

Kosovo's Economy: Prospects & Challenges

Vienna Economic Talks – Meet Kosovo in Vienna

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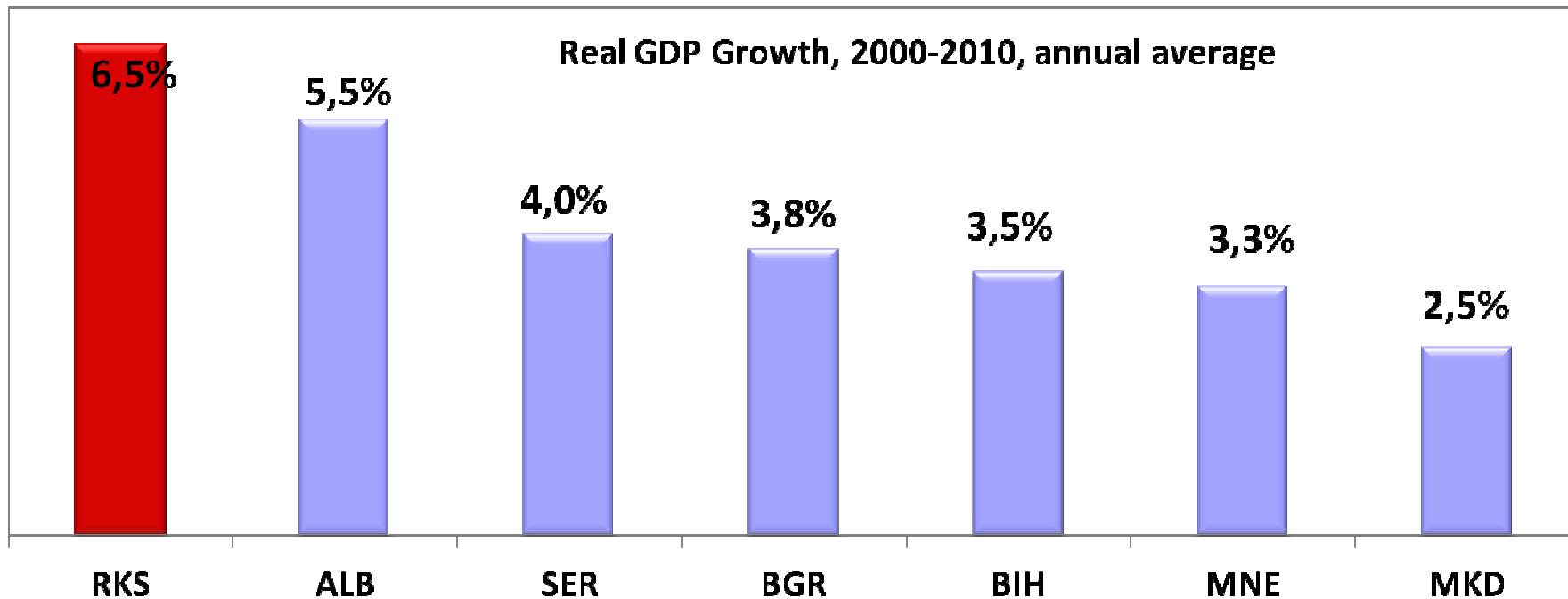
HALF-EMPTY OR HALF-FULL?



