I. Economic profile

1.1. General economic indicators

<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>Value, Euro¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNP (2002), billion</td>
<td>1.99</td>
</tr>
<tr>
<td>GNP/capita (2002)</td>
<td>1,051</td>
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<tr>
<td>GDP/capita (2002)</td>
<td>740</td>
</tr>
<tr>
<td>Export/GDP, %</td>
<td>28</td>
</tr>
<tr>
<td>Investment/GDP, %</td>
<td>44</td>
</tr>
</tbody>
</table>

Source: Statistical Office of Kosovo

¹ On 1 January 2002 the Euro has become the official currency in Kosovo

Kosovo is administered by the international community through the United Nations Mission in Kosovo (UNMIK). Only four years after the war, a functioning economic and political system is well underway. The international security forces, KFOR, have been reduced throughout the province. Much of the responsibility for civil order now rests with UNMIK’s civilian police force, working in conjunction with the Kosovo Police Service.

In May 2001 a Constitutional Framework has been adopted. The framework includes the Presidency, the Assembly and the Government, as well as the establishment of the Provisional Institutions of Self Government (PISG). This has enabled the gradual transfer of governing responsibilities to locally elected officials, though a number of governing areas are still retained by UNMIK.

Kosovo is rich in mineral and natural resources, and has fertile agricultural land. Kosovo has been a predominantly agricultural economy in the post-Second World War period. During the 1970’s and 1980’s, priorities shifted, and the FR Yugoslavia’s government has placed a heavy emphasis on industrialisation and mining.

Between 1979 and 1990, economic activity has increasingly focused on mining and production of raw materials and semi-finished products (lead, coal, zinc and some textiles). Though agriculture continues to play an important role in the local economy, its contribution has decreased from one third to one fifth.

By 1995, industry and agriculture have each contributed approximately one third of GDP for the province, with trade and commercial activities comprising the rest. Though the recent war has had a heavy negative impact on rural agricultural production, and industrial output has declined, post-war investment by international donor agencies has provided substantial resources to revitalize the agricultural sector, and to assist private businesses re-establish productive enterprises. Donor contributions are expected to reach close to USD 2 billion in the period 2002-2004. Much of the reconstruction activities have been completed, and funds are being allocated to investment activities.

Agriculture and agribusiness, construction and building materials, and intermediate manufacturing are sectors that hold out potential to increase domestic and foreign investment, create new job opportunities and contribute to Kosovo’s economic growth.

II. Foreign trade

Since UNMIK has initiated its mandate on the territory of Kosovo according to UNSC Resolution 1244 and UNMIK Regulation No. 1999/1, the general import regime for goods entering Kosovo originating in third countries is laid out in UNMIK Regulation 1999/3 and is further developed in several AD particularly AD No. 2001/7.

2.1. Customs regime, export and import quota and license system, tariffs

The customs organization and taxation system laid out in UNMIK Regulation 3/1999 and AD 2001/7 and 2001/8 remain in force. The former defines the rules of origin and the extent of UNMIK competence to issue customs documents. The inspection authorities - the Ministry of Health and the Ministry of Agriculture, are also addressed in Regulation 3/1999.

The territory of Kosovo inside the borders defined by UNSC Res. 1244 is under UNMIK jurisdiction for customs issues. There are currently ten entry points; four of them are border crossings and the other ones are tax collection offices.
2.2. Major import partners, in Euro million

### Import by countries (2002)

- Albania 4.0%
- Macedonia 90.0%
- Montenegro 6.0%

2.3. Major bilateral and multilateral trade agreements

The following legal instruments are currently applicable and honored by UNMIK:

- Free Trade Agreement between the Federal Government of FR Yugoslavia and the Government of Macedonia;
- Memorandum of Understanding between UNMIK Customs Service and the Customs Administration of Macedonia;
- Regulation on conditions and procedures of the Public Revenue Accounting, contents and method of keeping records on turnover of goods from AP Kosovo and Metohija;
- Memorandum of Understanding between the Customs Administration of Albania and the Customs service of UNMIK on co-operation and mutual assistance on customs matters.

Kosovo is represented in the Stability Pact negotiations and roundtables and is participating in them with a special status. It has no voting rights and cannot engage in FTA negotiations either bilaterally or multilaterally.

III. Privatization

The Kosovo Trust Agency was established to oversee the privatization of the commercial and industrial socially owned enterprises (SOE). Privatisation laws are now in place, and privatization of enterprises has begun.

