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ANNUAL REPORT OF INDUSTRIAL DEVELOPMENT IN KOSOVO FOR 2014

Volume III

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List of Acronyms

KAS - Kosovo Agency of Statistics

TAK – Tax Administration of Kosovo

EU – European Union

KCB - Kosovo Consolidated Budget

GDP – Gross Domestic Product

CBK – Central Bank of Kosovo

DI – Department of Industry

KC – Kosovo Customs

DIP - Division for developing Industrial Policy

FDI – Foreign Direct Investments

CPI - Consumer Price Index

PPI - Producer Price Index

MTI – Ministry of Trade and Industry

CEFTA – Central Europe Free Trade Agreement

AADIR – Annual Average Interest Rate in Deposits

AALIR – Annual Average Loan Interest Rate

Introduction

The Department of Industry (DI) operates within the Ministry of Trade and Industry (MTI), and has the mandate to monitor and analyze the trends of industry developments in Kosovo.
In this regard, DI has already built a tradition in conducting analytical and statistical annual reports regarding the development of industrial activities.

The purpose of this Annual Report is to present the main development trends of the economy in Kosovo, with particular emphasis on main industrial branches during 2014. The Report is intended to serve policy-makers but also stakeholders (current and potential businesses from private sectors, in particular foreign investors, donors, academic researchers, etc.) in the process of economic development in Kosovo, by providing a clearer overview about the main trends that affect the industry of the country. More specifically, this Report aims to facilitate the work of stakeholders in drafting policy based on measurable indicators.

As in the previous Volumes of this Report, besides the main indicators of sector/industry level, indicators of macroeconomic level, financial market, labour market, foreign direct investment and external trade are also included, which in one way or another have an impact on industrial development.

Methodology

The approach utilized for drafting this Report, is a descriptive and a positive one, while DI analysts aimed to highlight the main trends of industrial development in Kosovo.

Considering the fact that this Report is drafted for the economic activities conducted during 2014, its focus covers this period in particular, however the trends of respective indicators date from 2009.

This Report is based on the data collected by the relevant institutions (KAS, KBRA, TAK, CBK), whereas the processing, graphic presentation and analysis is conducted by the Department of Industry, respectively by the Division for developing Industrial Policy (DIP).

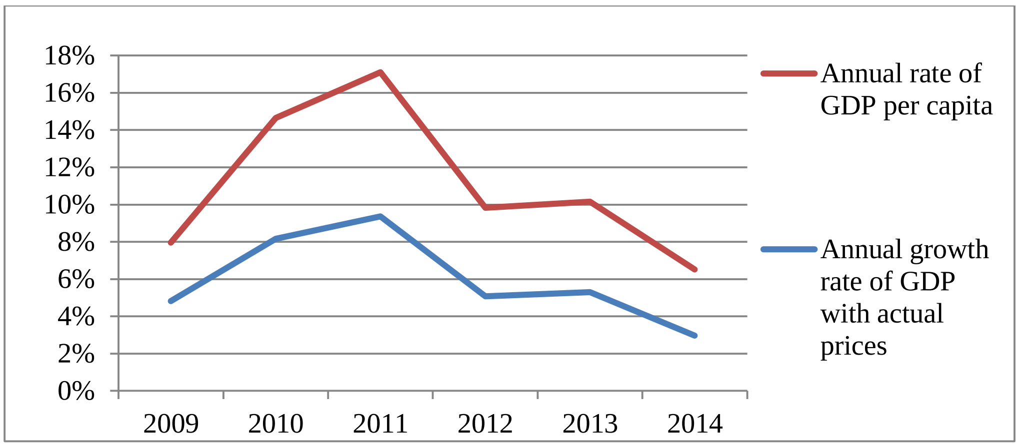
Macroeconomic analysis

Gross Domestic Product

The economy of Kosovo continued with the positive trend during 2014, although the growth during that year (3%) was relatively lower compared to the previous year (5.3%). For more information on the trend of economic growth rate, see Figure 1.

At the same time, the annual rate of GDP per capita in 2014 marked an increase (2.7%) lower than that of GDP, compared to the previous year when it increased (5.7%) more than the latter.

Figure 1: Growth rate of GDP and GDP per capita



Furthermore, as shown in Table 1, the value of Gross Domestic Product (GDP) at current prices, during 2014 increased by €158m, and compared to the increase of the previous year of €268 million, it represents a lower growth by 41%.

Table 1: The main macroeconomic indicators, 2008-2014

Year	GDP (current price, in million €)	GDP growth rate (current)	GDP growth rate (real)
2009	4,070	4.8%	11.2%
2010	4,402	8.2%	4.5%
2011	4,815	9.4%	9.3%
2012	5,059	5.1%	7.7%
2013	5,327	5.3%	5.7%
2014	5,485	3.0%	3.0%

A positive trend was marked again regarding GDP per capita, where compared to a year ago, in 2014 there was an increase of 3.5%. This increase represents the lowest rate since 2009, when it was 3.1%. An interesting phenomoenon can be observed from the table below, where for every year, when the annual growth rate of GDP per capita was lower than that of the previous year, the following year was relatively higher compared to that corresponding year.

Table 2: The main macroeconomic indicators, 2008-2014

GDP per capita (in €)	Annual rate of GDP per capita
2,258	4.5%
2,329	3.1%
2,480	6.5%
2,672	7.7%
2,799	4.8%
2,935	4.9%
3,039	3.5%

