

## Overview

- Kosovo, as the rest of the Western Balkans, is rebounding from the COVID-19 induced recession
- 2021: GDP increased by 7.5%, driven by consumption, diaspora-related tourism and remittances
- 2022: GDP is expected to grow by 3.8%, on the back of consumption and investment
- Inflation rises to 3.4% in 2021 as the economy recovers and is expected to be 3.9% in 2022
- Process of real effective appreciation continues
- High current account deficit in 2021 due to recovery of imports
- Slight reduction of current account deficit is expected in 2022 and 2023
- Very strong recovery of tourism (113% yoy) in 2021
- Fiscal consolidation with lower expenditures in 2021; thus budget deficit decreases to 0.4% of GDP
- In 2022, budget deficit is expected to increase to 2.4% of GDP

## Special issues

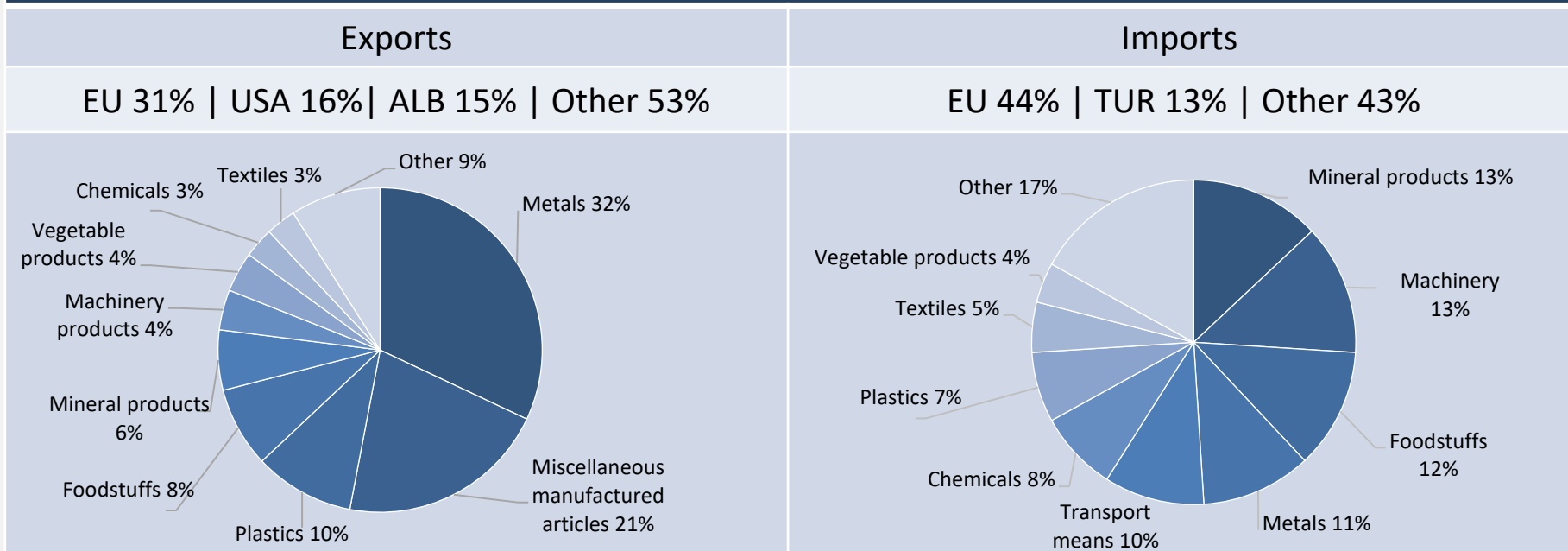
- **FDI trends.** Defining target groups for investment attraction measures
- **Energy system.** Electric heating, ageing infrastructure and coal plants as key challenges

# Basic indicators

	Kosovo	ALB	SRB	MNE	BIH	MKD
GDP, USD bn	7.5	16.8	60.7	5.5	21.7	13.9
GDP/capita, USD	4,162	5,793	8,797	9,167	6,576	6,619
Population, m	1.8	2.9	6.9	0.6	3.3	2.1

