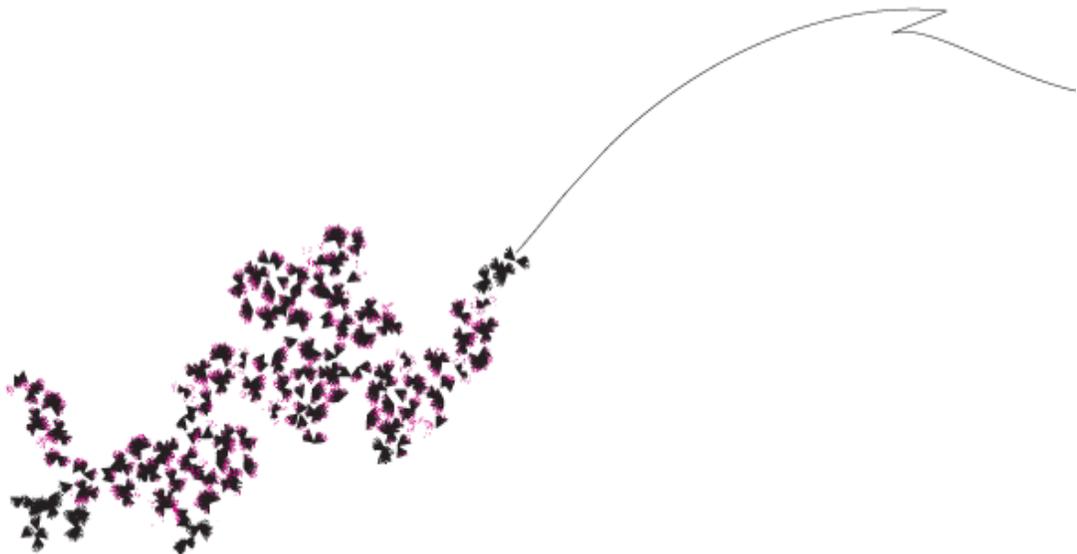


School of Management and Governance  
European Studies Program  
Bachelor Thesis

## **Does the market economy of the Republic of Kosovo meet the Copenhagen Criteria?**

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## Summary

The following Bachelor Thesis introduces a study which focuses on the development of the functioning economic market in Republic of Kosovo and further questions to what extent Kosovo fulfills this part of the Copenhagen Criteria.

Therefore, the following research question is:

Does the market economy of the Republic of Kosovo meet the Copenhagen Criteria?

Kosovo declared its independence in 2008 and is up today not completely recognized as an “independent state” by the whole European Union. Therefore, it is motivating to find out how the “European Integration Process” in the specific framework of the “Copenhagen Criteria” takes place. Moreover, it will be interesting to see how far the development of a functioning market economy is established and which challenges are still required in order to fulfil this aspect of the Copenhagen Criteria.

As a result, the main tool for analyzing is the “Economic Copenhagen Criteria” in respect to its point of “functioning economic market.” Hence, Kosovo faces to implement strict guidelines and must meet requirements set out by the European Commission and Kosovo’s institutions. Furthermore, the status quo of Kosovo’s functioning market economy will be stated. Thereby, Kosovo’s compliance will be analyzed and it will be found out where adoption is lacking.

## List of Abbreviations and Acronyms

CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
EC	European Commission
ECOFIN	Economic and Financial Affairs Council
EI	European Integration
EP	European Parliament
EPAP	European Partnership Action Plan
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
MS	Member States
MTEF	Medium – Term Expenditure Framework
SAP	Stabilization and Association Process
SEE	South Eastern Enlargement
TEU	Treaty of the European Union
UNMIK	United Nation Mission in Kosovo
WB	Western Balkan

# CHAPTER 1 Introduction

## 1.1. Introduction

*“We look forward to working with them to improve the lives of the people of Kosovo and to help them fulfill Kosovo's European perspective” (Ashton, C. and Füle, S., 2011)*

This quotation is a joint statement of the European Union (EU) High Representative Catherine Ashton and EU Commissioner for Enlargement Štefan Füle on the new government and President of Kosovo in February 2011 (European Special Representative in Kosovo, 2012). With this statement it becomes clear that the European Union has an approach that Kosovo comes closer to the European Union and therefore follows the European Integration process.

## 1.2. Background

When the European Union was built up by its six member states in 1957 (Europe, 2001), it mainly started out as an economic actor due to “the reconstruction of economies and societies and the need to ensure a stable and secure external environment which the processes of reconstruction might prosper” (Bretherton, C. and Vogler, J. 2006).

Then, with different development stages, enlargement waves and institution building, the European Union (EU) has widened and deepened its scope to other fields of policies addressing social and political issues. Intensively with the Maastricht Treaty in 1993, the European Union (EU) became a Union based on “freedom, democracy, respect for human rights and fundamental freedoms and the rule of law” (Europe, 2007). In the same year the Copenhagen Criteria were established at the European Council in Copenhagen. It lays down the main criteria for countries which seek to become in future a member state of the EU.

The Copenhagen Criteria consist of three overall main pillars:

1. stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
2. the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;
3. the ability to take on the obligations of membership including adherence to the aims of political, economic & monetary union.

*Does the market economy of the Republic of Kosovo meet the Copenhagen Criteria?*

With the 5<sup>th</sup> wave of member states admitted in 2004, the European Union had its largest enlargement of membership.

The EU integrated for the first time nine central and eastern countries into the EU: the Czech Republic, Estonia, Malta, Poland, Cyprus, Latvia, Lithuania, Slovenia, Bulgaria and Poland.

Today's EU, with 27 Member States (MS) and a population of close to 500 million people (European Commission, 2011), is “much safer, more prosperous, stronger and more influential than the original European Economic Community of 50 years ago, with its six members and population of less than 200 million” (European Commission, 2012).

However, it still looks forward to enlarge itself, especially in respect to the Eastern Countries: “Enlarging the European Union to the east is one of the most important political-economic issues on today’s international agenda” (Eatwell, J. et al, 1997).

### **1.3 Kosovo’s background**

The European Integration (EI) Process in Kosovo started with the end of the war in 1999. The following year, in 2000 the European Union held a summit in Zagreb (Croatia) where the EU and Kosovo adopted the “Stabilization and Association Process (SAP).” The SAP is a framework for EU negotiations with the Western Balkan (WB) countries, on the way to their eventual accession, consisting of the three pillars of: stabilizing the countries and encouraging their swift transition to a market economy, promoting regional cooperation and eventual membership of the EU.

Thereby it follows the aim that these countries adopt EU laws and EU standards. Further, with the “Thessaloniki Summit” in June 2003, the EU deepened its relation with WB countries by enhancing regional cooperation. Hence, the “Thessaloniki Agenda for Western Balkans: Moving towards European Integration” were adopted which specify the conditions for WB countries. Then in 2005, the European Commission introduced a further policy for Kosovo “A European Future for Kosovo.” In general, this policy reinforces the European Commission’s commitment to Kosovo.