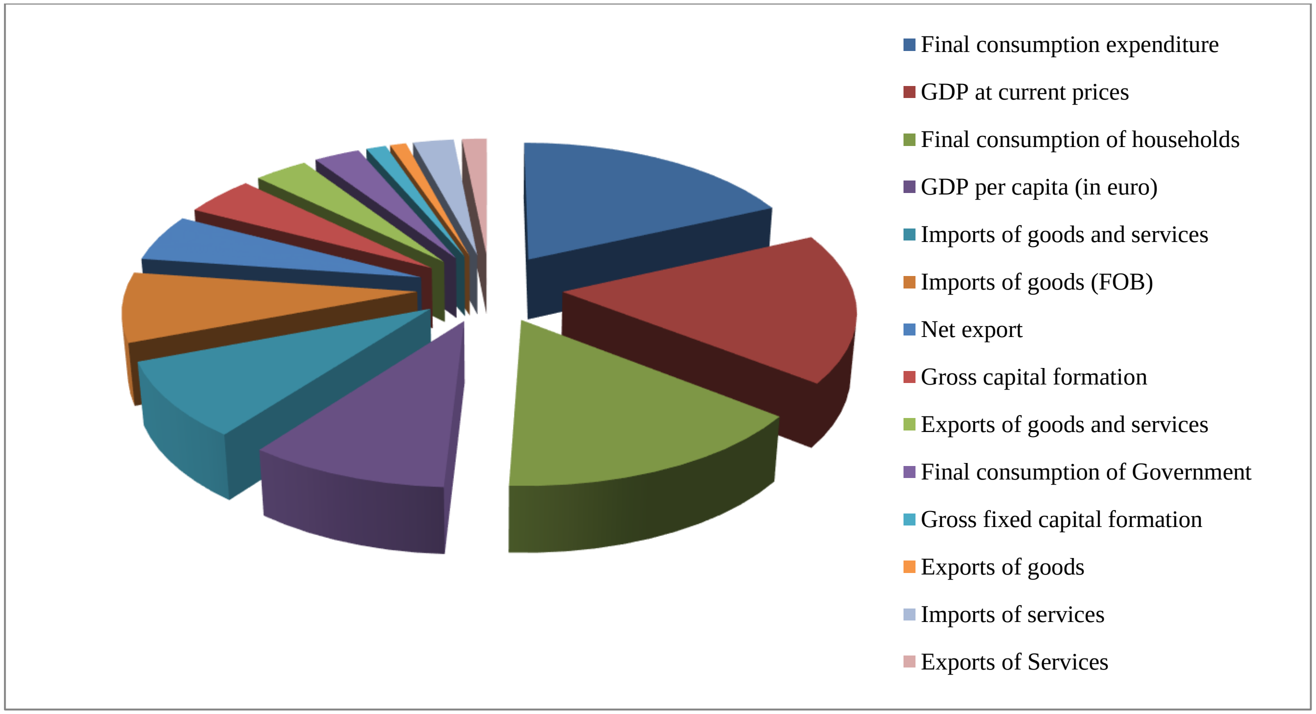
The main components of GDP viewed from expenditure perspective remained the same, starting with the household final consumption expenditure, and continuing with import of goods and services, net exports, gross capital formation and government final consumption expenditure.

Table 3: Structure of GDP by expenditure approach 2008-2014

Category	2008	2009	2010	2011	2012	2013	2014
GDP at current prices	3,882.80	4,069.60	4,402.00	4,814.50	5,058.70	5,326.60	5,485
GDP per capita (Euro)	2,258	2,329	2,480	2,672	2,799	2,935	3,039
Exports of goods	198.463	165.328	295.957	319.165	276.1	293.842	325
Exports of goods and services	608.9	694.9	878	943.4	922.1	927.1	1,089
Exports of services	392.4	517.6	573	618.5	635.1	622	764
Net exports	1,498.20	1,419.40	1,565.2 -	1,793.30	1,726.80	1,683.60	1,717
Gross capital formation	1,208.70	1,267.40	1,450.60	1,632.40	1,465.10	1,470.90	1,435
Gross fixed capital formation	337.40	390.30	448.50	521.60	544.80	527.00	403
Import of goods (FOB)	1928.2	1935.5	2157.7	2492.3	2507.6	2449.1	2,538
Import of goods and services	2,107.10	2,114.20	2,443.10	2,736.70	2,648.80	2,610.70	2,806
Import of services	240.8	285.3	386.1	352.8	288.8	313.7	325
Final consumption expenditure	4,172.20	4,221.60	4,516.50	4,975.50	5,320.40	5,539.30	5,767
Household final consumption expenditure	3,488.90	3,528.50	3,768.20	4,142.30	4,458.10	4,652.40	4,838
Government final consumption expenditure	659.8	668.1	722.3	802.1	842.1	863.9	929

Figure 2 indicates that the share of exports of goods continues to be in particular relatively low in the total value of GDP. More specifically, during the relevant year, it accounted for only 9.1% of GDP.

Figure 2: GPD components by expenditure approach, 2014



Structure of Total Government Revenue, 2008-2014

As it is shown in Table 3, the main sources of government revenue did not sustain any changes in 2014, unlike previous years. More specifically, it was Value Added Tax (41.4%), Tax on imports excluding VAT and Customs (23.4%), Tax revenues (11.5%), Customs (9.3%), and other current taxes (4.2%), which served as the main sources of revenue. However, as in previous years international organizations (1.5%) and property (0.9%) were other significant sources of government revenues. The same trend as in previous years appeared in terms of tax refunds, amounting to € 30.7 million or 2.3% of the total value of the respective GDP.

