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Ministria e Tregtisë dhe Industrisë
Ministarstvo Trgovine i Industrije-Ministry of Trade and Industry

TRADE EXCHANGES OF KOSOVA

2008

July 2008

In the first year of independence Kosova has marked a pronounced economic progress. In 2008, economic growth is estimated to be 5.4 percent, which is higher than the average percentage of the Western Balkans countries. This level of growth is expected to be maintained in the years to come. Other macroeconomic parameters also indicate a positive movement in Kosova economy. The level of Direct Foreign Investments remains satisfactory, whereas prices are kept under control. Banking system also remains powerful and growing. In the other hand, fiscal sector is continuously improving. In the end, exports marked the highest level after the war.
These trends in Kosova economy are marked in year 2008, which was among the most difficult years for global economy in the last decades. Financial crisis, which turned to be a global crisis, brought deep recession in world's developed countries. Less developed countries, including countries in transition also faced certain economic difficulties as a result of global crisis. Kosova was not able to fully avoid the crisis as well, although its effect is very small. There are indications that show signals of the reduction of remittances, imports, private sector loans, and Direct Foreign Investments in comparison to previous years. However, these effects were kept under control by government expenditures, especially through capital expenditures and salaries which had special impact on consolidating domestic demand.

Despite these positive trends many challenges remain. These are related especially to high level of unemployment rate and Kosova's competitive position on foreign market. Concerning the latter, a continuous negative trade balance is an indication for an urgent all-inclusive institutional approach towards this problem. Kosova institutions are aware that an all-inclusive approach and economical and political reforms are required in order to change the operating environment in Kosova and to improve competitive position of Kosova in world market. Consequently, their goal is to change and supplement existing economic policies and improve institutional functionality. This would have greatly advanced the operating environment in Kosova.

In this context, MTI has undertaken important institutional steps to advance the position of Kosova's exportation sector in foreign market. MTI has finalized a new document for the Trade Policy of Kosova. This document is continuation of the year 2004 document and several other previous government documents concerning Kosova's trade regime. Improvements added to the document take into consideration the political changes as a result of the declaration of independence of the country, which has changed the context and political position of Kosova in the international arena, and influenced the economic position of Kosova as well. Moreover, the making of this policy has been addressed in the context of the process for integration of Kosova in EU. Improvements made to this document also take into consideration the signals from business community of Kosova and other interested economic parties. Based on this document, in 2009 MTI will start preparation of the Strategy for Promotion

of Exportation. Both of these basic documents will present a detailed plan of measures to revive Kosova's exportation sector. This descriptive report of Kosova's foreign sector is yet another attempt of MTI to show its commitment to advance the foreign sector.

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1. Introduction

This report analyzes main course of Kosova's trade exchanges in 2008. A certain number of dimensions have been researched in this report. Initially, in order to generate a discussion context, international economic development will be discussed, with main focus on trade exchanges. Developments on the Western Balkans region will also be analyzed in this context. Kosova's Trade Policy, a document which has been finalized a short time ago, will be summarized later on. An analysis of main foreign trade indicators will follow. Kosova exports and imports will be analysed within the context of its structure and main trade partners. In regards to the latter, the analysis will focus on certain groups of countries, Western Balkans countries and European Union (EU) countries respectively, as main trade partners of Kosova.

2. Developments in International Trade[1]

After several years of rapid growth, the world economy was faced with multiple problems in 2007 and 2008. Now the world is near recession. Financial problems that intensified in the middle of 2007, surging oil prices and tendencies for very tightening monetary policies in several countries paved the road to economic difficulties in 2008. Consequently, world production rate marked a sensitive decline. This decline was at 1.3% in world level. Reduction of general production rate in developed countries was particularly evident. In developed countries general production in 2008 marked a decline of 1.4% if compared to the previous year. Among this group of countries, Japan marked the largest decline at 1.7% compared to the previous year. Developing countries and those in transition were not able to resist these difficulties, effects of which, however, do not seem to be as extensive as in developed countries. For countries in transition gross production growth in 2008 was 6.9% whereas 8.3% in 2008. In developing countries, growth dropped from 7.1% in 2007 to 5.9% in 2008.

Worldwide difficulties in 2008 had an impact in trade exchanges as well. In 2008 world trade increased 4.4%, which indicates a decline from previous year, which was 6.3% (approximately half of the average growth during the period between 2004 and 2007, or 8.6% respectively.) This decline was mainly due to reduction of imports by USA, which make for 15% of total world imports. Simultaneously, USA exports also declined. European countries exports were also influenced by the global economic crisis, particularly due to decline of demand on USA market. In 2008, Western Europe exports also declined from 3.9% to 3.6%. Approximately similar effects have been observed in Asia, particularly in Japan. In the beginning of the year, African and Latin American

[1] Information and data given in this part are based in: United Nations (2009), World Economic Situation and Prospects 2009, [online] http://www.unctad.org/Templates/webflyer.asp?docid=10852&intItemID=2068&lang=1&mode=downloads; and, UNCTAD (2009), Trade and Development Report 2008, [online] http://www.unctad.org/Templates/webflyer.asp?Docid=10438&intItemID=1397&lang=1&mode=downloads.

countries benefited from high prices of products and services (especially those related to agriculture and tourism) by increasing their exports, however, in the second half of the year price trends changed direction creating reverse effects.

