

Abstract

Global crisis has negative effects on economies in transition. The crisis stemmed from a combination of unsustainable global macroeconomic imbalances, loose monetary policy and structural weaknesses in the financial system. The crisis originated in developed countries (specifically in the US subprime mortgage market) and then has spread to developing countries through a range of channels. In many transition countries the crisis has manifested itself terms of trade and investment links, including a drop in exports, remittances and foreign direct investments. Thus, this paper aims to reveal the issues of FDI and remittances and its impact on the transition economies, with special hint on economy of Kosovo.

Key words: foreign direct investments, remittances, economies in transition, global crisis, economy of Kosovo

JEL classification: B10, E20, I18

Introduction

For most of the economies in transition the crisis did not really hit hard until the bankruptcy of Lehman Brothers so that most of them experienced growth on an annual basis in 2008. There had been significant declines in 2009 but growth returned in 2010. The situation is largely similar for the NMS, but the Baltic economies were hit early and experienced declines in 2008, even larger declines in 2009 and are expected to still experience negative growth in 2010. Over the three years, the real decline in GDP may be 21% in Estonia, 23% in Lithuania, and 27% in Latvia. In a recent study of severe financial crises by Reinhart and Rogoff¹, the two worst multi-year declines were the US during the great depression which suffered a 29% decline and Argentina in 1998-2002 which had a 22% decline. Thus what is happening in the Baltics is comparable to the worst financial crises of the past century, which declines have not resulted from the actual collapse of its financial system.²

Recuperation signs of the global economy that emerged during 2010 did not follow at the same pace during year 2011, which is expected to result in a slowdown of growth for the global economy in 2011. Problems related to the high level of public debt in some of the Eurozone countries continued to represent the most important development in the Eurozone economy, and these problems became even more serious compared to the previous year. Deepening of the public debts crisis in the Eurozone had an impact on the increase of systematic risk level in banks exposed to these countries. Banks of the Eurozone countries, which purchased higher values of public debt that is valued with higher risk, have been characterized with tensions and poorer performance that, in turn, led to a slowdown of lending towards the real sector of the economy.³

Major financial inflow that is extremely important for the economies in transition is remittances. For some economies, these are the largest external financial inflow and are larger than either capital inflows or official developmental assistance. Remittances are expected to decline significantly in the next two years, and this will have

not only macroeconomic consequences but will directly affect poverty, human capital accumulation and health outcomes, as these flows generally go to some of the poorest households. In Moldova, remittances fell from 35 per cent of GDP in 2006 to 25 per cent in 2008 and are likely to fall further in 2009 and 2010. The central Asian economies, especially the poorest of them like Tajikistan have experienced some recent setbacks prior to the onset of the crisis due to a number of adverse developments such as higher food prices and the harshest winter (2007/2008) in three decades, which was followed by spring flooding which destroyed infrastructure and farmland. These economies are particularly dependent on remittances and will especially feel the impact of their decline.

For the emerging/developing economies overall remittances are equal to only about 2% of GDP, but for the economies in transition their size is much greater; many have inflows greater than 5% of GDP, some more than 10% and several more than 20%. Prior to the crisis, Tajikistan and Moldova had remittances over 30% of GDP which were the largest of any countries in the world.⁴

Kosovo has attracted over 1.7 billion € of FDI's in the last five years. The peak was recorded in 2007 with € 440 million of FDI, a slight decrease has been seen afterwards, this mainly due to the impact of the global financial downturn. In 2010 Kosovo reached 314.16 million € of FDI inflows.⁵

1. REFLECTION OF CRISIS IN EUROPE AND GROWTH

Economic growth in the euro zone is estimated to be 1.5 % in 2011, representing a slower increase compared to 2010. Economic growth in the euro zone is primarily driven by the exports growth, given that demand from developing countries has marked a recovery during this period. Another important factor in economic growth in the euro zone continues to be the growth of domestic demand. Whereas, among the factors with negative impact on euro zone economic activity the lower confidence in the economic activity due to the government debt in some of the euro zone countries. Nevertheless, in countries like Germany and France confidence indices were

¹ Carmen M. Reinhart and Kenneth S. Rogoff, *The Aftermath of Financial Crises*, American Economic Review, Vol. 99 (2), 2009.