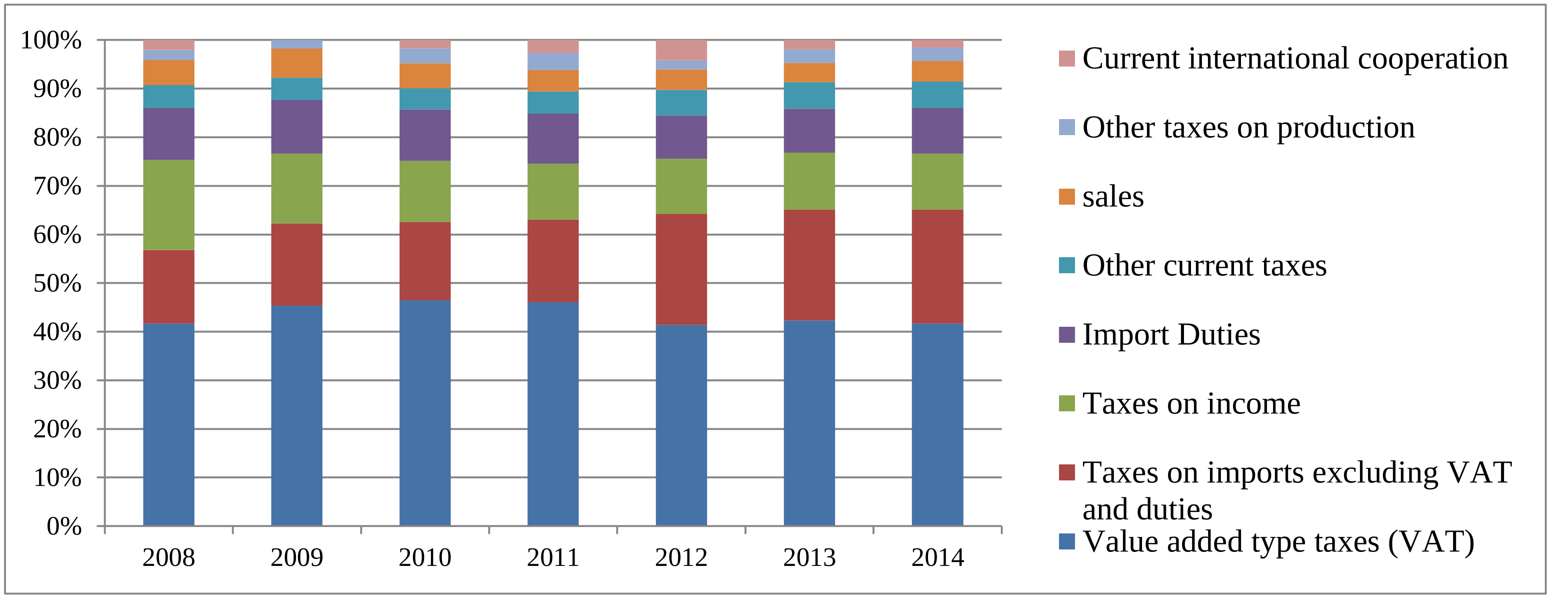
Table 4: Structure of Total Government Revenue, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Value Added Tax –VAT	363.42	403.11	455.7	540.22	547.82	558.67	558.83
Tax on imports excluding VAT and Customs	132.38	150.36	157.62	200	303.02	300.81	315.31
Tax revenues	161.45	127.85	123.27	134.38	149.95	155.37	155.06
Customs	93.12	98.05	103.85	120.97	117.23	119.08	125.57
Other current taxes	41.22	40.91	42.71	53.59	69.74	72.42	73.06
Sales	45.37	53.37	50.09	52	55.64	51.71	56.94
Other Taxes on Production	18.12	15.42	30.31	40.69	25.01	37.41	37.18
Cooperation with International Organizations	17.61	0	16.75	31.37	55.16	25.12	20.57
Various other transfers	7.97	8.26	9.43	10.01	7.78	7.52	14.77
Revenue from property	1.79	2.91	1.58	1.45	1.73	1.65	12.21
Dividends	0	200	83.24	61.48	44.07	31.82	8.81
Capital Revenues	1.5	1.33	1.36	1.6	1.61	1.61	1.59
Other capital transfers	0.62	0	0	0.43	0.94	0.22	0.28
Corporate Revenues	8.61	0.02	0.04	0.07	0.04	0.55	0.2
Net non-life insurance premiums	0.02	0.23	0.08	0.37	0.06	0.05	0.12
Taxes on products, excluding VAT and import taxes	74.37	60.03	78.43	88.68	5.85	0.13	0.07
Interest	8.78	5.43	11.72	1.63	0	0	0
Possession of all assets	0	0	0	0	29.14	26.3	0
Other	-0.18	0.01	0	0.03	0.01	0.01	0

Current transfers within the general government	5.11	0	-0.11	-0.56	-0.02	-0.09	-0.02
Tax and custom duty on import excluding VAT	-0.07	-0.09	-0.08	-0.04	-0.34	-0.61	-0.37
Tax Refunds	-21.32	-24.81	-27.02	-27.12	-31.05	-34.02	-30.7
Total	959.88	1142.39	1138.97	1311.26	1383.41	1355.72	1349.48

During 2014, roughly 99% of the estimated GDP by revenues approach derived from the categories listed in the following figure. The same situation recurred in the period 2008-2013.

Figure 3: Main sources of revenue



Labour force

Concerning the labour force, during the relevant year, the overall participation in the labour force marked an increase (41.6%) compared to the previous year (36.9%). This increase was primarily a result of increased labour force participation of men, where compared to the previous year when its rate was 55.4%, it increased in 2014 at 61.8%; however, the participation of women in the labour force marked an increase by reaching a value of 21.4%, compared to the previous year that had a value of only 17.8%

Table 5: Labour force participation 2012-2014

	2012	2013	2014
Labour force participation (in %)	40.5%	36.9%	41.6%
Women Labour force participation (in %)	21.1%	17.8%	21.4%
Men Labour force participation (in %)	60.2%	55.4%	61.8%

Meanwhile, the overall participation in the labour force during 2014, took another (positive) course compared to the previous year (negative), by marking an increase of 12.7%. The same trend was also marked in the case of participation rate of women and men in the labour force, respectively 3.6% and 6.4%.

Figure 4: Labour force participation 2012-2014

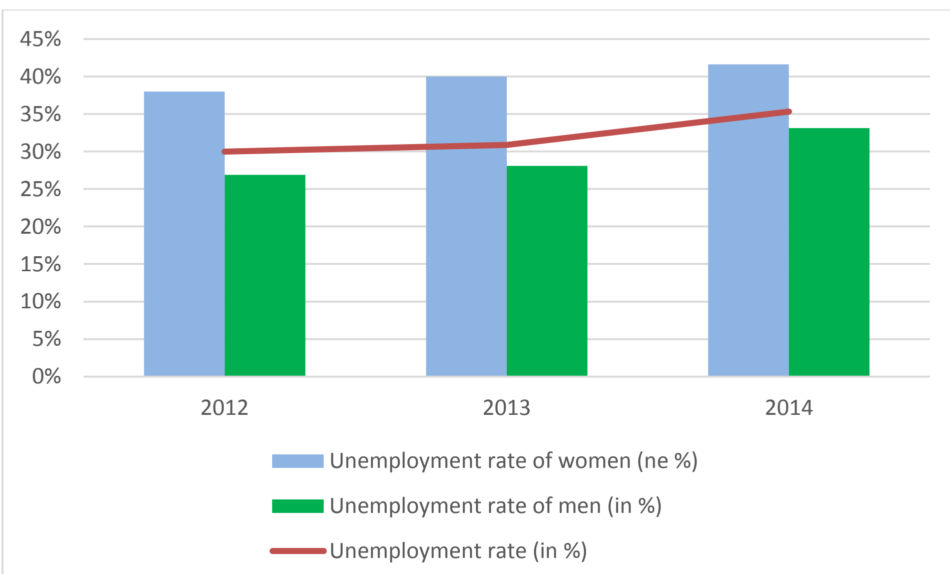
The increasing trend of unemployment continued during 2014 as well. In comparison to the previous year, the overall unemployment rate increased from 31% to 35%. The situation deteriorated relatively more in the case of men, where the unemployment rate increased by 17.8%, from 28% that it was in 2013 to 33%, or 5 percentage points.