Projections indicate that demand of imports in majority of the countries is expected to decline further, thus increasing chances for further decline in world trade.

There were many attempts taken to alleviate the effects of the crisis, but without much success. These attempts were mainly in financial sector. Regulation of financial sector was among the first steps, followed by injection of large public funds for recapitalization of banks, which was another measure applied. As a result, governments of countries became co-owners of troubled banks and offered guarantees in deposits and other financial assets in order to improve reliability of this sector. Nevertheless, it seems that without powerful macroeconomic measures well-coordinated by all important actors in world market, global recession is inevitable.

3. Developments in the Western Balkans[2,3]

Countries of Western Balkans region were less affected by the economic crisis. Records indicate that decline of economic activity in these countries was not even close to that in developed countries. In fact, some of the countries were affected very little by the crisis. However, there is a wide consensus that no country will be immune to the crisis. Croatia, Serbia and Montenegro were the first regional countries to be affected by the crisis in the second half of 2008. Albania and Montenegro were not much affected by the crisis. An explanation to this phenomenon seems to be related to the fact that the structure and level of trade exchanges and investments of the regional countries with the world is different. Therefore, countries with powerful trade and investment connection to EU were affected earlier and the intensity of the impact was greater. On the other hand, countries such as Albania and Bosnia and Herzegovina which had fewer ties to EU and developed countries that were affected more by the crisis, seems to have been more resistant to the effects of the crisis.

To express it in numbers, after an impressive economic growth in 2007 (average GDP growth was 6.3%), the same started to slow down in the Western Balkans countries in 2008. Economic activity in 2007 was a result of powerful demand in domestic market and increase of salaries and loans. In 2008 regional exports marked an average increase of 9%. However, due to deceleration of growth in 15 EU countries (Euro zone countries) such level of exportation growth from the region is not sustainable. From the offer point of

[2] Besides Kosova (economic trends of which shall be discussed later on) other countries of Western Balkans are: Albania, Macedonia, Montenegro, Serbia, Bosnia and Herzegovina and Croatia
[3] Information and data given in this section are based on European Commission (2009), The Western *Balkans in Transition*, [online] http://ec.europa.eu/economy_finance/publications.

view, primarily services and financial intermediation activities, telecommunication, transportation and trade, were the greatest contributors of economic growths in the region. For Croatia and Montenegro, tourism was another determinant of economic growth. On the other hand, construction sector was an important contributor of growth for Albania and Macedonia. Construction sector is one of the most dynamic economic sectors not only for these two countries but for other regional countries as well. Except Serbia, this sector makes for more than half of the creation of gross fixed capital in all the countries of the Western Balkans. Industrial production is another important aspect that has moved throughout the region. In this context, production of metal based products seems to be the industrial sector which has been affected most by the crisis, particularly due to reduced demand and drastic fall of prices.

Despite relatively high levels of economic growth, the realistic rate of convergence with EU countries varies from one country to another. On an average, Western Countries GDP rate remains only 20% of the average of 27 EU countries.

4. Economic Developments in Kosova

Kosova has marked an important progress in certain economic fields in 2008. Economic growth in 2008 is estimated to be 5.4%, which is beyond the average level of the Western Balkans countries, which according to European Commission estimation has increased for 2.6%. For 2009 and 2010, based on CAA (Council of Albanian Agribusinesses) estimation, this growth is projected to be at about 4.1% and 4.8% respectively, whereas in 2011 and 2012 it is expected that growth will exceed 5.3% and 6.0% respectively. Despite these trends Kosova remains the country with the lowest GDP per capita in Europe. Kosova's GDP per capita in 2008 reaches the figure of €1,850.

In regard to global economic crisis, the International Monetary Fund estimates that Kosovar economy was affected very little from these developments due to low level of exports and continuous increase of public consumptions. However, according to IMF these risks remain. Indications for a decline of deliveries from outside (Diaspora), imports, private sector loans and Direct Foreign Investments[4] can already be seen.

Negative trade balance, which has increased in 2008 reaching a GDP figure of 42.6% (for products only), remains a special challenge. In addition, flow balance (following foreign aid), reaching a GDP figure of 22% (more details on foreign sector will be provided on the following sections), remains porous. This negative balance has been financed mainly by foreign financial aid and foreign deliveries (Diaspora). The latter have marked an increase of about 5%

[4] Concluding declaration of IMF staff in Kosova on June 24th, 2009 [online] http://www.imf.org /external/np/ms/2009/062409.htm.

in 2008 (the amount of which has been estimated at €452 million), thus remaining an important source of incomes in Kosova.

High unemployment rate remains a great concern for Kosova economy. Number of persons joining job market remains constant at about 30,000 per year. Current number of registered unemployed persons is about 350,000. Unemployment rate is estimated to be over 40 percent. However, due to unreliable data regarding this economic segment as well as large participation of informal economy in Kosova these figures should be taken with great caution.

In 2008 Kosova has marked a relatively high level of inflation, reaching a figure of 9.4 percent from 4.4 percent in 2007. It is obvious that high level of inflation has been a result of increased price of food and fuel. The real effect of this growth in effective demand cannot be determined due to lack of data. Whatever the outcome, indications are that in 2009 and in the following years prices are and will remain stable.