² *The Global Economic and Financial Crisis: Regional Impacts, Responses and Solutions: Europe, North America and the CIS* by Robert C. Shelburne, 2010

³ *Financial Stability Report*, Central Bank of Kosovo, 2011

⁴ International Conference, Bangkok, Thailand, 2009

⁵ Report on Balance of Payment no. 11, Governemnt of Republic of Kosovo, 2012

characterized with positive developments. Positive developments in the euro zone countries are essentially driven by exports and low interest rates which have stimulated the overall demand in these two countries. Consequently, among the main contributors to the positive growth during 2011 were net exports, while the impact of private consumption and investments was limited.

Unemployment rate in euro zone countries during 2011 was lower compared with the previous year. During 2011 unemployment rate was 9.9 % compared with 10.1 in 2010. Euro zone during 2011 was characterized by inflation level of 2.8 %, thus exceeding the target of the ECB to keep inflation at around 2 %. Public debt in some euro zone countries continues to be the main factor causing concerns over their economic performance. Public debt in the euro zone amounted to 86.8 % of GDP by the end of 2011. The budget deficit continues to deepen in some EU countries, including countries that are considered to have problems with debt. At the euro zone, the deficit grew up in September 2011, reaching 3.6 % of GDP. Greece, Portugal and Ireland continue to be the countries with the most significant problems in financing the public debt, but also with the loss of confidence over the solvency of the debt of these countries. As a result, interest rates on 10 year bonds amounted at about 30 % for Greece, about 12 % for Portugal and about 8 % for Ireland.⁶

The countries of Southeastern Europe (SEE) in 2011 recorded a moderate economic growth. In 2011, Montenegro recorded the highest growth rate in the region, with 3.5 %. Also, Macedonia, Croatia and Serbia recorded a real GDP growth rate of 2.3, 0.7 and 0.5 %, respectively. The key contributors to economic growth in the SEE countries in 2011 were investments and private consumption. Even though most of the regional countries during this period were characterized by economic growth, their current account deficit during 2011 is considered to have reached a relatively high level as a result of continuous growth of domestic demand. Conversely, **foreign direct investments** marked a recovery during 2011, however, they still remaining below the level of the pre-crisis period of 2008-2009. SEE countries during January-September 2011 faced a relatively high inflation rate. The highest level of inflation was recorded in Serbia (over 10 %). Other regional countries had an average inflation of 4 %. Moreover, during this period, the labor market in the SEE countries was characterized by slight decline in the unemployment rate. In Croatia, the unemployment rate was lower by 1.2pp, standing at 12.2 % in September 2011. Similarly, in Montenegro, the unemployment rate declined by 0.2pp, standing at 11.1 %, and in Macedonia declined by 0.1pp reaching the level of 31.2 %.⁷

During 2011, euro depreciated against most major world currencies, where the most significant depreciation was recorded against Swiss franc by 4.1 % (1.23 SFR/EUR), followed by the U.S. dollar with 1.65 % (1.32 USD/EUR), and British pound by 0.7 % (0.84 GBR / EUR). Also, the

euro currency depreciated against most of the currencies of the SEE countries. During 2011, euro depreciated against the Albanian Lek, Serbian Dinar and the Macedonian Denar, whereas against Croatian Kuna appreciated by 1.5%.⁸

Nonetheless, in preparing for a future crisis, therefore, the policy makers must consider how to apply the constructive aspects of the recent response – early stabilization through accommodative policies - and improve the areas in which it was weakest – the limited conditionality of public support and the gradual restructuring of assets.⁹

Causes and Cost of crisis

The recent crisis has been unusual in its global nature, affecting countries with a speed and virulence not seen since the Great Depression, with major advanced countries and countries recently integrating with the European Union (EU) most affected. The policy mix applied in the recent crisis has come at a high overall cost and has intensified moral hazard. The mix is unlikely to be repeated in response to a future crisis because it would be too costly economically and too controversial politically.

