Impact of Globalization in Kosovo’s Economy

Nexhat Shkodra, Myrvete Badivuku-Pantina, Naile Fetahu

Abstract

The economy in Kosovo continues to generate macroeconomic growth and solid stability, especially in fiscal and financial terms. Despite the increasing risks from the external sector, Kosovo’s economy has marked positive growth rates in 2012 also. Nevertheless, being an open economy, it has not been spared of the effects of the crisis faced direly by some of the most developed countries, and especially those in the Eurozone, which have shrunked the growth rate in comparison to previous years, despite it being positive.

These risks mainly are reflected into the adverse impacts of the crisis on external demand for Kosovo products (along with an already low export rate), and by a lighter impact on migrant remittances, and a stronger impact on foreign direct investment. The decline in remittances has been smaller than forecasted, mainly because migration in Kosovo is of longer term in nature, and 70% of our migrants possess foreign citizenships. The banking sector has remained solid, with private sector deposits and loans continuing to increase in 2009 and 2010. There is still evidence though, that banks have become more prudent in extending loans, mainly due to the fact that bad loans are increasing at a slow pace. Adverse impacts of the global financial crisis have been compensated by an expansionist fiscal policy adopted by the Government, thereby ensuring medium growth rates.

Key words: globalization, Kosovar economy, GDP, growth, global financial crisis
1. Introduction

Kosovo’s economic growth has been solid in the last decade, though, with a gross domestic product (GDP) rate per capita of € 1,760, as it was in 1999, and now with a gross domestic product (GDP) per capita rate of € 2,600, Kosovo remains one of the poorest countries in Europe, despite the fact that the product grew at double-digit rates, driven by donors’ reconstruction efforts. Since 2005, annual growth rates have decreased to less than 5 % (World Bank, 2010). While other countries in Eastern Europe are developing rapidly, the income gap has grown. Kosovo’s economy would need to more than double its growth rate at 10 % per year over the next decade to achieve the income levels of Albania (assuming that Albania’s economy would continue to grow at 5.5 % per year during this period). To reach the level of GDP per capita in Montenegro, now about € 5,700, the economy should grow by an annual rate of 12% for a full decade (World Bank, 2012). Despite the challenges caused by fluctuations in regional economies and the global economy, economic activity in Kosovo has continuously recorded positive growth rates. Real economic growth rate in 2011 was about 5.0 percent (3.9 percent in 2010). In nominal terms, the Gross Domestic Product (GDP) in 2011 exceeded the amount of 4.7 billion euros. During 2011, it is thought that there have been positive developments in the main components of Gross Domestic Product (GDP), especially consumption and investment (Central Bank of Kosovo, 2012).

Development trends in the trade balance deteriorated during this period, largely because imports have risen much faster than GDP. Kosovo’s economy continues to have a high degree of dependence on imports, which constitutes around 50 % of GDP, while exports are at a very low level and only cover a smaller portion of imports (less than 10 % ) (Ministry of Trade and Industry, 2009). This is because production capacity is small and non-competitive compared with that in the region and beyond. Thus, domestic prices are dependent on import prices. As a result of declining exports and continued growth of imports, current account deficits continue to grow during 2012. Kosovo’s economy in 2012 had less stringent inflationary pressures compared to previous year. Inflation in Kosovo has been quite volatile in recent years, largely reflecting price developments in foreign markets, a correlation deriving from the high degree of reliance of the country's economy on imported goods from abroad. Despite the problems in the external sector, Kosovo’s economy continues to enjoy fiscal sustainability. This fiscal sustainability is explained by the low level of public debt (5.8 percent of GDP in June 2012) and the budget balance, which until June 2012 was characterized by a surplus (0.5 percent of GDP) (Ministry of Finance, 2012)
In the first half of 2012, the countries of South Eastern Europe (SEE) were characterized by a declining economic activity. According to European Commission estimates, real GDP in the SEE countries was characterized by recession of 1.2 percent, a decline driven by the decline in aggregate demand (Central Bank of Kosovo, 2012). Croatia recorded the deepest recession in the first half of 2012 (1.8 percent), followed by Serbia (1.7 percent) and Macedonia and Montenegro (with 1.1 percent). Albania which had a positive growth rate during the past years, recorded a slump in the first quarter of 2012 (0.2 percent), while Kosovo is estimated to have had a positive growth rate in the first half of 2012. This decline in economic activity is attributed to the fact that the countries of the region continue to be sensitive to developments in the eurozone economies in terms of trade, foreign direct investment (FDI), high participation of foreign banks and remittance (Central Bank of Kosovo, 2012).

