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BEYOND ECONOMIC GROWTH: KOSOVO'S DEMOGRAPHIC CHALLENGES

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Abbreviations

ASHAK	Academy of Sciences and Arts of Kosovo
KAS	Kosovo Agency of Statistics
TAK	Kosovo Tax Administration
WB	World Bank
EU	European Union
EBRD	European Bank for Reconstruction and Development
WB6	Western Balkans Six
GDP	Gross Domestic Product
CBK	Central Bank of the Republic of Kosovo
CBAM	Carbon Border Adjustment Mechanism
CEFTA	Central European Free Trade Agreement
COICOP	Classification of Individual Consumption According to Purpose
EFTA	European Free Trade Association
ELMA	Employment and Labour Market Analysis
WEF	Women's Economic Forum
AEF	Annual Economic Forum
KPST	Kosovo Pension Savings Trust
IMF	International Monetary Fund
SKPF	Slovenian-Kosovo Pension Fund
GEGI	Gender Employment Gap Index
AI	Artificial Intelligence
ICT	Information and Communication Technology
FDI	Foreign Direct Investment
KEK	Kosovo Energy Corporation
MoF	Ministry of Finance
SMEs	Small and Medium-sized Enterprises
OECD	Organisation for Economic Co-operation and Development
OSF-WB	Open Society Foundations – Western Balkans
PISA	Programme for International Student Assessment
ROA	Return on Assets
ROE	Return on Equity
USA	United States of America
UCCK	University Clinical Centre of Kosovo
VAT	Value Added Tax
UNFPA	United Nations Population Fund
NAO	National Audit Office
ERO	Energy Regulatory Office
wiiw	Vienna Institute for International Economic Studies

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

At the global level, the economy continues to recover from the major shocks that began six years ago. However, this recovery is accompanied by significant risks and diminishing fiscal buffers and other resources available to respond to new disruptions. According to the International Monetary Fund (IMF), global economic growth is expected to improve from 3.1 percent this year to 3.4 percent in 2027. Inflationary pressures, although less intense, are expected to persist into next year. The global business environment is increasingly being shaped by three profound transformations: geopolitical and economic shifts, technological transformation driven particularly by artificial intelligence (AI), and changes in how work is organized and performed. These developments are challenging existing business structures and creating pressure for innovation, higher productivity, and greater organizational flexibility as prerequisites for maintaining and strengthening competitiveness. In this context, businesses that integrate AI across all their functions and invest in technology and human capital are expected to gain a competitive advantage.

Following the slowdown in economic growth in 2025 compared to 2024, the pace of growth has improved this year. According to estimates by the International Monetary Fund (IMF), the World Bank (WB), the European Bank for Reconstruction and Development (EBRD), and the Vienna Institute for International Economic Studies (wiiw), Kosovo's real economic growth in 2026 is expected to range between 3.5 and 3.8 percent. Kosovo continues to maintain a faster pace of economic growth than its neighbouring countries, with Serbia and Albania following most closely. According to Riinvest Institute's forecasts, this trend is expected to continue in 2027, with economic growth improving slightly from 3.5 percent this year to 3.7 percent next year. These projections are based on the assumption that export growth will continue to consolidate, alongside improved execution of public investments and greater utilization of the investment opportunities offered by the EU Growth Plan. Our estimates are broadly consistent with those of the IMF and the World Bank, with differences of 0.1–0.2 percentage points, which may be partly explained by the incorporation of the latest available data into our forecasting model.

Tighter financial conditions, high energy costs, and geopolitical uncertainty remain risks to demand, investment, and financial inflows from the diaspora. As in other countries in the region, but to an even greater extent, rising consumption in Kosovo generates strong demand for imports, creating an unfavourable cycle for the development of the domestic economy. Nevertheless, the external sector recorded positive developments, driven by favourable market conditions in the metals and minerals sector, which contributed to a 22.4 percent increase in exports through the end of September. This improved the export-to-import ratio from 12 percent to 13.7 percent. However, due to developments in other components, the balance of payments deficit widened from 13.1 percent to 14.8 percent of GDP. Foreign direct investment continued its upward trend, although its composition remained heavily concentrated in real estate, which accounted for approximately 66.4 percent of the total, while remittances remained at the previous year's level (for a more detailed discussion of the external sector, see Section 2.3).

Government expenditure, particularly budgetary spending, is characterized by a significant slowdown in nominal growth, with the growth rate having almost halved, while in real terms expenditure remains approximately at last year's level. A similar trend is expected to continue in 2027 (for a more detailed discussion, see Section 2.5). The budget's contribution to economic growth could be substantially greater if the execution rate of capital

investments were improved. In addition, budgetary priorities need to be reoriented to strengthen the position of education, healthcare, scientific research, and innovation. According to the budget projections for 2027, funding for these sectors remains largely unchanged and significantly less favourable than in other countries in the region. This represents one of the fundamental constraints on improving the economy's competitiveness and requires priority attention. The nine-month budget execution report for 2026 also highlights a low level of capital investment execution, with a decline of 3 percentage points compared to the corresponding period of the previous year. Another concern is that this budget category is burdened by expenditures arising from the enforcement of court judgments, which account for 21.8 percent of total capital expenditure.

Inflation is expected to moderate in 2027, following pronounced inflationary pressures this year, when the annual inflation rate reached 7.1 percent in October. Nevertheless, inflation in Kosovo is expected to remain above the regional average. The Central Bank of Kosovo (CBK) forecasts an inflation rate of approximately 4.5 percent for 2027, while the IMF projects a rate of 3–3.6 percent for countries in the region. Electricity costs, including potential delayed effects extending into 2027, winter conditions, wage developments, expansionary fiscal policy, and political uncertainty pose risks to the realization of these forecasts. A particular concern is not only the level of inflation but also the persistence of inflationary pressures, especially in the absence of more effective measures to mitigate them.

In the financial sector, credit growth has slowed compared to the previous two years, accompanied by weakening demand for loans. These developments have occurred against a backdrop of rising interest rates, with the average interest rate reaching 6.9 percent this year. Meanwhile, deposits have continued to grow, even at a slightly faster pace than in the previous year.

The results of the Riinvest Institute's business survey also indicate a deterioration in businesses' perceptions of the obstacles affecting their operations. A significant increase in the severity of perceived barriers has been observed particularly in electricity supply, labour availability, access to finance, and corruption. On the other hand, improvements have been recorded in several administrative barriers. These developments suggest that, alongside improvements in the regulatory framework, constraints related to the cost and availability of factors of production are becoming increasingly important.

Overall, the structure of the budget and the orientation of economic policies do not yet reflect a sufficiently development-oriented approach, underpinned by industrial policies and measures tailored to the needs and level of development of Kosovo's economy. Such an approach should aim to facilitate a gradual transition towards an economic growth model that relies more heavily on expanding the domestic supply of competitive goods and services, both in domestic and international markets. This brings renewed attention to the need for increased investment in education, healthcare, scientific research, and innovation as essential prerequisites for human capital development, productivity growth, and accelerated economic convergence.

This year's report places particular emphasis on the demographic transition and its implications for Kosovo's development prospects. The country is gradually shifting from a relatively young demographic structure towards one characterized by lower natural population growth, continued emigration, and population ageing. The resident population declined from approximately 1.74 million in 2011 to around 1.60 million in 2024, a trend that continued into 2025, while the share of people aged 65 and over increased from 6.7 percent to approximately 11 percent. Emigration, particularly among the working-age population, is affecting labour supply and long-term growth prospects. These developments are also expected to place increasing pressure on healthcare, long-term care, and social protection systems.

However, the demographic challenge lies not only in the shrinking working-age population but also in the underutilization of existing human potential. In 2024, the female labour force participation rate stood at just 25.9 percent, compared to 60.6 percent for men. Estimates by the Riinvest Institute indicate that closing the gender

gap in labour force participation could be associated with a potential 5.9 percent increase in GDP per capita. This demonstrates that the economic activation of women and other economically inactive groups represents an important opportunity to mitigate the adverse effects of demographic change. However, these benefits will not materialize automatically and require the creation of quality jobs, the expansion of care services, and improvements in employment policies.

Alongside increasing labour force participation, productivity growth will be crucial to the country's economic prospects. Data from the Riinvest Institute (2026) and regional assessments by the OECD (2026) indicate that labour productivity remains significantly below the European average, while GDP per capita stands at just 29 percent of the EU level. This gap underscores the importance of combining productivity improvements with broader labour market participation. Investments in education, healthcare, skills development, technology, and innovation, together with more productive engagement of the diaspora, are essential prerequisites for accelerating economic convergence.

Overall, the report's findings indicate that Kosovo needs to gradually transition from a growth model driven primarily by consumption towards one that relies more heavily on productive investment, human capital, and productivity, as we have argued in our studies published over the past three years as part of the previous editions of the Annual Economic Forum. Demographic transformation makes this shift even more urgent. As the scope for expanding the labour force becomes increasingly limited, future economic growth and convergence with the EU will depend on the country's ability to engage more people in economic activity and generate greater value added per worker.

Based on the findings of this report, the Riinvest Institute puts forward the following recommendations:

1. **The Government, relevant ministries, and business associations should support the structural and technological transformation of the economy** by promoting productive investment, digitalization, the adoption of artificial intelligence, and the development of higher-value-added activities. Priority should be given to increasing productivity, strengthening export capacities, and helping businesses adapt to technological and geopolitical changes.

2. **Ministries and budgetary organizations should address chronic weaknesses in the planning and execution of public investments**, including projects financed through international loans and EU funds, by improving project management, avoiding delays, and reducing expenditures arising from the enforcement of court judgments that divert resources from investment.

3. **The Government should reassess budgetary priorities and gradually increase funding for education, healthcare, scientific research, and innovation,** at least towards the Western Balkan average, while simultaneously improving the quality and efficiency of public spending. For research and innovation, consideration should also be given to encouraging private financing through tax incentives, by adapting and expanding the mechanisms provided for under the Law on Sponsorships.

4. **The relevant institutions should address challenges in the electricity sector** by improving market functioning, security of supply, and investment in generation capacity and infrastructure, to ensure a reliable and affordable electricity supply for households and businesses.

5. **The Government and responsible institutions should assess the effectiveness and impact of social transfer schemes,** with a view to better targeting support towards the most vulnerable groups and improving the efficiency of public spending.

6. **The Assembly, the Government, and other responsible institutions should prioritize labour force activation as a key development objective,** with a particular focus on women, young people, and economically inactive individuals. This requires expanding childcare and elderly care services, improving employment and vocational training services, and reforming maternity and parental leave policies.

7. **The Government should develop and implement active demographic policies to address declining birth rates, emigration, and population ageing,** through targeted measures to support families with children, improve access to care services, and create more favourable conditions for reconciling family life with employment. These policies should also include measures to retain and attract back the workforce, engage the diaspora, and adapt public services to long-term demographic changes.

8. **The institutions responsible for education and economic development, in cooperation with the private sector, should improve workforce skills and productivity** by strengthening vocational education and training, promoting work-based learning, developing digital skills, and supporting investment in technology and innovation.

INTRODUCTION

The Riinvest Institute's Annual Economic Forum 2026 (AEF26) marks its fourth edition this year. The Forum is increasingly establishing itself as an important event, providing a platform for informed, evidence-based debate on economic developments during the current year and expectations for the year ahead. Bringing together key stakeholders with a direct interest in economic developments, including selected representatives of public institutions, business associations, business executives, experts from financial institutions, and members of the research and academic communities, the Riinvest Institute's Annual Economic Forum aims to become a prominent and highly visible event in discussions on the country's economic developments.

In preparation for AEF26, this research report has been prepared, covering:

a) **The dynamics and quality of economic growth, economic policies, and future expectations**, particularly for the coming year. The report examines how economic growth is being challenged by the global environment and, to an even greater extent, by domestic conditions, and assesses economic growth dynamics for 2026 and 2027.

b) **Developments in the business environment** and the severity of specific barriers faced by businesses.

c) **A more detailed analysis of demographic developments and their current and potential implications** for the dynamics and quality of the country's economic and social development in the years ahead, which constitutes the central theme of this study.

This report draws on research conducted by the Riinvest Institute, the Government Program and its reflection in the Draft Budget for 2027, the National Development Strategy, reports on budget expenditures during 2026, publications by the Kosovo Agency of Statistics on developments across various sectors during 2026, monthly and annual reports of the Central Bank of Kosovo (CBK), the latest reports of the International Monetary Fund (IMF), the World Bank (WB), the European Bank for Reconstruction and Development (EBRD), and the European Union (EU), as well as forecasts by the Vienna Institute for International Economic Studies (wiiw). In addition, a field survey was conducted with more than 200 businesses to assess their perceptions of the business environment.

The report is linked to the activities of *Forum 2015*, which, since 2023, has been part of the Riinvest Institute as a program and platform for debate on Kosovo's Euro-Atlantic integration.

The findings presented in this report reflect the views of the research team and the Riinvest Institute and do not necessarily represent those of other stakeholders involved in implementing this project. The Riinvest Institute expresses its gratitude to OSF-WB for its support in carrying out this activity.

1

ECONOMIC GROWTH AND GEOPOLITICAL AND TECHNOLOGICAL CHALLENGES

1. ECONOMIC GROWTH AND GEOPOLITICAL AND TECHNOLOGICAL CHALLENGES

1.1 Global developments

At the global level, the economy continues to show signs of recovery from the severe shocks caused by the COVID-19 pandemic, the energy crisis, and disruptions to supply chains, further exacerbated by Russia's aggression against Ukraine and the war in the Middle East during this year. The IMF forecasts that economic growth in 2026 will be higher than in 2025 (3.1 percent compared to 2.5 percent). Assuming that conditions in conflict-affected areas do not deteriorate further, global economic growth is projected to reach 3.4 percent in 2027.

This performance can be attributed to economic policy measures that have effectively utilized available reserves and policy instruments to address crises, as well as the private sector's successful adaptation to the significant challenges of the past five years. Investment in the defence sector and new technologies, particularly artificial intelligence, has also contributed to this recovery.

Energy-importing countries and those with limited participation in technological value chains are considered to be at a disadvantage in coping with the consequences of the crises that have persisted since 2020. In contrast, countries with strong potential in these sectors, as well as those benefiting from more favourable terms of trade in international markets, have been better positioned to benefit from these developments.

In this context, the acceleration of energy price increases resulting from the armed conflicts in the Middle East and Ukraine has intensified inflationary pressures. These adverse effects are expected to persist to some extent in 2027, with prospects for moderation in subsequent years. Persistent inflationary pressures may require further monetary policy interventions, including increases in key policy interest rates or maintaining them at elevated levels. This would directly increase financing costs for the private sector, limiting opportunities for investment and the expansion of economic activity.

For similar reasons, additional pressures may also emerge on grain prices, particularly as a consequence of the war in Ukraine.[1] These developments have weakened purchasing power, disproportionately affecting the most vulnerable segments of the population. The underlying concern is that these pressures are unfolding at a time when fiscal space and financial reserves available to respond to crises are becoming increasingly constrained. This poses a potential risk to the realization of economic growth projections should conditions in areas affected by political and military conflicts deteriorate further.

