



# REPUBLIC OF KOSOVO

April 2026

## 2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF KOSOVO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with the Republic of Kosovo, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 27, 2026 consideration of the staff report that concluded the Article IV consultation with the Republic of Kosovo.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 27, 2026, following discussions that ended on February 13, 2026, with the officials of the Republic of Kosovo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 13, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Republic of Kosovo.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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## IMF Executive Board Concludes 2026 Article IV Consultation with Kosovo

### FOR IMMEDIATE RELEASE

- Despite heightened political uncertainty, economic activity has moderated, while inflationary pressures intensified.
- Fiscal policy should be recalibrated to avoid a fiscal expansion in 2026, and over the medium-term balance macroeconomic stability with development goals.
- While the financial sector remains healthy, further strengthening of regulation and supervision, systemic risk oversight, crisis management, and the financial safety net are needed.

**Washington, DC—March 27, 2026:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the Republic of Kosovo.<sup>1</sup> The authorities have consented to the publication of the Staff Report prepared for this consultation.<sup>2</sup>

After a year-long political deadlock, economic activity has moderated while inflationary pressures have intensified. Real GDP growth slowed to 3.6 percent in 2025, down from 4.6 percent in 2024, reflecting weaker net exports and softer private demand, partly offset by stronger public consumption and investment. Headline inflation continued to rise, reaching 5¾ percent in January 2026, driven primarily by higher food prices. The current account deficit (CAD) widened to 9.2 percent of GDP in 2025, compared with 8.4 percent a year earlier, largely due to higher imports of energy and food. In the formal sector, real wage growth moderated to 9½ percent in 2025 (from 13 percent in 2024), while formal employment growth strengthened to 3¼ percent, up from 2 percent in the previous year.

Assuming renewed progress in political normalization, the outlook envisages a moderate slowdown. Driven by the effect of the conflict in the Middle East, real GDP growth is projected to decelerate to 3.3 percent in 2026 but converge to its estimated potential rate of about 4 percent over the medium term. Inflation is expected to accelerate to 5.9 percent in 2026 but gradually decline to the ECB's 2 percent target by mid-2028, as global commodity prices normalize and second round effects of the conflict in the Middle East dissipate, and to stabilize around that level thereafter. The CAD is projected to widen in 2026, including due to the temporary shutdown of a coal-fired power plant for rehabilitation and filter installation, before narrowing over the medium term. Nonetheless, a large structural trade deficit is expected to continue underpinning an elevated external imbalance.

Risks to the outlook are tilted to the downside. External risks include persistence or intensification of regional conflicts, global trade tensions, and fluctuating commodity prices,

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

<sup>2</sup> Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the [www.imf.org/kosovo](http://www.imf.org/kosovo) page.

which could adversely affect demand and employment. Domestically, political risks remain, including uncertainties surrounding the election of the new president. On the upside, timely implementation of the EU New Growth Plan could provide an additional boost to growth and employment.

### **Executive Board Assessment**

Executive Directors welcomed Kosovo's commitment to the EU growth plan and progress achieved under recent Fund-supported programs. Directors highlighted that while the outlook is positive, it is subject to downside risks, particularly from political uncertainty, weaker external conditions, and the effects of the conflict in the Middle East. Accordingly, they emphasized the importance of efforts to maintain macroeconomic stability and advance reforms under the EU Growth Plan to strengthen growth and competitiveness. Fund capacity development and strong coordination among development partners remain important to support these goals.

Directors noted that the fiscal framework has served Kosovo well in supporting macroeconomic stability, while nonetheless highlighting the need for policy recalibration in the context of the widening fiscal deficit. They emphasized that, over the medium term, fiscal policy should balance macroeconomic stability and development goals, while rebuilding buffers and adhering to a credible rules-based framework. Important measures include containing current spending, scaling up high-quality public investment, and enhancing revenue. Directors underscored the need to ensure that the revised fiscal framework aligns with these objectives and also called for reforms to improve the efficiency of social spending, enhance transparency, and strengthen public financial, investment, and fiscal risk management.

Directors welcomed that the banking sector remains sound and emphasized the need to continue strengthening financial sector oversight and crisis management frameworks. They called for close monitoring of credit growth, lending standards, and real estate exposures, and recommended timely deployment of targeted borrower-based macroprudential measures should credit growth re-accelerate. Directors underscored the importance of further enhancing risk-based supervision, strengthening systemic resilience, and enhancing crisis preparedness, including by safeguarding bank liquidity buffers. Further efforts to enhance the AML/CFT framework by aligning the legal framework with EU and FATF standards are important.

Directors underscored that comprehensive structural reforms are essential to strengthen competitiveness, support sustainable growth, and accelerate income convergence with the EU. They emphasized the importance of implementing the EU Growth Plan Reform Agenda to close structural gaps and unlock external financing. This should be supported by strong project selection and implementation. Noting the need to reduce unemployment and raise labor participation, particularly for women, Directors called for reforms to reduce informality, address skills mismatches, and better calibrate minimum wage policies. Directors stressed the importance of advancing energy reforms to expand generation capacity, improve efficiency, and align tariffs with market conditions.

<b>Kosovo: Selected Economic Indicators, 2024–31</b>				
	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>
	Act.	Prel.	Proj.	Proj.
<b>Output</b>				
Real GDP growth (percent)	4.6	3.6	3.3	3.8
<b>Employment</b>				
Unemployment rate (percent)	10.8	...	...	...
<b>Prices</b>				
Consumer prices (period average, percent)	1.6	3.9	5.9	3.6
Consumer prices (eop)	1.1	5.3	5.8	2.6
GDP deflator	2.2	2.8	4.7	4.9
<b>General government finances (percent of GDP)</b>				
Revenue and grants	29.9	30.4	30.7	30.4
Expenditure	30.2	31.2	32.3	32.4
Overall balance	-0.3	-0.8	-1.6	-2.0
Total public debt	17.9	17.5	18.7	19.6
Stock of government bank balance	3.8	3.8	4.0	4.0
<b>Money and credit</b>				
Non-performing loans (percent of total loans)	1.9	1.8	...	...
Credit to the private sector (eop)	18.3	14.6	12.8	13.3
Effective bank lending rate	5.9	6.8	...	...
<b>Balance of payments (percent of GDP)</b>				
Current account balance	-8.4	-9.2	-10.5	-9.9
Remittance inflows	13.1	12.4	12.2	12.0
Net foreign direct investment	5.5	6.0	6.4	6.7
External debt	40.7	45.4	47.7	52.1
Sources: Kosovo authorities and IMF staff estimates and projections.				
Note: These updated projections incorporate the impact of the ongoing conflict in the Middle East.				



# REPUBLIC OF KOSOVO

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

March 13, 2026

### KEY ISSUES

**Context.** Even though a year-long political stalemate ended with the formation of a new government in February, Kosovo could be heading toward another phase of political uncertainty following the parliament's failure to elect a new national president on March 5. The newly constituted parliament ratified key international financing agreements pending since 2024 and adopted the 2026 budget, averting a government shutdown. The prolonged impasse held back much-needed reforms to accelerate income convergence with the EU.

**Developments, Outlook, and Risks.** The political deadlock weighed on growth, with recovery expected in 2026. Inflation rose sharply amid higher food prices, while the external current account deficit widened, partly due to temporarily large energy imports. Fiscal policy became expansionary, contributing to imbalances and potentially adding to price pressures, with a further widening of the deficit expected in 2026. Risks are tilted to the downside including protracted political uncertainty, tensions in northern Kosovo, and weaker external conditions.

### Policy Recommendations

- **Fiscal Policy.** Widening external imbalances, inflationary pressures, and declining competitiveness from rising wages call for recalibration of the fiscal stance in the near term and reducing the fiscal impulse. In the medium term, fiscal policy should strike a robust balance among macroeconomic stability, resilience, and development objectives within a rules-based framework.
- **Financial Sector.** Credit growth has moderated but remains strong. Financial risks, particularly those related to real estate, should continue to be monitored. Macroprudential measures should be deployed if credit growth re-accelerates. Enhancing financial sector oversight and strengthening the crisis preparedness framework remain key policy priorities.
- **Structural Reforms.** Comprehensive reforms, including those laid out in the EU Growth Plan, are needed to raise long-term growth. Greater labor market flexibility is critical in this regard. Policies should focus on strengthening competitiveness and boosting productivity.

Approved By:  
**Mark Horton (EUR)**  
**and Anna Ivanova**  
**(SPR)**

Discussions were held in Pristina during February 3–13, 2026. The team comprised David Amaglobeli (head), Phakawa Jeasakul, Javier Kapsoli, Ana Lariou (all EUR), and Selim Thaçi (local office). Sebastián Sosa (regional resident representative) joined part of the mission. Hajdar Korbi (OED) also joined some meetings. Merita Kërnya (local office) assisted the mission. Estefania Cohn-Bech and Giovanni Biasiucci (both EUR) provided research assistance and Caroline Leroy (EUR) assisted in the preparation of the report. The mission met with the Central Bank Governor Ismaili and with members of the caretaker government, including Deputy Prime Minister Bislimi, Minister of Finance Murati, Minister of Economy Rizvanolli, and other senior officials. On February 11, parliament appointed the new government. The mission also met with representatives of civil society, development partners, and the private sector.

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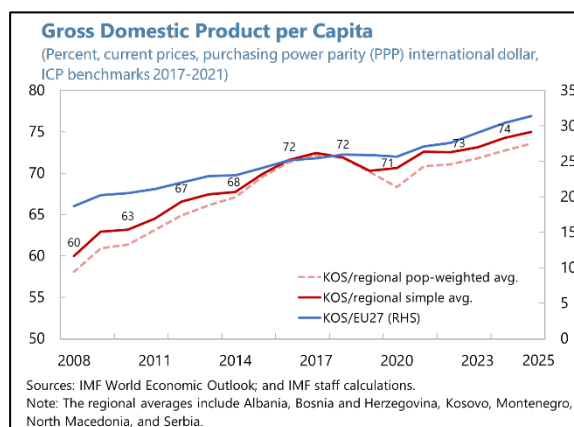
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## CONTEXT

**1. Kosovo could be entering another phase of political uncertainty after emerging from a year-long political stalemate.** An inconclusive outcome of February 2025 elections prevented formation of a functioning parliament and government, leading to snap elections on December 28, where the incumbent *Vetëvendosje* party obtained a clear victory. On February 11, parliament confirmed past Prime Minister Albin Kurti for the next mandate ending the deadlock. Subsequently, parliament ratified long-pending EU Growth Plan (GP)-related agreements and the World Bank’s Development Policy Loan (DPL). The 2026 budget was passed, helping avert a government shutdown. However, the failure to elect a new national president in early March could lead to renewed political uncertainty. Local elections in October 2025 proceeded smoothly, including in the northern Serb-majority municipalities. This contributed to the EU’s decision to gradually lift its 2023 measures.<sup>1</sup>

**2. With the political deadlock and the focus on elections, reform efforts stalled.** The absence of a functioning parliament throughout 2025 halted the legislative agenda. Although Kosovo had been a frontrunner in adopting its reform agenda under the EU GP, the impasse delayed implementation.<sup>2</sup> While substantial progress has been made since independence in 2008, large income gaps with the EU and regional peers persist. Structural headwinds—including widespread informality, low labor force participation, high emigration, and a chronic trade deficit—continue to constrain sustained growth.



**3. Reinvigorating reform momentum is crucial.** An IMF-supported Stand-By Arrangement (SBA) and an arrangement under the Resilience and Sustainability Facility (RSF) concluded in May 2025 with all reviews completed and reform measures fully implemented.<sup>3</sup> The SBA helped safeguard macroeconomic stability and supported key fiscal and financial reforms. The RSF helped advance renewables generation, enhance energy efficiency and foster regional energy integration. Additional efforts are needed to further strengthen macroeconomic fundamentals, reinforce fiscal discipline and spending quality, enhance financial sector oversight and strengthen crisis preparedness.

<sup>1</sup> This included restoring access to the Instrument for Pre-Accession Assistance (IPA)—2026–27 and releasing already approved funds (€34.6 million).

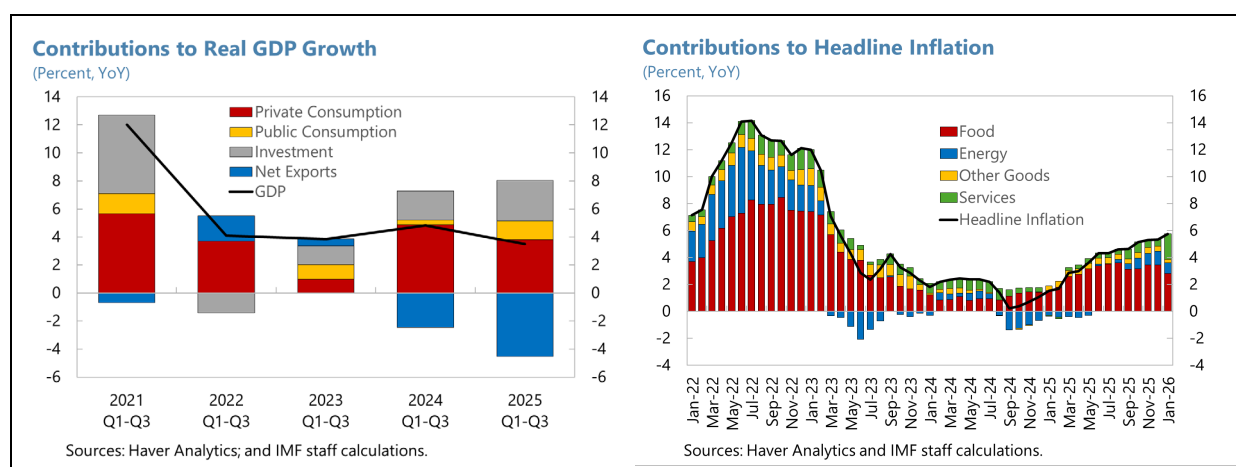
<sup>2</sup> Kosovo has applied for EU membership but is presently considered a potential candidate, the only Western Balkan country in that category. This reflects Kosovo’s non-recognition by five EU member states. Decisions on enlargement—such as granting candidate status—require unanimity in the EU Council.

<sup>3</sup> The last SBA test date was end-December 2024, and the final structural benchmark was completed in February 2025.

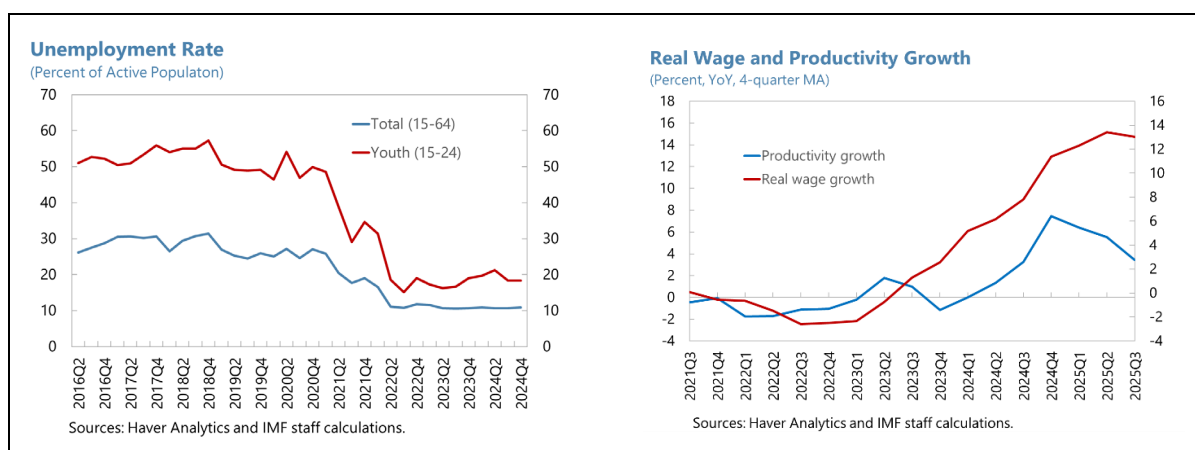
## RECENT DEVELOPMENTS

**4. Growth slowed in 2025 in tandem with the political impasse.** Output grew by 3½ percent y/y in Q1–Q3 2025, down from 4¾ percent over the same period in 2024. This was driven by weaker net exports and private demand, partly offset by stronger public consumption and investment. The slowdown in private consumption reflected inflationary pressures eroding real incomes, moderate employment growth and slower credit expansion amidst political uncertainty.

**5. Inflation has been accelerating, driven by food prices.** Headline inflation rose to 5¾ percent y/y in January 2026, the highest rate since 2023. Core inflation remained broadly stable at 2 percent for most of 2025—suggesting that rapid wage growth may not have translated fully into prices, including due to large informality—but rose to 3 percent in the last quarter of 2025 and further accelerated in January, including due to possible second round effects.



**6. The labor market has continued to improve despite structural bottlenecks.** Employment gains and rising female labor force participation point to ongoing strengthening, but high unemployment and widespread informality indicate remaining slack. In the formal market, real wages increased by 9½ percent in 2025 *vis-à-vis* 13 percent in 2024, while employment increased 3¼ percent in 2025 compared with 2 percent in the previous year. Significant skills mismatches—exacerbated by large-scale emigration—continue to constrain employment gains pushing up wages that have outpaced productivity and weakened competitiveness. In a euroized economy, gains in cost competitiveness must come from a reduction in real labor costs.



**7. External imbalances have deteriorated, underscoring competitiveness challenges.** The current account deficit (CAD) widened to 8 percent of GDP during January–November 2025, up from 7 percent a year ago, mainly due to higher goods imports, especially energy and food—which weakened the trade balance. The larger CAD was financed by borrowing and FDI in the non-tradable sector, mostly from the diaspora. The External Sector Assessment indicates that, on a preliminary basis, the external position in 2025 was substantially weaker than implied by medium-term fundamentals and desirable policies, with the real effective exchange rate assessed as overvalued, weighing on competitiveness (Annex I). At end-of-2025, gross international reserves were at 70 percent of the IMF’s ARA metric, below 2024 level.<sup>4</sup>

**8. After two years of near balance, the fiscal deficit is estimated to have widened to 0.8 percent of GDP in 2025.** The widening, which likely contributed to the worsening CAD and to rising price pressures, occurred despite strong revenue performance. Real expenditure growth (6 percent y/y)—driven mainly by subsidies and transfers but also by improved public investment management supported under the SBA—outpaced real tax revenue growth (4½ percent y/y). Key drivers included a 20 percent pension increase introduced in October 2024, followed by an additional 25 percent increase in November 2025, more generous child and maternity benefits, introduction of a new allowance for students, and a €100 payment to children and pensioners in December, provided for the third consecutive year despite being introduced as a one-off measure in 2023.

Despite the widening deficit, public debt is estimated to have slightly declined in 2025.

Operations of the General Government 2022–25				
(Percent of GDP)				
	2022	2023	2024	2025
	Actual			Prel.
<b>Revenue</b>	<b>28.1</b>	<b>29.5</b>	<b>29.9</b>	<b>30.4</b>
o/w Taxes	24.9	25.9	26.5	27.0
<b>Expense</b>	<b>28.8</b>	<b>29.8</b>	<b>30.2</b>	<b>31.2</b>
o/w Compensation of employees	7.3	7.9	8.2	8.3
o/w Use of goods and services	4.1	4.4	4.5	4.6
o/w Subsidies and transfers	12.0	11.1	10.8	11.2
o/w Investment	4.8	5.8	6.3	6.7
<b>Overall balance</b>	<b>-0.7</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.8</b>
<i>Memo</i>				
Public debt	21.4	18.7	17.9	17.6
Bank balance	4.7	3.6	3.8	3.8

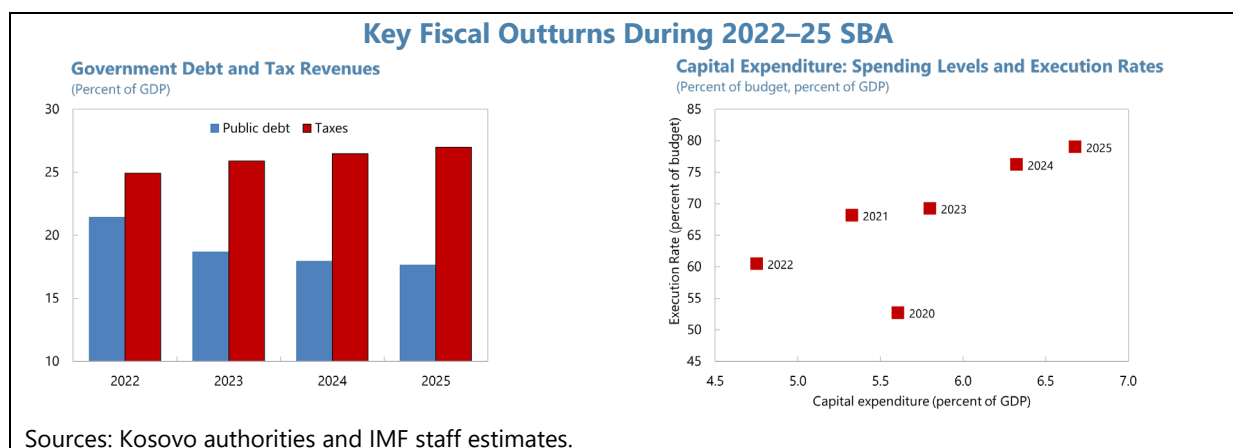
Sources: Kosovo Treasury; and IMF staff calculations.

<sup>4</sup> The increase in international reserves was outpaced by potential drains under the ARA framework, namely exports, broad money, short-term external debt, and other external liabilities.

**9. Treasury buffers remain below the recommended floor.** External financing in 2025 was limited to the SBA drawdown (€96 million); net domestic issuance was largely balanced, broadly as in 2024.<sup>5</sup> Treasury deposits remained stable in percent of GDP, but their composition shifted toward a higher share of term deposits.<sup>6</sup> At 3¾ percent of GDP, Treasury buffers are below the recommended floor of 4½ percent of GDP. As of 2025:Q3, uncommitted external funds stood at €404 million (3¾ percent of GDP), reflecting delays in project preparation, compounded by the 2023 EU measures that curtailed access to the Instrument for IPA and financing through the Western Balkans Investments Framework (WBIF).

Government Deposits at the Central Bank (In percent of GDP)				
	2022	2023	2024	2025
Transferable deposits	6.6	5.3	4.1	3.4
Usable	4.2	2.7	1.3	0.5
Other	2.4	2.6	2.8	2.8
o/w PAK	1.9	1.7	1.7	1.8
o/w ELA	0.5	0.5	0.4	0.4
o/w RSF	0.0	0.4	0.6	0.7
Term deposits	0.0	0.0	1.4	2.2
<b>Total</b>	<b>6.6</b>	<b>5.3</b>	<b>5.6</b>	<b>5.6</b>
<i>Memo</i>				
Treasury bank balance	4.7	3.6	3.8	3.8
Total deposits in million euro	586	511	575	613

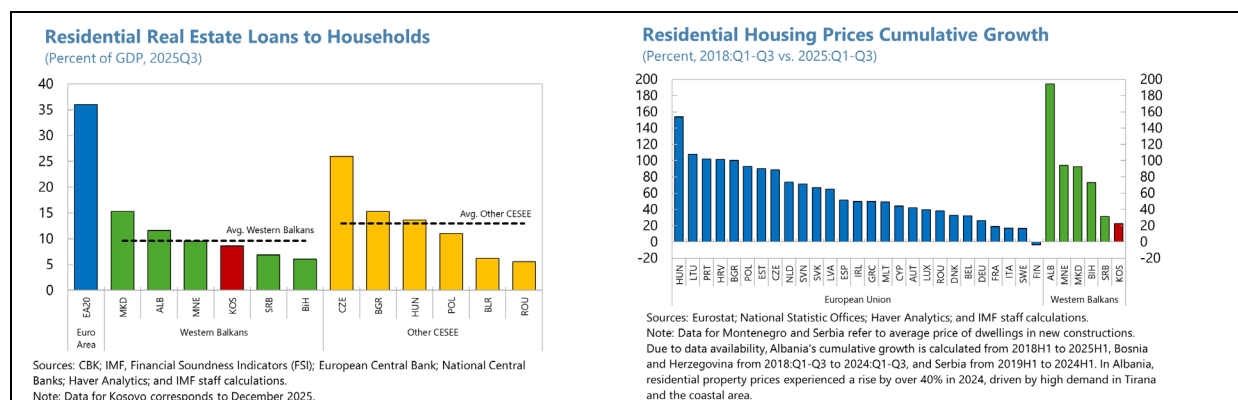
Sources: Kosovo authorities; and IMF staff estimates.



**10. The financial sector remains liquid and adequately capitalized with no signs of systemic risks from the real estate market.** Capital adequacy is above the regulatory minimum while NPLs are at about 2 percent. The loan-to-deposit ratio is close to 90 percent, indicating some sensitivity to funding pressures, especially amid tighter liquidity conditions and higher marginal funding costs in H1: 2025. This was reflected in higher lending rates, which helped moderate private sector credit growth. With ROA at 2.3 percent in December profitability has edged slightly down due to competition and narrowing margins. The real estate market does not pose an imminent systemic risk, given moderate bank exposure by regional standards and contained house price growth relative to peers, underpinned by continued diaspora inflows and increased supply, as indicated by high vacancy rates.

<sup>5</sup> While the authorities had been treating the SBA as precautionary, they had indicated that they may draw if financing shortfalls materialized (April 30 [Letter of Intent](#), [Staff Report](#) for the Fourth Reviews under the SBA and RSF). With the political impasse deepening at the end of May—and no functioning parliament in sight to ensure timely ratification of the World Bank’s \$100 million budget support DPL—they elected to draw the full SDR 80.122 million available under the SBA after a May 19 IMF Executive Board meeting ([Press Release](#) June 4, 2025). The drawn SBA resources enabled the authorities to continue budget execution without depleting treasury buffers. Following the recent formation of a new parliament, the DPL was ratified on February 13, 2026.

<sup>6</sup> Term deposits were widely used during 2009–14 but their use was discontinued once euro interest rates turned negative. They have been reactivated since March 2024.



## OUTLOOK AND RISKS

**11. Growth is expected to remain robust but insufficient to accelerate convergence with the EU.** With the adopted budget and external financing, and assuming resolution of political uncertainty, growth is projected to accelerate to 3.8 percent in 2026 and converge to its potential rate of 4 percent over the medium term. However, large income gaps require significantly higher growth to accelerate convergence. Inflation is expected to reach the ECB’s 2 percent target by end-2026—reflecting easing food price pressures, a more moderate increase in electricity tariffs than in 2025, and significant base effects—before stabilizing at around this level over the medium term. The CAD is projected to widen in 2026 due to the temporary shutdown of a coal-fired power plant for rehabilitation and filter installation before narrowing over the medium term. A large structural trade deficit will continue to underpin an elevated CAD.

**12. Both public and external debt are assessed to be sustainable** (Annexes II and III). Public debt was 17½ percent of GDP at end-2025 and is projected to rise gradually to 26½ percent by 2034 under the baseline. Recent increases in current spending, compounded by adverse demographics, pose medium- and long-term risks. External debt remains low compared with emerging European peers, partly reflecting lack of borrowing from international capital markets.

**13. Risks to the outlook are tilted to the downside** (Annex IV).

- **Domestic risks.** Another protracted political stalemate related to the election of the president would reignite political uncertainty and impede growth. Tension in northern Kosovo could also weigh on growth. On the upside, swift and effective implementation of the EU GP could lift growth beyond current expectations.
- **External risks.** Downside risks include a further escalation of global trade measures, particularly affecting Europe, leading to a fall in GDP by 1¾ percentage points relative to the baseline in the second year after the shock (Annex V). In such a scenario, the authorities should react using targeted fiscal policies. To be able to support countercyclical policies, it would be important to pursue a more prudent deficit in 2026. An intensification of regional conflicts could lead to higher commodity prices, putting pressure on the external balance and inflation.

**14. Should global trade tensions escalate, Kosovo could draw on fiscal buffers and adopt targeted countercyclical measures to mitigate impacts on the real economy (Annexes IV and V).** Such a shock would weaken revenues and create financing pressures, with limited scope for additional borrowing given euroization and potential liquidity effects on the banking system. Temporary use of Treasury deposits could smooth the adjustment but reduce fiscal buffers. Fiscal adjustment and rebuilding buffers would be needed once conditions stabilize. Advancing structural reforms linked to EU accession remain essential to strengthen competitiveness and reduce reliance on diaspora-related flows; industrial policy support, if any, should be carefully targeted, temporary, and designed to limit distortions.

### **Authorities' Views**

**15. The authorities broadly agreed with staff's assessment of the outlook and risks.** They expected somewhat stronger growth, supported by private consumption and investment. The authorities generally concurred with staff's projection of a further widening of the CAD in 2026 but emphasized that part of the deterioration would be temporary reflecting reconstruction and filter installation at coal-fired power plants. They also viewed that political risks remained, though less acute following the formation of a new government, while acknowledging external risks, notably a potential slowdown in Europe and commodity price shocks.

### **Box 1. EU Growth Plan Reform Agenda**

**Kosovo's Reform Agenda (RA) under the EU's Growth Plan (GP) for the Western Balkans aims at accelerating socio-economic convergence with the EU.**

With GDP per capita at 27 percent of the EU average, Kosovo faces a substantial gap; the GP will play an important role in narrowing it. Although Kosovo was among RA early adopters (October 2024), little progress has been made on implementation due to political deadlock in 2025.

The RA is structured around five pillars—governance and public finance, green and digital transition, private sector development, human capital development, and rule of law—and sets out concrete, time-bound reform measures. It is closely aligned with key EU accession-related strategies, including the Economic Reform Program, the National Development Strategy 2030, and the National Program for European Integration.

**RA implementation is supported by the Reform and Growth Facility (RGF).** Kosovo's allocation for 2024–27 is €883 million—the largest in the Western Balkans relative to GDP. A large share of this allocation will be implemented through the Western Balkans Investment Framework (WBIF) and its institutions. Of the total envelope, €253 million (29 percent) will be directly disbursed to the WBIF as project grants. The remaining €630 million will be disbursed to Kosovo's Treasury, of which €410.6 million (47 percent) is earmarked for budget support loans and €218.7 million (25 percent) for project loans to be implemented through the European Western Balkans Joint Fund (EWBJF). Disbursements are conditional on meeting clearly defined qualitative and quantitative benchmarks assessed semiannually by the European Commission.

<b>EU Reform and Growth Facility: Initial Allocations</b>			
	<b>Indicative Initial Allocation</b>	<b>Indicative Absolute Allocation</b>	
	Percent of total	€ million	Percent of 2024 GDP
Albania	16.4	922	3.7
Bosnia and Herzegovina	19.3	1,085	4.1
Kosovo	15.7	883	8.6
Montenegro	6.8	384	5.1
North Macedonia	13.4	750	4.9
Serbia	28.3	1,586	1.9
<b>Total for the Western Balkans</b>	....	<b>5,610</b>	<b>3.4</b>

Source: European Commission.

**Box 1. EU Reform Agenda (concluded)**

**Economic dividends from the GP will depend on the pace of reform implementation and absorption capacity.** Following recent parliamentary ratification of GP-related agreements, immediate priorities include establishing a Monitoring Committee and appointing a national coordinator to oversee implementation. An advance payment of €61.8 million (7 percent of the total allocation), of which, €28.7 million in loans for the Treasury, will be available to Kosovo without conditionality. Several reform measures requiring legislative action face non-deferrable deadlines by June 2026, when the final grace period expires. Limited capacity to implement large investment projects—as evidenced by low execution rates of externally financed projects and a sizable stock of uncommitted external financing—underscores the need to strengthen project preparation, coordination, and execution. For 2026–28, staff assume an average execution rate of 38 percent. Assuming half of financing is allocated to investment and applying a high incremental capital-output ratio—reflecting low investment efficiency and significant import leakages—the impact on growth is estimated at about 0.3 percentage points over 2026–28 and is treated in the baseline as an upside risk.

## POLICY DISCUSSIONS

*Fiscal policy should balance macroeconomic stability and development objectives, contain current spending and rebuild fiscal buffers. Strengthened monitoring of vulnerabilities from rapid credit growth and enhanced crisis management are additional priorities. The Reform Agenda under the EU Growth Plan provides a strong anchor for advancing structural reforms.*

### A. Fiscal Policy: Supporting Macro Stability and Medium-Term Growth

**16. The fiscal deficit is expected to widen further in 2026.** The recently adopted budget is consistent with a general government deficit of 2 percent of GDP, reflecting the full-year impact of spending measures introduced through executive actions in 2025 and new wage-related measures—including a 13<sup>th</sup> monthly salary and a doubling of the experience allowance—that risk negative spillovers to the private labor market.<sup>7</sup> Financing is expected to rely mainly on external sources, including from the recently-approved EU GP and the World Bank DPL.<sup>8</sup>

	Date of Announcement	Fiscal Cost (in percent of GDP)	
		2025	2026
<b>Wages</b>			
One unit increase in salary coefficients across the pay scale	Nov-24	0.8	...
Introduction of 13th salary for public workers	Oct-25	...	0.6
Doubling of the experience allowance for public employees <sup>1/</sup>	Oct-25	...	0.1
<b>Pensions</b>			
20 percent increase in basic pensions and all state-funded pensions	Oct-24	0.8	...
25 percent increase in basic pensions and certain state-funded pensions	Oct-25	0.1	0.6
One-off allowance for pensioners (€100 per beneficiary)	Dec-25	0.3	...
<b>Child allowance</b>			
50 percent increase in child allowances	Oct-25	0.1	0.3
One-off child allowance (€100 per beneficiary)	Dec-25	0.4	...
<b>Other</b>			
One-off student allowance (€100 per student)	Oct-25	0.2	...
Increase in maternity leave compensation (by 40 percent)	Jun-25	0.1	0.2
<b>Total</b>		<b>2.7</b>	<b>1.8</b>

Source: Kosovo authorities; and IMF staff estimates.  
<sup>1/</sup> Assumes implementation since the second quarter as the 2026 budget is not yet approved.

**17. Containing macroeconomic imbalances warrants a less expansionary fiscal stance.** With widening CAD, strong inflationary pressures and wage growth, a more prudent fiscal stance is needed in 2026—aiming for savings of up to 1 percent of GDP and a deficit of about 1 percent of GDP. Possible measures, some of which could be implemented once normal parliamentary activity is

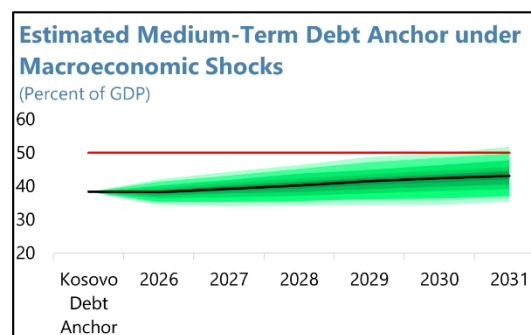
<sup>7</sup> The 2 percent of GDP deficit estimate is based on the adopted budget, adjusted to reflect anticipated (lower) execution of budgeted public investment.

<sup>8</sup> Kosovo does not access international capital markets; external financing is largely sourced from official creditors. In the domestic market, banks and the pension fund constitute the main sources of financing.

restored, include reversing the 13th month salary, identifying savings in goods and services, and mobilizing tax revenues, including through strengthening revenue administration. Halting the deterioration in spending quality would also support disinflation. More prudent fiscal policy would also allow for faster accumulation of financial buffers. If inflationary pressures persist and external imbalances continue to widen, maintaining a conservative fiscal stance beyond 2026 would be warranted. Given the existing imbalances, postponing adjustment would increase the risk that corrective measures would need to be larger and more difficult to implement.

**18. Recent measures have weakened the composition and efficiency of public spending and should be reconsidered.** Over 80 percent of the projected increase in government expenditure during 2024–26 is driven by current spending, crowding out public investment. Several initiatives depart from sound PFM principles by creating permanent spending commitments without offsetting measures. Modifications to salary coefficients and introduction of a 13th monthly salary through the annual budget law undermine effectiveness of the 2023 Law on Salaries, which sought to regularize remuneration and enhance transparency through a unified pay scale. Likewise, discretionary pension increases significantly exceed legally mandated inflation-indexed adjustments. In the case of transfers to individuals, providing benefits on an across-the-board basis is inefficient and regressive. While financial support has merit, it should be targeted to maximize value for money and improve the efficiency and effectiveness of public spending. These changes to entitlements and wages will be difficult to reverse, but their fiscal impact should be mitigated through offsetting measures.

**19. Revision of the budget framework law offers an opportunity to strengthen policy credibility and transparency while better aligning it with policy priorities.** The authorities are considering aligning the fiscal framework with the EU Stability and Growth Pact by raising deficit and debt limits from the current 2 percent (with adjustors) and 40 percent of GDP benchmarks, respectively.<sup>9</sup> They are also considering to make permanent the exclusion of foreign-financed investment outlays from the deficit accounting.<sup>10</sup> Staff analysis indicates that a primary balance consistent with a “clean” overall deficit ceiling of 3 percent of GDP (without adjustors) would mean that the debt-to-GDP ratio would remain around 40 percent or below a 50 percent of GDP threshold with high probability. This suggests that the current 40 percent of GDP debt anchor remains appropriate and should be maintained (see Annex VI for technical details). Given the need to accelerate convergence with the EU, the revised framework should ensure that public debt does not constrain growth. Accordingly, in addition to eliminating adjustors to the deficit ceiling, reforms should include revisiting rules to better



<sup>9</sup> Staff estimate that these adjustors—related to investment spending and use of previous end-year balances—amount to about 1½ percent of GDP and allow the deficit to legally exceed 2 percent of GDP ceiling in practice (see Annex VI). At the time of budget formulation, the headline deficit—not including adjustors—is typically around 3½ percent of GDP.

