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# Economic Report 2022

## KOSOVO

22 June 2023

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### Executive Summary

Even though Kosovo achieved the highest economic growth within the region, its economy has been affected by uncertainties arising from the war in Ukraine and high food and energy prices, leading to its real GDP growth decreasing to 3.5% in 2022. Notwithstanding a continuous increase in exports of ICT and travel services as well as manufactured goods, Kosovo's trade and current account deficits, impacted by soaring inflation (+11.6%), widened. At the same time, the Government's sustained fiscal consolidation efforts contributed to further decreasing Kosovo's fiscal deficit and public debt, which reached 0.5% and 20.7% of the GDP respectively, whilst Kosovo's financial sector remained robust in spite of external challenges.

Bilateral trade between Switzerland and Kosovo continued to increase: Whilst Switzerland is now the 21<sup>th</sup> country of origin of goods imported by Kosovo (vs. 28<sup>th</sup> in 2021), Switzerland became the 5<sup>th</sup> destination of Kosovo's goods exports (vs. 6<sup>th</sup> in 2021) and remained the 1<sup>st</sup> destination of Kosovo's exports of ICT services. As regards FDI, Switzerland remains the 2<sup>nd</sup> largest foreign investor in Kosovo, right behind Germany and in front of Turkey, as well as the 2<sup>nd</sup> largest country of origin for remittances sent by the diaspora.

Looking ahead, Kosovo's economic outlook is cautiously optimistic. The IMF projects a growth rate of 3.5%. Whereas current account deficits are projected to narrow as commodity prices normalize (with inflation expected to decrease to 5%), the structural pattern of goods trade deficits broadly offset by services trade surpluses is likely to persist. Measures envisaged by the Government to support economic policies and climate change efforts are expected to contribute to mitigating the downside risk posed by rising energy prices. FDI should continue to increase, benefiting from European firms' "near shoring" efforts, but could be affected in the short term by tensions in the north of the country and, in the medium to long term by persisting inefficiencies of the judiciary.

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## 1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

### Economic outlook:

After a robust economic recovery following the COVID-19 crisis, **Kosovo's real GDP growth rate decreased from 10.75% in 2021 to 3.5% in 2022.**<sup>1</sup> Whilst profiting from a sustained increase in foreign direct investments and remittances, Kosovo's real GDP growth remained **primarily driven by private consumption and exports of resilient diaspora-driven travel services as well as manufactured goods.**<sup>2</sup> At the same time, the **current account deficit (CAD) widened to 10.4 percent of GDP in 2022** due to increases in food and energy imports that more than offset the rise in tourism inflows and goods exports.<sup>3</sup>

**Inflation proved a major challenge**, with average rate soaring from 3.4% in 2021 to 11.6% in 2022. As a result of the high increase in food and energy prices stemming from the war in Ukraine<sup>4</sup>, **the Harmonized Index of Consumer Prices reached a historic high of 14.2% in July 2022.**<sup>5</sup> With the average household spending more than 50% of its budget on food and drinks<sup>6</sup>, the poverty rate increased from 20% in 2021 to 25.3% in 2022<sup>7</sup>. To mitigate the impact of inflation on citizens and businesses, the Government adopted a **large fiscal package worth 4.3% of the GDP** including measures such as subsidized energy bills and setting a maximum trade margin on petroleum prices.<sup>8</sup> In addition and to prevent potential food shortages, it banned exports of basic agricultural products and introduced subsidies for fertilizers between April and September 2022.<sup>9</sup>

**Kosovo's fiscal consolidation pace over the last two years was the strongest among emerging European economies.**<sup>10</sup> While capital investments fell short of the amount budgeted for 2022, expenditure related to transfers increased significantly in response to the crisis. Consequently, Kosovo's **fiscal deficit further decreased, declining to 0.5% of the GDP**, thanks to a 13.7% increase in revenues, driven by economic recovery, formalization of the economy and inflation.

**Kosovo's public debt also further decreased to 20.7% of GDP**, thereby maintaining the **lowest debt-to-GDP ratio in the Western Balkans**<sup>11</sup>, as diversifying financing sources and extending debt maturities remained amongst Kosovo's policy priorities.

Despite a challenging external environment, **Kosovo's financial sector is robust.**<sup>12</sup> With respect to the banking sector, capital buffers and asset quality remained adequate, with the ratio of regulatory capital on risk-weighted assets standing at 14.8% and **nonperforming loans stabilizing** at 1.8% in December 2022.

According to the latest available data (Q1 2022), the **unemployment rate stands at 16.6%, while only 32.2% of the working age population is employed.** There are significant gender imbalances, with respectively 46.6% of men and 17.9% of women employed. Likewise, women's inactivity rate remains much higher than men's (77.9% vs 44.9%).<sup>13</sup> Data on pension contributions suggest that **formal employment increased by 4.9% in 2022**, whilst the number of registered job seekers decreased by 1.5% between December 2021 and 2022.<sup>14</sup>

<sup>1</sup> IMF, Country Report No. 23/54, REPUBLIC OF KOSOVO, 2022 Article Iv Consultation—Press Release; Staff Report; And Statement By The Executive, Director For Republic Of Kosovo.

<sup>2</sup> *Ibidem*.

<sup>3</sup> IMF, Country Report No. 23/54, REPUBLIC OF KOSOVO, 2022 Article Iv Consultation—Press Release; ; Staff Report; And Statement By The Executive, Director For Republic Of Kosovo; p. 5-6.

