), which facilitates private investment in renewable energy generation.

- *Pollution.* Funds for installing filters on the Kosovo B coal-fired plant, which accounts for more than 40 percent of installed generation capacity, were secured in 2023 (RM1), although contractor-related delays have slowed implementation. In January 2025, a €137 million tender to modernize Kosovo A was launched.

- *EU Carbon Border Adjustment Mechanism (CBAM) preparedness.* A report on the impact of CBAM implementation by the EU was prepared and presented to Cabinet (RM4). Additionally, the CBK has started collecting standardized data from exporting firms that could have exposure to CBAM transitional costs (RM8); thus far, the data show low exposure (about 1¾ percent of total loan exposure). Mining and quarrying, manufacturing, and electricity, gas, steam and air conditioning supply are the most exposed economic sectors.

- *Energy efficiency.* The Kosovo Energy Efficiency Fund (KEEK) has been financing, mainly from donor sources, energy-saving improvements for public and residential buildings. In 2023, it adopted a plan to increase energy efficiency in residential buildings (RM6). Recently, a new €86 million operation was launched with funding from the EBRD, the government of Kosovo, the EU, and Denmark. This will allow KEEF to scale up energy efficiency investments.

- *Regional integration.* The authorities implemented the Albanian Power Exchange—ALPEX (RM7), which unified the day-ahead electricity market with Albania. ALPEX has 38 members, 24 in Albania and 14 in Kosovo. Since December 2024, it is implementing the Complementary Regional Intraday Auction (CRIDA), critical for the renewable energy market given the intermittent nature of wind and solar energy.

D. Addressing Structural Challenges

30. Kosovo needs comprehensive structural and institutional reforms to achieve better economic and social outcomes. As detailed in the Country Engagement Strategy (Annex IV), in addition to geopolitical risks, Kosovo needs to overcome economic and social challenges arising from limited economic opportunities and relatively weak public institutions. Structural and institutional reforms to boost competitiveness, address governance weaknesses, and strengthen public institutions are crucial to attain prosperity, improve equity, and accelerate progress toward the EU accession. Given the large gender gap, even a small increase in female labor force participation could significantly increase the labor supply.[18]

- *Enhancing the business climate*. To transition to an investment-driven, export-oriented growth model, Kosovo needs an efficient regulatory framework, skilled labor, protection of economic rights, modern infrastructure, and access to finance. Sustained efforts are needed to promote trade and attract foreign direct investments, reduce informality, and ensure fair competition, including from publicly owned enterprises.

- *Strengthening governance and rule of law*. To support Kosovo's EU accession efforts, further anti-corruption efforts are needed, including strengthening preventive measures (e.g., asset declarations and integrity plans) and increasing investigation and prosecution capacity, to establish an effective deterrent to corruption. Strengthening judicial integrity and efficiency is also essential to ensuring protection of economic rights and contractual enforcement.

- *Increasing public administration effectiveness.* While Kosovo demonstrates relatively strong administrative capacity compared to some peers, there is scope to enhance effectiveness. Strengthening human resource management, rationalizing the administrative structure, and accelerating digitalization of public services will enhance efficiency, transparency, and responsiveness.

PROGRAM MODALITIES

31. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing the reform program and set out policies beyond the program. The Technical Memorandum of Understanding (TMU) issued at the time of the Second Reviews remains valid for this final review.

32. Kosovo's capacity to repay the Fund remains adequate. The authorities have been treating the SBA as precautionary. If they purchase under the Agreement, the debt stock to the IMF would peak at 1.6 percent of GDP in 2025 and debt service at 0.4 percent of GDP in 2029 (Table 8).

[18] Staff analysis, prepared as part of 2024 Article IV consultations, shows that if Kosovo reaches the average female labor force participation rate of the Western Balkans, an additional 180 thousand women would join the labor force.

Risks from adverse shocks are mitigated by Kosovo's strong track record in repaying the Fund and low risk of debt distress (IMF CR/24/364, Annex IV).

STATISTICS

33. Despite progress, important challenges remain in improving the quality of statistics. The IMF Statistics Department (STA) continues to support the Kosovo Agency of Statistics (KAS). TA priorities include strengthening national accounts (enhancing the quality of quarterly GDP figures, developing flash estimates, and implementing a transparent GDP-revision policy), publishing the first Residential Property Price Index (RPPI)—now postponed to late 2025 due to capacity limitations—and producing government finance statistics on an accrual basis consistent with the EU directive on budgetary frameworks. The authorities have expressed interest in an IMF Report on the Observance of Standards and Codes (Data ROSC), which will provide a comprehensive assessment of adherence to international statistical standards.

STAFF APPRAISAL

34. After accelerating in 2024, activity is expected to moderate amid external headwinds. Strong private consumption, supported by rising real incomes and rapid credit growth, and higher investments drove growth in 2024. Some moderation in 2025 is expected given rising uncertainties from international markets and domestic political factors. Kosovo needs reforms to boost investment in physical and human capital and close the income gap with the EU. Mobilizing external financing, including from the diaspora and official sources, would help support higher investment.

35. Program performance has been strong. All QPCs and ITs for the Fourth Review of the SBA and ITs for March 2025 (preliminary) have been met. All measures covered by structural benchmarks and RSF RMs were implemented. RM2 on launching a wind power auction was implemented with a two-month delay. The authorities intend to continue treating the SBA as precautionary but may draw if financing shortfalls materialize. The SBA has been instrumental in anchoring fiscal policies, enhancing fiscal transparency and accountability, supporting a sustained improvement in the CBK's regulatory capacity and macroprudential toolkit. The RSF has played a crucial role in expanding renewable energy generation capacity, reducing pollution, increasing energy efficiency, strengthening regional cooperation, and monitoring CBAM transition risks.

36. Fiscal policy should remain anchored in the rules-based framework to support macroeconomic stability, growth, and resilience. The expansionary fiscal stance envisaged under the 2025 budget remains appropriate, given Kosovo's significant developmental needs, and low debt and inflation. However, rising policy uncertainty requires avoiding further discretionary spending and fiscal policy should maintain flexibility by focusing on building buffers and enhancing crisis preparedness, while also addressing domestic demand pressures that could lead to higher external imbalances. Continued reforms to strengthen revenue collection, along with strong EU accession efforts that help mobilize additional official financing, will provide greater policy space for increased social and capital investments. PFM reforms are needed to enhance the efficiency and impact of government spending focusing on limiting the use of virements, strengthening the PIM, and improving the asset-liability management. The positive experience of the SAS pilot should be gradually expanded to cover a larger part of the social safety net. Ongoing reforms to the fiscal framework must be carefully planned to preserve the policy credibility achieved under the current system. The transparency standard achieved during the SBA should be maintained and expanded, particularly to assess contingencies such as PPPs where the authorities have little experience and risks could be high.

37. The authorities need to remain vigilant over rapidly increasing bank lending and close information gaps. Private credit, particularly for households, has been increasing at double-digit rates since mid-2023 concentrated in real estate. While this credit expansion has been supported by formalization in the labor market, declining lending rates, and greater financial inclusion, it poses risks related to asset price inflation, loan concentration, and overleveraging. The CBK is closely monitoring developments but faces limited information, particularly on real estate prices. These data gaps need to be urgently addressed to support proper and timely assessment of developments, prospects, and risks. Against this backdrop, the CBK should be ready to act proactively if warning signs are detected.

38. An adequate level of financial buffers is critical given the monetary regime and heightened uncertainty. Given the unilateral euroization, a bedrock of macroeconomic stability, maintaining adequate financial buffers is crucial to protect the economy against shocks. While the current level of total government deposits aligns with the minimum recommended by staff, the highly elevated policy uncertainty in the global economy underscores the importance of further strengthening precautionary buffers. Additionally, a clear protocol is needed to clarify the roles of key institutions, such as the Treasury and the CBK, and define procedures to use all available government funds in the case of an emergency.

39. The authorities should build on the successful implementation of RSF RMs to further progress toward climate goals. Key priorities include sustaining the ongoing renewable energy projects, attracting more private investment in renewables, reducing pollution—such as through installing filters on coal-fired power plants—and supporting energy efficiency improvements.

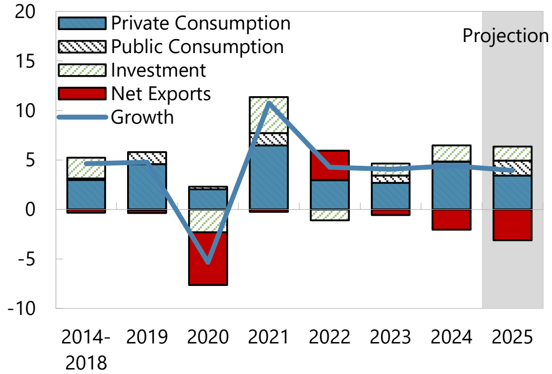
40. Structural reforms are urgently needed to raise potential growth. The CES identified the main challenges and constraints to reform implementation. Strengthening the rule of law, enhancing the business climate to foster private investment, and improving public administration effectiveness are key priorities.

41. Staff supports the completion of the Fourth Reviews under the SBA and RSF arrangements. Strong macroeconomic performance and progress on structural reforms under the SBA and RSF provide a solid foundation for the reviews to be completed. The policies outlined in the attached Letter of Intent are adequate to sustain the achievements under the programs. Staff supports a disbursement of SDR 7.744 million under the RSF in connection with RSF RM2.

Figure 1. Kosovo: Real Sector Developments

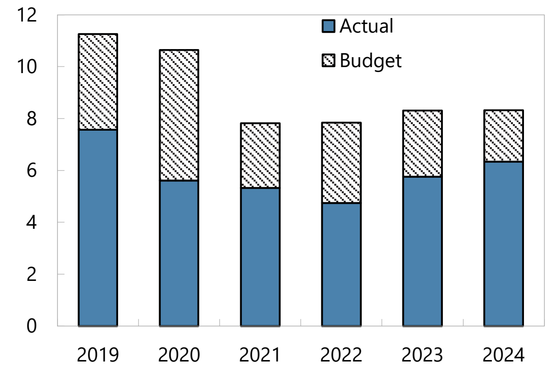
Growth accelerated in 2024 supported by domestic absorption.

Contributions to Real Growth
(Percent)



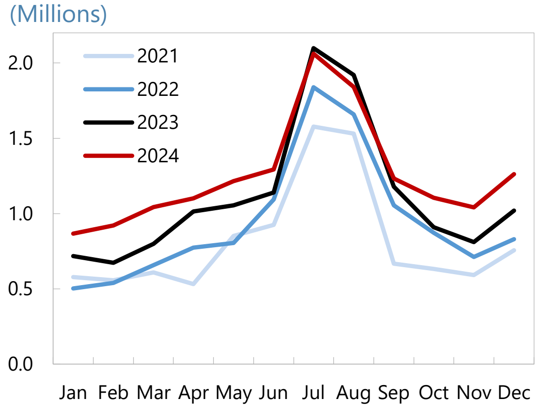
Public investment execution has continued improving.

Government Capital Expenditure
(Percent of GDP)



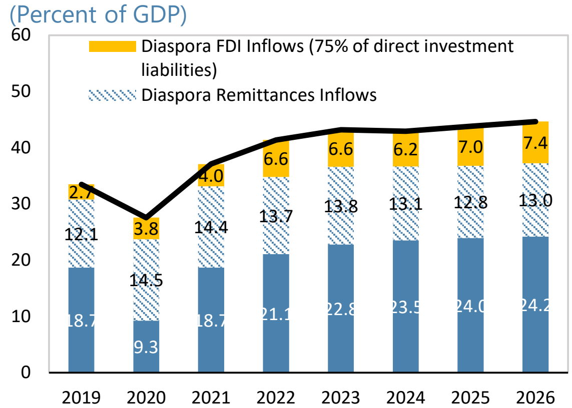
Diaspora-related tourism has supported activity and demand…

Number of Passenger Arrivals
(Millions)



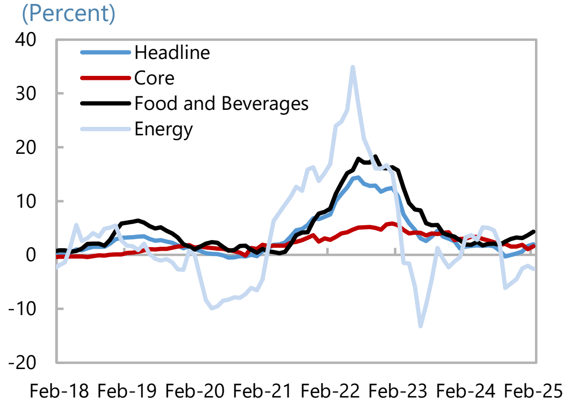
…although the overall contribution of diaspora-related flows to growth has moderated.

Diaspora Inflows
(Percent of GDP)



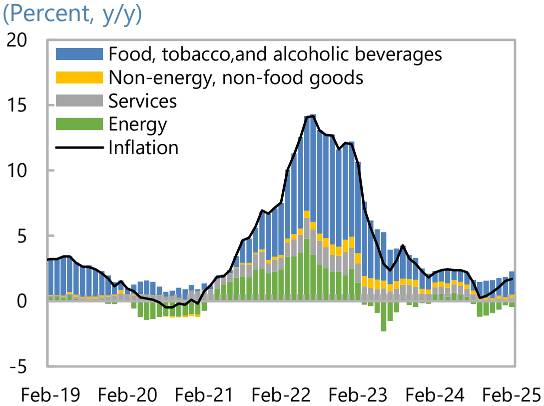
Headline inflation has declined sharply…

Inflation
(Percent)



…due to slowing energy and food price inflation.

Inflation Decomposition
(Percent, y/y)

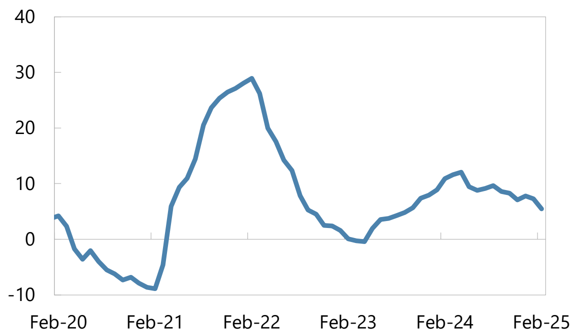


Sources: Haver Analytics, Ministry of Finance, Labor, and Transfers, Kosovo Agency of Statistics, Central Bank of Kosovo, Ministry of Internal Affairs (Police Border Control), *World Economic Outlook*, and IMF staff estimates.

Figure 2. Kosovo: Fiscal Developments

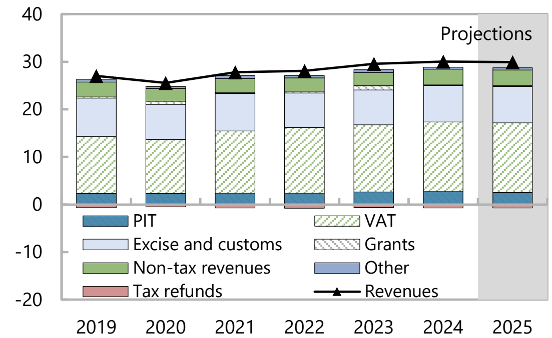
Tax revenues continue growing at a strong pace…

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



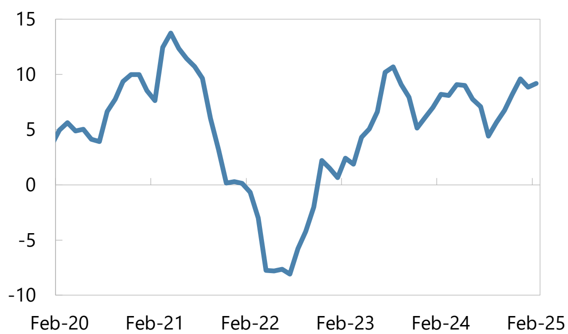
…supported by strong economic activity and efforts to strengthen tax compliance.

Revenue Composition
(Percent of GDP)



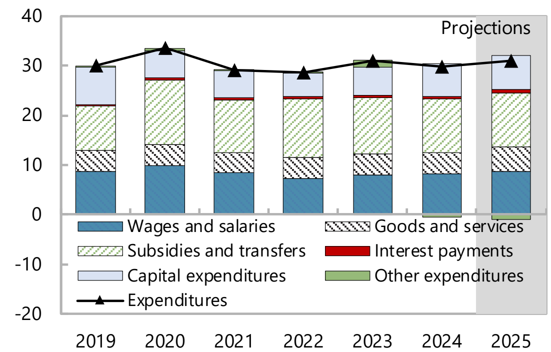
Expenditure has been growing moderately…

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



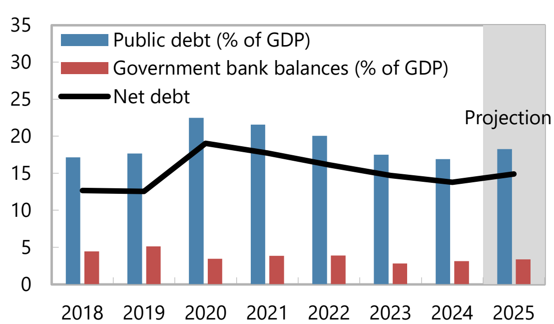
…primarily reflecting higher investment and social benefits.

Expenditure Composition
(Percent of GDP)



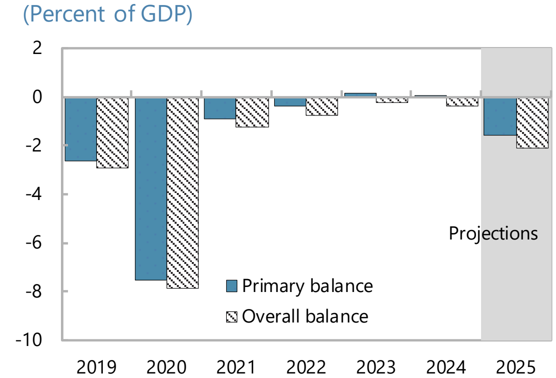
Public debt remains low and sustainable…

Public Debt and Government Bank Balance
(Percent of GDP)



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

Fiscal Balance
(Percent of GDP)

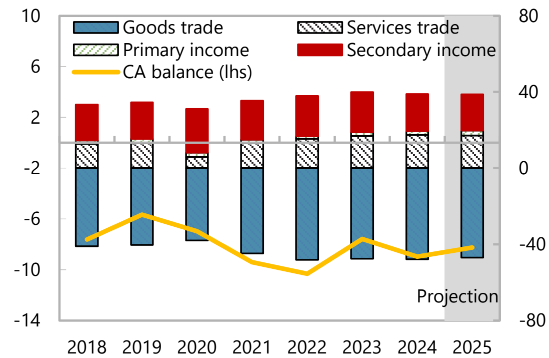


Sources: Ministry of Finance, Labor, and Transfers, Central Bank of Kosovo, and IMF staff calculations.