<sup>10</sup> Introduced in 2015, the exclusion of foreign-financed investments from the deficit accounting expired in 2025.

contain current spending, strengthening public investment management, and enhancing institutional oversight through a fiscal council (Annex VI).

**20. Over the medium term, while fiscal policy will remain rules-based, the authorities should balance macroeconomic and development objectives, build buffers, and leverage progress under the 2023-25 SBA to advance structural reforms.** Given low public debt and sizable development and convergence needs, the proposed fiscal framework—with deficit and debt ceilings of 3 percent and 40 percent of GDP, respectively—would be appropriate. An increase in the deficit from 2 to 3 percent of GDP would be warranted, provided there is availability of external financing and high-quality investment projects. However, the higher deficit should be conditional on improvements in fiscal institutions and a gradual restoration of external equilibrium, while avoiding an overly rapid accumulation of public debt in the near term. Structural reforms should over time further enhance revenue collection and improve the composition, efficiency, and transparency of spending:

- *Taxation.* With significant gains in tax collection over 2022–25, efforts should focus on further strengthening compliance and broadening tax bases by streamlining PIT, CIT, and VAT tax expenditures.<sup>11</sup>
- *Spending control and transparency.* Redirection and misclassification of expenditures, as documented by the National Audit Office—such as using unspent investment funds to cover court rulings—distort investment execution data and should be corrected immediately. COVID-era discretionary funds, including the “Economic Revival Program,” should be phased out, as they finance ad hoc spending initiatives outside the regular parliamentary budget process.
- *Fiscal risk management.* While progress was achieved with IMF support in analyzing and publishing fiscal risks, coverage should be expanded to include contingent liabilities from international arbitrations.<sup>12</sup>
- *Social benefits.* Enhancing spending effectiveness through targeting—as with the means-tested Social Assistance Scheme (SAS)—together with refraining from expanding/creating untargeted programs, should be a priority.
- *Public investment.* Further efforts are needed to enhance project appraisal, including by establishing a central project review function in the Ministry of Finance, improving budget estimates of capital projects, and establishing central project monitoring. Advancing procurement reform to standardize contracts, streamline complaint mechanisms, ensure realism of bids, and train officers are also key.

<sup>11</sup> These include removing PIT exemptions on war veteran pensions and interest income from public-sector entities, including individual businesses under the standard CIT regime, excluding professional services from the presumptive tax regime, introducing a thin capitalization rule, and eliminating overly generous deductions for humanitarian contributions and sports sponsorships.

<sup>12</sup> In the recent past, Kosovo lost international arbitrations (€27.7 million; 0.3 percent of GDP) related to energy sector (Contour Global LLC) and privatization (Mabco Constructions SA).

## Authorities' Views

**21. The authorities expressed differences of view on the fiscal stance, while broadly concurring with staff's call for further structural fiscal reforms.** They noted that the expansionary stance in 2025 was warranted to support economic activity at a time of political uncertainty; drawing down on the SBA mitigated external financing shortfalls and prevented abrupt fiscal adjustment and lower treasury deposits. Although the deficit increased, it remained well within the fiscal rule, and public debt did not increase. Looking ahead, they indicated that they plan to maintain the deficit at 2 percent of GDP in 2026, although revenue overperformance and expenditure under-execution are likely to result in a lower deficit outturn. *Ad hoc* measures implemented in 2025—such as transfers to pensioners, families with children, and students—were motivated by higher-than-expected inflation; going forward, as part of a broader analysis of social safety net benefits, options for ensuring adequate and predictable adjustments, including potential indexation mechanisms, will be explored. The authorities welcomed staff's analysis supporting reforms to the fiscal framework. They expressed a preference to exclude capital spending above a certain threshold from the deficit rule to facilitate large investment projects and did not support the introduction of a fiscal council at this stage, citing lack of qualified staff. They noted that low public debt provides room to scale up investment.

## B. Financial Sector Policies: Strengthening Oversight and Crisis Preparedness

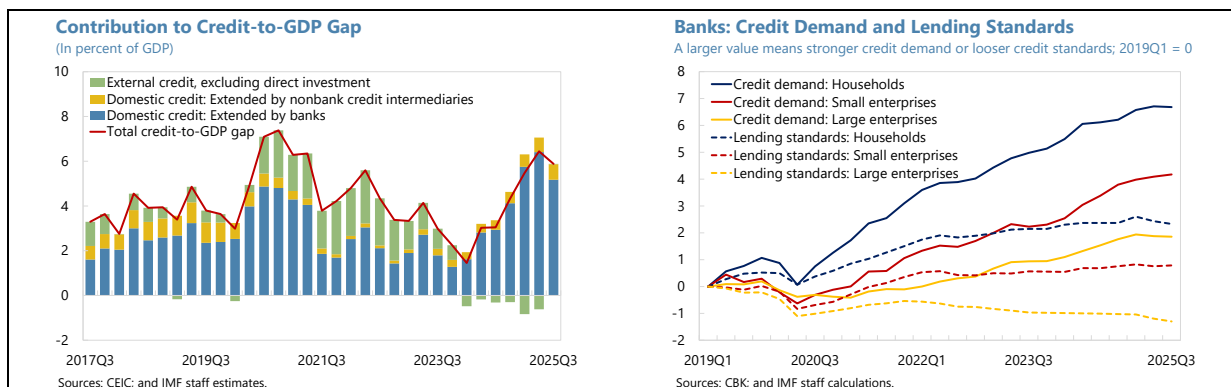
**22. The financial sector continues to expand steadily, supported by efforts to modernize infrastructure and enhance financial inclusion.** At end-2025, system assets reached 132 percent of GDP, dominated by banks and the public pension fund. Financial access has improved, especially in northern Kosovo.<sup>13</sup> While the CBK's instant payments system is advancing with support from the Bank of Italy, a renewed push on preparations to join the Single European Payments Area (SEPA) is needed after the Constitutional Court repealed some laws on procedural grounds. A plan to develop capital markets should move forward, while small business access to finance could be enhanced through technology, credit guarantees and increased financial literacy.

**23. Systemic risk remains broadly unchanged, but rising vulnerabilities warrant action to enhance resilience.**

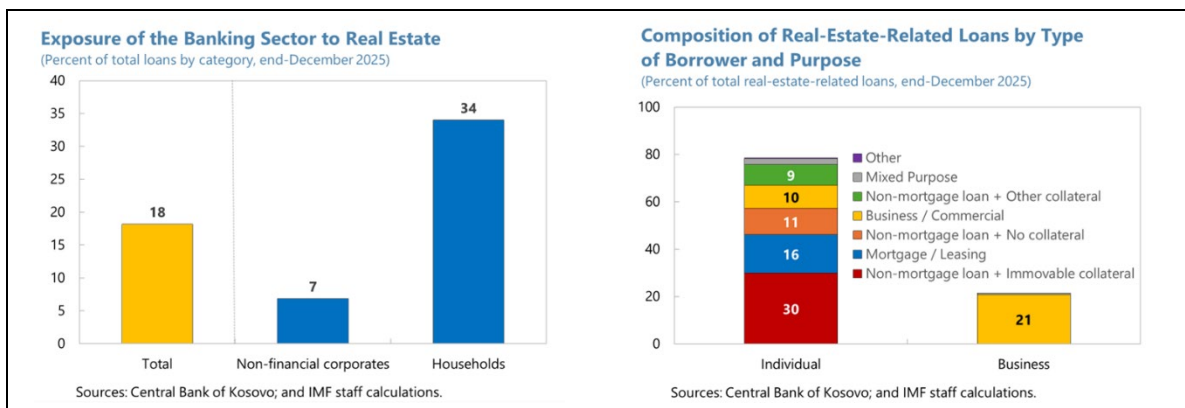
- *Credit growth*, while moderating, remains strong relative to fundamentals (Annex VII). The credit-to-GDP gap has been persistently positive, and sustained financial deepening has resulted in a high credit-to-GDP level relative to peers. The high credit-to-GDP ratio reflects strong expansion of bank lending to households and corporations amid increased credit demand and easing lending conditions; unsecured lending accounts for a rising share, reaching 41 percent in 2025Q3. If credit growth re-accelerates, targeted borrower-based measures, especially for

<sup>13</sup> The number of banks in the four northern municipalities tripled—from 4 to 12—between mid-2023 and 2025, alongside an increase in nonbank financial institutions.g

uncollateralized loans, should be introduced to ensure borrowers' adequate debt-servicing capacity.



- Real estate financing.** Banks' aggregate exposure to real estate—around 18 percent of total lending—remains moderate by regional comparisons and is not unusually large relative to GDP. However, risks relate to loans with high loan-to-value and debt-service-to-income ratios—which could be overstated including due to methodological limitations—and a sizeable share of housing loans that are uncollateralized or backed by movable collateral. Moreover, even if direct financial exposures are limited, a sharp real estate price correction—for example, from persistent oversupply—could pose broader macroeconomic risks given the sector's size and linkages to the rest of the economy. Risks related to project development financing—including pre-sales and tripartite arrangements—warrant close monitoring, stronger data collection and a reinforced homebuyer protection framework. Improvements to the administrative framework, including the timeliness and predictability of building permit issuance, technical acceptance and property registration, would reduce reliance on workaround financing mechanisms and strengthen collateral quality. Ensuring that exposures with similar activity and risk are subject to consistent regulatory treatment, including through appropriate risk weights, would help limit regulatory leakages and contain vulnerabilities. Continued investment in statistical development—including price, transaction, and vacancy indicators—is critical for evidence-based real estate monitoring and policy making.



- *Systemic liquidity.* The banking sector's resilience against systemic liquidity stress depends on maintaining ample high-quality liquid buffers and enhancing CBK capacity to provide liquidity support. Complementing existing liquidity requirements, supervisors should ensure that banks have robust risk management and credible contingency plans for funding outflows. More stringent supervisory expectations should be set to address liquidity risks, which are more acute at small banks due to their greater reliance on wholesale funding and large depositors. Adopting reserve averaging could enhance flexibility in liquidity management.

**24. The CBK should take further steps to strengthen governance and transparency.** The ongoing review of the CBK Law should address pending recommendations from the IMF Safeguards Assessment.<sup>14</sup> Based on the recently concluded Central Bank Transparency Code assessment, CBK should enhance its communication, including on CBK's mandate stemming from euroization, governance, risk management and anti-corruption framework.

**25. Ongoing reforms to strengthen financial regulation and supervision, systemic risk oversight, crisis management, and the financial safety net will further enhance the policy framework.**<sup>15</sup> Priority actions include:

- *Banking supervision.* Further enhancing technical expertise and data management is critical for successful implementation of the supervisory review and evaluation process (SREP). A shift in supervisory culture is also needed, including reinforcing supervisory intrusiveness and reorienting resources toward off-site teams.
- *Crypto regulation.* Following adoption of the Law on Crypto-assets, the CBK should finalize the regulatory framework for crypto exchanges which facilitate on- and off-ramp transactions with global platforms. The need to regulate other activities such as crypto wallet providers and custodians should be assessed. The regulatory design should adapt to business models, ensure consumer protection, and mitigate AML/CFT risks. The law should also be amended to further strengthen the legal framework for oversight of crypto-related activities.
- *Systemic risk oversight.* Amendments to the CBK Law provide an opportunity to strengthen the CBK's macroprudential mandate and accountability. Information sharing and coordination between the CBK and the government should be strengthened.<sup>16</sup> Strengthening capacity for systemic risk assessment and macroprudential policy calibration and enhancing communication will be key.

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<sup>14</sup> Important governance issues identified by the 2023 Safeguards Assessment include the need to rebalance responsibilities between governance bodies (i.e., Central Bank Board, Executive Board, and Governor), strengthen the oversight powers of the Central Bank Board, strengthen appointment procedures for senior positions, and establish fallback mechanisms in case of senior leadership vacancy.

<sup>15</sup> The recently enacted Law on Banks includes an article that imposes a limit on bank foreign holdings, which is currently being assessed under the Institutional View on the Liberalization and Management of Capital Flows.

<sup>16</sup> At minimum, the inter-agency group should include the CBK and the Ministry of Finance, with additional agencies as needed.

- *Crisis management.* The crisis management framework, supported by a solid legal foundation and effective inter-agency coordination mechanisms, is needed. Contingency planning should cover a range of plausible stress scenarios and clarify roles of financial safety net agencies. Clear arrangements for fiscal backstops to support deposit insurance, bank resolution and liquidity provision should be established.
- *Bank resolution and deposit insurance.* Following adoption of the Law on Banks, the resolution framework should be operationalized, including formulating resolution plans and setting up a resolution fund. The envisaged increase in deposit insurance coverage will strengthen confidence, and funding adequacy of the Deposit Insurance Fund should be assessed in the context of broader resolution strategies.
- *Liquidity support.* The policy framework and operational readiness should ensure the CBK's capacity to provide effective liquidity support. The legal limit on collateralized lending should be reviewed. Eligible collateral for emergency liquidity assistance (ELA) should be defined, and ELA operations should be regularly tested within the CBK and with banks.

**26. AML/CFT reforms should continue.** Following the Constitutional Court's repeal of amendment to the Law on AML/CFT, the law should be revised to align it with EU and FATF standards, particularly on virtual asset service providers and fund transfers. Risk-based supervision at the Financial Intelligence Unit and CBK should be further enhanced, with a particular focus on informal sectors, non-monetary exchange in real estate development, and growing crypto-related activities.

### **Authorities' Views**

**27. The authorities noted that strong credit growth in recent years largely reflects financial deepening and eased lending conditions, supported by robust deposit growth, but agreed it warrants close monitoring.** Given banks' exposure to real estate, they concurred on the need to enhance data collection, improve prudential reporting, and strengthen supervision of real estate lending. They pointed to recent moderation in credit growth and expressed readiness to deploy borrower-based macroprudential measures should growth re-accelerate. The authorities noted progress in implementing a modern SREP, with full adoption planned for 2027. Pointing to the resumption of the legislative process, they intend to submit to parliament amendments to the central bank law by 2026H2, incorporating previous IMF recommendations. They also acknowledged the need to strengthen crisis preparedness and requested IMF TA. To further reinforce the regulatory framework, the authorities plan to submit amendments to the laws on non-bank financial institutions, insurance companies, and crypto-asset activities in 2026H2. The CBK intends to promptly resubmit draft legislation on Kosovo's application to SEPA.

## C. Structural Reforms: Addressing Deep-Rooted Challenges

**28. Kosovo should build on progress under the RSF to advance energy transition.** The legislative framework developed during the RSF, along with the voluntary Nationally Determined Contribution (NDC) and other strategic documents, provides basis for continuing reform implementation. Accelerating investments in renewables, which include solar and wind projects totaling 700 MW—would help meet rising demand, reduce reliance on coal, and strengthen energy security.<sup>17</sup> Continued investment in generation capacity is critical to ensure a stable supply and enhance competitiveness. Following initial procurement delays, the planned installation of emission-reduction filters at a coal-firing power plant—expected to commence by April—should lower local pollution. The Kosovo Energy Efficiency Fund has played a key role and renewed access to EU IPA funds should further strengthen its impact, helping improve energy efficiency and lower household and business costs. Electricity market liberalization for large consumers, implemented in 2025, should continue to advance to foster competition, attract private investment, strengthen sectoral liquidity, while minimizing disruptions and consumer financial strain.<sup>18</sup> Notwithstanding Kosovo’s limited exposure, the authorities should seek to minimize adverse effects arising from the implementation of the EU’s Carbon Border Adjustment Mechanism.

**29. Unlocking Kosovo’s full potential calls for tackling high informality and persistently low female labor force participation (FLFP).** While recent progress in revenue administration is welcome, tackling informality requires a multi-pronged strategy that makes formality more attractive. Options include allowing war veterans to work while continuing to receive war-related entitlements, strengthening labor inspections, investing in skills and active labor market programs to support transitions to formality, accelerating digitalization of tax administration and property registration, and adopting sector-specific measures, such as simplification of presumptive regimes for small and micro-enterprises and individual farmers. FLFP, though slightly higher, remains below 30 percent and significantly behind male LFP, posing an increasing constraint on growth amid demographic pressures.<sup>19</sup> Expanding affordable childcare and improving parental leave policies are key to closing this gap, provided these interventions are targeted and designed to share costs with employers.

**30. Recent labor market initiatives should be reassessed to avoid adverse effects on competitiveness.** Competitiveness is hampered by high labor costs and an overvalued real exchange rate. The monthly gross minimum wage, affecting about 20 percent of employees, rose to €425 in January from €350, with another hike to €500 planned for July.<sup>20</sup> The January adjustment,

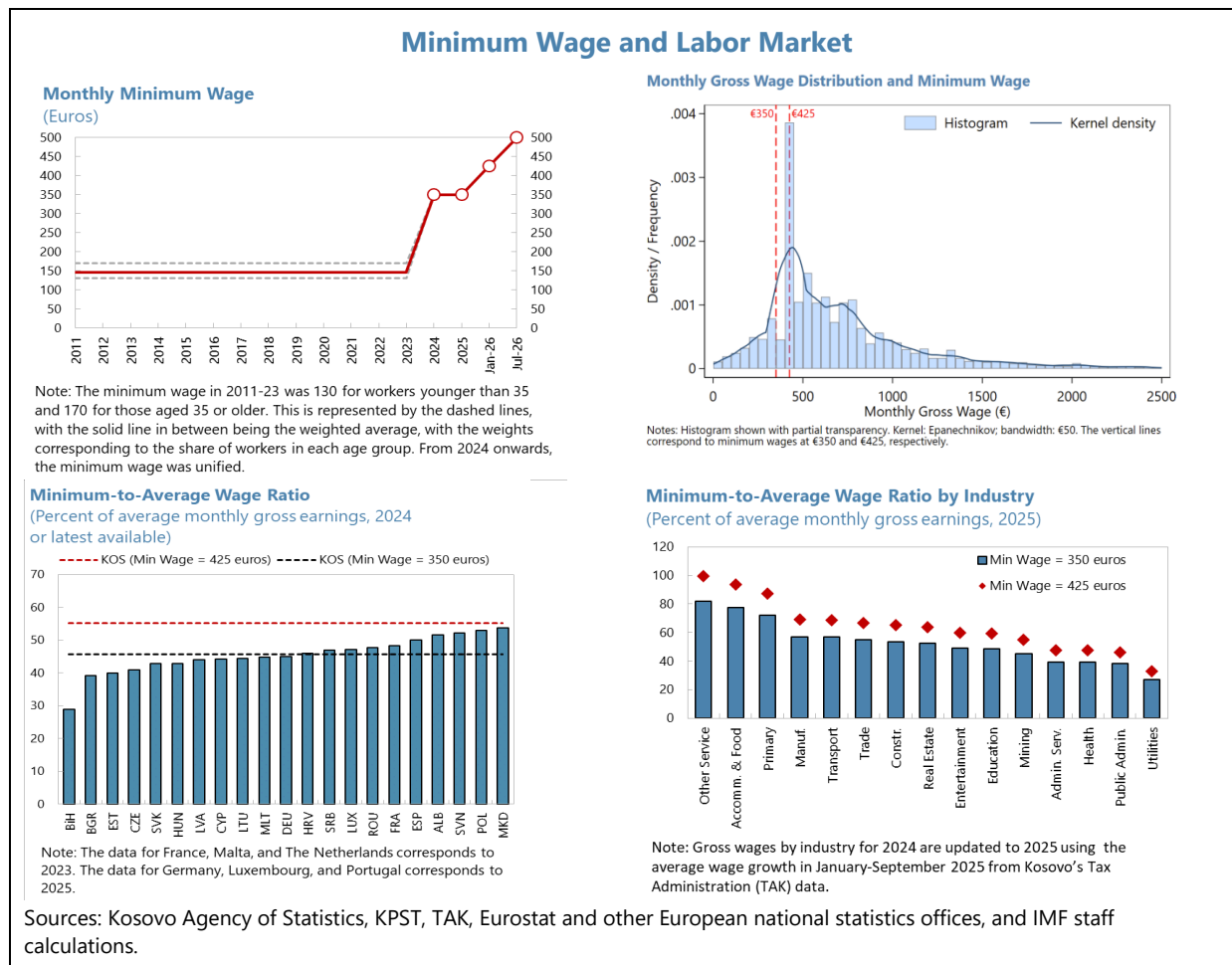
<sup>17</sup> All ongoing solar and wind projects involve private financing, including contributions from multilateral development banks, and the majority are backed by power purchase agreements.

<sup>18</sup> Electricity market liberalization aimed at transitioning large consumers (annual turnover above €10 million or employment of 50 or more) to a competitive electricity market consistent with the EU Energy Community acquis.

<sup>19</sup> FLFP rate rose to 25.9 percent in 2024, up from 21.4 percent in 2014. While male LFP decreased from 61.8 to 60.6 percent over the same period, there is still a persistent and sizeable gender gap.

<sup>20</sup> Based on a proxy of the monthly wage distribution in 2025 derived from KPST data for 2024 and the average wage growth in January-September 2025 from tax administration data.

together with a sharp rise in October 2024, represents nearly a 200 percent increase in less than two years, pushing the minimum-to-average wage ratio from 45 percent to over 55 percent<sup>21</sup>—above Western Balkan and EU comparators—and higher in relatively less-productive industries such as accommodation and food and agriculture. While some correction was warranted after being frozen for a decade, the increase risks exerting upward pressure on labor costs and inflation, reducing low-skilled employment, and fueling informality. It also aggravates REER appreciation (Annex I). Further changes should carefully balance productivity and cost of living considerations. Entrusting such an assessment to an independent body would strengthen credibility.



**31. Building on progress of recent years, further reforms to strengthen statistical systems are needed.** With IMF support, the Kosovo Agency of Statistics (KAS) is working to improve the quality of National Accounts by reconciling quarterly and annual figures and adopting a more systematic approach to revisions (Annex VIII). In the area of prices, the December 2025 launch of the Residential Property Price Index (RPPI), developed with IMF assistance, marked a key milestone for monitoring financial stability risks and enhancing market transparency; however, the CPI basket

<sup>21</sup> The minimum-to-average wage ratio after the increase in the monthly gross minimum wage to €425 is computed as the ratio of €425 and the mean of the “adjusted” distribution of the monthly gross wages, in which all workers who were earning between €350 and €425 are now assumed to earn €425.

requires rebasing, as the 2015 base year is now well beyond Eurostat’s recommended update period for short-term statistics. In government finance, efforts are needed to address misclassification of investment spending (I20) and to expand public debt coverage to include liabilities beyond those arising from government securities issuance. Following Kosovo’s request to subscribe to the Special Data Dissemination Standard (SDDS), an assessment reviewing compliance with data standards was conducted in late-February 2026. Overall, macroeconomic statistics are broadly adequate for surveillance, with remaining gaps and areas for improvement (Annex IX).

### **Authorities’ Views**

**32. The authorities noted that achieving durable political normalization will help accelerate reforms, including under the EU GP—they intend to meet all deadlines to benefit from associated financing.** They acknowledged that stronger project selection and implementation are needed to support higher infrastructure spending. To ensure the reliability and adequacy of energy supply, amid growing demand, the authorities will focus on expanding generation capacity, including through investments in renewables and upgrading existing thermal plants. They highlighted progress in reducing informality and saw scope to raise labor force participation—particularly for women—via expanded childcare, elderly support, and training programs. They disagreed that recent rapid minimum wage increases have hurt competitiveness, viewing them as catch-up adjustments; they plan to proceed with the July increase. They agreed on the need to address skill mismatches through closer business engagement and strengthened vocational training programs.

## **STAFF APPRAISAL**

**33. The adoption of the 2026 budget and ratification of international agreements support the near-term outlook, but risks of renewed political uncertainty remain high.** Growth is estimated to have slowed to 3.4 percent in 2025 from 4.6 percent a year earlier, including due to weaker private consumption and investment amid decelerating credit and real income growth. Inflation accelerated to 3.9 percent, driven mainly by food prices. A surge in goods imports, particularly energy products, widened the trade deficit and increased the current account deficit (CAD) to 9.6 percent of GDP in 2025 from 8.4 percent in 2024. These developments followed a period of above-trend growth and disinflation, supported by successful implementation of IMF-supported SBA and RSF programs. Growth is projected to pick up to 3.8 percent in 2026 and converge to its potential of 4 percent over the medium term. Inflation is expected to ease toward 2 percent. The external position in 2025 was substantially weaker than implied by medium-term fundamentals and desirable policies. The CAD is projected to widen further in 2026-27 on higher energy-related imports before narrowing gradually. Risks related to political uncertainty, slowdown in Europe and commodity price volatility remain tilted to the downside.

**34. The projected widening of the fiscal deficit in 2026 calls for policy recalibration.** Reflecting the full-year impact of higher pensions, expanded family benefits, and wage-related measures, the headline deficit is expected to rise to 2 percent of GDP. The resulting fiscal impulse

should be avoided, as it is likely to intensify domestic price pressures, widen external imbalances, and erode competitiveness amid rising wages. Given euroization, a more prudent stance—targeting a deficit of 1 percent of GDP and supported by revenue and expenditure measures—is warranted. Fiscal discipline requires adherence to the rules-based framework and avoidance of ad hoc measures, while rebuilding and maintaining adequate Treasury buffers considering elevated risks.

**35. For 2027 onward, fiscal policy should balance macroeconomic stability and development goals and better align the fiscal framework with these objectives.** Fiscal policy should support growth by enabling a scaling-up of high-quality public investment, including projects financed under the EU GP and by other international partners. Containing current spending, strengthening public financial management, and enhancing revenue mobilization will be essential to prevent a rapid buildup of debt, safeguard the external position, and preserve adequate buffers. Further reforms are needed to improve the efficiency of social spending, strengthen public investment and fiscal risk management, and enhance transparency. While the fiscal framework has served Kosovo well, its ongoing review provides an opportunity to revisit the deficit rule—removing adjusters and aligning it more closely with the EU’s Stability and Growth Pact—while maintaining the existing debt ceiling. Establishing an independent fiscal council, subject to the availability of qualified staff, would further strengthen accountability and credibility.

**36. Efforts should continue to strengthen financial sector oversight and crisis preparedness.** Amid sustained bank-led financial deepening, the banking system remains sound, profitable, and liquid. However, strong credit growth—alongside easing lending standards and notable exposure to real estate—warrants close monitoring. If credit growth re-accelerates, targeted borrower-based macroprudential measures should be considered to safeguard borrower debt-servicing capacity, complementing the implementation of countercyclical capital buffers in 2025. The CBK should continue enhancing risk-based supervision, including through SREP implementation. Elevated risks underscore the need to bolster systemic resilience and crisis preparedness, including through continued accumulation of international reserves safeguarding bank liquidity buffers, and further developing the crisis management framework with IMF support. The resumption of legislative activity in 2026 allows for advancing amendments to financial sector legislation in line with IMF recommendations.

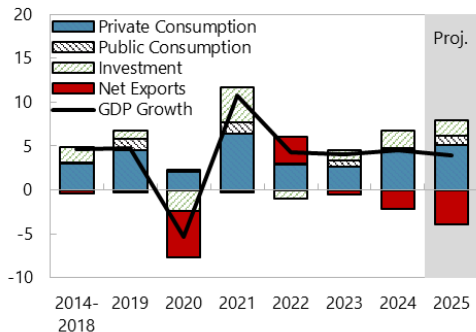
**37. Comprehensive structural reforms are essential to support sustainable growth and accelerate income convergence with the EU.** Full and timely implementation of the EU GP Reform Agenda would help close structural gaps and unlock significant external financing, although realizing its full potential will require stronger project selection and implementation capacity. Labor market reforms are needed to raise labor force participation—among the lowest in Europe—reduce unemployment by addressing skills mismatches and better calibrate minimum wage policies to support job creation. Building on progress under the recently concluded RSF arrangement, continued energy sector reforms should expand generation capacity, including renewables, improve efficiency, and align utility tariffs more closely with market conditions.

**38. Staff propose that the next Article IV consultation with the Republic of Kosovo follows the standard 12-month cycle.**

**Figure 1. Kosovo: Real Sector Developments**

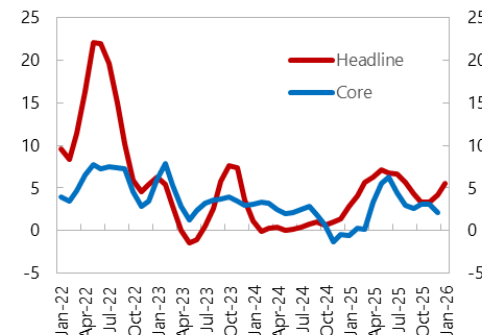
GDP growth slowed in 2025 as weaker net exports and private consumption offset gains from investment and public consumption.

**Contributions to Real GDP Growth**  
(Percent)



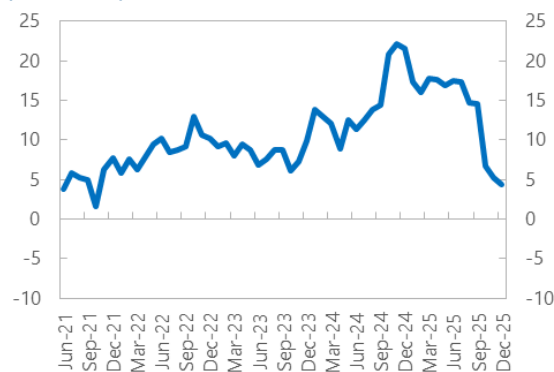
Private consumption was negatively impacted by an acceleration of inflation...

**Headline and Core Inflation**  
(Percent, Annualized QoQ)



... a slowing of wage growth...

**Nominal Wage Growth 1/**  
(Percent, YoY)



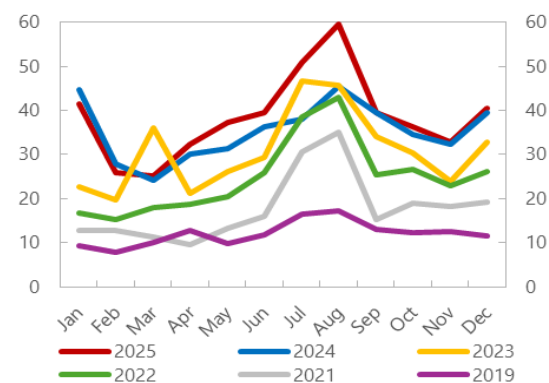
...and a deceleration in household credit growth.

**Real Household Credit Growth**  
(Percent change, YoY)



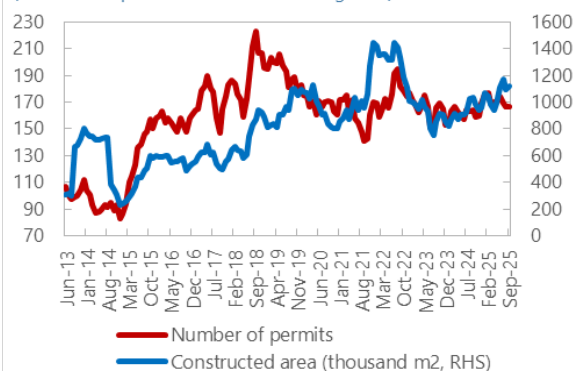
Activity was supported by record high tourist arrivals...

**Foreign Tourist Arrivals**  
(Thousands of Persons)



...and a gradual recovery of construction activity.

**Building Permits Issued in Pristina**  
(Units and squared meters, 12M rolling sum)

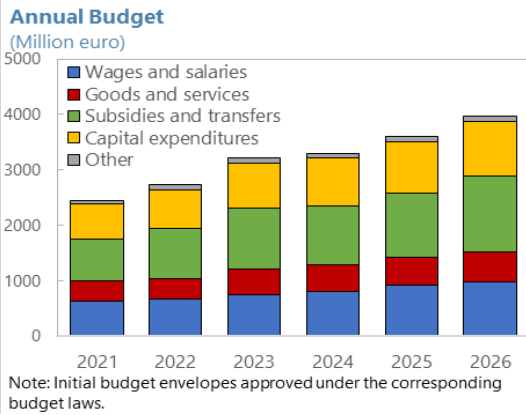


Sources: Haver Analytics, Ministry of Finance, Labor, and Transfers, Kosovo Agency of Statistics, Central Bank of Kosovo, Municipality of Pristina, and IMF staff estimates.

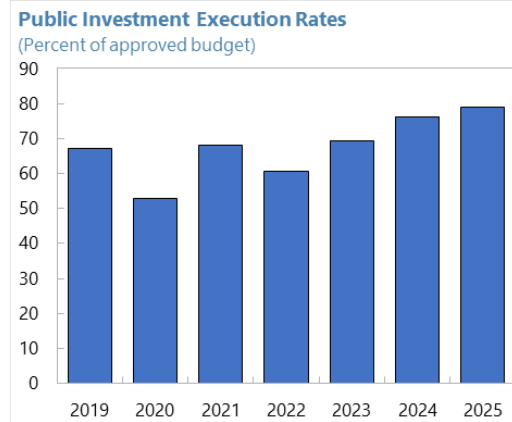
1/ Data for October-December 2025 are preliminary and may not yet include firms that report their 2025Q4 activity in 2026Q1, possibly underestimating wage growth in this period.

**Figure 2. Kosovo: Fiscal Developments**

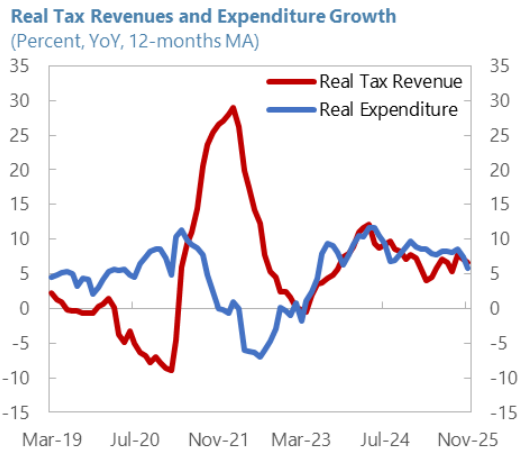
Spending has increased sharply in recent years, primarily in subsidies.



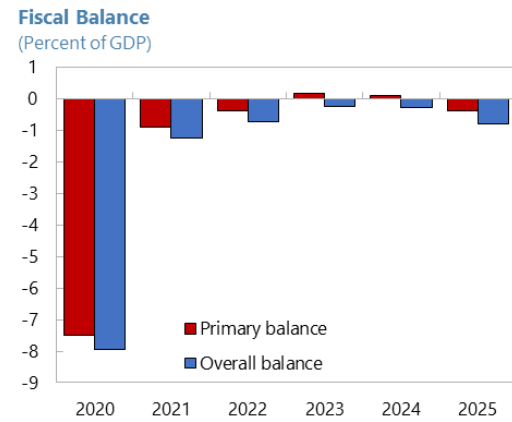
Additionally, the execution rate of public investment has improved.



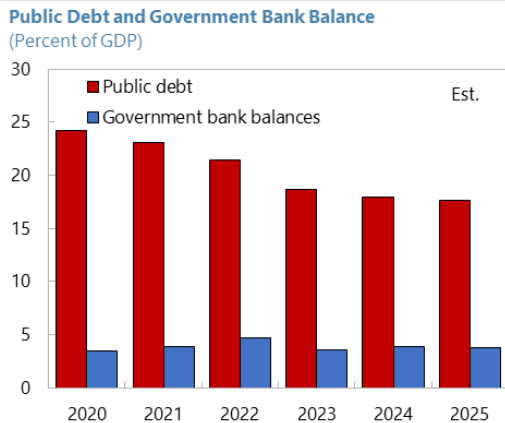
Strong tax collection has helped contain the deficit, but this trend weakened in 2025...



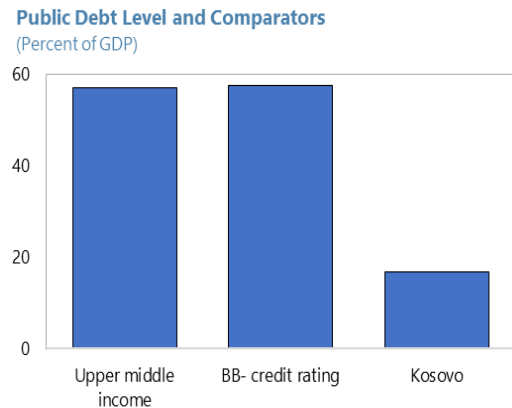
...resulting in a deterioration in the fiscal balance.



Public debt has been in a declining trend ...



... and well below peers.

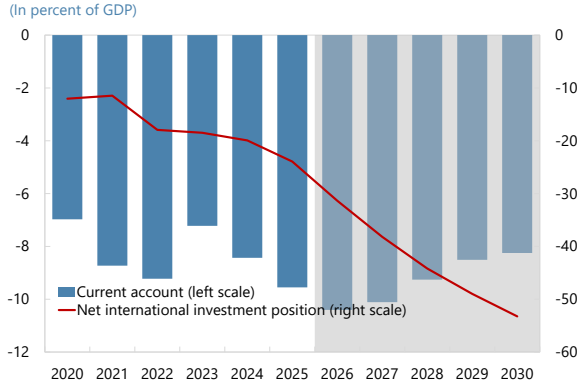


Sources: Kosovo Treasury, Central Bank of Kosovo, and IMF staff estimates.

**Figure 3. Kosovo: External Sector Developments**

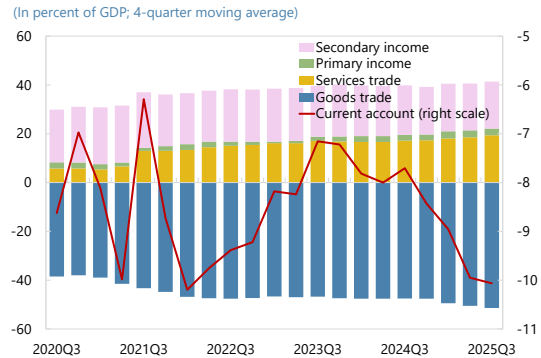
The current account deficit is projected to narrow over the medium term, contributing to a steady decline in the net international investment position.

