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Report

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1. Introduction

The services sector has emerged as the largest segment of Kosovo's economy and its driving force, contributing a growing share of domestic value added, employment and trade. Services activities accounted for 74 percent of Gross Domestic Product (GDP) in 2018 at basic prices and employed 85.2 percent of the total labor force in Kosovo in 2019. Services activities make up for 83.4 percent of new businesses registered in 2019.¹

The relative weight of services in the domestic economy has been progressively increasing over time, with the shift towards trade in services simultaneously constituting a core element to integrate Kosovo into the global economy. Contrary to trade in goods, where Kosovo experiences a constant trade deficit averaging 40 percent of GDP, trade in services represents a completely different situation. In 2019, trade in services registered a trade surplus of EURO 932 million, which contributed to GDP with 13.3 percentage points. Given that trade in services is instrumental in contributing to finance the current account of the Balance of Payments (BOP), further efforts should be made by policy-makers to shift the attention and give higher priority to trade in services that would contribute significantly to enhance Kosovo's developmental aspirations.

According to the World Trade Organization's (WTO) General Agreement on Trade in Services (GATS), which adopted a definition of trade in services, trade in services takes place through four modes of supply. This consensual definition has also been incorporated in the Additional Protocol 6 to the CEFTA agreement.

This document covers only three of the four modes of supply identified in the GATS.² For trade to be considered under Mode 1, it must be a cross-border supply, meaning Mode 1 covers services flows from the territory of one Member into the territory of another Member (telecommunication, transport and postal and courier services). Mode 2 of supply includes consumption abroad and refers to situations where a service consumer moves into another Member's territory to obtain a services (Travel, health and education services). Mode 3 of supply is based on commercial presence and it implies that a services supplier from one member establishes a territorial presence through ownership or lease of premises in the territory of another member (foreign insurance companies, banks, hotel chains, domestic subsidiaries). Trade in services under Mode 3 should be measured as Foreign Affiliate Trade in Services (FATS) and mode 3 of supply is not reflected in the balance of payments, as this data is not available in the case of Kosovo. Most of worldwide trade takes place through mode 3 of supply. The collection and processing of FATS data should be of high importance amongst future efforts aiming at improving trade in services data in Kosovo, given that this mode of supply is predominant in the case of financial services, with foreign banks representing the bulk of financial activity in Kosovo. Mode 4 of supply of services is through presence of natural persons and it consists of persons of one Member entering the territory of another Member to supply a service (construction, other business services, e.g. accountants, doctors, teachers). The Annex to the GATS on Movement of Natural Persons specifies that countries are free to apply measures regarding residence, citizenship or access to the employment market on a permanent basis.

It is important to note that this document serves as an annual approximation to the issue of services and development in Kosovo and should be treated as such. This document examines the structure and performance of services in Kosovo's economy and trade, aiming at providing some insights that could assist in future policy formulation to better enable services activities to contribute to Kosovo's economic growth. Given the nature of this document, this assessment covers only the years 2017, 2018 and 2019. The present study does not intend to provide a longer view of the underpinning factors explaining the evolution of Kosovo's trade in services. It rather focuses on gaining a better understanding on the current trends in Kosovo's trade in services.

The document is structured as follows. The next section explores the new policy developments that have been undertaken in an attempt to enhance the role of services activities to economic growth and sustainable development. Section three examines the structure and performance of

¹ Data provided by Kosovo Business Registration Agency

² WTO/GATS four modes of supply

the services sector in the economy of Kosovo. Section four provides an evaluation of Kosovo's trade in services. The analysis focuses on five major sectors including travel, transport, business services, personal, cultural and recreational services and government goods and services. This report does not examine Kosovo's direction of trade in services but focuses on identifying areas in trade in services that require further research and improvement.

2. Kosovo's Trade in Services: Current Legislative and Policy Developments

In the case of Kosovo, the regulatory environment in trade in services consists of two interconnected bodies of legal instruments, according to which particular rules are applied regarding the establishment and operation of trade in services. Domestic legislation which undertakes the compilation of all horizontal laws applicable to the services activities in Kosovo and a number of particular sectorial legislations governing the provision of specific sectors. The Ministry of Trade and Industry has undertaken the compilation of all domestic laws and administrative procedures governing the provision of services activities. In terms of sectorial commitments, the latter refers mainly to the international commitments adopted by Kosovo in the Stabilization and Association Agreement (SAA)³ and Central European Free Trade Agreement (CEFTA) on the liberalization of services trade.

The SAA incorporates important provisions related to trade in services in its agenda. In Title V on "Establishment, Supply of Services and Capital", Article 51 emphasizes the principles of non-discrimination, equality and national treatment which are essential components for the liberalization of services trade. Equality in terms of natural persons is foreseen in Article 55, paragraph 2, which provides that the key staff of a foreign company can be nationals from the country of origin of the company, allowing Kosovar citizens to access EU markets and foreigners to easily work in foreign entities in Kosovo. These individuals would be allowed to reside in the territory of the other party in accordance with the relevant domestic laws. Furthermore, Article 56 indicates that within two years from entry into force of this agreement, mutual recognition of qualifications to facilitate trade liberalization will be reviewed. The assessment has not yet been completed. Finally, Article 58 provides that in line with the liberalization process and in accordance with paragraph 1, 2 and 3, necessary steps will be taken to progressively allow the supply of services by EU and Kosovo companies or their citizens in the territory of a foreign party. The parties shall permit temporary movement of natural persons providing the service or who are employed by the service provider. Article 58 will be completed five years from entering into force.

The SAA agenda foresees progressive implementation of its program aimed at facilitating trade in services. Some of the commitments have already been undertaken by the parties, while others, such as regarding the elimination of obstacles to free travel, still need to see more progress. The facilitation of individuals traveling across borders should be high on the list of priorities for Kosovo and incorporated in any joint work program aiming at implementing future commitment related to trade in services.

A main commitment adopted by Kosovo in the framework of the SAA is that Kosovo's domestic legislation in services activities should be in compliance with that of the EU. In that sense, what is important is the obligation to transpose the EU Services Directive (SD),⁴ which aims to facilitate the establishment and provision of services within EU's internal market by offering international services between EU member states. The EU Services Directive (SD) was partially transposed through enactment of the Law on Services into the domestic legal framework in March 2017. The Law on Services guarantees the right of establishment, regulating market opening and protecting domestic businesses in Kosovo, covering around 400 different services activities. In relation to the implementation of the Law on Services, 54 domestic legal instruments and administrative instructions have been identified that would require amendments in order that the Law on Services is in full compliance with EU Services Directive (SD). Furthermore, administrative instruction 05/2018 enacted on 23rd of March, 2018 on notification procedures and the compliance

³ The SAA is an international agreement between Kosovo and the European Union, it will establish a contractual relationship that ensures mutual rights between the two parties. The SAA will support Kosovo's economic and political integration into the European Union. The SAA agreement was ratified by the Assembly of Kosovo on November, 2015 and it entered into force in April, 2016.