The severity of the crisis in Europe has been due to the following causes:¹⁰

- ✓ Many European banks owned a surprisingly large share of the toxic assets,
- ✓ The national regulatory and institutional structure of the financial sector in most European economies was poorly designed for dealing with financial market turmoil,
- ✓ Regional or pan-European institutions and regulatory systems were inadequately designed for the financial situation that developed,
- ✓ European banks were more highly leveraged than US banks,
- ✓ In some cases European banks were overly reliant on international wholesale financing,
- ✓ European banks had lent far more to emerging markets (than US banks) and were thus much more exposed to the downturn in these economies,
- ✓ The design of the European Monetary System essentially eliminated lender of last resort backing for national commercial banks and sovereign debt,
- ✓ European policy makers generally did not appreciate the importance or necessity of counter-cyclical macroeconomic policy,
- ✓ The European emerging economies were particularly vulnerable to a crisis due to large current account deficits and extensive foreign-currency denominated debts,
- ✓ Market participants treated the eastern European economies as emerging markets which limited their policy space,

⁶ International Monetary Fund (2011): Regional Economic Outlook, European Central Bank (2011)

⁷ Economic Quarterly, Business Monitor International (2011)

⁸ Monthly Bulletin, European Commission (2011): EU Candidates and Pre-Accession Countries

⁹ Crisis Management and Resolution, IMF, 2011

¹⁰ The Global Economic and Financial Crisis: Regional Impacts, Responses and Solutions: Europe, North America and the CIS by Robert C. Shelburne, 2010

- ✓ Several European economies had their own housing bubbles combined with weaker mortgage lending standards, and
- ✓ Government assistance to the sectors (i.e., automobiles) most negatively impacted was constrained by nationalistic competitive concerns.

Concerning the costs of crises, they can be assessed in different ways. These include the *direct fiscal costs*, encompassing direct outlays to support the financial system and for resolving nonperforming assets; the *broader fiscal costs*, measured as the increase in public debt over some chosen horizon; and the *real output losses*. The direct fiscal support, so far, has been lower than in past crises. The management of distressed assets was more decentralized than in past crises, a reflection of the more limited nature of public interventions and the greater use of guarantees.

Guarantees (including liability guarantees, liquidity, and other contingent support) reduce the need for upfront fiscal outlays, but impose higher contingent fiscal costs. Broader fiscal costs, however, have been larger than in past crises. Projected increases in debt for the four-year period after the onset of the crisis are higher for the recent crises (about 25 % of GDP). These increases come on top of the already large public debt burdens in many advanced countries.¹¹

FDI in transition economies of south-east Europe

The countries of the SEE region were mainly characterized with a recuperation of the economic activity during the second half of 2010 and the beginning of 2011. However, the forecasts on the economic activity developments in SEE for the second half of 2011 and for 2012 remain modest, whereas the region continues to be sensitive towards developments in the Euro zone economy in terms of trade, foreign direct investments, large presence of foreign banks and remittances. Despite positive economic growth rates, some of the SEE countries recorded an increase of the unemployment rate, which continues to represent one of the most significant challenges to all SEE countries.¹²

¹¹ Crisis Management and Resolution, IMF, 2011

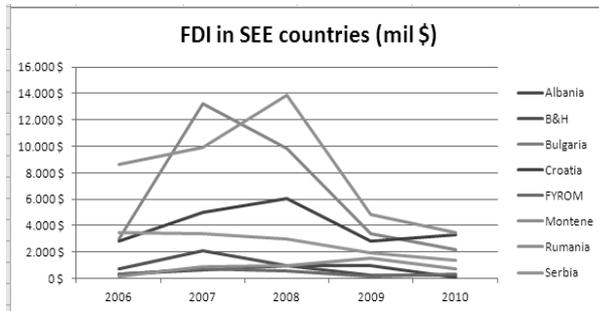
¹² Financial Stability Report, Central Bank of Kosovo, 2011