In the same year as Kosovo’s independence, the European Commission hosted a Donors' Conference for Kosovo in Brussels and called on called upon donors (EU member states, non-EU donors, and international financial institutions) to “contribute to Kosovo’s socio-economic development and help bridge a funding gap of some €1.4 billion years for the period 2009-2011.” (European Commission, 2010).

By now Kosovo has received more than € 2 billion financial assistance from the EU since 1999 (European Union, 2012). With different policy frameworks, the European Union “has reiterated that

Kosovo has a clear European perspective in line with the European perspective of the Western Balkans region” (European Union,2011). As of today, the EU plays a leading role in ensuring stability and achieving the targets that the Council set out in the European Partnership for Kosovo. Further, the Copenhagen Criteria under the EU conditionality framework (Anastasakis, O and Bechev, D, 2003) which are applied for potential candidate countries, like Kosovo, “the Copenhagen criteria have been widely accepted as the main point of reference in assessing the success of transition [...] individual candidates ‘progress towards the EU, giving the EU a powerful leverage to influence the outcome of the reform efforts in the individual candidate countries” (Anastasakis, O and Bechev, D, 2003).

All in all, since the Copenhagen Criteria consist of three main pillars as mentioned above, this paper will concentrate on the Economic pillar of the Copenhagen Criteria. In detail, the Economic Copenhagen Criteria set out that the applicant countries have to fulfill the criteria of “the existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union “(European Union, 2012).

In depth, this paper will examine the point of the existence of a functioning economy market. The analytic part of this paper will show changes in the economy market throughout the “EU Integration process” since 2008, when Kosovo became independent. That will be visible in the EU monitoring reports of the European Commission which are published annually. However since Kosovo is a special case and since only 22 of 27 member states of the European Union only recognize Kosovo as an independent country, the process of developing a functioning market economy and to fulfill the overall Economic Copenhagen Criteria will be slow and is faced to future challenges.

## 1.4 Research Question

The leading general question of this proposal aims on describing in how far Kosovo has a functioning market economy in respect to the broad framework of Copenhagen Criteria.

Therefore, the central research question is:

“Does the market economy of the Republic of Kosovo meet the Copenhagen Criteria?”

Since the “EU Integration Process” is a broad topic, the following sub questions will specify the central question. As a result, the following sub questions will help to answer the central question:

*“What are the Copenhagen Criteria? And especially, what are the Economic Copenhagen Criteria?”*

*“What are the findings of the European Commission with regard to functioning economic market?”*

*“Does Kosovo’s independence in 2008 have an effect on the six components of a functioning economic market?”*

## 1.5 Methodology

Since the research question is of a descriptive nature, the research design which is going to be used is a qualitative one. Due to the reason that literature is hard to find about the EU guidelines in respect to the recent topic, about the status quo of economy in Kosovo and in how far changes were made concerning the development of a functioning market economy, a case study will be used.

“The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decision: why they were taken, how they were implemented, and with what result” (Yi, 2009, p.17) and as Babbie (2006) states a case study is useful when one likes to examine “the in-depth examination of a single instance of some social phenomenon.”

In the case study, the focus on the examination will be Kosovo and the social phenomenon is the economy market.

The descriptive study will be longitudinal in order to study the progress of Kosovo’s functioning economic market in the framework of the Economic Copenhagen Criteria. The timeframe covered is over seven years, from 2005 until 2011 under the perception of the European Commission. Thereby, the unit of observations is the annual “Progress Reports” by the European Commission which reflect the progress of developing a functioning market economy in respect to applying the Economic Copenhagen Criteria. Data will be restricted to the annual “Progress Reports”; however these are related to national statistics of Kosovo Ministry of Economy.

Furthermore, since the range of different policies of the EU is relatively high in Kosovo, the EU introduces annually policies paper in order to state which challenges and improvements Kosovo has to make. For example, the European Partnership Action Plan (EPAP) is one of “the key instruments of the Government with regard to European integration. EPAP is the basic document which guides legal, institutional and economic reforms in Kosovo” (Ministry for Integration Kosovo, 2011)

However, since this paper focuses on the “Copenhagen Criteria” only the “EU Progress Reports” are valid and therefore the EPAP documents will be left out.

## **CHAPTER 2 Concepts**

### **2.1. Introduction**

This chapter will focus on the concepts which are relevant for answering the research question of *“Does the market economy of the Republic of Kosovo meet the Copenhagen Criteria?”*

Therefore, the following concepts will be explained: “Copenhagen Criteria”, “Economic Copenhagen Criteria” and “functioning economic market”.

### **2.2. Copenhagen Criteria**

As pointed out before, a country can only achieve EU membership by fulfilling the Copenhagen Criteria. The Copenhagen Criteria were established by the European Council in 1993 in Copenhagen and consists of three pillars: political criteria, economic criteria and the candidate’s ability to take on obligations of membership. These obligations include adherence to the aims of political, economic and monetary union. The legal framework of Copenhagen Criteria is set out by Article 49\* and the principles laid down in Article 6(1) of the Treaty on European Union (TEU).

However, the road to apply for EU membership is a long process. At first, a country has to submit an application “although this invariably arises out of an already strong bilateral relationship with the EU.” (European Union, 2011) If a country submits a valid application, this application “triggers a sequence of EU evaluation procedures that may - or may not - result in a country eventually being invited to become a member” (European Union, 2001). Thereby, the speed with the country applied depends on its progress to the establishment of common goals. The process of application can be described as follows: first, the application is sent to the Council. There, the European Commission provides a formal opinion on the applicant country. The Council then decides whether or not to accept the application of the country. If the Council unanimously agrees, the negotiations with the applicant country are formally opened. However, this is not automatic since the applicant country must meet several criteria before negotiations start.

The so-called criteria are called "Copenhagen Criteria" which were set out in December 1993 by the European Council in Copenhagen. These are the requirements a country have to meet:

- stable institutions that guarantee democracy, the rule of law, human rights and respect for and protection of minorities;
- a functioning market economy, as well as the ability to cope with the pressure of competition and the market forces at work inside the Union;
- the ability to assume the obligations of membership, in particular adherence to the objectives of political, economic and monetary union.