In the end, bank sector remains stable despite the fact that this stability may be hard to maintain due to recent world economic trends. On the other hand, 2008 budget and draft budget of 2009 are extremely expansive. Capital expenses in 2008 have doubled compared to those in 2007. In addition, Kosova has continued its structural reforms in 2008 as well. Kosova Privatization Agency continued privatization of public enterprises after receiving the competencies from Kosova Trust Agency. Capital expenses in 2008 have doubled compared to those in 2007. In addition, Kosova has continued its structural reforms in 2008 as well. Kosova Privatization Agency continued privatization of public enterprises after receiving the competencies from Kosova Trust Agency.

4.1 Kosova's Trade Policy

Foreign trade is considered to be one of the main mechanisms for growth in Kosova. For this reason trade policy remains as one of the primary instruments of economic policy in general. Course towards liberalization is fundamental for Kosova trade policy. Membership in regional mechanism for facilitation of international trade is one of the priorities of economic policy in Kosova. Expansion of trade through liberalization requires accomplishment of a number of aspects, such as: Rationalization and replacement of imports, facilitation of foreign trade and promotion of export. This approach is known as integrated strategy of export which gives equal importance to improvement of the level of competitiveness in foreign and domestic trade. However, liberalization alone is not sufficient to create comprehensive economic effects. There are many reasons for this: Firstly, trade policy needs to be formulated, implemented and assessed in a manner which besides advancement of foreign trade sector should also give priority to development. Secondly, in order for trade liberalization profits to be the highest and most sustainable, trade and other polices related to foreign trade should be understood and well-managed. Lastly, foreign trade is a concept that affects many areas of economic and social life. Therefore, continuous improvement of institutional quality, including enhancement of cooperation level and coordination of relevant actors of foreign trade system in Kosova is required.

A great number of dimensions which are related to trade policy exceed MTI competencies as the main institution in this process. Therefore, many other actors in Kosovar economic life (government and non-government institutions) should be included in the implementation of this policy. Accordingly, in cases when different actors get involved in the process the document proposes actions which should be taken, whereas in cases when a certain measure is responsibility of MTI only, then the latter takes the responsibility for implementation of that measure. This document presents the vision of Kosova in foreign trade policy. Nevertheless, this is not a detailed document in the sense of actions it proposes for the enhancement of foreign sector. It is thought that certain issues stressed by the document should be accompanied by additional documentation which would elaborate proposed actions.

The course of Kosova Trade Policy is firstly outlined in the context of trade agreements and secondly in the context of policies related to foreign trade. Lastly, the methods to empower institutions associated to foreign trade are elaborated. Below, we shall discuss measures which the document of Kosova Trade Policies foresees in these directions.

4.1.1 Trade agreement for continued liberalization

In the context of trade agreements (continuation of participation of Kosova in the process of liberalization) there are three significant aspects which in a way determine the country's trade policy. These aspects are: [1] access to foreign markets, where majority of negotiations (i.e. in the case of membership in WTO) focus on agriculture, industry, and services; [2] law, institutional and regulative modifications; and [3] the horizon of policymaking. Concerning the first aspect, free trade agreements and particularly membership in WTO, would allow for an easy access to foreign markets and lower transactions costs. On the other hand, this would mean reduction of tax and non-tax barriers for certain categories of imports. Implication of both these aspects are reflected in economic growth, employment, distribution of incomes, assets and resources, and in development of human capital in general. Therefore, it is very important to draw a plan, which MTI is already working on, for the continuation of liberalization that would serve to development needs of Kosova.

In regards to the second aspect in the context of trade agreements, such as law, institutional and regulative modification, some of the measures shall be tightened. Firstly, an analysis of the actual legal framework shall be made followed by comparison of the existing legal structure to regulations required under bilateral, regional and multilateral (WTA) agreements and identification of gaps; and thirdly, flexibility offered by world trade system shall be researched, which will be used to push development goals of Kosova.

In regard to policymaking horizon there are several issues which are being considered by the institutions. Some of the proposals are as follows: Interconnection of the trade liberalization process with Kosova's flexibility to formulate and implement development policies. In relation to this issue discussions are being focused in macroeconomic and sectorial implications of the free trade agreements. In regard to macroeconomic implications the attention is focused on the implications of these agreements on public incomes as well as their impact in domestic and foreign investments.

4.1.2 Development policies related to foreign trade

The following discussion shall be focused on two priority fields: agricultural exports (or agriculture in general) and industrial exports (or industry in general). Similar to other cases, proposals exceed implementing mechanisms of MTI; therefore, proposed measures include other implementing factors. It should be also pointed out that proposed measures can also be divided according to their horizon of influence. Therefore, sectorial discussion can also be addressed in a short, middle and long term.

In order to address agricultural sector exports the following issues have to be addressed: Restrictions related to offer; diversification and process of added value; and access and participation in markets. In regard to restrictions related to bids, work to draw-up an integrated program targeting restrictions on bids is underway. The objectives of this program will be creating stimulations/incentives that would encourage investments in agricultural sector, growth of production and exports, and increase competitiveness in relation to regional countries' exports. In the second case (or, diversification and the process of added value), MTI will approach this issue through initiation of programs (together with business community organizations) for the distribution and collection of manufacturer data and creation of a so-called 'diversification fund' together with development partners (donators). Finally, access and participation on markets is closely related to the quality of the products and health and environment standards. In this context, ways for participation of local companies on the global value chain are being researched aiming access to developed countries' markets and regional economies. In cooperation with business associations, MTI will draw-up programs for creation of capacities to assist implementation of trade standards. In addition, MTI will set up information offices to provide information regarding the requirements for inclusion in the global value chains in order to promote exploitation of opportunities in dynamic markets.