Developments in financial markets in the eurozone over the past periods were characterized by high volatility, only to stabilize in early 2012. However, the situation began to deteriorate starting from the second quarter of 2012 where the eurozone financial markets were characterized by unpredictable fluctuations, which were manifested mainly by volatile movements in bond returns and other prices of financial instruments, as tools for budgetary financing needs. These movements were manifested as a result of deficit problems of some governments that are part of the European Union. As a result of recent developments with the governments of several European countries, financial markets generated a tension that led to the setting up of systemic risk in the banking sector, and thus created significant volatility in financial markets functioning.

2. Recent macro-economic developments in Kosovo, and the global crisis

Kosovo’s economic growth has averaged over 4 percent since the end of the conflict in 1999, and has remained positive throughout the global economic crisis. Growth has reached the maximum rate of 6.9 percent in 2008, before falling to 3 percent in 2009, at the beginning of the crisis. The overall impact of the crisis was lower in Kosovo than in neighboring countries, mainly because of limited integration of Kosovo into the global economy. Growth is estimated at about 4 percent in 2010 and 5 percent in 2011, with preliminary data suggesting that growth is driven by increased public spending, and in a lesser extent by private investment and rapid growth in exports. IMF predicts GDP growth will be around 3-4 percent in the medium term, because Kosovo is somewhat insulated from the global economy. However, a more severe decline than expected in Europe reduces the growth rate through a decline in exports and diaspora remittances (World Bank, 2012). As a result of the high import of
goods, the economy remains characterized by high trade deficits, which represents the main cause of the high level of current account deficit in the country. In the first half of 2012, the Kosovo’s trade deficit amounted to 988.5 million euros, which represents an annual increase rate of 6.4 percent. The deficit increase may be attributed to an increase in imports of 2.6 percent and a decline in exports of 18.4 percent. This has affected the level of coverage of imports by exports reduced by 15.0 percent, as it was in the first half of 2011, to 11.9 percent in the first half of 2012. Kosovo’s economy this year is faced with less stringent inflationary pressures compared to last year. Unlike 2011 where the general price movements were more pronounced, the first semester of 2012 was characterized by a stabilization of prices. During the reporting period, the average level of prices measured by the Consumer Price Index (CPI) recorded an increase of 1.7 %, unlike the same period last year when the level was about 9.5 % on average (Ministry of Finance, 2011).

Despite the problems in the external sector, Kosovo’s economy continues to enjoy fiscal sustainability. This fiscal sustainability is explained by the low level of public debt (5.8 percent of GDP in June 2012), which is very low and mainly consists of part of the debt inherited from the former Yugoslavia to the IBRD. Until 2009, Kosovo had no public debt. In 2009, Kosovo assumed its share of the debt of the former Yugoslavia to the IBRD, in the amount of €381 million (9.7 percent of GDP). Kosovo has not taken part in the allocation of assets and other liabilities of the former Yugoslavia, if this process is carried out, can also inherit additional debt to the Paris Club and London Club (World Bank, 2012). FDIs in Kosovo, which represent an important component of the investment within the private sector, declined by 53.3 percent, reaching a value of 86.6 million euros.

The balance of other investments was halved, in comparison with the same period of the previous year, from 161.7 million euros in 2011, to 79.8 million Euros.