**Current Account and International Investment Position**



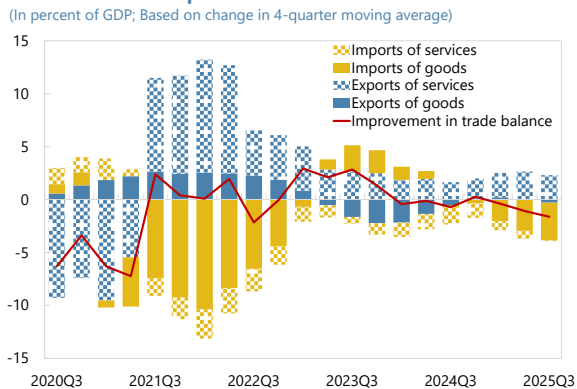
In 2025, the current account deficit widened mainly as the goods trade balance deteriorated, ...

**Current Account Balance**



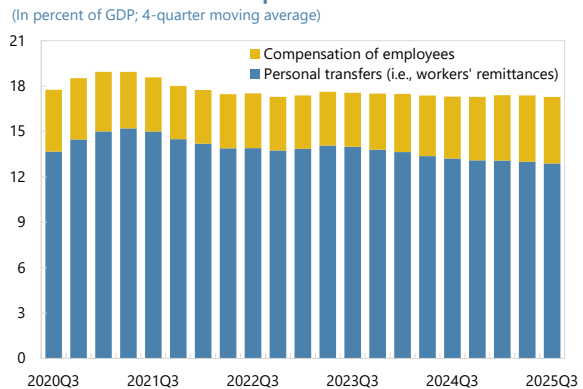
... and a significant increase in goods imports outweighed stronger services exports performance.

**Contribution to Improvement in Trade Balance**



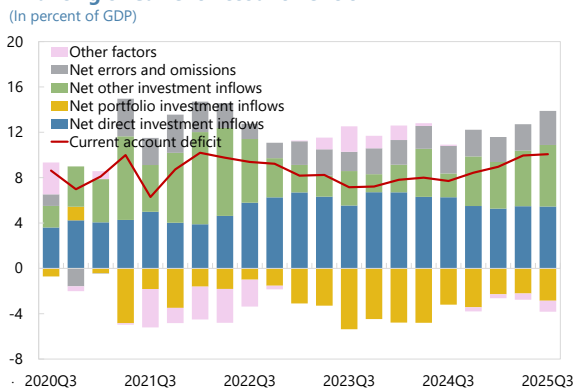
Personal remittance receipts remained broadly stable despite falling workers' remittances.

**Personal Remittance Receipts**



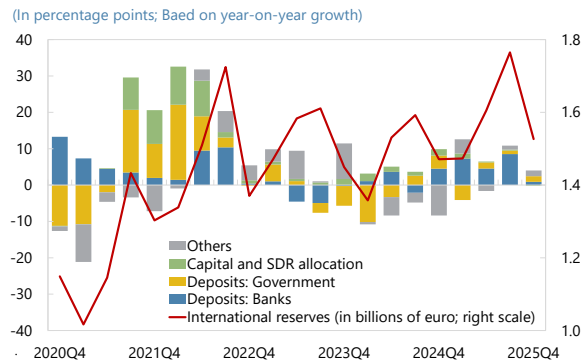
The current account deficit was financed by FDI and external borrowing.

**Financing of Current Account Deficit**



International reserves increased, financed by larger bank reserves at the CBK.

**Contribution to Growth of Financing of International Reserves**

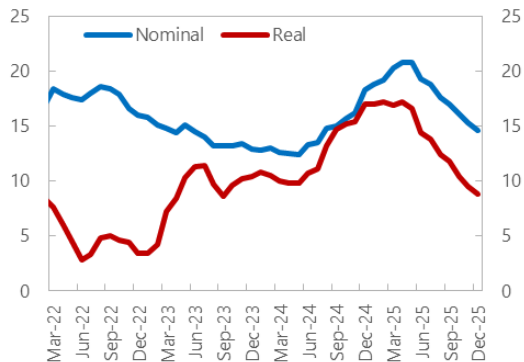


Sources: Haver Analytics; and IMF staff estimates.

**Figure 4. Kosovo: Financial Sector Developments**

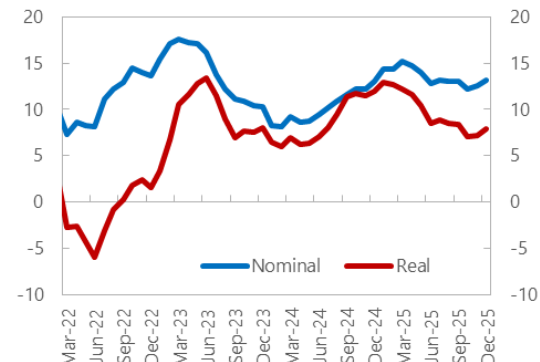
*Real growth in credit to the private sector has been robust, despite recent moderation.*

**Private Sector Credit Growth**  
(Percent change, YoY)



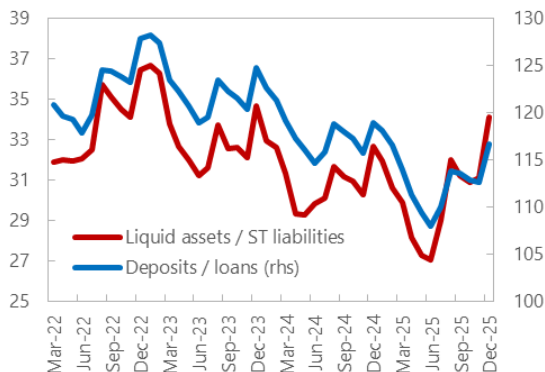
*Real deposit growth has decelerated recently.*

**Banks' Deposits Growth**  
(Percent, YoY)



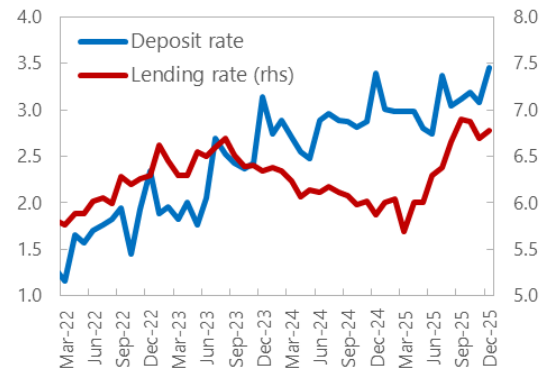
*Liquidity ratios remain comfortable, with increased reliance on deposits for funding.*

**Liquidity**  
(Percent)



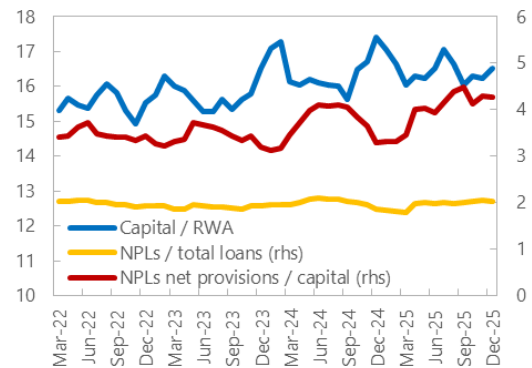
*The spread between lending and deposit rates has narrowed.*

**Lending and Deposit Rates**  
(Percent)



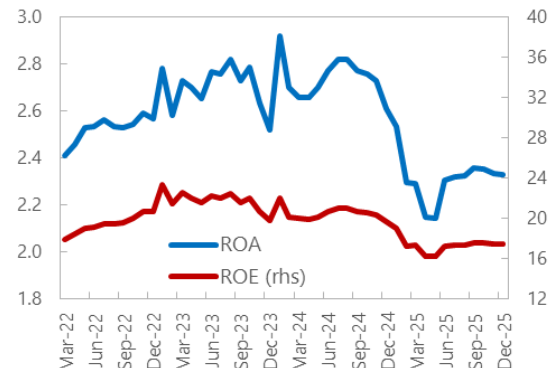
*Asset quality is solid, and banks have strong buffers against potential shocks.*

**Asset Quality and Capital Adequacy**  
(Percent)



*Competitive pressures and narrowing interest margins have slightly reduced profitability.*

**Profitability**  
(Percent)



Sources: Central Bank of Kosovo and IMF staff estimates.

Table 1. Kosovo: Selected Economic Indicators, 2021–31

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
		Act.			Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Real GDP growth 1/</b>	10.7	4.3	4.1	4.6	3.4	3.8	4.0	4.0	4.0	4.0	4.0
Contribution to growth (percentage points of GDP)											
Consumption	7.7	3.0	3.4	4.8	5.1	4.7	4.3	3.9	3.9	4.0	3.8
Private	6.5	2.9	2.6	4.6	4.0	4.0	3.7	3.4	3.4	3.4	3.4
Public	1.2	0.0	0.8	0.2	1.0	0.7	0.5	0.5	0.5	0.7	0.4
Investment	4.0	-1.0	1.1	1.9	0.5	1.0	0.8	0.3	0.5	0.8	1.0
Net Exports	-0.2	3.1	-0.6	-2.1	-2.2	-1.9	-1.1	-0.2	-0.4	-0.8	-0.8
Exports	17.0	6.7	2.9	3.9	3.4	3.0	3.2	3.1	3.0	2.8	2.9
Imports	-17.2	-3.5	-3.5	-6.0	-5.6	-4.8	-4.3	-3.3	-3.3	-3.6	-3.7
Real growth rate (percent)											
Consumption	7.6	3.0	3.5	5.0	5.2	4.7	4.3	3.9	3.9	4.0	3.8
Private	7.3	3.4	3.1	5.5	4.8	4.7	4.3	3.9	3.9	3.9	3.9
Public	9.0	0.2	5.9	1.3	8.2	5.0	4.0	3.7	3.9	5.0	2.9
Investment	13.0	-3.2	3.9	6.7	1.8	3.4	2.8	1.0	1.7	2.8	3.8
Exports	76.8	18.9	7.2	9.4	7.8	6.6	7.0	6.6	6.1	5.7	5.7
Imports	31.4	5.4	5.3	9.0	8.1	6.7	5.7	4.3	4.4	4.8	4.8
Official unemployment (percent of workforce)	20.8	12.6	10.9	10.8	...	...	...	...	...	...	...
<b>Price changes</b>											
CPI, period average	3.3	11.6	4.9	1.6	3.9	3.1	2.2	2.0	2.0	2.0	2.0
CPI, end of period	6.7	12.1	2.3	1.1	5.3	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator	6.1	7.2	4.6	2.2	2.9	3.1	2.4	1.8	2.0	2.1	2.1
<b>General government budget (percent of GDP)</b>											
Revenues and grants	27.8	28.1	29.5	29.9	30.4	30.6	30.6	30.6	30.6	30.6	30.6
Expenditures	29.0	28.8	29.8	30.2	31.2	32.6	32.5	32.6	32.5	32.6	32.6
<i>Of which:</i> Wages and salaries	8.4	7.3	7.9	8.2	8.3	8.5	8.5	8.5	8.5	8.5	8.5
Subsidies and transfers	10.6	12.0	11.1	10.8	11.2	11.8	11.7	11.6	11.5	11.4	11.4
Capital expenditure	5.3	4.8	5.8	6.3	6.7	7.1	7.2	7.2	7.1	7.1	7.2
Overall Balance (Fiscal rule) 2/	-0.9	-0.5	-0.1	-0.1	-0.6	...	...	...	...	...	...
Overall balance	-1.2	-0.7	-0.2	-0.3	-0.8	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Stock of freely available government bank balances	3.8	4.7	3.6	3.8	3.8	4.0	4.2	4.3	4.5	4.6	4.7
Total public debt	23.1	21.4	18.7	17.9	17.6	18.8	20.1	21.5	22.7	23.6	24.4
<b>Balance of Payments (percent of GDP)</b>											
Current account balance, incl. official transfers	-8.7	-9.2	-7.2	-8.4	-9.6	-10.4	-10.1	-9.3	-8.5	-8.2	-8.0
<i>Of which:</i> Official transfers	2.9	3.3	3.1	2.8	2.9	3.1	3.2	3.3	3.4	3.5	3.5
<i>Of which:</i> Remittance inflows	14.5	13.7	13.8	13.1	12.8	12.8	12.8	12.9	12.9	12.9	12.9
Financial account	-4.6	-7.4	-4.3	-5.8	-6.0	-9.7	-9.4	-8.8	-8.0	-7.8	-7.5
<i>Of which:</i> Direct investment, net	-4.0	-6.3	-6.7	-5.5	-5.8	-6.2	-6.5	-6.7	-7.0	-7.2	-7.4
Portfolio investment, net	3.5	1.5	4.5	3.4	3.7	2.5	3.4	3.2	3.1	3.3	3.2
Other investment, net	-6.2	-3.5	-1.6	-4.4	-4.2	-7.2	-7.6	-5.6	-5.2	-5.8	-4.5
Reserve change	2.1	0.8	-0.5	0.7	0.3	1.1	1.2	0.4	1.1	1.9	1.2
Errors and Omissions	3.4	1.4	2.3	2.4	3.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Savings-investment balances (percent of GDP)</b>											
National savings	27.2	26.0	26.7	25.5	23.5	22.5	22.4	22.4	22.5	22.4	22.6
Public savings	3.9	3.8	4.7	5.9	5.6	4.9	5.0	5.1	5.0	4.9	5.0
Private savings	23.3	22.2	22.0	19.6	17.9	17.6	17.4	17.3	17.5	17.5	17.6
Investment	36.0	35.2	33.9	34.0	33.0	32.9	32.5	31.7	31.0	30.6	30.6
Public investment	5.3	4.8	5.8	6.3	6.7	7.1	7.2	7.2	7.1	7.1	7.2
Private investment 3/	30.6	30.5	28.1	27.6	26.3	25.8	25.3	24.4	23.8	23.6	23.4
Current account, including, official transfers	-8.7	-9.2	-7.2	-8.4	-9.6	-10.4	-10.1	-9.3	-8.5	-8.2	-8.0
<b>Financial Sector</b>											
Non-performing loans (percent of total loans)	2.1	1.9	1.9	1.9	2.1	...	...	...	...	...	...
Bank credit to the private sector (percent change)	15.6	16.0	12.9	18.3	14.6	11.8	11.0	9.9	9.3	8.9	8.5
Deposits of the private sector (percent change)	12.4	12.7	11.3	12.8	14.1	8.3	9.4	8.7	8.8	8.6	8.6
Regulatory capital to risk weighted assets	16.1	15.5	16.5	17.4	16.2	...	...	...	...	...	...
<b>Memorandum items:</b>											
Foreign Reserves (millions of euros, IMF Definition)	1,303	1,370	1,449	1,452	1,512	1,663	1,819	1,874	2,032	2,317	2,506
Foreign Reserves (% of ARA metric)	101	90	87	77	70	66	63	59	58	60	59
GDP (millions of euros)	7,958	8,896	9,680	10,350	11,015	11,792	12,554	13,293	14,107	14,972	15,890
GDP per capita (euros)	4,486	5,048	6,038	6,528	6,991	7,517	8,021	8,501	9,023	9,576	10,158
Real GDP growth per capita	12.3	5.0	14.4	5.7	4.1	4.2	4.2	4.1	4.0	4.0	3.9
Output gap (% of GDP)	0.4	0.5	0.3	0.7	0.0	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Population (million)	1.8	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ Consumption and Investment include contribution from change in statistical error.

2/ The "fiscal rule" caps the overall fiscal deficit at 2 percent of GDP, excluding investment financed externally by supranational financial institutions. The exclusion is valid only until 2025.

3/ Includes change in inventories.

**Table 2. Kosovo: General Government Fiscal Operations, 2021–31 (Euro million) 1/**  
(Including donor designated grants and PAK operations)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Act.				Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Revenue and grants</b>	<b>2,212</b>	<b>2,499</b>	<b>2,860</b>	<b>3,094</b>	<b>3,349</b>	<b>3,613</b>	<b>3,838</b>	<b>4,068</b>	<b>4,311</b>	<b>4,585</b>	<b>4,860</b>
Revenue	2,195	2,479	2,778	3,084	3,318	3,583	3,809	4,039	4,281	4,555	4,831
Taxes	1,948	2,217	2,506	2,740	2,973	3,221	3,423	3,631	3,849	4,097	4,347
Direct taxes	342	414	490	517	559	597	638	677	725	785	833
<i>of which: Personal income tax</i>	190	216	256	281	301	322	343	363	385	414	439
<i>of which: Corporate income tax</i>	114	160	185	203	219	234	250	266	282	309	328
<i>of which: Property tax</i>	36	35	46	33	39	42	46	48	58	62	66
Other	2	4	3	0	0	0	0	0	0	0	0
Indirect taxes	1,665	1,870	2,077	2,297	2,490	2,713	2,879	3,054	3,230	3,426	3,634
VAT	1,038	1,220	1,366	1,505	1,650	1,804	1,921	2,034	2,154	2,284	2,422
Excise	501	517	555	618	653	699	745	788	837	888	942
Customs	125	133	156	174	187	209	214	231	239	254	269
Other	1	0	0	0	0	0	0	0	0	0	0
Tax refunds	-59	-67	-61	-74	-77	-89	-95	-100	-106	-113	-120
Nontax revenues	247	262	272	344	345	362	386	408	432	458	485
Other revenue	9	6	6	7	7	7	7	7	7	7	7
Grants	17	20	81	10	31	29	29	29	29	29	29
<b>Expenditure</b>	<b>2,311</b>	<b>2,565</b>	<b>2,882</b>	<b>3,123</b>	<b>3,437</b>	<b>3,844</b>	<b>4,083</b>	<b>4,329</b>	<b>4,589</b>	<b>4,880</b>	<b>5,179</b>
Current expenditure	1,887	2,142	2,321	2,469	2,701	3,003	3,185	3,367	3,582	3,819	4,037
Wages and salaries	668	653	767	844	910	1,000	1,065	1,127	1,196	1,270	1,347
Goods and services	332	363	427	462	503	533	567	601	637	696	718
Subsidies and transfers	843	1,065	1,079	1,115	1,231	1,396	1,466	1,540	1,624	1,714	1,818
Interest payments	31	35	42	43	51	68	82	94	118	133	148
Other net PAK expenditure	13	25	5	5	6	6	6	6	6	6	6
Capital expenditure	424	423	561	655	736	841	898	962	1,007	1,061	1,142
Budget-financed	364	348	487	604	699	730	770	810	827	818	938
PAK-financed	0	0	0	0	0	0	0	0	0	0	0
External	60	75	75	51	37	111	128	153	180	243	204
<b>Fiscal balances</b>											
<b>Primary balance</b>	<b>-72</b>	<b>-34</b>	<b>16</b>	<b>11</b>	<b>-41</b>	<b>-167</b>	<b>-167</b>	<b>-171</b>	<b>-164</b>	<b>-166</b>	<b>-175</b>
Interest income, net	-32	-36	-41	-45	-48	-48	-47	-46	-45	-45	-45
<b>Overall balance</b>	<b>-99</b>	<b>-66</b>	<b>-23</b>	<b>-29</b>	<b>-88</b>	<b>-232</b>	<b>-245</b>	<b>-261</b>	<b>-278</b>	<b>-295</b>	<b>-319</b>
<i>"Fiscal rule" deductions from the overall balance</i>	27	17	18	19	20	...	...	...	...	...	...
<b>Overall balance ("Fiscal rule" definition) 2/</b>	<b>-72</b>	<b>-49</b>	<b>-5</b>	<b>-10</b>	<b>-68</b>	...	...	...	...	...	...
Overall cyclically adjusted balance	-126	-100	-115	-66	-119	-253	-266	-283	-303	-323	-348
<b>Financing</b>	<b>99</b>	<b>66</b>	<b>23</b>	<b>29</b>	<b>88</b>	<b>232</b>	<b>245</b>	<b>261</b>	<b>278</b>	<b>295</b>	<b>319</b>
Foreign financing (net)	44	63	56	75	91	184	205	212	151	187	123
Budget Support	67	11	38	73	116	128	140	140	60	60	60
External Financing for Projects	56	100	65	58	31	107	127	153	182	247	209
Amortization of external debt	-79	-48	-46	-56	-56	-52	-62	-81	-91	-119	-147
Domestic financing (net)	55	3	-34	-46	-3	48	40	49	127	108	196
Net Domestic debt issuance	132	1	-147	-8	-1	100	100	105	183	168	257
Gross domestic debt placement	294	219	107	255	239	330	350	388	484	466	601
Amortization	-162	-218	-254	-263	-240	-230	-249	-283	-301	-298	-345
Change in CBK deposits	-100	23	75	-64	-39	-53	-53	-50	-55	-60	-63
Treasury	-106	4	74	-50	-24	-53	-53	-50	-55	-60	-63
PAK	7	19	1	-14	-15	0	0	0	0	0	0
Other Financing (Net POE and other)	17	-27	33	12	37	1	-7	-6	0	0	3
Equity (Privatization)	6	6	6	14	0	0	0	0	0	0	0
<b>Memorandum items</b>											
Treasury free disposal bank balances	306	420	345	395	419	472	525	575	630	690	753
Total public debt	1,837	1,907	1,807	1,857	1,940	2,222	2,525	2,855	3,196	3,535	3,872
External debt	607	671	726	781	871	1,055	1,260	1,472	1,623	1,810	1,932
<i>Of which: onlending</i>	46	47	41	44	47	53	60	69	80	92	104
<i>Of which: guarantees</i>	31	30	33	4	4	4	4	4	4	4	4
Domestic debt	1,230	1,236	1,082	1,076	1,068	1,167	1,265	1,383	1,573	1,725	1,939

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ It does not yet reflect the GFSM 2014 methodology.

2/ The "fiscal rule" caps the overall fiscal deficit at 2 percent of GDP, excluding investment financed externally by supranational financial institutions. The exclusion is valid only until 2025.

**Table 3. Kosovo: General Government Fiscal Operations, 2021–31 (Percent of GDP) 1/**  
(Including donor designated grants and PAK operations)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Act			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
<b>Revenue and grants</b>	<b>27.8</b>	<b>28.1</b>	<b>29.5</b>	<b>29.9</b>	<b>30.4</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>
Revenue	27.6	27.9	28.7	29.8	30.1	30.4	30.3	30.4	30.3	30.4	30.4
Taxes	24.5	24.9	25.9	26.5	27.0	27.3	27.3	27.3	27.3	27.4	27.4
Direct taxes	4.3	4.7	5.1	5.0	5.1	5.1	5.1	5.1	5.1	5.2	5.2
<i>of which: Personal income tax</i>	2.4	2.4	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8
<i>of which: Corporate income tax</i>	1.4	1.8	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1
<i>of which: Property tax</i>	0.5	0.4	0.5	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Indirect taxes	20.9	21.0	21.5	22.2	22.6	23.0	22.9	23.0	22.9	22.9	22.9
VAT	13.0	13.7	14.1	14.5	15.0	15.3	15.3	15.3	15.3	15.3	15.2
Excise	6.3	5.8	5.7	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Customs	1.6	1.5	1.6	1.7	1.7	1.8	1.7	1.7	1.7	1.7	1.7
Tax refunds	-0.7	-0.8	-0.6	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Nontax revenues	3.1	2.9	2.8	3.3	3.1	3.1	3.1	3.1	3.1	3.1	3.0
Other revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Grants	0.2	0.2	0.8	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2
<b>Expenditure</b>	<b>29.0</b>	<b>28.8</b>	<b>29.8</b>	<b>30.2</b>	<b>31.2</b>	<b>32.6</b>	<b>32.5</b>	<b>32.6</b>	<b>32.5</b>	<b>32.6</b>	<b>32.6</b>
Current expenditure	23.7	24.1	24.0	23.9	24.5	25.5	25.4	25.3	25.4	25.5	25.4
Wages and salaries	8.4	7.3	7.9	8.2	8.3	8.5	8.5	8.5	8.5	8.5	8.5
Goods and services	4.2	4.1	4.4	4.5	4.6	4.5	4.5	4.5	4.5	4.7	4.5
Subsidies and transfers	10.6	12.0	11.1	10.8	11.2	11.8	11.7	11.6	11.5	11.4	11.4
Interest payments	0.4	0.4	0.4	0.4	0.5	0.6	0.6	0.7	0.8	0.9	0.9
Other net PAK expenditure	0.2	0.3	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	5.3	4.8	5.8	6.3	6.7	7.1	7.2	7.2	7.1	7.1	7.2
Budget-financed	4.6	3.9	5.0	5.8	6.3	6.2	6.1	6.1	5.9	5.5	5.9
PAK-financed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	0.8	0.8	0.8	0.5	0.3	0.9	1.0	1.1	1.3	1.6	1.3
<b>Fiscal balances</b>											
<b>Primary balance</b>	<b>-0.9</b>	<b>-0.4</b>	<b>0.2</b>	<b>0.1</b>	<b>-0.4</b>	<b>-1.4</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-1.1</b>
<b>Overall balance</b>	<b>-1.2</b>	<b>-0.7</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.8</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.0</b>	<b>-2.0</b>
<i>"Fiscal rule" deductions from the overall balance</i>	0.3	0.2	0.2	0.2	0.2	...	...	...	...	...	...
<b>Overall balance ('Fiscal rule' definition) 2/</b>	<b>-0.9</b>	<b>-0.5</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.6</b>	...	...	...	...	...	...
Overall cyclically adjusted balance	-1.6	-1.1	-1.2	-0.6	-1.1	-2.1	-2.1	-2.1	-2.1	-2.2	-2.2
<b>Financing</b>	<b>1.2</b>	<b>0.7</b>	<b>0.2</b>	<b>0.3</b>	<b>0.8</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
Foreign financing (net)	0.6	0.7	0.6	0.7	0.8	1.6	1.6	1.6	1.1	1.3	0.8
Budget Support	0.8	0.1	0.4	0.7	1.1	1.1	1.1	1.1	0.4	0.4	0.4
External Financing for Projects	0.7	1.1	0.7	0.6	0.3	0.9	1.0	1.2	1.3	1.6	1.3
Amortization of external debt	-1.0	-0.5	-0.5	-0.5	-0.5	-0.4	-0.5	-0.6	-0.6	-0.8	-0.9
Domestic financing (net)	0.7	0.0	-0.3	-0.4	0.0	0.4	0.3	0.4	0.9	0.7	1.2
Net Domestic debt issuance	1.7	0.0	-1.5	-0.1	0.0	0.8	0.8	0.8	1.3	1.1	1.6
Change in CBK deposits	-1.3	0.3	0.8	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Treasury	-1.3	0.0	0.8	-0.5	-0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
PAK	0.1	0.2	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing (Net POE and other)	0.2	-0.3	0.3	0.1	0.3	0.0	-0.1	0.0	0.0	0.0	0.0
Equity (Privatization)	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items</i>											
Treasury free disposal bank balances	3.8	4.7	3.6	3.8	3.8	4.0	4.2	4.3	4.5	4.6	4.7
Total public debt	23.1	21.4	18.7	17.9	17.6	18.8	20.1	21.5	22.7	23.6	24.4
External debt	7.6	7.5	7.5	7.5	7.9	8.9	10.0	11.1	11.5	12.1	12.2
<i>Of which: onlending</i>	0.6	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.7
<i>Of which: guarantees</i>	0.4	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt	15.5	13.9	11.2	10.4	9.7	9.9	10.1	10.4	11.2	11.5	12.2

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ It does not yet reflect the GFSM 2014 methodology.

2/ The "fiscal rule" caps the overall fiscal deficit at 2 percent of GDP, excluding investment financed externally by supranational financial institutions. The exclusion is valid only until 2025.

**Table 4. Kosovo: General Government Financing, 2021–31**  
(Millions of Euros, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Financing Needs</b>	340	332	323	348	384	513	556	625	671	712	810
Overall balance	-99	-66	-23	-29	-88	-232	-245	-261	-278	-295	-319
Amortization	241	266	300	319	296	282	311	364	392	417	491
External	79	48	46	56	56	52	62	81	91	119	147
Domestic	162	218	254	263	240	230	249	283	301	298	345
<b>Financing Sources</b>	336	345	316	359	384	513	556	625	671	712	810
External Debt	123	111	102	131	147	236	267	293	242	307	269
Budget Support	67	11	0	44	11	128	140	140	60	60	60
<i>of which: EU Growth Plan 1/</i>	...	...	...	...	...	44	100	100	...	...	...
Project loans	56	100	65	58	31	107	127	153	182	247	209
Use of IMF Credit	0	0	38	29	105	0	0	0	0	0	0
<i>of which: RSF</i>	0	0	38	29	10	0	0	0	0	0	0
Domestic Debt	212	234	214	228	237	277	290	332	429	406	541
Gross Domestic Debt Placements	294	219	107	255	239	330	350	388	484	466	601
KPST one-off financing	0	0	0	0	0	0	0	0	0	0	0
Other Financing (Net POE)	13	-25	2	14	37	1	-7	-6	0	0	3
Commercial Bank Deposits	0	10	23	7	0	0	0	0	0	0	0
Equity (Privatization, PAK and other)	6	6	6	14	0	0	0	0	0	0	0
Change in government assets (-=increase)	-100	23	75	-64	-39	-53	-53	-50	-55	-60	-63
<i>of which: RSF</i>	0	0	-38	-29	-10	0	0	0	0	0	0
Errors and Omissions	4	-14	7	-11	0	0	0	0	0	0	0

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ Under the EU–Kosovo Facility Agreement, as reflected in the 2026 budget law, part of these funds is mandated to be transferred to the European Western Balkans Joint Fund (EWBJF).



**Table 6. Kosovo: Central Bank and Commercial Bank Survey, 2021–31**  
(Millions of Euros, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
		Act.			Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Central Bank</b>											
Net foreign assets	1,061	1,147	1,283	1,280	1,353	1,504	1,660	1,715	1,873	2,158	2,347
Foreign assets	1,371	1,449	1,449	1,452	1,512	1,663	1,819	1,874	2,032	2,317	2,506
Foreign liabilities	310	302	167	172	159	159	159	159	159	159	159
Net domestic assets	-335	-353	-348	-401	-423	-489	-542	-592	-646	-706	-769
Net claims on central government	-347	-355	-351	-423	-441	-492	-545	-595	-650	-710	-773
Claims on central government	280	248	180	171	192	192	192	192	192	192	192
Liabilities to central government	626	604	531	594	632	684	737	787	842	902	965
PAK (privatization) fund	185	166	166	179	194	193	193	193	193	193	193
Government deposits	423	420	345	395	419	472	525	575	630	690	753
IMF subscription	18	18	19	19	19	19	19	19	19	19	19
Claims on other sectors	12	3	2	22	18	4	4	4	4	4	4
Monetary base	667	726	831	761	803	878	971	966	1,059	1,274	1,390
Liabilities to other depository corporations	589	594	591	656	669	733	813	796	877	1,080	1,184
Deposits included in broad money	78	132	241	105	134	146	158	170	182	194	206
Other items, net 1/	59	68	103	118	127	137	147	157	168	178	188
<b>Commercial banks</b>											
Net foreign assets	836	1,023	1,272	1,165	1,311	1,238	1,208	1,284	1,293	1,200	1,224
Assets	1,107	1,337	1,587	1,619	1,874	1,978	2,199	2,397	2,631	2,902	3,167
Liabilities	-271	-315	-316	-454	-563	-740	-992	-1,113	-1,337	-1,702	-1,942
Net domestic assets	4,463	4,956	5,422	6,376	7,301	8,172	9,102	9,931	10,909	12,050	13,161
Claims on the CBK	589	594	590	657	668	733	813	796	877	1,080	1,184
Net claims on the central government	297	251	130	163	200	239	282	328	401	474	581
Claims on central government	312	265	162	187	224	263	305	352	424	498	605
Liabilities to central government	-15	-14	-31	-23	-24	-24	-24	-24	-24	-24	-24
Net claims on other public entities	-170	-235	-207	-250	-222	-237	-250	-265	-281	-298	-316
Claims on other public entities	0	0	0	0	0	0	0	0	0	0	0
Liabilities to other public entities	-170	-235	-207	-250	-222	-237	-250	-265	-281	-298	-316
Credit to private sector	3,747	4,347	4,909	5,806	6,654	7,437	8,258	9,072	9,913	10,794	11,711
Deposits of the private sector	4,597	5,183	5,767	6,505	7,425	8,040	8,797	9,561	10,398	11,288	12,253
Demand deposits	3,090	3,370	3,760	4,166	4,534	4,917	5,396	5,876	6,400	6,952	7,551
Time deposits	1,508	1,813	2,007	2,339	2,891	3,123	3,401	3,685	3,998	4,336	4,702
Other items, net 2/	702	797	989	1,083	1,234	1,370	1,512	1,654	1,805	1,962	2,132
<i>Memorandum items:</i>											
Broad money (12-month percent change)	12.1	11.3	10.7	12.9	15.8	8.4	9.6	8.9	8.9	8.7	8.7
Gross international reserves, excl. PAK and KPST deposits at CBK	1,100	1,176	1,131	1,261	1,290	1,441	1,594	1,647	1,803	2,086	2,274
Deposits of the private sector (12-month percent change)	12.4	12.7	11.3	12.8	14.1	8.3	9.4	8.7	8.8	8.6	8.6
Credit to the private sector (12-month percent change)	15.6	16.0	12.9	18.3	14.6	11.8	11.0	9.9	9.3	8.9	8.5
Deposits of the private sector (percent of GDP)	57.8	58.3	59.6	62.8	67.4	68.2	70.1	71.9	73.7	75.4	77.1
Credit to the private sector (percent of GDP)	47.1	48.9	50.7	56.1	60.4	63.1	65.8	68.2	70.3	72.1	73.7
Excess reserves of commercial banks	285	248	153	170	107	116	127	138	150	162	176

Sources: Kosovo authorities and IMF staff estimates and projections.

1/ Includes shares and other equity.

2/ Includes shares, other equity, and deposits from central government, local governments and POEs.

**Table 7. Kosovo: Selected Financial Soundness Indicators, 2019–25**

(Percent, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025
Total Assets (% GDP) 1/	65.7	76.9	72.9	75.0	76.9	81.7	87.1
Capital adequacy							
Regulatory capital to risk weighted assets	15.9	16.5	16.1	15.5	16.5	17.4	16.5
Tier 1 capital to risk weighted assets	14.2	14.7	14.4	13.5	14.6	15.5	14.6
Capital to assets	11.2	11.7	11.1	9.4	10.4	11.1	9.7
Asset quality							
NPL to total loans	1.9	2.5	2.1	1.9	1.9	1.9	2.0
NPL net of provisions to capital	1.5	4.6	3.4	3.4	3.2	3.3	4.3
Large exposures to capital	81.8	89.5	89.8	78.2	61.7	56.4	69.4
Liquidity							
Liquid assets to total assets	28.8	30.1	28.8	26.8	25.1	23.8	25.0
Deposits to loans	129.2	133.9	130.9	127.9	124.8	119.0	116.7
Liquid assets to short-term liabilities	38.7	40.4	37.2	36.5	34.7	32.7	34.1
Profitability							
Return on average assets	2.1	1.7	2.1	2.6	2.5	2.6	2.3
Return on average equity	17.2	14.0	17.3	20.7	19.8	19.7	17.4
Interest margin to gross income	80.6	79.2	76.5	76.4	79.4	80.6	80.8
Non-interest expense to gross income	48.1	46.1	45.4	43.8	44.0	45.7	45.9
Market risk							
Net open currency position in FX to capital	4.7	3.5	1.5	1.8	0.6	0.4	0.6

Source: Central Bank of the Republic of Kosovo.

1/ Includes all other depository corporations.

