Republika e Kosovës

Republika Kosova - Republic of Kosovo

Qeveria –Vlada–Government

ECONOMIC REFORM PROGRAMME (ERP) [1]

2024-2026

[1] For any difference between ERP versions, the English language prevails

Contents

LIST OF ABBREVIATIONS

ADR	Alternative Dispute Resolution	**MAFRD**	Ministry of Agriculture, Forestry and Rural Development
ALM	Active Labour Market	**MCC**	Millennium Challenge Corporation
ARDP	Agriculture and Rural Development Programme	**MCYS**	Ministry of Culture, Youth and Sport
BCI	Business Climate Indicator	**MED**	Ministry of Economic Development
BEEPS	Business Environment and Enterprise Performance Survey	**MESP**	Ministry of Environment and Spatial Planning
CBK	Central Bank of Kosovo	**MEST**	Ministry of Education, Science and Technology
CEFTA	Central European Free Trade Agreement	**MLSW**	Ministry of Labour and Social Welfare
CMIS	Case Management Information System	**MoF**	Ministry of Finance
CPI	Consumer Price Index	**MOJ**	Ministry of Justice
EARK	Employment Agency of the Republic of Kosovo	**MSME**	Micro, Small and Medium Enterprises
EC	European Commission	**MTEF**	Medium Term Expenditure Framework
EE	Energy Efficiency	**MTI**	Ministry of Trade and Industry
EED	Energy Efficiency Directive	**NDS**	National Development Strategy
EFTA	European Free Trade Association	**NEET**	Not in Education, Employment, or Training
EMIS	Education Management Information System	**NGO**	Nongovernmental Organizations
EPC	Engineering, Procurement and Construction	**NPISAA**	National Programme for Implementation of the SAA
ERA	European Reform Agenda	**OECD**	Organisation for Economic Cooperation and Development
ERP	Economic Reforms Program	**OPEC**	Organization of the Petroleum Exporting Countries
EU	European Union	**OPM**	The Office of the Prime Minister
FDI	Foreign Direct Investment	**PFM**	Public Finance Management
GDP	Gross Domestic Product	**PISA**	Programme for International Student Assessment
GoK	Government of Kosovo	**PPRC**	Public Procurement Regulatory Commission
HBS	Household Budget Survey	**REER**	Real Effective Exchange Rate
HE	Higher Education	**RES**	Renewable Energy Sources
HEI	Higher Education Institutions	**RDI**	Research, Development and Innovation
HEMIS	Higher Education Management Information System	**SEED**	The South East Europe harmonised qualification of professional Drivers
HHI	Herfindahl- Hirschman Index	**SEETO**	South East Europe Transport Observatory
IFI	International Financial Institutions	**SIDA**	Swedish International Development Agency
IMF	International Monetary Fund	**SME**	Small and Medium Businesses
IPA	The Instrument for Pre-Accession Assistance	**SPO**	Strategic Planning Office
KAA	Kosovo Accreditation Agency	**STIKK**	The Kosovo Association of Information and Communication Technology
KB	Kosovo's Budget	**TPD**	Tourism Product Development
KCA	Kosova Cadastral Agency	**TPP**	Thermo Power Plant
KEDS	Kosovo Electricity Distribution and Supply	**ULC**	Unit Labour Costs
KESP	Kosovo Education Strategic Plan	**UNDP**	United Nations Development Programme
KFCG	Kosovo Fund for Credit Guarantees	**USAID**	United States Agency for International Development
KIESA	Kosovo Investment and Enterprise Support Agency	**VET**	Vocational Education Training
LFPR	Labour Force Participation Rate	**WB**	World Bank
LFS	Labour Force Survey	**WTO**	World Trade Organization
LMIS	Labour Management Information System		

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The ERP 2024- 2026 drafting process was led by Ministry of Finance, Labour and Transfers as the National Coordinator, in coordination with the Strategic Planning Office (SPO) in the Prime Minister's Office, and policy area coordinators from line ministries. Coordinators met regularly to discuss the content of the measures, their consistency with related strategic planning documents and with policy guidance received through the Economic and Fiscal Dialogue with the European Commission.

Inter-ministerial working groups met to assure that short-term activities from the draft ERP were included in the National Development Plan 2024-2026 and are consistent with activities planned in the draft SAA National Implementation Plan (SAANIP) and the European Reform Agenda (ERA), as well as with the 2024 Budget. SPO, in cooperation with area coordinators, assured that the majority of measures are directly linked to the National Development Strategy and its implementation Roadmaps.

Considering the current economic structure of Kosovo and the obstacles to economic growth, it is necessary to orient the structural reforms aimed at a functioning market economy and boosting competitiveness, which are also reflected as the main fundamentals in the Government Program 2021- 2025.

In this line, the Government remains committed to supporting economic growth and improving employment prospects. The overall ERP policy framework is a combination of: (1) economic program aiming to strengthen resilience against adverse shocks; (2) a rule-based fiscal policy oriented towards stability of public finances and, within the available fiscal space, supporting economic growth through capital investments and increased funding for priority development areas; and (3) a set of priority structural reforms addressing the key obstacles to economic growth, supporting the development of competitive economic sectors, and assuring that economic growth is inclusive and welfare enhancing.

2. IMPLEMENTATION OF POLICY GUIDANCE

[1A]. If needed, use the available fiscal space in the 2023 budget to provide well-targeted and temporary energy crisis-related support to vulnerable households and businesses whilst ensuring compliance with the 2% deficit ceiling of the fiscal rule as envisaged by the ERP. [1B]. Ensure that spending on war veteran pensions as well as public-sector salaries according to the new wage law comply with the prescribed legal ceilings. [1C]. Undertake and publish a comprehensive review of tax expenditure quantifying the size of the revenue forgone from all exemptions, preferential rates and special regimes.

[1A]. The satisfactory performance of budget revenues combined with prudent planning and execution of expenditures allowed the government to build fiscal buffers in order to cushion the potential impact of energy-crisis related shocks through targeted support to vulnerable households and businesses in 2023, as listed below. Preliminary data for 2023 suggest an almost balanced budget with an overall deficit of 0.2% of GDP, and a surplus of around 0.6% of GDP as per fiscal rule; while bank balance is estimated at around 2.4% of GDP.

- Monthly support to about 200,000 households, which have saved electricity compared to the same month of the previous year, subsidizing the current month's invoice by double the rate of the saving;
- Support to households for purchasing efficient home appliances in order to reduce expenses for energy bills;
- Support to Energy Efficiency Fund in order to increase energy efficiency in residential buildings;
- Support to mitigate the impact of electricity tariff increase for end consumers;

In 2024, the Budget Law foresees an allocation to secure implementation of transfers to vulnerable energy consumers in line with redefined criteria to select such consumers, supported by the World Bank, to ensure that lower-income households have access to adequate levels of electricity consumption without jeopardizing other basic needs.

[1B]. With regard to the war veterans' pensions, actual data for 2023 shows that spending for war veterans' pensions by the end of 2023 is estimated at around 0.7% of GDP. While the reclassification is still pending due to ongoing court cases, in 2024, the Ministry of Finance, Labor and Transfers plans to continue to pay war veterans in accordance with current legal obligations in force.

[1C]. An inter-departmental team from Ministry of Finance, Labor and Transfers is working closely with the World Bank to produce tax expenditure analysis for customs duties, VAT and potentially other taxes[2]. As of December 2023, the data collection has been completed and the analysis for revenues collected by Customs is almost finalised. The entire analysis of tax expenditures is due in 2024.

[2A]. Increase the execution rate of capital spending by implementing the recommendations made under the IMF's Public Investment Management Assessment. [2B]. Improve financial oversight and accountability of Publicly Owned Enterprises (POEs), including by approving and publishing their annual performance report. [2C]. Review the options paper on the establishment of an independent body for fiscal oversight and inform the Commission about the follow-up.

[2A]. Preliminary data for FY2023 suggest that capital spending execution increased by 35% compared to the previous year, thereby setting historical high for this category. Currently, there are two sublegal acts on capital projects being implemented: i) the Administrative Instruction on Selection Criteria of Capital Projects; and ii) the Administrative Instruction on Definition of Capital Projects and Classification of Expenditures of Capital Projects. These AIs help Budget Organizations to better prepare their capital projects proposals before they become part of annual

[2] Such assistance is part of the EU-funded World Bank Project, aiming to implements a four-year technical assistance project on Strengthening Fiscal Governance in the Western Balkans.

budget appropriations law, in order to ensure a smoother execution. Also, budget organizations are required to plan ahead expropriations costs of respective capital projects in their respective project codes. In addition, the Government of Republic of Kosovo has allocated significant financial resources to address expropriations costs of capital projects. Budget organizations are also required to register their long term commitments on capital projects in the budget system, 'Public Investment Program (PIP)'. Work is underway to link the e-procurement platform with KFMIS so as to ensure that Budget Organizations have the necessary budget allocation as precondition to publish a tender.

[2B]. The Unit for Policies and POE Monitoring, since 2020, has been reporting on quarterly basis at the Treasury Department in the MFLT with regard to the POE debt data. In addition, quarterly financial reports, according to a previously agreed template, are shared with the Division of Macroeconomic Policies at the MFLT, enabling them to conduct the POE-related fiscal risk analysis. These quarterly financial reports are being published on the website of the MFLT[3], as stipulated by the EU Macro Financial Assistance and World Bank Development Policy Loan. The Annual POE Performance Report for year 2022 is finalized and is expected to be sent for approval by the Government.

The government is in the process of amending the Law on POEs, which creates the framework for the functioning of the PE sector, with the aim of aligning the corporate governance of PEs with recognized international standards, improving the performance of PEs, increasing the value of their assets and providing quality services to the public.

Recently, the Assembly of Kosovo has approved the draft law for the establishment of the Sovereign Fund. This institution will serve as a manager of public assets, aiming at the best possible use of available funds and achieving results that serve the public interest. The investments of this fund aim at sustainable and long-term capital accumulation.

Furthermore, the government is continuing its efforts regarding the stabilization of the boards and management of the POEs through a transparent and meritocratic process of restructuring.

[2C]. During the last quarter of 2020 and the first quarter of 2021, MFLT received technical assistance from IMF's FAD with regard to assessing options to develop independent fiscal oversight in light of Kosovo's legal and institutional frameworks and available capacity. This options paper is the initial step for the decision and implementation of this institution and it lists actions to be undertaken under the identified options. However, the public finance management system has continuously improved throughout 2021-2023, and as a Government we are committed to continuously ensure prudent fiscal policies and a long-term sustainability of public finances, including increasing fiscal transparency by publishing data and research materials related to public finance issues.

[3A]. Continue to carefully assess and analyse price developments and stand ready to use the

[3] https://mfpt.rks-gov.net/Page/969

limited tools available under the chosen monetary framework to ensure price stability. [3B]. Continue efforts to ensure that core areas of the central bank, including financial stability and banking supervision, are adequately staffed to deepen the central bank's analytical and technical capacities. [3C]. Strengthen further the reporting and risk management frameworks across the banking system to ensure an accurate reporting of asset quality, further reduce remaining obstacles to NPL resolution and reduce data gaps in particular as regards the real estate sector.

[3A]. Regarding price developments, CBK on regular basis publishes the time series from inflation expectations survey that CBK conduct with commercial banks (although still a very short time-series) on its website. On quarterly basis, CBK updates on its website – under Financial Stability thread, the latest questionnaire sent to banks, the summary of the results of the latest Bank Lending Survey, which includes banks' expectations on inflation, as well. Additionally, since May 20, 20022, CBK published monthly core inflation data on its website, under the same thread. The publication will be revised/republished every month, immediately after the publication of inflation by KAS on their website (1 day after the publication of the Consumer Price Index by KAS).[4]

[3B]. Considering the recent changes in the CBK leadership – concretely recently appointed Governor and soon to be consolidated Executive Board, CBK is in the process of a Functional Reorganization in terms of the its Organizational Structure – in line with the new Strategic Plan. In the first half of 2024, this process is expected to be concluded, a dynamic which will affect the institution as a whole. Regarding the staffing needs, the EAFSD will soon (within the following month) recruit Financial Stability experts, whilst for the next year, core functions will be treated in line with the CBK Strategic Planning for the next five years.

[3C]. Despite the increasing geopolitical and economic uncertainties, the Kosovo banking sector proved resilient so far and remained sound. CBK continues to closely monitor the asset quality of the banking sector, focusing on the credit risk – adequacy of the risk management practices ranging from risk identification, classification and provisioning practices. Nevertheless, provisioning and classification is an integral part of every on-site examination and off-site monitoring. CBK has adopted a practice of regular risk reporting by the banks to the CBK, providing detailed analysis

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[4] Summary of the results of the Bank Lending Survey: https://bqk-kos.org/financial-stability/bank-lending-survey/summary-of-the-results-of-the-bank-lending-survey/?lang=en
Bank Expectations for Inflation: https://bqk-kos.org/financial-stability/bank-lending-survey/banks-expectations-for-inflation/?lang=en
The last questionnaire: https://bqk-kos.org/financial-stability/bank-lending-survey/the-last-questionnaire/?lang=en
Time series of core inflation: https://bqk-kos.org/financial-stability/bank-lending-survey/time-series-of-core-inflation/?lang=en
The last questionnaire: https://bqk-kos.org/financial-stability/bank-lending-survey/the-last-questionnaire/?lang=en
Time series of core inflation: https://bqk-kos.org/financial-stability/bank-lending-survey/time-series-of-core-inflation/?lang=en

of risk measurement, performance of top creditors, specific analysis on macro risk factors and their transmission to the credit portfolio, etc.

Asset quality of the banking sector remained strong. At the end of September 2023, Stage 1 loans constituted 91.6 percent of the total credit portfolio (90.4 percent in September 2022), while Stage 2 loans increased to 7.1 percent from 6.3 percent in September 2022. The NPL ratio remains at the levels of 2.0 percent (September 2023) from 2.1 percent as it was in September 2022. In September 2023 the coverage ratio of NPLs (total impairments vs the NPL) stood at the level of 145.1%. While, the coverage of non-performing loans with provisions of stage 3 remains high at the level of 72 percent, as of September 2023.The Cost of Risk remains stable and as of September 2023 stands at 0.22%, compared with the 0.22% as of September 2022. Credit risk will remain the supervisory priority, especially focusing on the adequacy of risk management practices.

The issue of NPL resolution will be addressed through the amendment of the regulation for Non-Bank Financial Institutions. Through these changes in the regulation, NBFIs (*Non-Bank Financial Institutions*) will be allowed to deal with the resolution of non-performing loans. These NBFIs will be specialized and will deal exclusively with NPL resolution activities. Trading (of the credit portfolio) between these specialized NBFIs will be allowed by the regulation of Non-Bank Financial Institutions.

Related to the **House Price Index**, the responsibility for the compilation of the index remains exclusively with Kosovo Agency of Statistics (KAS), as the official institution mandated for compiling the country's statistics. CBK met with KAS to discuss the development of the House Price Index, and highlighted the importance of having this index. So far, KAS has finalized the roadmap to produce a residential housing price index and has significantly advanced in the compilation of data, in collaboration with CBK. Compilation of remaining residential housing data is ongoing from real estate agencies, on-line real estate portals, the cadaster, and public notaries, and will be completed soon.

[4A]. In line with the Green Agenda for the Western Balkans, enhance energy resilience and transition by completing the legal framework and launch the pilot auction on renewables. [4B]. Implement the 2023 Energy support action plan including energy efficiency measures. [4C.] Improve system resilience, modernize the electricity grids and operationalise the wholesale day-ahead and intra-day electricity price markets on the path toward retail electricity market liberalisation.

[4A]. The drafts of the Law on Energy, the Law on Electricity and the Law on Energy Regulator have been prepared, and are now in the process of further review by the Ministry of Economy. Draft Law on the Promotion of the Use of Renewable Energy Sources was approved at the 164th meeting of the Government of Kosovo, the Decision No.01/164 dated 09.10.2023. The draft Law is now at the Assembly of Kosovo for approval procedures. As for the law on Energy Efficiency, the first workshop for reviewing the first draft was held and the comments given by the working group have been sent to the experts for review.

Ministry of Economy announced the first 100 MW solar PV auction in May 12th 2023 and officially launched it on May 16th. Over 160 companies have requested the bidding documents, and many investors have expressed their interest in the solar auction. For the promotion of the solar auction, a specific website has been launched, providing potential investors with the most updated information regarding auctions and other renewable projects.[5] : Initially, the solar auction was planned to close on September 30 2023, however due to several requests from investors for a postponement, the Ministry decided to postpone the auction and the deadline for the submission of bids is now January 31st 2024.

[4B]. There has been considerable progress in implementing energy efficiency measures, as is the following:

Measure 1: Supporting household consumers including vulnerable consumers in investing in energy-efficient household appliances and renewable energy systems (10 million euros).

- *Subsidy investment on installation of RE systems -solar water heaters*. This sub-measure has been completed and in total the number of applications was 36, and the number of beneficiaries was 20.
- *Supporting household consumers in investing in efficient household appliances*: The total number of applications is 4,856, and so far the number of beneficiaries has reached to about 2660.
- *Subsidy in investment on efficient heating equipment:* The total number of applications for all equipment is 20,581 and the number of beneficiaries so far has reached about 6,133. The total number of applications for heat pumps is 1,808, air conditioning 16,531 applicants, biomass boilers 1,052 applicants and individual stoves 1,190 applicants.

Measure 2: Incentivizing energy savings from Micro, Small and Medium Enterprises (MSMEs) (5 million euro): 5 million euros have been allocated for this measure. The first phase of the call was opened on November 22 and ends on December 12, 2023, where once the applicants receive confirmation they can continue to phase 2, for which the deadline is until January 10, 2024. The number of applications for SMEs in total so far is 84.

Measure 3. Supporting individual household consumers including vulnerable consumers by increasing energy efficiency of residential units and buildings (20 million euro): There are two measures; 1) energy savings on Single Houses and 2) energy savings on Social Multi Apartment Buildings owned by municipalities, with the dedicated budget divided on two measures each of them for 10 million euros.

[4C] Currently, Kosovo is in the final launching phase of the power exchange (ALPEX) which consists of two bidding zones: Albania and Kosovo. While in Kosovo operations are yet to start, in April 2023, ALPEX has started to operate in the Albanian bidding zone. Required testing and other related activities for the Day Ahead Market Coupling (DAMC) process for Kosovo are

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[5] https://reskosovo.rks-gov.net/

expected to be concluded soon. It is also important to mention that, in June 2023, energy regulators from both Albania and Kosovo designated ALPEX as the Nominated Electricity Market Operator (NEMO) for both bidding zones. Operationalization of DAMC between Kosovo and Albania will increase market efficiency, competition, liquidity, consumer benefits, promote Renewable Energy Integration, etc.

In addition, KOSTT has already signed the MoU for the Electricity Day Ahead Market Coupling for the South East Europe. By signing the respective MoU, KOSTT has committed to be part of the new electricity market initiative in European Single Day Ahead Market with Albania, North Macedonia and Greece.

[5A]. Increase the implementation rate of the action plan of the 2019–2023 National Strategy for the Prevention and Combating of Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes. Continue to incentivise formalisation of employment and businesses and address tax evasion in identified high-risk sectors through better inter-institutional cooperation. [5B]. Simplify the system of licenses and permits, and complete the restructuring of SME and investment promotion agencies and ensure adequate resources.

[5A]. The Annual Report on implementation of the National Strategy for Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes 2019-2023, respectively the implementation of the Action Plan for 2023, will be published at the end of March, 2024 as planned.

Relevant institutions have continued to implement their actions, by intensifying the fight against informal economy. Preliminary data for FY2023 shows that TAK revenues have increased by 17.7% compared to 2022.

On the other hand, the Secretariat for the implementation of the National Strategy is working intensively on the drafting of the new strategy for the period 2024-2028. The main focus in the new strategy is the intensification of inter-institutional cooperation, the exchange of information and the creation of systems that communicate with each other, as a necessity for achieving the objectives of the strategy, such as the formalization of employment and businesses, the reduction of fiscal evasion in the sectors high risk, etc.

[5B]. A legal analysis has been prepared for the simplification of 129 permits and licenses in regulatory agencies and their harmonization with current legislation, aiming to reduce the administrative burden by simplifying permits and licenses for citizens, businesses, and the administration of these authorities.

After identification through legal analysis, changes and additions will be made to the identified laws and sub-legal acts with the aim of simplifying permits and licenses by removing unnecessary permits and licenses, merging similar ones, or simplifying procedures for obtaining them. This is intended to reduce unreasonable costs, bureaucratic processes, and prevent corruption in the permit and license issuance process.

Consequently, the Legislative Program for the year 2024 includes a Draft Law for amending and supplementing specific laws and aligning them with Law No. 04/l-202 on the regulation of permits and licenses. In addition to amending laws falling within the purview of regulatory agencies, the mentioned Draft Law will also address other laws identified in the legal analysis for simplification, consolidation, or elimination of permits or licenses, as approved by Government Decision No. 03/50 dated December 23, 2021.

[6A]. Develop a roadmap for the implementation of key reforms of the education system, including the recommendations under the ETF Rapid Education Diagnosis. Align education, particularly higher education programmes and vocational education and training, with labour market needs by closely cooperating with the business community, to further develop the employment barometer and skills barometer. [6B]. Speed up the ongoing restructuring of public employment services and significantly increase their capacity to provide relevant services in particular in view of the implementation of the Youth Guarantee and the delivery of relevant active labour market measures for the unemployed and those at risk of becoming unemployed.

[6A]. The Kosovo Accreditation Agency (KAA) plays a crucial role in aligning higher education with labor market needs by implementing a comprehensive accreditation system. This accreditation system aims to ensure that higher education institutions meet the quality standards and produce graduates that are equipped with the skills and knowledge demanded by the labor market.

The newly revised standards for accreditation of study programs, among others, require that each study program undergoes regular monitoring to assess its relevance to the needs of society and offers opportunities for its students to be equipped with the necessary competencies for the labor market. On the other hand, the external associates who teach at the study program are required to include the latest research, trends and know-how from the labor market in the teaching process.

In addition, KAA encourages and periodically monitors the cooperation of HEIs (*Higher Education Institution*) with the industry for the purpose of organizing the practical part of the program, whereby clear and specific arrangements are required to be in place for implementation of such activities.

In order to align Vocational Education and Training to the labor market and in cooperation with the business community, in the last school year 2022-2023, the implementation of dual education has started in several VET Institutions in four profiles; Bricklayer, Cook, Hairdresser and Restaurant Assistant. While, in the current school year 2023-2024, eight new profiles have been added to dual education; Retailer and Wholesaler trader, Auto Mechanic, Heating, Plumbing and Air Conditioning Installer, Electrician, Metalworker, Carpenter, Tailor and Esthetician. For all these 12 profiles, curricula have been adapted and standardized, and teachers and businesses have been trained. In addition, in the current school year six IT profiles are being implemented: Electronics Technician, Interactive Media, Application Developer, Graphic Design, Business IT Technician and ICT Systems Technician. All the above mentioned profiles (18 in total) are highly demanded by the labor market and have an impact on the job barometer as well as the skills barometer.

Also MESTI during 2024 plans to develop:

i) Drafting of policies/documents for the career advancement of teachers;

ii) Digitization of the licensing system and completion of training and performance evaluation data, online license applications, online advanced license applications, also the possibility of program providers of different organizations for online application should be done through one platform;

iii) Digitization of the matura exam system – creating modules for matura online applications and other issues;

[*6B*]. The working group for the Regulation on the Restructuring of the Employment Agency has prepared the final draft of the Regulation in question. The structure and responsibilities of each entity have been agreed upon, and the duties and composition of each entity have been set. The draft is expected to be sent for approval by end of March 2024. The new structure addresses the problems encountered in the current structure of the Agency, aiming to increase efficiency of its work through the introduction of the Regional Level of operation, the introduction of new staff with new responsibilities including specialized units which will oversee and assist in the implementation of the Youth Guarantee. In sum, the new structure aims to enable an environment where processes are completed in an efficient and effective manner. Following the approval of the new structure, new staff is expected to be hired, while in the meantime the Ministry and the Employment Agency are working with partners to lay the groundwork for the adequate training of the new staff.

3. MACROECONOMIC FRAMEWORK

3.1. External Economic Environment

Despite the disruption in energy and food markets caused by the war in Ukraine, and the unprecedented tightening of global monetary conditions to combat high inflationary pressures, the global economy has shown remarkable resilience, registering a higher-than-expected annual real increase of 3.4 percent in the second quarter of 2023. Such resilience reflects strong consumption and tighter labor markets in the US, and satisfactory economic performance in countries characterized by large travel and tourism sectors. However, growth in 2023 remains slow and uneven. The economic slowdown has been more pronounced in advanced economies than in emerging market and developing ones.

According to the latest projections of the International Monetary Fund (IMF), medium term outlook for economic growth remain the lowest in decades. Global growth is forecasted to slow from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024[6]. For advanced economies, the expected slowdown is from 2.6 percent in 2022 to 1.5 percent in 2023 and 1.4 percent in 2024. Emerging market and developing economies are projected to register a more modest decline, from 4.1 percent in 2022 to 4.0 percent in both 2023 and 2024.

On the other hand, according to the WEO October 2023, global headline inflation continues to decelerate, from 9.2 percent in 2022 to 5.9 percent in 2023 and is expected to reach 4.8 percent in 2024, mostly due to tighter monetary policy and lower commodity prices. Core inflation is also projected to decline, albeit more gradually than headline inflation.

According to the European Commission Autumn Forecast[7], in 2023, the economic growth in EU is revised downwards by 0.2 p.p compared to the previous round of projections, reaching a growth rate of 0.6% in 2023, mostly due to tightening monetary policy coupled with the phasing out of the fiscal support. However, in the medium-term, EU economic growth is expected to pick up, supported by rising real wages, and improved investment and external demand.

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[6] World Economic Outlook, October 2023; https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023

[7] European Economic Forecast, Autumn 2023 https://economy-finance.ec.europa.eu/system/files/2023-12/ip258_en.pdf

Figure 1. Forecast for economic growth

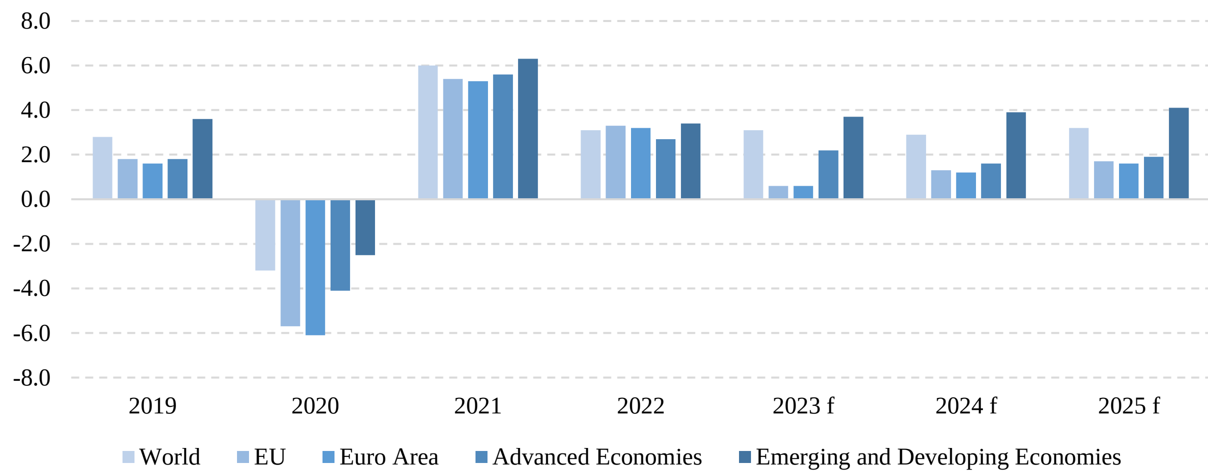


Table 1 provides information about the performance of several commodities prices during the period 2018-2023.[8] The considerable increase of prices in 2021 and 2022, is followed by a pronounced decrease of prices in 2023, especially in categories of natural gas, fertilizers and energy, due to normalization of supply chains. However, heightened geopolitical tensions and disruptions related to climate change pose downside risks to commodity markets in 2024.

Tabela 1. Change of price indices over the years for several items

y-o-y percentage change	2018	2019	2020	2021	2022	2023 (est.)
Energy	28.8%	-12.4%	-32.7%	81.0%	60.0%	-29.5%
Food	0.3%	-3.8%	7.1%	29.9%	14.2%	-8.8%
Fertilizers	11.1%	-1.4%	-10.1%	104.1%	54.8%	-33.6%
Base Metals	6.6%	-9.9%	-1.8%	46.8%	4.0%	-10.7%
Natural Gas	19.1%	-25.5%	-25.6%	187.2%	115.4%	-63.2%

3.2. Recent Economic Developments in Kosovo and Outlook for 2022

3.2.1 Real Sector

After a robust growth in 2022[9], the Kosovo economy continued its positive trajectory, achieving a real annual growth rate of 3.1% during the first three quarters of 2023. The real annual growth in

[8] The calculations shown in this table were conducted using data of World Bank for Commodity Markets

[9] Medium-term projections are realized using KAS annual GDP data published on September 2023, with real GDP in 2022 estimated at 5.2%. However, annual national accounts data were revised on15th December, after the Budget for

the first quarter was 3.9% followed by a slower growth rate of 2.4% and 3.0% in the following quarters (Q2 and Q3, respectively). These developments are mostly due to the rebound in investment following the challenges faced last year, especially in public investment. However, even that this rebound was highest ever recorded, with the lower performance of net exports resulted in slightly lower growth in 2023 compared to the initial expectations of MFLT.

Figure 2. GDP real growth(%) and key contributors(p.p)

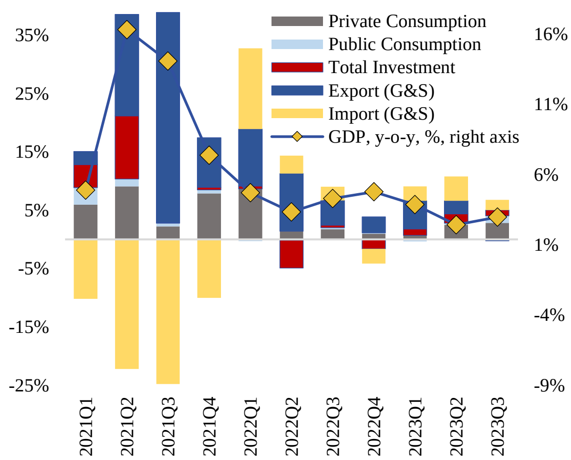
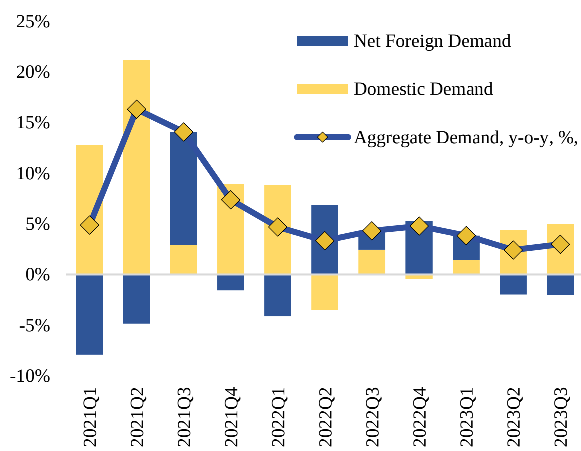


Figure 3. Domestic and Foreign Demand contribution on Aggregate Demand



In terms of aggregate demand, **economic growth reflected the expansion of private consumption and to some extent investment, while net exports had a negligible effect.**

Based on KAS preliminary data on national accounts, during the first three quarters of 2023 **total consumption** increased by 2.7% in real terms. Private consumption increased by about 2.5%, while public consumption had a growth rate of 4.2%. The increase of private consumption was supported by a robust performance of compensation of employees (9.0%, *y-o-y*); remittances (11.6%, *y-o-y*), and bank lending (new consumption loans - 14.4%, *y-o-y*). The positive contribution of private consumption to GDP growth was higher in the second and third quarter of 2023 compared to the beginning of the year (first quarter), due improved consumer purchasing power resulting from lower inflation. **Total investment** (private and public) for the first three quarters of 2023 increased by 3.5% in real terms. This increase resulted mostly because of the rebound in public investments. As a result of developments in consumption and investment, **domestic demand** had a significant positive contribution on GDP growth for the first three quarters of 2023. The **trade deficit (foreign demand)** worsened by approximately 2.5% during the reported period. While in the first quarter the foreign demand contribution to GDP growth rate was positive, in the subsequent quarter this contribution shrank due to the slower growth rate of total exports.

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year 2024 was approved by the Assembly - therefore, it was not possible to account for such revisions in the projections provided in this document"

In sectorial terms, economic growth during the first three quarters of 2023 reflected the expansion mainly of trade (wholesale and retail), followed by manufacturing, while the 'electricity, gas, steam and air conditioning supply' sector contracted.

Table 2. Leading and Coincidence Indicators for Aggregate Demand Components

Indicator*	***Proxy Variable***	***Indicator Type***	**2019 (Avg.)**	**2020 (Avg.)**	**2021 (Avg.)**	**2022 (Avg.)**	**2023* (Avg.)**
Energy Consumption	*Total Consumption*	*Coincidence*	9.7%	2.7%	12.6%	-3.6%	3.8%
Imports of Services	-	*Coincidence*	6.1%	-19.5%	44.4%	29.9%	15.4%
Exports of Services	-	*Coincidence*	7.3%	-40.6%	91.6%	31.4%	18.2%
Foreign Direct Investment	*Private Investment*	*Coincidence*	-6.4%	35.8%	21.7%	85.0%	7.9%
Turnover (TAK)	*Private Consumption and Investment*	*Coincidence*	7.2%	-7.5%	56.2%	21.8%	6.4%
Import of consumer goods	*Private Consumption*	*Leading*	5.6%	-2.9%	30.7%	15.3%	10.2%
Imports of Capital Goods	*Investment*	*Leading*	3.7%	0.0%	34.4%	5.8%	13.7%
Remittance Inflows	*Private Consumption*	*Leading*	6.4%	15.1%	17.7%	6.0%	10.9%
VAT Collection	*Total Consumption*	*Leading*	5.8%	-8.9%	34.8%	17.5%	12.1%
Government Consumption	*Total Consumption*	*Coincidence*	9.9%	18.8%	0.5%	13.0%	8.8%
Government Investment	*Investment*	*Coincidence*	0.2%	-28.5%	10.6%	-0.1%	31.4%
Total Import of goods (CBK & Customs)		*Coincidence*	3.8%	-5.7%	41.7%	20.8%	3.1%
Total Export of goods (CBK & Customs)		*Coincidence*	4.4%	20.8%	58.4%	23.8%	-7.2%
New consumer loans	*Private Consumption*	*Leading*	-4.1%	-4.0%	40.3%	-6.3%	18.9%
New investment loans	*Private Investment*	*Leading*	0.9%	13.4%	-6.2%	8.9%	5.3%

Note: *For 2023:
Data for energy consumption, Turnover(TAK), import of consumer or capital goods, cover the period January-September;
Data on import and export of services, Foreign Direct Investment, remittances, total import and export of goods, and new loans covers the period January-October;
Data on fiscal indicators (VAT collection and government consumption and investment) cover the period January-December;

According to the MFLT estimates, the GDP growth rate for 2023 is expected to be 3.9% in real terms. Such estimation presents a downward revision from the previous round of forecasts, resulting from the downward revision of the total investment contribution, mostly due to a slower execution of capital spending compared to initial expectations.

Consumer price inflation showed a strong downward trend in 2023, reaching an average of 5.3% for the period January-November 2023, starting from a high rate of 12.0% in January to a considerably lower rate of 2.9% in November. This trend is a reflection of the trends in 'food' and 'transport' prices, which are very much determined by the global fluctuations of food, energy, and oil prices. The contribution of the 'food' category to headline inflation was 3.8 p.p., while the contribution of 'transport' was negative, at around -0.4 p.p.

Inflation rates, influenced by global developments, reflect factors such as the disinflationary trend in energy prices, and the tightening monetary policies implemented by developed countries in response to high prices in the post-pandemic period caused by disruptions between demand and supply and the prolonged war in Ukraine.

It is important to note that despite the rapid decrease in headline inflation, there was a notable rigidity in core inflation. The core inflation in 2023, measured excluding the categories "food and non-alcoholic beverages" and "transport", marked an average annual rate of 5.0% during January-November 2023. This persistence in core inflation shows the second round effects in prices and the growth in the wages. It indicates that inflationary pressures are not confined to specific sectors and are influenced by both domestic and foreign factors. Likewise, the contribution of tradable inflation to total inflation is significant at around 4.3 p.p., whereas the contribution of non-tradable inflation is 1.0 p.p.

Figure 4. Contribution of tradable and non-tradable inflation

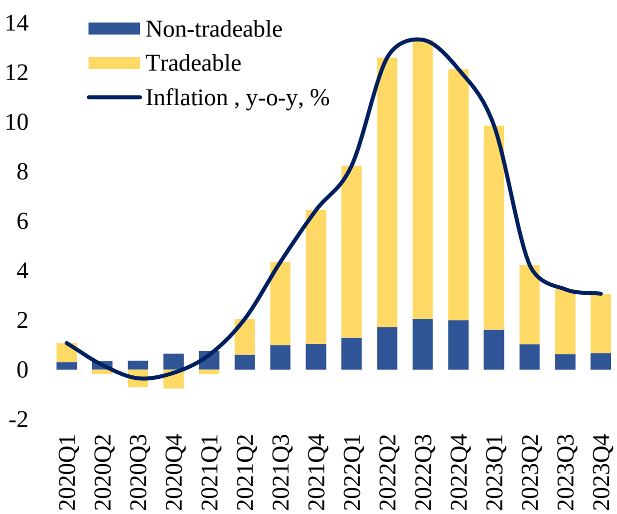
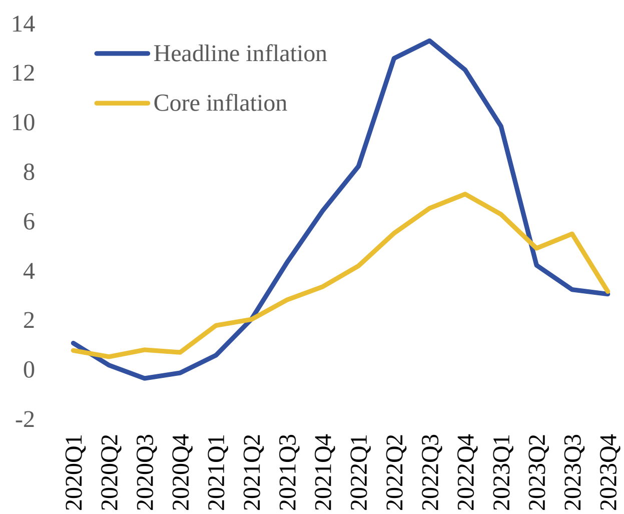


Figure 5. Headline Inflation vs. Core Inflation



3.2.2 Main labour market indicators

Labor market data from KAS are available only up to fourth quarter of 2022. In 2022, the participation rate was 38.6 %. The participation rate remains very low for women where 78.0% of women of working age are registered as inactive in labor force. The unemployment rate was 12.6%, which was also more emphasized among women (16.5%). Nevertheless, the unemployment rate is significantly lower compared to the previous year.

The sectors with highest employment are trade with 19.3% of total employment, followed by construction with 11.0%, education with 10.8% and manufacturing with 8.9%. Male employment was higher in the sectors of trade, construction, and manufacturing, while female employment was higher in education, trade and healthcare sectors.

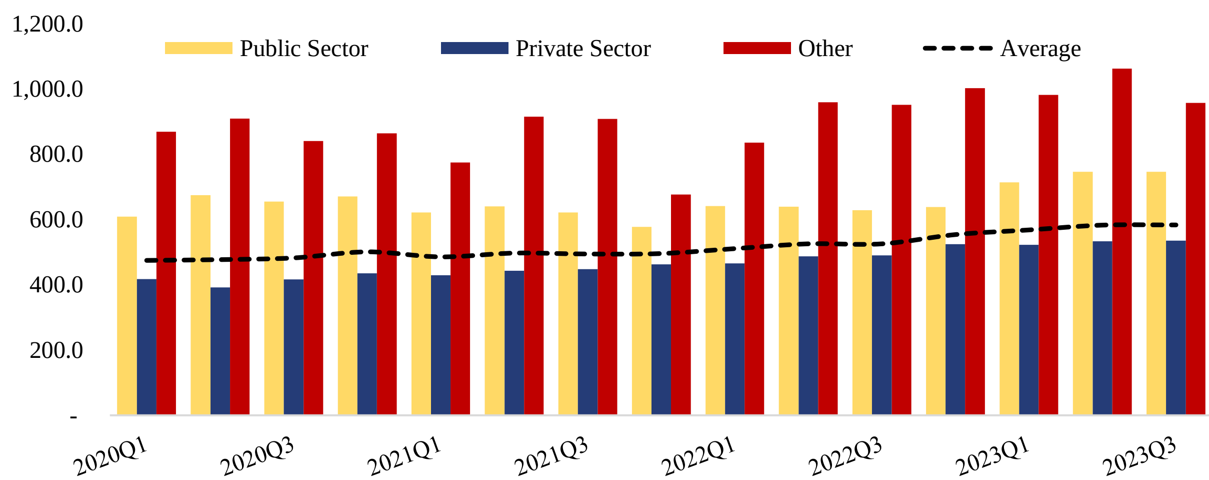
Tabela 3. Main labour market indicators

Indicator	2018	2019	2020	2021	2022
Total population	**1,793,467**	**1,796,376**	**1,795,666**	**1,798,187**	**1,773,971**
Female	*889,508*	*892,946*	*894,972*	*893,059*	*884,970*
Male	*903,959*	*903,430*	*900,694*	*905,.128*	*889,001*
Working age population	**1,190,272**	**1,206,806**	**1,222,104**	**1,231,695**	**1,195,426**
Female	*590,180*	*600,929*	*613,219*	*618,077*	*601,901*
Male	*600,092*	*605,877*	*608,885*	*613,618*	*593,525*
Labour force	**490,103**	**488,485**	**468,451**	**483,465**	**461,894**
Female	*110,340*	*126,971*	*127,686*	*135,860*	*132,425*
Male	*379,763*	*361,514*	*340,764*	*347,605*	*329,469*
Employed	**345,131**	**363,180**	**347,072**	**383,304**	**403,813**
Female	*73,508*	*83,242*	*86,480*	*101,853*	*110,528*
Male	*271,623*	*279,938*	*260,591*	*281,451*	*293,285*
Labour Force Participation Rate (LFPR)	**40.9%**	**40.5%**	**38.3%**	**39.3%**	**38.6%**
Female	*18.4%*	*21.1%*	*20.8%*	*22.0%*	*22.0%*
Male	*63.3%*	*59.7%*	*56.0%*	*56.6%*	*55.5%*
Employment Rate	**28.8%**	**30.1%**	**28.4%**	**31.1%**	**33.8%**
Female	*12.3%*	*13.9%*	*14.1%*	*16.5%*	*18.4%*
Male	*45.3%*	*46.2%*	*42.8%*	*45.9%*	*49.4%*
Unemployment Rate	**29.6%**	**25.7%**	**25.9%**	**20.7%**	**12.6%**
Female	*33.4%*	*34.4%*	*32.3%*	*25.0%*	*16.5%*
Male	*28.5%*	*22.6%*	*23.5%*	*19%*	*11.0%*

Source: KAS Labour Force Survey annual and quarterly publications

To offer further perspective on changes in the job market and present a summary of labor market trends up to the third quarter of 2023, we rely on administrative data from the Tax Administration of Kosovo (TAK). The TAK data indicates a growth of 4.0% in formal employment, aligning with developments observed in economic activity.

Figure 6. Gross average wages TAK, in Euro



The average gross monthly wage experienced an 11.0% rise in the first three quarters of 2023 when compared to the corresponding period of the preceding year. Specifically, private sector wages experienced a growth of 10.3%, while the average wage in the public sector surged by 15.6%. This notable increase in public sector wages is attributed to the enforcement of the new Law on Public Sector Salaries. It is worth noting that the available data on wages obtained from

TAK do not allow for a deeper analysis which considers changes in skill sets, offsetting private sector performance or potential under-reporting of earnings in the private sector.