Table 6: Unemployment rate 2012-2014

	2012	2013	2014
Overall unemployment rate (in %)	30.0%	30.9%	35.3%
Unemployment rate among women (in %)	38.0%	40.0%	41.6%
Unemployment rate among men (in %)	26.9%	28.1%	33.1%

In the Figure below, we can see that women continue to remain in a relatively disadvantageous position in the labour market, considering their relatively higher unemployment rate. However, the positive side in this case comprises of the annual change in unemployment rate between women and men, as the first one recorded a relatively smaller increase during 2014.

Figure 5: Unemployment rate 2012-2014



Total Foreign Direct Investments in Kosovo

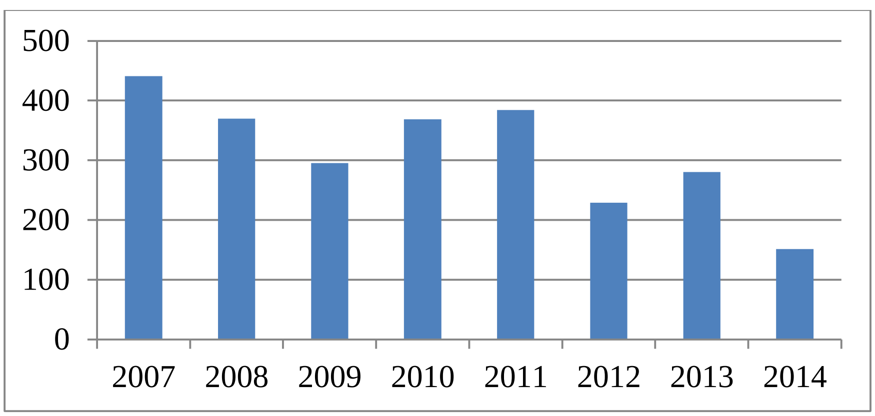
Foreign Direct Investments (FDI) during 2014 recorded a significant decrease (46%) compared to the previous year. In other words, as it shown in the Table below, from 280.2 million euro that were in 2013, they dropped to EUR 151.2 million the following year.

Table 6: Foreign Direct Investments (in million euro)

Year	Foreign Direct Investments
2007	440.7
2008	369.9
2009	295.5
2010	368.5
2011	384.4
2012	229.1
2013	280.2
2014	151.2

Moreover, this represents the highest decline rate since the post-independence period. A similar decline occurred in 2012, with about 40% compared to the previous year. However, nearly after every year when there was marked a decline of FDI, it was followed by an increase in the very next year, except in 2008 and 2009 where there was a decline for two consecutive years.

Figure 6: Foreign Direct Investments (in million euros)



Sector Analysis

Domestic Production

These data represent different industrial sectors by number of manufacturing enterprises, number of employees and annual turnover.

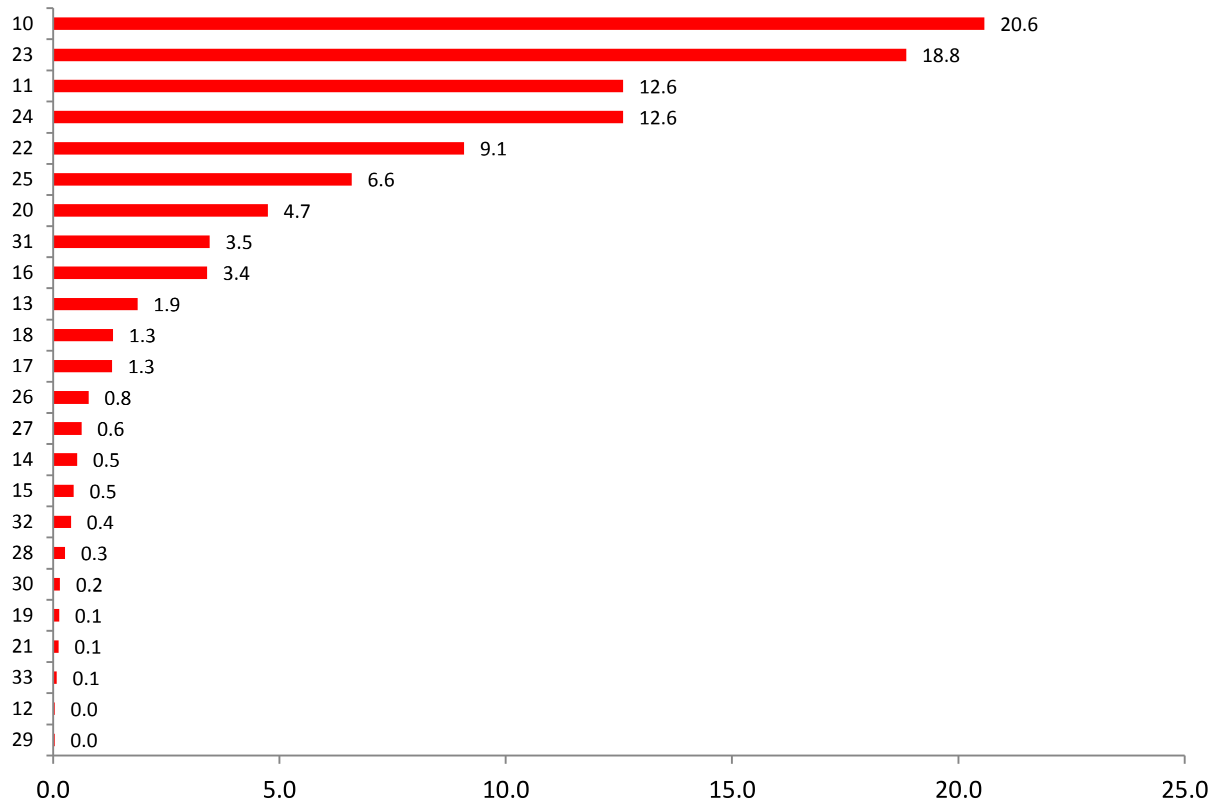
Figure 7: Process industry sector according to NACE