⁴ Kosovo aims to be an EU member state in the near future; therefore, its domestic legislation must comply with that of the EU. In addition, by complying with the EU Services Directive, Kosovo will have it easier to trade with the EU and potentially be authorized to trade in services with EU member states in accordance with Chapter III of EU Directive 2006/123/EC.

assessment of draft normative acts with the law on services assures that any regulation is in accordance with the provision of Law. The Law on Services requires that a Point of Single Contact (PCS) should be created within the framework of the EU Services Directive (SC) and CEFTA. In this regard, administrative instruction 04/2018 was enacted on the manner of functioning of the Point of Single Contact (PSC), which regulates the functionality of a multifunctional electronic platform on services whose goal is to facilitate the access to the Kosovo services market for services suppliers. A work program has been proposed to undertake this task from the Trade Department of the Ministry of Trade and Industry with the assistance of the European Union project “Further Support to the Development of Trade to Kosovo (EUTSP)”.

In the case of CEFTA, facilitation of trade in services is incorporated in the agreement between its members, which has among its objectives a progressive liberalization and mutual market cooperation. A high level of liberalization should be in accordance with Article V of GATS (Article 29). The commitments undertaken further to such negotiations shall be set out in schedules forming an integral part of the agreement (Article 29). In order to take such commitments, and other activities related to trade in services, a Subcommittee on Trade in Services was formed in 2015.

A very important commitment adopted by the government of Kosovo in the framework of CEFTA has been the Additional Protocol 6 on Trade in Services (AP6) in which CEFTA members aimed at liberalizing trade in different services sectors. AP6 was adopted by CEFTA parties on December 2019 and it has to follow internal procedures before its final adoption. The effective implementation of the AP6 will contribute to increasing intra-regional trade in services, create favorable conditions for economic development, and provide information on the conditions under which trade in services will take place. Access to public documents in terms of trade in services would be guaranteed from the establishment of a Contact Point of Services (CPS) in which each participating party will be enabled to access all the information and the assistance in an efficient manner for establishing and operating in Kosovo. Furthermore, a single electronic platform will facilitate all the necessary documents and procedures for each public and private entity to penetrate the domestic market.

Another commitment in the framework of CEFTA with significant potential to increase trade in services among the WB 6 has been the efforts towards reaching a consensual agreement for the mutual recognition of professional qualifications (MRPQ). Kosovo would highly benefit from this agreement given that Bosnia & Hercegovina and Serbia do not recognize its statehood. Until June 2019, seven rounds of negotiations were held. Nonetheless negotiations have been temporarily suspended.

3. Structure of Kosovo's Service Sector

3.1. Services in GDP

The high contribution of services activities to GDP is a feature that is commonly shared by most of developing economies. Kosovo, similar to other small, resource-poor economies, exhibits a high contribution of services to total general value added in the economy and such high participation of services in GDP reflects the inability to develop a manufacturing base. In this regard, there is a strong association between an increase in the relative weight of the services sector and economic growth.

Table 1 presents the structure of Kosovo's service sector for the period 2017-2018. Note that the figure for 2019 disaggregated for the services sector is still not available. The official figures, as per the agency of statistics in Kosovo, will be released in September. Data shows GDP at constant prices which allows for a better assessment as taxes and other subsidies cannot be attributed to the different sectors. In comparison to 2017, data in 2018 clearly shows the progressive shift towards services sector which gained 2.8 percent in total GDP. In 2018, within service sectors, retail and wholesale trade remains the primary contributor in GDP with 16 percentage points, an increase in contribution with 0.7 percentage points in comparison to 2017. At the same time, the major transformation in comparison to 2017, is the relative increase of the participation of construction in total GDP, which has experienced an increase of its participation by 2.0 percentage points. The increase in contribution of public administration, of which distribution is a service is noticeable.

Table 1. Kosovo's Gross Domestic Product by economic activities 2017-2018 in constant prices					
Sector	2017	% of total	2018	% of total	% change
<i>D-Electricity, gas, steam and air conditioning supply</i>	217,122	4.3	223,043	4.2	-0.1
<i>E-Water supply, sewerage, waste management and remediation</i>	45,343	0.9	48,693	0.9	0.0
<i>F-Construction</i>	429,627	8.5	561,057	10.4	2.0
<i>G-Wholesale and retail trade; repair of motor vehicles and motorcycles</i>	780,094	15.3	862,282	16.0	0.7
<i>H-Transportation and storage</i>	226,671	4.5	247,549	4.6	0.1
<i>I-Accommodation and food service activities</i>	73,559	1.4	82,860	1.5	0.1
<i>J-Information and communication</i>	115,358	2.3	121,803	2.3	0.0
<i>K-Financial and insurance activities</i>	230,992	4.5	232,645	4.3	-0.2
<i>L-Real estate activities</i>	496,492	9.8	502,635	9.4	-0.4
<i>M-Professional, scientific and technical activities</i>	96,507	1.9	98,726	1.8	-0.1
<i>N-Administrative and support service activities</i>	38,119	0.8	44,887	0.8	0.1
<i>O-Public administration with donors</i>	470,288	9.3	522,054	9.7	0.5
<i>P-Education</i>	241,068	4.7	254,339	4.7	0.0
<i>Q-Human health and social work activities</i>	113,864	2.2	124,876	2.3	0.1
<i>R-Arts, entertainment and recreation</i>	25,422	0.5	26,991	0.5	0.0
<i>S-Other service activities</i>	13,023	0.3	13,810	0.3	0.0
Total Services and % in GDP	3,613,549	71.1	3,968,250	73.9	2.75
GVA at basic prices	5,082,462		5,373,214		
GDP production in constant prices	6,326,641		6,658,434		

Source: Kosovo Agency of Statistics

3.2. Employment in Services Activities⁵

Table 2 below presents the distribution of employment in the services sector for the period 2017-2019. In the aggregate, services activities account for 85.2 percent of the total employment in the economy in 2019, and significantly, these activities have experienced an increase in employment in comparison to 2017, with 3.7 percent increase in all new jobs created in the services sector. Employment generation in services activities is concentrated in the wholesale and retail trade, accommodation and food services activities, construction and professional, scientific and technical activities. These services activities constitute 58.6 percent of the total employment in 2019. The most dynamic sub-sector in terms of generating new employment during the period 2017-2019 has been professional, scientific and technical activities which has experienced an increase in employment generation with 8.2 percentage points. As it can be reflected in the table, eight services sub-sectors have experienced a decline in employment generation, particularly noticeable in Construction services which has decreased its participation in 4.7 percentage points.