3.3 Medium-term macroeconomic scenario

3.3.1 Real sector projections

Based on current trend of macroeconomic indicators for 2023 as the base year for medium-term projections, and based on recent external economic developments and expectations, the economy of Kosovo in 2024 is expected to grow at a faster pace than in the current year, estimated at around 4.6% in real terms and 7.8% in nominal terms.

Consumption in 2024 is expected to increase by 3.0% in real terms and to have a contribution of 2.9pp in growth. Private consumption is projected to grow by 2.6%, driven by the continued increasing trend in credit growth and increase in disposable income- the latter supported by expected stable remittance inflows and primary income. In addition, higher pension transfers in 2024, as a result the Constitutional Court ruling on contributory pensions, is expected to provide further positive stimulus to private consumption. Public consumption is expected to increase by 6.2% and contribute to economic growth by 0.8 p.p, due to the increase in the wage coefficient in the public sector foreseen in Budget Law for year 2024and the implementation of some regulations on allowances foreseen in the Law on Salaries in the Public Sector, as well as the increase in expenditure for government goods and services. Investment in 2024 is expected to increase by 11.2% in real terms and have a contribution of 3.8 p.p in economic growth. Private investment is projected to increase by 8.7% with a contribution of 2.4pp. in real growth. This growth will be supported by a series of fiscal stimulus policies targeting the private sector, and the improvement of private sector balance sheets. Public investment is projected to increase by 23.1% and contribute by 1.4pp to economic growth the quicker pace of execution is due to both new projects and the continuation of existing projects- implementation of which is expected to accelerate.

The net export in 2024 is expected to increase by 7.1%, and to have a negative contribution of 2.1pp, in real growth. The export of goods and services is expected to register a real growth of 6.5% with a positive contribution of 2.5 pp. The expected increase in export of goods is mainly due to the base effect, and also due to the stabilization of commodities prices in international markets. Export of services is expected to follow its historical trend, mainly supported by travel and IT services. The import of goods and services is expected to grow by 6.7% in real terms and have a negative contribution to real growth of 4.6 pp. The import of goods is projected to be in line with the expected dynamics of investment and consumption. On the other hand, import of services is expected to increase by 5.6% and have a negative contribution to real growth of 0.7pp.

Over the next two consecutive years (both in 2025 and 2026), real economic growth is expected to be 4.8% and 4.4% respectively.

In 2024, based on the expectations of commodity prices in international markets, inflation in Kosovo is expected to fluctuate at around 2.7% and in the medium term to decrease at 2.3%, on average.

However, the baseline projection for both, inflation and economic growth, is surrounded by increased risks related to elevated geopolitical tensions in global level and to the impact of ECB's policy tightening on the economy of Eurozone and on Kosovo's bank lending rates. In addition, the continuation of the labor market tightening in Kosovo might generate additional upward pressures on inflation.

Information Box 1. Differences between actuals and projections, 2023

For 2023, the forecasted real GDP growth rate is revised downwards to 3.9%, which is around 1.6 p.p lower than the rate projected in the previous ERP submission. This downward revision is mainly attributed to negative consequences of higher inflationary pressures than initially projected and lower performance of export of goods.

Public consumption is expected to increase by 5.7%, which is slightly different from the value in the previous ERP, which foresaw a growth of 8.6%. Total investment is expected to decrease compared to the previous projection, due to lower investment in private sector. Exports of goods is revised downwards, as a result of a significantly lower performance shown during January - October 2023. However, exports of services is expected to increase given that diaspora visits this year were considerably high. Import of goods and services, on the other hand, are expected to slightly decrease by 0.4% while in the previous ERP, they were projected to increase by 0.8%.

Inflation in 2023 (on average 5.1%) is higher than the inflation forecasted in the previous round of projections (on average 4.3%).

Table 1. Main differences between actuals and projections for year 2022 and main differences between previous and actual round of projections for year 2023

Macroeconomic Indicators, ***annual growth rates in real terms in %, unless otherwise stated***	2023 previous ERP projections	2023 current ERP projections
Real GDP	5.5	3.9
Nominal GDP	9.9	9.6
Consumer Price Index	4.3	5.1
Private Consumption	0.2	0.5
Public Consumption	8.6	5.7
Total Investment	8.5	0.4
Total Exports	4.7	5.9
Export of Goods	6.7	1.2
Export of Services	6.5	7.7
Total Imports	0.8	-0.4
Import of Goods	-0.7	-1.1
Import of Services	7.7	2.4

3.3.2 Monetary and exchange rate policy and inflation

In 1999, Kosovo unilaterally adopted the Deutsche Mark and later (in early 2002) the Euro currency as its official currency. Consequently, the country is restricted in the availability of traditional monetary policy instruments to control inflation developments in its economy or to signal changes in current consumption behaviour towards future consumption. However, this does not mean that the Central Bank of Kosovo (CBK) has no means of influencing the economy.

Firstly, sound implementation of macro-prudential policies can mitigate systemic financial risks and avoid excessive credit accumulation during expansionary periods or excessive credit contracting during recessionary periods, which would help in moderating inflation or real exchange rate fluctuations.

Secondly, the Central Bank strives to promote and maintain a sustainable and efficient financial sector in Kosovo through licensing, regulation and supervision of banks, insurance companies and micro-credit organizations.

Thirdly, the CBK can influence the growth of commercial banks' credit by determining the level of demand for reserves or through other regulations on banking operations. On April 25, 2019 the Board of the Central Bank of the Republic of Kosovo approved the Regulation on the Repurchase of Securities with the Central Bank of the Republic of Kosovo, which authorizes the CBK to carry out credit operations with commercial banks in the country performing the role of securities-backed lender as collateral. This regulation will provide the banks with an alternative to manage liquidity and short-term financing.

Despite monetary policy constraints, over time inflation in Kosovo has been relatively stable, with the exception of year 2022, which is mostly attributed to external developments. In terms of exchange rate developments, Kosovo is not much exposed to exchange rate fluctuations. This is due to the fact that the majority of trading partners are from the Eurozone countries and a significant portion of other sources of financing are in Euro currency (e.g. bank lending or remittances). During 2023 (January- September), the euro was valued at around 0.9% compared to the currency basket of the leading international trading partners (NEER). This appreciation is mainly due to the appreciation of the Euro against the Turkish Lira (about 43.0%), American Dollar (about 1.7%) and British Pound (about 2.8%), meanwhile it marked a depreciation against the Albanian Lek (about 7.9%), and Swiss Franc (about 3.4%). Lastly, the real effective exchange rate appreciated by 1.7% compared to January- September of last year.

3.3.3 The external sector and its medium-term sustainability

3.3.3.1 Current Account

The current account balance during the period January-October 2023 amounted to a deficit of -484.5million euros, which compared to last year represents a significant shrink by 24.9%. This is mainly attributed to the surplus of the services trade and to the surplus in the secondary income balance.

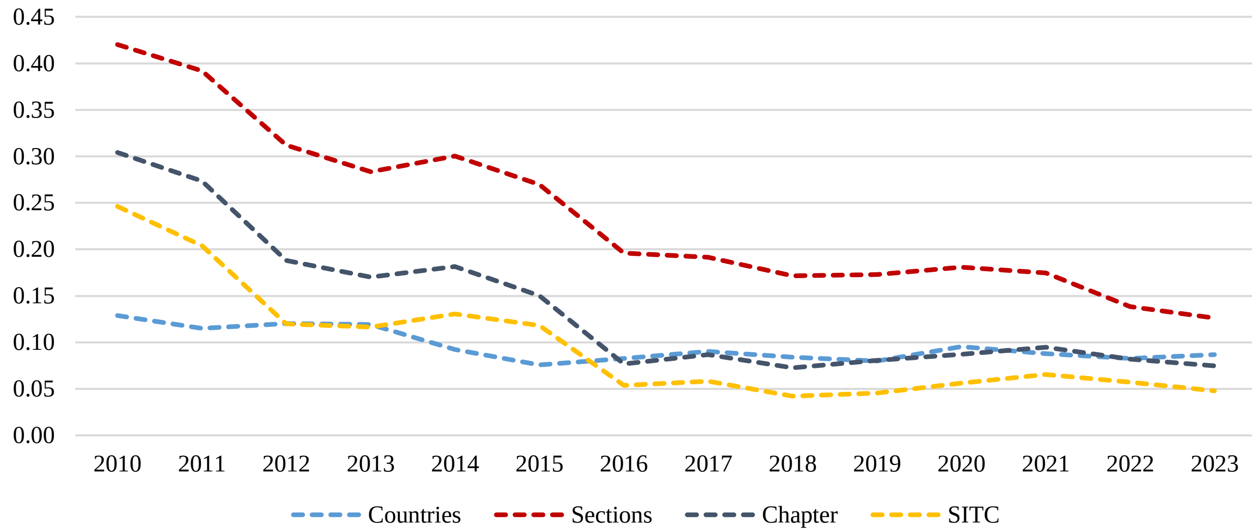
Export of goods in 2023 for the period January-October decreased by 7.2% compared to the same period of last year. Export of “base metals and articles of base metals” continues to be the biggest category with a share of 23.0% in total exports. Similarly, the category of “miscellaneous manufactured articles” and the category of “plastic and rubber” continue to be the second and third biggest categories in the exports’ structure with a share of 18.1% and 12.8%, respectively. Categories that follow are the “prepared food, beverages and tobacco” with a share of 10.4% and “mineral products category” with a share of 7.0% of total exports.

Diversification is a positive development for an economy such as Kosovo because changes in the primary export mix help build buffers in the economy, and Kosovo should aim to further diversify its export of goods. These buffers will reduce the negative effect stemming from the volatility of world commodity prices and lessen the vulnerability of the economy to adverse external shocks. In addition, diversification can also lead to economic development by progressing towards the export of more sophisticated products.

The **Herfindahl-Hirschman Index**[10] has been used to measure export diversification. According to this index, although at a slow pace, in the past few years Kosovo has continued to diversify its exports. In 2023, as expected, the HHI shows an increasing trend of the exports diversification, especially in terms of sections, SITC and chapters, which can also be attributed to recent policy measures targeted to incentivizing domestic producers and exporters.

[10] The Herfindahl Hirschman Index is calculated as the sum of squared shares of each product in total export. A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country with a concentrated portfolio will have a value of 1 (least diversified).

Figure 7. Herfindahl-Hirschman Index



Export of services for the period January-October 2023 increased by 18.2% in annual terms. This increase is attributed mainly to the export of travel services with a contribution of 13.2 p.p and an annual increase of 17.1%, followed by the "telecommunications, computer, and information services" with an annual increase of 31.9% and a contribution of 2.5 p.p and "other business services" with an annual increase of 31.6% and a contribution of 1.7 p.p. Export of services for 2023 is expected to reach 2,834 mln Euro, thereby marking an annual increase of 13.2%.

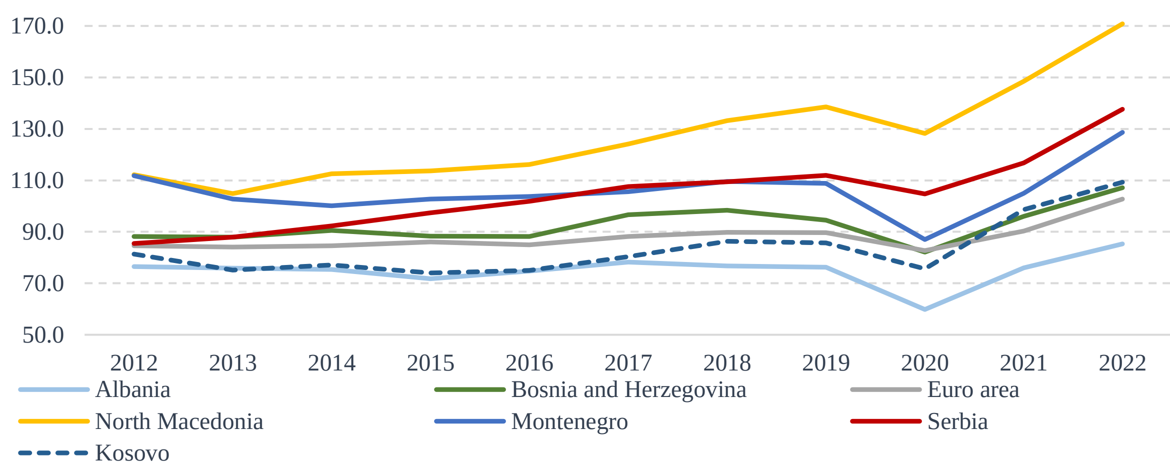
For the period January-October 2023, **import of goods** increased by 3.1% in annual terms. This increase is mainly attributed to the import of "transport of means" with a contribution of 3.3 p.p or an increase of 47.2%, followed by the category of "prepared food, beverages and tobacco. " with a contribution of 1.2 p.p (annual increase of 10.7%) and the category of " textiles and textile articles" and "Machinery, appliances, electrical, etc. "with a contribution of 1.0 p.p each of them (annual increase of 21.5% and 9.6% respectively). Kosovo continues to import from relatively the same countries and group of countries as in recent years mainly due to the SAA and CEFTA. In 2023, Turkey was the leading country for Kosovo's imports (13.6% of total imports) followed by Germany and China with 12.8% and 11.0% of total imports, respectively. In 2023, import of goods is expected to increase by 21.3% compared to 2022.

Import of services for the period of January-October 2023 registered an annual increase of 15.4%. The import of "travel services" had the highest contribution at around 13.4 p.p and an annual increase of 31.7%; followed by that of "telecommunication computer, and information services" with a contribution of 1.7 p.p or an increase of 26.0%; and the category of "other business services" with a contribution of 1.8p.p and an annual increase of 13.1%. Import of services in 2023 is expected to register an increase of 10.0% compared to 2022.

As per the above, for the period January-October 2023 the deficit of goods trade widened by 2.7%, while of the surplus of services trade increased by 20.5%.

Overall, despite being a small open economy with a liberal trade regime, Kosovo is characterized by lower **trade openness**[11] compared to most neighboring countries, mainly due to the low export base, which represents one of the main structural challenges of the country's economy. However, it is noteworthy to mention that the performance of goods export has been very satisfactory in the last three years, with an average annual growth rate of 35.0%. As shown in the graph below, the COVID-19 pandemic in 2020 halted the increasing trend of the trade openness level in the country. However, the trend gained momentum in 2021, spiking up to well above pre-pandemic levels. This upturn was mainly as a result of the ease of travel restrictions as well as measures undertaken by the government to stimulate exporters and help producers with their investment loans.

Figure 8. Trade Openness Index



In the medium term, imports are expected to continue increasing in line with domestic demand projections. Exports are expected to continue their positive contribution, but to a lesser extent than in the previous years, mainly due to the base effect but also due to the stabilization of the prices of basic goods in international markets. However, the energy crisis that began at the end of 2021 as well as the continuation of the war in Ukraine and other geopolitical tensions have produced an uncertain environment for these medium term projections (2024-2026).

Tabela 4. Export and Import of goods and services

% change, unless stated otherwise	2021 Actuals	2022 Actuals	2023 Estimation	2024 Projections	2025 Projections	2026 Projections
Exports *(nominal, in million Euro)*	2,659	3,436	3,821	4,179	4,568	5,007
Exports	81.0	29.2	11.2	9.4	9.3	9.6
-Goods	58.4	23.8	5.9	20.0	11.5	11.5
-Services	91.7	31.4	13.2	5.7	8.5	8.8

[11] The Openness Index is an economic metric calculated as the ratio of country's total trade, the sum of exports plus imports, to the country's gross domestic product. = (Exports + Imports)/(Gross Domestic Product). "The higher the index, the more influence trade has in that country's domestic activity."

Imports *(nominal, in million Euro)*	5,191	6,350	6,666	7,305	7,864	8,426
Imports	42.2	22.3	5.0	9.6	7.7	7.1
-Goods	41.7	20.8	3.9	9.6	7.8	7.2
-Services	44.6	29.9	10.0	9.6	7.0	7.0

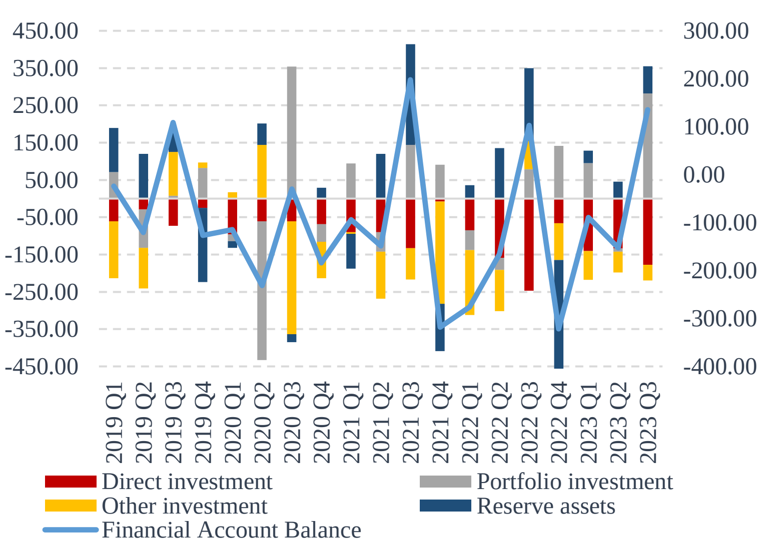
The **primary income** balance marked an increase of 25.7% in annual terms for the period of January-October 2023 with the main contribution attributed to the category of "compensation of employee". For the whole of 2023 primary income balance is expected to register an annual 83.4% due to the base effect, while for the medium term is expected to increase on average by 2.8%.

The **secondary income** balance increased by 5.1% in annual terms which is mainly attributed to the annual increase of remittances by 10.9% and the increase in the category 'financial corporations, non-financial corporations, and NGOs' by 7.9%, while the general government has decrease by 10.2%. Remittances are expected to continue to be a significant financing source for the whole year of 2023. As a result, for 2023 the secondary income balance is expected to increase by 5.9% in annual terms and by 5.1% in the medium-term.

3.3.3.2 Financial Account

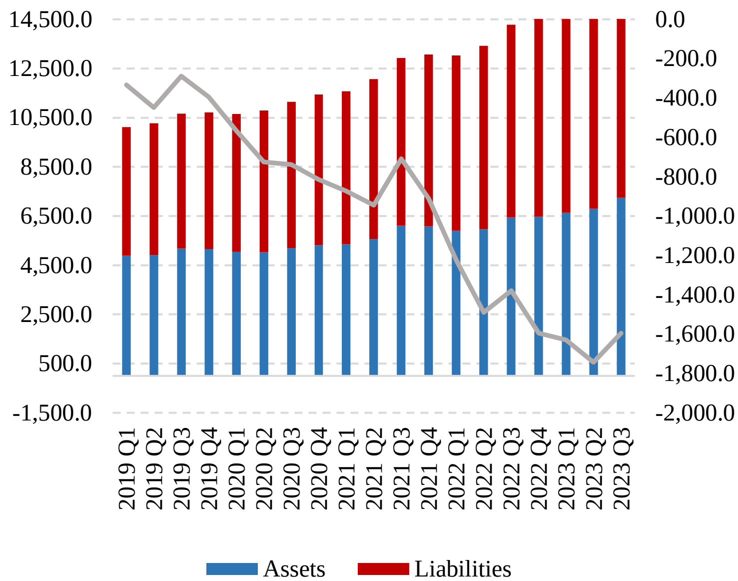
For the period January-October 2023, direct investments abroad increased by around EUR 33.6 million. Portfolio investments in foreign assets increased by EUR 79.7 million, while other investments contracted by EUR 275.6 million. With regard to liabilities, direct investments inflows incease by 51.4 million of euros, while other investments experienced a decline of EUR 84.2 million.

Figure 9. Financial account components, mln Eur



It is worth noting that Foreign Direct Investment continue to represent the biggest share in financial account liabilities at around 78.0%. As such, FDI is seen as a sustainable financing source since it has better risk sharing capabilities and it is more amenable to macro stability. During January-October 2023, FDI was mostly directed toward "real estate activities", accounting for 60.3% of total FDI. This is followed by "financial and insurance activities" placing them as the second largest absorber of FDI, accounting for 19.8% of total FDI. This capital inflow into the non-tradable sector (such as real estate and financial and insurance activities) is more prone to creating financial fragility through the balance of payments' mismatches since such sectors are difficult to generate revenue.

Figure 10. Net International Investment Position, mln Eur



The International Investment Position (IIP) reached -1,595.4 million Euro in the third quarter of 2023. During this period of 2023, assets were dominated by the category of "portfolio investments", which amounts to around 36.9% of total assets; followed by the category of "other investments" composing 31.5% of total assets; "reserve assets" and "direct investment" accounting for 19.0% and 12.6% respectively. Regarding liabilities, "direct investments" continues to be the largest category in the composition of liabilities. During the first two quarters of 2023, "direct investments" account for around 67.8% of total liabilities whereas, "other investments" comprises 32.1% for the rest of the countries liabilities.

3.4 Financial sector

3.4.1 Overview of the financial sector

Kosovo financial system continued its double-digit growth rate for the third consecutive year. As of September 2023, financial system assets reached 10.60 billion of euros, an annual increase of 12.2% (compare to 10.0% increase in the same period last year), mainly attributable to the banking sector, and followed by pension funds. Commercial banks are the largest players in the system, comprising 67.6% of the market, followed by pension funds with 24.7%. Microfinancial institutions comprise just 4.5% of the system, followed by insurance companies with 2.8% and financial auxiliaries with just 0.4%. Financial intermediation has expanded gradually standing at 109.9% (105.7% in September 2022), attributed to a higher growth rate of financial systems assets compared with a slower growth of overall economic activity. The banking sector continues to be dominated by foreign banks that comprise 84.4% of banking sector assets. While, market concentration has continued to decline gradually. As of September 2023, CR3 was 52.4% which is a similar figure compared to last year, but significantly lower compared to ten years ago (66.7% in September 2013). In terms of CR5, market concentration stood at 78.7% in September 2023 compared to 78.8% in September 2022. In addition, market concentration measured by Herfindahl-Hirschman Index, resulted in 1395 points, 8 points lower than in September 2022.

Banking sector assets reached 7.16 billion euro as of September 2023, which accounts for around 74.3% of GDP. The sector's financial intermediation has continued to expand in recent years in terms of lending portfolio, comprising 49.7% of GDP (47.3% in September 2022). Increase in financial intermediation was also affected by increased competition within banking sector and the expansion of the banking sector in recent years, which has contributed to expanded and easier access to credit. Lending activity experienced a double-digit growth rate for the third consecutive year. However, compared to previous year lending growth rate was slightly lower due to slower growth of credit toward non-financial corporation, while lending to the household segment continued with steady growth. As of September 2023, lending amounted to 4.79 billion euros with an annual increase of 13.3%, compared to the growth rate of 18.4% last year. New loans increased by 8.9% on annual basis, reaching a value of 1.59 billion euros, mostly as a result of growth of new loans toward non-financial corporations and growth of new loans for households by 8.5% and 9.5%, respectively. An increase of new loans towards household was impacted by new loans for consumption purposes, which increased by 14.4% (increase of 56.4 million euros), whereas new loans for mortgage purposes, a category characterized by an accelerated growth during the past two years, this year declined by 9.2%.

Deposits, which are a reliable and stable source of funding for banking activities, increased at double-digit rate. However, in September 2023 deposits grew by 11.3%, a slightly lower rate compared to 12.7% increase in September 2022, reaching the amount of 5.85 billion euros (5.26 billion euros in September 2022). Household deposits, which represent the largest category of deposits, marked an increase of 9.0%, compared to 11.5% last year and 18.3% in September 2021. Nonfinancial corporation's deposits increased by 14.9%, compared to 16.2% last year and 28.4% in 2021. Other financial corporation's deposits, which are mainly pension sector deposits, increased by 37.4% as of September 2023, followed by an increase of 7.4% last year and a decrease by 31.2% in September 2021.

The ECB's tightening of monetary policy as a response to inflation has had an effect on the interest rates in the domestic market, although at different magnitude. As of September 2022, interest rate of loans increased to 6.5% (6.3% in September 2022 and 5.7% in January 2022). Interest rates were to some extent more favorable for the household segment, standing at 6.2%, compared to those for enterprises standing at 6.7%. Interest rate on deposits has also increased, reaching 2.4% in September 2023, from 1.9% in September 2022 and 1.2% in March 2022 (lowest level in 2022). This dynamic also reflected increased competition between banks in attracting and maintaining deposits, under the inflationary pressures and high credit growth. This puts pressure on the interest rate margin and profitability of the banks. The spread between interest rates on loans and deposits narrowed to 4.1 pp as of September 2023, from 4.3 pp in September 2022.

The banking sector has a low level of non-performing loans. As of September 2023, the NPL ratio stood at 2.0% (2.1% in September 2022), and its coverage with provisions stood at 143.5% (150.6% as of September 2022). By economic sector, energy and agriculture sector have the highest rate of NPL of 9.1% and 5.3%, respectively. The share of loans towards energy sector to total gross loan is 1.1%, while agriculture loans to total gross loans is 1.4%, whereas in the portfolio of non-performing loans these sectors represent 3.6% and 5.0%, respectively, of total NPLs. Trade sector, with the largest share in total loans of 26.1% has a 1.8% NPL ratio. The household segment remains the segment with one of the lowest level of NPL ratio, 1.4% as of September 2023, an annual increase by 0.2 percentage points.

The banking sector reached a net profit of 123.7 million euros by the end of September 2023, which represents an annual increase of 14.8%. Revenues reached 317.1 million euros, representing an annual increase of 17.2%, of which 84.8% are income from interest - mainly from loans, and the remaining income from placements with banks and interest received from investments in securities. While income from non-interest amounted to 71.6 million euros, consisting mainly of income from fees and commissions. Expenditures increased by 18.8% reaching 193.4 million euros with the highest contribution from interest expenses on deposits followed by personnel expenses. The positive financial performance of the banking sector resulted in a slight rise of ROA and ROE, standing at 2.6% (2.5% in September 2022) and 20.9% (19.8 % in September 2022), respectively.

A strong build-up in capital position, as a result of high level of profitability shielded the sector from potential deterioration of asset quality with ongoing uncertainties in the market facing high inflation. The banking sector continues to be well capitalized with a ratio standing at 15.3% in September 2023 (15.8% in September 2022). A slight annual decrease in the level of capitalization was affected by slower growth of capital (mainly dividend distribution), compared to the higher growth of risk-weighted assets mainly from lending activity.

According to liquidity indicators, the banking sector continues to maintain a stable liquidity position. The ratio of broad liquid assets to short-term liabilities stood at 32.6% in September 2023 an annual decrease of 2.6 percentage point. This dynamic was affected by possible channeling of liquid assets toward credit activity, along with increased short-term liabilities due to higher growth of deposits. Moreover, the Liquidity Coverage Ratio (LCR) which has started to be reported since January 2023, stood at 260.5% as of September 2023 from 228.2% in January 2023.

The pension funds’ assets amounted to 2.62 billion euros, an annual increase of 12.8% (4.2% previous year). Kosovo Pension Savings Fund (KPST) accounts for 99.7% of the total pension funds’ assets, while 0.3% are assets of the Slovenian-Kosovar Pension Fund (SKPF). The accelerated growth of the fund's assets reflects higher contributions and positive return on investments, considering that last year pension funds were affected by a decrease in the value of investment. Investment portfolio of KPST until September 2023 had a positive return of 47.6 million euros (decrease in value by 170.5 million euros a year ago, as a result of the deterioration of the geo-political situation). Whereas contributions amounted to 212.3 million euros (177.1 million euros a year ago), an annual increase of 19.9% from 13.0% a year ago, being also as a result of wages in the public sector having been increased by the law on Public Officials, as well as private sector wages being affected by the new law on the minimum wage. SKPF realized a positive return on investments in the amount of 0.41 million euros, while the acquired contributions reached the value of 0.49 million euros.

The microfinancial sector (MFIs), similar as banking sector, is dominated by foreign-owned institutions, representing 78.8% of the sector's assets, and the three largest institutions represent 53.5% of the total assets of the sector (55.9% last year). The microfinance sector has returned to the pre-pandemic growth rate this year, with an asset annual increase of 25.1% amounting at 479.0 million euros. This increase is mainly the result of borrowings from the external sector, the value of which constitutes about 62.6% of the total liabilities of MFIs, while 26.2% of total liabilities is financed by own capital. Total loans amounted to 339.7 million euros at the end of September 2023, an annual increase of 25.0% (17.5% last year), mostly as a result of higher lending to households. Loans to household, consisting 62.4% of total loans, increased annually by 20.5% (14.8% last year), amounting to 212.0 million euros. Loans to non-financial corporations, consisting 37.6% of total loans, increased by 33.3% (22.7% last year), amounting to 127.7 million euros. Leasing activity, being 19.4% of total assets, at the end of September 2023 amounted to 92.8 million euros, which represents an annual increase of 29.6% (12.7% last year). Leasing to non-financial corporations has the largest share, consisting 68.7% of total leasing. This category amounted to 63.8 million euro, an annual increase of 45.9% (18.4% a year ago). Leases to households, consisting 31.3% in total leases, increased annually by 4.1% (4.7% last year), amounting the value of 29.0 million euros.

Net profit for the sector reached 12.8 million euros, 5.1% less than last year's profit at13.5 million euros. This was due to a higher annual increase in expenses by 30.8%, compared to the increase of income by 19.1%. Income amounted to 49.4 million euros, of which 44.6 million euros are income from interest in loans and leasing, a category that increased annually by 20.6%. Expenses reached the value of 36.6 million euros, mainly from increase in interest expenses (3.5 million euros greater than last year) and personnel expenses (3.2 million euros greater than last year).

Being financed from credit lines, that are costlier source of finance, loans from microfinance institution carry higher interest rates compared to banks. In September 2023, the interest rate on loans was 18.9% from 19.1% in the same period last year. Non-financial corporations had the most favorable rates, at 15.7% (16.1% a year ago) compared to households being 21.8% (20.9% a year ago). Despite higher interest rates, microfinance institutions have good performance of their credit portfolio, with non-performing loans to total loans at 1.9% (2.1% last September). Coverage ratio of non-performing loans stands at 145.1% as of September 2023 (144.0% last year).

The insurance sector is less foreign concentrated than the banking sector, where 53.6% of the assets are represented by foreign insurance companies. Three largest insurance companies account for 36.5% of the sector (35.1% in September 2022). The value of assets amounted to 300.7 million euros, an annual increase of 16.1% (9.9% last year), mainly from higher written premiums. The value of written premiums reached 110.1 million euros (98.2 million euros last year), where 5.1 million euros are premiums for 'life' insurance and 105.0 million euros are premiums for 'non-life' insurance. Claims paid by the insurance sector reached 53.1 million euros (46.6 million euros last year), where 48.7 million euros are damages paid by insurance companies and 4.4 million euros are damages paid by Kosovo Insurance Bureau. Net profit reached 9.4 million euros, compared to 2.8 million euros last year. The ratio of claims to premium ratio has increased slightly to 48.2% (47.4% last year).

3.4.2 Financial System Risks

The financial system remained resilient up to the third quarter of 2023, with no major risks materializing despite heightened geopolitical tensions, slower growth in the first six months of the year and although declining, high inflation. While the Bank Lending Survey (BLS) results confirm the non-materialization of risks, banks noted that risks remain at moderate levels and require close monitoring. While the banking sector has proactively adopted prudent lending practices and kept all financial soundness indicators within regulatory limits throughout 2023, banks recognized increased risks related to inflation and migration implications, credit quality, liquidity pressures, and fluctuating interest rates. Despite a low nonperforming loan ratio, there is concern over the potential spillover effect from interest rate risk to credit risk, due to the rising costs of loans for borrowers and their diminished repayment capacity amid increasing living costs. While liquidity position remains within the regulatory requirements, persistent high inflation and the corresponding tightening of monetary policy is associated with higher financing costs and heightened competition for sustainable funding, thus increasing pressures especially for smaller/domestically owned banks. High lending growth has also intensified the demand for financing, further driving up deposit interest rates.

Central banks' responses to inflation, such as raising interest rates, have contributed to heightened interest rate risk. Domestic banks have increased interest rates on both loans and deposits, following the rise in the Eurosystem's policy rate, with a more significant increase in deposit rates. This has resulted in a shift in the composition of loan remuneration, with variable interest rate loans nearly doubling their share in the loan portfolio over the last two years. In 2020 and 2021, loans with variable interest rates linked to the Euribor rate accounted for approximately 16.5% and 19.6% of the total credit portfolio, respectively. This proportion rose to 24.1% in 2022 and further to 30.4% as of September 2023. According to the third quarter BLS, banks maintained credit standards but tightened terms and conditions, mainly by increasing loan interest rates, especially for households, due to higher costs of funding despite the significantly increased financing inflows.

The main liquidity indicator, broad liquid assets to short-term liabilities, though on a downward trend, remained at high levels. Banks started reporting the Liquidity Coverage Ratio in January 2023, and as of September, it stood at 260.5%. The Q3 2023 BLS results indicated a considerable increase in access to financing, with nine out of ten participating banks, including five systemically important ones, reporting increased financing from both household and enterprise deposits. In Q4 2023, a similar uptrend in total financing access is projected, led by household deposits, followed by enterprise deposits. However, monthly deposit growth patterns show seasonal peaks in July, August, and December, largely due to diaspora contributions.

Input cost increases and an uncertain economic outlook indicate an increase in the operational challenges for businesses, particularly in sectors like construction, production, and services. Enterprises have generally passed on the price increases to consumers, potentially leading to upward wage pressure and reduced consumer demand. The construction sector, facing input cost increases and future price volatility uncertainties, has seen the highest increase in credit risk. Banks have correspondingly tightened terms and conditions for this sector, mainly through loan interest rate increases in Q3 2023. Credit demand from enterprises was sluggish, as indicated by BLS results. The household sector, despite high credit growth in recent years, result to have maintained the repayment capacity throughout 2023. Intermediation rate of household loans to GDP remains low, at 19.2% in September 2023 (Nonfinancial Corporations share to GDP in September 2023 was 30.2%). Loans to households are mainly concentrated among public sector employees and private sector workers with stable and higher income levels. This, combined with remittance support, is assessed to have reduced the household sector's vulnerability to potential loan portfolio deterioration. The extent to which deteriorating financial conditions in the private sector, particularly in construction and real estate, will indirectly impact the banking sector is subject, among others, on overall price dynamics. Household credit demand in the BLS was mainly driven by the need for financing consumption expenses, a trend that continued in Q3 2023 and is expected to persist in Q4 2023.

In a context of high inflation and high uncertainties in macroeconomic dynamics, credit risk of the banking sector remains a concern, requiring close monitoring and prudent safeguard practices. BLS results also indicate banks' expect a moderate increase in the NPL ratio from both enterprises and households.

The banking sector's capital position remains strong, despite a slight decline due to an accelerated increase in credit and risk-weighted assets. However, rising interest rates could affect the sector's performance, necessitating increased provisioning for credit risks. The sector's profitability has remained robust, fueled by fast-growing interest income (mainly from loans) and non-interest income (increase in fees and commissions). Meanwhile, expenditures have also risen, reflecting wage adjustments for inflation.

Looking ahead, banks are focusing on several potential risk factors for the following six months period. These include global geopolitical shifts, labor shortages in the local market (especially in sectors like construction and services), potential youth emigration following visa liberalization on January 1st 2024, uncertainties about economic developments both internally and externally and persistent high living costs in the country.

3.5 Alternative Scenarios and Risks

The medium-term baseline macroeconomic scenario presented inn this update of the ERP is meticulously crafted through a comprehensive analysis encompassing both potential downside and upside risks, associated with expectations on economic developments in the medium term. The potential risks surrounding the basic macro-fiscal scenario during 2024 generally come from external factors and continue to be high. In this regard, vigilance must be crucial due to the many linkages of our economy with the foreign economy, especially through two channels: trade and remittances.

It is noteworthy to mention that the baseline scenario presented in the current version of ERP (2024-2026) does not take into account the impact which could result from the successful implementation of some of the structural reform measures listed in this year's ERP.

Internal energy crisis, fiscal risks from public enterprises, risk from contingent liabilities arising from on-lending are some of domestic risks that are reflected on this updated ERP, whereas measures to address core inflation in the Eurozone, and upward pressures on prices due to climate change and geopolitical tensions are some of external risks.

Domestic risks

1st Risk: Internal energy crisis

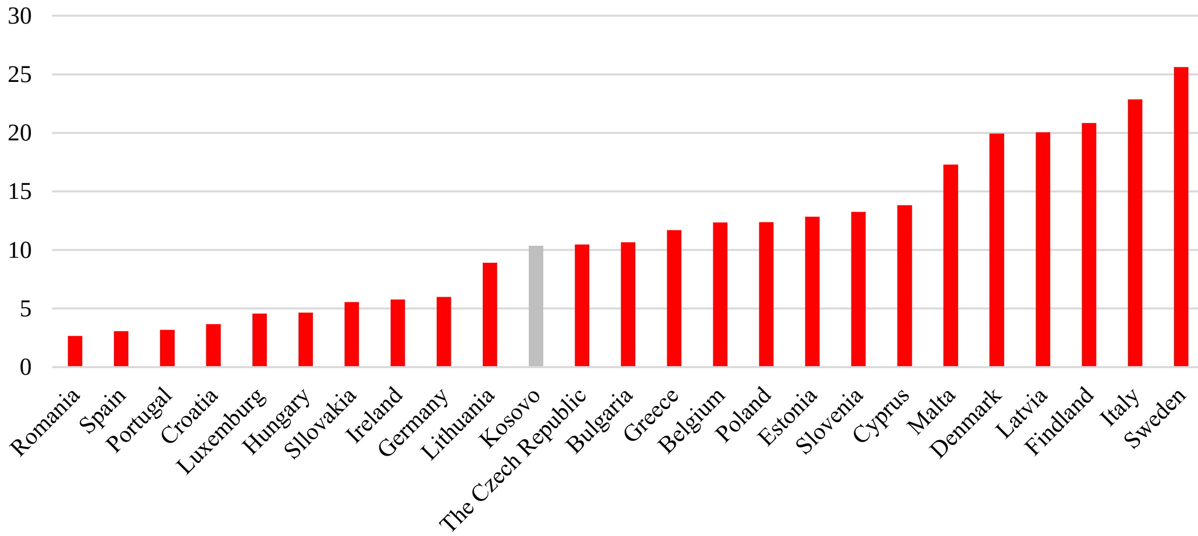
Uncertainties related to energy pricing in the global stage are also reflected in the domestic energy situation in our country, which coupled with an increase in electricity consumption during the winter season, may lead to higher electricity imports. Furthermore, our aging production capacities might result in insufficient power generation, and therefore leading to significant power outages. Such disruptions could negatively impact production, and subsequently, investment and consumption, while causing additional fiscal costs. However, this risk is considered to be lower than in the past, as a result of expectations for lower levels of energy prices in international markets, government efforts to diversify sources of energy production, and government measures taken in the framework of energy saving.

2nd Risk: Fiscal risks from Public Enterprises

The POE fiscal risk analysis was conducted exclusively using the financial information of 17 PEs that are supervised by the Ministry of Economy. The POEs sector is relatively small compared to countries in the European Union (see Figure 11).

The fiscal risk analysis presented in this ERP is limited up to 2022, as financial statements for the entire year 2023 are not yet available, while the quarterly financial statements are preliminary and do not cover all quarters of 2023.

Figure 11. Liabilities of non-financial public corporations (PEs) as a percentage of GDP (2021)



By the end of 2022, POE assets reached 18.8 percent of GDP, a slight decrease of 0.9 percentage points from 2021 (19.7 percent of GDP in 2021), liabilities also decreased to 8.7 percent of GDP (from 9.3 percent in 2021). Their total income was equivalent to 6.4 percent of GDP (up from 5.5 percent in 2021).

Overall, the POE sector reported a profit of 100 million euros in 2022, a remarkable turnaround from a loss of 5.3 million euros in 2021. This profit was solely attributed to the KEK's performance. The sector's return on equity rebounded from a negative 1% in 2021 to 11% in 2022. The liquidity of this sector has improved, compared to last year. Return on assets from 0% in 2021 reached 6% in 2022.

Tabela 5. Summarized financial statements for the PEs sector (in thousands Euros)

	2017	2018	2019	2020	2021	2022
Total revenues	356,992	345,307	392,227	382,635	436,386	574,615
Percentage of GDP	*5.6*	*5.2*	*5.6*	*5.7*	*5.5*	*6.4*
EBITDA	100,737	95,278	120,509	122,799	116,203	211,529
Percentage of GDP	*1.6*	*1.4*	*1.7*	*1.8*	*1.5*	*2.4*
Net Profit/Loss	10,813	704	7,337	11,128	(5,351)	100,157
Percentage of GDP	*0.2*	*0.0*	*0.1*	*0.2*	*-0.1*	*1.1*
Total Assets	1,240,880	1,227,591	1,408,229	1,510,878	1,569,989	1,681,111
Percentage of GDP	*19.5*	*18.4*	*20.0*	*22.3*	*19.7*	*18.8*
Current assets	361,855	346,954	390,163	434,188	477,976	550,551
Percentage of GDP	*5.7*	*5.2*	*5.5*	*6.4*	*6.0*	*6.2*
Total Liabilities	664,687	654,014	667,137	662,190	741,073	778,763
Percentage of GDP	*10.5*	*9.8*	*9.5*	*9.8*	*9.3*	*8.7*
Short-term liabilities	139,858	167,303	187,205	205,489	292,429	325,610
Percentage of GDP	*2.2*	*2.5*	*2.7*	*3.0*	*3.7*	*3.6*

Equity	576,193	573,464	741,090	848,689	828,916	902,347
Percentage of GDP	*9.1*	*8.6*	*10.5*	*12.5*	*10.4*	*10.1*

POEs can directly affect fiscal indicators, for example in the case when the need for higher than expected subsidies, credit or capital (equity) investments appears; when there is a crystallization of contingent (possible) obligations; or tax and dividend income is lower than expected. PEs can also have an indirect impact on fiscal indicators through the impact of their activities on economic growth.

The materialization of risks in the company is more likely to cause fiscal risks when the PO Es are not capitalized enough, are loss-making and have a low level of liquidity.

During 2022, the government provided grants to the Kosovo Energy Corporation worth 30 million euros to subsidize the costs of imported electricity, ensuring the needs of end users were met. Furthermore, Telecom of Kosovo received three loans: i) 500,000-euro liquidity loan received from the EBRD through the Government; ii) 6.23-million-euro loan for financing the package for voluntary dismissal of workers; and iii) 5 million Euros loan for financing investment projects (part of the package committed by the government for investment loans up to 20 million Euros).

The infrastructure and equipment of the PEs are outdated and depreciated, and there is an immediate need to be replaced, however, since the PEs are in poor financial condition, they are unable to afford the costs associated with these investments. For Public Railway Enterprises and Kosovo Post, the rates they charge to consumers are determined by regulatory bodies, but they are insufficient to cover their costs.

