



Economic trends and business environment in Republic of Kosova 2008

May 2009, Prishtina

Abbreviations

KCC	Kosova Chamber of Commerce
MTI	Ministry of Trade and Industry
MEF	Ministry of Economy and Finance
FTA	Free Trade Agreement
SOK	Statistical Office of Kosova
IMF	International Monetary Fund
KPST	Kosova Pension Savings Trust
CBK	Central Bank of Kosova
TAK	Tax Administration of Kosova
UCD	Unified Customs Declaration
SME	Small and Medium Enterprises
KTA	Kosova Trust Agency
POE	Public Owned Enterprises
GDP	Gross Domestic Product
IFC	International Financial Corporation
WB	World Bank
CEFTA	Central Europe Free Trade Agreement
EU	European Union

Content

Introduction.....	4
I. Global Economy.....	6
II. South-Eastern Europe Economy.....	7
III. Economy of Republic of Kosova.....	10
Main Developments.....	10
The structure of Enterprises.....	11
Labor Market.....	14
Inflation.....	15
Foreign Trade.....	17
Financial Sector.....	23
Kosova Pension Savings Trust.....	25
Foreign Investments.....	27
IV. Environment for Business.....	28
V. Conclusion.....	33

Introduction

Kosova, began the year 2008 with the brightest event of its history, while the Assembly of Kosova declared the independence of Republic of Kosova on 17 February 2008. Then , on 9 April 2008 the Assembly of Kosova approved and on 15 June 2008, entered into the force the Constitution of Republic of Kosova, as its most sublime act for democracy, freedom and the rights based on the merits of western civilization. With the proclamation of Kosova as an independent state and with the entrance into force of its constitution, was established the foundation of prosperous society, politically and economically sustainable with the objective of regional and European integration, and the establishment of Kosova as a factor of stability and cooperation in the region.

In economic aspect, an important event was the Donor Conference in Brussels, and the donor pledges for a financial support of Kosova in a value of 1.2 billion Euros. Also, was initiated membership in important international financial institutions such as International Monetary Fund and World Bank. Government projections are that in the spring 2009, Kosova will become a member of these two very important financial bodies.

The year 2008 for Kosova, was a year of Challenge regarding the increasing of economic development. The financial and economic crisis that shocked the global economy, has made this challenge unpredictable. This crisis was reflected especially in the industrialized countries, leaving aside the states on economic development. Fortunately, the crisis was not reflected in the consequences as reflected in developed countries, because of weaker economic development of Kosovo and weak relations with the capital markets. However, despite the protection of banking system from the crisis due the advanced underdevelopment, financial crisis did not left without damaging the banking system in Kosova while until the end of 2008 the value of the stock of Pension Savings Trust of Kosovo pension contributors respectively marked decline in a value around 100 million euros, that in the economic circumstances of Kosova represents a heavy blow.

Crisis, was also well reflected in the percentage of Remittances sent to Kosova, and also, was damaged the export of Kosova because of price movement in capital markets.

In terms of creating a favorable environment for business development, positive factor was the initiation and acceptance of requirements of KCC and business committee to reform fiscal policy. So, the Government and the Assembly approved the changes of fiscal policies that entered into the force since 1 January 2009.

Also, positive developments were undertaken in terms of road infrastructure. While began the modernization of roads and took capital investments in this field.

An other sector which considered as positive developed was the Education area, with the beginning of certain reforms, which is worth mentioning the beginning of accreditation of universities which operate in Kosova. This sector should have more attention, because it represents the basis for creation of professional staff for labor market, which will be carrying the burden of economic development in the future.

The level of economic growth according the sources of Government was larger in previous years, but also further with great concern for the obstacles that come in this journey remain energy instability, very high deficit of trade balance, high unemployment, informal economy and rule of law.

Kosova dissimilarly of countries in the region do not use trade instruments to protect or stimulate local products that has direct negative effect on the level of trade deficit. Therefore, the extent of further liberalization of free circulation is damaging our economy, because missing the same actions and behavior of countries in the region.

Inflation respectively establishment of prices, compared with trends in previous years was very negative factor that had a negative impact on the decline of consumer purchasing power to Kosova.

The privatization process although in the process final however in 2008 was followed by stagnation of the proceedings, while an important factor was the period of transfer of Agency within the Government.

The regional integration CEFTA despite the volume of trade turnover reflected in the end of the year the non-tariff barriers imposed by Serbia and Bosnia and Herzegovina concerning the export of goods from Kosova into these markets. despite this and despite requests to use measures of reciprocity even for goods that are imported from these two neighboring countries in Kosova, however solution of disagreements and elimination of this blockade was admitted to institutional way, demanding the bodies of CEFTA for solution of this political blockade.

I. Global Economy

Period of years 2004-2007, when global GDP had increased its average approximately 5% per year, from the perspective of today it looks like something distant. The economic growth in most of countries slowed in the first half of 2008, due to monetary constraints. However, global economic activity deteriorated further in fourth quarter after deterioration of credit markets and the failure of Lehman Brothers. The industrial production in countries of OECD (thirty most developed economies in the world) in November declined in 7.6%, that was biggest fall since 1975.

A prediction is that the global GDP in the year 2008 will fall on 0.3%. The economic crisis and recession mostly shocked the most industrialized countries, do not leaving aside the economies of South-Eastern Europe countries, while a number of countries affected by financial and economic crisis approach to IMF for financial support.

Different countries took concrete actions depending on the nature of the crisis. Some countries supported their financial systems, where the return to normality is very difficult because of large negative dimensions that they had and difficulties in return of confidence to financial systems.

Some governments try to encourage their economies through their expansionist macroeconomic policies. They predict that lower interest rates and fiscal stimulation can affect the stabilization of economic activities in future. late 2010 or early 2011 is expected to be periods when economies should be stabilized, with condition or assumption that policy makers will take appropriate steps to prevent the return or continuation of the global financial crisis.

The USA economy which was on recession since December 2007, is expected to continue to decline until late 2009, while 2010 is expected with a very small real growth of GDP, comparing with the yearly economic growth approximately from 3%, which was in the period between the years 1992 and 2007.

Through the deep recessions have passed also Canada, Euro-Zone and UK. With a fall from 2% to 4% the consider to be deep recessions. Japan's economy has fallen so much in the fourth quarter as some have named as Depressed the economy of Japan.

II. Europe and South-Eastern Europe

First wave of strike by international economic and financial crises touched candidate countries for EU, and potential candidates during the third and fourth quarter of 2008.