Figure 3. Kosovo: External Sector Developments

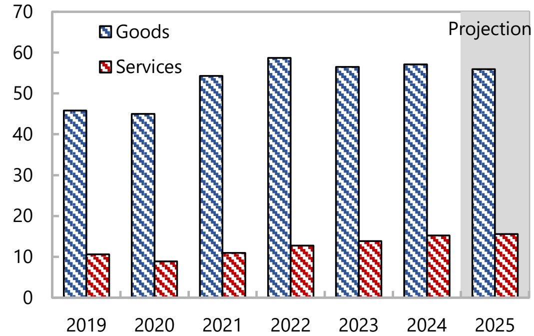
The external current account deficit remains high…

Contributions to the Current Account Balance
(Percent of GDP)



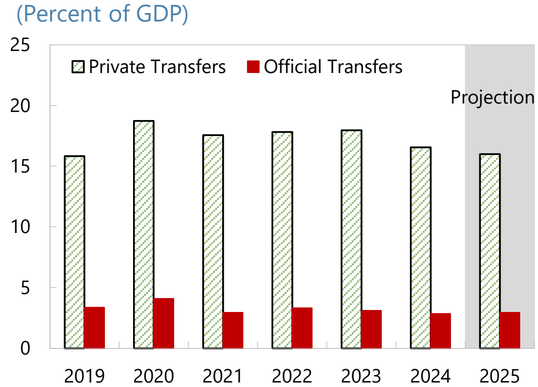
…due to large goods and services imports…

Imports of Goods and Services
(Percent of GDP)



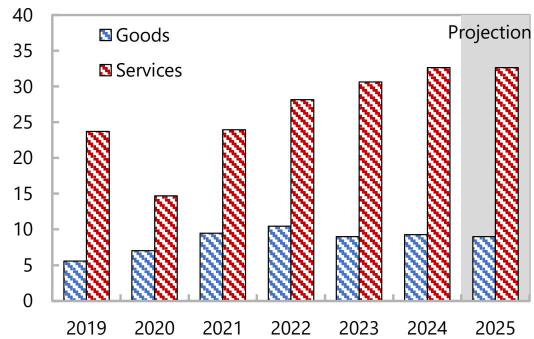
…and softening remittances…

Secondary Income Transfers
(Percent of GDP)



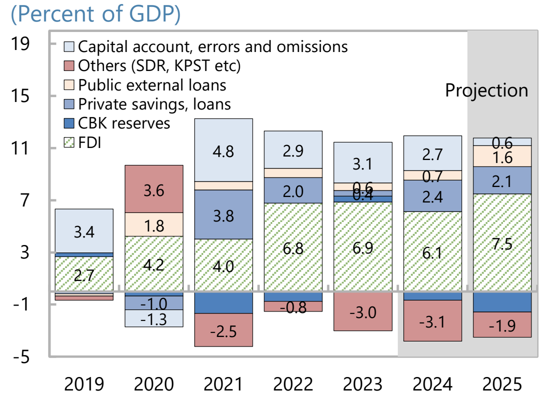
…exports of goods and services remain broadly stable.

Exports of Goods and Services
(Percent of GDP)



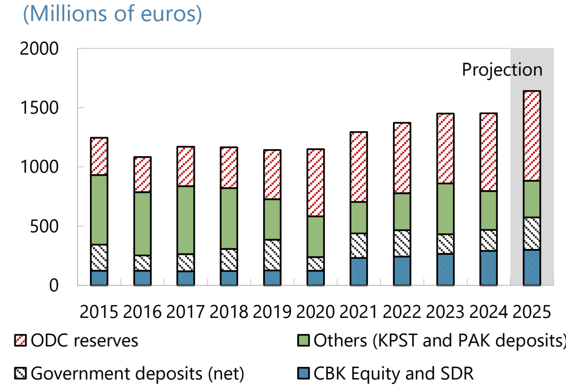
The external current account deficit is mainly financed by FDI and official external loans…

Financing of Current Account
(Percent of GDP)



…with reserve adequacy below the IMF ARA benchmark.

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



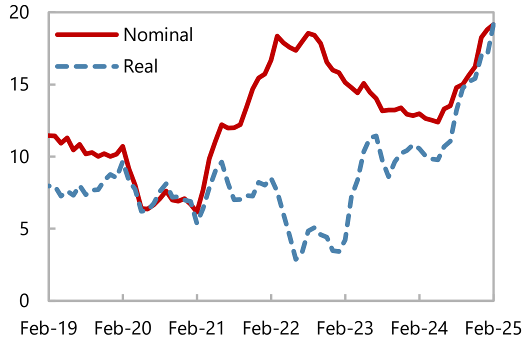
Sources: Haver Analytics, Kosovo Agency of Statistics, Ministry of Finance, Labor, and Transfers, *World Economic Outlook*, and IMF staff estimates.

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

Figure 4. Kosovo: Financial Sector Developments

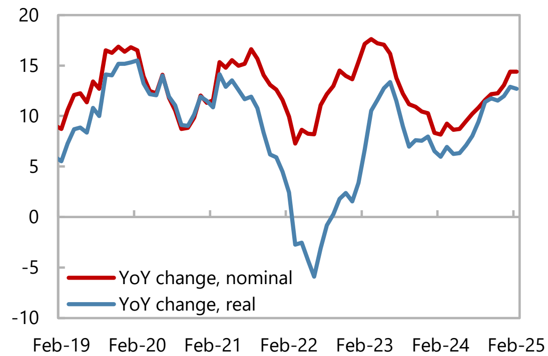
Real private credit growth has accelerated…

Private Sector Credit Growth
(Percent change, year-on-year)



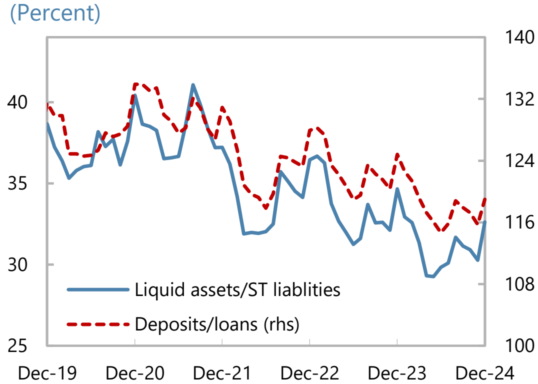
…and real deposit growth has remained solid, although it has moderated recently.

Banks' Deposits
(Percent)



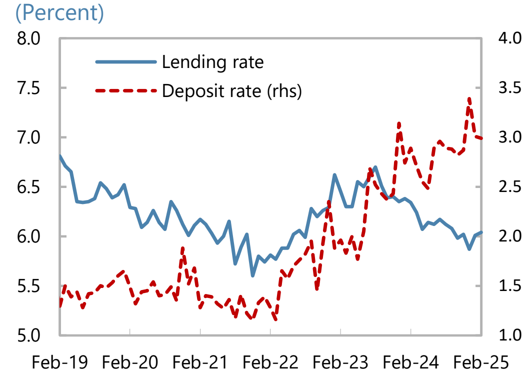
Bank liquidity ratios remain comfortable…

Liquidity
(Percent)



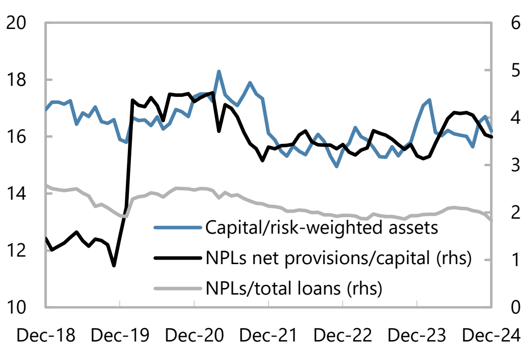
…and deposit interest rates are increasing, reflecting stronger demand for loanable funds.

Lending and Deposit Rates
(Percent)



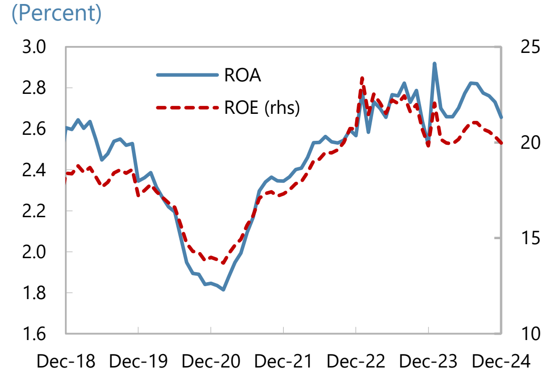
NPLs remain low and capital buffers adequate…

Asset Quality and Capital Adequacy
(Percent)



…and profitability has remained high.

Profitability
(Percent)



Sources: Central Bank of Kosovo and IMF staff estimates.

Table 1. Kosovo: Selected Economic Indicators, 2020–30

(Percent, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Real GDP growth 1/	-5.3	10.7	4.3	4.1	4.4	4.0	4.0	3.9	3.9	3.9	4.0
Contribution to growth (percentage points of GDP)											
Consumption	2.3	7.7	3.0	3.4	4.9	5.8	4.4	3.8	3.8	3.7	3.9
Private	2.0	6.5	3.0	2.7	4.8	3.4	3.9	3.2	3.2	3.1	3.3
Public	0.3	1.2	0.0	0.8	0.0	1.5	0.5	0.6	0.6	0.6	0.6
Investment	-2.3	3.6	-1.1	1.2	1.6	1.4	2.3	1.7	1.7	1.7	1.7
Net Exports	-5.3	-0.2	2.9	-0.6	-2.1	-3.1	-2.8	-1.5	-1.6	-1.5	-1.6
Exports	-8.6	17.0	6.7	2.9	4.0	2.1	2.8	2.6	2.3	2.3	2.3
Imports	3.3	-17.2	-3.7	-3.5	-6.1	-5.2	-5.6	-4.1	-3.9	-3.8	-3.9
Real growth rate (percent)											
Consumption	2.4	7.6	3.0	3.5	4.9	5.8	4.4	3.8	3.8	3.7	3.9
Private	2.5	7.3	3.4	3.1	5.7	4.9	4.6	3.7	3.7	3.7	3.8
Public	2.1	9.0	0.2	5.9	0.2	12.0	3.5	4.4	4.1	4.1	4.1
Investment	-7.6	13.0	-3.2	3.9	6.0	4.9	8.0	5.5	5.5	5.5	5.2
Exports	-29.1	76.8	18.9	7.2	9.7	4.8	6.3	5.7	5.0	5.0	5.0
Imports	-6.0	31.4	5.4	5.3	9.1	7.5	7.7	5.4	5.1	4.9	5.0
Official unemployment (percent of workforce)	26.0	20.8	12.6	10.9	…	…	…	…	…	…	…
Price changes											
CPI, period average	0.2	3.3	11.6	4.9	1.6	2.3	1.9	2.0	2.0	2.0	2.0
GDP deflator	1.4	6.1	7.2	4.6	2.0	3.8	3.0	2.5	2.4	2.2	2.3
General government budget (percent of GDP)											
Revenues and grants	25.6	27.8	28.1	29.5	30.0	29.8	29.7	29.7	29.7	29.7	29.7
Expenditures	33.5	29.0	28.8	29.8	30.3	31.9	31.7	31.7	31.8	31.7	31.7
Of which: Wages and salaries	9.8	8.4	7.3	7.9	8.2	8.5	8.5	8.5	8.5	8.5	8.5
Subsidies and transfers	12.8	10.6	12.0	11.1	10.8	10.8	10.7	10.5	10.4	10.3	10.2
Capital expenditure	5.6	5.3	4.8	5.8	6.4	7.2	7.3	7.4	7.6	7.7	7.8
Overall Balance (Fiscal rule) 2/	-6.5	-0.9	-0.5	-0.1	-0.1	-1.6	…	…	…	…	…
Overall balance	-7.8	-1.2	-0.7	-0.2	-0.3	-2.1	-2.0	-2.0	-2.0	-2.0	-2.0
Stock of freely available government bank balances	3.4	3.8	3.9	2.8	3.1	3.4	3.6	3.7	3.9	3.9	3.9
Total public debt	22.5	21.6	20.0	17.5	16.9	18.3	19.5	20.7	21.9	22.9	23.6
Balance of Payments (percent of GDP)											
Current account balance, incl. official transfers	-7.0	-9.4	-10.3	-7.6	-9.0	-8.3	-8.2	-7.8	-7.4	-7.1	-6.7
Of which: Official transfers	4.1	2.9	3.3	3.1	2.8	2.9	3.0	3.1	3.2	3.3	3.4
Of which: Remittance inflows	14.5	14.4	13.7	13.8	13.1	12.6	12.7	12.7	12.8	12.9	13.0
Financial account	-8.3	-4.6	-7.4	-4.4	-6.3	-7.7	-7.6	-7.3	-6.9	-6.5	-6.1
Of which: Direct investment, net	-4.2	-4.0	-6.8	-6.9	-6.1	-7.5	-7.8	-7.5	-7.5	-7.5	-7.1
Portfolio investment, net	-1.2	3.5	1.5	4.5	3.4	1.9	1.3	1.3	1.8	2.1	2.2
Other investment, net	-3.5	-6.2	-2.9	-1.6	-4.3	-3.6	-2.5	-2.5	-2.5	-2.4	-2.4
Reserve change	0.7	2.1	0.8	-0.5	0.7	1.6	1.5	1.4	1.4	1.3	1.2
Errors and Omissions	-1.6	4.0	2.4	2.5	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Savings-investment balances (percent of GDP)											
National savings	28.7	26.5	24.9	26.4	24.8	25.7	26.3	26.9	27.5	28.1	28.7
Public savings	4.4	3.9	3.8	4.7	6.0	4.9	5.1	5.3	5.5	5.5	5.6
Private savings	24.3	22.7	21.1	21.6	18.8	20.8	21.2	21.6	22.0	22.6	23.1
Investment	35.7	36.0	35.2	33.9	33.8	33.9	34.5	34.7	34.9	35.2	35.4
Public investment	7.9	5.3	4.8	5.8	6.4	7.2	7.3	7.4	7.6	7.7	7.8
Private investment 3/	27.8	30.6	30.5	28.1	27.4	26.7	27.2	27.2	27.3	27.5	27.6
Financial Sector											
Non-performing loans (percent of total loans)	2.5	2.1	1.9	1.9	1.8	…	…	…	…	…	…
Bank credit to the private sector (percent change)	7.1	15.6	16.0	12.9	18.3	15.8	13.2	12.1	11.3	10.5	9.9
Deposits of the private sector (percent change)	10.9	12.4	12.7	11.3	12.8	12.1	10.6	9.6	9.2	9.4	8.7
Regulatory capital to risk weighted assets	16.5	16.1	15.5	16.5	16.2	…	…	…	…	…	…
Memorandum items:											
Foreign Reserves (millions of euros, IMF Definition)	1,149	1,293	1,370	1,449	1,452	1,641	1,833	2,027	2,226	2,422	2,617
Foreign Reserves (% of ARA metric)	120	107	96	92	81	82	83	84	85	85	85
GDP (millions of euros)	6,772	7,958	8,896	9,680	10,305	11,115	11,905	12,686	13,488	14,334	15,238
GDP per capita (euros)	4,096	4,862	5,491	6,037	6,494	7,046	7,577	8,090	8,611	9,153	9,730
Real GDP growth per capita	-4.4	11.9	5.3	5.1	5.5	4.6	4.4	4.1	4.0	4.0	3.9
Output gap (% of GDP)	-6.2	-0.5	-0.5	-0.7	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Population (million)	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6

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/ Includes change in inventories.

Table 2. Kosovo: Consolidated Government Budget, 2020–30 (Euro million)[1]

(Including donor designated grants and PAK operations)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**1,736**	**2,212**	**2,499**	**2,860**	**3,094**	**3,308**	**3,539**	**3,772**	**4,012**	**4,264**	**4,524**
Revenue	1,693	2,195	2,479	2,778	3,084	3,287	3,518	3,752	3,991	4,243	4,504
Taxes	1,507	1,948	2,217	2,506	2,740	2,918	3,124	3,332	3,545	3,771	4,002
Direct taxes	267	342	414	490	517	529	560	600	639	680	722
of which: Personal income tax	158	190	216	256	281	277	299	320	341	362	385
of which: Corporate income tax	85	114	160	185	203	217	224	239	255	271	288
of which: Property tax	23	36	35	46	33	36	38	41	43	46	49
Other	1	2	4	3	0	0	0	0	0	0	0
Indirect taxes	1,273	1,665	1,870	2,077	2,297	2,470	2,650	2,825	3,004	3,195	3,390
VAT	770	1,038	1,220	1,366	1,505	1,621	1,741	1,856	1,975	2,101	2,228
Excise	398	501	517	555	618	667	714	761	809	860	914
Customs	102	125	133	156	174	182	195	207	220	234	247
Other	3	1	0	0	0	0	0	0	0	0	0
Tax refunds	-33	-59	-67	-61	-74	-81	-87	-92	-98	-104	-110
Nontax revenues	186	247	262	272	344	370	395	419	446	473	502
Other revenue	3	9	6	6	7	7	7	7	7	7	7
Grants	43	17	20	81	10	20	20	20	20	20	20
Budget support	34	0	10	68	0	11	11	11	11	11	11
Project grants (DDGs)	9	17	10	14	10	10	10	10	10	10	10
Expenditure	**2,265**	**2,311**	**2,565**	**2,882**	**3,123**	**3,542**	**3,778**	**4,026**	**4,284**	**4,548**	**4,830**
Current expenditure	1,886	1,887	2,142	2,321	2,469	2,740	2,911	3,081	3,254	3,449	3,647
Wages and salaries	661	668	653	767	844	940	1,015	1,082	1,150	1,222	1,299
Goods and services	302	332	363	427	462	536	542	578	614	653	694
Subsidies and transfers	868	843	1,065	1,079	1,115	1,205	1,271	1,334	1,401	1,478	1,552
Current reserves	0	0	0	0	0	0	0	0	0	0	0
DDGs and other expenditure	0	0	0	0	0	0	0	0	0	0	0
Interest payments	26	31	35	42	43	60	83	88	89	96	102
Interest - internal	17	21	25	29	25	35	52	56	55	59	62
of which: on external debt	10	10	10	15	18	24	30	32	34	38	40
Other net PAK expenditure	24	13	25	5	5	0	0	0	0	0	0
Capital expenditure	380	424	423	561	655	801	868	945	1,030	1,099	1,182
Budget-financed	265	364	348	487	604	730	770	830	890	930	950
PAK-financed	54	0	0	0	0	0	0	0	0	0	0
External	60	60	75	75	51	71	98	115	140	169	232
Fiscal balances											
Primary balance	-507	-72	-34	16	11	-177	-160	-170	-187	-191	-206
Interest income, net	-26	-32	-36	-41	-45	-48	-48	-47	-46	-45	-45
Overall balance	**-529**	**-99**	**-66**	**-23**	**-29**	**-234**	**-239**	**-254**	**-272**	**-284**	**-306**
"Fiscal rule" deductions from the overall balance	128	27	17	18	19	60	…	…	…	…	…
Overall balance ('Fiscal rule" definition) 2/	**-443**	**-72**	**-49**	**-5**	**-10**	**-174**	…	…	…	…	…
Overall cyclically adjusted balance	-425	-101	-69	-78	-27	-254	-260	-275	-293	-305	-326
Financing	**529**	**99**	**66**	**23**	**29**	**234**	**239**	**254**	**272**	**284**	**306**
Foreign financing (net)	127	44	63	56	75	177	97	105	113	113	152
Budget Support	156	67	11	38	73	162	50	50	50	50	40
External Financing for Projects	59	56	100	65	58	71	99	119	146	176	241
Amortization of external debt	-89	-79	-48	-46	-56	-56	-52	-64	-83	-113	-129
Domestic financing (net)	402	55	3	-34	-46	57	142	150	160	171	154
Net Domestic debt issuance	170	145	-4	-142	-13	110	198	202	207	211	173
Change in CBK deposits	211	-100	23	75	-64	-50	-50	-50	-50	-40	-30
Treasury	127	-106	4	74	-50	-50	-50	-50	-50	-40	-30
PAK	84	7	19	1	-14	0	0	0	0	0	0
Other Financing (Net POE and other)	9	4	-22	28	17	-3	-6	-2	2	0	11
Equity (Privatization)	12	6	6	6	14	0	0	0	0	0	0
Memorandum items											
Treasury free disposal bank balances	233	306	347	273	323	373	423	473	523	563	593
Total public debt	1,523	1,717	1,783	1,696	1,743	2,030	2,326	2,632	2,952	3,276	3,601
External debt	557	607	671	726	781	958	1,055	1,160	1,273	1,386	1,538
Of which: onlending	43	46	47	41	44	47	53	60	69	80	92
Of which: guarantees	32	31	30	33	4	4	4	4	4	4	4
Domestic debt	965	1,110	1,112	970	962	1,072	1,270	1,472	1,679	1,890	2,063

