

## Completing the Enigma: Should Kosovo be in or Out the Euro Area

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**Abstract:** The purpose of this paper is to analyze whether Kosovo is benefiting from being part of the eurozone or should start thinking on leaving eurozone by starting to issue its own currency. As a new country with a developing economy we know that staying within the eurozone conditions a reduction in inflation and all this affects the slowdown the rapidity of economic development. This has led it us to analyse whether staying in the eurozone is beneficial for Kosovo. The data collected in this paper are primary data obtained from the basic literature analysis, as well as the secondary data analyzed according to the descriptive analysis by observing and analyzing the macroeconomic and financial indicators in Kosovo. The findings of the study show that in the current situation, both politically and economically, there are more benefits of using euro than its own currency for Kosovo. Because of being part of eurozone, Kosovo has benefited from loans with lower interest rates than other neighboring countries for the sole reason that Kosovo is in the eurozone and they are not, by ranking us in a safer place for investors and a more stable place as a result of euro.

**Keywords:** Euro area; Exchange rate; Benefite; Cost; Monetary union

**JEL Classification:** E5; E6

### 1. Introduction

After Breton Woods, European countries chose a flexible exchange system, but not all of them were able to manage this system, so in the Maastricht Treaty everything started for the implementation of the euro, where the dates and conditions were initially set when the implementation of the common currency, in this case the euro, was distributed in the market in physical form in 2002. All national currencies of eurozone member countries were converted into euros based on the exchange rate which was set earlier. The countries prior of being part of a monetary union should be part of Exchange Rate Mechanism II and country budget deficit and public debt should be lower than 3 percent of GDP respectively lower than 60

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percent of GDP, also inflation of the country shouldn't be higher than 1.5 percent points the average inflation rate of the three European union members states with the lowest inflation (Gadomski, 2019) (Lane, 2006).

According to Svrtinov, Georgieva-trajkovska, & Temjanovski (2014) this was the largest monetary union the world had ever seen and the union of so many states at the same time within a currency after dollarization that had occurred two centuries earlier.

This union influence was that countries had facilities and economic development, but at the same time it means that they are more limited in terms of monetary policy, making them handicapped in terms of dealing with crises.

The biggest advantage of this is that now during travel there is no need to use currency exchange within euro area countries (Tumpel-Gugerell, 2007). And this according to Rose (2000) (cited from Baldwin, DiNino, Fontagné, De Santis, and Taglioni, 2008), affects the stimulation and development of trade, causing a trade increase by 200% if the exchange rate is eliminated. In this case, the euro has led countries to have a monetary policy stability by conditioning low inflation and in the long run low interest rates. (Tumpel-Gugerell, 2007).

Because we know that developing countries need a higher inflation rate than developed countries as this serves as a stimulus for economic development. Therefore, in this paper we will start from this. The main purpose of this paper is to see if, for small countries like Kosovo which are developing, is profitable to continue using euro or should start issuing their currency?

Based on this in this paper is analyzed Kosovo as a small country with a developing economy that has adopted euro without any prior agreement with the European Central Bank.

It should be mentioned the fact that Kosovo did not have its own currency and initially used the German mark. At the moment of the entry of euro in the market and the withdrawal of the German mark, all currencies were converted into euros, adopting the euro currency without any agreement.

As such, Kosovo does not have any of its representatives in the ECB that make Kosovo a country that accepts all the rules and changes without the possibility of opposing them. Based on this and the stage of development within this paper will be elaborated on how convenient it is for Kosovo to continue staying the eurozone or should start issuing its own currencies and when the conditions are met to move back to the eurozone.

To accomplish this this paper is structured in 4 parts where we initially presented a summary of the paper, in the second part the literature review on the pros and cons of the adoption of the euro. Continued with the third part where the pros and cons of

the adoption of euro, in the case of Kosovo, are analyzed and using discrete analysis we see that Kosovo's benefits are much higher than the losses during its stay in the eurozone. The chances to suffering crisis it is not very high taking into consideration that materials that kosovo exports and we put into a balcance this we see that what Kosovo gains vs loses are much higher for Kosovo.

The fourth part of the paper is dedicated to the analysis if Kosovo had its own currency what the economy would be like in this case and based to the results it was seen that at this stage of development both in economic and political terms the benefits are much higher for Kosovo if continues to be part of the eurozone.

As far as the author is aware there is no analysis made for this purpose for small and developing countries like Kosovo. Therefore, this paper is a start to continue further studies in this field by analyzing how willing the Balkan countries are to join the eurozone and whether they meet all the criteria.

## **2. Empirical Literatur Review on Pros and Cons of Euro Adoption**

Joining a monetary union means profiting, especially for small countries with developing and non stable economies. As such, these countries benefit from the support of more developed countries, as in the case of the European Union, where they receive support from Germany and France, enabling these countries with weaker economies to obtain loans with lower interest rates (Amadeo, 2020). According to Kunovac & Pavić (2017) this has been penalizing Croatia by not being in the monetary union borrowing at higher interest rates. As we know, small countries do not have many requirements for the use of their currencies, unlike the euro which creates a security for investors by increasing foreign investment in eurozone (Amadeo, 2020). But joining a monetary union, if the country's economy is not prepared and does not conform to certain eurozone rules may have, as it says PĂDUREAN (2016) important consequences. As it explained by Gadowski (2019) that in 2001 some countries like Greece and Italy had a public debt higher than 60 percent of GDP, while for Greece, Ireland, Netherland, Portugal and Spain the author emphasizes that inflation was also very high compared to the rules set for entry into monetary union

So the unwillingness of countries to be part of the union has caused some of them to face the financial crisis. Despite this, Greece is classified by investors as a safe country as it has been part of the eurozone by not dealing much with its macroeconomic and financial data (Gadowski, 2019).