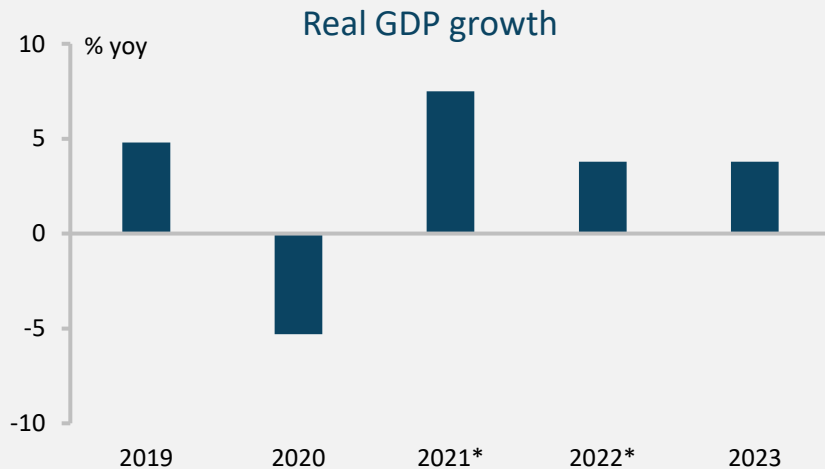
Sources: National statistical offices, IMF, 2021; note: estimates for 2021

## Trade structure



Source: Central Bank of Kosovo, 2021, only goods

# Economic growth



Sources: National Statistics Office, IMF, Ministry of Finance, CBK, \*estimate/forecast

## Regional comparison of real GDP growth (%yoy)

	2021	2022*	2023*
<b>Kosovo</b>	<b>7.5</b>	<b>3.8</b>	<b>3.8</b>
Albania	7.8	3.8	4.1
Serbia	6.5	4.5	4.5
Montenegro	7.0	5.6	3.6
BIH	2.8	3.2	3.0
North Macedonia	4.0	4.2	3.8
Germany	3.1	4.6	1.6
Eurozone	5.1	4.2	2.9

Sources: National statistics, EU-Commission, IMF forecasts

## GDP

- 2021: GDP increases by 7.5%
- Main drivers: Recovery of diaspora-related tourism receipts, consumption expenditures and increase in remittances
- Growth is expected to consolidate at 3.8% in 2022 and 2023
- Downside risks: restrictions due to pandemic and potentially sluggish recovery in foreign trade

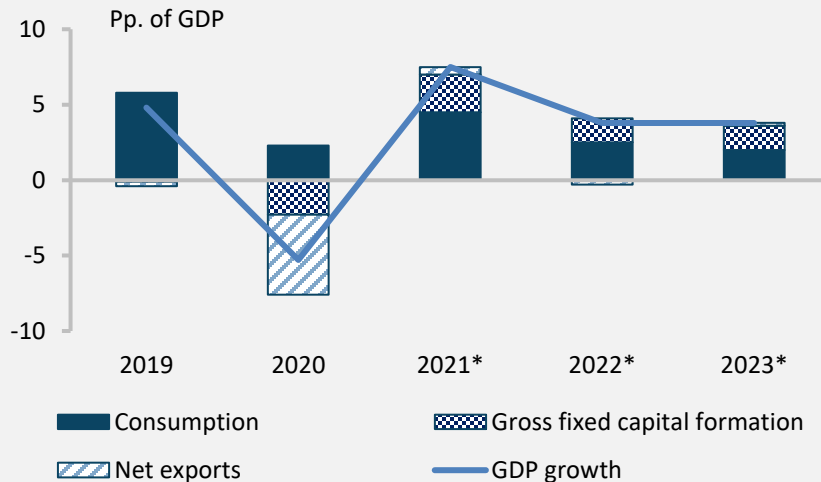
## Regional comparison

- 2021: GDP growth high
- 2022 and 2023: similar development as in peer group expected