Table 2. Kosovo's Employment in Services Sector {Thousand and %}							
Sector	2017	% of total	2018	2019	% of total	Participation % change 2017-2019	Absolute Change
D - Electricity, gas, steam and air conditioning supply	95	0.5	91	45	0.2	-0.3	-50
E - Water supply, sewerage, waste management	372	2.1	84	112	0.6	-1.5	-260
F - Construction	2734	15.3	2123	1928	10.7	-4.7	-806
G - Wholesale and retail trade, repair of motor vehicles and motorcycles	3796	21.3	3971	4027	22.3	1.0	231
H - Transportation and storage	524	2.9	444	508	2.8	-0.1	-16
I - Accommodation and food service activities	1702	9.5	1776	2053	11.4	1.8	351
J - Information and communication	999	5.6	1183	1113	6.2	0.6	114
K - Financial and insurance activities	488	2.7	122	104	0.6	-2.2	-384
L - Real estate activities	96	0.5	74	115	0.6	0.1	19
M - Professional, scientific and technical activities	1077	6.0	1178	2573	14.2	8.2	1496
N - Administrative and support service activities	810	4.5	918	914	5.1	0.5	104
O - Public administration and defense, compulsory social security	56	0.3	22	28	0.2	-0.2	-28
P - Education	299	1.7	237	345	1.9	0.2	46
Q - Human health and social work activities	422	2.4	343	363	2.0	-0.4	-59
R - Arts, entertainment and recreation	471	2.6	510	410	2.3	-0.4	-61
S - Other service activities	608	3.4	744	752	4.2	0.8	144
Total employment in services	14549	81.5		15390	85.2		
Total	17846	100.0		18073	100.0		

⁵ This paper utilizes preliminary results for analysis. Values on the table are not the final version, and may vary from the official documents at Kosovo Business Registration Agency

3.3. New Registered Businesses in Services

Table 3 below shows the new registered businesses in services activities for the period 2017-2019. In the aggregate, services activities account for 83.4 of the new registered businesses in 2019, experiencing a 2.0 percent increase in new registered businesses in comparison to 2017. Data in the last column of Table 3, presents the different levels of business openings. While some sectors show significantly positive performances in terms of new registered businesses, others are lagging behind; even showing negative results. In terms of new business openings, in comparison to 2017, the most dynamic sub-sector is accommodation and food service activities with 198 new registered businesses followed by information and communication with 173 business openings. Wholesale and retail trade sector remain the leading sector in terms of new registered businesses with 2374 enterprises having been registered in 2019 albeit the negative balance of new registered businesses in comparison to 2017.

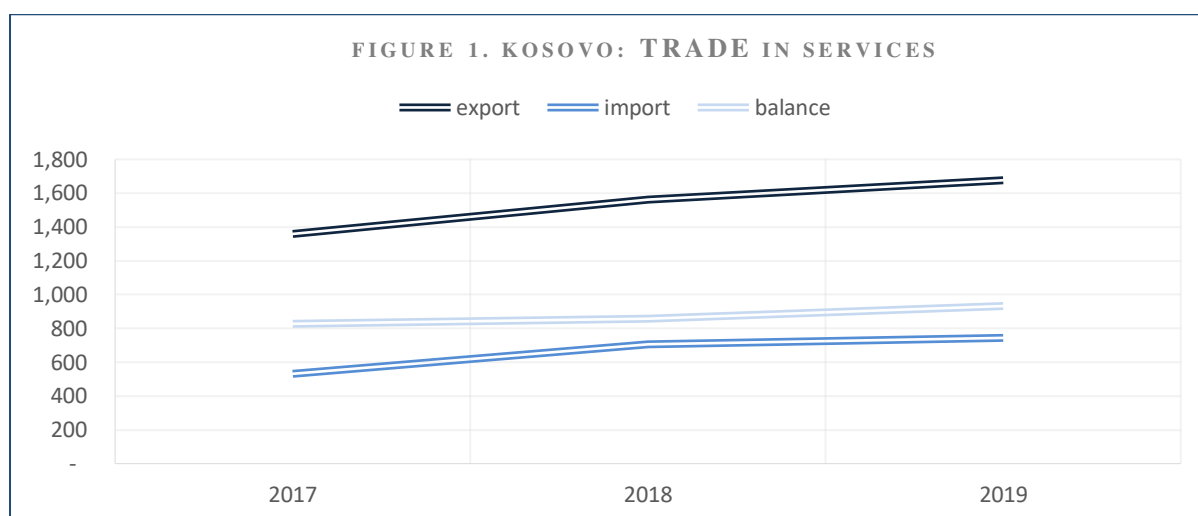
<i>Table 3. New Registered Businesses in Services {Thousand and %}</i>						
Sector	2017	% of total	2018	2019	% of total	Absolute change 2017-2019
<i>D - Electricity, gas, steam and air conditioning supply</i>	41	0.4	40	27	0.3	-14
<i>E - Water supply, sewerage, waste management</i>	37	0.4	42	34	0.3	-3
<i>F - Construction</i>	841	9.0	960	950	9.5	109
<i>G - Wholesale and retail trade, repair of motor vehicles and motorcycles</i>	2486	26.7	2557	2374	23.7	-112
<i>H - Transportation and storage</i>	355	3.8	311	310	3.1	-45
<i>I - Accommodation and food service activities</i>	943	10.1	1001	1141	11.4	198
<i>J - Information and communication</i>	453	4.9	546	626	6.3	173
<i>K - Financial and insurance activities</i>	110	1.2	85	72	0.7	-38
<i>L - Real estate activities</i>	63	0.7	63	81	0.8	18
<i>M - Professional, scientific and technical activities</i>	760	8.2	806	927	9.3	167
<i>N - Administrative and support service activities</i>	417	4.5	467	560	5.6	143
<i>O - Public administration and defense, compulsory social security</i>	18	0.2	19	15	0.1	-3
<i>P - Education</i>	110	1.2	134	148	1.5	38
<i>Q - Human health and social work activities</i>	193	2.1	226	226	2.3	33
<i>R - Arts, entertainment and recreation</i>	232	2.5	274	243	2.4	11
<i>S - Other service activities</i>	518	5.6	662	620	6.2	102
<i>% of New Registered Businesses in Services</i>	7577	81.5		8354	83.4	777
<i>Total New Registered Businesses in Services</i>	9301			10014		