Net Foreign Direct Investments (million dollars)

Years	Albania	B&H	Bulgaria	Croatia	FYROM	Montenegro	Rumania	Serbia
2001	204.0	130.0	803.3	1,178.5	440.7	10.0	1,154.0	165.0
2002	135.0	266.0	876.3	585.6	77.7	84.0	1,080.0	475.0
2003	178.0	382.0	2,070.3	1,932.0	96.0	44.0	2,156.2	1,360.0
2004	332.2	490.0	2,777.1	870.9	155.9	63.3	6,368.0	966.0
2005	262.4	607.8	2,297.9	1,509.1	97.0	474.3	6,587.3	1,481.0
2006	325.2	768.2	3,000.0	2,824.8	300.0	150.2	8,652.0	3,500.0
2007	662.2	2,070.7	13,214.5	4,996.1	699.0	934.4	9,925.0	3,431.9
2008	958.6	981.7	9,879.1	6,023.2	586.9	960.4	13,883.0	2,996.3
2009	963.6	240.1	3,389.2	2,861.4	197.0	1,527.2	4,846.0	1,935.6
2010	110.9	231.5	2,167.5	3,341.5	295.7	760.4	3,453.0	1,340.0

Source: World Bank, 2012

During the period 2001-2010, the Southeast Europe region had undergone an industrial reformation from considerable revenues of FDI, realized from an improved investment climate, achieved mainly from reforms undertaken for EU membership, which means economic stability measures in order to maintain a sound position of the monetary and fiscal system. The net FDI in the region has increased 50% roughly from 2005 to 2006. The highest level of FDI was marked in Romania, where FDI was at \$ 13.8 billion and in Bulgaria \$ 13,2 billion, whilst in Albania the highest level was scored in 2008/2009 around \$ 1 billion. The lowest level of FDI was marked in Montenegro with a net FDI of an average of \$ 380 million during the last five years. The following chart illustrates the flow of FDI from 2006 – 2010 in selected countries in SEE.



Source: World Bank, 2012

The euro area crisis is the product of the interaction among several underlying forces. As in other advanced economies, these forces include mispriced risk, macroeconomic policy misbehavior over many years, and weak prudential policies and frameworks. These interacted with EMU-specific flaws, accelerating the buildup of excessive public and private sector imbalances in several euro area economies, which were exposed in the aftermath of the Great Recession. The resulting crisis has had drastic consequences.¹

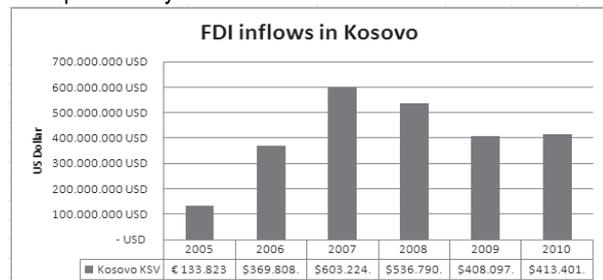
Nonetheless, the European Central Bank's €500-billion lending facility to eurozone-based banks and the recent political agreement on the second rescue package for Greece appear to herald in a gradual recovery from the enduring eurozone woes, the geographical proximity to the crisis epicenter has exposed countries in Southeastern

¹ IMF, "World Economic Outlook", 2012

Europe—more than other regions of the world—to the risks emanating from the potential deepening of the financial and economic crisis. The 17-country eurozone (the Balkans' single most important trading partner, provider of diaspora employment, and region of origin for productivity-enhancing capital inflows) is forecast to slide into a mild recession in 2012, with negative effects on foreign direct investment and aggregate remittance income.²

Investments in Kosovo

Foreign Direct Investment (FDI) Flow to Kosovo has been declining from year to year given unfavorable business climate around the globe. Today, Kosovo is facing fierce regional competition in attracting more FDI. According to the World Bank statistics, there has been a 30% decrease in FDI flows from 2007 to 2010 in Kosovo, or from \$ 603,224,093 to \$ 413,401,759. This trend continued throughout last year, although the official statistics have not been published yet.³



