

1 Context

This chapter offers an overview of Kosovo's economic developments since the *Competitiveness Outlook 2021*, with a special focus on the economic impact of recent external shocks and economic convergence. The chapter also examines the progress made and challenges encountered in achieving the Sustainable Development Goals. It also recaps the progress made towards EU accession, including the financial and development support provided by the EU for Kosovo's accession efforts. Altogether, this sets the stage for in-depth examination across 15 policy dimensions in the subsequent chapters, all necessary for sustaining economic competitiveness.

Economic context

Key economic developments

Kosovo presents a small upper-middle-income economy, with a total gross domestic product (GDP) of EUR 9.68 billion in 2023 (IMF, 2024^[1]). Kosovo's economy is predominantly services-based, with the sector accounting for 45.5% of its GDP. Industry and agriculture respectively contribute 27.6% and 7.4% to GDP (The World Bank, 2024^[2]). Meanwhile, 72% of employment is concentrated in services, while industry and agriculture comprise 23.9% and 4% of employment (ILOSTAT, 2022^[3]). The informal sector is estimated to account for 35% of employment as of 2017 (Cojocar, 2017^[4]).

Following a strong post-COVID recovery showcasing considerable economic resilience, Kosovo's economic performance is now moderating but is expected to keep expanding (IMF, 2024^[5]). While Kosovo's GDP sustained a decline of 5.3% in 2020, it rebounded by 10.7% in 2021 and grew by 3.5% in 2022 (European Commission, 2024^[6]). Over 2022, Kosovo's recovery was largely underpinned by stronger exports, private consumption, higher remittances and bank lending (European Commission, 2024^[6]). On the production side, trade and other service sectors drove economic growth, while industrial production lagged in 2023, dropping by 3.9% over January to July 2023 (World Bank, 2023^[7]; European Commission, 2023^[8]; EBRD, 2024^[9]). As of the third quarter of 2023, GDP expanded by 6.6% year-over-year compared to the growth of 6.9% over the same period in 2022 (European Commission, 2024^[6]).

Inflation peaked in 2022 and moderated into 2023 due to gradually decelerating global commodity prices and is anticipated to decline further through 2025 (IMF, 2024^[5]; European Commission, 2024^[6]) (see Table 1.1 for more). As a result of the Russian Federation's (hereafter: Russia) war of aggression against Ukraine, rising international food and energy prices drove inflation to a peak of 11.6% in 2022 (Box 1.1). As of 2023, inflation eased to 4.9%, owing to downward pressures from lower commodity prices. Having unilaterally adopted the euro since 2002, interest rates increased over the period, reflecting tighter financial conditions in the euro area (IMF, 2023^[10]).

Kosovo's labour market has relatively improved due to a significant decline in both the overall and youth unemployment rates, and increased formalisation. Following a contraction of 1.2% in 2020, employment grew by 2.3% in 2022, while unemployment decreased from 25.9% to 12.6% over the same period (European Commission, 2024^[6]). Youth unemployment more than halved, decreasing from 49.8% in 2020 to 21.4% in 2022 (World Bank, 2023^[7]). According to national statistics, formal employment increased by 2.8% between August 2022 and August 2023 (European Commission, 2024^[6]). Average monthly wages grew at a rate 11.7% in 2022 (European Commission, 2024^[6]).

As regards Kosovo's external sector, the current account widened significantly over 2022 but narrowed in the first three quarters of 2023, driven by lower value imports, a decline in traditionally high merchandise trade deficit and slightly reduced FDI net inflows (European Commission, 2024^[6]; World Bank, 2023^[7]). While the current account deficit reached 10.3% of GDP in 2022, which was significantly impacted by the rising cost of imports driven by higher commodity prices as a result of Russia's war of aggression against Ukraine, it narrowed to 7.7% by the third quarter of 2023 (European Commission, 2024^[6]). The strong rise in goods and services exports over 2022 (14.7% year-over-year) played a key role in Kosovo's economic recovery over 2022, while its historically high merchandise trade deficit also decreased slightly in 2023 to 47.2% (European Commission, 2024^[6]). FDI flows also grew as a share of GDP, from 5.1% in 2020 to 8.1% in 2022 (The World Bank, 2024^[11]). Inward FDI flows more than doubled from EUR 343.3 million in 2020 to EUR 725.9 million in 2022 (The World Bank, 2024^[11]; FRED, 2023^[12]) but showed signs of slowdown in 2023 (European Commission, 2024^[6]). Historically, FDI into Kosovo remains highly concentrated in the construction and the real estate sector as a result of the demand of the Kosovar diaspora for real estate assets in Kosovo, followed by financial services and energy (European Commission, 2024^[6]; US Department of State, 2023^[13]). Personal remittances also increased by 11% from