GDP growth continued to slow more in the third quarter due to lower domestic and foreign demand. In Croatia growth slowed in 1.6% from 3.4 in the second quarter and 5.6 % in 2007, mainly because of lower consumption. In Turkey, in one of the most affected countries, GDP growth was only 0.5% in the third quarter comparing with 2.3% of second quarter or 4.6% of 2007.¹

The slowdown of global economy, especially in EU, their main export market, has damage the demand in some important sectors for export, such as steel industry and vehicle production industry. Therefore, Turkey may experience negative growth of GDP.

Slow activity combined with lower prices of energy and food leads into declining accrual account deficit. Until the end of the third quarter accrual account deficits remain high, ranging from 6% of GDP in Turkey to 35.4 of GDP in Montenegro. However, in the fourth quarter i.e. the trade balance of Bosnia and Herzegovina was improved for the first time in the two previous years.

In Turkey, the imports are reducing gradually, and following trade deficit is expected to change in coming years. As regards the financial aspect, the capital revenue structure is disturbed, especially in Croatia, Turkey and Serbia, due to fall of FDI (Foreign Direct Investments) and because of increased of foreign debts, especially in the non-banking system.

Continuation of falling prices of agricultural products and energy from July, resulted in lower inflation from double-digit number in some countries up to average levels.

The unemployment level until the third quarter had reducing trend, however the economic crisis expressed also in this aspect during the end of the year.

In October, some countries were faced with the crisis of confidence in banking system were depositors with draw their substantial amount of assets (B&H, Serbia, Montenegro) but this crisis was managed well.

¹ EU candidate and Pre-accession Countries, Economic Quarterly, 9 January 2009

So, the global economic crisis began to affect the EU countries and potential candidate countries. Now it is clear that most countries will experience a slowdown of growth in the near future, as a result of lower demand and limited financial resources, especially FDI and credits.

Candidate and Pre-accession countries: a display summary²

Gross Social Product (in real terms, annual changes in %)

	'04	'05	'06	'07	'08	Q2/08	Q3/08	Oct08	Nov 08	Dec08
Q4/08										
Croatia	4.3	4.3	4.8	5.6	:	3.4	1.6			
FYRO Macedonia	4.1	4.1	3.9	5.0	:	6.2	5.5			
Turkey	9.4	8.4	6.9	4.6	:	2.3	0.5			
Albania	5.7	5.7	5.5	6.0						
B & H	6.3	3.9	6.7	6.8						
Montenegro	4.4	4.2	8.6	10.7		8.0	8.0			
Serbia	8.2	6.0	5.6	7.1		6.3	4.9			
Kosova	3.4	3.9	4.0	4.1						

Unemployment (% - labor force)

Croatia	:	:	:	9.6		13.2	12.4	12.9	13.2	
FYRO Macedonia	37.2	37.3	36.0	34.9		33.8	33.0			
Turkey	10.3	10.2	9.9	9.9		8.9	9.8			
Albania	14.7	14.3	13.9	13.4	:	13.0	12.6			
B & H	43.1	44.7	44.2	42.9	:	41.0	40.5	40.3		
Montenegro	22.3	18.5	14.7	11.9	10.7	11.0	10.7	10.7	10.8	10.7
Serbia	19.5	21.8	21.6	18.8	:	13.0	12.5	12.2	12.6	
Kosova	39.7	41.4	44.9	43.0	:					

Current account situation (% of GDP)

Croatia	-5.2	-6.4	-7.9	-8.7		-10.6	-12.3			
FYRO Macedonia	-8.4	-2.6	-0.9	-3.0		-11.1	-12.9			
Turkey	-3.6	-4.6	-6.1	-5.8		-6.2	-6.0			
Albania	-5.8	-8.9	-6.5	-10.5		-12.6	-13.2			
B & H	-16.3	-17.3	-7.8	-12.6						
Montenegro	-7.2	-8.5	-24.7	-29.4		-33.9	-35.4			

² EU Candidate and Pre-accession Countries. Economic Quarterly, January 9th 2009

Serbia	-13.4	-8.3	-9.4	-14.9	-20.7	
Kosova	-13.0	-13.0	-13.6	-17.0		

Inflation (Consumption Prices Index, annual change in %)

Croatia	2.0	3.3	3.2	2.9	6.5	7.4	6.0	4.7			
FYRO Macedonia	-0.4	0.5	3.2	2.3	8.3	9.9	8.4	5.5	7.1	5.2	4.1
Turkey	8.6	8.2	9.6	8.8	10.4	10.3	11.7	10.9	12.0	0.8	10.1
Albania	2.9	2.4	2.4	2.9	4.2	3.0	2.8	2.6			
B & H	0.5	4.3	6.1	1.5	8.4	9.4	7.3	5.5			
Montenegro	2.2	2.4	3.0	4.3	10.0	9.2	7.8	6.5			
Serbia	9.8	17.3	12.7	6.8	10.7	11.9	10.7	8.9	10.6	9.2	6.8
Kosova	-1.1	-1.4	0.6	4.4	13.9	9.8	4.5	2.6			

General Government Balance (% of GDP)

Croatia	-4.1	-3.8	-2.2	-1.8		
FYRO Macedonia	0.0	0.2	-0.5	0.6	0.2	3.0
Turkey	-4.5	-0.6	-0.1	-1.2		
Albania	-5.1	-3.5	-3.3	-3.5		
B & H	1.6	2.4	2.9	1.3		
Montenegro	-2.6	-2.3	-2.7	6.4	2.8	4.3
Serbia	0.9	0.9	-1.6	-2.0	-0.8	-0.3
Kosova	-4.5	-3.0	2.4	7.1	1.2	

Economy of Republic of Kosova

Main Developments

Year 2008 was also a challenge for Kosovo's economy in its reconsolidation way towards a sustainable and compatible economy with the laws of free market. In this journey happen positive movements but also negative movements too. As positive trend we consider:

- Reforming of tax policy. Despite of previous years, when the countries in the region had priority on attracting investors, because of lower interest rates, year 2008 were characterized by the decision to reduce the tax rates in Kosova, which entered into force on 1 January 2009.
- The Donors Conference for Kosova and the Donors pledges for a financial support of Kosova in a value of 1.2 billion Euros.
- Continuation of deposits growth and credits in the financial-banking system
- Beginning of works for reconstruction of road infrastructure
- Work on reforming of education system and accreditation of university institutions

In the other side, year 2008 characterizes Kosova with these negative trends:

- Loss of Kosova Pension Saving Trust, only in 2008 the value of shares of pension contributors felt more than 90 million euros or approximately 30%.
- The very high trade deficit of 1,65 billion euros respectively coverage of imports by exports by 10%
- Inflation during 2008 with an annual average of 9.4%
- Obstacles for free trade economy and the disregard of CEFTA agreement by the neighboring countries, Serbia and Bosnia & Herzegovina.
- Continues to reign the unfavorable structure of economic activities
- Continues to reign the high level of unemployment, while the growth of unemployment from 324.835 (2006), 334.595 (2007) achieves in 335.942, comparing with 2007 unemployment market a growth of 0.4%
- Stagnation in the privatization process
- Stagnation in the investments sector, especially in the sectors that we can encourage economic development and to calm down the unemployment.

