

Gearing up for a More Productive Future

November 2021



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 pushed Kosovo into a deep recession in 2020, its first since independence. A prolongation of the pandemic has the potential to slow the pace of growth going forward and have a long lasting impact on the economy, particularly by eroding human capital.

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

Overview

The Kosovo Country Economic Memorandum (CEM)

investigates current drivers of growth and sets out a reform agenda for a more productive future.

Kosovo has come a long way since gaining independence two decades ago, and today is classified as an upper middle-income economy. In the last 25 years, income per capita in Kosovo increased more than 10-fold from US\$400 in 1995 to over US\$4,000 in 2019. This impressive growth was built on the reconstruction of physical assets, a strong commitment to creating a market economy with sound institutions, and a desire to connect to the rest of the world.

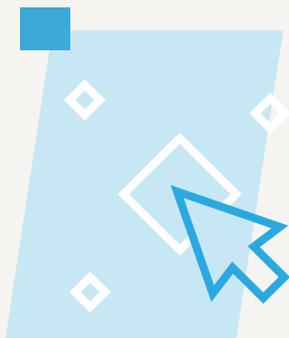
Before the COVID-19 pandemic, stable economic growth helped to improve living standards and reduce poverty. In the decade leading up to the pandemic, real GDP growth in Kosovo averaged 3.6 percent, faster than several regional peers. Poverty fell by 7.8 percentage points between 2012 and 2017.

However, there remains a large income gap between Kosovo and the average European Union member state, and this gap is closing only at a slow pace. Kosovo's income per capita is only 12 percent of the average EU member or 20 percent of aspirational peers (Latvia, Estonia, Lithuania, the Czech Republic, and Slovenia). At Kosovo's estimated current potential for growth, reaching the today's living standards of aspirational peers would take more than 30 years. Similarly, despite considerable progress in poverty reduction, around 2 in 10 Kosovars still live on less than US\$5.5 per day.

The pandemic interrupted Kosovo's development journey, triggering the country's first recession since independence. Kosovo, like the rest of the world, is experienced one of the deepest recessions in 2020. The pandemic will likely have long lasting impact on the economy, in particular by eroding human capital.

INCREASING Firm Productivity

- Business regulations,
- Access to finance
- Digitalization



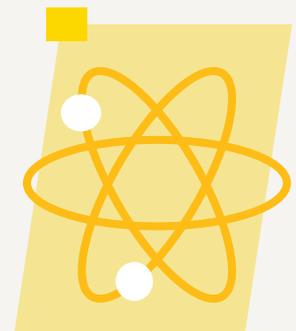
RAISING Farm Productivity

- Value chain integration
- Sustainable use of natural resources
- Improved public spending



ENHANCING Human Capital

- Education
- Skills development
- Labor force participation



Reforms undertaken today will both shape the recovery from COVID-19 and pave the way to a more sustainable, resilient, and inclusive growth path. Kosovo needs a new reform agenda that builds on Kosovo's strengths to transform the current model which is based on consumption and unproductive investments, to one which is driven by productivity and human capital.

Carefully leveraged, Kosovo's strengths—a young population, proximity to a large, affluent, and aging market, good digital connectivity, low labor costs, a resilient and liquid financial sector, and strong ties with its diaspora—could carry Kosovo to higher living standards, faster. This requires, transitioning to a growth model that better utilizes Kosovo's human capital potential, enabling firms and farms to grow and increase their productivity to maximize the returns to investments in physical capital, and leverages higher connectivity through exports, more competition and foreign investment.

The Kosovo Country Economic Memorandum (CEM) investigates current drivers of growth and sets out a reform agenda for a more productive future. For Kosovo to achieve and maintain higher growth, greater emphasis needs to be placed on enhancing human capital and improving productivity. Kosovo's firms and farms need to operate at higher levels of efficiency, with deeper efforts to remove regulatory barriers, ensure efficient allocation of scarce financial and natural resources, and embrace digitalization. Human capital institutions need to more effectively transform Kosovo's youthful population into a productive workforce. And only by improving trade and connectivity, by strengthening market competition and promoting high quality investment can Kosovo take full advantage of the opportunities provided by its location. Finally, a fundamental requirement for sustainable and inclusive growth is a stable macroeconomic environment and the effective rule of law.

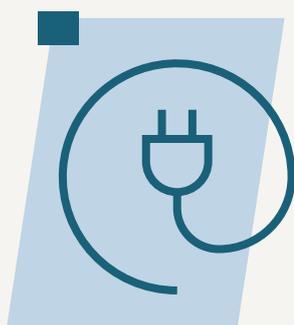
In the long term, the most important driver of convergence in living standards is sustained productivity growth. Between 2009 and 2019, Kosovo on average invested 28 percent of its GDP, more than aspirational peers. In addition, between 2012 and 2019, 60,000 jobs were added to the economy, which pushed up the employment rate from 25.6 to 30.1 percent. However, despite an improved labor market and investment performance, between 2015 and 2019 total factor productivity (TFP) increased by an average of just 0.5 percent when measured using firm level data. Maximizing the returns on investment in physical and human capital requires sustained improvement in productivity—the efficiency with which firms and farms transform their inputs into outputs.