Source: Kosovo Business Registration Agency

4. Kosovo Trade in Services⁶

4.1 Overview of trade⁷

Figure 1 presents Kosovo's aggregate data on trade in services for the period 2017-2019 according to the main services categories. Trade in services has shown progress during this period, in which there has been a sustained trade surplus reflecting historical trends even though services exports have grown at an annual growth rate of 11.07 percent, lower than services imports which have experienced an annual growth of 18.31 percent. In consequence, there has been a services trade surplus albeit at a decelerating rate. Nonetheless, the surplus on trade in services has significantly fluctuated from year to year. It is important to note that maintaining the surplus on trade in services makes an important contribution to finance the current account. In the aggregate level, exports of services have grown from EUR 1.358 Billion in 2017 to EUR 1,676 Billion in 2019 while imports have increased from EUR 531.5 Million in 2017 to EUR 743.9 Million in 2019.



Source: Central Bank of Kosovo

Kosovo's main services export is travel. Travel has represented the bulk of exports during this period. In 2019, Travel represented 78.8 percent of the total services exports, which explains the fact that travel services accounts for the surplus that Kosovo registers in services trade. In comparison to 2017, other business services have experienced a substantial increase in exports from EUR 88.8 million to EUR 121.7 million in 2019 followed by telecommunication, computer and information services with EUR 68.1 million exports in 2019. There has been a significant decline in the value of exports of government services mainly due to the reduction of the size and activities of foreign entities, such as KFOR, EULEX among others, in the territory of Kosovo. In terms of imports, services imports have experienced a higher growth rate than exports. Imports of services are less concentrated than exports, however, travel accounts for the main import. It is worth noting that transport services have substantially increased its share of imports during the period of analysis.

⁶ For the brief on trade in services, the WTO definition in services has been used. Some of the categories included in the services account for Balance of Payments purposes are merged together or completely omitted because of their irrelevance to the paper.

⁷ Trade in "Maintenance and repair services", "charges for the use of intellectual property" and "manufacturing services on physical inputs owned by others" have not been included in this document.

4.2 Trade in Services by major sectors

This section presents a more detailed assessment of Kosovo's trade in services. It analyzes trade by type of services and at a more disaggregated level, it examines the performance of major activities within each category.

Table 4. Kosovo Trade in Services by main sectors															
	Travel			Transport			Business Services			Government goods and services			Personal, cultural and recreational services		
Year	X	M	Balance	X	M	Balance	X	M	Balance	X	M	Balance	X	M	Balance
2017	1112	235	877	37	119	-82	165	157	8	36	12	24	2.7	1.5	1.2
2018	1228	302	926	60	128	-68	232	243	-11	36	22	14	3.7	2.1	1.5
2019	1321	328	994	67	146	-79	245	230	15	33	23	10	6.2	4.7	1.5

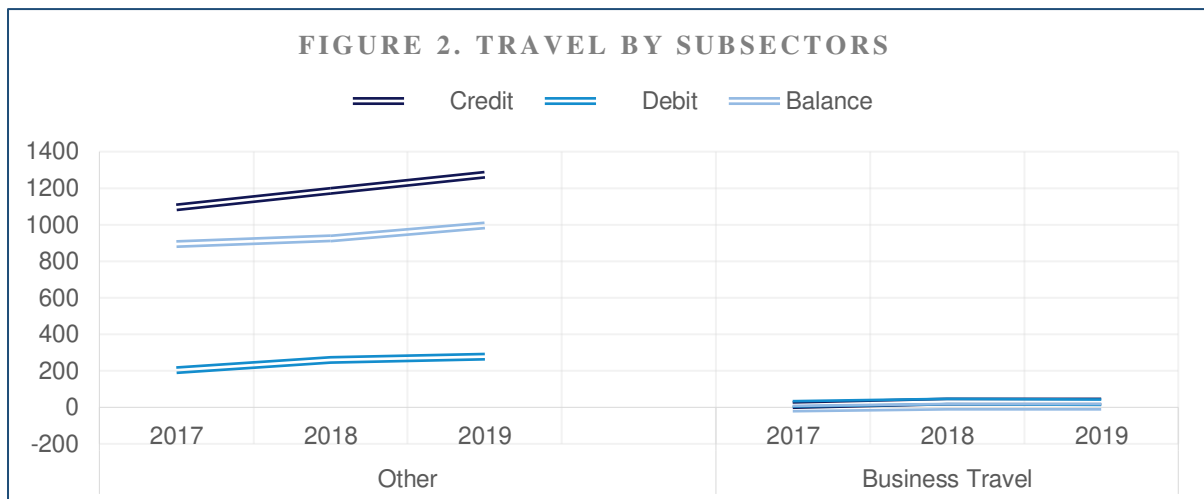
Source: Central Bank of Kosovo

Table 4 presents Kosovo's aggregate data on trade in services for the period 2017-2019 according to the main categories of services. On average, it should be noted that export growth rate has been steady yet, at a decelerating rate in comparison to imports. In relative terms, transport services experienced the biggest growth in exports with 81 percent. In the aggregate, the main services sectors represent 90% percent of total trade in 2019. It is very important to highlight that travel services constitute the major export and import service during the period of analysis. Transport services remains the only sector experiencing a trade deficit for period 2017-2019.

The composition of trade in these services requires a further analysis. At a more disaggregated level, the section will extend the analysis, highlighting the major subcategories within each sector.