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, 2020–30 (Percent of GDP)[1]

(Including donor designated grants and PAK operations)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue and grants	**25.6**	**27.8**	**28.1**	**29.5**	**30.0**	**29.8**	**29.7**	**29.7**	**29.7**	**29.7**	**29.7**
Revenue	25.0	27.6	27.9	28.7	29.9	29.6	29.6	29.6	29.6	29.6	29.6
Taxes	22.3	24.5	24.9	25.9	26.6	26.2	26.2	26.3	26.3	26.3	26.3
Direct taxes	3.9	4.3	4.7	5.1	5.0	4.8	4.7	4.7	4.7	4.7	4.7
of which: Personal income tax	2.3	2.4	2.4	2.6	2.7	2.5	2.5	2.5	2.5	2.5	2.5
of which: Corporate income tax	1.3	1.4	1.8	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.9
of which: Property tax	0.3	0.5	0.4	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Indirect taxes	18.8	20.9	21.0	21.5	22.3	22.2	22.3	22.3	22.3	22.3	22.2
VAT	11.4	13.0	13.7	14.1	14.6	14.6	14.6	14.6	14.6	14.7	14.6
Excise	5.9	6.3	5.8	5.7	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Customs	1.5	1.6	1.5	1.6	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Tax refunds	-0.5	-0.7	-0.8	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Nontax revenues	2.8	3.1	2.9	2.8	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Other revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Grants	0.6	0.2	0.2	0.8	0.1	0.2	0.2	0.2	0.2	0.1	0.1
Budget support	0.5	0.0	0.1	0.7	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Project grants (DDGs)	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditure	**33.5**	**29.0**	**28.8**	**29.8**	**30.3**	**31.9**	**31.7**	**31.7**	**31.8**	**31.7**	**31.7**
Current expenditure	27.8	23.7	24.1	24.0	24.0	24.7	24.4	24.3	24.1	24.1	23.9
Wages and salaries	9.8	8.4	7.3	7.9	8.2	8.5	8.5	8.5	8.5	8.5	8.5
Goods and services	4.5	4.2	4.1	4.4	4.5	4.8	4.6	4.6	4.6	4.6	4.6
Subsidies and transfers	12.8	10.6	12.0	11.1	10.8	10.8	10.7	10.5	10.4	10.3	10.2
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	0.4	0.4	0.4	0.4	0.4	0.5	0.7	0.7	0.7	0.7	0.7
of which: on external debt	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Other net PAK expenditure	0.4	0.2	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	5.6	5.3	4.8	5.8	6.4	7.2	7.3	7.4	7.6	7.7	7.8
Budget-financed	3.9	4.6	3.9	5.0	5.9	6.6	6.5	6.5	6.6	6.5	6.2
PAK-financed	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.9	0.8	0.8	0.8	0.5	0.6	0.8	0.9	1.0	1.2	1.5
Fiscal balances											
Primary balance	-7.5	-0.9	-0.4	0.2	0.1	-1.6	-1.3	-1.3	-1.4	-1.3	-1.4
Overall balance	**-7.8**	**-1.2**	**-0.7**	**-0.2**	**-0.3**	**-2.1**	**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.0**
"Fiscal rule" deductions from the overall balance	1.9	0.3	0.2	0.2	0.2	0.5	…	…	…	…	…
Overall balance ('Fiscal rule" definition) 2/	**-6.5**	**-0.9**	**-0.5**	**-0.1**	**-0.1**	**-1.6**	…	…	…	…	…
Overall cyclically adjusted balance	-6.3	-1.3	-0.8	-0.8	-0.3	-2.3	-2.2	-2.2	-2.2	-2.1	-2.1
Financing	**7.8**	**1.2**	**0.7**	**0.2**	**0.3**	**2.1**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
Foreign financing (net)	1.9	0.6	0.7	0.6	0.7	1.6	0.8	0.8	0.8	0.8	1.0
Budget Support	2.3	0.8	0.1	0.4	0.7	1.5	0.4	0.4	0.4	0.3	0.3
External Financing for Projects	0.9	0.7	1.1	0.7	0.6	0.6	0.8	0.9	1.1	1.2	1.6
Amortization of external debt	-1.3	-1.0	-0.5	-0.5	-0.5	-0.5	-0.4	-0.5	-0.6	-0.8	-0.8
Domestic financing (net)	5.9	0.7	0.0	-0.3	-0.4	0.5	1.2	1.2	1.2	1.2	1.0
Net Domestic debt issuance	2.5	1.8	0.0	-1.5	-0.1	1.0	1.7	1.6	1.5	1.5	1.1
Change in CBK deposits	3.1	-1.3	0.3	0.8	-0.6	-0.4	-0.4	-0.4	-0.4	-0.3	-0.2
Treasury	1.9	-1.3	0.0	0.8	-0.5	-0.4	-0.4	-0.4	-0.4	-0.3	-0.2
PAK	1.2	0.1	0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing (Net POE and other)	0.1	0.0	-0.2	0.3	0.2	0.0	-0.1	0.0	0.0	0.0	0.1
Equity (Privatization)	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items											
Treasury free disposal bank balances	3.4	3.8	3.9	2.8	3.1	3.4	3.6	3.7	3.9	3.9	3.9
Total public debt	22.5	21.6	20.0	17.5	16.9	18.3	19.5	20.7	21.9	22.9	23.6
External debt	8.2	7.6	7.5	7.5	7.6	8.6	8.9	9.1	9.4	9.7	10.1
Of which: onlending	0.6	0.6	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6
Of which: guarantees	0.5	0.4	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt	14.3	13.9	12.5	10.0	9.3	9.6	10.7	11.6	12.5	13.2	13.5

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, 2020–30
(Millions of euros, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Financing Needs	818	340	337	318	351	531	484	574	654	661	824
Overall balance	-529	-99	-66	-23	-29	-234	-239	-254	-272	-284	-306
Amortization	289	241	271	295	322	297	245	319	381	377	519
External	89	79	48	46	56	56	52	64	83	113	129
Domestic	200	162	223	249	266	241	193	255	298	264	389
Financing Sources	822	349	345	316	351	531	484	574	654	661	824
External Debt	215	123	111	102	131	234	149	169	196	226	281
Budget Support	104	67	11	0	44	153	50	50	50	50	40
External Financing for Projects	59	56	100	65	58	71	99	119	146	176	241
Investment Clause (2016 and after)	26	20	17	18	19	60	87	105	130	159	222
Non-Investment Clause	31	31	47	45	24	1	1	0	0	0	0
Disbursements for on-lending	3	5	36	2	15	10	12	14	15	17	19
Use of IMF Credit	52	0	0	38	29	*10*	0	0	0	0	0
of which: RSF	*0*	*0*	*0*	*38*	*29*	*10*	…	…	…	…	…
Domestic Debt	606	225	234	214	220	298	335	405	458	435	543
Gross Domestic Debt Placements	370	307	219	107	253	351	391	457	505	475	562
KPST one-off financing	0	0	0	0	0	0	0	0	0	0	0
Other Financing (Net POE)	15	13	-25	2	17	-3	-6	-2	2	0	11
Commercial Bank Deposits	-1	0	10	23	7	0	0	0	0	0	0
Equity (Privatization, PAK and other)	12	6	6	6	0	0	0	0	0	0	0
Change in government assets (-=increase)	211	-100	23	75	-64	-50	-50	-50	-50	-40	-30
of which: RSF	*0*	*0*	*0*	*-38*	*-29*	*76*	*0*	*0*	*0*	*0*	*0*
Errors and Omissions	-4	-9	-9	2	0	0	0	0	0	0	0

Sources: Kosovo authorities and IMF staff estimates and projections.

Table 5a. Kosovo: External Financing Requirements and Sources, 2020–30
(Millions of euros, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
A. Gross External Financing Requirements	**519**	**918**	**985**	**651**	**966**	**1,159**	**1,157**	**1,171**	**1,188**	**1,195**	**1,196**
Current Account Deficit	472	749	917	733	925	918	980	991	1,004	1,014	1,017
o/w RSF reform costs	*0*	*0*	*0*	*0*	*0*	*76*	*0*	*0*	*0*	*0*	*0*
Change in Reserves (+ = increase) (without RSF)	46	169	68	-82	41	240	177	180	184	181	179
B. Gross External Financing Sources	**519**	**918**	**985**	**651**	**966**	**1,083**	**1,157**	**1,171**	**1,188**	**1,195**	**1,196**
Capital Transfers, net	17	62	38	63	32	65	74	71	80	78	83
Portfolio Flows, net	82	-277	-136	-432	-355	-206	-151	-169	-240	-306	-338
Direct Investment, net	287	320	603	664	631	832	932	948	1,018	1,081	1,086
Other Investment, net (excl. Central Government)	117	446	199	99	366	224	204	215	218	229	214
Central Government External Borrowing, net (without RSF)	123	45	62	17	47	167	97	105	113	113	152
Net Errors and Omissions	-107	322	218	241	244	0	0	0	0	0	0
Financing Gap (B-A)	0	0	0	0	0	-76	0	0	0	0	0
RSF disbursement (not linked to RM cost)	0	0	0	38	29	10	0	0	0	0	0
Residual financing gap (+ = Overfinancing)	**0**	**0**	**0**	**38**	**29**	**-66**	**0**	**0**	**0**	**0**	**0**
Change in Reserves (+ = increase) (with RSF)	46	169	68	-44	70	174	177	180	184	181	179

Sources: Kosovo authorities and IMF staff estimates and projections.

Table 5b. Kosovo: Balance of Payments, 2020–30
(Millions of euros, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	**-472**	**-749**	**-917**	**-733**	**-925**	**-918**	**-980**	**-991**	**-1,004**	**-1,014**	**-1,017**
Balance on Goods and Services	-2,182	-2,532	-2,914	-2,972	-3,135	-3,322	-3,550	-3,726	-3,938	-4,166	-4,407
Goods Balance	-2,573	-3,567	-4,287	-4,599	-4,927	-5,222	-5,608	-5,966	-6,331	-6,721	-7,132
Exports, f.o.b.	475	753	932	871	956	998	1,089	1,183	1,284	1,393	1,518
Imports, f.o.b.	3,048	4,320	5,219	5,469	5,883	6,220	6,698	7,150	7,615	8,115	8,649
Services Balance	392	1,035	1,373	1,626	1,792	1,900	2,059	2,240	2,393	2,555	2,724
Receipts	995	1,906	2,505	2,967	3,364	3,631	3,915	4,208	4,487	4,783	5,093
Payments	603	871	1,132	1,340	1,572	1,732	1,857	1,968	2,094	2,228	2,368
Primary Income	164	151	116	199	211	300	293	289	309	336	369
Compensation of employees, net	262	263	287	338	413	426	437	448	469	493	519
Investment income, net	-95	-110	-171	-140	-205	-125	-145	-160	-161	-159	-151
Secondary Income	1,545	1,632	1,882	2,041	1,999	2,104	2,277	2,446	2,625	2,816	3,022
Government, net	277	234	296	302	293	327	362	398	437	479	524
Other transfers (including remittances), net	1,269	1,398	1,586	1,739	1,706	1,777	1,915	2,047	2,188	2,338	2,498
Capital account	**17**	**62**	**38**	**63**	**32**	**65**	**74**	**71**	**80**	**78**	**83**
Financial account	**-562**	**-365**	**-661**	**-429**	**-649**	**-853**	**-906**	**-920**	**-925**	**-937**	**-934**
Direct investment, net	-287	-320	-603	-664	-631	-832	-932	-948	-1,018	-1,081	-1,086
Assets	59	100	175	189	225	194	208	277	294	313	333
Liabilities	346	421	778	853	856	1,026	1,140	1,225	1,312	1,394	1,419
Portfolio investment, net	-82	277	136	432	355	206	151	169	240	306	338
Other investment, net	-240	-491	-261	-154	-442	-401	-302	-320	-331	-342	-366
Change in reserve assets (with RSF)	46	169	68	-44	70	174	177	180	184	181	179
RSF disbursement (not linked to RM BOP costs)	…	…	…	38	29	10	…	…	…	…	…
Net errors and omissions 1/	-107	322	218	241	244	0	0	0	0	0	0
			(In percent of GDP)								
Current account	**-7.0**	**-9.4**	**-10.3**	**-7.6**	**-9.0**	**-8.3**	**-8.2**	**-7.8**	**-7.4**	**-7.1**	**-6.7**
Balance on Goods and Services	-29.9	-31.6	-32.5	-30.4	-30.3	-29.9	-29.8	-29.4	-29.2	-29.1	-28.9
Goods Balance	-35.6	-44.6	-48.0	-47.2	-47.7	-47.0	-47.1	-47.0	-46.9	-46.9	-46.8
Exports, f.o.b.	6.6	9.4	10.4	8.9	9.3	9.0	9.1	9.3	9.5	9.7	10.0
Imports, f.o.b.	42.2	54.0	58.4	56.1	56.9	56.0	56.3	56.4	56.5	56.6	56.8
Services Balance	5.8	13.0	15.4	16.8	17.4	17.1	17.3	17.7	17.7	17.8	17.9
Receipts	14.7	24.0	28.2	30.6	32.6	32.7	32.9	33.2	33.3	33.4	33.4
Payments	8.9	10.9	12.7	13.8	15.3	15.6	15.6	15.5	15.5	15.5	15.5
Primary Income	2.4	1.9	1.3	2.1	2.1	2.7	2.5	2.3	2.3	2.3	2.4
Compensation of employees, net	3.9	3.3	3.2	3.5	4.0	3.8	3.7	3.5	3.5	3.4	3.4
Investment income, net	-1.4	-1.4	-1.9	-1.4	-2.0	-1.1	-1.2	-1.3	-1.2	-1.1	-1.0
Secondary Income	22.8	20.5	21.2	21.1	19.4	18.9	19.1	19.3	19.5	19.6	19.8
Government, net	4.1	2.9	3.3	3.1	2.8	2.9	3.0	3.1	3.2	3.3	3.4
Other transfers (including remittances), net	18.7	17.6	17.8	18.0	16.6	16.0	16.1	16.1	16.2	16.3	16.4
Capital account	**0.3**	**0.8**	**0.4**	**0.6**	**0.3**	**0.6**	**0.6**	**0.6**	**0.6**	**0.5**	**0.5**
Financial account	**-8.3**	**-4.6**	**-7.4**	**-4.4**	**-6.3**	**-7.7**	**-7.6**	**-7.3**	**-6.9**	**-6.5**	**-6.1**
Direct investment, net	-4.2	-4.0	-6.8	-6.9	-6.1	-7.5	-7.8	-7.5	-7.5	-7.5	-7.1
Assets	0.9	1.3	2.0	2.0	2.2	1.7	1.7	2.2	2.2	2.2	2.2
Liabilities	5.1	5.3	8.7	8.8	8.3	9.2	9.6	9.7	9.7	9.7	9.3
Portfolio investment, net	-1.2	3.5	1.5	4.5	3.4	1.9	1.3	1.3	1.8	2.1	2.2
Other investment, net	-3.5	-6.2	-2.9	-1.6	-4.3	-3.6	-2.5	-2.5	-2.5	-2.4	-2.4
Change in reserve assets (with RSF)	0.7	2.1	0.8	-0.5	0.7	1.6	1.5	1.4	1.4	1.3	1.2
RSF disbursement (not linked to RM BOP costs)	…	…	…	0.4	0.3	0.1	…	…	…	…	…
Net errors and omissions 1/	-1.6	4.0	2.4	2.5	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Public debt service to export ratio (percent)	6.7	3.4	1.7	1.6	1.7	1.7	1.6	1.8	2.0	2.4	2.6
Public debt service to exports and remittances (percent)	4.0	2.3	1.3	1.2	1.3	1.3	1.3	1.4	1.6	1.9	2.0
External public and private debt (percent of GDP) 2/	37.0	37.1	38.6	39.8	41.1	42.4	42.8	43.3	43.7	44.0	44.3
Net foreign assets of CBK 3/	969	1,061	1,147	1,283	1,280	1,469	1,661	1,856	2,055	2,251	2,445
Gross international reserves with RSF 3/	1,149	1,293	1,370	1,449	1,452	1,641	1,833	2,027	2,226	2,422	2,617
Gross international reserves without RSF 3/	1,149	1,293	1,370	1,411	1,423	1,631	1,833	2,027	2,226	2,422	2,617
Total RSF disbursement (Euro million)	---	---	---	38	29	10	---	---	---	---	---
Gross international reserves in months of prospective imports 3/	2.7	2.4	2.4	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Gross international reserves, excl. PAK and KPST deposits at CBK 3/	900	1,100	1,176	1,131	1,261	1,436	1,613	1,792	1,976	2,157	2,337