<sup>4</sup> World Bank Group, Testing Resilience, Western Balkans Regular Economic Report, No. 23 | Spring 2023, p.83.

<sup>5</sup> *Ibidem*; Kosovo Agency of Statistics, "Harmonized Index of Consumer Prices (HICP)", July 2022.

<sup>6</sup> World Bank Group, Beyond the Crises, Western Balkans Regular Economic Report, No. 22 | Fall 2022, p. 79.

<sup>7</sup> World Bank. 2022. "War in the Region" Europe and Central Asia Economic Update (Spring), Washington, DC: World Bank. Doi:10.1596/978-1-4648-1866-0. License: Creative Commons Attribution CC BY 3.0 IGO.

<sup>8</sup> IMF, Country Report No. 23/54, *op.cit.*, p. 17.

<sup>9</sup> RKT Live, "Kosovo bans export of certain food products", 13.04.2022.

<sup>10</sup> IMF, Country Report No. 23/54, *op.cit.*, p. 17.

<sup>11</sup> World Bank Group, Testing Resilience, *op.cit.*, p.83.

<sup>12</sup> *Ibidem*, p. 84.

<sup>13</sup> Kosovo Agency of Statistics, "Labor Force Survey, Q1 2022", 30. March 2023.

<sup>14</sup> World Bank Group, Testing Resilience, *op.cit.*, p. 84.

## 2023 outlook

The economic outlook for Kosovo is cautiously optimistic. Assuming that international commodity prices will ease in 2023 and that public investment will accelerate, **the IMF projects a 3.5% growth** (3.7% according to the World Bank)<sup>15</sup> largely thanks to the **inflation falling back to 5% of the GDP**. According to the latest data, inflation rate actually stands at a low 7.6% (March 2023) and the HICP at 6% (April 2023). As commodity prices normalize, current account deficits are projected to narrow. **The structural pattern of goods trade deficits broadly offset by services trade surpluses is likely to persist**.<sup>16</sup> The poverty rate is expected to slightly decrease to 23.6% in 2023.<sup>17</sup> **The main downside risks is the possibility of rising energy prices** which could lead to significant fiscal and external sector pressures.<sup>18</sup>

In April 2023 Kosovo concluded a new **24-month Stand-By Arrangement with the IMF** (€100 million) and a Resilience and Sustainability Facility (€78 million) to support Kosovo's economic policies, climate change mitigation and adaptation efforts as well as long-term growth prospects.<sup>19</sup> The **World Bank's Country Partnership Framework for Kosovo (2023-2027)**, adopted in May 2023, will also support the country in accelerating its competitiveness, create more formal private sector jobs and increase environmental resilience.<sup>20</sup>

### Business climate:

According to the World Bank's Doing Business report 2020 (discontinued since then), where Kosovo ranked 57<sup>th</sup> out of 190 countries, **Kosovo scores particularly high in terms of ease of opening a business** (e.g. no minimum capital requirement).<sup>21</sup> Kosovo's other key comparative advantages includes low corporate taxes (10%) and VAT rates (8% for essential goods and 18% for other imported goods) as well as relatively low labor costs.

Whilst Kosovo continues to face **structural challenges**, including a large informal sector, difficulties in establishing property rights and obtaining construction permits, unreliable energy supply and a weak judiciary, **several steps were taken in 2022** to improve the business and investment climate, including *inter alia*: the establishment of Commercial courts, the adoption of a new legislation on the protection of competition in line with the EU acquis<sup>22</sup>, progress in e-procurement, reduction of informality and the establishment of publicly owned inland customs terminal charging significantly lower fees than existing private ones.<sup>23</sup> Looking ahead, Kosovo plans *inter alia* to further simplify licensing and permits, establish additional one-stop-shops as well as digitalize the process of authorizations and licenses for the provision of services as well as taxes through the [e-Kosova platform](#).<sup>24</sup> More details on the business climate and investment opportunities in Kosovo can be found in the [White Book](#) published by the European Investors' Council (EIC) and in the [Investment in Kosovo](#) guide produced by the BogaLaw firm.<sup>25</sup>

In 2022, Kosovo made **significant progress in the fight against corruption and organised crime**: Transparency International's Corruption Perceptions Index 2022 ranks Kosovo 84<sup>th</sup> out of 180 countries (up from 104<sup>th</sup> in 2020). With 41 points on a scale of 100, Kosovo, which ranks like North Macedonia, lies ahead of Serbia, Albania and Bosnia and Herzegovina.<sup>26</sup> Kosovo also **improved its ranking in the last Economic Freedom Index** produced by the Heritage Foundation (86<sup>th</sup> in 2022 vs. 78<sup>th</sup> in 2023), lagging however behind Albania and Serbia<sup>27</sup>.

<sup>15</sup> World Bank Global Economic Prospect, 07. June 2023. According to the World Bank, Kosovo's economic growth is projected to speed up to 4.4% in 2024 and then slow down to 4.2% in 2025.

<sup>16</sup> IMF, Country Report No. 23/54, *op.cit.*

<sup>17</sup> World Bank Group, Weak Growth, High Inflation and a Cost-of-Living Crisis, Europe and Central Asia Economic Update, Spring 2023, p.84.

<sup>18</sup> IMF, Country Report No. 23/54, *op.cit.*

<sup>19</sup> IMF, "IMF Reaches Staff-Level Agreement with the Republic of Kosovo on a Stand-By Arrangement (SBA) and a Resilience and Sustainability Facility (RSF)", 20. April 2023.

