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# Impact of the withdrawal of up to 30% of pension savings on Kosovo's economy



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KOSOVO 2.0

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## Main findings:

- Assembly of Kosovo is in the process of reviewing the Draft Law which envisages the withdrawal of up to 30% of pension savings;
- In case this law is approved, Kosovo Pension Savings Trust (KPST) will be obliged to initiate the procedures to distribute of up to 594 million Euros, or close to a quarter of the funds under the management of KPST;
- The law would allow the withdrawal of savings for 695,523 contributors;
- Nearly half of contributors (48.6%) are expected to withdraw 96.5 Euros on average.
- The average value of a KPST contributor's savings is 5,400 Euros. In case of early withdrawal of savings, the recovery of funds would take 8 years, and the depletion of pension savings at retirement age would be reduced by 2.2 years;
- 90.4% of all contributors will be able to withdraw 58% (345.8 million Euros) of the fund of 594 million Euros, while the rest of 9.6% will be able to withdraw 42% (248.3 million Euros) of the total maximum withdrawal fund;
- Withdrawal of funds would render it impossible for citizens to purchase life annuity in the future, an opportunity where through the payment of a premium, contributors could receive a lifetime pension after retirement. The amount of savings required by a contributor to purchase a minimum annuity should be around 25 thousand Euros at the time of retirement;
- The injection of 594 million Euros in the market would further aggravate the situation with prices. Comparing the proposed amount of withdrawals with the weight of household consumption in 2021, the injection of over 594 million Euro represents a potential consumption increase of over 9.2%;
- The decline in international markets has also led to a drop in the unit price of KPST. Currently, KPST value is around 102 million Euros less than at the end of 2021;
- Frequent withdrawals from KPST would harm the credibility of KPST in financial markets, making it more difficult for KPST to perform well in the future;
- 2022 Draft Law does not provide for the reimbursement of withdrawn funds.

## Introduction

The Assembly of Kosovo has initiated the process of reviewing the Draft Law<sup>1</sup> which envisages early withdrawal of up to 30% of pension savings. This Draft Law, initiated by ten deputies of the Democratic Party of Kosovo (PDK) caucus<sup>2</sup> and supported by other parliamentary opposition groups, was distributed to MPs in early March 2022. In line with the procedures, on March 23, 2022, the Draft Law was sent to the Government for opinion. At the meeting of April 21, 2022, the Government announced its rejection of the legal initiative to withdraw up to 30% of pension savings.<sup>3</sup>

The Draft Law failed to receive the necessary votes at the meeting of the Assembly Committee on Budget and Finance, held on May 25, 2022. The Draft Law is expected to go out on the first reading in the next sessions of the Assembly of Kosovo.

This is not the first legal initiative for early withdrawal of pension savings. Following the economic crisis caused by restrictive measures for the management of the Covid-19 pandemic, at the proposal of the Government of Kosovo, at the end of 2020, the Assembly of Kosovo approved a law allowing citizens to withdraw 10% of their pension savings.<sup>4</sup> From December 2020 until April 6, 2021, when the deadline for withdrawal of savings expired, 427,363 contributors applied, withdrawing 198 million Euros.<sup>5</sup>

Prior to the adoption of the law on the first withdrawal of savings in 2020, GAP Institute had warned that allowing a one-time early withdrawal of pension savings could turn into a precedent for such requests in the event of future crises, thus endangering the financial security of citizens when they reach retirement age.<sup>6</sup>

This GAP Institute policy brief aims to analyze the impact the adoption of this Draft Law could have on the savings of citizens in KPST, economy and KPST operation.

## Economic impact of withdrawing funds from KPST

The increase in market prices as a result of the failure to resolve the bottlenecks created in the supply chain due to COVID-19 pandemic and the war in Ukraine has aggravated the economic situation of a part of society in Kosovo. Regarding this situation, the Government of Kosovo has introduced measures that aim to help mainly citizens in need, such as those under the Social Assistance Scheme, pensioners, students and employees with salaries up to 1,000 Euros.<sup>7</sup>

Through another initiative, opposition parties are aiming to push forward the proposal to allow citizens to withdraw up to 30% of funds from the Pension Savings Fund (KPST).