There are three interconnected measures which are being analyzed aiming at strengthening production capacities in industrial sectors: Increasing competitiveness of producing firms, assistance provided for expansion of firms, and facilitation of enterprise access to production factors in order to increase and enhance investment capacities. Improvement of competitiveness of firms shall be seen from the viewpoint of the level of competitiveness of economy in general and the level of competitiveness of the firm itself. In regard to the first measure activities are being carried out in two directions: Firstly, improvement of basic production infrastructure to create conditions for a sustainable production secondly, encouraging construction of border infrastructure. On the other hand, in regard to competitiveness of the firm itself, improvement of productivity of labour is required through trainings at the place of work and other professional trainings as well as exchanging best experiences in the production process. In addition, technological capacities of firms should be set up in order to make possible for the latter to fulfil requirements and needs of the current global trade system.

Increasing size of firms in Kosova is another dimension discussed in relation to export capacities of industrial sector. Its accomplishment is being made possible through encouragement of Direct Foreign Investments and identification and encouragement of Kosovar entrepreneurs to mobilize resources and initiate large businesses.

Another important dimension in the context of industrial export is access to foreign financial sources. Focusing is made in two aspects: Firstly, development and supporting crediting bodies which are more adaptable to SME needs; and, secondly, setting up information offices which would have reduced costs and narrowed information asymmetry between financial institutions and requesting firms. Moreover, there is a dedicated attention for the creation of a cooperation framework between financial and private sector

Lastly, it is worth pointing out that all abovementioned measures to a great extent are connected to the performance of institutions, not only the performance of MTI, but performance of all other actors involved in trade policy. MTI has identified the following dimensions which need targeting: Firstly, MTI is aware of the immediate need for the improvement of institutional capacities (human and technical). Secondly, improvement of institutions in human and technical aspect will also improve coordination between MTI and other actors in the system. Lastly, knowledge sources or institutions providing information and data would be advanced and their work would be coordinated and consistent to ensure system coherence.

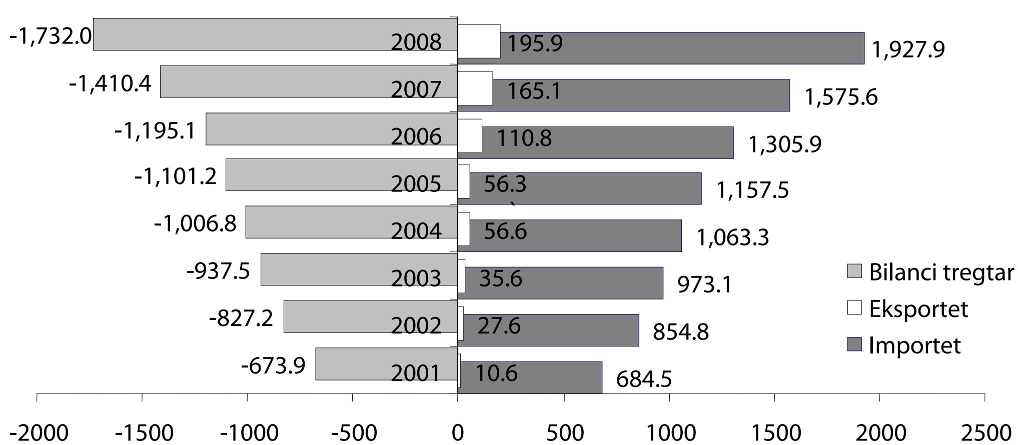
4.2 Kosova Trade Exchanges[5]

Kosovar economy has had pronounced oscillations in economic growth during the post-war period. In the first year after the war economic growth was immense, but out of a very low basis. Afterwards it was impossible to maintain the same growth trend and in the following years it marked only a relatively

[5] Information in this section is completely based on the information published by Kosova Statistical Institute (2009), Foreign Trade 2008, Prishtina: K.G.T.

modest growth. Despite the fact that in this period important macroeconomic step were taken to consolidate Kosovar economy after a long-term stagnation in the nineties, many indicators point out multiple challenges in national economy. One of them is also the Kosova trade balance (see Figure 1), the difference of which, before all, indicates a low level of competitiveness of Kosovar products on foreign markets. Kosova is an economy greatly dependant on imports (imports make nearly 50% of GDP) and current trends indicate that it is difficult to expect any bigger changes in a short term period.

Figure 1 : Kosova's Trade Balance (2001-2008; in mil. €)



Source: Kosova Statistical Institute (2009)

During the post war period exports have marked an impressive increase (an average of over 60% per year in the period between 2001 and 2008), but this was from a very low initial level of exports. On the other hand, over the same period, imports have also marked a significant average increase of 15% per year. This immense increase of imports incapacitated greater coverage of imports from exports. In 2008 imports reached figures near 2 billion Euros whereas exports are approximately ten times lower. A more promising outcome would have been presented if we take into consideration the so-called virtual export – which includes international consumption in Kosova – according to which exports cover 20% of imports (in national accounts this part of export is considered as 'export in services').