2020, reaching EUR 1.61 billion in 2022 (World Bank, 2022^[14]). Kosovo's reserves amounted to EUR 1.19 billion in 2022, an increase from EUR 96 million in 2020 (The World Bank, 2022^[15]; FRED, 2023^[12]).

The government's fiscal position showed improvements through 2023 with the steady increase of public revenues, decrease in expenditures, and narrowed fiscal deficit, which is projected to remain moderate into the medium term. Over the assessment period, public revenues rose from 25.4% in 2020 to 27.9% in 2022, and continued to rise into the first months of 2023, supported by elevated inflation (European Commission, 2024^[6]). Expenditures decreased from 33% of GDP in 2020 to 28.4% in 2022, owing to significantly lower-than-budgeted capital expenditures, though current expenditures grew by 5.6% year-over-year owing to increased spending on goods and services, wages, and utilities (European Commission, 2024^[6]). In 2022, the fiscal deficit narrowed to -0.2% of GDP, representing a significant improvement from -7.9% in 2020, and is expected to represent between 1.5% and 2.0% of GDP over the medium term (IMF, 2023^[10]; European Commission, 2024^[6]; World Bank, 2023^[7]). Public debt remains low and decreased slightly over the period, from 22% in 2020 to 19.6% in 2022 (World Bank, 2023^[7]).

Kosovo's financial sector has been relatively stable, with improved capitalisation and slightly lower liquidity. In November 2023, the banking system's liquid assets to short-term liabilities ratio decreased from 34.1% to 32.1% compared to the previous year (European Commission, 2024^[6]). The capital adequacy ratio increased from 14.9% to 15.8% over the same period, remaining above the regulatory minimum of 12% (European Commission, 2024^[6]). Amid tighter financing conditions, domestic government bond yields and lending rates have begun to increase (IMF, 2023^[10]). Meanwhile private sector credit growth decelerated but remains high, declining from 7.5% in 2021 to 5.2% in 2022 (World Bank, 2023^[7]). Nonperforming loans stood at 2% in November 2022, same as the year prior, and were fully covered by loan-loss provisions (144.8%) (European Commission, 2024^[6]) (see "Access to finance" chapter for more details on the financial sector).

Table 1.1. Kosovo: Main macroeconomic indicators (2019-23)

Indicator	Unit of measurement	2019	2020	2021	2022	2023e
GDP growth	% year-on-year	4.8	-5.3	10.7	5.2	..
National GDP	USD billion	7.90	7.72	9.41	9.41	..
Inflation	% average	2.7	0.2	3.4	11.6	4.9.
Current account balance	% of GDP	-5.7	-7	-8.7	-10.5	..
Exports of goods and services	% of GDP	29.3	21.7	33.4	38.5	..
Imports of goods and services	% of GDP	56.4	53.9	65.2	71.1	..
Net FDI	% of GDP	-2.7	-4.2	-4	-6.2	-4.5
Public and publicly guaranteed debt	% of GDP	17.6	22.4	21.6	19.9	18.6
External debt	% of GDP	31	37	37.1	38.5	..
Unemployment	% of total active population	25.7	25.9	20.7	12.6	..
Youth unemployment	% of total	49.4	49.1	38	21.4	..
International reserves	In months of imports of G&S	2.8	3.2	2.5	2.2	..
Exchange rate (if applicable local currency/euro)	Value	1	1	1	1	1
Remittance inflows	% of GDP	15.8	18.6	18	17.1	..

Notes: G&S = goods and services. "n.a" refers to data unavailable; ".." refers to data missing.

Sources: European Commission (2024^[6]); The World Bank (2021^[16]; 2023^[7]); EBRD (2024^[9]). IMF (2024^[17]).; UNCTAD (2024^[18]).

