

Economic Developments and Employment Growth Policy after the War in Kosovo

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Abstract: The relevance of this study lies in the fact that one of the economic problems that has been the main one in Kosovo for many years is unemployment. Kosovo is the most underdeveloped country in Europe. Gross national product per capita is close to 2.000 euros, which is the lowest compared to the average value of the gross national product of the countries of the region, namely half of the average value of these countries. The purpose of this study was to analyse the main economic factors that influence the growth of unemployment rates and the dynamics of the country's economic development, as well as to consider the employment growth policy and its impact on economic parameters in Kosovo. To fulfil this purpose, the following methods were used: comparative, systemic, statistical, and economic. The results of the study determined that to solve major economic issues, it is critical to meet certain parameters, such as creating a national strategy aimed at economic growth, high productivity and competitiveness, creating a stimulating investment climate, creating an export promotion policy, which would reduce the trade deficit, enable a more efficient use of natural, human, and monetary resources.

Keywords: Unemployment; Economic Growth; Poverty; Investment; Trade Deficit; Transition Economy; Competitiveness.

JEL Codes: J01; O1; O10.

1. INTRODUCTION

While unemployment is a "cancer" for all societies, especially for countries emerging from war, the structure of the economy during such events is characterised by a transitional economy, as in the case of Kosovo, where unemployment rates are higher compared to countries in the region. For a comfortable, peaceful, and stable life, people need to meet a range of personal and family requirements. The current century has brought a different life with its unconventional features. The works of researchers F. Govori and A. Fejzullahu (2020) suggest that regardless of the place and time when a person lives, they are constantly presented with some fundamental typology needs: to be provided with food, clothing, hygiene items, and safe housing. All this and much more is ensured by international human rights instruments that cross state borders and are seen as the building blocks of states (Sultanbayeva et al., 2013; Kostruba, 2018; Komilova, 2021). However, little consideration is given to the fact that economic growth, although strong in line with Kosovo's low level of development, cannot solve the critical economic problems facing the country. Indeed, at present, Kosovo must have an economic growth of more than 7% for problems such as unemployment to decrease. Meanwhile, given the current events, this is unattainable, and it is not even expected that it will be achieved by state institutions in the coming years.

The war of 1998-1999 destroyed most of the economic potential accumulated by that time, although in small

quantities. The year 1999 was the end of dramatic events for Kosovo and the beginning of a new era of democratisation and the transformation of the economy from a centralist type to a free market economy. This transformation concerns the creation of a democratic society with a pluralistic political system and the creation of a market economy (Sultanbayeva, 2013). Given the economic, social, and political issues, the implementation of these goals has been a rather challenging task. Thus, A. Ribaj and F. Mexhuani (2021), L. A. Haddad et al. (2019) emphasise that after 1999 and up to now, Kosovo has a trade balance in which the ratio of exports and imports has a very unfavourable effect on economic development. Unemployment continues to be one of the significant economic and social problems (Miethlich et al., 2022). Little attention has been paid to the specific effects of war that set back the economy due to the existence of five mechanisms: the destruction of resources, the disruption of public order, the redirection of public spending, the lack of savings, and the flight of capital from the state.

Even though the reconstruction phase of the country after the events of 1999 is over, Kosovo's economy is weak. The unemployment rate has reached 45% and the economy is only surviving thanks to foreign aid. The Kosovo economy is entirely focused on petty trade, individual construction, and parallel economic networks. Although the country has mineral wealth such as bauxite, lignite, nickel, gold, and hydroelectric resources, the production system is dilapidated and will require significant investment. L. J. Rotar et al. (2019) note that part of the able-bodied population of the state is employed in agriculture, where the most fertile agricultural land is used for thermal power plants. Energy supply stays a problematic element of the country's development, where power outages are regularly recorded (Suleimenov et al., 2020). Kosovo has a low level of public investment and poor

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use of public funds. Kosovo's population is noticeably young, and investment in education and healthcare should be a priority. The issues of economic development are not fully covered, which largely depends on the development of regional integration, which is still insufficient (Cinaj et al., 2020; Hajdari and Krasniqi, 2021).

The purpose of this study was to analyse the main economic factors affecting the growth of unemployment rates and the dynamics of the development of the country's economy, as well as to consider the employment growth policy and its impact on economic parameters in Kosovo.