The Structure of Enterprises

Year 2008 ended with a total of 90.929 registered businesses on Business Registration Agency. Comparing with 2006 while has been total 55.884 enterprises, there is an increment of 35.045 or 61.5%, while on 10 March 2008, when the number of enterprises was 62.475, there is an increment of 28.457 enterprises or about 68.7% more.

This explains that trend of business registration continues with same pace even though a percentage of these enterprises were never activated or were activated temporarily.

The structure of small and medium enterprises by number of employees³

Classification	Number of employees	Number of businesses	Percentage %
Micro enterprises	1 - 9 employees	89 447	98.37
Small enterprises	10 -49 employees	1 218	1.34
Medium enterprises	50-249 employees	209	0.23
Big companies	250-..... employees	55	0.06
Total		90 929	100%

The structure of enterprises almost remains in the same level with previous years, while regarding the number of businesses all are increased, regarding participation in structure the micro enterprises has increased slightly and small enterprises reduced. But, in general we can say that the structure of micro enterprises, small, medium enterprises and large companies remain unchanged. Further lead micro enterprises (1-9 workers) with a participation of 98.37% of total registered enterprises.

The structure of companies by the Ownership type⁴

No.	Type of ownership	Number of enterprises	Percentage (%)
1	Personal business enterprise	82.846	91.12 %
2	General partnership	3.002	3.30 %

³ MTI, Agency for Supporting of SME-s, Statistical overview of Company Sector, January 2009

⁴ MTI, Agency of Supporting SME-s, Statistical overview of Company sector, January 2009

3	Limited partnership	89	0.10 %
4	Limited liability company - L.L.C.	4.250	4.67 %
5	Joint stock company	344	0.37 %
6	Foreign company	282	0.31 %
7	Social owned enterprise	15	0.02 %
8	Public owned enterprise	12	0.01 %
9	Agricultural cooperative	57	0.06 %
10	Other enterprises under the KTA jurisdiction	32	0.04 %
Total		90.929	100 %

From the table above, we can say that continues the trend of business registration where dominant form of business is individual business while on 31 December 2008 had a total of 82.846 businesses. However the trend of business registration in other forms, respectively, in form of LLC (Limited Liability Company) remains unchanged despite the recommendations of the Kosova Chamber of Commerce to have a large number of LLC-s, according to law on commercial companies. Of course, long-term uncertainty to be present and to survive in market conditions that survives in Kosova economy and small need for real corporate governance, is the reason to have a large number of companies registered in the form of individual businesses.

The table shows that 91.12% of companies are registered as individual businesses (in 2006 it was 91.7%), while 4.67% are registered as LLC (in 2006 it was 4.3%)

Number of Businesses by Regions and Municipalities

The size of population in regions and municipalities, apparently has determined the number of registered businesses by region and municipalities. Data available of 2008 (See the table below) shows this structure:

1. Prishtina Region 33.047 companies or 36.3% of total
2. Gjilan Region 18.367 companies or 20.2 % of total (while Ferizaj leads followed by Gjilan)
3. Peja Region 15.781 companies or 17.4 % of total (While Peja leads followed by Gjakova)
4. Prizren Region 13.792 companies or 15.2 % of total
5. Mitrovica Region which has the lowest number of registered companies , total number is 9.942 companies or 10.9%

Number of registered businesses by Region and Municipality⁵

Regions and Municipalities	Number of Businesses	Percentage
Kosova	90929	100.0
Prishtina Region	33047	36.3
Prishtina	21210	23.3
Podujeva	3025	3.3
Glllogoc	2201	2.4
Lipjan	2524	2.8
Fushë Kosova	2176	2.4
Shtime	1033	1.1
Obiliq	875	1.0
Gjilan Region	18367	20.2
Gjilan	5566	6.1
Ferizaj	6679	7.3
Kamenica	1630	1.8
Kaçanik	1841	2.0
Vitia	2136	2.3
Shtërpce	419	0.5
Novobërda (Artana)	96	0.1
Peja Region	15781	17.4
Peja	5931	6.5
Gjakova	5139	5.7
Istog	1699	1.9
Klina	1638	1.8
Deçan	1374	1.5
Prizren Region	13792	15.2
Prizren	8254	9.1
Sharr	829	0.9
Thëranda	1566	1.7
Rahovec	1800	2.0
Malisheva	1343	1.5
Mitrovica Region	9942	10.9
Mitrovica	4348	4.8
Vushtrri	2518	2.8
Skenderaj	1532	1.7
Leposaviq	789	0.9
Zubin Potok	344	0.4
Zveçan	411	0.5

⁵ MTI, Agency for SME Supporting, Statistical overview of company sector, January 2009

Labor Market

Unemployment remains one of the main concerns that is facing Kosova and this is the weakest macroeconomic indicator, comparing with the countries in the region. Continuing unemployment, a big concern for Kosova economy (estimated 45%). Estimated unemployment in 2008 includes a large number of unemployed about 334.942 persons, comparing with the total number of jobseekers in 2007, is about 0.4% higher than 2007.

The low level of economic development, non-performance of privatization process, lack of creating a favorable business environment and low level of foreign direct investments, are some of main factors which has affected in stagnation of creating new work places. On other side, because of the younger population of Kosova the rate of people who find job is too high. So, these factors reflect the increase of unemployment and impossibility of reduction of unemployment.

Because of poor relations of kosovar economy with the markets which has been affected by global crisis, reaction of the crisis of job loss in Kosova, in year 2008, fortunately lacked. But, the chances are that negative effects on a high ratio to appear in 2009, because of recession that has shocked and continues to shock the most industrialized countries, and also region countries.

Unemployment regarding age-group appear like this: age-group 15-39 years old consist a number of 249.653 persons or 74.3% of total; age-group 40-54 years old consist 65.585 persons or 19.5% of total and the age-group over 55 years old consist 20.658 personas or 6.1% .

Regarding the qualification structure, unemployed with university degree are 2.953 persons or 0.9% and represents the lowest category of unemployment, while the unqualified category represents the highest percentage of unemployed that achieves a number of 200.969 or 60%.