Improving educational and labor market outcomes could accelerate convergence to higher incomes. Poor educational outcomes, low labor force participation and high unemployment have limited the contribution of human capital to growth. In 2019, only 2 in 5 of Kosovars of working-age participated in the labor markets and 1 in 4 people looking for a job could not find one. Low labor force participation in Kosovo is largely driven by the gender gap, as only about 1 in 5 of women actively participate in the labor market.



BOOSTING Exports, Competition and Investment

- Trade facilitation
- Competition policy
- Investment promotion eco-system

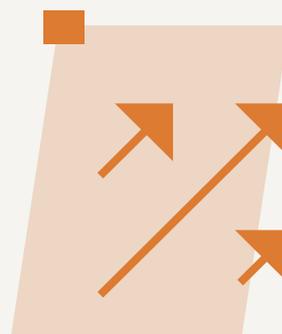


ENTRENCHING Macro Stability and Sound Governance

- Foundational requirements

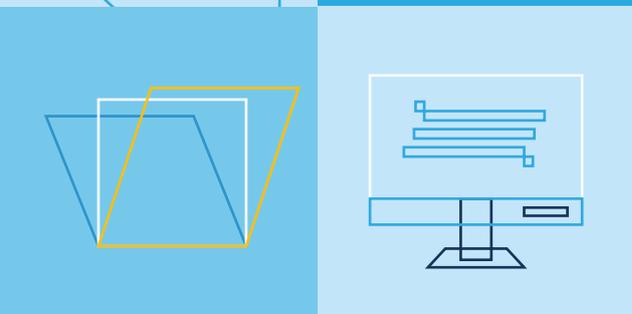


- Inclusive
- Resilient
- Sustainable growth in Kosovo



INCREASING

Firm Productivity



Only a more dynamic private sector can carry Kosovo to higher living standards. Sustained job creation and economic growth will depend on the country's ability to create an environment where productive firms can thrive. The recent dynamism in growth is encouraging but it is not enough to create a vibrant private sector that would shift Kosovo to a more sustainable, inclusive, and resilient growth path.

Firms in Kosovo are overwhelmingly small, and few survive long enough to reach higher levels of efficiency, grow, and create better jobs. Between 2015 and 2018, an average of 10,000 net formal jobs were created every year, about twice the number created between 2011 and 2014. However, the landscape of firms is still dominated by low-productivity micro and small enterprises that fail to grow. Over a five-year period, more than 70 percent of micro firms remained micro. As a result, firm density (the number of firms per inhabitant) and average firm size are both lower than would be expected given Kosovo's level of development. Firm survival, especially for micro enterprises, is also much lower than in comparator countries. The average annual net rate of firm creation in Kosovo—the difference between firm entry and exit—was close to zero, a symptom of a pronounced lack of dynamism for such a young economy. Furthermore, few women participate in the economy as entrepreneurs, which further erodes Kosovo's potential productive capacity.

