

# Kosovo: the transition to sustainability?

## Description

**A symbolic year for Kosovo, 2023 marks the 15<sup>th</sup> anniversary of Kosovo's declaration of independence and the 24<sup>th</sup> of NATO's intervention in the country. With the country applying for EU membership last December, and in the context of the war in Ukraine, the EU and the US hope that 2023 will be the year of a diplomatic breakthrough between the governments of Kosovo and Serbia.**

On 19 March 2023, the signing of the normalization agreement between Serbia and Kosovo was welcomed by the European Union's High Representative for Foreign Affairs, Josep Borrell. If the agreement is implemented, Kosovo and Serbia should agree on mutual recognition as a precondition for their EU membership. However, Serbian President Aleksandar Vucic and Kosovar Prime Minister Albin Kurti timidly welcomed the signing of the agreement, the value of which will depend on implementation. Serbia has pledged to stop imposing itself as Kosovo's representative on the international scene, yet in Serbia, Kosovo-and-Metohija is claimed as part of Serbian territory.



Currently, the leading cause of friction between the two countries is the status to be granted to an association representing Kosovo Serb municipalities: the Kosovar government sees this concession to Serbia as a threat to its sovereignty. Indeed, the resignation of Serbian leaders from the Kosovo Assembly on 5 November 2022 and tensions in the country's north in December 2022 make it difficult to implement the agreement. On 25 January 2023, in an interview with the Kosovar channel *Klan TV*, Miroslav Lajčák, the EU Special Representative for the Belgrade-Pristina dialogue, said that 2023 would be necessary for the normalization of relations between the two countries. Significantly since 2024, the European Parliament elections and the presidential election in the United States will divert the international community's attention from this regional issue<sup>(1)</sup>.

## Many economic difficulties

Since NATO intervened in 1999, reconstruction and support to the Kosovo authorities have involved international financial institutions and national development agencies. Today, while Kosovo's economy is inherently vulnerable, the emigration of the population is jeopardizing the country's future. The current Prime Minister, Albin Kurti, appointed on 22 March 2021 by the Kosovo Assembly following his party's victory in the parliamentary elections, is focusing his policy on promises to fight corruption and create an economy that serves all the people of Kosovo. His program includes reforming the Kosovo Privatisation Agency, created by the United Nations with the cooperation of the EU on 13 June 2002. With an advisory board of international and Kosovar staff, its mission was to privatize companies inherited from Yugoslavia's "cooperative" economy by granting employees shares in the company where they worked. However, the war impacted the viability of these companies, about 10% of which were bankrupt before privatization. After a process with mixed results, mining, and agricultural enterprises, in particular, were privatized, but unreliable investors also appeared, leading to redundancies. The agency also experienced tensions within its board, resulting in accusations of conflict of interest and resignations<sup>(2)</sup>.

Today, Kosovo has a considerable trade deficit, with exports covering only 15% of imports. Moreover, the private banking sector and local commercial enterprises must be sufficiently capitalized to finance major investment projects. In addition, while the country has the youngest population in Europe (38% of its 1.8 million inhabitants are under 20),

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education and health budgets are proportionately lower than the European average.

International donors widely support Kosovo: according to the OECD Development Assistance Committee, in 2020, it was the largest net recipient of official development assistance in the Western Balkans, with almost \$544 million. Since 2009, it has been among the top three recipients in the region<sup>(3)</sup>. However, in 2021, public debt will represent almost 22% of Kosovo's GDP. The euro adoption has created monetary stability, which is supposed to facilitate investment in the country. But the Central Bank of Kosovo has no autonomy and has to finance itself on the international financial markets. Wages and prices are the only competitive adjustment variables for the economy<sup>(4)</sup>. According to the Heritage Foundation's Index of Economic Freedom, Kosovo ranks 40<sup>th</sup> out of 45 European countries in this respect (the bottom of the ranking includes Turkey, Russia, and Ukraine). A regional free trade agreement regulates trade relations with Balkan neighbors. The Stabilisation and Association Agreement with the European Union, signed on 27 October 2015, further regulates trade with the European Economic Area market. Kosovo has also signed trade agreements with the UK and Turkey.