In a regional aspect the unemployment is represented as below:

1. Prishtina 64.340 unemployed
2. Mitrovica 62.816 unemployed
3. Prizren 57.426 unemployed
4. Gjakova 40.006 unemployed
5. Peja 39.016 unemployed
6. Gjilan 36.470 unemployed
7. Ferizaj 35.868 unemployed

But, consider in fact to ratio between number of population and number of unemployers, it shows us that Mitrovica municipalities or region is on the most unfavorable situation comparing with other municipalities.

Information about labor market in Kosova – January, 2009⁶

	01/2009	12/2008	% Change 01/2009	11/2008	% Change 01/2009	Beginning of 2009	01/2008	% Change 01/2009
Registration / unemployed	3337017	335942	0.3%	335581	0.4%	335942	335732	0.4%
Women	158858	158120	0.3%	157915	0.5%	158120	157370	0.8%
Regions:								
Ferizaj	35988	35888	0.3%	35785	0.6%	35888	35054	2.6%
Gjakova	40112	40006	0.3%	39915	0.5%	40006	39036	2.8%
Gjilan	36581	36470	0.3%	36437	0.4%	36470	36204	1.0%
Mitrovica	63208	62816	0.6%	62373	1.3%	62816	82807	0.6%
Peja	39138	39016	0.3%	38944	0.5%	39016	38244	2.3%
Prishtina	64428	64340	0.1%	64882	-0.7%	64340	88801	-6.1%
Prizren	57582	57426	0.3%	57245	0.6%	57426	55786	3.2%
Age-Groups:								
15-24	102088	101658	0.4%	101327	0.8%	101658	99331	2.8%
Women	49091	48891	0.4%	48768	0.7%	48891	47697	2.9%
25-39	148846	147995	0.3%	147931	0.4%	147995	147906	0.4%
Women	70877	70639	0.3%	70570	0.4%	70639	70387	0.7%
40-54	85785	65585	0.3%	65613	0.3%	85585	66367	-0.9%
Women	29950	29857	0.3%	29857	0.3%	29857	30147	-0.7%
55+	20658	20704	-0.2%	20690	-0.2%	20704	22128	-6.6%
Women	8781	8774	0.1%	8753	0.3%	8774	9172	-4.3%

⁶ Labor market information in Kosova, Sector of analysis in Labor Market, Dep. Employment, MLSW

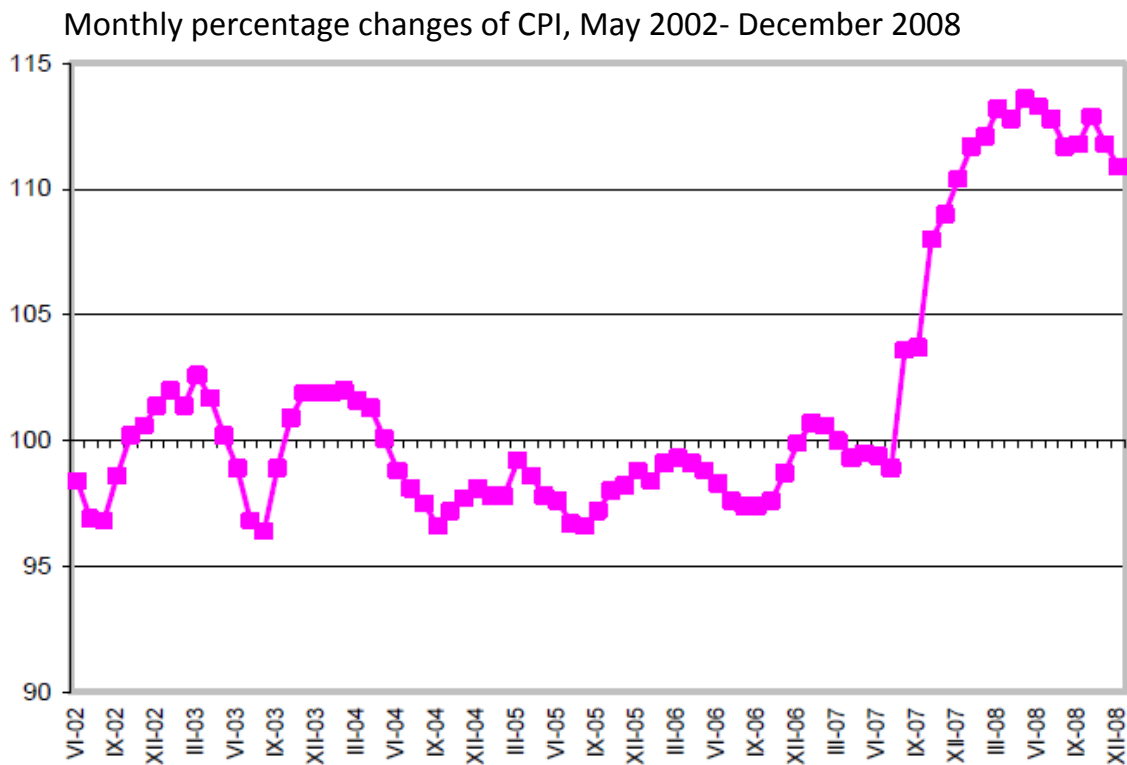
	01/2009	12/2008	% Change 01/2009	11/2008	% Change 01/2009	Beginning of 2009	01/2008	% Change 01/2009
Ethnic Groups								
Albanians	306470	305433	0.3%	305081	0.5%	305443	305518	0.3%
Serbs	13179	13198	-0.1%	13212	-0.2%	13198	13450	-2.0%
Other Min.	17368	17311	0.3%	17268	0.6%	17311	16764	3.6%
All Min.	30547	30509	0.1%	30479	0.2%	30509	30213	1.1%
Qualification Structure:								
Unqualified	201544	200969	0.3%	200892	0.3%	200892	200425	0.6%
Women	114043	113802	0.4%	113527	0.5%	113527	112877	1.2%
Semi-Qual.	13682	13695	-0.1%	13693	-0.1%	13693	14013	-2.4%
Women	6420	6424	-0.1%	6413	0.1%	6413	6539	-1.8%
Qualified	29081	29025	0.2%	29235	-0.5%	29235	29790	-2.4%
Women	4289	4295	-0.1%	4314	-0.6%	4314	4489	-4.5%
Sec. School	87515	87087	0.5%	86644	1.0%	86644	86544	1.1%
Women	32071	31989	0.3%	31871	0.6%	31871	31934	0.4%
High School	2221	2213	0.4%	2211	0.5%	2211	2209	0.5%
Women	848	842	0.7%	840	1%	840	839	1.1%
University	2974	2953	0.7%	2888	3.0%	2888	2751	8.1%
Women	1021	1002	1.9%	983	3.9%	983	926	10.4%
People with Disabilities	1821	1814	0.4%	1818	0.2%	1814	1730	5.3%
Women	708	703	0.7%	709	-0.1%	703	670	5.7%

Inflation

Last two years, 2007 and 2008, were periods where the prices of consumption respectively of products and services in Kosovo achieved a very high tide. While the index of prices in Kosova for 2007 showed an average increase of 4.3%, the year 2008 reflects a deterioration of this indicator and the average index of prices achieve 9.4%. Highest Inflation reached in mid-2008.