Moreover with the Madrid European Council in 1995, the EU decided that a candidate country must also be able to put the EU rules and procedures into effect: A candidate country “must have created the conditions for its integration through the adjustment of its administrative structures, as underlined by the Madrid European Council in December 1995.” (European Union, 2008)

## **2.3 Economic Copenhagen Criteria**

The Economic Copenhagen Criteria consist of three pillars: the existence of a functioning market economy as well as the capacity to cope with competitive pressures and market forces within the Union. (European Commission, 2008) In practice, the European Commission “keeps duly informed the Council and the Parliament about the candidates' preparations for membership with help of so-called “monitoring reports.” These reports are seen as a guide for the potential candidate countries. They also serve to guide the potential candidate countries in their preparations and review critically about developments in the monitoring and EU Progress Reports which “have the purpose to assess progress achieved by each country in preparation for accession.” (European Commission, 2010)

Moreover, the fulfillment of Economic Copenhagen criteria for Kosovo is clarified by the European Partnership Document in 2006. Thereby, the EU Partnership Documents for Kosovo are an instrument of the Stabilization and Association Process, (SAP). It is “intended to provide additional, tailored support to the authorities in order to realize the European aspirations of the Western Balkan countries” and further aims “to identify priority areas in which further efforts and reforms are needed, calling in particular for national legislation to be brought into line with that of the Community.” (European Union, 2008) The EU Partnership Reports for Kosovo are made in two years per term and in all, there are three reports from 2004 on.

Further, Kosovo’s legal and executive institutions also drafted reports and actions plan in order to meet the Economic Copenhagen Criteria. Currently, there are two plans from the government: the Action Plan on European partnership (EPAP) and the Action Plan of Kosovo Assembly on changes of Progress Report of European Commission of 2008.

## 2.4 Functioning economic market

As analyzed before, the Economic Copenhagen Criteria consists of three pillars. One of it is the functioning economic market. This is defined by the European Commission as follows: “Being a functioning market economy requires:

- “the existence of a broad consensus about essentials of economic policy;
- macroeconomic stability (including price stability, sustainable public finances and external accounts);
- a free interplay of market forces (including liberalised prices and trade);
- free market entry and exit (including issues of establishment/bankruptcies of firms);
- and an adequate legal system (including a system of property rights, enforceability of laws/contracts) and
- a sufficiently developed financial sector” (European Commission, 2011).

In depth, when the European Commission states that there should be a consensus about the essential of economic policy, it means that Kosovo has to implement economic policies. These economic policies must fulfill the EU’s broad Economic Guidelines which are proposed by the Commission and set by the EU Member States’ Ministers in the Economic and Financial Affairs (Ecofin) Council (Official Journal of the European Union, 2011).

In general, “Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Union, as defined in Article 3 of the Treaty on European Union, and in the context of the broad guidelines referred to in Article 121(2). The Member States and the Union shall act in accordance with the principle of an open market economy with free competition, favoring an efficient allocation of resources, and in compliance with the principles set out in Article 119.” (Official Journal of the European Union, 2011)

Furthermore, economic policy refers to nation-state intervention into economy and covers the fields of labor market, national ownership and additional fields. In respect to Kosovo, this means that Kosovo under UNMIK 1244 is guided by European Union member states’ policy in order to fulfill this aspect of Economic Copenhagen Criteria. For example, the European Union assists with the following policies: stabilization and association process (SAP) and with the European Partnership which was adopted in 2006. In depth, under the SAP, the European Union “works together with the Kosovo authorities to identify priorities and reforms which then form the framework for EU support. Importantly, the SAP and European Partnership mechanisms give a European perspective to the partner countries in the Western Balkans. Promoting economic development and establishing a

functioning market economy is a key element of the Stabilization and Association Process.” (European Union, 2012)

Kosovo itself also implements different economic policies like the midterm expenditure. This is done by the Central Administration Department under the umbrella of the Ministry of Economy and Finance. For example, the department is responsible for: Recruitment and employment related issues, implementation of policies and instructions deriving from the regulations on the Civil Service in accordance with the work’s legal framework or management, planning, and implementation of budget policies. (Kosovo’s Ministry for Trade and Industry, 2009)

Within different economic policies, different reforms are made also in accordance with international institutions which fulfill the criteria of “essential economic policies” such as trade liberalization (Kosovo’s Ministry for Trade and Industry, 2009).

Furthermore, macroeconomic stability is the second criterion of “functioning economic market” which must be met by Kosovo. According to the “Maastricht Criteria”, stability is measured by the following five variables: “inflation; interest rates; national debt relative to GDP; currency stability and deficits. In depth, “inflation shall be measured by means of the consumer price index on a comparable basis taking into account differences in national definitions” (Article 1, Treaty of the EU, 2009) and as Baldwin, R. & Wyplosz, C. (2006) state: “inflation is typically the result of large budget deficits.”

Additionally, interest rate as a second component of a macroeconomic stability refers to Article 140(1) of the Treaty of the European Union and is defined as follows: “interest rates shall be measured on the basis of long-term government or comparable securities, taking into account differences in national definitions.”

Concerning debt , the compliance with budgetary discipline is examined on two criteria: “whether the ratio has declined substantially and continuously and reached a level that comes close to the reference value or alternatively, the excess over the reference value is only expectational and temporary and the ratio remains close to the reference value; or whether the ration of government debt to gross domestic product exceeds a reference value, unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace.” As the Progress Report of 2011 refers to national budget deficits, this is seen in line to the fiscal imbalances of Kosovo.

The third component of a functioning economic market is a free interplay of market forces which includes liberalized prices and trade. Free interplay of market forces mean the “forces that decide price levels in an economy or trading system whose activities are not influenced or limited by government.” (Cambridge University Press, 2011)

As mentioned above, this includes liberalized prices and trade. For example, the trade policy of Kosovo has the aim to promote local production and exports. Since Kosovo is an “independent customs entity with a liberal trade regime,” (Economic Initiative for Kosovo, 2011) it especially strengthens its regional trade with regional Free Trade Agreements.

Fourthly, free market entry and exit are also part of a functioning market economy. This includes the issues of establishment/bankruptcies of firms, meaning that firms can go broke whereas other firms are established.

Fifthly, Kosovo is required to have an adequate legal system, meaning a system of property rights, enforceability of laws/contracts in regards to macroeconomic stability.

Sixthly, Kosovo should have a developed financial sector, meaning that the financial sector in Kosovo is bank-based. All in all, Kosovo’s banks are private and the eight registered banks are mostly in foreign ownership. (Kosovo’s Ministry for Economy and Finance, 2011)

All in all, these six components (as summarized below in Table 1) are screened year by year by the European Union and the results are published in the annual Progress Reports.

To sum up, the section of functioning economic market consists of six components:

**Table 1: Summary of the six components of functioning economic market \***

<b>Component of functioning economic market</b>	<b>Consists of following factors</b>
the existence of a broad consensus about essentials of economic policy	economic policies
macroeconomic stability	price stability, sustainable public finances and external accounts, interest rates, national debt relative to GDP, currency deficits and stability
free interplay of market forces	liberalized prices and trade
free market entry and exit	establishment/bankruptcies of firms
adequate legal system	system of property rights, enforceability of laws/contracts
sufficiently developed financial sector	banks and foreign ownership

Based on the EC Progress Report from 2005- 2011

## CHAPTER 3 Data Analysis

The following chapter deals with the data analysis. Therefore, the European Commission reports will be examined. The introductory part will depict the method and afterwards an analysis follows. The conclusion will draw attention on the main findings.