**Table 8. Kosovo: Indicators of Fund Credit, 2025–50**  
(Millions of SDR unless otherwise indicated)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
<b>Existing and prospective Fund credit</b>																										
<b>Disbursements</b>	87.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRA 1/	80.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Stock of existing and prospective Fund credit</b>	142.1	142.1	142.1	122.0	82.0	61.9	61.9	61.9	61.9	58.5	52.7	46.5	40.3	34.1	27.9	21.7	15.5	9.3	3.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
GRA	80.1	80.1	80.1	60.1	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	62.0	58.5	52.7	46.5	40.3	34.1	27.9	21.7	15.5	9.3	3.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
<b>Obligations</b>																										
<b>Principal/repurchases</b>	10.3	0.0	0.0	20.0	40.1	20.0	0.0	0.0	0.0	3.5	5.8	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	2.7	0.4	0.0	0.0	0.0	0.0	0.0
GRA 1/	10.3	0.0	0.0	20.0	40.1	20.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RSF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	5.8	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2	2.7	0.4	0.0	0.0	0.0	0.0	0.0
<b>Charges and interest</b>	4.3	5.3	2.7	5.3	4.3	3.0	2.7	2.7	2.7	2.7	2.5	2.3	2.1	1.9	1.6	1.4	1.2	1.0	0.7	0.5	0.5	0.4	0.4	0.5	0.4	0.4
GRA 1/	2.1	3.1	0.5	3.0	2.0	0.8	0.4	0.5	0.4	0.4	0.5	0.4	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.5	0.4	0.4	0.4	0.5	0.4	0.4
RSF	2.2	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1	1.9	1.6	1.4	1.2	1.0	0.7	0.5	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
<b>Fund obligations (repurchases and charges) in percent of</b>																										
Quota	17.7	6.4	3.3	30.6	53.7	27.9	3.3	3.3	3.3	7.5	10.1	10.3	10.0	9.8	9.5	9.2	8.9	8.7	8.4	3.9	1.0	0.5	0.5	0.5	0.5	0.5
GDP	0.2	0.1	0.0	0.2	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	0.4	0.1	0.1	0.5	0.8	0.4	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves	1.1	0.4	0.2	1.6	2.7	1.4	0.2	0.2	0.1	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Government revenue	0.5	0.2	0.1	0.7	1.2	0.6	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
External debt service, public	20.7	7.4	3.2	24.3	37.4	15.8	1.9	1.8	1.7	4.1	5.3	5.2	6.0	5.5	5.1	4.8	4.5	4.3	4.2	2.0	0.5	0.3	0.3	0.3	0.3	0.3
<b>Fund credit outstanding in percent of</b>																										
Quota	172.0	172.0	172.0	147.7	99.2	75.0	75.0	75.0	75.0	70.8	63.7	56.2	48.7	41.2	33.7	26.2	18.7	11.2	3.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0
GDP	1.5	1.4	1.3	1.1	0.7	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exports of goods and services	3.5	3.1	2.9	2.3	1.5	1.0	1.0	0.9	0.9	0.8	0.7	0.5	0.4	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves	11.0	9.9	9.1	7.6	5.0	3.7	3.6	3.5	3.4	3.1	2.7	2.3	1.9	1.6	1.3	1.0	0.7	0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Government revenue	4.9	4.6	4.3	3.5	2.3	1.6	1.5	1.5	1.4	1.3	1.1	0.9	0.8	0.6	0.5	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External public, debt	19.0	15.7	13.2	9.7	5.9	4.0	4.8	4.7	4.5	4.2	3.7	3.2	2.8	2.3	1.9	1.5	1.1	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items</b>																										
Quota (SDR million)	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6	82.6
Gross domestic product (euro million)	11,015	11,792	12,554	13,293	14,107	14,972	15,870	16,822	17,832	18,902	20,036	21,238	22,512	23,863	25,295	26,812	28,421	30,126	31,934	33,850	35,881	38,034	40,316	42,735	45,299	48,017
Exports of goods and services (euro million)	4,780	5,263	5,755	6,257	6,632	7,030	7,452	7,899	8,373	8,876	9,408	9,973	10,571	11,205	11,878	12,590	13,346	14,146	14,995	15,895	16,849	17,860	18,931	20,067	21,271	22,547
Gross international reserves (euro million)	1,511	1,662	1,817	1,873	1,929	1,987	2,046	2,108	2,171	2,236	2,303	2,372	2,443	2,517	2,592	2,670	2,750	2,832	2,917	3,005	3,095	3,188	3,283	3,382	3,483	3,588
Government revenue (euro million)	3,349	3,613	3,838	4,068	4,272	4,485	4,709	4,945	5,192	5,452	5,724	6,011	6,311	6,627	6,958	7,306	7,671	8,055	8,457	8,880	9,324	9,791	10,280	10,794	11,334	11,900
External debt service, public (euro million)	82	84	98	122	139	172	163	174	184	178	184	193	163	172	179	186	194	194	194	194	194	194	194	194	194	194
<b>Total external debt, public (euro million)</b>	871	1,055	1,260	1,472	1,623	1,810	1,532	1,559	1,609	1,650	1,684	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711	1,711

Sources: IMF staff estimates and projections.

1/ Based on the projection as of February 19, 2026. Charges and interest calculations are preliminary. Kosovo belongs to the RST interest group B. Based on the RST rate of interest of 3.4270 percent as of February 19, 2026.

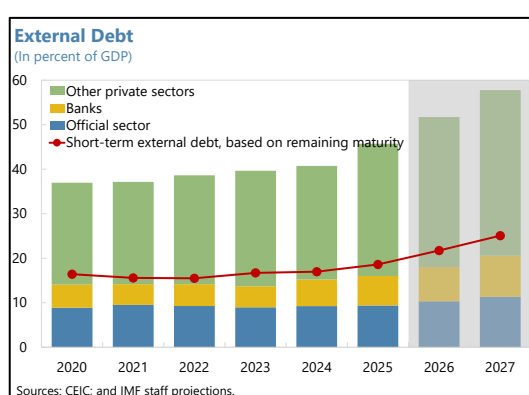
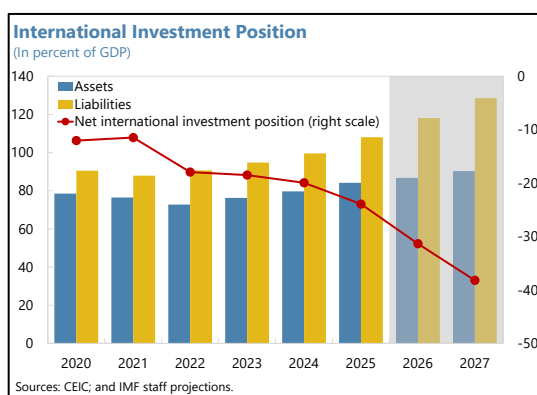
## Annex I. External Sector Assessment

**Overall Assessment:** Kosovo’s external position in 2025 is preliminarily assessed to be substantially weaker than the level implied by medium-term fundamentals and desirable policies. The current account (CA) deficit is expected to have widened to 9.6 percent of GDP in 2025 due to a significant increase in goods imports. The CA deficit was largely financed by foreign direct investment, nonbank external borrowing, and net errors and omissions (likely reflecting unrecorded services exports and remittances). Despite the large CA deficit, which is expected to persist, risks to external sustainability appear manageable.

**Potential Policy Responses:** Structural reforms that enhance competitiveness and facilitate transition to a more export-oriented growth model would help strengthen the external position over the medium term. Key reforms include improving the business environment, investing in human capital and infrastructure, and reducing informality. Should structural reforms successfully boost productivity and attract larger capital inflows, proactive macro management will be required to mitigate overheating and limit a buildup of macro-financial vulnerabilities. As a unilaterally euroized economy, maintaining prudent fiscal policy is fundamental for safeguarding macro-financial stability, and accumulating additional international reserves remains essential to providing adequate fiscal and financial buffers.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** The net international investment position (NIIP) deteriorated to -24 percent of GDP at end-2025Q3 from -20 percent of GDP at end-2024, mainly driven by the increase in direct investment liabilities and the drawdown on other investment assets. The steady deterioration in the NIIP is consistent with the persistently large CA deficit. The largest component of net foreign liabilities is owed by the nonbank private sector (34 percent of GDP), banks continued to hold net foreign assets, albeit in a smaller amount. As of end-2025Q3, international foreign assets stood at 79 percent of GDP. Portfolio investment assets were the largest component (41 percent of total) due to overseas investment of the publicly managed pension fund, followed by other investment assets (27 percent of total). International liabilities amounted to 103 percent of GDP, comprising direct investment (68 percent of total) and other investment (32 percent of total), reflecting the underdevelopment of domestic financial markets. External debt increased to 43 percent of GDP, mainly comprising private sector debt (78 percent of total).

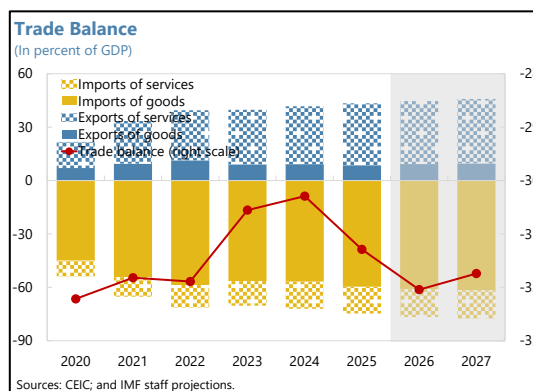
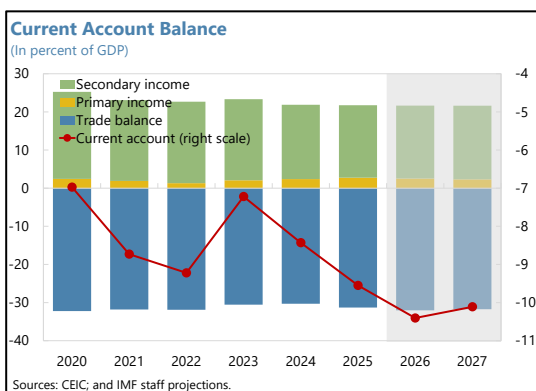


**Assessment.** The negative NIIP, as well as the projected deterioration over the medium term, does not imply significant risks to external sustainability. The projected deterioration in NIIP reflects the continuation of the large CA deficit, a substantial part of which is expected to be financed by FDI. External debt is projected to rise, but vulnerabilities are limited by the fact that the government does not borrow externally from financial markets. About 20 percent of external debt is related to direct investment. Currency mismatches are insignificant.

2025 (% GDP)	NIIP: -24	Gross Assets: 84	Debt Assets: 45	Gross Liab.: 108	Debt Liab.: 46
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### Current Account

**Background.** The CA deficit is estimated to have widened to 9.6 percent of GDP in 2025, the highest level since 2020. The deterioration was largely due to a significant increase in goods imports that outpaced rising services exports. Kosovo has faced persistent CA deficits induced by substantial trade deficits while benefiting from sizeable remittance receipts. During the first eleven months of 2025, the *balance of goods trade* deteriorated to -55 percent of GDP (annualized), driven by energy and food. Exports of goods declined marginally, primarily due to falling exports of base metals. Imports from the EU, China and members of the Central European Free Trade Agreement (CEFTA) saw the largest increases. The *balance of services' trade* improved to 21 percent of GDP, underpinned by larger receipts from travel-related services. The *primary income* balance increased marginally, supported by stronger incoming compensation of employees. The *secondary income* balance declined to 21 percent of GDP due to relatively weaker growth of incoming workers' remittances.



**Assessment.** The CA balance in 2025 is assessed to have been substantially weaker than the CA norm implied by medium-term fundamentals and desirable policies. The *EBA-lite CA model* suggests a CA gap of -6.1 percent of GDP based on a cyclically adjusted CA balance of -9.3 percent of GDP and the CA norm of -3.2 percent of GDP.<sup>1</sup> Similar to previous assessments, the CA gap is attributed primarily to model residuals. Substantial net errors and omissions in the balance of payments (3.2 percent of GDP), which mostly reflect unrecorded services exports and remittance receipts, partially explain these model residuals. Similarly, the *EBA-lite REER model* suggests an implied CA gap of -2.4 percent of GDP. The CA balance is expected to further widen in 2026, owing to temporary shutdown of a coal-fired power plant for rehabilitation and filter installation, before gradually narrowing over the medium term. Implementing desirable policies, such as moderating credit growth, would reduce the CA deficit.

EBA-lite Model Results, 2025		
	CA model	REER model
	(in percent of GDP)	
<b>Actual CA</b>	<b>-9.6</b>	
Cyclical contributions (from model) (-)	0.0	
Natural disasters and conflicts (-)	-0.3	
<b>Adjusted CA</b>	<b>-9.3</b>	
<b>CA norm (from model) 1/</b>	<b>-3.2</b>	
Adjustments to the norm (+)	0.0	
<b>Adjusted CA norm</b>	<b>-3.2</b>	
<b>CA gap</b>	<b>-6.1</b>	<b>-2.4</b>
o/w: Policy gap	3.8	
Elasticity	-0.3	
<b>REER gap (in percent)</b>	<b>19.8</b>	<b>7.9</b>

Note: The analysis is based on the EBA-lite 3.0 methodology. CA = current account; REER = real effective exchange rate.  
1/ Cyclically adjusted, including multilateral consistency adjustments.

### Real Exchange Rate

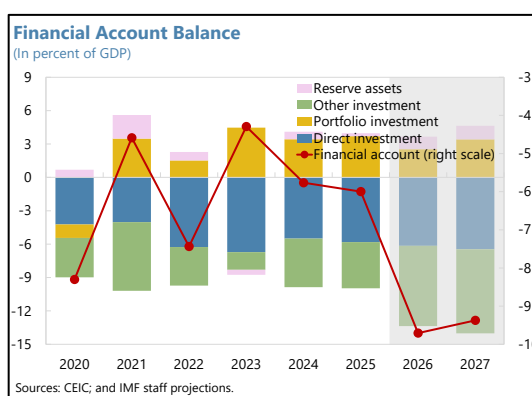
**Background.** The real effective exchange rate (REER) vis-à-vis all trading partners appreciated by 1.3 percent in 2025. The REER appreciation was due to the appreciation of euro against most major currencies and the higher inflation in Kosovo relative to economies in the EU and the CEFTA. The REER remained at the 2020-24 average level.

**Assessment.** The *EBA-lite REER model* suggests that the REER was overvalued by 7.9 percent relative to medium-term fundamentals and desirable policies. The result should be interpreted with caution given that Kosovo is not included in the regression estimation; the analysis applies country fixed effect to partially incorporate characteristics of emerging European economies with similarities in addition to what would be implied econometrically. Based on the CA gap estimated by the *EBA-lite CA model*, the REER was overvalued by 7.9 percent.

### Capital and Financial Accounts: Flows and Policy Measures

**Background.** *Net capital inflows* are estimated to have amounted to 6.0 percent of GDP in 2025, slightly larger than 5.8 percent of GDP in 2024 mainly due to larger net direct investment inflows. The continuation of substantial net capital inflows is required to finance the persistently large CA deficit. During the first eleven months of 2025, net *direct investment* inflows declined marginally to 6.4 percent of GDP (annualized), with increases in both foreign asset acquisition and foreign direct investment. Construction and real estate accounted for about 80 percent of incoming direct investment and about 60 percent of outstanding foreign direct investment. Net *portfolio investment* outflows increased to 3.9 percent of GDP due to larger additional investment in foreign equities. The publicly managed pension fund is the predominant driver of portfolio investment flows, while nonresident flows are essentially zero. Net *other investment* inflows increased to 5.7 percent of GDP, mainly driven by larger external borrowing in the form of loans and trade credit. The change in *reserve assets* increased to 1.6 percent of GDP. The *capital account* recorded slightly larger net inflows at 0.4 percent of GDP. The EU Growth Plan will likely improve the capital account balance (due to capital transfer for project financing) and lead to additional borrowing by the government in addition to an improvement of the CA balance.

**Assessment.** Over the medium term, the capital and financial accounts are expected to evolve stably in line with the need to finance the narrowing CA deficit. Banks are likely to become more reliant on external funding to extend domestic credit as the system-wide loans-to-available deposits ratio has moved closer to 100 percent.

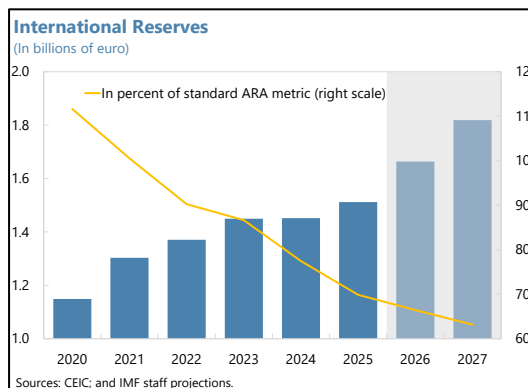


### International Reserves

**Background.** *Gross international reserves* (GIR) stood at €1.51 billion (14 percent of GDP) at end-2025, increasing from €1.45 billion at end-2024. As a unilaterally euroized economy, the accumulation of international reserves is primarily driven by deposits of the government and public institutions (€0.77 billion) and deposits of banks, largely due to reserve requirements (€0.67 billion). The CBK's foreign liabilities were only due to IMF SDR allocations (€0.16 billion).<sup>2</sup>

**Assessment.** As of end-2025, GIR is estimated to have amounted to 70 percent of *standard ARA metric*, lower than the end-2024 level at 77 percent because of the more rapid increases in all factors that can drain international reserves in the ARA framework than international reserves.<sup>3</sup> GIR relative to the standard ARA metric, are also projected to further decline over the medium term as accumulation of external liabilities is projected to outpace accumulation of international reserves, suggesting that international reserves may not be adequate.

The need to maintain international reserves for a unilaterally euroized economy like Kosovo differs from other economies. Euroization implies that domestic agents do not need to exchange local currency into hard currency to complete cross-border transactions. International reserves should also be maintained to ensure sufficient fiscal and financial buffers. As outlined in a [Selected Issues Paper](#) for the 2024 Article IV consultation, adequacy of international reserves therefore should be assessed based on the adequacy of government deposits needed to ensure sufficient fiscal buffers—equivalent to one month of government spending and external debt service as suggested by [Wiegand \(2013\)](#)—and financial buffers needed to support liquidity provision and bank resolution. In 2025, the required fiscal buffers would amount to 2.7 percent of GDP.



Systemic liquidity risk analysis based on bank liquidity stress tests suggests that the central bank may require fiscal resources of €72 million (0.7 percent of GDP) to provide liquidity support to banks if they face system-wide funding outflows of 29.5 percent—broadly in line with the standard ARA metric. Regarding potential support for bank resolution, this could be up to €66 million (0.6 percent of GDP) for managing the failure of a systemically important banks, assuming a loss rate at 10 percent.<sup>4</sup> As of end-2025, government deposits stood at €419 million (3.8 percent of GDP). Together with the assessment informed by the ARA metric, this highlights the importance of further accumulating government deposits and thus international reserves.

<sup>1</sup> Based on the EBA-lite 3.0 methodology ([link](#)).

<sup>2</sup> At end-2025, Kosovo’s net cumulative allocation stood at SDR 134.54 million and SDR holdings at SDR 119.12 million (88.54 percent of allocation).

<sup>3</sup> Based on the IMF’s approach to assess reserves adequacy (ARA) ([link](#)). The ARA metric is the weighted sum of major external drivers that can drain international reserves, including exports, broad money, short-term debt, and other external liabilities, with the respective weights of 0.1, 0.1, 0.3, and 0.2.

<sup>4</sup> During the pandemic, the banking sector’s cumulative impairment costs during 2020-21 amounted to 5.7 percent of total loans.

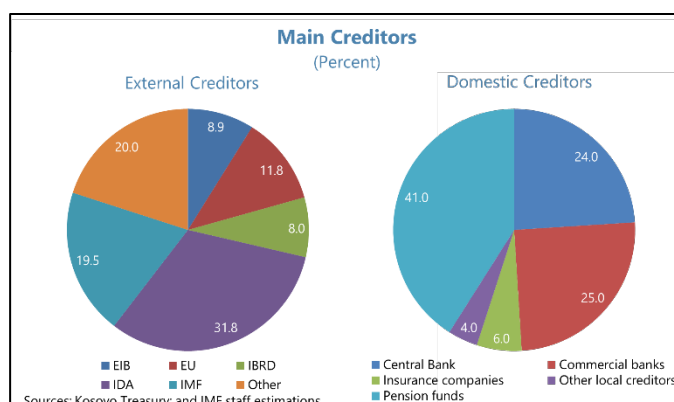
## Annex II. Sovereign Risk and Debt Sustainability Framework

### A. Assessment

**1. Staff assess Kosovo’s overall risk of debt distress as moderate, reflecting limited short-term vulnerabilities but with higher risks in the medium-to-long term.** Public debt is projected to rise over the medium-term, reaching about 26½ percent of GDP by 2034, well below the authorities’ legal limit of 40 percent of GDP.<sup>1</sup> However, the recent deterioration of spending quality and long-term pressures would crowd out investment and weigh on long-term growth, potentially exacerbating debt vulnerabilities over time.

### B. Background

**2. Kosovo’s public debt declined to around 17½ percent of GDP in 2025.**<sup>2</sup> This was the result of inability to contract new external loans in the absence of a functioning legislature during 2025. To offset anticipated external financing shortfalls, the authorities fully drew the IMF SBA (about €96 million). External public debt (about 48 percent of total debt) mainly comprises liabilities to the World Bank and the IMF. Domestic debt (52 percent) comprises Treasury notes with maturities between 3–7 years, held by pension funds (41 percent), banks (25 percent), and the CBK (24 percent). Domestic debt also includes liabilities arising from the law requiring the government to reimburse amounts withdrawn by individuals from Kosovo Pension Savings Trust (KPST).<sup>3</sup> Outstanding government guarantees are limited, with only the EBRD guarantee for Pristina Urban Transport (€2.6 million). As of Q3 2025, committed but undisbursed external funds amounted to about 3¾ percent of GDP.



<sup>1</sup>For details about Kosovo fiscal framework see Annex VI.

<sup>2</sup> For the purposes of this assessment, public debt includes state guarantees as defined in the Law of State Debt and State Guarantees. Additionally, staff has added a €120 million (around 1 percent of GDP) liability to KPST in 2020. While it is being amortized through the budget, it is not currently reflected in official debt statistics. Consistent with GFSM 2014 principles, staff include this obligation in public debt to ensure comprehensive coverage. This treatment reflects a one-off, time-bound obligation and does not imply an ongoing pension liability.

<sup>3</sup> In 2020, in response to COVID-19, the government enacted legislation allowing members of the KPST to withdraw up to 10 percent of their individual pension savings. The law also required the budget to reimburse workers whose account balances were below €10,000. Total withdrawals reached €198 million, creating a fiscal liability of about €120 million for the Treasury. This obligation is being amortized annually through the budget law but is not reflected in official public debt statistics.

## C. Risk Analysis

### 3. Staff assess the risk of medium-term sovereign stress as moderate.

- **The gross financing need (GFN) financeability module points to low risk of sovereign stress.** GFNs average 4¼ percent of GDP over 2025–31 under the baseline, with limited short-term debt rollover needs. The GFN index is estimated at 2½, well below the low and high-risk thresholds (7.6 and 17.9 respectively).
- **The debt fanchart module points to moderate risk of sovereign stress.** Public debt is projected to increase from 18 percent of GDP in 2024 to close to 27 percent of GDP in 2034. The probability of debt non-stabilization is high—albeit from a low starting point. Uncertainty, proxied by the fanchart width, is high, reflecting volatility due to exposure to external shocks, including dependence on remittances to offset large structural trade imbalances. These factors combined result in a debt fanchart index of 1.54, above the low-moderate threshold (1.13).
- **The overall Medium-Term Index (MTI) indicates low risk.** The MTI is 0.20, below the low-risk threshold (0.257).

## D. Long-Term

**4. Long-term risks are assessed as moderate.** Risks stem from adverse demographic trends for pensions and health spending compounded with growing costs. Financial needs from climate change mitigation and adaptation are also relevant. In any of these cases, the debt-to-GDP ratio would breach the legal limit of 40 percent of GDP. The pension system includes a publicly managed, self-funded scheme (KPST) which is self-funded, therefore, fiscal pressures would come from state-funded entitlements that have been increasing significantly in recent years. Pension spending is expected to rise by 1¼ percent of GDP due to two major adjustments: a 20 percent increase introduced in the 2025 budget and an additional 25 percent implemented through executive action in November 2025.<sup>4</sup> These increases far exceed the legal mandate of cost-of-living adjustments. If this trend persists, it could create significant long-term risks.

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<sup>4</sup> Pension refers to the definition used in the Treasury's quarterly financial reports, which includes non-contributory, ex-contributory, disability, Trepča, KSF, KPC, and family pensions. As a reference, it amounted to 4¼ percent of GDP in 2024.

## Annex II. Box 1. SRDSF Key Macroeconomic and Financing Assumptions

### Macroeconomic Assumptions

- Real GDP is projected to grow by 3½ percent in 2025. Over the medium term, growth is expected to hover around 4 percent, mainly driven by domestic absorption.
- Inflation accelerated in 2025, driven by food prices, but is expected to decline gradually. In the medium term, given full euroization, it should stabilize at around 2 percent.
- The primary fiscal deficit is estimated at 0.4 percent of GDP in 2025, reflecting large increases in social benefits and wages. The primary deficit is expected to remain around 1¼ percent of GDP, consistent with the general government deficit of 2 percent of GDP. The debt stabilizing primary deficit is estimated at ½ percent of GDP.
- Gross international reserves are expected to rise from 13¾ percent of GDP at end-2024 to about 15¾ percent of GDP by 2031, driven by higher Treasury liquidity buffers consistent with the precautionary needs of a fully euroized economy.

### Financing Assumptions

- **External financing:** No external budget financing was available in 2025, except for €96 million under the IMF SBA. In February 2026, parliament ratified EU Growth Plan related financing agreements and a World Bank Development Policy Loan (DPL). Consequently, the 2026 baseline includes budget support under the GP pre-financing payment (€44 million) and the DPL (\$100 million). For 2027-2028, staff expect €100 million in budget support from the EU GP, which represents a 38 percent execution of the amounts allotted to Kosovo. About €80 million in bilateral support is expected from AfD and KfW each. The baseline assumes no international sovereign bond issuance.
- **Domestic financing:** Net issuance of T-notes is projected at €100 million in 2026, as reflected in the recently approved budget. For the outer years, this amount is expected to increase gradually, primarily due to additional contributions to KPST and limited domestic investment opportunities.

Annex II. Table 1. Kosovo: Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
<b>Overall</b>	...	Moderate	The overall risk of debt distress is moderate, with low levels of vulnerability in the near term.
<b>Near term 1/</b>			
<b>Medium term</b>	<b>Low</b>	Moderate	Medium-term risks are assessed as moderate consistent with a low financeability mechanical signal, and a moderate signal in the fanchart module. Public debt remains at a very low level but a gradual increasing is expected. The recent deterioration of the quality of spending is a concern and a source of vulnerability.
Fanchart	Moderate	...	
GFN	<b>Low</b>	...	
Stress test	...	...	
<b>Long term</b>	...	Moderate	Long-term risks are assessed as moderate. Debt is projected to increase but from a low level. Risks from population aging are moderate and mitigated by a strong self-funded component. However, recent large increases in entitlements and spending pose risks. Health spending is also a source of risk given the lack of a comprehensive public health
<b>Sustainability assessment 2/</b>	Not required for surveillance countries	Not required for surveillance countries	Not required for surveillance countries.
<b>Debt stabilization in the baseline</b>			No
<b>DSA Summary Assessment</b>			
<p>Commentary: Kosovo faces a moderate overall risk of sovereign stress. Public debt-to-GDP is expected to rise, although from a low starting point. Recent large increases in spending have undermined the effectiveness and efficiency of public expenditure, creating medium- and long-term risks. Additionally, adverse demographics and the absence of a comprehensive public health scheme pose significant long-term challenges.</p>			
<p>Source: IMF staff calculations.</p> <p>Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.</p> <p>1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.</p> <p>2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.</p>			

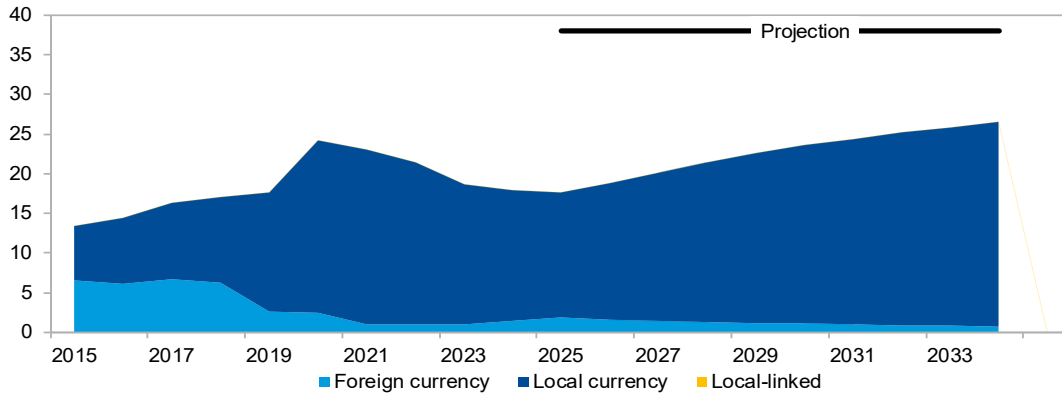
### Annex II. Figure 1. Kosovo: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/						Comments					
CG	GG	NFPS	CPS	Other							
1a. If central government, are non-central government entities insignificant?					n.a.						
2. Subsectors included in the chosen coverage in (1) above:											
Subsectors captured in the baseline					Inclusion						
CPS	NFPS	GG: expected	CG	1 Budgetary central government	Yes						
				2 Extra budgetary funds (EBFs)	No	Not applicable					
				3 Social security funds (SSFs)	No	Not applicable					
				4 State governments	No	Not applicable					
				5 Local governments	Yes						
				6 Public nonfinancial corporations	No						
				7 Central bank	No						
				8 Other public financial corporations	No						
3. Instrument coverage:											
	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGGs 3/						
4. Accounting principles:											
Basis of recording			Valuation of debt stock								
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/							
5. Debt consolidation across sectors:											
Consolidated			Non-consolidated								
Color code: <span style="color: green;">■</span> chosen coverage <span style="color: red;">■</span> Missing from recommended coverage <span style="color: gray;">■</span> Not applicable											
Reporting on Intra-government Debt Holdings											
		Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt. Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total	
CPS	NFPS	GG: expected	CG	1 Budget. central govt						0	
				2 Extra-budget. funds							0
				3 Social security funds							0
				4 State govt.							0
				5 Local govt.							0
				6 Nonfin pub. corp.							0
				7 Central bank							0
				8 Oth. pub. fin. corp							0
Total			0	0	0	0	0	0	0		

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.  
 2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.  
 3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.  
 4/ Includes accrual recording, commitment basis, due for payment, etc.  
 5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).  
 6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.  
 7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

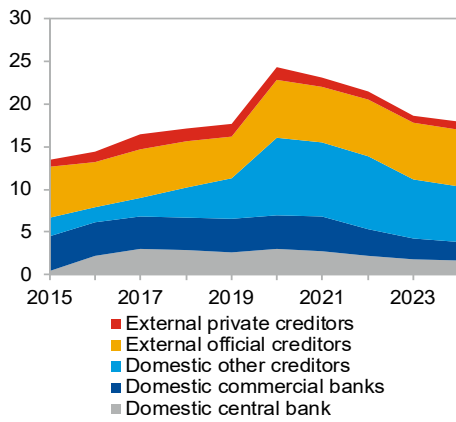
### Annex II. Figure 2. Kosovo: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



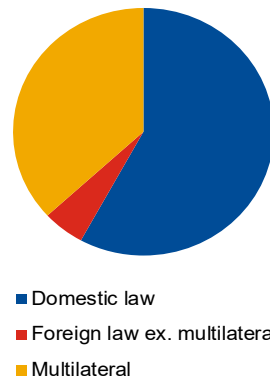
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



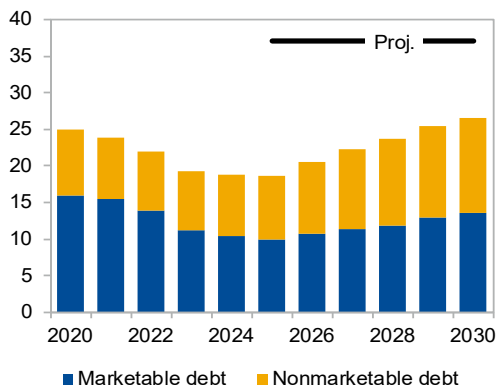
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (Percent)



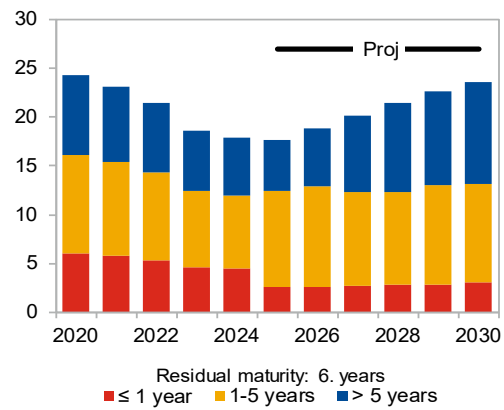
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



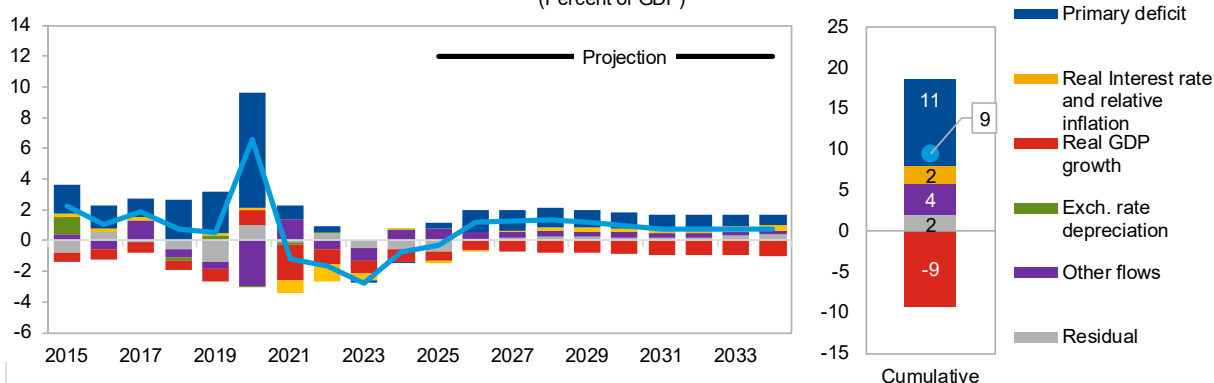
Note: The perimeter shown is general government.

**Annex II. Table 2. Kosovo: Baseline Scenario**  
(Percent of GDP, unless indicated otherwise)

	Actual	Medium-Term Projection						Extended Projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	17.9	17.6	18.8	20.1	21.5	22.7	23.6	24.4	25.2	25.9	26.6
Change in public debt	-0.7	-0.3	1.2	1.3	1.4	1.2	1.0	0.8	0.7	0.8	0.7
Contribution of identified flows	-0.2	0.4	1.1	1.1	1.1	0.9	0.8	0.6	0.5	0.4	0.3
Primary deficit	-0.1	0.4	1.4	1.3	1.3	1.2	1.1	1.0	0.9	0.8	0.7
Noninterest revenues	29.9	30.4	30.6	30.5	30.6	30.5	30.5	30.5	30.5	30.5	30.5
Noninterest expenditures	29.8	30.7	32.0	31.9	31.9	31.7	31.6	31.5	31.4	31.3	31.2
Automatic debt dynamics	-0.8	-0.7	-0.7	-0.6	-0.5	-0.6	-0.7	-0.7	-0.6	-0.6	-0.6
Real interest rate and relative inflation	0.0	-0.2	-0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.4
Real interest rate	0.0	-0.2	-0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.8	-0.6	-0.6	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9	-1.0	-1.0
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.7	0.8	0.4	0.4	0.3	0.4	0.4	0.3	0.2	0.2	0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.7	0.8	0.4	0.4	0.3	0.4	0.4	0.3	0.2	0.2	0.2
Contribution of residual	-0.6	-0.7	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.4
Gross financing needs	3.4	3.2	4.2	4.3	4.5	4.5	4.7	5.1	5.1	5.1	5.4
of which: debt service	3.5	2.8	2.8	3.0	3.2	3.4	3.6	4.2	4.2	4.3	4.7
Local currency	3.3	2.6	2.5	2.9	3.1	3.3	3.6	4.1	4.1	4.2	4.7
Foreign currency	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Memo:											
Real GDP growth (percent)	4.6	3.4	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Inflation (GDP deflator; percent)	2.2	2.9	3.1	2.4	1.8	2.0	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	6.9	6.4	7.1	6.5	5.9	6.1	6.0	6.0	6.0	6.0	6.0
Effective interest rate (percent)	2.5	2.0	2.4	2.8	3.1	3.3	3.5	3.6	3.8	4.0	4.1

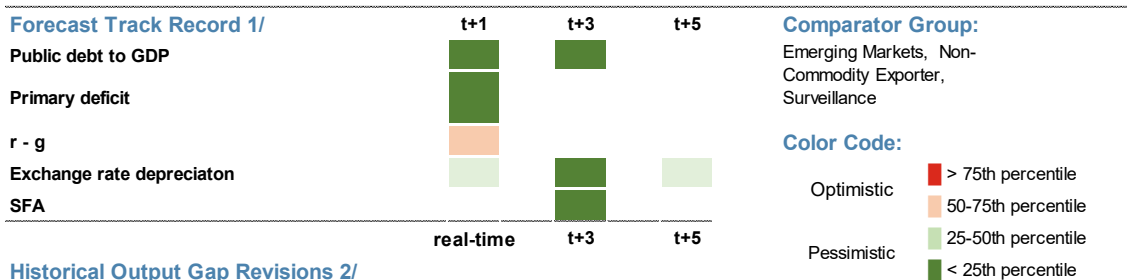
### Contribution to Change in Public Debt

(Percent of GDP)



Note: Deposits of PAK (privatization agency) are recorded as part of the Treasury balances. Other transactions correspond to use (accumulation) of asset buffers, the balance of on lending operations with SOEs, and other cash transactions.