Box 1.1. Economic impacts of Russia's full-scale invasion of Ukraine on Kosovo's economy

Russia's ongoing war of aggression against Ukraine has had mild negative economic implications for Kosovo, as Kosovo has marginal economic ties with Russia and Ukraine given that neither have official diplomatic relations with Kosovo. However, the fallout from Russia's war in Ukraine has tempered Kosovo's recovery following the COVID-19 pandemic, as higher and more volatile commodity prices fuelled inflation, and the negative terms-of-trade shock adversely impacted disposable incomes (IMF, 2023^[10]).

Kosovo's **trade** has been largely unaffected by the war, as neither Russia nor Ukraine constitutes a significant share of the economy's total trade. Though Kosovo's exports to Russia have been minimal (EUR 34 740 in 2021) and Russia accounts for less than 1% of Kosovo's imports, imports from Russia declined by 50% from EUR 51.3 million in 2021 to EUR 25.3 million in 2022 (CEFTA, 2024^[19]). Furthermore, Russia is not a major source of foreign **investment** in Kosovo; instead, the principal investors are countries including Germany (16.6%), Switzerland (14.8%), Turkey (8.3%), and the United States (7.1%) (Central Bank of Kosovo, 2024^[20]), further highlighting Kosovo's relatively limited economic dependence on Russia.

While the conflict provoked an **energy** crisis throughout Europe, Kosovo's direct energy needs were relatively sheltered as Kosovo relies almost entirely on lignite coal for electricity generation. The economy's use of natural gas is virtually nonexistent, with no distribution network for residential or commercial consumers (Di Bella and Selim Thaci, 2024^[21]).

Despite this minimal direct risk exposure, Kosovo faces significant indirect exposure as a result of price increases for **electricity** imports (GET, 2022^[22]; Di Bella and Selim Thaci, 2024^[21]). The cost of household electricity rose by 26% from the start of 2020 through the second half (July to December) of 2023, while the price of electricity for non-household consumers rose by 18% over the same period (Eurostat, 2024^[23]). These high energy prices negatively impacted households' real disposable income, with a disproportionate impact on the most vulnerable populations. In response to the social and economic impact of the current energy crisis generated by the Russian war of aggression against Ukraine, the EU allocated EUR 75 million to Kosovo under the 2023 Energy Support Package immediate measures, with the aim not only of assisting vulnerable families and SMEs but also supporting policy measures to accelerate the energy transition (European Commission, 2023^[24]).

The surge in energy prices also represents a heavy blow for Kosovo's **current account**, as net energy imports are projected to have reached 12.5% of GDP in 2022, up 3 percentage points from 2021; this increased the urgency to invest in sustainable domestic energy generation and reduce dependence on expensive energy imports (Di Bella and Selim Thaci, 2024^[21]; ITA, 2024^[25]). Influenced by high electricity prices and the vulnerable current account, the Kosovo Assembly passed the National Energy Strategy in March 2023, which commits to increasing generation from renewable energy sources to at least 35% of its energy mix (ITA, 2024^[25]).

Sustainable development

Despite Kosovo not being a signatory to the UN's 2030 Agenda on Sustainable Development because of its status as a non-member, the economy has committed to implementing Agenda 2030, with many of the goals reflected in Kosovo's National Development Strategy – 2030 (Prime Minister Office, 2022^[26]). In this context, Kosovo's implementation of the 2030 Agenda is mainly through the process of European integration (Assembly of Kosovo, 2019^[27]; UNKT, 2020^[28]). Kosovo's commitment to the SDG agenda is ensured through the Kosovo Assembly's January 2018 adoption of a parliamentary resolution

endorsing the SDGs. However, integration of the SDG Agenda into Kosovo's policy practices has further room to improve. Currently, only 51% of Kosovo's development framework is aligned with the SDG targets (UNKT, 2020^[29]). While Kosovo has undertaken some positive steps on the 2030 Agenda, notably the establishment of the National Council for Sustainable Development (NCSD), which is responsible for coordinating implementation of the SDG agenda, concrete actions remain limited (EEA, 2020^[30]). Moreover, the lack of reliable data to set SDG baselines and track progress impedes the monitoring and evaluation of forward movement toward the 2030 Agenda (UNKT, 2020^[29]), thereby contributing to minimal observed advancements and explaining the absence of an SDG progress table that is present in other chapters of the report.

Kosovo lags significantly in the areas of elimination of poverty (SDG 1), inequality (SDG 10) and peace, justice and strong institutions (SDG 16), underscoring the need for comprehensive action.