### 3.1. Introduction

As demonstrated in the previous chapter 1.5, a content analysis with manifest coding will be used in order to make use of the qualitative data. As Babbie (2006, p. 325) mentions this has the aim to show the visible surface content of the data which are studied. The European Commission Progress Reports, as the data being studied, will be observed in order to find paragraphs in respect to the functioning economic market. After analyzing each “Progress Report” in this respect, the progress of Kosovo towards a functioning economic market will be depicted. The sub-questions will be answered in the same way, as the “EC Progress Reports” are valid enough to provide an answer:

All in all, the so-called “Kosovo Progress Report” can be found under the umbrella of the European External Action Service regarding EU enlargement. All reports consist of three sections, namely

1. Political Criteria
- 2. Economic Criteria**
3. European Standards

The chapter “functioning economic market” can be found under section 2: “Economic Copenhagen Criteria”.

The European Commission Reports are written in the period between October and September of the following year and are published annually. Thereby, each report is “based on information gathered and analysed by the Commission.” (European Commission, 2011) Moreover, the European Commission includes different sources such as “contributions from Kosovo authorities, the EU member states, the EU Special Representative in Kosovo.” (European Union, 2011)

## 3.2 Data Analysis

The European Commission evaluates the development of these six components as mentioned in Table 1 in their reports with comments such as “progress, limited progress or no progress.” Thereby, the EC states in which issues of each of the six components was progress, no progress or limited progress.

The following tables (Table A-F) will summarize the EC Progress Reports from 2005- 2011 with respect to the six components in greater depth. Thus, the time frame will be seven years.

Thereby, each issues of each component will be screened whether or whether not there was any progress, important changes or which factors might have influenced the progress in the seven years.

Before coming to the six components and their analysis, one has to state that a data limitation occurred when studying the six components:

Firstly, the EC Progress Reports vary in their structure in respect to the recent topic. Whereas in the EC Progress Report 2005 a clear structure was not visible, the EC Progress Report of 2007 onwards provides a structured section of “functioning economic market” and therefore data is much easier to find and study. The structure of the component “functioning economic market” looks as follows: At first, an introduction to economic criteria is given, and then the component of functioning economic market is split into its six components.

Secondly, the first two EC Progress Reports have a limitation of data which is also stated in the EC Progress Report of 2005: “in the analysis below, the Commission has followed the methodology applied in previous annual Regular Reports to the extent applicable in the case of Kosovo: the lack of information, in particular the absence of national accounts or the often limited reliability of available information, inhibits analytical work and calls for cautiousness on conclusions which are reached.” Therefore, a data limitation may occur while analyzing the six components with respect to the recent research question.

Furthermore, Table A- F and Table 1 as well as Table 2 are based on information of the EC Progress Reports of Kosovo from 2005-2011, however the tables author’s own established figures. In order to show up what has been clearly stated in the “EC Reports” and what author’s own assessment is, will be marked as follows. Each table’s main indicators will be marked with “\*” when this is mirrors the author’s own assessment.

**3.2.1 Table A: Component “Economic policy essentials”**

	2004	2005	2006	2007	2008	2009	2010
<b>Policies adopted</b>	unkown	first Medium- term expenditure	MTEF 2008- 2010	MTEF 2009- 2011	MTEF 2010-2012	MTEF 2011- 2013; 18- month programme by € 109 million Stand-By Arrangement (SBA)	2011 budget did not pass; MTEF 2012-2014
<b>Political consensus about fundamentals of market-orientated economic polcies maintained *</b>	unreached	reached	unreached	reached	reached	reached	reached
<b>challenges</b>	to achieve political consensus	lack of guidance and monitoring	uncertainty about futre of Kosovo; economic coordination;	lack of coordination between ministries; failure to follow procedures	problems about drafting; legal framework; public financial managment; public administration	policy formulation, implementation and link between priorities, reforms and public expenditure remain weak	designing and implementation of economic strategy; structural reforms; public expenditure

*Based on the EC Progress Reports on Kosovo from 2005 - 2011*

This table summarizes the EC Progress Reports with respect to economic policy essentials. It shows up which policies are adopted in the seven years; whether or whether or not political consensus about market-oriented fundamentals was reached or not reached; and which challenges for the component of economic policy essentials remain.

Taking a look at the factor of policies adopted in all seven years except 2004 since there was a data limitation, medium term expenditure frameworks were adopted and implemented. Each of these MTEF frameworks has a time frame over 2 years. In general, a MTEF exercises the “macroeconomic environment of Kosovo and provides the basis for a statement of the strategic developmental policy priorities as agreed by the government.” (European Commission, 2008).

A political consensus about fundamentals of market-oriented economic policies was reached in 2005-2010. That a consensus about fundamentals of market- oriented economic policies was not reached in 2004 was due to the reason that “it suffered from weaknesses in economic governance and monitoring” (European Commission, 2005).

Coming to the last factor of “challenges,” one can say that there is a variation of challenges from political (like the unknown political status of Kosovo) towards formulation.

In depth, when taking a look at the table of the economic policy essentials, two things can be read out of the table.

A positive development is visible after the problem of the unknown political status of Kosovo was solved in 2008. This cut is especially visible when first studying the years of 2004 and 2006 and then the years of 2008 and 2010. In the years of 2004 and 2006 both EC Progress Reports state that consensus has been strengthened, however implementation an achievement of it remains as a challenge since a “long and difficult discussion” (European Commission, 2005) is ongoing. This was even enhanced with the weakness of economic governance and monitoring, as demonstrated with the absence of an independent monetary policy when it comes to the euro as the main currency in circulation. Because fiscal policies, as one of the “core element of macroeconomic policies in Kosovo.” (European Commission, 2011) have no solid and sustainable framework since there is no consensus among parties in Kosovo, fiscal policy remains as a challenge.

In the years 2008 up to 2010, challenges of establishing economic policy essentials are about drafting and formulating policies rather than finding consensus about it, as seen during the years before Kosovo’s independence.

Further, what remains as constant in this component is that the mid-term expenditure framework in every year was adopted except for 2004 due to a limitation of data. (European Commission, 2005)

To sum up, the component of macroeconomic policies have made some development. With the first two EU Reports, one can see there was no real economic policy: “The economy of Kosovo operates within an emerging framework of market principles” and “Fundamentals and directions of economic policy were maintained. However, substantial weaknesses in compliance with the agreed policies and commitments surfaced in the first half of 2006 as their implementation lacked guidance and monitoring.” (European Commission, 2006) With abolishing the problem of the uncertain political status of Kosovo, a further step towards the consensus of economic-orientated policies was made. Still, implementation and structural reforms remain as a major challenge.