<sup>20</sup> World Bank, "World Bank Group's New Strategy in Kosovo Supports Competitiveness for Higher Job Creation and Living Standards", 09.05.2023.

<sup>21</sup> World Bank. Doing Business. 2020. [Economy profile Kosovo](#).

<sup>22</sup> European Commission, "[Kosovo 2022 Report](#)", October 2022.

<sup>23</sup> *Ibidem*.

<sup>24</sup> The Administrative Burden Prevention and Reduction Programme 2022-2027, yet to be adopted, aims to reduce administrative requirements for permits and licenses by means of legislative simplification and digitalization, and to ensure better compliance with the Law on General Administrative Procedures (LGAP). Services are also available to citizens and businesses through the e-Kosova digital portal, but this does not address issues with over-the-counter service delivery.

<sup>25</sup> Bogalaw, "[Investment in Kosovo](#)", 12<sup>th</sup> Edition, 2023.

<sup>26</sup> Transparency international, [Corruption perceptions index 2022 – Kosovo](#).

<sup>27</sup> [Index for Economic Freedom by the Heritage Foundation](#).

## 2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

According to the Kosovo Investment and Enterprise Support Agency (KIESA), the main investment opportunities are in the Information and Communication Technology (ICT) and Business Process Outsourcing (BPO) sectors; mining and metal processing; energy; textile and leather processing; wood processing as well as tourism.<sup>28</sup> The EIC also suggests investment potential in the banking, insurance, oil, pharmaceutical and automotive industries.<sup>29</sup>

### Primary Sector:

The share of the primary sector in the distribution of GDP, although decreasing, remains relatively high (8.8% in 2021) compared to EU countries.<sup>30</sup>

The primary sector continues to be a drag on growth due to its **low productivity**,<sup>31</sup> which stems from a range of **structural challenges** including: small farm size, high production costs, land fragmentation, limited diversification of production, poor irrigation infrastructure, obsolete technologies, lack of specialisation, limited storage capacity, as well as weak or dysfunctional linkages between the primary producer and the processor, and between producers and the market.<sup>32</sup>

### Industrial Sector:

Although too few investors have turned to high value-added sectors, which would have had a greater impact on innovation, productivity gains and job creation, **the industrial sector continued to account for the vast majority of exports (51%)**<sup>33</sup>.

The industrial sector remained dominated by food production, metal processing, plastics and wood processing. Notwithstanding a low level of digitalisation in the manufacturing sector, it is worth noting that the wood processing industry is the most digitalized industry followed by that of plastics.<sup>34</sup> Whilst the textile industry, which had expanded between 2018 and 2020, is declining<sup>35</sup>, the water treatment, waste disposal and recycling sector is set to grow.<sup>36</sup>

Kosovo's new "**Strategy for Industry Development and Business Support 2030**" intends *inter alia* to unlock the **potential of the manufacturing sector**. Foreseen measures include the creation of a National Product Certification Facility and the co-financing of conformity assessment bodies. It also focuses on the **construction sector**, which increased significantly in the wake of the COVID-pandemic (+58.01% between 2021 and 2022), showing however a reduced growth of 10% in nominal terms in 2022.

### Service Sector:

Services activities, which comprise 86% of total firms registered in the country, constitute the backbone of Kosovo's private sector.<sup>37</sup> Besides travel services driven by the diaspora, which continued to dominate by far the service sector, **the Information, Communication and Telecommunication (ICT) sector has become a significant and growing sector** in the global services industry. In 2021, 91.18% of ICT companies based in Kosovo exported their services/products to international markets, primarily to Switzerland, Germany, the United States, Canada and the United Kingdom. Those companies are mainly involved in software/IT services (51.28%), software products (20.51%) and services for hardware products (2.56%). The ICT sector – which employs 4.2% of the population, that is a rate comparable to the European average of 3.64%<sup>38</sup> – is also the most dynamic in terms of sustainable job creation, thanks in particular to salaries that are 15.6% higher on average.<sup>39</sup>

<sup>28</sup> KIESA, [Investment opportunities](#).

<sup>29</sup> European Investors Council. 2021. [White Book 2021](#).

<sup>30</sup> Kosovo Agency of Statistics, "[Gross Domestic Product \(GDP\) 2008 – 2021- By economic activities and expenditure approach](#)", 2022;".

<sup>31</sup> World Bank, 2022. "War in the Region", *op.cit.*

<sup>32</sup> [Kosovo Economic Reform Programme \(ERP\) 2021-2023](#).

<sup>33</sup> Kosovo Agency of Statistics, Exports by month, year on year/month and variables, 16.05.2023.

<sup>34</sup> Riinvest Institute, "[DIGITAL CAPACITIES IN MANUFACTURING SECTOR IN KOSOVO](#)", September 2022.

<sup>35</sup> Meeting with representatives of the Ministry of Industry, Entrepreneurship and Trade. 31.05.2022. Pristina.

<sup>36</sup> Kosovo Agency of Statistics, "[Gross Domestic Product \(GDP\) 2008 – 2021- By economic activities and expenditure approach](#)", 2022.

<sup>37</sup> Ministry of Industry, Entrepreneurship and Trade, internal document, March 2023.

<sup>38</sup> *Ibidem*.

<sup>39</sup> World Bank. 2021. "[Kosovo Country Economic Memorandum, November 2021: Gearing Up for a More Productive Future](#)".

