



## IMF Executive Board Concludes 2020 Article IV Consultation with the Republic of Kosovo

FOR IMMEDIATE RELEASE

**Washington, DC – February 17, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Kosovo.

Kosovo has been hit hard by the COVID-19 pandemic. Despite policy support, economic activity is estimated to have fallen 6 percent in 2020 on account of the combined effect of strict domestic containment measures and international travel restrictions.

The fiscal deficit increased to 7.7 percent of GDP, given the large fall in tax revenues and the implementation of mitigation and recovery measures of 4.2 percent of GDP. The current account deficit is estimated to have increased to 7.5 percent of GDP mainly due to a large decline in diaspora-related inflows, most notably in tourism. Gross international reserves declined but remain adequate in part due to the purchase under the IMF's Rapid Financing Instrument (RFI) in April 2020 and the use of other external financing. Banks have weathered the recession well to date, and the high pre-COVID19 liquidity levels and ample capital buffers bode well for the system's stability.

Economic activity is forecast to rebound by 4.5 percent in 2021 supported by continued fiscal stimulus, and the projected gradual relaxation of containment measures. The outlook remains subject to large uncertainty, and depends on the evolution of the pandemic, the speed of vaccinations, and political developments. The pandemic is expected to leave long-lasting scars. While nominal GDP is projected to return to pre-crisis levels by 2022, it will remain below the pre-crisis trend for a protracted period. A stronger implementation of structural reforms could mitigate these longer-term effects.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

## Executive Board Assessment<sup>2</sup>

Executive directors commended the authorities' swift and comprehensive policy response, which has helped mitigate the health, social, and economic impact of the pandemic. Directors considered that policies should remain broadly supportive and flexible given downside risks and uncertainty. Noting that the crisis compounded pre-existing vulnerabilities, Directors emphasized the importance of reinvigorating structural reforms to promote stronger, more inclusive growth.

Directors agreed that the immediate priority is to continue supporting the economy until the recovery is well entrenched, while improving the design, targeting, and transparency of support measures. They encouraged the authorities to firm up the financing program for 2021 to support the planned mitigation and recovery measures, as well as considering contingency plans. Directors underscored the need to revert to the fiscal rule as the policy anchor after the recovery has taken hold. They recommended focusing consolidation efforts on improving the targeting of social and economic transfers, revenue mobilization, and tax administration, supported by a comprehensive review of tax expenditures.

Directors welcomed the authorities' commitment to reform the social protection system, with a view to ensuring equitable access. They emphasized the importance of restraining public wage increases and assessing the sustainability of the current pension system before introducing any amendments.

Directors recognized the resilience of the banking system. They recommended that the authorities closely monitor bank asset quality, ensure transparency in reflecting losses once regulatory forbearance is lifted, and further strengthen the AML/CFT framework. They concurred that while capital standards should be preserved, capital buffers should be replenished gradually. Directors underscored the key role of effective governance at the central bank and encouraged the authorities to fill existing board vacancies as soon as possible.

Directors welcomed ongoing efforts to improve governance and modernize public sector administration. They welcomed the authorities' intention to conduct a special audit of COVID-related relief measures. Directors encouraged strengthening the management and supervision of public sector enterprises, and increasing the efficiency of public investment, and subsidies.

Directors emphasized the importance of accelerating structural reforms over the medium term, particularly to address human capital and infrastructure gaps, and improve the business environment.

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

## Kosovo: Selected Economic Indicators, 2017–25

(Percent, unless otherwise indicated)

Population: 1.8 million (2018)

Quota: SDR 82.6 million

Main exports: metals and mineral products (2019)

Key export markets: Albania, Germany, Italy, Macedonia, Montenegro and Switzerland (2019)

Per Capita GDP: €3,947 (2019)