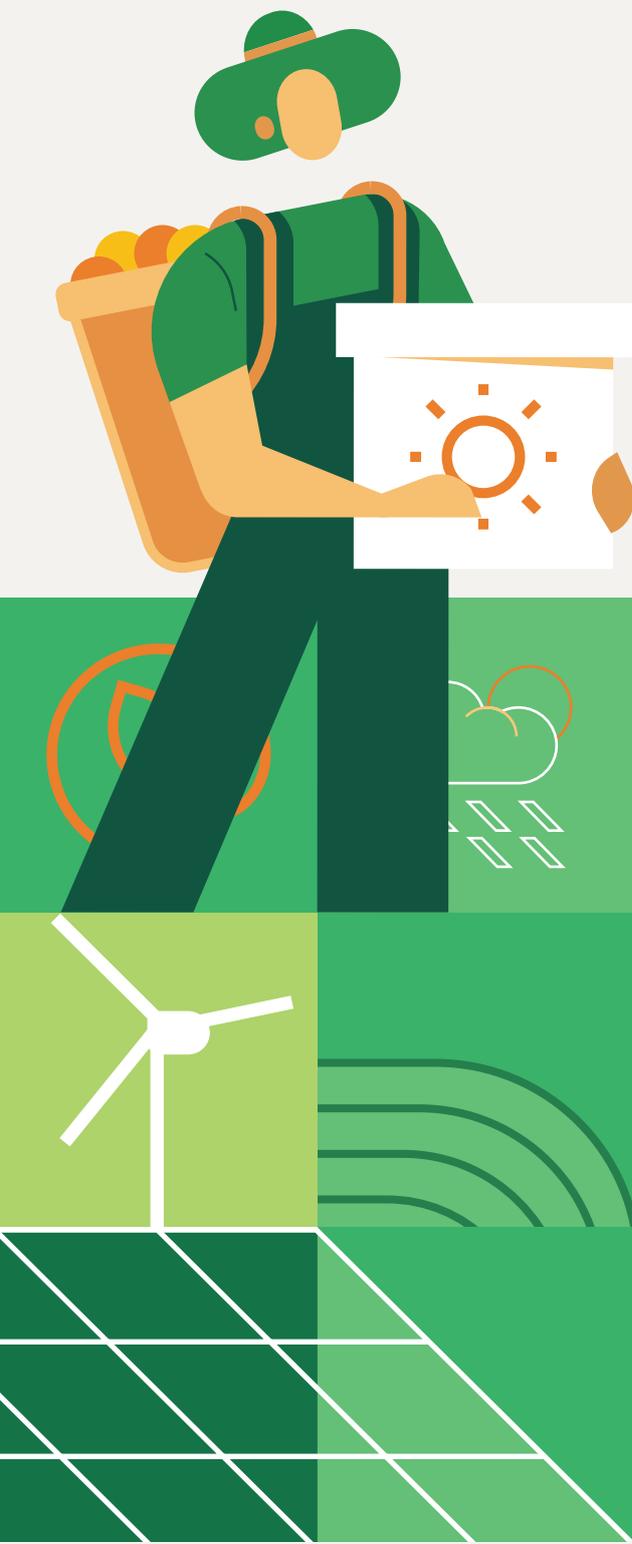
Improvements in firm productivity could pave the way for better opportunities for Kosovar citizens. Labor productivity in Kosovo is only a third of the average for EU companies and between 2012 and 2017 its growth was negative. During the same period growth in TFP, though positive, averaged only 0.5 percent, delaying Kosovo's aspirations to close the income gap with the EU. There is also a wide gap between the most and least efficient firms. Global links through foreign investment and exports are also not strong enough to push Kosovo to a higher and more resilient growth path. Furthermore, the pandemic-induced recession has hit the real sector hard. Hence, the pandemic may worsen slow productivity growth.

Incentivizing digitalization of firms could increase productivity and improve market access. The COVID-19 pandemic has accelerated digital adoption of firms. Between April and June 2020, about 25 percent of Kosovar firms increased their use of digital platforms and 7 percent invested in digital solutions. However, large firms invested the most in digital solutions, innovation, and use of digital platforms. Now, incentivizing and enabling digitalization is crucial for Kosovo's micro and small firms so that they do not fall behind. Though Kosovo has a strong regulatory pillar for digital trade, gaps still to be addressed relate to e-ID, online consumer protection, and intermediary liability.

Kosovo's stable financial sector is well-placed to support a more dynamic private sector. Better access to credit could facilitate more investment and innovation to enhance productivity growth. Lower credit constraints would also enable more productive firms to expand or new firms to enter the market, contributing to productivity growth. Between 2010 and 2018, domestic credit to the private sector in Kosovo increased from 35.4 to 44.1 percent of GDP, but still fewer than a third of firms have access to financing through formal channels and more than 70 percent of credit to the private sector consists of short-term loans. Improving access to finance could facilitate firm growth and enhance export potential.

RAISING

Farm Productivity



More productive farms would create jobs and promote more efficient use of natural resources. Kosovo farms, especially those that are micro and small, do not transform inputs into outputs efficiently. An average farm could produce the same amount of output using 70 percent fewer inputs; Kosovo farms are simply not technically efficient. Although larger farms are more efficient, there are few of them; some 75 percent of all farms in Kosovo are small.

Specialized farms could drive growth if agricultural and land market constraints are removed. Farms specializing in high-value crops like horticulture are more efficient but struggle to grow and exploit economies of scale due to a dysfunctional land market and credit constraints. Surprisingly, Kosovo is also not benefitting from its demographics: unlike in neighboring countries, its younger farmers are not the most productive. Furthermore, relatively high public spending does not necessarily promote higher productivity among farmers who receive agricultural subsidies.

ENHANCING

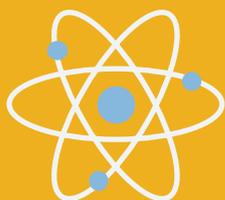
Human Capital



Given Kosovo's demographics now is a critical time to improve the quality of education. Kosovo is one of the youngest countries in an aging Europe, but its demographics are evolving quickly. Currently, children under 14 constitute 24 percent of the population and will be joining the labor force within the next 20 years. Hence, investing in education quality today will not only improve their lives and support inclusion but would also bring large returns to the economy and lead to faster growth. Only an education system that can provide both adequate access and, more important, high quality for all can produce skills that respond to changing labor market demands. The pandemic might worsen education outcomes and widen learning gaps between different student populations. Furthermore, the worrisome dearth of school digital equipment and connectivity is likely to have a negative impact on the digital capacities of the society. Even so, the potential demographic bonus can unlock Kosovo's growth potential and open up access to the large, advanced, and aging EU market.