1 Assembly of Kosovo. Draft Law amending Law No. 04/L-101 on Kosovo Pension Funds, as amended by Law No. 04/L-115, Law No. 04 /L-168, and Law No. 05/L-116. Source: <https://bit.ly/3yQp3h7>

2 Assembly of Kosovo. Cover letter of the Draft Law. Source: <https://bit.ly/39WdlBy>

3 Government of Kosovo. Decision No. 01/70, dated – April 21, 2022. Source: <https://bit.ly/3sZxxyy>

4 Official Gazette. Law No. 07/L-016 on Economic Recovery – Covid 19. December, 2020  
Source: <https://bit.ly/3LQASqy>

5 Kosovo Pension Savings Trust. Trustorja-quarterly bulletin No. 53. Source: <https://bit.ly/3PHLdlq>

6 GAP Institute. The 10% dilemma – benefits and drawbacks of the early withdrawal of pension savings. July 2021.  
Source: <https://bit.ly/3wM35u6>

7 Office of the Prime Minister. Source: <https://bit.ly/3sUGskY>

The Draft Law provides for the possibility of withdrawing savings ranging from 10 to 30%, depending on the amount of funds saved:

- Persons who have pension savings in the amount of less than 10,000 Euros will have the right to withdraw up to 30% of their pension savings;
- Persons who have pension savings from 10,000 to 19,999 Euros shall have the right to withdraw up to 25% of their pension savings;
- Persons who have pension savings from 20,000 to 29,999 Euros shall have the right to withdraw up to 20% of their pension savings;
- Persons who have pension savings from 30,000 to 39,999 Euros shall have right to withdraw up to 15% of their pension savings.
- Persons who have pension savings of over 40,000 Euros will have the right to withdraw up to 10% of their pension savings.<sup>8</sup>

Unlike the first withdrawal of 2020, where citizens who had less than 9,999 Euros saved in KPST will have their funds withdrawn reimbursed by the government, the Draft Law of 2022 does not provide for reimbursement of withdrawn funds.

The proposed draft law affects around 594 million Euros of savings of over 695 thousand KPST contributors. Over 90% of KPST contributors have savings of less than 10 thousand Euros. Of these, around 337 thousand citizens will be able to withdraw an average amount of 96.5 Euros, since their total savings do not reach 1,000 Euros.

**Table 1.** Data on assets in the KPST, 2022

Amount of savings (€)	Maximum withdrawal value	No. of active contributors	Total value of savings (€)	Maximum withdrawal value (€)	Maximum withdrawal value (%)	Number of contributors as%
1 – 10.000	30 %	628,616	1152846000	345853800	58 %	90.4 %
10.001 – 20.000	25 %	51,210	676503000	169125750	28 %	7.4 %
20.001 – 30.000	20 %	9,385	226889000	45377800	8 %	1.3 %
30.001 – 40.000	15 %	3,609	123817000	18572550	3 %	0.5 %
Over 40.000	10 %	2,700	152531000	15253100	3 %	0.4 %
<b>Total</b>		<b>695,523</b>	<b>2332586000</b>	<b>594183000</b>		