2. MATERIALS AND METHODS

The methodological framework of this study included the following approaches to the investigation of this subject matter: comparative, systemic, statistical, and economic. At the stage of studying the economic performance of Kosovo, the comparative method helped address some historical, epistemological, and methodological issues associated with comparative aspects. Starting with a general consideration of comparison, its logical structure and presence in science, it moved on to presenting and critically evaluating the economic positions that define it as a scientific method. In this paper, the current approach has focused on more particular meanings and applications of the comparison in the national policy area of Kosovo. This meant moving beyond comparison as a single act of cognising and recognising that research included a complex and articulated set of decisions and practices that were carried out in a systematised and organised fashion. Consideration of the country's economic and labour data in the context of a comparative analysis allowed building frequency distributions of the values of statistical variables based on associative relationships between two or more indicators.

At the stage of analysis of Kosovo's economic indicators, the systematic approach allowed collecting information and scientific interpretations that gave relevance and originality to the study. It allowed determining the fundamental features of the economic and political system of the state under study, its components, environment and structure, using the basic concepts and archetypes provided by systemic thinking. The latter, at the stage of analysing various indicators of the labour market in Kosovo, allowed distinguishing the properties of the system, which integrate the analysed fact into a holistic structure and interpret it within the framework of system evolution. This scientific method identified the components of the country's economic system, determined its recursion and hierarchy, characterising the structure and nature of the components in national policy. Using its mechanisms, at the stage of defining goals and objectives, the result of the integration of the constituent elements, as well as the relationships established between them, was expressed, which determined the structure of the trade network and external economic factors.

The statistical-economic method was used to assess the levels of economic development of Kosovo in the post-war period, based on three main stages. The first stage of this study was aimed at investigating statistical documentation related to the country's policy and management system. At the second stage, based on the results of investigating the available

documentation, guidelines were created, which allowed approaching various categories of the economy and employment to conduct their preliminary analysis. The third and final stage of this study dealt with developing relevant data based on the results of the documentation review manual and a thorough examination of the various state structures of Kosovo, which allowed quantifying the results of the preliminary analysis of trends in various economic categories, carried out at the level of the first and second stages of this study. Data analysis was a descriptive statistical method of economic indexes and indicators adapted to tables and enabling the investigation of relationships that exist between the nominal variables of the state, which create policy and aspiration towards the European Union.

3. RESULTS AND DISCUSSION

Kosovo's economy is in transition, as it has suffered from the joint effects of political unrest, the subsequent Yugoslav wars, Serb layoffs of Kosovo employees, and international sanctions against Serbia, of which it was at that time a part. Despite the reduction in foreign aid, GDP has grown since independence in 2008 (Gashi., 2019). And this was despite the monetary crisis of 2007-2008 and the European debt crisis that followed. Much of the economic development takes place in the commercial, retail, and construction sectors. Kosovo is heavily dependent on diaspora remittances and other capital inflows. Unemployment continues to be one of the most serious issues in the country. The labour market is a multi-sectoral issue of state employment, which includes the functioning of the rule of law, effective educational and social policies, which can create a suitable basis for investment (Ryskaliyev et al., 2019; Komilova et al., 2020). Kosovo's economy is dominated by trade and services, with manufacturing industries contributing less to the gross domestic product. According to the Kosovo Agency for Statistics, in 2019, the value added of the manufacturing sectors of the economy amounted to about 1.25 billion euros (Gross Domestic Product..., 2019).

It is worth revealing in more detail the essence of the processes of reconstruction and development of the economy of Kosovo in the post-war period with the support of the UNMIK (United Nations Mission in Kosovo) and the EU (European Union). The objective of the activity was to implement a general renewal of the legal and institutional economic infrastructure in Kosovo to create a competitive and efficient market economy in Kosovo. Given the destruction of the Kosovo economy in 1999, the basis of the strategy for the rehabilitation and development of the Kosovo economy consisted of the implementation of emergency relief and reconstruction; the creation of an institutional and legal framework; commercialisation and privatisation of public enterprises and promotion of private sector development. At the initial stage, the main goal of international aid programs was aimed at reconstruction itself, in particular, the restoration of the energy sector, water supply, transport system, and health care support. Thus, a major feature of the reconstruction process is that the bulk of donations from various organisations has been earmarked for emergency management rather than development. Economic development, as the goal of Kosovo's aid policy, began to be realised much later. The high level of poverty during the period of the UNMIK ad-

ministration (1999-2008) was caused by mass unemployment and was about 30% - 50%. The trade regime was characterised as completely liberal, that is, there were no restrictions on imports and exports, and there were no incentives for exports. The economic decline caused by the war forced Kosovo to import almost all consumer goods and raw materials. A slight decline in dependence on imports occurred as a result of foreign investment in domestic production. Export figures were extremely low, but as a result of the privatisation of some leading manufacturing enterprises, they slightly increased, not exceeding 6% of the gross domestic product (Bashota et al., 2014)