➤ **Good growth performance**

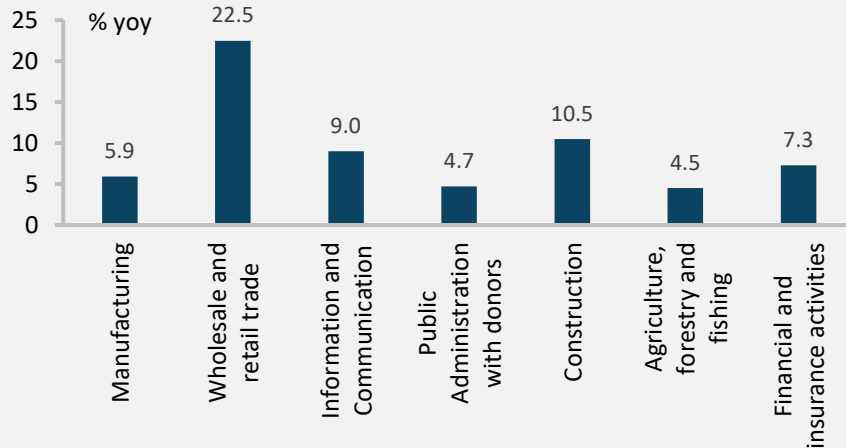
# Sectoral perspective

Contribution to economic growth (real)



Source: IMF, \*estimate/forecast

Sectoral dynamics in 2021



Source: Kosovo Agency of Statistics, 9M2021

## Demand-side dynamics

- 2021: sound economic rebound driven by consumption, investment and diaspora related tourism
- Moderate growth of 3.8% expected in 2022 and 2023 driven by consumption and investments

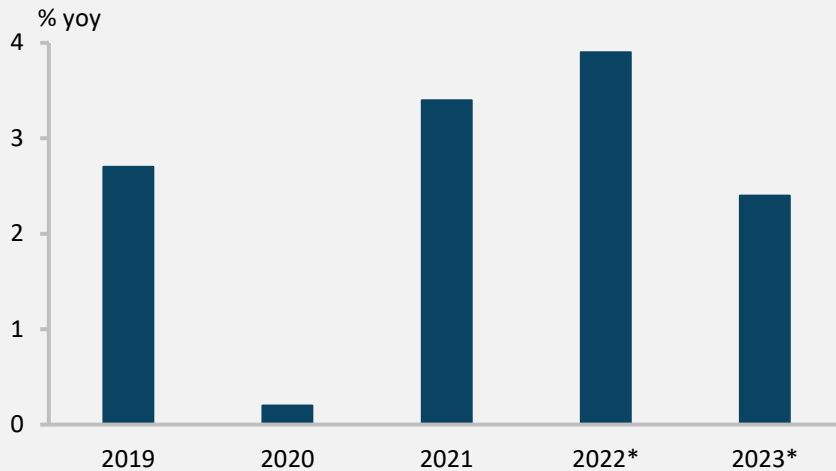
## Sectoral perspective

- Strong recovery (9M2021: +22.5% yoy) in wholesale and retail trade
- Construction (+10.5%) and information and communication (+9.0%) also show a good performance associated with strong investment activity

➤ **Consumption and investment support economic recovery in 2021**

# Inflation

## Inflation



Sources: Kosovo Agency of Statistics, IMF, \*forecast, Note: period-average

	2021	2022*	2023*
<b>Kosovo</b>	<b>3.4</b>	<b>3.9</b>	<b>2.4</b>
Albania	1.8	2.3	2.5
Serbia	3.0	2.7	2.5
Montenegro	1.9	1.4	1.4
BIH	1.8	1.8	1.7
North Macedonia	3.1	2.2	1.5
Eurozone	2.6	3.2	1.8

Sources: Kosovo Agency of Statistics, IMF, ECB, \*forecast

## Inflation

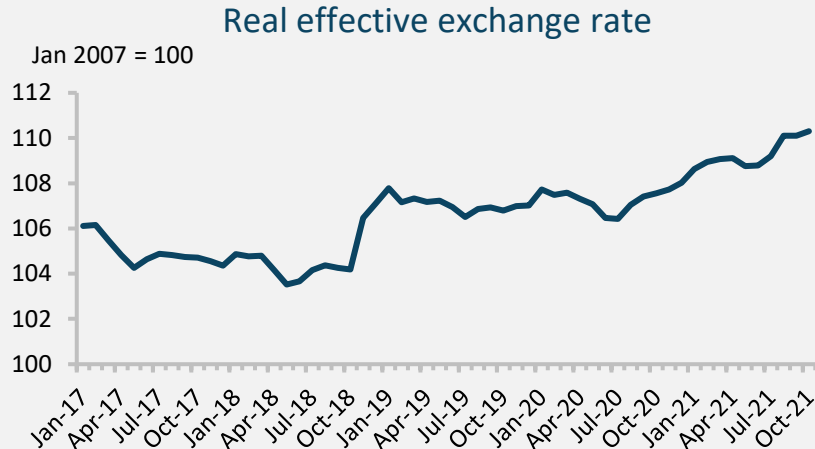
- After low inflation in 2020, inflation picked up in the course of general economic recovery
- Other reasons: a lagging effect of expansionary fiscal policy and higher import prices in 2021
- In 2022, inflation is expected to increase to 3.9%