Source: World Bank, april 2012

The amount of FDI flows in Kosovo still remains one of the lowest in the region. Experience from transition economies shows that FDI is directly linked to the increase of exports and was the main contributor in the generation of new jobs, improvement of the overall economic and political stability. In order for FDI flows to increase, the investors need to gain the confidence that they can operate in an environment that is free of any undue political interference. The recent criticism of certain political figures from the local and central levels directed against a number of companies regarding compliance with environmental

² Jan-Peter Olter, "The benefits of prudence in times of uncertainty", 2012

³ American Chamber of Commerce, 2012

laws will have a negative impact not only on the protection of the environment. This is due to the fact that criticism in the form of political rhetoric that is not substantiated by facts neither improves the protection of the environment, nor helps Kosovo build an image of a country which is governed by the rule of law.

According to the Business Registry data there are over 2,000 companies of foreign and mixed ownership that have already used the opportunity to invest in Kosovo. The large amount of foreign companies operating in Kosovo is a living proof of the opportunities and benefits that the country offers, and also represents a base of quality products and a sufficient service-providing community.

Remittances / Potential of Diaspora

The estimated figures show that migrants from Kosovo represent 20 to 25 % of total population. This suggests that around half a million Kosovars live abroad. With a relatively large share of migration which is mostly concentrated in developed countries.⁴ Kosovar emigrants appear to have a substantial earning power. Estimates indicate that the yearly earnings of Kosovar emigrants are over euro 4 billion. Based on estimates from several surveys (UNDP, 2011 and Nexus, 2010), it may be suggested that savings and remittances comprise around 28% and 12% of total emigrant earnings, respectively.⁵

Consequently, the potential of the Kosovar emigrants to invest in their home countries is substantial. However, the investments of the emigrants in home country are dependent on the relationship that the emigrants have with their families and relatives. Other social and economic factors play a role, however, most importantly, it is expected that the overall economic environment in the country is also equally important factor. With savings and remittances level at nearly 2 billion € per year, migrants are the main source for economic development in Kosovo. Moreover, with the FDI level of around 7-8 % of the GDP, around 30% is capital of emigrants from Kosovo who jointly invested with foreign companies.⁶

Based on a survey of UNDP, the distribution of remittances according to regions varies significantly. The share of remittance recipient households in Peja region is the highest (37%) compared to other regions, which exhibit a more balanced distribution of remittances.⁷

The government of Republic of Kosovo in cooperation with the “Eciks” initiative, based in Vienna and the Society “Südosteuropa Gesellschaft”, organized in March 2012 in Berlin the Conferen

ce “Investing in Kosovo”. This economic forum was assessed as a good opportunity to identify potential German speaking investors and promote investment possibilities and the expansion of opportunities for economic cooperation between Kosovo and Germany.⁸

There are several factors that affect the promotion of investments in Kosovo, however, the following are considered more important:⁹

- ✓ Natural and human resources
- ✓ Flexible working market and competitive working force
- ✓ Stimulating business environment
- ✓ Stable banking system
- ✓ New customs code – customs alleviations
- ✓ Low tax regime

Available resources

Republic of Kosovo has an area of 10.887 km² and more than 2 million inhabitants, and an average density of 192 inhabitants per square kilometer, represents the areas with the highest density in the Balkan Peninsula. Kosovo is a country with the youngest population in Europe, in which 70% of the population is under the age of 35, which represents a young and motivated population for education and work, it is particularly characterized by an entrepreneurial spirit.¹⁰

Labour market characteristics of Kosovo

Age	Male	Female	Total
16-24	39.1	41.4	40.2
25-34	30.4	30.6	30.5
35-44	18.1	19.5	18.8
45-55	8	6.7	7.4
55-64	4.4	1.8	3.2

Source: Riinvest Institute

From the table above it is evident that the youth comprises the largest portion of the labor market in Kosovo, from the age of 16 – 24 (40.2%). Whereas, 25000 people approximately look for work in the labor market on an annual basis. It is estimated that about 500.000 inhabitants live and work temporarily in various western countries.

