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# Labor Market Integration and Migration

Republic of Kosovo

Stephen Ayerst

SIP/2025/001

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on December 4, 2024. This paper is also published separately as IMF Country Report No 24/365.

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Prepared by **Stephen Ayerst**

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**ABSTRACT:** This paper highlights recent trends in the Kosovo labor market and emigration. Like other Western Balkan countries, Kosovo experienced a sharp decline in population over the previous decade, as emigration increased. Using a structural model of the labor market and migration, the paper examines the potential impact of further EU integration. While lower migration costs hurt the economy, productivity convergence brought on by EU integration has an offsetting impact by increasing wages, lowering unemployment, and increase immigration. Policy simulations show that policymakers have a diverse set of tools—including structural reforms, active labor market policies, business support, and labor participation support—to boost potential and support the labor market.

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SELECTED ISSUES PAPERS

# **Labor Market Integration and Migration**

Republic of Kosovo

Prepared by Stephen Ayerst



# REPUBLIC OF KOSOVO

## SELECTED ISSUES

December 4, 2024

Approved By  
European Department

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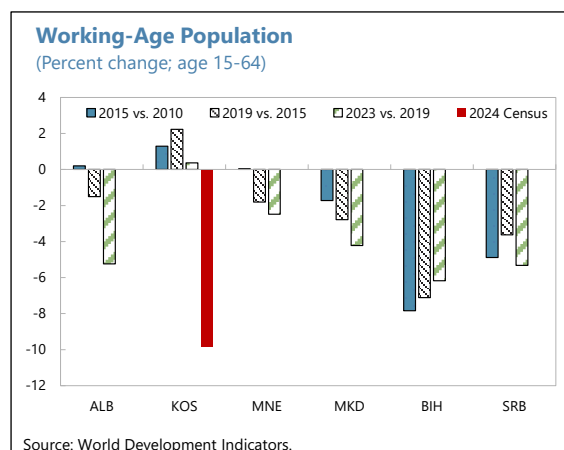
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# LABOR MARKET INTEGRATION AND MIGRATION<sup>1</sup>

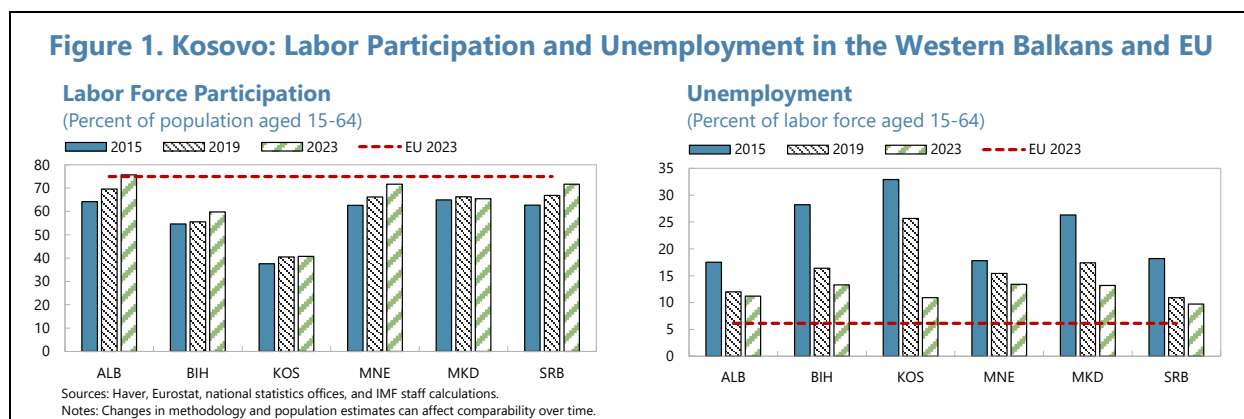
*This paper highlights recent trends in the Kosovo labor market and emigration. Like other Western Balkan countries, Kosovo experienced a sharp decline in population over the previous decade, as emigration increased. Using a structural model of the labor market and migration, the paper examines the potential impact of further EU integration. While lower migration costs hurt the economy, productivity convergence brought on by EU integration has an offsetting impact by increasing wages, lowering unemployment, and increase immigration. Policy simulations show that policymakers have a diverse set of tools—including structural reforms, active labor market policies, business support, and labor participation support—to boost potential and support the labor market.*

