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ANNUAL ECONOMIC FORUM

Economic developments Threats from the institutional crisis

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Threats from the institutional crisis

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Abbreviations

AEF	Annual Economic Forum
AEF25	Annual Economic Forum 2025
ASAK	Academy of Sciences and Arts of Kosovo
CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
EBRD	European Bank for Reconstruction and Development
ERO	Energy Regulatory Office
EU	European Union
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GET	German Economic Team
IMF	International Monetary Fund
KAS	Kosovo Agency of Statistics
KCGF	Kosovo Credit Guarantee Fund
KPST	Kosovo Pension Savings Trust
KTA	Kosovo Tax Administration
kWh	Kilowatt-hour
MTEF	Medium-Term Expenditure Framework
OECD	Organisation for Economic Co-operation and Development
R&I	Research and Innovation
ROA	Return on Assets
SAA	Stabilisation and Association Agreement
SMEs	Small and Medium Enterprises
USS	Universal Service Supply
wiiw	Vienna Institute for International Economic Studies

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

This study report has been prepared to inform the debate at this year's session of the Riinvest Institute's Annual Economic Forum (AEF25). For the third consecutive year, this product, conceived and branded as one of the key economic debates assessing the country's economic developments at the turn of the year, is steadily taking on the intended profile envisioned in the Institute's Strategic Plan.

The trajectory of economic growth shows a clear slowdown, influenced by a range of factors that together are generating an accumulated negative effect. Changes in the global environment, driven by heightened uncertainty from ongoing conflicts, especially the war in Ukraine, as well as challenges affecting international trade resulting from disputes among major global actors, have placed considerable pressure on small economies. Meanwhile, domestic developments in Kosovo are significantly contributing to this slowdown, and this is reflected across all economic sectors: in the real sector (including the perceptions and expectations of the business community), in the external sector (with the deepening of the trade deficit), in the financial sector (problems in lending and liquidity for both businesses and households), as well as in the government sector (with a budget characterized by an unfavourable allocation structure and serious implementation shortcomings).¹ The improvement in the quality of economic governance has not produced the necessary results; this is reflected in growth rates that are significantly lower than those planned in the annual budgets and in the Medium-Term Expenditure Framework (MTEF), which this year has not even been updated.

All of this has been further aggravated by the failure to establish new institutions after the national elections in February. This process has become trapped in a dynamic fuelled by the antagonistic conflict between the relative winning party and the other larger parties in the Assembly. This entire process, continuously contested on constitutional and legal grounds,

has placed political ambition at the forefront, accompanied by an intolerable indifference toward the country's fundamental interests, resulting in a situation of uncertainty that has now persisted for nine months.

Major international institutions forecast that the economic growth in Kosovo for this year and the next will be in the range of 3.8 to 3.9 percent. Based on the most recent data from various sectors, the Riinvest Institute projects that growth will be slower, at 3.6 percent. In contrast to these forecasts, the caretaker Government, specifically the Ministry of Finance, projects significantly higher growth rates: 4.3 percent for 2025 and 4.9 percent for 2026. These estimates continue the Ministry's persistent trend of optimistic projections, which have often exceeded the actual growth rates realized in the respective years. The projected 2026 budget, which, for the reasons mentioned above, has not entered parliamentary procedure, follows the upward trend of recent years. However, it carries substantial structural problems in the composition and implementation of capital investments, as well as low funding for education, scientific research, and healthcare. On the other hand, the budget is burdened with oversized transfer programs, which, given their low effectiveness and their failure to create the critical mass required for qualitative improvements in high-need social sectors, also generate a high opportunity cost.

Across these sensitive and essential sectors for enhancing the quality of development, Kosovo continues to lag significantly behind both regional peers and the benchmarks set by the dynamics of the European Union integration process. This gap results in substantial shortcomings in human capital and is directly reflected in very low labour productivity, which remains below 40 percent of the EU average. Persistent weaknesses in investments, particularly in public investment, impede the structural transformation that is urgently needed and hold back the higher economic growth

¹ For more details, see Sections 1–3 and 1.5 of this report.

rates required for Kosovo to achieve more meaningful convergence with the European Union.

This year, the ranking of perceived business barriers remains similar to previous years. At the top are labour shortages and emigration, followed by high financing costs. The lack of skilled workers and persistent informality also remain among the main challenges. Administrative procedures and burdens continue to be a significant barrier, even though Kosovo has made progress in reducing administrative burden and simplifying several processes. These barriers are followed by problems in electricity supply, which have intensified, as well as challenges in contract enforcement related to the obligation of approximately 1,200 businesses to transition to the liberalized electricity market. Political instability has also risen in this group of barriers this year. At the bottom of the ranking are non-tariff trade barriers, transport, and telecommunications, which, although less pronounced, continue to affect the business environment.

This year, particular emphasis is placed on energy, as the transition to the open market has led to an initial spike in prices that, in many cases, have more than doubled. However, market expectations suggest that these prices may stabilize at around a 30 percent increase in the medium term. Meanwhile, the burden of higher energy costs is not the same across sectors. Some sectors face a much larger impact on their competitiveness. The additional energy cost burden, expressed as a percentage of gross value added, is highest in the food industry, reflecting the high energy intensity of this sector. Other manufacturing sectors, such as machinery, non-metallic minerals, and metals, face a similar burden. These sectors are hit twice, both by the direct increase in energy prices and by the rise in the cost of inputs that themselves have high energy intensity. The problem becomes more serious when these sectors are also of particular importance for exports. In contrast, services and agriculture have much lower exposure due to their low energy intensity. For this reason, support measures should be directed particularly toward those sectors that risk losing their competitive position as a result of rising energy costs.

The third part of the report, the thematic section that examines business trends, resources, and competitive capabilities, is also based on primary data collected through a survey of around 300 businesses. The majority of managers and owners of exporting firms reported an increase in exports this year compared to the previous one. According to them, this growth is the result of improved product quality, the consolidation of stable business relationships with trading partners, and relatively competitive prices that allow them to maintain their market position.

On the other hand, another group of businesses that reported a decline in exports identified intensified competition in foreign markets and high production costs as the main factors weakening their competitiveness. A concerning finding is that more than half of exporters are unable to secure contractual arrangements longer than three years with their partners. This indicates a high level of uncertainty in trade relationships, limiting the possibility for long-term planning and investment in new capacities.

Moreover, one quarter of businesses still rely on sporadic or one-off export shipments, which reflects a fragile structure of business relationships with trading partners and restricts business predictability for these firms. High expansion costs, along with difficulties in entering new markets, remain among the main obstacles preventing faster export growth.

Structurally, Kosovo's exports continue to be dominated by intermediate products with low added value, meaning goods that undergo only a basic stage of processing before reaching the final consumer. This structure has important implications for the country's position in global value chains and for the potential to generate higher added value within the economy.

Based on the findings of this Report, the following recommendations are proposed:

- Political actors, as well as civil society and intellectual circles, must contribute far more to overcoming the antagonistic confrontations between political parties, which are driven by regressive political impulses and fall outside the interests of citizens, thereby harming the country's international standing. An urgent resolution is needed to address the challenges that continue to sustain the institutional vacuum in the country.
- It remains a priority for the Government of Kosovo to establish a competent body composed of domestic and international experts to draft a long-term document with a clear vision, ambition, and set of policy choices and measures through which the current economic growth model can be effectively surpassed.
- In line with the recommendation of AEF 2024, Kosovo should insist on restructuring budgetary expenditures in favour of significantly increasing spending and investment in education, healthcare, and research and innovation. The standards of regional countries should be targeted, along with accelerated convergence toward the European Union average of public investment in these sectors as a share of GDP. A review and audit of transfer programs is also needed to increase the critical mass of interventions for high-need social groups and to ensure a reasonable opportunity cost.
- It remains a high priority for the Government to thoroughly analyse the chronic weaknesses in the implementation of capital investments, particularly investments under the loan-financed investment clause. Greater accountability is required from leadership within ministries, agencies, and other budgetary organizations.
- The entire external sector requires a detailed and critical review to reduce deficits, especially in the trade of goods. An integrated system of measures should be promoted to stimulate and facilitate exports, to eliminate the key barriers identified in the third part of the report, and to build a coherent system for enhancing competitiveness.
- Business associations should engage actively with their membership to raise awareness that private investment, meaning investment by businesses themselves in research, development, and innovation, must become part of their daily agenda. This is a prerequisite for strengthening capabilities, increasing productivity, and improving competitiveness.
- Research and academic institutions must establish systematic cooperation with the private sector. To achieve this, the legal and sublegal framework needs to be advanced, particularly within public universities.
- Improvement is recommended in the system of collecting and analysing statistical information, with a special focus on private sector investment, to ensure more accurate and detailed data that support strategic decision-making and effective implementation of economic policies.

INTRODUCTION

This research report has been prepared to inform the discussion at this year's session of the Annual Economic Forum 2025 (AEF25), which follows the sessions of the past two years and is intended to continue as a long-standing tradition. The Economic Forum was initiated to ensure an engaged and productive debate on economic developments, the challenges observed during the calendar year, and expectations for the year ahead. The AEF brings together an audience composed of key stakeholders responsible for and interested in economic developments, including representatives of public institutions, business associations, corporate executives, experts from financial institutions, and members of research and academic circles. The Riinvest Institute's Forum aims to consolidate itself as a notable and highly visible event for economic developments in the country. In preparation for AEF25, the Riinvest Institute has produced a research report that includes:

- a. an assessment of the current issues related to the dynamics and quality of economic growth, expectations for the future—particularly for the coming year—and economic policies. The report explains why economic growth is being challenged by the global environment, but even more so by the domestic context, which remains multilayered and complex;
- b. the evolution of the business environment and the intensity of specific barriers within this environment;
- c. a more detailed analysis of Kosovo's exports—as the special theme of AEF25—examining their volume, structure, and efficiency, while offering recommendations for economic policies in the field of export promotion.

This report has been prepared by analysing Riinvest Institute's studies, the Government Programme and its reflection in the 2025 Budget, budget execution and the 2026 draft budget, budget consumption reports, announcements of the Kosovo Agency of Statistics on sectoral developments during 2025, the monthly and annual reports of the Central Bank of Kosovo, as well as the latest reports of the IMF, the World Bank, the EBRD, the EU, and wiiw projections. In addition to these sources, a survey of around 300 businesses (conducted during September–October 2025) was carried out, focused on export activities and barriers in the business environment. The study was conducted using a standard random sample.

The report is also linked to the activities of the “Forum 2015,” which since 2023 has been operating as a programme and platform for debates on Kosovo's Euro-Atlantic integration under the Riinvest Institute. The findings presented represent the views of the research team, specifically those of the Riinvest Institute, and not necessarily those of other stakeholders involved in the implementation of this project.

ECONOMIC GROWTH AND THE MACROECONOMIC CONFIGURATION



1.1 Global context of economic growth

A series of consecutive crises, from the pandemic to the war in Ukraine and the trade tensions between major economies, has pushed the global economy into a new phase of slowdown and structural fragmentation. The World Bank (2025a) projects that global growth will fall to 2.3 percent, the lowest pace since 2008, excluding the recession year during the pandemic. The International Monetary Fund (IMF, 2025) offers a slightly more optimistic assessment, suggesting that global growth will be around 3 percent, but it emphasizes that without productivity gains and greater political stability, the outlook remains subdued. Forecasts for 2026 remain broadly aligned with this sluggish growth pace (3.1 percent) compared to 2024 (3.6 percent), while emerging economies are expected to grow by around 4 percent. Inflation is projected to decline from 4.2 to 3.7 percent globally, accompanied by pronounced variations: the United States continues to face above-target inflation and rising risks, while most of the world is expected to see more moderate price pressures (IMF, 2025).

According to these trends, higher real interest rates and demographic aging also appear to be reflected (OECD, 2025). Growth in developing economies is expected to reach around 4 percent, but this is not sufficient to accelerate convergence with advanced economies. The World Bank (2025a) similarly notes that global inflation is declining, yet remains a latent threat, particularly in developing economies where food and energy prices continue to be volatile.

According to McKinsey (October 2025), corporate leaders worldwide consider trade and geopolitical uncertainty as the main threats to investment and medium-term growth. This uncertainty has contributed to a continued decline in foreign investment in developing economies, which has fallen significantly compared to its peak levels before the global financial crisis (World Bank, 2025a).

The Vienna Institute for International Economic Studies (wiiw, 2025) forecasts that the Western Balkan region will record average growth of 2.5 percent in 2025 and between 3 and 4 percent in 2026. Similarly, the European Bank for

● **Table 1.** Real GDP growth forecasts for Western Balkan countries for 2025 (in percent)

	EBRD	wiiw	IMF	World Bank
Kosovo	3.9 %	3.9 %	3.9 %	3.8 %
Albania	3.5 %	3.5 %	3.4 %	3.7 %
Bosnia and Herzegovina	2.0 %	2.2 %	2.4 %	2.6 %
Montenegro	3.1 %	3.4 %	3.2 %	3.3 %
North Macedonia	3.0 %	3.0 %	3.4 %	3.1 %
Serbia	2.5 %	2.0 %	2.4 %	2.8 %

Source: Authors based on the latest data from the EBRD (2025), wiiw (2025), IMF (2025), and World Bank (2025b).

Reconstruction and Development (EBRD, 2025) highlights that the economies in which it operates, including Central Europe, Southeast Europe, and the Western Balkans, are experiencing a notable slowdown in consumption and investment, while inflation has eased but remains above target levels in many of these countries. According to the EBRD, the Western Balkans are expected to grow by an average of 2.7 percent in 2025 (down from 3.6 percent in 2024), and only 3.2 percent in 2026. At the same time, the EBRD (2025) warns that the lack of private capital is constraining investment in technology, innovation, and the green transition. This is particularly evident in the Western Balkan region, where stronger support is needed for the manufacturing sector and for physical infrastructure that enables regional trade and access to international markets.

There is a growing concern that any escalation of trade tensions or geopolitical conflicts could further weaken global growth and increase financial uncertainty. For small and open economies such as Kosovo, these developments imply a less favourable external environment characterized by weaker external demand for exports, slower inflows of foreign investment and remittances, and greater competition for human capital, which in turn can intensify the emigration of professionals. This makes it essential for economic growth to rely increasingly on investment in human capital, measures to reduce the motivation for emigration, investment in innovation, and improvements in institutional stability, particularly through enhanced economic governance.

1.2 Macroeconomic context of Kosovo

After the consolidation of growth rates to their pre-pandemic level in 2025, Kosovo's economy has entered a phase of mild slowdown. According to data from the Kosovo Agency of Statistics (KAS, 2025), real GDP grew by 2.83 percent in the first quarter and 4.58 percent in the second quarter, reflecting a more moderate pace and signalling challenges in fully utilising the available space to reach potential levels of economic expansion. This slowdown is mainly linked to the worsening performance of the external sector. Between the first and second quarters of 2024 and 2025, the trade

deficit increased by 16.6 percent, driven by both sides of the equation: exports of goods fell by around 4.1 percent, while imports of goods rose by approximately 16.5 percent. This development indicates that the growth in domestic demand, particularly for consumption and investment, is being accompanied by a strong increase in imports, while export capacities remain limited. As a result, the contribution of the external sector to the overall growth rate has been negative and, as in previous years, continues to offset the positive effects of other GDP components. This issue is examined in more detail in Part Three.

Similar to global trends, the forecasts of international institutions project a slight slowdown in economic growth in Kosovo as well. The Riinvest Institute, for the first time, has prepared its own macroeconomic forecast, estimating that real GDP growth will be 3.6 percent.² Our projection is lower than the forecasts of several international institutions and significantly below the projection of the Ministry of Finance presented in the draft budget. Our forecast, based on more recent data including the nine-month figures, suggests that there may be a slower pace of growth in overall investment (gross capital formation) and also a decline in the real growth rate of consumption, influenced by rising interest rates, a reduction in purchasing power, and the tightening of credit issuance by banks (see details below in sections 1.3–1.5 of this report). Added to this are other circumstances related to challenges particularly in the external sector, the financial sector, and even more so in the budgetary process and fiscal policy and management. However, despite the differences across these forecasts, they all point to the fact that economic growth remains insufficient to address structural gaps and imbalances in the macroeconomic configuration, and to ensure a faster process of convergence with the developed economies of the European Union.

2 The methodology used for preparing the macroeconomic projections refers to the macroeconomic model described in more detail in Annex 1.

● **Table 2.** Forecasts for Kosovo's real GDP growth in 2025 and projections for 2026

	Forecasted growth (percent)	
	2025	2026
Riinvest Institute	3.6	3.6 ↔
World Bank	3.8	3.8 ↔
IMF	3.9	4.0 ↑
wiiw	3.9	3.8 ↓
EBRD	3.9	3.9 ↔
Projection according to the 2026 Draft Budget (MoF)	4.3	4.9 ↑

Source: Riinvest (2025); EBRD (2025), wiiw (2025), IMF (2025), and World Bank (2025b), Draft Budget of Kosovo (Ministry of Finance).

International institutions and the Riinvest Institute forecast a similar level of economic growth for 2026. This takes into account the key characteristics of the global and domestic environment, which are reflected in the constraining conditions on economic activity that are expected to remain broadly unchanged, with a potential downside risk coming particularly from the external sector (see section 1.3).³ In contrast to these projections, the Ministry of Finance, in the assessments accompanying the Draft Budget, which unlike in previous years has not yet been reviewed by the Assembly of Kosovo, outlines an optimistic and significantly higher economic growth rate of 4.3 percent for 2025 and 4.9 percent for 2026. The projections presented in this document, in addition to struggling to withstand a reality check, do not appear to introduce any shift that would create the necessary preconditions for more meaningful economic growth.

The budget continues to suffer from serious shortcomings regarding the level of allocations for education, research and innovation, and health, all of which are essential determinants of the domestic economy's absorptive capacity for development and growth. Subsidies and transfers, which have become hypertrophied and hold a disproportionately high share of budget expenditures at 34 percent, remain non-selective and fail to generate a critical mass for positive change, even for the beneficiaries themselves, while carrying a high opportunity cost. Improving the ratio between these categories and the three aforementioned sectors remains essential for a more productive functioning of budgetary policies, not only in supporting the qualitative drivers of development but also in creating more effective conditions for social equity and further poverty reduction.⁴

³ Domestic demand, public investment, and the export of services remain the main drivers of economic growth; however, risks linked to political challenges, institutional consolidation, inflation, and the trade balance continue to pose threats (wiiw, 2025). Similarly, the World Bank (2025b) notes that risks to growth forecasts remain high due to institutional dysfunction, which slows the structural reform agenda and access to external funds, including the EU Growth Plan for the Western Balkans. It is also emphasized that continued emigration has a negative impact, acting as a drag on economic growth.

⁴ One typical example of a horizontal and non-selective intervention, instead of targeting segments of the population in need, is the Government's decision to undertake a 26-million-euro measure during the election campaign (one-off payments of 100 euros for each student). It is therefore legitimate to ask what the opportunity cost of this decision is compared with investing these funds in education, health, or research and innovation projects?