There are few countries or administrative-political territories that have such a diversity of resources of mineral raw materials and energy resources in such a small area as does Kosovo. Based on geological research, it has been concluded that Kosovo has significant primary energy, metal and non-metal resources. The potential of natural resources of Kosovo represents a good basis for its development in the future, however it is not being used to the extent required due to lack of investments. Due to its climate, good tradition that exists as well as diversity, from orchards, vegetables to wheat, this sector has been determined as one of the sectors of the highest priority. Hence, the agriculture of Kosovo is characterized by small farms as well as low production capabilities. Tourism also

⁴ Around 90 % in European Union countries according to UNDP, 2010

⁵ Calculation is based on UNDP, 2010, Nexus, 2009 and Riinvest, 2007

⁶ Ministry of Trade and Industry, 2010

⁷ UNDP, Kosovo Remittance Survey, 2011

⁸ Conference investing in Kosovo, held in Berlin, 2012

⁹ Economic Initiative for Kosovo: Top 10 reasons to invest in Kosovo, 2011

¹⁰ Kosovo Institute for the Protection of Nature, Natural Heritage Values of Kosovo, 2005

represents an underused potential for the economic development of Kosovo.¹¹

Gross Domestic Product trend

Economic activity in Kosovo is consistently experiencing positive growth rate despite the challenges caused by fluctuations in regional and global economy. Real economic growth during 2011 was around 5.0 percent (3.9 percent in 2010). In nominal terms, Gross Domestic Product (GDP) during 2011 reached over euro 4.7 billion. During 2011, the main components of the GDP in Kosovo are considered to have experienced positive developments, especially consumption and investments. Conversely, the trade deficit continues to be a negative contributor to the economic growth in the country. Despite of the economic activity which is continuously recording positive growth rates, ongoing problem for the economy appears to be the high unemployment rate which exceeds the figure of 40 percent of the labor force in Kosovo.¹² As a measure of real output it was taken the real GDP that is the GDP less the wages and salaries of internationals working in the donor sector. The latter is viewed as a better indicator of the performance of the Kosovo economy as much of internationals' wages and salaries leave Kosovo as remittances. The table below gives the path of output over years and its projection over the medium run.¹³

¹¹ Aziz Abrashi, Burhan Kavaja, Natural Resources of Kosovo in the interest of economic-social development, 2000 in M.Badivuku & M.Namani, "The importance of FDI on economic development of Kosova", 2009

¹² Statistical Agency of Kosovo, 2009

¹³ A.Nimani, "Labor market and Human Capital in Kosovo", International Conference, UP, 2011

Description	2005	2006	2007	2008	2009	2010	2011
Real growth rates (in percent)							
Broad GDP	2.7%	4.1%	5.4%	6.6%	5.7%	5.2%	4.7%
Local GDP	0.7%	5.3%	6.2%	6.2%	8.0%	6.5%	5.0%
Private sector disposable income	0.9%	5.5%	9.5%	10.4%	7.1%	5.1%	3.5%
Private Local consumption	9.3%	4.4%	5.7%	2.8%	5.4%	4.0%	2.4%
broad GDP per capita	-0.9%	4.4%	7.4%	10.6%	6.1%	4.3%	3.8%
local GDP per capita	-3.0%	6.0%	8.6%	11.1%	8.3%	5.4%	4.1%

Source: Macroeconomics Department internal calculations

As it can be seen from the evolution of "local" GDP, growth will accelerate over 2008-2009 period. The rapid growth in 2009 is largely driven by the increase in public investment in 2008. After projecting output, population, labor force parameters and the contribution of each input to GDP growth, it is easy to obtain the projected rates.¹

Balance of payment

Integration of the economy in terms of trade and investment integration is essential to staying competitive in the EU market, which Kosovo aspires to join. In the last decade, Kosovo's economy has been more liberal on imports, but it failed to export products and services and to attract foreign direct investments. Foreign trade statistics consistently show high trade deficit, exports of products and services are estimated to be 8.2% of imports during the last ten years.²