Five Positives

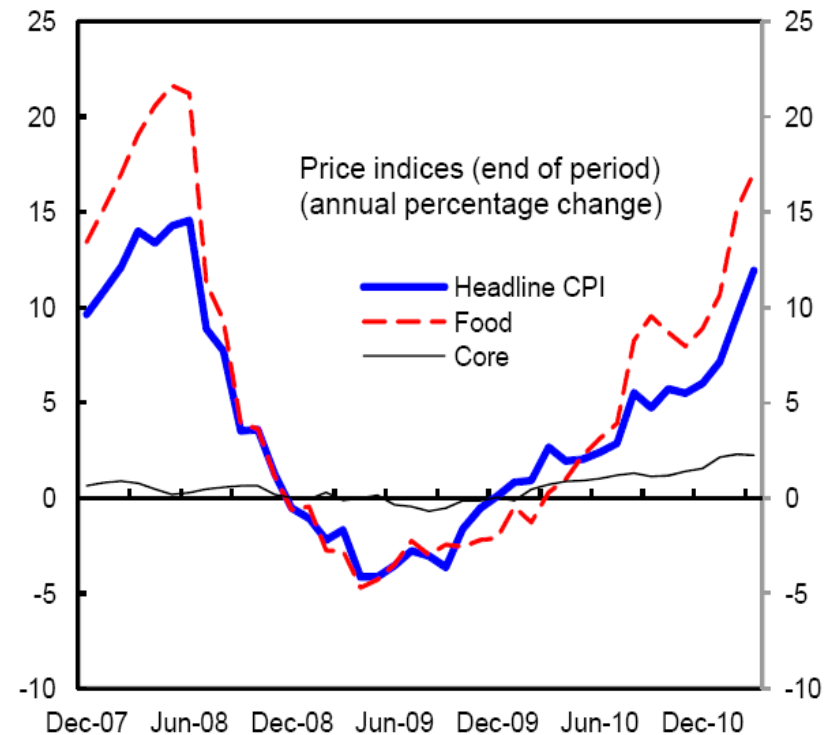
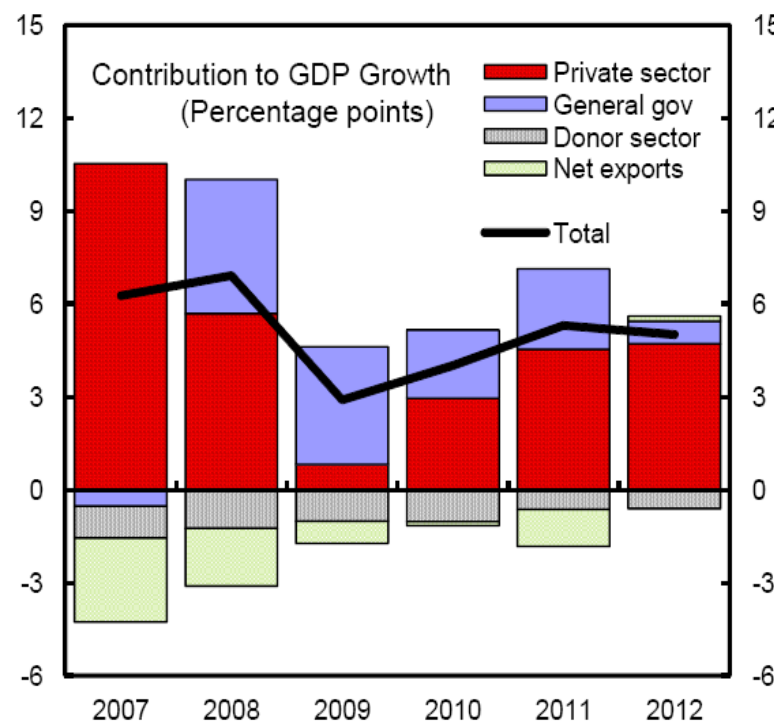
1. ROBUST ECONOMIC GROWTH

- In 2010 fastest growing economy after Turkey and Belarus
- Boosted by domestic demand, public investment, and FDI
- Regional growth leader of the last 10 years



2. STABLE MACROECONOMIC ENVIRONMENT

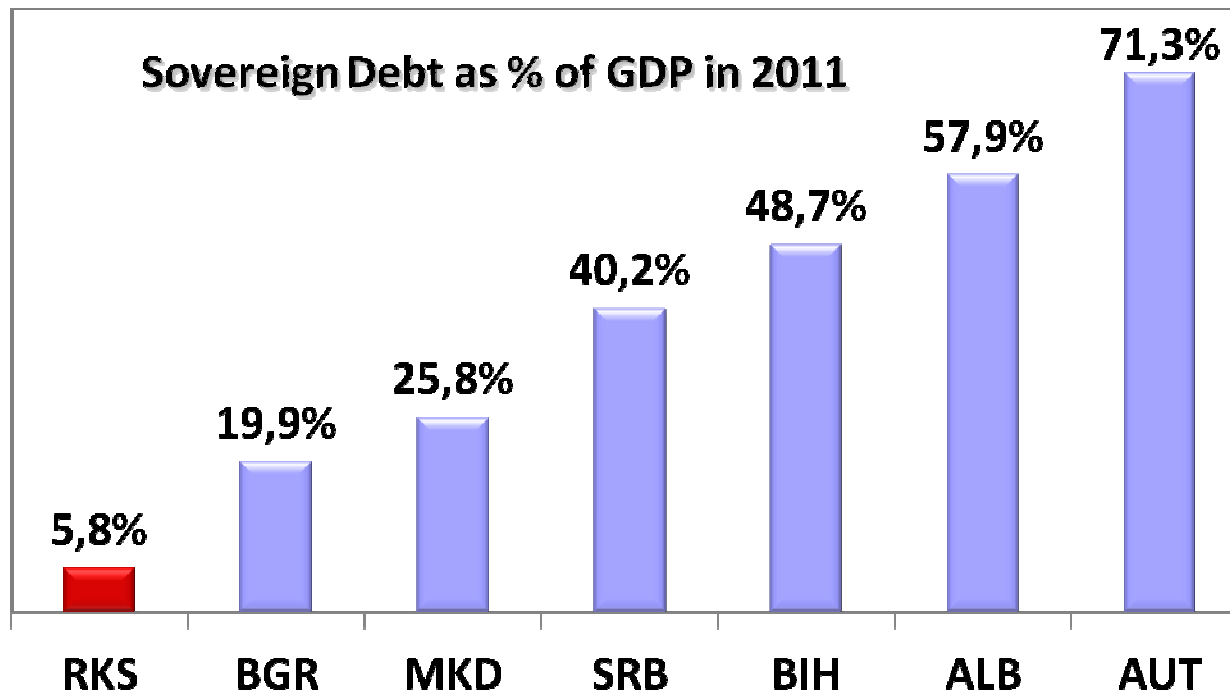
- Growth held up well during the financial crisis and increasingly becomes private-sector driven
- Stable domestic Inflation - following import prices