**3.2.2 Table B: Component “Macroeconomic stability”**

	2004	2005	2006	2007	2008	2009	2010
growth of GDP in %	3,7	3,9	4	5	5,4	4,0	:
GDP in current prices million of €	2. 912, 5	3. 0012, 9	3. 120, 4	3.393, 7	3. 851, 4	3. 912, 4	4. 215, 6
GDP per capita in €	:	:	:	1, 600	1, 726	1, 790	2, 385
GDP per capita in €	1, 822	1, 845	1, 882	2, 013	2, 249	2,247	2, 383
private consumption in %	:	8	4,2	7,6	11,3	13,4	:
government investment in %	:	4,7	10,3	12,4	10,2	16,4	:
direct investment in %	:	2,7	7,7	9,2	:	12,6	:
current account balance	:	-13	-13,6	-17	15,7	16,4	:
CPI	0,2	-1,4	0,6	4,4	:	:	:
Interest rate in %	:	15,6	15,45	15,49	:	:	:
exchange rate	1	1	1	1	1	1	1
unemployment in %	42	41,4	44,9	43	40	45	45, 4
annual average inflation in 5	:	:	1,9	:	:	-2,4	3,5
budget deficit in % of GDP	6, 0	3,2	2, 0	:	0,2	0,8	2,7
current account deficit in % of GDP	7,5	18, 5	19, 0	17,4	16, 3	15,4	16, 0
total export of goods in %	:	:	:	63	67, 0	107	70
imports of goods in %	3,8	7, 0	10,4	27		12,3	14
coverage ratio of exports in %				17	6	12,10	14, 1
trade deficit in million € or in %	34	35	37	41	46	:	:
net foreign direct investment in % of GDP	:	:	:	16,0	19,0	7,1	7, 5
capital expenditure in % of GDP	23	19, 0	:	:	:	9,9	10, 7

*Based on the EC Progress Reports on Kosovo from 2005-2011*

= Data EC Progress Report  
 = Data from Statistical Office, Kosovo  
 : = Data not available

When taking a closer look at the component of macroeconomic stability, it must be stated that the EC Progress Reports differ from each other with respect to their availability of data. Some “EC Progress Reports” do not provide a wide range of actual numbers on factors of macroeconomic stability. Rather, they state if there were changes compared to the previous year. Therefore, a limitation of data requires working around this issue by using data from other sources like the statistical office in Kosovo. However, still some data are missing since the EC Progress Reports vary in their range of providing data.

At first, when examining Gross Domestic Product (GDP) which reflects “the total value of all goods and services produced less the value of goods and services used for intermediate consumption in their production” (Eurostat, 2011) some conclusions can be made:

Progress is visible in the growth of GDP over the last seven years. With 2.912,5 million € GDP in current prices in 2004 and in 2010 with 4.125, 6 million €; there was an increase in 12.01 % of GDP (National Statistics of Kosovo, 2011) over the seven years.

Coming to GDP per capita, growth is also visible in this factor. While in 2004, GDP per capita was by 1,844 in € it increased in 2010 to 2,838 in €. Both data about GDP indicate that Kosovo made progress, but its economy still remains weak and fragile. For example, unemployment continues to be high: While in 2005 41.4% (see Table B) people in Kosovo have been unemployed, in 2010 45.4% (see Table B) people found no job reasoned by the lack of job creation (European Commission, 2011).

All in all, GDP is a constant factor which has made progress over the years and therefore this factor seems to be stable.

Furthermore, since wages increased in Kosovo over the last seven years, private consumption increased as well due to possible reasons like political stability and increase of wages.

When taking a look at import and export data, one can say that the import structure made a move towards consumption goods which can be explained by the higher level of consumption at the expansion of capital goods.

All in all, progress towards a stable macroeconomic situation in Kosovo is made. Though since there is limitation of data in the EC Progress Reports but also because of limitation of data with the IMF and the Statistical Office in Kosovo, it is not possible to study a rather a detailed evaluation of this component. Still, some observations can be said about the progress: The increase of GDP and GDP per capita in € seems to be the most positive increasing factor over the seven years.

Secondly, the overall import of goods also has increased, meaning that Kosovo needs exported goods, mainly food and therefore is dependent on other states. When it comes to exporting, one can say that export data does not show a positive constant.

Although Kosovo has free access to markets of member states of the EC as well as membership to CEFTA, it gains some benefits: besides trade liberalization (for example: improved export

possibilities) and therefore a better investment environment, and having stable relations with its neighbors. Kosovo makes only a slow progress towards a high level of exporting goods.

The status quo is stated as follows: “Kosovo’s economic growth remained weak and fragile; external imbalances were high, especially in trade in goods, and production-enhancing foreign investment inflows have remained limited; unemployment remained high and the economy did not create enough jobs to reduce pressures on the labour market and offer job opportunities, especially to young new entrants; inflation has been volatile and has risen to high levels; the monetary framework continued to function relatively well, although there is room for improvement, in particular in regulation and supervision of financial sector; the financing of the 2011 budget is facing significant risks; fiscal planning and the quality of public finances deteriorated further and policy predictability, consistency and transparency remain serious challenges.” (European Commission, 2011)

In summary, economic growth in 2010 continued at a “satisfactory” rate due to the high level of investment and consumption. However, unemployment has remained high in the last seven years and even grew. Further, although there was a growth of exports in the seven years, the external imbalances remained significant and financing these imbalances had the consequence of a reduction in reserves, as non-capital inflows have declined.

### 3.2.3 Table C: Component: “Market entry and market exit”

	2004	2005	2006	2007	2008	2009	2010
<b>active companies</b>	:	53.700	57.000	:	67.000	97.000	105.000
<b>new registered business</b>	9.800	11.000	:	:	:	5.700	:
<b>policies implemented</b>	:	policies with minimum administrative requirements established	:	law of bankruptcy	:	fees for starting business	:
<b>challenges</b>	weakness of judiciary, uncertainty over property rights	corruption, law enforcement, uncertainty over property rights	limited access to finance	difficult and costly enforcement	weak administration, rule of law	weak administration, rule of law	weak administration, rule of law

*Based on the EC Progress Reports on Kosovo from 2005- 2011*

: = Data not available

This table sums up the component of market entry and market exit. Although there are some limitations in terms of data, progress of this component is visible. Especially in terms of active companies progress is visible: while in 2005 the number of active companies was about 53.700 (see Table C), in 2010 there were 105.000 (see Table C) active companies counted. In terms of new registered business a negative progress is visible. In the year 2005, one can say that the level of new registered business in relation to active companies is higher than in 2009.