After a period of stabilization during 2024, inflation has begun to rise again, reaching 4.7 percent in September as a result of increasing prices of food, beverages, electricity, and services, all of which have added pressure on the cost of living (KAS, 2025). According to the German Economic Team (2025a), with the liberalisation of the energy market, businesses that move to the open market are expected to face prices around 70 percent higher than regulated tariffs, significantly increasing production and service costs. This is expected to particularly affect the competitiveness and financial performance of the food industry, the services sector, and agriculture, which are more exposed to energy costs, with a negative impact also on exports. In parallel with this, the Energy Regulatory Office (ERO) approved a 16.1 percent increase in regulated tariffs for universal service consumers, which directly affects final consumption prices and places additional pressure on inflation and potentially on the reduction of purchasing power and consequently on consumption.⁵

Economic growth in Kosovo continues to fail to translate into the creation of sufficient new jobs, highlighting the non-inclusive nature of the current development model. As we emphasized in our AEF 2023 and 2024 reports, this model relies primarily on consumption driven by imports and the absence of active policies to raise productivity. A coherent policy package that supports the qualitative drivers of development is still lacking, particularly one that strengthens the link between the national economy and the business sector through investments in research and development and innovation.⁶

This is a systemic flaw of the current economic model, which operates within a vicious cycle of consumption driven by imports. We have extensively argued this point in the Annual Economic Forum reports for 2023 and 2024.⁷ Unfortunately, no significant changes can be observed in budgetary or economic policies.⁸

Although the National Programme for Scientific Research was approved in 2023, its implementation has not begun due to the failure to meet the legal obligation of allocating 0.7 percent of the Budget. Currently, investments in research and development are estimated at only around 0.1–0.2 percent of GDP, which is significantly lower than the Western Balkan average (0.5 percent) and far below the EU average (around 1.2 percent).⁹ As a result, labour productivity in Kosovo remains low, with the value of one hour of work at around 26 dollars, representing less than 40 percent of the European average.¹⁰

Real wages increased by 10.3 percent during 2024, driven by the rise in the minimum wage and salary increases in the public sector. However, the labour market remained rigid: formal employment grew by only 1.4 percent in the first half of 2025 (World Bank, 2025b). This indicates that growth continues to be concentrated in low-productivity sectors such as trade, construction, and low value-added services, where job creation is limited. These sectors also continue to exhibit higher levels of informality. Meanwhile, sectors with higher employment and productivity potential, such as manufacturing with higher value-added and information technology, hold only a small share in the economic structure.

The participation of women and youth in the labour market remains among the lowest in the region, while the mismatch between the supply and demand for skills is deepening, reflecting gaps in the education system and the emigration of qualified workers. As a result, economic growth is not being reflected in improved well-being through quality employment. This makes the structural transformation of Kosovo's economy extremely urgent.

From January to July 2025, a total of 7,957 new businesses were registered in Kosovo, compared to 7,111 in the same period of 2024, an increase of around 12 percent (KAS, 2025). This development signals a slight rise in entrepreneurial activity. However, the sectoral structure remains unchanged:

5 This topic will be analysed in more detail in Chapter II, within the discussion on the business environment.

6 Riinvest Institute (2023b). The Research and Innovation Sector from the Perspective of Research and Innovation Workers.

7 Riinvest Institute (2024) Overcoming the Insufficient Growth Trap and Increasing Investment Efficiency (AEF2024); and (2023) A New Model for Sustainable Economic Growth – Labour Market Dynamics, Current and Future Challenges (AEF2023).

8 See the Draft Budget for 2026 prepared by the Ministry of Finance of the Republic of Kosovo.

9 Riinvest Institute (2025b). Developments in Scientific Research and Innovation 2023–2025.

10 OECD (2025). Economic Convergence Scoreboard for the Western Balkans.

over 40 percent of new businesses are in trade, while construction and services account for roughly one quarter of the total. The manufacturing sector represents only about 13 percent, although it recorded a slight increase. This shows that, despite the numerical growth, new entrepreneurship remains concentrated in low-productivity sectors, making the structural transformation of the economy slow and dependent on sectors that generate limited added value and restricted employment opportunities.

Following the early elections held in February 2025, the process of constituting the Assembly and forming the new government has been prolonged throughout the subsequent months, creating a period of political and institutional uncertainty. This has affected not only the pace of implementation of public policies but also the confidence of investors and the private sector, which remains sensitive to political instability. Highlighting this issue, the World Bank (2025b) notes that this institutional vacuum may delay the realization of both public and private investments and may slow down structural reforms, including those related to the EU Growth Plan, which requires close interinstitutional coordination. Delays in decision-making are likely to postpone the implementation of projects in infrastructure, energy, and digitalization, all of which are essential for long-term growth. In this regard, institutional stability remains a prerequisite for maintaining economic growth momentum and for the effective implementation of the reform agenda. Instead of achieving a basic level of consensus and reducing political tensions, the situation has deteriorated in recent years and is reflected in a form of paralysis and a contested legitimacy surrounding the country's executive. This is evidenced by the delays in forming the new Government and a budgetary process that is disputed on legal and procedural grounds, which risks undermining the normal functioning of economic activities and public services in the country.

1.3 Demographic challenge and its impact on economic growth

Kosovo is rapidly losing its demographic dividend, which is

turning into one of the country's most significant structural challenges for economic development. According to the 2024 Population Census, the resident population has shrunk by more than 15 percent compared to 2011, as a result of declining birth rates and continued migration (KAS, 2025). The composition of the population is changing markedly: the number of young people has fallen by around 20 percent, while the population aged 55 and above is increasing at a rapid pace. This shift in the demographic structure is creating new pressures on the labour force, fiscal contributions, and pension and healthcare systems, making economic growth more fragile.

According to Bruegel (2025), population ageing has already become one of the main factors constraining GDP growth in Europe, through its impact on lower productivity, reduced investment, and weaker innovation. In Kosovo, this trend is particularly problematic because it is occurring in the absence of a sustainable human capital base: female labour force participation remains low (around 25 percent), while the emigration of skilled young people is further depleting the country's human capital. This combination creates a weak development cycle, in which the decline of the active population and the lack of investment in education and vocational training hinder productivity growth and keep the economy dependent on remittances.

Although labour shortages may have some positive effects in certain Western Balkan countries, such as creating upward pressure on wages and encouraging automation and digitalisation of production.¹¹ However, in the case of Kosovo, this effect remains limited due to low technological and institutional capacities and, as noted above, the lack of investment in research and innovation (R&I), as well as the structure of the economy, which is dominated by low-productivity sectors. As a result, the labour shortage is not functioning as a catalyst for innovation and efficiency, but is instead primarily contributing to rising production costs and increasing difficulties for businesses seeking to expand their activities. In this context, continued migration remains a factor that further worsens demographic and economic dynamics. Meanwhile, the role of remittances is largely limited to supporting consumption that is heavily import-based. The departure of

11 Holzner (2025) argues that in some Western Balkan countries, demographic decline is paradoxically generating positive effects: labour shortages are driving wage growth and domestic consumption, while at the same time making investment in automation and robotics more attractive.

the active population reduces long-term growth potential and makes the country more dependent on external income. To reverse these trends, the World Bank (2025b) suggests that Kosovo should increase the participation of women in the labour market, develop affordable childcare policies, and strengthen programmes for the return and reintegration of the skilled diaspora. If these challenges are not addressed through sustainable policies and investment in human capital, ageing and migration risk becoming a persistent obstacle to Kosovo's convergence with the European Union, keeping the country on a path of slow and uneven growth.

1.4 External sector

Kosovo's external sector remained under considerable pressure during 2025, reflecting both internal structural weaknesses that affect labour productivity and heightened uncertainties in the global environment. The data show that although exports of goods and services recorded an increase of around ten percent compared to the same period of the previous year (from 2.3 to 2.5 billion euros), this was not sufficient to offset the faster rise in imports, which grew by about 14 percent (from 4.3 to 4.9 billion euros) (Table 1). As a result, the trade deficit deepened by around 18 percent, reaching 2.38 billion euros in the January–July 2025 period, accompanied by a decline in the import-to-export coverage ratio from 15 percent to 13 percent.

● **Table 3.** Kosovo's trade balance (in million euros)

Year	Export	Import	Trade balance	Export-to-import coverage (%)
2019	2,068	3,982	-1,914	52
2020	1,470	3,651	-2,181	40
2021	2,659	5,191	-2,532	51
2022	3,435	6,346	-2,911	54
2023	3,837	6,806	-2,969	56
2024	4,309	7,945	-3,636	54
Jan–Jul 2024	2,296	4,320	-2,024	53
Jan–Jul 2025	2,526	4,909	-2,383	51

Source: KAS and CBK (2025)

● **Table 4.** Trade in goods (in million euros)

	Export	Import	Trade balance	Export-to-import coverage (%)
2019	393	3,233	-2,840	12.2
2020	475	3,048	-2,573	15.6
2021	753	4,320	-3,567	17.4
2022	932	5,219	-4,287	17.9
2023	871	5,469	-4,598	15.9
2024	944	6,371	-5,427	14.8
January - September 2024	690	4,555	-3,865	15.1
January - September 2025	683	5,232	-4,549	13.1

Source: CBK (2025)

During the first nine months of 2025, the trade in goods continued to exhibit a deep imbalance, with a marked increase in imports and a slight decline in exports compared to the same period of the previous year. According to KAS data, exports reached 683 million euros, compared to 690 million euros in January–September 2024, representing a contraction of around one percent (Table 2). On the other hand, imports increased significantly, by approximately 15 percent. As a result, the trade deficit widened substantially, reaching –4.55 billion euros, up from –3.86 billion euros in the same period of 2024. Furthermore, the import coverage ratio fell from 15.1 percent to 13.1 percent, marking the lowest level in the past decade.

Services, on the other hand, partially offset the current account balance. During the first seven months of 2025, the positive trade balance in services reached 1.1 billion euros, representing an increase of 22 percent compared to the same period of the previous year (Table 3). According to data

from the Central Bank of Kosovo, service exports reached 2 billion euros by July 2025, up from 1.77 billion euros in the same period of 2024, an increase of around 13 percent. Meanwhile, service imports grew at a more moderate pace, rising by about 4.5 percent compared to one year earlier.

This expansion is the result of a combination of factors, with diaspora spending in Kosovo during the tourism season continuing to play the dominant role, but also supported by the rise in the number of travellers and flights. In particular, the export of computer, information, and telecommunication services continues to grow. During this period alone, exports in this category increased by 19 percent, reaching 218 million euros by July 2025.

● **Table 5.** Trade in services (in million euros)

Year	Export of services	Import of services
2019	1,675	749
2020	995	603
2021	1,906	871
2022	2,503	1,127
2023	2,966	1,337
2024	3,365	1,574
Jan–Jul 2024	1,767	855
Jan–Jul 2025	2005	894

Source: CBK (2025)

Remittances from the diaspora remain a strong pillar of Kosovo's external sector, although as a share of GDP they are expected to register a noticeable slowdown during 2025. According to the World Bank (2025b), Kosovo, one of the largest recipients of remittances in the region, is expected to experience the sharpest deceleration in inflows, with a decline of around 1 percentage point of GDP during 2025. This reflects the impact of economic slowdown in host countries of the diaspora, especially Germany and Switzerland, as well as the effects of persistent inflation, which has reduced the real purchasing power of migrants' incomes.

However, data from the first eight months of 2025 show a modest but steady increase in nominal terms, indicating that remittances continue to play a stabilising role in the external sector. By the end of August, they had reached 928 million euros, compared to 895 million euros in the same period of 2024, representing an increase of around 3.7 percent. The

overwhelming share of remittances continues to come from the three main destinations of the Kosovar diaspora, Germany (38.4 percent), Switzerland (17.4 percent), and the United States (7.4 percent), maintaining a stable geographic structure over the years.

Within the financial account, Kosovo continued to attract Foreign Direct Investment (FDI) during 2025, with a volume that is broadly similar to the previous year. However, the sectoral structure of these investments remains narrow and concentrated mainly in the real estate sector, which limits their long-term impact on productivity growth and the competitiveness of the economy. Up to this point in the year, around 78 percent of FDI has been directed toward real estate activities. In geographical terms, the main countries of origin of these investments continue to be those where the largest share of the Kosovar diaspora is concentrated. Germany accounts for 27 percent of total FDI, followed by

Switzerland with 24 percent, Albania with 12 percent, and the United States with 10 percent.

The current account deficit reached nearly nine percent of GDP in 2024, up from 7.6 percent in 2023, exceeding the regional average (IMF, 2025; World Bank, 2025b). Data for the first half of 2025 indicate a further deepening of this deficit, reaching 807.6 million euros, or 16.8 percent of GDP, compared to 15.3 percent in the same period of 2024. The financial account balance and the overall balance of payments also show deterioration, with deficits reaching 587.5 million euros and 792.5 million euros respectively in the first six months of 2025 (Table 4).

In the short term, risks to the external sector remain high. The slowdown of major EU economies, especially Germany, may affect demand for Kosovo's exports. At the same time, geopolitical tensions and changes in trade policies imposed by large economies such as the United States, the EU, and China, through protective tariffs, non-tariff barriers, and new industrial regulations, pose risks to global supply chains and to the flow of FDI that reaches Kosovo directly or indirectly through its European trading partners. On the other hand, progress in EU integration processes could mobilise more foreign financing and accelerate the competitiveness of exports.

● **Table 6.** External sector and balance of payments statistics

	Remitenecat		Investimet e jashtme direkte		Llogaria rrjedhëse		Bilanci nga llogaria financiare		Bilanci i pagesave	
	Në miliona euro	Si pjesë e PVB (në %)	Në miliona euro	Si pjesë e PVB (në %)	Në miliona euro	Si pjesë e PVB (në %)	Në miliona euro	Si pjesë e PVB (në %)	Në miliona euro	Si pjesë e PVB (në %)
2019	851.5	12.1	254.6	3.6	-408.3	-5.8	-161.1	-2.3	-399.5	-5.7
2020	980	14.5	345.7	5.1	-454.7	-6.7	-562.1	-8.3	-472.2	-7.0
2021	1,153.4	14.5	420.7	5.3	-632.5	-7.9	-365.0	-4.6	-694.7	-8.7
2022	1,222.8	13.7	732.0	8.2	-878.7	-9.9	-661.6	-7.4	-917.1	-10.3
2023	1,335.8	13.8	840.1	8.7	-729.4	-7.5	-415.5	-4.3	-666.5	-6.9
2024	1,355	13.4	793.5	7.8	-914.8	-9.0	-639.3	-6.3	-883.2	-8.7
2024 (Jan – Qer)	630.1	13.9	419.1	9.3	-691.8	-15.3	-496.6	-11.0	-667.9	-14.8
2025 (Jan – Qer)	654.7	13.6	431.5	9.0	-807.6	-16.8	-587.5	-12.2	-792.5	-16.5

Source: CBK and KAS (2025)

The IMF recommends policies that increase competitiveness, diversify exports, reduce dependence on the diaspora, and limit informality (IMF, 2025).

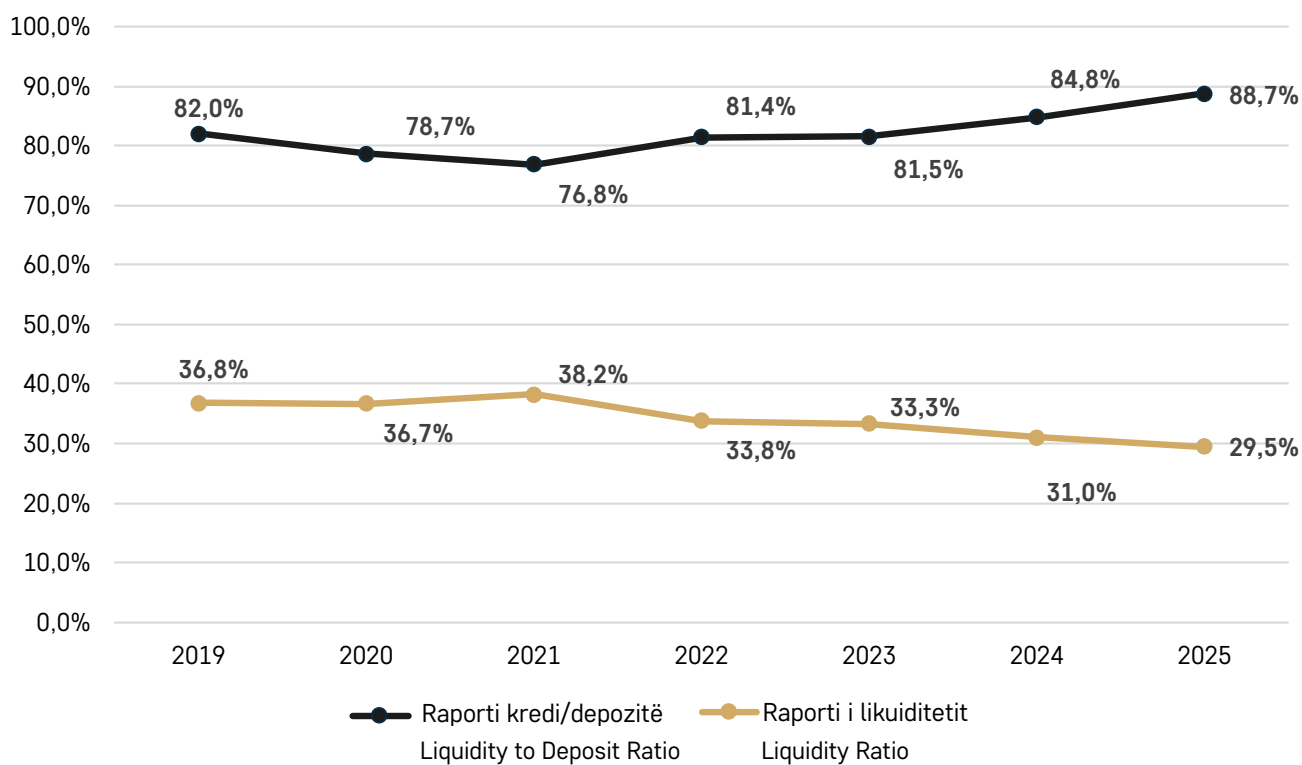
1.5 Financial sector

The financial sector in Kosovo continues its positive trend in growth, performance, and stability. The commercial banking sector consists of 11 banks in total, of which 8 are foreign-owned and together account for 82.6 percent of total assets. The number of branches remains unchanged, while the number of employees has recorded a slight increase compared to the previous year. The digitalisation of payments has also shown an upward trend during the year, similar to the increased use of e-banking.