The manufacturing sector according to NACE rev 2	Manufacturing Enterprises	%	Number of employees	%2	Annual Turnover	%3
10 Food Processing	1286	24.5	4,229	21.9	184,674,330	20.6
11 Production of Beverages	90	1.7	1,418	7.3	113,052,119	12.6
12 Production of tobacco products	4	0.1	97	0.5	334,750	0
13 Production of textile	141	2.7	962	5	16,754,706	1.9
14 Production of clothing	285	5.4	444	2.3	4,759,155	0.5
15 Production of leather and leather products	42	0.8	262	1.4	4,098,625	0.5
16 Production of wood, and wood products	577	11	1,044	5.4	30,528,820	3.4
17 Production of paper and paper products	99	1.9	185	1	11,683,289	1.3
18 Printing and reproduction of recorded media	228	4.3	484	2.5	11,899,644	1.3
19 Production of coke and refined petrolium products	7	0.1	6	0	1,184,042	0.1
20 Production of chemical products	123	2.3	675	3.5	42,576,934	4.7
21 Production of pharmaceutical base products	17	0.3	75	0.4	1,104,024	0.1
22 Production of rubber and plastic products	473	9	1,847	9.6	81,516,971	9.1
23 Production of mineral non-metalic products	527	10	3,244	16.8	169,189,296	18.8
24 Production of metals	132	2.5	1,032	5.3	113,051,127	12.6
25 Production of fabricated metalic products	668	12.7	1,670	8.6	59,207,116	6.6
26 Production of computers and electronic products	26	0.5	40	0.2	7,026,713	0.8

27 Production of electric devices	49	0.9	126	0.7	5,624,417	0.6
28 Production of machinery and devices	25	0.5	76	0.4	2,375,767	0.3
29 Production of motor vehicels and trailers	6	0.1	13	0.1	300,131	0
30 Production of other transport vehicels	8	0.2	37	0.2	1,363,917	0.2
31 Production of furniture	339	6.4	1,259	6.5	31,058,632	3.5
32 Other production	93	1.8	96	0.5	3,452,557	0.4
31 Repairing and instalation of machinery and devices	14	0.3	15	0.1	730,316	0.1
Total	**5,259**	**100**	**19,336**	**100**	**897,637,398**	**100**

With regards to the annual turnover, below are listed the sectors of processing industry by the amount of annual turnover in percentage. From this illustration, we see that food processing sector (10) had the highest percentage of turnover compared to other processing sectors. The second industry sector with the largest turnover is the production of non-metal mineral products followed by production of beverages, metals, rubber and plastic products, etc.

Figure 8 : Annual turnover by sub-sectors



Number of enterprises by industry sectors

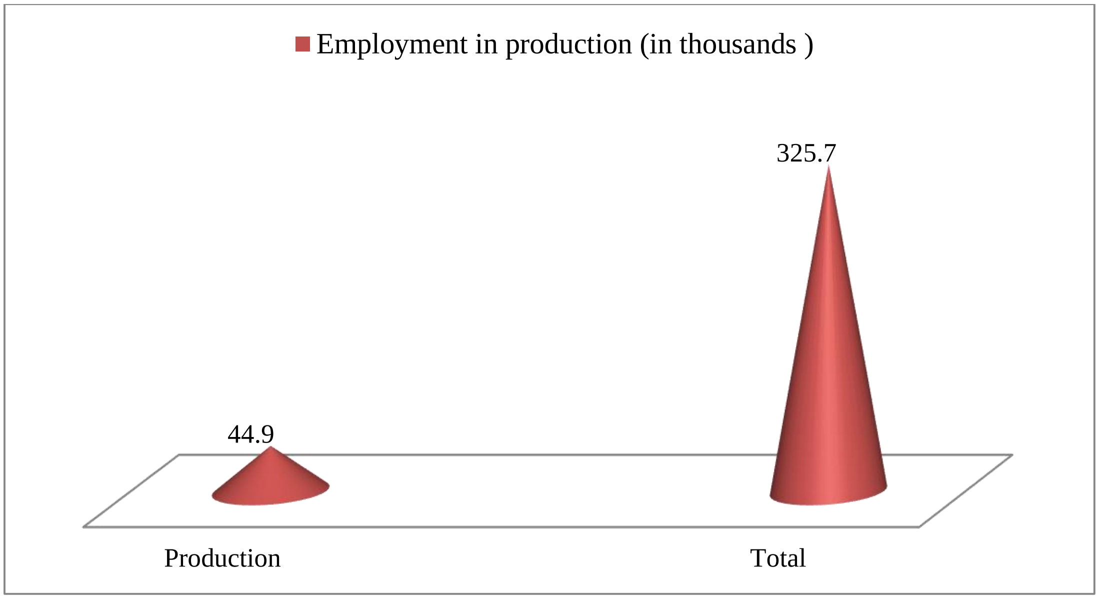
Referring to the above table, we can see how enterprises are concentrated across various industry sectors. The data suggest that food processing sector continues to be the leader also in concentration of enterprises with 1,286 enterprises. Next is the sector of fabricated metal products with 668 active enterprises, followed by enterprises dealing with the processing of wood and wood products, production of non-metal mineral products etc. Whereas, enterprises that deal with the production of tobacco products, motor vehicles, as well as with the repair and installation of machinery continue to be the sector with the smallest number of concentrated enterprises.

Labour Force

Employment by economic activities

Production industry, along with the education and construction, constituted almost half of employed persons in 2014.