With limited room to maneuver with monetary policies, maintainance of macroeconomic stability should be based on reasonable fiscal policy. On the revenue side, the main priorities for policy makers are to expand the tax base and to continue improving revenue collection. Increasing the efficiency and sustainability of fiscal expenditures will depend on timely implementation of structural reforms in key sectors, including energy, transport and health. In addition, maintaining control over current spending, in particular, wages and social transfers will be essential for fiscal sustainability. Given Kosovo’s unilateral euroisation, monetary policies are limited, and ensuring stability of the banking sector will remain a priority, especially in the environment where
uncertainty prevails for European financial markets. Creation of an "emergency liquidity assistance" fund for the banking sector would be a significant step.

In Kosovo the euro is used as local currency, which must rely on fiscal policy as the main macoconomic stabilizing tool. However, Kosovo's fiscal position is strained because expenses have increased rapidly since 2008. Savings accumulated from fiscal surpluses until 2007, which reflected conservative spending policies and better revenue collection rates, began to fall in 2008, thereby expanding fiscal deficits in subsequent years. The Government entered into an 18-month Stand-By Arrangement (SBA) of 104 million Euros with the IMF in July 2010. However, this program derailed, mainly due to the failure of an attempt to privatize the telecommunications company (PTK) and an (unplanned) raise of 27 percent in the salaries of civil servants. In July 2011, the authorities and the IMF agreed to a six-month Staff-Monitored Program (PMS). Although the failure in collecting revenues from the sale of PTK can be covered by existing balances accumulated in the bank, the Government, in agreement with the IMF, decided to make cuts of around 60 million euros in the budget to maintain a higher level of bank balance.
Table 1: Macroeconomic indicators in Kosovo