In its latest projections (Table 1), the IMF notes that the economic recovery is accompanied by fiscal pressures and concerns about deteriorating social conditions as a result of inflation. According to these projections, global economic growth is expected to improve next year, following a slowdown in 2026, while the United States and the EU are expected to maintain growth rates similar to those recorded in the previous year. Germany is expected to overcome the economic stagnation experienced in 2025 and align with the broader EU growth trend, which would also represent a positive development for the Western Balkans and Kosovo. Growth in developing econ-

1 Uncertainty surrounding the economic outlook has increased due to higher-than-expected inflation, which, according to IMF and World Bank projections (October 2026), is expected to reach 4.7 percent in 2026 and 4.1 percent in 2027.

omies and emerging markets is also expected to improve compared to the previous year.

Alongside the developments outlined above, the global business environment continues to face pressures arising from the transformation of business processes and transactions, driven by digitalization and, increasingly, the adoption of artificial intelligence (AI). It is clear that these are not temporary fluctuations but profound transformations in how businesses operate, are managed, and grow, implying a fundamental shift in the way new value is created. This type of disruption, involving the dismantling of outdated business structures, is also redefining global stability and competition at the international level.

Table 1. Projections for Global and Regional Economic Growth (%)

	2025	2026	2027
Global Growth	3.5	3.1 ↓	3.4 ↑
United States (US)	2.3	2.3 ↔	2.3 ↔
European Union (EU)	1.2	1.1 ↓	1.2 ↑
Germany	0.2	1.3 ↑	1.1 ↓
Emerging Economies	3.7	4.4 ↑	4.0 ↓

Source: IMF, October 2026

However, this fundamental shift is also raising concerns, even among well-established global businesses, about their level of preparedness to cope with the reorganization necessitated by these disruptive transformations. These changes are challenging existing business structures and encompass not only technological and economic dimensions but also the organization of work, the performance of tasks, and the allocation of responsibilities. These concerns and challenges are also highlighted in a recent McKinsey study.2 According to the study, approximately half of executives view these changes positively, while nearly two-thirds express concerns about their businesses' ability to respond to these developments, which create continuous pressure to increase productivity. This disruptive technological transformation is driving the need to redesign and simplify business operations through the adoption of AI. However, the study finds that most workers are not adequately prepared for these changes.

Economic transformations, further complicated by geopolitical developments, require greater business flexibility to respond and adapt to change. Meanwhile, the transformation of work organization and workflows calls for the simplification and integration of processes within organizations, with an emphasis on a clear vision for innovation, well-defined priorities, and a willingness to discontinue uncompetitive business activities or segments.

The study concludes that the most successful businesses will be those that integrate AI across all their functions while investing simultaneously in technology and human capital, at a ratio of 1:5 in favour of the latter. This is particularly important given that approximately two-thirds of the knowledge and skills required in the workplace are expected to change within a five-year period.[3]

1.2 Western Balkans (WB)

Despite the context described above, the Western Balkans (WB) has managed to recover from the slowdown in economic growth experienced in 2025, when the growth rate declined from 3.7 percent to 2.5 percent. In 2026, economic growth is estimated to have reached approximately 3.1 percent, exceeding initial expectations, while a further acceleration to 3.4 percent is projected for 2027. This improvement has been supported by stronger export demand, a recovery in investment, and the relatively strong performance of the tourism sector.[4] The European Union's Growth Plan for the Western Balkans is also contributing to this economic performance, with its implementation conditional on each beneficiary country fulfilling its individual Reform Agenda. The Plan has now entered the second half of its implementation period, while countries' performance in implementing reforms and utilizing the allocated funds—two-thirds of which are provided as concessional loans and one-third as grants—varies considerably. Kosovo, Serbia, and Bosnia and Herzegovina have experienced more significant delays compared to Albania, Montenegro, and North Macedonia.[5]

With an economic growth rate approximately 1.4 percentage points higher than the EU average, the Western Balkans continues, albeit at a slow pace, its process of economic convergence towards EU levels of development (Converge2EU, 2026). However, due to delays in structural reforms and the insufficient utilization of human capital potential, the region has yet to fully realize its economic growth potential (World Bank, 2026).

2 McKinsey & Company, *The State of Organizations 2026*. The study is based on interviews with executives from 10,000 businesses employing at least 1,000 people, across 16 developed countries and 17 different industries.

3 Another issue highlighted in the McKinsey study is the need for every employee to overcome their fear of AI and develop the skills required to use it in their daily work. In this context, a key question for businesses will be how many hours per year they invest in training their employees to use and integrate AI into their work processes.

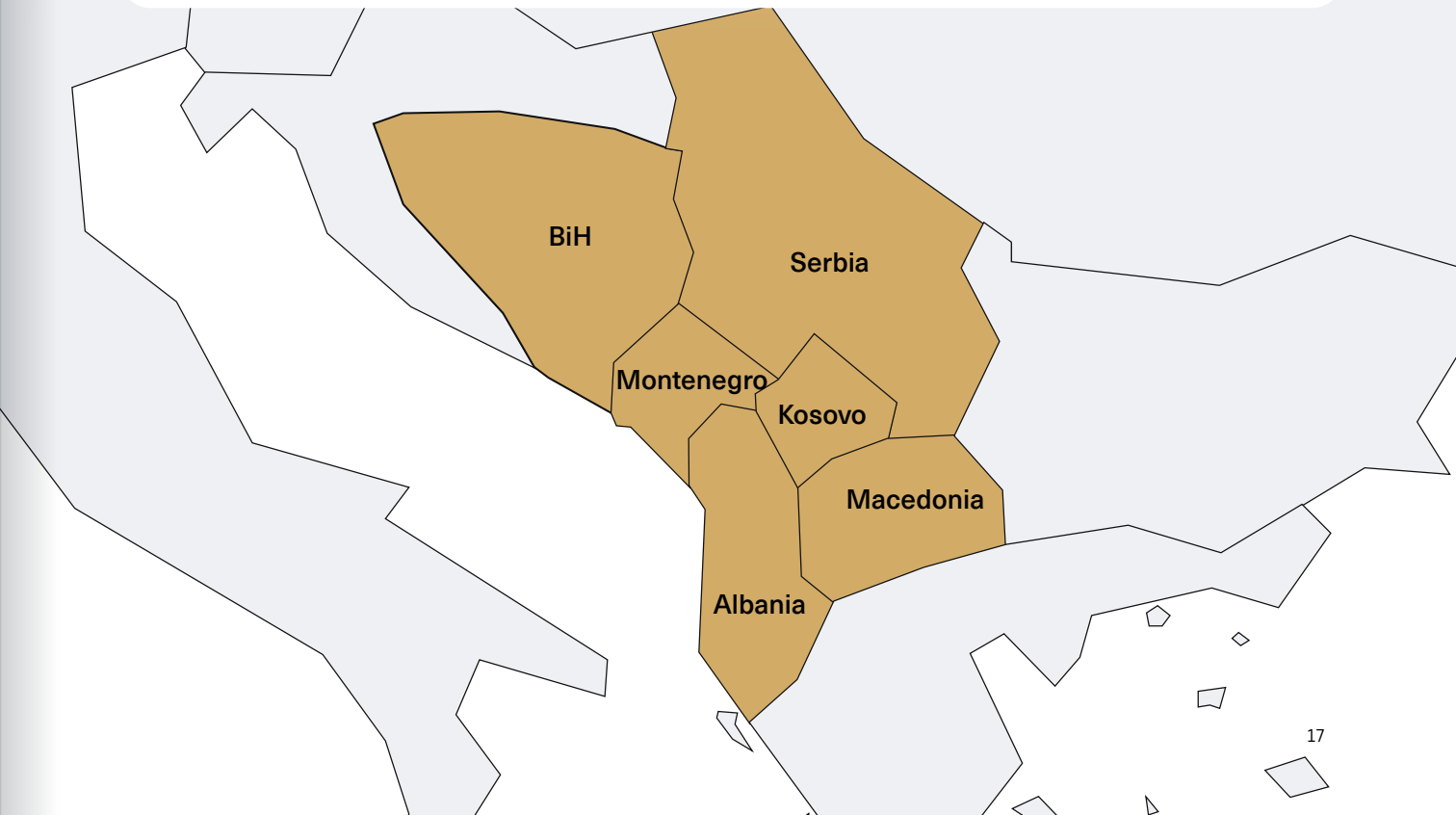
4 European Bank for Reconstruction and Development (EBRD) (2026). *Regional Economic Prospects in the EBRD Regions*, September 2026

5 The €6 billion package consists of €2 billion in grants for budgetary support and €4 billion in concessional loans. Of the total package, 50% is channelled towards infrastructure through the Western Balkans Investment Framework (WBIF), while the remainder provides direct budget support (EU Reform and Growth Facility)

Table 2. Forecast of Economic Growth in the Western Balkans (%)

	IMF		World Bank	
	2026	**2027**	**2026**	**2027**
Albania	3.5	3.2 ↓	3.4	3.6 ↑
Bosnia and Herzegovina	2.5	2.6 ↑	2.1	2.9 ↑
Kosovo	3.5	3.6 ↑	3.6	3.8 ↑
North Macedonia	3.5	3.2 ↓	3.2	3.0 ↓
Montenegro	3.0	2.8 ↓	3.3	3.0 ↓
Serbia	3.5	3.6 ↑	3.1	3.7 ↑
Western Balkans			3.1	3.4 ↑

Source: IMF, October 2026, and World Bank, October 2026



With the exception of Bosnia and Herzegovina and Montenegro, economic growth rates in the other countries of the region are expected to exceed 3 percent, although with some variation across countries (Table 2). The World Bank notes that economic growth in most Western Balkan countries continues to be driven primarily by private consumption, supported by wage increases and credit expansion, rather than by investment and exports, which would provide a more sustainable foundation for economic growth. These developments have been accompanied by increased inflationary pressures, slower employment growth, high youth unemployment, and, to varying degrees across countries, a significant share of human capital potential remaining underutilized.[6] Another characteristic of the region is the adverse impact of rising imported fuel prices, pressure on private consumption, and widening current account deficits. A range of factors negatively affect investment and financing conditions, including perceived risk, institutional crises, and the loss of momentum in structural reforms. In economies where growth is driven primarily by consumption fueled by rising wages, remittances, transfers, and credit expansion, as is the case in most Western Balkan countries, such growth does not necessarily translate into an expansion of productive capacity or a strengthening of long-term economic growth potential.

The adverse effects outlined above, particularly those associated with rising energy prices, are expected to persist to some extent in 2027, with prospects for moderation in subsequent years. Persistent inflationary pressures may lead to interest rates remaining at elevated levels or increasing further. For similar reasons, additional upward pressure on grain prices may also emerge, particularly as a consequence of the war in Ukraine.

Despite the turbulent geopolitical environment and inflationary pressures, estimates indicate that economic growth in the Western Balkans (WB), although higher than the EU average, remains below the rates recorded before the COVID-19 pandemic. Another challenge is that economic growth in the region has not been accompanied by a proportional increase in employment. Under these circumstances, the economic growth outlook is more favourable for Western Balkan countries that succeed in mobilizing private and public investment, as well as EU funds. Similarly, countries that implement policies aimed at developing higher-value-added products and services, improving labour productivity, and supporting scientific research and innovation are better positioned to sustain economic growth despite geopolitical uncertainties and challenges.

6 World Bank (2026)

2

MACROECONOMIC DEVELOPMENT IN KOSOVO

2. MACROECONOMIC DEVELOPMENT IN KOSOVO

2.1. Economic Growth Dynamics and Associated Challenges

Good economic governance is characterized by sustainable economic growth that benefits all citizens. It is also assessed through three other key indicators: employment growth and a reduction in the unemployment rate, the maintenance of low inflation, and a sustainable balance of payments with the rest of the world (sound international economic relations). Although Kosovo has maintained a relatively stable economic growth rate of 3–4 percent annually, this performance has not been sufficient to reduce inherited macroeconomic imbalances and, consequently, has failed to adequately address the challenges of unemployment and emigration, as well as persistently high trade and current account deficits. Furthermore, in recent years, the country has faced significant inflationary pressures, which have at times been more pronounced than those experienced in other countries in the region and the EU. [7]

Table 3. Economic Growth Forecasts for Kosovo (%)

	2026	2027
IMF	3.5	3.6 ↑
World Bank	3.6	3.8 ↑
EBRD	3.5	3.9 ↑
wiiw	4.0	3.8 ↓
Ministry of Finance (2027 Draft Budget)	3.8	4.2 ↑
RIINVEST	3.5	3.7 ↑

Source: IMF (2026); World Bank (2026); wiiw (2026); Ministry of Finance (2026)

7 The macroeconomic model is based on the International Monetary Fund's (IMF) approach known as Financial Programming and Policies (FPP). This approach provides a standard analytical framework for macroeconomic forecasting, linking the real sector (GDP and its components), the external sector, the fiscal sector, and the monetary sector to ensure consistency across projections. The estimate for 2026 is based on a baseline scenario that follows the trends of key variables without assuming changes in sectoral policies, supplemented by a calibration component. Potential differences in consumption estimates compared to those of other international institutions, including the World Bank, arise primarily from differences in the timing of forecast publications. After mid-2026, the Central Bank of Kosovo (CBK) and the Kosovo Agency of Statistics (KAS) revised the data for 2025. In macroeconomic terms, these revisions directly affect consumption and net exports. It should be emphasized that the revisions affected only the composition of GDP, as the real economic growth rate for 2025 remained unchanged. The forecasts of international institutions may have been published before these revisions and may therefore rely on older data series. In contrast, the Riinvest Institute's model incorporates the revised data and applies a calibrated approach. Consumption accounts for one of the largest shares of GDP, meaning that any differences in the underlying data are reflected significantly in estimates of economic growth. GDP components have been deflated using their respective deflators, meaning that price levels also influence consumption estimates. It should also be noted that differences in the individual contributions of GDP components to economic growth are negligible when the unrevised data published by the relevant institutions are used.

Following the slowdown in economic growth in 2025 compared to 2024, an improvement was recorded in 2026, with estimated annual real GDP growth of 3.5–3.8%. According to forecasts, this pace is expected to continue in 2027. Projections by the IMF, EBRD, and wiiw, despite some differences, fall within this range (Tables 2 and 3). Nevertheless, Kosovo is expected to maintain a relatively faster pace of economic growth than its neighbouring countries, while Serbia and Albania are projected to record similar growth rates.

During the first half of 2026, the Kosovo Agency of Statistics (KAS) estimated real economic growth at 5.2% in the first quarter and approximately 4% in the second quarter, compared to the corresponding periods of 2025. These figures suggested that economic growth could exceed initial forecasts. However, other data, based on turnover (sales) declared to the Kosovo Tax Administration (TAK) for the January–September 2026 period, indicate a slowdown in economic activity. Total turnover, expressed in real terms, increased by approximately 3.2%, while concerning declines were recorded in agriculture (7%) and construction (5%). Positive developments include increases in turnover in the mining and quarrying sector (28.9%) and manufacturing (10.26%). These sectors, which together account for approximately 37% of total turnover, have also contributed to the stronger export performance recorded during the year. Domestic energy production, including all sources (thermal power plants, hydropower plants, and other renewable energy sources), increased by approximately 4.5%.[8]

According to our projections, the pace of economic growth is expected to be maintained and improve slightly next year, from 3.5% in 2026 to 3.7% in 2027. This forecast is based on the assumption that export growth will continue to consolidate, alongside improvements in the implementation of public investments and the utilization of potential funding under the EU Growth Plan.[9] These projections are broadly in line with those of the IMF and the World Bank, with differences of 0.1–0.2 percentage points.