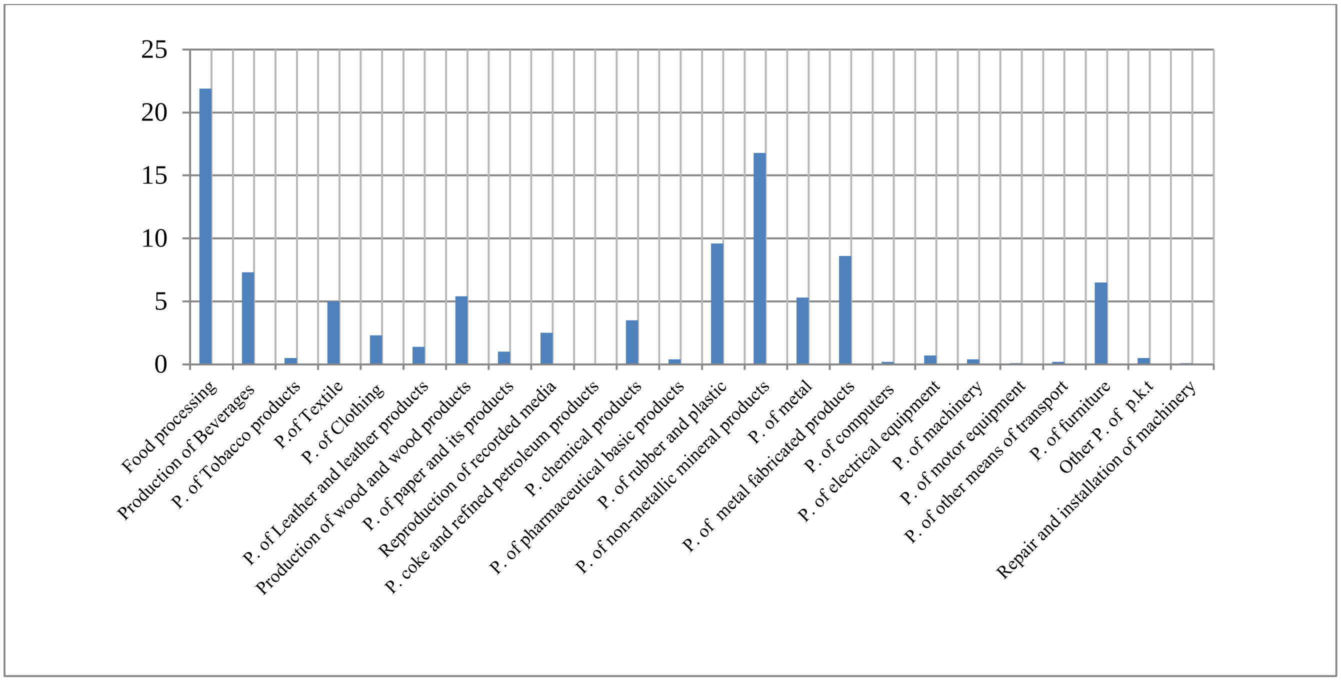
Figure 9, Employment in production



From the total 21 of economic activities that constitute a total of 325.700 employees, 44.900 of employees are engaged in production. This indicator emphasizes even more the importance of production regarding the level of employment. From the gender perspective, from the total of 325.700 employed, 250.100 of them are men and 75.600 are women. These statistics include also the activities of producing un-differenced goods and private services for households for their own use.

With regards to employment in relation to different production sectors, the data suggest that food processing sector employs about 21% of the labour force. This sector was identified as a strategic sector, together with 5 other sectors, which has the potential for further development in the future. Second largest sector by the number of workers is the sector of production of non-metal minerals, which constitutes 16.8% of the labour force.

Figure 10 Number of the employed



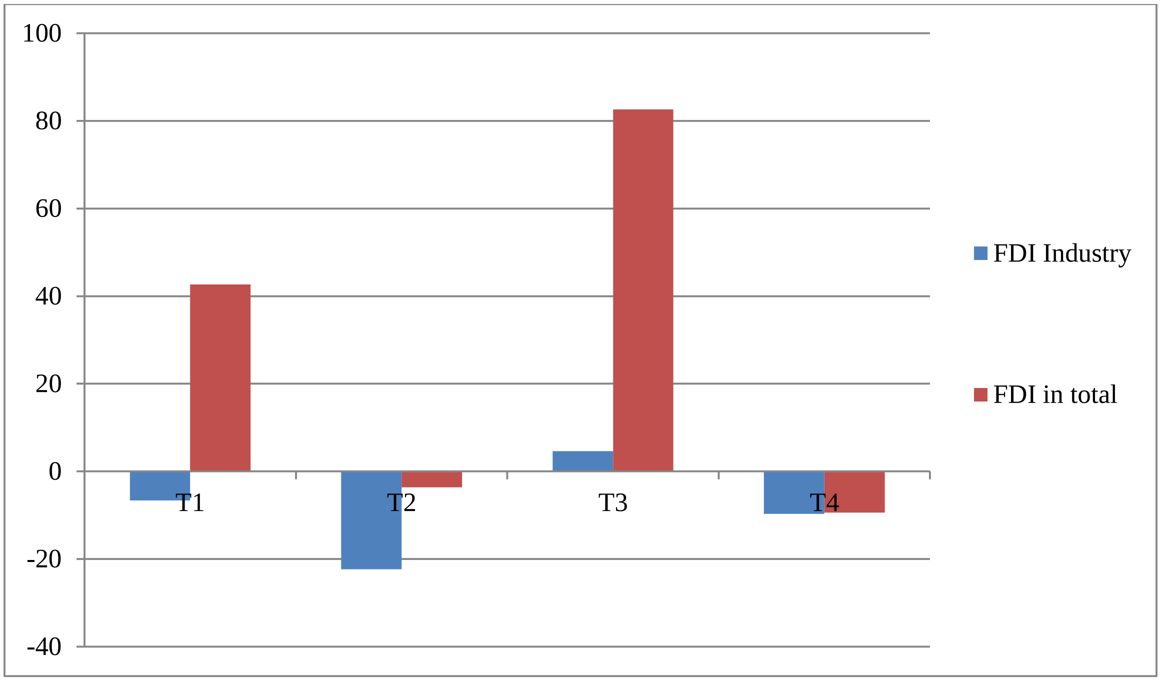
Foreign direct investment

Unlike 2013, foreign direct investment in 2014 marked a decline. From 250.2 million Euros that were in 2013, in 2014 this figure declined to 123.9 million Euros. According to the World Bank, among main reasons attributed to the decline of direct investment are also the sales of shares of some of the foreign companies operating in Kosovo to Kosovo residents and distribution of super dividend of some of the foreign companies operating in Kosovo. Super dividend implies the dividend which is higher than the company's profits for the relevant period. Distribution of super dividend affects on the decline of foreign capital share, which represents the FDI decline.

Foreign Investments by economic activity

World Bank has presented foreign direct investments by 4 quarters of 2014. These data are presented for 14 different sectors, including industry as a sector on its own. 13 other involved sectors are: Agriculture, Mining, Energy, Construction, Trade services, Hotels and Restaurants, Transport and Communication, Financial Services, Real Estate, Renting and other business activities, other services, other activities unclassified elsewhere. In the table below are illustrated these data, considering how the industry was positioned in relation to 13 other sectors in terms of foreign direct investment.