## A. Introduction

**1. An emigration-induced decline in the working age population and a low labor force participation rate are two important challenges facing Kosovo.** Preliminary information from the recently conducted census points to 10 percent decline in population since 2012, aligning Kosovo more with trends in other Western Balkan countries (figure). Emigration is the key reason behind a significant decline in population. Around one-third of people born in Kosovo live abroad, making Kosovo a country with one of the highest emigration rates globally (World Bank, 2024). Kosovo also has low labor participation and high unemployment rates, including in comparison to its regional peers (Figure 1). Although future population revisions may imply an increase, labor participation has remained flat at just under 40 percent over the past 10 years, well below the average of 69 percent in the other Western Balkan countries and 75 percent in the EU. Underlying these large gaps, the labor participation rate of women is one of the lowest in the world (see the next SIP). Notably, the unemployment rate has experienced a rapid decline, particularly in the post-pandemic period, falling from around 30 percent 10 years ago to around 11 percent in 2023.

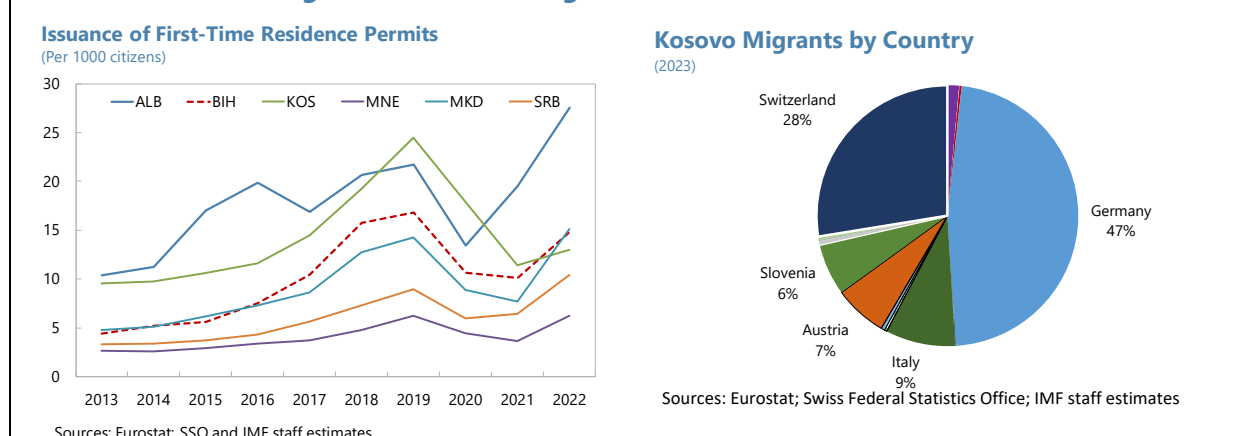


<sup>1</sup> Prepared by Stephen Ayerst.



## 2. Large wage differentials and tight labor market conditions in the European Union (EU) countries have encouraged emigration from Kosovo.

Empirical and survey evidence indicate that migration is induced by economic and non-economic factors. Ayerst et al. (2024) finds that migration flows tend to be stronger to destination countries with larger pull factors. That is, destination countries where wage, unemployment, and job-finding rates are higher relative to origin countries tend to have higher bilateral migration flows, indicating that workers, at least in part, migrate to economic opportunities. Net PPP-adjusted average wages in Kosovo are just over one-quarter of the values in Germany, underscoring strong pull factors. In addition, labor market shortages in the Western Europe have increased demand for migrant workers. This reflects broader trends in EU economies where labor market shortages have increased in the post-pandemic period encouraging entry of new groups into the labor market (Duval et al., 2022). For example, migration to Germany has recently accelerated following the June 2024 update to the Western Balkan Regulation, which increased the maximum number of work-related migrants from the region following growing labor market shortages in Germany (GAP Institute, 2024). Migration offers a potential solution for advanced EU economies to meet labor market shortages but creates a potential drain on labor market resources in Kosovo and other emerging economies. These pressures will likely increase as population aging leads to declining working-age populations in EU countries. While the pandemic and lockdown period led to some reversal, emigration rates remain high in the Western Balkan countries and function as a drain on especially young and talented workers (Figure 2, left panel). The main destination of Kosovo emigrants has been Germany and Switzerland (Figure 2, right panel).