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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</thead>
<tbody>
<tr>
<td><strong>Population, in thousands</strong></td>
<td>1,662</td>
<td>1,687</td>
<td>1,712</td>
<td>1,738</td>
<td>1,764</td>
<td>1,791</td>
<td>1,817</td>
</tr>
<tr>
<td><strong>GDP, in Euro Million</strong></td>
<td>3,851</td>
<td>3,912</td>
<td>4,637</td>
<td>4,911</td>
<td>5,234</td>
<td>5,508</td>
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<tr>
<td><strong>GDP per capita, Euro</strong></td>
<td>2,317</td>
<td>2,319</td>
<td>2,462</td>
<td>2,688</td>
<td>2,784</td>
<td>2,923</td>
<td>3,031</td>
</tr>
<tr>
<td><strong>Investment, in GDP percentage</strong></td>
<td>28.6</td>
<td>32.3</td>
<td>33.9</td>
<td>33.2</td>
<td>32.6</td>
<td>33.9</td>
<td>32.3</td>
</tr>
<tr>
<td><strong>Real GDP growth, percentage</strong></td>
<td>6.9</td>
<td>2.9</td>
<td>3.9</td>
<td>5.0</td>
<td>3.8</td>
<td>4.1</td>
<td>3.2</td>
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<tr>
<td><strong>CPI (period average), percent</strong></td>
<td>9.4</td>
<td>-2.4</td>
<td>3.5</td>
<td>7.3</td>
<td>0.6</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Fiscal accounts, in GDP percent</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Revenues</strong></td>
<td>24.5</td>
<td>29.3</td>
<td>27.6</td>
<td>28.1</td>
<td>28.1</td>
<td>27.1</td>
<td>27.8</td>
</tr>
<tr>
<td>Of which: official grants</td>
<td>0.0</td>
<td>0.0</td>
<td>0.7</td>
<td>0.4</td>
<td>0.7</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Primary expense</strong></td>
<td>24.7</td>
<td>29.9</td>
<td>30.0</td>
<td>29.8</td>
<td>30.5</td>
<td>30.2</td>
<td>28.6</td>
</tr>
<tr>
<td>Net interest income</td>
<td>0.0</td>
<td>-0.2</td>
<td>0.3</td>
<td>-0.1</td>
<td>-0.1</td>
<td>0.0</td>
<td>-0.1</td>
</tr>
<tr>
<td>Total balance</td>
<td>-0.2</td>
<td>-0.7</td>
<td>-2.6</td>
<td>-1.8</td>
<td>-2.7</td>
<td>-3.3</td>
<td>-1.1</td>
</tr>
<tr>
<td>Government stock in banking balance</td>
<td>10.8</td>
<td>8.7</td>
<td>5.8</td>
<td>3.5</td>
<td>3.8</td>
<td>8.8</td>
<td>8.7</td>
</tr>
<tr>
<td>Public debt</td>
<td>0.0</td>
<td>6.7</td>
<td>6.9</td>
<td>5.6</td>
<td>6.9</td>
<td>8.5</td>
<td>9.0</td>
</tr>
<tr>
<td><strong>External accounts in GDP percentage</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Current accounts</td>
<td>-15.3</td>
<td>-15.4</td>
<td>-17.4</td>
<td>-20.3</td>
<td>-18.3</td>
<td>-18.3</td>
<td>-16.1</td>
</tr>
<tr>
<td>Exports</td>
<td>5.6</td>
<td>4.5</td>
<td>7.2</td>
<td>6.9</td>
<td>7.2</td>
<td>7.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Imports</td>
<td>-49.0</td>
<td>-47.3</td>
<td>-49.4</td>
<td>-52.0</td>
<td>-49.7</td>
<td>-48.9</td>
<td>-47.8</td>
</tr>
<tr>
<td>Service receipts</td>
<td>9.1</td>
<td>11.0</td>
<td>11.3</td>
<td>13.1</td>
<td>13.3</td>
<td>13.4</td>
<td>13.6</td>
</tr>
<tr>
<td>Service payments</td>
<td>-7.0</td>
<td>-7.9</td>
<td>-9.7</td>
<td>-9.1</td>
<td>-8.8</td>
<td>-8.4</td>
<td>-7.9</td>
</tr>
<tr>
<td>Transfers</td>
<td>21.5</td>
<td>22.1</td>
<td>21.1</td>
<td>18.1</td>
<td>17.3</td>
<td>15.6</td>
<td>15.6</td>
</tr>
<tr>
<td>Capital accounts</td>
<td>0.0</td>
<td>2.8</td>
<td>0.6</td>
<td>0.1</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Financial accounts, including CBK</td>
<td>12.9</td>
<td>11.1</td>
<td>12.5</td>
<td>15.9</td>
<td>12.3</td>
<td>14.2</td>
<td>12.4</td>
</tr>
<tr>
<td>Net errors and omissions</td>
<td>2.5</td>
<td>1.6</td>
<td>4.3</td>
<td>4.3</td>
<td>4.1</td>
<td>3.8</td>
<td>3.6</td>
</tr>
</tbody>
</table>

* Population does not include Serbs living in the northern area of Kosovo
Source: International Monetary Fund, 2012
3. Main development and strategic challenges in the globalization process

The growth model in Kosovo in recent years has been largely based on the availability of external sources of funding, especially donor aid and remittances. This model cannot be the foundation of a sustainable growth strategy, especially in the current economic environment. Donor support has already declined significantly from its peak standings and is expected to fall even further. In contrast, private sector investment has started to appear and may be the main engine for accelerated growth and creating new jobs. Creating a climate conducive of investment is thus a critical component of the government's current strategy – Economic Development Priorities Vision and accompanying Action Plan and Medium-Term Expenditure Framework (2011-2014) - to create jobs for a large number of unemployed Kosovars, and accelerating the convergence of income levels with SEE and European countries. Kosovo is relatively rich in natural resources such as lignite/coal, nickel and other metals. However, for a long-term and efficient exploitation, one needs to resolve privatization and other issues, such as financial, technical, technological, etc., to be able to attract necessary investments.