## Regional perspective

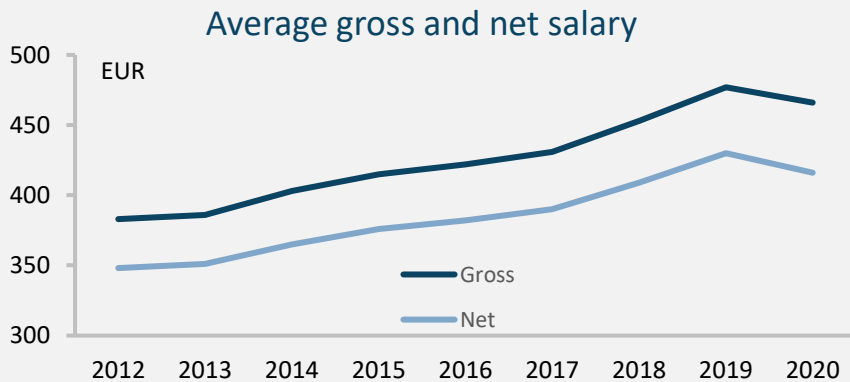
- Inflation somewhat higher than in peer countries in 2021 and 2022, while similar in 2023

➤ **Rise in inflation, but level comparable to other countries**

# Real effective exchange rate



Source: Central Bank of Kosovo, note: an increase implies an



Source: Kosovo Agency of Statistics

## Exchange rate

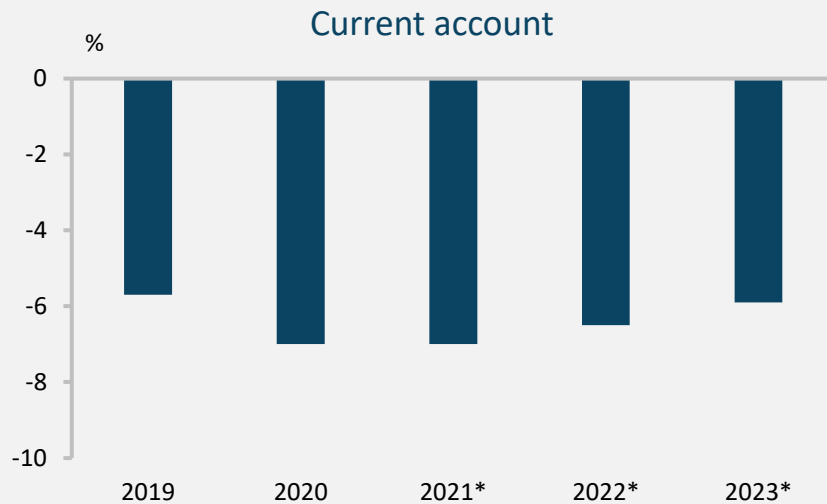
- Having adopted the Euro, Kosovo benefits from a reduction of exchange rate fluctuations and low inflation
- At the same time, the exchange rate cannot act as a shock absorber, as in many other countries
- As a result, the country experienced a moderate real effective appreciation starting in mid-2020, with a potential negative impact on its international competitiveness

## Labour market and wages

- Effect of real effective appreciation softened by flexible labour market
- 2020: reduction in wages; 2021: data yet to be published

➤ **Practically no negative effect of real appreciation due to flexible labour market**