While poverty rates have declined in recent years, faster progress is needed to attain the 2030 targets. After reaching 32.4% in 2020, consumption-based poverty (USD 6.85 PPP per day) is estimated to have fallen to 25.2% in 2022 (The World Bank, 2024^[31]). Kosovo also leads in the share of the population at risk of poverty after social transfers in the Western Balkans and Türkiye, which ranged from 21.2% in Serbia to 27.9% in Kosovo. In the EU in 2021 it was 16.8% (Eurostat, 2023^[32]). Kosovo has also been making slow progress in the area of inequality. Despite relatively low levels of inequality, the bottom 40% of the population has experienced slower growth in consumption rates compared to the population as a whole (The World Bank, 2024^[31]). Progress across all SDGs is deeply connected to strong institutions, SDG 16, as it relates to monitoring strategies, which requires further development in Kosovo. However, institutional effectiveness is hampered by corruption, a pervasive issue that requires deeper intervention for success across all the SDGs (INDEP, 2019^[33]).

Regarding well-being (SDG 3), considerable progress is needed to improve outcomes across several dimensions, including access to water and basic sanitation (SDG 6).

In the area of health (SDG 3), Kosovo lags behind the EU and Western Balkan averages in many critical health indicators (such as incidence of tuberculosis) as well as public expenditures in health (Eurostat, 2023^[34]). Public expenditure on health was estimated at 3.5% of GDP in 2021, while the EU public expenditure on health was estimated at 8.8% of GDP. Progressing in SDG 3 necessitates further advancement across interconnected SDGs, including SDG 6. Access to water and basic sanitation services remains broadly limited, as nearly a quarter of the population is not covered with water services managed by licensed providers (WAREG, 2022^[35]).

More progress is also needed to create economic opportunities and increase innovation (SDGs 8 and 9).

Significant infrastructure gaps in water, waste, and connectivity limit Kosovo's full economic potential and output (World Bank, 2023^[7]), thus limiting progress in SDG 8, decent work and economic growth. There are also significant inequalities between men and women, as female participation in the formal labour market remains persistently low, which can be explained by Kosovo's large informal sector and high inactivity rates among women (European Commission, 2023^[8]). Existing disparities between education, skills and the needs of labour market leads to continued structural employment problems (World Bank, 2023^[7]; European Commission, 2023^[8]). For further details, see Employment Policy – Dimension 8.

Significant progress is also needed in areas pertaining to clean energy (SDG 7) and the environment (SDG 13).

Key challenges regarding SDG actions with an environmental dimension in Kosovo include a lack of specialised strategies and programmes on environmental issues as well as a lack of financial and institutional capacities (EEA, 2020^[30]). Kosovo's energy consumption is highly dependent on fossil fuels, and renewable energy contributes only 8% to the total energy mix (Di Bella and Selim Thaci, 2024^[21]). Coal comprises 82% of Kosovo's domestic energy production, and coal-based electricity generation presents the largest source of greenhouse gas (GHG) emissions in Kosovo (Di Bella and Selim Thaci, 2024^[21]; IEA, 2024^[36]). If the photovoltaic power plant under the Western Balkans Investment

Framework (WBIF) advances, Kosovo's reliance on highly polluting lignite coal could be reduced and propel progress towards achieving SDG 7 and interrelated environment-focused goals.

EU accession process

The possibility of Kosovo's accession to the EU was officially raised in June 2003, when the EU acknowledged the European perspective for all Western Balkan partners at the Thessaloniki European Council. The Stabilisation and Association Agreement (SAA) between the EU and Kosovo was signed in October 2015 and entered into force the following year, on 1 April 2016 (European Commission, 2023^[8]). In February 2020, the European Commission presented its revised enlargement methodology, which emphasises credible fundamental reforms, stronger political steer, increased dynamism and predictability of the process (European Commission, 2021^[37]). The negotiating framework incorporates the new approach to negotiations on the chapters on judiciary and fundamental rights, and on justice, freedom and security, as well as on the issue of the normalisation of relations between Serbia and Kosovo. Along with the revised methodology, the Commission adopted an Economic & Investment Plan to support and bring the Western Balkans closer to the EU.