Financial indicators confirm strong profitability and solid capitalisation: ROA has remained at 2.5 percent, and ROE at 18.4 percent. An ROA of 2.5 percent indicates that banks in Kosovo generate above-average returns for each unit of assets they manage. Meanwhile, an ROE of 18.4 percent reflects a high return on invested capital, making banks in Kosovo relatively attractive to investors.

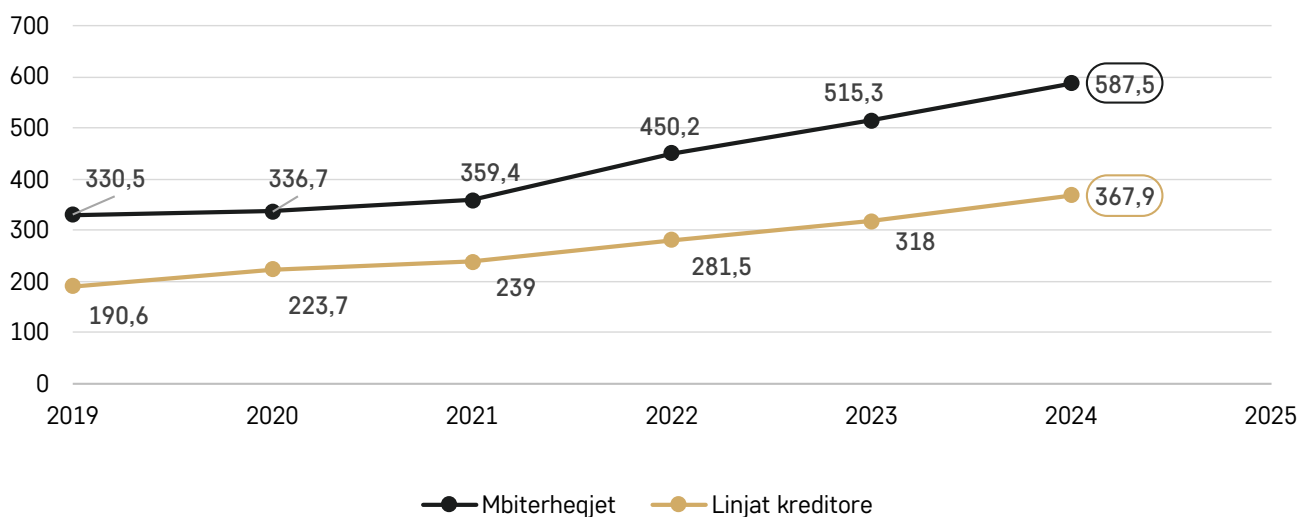
The loan-to-deposit ratio has reached 88.7 percent (see Figure 1), an increase compared to the previous year. This development indicates that lending is expanding at a faster pace than deposits. At present, this figure remains at healthy levels, but if the upward trend continues, it could pose a risk to banking liquidity, limiting the space for sustainable long-term financing and increasing the burden on consumers through higher interest rates. Nevertheless, the liquidity ratio remains stable at 29.5 percent. Although there is a slight deteriorating tendency, this level still demonstrates that banks have sufficient capacity to meet their short-term obligations.

● **Figure 1.** Liquidity indicators and the loan-to-deposit ratio for commercial banks, 2019–2025



Source: CBK (2025)

● **Figure 2.** Overdrafts and credit lines during the period 2019–2024 (in million euros)

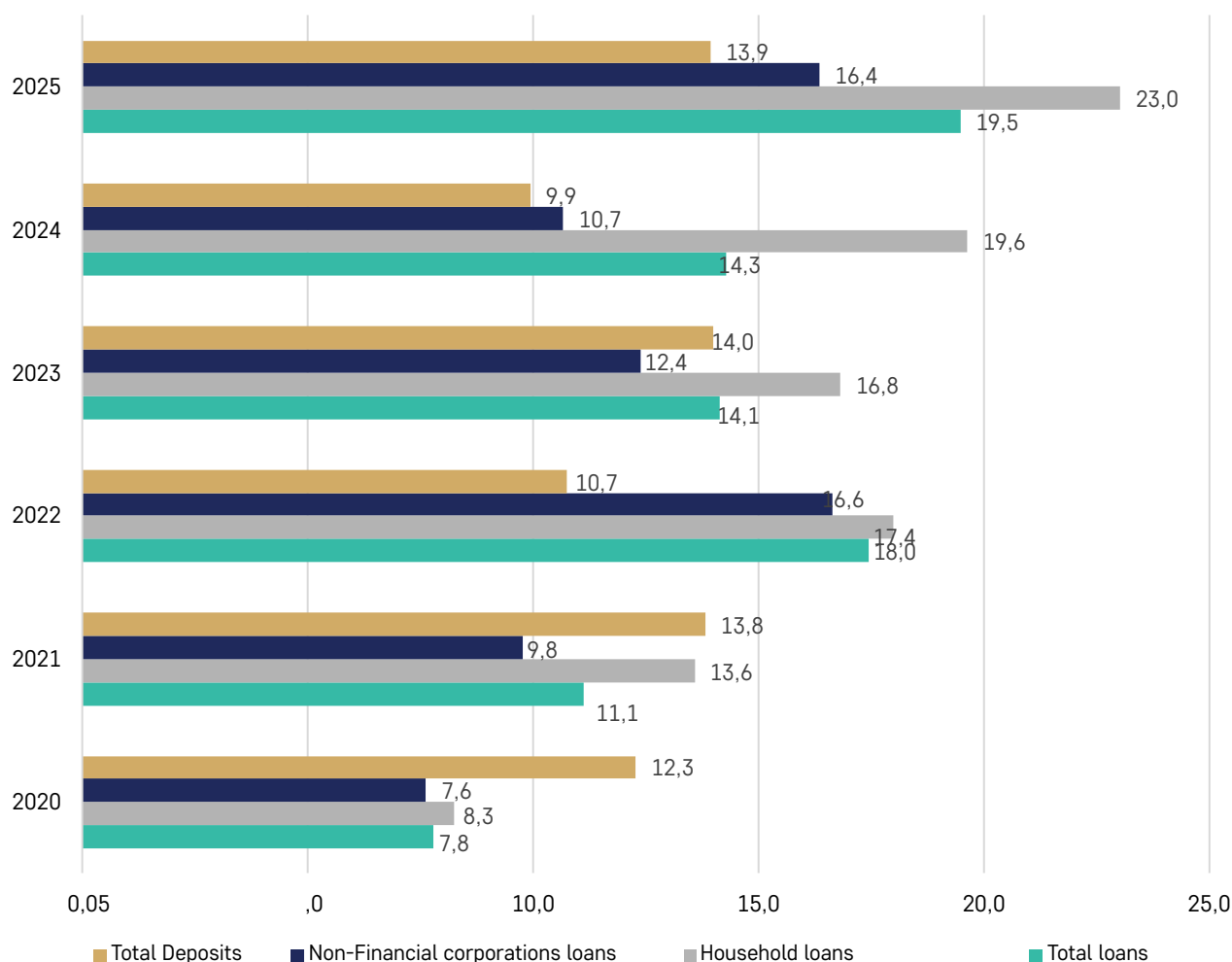


Source: CBK (2025)

Non-performing loans (2 percent) remain at a low level, but the increase in overdrafts and credit lines, especially among non-financial corporations, indicates a growing reliance on short-term instruments to manage liquidity needs. In August of this year alone, corporate overdrafts reached 518.9 million euros, while credit lines amounted to 391.1 million euros, which may signal rising financial stress and increasing credit burden. Household overdrafts also reached 103.5 million euros, reflecting the need for quick financing for consumption or unexpected expenses. As shown in Figure 2, overdrafts and credit lines have increased significantly, by more than 50 percent, compared to the period before the COVID-19 pandemic.

Bank lending to economic sectors has also recorded an annual increase of 19.5 percent. The highest growth in loans has been observed among households, at 23 percent, while non-financial corporations and other businesses have also experienced an increase of 16.4 percent (see Figure 3). This rapid expansion raises concerns about the quality of the loan portfolio. Data from August show a decline in the stock of active loans by around 15 million euros, an unusual development after several years of continuous growth. Moreover, the increase in loans (and overdrafts) to households signals a growing need among citizens to cope with more difficult living conditions as a result of inflation, low wages, and low employment levels. This implies that these loans are primarily consumption-driven and, as such, do not contribute directly to the country's economic development, particularly given the limitations in domestic production capacity.

● **Figure 3.** Annual growth of loans and deposits during the period 2020–2025 (in %)

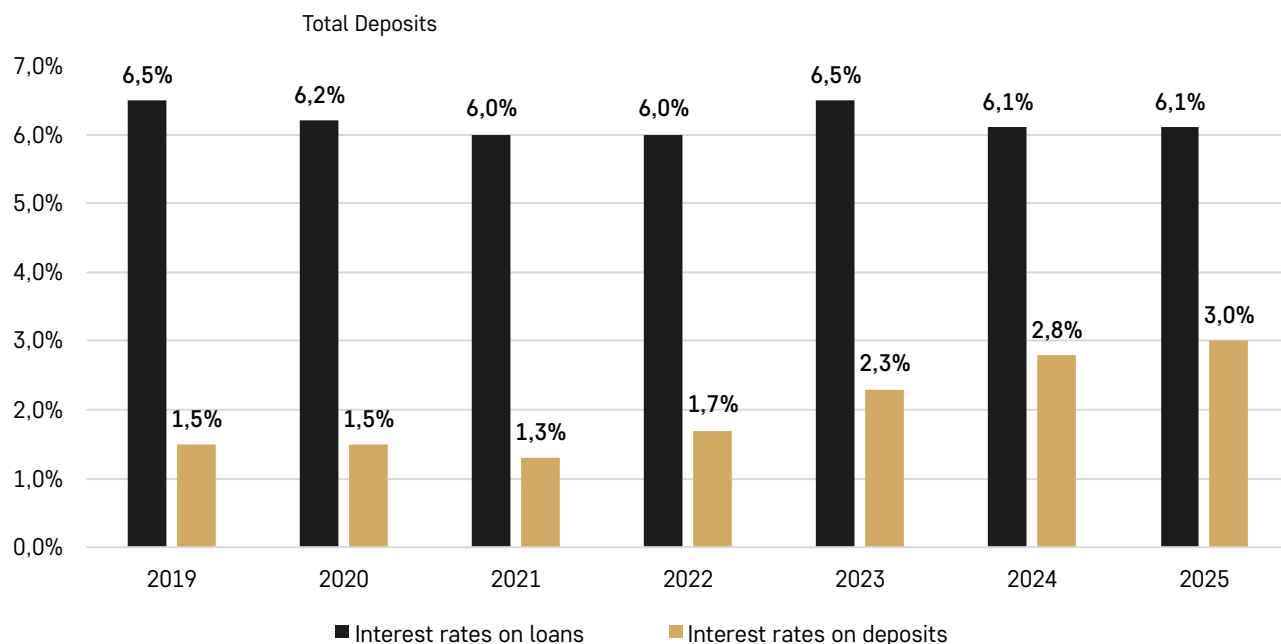


Source: CBK (2025)

The structure of loans by sector remains unimproved, with services continuing to dominate significantly, accounting for 64 percent of the total value, followed by industry, energy, and construction with 34 percent. Meanwhile, agricultural loans continue to make up a very small portion of the portfolio, only 1.8 percent of the total.

At the same time, deposits have recorded an annual increase of 13.9 percent (see Figure 3), reflecting a faster pace than in the previous year. Interest rates have risen as a result of inflation and higher demand for credit. Increases in interest rates are observed in both loans and deposits (see Figure 4), which has widened the interest margin from 2.8 to 3 percentage points. This boosts banking profits, but it also appears to further increase the burden on borrowers.

● **Figure 4.** Interest rates on loans and deposits, 2019–2025 (in %)



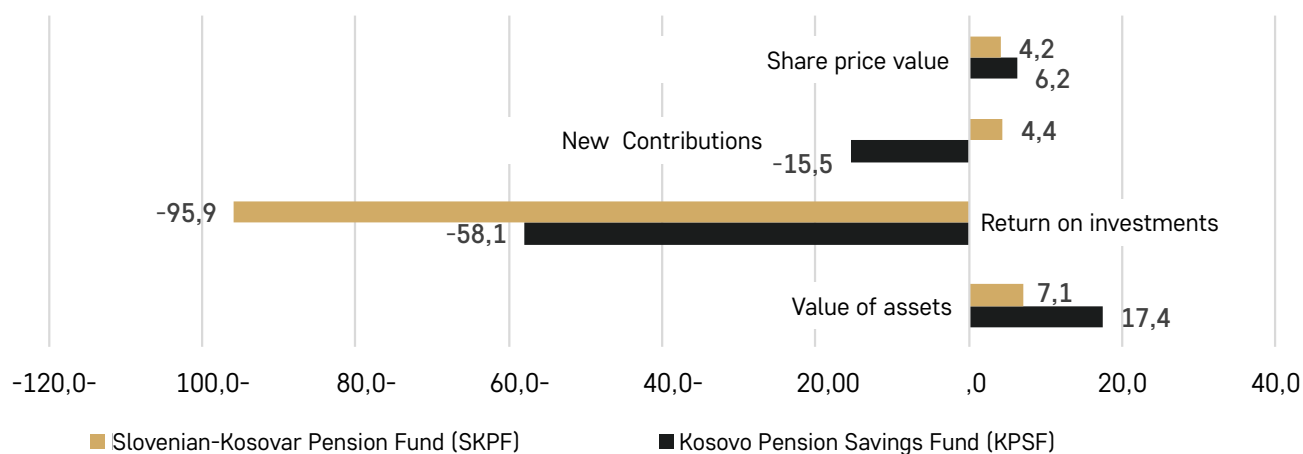
Source: CBK (2025)

In addition to commercial banks, other financial sectors have also followed the growth trend. Insurance companies have recorded a significant increase in net profit, as well as improvements in performance indicators (ROA at 5.4 percent and ROE at 16.9 percent). Microfinance institutions have substantially increased lending, especially to households, with an increase of 20.6 percent compared to the previous year.

Kosovo's financial sector also continues to have a high exposure to the external sector. Net external assets in August reached 5.4 billion euros, an increase of 9 percent compared to the same month of the previous year. The Pension Savings Fund leads with 2.8 billion euros, followed by the Central

Bank of Kosovo with 1.6 billion euros, and commercial banks with 1.02 billion euros. This structure indicates a considerable dependence on foreign financial markets, which may increase the sensitivity of pension savings and other assets to international fluctuations. Regarding the performance of pension funds, we observe an improvement in the unit price of the Kosovo Pension Savings Fund (KPST) compared to the same period of the previous year (see Figure 5). The return on investments for KPST has recorded a significant decrease, indicating that financial markets have not been favourable. However, the value of assets has increased substantially, by 17.4 percent.

● **Figure 5.** Performance indicators of Pension Funds, comparative analysis January–August 2024/25 (in %)



Source: CBK (2025)

1.6 Government expenditures – the budget

1.6.1 Budget revenues and expenditures

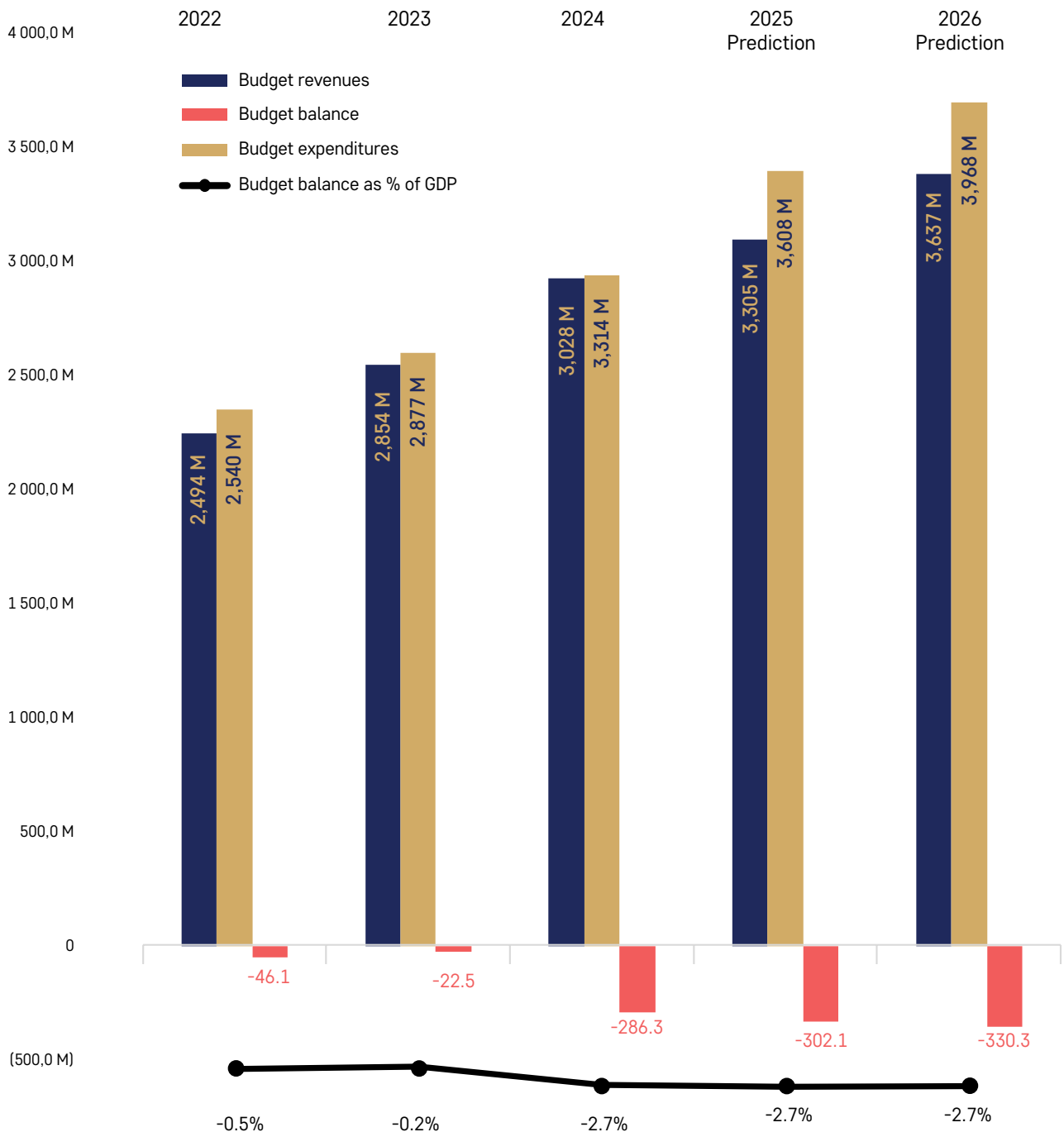
Kosovo's budgetary policy for 2025 and the projections for 2026 confirm the continuation of a budget model that still does not enable the transformation of fiscal policy toward qualitative and long-term economic growth. On the revenue side, the budget shows a relatively high dependence on indirect taxes such as VAT and excise duties, which reflects the economy's reliance on imports and consumption. On the expenditure side, there is an excessive concentration in the category of subsidies and transfers, alongside insufficient allocation and weak execution of capital investments. This inadequate structure limits fiscal flexibility and the government's capacity to stimulate productive economic growth.

