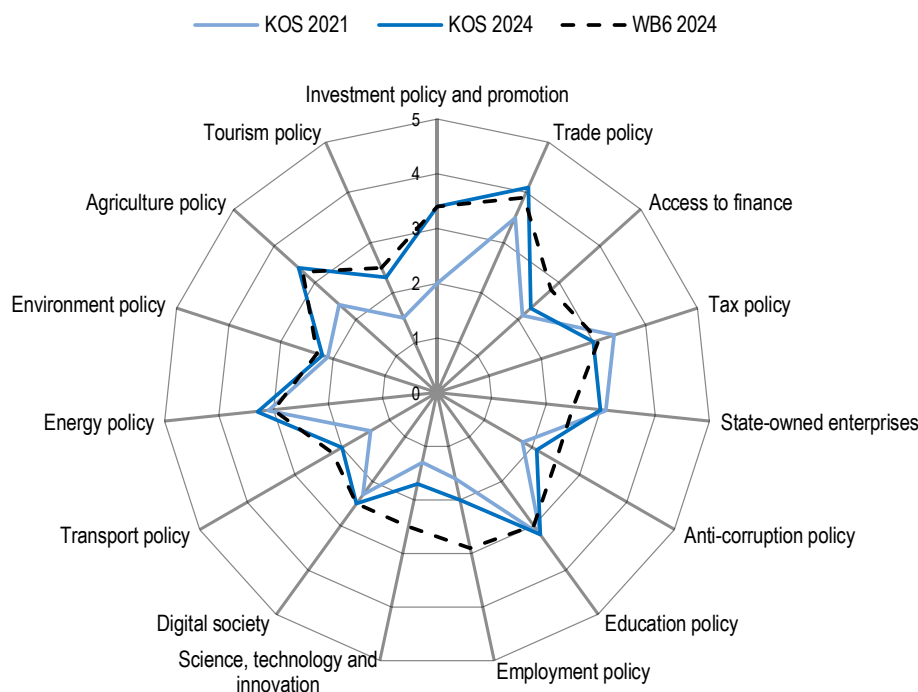


Executive summary

Kosovo has made notable advancements since the 2021 *Competitiveness in South East Europe: A Policy Outlook* (Competitiveness Outlook), positively progressing across 12 of the 15 policy dimensions, regressing in two and stagnating in one. Kosovo experienced the strongest score increases in the areas of investment policy and promotion, and agriculture and tourism policies. Figure 1 illustrates that Kosovo is outperforming the average of the six Western Balkan (WB6) economies across five policy dimensions, with eight areas lagging. Kosovo positions itself as a regional leader in state-owned enterprises (SOEs) and trade policy. In contrast, Kosovo falls behind in the areas of science, technology and innovation (STI), employment, anti-corruption, and access to finance policies, scoring below at least four of its Western Balkan neighbours, highlighting the areas requiring substantial improvement for achieving convergence with the European Union (EU). For additional insights into Kosovo's performance across various dimensions, trends over time or comparisons with other economies, please refer to the Western Balkans Competitiveness Data Hub at <https://westernbalkans-competitiveness.oecd.org/>.

Figure 1. Scores for Kosovo across Competitiveness Outlook policy dimensions (2021 and 2024)



Note: Dimensions are scored on a scale of 0 to 5. See the reader's guide and the Data Hub for information on the assessment methodology and the individual score assigned to indicators.

Main progress areas

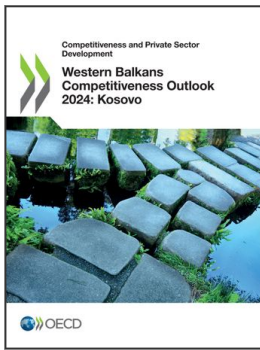
The main achievements that have led to increased performance for Kosovo since the last assessment are as follows:

- **An improved policy and legislative framework has fostered a more favourable business environment for foreign direct investment (FDI).** Between 2019 and 2022, FDI more than tripled in Kosovo, reaching around EUR 845 million in 2022, the second largest annual net FDI inflow relative to gross domestic product (GDP) in the Western Balkans. However, FDI remains overly concentrated in non-tradeable sectors driven by the economy's strong diaspora, with construction and real estate accounting for 80% of the FDI stock. The new law on sustainable investment adopted in 2023 is a good step to boost FDI in high-value added and export-oriented sectors. Additionally, recent improvements in the judicial system, including the establishment of a dedicated Commercial Court in August 2022 and advancements in the intellectual property rights regime, have augmented legal security and predictability in investment activities. Together, these developments have paved the way for diversifying FDI.”
- **The improved policy framework holds the potential to increase Kosovo's trade in goods.** Despite increasing trade volumes, Kosovo's goods exports correspond to around 10% of GDP – the smallest in the Western Balkans. The economy's industrial trade balance is notably unfavourable and continues to worsen, with imports into the industrial sector surpassing exports by a substantial margin of 7 to 1. A new strategic framework aims to address this challenge by stepping up financial and technical support for firms to strengthen the industrial base and diversify export markets. This strategic framework is further supported by improved inter-institutional co-ordination mechanisms, as demonstrated by the recent establishment of the Task Force for the Protection of the Market, which seeks to diminish the impact of trade barriers while ensuring fair competition.
- **The agriculture sector has benefitted from increased investment and revised support instruments.** From 2013 to 2022, the agriculture sector's output grew by 54%, reaching EUR 658 million. Increased investments into rural and irrigation infrastructure and enhanced government support have contributed to the sector's productivity, with budgetary support reaching a record EUR 56.1 million in 2022. A significant portion of this funding is allocated to expanding support to farmers, with several updates implemented in relation to producer support instruments to expand the potential beneficiaries and scope of assistance. Additional funding through the EU's IPARD III (instrument for pre-accession assistance for rural development) is further poised to accelerate the sector's development and modernisation.
- **Advances in the tourism sector have been achieved through improved governance and enhanced efforts to create a qualified workforce.** Kosovo's tourism sector has witnessed steady growth in recent years, with the number of foreign tourists increasing by nearly 120% between 2019 and 2023, reaching nearly 387 000 tourists in 2023. A new strategic framework has outlined clear policy priorities and provided a cohesive strategic direction for the tourism sector. Meanwhile, efforts to cultivate a skilled workforce have been underway. Kosovo has developed a vocational education and training (VET) framework tailored to tourism, and engaged in regional skills partnerships and initiatives aimed at addressing skills gaps in the industry.

Policy insights

To further improve its competitiveness and boost its economic convergence with the EU and OECD, Kosovo is encouraged to:

- **Strengthen anti-corruption policies to improve the economy's competitiveness.** While Kosovo's perceived level of corruption has shown slight improvement in recent years, progress has been hampered by obstacles to strengthening anti-corruption policies and bodies. Since the expiration of its last national strategy in 2017, Kosovo has lacked an overarching strategic framework on anti-corruption. Despite improvements in the legal framework in areas such as corruption risk assessments and corruption proofing of legislation, implementation has remained limited. The main corruption prevention body, the Agency for Prevention of Corruption, is confronted with an increasing workload; however, financial and human resource constraints limit its activities. Moreover, progress on a beneficial ownership register and on strengthening corruption-related sanctions for legal persons has been slow. Increased political commitment will be necessary to step up anti-corruption efforts.
- **Strengthen the labour market by improving employment rates and workforce skills.** Despite some improvement in recent years, the labour market in Kosovo is largely characterised by low activity and high unemployment rates. The share of young people not in employment, education or training (NEET) remains three times EU levels at around 33%, and only around 20% of women participate in the labour market – the lowest rate in the Western Balkans. Structural issues in terms of how education and training systems provide in-demand skills and knowledge continue to hamper the labour market and fail to future-proof the workforce. Kosovo's performance in the Programme for International Student Assessment (PISA) 2022 was the lowest in the Western Balkans, and has deteriorated since the previous PISA in 2018. Moreover, the lack of affordable and high-quality childcare and elderly care services, as well as the limited capacity of the Employment Agency, will need to be addressed to enhance labour market inclusivity.
- **Develop the STI framework to pave the way for impactful policy measures.** The STI policy framework remains underdeveloped, impeding a cohesive, holistic approach to promoting research and innovation and preventing policy makers from identifying, prioritising and formulating clear policy objectives. Budgetary support for the public research system remains significantly below both Kosovo's legal requirements and EU average levels – increased funding will be necessary to develop the economy's research infrastructure and improve research outcomes. There is also a significant need to address the lack of reliable data on STI. Data constraints on indicators such as gross domestic expenditure on research and development and the number of active researchers hinder evidence-based policy making.
- **Improve transport policies through enhanced planning and continued efforts to further develop road and rail infrastructure.** The selection and prioritisation of transport infrastructure projects in Kosovo remains outdated, and systematic assessments of the potential environmental, social or budgetary impacts of new projects are rarely conducted. This restricts informed decision making and the ability of policy makers to properly assess if projects are in line with national objectives. The impacts of underdeveloped governance of the transport sector are compounded by the relatively limited connectivity of the transport system. Railways in the economy are not properly maintained and lag behind in terms of modernisation efforts, which drives a reliance on roads, despite road density being far below both regional and EU average levels. The foreseen actions under the recently developed Multimodal Transport Strategy 2023-30 will need to be implemented to advance the development of combined transport and achieve efficient logistical networks.



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