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, 2020–30

(Millions of euros, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Central Bank											
Net foreign assets	969	1,061	1,147	1,283	1,280	1,469	1,661	1,856	2,055	2,251	2,445
Foreign assets	1,223	1,371	1,449	1,449	1,452	1,638	1,830	2,024	2,223	2,419	2,614
Foreign liabilities	254	310	302	167	172	168	168	168	168	168	168
Net domestic assets	-211	-335	-353	-348	-401	-454	-507	-560	-613	-655	-689
Net claims on central government	-213	-347	-355	-351	-423	-473	-523	-573	-623	-663	-694
Government securities	201	216	197	180	173	173	173	173	173	173	173
Liabilities to central government	527	626	604	531	594	644	694	744	794	834	864
PAK (privatization) fund	191	185	166	166	179	179	179	179	179	179	179
Government deposits	317	423	420	345	395	445	495	545	595	635	665
IMF subscription	18	18	18	19	19	19	19	19	19	19	19
Claims on other sectors	2	12	3	2	22	19	16	13	10	7	4
Monetary base	706	667	726	831	761	888	1,017	1,148	1,284	1,427	1,577
Liabilities to other depository corporations	566	589	594	591	656	757	861	968	1,079	1,197	1,322
Deposits included in broad money	139	78	132	241	105	130	155	180	205	230	255
Other items, net 1/	52	59	68	103	118	128	138	148	158	169	179
Commercial banks											
Net foreign assets	843	836	1,023	1,272	1,165	1,181	1,216	1,241	1,187	1,188	1,175
Assets	1,117	1,107	1,337	1,587	1,618	1,705	1,791	1,877	1,887	1,965	2,018
Liabilities	-274	-271	-315	-316	-453	-524	-574	-636	-700	-777	-842
Net domestic assets	3,909	4,463	4,956	5,484	6,422	7,480	8,503	9,566	10,678	11,831	13,023
Claims on the CBK	566	589	594	590	656	757	861	968	1,079	1,197	1,322
Net claims on the central government	240	297	251	193	211	267	320	375	431	488	534
Claims on central government	254	312	265	224	233	289	342	397	452	509	556
Liabilities to central government	-14	-15	-14	-31	-22	-22	-22	-22	-22	-22	-22
Net claims on other public entities	-140	-170	-235	-207	-250	-270	-289	-306	-325	-345	-367
Claims on other public entities	4	0	0	0	0	0	0	0	0	0	0
Liabilities to other public entities	-143	-170	-235	-207	-250	-270	-289	-306	-325	-345	-367
Credit to private sector	3,242	3,747	4,347	4,909	5,806	6,725	7,610	8,529	9,493	10,492	11,534
Deposits of the private sector	4,091	4,597	5,183	5,767	6,505	7,291	8,061	8,834	9,648	10,551	11,473
Demand deposits	2,597	3,090	3,370	3,760	4,165	4,689	5,203	5,719	6,259	6,857	7,459
Time deposits	1,493	1,508	1,813	2,007	2,339	2,602	2,858	3,115	3,389	3,694	4,014
Other items, net 2/	661	702	797	989	1,082	1,370	1,658	1,973	2,217	2,467	2,725
Memorandum items:											
Broad money (12-month percent change)	15.3	12.1	11.3	10.7	12.9	12.6	11.0	9.9	9.5	9.7	9.0
Gross international reserves, excl. PAK and KPST deposits at CBK	900	1,100	1,176	1,131	1,261	1,436	1,613	1,792	1,976	2,157	2,337
Deposits of the private sector (12-month percent change)	10.9	12.4	12.7	11.3	12.8	12.1	10.6	9.6	9.2	9.4	8.7
Credit to the private sector (12-month percent change)	7.1	15.6	16.0	12.9	18.3	15.8	13.2	12.1	11.3	10.5	9.9
Deposits of the private sector (percent of GDP)	60.4	57.8	58.3	59.6	63.1	65.6	67.7	69.6	71.5	73.6	75.3
Credit to the private sector (percent of GDP)	47.9	47.1	48.9	50.7	56.3	60.5	63.9	67.2	70.4	73.2	75.7
Excess reserves of commercial banks	302	285	248	234	246	278	313	350	390	432	477

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	2024
Total Assets (% GDP) 1/	67.5	79.1	74.9	76.0	77.9	83.0
Capital adequacy						
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5	16.5	16.2
Tier 1 capital to risk weighted assets	14.2	14.7	14.4	13.5	14.6	14.3
Capital to assets	11.2	11.7	11.1	9.4	10.4	10.3
Asset quality						
NPL to total loans	1.9	2.5	2.1	1.9	1.9	1.8
NPL net of provisions to capital	1.5	4.5	3.4	3.4	3.2	3.6
Large exposures to capital	81.8	89.5	89.8	78.2	61.7	57.1
Liquidity						
Liquid assets to total assets	28.8	3				
Deposits to loans	129.2	133.9	130.9	127.9	124.8	119.0
Liquid assets to short-term liabilities	38.7	40.4	37.2	36.5	34.7	32.6
Profitability						
Return on average assets	2.1	1.7	2.1	2.6	2.5	2.7
Return on average equity	17.2	14.0	17.3	20.7	19.8	20.0
Interest margin to gross income	80.6	79.2	76.5	76.4	79.4	80.6
Non-interest expense to gross income	48.1	46.1	45.4	43.8	44.0	45.6
Market risk						
Net open currency position to capital	4.7	3.5	1.5	1.8	0.6	0.4

Source: Central Bank of the Republic of Kosovo.

1/ Includes all other depository corporations.

Table 8. Kosovo: Indicators of Fund Credit, 2023–50

(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	2050
Existing and prospective Fund credit																												
Disbursements	31.0	23.2	87.9	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
GRA 1/	0.0	0.0	80.1	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	31.0	23.2	7.7	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	64.5	142.1	142.1	142.1	122.0	82.0	61.9	61.9	61.9	61.9	58.5	52.7	46.5	40.3	34.1	27.9	21.7	15.5	9.3	3.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
GRA	31.0	10.3	80.1	80.1	80.1	60.1	20.0	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	54.2	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	58.5	52.7	46.5	40.3	34.1	27.9	21.7	15.5	9.3	3.1	0.4	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	20.0	40.1	20.0	0.0	0.0	0.0	3.5	5.8	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	2.7	0.4	0.0	0.0	0.0	0.0	0.0
GRA 1/	10.3	20.7	10.3	0.0	0.0	20.0	40.1	20.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	5.8	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	2.7	0.4	0.0	0.0	0.0	0.0	0.0
Charges and interest	2.1	3.1	4.5	5.8	2.9	5.7	4.6	3.2	2.9	2.9	2.9	2.8	2.7	2.4	2.2	1.9	1.7	1.5	1.2	1.0	0.7	0.5	0.4	0.4	0.4	0.4	0.4	0.1
GRA 1/	2.1	1.5	2.2	3.3	0.4	3.2	2.1	0.7	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	0.4	0.4	0.4	0.4	0.4	0.4	0.1
RSF	0.0	1.6	2.3	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.3	2.1	1.8	1.6	1.3	1.1	0.8	0.6	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations (repurchases and charges) in percent of																												
Quota	15.0	28.8	18.0	7.0	3.5	31.2	54.0	28.1	3.5	3.5	3.5	7.6	10.3	10.5	10.2	9.9	9.6	9.3	9.0	8.7	8.4	3.9	0.9	0.5	0.5	0.5	0.5	0.1
GDP	0.2	0.3	0.2	0.1	0.0	0.3	0.4	0.2	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0
Exports of goods and services	0.4	0.7	0.4	0.1	0.1	0.6	1.0	0.5	0.1	0.1	0.0	0.1	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	0.0
Gross international reserves	1.0	2.1	1.2	0.4	0.2	1.5	2.5	1.3	0.2	0.1	0.1	0.3	0.4	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	0.0
Government revenue	0.5	1.0	0.6	0.2	0.1	0.8	1.4	0.7	0.1	0.1	0.1	0.2	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	0.0
External debt service, public	24.6	40.1	23.3	8.9	3.8	28.0	37.9	17.5	2.2	2.1	2.0	4.5	5.9	5.7	6.6	6.0	5.6	5.2	4.9	4.7	4.5	2.1	0.5	0.2	0.2	0.2	0.2	0.1
Fund credit outstanding in percent of																												
Quota	75.0	78.1	172.0	172.0	172.0	147.7	99.2	75.0	75.0	75.0	75.0	70.8	63.7	56.2	48.7	41.2	33.7	26.2	18.7	11.2	3.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0
GDP	0.8	0.8	1.6	1.6	1.5	1.2	0.8	0.5	0.5	0.5	0.5	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	2.0	1.9	3.9	3.6	3.4	2.8	1.7	1.2	1.2	1.1	1.0	0.9	0.8	0.7	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	0.0
Gross international reserves	5.2	5.6	11.0	9.9	9.0	7.1	4.6	3.4	3.3	3.2	3.1	2.8	2.5	2.1	1.8	1.5	1.2	0.9	0.6	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government revenue	2.7	2.6	5.5	5.2	4.9	4.0	2.6	1.8	1.8	1.7	1.6	1.4	1.2	1.0	0.9	0.7	0.5	0.4	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External public, debt	10.4	10.4	18.8	17.1	15.6	12.2	7.5	5.1	5.2	5.1	4.9	4.5	4.0	3.5	3.0	2.5	2.1	1.6	1.2	0.7	0.2	0.0	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	82.6
Gross domestic product (euro million)	9,680	10,305	10,916	11,588	12,294	13,029	13,801	14,637	15,516	16,447	17,433	18,479	19,588	20,763	22,009	23,330	24,730	26,213	27,786	29,453	31,221	33,094	35,079	37,184	39,415	41,780	44,287	46,944
Exports of goods and services (euro million)	3,837	4,320	4,592	4,947	5,314	5,649	5,988	6,348	6,729	7,132	7,560	8,014	8,495	9,004	9,545	10,117	10,724	11,368	12,050	12,773	13,539	14,351	15,212	16,125	17,093	18,118	19,205	20,358
Gross international reserves (euro million)	1,449	1,452	1,629	1,813	2,002	2,197	2,262	2,330	2,400	2,472	2,546	2,623	2,702	2,783	2,866	2,952	3,041	3,132	3,226	3,323	3,422	3,525	3,631	3,740	3,852	3,967	4,086	4,209
Government revenue (euro million)	2,860	3,094	3,267	3,462	3,669	3,885	4,079	4,283	4,497	4,722	4,958	5,206	5,467	5,740	6,027	6,328	6,645	6,977	7,326	7,692	8,077	8,480	8,904	9,350	9,817	10,308	10,823	11,365
External debt service, public (euro million)	62	74	81	83	96	117	150	170	163	174	184	178	184	193	163	172	179	186	194	194	194	194	194	194	194	194	194	194
Total external debt, public (euro million)	726	781	958	1,055	1,160	1,273	1,386	1,538	1,532	1,559	1,609	1,650	1,684	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711

Sources: IMF staff estimates and projections.

1/ Based on the projection as of April 10, 2025. 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 4.008 percent as of Apirl 10, 2025.

Table 9. Kosovo: SBA Quantitative Performance Criteria, 2024–25
(Millions of euros, unless otherwise indicated)

	2024						2025		
	Sept.			Dec.			Mar.		
	Indicative	Adjusted	Actual	QPC	Adjusted	Actual	Indicative	Adjusted	Actual
1. Quantitative performance criteria									
Floor on the overall balance of the general government 1/	-174	-149	268	-232	-189	-29	0	0	69
Floor on the stock of general government deposits at CBK	604	514	834	616	505	575	560	472	566
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	...	166	200	...	173	200	...	179

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.

Note: Specific adjustors for each QPC are defined in the Technical Memorandum of Understanding. The largest adjustment comes from unrealized budget-support loans included in the baseline.

Table 10. Kosovo: Prior Actions and Structural Benchmarks Under the SBA

		Target date	Status	Comments	Depth
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		Medium
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		Low
3	Government starts publishing annual fiscal risk analysis together with budget submission to Parliament.	November 2023	Met		Medium
4	Government approves new Customs Code.	June 2023	Met		High
5	Tax administration agency (TAK) adopts new action plan to reduce informality.	July 2023	Met		Low
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		Low
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	Met		Medium
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		Low
2	Finalization of draft Law on Banks in line with FSSR recommendations.	November 2023	Met		High
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		Medium
4	Submission to Parliament of Law on Banks in line with FSSR recommendations.	January 2024	Not met	Implemented in May 2024	High
5	CBK to develop a roadmap for SREP adoption.	February 2025	Met		Medium

Table 11. Kosovo: Reform Measures Under the RSF

	Measure	Target date	Status
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	Met with delay
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	Met with delay
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	Met with delay

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 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.

2/ RM2 was implemented with two months delay. This disbursement is expected to happen at the time of the last review.

Annex I. External Sector Assessment

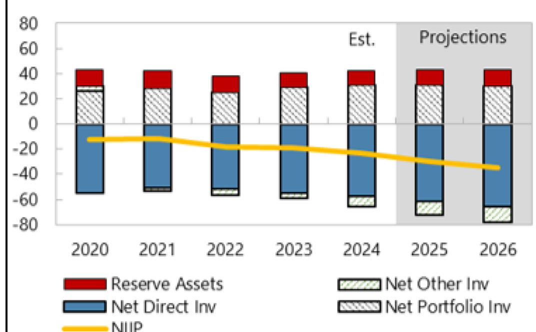
Overall Assessment: *The external position in 2024 was weaker than the level implied by fundamentals and desirable policies, based on the results of the IMF's EBA-lite current account model. The current account deficit widened in 2024, driven by higher imports and weaker remittances. The deficit was mainly financed by FDI in real estate and unrecorded travel credits and remittances (reflected in errors and omissions).*

Potential Policy Responses: *Structural policies—particularly those that enhance competitiveness, promote export diversification, reduce reliance on the diaspora, and curb informality—combined with sustained prudent fiscal policies, can help narrow the current account deficit over the medium term. As a unilaterally euroized economy, holding adequate reserves is crucial, and accumulating additional reserve buffers in the medium term is warranted.*

Foreign Assets and Liabilities: Position and Trajectory

Background. Kosovo's Net International Investment Position (NIIP) deteriorated by 4 ppt of GDP and stood at 23 percent of GDP in 2024, in line with the wider current account deficit and an increase in external liabilities. Gross assets increased to 77.5 percent of GDP in 2024 from 76.3 percent of GDP in 2023, whereas gross liabilities increased to 101 percent of GDP in 2024 from 95 percent of GDP in 2023. Net foreign direct investment stood at -58 percent of GDP and remained as the largest contributor to the negative NIIP. Net portfolio investment increased slightly from 29 percent of GDP in 2023 to 31 percent of GDP in 2024, whereas net other investment decreased to -8 percent of GDP in 2024 from -5 percent of GDP in 2023. Total external debt stood at 41 percent of GDP in 2024, an increase of 1 ppt of GDP from 2023.

Net International Investment Position
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

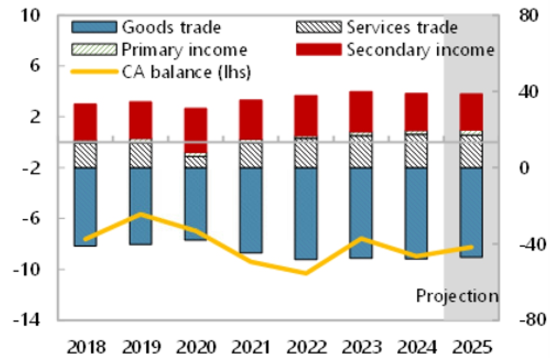
Assessment. The negative NIIP does not imply notable risks to the external sector sustainability. Public and publicly guaranteed external debt remained at around 9 percent of GDP, with almost all long-term maturity. Private short-term external debt stood at 15 percent of GDP, whereas private long-term external debt was at 8 percent of GDP and the private inter-company lending was at 9 percent of GDP, all manageable quantities. Moreover, the large share of FDI liabilities and long-term debt reduce the vulnerability to sudden capital outflows.[1]

2024 (% GDP)	NIIP: -23	Gross Assets: 77	Debt Assets: 32	Gross Liab.: 101	Debt Liab.: 41

Current Account

Background. Kosovo's current account deficit widened to 9 percent of GDP in 2024 from 7.6 percent in 2023, driven mostly by higher imports and weaker remittances. On average, the current account deficit was 8 percent of GDP between 2019–23. The goods trade deficit widened by 0.3 pp of GDP due to larger imports. Goods imports increased by 0.6 pp of GDP, driven by the increase in imports of food, capital goods including transport equipment, and other consumer good products. Exports of goods increased by 0.3 pp of GDP with higher exports of minerals and base metals, which offset a large decline in furniture exports. Nickel production, which resumed in June 2023 after a 20-month closure due to high electricity prices, continued and exporting activity resumed in 2024, with around €10 million of nickel exports. Mattress exports, which declined by 50 percent in 2023, declined by another 30 percent in 2024, mainly due to the antidumping duty order of the International Trade Commission of the US, one of the main export destinations for mattresses. The net balance of services improved by 0.6 ppt of GDP in 2024. Although services exports grew by 10 percent (2 ppt of GDP) in 2024 due to higher travel credits and exports of telecommunication and IT services, they were mostly offset by services imports, which increased by 17.5 percent (1.4 ppt of GDP), mainly reflecting the increase in imports of travel and transport services following the visa liberalization. The primary income balance remained unchanged compared to the previous year, standing at 2.1 percent of GDP, while the secondary income balance deteriorated by 1.7 percentage points of GDP compared to 2023, reflecting weaker remittances.

Contributions to the Current Account Balance
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

Assessment. Kosovo's external position in 2024 is assessed to be weaker than the norm implied by medium-term fundamentals and desirable policy settings. The current account model suggests that in 2024 the cyclically adjusted current account balance of -8.6 percent of GDP is more negative than the model-derived cyclically adjusted norm of -4.2 percent of GDP, yielding a current account gap of -4.3 percentage points of GDP, which is equivalent to a REER overvaluation of about 14.5 percent of GDP.[1]

EBA-Lite Model Estimates for 2024
(In percent of GDP)

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-9.0**	
Cyclical contributions (from model) (-)	0.0	
Natural disasters and conflicts (-)	-0.4	
Adjusted CA	**-8.6**	
CA Norm (from model) 2/	**-4.2**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-4.2**	
CA Gap	**-4.3**	**-5.9**
o/w Relative policy gap	3.9	
Elasticity	-0.3	
REER Gap (in percent)	**14.5**	**19.9**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Like in previous assessments, a significant portion of the current account gap is attributed to model residuals. These may mirror unaccounted factors, such as substantial errors and omissions in the balance of payments—2.4 percent of GDP in 2024—that mostly reflect unrecorded exports of services and remittances, signaling an overestimation of the size of the current account gap.