Source: GAP Institute using KPST data

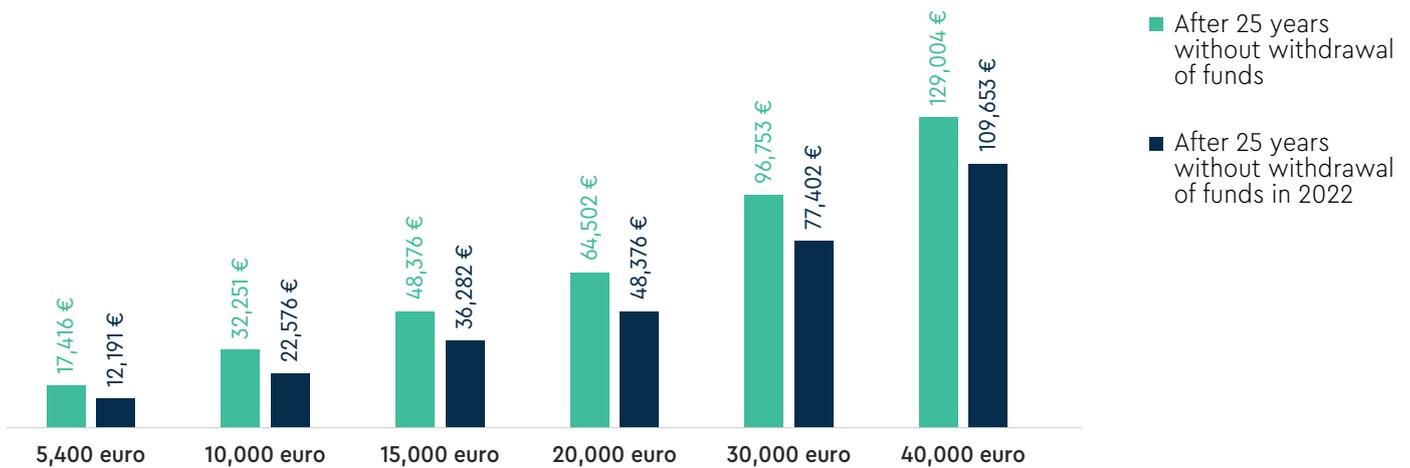
If the withdrawal of KPST funds is allowed, citizens who have less than 10 thousand Euros saved will remain with a very low savings balance. As the Draft Law does not provide for an increase in the rate of contributions from employees, such as from 5 to 10%, in order to recover these funds faster, the low balance will have multiple negative effects on contributors.

The average value of a KPST contributor's savings is 5,400 Euros. In case of withdrawal of funds, with monthly pension contributions of 5% each from the employee and the employer, the withdrawn funds could be recovered only after eight years, and at the time of retirement the savings collected would be spent 2.2 years earlier than without the withdrawal of funds from KPST.

<sup>8</sup> Assembly of Kosovo. Draft Law amending Law No. 04/L-101 on Kosovo Pension Funds, as amended by Law No. 04/L-115, Law No. 04 /L-168, and Law No. 05/1116. Source: <https://bit.ly/3yQp3h7>

A significant reduction in savings, such as the one intended with this Draft Law, leads to the future inability of citizens to purchase products such as life annuity, namely by paying a premium to an insurance company from savings collected in KPST in order to receive a lifetime pension. According to KPST report for 2020, the amount of savings required by a contributor to purchase a minimum annuity should be around 25 thousand Euros at the time of retirement.<sup>9</sup> For people over the age of 40 who currently have higher savings in KPST, such as 15,000 Euros or more, such an amount would be easily reached by the time they retire, even if they withdraw 30% of funds now; as the figure below suggests. Thus, the major damage is caused to people with less savings in KPST, mostly young people who just entered the job market or people with lower incomes.

**Figure 1.** Changes in the balance of several accounts of a 40-year-old contributor at the time of retirement, with and without withdrawal of funds from KPST



Source: GAP Institute using KPST data

Another issue with the withdrawal of 594 million Euros from KPST is the impact of their introduction in the economy. From 2021, as a result of the COVID-19 pandemic, which had caused many problems in the supply and production chain, but also due to other supply-side shocks such as the war in Ukraine, market prices have soared. Given that Kosovo is a net importer of products that have experienced significant price increases, such as electricity, wheat, oil, etc., developments in international markets are directly reflected in the economy of our country. This increase in prices continues further, and by April 2022, prices in Kosovo were 11.2% higher than in the same period in 2021.<sup>10</sup> The supply of basic products is expected to face difficulties in the medium term, as the Food and Agriculture Organization of the United Nations (FAO) warns in its report.<sup>11</sup>

<sup>9</sup> KPST: Annual Report 2020. Source: <https://bit.ly/3tifMuP>

<sup>10</sup> Kosovo Agency of Statistics. Harmonized Index of Consumer Prices (HICP), April 2022. Source: <https://bit.ly/3NwHxqQ>

<sup>11</sup> Food and Agriculture Organization. Source: <https://bit.ly/3xpLfh8>