### **The Role of diaspora remittances and Cryptocurrencies**

However, according to the World Bank, remittances from the diaspora represented almost 18% of GDP in 2021, contributing mainly to the construction sector's financing. New neighborhoods have sprung up, some with partially inhabited buildings, as these are significant investments made by people outside the country. The urban growth sometimes surprises the inhabitants: Shpetim, an office worker, says when he sees the new office buildings in western Pristina: *"The city has changed so much. My high school used to be under these office towers. That was only ten years ago."*

This real estate boom fails to hide another reality: unemployment is 20% of the working population. According to UNDP surveys 2019, more than 60% of respondents were dissatisfied with Kosovo's economic direction. In the north of Kosovo, the Serbian community of Mitrovica keeps its distance from the Kosovo authorities. Serbia finances the social institutions in this part of the territory. A notable crypto-mining activity is developing in this economic grey zone, a sector that thrives on favorable terrain. At the same time, the northern municipalities refuse to pay for the electricity produced by the Kosovo electricity company. Ironically, Mitrovica is also home to ethnic Albanian cryptocurrency producers<sup>(5)</sup>.

### **A country that is emptying out**

Emigration is a constant problem, with a negative net migration of 38,606 inhabitants in 2021 and a fertility rate (1.5 children per woman) below the population renewal rate. While the population is estimated at 1.7 million, the National Statistics Agency considers that the country may have already reached its population peak<sup>(6)</sup>.

Kosovo citizens will likely be able to travel visa-free to the EU from January 2024, in line with the country's EU perspective. Some see this as a risk of further encouraging emigration. A taxi driver says: *"I have been waiting for my visa to Germany for three years to go and work in my brother's restaurant."*

In practical terms, connections with foreign countries remain complex, although the authorities' cooperation with international financial institutions has allowed transport infrastructure development, such as motorways and railways. While Pristina airport is the central transport hub in Kosovo, major transport routes between Central and South-Eastern Europe still bypass Kosovo. For example, the Budapest-Athens railway project passes through Serbia and Northern Macedonia. For this reason, members of the Kosovar diaspora often have to travel through Serbia to make their journeys.

With the international community's eyes on Ukraine, its role in Kosovo's development could become secondary. Instead, the partners could focus their policy on the security and stability of Kosovo and the region and disengage from economic issues. It is up to Pristina to turn this into an opportunity and take greater ownership of its economic development: the low level of indebtedness of the Kosovar state is an opportunity to mobilize the country's resources. The consequences of the Covid-19 crisis and the Russian-led war in Ukraine could ultimately be opportunities for Kosovo to integrate the value chains closer to the European Union. And a thriving economy could only foster functional relations between the Kosovo Serb community and the state of Kosovo.

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While the implementation of an agreement between Kosovo and Serbia has yet to be proven, Drita, an accountant, notes bitterly: “After all these years, we remain a country in transition.”

**Notes:**

- (1) [Lajçaku thotë se Asociacionin do ta formojë Kosova, prandaj s’duhet të kihet frikë nga Republika Serbe](#) (Lajčák says that Kosovo will form the Association, so there is no need to fear the Serbian Republic), *KlanKosova TV*, 25<sup>th</sup> January 2023.
- (2) “Panic selling: assessing the main challenges and deficiencies of Kosovo’s privatization process,” Group for Legal and political studies, *Balkan Investigative Reporting Network*, Pristina, February 2016.
- (3) Data from the [World Bank](#).
- (4) Jean Francois Ponsot, “[Full Euroization of Kosovo: a Sustainable Strategy?](#)”, *Prishtina Insight*, 1<sup>st</sup> November 2022.
- (5) Leart Hoxha, “[Endgame Nears for Kosovo’s Crypto Haven](#),” *Balkan Insight*, 19<sup>th</sup> December 2022.
- (6) Data from the [Statistical Agency of Kosovo](#).

**Thumbnail:** Mother Teresa Boulevard in Pristina, Kosovo (photo by the author).

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[Back to the top of the page](#)

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