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* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.



Brussels, 1.4.2026
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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

KOSOVO*
(2026-2028)

COMMISSION ASSESSMENT

** This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.*

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1. EXECUTIVE SUMMARY

Following a deceleration in economic activity in 2025, Kosovo's economic reform programme (ERP) expects GDP growth to pick up, driven by a robust increase in private consumption and public investment¹. Economic growth slowed to 3.6% in 2025, from 4.6% in 2024 due to a weaker expansion of household consumption and a stronger negative contribution of the external sector to growth. The ERP optimistically projects an average annual GDP growth of 5.4% in 2026-2028, well above the historical trend. In particular, the projected sharp increase in public investment is likely to face implementation constraints, while growth in imports might be underestimated. Major downside risks to this outlook stem from the war in Iran and trade tensions leading to less dynamic growth among Kosovo's main trading partners, domestic political uncertainty, lower-than-expected financial inflows from the diaspora as well as an acceleration of emigration flows following the EU's visa liberalisation.

The headline budget deficit is set to rise markedly in 2026 due to a surge in public investment, and decrease afterwards. The 2025 deficit was much lower than planned but rose slightly compared with 2024 to 0.8% of GDP, as spending outpaced strong revenue growth. Despite its robust growth, public capital spending fell short of budget plans and was the main reason for the lower-than-planned deficit. The 2026 budget provides a significant fiscal impulse as the headline deficit is set to increase markedly to 2.7% of GDP, mainly due to a very ambitious further surge in public investment. The ERP expects the headline deficit to gradually fall to 2% of GDP in 2027 and then to 1% in 2028. The deficit as measured according to the fiscal rule definition would not exceed the prescribed ceiling of 2% of GDP in 2026-2028. The low public debt ratio is set to increase but remain slightly below 25% in 2028. The domestic investor base for public debt remains narrow, while foreign borrowing relies on official creditors.

The main challenges facing Kosovo are the following:

- **Continued compliance with the fiscal rules should be coupled with further reforms to support public finances.** This would enable the planned large increase in capital spending to be implemented while containing current expenditure, including by streamlining social transfers. Compliance with the 2% deficit ceiling over 2026-2028 could also be strengthened through policies to widen the revenue base by reducing loopholes and exemptions and improving tax administration.
- **Public investment management and fiscal risk monitoring and mitigation necessitate further reforms.** Despite some progress, strengthening public investment management remains important. Fiscal risks related to publicly owned enterprises (POEs) could be mitigated by improving their financial oversight and accountability. This can be advanced by steps such as adopting amendments to the POE Law and by approving and publishing annual performance reports for POEs.
- **Kosovo needs to tackle key structural obstacles hindering inclusive growth.** Long-standing structural bottlenecks include a large backlog of cases of commercial disputes, a high administrative burden, and limited access to finance. The large informal sector reduces budget revenues, discourages investment and hinders business development, thereby constraining economic growth. The insufficient and unreliable energy supply gives rise to significant costs for businesses and places a strain on public finances. The education system does not adequately equip students with the skills demanded by the labour market which is characterised by low

¹ The assessment is based on the ERP submitted on 15 January 2026, prior to the escalation of the conflict in the Middle East. The war may significantly affect economic growth, inflation, and the external balance, depending on its duration and severity. However, detailed information on these effects was not available when the assessment was prepared, as the cut-off date was mid-March.

participation and still high unemployment rates, in particular for women and vulnerable groups. Weak labour market outcomes contribute to continuously high emigration. These challenges are being addressed through key structural reforms outlined in Kosovo's Reform Agenda under the Growth Plan for the Western Balkans.

The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2025 has been partial. Despite the increase in capital spending, there was no material change in the spending structure. The fiscal rule's deficit ceiling was met in 2025 and the planned increase in public-sector salaries in 2026 is set to respect the wage bill rule. Blanket allocations were reduced in the 2026 budget. Tax revenue grew strongly, partly due to some formalisation gains and improved tax compliance, but no amendments have yet been made to tax laws to reduce loopholes and exemptions. Despite the slightly improved execution rate in 2025, public investment management remains a major weakness. Financial oversight of POEs has improved, but amendments to the POEs' law to strengthen their corporate governance are still pending. The central bank has continued to carefully monitor price dynamics, and data on residential property prices has been published.

2. ECONOMIC OUTLOOK AND RISKS

Kosovo's economic growth decelerated but remained robust in 2025. Real GDP growth eased to 3.6% in 2025² from 4.6% a year before. The weakening of economic activity was mainly due to a stronger negative contribution of net exports to growth as well as a weaker expansion of household consumption, the latter having been affected by a resurgence in inflationary pressures. Nonetheless, private consumption, supported by stronger bank lending and rising wages as well as investment, on account of higher public capital spending, remained the main growth drivers. GDP growth was also fuelled by a notable acceleration in public consumption growth, reflecting higher public-sector wages and expenditure related to parliamentary and municipal elections³. In 2025, real export growth slowed compared to a year before, largely affected by the decline in merchandise exports, while goods imports rose strongly. Diaspora-related inflows provided less support to growth in 2025; the share of net inflows of remittances in GDP dropped somewhat. Despite significant employment gains, the labour market is characterised by ongoing very low participation, high unemployment and large gender gaps. According to administrative data from the Tax Administration of Kosovo⁴, in the first nine months of 2025 the average number of employed persons increased by 2% y-o-y.

The ERP's baseline scenario projects a robust acceleration of economic activity above the historical trend. Real GDP growth is projected to increase to 4.9% in 2026 and to further accelerate to 5.3% and 6% in 2027 and 2028, respectively. This is well above the 4.2% average growth rate over 2015-2025. The ERP expects that the acceleration in growth will be driven by a pickup in private

² Macroeconomic and fiscal estimates and forecasts covering the period 2025-28 have been taken from the ERPs themselves; if available, preliminary macroeconomic and fiscal outturn data for 2025 have been taken from the relevant national sources (Kosovo Agency of Statistics (KAS), the Ministry of Finance, Labour and Transfers (MoFLT) and the Central Bank of Kosovo (CBK)).

³ On 28 December 2025, extraordinary parliamentary elections took place as no party or coalition was able to form a government following the 9 February elections. This time the Vetevendosje (LVV) party increased its vote share to 51.1% and obtained 57 seats in the Assembly. On 11 February 2026, Kosovo's Assembly approved the formation of the new government led by Albin Kurti with 66 MPs voting in favour. The municipal elections took place in October 2025. On 6 March 2026, Kosovo's President issued a decree to dissolve the Assembly due to its failure to elect a new President by the March 5th deadline, which may trigger new parliamentary elections. The ruling Vetëvendosje party challenged the constitutionality of the decree and on 9 March the Constitutional Court of Kosovo imposed a temporary measure suspending the dissolution of the Assembly until 31 March or until the Court issues a final ruling on the case.