While Kosovo has started to invest more in human capital formation, the return on that investment is low. At 4.6 percent of GDP and 16 percent of total government spending, Kosovo's public spending on education is similar to that of other middle-income countries. However, there are large gaps in enrollment in preschool and secondary education, infrastructure, and overall quality. Preschool enrollment is below the 20 percent national target, and secondary school coverage is not universal. Lack of access to early childhood education and low preschool coverage translate into poor literacy and numeracy outcomes at all stages of learning.

Better utilization of human capital through improved education outcomes would boost growth. Only 23 percent of children aged 36–49 months are developmentally on track for literacy and numeracy. By the end of lower secondary, about 79 percent of 15-year-old students did not meet functional literacy and numeracy standards in the 2018 OECD Program for International Student Assessment (PISA); the OECD average was 23 percent. There are also significant differences in terms of access, school attainment, and outcomes between municipalities and communities, and the education gap also varies negatively with family income. As a result of these gaps, some 75 percent of firms that attempted to fill a higher skills position and 60 percent of those that tried to fill a medium- to lower-skills position were unable to find qualified candidates.



BOOSTING

Exports, Competition & Investment



Kosovo's location offers significant opportunities for growth and job creation through international integration. As a small economy, Kosovo would benefit from integration, both globally and regionally, to exploit scale economies. Higher exports would not only contribute to growth and lower current account deficits but could also help heighten productivity due to more innovation and learning by exporting.

Export competitiveness in goods is weak, with a dependence on commodities and a large trade deficit in goods. Despite some recent dynamism, Kosovo's export competitiveness trails regional and aspirational peers. The high trade deficit in goods is partly offset by the trade surplus in services, with exports of services focused on travel and transport and driven by demand from the Kosovar diaspora. Goods exports are also concentrated in commodities, where base metal and minerals account for almost half of total export value. However, diversification is increasing, driven by agribusiness as well as other manufactured products.

Though they are few, exporters and foreign-owned firms are larger, more productive, more capital-intensive, pay higher salaries, and are more likely to invest. Also, in Kosovo exporters and firms with foreign investors have demonstrated greater resilience in the face of the pandemic. These findings suggest that higher exports and FDI would not only lead to higher productivity but could also contribute to greater resilience to economic shocks. Further integration within the region through exports can act as a springboard toward the EU market—firms exporting within the region are more likely to later enter the EU market. Similarly, better leveraging the strong diaspora ties could provide an opportunity to boost exports.

Enhancing the regulatory environment and increasing market competition could boost productivity. Restrictions on competition in Kosovo include state involvement in the economy, such as preferential treatment for publicly owned enterprises (POEs), design of regulatory processes, and barriers to domestic and foreign entry in regulated professions and network sectors like electricity, telecommunications, and transport. Enhancing competition, unlocking digital trade, and reducing barriers to service trade could level the playing field for firms, ease entry restrictions, and perhaps contribute to the post-COVID-19 recovery.

Foreign investment can help create better jobs and spur more resilient economic growth. FDI can provide access to regional and global value chains (GVCs) that support value-added exports. Furthermore, foreign investment could ignite higher productivity growth through technology transfers, higher quality standards through backward linkages with domestic suppliers, and enhanced competitiveness. Kosovo has attracted less FDI in recent years than regional comparators. Furthermore, most of its FDI is concentrated in non-tradable sectors with limited potential for productivity spillovers.

A More Productive Future

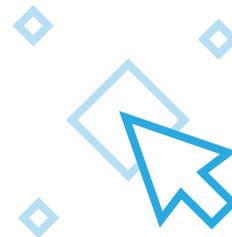


Although the main drivers of growth are productivity, physical capital and human capital, maintaining macroeconomic stability and sound governance is necessary for sustained and inclusive growth. The pandemic has weighed on Kosovo's fiscal position and the stability of its economy. Building on strong foundations with fiscal rules and financial stability, Kosovo can safeguard its headline macroeconomic stability. Good governance is demonstrated in a well-functioning court system, a consistent system of law, effective application of laws and rules, a stable political climate, transparency, and established consultation procedures. Improvements in governance would not only attract more foreign investment but would also provide a more stable environment for domestic investors.