This pace of economic growth has been, and remains, insufficient to stimulate a more substantial increase in employment and a reduction in unemployment. Employment statistics still do not provide sufficient data to accurately assess job creation and employment dynamics. According to data from the Kosovo Pension Savings Trust, the number of active accounts declined from 389,828 in June 2025 to 356,441 in June 2026, representing a decrease of 33,387 accounts, or approximately 8.6%.[10] On the other hand, according to the Kosovo Tax Administration (TAK), the number of registered employees in September 2026 increased compared to the same month of the previous year, from approximately 414,000 to 426,000, representing an increase of 12,372 employees, or around 3%.[11] These two data sources reveal seemingly contradictory trends, which may be related to methodological differences, emigration, and the formalization of informal employment. Nevertheless, they suggest that job creation remains insufficient. The unemployment rate has remained at around 11% in recent years, despite substantial emigration, pointing to persistent structural problems in the labour market.

8 https://ask.rks-gov.net/Themes/Energy

9 Of the total €882.6 million allocated to Kosovo under the EU Growth Plan, only €61.8 million (7%) had been disbursed as of November 2026. Six reforms that were not implemented by the June 2026 deadline resulted in an estimated loss of €43.8 million, while a further 22 reforms, associated with €131.5 million in funding, must be completed by the end of 2026 to avoid the risk of losing the corresponding funds.

10 Kosovo Pension Savings Trust, September 2025 and September 2026 Bulletins

11 Data from the Kosovo Tax Administration (TAK), September 2026

This is also linked to the concerning level of economic inactivity, with a very large share of the working-age population remaining outside the labour market, particularly women. Creating more jobs requires accelerating economic growth and strengthening the economy's capacity to generate employment. This represents one of the fundamental conditions for reducing poverty and alleviating economic deprivation among population groups living below or near the poverty line. These challenges are also closely linked to the demographic transition, particularly the concerning trends of emigration and declining birth rates. All these issues, as well as the need for active demographic policies, are discussed in greater detail in Chapter 4, which focuses on the central theme of this report: demographic developments and human capital. In this context, the World Bank (2026) also identifies better utilization of human capital potential, particularly through increased labour force participation and employment, as one of the key opportunities for accelerating economic growth in Kosovo.[12]

Serious challenges persist in the external economic sector. Nevertheless, a positive development was recorded during this period, with exports increasing by 22.4% and the import coverage ratio improving from 12% to 13.7%. Despite these developments, changes in other components of the balance of payments led to an increase in the current account deficit from 13.8% to 16.5% of GDP. For a more detailed analysis of developments in this sector, see Section 2.3 of the report.

Government expenditure, specifically budgetary spending (see Section 2.5 for further details), is characterized by a nominal growth rate that has nearly halved compared to the previous year, while remaining approximately unchanged in real terms. A similar trend is expected to continue in 2027. The budget could make a greater contribution to economic growth if the implementation rate of planned capital investments were significantly improved. In addition, budgetary priorities need to be restructured to improve the position of education, healthcare, scientific research, and innovation. According to the budget projections for 2027, the position of these sectors remains largely unchanged and significantly less favourable than in other countries in the region.

2.2. Inflation and its external and domestic drivers

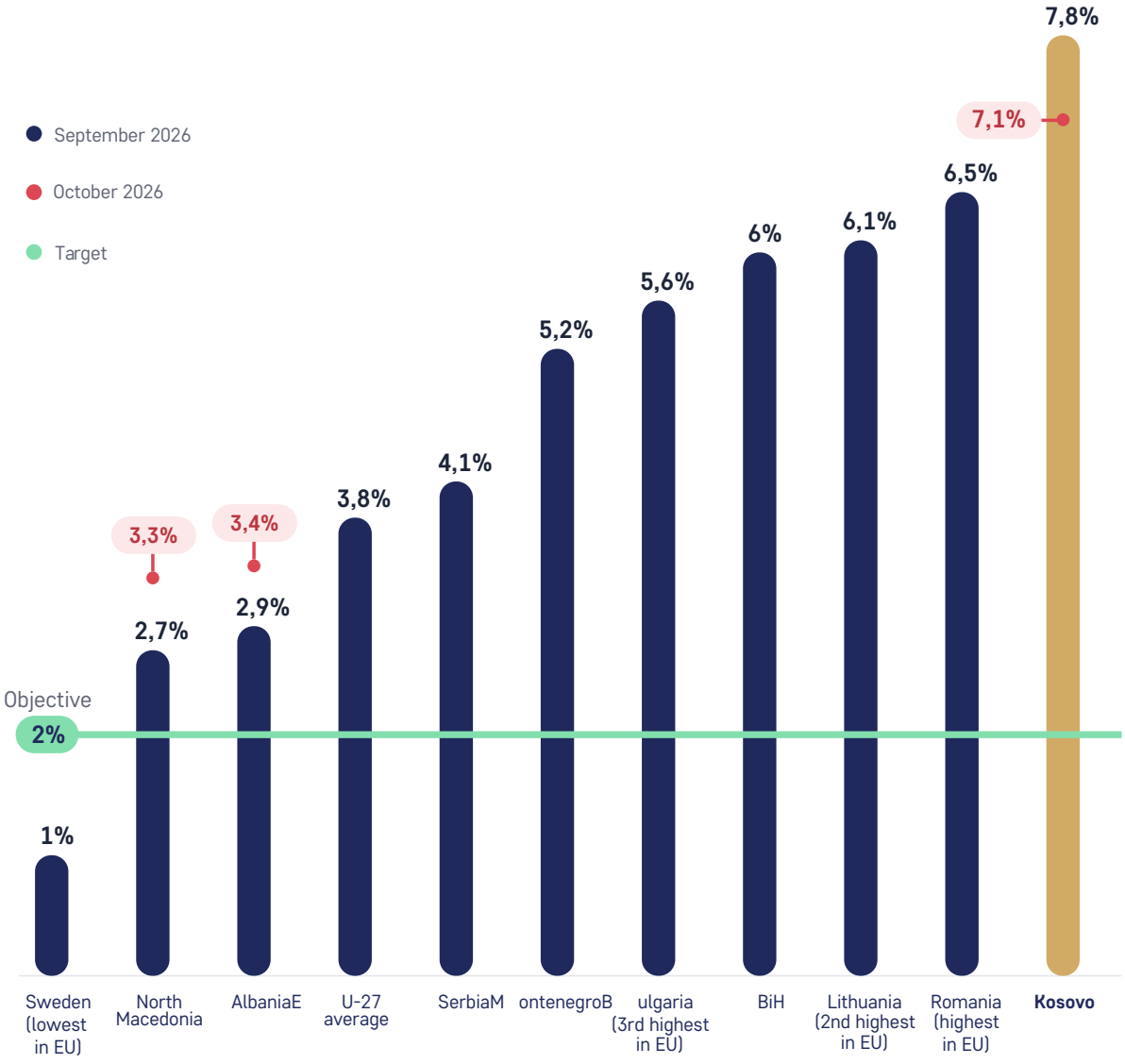
According to the latest data published by the Kosovo Agency of Statistics (KAS) on November 10, 2026, inflation declined to 7.1% in October, from 7.8% in September, while prices remained unchanged on a month-on-month basis. The largest price increase was recorded in transport (+21.5%), followed by housing and energy (+9.7%), tobacco (+5.0%), restaurants (+4.5%), and food (+3.2%). This is the first publication based on COICOP 2018,[13] with 2025 as the base year (2025=100). As shown in Figure 1, Kosovo's inflation rate remains more than twice as high as that of Albania (3.4%) and North Macedonia (3.3%). In September, Kosovo's inflation rate was higher than that of any EU member state, where the average stood at 3.8%, with Romania recording the highest rate at 6.5% and Sweden the lowest at 1.0%.

Oil and energy prices increased across the region following the outbreak of war in the Middle East. However, the same shock resulted in inflation rates two to three times lower in neighbouring countries. This suggests that while the initial shock originated externally, the acceleration of inflation was driven by domestic economic factors. Kosovo imports almost all of its oil, a significant share of its electricity, construction materials, and most of its food, with food alone accounting for approximately 40% of the consumer basket. Every increase in global market prices leaves consumers particularly exposed, as transportation

12 World Bank (2026)

13 The weights of products in Kosovo's Consumer Price Index (CPI) basket are now based on national accounts data classified according to COICOP (Classification of Individual Consumption According to Purpose). This approach better reflects contemporary household expenditure patterns and aligns with European Union statistical standards. The classification separates financial and insurance costs from personal care expenditure, updates the measurement of digital services and bundled services, and requires careful adjustment when comparing sub-index data from 2026 onward with historical trends.

Figure 1. Kosovo, the Western Balkans, and the EU: Lowest Inflation Rate, Average Inflation Rate, and the Three Countries with the Highest Inflation Rates.



Sources: KAS, INSTAT, MAKStat, RZS, MONSTAT, BHAS, Eurostat (2026).
September is the latest month published for all countries; October is shown only where it has been published (Kosovo, Albania, North Macedonia).

The inflation target = 2% (dashed line in the original chart). Values in blue are editable inputs; the chart updates automatically.

costs are incorporated into the prices of goods throughout lengthy supply chains. Moreover, the limited number of importers in various sectors of the economy means that price increases are passed on rapidly to consumers, while price reductions are transmitted with a delay. At the same time, the lack of domestically produced alternatives continues to disadvantage consumers.

Kosovo's heavy dependence on imports explains why the country is exposed to external inflationary shocks, but not why inflation is higher than elsewhere. For example, Montenegro and North Macedonia are similarly dependent on imports and face almost identical import prices, yet their inflation rates are lower. This indicates that domestic policies and demand are key factors behind the difference. According to the Central Bank of Kosovo (CBK, 2025), core inflation stands at 5.1%, driven by services, which are largely non-tradable. During this period, the minimum wage increased by 43% within a single year, a 13th-month salary was approved for the public sector, remittance inflows continued, while productivity remained stagnant. Producer prices increased by 7.9% in March 2026, suggesting that domestic cost increases have yet to be fully passed on to consumers.

Kosovo has limited instruments at its disposal to combat inflation. With the euro as its currency, the country has virtually no independent monetary policy (it cannot use either interest rates or the exchange rate as adjustment instruments), unlike Albania, for example, where the appreciation of the lek has helped moderate import prices, albeit with some exceptions. However, fiscal policy, practically the only instrument available, also responded less effectively than in neighbouring countries.

To cushion the shock, Montenegro halved excise duties on fuel, Albania introduced an automatic reduction, while Serbia and Albania also imposed price freezes. Kosovo introduced only caps on profit margins (€0.12 per Liter at the retail level and €0.02 at the wholesale level), without making any adjustments to excise duties or VAT. As a result, transport costs increased more sharply than in neighbouring countries.

Electricity prices rose by 16.1% in 2025, an increase whose effects continued to be reflected in inflation throughout 2026. This was compounded by higher electricity import costs and their associated negative effects. The political crisis, marked by repeated elections, an "emergency" budget approved in February, and delays in EU funding, further slowed the policy response.

Across-the-board public sector wage increases, the 13th-month salary, and seniority-based allowances were introduced ahead of the elections. A temporary reduction in excise duties was rejected on the grounds of preserving government revenue, even though inflation itself had increased revenues through VAT (in the first quarter of 2026, revenues rose primarily due to VAT and direct taxes). Neighbouring countries activated automatic excise duty adjustment mechanisms, which Kosovo does not have. Even if profit margins were eliminated entirely, fuel prices would fall by only a few cents per Liter, whereas halving the excise duty would reduce prices by approximately €0.20 per Liter, including the corresponding reduction in VAT.

The measures outlined above protected the nominal incomes of certain groups but did not reduce the cost of living or adequately target the most vulnerable. The basic pension was increased, while other pensions remained unchanged, and indexation of just 2.7% falls well below the inflation rate of 6–8%, further weakening the financial position of pensioners.

The Law on Price Ceilings was re-adopted in April 2026, after the Constitutional Court struck down the 2023 law. However, experience shows that price ceilings can lead to shortages, lower product quality, and the expansion of informal markets, while doing nothing to reduce import costs. Their implementation therefore requires careful consideration and precise targeting.

Such inflationary developments have an adverse impact on the living standards of most consumers. A basket of goods and services costing €1,000 in September 2025 now costs approximately €1,078, representing an additional €78 per month and nearly €940 per year (at October's inflation rate of 7.1%, the increase would be approximately €71 per month). Similarly, €100 in savings now has the purchasing power of approximately €92.80 a year earlier. The burden falls most heavily on low-income households, pensioners, and those whose wages have remained unchanged—in other words, those who spend a larger share of their income on food, heat-

ing, and transport. Informal workers, the unemployed, farmers, and households receiving social assistance, who receive no additional support, are also particularly affected. Beyond rising prices, the phenomenon of *shrinkflation* is becoming increasingly widespread, whereby consumers receive smaller quantities of products for the same price as a result of reductions in package sizes or product quantities. These increasingly prevalent market practices and behaviours require greater attention and an appropriate institutional response.

Inflation is likely to slow but is expected to remain above the regional average and the 2% target. This does not mean that prices will fall, but rather that the pace of price increases will moderate. The Central Bank of Kosovo (CBK, 2026) projects inflation of around 4.5% in 2027, while the IMF estimates inflation rates of 3–3.6% for countries in the region, with the 2% level expected to be reached only by mid-2028. However, developments related to the war in the Middle East, deferred electricity costs in 2027, winter conditions, wage increases, expansionary fiscal policy, and political uncertainty could undermine these forecasts. The main concern is not a sudden surge in inflation, but its persistence. At these rates, by the end of 2027, prices will be approximately 16% higher than at the beginning of 2025, and this loss of purchasing power for Kosovo consumers will not be reversed automatically.

In the short term, ahead of winter, alongside the government's welcome electricity subsidies for vulnerable groups, a temporary reduction in fuel excise duties (currently around €0.35 per Liter) is advisable. Such a measure should be triggered automatically when prices exceed a publicly announced threshold and expire automatically, as in Montenegro and Albania. It could be financed through the additional VAT revenue generated by inflation.

From January 2027, pensions should be adjusted to compensate for the difference between the 2.7% indexation rate and actual inflation, rather than relying on adjustments that leave pensioners worse off in real terms.

An online platform should be established to compare daily prices of products in the basic consumer basket, using data from fiscal cash registers, as greater transparency would improve consumer awareness and minimize abusive practices. Investigations into cartels and abuses of dominant market positions in the fuel sector and essential goods markets, including flour, cooking oil, sugar, milk, and wholesale distribution, are also urgently needed. Priority should be given to publicly monitoring profit margins rather than fixing prices, reducing excise duties when prices exceed a specified threshold, and increasing strategic reserves of fuel and essential goods. The new Law on Essential Products should also establish measurable criteria and clear expiration provisions to prevent arbitrary implementation.

The Competition Authority should prioritize launching investigations as soon as possible and undertaking a thorough assessment of market conditions. It should examine the extent to which markets operate freely and under conditions of fair competition, and recommend appropriate policies to protect Kosovo consumers while ensuring a level playing field for businesses in general.

2.3 External sector

Kosovo entered 2026 with a substantial trade deficit in goods and a high current account deficit. The IMF (2026) estimates that rising energy and food prices could widen the current account deficit to approximately 10.5% of GDP by the end of 2026. The World Bank is less pessimistic, projecting a deficit of around 8.4%. The difference between these projections reflects considerable uncertainty surrounding energy imports, international prices, and the performance of the services sector.