**Figure 2. Kosovo: Emigration and Destination Choices**

## B. Tackling the Labor Market Challenges of EU Integration

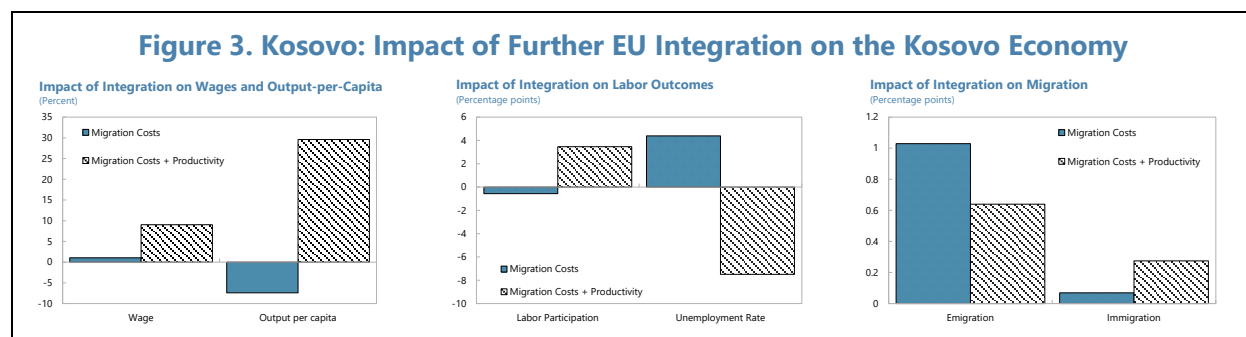
**3. Staff employ a structural model of the Kosovo labor market to understand the relationship between labor market dynamics and migration.** The model extends a search and matching framework—in which unemployed workers search for vacancies posted by firms—to allow for inactivity and migration decisions made by households (see Ayerst and Zhang, 2024, for details).<sup>2</sup> In the model, households choose between inactivity, migration, or entering the domestic labor market as an unemployed worker. Firms incur a cost to enter the market and post vacancies for unemployed workers. The matching rate between unemployed workers and firms depends on structural factors (e.g., matching technology, cost of advertising vacancies) and equilibrium conditions (e.g., number of unemployed workers and firms). The model provides discipline in understanding the relationship between migration and domestic labor market factors. Workers weigh the expected economic benefits from finding employment abroad, remaining inactive, or joining the domestic labor market against preferences when making decisions. The model is estimated to match data on labor market activities and bilateral migration flows for 35 European countries, including the EU and Western Balkan countries.<sup>3</sup>

**4. Staff use the model to examine the impact of further EU integration on the Kosovo economy.** EU integration of the labor market is modeled as a reduction in the emigration cost allowing for individuals living in Kosovo to relocate to the EU more easily. The policy is calibrated to a reduction in the costs of migration by around 6.1 percent, corresponding to a doubling of emigration, which is similar to the impact of two countries each being EU members found when examining bilateral migration flows between European economies. The model is simulated under

<sup>2</sup> The structural model presents a stylized overview of European labor markets and necessarily abstracts from key dimensions impacting the Kosovar labor market that policymakers should consider in the design of policies. Importantly, the model does not explicitly include remittances, demographics, or informality.

<sup>3</sup> The model is calibrated to country-level data on the real PPP-adjusted net wage rate, the unemployment rate, the vacancy rate, transitions between activity and inactivity, transitions between unemployment and employment, and emigration and immigration rates. Kosovo is missing data on most of the outcomes and so the values for Kosovo are estimated using economic relationships and data for a panel of European economies, including other Western Balkan countries.

two scenarios corresponding to only lowering migration costs from Kosovo to other countries and to lowering migration costs and raising productivity. In the latter scenario, production of a worker-firm match is assumed to increase by around 10.5 percent relative to the baseline, implying an increase in output-per-capita of 30 percent (consistent with evidence in IMF, 2024, on new EU member states).



**5. The benefits of EU integration can be supported through structural reforms.** The simulations show that productivity improvements help retain workers and boost potential output relative to the “no reform” case (Figure 3). This is because the increase in productivity boosts domestic wages and incentivizes the entry of new firms, which in turn increases the job finding rate. This highlights the importance of combining EU integration periods with continued efforts to improve productivity through structural reforms. Policy that targets other aspects of the labor market can have similar positive effects on these outcomes implying that productivity growth alone does not need to be the sole measure of a policies success. While the experiment paints a stark picture for EU integration and emigration, it is also worth highlighting that EU integration may drive productivity growth in and of itself through reduced trade barriers and improved financial integration thereby providing more income and job opportunities in Kosovo (see, for example, Caliendo et al., 2021, and IMF, 2024).