The increase in the market demand would only aggravate the pricing situation. If we compare the proposed amount of withdrawals with household consumption in 2021, the injection of over 594 million Euro represents a potential consumption increase of over 9.2%.<sup>12</sup> A known concept in microeconomics is that the demand for basic products, such as bread (wheat, corn, etc.) and similar, is inelastic,<sup>13</sup> or rather is sensitive to price variations; as the possibility of replacing them with similar products is small.<sup>14</sup> Moreover, as another GAP Institute report on the impact of the Ukraine war on Kosovo's economy finds, the demand for products such as oil, appears to be inelastic, despite the sharp rise in oil prices in Kosovo. Thus, despite the fact that the price of oil increased by around 89% in the period January-March 2022 compared to the same period in 2021, the quantity consumed had remained the same.<sup>15</sup>

**Figure 2.** Demand for diesel and gasoline in Kosovo, January-March 2021-2022



Source: GAP Institute based on Customs data.

A similar situation when it comes to the impact of rising prices was observed in Chile, where the withdrawal of funds was also allowed three consecutive times. A report by the International Federation of Pension Fund Administrators (FIAP) in Chile finds that the withdrawal of savings from the pension fund has led to rising market prices which, in turn, caused other chain damage, such as the adjustment of credit rates against the inflation. Consequently, they increased living costs for citizens.<sup>16</sup>

<sup>12</sup> Kosovo Agency of Statistics. Gross Domestic Production (GDP) with Expenditure and Production Approach, Q4 2021.

Source: <https://bit.ly/3LlVXm>

<sup>13</sup> Inelastic means that the quantity consumed remains the same despite the change in prices

<sup>14</sup> Microeconomics. Besako et al. Source: <https://bit.ly/3lQj76Z>

<sup>15</sup> GAP Institute. The impact of the of the Ukraine war on Kosovo's economy. May 2022 Source: <https://bit.ly/3wV0Pj6>

<sup>16</sup> FIAP. Impact of withdrawals from Chilean pension funds on the economy and individuals.

Source: <https://bit.ly/39TMMSV>

In addition, the withdrawal of funds at a time when markets are experiencing large fluctuations, especially due to the war in Ukraine, poses another negative impact on the financial security of the citizens of Kosovo. At the end of 2021 the KPST unit price was around 1,722 Euros, whereas now it is 1,644 Euros (4.5% lower). An account in KPST with around 4,700 units at the end of 2021 had a balance of 8,094 Euros, while in May 2022 it has a balance of only 7,726 Euros, namely around 400 Euros less. The general fund managed by KPST is currently valued at around 102 million Euros less than at the end of 2021.

Withdrawal of funds at this time would have a double negative impact. Firstly, citizens are harmed by withdrawing less funds, as market fluctuations have decreased the value of investments at the moment. Secondly, the withdrawal of about 594 million Euros, a quarter of all assets under the management of KPST, implies that even if there are positive market developments in the second half of the year, due to a reduced base, the return on investment will be lower. In addition, such a move in the assets managed by KPST, with KPST forced to withdraw around 594 million Euros from investments in markets outside Kosovo, would harm the image of KPST in its investment funds. KPST has invested its other assets mainly in treasury bills in Kosovo, which have a defined maturity and cannot be withdrawn prematurely. Even the return of KPST's funds in Kosovo itself, in case this draft law is adopted, bears a cost in its own right, namely the cost of banking transactions for the transfer of funds.

**Figure 3.** KPST balance for an account with 4.700 units in two different periods



Source: GAP Institute using KPST data

Intervention in KPST funds for the second time around in such a short period increases the likelihood of further interventions in the future, as it happened in other countries, such as Chile, where in addition to the three withdrawals allowed since the onset of COVID-19 pandemic, two other attempts in the Assembly to allow new rounds of withdrawals failed. Moreover, being unable to allocate larger sums for a policy due to the applicable fiscal rules in Kosovo, future governments may see KPST as a source to significantly raise the salaries, pensions, etc.

## Conclusion

In July 2020, GAP Institute alerted that allowing a one-time early withdrawal of pension savings could set a precedent for future crises.<sup>17</sup> Less than two years later, we now have a second initiative, larger than the first one, to allow citizens' to tap into their pension savings. It thus seems that Kosovo is following Chile's example, a country which, since the onset of pandemic measures, allowed the withdrawal of pension savings three times around.

