

# Gearing up for a More Productive Future

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# Executive Summary

## Gearing Up for a More Productive Future

**Kosovo, one of the youngest countries in an aging Europe, took its first steps on the road to greater prosperity a quarter of a century ago.** However, to reach the current living standards of aspirational peers, like Latvia, Estonia, Lithuania, the Czech Republic, and Slovenia, in the next two decades, Kosovo must accelerate its growth by stepping up reforms. Doing so would not only accelerate Kosovo's growth but speed up a successful recovery from the COVID-19 pandemic.

**Kosovo's economy has experienced significant growth in recent years.** In the last 25 years, per capita income increased more 10-fold from about US\$400 in 1995 to over US\$4,000 today. Despite progress, per capita income per capita is still only 12 percent of the average EU member state or 20 percent of aspirational peers. On current trends, Kosovo will only reach the income that its key aspirational peers have today in about thirty years' time.

**The COVID-19 pandemic has triggered Kosovo's first ever recession in 2020.** Like the rest of the world, COVID-19 has pushed Kosovo into a deep recession, its first since independence. A prolongation of the pandemic has the potential to slow the pace of growth going forward and erase or at least stall the developmental gains achieved in terms of job creation and poverty reduction.

**Lack of jobs is a major impediment to inclusive growth.** Only 2 in 5 people of working age are participating in the labor market and 1 in 4 people can't find a job. On a positive note, dynamism increased with 10,000 formal jobs added to the economy on average annually between 2015 and 2018, doubling 2011-2014 job creation.

**And productivity in businesses and on farms is too low.** Labor productivity is only a third of that of an average EU company and the average farm could produce the same amount of output using 70 percent less inputs. Business is dominated by small enterprises that often fail to grow and survive.

**While spending on education has more than doubled, the quality of human capital needs to improve.** Kosovo spends 4.6 percent of GDP and 16 percent of total government spending on education, similar to comparators. But only 23 percent of pre-school children are on track in terms of expected literacy and numeracy skills.

**And barriers to women's economic empowerment need to be lifted.** Only 20 percent of women actively participate in the labor market. Women's participation in the economy as entrepreneurs is also quite limited.

**Proximity to major markets in Europe and a youthful population provide an opportunity for growth.** Kosovo is one of the youngest countries in an aging Europe. Trade facilitation and logistics connectivity are getting better. Proximity to a large and affluent market, low taxes and labor costs, a resilient and liquid financial sector, and strong ties with its diaspora will help support growth.

**Yet, with the right reforms, Kosovo can gear up for a more productive future.**

Harnessed in the right way at the right time, Kosovo's strengths could prove a catalyst for accelerating growth to achieve higher living standards. A package of reforms to (1) entrench macroeconomic stability and sound governance; (2) increase firm productivity; (3) raise farm productivity; (4) enhance human capital; and (5) boost exports, competition and private investment, especially foreign direct investment (FDI), could see Kosovo closing the gap with its aspirational peers much sooner.

## 1 Increasing Firm Productivity



Reduce administrative burden, regulatory uncertainty and continue to improve access to finance



Strengthen the national innovation system and foster digitalization



Remove barriers to women's participation in the economy

## 2 Raising Farm Productivity



Reallocate public support measures to facilitate agricultural scale economies



Target measures to competitive farm enterprises to support value chains



Speed up land titling and invest in modern irrigation to sustainably manage natural resources

## 4 Boosting Exports, Competition and Investment



Improve regional integration and promote it as a springboard for global integration



Modernize the investment promotion ecosystem to attract and retain quality investments



Improve trade facilitation and connectivity including for digital trade



Reduce barriers to competition

## 5 Entrenching Macro Stability and Sound Governance



Improve the efficiency of public spending through better targeting



Increase revenue mobilization by reducing exemptions and leakages



Strengthen rule of law and judicial system

## 3 Enhancing Human Capital



Optimize the school network and re-orient spending to reduce infrastructure gaps and improve quality



Improve learning assessments to guide and motivate teaching quality



Accelerate plans to digitalize education delivery

*With the right reforms, Kosovo can gear up for a more productive future*