Gross national product is a key macroeconomic concept, which is the value of all final goods and services produced in Kosovo in each period. It includes the value of goods and services produced, the average economic growth of which recently is about 5% of the total (Table 1).

Table 1. Key Economic Indicators in Kosovo in 2021 (According to the Kosovo Agency for Statistics).

Indicators	Value
Total GDP	\$9.01 billion
Annual dynamics of GDP growth	4.87%
GDP per capita	\$4.316
Inflation rate	14.1%
Wage	\$560
Unemployment rate	25.8%
Trade balance	-\$0.043 billion
State debt	\$1.721 billion

Despite the growth of indicators, the production of the entire industry of Kosovo is only 17.6% of the gross domestic product (Pichler et al., 2021). This includes energy, water supply, mining, and processing industry of the country. This sector reached its maximum weight in the Kosovo economy during 2017, while recently the share of this sector in national production is lower. Fiscal policy, aimed at governing the relationship between government revenues and expenditures, in one way or another adversely affects economic growth, employment growth, price stability, and the country's balance of payments (Shnytko et al., 2013). This policy has not been comprehensive for many years, even some of its instruments have been counterproductive, such as customs duties and border taxes on raw materials, machinery, and equipment. Therefore, they partially had a negative impact on local producers. The vital segment of the industry of the state is the processing industry. The value added of the manufacturing industry in 2020 amounted to 816 million euros, or 11.5% of GDP (Williams, 2020). If the energy sector enterprises are excluded, there are few other manufacturing companies among the top 50 enterprises in Kosovo.

Monetary policy, also of particular importance for economic growth and employment, began to revive in Kosovo only after the war with the construction of the monetary system. Kosovo has a modern financial structure that is the backbone

of a free market economy. The banking network has made great strides. There are 9 commercial banks running in the Kosovo market with assets exceeding 2 billion euros. However, despite the remarkable success of the banking system, monetary policy is not sufficiently appropriate in terms of economic development through lending to the economy on favourable terms (Mishchenko et al., 2021). The economic nonsense is that Kosovo is exporting financial capital worth more than 1 billion euros, which consists of the state budget, reducing the contribution to the pension and privatisation fund, despite the great need for these funds (Arshed et al., 2019). Inflation is one of the country's most serious macroeconomic ills and is considered a concern for both the economy in general and companies and consumers in particular (Table 2).

Table 2. Inflation Rates in Kosovo for the 1st Quarter of 2022 In % Ratio (According to The Kosovo Agency of Statistics).

Indicators	Value
Inflation in the food sector	17.6%
Annual inflation rate	14.1%
Monthly inflation rate	1.4%
Change in producer prices	9.7%

That is why the government considers the problem of inflation as one of the main measures of macroeconomic stabilisation policy. After the 1999 war, Kosovo adopted the Deutsche Mark as the currency in use and later the Euro as the official currency. This fact has helped a lot in providing financial and macroeconomic stability in general. The state, which unilaterally adopted the euro, did not dare to enter the international financial markets. The banking sector, dominated by foreign banks, stays strong and liquid, and the level of deposits (4.4 billion euros in March 2021) remains well above the total amount of loans (3.3 billion euros) (Gamlen et al., 2019). Despite the gradual lifting of macro measures introduced in connection with the pandemic, namely with the end of the moratorium on loans in December 2021, the NPLs decreased by -0.5% since the end of February 2022. The Kosovo economy is little influenced by the parties to the war in Ukraine, there is no diaspora there, and trade and financial ties with these countries are weak, be it Russia (0% exports; 1.1% imports), Ukraine (0%; 0.8%), or Belarus (0%; 0%). However, Kosovo's dependence on imported food, agricultural inputs, and energy exposes it to the risk of high inflation by the end of 2022 (Bellaqa and Bajrami, 2019).