Figure 11 Total Foreign Direct Investments in relation to FDI in Industry

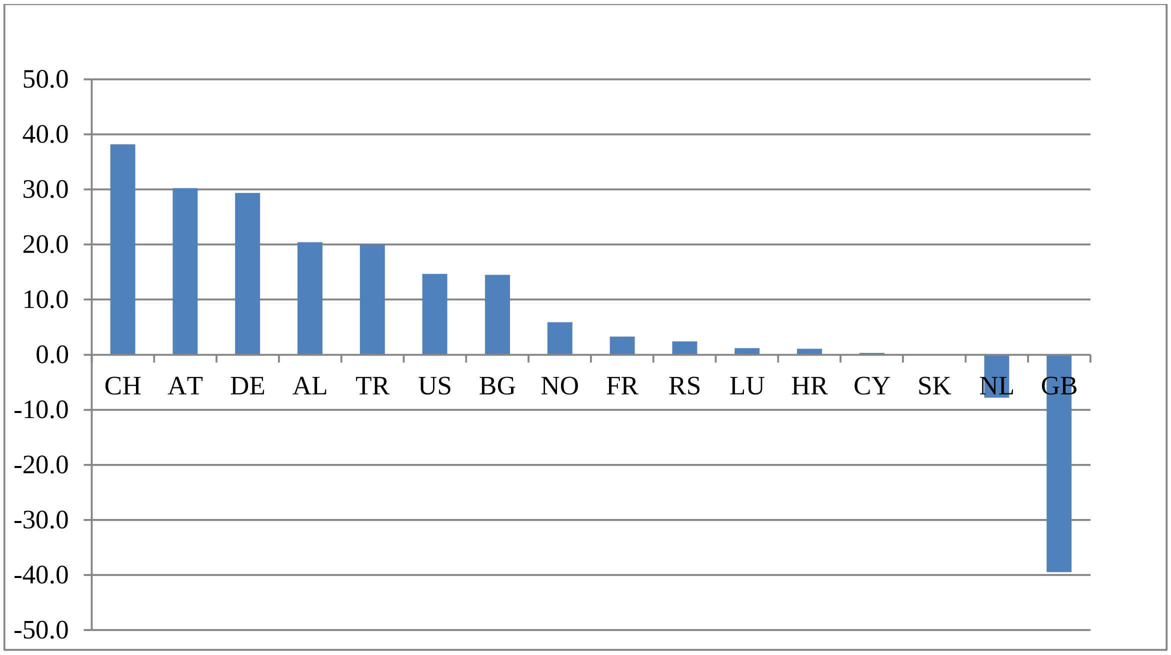


These data show that in the first quarter of 2014, while total revenues of foreign direct investments in all 14 sectors have marked an increase of 42.7 Million Euro, there was a decline in industry sector by 6.6%. Only in the third quarter of 2014, when foreign direct investments had an significant increase, foreign direct investment in industry marked a positive increase of 4.6 million Euros, in comparison to the total value which marked an increase up to 82.6 million Euros.

Foreign Direct Investments by Countries

From 151.1 million Euros of foreign direct investments that were realized during 2014, the following table illustrates revenues of FDI by different countries.

Figure 12. Foreign Direct Investment by country



As shown in the table, Switzerland is the main country with the highest direct investments in Kosovo. In 2014, this country invested 38.1 million Euros. Then it is followed by Austria in the second place with an investment of 30.3 million Euros. Vast remaining part of foreign direct investment during 2014 was realized by countries such as: Germany, Albania, United States, Turkey, Bulgaria, France, etc.

Financial Market

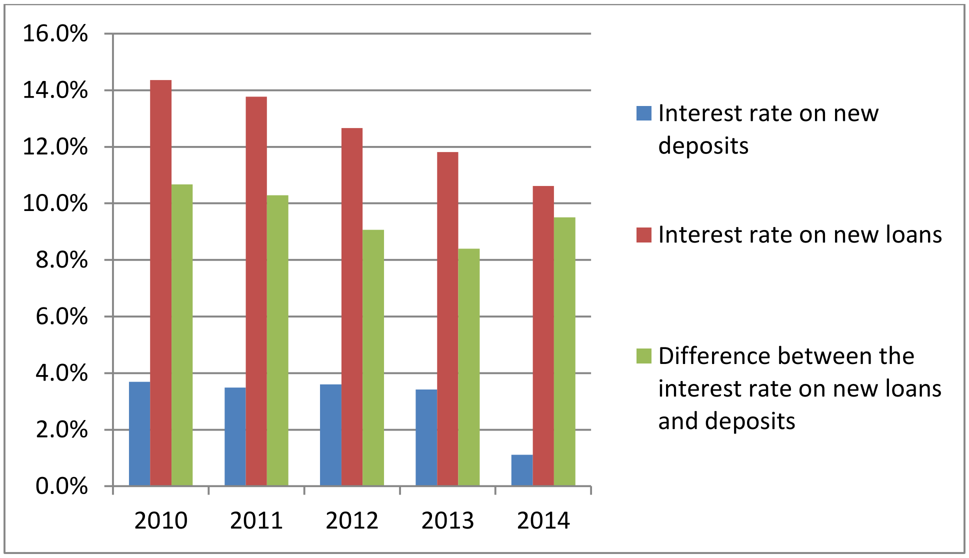
Also, during 2014 it was marked a relatively high difference between interest rates on new loans and deposits. In fact, the difference between the interest rate on these two elements continued to be about 10%. However, during 2014, this gap rose from 8.4% to 9.5% (an increase of 13.2%).

Table 7: Effective interest rates on new loans and deposits, 2010-2014

	2010	2011	2012	2013	2014
Interest rates on new deposits	3.7%	3.5%	3.6%	3.4%	1.1%
Interest rates on new loans	14.4%	13.8%	12.7%	11.8%	10.6%

The expansion of difference mentioned above, can be largely disaggregated by taking into account changes in the interest rate on new deposits of the respective period. The fact that the latter suffered a decline of 67.5% (from 3.4% to 1.1%) from 2013 to 2014 on one hand, and increase of the interest rate on new loans for the same time period by 10.2% on the other hand, serves as proof or earlier ascertainment.

Figure 13 Interest Rates



Annual Average Interest Rate on Loans

Interest rate trends, in terms of relative order according to their value, for the types of loans presented below, were relatively the same with the previous year. The interest rate for agriculture loans (13.2%) is on top of this list followed by that of consumer loans (10.9%), service (10.7%), and interest rate on new loans (10.6%).

In relative terms, three most apparent annual interest rate changes were marked in mortgage loans of over 10 years, mortgage loans up to 1 year, and agricultural loans, where the relevant annual average during 2014 increased to 11.4%, respectively decreased to 31.2 % and 24.1%, compared to the previous year.

On the other hand the less volatile interest rate was that of consumer loans, which during 2014 compared to the previous year, sustained a decline of 6.3%, similar to the changes sustained during the previous year (6.7%).