Poverty rate: 3.6 percent (2017) 1/

	2017	2018	2019	2020	2021	2022	2023	2024	2025
				Est.			Projections		
<b>Output and Employment</b>	4.2	3.8	4.9	-6.0	4.5	5.5	4.0	4.0	4.0
Contribution to growth (percentage points of GDP)									
Consumption	1.5	5.2	1.6	0.8	2.3	3.4	2.6	2.6	2.6
Investment	1.5	2.3	1.9	-1.8	1.5	2.7	1.3	1.7	1.7
Net Exports	1.2	-3.7	1.4	-5.2	0.8	-0.6	0.1	-0.2	-0.2
Official unemployment (percent of workforce) 2/	30.5	29.6	25.9	24.6	...	...	...	...	...
<b>Prices</b>									
CPI, period average	1.5	1.1	2.7	0.2	0.3	1.5	1.7	1.9	1.9
CPI, end of period	0.5	2.9	1.2	-0.3	1.4	1.6	1.7	1.7	1.7
Real effective exchange rate (average; - =depreciation)	0.6	2.7	-0.1	0.0	...	...	...	...	...
<b>General government budget (percent of GDP)</b>									
Revenues and grants	26.5	26.4	26.8	25.1	26.6	26.2	26.2	26.1	26.2
Expenditures	27.9	29.2	29.6	32.8	32.5	29.1	28.6	28.7	28.7
Overall Balance (Fiscal rule) 3/	-1.3	-1.5	-0.7	-5.8	-4.9	-1.7	-1.6	-1.6	-1.5
Overall balance	-1.4	-2.9	-2.8	-7.7	-5.9	-2.9	-2.5	-2.6	-2.5
Stock of government bank balances	4.6	4.5	5.2	4.0	3.6	4.1	4.5	4.7	4.9
Total public debt 4/	16.2	17.0	17.6	24.5	28.7	30.4	31.7	32.9	34.1
<b>Balance of Payments (percent of GDP)</b>									
Current account balance, incl. official transfers	-5.4	-7.6	-5.5	-7.5	-6.4	-6.1	-5.2	-4.9	-4.8
Of which: Official transfers 5/	3.1	3.4	3.4	3.7	3.1	2.8	2.7	2.5	2.4
Of which: Remittance inflows	11.8	11.9	12.0	13.7	13.9	13.6	13.3	12.9	12.5
Financial account	-4.3	-5.0	-2.6	-7.8	-5.6	-4.7	-3.8	-3.5	-3.5
Of which: Direct investment, net	-3.3	-3.4	-2.8	-3.0	-3.2	-3.3	-3.2	-3.2	-3.2
Portfolio investment, net	0.2	-3.0	0.8	-0.5	0.3	0.5	0.1	-0.1	0.1
Errors and Omissions	1.3	2.7	3.0	-0.2	0.9	1.5	1.5	1.5	1.5
<b>Financial Sector</b>									
Non-performing loans (percent of total loans) 6/	3.1	2.5	1.9	2.5	...	...	...	...	...
Bank credit to the private sector (percent change)	11.5	10.8	10.0	6.5	9.1	10.3	7.5	7.5	7.0
Deposits of the private sector (percent change) 7/	5.3	9.3	15.6	11.2	4.1	9.3	7.5	7.2	6.7
Regulatory capital to risk weighted assets 6/	18.1	17.0	15.9	16.7	...	...	...	...	...
<i>Memorandum items:</i>									
GDP (millions of euros)	6,414	6,726	7,104	6,817	7,101	7,606	8,051	8,533	9,027
Real GDP growth per capita	3.4	4.1	4.5	-6.4	4.1	5.1	3.6	3.6	3.6

Sources: Kosovo authorities; and IMF staff estimates and projections.

1/ World Bank's Poverty headcount ratio at US\$3.20 a day (2011 PPP).

2/ 2020 as of Q3 2020.

3/ The Fiscal rule excludes capital investment financed by multilateral/bilateral projects contracted after 2015.

4/ Includes guarantees and beginning in 2020, Euro 120 million of debt with KPST. It does not include contingent debt of former Yugoslavia.

5/ Total foreign assistance excluding capital transfers.

6/ 2020 is as of November 2020.

7/ Projections assume that the increase in deposits due to early withdrawals from KPST accounts in 2020 is gradually withdrawn out of the banking sector in 2021.