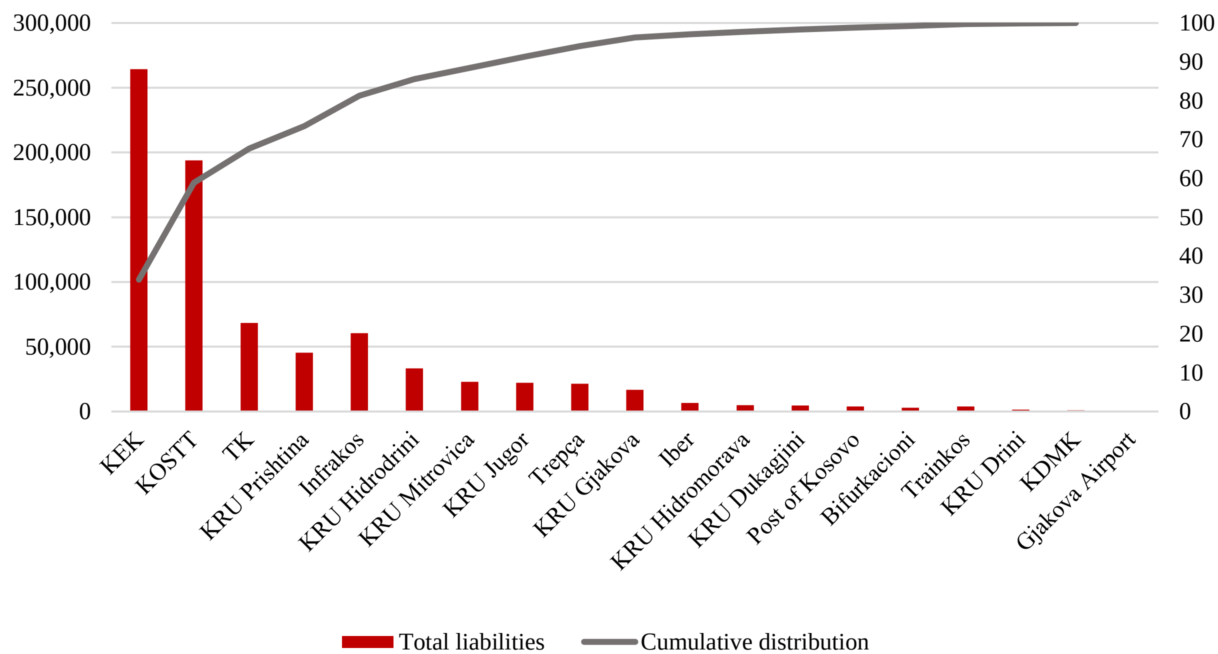
Based on the audited annual statements for 2022, the fiscal risk assessment analysis of 17 PEs was drawn up, where six main financial indicators were calculated for each company: i) cost coverage ratio; ii) return on capital; iii) the ratio of the fulfilment of short-term obligations with short-term assets; (‘current ratio’), iv) days for the fulfilment of accounts receivable; v) ratio of debt to assets; and vi) the ratio of debt to EBITDA (earnings before interest, taxes, depreciation and amortization). These indicators have been chosen as they provide a good overview of the profitability, liquidity and solvency of each of the PEs. For each indicator, a risk assessment has been assigned, based on international norms. Out of the 17 PEs, two were classified as "high risk" or "very high risk", in 2021 one was classified as "high risk" or "very high risk".

The risk assessment shows that, in general, most of the PEs have a sound liquidity position, but some of the companies are having difficulties in collecting debts from their debtors. Many PEs have high levels of debt when considering their poor ability to generate profits to meet those liabilities.

To address some of the aforementioned problems, the government is in the process of amending the Law on PEs, which creates the framework for the functioning of the PE sector, with the aim of aligning the corporate governance of PEs with recognized international standards, improving the performance of PEs, increasing the value of their assets and providing quality services to the public.

Furthermore, the government is continuing its efforts regarding the stabilization of the boards and management of the PEs through a transparent and meritorious process of restructuring

Figure 12. Share of total liabilities by PEs (percentage of GDP)



3nd Risk: Risk from contingent liabilities arising from on-lending

In the structure of Kosovo's state debt, a potential source of risk is loans guaranteed by the public sector and international sub-loaned loans to companies that supply key services to the public. At the end of 2023, such loans are expected to reach 28.5 million euros, which is about 1.6% of the total debt, furthermore by the end of the year, state guarantees in the amount of 24 million euros will expire. The segments that require a more detailed observation are state guarantees for Urban Traffic and sub-loans to enterprises that provide public services. A weak performance of these enterprises can be a burden for the government in two aspects, both for subsidizing the services that these enterprises provide, and for the financial responsibilities that the government has assumed to external creditors.

In order to reduce the impact of risks from contingent liabilities, the implementation of measures will continue, such as: (a) supervision of the financial situation of the beneficiaries, and (b) an initial analysis of the degree of realization of these liabilities. Based on the estimates of the expected losses, the guarantee fees will be set according to the criteria of the Law on Public Debt, the secondary legislation for which is being drafted. As a measure for the management of these risks, the inclusion of guarantees in the amount of the general debt, in the calculation of the debt limit to the GDP, serves as well. An additional measure that has been taken in order to manage these risks is the inclusion of a position in the Budget Law as a budget allocation for losses from guarantees in case of failure in their repayment by the main borrower.

4th Risk: Under-execution of capital expenditures

The risk of non-realization of projects related to capital expenditures, especially under the Investment Clause is expected to prevail over the medium- term, as well. In order to support cautious planning, the medium- term macroeconomic projections, which serve as the main basis in projecting tax revenues, takes into account the historical under-execution of capital expenditures financed by the regular budget and even more conservative assumptions for loan – financed projects.

Thus, in the baseline scenario the investment clause is projected to be executed at a level of 80% in 2024 and at an accelerated level of 80% and 100% in years 2025 and 2026, respectively; while for capital expenditures financed by regular budget, it is assumed an execution level of 90% on average over the medium- term compared to the budgeted levels.

Nonetheless, under execution of capital projects from the assumptions of the baseline scenario, especially for projects financed by loans, and the delays in ratifying international financial agreements in the Assembly are seen as a potential risk for lower economic growth and therefore lower budget revenues. The execution of capital projects financed by concessionary debt, after the signing of financial agreements, remains challenging for budget organisations. This is mainly due to a previous projects characterize by rushed decision- making on loans, without making sure that all the preconditions are met and the right needed preparations, studies and market analysis are done, in order to ensure the immediate initiation of projects after loan ratification and efficient use of funds. Therefore, for the purposes of downside risks assessment, an even lower execution level of capital expenditures is assumed: a level of 73% for capital expenditures under the investment clause on average (more specifically 60%; 80% and 80% in years 2024, 2025 and 2026, respectively) and an average level of 80% for those financed by regular budget over the forecast horizon (2024- 2026)

External risks

1st Measures to address high core inflation in the Eurozone

The tightening monetary policies in the developed countries of the world were evaluated as successful in ensuring a decrease in inflation without causing large losses of economic activity. Based on the latest IMF World Economic Outlook, these austerity measures should continue further to ensure that inflation approaches the target. Moreover, the persistence of core inflation is considered as a potential risk, which would further complicate the work of monetary policy to stabilize inflation, necessitating even tighter measures. Such measures could suppress economic activity in the Eurozone. A decline in the economic activity in countries where Kosovar immigrants reside could adversely affect their incomes and, by extension, Kosovo's economy, through lower remittances and lower export of travel services. In addition, the tightening of financial conditions will continue to negatively affect financing costs, bank lending and, consequently, the demand for goods and services in the economy of Kosovo.

2nd Unstable prices as a result of climate change and geopolitical developments

Despite the slowdown in global price growth this year, uncertainties are still present. International institutions present three possible sources that could lead to price increases. First, climate change can cause a decrease in the production of cereals in different states (similarly to what happened last summer, due to the increase in temperatures and droughts in some countries, the production of cereals decreased). This may also happen in the future, causing an increase in food prices. Second, the reduction of electricity production from fossil sources in order to protect the environment and the insufficient compensation from renewable energy sources can present shortages in production and thus affect the increase in energy prices. Third, the possibility of further intensification of the war in Ukraine and geopolitical tensions in other countries may bring new disruptions to the supply chain and may cause increases in the prices of food, oil, artificial fertilizers and other products. Given that inflation in our country is very sensitive to these international developments, all these risks mentioned above also apply to our country and bring uncertainty about price developments in the medium term. The other channel through which these international developments can affect economic activity in our country is through remittances from European countries. A potential surge in prices there would erode the real incomes of Kosovar immigrants, and in our country it would be reflected in a decrease in remittances, a decrease in travel services and/or a decrease in foreign direct investments.

Summary of shocks and risks

Tabela 6. Sensitivity analysis of the budget to fluctuations of macroeconomic variables for 2024- 2026

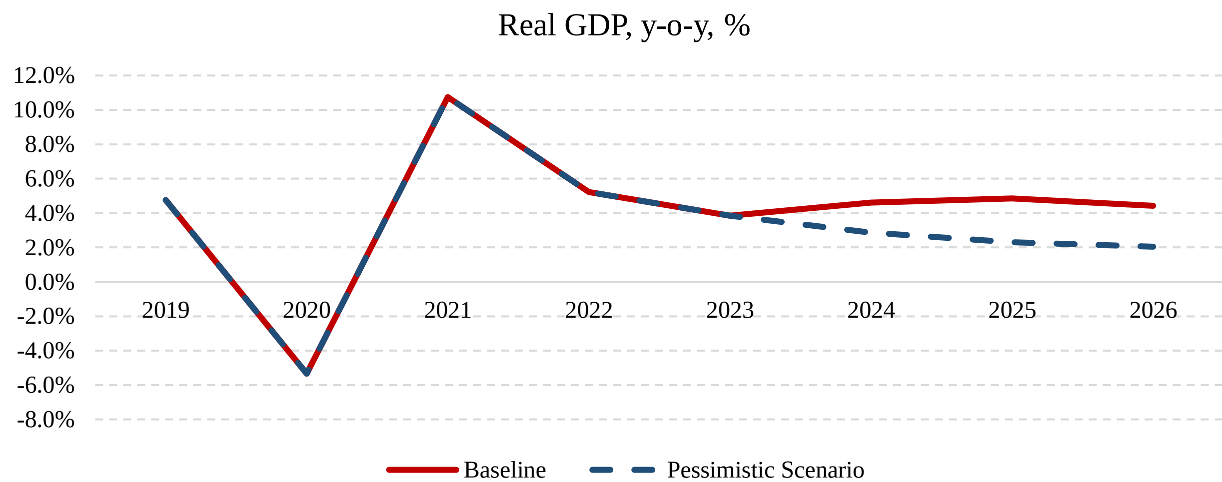
Variable	Magnitude of Shock compared to baseline	Revenues[12]		Budget Balance
		% of projected revenues	impact in million Eur	impact in million Eur
Under execution of Public Investment	-15.8%	-0.7%	-66.8	-66.8
Remittances	-9.2%	-0.7%	-68.2	-68.2
Exports (G&S)	-5.4%	-1.7%	-160.2	-160.2
Financing costs (bank sector)	+ 2 p.p	-1.1%	-95.2	-95.2
Combination of three shocks		-4.20%	-390.4	-390.4

Note: Numbers shown in this table represent the sum of effects of various shocks for three years.

[12]Sensitivity analysis indicates that developments in macroeconomic variabiles primarily determine the performance of budgetary revenues rather than expenditures, as in Kosovo few expenditure categories are directly linked to macroeconomic developments.

The impact of some of the above mentioned risks for the period 2024-2026 on Real GDP growth and main fiscal indicators is summarized in table 5. The first shock relates to the domestic environment (under-execution of public investment), while the other shocks (remittances, export of goods and services, and financing costs) relate to uncertainties surrounding external environment. When aggregating all downside risks, real GDP growth is estimated to fluctuate around 2.3% on average over the period 2024- 2026, which is around 2.3 percentage points lower than the real growth in the baseline scenario.

Figure 13. Real GDP growth: Baseline vs. Pessimistic Scenario



4 FISCAL FRAMEWORK

4.1 Budget implementation in 2023 (Preliminary Data)

Based on preliminary data, public revenues and expenditures experienced a two-digit growth during 2023 compared to the previous year, and the Government fully adhered to applicable fiscal rules. The budget deficit, as per the legal deficit rule, is estimated at 0.6% of projected GDP in 2023, well below the 2% of GDP legal cap. Government cash balances at the end of the year are estimated at 2.4% of GDP.

Budget revenues in 2023 increased at a rate of 14.4% compared to the previous year. In absolute terms, budget revenues reached the value of 2,851.8 million Euros, achieving a realization rate of 98.9% compared to budget estimates.

The revenues from direct taxes marked an increase of about 18.4% in annual terms in 2023 reaching the value of 490.0 million Euros. Revenues from personal income tax increased by about 18.6% compared to the previous year, which can also be attributed to the increase in the number of private sector employees and the implementation of the new Public Salaries Law, which entered in force in February 2023. Revenue from corporate income tax followed an upward trend, as well, with an annual increase of 15.5%. Due to the re-evaluation of properties as per the scheduled evaluation calendar, the property tax recorded an annual increase of 33.3%.

Revenues from indirect taxes in 2023 marked an annual increase of 11.9%, reaching the value of 2,077.2 million Euros, which represents a collection rate of 99.0% of the budget estimates, with the shortfall attributed mostly to the lower collection of VAT. While, revenues from customs duty increased at an annual rate of 17.9% and surpassed original estimates by 12.6%. An upward trend also is marked by excise duty growing at an annual rate of 7.0% and collection rate of 97.0%.

Non-tax revenues during this period reached the value of 265.8 million Euros, or an increase of 3.6% in annual terms. The highest increase from the categories of non-tax revenues was recorded by the concessionary fee with an annual increase of 41.2%, mostly due to the increasing trend in the number of passengers at Pristina International Airport. Non-tax revenues at local government recorded an annual increase of 12.4%, while those at the central level was decreased by 1.6%.

Budget expenditures were higher than in 2022, while the execution rate was different among various categories. They marked an increase of 13.2% reaching the value of 2,873.8 EUR. The current expenditures increased by 8.8% compared to last year. The category of salaries and allowances recorded an annual increase of 17.3% compared to last year due to the implementation of the New Law on Salaries in the Public Sector since February 2023, with an implementation rate of 102.8%. Expenditures for goods and services also recorded a double-digit increase (15.9%), reaching the value of 421.0 million Euros by the end of 2023, and an execution rate of 85.3%. On the other hand, subsidies and transfers were not characterized by any significant movement compared to 2022, with a slight annual increase of 1.1%, and an execution rate of 97.9%. This is due to the high growth in the past year and the implementation of the measures of the economic revival package, some of which have continued in 2023, as well, but also to the implementation of the additional new measures. The structure of the expenses of the revival package in 2023 continues to be dominated by the category of subsidies and transfers.

Capital expenditure in 2023 marked a significant increase of 31.4% compared to 2022. The financing structure of capital expenditures in 2023 is dominated by the regular budget, which accounts for 86.8% of total capital expenses.

Interest expenses reached the value of 42.2 million euros, marking an annual increase of 20.5% in 2023.

Based on preliminary data, expenditures during 2023 reached around 29.3% of GDP; current expenditures at about 23.1% of GDP; capital expenditures at 5.7 %; and interest expenses at 0.4%.

According to the latest estimates, the overall fiscal balance in 2023, amounted to a deficit estimated at 0.2% of GDP, while the fiscal balance, as per fiscal rule is in surplus at 0.6% of GDP. While bank balance stands at 2.4% of GDP.

Tabela 7. General Government Operations, in million Euro

Description	2022	2023 Revised Budget	2023 - Actual (preliminary)
1. Total Revenue	**2,493.5**	**2,884.1**	**2,851.8**
1.1 Tax Revenue	**2,217.0**	**2,525.4**	**2,506.0**
Direct Taxes	**413.8**	**504.5**	**490.0**
Tax on Corporate Income	159.9	192.9	184.8
Tax on Personal Income	215.6	263.0	255.8
Tax on Immovable Property	34.6	44.6	46.1
Other	3.8	4.0	3.4
Indirect Taxes	**1,870.2**	**2,097.3**	**2,077.2**
Value Added Tax:	1,220.0	1,387.3	1,367.4
Domestic:	344.6	435.9	407.8
Border:	875.4	951.4	959.6
Customs Duty	132.7	138.9	156.4
Excise	517.3	570.6	553.3
Other indirect	0.3	0.5	0.1
Tax Refunds	**(67.1)**	**(76.4)**	**(61.3)**
1.2 Non-tax revenue	**256.5**	**261.2**	**265.8**
Fees, charges, and other - Central Level	149.3	154.6	147.0
Fees, charges, and other - Local Level	55.6	53.9	62.5
Concessionary fee	18.4	19.0	26.0

Royalties	29.9	30.2	26.7
Interest income	3.4	3.5	3.6
Budget support and grants	**10.3**	**85.5**	**67.5**
DDG - Donor designated grants	**9.7**	**12.0**	**12.6**
2. Total Expenditure	**2,539.61**	**3,238.60**	**2,873.8**
2.1 Recurrent Expenditure	**2,082.0**	**2,359.8**	**2,264.7**
Wages and Salaries	653.4	745.5	766.6
Goods and Services	363.4	493.5	421.1
Subsidies and Transfers	1,065.2	1,100.3	1,077.0
2.2 Capital Expenditure	**422.6**	**819.9**	**555.1**
Regular budget financing	405.3	686.4	537.1
Debt financing through the investment clause	17.3	133.5	18.0
Liquidation proceeds (PAK)	-	-	-
2.3 Public Debt Interest	**35.0**	**46.9**	**42.2**
2.4 DDG - Donor designated grants	**9.3**	**12.0**	**11.8**
Overall budget balance, as % of GDP	**-0.5%**	**-3.6%**	**-0.2%**
Budget deficit (fiscal rule def.) as % of GDP	**0.2%**	**-2.2%**	**0.6%**
Available bank balance as % of GDP	**3.2%**	**2.8%**	**2.4%**

4.2 Budget Plans for 2024 and the mid-term period

In the upcoming medium term 2024-2026, budget revenues are expected to increase by 6.1% on average, reaching an average ratio of 28.3% of GDP. The projection of budget revenues over the period 2024 - 2026 takes into account all estimated effects of fiscal policies, such as the excise calendar, and the new law on minimum wage which increases the exempt bracket up to the minimum wage level. Tax revenues are expected to average around 25.4% of GDP, starting at 25.6% in 2024 and then decreasing by 0.4 and 0.3 percentage points in the consecutive years.

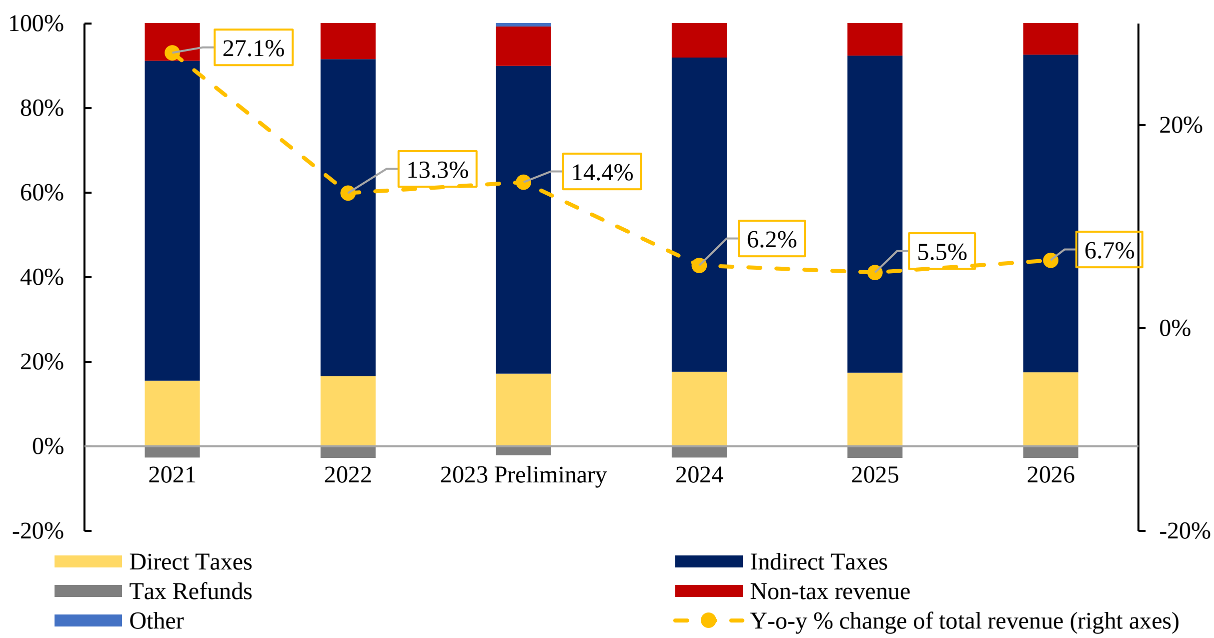
Regarding the year 2024 total revenues are projected to increase by 6.2% compared to preliminary estimation for 2023. The increase in total revenues comes as a result of the contribution from indirect taxes, direct taxes and non-tax revenues with participation of about 74.3%, 17.7% and 9.7% respectively. As a share of GDP, the structure of revenues is projected to be as follow: direct taxes 5.1% of GDP, indirect taxes 21.3% and nontax revenues 2.8% of GDP.

Indirect tax revenues are expected to increase by around 8.3% in 2024 compared to preliminary data for 2023. The indirect tax revenues will continue to represent the highest share in total revenue in 2024. The key contribution to indirect tax revenue growth is attributed to VAT, with an annual growth of 9.2%. This increase is driven by a nominal growth of imports of about 9.6%, a projected increase of 5.3% in private consumption, and an increase of over 23.2% in government purchases of goods and services. Exports of travel services, which represent typically non-refundable migrants’ consumption during their stay in Kosovo is also expected to contribute to VAT growth. Excise tax revenues are projected to increase by 7.3% - such growth takes into account the calendar of excise in tobaccos and some other products. Intensified public and private investment is projected to increase demand for fuel which is likely to be another growth driver for customs duties, which are projected to increase annually by 4.6%.

Revenues from direct taxes during 2024 are expected to increase by about 9.1% compared to the preliminary data for 2023 and constitute 17.7% of total revenues. The CIT is projected to increase around 17.5%, supported by continued fighting of informality, among other factors. PIT is projected to increase by 3.5% mostly due to the formalization of employment but also higher coefficient in public wages. Property tax is projected to increase by 7.0%, mostly driven by the tax on land.

On the other hand, non-tax revenues during 2024 are expected to increase by 10.2% compared to the 2023, reaching the amount of about 292.9 million Euros. This increase is mainly due to the increase of incomes from concessionary fee also and from revenues from central level.

Figure 14. Revenue structure



In 2024, grants are expected to reach the value of 30.0 million Euros, which is a significant decrease compared to previous year (62.5%). This decrease of grants is due to base effect in 2022, which is caused by the approval of one-off EU grant in the amount of 67.5 million Euros supporting the energy sector.

In the following years 2025-2026, budget revenues are expected to increase by an average of 6.1% (5.5% in 2025 and 6.7% in 2026). While direct taxes in the period 2025-2026 are expected to increase by 5.7% on average; indirect taxes will increase by 6.6%. On the other hand, non-tax revenues are expected to follow their historical trend with an average increase of 4.8% in the period 2025-2026, in line with the projections for economic activity during this period.

4.3 Expenditures forecast for 2024 and the medium-term period

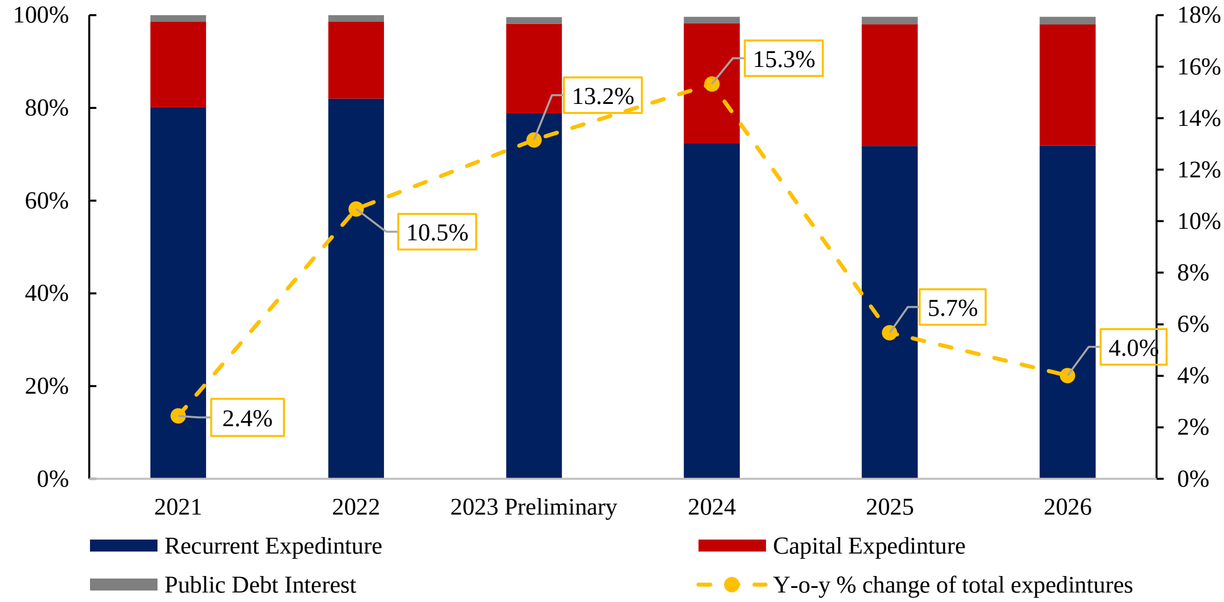
Total budget expenditures in 2024 are expected to increase by 15.3% compared to the 2023, reaching 31.4% of projected GDP. The increase in expenditure in 2024 is mainly attributed to an increase in capital projects financed through the regular budget.

Total current expenditures during 2024 are planned to have an increase of 5.8% compared to the 2023, reaching the value of 2,396.8 million Euros. Expenditures for the wages and salaries category are planned to reach the value of 805.4 million Euro in 2024, which represents an increase of around 5.1% compared to the 2023. This increase is due to the increase of the coefficient on public wages, bur also due to the implementation of some regulations which derived from the Law on Public Salaries. Expenditure for Goods and services is projected to increase by 23.2%, mostly as a result of reclassification of expenditures. Subsidies and transfers are expected to decrease in 2024 with a rate of 1.4% compared to 2023. This decrease is due to temporary measures of Revival Package which started to be implemented in 2022 and continued in 2023. One of the reasons for the decrease in amount of the subsidies and transfers is also and grant received in 2023 from EU to support the energy sector.

Interest expenditures are projected to 46.3 million of Euros, or 9.7% higher than 2023. For the current reserve category, around 10.2 million Euros have been allocated in 2024.

Capital expenditures are expected to increase by 54.8% in 2024, reaching a share of 25.9% of total expenditures, and 8.1% of GDP. The implementation of capital projects is based on a list of priorities that contains projects with an impact on the improvement of the transport network, the improvement of the electricity network and the improvement of conditions in education, social and health systems. Most of the capital investments are expected to be financed from the regular budget, but also the projects from the Investment Clause which are carried over from previous years.

Figure 15. Expenditure's structure



In the following years 2025-2026, total expenditures are planned to increase by 4.8%, on average (5.7 in 2025 and 4.0% in 2026). Current expenditures are planned to increase by 4.9% and 4.1% respectively, and capital expenditures are projected to grow 5.2%, on average (7.2% in 2.025 and 3.3% in 2026). In 2025 and 2026, expenditures as a share of GDP will be 30.9% and 30.1%, respectively.

4.4 Fiscal Structural Balance

Structural balance represents the fiscal balance of the government, corrected for the effects or fluctuations of the business cycle, which are not directly controlled by the government. Often it is argued that the overall fiscal balance does not provide a comprehensive view of the fiscal position because this position is also influenced to a considerable extent by the business cycles, which an economy goes through. During periods when an economy experiences accelerating economic growth, tax revenues tend to increase; while in the conditions of economic slowdown, budget revenues, especially those stemming from income and consumption, decrease, and at the same time government spending increases mainly due to higher expenditure on unemployment benefits. These developments in fiscal indicators, which occur without any discretionary government intervention, help alleviate economic fluctuations and are therefore known as "automatic stabilisers". The structural fiscal balance (adjusted for business cycle) aims to measure the fiscal position “free” of these stabilisers, with the aim of better understanding the scale and intensity of discretionary fiscal policy.

In order to obtain the structural balance, it is important to isolate the cyclical component of the fiscal balance, which in turn depends on the size of the output gap and on the output elasticity of the budget. In the case when an economy is at its potential level (output gap is zero), this cycle component of fiscal balance will be zero and consequently the current fiscal balance represents at the same time the structural balance. Assessment of the structural balance presented in this section, should be interpreted with considerable caution, considering the limited availability of the annual GDP data and uncertainties surrounding the calculation of potential output. In this updated version of ERP, structural balance is estimated using annual data covering the period 2007-2026 (in total 20 observations, out of which 3 are projections).

The variables used in estimating the fiscal structural balance are: real GDP, potential GDP (calculated using the HP filter), output gap, budget revenues (more specifically tax revenues, non-tax revenues and grants), expenditure, and the output elasticity of tax revenues. In order to remove the cyclical component, or to 'adjust' the variables needed for this calculation, the following specification was used:

$$Adjusted\ fiscal\ variable = Unadjusted\ fiscal\ variable * (\frac{GDP\ potential}{GDP\ actual})^{Elasticity}$$

Tax revenues were adjusted using the output elasticity of tax revenues, estimated at around 1.9 for the period 2007- 2026. This elasticity implies that tax revenues disproportionately grow more than GDP grows, which can be explained by several factors. One can be that the tax revenue series are not adjusted or corrected for discretionary policy changes. Another reason can be attributed to distortions brought by the informal sector, which affect tax buoyancy and elasticity. As for the elasticity used to ‘adjust’ non-tax revenues, the value 1.00 was used. The rationale for the use of this value is based on the theoretical explanation that non-tax revenues usually move in line with GDP. Also, taking into account the fact that Kosovo does not have automatic stabilisers (such as unemployment benefits), implying that expenditures do not depend on the cyclical state of the economy, no adjustment was applied to any expenditure category. The same applies to grants.

After the above-mentioned variables were ‘adjusted’, the primary structural balance was calculated as in the following:

Primary Structural Balance =Adjusted Tax Revenues +Adjusted Non-tax Revenues + Grants – Expenditure

Figure 16. Unadjusted Primary Balance, Primary Structural Balance and the Output Gap (2007-2026)

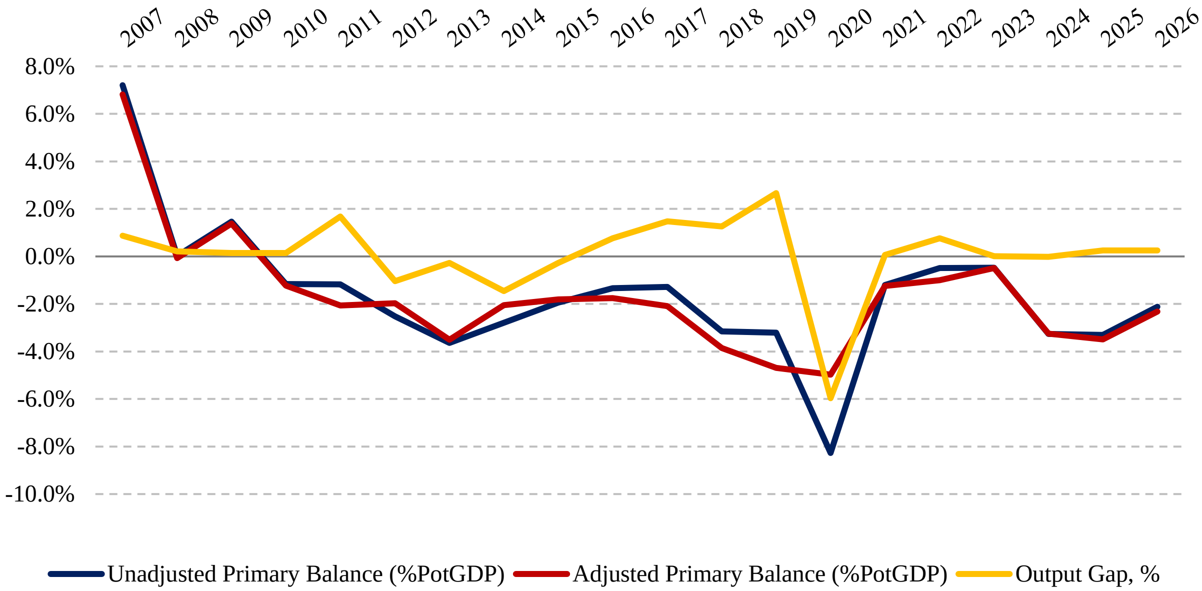
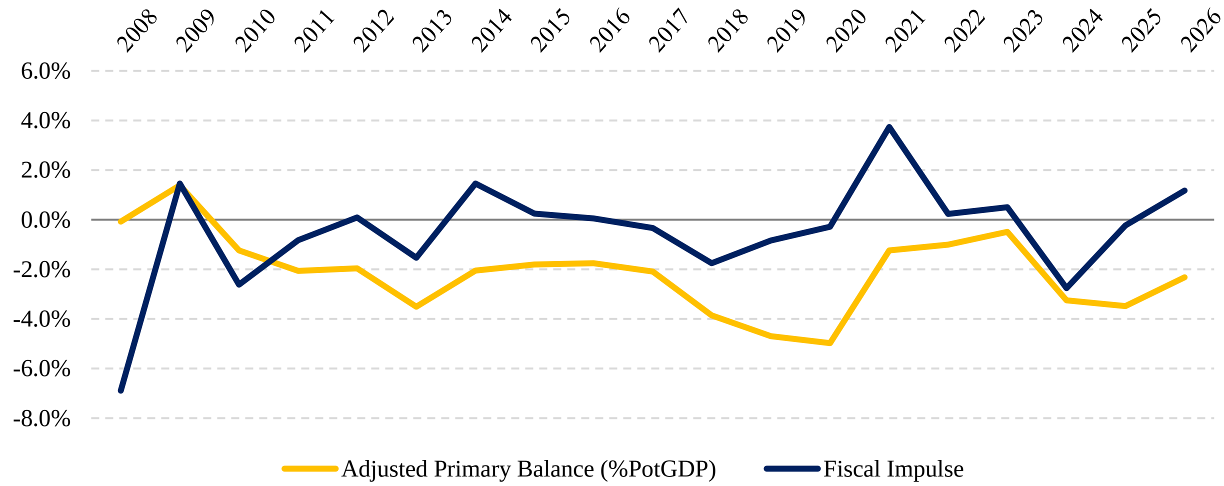


Figure 16 shows the performance of the relationship between the unadjusted primary balance, structural primary balance, and the output gap. The primary structural balance shows what the primary balance would be like if the current GDP were equal to the potential GDP (i.e., if the cyclical component is subtracted from the primary balance). Additionally, it shows that during periods when the economy operates below potential (or when output gap has negative value), the primary structural balance is higher than the unadjusted primary balance, and vice versa.

Based on these results, the periods during which the economy was operating below its potential level are 2012- 2015 and 2020. During the other periods, the economy on average operated slightly above potential. The fiscal stance variable, measured by the structural primary fiscal balance, indicates whether the fiscal position of the government has been expansionary or contractionary over time. Based on the results shown in Figure 16, it can be seen that Kosovo from 2010 onwards (even in the projected years 2024-2026) has pursued and is expected to pursue an expansionary fiscal policy.

Lastly, the variable 'Fiscal Impulse', calculated as the first difference of the fiscal stance (the structural primary balance), measures the direction and extent of the change in fiscal policy, with negative values indicating an increase in fiscal momentum, and positive ones indicating a withdrawal of fiscal momentum in aggregate demand. From the estimations shown in Figure 17, it can be noticed that the measures taken by the Government in 2021 in response to the pandemic have contributed to an increase in fiscal momentum. While, in 2022 and 2023, there was a withdrawal of the fiscal momentum, mostly due to the base effect in 2021, and satisfactory performance of budget revenues. In the medium term, the fiscal momentum is expected to increase in 2024, to be followed by a gradual withdrawal in the following two years.

Figure 17. Primary Structural Balance, Fiscal Stance and Fiscal Impulse (2007-2026)



4.5 Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

Kosovo has adopted a prudent legal framework to prevent unsustainable debt practices. Based on the new Law on State Debt and State Guarantees No. 08/L-099, the Ministry has the sole authority to negotiate and borrow state debt on behalf of the Republic of Kosovo, through the relevant Minister of Finance, as the only authorized person, without the right to delegate such authorization. Under the Constitution, every international agreement has to be ratified by a two-thirds majority in Parliament.

Unless otherwise regulated by the Law on Public Finance Management, as per current date, the Law on State Debt and State Guarantees includes several provisions that ensure fiscal stability, the total debt ceiling including state guarantees may not be higher than forty percent (40%) of the GDP, as well as certain limitations on municipal borrowing. Contingent liabilities are accounted as state debt and state guarantees, as per this indicator. The Law on State Debt and State Guarantees mandates regular reporting to the Assembly (Article 9) through the preparation of a State Debt Program, which includes a medium-term debt strategy, to be submitted to Government for approval and to the Assembly for information.

With regard to other restriction on state debt and state guarantees, an amendment was added to the Law on Public Finance Management and Accountability (LPFMA) which limits the annual budget deficit to no more than 2% of forecasted GDP. Another amendment to the LPFMA was added in 2015 which allows the government to contract debt in excess of the 2% rule, given that the financing is provided by international financial institutions and is dedicated for capital projects (investment clause).

The Ministry of Finance, Labour and Transfers has issued regulations on external debt and domestic debt, which contribute to an efficient state debt management. Based on the Regulation on Procedures for Issuance and Management of State Debt, State Guarantees and Municipal Debts, international agreements are negotiated by an official team consisting of members from different departments: Debt Management Division (DMB), Legal Department, Department for Macroeconomic Policy and Financial Cooperation, Budget Department and relevant Budget Organizations. The issuance of state debt through Government securities is authorized by the Law on State Debt and State Guarantees, and it is regulated by the Regulation for the Primary and Secondary Market of Government Securities of the Republic of Kosovo No. 01/2014. The current practices of state debt management are in full compliance with the requirements arising from the primary and secondary legislation.

The new Law on State Debt and State Guarantees is ratified in the end of 2022. In order to advance and align the legal infrastructure with European Union standards and international best practices, the primary and secondary legislation has undergone a review process. In the end of 2022, primary legislation has been approved while the secondary legislation is in process, it is expected to be completed and approved by 2024.

The table below shows debt levels throughout the years.

Table 8. Total Government Debt, in million euro (unless otherwise indicated)

Description	2020	2021	2022	R.2023	P.2024	P.2025	P.2026
External Debt	525.80	576.75	641.20	691.6	905.8	1,143.6	1,327.1
Domestic Debt	961.90	1,106.14	1,112.00	970.2	1,070.2	1,170.2	1,270.2
Total State Debt	1,487.69	1,682.89	1,753.20	1,661.81	1,976.0	2,313.8	2,597.3
State Guarantees	31.65	30.63	29.61	28.60	3.60	2.60	1.50
Debt/GDP	22.44%	21.53%	19.95%	17.26%	18.76%	20.42%	21.44%

Contingent Liabilities

By the end of 2023 the state guarantee portfolio comprised of two state guarantees:

1. In 2016 the Ministry of Finance issued the guarantee to the local public enterprise Urban Traffic for the loan provided by the EBRD in the amount of Eur 10 million. The loan was fully disbursed and its repayment started by 2018.
2. The third guarantee was issued in 2017 in the amount of Eur 24 million to guarantee the second credit line of DIFK. The credit line is not withdrawn yet, and its last availability date is 31 December 2023.

As shown in the table below, the amount of state guarantees is decreasing. During 2023 the Government has not entered into new state guarantee agreements.

Table 9. State Guarantees

	2020	2021	2022	R.2023	P.2024	P.2025	P.2026
State Guarantees	31.65	30.63	29.61	28.59	3.57	2.55	1.53
Guarantee for Urban Traffic Pristina	7.65	6.63	5.61	4.59	3.57	2.55	1.53
Guarantee for Second Credit Line to DIFK	24.00	24.00	24.00	24.00	0.00	0.00	0.00
State Guarantee (% of GDP)	0.47	0.38	0.33	0.29	0.03	0.02	0.01

4.6 Sensitivity analysis and comparison with the previous programme

4.6.1 Comparison with the previous programme

Considering the changes in the economic landscape compared to last year, the reduced impact of the prolonged war in Ukraine, and the emergence of new challenges, the Government priorities presented in this program are also subject to change. There are certain considerations of the fiscal framework that may generate changes on outcomes and future targets of this ERP compared to the previous submission. Some of them are: the continuation of the employment measures in 2024, as well; government plans to support the energy sector; changes to the total wages bill due to the change in the wage coefficient and the operationalization of allowances as per new Law on Public Sector wages and salaries.

Based on preliminary data available, budget revenues for 2023 are 1.1% lower in comparison to the projection from previous ERP (2023) (tax revenues are 0.8% lower, while non-tax revenues are 1.8% higher). Projections of revenues for 2024 are higher by 1.5% (0.8% tax revenues and 6.6% non-tax revenues), whereas the revenues for 2025 are slightly lower by 0.1% (0.7% decrease in tax revenues projections and 6.5% increase in non-tax revenues projections)

Expenditures for 2023 are lower than planned in the ERP (2023) by 10.6% (3.4% recurrent expenditures, 32.3% capital expenditures). However, for the next two years' expenditures are revised upwards by 2.9% and 5.4%, respectively.

Fiscal balance according to the fiscal rule, in 2023 is 0.56% of GDP (+€55.5 million), while the usable bank balance is about 2.4% GDP (€231.5 million). In the following years (2024, 2025 and 2026), the budget balance according to the fiscal rule is expected to fluctuate in deficit terms -2.0%, -2.0% and -1.5%, respectively. The usable bank balance is expected to be around 1.7% of GDP in the years 2024, 2025 and 2026. Compared to the last year's ERP, budget deficit is higher for years 2023- 2025, which is also reflected in lower usable bank balance during these years.

4.7 Fiscal governance and budget frameworks

In 2023, the new Law on Public Sector Wages and Salaries was enforced, resulting in a higher wage bill compared to the previous year. However, the increase in the wage bill was in full compliance with the fiscal rule regarding the wage bill annual increase.

Regarding the other fiscal rules (fiscal rule for debt and budget balance), they have been maintained as per law in place, and are planned to be maintained in the medium term framework.

In 2023 the government implemented fiscal structural reforms aimed at enhancing public financial management, containing fiscal risks, and strengthening revenue mobilization. To this end, Kosovo government is currently working on the drafting of the new Law on Public Finance Management, which aims to address a number of challenges and problems and provide an adequate legal regulation in this field.

Since July 2023, in order to foster transparency and accountability, the MFLT has started publishing a list of the rationale, impact, and beneficiaries of contingent budget allocations within the treasury quarterly report.

In addition, in order to strengthen PIM and improve PIP absorption, the MFLT had adopted a budget circular requiring budget organizations to include expropriation costs as part of project envelopes. This will gradually replace the current system of centralized expropriations, with one that will ensure that no new projects can be included in the budget without accounting for expropriation costs.

In the context of social inclusion, ongoing efforts are being made under the Reform of the Social Assistance System of Kosovo project, with the aim of implementing more efficient and inclusive social programs.

Lastly, in 2023, the Assembly has approved a new Customs Code to bridge differences with EU legislation, and a new law on the Administration of Tax Procedures aiming to strengthen tax compliance.

4.8 Sustainability of Public Finances

4.8.1 Debt Sustainability

In order to ensure fiscal sustainability, fiscal rules in Kosovo have remained the same, including a public debt ceiling of 40 percent of the GDP, where any external borrowing is subject to ratification by parliament. From 2015 until now, Kosovo has respected fiscal rules, with the exception of year 2020, due to the circumstances created by theCovid-19 pandemic. Over time, the fiscal rules in force that limit public debt levels and the deficit level have proven to be an important anchor to maintain fiscal stability in the long run.

Public debt to GDP ratio has remained within stable levels, but with a slight upward trend until 2020 driven mainly by projects financed by International Financial Institutions. In 2020, the increase in debt-to-GDP ratio was more pronounced (around 4.8 p.p higher than in 2019) due to additional funding aimed to address the economic crisis caused by COVID-19. While, in the forthcoming two years (2021 and 2022), the satisfactory performance of budget revenues due to economic rebound in 2021 and high inflation in 2022, among other factors, allowed the government to build fiscal buffers and therefore reduce the issuance of new debt, which led to decreasing debt-to-GDP level.

Based on preliminary data at the end of 2023, public debt reached around 20.0% of GDP, with domestic debt accounting for 12.5% of GDP and foreign debt for about 7.5%.

The Republic of Kosovo started issuing securities in January 2012. Market development have been very successful in terms of investor interest and borrowing costs. Kosovo has started working to extend the maturity of domestic debt in order to reduce the risk of refinancing. On that line, from 2018 onwards, Kosovo started issuing 10-year bonds. In 2021, Kosovo introduced 'diaspora bonds', aiming to attract capital from abroad as well as from Kosovar residents.