FDIs play a significant role in the economy of a country. By September 2011 they had balanced to 285.8 million euros, representing an increase of 22.9 percent compared with the same period of the previous year (2010). The FDI rate of 285.8 million euros is the sum of 292.7 million FDIs in Kosovo, and 6.9 million Euros in investments by Kosovo migrants in other countries. FDIs in Kosovo have maintained steady levels over the past five years, averaging about 9 percent of GDP, while in 2007 and 2008 they marked the highest rates, that may largely be attributed to the licensing of the second mobile telephony operator and investments made by this company. As a result of the crisis, in 2009, FDIs declined by a more pronounced rate, while in 2010-2011 the value of these investments began to grow again, albeit at a slower pace. FDIs in Kosovo continue to be highly sensitive to developments in the Eurozone economies, which also represent the main source of FDIs in Kosovo. Despite the relatively slow recovery, Kosovo continues to be among the best regional boosters regarding FDI, based on the FDI performance index for 2011. Investments by Kosovo residents living abroad come in the shape of capital investments, which in most cases consist of purchasing real estate abroad. FDIs in Kosovo are, divided by type of investment, 73.2 percent capital investments, which until September 2011 were about 22.0 percent higher compared with a year before. In the context of FDI received in Kosovo, 14.2 percent come in the type of investments in retained earnings, and other investment types (mainly composed of inter-company loans) with 12.6 percent and have enjoyed a solid
increase from 13.6 million euros in September 2010 to 36.9 million in September 2011.

FDI in Kosovo are mostly concentrated in sectors of the economy like civil engineering with 24.8 percent, manufacturing with 18.8 percent, financial sector with 17.4 percent, real estate with 16.9 percent, followed by transport and telecommunications sector with a share of 11.9 percent of total FDI’s.

Greater attraction of Foreign Direct Investments from different countries remains a challenge for Kosovo’s economy. Larger FDIs would foster economic development, reduce unemployment and reduce poverty in the country. This may be achieved by increasing security in Kosovo, good legislation, and combating corruption in all institutions (Central Bank of Kosovo).

Stabilization and development of the electricity sector is of critical importance for attracting foreign investors to support new industrial development in Kosovo, at a time when the global economy is facing significant problems. The large number of unemployed and poverty are serious problems in Kosovo. Despite increases in per capita incomes of Kosovars, their material standing remains fragile. Official estimates of unemployment are around 40 percent, while thousands of young people (including university qualifications) enter the labor market every year. Poverty, especially extreme poverty has increased in recent years, which is very worrying. (Badivuku-Pantina). With a GDP per capita rate of around 2,600 euros, Kosovo is one of the poorest countries in Europe. With 34.5 percent of its population of 1.8 million living below the poverty line, meaning less than 1.55 euros a day (and about 12 percent live on less than one euro a day), poverty is widespread.

To cope with regional integration, or the global market, Kosovo must pay much more attention to other potential factors of manufacturing it enjoys, such as natural resources and human capital, which must be qualitative in professional terms. In this context, agriculture occupies a very important place, given the quality of arable land and the high percentage of the workforce available in Kosovo. However, this sector has faced great difficulties, due to the fact that it was largely subsidized in other countries, while Kosovo has not been able to apply any significant measure to ensure sector growth. More than 60% of Kosovo's population is estimated to live in rural areas, which is above average of the South Eastern Europe. At the same time, two-thirds of the poor live in rural Kosovo. Agriculture remains an important sector of the rural economy of Kosovo and a potential major source for the development of the poor. Comparative advantages in agriculture for poverty reduction are also validated by various econometric studies. Based on these studies, many countries have found that GDP growth generated by agriculture has more
benefits for the poor and at least twice as effective in reducing poverty than
growth generated by other sectors.