Less than half of exportation (44.8%) in 2008 is regular export, while the rest is mainly exported after being processes locally[6]. Electricity makes for over 4% of Kosovar total exports. A percentage of exportation is designated for further processing. On the other hand, imports are almost entirely regular or about 95% of the total. Based on the data in 2008, Kosova has imported electricity in the amount of 57.5 million Euros, or almost 10 millions more than in 2007 (see Table 1).

[6] It must be emphasized that previous edition of this report have included only regular exports. For consistency reasons from now on exports will be included in totality.

Table 1: Exports and imports according to statistical procedures (values in €)

	2007		2008	
	Value	%	Value	%
Total exports	**165,112**	**100.0**	**198,463**	**100.0**
Regular exports	96,419	58.4	88,928	44.8
Regular exports – power	12,532	7.6	8,238	4.2
Exports for external processing	15,478	9.4	3,031	1.5
Exports after domestic processing	40,684	24.6	98,267	49.5
Total imports	**1,576,186**	**100.0**	**1,928,236**	**100.0**
Regular imports	1,499,074	95.1	1,829,646	94.9
Regular imports – power	47,836	3.0	57,424	3.0
Imports after external processing	2,869	0.2	2,932	0.2
Imports for domestic processing	26,408	1.7	38,234	2.0

Source: Kosova Statistical Institute (2009)

The structure of exports is mainly in the form of raw material and unfinished products. Exports are dominated by unprocessed metal (or scrap metal) and mineral products, which in the period from 2002 to 2008 have covered approximately 60% of total exports. In 2008 Kosova has exported over 140 million Euros of products belonging to these two groups, which makes 75% of total exports. Machinery and equipment constitute an increasing component of Kosova exports, particularly after 2005. Products of this category constituted more than 4% of the total exports of Kosova in 2008. Percentage is the same for plant products. Edibles also cover an important percentage of exports (an average of 10% from 2003 to 2008). In 2008, more than 10 million Euros of food products and beverages were exported from Kosova. In this context we should point out wine products that were exported to Germany and regional countries. Furthermore, leather and similar products as well as rubber industry have an important participation in the structure of exports in Kosova. It must be pointed out that leather products are the sole products that have a positive trade balance, exceeding imports by 73%.

Table 2 : Export and import in 2008 according to harmonized section system (value in €)

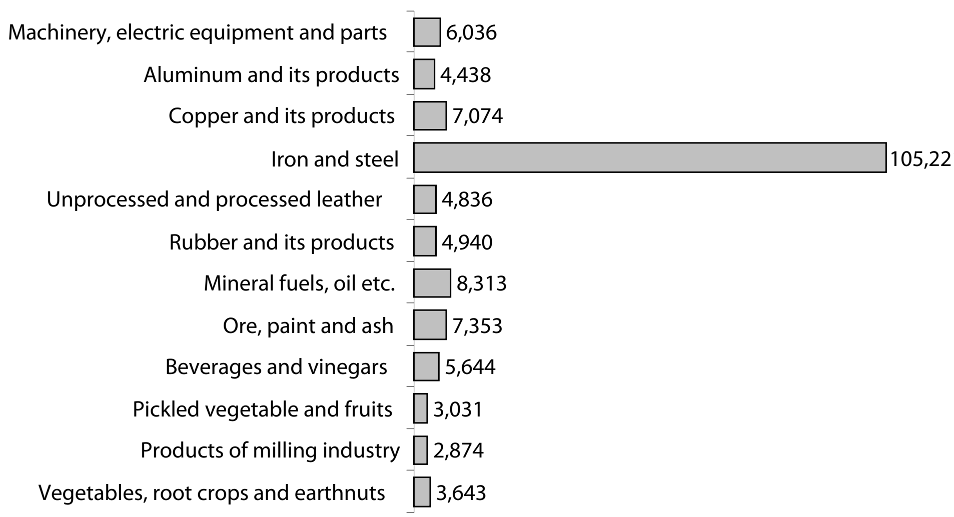
	Export		Import		Balance	
	Value	**%**	**Value**	**%**	**Difference**	**Exp./ Imp.**
Livestock and similar products	1,158	0.58	85,426	4.43	-84,268	1.36
Plant products	8,986	4.53	103,634	5.37	-94,648	8.67
Fats	23	0.01	22,719	1.18	-22,696	0.10
Prepared food, beverages, tobacco	10,597	5.34	261,917	13.58	-251,320	4.05
Mineral products	18,669	9.41	378,629	19.64	-359,960	4.93
Chemical industry products	1,773	0.89	138,783	7.20	-137,010	1.28
Plastics, rubber and their products	6,476	3.26	86,082	4.46	-79,606	7.52
Leather and leather items	4,861	2.45	2,801	0.15	2,060	173.55
Wood and wood products	1,730	0.87	41,685	2.16	-39,955	4.15
Paper and paper products	1,099	0.55	39,012	2.02	-37,913	2.82
Textile and textile products	2,536	1.28	63,982	3.32	-61,446	3.96
Shoes	102	0.05	18,275	0.95	-18,173	0.56
Stone handicrafts, plaster, ceramics and glass products	1,460	0.74	67,195	3.48	-65,735	2.17
Pearls, precious stones, precious metals	91	0.05	1,008	0.05	-917	9.03
Raw metals and their products	124,774	62.87	179,625	9.32	-54,851	69.46
Machinery, mechanical and electronic equipment	8,789	4.43	239,927	12.44	-231,138	3.66
Transportation means	2,342	1.18	131,148	6.80	-128,806	1.79
Optical, medical, picture, music instruments	652	0.33	21,410	1.11	-20,758	3.05
Weapons and ammunition	0	0.00	368	0.02	-368	0.00
Various items produced	2,345	1.18	44,512	2.31	-42,167	5.27
Artistic creations	0	-	100	0.01	-100	0.00
	198,463	100.00	1,928,236	100.00	-1,729,773	10.29