With the right reforms, Kosovo can capitalize on its youthful population and proximity to major markets to achieve faster and more inclusive growth. With reforms carried out today to enhance firm and farm productivity, more efficient investment in education quality and access and unlocking the potential for international trade and integration can pave the way to faster, more resilient, and inclusive growth. The following summarizes policy recommendations, drawing upon the Kosovo CEM and the background papers prepared as part of the report.



Increasing Firm Productivity



Kosovo's business landscape continues to be dominated by micro and small enterprises and is characterized by low productivity, poor survival, and a lack of dynamism. More intensive efforts are needed to remove distortions, improve access to finance, encourage innovation and digitalization, strengthen competition in product markets, improve the business climate, and facilitate deeper integration into international markets.

RECOMMENDATIONS

- Continuously reduce the administrative burden and regulatory uncertainty faced by firms, e.g., through streamlining licenses and permits and improving the inspections regime through better coordination and risk-based inspections.
- Strengthen the national innovation system to foster the diffusion and adoption of technology and investment in research and development (R&D).
- Foster digitalization of businesses by ensuring timely adoption and implementation of regulations on E-ID, data protection, and cybersecurity, and improve the coverage, quality, and affordability of Internet connectivity and related managerial capacities.
- Improve access to finance through non-bank financial institutions, private equity, and venture capital, ensuring uptake of Kosovo Credit Guarantee Fund guarantees and securing property rights.
- Incentivize women's entrepreneurship and remove barriers to women's participation in the economy through, e.g., investments in preschool education and child and elder care, and increasing financial inclusion by introducing a basic payment account.
- Improve firm capabilities through targeted programs (e.g., technical assistance to SMEs funded through voucher schemes or grants) to upgrade management and organizational practices.



Read the full paper at
www.worldbank.org/en/country/kosovo

Raising Farm Productivity



Farms in Kosovo, especially micro and small farms, do not transform inputs into output efficiently. Small and more specialized farms struggle to expand to their optimal scale, probably due to credit constraints and dysfunctional land markets. Reforms are needed to improve competitiveness by encouraging aggregation of farms, greater innovation, and better management of natural resources.

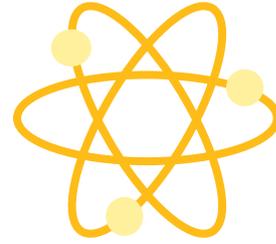
RECOMMENDATIONS

- Provide incentives to encourage aggregation of farms and other food chain firms so that they modernize and explore scale economies.
- Facilitate farm competitiveness by modifying current types of farm support; consider a shift to decoupled farm support.
- Reallocate public resources to farm activities that have higher rates of return to improve the sector's competitiveness and enhance incomes.
- Facilitate the modernization of smaller farms through better-targeted support and promote an enabling environment for small and medium-sized farms by providing advisory, training, technical, and information support, infrastructure, R&D, and storage capacities.
- Expedite cadastral reconstruction to cover all of Kosovo by prioritizing more economically active agricultural land and cadastral zones; and invest in sustainable management of natural resources, including timely implementation of the irrigation master plan.

Read the full paper at
www.worldbank.org/en/country/kosovo



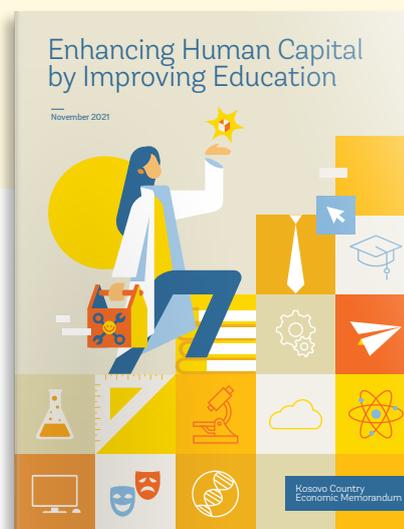
Enhancing Human Capital



Kosovo has made significant progress in improving educational access, but the quality of education is still low at every level, as has been demonstrated by international and national test scores. There are also differences in education outcomes between municipalities, ethnic groups, and income quintiles. Businesses note the poor quality of the education system and difficulties in hiring for different skills. Given Kosovo's demographic dividend, it is critical to improve the quality of and access to education.

RECOMMENDATIONS

- Develop a student registry to track academic performance that includes an early warning system of at-risk and poor performers for better targeting of services that keep students in school.
- Continue using and improving a system of learning assessments that guides teacher instruction and motivates improvement over time, especially in lagging municipalities.
- Improve spending efficiency and equity in the sector by completing a school optimization study and implement it in order to re-orient spending in education to reduce infrastructure gaps, improve the quality of education, and revise the school financing formula.
- Develop a comprehensive plan to digitalize education delivery and ensure the equity of digital content and connectivity with sufficient equipment and skilled and supported teachers.
- Improve the targeting and coverage of the social assistance scheme to reduce the liquidity constraints of poor families with more children.
- Take stock of and institutionalize remedial and support programs delivered by NGOs, especially those targeted to low-income families, minority children, and rural students.