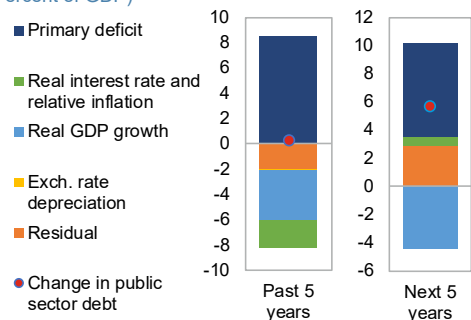
### Annex II. Figure 3. Kosovo: Realism of Baseline Assumptions



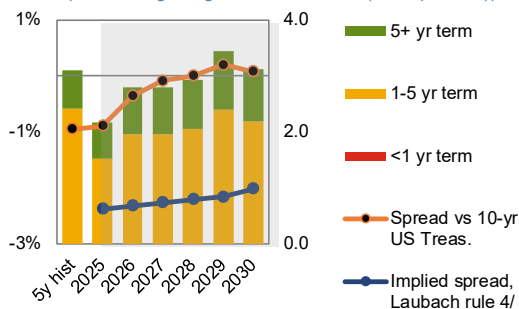
#### Historical Output Gap Revisions 2/

##### Public Debt Creating Flows

(Percent of GDP)

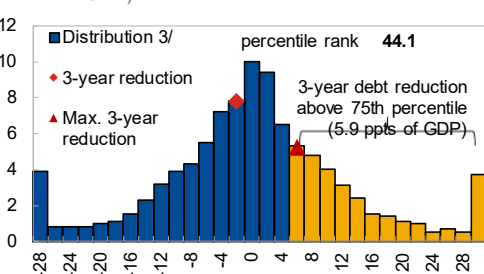


##### Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



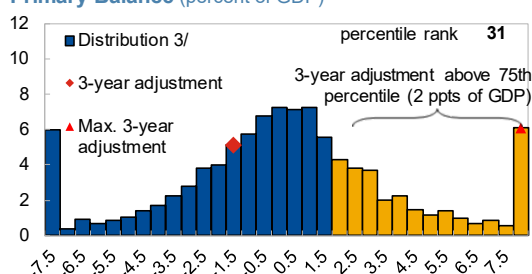
##### 3-Year Debt Reduction

(Percent of GDP)



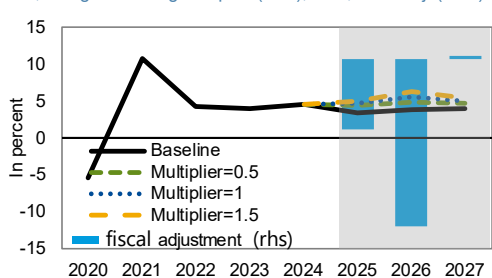
##### 3-Year Adjustment in Cyclically-Adjusted

Primary Balance (percent of GDP)



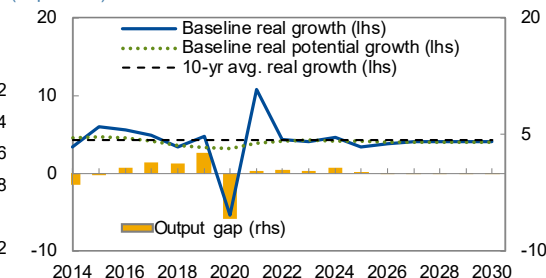
##### Fiscal Adjustment and Possible Growth Paths

(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



##### Real GDP Growth

(in percent)



Commentary: Realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are within norms.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

4/ The Laubach (2009) rule assumes bond spreads increase by about 4 bps in response to a 1 ppt increase in the debt-to-GDP ratio. and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

### Annex II. Figure 4. Kosovo: Medium-Term Risk Analysis

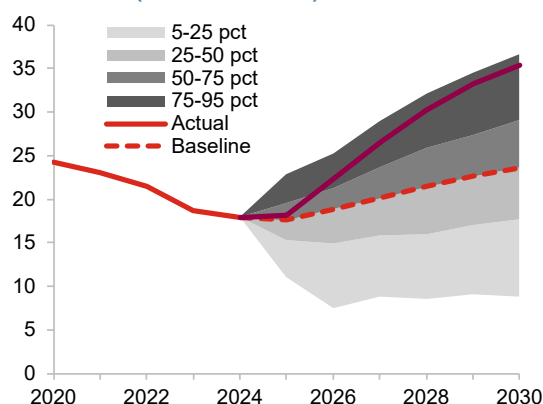
#### Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

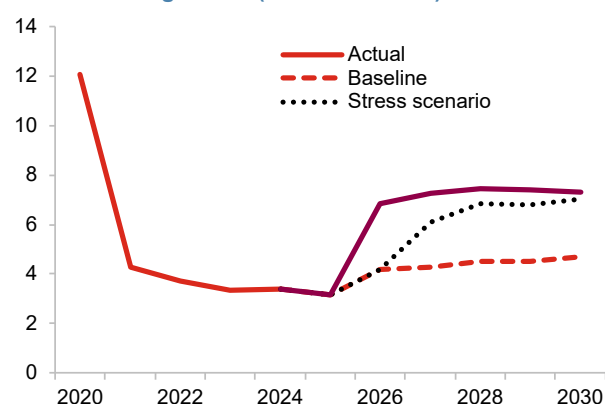
Module	Indicator	Value	Risk index	Risk signal	Adv. Econ., Non-Com. Exp, Program				
					0	25	50	75	100
Debt fanchart module	Fanchart width	27.9	0.4	...	[Fanchart chart showing width at 27.9%]				
	Probability of debt not stabilizing (pct)	95.6	0.8	...	[Fanchart chart showing probability at 95.6%]				
	Terminal debt level x institutions index	15.2	0.3	...	[Fanchart chart showing terminal debt level at 15.2%]				
	<b>Debt fanchart index</b>	...	<b>1.5</b>	<b>Moderate</b>					
GFN financeability module	Average GFN in baseline	4.2	1.4	...	[GFN chart showing average GFN at 4.2%]				
	Bank claims on government (pct bank assets)	2.8	0.9	...	[GFN chart showing bank claims at 2.8%]				
	Chg. in claims on gov. in stress (pct bank assets)	0.6	0.2	...	[GFN chart showing change in claims at 0.6%]				
	<b>GFN financeability index</b>	...	<b>2.5</b>	<b>Low</b>					

Legend: [Grey box] Interquartile range [Red vertical bar] Kosovo

#### Final Fanchart (Percent of GDP)



#### Gross Financing Needs (Percent of GDP)

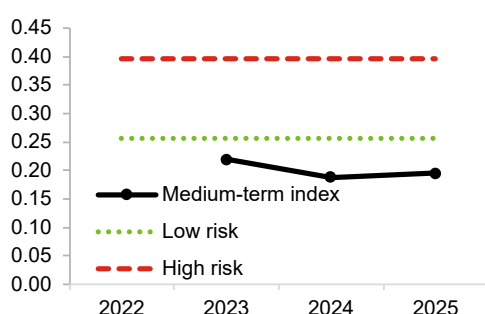


Triggered stress tests (stress tests not activated in gray)

Banking crisis [Red box] Commodity prices [Purple box] Exchange rate [Green box] Contingent liab. [Blue box] Natural disaster [Orange box]

#### Medium-term Index

(Index number)



#### Medium-term Risk Analysis

	Low risk threshold	High risk threshold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.3
GFN financeability index	7.6	17.9	0.5	0.0
Medium-term index (MTI)	0.3	0.4	...	0.2, Low

Prob. of missed crisis, 2025-2030 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2025-2030 (if stress predicted): 56.8 pct.

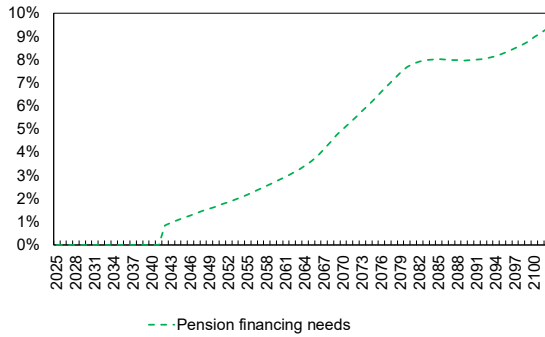
Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to moderate level of risk, while the GFN Financeability Module suggests low level of risk. The standard stress scenario assumes a real GDP growth decline by 1 percentage point for 2 years in 2025-26, interest rates rise by up to 200 bps, and a depreciation equal to the largest of the last 10 years (19.8 percent)

### Annex II. Figure 5. Kosovo: Long-Term Risk Assessment

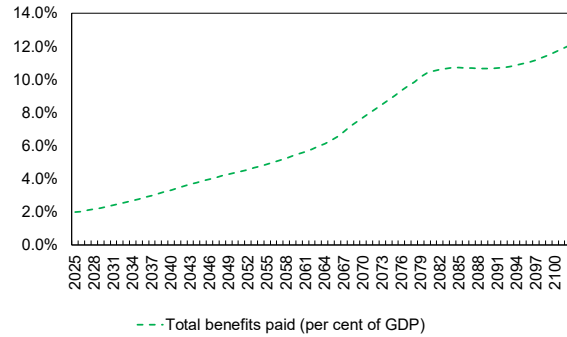
#### Demographics: Pension

Permanent Adjustment Needed in The Pension System (Pp of GDP per year)	To keep pension assets positive for:		
	30 years	50 years	Until 2100
	0.71%	2.20%	5.02%

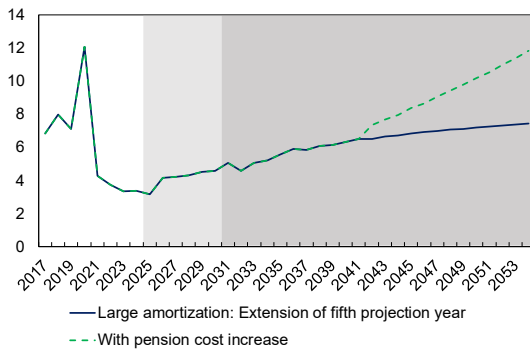
Pension Financing Needs



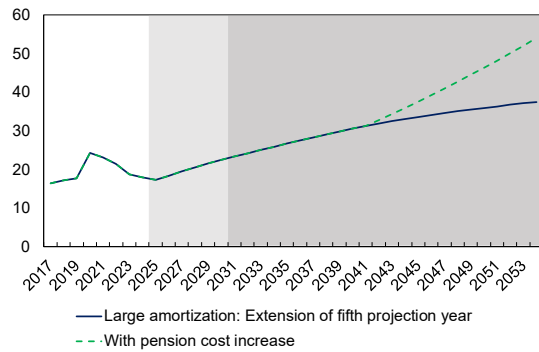
Total Benefits Paid



GFN-to-GDP Ratio

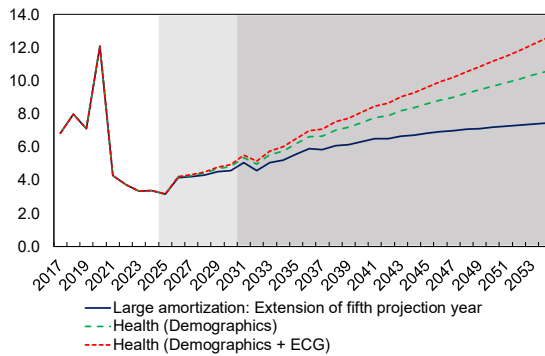


Total Public Debt-to-GDP Ratio

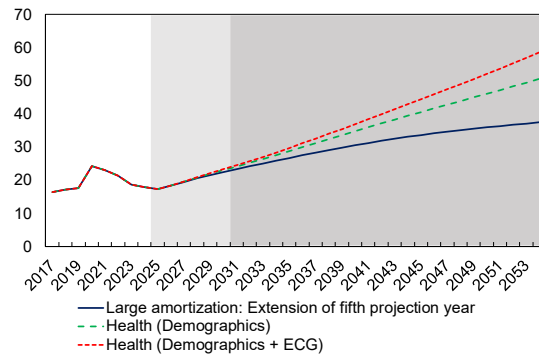


#### Demographics: Healthcare

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

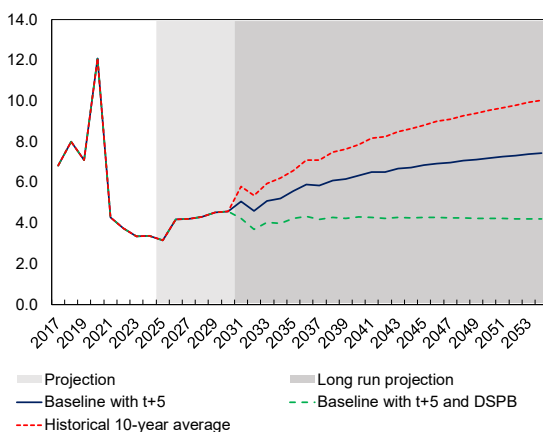


### Annex II. Figure 5. Kosovo: Long-Term Risk Assessment (continued)

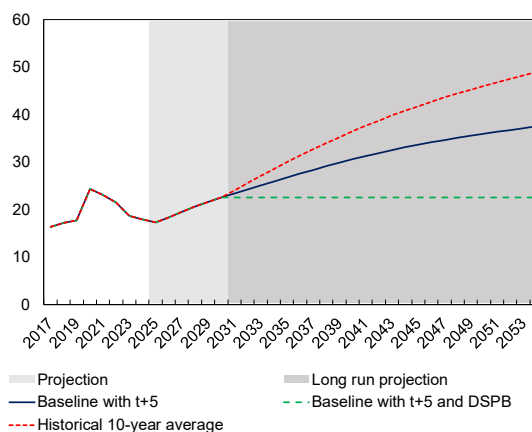
#### Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
<b>Overall Risk Indication</b>		Green

GFN-to-GDP Ratio

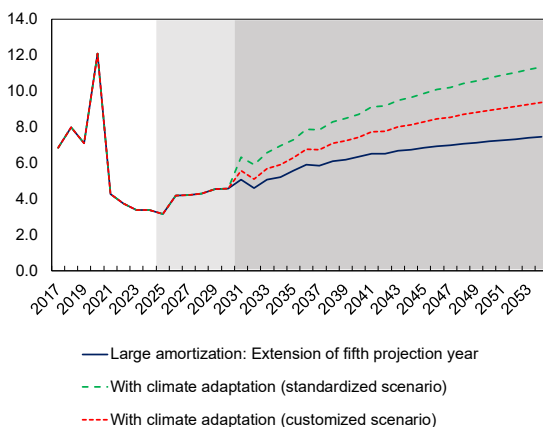


Total Public Debt-to-GDP Ratio

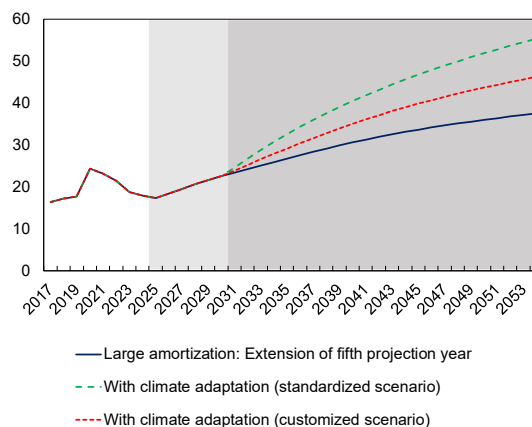


#### Climate Change: Adaptation

GFN-to-GDP Ratio



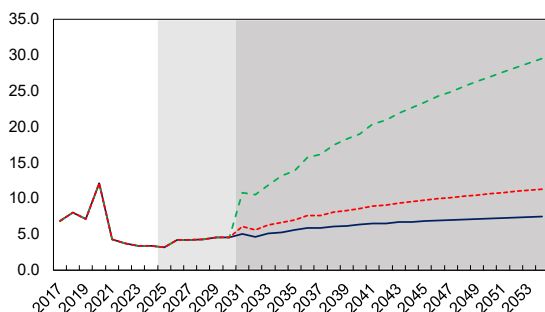
Total Public Debt-to-GDP Ratio



### Annex II. Figure 5. Kosovo: Long-Term Risk Assessment (concluded)

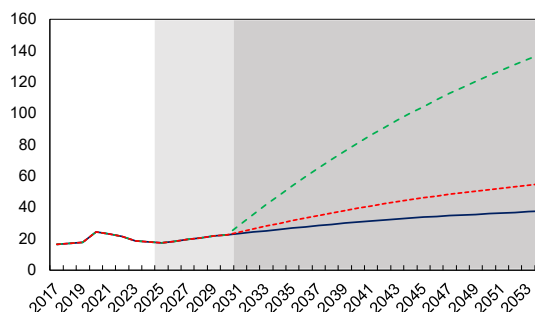
#### Climate Change: Mitigation

GFN-to-GDP Ratio



— Large amortization: Extension of fifth projection year  
 - - With climate mitigation (standardized scenario)  
 - - With climate mitigation (customized scenario)

Total Public Debt-to-GDP Ratio

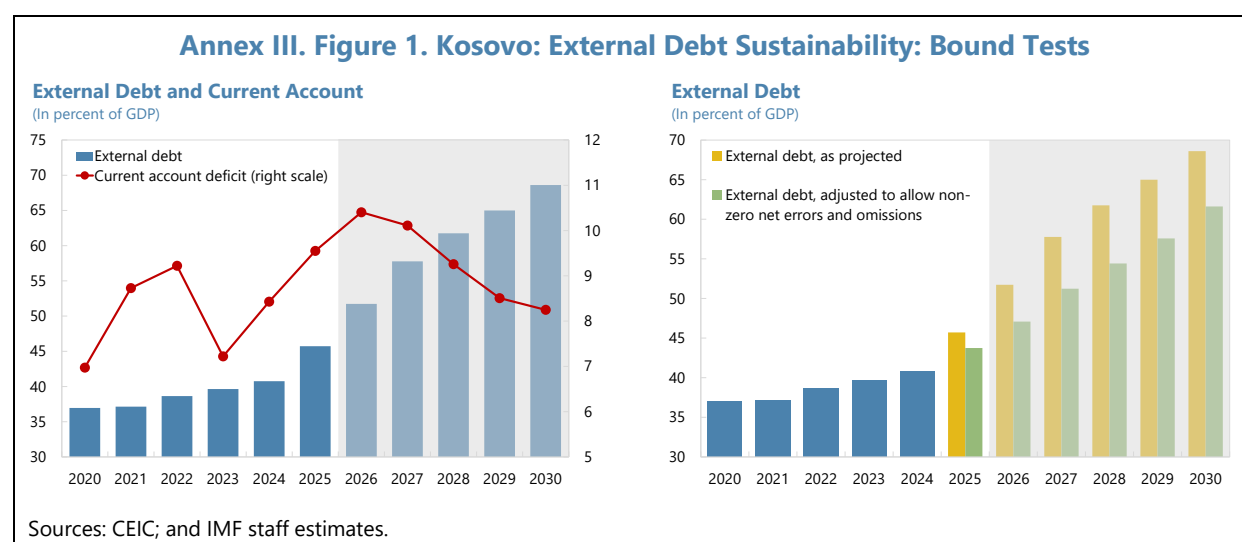


— Large amortization: Extension of fifth projection year  
 - - With climate mitigation (standardized scenario)  
 - - With climate mitigation (customized scenario)

## Annex III. External Debt Sustainability Assessment

Kosovo's external debt is assessed to be sustainable despite its projected rising trajectory over the medium term due to the need to finance the persistently large current account deficit. Kosovo's external debt remains relatively low compared with emerging European peers. Several factors help mitigate external sector vulnerabilities, including that (i) the government does not borrow externally from financial markets; (ii) FDI accounts for about one-fifth of external debt; and (iii) currency and maturity mismatches are not material. Furthermore, adverse macro-financial shocks are not expected to significantly raise external debt.

**1. External debt is projected to rise over the medium term after reaching 42 percent of GDP as of end-2025Q3.** The current account deficit is projected to improve from 9.6 percent of GDP in 2025 to 8.2 percent of GDP in 2030 notwithstanding temporary deterioration in 2026 due to shutdown of a coal-fired power plant. Continuation of relatively high current account deficits will result in a steady accumulation of external debt, which would increase to 69 percent of GDP in 2030 under the assumption of zero net errors and omissions during the projection period (Figure 1, left panel).<sup>1</sup> However, if net errors and omissions are allowed to be positive, external debt will rise at a slower pace, reaching 62 percent of GDP in 2030 instead (Figure 1, right panel).



**2. External sector vulnerabilities appear manageable despite the trajectory of rising external debt.** Among emerging European peers, Kosovo's external debt remains relatively low, and its net international investment position is among the strongest (i.e., a relatively small negative level) (Figure 2, top panel). Other notable characteristics of Kosovo's external debt include:

<sup>1</sup> As common practice, the IMF's macro framework assumes that net errors and omissions would be zero during the projection period to ensure analytical consistency. In the case of Kosovo, this would require additional incurrence of foreign liabilities to close the balance of payments in a magnitude of about 1.7 percent of GDP on average during 2026–30. This figure is smaller than the average net errors and omissions during 2021–24 (2.3 percent of GDP).

- *The official sector's external debt is small.* As of end-2025Q3, the official sector's external debt amounted to 9 percent of GDP, mainly comprising the government's borrowing from multilateral organizations and the central bank's SDR allocations (Figure 2, middle-left panel). All these liabilities are long-term. External debt related to portfolio investment is nearly non-existent due to the underdevelopment of domestic financial markets.
- *The private sector's external debt includes a large portion of FDI.* As of end-2025Q3, the private sector's external debt amounted to 33 percent of GDP, which was owed by nonbanks (80 percent) and banks (Figure 2, middle-right panel). Debt related to FDI amounted to 9 percent of GDP. For nonbanks, other liabilities mainly include loans incurred by the nonfinancial sector (33 percent of non-banks' external debt), trade credit (23 percent), and loans incurred by nonbank financial intermediaries (NBFIs) (16 percent). For banks, external debt primarily takes the form of deposits.
- *Short-term cross-border borrowing by private nonfinancial sectors was relatively small.* As of end-2025, total short-term external debt is estimated to be around 15 percent of GDP based on original maturity and 19 percent of GDP based on remaining maturity (Figure 2, bottom-left panel). For private nonfinancial sectors, trade credit and direct borrowing accounted for 35 and 4 percent of total short-term debt, respectively. Meanwhile, the respective shares of short-term debt incurred by banks and NBFIs were 36 and 25 percent. Banks' short-term debt is mainly in the form of deposits, but NBFIs' reliance on external financing to provide domestic credit is the main source of concerns regarding maturity mismatches.
- *Currency mismatches are limited,* as external debt is mainly denominated in euro.

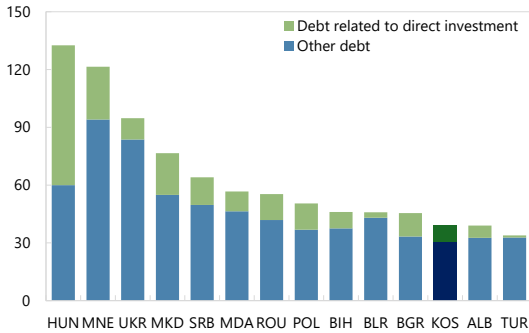
**3. Gross external financing needs are estimated at around 25 percent of GDP in 2025 will remain substantial over the medium term.** In 2025, principal payments accounted for the largest portion of required external financing (63 percent), with about one-sixth owing to maturing long-term debt, while interest payments were relatively small (2 percent) (Figure 2, bottom-right panel). All maturing external debt is expected to be rolled over, and an additional accumulation of external debt is required to partially finance the current account deficit. The remaining current account deficit will be financed by foreign direct investment and net errors and omissions.

**4. Adverse macro-financial shocks are not expected to significantly raise external debt.** Over the medium term, external debt is projected to rise in the baseline because the projected current account deficit is larger than the debt-stabilizing level. However, the bound tests of the external debt sustainability analysis illustrate that macro-financial shocks such as higher interest rates, lower economic growth, larger current account deficit, and exchange rate depreciation would raise external debt up to 4 percent of GDP relative to the baseline over the medium term (Figures 3 and 4; Tables 1 and 2).

### Annex III. Figure 2. Kosovo: External Debt Sustainability: Bound Tests

#### Emerging Europe: External Debt, 2024

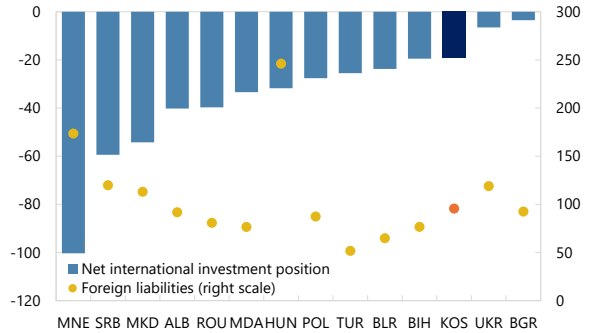
(In percent of GDP)



Note: Only economies with negative net international investment position are included.

#### Emerging Europe: International Investment Position, 2024

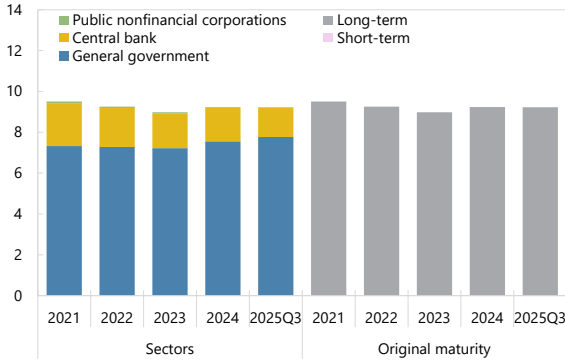
(In percent of GDP)



Note: Only economies with negative net international investment position are included.

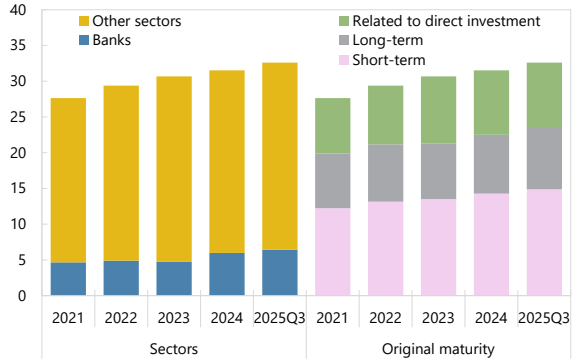
#### External Debt: Official Sector

(In percent of GDP)



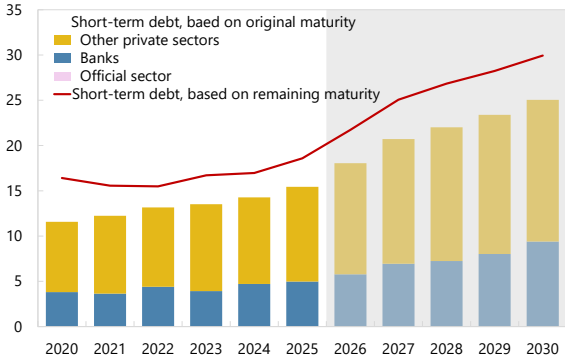
#### External Debt: Private Sector

(In percent of GDP)



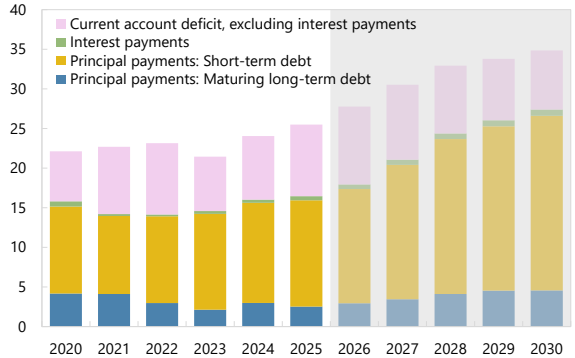
#### Short-term External Debt

(In percent of GDP)



#### Gross External Financing Need

(In percent of GDP)

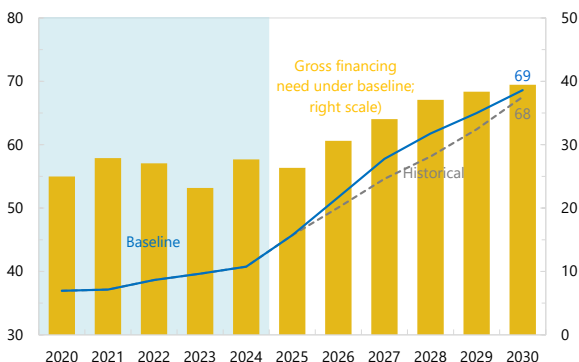


Sources: CEIC; Haver Analytics; and IMF staff estimates.

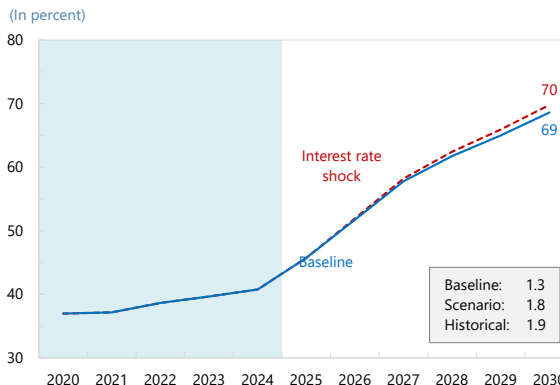
**Annex III. Figure 3. Kosovo: External Debt Sustainability: Bound Tests 1/ 2/**

External debt, as projected (In percent of GDP)

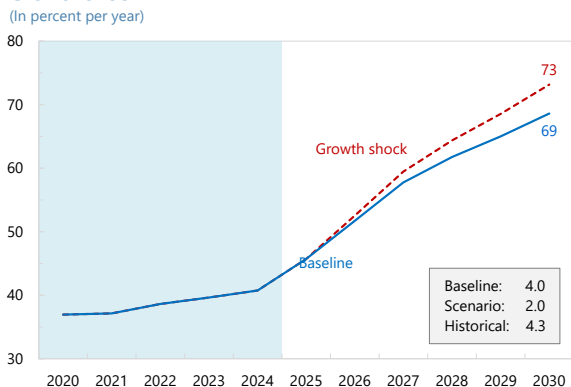
**Baseline and historical scenarios**



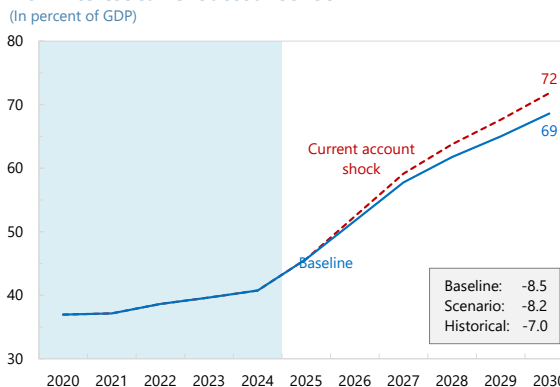
**Interest rate shock**



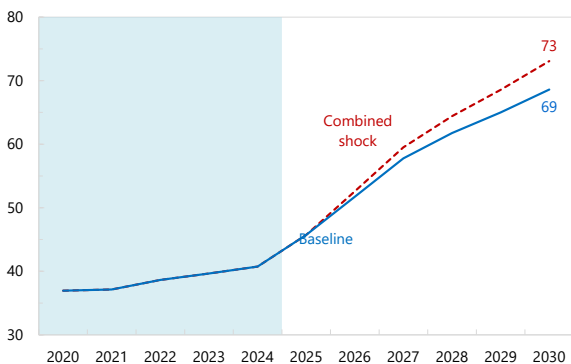
**Growth shock**



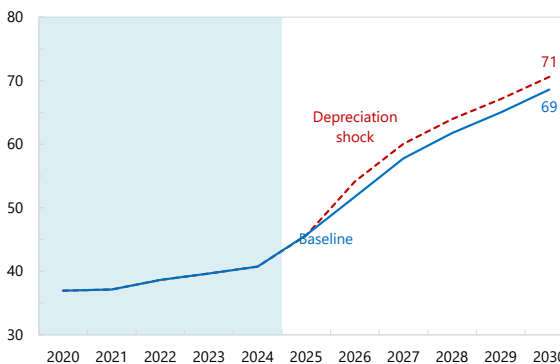
**Non-interest current account shock**



**Combined shock 3/**



**Real depreciation shock 4/**



Sources: Haver Analytics; and IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent one-quarter standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2026.

**Annex III. Table 1. Kosovo: External Debt Sustainability Framework, 2020–30**  
Based on external debt, as projected (in percent of GDP; unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
<b>1 Baseline: External debt</b>	45.0	42.0	40.9	43.2	42.7	<b>45.7</b>	<b>51.7</b>	<b>57.8</b>	<b>61.8</b>	<b>65.0</b>	<b>68.6</b>	<b>-7.0</b>
2 Change in external debt	10.6	-3.0	-1.1	2.3	-0.5	3.0	6.0	6.0	4.0	3.2	3.6	
3 Identified external debt-creating flows (4+8+9)	-1.4	5.4	2.8	0.9	3.7	6.6	5.9	5.1	3.7	2.4	1.9	
4 Current account deficit, excluding interest payments	7.7	9.6	9.5	7.5	8.4	9.0	9.8	9.5	8.5	7.8	7.5	
5 Deficit in balance of goods and services	39.2	36.0	33.8	33.3	31.7	31.3	32.0	31.7	31.0	30.1	29.8	
6 Exports	26.4	37.8	41.8	43.3	43.7	43.4	44.6	45.8	47.1	48.0	48.8	
7 Imports	65.6	73.7	75.6	76.7	75.5	74.7	76.7	77.6	78.0	78.1	78.6	
8 Net non-debt creating capital inflows (negative)	-8.2	-0.7	-5.1	-2.6	-2.6	-1.8	-2.9	-3.1	-3.3	-3.8	-3.9	
9 Automatic debt dynamics 1/	-0.9	-3.5	-1.6	-4.0	-2.1	-0.6	-1.0	-1.3	-1.5	-1.6	-1.7	
10 Contribution from nominal interest rate	0.7	0.3	0.3	0.4	0.4	0.5	0.6	0.7	0.7	0.8	0.8	
11 Contribution from real GDP growth	1.7	-4.4	-1.7	-1.5	-1.9	-1.2	-1.6	-1.9	-2.2	-2.3	-2.5	
12 Contribution from price and exchange rate changes 2/	-3.4	0.7	-0.2	-2.9	-0.6	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	12.0	-8.4	-3.9	1.5	-4.2	-1.6	0.1	1.0	0.2	0.9	1.7	
External debt-to-exports ratio (in percent)	170.2	111.2	97.8	99.7	97.6	105.4	115.9	126.0	131.2	135.4	140.6	
<b>Gross external financing need (in millions of euro) 4/</b>	1,498	1,806	2,059	2,077	2,490	2,808	3,275	3,832	4,377	4,768	5,219	
in percent of GDP	22.1	22.7	23.1	21.5	24.1	25.5	27.8	30.5	32.9	33.8	34.9	
<b>Scenario with key variables at their historical averages 5/</b>						<b>45.7</b>	<b>50.1</b>	<b>54.6</b>	<b>58.1</b>	<b>62.4</b>	<b>67.5</b>	<b>-5.2</b>
<b>Key macroeconomic assumptions underlying baseline</b>						10-Year Historical average	10-Year Standard deviation					
Real GDP growth (in percent)	-5.3	10.7	4.3	4.1	4.6	4.3	3.9	3.4	3.8	4.0	4.0	4.0
GDP deflator in US dollars (change in percent)	11.0	-1.4	0.4	7.7	-1.7	1.1	7.3	15.0	3.8	2.1	1.7	2.0
Nominal external interest rate (in percent)	2.2	0.7	0.7	1.0	1.0	1.9	1.0	1.5	1.4	1.3	1.3	1.3
Growth of exports (US dollar terms, in percent)	-22.2	68.0	23.8	12.8	7.9	13.7	24.9	23.6	10.8	9.0	8.6	8.2
Growth of imports (US dollar terms, in percent)	0.4	32.0	14.6	10.4	5.3	8.9	11.9	23.3	10.6	7.4	6.3	6.2
Current account balance, excluding interest payments	-7.7	-9.6	-9.5	-7.5	-8.4	-7.0	1.4	-9.0	-9.8	-9.5	-8.5	-7.8
Net non-debt creating capital inflows	8.2	0.7	5.1	2.6	2.6	2.9	2.3	1.8	2.9	3.1	3.3	3.8

1/ Derived as  $[r - g - a(1+r)] / (1+g+g)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $r$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,  $e$  = nominal appreciation (increase in dollar value of domestic currency), and  $a$  = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as  $[-r(1+g) + ea(1+r)] / (1+g+g)$  times previous period debt stock.  $r$  increases with an appreciating domestic currency ( $e > 0$ ) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

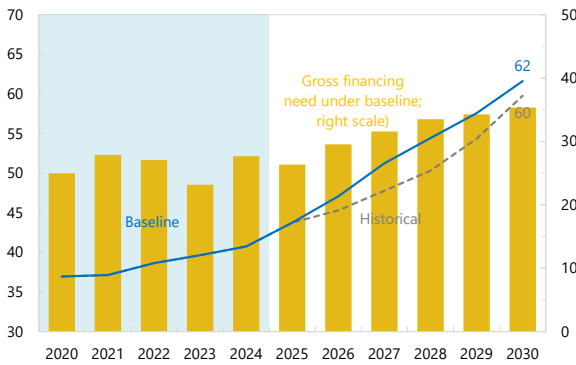
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

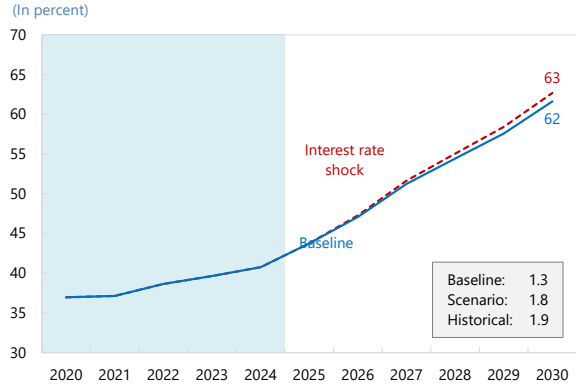
**Annex III. Figure 4. Kosovo: External Debt Sustainability: Bound Tests 1/ 2/**

External debt, adjusted to allow non-zero net errors and omissions (In percent of GDP)

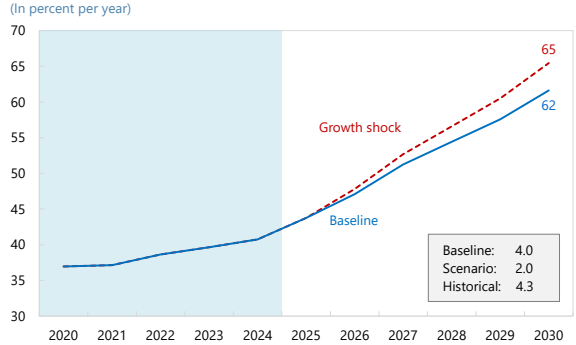
**Baseline and historical scenarios**



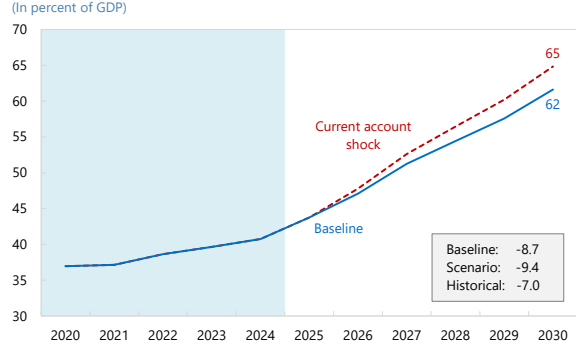
**Interest rate shock**



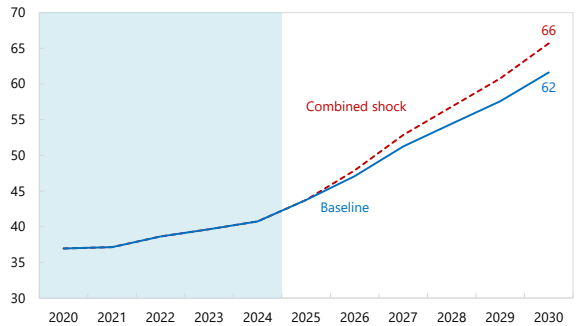
**Growth shock**



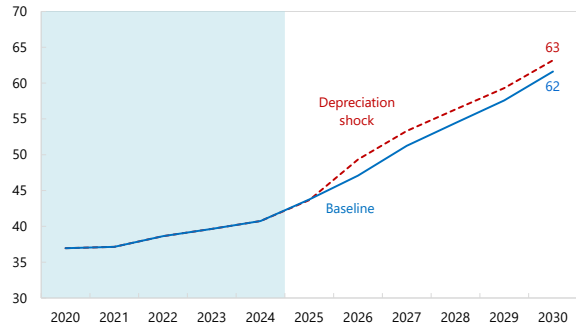
**Non-interest current account shock**



**Combined shock 3/**



**Real depreciation shock 4/**



Sources: Haver Analytics; and IMF staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent one-quarter standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2026.