Source: Kosova Statistical Institute (2009)

Figure 2 given below shows the structure of exports in 2008 broken up in more details. As can be seen the major part of Kosova exports is mineral based. Unprocessed iron and steel make for over 50% of Kosovar exports, or more than 100 million Euros. Copper and aluminium are the two other important components in Kosova exports with more than 11 million Euros. Fuel products also make another important export product. Electric products, beverages, rubber products, unprocessed leather and other products are also among the significant constituents of Kosova exports.

On the other hand, in the post-war years, consumption goods generated majority of Kosova imports. Participation of food products dominated imports since end of 1999, covering an average of 21% of total exports (period from 2002 to 2008). This participation has been even greater in the first post-war years, which is understandable considering people's need after the war and Kosova's economic collapse. Year 2004 marks a substantial change in the structure of imports in which case other categories of goods replace food products as the most wanted items on the importation market. Mineral products and machinery and equipment take their place. In the recent years, transportation means, products that are part of rubber and chemical industry have had a significant participation in the structure of imports in Kosova. This change is indicative of a new tendency of revival and strengthening of Kosova's production sector.

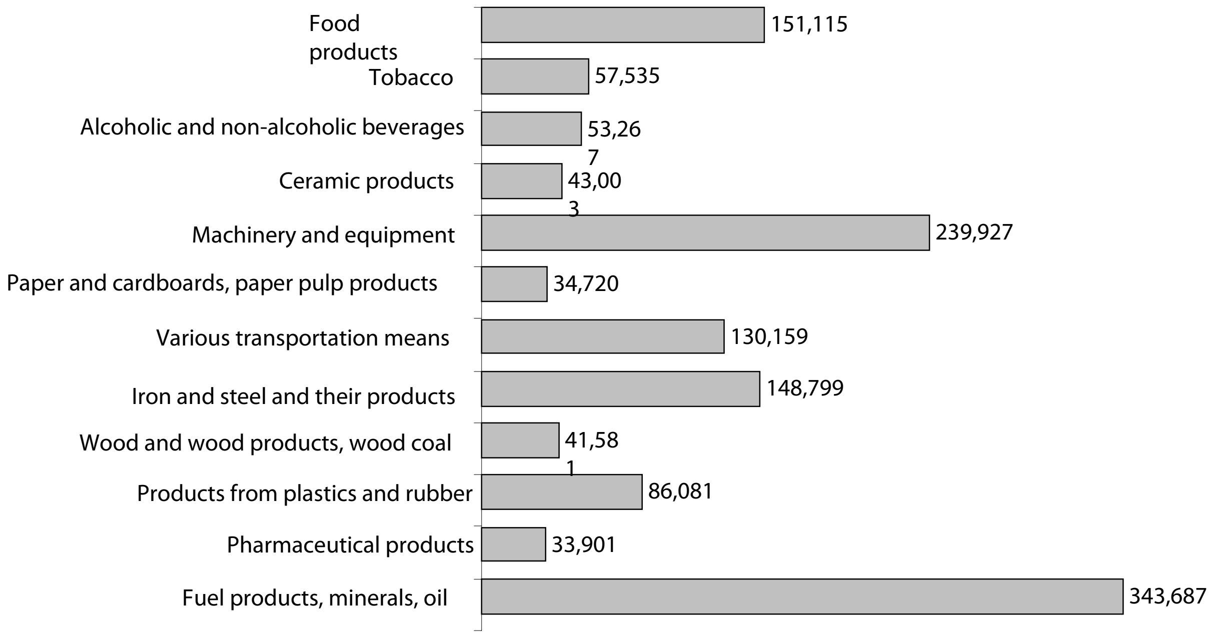
Figure 2 : Largest exports based on chapters (2008 value in €)



Source: Kosova Statistical Institute (2009)

In 2008, food products still remain one of the main components in the structure of Kosova imports with approximately 8% of total imports. Now, fuel products have the greatest participation in Kosova imports with approximately 18% of total imports or 350 million Euros. The fact that machinery and equipment take the second place in the structure of imports with nearly 240 million Euros imported value, or 12.5% of total imports, is very encouraging. Other important product groups in the structure of imports are: Iron and steel and transportation means, plastic products and rubber, tobacco, beverages, wood, ceramics and others.