Year	Exports	Imports	Balance of payment	Export / Import
2001	10,559	684,5	-673,941	1.5%
2002	27,599	854,758	-827,159	3.2%
2003	35,621	973,265	-937,644	3.7%
2004	56,567	1,063,347	-1,006,780	5.3%
2005	56,283	1,157,492	-1,101,209	4.9%
2006	110,774	1,305,879	-1,195,105	8.5%
2007	165,112	1,576,186	-1,411,074	10.5%
2008	198,463	1,928,236	-1,729,773	10.3%
2009	165,328	1,935,541	-1,770,213	8.5%
2010	294,031	2,139,534	-1,845,503	13.7%
2011	313,106	2,479,611	-2,166,505	12.6 %

Source: Statistical Agency of Kosovo (2012)

¹ Note that employment rate is calculated as a share of working age population, not the labour force

² Foreign Trade Statistics, Statistical Agency of Kosovo, 2012

Data of Foreign Trade in Kosovo show a trade deficit for month of January 2012 of €112.7 million compared with deficit of € 109.8 million in January 2011. Exports in January 2012 were worth € 18.7 million, while imports were € 131.5 million, and this is decrease of for exports (17.9%), and by 0.9% for imports compared to January of 2011.¹

lowest rate of domestic production in the Balkans. Remittances from abroad have therefore been a major contributor to the wellbeing of Kosovo households.⁵

Business Environment

The business environment in Kosovo continues to demonstrate a lack of progress. Business rankings have demonstrated regress. In 2011, Kosovo was ranked 119th out of a total of 183 economies compared each year in the comparative analysis of the World Bank's "Doing Business". In 2011, Kosovo went down a further 6 places, from their position in 2010. The private sector in Kosovo continues to suffer from the lack of rule of law, lack of power supply, poor infrastructure and limited access to finance. Only 3% of Kosovo businesses have addressed the courts in the last year.² This fact indicates the presence of a difficult judicial environment and a lack of trust in the system by businesses. Irregular power supply continues to obstruct local producers from carrying on with a steady process of production. Loss caused by power shortages and additional costs of ensuring regular power supply through alternative sources, are a serious burden to the businesses of Kosovo. On the other hand, infrastructure and public services continue to be inferior given the needs of the Kosovo businesses.³

FDI flow

Kosovo's economy has continued to withstand financial turbulence in the euro area fairly well, reflecting inter alia limited integration into cross-border financial markets. Real GDP growth in 2011 is estimated at 5 percent. Going forward, a possible deterioration in labor market conditions in central European countries—where most of the Kosovar diaspora lives—could negatively affect FDI and remittances.

The interest of foreign investors has been increasing steadily throughout recent years. Kosovo has attracted over 1 billion Euro of FDIs in the past three years. After a peak in 2007 with 440 million Euro of FDI, (600 mil USD) roughly a slight decrease has been seen in 2008 and 2009, this mainly due to the impact of the global financial downturn. In 2010 Kosovo had positive growth of FDI inflows reaching 314.16 million Euro. According to yet unofficial data, during the 2011, Kosovo managed to attract approx. 10 % of the total FDI inflows in Southeastern Europe. According to Financial Stability Report, in the first part of 2011, FDI recorded a considerable growth reaching at euro 157.6 million compared to euro 103.0 million in the first six months of 2010.⁴

Despite a moderate economic recovery over the last decade, Kosovo faces difficult economic conditions coupled with the highest rate of unemployment and the