Since in 2004 and 2005 the average of new registered businesses was at 10.200; in 2009 only 5.700 active businesses were registered. Reasons why there was a higher number of new registered businesses in the years of 2004 and 2005 is explained in the EC Progress Report 2005 as follows: “while market entry is quite open, market exit is difficult and lengthy owing to weaknesses in the judiciary.” Then in the following years (2008), this “problem” was solved, however “limited access to finance, corruption and poorly defined property rights, [...], hinder market entry and exit,” (European Commission, 2009)

The problem of weak administration and the rule of law remains a challenge in the years 2009 and 2010. All in all, one can say that after Kosovo’s independence the problem of uncertainty over property rights is abolished. However, the problems of weak administration and rule of law remain. Coming to policies which have been implemented in the seven years are mostly not stated in the EU Progress Reports.

To conclude, in the years of 2004 and 2005 entry to the market was easy since there were less rules and guidelines to become active on the market. By now, what hinders market entry in Kosovo is the weak administration that hinders investment and access to finance that are necessary to become active on the market.

### 3.2.4 Table D: Component “Legal system”

	2004	2005	2006	2007	2008	2009	2010
poor accessibility and efficiency						X	X
corruption			X	X		X	X
property right issues remain unresolved	X	X	X	X	X	X	X
deficit of rule of law/ legal uncertainty	X	X	X	X	X		
law implementation remains weak	X	X			X	X	X
no contract enforcement	X					X	X
causes	conflict with Serbia; unknown political status	unknown political status	unknown political status	unknown	costly; lengthy and difficult legal framework	costly; lengthy and difficult legal framework	costly; lengthy and difficult legal framework

*Based on the EC Progress Reports on Kosovo from 2005-2011*

This table summarizes the development of the legal system in respect to the functioning economic market of Kosovo. It shows which six issues (poor accessibility and efficiency, corruption, property right issues which remain unresolved, deficit of rule of law/legal uncertainty, law implementation, and no contract enforcement) are present in the years of 2004-2010. The row “causes” gives evidence why the six above mentioned issues were present in these years. When taking a look at the year of 2004, one can figure out that due to the conflict with Serbia and the unknown political status of Kosovo, a deficit in the rule of law and law implementation remains and therefore no contract enforcement was possible. Further, property right issues remain unsolved.

That the unknown political status of Kosovo plays an important role in setting up the legal system is also visible in the following years. Up to Kosovo’s independence in 2008, the unknown political status slows down the process of setting up the legal system; however the factor of legal uncertainty diminished after Kosovo’s independence.

However, one must also state that after Kosovo’s independence further issues were more present than in the years before Kosovo’s independence. As stated in the EC Progress Reports the cause for that is the costly, lengthy and difficult legal framework. This issue comes up in the years of 2009 and 2010, especially with contract enforcement being difficult due to this possible reason: “the lack of qualified staff, lack of resources for information campaigns [...] and weak capacity of institutions for monitoring and co-ordination are just some of the difficulties which are reinforced by the instability

of the legal framework.” (Support for improvement in Governance and Management Assessment (SIGMA) May, 2009)

Further, after the independence of Kosovo one can rather figure out that poor accessibility and efficiency play a role that an adequate legal system remains difficult to establish.

**3.2.5 Table E: Component “Financial sector development”**

	2004	2005	2006	2007	2008	2009	2010
growth of financial sector in % to previous year	:	:	:	88,0	:	24,2	13,7
banking sector assets dominated by foreign banks in %	:	55,0	77,1	83,0	90,0	90,0	90,0
loans growth	:	21,0	:	40,0	52,0	:	30,0
loans to deposit rate in %	:	61,0	68,7	85,0	:	74	75,0
non- performing loans accounted in %	:	2,5	4,1	4,1	4,4	4,3	5,9
challenges	:	legal uncertainty; low competition in banking sector	costly collateral registration; weak credit information procedures; deficient cadastral procedures	access to finance; weak enforcement of contracts; high borrowing costs	ineffective enforcement	lending conditions	lending conditions

*Based on the EC Progress Reports on Kosovo from 2005- 2011*

: = Data not available

Table E presents the financial sector development in Kosovo for the last seven years.

At first the growth of financial sector in percentage to the previous year will be evaluated. This component has the advantage that it clearly shows a progress in the growth of financial sector. However, thorough a limitation of data a real progress can rather not be studied. Though, it is possible to say that there is a decline of growth in the years of 2009 and 2010.

While in 2009 there has been 24.2 % growth in the financial sector to the previous year, in 2010 the financial sector only grew by 13.7% compared to the year before. This means that although there was growth in the financial sector, this growth was smaller than to the year before. Moreover, the second row “banking sector assets dominated by foreign banks” is an important component in order to state in how far the banking sector which dominates the financial sector is dominated.

Whereas in the year of 2005 where 55.0% of financial sector assets were dominated by foreign banks, in 2008 onwards 90.0 % of financial sector assets are governed by foreign banks. The increase can be attributed to a profitable and well-capitalized financial sector and an increase exchange of information with foreign central banks and other supervisory authorities, as well as with the boards of key players in the banking sector.” (European Commission, 2009)

Coming to the third component of loans growth, this component is connected to the two others below in the table.

To name both: one the loans to deposit rate in % and non- performing loans accounted in %. At first, there can be studied a loans growth from the years of 2005-2008 and a decrease from 2009 onwards. A small number consists of non-performing loans. This component increased constantly in the years up to 5.9 % in 2010.

All in all, challenges still remain in this component. At first lending conditions remain as a weakness in the financial sector development and till up to now “financial intermediation continued to deepen and, despite increasing non -performing loans, the banking sector remained stable and profitable.” (European Commission, 2011)

**3.2.6 Table F: Component “Free Interplay of market forces”**

	2004	2005	2006	2007	2008	2009	2010
<b>progress *</b>	little	SOE	SOE	some	only implementing antitrust policy	privatisation of SOE; small business; publicly owned enterprises	privatisation of SOE
<b>progress towards privatisation</b>	slight	yes	yes	standstill	slight	yes	yes
<b>challenges</b>	:	:	problems with serbian citizens about privatisation issues, funds are blocked	legal issues	delay of privatisation	legal environment	unkown

*Based on the EC Progress Reports on Kosovo from 2005-2011*

: = Data not available

At least, this table puts an emphasis on the free interplay of market forces. It evaluates how far progress was made also in respect towards privatization and what remains as a challenge in this respect. Coming to the first row, one can say at the beginning, the free interplay of market force was little since “the low level of local savings, high real interest rates and the limited size of local banking sector limit finance available for investment.” (European Commission, 2005).

Then from 2005 onwards, progress was made regards to the private sector development. Since then, private sector expanded up till 2008 where there has been “a slight acceleration o the privatization process” and “delays in privatization contributed to a rigid business structure.” (European Commission, 2009) Though, private sector’s share of consumption and investment as well as imports has been increased in the recent years. For example, private investment rose by “37% in 2007, up from 26% in 2006. (European Commission, 2008)

All in all, there can be seen progress towards the privatization process except in the year of 2007 “after a ruling by the Special Chamber of the Kosovo Supreme Court called into question the method of privatization.” (European Commission, 2008) The next year suffered from this event, but then from 2009 onwards the process of privatization continued.