Table 8: Effective interest rates of ODC in loans, 2010-2014

Serial Code	Description	2010	2011	2012	2013	2014
T	Interest rate on new loans	14.4	13.8	12.7	11.8	10.6
T_3	Consumer loans	13.9	12.7	12.4	11.6	10.9
T_4	Mortgage loans	11.8	11.5	10.6	10.1	9.1
T_4a	Up to 1 year	7.1	2.2	7.1	8.1	5.6
T_4e	Over 10 years	8.2	8.9	8.7	7.6	8.5
T_61	Agricultural	25.7	23.7	20.7	17.4	13.2
T_62	Industrial	12.6	13.9	12.5	12.3	10.4
T_63	Service	14.2	13.9	13.2	11.9	10.7

Annual average interest on deposits

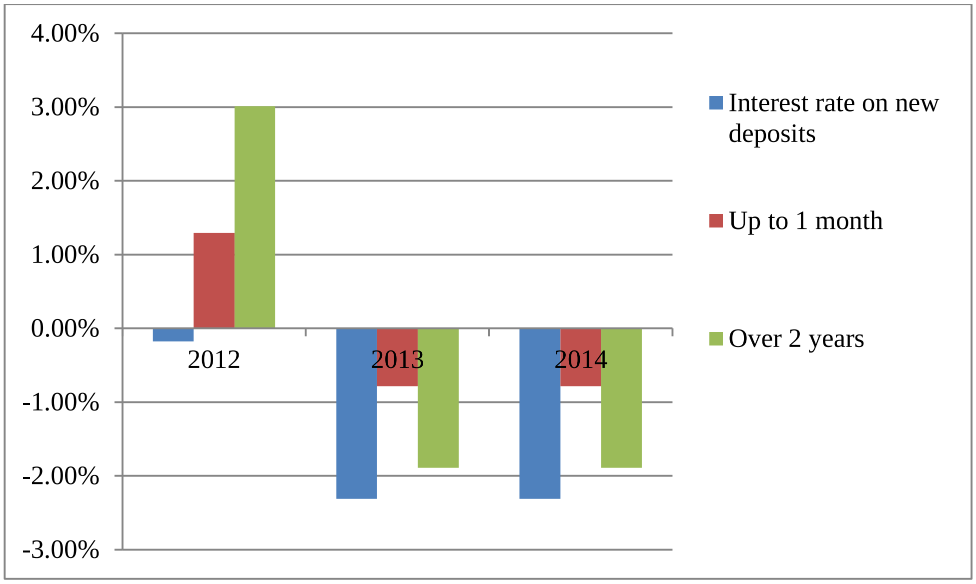
As shown in the table below, the interest rate on new deposits during 2014 compared to the previous year marked a decline from 3.42% to 1.11%. At the same time, interest rates on time deposits up to 1 month and over 2 years marked a decline of 23.2% to 1.44%, and respectively 5.16% to 3.27%.

Table 9 Interest rates on deposits, 2012-2014

	2012	2013	2014
Interest rate on new deposits	3.60	3.42	1.11
Up to 1 month	0.93	2.23	1.44
Over 2 years	2.15	5.16	3.27

Furthermore, referring to the figure below, where are presented the yearly changes of interest rates on relevant deposits, we can see that the biggest changes in relative terms during 2014 compared to the previous year occurred in the case of interest rates on new deposits. Specifically, reduction of the interest rate for this type of deposits during 2014 compared with the previous year was -68%, followed by that of deposits of 1 month -35%, and deposits over two years -1.89% **.**

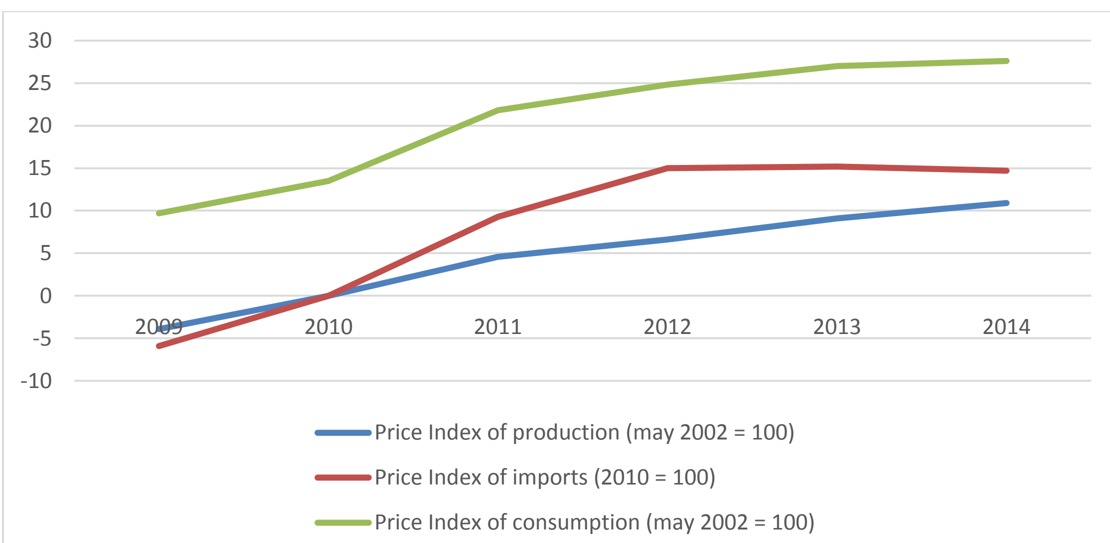
Figure 14. Annual changes of the interest rate on deposits, 2012-2014



Price Index

The figure below clearly shows a constantly increasing trend of consumer prices, although during the last three years, such a rate has been relatively stable. With regards to prices of production and import, it can be observed a tendency for levelling yearly increase in particular over the past two years; nevertheless, since 2010, when the annual change of prices in both categories was the same, import prices constantly recorded a constant yearly increase, relatively higher than those of production.

Figure 15: Annual change of prices of producer, consumption and import, 2009-2014



From the table below, it can be concluded that in relative terms, during 2014, compared to the previous year, the biggest changes in prices occurred in those of consumption (27.6%), followed by those of imports (14.7%) and of production (10.9%).

Table 10: Producer, Consumption and Import Price Index, 2009-2014

Year	Consumer Price Index (May 2002 = 100)	Producer Price Index (May 2010 = 100)	Import price index (IPI) (2010 = 100)
2009	9.7	-3.9	-5.9
2010	13.5	0.001	0.001
2011	21.8	4.6	9.3
2012	24.8	6.6	15
2013	27	9.1	15.2
2014	27.6	10.9	14.7

On the other hand, if we analyze the increase of prices for the same aforementioned period, we notice that product prices are listed in the first place where the corresponding value rate reaches 20%, followed by consumption and imports, with respectively 2% and 3%. However, despite the fact that consumers faced the highest price increase (compared to producers and importers), the change in the annual increase of rate for the respective period hit its nadir (only 2%) since 2009. At the same time, change of the annual price increase of production was 20%, whereas that of import prices was -3%.