On the other hand, international debt consists mainly of concessional loans from International Financial Institutions.

Key Assumptions of the Debt Sustainability Analysis

- Debt Sustainability Analysis (DSA) takes into account the macroeconomic forecasts for growth in the medium term. Nominal growth is projected to average 7.4% for the period 2024-2026, and then fluctuate around 4.5% in 2027-2036. The deficit, excluding projects financed by IFIs, is projected to remain within the deficit limit under the fiscal rule after 2023, throughout the period covered by this analysis.
- Public debt in the analysis does not include the debt of POEs, but only government debt and guarantees.
- In the analysis period, short-term debt is assumed to decrease as the government increases the average amortization of securities. The Ministry of Finance, Labour and Transfers after 2017 focused on extending the average maturity time and issuing instruments with a maturity of 5-, 7- and 10- years. International debt from IFIs reflects the terms of the debt agreements for the forecast period. Disbursements from the investment clause are projected to continue until 2026, while liquidation funds are not expected to continue.
- Maintaining a bank balance of 4.5% of GDP is not assumed in 2023 and in the period after, because this level is not mandatory in years when liquidation funds are not used to finance capital expenditures.
- The debt structure is divided between commercial debt, concessional debt and government securities. The shares of each type of debt are given based on some assumptions by the Debt Department of the Ministry of Finance, Labour and Transfers, with the share of commercial debt increasing over the years given that infrastructure projects and development needs will be gradually met by IFI-funded projects.
- This analysis will focus on the period up to 2036, as for this period there are more detailed data regarding the amortization of project loans and the performance of securities.

The baseline scenario shows that the stock of public debt will be stable. The debt to GDP ratio shows a slightly upward trend over the forecasting period and exceeds the level of 30% of GDP in 2035. The share of interest expenditures in the overall balance deficit structure remains low in the first few years – similarly with last year projections.

The need for financing remains well below the level of 10% of GDP, which is below the threshold of 10% of GDP for developing economies within the DSA. The need for financing in 2024-2026 is 3.0% of GDP. The gradual reduction of the investment clause has led to the need for financing to gradually decrease.

Figure 18. Debt as % of GDP- Baseline Scenario

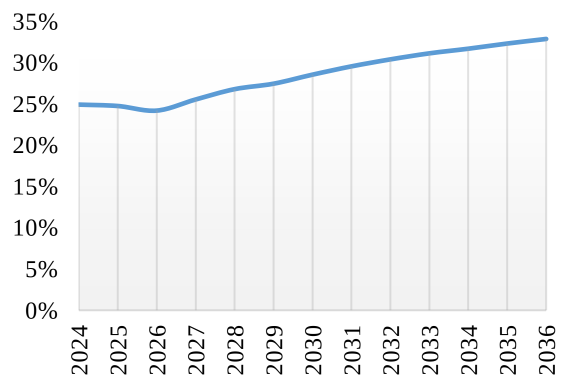


Figure 19. Financing need as % of GDP – Baseline Scenario

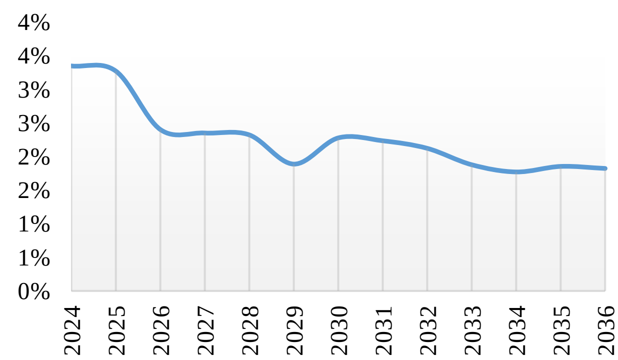
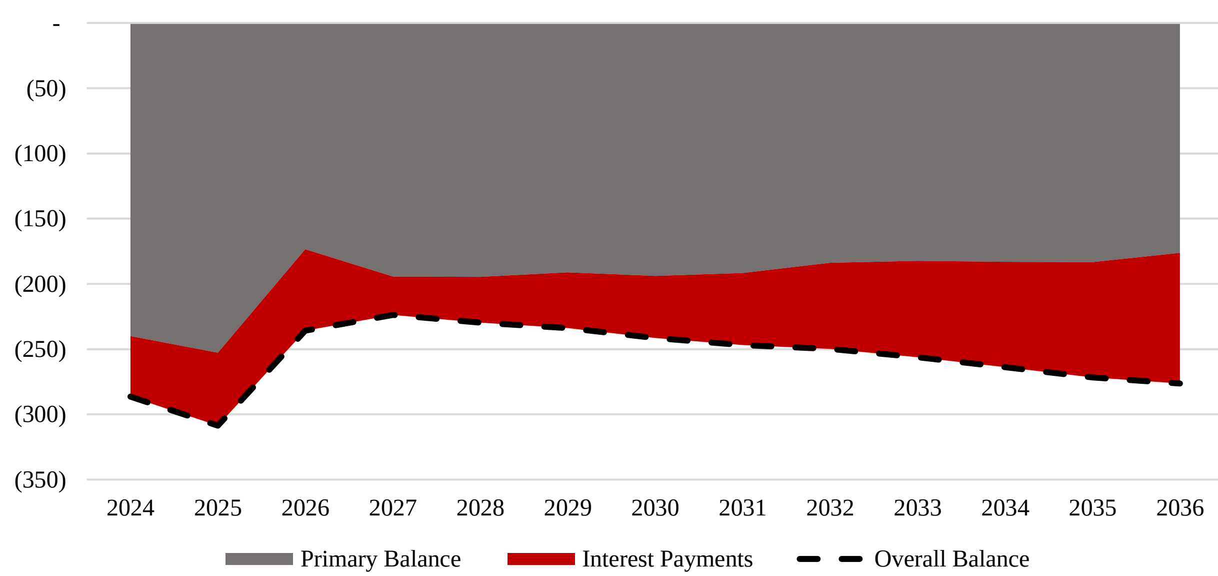


Figure 20. Overall Balance Structure – Baseline Scenario (mil Eur)



Alternative Scenarios

Shocks under different scenarios affect the level of debt as a percentage of GDP, but the need for financing is expected to be at stable levels. This is mainly due to the compliance with the fiscal rule for a deficit of 2.0% in the two of the alternative scenarios (first and third scenario), which abide the rule.

Scenario 1- Shock to GDP growth

A negative shock to GDP growth of 1 p.p. in the period 2027-2036 brings the debt-to-GDP ratio to 34.9% at the end of the forecasting period, or an increase of 2.1 percentage points compared to the baseline scenario. However, it is assumed that the fiscal rule will remain adhered to in this scenario and this serves as a buffer to the debt level. As a result, regular expenditures are reduced so that the fiscal balance complies with the fiscal rule of 2% of GDP.

Scenario 2- Shock to Budget Expenditures (Primary Balance Shock)

A shock to the primary balance by increasing spending by 1% of GDP over the period 2027-2036 would increase the debt-to-GDP ratio to 37.7% at the end of 2036. This scenario is built on the assumption that the deficit fiscal rule is not adhered throughout this period. Consequently, the level of debt marks a significant increase of about 4.8 percentage points compared to the level of debt projected in the baseline scenario. This scenario highlights the importance of complying with the fiscal rules.

Scenario 3- Shock to interest rates

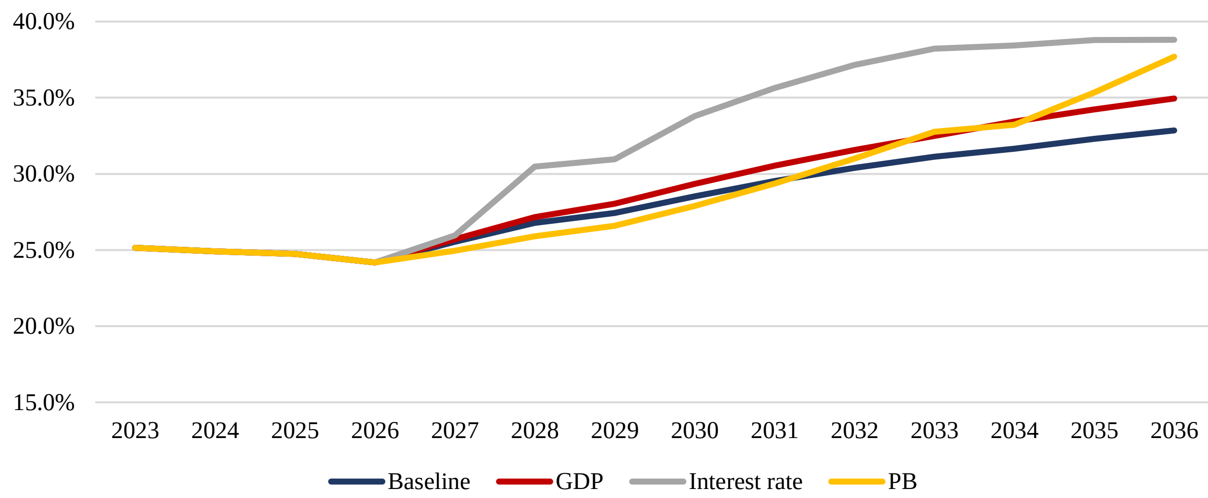
The third scenario presents an increase in 1.0 p.p. in interest rates on loans (both commercial and concessionary). However, the risks to debt levels arising from the public debt interest are within "acceptable limits" because they are regulated in the debt strategy and the fiscal deficit rule. However, assuming an interest shock of 1.0

p.p. in a scenario of not adhering the budget deficit rule, debt stock would rise significantly. Debt stock in this scenario at the end of 2036 is forecasted at 38.8% of GDP, or 6.0 percentage points higher than the level in the baseline scenario.

To sum up, Kosovo's public debt is expected to increase, and in both, baseline and alternative scenarios, it is expected to remain within acceptable levels. These results show that the fiscal rules in force, especially the one that limits the deficit to 2% of GDP, serve as a stabilizer of the debt level.

The following graph summarizes results on the baseline and three alternative scenarios regarding the long-term dynamics of public debt in Kosovo.

Figure 21. Debt Stock According Baseline and Alternative Scenarios



THE INVESTMENT CLAUSE
In 2012, as part of the then program with the International Monetary Fund (IMF), the Assembly of Kosovo approved amendments to the Law on Public Finance Management and Accountability, including the fiscal rule. Among other things, this provided for an annual limit on government borrowing of up to 2% of Gross Domestic Product (GDP), despite the Government's capacity to provide more external financing for capital projects of public importance. At the same time, the Government of Kosovo had identified the need for additional fiscal space to finance major capital projects and in 2015 began negotiations for a third program with the IMF, which, among other things, would allow the relaxation of the fiscal rule that limited debt for strategically important capital projects. In other words, for these projects the Government would be able to enter into debt beyond the fiscal rule of 2%, which rule would be valid for 10 years, as long as the public debt did not exceed 30% of the projected GDP. This is known as the “amendment to the investment clause” that introduced the approval of the necessary legislative changes by the Assembly in January 2016. The Government of Kosovo remains committed to including in the budget capital projects implemented through the "investment clause", so that the financing of such projects is based on analyses for the long-term sustainability of public debt. Another condition provided by the provisions of the investment clause is that the Ministry of Finance prepares twice a year a narrative report on the implementation of projects under this provision. It is important to note that the COVID-19 pandemic and the high inflation pressures due to the war in Ukraine have slowed down the implementation of projects planned during 2020-2022. Measures taken to manage the effect of the pandemic on public health, have caused a slowdown in economic activity that has been accompanied by numerous problems for businesses in the country and the

most vulnerable segments of society. While, the increase of the price in primary products has led to the increase in the overall price of the projects over the planned prices. To remediate the damage caused by the pandemic, the Ministry of Finance, Labour and Transfers has drafted the Economic Recovery Package, part of which will be financed through the Investment Clause. The pandemic situation has also created the need to provide additional funding to manage the economic and health situation. The projects that are included in the investment clause are briefly summarized below:

1. Financing for the recapitalization of the Kosovo Credit Guarantee Fund

In order to facilitate access to finance for local businesses, under the program for economic recovery from the crisis caused by the COVID-19 pandemic, the re-capitalization of the Kosovo Credit Guarantee Fund (KCGF) is envisaged. The total re-capitalization financing of KCGF is expected to be 40 million euros and is planned to be financed through the financing agreement between Kosovo and the European Investment Bank (EIB), which has been signed and ratified. By the end of 2023 an amount of 15.528 has been disbursed.

2. COVID-19 Emergency Response Public Sector Financing Facility

This project is funded by the Council of Europe Development Bank (CEB). The total value of the loan is 35 million euros, which was amended with an additional financing of 25 million euros. The interest rate is subsidized by the CEB up to 1 million euros. The financial agreement has been ratified by the Assembly of Kosovo and has entered into force. From the base agreement the first disbursement of 17.8 million euros occurred at the end of 2020, while the rest was disbursed in April 2021. While from the amendment Nr.1, another 10.8 million euros were disbursed and have covered costs associated with COVID-19. So far, 31 March 2023, a total of about 45.8 million euros have been disbursed from this loan.

3. COVID-19 Emergency Project for Kosovo (and the amendment of additional funding)

The basic project was negotiated and ratified in 2020. The main goal of the project is to support the Government of Kosovo in the fight against the COVID-19 pandemic. The main components of the project are related to the reimbursement of social transfer expenses made in 2020, as well as the purchase of medical equipment. The total value of the basic project is 46 million euros, as well as a 2 million euro grant awarded by the WB. The amendment of additional funding has increased the amount of the project by another 15 million euros. Until 31 March 2023 about 45.51 million euros have been disbursed and another 6.1 million have been disbursed form the amount of the additional funding. Part of the procurement of medical equipment was carried out by UNOPS.

4. Vital Infrastructure Emergency Liquidity Loan

Due to the COVID-19 pandemic, vital infrastructure service providers in the Republic of Kosovo have consistently faced declining revenues. In the absence of liquidity or any additional government support, these enterprises are at significant risk of financial collapse. In order to avoid this risk, the Government of Kosovo has negotiated this agreement for emergency loans for vital infrastructure with the European Bank for Reconstruction and Development. The value of the loan is EUR 30,000,000 with a duration of 3 years. The financial agreement was signed and ratified at the end of 2020. The first disbursement of 10.3 million euros was made in the second quarter of 2021, while in June 2022 an additional 4.9 million euros were disbursed. The loan will not have any more disbursements and is in the process of repayment.

5. Financial Sector Strengthening Project

This project has the Kosovo Credit Guarantee Fund (KCGF) as the implementing institution, and the aim of the project is to improve access to finance for micro, small, and medium enterprises, strengthening the financial and technical capacity of KCGF. The financial agreement is concluded with the IDA / World Bank and has a value of 22.3 million euros. Of these, 21.5 million are intended to increase the capital of the KCGF and 0.8 million for the institutional strengthening of the KCGF. With the approval of the Law on Economic Recovery, it has been possible for the KCGF to cover more than 50% of the loan guarantee for certain investments and to cover the relevant fees for businesses. The technical assistance provided in the project is continuously working with KCGF to achieve the goals set in the project. So far the entire amount of the project has been disbursed.

6. Project for Energy Efficiency and Renewable Energy

This project aims to reduce energy consumption and the use of fossil fuels in public buildings through energy efficiency and investments in renewable energy and improving the policy and regulatory environment for renewable energy and energy efficiency. The Euro value of the project is about 23.7 million euros. The project has three components:

I. EE and RE investments in public facilities

II. Energy Efficiency Act, NEEAP 1 and 2, NREAP and other packages

III. Support for the Kosovo Agency for Energy Efficiency for the implementation of the project.

By the end of March 2023, around 62% of the total amount have been disbursed.

7. Rehabilitation of the Railway Line 10

The implementing institution of this project is the Public Enterprise "Infrakos" Prishtina. Initially, the total cost of the project was estimated to be around 194.5 million euros, half of which is funded by the EBRD and the EIB, while the other half of this project is funded by the European Union. The financial agreements with the EBRD and the EIB have been signed and ratified. In terms of EU contribution, the first and second grant agreements have already been signed and ratified. But due to changes in the market prices and the need for additional experts, the total value of the project is expected to increase to 255 million euros. As a high-priority project for the EU, parity with international financial institutions (EBRD and EIB) will be maintained to seek additional funding for this project. In parallel a grant application will be submitted to the WBIF. The civil works for Pphase 1 have started at the beginning of 2019, while for phase 2 the works have started in the third quarter of 2022. The detailed design for phase 3 is expected to take place during 2023. In end of 2022 the Agreement for the additional financing with EIB in the value up to 38 million euros was ratified. This can be used for all three phases of the project and has been allocated by the EIB when the first agreement with this bank has been signed.

8. Rehabilitation of Regional Roads

The implementing institution for this project is the Ministry of Environment, Spatial Planning and Infrastructure. The financial agreement has been ratified and has a value of EUR 29 million, financed by the EBRD. Field works have started in May 2019 and all contracts have been signed. At the end of 2020, the agreement was signed for the extension of the grant to cover the additional services of the consultant as support for the project implementation unit up to the value of 450,000 EUR. By the end of 2023, in total 7.93 million euros have been disbursed from the project in question while an amendment of the grant agreement is being negotiated for an additional 21,950 EUR to enable to complete the payment of the Consultant for the extra work they were engaged in.

9. Competitiveness and Export Readiness Project

The implementing organization for this project is the Ministry of Industry, Entrepreneurship and Trade (MINT). This project aims to support the certification of products for export, increase the capacity of export-oriented companies and reduce the cost of business inspections. The agreement in the amount of 14.3 million euros was signed in 2017 with the IDA - World Bank, and the first disbursement was made in 2019. This project was concluded in 2023.

10. Additional Financing for the Agriculture and Rural Development Project

The implementing organization is the Ministry of Education and Culture. The project aims to help the beneficiaries in improving the productivity and access to the market of horticulture and livestock for Kosovar companies and strengthening the institutional capacity of the MAFRD. The agreement for this project in the amount of 20.8 million euros was signed with the International Development Agency - World Bank in 2017. The first disbursement was made in March 2019, while by the end of 2022, 15.72 million euros have been disbursed from the amount of total loan. The project is completed at the end of 2022.

11. Wastewater Treatment in Prishtina (Construction of Wastewater Treatment Plant in Prishtina region)

Project financing is provided through a framework agreement between the Government of the Republic of Kosovo and the Government of the Republic of France, which was ratified during 2017. Based on the agreement, the project is worth around EUR 160 million. Implementation started in the second half of 2020, where the design tender was opened. After updating the feasibility study to accommodate the change in prices from when this study was first done (2012), as well as changes in the design of the project taking into account the large influx of citizens in the Pristina region and geotechnical works, the cost of the project is expected to increase significantly. Funding for the remainder is expected to be provided through the French Development Agency (AFD) and WBIF.

12. Construction of Wastewater Treatment Plant in Mitrovica

The regional water company of Mitrovica is the implementing institution for this project. The Financial Agreement with the EIB and the EBRD was ratified in May 2022 and the implementation of the project is expected to begin as soon as the criteria for effectiveness are met by the Municipality of Mitrovica and the Regional Water Company. The agreement will also be supported by a grant from the Western Balkans Investment Framework (WBIF).

13. Digital Economy in Kosovo (KODE)

The implementing organization of this project is ME The main objective of the project is to improve fast and quality internet access in underdeveloped regions in this regard and to provide training for young people in order to be empowered to work online. The financial agreement for a loan in the amount of 20.7 million euros was signed in 2018 with the creditor IDA. The first disbursement was made in November 2019 and until the end of 2023 about 12.3 million have been disbursed from the total loan amount. Project implementation is continuing at an adequate pace.

14. Gjilan Wastewater Treatment Development Project

The regional water company of Gjilan is the implementing institution for this project, which has an anticipated value of EUR 23 million, which will be financed by the EBRD and the EIB. The EUR 10 million financial agreement with the EBRD was signed in May 2020 and ratified in parliament on July 23, 2020, while the EUR 11 million agreement with the EIB was signed in May 2020 and ratified at the end of 2020. Also for capital investment in this project, a grant agreement in the amount of 2.5 million euros will be signed. The project has started to be implemented during 2022 and continues at a slow pace. It is expected that the works on the ground will start during 2024

15. Real Estate Cadastre and Registration Project (REGIP)

The implementing institution of this project is the Kosovo Cadastre Agency. The main objective of the project is to help develop the land and real estate market and increase tenure security. The financial agreement in the amount of 14.6 million euros with the creditor IDA – World Bank was signed in February 2019. The ratification of the agreement was done in August 2020 and until end of September 2023, 569 thousand euros have been disbursed from this loan.

16. Fostering and Leveraging Opportunities for Water Security Program (FLOWS)

Is a project which aims to increase the capacity of local authorities to manage water safety and improve water safety in the Morava e Binçes basin. The project is in the amount of 25.1 million euros. The Ministry of Finance, Labour and Transfers has requested support from the European Union, for the financing of a part of the technical assistance provided by the project so that the loan funds are more focused on capital investments. The signed agreement was ratified in the assembly during February 2022. The project is separated into two parts; one is implemented by MESPI while the second from the RWC Hidromorava. Until now only 210 thousand EUR have been disbursed.

17. Water Security and Canal Protection Project

The project contributes to the restoration of the original canal capacity as needed to provide bulk water to the various canal water users in Central Kosovo. Some of the negative impacts and mitigation measures include: (1) crop loss compensation and land improvements; (2) cash compensation for affected land equivalent to replacement value, including perennial crops; (3) providing access to the property or dwelling unit. During the canal rehabilitation works, temporary access will be provided; (4) cash compensation based on the type, age and productive value of affected trees; and (5) restoration measures will be included in compensation agreements between contractors and affected people. The financier of the project is the World Bank and the project is being implemented. By the end of 2023 about 7.5 million have been disbursed.

18. Kosovo Social Assistance System Reform Project

This project aims to strengthen the social protection delivery systems and improve the performance of the Social Assistance System. The project is funded by the IDA / World Bank, with a total amount of 47 million euros. The agreement has been signed in October 2021 and has been ratified in 2023. A significant portion of loan is dedicated to the budget line Subsidies and Transfers, however investments are foreseen for the implementation systems of the social assistance scheme, which are expected to start during 2023. The implementation is under way as the PIU has been recruited and about 15 million have been disbursed by the end of 2023.

19. Wastewater Treatment Project in the Municipality of Podujeva

The Municipality of Podujeva is the implementing institution of this project. The financial agreement for the loan in the amount of 5.35 million euros was signed with UniCredit Bank Austria AG, on behalf of the Government of Austria, in 2018. The first disbursement for the project was made in 2019 and the project is being finalised. By the end of 2023 about 5.1 million EUR have been disbursed.

20. Construction of Water Supply Scheme in the Municipality of Ferizaj

The Municipality of Ferizaj is the implementing institution of this project. The loan agreement in the amount of 5.125 million euros was signed in November 2018 with Raiffeisen Bank International, which operates on behalf of the Government of Austria. The first disbursement for this project was made in 2019. The project has been implemented and the government has begun the repayment of the loan.

21. Construction of Water Supply Scheme in the Municipality of Istog

Municipality of Istog is the implementing institution for this project, which is financed with a loan in the amount of 5,094 million euros. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which acts on behalf of the Government of Austria. The first disbursement for this project was made in 2019 and the project is being finalised. By the end of 2023 the about 4.9 million have been disbursed and the project is closing finalization.

22. Wastewater Treatment Project in the Municipality of Shtime

Municipality of Shtime is the implementing institution for this project, which is financed with a loan in the amount of 2,385 million euros. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which acts on behalf of the Government of Austria. The first disbursement for this project was made in 2019 and the project is being finalised. By the end of 2023 about 2.1 million have been disbursed and the project is close to implementation.

23. Construction of Water Supply Scheme in the Municipality of Gracanica

The Municipality of Gracanica is the implementing institution for this project, which is financed with a loan in the amount of 5.115 million euros. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which acts on behalf of the Government of Austria. The first disbursement for this project was made in 2019 and the project is being finalised. The full amount of the loan has been disbursed and the project has been implemented.

24. Public Transport Project, Municipality of Prishtina

Public Enterprise of Prishtina 'Urban Traffic' is the implementing institution for this project, which has a total cost estimated at 10 million EUR. The project is funded by the EBRD and its implementation began in 2016. After the completion of the project, now the loan is being repaid.

25. Energy Efficiency Project for the Municipality of Prishtina

The project aims to develop a reliable and affordable energy renewal program for municipal public buildings. The project amount is expected to be around 6 million euros and will be financed by the EBRD. The agreement between the EBRD and the Government of Kosovo was signed in April 2022. The loan will be taken as a sovereign loan from the central level and then transferred as a sub-loan to the municipality. The municipality has budgeted the project as a capital investment for 2023 and the financial agreement between the Republic of Kosovo and EBRD has been ratified in the first quarter of 2023.

26. Energy Efficiency Project for the Municipality of Prizren

The project aims to develop a reliable and affordable energy renewal program for municipal public buildings. The project amount is expected to be 5 million euros and will be financed by the EBRD. The agreement between the EBRD and the Government of Kosovo is expected to be signed during 2022. The loan will be taken as a sovereign loan from the central level and then transferred as a sub-loan to the municipality. The municipality has budgeted the project as a capital investment for 2023 and the financial agreement between the Republic of Kosovo and EBRD has been ratified in the first quarter of 2023.

27. Social Housing Project

The project aims to provide affordable housing for certain categories of citizens. The project is being developed with the support of UN-Habitat, who are conducting the feasibility study and concept paper for the program. The project is expected to cost a total of about 50 million euros and part of it will be funded by the CEB, while the modalities of structuring the project and its implementation have been defined by the feasibility study. The feasibility study was finalized during February of 2022. The financial agreement with the CEB has been negotiated and is expected to be signed by January 2023. For this project a grant of 2 million euros has been obtained from WBIF for technical assistance and oversight during implementation.

28. Solar District Heating Project

The main goal of this project is to contribute to an efficient, reliable and environmentally friendly supply of heating for homes, public institutions and businesses in Prishtina. This project will be funded by KfW and the EBRD. The value of this project will be around 80.5 million euros. The German government has committed 31.6 million euros in the form of a grant for this project. While from the WBIF an investment grant of 21.5 million euros was obtained. The loan with EBRD for this project is for 23.2 million euro. National contributions will fill the financing gap in the project. The agreements have been signed at end of 2022 and have been ratified in 2023.

29. KEK Solar Photovoltaic Generator Project

This project will build the capacity to generate electricity from solar energy in the vicinity of KEK. The generation capacity of this project will be up to 100 MW of electricity which will be used to diversify energy sources in Kosovo. The project is expected to cost around 100 million euros and will be co-financed by KfW and the EIB. We will also apply for an investment grant of 30 million euro in the WBIF. The loan agreement with KfW has been signed but is yet to be ratified whereas the loan agreement with EIB is yet to be signed. The grant agreement with WBIF has been signed and ratified.

30. Development of the Energy Sector VII - Improvement of Transmission Network

This project is expected to be developed to improve the transmission system in Kosovo. Specifically, the project includes measures for the rehabilitation, expansion and modernization of the Kosovar transmission network. The project is funded by KfW and amounts to 25.5 million euros. The amount will be transferred as a sub-loan to KOSTT. The agreement has been negotiated, and once the sustainability criteria are met by KOSTT, the agreement was ratified at end of 2023.

31. Prishtina – Podujeva M7 Road Construction Project

This project is funded by the EBRD and the EIB, the total amount of the project is expected to be over 200 million euros. The project is part of the Western Balkans Investment and Economic Plan drafted by the EU, and has so far benefited from investment grants and technical assistance of over 45m euros. The financial agreements are expected to be negotiated in 2024.

32. Renovation of the M2 Milosheva - Mitrovica Road

This project aims at the revitalization of the M2 Road, Milloshevë - Mitrovica. The project is financed by the Islamic Development Bank (IsDB) with a loan in the amount of 15.4 million euros; The OPEC Fund for International Development (OFID) with a loan in the amount of 16.7 million euros and from the Saudi Fund for Development (SFD) with a loan in the amount of 13.4 million euros. The project has started implementation, and recently picked up pace. By the end of 2023 the full amount of the IsDB loan, 22% of the OFID loan and 33% of the SFD loan have been disbursed.

33. Strengthening Digital Governance

The project aims to assist in the digital transformation of the Government of Kosovo. Component 1: Digital transformation of the Government, assisting the Government in digital development and improving the ability of the Government to face potential digital risks. Component 2: digital transformation of public services, to reduce the administrative burden by offering digital services and developing services in harmony with the life cycle of citizens. Component 3: Innovation, change management and capacity building. Development of an innovation center in ASHI. The project will be financed by the World Bank and negotiations have taken place in the first half of 2023 and the agreement has been ratified later on. The loan amount shall be 18.5 million euro.

34. Implementation of the feasibility study for medical equipment for secondary and tertiary care

The total value of the project is estimated to be around 53 million euros. Formal discussions on this project have not yet begun. Formal negotiations are expected to take place by the beginning of 2024. This project is expected to be financed through loans with the Council of Europe Development Bank and the European Investment Bank.

35. Construction of the Waste Water Treatment Plant in the Municipality of Ferizaj

The total value of the project is estimated to be around 40 million euros which is to be financed by WBIF grant and a loan up to around 20 million euro from EBRD. After the completion of the studies the negotiation of the agreements will begin. The agreement with EBRD was signed by the at the 2023.

36. Waste Water Treatment Plant in the Municipality of Podujeva

The application for WBIF technical assistance has been submitted for the feasibility study of the project. The project is expected to be financed by the EBRD and the costs are expected to be around 20 million euro. The project is still under discussion as the financing request was submitted at EBRD

37. Early Childhood Development Project

This project is going to be financed by the World Bank and has as its main goal to develop and reform the early childhood education system in Kosovo. The project is under preparation and the financing agreement is expected to be signed by end 2023. The project is being prepared by the Ministry of Education, Science, Technology and Innovation. The project is still under discussion as the financing request was submitted at World Bank.

5. STRUCTURAL REFORMS 2024- 2026

5.1 Assessment of the obstacles in three priority areas and the measures related to structural reforms

Competitiveness

Kosovo has developed rapidly in recent decades, ensuring continuous economic growth, improving living standards, and taking significant steps in building institutions, despite its limited productive base. Economic growth has been the highest in the Western Balkans, with an average rate of 4.2% in 2022 after achieving a record high of nearly 11% in 2021. However, the development of Kosovo's potential requires continuous transformation to overcome socio-economic, institutional and environmental challenges.

The Republic of Kosovo has an open economy, mainly based on small and medium enterprises, and is in the process of building the foundations for sustainable economic development. Kosovo has faced a challenging reform agenda during the last decade. Policies aimed at improving the business environment, strengthening domestic institutions, improving governance and narrowing the infrastructure gap have provided a much-needed boost to investment and exports in recent years. However, progress is needed in all sectors to ensure sustainable economic growth that creates jobs. Kosovo's institutions are working to accelerate the transition towards a more sustainable economic model driven by investments and exports that increase productivity. Kosovo's economy continues to implement reforms aimed at improving the business environment, reducing corruption and strengthening contract enforcement, rebalancing towards higher investments and exports, reducing import dependence and increasing labour force participation.

One of the main challenges of the Government remains the informal economy and the unfavourable business environment. The informal economy has negative effects not only on the Kosovo budget, but also damages the market economy and fair competition between businesses. Obstacles such as the administrative burden for businesses and citizens, the lack of mechanisms and proper addressing of economic disputes, the lack of proper coordination and training of inspections continue to have a negative impact on unfair competition in the market and in legal uncertainty.

Although the informal economy continues to be fought against, there are still obstacles. As such, inter-institutional cooperation to combat the informal economy needs to be further improved, low efficiency as a result of the limited number of inspectors in the Labour Inspectorate and other inspection bodies, low incentives for citizens' electronic payments and particularly the low awareness of the negative effects of this phenomenon on both employers and employees are the main contributors to the spread of the informal economy.

Moreover, the administrative burden represents one of the other key problems in doing business and reducing the informal economy. Problems such as the long time it takes to get services for businesses and their high cost, numerous requests for businesses and lack of knowledge on how to provide services discourage doing business and investing in the country. Some of the effects caused by administrative burden today in Kosovo are the unfavourable business environment, the low level of business registration and formalization, the low level of quality of services offered by the public administration, and the higher expenses caused by frequent changes in legislation. Also, the access of businesses and citizens to electronic services for obtaining permits and licenses remains a challenge, resulting in greater time and cost for obtaining these services. Improving service delivery for citizens and businesses through effective development, implementation, and review of public policies and digitalization of services, and removing unnecessary administrative burdens from legislation, without jeopardizing the core purpose is the goal of the Government of Kosovo. By achieving this goal, the savings of citizens and businesses will increase, which can be directed towards other relevant activities, conditions for doing business will improve, there will be an impact on reducing the informal economy, the efficiency of the public administration and the Government as a whole will increase, and this will result in increased satisfaction and trust of citizens and businesses in the administration and Government.

The Government of Kosovo also intends to transform the way citizens and businesses interact with the public administration, which will also help promote growth and economic development. Finally, the Electronic Governance Strategy has been approved, which foresees content-related reforms, based on the key principles of the European Commission for the digitization of services. Through this strategy, access to more government electronic services will be made possible for businesses, obtaining permits and licenses will be facilitated, and it will have an impact on reducing the time and cost of doing business. All of these can help attract investments, create new jobs, promote economic growth, and combat the informal economy.

In the liberalization of foreign trade, Kosovo has taken essential steps in aligning trade policies with international trade rules. However, despite all the efforts made, it has not yet managed to ensure stability as Kosovo continues to face a trade deficit of goods. 2022 marked an increase in the volume of Kosovo’s goods trade with other countries. Even during this year, Kosovo's trade balance is characterized by a trade deficit. Referring to statistical data, we understand that in the overall composition of trade exchanges, imports represent 86% of foreign trade and exports represent a very small percentage of only 14%.

The Industry sector in Kosovo is dominated by micro enterprises with around 86%, SMEs have a low integration value in global value chains, as well as with a solid participation of the presence of innovation in the international market and the attraction of FDI, which needs to be further improved. According to research and analysis, cooperation between companies and educational and research institutions is weak and the general level of skills in the labour force, the small number of businesses run by women and young people, and the lack of networking.

Kosovo has a small industrial base focused on low value-added activities with limited export competition and concentrated on few export products and markets. The labour market in Kosovo is characterized by low wages, high informality and lower participation of women of 27.3% employed in the total employment, while within the manufacturing sector (Sector C) women's employment participation is at 17.5%.

Kosovo has not shown any structural changes in the composition of its economy. The manufacturing sector remains stable at around 13-14% of value-added participation in GDP, and ranks third after services and construction/mining.

The Sector of Manufacturing Industry (Sector C) in Kosovo, in 2022, participated in employment with 10%, in turnover with 13.74%, as well as with the number of enterprises with 12.9%. The participation of Sector C in total exports is around 83%, while in total imports it is 93%, in the year 2021. About

22% of manufacturing companies export, where the main export products are furniture, metals and fabricated products, (plastics, food products and beverages).
Foreign Direct Investments in Kosovo (FDIs), in 2022 amounted to 778.2 million euros, which means that compared to the previous year, they have recorded an increase of 85%. The production sector has also seen an increase in FDIs, with a value of 14.3 million euros in 2022.

Tab.1 Annual statistics of manufacturing industry trade (2020 - 2022[13])

Years (euro)	2020	2021	2022
Export of processing industry products	398,461,079	626,341,608	763,936,150
Import of processing industry products	3,061,352,367	4,338,794,494	5,244,635,490

Source: Kosovo Agency of Statistics

To facilitate the development potential of the production sector in Kosovo and contribute to the achievement of the strategic goals of the NDS 2030, in June 2023, the Strategy for the Development of Industry and Business Support 2030 was approved. Through this strategy, the aim is to transform the industry of Kosovo into a more globally integrated industry that is capable of producing high-value-added products and offering decent employment opportunities.
The existence of various programs in Kosovo to support the purchase of new technologies in the manufacturing sector has shown success. High investment in new technologies should also be seen as a factor having a very positive impact on labour productivity.
The services sector is the largest sector of the economy, accounting for 44.9% of the gross domestic product (World Bank, 2022)[14]. Trade in Services in 2022 was characterized by export revenues in the amount of €2.5 billion. The sectors that have had the best performance are: travel with €1.8 billion, information and communication services (ICT) with €210 million, professional/business services with €159 million, and transportation services with €124 million. Total service exports increased from €1.9 billion in 2021 to €2.5 billion in 2022, an increase of 31%, during which the trade balance of services reached €1.3 billion.
Despite the overall positive balance of the service sector, this sector is still not living up to its potential. Other essential factors that can positively affect the further development of services and trade in services are for companies in this sector to have better access to finance and to focus on promoting the export of services.

Tab.2 Annual statistics of trade in services (2019 i 2023)

Indicator/Year	2019	2020	2020/2019 ↑↓	2021	2021/2020 ↑↓	2022	2022/2021 ↑↓	2023 Jan-June
Export (million)	1.675	995	-41%	1.906	92%	2.505	31%	1.090
Import (million)	749	603	-19%	871	44%	1.132	30%	536
Balance (million)	**926**	**392**	-58%	**1.035**	164%	**1.373**	33%	**554**

The Agriculture sector is one of the sectors that contributes to the overall economic development of the country. This sector, as one of the most important activities in our country, contributes about 7.4% to the overall GDP and also provides opportunities for poverty alleviation, generating new jobs and

[13]The data on exports and imports for the manufacturing industry, for the year 2022, are preliminary. During the calculation, the percentage of the manufacturing industry in 2021 was taken as the base and was calculated with the total value of exports and imports for the year 2022.
[14] https://databank.worldbank.org/reports.aspx?source=2&country=XKX

generating income for the residents of rural areas. The total utilized area of agricultural land is 420.428 ha, where the largest share are cereals (30%), fodder crops (26%), vegetables (2.4%), fruit trees (2.5%), vineyards (0.8%) while the rest of 51.7% consists of meadows, pastures, and common land.

Despite constant support from Kosovo institutions, through support policies for the growth and development of the sector and export promotion, the Kosovo commercial exchange has increased over the years, where the export of agricultural products in the last year increased in value compared to the other years and this value reached €118.9 million or an increase of 28.4%. Whereas the import of agricultural products has also increased, reaching a value of €1.2 million last year or an increase of 23.9% compared to the previous year. The export share of agricultural products in the total export is 13%, while the import share of agricultural products in the total import is 21%. Based on these data, it results that there is an increase in the value of export, but at the same time, there is also an increase in the value of imports and also a further negative deepening of the trade balance to €1.08 million.

During 2023, the government has made progress in the field of legislation where it has managed to finalize a large number of laws, including the Law on Agriculture and Rural Development, which is the basis for the further development of agricultural policies in our country.

Drafting and approval of the 5-year Agricultural and Rural Development Program 2023-2027, provides guidance towards appropriate and inclusive policies for the sector.

The support of the agriculture sector through its programs such as direct payments and investment grants has continued supporting strategic crops and supporting other sectors that affect the well-being of all and ensure sustainability. Regarding the Agriculture and Rural Development Program, measures oriented towards supporting primary production, processing, diversification, and the implementation of leader approach continue to be supported.

The government continues to work on policies that are most favourable in support of the sector, taking into account global crises that have directly affected the agricultural production and supply chain. Also, the focus has been on the irrigation sector, where the implementation of projects has begun in cooperation with 5 municipalities of Kosovo for the construction, expansion and rehabilitation of irrigation systems.

Reform Measure #1: Enhancing the business environment by decreasing the informal economy and administrative burden.

Description of the measure: Informal economy remains one of the challenges for the Government of the Republic of Kosovo, thereby undermining the market economy, fair competition between businesses, contract enforcement, budget revenues, public services, and the economic and social well-being of Kosovo citizens.

The reform seeks to tackle the reduction of administrative burden rather than the efficiency of inspections as one of the key issues in doing business and reducing the informal economy by enhancing services for citizens and businesses through the effective development, implementation, and review of public policies and digitalization of services. The measure also aims to enhance inter-institutional cooperation, improve the efficiency of inspections, identify and register informal workers, formalize businesses, improve the quality of services offered by public administration, reduce the circulation of cash in the market, for the creation of a healthy business environment and the reduction of the informal economy.

Furthermore, the measure is in line with national policies for preventing and combating the informal economy in Kosovo and in line with the National Strategy for Preventing and Combating the Informal Economy, Money Laundering, Terrorism Financing and Financial Crimes, as well as with the program for reducing administrative burden and Inspection Reform.

a. *Activities planned for 2024:*

1. Enhancement and synchronization of activities between the Tax Administration of Kosovo and the Labour Inspectorate for the purpose of identifying and recording unregistered workers;
2. Enhancing knowledge and institutional capabilities to combat money laundering in the field of immovable assets and construction;
3. Enhancement of collaborative inter-institutional operations with the goal of combating contraband, tax evasion, and other forms of illicit economy;
4. Simplifying and digitizing services on a central level;
5. Simplifying services (costs) at the local level;
6. Official training for the administrative burden process at both central and local levels;
7. Advancement of the e-inspection platform;
8. Advancement of risk-oriented inspection methodologies;
9. Training of inspectors with the new approach for inspections;
10. Keeping the self-awareness campaign for inspection reform.

b. *Activities planned for 2025:*

1. Use of data for the index of immovable property value irregularities linked to the enhancement of notarial supervision, accurate assessment of credit risk, comparative assessment for tax matters, and property tax evaluation;
2. Functionalization of the Employee Register;
3. Enhancement of collaborative inter-institutional operations with the goal of combating contraband, tax evasion, and other forms of illicit economy;
4. Integration and disclosure of informal economy data in GDP's data;
5. Simplification and digitization of permits at the central level;
6. Simplification of services (costs) at the local level;
7. Official training for the administrative burden process at both central and local levels;
8. Digitalization of inspections' progress;
9. Inspections grounded on risk assessment and checklist utilization;
10. Inspectors' certification;
11. Rationalization of inspection bodies/establishment of Central Inspectorates according to the Law on Inspections;

c. *Activities planned for 2026:*

1. Harmonization of specific laws with the Law on Inspections;
2. Enhancement of collaborative inter-institutional operations with the goal of combating contraband, tax evasion, and other forms of illicit economy;
3. Assessment of the informal economy based on the types and economic activities that were previously undervalued;

Indicator	Baseline 2023	Target 2025	Target 2026
1. Increase in tax revenues compared to the previous year	9 %	8 %	7 %
2. Quantity of simplified and digitized permits	0	>30	>60
3. Number of municipalities that have simplified services (costs)	0	>5	>10
4. Rationalization of inspection bodies	32	<27	<20

Expected impact on competitiveness: The reduction of the informal economy, through the decrease of administrative burden and inspections carried out on risk assessment, will have an impact on the increase of efficiency and effectiveness of institutions towards citizens and businesses. The simplification and digitalization of administrative services, along with the establishment of inspection checklists, will enhance institutional efficiency, promote transparency, and improve the overall business environment and fair competition.

Non-formal sector competition is the primary hindrance for regular taxpayers. This measure would tackle this issue by increasing taxable transactions as a result of implementing a more efficient control mechanism and conducting a more thorough risk analysis, as well as reducing informal employment.

Estimation of activity costs and financial resources:

in EUR	2024	2025	2026
1. Budgetary financing	1,245,520.00	919,750.00	778,270.00
2. Non-budgetary financing	619,000.00	614,000.00	
TOTAL	**1,864,520.00 €**	**1,533,750.00 €**	**778,270.00 €**

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality, and access to health-care: Decreasing the level of the informal economy will have a direct effect on the growth of formal employment. The primary factor in employment would be the enhancement of official employment levels in sectors with the highest levels of informality, which would also lead to the improvement of workers' rights in terms of gender and easier access to financial resources. Moreover, it will influence economic progress, budget growth, which could be translated as enhancing the well-being even for the most deprived layers of the population. The decrease in the informal economy will have a notable effect on the growth of budgetary incomes, which are used to fund public services, thereby improving the welfare of the country's citizens.

Expected impact on the environment and climate change: The primary effect on the environment, among other factors, is the decrease in the use of paper during the delivery of services by the public administration.