In the January–September 2025 period, 2.47 billion euros were collected out of the 3.30 billion euros planned for the entire year, or about 73 percent. On the expenditure side, execution is lower, amounting to 2.02 billion euros or 61 per-

cent of the annual budget. This indicates strong performance in revenue collection but significant underperformance in spending, particularly in capital investments.

For 2026, revenues are projected at 3.63 billion euros, an increase of 10 percent, while expenditures are projected at 3.96 billion euros, also a 10 percent increase compared to this year. The financial gap will need to be covered through external borrowing and the issuance of securities. The planned budget deficit of –2.7 percent of GDP, or 330 million euros, is roughly similar to the average of Western Balkan countries, with the exception of Montenegro at –3.7 percent and North Macedonia at –4.4 percent. However, unlike some countries in the region, Kosovo has not yet diversified its sources of revenue and remains dependent on consumption and imports. To ensure medium-term sustainability, fiscal policy needs to focus on expanding the tax base, improving the efficiency of public investments, and directing expenditures toward sectors that stimulate labour productivity, such as investments in human capital, research, and innovation. The graph below nevertheless shows a tendency for the gap between government revenues and expenditures to widen over the 2024–2026 period.

● **Figure 6.** Draft law on budget allocations for the budget of the Republic of Kosovo for 2026



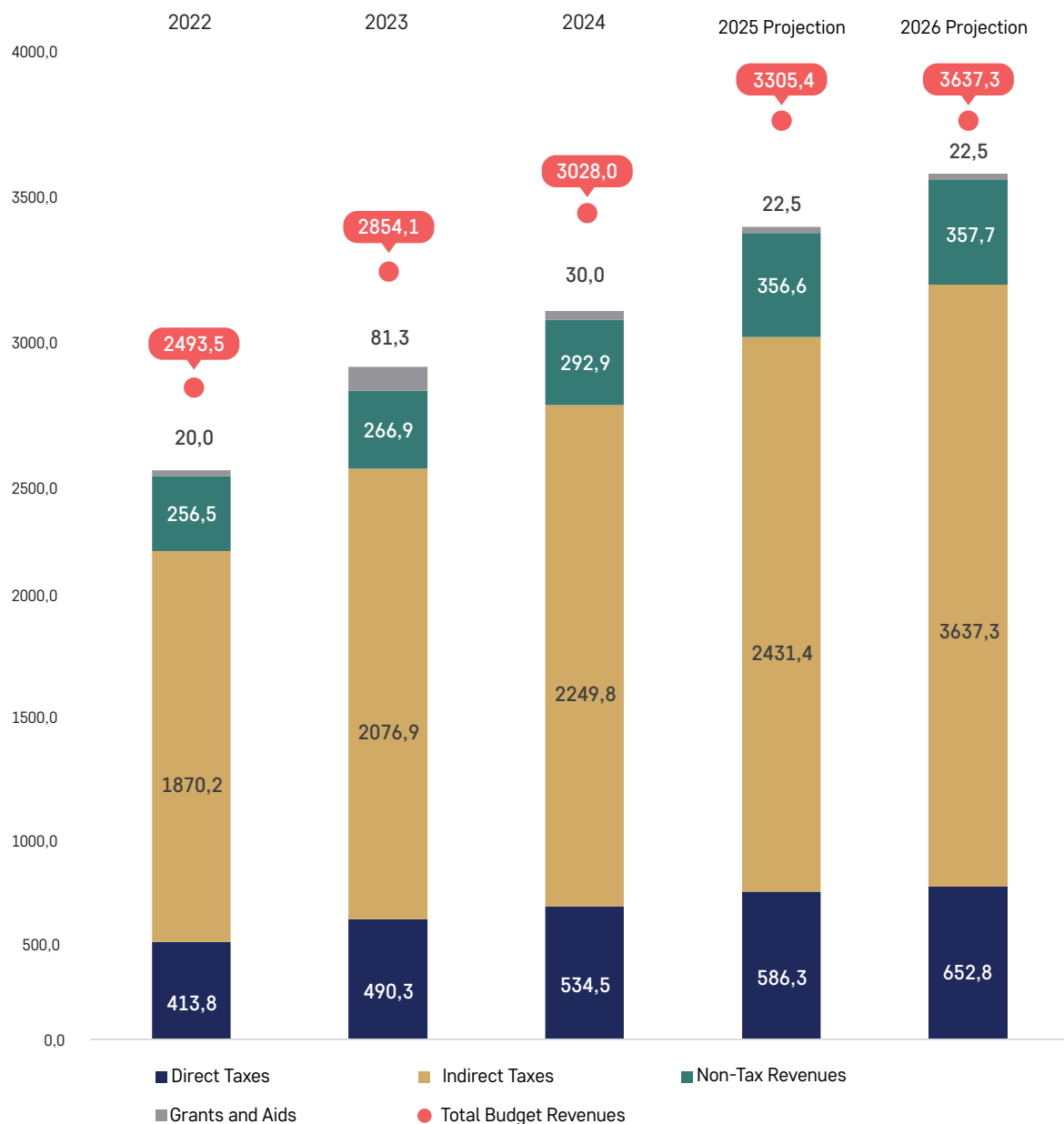
Source: Draft law on budget allocations for the budget of the Republic of Kosovo for 2026

1.6.2 Budget revenues

Domestic VAT collection increased from 478 million euros to 534 million euros in 2025, yet it accounts for only around 14 percent of total revenues. This indicates that domestic industry and services still do not contribute proportionally to the economy. As a result, Kosovo's economy remains at a disadvantage in the face of import price risks and dependence on consumption.

Direct taxes, which make up around 18 percent of total revenues in 2025, are projected to grow by about 10 percent in 2026 compared to 2025. This growth rate also shows that the tax base remains relatively small and that contributory taxes are low. According to the IMF (2025), the formalisation of the economy and the expansion of the tax base remain among the key challenges for revenue mobilisation.

● **Figure 7.** Structure of budget revenues



Draftlaw on budget allocations for the budget of the Republic of Kosovo for 2026; author's calculations based on fiscal series

● **Table 7.** Structure of government expenditures as a percentage of the total

	2022	2023	2024	2025 Projection	2026 Projection
Wages and salaries	25.7%	26.7%	24.3%	25.4%	24.7%
Subsidies and transfers	41.9%	37.5%	32.1%	32.0%	34.2%
Capital expenditures	16.6%	19.5%	25.9%	25.8%	25.2%
Goods and services	14.3%	14.8%	15.7%	14.9%	13.7%

*For 2022–2024 the realized structure is presented, while for 2025–2026 the projected one is shown

1.6.3 Structure of budget expenditures

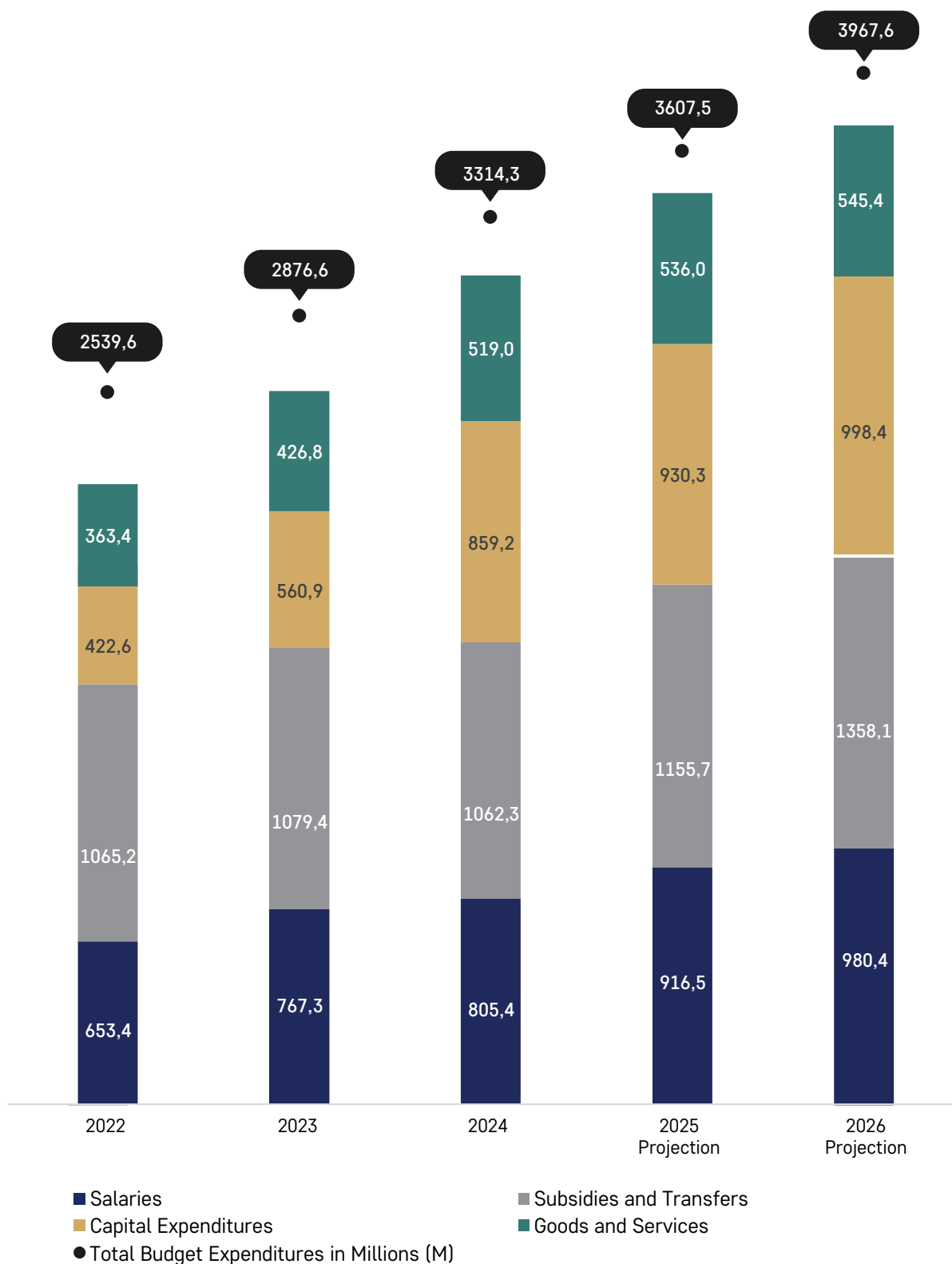
The wage category is expected to reach 980 million euros in 2026, or 24.7 percent of the overall budget. This figure incorporates the effects of implementing the public sector wage law and the government's commitment to introduce a 13th salary for public sector employees. Although expenditures in this category have increased, several key professions such as doctors, university professors, police officers, and the justice system continue to face inadequate pay relative to their responsibilities and societal needs.

Subsidies and transfers are projected to reach 1.35 billion euros in 2026, or 34 percent of total expenditures. These expenditures are primarily linked to social programs, pensions, and rising demographic pressures. The government's one-off payments of 100 euros for students, costing around 26 million euros, illustrate a policy orientation toward ad-hoc spending without critical analysis.

With subsidies and transfers (34 percent) exceeding capital expenditures (25 percent), Kosovo's fiscal policy leans toward short-term redistribution and demand support rather than spending that enhances productivity and competitiveness.

On the other hand, capital investments are planned to be around 1 billion euros in 2026, an increase of 8.3 percent compared to the previous year, but they remain unchanged in the overall structure of the budget and are not adequate for the country's development needs and economic potential. The historically weak execution of capital projects continues to limit their stimulating effect on economic growth.

● **Figure 8.** Structure of budget expenditures



Source: Draftlaw on budget allocations for the budget of the Republic of Kosovo for 2026

● **Table 8.** Budgeting and execution of capital investments (million euros)

	2021	2022	2023	2024	2025 (January - September)
Budgeted capital investments	626.1	704.0	819.9	859.2	930.3
Executed capital investments	419.7	419.2	554.4	654.6	394.4
Unexecuted investments	206.4	284.8	265.5	204.6	535.9
Execution rate (percent)	67%	60%	68%	76%	42%

Source: Draft budget allocation laws 2021–2025, and fiscal time series calculated by the author

Although the budgeting of capital investments has increased gradually from 704 million euros in 2022 to 930 million euros in 2025, execution rates remain relatively low. In 2025, by September, only 42 percent of the planned capital investment funds had been executed. This year shows a similar pattern to previous years, where the final execution level has rarely exceeded 60 percent. Public audit analyses highlight that the main obstacles are linked to delays in procurement procedures, the lack of timely project preparation, expropriation issues, and weak contract management.

As a result, the share of capital investments in total budget expenditures remains around 25 percent at the planning stage but in practice falls to roughly 20 percent when it comes to execution. This reflects a structural weakness in transforming the budget toward productive growth. This share would need to increase to around 30 percent of the budget, considering the country's development level and the need for transformation in economic sectors, particularly in health and education, research, and innovation. The analysis of sectoral expenditures is based on the Medium-Term Expenditure Framework (MTEF), which must be approved by the Government of Kosovo by 15 June of the relevant year. Since this year the MTEF was neither prepared nor approved by the Government of Kosovo, this complicates the sectoral economic analysis and the government's policy orientations for the coming years. In the absence of this key document, the sectoral analysis is based on last year's framework. The structure of sectoral expenditures for 2026 shows a moderate shift with greater emphasis on public finance, energy, and the environment, while some traditional sectors such

as public administration, justice, and social care remain relatively unchanged. Compared to 2025, the energy sector records a significant increase of 44 percent, reaching 86 million euros, which appears to align with the government's commitments to the green transition and projects in energy efficiency. The environment sector also marks a notable increase of 22.5 percent, indicating heightened attention to environmental policies. Social care remains the most heavily funded sector with 764 million euros, or around 7 percent of GDP, and approximately three times the funds allocated to healthcare. The health and education sectors continue with modest increases of about 5 percent each, maintaining their traditional weight in the budget structure but still remaining significantly below the levels observed in regional countries.

In healthcare, expenditures in 2024 accounted for only 3.08 percent of GDP and 9.8 percent of total budget expenditures, with projections to reach 3.4 percent of GDP and 10.5 percent of budget expenditures in 2025. This level remains considerably lower than the EU average health spending share of GDP, which stood at around 7.3 percent in 2023, as well as below the Western Balkan average of 5.95 percent.

With regard to education, science, and innovation, funding for research and innovation (R&I) remains extremely low. According to the law, Kosovo is required to allocate 0.7 percent of its budget to financing the R&I sector. However, to date, the funds allocated for R&I have been only around 1 to 1.5 million euros per year, representing roughly 0.1 percent of Kosovo's national budget.

● **Table 9.** Sectoral expenditure framework at the central level (million euros)

Sectors	2024 (Executed)	2025 (Budgeted)	2026 (Budgeted)	Percentage Change (2026/2025)
Public Administration	123.3	123.3	108.6	-11.9%
Public Finance	200.3	178.6	301.9	69.0%
Foreign Policy and International Relations	47.5	48.1	50.8	5.5%
Defense and Security	153.0	158.7	163.3	2.9%
Public Safety	185.1	204.2	213.7	4.7%
Justice	101.4	111.8	103.1	-7.8%
Environment	72.9	60.7	74.4	22.5%
Transport and Communications	205.0	272.8	275.0	0.8%
Energy	59.5	59.6	86.0	44.3%
Business and Industry Support	31.3	39.7	41.0	3.3%
Agriculture	89.8	90.3	95.3	5.5%
Culture, Recreation and Sport	99.2	107.0	107.3	0.3%
Labour Market and Employment	33.5	33.8	34.0	0.5%
Social Care	713.2	770.7	764.2	-0.8%
Health	263.7	275.0	288.8	5.0%
Education and Science	134.4	139.3	146.1	4.9%

Source: Medium-Term Expenditure Framework 2025–2027

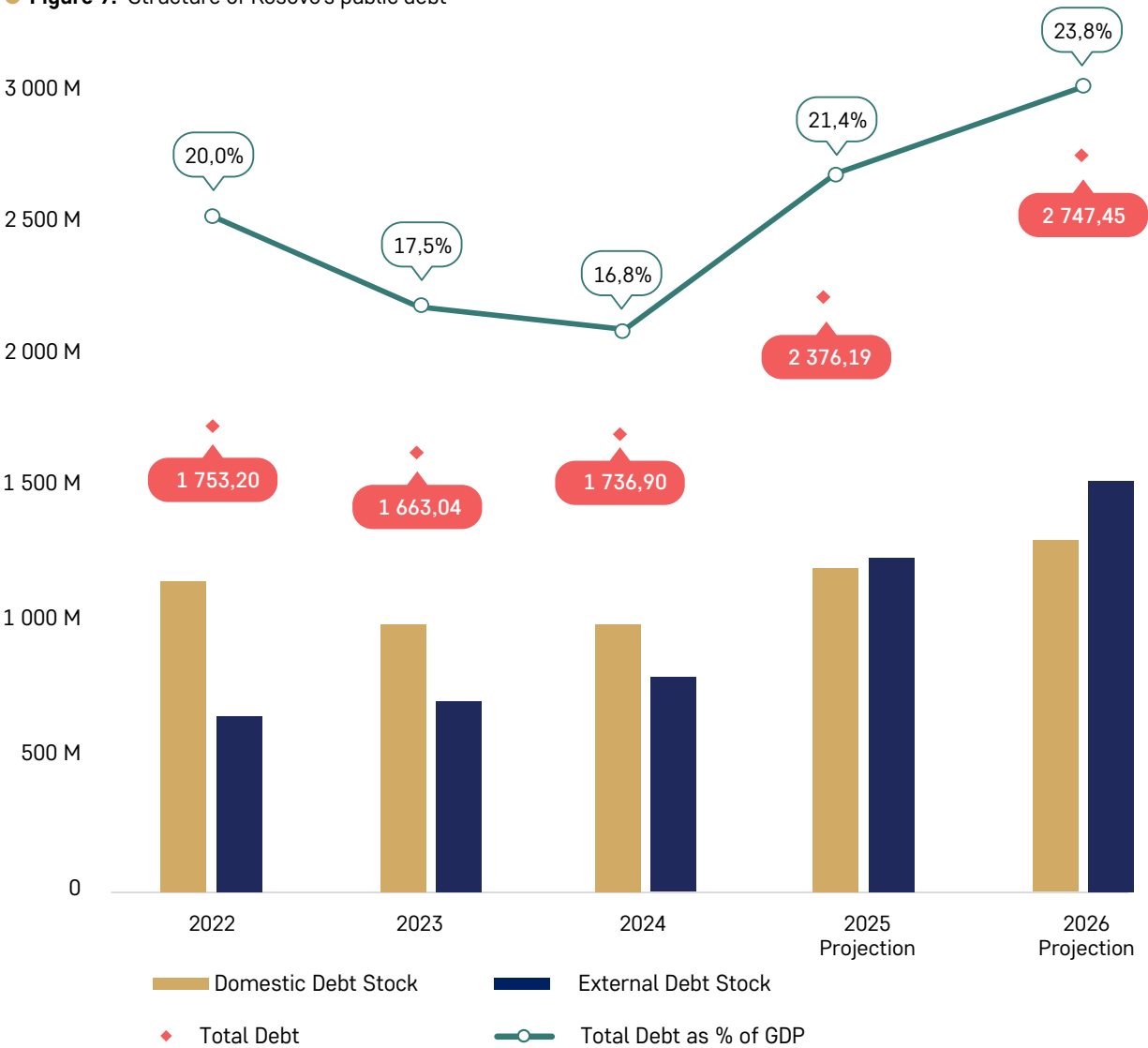
1.6.4 Analysis of public debt

Kosovo’s public debt remains at sustainable levels and below the legal ceiling of 40 percent of GDP, although it has recorded gradual growth over the past two years. In 2026, total public debt is expected to reach 2.75 billion euros, or 23.8 percent of GDP, up from 21.4 percent one year earlier. Domestic debt has increased to 1.27 billion euros, making up around 46 percent of the total. It consists mainly of treasury bills and government bonds, which are used primarily to cover the budget deficit and finance current expenditures. This orientation toward consumption rather than investment

highlights institutional limitations and capacity constraints in generating productive growth.