4.2.1 Travel

Travel registers the expenditures of foreign non-residents while in Kosovo and that of Kosovo's temporary travelers while in foreign countries. People travel either for business purposes or for personal ones. In terms of personal travel, Travel accounts expenditures related to health or educational purposes and mainly for tourism. As it has been highlighted, travel is the most significant component of services trade for Kosovo. Figure 2 presents trade in travel services by the main subsectors for the period 2017-2019. The category 'other' reflects travel for other personal reasons, including tourism. Travel for other personal reasons, constitute the bulk of Kosovo's trade related to this account. In the case of Kosovo, personal travel, other than business generate an overwhelming trade surplus in this sector. This category reflects mainly visitors coming from countries with a sizeable Kosovo diaspora. As it can be observed, exports and imports of personal travel have shown dynamism during the period of examination, during which personal travel has registered a sustained and growing trade surplus. In 2019, travel for other personal reasons exports reached EUR 1,274 million, experiencing a 7.5 percent increase in exports in comparison to the previous year. On its part, the expenditures for personal travel of Kosovo nationals abroad have grown from EUR 261 million in 2018 to EUR 278 million in 2019. Exports of personal travel have been growing at a compound annual growth rate of 7.8 percent whereas imports at a rate of 17.31 percent.



Source: Central Bank of Kosovo

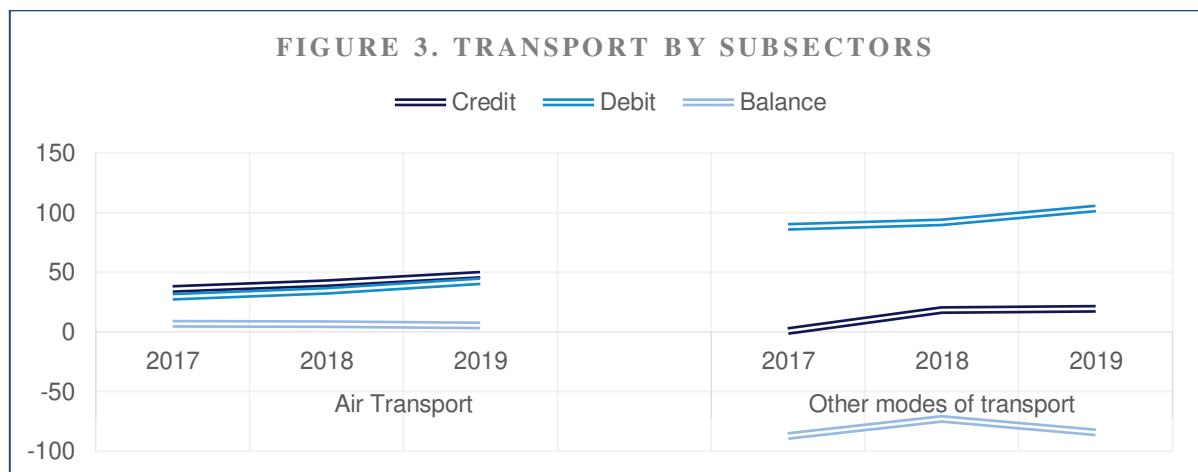
Business travel represents a minor proportion of the total services even though they have experienced a progressive growth in recent years. In 2019, business travel exports have grown to EUR 32.4 million. The progressive increase in exports shows that more people are coming to Kosovo pursuing business activities. Likewise, expenditures of Kosovo nationals traveling for business purposes in 2019 were EUR 30 million, a small decrease in comparison to the previous year.

In the case of other sub-sectors, Kosovo is a net importer of health and education services. In regards to the health services, during 2019, Kosovo imported EUR 9.6 million while it exported EUR 2.1 million. Education services exports reached EUR 13.2 million in 2019, experiencing a trade surplus in an amount of EUR 2.6 million.

The influence of the diaspora in the travel account deserves a further elaboration, as it is not tourism in the true sense.

4.2.2 Transport

Transport services facilitate international trade and are essential components in the economic growth of developing countries. The extent to which a developing country can further integrate in the global trade depends significantly to the quality and efficiency of transport and logistics services. Weak services and logistics infrastructure can be a major hindrance to realize the full potential for international trade. The further consolidated the logistics supply is, the more reliable and efficient is the distribution from the point of production to the final customer.



Source: Central Bank of Kosovo

Transport services are composed to four sub-sectors, namely sea transport, air transport, other modes of transport and postal and courier services. The first three categories constitute movement of people and goods (freight). The composition of trade in these services is mainly based on air transport and other modes of transport. Figure 3 presents trade in transport services by the main subsectors for the period 2017 to 2019. As it can be observed, Kosovo has registered a trade surplus on trade in air transport services during the period of examination. However, the trade surplus is showing a declining trend as import growth rate has been much higher than export growth rate. The trade in air transport services can be disaggregated further into transport of passenger, freight and other services. In the case of freight, that is transport of goods via air, trade is very limited, almost inexistent since most of Kosovo's trade is through land. For the transport of passengers, Kosovo depends mainly on foreign carriers, not registering exports of these services for the period under consideration since there is no developed airline industry. In 2019, imports of air transport passengers registered EUR 32 million, a 28 percent increase in comparison to 2017. 'Other' represents the only category of air transport services experiencing a trade surplus due to the payments made by foreign carriers in Kosovo for services related to air transport. In 2019, other air transport services have been showing a rising tendency, registering EUR 48 million exports.

The other modes of transport comprises services that are auxiliary to transport and not directly provided for the movement of goods and persons.⁸ These transport means include road transport, water way transport, rail, pipeline transport, space transport and electricity distribution. In the aggregate, imports of other modes of transport services significantly exceeded exports resulting in a growing trade deficit. A persistent trade deficit demonstrates the high dependency of trade in foreign transport services suppliers. The deficit in trade in this sector declined slightly to EUR 84 million in 2019 from EUR 87 million in 2017. The main mode of transport registered in Kosovo is road transport. The road transport can be further disaggregated in passenger, freight and other. Freight transport, that is transport of goods, represented 96.4 percent of all imports of these services. In the case of passenger, Kosovo in 2019 registered a surplus in an amount of EUR 13.3 million, a slight decrease in 6.3 percentage points in comparison to the previous year.

In the case of postal and courier services, this services category remains small as there is a small volume of trade flow.

4.2.3 Business Services

Trade in business services is one of the fastest growing segments of global trade in services. The scope of business services has risen to the extent that the growth of global services sector is largely driven by the rise of business services rather than consumer services. This account registers exports and imports of a wide variety of different activities, such as, among other: construction services, other business services, insurance and pension services, telecommunication, computer and information services and financial services. Business services are an important component of the global services trade; therefore, the government should shift the attention and further strengthen the development of this sector in Kosovo. Table 5 presents the evolution of Kosovo's trade in business services for the period under analysis. Trade in these services, has shown significant dynamism both in terms of exports and imports. Total exports have been growing at a faster rate than imports, increasing Kosovo's trade surplus. Exports grew at an annual compound rate of 14 percent, while imports at 13.5 percent.

