

VIENNEAST COMPASS: KOSOVO POST-ELECTION OUTLOOK

SUMMARY:

- **Albin Kurti's Self-Determination Movement (LVV) won a landslide victory in snap elections, pushing the dominant post-war parties from government for the first time;**
- **LVV will be able to govern alone, albeit with the support of an ethnic minority party;**
- **In the event of government instability, it will be internal, likely driven by Vjosa Osmani's centrist faction or unpopular policy compromises;**
- **Dialogue with Serbia is likely to stall given the harder stance of LVV, which will undermine future EU membership prospects;**
- **Anticorruption measures and statist economic policy will negatively impact FDI in the medium-term, but if successful will likely improve the institutional environment and domestic competitiveness.**

Context

On 14 February, snap elections were held for Kosovo's unicameral parliament. The vote was called following a ruling by the Constitutional Court which found that the incumbent government had been formed on an invalid basis. With 100% of the votes counted, the results are:

- *Opposition:* Self-Determination Movement (LVV) - 47.85% (+21.5)
- *Opposition:* Democratic Party of Kosovo (PDK) - 17.4% (-3.8%)
- *Ruling:* Democratic League of Kosovo (LDK) - 13.1% (-8.1%)
- *Ruling:* Alliance for the Future of Kosovo (AAK) - 7.43% (-4.1%)
- *Ruling:* Serb List - 5.54% (-0.9%)
- *Ruling:* Social Democratic Initiative (NISMA) - 2.6% (-2.4%)

Of the 120 seats available, 20 are reserved for ethnic minority parties. Although the seats have yet to be allocated, Albin Kurti's left-wing nationalist LVV will be just shy of an absolute majority. This is the most decisive electoral victory since 2001 and will enable for the first time the formation of a government that does not include either the LDK or PDK, which have dominated the post-war establishment. This was enabled by LVV

monopolising the widespread disaffection with LDK and PDK amid high levels of corruption and socioeconomic stagnation, in addition to its alliance with interim president and former LDK member, Vjosa Osmani.

A new hegemon?

The result is a positive indicator for government instability, which has been elevated over the past decade. LVV will very likely rely on the support of a non-Serb ethnic minority party to secure its ruling majority. There is legal uncertainty over whether Kurti may become prime minister, as the Constitutional Court had barred him from running for parliament due to a prior conviction over political acts committed in 2015. However, the scale of LVV's victory reduces the likelihood that Kurti's candidacy will be challenged.

LVV is likely to be able to govern without much challenge from its rival parties, all of which had their support bases reduced to their respective regional strongholds. Currently, both LDK and PDK are in disarray.

The large mandate won by LVV will thus allow it to govern relatively unimpeded. Any instability is likely to be internal, given that the party must reconcile its ambitious agenda with its inexperience in governing, as well as the wide range of structural issues that will likely require unpopular solutions. This would not be unprecedented for LVV, which split in 2018 when a centrist faction broke away. Such a scenario could if Kurti and Osmani diverge on the strategic direction of the government.

Policy trajectory

There are three primary issues that the incoming government will be facing, which will determine the risk outlook going forward. Its approach to these issues will be fundamentally different from that of its predecessors.

1. Geopolitics

LVV ran on a platform that prioritises anticorruption and the improvement of socioeconomic indicators. However, the elephant in the room concerns relations with Serbia, specifically as regards the formal recognition of Kosovo's independence. Until an agreement is reached, Kosovo cannot fully proceed with steps to integrate further with the European Union. Yet the stance of LVV on Serbia is tougher than that of LDK and PDK, given that it emphasises the principle of reciprocity.

Adherence to this principle would involve unacceptable compromises for Belgrade. Divergence between Belgrade and the Serb-majority north of Kosovo is highly unlikely, as the Serb List has won all 10 seats allocated to Serb parties and is a satellite of Serbian President Aleksandar Vucic.

Outside of this, there are other proposals that would be difficult for Pristina to accept without destabilising LVV, such as territory swaps and the addition of another level of executive authority through the Association of Serb Municipalities. EU-brokered negotiations are therefore very likely to stall even as the Biden administration reengages more systematically with Kosovo and Serbia.

Implementation of the Economic Normalisation agreements brokered by the Trump administration is also likely to face disruption, particularly as concerns the restoration of highway and railway traffic, cross-border infrastructure projects as well as the two joint feasibility studies that are envisaged.

Diplomatic standoffs are therefore likely in the 2-year outlook. Armed conflict is not likely, but in the event of an escalation symbolic gestures such as the 2017 Belgrade-Kosovska Mitrovica train incident are probable.

As relations with Serbia deteriorate, LVV – which is nominally an Albanian unionist party – may seek to increase regulatory and economic convergence with Albania, such as through the completion of a long-mooted customs union. However, both states have limited room for manoeuvre in this regard given Kosovo's complicated legal status and Albania's own desire to avoid international controversy as it begins the formal pre-accession process for the EU.

2. Corruption

Nonetheless, LVV will implement institutional reforms that could improve Kosovo's EU prospects in the longer term. According to the World Bank's, Kosovo scores among the lowest of Western Balkan states with respect to control of corruption and the rule of law.

The LVV government will seek to improve institutional quality by introducing a vetting process for judges and prosecutors as well as the heads of the intelligence agency and police. The payment structures of judges, prosecutors and police officers are likely to be examined with a view to their increase. The powers of the anticorruption agency will be expanded to enable verification of the wealth declarations of public officials, while a new specialised agency will be established to investigate high-level officials.

The legislative dominance of LVV combined with its political will to end state capture is likely to ensure that these reforms are implemented. Yet LVV may seek to embed its own clientelist networks. For example, during its three-month tenure in government in 2020, LVV and its allies to the boards of the state water, post and railway enterprises. This does not indicate that LVV will attempt state capture, but political control of strategic interests is likely.

3. Economy

LVV champions state interventionism and welfare in order to improve living standards, reduce unemployment and reform Kosovo's economic model. This is likely to disrupt foreign direct investment during the legislative period. LVV plans to dissolve the Privatisation Agency, halting the process altogether. Contract risks will increase for privatised companies where irregularities are suspected to have occurred.

In the meantime, the government will seek to strengthen domestic capital by establishing a development bank, which will extend low-interest loans with long grace periods to Kosovar businesses – some of which are micro, small or medium-sized enterprises. This will have an impact on the banking sector, the lending rates of which are than the average. As domestic businesses

strengthen, the trade deficit – which is currently around – will narrow. Key revenue sources such as remittances, which account for, will thus be absorbed into the domestic economy rather than bouncing into neighbouring countries.

Taxation risks will increase as the government seeks to fund these objectives, which will include the introduction of progressive taxation of income and sales. As the case of North Macedonia, suboptimal institutional capacity can produce changes that are sudden in their implementation, making financial planning difficult.

Even then, there is an elevated likelihood that LVV will struggle to fund its programme, given that along with potential sources of domestic financing. The Osmani faction, which is comprised of economic liberals, will also likely temper the ambition of LVV's development policy.