

— THE REPUBLIC OF KOSOVO —

# A young country is growing up

TEXT International Affairs, Chamber of Commerce

PHOTO Besart Ademi / Unsplash



## Kosovo

### Facts & figures

**Political capital:** Pristina

**Business languages:** Albanian, Serbian, English

**Business currency:** Euro

**Working days:** Monday-Friday

**Time zone:** CEST

**Climate:** Predominantly continental

**Surface:** 10.887 Km<sup>2</sup> (4 times the surface of Luxembourg)

**Population:** 1.95 million (2022)

**GDP per capita (PPP):** 12.721 (2021 est.) 105 in the world ranking (Luxembourg is 3rd)

**Growth rate:** 9.1% (2020)

**Inflation rate:** 3.35% (2021)

**Unemployment rate:** 25.8% (2021)

**Ease of doing business:** 57 ranked by World Bank (2021, Luxembourg is 72nd)

**Exports/imports:** Exports cover imports by 15.9%

**Trade balance:** Trade deficit of EUR 426.116 (2022)

**Corruption indicator:** 39 on a scale of 0 (highly corrupt) to 100 (very clean). 90 out of 180 countries ranked by Transparency International

**Main economic sectors:**

**Agriculture:** 11.9%

**Industry:** 17.7%

**Services:** 70.4%

**Country risk classification (OECD):** 6 on a scale of 0 to 7. The lower the number, the better the country's creditworthiness.

Sources: Kosovo Agency of Statistics, Eurostat, Trade Economics, OECD, CIA.gov

**Kosovo is Europe's youngest state – having only recently gained its independence in February 2008 but also in terms of population: 70% of Kosovars are aged under 35 years. Having been substantially hit by the COVID-19 pandemic, Kosovo had to endure a recession of -6% in 2020.**

Although economic growth estimates for 2021 differ between Kosovo Central Bank's and the International Monetary Fund's (7.5%), both highlight a robust economic recovery and faster growth rates than initially foreseen. This can be attributed to a generous inflow of remittances, diaspora tourism and an increase in exports. Kosovo's large diaspora which made up 15,1% of GDP in 2019 and which is mainly to be found in Germany (37%) and Switzerland (27%).

International financial institutions remain cautious in their predictions for economic growth in 2022 given global supply chain shocks and the ongoing effects of the pandemic which contribute to unpredictability. Yet, most GDP growth predictions for Kosovo are between 3.8 and 4%.

Kosovo is part of the Central European Free Trade Agreement (CEFTA) which unites the 6 Western Balkan countries and Moldavia. The country also benefits from the Stabilization and Association Agreement (SAA) with the EU, which was signed in 2016 and has since allowed for the elimination of customs duties on Kosovar products being exported to the EU, as well as a gradual dismantling of customs duties for EU exports to Kosovo, granted that the provisions of the agreement are respected.

Finally, during the Summit in Sofia in 2020, the 6 Western Balkan States approved the proposal for a common regional market to stimulate exchange and commit to the EU *Acquis Communautaire*.

### Key Economic Sectors

The Kosovar economy has a narrow productive base, relying mainly on extraction and processing of raw materials (gold, silver, copper, steel, marble, lead zinc, nickel, aluminum...). The construction sector, driven by funding from the diaspora and international donors, contributed to 9% of GDP. Also noteworthy is the development of the textile industry (451 companies).

Over the last years, several sectors with great potential have emerged in the economy, namely wood, ICT/Digitalization, Green Tech and the Creative Industries.

Kosovo has the highest rate of internet users in the region, with 93% of the population having internet access. This has allowed the ICT sector to develop substantially. In a study by PwC, 982 companies registered in the ICT sector in Kosovo. This sector presents two big advantages: access to incubators and accelerators and the availability of affordable workspace. The existing ICT ecosystem is extensive, with many labs, innovation centers and workspaces (ICK, ITP, etc.) that provide startups with mentoring, financing, incubation, training and co-working spaces. A supportive ecosystem is a must for a thriving ICT industry. Kosovo is a great example of this, with recently established funds and innovation centers. Support also comes from the Government of Kosovo, which is working to position the country as a regional hub for information technology (IT)-related products

City of Prizren



and services, relying on the strong IT and English-language skills within its workforce. There are a growing number of IT companies focused on outsourcing for European and U.S. companies and talent attraction by foreign companies has become of increasing interest. Hence, in the next months, the Luxembourg Chamber of Commerce will explore further cooperation possibilities in the region.

Another key sector of the economy that has enjoyed strong growth is the wood processing sector. Since 2017, there has been increased investment for companies specializing in the production of kitchens, baths, doors, upholstered furniture, and combined wood, metal and glass. The sector is developing while also getting support in business development services and access to finance.

In terms of Green Tech, Kosovo has enjoyed funding from the EIB, one of the key partners of Kosovo in its green agenda, supporting the country's energy security and decarbonization of local economies. This sector keeps evolving.

### Opportunities in the Kosovar market

Kosovo's proximity to key markets in Europe and a youthful population provide opportunities for growth. Trade facilitation and logistics connectivity are getting better and its low taxes and labor costs, and strong ties with its diaspora are factors supporting this growth.

As part of the process of rapprochement with the European Union, the business climate in Kosovo has improved in recent years. Kosovo's 'Doing Business' score rose from 71 points in 2019 to 73.2 in 2020 and ranks now in 57th place.

Despite the challenges, Kosovo has attracted a number of significant investors, like international firms. Covid-19 related global supply disruptions have increased business interests in Kosovo, using the country as a base for near-shoring production destined for the EU market as Kosovo provides preferential access for products to enter the EU market through the SAA. —

#### Go International

**Country seminar** Kosovo: 8 December 2022.

**Trade mission** to Kosovo: 2 - 5 May 2023 – more information to follow on [www.cc.lu](http://www.cc.lu)

#### Useful contacts

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**Erion Sico**

Architectural Design Manager,  
Guardian Glass

*“The idea of an  
Open Balkan Union is  
gaining momentum.”*

#### What is your business relationship with Kosovo?

Our company, Guardian Glass, has long lasting business activities in Kosovo. Currently, we have 8 direct active glass processors and customers who are being supplied our European Factories, including the one in Bascharage, Luxembourg.

#### What opportunities do you see in this market?

Based on our past and current experience, we see the opportunities in further construction development of Kosovo, and in exports of readymade windows and façade elements worldwide, mainly the EU, Switzerland, Germany and non- EU to Kazakhstan. The reason for the above-mentioned growth is created by a large diaspora of Kosovar Albanians living abroad who are investing in buying apartments and houses in Kosovo after retirement, and the investments of the Kosovar- Albanian diaspora investing in windows and façade glazed element production in Kosovo aimed for exports.

#### What risks or difficulties do you encounter there?

Despite the fact that Kosovo is considered to be risky for investments (political instability) I'm confident to say that based on my knowledge of Kosovo and the surrounding markets, I don't see a deterioration of further political instability as the peace talks are moving into the right direction, especially considering the fact that the idea of an Open Balkan Union is gaining momentum. The best proof for that are the significant investments of the Albanian diaspora in Kosovo and its exports to other countries.

#### What advice would you give to companies that would like to work with this country?

My advice is that all possible investments into Kosovo should be looked at in a spectrum of larger market size created by the Open Balkan initiative (Serbia, Kosovo, North Macedonia, Bosnia Herzegovina, Montenegro and Albania) all together 20 million (the size of the former Yugoslavian market).

It is widely expected that the countries belonging to the Open Balkan Union will join the EU at some stage altogether (almost all of them have the status of potential membership).