Nevertheless, export of goods have increased in recent years, although not sufficiently to offset the expansion of imports. Between 2019 and 2025, imports almost doubled, rising from approximately €3.5 billion to over €7 billion. As a result, the trade deficit also widened significantly, from around €3.1 billion in 2019 to €6.1 billion in 2025.

During the January–September 2026 period, however, a relative improvement in export performance was observed. Export of goods reached approximately €836 million, increasing by 22.4% compared to the same period in 2025. Meanwhile, imports grew at a slower rate of around 7.9%, reaching €5.65 billion. As a result, the import coverage ratio improved from 13.1% to 14.8%.

Table 4. Exports and Imports of goods, 2019–2026

Year	Exports	Imports	Trade Balance	Import Coverage by Exports (%)
2019	384	3,497	-3,114	11.0%
2020	475	3,297	-2,822	14.4%
2021	756	4,684	-3,928	16.1%
2022	998	5,639	-4,642	17.7%
2023	874	5,913	-5,038	14.8%
2024	944	6,371	-5,428	14.8%
2025	942	7,049	-6,106	13.4%
January – September 2025	683	5,232	-4,549	13.1%
January – September 2026	836	5,646	-4,810	14.8%

Source: Central Bank of Kosovo (2026)

Regarding the geographical distribution of exports, regional markets continue to account for the largest share. Nearly half of **exports of goods** during the first nine months of 2026 were directed to CEFTA countries, while approximately one-third went to the European Union. Albania and North Macedonia together accounted for around 33.6% of total exports, while the five main export destinations—Albania, North Macedonia, Germany, Switzerland, and Serbia—represented approximately 60% of the total. Geographical proximity and established trade relationships provide an advantage for Kosovo exporters. However, the concentration of a substantial share of exports in a relatively limited number of markets also increases exposure to changes in demand in these economies.

Germany and Switzerland are of particular importance, as economic relations with these two countries extend beyond trade in goods. They are also among the main sources of remittances and diaspora-related investment. Switzerland represents a particularly favourable case in trade in goods, as Kosovo's exports to this market exceeded imports during the period under review. In this context, the entry into force of the Free Trade Agreement between Kosovo and EFTA in 2026 represents an important development for export prospects. The agreement creates more favourable conditions for access to the markets of Switzerland, Norway, Iceland, and Liechtenstein.[14] Since the agreement entered into force only in the final quarter of the year (October 1, 2026), its impact on trade flows in 2026 is expected to be limited, while potentially more significant effects may emerge from 2027 onward. This is particularly relevant for Switzerland, which already accounts for approximately 9.7% of Kosovo's exports of goods.

The product composition of exports continues to be dominated by base metals and articles thereof, which account for approximately 25.5% of total exports. Prepared foodstuffs, beverages, and tobacco follow with 11.7%, plastics, rubber, and articles thereof with 10.9%, and mineral products with 10.6%. The shares of processed food prod-

14 https://minti.rks-gov.net/news/nga-1-tetori-hyn-ne-fuqi-marreveshja-e-tregtise-se-lire-kosove-efta-mundesi-te-reja-per-eksportet-kosovare/

ucts, plastics and rubber, textiles, and machinery indicate that the export base is gradually diversifying. Nevertheless, base metals and mineral products together account for approximately 36% of exports, making export performance relatively sensitive to fluctuations in international commodity prices and industrial demand. This export structure takes on additional significance with the entry into the definitive phase of the EU Carbon Border Adjustment Mechanism (CBAM) in 2026. For Kosovo, the mechanism is particularly relevant to the metals sector and other carbon-intensive products. Given that base metals constitute the country's largest export category, requirements for measuring, reporting, and verifying emissions could gradually affect the costs and competitiveness of some export-oriented producers.

On the import side, the European Union remains Kosovo's main source of imports, accounting for approximately 43.8% of total imports during the January–September 2026 period. Germany is the largest individual trading partner in terms of imports, accounting for around 13.4%, followed by Türkiye with 11.6%. Together, these two countries account for approximately one-quarter of Kosovo's total imports. This pattern differs significantly from the geographical distribution of exports, where CEFTA accounts for the largest share, highlighting an asymmetry between the markets to which Kosovo exports and those from which it sources its imports.

The composition of imports by product category also highlights the economy's high degree of dependence on external supplies. Mineral products constitute the largest category, accounting for approximately 16.2% of total imports. As in previous years, machinery, equipment, and electrical appliances account for around 13% of imports, while transport equipment represents 11.4%. The substantial shares of these two categories indicate that a considerable proportion of imports consists of capital goods and investment-related products, which may contribute to expanding productive capacities.

Services, on the other hand, represent one of the most positive components of Kosovo's external sector. Unlike trade in goods, where Kosovo consistently records a substantial deficit, trade in services is characterized by a large and growing surplus.

Table 5. Exports and Imports of Services, 2019–2026

Year	Exports of Services	Imports of Services
2019	1,675	749
2020	995	603
2021	2,059	966
2022	2,679	1,282
2023	3,277	1,562
2024	3,736	1,807
2025	4,302	1,932
January – August 2025	3,062	1,357
January – August 2026	3,351	1,423

Source: Central Bank of Kosovo (2026)

This positive trend continued in 2026. During the January–August period, exports of services reached approximately €3.35 billion, increasing by 9.4% compared to the same period in 2025. Imports of services grew at a more moderate rate of around 4.9%, reaching €1.42 billion.

Travel services dominate exports of services, accounting for approximately 72.8% of the total and generating a surplus of around €1.65 billion during the first eight months of the year. This inflow is largely associated with visits and spending by the diaspora in Kosovo. ICT and telecommunications account for approximately 9.2% of exports of services and generated a surplus of around €252 million through August 2026. This distinction is important for the long-term outlook. Travel services represent a major and stabilizing source of revenue, while ICT and business services offer more direct potential for productivity growth, skilled employment, and export diversification. The role of the diaspora extends beyond travel-related spending and is also clearly reflected in remittance inflows.

During the first half of 2026, remittance inflows from the diaspora and foreign direct investment (FDI) continued to increase, while the current account position deteriorated. Remittances reached €690.8 million in the first six months of the year, compared to €650.2 million in the same period of 2025, representing an increase of approximately 6.2%. As a share of GDP, remittances increased from 12.1% to 13.7%. This confirms that remittances remain one of the main sources of external inflows and an important source of support for household consumption.

Table 6. Balance of Payments Overview

	Remittances		**Foreign Direct Investment (FDI)**		**Current Account**		**Financial Account Balance**		**Balance of Payments**	
	In millions of euros	As a share of GDP (%)	In millions of euros	As a share of GDP (%)	In millions of euros	As a share of GDP (%)	In millions of euros	As a share of GDP (%)	In millions of euros	As a share of GDP (%)
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	1153.4	14.5	420.7	5.3	-632.5	-7.9	-365.0	-4.6	-694.7	-8.7
2022	1222.8	13.7	732.0	8.2	-878.7	-9.9	-661.6	-7.4	-917.1	-10.3
2023	1335.8	13.8	840.1	8.7	-729.4	-7.5	-415.5	-4.3	-666.5	-6.9
2024	1355	13.4	793.5	7.8	-914.8	-9.0	-639.3	-6.3	-883.2	-8.7
2025	1,406	12.3	1052.9	9.2	-896.4	-7.9	-626.8	-5.5	-860.6	-7.5
2025 (January - June)	650.2	12.1	436.6	8.1	-745.5	-13.8	-604.6	-11.2	-730.4	-13.5
2026 (January - June)	690.8	13.7	517.9	10.3	-821.3	-16.3	-617.5	-12.2	-737.2	-14.6

Source: Central Bank of Kosovo and Kosovo Agency of Statistics.

An even stronger increase was recorded in foreign direct investment (FDI). During the January–June 2026 period, FDI as a share of GDP increased from 8.1% to 10.3%. However, despite the increase in FDI inflows, their sectoral composition remains unfavourable, as a substantial share continues to be directed toward non-tradable sectors, limiting their direct contribution to productive and export capacities. Of the approximately €692.9 million in FDI recorded through August 2026, around €460 million, or 66.4% of the total, was directed toward real estate activities, primarily by the diaspora. Meanwhile, investment in manufacturing remains relatively limited. By August 2026, manufacturing had attracted approximately €35 million, accounting for only 5% of total FDI, while wholesale and retail trade received around €24.5 million, or 3.5%. In terms of country of origin, Germany is the largest source of FDI, accounting for approximately €172 million, or 24.8% of the total, followed by Switzerland with €120.5 million (17.4%). Türkiye accounts for around 12.2% of FDI, with €84.7 million, while the United States accounts for approximately 7.9%, with €54.6 million. Together, these four countries accounted for more than 62% of total FDI inflows during the January–August 2026 period.

The geographical distribution of remittances also confirms Kosovo's high dependence on a few major diaspora hubs. Germany remains the dominant source of remittances, accounting for approximately €309.8 million through August 2026, while Switzerland ranks second with around €136.4 million. They are followed by the United States, Austria, and Sweden.

Despite the increase in remittances and FDI, the current account deficit has widened. In the first half of 2026, it reached €821.3 million, compared to €745.5 million in the same period of 2025, representing a deterioration of approximately 10.2%. As a share of GDP, the deficit widened from 13.8% to 16.3%. This development reflects the fact that increased inflows from remittances, services, and investment have not been sufficient to fully offset the substantial deficit in trade in goods and the continued demand for imports.

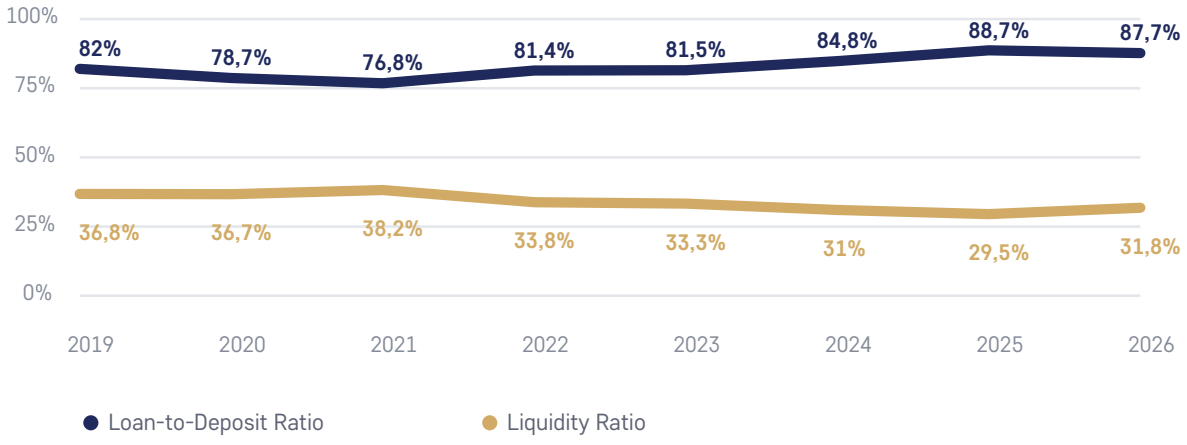
2.4 Financial sector

Kosovo's financial sector continues to demonstrate positive trends in growth, performance, and stability. The banking sector comprises 10 commercial banks, seven of which are foreign-owned and account for 82.2% of total banking assets. Compared to the same period of the previous year, the number of banking branches and offices remained unchanged, while the number of employees recorded a slight decline.

Regarding financial indicators of profitability and capitalization, return on assets (ROA) declined from 2.5% to 2.2%, while return on equity (ROE) decreased from 18.4% to 16.9%, compared to the same period of the previous year. This decline suggests that net profit growth has been slower than the growth in assets and equity in the banking sector. Rising operating expenses among commercial banks have been one of the factors contributing to lower profitability. Despite this slight decline, banks in Kosovo continue to generate high returns on equity, making them attractive to investors.

The loan-to-deposit ratio reached 87.7% during the January–September 2026 period, representing a decline of one percentage point compared to the previous year. An analysis of this indicator over the 2019–2026 period shows that loans expanded more rapidly than deposits. Meanwhile, the liquidity ratio increased compared to the previous two years, reaching 31.8% during the January–September 2026 period. This indicates that banks have sufficient capacity to meet their short-term obligations. Non-performing loans also remain at a low level (2%).

Figure 2. Liquidity Indicators and the Loan-to-Deposit Ratio for Commercial Banks, 2019–20266



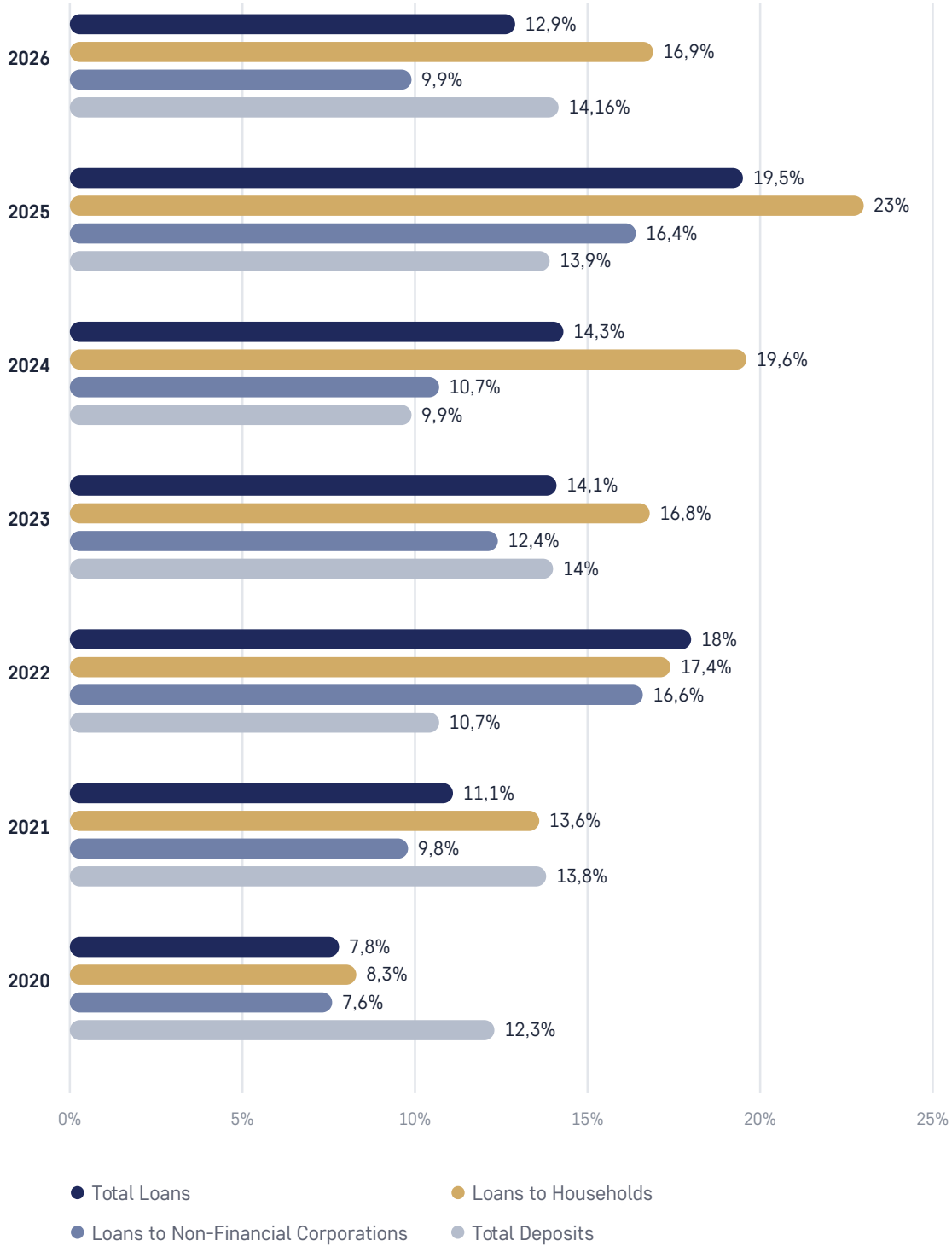
Source: CBK (2026)

Lending to sectors of the economy increased by 12.9% during the January–September 2026 period, representing a decline of 6.6 percentage points compared to 2025. Household loans continued to record the highest growth rate, at 16.9%, followed by loans to non-financial corporations, which increased by 9.9%. However, both categories experienced a slowdown in credit growth compared to the previous two years. This slowdown reflects weakening demand for loans. Households reduced their demand for personal and consumer loans, while large corporations reduced their demand for loans to finance inventories, working capital, and fixed investments during the first quarter of 2026.