# Current account



Source: IMF, \*forecast

## Current account

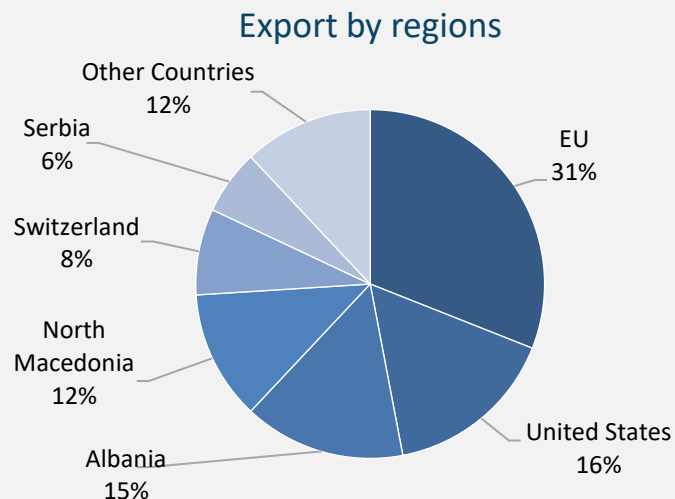
- In 2021, the current account deficit is expected to remain at the level of 7% of GDP, following the strong recovery in imports
- The deficit is mainly financed by external debt, including budget-support grants and loans from the EU
- Slight reduction of current account deficit in 2022 and 2023 expected

- **Current account deficit remained high in 2021**
- **Only slight decrease in 2022 and 2023**

# Foreign trade in goods



Source: Central Bank of Kosovo, goods



Source: Central Bank of Kosovo. 2021, Note: trade in goods

## Trade in goods

- Goods: imports (54% of GDP) much higher than exports (10%); large deficit on trade balance

## Exports

- Main export markets are EU, USA and ALB
- Despite COVID-19 and worldwide slumps in trade, exports in goods increased strongly in 2020 (24% yoy) and in 2021 (58% yoy)
- The main driver were base metals and related articles due to price effects
- On top: higher exports of vegetable products as well as of plastics and rubber

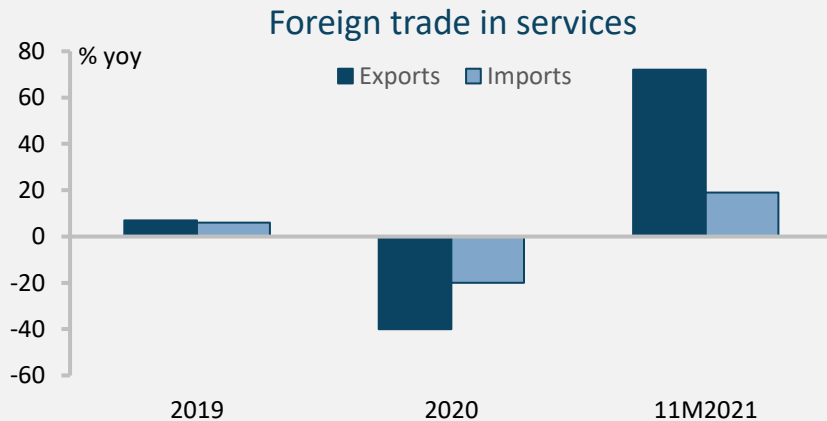
## Imports

- After the decline of 6% in 2020, imports increased by 29% in 2021, with mineral products, machinery and base metals accounting for the largest share

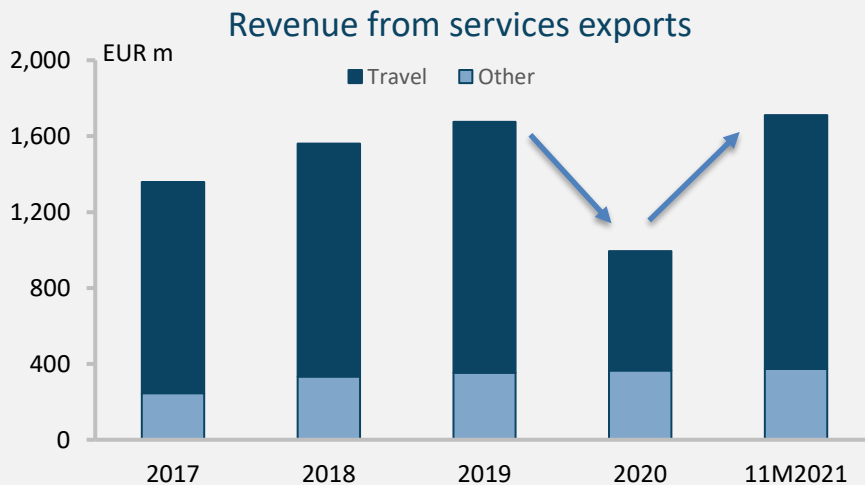
➤ **Strong dynamics in foreign trade in goods despite COVID-19**