Real Exchange Rate

Background. The real effective exchange rate (REER) appreciated by around 1 percent on average in 2024 relative to 2023. The REER against CEFTA trade partners depreciated slightly by 0.2 percent, and the REER against the EU trade partners remained unchanged. The REER appreciation was mostly due to high inflation in Türkiye. During 2019–23, Kosovo's REER appreciated by 2 percent on average.

Assessment. The results from the IMF's REER model suggest a larger REER gap, but the short time series available for Kosovo (16 years) make conclusions from this approach less robust.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net capital outflows stood at 0.3 percent of GDP in 2024, down from 0.6 percent of GDP in 2023, below the five-year average of 0.4 percent of GDP between 2019–23. The current account deficit in 2024 was mainly financed by FDI, other investments, and unrecorded travel credits and remittances as reflected in errors and omissions. Net FDI inflows are estimated at 6.1 percent of GDP in 2024, down from 6.9 percent of GDP in 2023, reflecting a slowdown in inflows by 0.5 pp of GDP and an increase in outflows by 0.2 pp of GDP. Net portfolio investment showed net outflows estimated at 3.4 percent of GDP in 2024, mainly attributed to the increase in external investments by KPST and other depository corporations, given that domestic government bond issuance remained limited in 2024, like the situation in 2023. Net other investment showed net inflows reaching to 4.3 percent of GDP in 2024 up from 1.6 percent of GDP in 2023, reflecting net loan and deposit inflows. Errors and omissions amounted to 2.4 percent of GDP in 2024, reflecting unrecorded inflows of FDI, travel credits and remittances.

Assessment. The capital account is expected to remain stable over the medium term, whereas financial account is expected to narrow over time, in line with expected narrowing in CA deficit.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR)—mainly funded by commercial bank reserves and government deposits—increased slightly to €1.452 billion in 2024 from €1.449 billion in 2023. Government deposits, including ELA, RSF, PAK, and term deposits, increased by €63 million to €575 million by end-2024, while commercial banks' reserves increased by €66 million to €656 million. The deposits of the Kosovo Pension Savings Trust (KPST), which is the public entity managing individual pension accounts, temporarily increased in 2023 due to the absence of an active Board to make investment decisions. However, by the end of 2024, these deposits declined to €11 million as they went back to their more normal levels, down from €152 million in 2023. PAK deposits rose by €13 million, reaching a total of €179 million. GIR, using standard rules of thumb, are estimated to have remained broadly stable in 2024. Standard GIR remained stable at 2.2 months of (next year's) imports in 2024. Standard GIR averaged at 2.4 months of prospective imports between 2020–23. Over the medium term, Kosovo's GIR are expected to converge to around 2.3 months of next year's imports and to increase in percent of short-term external debt.

Assessment. GIR was 81 percent of the IMF standard RA metric at end-2024, down from 92 percent in 2023, with projections to rise to 86 percent in the medium term. In this euroized economy without a lender of last resort, reserve adequacy should be assessed by capacity to mitigate shocks to fiscal financing and for bank emergency liquidity assistance (ELA). Government deposits at the CBK (excluding PAK deposits) stood at €395 million at end-2024, up from €345 million at end-2023, covering 1.4 months of projected expenditures plus debt amortization, higher than suggested benchmark of one-month government spending proposed in IMF (2013).[2] In addition, PAK deposits at the CBK (€179 million as of end-2024) are also government assets. Banks' liquidity ratios are generally high and the largest banks may receive liquidity support from their parent groups in a liquidity emergency. While holdings of national government bonds, which may not be immediately tradable in case of substantial stress, could limit their response to a system-wide liquidity shock, their share in aggregate assets is relatively small. The prospective increase in the coverage of deposit insurance could further reduce the risks of bank runs.[3] The CBK's GIRs, excluding commercial banks' deposits, were 13 percent of banks' short-term liabilities (as of end-2024), sufficient to moderate liquidity shocks. Moreover, the CBK has extended €100 million repo line with the ECB through January 2027, and it is enhancing crisis preparedness, reviewing ELA size and strengthening deposit insurance financing.

[1] The EBA-lite methodology can be found at https://www.imf.org/en/Publications/Policy-Papers/Issues/2019/07/03/The-Revised-EBA-Lite-Methodology-47088.
[2] See IMF (2013) Republic of Kosovo: Selected Issues Paper.
[3] See IMF (2024) Republic of Kosovo: Selected Issues Paper.

Annex II. Risk Assessment Matrix

A. Global Risks (February 20, 2025)[1]

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
Conjunctural risks		
High **Trade policy and investment shocks.** Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**Medium** Higher trade barriers imposed to the EU countries are not expected to have direct impacts. However, indirectly it could reduce external demand, weaken remittance inflows, and disrupt FDI and supply chains, resulting in tighter financial conditions and higher inflation.	Strengthen European/regional integration and economic ties. Improve investment and business environment. Strengthen social assistance programs to mitigate the impact of rising prices on the most vulnerable.
High **Sovereign debt distress.** Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	**Medium** As a low-debt country, the direct effect of higher interest rates is expected to be limited. Shrinking development aid may reduce financing for social programs and infrastructure.	Focus on maintaining fiscal discipline, boosting revenues, and diversifying financing options to reduce reliance on aid or expensive borrowing.
Medium **Tighter financial conditions and systemic instability.** Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium** Tighter financial conditions and systemic instability could lead to weaker demand for credit and slower economic growth, increase NPLs and banking sector stress.	Continue monitoring closely banking sector developments, strengthening banking sector resilience, and enhancing financial supervision to prevent excessive risk taking. Increase reserve allocation to stand ready against shocks.

[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
Medium **Regional conflicts.** Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	Medium 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.
Medium **Commodity price volatility.** Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Medium 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.
Low **Global growth acceleration.** Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	Low A growth acceleration in Europe will support Kosovo's growth through increased consumption, investment, and higher diaspora flows, strengthening Kosovo's external inflows.	Accelerate broad-based structural reforms to boost competitiveness, expand renewable energy production, and increase domestic production.

Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
	Structural Risks	
High **Deepening geoeconomic fragmentation.** Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High** Worsening economic outlooks in Europe could weigh on economic growth and diaspora flows. Protectionism could lower the emigration and improve the domestic labor supply.	Accelerate broad-based structural reforms to boost competitiveness, expand renewable energy production, and increase domestic production. Encourage nearshoring investment by positioning Kosovo as an attractive location for regional supply chains. Promote job creation and skill development through investment friendly policies.
High **Cyberthreats.** Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**Medium** Cyberattacks could destabilize financial sector and disrupt payment systems.	Strengthen cybersecurity frameworks and resilience measures for financial institutions. Develop contingency plans and crisis management protocols to mitigate systemic risks.
Medium **Climate change.** Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium** Infrastructure damage could lead to costly repairs and service disruptions. Draughts or floods could reduce the agricultural production, driving up food prices. Repeated disasters could divert public and private savings toward recovery rather than investment, which would lead to lower GDP over time.	Identify high-risk zones for extreme climate events, develop public awareness, and encourage insurance for farmers and building owners. Develop contingency plans and crisis management protocols for extreme weather events.
Medium **Social discontent.** Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads 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.

B. Domestic Risks

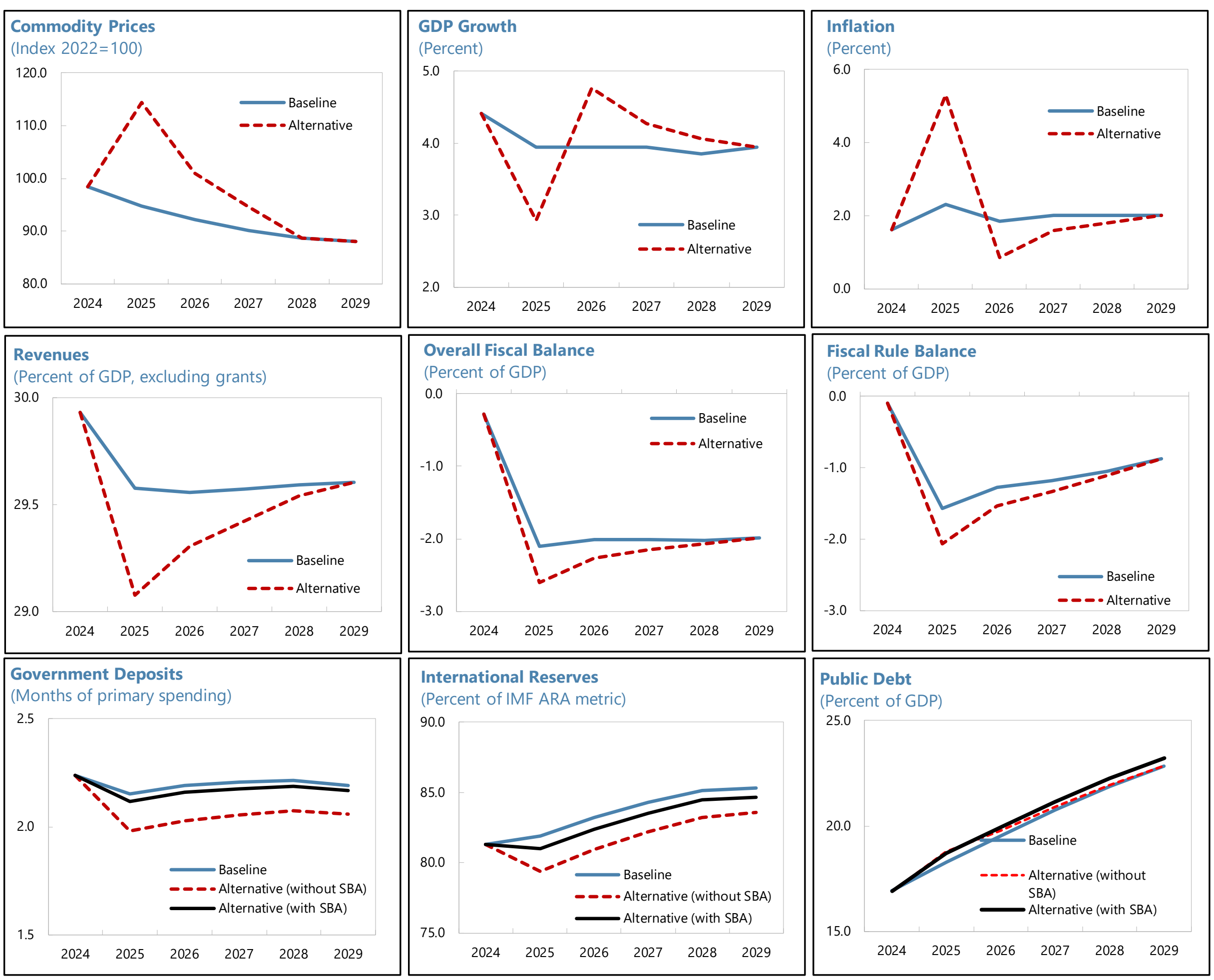
Source of Risks and Relative Likelihood	Expected Impact	Policy Responses
Geopolitical Risks		
High **Escalation of tensions in northern Kosovo.** Rising tensions in Kosovo's northern municipalities.	High An escalation of tensions in Kosovo's northern municipalities could delay progress in the dialogue 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
Political Risks		
High **Delays in formation of a coalition.** The formation of a coalition could take a long time due to polarization in the political environment.	High Delays in formation of a coalition could create greater uncertainty, hinder essential reforms, and ultimately result in a decline in domestic demand due to decreased investment.	Expedite coalition formation.

Annex III. An Illustrative Adverse Scenario

1. Kosovo, a net importer of energy and food, is exposed to commodity price shocks. A highly volatile external scenario could result in an uptick trend to commodity prices and a negative terms of trade shock for Kosovo.

2. To calibrate the possible impact of the shock, staff has prepared an illustrative adverse scenario. It considers an increase in international energy and food prices of 20 percent vis-a-vis the baseline. The scenario assumes that commodity prices begin to gradually ease, while staying higher than in the baseline until 2028.

3. Kosovo would be negatively affected in such a scenario, especially if the shock is compounded by an external financing shortfall. The terms-of-trade shock would lead to higher inflation, lower GDP growth, a widening output gap, lower fiscal revenues, and higher fiscal and external financing needs. Under such circumstances, Kosovo could access SBA financing—the SBA is currently treated as precautionary—to mitigate adjustment costs or protect financial buffers.



Annex IV. Country Engagement Strategy[1]

Kosovo has relatively high levels of economic development, macro-financial stability, and administrative capacity in comparison with fragile and conflict-affected states (FCSs) but lags other emerging European economies. To realize its EU accession goals, Kosovo needs to pursue an ambitious and comprehensive reform agenda to accelerate convergence towards European peers and overcome economic and social challenges. Reforms should aim at enhancing macro-financial stability, securing inclusive and sustainable economic growth, and strengthening institutions. The IMF is committed to support reform implementation through surveillance, capacity development (CD), and lending.

A. Background

1. Kosovo has achieved steady development, but significant challenges remain. Since independence in 2008, Kosovo has made considerable progress in establishing sound policy frameworks to safeguard macro-financial stability and in implementing institutional and structural reforms. These efforts have paid off, leading Kosovo to achieve strong growth and stand out from other FCSs (Annex IV. Figure 1). However, the progress could be faster if the EU-facilitated dialogue on normalization of relations with Serbia starts deliver tangible results. Kosovo also needs to focus on improving economic opportunities and strengthening its public institutions. In this context, low labor force participation, high unemployment and informality, and weak competitiveness are key challenges (Annex IV. Figure 2). Gender inequalities are also significant, with considerably lower female labor force participation. Kosovo's economy lacks competitiveness, illustrated by limited capacity to export goods and services and high reliance on remittances. Substantial improvements are required in policy frameworks for promoting social inclusion and equity, for addressing structural impediments to labor market participation, and strengthening access to finance, rule of law, regulatory frameworks, control of corruption, public investment management and public administration effectiveness (Annex IV. Figure 3). Stronger institutions would support implementation of reforms critical to deliver economic sustainability and promote equity. Kosovo is vulnerable to systemic liquidity risk, credit-driven boom/bust cycles, climate transition challenges, and political polarization.

B. Reform Priorities

2. Kosovo needs to implement an ambitious and comprehensive reform agenda to improve economic opportunities for its citizens. Progress in the dialogue with Serbia would help pave the way for EU accession. To overcome economic and social challenges, Kosovo needs to secure inclusive and sustainable growth, which would help create opportunities and quality jobs, reduce poverty, and improve well-being. This, in turn, requires macro-financial stability, effective public administration and good governance to foster an enabling business environment.

[1] The Country Engagement Strategy (CES) was prepared by IMF staff in line with the IMF's Policy Paper No. 2022/004 and in consultation with the authorities, as well as key partners such as the EU, UN agencies, the "QUINT" authorities (France, Germany, Italy, UK, US), and the World Bank.

Strengthening management of public finances would help mobilize more fiscal resources to enhance safety nets, improve human capital, and address infrastructure gaps.

3. **Policy frameworks should be further strengthened to enhance macro-financial resilience.** Maintaining fiscal discipline remains critical, partly because of Kosovo's unilateral use of the euro. Strengthening fiscal buffers, guided by sound fiscal rules, will bolster resilience. Greater fiscal transparency would help improve policymaking accountability and mitigate corruption risks. Strengthening the financial stability architecture for systemic risk oversight and crisis management, enhancing financial regulation and supervision, and upgrading the financial system safety net would reinforce the authorities' capacity to maintain financial stability. A holistic approach should be adopted to manage risks arising from excessive credit growth and possible systemic liquidity stress, supported by use of macroprudential measures and preparation of contingency plans.

4. **Strengthening competitiveness is key to securing inclusive and sustainable economic growth.** Kosovo needs to shift from remittance-financed, consumption-driven growth to a competitive export-oriented alternative, backed by investment in productive capacity and human capital. Economic prosperity should be shared more equally, supported by stronger safety nets, mitigating the risk of social discontent. Therefore, institutional and structural reforms are required to improve the business climate, enhance regulatory frameworks, reduce informality, cultivate human capital, boost labor market participation, close infrastructure gaps, enhance access to finance, and strengthen social protection. Addressing climate and environmental challenges—particularly by accelerating decarbonization—would help achieve economic sustainability.

5. **Stronger public institutions would contribute to rule of law, efficient delivery of quality public services, and effective management of public financial resources.** Actions are required on multiple fronts to (i) enhance the judiciary's integrity and efficiency, which would help ensure criminal justice and protection of economics rights, (ii) strengthen anti-corruption and AML/CFT efforts, (iii) improve dispute resolution mechanisms to support contractual enforcement, (iv) increase public administration effectiveness by maintaining capable civil servants, rationalizing the administrative structure, and digitalizing public services, (v) upgrade statistics capacity to improve transparency and support policymaking, (vi) enhance efficiency of tax and expenditure policies, (vii) strengthen revenue administration, and (viii) improve public financial management, particularly in the areas of public investment management and fiscal risk management.

C. Engagement Strategy

6. **The IMF's engagement strategy will center on advancing an ambitious and comprehensive reform agenda that helps Kosovo overcome challenges and achieve its growth and development objectives.** The IMF will focus on reforms that enhance macro-financial resilience, secure inclusive and sustainable economic growth, and strengthen public institutions. The Fund's policy advice and CD will be tailored, considering the authorities' institutional and technical capacity to implement reforms.

7. Surveillance will strive to inform the policy debate and support the authorities in designing and implementing reforms. The priority of IMF surveillance continues to be maintaining macro-financial stability, the foundation for economic sustainability and an anchor for other development partners to provide support. The IMF will pay increased attention to how Kosovo should develop and enhance its growth model, boost formal labor market participation, expedite climate transition, and address governance shortcomings.

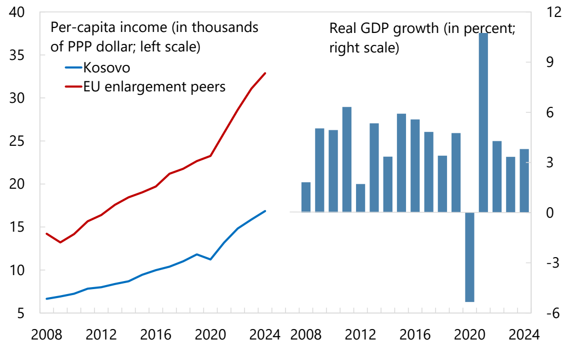
8. CD will support the authorities' efforts to strengthen policymaking and technical capacity. The CD strategy will adapt to relatively low absorption capacity, hampered by significant staff turnover. In close coordination with surveillance, the IMF's medium-term CD program will focus on: (i) fiscal governance (tax and expenditure policies), (ii) public finance capacity (revenue administration and public financial management), (iii) financial stability (systemic risk oversight, crisis management, and financial supervision), and (iv) statistics. Ad hoc technical assistance is envisaged to support the authorities in specific areas as needed. Establishment of a new IMF regional TA center for the Western Balkans and Moldova would provide a significant boost to CD delivery.