Over 50% of call centers' employees earn over 1'000 euros. GAP Institute, "Net Wages in Call Centers in Kosovo in 2021". 03.06.2022

### Energy Sector:

Although Kosovo has the 5<sup>th</sup> largest reserve of lignite coal in the world (12.5 billion tons)<sup>40</sup>, the country is in a vulnerable position due to obsolete coal-fired power plants. In this context and in order to meet EU requirements, Kosovo aims to achieve full decarbonization by 2050.<sup>41</sup>

According to its **new National Energy Strategy 2022-2031**, adopted in March 2023<sup>42</sup>, Kosovo plans to increase generation from renewable energy sources from currently 6.5% to 13% by 2025 and at least 35% by 2031 of the generation mix. It also plans a 32% reduction of greenhouse gas emissions and phasing-out of at least one lignite-fired generation unit. In order to attract investments in renewable energy (especially solar and wind, given the limited water resources available), Kosovo, supported by EBRD, has endeavored to move from a licensing system, with expensive feed-in tariffs and high risks of corruption, to an **auction system**.<sup>43</sup> Kosovo actually carried out the first solar auction in May 2023.<sup>44</sup>

### Potential for Swiss companies:

Thanks to a **young and multilingual (English and/or German speaking) population** (28.2% of the population speaks one foreign language and 15.9% more than one foreign language)<sup>45</sup> as well as **relatively low average salaries** (also in regional comparison), all in geographical proximity (with daily air links), Kosovo is becoming a **nearshore destination** for a growing number of European foreign investors. In the recent years, Swiss companies have shown a growing interest in outsourcing part of their business, in particular in the BPO sector, in the form of ICT and customer relations services, and in the manufacturing sector, outsourcing part of the serial production (parts, assembly, etc.) concerning manufacturing.

In September 2022, the "[Economic Association Switzerland-Kosovo \(Oda Ekonomike Zvicerano Kosovare - OEZK\)](#)", founded in May 2021, organized a first BPO Summit and is now planning a first **Swiss Kosovar Economic Forum in September 2023** view a view to strengthening the economic ties between Switzerland and Kosovo, in particular in the ICT/BPO sector and in the wood and metal processing sectors.

## **3 FOREIGN ECONOMIC POLICY**

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### **3.1 Host country's policy and priorities**

While the contours of Kosovo's foreign economic policy, focused on attracting foreign investment, developing production capacity and promoting exports, are still rather unclear, the **Government's Economic Reform Programme (ERP) 2023-2025 on Structural reforms** outlines its priorities for economic development.<sup>46</sup> For example, it plans to support spaces for the development of start-ups and to allocate grants for innovative ideas to increase exports.

In 2023, the Government adopted a new draft **Law on Sustainable Investments**<sup>47</sup>, merging the previous laws on FDI and strategic investments. Under this new framework, two new agencies will set-up, replacing the current Kosovo Investment and Export Support Agency (KIESA): one under the Ministry for Industry, Entrepreneurship and Trade dealing with business support and industrial development; one under the Office of the Prime Minister dealing with investments and export promotion, whereby new fiscal and financial incentive schemes will be developed and economic advisor deployed abroad, including to Switzerland. The **new Investment and Export Agency (IEA)** is expected to be functional as of September 2023. Building on the "International Accounting Standards Board" (IASB), the IEA will be organized around 10 industry groups and 30 sectors.<sup>48</sup>

<sup>40</sup> Global Energy Monitor. "[Kosovo and Coal](#)".

<sup>41</sup> "Position paper: Kosovo's National Energy and Climate Plan (NECP)", May 2022.

<sup>42</sup> Energy Strategy of the Republic of Kosovo 2022-2031. See also the related official [website](#).

<sup>43</sup> SeeNews. 23.05.2022. "[EBRD to back competitive auctions for wind, solar capacity in W. Balkans](#)".

<sup>44</sup> Prishtina Insight, "[Kosovo Opens Auction for First Solar Park](#)", 12. May 2023.

<sup>45</sup> Ministry of Industry, Entrepreneurship and Trade, Internal document, March 2023.

<sup>46</sup> Republic of Kosovo, Ministry of Finance, Labour and Transfers, [Economic Reform Programme](#) (ERP) 2023 – 2025., 07.02.2023.

<sup>47</sup> See [draft Law](#) approved by the Government on 11.01.2023 at its 118<sup>th</sup> meeting (Decision No.02/118).

<sup>48</sup> Meeting with the chief of cabinet of the Prime Minister, 13.04.2023.

In terms of **trade policy**, Kosovo is part of the regional Free Trade Agreement (FTA) "CEFTA" since 2007 and concluded bilateral FTAs with Albania, Macedonia, Croatia, Bosnia and Herzegovina as well as Turkey. The Stabilization and Association Agreement (SAA) concluded with the EU and which entered into force in April 2016 also foresees the progressive liberalization of trade with EU members. As of 2021, the SAA had already enabled the elimination of tariffs on more than 1,044 agricultural and 487 fisheries products imported from the EU. It also provides for the progressive elimination of tariffs on industrial products by 2026. Last but not least, Kosovo aims at concluding a **"first generation" FTA with the European Free Trade Agreement (EFTA)**. Launched in June 2022, negotiations are led by Switzerland and expected to conclude in 2023. By contrast, countries with which Kosovo does not have a free trade agreement remain subject to 10% tariffs.