Trade policy is also an important policy for economic development and employment growth. Kosovo is an open economy and is characterised by a liberal trade policy. The state is a member of the Central European Free Trade Association – CEFTA, an organisation whose goal is to establish rules and mechanisms governing foreign trade in the region. A market economy means, among other things, a close economic relationship between the economies of different countries. These links are realised through trade and financial channels. The country's trade policy was not formulated or implemented in such a way as to give priority to economic development. It is not properly linked to other economic policies and does not

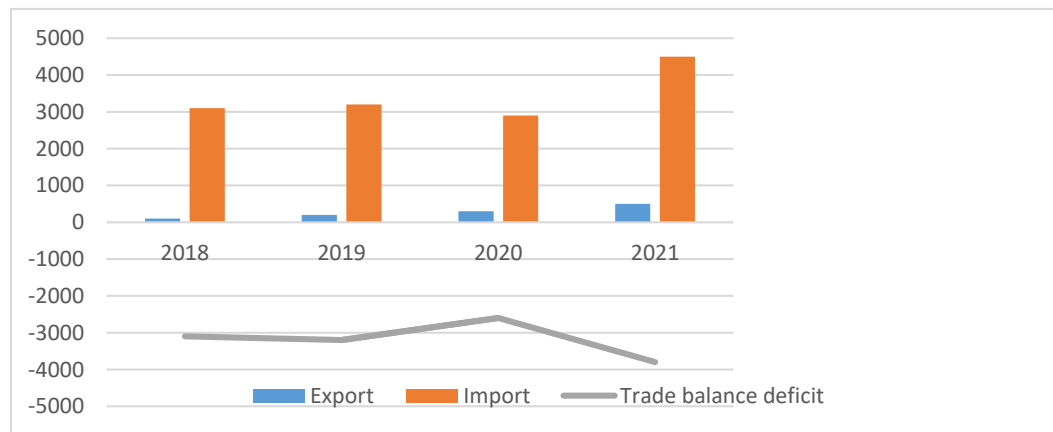


Fig. (1). Foreign Trade of Kosovo in Terms of Imports and Exports For 2018-2021, Million Euros (according to the Kosovo Agency of Statistics).

comprehensively reflect the development orientation of trade policy (Table 3).

Table 3. Trade In Kosovo for the 1st Quarter of 2022 (According to The Kosovo Agency for Statistics).

Indicators	Value
Export	\$0.076 billion
Import	\$0.04 billion
Trade balance	\$0.043 billion
Cash flows	\$-111.455.359 billion
Balance to GDP	-8.6%

However, under the influence of economic recovery (+9.5% in 2021), trade increased by +43% in 2021, while exports and imports increased by +58% and +41%, respectively (Prekazi, 2018). The large trade deficit (-51% of GDP) was partially offset by large flows from the diaspora, due to the replenishment in 2020 of the economy in the countries emitting migration remittances. With a narrow manufacturing base, Kosovo imports most of its needs and exports non-diversified products, mainly furniture and bedding (21%), and iron and steel (16%) (Fig. 1).

In 2021, Kosovo's trade deficit, which is structurally remarkably high, worsened to -51.1% of GDP (-3.9 billion euros) due to a strong increase in imports (4.65 billion euros; +41.1%) (Telli, 2014). The import coverage ratio stays a problem but has risen to 16.1%. The impact on the current account balance (-9.1% of GDP) was tempered by strong net migrant remittance flows, estimated at 15.6% of GDP in 2021, driven by economic recovery in emitting countries (Germany, Switzerland, Italy). According to the International Monetary Fund, diaspora flows (remittances, tourism, seasonal wages, and real estate investment) reached a historic level of 43.0% of GDP in 2021, compared to 31.0% in 2020 (International Monetary Fund..., 2021). Kosovo, which suffers from a narrow manufacturing base, is heavily dependent on imports, in particular consumer goods.