Risk	Probability	Planned mitigation action
Lack of institutional consistency in inter-agency cooperation	High	Interconnection of systems that communicate with each other, where information will be exchanged electronically between relevant institutions with the purpose of combating the non-formal economy
Delays in procurement, development and testing	Medium	Close coordination with the host institution and AIS for prioritization.
Delay in regulatory changes	High	Close coordination with the Assembly of the Republic of Kosovo.

Reform Measure #2: Increase of Investments and Export Promotion

Description of the measure: The measure aims to boost investments and enhance export activities by encouraging and supporting new, foreign, and direct investments in Kosovo, fostering and strengthening business cooperation with local suppliers, and promoting the export potential of local companies in foreign markets. The measure also aims to develop a more globally integrated industry through the growth and diversification of exports, the accelerated digitization of production and advanced technology for the production of innovative and green products, as well as the better use of local natural resources and recycled materials.

Furthermore, the measure supports SMEs to grow and transition into value-added activities by providing ease of access to finances, support in improving quality standards, and increasing levels of Foreign Direct Investment (FDI).

The measure is related to the National Development Strategy 2030, the NDP, the Government Program 2021-2025 and the Medium-Term Expenditure Framework MTEF 2024-2026.

a. ***Activities planned for 2024:***

1. Establishment and operationalization of the Investment and Export Agency (AIE);
2. Drafting of sub-legal acts derived from the law on Sustainable Investments;
3. Enhancing the capabilities of AIE;
4. Drafting the strategic and operational plan for the growth of Investments and Exports;
5. Restructuring of KIESA into the Agency for Enterprise Support in Kosovo;
6. Capital investments in the industrial parks of Lipjan and Rahovec with a focus on enhancing the infrastructure;
7. The initiation of the construction of Green Park - Drenas 2 with eco-friendly characteristics;
8. Supporting SMEs for Product Certification for priority sectors;
9. Funding assistance for ground-breaking machinery by SMEs;
10. Promoting local enterprises in international markets by showcasing their products and services.

b. ***Activities planned for 2025:***

1. Advancement of financial incentives to back investments and exports across sectors;
2. Investments in the eco-friendly and innovatively designed infrastructure of Green Park - Drenas 2 (KIESA);
3. Finalization of the eco-friendly industrial park (KIESA);
4. Finalization of the infrastructure of the industrial park in Rahovec (KIESA);

5. Increasing the number of beneficiary businesses for the support of SMEs for Product Certification for priority sectors (990,000 euros) KIESA;
6. Financial support of SMEs through innovative machines (KIESA);
7. Identifying potential customers for businesses in foreign markets and arranging visits for purchasing within the country (KIESA).

c. Activities planned for 2026:

1. Finalization of an eco-friendly industrial park (KIESA);
2. Financial support of SMEs through support and preventive measures for the maintenance of machinery in enterprises (KIESA);
3. Supporting women in business in science and technology and encouraging innovation (MINT-Innovation and donors).

Indicator	Besline 2022	Target 2024	Target 2026
1. Share of manufacturing FDI in total FDI (%)	1.8%	5.8%	10.2%
2. Increase in goods exports (Manufacturing Industry) in %	22 %	25 %	30 %
3. The value of exports in services	2.5 Billion	2.6 Billion	2.9 Billion

Expected impact on competitiveness: The increase of investments and exports, among other factors, aids in the creation of new job opportunities and the generation of tax revenues. Furthermore, investments offer access to advanced technology that plays a positive role in the overall increase of productivity and serves as the main catalyst in the restructuring of businesses, as well as in the general economic restructuring. Also, the establishment of new opportunities for the further development of SMEs will influence the increase in production, the reduction of the trade deficit, internationalization, the reduction of imports, as well as the creation of new jobs through investments in equipment. Investments in new machinery or for the expansion of existing industrial capacities, as well as investments in innovation and modernization of the industry will contribute to increasing the quality and quantity of production, which will improve business performance and contribute to the diversification of the range of production. Companies' involvement in international fairs will give them the chance to become part of the global market. The execution of planned activities, in the medium term, will aid in boosting industry involvement in GDP, augmenting the Gross Value Added (GVA) of production, and enhancing export potential. Furthermore, development policies in the field of professional services will positively impact the competitiveness of the sector in general and the trade of professional services, mainly through new job creation opportunities and an increase in FDI in high-productivity services and facilitate access to finance for businesses.

Estimation of activity costs and financial resources:

in EUR	2024	2025	2026
1. Budgetary financing	10,754,724.00	11,886,435.20	10,634,531.40
2. Non-budgetary financing	1,434,500.00	1,080,000.00	1,000,000.00
TOTAL	**12,189,224.00 €**	**12,966,435.20 €**	**11,634,531.40 €**

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality, and access to health-care: Positive results are expected in terms of employment growth with increasing investments and exports. By implementing this measure, we anticipate the establishment of employment opportunities for vulnerable groups such as women and youth, as well as the development of industrial production sectors in Kosovo. Given that many service activities depend on women's employment, such as education, health, and other business services, further development of services will increase the level of share of women in the labour force. In 2021, the services sector employed 69.67% of the workforce in Kosovo. This measure contributes to the attainment of SDG 8 (promoting decent work and economic growth), SDG 5 (gender equality: Achieving gender equality and empowering women and girls through their empowerment in entrepreneurship), SDG 9 (Industry, Innovation, and Infrastructure) SDG 17 *(strengthening the tools of implementation and revitalizing the global partnership for sustainable development).*

Expected impact on the environment and climate change: This measure will affect the environment, as the construction of industrial parks will result in degradation of the area where infrastructure works are performed. But, with the construction of industrial perks, the environmental impact will be controlled and there will be a concentration of businesses with access to infrastructure, electricity and underground infrastructure, and agricultural lands will be protected from their degradation. Likewise, supporting SMEs for investments in modern technologies will have a positive impact on the environment, reducing CO2 emissions, as well as an impact on energy efficiency.

Risk	Probability	Planned mitigation action
Insufficient coordination between institutions at the central and local level for the development of business infrastructure	Medium	Improved communication and cooperation at the municipal level, along with support throughout the infrastructure development process to benefit businesses.
Insufficient information regarding supportive schemes for businesses	Medium	Preparation of guidance materials and promotion of schemes through the organization of meetings with businesses and on electronic platforms.
The requests of businesses interested in the Financial Support Program exceed the allocated budget	Medium	Securing financial resources from donors, as well as planning support programs as a continuous activity in the coming years.
Lack of human capacity	Medium	Vacancies in key departments in relevant institutions should be filled in

Sustainability and Resilience

In order to achieve its full potential, the Republic of Kosovo is committed to implementing sustainable, comprehensive and oriented policies towards the development of a circular economy that would enable faster economic development and reduction of poverty and inequalities, the creation of sustainable employment, ensuring the protection and sustainable use of natural resources, and resilience to climate risks.

The Republic of Kosovo has now committed to implement the Green Deal for the Western Balkans within the Berlin process as a need to lay the groundwork for a major transformation of the region to turn sustainability and resilience challenges into opportunities and transpose elements of the European

Green Deal in all priority sectors as a new European Union (EU) enlargement strategy towards a modern, climate-neutral, resource-efficient and competitive economy.

Although Kosovo has made significant progress in improving the regulatory environment, the long-term prospects for development are vulnerable when it comes to the **energy and natural resource management sector.**

Energy consumption in Kosovo is highly dependent on fossil fuels, its electricity production capacities are mainly from coal-based power plants. Currently, the total installed production capacity is 1,568 MW, while the total operational capacity is 1,236 MW, of which 960 MW or 77.7% are from thermal power plants and the rest 22.31% are from renewable energy sources. Most of the electricity consumption is covered by domestic generation, but due to the age of the thermal power plants and the lack of flexibility to adapt to the demand in different periods, especially during peak times, the need for electricity import increases.

Since 2021, the energy crisis that Europe is going through has worsened the situation with stable electricity supply even for the citizens of the Republic of Kosovo. The lack of sufficient domestic energy production capacities, dependence on imports and unstable prices in the international market have created uncertainties in the supply of electricity. This electricity crisis proved that Kosovo's electricity system needs a grassroots transformation to become more stable, more independent and more resilient. Investments in renewable energy sources have already begun, the Government of the Republic of Kosovo has announced the first auction for the increase of renewable energy capacity (solar) of 100 MW. Kosovo will also install 170MW of energy storage capacity through batteries in its energy system by 2031, a process which is in the stages of fulfilling the prerequisites and is being developed according to the Compact Program agreement signed between the Government of Republic of Kosovo and MCC. This investment in energy storage will not only help improve system flexibility and integrate variable renewables, but will also be necessary to meet ENTSO-E's energy backup requirements, and to some extent help reduce electricity imports.

The electricity market in Kosovo is continuously developing and is inextricably linked to the regional market and beyond, and market integration with Albania is a high priority. Since December 2020, Kosovo has started operating as an independent regulatory area within Continental Europe within the Albania-Kosovo (AK) bloc. Kosovo and Albania have also continued with the activities related to the creation of the joint stock exchange for the day-ahead and intraday markets, as well as the unification of the electricity markets.

Kosovo also aims to reduce technical losses in the electricity distribution network. In 2022, technical losses accounted for 12.21% of the distribution demand, while non-technical losses accounted for 10.42% of the total distribution demand, of which the unaccounted energy in the four northern municipalities of Kosovo amounted to 5.85% (362GWh).

Within the framework of energy efficiency for Kosovo, the important goal is to increase the number of more efficient buildings, as buildings account for about 40% of the country's annual energy consumption. Furthermore, the reduction of consumption through the increase of Energy Efficiency (EE) is seen as an important measure to address the unstable situation of electricity supply. Therefore, the Government of Kosovo is implementing the Action Plan for Mitigating the Immediate Socio-Economic Impact of the Energy Crisis in the amount of seventy-five (75) million euros, financial means benefited from the European Union (EU) for the IPA Annual Program 2023. The plan foresees the implementation of immediate and short-term measures for the winter period, encouraging energy savings by household consumers, supporting families through increased Energy Efficiency (EE) in residential units and buildings, as well as investments in efficient heating and electrical appliances and renewable energy systems for households.

In environmental matters, air pollution, water pollution and threats of water insecurity in terms of availability, hazardous and municipal waste management, forest degradation and soil pollution from mining and other industrial activities are among the many environmental challenges of Kosovo that once have a deep negative impact on the well-being of the citizens of Kosovo and the productivity of its business.

Air pollution in urban areas and especially in industrial areas is estimated to be high, based on data from continuous air quality monitoring through 13 monitoring stations (12 static and 1 mobile station) in which 6 quality parameters are monitored of air (PM10, PM2.5, NO2, SO2, O3 and CO) through the online system. The monitoring data for 2022 indicate that the maximum allowed values for some parameters, in particular for PM10 and PM2.5, mainly during the winter season have been exceeded. The highest number of days with exceedances has been recorded at monitoring stations in Prishtina Rilindja (59), Peja (41), and Gjilan (52). The highest annual average concentration for PM10 was recorded at the 'Rilindja-Prishtina' stations with 32.54 μg/m3 and in Gjilan with 3.2 μg/m3. The major pollution contributors are power plants, high combustion plants, the transport sector, low combustion plants, agricultural activities, household waste and waste incineration sites. Regarding the trend of the annual concentration of the monitored parameters, based on the annual data for the period 2013- 2022, a significant decrease in the concentration of pollutants can be observed, which can also be related to the measures taken to reduce pollution.[15]

In terms of municipal waste, the amount generated at the country level is approximately over 450,000 tons. Based on the composition of municipal waste generated at the country level, over 90% of them can be recycled. Currently, over 10% go to the recycling line (including exports dedicated to recycling). Almost all the municipal waste ends up in sanitary landfills, while a part of it ends up in illegal landfills. In 2022, there is an increase in waste disposal in the amount of 43,623 tons, or 9.77% more compared to the previous year 2021. On the other hand, the legislation regulating this area is harmonized with the EU Acquis. However, the waste sector needs reform and support. The circular economy would create opportunities for investment and new jobs, by providing sources of raw materials for production. The implementation of the Deposit Refund System (DRS) would result in investments from the private sector, including foreign direct investment. This is in line with the principles of extended manufacturer liability as well as the 'polluter pays' principle.

In recent years, special attention has been paid to the conservation of biodiversity, through the proclamation of nature-protected areas. About 11.6% of the total territory has been proclaimed as Nature-Protected Areas including: 19 strict nature reserves, 2 national parks, 231 natural monuments, 1 natural park, 6 protected landscapes and 1 special protected area for birds. So, in total, the number of protected areas is 260. Despite this positive fact, their effective management is at unsatisfactory level. Illegal construction, deforestation, hunting and other human activities are seriously threatening the natural values of these areas. This situation has resulted due to the partial implementation of existing legislation and the lack of relevant institutions for management, monitoring and inspection.

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[15] *Annual Report on the State of Air 2021, KEPA 2022*

The small quantity of water in local watercourses, where the average annual quantity is less than 100 m3/s, implies the need for the construction of Urban and Industrial Wastewater Treatment Plants (WWTP). Currently, there are 5 WWTPs in operation (Skenderaj, Prizren, Junik, Peja and Gjakova). In addition to the urban WWTP, there are also 13 small plants in several rural areas. The Municipality of Prishtina is in the process of completing the documentation to start with the construction works of the regional plant for the treatment of waste water (including the municipality of Fushe Kosova, Obiliq and Graçanica). Mitrovica, Ferizaj, and Gjilan are in the administrative procedures for contracting consulting companies.

In terms of transportation, Kosovo has a good and modern road transport network due to significant investments in road corridors that have improved trade links with neighbouring countries and provided access to maritime routes through Albania and Montenegro. Kosovo's roads are connected to the corridors from the east to the western Balkans, which is part of the European PAN transport network and is part of the Transport Community Treaty. The railway network also requires investments to promote freight transport and facilitate interurban passenger movement in order to be competitive.

Kosovo has an existing road network of 2000 km, including highways, national and regional roads, where the majority of the indicators of the TEN-T roads are in very good or good condition and are in line with the regulations of the TEN-T road condition assessment according to the TCT evaluation. In the road network of Kosovo, 150 km of highways have been completed, road directions R7 Prishtina - Vërmica and R6 Prishtina - Hani i Elezit, 90 km of national roads with 4 lanes, and over 90% of the internal road network has been constructed and rehabilitated, as well as 1500 km of local roads. The first part of the Prishtina- Gjilan highway with a length of 23 km is also being completed and the second part Gjilan - Dheu i Bardhë is also in process.

Railway transport in Kosovo extends throughout the territory of Kosovo with a length of 335 km of open railway line, with a length of 105 km of stations and 103 km of industrial lines of which the line stretching from the northern border of Kosovo, from Mitrovica to Hani e Elezit in the south (Route 10) is part of the TEN-T comprehensive indicative network and connects Skopje with corridors VIII and X. The modernization has started in recent years with the reconstruction of Corridor 10, studies are being conducted for the construction of the Kosovo - Albania railway in order to achieve its full potential, as well as for the multimodal terminals. Besides the poor quality of infrastructure, Kosovo's railway also lacks ERTMS. This is a key component for making railway traffic competitive and safe and all modernization projects must therefore include the deployment of ERTMS.

The freight transport sector in Kosovo is still not adapting to the global trend in diversifying its services to offer more added value to customers, considering that only 23.5% of firms offer more than one logistics service.

Regarding CO2 emissions, transport is the third largest polluter in Kosovo, in 2021, total CO2 emissions from transport were 1419 Gg C02 eq, while road traffic is the largest polluter of the transport sector because in addition to CO2 emissions it also affects air and soil quality. Furthermore, the effects of climate on transport infrastructure and thus the movement of passengers and goods are becoming more apparent. Kosovo currently has only 0.85% of vehicles up to 3.5 tons with alternative fuel, while the current fleet base of heavy vehicles (trucks and buses) with EURO 5 and higher is 17.3%.

Kosovo lacks the Intelligent Transport System (ITS) which can significantly contribute to a cleaner, safer, more efficient and more sustainable transport system through the application of various information and communication technologies in all modes of passenger and freight transport. Moreover, the integration of existing technologies can create new services. ITS systems are key to supporting jobs and growth in the transport sector. Applications to improve traffic management (such as ITS, ERTMS) can reduce congestion and increase capacity, while applications such as e-freight (electronic goods) can enable paperless transport and improve the flow of goods, significantly reducing time and logistics costs. Furthermore, user-centered applications, such as real-time information, online booking, and mobility as a service, can contribute to shifting the mode of transportation towards cleaner ways. The transposition of the relevant EU Acquis (such as the ITS directive, the e-Goods Regulation (ERTMS) etc.) represents a cornerstone for ITS establishment.

As for ICT infrastructure, Kosovo has a developed broadband connection infrastructure, and it provides access opportunities for 100% of the inhabitants/families throughout the country. Fixed access internet penetration is estimated to be 129.2% of households compared to 89%[16] in the EU. Mobile telephony penetration is around 98.23% of the population and it is estimated that internet users via 3G and 4G network are 85% of the population compared to 100% in EU. In this direction, Kosovo has managed to surpass regional competition, and all of this in close cooperation with the private sector. Demand for additional Internet capacity/speed has increased significantly since the COVID-19 pandemic. To address the growing demand for broadband Internet services, GRK continues to support the expansion of robust telecommunications infrastructure by connecting mobile network towers with fiber optic cables to enable the development of 5G and future network-based technologies and services. The overall use of ICT in the industry is still limited and many companies lack awareness of competitive benefits. It is estimated that about 4%[17] of the total number of employees are employed in the ICT (Information and Communication) sector compared to 7.37%[18] at the EU level. About 600 businesses have registered ICT as a primary activity, but only about 120 of them are considered businesses with ICT product-based services, while the rest are hardware sales and servicing businesses. The institutions of Kosovo have developed: State Computer Network, State Data Centre, an Interoperability Platform, a number of central electronic systems for providing electronic services to citizens, businesses and the administration itself, the electronic portal "e-Kosova" where a considerable number of services have been launched and which will be the only platform whereby the state institutions will provide services to citizens and businesses.

Regarding the digital economy, Kosovo lacks a comprehensive ecosystem to create opportunities for innovative ideas not only in the ICT sector but also in all fields related to ICT and applied digital technologies in all aspects of life. It has been proven even during the pandemic that the lack of deployment of broadband internet infrastructure has an adverse impact on the productivity and competitiveness of companies and reduces opportunities for self-employment, distance learning, digital learning and digital marketing, this fact becomes even more evident when considering the unpreparedness of businesses to go for digitalization. Support and enabling environment for fixed broadband networks and 5G networks are further needed for the digitalization of the economy. The lack of a system for electronic identification and authentication (eID) is disadvantageous to the development of online services and electronic trading. Further development of electronic services on

[16] https://ec.europa.eu/eurostat/documents/3888793/14209569/KS-TC-21-008-EN-N.pdf/99f04bbe-235d-35f7-4f1c-890a04d8e09e
[17] https://ask.rks-gov.net/media/5554/afp-tm1-2020-finale.pdf
[18] https://www.statista.com/statistics/1195197/employment-by-sector-in-europe/

the eKosova Platform is necessary; electronic payment module application; investment in the modernization of the state IT infrastructure; expansion of the Implementation of the Interoperability Platform for the integration of systems; further advancement of hardware capacities and increased security in the State Data Center - SDC; construction of the Disaster Recovery Center; as well as training and advancing professional human capacities.

Reform Measure #3: Decarbonizing the energy sector through clean energy transition and smart infrastructure to implement the Green Deal

Description of the measure: Environmental protection has become a top priority on the global agenda in recent years, as well as a high priority for national institutions in Kosovo due to the high level of pollution that directly affects citizens' health, quality of life, and socio-economic development. The main objective of this measure is the development of an energy sector based on renewable resources, ensuring a reliable and sustainable energy supply for citizens and businesses, and integration into the European market while respecting technological neutrality.

This measure will have a direct impact on reducing air pollution, increasing competition in the energy market, increasing the security of electricity supply, and will therefore contribute to achieving the Sustainable Development Goal for Clean and Affordable Energy, as well as towards the Green Agenda for Clean, Affordable, and Secure Energy Supply.

The measure is related to the National Development Strategy 2030, the National Plan of Kosovo for emissions reduction 2018-2027, the Climate Change Strategy 2019-2028, the Green Agenda for the Western Balkans, as well as the Sustainable Development Goals, namely SDG 1 "No Poverty", SDG 3 "Good Health and Well-being", SDG 7 "Affordable and Clean Energy", SDG 8 "Decent Work and Economic Growth", and SDG13 "Climate Action".

a. Activities planned for 2024:

1. Intraday market connection with Albania through rough ALPEX Power Exchange;
2. Feasibility study for regional/European market merger (SDAC, SIDC, KOSTT);
3. Developing system support systems (SCADA & Telecommunication) (KOSTT);
4. Energy Storage Project - Establishment of the Multifunctional Energy Storage Entity (Multifunctional Energy Storage Entity);
5. Adoption of the National Energy and Climate Plan, the Energy Efficiency Law, and the sub-legal acts derived from the package of energy sector laws;
6. Completed analysis with options for a sustainable financing scheme model for the implementation of the incentive program/incentives for the private and household sector-supported WBIF;
7. Supporting individual household consumers, including consumers in need, by increasing the energy efficiency of housing units and buildings;
8. Implementing EE measures in public municipal buildings for current and future projects;
9. Supporting household consumers, including consumers in need, in the investment of energy-efficient household appliances and renewable energy systems;
10. Encouraging energy savings by Micro, Small and Medium Enterprises;

11. Implementing EE and RES measures in 6 buildings for the Education and Health sector;
12. Implementing energy efficiency measures in 6 LOT 2 buildings within central-level public institutions;
13. Announcement of RES auctions: 100 MW solar + 100-150 MW wind power;
14. Design preparation and selection of the prime contractor for the "Solar 4 Kosova II" project;
15. Feasibility study and Environmental and Social Impact Assessment for central heating systems at the municipal level in Kosovo (Gjilan, Ferizaj, Prizren, Peja, Drenas, Obiliq, Mitrovica and Zveçan);
16. Drafting and approval of the Long-Term Decarbonization Strategy and the Strategy for Environmental Protection and Sustainable Development 2023-2032;

b. Activities planned for 2025:

1. Developing system support systems (SCADA & Telecommunication) (KOSTT);
2. Drafting the Climate Change Adaptation Strategy (MESPI);
3. Drafting the National Building Renovation Strategy (MESPI);
4. Drafting of sub-legal acts deriving from the Law on Energy Efficiency (ME);
5. Drafting of sub-legal acts deriving from the Law on Energy Performance in Buildings; (MESPI)
6. Implementing EE measures in public municipal buildings for current and future projects (KAEE);
7. Certification of 100 energy assessors for Building certification (MESPI);
8. Development and functionalization of the Online Reporting Application for the Pollutant Discharge and Transfer Register as well as Development and functionalization of the Web Application for Kosovo's Environmental Metadata (MESPI);
9. Announcement of RES auctions: (100-200) MW solar/wind (ME);
10. Initiation of operations for the establishment of a 50MW solar capacity for the production of thermal energy "Solar 4 Kosovo II" (Termokos);
11. Constructing a 100 MW solar power capacity for electricity generation in KEK (KEK).

c. Activities planned for 2026:

1. Development of the National Plan for Promoting Near-Zero Energy Consumption Buildings in Kosovo;
2. The commencement of the 110-kV interconnection line construction with Albania (Kukës-Dragash) (KOSTT);
3. Developing system support systems (SCADA & Telecommunication) (KOSTT);
4. Announcement of auctions for RES (100-200) MW solar/wind;
5. Construction of a 50MW solar capacity for the production of thermal energy "Solar 4 Kosovo II" (Termokos).

Indicator	Baseline 2023	Target 2025	Target 2026
1. Installed capacities of RES in the electricity sector	282 MW	300 MW	628 MW
2. Cumulative energy savings achieved in the construction sector	2.7 ktoe	4.2 ktoe	5.2 ktoe

Expected impact on competitiveness: The implementation of the measure will result in: increasing energy supply security; increasing flexibility of the energy system, which will be accompanied by the opening of new businesses in the energy services sector; increasing investments, especially in the field of RES energy production; and increasing competition in the energy market. The implementation of EE measures, including the policy for energy certification of buildings, will directly contribute to reducing electricity consumption and costs, which will stimulate private sector investments and support businesses. Furthermore, space will be created for the development of the RES and EE sector, the establishment of the technical and human capacity for investment, and the preparation of local companies for export abroad.

Estimation of activity costs and financial resources:

in EUR	2024	2025	2026
1. Budgetary financing	9,983,589.00	78,044,069.80	2,949,153.39
2. Non-budgetary financing	19,650,000.00	67,000,000.00	20,000,000.00
TOTAL	**29,633,589.00 €**	**145,044,069.80 €**	**22,949,153.39 €**

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality, and access to health-care: Consequently, the measure implementation will affect the institutional capacity building in the energy sector through the generation of new jobs. It will also facilitate the establishment of conditions for new investments in sectors by local and foreign companies, across all levels of the energy system, thus resulting in the establishment of new job opportunities, enhancement of welfare, and improvement of environmental living conditions. The new policies and the necessary legislative amendments for their implementation will also include the gender equality component.

Expected impact on the environment and climate change: Kosovo, as a member of the Energy Treaty and a country with a European perspective, has confirmed its intention to align its policies with those of the European Union, and consequently the policies of the Green Agenda. The implementation of legislation and NECP creates legal, regulatory, operational, and infrastructural conditions that enable an active competitive market in which barrier-free trading of electricity will play an important role (regardless of production capacity or type of technologies, in the conditions of development of decarbonization policies), as well as it will influence the increasing penetration of electricity from RES in the market, which in turn results in the reduction of environmental emissions. Furthermore, investments in the field of EE and the initiatives for energy certification of buildings will not only reduce energy consumption, but will also contribute to achieving thermal comfort inside buildings, and will have a direct impact on reducing environmental pollution, thus also affecting the reduction of the use of other forms of energy for heating.

Risk	Probability	Planned mitigation action
Delay in the adoption of laws and sub-legal acts	Low	Harmonization with the legislative plan
Lack of full inter-institutional coordination	Low	Full inter-institutional coordination through a number of activities at central and local level, including harmonization of activities as a priority in the implementation of policies for energy performance in buildings.

Reform Measure #4: Improvement, development and maintenance of broadband electronic communications infrastructure, for socio-economic development, advanced public services, as well as digitization of systems of national importance.

Description of the measure: In terms of broadband electronic communications infrastructure, this measure foresees the expansion of access and use of ICT through the expansion of broadband infrastructure, support for the deployment of 5G mobile infrastructure, improvement of research and education conditions, strengthening of human capital, support of digital businesses and digitization of other businesses. The Government of Kosovo, in collaboration with the World Bank, is in the final stages of implementing the Kosovo Digital Economy Program-KODE. KODE has been implemented since 2019 and so far, has completed coverage of uncovered areas with wide fixed infrastructure (188 villages, 105 schools, and 43 ambulances) and the connection to fixed broadband infrastructure of mobile network stacks for new generations (5G ready) is ongoing. In the course of the development of human resources for the digital economy and support for digital businesses, the IPA 2017 project have been implemented since 2020, aiming to increase the competitiveness of the ICT sector in Kosovo. So far, more than 1800 young people have been trained for various modules in the area of ICT (Java Programming, Web Development, Cyber Security, Python, Big Data Analytics, etc.), more than 20 B2B meetings have taken place in Kosovo and 4 B2B meetings outside Kosovo. Also, the IPA 2019 project is being implemented, aiming to increase the private sector efficiency and productivity through the use of ICT, creating the right and safer ecosystem for e-business and e-commerce, making it possible to improve electronic services for citizens and businesses through the implementation of the eID system with mobile ID solution. In December 2021, the Law on Electronic Identification and Trust Services in Electronic Transactions entered into force, which transposes the EU Regulation on eIDAS. By the end of 2022, 10 additional regulations derived from this Law have been approved.

This measure is in line with the National Development Strategy 2030, and Kosovo Digital Agenda 2030, Kosovo`s IT Strategy, NPISAA and MTEF. In accordance with Kosovo's IT Strategy, the Government has started implementing the project for the establishment of the Digital Excellence Center (DEC) in the Innovation and Training Park in Prizren (DEC) is equipped with four industrial 3D printers and one 3D scanner). Within the framework of DEC, the Data Center has been established as part of the National Research and Education Network, serving the academic and research community. KREN will also serve as a national data center for Secondary and Primary Education in Kosovo. Ensuring secure internet connection for secondary and primary schools, establishing LAN-WiFi networks, connecting with KREN, and establishing online content are the priorities of the Government of Kosovo.

a. Activities planned for 2024:

1. Drafting and Approval of the Law on Electronic Communications Code;
2. Review of the Kosovo IT Strategy;
3. Supporting the extension of fixed infrastructure – connection of mobile network stacks (5G Ready);

4. Extending the broadband infrastructure in schools and connection with KREN;
5. Establishing LAN-WiFi networks within middle and primary schools;
6. Development of trainings for young people and Program - YOU (Youth Online and Upward Program);
7. Establishing the eID system;
8. Creation of the Sectoral CERT for the Energy sector (2024-2026);

b. Activities planned for 2025:

1. Extending the broadband infrastructure in schools and connection with KREN;
2. Establishing LAN-WiFi networks within middle and primary schools;
3. Development of trainings for young people and Program - YOU (Youth Online and Upward Program);
4. Establishing the eID system;
5. Creation of the Sectoral CERT for the Energy sector (2024-2026);
6. Establishment of the STEM Education Center in the ICT field at DEC;

c. Activities planned for 2026:

1. Extending the broadband infrastructure in schools and connection with KREN;
2. Establishing LAN-WiFi networks within middle and primary schools;
3. Delivery of trainings for young people and their connection with online job opportunities - online youth and growth program (Youth Online and Upward Program - YOU);
4. Creation of the Sectoral CERT for the Energy sector (2024-2026);
5. Establishment of Laboratory for 5G, IoT, Cybersecurity and Smart Village, at ITP Prizren;
6. Starting classes for children from primary schools in Prizren in STEM education;
7. Initiation of a call for proposals for R&D projects in ICT;

Indicator	Baseline 2023	Target 2025	Target 2026
Number of mobile network stacks connected to fixed broadband infrastructure - 5G Ready	40	60	/
Number of trainees in the field of ICT on the digital economy	2000	3000	4000
Energy Sector CERT functional (created)	NO	60%	Functional

Expected impact on competitiveness: The study concludes that a 10% increase in the adoption of fixed broadband infrastructure will result in a 1.21% growth in GDP for developed economies and a 1.38% growth for developing economies. Creating the right conditions through the extension of the relevant network infrastructure and the provision of broadband services will facilitate access to international markets, the development of new business models, allowing people and companies to work regardless of location and with flexible hours and in general accelerating procedures and processes by increasing economic dynamism and improving competitiveness, improving the labour market and business environment. Providing a skilled labour force would help grow the ICT sector, increase competition and increase revenues in the economy of our country.

Estimation of activity costs and financial resources:

in EUR	**2024**	**2025**	**2026**
1. Budgetary financing	2,965,814.00	1,050,000	950,000
2. Non-budgetary financing	3,800,000.00	1,300,000	0.00
TOTAL	**6,765,814.00**	**2,350,000.00**	**950,000.00**

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality, and access to health-care: This measure will have a positive impact on employment by expanding opportunities for digital work, with a special focus on young people, women and people with disabilities. According to some surveys, broadband infrastructure has been assessed as a major motivator of flexible work in more than ¾ of the surveyed businesses, citing the expansion of broadband infrastructure as a factor influencing this. As a direct result of the second component of the KODE Program, the establishment of 400 new jobs in the IT software businesses is planned and ICT trainings are planned for 2000 individuals, who could potentially be considered as new employment opportunities (employed or self-employed).

Expected impact on the environment and climate change: The measure will be neutral to the environment.

Risk	**Probability**	**Planned mitigation action**
1. Potential delays in the implementation of projects with WB and IPA as a result of the pandemic	Low	Detailed review, at an early stage of the activity implementation, of the potential ICT workforce and existing ICT businesses regarding the criteria for admission to the activity, using the most effective ICT tools for testing and evaluating potential candidates
2. Limited absorptive capacities among the potential ICT labour force and ICT businesses	Low	

Human Capital and Social Policies

According to administrative data on pension contributions, formal employment has increased by 4.9% compared to 2021. At the same time, in December 2022, the registered job-seekers decreased by 1.5% compared to December 2021. Positive developments have been observed in the significant drop in unemployment from 20.7% in 2020 to 11.8% in 2022. However, the rate of inactivity - especially among women (78%) - remains extremely high at 61.4%. Labour Force Survey data document an upward trend in the employment rate compared to previous years. The LFS data also show that the labour market continues to be characterized by significant gender imbalances in employment (an employment rate of 49.4% for men and 18.4% for women in 2022) and for inactivity (78% for women and 44.5% for men).
Kosovo is in a complex economic position that also determines the social situation as well as the social policies undertaken by the government. Especially economic and social rights are inextricably linked by these policies. To this unfavourable situation should be added the fact that the labour force in

Kosovo has problems with the degree of dexterity and its compatibility with the labour market. According to the European Commission Report, statistics in Kosovo show a very difficult transition from school to employment. The economy is mainly based on hotel services, agriculture, trade and construction. Youth unemployment remains high (21.4%), although in the downward trend of unemployment, it has suffered a decrease from previous years.

Harmonization of supply and demand in the labour market remains a challenge in the labour market, namely the mismatch of professional skills in the labour market. The supply number is disproportionately higher than the labour market demand number which leads to a high number of unemployed and inactive persons. The situation becomes evident when considering studies that present a situation where employers say they have difficulty finding employees. On the employer side, about 50% of firms report that general education does not adequately prepare students for the job - either in terms of up-to-date knowledge or soft skills (World Bank, 2019). According to the STEP survey, 75% of companies have encountered difficulties in hiring managers, professionals and technicians.

In vocational education, over half of the upper secondary students (around 53%) choose one of 105 profiles provided within the 70 vocational schools and Competence Centres.

The government has established 3 task forces, one at the government level which is led by the prime minister and the ministers of the relevant ministries and 2 technical, one for dual education and for the management of VET consisting of businesses, the private sector of VET providers, and other institutions with interest.

In recent years, there has been progress in creating partnerships between VET schools and employers, but work-based learning must continue to be expanded to more profiles to continuously improve students' prospects in the labour market. Accelerating full VET reform is also essential for the implementation of important aspects of the Youth Guarantee scheme. For the first time, the government has introduced dual education for 12 profiles, with the aim of further expanding it. Also, continuously, in the past 3 years, trainings have been offered for workplace quality assurance, where we now also have certified quality assurance coordinators. Trainings have been held and continue for instructors in schools and for those in the workplace who are trained by the Kosovo Chamber of Commerce, which is accredited to offer trainings. There have been ongoing trainings for better school management and budget planning, and the Plan VET platform has been developed for VET institutions and is available to VET institutions. These policies should be extended to the entire VET system and sustainability should be established through the budget.

Despite improvements, Kosovo needs to further strengthen cooperation with businesses in order to align education with the labour market. In collaboration with businesses and relevant institutions, efforts should be made to address the lack of infrastructure and equipment, including dual education and learning in the workplace, which have already started to be implemented in some schools.

The mismatch of supply and demand in the labour market; the gender gap in employment levels; low integration of young people and vulnerable groups in the labour market; employment institutions; work institutions; the supply of the labour market and the insufficient realization of employees' rights constitute problems the main structure faced by the labour market in Kosovo. Kosovo's efforts to improve the quality of education outcomes to better serve economic and social transformation have been challenged by the resources of reform efforts, ensuring efficiency in the management of education finances, providing mechanisms for accountability and professional capacity building for quality teaching and management. Although education expenditures have increased in recent years, there is a persistent skills mismatch, which will be addressed by direct measures in the coming medium-term period. Considering the current situation, and the ongoing efforts made by the entities involved in this field, special attention will be paid to undertaking specific actions, which will have a direct impact on improving the situation. Some of the current problems are: the gender gap in the field of employment, where in this case an effort will be made to narrow the gender gap in employment in order to ensure the most comprehensive integration of young people and vulnerable groups in the labour market. In this aspect, the amendment and supplementation of the law on labour will impact combating informal work and the appropriate regulation of maternity leave, which will also remove the disincentive for hiring women from employers.

Another obstacle is unemployment and inactivity among young people. Young people will be supported through the implementation of the Youth Guarantee Scheme as an inter-ministerial structural policy aiming at combating inactivity and unemployment among this group. Likewise, raising the effectiveness of active labour market measures is intended to be improved through regulatory changes. With this occasion, public employment services and professional training will be improved through the review of policies aiming to increase the effectiveness of active labour market measures and employment services. In addition, the outsourcing of vocational training programs is being outsourced through private providers, also existing and new curricula are being reviewed in accordance with the labour market demands. The government is taking actions towards enhancing capacities and cooperation among the institutions involved in the field of employment through various policy instruments. Furthermore, the Government has implemented measures with a special focus on employment, including encouraging employment among vulnerable groups.

However, the attractiveness of the country's labour market does not depend only on the number of jobs but also on their quality. The government through changing the law has decided to raise the minimum wage as a key factor in a workplace, however, the same law has been suspended by the Constitutional Court until its final review.

Regarding social policies, poverty reduction and the inclusion of excluded groups in the country’s social and economic life remain priorities of the Kosovo Government. They have a direct impact on the human rights of the citizens of Kosovo, and considering that our country, among other things, aims to integrate into the European Union, these policies take on an even greater role.

Social protection in Kosovo continues to be fragmented and with low coverage for low-income or impoverished households. On the other hand, social protection expenditures are low in international comparisons, and Kosovo's social protection expenditures reach 6% of GDP, but less than 0.5% of GDP is allocated to the Social Assistance Scheme, as the majority of the amount is spent on pension schemes (elderly pensions) and war category schemes (war veterans). Social policies and social protection programs have not yet succeeded in targeting those most in need, leaving a number of poor households and families excluded from financial benefits due to some criteria that exist in current legislation. The shortcomings in the Kosovo social protection system are more visible with the Social Assistance Scheme (SAS) because a number of poor households often do not qualify for SAS. According to research and some reports, among the poorest 20% of Kosovo’s population, only about ¼ of people receive benefits from SAS, because some of the eligibility criteria are strict and inflexible based on the current legislation.

The low capacity of local governance, combined with weak intergovernmental grants targeting municipalities, does not provide adequate social care. Closing gaps in the social security system, both in terms of unemployment and health-care insurance, can provide better social protection for the country in times of need. First of all, in Kosovo there is no unemployment insurance scheme, financial support for the unemployed is mainly provided through the social assistance scheme, and secondly, in Kosovo there is still no health insurance for citizens. Kosovo can cover about 40% of the total health-care costs from their own pocket, compared to an average of 13% in OECD member states (World Bank, 2021). As for the Health Information System, the feasibility study completed this year and approved by the Ministry of Health should serve as a guide in the development of HIS as a necessary prerequisite for evidence-based decision-making.

According to the European Commission Report on Kosovo 2022, progress has been achieved during the reporting period, especially in preparations for the implementation of the Youth Guarantee scheme and in securing funds for social services. Kosovo has materialized its plans for a complete reform of social assistance after the ratification of the Financial Agreement Law in the Assembly of Kosovo, for the Social Assistance System Reform Project.

The Government of Kosovo, in collaboration and coordination with international financial institutions and other development partners, is engaged in the reform of the social protection system, where it has initiated the reform of the Social Assistance Scheme, the establishment of a sustainable pension and disability system, by harmonizing the legal framework, enhancing institutional, human and technological capacities, through these actions it is expected to have an impact on increasing equality among different categories of beneficiaries in terms of social inclusion as well as at the general social level.

There has been progress in increasing the allocation of funds for social services, but the amounts of allocations and municipal financing for the field of social services still remain low. The government has initiated and is engaging in supplementing and amending the legislation in the field of public finances and regulation of funding for the field of social services to separate special funding for social services from the general grant and special grants for specific areas. Municipalities should make efforts to improve planning and service delivery, data collection and integrated care. Elderly care remains a serious issue. Domestic violence shelters remain underfunded with services stretched to their limits. About 18% of the population of Kosovo lives below the poverty line (45 euros per month as defined by the World Bank), with 5.1% of the population below the extreme poverty line.

Reform Measure #5: Increasing employment level, strengthening employability and workers' rights through the improvement of employment and education policies.

Description of the measure: The measure is aimed at improving working conditions, increasing employment levels, human capital, reducing unemployment and inactivity that arise as a result of the mismatch between supply and demand in the labour market. Achieving this goal is done through the improvement of policies, policy instruments and the strengthening of work institutions, education and professional training according to good practices based on national developments. Throughout the process, particular attention will be given to the collaboration with the private sector, strengthening vulnerable groups, digitalization, gender aspects of the issue, and labour market demands.

The measure is based on several strategic documents, such as the Government Program, Economic Recovery Package, National Development Strategy, Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, ERA II and NPISAA, National Development Plan, MESTI Policies, Education Strategy 2022-2026, Local Economic Development Strategy and SDG.

a. ***Activities planned for 2024:***

1. Approval of the Regulation on Active Labour Market Measures (MFLT);
2. Implementation of the Youth Guarantee Scheme (MFLT);
3. Capacity building and expansion of employment and vocational training services (MFLT/EARK);
4. Digitalization of employment and vocational training services (MFLT/EARK);
5. Development of the electronic inspections and CRM platform (MFLT/LI);
6. Drafting and approval of the law on amending and supplementing the Labor Law (MFLT);
7. Approval of the concept document for the Law on Education and Vocational Training (MESTI);
8. Drafting and approval of the Law on Vocational Education and Training (MESTI);
9. Drafting and adapting professional qualifications/curricula according to the needs of the labor market, including dual education (MESTI);
10. Drafting of guidelines and supporting materials for the implementation of dual education (MESTI);
11. Empowerment of IAAP autonomy, including the financial component (MESTI);

b. ***Activities planned for 2025:***

1. Piloting the Youth Guarantee Scheme (MFLT);
2. Implementation of employment policies with specific emphasis on young people, women, and persons with disabilities (MFLT);
3. Expansion of ALMMs based on the new regulation of ALMMs with vulnerable focus groups (EARK);
4. Designing and drafting of sub-legal acts in the field of employment promotion (MFLT);
5. Establishment of the Labour Market demand forecast system (EARK);
6. Analysis to measure effectiveness and efficiency based on the digitalization of employment and vocational training services (MFLT/EARK);
7. Drafting and approval of sub-legal acts for the implementation of the Labour Law (MFLT);
8. Drafting and approval of sub-legal acts for the implementation of legislation in the field of VET (MESTI);
9. Approval of the concept document for the Law on Adult Education (MESTI);
10. Defining the functions and roles of responsible institutions in the field of VET (MESTI);
11. Increasing human capacities/resources for the execution of the financial component in IAAP and MED (MESTI).

c. ***Activities planned for 2026:***

1. Drafting of the Employment Policy 2025 - 2027 (MFLT);

2. Enhancing the functionality of the system for skill intelligence (MFLT);
3. Expansion and implementation of ALMMs with vulnerable focus groups (EARK);
4. Drafting the Law on Adult Education (MESTI);
5. Supporting women in VET and the participation of vulnerable social categories and underrepresented groups through scholarships (MESTI);
6. Raising the capacities of responsible VET institutions (MESTI).

Results indicators: As emphasized in the analysis, the situation in the labour market has undergone significant changes, and as a result, the indicators have been modified to reflect these changes.

Indicator	**Baseline 2022 TM3**	**Target 2024**	**Target 2025**	**Target 2026**
1. Employment rate	38.5%	39.2%	40.7%	45.7%
2. Unemployment rate	11.8%	10.3%	10 %	9.5%
3. Inactivity rate	61.5%	61.3%	59.8%	54.5%
4. Inactivity rate of women	78 %	76.5%	75 %	72.4%
5. Youth NEET Rate 15 - 24	33.7%	32.7%	31.7%	29.8%
6. Increase in the percentage of students in VET	52 %	53 %	54 %	55 %
7. Dual learning implemented in IAAP (profiles)	10 %	15 %	20 %	25 %

Expected impact on competitiveness: Increasing the capacity of public employment and vocational training services is expected to have positive effects on increasing competitiveness by improving the quality of services, improving the skills of job seekers and better adaptation of job seekers to jobs. Improving job-seekers' skills and better adaptation to the workplace will enhance the quality of work and facilitate social and economic mobility among them. The higher integration of young people, women and vulnerable groups will diversify and increase the quality of skills in the labour market and will influence the prevention of negative phenomena such as the “brain-drain”. Improving the mechanisms for predicting and monitoring labour market demands will facilitate the orientation of active labour market measures, especially vocational training, thus the labour supply will cover the labour market demands, and as a result, the economic productivity of the country will boost. Strengthening employees’ rights will make the labour market more attractive to job seekers and encourage their integration into the labour force.