Source: IMF

3. LOW LEVEL OF SOVEREIGN DEBT

- As a result of conservative fiscal policy (budget surplus) and of inability to issue debt (political status)
- Sufficient scope for gradually increasing public debt up to 40 per cent of GDP in the coming years



4. IMPROVING BUSINESS AND INVESTMENT CLIMATE

- Independence as stabilizing factor
 - Real GDP p.c. increased by ~16 % (2008-2010)
 - Accumulated FDI (2007-2010) increased by 40 % compared to pre-independence phase
 - Membership in International Financial Institutions
- Tax Reform 2009
- Moderate improvement in Doing Business ranking 2012

5. VAST GROWTH POTENTIALS

- **Private Sector Development**
- **Public-Private Partnerships**
- **Infrastructure Development**
- **Public Investment**
- **Privatization**
- **Membership in International Financial Institutions**
- **EU-Funds (long-term)**

SHORT-RUN GROWTH FORECAST

- Domestic demand is boosted by robust remittances inflows, solid credit growth, and increase in public sector wages
- Public investment and FDI expected to remain high
- Fast growing exports expected to maintain pace
- Volatile inflation, boosted by commodities, food and oil prices, expected to return to levels consistent with Eurozone
- GDP growth 5.3 % (2011) and 5.1 % (2012)

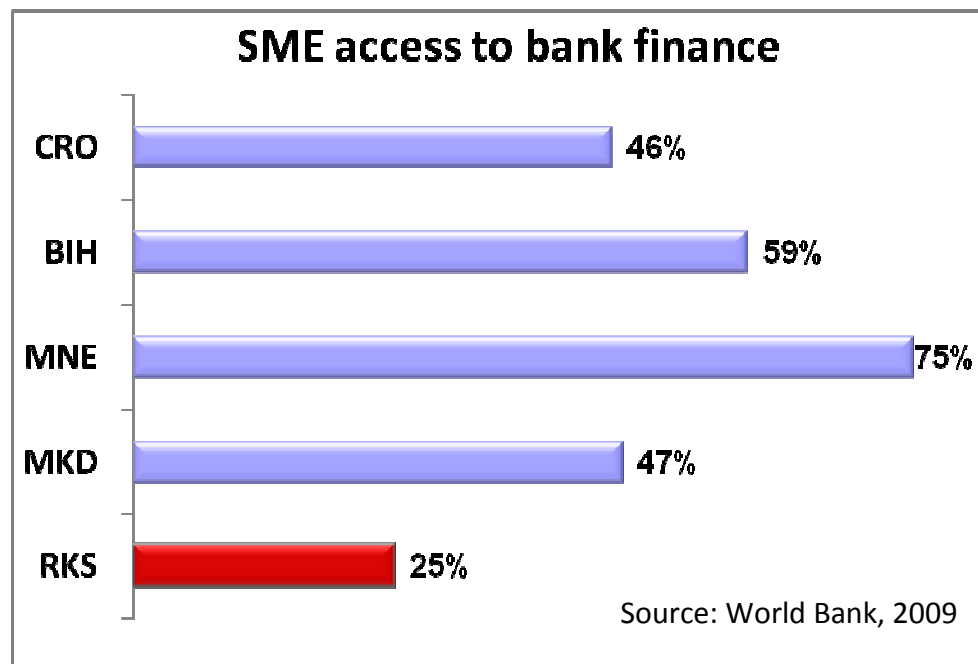
Five Challenges

1st CHALLENGE: SME-DEVELOPMENT

- SME as backbone of the economy
 - GDP Contribution 57 per cent
 - Employment contribution 62 per cent