Kosovo has a foreign direct investment legislature that makes provision for equal treatment of foreign and domestic investors, the creation of economic development zones – the exemption or reduction of taxes and customs duties, and the oversight of the selection procedure for so-called "strategic" foreign investments. Under the influence of economic recovery, foreign direct investment flows increased by +20.1% in 2021 and reached 5.4% of GDP (Jusufi and Lubeniqi, 2019). These diaspora-led flows were mostly (93%) concentrated in real estate. In 2021, the main investors in Kosovo were the countries where the diaspora settled: Germany (30% of FDI flows), Switzerland (24%), the United States (15%), and Albania (12%). As for the volume of foreign direct investment (61% of GDP), it falls on Germany (15% of the volume), Switzerland (14%) and Turkey (9%) (Fig. 2).

Record elevated levels of tourism receipts from the diaspora (17.9% of GDP) and remittances from migrants (15.6% of GDP), driven by the return of international mobility and the economic recovery in Western Europe, reduced the current account deficit, despite a sharply growing trade balance deficit (-51.1% of GDP). The European Union and CEFTA member states are still Kosovo's main trading partners. Although they stay weak and focused on less productive sectors, FDI flows (5.4% of GDP) increased by +20% in 2021. The main holders of accumulated foreign investments (61% of GDP) are Germany (15%) and Switzerland (14%), where the Kosovo diaspora mainly settled (Castelli, 2018).

Government policies affect different populations in diverse ways. The state budget reflects projected expenditures and revenues within one year. The state receives income from taxes and fees, as well as from loans, using them to finance education, healthcare, defence, and infrastructure (Komilova et al., 2021). The post-war fiscal policy was more focused on filling the budget than on the definition and implementation of its instruments to encourage foreign investment, so necessary and indispensable for the economic development of Kosovo. Thus, it can be emphasised that employment in general is a complex task, and employment growth is a multi-sectoral issue that includes macroeconomic policy, the functioning of the rule of law, education policy, and social

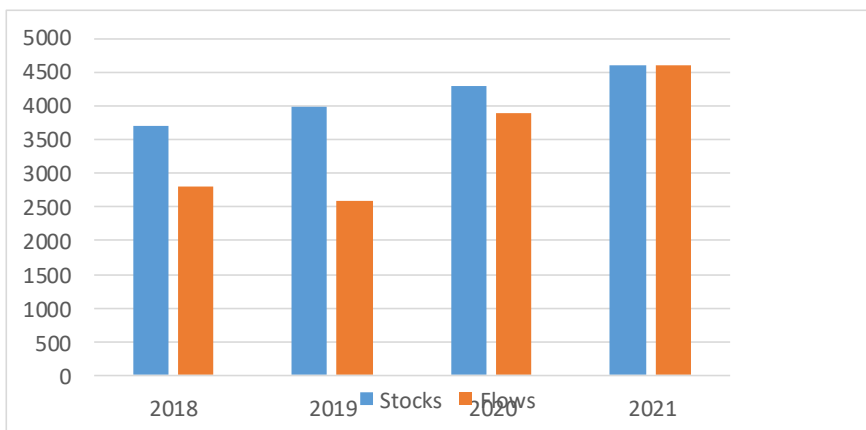


Fig. (2). Stocks and Flows of Foreign Direct Investment (FDI) In Kosovo, 2018-2021 In Million Euros (According to The Kosovo Agency for Statistics).

policy, which is necessary to create an enabling environment for investment and, hence, to increase employment (Koshkinbaeva et al., 2019). Given the fact that unemployment in Kosovo is quite high, employment stays one of the biggest problems for Kosovo's institutions and society. One of the main obstacles to the elimination of unemployment is the lack of a government strategy to employ a large number of unemployed, mostly unskilled workers. Such a prominent level of unemployment makes it a priority for them to develop economic policies that are favourable for investment and policies that would affect the growth of national GDP and, therefore, would reduce the unemployment rate (Table 4).

Table 4. Kosovo Labour Market and Unemployment Figures For 2021 In % Equivalent (According to The Kosovo Agency of Statistics)

Indicators	Value
Level of economic activity	39.5%
Employment rate	29.3%
Unemployment rate	25.8%
Youth unemployment rate	48.6%

Kosovo, as a country with a transitional economy, a low level of economic development, and a remarkably high level of unemployment, is forming appropriate institutions and specific labour market policies. The Ministry of Civil Service, Labour, and Welfare (MLSW) is an institution that formulates labour market policy and implements it through its centres. However, the practical implementation leaves much to be desired, since the state still does not have unemployment benefits that the unemployed would use, but only social support to families living in extreme poverty. The state budget is the ratio between government revenues and expenditures. Kosovo has begun building its post-war budget system, which is currently approaching 1.2 billion euros. Most of this budget is collected at the borders through the import of goods through VAT, customs, and excises, which is an indicator of economic instability (Krasniqi and Williams, 2019). Unemployment has its costs, both economically and socially. From an economic standpoint, high unemployment means

lower GDP. In addition to economic costs, unemployment is also associated with social costs that devalue human capital (Buribayev et al., 2020).