⁸ Other modes of transport include all other modes of transport besides sea and air.

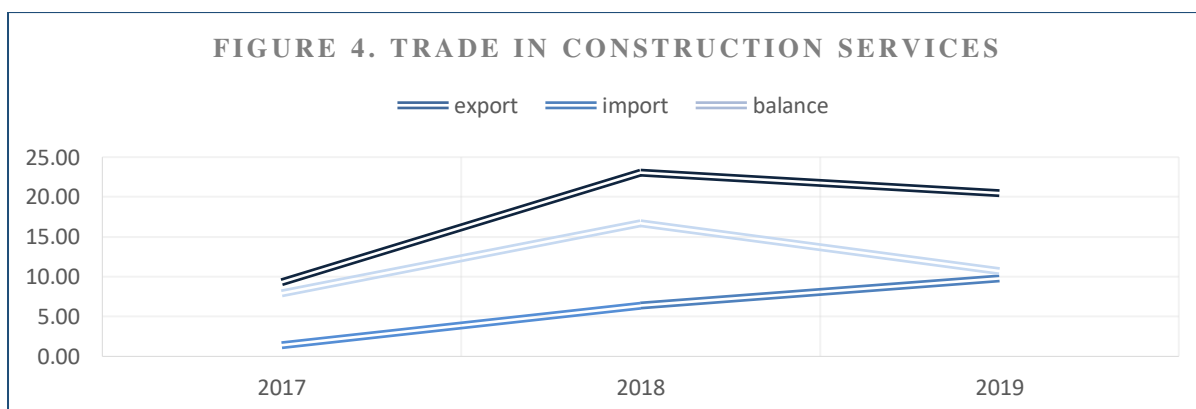
Table 5. Trade in Business Services by subsectors

	Construction			Other business services			Insurance and pension services			Telecommunications, computer, and information services			Financial services		
Year	X	M	Balance	X	M	Balance	X	M	Balance	X	M	Balance	X	M	Balance
2017	9.3	1.4	7.9	88.8	56.9	31.9	19.7	41.6	-21.9	46.6	51.3	-4.8	0.9	6.1	-5.2
2018	23.1	6.4	16.7	122.5	117.1	5.4	29.1	48.6	-19.5	55.8	61.1	-5.3	1.1	9.8	-8.7
2019	20.5	9.8	10.7	121.7	111.7	10.1	34.1	54.9	-20.8	68.1	48.1	20.0	0.5	5.6	-5.1

Source: Central Bank of Kosovo

Construction

Construction services are an important contributor to the global trade in services and have the potential to become an essential component in Kosovo's trade in services. Construction services register construction abroad by Kosovo firms and construction by foreign companies in the reporting economy. Figure 4 presents the evolution of trade in construction services by main categories for the period 2017-2019. Exports of construction services have experienced a sharp increase since 2017, registering EUR 20.5 million in 2019. Kosovo has maintained a surplus in construction services during this period, and in 2019 it registered a trade surplus of EUR 10.7 million. Construction services is an activity that requires further development.



Source: Central Bank of Kosovo

Other Business Services

Other business services is to a large extent a mode 4 of supply which requires the presence of natural persons of a country in the territory of any other country and recognition of personal qualifications. Other business services registers exports and imports of three market services: research and development services, professional and management consulting services, and technical, trade-related and other business services. For the period in consideration, there is no data available for research and development for services. This services category is an important element in the future of trade in services as it is the means through which the advanced technology is used to provide a competitive advantage for Kosovo's services sector. In the aggregate, trade in other business services makes a significant contribution to the total trade in services in Kosovo. Exports of these services make the second in importance in the services exports in Kosovo. In 2019, other business services registered EUR 121.7 million in exports, while imports stood at EUR 111.7 million. During the period under examination, total imports grew at a faster rate than exports, decreasing the trade surplus from EUR 32 million in 2017 to EUR 10.1 million in 2019.

Table 6. Other Business Services by subsectors

	Professional and management consulting services			Technical, trade-related and other business services			Total Other Business Services		
Year	X	M	Balance	X	M	Balance	X	M	Balance
2017	24	12	11	65	44	21	89	57	32
2018	38	44	-6	85	73	12	123	117	5
2019	44	23	21	77	89	-11	122	112	10

Source: Central Bank of Kosovo

In the case of technical, trade-related and other business services, Kosovo has been able to maintain a trade surplus for two consecutive years, 2017 and 2018, while in 2019, it registered a trade deficit in an amount of EUR 11 million. Nonetheless, the export performance in these services, registering EUR 77 million in 2019 from EUR 65 million in 2017, is a positive sign that an increase in contribution from these services could register a value added in total trade in services. Professional and management consulting services have experienced a positive growth in exports since 2017, registering EUR 44 million in 2019. In the case of this sub-sector, an interesting trend can be observed during the period. The trade deficit in this category experienced until 2013 is reverted, and Kosovo has managed to achieve a trade surplus during the years 2017 to 2019. The progressive increase in the trade surplus may be a good indicator that import substitution is in effect, where local service providers have been able to penetrate the domestic market.

Insurance and pension services

This account reflects mostly trade in insurance services, as there no data available for the pension services. Insurance services covers insurance to nonresidents by various domestic insurance enterprises and vice versa. Insurance and pension services registers expenditures in three different categories, including among them, direct insurance which covers different types of insurance with nonresidents, as health, life or transport insurance. Reinsurance contracted by insurance companies to transfer portions of their risk portfolios to other parties and other auxiliary insurance services which would include among others, insurance brokers. In the case of auxiliary insurance services, this sector remains underdeveloped in Kosovo as there is no record of transactions on this sector during the period of examination.

Table 7. Insurance and Pension Services by subsectors

	Total Insurance and Pension services			Direct Insurance			Reinsurance		
Year	X	M	Balance	X	M	Balance	X	M	Balance
2017	19.7	41.6	-22	19.6	38.5	-18.9	0.1	3.1	-3.0
2018	29.1	48.6	-20	27.7	43.8	-16.1	1.4	4.8	-3.4
2019	34.1	54.9	-21	33.6	49.6	-16.0	0.5	5.3	-4.8

Source: Central Bank of Kosovo

Kosovo is a net importer of insurance services, showing a consistent trade deficit during the period of analysis. In the aggregate, there has been dynamism in terms of exports and imports. Total exports in 2019 grew to EUR 34.1 million, registering a 73 percent increase in value in comparison to 2017. On its part, imports grew from EUR 41.6 million in 2017 to EUR 54.9 million in 2019.