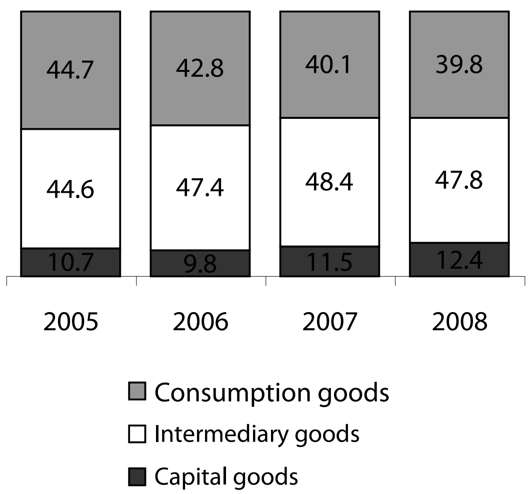
Figure 3 : Main imports based on chapters (2008, in €)



Source: Kosova Statistical Institute (2009)

In this context should be discussed the figure given below, which presents imports according to general categories of products - consumption products, intermediary and capital goods. As can be seen from the below graphic, trends are very positive if we analyze the situation from 2005 to 2008. Imports of capital goods and products for further processing are replacing consumption goods. From 2005 to 2008 import of consumption goods has declined 4.9% in favour of capital and intermediary goods. This qualitative change is indicative of a new trend in Kosova economy which is aiming recovery and strengthening of Kosova production sector. This is also an indication that there is a process of replacement of imports. In fact it shows a tendency for improvement of competitiveness of Kosova economy in foreign market.

Figure 4 : Import based on wide category of products, % of total



Source: Central Bank of Kosova (2009)

The structure of exports and imports according to trade partners is given in Table 3. EU and other CEFTA member countries are the main partners of Kosova in foreign trade. Over ¾ of imports and exports have been carried out in those groups of states during the period from 2003 to 2008 (same situation was in the years before 2003). Concerning the trade with CEFTA countries, it is evident that connections with countries of former Yugoslavia remain strong. In the abovementioned period, Macedonia and Serbia are the main regional partners covering about ⅓ of Kosova exports and imports respectively. Other countries have lower participation; importance of Albania as a trade partner is increasing, particularly after ratification and functionalizing of FTA in 2004. Other regional countries do not have a significant participation in trade exchanges with Kosova.

Table 3 : Main trade partners (in %)

		2003	*2004*	*2005*	*2006*	*2007*	*2008*
EU	*Export*	41.7	29.3	38.8	38.2	42.6	47.8
	Import	28.4	39.9	38.0	34.8	35.2	36.2
CEFTA	*Export*	51.3	41.6	53.0	46.7	41.3	30.9
	Import	45.6	34.7	38.0	41.1	36.7	37.5
Others	*Export*	7.0	29.1	8.2	15.1	16.1	21.3
	Import	26.0	25.4	24.0	24.1	28.1	26.2

Source: Kosova Statistical Institute (2009)

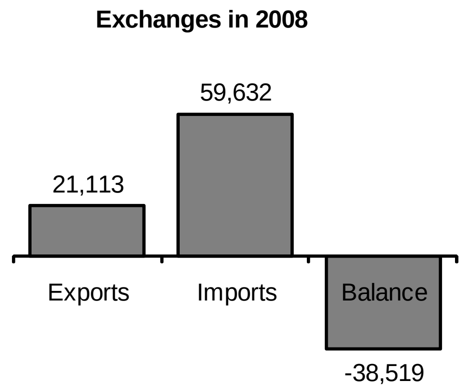
Regarding exchange with EU countries, Italy leads as the most attractive country for exports by covering nearly 30% of Kosova exports in EU, from 2003 to May 2008. The same countries are also the main source of imports (we're talking about the same period mentioned above), however, there is a different line up; Germany is the EU country from which it is imported the most, followed by Greece and Italy. In the category of other countries (see Table 3) although with lower participation, Turkey and Switzerland are main partners for exports, whereas China and Turkey for imports.

Even in 2008, the structure of foreign exchanges does not change substantially; at least regarding imports (see figures and tables given below). Macedonia remains the main importer with 18% of total imports of Kosova. Fuel products were the main component imported from Macedonia. In addition, iron and steel products as well as food and beverage products are also imported from Macedonia. Macedonia is followed by states such as Serbia and Macedonia with over 10% of total imports (Serbia with 10.8% and Germany with 10.2% respectively). Main products imported from Serbia are construction products. Other goods imported from Serbia in 2008 are food products, non-alcoholic beverages, fertilizers, paper and others. Turkey and China cover over 13% of Kosova imports (Turkey with 6.7% and China with 6.3% respectively). Other important countries in the structure of imports are Greece, Slovenia, Albania and other countries. In 2008, main products imported from Greece were fuel products, fruits, aluminium, and fertilizers, whereas iron and steel products, fuel products, and furniture was imported from Albania including exchange of electrical energy. Italy also makes for a relatively high percentage of Kosova imports with 4%. Construction material, iron based structures, transportation vehicles, electric equipment and other products were imported from Italy.