Kosovo submitted its application for EU membership in December 2022 (European Commission, 2023^[8]). Kosovo adopted a 2023-2027 national programme for EU integration in June 2023. The EU's visa liberalisation scheme with Kosovo entered into force on 1 January 2024, allowing Kosovo nationals free movement into borderless areas of the EU without a visa for a period of 90 days in any 180-day period. As of March 2024, five EU countries – Cyprus, Greece, Romania, Slovak Republic, and Spain – do not recognise Kosovo's sovereignty, presenting a critical challenge for its accession.

While chapters of the negotiation framework on EU accession are not opened for the economy as the negotiation procedures have not yet commenced, the status of Kosovo's implementation of each criterion is still assessed on an annual basis. According to the EU's 2023 enlargement report, Kosovo has made some progress in political criteria over the assessment period. Under the auspices of EU facilitation, in February 2023 both Serbia and Kosovo expressed readiness to proceed with implementation of the EU Proposal "Agreement on the Path to Normalisation between Kosovo and Serbia", though progress on normalising ties has otherwise nearly stagnated amidst flaring tensions (EEAS, 2023^[38]) and neither Kosovo nor Serbia has started implementation of their respective obligations within the agreement (European Commission, 2023^[39]). While some steps have been taken in the area of public administration reform through the new legislation on public officials and salaries, the legislation was passed using fast-track procedures and risks creating and exacerbating existing gaps in administrative capacities. Kosovo is still at an early stage in developing a well-functioning judicial system, as well as in the fight against organised crime; progress in both areas has been limited.

There has been some progress relating to economic criteria – Kosovo is between an early stage and a modest level of preparation in developing a functioning market economy, and remains at an early stage in terms of its capacity to cope with competitive pressure and market forces in the EU (European Commission, 2023^[8]). The economy has made some progress in the internal market with regard to the free movement of goods, freedom to provide services, free movement of capital and intellectual property law. As regards competitiveness and inclusive growth, Kosovo made advances in most areas (customs, taxation, social policy and employment, education, and culture), except for digital transformation and media where progress was limited. It likewise made limited progress in the area of freedom of movement for workers, company law, competition policy, financial services and consumer and health protection, as well as public procurement and financial control (European Commission, 2023^[8]).

On 8 November 2023, the European Commission adopted a new Growth Plan for the Western Balkans to improve the level and speed of convergence between the Western Balkans and the EU. Backed by EUR 6 billion in non-repayable support and loan support, the Growth Plan has the potential to

boost socio-economic convergence and bring WB6 closer to the EU single market (Gomez Ortiz, Zarate Vasquez and Taglioni, 2023^[40]). The new Growth Plan is based on four pillars, aimed at:

1. “Enhancing economic integration with the European Union’s single market, subject to the Western Balkans aligning with single market rules and opening the relevant sectors and areas to all their neighbours at the same time, in line with the Common Regional Market;
2. Boosting economic integration within the Western Balkans through the Common Regional Market;
3. Accelerating fundamental reforms, including on the fundamentals cluster^{*}, supporting the Western Balkans’ path towards EU membership, improving sustainable economic growth including through attracting foreign investments and strengthening regional stability; and
4. Increasing financial assistance to support the reforms through a Reform and Growth Facility for the Western Balkans” (European Commission, 2023^[41]).

The new Growth Plan builds on the existing enlargement methodology and creates a package of mutually reinforcing measures, providing incentives to economies to accelerate the adoption and implementation of the EU *acquis*, while narrowing the economic convergence between the Western Balkans and EU Member States. In that context, the OECD has recently released the *Economic Convergence Scoreboard for the Western Balkans 2023* to track the region’s performance in achieving economic convergence towards the EU and the OECD area, and highlight policy bottlenecks that hinder faster economic growth in a sustainable and inclusive way (Box 1.2) (OECD, 2023^[42]).

As part of the new Growth Plan, the Western Balkans have been asked to submit to the European Commission economy-specific Reform Agendas listing a number of structural reforms that would need to be implemented in order to access part of the Plan’s funding. All Reform Agendas are structured along the same four policy areas: 1) business environment and private sector development, 2) green and digital transformation, 3) human capital development and 4) fundamentals (of the EU accession process). They replace Economic Reform Programmes’ chapter IV on structural challenges, as, going forward, the Economic Reform Programmes will only cover macrofiscal aspects.