**6. Previous case studies of EU accession can provide valuable lessons on policy efforts.** Table 1 summarizes policies implemented by Romania, Bulgaria, Poland, and Croatia around the time of EU accession along four main themes. First, policies designed to maintain cultural identities and traditional values to help maintain relationships with diaspora. Second, policies designed to motivate return migration of expatriates with benefits from the skills gained abroad. Third, policies designed to facilitate remittances to allow diaspora populations to benefit the local population. Finally, policies designed to tackle the shortage in the local workforce that emerged from increased emigration.



**Table 1. Kosovo: Policies Lessons from Previous EU Accession Cases**

Policy Theme	Examples
Maintaining cultural identities and traditions.	<ul style="list-style-type: none"> <li>• <b>Romania:</b> Institute for Romanian abroad offers support to diasporas in preserving their cultural and linguistic identity.</li> <li>• <b>Bulgaria:</b> state-funded Bulgarian Sunday Schools focuses on preserving the Bulgarian identity.</li> <li>• <b>Poland:</b> supporting the teaching of the Polish language among the Polish diaspora, especially children.</li> <li>• <b>Croatia:</b> Central State Office for Croats Abroad supports Croatian language classes overseas.</li> </ul>
Motivating expatriates to come back	<ul style="list-style-type: none"> <li>• <b>Romania:</b> targeting the return of Romanians by offering them grants for the implementation of projects.</li> <li>• <b>Bulgaria:</b> streamlining the settlement permit issuance for the returning expatriates; facilitating the (re)integration through online platforms such as Tuk-Tam and Back2Bg.</li> <li>• <b>Poland:</b> granting assistance in the form of travel reimbursements and free Polish language and adaptation courses; information campaigns and portals that encourage returns (i.e., Powroty) were launched.</li> <li>• <b>Croatia:</b> partnering with universities to offer scholarships, which incentivizes the return of Croatian emigrants and their descendants.</li> </ul>
Facilitating the process of remittances	<ul style="list-style-type: none"> <li>• <b>Poland:</b> aiming to prevent double taxation with all EU countries and other primary destination countries for Polish emigrants, facilitating the process of remittances.</li> </ul>
Tackling shortage in local workforce	<ul style="list-style-type: none"> <li>• <b>Romania:</b> attempted to increase the work permit quota to attract workers from non-European destinations such as Vietnam.</li> <li>• <b>Poland:</b> facilitating the employment of immigrants by speeding up issuance of work permits; extending the period of work for citizens of certain countries from 6 months to 24 months.</li> <li>• <b>Croatia:</b> complete removal of work permit quota since 2021.</li> </ul>

**7. The model is used to simulate specific policies to improve labor market performance, raise potential output, and lower emigration.** Staff consider four broad classes of policies that are discussed in detail below. Table 2 summarizes specific examples of these broad policies.

- *Structural reforms* that target the overall productivity of the economy are modeled as an increase in the output produced by a matched firm-worker pair by one percent.<sup>4</sup> Mechanically, the policies make firms more profitable, since they have higher revenues, leading firms to be more willing to post job vacancies. Workers can also bargain for higher wages, making both labor market activity and the domestic economy more attractive. In practice, these policies

<sup>4</sup> For the quantitative comparisons, a one percent increase in productivity is considered, which is substantially lower than in the previous experiment.

would capture reforms that improve operational efficiency through reducing barriers that misallocate resources across firms. Some examples would include tackling informality, increasing financial development, and reducing bureaucratic costs and corruption.<sup>5</sup>

- *Active labor market policies (ALMP)* that target the efficiency of matching firms and workers are modeled as an increase in the matching efficiency between unemployed workers and firms by 10 percent. Mechanically, the policies make it easier for unemployed workers to find jobs and for firms to fill vacancies increasing the relative values of entering unemployment and posting a vacancy. In practice, these policies would include standardizing accreditation of skills, reskilling and retraining programs, apprenticeship programs, job counselling, and job boards.
- *Small- and medium-sized enterprise promoting (SME) policies* that help foster entry of new firms and job opportunities. These policies are modeled as a decrease in the cost of posting vacancies by 10 percent. Mechanically, the policies encourage more vacancies to be posted per unemployed worker leading to lower unemployment and more firm-worker matches. In practice, these policies would include reducing bureaucracy associated with starting new businesses, promoting entrepreneurial activities of local individuals, and tackling unfair business practices, such as those stemming from the informal economy or from large firms.
- *Labor participation policies (LP)* that encourage individuals to enter the labor market are modeled as a decrease in home production by 10 percent, which dictates the relative benefits of working and not working in the model. Mechanically, the policies increase the opportunity cost of not working leading to individuals becoming active in the market. Additionally, since the relative value of working increases to households, firms can bargain for marginally lower wages, increasing firm value and lowering the unemployment rate. In practice, the policies would capture reforms that increase the willingness of households to enter the labor market. One angle that policymakers could target in Kosovo is the large gender gap in labor participation, as discussed in the next SIP.