9. The IMF will continue working closely with other strategic partners to leverage technical expertise and maximize traction. Major partners are the World Bank and the EU; reform priorities advocated by international partners are largely overlapping (Annex IV. Table 1). In the context of EU accession, the EU puts an emphasis on rule of law and effective public administration. The World Bank's technical expertise, reform agenda, and financial support focus on human capital development, competitiveness, poverty reduction, social protection, and environmental management. Coordination with other CD providers is also important to avoid duplicating efforts and ensuring appropriate.

Annex IV. Figure 1. Kosovo: Economic Growth, Per-Capita Income, and Administrative Capacity

Kosovo has enjoyed robust growth since independence, with per-capita income relatively high among FCSs.

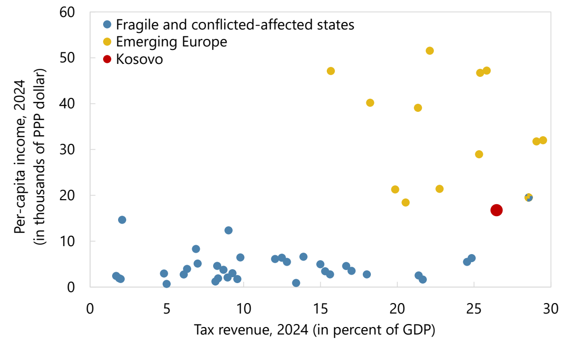
Real GDP Growth and Per-Capita Income



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Compared with FCSs, Kosovo has strong administrative capacity. However, it remains behind European peers.

Per-Capita Income and Administrative Capacity

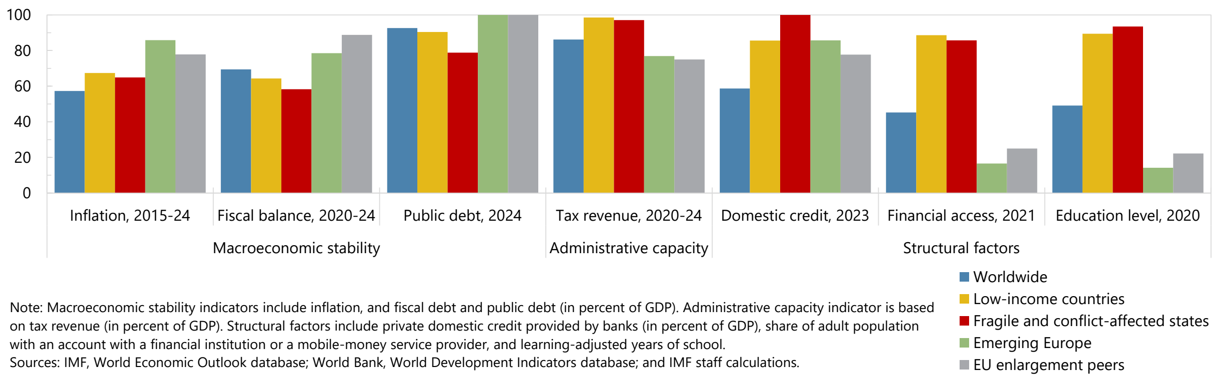


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Compared with FCSs, Kosovo performs well in terms of macroeconomic stability, administrative capacity, and structural characteristics such as financial deepening, financial access, and human capital.

Peer Ranking of Macroeconomic Stability, Administrative Capacity, and Structural Factors

Based on percentile ranking among peers; 100 = best

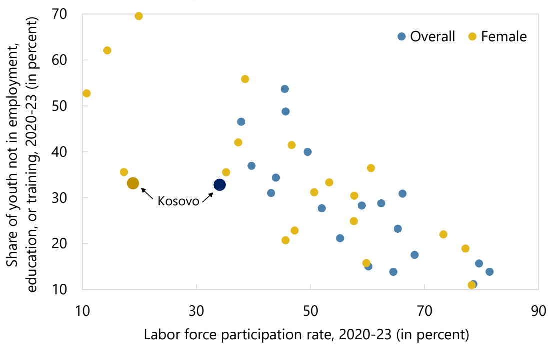


Note: Macroeconomic stability indicators include inflation, and fiscal debt and public debt (in percent of GDP). Administrative capacity indicator is based on tax revenue (in percent of GDP). Structural factors include private domestic credit provided by banks (in percent of GDP), share of adult population with an account with a financial institution or a mobile-money service provider, and learning-adjusted years of school.
Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators database; and IMF staff calculations.

Annex IV. Figure 2. Kosovo: Labor Market Participation and Economic Competitiveness

Labor market participation is very low, and gender gaps are significant, …

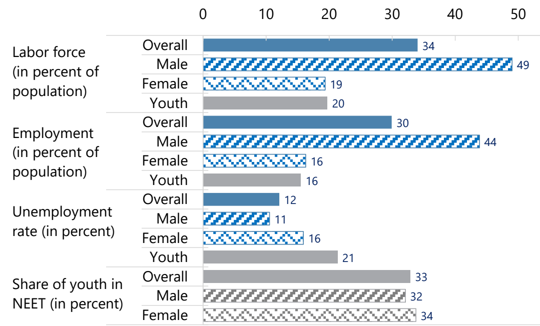
Labor Market Participation



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

…with a much lower female labor force participation rate. Though, gender gaps for youth population are limited.

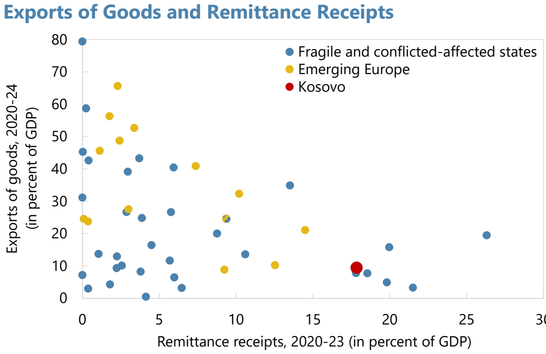
Labor Market Indicators, 2022



Note: NEET refers to youth not in employment, education, or training.
Sources: World Bank, World Development Indicators database; and IMF staff calculations.

The economy is not competitive, with a low level of exports of goods and heavy reliance on remittances.

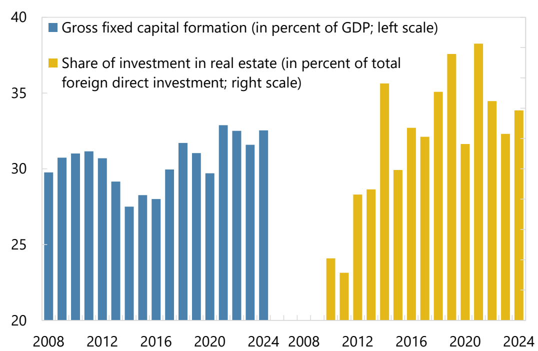
Exports of Goods and Remittance Receipts



Sources: IMF, World Economic Outlook database; World Bank, World Development Indicators database; and IMF staff calculations.

Investment is relatively high but may not go into productive sectors.

Investment



Sources: CEIC; IMF, World Economic Outlook database; and IMF staff estimates.

Annex IV. Figure 3. Kosovo: Public Institutions, Policy Frameworks, and Governance

Policy frameworks for promoting social inclusion and equity are relatively weak including among FCSs.

Quality of Policies for Social Inclusion/Equity, 2023

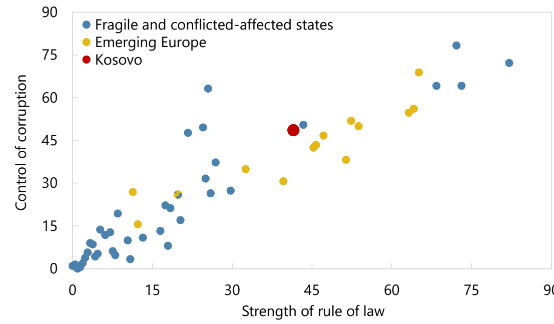
Percentile ranking among peers; 100 = best

Sources: World Bank, Country Policy and Institutional Assessment; and IMF staff calculations.

Compared with FCSs, Kosovo has relatively strong rule of law and better corruption outcomes, …

Rule of Law and Corruption, 2023

Based on worldwide percentile ranking; 100 = best

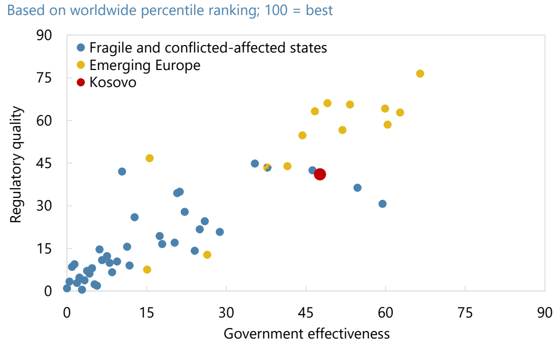


Sources: World Bank, Worldwide Governance Indicators database; and IMF staff calculations.

…as well as more effective public administration and higher regulatory quality. However, Kosovo generally lags European peers.

Public Administration and Regulatory Frameworks, 2023

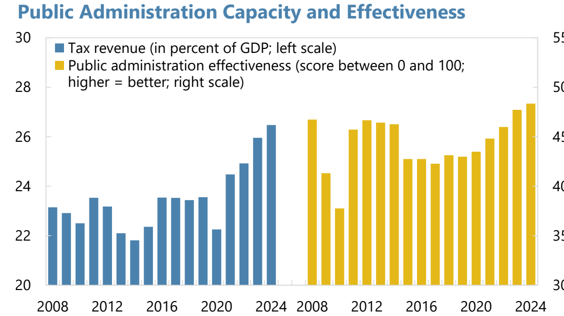
Based on worldwide percentile ranking; 100 = best



Sources: World Bank, Worldwide Governance Indicators database; and IMF staff calculations.

Kosovo has strengthened the administrative capacity and public administration effectiveness over time.

Public Administration Capacity and Effectiveness



Note: Public administration effectiveness is an aggregate of CPIA, WGI and Verisk indicators.
Sources: IMF, World Economic Outlook database; World Bankand, Country Policy and Institutional Assessment (CPIA) and Worldwide Governance Indicators (WGI) database; Verisk; IMF staff estimates.

Annex IV. Table 1. Kosovo: Comparison of Strategic Partners' Reform Priorities

	IMF	Authorities	European Union				World Bank	
	Capacity Development	National Development Strategy	Economic and Financial Dialogue	Economic Reform Programme	Reform and Growth Facility	Enlargement Policy	Systematic Country Diagnostic	Country Parnership Framework
Enhancing macro-financial resilience								
Enhancing fiscal resilience and governance	■	■	■			■	■	
Strengthening the financial stabiltiy architecture	■		■					
Enhancing financial sector oversight	■		■			■		
Strengthening financial safety net and contigency planning	■					■		
Enhancing the central bank's operations	■					■		
Securing inclusive and sustainable growth								
Improving the business environment								
Enhancing regulatory frameworks		■	■	■	■	■	■	■
Promoting trade and investment		■		■	■	■	■	
Reducing informality		■	■	■	■	■	■	■
Cultivating human capital		■	■	■	■	■	■	
Boosting labor market participation		■	■	■			■	■
Enhancing access to finance					■	■		■
Closing infrastructure gaps		■		■	■	■	■	
Strengthening social protection		■		■		■	■	■
Addressing climate and environmental challenges		■	■	■	■	■	■	■
Stregnthening public institutions								
Improving public administration effectiveness		■		■	■	■		
Strengthening the rule of law		■			■	■	■	
Upgrading the statistics capacity	■					■		
Enhancing the efficiency of tax and expenditure policies	■	■	■				■	■
Strengthening revenue administration	■					■	■	
Stregnthening public financial management	■	■	■		■	■	■	
Developing the domestic public debt market							■	

Note: For IMF, only capacity development engagement is showed as surveillance will cover all aspects. Financing support includes Reform and Growth Facility (European Union) and Country Partnership Framework (World Bank).

Appendix I. Letter of Intent

Republika e Kosovës

Republika Kosova - Republic of Kosovo

Prishtinë, April 30, 2025

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

Dear Ms. Georgieva:

As this final review of the Stand-By Arrangement (SBA) and the Resilience and Sustainability Facility (RSF) coincides with our government's four-year mandate, we are pleased to report significant achievements thanks to strong leadership, commitment, and reform efforts elaborated below. The support we have received from the IMF through these programs has played a critical role in maintaining macroeconomic stability, reducing inflation following the post-pandemic surge, and fostering economic growth. It has also helped rebuild fiscal buffers and advance key reforms aimed at promoting stronger and more inclusive growth over the medium term. The precautionary treatment of the arrangement ensured that we were well-prepared for any adverse economic developments. The RSF, approved concurrently with the SBA, has supported our green transition efforts in the context of our Energy Strategy.

The Fourth and final reviews conclude successful implementation of the IMF-supported programs. We met all end-December 2024 quantitative performance criteria by large margins. All indicative targets (ITs) were also met, and we continue to comply with the continuous performance criteria. We have implemented two structural benchmarks related to the Fourth review. At the end of January, the Ministry of Finance, Labor, and Transfers (MFLT) issued a ministerial decree to operationalize the liquidity committee to support cash forecasting. At the end of February, the Central Bank of Kosovo (CBK) developed a comprehensive roadmap for the adoption of the Supervisory Review and Evaluation Process (SREP), a new standard to assess the health and risk profile of financial institutions. In December, we implemented the remaining RSF reform measure (RM) on the launch of a 150MW wind power auction, albeit with a two-month delay caused by technical issues.

In view of strong policies implemented to achieve the program objectives, as well as the fulfillment of quantitative targets and all required structural reforms, we request the completion of the Fourth review under the SBA. Given our strong fundamentals, we will continue treating the SBA as precautionary, but we may purchase if external financing conditions change, or risks materialize. In light of completing the remaining RSF RM on the launch of the wind power auction, we also request the disbursement of SDR 7.744 million (approximately €9.48 million).

The attached Memorandum of Economic and Financial Policies (MEFP) provides a more thorough description of our achievements and details policies for the remainder of 2025 and medium term. While we believe that the measures and policies set forth in the 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. Timely information needed to monitor the economic situation and implementation of policies relevant to the program will be provided, as agreed under the Technical Memorandum of Understanding (TMU), or at the IMF's request.

In keeping with our longstanding commitment to transparency, we authorize to the publication of this letter and its attachments as well as the associated staff report, and the accompanying Executive Board documents.

Sincerely yours,

/S/
Hekuran Murati
Acting Minister of Finance, Labor, and Transfers

/S/
Ahmet Ismaili
Central Bank Governor

Attachments (1)

Attachment I. Memorandum of Economic and Financial Policies

1. The government of Kosovo has successfully implemented the economic reform program supported by the Stand-By arrangement (SBA) and the reform measures under the Resilience and Sustainability Facility (RSF). The SBA and RSF arrangements were approved by the IMF Executive Board on May 25, 2023. This memorandum outlines the progress toward meeting the objectives under the SBA and the RSF, as well as our expectations to continue progressing on these objectives after the program expires on May 24, 2025. Tables 1, 2, and 3 summarize performance to date, progress on structural benchmarks under the SBA, as well as progress on reform measures supported by the RSF arrangement.

2. Our economic reform program has aimed at securing macroeconomic stability, hedging against adverse shocks and implementing our climate reform agenda. In the aftermath of the pandemic, we requested Fund support to promote macroeconomic stability, mitigate downside risks, and accelerate the implementation of our reform agenda, focused on climate change mitigation and adaptation within the framework of our 2022–31 Energy Strategy. Our policies and reforms are anchored around three pillars: (i) strengthening progressivity and fairness in the tax system and improving the efficiency and effectiveness of public spending; (ii) improving the central bank governance and regulatory capacities while addressing financial vulnerabilities; and (iii) advancing structural reforms to address the implications of climate change. These pillars will continue guiding our policies over the medium term.

I. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

3. Growth remained strong while inflation fell sharply in 2024. Real GDP grew by 4.4 percent in 2024, the highest in the Western Balkans region. The increase in economic activity was strongly driven by private consumption (5.8 percent in 2024) on the back of substantial increases in real wages and growth in private sector credit. Increases in basic pensions and social benefits, which we announced in late 2024, also contributed to boosting consumption (see more below). The higher consumption led to higher imports, which, coupled with lower workers' remittances growth, resulted in an increase of the current account deficit from 7½ to 9 percent of GDP. Average inflation in 2024 fell to 1.6 percent from 4.9 percent in 2023. The year-on-year inflation has increased in the last few months but remains low at 1.7 percent in February 2025.

4. Labor outcomes remained strong in 2024, reflecting improving conditions. Amidst sustained economic growth, the number of workers in the formal sector in the second half of 2024 reached the highest level according to the last six years of Tax Administration of Kosovo (TAK) data. This growth occurred despite continued emigration, which has been identified as a key factor behind the shrinking working-age population in the 2024 census.

5. We continued implementing responsible fiscal policy while providing much-needed social support to the most vulnerable in our society. Strong revenue collection efforts have contributed to a general government deficit of just 0.3 percent of GDP in 2024, well below projections. This resulted in a further decline in the debt-to-GDP ratio from 17½ percent of GDP in

2023 to 16.9 percent of GDP in 2024—the lowest level since 2017. At the same time, treasury deposits at the Central Bank of Kosovo (CBK), which provide a critical safety cushion against shocks, have increased further to 5.6 percent of GDP from 5¼ percent of GDP at end-2023. Tax revenues as a percent of GDP continued to rise, exceeding 26½ percent of GDP in 2024, for a cumulative increase of 1¾ percentage points relative to 2022. This progress was possible without major tax policy changes largely reflecting efforts of the TAK to strengthen compliance and expand the formalization of the economy and efforts from law enforcement to fight smuggling, particularly in the north. On the expenditure side, we have allocated part of the additional revenues to increase basic pensions, in line with legal mandates to offset the rising cost of living, to reform child allowances that support larger families, and provide a €100 allowance for children and pensioners in December 2024. We also continued improving the execution rate of the public investment program, which reached 75 percent in 2024 compared to 69 percent in 2023.

6. Growth is expected to remain strong in 2025 despite heightened uncertainty. Trade restrictions in advanced economies and concerns over Europe's security situation could weigh on inflows from exports, capital, and remittances. Nonetheless, thanks in part to an expansionary fiscal stance in 2025, we expect the GDP growth rate at the same level as estimated during the formulation of the 2025 budget. It will be driven by household consumption—bolstered by higher wage and pension spending—as well as increased investments, including public infrastructure projects. A deceleration in consumption growth relative to 2024 is expected to temper import growth. However, slower growth in remittances and subdued export performance will likely prevent a marked improvement in external imbalances. Meanwhile, private sector credit is expected to continue growing but at a slower pace than in previous years, and banks must seek additional funding beyond deposits to support credit expansion.