⁴ Labour force survey results continue to be published with large delays in Kosovo, with the latest available data referring to 2024 as a whole.

consumption growth in 2026-2027 (to over 5%) and a robust expansion in gross fixed capital formation (averaging 4.7% in 2026-2028). Household consumption in 2026 looks set to benefit from higher bank lending and an increase in real disposable income, the latter on the back of: (i) a projected rise in remittances inflows; (ii) a sharp increase (in two steps)⁵ in the minimum wage from EUR 350 to EUR 500; (iii) a rise in minimum pensions from EUR 120 to EUR 150, effective from November 2025; (iv) higher public-sector salaries⁶; (v) a 50% rise in child allowances, effective from October 2025; and (vi) relatively subdued inflation. The ERP projects private consumption growth to moderate to 2.2% in 2028, although the key reasons for this are not accounted for in the programme. Public investment is projected to grow by nearly 10% in 2026, benefiting from recent government initiatives to improve public investment management as well as from the implementation of the EU-financed Reform Agenda. Private investment is expected to rise by 4% y-o-y, on the back of a capital increase in the Kosovo Credit Guarantee Fund, which provides guarantees for loans to small and medium-sized enterprises as well as higher FDI inflows. Public consumption growth is projected to decelerate to below 3% in 2026, before picking up to 3.7% on average in the subsequent two years. Real exports are set to increase by nearly 6% in 2026-2027 and by 7% in 2028. In line with the forecast strong increase in domestic demand, imports are expected to grow by 5.3% in 2026, before slowing to 4.7% in 2027 and only 1.3% in 2028. These dynamics would result in net exports' contribution to GDP growth to turn positive in 2028. The programme expects the output gap to remain negative in 2026 and 2027 and turn positive in 2028, when real growth is projected to exceed the potential growth rate.

In a context of domestic and external challenges, the ERP's baseline scenario appears overly optimistic. GDP growth rates for 2026 and 2027 have been sharply revised downwards from the previous year. Nevertheless, the rates still look rather optimistic and well above the 3.9% average annual expansion projected by the IMF⁷ for the same period. In particular, the strong increase in public investment, a key growth driver in the ERP's baseline scenario, seems optimistic and would need to be supported by concrete measures to address remaining weaknesses in the planning, selection and management of public investment. On the other hand, import growth might be underestimated, especially in 2028 when the assumed import elasticity to final domestic demand is expected to be very low. In addition, bank lending may be less supportive of private consumption growth in 2026, as credit growth decelerated in the second half of 2025. The ERP itself highlights rising risks from geopolitical and trade tensions that could affect Kosovo's external trade, foreign direct investment and remittances inflows mainly through adverse impacts on its main partners in the EU. Domestically, significant risks stem from political uncertainty as well as elevated energy import costs and obsolete power generation capacities, which could lead to power outages⁸ and increased energy subsidies. An acceleration in emigration flows might follow the EU's visa liberalisation, which has been effective since January 2024. The ERP's sensitivity analysis reveals the individual impact of higher inflation, lower external demand and under-execution of capital spending on real GDP growth compared with the baseline scenario. A 0.5 pps. increase in consumer price inflation, a 1 pp. decrease in both goods and services export growth as well as an under-execution of capital spending by 10 pps. would result in annual GDP growth rates that are around 0.5 pps lower than the baseline (and therefore still above the IMF forecast and historical growth rates) in 2026-2028. In its current form the alternative scenario has limited value

⁵ To EUR 425 in January and EUR 500 in July 2026.

⁶ These increases became effective on 20 February 2026, when the 2026 budget was approved by the Assembly with considerable delay after Kosovo had extended last year's budget to the first three months of 2026 due to the political stalemate.

⁷ IMF, *World Economic Outlook*, October 2025.

⁸ Since December 2025, prolonged and often unannounced power cuts began affecting large parts of Kosovo due to the ongoing renovation of thermal power plant Kosovo B and the consequent exceptional technical and human strain on Kosovo A, the oldest thermal power plant.

in terms of capturing the magnitude of potential downside risks to the ERP's optimistic baseline forecast.

Table 1:

Kosovo - macroeconomic developments

	2024	2025	2026	2027	2028
Real GDP (% change)	4.6	4.3	4.9	5.3	6.0
<i>Contributions:</i>					
- final domestic demand	6.9	3.5	6.2	6.2	3.9
- change in inventories	0.0	0.0	0.0	0.0	0.0
- external balance of goods and services	-2.4	0.9	-1.3	-0.8	2.2
Employment (% change)	-2.6	:	:	:	:
Unemployment rate (%)	10.8	:	:	:	:
GDP deflator (% change)	2.2	3.3	2.6	1.6	1.7
CPI inflation (%)	1.6	3.6	2.8	2.0	2.0
Current account balance (% of GDP)	-8.9	-7.5	-8.1	-8.2	-5.9
General government balance (% of GDP)	-0.3	-0.8	-2.7	-2.0	-1.0
Government gross debt (% of GDP)	16.8	16.5	21.9	23.7	24.1

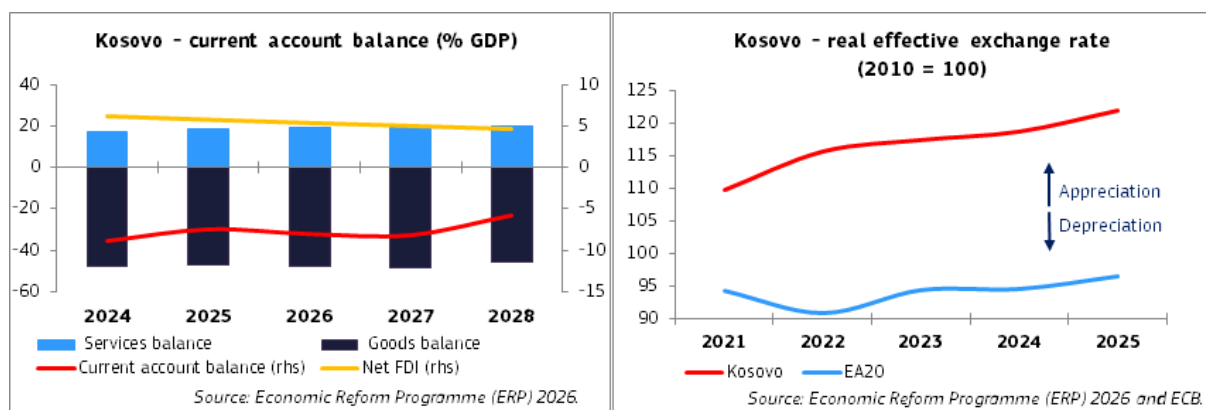
Source: Economic Reform Programme (ERP) 2026.