Box 1.2. *Economic Convergence Scoreboard for the Western Balkans 2023: A spotlight on Kosovo*

Kosovo’s GDP per capita increased by 80% from 2008 to 2022 in comparison to the EUs and OECD areas comparatively modest increases of 15%. Between 2008 and 2022, Kosovo marginally narrowed the gap in GDP per capita with the EU and OECD area. In 2008 the EU rate was nearly six times higher, but by 2022, it had decreased the difference to roughly half that, showing progress. However, Kosovo’s 2022 GDP per capita of USD (PPP international \$) 12 675 (EUR 12 041)¹, compared to the EU’s USD 45 978 (EUR 43 679) and the OECD’s USD 46 208 (EUR 43 897), underscores the considerable progress that remains to be made for Kosovo to bridge the disparity and align with the EU and OECD area, emphasising the complexity of the task ahead (Figure 1.1).

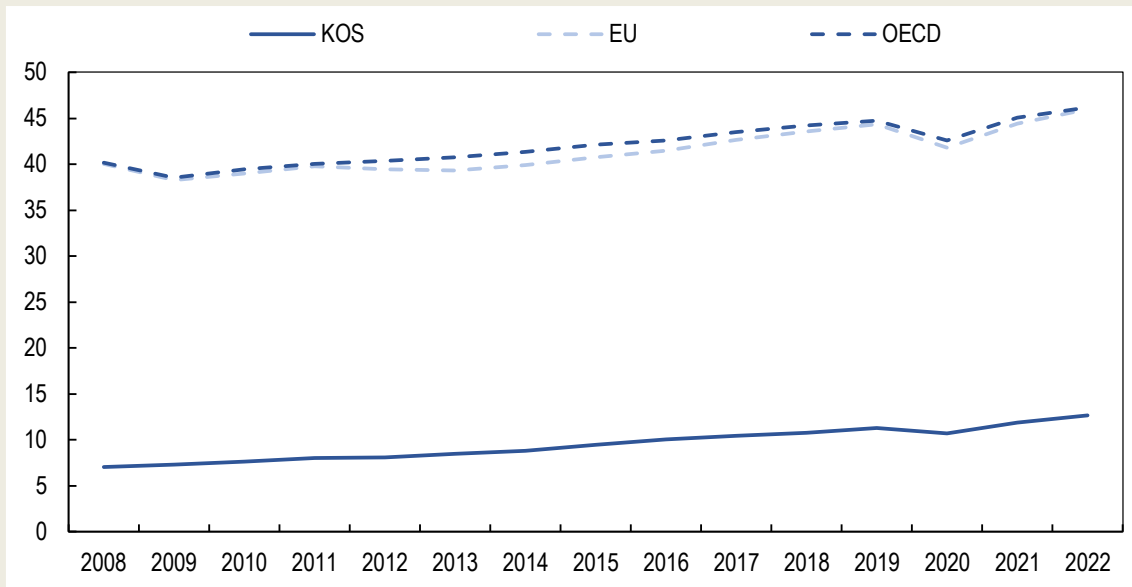
In this context, the OECD developed the *Economic Convergence Scoreboard* for the first time in 2023, marking the establishment of a recurring monitoring mechanism and dedicated tool designed to evaluate the extent of economic convergence of the Western Balkans with the EU and the OECD. Prepared to inform discussions at the Berlin Process Western Balkans Leaders’ Summit 2023 and grounded in a

^{*} In line with Communication on “Enhancing the accession process – A credible EU perspective for the Western Balkans” COM(2020)57, the fundamentals cluster includes: chapter 23 – Judiciary and fundamental rights, chapter 24 – Justice, Freedom and Security, the economic criteria, the functioning of democratic institutions, public administration reform, chapter 5 – Public procurement, chapter 18 – Statistics and chapter 32 – Financial control (Kosovo Commercial Court, 2023^[46]).

decade-long series of policy assessments, the Scoreboard offers a thorough analysis of the region's progress across five key policy areas, or clusters, crucial for attaining sustainable and inclusive economic growth. These clusters are *business environment*, *skills*, *infrastructure and connectivity*, *greening*, and *digital transformation*.

Figure 1.1. Kosovo's GDP per capita convergence with the OECD and the European Union (2008-2022)

In purchasing power parity 2017 USD (thousands)



Source: World Bank (2022^[43]).