7. The financial sector continued its robust growth in 2024. Our initiatives to enhance formalization in the labor market have led to greater financial inclusion and improved access to finance. As a result, real credit growth continued at double-digit rates and the real deposit growth rate also reached double digits. The banking sector maintained strong profitability, with non-performing loans (NPLs) averaging below 2 percent throughout the year.

II. PERFORMANCE UNDER THE SBA AND RSF ARRANGEMENTS

8. We have continued implementing the reform agenda committed to under the SBA. The end-December 2024 quantitative performance criteria (QPCs) on the general government balance and stock of general government deposits at the CBK were met with comfortable margins. Similarly, indicative targets (ITs) on the size of the unallocated budget reserves and the holdings of government securities by the CBK were also met. ITs for March 2025 have been fulfilled. The Ministry of Finance, Labor, and Transfers (MFLT) has issued a decision establishing a Liquidity Committee to advise on liquidity management operations based on its cash forecasting assessments (end-January structural benchmark). The CBK has developed a roadmap for the adoption of the Supervisory Review and Evaluation Process, SREP (end-February SB). We continue observing the continuous PCs on non-accumulation of external arrears, non-imposition/intensification of restrictions on the making of payments and transfers for current international transactions, non-imposition/intensification of restrictions of multiple currency practices (MCPs), non-imposition/intensification of import restrictions for BOP reasons, and no conclusion of bilateral payment agreements that are inconsistent with Article VIII obligations.

9. All reform measures (RMs) under the RSF arrangement have now been implemented. The only pending RM, concerning the launch of an open, transparent, and competitive tender for the construction and operation of a 150MW wind power plant was completed in December 2024, albeit with a two-month delay. Following the assessment of bidders' qualifications and their proposals, the awarding of the contract to the successful bidder is expected by September 2025. The operation will be procured as a Contract for Difference Power Purchase Agreement (PPA) with a duration of 15 years. Because of this procurement model, the project will not require direct financing from the budget as initially envisioned.

III. ECONOMIC POLICIES AND REFORMS UNDER THE SBA

A. Fiscal Policy

Budget 2025

10. The 2025 budget supports our key policy objectives to foster economic and social development while preserving macroeconomic stability and enhancing resilience to future shocks. The budget is consistent with our rules-based fiscal framework and the commitments under the IMF-supported programs. It provides for higher spending on pensions and social benefits to improve the well-being of the most vulnerable groups amid the rising cost of living, on child allowances to counter the adverse demographic trend from the declining fertility rates, on *Superpuna* program to enhance youth employment and integration into the labor market, and on public investments to close the large infrastructure gaps. We will continue increasing the execution rates of the public investment program by continued improvement in project management and prioritizing small new projects that can be rapidly implemented. Additionally, to retain and attract high-quality human capital in the public administration and support the strengthening of institutions, from the beginning of January 2025 we introduced a €55 monthly increase in salaries across all grade levels, with another €55 monthly increase planned from July 1. This uniform increase is progressive, implying a larger gain for those at the lower end of the pay scale.

11. The deficit for 2025 will be fully financed. About three-quarters of the projected 2.1 percent of GDP deficit in 2025 will be externally financed. A key source of foreign financing is the World Bank's budget support Development Policy Loan (DPL) of $100 million (0.9 percent of GDP), which is expected to be ratified by Parliament in the coming months. Debt issuance on the domestic market will be used to not only provide for deficit financing but also to accumulate additional treasury deposits at the CBK. The issuance of domestic securities has progressed well so far this year, with €60 million (0.6 percent of GDP) successfully placed as of March.

Medium-Term Policies and Structural Reforms

12. During the SBA, we adopted legislation to modernize tax administration, reduce loopholes, and increase tax collection. Additionally, in line with its strategic plan, the Tax Administration of Kosovo (TAK) has made progress in upgrading its compliance risk management techniques, using information from financial and tax databases to better identify tax evasion, and supporting further formalization of the economy. While the focus has been on enhanced revenue collection, in parallel, TAK has been delivering timely, convenient, and efficient services to all taxpayers. In the coming years, we will further enhance tax compliance and improve taxpayer services, including by continued investments in digital transformation and human resource capacity. Alongside revenue administration reforms, we recognize the need to review our tax policy to assess the benefits of tax expenditures and rationalize them. TAK has achieved a significant milestone with the publication of extensive microdata through its open data portal. This information includes not only tax collections but also labor market indicators such as employment, wages, and turnover, providing insights well ahead of the release of official labor force survey data. By making these databases publicly available, TAK has taken a bold step toward fostering greater accountability, enabling more comprehensive research, and building trust with stakeholders.

13. The process to improve the efficiency and effectiveness of government spending will continue.

- *Social Spending*. To provide timely protection for vulnerable groups against the large increase in the cost of living over the last few years, we have been expanding social spending. As such, we provided universal increases in benefits to families with children and pensioners in 2023–24. However, recognizing the need to prioritize social assistance to those most in need and in the most cost-efficient way, going forward, we will use information from the census and other sources to better identify eligible households, which should help improve the equity and adaptability of our social safety net. Additionally, through the introduction of new eligibility criteria, we aim to ensure that resources are effectively allocated, targeting those who require assistance the most. To this end, with support from the World Bank, we continue working toward reforming and expanding our flagship Social Assistance Program (SAS).

- *Public Investment*. Measures implemented under the SBA, such as incorporating expropriation costs into project budgets and allocating resources to cover input cost increases driven by higher inflation, have helped accelerate the execution of our public investment program. However, as highlighted in the recent IMF Public Investment Management Assessment (PIMA), there is significant scope for enhancing the public investment management. We recognize the need to improve the planning phase of the project cycle and strengthen the capacity of the MFLT that ensures its gatekeeping function.

14. We are committed to strengthening public healthcare services and plan to implement the new public health insurance reform in a fiscally sustainable manner. The Law on Public Health Insurance, approved by Parliament in December 2024, has been challenged in the Constitutional Court on procedural grounds. Once the Law is fully enacted, we will gradually introduce mandatory health insurance premiums starting first with public sector employees and the workers of large private companies, and subsequently expanding it to all employees. The contribution rate, currently proposed at 7 percent of gross income to be shared equally by the employer and the employee, will be set by the government and approved by Parliament through the annual budget process. However, the collection of premiums will be conditional on certain prerequisites being met, such as the list of basic health care services provided by the health insurance fund, prices for these services and co-payment and other cost-sharing arrangements. As such, we will ensure that the costs of healthcare services to be provided by the health insurance fund do not exceed expected revenues collected through health insurance premiums. In addition, we will continue with our efforts to enhance the infrastructure for the effective implementation of the new health insurance fund and are in the process of integrating several databases into a Health Information System. We will also ensure that TAK, which will be responsible for the collection of premiums, is adequately prepared. We believe that the implementation of this major policy initiative will help reduce households' large out-of-pocket payments and improve the quality and affordability of healthcare services for our citizens.

15. We are updating the fiscal framework to better anchor fiscal policies that deliver sustainable outcomes, support growth and social objectives, and enhance resilience to shocks. While the current framework has served Kosovo well in maintaining macroeconomic stability and resilience, we aim to update it to better align with Kosovo's development priorities and the EU integration objectives. We have embarked on revising the fiscal framework, as part of a broader reform initiative to review the Law on Public Financial Management and Accountability with technical support from the World Bank. Upgrading the Law, which was originally adopted in 2008, is needed to align several of its provisions with modern budget practices and EU standards. This reform also offers an opportunity to consolidate fiscal rules, which are spread across laws, in one place. We are cognizant that redesigning the fiscal framework requires a careful assessment of its ability to optimally support fiscal policy objectives. To this end, we will consider requesting technical assistance from the IMF's Fiscal Affairs Department (FAD) to help us better calibrate the rules.

16. We will build on achievements in strengthening fiscal transparency under the SBA.

- *Unallocated Reserves*. As part of the SBA, we have considerably reduced the size and have started disclosing the uses of unallocated reserves included in annual budgets through our quarterly reports. We see it as a fundamental part of our commitment to transparency and expect this practice to continue after the program expires.

- *Publicly Owned Enterprises.* As part of the program, we started the dissemination of quarterly and annual financial reports of publicly owned enterprises, and we expect this practice to continue to help increase transparency and support the efficient operations of these enterprises.

- *Fiscal Risks.* Since 2024, we have been producing a stand-alone Fiscal Risks Statement as part of the annual budget package. This statement currently covers fiscal risks related to government guarantees, expenditure arrears, publicly owned enterprises, Public-Private Partnerships (PPPs), and the financial sector. We are applying the Fiscal Risk Assessment Tool (FRAT) developed by the FAD which helps identify the scale and sources of Kosovo's fiscal risk exposures. Moreover, the Medium-Term Fiscal Framework (MTFF) now includes expanded coverage of risks associated with contingencies from domestic court rulings. Going forward, we expect our fiscal risk assessment to be refined with the aim to incorporate risks stemming from climate change, population aging, and natural disasters. Furthermore, we expect that intragovernmental coordination we be strengthened, particularly with the Attorney General's Office, to better monitor and manage risks arising from international arbitration cases.

17. We are taking further actions to improve public financial management.

- *Liquidity Management.* We have recently established the liquidity committee at the Treasury (SB for end-January 2025). The committee will meet regularly with a goal of producing rolling, short-term cash flow forecasts. We hope to receive continued support from FAD to strengthen the cash forecasting capacity at the Treasury.

- *Results-Based Budgeting.* Currently, the budgeting process remains predominantly incremental, with spending units basing allocations on past budgets rather than policy outcomes. Over the medium term, we expect a shift toward a results-based budgeting framework, where resource allocation is guided by expected outcomes and measurable performance indicators. This budgeting approach aims to enhance accountability, transparency, and efficiency in resource allocation by linking funding directly to the achievement of desired outcomes.

18. We recognize the criticality of maintaining adequate cash buffers as a safeguard against shocks. Since 2002, the euroization has been a cornerstone of Kosovo's macroeconomic stability, enhancing policy credibility, reducing financial stability risks, keeping inflation low, and facilitating deeper integration with EU. However, the absence of monetary policy tools places the whole burden of macroeconomic stabilization on fiscal policy during periods of economic uncertainty. Therefore, ensuring a sufficient level of cash buffers within the Treasury is essential to safeguard economic stability. In this context, we reaffirm that cash buffer management is a key pillar of our fiscal policy. At the end-2024, aggregate Treasury balances at the CBK stood at €575 million (5½ percent of GDP), providing a comfortable cushion against shocks. While these deposits include funds of the Privatization Agency of Kosovo (PAK)—an independent body established by law—these resources are considered public money and can be temporarily accessed by the Treasury to address urgent liquidity needs, subject to appropriate authorization. To further strengthen the safety net, we expect that additional options will continue to be explored, such as the recently renewed REPO line with the ECB (€100 million), which aims to alleviate liquidity needs in the event of market disruptions. Beyond ensuring adequate buffers, it is also critical to establish a comprehensive crisis management protocol, providing operational guidelines for key financial stability actors during times of economic stress.

B. Financial Policies

19. Reflecting financial deepening, the healthy growth in domestic credit continues, but we remain vigilant about potential risks. Real credit growth accelerated to 17 percent in 2024, up from 11 percent in 2023, driven by robust growth in lending to non-financial corporations (14 percent) and households (21 percent). This rapid credit expansion has been supported by increasing formalization of the economy, including higher formal salaries, greater financial inclusion, improved consumer confidence, declining lending rates, and a growing real estate market. Crucially, bank lending standards have remained broadly unchanged while banks continue to maintain a strong base of loanable funds owing to a strong increase in deposits (15 percent growth in real terms). Nonetheless, stiffer competition for deposits has led banks to offer higher interest rates, with the average effective deposit rate rising by 58 basis points during 2024. At the same time, the banking sector's exposure to real estate has reached a considerable level. Despite narrowing interest margins and rapid credit growth, banks' profitability remains solid, NPLs have declined further, and households' debt-servicing capacity remains broadly unchanged.

20. We are strengthening our capacity to monitor and assess systemic risk through enhanced data collection and analysis. We monitor bank deposits daily. To further improve risk assessment, we have developed new and more comprehensive reporting requirements, which will take effect in July 2025. These requirements will significantly improve data quality by addressing reporting issues, ensuring that critical information—such as borrower income—is updated annually, and requiring systematic reporting of information on unapproved loan applications. In addition, we continue to support the Kosovo Agency of Statistics (KAS) in developing a new residential property price index, which will fill an important gap in our monitoring system (see also the statistics section). Furthermore, we conduct quarterly bank lending surveys, which allow us to monitor lending standards, credit demand, and banks' willingness to lend. These surveys also give us the flexibility to introduce new modules to assess emerging risks and specific areas of concern.

Enhancing the Central Bank's Governance and Operations

21. We continue strengthening the CBK's governance. We recently completed an internal reorganization of the CBK, in line with the IMF's Financial System Stability Review (FSSR) recommendations and strengthened our human resources framework to attract and retain talent. As part of a bilateral cooperation agreement, the Central Bank of Malta's internal audit experts have conducted a governance audit of the CBK, which was completed in March 2025. In addition, we are conducting a Central Bank Transparency Code (CBTC) assessment, supported by IMF's Monetary and Capital Markets Department (MCM) technical assistance, with the completion of the review report expected at the end of July 2025. These assessments will inform amendments to the CBK regulations and will be potentially incorporated in the inventory of necessary changes to the CBK Law to address governance issues identified by the IMF's Safeguards Assessment and FSSR. The main objectives of amending the CBK Law are to rebalance responsibilities between the Governing Board and the Executive Board, strengthen the Governing Board's oversight roles, refine the appointment procedures for deputy governors and chief internal auditor, establish fallback mechanisms in case leadership positions become vacant, and explicitly define the CBK's macroprudential powers. We expect that the IMF's Legal Department's technical assistance will support the CBK in drafting the amendment of its law. We plan to submit the draft CBK law to the government by the end of 2025.

22. Central to our digitalization efforts is strengthening the CBK's cybersecurity. To this end, in addition to the Cybersecurity and Business Continuity division, we have created the Office of Chief Information Security Officer who directly reports to the CBK Governor. Drawing on the World Bank's cybersecurity assessment, we have developed a cybersecurity strategy and a detailed cybersecurity action plan for 2025–28. In addition, we are developing the information security policy and the cybersecurity risk management rules. To further enhance our cyber resilience, we will soon have technical assistance from MCM.

Enhancing Financial Regulation and Supervision

23. We continue strengthening the regulatory framework for the financial sector. Following the adoption of the Law on Crypto-Assets in November 2024, the CBK, in cooperation with TAK and the Financial Intelligence Unit, has started developing secondary legislation to regulate crypto-related activities. We hope to benefit from the review of the draft regulations by the MCM technical assistance before the regulatory mandate of the CBK on crypto-assets market begins. In December 2024, the Law of Banks was approved by Parliament but is under review by the Constitutional Court. Once enacted, the new Law will align Kosovo's bank regulatory framework more closely with EU standards. In addition, with support from the IFC, we are drafting a new Law on Nonbank Financial Institutions (NBFIs), which will strengthen the regulatory framework for lending, leasing, factoring, and foreign exchange operations. The Law will also require certain NBFIs to change their form of organization from non-profit to commercial entities (such as a limited liability or a joint-stock company), improving their corporate governance and market-based funding.

24. We will advance the work program to adopt the Supervisory Review and Evaluation Process (SREP) to enhance risk-based banking supervision. The three-year roadmap for the adoption of the SREP was approved by the CBK Governing Board and published in February 2025 (SB for end-February 2025). The near-term work program includes revising the draft SREP manual, classifying banks into buckets for differentiated supervisory intensity based on their systemic importance and risk profiles, developing the framework for key risk indicators, reviewing Internal Capital Adequacy Assessment Process (ICAAP) reports prepared by banks, and strengthening data collection and analytics capacity. After the full adoption, our banking supervision will become closely aligned with the EU framework with a greater focus on risks, which will, in turn, help enhance financial stability. Moreover, we are working on integrating technologies into supervisory activities, with the aim of increasing efficiency of supervisory processes and data collection from financial institutions. We are adopting two supervisory data reporting standards, in line with the EU framework: the Common Reporting (COREP) for information on regulatory capital and the Financial Reporting (FINREP) for balance sheets, income statements, asset quality, and other financial information. All banks are expected to start reporting the required data by the end of 2025.

25. We continue enhancing insurance regulation and supervision. In collaboration with the World Bank, we are reviewing the risk assessment methodology for the mandatory motor third-party liability (MTPL) insurance, with the objective of incorporating additional risk factors to better assess the risk profiles of insurers and calculate premiums. This approach aligns with a semi-liberalized model and will serve as a foundation for the full liberalization of the MTPL insurance market. The regulation on the determination of the premium structure for MTPL insurance will be revised in 2025. On the supervisory front, the CBK completed the revision of the risk-based supervision manual in 2024, with the support by MCM technical assistance. The updated supervisory guidance, including the early intervention framework, will be implemented this year. Furthermore, the CBK continues advancing efforts towards the implementation of IFRS 17, which is now scheduled to begin in 2026. With support from World Bank TA, a roadmap for implementing IFRS 17 accounting standards has been prepared. Regarding the pension fund sector, we expect to finalize the drafting of the new regulation for corporate governance soon, start reviewing the supervisory manual, and prepare for amendments to the Pension Law.

26. We have strengthened the AML/CFT framework. The amendment to the Law on AML/CFT was approved by Parliament in December 2024, but it has been sent to the Constitutional Court for review. This amendment will help align our legislation with the EU framework and FATF standards, including expanding the reporting requirements to include virtual asset service providers and strengthening the requirements on consumer due diligence and information associated with fund transfers. In addition, the Law on the Registry of Beneficial Owners entered into force in October 2024, establishing a centralized registry of beneficial ownership. The law requires all commercial entities and non-governmental organizations to disclose information on their ultimate beneficiaries. The CBK will continue enhancing risk-based AML/CFT supervision of financial institutions.

Operationalizing Macroprudential Policy

27. We plan to review the macroprudential policy framework to ensure effective implementation of macroprudential measures. The review will inform necessary changes in the CBK Law to ensure a robust legal foundation for the CBK to conduct macroprudential policy effectively. The implementation of key capital-based measures is progressing well. These macroprudential measures include the countercyclical capital buffer (CCyB), with a positive neutral rate of 2 percent, and the capital surcharges for other systemically important institutions (O-SIIs) ranging between 0.5–1.5 percent. All banks are expected to meet the higher capital requirements by July 2025, including through additional capital injections and/or issuance of subordinated debt. The CBK is also developing its technical capacity to calibrate borrower-based macroprudential measures, including limits on loan-to-value, debt-to-income, and debt service-to-income ratios, using data from its credit registry. In addition, the CBK is upgrading its systemic risk monitoring and assessment functions, with a focus on improving its capacity for macro-financial modeling and liquidity stress testing.