Direct insurance represents the bulk of Kosovo's trade in insurance services both in terms of exports and imports. In 2019, direct insurance constitutes 99 percent of total Kosovo exports of insurance services and 90 percent of total imports. In the case of reinsurance, this category represents a minor proportion of Kosovo's trade in insurance services.

Telecommunication, computer, and information services

Telecommunication, computer and information (ICT) services sector has emerged as a significant and growing sector in the global services industry. ICT has clearly moved beyond its early position as a labour saving technology to become the centre on which innovation ensures efficient and qualitative services. Trade in these services have been expanding rapidly over the years in Kosovo. ICT is mainly a mode 1 of supply of services and it includes cross-border transactions. ICT services register three subsectors: telecommunication services which is the broadcast of images, data, sound and other information via telephone, radio, television cable transmission, radio, telegram and other forms of transmissions including business network services, teleconferencing and services support. Computer services which consists of data processing services, electronic mail services, and other hardware and software related services. Information services which covers news agency services and other information services including photographs, news articles and feature articles to the media and direct non-bulk subscriptions to newspapers.

Table 8. Telecommunication, computer and information services by subsectors												
	Telecommunication Services			Computer Services			Information Services			Total ICT		
Year	X	M	Balance	X	M	Balance	X	M	Balance	X	M	Balance
2017	31	40	-9	15	11	4	0.4	0.1	0.3	47	51	-5
2018	34	50	-16	21	11	11	0.5	0.2	0.2	56	61	-5
2019	34	35	-1	34	13	21	0.0	-	0.0	68	48	20

Source: Central Bank of Kosovo

Table 8 presents data in these services disaggregated by its major subsectors. In the aggregate, an interesting development is the progress that ICT is showing in recent years both in terms of exports and imports. As it can be seen, during the period of analysis, Kosovo has been able to return trade deficit experienced during 2017 and 2018 and in 2019, it experienced a trade surplus in an amount of EUR 20 million. In the case of telecommunication services, it is important to note that this account reflects the outcome of the revenue settlement process between carriers of international telecommunications traffic and depend mainly on the level of incoming and outgoing traffic. A net outflow of traffic will translate in a net payment outflow from the country that 'exports' that traffic. Telecommunication services is the predominant subsector in these services. In 2019, exports of these services represented 50% of the total exports in this account. In terms of imports, what is noticeable is the progressive decline of imports from EUR 50 million in 2018 to EUR 35 million in 2019.

In the case of computer services, this services subsector has emerged as a promising subsector and is constantly developing. Computer services have shown significant dynamism in terms of exports, registering EUR 34 million in 2019 from EUR 15 million in 2017. The first trade surplus experienced in the telecommunication, computer and information services in 2019 can be largely attributed to the progressive increase in exports of computer services. The development of this sector has been notable in Kosovo with new companies penetrating the market. This sector can provide a significant opportunity for Kosovo to diversify its exports and improve the trade surplus in the services activities. Trade in information services represent a minor proportion in this account as this subcategory is not very significant in the case of Kosovo.

It would be very interesting to have a more detailed analysis of this sector given the dynamism that ICT is showing in recent years.

Financial Services

The financial sector plays a vital role in all economies. It is the presence of financial services as intermediaries that ensures equal distribution of funds to primary, secondary and tertiary sectors that brings a balanced growth of the economy.⁹ Most of Kosovo's trade on financial services takes places through establishments of foreign banks in Kosovo, which is not reflected in the balance of payments and which should be measured as foreign affiliate trade in services (FATS)

Table 9. Financial Services by subsectors									
	Explicitly charged and other financial services			FISIM			Total Financial Services		
Year	X	M	Balance	X	M	Balance	X	M	Balance
2017	0.8	5.2	-4.4	0.1	0.9	-0.8	0.9	6.1	-5.2
2018	0.9	9.1	-8.1	0.1	0.7	-0.6	1.1	9.8	-8.7
2019	0.4	5.2	-4.9	0.1	0.3	-0.2	0.5	5.6	-5.1