Because that Kosova is still properly an unstructured economy and because it is mainly based on the imports of goods and services then the effects of increased prices in foreign markets are directly expressed in our economy too.

High inflation and financial impossibility (affected by poor economic flows) to affect in wage increase and social transfers has reflected that social situation to be worsen, especially the most risked layers or less protected.



Foreign trade

Trade turnover of Kosova with foreign markets during 2008 was increased significantly. Total import of goods achieved in an amount of 1,84 billion euro while the export in total achieved an amount of 188 million euro.

Regular exports were 88.9 million Euros seized and re-export value of 95.7 million Euros. Imports increased a value of 22.7% comparing with 2007 and export 93%. During 2007 import had an annual growth of 20.8%, while exports of goods increased 35.2% comparing 2006 and as a consequence, import coverage by exports in 2007 marked 6.4%, comparing with 5.7% in 2006.

Year 2008 were characterized with the growth trend of trade deficit in goods which achieved in 1.65 million Euros respectively with an increased trade deficit of 17.9% or 250 million Euros compared with previous year.

Regarding to foreign partners with whom was made a frequented trade, Macedonia leads with the structure of imports and Albania leads with the structure of exports. From Macedonia were imported 18.6% (in 2007 it was 15.7%) of goods or 343 million Euros from total of imports, followed by Serbia with a value of 208 million Euros or 11.3%. In the third place is Germany with 196 million Euros or 10.6%.

Albania is ranked first on exporting of Kosova goods with 15.6% or 13.9 million Euros followed by Macedonia with 14.6% or 12.8 million Euros and Switzerland ranked third with 11.9% of total of the exports or 10.7 million Euros. This indicator is about regular exports.

If we compare year 2007 with 2008 regarding growth and decline movements in with higher exporter turnover, results that the group of 10 countries remained the same just their positions changed, while Albania and Macedonia have changed the first and second places and also other places reflected with changes.

Regarding imports Macedonia continues to keep the first place, followed by Serbia and Germany in second respectively third place. Also in group of 10 countries which imported from Kosova were some movements in changing of positions, i.e. Albania ranked on ninth position, which country were not included to this list previous year.

Exports and the structure of exported goods

Main part of exports 44.2% (in 2007 – 42%) consist from “metals and metal articles” which achieve the amount about 39.3 million Euros. Exported mineral products consist 10.9% of total exported products to be followed by prepared foods by 9.95% and vegetable foods by 9.2%. Regarding the destination of exported goods, in 2008 main part of exported goods was directed towards CEFTA countries with a participation of 42.7% (in 2007 – 49%) while exports towards EU countries consist 33.5%.

Imports and the structure of imported goods

Mineral products were the most imported products with a participation of 16.6% or 306 million Euros, prepared food by 14.2% or 262 million Euros, machinery and electrical telecommunications equipment by 12.8% or 236 million Euros. Regarding the destination of imported products, in 2008 CEFTA countries participate with 37.6% in overall structure, same with previous year and EU countries by 37.4%, as it was in previous year.

Main trade indicators during 2008

WHERE EXPORTED KOSOVA		
1. Albania	15.6%	13.918
2. Macedonia	14.2%	12.677
3. Greece	11.9%	10.666
4. Switzerland	8.24%	7.325
5. Serbia	7.2%	7.325
6. Slovenia	5.9%	5.257
7. Italy	5.5%	4.937
8. Germany	4.7%	4.179
9. B & H	4.5%	4.036
10 Bulgaria	1.9%	1.702
11. Other Countries	20%	17.767
Total	100%	88.928

WHAT EXPORTED KOSOVA		
1. Metals and Metal Articles	44.2%	39.305
2. Mineral Products	10.9%	9.737
3. Prepared food	9.9%	8.842
4. Vegetable products	9.2%	8.184
5. Machinery -equipments	6.3%	5.609
6. Lather industry	5.4%	4.681
7. Different produced articles	2.5%	2.252
8. Plastics and tires prod.	1.78%	1.581
9. Chemicals	1.72%	1.525
10. Wood prod.	1.71%	1.516
Other	6.2%	5.510
Total	100%	88.928

FROM WHOM HAS IMPORTED KOSOVA		
1. Macedonia	18%	343.129
2. Serbia	11.3%	208.061
3. Germany	10.6%	196.217
4. Turkey	6.8%	125.759
5. China	6.4%	119.435
6. Greece	4.2%	78.071
7. Italy	4.0%	73.541
8. Slovenia	3.6%	66.625
9. Albania	2.8%	52.636
10. Croatia	2.7%	49.934
Other countries	29.0%	526.238
Total	100%	1.839.646

WHAT IMPORTED KOSOVA		
1. Mineral Products	16.6%	306.134
2. Prepared food	14.2%	261.674
3. Machinery -equipments	12.8%	236.405
4. Metals and Metal Articles	9.5%	176.330
5. Chemicals	7.3%	135.776
6. Equipments for Transportation	7.1%	130.847
7. Vegetable products	5.6%	102.991
8. Living animals	4.6%	85.339
9. Plastics and tires prod.	4.5%	83.707
10. Articles from stone	3.6%	67.144
Other imports	13.7%	253.293
Total	100%	1.839.646

Financial sector

The global economic crisis affected kosovar economy too, and this crisis also damaged the financial sector of Kosova. Kosova financial sector had considerable damages, while the value of shares of Kosova Pension Saving Trust (Trust) in the end of 2008 reflected with a loss of 30% (of the most achieved value) or expressed on money it is about 100 million Euros, respectively 10% of Kosova budget. Funds of TRUST were invested in different international markets where the market disorders and the global financial crisis caused apparent decline in value of these funds.

In other side banking system, fortunately, still undeveloped in stage to be included in sophisticated investments of financial products, escaped in the first wave of crisis.

Banks in Kosova their assets has invested in loans for businesses and consumer credits, in Kosova, and a part of these assets were invested in foreign banks for their needs to realize their daily banking transactions.