Strengthening Crisis Preparedness and Financial System Safety Net

28. We continue strengthening crisis preparedness and reinforcing liquidity backstops. We will strengthen the crisis management arrangement by reviewing and updating the roles and responsibilities of the members of the Financial Stability Committee—originally defined in a 2019 memorandum of understanding (MOU) between the CBK and the MFLT. The extension of the €100 million ECB repo line until January 2027 is important to ensure that the CBK can efficiently obtain necessary liquidity in times of stress to safeguard financial stability.

29. We are strengthening the emergency liquidity assistance (ELA) framework. As part of the ongoing review of the ELA framework, the CBK will update the ELA regulation, with a focus on solvency assessment criteria, restrictions on the activities of banks receiving ELA, and collateral eligibility and haircut rules. The CBK also plans to establish a Committee for the Supervision and Coordination of ELA Implementation, update internal procedures for providing ELA, and develop a communication strategy. Going forward, we will conduct a broader review of the approach to manage systemic liquidity situations, including the capacity of the CBK and the government to provide ELA, as well as banks' own ability to obtain liquidity, including from their parent institutions.

30. We plan to increase the coverage of deposit insurance to further bolster public confidence in the banking sector. The Deposit Insurance Fund of Kosovo (DIFK) plans to increase the deposit insurance limit per depositor per bank, aligning the coverage more closely with European peers relative to per-capita income. The government intends to support this increase by providing the DIFK with $25 million funding, financed through a World Bank loan. This will help to maintain the DIFK's funding ratio above 5 percent of insured deposits, in line with the statutory funding target. Going forward, we will review the adequacy of DIFK funding within the broader context of operationalizing the bank resolution framework. Meanwhile, the DIFK has introduced a risk-based premium system, increasing the premium rates range to between 0.75–1.5 percent, effective January 2025. In addition, the DIFK plans to reduce the compensation payout timeframe from 30 to 7 days and enhance its operational readiness for timely compensation payouts.

31. We are actively developing the bank resolution framework. The recently adopted Law on Banks establishes the bank resolution framework and provides four resolution tools, in line with the EU framework. These include the sale of business, bridge institution, asset separation, and bail-in. The CBK, the designated resolution authority by the law, plans to operationalize the resolution framework, including advancing the work on recovery and resolution planning, setting up the resolution fund, and developing relevant regulations and internal procedures.

Improving Financial Inclusion and Payment Systems

32. We continue our efforts to promote financial inclusion and digital payments. In 2024, the number of persons with a bank or e-money account increased by 2.4 percent. The settlement via the Kosovo Interbank Payment System (KIPS) increased by 16 percent in value terms, reflecting the advancement of infrastructure and the increase in financial transactions. Furthermore, the number of electronic payment transactions increased by 35 percent, reflecting the public trust and willingness to use digital payments. In addition, we have taken steps to promote financial inclusion throughout the country, including our towns located in northern Kosovo. Following the efforts to enforce the use of the euro as the legal tender nationwide, the CBK has encouraged commercial banks to open more branches to serve clients in northern Kosovo. At the end of 2024, there were 12 branches of six banks operating in northern Kosovo, eight more than a year ago. These branches provide banking services free of charge to improve financial inclusion and access to finance among our citizens residing in this region, while also providing opportunities for receiving payments from abroad.

33. We have taken all necessary steps for Kosovo's accession to the Single Euro Payments Area (SEPA). In December 2024, the CBK submitted the SEPA pre-application to the European Commission's Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) after the passage of relevant laws in the Parliament, which later were challenged in the Constitutional Court, and the adoption of relevant regulations by the CBK. The pre-application enables the DG FISMA to conduct an assessment and provide comments and recommendations before the final application is submitted to the European Payments Council. Moreover, in January 2025 the CBK joined a project initiated by the Bank of Italy to create an instant payments system for the Western Balkans. The project, known as TIPS Clone, will provide a single infrastructure for Albania, Bosnia and Herzegovina, Kosovo, and Montenegro and will become operational within 18 months. Furthermore, once Kosovo gains a SEPA membership, instant payments will also be integrated with other countries in the Euro system.

IV. REFORMS UNDER THE RSF ARRANGEMENT

34. We remain committed to accelerating the transition to a low-carbon economy and to climate adaptation. Kosovo is vulnerable to climate risks, including forest fires, floods, landslides, earthquakes, droughts, and heatwaves. To provide a framework for our climate agenda, in December 2023 Parliament enacted the Law on Climate Change. Based on it, we have agreed with the Energy Community on an 8.95 MtCO2eq target for 2030, representing a 16 percent reduction in our greenhouse footprint. We are aware that reaching this target hinges critically on our capacity to reduce our dependency on lignite-based electricity generation. Our 2022–31 Energy Strategy also contains elements of our climate targets focusing primarily on energy efficiency and the promotion of renewable-based generation (cover at least 35 percent of electricity consumption by RES).

35. RSF RMs have been instrumental in supporting our ambitious climate agenda. Several RMs implemented have contributed to progress towards our targets:

- Two new power plants, one with 100MW of photovoltaic (PV) energy and other with 150MW of wind energy will be built and operated via PPAs. The PV auction was successfully concluded, and the wind auction is ongoing. Once operational, they will double our renewable generation capacity. In addition to RSF supported projects, there are three other large RES projects with the combined capacity of about 400MW.

- The integrated electricity market between Albania and Kosovo (ALPEX) is now fully operational. Since February 2024, ALPEX is functioning in the Kosovo bidding zone (BZ) for the day-ahead market. As of February 2025, the power exchange has 38 members, 24 in the Albania BZ and 14 in the Kosovo BZ. In a remarkable milestone, since December 2024 ALPEX is implementing the Complementary Regional Intraday Auction (CRIDA).

- In line with the CBK's instructions, banks are providing quarterly reports on exporting firms that may be exposed to transition costs related to the EU's Carbon Border Adjustment Mechanism (CBAM). Relatedly, with technical support from the FAD, we have developed the capacity within the Ministry of Environment and Spatial Planning to analyze the impacts of CBAM using the IMF's Climate Policy Assessment Tool (CPAT).

36. The Kosovo's Energy Efficiency Fund (KEEF) has continued implementing programs to increase energy efficiency. With the EU's Instrument for Pre-accession Assistance (IPA) funds, KEEF is supporting measures to improve energy efficiency in residential properties of the vulnerable families and public buildings. Recently a new €86 million operation has been launched with funding mainly from the EBRD, the government of Kosovo, the EU, and the Danish Fund for Kosovo. This funding will allow KEEF to continue investing in energy efficiency measures in up to 400 public buildings at both central and municipal levels. The new Energy Efficiency Law is expected to be approved this year, and KEEF has already started developing secondary legislation. This new law will ensure a smooth procurement process for energy efficiency projects, shortening the process, which can take up to 18 months.

37. We plan to use the RSF resources to continue advancing towards our climate targets. The annual budget law earmarks all RSF-disbursed resources for expanding RES capacity. While initially we intended to use these funds to cover the state's stake in the wind power project initiated recently, this was ultimately unnecessary as the project will be fully privately funded. We are currently assessing alternative uses of these resources to continue implementing our green agenda. Potential allocations include funding energy efficiency projects or complementing the EU financing for the filter replacement in the Kosovo B power plant, which will reduce dust emissions about 35-times and NOx emissions four times.

V. STRUCTURAL REFORMS

38. We are committed to implement structural reform measures based on the EU Reform and Growth Facility for the Western Balkans (EU Growth Plan). Kosovo can benefit from financing in an amount of €883 million, €253 million of which is in grants, with the remaining in loans. In October 2024, the government adopted the reform agenda under the EU Growth Plan. As a next step, the government will sign the loan and facility agreements upon the Parliament's approval. This will enable Kosovo to receive pre-financing of up to 7 percent of total financing, subject to preconditions, including upholding democratic mechanisms, respecting human rights, engaging constructively to normalize relations with Serbia, and maintaining macro-financial stability. Under the EU Growth Plan, we are committed to undertake the reform agenda consisting of five core areas, including (i) improving governance, public administration effectiveness, and public finance management, (ii) advancing the green and digital transformation, (iii) promoting private sector development and improving business environment, (iv) fostering human capital development, and (v) strengthening rule of law and fundamental rights. We believe that implementing this reform agenda will help boost economic growth, strengthen regional stability, and contribute to speeding up the EU accession process.

39. We continue improving the business climate and supporting small businesses. As outlined in the National Development Strategy 2030, strengthening the rule of law, enhancing the regulatory frameworks, improving the quality of human capital, upgrading infrastructure, and increasing public administration effectiveness are key to foster private investments. Furthermore, to support SMEs, we aim to align our legislation with the EU directive on combating late payment in commercial transactions by mid-2025 to foster a culture of prompt payment and reduce cash flow disruptions for these companies. The government also proactively supports private sector development. The Kosovo Credit Guarantee Fund has increased assistance for SMEs and micro enterprises, including start-ups and women-owned businesses. As part of the EU Growth Plan, we plan to establish the State Aid Commission, adopt a new Law on Innovation and Entrepreneurship, and align the business bankruptcy regime with the EU directives in 2025. Regarding transport infrastructure, we expect that the e-tolling system will be implemented on main roads and road and railway safety improve with a World Bank-supported project to expedite movements of goods and promote regional trade.

40. **We are determined to continue making meaningful progress in the fight against corruption.** We are in the process of developing a new national strategy and a medium-term action plan for the fight against corruption. Following the doubling of the budget resources for the Agency for Prevention of Corruption (APK) in 2025 (relative to 2023), we are enhancing its capacity to effectively oversee the asset declaration process, conduct risk assessment analysis and implement integrity plans. The APK has recently launched an online portal for citizens to report corruption cases involving public officials.

41. **We are implementing comprehensive reforms to foster digital adoption and strengthen the government's own digitalization efforts.** The Digital Agenda of Kosovo 2030, adopted in 2023, sets ambitious targets, including the achievement of the nationwide 5G coverage and the complete digitalization of core public services. Our near-term reform agenda will focus on ensuring the cybersecurity compliance of the 5G networks with the EU framework, developing the digital identity wallet in line with the EU framework, and advancing the government's digital transformation. We aim at enhancing interoperability of government platforms and upgrading the e-Kosovo portal serving as a one-stop window to provide seamless access to public services.

VI. STATISTICS

42. **We recognize the crucial importance of economic statistics in the design and calibration of effective policies.** We will request IMF's support to provide comprehensive diagnostics on compliance with best international practices in the production and dissemination of macroeconomic statistics through the Data Module of Report on Standards and Codes (Data ROSC). The Data ROSC will guide future reforms and sharpen efforts to improve quality of official statistics and increase transparency and trust in all agencies responsible for the compilation of statistics. In this vein, the Kosovo Agency of Statistics (KAS) is improving the reliability and coverage of national accounts data by closing gaps identified through the recent TA of the IMF's Statistics Department (STA). Initial results of the 2024 population and housing report were released in December 2024 and further reports are planned for release during 2025. KAS published a roadmap of the new Property-Price Index (PPI), with STA support, and plans to start publishing the index in Fall 2025. Given the financial sector's growing exposure to the real estate market, the PPI 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.

VII. PROGRAM MONITORING

43. Monitoring. Program implementation has been monitored through quantitative performance criteria, indicative targets, two continuous performance criterion, prior actions, structural benchmarks, and RSF reform measures. The program featured reviews every six months. The quantitative performance criteria, and indicative targets, along with continuous quantitative performance criteria, and other indicative targets, are set out in Table 1. The SBA prior actions and structural benchmarks are set out in Table 2. RSF reform measures are set out in Table 3. The definitions and methods required to assess program performance are set out in the TMUs accompanying the program request (May 2023), First Review (November 2023) and Second Review (June 2024). These definitions remain valid for this review.

44. IMF consultation clause. Throughout the implementation of the programs, we had benefited from regular consultations with the IMF staff, in accordance with the IMF's policies on such consultation to ensure consistency with the program's objectives and commitments.

Table 1. Kosovo: Quantitative Performance Criteria and Indicative Targets

(Cumulative from the beginning of the year, in millions of euros, unless otherwise noted)

	2024						2025		
	Sept.			Dec.			Mar.		
	Indicative	Adjusted	Actual	QPC	Adjusted	Actual	Indicative	Adjusted	Actual
1. Quantitative performance criteria									
Floor on the overall balance of the general government 1/	-174	-149	268	-232	-189	-29	0	0	69
Floor on the stock of general government deposits at CBK	604	514	834	616	505	575	560	472	566
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	…	166	200	…	173	200	…	179

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	Depth
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		Medium
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		Low
3	Government starts publishing annual fiscal risk analysis together with budget submission to Parliament.	November 2023	Met		Medium
4	Government approves new Customs Code.	June 2023	Met		High
5	Tax administration agency (TAK) adopts new action plan to reduce informality.	July 2023	Met		Low
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		Low
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	Met		Medium
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		Low
2	Finalization of draft Law on Banks in line with FSSR recommendations.	November 2023	Met		High
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		Medium
4	Submission to Parliament of Law on Banks in line with FSSR recommendations.	January 2024	Not met	Implemented in May 2024	High
5	CBK to develop a roadmap for SREP adoption.	February 2025	Met		Medium

Table 3. Kosovo: Reform Measures Under the Resilience and Sustainability Facility Arrangement

Measure		Target date	Status
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	Met with delay
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	Met with delay
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	Met with delay

Statement by Mr Yigit Korkmaz Yasar, Executive Director for Republic of Kosovo and Mr. Hajdar Korbi, Advisor to the Executive Director
May 19, 2025

On behalf of the Kosovo authorities, we thank Mr. Amaglobeli and his team for the productive discussions and the well-structured comprehensive report. Given the strong fiscal outcome, the authorities will continue to treat the SBA as precautionary.

The fourth and final reviews of the Stand-By Arrangement (SBA) and Resilience and Sustainability Facility (RSF) confirm the successful completion of both programs with all PCs, ITs and SBs met. Over the past two years, these programs have supported key reforms and delivered significant results, including advancing fiscal consolidation, strengthening financial sector resilience, and promoting the green transition. While the programs conclude, the authorities remain firmly committed to continued reforms. Following the February general elections, efforts to fully constitute the new Assembly are underway, which is a prerequisite for the formation of the new government.

Kosovo's sustained reform commitment delivered strong results in 2024. Economic growth is estimated to have reached around 4.5 percent—the highest in the Western Balkan region—while inflation stabilized below 2 percent. Growth was driven by robust household consumption, rising wages, expanded private credit, and stronger real estate and public investment activity. Although exports of goods and services increased, strong import growth widened the current account deficit, resulting in a negative contribution from net exports. Labor market conditions improved, with declining unemployment, higher labor force participation, and rising wage earnings. These results mark the fourth consecutive year of strong performance, reflecting the consistent commitment to reform implementation.

The medium-term outlook remains positive, though external risks persist. The authorities expect growth to accelerate to over 5 percent in 2025 and 2026, compared to Fund staff's projection of around 4 percent. This increase in economic activity is expected to be driven by private consumption, increased public and private investment, and stronger exports. Lending to the private sector will be an important source of funding for the aggregated demand. Inflation is projected to stabilize near 2 percent; however, this will depend largely on the global commodity prices. Equally, current account dynamics will largely depend on the development of commodity prices.

Overall, risks remain tilted to the downside, with external vulnerabilities—stemming from regional developments, global market conditions, and trade dynamics—posing the main concern. On the upside, stronger progress in EU integration and accession could help anchor and advance reforms, mobilize additional foreign financing and accelerate growth.

Effective and targeted measures further strengthened fiscal consolidation. Tax and non-tax revenues rose due to effective policy and administrative measures, including the adoption of a new Customs and Excise Code, the Law on Tax Procedures, and efforts to curb smuggling and noncompliance. Investments in human resources, digital systems, and e-services further enhanced efficiency. On the expenditure side, capital investment execution improved, and the social safety net was strengthened with a means-tested electricity subsidy and increased support for vulnerable groups. Fiscal transparency was enhanced through quarterly SOE reporting, inclusion of a fiscal risk report in the annual budget, and greater oversight of unallocated reserves. As a result, the budget deficit remained well below the 2 percent ceiling, and public debt declined to under 17 percent of GDP.

Building on this progress, the 2025 budget adopts a mildly expansionary stance, introducing a cost-of-living adjustment for pensioners and a wage increase—via a one-unit rise in salary coefficients—favoring lower-paid employees, while maintaining a pro-growth composition with increased capital spending. In the medium term, stronger economic activity and continued policy and operational reforms are expected to drive further growth in tax revenues, with direct taxes growing faster and reinforcing the shift from border to internal collection. On the expenditure side, the authorities remain committed to prudent fiscal management and full adherence to budget rules. While spending is set to rise—mainly due to higher capital investment execution—the deficit is projected to remain below 2 percent of GDP.

Financial sector performance was strong, contributing to greater resilience. Prudential indicators remain robust, supported by strong capital buffers, adequate liquidity, and improved profitability. Private sector lending rose significantly—mainly driven by household credit—fueled by lower interest rates and increased financial inclusion, while non-performing loans remained low. To further strengthen resilience and ensure banks can absorb future shocks, the CBK introduced a countercyclical capital buffer and capital surcharges for systemically important institutions; banks are on track to meet the enhanced capital requirements. In response to continued growth and financial deepening, the CBK adopted a three-year roadmap for implementing the Supervisory Review and Evaluation Process (SREP), which will strengthen risk-based supervision and improve credit registry reporting. On financial inclusion and digitalization, Kosovo submitted its SEPA pre-accession application and is making rapid progress in upgrading its infrastructure to support SEPA readiness. Implementation of the approved AML/CFT law will further reinforce the integrity of the financial system.

Looking forward, the authorities remain committed to advancing financial sector reforms aimed at deepening financial inclusion, promoting digital banking, supporting innovation and enhancing risk management to support quality growth and preserve soundness indicators.

Kosovo has made tangible progress in implementing structural reforms to support sustainable growth and advance EU integration. Efforts to improve the business climate, reduce informality, and attract investment—alongside steps to strengthen governance, enhance judicial efficiency, and modernize public administration through digitalization and human resources reforms—have already yielded results. Measures to narrow the gender gap have also advanced. Guided by reforms under the RSF, Kosovo has made considerable progress on green transition, by expanding renewable energy capacities, enacting legislation to attract private investment, improving energy efficiency, and deepening regional energy integration. Also, preparation of the EU's Carbon Border Adjustment Mechanism is underway, and climate commitments have been formalized.

Looking ahead, the authorities remain firmly committed to advancing structural reforms to ensure long-term economic resilience, social inclusion, and continued progress toward EU accession. Priorities include further improving the business environment, strengthening institutions, enhancing public service delivery, and promoting sustainability. Ongoing and future reforms will focus on deepening governance and judicial effectiveness, expanding green investments, fostering human capital, and narrowing social and gender gaps to build a more inclusive and competitive economy.