After rising moderately in 2025, the ERP expects average annual inflation to hover at around 2% in 2026-2028 with non-negligible upside risks. Annual consumer price inflation averaged 3.9% in 2025, well above the 1.6% rate recorded in 2024 while it accelerated further to 6% in February 2026. The key inflation drivers were higher prices for food, fuel and energy-related products. Core inflation was somewhat lower at an annual average of 2.5% in 2025, but edged up at the start of 2026, reflecting some spillovers to services prices. The ERP expects average annual inflation to decrease to 2.8% in 2026 and further to 2% in 2027-2028, mainly on the back of lower import prices. However, this decline looks implausible, given the projected stronger domestic demand growth in 2026 and 2027. The programme rightly acknowledges external risks from geopolitical tensions impacting on commodity prices. This would leave Kosovo exposed to intensified inflationary pressures caused by higher import prices for food and energy products, the latter exacerbated by shortfalls in domestic electricity production. Inflation risks also come from domestic demand pressures due to higher public-sector salaries and social transfers that were included in the 2026 budget. Further labour market tightening through continued emigration might generate additional cost-push inflation. The linear electricity tariff increase of 16.1% for all consumer categories as of May 2025, the additional hike of 21.3% for 2026 requested by Kosovo's Electricity Supply Company (KESCO) as well as the recently implemented energy market liberalisation also represent upside risks to the inflation outlook.

The current account deficit widened in 2025, and the ERP optimistically projects it to fall substantially by 2028. The current account deficit rose to 9.2% of GDP in 2025 from 8.4% in 2024. The deterioration was driven by an increase in the merchandise trade deficit coupled with a decline in the secondary income surplus, which more than offset the improvement in the services trade surplus. The latter rose by 2.9 pps. to 20.3% of GDP, mainly due to increased exports of travel (tourism) and information and communication technology (ICT) services. At the same time, the traditionally high merchandise trade deficit increased by 3 pps. to 50.6% of GDP, as exports of goods fell while imports increased robustly, reflecting higher import prices. The primary income surplus remained broadly stable at 2.3% of GDP in 2025. Remittances fell by 0.3 pps. to 12.8% of GDP, and they are projected to grow annually by 5% on average over the programme period. Large errors and omissions (2.4% of GDP) may reflect unrecorded services exports and remittances, so that the actual current account deficit could be smaller than the official figure. The ERP expects the current account deficit to narrow to around 8% of GDP in 2026-2027, before falling sharply to 5.9% in 2028. This projected improvement is driven by a steep fall in goods imports as a share of GDP in 2026-2028. Overall, such a substantial

improvement in the external balance is not plausible, especially in light of expected robust domestic demand growth and high energy prices.

External competitiveness and current account



Net FDI inflows remain the main financing source of the current account deficit, but they mostly target the non-tradable sectors. They increased to 6% of GDP in 2025 from 5.5% in 2024, still covering around two-thirds of the current account deficit. The bulk of inflows, often originating from Kosovo’s large diaspora, continues to be concentrated in non-tradeable sectors, with real estate and financial and insurance services accounting for 77% and 11% of all foreign direct investment inflows respectively (in January-October 2025), limiting export capacity. The ERP projects that net foreign direct investment inflows will be roughly stable at EUR 0.6 billion over the programme period. These inflows are expected to gradually decrease from 5.3% of GDP in 2026 to 4.6% in 2028 due to the projected increase in nominal GDP, and would cover the projected current account deficit by 68% on average over the ERP period. At the end of the third quarter of 2025, Kosovo’s Net International Investment Position (NIIP) slightly improved to -19.2% of GDP, compared with -19.9% at the end of 2024. Around 68% of gross liabilities consist of foreign direct investment, limiting external vulnerabilities.

Table 2:

Kosovo - financial sector indicators

	2021	2022	2023	2024	2025
Total assets of the banking system (EURmillion)	5 960	6 762	7 542	8 556	9 710
Foreign ownership of banking system (%)	85.5	84.9	84.3	83.6	82.7
Credit growth (% , average)	11.2	17.4	14.1	14.3	18.2
Deposit growth (% , average)	13.8	10.8	13.9	10.0	13.5
Loan-to-deposit ratio (end of period)	76.5	78.3	80.2	84.0	85.2
Financial soundness indicators (% , end of period)					
- non-performing loans to total loans	2.1	2.0	2.0	1.9	2.1
- regulatory capital to risk-weighted assets	15.3	14.8	15.8	16.2	17.2
- liquid assets (broad) to short-term liabilities	37.4	36.5	34.7	32.6	34.1
- return on equity	17.6	20.6	19.7	19.9	17.4
- foreign exchange loans to total loans	0.1	0.3	0.2	1.2	1.0

Source: Central Bank of Kosovo.

Kosovo’s banking sector continued to expand robustly while remaining sound. In 2025, lending to the private sector recorded double-digit growth for the fifth consecutive year. Despite a slowdown in the second half of the year, annual average bank lending growth further accelerated to 18.2% in 2025, driven by household loans mainly for housing purposes. In the same period, the growth of bank deposits also picked up to an average of 13.5%, chiefly on the back of faster expansion of households’

deposits. Financial soundness indicators remained satisfactory. The capital adequacy ratio increased to 17.2% at end-2025 from 16.2% at end-2024, comfortably exceeding the regulatory minimum of 12%. The non-performing loans (NPL) ratio stood at 2.1%, slightly higher compared with the previous year, partly reflecting the still strong credit growth. Bank profitability remained robust, with the average return-on-equity ratio at 17.4% in 2025, down slightly from 19.9% in 2024 due to the slower growth of net profit relative to capital and asset expansion. The ERP does not provide quantified forecasts for the financial sector but anticipates a moderate increase in NPLs during 2026, necessitating appropriate provisioning for credit risks.

Kosovo's authorities continue to improve the central bank's governance, while persistently strong credit expansion calls for strengthened supervisory capacity. Legislation on the Central Bank of Kosovo (CBK) is currently being reviewed to strengthen its governance. The review includes rebalancing responsibilities between the Governing Board and the Executive Board and strengthening the Governing Board's oversight roles. To reinforce resilience and ensure banks can absorb future shocks, the countercyclical capital buffer and a capital surcharge for other systemically important banks became fully effective by mid-2025 and have been maintained against the background of rapid credit expansion. The CBK continued to enhance risk-based supervision in line with best international and European practices. Among other initiatives, the CBK is advancing the framework for borrower-based measures using credit registry data. Additional information, such as borrower-based income and revenue data or loan destinations of uncollateralised loans would improve credit risk management by the CBK. The release for the first time in December 2025 of the residential property price index by Kosovo Agency of Statistics will assist the CBK in monitoring financial sector risks emanating from the housing market, although some data gaps remain. Rapid credit growth also requires improved financial crisis preparedness. To this end, and given Kosovo's euroisation, a review and update of the Emergency Liquidity Assistance (ELA) framework would prove useful as it has remained unchanged in size since its introduction in 2012.