### 3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

Considering the progressive liberalisation of trade in goods and capital movements between Kosovo and the EU under the Stabilisation and Association Agreement (SAA) and Switzerland's preferential access to the EU internal market, the **potential for discrimination remains low**. The conclusion of a free trade agreement between EFTA and Kosovo should, once in force, further reduce the risk of discrimination (a key point in the negotiations).

The legislative framework does not provide for restrictions and ensures fair and equitable treatment of foreign companies. Currently local companies receive however preferential treatment in public procurement, getting 10 points more than foreign suppliers<sup>49</sup>. This practice is expected to change upon adoption of Kosovo's new Strategy for Industrial Development and Business Support, which foresees that **the transitory price preference of up to 15% for domestically manufactured products foreseen under the (amended) procurement law will not apply to the EU, CEFTA, the US, and EFTA countries**.

## 4 FOREIGN TRADE

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### 4.1 Developments and general outlook

Kosovo's trade balance remained negative due to the large amount of import of goods<sup>50</sup> and the fact that the value of wider-base imports grew by 22%, mainly due to higher prices of mineral products, food and beverages.<sup>51</sup> As such Kosovo's trade deficit increased by 6.4% year-on-year between January 2022 and 2023.<sup>52</sup> Consequently, Kosovo's trade balance and current account deficit amounted to 10.1% and 32.1% of the GDP respectively.<sup>53</sup>

The first destination of Kosovar exports remains the CEFTA member countries, led by North Macedonia (13% of the total) and Albania (11% of the total). EU countries together account for 33% of exports, with Germany (9%) and Italy (5%) as top destinations within the EU. The United States are individually the leading export destination (15%), thanks in particular to the export of mattresses.<sup>54</sup>

However, EU countries together account for 42% of total imports, with Germany (11%) and Italy (4.8%) being the main countries of origin of goods imported by Kosovo. Individually, Turkey (15%) is the first country of Kosovo imports, ahead of Germany and of China (10%).<sup>55</sup>

Trade with CEFTA and EU member countries benefits from the fact that most imports from these countries are duty free, as well as from geographical proximity, a comparative advantage that is further enhanced in the context of the pandemic.

<sup>49</sup> World Bank Group, Testing Resilience, *op.cit.*

<sup>50</sup> Kosovo Central Bank. Excel sheet 37 "Exports" and 39 "Imports - by country and economic categories". Updated March 2023.

<sup>51</sup> World Bank Group, Testing Resilience, *op.cit.*

<sup>52</sup> See News, February 2023, "Kosovo's trade gap widens 6.4% y/y in Jan".

<sup>53</sup> IMF, Country Report No. 23/54, *op.cit.*, p. 5-6.

<sup>54</sup> Kosovo Agency of Statistics, Kosovo International Trade Statistics, March 2023.

<sup>55</sup> *Ibidem*.

Trade with Serbia resumed after the current Government lifted the 100% tax on imported goods from Serbia and Bosnia and Herzegovina in April 2020. In 2022, in spite of recurring tensions, Serbia ranked 4<sup>th</sup> country of origin of Kosovo's imported goods (+21.7% compared to 2021) and is the 6<sup>th</sup> country of destination of Kosovo's exported goods (+43% compared to 2021).<sup>56</sup>

#### 4.1.1 Trade in goods

Building on the trend observed in the wake of the pandemic, **exports of goods** continued to increase in 2022, albeit at a much slower pace than imports, reaching a total of 920.4 million euros (+22.7%).<sup>57</sup> This increase was most noticeable in the four largest categories of exported goods, namely: manufactured goods (+131%); mineral products (+14%); plastics and rubber (+59%); processed food and beverages (+20.4%). Exports of stone articles, ceramic and glass also marked a significant increase (+58.3%), whilst the export of metals decreased (-12.9%).<sup>58</sup>

**Imports of goods** also increased in 2022, reaching a total of 5'639 million euros (+21.2%). This increase was driven by the imports of mineral products (+60%), followed by processed food, beverages and tobacco (+16.7%) and metal products (+12%).<sup>59</sup>

#### 4.1.2 Trade in services

Kosovo's **positive trade balance in services continued to grow (+26.9%) in 2022**, reaching a record of 1'375 million euros in 2022: while service imports amounted to 1'127.5 million euros (+30%), service exports amounted to 2,502 million euros (+28%). The positive balance of services resulted in reducing the high trade deficit in goods and the current account balance.

The **largest exporting sector remain by far travel services** (1,8 billion euros in 2022, that is 75% of services exports) in relation to Kosovo's large diaspora and as a consequence of a growth model that remains based on consumption<sup>60</sup>.

**Service exports in the ICT and BPO sector also continued to increase (+ 112.6%)**, reaching 210.1 million euros in 2022 and thus contributing to a significant trade surplus in this sector (+159%). Services exports are also **growing in the business services/e-commerce ICT** (+6.7% 2022), followed by transport, construction and insurance sectors.<sup>61</sup>

## 4.2 Bilateral trade

Although modest volume-wise, bilateral trade in goods between Switzerland and Kosovo continued to increase. While Kosovar data indicate a trade balance of 29.3 million euros in favour of Kosovo, Swiss data indicate a surplus of 6.22 million francs in favour of Switzerland. These discrepancies (also noted in trade relations with EU member states) stem from the use of different calculation methodologies.