IV. Labour force

Approximately 23% of the population's workforce is employed by private enterprises, and 15% of the population works in the agricultural sector. Within the private sector, the majority of businesses fall within the trading sector.

Unemployment is about 35%. Most job seekers are young, and generally lack specialized skills. In spite of this, general entrepreneurial spirit exists among the Kosovo business community. A number of donor-funded and non-government organization programmes are underway to provide job seekers with training to improve their potential to obtain jobs. Some of these programmes are providing training in computers, English language, dressmaking/tailoring, and construction skills.

Resources are being provided to upgrade the facilities and course offerings at the University of Pristina in degree programs that will provide students with a set of market-oriented business skills, including marketing and financial management. A new university program has been established that is tied to a university based in the United States.

The large uptake of local personnel by the international organizations working in Kosovo has resulted in improved levels of English language capability among the local workforce.
Many people who have owned small private businesses before the 1999 war have restarted these businesses again. Estimates indicate that more than 6,000 private enterprises have been reactivated since the end of the war.

The Department of Labour has a number of employment offices throughout Kosovo. Employers can leave information about employment opportunities at the regional offices and job applicants can use the office as a means to identify job openings at these companies.

V. Taxation

In November 1999, UNMIK established the Central Fiscal Authority (CFA). The CFA has since been re-established as the Ministry of Finance and Economy (MOFE). In conjunction with UNMIK, it is the manager of public finances. It is responsible for:

- Preparation and monitoring of the central budget;
- Execution of budgetary transactions through the Treasury Single Account (TSA) and their financial control; and
- Formulation of tax policy and the management of tax and customs revenues.

MOFE has instituted a series of taxes designed to support the public expenditure budget. The following provides a summary of existing tax requirements, as well as those regulations that have been passed and became effective in early 2002.

5.1. Income Taxes

The Personal Income Tax (Reg. 2002-4) and the Profits Tax of Kosovo (Reg. 2002-3) have been approved and signed into law in early 2002. The profits tax has replaced the presumptive tax for large businesses with a turnover of Euro 100,000 or assets over Euro 50,000. The wage tax includes all salary-earners regardless of the size of the firm or organization for which they are working.

5.1.1. Wage Tax

Those required to pay the wage tax are all local employees of private and public businesses, non-UNMIK international organizations and the government as well as international employees who are working in private businesses. Foreigners working in diplomatic positions, technical assistance or humanitarian aid are not required to pay the wage tax in Kosovo, but are often responsible for taxes in their home countries.

For all employees, the first Euro 1-80 earned each monthly pay period are not taxed, but wages from Euro 81 to 250 are taxed at a rate of 5%. Earnings between Euro 251-450 a month are taxed at a rate of 10%. Earnings above Euro 450 are taxed at a rate of 20%. This makes the tax rates in Kosovo some of the lowest wage taxes in Europe and one of the lowest worldwide.

All businesses and organizations are required to file the wage tax for their employees, but the tax is deducted from the employees’ pay checks. If the employer does not file the wage tax for the workers, the workers are responsible to file and pay it by themselves.

5.1.2. Profit Tax

The profit tax has replaced the presumptive tax for businesses with annual revenues of more than Euro 100,000. The profit tax allows for deductions from revenue and is therefore a tax on the real overall profit of the company. The Profit Tax is optional for businesses under the threshold, which may choose the profit tax and accounting standards, instead of the Presumptive Tax.

The Presumptive Tax is 3% on the whole turnover above Euro 7,500 quarterly without deductions. The Profit Tax is at a rate of 20% but is based on the taxable profit with significant deductions. Those deductions include: business expenses, staff salaries, indirect taxes paid, depreciation and allowance for new investments.

5.2. Customs Tax

There is a flat rate of 10% customs (import) duty applied on all imported items. The rate is applied based on the value of the imported goods. The only exemptions are milk, cooking oils and fats, vegetables, fruits, wheat flour, pharmaceutical products, medical and surgical instruments and apparatuses, agricultural fertilizers classified in chapter 31 of the Harmonised Customs Tariff, goods imported by UNMIK, KFOR, and other humanitarian organizations, NGO’s registered with UNMIK having public benefit status, goods imported by foreign diplomatic and consular missions for their official use, goods funded from the proceeds of grants made to UNMIK by government agencies, government or non-governmental organizations, in support of humanitarian and reconstruction programmes and projects in Kosovo.

Based on the 1996 Free Trade Agreement between FR Yugoslavia and Macedonia, goods of Macedonian origin entering Kosovo, and goods of Kosovo origin entering Macedonia, are not subject to a customs duty. There is a one percent "evidence tax" applied to these goods, which is an administrative fee used to finance the costs of record keeping for those goods.