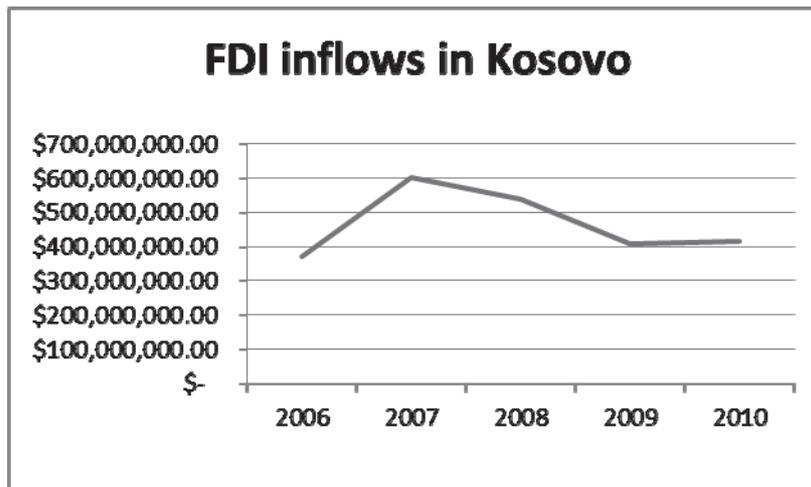
¹ Statistical Agency of Kosovo, 2012

² World Bank 2011

³ Progress Report for Kosovo, 2011

⁴ Central Bank of Republic of Kosovo, Financial Stability report, 2011

⁵ UNDP, Kosovo Remittance Study, 2011



Source: World Bank

Migration will continue to be an important part of Kosovo's economic, political and social landscape. The emigration of the young has alleviated labor market pressures, and remittances have helped receiving households enjoy a better standard of living—even, for the poorest households, move out of poverty. Today, a quarter or more of households have a family member living abroad. Moreover, over 10,000 Kosovans are estimated to be leaving the country every year. Hence, strengthening engagement with the diaspora and better utilizing Kosovo's migration potential could make a significant contribution to its economic development.

One of the factors which is argued to have contributed in attracting not enough foreign investment is a failure in the implementation of the CEFTA agreement. Acute problem here is the decision of Serbia and Bosnia Herzegovina to ban the import and transit of Kosovo products which is estimated to have caused 9.8% decrease in Kosovo exports and increase transportation costs for other exports to 5-10%. Failure to implement the free trade agreement with or through these states significantly reduces the market potential of Kosovo and as such is likely to have detrimental effect on earnings of FDI in the state economy. However, Kosovo has continued to participate as an observer in the Investment Compact for South-East Europe, which is designed to improve the investment climate and encourage private-sector development in the region through the implementation of reforms enhancing domestic and foreign investment. Kosovo has also continued to be fully involved in implementation projects, such as the EU-funded Regional Competitiveness Initiative. Kosovo supports the RECOM initiative on reconciliation.¹

Conclusion

Based on what was argued in this paper, it may be concluded that global and financial crisis has a tremendous negative impact in attracting investments in transition economies. Whilst, FDI plays a very significant role in the economic development of countries in transition, and consequently have a multidimensional positive impact.

Such investments are very necessary for the current period of development in which economies in transition find itself.

Worldwide, the link between globalization and greater economic integration has - alongside the benefits - increased vulnerabilities, whereby economic failure in one country can rapidly infect other national economies. The most striking example is the one we are living through today, namely - the crisis that originated in the American banking system and culminated in a global financial / economic crisis. Unemployment rates today stand a record thirty-year high, stock exchanges have faltered, and the steep drop in consumer demand has brought production to a crawl and halted or reversed positive economic growth trends in many countries. A variety of recovery packages amounting to billions of Euros have been introduced by many countries as an emergency measure to prevent further downward spiraling of national economies.

While it is argued that the global financial crisis has not hit Kosovo directly, its economy has felt its indirect effects. Donor countries have shown hesitance to increase aid to Kosovo due to their own internal problems; the dramatic rise in unemployment in both Europe and North America has affected the Kosovan Diaspora. A subsequent drop in remittances from Kosovans working abroad is likely to carry a negative impact on the economy of Kosovo. According to the data presented in this paper, it may be concluded that Kosovo has been quite successful in attracting FDI, with the exception of financial services and telecommunications sectors. Partly because of the global economic crisis, FDI incomes in Kosovo have fallen gradually since 2007.

¹ EU Commission, Progress Report for Kosovo, 2011

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