When studying the remaining challenges of the free interplay of market forces with the EC Progress Reports of 2005, 2006 and 2011, it is unclear in these years which challenges Kosovo has in this component of Economic Copenhagen Criteria. However, Kosovo solved the issues with Serbian citizens in respect to privatization issues before its independence and since then, challenges in this component are rather legal issues.

### 3.3 Conclusion

All in all, table A-F and summarizes each of the six components in depth and therefore shows up progress in more detail. As already mentioned above, these tables are based on the material of the “EC Progress Reports “from 2005- 2011. Further, the author’s own assessment is marked with a “\*”. However when taking a look at the overall process of Kosovo regarding the progress towards a functioning market economy, the overall development can be studied when taking a look at the overall conclusions as presented in Table 2. This table (table 2) is based on table A- F and represents the author’s own conclusion, however still based on the material.

Thereby the development of each component is headed with “inadequate,” “partly” or “adequate.” “Inadequate” means that Kosovo had made no development at all. With “partly” it is meant that there was some progress but still problems or challenges remained so that it has not lead to a real progress of the component. With “adequate” it is meant that the component has made development. The development is always based on the achievements of the previous year.

**Table 2: Summary of EC Progress Report \***

	2004	2005	2006	2007	2008	2009	2010
the existence of a broad consensus about essentials of economic policy *	inadequate	partly	inadequate	partly	partly	partly	partly
macroeconomic stability *	inadequate	partly	inadequate	partly	inadequate	partly	inadequate
market entry and market exit *	inadequate	inadequate	inadequate	inadequate	partly	inadequate	partly
free interplay of market forces *	inadequate	partly	inadequate	inadequate	adequate	partly	partly
adequate legal system *	partly	partly	inadequate	inadequate	inadequate	inadequate	partly
sufficiently developed financial sector *	:	inadequate	inadequate	partly	partly	partly	partly

*Based on Table A- F*

When coming to the first component, “the existence of a broad consensus about essentials of economic policy,” one can say that Kosovo made a development to some extent.

In 2004 and 2006 Kosovo faced the problem that a consensus about essentials of economic problems was not reached. This was, in 2004, due to the reason that there was no political consensus among parties within Kosovo (see Table A) and in 2006 due to the reason of economic coordination and the unknown political status of Kosovo.

However, that there was a “fallback” in the year of 2006. Although the existence of a broad consensus about essentials of economic policy was partly established in 2005, the fallback is caused by the uncertainty of Kosovo’s political future and the lack of the overall economic coordination.

Then with Kosovo’s independence in 2008, the problem of uncertainty regarding Kosovo’s future was solved and therefore, consensus was reached in each of the following years. To sum up, the lack of economic coordination and uncertainty of Kosovo’s future slowed down the process of finding consensus about fundamentals of essentials of economic policies.

Coming to the second component of macroeconomic stability, this component has made the lowest progress over the seven years. Whereas one would think that this component would make a slow positive development towards macroeconomic stability over the years due to financial assistance of the international community, as a development catalyst, this is not the case. Macroeconomic stability is characterized by an interaction of “inadequate” and “partly” components.

The early EC Progress Reports clearly state that macroeconomic stability is influenced by the decline in support by foreign donors and a lack of dynamism of the economy. (European Commission, 2005) In later EC Progress Reports, the variations of macroeconomic stability can be once explained by the fragile fiscal and external positions and the weak enforcement of property rights and by high unemployment, which have an effect on the progress of macroeconomic stability. (European Commission, 2010)

The third component of “market entry and market exit” does not show up any development at all. Although in the years of 2008 and 2010 this component is partly established, in the other five years this component is “inadequate.” Reasons why the years of 2008 and 2010 show up an development are reasoned by the fact that some improvements were made regarding business registration for example online registration. That there is a fallback towards “inadequate” in the year 2009 is explained by Kosovo missing the opportunity to further work on the achievements of 2008 and only continued two years after the developments in 2008. This however might be due to the fact that implementing policies in respect to business registration need its time. Therefore Kosovo had to continue in 2010 instead in 2009.

Coming to the fourth component of “free interplay of market forces,” one can say that after Kosovo’s independence the component is partly established. Although in each year after Kosovo’s independence there is an increase in market entry, weak administration and corruption play a significant role that this component is not yet adequate fulfilled.

Furthermore, the component of “adequate legal system” made a development in the years of 2004 and 2005, whereby in the following years the component is rather “inadequate.” Then in 2006, the legal system was becoming “inadequate” is reasoned by that the problems which occurred in this year, for example, by the high level of corruption. This problem is enhanced by the remaining problems of the two years before which were not solved up to 2006.

Coming to the last component of functioning economic market called “sufficiently developed financial sector,” this component seems to be the most stable. With a data limitation in 2004, this factor was “inadequate” until 2007. In 2007, the factor of “access to finance” had a positive effect and changed this component to “partly.”

To sum up, data limitation remained a challenge to observe the development of the six components in an adequate way. The EC Progress Reports of 2004 and 2005 offered little information, especially in the components of legal system and financial sector development. Furthermore, the later EC Progress Reports had the advantage that through the enhanced exchange of data in Kosovo, more data was available. However, they varied in the way that some of the EC Progress Reports provided more data than others and that some components were described in more detailed than others. Therefore, an unequal distribution of data occurred.

However coming to the components themselves one can say that none of the components can be yet called “adequate” since although there were some progress challenges and problems remain. Furthermore, whereas some components show up a clear “positive” progress like the component of “sufficiently developed financial sector,” some components vary in their development so much that it is not possible to say that there is a development like “macroeconomic stability.”

Taking on the overall year’s development one can say that 2006 was the year where all components were “inadequate,” so progress up to 2006 was not really there although in the two years before some components were “partly” reached. That 2006 consists the most “inadequate” components can be reasoned by the unclear future of Kosovo, the problems with Serbian citizens, the lack of economic coordination or the limited access to finance. However when taking a look at 2010 one can say that in the years between 2006 and 2010 there must have been a development since in 2010 mostly all components are “partly” reached, except the component of “macroeconomic stability.”

So what can be said when studying the data is that the development of each component is better observable in the “in-depth study” (Table A-F) than when taking a look at the overall development. Furthermore, the in depth study also shows up the change after Kosovo’s independence. Before Kosovo’s independence, the factor of “unknown political future” had a strong negative impact on the components and therefore hindered mostly any introduction of policy. After Kosovo’s independence, this factor was abolished and policies were “easier” to introduce since there was no uncertainty any longer. However, Kosovo’s independence brought along “new challenges” like policy formulation.