Meanwhile, external debt is expected to increase from 1.21 billion euros in 2025 to 1.48 billion euros in 2026, representing more than half of total debt. This debt is dominated by loans from international institutions (the World Bank, the EU, the IMF, and the EBRD) intended for projects in energy, transport, environment, and public finance reform. Although Kosovo’s debt structure remains healthy and within standards, the main challenge continues to be the ineffective use of borrowed funds and significant delays in implementing projects financed through external loans.

● Figure 9. Structure of Kosovo’s public debt



Source: Public Debt Program 2025–2027

BUSINESS ENVIRONMENT

2

This chapter presents a summary of developments in Kosovo's business environment over the past three years, focusing on the structural and institutional barriers that directly affect the development of the private sector. Challenges related to the legal and regulatory framework, access to finance, the level of informality, the labour market, infrastructure, and internal business constraints continue to shape the investment climate and competitiveness. These findings are also consistent with assessments by international institutions such as the OECD (2024) and the World Bank (2025), which emphasize that Kosovo's economy faces structural challenges that require continuous reforms in governance, rule of law, and productivity growth.

In 2025, there was an increase of around 9 percent in newly established businesses, mainly in trade, construction, manufacturing, and professional services. Of the 12,051 newly registered businesses, 99.2 percent had 1–9 employees, which corresponds with the overall structure of enterprises in Kosovo, dominated by micro-businesses. On the other hand, 1,637 businesses closed during 2025, a figure that reflects ongoing challenges in the business environment but remains at a manageable level compared to the long-term trends reported by KAS (2025).

2.1 Main barriers in the business environment in 2025

Below are summarized the results from the regular surveys conducted by the Riinvest Institute on a series of indicators and obstacles faced by businesses in Kosovo. The barrier table reflects around 22 indicators as perceived by businesses during the period 2017–2025. For the year 2025, an important shift is observed in the structure of barriers compared to 2024. From the survey data with business leaders, we see that the most prominent barriers are related to (i) Worker migration, (ii) The high cost of financing, (iii) Tax rates, (iv) Workers' skills and education, (v) Fiscal evasion and informality, and (vi) Electricity supply.

Worker migration, although showing a slight decline, remains the most prominent barrier in 2025. Moreover, reports by the OECD and the World Bank emphasize that the decline of the working-age population and the emigration of skilled

young people are becoming some of the most significant challenges to productivity and competitiveness in Kosovo. The cost of financing, even though it has slightly decreased in intensity, continues to be a major challenge for businesses in recent years. This decline may be linked to the expansion of credit guarantees offered by the Kosovo Credit Guarantee Fund (KCGF), but high interest rates continue to limit investments, particularly in the manufacturing sector. Workers' skills and education also remain a serious obstacle for businesses, even though there appears to be a slight improvement compared to 2024. This may be explained by increased investment in training by businesses, as well as improvements driven by a better alignment of vocational schools with labour market needs and the implementation of the dual education system. However, studies by ASHAK (2021) and Riinvest (2024b) show that the mismatch between workers' skills and labour market needs remains structural and will take time to improve. Electricity supply, which in 2024 was a low-intensity barrier (39.3), has increased significantly in 2025 (49.8). This is mainly explained by uncertainty in energy imports, the transition of large businesses to the open electricity market, and rising prices, which increase production costs, as well as the lack of new generation capacities. These issues are also highlighted in the European Commission's 2025 Report on Kosovo.

● **Table 10.** Barriers in the business environment

Year	2017	2023	2024	2025
Worker migration	-	75.2	64	54.8
High financing costs (high interest rates)	56.5	63.5	56.8	53.0
Tax rates	57.3	63.7	51.7	52.9
Workers' skills and education	38.7	55.1	60.4	52.2
Tax evasion and informality	57	63.5	64.7	51.6
Inefficient tax administration	53.8	62.8	52.4	51.1
Electricity supply	51.2	57.2	39.3	49.8
Contract violations by consumers and suppliers	-	-	48	49.0
Security and political stability	52.2	57.6	44.1	47.0
Access to credit	50.7	58	51.4	46.1
Rapid technological changes	-	-	42.1	45.7
Access to information for the enterprise	37.1	55.3	39.7	44.9
Licensing procedures	43.8	-	39.9	44.4
Production standards	-	-	42.6	44.1
Access to business location (land)	-	-	44.4	43.9
Laws and the judicial system	52.8	55.4	47.3	43.4
Corruption	58.9	59.8	59.4	43.2
Labour laws and regulations	-	-	38.4	43.1
Customs	47	60.6	47.4	43.0
Non-tariff barriers	-	-	43.6	43.0
Transport	35.7	51.2	35.8	41.4
Telecommunications	32	47.6	31	39.6

Source: Riinvest Institute Survey, 2025

2.2 Legal and fiscal regulation

Barriers such as an inefficient tax administration and the functioning of the judicial system fall within the segment of medium-intensity barriers; however, tax rates remain among the top three barriers. Although at first glance tax rates in Kosovo are low, according to the OECD (2024), the tax structure in Kosovo is simple but not sufficiently stimulating for long-term investment, especially for manufacturing firms.

Regarding the Kosovo Tax Administration (KTA), the change in business perceptions is linked to improvements in efficiency and performance, progress in the digitalisation of services, and the implementation of the new Tax Administration Law, developments also highlighted in the European Commission's Progress Report (2024).

The judicial system remains an important barrier. The World Bank and the European Commission underline that delays in resolving business disputes, due to insufficient judicial capacity, increase legal uncertainty for investors.

The reforms undertaken by the Government of Kosovo to reduce administrative burden (2020–2027), including the simplification of more than 150 administrative services and progress in digitalisation, although not fully implemented, have had a positive impact on business perceptions. Nevertheless, the OECD recommends strengthening enforcement mechanisms to ensure regulatory stability and greater transparency.

2.3 Access to finance

For the year 2025, in terms of business financing, access to credit and the cost of financing remain among the most serious economic barriers. While access to credit has shown slight improvement, other challenges persist. This year we observe an increase in interest rates by commercial banks, especially for manufacturing businesses. According to the OECD (2024), Kosovo has the lowest level of alternative financing in the region, with a lack of venture capital, innovation funds, and angel investor networks.

On the other hand, the World Bank notes that high collateral requirements, the narrow structure of the banking market, and the limited digitalisation of credit history systems continue to affect private investment. A positive development remains the growing role of the Kosovo Credit Guarantee Fund, which in recent years has significantly facilitated lending for SMEs. The expansion of new guarantee windows and their orientation toward productive and export-oriented sectors is in line with Riinvest's (2024) recommendations for steering policies toward productivity growth and improved financing instruments.

The KCGF can guarantee up to 80 percent of the credit portfolios of financial institutions for SMEs in areas such as energy efficiency and sustainable agriculture. So far, the KCGF has issued 799 million euros in guaranteed loans (European Commission, 2025).

2.4 Informal economy and corruption

Reducing the informal economy in Kosovo remains a major socio-economic challenge despite efforts made in recent years by government institutions. Kosovo continues to be characterized by relatively high levels of tax evasion and undeclared work, which weaken the government's ability to provide public goods to its citizens and create an unfavourable business environment through unfair competition. Although in 2025 informality has recorded a slight decrease in intensity, it still remains one of the most structural challenges of Kosovo's economy.

The OECD (2024) emphasizes that the high weight of the informal economy undermines fair competition and reduces fiscal revenues. Small and micro businesses are more exposed to competitive pressure from informal entities, particularly in trade and services. According to the IMF (2022), the main factors driving informality are the lack of trust in official institutions, corruption, the inefficient administration of justice, and the weak enforcement of legal measures. The Riinvest Institute continuously monitors the level of informality in Kosovo through business surveys, which show that it ranges between 30 and 35 percent of GDP.

The level of corruption remains a real problem in Kosovo, hindering progress in strengthening the rule of law, improving the business climate, and increasing investment attractiveness

(Riinvest, 2024c). Despite a slightly better perception in 2025, international reports such as those of the OECD emphasize that progress in the fight against corruption is limited and that measurable results in high-profile cases are lacking. The private sector continues to face challenges in public procurement, contract enforcement, and institutional transparency.

According to the European Commission's Progress Report (2025), Kosovo is between an early stage of preparation and a moderate level of preparation in the fight against corruption and has made only limited progress. Kosovo has achieved further improvement in the adjudication of high-level corruption cases, resulting in a higher number of final court decisions and convictions, in contrast to the decrease in the overall number of investigations and final convictions in non-high-level corruption cases. Kosovo still does not have a comprehensive strategic framework in place in the field of anti-corruption.

2.5 Labour market

Even in 2025, the labour market continues to be one of the most determining factors for the business environment. The OECD and the World Bank identify three structural challenges: **(i)** the high migration of the workforce, especially skilled workers, **(ii)** low labour market participation, particularly among women, and **(iii)** the mismatch between workers' skills and labour market needs. Migration continues to severely damage businesses' ability to retain and recruit new workers. Riinvest studies (2024) show that companies are responding by increasing wages, investing in better working conditions, and directing investments toward technology; however, the lack of qualified human capital remains a major obstacle. Another important aspect concerns workers' skills and education, which continue to rank among the main barriers (52.2 points). Studies by the Riinvest Institute (2023) clearly document the large gap in vocational training, the lack of internship programs, and the modest level of coordination between businesses and vocational education institutions. World Bank reports (2025b) emphasize that human capital remains underutilized, with low labour force participation and employment, which limits the country's economic growth potential.

The decline in birth rates and the continued migration abroad create additional pressures on the labour market. These re-

ports also highlight the need to improve the quality of vocational education and the opportunities for on-the-job training.

2.6 Administrative barriers and infrastructure

In 2025, there is a stabilization in perceptions regarding infrastructural and administrative barriers, although they still remain significant challenges. Electricity supply has recorded a noticeable increase in intensity (49.8 points), reflecting uncertainties in energy markets and dependence on imports. Licensing procedures have also increased in intensity (44.4 points), which may be linked to the complexity of sectoral regulations in several industries, particularly in manufacturing and food production.

2.7 Internal barriers

Internal barriers within businesses continue to negatively affect the competitive capacity of enterprises in Kosovo. Rapid technological changes, although assessed with low intensity (45.7 points), indicate that businesses still do not invest sufficiently in innovation and digital transformation. The OECD (2024) notes that the level of investment in technology remains below the regional average. Access to information and production standards remain moderate challenges. As highlighted by Riinvest (2024), the lack of certification bodies and accredited laboratories poses an obstacle for enterprises aiming to export. The engagement of institutions in developing laboratory and certification capacities is a positive step, but the impact of these reforms will only materialize in the medium term.

2.8 Energy market liberalisation and the business environment in Kosovo

The liberalisation of electricity prices for medium and large enterprises marked an important step in aligning Kosovo with the Energy Community Treaty and in efforts to create a more functional and competitive market. With this change,

the country began to move away from the long-standing model of regulated tariffs, which had kept prices below the real market level for more than a decade. During the period 2018–2023 alone, this model generated around 2.2 billion euros in implicit subsidies¹², of which approximately 2 billion euros were created during the 2021–2023 energy crisis. To support this scheme, the government also provided 608 million euros in direct subsidies, of which 246 million euros were allocated in 2022 alone, representing 2.8 percent of GDP (OECD, 2025). These figures clearly show that this model is fiscally unsustainable, increases dependence on imports and subsidy mechanisms, and discourages investment in renewable energy sources.

In this context, and considering Kosovo's commitments under the Energy Community, the shift toward liberalization became a necessary step in reforming the market. On 1 June 2025, all medium and large enterprises with an annual turnover above 10 million euros or more than 50 employees were required to exit the Universal Service Supply (USS) and purchase electricity from the open market. Around 1,200 companies fell under this category, representing approximately 10 percent of total energy consumption.

This transition moved businesses away from a regime of relatively low and predictable prices to an environment where prices reflected actual market conditions, including real constraints related to the level of competition and the supply offered by providers. After entering the open market, enterprises reported that supply offers for 2025 averaged around €0.19 per kWh, which was more than double the average regulated tariffs of 2024. According to data from the Energy Regulatory Office (ERO, 2025), the average price for non-household consumers in 2024 had been €0.093 per kWh. This sudden price shift created significant pressure on businesses, particularly manufacturing firms, which faced substantial increases in operating costs.

However, analyses by the German Economic Team (GET, 2025a) suggest that this high price level is expected to stabilize at around €120 per MWh in the medium term, as competition among suppliers in the market increases. Although this

price is lower than the initial offers received by businesses, it still remains roughly 30 percent higher than last year's regulated tariffs, indicating a structural increase in energy costs for enterprises.

This major change in energy costs has had varying effects across different sectors. The GET (2025a) analysis showed that the relative burden of additional energy costs, expressed as a percentage of gross value added, was highest in the most energy-intensive sectors. The food industry was among the most exposed, where the relative burden reached up to 3.8 percent of the sector's gross value added. Sectors such as machinery manufacturing, non-metallic minerals, and metals experienced a similar burden, indicating that energy costs could directly affect their competitiveness. By contrast, sectors such as services and agriculture, which have lower energy intensity, were affected to a much lesser extent.

These effects become even more significant when combined with the findings of the Riinvest Institute's 2025 survey, according to which businesses that entered the open market experienced an immediate increase of around 28 percent in their total input costs. This increase occurred right after price liberalisation, at a time when firms were receiving very high supply offers due to an inefficient and underdeveloped supplier market. Although, as mentioned earlier, prices are expected to decline as market competition increases, this still represents a substantial structural rise in input costs for many enterprises.

This increase did not include only electricity, but also raw materials and other production expenses. Since these inputs are part of intermediate costs, which are deducted before calculating gross value added, this broad rise in prices indicates that businesses faced a double shock: on one hand, the direct increase in the price of electricity, and on the other hand, the rise in the prices of inputs that themselves embed high energy costs in their production processes.

This placed the manufacturing industry in an especially difficult position. The food sector, which already operates with

12 Implicit subsidies represent the difference between the regulated price paid by consumers and the real market cost of energy or the real cost of production. When the price set by the regulator remains below this real level for an extended period, the gap is indirectly financed by the public through budgetary funds, public company debt, or the postponement of necessary investments in the energy system.

relatively low margins, faced a narrowing of profit rates, risking reductions in production and investment. In many cases, the increase in production costs could not be fully passed on to the prices of final products, further straining their financial situation.

The increase in energy costs created immediate pressure on competitiveness, particularly in export-oriented sectors. According to the Riinvest Institute survey, around 65 percent of firms assessed that the open market would negatively affect their ability to compete internationally. This reflected concerns that rising energy costs would compress profit margins and weaken the competitiveness of export products.

However, liberalisation also created strong incentives for diversification and investment in new energy sources. In response to these challenges, a share of businesses began taking steps to reduce their dependence on energy purchased on the open market. Around 22 percent of firms reported having implemented energy-efficiency measures, and more than 12 percent had started using renewable energy sources. This indicates a growing shift toward energy savings and optimisation of production processes.

According to GET (2025b), for most enterprises, a combination of contracts with private suppliers and the installation of solar panels on their premises appears to be the best option for reducing costs. This approach could offset a significant share of the increase in market prices, offering greater stability and reducing exposure to price fluctuations.

In retrospect, the decision to open the market should have been accompanied by a transition period of at least six months, which would have allowed not only for the supplier market to become more competitive and efficient but also for enterprises to have sufficient time to invest in renewable energy sources and energy-efficiency measures. Such a phase would have helped soften the initial shock from rising prices and reduce uncertainty for the private sector.

Although liberalisation had long been overdue, the lack of credible commitment from the regulator in previous years failed to send the right signals for businesses to prepare and undertake the necessary investments. Around the approval process of energy-market liberalisation itself, a conflict emerged between the business community, the regulator,

and government institutions—one that could have been avoided with greater objectivity and mutual understanding in addressing the conditions of liberalisation, particularly the level of competition in the market. Once the regulator had sent the appropriate signals and demonstrated credibility in implementing this process, an additional six-month period would have been sufficient to enable a smoother and more predictable transition and to ensure an essential level of competition in the supply market. Support measures remain necessary to reduce the burden on businesses, particularly for those sectors that risk losing competitiveness as a result of high energy costs. These measures should also encourage the diversification of energy sources through renewables and investments in clean technologies, so that the transition within the liberalised market is fairer, more sustainable, and aligned with the spirit of the green transition.

EKSPORTET

3

EXPORTS

Export dynamics: sectoral structure, geographical orientation, challenges, and implications for the trade balance

This positive development reflects the gradual strengthening of productive capacities and ongoing efforts to penetrate new markets. However, the data for the first nine months of this year show a declining trend and a worsening ratio between imports and exports, keeping the trade balance under constant pressure (see section 1.3). Another fundamental issue is that exports continue to be dominated by goods with limited added value, mainly destined for regional and European markets. Imports of goods grew at a faster pace, driven by strong private consumption and continued dependence on food and consumer products. This contributed to an expansion of the trade deficit by 1.1 percentage points of GDP, bringing it to 27.5 per cent of GDP in 2024 (World Bank, 2025).

From a geographical perspective, the Western Balkans remains Kosovo's main trading partner, accounting for around 45 per cent of total exports, with Albania and North Macedonia as the most important destinations. Meanwhile, European Union countries represent approximately 35 per cent of exports, with Germany serving as the largest market for Kosovar products. This orientation reflects a strong connection with European markets, but at the same time highlights the need for diversifying export destinations and achieving deeper integration into regional value chains.