Estimation of activity costs and financial resources:

in EUR	**2024**	**2025**	**2026**
1. Budgetary financing*	32,718,036.00	32,220,898.00	32,720,898.00
2. Non-budgetary financing	2,107,227.00	3,112,227.00	2,612,227.00
TOTAL	**34,825,263.00 €**	**35,333,125.00 €**	**35,333,125.00 €**

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality, and access to health-care: Overall, the measure coupled with ALMM for youth is expected to reduce the high percentage of NEETs among young people aged 15 – 24. Raising the employment rate and adapting the skills of unemployed persons to the labour market demands will increase the income of the persons concerned, and as a result, it will affect the alleviation of poverty, especially among vulnerable groups. The measure will also affect the strengthening of employees’ rights, which can have an impact on raising the quality of life and, consequently, raising productivity at work. Strengthening the rights of employees and supervisory institutions will affect the protection of health and safety at work. As a result, well-being will be protected and psycho-social and economic difficulties arising from work accidents and occupational diseases will be avoided.

Expected environmental impact: The measure will be neutral to the environment.

Risk	**Probability**	**Planned mitigation action**
1. Reduction of EARK staff due to retirement.	Medium	Meeting the staffing needs of EARK and digitizing the services offered by EARK. Piloting the sub-contracting of employment services for vulnerable groups in order to alleviate the pressure on the Agency's existing staff and establish cooperation with private employment services.
2. Lack of adequate cooperation and coordination with the relevant institutions and social partners for the implementation of the Youth Guarantee Scheme.	Low	Organizing continuous coordination meetings, to ensure the progress of the process and the efficient and effective solution of problems that may arise.
3. Delays in drafting and approving legislation, functional organization, internal regulations as well as the further capacity building of VET institutions.	Medium	Inter-institutional coordination and support with professional staff and necessary expertise
Inadequate budget allocation at the level of IAAPs	High	The budget specification as a separate category for vocational education in the budget law.

Reform Measure #6: Improving social well-being through the enhancement of social protection services and health-care services.

Description of the measure: Social protection, poverty reduction, inclusion of marginalized groups, and opportunities for access and inclusion of vulnerable groups through the provision of health-care services for all citizens regardless of their financial situation, with the aim of achieving universal access, remain priorities of the Government of Kosovo. The aim of the measure is to establish a stable social security system that fulfils the citizens' needs and contributes to poverty reduction. The measure also intends to transform the way the health-care sector is funded, enabling the inclusion of marginalized groups through the provision of health-care services to all citizens, regardless of their financial situation. The goal is to achieve universal access and advance the health-care information system as an essential prerequisite for evidence-based policymaking.

The execution of scheduled activities within this measure allows for the provision of services and the advancement of rights for all citizens in need of social protection, by reforming and modernizing the social, pension, and disability protection system according to international standards and the socio-economic needs of the country, including enhancing the quality of social and family services. Furthermore, the measure also intends to enhance health-care services by introducing a compulsory health insurance scheme and implementing the exemption from payment of contributions, co-payments, and co-financing for health-care services, the outpatient drug scheme, pharmacy contracting, medical treatment outside public health-care institutions, and the functionalization of the health-care information system.

The measure is a continuation of previous policies and programs aiming at ensuring the population's well-being through the expansion and improvement of the quality of social protection schemes, social insurance, social services and the health insurance scheme. This measure is closely related to the Government Program 2022-2025, National Development Plan 2024-2026, Sectoral Strategy for Roma and Ashkali 2022-2026 and sectoral policies in the field of health.

a. Activities planned for 2024:

1. Drafting and approval of the Social Assistance Law;
2. Drafting and approval of the Law on Rights, Status, Services and Entitlements for Individuals with Disabilities;
3. Drafting of the concept document for the social security system;
4. Signing of at least one (1) Bilateral and Multilateral Agreements on Social Security;
5. Supplementing and amending the Law on Health Insurance;
6. Approval of the Strategy for Health Information 2024-2030;
7. Drafting of the legal framework for the operationalization of the Integrated Health Information System (HIS);
8. Complete hardware functionalization of the basic health information system;
9. Capacity building (staff number 19 positions) for the needs of using HIS.

b. Activities planned for 2025:

1. Drafting and approval of the Law on Social Security;
2. Drafting and approval of by-laws deriving from the Social Assistance Law;
3. Development and transformation of the SAS Information System and the establishment of the Integrated Information System Platform for Social Welfare and Social Registry;
4. Signing of at least one (1) Bilateral and Multilateral Agreement on Social Security;
5. Drawing up the price list of health services;
6. Drafting and approval of the Administrative Instruction on the implementation of the exemption from the payment of the contribution, and co-payment for health services;
7. Strengthening administrative capacity (48 officials) in the Health Insurance Fund;
8. Extension of the second phase of the basic health information system;
9. Functional infectious disease surveillance system.

c. Activities planned for 2026

1. Drafting sub-legal acts derived from the Law on Social Security;
2. Signing of at least two (2) Bilateral and Multilateral Agreements on Social Security;
3. Developing a social registry platform and digitalization of data of pension schemes and other social schemes;
4. Approval of the Outpatient Medicaments Compensation Scheme;
5. Patient portal operational in e-Kosova;
6. E-prescription, tracking and tracing;
7. The beginning of the collection of contributions from all employees in the public sector;
8. The beginning of the collection of contributions from all employees in the private sector.

Indicator	Baseline 2023	Target 2024	Target 2026
Increasing the coverage level of families living in poverty by social assistance schemes.	50%	70%	90%
Contributions collected from all employees in public institutions	0 %	0 %	100 %
Contributions collected for compulsory health insurance in the private sector	0 %	0 %	65 %
Citizens who do not have access to basic health services for economic reasons	18 %	18 %	13 %
HIS functionality	10 %	20 %	40 %

Expected impact on competitiveness: Implementation of activities will affect the reduction of inequalities in the social and health fields. Improvement of social and health services has an impact on reducing the cost of exercising these rights for beneficiaries, reducing inequalities, increasing access to health care, reducing poverty and improve social cohesion; women and youth will be empowered through social entrepreneurship initiatives. Moreover, it will facilitate the population's access to health-care without any financial burden.

Estimation of activity costs and financial resources:

in EUR	2024	2025	2026
1. Budgetary financing*	51,755,420.00	78,965,000.00	219,075,500.00
2. Non-budgetary financing – Loan from WB	16,970,000.00	20,630,000.00	3,300,000
TOTAL	**68,725,420.00 €**	**99,595,000.00 €**	**222,375,500.00 €**

*domestic sources of public funding

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality, and access to health-care: The possibility of using social protection services for a large number of beneficiaries as a result of the improvement of the social assistance scheme one hand and enhancing the quality of social protection services on the other one will have a comprehensive social impact. Also, this measure will affect inclusive access through the coverage of services from the list of health-care services for all categories, social and gender, at an affordable cost, and on the other hand, it affects the improvement of social services particularly for marginalized groups, as well as persons with special needs, minorities, and gender equality.

Expected impact on the environment and climate change: Social welfare is always positively related to the degree of green consumer preference. Groups with a low socio-economic level create environmental problems during the consumption of goods and services. Thus, reducing poverty and improving the quality of life of certain communities will have an impact on improving the environment where they live.

Risk	Probability	Planned mitigation action
Delays in the adoption of primary legislation (Law on Health Insurance)	Medium	Given that there has been continuous work on the Draft Law on Health-care Insurance in the last three years, with a focus on the year 2023, and with expertise provided by the European Commission, the current content can be finalized and processed in the government before the deadline.
Development of the Health Information System	Medium	Developing a new solution is a complex undertaking involving various stakeholders, such as software

		developers, health-care professionals and IT personnel. The project's complexity heightens the risk of delays, technical issues, and unforeseen challenges.

5.2 SUMMARY OF REFORM MEASURES

A) Reforms that addresses three priority area:	
Priority Area #1: Competitiveness	- ***Reform Measure #1:*** Enhancing the business environment by decreasing the informal economy and administrative burden; - ***Reform Measure #2:*** Increase of Investments and Export Promotion;
Priority Area #2: Sustainability and Resilience	- ***Reform Measure #3:*** Decarbonizing the energy sector through clean energy transition and smart infrastructure to implement the Green Deal; - ***Reform Measure #4:*** Improvement, development and maintenance of broadband electronic communications infrastructure, for socio-economic development, advanced public services, as well as digitization of systems of national importance;
Priority Area #3: Human Capital and Social Policies	- ***Reform Measure #5:*** Increasing employment level, strengthening employability and workers' rights through the improvement of employment and education policies; - ***Reform Measure #6:*** Improving social well-being through the enhancement of social protection services and health-care services.

6. COSTS AND FINANCING OF STRUCTURAL REFORMS

The reforms identified contain existing and new Government policies that addresses key barriers to economic growth, competitiveness and job creation. The total projected cost of the 6 priority reform measures set out in Chapter 5 of the ERP 2024-2026 is estimated at **744,846,789.79 €** (including direct budget expenditures, loans, IPA funds and others). These reforms are expected to be financed mainly through the Kosovo budget but also through external funding from financial institutions, grants and technical assistance from developing partners.

The total direct budgetary impact that derives from the implementation of the 6 structural reforms amounts to **502,374,982.60 €** (central, local level and other national public finance sources) for the period 2024-2026.

A total of **102,729,181.00 €** is expected to be donor support during the years 2024-2026. Support is focused on further advancing new reforms. The rest of the donor support is mainly focused on supporting various legislative initiatives in the form of technical assistance. An additional **23,100,000.00 €** is expected to be supported by IPA funds.

A significant number of activities are expected to be financed through loans. The overall impact of loans for the years 2024-2026, which have already been approved and are in the amount of **166,642,626.00 €.**

Table: Budgetary implications of structural reforms 2024-2026, by funding sources

a- Total cost of 20 structural measures					
Year	**Salaries**	**Goods and Services**	**Subsidies and Transfers**	**Capital Expenditures**	**Total**
2024	3,897,595.00 €	10,109,068.00 €	102,974,578.00 €	37,022,589.00 €	**154,003,830.00 €**
2025	3,753,328.20 €	3,793,982.00 €	150,881,000.00 €	138,394,069.80 €	**296,822,380.00 €**
2026	3,413,024.40 €	1,226,402.00 €	276,617,000.00 €	12,764,153.39 €	**294,020,579.79 €**
Total	**11,063,947.60 €**	**15,129,452.00 €**	**530,472,578.00 €**	**188,180,812.19 €**	**744,846,789.79 €**

b- Total financing of 20 structural measures							
Year	**Central Budget**	**Local Budget**	**Other national public finance sources**	**IPA**	**Other grants**	**Project loans**	**Total**
2024	98,673,700.00 €	1,000,000.00 €		11,800,000.00 €	16,310,727.00 €	26,219,403.00 €	**154,003,830.00 €**
2025	127,542,083.20 €	1,500,000.00 €	10,000,000.00 €	10,800,000.00 €	62,806,227.00 €	84,174,069.80 €	**296,822,380.00 €**
2026	263,659,199.40 €			500,000.00 €	23,612,227.00 €	6,249,153.39 €	**294,020,579.79 €**
Total	**489,874,982.60 €**	**2,500,000.00 €**	**10,000,000.00 €**	**23,100,000.00 €**	**102,729,181.00 €**	**116,642,626.19 €**	**744,846,789.79 €**

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

This chapter presents the process of preparing and approval the Economic Reform Program 2024-2026, and consulting various stakeholders during the process of preparing this program as part of the dialogue on economic governance between the EU and the Republic of Kosovo.
The decision on the Drafting of the Economic Reform Program for 2024-2026 was approved at the Government meeting on **July 26, 2023**. According to the Governments Decision, the Minister of Finance, Labour and Transfer has been appointed as National Coordinator for the ERP, whose work is supported by the Office of Strategic Planning of the Office of the Prime Minister; Department of Economic and Public Policy and International Financial Cooperation at the Minister of Finance, Labour and Transfer; and the coordinators of relevant fields within the line ministries: Minister of Finance, Labour and Transfer, Ministry of Economy, Ministry of Industry, Entrepreneurship and Trade, Ministry of Agriculture, Forestry and Rural Development, Ministry of Education, Science, Technology and Innovation, Ministry of Internal Affairs, Ministry of Environment, Spatial Plan and Infrastructure, Ministry of Justice, and other supporting bodies.
Based on the instructions of the National Coordinator, on **September 22, 2023**, the SPO invited the ministries and other institutions for the initiative meeting, where a high-level meeting was held for the launch of the Economic Reform Program 2024-2026.

According to the working calendar presented at the launch meeting, the Office for Strategic Planning has held these activities:

- Organization of the ERP 2024-2026 Integrated Planning and Coordination workshop in Kosovo. This event addressed the planning and coordination aspects essential for the successful preparation of the ERP where will be identified for the development of the 2024-2026 ERP in a well-coordinated manner in accordance with the latest specifications from the guidance note of EC. The workshop was held on **July 11-13, 2023** supported by **CEF**
- Organization of a technical level meeting with Line Ministries, namely the coordinators of the fields for the review of the European Commission's Guide for the preparation of the ERP 2024-2026, the drafting of analyses of three priority areas, potential structural reforms that can be proposed based on the Assessment of ERP 23-25 from the European Commission and joint conclusions between the Republic of Kosovo and the EU.
- Prepare the first proposals of structural reform priorities based on the criteria of the European Commission Guidelines and related instructions.
- On **27.10.2022,** the first workshop was held for the drafting of the Economic Reforms Program (ERP) 2024-2026.
- Organization of the workshops with LM to review the proposed measures in terms of the quality of presentation of objectives, activities, indicators, indicative cost and impact of the measure.
- In **October 2023**, the first draft of the structural reforms chapter was finalized and sent to the EC for evaluation and comments.
- Organization of the workshop with the CEF and the line Ministries to improve the description and sequence of the structural reform measures and their integration and costing in the ERP 2024-2026, held on **November 06-07, 2023**.
- As part of the public consultation process to discuss the draft ERP 2024-2026**,** the draft was sent for public consultation on the government platform from **13.12.2023** to **03.01.2024** (https://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=42216).
  Addressing the comments is presented in a summary of the results of the public consultation in Annex II of the Program.

ANNEX 1: TABLES OF THE ECONOMIC REFORM PROGRAMME 2024-2026:

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn EUR)	**Rate of change**				
1. Real GDP at market prices	B1*g	8.373	5.2	3.9	4.6	4.8	4.4
2. Current GDP at market prices	B1*g	8.936	12.3	9.6	7.8	7.5	6.8
Components of real GDP							
3. Private consumption expenditure	P3	7	4.6	0.5	2.6	4.1	2.7
4. Government consumption expenditure	P3	1	0.2	5.7	6.2	1.0	-0.8
5. Gross fixed capital formation	P51	3	-3.2	-0.5	10.7	5.9	6.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0	2.6	2.9	3.1	3.1	3.2
7. Exports of goods and services	P6	3	18.9	5.9	6.5	7.0	7.3
8. Imports of goods and services	P7	5	5.4	-0.4	6.7	5.5	4.6
Contribution to real GDP growth							
9. Final domestic demand		10.5	2.8	1.0	6.2	5.4	4.1
10. Change in inventories and net acquisition of valuables	P52+P53	0.2	-0.3	0.3	0.5	0.5	0.5
11. External balance of goods/services	B11	-2	2.8	2.6	-2.1	-1.1	-0.2

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. GDP deflator		6.7	5.5	3.0	2.5	2.3
2. Private consumption deflator		11.0	5.1	2.7	2.3	2.3
3. HICP		11.6	5.1	2.7	2.3	2.3
4. National CPI change		11.6	5.1	2.7	2.3	2.3
5. Public consumption deflator		2.2	11.3	4.2	2.3	2.1
6. Investment deflator		14.1	5.5	3.9	3.4	3.8
7. Export price deflator (goods & services)		8.7	5.0	2.7	2.2	2.1
8. Import price deflator (goods & services)		16.0	5.4	2.7	2.0	2.4

Table 1c: Labour markets developments

	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level	Level/Rate of change				
1. Population (thousands)			1,774.0	:	:	:	:
2. Population (growth rate in %)			-1.3	-100.0	:	:	:
3. Working-age population (persons)[1]			1,195	:	:	:	:
4. Participation rate			38.6	:	:	:	:
5. Employment, persons [2]			404	:	:	:	:
6. Employment, hours worked[3]			41.8	:	:	:	:
7. Employment (growth rate in %)			5.4	:	:	:	:
8. Public sector employment (persons)			86.0	:	:	:	:
9. Public sector employment (growth in %)			-7.0	:	:	:	:
10. Unemployment rate [4]			12.6	:	:	:	:
11. Labour productivity, persons[5]		20.7	-0.1	:	:	:	:
12. Labour productivity, hours worked[6]			2.4	:	:	:	:
13. Compensation of employees	D1	2.7	18.4	:	:	:	:

Table 1d: Sectoral balances

Percentages of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-9.8	-6.4	-7.5	-7.5	-7.0
of which:						
- Balance of goods and services		-32.61	-28.9	-29.4	-28.9	-28.0
- Balance of primary incomes and transfers		22.3	22.1	21.5	21.0	20.7
- Capital account		0.4	0.4	0.4	0.4	0.4
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-9.7	-6.5	-5.2	-5.2	-5.4
3. Net lending/borrowing of general government		-0.5	-0.2	-2.7	-2.7	-1.9
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
GDP and investment						
GDP *level* at *current* market prices (in domestic currency)	B1g	8.9	9.8	10.6	11.3	12.1
Investment ratio (% of GDP)		32.4	31.0	33.1	33.7	34.8
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		4.5	-4.1	1.5	0.6	0.9
2. Industry (excluding construction)		4.4	5.9	5.2	6.0	3.5
3. Construction		-3.1	-4.1	0.9	0.3	1.3
4. Services		6.1	6.5	5.1	5.4	4.7

Table 1f: External sector developments

Billion Euro unless otherwise indicated		Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Current account balance (% of GDP)	% of GDP	-10.2	-6.8	-7.9	-7.9	-7.4
2. Export of goods	bn EUR	0.9	1.0	1.2	1.3	1.5
3. Import of goods	bn EUR	5.2	5.4	5.9	6.4	6.9
4. Trade balance	bn EUR	-4.3	-4.4	-4.8	-5.1	-5.4
5. Export of services	bn EUR	2.5	2.9	3.0	3.3	3.6
6. Import of services	bn EUR	1.1	1.2	1.4	1.5	1.6
7. Service balance	bn EUR	1.4	1.6	1.6	1.8	2.0
8. Net interest payments from abroad	bn EUR	:	:	:	:	:
9. Other net factor income from abroad	bn EUR	0.1	0.2	0.2	0.2	0.2
10. Current transfers	bn EUR	1.9	2.0	2.1	2.2	2.3
11. Of which from EU	bn EUR	:	:	:	:	:
12. Current account balance	bn EUR	-0.9	-0.7	-0.8	-0.9	-0.9
13. Capital and financial account	bn EUR	-0.6	-0.7	-0.8	-0.7	-0.7
14. Foreign direct investment	bn EUR	-0.6	-0.6	-0.6	-0.6	-0.6
15. Foreign reserves	bn EUR	0.0	0.0	0.0	0.0	0.0
16. Foreign debt	bn EUR	3.4	3.6	:	:	:
17. Of which: public	bn EUR	0.6	0.7	:	:	:
18. O/w: foreign currency denominated	bn EUR	:	:	:	:	:
19.O/w: repayments due	bn EUR	:	:	:	:	:
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	1.0	1.0	1.0	1.0	1.0
p.m. Exchange rate vis-à-vis EUR (annual average)	*%, year-on-year*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1.0	1.0	1.0	1.0	1.0
p.m. Exchange rate vis-à-vis EUR (end-year)	*%, year-on-year*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
22. Net foreign saving	% of GDP	2.0	2.4	2.7	2.9	3.3
23. Domestic private saving	% of GDP	1.2	1.5	1.7	1.9	2.1
24. Domestic private investment	% of GDP	2.5	2.5	2.6	2.9	3.3
25. Domestic public saving	% of GDP	0.8	0.9	0.9	1.0	1.2
26. Domestic public investment	% of GDP	0.4	0.6	0.9	0.9	1.0

Table 1g: Sustainability indicators

	Dimension	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Current Account Balance	% of GDP	-5.7	-7.0	-8.7	-10.2	-6.8
2. Net International Investment Position	% of GDP	-5.6	-12.0	-11.5	-17.9	-17.8
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate [1]	%, yoy	2.3	0.2	2.3	5.4	1.3
5. Nominal Unit Labour Costs	%, yoy	21.9	5.6	-2.9	-14.0	:
6. Private sector credit flow	% of GDP	33.8	33.0	35.3	38.1	40.0
7. Private sector debt	% of GDP	24.0	28.1	27.6	29.3	27.9
8. General Government Debt	% of GDP	17.6	22.4	21.5	20.0	17.3

Table 2a: General government budgetary prospects

	ESA code	Year 2022 Level (bn NCU)	Year 2022 % of GDP	Year 2023	Year 2024	Year 2025	Year 2026
Net lending (B9) by sub-sectors							
1. General government	S13	-0.0461	-0.5	-0.2	-2.7	-2.7	-1.9
2. Central government	S1311	:	:	:	:	:	:
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	2.4935	27.9	29.1	28.7	28.2	28.1
7. Total expenditure[1]	TE	2.5396	28.4	29.3	31.4	30.9	30.1
8. Net borrowing/lending	EDP.B9	-0.0461	-0.5	-0.2	-2.7	-2.7	-1.9
9. Interest expenditure	EDP.D41 incl. FISIM	0.0350	0.4	0.4	0.4	0.5	0.5
10. Primary balance[2]		-0.0110	-0.1	0.2	-2.3	-2.2	-1.4
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		2.2495	25.2	25.7	25.9	25.6	25.6
12a. Taxes on production and imports	D2	1.8702	20.9	21.2	21.3	21.1	21.1
12b. Current taxes on income and wealth	D5	0.3793	4.2	4.5	4.6	4.5	4.5
12c. Capital taxes	D91	:	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:	:
14. Property income	D4	0.0346	0.4	0.5	0.5	0.4	0.4
15. Other (15 = 16-(12+13+14)) [4]		0.2095	2.3	2.9	2.3	2.1	2.1
16 = 6. Total revenue	TR	2.4935	27.9	29.1	28.7	28.2	28.1
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		2.2495	25.2	25.7	25.9	25.6	25.6
Selected components of expenditures							
17. Collective consumption	P32	1.0168	11.4	12.1	12.5	12.0	11.4
18. Total social transfers	D62 + D63	0.6713	7.5	7.9	7.3	7.2	6.7
18a. Social transfers in kind	P31 = D63	0.6636	7.4	7.7	7.1	7.0	6.5
18b. Social transfers other than in kind	D62	0.0077	0.1	0.2	0.2	0.2	0.2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.0350	0.4	0.4	0.4	0.5	0.5
20. Subsidies	D3	0.3939	4.4	3.1	2.8	2.9	3.4
21. Gross fixed capital formation	P51	0.4226	4.7	5.9	8.1	8.1	7.8
22. Other (22 = 23-(17+18+19+20+21)) [6]		0.0000	:	:	:	:	:
23. Total expenditures	TE [1]	2.5396	28.4	29.3	31.4	30.9	30.1
p.m. compensation of employees	D1	0.6534	7.3	7.8	7.6	7.3	7.0

Table 2b: General government budgetary prospects

	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-0.05	-0.02	-0.28	-0.31	-0.23
2. Central government	S1311	:	:	:	:	:
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	2.49	2.85	3.03	3.19	3.41
7. Total expenditure[1]	TE	2.54	2.87	3.31	3.50	3.64
8. Net borrowing/lending	EDP.B9	-0.05	-0.02	-0.28	-0.31	-0.23
9. Interest expenditure	EDP.D41 incl. FISIM	0.04	0.04	0.05	0.06	0.06
10. Primary balance[2]		-0.01	0.02	-0.24	-0.25	-0.17
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		2.25	2.52	2.74	2.90	3.10
12a. Taxes on production and imports	D2	1.87	2.08	2.25	2.39	2.56
12b. Current taxes on income and wealth	D5	0.38	0.44	0.49	0.51	0.54
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:
14. Property income	D4	0.03	0.05	0.05	0.05	0.05
15. Other (15 = 16-(12+13+14)) [4]		0.21	0.28	0.24	0.24	0.25
16 = 6. Total revenue	TR	2.49	2.85	3.03	3.19	3.41
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		2.25	2.52	2.74	2.90	3.10
Selected components of expenditures						
17. Collective consumption	P32	1.02	1.19	1.32	1.37	1.39
18. Total social transfers	D62 + D63	0.67	0.77	0.77	0.81	0.81
18a. Social transfers in kind	P31 = D63	0.66	0.75	0.75	0.79	0.79
18b. Social transfers other than in kind	D62	0.01	0.02	0.02	0.02	0.02
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.04	0.04	0.05	0.06	0.06
20. Subsidies	D3	0.39	0.30	0.29	0.33	0.42
21. Gross fixed capital formation	P51	0.42	0.58	0.86	0.92	0.95
22. Other (22 = 23-(17+18+19+20+21)) [6]		0.00	:	0.02	0.02	0.02
23. Total expenditures	TE [1]	2.54	2.87	3.31	3.50	3.64
p.m. compensation of employees	D1	0.65	0.77	0.81	0.83	0.85

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. General public services	1	6.6	:	:	:	:
2. Defence	2	0.5	:	:	:	:
3. Public order and safety	3	2.4	:	:	:	:
4. Economic affairs	4	4.6	:	:	:	:
5. Environmental protection	5	0.9	:	:	:	:
6. Housing and community amenities	6	0.5	:	:	:	:
7. Health	7	2.7	:	:	:	:
8. Recreation, culture and religion	8	0.6	:	:	:	:
9. Education	9	3.9	:	:	:	:
10. Social protection	10	7.5	:	:	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	28.4	29.3	31.4	30.9	30.1

Table 4: General government debt developments

% of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Gross debt [1]		20.0	17.3	18.8	20.4	21.4
2. Change in gross debt ratio		-1.6	-2.7	1.5	1.7	1.0
Contributions to change in gross debt						
3. Primary balance [2]		0.1	-0.2	2.3	2.2	1.4
4. Interest expenditure [3]	EDPD.41	0.4	0.4	0.4	0.5	0.5
5. Real growth effect		-1.0	-0.7	-0.7	-0.8	-0.8
6. Inflation effect		-1.3	-1.0	-0.5	-0.4	-0.4
7. Stock-flow adjustment		0.2	-1.2	0.0	0.2	0.4
of which:						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
of which:						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		2.0	2.5	2.7	2.8	2.7
Other relevant variables						
8. Liquid financial assets [8]		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Real GDP growth (%, yoy)	B1g	5.2	3.9	4.6	4.8	4.4
2. Net lending of general government	EDP.B.9	-0.5	-0.2	-2.7	-2.7	-1.9
3. Interest expenditure	EDP.D.41	0.4	0.4	0.4	0.5	0.5
4. One-off and other temporary measures		:	:	:	:	:
5. Potential GDP growth (%, yoy)		4.5	4.6	4.6	4.6	4.4
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		0.8	0.0	0.0	0.2	0.3
7. Cyclical budgetary component		0.4	0.0	0.0	0.1	0.1
8. Cyclically-adjusted balance (2-7)		-0.9	-0.2	-2.7	-2.8	-2.1
9. Cyclically-adjusted primary balance		-0.5	0.2	-2.3	-2.3	-1.5
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. GDP growth (%, yoy)					
Previous programme	4.1	5.5	6.1	6.7	:
Latest update	5.2	3.9	4.6	4.8	4.4
Difference (percentage points)	1.1	-1.6	-1.5	-1.8	:
2. General government net lending (% of GDP)					
Previous programme	-0.5	-3.4	-2.2	-1.1	:
Latest update	-0.5	-0.2	-2.7	-2.7	-1.9
Difference	0.0	3.2	-0.5	-1.6	:
3. General government gross debt (% of GDP)					
Previous programme	19.8	22.6	23.0	23.8	:
Latest update	20.0	17.3	18.8	20.4	21.4
Difference	0.1	-5.4	-4.2	-3.4	:

Table 8: Basic assumptions on the external economic environment [1]

	Dimension	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
Short-term interest rate	Annual average	0.3	3.4	3.7	3.1	:
Long-term interest rate	Annual average	1.1	2.5	2.8	2.8	:
USD/EUR exchange rate	Annual average	1.0519	1.0767	1.0577	1.0577	:
Nominal effective exchange rate	Annual average	-4.53	7.15	1.3	0	:
Exchange rate vis-à-vis the EUR	Annual average	1.00	1.00	1.00	1.00	:
Global GDP growth, excluding EU	Annual average	3.3	3.5	3.2	3.5	:
EU GDP growth	Annual average	3.5	0.6	1.3	1.7	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	4.3	1.2	3.4	3.7	:
Oil prices (Brent, USD/barrel)	Annual average	100.7	84.1	84.5	79.6	:

Table 10a and 10b: Costing and financing of structural reform measures

Reform Measure #1: Enhancing the business environment by decreasing the informal economy and administrative burden;

Table 10a: Costing of structural reform measure

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2024	623,420	141,100	600,000	500,000	1,864,520.00 €
2025	291,200	142,550	100,000	1,000,000	1,533,750.00 €
2026	154,800	123,470		500,000	778,270.00 €

Table 10b: Financing of structural reform measure

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants (IFC, GIZ/EU, USAID)	Project loans	Total
2024	745,520			500,000	619,000		1,864,520.00 €
2025	419,750			500,000	614,000		1,533,750.00 €
2026	278,270			500,000			778,270.00 €

Reform Measure #2: Increase of Investments and Export Promotion					
Table 10a: Costing of structural reform measure					
Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2024	154,224.00	835,000.00	6,200,000	5,000,000	12,189,224.00 €
2025	161,935.20	604,500.00	6,200,000	6,000,000	12,966,435.20 €
2026	170,031.40	264,500.00	6,200,000	5,000,000	11,634,531.40 €

Table 10b: Financing of structural reform measure							
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Grants from	Project loans	Total
2024	10,754,724.00				1,434,500		12,189,224.00 €
2025	11,886,435.20				1,080,000		12,966,435.20 €
2026	10,634,531.40				1,000,000		11,634,531.40 €

Reform Measure #3: Decarbonizing the energy sector through clean energy transition and smart infrastructure to implement the Green Deal					
Table 10a: Costing of structural reform measure					
Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2024		4,950,000.00		24,683,589.00	29,633,589 €
2025		800,000.00	24,000,000.00	120,244,069.80	145,044,069.80 €
2026			20,000,000.00	2,949,153.39	22,949,153.39 €

Table 10b: Financing of structural reform measure							
Year	Central Budget	Local Budget	Other national public finance sources KOSTT, KEK	IPA funds	Other grants: KfW, EBRD, WBIF, MCC	Project loans KfW, WB	Total
2024	2,400,000	1,000,000		10,000,000	9,650,000	6,583,589.00	29,633,589 €
2025	3,000,000	1,500,000	10,000,000	9,000,000	58,000,000	63,544,069.80	145,044,069.80 €
2026					20,000,000	2,949,153.39	22,949,153.39 €

Reform Measure #4: Improvement, development and maintenance of broadband electronic communications infrastructure, for socio-economic development, advanced public services, as well as digitization of systems of national importance					
Table 10a: Costing of structural reform measure					
Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2024		3,398,236	567,578	2,800,000	6,765,814 €
2025		1,300,000		1,050,000	2,350,000 €
2026				950,000	950,000 €

Table 10b: Financing of structural reform measure							
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	Total
2024	300,000			1,300,000	2,500,000	2,665,814	6,765,814 €
2025	1,050,000			1,300,000			2,350,000 €
2026	950,000						950,000 €

Reform Measure #5: Increasing employment level, strengthening employability and workers' rights through the improvement of employment and education policies					
Table 10a: Costing of structural reform measure					
Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2024	2,785,331.00	624,932.00	30,150,000.00	1,265,000.00	34,825,263.00 €
2025	2,788,193.00	629,932.00	30,650,000.00	1,265,000.00	35,333,125.00 €
2026	2,788,193.00	629,932.00	30,650,000.00	1,265,000.00	35,333,125.00 €

Table 10b: Financing of structural reform measure							
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	Total
2024	32,718,036.00				2,107,227.00		34,825,263.00 €
2025	32,220,898.00				3,112,227.00		35,333,125.00 €
2026	32,720,898.00				2,612,227.00		35,333,125.00 €

Reform Measure #6: Improving social well-being through the enhancement of social protection services and health-care services					
Table 10a: Costing of structural reform measure					
Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2024	334620	159800	65,457,000	2,774,000	68725420 €
2025	512,000	317000	89,931,000	8,835,000	99,595,000 €
2026	300,000	208500	219,767,000	2,100,000	222,375,500 €

Table 10b: Financing of structural reform measure							
Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	Total
2024	51,755,420					16,970,000	68,725,420 €
2025	78,965,000					20,630,000	99,595,000 €
2026	219,075,500					3,300,000	222,375,500 €

Table 11: Reporting on the implementation of ERP 2023-2025 structural reform measures

Reform Measure #1: Energy market reform		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Drafting and adopting the Draft Law on Energy (ME)	**4**
	2. Drafting and adopting the Draft Law on Electricity (ME)	**3**
	3. Drafting and adopting the Draft Law on Energy Regulator (ME)	**3**
	4. Establishing a platform for the comparison of supply prices (ERO)	**2**
	5. The say-ahead market union with Albania through the ALPEX Power Exchange (KOSTT)	**4**
	6. Intraday market connection with Albania through the ALPEX Power Exchange (KOSTT)	**1**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. A Working Group has been established, supported by experts contracted by Tetra Tech to draft the draft law. On September 8-10, a GP workshop was held, where the Draft Law on Energy was also reviewed. Following the consideration of comments and issues raised, the initial version of the draft law was finalized. on 22 December 2023, it was submitted to relevant institutions for preliminary discussion (15 working days), a process scheduled to conclude on 17 January 2024.	
	2. A Working Group has been established, supported by experts contracted by Tetra Tech to draft the draft law. On September 8-10, a GP workshop was held, where the Draft Law on Electricity was also reviewed. Comments have been addressed and a consolidated draft has been prepared.	
	3. A Working Group has been established, supported by experts contracted by Tetra Tech to draft the draft law. On September 8-10, a GP workshop was held, where the Draft Law on Energy Regulator energy was also reviewed. Comments have been addressed and a consolidated draft has been prepared.	
	4. The Price Comparison Platform is expected to be completed in the first period of 2024.	
	5. Implementation of the day-ahead market union with Albania through ALPEX Power Exchange is in the final stage. Operationalization is expected in the second half of January 2024.	
	6. Operationalization of the intraday market with Albania through ALPEX Power Exchange is scheduled for the third quarter of 2024.	

Reform Measure #2: Promotion of EE and RES with a view to the green transition		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Drafting and adopting the Draft Law on EE (ME)	**2**
	2. Drafting and adopting the primary and secondary legislation for RES (ME)	**4**
	3. Drafting of the Guide for Prosumers (self-generating consumer) (ERO)	**5**
	4. Approval of the Draft law on Energy Performance in Buildings (MESPI).	**5**
	5. Defining the financing scheme and procedure for the implementation of Energy Efficiency Incentives in the private and household sectors (KAEE).	**5**

	6. Implementation of EE measures in public buildings (KAEE)	**3**
	7. Implementation of Energy Efficiency measures in public buildings at the municipal level in the Municipalities of Prishtina, Gjilan, Ferizaj and Gjakova (KAEE)	**2**
	8. Implementation of EE measures in public municipal buildings for current and future projects. (KAEE)	**4**
	9. Supporting individual household consumers, including consumers in need, by increasing the energy efficiency of housing units and buildings. (KAEE)	**3**
	10. Designing the analysis of a sustainable financing scheme model for the implementation of the incentive program/incentives for the private and household sector-supported WBIF (KAEE)	**4**
	11. Supporting household consumers, including consumers in need, in the investment of energy-efficient household appliances and renewable energy systems (ME)	**4**
	12. Encouraging energy savings by Micro, Small and Medium Enterprises (ME)	**2**
	13. Certification of 100 energy assessors for Building Certification (KAEE, MESPI)	**2**
	14. Announcement of RES auctions - 100MW AP(ME)	**5**
	15. Construction of the 11 MW wind power plant (ERO)	**1**
	16. Commencement of the construction of solar capacities of 50MW for the production of thermal energy “Solar 4 Kosova II” (Termokos);	**2**
	17. Feasibility study and Environmental and Social Impact Assessment for central heating systems at the level of the municipalities of Kosovo (Gjilan, Ferizaj, Prizren, Peja, Drenas, Obiliq, Mitrovica and Zveçan) (ME).	**3**
Description of implementation and explanation whether we have partial implementation or non-implementation	1. The Law on Energy Efficiency is currently being drafted. A meeting was held with the consultancy where the revised draft with comments was discussed. The meeting of the close Working Group for drafting the Draft Law on Energy Efficiency took place, where the inclusion of comments from the members of the Working Group was analyzed, with some of the article being completely amended and supplemented following the discussion. The next GP workshop is expected to be held on 10 and 11 January 2023.	
	2. The Draft Law on RES was approved by the Government on 09.10.2023 and was forwarded to the Assembly of the Republic of Kosovo for adoption. Therefore, without the adoption of the Law on RES by the Assembly, the bylaws deriving from this law cannot be drawn up and approved.	
	3. Rule No. 03/2023 on Renewable Resources Self-Consumers has been approved by the ERO Board. The Rule is published on the ERO official website www.ero-ks.org	
	4. The draft law was approved at the 148th meeting of the Government of the Republic of Kosovo held on 29.06.2023. The Assembly of the Republic of Kosovo voted in principle the Draft Law No. 08/L-242 on the Energy Performance of Buildings on 15.12.2023.	
	5. The schemes have been completed, and their implementation has begun.	
	6. The implementation of Energy Efficiency (EE) measures in twelve (12) buildings, LOT 1 – in six (6) buildings, continues with the application of measures for public buildings, and 60% of the works have been completed so far. LOT 2 - all procurement procedures have been completed, and the winning company has been selected. The draft contract for LOT 2 has received approval from the World Bank, and it has been sent for signing to ME.	
	7. The project provides for the implementation of Energy Efficiency (EE) measures in eight (8) schools in the municipalities of Prishtina, Gjilan, Gjakova and Ferizaj. An Energy Efficiency (EE) Specialist has been selected to lead the PIU and manage this project. The project is currently in the phase of evaluating tender bids, and the first stage of qualification and selection of the Economic Operator has been completed.	
	8. Out of the 86 initially planned buildings, 83 have been completed through the program, whereas one project has 50% of the works remaining for 2024 due to access to the facility and its complexity. Two projects faced delays in signing the contract due to public procurement appeals, with the contracts signed in December 2023, and the works are expected to commence.	
	9. The Individual Houses and Multi-Residential Social Buildings project in the housing sector is ongoing. The project for individual houses has completed the application evaluation stage, contracts have been signed with verification companies, and the disbursement process has started. For the multi-residential social buildings project, the Energy Audit and Detailed Design phase has been completed	

	for 23 buildings, and implementation is expected to begin in 2024. However, one LOT with 6 buildings faced delays in the Procurement Review Body and has been remanded re-evaluation.
	10. The drafting of the analysis is in the final stage, and is expected to be completed in Q1 2024.
	11. The Ministry of Economy launched three public calls for subsidizing citizens in the purchase of energy-efficient equipment. The first call was related to the subsidy of solar panels for heating sanitary water. Thirty-six household consumers applied, out of which 20 met the criteria, and they were reimbursed with a payment of €19,822.80. The second call includes subsidizing citizens in the purchase of household appliances (washing machines, refrigerators and dishwashers). A total of 4856 consumers applied, and so far, 3284 beneficiaries have been reimbursed, with a payment of €724,163.53. The third call is about subsidizing efficient heating devices: air conditioners (energy-efficient), thermal pumps, biomass boilers and individual biomass stoves. A total of 20581 applications were received, with 16531 applicants for air conditioners. Up to now, 5023 beneficiaries have been disbursed with an excess payment of €1,417,338.93 for air conditioners. For thermal pumps, there were 1808 applicants, with 1169 reimbursed, with the amount paid being €1,870,231.89. 1052 applicants have applied for biomass boilers so far, with 549 reimbursed while for individual biomass stoves the total number of applications is 1190 so far, with 872 beneficiaries being reimbursed. The amount paid for Boilers and Stoves is €942,094.98.
	12. For the first phase the application, the call was open from November 22 and will conclude on 31 January 2024, based on the principle of "first come, first served" The total number of applications for MSMEs so far is 182 applicants.
	13. Certification has been completed for 15 trainers for the energy certification of buildings. Fraunhofer, through KfW, certified the trainers for the energy certification of buildings on 14 February 2023. This opens the way for organizing and training 100 energy certifiers, expected to be trained by the end of the year. There are delays in organizing the training due to issues with the University of Prishtina, namely the Center for Energy and Sustainability. The agreement between the ME and UP Hasan Prishtina needs to be reviewed.
	14. On 12 May 2023, the Ministry of Economy announced the opening of the competitive process for the guaranteed purchase price for energy produced by a 100 MW solar photovoltaic (FW) central, which will be built on public property in the cadastral zone of Kramovik and Petkoviq in the Municipality of Rahovec. The land will be leased to the selected bidder for a period of no less than 30 years. The deadline for submitting bids is 31 January 2024.
	15. The construction authorization for this 11 MW central has been repealed.
	16. Project cost: €80.5 million; Beneficiary institution: Termokos; Implementation timeline 2025-2028: • On 29/11/2023, the Assembly of Kosovo adopted Law No. 08/L-222 on the Ratification of the Loan Agreement for the "Prishtina Solar Heating Plant" Project. • Feasibility study has been completed, • SEIA has been completed, • The location in the Hade e Re area has been identified and approved for the installation of solar panels and energy reservoirs for heating, covering an area of 25 hectares. • The consulting company has been selected, and the contract signing is expected to take place soon.
	17. So far, we have received the following reports from technical assistance: • Assessment of demand and supply for heating and market analysis, • Energy source report (only for biomass), while for other sources like solar, waste and geothermal, we have been informed by technical assistance that they will send them soon, • Pipeline dimensioning and alignment report and technical assessment • Report of other energy sources The ongoing activities for which we are awaiting reports are: • SEIA report, • Cost-benefit analysis, and • Final report.