Read the full paper at www.worldbank.org/en/country/kosovo

Boosting Export Performance



Poor competitiveness and productivity in domestic markets translates into poor export performance. International integration is limited and depends on inflows from the diaspora. Leveraging regional integration and strong diaspora ties could boost exports. Policies to improve productivity and increase regional and international integration have the potential to generate higher growth and contribute to macroeconomic stability.

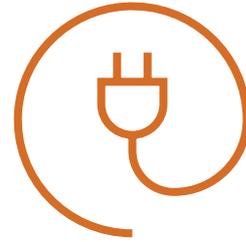
RECOMMENDATIONS

- Continuously address business environment constraints to provide an enabling environment for firms to enhance productivity.
- Improve regional integration and promote it as a springboard for better integration with EU and global markets.
- Continue dialogue with partners on deepening trade integration through trade agreements with international partners.
- Reduce trade facilitation and logistics gaps.
- Continue to improve the business environment to attract higher FDI to link with GVCs.
- Leverage strong diaspora ties to increase penetration of firms into export markets in the region and beyond.
- Prepare an action plan for e-commerce to improve the regulatory framework and promote digital trade, facilitate e-payments, and improve digital connectivity.

Read the full paper at
www.worldbank.org/en/country/kosovo



Removing Regulatory Barriers to Competition

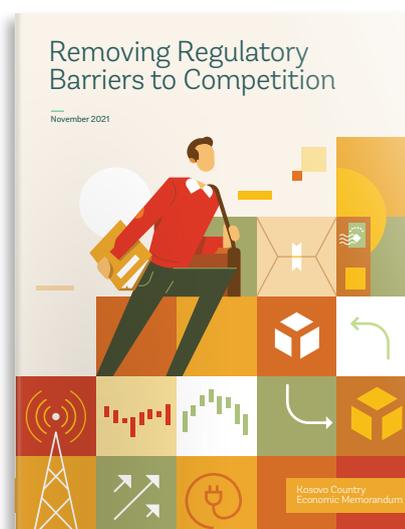


Kosovo has made progress toward pro-competition regulation of product markets, but there is still room for improvement. Restrictions on competition in product markets include state involvement in the economy (such as preferential treatment for POEs) and barriers to domestic and foreign entry in network sectors and regulated professions. Improvements in the regulatory framework to level the playing field for all firms could enhance competition and increase productivity.

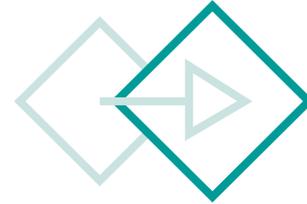
RECOMMENDATIONS

- Improve POE governance and eliminate POE-related barriers to competition to ensure equal treatment of private and public operators in markets where they compete.
- Enhance the quality and control of the regulatory process and facilitate business registration to boost market entry.
- Reform entry and conduct regulations for professional services, eliminating exclusive rights and regulatory restrictions.
- Strengthen the regulatory framework for competition policy and improve the efficiency of regulatory functions to reduce restrictions on competition in network sectors like electricity, transport, and telecommunications.

Read the full paper at
www.worldbank.org/en/country/kosovo



Promoting Foreign Investment



Kosovo has received little foreign investment in recent years reflecting lackluster investment competitiveness. FDI has been concentrated in non-tradable domestic- market-seeking sectors like construction and real estate that have little potential for spillovers and benefits to the domestic economy, beyond the immediate impact. A comprehensive reform program is needed to ease business environment constraints, improve governance, and build up investment promotion and after-care services.

RECOMMENDATIONS

- Modernize the investment ecosystem to make it more efficient and to attract higher-quality investments.
- Sharpen the focus of FDI attraction and retention efforts and devise an action plan to accelerate investment attraction and COVID-19 recovery.
- Empower KIESA as the national lead agency for attracting investment by sharpening its focus on delivering core investor services, improving its governance, and scaling up its provision of services to investors.
- Establish an effective investor grievance mechanism to enhance investor confidence and reduce regulatory risk.