In the financial sector of Kosova dominates the commercial banks, assets of whom in September 2008 consisted 79% of total assets. The other part of assets includes pension funds (about 13%), micro-financial institutions, insurance companies (3.4%) and financial supporters (0.2%).

The assets of banking system, bank assets continued to grow during 2008. Assets of banking system achieved the level of 1.7 billion Euros or 27% more than previous year. Assets grow about 4% comparing with previous quarter of 2008. The structure of assets is dominated by loans which consist about 67% of assets total and it means the value of 1.15 billion Euros.

The loans as main position of assets, consist mainly of loans for companies 77%, and part of loans for civic represents only 23%.

The most advanced economic sector in loans still remains services by 77% of total loans for businesses (59.6% of total loans). Loans for industry , construction and energy represents about 19% of total loans for businesses. The sector of agriculture is lack supported by 3% of total loans for businesses.

Also during 2008, financial sector stressed up with a growth of deposits. The level of deposits the end of 2008 achieved in 1.4 billion Euros. Participation in structure of deposits remains same, while families (citizen) had an ownership

about 61% of total deposits, then public enterprises 18% of total deposits while private companies consist by 14% of deposits.

Deposits in banking system continue to remain in short-term. The structure of deposits during 2008 had a little negative change. Short-term deposits consist by 34% (small increase) of total deposits, while long term deposits and saving deposits includes the biggest part by 65% (small decline).

A critical problem for commercial banks may be liquidity, because of non-consistence between terms of loans and deposits. Poor management of assets passives of banks can cause negative consequences for banking system liquidity. This increases the suspense when it is known that the Central Bank has no function for funding non-liquidity to banks if needed.

The biggest non-compliance reflected is at the loan terms while 82% of deposits are with a term less than 1 year while 68% of loans are with a loan term more than 2 years.

The level of interest rates in banking loans continues to be high, while the difference between active and passive rates are around 10%, that shows that this sector despite the risks has a high profitability. The level of interest rates had no changes in banking market despite in changes in structures of banks, even though for possible changes to affect should come to terms since 2008. Therefore we can freely say that the year 2007 regarding lowering interest rates in the banking system shows that the competition did not had positive effect.