3. PUBLIC FINANCE

Strong increases in capital and social spending outpaced buoyant tax revenue growth, resulting in a slight deterioration in the fiscal balance in 2025. The headline budget deficit is estimated at 0.8% of GDP in 2025, which corresponds to a deficit of 0.2% of GDP under the fiscal rule's definition⁽⁹⁾. The headline deficit was slightly higher than in 2024 (0.3% of GDP) due to a strong increase in public expenditure (10% year-on-year) that outpaced the robust rise (8.2%) in government revenue. However, it significantly undershot the 2.7% target set in the 2025 budget due to revenue overperformance and capital spending under-execution. The expenditure increase was driven by capital spending (up by 11.3% y-o-y), even though it reached only 77% of the budget allocation, reflecting overoptimistic targets as well as remaining weaknesses in implementation capacity. Current expenditure grew strongly (9.5% y-o-y) in 2025, slightly surpassing the planned increase of 9.1%. Wages and allowances rose by 8% y-o-y due to the implementation of the wage coefficient rise¹⁰ in the public sector, as well

⁹ The fiscal rule places a cap on the fiscal deficit of 2% of forecast GDP, excluding capital projects financed by privatisation proceeds and donors ('investment clause'). This exemption for donor-financed investments can be invoked until 2027, provided the public debt ratio remains below 30% of GDP. A further rule stipulates that the increase in the public wage bill cannot exceed nominal GDP growth. The debt rule requires that public and publicly guaranteed debt cannot exceed 40% of GDP.

¹⁰ On 29 October 2024, the government announced that from January 2025 public sector employees would receive a EUR 55 increase in their monthly salaries with an additional EUR 55 raise from July.

as an increase in the amount paid from court rulings¹¹. Spending on goods and services grew by 9.8% y-o-y, driven by costs related to parliamentary and municipal elections. Social transfers surged by almost 11% y-o-y, reflecting government measures in the run-up to the elections, including higher maternity¹² and child¹³ benefits and pensions¹⁴. Subsidies increased by 10.6%, partly due to base effects. Public revenue surpassed the full-year budget allocation with its growth reflecting improved tax compliance and some formalisation gains¹⁵. Tax revenue increased by 8.2% y-o-y, with direct and indirect tax income growing by 7.4% and 8.4%, respectively. Non-tax revenue rose by 6.7% y-o-y, driven by significantly increased concessionary fees on the back of the rising number of passengers at Pristina International Airport. Government deposits are estimated to have fallen to 1.8% of GDP from 2.1% in 2024, reflecting higher nominal GDP, lower external budget support financing and net negative domestic debt issuance.

The ERP objective for 2026-2028 is to support the economy mainly through significantly higher capital spending, while complying with the fiscal deficit rule. Over the programme period, public revenue is set to remain roughly unchanged at around 30% of GDP, as the increase in tax revenue by 0.6 pps. to 27.6% of GDP is expected to be offset by a similar decrease in non-tax revenue. Public expenditure is projected to increase by 0.2 pps. over the ERP period to 31% of GDP in 2028 due to the planned, significant (1.9 pps.) upfront rise in capital spending in 2026, bringing public investment to above 8% of GDP, the level at which it will remain over the programme period. Current spending is set to decrease gradually by 1.3 pps. to 22.4% of GDP in 2028, mainly driven by lower spending on goods and services and public wages, and to a much smaller extent on transfers and subsidies. The headline deficit is expected to increase notably to 2.7% of GDP in 2026, before falling to 2% and 1% in 2027 and 2028 respectively. According to the fiscal rule's definition, the deficit is projected at 1.9% and 2% of GDP in 2026 and 2027 respectively, before declining to 1% of GDP in 2028.

¹¹ Most of the rulings concerned unbudgeted allowances that teachers, doctors, and other public employees obtained through collective agreements.

¹² On 5 June 2025, the acting government decided to raise the monthly maternity allowance for unemployed (for six months after birth) and employed (for three months) mothers to EUR 325.9 and EUR 319.5 respectively from EUR 170.

¹³ Effective from August 2024, the children allowance scheme doubled to around EUR 100 million.

¹⁴ On 7 October 2024, the government decided to raise all pensions by 20%.

¹⁵ Administrative reforms implemented by the Tax Administration of Kosovo (TAK) have brought some formalisation gains.

Table 3:

Kosovo - composition of the budgetary adjustment (% of GDP)

	2024	2025	2026	2027	2028	Change: 2025-28
Revenues	29.8	30.0	30.3	30.1	30.0	0.0
- Taxes and social security contributions	26.9	27.0	27.6	27.6	27.6	0.6
- Other (residual)	3.0	3.0	2.7	2.6	2.4	-0.6
Expenditure	30.2	30.8	33.0	32.1	31.0	0.2
- Primary expenditure	29.7	30.3	32.5	31.6	30.7	0.3
<i>of which:</i>						
Gross fixed capital formation	6.3	6.5	8.3	8.5	8.1	1.6
Consumption	12.6	12.7	12.7	12.3	11.7	-1.0
Transfers & subsidies	10.7	11.0	11.3	10.7	10.7	-0.3
Other (residual)	0.2	0.2	0.2	0.2	0.2	0.0
- Interest payments	0.4	0.5	0.5	0.5	0.4	-0.1
Budget balance	-0.3	-0.8	-2.7	-2.0	-1.0	-0.2
- Cyclically adjusted	-0.3	-1.0	-3.0	-2.1	-0.5	0.5
Primary balance	0.1	-0.3	-2.2	-1.5	-0.6	-0.3
- Cyclically adjusted	0.1	-0.6	-2.5	-1.6	-0.1	0.5
Gross debt level	16.8	16.5	21.9	23.7	24.1	7.6