On the other hand, goods imports in 2025 have maintained a structure similar to previous years, reflecting the economy's high dependence on external supplies. Around 43 per cent of imported goods originate from European Union countries, 14 per cent from the region, and 13 per cent each from Turkey and China. Within the category of regional countries, a notable shift can be observed: although, following the agreement ratified in 2022 between Kosovo and Albania—which introduced simplified declaration procedures for around 70 per cent of imported products—imports from Albania initially increased during 2023 and 2024, data from the first

eight months of 2025 show a slight decline compared with the same period last year. In contrast, imports from Serbia, which had decreased in previous years, have risen again in the first eight months of this year.

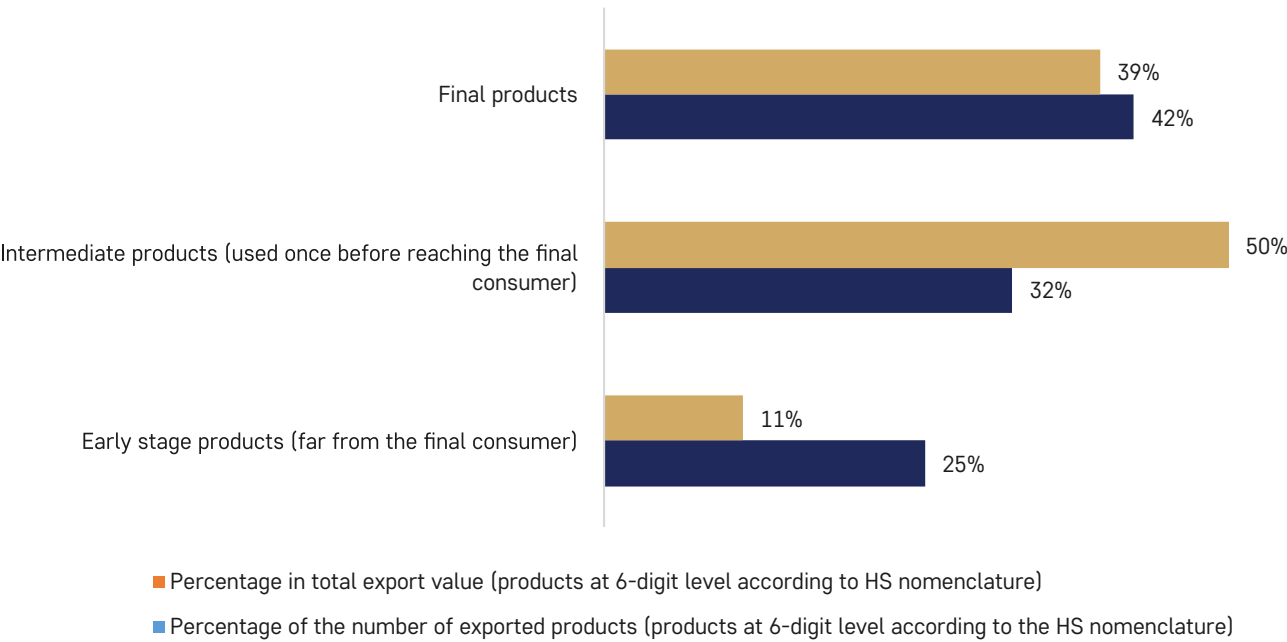
The sectoral structure of imports in 2025 shows several new developments alongside the stability of certain traditional categories. As in previous years, mineral products—mainly fuels and mineral oils—remain the largest import category, accounting for around 15 per cent of the total, reflecting the economy's dependence on energy imports. A new development is the inclusion of transport equipment among the top three imported commodity categories, with around 12 per cent of total imports, replacing some of the more common categories in the previous structure. The notable increase in car imports from South Korea is a key factor behind this shift. According to data from the Kosovo Customs, the value of car imports from this country increased from over €9 million in 2023 to €69 million in 2024 – an almost seven-fold rise within a very short period. Overall, the structure of foreign trade in 2025 continues to be characterised by a high trade deficit and a reliance on imports of high-value goods, while exports—although growing in certain sectors—have still not managed to offset the weight of imports. This situation underscores the need for coordinated policies that support the growth of domestic production, improve the competitiveness of exports, and expand the productive base towards sectors with higher added value.

3.1 Diversification of exports

In 2025, the sectoral structure of Kosovo's exports remained broadly unchanged compared with previous years. Basic metals and metal articles continue to constitute the most significant export category, accounting for around 24 per cent of the total, driven by increased demand for metals in international markets. The second-largest category consists of products made of plastic, rubber and related articles, with 14 per cent, while food products, beverages, alcoholic drinks and tobacco rank third, making up around 12 per cent of total exports. This structure, although showing some signs of diversification within the manufacturing

sectors, remains dominated by goods with low added value and is highly sensitive to price fluctuations in international markets. This exposes Kosovo's economy to external risks and highlights the need for policies that promote the expansion of the export base towards industrial and technological products. Using administrative data for 2024 (a full calendar year), we observe that Kosovo's export structure remains primarily concentrated in intermediate goods—products that are minimally processed at least once before reaching the final consumer (Figure 10). Such a structure carries important implications for the country's positioning in global value chains.

● **Figure 10.** Structure of exports by distance from the final consumer



Source: Authors' calculations based on data from Kosovo Customs

The high share of intermediate products suggests that Kosovo's exports are anchored in the mid-segments of the production process, where profitability and productivity growth typically depend on the ability to improve processes, obtain certifications, and ensure supply-chain stability. This structure reflects the fact that the economy is neither in the basic phase of exporting raw, unprocessed inputs nor in the more advanced stages where the highest value is created, namely differentiated final products. The gap between value share and the number of products is significant. For example, in the category of final products, the number of exported items is relatively high (42%), yet they account for only 39% of export value. This indicates a degree of fragmentation and a lack of specialization: Kosovo exports a wide range of final products, but with low average value per item. In terms of upstreamness, according to Fally (2011),¹³ Kosovo is positioned in the intermediate range, failing to sufficiently capture the added value generated in the final segments of production. This structure highlights the need for industrial policies that push manufacturing industries toward more downstream products (closer to the final consumer), where differentiation and proximity to consumers create far greater potential for economic development.

Export diversification is important both at the national level and at the firm level. In both cases, diversification is viewed as a mechanism for reducing operational risk. Concentration may occur geographically (in a limited number of markets) or in the structure of exported products (exports concentrated in a few items). A country whose export structure is concentrated in a small number of markets or products will always be more sensitive to shocks in global markets. There are many such cases, mainly among countries whose export structures are dominated by natural-resource-based industries.

At the firm level, diversification implies expanding the so-called intensive and extensive export margins, respectively. Put simply, diversification for businesses means expanding sales in existing markets, expanding sales in new markets, either with existing products or with new products. Essentially, diversification serves businesses in several ways: first, by reducing the risk posed by unexpected fluctuations in export markets; second, by helping them absorb shifts in demand; and finally, by ensuring greater income stability. A diversification strategy makes businesses more flexible and enables them to better leverage their competitive advantages and position themselves more strongly within global value chains.

Official data show that businesses in Kosovo display a considerable degree of dynamism in export markets. This is reflected in their expansion into both existing and new markets, as well as through existing and new products. The data indicate that over the past ten years, Kosovo has increased the number of exported products by 22.5%. Kosovo's businesses export on average around 723 products per year (at the HS 4-digit level), demonstrating a broad supply base (see the following table). Of these, roughly 91 are new products entering export markets each year, with an average value of around €2.48 million. Although the share of new export products in total exports remains modest (around 0.58%), their presence is an indicator of innovative potential and continuous efforts to expand the export range. On the other hand, an average of about 74 products exit export markets each year, 21 of which are permanent exits.

From markets' context, over the past 10 years Kosovo has doubled its geographic presence in export markets, with an increase of 104.2%. Each year, around 24 new markets enter Kosovo's export map, with an average export value of approximately €1.83 million (see below). The low share of new markets in total exports (0.46%) and the exits from export markets (an average of 16 per year) indicate that consolidation in new markets requires time and continuous investment.

13 The classification of products into three categories according to their position in the value chain is based on the "upstreamness" indicator developed by Fally (2011), which is calculated at the 6-digit level of exported products under the Harmonized System (HS) nomenclature. This approach enables an assessment of the extent to which Kosovo's exports are positioned along the value-chain spectrum.

● **Table 11.** Export diversification indicators in Kosovo, 2015–2024

Description	Average
Number of exported products	723
Number of new exported products	91
Value of new exported products (€)	2,479,876
Share of new exported products in total (%)	0.58
Number of product exits from export markets	74
Number of permanent product exits	21
Number of export markets	106
Number of new export markets	24
Value of exports in new markets (€)	1,834,498
Share of new export markets in total (%)	0.46
Number of exits from export markets	16

Source: Kosovo Customs (2025)

The following table presents additional details on product-level export diversification for the period under analysis. The number of exported products peaks in 2024 with 799 products, while the maximum number of new export products within a single year reaches 115 items, valued at €4.4 million. Trade dynamism is also reflected in the number of exits, with 2019 recording the highest number of products

leaving export markets (91 products). In this context, 2023 marks the highest number of permanent exits (43 products). From a geographical perspective, Albania emerges as the most important market, with an annual average of 620 exported products, followed by North Macedonia, Switzerland, and Germany.

● **Table 12.** Diversification by exported products, HS 4-digit level, 2015–2024

Description	Value
Highest number of exported products in a single year (in 2024)	799
Highest number of new exported products	115
Highest export value (€) generated by new export products (year 2017)	4,433,687
Highest number of new exported products (year 2020; 5.8% increase compared to the previous year)	40
Highest number of products exiting export markets (year 2019)	91
Highest number of permanent product exits (year 2023)	43
Kosovo's largest market by number of exported products	Albania
Average number of products exported to Albania (followed by North Macedonia: 563; Switzerland: 506; Germany: 486)	620

Source: Kosovo Customs (2025)

In the context of market diversification, the following table presents the dynamics of Kosovo's exports for the period 2015–2024. In total, Kosovo has exported at least once to 194 markets, while 2024 marks the peak with 147 active markets. The highest number of new markets was recorded in 2021 (39 markets), whereas the highest value of exports to new markets was registered in 2019 at around €9.7 million. The same year also recorded the largest number of

market exits (24 markets). Kosovo's broad geographic exposure is reflected in the fact that, over the past four years, its products have been present in 27 EU markets and in all five CEFTA markets, while on average each year exports are directed to 67 additional markets (outside the region and the EU). Within the category of other markets, there is a consistent increase in the presence of Kosovo's products, reaching 107 markets covered in 2024.

● **Table 13.** Diversification in export markets, 2015–2024

Description	Value
Total number of markets to which Kosovo has exported at least once	194
Highest number of export markets (year 2024)	147
Highest number of new export markets (year 2021)	39
Highest export value (€) generated by new export markets (year 2019)	9,722,035
Highest number of exits from export markets (year 2019)	24
Number of EU markets with presence of Kosovo's products (2021–2024)	27
Number of CEFTA markets with presence of Kosovo's products	5
Average number of export markets outside the region and the EU	67
Highest number of export markets outside the region and the EU (year 2024)	107

Source: Kosovo Customs (2025)

The data collected from the business survey generally confirm the findings from the export diversification analysis based on official data (see the table below). The survey results also indicate a high degree of dynamism in the export sector. According to respondents, around 76.8% of exporters reported an increase in exports during the period 2022–2024. This growth is attributed to internal performance factors: 29.3% of firms link export growth to improved product quality, 28.8% to more competitive prices, 27.8% to strengthened relationships with buyers, and 13.2% to improvements in logistics and transport. Furthermore, the data show that

45.7% of companies have introduced new products into existing markets, while 42.6% have entered new export markets. The distribution of new markets indicates that most firms expanded modestly—mainly into one or two new markets—but there are also cases of more aggressive expansion, with some companies entering 6, 8, or even up to 10 new markets within the period analysed. On the other hand, 34.1% of businesses report that their trade relationships extend for more than four years, indicating consolidation in export relationships, while 13.9% report exits from certain markets.

● **Table 14.** Diversification from the perspective of businesses, 2022–2024

Description	Percentage
Companies reporting export growth	76.8
Companies that have introduced new products into export markets	45.7
Companies that have expanded into new export markets	42.6
Companies operating more than four years in export markets	34.1
Companies that have exited certain export markets	13.9

Source: Riinvest (2025)

3.2 Networks and their importance in increasing exports

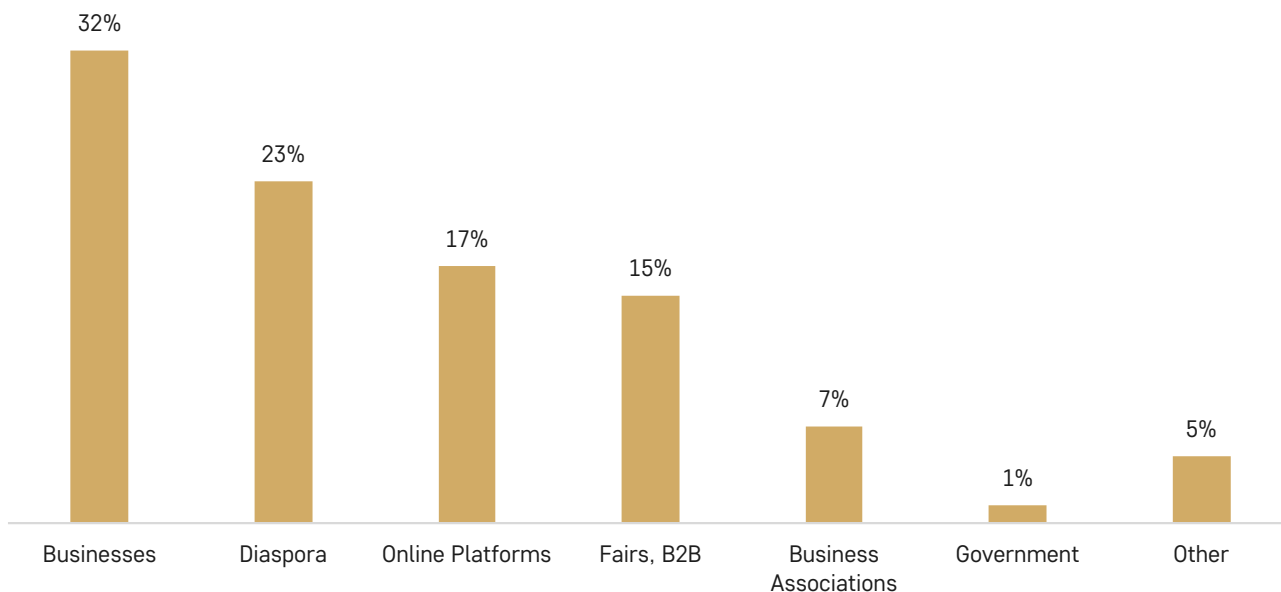
Networks play a crucial role in the ability of firms to expand into international markets. The literature distinguishes several types of networks: social networks (e.g., personal ties), business networks (relationships with buyers, suppliers, subcontractors, investors), and institutional networks (banks, business associations, and public institutions). Research shows that networks enable firms, especially small and medium-sized enterprises, to compensate for limited internal resources by providing easier access to knowledge and information. Networks also influence firm productivity, and thereby affect firms' entry into and expansion within foreign markets. Empirical studies have demonstrated that networks serve as channels for exchanging technological knowledge, information on demand in foreign markets, and advanced managerial practices. This knowledge reduces the costs of entering foreign markets, lowers uncertainties, and increases internal efficiency. As a result, more networked

firms are more likely to export, enter a larger number of markets, and increase the intensity of their exports.

**In Kosovo's case, survey results show that firms primarily rely on informal networks with other market actors to access export markets. In particular, links with other businesses—suppliers, subcontractors, competitors, or partners—constitute the main channel for entering foreign markets. After business-to-business networks, the largest share of firms rely on contacts established through the diaspora, which continues to play an important role as an intermediary channel. Various online platforms and trade fairs also contribute to helping firms expand into international markets.

By contrast, institutional networks, including business associations and especially the Government, appear to have a very limited impact on firms' access to export markets. Only 1.2% of businesses rely on the national government as a networking channel for exports.

● **Figure 11.** Networking channels and access to export markets



Source: Riinvest (2025)

The survey shows that networks with other businesses serve mainly for referrals and introductions to potential clients (27.33%). A significant share of firms use business-to-business networks for exchanging market information (18.60%) and for collaboration in developing new products (17.44%). Around 17% of surveyed firms benefit from joint marketing and branding campaigns, while 13.95% highlight the importance of technical knowledge transfer. A smaller share of firms rely on other businesses in the market to secure distribution channels (5.23%). For firms expanding abroad, it is especially important to examine the specific role of diaspora contacts. The figure above shows that around 24% of respondents consider diaspora connections an important mechanism for entering export markets. According to the survey, the diaspora supports firms at different stages of the exporting process: 28% of firms report that the diaspora was crucial for entering export markets (moving from a domestic

firm to an exporting firm). About 35% of firms stated that the diaspora facilitated expansion into new markets, while 32% indicated that they relied on diaspora contacts to increase sales in existing markets. The role of the diaspora has been limited in helping firms return to markets they had previously exited (5%).¹⁴

3.3 Human and technological resources

In the process of expanding into foreign markets, technology and human resources play a decisive role. The literature has shown that the use of advanced equipment and modern technologies makes firms more efficient, reduces costs, and improves product quality, thereby increasing productiv-

14 In the question regarding the role of the diaspora as a networking instrument, respondents were allowed to select more than one option. Therefore, the percentages do not sum to 100%.

ity and strengthening their competitiveness in international markets. Likewise, a workforce with advanced skills, good training, and practical knowledge enables firms to adapt to the requirements of foreign markets and to remain innovative. Overall, this increase in productivity reduces the costs of entering external markets and raises the likelihood that firms will survive and expand their export activities.

Survey data show that the importance of technology and human resources is steadily increasing. Projections for 2026 clearly confirm this trend. The following table shows the level of investment by Kosovar businesses in Research and Development (R&D). Although the current level of investment

remains relatively low in absolute terms, the trends are positive and indicate a growing awareness of the importance of investing in R&D and innovation. Notably, exporters invest more than non-exporters, both in the share of companies reporting investments and in the maximum values invested.