# Foreign trade in services



Source: Central Bank of Kosovo



Source: Central Bank of Kosovo

## Trade in services

- Exports much stronger than imports; large surplus in services balance
- Surplus shrank in 2020, but went up in 2021 due to large increase in exports, amounting to 28% of GDP

## Exports

- Key role of tourism in exports of services (21% of GDP in 2021)
- 11M2021: very strong recovery of tourism by 113% yoy after weak year in 2020
- Tourism revenues 2021 thus exceed 2019 level

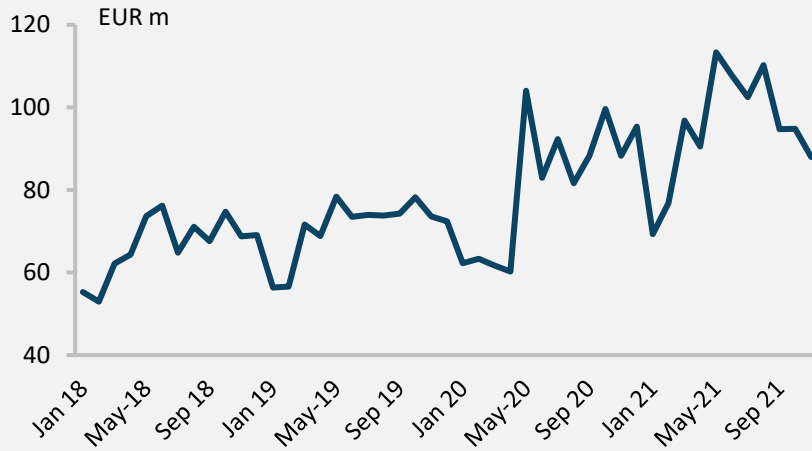
## Imports

- Imports of services declined strongly (-20%) in 2020, but recovered (19%) in 11M2021