Sources: *Economic Reform Programme (ERP) 2026, Commission calculations.*

The 2026 budget provides a significant fiscal impulse as the headline deficit is set to increase by around two percentage points, mainly on the back of a surge in capital spending. The cyclically adjusted primary balance will change by the same magnitude. Public revenue is set to increase by 0.3 pps. to 30.3% of GDP compared to the 2025 outturn, largely driven by an 0.6 pps. increase in the tax revenue ratio. In nominal terms, tax revenue is expected to increase strongly by 10% y-o-y, supported by higher economic activity and improved tax compliance, with a further reduction in the informal economy. Non-tax revenue is set to decrease by around 5% y-o-y. The assumed rise in the tax revenue-to-GDP ratio looks plausible, due to authorities' continued efforts to further strengthen tax compliance and tackle the informal sector through digitalisation, expanded online services, improved use of third-party data and strengthened human resources capacity. Total expenditure is expected to increase to 33% of GDP from 30.8% in 2025, mainly due to a 1.9 pps. rise in public investment spending. Compared with the 2025 outturn, capital spending is set to increase by almost 39% in nominal terms to 8.3% of GDP, which appears overly optimistic¹⁶ given the previous track record of implementing capital spending. Such an increase would require considerable progress in reforming the institutional framework for public investment planning and management. Current expenditure is set to rise by 0.3 pps. to 24% of GDP in 2026, driven by higher spending on transfers and subsidies, reflecting the announced rise in pensions and child allowances. Despite the increase in the public sector's basic salary by 0.5% for each year of work experience and payment of the 13th month's salary^{17,18}, the overall wage bill is set to remain unchanged as a share of GDP at 8.2%, which does not look plausible given all these wage rises. Spending on goods and services and interest costs is also expected to stay stable at 4.5% and 0.5% of GDP, respectively. The 2026 budget includes a 0.6% of GDP allocation for

¹⁶ The IMF expects capital spending in 2026 to increase to 7.3% of GDP.

¹⁷ Public-sector employees who have been employed in any of the budget organisations for at least 12 months prior to the month that the decision was taken are entitled to the 13th salary.

¹⁸ Provisioning of the announced 13th month's salary is conditional on two criteria: (i) revenue overperformance, and (ii) public expenditure undershooting the full-year budget allocation. Indeed, in 2025 revenue reached 101% of the full-year budget allocation, while public expenditure reached 95%.

contingencies, of which 0.2% of GDP is a blanket allocation, lower than in the 2025 budget (0.5% of GDP). The headline deficit is forecast to rise significantly to 2.7% of GDP in 2026, which would keep the deficit, as measured according to the fiscal rule’s definition, marginally below the prescribed ceiling of 2% of GDP. Government cash deposits are planned to increase to 3% of GDP from an estimated 1.8% in 2025, which is still in line with the prescription of the fiscal rule¹⁹.

General government debt is projected to rise significantly but stay well below the 40% of GDP ceiling, while weaknesses linked to a narrow investor base and a lack of market access remain.

On the back of high nominal GDP growth and a minimal primary deficit, the debt-to-GDP ratio is expected to have decreased marginally by 0.3 pps. to 16.5% in 2025. This is still well below the ERP 2025 projection of 21.1% and the fiscal rule ceiling of 40%. Domestic debt in September 2025 was lower by 4.3% compared with end-2024. The share of the domestic debt stock held by the pension fund (KPST) fell by 4 pps. to 41%. The KPST still has room to buy new bond issuances in the coming years, but it is approaching the legal limit²⁰. The share of commercial bank holdings increased to 25% in the third quarter of 2025 from 24% at end-2024, while the share held by the CBK rose to 24% from 22%. Foreign debt grew by 9.6% in the same period and consists of concessional financing from international financial institutions, such as the World Bank, the IMF, the European Investment Bank and the European Bank for Reconstruction and Development. The ERP assumes a significant increase of 5.4 pps. in the public debt ratio in 2026 to 21.9% of GDP, and a continued gradual drift upwards to 24.1% of GDP in 2028. It projects government deposits to hover around 3.5% of GDP in 2026-2028, slightly lower than the level expected in the previous year’s ERP which, however, may provide sufficient capacity to absorb potential shocks. In February 2026, Fitch Ratings reaffirmed the ‘BB-’ sovereign credit rating, with a stable outlook, that Kosovo had obtained for the first time in April 2024, improving the prospects of accessing international financial markets in future.

Kosovo					
Composition of changes in the debt ratio (% of GDP)					
	2024	2025	2026	2027	2028
Gross debt ratio [1]	16.8	16.5	21.9	23.7	24.1
Change in the ratio	-0.6	-0.4	5.5	1.8	0.4
Contributions [2]:					
1. Primary balance	-0.1	0.3	2.2	1.5	0.6
2. 'Snowball effect'	-0.7	-0.7	-0.6	-0.9	-1.3
<i>Of which:</i>					
Interest expenditure	0.4	0.5	0.5	0.5	0.4
Growth effect	-0.8	-0.7	-0.7	-1.1	-1.3
Inflation effect	-0.4	-0.5	-0.4	-0.3	-0.4
3. Stock-flow adjustment	0.1	0.0	3.9	1.2	1.0

[1] End of period.

[2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).

The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.

Source: Economic Reform Programme (ERP) 2026, Commission calculations.

BOX: DEBT DYNAMICS

The primary balance is projected to remain negative, contributing significantly to the projected increase in the public debt ratio, primarily in 2026-2027. This is set to be partly offset by the impact of robust economic growth and, to a lesser extent, inflation. Interest spending is forecast to stay low at around 0.5% of GDP in 2026-2028. Overall, the snowball effect will only partly compensate for the impact of the primary balance on the debt ratio. Furthermore, a strong positive contribution to the debt-to-GDP ratio is expected to come from stock-flow adjustments in 2026, followed by more modest

¹⁹ The fiscal rule stipulates that Government deposits used as fiscal buffers are legally required to stay at 4.5% of GDP as long as the government uses privatisation proceeds. As no privatisation proceeds are planned, the fiscal rule is not breached if fiscal buffers are below 4.5% of GDP.

²⁰ Government securities should not exceed 30% of KPST assets.

ones in 2027 and 2028, although their origins are not explained in the ERP.

Significant risks and uncertainties surround the fiscal scenario. Fiscal projections are likely to underestimate current spending, while the assumed surge in capital spending in 2026 appears unrealistic if the past track record is taken into account. Spending on transfers and subsidies might increase more strongly than targeted (10.3% compared with the 2025 outcome), if ad hoc decisions on raising pensions, transfers or benefits²¹ are to be repeated in 2026. Despite the law decoupling war veterans' pensions from the minimum wage, which came into force in August 2024, there is once again a risk of breaching the legal cap of 0.7% of GDP in the absence of a reclassification of beneficiaries²². The planned increase in the wage bill also looks optimistic given the previous track record of higher-than-budgeted wage spending²³. The 2026 budget includes an allocation of only EUR 3 million for reimbursing the COVID-19-related 10% withdrawal of pension savings from the KPST²⁴, thereby requiring higher allocations in the following year's budget to fully repay this liability (amounting to some EUR 102 million). Finally, overly optimistic GDP growth projections also pose a downside risk to revenue.