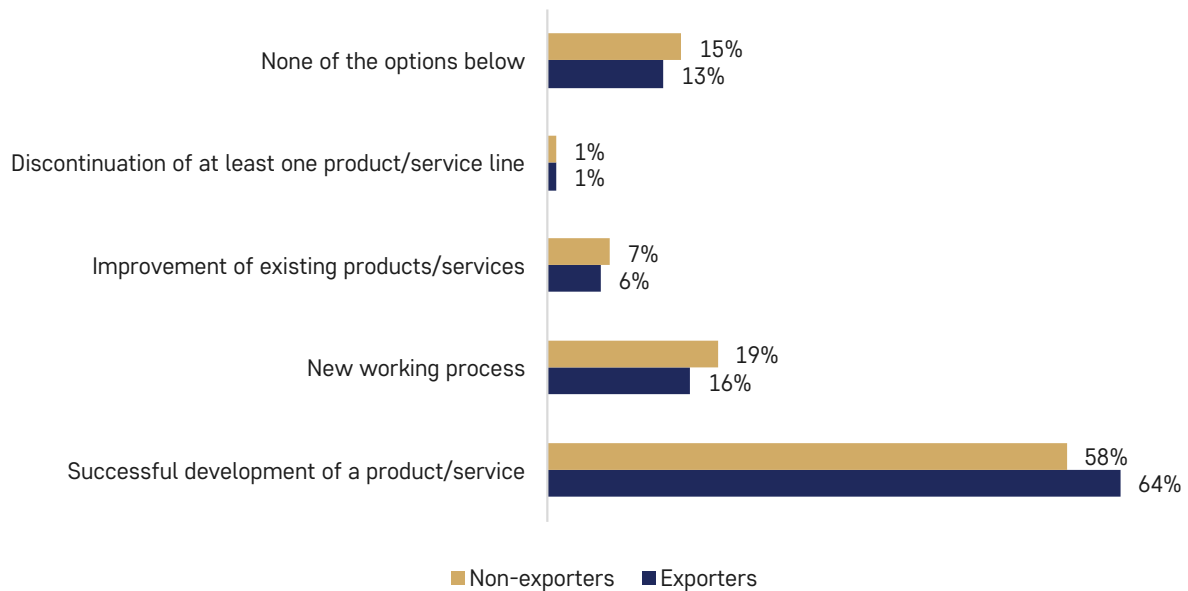
To access foreign markets, exporters rely particularly on the development of new products or services (see the following figure). Moreover, the survey data indicate a high level of competitiveness among exporters in international markets. As a result, exporting businesses, on average, reported a lower rate of production line interruptions compared to non-exporting firms.

● **Tabela 15.** Investime e eksportuesve dhe jo-eksportuesve në hulumtim dhe zhvillim

Description	Year	Exporters		Non-exporters	
		Max. value (€)		%	Max. value (€)
Investment in R&D	2024	25.58	800,000	24.11	50,000
	2025	27.13	150,000	23.40	70,000
	2026	27.91	200,000	24.11	100,000

Source: Riinvest (2025)

● **Figure 12.** Technological developments in exporting and non-exporting businesses



Source: Riinvest (2025)

In the context of technology, the survey results show a pronounced difference between exporters and non-exporters in obtaining international product certifications. More than 32% of exporters hold such certifications, compared with only about 13% of non-exporters. This gap suggests that firms targeting foreign markets are more inclined to invest in international standards to meet market requirements and enhance the credibility of their products. Regarding human resources, the survey data show that exporters invest significantly more in training than non-exporters: 44.96% of exporting firms surveyed have provided training, compared with only 22.70% of non-exporting firms. Exporters require

skilled and qualified personnel to meet the standards of foreign markets, adapt more quickly to new technologies, and manage the complex demands of global value chains. The data also show the areas in which exporting firms concentrate their training efforts: more than 60% invest in technology-related skills, general IT training (51%) and professional IT training (10%), highlighting the importance of digitalisation for their operations and sales in foreign markets. In addition, a considerable share of companies focuses on developing managerial skills (23%) and teamwork skills (12%).

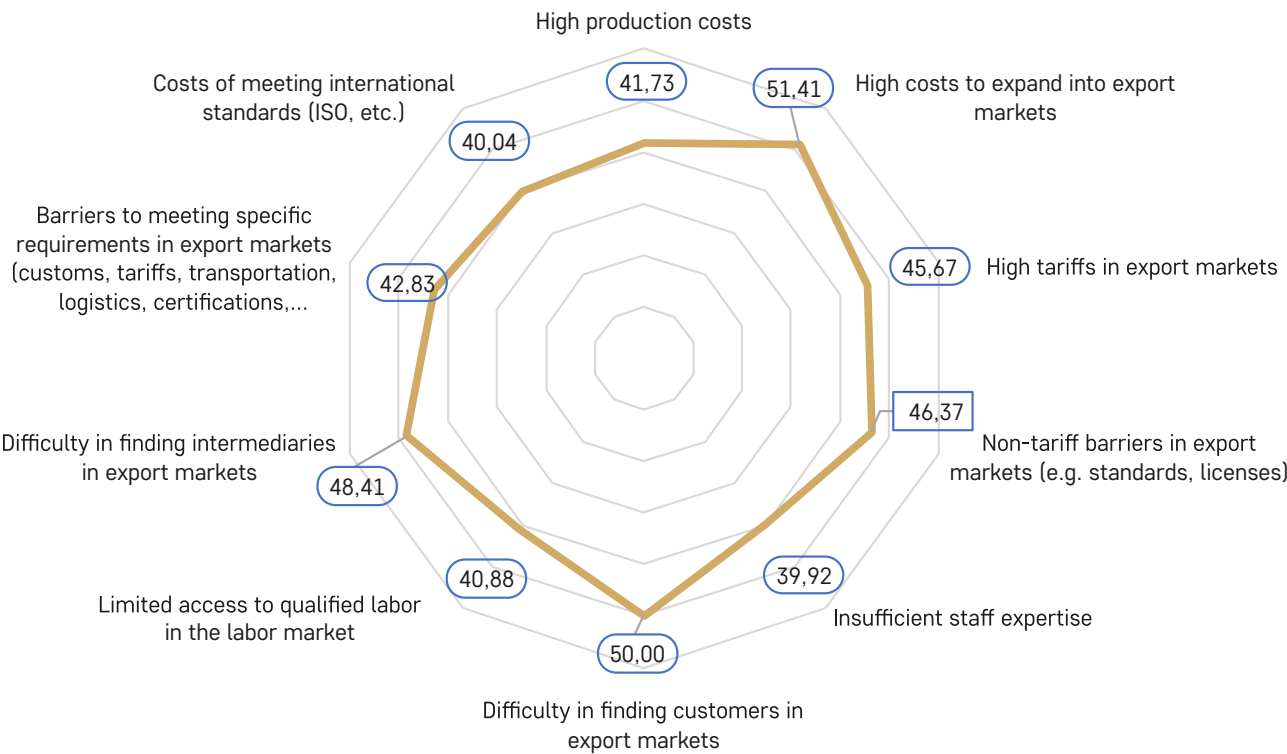
3.4 Barriers, growth factors, and institutional performance

As part of this year’s edition of the Forum, the Riinvest Institute conducted a survey with exporting businesses to analyse in detail Kosovo’s export ecosystem. The analysis includes the identification of barriers, growth factors, the intensity of export relationships, the benefits derived from existing trade agreements, institutional efficiency, and the reforms needed to facilitate trade. The survey covered 129 exporting businesses (out of nearly 300 surveyed firms), with sampling that reflects the size, geographic distribution, and sectoral composition of the export sector in the country. The survey data show that exporting firms in Kosovo

face a complex combination of internal and external barriers which, although not necessarily severe individually, create a strong cumulative effect that increases costs and reduces readiness and competitive capacity for expansion into international markets.¹⁵

The highest barriers are related to market access—finding customers and intermediaries—indicating shortcomings in international marketing, networking, and economic diplomacy. The costs of expanding into export markets and production costs suggest that exporting firms operate with narrow margins and high financial pressure, while requirements to meet standards and regulations show that alignment with EU standards remains a structural challenge limiting entry into

● Figure 13. Main barriers to expansion into export markets



Source: Riinvest (2025)

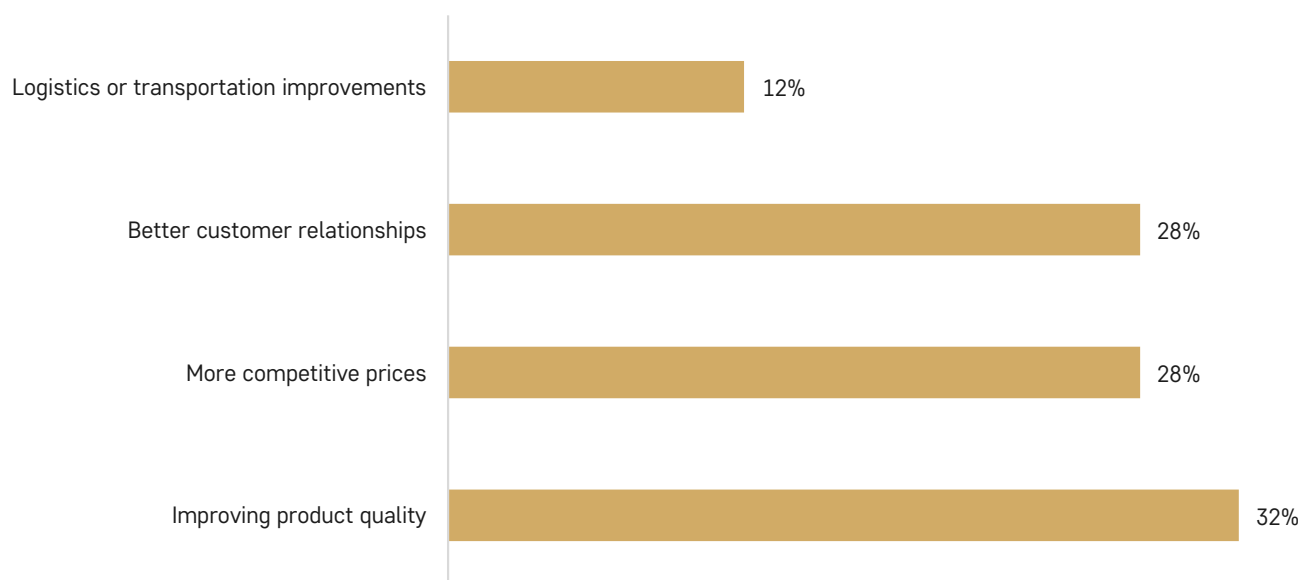
15 The figure presents the main barriers faced by exporters on an intensity scale from 20 to 100, where a higher intensity indicates a greater barrier.

higher-value markets. Non-tariff barriers appear more problematic than tariffs, indicating that the challenges are more administrative and regulatory (standards, licenses, complex procedures) than fiscal in nature. On the other hand, internal barriers, such as staff expertise and the lack of qualified workers, are important but not dominant, suggesting that managerial capacities are not the primary problem but are instead amplified by external challenges. Overall, the barrier profile reflects a private sector with export ambitions but operating in a less supportive ecosystem, where the lack of market information, high certification costs, and difficulties in connecting with foreign markets create multiple medium-to-high-level obstacles. This situation produces a chain effect that makes international competitiveness difficult and calls for an integrated policy approach to reducing non-tariff barriers, increasing standardization, and improving export infrastructure.

An important aspect related to these challenges is that structural barriers and high operating costs affect not only market expansion but also the adoption of sustainable and efficient practices by exporting firms. The lack of investment in renewable energy and the difficulties in integrating into the liberalised energy market are consequences of an ecosystem that does not provide adequate support for mod-

ernization and growth. Thus, the challenges of cost management and alignment with international standards are closely linked to the limited capacities of firms to withstand pressures from external markets, showing that economic, technological, and environmental issues are interdependent and directly influence the competitiveness of exporting firms. The vast majority of exporting firms in Kosovo (around 85 percent) still do not use renewable energy sources. This indicates that the energy transition within the export sector is still at a very early stage, which in the medium term may become a barrier to competitiveness—especially in EU markets where requirements for decarbonisation and carbon footprint reporting are steadily increasing. Furthermore, according to the business survey data, only a small share (around 16%) of exporting firms have switched to the open electricity market, while the overwhelming majority continue to be supplied through the regulated domestic energy market. For firms that have transitioned to the open market, the financial implications have been significant. They report that production costs increase on average by around 30 percent as a result of entering the open market. This helps explain why most businesses in the country hesitate to switch to the open market; the immediate rise in electricity costs makes exporting firms less competitive, especially those operating with low profit margins.

● **Figure 14.** Factors driving export growth in existing markets



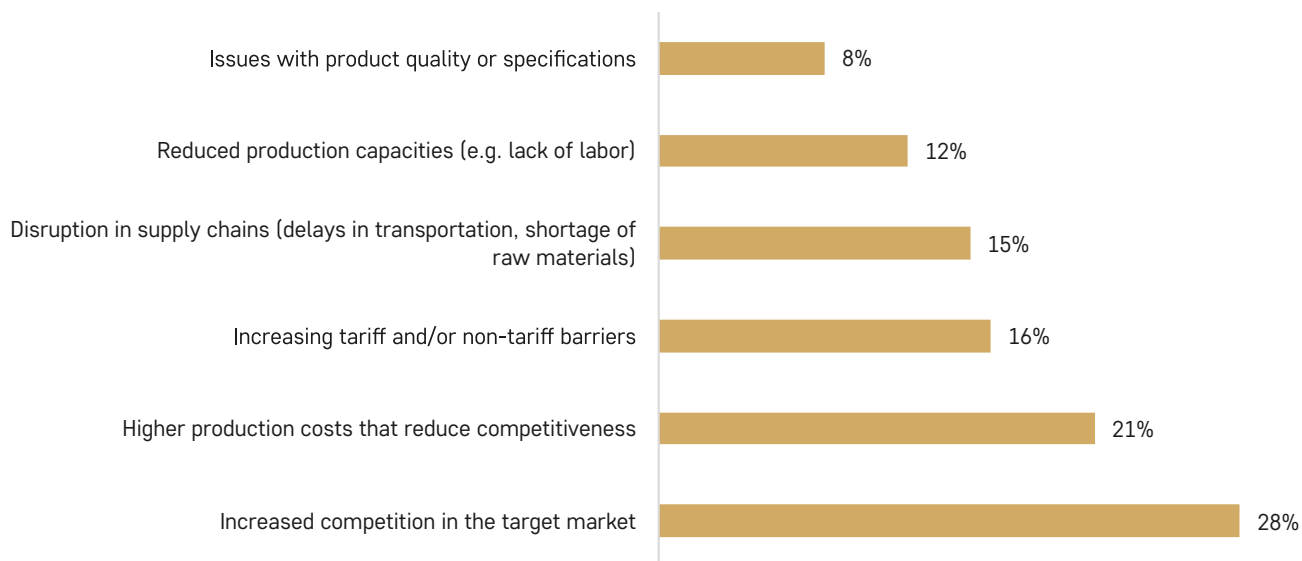
Source: Riinvest (2025)

On the other hand, the survey data show that the increase in exports to existing markets during 2025 for a large number of exporters is mainly linked to internal firm-level factors that have strengthened their competitive position. Product quality improvement, reported by the largest share of interviewed firms, appears to be the main reason for export growth, confirming that Kosovar exporters are investing in upgrading standards, production technology, and quality-control processes. This finding is consistent with earlier analyses on certification and standardization challenges; although standards remain a structural barrier, firms that manage to adapt and improve quality are able to benefit directly in international markets. Moreover, a considerable number of exporters report that export growth has been driven by more competitive prices, suggesting that a segment of exporting firms still operates in market areas where price competition remains decisive. This is linked to the fact that the export structure is dominated by basic products and low value-added goods, where quality-based differentiation is not always sufficient and price pressure remains high. Equally important are improved relationships with buyers, which confirms that

economic diplomacy, trade networking, and participation in fairs and promotional events are key factors influencing export success. Meanwhile, a smaller number of firms highlight improvements in logistics and transport as drivers of export growth.

However, a small number of exporters reported a decline in their exports over the past three years, mainly as a result of external factors over which individual firms have limited influence. A decrease in demand in target markets emerges as the main reason for the decline in exports. This result is fully in line with the macroeconomic assessments of the IMF and the World Bank, which emphasize the weakening of economic activity in the Eurozone, particularly in Germany, which remains one of the main destinations for Kosovo's exports in Europe.

● **Figure 15.** Reasons for the decline in exports in existing markets

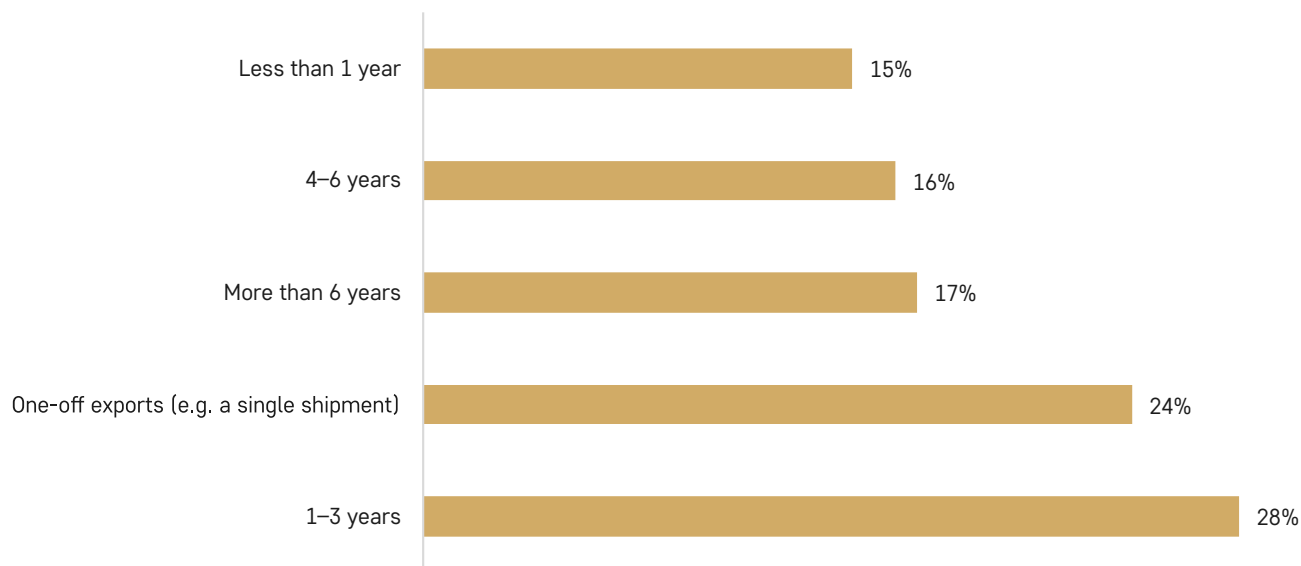


Source: Riinvest (2025)

Another important factor is the increase in competition in target markets, which indicates that Kosovar products face growing pressure from other regional and international producers. Meanwhile, others highlight rising production costs as a reason for declining exports, an issue closely linked to the structure of inputs and the country's dependence on imports. High prices of raw materials, energy costs, and difficulties in securing quality inputs significantly raise costs for firms that already operate with narrow profit margins.