## Annex III. Table 2. Kosovo: External Debt Sustainability Framework, 2020-30

Based on external debt, adjusted to allow non-zero net errors and omissions  
(in percent of GDP; unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -6.7
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
<b>1 Baseline: External debt</b>	45.0	42.0	40.9	43.2	42.7	<b>43.8</b>	<b>47.1</b>	<b>51.2</b>	<b>54.4</b>	<b>57.6</b>	<b>61.6</b>	
2 Change in external debt	10.6	-3.0	-1.1	2.3	-0.5	1.1	3.3	4.2	3.2	3.2	4.0	
3 Identified external debt-creating flows (4+8+9)	-1.4	5.4	2.8	0.9	3.7	6.6	6.0	5.2	4.0	2.7	2.2	
4 Current account deficit, excluding interest payments	7.7	9.6	9.5	7.5	8.4	9.0	9.9	9.5	8.6	7.8	7.5	
5 Deficit in balance of goods and services	39.2	36.0	33.8	33.3	31.7	31.3	32.0	31.7	31.0	30.1	29.8	
6 Exports	26.4	37.8	41.8	43.3	43.7	43.4	44.6	45.8	47.1	48.0	48.8	
7 Imports	65.6	73.7	75.6	76.7	75.5	74.7	76.7	77.6	78.0	78.1	78.6	
8 Net non-debt creating capital inflows (negative)	-8.2	-0.7	-5.1	-2.6	-2.6	-1.8	-2.9	-3.1	-3.3	-3.8	-3.9	
9 Automatic debt dynamics 1/	-0.9	-3.5	-1.6	-4.0	-2.1	-0.7	-1.0	-1.2	-1.3	-1.4	-1.5	
10 Contribution from nominal interest rate	0.7	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.7	
11 Contribution from real GDP growth	1.7	-4.4	-1.7	-1.5	-1.9	-1.2	-1.5	-1.8	-1.9	-2.1	-2.2	
12 Contribution from price and exchange rate changes 2/	-3.4	0.7	-0.2	-2.9	-0.6	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	12.0	-8.4	-3.9	1.5	-4.2	-3.5	-2.7	-1.1	-0.8	0.5	1.9	
External debt-to-exports ratio (in percent)	170.2	111.2	97.8	99.7	97.6	100.8	105.5	111.8	115.6	120.0	126.3	
<b>Gross external financing need (in millions of euro) 4/</b>	1,498	1,806	2,059	2,077	2,490	2,808	3,162	3,558	3,957	4,257	4,671	
in percent of GDP	22.1	22.7	23.1	21.5	24.1	25.5	26.8	28.3	29.8	30.2	31.2	
<b>Scenario with key variables at their historical averages 5/</b>						<b>43.8</b>	<b>45.3</b>	<b>47.8</b>	<b>50.3</b>	<b>54.4</b>	<b>59.8</b>	<b>-4.9</b>
<b>Key macroeconomic assumptions underlying baseline</b>						10-Year Historical average	10-Year Standard deviation					
Real GDP growth (in percent)	-5.3	10.7	4.3	4.1	4.6	4.3	3.9	3.4	3.8	4.0	4.0	4.0
GDP deflator in US dollars (change in percent)	11.0	-1.4	0.4	7.7	-1.7	1.1	7.3	15.0	3.8	2.1	1.7	2.0
Nominal external interest rate (in percent)	2.2	0.7	0.7	1.0	1.0	1.9	1.0	1.5	1.3	1.3	1.3	1.3
Growth of exports (US dollar terms, in percent)	-22.2	68.0	23.8	12.8	7.9	13.7	24.9	23.6	10.8	9.0	8.6	8.2
Growth of imports (US dollar terms, in percent)	0.4	32.0	14.6	10.4	5.3	8.9	11.9	23.3	10.6	7.4	6.3	6.2
Current account balance, excluding interest payments	-7.7	-9.6	-9.5	-7.5	-8.4	-7.0	1.4	-9.0	-9.9	-9.5	-8.6	-7.8
Net non-debt creating capital inflows	8.2	0.7	5.1	2.6	2.6	2.9	2.3	1.8	2.9	3.1	3.3	3.8

1/ Derived as  $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $r$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,  $e$  = nominal appreciation (increase in dollar value of domestic currency), and  $a$  = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as  $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock.  $r$  increases with an appreciating domestic currency ( $e > 0$ ) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

## Annex IV. Risk Assessment Matrix

### A. Global Risks (February 2026)<sup>1</sup>

Risks and Likelihood	Expected Impact	Policy Responses
<p><b>High</b></p> <p><b>Geopolitical Tensions and Intensification of Conflicts.</b> Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.</p> <p><b>High</b></p> <p><b>Commodity Price Volatility.</b> Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.</p>	<p><b>High</b></p> <p>Kosovo’s direct exposure to countries currently in conflict—such as Israel, Gaza, Russia, and Ukraine—is limited. However, an escalation of conflicts could affect Kosovo indirectly through higher commodity prices, supply chain disruptions, tighter financial conditions, and slower growth in countries hosting its diaspora, which would weigh on tourism and remittance inflows.</p> <p>Similarly, an intensification of conflicts in the Middle East could disrupt oil supply chains, putting pressure on oil prices. Should Kosovo’s terms of trade worsen, it could negatively affect the already large current account deficit.</p> <p>Higher energy and food prices will transmit to consumer prices and dampen household disposable income, leading to lower consumption growth. Higher energy prices will also increase firms’ input costs, negatively impacting profits and investment plans.</p>	<ul style="list-style-type: none"> <li>▪ Design targeted and temporary policies to cope with additional commodity price shocks.</li> <li>▪ Promote energy savings through well-designed measures to increase efficiency in the use of energy; and through higher pass-through rates of international electricity prices for non-vulnerable clients, especially for peak-hour consumption.</li> <li>▪ Accelerate broad-based structural reforms, including in the context of EU accession, to boost competitiveness, expand renewable energy production, increase public investment absorption, and gradually reduce the dependency on diaspora-related flows by increasing exports and domestic production.</li> </ul>
<p><b>High</b></p> <p><b>Protectionism and Trade Disruptions.</b> Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.</p> <p><b>Low</b></p> <p><b>New Trade Agreements.</b> Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances.</p>	<p><b>High</b></p> <p>A further escalation of trade measures, particularly if they affect the EU, would weaken external demand and reduce tourism and remittance inflows, weighing on consumption and growth. Conversely, actions that lower trade barriers and reduce policy uncertainty could support exports, tourism, and investment, strengthen growth prospects and improve fiscal outcomes.</p>	<ul style="list-style-type: none"> <li>▪ Accelerate broad-based structural reforms, including in the context of EU accession, to boost competitiveness and gradually reduce the dependency on diaspora-related flows by increasing exports and domestic production.</li> <li>▪ If industrial policies are introduced to support affected sectors, they should be carefully targeted, time-bound, and designed to minimize market distortions.</li> </ul>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline. Likelihood reflects staff’s subjective assessment: “low” (below 10 percent), “medium” (10-30 percent), and “high” (30-50 percent). The RAM captures staff views on the source of risks and overall concern as of the time of discussions with the authorities.

Risks and Likelihood	Expected Impact	Policy Responses
<p><b>High</b></p> <p><b>Disorderly AI Correction.</b> An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.</p>	<p><b>Medium</b></p> <p>A disorderly global market correction, triggered by an abrupt reassessment of AI-related productivity gains, could tighten financial conditions and weaken investment in the euro area, increasing interest rates and risk premia for Kosovo.</p>	<ul style="list-style-type: none"> <li>▪ Strengthen the capacity of the CBK to monitor bank credit, liquidity and funding risks and ensure readiness to take supervisory actions in response to tighter global and regional financial conditions.</li> <li>▪ Improve the monitoring of key sectors, including real estate, to assess vulnerabilities to higher interest rates, asset price corrections, and weaker investment.</li> </ul>
<p><b>High</b></p> <p><b>Fiscal Vulnerabilities and Higher Interest Rates.</b> Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, capital outflows from emerging and developing economies elicit a sharp increase in short-term rates.</p>	<p><b>Medium</b></p> <p>Higher global interest rates and tighter financial conditions would increase borrowing costs and contribute to a widening of the fiscal deficit in Kosovo.</p>	<ul style="list-style-type: none"> <li>▪ Frontload fiscal consolidation if budget financing becomes problematic, while preserving investment and well-targeted social spending.</li> <li>▪ Closely monitor financial-sector risks and be ready to take preemptive measures to safeguard financial stability.</li> </ul>
<p><b>High</b></p> <p><b>Policy Uncertainty.</b> Elevated and wide-ranging policy uncertainty weighs on sentiment and holds back consumption and investment. Political interference in independent economic institutions erodes public confidence and trust and raises the risk of policy mistakes.</p>	<p><b>Medium</b></p> <p>Any weakening in economic activity in Kosovo's trading partners stemming from global policy uncertainty could affect Kosovo through lower external demand, reduced investment inflows, and more cautious household and firm behavior. At the domestic level, any erosion of confidence in independent institutions could amplify uncertainty, and weaken macroeconomic management, weighing on growth.</p>	<ul style="list-style-type: none"> <li>▪ Safeguard the independence and credibility of key economic institutions, including the CBK, to maintain public confidence and policy effectiveness.</li> <li>▪ Enhance policy transparency and predictability through rules-based fiscal and financial sector policies.</li> <li>▪ Accelerate structural reforms, including those related to EU Growth Plan reform agenda, and improve governance to reduce uncertainty, support investment, and anchor confidence.</li> </ul>

Risks and Likelihood	Expected Impact	Policy Responses
<p><b>Medium</b></p> <p><b>Social Discontent.</b> Persistently high living costs, youth unemployment and inequality, amid an erosion in governance standards and pressures from geoeconomic realignments, trigger social unrest, political repression and instability, affecting countries' capacity to pursue economic reforms.</p>	<p><b>Medium</b></p> <p>Social discontent could stem from and result in economic losses as well as in costly policy proposals.</p>	<ul style="list-style-type: none"> <li>Establish clear and sustainable indexation mechanism for social transfers.</li> <li>Transfer programs should be strengthened to target the budget's assistance to the vulnerable.</li> </ul>
<p><b>High</b></p> <p><b>Labor Shortages and Remittances.</b> Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues. Origin countries see depressed remittances and incomes, and worsening external balances, though a larger labor force could partly offset the remittance decline over the medium term.</p>	<p><b>High</b></p> <p>Tighter immigration policies in remittance-originating economies could reduce remittance inflows to Kosovo, dampening household incomes, consumption, and weakening the external balance. Over the medium term, a larger domestic labor force could partly offset weaker remittances, provided migration flows are not diverted to alternative destinations.</p>	<ul style="list-style-type: none"> <li>Strengthen active labor market policies, including training and upskilling, to facilitate the absorption of a larger domestic labor force.</li> <li>Improve labor market participation and matching, including by reducing informality.</li> <li>Advance structural reforms to raise productivity and diversify growth, reducing reliance on remittances over time.</li> <li>Preserve macroeconomic stability and external buffers to mitigate the impact of weaker remittance inflows.</li> </ul>

## II. Domestic Risks

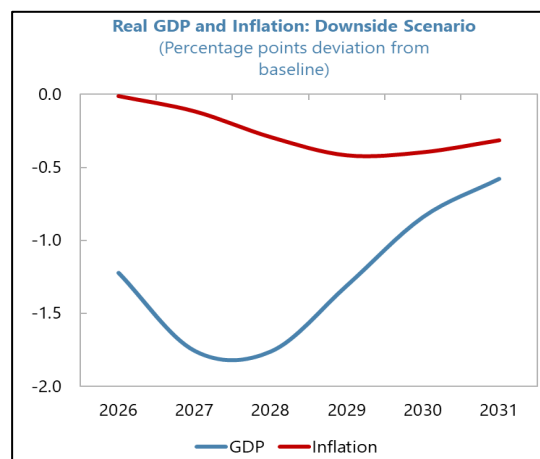
Risks and Likelihood	Expected Impact	Policy Responses
<p><b>High</b></p> <p><b>Renewed political impasse.</b> The inability of political parties to elect the new president would trigger a new round of snap elections with inconclusive outcome.</p>	<p><b>High</b></p> <p>A prolonged stalemate preventing the formation of a new government could adversely affect consumer and investor sentiment, and stall reforms.</p>	<ul style="list-style-type: none"> <li>CBK to strengthen its crisis preparedness, monitor credit risk closely, and deploy macroprudential tools if financial stress escalates.</li> <li>Clear communication from all relevant stakeholders to avert the erosion of confidence.</li> </ul>
<p><b>Medium</b></p> <p><b>Escalation of tensions in northern Kosovo.</b> Rising tensions in Kosovo's Serb-majority northern municipalities.</p>	<p><b>High</b></p> <p>Tensions in Kosovo's northern municipalities delay progress in the dialogue with Serbia, leading to a continuation of EU measures, which constrain access to EU and bilateral financing. It may also reduce investment, tourist arrivals, and international support.</p>	<ul style="list-style-type: none"> <li>Engage in the EU-sponsored dialogue and implement EU-SAA provisions.</li> </ul>

## Annex V. An Illustrative Downside Scenario

This Annex quantitatively assesses the impact on Kosovo of an adverse shock as described in the [IMF 2025 October WEO](#) (Box 1.2, Scenario A). The shock combines the effects of rising US tariffs, supply disruptions, higher inflation expectations, and tightening financial markets.

**1. Kosovo has limited direct exposure to the U.S., and its overall goods export base is small.** Its main linkage to the global economy is through the euro area (EA). The primary transmission channels are remittances, investment, and services exports (tourism). Remittances amount to about 13 percent of GDP reaching about 20-25 percent of households ([World Bank, 2022](#)). About 80 percent of FDI is for real estate operations, financed by diaspora.

**2. If an adverse shock materializes, Kosovo will be meaningfully affected.** GDP is projected to fall by about 1 percent below the baseline initially, with the gap widening to 1¾ percent by 2027, before gradually narrowing as the EA economy recovers. The larger impact compared to the EA reflects Kosovo's heavy reliance on remittances for consumption and their stabilizing role in coping with a structural trade imbalance, compounded by lower activity in construction as diaspora-driven investments and tourism demand moderate.



**3. The shock is expected to be disinflationary, as demand effects offset the impact of higher inflation expectations.** Since Kosovo is euroized, it cannot respond through monetary policy measures to support the economy. However, it could benefit from expansionary policies implemented by the ECB.

**4. Given the lack of automatic stabilizers on the spending side, fiscal deficits would average about 1–2 percent of GDP per year higher than the baseline through 2031, which could be financed by drawing down on treasury deposits and higher borrowing.** Financing larger deficits through additional borrowing could affect banking sector's liquidity. As highlighted in [IMF \(2024\)](#), the constraints of the monetary regime require strong fiscal buffers to mitigate the impact of adverse shocks on households and firms. This example illustrates the importance of maintaining fiscal buffers in the form of Treasury deposits that can be deployed rapidly through countercyclical measures designed to minimize disruptions in the real economy.

## Annex VI. Updating Kosovo's Fiscal Framework<sup>1</sup>

Revision of the fiscal framework in Kosovo should be appropriately calibrated to balance macroeconomic stability and resilience objectives with developmental needs. Staff analysis suggests raising the overall deficit ceiling to 3 percent of GDP but eliminating all existing adjusters. Such a “clean” deficit ceiling would be simpler, more transparent, and easier to monitor. The current debt ceiling at 40 percent of GDP should be maintained since the analysis suggests that under a 3 percent “clean” headline deficit, the debt-to-GDP ratio is highly likely to remain around that level. A 40 percent of GDP ratio would preserve ample fiscal space. To complement the core rules, an operational rule limiting growth of current spending, replacing the current wage bill growth rule, should be considered. In parallel, consideration could be given to establishing an independent fiscal council to enhance credibility, accountability, and long-term fiscal discipline.

### A. Background

**1. A comprehensive fiscal framework has been central to Kosovo's success in achieving macroeconomic stability.** While unilateral euroization has contributed to achieving low inflation and financial stability by providing a credible nominal anchor, Kosovo's rules-based fiscal framework has helped curb procyclical and uncontrolled spending and contain public debt. The 2008 Law on Public Financial Management and Accountability (LPFMA) is the backbone of fiscal architecture. It contains all key fiscal framework elements and defines corresponding transparency and accountability mechanisms. The Law on Public Debt establishes Kosovo's 40-percent debt anchor.<sup>2</sup>

**Annex VI. Table 1. Kosovo: Current Fiscal Rules in Kosovo**

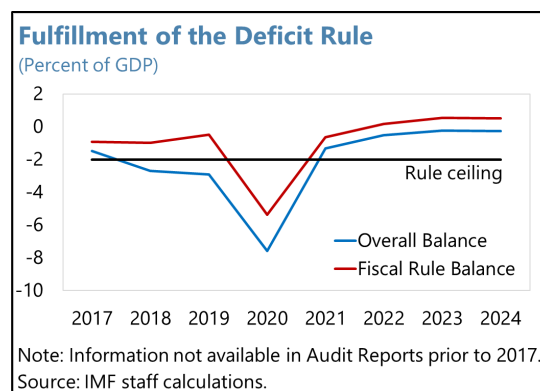
Type of Rule	Rule
<b>Deficit Rule</b>	Overall deficit should be below 2 percent of GDP. Adjustors—items excluded from the ceiling: (i) Capital spending financed from privatization proceeds subject to the authorities' “usable bank balance” being higher than 4.5 percent of GDP; (ii) Spending financed by the previous end-year balances of municipalities (i.e., carry over); (iii) Spending financed through unused budget appropriations for capital investment projects (LPFMA, 2013) (iv) Capital spending financed by supranational financial institutions, subject to the debt-to-GDP ratio being less than 30 percent, in effect for 10 years after introduction (LPFMA, 2015).
<b>Debt Rule</b>	The stock of public debt (including guarantees) must remain below 40 percent of GDP (Law on State Debt and State Guarantees, 2022) 1/
<b>Expenditure Rule</b>	Wage bill growth should be equal to or lower than the last nominal GDP growth figure reported by KAS (LPFMA, 2015)

1/ This limit was initially adopted in 2009 under the Law of Public Debt, which was retained in the new Law of State Debt and State Guarantees (2022).

<sup>1</sup> Prepared by Javier Kapsoli (EUR) with technical contributions from Clara Arroyo (FAD).

<sup>2</sup> The Law on Public Debt was replaced in 2023 by the Law of State Debt and State Guarantees, which maintains the debt anchor.

**2. Compliance with the fiscal rule has been strong.** Deficits, as defined under the fiscal rule, have averaged 1.0 percent of GDP—well below the legal ceiling. In 2020, the deficit ceiling was temporarily raised to 6.5 percent to address COVID-19 related fiscal pressures. This disciplined approach has kept public debt significantly below peer country levels. However, recent above-indexation increases in current spending could push the deficit closer to the ceiling. Looking ahead, demographic factors—including population aging, emigration, and rising health service demand—will create additional spending pressures. Given euroization, fiscal policy bears full responsibility for macroeconomic stabilization. This underscores the need to maintain long-term fiscal sustainability and sufficient buffers to respond swiftly to adverse shocks.



**3. Against this backdrop, the authorities plan to update the LPFMA.** As Kosovo moves toward deeper integration and membership in the European Union, the authorities are considering modernizing the fiscal framework, including by aligning it with the Stability and Growth Pact (SGP).

## B. Setting Debt and Deficit Ceiling

**4. Revising Kosovo's fiscal rules calls for balancing objectives related to fiscal sustainability and resilience, and those related to development needs.** Considering Kosovo's low initial debt stock and following [Eyraud et al. \(2018\)](#), the analysis assumes a debt limit at 50 percent of GDP, the level above which debt could have potentially growth-impeding effects as estimated in the literature for the case of emerging economies.<sup>3,4</sup> The method relies on stochastic simulations to calibrate a debt ceiling that remains below the debt limit with an adequate safety margin. The estimation involves three stages: (i) identifying a maximum *debt limit* based on key macroeconomic policy objectives; (ii) estimating a distribution of macroeconomic shocks based on data for Kosovo and simulating potential debt trajectories; and (iii) calculating a *debt ceiling* that provides a sufficient buffer to ensure public debt stays below the limit with high probability.

**5. We estimate the debt anchor and range that Kosovo debt-to-GDP could take in the next several years** (see Figure 1.A) The calibration procedure is broadly described as follows:

- The model uses the standard debt-dynamics identity, whereby the debt ratio evolves as a function of the primary balance and key macroeconomic variables.

<sup>3</sup> [Law et al. \(2021\)](#) estimate a debt to GDP threshold of 51½ percent, above which public debt exerts a statistically significant negative effect on growth. Using the same methodology, [Sha et al. \(2025\)](#) find a threshold of 51.0 percent of GDP also for a sample of emerging economies.

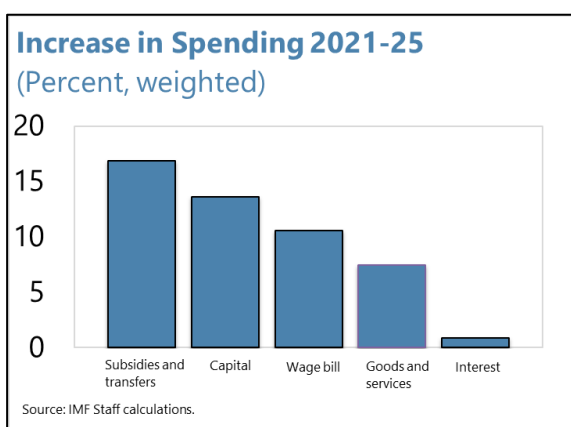
<sup>4</sup> Alternatively, consideration could be given to setting the debt limit based on the risk of debt distress. This is approach used, for example, in the MAC-DSA ([IMF, 2013](#)).

- Baseline paths are generated using annual data for 2001–24, from which a joint distribution of shocks is estimated.
- Primary balances for 2025–31 are derived to ensure consistency with a general government overall deficit of 3 percent of GDP (calculated without adjustors).
- Following the [2024 Selected Issues Paper for Kosovo](#), we set the minimum fiscal buffer at 4.5 percent of GDP, implying an annual Treasury accumulation of 0.5 percent of GDP.<sup>5</sup>
- To capture stochastic macroeconomic shocks, 1,000 simulations are generated using draws from the estimated joint distribution. Each simulation produces a distinct debt trajectory, used to construct a fan chart (see below).

**6. The estimations suggest that the current fiscal framework is broadly appropriate.**

The calibration exercise indicates that a 39.4 percent of GDP *debt anchor*—broadly consistent with the current 40 percent ceiling—would allow Kosovo to remain below a 50-percent *debt limit* with high probability, even under adverse macroeconomic shocks typical of those affecting the Kosovo economy. The current 40 percent of GDP debt ceiling should therefore be maintained. The current 2-percent "fiscal rule" deficit corresponds

to roughly 3 percent of GDP when including the current investment clause, which typically amounts to around 1 percent of GDP at the time of budget formulation.<sup>6</sup> Other adjustors, given their unpredictability, are generally not incorporated at the budget formulation stage. The calibration exercise thus shows that a 3 percent of GDP "clean" deficit does not necessitate raising the debt anchor. Moreover, Figure 1.B indicates that, starting from current debt levels and assuming the proposed deficit ceiling, breaching the 40 percent of GDP anchor in the coming years is unlikely. Accordingly, the deficit ceiling could be raised to 3 percent of GDP while eliminating all adjustment clauses.<sup>7</sup>

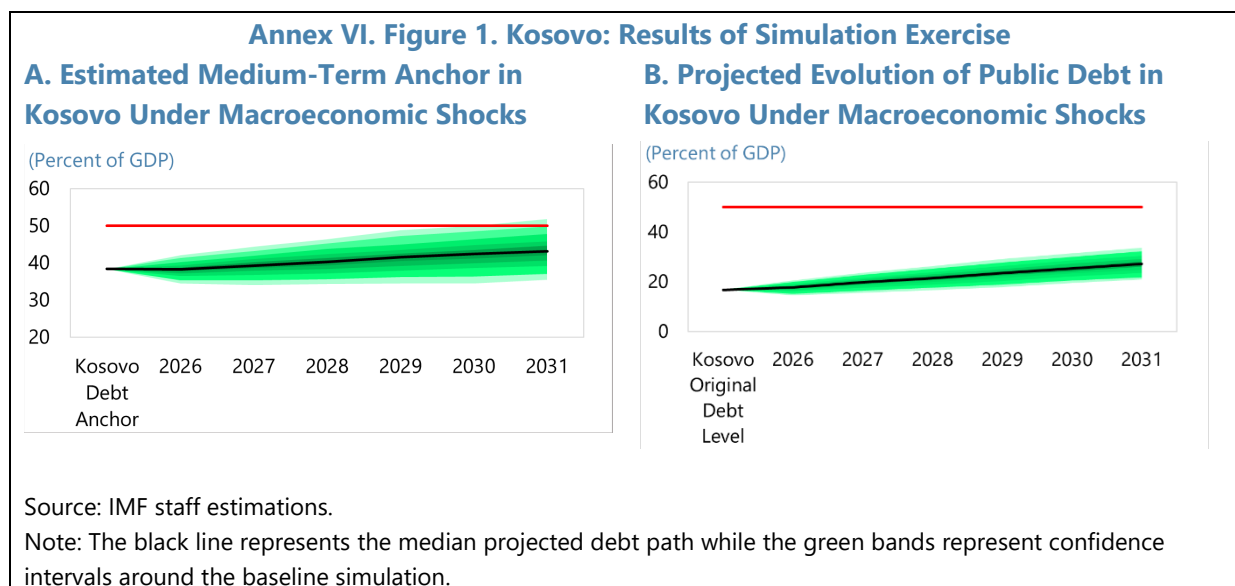


<sup>5</sup> At end-2024, the stock of Treasury freely available deposits (not including PAK, RSF, etc.) was about 2 percent of GDP. To reach 4.5 percent of GDP, the Treasury would need to accumulate about ½ percent of GDP annually for the next 5 years.

<sup>6</sup> It could be argued that there is a case for creating fiscal space to accommodate large, transformational investment projects. Kosovo appears to have sufficient room to scale up public investment. With fiscal deficits averaging around 1 percent of GDP in recent years, increasing the deficit ceiling to 3 percent would allow public investment to rise by up to two percentage points of GDP—from already elevated levels—without breaching the fiscal rule. Should the authorities wish to expand investment spending further, this could be achieved either through revenue-enhancing measures or by rationalizing current expenditure.

<sup>7</sup> The multiple adjustors reduce the rule's transparency and weaken its discipline. Under current law, Own-Source Revenue (OSR)-funded appropriations cannot be spent until funds are received in the Treasury Single Account, delaying municipal operations. Excluding OSR-funded spending therefore focuses on debt-creating expenditures

(continued)



**7. Contingencies and other risks call for a prudent approach to fiscal framework design, notably with respect to fiscal risks and contingent liabilities.** Although the authorities have strengthened the coverage of fiscal risks during the program supported by the 2023-25 IMF SBA, significant challenges remain. For example, coverage in the fiscal framework of contingencies arising from domestic court rulings is limited, and there is no coverage for those stemming from international rulings. In addition, certain legal obligations that cannot be classified as contingencies are not included in the public-debt stock (see details in Annex II). These factors underscore the need for caution when setting fiscal ceilings.

### C. Other Suggested Changes

**8. The wage-bill ceiling does not adequately capture underlying risks, limiting the budget's capacity to function as a countercyclical tool.** The rationale of the ceiling is straightforward: containing the expansion of the wage bill as a share of GDP. The rule was introduced under the 2015 SBA to alleviate competitiveness pressures from elevated and rising labor costs (IMF, 2015). However, implementation has been inconclusive; application of the rule appears confined to the budget formulation stage, and unlike the deficit rule, compliance is not reported by the National Audit Office. Moreover, effective countercyclical fiscal policy requires a budget structure that allows temporary spending injections that can be withdrawn once economic conditions normalize.<sup>8</sup>

rather than spending financed from municipal deposits. The investment clause aims to mitigate the anti-investment bias of fixed-deficit rules, which typically compress capital spending. In Kosovo, however, the clause has simply raised the planned deficit without being binding (on average, execution of spending included under the investment clause has been only 14 percent).

<sup>8</sup> This refers to regular business cycles fluctuations; economic emergencies would be covered by the law's escape clause which should remain.

**9. Recent trends indicate that while the wage bill remains significant, it is not the primary driver of rising budget rigidity.** Subsidies and transfers, most of which are untargeted, now account for a larger share of inflexible expenditures. Expanding the existing wage spending rule to include subsidies, transfers, and other current spending would therefore enhance its effectiveness. Spending-control rules are widely used—61 countries currently employ some form of expenditure rule ([Alonso and others, 2025](#)); several design options are reviewed in [Ljungman \(2008\)](#). For Kosovo, a simple, well-designed rule—such as capping current spending growth below long-term nominal GDP growth (around 6 percent)—would provide a credible and effective anchor while maintaining the concept of limiting current and overall spending relative to GDP.

**10. A Fiscal Council could significantly strengthen Kosovo's rules-based fiscal framework by providing independent evaluation of fiscal performance and policies, thereby enhancing transparency and accountability.** An independent body helps safeguard fiscal sustainability by offering non-partisan technocratic assessments, detecting emerging risks, and disciplining optimistic forecasts. International experience increasingly recognizes independent fiscal oversight as key to maintaining sound public finances. For Kosovo, where fiscal policy is the primary stabilization tool in a euroized economy and budget rigidity is rising, a Fiscal Council would reinforce compliance with fiscal rules and support more credible medium-term fiscal planning. Given capacity constraints, implementation could be gradual with support from international partners.

## Annex VII. Assessing Financial Stability Risks Related to Rapid Credit Expansion<sup>1</sup>

*This annex assesses macro-financial stability risks from rapid credit expansion. Following years of strong credit growth, driven by both household and corporate borrowing, Kosovo's credit-to-GDP ratio is now high compared with emerging European peers. Despite some recent moderation, credit growth remains stronger than implied by fundamentals. Going forward, to sustain fast credit growth, banks will either need to rely more on external wholesale funding, potentially amplifying vulnerabilities, or compete for deposits more aggressively, potentially affecting profitability. Relatively weak lending standards, particularly connected with large, uncollateralized household loans, raise financial stability concerns.*

**1. Total credit growth in Kosovo moderated to 16 percent year-on-year in 2025Q3 but remains strong (at the 86<sup>th</sup> percentile historically).** Total credit to nonfinancial sectors has reached 79 percent of GDP after years of robust growth, comprising domestic credit by banks (three-quarters), nonbank financial intermediaries (NBFIs) (7 percent), and external debt excluding direct investment (18 percent). The increase in domestic credit by banks has been the dominant driving force. Kosovo's domestic credit to GDP is high compared with emerging European peers.

- *Households.* Despite slowing to 20 percent, growth of household debt remains exceptionally strong (94<sup>th</sup> percentile). Household debt reached 29 percent of GDP in 2025Q3, with bank lending accounting for 89 percent, driven by consumer lending and other non-mortgage lending (mostly collateralized). Although mortgages accounted for 15 percent of bank lending to households, housing-related borrowing is significantly higher due to large, uncollateralized consumer loans used to finance home purchases.
- *Corporates.* Growth of corporate debt—including related to direct investment—remains relatively strong at 12 percent (86<sup>th</sup> percentile). Corporate debt has increased to 59 percent of GDP in 2025Q3, driven by bank lending (58 percent)—of which advances and overdrafts comprise a third and other collateralized loans two thirds. External debt and NBFI lending accounted for 38 and 4 percent, respectively. Credit demand has been stronger from small enterprises than from large ones.

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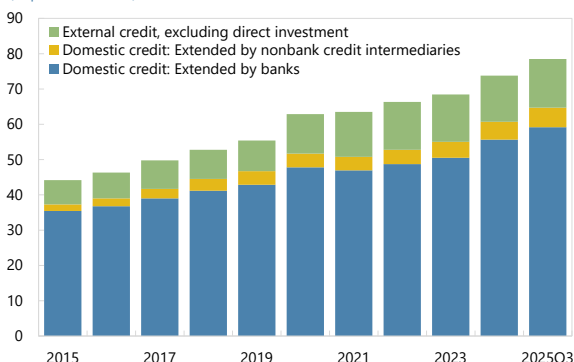
<sup>1</sup> Prepared by Phakawa Jeasakul (EUR).

### Annex VII. Figure 1. Kosovo: Credit Developments

Total credit reached 79 percent of GDP in 2025Q3, dominated by domestic credit extended by banks.

#### Total Credit

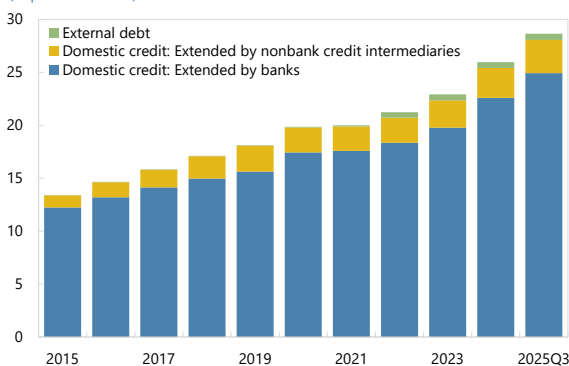
(In percent of GDP)



Household debt has reached 29 percent of GDP in 2025Q3...

#### Household Debt

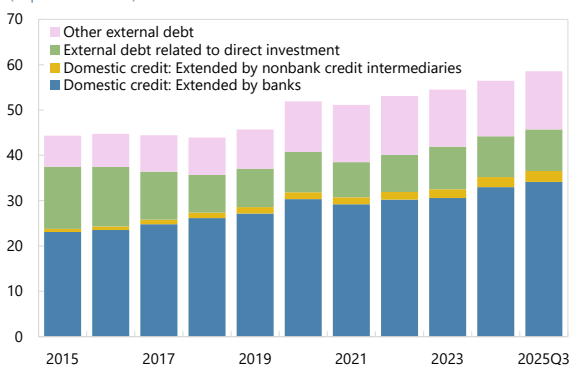
(In percent of GDP)



Corporate debt has increased to 59 percent of GDP in 2025Q3...

#### Corporate Debt

(In percent of GDP)

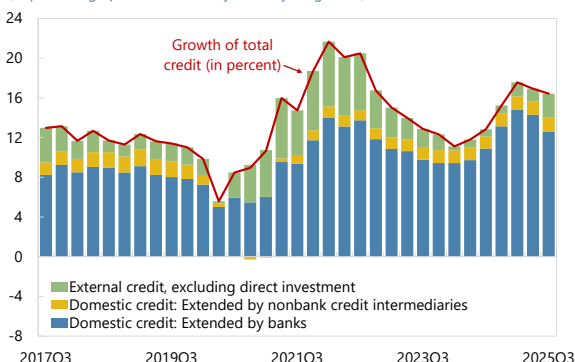


Sources: CBK; CEIC; and IMF staff estimates.

Total credit growth, though moderating recently, remains strong, underpinned by the expansion of bank lending to households and corporates.