4. Positive and negative aspects of globalization into the Kosovo’s economy

The following are positive and negative aspects of globalization in Kosovo’s economy and wider:

Positive:

- Free movement of goods, services and capital from one place to another
  (Kosovo is part of CEFTA; the EU market recognizes Kosovo as an
  autonomous customs unit, while the Turkish market is an important
  one, with a large growth potential. Recent developments in the context
  of liberalization include the inclusion of Kosovo in the Generalised
  System of Preferences (GSP) from the United States);
- Improvement of manufacturing and entrepreneurship conditions in
  general,
- Improvement of legal and regulatory conditions for local and foreign
  investment, customs provisions, activities in the field of foreign trade,
  etc.
- Improve opportunities for manufacturing capacity building and
  opening of new work places, especially in underdeveloped countries;
  this objective is achieved primarily through cooperation with major
  corporations, which have manufacturing, financial and professional
  capacities. It is known that Kosovo’s economy is almost entirely
  composed of not very efficient Small and Medium Enterprises (SMEs).
  Large enterprises are almost inexistent, which has a direct impact on
  export levels, since in most countries these are companies that are very
  active in exporting activities, as a result of their potentials and
  resources. Conversely, their absence has specifically affected the
  development of SMEs because large enterprises are those which make
  larger portions of demand for SME products and services. This has led
  many SMEs to fail in making whole dynamic life cycles of development
  and growth into large enterprises, which would then be an additional
  source of export potential (Ministry of Trade and Industry, 2009).
- The process of globalization brings investments and donations mainly
  in populative and profitable branches, mainly in infrastructure facilities,
  which are accompanying productive investments.
- A greater profiling of companies, based on comparative advantages.
Negative aspects:

- The revision, and even extinction, of the classic notion of sovereignty of countries, particularly in the field of customs clearance measures and other protective measures. This is the price that all countries pay for their membership in the global economy (Selmanaj, 2006, p 44).
- Models and development programs imposed or dictated by international institutions, or multinational corporations on investing countries.
- The assumption of control of many firms and sectors by international investors, thus, rendering their operations dependent on decisions of these investors, which are often at odds with the interests and objectives of the local economy.
- In most cases foreign investors transfer their profits in the country or the headquarters of the foreign investor, and only rarely re-invest their profits in the host country, especially in underdeveloped countries.

Overall, it is clear that the process of globalization has many positive and negative impacts, and the latter often are often objected and resisted, not only in developing countries or underdeveloped countries, but even in developed countries. Developing countries are often conditioned with dictation of internal organization, their political systems, for their membership in international political and economic organizations.

5. Recommendations

For Kosovo's economy to be prepared for the global market, it must focus on:

i. support infrastructure, especially energy infrastructure;
ii. improving the business environment, supporting the private sector, and increasing access to finance;
iii. support for agricultural development which will produce positive effects in increasing employment and increasing the supply of products to foreign markets;
iv. continued investment in education and skills development of human capital;
v. strengthening the institutional and regulatory framework for labor and social protection, and
vi. strengthening public financial management and the fight against corruption.
6. Conclusions

Globalization is present, and is affecting every aspect of our everyday life. Globalization is inevitable and irreversible. We already live in an interconnected and interdependent world. Everything that happens in one country affects the lives and future of all people everywhere. No sovereign state or territory, no matter how extensive, however populated, can protect alone all living conditions, safety, long-term prosperity, or a social model and the very existence of its citizens. The main features of globalization are increasing international trade, growth and concentration of international capital, migration of population, development of technology and industrialization. When it comes to global economy, it should be noted that although it is prevalent in the world, it is still not a planetary economy. In other words, the global economy still does not cover all economic processes on the planet, does not include all the territories and also does not include all people in their activities, though it, directly or indirectly, affects the lives of all mankind. It is true that the impact of the global economy extends to the whole world, but the true impact and its structure is manifested only in the segments of economic structures, states and regions, always in a reflection of the position of the state or region in the international division of labor. In addition, while this position may vary, and other states, regions and populations may be activated, thereby causing some structural instability. Therefore, the global system is dynamic, but also unstable. Although the dominant segments of national economies are linked in a global network, many other segments, and many countries, are excluded from the process of accumulation and consumption, as the main features of the global economy and information.