In contrast to the first quarter, data from the Kosovo Bank Lending Survey for the second quarter of 2026 indicate that the increase in loan demand from enterprises was driven primarily by financing for fixed investments, inventories, and working capital. These findings suggest that borrowing during this period was driven not only by short-term liquidity needs but also by the expansion of economic activity and investment in long-term assets.

Regarding the sectoral distribution of loans, no significant changes are observed compared to previous years. Services continue to dominate the loan portfolio, accounting for 64.4%, followed by industry, energy, and construction with 33.9%. Meanwhile, agricultural loans account for less than 2% of the total loan portfolio.

Figure 3. Annual Growth in Loans and Deposits, 2020–2026 (%)

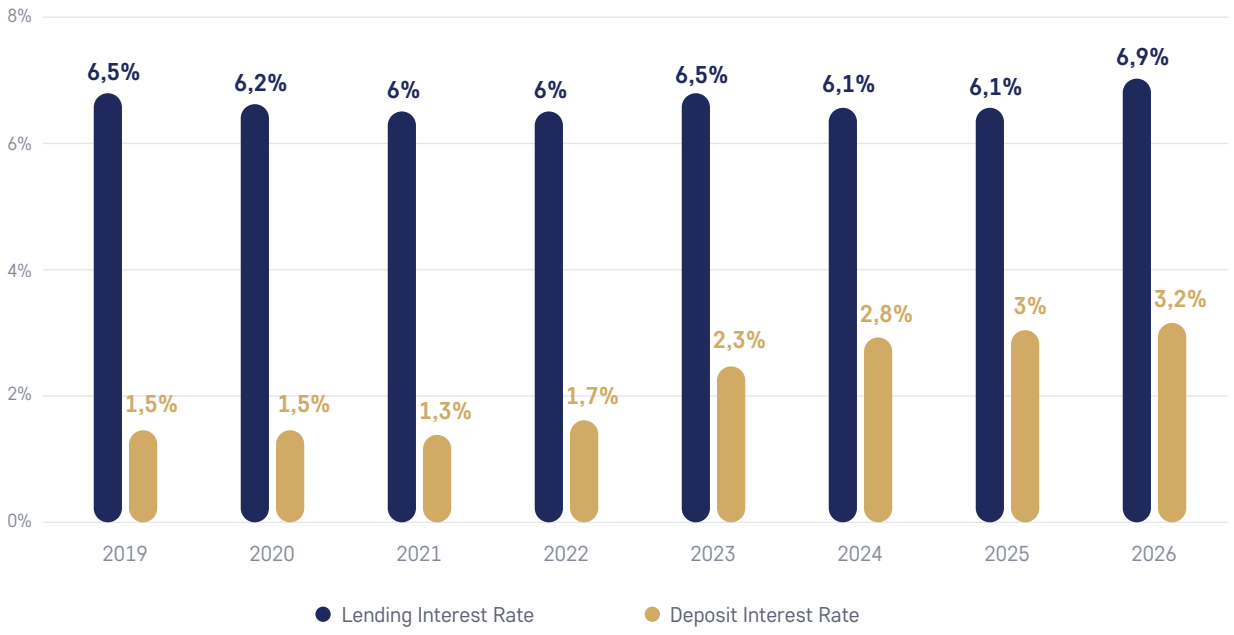


Source: CBK (2026)

Meanwhile, deposits increased by 14.15%, recording the highest growth rate during the 2020–2026 period under review. Deposit growth was supported by increased savings among households and businesses, as well as a growing preference for holding more funds in bank accounts amid economic uncertainty. Furthermore, the slowdown in loan demand contributed to a larger volume of funds remaining in bank accounts.

Interest rates have increased compared to previous years (see Figure 3). During the January–September 2026 period, the average lending interest rate reached 6.9%, the highest level recorded during the period under comparison. Similarly, the average interest rate on deposits increased to 3.2%, more than doubling compared to its 2019 level. These figures support the findings presented above and help explain why households and large corporations have reduced their demand for loans while increasing their bank deposits.

Figure 4. Interest Rates on Loans and Deposits, 2019–2026 (%)



Source: CBK (2026)

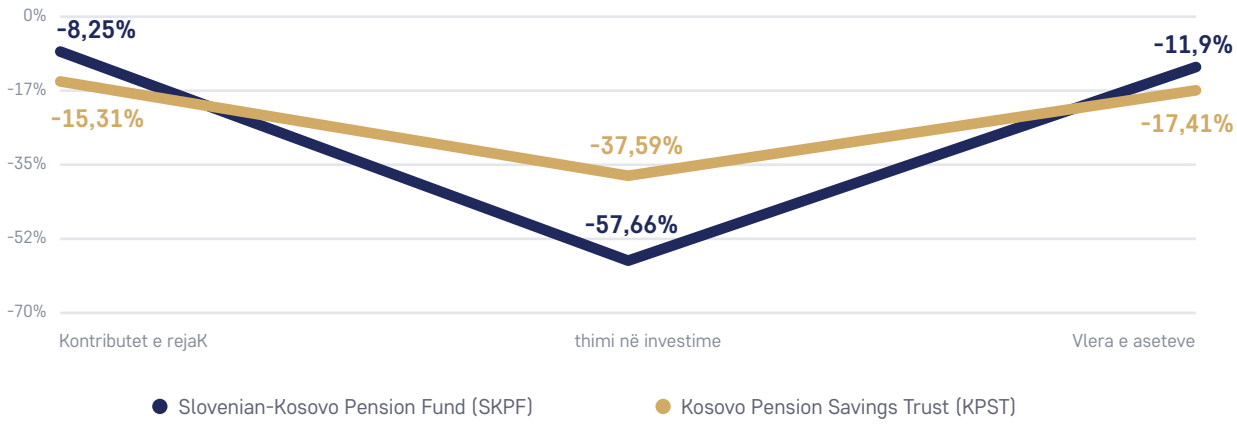
In addition to commercial banks, insurance companies also recorded a downward trend in profitability and capitalization indicators. In September 2026, return on assets (ROA) stood at 4.4%, a decline of 2.3 percentage points compared to September 2025. During the same period, return on equity (ROE) stood at 14.1%, representing a decrease of 7.5 percentage points compared to the previous year. The net profit of insurance companies also declined by 2.3 percentage points. These figures indicate that the profitability of insurance companies weakened in 2026, potentially due to rising operating expenses, declining premium income, or higher claims costs.

Microfinance institutions also experienced notable changes. Annual loan growth stood at 6.1% in September 2026, approximately 14.7 percentage points lower than in the previous year. Similarly, household loan growth slowed significantly, reaching 9.8% in 2026, a decline of 11.4 percentage points compared to the previous year. Weaker demand for borrowing, higher financing costs, and economic uncertainty were among the factors contributing to this downward trend.

Kosovo's financial sector continues to have substantial exposure to the external sector. The Kosovo Pension Savings Trust holds the largest amount of net foreign assets, at €3.5 billion, followed by the Central Bank of Kosovo (CBK) with €1.6 billion and commercial banks with €1.1 billion. This dependence poses challenges for pension assets and commercial banks, as fluctuations in international financial markets can have significant repercussions on domestic financial conditions.

Regarding the performance of pension funds, the unit value of the Kosovo Pension Savings Trust (KPST) increased from €1.94 to €2.17, while the unit value of the Slovenian-Kosovo Pension Fund (FSKP) increased from €222.8 to €247. However, financial market conditions have been unfavourable this year, as reflected in a significant decline in investment returns. Compared to the same period in 2025, investment returns for FSKP declined by 57.6%, while those for KPST decreased by 37.6%. A decline was also observed in the number of new contributors and the value of assets. The value of KPST assets recorded a significant decrease of 17.4%, while the number of new contributors fell by 15%.

Figure 5. Pension Fund Performance Indicators: Comparative Analysis, September 2025–2026 (%)



Source: CBK (2026)

2.5 Government expenditure

Kosovo's draft budget for 2027 maintains an orientation similar to that of previous years, aiming to preserve fiscal stability but falling short of providing the necessary fiscal policy support for the drivers of high-quality and sustainable economic growth. This reflects the inadequate prioritization of education, healthcare, research, and innovation within the structure of budget allocations, as well as persistent weaknesses in the implementation of planned public investments financed through the budget.

The budget for the coming year envisages a nominal increase in expenditure, but a decline in its share of GDP. Expenditure is projected to reach €4.27 billion, representing an increase of 4.9% compared to the revised 2026 budget, but below the previous year's growth rate of 9%. As nominal GDP is projected to grow faster than expenditure, its share of GDP is expected to decline from 33% to 32%. Meanwhile, budget revenues are projected at €4.00 billion, an increase of 6.7% compared to the previous year, but below the previous year's growth rate of 9%. Consequently, the overall budget deficit is expected to decrease from €321 million to €266 million, or from 2.7% to 2.0% of GDP. Overall, these developments indicate a slowdown in the growth of both budget revenues and expenditure in 2026 and 2027.

The revision of the 2026 budget resulted in changes to its composition compared to the initial budget. The revised budget allocated an additional €102 million to wages and allowances and €20 million to subsidies and transfers. On the revenue side, part of the projected increase came from dividends (KEK and Telecom) and budget support grants.

This distinction is important for fiscal sustainability. Dividends and grants can ease financing pressures in the year they are received, while measures that permanently increase wages or benefits require sustainable funding sources in subsequent years. Therefore, assessing budget sustainability requires examining whether growth in recurring current revenues is sufficient to cover the costs of commitments that extend beyond a single fiscal year.

International institutions also view fiscal discipline as a positive development, but express concerns about the expansion of the expenditure base and the pressures that growing fiscal obligations may place on medium-term sustainability.[15] This fiscal expansion has supported household incomes and economic activity in the short term, but requires caution given the ongoing budgetary commitments it creates over the longer term.[16] The IMF recommends a more prudent fiscal policy to prevent inflationary pressures, advocating a deficit of around 1% of GDP, compared to approximately 2% under the planned baseline scenario.

These developments suggest that the sustainability and developmental impact of the budget depend on the ability to secure stable revenue sources, control permanent expenditure commitments, and direct resources toward investments that enhance productivity, human capital, and productive capacities.

15 The World Bank specifically highlights that, during the first seven months of 2026, revenues increased by 9% year-on-year, while expenditures rose by 19%.

16 World Bank (2026)

Table 7. Budget Revenues and Expenditures (EUR billions)

	2024 (Actual)	2025 (Actual)	2026 (Revised)	2027 (Projected)	2027/2026 %
Budget Revenues	3.088	3.343	3.749	4.002	+6.7 %
Budget Expenditures	3.123	3.427	4.071 M	4.269	+4.9 %
Budget Balance	-35 million	-84 million	-321 million	-267 million	
Budget Balance as % of GDP	-0.3%	-0.8%	-2.7%	-2.0%	
Budget Expenditures as % of GDP	30.2%	31.1%	33.6%	31.9%	

Source: Law on Budget Appropriations for the Budget of the Republic of Kosovo for 2027.

Budget Revenues

During the January–September 2026 period, budget revenues, including grants, reached €2.65 billion, representing approximately 70% of the revised annual budget target. Within this total, direct taxes increased by 15% to €490 million, while indirect taxes rose by 7.3% to €1.97 billion. Although direct taxes grew more rapidly, indirect taxes contributed more in absolute terms due to their larger revenue base.

The 8% increase in the value of imports, alongside a 0.6% decline in the volume of regular imports of goods, suggests that higher prices and changes in the composition of imports may have contributed to part of the increase in revenue collected at the border. Regarding VAT collection policy, the pattern remains largely unchanged from previous years, with approximately 32% of VAT collected domestically and around 64% at the border. VAT collection at the border places a considerable burden on businesses, as most are required to pay VAT before they have even begun selling their products. This reduces their liquidity and competitiveness.

For 2027, the draft budget projects revenues of €4.00 billion, approximately €253 million more than in 2026. Almost the entire net increase is expected to come from indirect taxes, which are projected to rise by around €251 million. An increase of approximately €44 million in direct taxes, together with lower tax refunds, is expected to offset the projected decline in non-tax revenues and grants. VAT collected at the border alone is expected to generate approximately €1.29 billion, or 32% of total budget revenues. Excise duties are projected to generate €756 million, while customs duties are expected to contribute €218 million. These projections confirm the continued reliance of the revenue structure on taxes on consumption and imports. If consumption and imports grow more slowly than projected, revenues could fall short of expectations, resulting in a higher budget deficit if expenditures are executed as planned.

The source of revenue growth is important for fiscal sustainability. Revenue increases driven by higher prices may temporarily improve the nominal fiscal balance, while the formalization of businesses and employment can broaden the tax base in subsequent years. When temporary additional revenues are used to finance wages or transfers, they create permanent obligations that may become difficult to sustain. For this reason, broadening the tax base and improving tax compliance would make the financing of these commitments less dependent on fluctuations in consumption, imports, and prices.

Table 8. Structure of Budget Revenues (EUR millions)

	2024 (Actual)	2025 (Actual)	2026 (Revised)	2027 (Projected)
Direct Taxes	517.2	559.2	675.5	719.1
Indirect Taxes	2297.1	2490.3	2724.6	2975.3
Non-Tax Revenues	337.9	339.5	399.7	378.0
Grants and Aid	9.9	30.7	52.5	22.5

Source: Draft Law on Budget Appropriations for the Budget of the Republic of Kosovo for 2027; author's calculations based on fiscal data series

Budget Expenditures

During January–September 2026, budget expenditures reached €2.59 billion, representing an increase of 14.9% compared with the same period of the previous year. This accounted for approximately 63% of the expenditures planned under the revised 2026 budget. The increase was concentrated primarily in current expenditures: wages and allowances rose by 16%, while subsidies and transfers increased by 26.8%. These developments were associated with the payment of a thirteenth salary and the expansion of financial support for social protection schemes. In contrast, capital expenditures declined by 3.2%.[17]

For 2027, current expenditures are expected to reach €3.13 billion, accounting for approximately 73.4% of the total budget. Within this category, subsidies and transfers remain the largest component at €1.45 billion, followed by wages and allowances at €1.08 billion. Together, these two categories account for approximately 59.3% of total expenditures. Compared with the revised 2026 budget, subsidies and transfers are projected to increase by approximately 4.9%, while expenditures on goods and services are expected to rise by 7.9%. Wages and allowances are projected to remain largely unchanged. Capital expenditures are budgeted at €1.07 billion, representing 25.1% of total expenditures. However, the decline in their execution during the first nine months of 2026 highlights that the impact of these allocations will depend on improvements in the preparation and implementation of the projects for which they are earmarked.