#### Contribution to Growth of Total Credit

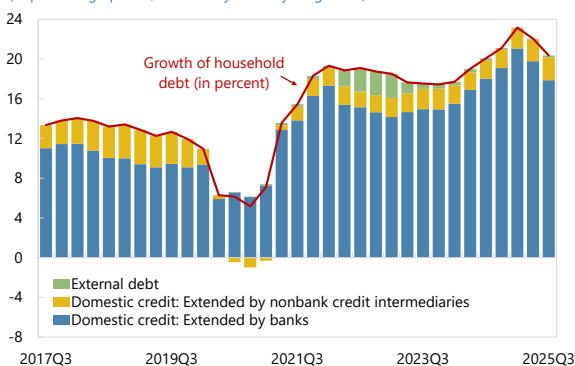
(In percentage points; based on year-on-year growth)



...with bank lending acting as the dominant driver.

#### Contribution to Growth of Household Debt

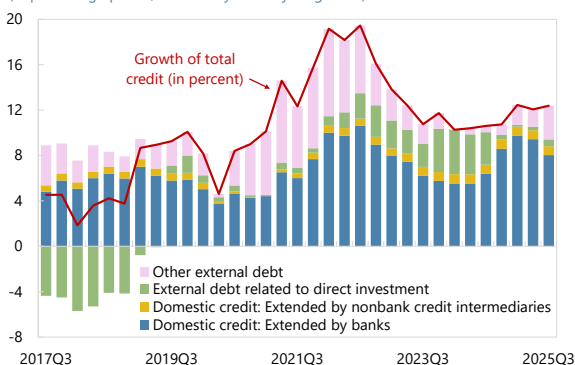
(In percentage points; based on year-on-year growth)



... with bank lending the key driver; external debt has played an important role in some periods.

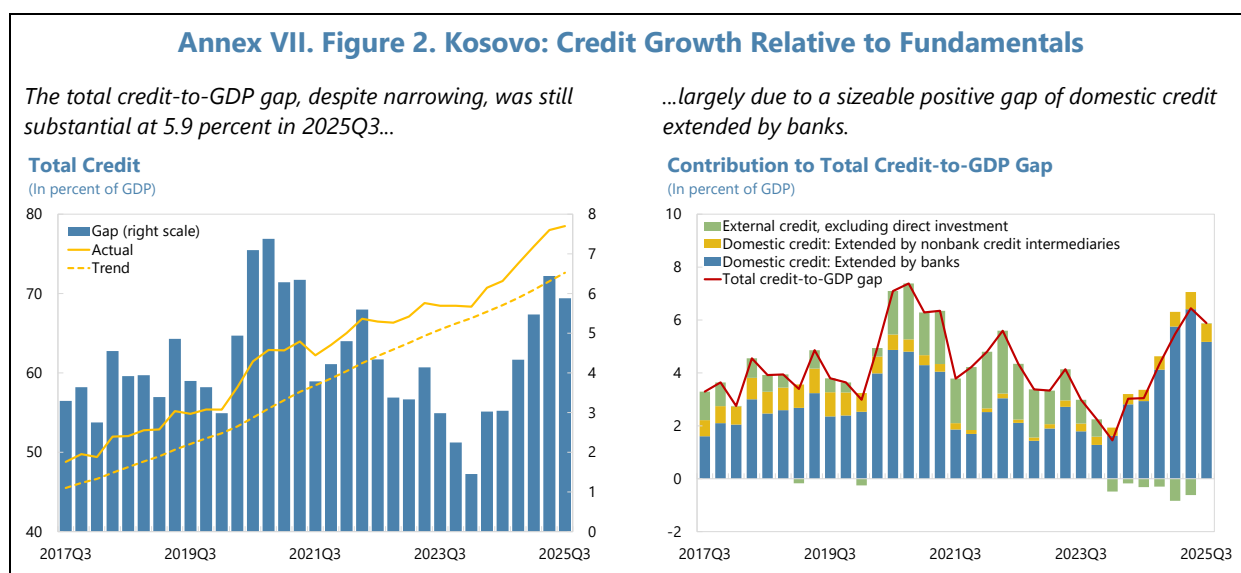
#### Contribution to Growth of Corporate Debt

(In percentage points; based on year-on-year growth)



## 2. Statistical analyses confirm particularly strong credit growth.

- a. *Credit-to-GDP gap analysis.*<sup>2</sup> With the caveat of relatively short time series, credit-to-GDP gaps have been positive (i.e., the actual credit level exceeds the estimated trend), partly reflecting the continued financial deepening. As of 2025Q3, the total credit-to-GDP gap, despite narrowing slightly, remains substantial at 5.9 percent, largely due to large positive gap of credit by banks. At the same time, a positive gap for credit by NBFIs has stayed broadly unchanged, while a negative gap for external debt has been closing. By borrower groups, positive credit-to-GDP gaps for household and corporate debt remain sizeable at 3.6 and 3.2 percent, respectively.
- b. *Credit growth-at-risk analysis.*<sup>3</sup> In 2025Q3, the realized growth of total credit exceeded the 90<sup>th</sup> percentile of forecast distributions based on macro-financial conditions one year earlier, indicating growth significantly stronger than implied by fundamentals. Similarly, realized growth of overall domestic credit and domestic credit extended by banks also appeared excessive (i.e., above the 90<sup>th</sup> percentile). Realized growth of household and corporate debt fell within the 50<sup>th</sup> to 90<sup>th</sup> percentile, suggesting that growth of private sector debt also appeared to be stronger than fundamentals. If credit growth continues at its current pace, it will remain strong relative to fundamentals given that the likelihood that total credit growth will exceed 14.3 percent is less than 5 percent.



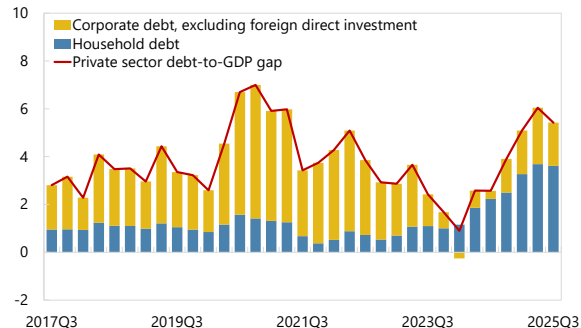
<sup>2</sup> The credit-to-GDP gap analysis estimates trend using the Hodrick-Prescott (HP) filter with the smoothing parameter of 400,000, similar to the methodology recommended by the Basel Committee on Banking Supervision to help guide the calibration of the countercyclical capital buffer ([link](#)).

<sup>3</sup> The analysis follows the growth-at-risk methodology developed by Adrian, Boyarchenko and Giannone (2018). More specifically, the distribution of credit growth forecasts is estimated conditional on macro-financial conditions such as lagged credit growth, projected nominal GDP growth and prevailing bank lending rates.

### Annex VII. Figure 2. Kosovo: Credit Growth Relative to Fundamentals (concluded)

Both household and corporate debt-to-GDP gaps are large.

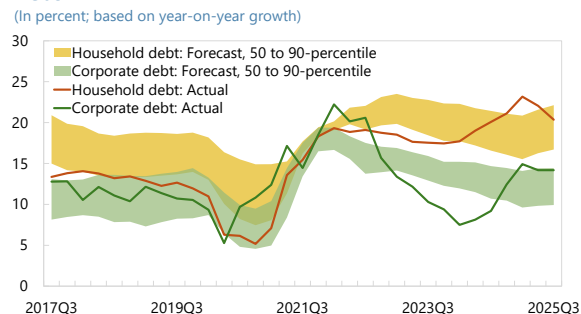
#### Contribution to Private Sector Debt-to-GDP Gap (In percent of GDP)



Note: Based on household debt and corporate debt (excluding foreign direct investment).

Growth of household and corporate debt...

#### Actual and Forecasted Growth of Household and Corporate Debt (In percent; based on year-on-year growth)

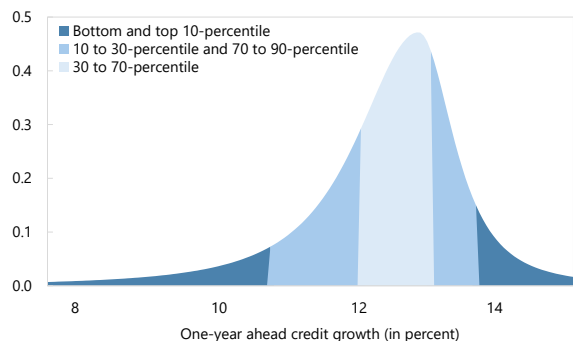


Note: Corporate debt excludes debt related to direct investment. Forecasted debt growth is conditional on macro-financial conditions one year earlier. 1/

Prevailing total credit growth, at about 16 percent, if it persists, will lie in the right tail of the conditional distribution of total credit growth forecasts.

#### Conditional Distribution of Total Credit Growth Forecasts

Probability density of one-year ahead forecasted credit growth, conditional on prevailing macro-financial conditions, as of 2025Q3 1/

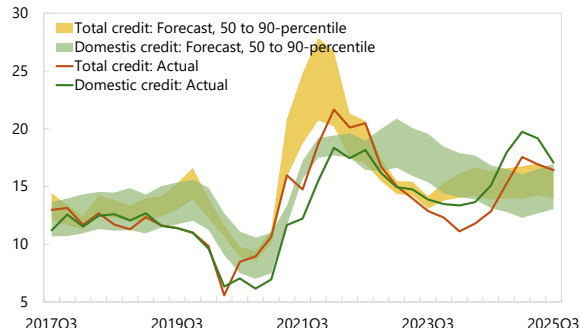


1/ The distribution of credit growth forecasts is estimated conditional macro-financial conditions such as lagged credit growth, nominal projected GDP growth and prevailing bank lending rates, using the growth-at-risk approach based on Adrian, Boyarchenko and Giannone (2018) and [IMF WP 2019/36](#).

Sources: CBK; CEIC; and IMF staff estimates.

In 2025Q3, realized growth of both total and domestic credit appeared excessive relative to fundamentals.

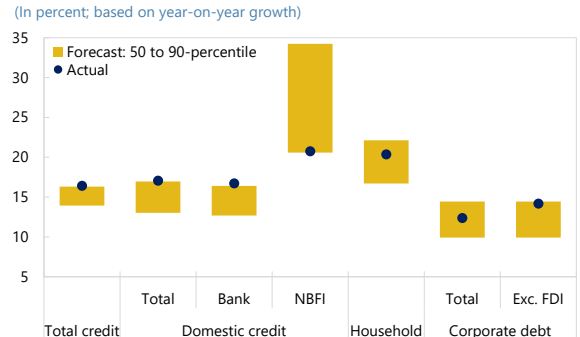
#### Realized and Forecasted Growth of Credit (In percent; based on year-on-year growth)



Note: Forecasted credit growth is conditional on macro-financial conditions one year earlier. 1/

...as well as bank domestic credit also appeared high relative fundamentals.

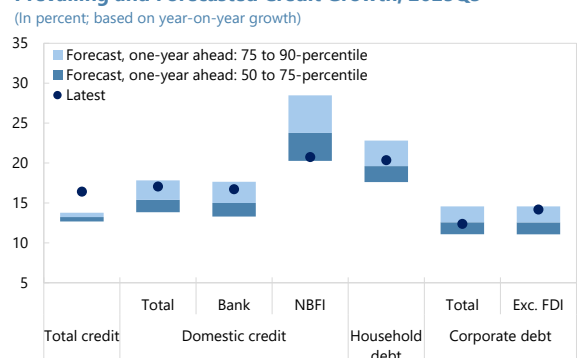
#### Actual and Forecasted Credit Growth, 2025Q3 (In percent; based on year-on-year growth)



Note: Forecasted credit growth is conditional on macro-financial conditions one year earlier. 1/

Except for domestic credit extended by NBFIs, growth of all other categories of credit—if remains at the same pace—would look strong relative to fundamentals.

#### Prevailing and Forecasted Credit Growth, 2025Q3 (In percent; based on year-on-year growth)



Note: Forecast credit growth is conditional on prevailing macro-financial conditions. 1/

**3. If credit growth re-accelerates, banks could face funding pressures.** As of end-2025, the ratio of systemwide loans-to-available deposits fell to 94 percent after peaking at 101 percent in June 2025.<sup>4</sup> Funding constraints vary across banks, with several banks increasingly competing for deposits, driving up deposit rates despite falling interest rates in the euro area. Tighter availability of deposit funding could increase bank reliance on external wholesale funding, potentially increasing vulnerabilities. On the other hand, if banks compete more aggressively for deposits, this may adversely affect net interest margins and profitability.

**4. From the viewpoint of capital, banks in Kosovo appear capable of supporting reasonably strong credit growth.** In the baseline consistent with the IMF staff's current projection, with credit expected growth at 12 percent in 2026,<sup>5</sup> the probability of funding pressures (i.e., available deposits are less than loans) is about 12 percent. Meanwhile, most banks will be able to grow capital organically to support credit expansion; two out of nine banks,<sup>6</sup> which tend to be loss-making in recent years, will require additional capital.

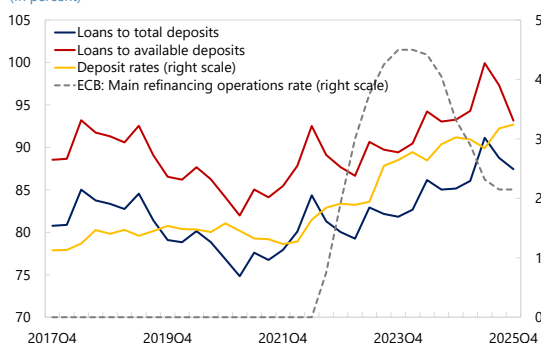
### Annex VII. Figure 3. Kosovo: Banks' Capital and Funding Constraints on Providing Credit

*Banks are increasingly susceptible to funding pressures as the systemwide loans-to-available deposits ratio has moved to close to 100 percent.*

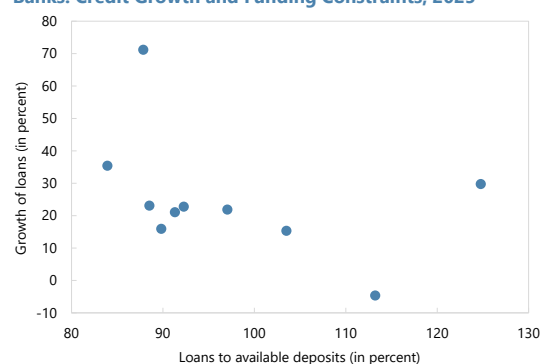
*Funding pressures vary across banks, with their deposit funding not sufficient to fund lending at some banks.*

#### Banks: Funding Pressures

(In percent)



#### Banks: Credit Growth and Funding Constraints, 2025



<sup>4</sup> Available deposits are total deposits net of required reserves.

<sup>5</sup> The IMF's macro framework also expects that banks' total assets will increase by 10 percent.

<sup>6</sup> Two foreign bank branches are not included in the analysis as they are not subject to standard capital requirements.

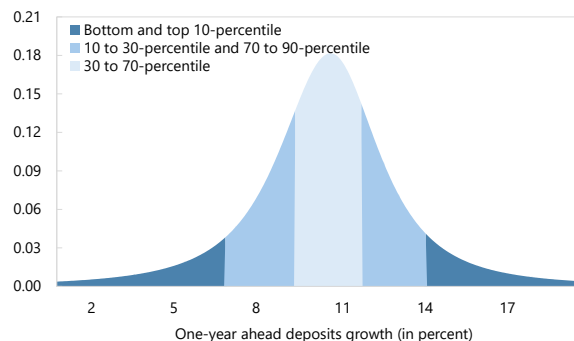
### Annex VII. Figure 3. Kosovo: Bank Capital and Funding Constraints on Providing Credit (concluded)

Prevailing deposit growth (at about 13 percent) looks strong relative to fundamentals, potentially reflecting bank competition for deposits.

The likelihood that banks will face funding constraints is high if rapid credit growth accelerates.

#### Conditional Distribution of Deposits Growth

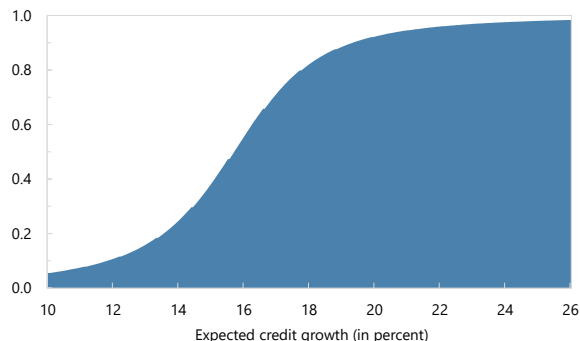
Probability density of one-year ahead forecasted deposits growth, conditional on prevailing macro-financial conditions, as of 2025Q3 1/



The banking sector is expected to be able to grow capital organically to support reasonably strong credit growth.

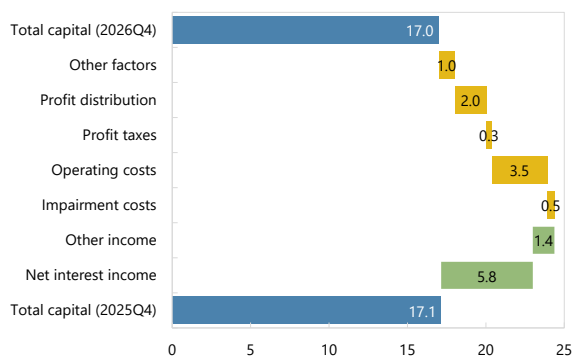
#### Probability that Banks Would Face Funding Constraints 1/

Banks would face funding constraints if deposits net of required reserves are less than loans; Based on one-year ahead estimates as of 2025Q3

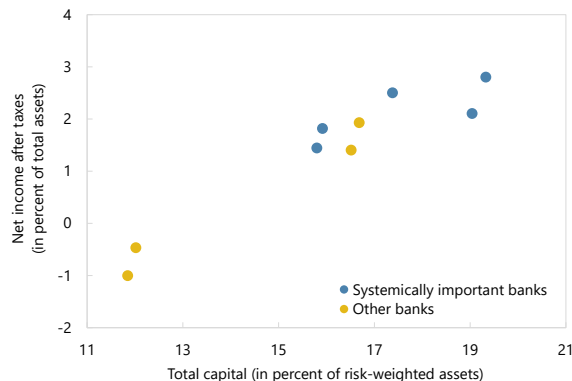


However, some loss-making banks will need to raise additional capital to sustain their operations and support balance sheet expansion.

#### Banks: Capital Position and Income Statement, 2025-26 2/ (In percent of risk-weighted assets)



#### Banks: Net Income and Total Capital, 2026



1/ The distribution of deposits growth forecasts is estimated conditional macro-financial conditions such as lagged deposits growth, nominal projected GDP growth and prevailing bank deposit rates, using the growth-at-risk approach based on Adrian, Boyarchenko and Giannone (2018) and [IMF WP 2019/36](#).

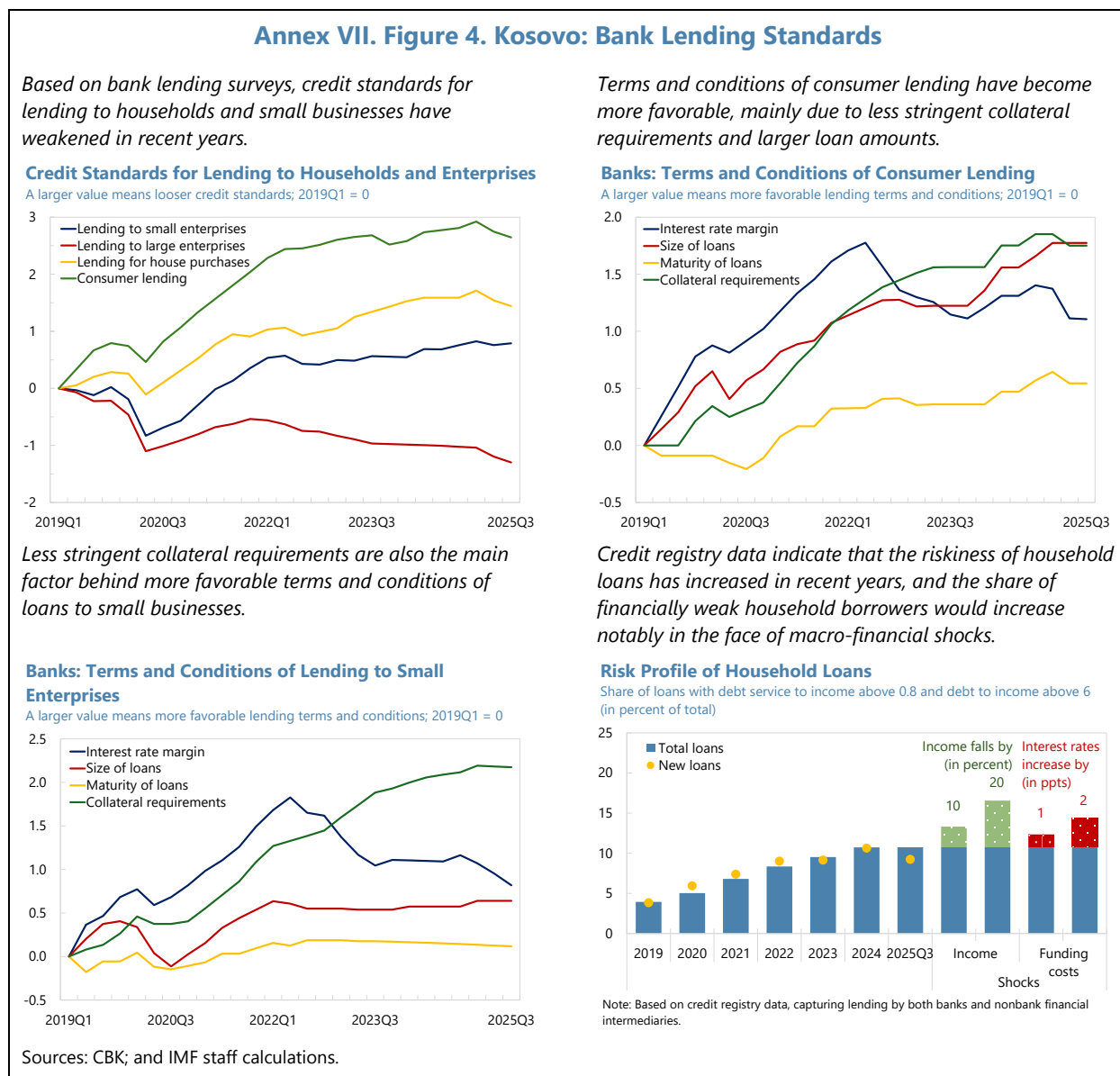
2/ Bank balance sheet and income statement are projected based on the following key assumptions: (i) total assets and loans increase 11.0 and 12.3 percent, respectively in 2026; (ii) net interest income is projected in line with the narrowing difference between lending rates and deposits rates declines from 3.3 to 3.2 percent; (iii) impairment costs are projected to reflect moderating real GDP growth in 2025; (iv) other income and operating costs remain stable relative to total assets; (v) profit distribution is in line with practices in recent years; and (vi) risk weighted assets are estimated based on balance sheet growth, using the same risk weight intensity.

Sources: CBK; CEIC; and IMF staff estimates.

**5. Bank lending standards for households and small businesses have weakened in recent years.** Despite marginal tightening in 2025, lending standards for households had eased significantly since 2019.<sup>7</sup> Terms of consumer loans have become more favorable, mainly because of relaxed collateral requirements and increased loan sizes. At the same time, lending standards have

<sup>7</sup> Credit registry data corroborate that bank lending standards for households did not weaken in 2025 as new borrowers' ability to repay debt—based on debt service to income and debt to income—did not decline.

tightened for large firms but have eased for small businesses. Terms on small business loans have become more favorable due to less stringent collateral requirements. The credit registry data indicates that the riskiness of household loans has increased in recent years, reflected by a rising share of financially weak household borrowers (i.e., based on debt service to income above 80 percent and debt to income above 6 times). Furthermore, these financially weak household borrowers appear sensitive to macro-financial shocks. Nevertheless, regulatory data on nonperforming loans and restructured loans suggests adequate collateral, which would mitigate bank losses.



**6. Bank lending standards in Kosovo may be relatively weak compared with emerging European peers.** Kosovo’s bank credit-to-GDP ratio is high relative to its income level. In addition to reflecting the underdeveloped nonbank credit intermediation, such a high level of domestic credit

may arise from relatively weak bank lending standards. While it is difficult to establish a conclusive cross-country comparison of bank lending standards, data show that substantial (and large) non-mortgage loans are used to finance housing-related activity in Kosovo. This raises financial stability concerns, particularly considering the weakening trend of bank lending standards for households. For corporate loans, even though about one-third of loans are uncollateralized in the form of advances and overdrafts, financial stability concerns are lessened by the fact that these loans help finance firms' working capital and thus support firms' debt-serving capacity.

**7. Certain segments of household loans appear risky due to borrower financial weakness.**

As of 2025Q3, the share of financially weak household loans amounted to 10 percent.<sup>8</sup> Large-sized loans—particularly real estate-related (including non-mortgage loans)—appear riskier, underscoring the need to tighten lending standards to safeguard borrowers' repayment capacity and limit potential credit losses.

**8. The analysis highlights the need to enhance risk monitoring and strengthen lending standards.**

Following years of strong credit growth, the share of financially weak borrowers has increased, contributing to greater credit risk faced by lenders. Enhanced risk monitoring is thus warranted. Assessing the risk profile of lending to households and corporates is essential, and the quality of credit registry data must be improved to enable reliable risk analysis.<sup>9</sup> Given sizeable uncollateralized lending to households, steps should be taken to strengthen lending standards and address regulatory leakages. Non-mortgage lending for home purchase should be subject to broadly similar underwriting standards to mortgage lending (e.g., limits on debt service to income), while lending under tripartite arrangements should be treated in a more similar manner to lending for real estate project development. In the case that credit growth re-accelerates, targeted borrower-based macroprudential measures could be introduced to ensure borrowers' adequate debt-servicing capacity. It is also important to ensure that rapid credit expansion does not lead to excessive funding pressures and inadequate capital buffers.

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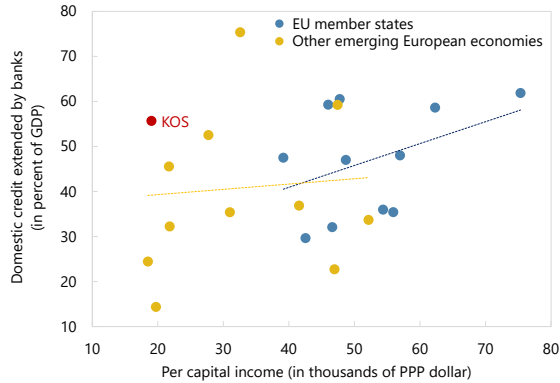
<sup>8</sup> These financial thresholds may not be conservative but is chosen to provide a benchmark enabling comparison across different loan characteristics. The main issue with credit registry data for households is that co-borrower income is not reported properly, resulting in unreasonably high levels of debt service to income and debt to income.

<sup>9</sup> Supervisors should scrutinize banks and nonbank lenders that do not report data properly as this may reflect their inadequate internal control and risk management.

### Annex VII. Figure 5. Kosovo: Riskiness of Bank Lending to Households

Domestic credit extended by banks relative to GDP is relatively high compared with emerging European peers, potentially reflecting weaker lending standards.

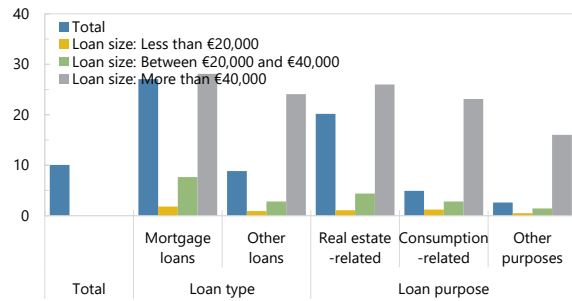
#### Emerging Europe: Domestic Credit and Income, 2024



Real estate-related loans and large-sized household loans exhibit higher risk than consumption-related and smaller-sized loans.

#### Riskiness of Household Loans, 2025Q3

Share of loans with debt service to income above 0.8 and debt to income above 6 (in percent of total)

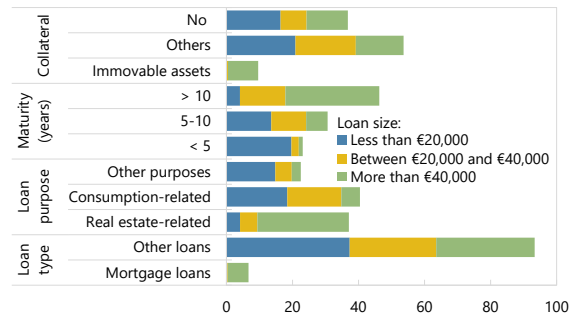


Note: Based on credit registry data, capturing lending by both banks and nonbank financial intermediaries.

Substantial non-mortgage loans are used to finance real estate-related activity, with some uncollateralized.

#### Characteristics of Household Loans, 2025Q3

Share of loans (for each category) in percent of total household loans

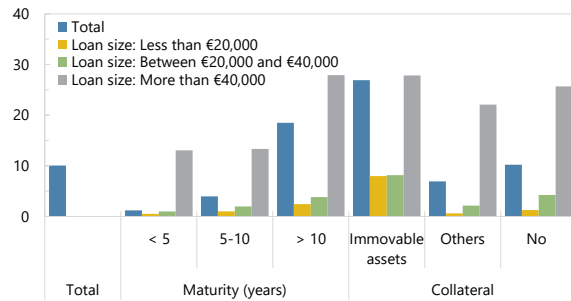


Note: Based on credit registry data, capturing lending by both banks and nonbank financial intermediaries.

Longer-term loans have a larger share of financially weak borrowers, mirroring greater repayment burden of larger-sized loans.

#### Riskiness of Household Loans, 2025Q3

Share of loans with debt service to income above 0.8 and debt to income above 6 (in percent of total)



Note: Based on credit registry data, capturing lending by both banks and nonbank financial intermediaries.

Sources: CBK; and IMF staff calculations.

## Annex VIII. Capacity Development Strategy

**1. Kosovo benefits considerably from Fund CD work across major areas, although absorption is a challenge.** The authorities rely on Fund CD to help strengthen public institutions and policy frameworks, as well as implement reforms. However, shortcomings in the authorities' technical capacity, hampered by significant staff turnover, contribute to relatively low CD absorption capacity. Coordination with other CD partners is critical as Kosovo is receiving TA from various providers. Recent Fund CD engagement includes (i) tax and expenditure policies; (ii) revenue administration; (iii) public financial management; (iv) Financial System Stability Review (FSSR); (v) financial supervision; (vi) systemic risk assessment; (vii) central bank's governance and operations; and (viii) statistics.

**2. Kosovo's CD needs span a wide range of areas due to the continued need to enhance the authorities' policymaking and technical capacity.** The medium-term CD needs that can benefit from the Fund CD agenda encompass the following areas: (i) fiscal governance (tax and expenditure policies); (ii) public finances capacity (revenue administration and public financial management); (iii) financial stability (systemic risk oversight, crisis management, and banking supervision); (iv) macro-financial modeling; and (v) statistics. These are areas that will be covered by the new Southeast Europe Regional Technical Assistance Center—SEETAC—along with continuing CD support from IMF HQ.

- **Tax policy.** Based on the General Diagnosis of the Tax System conducted in 2021, improvements are required in several areas, including (i) rationalizing and simplifying tax exemptions; (ii) reviewing tax rates and increasing progressivity; and (iii) enhancing property taxation. FAD TA has focused on increasing fairness and progressiveness, including by revising tax benefits and aligning the corporate income tax with the new EU harmonized global minimum rate. Going forward, priorities include establishing the capacity for regular tax expenditure analysis and tax reform proposal evaluation (TA is planned), as well as improving environmental and natural resource taxation, enhancing property taxation (to expand the tax base at the municipal level), and strengthening taxation of high-net-worth individuals.<sup>10</sup>
- **Expenditure policy.** While Kosovo's public pension system does not face sustainability challenges, a pension reform to improve equity and fairness is needed.
- **Revenue administration.** The recent increase in tax revenue has resulted from performance-oriented approach, modern compliance risk management, digital transformation, and improvements in debt collection, audit, and dispute resolution functions, all of which benefited from FAD CD work. Going forward, priorities include continuing digitalization efforts and increasing the use of domestic and international third-party data. FAD has an ongoing CD

<sup>10</sup> The Ministry of Finance, Labor and Transfers has prepared—with World Bank support—a comprehensive review of tax expenditures. Amendments to the laws on personal income tax, corporate income tax, and value-added tax, with an objective of strengthening the equity of the tax system and improving revenue mobilization, are expected after the new government formation (in 2026).

program to support strengthening revenue administration in Southeastern Europe. A regional tax data analytics model will be introduced through remote regional events in early 2026.

- **Public investment management (PIM).** Enhancing the PIM framework is a priority. Key shortcomings, identified by the Public Investment Management Assessment conducted in 2023, include weak project appraisal (at the planning stage) and project selection (at the allocation stage), limited alternative infrastructure financing, ineffective oversight of investment projects, and no framework for managing climate investment. The public-private partnerships framework should also be enhanced to streamline complex processes and contain fiscal risks. Enhancing PIM governance is also critical, including improved project appraisal, execution, and monitoring of cost and time overruns, as well as multi-year capital budgeting.
- **Other aspects of public financial management.** In the area of budget preparation, a strategy to implement a results-based budgeting framework—as required by EU Directives—should guide reform efforts over the medium term, to the extent permitted by existing capacity constraints. Cash forecasting, which is currently being developed with FAD TA, requires further support to ensure regularly updated cash forecasts, expand the forecast horizon, and use it for fiscal policy decision-making. In the area of fiscal risk management, FAD CD support includes identifying main fiscal risks using the Fiscal Risks Assessment Tool and strengthening the capacity to monitor and manage fiscal risks. Recent FAD TA focuses on managing fiscal risks related to publicly owned enterprises.
- **Systemic risk oversight.** The Central Bank of Kosovo (CBK) is reviewing its macroprudential policy framework and upgrading its systemic risk analysis capacity. For the former aspect, the CBK’s ability and willingness to act should be supported by clear mandate and improved policy accountability, adequate macroprudential powers, and an effective policy formulation capacity. The latter aspect requires the capacity to collect necessary data, analyze macro-financial vulnerabilities (particularly, related to significant credit growth and robust real estate activity), and perform credible stress tests. An FSSR-linked TA program is envisaged.
- **Crisis management.** An effective crisis management framework can help contain systemic events and mitigate their macro-financial implications. A financial stability committee, in charge of crisis management, does not exist. The effectiveness of inter-agency coordination and the roles of individual agencies have not been tested. Meanwhile, the authorities are working on strengthening the financial system safety net (banking resolution, deposit insurance, and liquidity provision), supported by various providers, including MCM. The new Law on Banks provides legal foundation for the bank resolution framework and designates the CBK as the resolution authority. Operationalizing the bank resolution framework requires introducing secondary legislation, advancing the work on resolution planning, setting up a resolution fund, and strengthening banks’ loss-absorbing capacity. A systematic approach to manage systemic liquidity risk, including contingency planning, is also important. MCM TA on emergency liquidity assistance (ELA) is ongoing to support the CBK’s review and operationalization of the CBK’s ELA. MCM TA on developing the crisis management framework and operationalizing the bank resolution framework is planned.

- **Banking supervision.** Modernizing banking supervision remains a priority. Banking supervision should become more risk-based, supported by the CBK's capacity to perform the SREP. The risk assessment should be more comprehensive and less subjective. MCM supported developing a roadmap for implementing the SREP, which is being implemented under an FSSR-linked TA program.
- **Macro-financial modeling.** The CBK plans to enhance its macro model with two main objectives. One is to improve its forecasting ability by capturing relevant macro-financial linkages. Another is to use the upgraded model for producing stress test scenarios. ICD has developed a 3-year TA program to help the CBK enhance its macro modeling capacity.
- **Statistics.** STA continues providing TA to improve the quality of statistics on national accounts, prices, government finance, and external sector. For national accounts statistics, the focus is to strengthen the compilation system and reconcile quarterly and annual series. For price statistics, further efforts are needed to develop adequate price indices for computing volume estimates of value-added in different sectors. For government finance statistics, some progress has been made on reporting under the 2014 Governance Finance Statistics Manual. However, work on fully integrating stocks and flows is still ongoing, focusing on reconciling data for 2023 and 2024. One major challenge is the lack of information on an accrual basis. For external sector statistics, priorities include addressing large errors and omissions and developing more accurate compilation methods. Furthermore, residential real estate price statistics were published for the first time in December 2025, supported by an STA TA project since 2023. Ongoing TA focuses on ensuring the Kosovo Agency of Statistics' capacity to regularly update residential real estate price statistics. In addition, STA plans to conduct a diagnostic of statistical production and dissemination with an aim of identifying deficiencies relative to best international practices.

**3. Some near-term IMF CD activities are also envisaged to support the authorities' specific CD needs.** These CD activities are in the areas of central bank governance and operations, regulation of crypto-assets, emergency liquidity assistance, and legal matters.

- **Central bank governance.** Governance issues identified in the Safeguards Assessment conducted in 2023 have been largely addressed; the key remaining gaps require amendments to the central bank law. MCM supported the Central Bank Transparency assessment in 2025, which can inform how to enhance the CBK's transparency.
- **Central bank operations.** Strengthening CBK's own cybersecurity risk management is a priority. MCM TA is ongoing.
- **Regulation of crypto-assets.** A new law on crypto-assets assigns regulatory responsibilities to the CBK. Developing a regulatory regime (including secondary legislation) and building the CBK's necessary operational capacity are required to implement this new law. MCM TA is ongoing. At the same time, several provisions should be added to the law with a view to strengthening legal certainty for market participants and providing a robust legal foundation to the CBK's supervisory function.