**Table 2. Kosovo: Potential Policies for Candidate Countries**

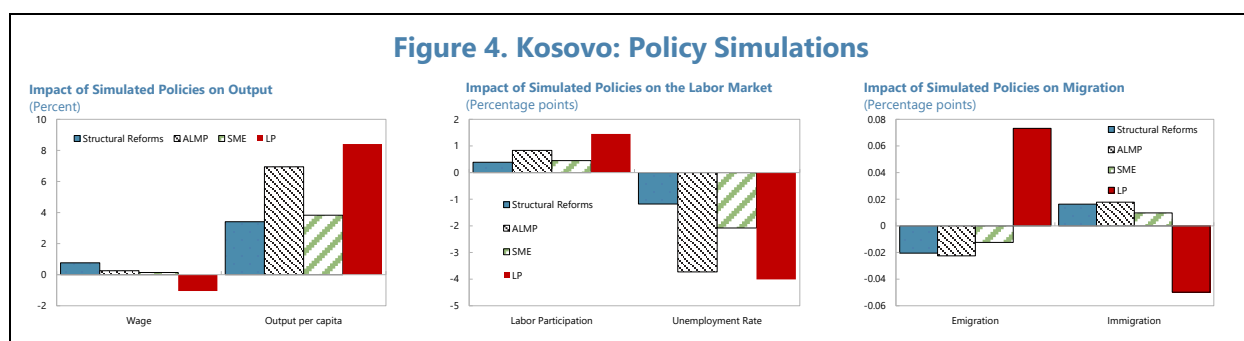
<b>Policy Category</b>	<b>Example</b>
Structural reforms	Improving governance and strengthening the rule of law through judicial reforms, including through reducing the backlog of cases and enforcement of contracts. Combating corruption by continuing to build a track record of investigations, prosecutions, and convictions. Improving the business and investment environment, including by reducing bureaucratic hurdles to attract investment and improving property rights. Developing and upgrading public infrastructure, including transport networks, digital infrastructure, and energy supply. Simplifying hiring and firing procedures to reduce the administrative burden on, especially small, businesses.

<sup>5</sup> See also [Delechat and Medina \(IMF 2020\)](#) for an overview on tackling informality. See Ayerst and Laoprapassorn (IMF 2024) for a quantitative examination of the impact of these types of structural barriers on productivity in a Western Balkan country.

**Table 2. Kosovo: Potential Policies for Candidate Countries (Concluded)**

Policy Category	Example
Active labor market policies	Improving vocational training. Supporting personalized job search assistance. Implementing youth employment and apprenticeship programs. Improving labor market information systems that help provide accurate information on job vacancies, skill requirements, and employment trends as well as job seekers.
SME promoting policies	Establishing a one-stop shops for business registration. Reducing incentives for firms to remain informal. Tackling informality by increasing access to digital services (e.g., business registration, tax filing), simplifying tax procedures, and providing support for small businesses (e.g., training, advisory services, market access services).
Labor participation policies	Providing access to affordable and accessible childcare. Improving equality of quality and accessibility of educational services. Implementing gender budgeting.

**8. Simulations show that policymakers have a range of options to improve labor market outcomes and boost potential output.** While the magnitudes differ, the four policies all tend to increase output and wages and lower net emigration and the unemployment rate (Figure 4). In this respect, a key lesson from the simulation is that there is a wide range of dimensions according to which policies can be targeted to benefit the economy, shield against the loss of workers and population to emigration and increase the gains from further EU integration.



## C. Conclusions

**9. Policies can bolster the labor market and be a catalyst for economic growth.** Ayerst et al (2024) find large structural barriers in the productivity of workers, the matching efficiency between workers and firms, and the cost of creating new vacancies in Kosovo compared to other European countries and other Western Balkan countries. Policies targeting these areas, such as those discussed in Table 2, could help lift the quality of the Kosovo labor market and boost potential. A key result from the policy simulations is that, while the policies target various stages of the labor market (e.g., participation, job finding, the productivity of the match), they have similar macroeconomic impacts. In this regard, it is important for policymakers to focus on policies with the largest potential impact relative to the cost of implementation. Additionally, policies should be combined with careful monitoring and updating to ensure that they remain effective and efficient.

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