Read the full paper at
www.worldbank.org/en/country/kosovo

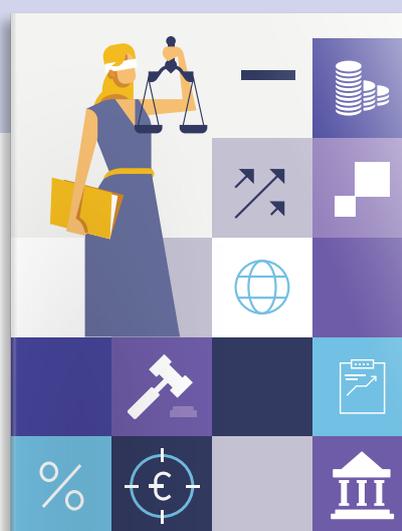
Entrenching Macroeconomic Stability and Sound Governance



The shock of the COVID-19 pandemic is putting pressure on Kosovo's rules-based fiscal framework and the financial sector, which has been key in sustaining macroeconomic stability prior to the pandemic. However, governance problems, including a backlogged judicial system, ineffective coordination between institutions, and poor application of regulations impede sustainable growth in Kosovo. Going forward, maintaining macroeconomic stability, and improving governance will be necessary to reduce uncertainty for investors and consumers.

RECOMMENDATIONS

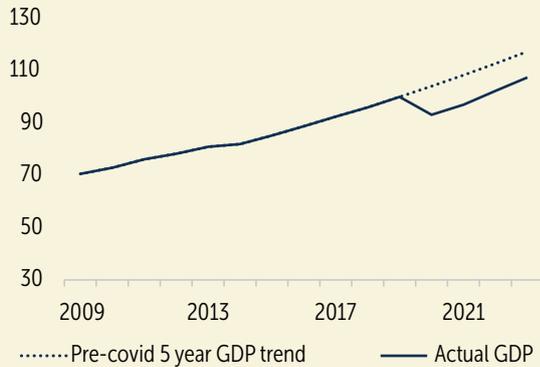
- Improve the timeliness and accuracy of national statistics to inform evidenced-based policy making, in particular the national accounts, for effective implementation of the rules-based fiscal framework.
- Improve the efficiency of public spending, by better targeting social protection benefits to the poor, allocating resources to maintaining public assets, and investing in human capital.
- Mobilize more revenue by rationalizing fiscal exemptions, reducing leakages, and giving local authorities incentives to collect more own-source revenue
- Ensure effective implementation of laws through better coordination of state institutions and a well-functioning judicial system.
- Continue to closely monitor financial sector health to manage exit from borrower relief measures adopted in 2020, taking into account increased uncertainty about the economic recovery and asset-quality challenges generated by the COVID-19 shock; and strengthen the financial safety net through the bank recovery and resolution framework to be introduced by the new banking law.



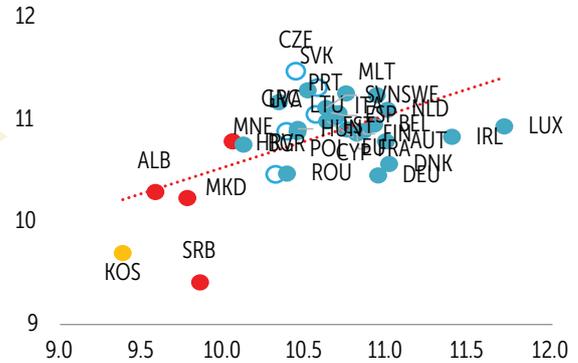
Kosovo:

Gearing Up for a More Productive Future

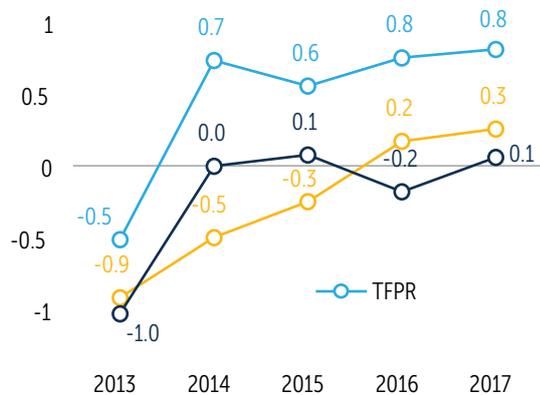
The COVID-19 pandemic has derailed Kosovo's growth pathway...



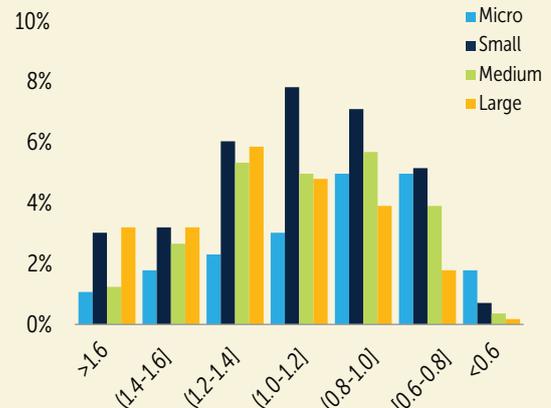
Slow business growth and poor survival means that the density of firms is very low...