According to data from the Central Bank of Kosovo, Switzerland became the **21<sup>st</sup> country of origin of goods imported by Kosovo** (vs. 28<sup>th</sup> in 2021), reaching 40.6 million euros (+28% compared to 2021), that is 0.7% of Kosovo's total imports. Switzerland became the **5<sup>th</sup> destination of Kosovar exports**, reaching 70.1 million euros (+25% compared to 2021), that is 8% of Kosovo's total exports.<sup>62</sup> According to the Swiss customs, **exports to Kosovo** in 2022 amounted to 71 million francs<sup>63</sup>, **(+12.5% compared to 2021)**<sup>64</sup>, whilst **imports of goods from Kosovo** amounted to 64.72 million francs **(24.6% compared to 2021)**.<sup>65</sup>

Since 2020, Kosovo is in category 6 of the Swiss Export Risk Insurance (SERV) list.<sup>66</sup>

<sup>56</sup> Zeri, January 2023, "Imports from Serbia in 2022 increased by 21.7"

<sup>57</sup> Kosovo Central Bank. Excel sheet 35 "Exports - by trading partner". Updated March 2023.

<sup>58</sup> Kosovo Central Bank. Excel sheet 37 "Exports - by economic categories". Updated March 2023.

<sup>59</sup> Kosovo Central Bank. Excel sheet 39 "Imports - by country and economic categories". Updated March 2023.

<sup>60</sup> World Bank Group, Testing Resilience, *op. cit.*

<sup>61</sup> Kosovo Central Bank. Excel sheet 27 "Services". Updated March 2023.

<sup>62</sup> Kosovo Central Bank. Excel sheet 36 "Imports and Excel sheet 35 "Exports" - by trading partner. Updated March 2023.

<sup>63</sup> Federal Office of Customs and Border Security (Swissimpex). See Annex.

<sup>64</sup> From 2020 to 2021 there was an increase of 29.3%, after a decline of 7.8% between 2019 and 2020.

<sup>65</sup> Federal Office of Customs and Border Security (Swissimpex). See Annex.

<sup>66</sup> SERV.



#### 4.2.1 Trade in goods

The **main products exported by Switzerland to Kosovo** remained **vehicles** (33.2%), albeit on the decrease compared to the year before (-9.8%). By contrast, exports from **the chemical and pharmaceutical industries** (15.8%) and exports from **the agricultural sector** (21.1%) increased significantly (+57.7% and +58.8% respectively).<sup>67</sup>

With regard to **products imported by Switzerland from Kosovo**, **manufactured goods** constituted (again) 70% of exports to Switzerland, including primarily plastics and rubber products (26.1%) and furniture (25.3%), notwithstanding a slight decline compared to 2021.<sup>68</sup>

#### 4.2.2 Trade in services (if data available)

In the period 2018-2020, Kosovo recorded a positive trade balance with Switzerland in the field of services. Switzerland is the leading destination for ICT services exports since 2020 (21.3% of Kosovo's total ICT exports)<sup>69</sup>.

## 5 DIRECT INVESTMENTS

### 5.1 Developments and general outlook

Between 2008 and 2022, foreign direct investment reached a total of 4.92 billion euros, of which 778.2 million euros in 2022, which represents an **increase of 22.8%** compared to 2021.<sup>70</sup>

Whilst 80% of the increase in FDI stemmed from diaspora-dominated **real estate** investment (523.8 million euros, which represents an increase of +36%), FDI also profited the **finance and insurance** sector (53.9 million euros, which represents a significant increase of 115%) and the **ICT** sector (13.8 million euros) although investments in this latter decreased by 20.2%.

There was also an increase in FDI in **mining and quarrying**, as well as in the **manufacturing** sector.<sup>71</sup>

Net FDI increased moderately (+0.9% of the GDP), **but continued to represent a relatively small share of the GDP (about 6%), especially in comparison to the level of remittances.**<sup>72</sup>

In 2022, the diaspora transferred indeed 1.22 billion euros to Kosovo (that is about 69.5 million euros or 6% more than in 2021).<sup>73</sup> Similar to previous years, 40% of the remittances originated from Germany and 19% from Switzerland (231.7 million euros, which represents 2.97% of Kosovo's GDP).<sup>74</sup> Since the Covid-19 pandemic started, there has been an increase of remittances through money transfer agencies and a decrease in remittances through non-official channels.<sup>75</sup>

Combined, EU countries account for 38.8% of foreign direct investments. Germany, whose share represents 16.6% of the total, remains the single largest foreign investor (897.6 million euros invested between 2008 and 2022, including 194.2 million euros in 2022), followed by Switzerland (800.5 million euros invested between 2008 and 2022, including 155.2 million euros in 2022). Albania, Great Britain and the USA follow, thus ahead of Turkey and Austria (which ranked third and fourth respectively).<sup>76</sup>

With regard to Kosovar direct investments abroad, these totaled 752.7 million EUR as of end 2021, approximately two third of which in the CEFTA zone and a third in the EU. Albania is by far the largest recipient of Kosovar investments (268.9 millions EUR), followed by German (85.2 million EUR) and Montenegro (53.2 million EUR) and the United States (41.4 millions EUR).

<sup>67</sup> Federal Office of Customs and Border Security (Swissimpex). *Op.cit.*

<sup>68</sup> *Ibidem.*

<sup>69</sup> Kosovo Central Bank. Excel sheet 27.1 "Services - by country and activity". Update 2020 (No newer information available).

<sup>70</sup> Kosovo Central Bank. Excel sheet 34 "Foreign Direct Investments – by geographical breakdown (net)". Updated March 2023.