Goods originating from Serbia and Montenegro are not subject to import duties entering Kosovo, and vice versa.

5.3. Excise Tax

Some products are subject to excise tax. These include items such as petrol, cigarettes, vehicles, alcohol, and television antennas. Excise tax is applied in two ways. It may be applied as a flat percentage rate of the value of the item. In other cases a determined monetary amount is applied.
5.4. Value Added Tax

The Value Added Tax (VAT) applies to sales transactions at a flat rate of 15%. All businesses that have an annual turnover of Euro 50,000 are legally required to register and collect VAT on all sales and purchases the business makes. Businesses with an annual turnover below the Euro 50,000 threshold are not required to collect VAT on sales.

VAT is applied after any customs duties and excise taxes have been applied to the value of a sale or a purchase. Businesses must file VAT returns on a monthly basis. New businesses that import capital goods have up to six months from the time they begin operations to pay VAT on the value of these imported goods. Businesses that export are entitled to credit their VAT payments with the value of the VAT paid on any imported raw materials used in the items exported.

Foreign private entities conducting business in Kosovo are also subject to the aforementioned taxes.

VI. Audits and accounting

In its move toward integrating Kosovo’s business practices with those of the international business community, new financial reporting practices for businesses have been established. The Kosovo Financial Reporting Board (KFRB) is responsible for developing and approving new accounting standards. The KFRB has based the new Kosovo Accounting Standards (KAS) on International Accounting Standards (IAS).

Due to the somewhat complex nature of the IAS, the Kosovo Accounting Standards are a simplified version of IAS, having a fewer number of alternative treatments for certain accounting items. At present, eighteen accounting standards have been approved and issued.

There is a newly formed Society of Certified Accountants and Auditors of Kosovo (SCAAK). SCAAK has been granted the authority to certify local accountants. The first group of auditors was licensed in 2002, and several international accounting firms have established practices in Kosovo.

Businesses that have a turnover above Euro 100,000 are required to prepare four statutory statements (balance sheet, income statement, cash flow statement, and changes in equity) and accompanying notes, along with a tax return. Businesses with a turnover below Euro 100,000 are required only to prepare a tax return.

VII. Banking sector

In order to provide for efficient payments and an underlying a sound banking system, UNMIK has established the Banking and Payments Authority of Kosovo (BPK) in June 1999. BPK is the only authorized entity that may issue a license to establish and operate a bank. It is responsible for the licensing, supervision and regulation of banks and non-bank financial institutions. BPK has also begun to regulate the insurance sector.

In its role as a central bank, BPK:

- Acts as banker to the Ministry of Finance and Economy (MOFE);
- Holds foreign currency deposits of banks, the MOFE, and other entities;
- Ensures an adequate supply of bank notes and coins;
- Maintains a depository of currency and securities;
- Supervises and regulates dealers in foreign exchange; and
- Conducts economic and monetary analysis of the Kosovo economy and submits proposals to UNMIK and the PISG on the basis of its analysis.

As part of its continuing efforts to facilitate the efficiency in the overall banking sector, BPK has implemented a clearing and settlement system for inter-bank payments. BPK has also instituted very stringent regulations against money laundering activities. Banks are required to report suspicious transactions and any one transaction that exceeds Euro 15,000.

As of July 2003, there are seven commercial banks and twenty-six micro-finance and non-bank financial institutions in operation. Foreign banks may apply to BPK for licensing. In addition to the requirements BPK has for domestic banks, foreign entities must also:

- Provide evidence of certification and chartering from supervisory authorities in the home jurisdiction;
- Demonstrate that its capital levels, asset quality and liquidity ratios are deemed by authorities to be above satisfactory; and
- Demonstrate that the applicant is not the object of corrective action or supervisory concern in the home jurisdiction.
### Useful Internet links

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<th>Organization</th>
<th>Website</th>
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<td>United Nations Interim Administration Mission in Kosovo (UNMIK)</td>
<td><a href="http://www.unmikonline.org">www.unmikonline.org</a></td>
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<td>EU in Kosovo (EU Pillar of UNMIK)</td>
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<td>Ministry of Finance and Economy/ Central Fiscal Authority</td>
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<td>Ministry of Agriculture, Forestry and Rural Development</td>
<td><a href="http://www.mafrd-kos.org">www.mafrd-kos.org</a></td>
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<td>Kosova Biz.com</td>
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<td>KosovaLive (Kosovo-based news agency)</td>
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