Kosovo is also part of the process of globalization, since Kosovo is, and has been committed to trade liberalization (open economy). Participation in regional and wider mechanisms for facilitating trade has been one of the main policy objectives of the Kosovo institutions. Therefore, Kosovo like other countries in the region, is involved in almost all regional and global integration processes.

Kosovo's economy continues to be one of the economies with the highest growth in the region despite the slowdown in growth compared to last year. The main sources of financing for economic activity during the first half of 2012 showed poorer performance, thus being the cause of the slowdown in economic growth. Adverse developments in the eurozone reflected in developments in Kosovo's economy and its financial sector, although the poor integration of Kosovo into the global economy considerably reduces the effect of such risks. The main factors in slowing economic growth are the slumping exports, the decline in foreign direct investment and remittances. The
slowdown in credit growth to the private sector has also contributed to the decline in consumption and investment demands, while rising costs and continued investment in the public sector have had a positive effect on economic growth.

Kosovo’s economy continues to be characterized by structural problems that are reflected in the negative trade balance as a result of the high level of imports versus exports. The high dependence of the economy on imports has meant that the level of imports in the country would be significantly higher than the level of exports. Consequently, the coverage of imports with exports remains at a relatively low level (13.7%), a level that did not change much from the same period of 2010. Therefore, today, we can say that the coverage of imports by exports is one of the most critical challenges of the economy. Seeing the high level of imports from CEFTA countries, we can say that the process of Kosovo's entry into CEFTA was not well thought out, it was rushed, and that decisions were taken without any detailed analysis. Thus, Kosovo initially had to cope with policies aimed at increasing competitiveness and productive capacity in the domestic market, and also deal with measures which are aimed at promoting exports, namely, improving performance of local companies for foreign markets.

Kosovo’s economy has been almost entirely devout of industrial capacities. Now it faces shortages of domestic capital accumulations and unrealistic interest rates. These are just some of the main indicators, which are affecting the very poor level of economic investment.

The process of transition and transformation is long, painful and tiresome, demanding high societal costs. Therefore, the only therapy in these circumstances is the investment of foreign capital as a necessity, without which the economy of Kosovo can not even imagine sustainable growth and economic development in market economy conditions. Foreign direct investments offset the unemployment, providing external markets, the advent of new technology in production and services, and improve the country's budget revenues. Kosovo therefore is bound to create a more suitable administrative and legal framework for foreign and local investors to have optimum safety for their capital investments. A survey of foreign investment that was conducted by the World Bank in 2009 shows that foreign investors have more or less the same concerns about investment in Kosovo that local firms have. Foreign investors are reluctant to invest because of their perceptions regarding inefficiency in public administration, complex regulations (for example to get a building permit), and corruption, to name a few. In addition to these challenges, another obstacle for foreign investment firms is their perception of high political risk in Kosovo.
Foreign firms already in Kosovo have a much better perception of investment opportunities in Kosovo than foreign firms that have yet to enter the Kosovo market. Therefore, to attract more foreign investment, the authorities should take measures to improve Kosovo’s image abroad and within the country.
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Acronyms

CBK        Central Bank of the Republic of Kosovo
CEFTA      Central Europe Free Trade Agreement
CPI        Consumer Price Index
EU         European Union
FDI        Foreign Direct Investment
GDP        Gross Domestic Product
GNP        Gross National Product
IBRD       International Bank for Reconstruction and Development
IMF        International Monetary Fund
MEF        Ministry for Economy and Finance
MEF        Ministry of Finance
MTEF       Medium Term Expenditure Framework
MTI        Ministry of Trade and Industry
MTPT       Ministry of Transport and Post-Telecommunications
PTK        Post and Telecommunications of Kosovo
SBA        Stand-By Arrangement
SEE        South-East Europe
SME        Small and Medium Enterprises
SMP        Staff Monitored Program
SOK        Statistical Office of Kosovo
WB         World Bank
WTO        World Trade Organization