Weak governance and financial oversight of publicly owned enterprises (POEs) pose additional fiscal risks, potentially requiring subsidies²⁵ from the budget. Although there have been some improvements in monitoring the fiscal risks arising from POEs' operations, the publication of their annual performance reports for 2023 and 2024 has been delayed as these have not yet been approved

²¹ These initiatives were decided on 26 December 2025 at a fiscal cost of around EUR 80 million.

²² There was a slight breach of the legal ceiling of 0.7% of GDP in 2025 as actual expenditure for this pension scheme amounted to 0.8% of GDP.

²³ In 2023 and 2024, the wages bill rose by 17.5% and 10% respectively compared with planned increases of 11.1% and 8%.

²⁴ The framework provides for five annual instalments of EUR 20 million each as of 2023. Only EUR 5 million and 1.9 million were disbursed in 2023 and 2024, respectively and around EUR 10 million in 2025.

²⁵ There has been no progress in building the capacity to provide the exact amount of subsidies and capital transfers to POEs as it is not possible to generate consolidated reports in the Kosovo Financial Management Information System (KFMIS) that capture all financial transactions to POEs, thereby posing a fiscal risk and undermining fiscal transparency.

by the Assembly. A budget transparency portal is expected to become operational and publicly available within the first three quarters of 2026, providing more detailed data from POEs' financial statements. Adopting amendments to the legislation regulating POEs' corporate governance would strengthen compliance with international standards. In mid-December 2023, the Assembly adopted a law for the creation of a sovereign fund managing state assets which, once established, is expected to play a key role in improving the management and financial performance of POEs. However, the law is still under review by the Constitutional Court.

BOX: SENSITIVITY ANALYSIS

The ERP analyses the sensitivity of the debt-to-GDP ratio to three specific shocks:

- 1) If the deficit rule is followed and there is a slowdown in GDP growth of 1 percentage point in 2029-2039, the debt-to-GDP ratio would increase to 30.9% by the end of 2039 instead of 28.1% in the baseline scenario.
- 2) If the deficit rule is not followed and the primary balance deteriorates by 1 percentage point of GDP in 2029-2039 due to higher spending, debt would increase to 47.1% of GDP by the end of 2039, i.e. 19 percentage points higher than in the baseline scenario.
- 3) Compliance with the deficit rule and a 1 percentage point increase in interest rates on loans would bring the debt-to-GDP ratio to 28.4% by the end of 2039, i.e. 0.3 percentage points higher than in the baseline scenario.

The sensitivity analysis highlights the importance of complying with the 2% deficit rule, which acts as a debt stabiliser.

The efficiency of public spending is hampered by long-standing issues such as inappropriate targeting and a lack of transparency in social transfers. A significant portion of specific category-based social transfers, such as war-related pensions that are non-contributory and funded by the budget, are not primarily aimed at reducing poverty. Fiscal transfers to mitigate the rising cost of living, such as one-off increases in maternity and child allowances are also not targeted²⁶. In the context of reforming the social assistance scheme, a piloting phase involving 4 500 households is under way to test a new eligibility model. Work is also ongoing with support from the World Bank on the underlying infrastructure that would unify the information system for five major categories of social benefits. A broader pension scheme reform, in terms of digitalisation, is also planned for completion in 2026.

Strengthening public investment management is key to shifting to a more growth-oriented budget structure. In recent years, there has been some progress in implementing public investment on the back of various government initiatives. The capital projects' description has improved and those not meeting minimum criteria are excluded from the budget. Expropriation costs are now treated as part of project costs and local governments have shown greater willingness to take on these costs. Furthermore, municipalities are allowed to create only one code for expropriation costs, instead of several as was the case in the past. The quantity of data in the Public Investment Program (PIP) system has also increased, as more of its features are being used by budget organisations. However, weaknesses in the planning phase of public investment projects continue to pose a significant challenge, as many projects do not undergo proper appraisal and selection procedures as specified in the administrative instructions on project selection and the public investment programme manual. In particular, a critical drawback in the planning phase is the absence of thorough feasibility and pre-

²⁶ Child benefits are not yet laid down in the respective legislation (apart from the Law on budget appropriations).

feasibility studies. The latter have not, therefore, been ready for implementation when approved. To address shortcomings in public investment management, Kosovo could operationalise all the linkages between the e-procurement system and the Kosovo Financial Management Information System (KFMIS).

Continuous reforms in tax policy are essential to strengthening Kosovo's revenue base and addressing fiscal challenges. Kosovo's tax system is undermined by numerous exemptions, preferential rates, and special regimes that erode the tax base. To address this, based on the results of the recently published review of tax expenditure quantifying the revenue losses caused by these practices, the authorities are preparing amendments to the personal income tax, corporate income tax, and value added tax laws. An e-invoicing platform has already been developed with technical expertise, but the Supreme Court has stopped a full roll-out due to legal concerns over the powers of the caretaker government to adopt related measures. Work on the Business-to-Business e-invoicing module is ongoing, and its implementation is expected to help reduce informality. However, an internal test of the module revealed many technical challenges needing to be addressed. These tax policy reforms are crucial to raising revenue to compensate for the anticipated decline in customs revenue following the implementation of the free trade agreement with Türkiye, the Stabilisation and Association Agreement (SAA) with the EU, and the free trade agreement that was signed with the European Free Trade Association (EFTA)²⁷ in January 2025.

Kosovo's fiscal rules are the main anchor for macro-fiscal stability and safeguard high out-of-budget capital spending, while reflections on their potential recalibration are ongoing. The ERP aims to keep the deficit in line with the fiscal rule's definition below the prescribed ceiling of 2% of GDP in 2026-2028. According to the fiscal rule definition, exemption from the 2% deficit ceiling of capital projects financed by privatisation proceeds and donors (investment clause) can be invoked up until 2027, provided that public debt remains below the prescribed ceiling of 30% of GDP (which is expected to be the case). In the context of the expiration of the investment clause in 2027, discussions are ongoing until March 2026 on whether to raise the deficit ceiling to 3% from 2% of GDP and the public-debt ratio cap to 40% from 30% of GDP. Despite the planned increases in public-sector salaries, the wage bill is expected to grow by 6.9% in 2026, which is in line with the nominal GDP growth in 2024, thus the wage bill rule has been respected. However, enforcement of the fiscal framework is undermined by the unfinished reclassification of war veteran pension beneficiaries and continuously expanding social commitments. The proper functioning of Kosovo's fiscal framework also depends on the quality of macro-financial statistics, which require significant further improvement.