Figure 5: Main importing and exporting CEFTA markets

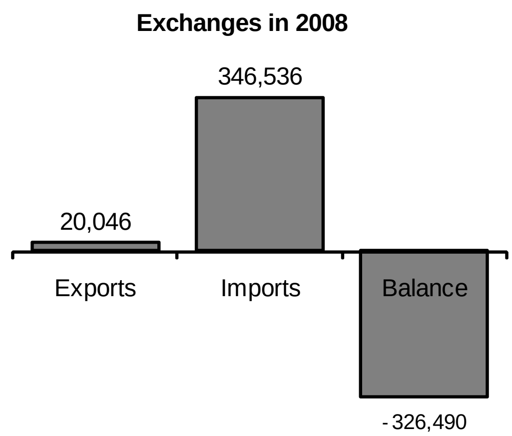
Albania (000€; % of total)

[redacted]



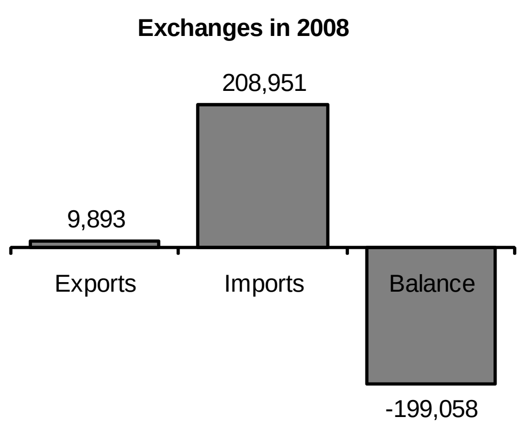
Macedonia (000€; % of total)

[redacted]



Serbia (000€; % of total)

[redacted]

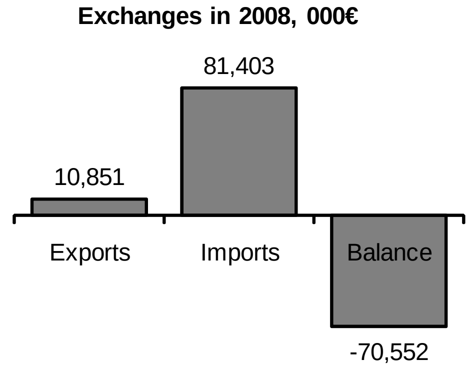


Source: Kosova Statistical Institute (2009)

Figure 6: Main importing and exporting EU markets

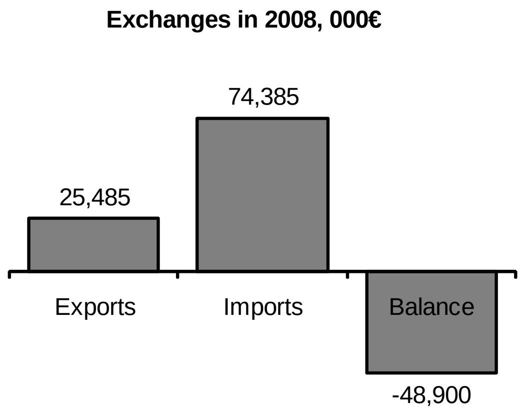
Greece (000€; % of total)

[redacted]



Italy (000€; % of total)

[redacted]



Germany (000€; % of total)

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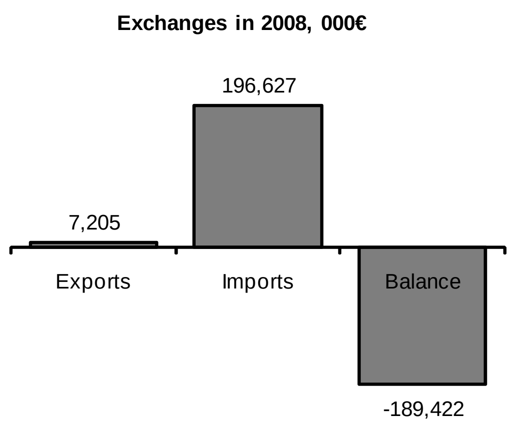

Source: Kosova Statistical Institute (2009)

However, year 2008 has marked a significant change in the context of Kosova exports destination. In this year, Belgium and India have become two main destinations for exports, which is a result of activities by companies producing basic metals (iron and nickel). Belgium and India have absorbed about 25% of Kosova exports in 2008. Nevertheless, as it seems this trend will not be able to be maintained because of indications that these companies were affected by the global financial crisis. Available data indicate that in January of 2009, Kosova has exported 1.3 million Euros to India, while in the month of February exports were zero. Exports to Belgium were zero for both months. In 2008, in the first two months Kosova has exported 9.6 million Euros to these two countries.

Other exporting destinations of Kosovar producers in 2008 are Italy with 12.8%, Albania with 10.6% and Macedonia with 10.1%. In all these three countries were exported products with metal basis, unprocessed leather, agricultural products, electrical equipment, beverages and other products. Two other important exporting destination are Greece with 5.5% of the total of exports and Serbia with 5.0%. Main products exported to Serbia are pipes, whereas in Greece are products with metal basis and other mineral products.

The annual report on Kosova's foreign trade has been prepared by the Trade Department of the Ministry of Trade and Industry. MTI thanks Mr. Petrit Gashi for his expertise provided during the completion of this report.

In this report Kosova Statistical Institute is the source of data for Kosova foreign sector. The data presented in this report include the total of exports and imports. All efforts have been made to ensure accuracy of the data. However, these data are reviewed continuously and any eventual correction will be presented in the future reports.

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