According to A. Haziri and B. Shala (2021), policies, and measures to increase employment rates in Kosovo are as difficult to implement as the problem of employment. The risks of poverty and social exclusion stemming from widespread unemployment, especially among young people, are major threats to the future human and economic development of the Republic of Kosovo. Policies that affect employment growth can only be implemented under favourable and efficient conditions for both domestic and foreign investment, and the monetary system must be designed in such a way that enterprises are uninterruptedly supplied with money on favourable terms (Ivanov et al., 2021). According to Haziri, labour, together with land and capital, constitute the main factors of production in Kosovo, which can contribute to the rapid growth of economic indicators. There-with, what contains the object of exchange in the labour market is embodied and personified in labour relations. The labour market is not a unique environment, like the goods market, where goods are bought and sold. This is a space where there are enough buyers and sellers in communication. It is assumed that labour prices will be the same throughout the state. Thus, the territory can be distinguished by relations – from small and wide space to world dimensions, and to the world as a whole.

According to M. Horton and A. El-Ganainy (2020), the labour market is governed by labour market institutions and the legal framework. The abundance of youth in Kosovo is an advantage and an opportunity for the future of the country. Since the economy is growing very slowly, the situation affects young people more than anyone else. Three out of every five people between the ages of 15 and 24 are unemployed. Many choose to migrate because they see no future for themselves in Kosovo. More than a fifth of the indigenous population now lives abroad. Therefore, the creation and strengthening of labour market institutions and policies is an urgent need. The Ministry of Labour and Social Affairs of the Republic of Kosovo is one of the main players in the development and implementation of labour market policies. MLSW, since the establishment of Kosovo's institutions after

1999, has been developing and strengthening labour market policies and the institutions that implement these policies. The continuous growth of corruption at this level is a complex economic and social problem, the solution of which requires an integrated approach. To achieve results in the growth of employment, as well as reasonable government spending according to the needs. Horton believes that it is necessary to draw up a national strategy for economic development, which would present the goals, aims, and ideas of economic development. This strategy should serve as a guideline for the development of either sectoral strategies – industrial, agricultural, or macroeconomic policies – that will function within the framework of the national strategy (Komilova et al., 2019).

N. Skenderi and A. Uka (2015) believes that the first key step for continuous economic growth and reducing unemployment in Kosovo is the transition to a healthy and reasonable macroeconomic environment with automatic stabilisers that protect labour markets from any potential shocks. Increased interest rates can be regarded as one of the barriers leading to great difficulty and potentially serving as a factor contributing to bankruptcy or creating problems for many enterprises, whether they are medium, small, or even large enterprises. Prudent fiscal and monetary policies can support macroeconomic stability and avoid systemic fiscal pressure in the face of a shock. Fiscal reforms, including a less distorted tax system, more efficient public spending, financially sustainable pension systems, and clear fiscal rules, are the first line of defence against crises (Naumenkova et al., 2022). As a result, public policy should aim to protect workers from long-term economic impacts using unemployment insurance, social safety nets and retraining programs, in addition to promoting job creation and helping workers stay where they are. All of this can be facilitated by greater competition, greater flexibility in human resource management, and reduced subsidies. Through public procurement and trade policy, governments can improve the conditions for competitive businesses to thrive. Similarly, targeted public investment in transportation can bring workers closer to jobs, and affordable housing can help them live where jobs are available (Kostruba and Kulynych, 2020; Tsapova et al., 2021).