A smaller but still important share of firms report rising tariff and non-tariff barriers, disruptions in supply chains, and reduced production capacities, often linked to the shortage of qualified labour. This is a long-standing trend that highlights the structural challenges of Kosovo's economy: migration, the lack of professional profiles, and the difficulty in finding workers with technical skills reduce the production flexibility of exporting firms, limiting their ability to meet demand and maintain the pace of international orders.

● **Figure 16.** Intensity of export relationships with trade partners



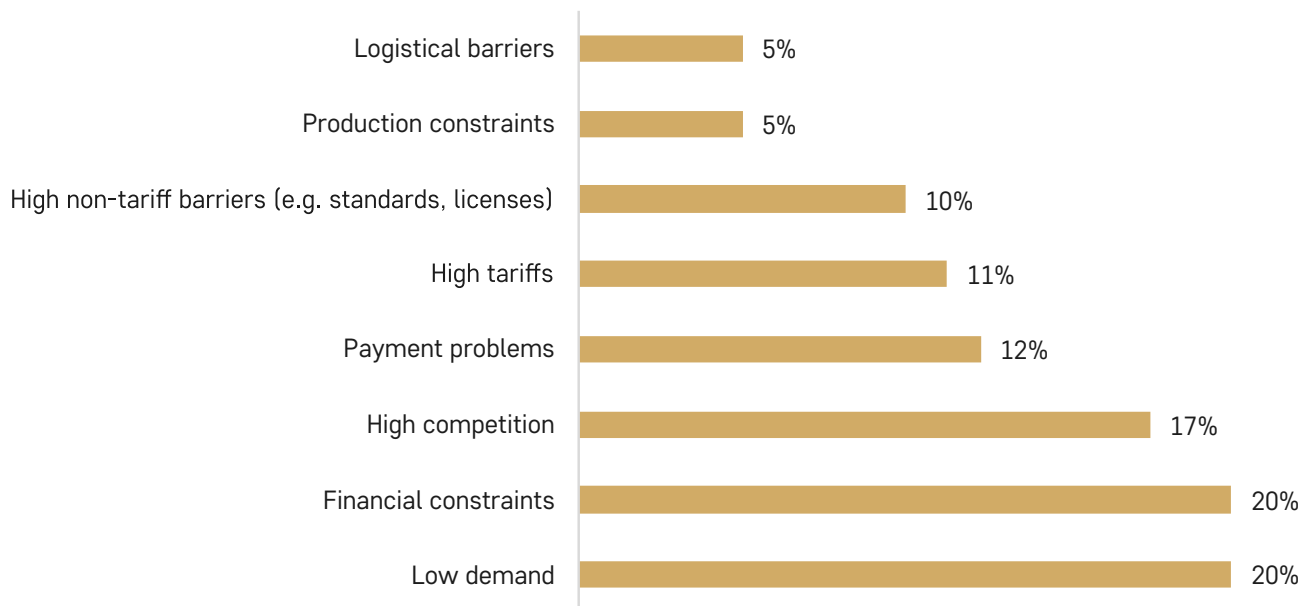
Source: Riinvest (2025)

A concerning phenomenon, based on the survey data, is that a large number of exporters are unable to secure contractual agreements with their partners for periods longer than three years (Figure 16). Nearly half of the firms report that their relationships with international clients last between 0 and 3 years, while one-quarter conduct one-off exports, indicating sporadic entry into foreign markets and difficulties in securing repeat orders. This reflects a high level of uncertainty in trade relationships, which limits opportunities for long-term planning and investment in new capacities.

Moreover, one-quarter of businesses continue to rely on single-shipment transactions, indicating a fragile structure of relationships with trade partners and reducing the predictability of their economic activity.

This trend of relatively short-term relationships is also reflected in the fact that, over the past three years, a share of firms have withdrawn from at least one export market. The main reasons are linked to low demand and financial constraints, while in some cases high competition, payment problems, and tariff or non-tariff barriers are also mentioned. These findings suggest that withdrawal is typically the result of unfavourable market conditions.

● **Figure 17.** Reasons for withdrawal from export markets

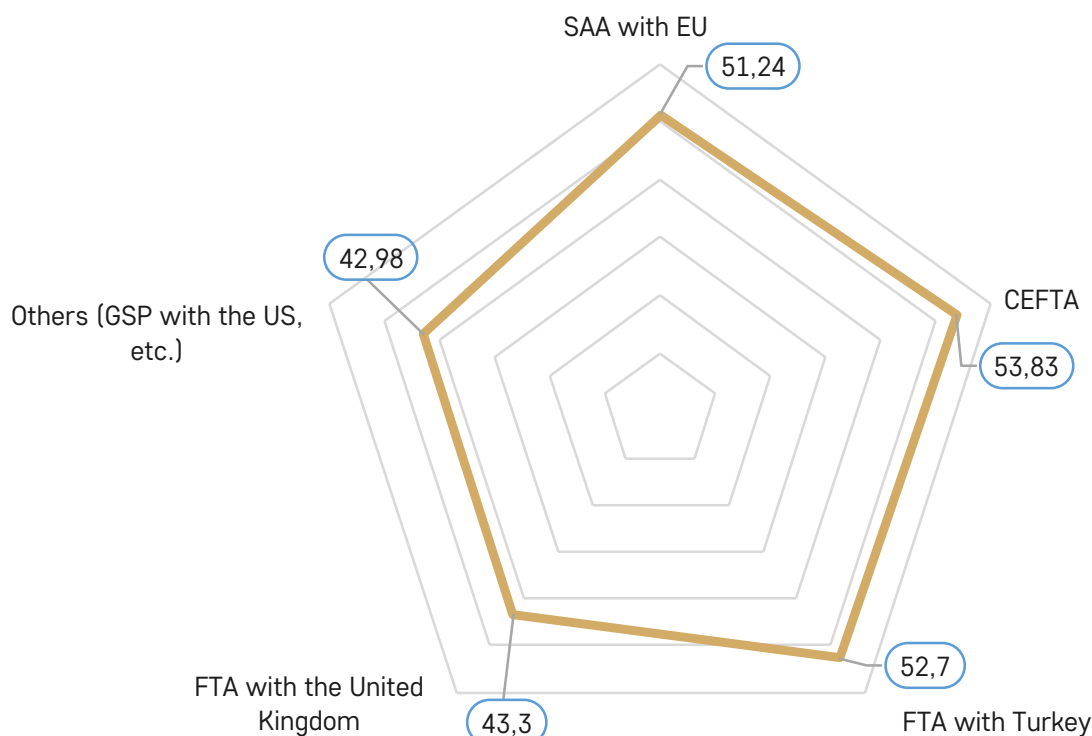


Source: Riinvest (2025)

Despite the challenges, trade arrangements, whether regional or bilateral, provide clear benefits. According to exporting businesses, not all trade agreements carry the same weight; at the top of the list are CEFTA and the Free Trade Agreement with Turkey, which are assessed as the most beneficial, thanks to easier access to regional markets, lower transport costs, and reduced tariff barriers (Figure xxx). The Stabilisation and Association Agreement (SAA) with the European Union is also viewed positively, reflecting the importance of the EU market for Kosovo's exports, although the

high technical standards of this market limit the potential for full utilisation. In contrast, agreements with more distant economies, such as the FTA with the United Kingdom and the GSP scheme with the United States, appear less beneficial for Kosovar exporters. In addition to the usual certification and standardisation barriers, a key factor remains geographical distance, which significantly increases logistical costs and makes Kosovo's exports less competitive in far-away market.

● **Figure 18.** Perception of exporting businesses regarding the benefits of existing trade arrangements

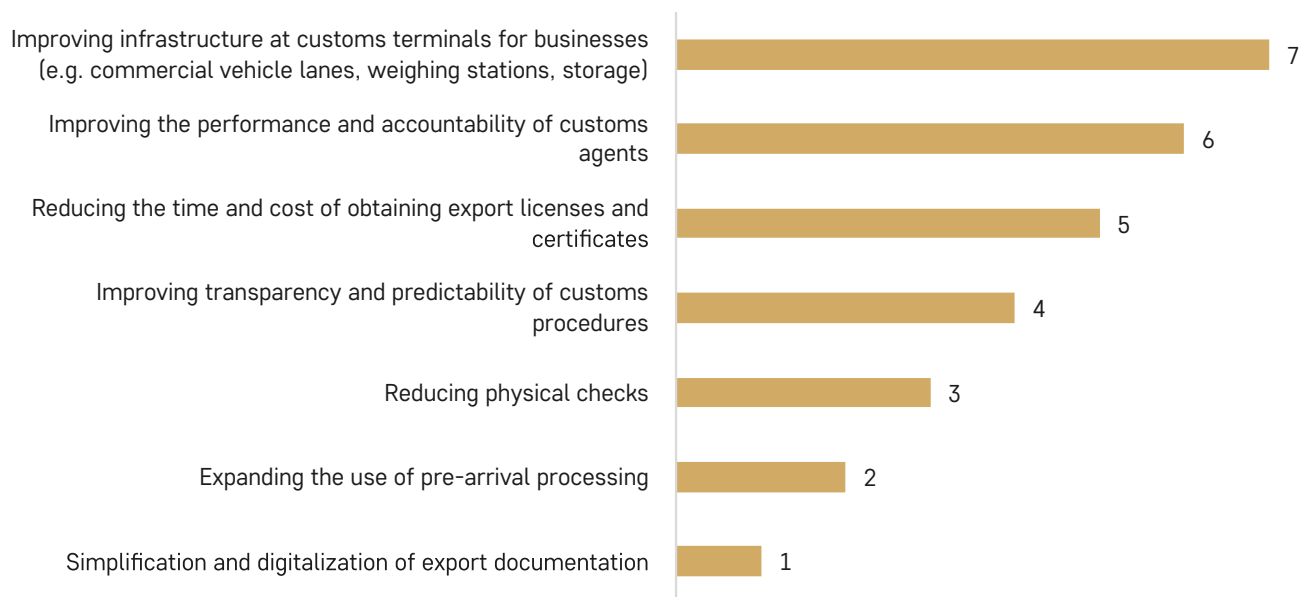


Source: Riinvest (2025)

However, the benefits derived from trade agreements are not realised automatically; the ability of firms to take advantage of these agreements depends heavily on domestic institutional and infrastructural factors. Logistical barriers, slow customs procedures, and additional costs can diminish the impact of trade agreements, limiting the potential of exporters to reach regional and international markets competitively. This is closely linked to the need for reforms that improve procedural efficiency and reduce operational obstacles, thereby increasing the likelihood of fully utilising existing agreements. In Figure xxx below, seven priority reforms are ranked according to their importance, based on exporters' assessments of which measures would have the greatest impact on improving export performance. These

priorities are primarily linked to infrastructure and customs efficiency. The simplification and digitalisation of export documentation, as well as the pre-processing of export procedures, are considered the most impactful reforms. Firms also emphasise the importance of reducing physical inspections and increasing transparency and predictability in customs procedures. These findings indicate that exporters view the digitalisation of customs services and improvements in customs efficiency as crucial factors for reducing costs and ultimately enhancing their competitiveness. Most of these reforms fall within the remit of the institutional and governmental environment and the relevant agencies.

● **Figure 19.** Trade facilitation reforms

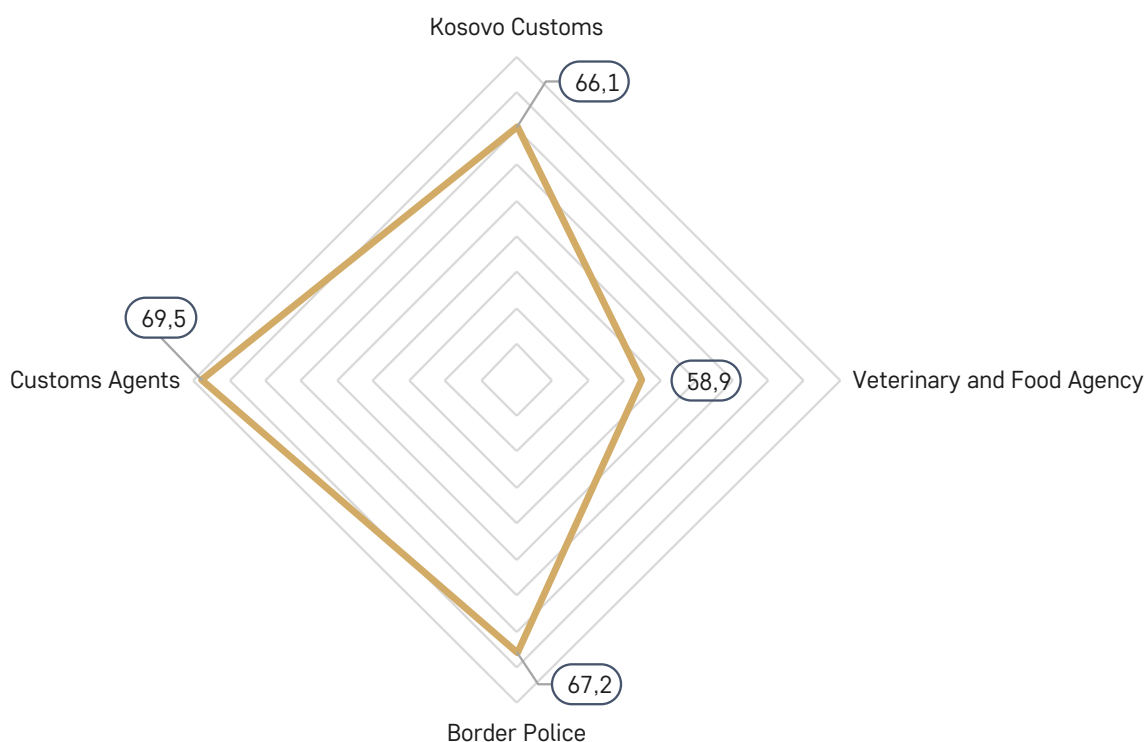


Source: Riinvest (2025)

The data on customs clearance times indicate that border procedures are relatively efficient. Around 30 percent of exporting firms report that a typical export shipment is processed in under one hour, while an additional 28 percent complete the process within 2–5 hours. However, a notable share of exporters face longer delays: about 10 percent report clearance times of up to 24 hours, and approximately 5 percent state that procedures take more than a full day. This uneven distribution of processing times suggests that, although the system functions well in most cases, it remains unpredictable for certain types of exports, generating addi-

tional costs due to shipment delays. Nevertheless, exporters' assessments of the efficiency of actors involved in border procedures indicate a satisfactory—but not exceptional—level of performance, with noticeable differences across institutions. Customs agents receive the highest ratings, being perceived as the most efficient actors in managing export procedures. They are followed by the Border Police and the Kosovo Customs, which are also evaluated positively, though with slightly lower efficiency scores.

● **Figure 20.** Efficiency of Institutions in Border Procedures



Source: Riinvest (2025)

On the other hand, the Food and Veterinary Agency emerges as the least efficient institution according to businesses, reflecting well-known challenges in inspection processes, certifications, and controls that often prolong export procedures. Overall, the assessments suggest that border ef-

ficiency in Kosovo is functional but not uniform, and that improvements in institutional coordination and the simplification of procedures remain essential for facilitating trade and enhancing export competitiveness.

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APPENDIX

Appendix 1: Methodology for compiling the macroeconomic model for Kosovo (FPP)

Introduction

The Macroeconomic Model for Kosovo (FPP) is a comprehensive analytical instrument designed to support public institutions in the process of planning and evaluating economic policies. The model is used to analyse current developments, generate forecasts based on statistical data, and simulate the effects that changes in fiscal, monetary, or trade policies may have on Kosovo's economy. The FPP forms part of broader efforts to establish a unified, transparent, and professional approach to macroeconomic analysis in the country, thereby making policymaking more evidence-based.

Methodological approach

The methodological approach used to construct the FPP combines elements of statistical analysis, economic theory, and current developments. The process begins with the identification of the key factors that influence the country's economic performance, such as consumption, investment, exports, remittances, prices, and fiscal policies. Logical and quantitative relationships between these elements are then constructed through equations that capture the causal and reciprocal links among economic variables. This process is supported by standardised data from national and international official sources, including the Kosovo Agency of Statistics, the Central Bank of the Republic of Kosovo, the Ministry of Finance, as well as international organisations such as the IMF and the World Bank. In this way, the model ensures that its results are comparable, consistent, and reliable.

Model structure

The model is divided into several functional blocks – institutional sectors that are interconnected and together represent the main sectors of the economy:

- The real sector – includes gross domestic product (GDP), private and public consumption, investments, exports, and imports. This sector serves as the core of the model and determines total economic activity.
- The fiscal sector – includes tax revenues and government expenditures. Its analysis allows the assessment of the impact of budgetary policies on economic growth and stability.
- The financial sector – includes the Central Bank, bank lending, and deposit trends, linked to sources of financing. This sector helps analyse the impact of financial intermediation on Kosovo's real economy.
- The external sector – includes the trade balance in goods and services, primary and secondary income, and foreign direct investment, portfolio flows, etc., thereby showing this sector's impact on Kosovo's economy.

The model-building process

The development of the model goes through several interlinked phases that ensure accuracy, coherence, and practical applicability:

1. Data collection – selecting official sources, harmonising datasets, and verifying data quality;
2. Time-series analysis – identifying short- and long-term trends, as well as economic cycles;
3. Construction of quantitative equations – establishing relationships between variables using statistical models;
4. Model calibration and testing – comparing results with real data to ensure empirical consistency;
5. Simulations and forecasting – using the model to project economic developments and to test different scenarios.

The role of the model in policymaking

The FPP model is an important tool for supporting the policymaking process and fiscal planning. It enables:

- The preparation of macroeconomic projections used in drafting the state budget;
- The assessment of the impact of fiscal measures and structural reforms on the national economy;
- The analysis of alternative scenarios for possible developments, such as changes in external financial flows, including remittances and other inflows;
- Strengthening institutional transparency and improving communication with the public and other domestic and international partners.

Limitations and future improvements

Like any economic model, the FPP relies on limited data and certain assumptions that may affect the accuracy of its forecasts. In the sectoral context, while the available data for the financial, fiscal, and external sectors allow for the construction of a generally robust model, the lack of data in the real sector—most notably: (i) the non-publication of GDP at constant prices; (ii) the absence of information on deflators; and (iii) the need for more detailed disclosure of price indices—directly affects the accuracy and stability of the economic model based on the FPP approach. The model is conceived as a dynamic process that is regularly updated with new data, methodological improvements, and advanced analytical tools. The inclusion of new components and the development of long-term forecasts, taking into account baseline and programmatic scenarios, remain key objectives for future phases.

Conclusion

The macroeconomic model of Kosovo represents an important step toward the professionalisation of economic analysis and planning, serving as an integrated and fully identity-based framework. It functions as a bridge between policymaking and scientific analysis, making the decision-making process more transparent and evidence-based. Through continuous development, the construction of the economic model using the FPP approach will continue to contribute to the formulation of sustainable economic policies and the strengthening of public credibility.