Early withdrawal of funds from KPST is, in essence, contrary to the Law on Pension Funds of Kosovo and the functions of the pension system. In the past, due to legal restrictions, KPST has rejected individual contributors' requests for early withdrawal of their savings on health or other grounds.

If the Assembly of Kosovo approves the law which allows citizens to withdraw up to 30% of pension savings, KPST is obliged to mobilize the withdrawal of 594 million Euros from the markets where citizens' savings are invested. Including the amount of the first withdrawal in December 2020-April 2021, a total of 792 million Euros will be withdrawn prematurely. This would harm the credibility of KPST, making future investments difficult and further risking the financial security of the citizens of Kosovo.

To address with the price crisis, GAP Institute believes it is of utmost importance for the government to continue adopting policies that mitigate the crisis. At this point, raising the minimum wage, which affects citizens of the lower end of income, is an adequate measure of government action. In addition, the Social Assistance Scheme should be reformed as soon as possible, as the current legal eligibility criteria for this scheme are leaving many poor households without coverage, while multi-member families continue to remain in poverty even after receiving social assistance, due to the small amount of benefits.

<sup>17</sup> GAP Institute. The 10% dilemma – benefits and drawbacks of the early withdrawal of pension savings. July 2021.  
Source: <https://bit.ly/3wM35u6>

**Annex: Average amount allowed for withdrawal according to the proposed Draft Law, 2022**

% proposed for withdrawal under the Draft Law	Balance by	No. of contributors	As% of total contributors	Total balance (€)	Amount withdrawn from the proposed withdrawal (€)	Average amount withdrawn per contributor (€)
<b>30%</b>	0-1000	337,788	<b>48.6%</b>	108,618,000	32,585,400	<b>96.47</b>
	1001-1500	57,411	8.3%	70,979,000	21,293,700	370.90
	1501-2000	40,955	5.9%	71,217,000	21,365,100	521.67
	2001-2500	32,071	4.6%	71,842,000	21,552,600	672.03
	2501-3000	25,544	3.7%	69,976,000	20,992,800	821.83
	3001-3500	21,327	3.1%	69,167,000	20,750,100	972.95
	3501-4000	17,140	2.5%	64,097,000	19,229,100	1,121.88
	4001-4500	14,014	2.0%	59,455,000	17,836,500	1,272.76
	4501-5000	11,681	1.7%	55,390,000	16,617,000	1,422.57
	5001-6000	18,670	2.7%	102,355,000	30,706,500	1,644.70
	6001-7000	15,400	2.2%	99,534,000	29,860,200	1,938.97
	7001-8000	12,762	1.8%	95,619,000	28,685,700	2,247.74
	8001-9000	11,936	1.7%	101,401,000	30,420,300	2,548.62
	9001-10000	11,920	1.7%	113,196,000	33,958,800	2,848.89
<b>25%</b>	10001-11000	13,340	1.9%	139,573,000	34,893,250	2,615.69
	11001-12000	8,409	1.2%	96,657,000	24,164,250	2,873.62
	12001-13000	7,107	1.0%	88,839,000	22,209,750	3,125.05
	13001-14000	5,669	0.8%	76,262,000	19,065,500	3,363.12
	14001-15000	4,082	0.6%	59,098,000	14,774,500	3,619.43
	15001-20000	12,603	1.8%	216,074,000	54,018,500	4,286.16
<b>20%</b>	20001-25000	5,786	0.8%	128,513,000	25,702,600	4,442.21
	25001-30000	3,599	0.5%	98,376,000	19,675,200	5,466.85
<b>15%</b>	30001-35000	2,210	0.3%	71,539,000	10,730,850	4,855.59
	35001-40000	1,399	0.2%	52,278,000	7,841,700	5,605.22
<b>10%</b>	40001+	2,700	0.4%	152,531,000	15,253,100	5,649.30
<b>Total</b>		<b>695,523</b>	100.0%	2,332,586,000	<b>594,183,000</b>	

Source: GAP Institute using KPST data



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