StatLink  <https://stat.link/76a9qb>

Since 2008, Kosovo advanced in approximately half of the observed policy outcomes and OECD good policy practices, standards, and tools. Kosovo exhibited noteworthy progress in both the *business environment* and *digitalisation* clusters. Regarding of the *business environment*, Kosovo positively advanced in nearly all of the observed areas and is near parity with the EU in several areas, such as FDI net inflows, trade openness, private gross fixed capital formation, and new business density. Kosovo showed the most impressive improvements in new business density, improving by 91% across the defined periods (2008-12, 2013-17, and 2018-22), with policies indicating support for a growing business sector. In terms of *digitalisation*, Kosovo is making positive strides forward, although a comprehensive overview is lacking due to some unavailable data within the entire cluster. Nevertheless, Kosovo has consistently improved over the observed periods within the three key policy criteria – fixed broadband Internet penetration, mobile cellular penetration, and digital payments – implying the effective implementation of digitally focused policies.

By contrast, the *infrastructure and connectivity* and *skills* clusters require further development. Data in these clusters are largely unavailable, highlighting an underdeveloped understanding of the state of progress – or lack thereof – in two critical policy areas. Regarding *infrastructure and connectivity*, total power losses and time to obtain electricity have increased, hampering convergence toward the EU.

In the context of aligning with OECD standards, Kosovo has demonstrated positive strides forward, albeit

with several setbacks across multiple OECD good policy practices, standards, and tools. Kosovo regressed in CO investment policy and promotion, and finance, anti-corruption and employment policy. Notably, advancements have been made in CO trade, education, environment and energy policy, as well as digital society. Kosovo's limited understanding of progress made thus far, attributed to data unavailability, poses a challenge to effective policy development and implementation and, ultimately, achieving convergence, highlighting an essential area for growth.

1. The 2022 market exchange rate has been used to convert PPP constant 2017 international dollars into EUR.

Source: OECD (2023^[42]).

EU financial and development support

Kosovo continues to receive significant support from the European Union, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support for the economy and the region has been provided through both temporary support, such as COVID-19 assistance packages, and long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), EIB loans, Western Balkans Investment Framework grants and more.

In the framework of IPA I, IPA II and other EU instruments, from 2007 to 2020, the EU has invested more than EUR 1.5 billion in Kosovo. The IPA 2022 programme covers the areas of environmental protection, strengthening democracy and the judiciary, and support to other reforms to fulfil EU standards and norms. It also includes the dedicated EUR 75 million from the 2023 Energy Support Package immediate measures, 90% of which has already been disbursed to support vulnerable families and SMEs facing rising energy prices. The actions are also aimed at supporting policy measures to accelerate the energy transition (European Commission, 2023^[24]).

The European Union has also been crucial in financially supporting Kosovo during COVID-19. In terms of direct assistance to the health sector, the EU granted the government EUR 7.03 million for the purchase of approximately 700,000 doses of the COVID-19 vaccine and provided for the delivery of equipment and goods for prevention, protection and treatment of COVID-19 in the amount of EUR 5 million. The EU also re-programmed parts of the planned annual programmes for 2019 and 2020 to create a financial package of EUR 50 million for the economic and social recovery; the package includes direct budget support via the "EU4 Resilience" project, "EU4 Social protection", and support to small businesses and other immediate needs. In terms of direct financial support, the EU provided Macro-Financial Assistance of EUR 100 million in the form of a loan (EEAS, 2021^[44]). In addition, the EU accelerated the disbursements of EUR 13 million of ongoing direct budget support programmes on Public Administration Reform and Public Finance Management (EEAS, 2021^[44]).

Additionally, through the Economic and Investment Plan (EIP) for the Western Balkans 2021-2027, the EU has already mobilised EUR 940 million in investments in Kosovo, out of which EUR 312 million are grants. Under the EIP, Kosovo is expected to benefit from significant flagship projects in the areas of sustainable transport and renewable energy. Flagship projects for Kosovo include the construction of the Peace Highway, which will connect Niš, Serbia via Pristina, to Tirana and Durrës in Albania, a photovoltaic plant that will increase the share of solar power in the energy mix of Kosovo from 0.2% to 2.3%; and the introduction of solar district heating in Pristina (WBIF, 2024^[45]).

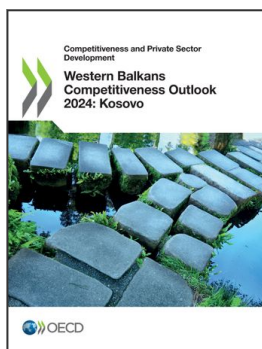
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