<sup>71</sup> Kosovo Central Bank. Excel sheet 33 "Foreign Direct Investments – by sector". Updated March 2023.

<sup>72</sup> IMF, Country Report No. 23/54, *op.cit.*

<sup>73</sup> Kosovo Central Bank. Excel sheet 32 "Remittances-by country". Updated March 2023.

<sup>74</sup> Kosovo Central Bank. Excel sheet 33 "Foreign Direct Investments – by sector". Updated March 2023.

<sup>75</sup> GAP Institute, "Diaspora's impact on Kosovo's economy during COVID-19 pandemic", November 2020.

<sup>76</sup> Kosovo Central Bank. Excel sheet 34 "Foreign direct investments in Kosovo - by countries (net)". Updated March 2023.

## 5.2 Bilateral investments

As noted above, **Switzerland remains the second largest foreign investor**, with a total of 821 million euros between 2008 and 2022, which represents 19.9% of the total share. In 2022, Swiss investments reached 155.2 million euros, an **increase of 56.4% compared to 2021**.<sup>77</sup>

Swiss investments mainly stem from small and medium-sized enterprises (SMEs), often owned by double-nationals. Swiss companies in Kosovo are active in a wide range of sectors, including: banking and fintech, insurance, IT and BPO, food processing, machinery, mechanics, energy and tourism. The Lugano-registered "Mabetex Group" (which owns inter alia "Banka Ekonomike", the luxury hotel "Swiss Diamond" and the insurance company "Siguria"), headed by billionaire and former foreign minister Behgjet Pacolli, remains the largest investor in Kosovo and by far the largest Swiss investor.

In 2021, Kosovar investments in Switzerland amounted to 37.1 million EUR, which is **4.9% of foreign investments made by Kosovo**.<sup>78</sup> As such, Switzerland is the **6<sup>th</sup> country of destination of Kosovar direct investment**.

## 6 ECONOMIC AND TOURISM PROMOTION

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### 6.1 Swiss foreign economic promotion instruments

Switzerland enjoys an excellent image and very high reputation in Kosovo, including thanks to the quality of its products and the opportunities for investment and support from the diaspora. However, due to the relatively small size of the Kosovo market, Switzerland does not deploy any foreign economic promotion instruments in Kosovo besides the SECO Start-up Fund which offers loans to investors with domicile in Switzerland and who plan on expanding their company's activity in emerging economies, including Kosovo. There are, however, several chambers of commerce which contribute to strengthening bilateral economic relations and which have opened the door to cooperation with Switzerland Global Enterprise as well as with Swisscontact's senior expert programme.

### 6.2 The host country's interest in Switzerland

Kosovo's continuously expanding exports to Switzerland, in particular as regards manufactured goods, demonstrate a keen interest for the Swiss market. Kosovar companies are also increasingly present in fairs such as Bau Basel. In the service industry, Swiss clients represent an important market, especially for Kosovar companies active in the ICT and BPO sector.

<sup>77</sup> Kosovo Central Bank. Excel sheet 34 " Foreign Direct Investments in Kosovo - by countries (net)". Updated March 2023.

<sup>78</sup> Kosovo Central Bank. Excel sheet 34 "Foreign Direct Investments – by geographical breakdown (net)". Updated March 2023.

## ANNEX 1 – Economic structure

**Economic structure of the host country<sup>79</sup>**

	<b>Year 2019</b>	<b>Year 2021</b>
<b>Distribution of GDP</b>		
Primary sector	<b>9.8%</b>	<b>8.8%</b>
Manufacturing sector	<b>13.6%</b>	<b>12.9%</b>
Services	<b>62.2%</b>	<b>58.5%</b>

<b>Distribution of employment</b>		
Primary sector	<b>5.2%</b>	<b>2.0%</b>
Manufacturing sector	<b>15.1%</b>	<b>8.7%</b>
Services	<b>67.1%</b>	<b>66.7%</b>

Sources:

Kosovo Agency of Statistics, "[Gross Domestic Product \(GDP\) 2008 – 2021- By economic activities and expenditure approach](#)", 2022.

Kosovo Agency of Statistics, "[Labour Force Survey](#)", 2022.

(There are no new data for 2022)

<sup>79</sup> The accumulated percentages do not equal to 100% because of "taxes on product" which are not included in the table.

## ANNEX 2 – Main economic data

## Host country's main economic data

	2021	2022	2023 proj.
<b>GDP (USD bn)*</b>	<b>9.040</b>	<b>9.363</b>	<b>9.990</b>
<b>GDP per capita (USD)*</b>	<b>5'030</b>	<b>5'290</b>	<b>5'641</b>
<b>Growth rate (% of GDP)*</b>	<b>9.5%</b>	<b>3.5%</b>	<b>3.5%</b>
<b>Inflation rate (%)*</b>	<b>3.3%</b>	<b>11.6%</b>	<b>5.0%</b>
<b>Unemployment rate (%)*</b>	<b>20.7%</b>	<b>n/a</b>	<b>n/a</b>
<b>Fiscal balance (% of GDP)*</b>	<b>-1.3%</b>	<b>-0.5%</b>	<b>-1.1%</b>
<b>Current account balance (% of GDP)*</b>	<b>-8.2%</b>	<b>-10.1%</b>	<b>-9.9%</b>
<b>Total external debt (% of GDP)**</b>	<b>22.5%</b>	<b>19.3%</b>	<b>20.2%</b>
<b>Debt-service ratio (% of exports)**</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
<b>Reserves (months of imports)**</b>	<b>3.0%</b>	<b>0.2%</b>	<b>1.2%</b>