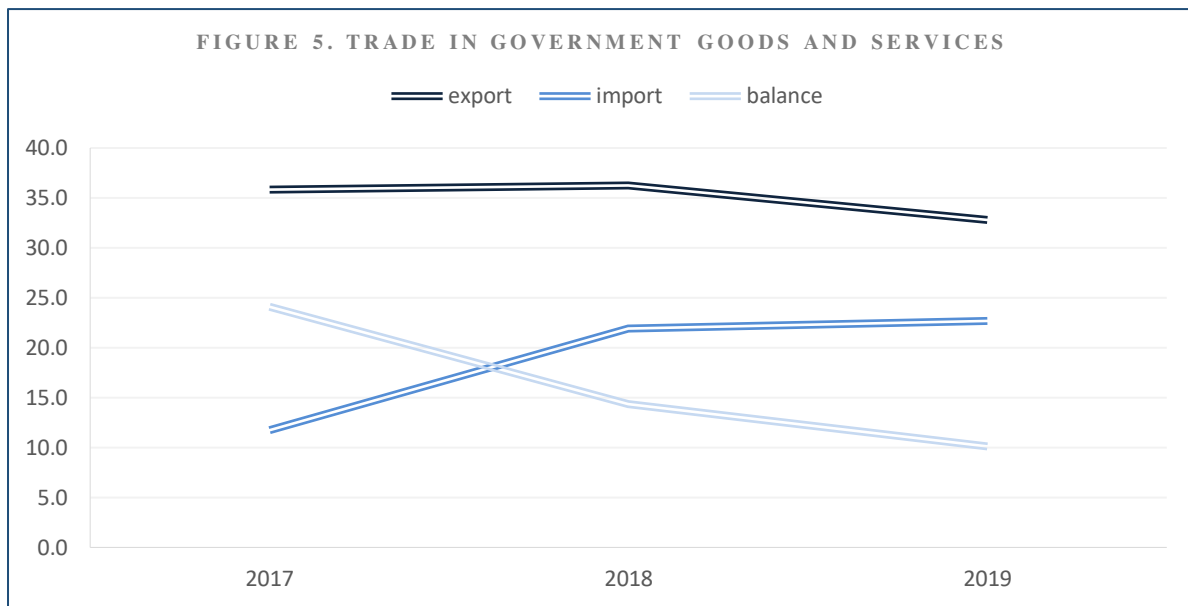
Source: Central Bank of Kosovo

In the aggregate level, trade in financial services is very limited as reported by balance of payments. Total exports have been declining from EUR 900 thousand in 2017 to EUR 500 thousand in 2019. On their part, imports have also declined between 2017 and 2019, albeit to a lesser extent and with stronger fluctuations than exports. At a more disaggregated level, explicitly charged and other financial services represents the bulk of trade in these services. Explicitly charged and other financial services covers all charges relating to financial intermediation services and auxiliary services including commission and fees for financial leasing services, credit rating services, foreign exchange transactions, financial market operational and regulatory services, consumer and business credit services, lines of credit, letters for credit and other charges including late repayment fees, and account charges. In the case of this subsector, Kosovo has experienced a trade deficit during the period analysed. In 2019, imports represented 92 percent of the total imports in this account. In the case of financial intermediation services indirectly measured (FISIM) which cover the margins between payable interest and the reference rate on loans and deposits, trade in these services is underdeveloped and has not been particularly dynamic during this period, representing only a minor percentage of the total trade in the overall financial services.

4.2.4 Governmental Services

Government goods and services registers the expenditures of foreign diplomatic entities, military personnel and staff located abroad and similar expenditures by Kosovo abroad. It also includes services supplied by and to governments that are excluded from any other services category. Figure 5 presents the balance of payment for the category 'government goods and services'. During the period of analysis, Kosovo has managed to maintain a trade surplus albeit at a decreasing rate. In the case of exports, there has been a decline in exports from EUR 35.8 million in 2017 to EUR 32.8 million in 2019. The decrease in exports can be attributed to the diminishing presence and the reduction in activities of foreign entities. On the contrary, imports have experienced a steady increase during the same period from EUR 11.7 million in 2017 to EUR 22.7 million in 2019. The increase in imports is a reflection of the enhanced presence of Kosovo diplomatic missions and more governmental activities in foreign countries.

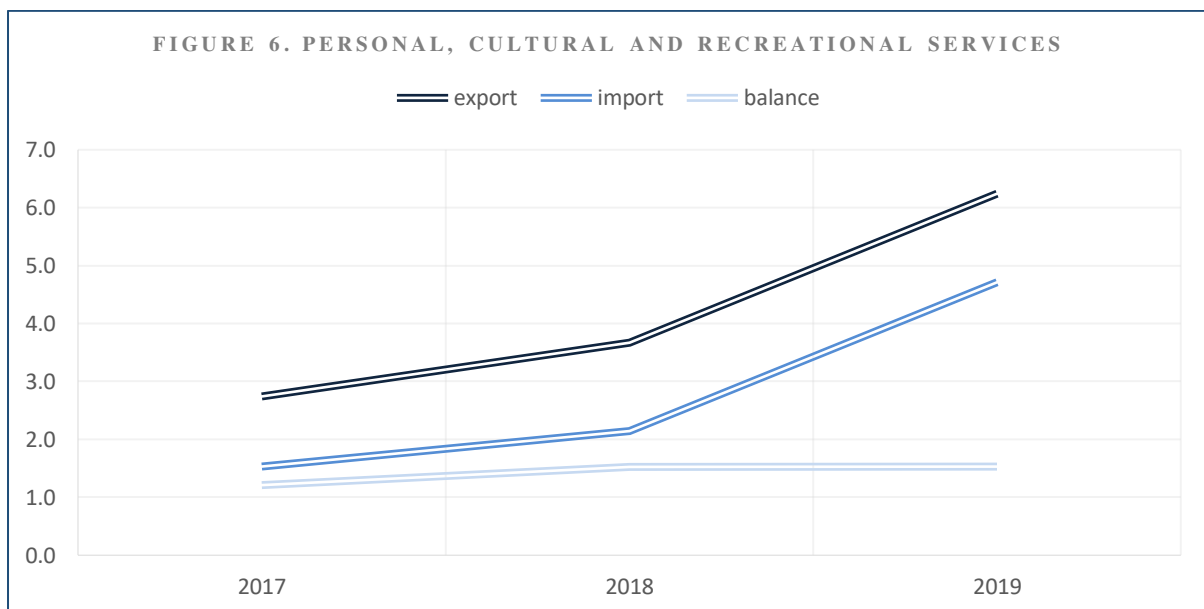
⁹ Exports comprise the indirectly measured financial services supplied on the loan assets and deposit liabilities of resident financial corporations for which the counterparty is a nonresident unit. Imports comprise indirectly measured financial services purchased by resident units from all institutional sectors with nonresident financial corporations.



Source: Central Bank of Kosovo

4.2.5 Personal, cultural, and recreational services

This account registers the expenditures in audio-visual and artistic related services and other personal, cultural and recreational services. In the case of Kosovo, there is no data available for audiovisual and related services. In the aggregate, Kosovo has experienced a trade surplus for the years for which there is data. The peak exports were in 2019, with EUR 6.2 million, whereas imports stood at EUR 4.7 million. Other personal, cultural and recreational services is the largest subcategory in this account.



Source: Central Bank of Kosovo

5. Concluding Remarks

This report is an annual activity of the Ministry of Trade and Industry in collaboration with the EU project Further Support to the Development of Trade in Kosovo. The analysis undertaken demonstrates that services activities have shown dynamism in recent years even though the current level of performance is by no means as it should be. Kosovo's services activities remain low in productivity and there is no clear articulation between sectors of material production and domestic business services suppliers. Kosovo's trade in services depends mainly on travel services, which on their part are closely associated with the inbound travel of diaspora to visit family and friends, which is not tourism in a strict sense. The strong dependence on travel receipts arises the question of how sustainable this pattern will be over time.

There is an urgent need to improve the collection of statistics on services activities, both in terms of national accounts by generating more disaggregated data at the sectorial level and on the different services categories and on FATS. Existing statistical and information tools need to be refined in order to enable a more accurate analysis of the changing nature of Kosovo's services trade and policies. The progressive implementation of the Manual on Statistics (MSIT 2010) would be an appropriate instrument to improve the statistics on trade in services.

Finally, there is a need to adopt essential policy regulations to turn the potential of trade in services into a reality, which will contribute significantly to Kosovo's development aspirations. As such, a services development strategy should be of high importance in the government's agenda, which should incorporate a services export strategy as a core element. What is required is a further comprehensive sectorial assessment that will enable informed policy decisions to build a sustainable long-term growth strategy.