As B. Ziberi and M. Avdiu (2020) emphasises, some of the largest military upheavals that have taken place in the region in recent decades are long-term and leave a deep imprint on the economy and employment in general. Economic aid programmes such as unemployment insurance and other payments to households during economic downturns limit the damage caused by the downturn and help the economy recover. However, one of the problems in the region is that important segments of the labour force operate in the informal sector and are thus not fully covered by conventional unemployment insurance. However, it is insufficient to have stronger macroeconomic stabilisers and reforms in labour and social protection systems. The recovery of the labour market must also be ensured through active job creation. This requires solving structural issues. Competition policy, regional policy, and labour standards are key areas (Kornilova et al., 2022). If Kosovo does not address these fundamental issues, the recovery will continue to be characterised by low levels of job creation. The author also emphasises that in

the long term, mass emigration will impede the economic development of the Republic of Kosovo and make it less attractive to foreign investors, since this process inevitably leads to a change in the skills profile of those who still are in the country. Despite partial economic growth, the economy is not generating enough jobs to accommodate new arrivals and relieve pressure on the overall labour market (Miethlich, 2022).

Encouraging economic performance, insufficient in terms of population composition to contain massive and structural unemployment and promote middle-class consolidation, is deeply underpinned by continued economic development. The country needs remittances as a social valve to increase consumption, but mass emigration still is a symptom of the vulnerability of the economy and the malaise of the population of Kosovo (Bellaqa and Jusufi, 2020). This is clearly not a guarantee of confidence that the state gives to the European authorities in their desire to become a potential trading partner. The priority of public policy should be to promote economic development, which in fact can provide an adequate level of annual GDP, which allows stopping the process of unemployment and gradually begin to reduce the number of unemployed in Kosovo. The country's economy since 1999 was mainly based on international assistance, the public sector and remittances until independence. Despite this, Kosovo is still in a transitional phase where entrepreneurship and the creation of small businesses are expected to play a vital role on the way to a modern market economy and thus to economic development and growth. Kosovo suffers from a payment imbalance in which imports clearly outnumber exports. Due to the unfavourable business environment and the lack of a creative entrepreneurial culture, Kosovo lacks fast-growing innovative firms that are the main contributors to job creation in the developed Western countries.

4. CONCLUSIONS

As a result of the study, it was established that Kosovo is in a rather unfavourable macroeconomic situation. The gross national product is quite low and is the lowest in the region of Southeast Europe. Kosovo's industry accounts for only 17.6% of the country's GDP, the processing industry is one of the leading ones. Much of the economic development occurs in the commercial, retail and construction sectors. The country is characterized by high dependence on diaspora remittances and other capital inflows. The trade deficit is extremely high, and the ratio of exports to imports is very unbalanced, where imports are minimally covered by exports. Unemployment rates remain high and approach 30%, leaving 18% of the population facing extreme poverty. Unemployment continues to be one of the most serious problems facing Kosovo.

While the numbers show a relative improvement in performance, the phenomenon stays one of the biggest economic, political, and social challenges for Kosovo's institutions. Economic growth in Kosovo, despite being the highest in the region, does not lead to GDP growth. Thus, the country stays the only one in the Balkans that does not show an increase in the number of employees, and in which there is a widening gap in the labour force between women and men. While economic growth is driven primarily by higher investment and

increased consumption as a result of higher wages and stable remittances, it is not translated into jobs. An analysis of the recovery process of Kosovo's economy in the post-war period proved that international organizations and the main part of donations were aimed at the liquidation of emergencies, and not at development.

This study also found that Kosovo has a modern financial system, which is the basis of a free market economy. The banking system has made great strides. Commercial banks with assets exceeding 2 billion euros operate in the Kosovo market. However, despite the remarkable success of the banking system, monetary policy is not sufficiently appropriate in terms of economic development through lending to the economy on favourable terms. The country is characterised by an open economy and liberal trade policy, where employment in general is quite a complex system, and therefore its growth includes the functioning of the rule of law, effective educational and social policies, which create a suitable basis for investments that will have an impact directly on employment growth. It was found that the relative rates of economic growth, after analysing its resources, do not allow creating new jobs because economic factors are rather unstable. This refers to remittances from the diaspora, which end up in consumption from public sector investments. Future research paths are directed at looking at the trade deficit, which reflects the manufacturing base as a whole and a reflection of misguided fiscal policy since 1999.

One of the main directions of state policy should be curbing migration flows from the country caused by unemployment by creating new jobs, providing social guarantees for the population in case of economic shocks, and forming a favourable business environment and creative entrepreneurial culture. Balanced fiscal and monetary policy, which includes the development of a more stable tax system, ensuring the efficiency of public spending, and the formation of financially stable pension systems will support the macroeconomic stability of the state.

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