4. ADDRESSING STRUCTURAL CHALLENGES – THE REFORM AGENDA AND ITS IMPACT ON THE MACRO-FISCAL FRAMEWORK

The Reform Agenda is a key instrument meant to address structural challenges for faster convergence of Kosovo's economy. The Commission approved the Reform Agenda of Kosovo in October 2024. In its Reform Agenda, Kosovo commits to socio-economic and fundamental reforms to boost growth and convergence with the EU under the Growth Plan over the 2024-2027 period. Subject to implementation of these reforms, the allocation for Kosovo under the Reform and Growth Facility²⁸ (RGF) amounts to EUR 882.6 million with EUR 253.3 million planned in grants and EUR 629.3 million in concessional loans. As of February 2026, Kosovo has not yet formally reported or received disbursements, due to the delayed ratification of the Facility and Loan Agreements, which took place

²⁷ The EFTA includes Iceland, Liechtenstein, Norway, and Switzerland.

²⁸ <https://eur-lex.europa.eu/eli/reg/2024/1449/oj/eng>

on 13 February 2026²⁹. It has nevertheless started implementing reforms and shared provisional reporting. The Commission remains actively engaged with the Kosovo authorities to support them in establishing the institutional set-up needed to start implementing the RGF.

Kosovo's corporate landscape consists mainly of family-owned businesses in the services sector, with limited global integration. These small and micro enterprises predominantly operate in the services sector, which contributed almost 46% of gross value added in 2024 and accounted for 70% of employment. Travel services, largely driven by the diaspora, lead the sector, while the ICT industry has also been growing fast of late. Industry represented 18.5% of gross value added in 2024, but the manufacturing base remains narrow. The mining sector has recently faced difficulties and entered a restructuring process involving major layoffs, which placed a further burden on export performance. Kosovo's exports primarily consist of low-value-added, unsophisticated goods, while weak institutions partly hinder access to the EU market. The Reform Agenda aims at supporting the establishment of start-ups and micro, small and medium-sized enterprises (MSMEs) focusing on ICT and green economies by establishing an Innovation Fund and business incubators.

The business sector faces persistent obstacles. Unpredictable regulations and a weak rule of law as well as a high degree of informality and corruption impede private-sector investment. A high administrative burden for citizens and businesses combined with inefficiencies in contract enforcement and dispute resolution further hamper economic development. Some progress has been made with various financing options available through the Kosovo Credit Guarantee Fund, but overall access to finance is still limited, affecting mostly smaller businesses. This, together with a large backlog in commercial litigation, create significant challenges for businesses and investors, undermining fair competition and economic growth. The Reform Agenda includes measures aimed at aligning bankruptcy legislation with the EU *acquis*, improving access to finance, and promoting financial inclusion.

An unreliable energy supply impedes productivity and competitiveness, deterring foreign investment and placing a strain on public finances. Kosovo's energy sector relies heavily on ageing lignite plants, which generate over 90% of electricity, posing serious health and environmental risks. The ongoing renovation of thermal power plant Kosovo B, which reduced electricity production, has resulted in power cuts since December 2025. Efforts to diversify the energy mix continue with the launch of the first tender for up to 100 MW of wind energy, with bids received in late February 2025. Under the Reform Agenda, Kosovo commits to transpose and implement essential EU legislation and directives, while at the same time targeting decarbonisation and renewables deployment. The recently implemented energy market liberalisation, while creating some problems during the transition phase, is expected to have a positive effect in the longer term, by fostering investment in energy efficiency and ultimately strengthening the economy's competitiveness.

Although Kosovo is the leader in the Western Balkan region with 98.6% of households having some form of internet access in 2023³⁰, and with 100% broadband coverage, challenges remain in developing high-speed broadband infrastructure, including limited private sector investment capacities, an outdated cable network, and delays in 5G development. Progress in public-sector digitalisation is slow, with only 10% of all public services currently offered online, most of which are merely informational (OECD, 2024). The Reform Agenda focuses on expanding digital public services, developing e-signature capabilities, and establishing secure, resilient and sustainable digital infrastructure.

²⁹ Kosovo's Assembly had not ratified the EU Reform and Growth Facility Agreement previously, owing to the political stalemate in 2025.

³⁰ OECD (2024), *Western Balkans Competitiveness Outlook, 2024*.

Labour market challenges persist, with a misaligned education system. Despite notable progress in recent years, only 43.2% of the working-age population was active in 2024, while the unemployment rate was still high (10.8%). The gender gap remains substantial, with the female employment rate at around only 21%. Women continue to be over-represented in unpaid care roles and the informal sector, and under-represented in formal employment. A high share of young people (aged 15-24) not in employment, education or training (NEET), increasing emigration, and significant gender disparities mark the labour market. Despite educational reforms, Kosovo ranked 81st and last in the 2022 cycle of the OECD Programme for International Student Assessment (PISA), while unemployment among tertiary education graduates is still high, pointing to inadequate quality and relevance of education. Vocational education and training (VET) profiles and curricula remain largely unaligned with labour market needs. In addition, the workforce lacks skills for modern economic activities mainly due to limited participation in continuous upskilling and reskilling. The Reform Agenda aims to digitalise and improve the quality of education and teaching, increase the labour market participation of women and vulnerable groups, and better align education with labour market needs.

The ERP includes a second attempt to estimate the economic impact of selected reform measures under the Reform Agenda. The chosen policy areas concern digital transformation, energy/green transition, private-sector development and the business environment as well as human capital development and retention. Specifically, seven reform measures were subject to an economic impact assessment: (i) the deployment of 5G infrastructure, (ii) improvements to the governance, efficiency, and accountability of POEs, (iii) increased enrolment in and quality of early childhood education, (iv) enhancing FDI inflows and export performance in strategic sectors, (v) development of transparent and competitive procedures for the deployment of renewable energy, (vi) implementation of the Energy Efficiency Directive and the Energy Performance in Buildings Directive and (vii) financial support for start-ups and MSMEs.

The latter three reform measures have been repeated from the previous ERP³¹ with no updates on their individual cumulative effect on GDP growth. However, the ERP does not assess the individual impact of the other four reforms on GDP growth. Instead, it refers to the projected cumulative increase in real GDP growth by 2.9 pps. above the ERP's baseline scenario in 2026-2028, due to the combined implementation of all the previously mentioned reforms.

The implementation of reform measure (iii) is projected to increase the female employment rate from 21.2% to 22.4% and the overall employment rate by 0.6 pps.

Fiscal impact assessments are largely missing. With the exception of reform measure (i) on the deployment of 5G infrastructure³², no fiscal impacts of the selected reforms are yet included in the analysis. The revenue forecast of the 2026 budget does not seem to contain the grant component (EUR 17.7 million) of the pre-financing amount of around EUR 60 million and of the payments linked to individual reforms. The programme could have included the projected expenditure linked to implementation of the measures, including information on whether respective projects are included in the capital spending projected for 2026. Moreover, the Reform Agenda contains a number of measures in the area of Public Financial Management whose fiscal impact could have been assessed by the programme, notably measures related to the improvement of public investment management.