Reform Measure #3: Adapting Vocational Education and Training to the needs of the labor market		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Conducting a study on the evaluation of the VET system governance and management.	**5**
	2. Revision of Law on Vocational Education and Training.	**1**
	3. Providing training on IVET quality assurance to adapt to the labour market demands.	**5**
	4. Determination of criteria related to the financial autonomy of IVETs.	**3**
	5. Development of professional qualifications according to the labour market needs including dual learning.	**5**
	6. Establishing Career Centers at the vocational school level.	**5**
Description of implementation and explanation whether we have partial implementation or non-implementation	1. The feasibility study has been conducted and presented to the Minister's Cabinet.	
	2. A working group has been established to draft the concept document, and an initial draft of the document has been prepared. After the approval of the concept document, work will continue to complete and amend the Law on VET.	
	3. All quality coordinators in all IVETs have been trained to ensure quality during on-the-job training. Training for other teachers will continue throughout 2024.	
	4. The draft of the AI on the parameters and criteria of VET funding has been drawn up and work continues towards its finalization	
	5. Curricula for 12 profiles of dual education for grades 10, 11 and 12 have been adapted and adjusted as planned	
	6. 7 career centers have been established according to the plan for 2023	

Reform Measure #4: Increasing and ensuring quality in higher education by strengthening the KAA and profiling higher education institutions		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Adoption of the Law on KAA (Assembly)	**5**
	2. Approval of by-laws deriving from the Law on KAA (MESTI)	**4**
	3. Testing of Kosovo Research Information System (KRIS)	**5**
	4. Restructuring of the KAA in line with the new Law on KAA (MESTI/KAA)	**4**
	5. Involvement of students in quality assurance processes (MESTI/KAA)	**5**
	6. Capacity building of KAA through the recruitment of 15 new officers (MESTI/KAA)	**3**
	7. Re-allocation and operationalization of the new KAA facility (KAA)	**4**
	8. Review of standards at the Bachelor and Master level to promote quality assurance in higher education (KAA)	**5**
	9. Completion of the KAA digitalization process from the application to the final decision (KAA)	**4**
	10. Registration of international platforms for guaranteeing academic integrity and combating plagiarism (KAA)	**5**
Description of implementation and explanation whether we have partial implementation or non-implementation	1. Adopted by the Assembly and published in the official gazette on 29.06.2023	
	2. KAA prepared all drafts of the Regulations deriving from the Law on KAA. The regulations are planned to be adopted in January 2024. According to the Law, MESTI is obliged to approve three Administrative Instructions. A working group was established by MESTI. The documents are expected to be finalized in the first quarter of 2024	
	3. The Research Information System is operational and the registration of scientific researchers has begun	
	4. KAA prepared the Regulation on the Systematization of Jobs. The Regulation was approved by the Minister of MESTI, by the Minister of MIA and went through all procedures before the Ministry of Finance. The Regulation will enter into force in the first half of January 2024. Through this Regulation, KAA will have an independent administrative structure. According to the new	

	organizational structure, KAA will have two departments, six divisions and 32 staff members. Currently, KAA has 12 staff members and it is expected to have 20 staff members by June 2024.
	5. This process is implemented 100%. In all KAA assessment panels, a student expert also participates. According to the new law, a student is a full voting member of the KAA Board, and KAA has developed a manual for the inclusion of students in all quality assurance mechanisms.
	6. This process is ongoing and is expected to be implemented by the end of January 2024.
	7. KAA will be located in the new premises by 1 April 2024.
	8. On 2 October 2023, the KAA Board approved the revision of the accreditation standards for the institutional level and for bachelor and master programs
	9. Funded by ADA through the HEI 25 project, in November 2023, a company was contracted and is digitalizing all KAA processes. The platform is expected to be fully operational by April 2024.
	10. On 5 December 2022, KAA became a full member of the Global Academic Integrity Network (GAIN)

Reform Measure #5: Reforming labour market institutions and policies to raise the level of employment, participation in the labour market and effective protection of labour rights.		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Restructuring of the Employment Agency of the Republic of Kosovo, capacity building and expansion of employment and vocational training services (MFLT/EARK);	**4**
	2. Expansion of the Economic Recovery Package the long-term unemployed, young people, women, persons with disabilities (MFLT/EARK);	**4**
	3. Piloting through external (private) outsourcing for a minimum of two (2) deficient vocational training profiles (MFLT/EARK);	**3**
	4. Advancement and development of the Labour Market Barometer with new modules such as sectoral skills, professional skills/competencies and qualifications, current and future skills gap (MFLT/EARK);	**3**
	5. Development of the information system for Youth Guarantee (YG) MFLT/EARK);	**2**
	6. Digitalization of employment and vocational training services (MFLT/EARK);	**3**
	7. Drafting and approval of the Employment and Labour Market Strategy 2022 - 2025 (MFLT);	**4**
	8. Drafting and approval of a concept document regulating the field of employment (MFLT);	**5**
	9. Drafting and approval of the Employment Policy 2022 - 2024 (MFLT);	**5**
	10. Employment of 100 new labour inspectors MFLT/LI);	**3**
	11. Drafting of a concept document on the employee register (MFLT/LI);	**1**
	12. Study on working conditions in Kosovo (MFLT);	**5**
	13. Restructuring of the Labour Inspectorate (MFLT/LI);	**3**
	14. amending and supplementing the Law on Labour in accordance with the EU Directive on Work-Life Balance (MFPT);	**4**
	15. Development of the work platform (MFLT);	**5**
	16. Organization of the National Awareness Campaign on working conditions (MFLT);	**5**
	17. YG piloting (MFLT/EARK);	**1**
Description of implementation and explanation whether we have partial implementation or non-	1. Regarding the EARK restructuring, a Draft Regulation on the Agency has been prepared and submitted to MFLT. Additionally, we are in the process of reviewing the Law on Employment Agency and the Law on Registration and Provision of Services for the Unemployed, Jobseekers and Employers. These two laws will be merged into a single law. The draft Regulation ALMMs has also been finalised and submitted for approval procedures. Regarding the enhancement of the capacities of APRK staff, training sessions have been held in various areas for both the central level of the Agency and the local level for both advisers and VTC trainers, where the total number of beneficiaries is 155 people.	

implementation	Profiles have been expanded and re-functionalised in: Tailoring, Bakery, Hairdressinh and Electrical Installations VTC-Prishtina, Tailoring, Electrical Installations and Kitchen in Gjakova, Construction in VTC-Prizren, Culinary in VTC-Gjilan, Hairdressing/Make-up and Electrical Installations in Mitrovica, with a total of 11 re-functionalised/extended profiles. Vocational Training Centers (VTC) in Prishtina, Gjilan, Gjakova, Prizren, Ferizaj, Peja and Mitrovica have been accredited and validated by the National Qualifications Authority for levels III and IV (NQA) for the period 2023-2025: The number of qualifications revalidated/validated is 10, including: Administrative Assistant, Metalworker, Baker, Pastry Maker, Accounting Clerk, Mechanic, Manager of Micro and Small Enterprises and Carpentry, Electrical Installations and Milkman. Also, supported the Lux Development project, the application for the accreditation of seven (7) Vocational Training Centers for Recognition of Prior Learning (RPL) in various Qualifications has been submitted to the National Qualifications Authority
	2. Employment mediation through ALMM and other Schemes: The ALMM mediation involves 1,164 individuals, out of which 1097 are male beneficiaries, and 1036 are female beneficiaries. Under Scheme 1.3 on Women's Employment, 643 individuals have benefited. Under Scheme 1.8, Government for Families, a total of 1164 individuals have benefited. Among them, 518 are male beneficiaries, and 646 are female beneficiaries. KgenU - 823 young people are in internships in 166 companies
	3. With the support of the GIZ Fit for Jobs project, service contracts have been signed with external training providers in the IT area. 8 external training providers with 22 programs in the IT area have been selected, and 240 candidates have benefited
	4. Regarding the Labour Market Barometer, an agreement has been reached with RECONOMY, a project that supports EARK in advancing the Labour Market Barometer. One of the components of the agreement is the Labour Market Barometer. Several online meetings have been held, including a joint meeting with regional countries, to define the development of the barometer according to the Swedish model. The advancement of the Labour Market Barometer will continue in the coming years, 2024 and 2025.
	5. A concept for updating the EARK information system in accordance with the SGR requirements has been developed. The process of contracting companies has commenced. Due to the complexity and financial aspects, it was impossible to conclude it by December 2023. The process continues at the beginning of January 2024.
	6. Regarding the digitalisation of services by EARK, a Standard Operating Procedure (SOP) has been designed, and the Unemployment Statement has been redesigned. The integration of the EARK Employment Management System is in the process of being integrated with eKosova.
	7. The Employment Strategy and action plans are under preliminary consultations until 15 January 2024. Then, it will be forwarded for public consultations, and we believe it will be submitted for approval to the Government by the end of Q1.
	8. The concept document was approved by the Government on: 23. 08. 2023. Then, a decision is made for the Working Group to draft the Law Employment Promotion. Currently, we are at the stage of finalising the first draft of the draft law, and by the end of June 2024, the draft law will be ready to be processed by the Government.
	9. The employment and professional skills policy has been drafted. With the new Law on State Administration and Independent Agencies, the performance plan of executive agencies, in this case, the Performance Plan of the Employment Agency will replace the employment and vocational training policy document.
	10. In 2023, 30 labour inspectors were hired and staff were recruited in the central LI administration, making certain sectors functional, both in the administration and the finance sector.
	11. This activity is closely linked to the creation of the legal framework. The legal basis for establishing the electronic system for the registration of employees before starting work relationships is determined by the Law No. 08/L-025, recently approved for the administration of tax procedures. The same legal basis, but more detailed, is planned to be regulated by the Draft Law on Amending and Supplementing the Law on Labour. The draft law is in the drafting phase.
	12. The activity has been completed.

	13. The Labour Inspectorate has drafted the Regulation on the Organisation and Systematisation of Jobs in the Labour Inspectorate, which provides for the establishment of new structures, including departments, divisions and sectors that were previously lacking in the Labour Inspectorate based on Regulation (GRK) No. 01/2020 on Standards of Internal Organization, Systematisation of Jobs and Cooperation in Institutions of State Administration and Independent Agencies. The Regulation, according to the prescribed legal procedures, has been forwarded to DMPO/MIA for further procedure. Through a project supported by SIDA and the European Commission through the ILO, the process of establishing an electronic inspection system is being developed, a process that is in its final phase and is expected to be implemented during 2024. The Labour Inspectorate has drafted the Performance Plan as an executive agency for 2024.
	14. The draft law has been drafted.
	15. The activity has been implemented.
	16. The activity has been implemented.
	17. The activity commences on 1 January 2024

Reform Measure #6: Improving the environment for doing business by reducing the administrative burden and reforming inspections		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Simplification of administrative services (permits) MIA, MAFRED, MESPI and MH (OPM/LM);	**3**
	2. Digitalisation of administrative services (permits) in MIA, MAFRD, MESPI, MH, ME, MEST, MoJ and MCYS (OPM/LM/AIS);	**3**
	3. Simplification and digitization of the application procedures for grants and subsidies in agriculture (MAFRED, AIS);	**4**
	4. Digitalization of social service schemes within MFLT (MFLT/AIS);	**1**
	5. Simplification of administrative services at the local level (MLGA/OPM/Municipalities);	**3**
	6. Harmonization of relevant legal acts with the Law on Inspections (OPM);	**3**
	7. Development of Inspection Platform (OPM);	**2**
	8. Reorganization and restructuring of inspection bodies (OPM/LM);	**3**
	9. Training of public officials on administrative burden (KIPA/OPM);	**3**
	10. Training of inspectors through the new inspection approach (KIPA/OPM);	**4**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. Simplification in the respective ministries is planned to be carried out through the omnibus method. The draft law has been finalised with the support of the IFC and has been part of the Legislative Program, but it has been removed from the Program and has been scheduled for Q4 2024.	
	2. The digitalisation of services for free professions within the MoJ, services related to driving schools and architects and engineers within the MESPI, surveying services within the Cadastral Agency, recognition of diplomas within MESPI, and processes for grants and subsidies within the MCYS has begun.	
	3. The mini-terminal system in the AIS has been completed and is ready for operation.	
	4. It has not started, due to the termination of the contract with the economic operator and waiting for the opening of the procurement procedures for the recruitment of the new economic operator.	
	5. The simplification of services at the local level has been completed in the Municipality of Ferizaj, while the Municipality of Peja will implement the reform in Q1 2024, as analyses and recommendations have been taken into consideration entirely by them. Furthermore, the process of simplifying the services of 10 other municipalities has started.	
	6. OGI has provided support to the line ministries, respectively working groups, in drafting the Laws establishing central inspectorates as executive agencies, as defined in the annex to the Law on Inspections.; Administrative instruction on the content of the inspection minutes; Regulations for the training, testing and certification of inspectors; In addition to sub-legal acts, OGI has drafted the necessary guidelines for initiating the implementation of the methodology of inspections based on risk assessment.	

	7. OGI has managed to get free source code/digital platform from Albania. An agreement has been signed with Albania, from which OGI agreement has accepted the source code of the e-inspections platform, from the Central Inspectorate in. We are waiting for the installation of source code by ASHI, to continue adapting the platform in accordance with the requirements/needs for the inspection system in Kosovo.
	8. OGI through legal experts has provided direct support to the working groups of the Line Ministries for drafting the laws establishing the Central Inspectorates, as defined in the annex to the Law on Inspections. OGI has also provided legal opinions on laws and other sub-legal acts involving inspections, in the framework of harmonization with the Law on Inspections.
	9. 3 trainings were organized with a total of 65 officials trained at the central and local level.
	10. OGI, with the support of donors, has held several trainings with central and local level inspectors on inspection reform. OGI has developed questionnaires with all inspectors to identify the most important areas for training on reform and for drafting the training module within the mandatory training for inspector. OGI has held a roundtable with representatives from all central level inspectorates, judges, prosecutors and police on the topic "Inter-institutional cooperation between Inspectorates, Police and Prosecutions in the Republic of Kosovo" OGI has held two trainings on the Law on Inspections, with representatives of all central level inspectorates OGI has held training on the Law on Inspections, with representatives of all local levelinspectorates OGI has held trainings with representatives of all central level inspectorates, with the topics: Inspections based on risk assessment methodology; Creating a checklist; Joint inspections; Strategic communication with the public. OGI also held workshops with three central-level inspectorates on the creation of risk models, as a basis for planned inspections based on risk assessment.

Reform Measure #7: Reducing the informal economy through improving intelligence-based oversight		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Drafting the new National Strategy for Combating the Informal Economy, based on the risk sector assessments and assessments related to the tax gap in general (SCIE Secretariat);	**3**
	2. Developing and improving online electronic services and interactive tools to assist taxpayers in fulfilling their tax liabilities. (TAK)	**5**
	3. Increasing the number of inspection activities in the implementation of TAK compliance projects and the determining more corrective measures for those projects through ex-post evaluation of their implementation (TAK).	**4**
	4. Increasing the number of inspections and staff engaged in joint operations between the TAK and KC, under the leadership of the joint group established by both institutions with the aim of addressing business cases characterised by a high-risk level in avoiding tax and customs liabilities (TAK & Customs);	**4**
	5. Reviewing the direct access provision of the FIU-K to the TAK database. Authorities should examine the indirect access of the FIU-K to the TAK database for the purpose of financial intelligence analysis to ensure timely availability of information in accordance with the risks and priorities of competent authorities (TAK & FIU);	**4**
	6. Increasing the level of supervision and the number of on-site inspections, especially in connection with businesses and other specific sectors of nonfinancial professions, to ensure, among other things, that data on beneficiary ownership is collected and maintained (FIU).	**4**
	7. Reviewing the risk assessment methodology of the FIU based on recommendations from assessments and technical assistance in this area (FIU);	**5**
	8. Assessing the informal economy for economic activities and types of informal economy not assessed before (KAS);	**4**

	9. Assessing the informal economy based on fiscal audit controls; Assessing the informal economy for N6 type - improper reporting of self-employees; Assessing drug trafficking and informal employment based on the Labor Input Method (KAS);	**4**
	10. Adopting Law on the Register of Beneficiary Owners (MIET);	**4**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. In 2023, the Secretariat of the Government Working Group for the Implementation of the National Strategy for Prevention and Combating Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes Drafted the National Strategy for Combating Informal Economy 2024-2028 and the Action Plan of this Strategy for the period 2024-2026. The strategy is expected to be submitted for inter-ministerial consultation in January 2024, then for public consultations, and for approval once these two phases are completed.	
	2. TAK currently provides a total of 56 online electronic services and interactive tools for taxpayers.	
	3. Actions taken during the reporting period, in the context of increasing the number of activities within projects to improve tax compliance, include the following: 1. As part of the Compliance Project in the "Construction" Sector, the following activities and control results were undertaken during the reporting period: • Number of controls completed: 250 • Additional tax over: EUR 13.6 million 2. In the course of the Compliance Project for "Treatment of informal employment or undeclared work" the following activities have been undertaken with the following results achieved: • The number of businesses visited: 11.195 • Number of cases with findings for undeclared workers: 1.437 • Number of unregistered employees: 6.129 3. In the course of the Compliance Project in the sector of "Accommodation and Food Service" the following activities have been undertaken with the following results achieved: • Number of controls completed: 131 • Total additional obligations from these controls about: EUR 2.1 million 4. In the course of the Compliance Project for treatment of "Shortage in stocks & goods without origin" the following activities have been undertaken with the following results achieved: • Number of controls completed: 219 • Total additional obligation: EUR 4.7 million 5. In the course of the Compliance Project for treatment of "Undeclared work" the following activities have been undertaken with the following results achieved: • Number of controls completed: 87 • Total additional obligations from these controls about: EUR 2.3 million 6. In the course of the Compliance Project for treatment of "VAT crediting" the following activities have been undertaken with the following results achieved: • Number of controls completed: 283 • Total additional obligation: EUR 12.9 million The increase in the number of results from visits and activities reported in advance is a result of additional field activities, even outside regular working hours. The same observation occurred last year in a similar comparative period. Regarding the "Wealthy Individuals" project and "Non-declaration of Income in PIT" the finalisation and approval of these two projects were completed on 27.06.2023. The implementation started from 01.07.2023, according to the Action Plan for 2023. Currently, the focus has been on the information and communication part with the media and taxpayers, while the launch of operational activities will take place in the coming months.	
	4. In 2023, TAK in cooperation KC developed the Action Plan for joint teams to combat the informal economy. Areas with high risk of avoiding tax and customs liabilities have been identified.	

		Operationally, in 2023, 6 joint operational plans were organised, 19 joint field inspections were conducted, and a total of 38 intelligence information was exchanged. The DTII results during the reporting period include: • Tax avoidance-related activities: 212 • Cases opened under the suspicion of tax evasion: 22 • Initial suspicion report (criminal report): 41 • Final investigation reports: 23 • Information reports to the Prosecution Office: 76 • Interview (statement) with suspects and witnesses: 30 • Information to law enforcement institutions: 83 • Joint actions with other law enforcement institutions: 14 • Tax evasion without penalties and interest €3,804,015.53, penalties €1,228,897.32, total evasion with penalties €5,032,912.85 • Based on the feedback from the Intelligence Reports to the TAK Regional Directorates, these reports have resulted in: • Additional tax (without penalties and interest) of €7,563,990.67, penalties €1,834,057.44, total avoidance with penalties €9,398,048.11. • Credit reduction of: 633,429.60€ • Loss reduction of about: 1,479,291.43€ • Pension contributions of €74,038.28
	5.	FIU has limited access to TAK database related to the status of taxpayers' declarations. In order to complete the information before forwarding the request for information to TAK (DTII), and opening the case from the FIU, access (read only) is required, even to the annual statements submitted by taxpayers. FIU and TAK have agreed on deploying a liaison officer from TAK to the FIU-K offices, where the efficiency of information exchange has been increased.
	6.	In 2023, FIU-K conducted 37 inspections regarding businesses and other certain sectors of nonfinancial professions.
	7.	The following methodologies have been drafted: Money Laundering Risk Assessment Methodology through banking products offered in Kosovo Methodology for Sectoral Specific Risk Assessment for the Prevention of Money Laundering and Terrorist Financing for NGOs.
	8.	In 2023, KAS started for the first time with the assessment of the informal economy in the health sector for the period 2017-2022. The data have been compiled in cooperation with the Eurostat expert and are experimental until a full implementation of the Eurostat methodology.
	9.	In 2023, the assessment of the informal economy continued according to Eurostat and OECD methodology for the following components: • Compilation of informal economy data for N1 type - Producers who do not register intentionally and N6 - Producers who intentionally misreport for the period 2018-2021 (experimental data for the period 2008-2017); • Compilation of informal economy data on drug trafficking for the period 2017-2019 (experimental data for the period 2008-2016, 2020-2021); • Compilation of informal economy data based on fiscal audit controls 2017-2019 (experimental data for the period 2011-2016, 2020-2021); • A compilation of data on the informal economy in the health sector for the period 2017-2022 (experimental data); • Description of the methodology used for the compilation of the above-mentioned components.
	10.	The Law on the Register of Beneficial Owners was approved by the Government of Kosovo in November 2023 and is expected to be adopted by the Assembly.

Reform Measure #8: Restructuring and consolidation of all IT system resources in support and development of public finance	**Reform implementation phase (1-5)**

Activities planned for 2023	1. Developing a plan for the transformation of IT departments into a dedicated IT Agency to support the public finance management (MFLT);	**5**
	2. Establishing a shared IT service centre. (MFLT)	**2**
	3. Amending and supplementing administrative instructions and the drafting of new legal acts to enable the consolidation and transformation of the ICT structure and organization (MFLT);	**1**
	4. Drafting of the Common ICT Strategy, Roadmap and Operational Plan within MFLT (ICT Technical Committee within MFLT);	**5**
	5. Digital interoperability of IT services within MFLT; (ICT Technical Committee within MFLT);	**3**
	6. Capacity building within MFLT IT Agency; (CT Technical Committee within MFLT).	**3**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. The plan for the transformation and restructuring of the IT departments into the ICT Agency within MFLP, mandated to support and advance Public Finance Management, has been drafted, and you can find it enclosed herein. Furthermore, it is announced that 12 formal groups have been established within MFLT to implement the plan.	
	2. Point 2 will take several years, as initial arrangements are made in coordination between the MFLT Technical Committee, AIS and the Digital Transformation Unit (OPM) to merge the 5 infrastructure domains into a single sub-domain within the RKS-GOV domain administered by AIS. Plans have also been developed to expand the spaces and capacities of the MFLT Data Centre to accommodate all devices in a single centre. All devices and systems have been inventoried with the aim of consolidating them into a single 'Shared Services' concept within MFLT.	
	3. There have been significant delays in this point, and a dedicated workshop was held on December 01, attended by MFLT, AIS, OPM, MIA, GIZ. As a specific conclusion from the workshop, there is a need for MFLT to hold additional meetings with Mr. Edmir Sejdiu (MIA) and Mr. Kushtrim Canolli (OPM-SPO), considering that the process of agency rationalisation is co-led by OPM and MIA. In the workshop, MFLT agreed that the ICT Agency within MFLT can continue to be incorporated as such within the Law on Public Financial Management.	
	4. The ICT Strategy in MFEA for the period 2023-2027 has been drafted and is shared for comments with all internal stakeholders, as well as external ones such as ZKM, ASHI, World Bank, GIZ, USAID. It has been evaluated as good and of added value for MFEA and Public Finance. This draft strategy is expected to be reviewed and eventually approved at the next meeting of the ICT Steering Committee within MFLT, and you can find it enclosed herein.	
	5. Every digital interoperability process within MFLT is determined through the ICT Strategy to occur through the Government Gateway at AIS. Currently, there are many important and valuable projects that have been developed or implemented or are in the preparation process, and almost all of these projects affect the main departments within MFLT, such as TAK, Customs, Treasury, MFLT, Labour Department, and the Social Assistance Department, Social Reform Project, etc.	
	6. The enhancement of ICT capacities within MFLT is provided for under the draft ICT Strategy, as the Technical Committee has approved a series of frameworks for the efficient management of ICT services within MFLT, such as the ITIL framework, change management framework and risk management framework.	

Reform Measure #9: Reducing environmental pollution and preserving biodiversity		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Drafting and adoption of the Long-Term Decarbonisation Strategy (MESPI, ME);	**3**
	2. Drafting and Adoption of the Strategy for Environmental Protection and Sustainable Development 2022-2031 (MESPI);	**3**
	3. The initiation of the construction of the regional wastewater treatment plant of Prishtina Region (including the municipality of Fushe Kosova, Obiliq and Graqanica) (RWC Prishtina);	**4**
	4. Capacity development for Air Quality Control - monitoring the content of heavy metals in air dust in Mitrovica, Prishtina and Drenas (MESPI).	**2**

<table>
<tr><td></td><td>5. Marking of the external and internal border of the National Park “Sharri” and Bjeshkët e Nemuna (MESPI);</td><td>5</td></tr>
<tr><td></td><td>6. Increasing the forest areas - afforestation (MAFRD);</td><td>4</td></tr>
<tr><td></td><td>7. Drafting long-term management plans for forests (MAFRD);</td><td>4</td></tr>
<tr><td></td><td>8. Developing the value chain process in forestry (MAFRD);</td><td>3</td></tr>
<tr><td></td><td>9. Drafting of the Wild Animals Management Program 2024-2033. (MAFRD)</td><td>3</td></tr>
<tr><td rowspan="7">Description of implementation and explanation of whether we have partial implementation or non-implementation</td><td colspan="2">1. The process of drafting the Long-Term Decarbonisation Strategy is ongoing. Support has been provided by an international expert through the TAIEX-TRATOLOW Project. The last meeting with the expert and the Working Group was held on 19.06.2023. Discussions were held regarding the content and drafting approach of the Strategy. The first draft of the Strategy has been handed over to the Working Group members for comments and preparation for the next meeting, scheduled for the second half of January 2024.</td></tr>
<tr><td colspan="2">2. Based on Decision No. 4455/22, dated 05.08.2022, on the drafting of the Environmental Protection and Sustainable Development Strategy, a team has been established to draft this Strategy.
To finalise the draft prepared by the Working Group, support has been sought from the EU4Green Project, funded by the EU and implemented by the Austrian Environmental Agency. An international expert has been selected, and a workshop of the Working Group has been conducted.
The first draft of the Strategy is currently under review by the engaged consultant.</td></tr>
<tr><td colspan="2">3. Regarding this activity, the following sub-activities have been implemented:
a) The contract signing was followed by the first coordination meeting (Kick-off meeting), held on 10.05.2022
b) Field visits have been conducted
c) Geomechanical research
d) Surveying measurements
e) Household survey
f) The Inception Report was approved on 09.09.2022
g) Wastewater quality and flow measurement campaign - completed,
h) Feasibility Study Update – in the final stage of approval
i) Environmental and social impact assessment – in the final stage of approval
j) Economic, social and financial impact – in the final stage of approval</td></tr>
<tr><td colspan="2">4. Since the equipment for determining the levels of heavy metals in dust samples is out of order, the authorised company for the Balkan countries has been contacted for servicing this device.
Regarding the funding of this service, MESPI is discussing with the SKAT project staff to cover the costs of for its maintenance.</td></tr>
<tr><td colspan="2">5. The activity has been completed. Therefore, the sub-activities outlined in the contract have been finalised as follows:
a) Marking the external border of the two national parks with red and white colours on stones and trees;
b) Preparing and placing wooden stakes measuring 10 cm x 10 cm x 30 cm in those locations where it is not possible to place paint;
c) Preparing and placing on the ground metal or PVC information tables measuring 1m x 1.5m at the entrances of the two national parks: 40 pieces in the “Sharri” and “Bjeshkët e Nemuna” national parks,
d) Preparing and placing informative or prohibitory wooden signs measuring 1m x 1.5m - 15 pieces in the two national parks “Sharri” and “Bjeshkët e Nemuna”,
e) Preparing and placing wooden prohibitory signs with dimensions of 60 cm x 50 cm - 30 pieces in the two national parks “Sharri” and “Bjeshkët e Nemuna”,
f) Preparing and placing prohibitory ramps in the territory of the “Sharri” NP
g) Preparing and designing maps (with dimensions according to the dimensions of the tables as per orders no. 3, 4, and 5) with the borders of the national parks, a brief description of the natural values of that area, photos, logos, etc. (according to the requirements of both National Parks Directorates)</td></tr>
<tr><td colspan="2">6. 357,025 seedlings on an area of 142.8 hectares have been planted, while the number of illegal logging of forests has decreased by 51%</td></tr>
<tr><td colspan="2">7. 10 long-term management plans for forests have been prepared and approved</td></tr>
</table>

	8. Around 120 people have been employed for the implementation of this activity	
	9. A Working Group has been established, which has held several meetings and drafted the initial document. However, the deadline for finalising this document has been extended to Q2 2024.	

Reform Measure #10: Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Approval of the Digital Agenda 2030;	**5**
	2. Review of the Kosovo IT Strategy;	**1**
	3. Drafting of the Law on the Electronic Communications Cod;	**2**
	4. Supporting the extension of fixed infrastructure – connection of mobile network stacks (5G Ready);	**4**
	5. Extending the broadband infrastructure in schools and connection with KREN	**3**
	6. Development of trainings for young people and Program - YOU (Youth Online and Upward Program);	**4**
	7. Digitalization of businesses through the use of ICT (eID System, creating the right and safer ecosystem for e-business and e-commerce);	**4**
	8. Ongoing development of the Digital Excellence Centre - 5G Pilot;	**2**
	9. Further development of electronic services on the eKosova Platform, application of the electronic payments module (AIS);	**4**
	10. Expanding the implementation of the Interactive/Interoperability Platform for systems integration (AIS);	**3**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. Kosovo Digital Agenda 2030 has been approved by the Government Decision No. 30/148, dated 29.06.2023.	
	2. In the development of Kosovo's ICT Strategy, international consultancy support for the Working Group has been deemed necessary. However, such support has not been obtained due to budget constraints or as a donation.	
	3. The Government Decision No. 12/142 of 10.05.2023 approved the Concept Document on the Electronic Communications Code. As a recommendation from this Concept Document, a new law on electronic communications is proposed. Therefore, the Drafting Team for the drafting of the draft law was established in August 2023. TAIEX technical assistance for the drafting of the draft law was provided as well. The work on drafting the legislative project has commenced. On 6 and 7 November 2023, the first two-day workshop was held together with TAIEX Technical Assistance, where relevant topics were addressed, such as: cases of transposition of the European Electronic Communications Code Directive in EU Member States, sector governance, national regulator competencies and duties, and the Authorisation Regime for frequency spectrum utilisation, etc. The TAIEX mission will continue until mid-2024 to finalise the draft law.	
	4. From the beginning of this activity until now, around 60 mobile network stacks (5G or 5G Ready) have been connected to fixed broadband infrastructure. In 2023 alone, 32 mobile network stacks were connected. The target indicator has been exceeded.	
	5. By the end of 2023, the construction of the digital infrastructure in 44 schools and the connection to the KREN network has been completed. For the second group of schools (~56), contracts for the implementation of the project have been signed and implementation has begun, which will be completed during Q1 2024. The construction of digital infrastructure in schools and their gigabit connection with KREN and GEANT will continue for about 110 more schools by the end of 2024.	
	6. In 2023 alone, more than 1200 young people were trained in different modules in digital skills, such as: Python, Network Administrator, Mobile Development, Digital Marketing, Full Stack Developer, 3D Printing Technology, Video Editing, or IT Essentials, as well as their connection with online job opportunities, through KODE and IPA 2017 programs. Additionally, training companies have been contracted for the second cohort, which will include the training of around 900 more young people by mid-2024, in the seven regions of Kosovo, covering one of the training modules.	

	7. The "Creation of the eIDAS System" project is currently being implemented and is in an advanced stage of execution. The eIDAS system is a national system that will enable electronic identification and authentication, creating the conditions for the use of electronic signatures. Successful testing of the beta version of the eID system was conducted by the end of 2023, and it is expected to be finalised and operational for use by citizens and businesses by mid-2024. Regarding the hardware supply part, challenges arose as the EUOK (IPA) cancelled the activity just before signing the contract (due to EU sanctions, all procurement procedures that were in the process have been terminated). Alternative solutions for the necessary hardware supply have been found through AIS.
	8. The Terms of Reference for the "5G Pilot" project have been prepared, and procurement procedures, including evaluation and notification to the successful bidder, have been completed. Unsuccessful bidders have appealed, and the process is now with the Procurement Review Body - PRB. The project implementation is planned to last for two years.
	9. Electronic services on the eKosova Platform have been developed, and their number continues to increase, totalling several dozen (close to a hundred). Over 850,000 users have been registered so far, utilising millions of services. The use of the electronic payment module has been enabled.
	10. The Government Gateway (GG) Interoperability Platform, established since 2017, and the e-Kosova Portal as a single window for providing transactional and personalised digital government services at all levels of governance (state, regions, municipalities) offer numerous services for institutions and businesses. The platform is integrated with the Government Gateway, enabling seamless interaction between already linked electronic registers. The number of interoperable government information systems is continuously increasing, and according to the Kosovo e-Governance Strategy 2023-2027, the following indicators have been set: by the end of 2025 - 50% of government information systems in line with the interoperability framework; by the end of 2027 - 70% of government information systems in line with the interoperability framework.

Reform Measure #11: Improving the environment for research, innovation and entrepreneurship		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Adoption of the Smart Specialization Strategy (OPM)	**3**
	2. Adoption of Law on Innovation and Entrepreneurship;	**4**
	3. Drafting of the concept document for the Innovation Fund (MIET);	**3**
	4. Creating a database for Innovation potential at the country level (MIET);	**3**
	5. Launching grant schemes for direct support of businesses and natural persons for innovative projects (KIESA/MIET);	**2**
	6. Drafting of AI on Registration and Licensing of Innovative Scientific institutions; (MESTI);	**4**
	7. Drafting of the Law on Scientific Innovation and Knowledge Transfer (MESTI);	**3**
	8. Roadmaping to Membership in the Innovation Scoreboard (MESTI & Line Ministries);	**3**
	9. Support for scientific projects and publications in indexed journals;	**2**
	10. Investments in innovation centers and laboratories in high schools, faculties and vocational schools (MIET);	**5**
Description of implementation and explanation of whether we have partial	1. The Smart Specialisation Strategy – during 2023, the process of stakeholder dialogue, also known as the Entrepreneurship Analysis Process, has been completed. Currently, the framework for implementation, monitoring and financing is being developed. The Strategy is expected to be approved in the first part of 2024.	
	2. Regarding the Law on Innovation and Entrepreneurship, public consultations have been completed, and soon it will be submitted to the Government for approval.	

implementation or non-implementation	3. The concept document on the Innovation Fund has been completed; however, with the recommendation of the GCS within the OPM, it is recommended to be addressed through the Law on Innovation and Entrepreneurship and then further elaborated through a bylaw.	
	4. The terms of reference have been completed, and the call for bids is expected to be launched in February.	
	5. The grant scheme to support innovative businesses has not been implemented due to the lack of budget in the economic category of subsidies and transfers. This budget has been reallocated to ITP, as per the Memorandum of Understanding signed between the Kosovo and German governments.	
	6. The Administrative Instruction on registration and licensing of Innovative Scientific Institutions has completed the public hearing phase and is currently with the legal office for signing procedures	
	7. The concept document on scientific innovation and knowledge transfer, as well as the Law on Scientific Research Activity, have completed the public hearing phase, and we are now in the financial statement phase	
	8. The master plan is in the process of collecting indicators, with a total of 32 indicators being identified, and then a working group with the line ministries will be established.	
	9. MESTI has supported scientific projects and publications this year	
	10. This project has been completed and adapted to the Start-Up Business Space within the Faculty of Mechanical Engineering at the UP. Project value EUR 150,000.	

Reform Measure #12: Improving the doing business environment through trade facilitation and quality infrastructure development		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Drafting of the Trade Policy Program (MIET).	**2**
	2. Approval of the new Customs and Excise Code (CEC. (MF - Kosovo Customs).	**4**
	3. Adoption of the Law on Internal Trade (MIET).	**4**
	4. Drafting of the Law on product market surveillance (transposition of Regulation (EU) 2019/1020 on Market Surveillance and Compliance of Products and Regulation (EU) 2019/515 on Mutual Recognition of Goods);	**2**
	5. Drafting of Administrative Instructions deriving from the Law on General Product Safety (DIC);	**1**
	6. Completion of the negotiation of the agreement with the EFTA countries (MIET);	**2**
	7. Making functional the PAP Project funded by GIZ for the customs clearance of postal shipments arriving in RKS through international Express Mail. (MF - Kosovo Customs).	**4**
	8. Adoption of the Regulation on the Establishment of the Trade Facilitation Information Center (MIET-Kosovo Customs).	**1**
	9. Making functional the public terminals in the entire customs territory of RKS, where the staying cost during customs clearance will be 0 Euro. (MF - Kosovo Customs).	**3**
	10. Finalization of negotiations with CEFTA countries for Additional Protocol 7 on the settlement of trade disputes.	**2**
	11. Preparation for accreditation of the force calibration laboratory and the temperature and relative humidity laboratory (KMA);	**3**
	12. Approval of secondary legislation and Law on External Trade (MIET).	**4**
Description of implementation and explanation of whether we have partial implementation or non-	1. Meetings and workshops were held with the Working Group regarding the drafting of the Trade Policy document and a draft was prepared. The drafting of the Trade Policy is foreseen within the Strategy for Industrial Development and Business Support 2030, which was approved on 29.06.2023.	
	2. The Assembly of Kosovo in the plenary session held on 02.11.2023 approved in the first reading Draft Customs and Excise Code No. 08/L-247 and is now in the parliamentary procedures for approval in the second reading.	
	3. We have completed the draft of the Law on Internal Trade, and it is in the MIET Cabinet.	

implementation	4. The Concept Document on Market Supervision has been approved by the GRK Decision No. 10/154 on 09.08.2023. The law is scheduled to be drafted during the 2024.
	5. Law No. 08/L-172 on General Product Safety was adopted by the Assembly of Kosovo and is published in the OGK on 03.04.2023. Two bylaws are planned to be drafted in 2024.
	6. We are awaiting an invitation from EFTA officers for the third round of negotiations
	7. The PAP project has been operationalised in the first half of 2023; an operator for postal shipments has been authorised and is operating in accordance with the authorisation.
	8. The drafting of the Regulation on the Establishment of the Trade Facilitation Information Center (TFIC) will begin in 2024 with the support of the IFC donor
	9. The process of operationalising public terminals is underway, since it is a process that has required time. Currently, the Mitrovica terminal is operational; Vërmica (the Vërmica terminal is in the process of selecting an EO for extension and completion of relevant infrastructure, including a roundabout and road access to the terminal). Parties do not pay fees for the use of the terminal in Peja because the Kosovo Customs has taken over its management from the owners. The public terminal at PIA "Adem Jashari" is also in the final phase of completing the project, and the tender for re-designation (designation as a public terminal) is expected to be published very soon We are dealing with the expropriation process in the terminal in Han i Elezit, Dheu i Bardhe and Podujeva. All three mentioned terminals are in the process of receiving the necessary evaluations from KCA to progress through the subsequent procedural stages.
	10. For Additional Protocol 7 for resolving trade disputes with CEFTA countries, 3 meetings have been conducted, yet the document is not yet finalised;
	11. We are currently in the application phase for these two laboratories: The Force Laboratory has participated in inter-laboratory comparisons, and we are waiting for the results. Meanwhile, the Thermometry and Relative Humidity Laboratory is pending participation in such comparisons, a prerequisite for accreditation application.
	12. The Working Group has drafted the Administrative Instruction on Defining the Rules and Procedures for the Administration of Import Quotas and is currently undergoing preliminary consultations.

Reform Measure #13: Further development and modernization of Transport		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Rehabilitating and modernising the first phase for the 10th railway line (Fushë-Kosovo - Hani i Elezit), construction works without signalling and telecommunications (MESPI);	**3**
	2. Completion of the project design for the rehabilitation and modernisation of the third phase of the 10th railway line (Mitrovica - Leshak - Border with Serbia) including signalling and telecommunication (MESPI);	**2**
	3. Application for Kosovo's membership in international rail transport organisations UIC, CER, RNE, CIM, ERA;	**1**
	4. Construction of the Deçan-Plavë road (Kosovo part) (MESPI);	**3**
	5. The drafting of the draft law on amending the Law on Road Transport;	**4**
	6. Drafting of concept documents on Driving License, Vehicles, Railways, in the area of civil aviation;	**4**
	7. Drafting of AI on Technical Roadside Control;	**4**
	8. Drafting of regulations related to air traffic rights;	**4**
	9. Awareness-raising campaigns to reduce road traffic accidents;	**5**
	10. The drafting of the road traffic safety national program;	**4**
	11. Digitalisation of transport services (E-transport of goods).	**2**
	12. Creating logistical conditions and building administrative capacities and adequate training for the provision of multimodal transport services.	**1**
	13. Constructing/restructuring and modernising the multimodal passenger and freight terminals.	**1**

	14. Implementing the Common Aviation Requirements deriving from the Agreement on the European Common Aviation Area (ECAA) and completion of secondary legislation through:	**4**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. This activity has been partially implemented, as the overall implementation stands at 50.9%. The physical progress in the installation of the high-level railway layer (ballast, sleepers, rails) stands at 83.1%.	
	2. The execution of this activity was partial due to IPF9's unavailability to complete the task after the initial report approval in July 2022. By the end of January 2023, IPF9 declared its inability to meet the deadline set by the contract, prompting the reassignment of technical assistance with the remaining budget of IPF11 on 24 February 2023. A prerequisite for the proper conduct of activities is the timely approval of additional funds allocated by both IPFs (IPF9 and IPF11), following a written procedure.	
	3. Membership in international organisations: In coordination with MFAD, formal actions have been taken, including organising joint meetings and reaching agreements after discussions. It was decided that for international organisations mandating membership in the UN, a thorough analysis of the situation should precede formal procedures before application.	
	4. Construction of the "Regional R108 Road - Deçan - Border with Montenegro (Plava), L=12,580m" had no activities during 2023. The EO submitted several requests regarding the further implementation of the project, which requests are under review, and decisions about the contract future will be made in the coming days. The contract value is €4,168,126.00, and so far, 33% of the works have been completed.	
	5. The Draft Law on Road Transport has been prepared, and after public discussions, it has been submitted for further procedures to the Legal Department. However, following comments from the Legal Department, it has been returned for re-evaluation to the Working Group.	
	6. The Concept Document on Driving License was approved by the Government on 29.06.2023 The Concept Document on Vehicles was approved on 11.01.2023 The Concept Document on Railways was approved by the Government. We are waiting for the approval by the OPM of the Concept Document in the area of CivilAviation.	
	7. Regarding the AI on Technical Roadside Control, all procedures have been completed and are currently pending signing in the Minister's office.	
	8. The regulation partially transposing Regulation (EC) 1008/2008 has been drafted and put up for public consultation. The regulation on flight permits is in the drafting process.	
	9. A total of 26 awareness-raising activities and campaigns on road safety have been implemented.	
	10. The working team has drafted the National Traffic Safety Program and the Action Plan for the period 2023-2030. The document has been submitted to the Minister's Cabinet for approval by the Road Traffic Safety Council.	
	11. Digitalization of goods transport. Regarding this measure, it is worth mentioning that it has been addressed through the Draft Law for Transport, specifically transposing EU Regulation No. 2020/1056 on E-freight, and after the adoption of the law, secondary legislation will be developed to operationalize the system.	
	12. The Draft Law on Road Transport has transposed Directive 92/106 on intermodal and multimodal freight transport. Upon law adoption, the enhancement of technical and administrative capacities will take place.	
	13. Concerning the construction and structuring of intermodal/multimodal freight terminals, it is noteworthy that within the project of building the Prishtina-Durrës railway line, the construction and operationalisation of a dry port/terminal providing multimodal services (rail - road) is planned.	
	14. CAA has transposed 7 out of 8 regulations scheduled for 2023, part of the ECAA Agreement. The remaining regulation requires further coordination with KFOR. The Ministry's obligation to fulfil the remaining points according to Phase 1 of the ECAA Agreements involves the annulment of Article 95.2 of the Law on Civil Aviation, relating to the Minister's powers in extraordinary circumstances regarding the restriction of passengers' rights under Regulation (EC) No. 261/2004. In line with this obligation, according to the legislative plan in 2024, a new Civil Aviation Law will be approved, and this article will be annulled.	