➤ **Strong recovery of tourism**

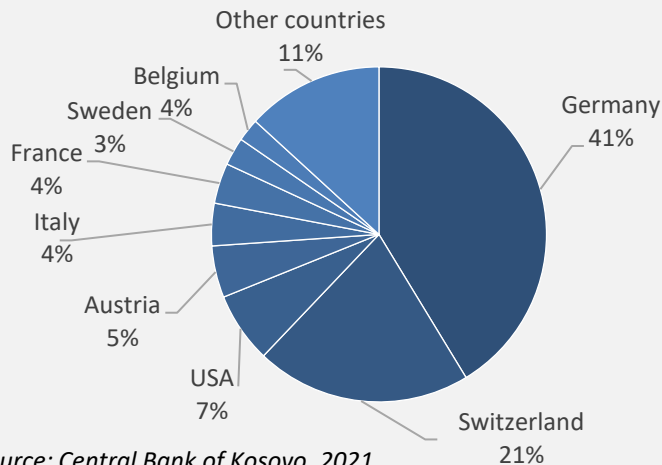
# Remittances

Remittances inflows



Source: Central Bank of Kosovo

Remittances by countries of origin



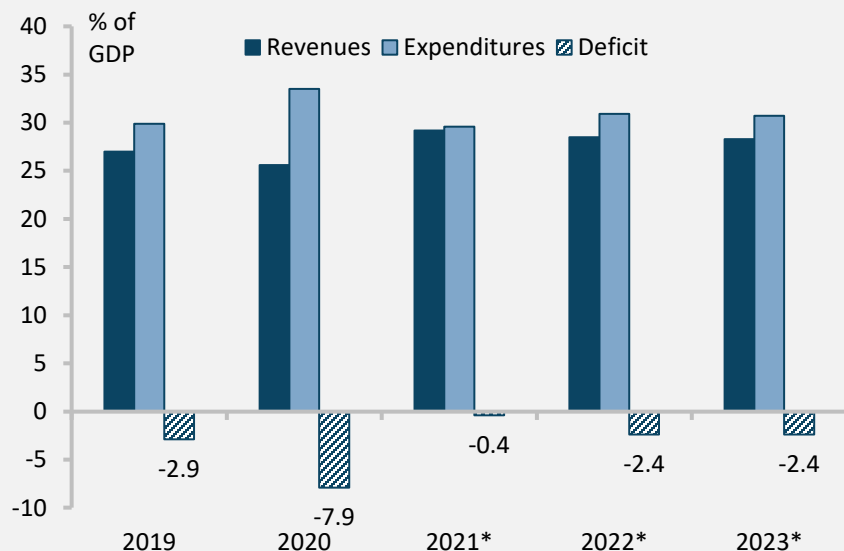
Source: Central Bank of Kosovo, 2021

## Remittances

- Remittances are a key factor for the economy, especially for consumption and imports, which account for more than half of GDP
- Key role in filling the budget of families, increasing their welfare and poverty reduction, especially in rural areas
- They are the most important source of income in the context of secondary income
- Most remittances come from Switzerland, Germany as well as the United States
- Compared to other Balkan countries, Kosovo receives the highest level of remittance flows
- Strong increase to EUR 1.1 bn (+15.7% yoy) in 2021, equal to 15% of GDP
- This counteracted the decline in GDP, but also in imports in 2020 and fostered growth in 2021
- **Remittances very resilient during crisis, acting as a shock absorber**

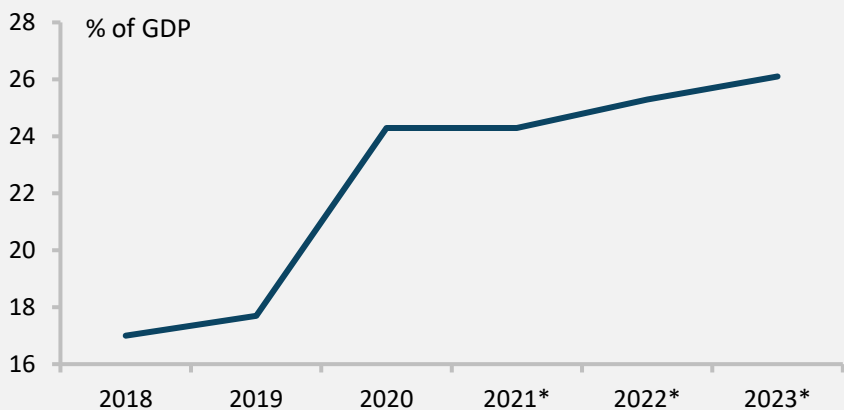
# Public finances and government debt

## Public finances



Source: IMF, \*forecast

## Government debt



Source: IMF; \* forecast

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## Public finance

- Fiscal consolidation with decrease in expenditures in 2021 after large fiscal support to businesses and citizens in 2020
- Result: low budget deficit (0.4% of GDP)
- Budget deficit is expected to settle at 2.4% of GDP in 2022/2023, similar to pre-crisis level

## Government debt

- Large increase in debt ratio in 2020 due to high deficit and recession
- Debt ratio stabilized at 24.3% of GDP in 2021
- Moderate increase to 25.3% of GDP forecast for 2022
- Domestic debt about 2/3 of total debt
- External public debt is largely with multilaterals (IDA, EIB, EBRD, EU, and the IMF)

➤ **Fiscal consolidation after crisis year 2020**

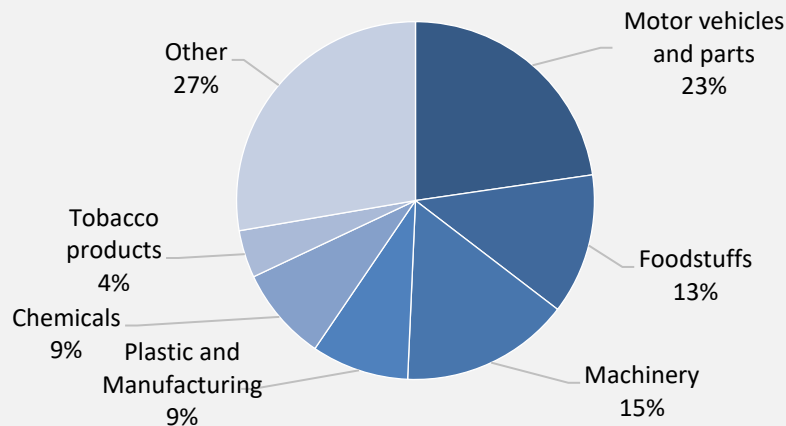
# Bilateral trade between Germany and Kosovo