\* Source: [IMF](#), World Economic Outlook (April 2023)

\*\* Source: [IMF](#), Country Report No. 23/54, REPUBLIC OF KOSOVO, 2022 Article IV Consultation—Press Release; Staff Report; And Statement By The Executive, Director For Republic Of Kosovo

## ANNEX 3 – Trade partners

## Trade partners of the host country Year: 2022

Rank	Country	Exports from the host country (EUR million)	Share	Change	Rank	Country	Imports to the host country (EUR million)	Share	Change
1	USA	136.5	15%	11%	1	Turkey	842.9	15%	44%
2	North Macedonia	119.1	13%	37%	2	Germany	610.4	11%	0.6%
3	Albania	102.0	11%	-7%	3	China	548.6	10%	22%
4	Germany	87.8	9%	43%	4	Serbia	372.1	6%	22%
5	<b>Switzerland</b>	<b>70.1</b>	<b>8%</b>	<b>25%</b>	5	Greece	307.3	5.5%	50%
6	Serbia	62.9	7%	43%	6	North Macedonia	282.1	5%	16%
7	Italy	46.4	5%	-22%	7	Italy	275.8	4.8%	0.2%
8	Montenegro	38.3	4%	56%	8	Albania	255.8	4.5%	-3.3%
9	Slovenia	29.7	3%	212%	9	Slovenia	243.5	4.3%	37%
10	Netherlands	29.1	3%	41%	21	<b>Switzerland</b>	<b>40.1</b>	<b>0.7%</b>	<b>28%</b>
	<b>EU</b>	<b>311.8</b>	<b>33%</b>	<b>32%</b>		<b>EU</b>	<b>2'388.8</b>	<b>42%</b>	<b>15.8%</b>
	<b>Total</b>	<b>920.2</b>	<b>100%</b>	<b>22%</b>		<b>Total</b>	<b>5'639.3</b>	<b>100%</b>	<b>21.2%</b>

Source(s):

Kosovo Central Bank. Excel sheet 35 "Exports - by trading partner". Updated March 2023.

Kosovo Central Bank. Excel sheet 39 "Imports - by country and economic categories". Updated March 2023.

## ANNEX 4 – Bilateral trade

## Bilateral trade between Switzerland and the host country

	Export (CHF million)	Change (%)	Import (CHF million)	Change (%)	Balance (in million)	Volume (in million)
2017	40.1	36.2	26.9	56	13.17	67
2018	52.5	31.1	37.2	38.4	15.3	52.5
2019	52.1	-0.7	32.9	-11.7	19.26	85
2020	48.1	-7.8	40.7	23.8	7.36	88.2
2021	62.2	29.3	51.9	27.7	10.26	114.1
<b>2022<sup>80</sup></b> <i>(Total 1)*</i>	70.9	14.1	64.7	24.6	6.22	135.6
<b>2023</b> <i>(I-VI)**</i>						

\*) 'Economic' total (total 1): not including gold bars and other precious metals, currencies, precious stones and gems, works of art and antiques

\*\*\*) Change (%) from the previous year

Exports	2021 (% of total)	2022 (% of total)
1. Vehicles	41.9	33.2
2. Agriculture, forestry and fisheries products	17.6	21.1
3. Chemical and pharmaceutical products	13.9	15.8
4. Machinery, equipment, electronics	10	9
5. Metal	6	7.3
6. Leather, rubber, plastics	2.9	2.4
7. Textiles, clothing and footwear	2.4	1.5
8. Precision instruments, watches and jewellery	1.9	0.6

Imports	2021 (% of total)	2022 (% of total)
1. Miscellaneous products such as musical instruments, home furnishings, toys, sports equipment, etc.	24.8	25.5
2. Leather, rubber, plastics	23.6	26.1
3. Metals	21.6	24.5
4. Agriculture, forestry and fishery products	16.2	5.4
5. Stones and soil	5.7	5.6
6. Machinery, equipment, electronics	3.1	2.2
7. Textiles, clothing, footwear	2.4	1.7
8. Vehicles	0.4	0.9

Source: Federal Office for Customs and Border Security

## ANNEX 5 – Main investing countries

## Main investing countries in the host country Year: 2022

Rank	Country	Direct investment (EUR, million, between 2008 and 2022)	Share	Variation (stock)	Inflows over past year (EUR million)
1	Germany	897.6	16.60%	18.1%	194.2
2	<b>Switzerland</b>	<b>800.5</b>	<b>14.80%</b>	<b>17.5%</b>	<b>155.2</b>
3	Albania	339.5	6.28%	19.2%	79.8
4	Great Britain	407	7.53%	-0.80%	-3.4
5	USA	383.6	7.09%	23.10%	93
6	Turkey	453.8	8%	10.2%	39
7	Austria	329.3	6.09%	12.2%	44.7
8	Slovenia	238.9	4.42%	8.8%	21.2
9	Italy	74.1	1.37%	12.4%	10.4
10	France	56.1	1.04%	12.5%	9.9
	EU	2095.9	38.76%	27.9%	378.1
	<b>Total</b>	<b>5407.8</b>	<b>100%</b>	<b>22.8%</b>	<b>778.2</b>

Source:

Kosovo Central Bank. Excel sheet 34a "Foreign direct investments in Kosovo - by geographical breakdown (net)".  
Updated March 2023.