The composition of budget expenditures also determines how the budget affects the economy. Wages and transfers can support consumption in the short term, but their impact on domestic production depends on how much of the additional income households spend and how much of the resulting demand is met by domestically produced goods and services. The IMF estimated that more than 80% of the projected increase in expenditures over the 2024–2026 period was driven by current expenditures and recommended more targeted social support and better public investment management. For the 2027 budget, this shifts attention to two specific questions: How effectively do transfers reach households in need of support, and how many of the budgeted projects can be completed and deliver their expected benefits.

17 Ministry of Finance: Macro fiscal Framework, Draft Budget 2027.

Table 9. Structure of Budget Expenditures

	2024 (Actual)	2025 (Actual)	2026 (Revised)	2027 (Projected)	2027/2026 %	2027/2024 %
Wages and salaries	843.0	910.6	1082.4	1084.9	+0.2%	**+34.7%**
Subsidies and Transfers	1.112.4	1231.5	1378.1	1445.9	+4.9%	**+36.1%**
Capital Expenditures	647.0	720.1	998.4	1070.5	+7.2%	**+24.6%**
Goods and Services	458.5	499.0	545.4	588.6	+7.9%	**+13.4%**
Interest on Public Debt	43.2	51.0	44.5	55.0	+23.6%	**+27.3%**

Source: Draft Law on Budget Appropriations for the Budget of the Republic of Kosovo for 2027

Capital Expenditure Execution

The persistently low execution of capital expenditures has remained one of the key challenges in the implementation of Kosovo's fiscal policy for years. Despite an improvement in the annual execution rate in 2025, a substantial share of budget allocations has remained unspent each year.

By the end of September 2026, only 37% of planned capital expenditures had been executed, amounting to €376 million, compared with 42% during the same period of the previous year. This left approximately €639.5 million to be spent by the end of December.[18] Meanwhile, the budget execution report indicates execution rates of 80% for wages and 76% for subsidies and transfers, highlighting a significant disparity between the execution of current and capital expenditures. These developments have also been influenced by frequent electoral cycles.

The nine-month budget execution report for 2026 also highlights another problem concerning expenditures reported as capital expenditures. Within this category, €82.1 million was recorded as payments for the enforcement of court decisions, compared with €56.81 million during the same period in 2025. These payments account for approximately 21.8% of reported capital expenditures, a particularly concerning indicator of the quality of budget-funded public project management. Excluding these payments, capital expenditures amount to only €294.74 million, less than one-third of the planned allocation. The 2025 audit report does not provide a clear explanation of what these funds were spent on, but identifies them only as *"inappropriate classification of expenditures."*

In 2025, the institutions with the highest amounts of inappropriately classified expenditures were the Ministry of Internal Affairs (€10 million), the University Hospital and Clinical Service of Kosovo (SHSKUK, €2.5 million), and the

18 Ministry of Finance (2026), *Nine-Month Financial Report*..

Ministry of Environment, Spatial Planning and Infrastructure (MMPHI, €2.6 million). At the local level, the largest amounts were recorded by the Municipality of Ferizaj (€4.5 million), the Municipality of Prishtina (€3.2 million), and the Municipality of Podujeva (€2.6 million).

The findings of the National Audit Office for 2025 also highlight delays in the utilization of external loans due to problems in the management of infrastructure projects and land expropriation during project planning or implementation. The IMF also warns that the use of investment funds to settle court-ordered obligations and the misclassification of expenditures distort data on public investment execution. This concerning performance in project implementation means that the expected benefits from infrastructure, public services, and improvements in the business environment are delayed. Budget allocations have a limited developmental impact when projects are not implemented on time or when funds are used to meet obligations that do not create new capital assets. The concentration of a substantial share of payments toward the end of the year may also increase pressure on oversight and quality control. For this reason, the increase in the capital investment budget for 2027 should be accompanied by adequately prepared projects, timely resolution of property-related issues, realistic procurement schedules, and monitoring of physical progress alongside financial disbursements. Improvements in budget execution should also be assessed in terms of the quality and functionality of completed investments.

Table 10. Budgeted and Actual Capital Expenditures (EUR millions)

	2022	2023	2024	2025	2025 (January – September)	2026 (January – September)
Budgeted Capital Expenditures	704.0	819.9	859.2	930.3	930.3	1016.3
Actual Capital Expenditures	419.2	554.4	654.6	729.4	388.66	376.8
Unexecuted Capital Expenditures	284.8	265.5	204.6	200.9	541.66	643.3
Budget Execution Rate (%)	60%	68%	76%	78%	42%	37%

Source: Draft Laws on Budget Appropriations for 2022–2027 and fiscal time series calculated by the author.

Healthcare, Education, Research and Innovation

Education and healthcare are two sectors that require increased public funding and better allocation of resources toward the most pressing needs. According to the 2027 budget allocations, €414 million is earmarked for education and €418 million for healthcare, equivalent to approximately 3.1% of GDP for each sector. These figures suggest a deterioration in the relative budgetary position of both sectors. Compared with the 2026 allocations, education funding is set to increase by 3.5% in nominal terms, slower than the 4.9% increase in overall budget expenditures. In healthcare, funding is projected to increase by 7.5%, but approximately 90% of the net increase is allocated to the University Hospital and Clinical Service of Kosovo (SHSKUK), while the municipal healthcare grant declines from €86.92 million to €85.86 million. Public healthcare funding remains low compared with the region, while out-of-pocket payments, according to the World Bank, account for approximately 38–40% of total healthcare expenditures. Improving conditions in these sectors is essential to ensuring that the benefits of economic growth reach as many citizens as possible, particularly those living below or near the poverty line. Indeed, such improvements represent a more effective form of social protection and poverty reduction.

Public funding for research and innovation is in an even less favourable position. In fact, it is virtually impossible to identify these allocations within the structure of budget expenditures. The Law on Scientific Research establishes an obligation to allocate 0.7% of the budget to support scientific research. To date, not even one-third of this requirement has been fulfilled. While public expenditure on scientific research averages approximately 0.5% of GDP in the countries of the region and around 2% in the EU, in Kosovo it stands at approximately 0.1% of GDP. This situation has persisted for decades. However, as noted earlier, profound technological and geopolitical changes, together with transformations in work processes, are intensifying the pressure to increase productivity and innovation in order to strengthen competitiveness. Kosovo's prospects for the pace, structure, and quality of economic development depend heavily on progress in these areas. This makes it increasingly urgent for the Government and relevant stakeholders to develop a focused program aimed at substantially improving conditions in these sectors. Such a program should include increased funding and more effective utilization of available resources to accelerate economic growth and improve its quality in Kosovo.

Table 11. Budget Allocations for Healthcare and Education (EUR millions)

	2025	2026	2027	2027/2026
Healthcare Budget	**369.64**	**389.34**	**418.43**	**+7.47%**
Ministry of Health	82.42	99.85	101.10	+1.25%
University Hospital and Clinical Service of Kosovo (UHCSK)	190.66	190.95	217.10	+13.69%
Health Insurance Fund	10.99	9.01	11.46	+27.19%
Healthcare Grant	82.97	86.92	85.86	–1.22%
Secondary Healthcare Funding	2.60	2.60	2.90	+11.54%
Education Budget	**384.96**	**400.80**	**414.70**	**+3.47%**
Ministry of Education and Science	99.96	107.05	112.72	+5.30%
Academy of Sciences and Arts of Kosovo (ASAK)	1.72	1.95	2.04	+4.62%
University of Prishtina	34.15	35.19	38.46	+9.29%
Municipal Education Grant	249.13	256.60	261.47	+1.90%

Source: Draft Laws on Budget Appropriations for 2025–2027

3

BUSINESS ENVIRONMENT

3. BUSINESS ENVIRONMENT

Our survey, conducted in October 2026 among more than 200 small and medium-sized enterprises (SMEs), indicates growing concerns within the business community regarding several fundamental conditions affecting their operations. Of the 22 barriers assessed (see Table 12), 11 recorded an increase in intensity compared to 2025, 10 showed a decline, while one remained unchanged. However, these changes are not uniform. Deterioration is most pronounced among factors directly affecting operating costs, access to labour, and the competitiveness of enterprises, while improvements are primarily associated with certain administrative and infrastructure-related barriers.

Electricity supply was identified as the most significant business barrier in 2026, scoring 70 out of a maximum of 100 points, a substantial increase from 50 points in 2025. This reflects the growing concern among enterprises regarding electricity supply and its impact on operating costs and their predictability. Similarly, the OECD (2026) finds that the transition of businesses to the liberalized electricity market has affected more than 1,000 enterprises, which have faced increases in production costs.[19] Furthermore, limited business involvement in consultations during this process has also affected enterprises' preparedness for the new supply conditions, increasing uncertainty regarding costs and the continuity of economic activity. The World Bank (2026) likewise highlights that supply uncertainty and structural constraints in the energy sector continue to affect business operations.[20]

In 2025, total domestic electricity generation declined by 12.63%, reaching 5,298 GWh, compared with approximately 6,064 GWh in 2024.[21] This decline highlights the energy system's vulnerability to the availability of existing generation capacity and maintenance-related outages, while also underscoring the need for investment to improve the security and reliability of electricity supply.

In 2025, while domestic electricity generation declined, national electricity demand increased by 5.04%. Consequently, electricity imports rose by approximately 42%, adding further pressure on production costs, particularly for businesses affected by the electricity market liberalization process. The latest data from the Kosovo Agency of Statistics (KAS) indicate that, during January–August 2026, electricity consumption reached 3,836 GWh, representing an increase of 4.4% compared to the same period in 2025. Consumption growth was particularly pronounced in industry (12.3%) and the commercial sector (6.0%). Against this background, the 16.1% increase in regulated electricity tariffs in May 2025, introduced under the tariff decision of the Energy Regulatory Office (ERO), together with the removal of approximately 1,200 significant businesses from the regulated market, exposed these enterprises to new supply conditions for which many were insufficiently prepared. These adjustments took place in a market with limited competition, further increasing uncertainty and cost pressures for businesses. These developments are reflected in the business survey findings, which identify electricity supply as the barrier with the greatest negative impact on enterprises (See the case described in the box below).

Overall, developments during 2025–2026 indicate that Kosovo's main challenge is not merely ensuring an adequate supply of electricity, but also establishing a more efficient, financially sustainable, and economically affordable energy system. For the business environment, this requires more stable and predictable supply conditions,

19 Organisation for Economic Co-operation and Development (OECD). (2026). *SME Policy Index: Western Balkans and Türkiye 2026 – Economy Profile of Kosovo*. OECD Publishing.

20 World Bank. (2026). Kosovo: Country Private Sector Diagnostic (CPSD). International Finance Corporation (IFC)

21 Energy Regulatory Office (ERO). (2026). *Annual Report 2025*.

enabling enterprises to plan their expenditures, maintain competitiveness, and undertake long-term investments.

Beyond the energy sector, the findings of the Riinvest Institute's survey indicate that businesses continue to face considerable challenges in the labour market. The intensity of labour migration increased from 55 points in 2025 to 67 points in 2026, while concerns regarding workers' skills and education rose from 52 to 66 points. The parallel increase in these two barriers indicates that enterprises face difficulties both in securing an adequate workforce and in finding workers with the required skills. Although labour migration remains below the peak of 75 points recorded in 2023, concerns regarding workers' skills and education have reached their highest level during the period under review. These findings are consistent with the World Bank's (2026) assessment, according to which the share of firms identifying an inadequately educated workforce as their main obstacle has increased more than sixfold compared to 2019. The report links difficulties in securing qualified workers to emigration and the mismatch between the skills provided by the education and vocational training system and the requirements of the labour market.

Another significant concern for businesses is tax evasion and informality, the intensity of which reached 66 points in 2026, compared to 52 points in the previous year. This represents an increase of 14 points and the highest level recorded during the period under review. Informality continues to be perceived as an obstacle to fair competition among enterprises, as businesses that comply with their legal obligations may face higher costs than those operating informally. Similarly, the European Commission's latest Kosovo Report (2026) notes that, although the informal economy has declined, it continues to constrain private sector development.

High financing costs also deteriorated as a business barrier, with their intensity increasing from 53 points in 2025 to 64 points in 2026. Meanwhile, the intensity of limited access to credit rose from 46 to 51 points. From a longer-term perspective, concerns about financing costs have returned to their 2023 level, while access to credit remains relatively less problematic than during that period. According to the OECD (2026), bank financing in Kosovo is supported by credit guarantee mechanisms, but non-bank financing alternatives remain underdeveloped. This limits enterprises' opportunities for expansion and investment, particularly for small and medium-sized businesses.

A deterioration was also observed in institutional barriers. The intensity of concerns regarding corruption increased from 43 points in 2025 to 54 points in 2026, while concerns related to legislation and the judicial system rose from 43 to 51 points. Similarly, concerns regarding political security and stability increased from 47 to 54 points. According to the European Commission (2026), weaknesses in law enforcement, corruption, and regulatory unpredictability continue to hamper private sector development. The OECD (2026), also cited by the European Commission, reports that commercial cases at first and second instance take an average of 631 days to resolve, or approximately one year and nine months. This indicates that, despite the establishment of the Commercial Court, the duration of judicial proceedings remains a challenge for businesses, creating legal uncertainty and additional costs in resolving commercial disputes.

In contrast, several barriers related to the administration and regulation of economic activity recorded notable improvements. The intensity of the tax rates barrier declined from 53 points in 2025 to 44 points in 2026, while concerns regarding inefficient tax administration decreased from 51 to 42 points. Both indicators reached their lowest levels during the period under review, suggesting that taxation and its administration are perceived as less significant concerns than in previous years. Licensing procedures also recorded a decline of 10 points, from 44 to 34, while customs-related barriers decreased from 43 to 39 points. According to the European Commission (2026), the simplification and digitalization of services have contributed to reducing tax compliance costs for small and medium-sized enterprises. Nevertheless, lengthy administrative procedures and limited institutional capacities continue to create difficulties for businesses in obtaining permits and licences.

The most significant improvement in 2026 was recorded in transport, where the intensity of this barrier declined from 41 to 23 points. This decrease suggests that transport has become a less prominent obstacle in enterprises' perceptions. Telecommunications, meanwhile, remained unchanged at 21 points, continuing to represent the barrier with the lowest intensity. The World Bank's (2026) findings also indicate that transport carries relatively little weight compared to other business environment constraints. More limited changes were recorded in consumer and supplier contract violations, whose intensity increased from 49 to 50 points, rapid technological developments, which rose from 46 to 47 points, and non-tariff barriers, which increased from 43 to 46 points. These indicators have remained relatively stable over the past two years.