German trade with Kosovo



Source: Federal Statistical Office of Germany, trade in goods

German exports to Kosovo



Source: Federal Statistical Office of Germany, trade in goods

## Bilateral trade volume

- Strong recovery in bilateral trade in 2021
- Increase by 32% in 11M2021

## German exports to Kosovo

- Exports increased by 37% in 11M2021 after a weak year in 2020
- Main export product groups are motor vehicles, foodstuffs and machinery

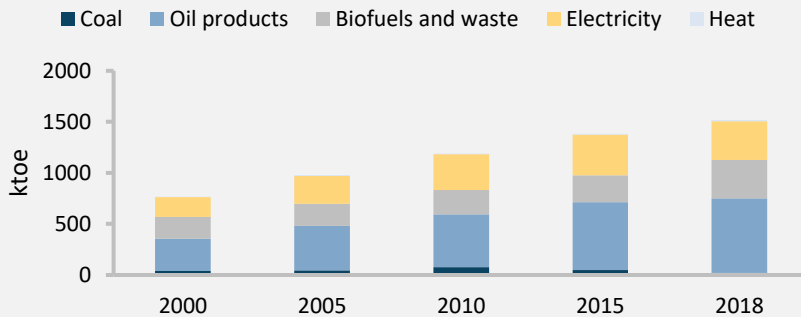
## German imports from Kosovo

- Imports increased by 12% in 11M2021
- Main imported goods were plastic products, ores and foodstuffs

➤ **Strong increase in bilateral trade in 2021**

# Energy system of Kosovo

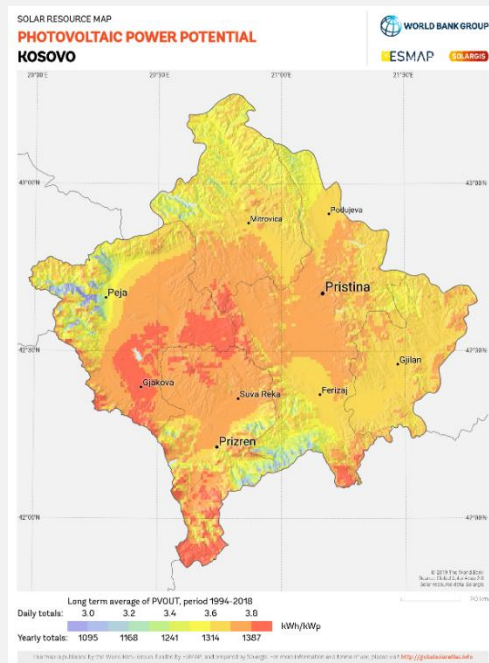
Final energy consumption by source



Source: Kosovo Agency for Environmental Protection

## Solar Resource Map

Source: World Bank – Global Solar Atlas



## Energy consumption in Kosovo growing

- Strong energy consumption growth: in 2018, twice as much energy consumption as in 2000
  - Main sources of energy: coal
  - Main energy consumers: households and transport
  - Currently: electricity crisis, as electricity used for heating
- **Need to increase non-electricity heat sources**

## Old coal plants, ageing electricity infrastructure

- Coal main source of electricity (97%)
  - Coal plants do not fulfil EU Industrial Emission Directive → Kosovo in dispute with the Energy Community since 2018
  - Potential for solar and wind energy of more than 2,800 GW (approx. 4,500 GWh annually)
- **Need to provide new and alternative electricity sources**

# Defining target groups for investment attraction measures

## Target group assessment – overview of results

Target group	Investment potential	Competitive position	Development impact	Priority
IT / BPO	++	+	++	1
Furniture	+	+	++	1
Plastics	+	+	+	1
Metal	+	0	+	2
Wood	0	0	+	3
Agro-processing	0	0	+	3

Source: Own research

## Background

- Rather low FDI performance in quantitative and qualitative terms in recent past
- Need to intensify target-group-oriented investment attraction measures

## Challenges

- Identifying the most promising target groups reflecting the dimensions (1) investment potential, (2) development impact, (3) competitive position
- Considering emerging trends and changes in investment patterns accelerated by the pandemic

## Recommendations

- Initial focus on on the IT / BPO, plastics and furniture industry
- Emphasis on medium-sized enterprises and companies that have already invested in Central European locations

# About the German Economic Team



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

## COOPERATING PARTNER IN KOSOVO



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