- **Fiscal and financial laws.** The authorities plan to amend several laws. The review of the CBK Law is planned for 2026.

**4. Kosovo also has CD needs in other areas, which can be provided by other development partners.** These areas include governance, climate, digitalization, gender, financial system safety net, capital market development, and financial integrity.

- **Governance.** Addressing governance weaknesses and combating corruption remain priorities. Kosovo needs to improve the corruption outcome and strengthen the judicial system's integrity and efficiency.
- **Climate.** Efforts should focus on implementing recommendations from the Climate PIMA conducted in 2023 and the World Bank's forthcoming Country Climate and Development Report (CCDR) to support the climate transition. Furthermore, Kosovo needs to strengthen its capacity to manage climate-related risks and prepare for the EU's Carbon Border Adjustment Mechanism (CBAM). The IMF could provide FAD CD in this area, including on fiscal reforms for energy transition (e.g., preparation to CBAM) and fiscal policies to strengthen disaster resilience (e.g., disaster risk management and financing).
- **Digitalization.** Kosovo's digital infrastructure needs to be strengthened, and digitalization of public services should be accelerated. Digital transformation efforts should be coordinated, with an adequate attention of managing cybersecurity risk and promoting digital literacy.
- **Deposit insurance.** Kosovo is considering raising the deposit insurance coverage and exploring contingency liquidity arrangements for the Deposit Insurance Fund of Kosovo.
- **Capital market development.** A well-functioning domestic capital market and asset management activity can provide alternative financing to businesses, increase the government's fund-raising capacity, expand investment opportunities for households, and improve investment diversification benefits from investing in European and international capital markets.
- **Financial integrity.** Strengthening the anti-money laundering and countering the financing of terrorism (AML/CFT) capacity remains a priority. The authorities plan to update the national risk assessment and strengthen the capacity to supervise AML/CFT compliance. Given Kosovo's capacity challenges, the authorities may need to seek help from a CD provider to complete these efforts. Subject to availability of resources, the IMF stands ready to evaluate any CD request in this area. An amendment to the Law on AML/CFT, approved by Parliament in December 2024, was recently ruled unconstitutional by the Constitutional Court on procedural grounds and will need to be resubmitted with the aim of aligning it with the EU and FATF standards

**5. Kosovo has been receiving wide-ranging CD support from multiple development partners.** Coordination among CD partners is important to avoid duplicating efforts and ensure appropriate prioritization and sequencing of the overall CD work. Major CD partners include (i) EU

institutions and bilateral European partners; (ii) the World Bank, as well as the IFC; (iii) the EBRD; and (iv) the USAID. The forthcoming Southeast Europe Regional Technical Assistance Center (SEETAC) will help significantly increase the Fund's CD footprint and enhance coordination with other development partners.

- **EU institutions and bilateral European partners.** Their CD activity spans over a wide range of areas, including public financial management (budget preparation, procurement, internal control, and audit), revenue administration (property taxation), state aid, education (basic education and vocational training), and energy efficiency.
- **World Bank.** The World Bank's CD activity covers macroeconomic forecasting, tax policy (tax reform and tax expenditures), debt management, insurance regulation, deposit insurance, and resolution of nonperforming loans. The IFC provides CD support in the areas of microfinance institutions and credit registries.
- **EBRD.** Its CD activity mainly involved developing the legal framework for bank resolution.
- **USAID.** Before being suspended in early 2025, the USAID provided CD support at the municipal level in the areas of public financial management (procurement and audit) and human resource management. At the central level, the USAID supported initiatives related to public financial management initiatives and capital market development.

## Annex IX. Data Issues

Annex IX. Table 1. Kosovo: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	A	A	A	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	B	A	A		
Granularity 3/	B		A	A	B		
			B		A		
Consistency			B	C		A	
Frequency and Timeliness	B	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p><b>Rationale for staff assessment.</b> The data collection and dissemination have some shortcomings but are broadly adequate for surveillance. However, there are some issues related to: (i) large revisions to national accounts (of more than 1 percentage point) in previous years and inconsistency in quarterly and annual data; (ii) lack of real GDP data in chain-linked prices; (iii) release lags of some national accounts indicators; (iv) discontinuation of key high-frequency indicators (e.g., industrial production); (v) large errors and omissions in the Balance of Payments (of about 2 percent)--likely due to unrecorded services exports and remittances--that are substantially higher than the median Fund membership; (vi) limited granularity of the data on credit to the private sector (e.g., no disaggregation by loan purpose), which limits the assessment of banking sector exposure to certain sectors, particularly real estate; (vii) outdated CPI base (2015), which goes well beyond the recommended timing for rebasing short-term statistics; (viii) misreporting of public investment spending; (ix) public debt only including government securities and not reporting other liabilities.</p>							
<p><b>Changes since the last Article IV consultation.</b> Since the last AIV Consultation, the Kosovo Agency of Statistics (KAS) released for the first time the Residential Property Price Index (RPPI), developed with IMF TA support. A follow up TA mission on the RPPI took place in January 2026 to assist KAS develop methodological documents and ensure that it has the capacity to continue updating the index going forward. KAS also received National Accounts TA in November 2025 for the development of Supply and Use Tables. Since 2024Q4, KAS stopped updating relevant high-frequency indicators, such as industrial production and service activity. The Ministry of Finance started sharing with the country team data on arrears at monthly frequency, with a 5-week lag. The Tax Administration continued publishing microdata on business turnover, number of employees, tax declarations and reimbursements, but with significant lag (up to three months). No major changes occurred in the data releases by the Central Bank of Kosovo (CBK).</p>							
<p><b>Corrective actions and capacity development priorities.</b> STA continues to provide TA to strengthen national accounts, price, government finance, and external sector statistics. In national accounts, the focus is on improving the compilation system and reconciling quarterly and annual series. In price statistics, further work is required to develop adequate indices for calculating volume estimates of value-added across sectors. In government finance statistics, progress has been made toward reporting under the 2014 Government Finance Statistics Manual, but full integration of stocks and flows remains underway, with efforts centered on reconciling data for 2023 and 2024 and addressing the lack of accrual-based information. For external sector statistics, priorities include reducing large errors and omissions and improving compilation methods. See Annex VII for details.</p>							
<p><b>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.</b> Staff does not use any data or estimates in lieu of official statistics.</p>							
<p><b>Other data gaps.</b> Long release lags of labor market statistics and Tax Administration data--including on wages, employment and unemployment. Timely publication of such indicators would help assess the overall health of the economy.</p>							

### Annex IX. Table 2. Kosovo: Data Standards Initiatives

Kosovo participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since May 2017.  
Kosovo intends to join the SDDS.  
A ROSC-type mission to review data standards was conducted in February 2026.

### Annex IX. Table 3. Kosovo: Table of Common Indicators Required for Surveillance As of February 19, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	Kosovo <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	Kosovo <sup>8</sup>
Exchange Rates	18-Feb-26	18-Feb-26	Daily	Daily	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Dec-25	Jan-25	Monthly	Monthly	M	...	1M	...
Reserve/Base Money	Dec-25	Jan-25	Monthly	Monthly	M	M	2M	25D
Broad Money	Dec-25	Jan-25	Monthly	Monthly	M	M	1Q	25D
Central Bank Balance Sheet	Dec-25	Jan-25	Monthly	Monthly	M	M	2M	25D
Consolidated Balance Sheet of the Banking System	Dec-25	Jan-25	Monthly	Monthly	M	M	1Q	25D
Interest Rates <sup>2</sup>	Dec-25	Jan-25	Monthly	Monthly	M	M	...	25D
Consumer Price Index	Jan-25	Feb-25	Monthly	Monthly	M	M	2M	30D
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	Nov-25	Jan-25	Monthly	Monthly	A	M	3Q	2M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	Nov-25	Jan-25	Monthly	Monthly	Q	M	1Q	2M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Sep-25	Dec-25	Quarterly	Quarterly	Q	Q	2Q	2M
External Current Account Balance	Nov-25	Jan-25	Monthly	Monthly	Q	Q	1Q	90D
Exports and Imports of Goods and Services	Nov-25	Jan-25	Monthly	Monthly	M	M	12W	40D
GDP/GNP	Sep-25	Dec-25	Quarterly	Quarterly	Q	A	1Q	10M
Gross External Debt	Sep-25	Dec-25	Quarterly	Quarterly	Q	Q	2Q	90D
International Investment Position	Sep-25	Dec-25	Quarterly	Quarterly	A	Q	3Q	90D

<sup>1</sup> Includes net market value of derivative positions.  
<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.  
<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.  
<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.  
<sup>5</sup> Including currency and maturity composition.  
<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.  
<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.  
<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

## Annex X. Implementation of Past Article IV Recommendations

Recommendation	Status
<b>Fiscal Policy</b>	
Strengthening tax capacity by improving registry accuracy, expanding information sources, and upgrading IT systems.	TAK continued compliance and digitalization gains through 2025—including full harmonization of the taxpayer registry with the Kosovo Business Registration Agency to improve accuracy and reliability of the registry data, and expansion of information sources to better support identification and profiling of taxpayers—but legislative changes were limited by the political stalemate.
Streamline PIT, CIT, and VAT tax expenditures.	PIT/CIT/VAT exemptions remain in place. The authorities have not expressed firm intentions to remove/streamline them.
Advance PFM Law reform (program budgeting, transparency, cost-benefit analysis, fiscal risks).	Discussions on reforming the budget framework law are ongoing, with focus on further institutionalizing program budgeting, improving transparency standards, strengthening cost-benefit analysis practices, and enhancing the management and reporting of fiscal risks. The authorities have received inputs from international partners. The Treasury is preparing a fiscal risks statement.
Strengthen Treasury liquidity buffers and operationalize Liquidity Committee.	The cash-forecasting function was implemented under the SBA. The cash buffer remains below staff's recommended benchmark.
Maintain fiscal policy within the rules-based framework, balancing stability with growth needs; ensure compliance ahead of the expiration of the investment clause in 2026.	The rules-based framework was, in general, fulfilled. However, the efficiency and effectiveness of public spending have deteriorated in 2025 amidst a large expansion of the budget size.
Improve public investment management, including feasibility/pre-feasibility studies, PPP law reform, and stronger MFLT oversight.	Public investment management has improved with the introduction of systems to record long-term commitments; stronger links between budgeting, treasury, and e-procurement; clearer criteria for capital project selection; and better coverage of expropriation costs and project information.
Address pension system adequacy and inequities, apply consistent indexation, and rationalize war-veteran pensions.	Pension increases have been <i>ad hoc</i> and well above the maintaining purchasing power legal mandate. Equity and sustainability concerns persist.

Recommendation	Status
Strengthen KPST investment practices.	Some improvements in governance and management have been introduced, but the lack of a local capital market and limited investment opportunities are critical impediments to strengthening KPST financial practices.
<b>Financial Policies</b>	
Adopt SREP and strengthen supervision of rapid credit growth.	The SREP manual will be finalized after incorporating comments from IMF staff. Key risk indicators and early warning indicators are integrated into the supervisory framework, and bank peer groups have been established. In addition to setting up an automated bank assessment system, other supervisory practices have been improved, including business model and governance analysis, risk control assessment.
Continue reforms to strengthen crisis management, deposit insurance, and emergency liquidity assistance (ELA) frameworks.	<i>Crisis management:</i> IMF TA has been requested. <i>Deposit insurance:</i> Draft amendment of the Law on Deposit Insurance is being prepared with World Bank support. <i>ELA:</i> The ELA framework is being updated, supported by IMF TA, with expected finalization in 2026Q1.
Strengthen regulation and oversight of NBFIs (new microfinance/NBFI law, liquidity regulation, Solvency II roadmap).	<i>NBFI Law:</i> The draft Law on NBFIs has been prepared. Initial consultations with the micro finance institutions have been completed; broader consultations are ongoing. <i>Solvency II:</i> A Solvency II Action Plan was finalized in alignment with the roadmap developed with World Bank support, setting out key regulatory steps for gradual harmonization with EU standards. Implementation will require TA.
Enhance macroprudential policy framework — institutional strengthening, addressing data gaps, reinforcing mandate in CBK law.	According to the new Law on Banks (Article 5), the CBK is responsible for macroprudential supervision for the banking sector. The planned amendment of the CBK Law will further strengthen the legal basis for the CBK's macroprudential powers. Work continues to address data gaps.

Recommendation	Status
Continue CBK governance and transparency reforms, following Safeguards and CBT assessments; enhance risk-management and cybersecurity.	<p><i>Governance and transparency:</i> The planned amendment of the CBK Law will address remaining governance issues identified by Safeguards Assessment. The CBT assessment was concluded, and an action plan to address recommendations is being developed.</p> <p><i>Risk management:</i> IMF TA on risk management, cybersecurity, and internal use of AI is ongoing.</p>
Advance reforms in payments services (new law, expand digital payments infrastructure).	CBK signed a TIPS-Clone instant-payments agreement with Banca d'Italia (January 2025). The project is expected to go live in mid-2026. Legislative actions required for the SEPA application will be re-initiated shortly.
Accelerate AML/CFT alignment with EU/FATF.	The process for amending the AML/CFT Law will be re-initiated shortly.
Structural Policies	
Boost female labor force participation through expanded childcare, education opportunities, gender-responsive budgeting.	FLFP slightly improved in recent years but remains well below the Western Balkans and EU averages. Recent investments have focused on expanding childcare infrastructure and access but remain insufficient.
Strengthen business climate, governance, investment promotion.	Reform momentum slowed in 2025 amid the political stalemate. An internal regulation has been approved to establish the Investment and Export Promotion Agency (Kosova Invest), aimed at strengthening FDI and export promotion, but further progress depends on the adoption of the new Law on Sustainable Investments. In parallel, the Kosovo Investment and Enterprise Support Agency (KIESA) continue to implement sector-specific grant schemes supporting creative industries, innovation, digital transformation, and green energy. These programs finance research and product development, adoption of digital technologies, and energy-efficiency and renewable investments, contributing to investment diversification and a stronger domestic investment ecosystem.

Recommendation	Status
Deepen regional integration (CEFTA, EFTA).	Kosovo assumed direct representation in CEFTA in late 2024 and, as CEFTA Chair in 2025, oversaw the adoption of four decisions enhancing customs cooperation, market surveillance, and digital integration. CEFTA Week 2025 advanced work on the Common Regional Market (CRM) Action Plan (2025–2028). In parallel, Kosovo signed a comprehensive Free Trade Agreement with EFTA in January 2025, marking a significant expansion of its regional trade architecture. Further efforts are needed to operationalize elements of the CRM agenda and fully implement the EFTA agreement.
Improve governance and rule of law, expedite judicial reforms, expand alternative dispute resolution, and strengthen anticorruption institutions.	The Ministry of Justice has initiated a comprehensive justice reform through a package of six draft laws aimed at strengthening transparency, integrity, efficiency, professionalism, and judicial independence. Four Venice Commission opinions were issued, and their recommendations are being incorporated to ensure alignment with European standards. The Law on the Administrative Court (in force January 2026) has enabled a specialized first-instance Administrative Court.
Accelerate digital adoption, expand digital public services, improve interoperability, and integrate govtech for revenue administration and fiscal transparency.	Digitalization efforts have continued to strengthen revenue and customs administration. TAK has further enhanced its electronic service platform, improving efficiency, data quality, and compliance, with additional online services planned for 2026. In parallel, Kosovo Customs has advanced digital reforms to automate procedures, strengthen interoperability, and modernize financial management, with further gains expected from the forthcoming National Single Window project.
Green Policies	
Implement CBAM-related reforms: adopt secondary legislation, complete MRVA system, and monitor firms' exposure to transition risks.	CBAM-related reforms have not yet been adopted, as approval of the <i>ex-post</i> Climate Change Law depended on the formation of a new government, which became possible only recently.
Advance decarbonization strategy through renewable energy auctions (solar, wind), implementation of new renewable energy law, and scaling private investment.	First 100MW solar auction completed in 2024. 100MW wind RFP launched in December 2025 with IFC advising. ~650MW pipeline advancing.

Recommendation	Status
Strengthen energy efficiency through residential efficiency programs, new energy efficiency law, and expansion of KEEF's operations.	The government is advancing residential energy efficiency through national and donor-supported programs, with a strong focus on vulnerable households. Measures cover both individual houses and multi-apartment buildings, delivered mainly through KEEF and donor-financed initiatives, and have already supported thousands of households. These programs are expected to generate sizable energy savings and emissions reductions, while improving living conditions and cushioning low-income households from high energy costs.
Deepen regional energy cooperation (ALPEX) to strengthen market integration and competition.	The day-ahead market (DAM) and intraday market (IDM) are fully operational in both Albania and Kosovo bidding zones.
Reduce electricity losses, especially non-technical losses in the north.	Non-technical losses persist but North Kosovo electricity customers are now served by <i>Elektrosever</i> , a Serbian-owned, Kosovo-licensed electricity supply company.



# REPUBLIC OF KOSOVO

March 13, 2026

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The European Department  
(In consultation with other departments)

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## FUND RELATIONS

(As of January 31, 2026)

### Membership Status

Joined: June 29, 2009; Article VIII.

### General Resources Account

	SDR Million	Percent Quota
Quota	82.60	100.00
IMF's Holdings of Currency (Holdings Rate)	142.65	172.70
Reserve Tranche Position	20.13	24.37

### SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	134.54	100.00
Holdings	119.12	88.54

### Outstanding Purchases and Loans

	SDR Million	Percent Quota
Stand-by Arrangements	80.12	97.00
RSF Arrangements	61.95	75.00

### Latest Financial Arrangements

	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 25, 2023	May 24, 2025	80.12	80.12
RSF	May 25, 2023	May 21, 2025	61.95	61.95
Stand-By	July 29, 2015	August 04, 2017	147.50	135.40

### Outright Loans

	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	Apr 10, 2020	Apr 14, 2020	41.30	41.30

### Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2026	2027	2028	2029	2030
<b>Principal</b>			20.03	40.06	20.03
<b>Charges/Interest</b>	5.32	5.32	5.27	4.27	3.01
<b>Total</b>	5.32	5.32	25.30	44.34	23.04

**Implementation of HIPC Initiative:** Not Applicable

**Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**Implementation of Catastrophe Containment and Relief (CCR):** Not Applicable

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

### **Safeguards Assessments**

The CBK has implemented almost all recommendations from the 2023 Safeguards Assessment, notably those aimed at strengthening governance, internal audit capacity, risk management, and cybersecurity. The sole remaining recommendation relates to the ongoing process of amending the CBK Law to address residual governance-related gaps.

### **Exchange Rate Arrangements**

The de jure and de facto exchange rate arrangements are no separate legal tender. Kosovo unilaterally adopted the euro, which is the legal tender in Kosovo. Kosovo is not part of the euro area, and the CBK is not part of the European System of Central Banks. Kosovo has accepted the obligations of Article VIII Section 2, 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system that is free of multiple currency practices and restrictions on making of payments and transfers for current international transactions, except for restrictions maintained solely for reasons of international or national security, which have been notified to the Fund in accordance with Executive Board Decision No. 144-(42/51).

### **Article IV Consultation**

The previous Article IV consultation was concluded on December 17, 2024. Following the completion of the IMF-supported arrangement in May 2025, the current consultation is conducted under the standard 12-month cycle.

### **FSAP and ROSC Participation**

A Financial Sector Assessment Program (FSAP) mission took place during September 19–October 2, 2012. It produced a Financial Sector Stability Assessment, including Reports on the Observance of Standards and Codes (ROSC) on compliance with the Basel Core Principles.

A Financial Sector Stability Review (FSSR) mission in May 2019 found that nearly all 2012 FSAP and subsequent IMF MCM TA recommendations had been implemented. Its main recommendations focused on enhancing central bank governance; strengthening supervision and regulation; improving systemic-risk monitoring and financial stability governance; developing domestic securities markets; supporting financial inclusion and deepening; and upgrading financial statistics. Kosovo has made substantive progress, including advancing IFRS-17 implementation in the insurance sector, improving the consistency of monetary and financial statistics with international standards, and preparing legal changes to reinforce the Central Bank's macroprudential mandate.

Remaining gaps—such as statistical discrepancies and the need to complete the overhaul of insurance-sector reporting—are under way.

A 2025 FSSR Update, based on a follow-up mission in September 2025, examined financial stability risks, the effectiveness of oversight, and the macroprudential policy framework. It found that the system remains broadly sound but underscored the need to refine diagnostics of emerging vulnerabilities, clarify macroprudential decision-making, and strengthen communication of financial stability risks. Recommendations focused on reinforcing the legal basis for macroprudential policy, streamlining and strengthening the Financial Stability Report, and further developing analytical and supervisory tools.

Kosovo has not had a data or fiscal transparency ROSC. A ROSC-type assessment by the IMF’s Statistics Department, covering national accounts and prices, took place in February 2026.

### Capacity Development (CD)

From 1999, the Fund provided CD and policy advice to the UN Mission in Kosovo (UNMIK), and from September 2008 to the independent Republic of Kosovo. CD has centered on the Fund’s core competencies, notably in fiscal policy, banking and payments systems, and macroeconomic statistics. Assistance has also contributed to developing key aspects of the legal and institutional framework needed for a market economy. More recently, CD has been provided on the following issues:

#### 1) *Statistics*

<b>Workstream</b>	<b>Mission Date</b>
Residential Property Price Index	June 2023, June 2024, June 2025, October 2025, January 2026
Producer Price Statistics	June 2024
National Accounts Statistics	November-December 2023, August 2024
Government Finance Statistics	June 2022, February 2024, April 2025, September-October 2025

2) *Fiscal Sector*

<b>Workstream</b>	<b>Mission Date</b>
<i>Revenue Administration</i>	
TAK Reform Priorities and Strategic Plan	October-November 2025
Developing a Blueprint for a Modern Data Warehouse	January 2024, April-May 2024
Debt Management	May 2023, September 2024, October 2024
Data Analytics and Data Driven Compliance Risk Management	September 2023, October 2023, May 2024, September 2024, January 2025, March 2025, May 2025
Revenue Administration Workshop	February-March 2023
Taxpayer Compliance Risk Management	November 2022, September 2024, November 2025
TADAT Assessment	November 2022
Progress with Strategies to Enhance PIT Tax Audit	October 2022, October 2023
Design of Future Operations Model	October 2022, September 2023
IT Modernization	June 2022
Restructuring the Regional Tax Office Network	June 2022, September 2022
Accelerating Tax Administration Reform	June-July 2022
Large Taxpayer Compliance	March-April 2022
April 2022	
<i>Public Financial Management</i>	
Fiscal Risks	March 2024, September 2024, March 2025, October 2025
Gender and Climate Budgeting	February 2024, September 2025, November 2025, February 2026
PIMA Update and Climate PIMA	May 2023
PFM Laws and Institutions	May 2023, May 2024
Cash Forecasting	April 2023, July 2023, July 2024, October 2024
Budget Process	November 2022
Fiscal Risks Related to POEs	July 2022, September 2025, December 2025
PFM Reform	May 2022
<i>Tax Policy</i>	
Immovable Property Taxation	April 2025
Review of Recent Tax Policy Changes and Enhancing Analytical Capacity	April 2025
Legal support for AEoI/CRS Implementation	April 2025
Diagnostic of TPU and Tax Analysis Capacity	December 2023

3) *Monetary and Financial Sectors*

<b>Workstream</b>	<b>Mission Date</b>
<i>Financial Sector Stability Review</i>	
FSSR Update	September 2025
FSSR Follow-Up	June-August 2021, June 2022
FSSR	January, April, and October 2019
<i>Financial Supervision and Regulation</i>	
Crypto Asset Regulation	June 2025, October 2025
Supervisory Review Process	November 2024, May 2025, November 2025, December 2025
Cybersecurity Regulation and Supervision	August 2024, May-June 2025
Insurance Regulation and Supervision	January 2024
Risk-Based Supervision and Pillar 2	September-October 2022
<i>Central Bank Operations and Governance</i>	
Central Bank Transparency	May 2025, June 2025
Cybersecurity Regulation and Supervision	July 2024
Central Bank Risk Management	January-March 2024
<i>Systemic Risk Oversight and Macropolicy</i>	
Stress Testing	January 2023, June 2024
<i>Financial Safety Net</i>	
Desk Review of ELA Regulation	July 2025

4) *Macroframework*

<b>Workstream</b>	<b>Mission Date</b>
Development of Macroframework at CBK	September 2025, February 2026

**Resident Representative**

Mr. Sebastian Sosa, Regional Resident Representative for the Western Balkans, took up his post (in Vienna, Austria and covering Albania, Kosovo, Montenegro, and North Macedonia) on September 1, 2023. Mr. Sosa oversees the IMF's local office in Pristina.

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

<b>International Financial Institution</b>	<b>Hyperlink</b>
The World Bank Group	<a href="https://www.worldbank.org/en/country/kosovo/overview">https://www.worldbank.org/en/country/kosovo/overview</a>
The European Bank for Reconstruction and Development (EBRD)	<a href="https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?1=1&amp;filterCountry=Kosovo">https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?1=1&amp;filterCountry=Kosovo</a>
European Investment Bank (EIB)	<a href="https://www.eib.org/en/projects/country/kosovo">https://www.eib.org/en/projects/country/kosovo</a>



# REPUBLIC OF KOSOVO

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

March 20, 2026

Approved By:  
**Mark Horton (EUR)**  
and **Ana Ivanova (SPR)**

Prepared by the European Department (EUR)

*This supplement provides an update on the potential implications of the conflict in the Middle East since the circulation of the staff report to the Executive Board on March 13, 2026. The information presented does not alter the thrust of the staff appraisal.*

### 1. The conflict in the Middle East could have a material short-term impact on Kosovo’s economy:

- *External sector.* Under the revised assumptions of higher global commodity prices, the external current account deficit would widen slightly in 2026 to 10½ percent of GDP, 0.1

percentage point higher than in the staff report. This widening partially reflects higher prices on energy and food, each accounting for about 12 and 18

percent of goods imports, respectively. Higher regional electricity prices would add further pressure on the trade balance, particularly considering the expected temporary shutdown of a major thermal power plant from April. Weaker growth in Europe could dampen Kosovo’s exports and, to a lesser extent, remittances—typically more resilient—while other diaspora-related inflows, including FDI, may also moderate. Notably, other imports would decline.

- *Growth and inflation.* Growth is now projected to slow to 3.3 percent in 2026 (3.8 percent in the staff report) as higher commodity prices reduce real disposable incomes. Lower EU growth would further soften domestic demand—and growth of non-food and non-energy imports—including through lower remittance

<b>Kosovo: Updated Macroeconomic Scenario</b> (Percentage points deviation relative to Staff Report baseline)			
	2025 1/	2026	2027
Real GDP growth	0.2	-0.5	-0.2
CPI, period average 2/	0.0	2.8	1.4
Current Account balance	0.4	-0.1	0.2
General Government overall balance	0.0	0.4	0.0
Sources: IMF staff estimates and projections.			
1/ Reflects the latest data releases for 2025.			
2/ In addition to the effect of the Middle East conflict, the revision reflects faster inflation in January–February 2026.			

growth. Inflationary pressures are expected to intensify in the near term, reflecting higher import prices for energy and food—which account for a sizable share of the CPI basket—and potentially higher inflation in trading-partner economies. Core inflation, which had already begun to accelerate in early 2026—before the conflict in the Middle East, is expected to remain high as second-round effects take hold. As a result, headline inflation is revised up to 5.9 percent in 2026 (3.1 percent in the staff report).<sup>1</sup> Given the transitory nature of the shock, medium-term inflation is expected to remain anchored to euro-area conditions, though with a slower convergence to 2 percent than envisaged in the staff report; potential growth is unchanged.

- *Fiscal sector.* Higher energy and food prices would likely boost import-related tax revenues, potentially offsetting the negative impact of weaker growth on other revenue sources. On the expenditure side, the lack of strong automatic stabilizers would contain immediate spending pressures. Financing availability is expected to remain broadly unaffected, as Kosovo's external financing is largely from official creditors, with limited reliance on domestic or external market financing.
- *Financial sector.* Given ample liquidity, strong capital buffers and low NPLs, the banking sector is well positioned to withstand a shock of the expected magnitude.

**2. While the current shock may warrant policy response, these developments do not alter the thrust of staff policy advice.** Since lower-income households are likely to be disproportionately affected, the authorities could provide temporary, targeted cash support—generally the most cost-effective way to protect vulnerable households while preserving price signals. This could include scaling up the existing Social Assistance Scheme (SAS) through temporary top-ups for current beneficiaries or one-off transfers. In contrast, generalized price subsidies—such as VAT or excise cuts or price caps—should be avoided, as they tend to benefit higher-income households more, weaken incentives to conserve energy, and entail large and often open-ended fiscal costs. If the adverse impact on the real economy proves considerably larger than currently expected, the authorities could also consider additional temporary countercyclical measures, financed through a drawdown of treasury deposits or additional financing, to mitigate the impact on households' welfare. The Central Bank of Kosovo should remain vigilant amid heightened uncertainty and ensure that financial institutions maintain sound asset classification and adequate provisioning.

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<sup>1</sup> Beyond the effects of the Middle East conflict, a substantial part of the upward revision reflects a sharp acceleration in core inflation in the first two months of 2026, which had not yet been captured in the staff report projections.

Table 1. Kosovo: Selected Economic Indicators, 2024–31

	2024	2025	2026	2027	2028	2029	2030	2031
	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
<b>Output</b>								
Real GDP growth	4.6	3.6	3.3	3.8	4.0	4.0	4.0	4.0
<b>Employment</b>								
Unemployment rate	10.8	...	...	...	...	...	...	...
<b>Prices</b>								
Consumer prices (period average)	1.6	3.9	5.9	3.6	2.2	2.0	2.0	2.0
Consumer prices (eop)	1.1	5.3	5.8	2.6	2.0	2.0	2.0	2.0
GDP deflator (percent)	2.2	2.8	4.7	4.9	2.4	2.4	2.3	2.4
<b>General government finances (percent of GDP)</b>								
Revenue and grants	29.9	30.4	30.7	30.4	30.4	30.4	30.4	30.3
Expenditure	30.2	31.2	32.3	32.4	32.4	32.4	32.4	32.3
Overall balance	-0.3	-0.8	-1.6	-2.0	-2.0	-2.0	-2.0	-2.0
Total public debt	17.9	17.5	18.7	19.6	20.7	21.7	22.6	23.5
Stock of government bank balance	3.8	3.8	4.0	4.0	4.2	4.3	4.4	4.5
<b>Money and credit</b>								
Non-performing loans (percent of total loans)	1.9	1.8	...	...	...	...	...	...
Credit to the private sector (eop)	18.3	14.6	12.8	13.3	10.5	9.6	9.2	8.8
Effective bank lending rate	5.9	6.8	...	...	...	...	...	...
<b>Balance of payments (percent of GDP)</b>								
Current account balance	-8.4	-9.2	-10.5	-9.9	-9.1	-8.6	-8.7	-8.7
Remittance inflows	13.1	12.4	12.2	12.0	12.0	11.9	11.9	11.9
Net foreign direct investment	5.5	6.0	6.4	6.7	6.9	7.2	7.4	7.6
External debt	40.7	45.4	47.7	52.1	54.9	57.5	60.8	63.0
Note: These updated projections incorporate the impact of the ongoing conflict in the Middle East.								
Sources: Kosovo authorities and IMF staff estimates.								

**Statement by Mr. Yasar, Executive Director for Republic of Kosovo and  
Mr. Korbi, Advisor to the Executive Director  
March 27, 2026**

On behalf of the Kosovar authorities, we would like to thank the Mission Chief, Mr. David Amaglobeli and his team for constructive and candid discussions during the 2026 Article IV consultation and for the comprehensive staff report and Selected Issues Papers.

**Kosovo's strong economic fundamentals helped preserve economic resilience and cushion the impact of the prolonged institutional stalemate in 2025.** Following the February 2025 elections, repeated unsuccessful attempts to form new institutions led to snap elections in December 2025, with a new parliament and government ultimately established only in February 2026. This extended institutional gap constrained policymaking, slowed the implementation of legislative reforms, and weighed on economic activity. Nonetheless, the authorities' strong commitment to prudent macroeconomic management over the years—reinforced by reforms implemented under the IMF-supported SBA and RSF—together with the caretaker government's continued focus on advancing operational reforms and ensuring budget execution, helped sustain moderate economic expansion during a period of heightened uncertainty. Growth is estimated to have increased by 3.6 percent, while inflation rose to 3.85 percent, driven mainly by higher imported food and energy prices. The external deficit widened as imports—particularly energy—outpaced exports; however, remittances, services exports, and foreign direct investment provided important buffers, keeping the external position manageable. Labor market conditions continued to improve, with employment gains and rising female labor force participation.

**While the expected rebound in economic activity in 2026 remains contingent on continued political stability, growth is projected to strengthen further over the medium term.** The formation of a new government and assembly in February 2026 marked an important step toward restoring institutional functionality, with the new government now operational and expected to accelerate the pace of reform implementation. The new Parliament has already ratified long-pending international financial agreements, including those related to the EU Growth Plan and World Bank financing, while the European Union has lifted its measures, restoring access to key instruments, including pre-accession funding. In this context, the authorities anticipate a notable recovery in growth in 2026, with staff also projecting higher growth, albeit at a more moderate pace. At the same time, the strength of the projected recovery in 2026 will depend on the timely election of a new President, as delays could reintroduce political uncertainty and risk another cycle of institutional disruption. Over the medium term, the authorities expect higher growth, supported by higher investment and export performance; however, risks remain tilted to the downside, as the ongoing conflict in the Middle East, broader regional geopolitical tensions, and weaker external conditions continue to weigh on the outlook. With respect to the revised framework by staff in light of the ongoing conflict in the Middle East, the authorities agree that there may be some impact through indirect channels; however, in their view, the estimated impact on growth is likely overstated.

**The authorities remain committed to prudent fiscal management, guided by a credible rules-based fiscal framework.** Following near-balanced budgets in 2023–24, the fiscal deficit increased modestly to 0.6 percent of GDP in 2025, remaining well below the 2 percent legal ceiling. The increase reflected higher spending to support economic activity amid heightened political uncertainty. Current spending rose mainly to strengthen social support, including pensions and child benefits, while capital spending continued to support investment priorities. Revenue performance remained robust, with total collections reaching about 30.2 percent of GDP and tax revenues around 27 percent. While acknowledging staff's note on changes in the composition of fiscal buffers, the authorities stress that overall reserves remain at adequate levels. Public debt remains the lowest in the region and declined further relative to 2024, underscoring Kosovo's strong fiscal position.

Looking ahead, the approved 2026 budget envisages a higher deficit while remaining fully within the fiscal rule. The increase is driven mainly by higher public investment to support growth and convergence. Higher current spending reflects the full-year impact of social benefit increases introduced in 2025 and is expected to be fully covered by higher tax revenues. While staff assess the recent fiscal measures as having a considerable macroeconomic impact, the authorities underscore that these measures should be assessed in aggregate fiscal terms. Overall current spending increased by about 0.7 percent of GDP in 2025 and is projected to rise by a further 0.5 percent of GDP in 2026, reflecting offsetting savings elsewhere in the budget. In this context, the authorities do not see evidence that the fiscal stance has been a key driver of inflation or external pressures, noting that inflation in 2025 was largely driven by higher imported food and energy prices. At the same time, spending composition has continued to improve, with capital spending rising faster than current spending, while permanent expenditure increases are broadly matched by higher revenues. Going forward, as part of a broader review of social safety net policies, the authorities will explore options to ensure adequate and predictable benefit adjustments, including possible indexation mechanisms, in line with staff recommendations. In parallel, they remain committed to strengthening public financial management and the fiscal framework, including simplifying fiscal rules as recommended by staff, while noting that staff's specific recommendations may require further analysis. Building on recent years' progress and consistent with staff's emphasis, the authorities will continue improving spending quality.

**A liquid and well-capitalized banking sector continues to support economic activity amid heightened uncertainty.** Banking sector balance sheet remains strong, with low non-performing loans and continued reliance on domestic deposits and equity, limiting exposure to external funding risks. Financial access improved further, while progress in payment systems continued. Credit growth moderated during the year but remained strong relative to fundamentals. Systemic risks remained broadly unchanged, although rising vulnerabilities warrant continued vigilance. The authorities welcome the Selected Issues Papers on the real estate sector and systemic liquidity. They take note of staff's assessment that banks' real estate exposure remains moderate by regional standards, and reaffirm their commitment to ensuring adequate liquidity in the banking system.

Looking ahead, the authorities remain committed to strengthening governance and transparency, including by addressing pending recommendations from the IMF's Safeguards Assessment and advancing reforms in bank supervision, systemic risk oversight, crisis management, bank resolution, deposit insurance, and liquidity support, while continuing to strengthen AML/CFT frameworks in line with international standards

**Accelerating structural reforms is the central policy priority of the new government.**

The authorities note that the prolonged institutional deadlock in 2025 significantly delayed the reform agenda, and with political normalization underway, re-energizing reform implementation has become a top priority. The authorities remain firmly committed to advancing reforms to strengthen competitiveness, improve labor market participation—particularly for women—reduce informality, and enhance governance. The EU Growth Plan provides a critical anchor for these efforts, offering both financing and a clear reform roadmap. The authorities recognize that fully realizing its benefits will require continued improvements in project preparation, implementation capacity, and inter-institutional coordination. In this context, energy sector reforms, strengthened public investment management, and well-targeted social policies remain central to the authorities' medium-term strategy to support sustainable growth and accelerate convergence with the European Union.

The authorities look forward to continued close engagement with the Fund and deeply appreciate its sustained support over the years, along with the valuable policy insights shared during Article IV consultations.