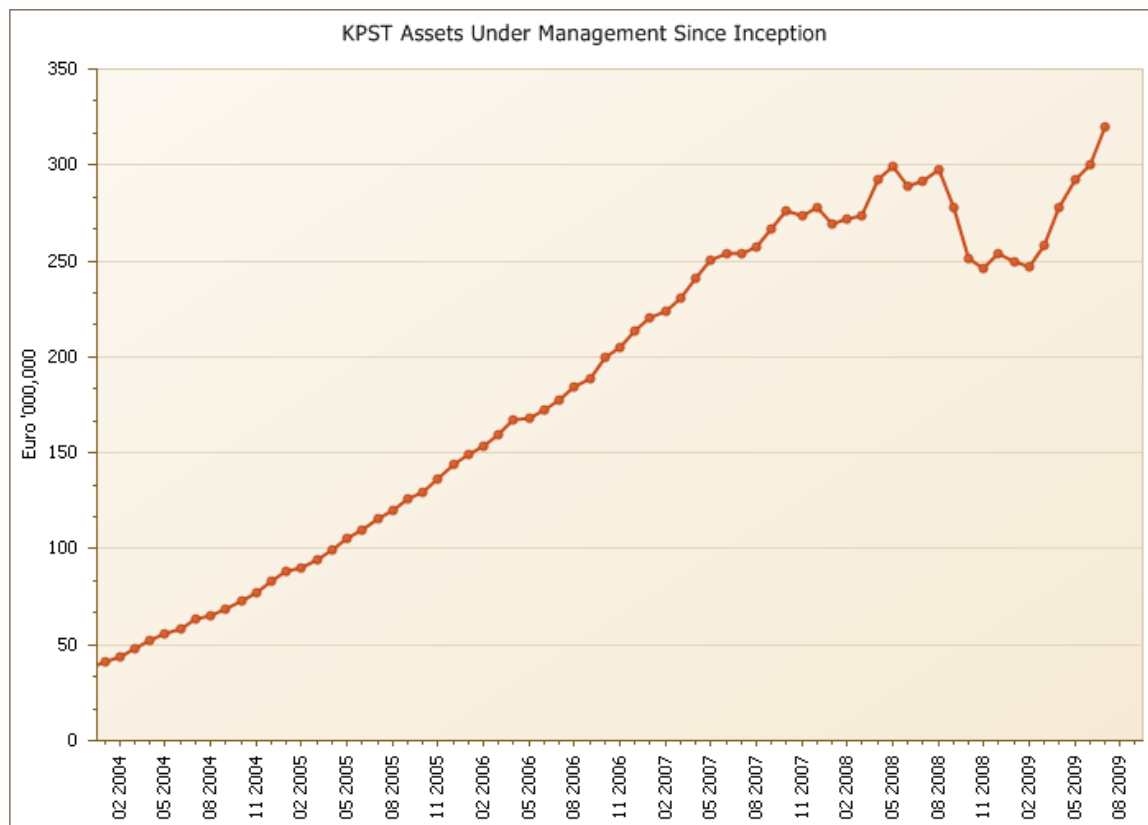
Kosova Pension Savings Trust

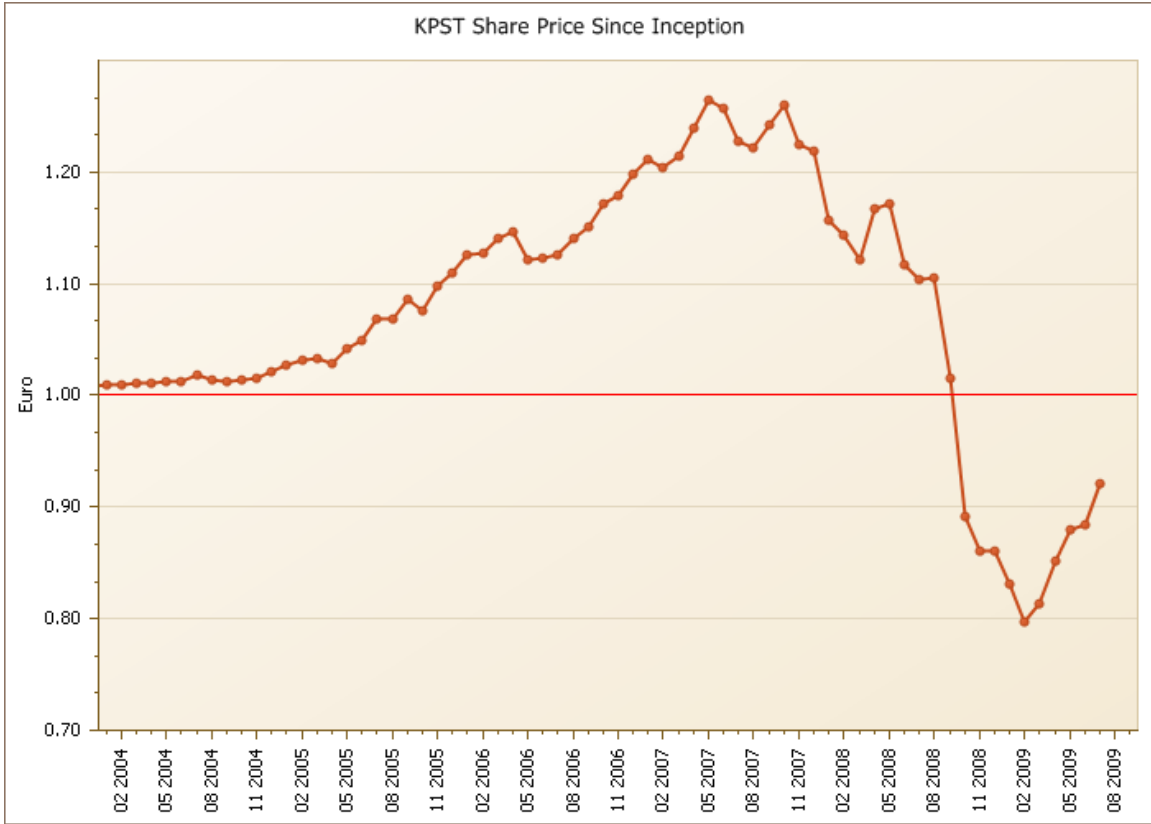
Kosova Pension Saving Trust showed the weakest performance in framework of financial system of Kosova. Year 2008 while appeared the global financial crisis with the biggest fall of assets value in global markets since the time of economic depression of 30's, because of assets invested on these markets consist with a big loss of value of these assets of pension contributors.

While the highest value of assets had achieved in May of 2007, by 1.26 Euros for unit in late 2008 the value of assets had a loss about 0.86 Euros, expressed on percentage over 30%.

An important negative factor was stagnation in election of the Board as responsible to manage these assets, by CBK and Assembly of Kosova.

Assets under management and share price of KPST





Foreign Investments

With the law no. 02/L-33 For Foreign investment, Kosova provides righteous and equal treatment for foreign investors and their investments in Kosova, continuous security and protection, security or protection needed not in any way is not deficient than it is guaranteed by the international law. Investors with this law are protected by nationalization, expropriation and have the right to transfer their profits at anytime to the countries they come.

Two of main barriers left aside with the changes that happen last year. First, Kosova declared its independence and have been recognized by several countries, and the second is the reduce of tax rates in corporate and in personal income.

There are some difficulties to identify the exact investments in Kosova, so special statistics provides CBK, SOK, Macroeconomic Department of MEF and IPAK.

Investments during 2008 that is important to stress up are mainly in the financial sector while this year begun operating like BKT and TEB Paribas Join Venture, then GSM operator IPKO, several small companies and with small investment in consulting sector.

Beginning of project - Slovenian Industrial Park Teknopolis in Shtime, construction of a Turkish college in Lypjan, etc.

Regarding a published report from Central Bank of Kosova, Foreign direct investments during 2008 achieved in a value about 350 million Euros, which is an annual decline of 16.9%, mainly because of Privatization process stagnation.

Problems that caused a risk feeling to foreign investors were: problems with energy, dysfunction of the law, presence of informal economy, administrative procedures undefined yet about work permit by municipal assemblies, and credit policy (high interest rates and immediate return of credit).

IPAK for 2009 has foreseen the Drafting the Strategy of Investments promotion and FDI while through a research and analytic document would become evaluation of investment policy.

IV. Environment for Business

Considering that business conditions provided in previous years were not favorable and the conditions that could not make the kosovar economy attractive for foreign investors, during 2008 some Ministries started to take concrete steps to change the current situation. Domestic economy developed slowly and existing environment was unattractive for foreign investors. In other side the region countries had taken concrete steps to change this situation in field of investments, and at this aspect Kosova remained as a less attractive country to invest then neighboring countries.

GDP growth was low, high unemployment with upward trend, informal economy was in grow, inflation achieved the highest point since ending of the war and all these indicators was alarming signs that what should be undertaken, as not been too late.

In edition we will see estimates and will see if these main factors changed positively or not (comparing with 2007) that affects the environment for normal development of business such as:

- Energy
- Fiscal Policies
- Access to finance
- Physical infrastructure
- Rule of law and legislation

Energy

The energy sector with some small improvements during 2008, almost remained same and unsustainable. Energy was of the main factors that affected negatively in investments in production sector or in sectors that are dependable to electrical energy.

Physical Infrastructure

The existence of about 7500km roads in Kosova, while 650 are urban roads, 1300 regional roads and 5600 local roads, our country despite the suitable geographical position still did not create an authentic infrastructure conform European standards. Existing infrastructure does not reduce the cost and do not ease the transport of raw materials or goods, considering the narrow roads, and that the new roads has not enough quality. Railway infrastructure lies in a line of 334km, while the parts damaged during the war are still waiting for repair.

Lack of modern road infrastructure, operational railway, water, canalization, plants for wastewater treatment, qualified network for transmission and distribution of electricity, etc. are factors that discourage investors to invest in Kosova.

But, during 2008 was activated the work of modern road construction in Prishtina- Skopje ; Prishtina-Aeroport directions. Begun a good work which is expected to soak other capital investments foreseen in the budget of Kosova, for 2009 and so, Kosovo began to create a network of safe and easy movement of capital and people.

Fiscal Policy

The year 2008 regarding business environment started with several initiatives and concrete improvement works, respectively change of some economic circumnutates. So, after a long period of pressure and demands for reform of fiscal policy by business community led by KCC, the Government decided to change tax rates for corporations and personal incomes. Also, filled and changed the Law of Tax Administration and Procedure as an additional element for a favorable economic climate.

So, in 2008 was taken the decision to change tax rates as follows:

- Tax on corporations from 20% to 10%
- Tax on personal incomes from 0,5, 10 and 20% to 0,4, 8 and 10%
- VAT from 15% to 16%

New tax rates entered into force since 01 January 2009, and hopefully this change will affect expanding base of taxpayers in Kosova in attracting of new

investors and gradually filling the budget of Kosova. Taxes on personal incomes are considering as the lowest level comparing with region countries.