³¹ Their individual cumulative effect on GDP growth had been estimated at 2.5, 0.7 and 0.2 pps., respectively in 2025-2027.

³² The analysis estimates revenue from one-off concessional fees at around EUR 3.8 million.

ANNEX: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2025

Every year since 2015, the Economic and Financial Dialogue between the EU and regional partners has adopted targeted policy guidance (PG) for all partners. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year's ERP assessments.

The following table presents the Commission's assessment of the implementation of the 2025 policy guidance jointly adopted at the Economic and Financial Dialogue between the EU and the Regional Partners at ministerial level on 13 May 2025.

Overall: Partial implementation (55.6%)³³	
2025 policy guidance (PG)	Summary assessment
<p>PG 1:</p> <p>Implement the foreseen shift in the 2025 budget spending structure from current to capital expenditure while ensuring compliance with the fiscal rules</p> <p>Increase budgetary transparency by further reducing blanket allocations.</p> <p>Based on the results of the tax expenditure</p>	<p>There was partial implementation of PG 1.</p> <p>1) Partial implementation: In 2025, capital and current spending accounted for 20.9% and 77.1% of total expenditure respectively, virtually the same (20.7% and 77.3%) as in 2024. The shift towards capital spending is much less pronounced than planned in the budget (25.8% and 72.5% for capital and current spending respectively) as investment spending, although rising markedly year-on-year, was under-executed. The headline budget deficit rose slightly to 0.8% of GDP in 2025 (0.2% of GDP under the fiscal rule's definition), staying comfortably below the deficit cap. The planned increase in the public wage bill in the draft 2026 budget (6.9%) does not exceed nominal GDP growth (6.9%) in 2024, thus the wage bill rule would have been respected, if this is confirmed in the adopted budget³⁴.</p> <p>2) Full implementation: The 2026 budget includes a 0.6% of GDP allocation for contingencies, of which 0.2% of GDP is a blanket allocation. This compares with an allocation of 1% and 0.5% of GDP, for contingencies and blanket allocations respectively in the 2025 budget.</p>

³³ For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission's Overview and Country Assessments of the 2017 Economic Reform Programmes. This is available at https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country-assessments_en.

³⁴ The fiscal rule states that the increase in the wage bill should not exceed the nominal GDP growth rate of the latest calendar year available at the time the consolidated budget is being prepared.

<p>review, reduce loopholes and exemptions through amendments to tax legislation, including personal income tax, corporate income tax and value added tax.</p>	<p>3) Limited implementation: The tax expenditure review was endorsed and published by the MoFLT in September 2025 (it had been ready since March), but there was no progress in amending tax laws, including PIT, CIT and VAT, to reduce loopholes and exemptions.</p>
<p>PG 2:</p> <p>Bolster the functioning of the Tax Administration of Kosovo (TAK) by further promoting digital transformation, strengthening human resources capacity and enhancing the use of third-party data to raise compliance levels and revenues.</p> <p>To improve the execution rate of capital spending, establish the linkages between the e-procurement and Kosovo Financial Management Information System (KFMIS) systems.</p>	<p>There was partial implementation of PG 2:</p> <p>1) Partial implementation: The Tax Administration of Kosovo (TAK) has advanced its operations through digitalisation, improved data use, and expanded online services, enhancing efficiency, transparency, and taxpayer access. However, its core IT system is outdated and nearing its capacity limits, making a comprehensive system replacement critical to sustaining and advancing these reforms. This remains one of the key objectives of the TAK Strategy 2022-2026. TAK cannot fully perform transfer pricing audits due to the absence of a transfer pricing database, which is expected to be purchased by MoFLT with donor support. Regarding the use of third-party data, TAK has created a dedicated team to expand and improve their use with the goal of increasing tax compliance and budget revenues. So far, nine Cooperation Agreements and Standard Operating Procedures have been signed, and three additional agreements are at their early stages. Although significant progress has been made, limited access to some categories of large datasets and their interinstitutional exchange remains a challenge. To strengthen human resources, the newly appointed Director General has initiated human resource restructuring aimed at optimising staff allocation, alongside capacity-building efforts focused on digital, analytical, and managerial skills. In January 2026, TAK selected 50 interns to be employed as of February 2026. The recruitment of 200 officials is planned for 2026.</p> <p>2) Substantial implementation: The link between KFMIS and e-procurement systems for capital projects was made operational on 1 August 2025. The interlink has enabled automated data exchange, real-time synchronisation of procurement and financial information, reduced manual errors and delays, and strengthened accountability by aligning procurement commitments with approved budgets. However, its full implementation is still pending as the link</p>

<p>Improve financial oversight and accountability of Publicly Owned Enterprises (POEs) by approving and publishing their annual performance report and adopt amendments to the POE Law to improve their corporate governance.</p>	<p>between KFMIS and e-procurement for goods and services is planned to begin operating in 2026 and be completed by January 2027 at the latest.</p> <p>3) Limited implementation: The annual POEs performance reports for 2023 and 2024 have not yet been approved by the Assembly nor published. During the reporting period, the Ministry of Finance continued to include the fiscal risk analysis for the main central POEs in the annual budget and the ERP. A stand-alone annual fiscal risk analysis was also published in October 2025. The fiscal risk analysis includes the POEs overseen by the Ministry of Economy as well as the Kosovo Electricity, Transmission, Market and System Operator (KOSTT), which is overseen by the Assembly. However, the analysis is limited to high-risk POEs, excluding other companies. A quarterly report on the financial situation of POEs is available on the Ministry of Finance’s website, with better data quality. The law on the establishment of a sovereign fund was adopted by the Assembly in mid-December 2023, but it is being reviewed by the Constitutional Court. The sovereign fund is expected to take over six POEs to strengthen their management and attract private capital. The fund will operate as an autonomous public institution under the supervision of the Assembly. There were no developments in amending the law on POEs with the aim of aligning their corporate governance with recognised international standards.</p>
<p>PG 3:</p> <p>Continue to thoroughly assess price developments and possible second-round effects and further enhance the monitoring of inflation expectations.</p> <p>Enhance risk-based supervision in line with best international and European practices, including by improving data collection, in particular as regards the real estate sector, to enable a comprehensive assessment of</p>	<p>There was partial implementation of PG 3:</p> <p>1) Substantial implementation: The central bank continued to carefully monitor price dynamics. In October 2025, the CBK launched a pilot survey aimed at collecting information on the financial situation of individuals in Kosovo, which also provides valuable insights into their perceptions of past price developments and expectations for the period ahead. These data will complement the CBK’s analytical and forecasting framework.</p> <p>2) Partial implementation: The central bank approved the roadmap for adopting the Supervisory Review and Evaluation Process (SREP) framework, including the recommendations provided by the IMF. The manual for its gradual</p>