## CHAPTER 4 Conclusion

This conclusion will review the main findings of this Bachelor Thesis and will answer the sub-questions and therefore the main research question of “*Does the market economy of the Republic of Kosovo meet the Copenhagen Criteria?*”

Therefore, three sub-questions help to answer this question.

The first sub-question “*What are the Copenhagen Criteria? And especially, what are the Economic Copenhagen Criteria?*” has been answered in the description of the first concept, named “Copenhagen Criteria” and “Economic Copenhagen Criteria.”

To sum up, the Copenhagen Criteria set out the rules which must be met by countries that like to become a member of the EU. Thereby, the Copenhagen Criteria consists of three main pillars: political, economic and social criteria. Thereby, the Economic Copenhagen Criteria consists of three components: a functioning market economy, as well as the ability to cope with the pressure of competition and the market forces at work inside the Union.

This Bachelor Thesis has focused on the first component of the Economic Copenhagen Criteria, the “functioning market economy.” The main concept of Copenhagen Criteria is fulfilled when all of these three pillars are met by any nation state.

All in all, the Copenhagen Criteria of the European Union has a great impact on the countries’ legislatures and other fields of policies, because a country is obliged to adopt the policies at a legal corpus which meets the Criteria in order to become a member state of the EU. Furthermore, although the concept of Copenhagen Criteria was introduced in 1993, the concept is still a current topic in European affairs since on the one hand the Copenhagen Criteria are under the umbrella of European Integration and at the other hand; the EU reports the development in establishing the Copenhagen Criteria by the EC Progress Reports annually.

This leads to the second sub-question of this Bachelor Thesis: “*What are the findings of the European Commission with regard to functioning economic market?*”

The European Commission reports in 2010 that “Kosovo has made no progress towards a functioning economic market” (European Commission, 2011) and therefore one can conclude that the status quo concerning a functioning economic market is that Kosovo has not yet met this component of Economic Copenhagen Criteria. The main findings of the European Commission are that “considerable reforms and investments are needed to enable it to cope over the long term with the competitive pressure and market forces within the Union.” (European Commission, 2011) The main findings of the EC within the seven years are summarized in Table 2. All in all, the Republic of Kosovo does not fulfill “adequately” any of the six components of the “functioning economic market” and only some components made a development towards a “partly” established component.

In order to show a possible difference between the development towards a functioning economic market before and after Kosovo's independence, the following sub-questions provide an answer: *"Does Kosovo's independence in 2008 have an effect on the six components of a functioning economic market?"* This sub-question can be answered by taking again a look at Table 2. Again, Table 2 summarizes the overall process of the six components in the seven years and indicates that progress 2006 onwards was made. However, when taking a look at the Table A-F, these tables clearly show an in-depth development of the single components. Here one can clearly state that through Kosovo's independence, challenges for Kosovo has changed. Whereas in the years before Kosovo's independence, an economic progress was affected by the "unknown political status" and therefore policies were hardly introduced, this "challenge" of Kosovo was solved after its independence. However, one must also state that through Kosovo's independence, new challenges occurred like "to reach political consensus."

All in all, these sub-questions lead to the following main research question: *"Does the market economy of the Republic of Kosovo meet the Copenhagen Criteria?"*

This main research question has to be answered with "no."

Firstly, none of the six components were "adequately" established in the last seven years. Only five of six components are reported to be "partly" established in 2010. Therefore, a progress towards reaching the Copenhagen Criteria was made. The sixth component of "macroeconomic stability" is the component which least meets the Copenhagen Criteria. The market economy of Kosovo remained in 2010 to be unstable and less developed since economy polices and planning continued to face with a weak policy planning, public administration and a weak rule of law. Therefore, it is likely to say that economic policy planning and implementation hindered progress of the six components to meet the Economic Copenhagen Criteria adequately. This is extremely visible in the component of "macroeconomic" stability where for example, through a lack of implementation of policies unemployment remained very high.

Moreover, it is likely to say that the Copenhagen Criteria are an influential factor in some way that Kosovo made changes in the seven years in economic matters. One example is that Kosovo made major development after its independence in 2008. In the EC Progress Reports before 2008 it was often stated by the EC that Kosovo must change its unknown political status in order to be integrated into the EU and therefore it has to fulfill the Copenhagen Criteria and to create economic progress. Therefore, the Copenhagen Criteria can be seen as an influential factor because it forced Kosovo to solve its political status.

All in all, with choosing a longitudinal study as a research design, it tried to figure out major changes of Kosovo with respect to the functioning economic market in Kosovo. This was done by studying the annual EC Progress Reports from 2005- 2011. This research design had the major advantage that it showed up long-term changes. What can be concluded is that the economic development within these seven years was rather slow and little. However, some development was made which can be seen by studying the component of “sufficiently-developed financial sector.”

Though, challenges for Kosovo remain and therefore a lot of space for improvements for the dialogue between the European Commission and Kosovo is left. Although the EC Progress Reports provide more information about the six components of the “functioning economic market” in the Progress Reports in 2010 than in 2005, the European Commission does not give any clear advice for changes or any recommendations on what Kosovo should do in order to enhance economic development. Therefore, the EC should clearly state what Kosovo misses and should provide clear links between the institutions. Governmental and EC actions as well as IMF actions should be reported regularly and wanted impacts should be reported, too.

For example, any policy introduced should be clearly analyzed in long-term focus. Thereby, it should clearly be stated in how far any policy introduced is sensitive to changes in environment. If a policy fails in terms of coming closer to the Copenhagen Criteria it should be replaced. So, one recommendation is that there should be a clearer connection between the institutions who act and a further recommendation is that the exchange of information should be reported and enhanced.

Furthermore, it would be wise when having any improvement in any policy field, a follow-up plan should be made in order to support this improvement, otherwise the status quo will remain and therefore, a standstill in economic progress will occur.

Overall, in order to implement adequate, sustainable and effective policies, policy discussions should be improved; meaning that experts, NGOs and other expertise must be taken into consideration. Consequently, dialogue between actors must be fostered.

To sum up, generally it can be said that Kosovo made some development to meet this aspect of Copenhagen Criteria. Whereas, some components of “functioning economic market” made a faster development than others, mostly each component made some development. Several fundamental steps towards creating a “functioning economic market” were made. However, fast adoption of long-term policies are missing as well as clear guidelines of the European Commission and other actors.

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## **Tables**

Table 1: Summary of the six components of functioning economic market. Own creation

Table 2: Summary of EC Progress Reports. Own creation

Table A: Component “Economic policy essentials”. Own creation

Table B: Component “Macroeconomic stability”. Own creation

Table C: Component “Market Entry and Market exit” Own creation

Table D: Component: “Legal System”. Own creation

Table E: Component: “Financial sector development”. Own creation

Table F: Component: “Free Interplay of market forces”. Own creation