Table 12. Business Perceptions of Barriers to Doing Business

Description / Year	2023	2024	2025	2026
Electricity supply	57	39	50	70
Labour migration	75	64	55	67
Tax evasion and informality	64	65	52	66
Workers' skills and education	55	60	52	66
High financing costs (high interest rates)	64	57	53	64
Corruption	60	59	43	54
Political security and stability	58	44	47	54
Access to credit	58	51	46	51
Legislation and judicial system	55	47	43	51
Contract violations by customers and suppliers	–	48	49	50
Rapid technological changes	–	42	46	47
Non-tariff barriers	–	44	43	46
Tax rates	64	52	53	44
Inefficient tax administration	63	52	51	42
Access to business information	55	40	45	41
Production standards	–	43	44	41
Customs	61	47	43	39
Access to land	–	44	44	34
Licensing procedures	–	40	44	34
Labour laws and regulations	–	38	43	33
Transport	51	36	41	23
Telecommunications	21	21	21	21

Source: Riinvest Institute, Business Surveys on Business Environment Barriers (2017, 2023, 2024, 2025 and 2026).

Another finding is that manufacturing and processing industries account for the largest share of businesses that have invested outside Kosovo. They are followed by trade, information and communication technology (ICT), and transportation and storage.

Among businesses planning to invest abroad, political and institutional uncertainty is cited by 65.5% of respondents, followed by a lack of incentives (44.8%), more favourable tax conditions (34.5%), crime and corruption (27.6%), while the possibility of conflict with Serbia and the rule of law are each cited by 20.7%. Compared with businesses that have already invested abroad, those planning future investments attach considerably greater importance to institutional uncertainty.

An analysis of the electricity bills of the manufacturing companies Abi SH.P.K. and Abi Progress 2000 SH.P.K. reveals a particularly concerning development for the sustainability of domestic production and the competitiveness of Kosovo's economy. During the August–October 2026 period, electricity consumption by these companies increased by only 6.2% compared with the same period in 2025, while the value of their electricity bills rose by 27.2%, reaching approximately €560,000.

Even more concerning is the development in October 2026, when the average billed cost of electricity, including network charges and VAT, reached approximately 30.8 cents/kWh, compared with 19.7 cents/kWh a year earlier. Such a substantial increase in unit costs, significantly exceeding the change in consumption, is a serious indication that manufacturing enterprises are facing a financial burden that could directly undermine the sustainability of their economic activity. Under these circumstances, electricity risks turning from a basic production input into a factor that constrains enterprises' ability to produce, invest, and compete.

These developments raise fundamental concerns about the functioning of the liberalized electricity market and the institutional responsibility to safeguard the competitiveness of the domestic economy. The formal transition to a liberalized market cannot be considered a successful reform unless it is accompanied by effective competition, transparency in price formation, and genuine opportunities for businesses to choose between competitive offers.

Although the electricity bills of these two companies are insufficient to establish the full causes of the price increases or to generalize the findings to all businesses, they constitute an early warning signal that should not be treated as an isolated problem affecting an individual producer. Rather, they provide grounds for investigating whether current market conditions are creating broader risks for domestic industry.

Abi SH.P.K. and Abi Progress 2000 SH.P.K. (2026). *Data on Electricity Consumption and Costs, August–October 2025 and 2026*. Data published by the companies' owner.

4

DEMOGRAPHIC TRANSFORMATION AND ITS IMPLICATIONS FOR KOSOVO'S ECONOMIC DEVELOPMENT

4. DEMOGRAPHIC TRANSFORMATION AND ITS IMPLICATIONS FOR KOSOVO'S ECONOMIC DEVELOPMENT

4.1. Kosovo's Demographic Transformation: Population, Ageing and Migration

Kosovo is entering a new phase of demographic development, characterized by a declining resident population, fewer births, continued emigration, and gradual population ageing. These developments represent a significant shift from previous periods, when the relatively young population structure was considered one of the country's main advantages for economic development. Although Kosovo continues to have a relatively young population compared with most European countries, changes in recent years indicate that this demographic advantage is gradually diminishing.

The results of the 2024 Population, Household and Housing Census provide the most comprehensive evidence of the scale of this transformation. Compared with 2011, the resident population has declined, the absolute number of working-age individuals has decreased, while the population aged 65 and over has increased substantially. At the same time, household structures and the geographical distribution of the population have changed, creating new challenges for the labour market, public services, and the long-term sustainability of public finances (KAS, 2024; Riinvest Institute, 2026).

4.1.1 Declining Population and Changing Demographic Structure

Between the two most recent population censuses, Kosovo's resident population declined from approximately 1.74 million in 2011 to around 1.60 million in 2024 (KAS, 2024). This trend continued in 2025, when, according to the latest estimates of the Kosovo Agency of Statistics (KAS, 2026), the resident population stood at 1,582,322 at the end of the year. The decline primarily reflects the impact of continued emigration, alongside falling fertility rates and gradual changes in the age structure of the population.

According to KAS (2026), natural population growth remained positive in 2025, with 11,234 more births than deaths. During the same period, 29,656 people emigrated from Kosovo, while 15,154 immigrated into the country, resulting in a negative net international migration balance of 14,502 people. As a result of these developments, Kosovo's resident population decreased by 3,268 people during 2025 (KAS, 2026).

These figures confirm that emigration remains the main driver of Kosovo's population decline. Although natural population growth continues to be positive, it is insufficient to offset the losses resulting from international migration. Over the longer term, declining fertility and the emigration of people of reproductive age could accelerate population ageing and further weaken the potential for natural population growth. Nevertheless, the relatively modest population decline recorded in 2025 suggests that migration dynamics may vary from year to year, directly influencing the pace of demographic contraction.

Another important change concerns household structure. The average household size declined from 5.9 members in 2011 to 4.33 in 2024, while the number of households increased from 297,090 to 366,595 (KAS, 2024). This implies that, despite the decline in the overall population,

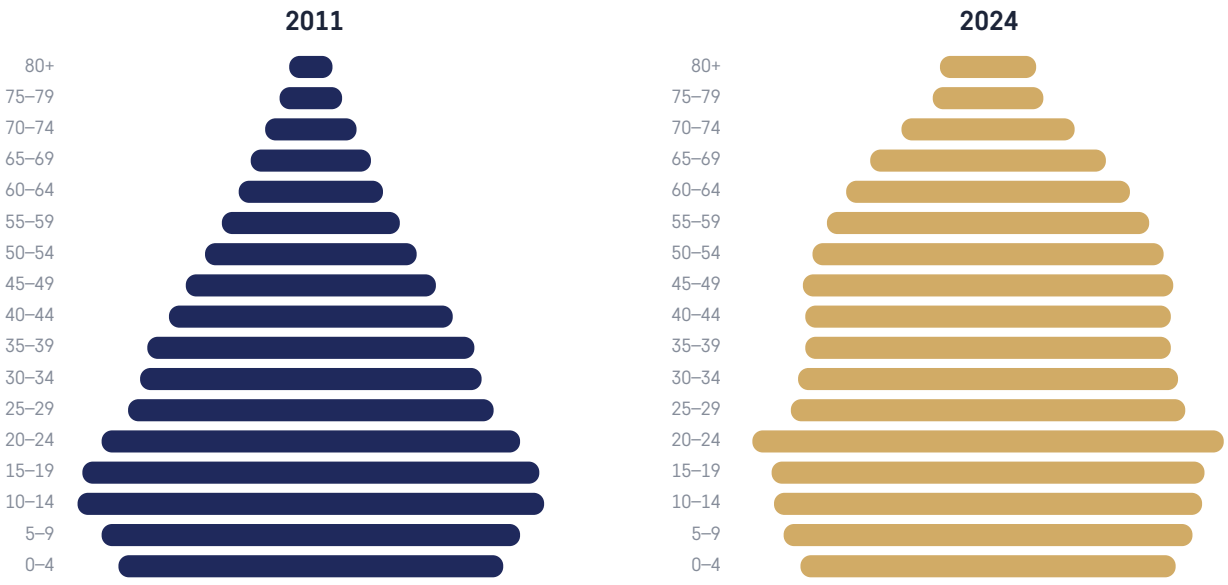
demand for housing units and related infrastructure does not necessarily decrease at the same rate.

4.1.2 Changes in the Demographic Pyramid and Population Ageing

Changes in the age structure represent one of the most significant aspects of Kosovo's demographic transformation. A comparison of the population pyramids for 2011 and 2024 reveals a notable narrowing of the pyramid's base, reflecting the declining share of younger age groups and the increasing relative share of middle-aged and older population groups.

According to the Riinvest Institute's analysis (2026), based on population census data, the share of the population under the age of 30 declined from approximately 55% in 2011 to 45% in 2024. This ten-percentage-point decline over thirteen years demonstrates that Kosovo's demographic structure is gradually moving away from the traditional pattern of a young and expanding population. One of the factors contributing to this change is declining fertility, which was estimated at 1.54 children per woman in 2024, significantly below the generational replacement level of approximately 2.1 children per woman (World Bank, 2026).

Figure 6. Population Pyramids of Kosovo, 2011 and 2024



Source: Riinvest Institute (2026), based on population census data from the Kosovo Agency of Statistics (KAS).

The narrowing of the population pyramid has direct implications for the future labour supply. Smaller generations currently entering the education system will gradually translate into fewer young people entering the labour market. In the absence of compensating changes in labour force participation, migration, or productivity, this trend will constrain the potential for employment and output growth over the long term.

Alongside the declining share of younger age groups, Kosovo is experiencing an increase in its older population. The number of people aged 65 and over increased from 116,785 in 2011 to 173,875 in 2024, representing an increase of approximately 49%. The share of this age group in the total population rose from 6.7% to around 11% (KAS, 2024).

This shift is also reflected in demographic dependency indicators. The total dependency ratio declined from approximately 53 dependants per 100 working-age individuals in 2011 to 49 in 2024. However, the old-age dependency ratio increased from 11 to 17 over the same period. Meanwhile, the ageing index, which measures the number of people aged 65 and over per 100 children aged 0–14, increased from 24 to 51 (Riinvest Institute, 2026).

These developments indicate that Kosovo is entering a critical phase of an accelerated demographic transition. The decline in the number of children has so far offset the increase in the older population in terms of the overall dependency ratio. Over time, however, population ageing is expected to place growing pressure on the pension system, healthcare services, and long-term care provision.

An particularly important consideration is that a relatively high share of the population being of working age does not necessarily imply that its economic potential is being fully utilized. In Kosovo, a considerable proportion of the working-age population remains outside the labour market, particularly women. For this reason, demographic dependency ratios should not be equated with economic dependency ratios. This issue is examined in greater detail in Section 4.2.

4.1.3 Migration as a Key Driver of Adverse Demographic Changes

Emigration continues to be the main driver of Kosovo's population decline. Beyond its direct impact on population size, migration affects the age structure, labour supply, family formation, and the future potential for natural population growth. This is largely because a considerable proportion of emigrants belong to younger and working-age groups.

According to the IMF (2025), approximately one-third of people born in Kosovo live abroad. Significant differences in wages and employment opportunities between Kosovo and Western European countries remain important drivers of emigration. Germany and Switzerland continue to be among the main destinations for the Kosovo diaspora (Riinvest, 2023).

Eurostat data (2026) show that, during 2025, a total of 43,747 Kosovo citizens received first residence permits in EU countries. Approximately 65% of these permits were issued by Germany, while 73% of beneficiaries were aged 34 or younger. More than half of the permits were granted for family-related reasons. This suggests that emigration is increasingly taking the form of family relocation and long-term settlement, extending beyond temporary labour migration.

From an economic perspective, emigration has a dual impact. On the one hand, remittances and diaspora connections support consumption, household welfare, investment, and access to international markets. On the other hand, the departure of working-age individuals and highly qualified professionals constrains domestic labour supply and may exacerbate skills shortages in certain sectors (Riinvest, 2025; IMF, 2025; World Bank, 2026).

A relatively recent development is the increase in immigration to Kosovo for employment purposes. According to the draft Migration Strategy 2026–2030, the number of residence permits issued for employment purposes increased from 2,122 in 2021 to 5,087 in 2025 (Government of Kosovo, 2026). This trend reflects the efforts of domestic businesses to address labour shortages through recruitment from abroad.

Nevertheless, immigration for employment purposes remains limited compared with the scale of emigration. Consequently, it cannot be considered a full substitute for the workforce leaving the country. Moreover, the increasing employment of foreign nationals in an economy where a substantial share of the domestic population remains economically inactive highlights deeper structural challenges related to skills, working conditions, wages, and the matching of labour supply with demand.

In this context, migration should be addressed not only as a demographic challenge but also as an important component of economic policy. While emigration may continue due to differences in income levels and economic opportunities, its impact can be mitigated through higher productivity, improved working conditions, and more effective engagement of the diaspora in the country's economic development.

The main economic challenge is not simply the decline in population, but also the ability of a potentially smaller workforce to sustain economic growth and income convergence. The implications of this challenge are examined in the following section.

4.2. Economic Implications: Labour Supply, Participation and Productivity

The demographic transition is gradually constraining the potential for growth in the size of the labour force. However, its impact on output is not predetermined; it depends on labour force participation, employment, and productivity. GDP can be expressed as the product of the number of employed persons and average output per worker. Therefore, even with a smaller working-age population, the economy can continue to grow if a larger share of that population is employed and productivity per worker increases.

4.2.1. Labour Supply and Untapped Labour Potential

Kosovo's demographic transition, characterized by a declining population and gradual ageing, makes the effective mobilization of the existing labour force increasingly important. In this context, one of the main economic challenges is not only the declining number of working-age individuals, but also their low level of participation in economic activity. Increasing employment, particularly among women and other economically inactive groups, represents an important opportunity to mitigate the impact of adverse demographic developments on economic growth.

According to the latest Labour Force Survey (2024), the employment rate among the population aged 15–64 stood at 38.6%, with significant gender disparities. The employment rate for men was 55.9%, compared with just 21.2% for women. Even wider differences are observed in labour force participation, with rates of 60.6% for men and 25.9% for women, resulting in a gender gap of 34.7 percentage points (KAS, 2025). These figures indicate that a considerable share of Kosovo's human capital remains underutilized.

Approximately 610,000 working-age individuals were economically inactive in 2024 (KAS, 2025b). However, this group does not represent a homogeneous pool of potential workers who can be activated immediately. It includes students, individuals with family and care responsibilities, people with health-related limitations, discouraged individuals, and other groups who are not actively seeking employment. Consequently, mobilizing this potential requires differentiated policies that address the specific barriers faced by each group, extending beyond traditional employment intermediation measures targeting registered unemployed individuals.

The particularly low participation of women represents one of the most significant structural constraints in the labour market. It reflects the interaction of several factors, including unpaid care responsibilities, limited availability of affordable childcare and elderly care services, working conditions, and barriers to professional development. For this reason, activation policies should aim not only to facilitate women's entry into the labour market, but also to support sustained employment during family formation and provide opportunities for career advancement (Hashani et al., 2025).

A study by the Riinvest Institute, conducted in collaboration with UNFPA, assesses the potential macroeconomic gains from reducing gender gaps in the labour market. Using the Gender Employment Gap Index (GEGI), the study estimates that equalizing female and male labour force participation rates could be associated with a potential long-term increase in GDP per capita of 5.9%. Under a scenario in which the gender employment gap is eliminated, the potential gain reaches 19.4%, while accounting for differences in the types of jobs held increases this estimate to 21.1% (Hashani et al., 2025).