Reform Measure #14: Structural changes in the agricultural sector		Reform implementation phase (1-5)
Activities planned for 2023	1. Supporting farms per head, agricultural crops per area and quantity of production through subsidies (MAFRD);	**5**
	2. Supporting farmers through investments in physical assets, processing and marketing of products and diversification of farms through grants (MAFRD);	**5**
	3. Drafting of the national plan for the Inventory of Agricultural Lands of the Republic of Kosovo (MAFRD);	**2**
	4. Drafting of the feasibility study and design of two projects for the rehabilitation, modernization and expansion of irrigation and drainage systems (MAFRD);	**3**
	5. Development of a system for managing grants and subsidies (MAFRD, ADA);	**3**
	6. Rehabilitation, modernization and expansion of irrigation and drainage systems (MAFRD);	**4**
	7. Drafting of the Law on Agricultural Land (MAFRED);	**2**
	8. Drafting of the Law on Rural Tourism (MAFRED);	**2**
	9. Drafting of the Law on the Organization of the Common Market (MAFRD);	**5**
	10. Drafting of the Law on Veterinary (MAFRED);	**2**
	11. Drafting of the Law on Vines (MAFRED);	**5**
	12. Training and knowledge transfer including innovation as an essential part of agriculture (MAFRD);	**5**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. The Direct Payments Program (DP) for 2023 has been drafted and approved. The application call was launched from 28.02.2023 to 14.04.2023, with 32.610 farmers applying. For the first time during the fiscal year, all legal procedures, starting from administrative controls, field inspections, preparation of decisions for support, and payment execution, are expected to be completed. The total value of payments is anticipated to be €61 million; It is worth mentioning that in 2023, the number and value of Direct Payments support schemes have increased. Additionally, the number of field inspections aimed at preventing misuse has increased. 7 municipalities have been selected for a 100% control of DP applicants, while others are subject to a lower percentage (%) of controls. A total of 10,830 regular controls and over 100 re-controls have been conducted; Agricultural insurances have been extended to six (6) new crops, increasing the subsidy for insurance premiums to 75%, the highest value in the region;	
	2. The Rural Development Projects Program (RDP) for 2022 has been implemented with 491 beneficiaries, providing overall support of €24 million. The support measures have seen an increase, and for the implementation of RDP 2022, 1,545 regular controls, re-controls or super-controls have been conducted; The Rural Development Projects Program for 2023 has been drafted and approved. The application call is from 31.10.2023 to 29.11.2023, with a total value of €24,627,000;	
	3. A Working Group has been established to conduct this activity, holding several meetings, but the document has not been drafted within the specified timeframe.	
	4. The Interministerial Water Council has reviewed the Water Master Plan, which has passed in principle and within this document, the Action Plan foresees the sum of €12 million for the feasibility study and design of irrigation projects	
	5. The system is being maintained based on several requests from the Project, Common Market Organization (CMO), and Agricultural Statistics.	
	6. 8 locally contracted projects have commenced work on the expansion of irrigation channels, in accordance with the contracts.	
	7. To harmonise with the Law on Central Inspectorate of Agriculture, Food Safety, Veterinary and Forestry, the drafting of the Draft Law on Agricultural Land has been transferred to 2024 – Q2.	
	8. To harmonise with the Law on Central Inspectorate of Agriculture, Food Safety, Veterinary and Forestry, the drafting of the Draft Law on Rural Tourism Land has been transferred to 2024 – Q3.	
	9. The Draft Law on the Organization of the Market for Agricultural Products was adopted in the Assembly of the Republic of Kosovo on 15.12.2023.	

	10. To harmonise with the Law on Central Inspectorate of Agriculture, Food Safety, Veterinary, and Forestry, the drafting of the Draft Law on Veterinary has been transferred to 2024 – Q2.
	11. The Draft Law on Wines was approved by the Government on 25.01.2023.
	12. Through the engagement of donors and municipal advisors, MAFRD organised/conducted training sessions, training around 5,000 farmers and supported around 500 farmers with materials (brochures and leaflets)

Reform Measure #15: Increasing competitiveness in the production industry		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Approval of the Law on Industrial and Technological Parks and by-laws deriving from this law (MIET)	**4**
	2. Direct support to about 50 businesses in order to increase production - processing capacities, increasing exports, or replacing imports through the grant scheme (MIET, KIESA);	**5**
	3. Support for the promotion of products and services in order to increase export and tourism for 80 businesses (MIET, KIESA);	**5**
	4. Construction and further development of physical infrastructure in economic zones and business incubators and the initiation of new economic zones in order to promote and develop the innovative ecosystem (MIET, KIESA);	**5**
	5. Promotion of investments through the organization of information sessions, G2B and B2B meetings as well as economic investment and trade forums (MIET, KIESA):	**5**
	6. Supporting 100 young people in training new staff in practice through the "Business Internship" program (MIET)	**5**
	7. Organizing seminars for manufacturing enterprises to introduce them to the basics of circular economy business models (MIET);	**5**
	8. Drafting of the study that evaluates the impact of the current industrial parks, (generation of jobs, participation in export) (MIET)	**4**
	9. Conducting comprehensive research to identify the skills that are missing in the labour market and to understand the challenges of employers in finding qualified workers (MIET).	**2**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. Law No. 08/L-208 for Industrial and Technological Parks was adopted on 09.11.2023 and published in the Official Gazette on 27.11.2023. The drafting of five bylaws was included in the 2024 legislative program, and at the same time the working groups for these bylaws have been established. Due to the fact that the Law was adopted late, we have not been able to start drafting the bylaws.	
	2. 71 businesses have been supported, agreements have been signed and they are in the project implementation phase.	
	3. 119 businesses were supported in 18 international activities where they promoted about 1000 products, services and tourism activities.	
	4. Technical acceptances have been finalised and made for the industrial park in Viti and the business incubator in Malisheva. So far, the first investment phase in the industrial park in Rahovec has been completed, in the amount of €1 million, and the project is also ongoing in 2024.	
	5. 5 briefing sessions, 3 economic forums were organised as well as B2B and G2B meetings with businesses from the countries with which we have held briefing sessions and economic forums.	
	6. As of 1 November 2023, the youth internship program has commenced, they are now at the end of the second month, and it will be concluded with the completion of the third month of the internship on 31 January 2024.	
	7. In October, two meetings were held with businesses to acquaint them with the program, particularly focusing on the fundamentals and models of the local economy. A total of 30 businesses participated. This is an activity implemented within the Boost program, UNDP. 30 businesses have undergone training in the green transition module, with 12 of them benefiting grants totaling 84,000 Euro.	

	8. Terms have been prepared, and a tender has been announced for the contracting of an economic operator to undertake the study evaluating the impact of current industrial parks and exploring possibilities for new parks.
	9. The terms of reference have been drafted and the study is set to be conducted in the first six months of 2024 with support from a project funded by Lux Development.

Reform Measure #16: Increasing competitiveness in the sector of trade in services		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Launching the website of the Single Point of Contact (SPC) through the e-Kosova portal and raising awareness among the business community about the SPC (MIET);	**2**
	2. Digitalization of services (surveyors, accountants) in SPC through adding the licensing services to e-Kosova (MIET, relevant institutions, AIS);	**3**
	3. Identifying further services sectors that fall under services directive 123/2006/EC to be integrated for use on the SPC (MIET and relevant institutions).	**4**
	4. Initiation of the liberalization of services with the EFTA countries through inclusion in the services chapter of the Kosovo-EFTA FTA (MIET and relevant institutions).	**2**
	5. Drafting of a decision on local disciplines for services deriving from Additional Protocol 6 within CEFTA (MIET, CEFTA);	**1**
	6. Establishing a platform with CEFTA for the notification of measures (legislation) affecting trade in services in the light of Additional Protocol 6 (MIET, CEFTA).	**2**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. The EU-GIZ project, as part of the assistance under the “Project for Administrative Burden Reduction” aims not only to digitize services but also to enhance the current Contact Point for Services website and integrate it with the digitalised sectors in eKosova. The project has initiated work on developing/redesigning the initial website. A meeting has been held with MESPI and EU-GIZ, anticipating the establishment of Chambers to continue the digitalisation of licenses for architects and engineers.	
	2. In cooperation with Kosovo Cadastral Agency (KCA), technical procedures have been completed for surveying services, and the website is expected to launch on EI-Kosova, in cooperation with the GIZ project. Regarding the digitalisation of services for accountants, cooperation is ongoing with the society of Certified Accountants and Auditors of Kosovo (SCAAK), and procedures for digitalising this service are in process.	
	3. Regarding the identification of additional service sectors falling under Directive 123/2006/EC for integration into use in SPC (MIET and relevant institutions), the sectors of tourism (MIET-EU-GIZ) and driving schools (MIET and EU-GIZ) have been identified.	
	4. Two rounds of Kosovo-EFTA meetings have taken place, and the third round is expected for finalising the Agreement.	
	5. However, there is no progress due to the asymmetric representation of Kosovo in CEFTA	
	6. A platform has been established with CEFTA for notifying measures (legislation) affecting trade in services (MIET), but its operationalisation is anticipated following the ratification of Additional Protocol 6	

Reform Measure #17: Increasing Competitiveness in the Tourism and Hospitality Sector		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Drafting of by-laws deriving from the Law on Tourism (Tourism Register and Categorization and Classification of accommodation structures and determination of criteria for priority areas for tourism development) (MIET);	**4**
	2. Licensing of tourist guides (MIET);	**2**
	3. Development of the tourism register platform (MIET):	**4**

	4. Promotion of Kosovo tourism brands through participation in international tourism fairs; (KIESA/MIET, PPSE)	**3**
	5. The mapping of the naturalistic paths of Via Dinarica Kosova and the elaboration of a digital system of paths"	**4**
	6. Subsidies for the improvement of tourist services along Via Dinarica Kosova	**4**
	7. Development of tourist trails in the Podguri area (Municipality of Peja);	**5**
	8. Supporting tourism in rural areas through subsidies and transfers (MAFRD);	**2**
	9. Drafting of the Management Plan for the historical center of Janjeva (MCYS, UNDP).	**5**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. AI on defining the criteria of priority areas for tourism development - has been finalised, has passed all procedures and is expected to enter into force soon. AI on categorisation and classification of accommodation structures is in the final stage of drafting. The Instruction is expected to undergo the preliminary and public consultation procedures.	
	2. Licensing of tourist guides (MIET) - after the entry into force of the AI regulating this activity, a commission was established to review the applications for registration and the exercise of the activity of tourist guides. The commission reviewed and evaluated 10 applications and issued decisions in accordance with the applicable legislation, but none of the applicants has met the requirements. Due to obstacles during implementation, the process has been suspended until the AI is amended.	
	3. Tourism Registry – for this capital project, the terms of reference have been prepared by DT in cooperation with GIZ, procurement procedures have been conducted, the contracted company has developed and designed the Registry, and the project handover has been completed at the end of the year.	
	4. Branding of Kosovo's tourism - Work has been done on drafting the terms of reference for the publication of an open competition for the design of the state symbol and other forms of communication of Kosovo's tourism brand. The competition has been announced, procedures have been conducted, and a commission has been established to review the proposal ideas. 3 commission meetings have been held, and work has been done to review the proposal ideas. None of the applicants have met the criteria, so the competition has been closed. Meanwhile, Kosovo has been promoted in terms of tourism in international markets such as: CMT Stuttgart, in Germany ITB Berlin, in Germany IMTM Tel Aviv, in Israel EMITT Istanbul, in Turkey At these fairs, the participation of several tour operators who promote and sell tourist offers for Kosovo has been made possible, selected through KIESA or with the support of PPSE/Swisscontact.	
	5. The signalling and marking of trails have been completed on the Via Dinarica trail, covering 130 km in the mountains of Peja, Deçan, and Junik. The digitalisation part is still in progress.	
	6. Within the NaturKosovo project, funded by the Italian Agency for Cooperation and Development, the call for "Mini-grants for Micro-Service Providers in the Tourism Sector for the sustainable development of the Kosovo stretch of Via Dinarica" has been opened. The grants have been for micro-businesses, associations, and farmers providing tourist services closely related to Via Dinarica in the municipalities of Peja, Deçan and Junik. The grants range from 2 500 to 18 000 Euro per applicant, with a total budget of 360 000 Euro. The commission is working on evaluating the applicants for the selection of beneficiaries.	
	7. The trails have been developed by the Municipality of Peja in the Podguri area, specifically in Lip and Sejnov, which have enabled the connection of the tourist offer of the Podguri area with the Rugova region as a more attractive option for extending the stay of tourists in Peja. Additionally, the trails have been supplied with accompanying infrastructure such as rest areas, maps, alerting, etc. In 2024, the promotion of this area for rural tourism will be developed.	
	8. In 2023, €1 million were allocated for rural tourism and agri-tourism by MAFRD. The application deadline ended on December 14. For the time being, the number of applicants and beneficiaries is unknown.	
	9. Through UNDP, the Management Plan for the Historic Center of Janjeva has been developed, which is in its final stage. This project is being implemented by UNDP and is co-funded by the EU and MCYS.	

Reform Measure #18: Reform in pre-university education		Reform implementation phase (1-5)
Activities planned for 2023	1. Construction of 7 new preschool institutions (6 from EU-IPA and 1 from the Municipality) and adaptation of 5 schools in kindergartens (4 from MESTI and 1 from the Municipality.	**3**
	2. Drafting bylaws deriving from the Law on Early Childhood.	**4**
	3. Drafting and adoption of the core curriculum for Early Childhood Education (ECE).	**4**
	4. Adoption of Law on Textbooks and School Materials.	**4**
	5. Employing 20 new inspectors and increasing their capacities.	**3**
	6. Increasing the number of recruited assistants (300) and other support staff (15) and their training to support students with disabilities in resource centers and inclusive education.	**3**
	7. Review of AI on Professional Development of Teachers (PDT).	**5**
	8. Drafting and adoption of Law on State Matura Exam.	**4**
	9. Organization and holding of the international ICILS test.	**4**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. Currently, only 2 kindergartens have been established by MESTI, and 3 schools have been adapted into kindergartens, while another kindergarten has been established by the municipalities. Additionally, the kindergartens being constructed by the EU through IPA 2016 have proposed an extension of the completion deadline until June 2024 for various reasons, one of them being the materials from abroad and reimbursements due to the increase in prices.	
	2. Following the approval of the Law on Early Childhood Education, MESTI established a Working Group to draft the administrative instructions deriving from the Law for ECE. This Working Group held 3 workshops, aiming to coordinate the commencement of the process of drafting the UA between the Working Group and the partners who are supporting this process. The working group from the 15 AIs that emerge from the Law on EFH, has merged them into 5 with which it has started the process of drafting them. At the same time, jointly with UNICEF, we have engaged an international expert who will assist the Working Group during this process and we are in the process of engaging a facilitator who will assist the Working Group members in drafting these administrative instructions.	
	3. MESTI has worked intensively in drafting a basic document for organising educational work in institutions providing early childhood education, such as the “Curriculum for Early Childhood Education”. The curriculum for ECE is a document of special importance for the development of children at an early age, and has been drafted by an all-inclusive group, including educators/directors of preschool institutions/professors from education faculties, officers from relevant MESTI divisions and researchers from the Pedagogical Institute of Kosovo. The drafting process has been supported by an international expert from Italy, enabled by our development partner, UNICEF. The drafting of the curriculum for early childhood education began in January 2023. The initial content of the document was finalised in July 2023, and after this phase, it was consulted with the Minister’s cabinet, and after this discussion, the document was sent for public consultation with stakeholders, during which the comments from this consultation were incorporated, and the document was finalised in November of this year along with the following two practical guides: Theories of learning and a practical guide for the implementation of the ECE curriculum. The document has been approved by the Minister's cabinet for the pilot phase, and for this process, 11 trainers have been certified for the training/mentoring of the new ECE curriculum, who were selected after testing by the international expert engaged in this process. For the pilot phase, 12 preschool institutions and 20 pre-primary classes from urban and rural areas from 10 municipalities in Kosovo have been selected to be part of the pilot of the new curriculum for Early Childhood Education. During the month of December 2023, we managed to train the first 2 groups of professionals in early childhood education who are part of the pilot project, including educators, directors of pre-primary institutions, pedagogues and psychologists of pre-primary institutions. In total, around 60 participants have been trained. During	

	this period, the training for the pilot of the new curriculum for ECE also included all education inspectors at the national level, with the new approach to the ECE curriculum. The training for the pilot of the ECE curriculum will continue in January 2024 for about 150 participants from the professional staff of pre-primary institutions, and the pilot is expected to start in February 2024.
	4. It has been submitted to the Government for approval (we put score 4 even though MESTI has completed it as a document)
	5. The competition is closed, potential candidates have been selected, the process is in the phase of reviewing complaints. After the employment of the new inspectors, the capacity-building process will begin.
	6. According to the specific grant, the employment of 300 assistants is planned. The competency for employment lies with the municipal director of education. In 2023, they managed to employ 87 assistants due to the lack of qualified staff. On the other hand, 15 support teachers have been employed in the municipalities of Kosovo. Assistants and support teachers have attended training on specific topics, such as the individual education plan and inclusive schools.
	7. AI-16/2023 related to the PDT has been adopted, published on the MESTI websites and the MEDs have been notified of its adoption.
	8. After the drafting, both the preliminary and public discussions have been completed. The preliminary discussion was held from 28.07.2023 to 18.08.2023. Whereas public discussion was held from 27.08.2023 to 18.09.2023. The budgeting of the law is now being finalised and will be submitted to the Government for approval
	9. The ICILS test in the Republic of Kosovo was administered in June 2023 where selected participants were: Schools selected for the test: 154 participants 100% Classes selected for the test: 182 participants 100% Students selected: 3552, 3392 participants or 95.5% Teachers selected: 1619, 1271 participants or 78.5% ICT Coordinator: 154, 139 participants or 90.3% School directors selected: 154, 114 participants or 74% The process of coding the responses has been completed, and the results will be published in 2024.

Reform Measure #19: Improving social services and empowering excluded groups		**Reform implementation phase (1-5)**
Activities planned for 2023	2. Adoption of the Law on Social and Family Services and the drafting of the secondary legal framework to start with the implementation of the law;	**5**
	3. Adoption of the Law on the Social Assistance Scheme and the secondary legal framework to start with the implementation of the law;	**2**
	4. Adoption of the Law on Local Finance and drafting of the Administrative Instruction on the financing formula for social and family services (Special Grant for Social Services);	**1**
	5. Adoption of the Law on Rights, Status, Services and Benefits for Persons with Disabilities and the drafting of the secondary legal framework to start with the implementation of this law;	**2**
	6. Adoption of amendments and supplementations of Law on Pension Schemes Financed by the State and the drafting of bylaws on the implementation of these amendments;	**3**
	7. Drafting of bylaws on the implementation of legislation in the area of rights to benefits and payments for war categories (families of martyrs, invalids, war veterans, civilian victims and victims of sexual violence) as well as the regulation on the categorization of veterans;	**1**
	8. Approval of the Administrative Instructions deriving from the Law on Child Protection Law and the construction of Child Protection Houses.	**3**
	9. Supporting the licensed non-governmental sector (50 NGOs) with grants and subsidies for the provision of social and family services;	**5**

	10. Signing of (2-4) Bilateral and Multilateral Agreements on Social Security with several EU countries;	**3**
	11. Development of the program and preparation of modules for vocational training and training of social workers (300 social workers);	**5**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. The Law on Social and Family Services initiated as a reform in the former MLSW and later in the MFLT and by the MoJ was adopted by the Assembly of Kosovo on 17 December 2023.	
	2. The Working Group finalised the Draft Law on SAS in August 2023, and currently, it is undergoing internal discussions MFLT before proceeding to pre-consultations and public consultations. After amendments in the 2023 Legislative Plan and the MFLT's plans to initially implement the Social Assistance Scheme Pilot, this Draft Law is scheduled for adoption in the second half of 2024.	
	3. There have been no developments regarding this activity, and the most accurate response can be obtained from the Budget Department if there have been any developments related to amendments in the Draft Law on Local Government Finance.	
	4. The Working Group has finalised the Draft Law on the Rights, Status, Services and Benefits for Persons with Disabilities, and it is currently under internal discussion at MFLT. Several ministerial-level meetings in coordination with the Office for Good Governance have taken place so far, but there has been no progress in finalising and adopting this draft law, and it is now included in the 2024 Legislative Plan	
	5. On 16 August 2023, Law No. 08/L-248 on Amending and Supplementing Law No. 04/L-131 on State-Funded Pension Schemes entered into force. Subsequently, in October 2023, a decision was made to define the necessary documents for the application of the partial contributory age pension right. Two Working Groups have been established to draft two Administrative Instructions, which are currently in the process of internal consultations at MFLT. The Legal Department has begun implementing the Partial Contributory Age Pension Scheme, whereby more than 3,700 beneficiaries have benefited so far, and the number of applicants for this scheme is over 11,600.	
	6. During 2023, there was no development or adoption of bylaws covering the areas and responsibilities of categories emerging from the war. Some bylaws that need amendment and supplementation have been postponed to 2024.	
	7. Bylaws provided for by MoJ under this law have been planned and are part of the 2024 legislative agenda. In 2023, five Administrative Instructions deriving from the Law on Child Protection have been drafted and finalised. The Administrative Instruction on Multidisciplinary Boards for Assistance in Case Management was approved by the Government at the meeting held on 27.12.2023.	
	8. In 2023, support has been provided to license non-governmental sector through a public call by the Ministry of Justice (to be required by the Ministry of Justice, since as of 2023, it is not the responsibility of the MFLT) for 45 licensed NGOs (instead of the 50 originally planned) in the amount of €1.5 million, for projects lasting 8-10 months, for the provision of various social and family services.	
	9. As part of the negotiation of social security agreements, on 18-22 September 2023, the first round of negotiations took place between the Negotiating Teams of Austria and Kosovo, for the negotiation of the general social security agreement. The negotiations were held in Vienna, and during the two days of negotiation, the working teams agreed on the text of the agreement. The parties, in principle, agreed to negotiate for the administrative agreement in Prishtina in the first half of 2024. Also, the first round of negotiations with the Republic of Croatia was held on 24-27 October 2023, between the negotiating teams of Croatia and Kosovo for the negotiation of the general social security agreement. The negotiations were held in Zagreb, while the second round of negotiations will take place in the first half of the year, approximately in April 2024, in Prishtina for the negotiation of the administrative agreement. As part of the Social Security Agreements initiative, a letter has been sent to the state of Turkey to establish contacts for negotiating the social security agreement. It is also worth mentioning that on 22.11.2023, the Government approved the Draft Law on the ratification of the Social Security Agreement with the Kingdom of the Netherlands. This agreement was signed in the Netherlands on 17.09.2020. In the near future, communication with the Dutch party is expected to continue for the agreement on negotiations regarding the administrative agreement.	
	10. During this year, the General Council for Social and Family Services (GCSFS) has been accredited, with 24 training modules being validated under this accreditation. After the development of the modules, the Council has initiated the process of organising training for the development of	

	professionals providing social and family services. The Council with the Support of the KCRT Organisation, Kosovo Rehabilitation Center for Torture Victim and Save the Children Organisation, organized training session on six training modules, Module 1: Work with Migrants, Refugees, Returnees, and Repatriated in Kosovo, organised in Albania, where the Council in this module has been supported by KCRT. It was dedicated to institutional officers of Centers for Social Work at the national level, consisting of 10 groups with 25 candidates each. Until now, this year is concluded with six (6) groups and 132 officers and social workers of Centers for Social Work have been trained. Additionally, GCSFS has also received support from Save the Children organisation with five training modules. These modules were dedicated to officers from both the public and non-governmental sectors and were organised in all Kosovo regions: Prishtina, Gjilan, Ferizaj, Peja and Prizren Module 2. Forms of protection and types of social services; Module 3. Working with children in difficult and hazardous situations Module 4. Working with victims of sexual crimes and trafficking Module 5. Working with victims of domestic violence, treatment and referral Module 6. Case management, needs assessment, and individual plan development for clients. From these five modules, 330 participants providing social and family services have been trained. In total, 462 participants have been trained by GCSFS in all six modules.

Reform Measure #20: Ensuring sustainable financing in the health system		**Reform implementation phase (1-5)**
Activities planned for 2023	1. Amending and supplementing the Law on Health Insurance;	**2**
	2. Drafting of the Administrative Instruction on the out-of-hospital medicaments scheme;	**1**
	3. Feasibility study for HIF;	**5**
	4. Drafting of the Administrative Instruction on the contracting of pharmacies;	**1**
	5. Amending and supplementing the Administrative Instruction on medical treatment outside public health institutions;	**5**
Description of implementation and explanation of whether we have partial implementation or non-implementation	1. The Draft Law on Health Insurance has been finalised. During the drafting of the draft law, assistance was obtained from the European Commission. The draft law is expected to be approved in 2024	
	2. The drafting of the Administrative Instruction on Outpatient Medicaments Scheme will be done after the approval of the Draft Law on Health Insurance;	
	3. The feasibility study for HIS has been completed. The study was approved by the Minister of Health. Based on this study, the strategic plan for HIS 2024-2030 is in the process of being drafted	
	4. The drafting of the Administrative Instruction on the Contracting of Pharmacies will be done after the approval of the Draft Law on Health Insurance;	
	5. Amending and supplementing the Administrative Instruction on Medical Treatment Outside Public Health Institutions was approved in September 2023. This policy has played a crucial role in overcoming barriers created over the years for the benefit of patients in need, the citizens of the Republic of Kosovo.	

ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT POLICY DOCUMENTS

Reform measures ERP 2023-2025	Key structural challenges (Commission assessment of ERP 2022-2024)	ERP Policy Guidance 2022	Enlargement Package 2021	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform
Reform Measure #1: Enhancing the business environment by decreasing the informal economy and administrative burden;	**Key Challenge#1:** Reduction of the informal economy and improving the environment for doing business.	**5a**. Increasing the rate of implementation of the action plan of the National Strategy 2019–2023 for the Prevention and Combating of the Informal Economy, Money Laundering, Financing of Terrorism and Financial Crimes **5b**. Incentivise formalisation of employment and businesses and address tax evasion in identified high-risk sectors through better inter-institutional cooperation. **5c.** Simplify the system of licenses and permits	1. This measure addresses the recommendations of the Country Report 2023 Chapter 1 for the implementation of the law on inspections and the approval of the relevant secondary legislation; 2. This measure addresses the recommendations of the Country Report 2023-point 2.1.2 Reform in the public administration, respectively the reduction of the administrative burden and the increase in the number of electronic services in the public administration for businesses and the public.	SDG - is related to **goal 8**, indicators 8.2, 8.3, 8.10, 8.a. It is related to goal 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels		2030 Digital Compass: the European way for the Digital Decade 3.4 Digitization of public services EU objective for 2030: "Modernized public services that respond to society's needs"	Administrative burden prevention and reduction program – IPA 2022, 1.5 mil euro

			3. This measure addresses the recommendations of the Country Report 2023 point 2.3.1 The existence of a functional market economy, respectively the implementation of relevant business environment measures, especially in the fight against the informal economy and the simplification and digitization of licenses and permits. 4. This measure addresses the recommendations of the Country Report 2023 Chapter 16, Increasing cooperation with law enforcement and judicial institutions to guarantee the timely trial of cases of fiscal evasion and fraud, with an emphasis on high-risk sectors and,				

			Ensuring more systematic implementation of risk-based tax controls and finalizing the new strategy for combating the informal economy, money laundering, terrorist financing and financial crime (2023-2026);				
Reform Measure #2: Enhancing investments and encouraging exports;		**5d.** Complete the restructuring of SME and investment promotion agencies and ensure adequate resources.	This measure addresses the recommendations of the Country Report 2023 Chapter 20, 1. Implementation of the strategy for industrial and business development, and the pillar for sustainable economic development of the national development strategy 2021-2030; 2. Completing the restructuring of the Kosovo Investment and Enterprise Support Agency (KIESA) into separate agencies for investment	SDG – is linked to **goal 8** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all Indicator 8.a; **goal 17** strengthens the means of implementation and revitalizes the Global Partnership for Sustainable Development **SDG** - linked to **goal 9** Build resilient infrastructure, promote inclusive and sustainable industrialization	Point 2 of the European Green Deal: Transforming the EU economy for a sustainable future; sub-point 2.1.3. Mobilizing Industry for a Clean and Circular Economy (Digital technologies are a critical enabler for achieving the sustainability goals of the Green Deal across many different sectors	2030 Digital Compass: The European way for the Digital Decade: 3.3 Digital transformation of businesses AD of the WB: Digitalization of industries and centers of digital innovation	

			promotion and SME support, as well as ensuring that both have sufficient resources. This measure of reform reflects the recommendations for the further harmonization of national legislation with the EU acquis in the field of quality infrastructure and the increase of implementation capacities in particular of conformity assessment and market surveillance bodies. It addresses the Country Report 2023 - point 2.3.2 the advancement of financial and non-financial support tailored to SMEs to improve their competitiveness and export capacity	and foster innovation fostering innovation.			

Reform Measure #3: Decarbonizing the energy sector through clean energy transition and smart infrastructure to implement the Green Deal;	**Key Challenge #2:** Improving energy security and sustainability by reforming the energy sector, transitioning to renewables and tapping energy saving potential	**4a.** In line with the Green Agenda for the Western Balkans, improve resilience and energy transition by completing the legal framework and launching the pilot auction for renewable resources. **4b**. Implementation of the energy support action plan 2023, including energy efficiency measures. **4c.** Improve system sustainability, modernization of electricity networks. **4d.** Operationalize the wholesale day-ahead and intra-day electricity price markets on the path toward retail electricity market liberalization.	This measure addresses the recommendations of the Country Report 2023 Chapter 15 Energy. Continue participation in the energy efficiency fund and implement support for residential buildings and small and medium-sized enterprises It addresses the Country Report 2023 - Chapter 27. Respectively, to approve the national energy and climate plan, in accordance with the requirements of the Energy Community, and finalize the design of the long-term de-carbonization strategy and prepare for harmonization with the System of the EU Emissions Trading (ETS). Regarding the Country Report 2023 – point 2.3.2	SDG - related to **goal 7** Ensure access to affordable, reliable, sustainable and modern energy for all. Indicators 7.1, 7.2, 7.3, 7.a, 7.b. SDG – linked to **goal 7** Ensure access to affordable, reliable, sustainable and modern energy for all. Indicator 7.2 SDG - linked to **goal 13** Take urgent action to combat climate change and its impacts [b]. Indicators 13.2, 13.3, 13.a 15. a.	It is related to pillar I - Climate, energy, mobility. **2.1.2**. Supplying clean, affordable and secure energy It is related to pillar I - Climate, energy, mobility. **2.1.1**. Increasing the EU's climate ambition for 2030 and 2050 **2.1.4**. Building and renovating in an energy and resource efficient way It is related to pillar I - Climate, energy, mobility. **2.1.1**. Increasing the EU's climate ambitions for 2030 and 2050. **2.1.4** Building and renovating in an energy and resource efficient way	2030 Digital Compass: the European way for the Digital Decade 3.4 Digitization of public services	Measures for Energy Efficiency and RES IPA - 19 mil

			strengthen energy security and increase incentives for energy efficiency in the residential and private sectors and increase the share of renewable sources in energy production in a cost-efficient manner;				
Reform Measure #4: Improvement, development and maintenance of broadband electronic communications infrastructure, for socio-economic development, advanced public services, as well as digitization of systems of national importance			This measure addresses the recommendations of the Country Report 2023 - Chapter 10, respectively to complete the alignment of Kosovo's legislation with the European Electronic Communications Code, the EU Directive on Network and Information Security and the EU 5G Cybersecurity Toolbox, and revise the Law on the Independent Media Commission in accordance with			All EU objectives: EU target for 2030: "Reliable and secure high-level digital infrastructure"; The EU's 2030 target: “A tech-savvy continent where all are digitally empowered”; The EU's objective for 2030: "The continent with a high share of digitalised businesses"; EU objective for 2030: "Modernized public services responding to society's needs"	EU support for the competitiveness of Kosovo's ICT sector IPA 2019 – 2.6 million

			the Audio-visual Media Service Directive;			AD of the WB: 5.1. Digital broadband connection 5.2. Aspects of cross-generational cost reduction 6.1. E-governance 6.4. Digital Skills 7.1. Trust 7.2. Cyber security 7.3. Digitalisation of industries and centres of digital innovation 8.2. Research in information and communication technologies (ICT) 2030 Digital Compass: the European way for the Digital Decade 3.4 Digitization of public services	
Reform Measure #5: Increasing employment level, strengthening employability and workers' rights through the improvement of employment and education policies;	**Key Challenge #2:** Encouraging sustainable employment by improving quality education and labour market needs	**6b.** Align education, particularly higher education programmes and vocational education and training, with labour market needs by closely cooperating with the business community, to	It concerns the Report on Kosovo 2023 - Chapter 26 Education and Culture. Respectively, to improve the governance of VET and increase the quality of education and professional training for the	SDG - linked to **goal 4** Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all Indicators 4.3, 4.4, 4.5 and 4b SDG - linked to **goal 8** Promote		EU's 2030 target: "A tech-savvy continent where all are digitally empowered" AD of the WB: 6.4.5. European Digital Competence Framework for Citizens and support from the	

		further develop the employment barometer and skills barometer. **6c.** Speed up the ongoing restructuring of public employment services and significantly increase their capacity to provide relevant services in particular in view of the implementation of the Youth Guarantee and the delivery of relevant active labour market measures for the unemployed and those at risk of becoming unemployed.	professions required in function of the Youth Guarantee. It is related to the Report on Kosovo 2023 Chapter 19, respectively to ensure the implementation of the Youth Guarantee Plan and the preparation for the piloting of the scheme; Adoption of the new Labour Law in accordance with the EU acquis, especially regarding non-discrimination in employment and parental leave.	sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all		European Training Foundation The EU's 2030 target: “A tech-savvy continent where all are digitally empowered”; EU target for 2030: "Continent with a high share of digitalised businesses" AD of the WB: 6.4. Digital Skills	

Reform Measure #6: Improving social well-being through the enhancement of social protection services and health-care services.			It concerns the Report on Kosovo 2022 - point 5.3 Competition and Inclusive Growth Chapter 19, respectively the pursuit of deep reforms in the field of social assistance schemes to guarantee a better objective and impact and to improve access to social services, especially for children. It concerns the Report on Kosovo 2022 - Chapter 28 increasing the human and financial resources needed to implement reforms in the health sector, especially by implementing the electronic public health information system and improving access and health outcomes for those in the most vulnerable situations;	SDG – linked to **goal 1** Elimination of poverty in all its forms everywhere, indicators 1.3, 1.4. **goal 5** Achieve gender equality and empower all women and girls, indicator 5.4, **goal 10** Reduce inequality within and between countries, 10.4. SDG - linked **to goal 3** Ensure healthy lives and promote well-being for all at all ages. Indicators 3.8, 3.c and 3. b	1	EU objective for 2030: "Modernized public services responding to society's needs" Digital Compass 2030: The European Way for the Digital Decade: 3.4 Digitization of public services AD of the WB: 6.3. E-health	

ANNEX 3: EXTERNAL CONTRIBUTION TO THE ERP 2024-2026

Remark area section	Comment received on:	Contributing stakeholder	Status of comment	Comment
General:				
General Remarks on ERP 24-26	Macro-economic framework and fiscal framework. Unlike other years, the draft document does not contain the economic framework and the fiscal framework, although the accompanying brief summary of this document expressly states that: "The program includes: the macroeconomic framework, the fiscal framework and the priorities of structural reforms for the next three years." The lack of macroeconomic and fiscal chapters affects the review and analysis process in two aspects: it automatically excludes two important chapters from gender-sensitive analysis and consideration, simultaneously undermining the transparency of the document itself and the drafter, Recommendations: • make the chapters on macroeconomics and fiscal frameworks publicly known • in terms of the above remarks, include at least those initiatives that are happening and are related to the fiscal framework, • to propose concrete actions on the creation and testing of suitable model for measuring unpaid work and the care economy to be included in the macroeconomic model in Kosovo. • to include initiatives for drafting the regulatory framework for gender budgeting and public finance management and to provide complementary analyses and clarifications. • in descriptive form and where it is possible to include gender- disaggregated data, to provide gender analysis in both chapters, even at their most minimal level in relation to macroeconomic and fiscal frameworks. For illustration and a step towards the presentation of data separated by gender would be the	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	It has not been requested by the European Commission Guidance Note that this part should go to public consultation

	presentation of gender data on the use of time-'' time use survey''- data that exist, as well as the employment data, separated on the basis of gender.			
	Gender analysis. From the examination of the chapters circulated for public discussion, the absence of a real gender analysis is noticed. Gender analysis should be an organic part of the public policy analysis component, and it is not necessary, nor as a required and implemented standard, to be applied as a separate section in public policy documents. Recommendation: • to provide statistical data based on gender in relation to the sectoral chapters, in relations to the sections of the analysis, • to propose as a specific measure/activity the collection of gender data in the areas defined as priority according to the proposed activities • conducting an analysis of the participation/ representation, access to resources and control over resources of men and women in all areas of ERP.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	European Commission Guidance Note, guides us on the space limit (30 pages in total) for the entire chapter on Structural Reforms. It is important to inform you that it is impossible to do a gender analysis, where we have only 3 pages max for the whole priority field.
Priority Area #1: Competitiveness				
Priority Area: **Competitiveness**	**Informality:** Remarks: In the analysis section, informality is identified as a hindering phenomenon in promoting and increasing competitiveness. Although informality can be such a source, an analysis of the causes of informality is missing, which in accordance with the nature of the document should have answered the following questions in a summarized form: 1. What informality are we dealing with: production or participation in the labor market? 2. In which economic sectors does informality extend? 3. In which entrepreneurs is informality widespread: a) self-employment, b) small, or c) medium?	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	Competitiveness is a broad field that includes almost all sectors of the state. Based on this and the European Commission Guidance Note, we cannot exceed the page limit related to such an analysis, the analysis had to be general and related to the priorities that are expected to be undertaken in ERP for the next 3 years. The priorities selected for this area are the priorities derived from the assessment of the European Commission regarding the improvement of the business environment by reducing the

	Sector of industry, services and agriculture Remarks: The three aforementioned sectors are important sectors and the document describes a series of legal and developmental policies undertaken in these sectors and identifies, albeit insufficiently, the problems and needs. Gender-based data and their analysis are missing, as is the analysis of phenomena/problems identified from a gender perspective.			informal economy and the administrative burden that affect the reduction of informality. Investment Growth and Export Promotion. As for the Industry, services and agriculture sector, the analysis is comprehensive and the proposed measures are related to the reorganization of institutions to increase investment and promote export in all the aforementioned sectors, not excluding the construction of industrial parks. and supporting SMEs in the certification of products innovation and machinery, etc.
Reform Measure #2: *Enhancing investments and export promotion;*	Further development in the service sectors should actually increase the participation of both women and men, not just women. The service sector is the employment sector where women are disproportionately represented and which is characterized by segregated professional employment!	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Accepted	
	To review the activity (3) in 2026 and set it as an activity in the three years.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	It is not foreseen by the ministry.
	To establish a gender perspective in the proposed activities, especially in those activities that focus on supporting SMEs and promotional activities.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	The activities planned for SMEs also include those of women.
Priority Area #2: Sustainability and Resilience				
Analysis of the priority areas *Sustainability and Resilience*	Remarks: The analysis of the situation in this section lacks the analysis of human development and with it the aspect of gender analysis. In presenting the situation, it would be appropriate to analyze the aspect of human development in these four powerful economic sectors as users and exploiters of the	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	European Commission Guidance Note, guides us on the space limit (30 pages in total) for the entire chapter on Structural Reforms. It is important to inform you that it is impossible to do a gender analysis,

	sectors and as active participants in the labor market and creation of the labor market. Some sporadic data in this regard have been established only for the ICT sector, but even these are incomplete.			where we have only 3 pages max for the whole priority field.
-Reform measure #3: *Decarbonisation of the energy sector through clean energy transition and smart infrastructure to implement the Green Agenda*	The activities proposed under measure 3 are almost entirely in infrastructure development, which create both jobs and access to infrastructure, thus expanding and increasing access to infrastructure. Although it is fairer to assume that jobs will be created through the activities undertaken, these jobs are not identified in the section of expected social impacts on employment, gender equality, poverty reduction, etc. The assumptions made are general on the impact that the reform measure and related activities will have on social impacts, although all interventions through these activities are primarily measurable and the gender impact of interventions is also possibly measurable. The non-inclusion of human and gender development statistics, and the lack of analysis of the situation with the human and gender development component, consequently also appears in the lack of real and concrete identification of the impacts expected from the interventions of the measure and the proposed activities.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	The activities proposed in ERP-24-26 derive from the country's strategic documents, which also have a gender aspect in particular. Due to the limited space, these issues should be emphasized in a general way.
Reform measure #4: *Improvement, development and maintenance of broadband electronic communications infrastructure, for socio-economic development, advanced public services, as well as digitization of systems of national importance*	The same remarks apply to the ICT sector and to measure 4, which is related to this sector and the activities proposed for the implementation of the aforementioned measure. For a good part of the activities, the data exist and can easily be included both in the proposed activities, as well as in concrete measurement of the impact and also in the indicators of the expected results. For example, for the drafters it should be clear in how many schools will be intervened to install LAN WIFi, broadband, etc., or in how many schools and which regions will the ICT training be extended, or how many will benefit from the creation of ICT centers, etc.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	Part of the activities are infrastructural activities, such as the extension of the 5G network where the beneficiaries are all the citizens of Kosovo, other activities show the number of trained people in the field of ICT, for the digital economy (see the indicator).
Priority Area #3: Human Capital and Social Policies.				

Analysis of priority areas *Human capital and Social Policies*	In this section, attempts have been made to provide gender statistics, but which have been provided in a homogenizing form. In fact, neither women nor men are homogeneous but heterogeneous groups. Although efforts have been made to identify groups in need of employment, social schemes and professional training, in the other areas analyzed, these data on groups are missing, as well as gender analysis as a whole. It is unclear which sectors have vacancies, or create jobs, and which skills and habits, as well as professional training in relation to economic sectors, are missing among active workers. Likewise, there is a lack of information on which age groups, with which educational level and which gender groups of the population inactivity is more widespread and as an activity such as active measures of the labor market and continuing professional education or other proposed measures will affect the reduction of inactivity.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	European Commission Guidance Note, guides us on the space limit (30 pages in total) for the entire chapter on Structural Reforms. It is important to inform you that it is impossible to do a gender analysis, where we have only 3 pages max for the whole priority field. The analysis is comprehensive, showing where the main obstacles in this priority area are. The detail gender data, you should look at the sectorial strategies which have information about these data.
	Also, in the analysis of the situation there is no reference to the measures taken during the COVID period, some of which were successful in alleviating poverty. Can these measures be adapted as temporary or permanent measures? Until the development and implementation of new legislation on social schemes and social services, the establishment and implementation of temporary measures becomes necessary to alleviate poverty, especially when only ¼ of the total 20% of women are identified as beneficiaries of social schemes really benefits from them.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	The package for economic revival still continues, however, we are dealing with reforms that the Government will undertake to eliminate obstacles and improve these sectors.
-Reform measure #5: *Increasing the level of employment, strengthening employability and workers' rights through the improvement of*	Potential changes or impacts as a result of the proposed measures and accompanying activities for the next three years of PER have not been identified and qualified in detail. Normally, these impacts would be measurable if an analysis were done with specific data and in accordance with the standards of gender analysis.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	Measures 5 and 6 and their activities proposed in ERP 24-26 are related to digitalization of employment services and professional training; Development of the platform of electronic inspections; Piloting the Youth Guarantee Scheme; Strengthening

employment and education policies. ***-Reform measure #6:*** *Increase social welfare through the improvement of social protection services and health services*				the autonomy of IAAPs; Drafting and approval of the Labor Law, the Law on Education and Vocational Training, the Law on the Social Assistance Scheme, the Law on Health Insurance, the functionalization of the basic modules of SISH, the increasing of the capacities of social protection services and health services which are quite specific that are thought to improve services in these two areas.
Recommendations from *Human Capital and Social Policies*	As a series of activities refer to legislative changes and systems to concretize the impacts that follow as a result of these changes among women and men and groups in need or marginalized.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	Influences among women and men and marginalized groups in these legislative initiatives are either made during the drafting of the Concept Documents or the documents recommending the change of the legislation have already been drafted.
	To restructure and reformulate on a gender-sensitive basis the proposed activities, most of which can be reformulated in such a way, thus increasing the chances in the implementation process for gender inclusion in systems, processes and structures and subsequently in the expected results	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	The proposed activities have come from the Line Ministers and as such derive from other strategic documents which cannot be changed.
	Review the identified indicators and reformulate them to include the gender element and replace or add gender-sensitive indicators.	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	There was the possibility that during the public consultations proposals from your side of gender-sensitive trending indicators would be made, but this did not happen.
	Establish a clearer and more direct link between the Sustainability and Renewal section and the Human Capital and Social Policy section, in particular between energy, environment and ICT investments and formal vocational training and education and active labor market measures	AGENCY FOR GENDER EQUALITY Edi Gusia Email: Edi.Gusia@rks-gov.net	Refused	Training and formal professional education and active labor market measures are foreseen in all the potential sectors of the country, not only in Energy, Environment and ICT