Also, the Law on Tax Administration and Procedures is expected that will make easier the priority of tax administration in case of repaying the debt, except all will be focused in helping of repayment of primary debt rather than removing the existing penalty.

Access in Finance

Although the year 2008 according to some foresights should began with reducing of tax rates because of banking competition, however this did not happen in practice. In other side, in the second part of the year began Global financial crisis which did not affected banking sector in Kosova, however it created preconditions in the future to continue with the same loan conditions even more unfavorable.

Global financial and economic crisis started to affect also in Kosova in some sectors, and kosovar business in the future may face with more difficulties in case of access to finance from commercial banks, because of risk increase in international financial markets.

So, kosovar businesses still must figure on the unfavorable conditions of credit or support in developments of their businesses.

Rule of Law and Legislation

Despite of drafting of most of laws performed in accordance with standards, requirements European legislation – *acqui communitaire*, however, this sector is considered as weakest sector, more fragile, inefficient and with insufficient professional capacity in the processing of contested cases .

In Kosovo courts there are more than 200,000 civil and criminal unresolved subjects for a long time. delays in resolving the particular subjects, lack of law enforcement in accordance with existing legislation represents a major obstacle to development and normal economic activities and in attraction of potential foreign investors in Kosova

The area of economy, during 2008, was enriched with new laws and completion of existing laws approved by the Assembly of Kosova, while the most important are:

No.	Name of Law	Law no.	Approval	Act & Date
1	Law for the Kosovo Consolidated Budget	03/L-013	15.02.2008	UNMIK Reg.2008/13-29.02.2008
2	Law for public financial management and responsibilities	03/L-048	13.03.2008	Decree no. DL-014-2008; Date 15.06.2008
3	Law to amend the law No. 2002 / 9 for labor inspectorate	03/L-017	29.04.2008	UNMIK Reg.2008/34 14.06.2008
4	Law for Kosova Privatization Agency	03/L-067	21.05.2008	Decree no.DL-023-2008; Date 15.06.2008
5	Law for Central Bank of Republic of Kosova	03/L-074	05.06.2008	Decree no.DL-028-2008; Date 15.06.2008
6	Law for Railways of Republic of Kosova	03/L-076	05.06.2008	Decree no.DL-030-2008; Date 15.06.2008
7	Law for Amending the Law of Assembly of Kosova 2004/9 for Energy Regulator	03/L-080	13.06.2008	Decree no.DL-032-2008; Date 15.06.2008
8	Law for amending UNMIK reg. 2050/20 to amend UNMIK Reg.2001/35 for Pension Fond of Kosova	03/L-085	13.06.2008	Decree no.DL-036-2008 Date 15.06.2008
9	Law for Public Owned Enterprises	03/L-087	13.06.2008	Decree no.DL-039-2008; Date 15.06.2009
10	Law on Mediation	03/L-057	18.09.2008	Decree no.DL-048-2008; 03.10.2008
11	Law for improvement and change of law no. 2003 / 9 for cooperatives and farmers	03/L-004	3.10.2008	Decree no.DL-050-2008; 13.10.2008
12	Law for improvement and change of law no. 02/L-5 for SME support	03/L-031	17.10.2008	Decree no.DL-052-2008 Date 06.11.2008
13	Law to change the law on spatial planning	03/L-106	10.11.2008	Decree no.DL-055-2008; Date 17.11.2008
14	Customs and excise code of Kosova	03/L-109	10.11.2008	Decree no.DL-054-2008; Date 10.11.2008
15	Law for agricultural inspection	03/L-029	20.11.2008	Decree no.DL-065-2008;
16	Law for accreditation	03/L-069	20.11.2008	Decree no.DL-067-2008; Date 13.12.2008
17	Law for improvement and change of law no.2004/48 for Kosova Tax Administration	03/L-071	14.12.2008	Decree no.DL-001-2009 Date 19.01.2009
18	Law for improvement and change of law no.2003/11 for Roads	03/L-120	12.12.2008	Decree no.DL-075-2008 Date 30.12.2008
19	Law for Constitutional Court of Republic of Kosova	03/L-121	16.12.2008	Decree no.DL-070-2008 Date 30.12.2008
20	Law for improvement and change of law for Health	03/L-124	16.12.2008	Decree no.DL-074-2008; Date 30.12.2008

21	law for Tax for hotels accommodation in tourist facilities	03/L-027	18.12.2008	Decree no.DL-083-2008 date 07.01.2009
22	Law for excise tax rate in Kosovo	03/L-112	18.12.2008	Decree no.DL-077-2008 Date 30.12.2008
23	Law for Taxes in Corporation Incomes	03/L-113	18.12.2008	Decree no.DL-072-2008 Date 30.12.2008
24	Law for VAT	03/L-114	18.12.2008	Decree no.DL-080-2008 30.12.2008
25	Law on personal income tax	03/L-115	18.12.2008	30.12.2008
26	Law change of UNMIK Regulation 2003/16 on the Promulgation of the law on telecommunications approved by Kosova Assembly	03/L-085	13.06.2008	Decree no-DL-037-2008; Date 15.06.2008
27	Law change of UNMIK Regulation 2005 / 2 on the establishment of the Independent Commission for Mines and Minerals in Kosovo	03/L-081	13.06.2008	Decree no.DL-033-2008; Date 15.06.2008

V. Conclusion

Kosovo's independence will also be a very persuasive factor to develop a stable economy and simulate foreign direct investments. Even though there were high expectances for increase in investments in Kosovo in 2008, it did not result positively. Some of the main reasons that led Kosovo in this situation are: global financial crisis, non-favorable environment for businesses, stagnation in privatization process, insufficient promotion of Kosovo's economy in the world and its potential areas for investment, informal economy, economic organized crime in some areas within Kosovo, inadequate rule of law etc.

Kosovo's economic growth during 2008 primarily was as a result of dynamic private sector rather than a support from government to create more favorable conditions for development of private sector.

Reforms in fiscal sector which will be valid starting from January 1, 2009, are considered as encouraging elements for investments and new job opportunities.

Business community in Kosovo has started to apply different standards, starting from standards on quality to those on quality management systems, which will make Kosovo products more competitive in region and wider.

Transportation infrastructure is still one of the main barriers in creating a desirable environment for businesses. Completion of Durrës-Vermice motorway will create a very important precondition for free movement of goods and services, capital, people and overall economic growth. This project will be the biggest project ever made since the independence of Albania and Kosovo.

Finally, the biggest challenges remain to be in dealing with non-formal economy and occurrences in energy sector.