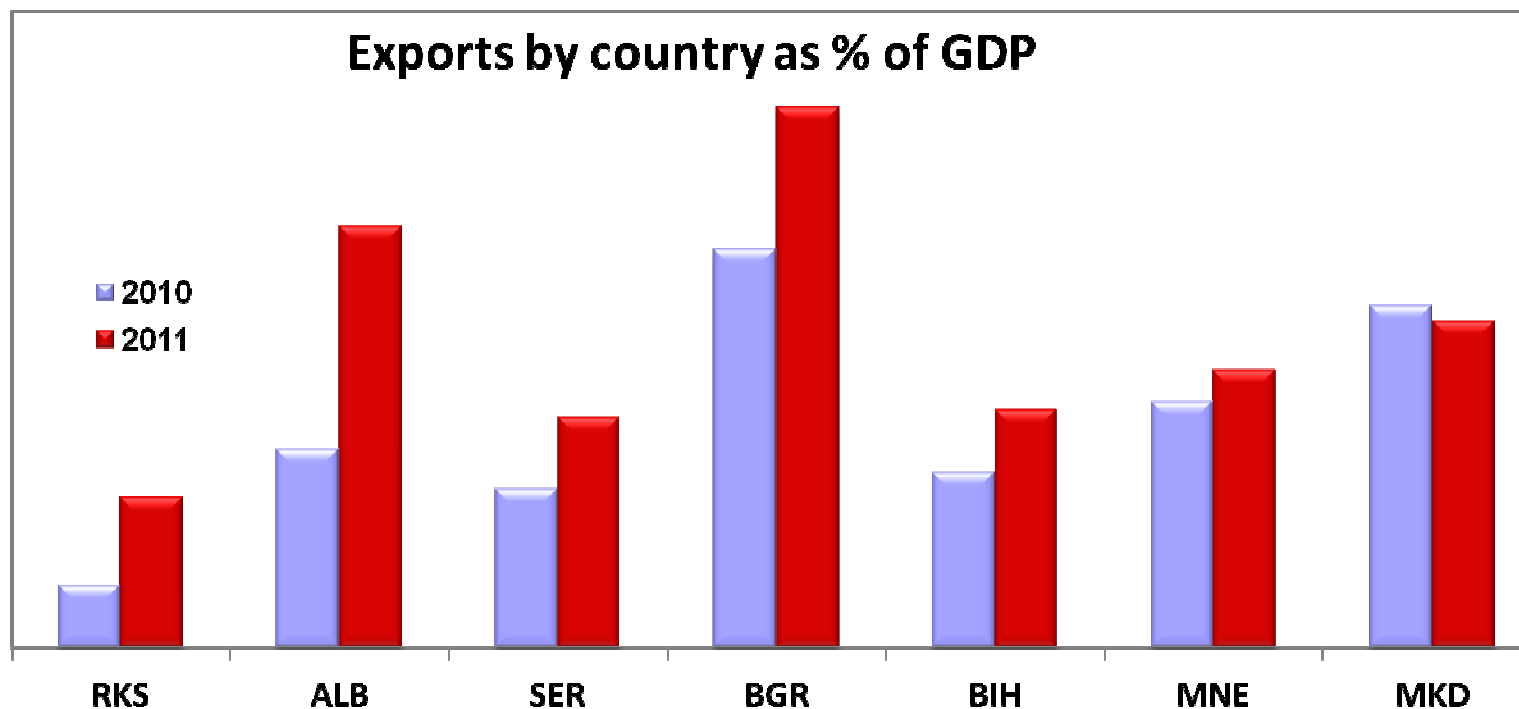
- **Obstacles**

- Managerial know-how
- Market linkages
- Limited access to finance



2nd CHALLENGE: TRADE IMBALANCE

- Remains high, despite solid export growth, implying:
 - A downside risk of economic growth and
 - An upside risk of higher inflation, reducing disposal income



3rd CHALLENGE: INFORMAL ECONOMY

- Amounting at around 39-50 per cent of the GDP
- Negatively impacting business climate and private sector development
- Implication: unemployment is lower and GDP higher than official figures show
- Remedies
 - Fiscalization (ongoing)
 - Increasing rule of law

4th CHALLENGE: GROWTH MODEL

- **Currently based on relatively unsustainable sources, such as public spending, diaspora remittances, and privatization**
- **Needs reorientation towards private-sector development, with emphasis on SMEs**
- **FDI serve as a tool for the provision of finance, know-how and market linkages**

5th CHALLENGE: NEGATIVE PERCEPTION

- **Still being associated with political instability and insecurity**
- **Need for a better image, including an active component or a vision, e.g. being regional leader in the IT-Sector – based on its young population**
- **Need for a new branding, since “Kosovo is a country, better than its image” (Die Zeit, 2010)**

SUMMARY

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- **A robustly growing, minimally indebted economy with a stable macroeconomic environment, an improving business climate and vast investment opportunities**
- **Challenges as result of an ongoing major structural adjustment process, consisting of:**
 - **Consolidation of Statehood and Rule of Law**
 - **Transition to a market-led economy**
 - **Pre-accession**

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