These estimates demonstrate that mobilizing untapped labour potential could partially mitigate the impact of adverse demographic developments and contribute to economic growth. However, realizing these gains requires not only higher labour force participation but also the creation of quality, productive jobs. In this regard, policies should address the barriers that constrain economic participation. Key priorities include expanding childcare and elderly care services, improving working conditions and workplace flexibility, strengthening vocational training, and reducing discrimination. Investments in care services offer a double dividend: they facilitate higher labour market participation while directly creating new employment opportunities (Hashani et al., 2025).

Beyond expanding care services and improving working conditions, another important instrument for increasing women's economic participation is reforming the legal framework governing maternity and parental leave. A study by the Riinvest Institute (2026), conducted in collaboration with the Women's Economic Forum (WEF), highlights that the current maternity leave financing model in Kosovo places a considerable financial burden on employers, potentially creating disincentives for hiring and retaining women of reproductive age. Existing financial support schemes for mothers represent a positive step, but their effectiveness could be enhanced by aligning them with the provisions of the Labour Law and reviewing the financing arrangements for maternity leave. A more integrated approach would enable more efficient use of public resources, reduce the financial burden on employers, and provide better protection for women during and after maternity leave.

The study also simulates the financial implications of implementing maternity and parental leave models from countries in the region in Kosovo. The results indicate that, compared with the estimated cost of the current system, adopting these models would require an increase in total leave compensation expenditure of approximately 37% to 111%, depending on the model selected. These estimates, which include costs borne by both the state and employers, demonstrate that reform requires careful financial planning. At the same time, they provide a basis for examining alternative financing arrangements and redistributing responsibilities between the state and employers. In the context of adverse demographic developments, such reforms should be viewed not only as social protection measures but also as investments in preserving human capital, increasing women's economic participation, and supporting families (Riinvest Institute, 2026).

Alongside reforms in family and social protection policies, public employment services should expand their support to economically inactive individuals by identifying individual barriers and strengthening cooperation with municipalities, educational institutions, and employers. This is particularly important because reported labour shortages do not necessarily reflect an absolute lack of workers; they may also stem from skills mismatches, working conditions, wages, and mobility constraints. Addressing these barriers could simultaneously improve economic participation and strengthen the matching of labour supply with demand.

In the context of emigration and gradual population ageing, mobilizing the existing workforce, combined with productivity growth, represents one of the main economic responses to Kosovo's demographic challenges. This requires activation policies to be treated as an integral part of the country's growth and economic convergence strategy, rather than merely as instruments of social or employment policy.

4.2.2. Human Capital and Skills Mismatches

Beyond the size of the labour force, the quality of human capital is crucial for economic growth. With younger generations becoming smaller, Kosovo needs to ensure that their potential is developed and utilized as effectively as possible. This requires improving the quality of education, developing skills that match labour market demands, and creating opportunities for productive employment. Deficiencies in these areas become particularly costly in an economy facing emigration and gradual population ageing.

The quality of education remains one of the main challenges for human capital development in Kosovo. The results of the 2025 international PISA assessment show that Kosovo's students achieved average scores of 350 in mathematics, 340 in reading, and 357 in science, significantly below the respective OECD averages of 463, 461, and 482. Compared with 2022, results have remained largely unchanged, indicating a lack of sustained improvement in learning outcomes (OECD, 2026). These results demonstrate that the challenge concerns not only access to education but also the quality of knowledge and competencies acquired by students.

Public investment in human capital represents another important dimension. According to a World Bank assessment, public expenditure on education and healthcare in Kosovo in 2024 accounted for approximately 4.1% and 3.9% of GDP, respectively, compared with EU averages of 4.7% and 7.6%. Beyond the level of financing, the efficiency of expenditure and its allocation towards improving service quality are equally important (World Bank, 2026). In the context of demographic change, investment in education and healthcare is essential not only for population welfare but also for preserving and strengthening the productive capacities of the workforce.

At the same time, Kosovo continues to face mismatches between workforce skills and the requirements of businesses. According to the OECD (2024), 44.2% of enterprises in Kosovo identified an inadequately educated workforce as a major obstacle to their operations, while 26% of adult workers reported having a higher level of education than required for their jobs. These indicators suggest that the problem is not limited to skills shortages but also involves the inefficient utilization of existing qualifications. Labour shortages in certain sectors cannot be attributed solely to emigration, as they may also reflect uncompetitive wages and working conditions, limited career advancement opportunities, and mobility constraints (Riinvest, 2019).

Strengthening the links between the education system and the labour market is particularly important. Expanding vocational internships, workplace-based learning, and cooperation between educational institutions and enterprises can facilitate young people's transition into employment. Meanwhile, improving vocational training and lifelong learning opportunities is essential to helping existing workers adapt to technological change and the evolving needs of the economy.

In the context of demographic transformation, improving the quality of human capital is becoming just as important as increasing labour market participation. With potentially smaller generations entering the workforce, Kosovo's ability to sustain economic growth and accelerate convergence with the EU will increasingly depend on the quality of education, the health of its population, and worker productivity.

4.2.3. Productivity and Economic Convergence

Productivity growth is becoming increasingly important for Kosovo's economic convergence, particularly as demographic changes constrain the scope for expanding the labour force. With the working-age population expected to decline, sustaining economic growth will in-

creasingly depend on the ability to generate greater value added per employed person. This requires investment in technology, human capital, and innovation, as well as a shift towards higher-value-added activities with greater export potential.

According to the OECD (2026), average labour productivity in the Western Balkans remains significantly below EU levels, while convergence has been slow. Although this is a regional indicator, it illustrates the limitations of a growth model based primarily on consumption and wage increases, without a sufficient expansion of productive capacities. A report by the Riinvest Institute and wiiw (2026) shows that labour productivity in Kosovo, measured as output per employed person in purchasing power standards (PPS), reaches approximately 54% of the EU average, compared with just 29% for GDP per capita. Nevertheless, progress in productivity convergence remains slow. This indicates considerable scope for increasing output per worker in Kosovo, which becomes particularly important in the context of a potentially more constrained labour supply.

Wage growth should be accompanied by productivity improvements, although this relationship requires careful interpretation. Higher wages may reflect adjustments from historically low levels or labour shortages, which could become more pronounced as a result of emigration and the declining size of younger generations. However, when labour costs consistently increase faster than productivity, enterprise competitiveness may weaken, particularly in export-oriented sectors. For this reason, assessments should account for sectoral differences, price developments, and the structure of output, rather than relying solely on aggregate indicators.

For Kosovo, industrial and innovation policies should focus on raising productivity and developing higher-value-added sectors. As economic growth becomes increasingly less reliant on the numerical expansion of the workforce, these policies take on particular importance. This requires transparent, results-oriented support for investment in machinery, technology, quality standards, exports, and collaboration between enterprises and research institutions, rather than relying on the administrative selection of individual firms as beneficiaries.

Insufficient funding for research and development remains a significant constraint. According to Riinvest (2025), research and development expenditure in Kosovo amounted to just 0.02% of GDP in 2025, compared with approximately 0.5% in the region and more than 2% in the EU. Gradually increasing this funding, alongside competitive funding mechanisms and stronger collaboration between academia and industry, should be a priority of economic development policies. This would contribute to more productive utilization of existing human capital and partially offset the adverse effects of demographic change.

Productivity growth is also directly linked to migration, which represents one of the main drivers of Kosovo's demographic transformation. More productive enterprises can offer more competitive wages, better working conditions, and more attractive career prospects, thereby reducing some of the economic incentives for emigration.[22] While this cannot prevent emigration altogether, as migration decisions are also influenced by family and social factors, creating jobs with higher productivity and value added represents an important economic response to Kosovo's demographic challenges. In this way, productivity improvements can contribute simultaneously to accelerating economic convergence and mitigating the demographic pressures associated with emigration.

22 All these factors have been identified as significant determinants of migration intentions (Riinvest, 2023).

4.3. Demographic Outlook and Economic Policy Responses

Demographic changes require a coordinated economic policy response focused on labour force activation, productivity growth, family support, and the adaptation of public institutions and services. These policies must address both current labour market challenges and the long-term implications of emigration, declining fertility, and population ageing.

4.3.1. Priority 1: Labour Force Activation and Retention

With the expected decline in the working-age population, mobilizing existing human capital should be one of the main priorities of economic policy. This requires extending active labour market policies beyond registered unemployed individuals to also include economically inactive groups. Employment services should strengthen the identification and outreach of these groups through cooperation with municipalities, employers, and vocational training institutions.

Increasing women's economic participation should be central to this agenda. Expanding affordable and quality childcare and elderly care services, improving working conditions, and providing more flexible working arrangements can facilitate women's entry into and retention in employment. At the same time, reforming maternity and parental leave policies should aim to protect workers' rights while avoiding the creation of costs and incentives that could discourage the employment of women. Estimates by the Riinvest Institute and UNFPA on the economic gains from reducing gender gaps indicate that these interventions should be treated as investments in economic growth rather than merely as social policy measures (Hashani et al., 2025).

Particular attention should also be given to young people who are not in employment, education, or training (NEET), as well as individuals who have withdrawn from economic activity due to family responsibilities. For young people, the priority should be to facilitate the transition from education to employment through professional internships and stronger cooperation with enterprises. For individuals with previous work experience, reskilling, opportunities to re-enter employment, and adapting working conditions to individual needs are particularly important.

The effectiveness of these policies should be measured through sustainable labour market outcomes, including employment following programme completion, job retention, formalization, and wage progression. This requires stronger coordination among institutions responsible for employment, education, care services, and economic development, as well as differentiated monitoring by gender, age, and municipality.

4.3.2. Priority 2: Productivity, Human Capital and Structural Transformation

Faced with demographic constraints on labour supply, economic policies should focus on increasing value added per employed person. As highlighted above, Kosovo has considerable scope for productivity improvements, but this requires changes in the composition and efficiency of investment, greater adoption of technology, and the development of activities with higher export potential.

One priority is to direct investment towards machinery, equipment, digitalization, and more efficient production processes. Industrial policies should support enterprises investing in modernization, innovation, and export expansion through transparent instruments linked to measurable results. Improving access to finance, competition, and infrastructure can facilitate the expansion of more productive enterprises and the reallocation of resources towards higher-value-added activities.

These investments should be accompanied by improvements in human capital. Alongside raising the quality of education, particular importance should be attached to developing digital skills, reskilling, and lifelong learning. Cooperation between educational institutions and enterprises should be aligned with the specific needs of the labour market, creating opportunities for existing workers to adapt to technological change and evolving professional requirements.

Strengthening the research and innovation system should be an integral part of productivity policy. This requires a gradual increase in research and development funding, competitive mechanisms for supporting projects with economic potential, and closer cooperation between universities, research institutions, and the private sector. Engaging the scientific and professional diaspora can also contribute to the transfer of knowledge, technology, and advanced management practices.

In this regard, deeper integration into regional and European markets represents an important opportunity. Support for certification, quality standards, connections with international buyers, and participation in value chains can help Kosovo's enterprises move beyond activities primarily oriented towards the domestic market towards more competitive manufacturing and services.

4.3.3. Priority 3: Migration, Family Support and Adaptation of Public Services

Migration should be treated as an integral part of Kosovo's economic and demographic development strategy. Given that international mobility is expected to continue, the objective of policy should not be to administratively restrict emigration, but rather to create conditions that make staying, returning, and investing in Kosovo more attractive. Improving employment opportunities, wages, the quality of public services, and professional prospects is essential in this regard.

Beyond remittances, engagement with the diaspora should be increasingly oriented towards productive investment, knowledge transfer, and connections with international markets. Programmes aimed at engaging diaspora professionals and researchers, including joint research projects with domestic institutions, cooperation with enterprises, and support for entrepreneurial initiatives, could generate more sustainable economic benefits.[23] At the same time, return policies should be linked to concrete opportunities for employment, professional development, and investment.

In response to declining fertility and changes in population structure, Kosovo needs to develop more sustainable family support policies and create more favourable conditions for raising children. These policies should address the economic and social constraints influencing decisions to form and expand families, including economic insecurity, housing costs, access to childcare services, and difficulties in reconciling work with family responsibilities.

Family support should be well-designed, sustainable, and responsive to different needs, combining financial benefits with quality and affordable services. Universal measures can be complemented by more targeted support for low-income households, young parents, and families facing greater economic constraints. Their effectiveness should be assessed in terms of household welfare, economic security, and opportunities for labour market participation, rather than solely by the number of beneficiaries. Nevertheless, family policies should not be viewed as an instrument capable of reversing declining fertility on their own, but as part of a broader response to demographic transformation.

Given labour shortages in certain sectors, Kosovo should also develop a more structured approach to inward migration for employment purposes. Recruiting foreign workers can help address documented shortages, but this should be accompanied by protection of their rights and improved systems for monitoring employment and residence. Such a policy should complement, rather than replace, efforts to mobilize the domestic workforce.

Demographic changes also require the gradual adaptation of public services. Population ageing will increase demand for healthcare, long-term care, and support for older people, while growth in the number of beneficiaries of basic pensions may add to budgetary pressures. For this reason, demographic projections should be inte-

23 King and Gëdeshi (2026), in their study *The New Scientific Diaspora from Kosova*, highlight the strong willingness of the scientific diaspora to collaborate with academic and research institutions in Kosovo. Participation in joint research projects emerges as the preferred form of cooperation, alongside lectures, conferences, and joint publications.

grated into medium-term fiscal planning, taking into account the differences between budget-financed pension schemes and those based on individual contributions.

The territorial dimension of demographic change also requires particular attention. In municipalities experiencing declines in the number of children and residents, adjustments to the network of schools and other public services may be necessary, while preserving accessibility and service quality. Meanwhile, urban centres experiencing population concentration may face increasing demand for investment in housing, transport, pre-school education, and infrastructure. Consequently, the allocation of public resources should increasingly be guided by demographic projections disaggregated by municipality and age group, rather than by uniform planning models.

4.3.4. Conclusions and Strategic Policy Directions

The Riinvest Institute's analysis (2026), based on KAS demographic projections up to 2035 and 2050, suggests that Kosovo will face further changes in its population structure, characterized by smaller younger generations, an increasing share of older people, and potential pressures on the working-age population. By 2035, mobilizing the existing labour force could mitigate some of the economic implications, while over the longer-term horizon to 2050, the effects of population ageing and changes in the age structure are expected to become more pronounced. However, the economic consequences are not predetermined, as they will depend on the scale of emigration, labour force participation, and productivity growth. This makes it essential for economic policies and public service planning to take the long-term demographic outlook into account.

The strategic response should combine measures capable of delivering results in the shorter term, such as increasing the participation of women and other economically inactive groups in the labour market, with long-term reforms in education, innovation, and structural transformation. These should be complemented by well-designed policies for family support, migration management, and the adaptation of public services.

Implementing this agenda requires institutional coordination and a clear monitoring framework. Key indicators should include labour force participation and employment by gender and age group, labour productivity, net migration, changes in the age structure, and pressures on public services. Regular monitoring would enable policymakers to assess policy outcomes and adjust interventions in response to demographic developments.

In conclusion, demographic transformation should not be viewed solely as a constraint on development, but also as an impetus for changing Kosovo's economic model. Moving towards an economy characterized by higher labour market participation, greater productivity, more effective family support, and institutions better adapted to the population structure represents the most sustainable response to demographic challenges and an important condition for accelerating convergence with the European Union.

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