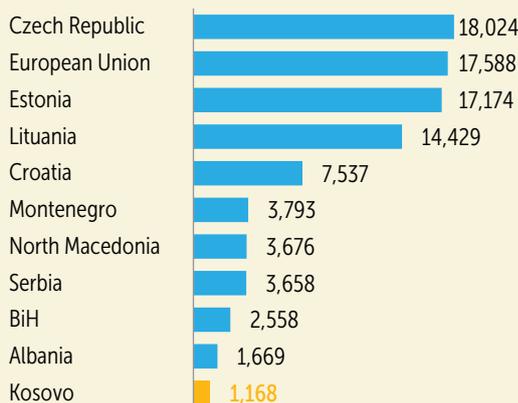
...and despite some progress, growth in firm productivity has been disappointing.



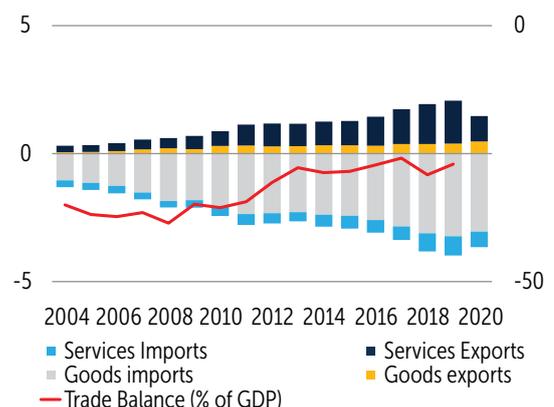
Growth in the productivity of micro and small firms has also been negative.



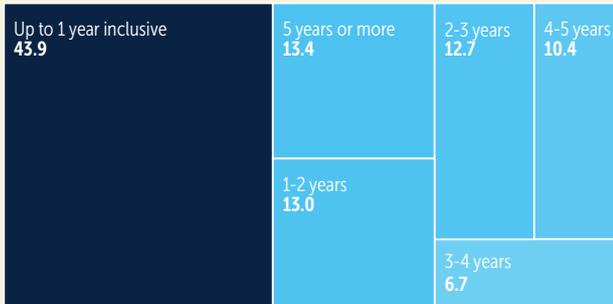
Low productivity of firms translates into poor export performance...



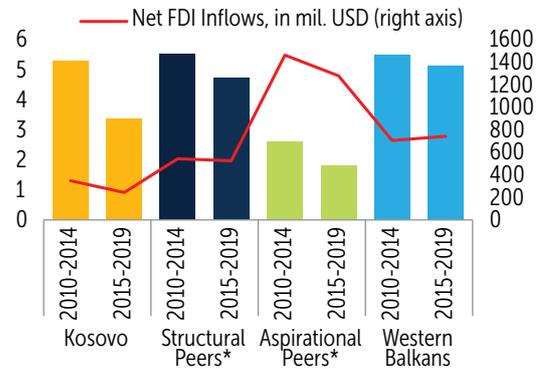
...but diaspora inflows have supported the trade balance.



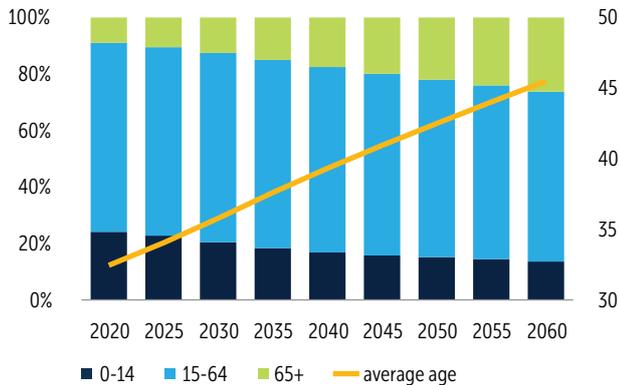
Private sector access to finance mainly consists of short-term loans...



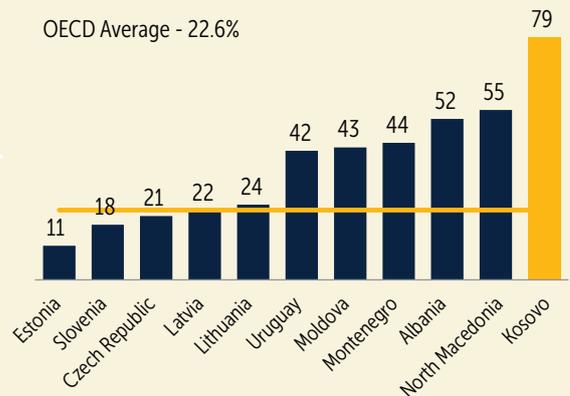
...and Kosovo has received less FDI than its peers.



Leveraging Kosovo's demographic dividend could add to growth...



...but educational quality is not up to par.



With the right reforms, Kosovo can capitalize on its youthful population and proximity to major markets to achieve faster and more inclusive growth.