Despite the advantages, joining a monetary union has its disadvantages. As Lane (2006) points that the criteria set by the eurozone for developed countries are easy to meet and maintain but this poses a problem for developing countries. For developing countries, lowering interest rates despite ensuring long-term credit

stability on one hand, in the short term it creates chaos because lowering interest rates increases loans to buy houses and this increase increases inflationary pressure (Lane, 2006). All this forced developing countries to lower the inflation rate in order to meet the criteria for membership and as a result the economy begins to slow down by not creating new jobs. Although it sounds like a punishment, but to be part of monetary union, the economy seems to be slowing down (Mihaljek dhe Klau, 2008).

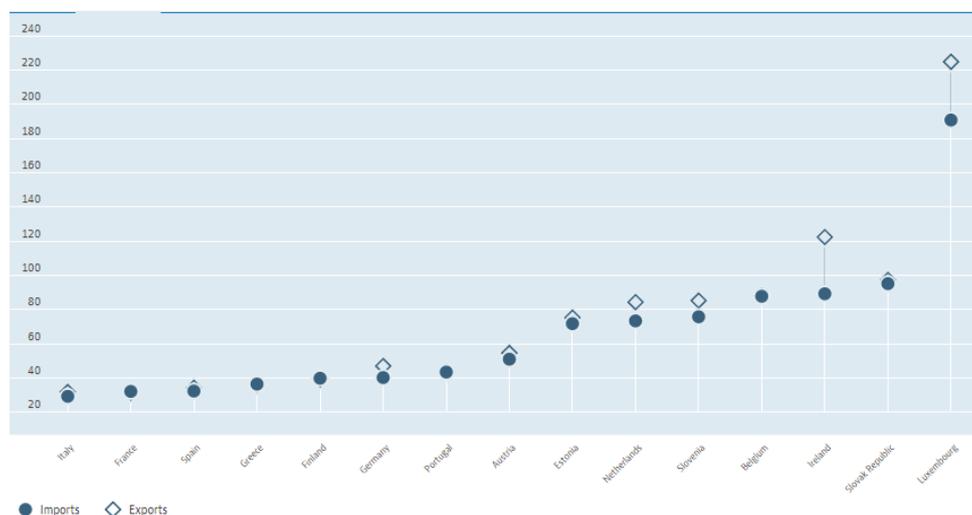
## 2.1. Theoretical Framework

Economic ideas have played and still play an important role in defining the economic model used by a country. In the case of the analysis for Kosovo's benefits from the Eurozone we should mention the difference between Keynesians and monetarists theories. Both ideologies see the economic and political worlds in different forms and in opposite directions.

According to monetarists, the adoption of a foreign currency or being part of a monetary union does not constitute a harmful phenomenon, because the loss or issuance of currency is not accompanied by major changes. Monetarists believe in market liberalization, supporting market liberalization through the state and what distinguishes monetarists from Keynesians is the fact that they say wages and prices should be flexible.

Keynesians, on the other hand, unlike monetarists, advocate the idea that losing or giving up the proper currency makes a big difference, because in this case the state is limited in every aspect, knowing that the exchange rate and monetary policy constitute an important instrument for extracting state from a shock situation. According to them, salaries and prices should be fixed and not flexible.

Given these attitudes, it means that Eurozone pursues a monetary ideology, favoring free trade within the Eurozone and leaving wages and prices flexible. There have been numerous questions, within Eurozone, about why some countries have joined Eurozone when trade is not their main element. One of the biggest questions has been Greece and Italy. The question that arises is: Since these countries are not interested in trade, why will they be part of a monetary union, as long as they do not take advantage of this good offered by it? For countries that import and export, the inclusion in monetary unions is a great benefit because they exploit free trade. Let us see this phenomenon by analyzing the exports and the imports within the Eurozone countries.



**Figure 1. Exports and Imports of Eurozone Countries During 2018**

*Source: (OECD, 2019)*

So, from the graph above it can be seen that Luxembourg gains the most of this opportunity, offered by the Eurozone, by exporting products and importing at the same time in relation to GDP. Then comes Ireland with a developed export but which is not bad even in terms of imports. Then Ireland is followed by Slovakia, Slovenia, the Netherlands, Estonia, Austria and Germany. But in the meantime it is noticed that there are countries which do not export at all, but only imports as is the case of Belgium, Portugal, Finland, Greece and France. Spain and Italy do not export or import or they are very limited.

Is important to mention that there are countries within the monetary union that are limited in terms of monetary policy for not being able to regulate as it fits for the market and economy of their country. This is a procedure, according to which the monetary union has some rules, which makes this union have greater stability and provide greater economic security. The eurozone is being criticized because, by not meeting all the points of the optimal currency area, it is facing financial crisis, such as the crisis that started in 2008.

The question then arises why do some states stay in a monetary union? Despite the economic and financial crisis, some countries have never questioned to abandon the Eurozone. So what are the benefits that the Eurozone or monetary union bringsto these countries?

In reality, the benefits, based to the costs and benefits, are very high. It is noted that staying within a monetary union itself creates benefits for a country byeliminating transaction costs. Greater security is created in the economic aspect, which makes the country more attractive for investors, and in addition to foreign investors, the

country also becomes attractive for the promotion of domestic investments. Staying within a monetary union affects greater price transparency, increasing productivity and lowering inflation. So, the benefit of staying in the Eurozone or in a monetary union is high.

## **2.2. Should other Balkan Countries Join the Eurozone?**

Taking into consideration the benefits and advantages of staying in the eurozone, I think that other Balkan countries should join the eurozone. First, seeing that in reality free trade between these countries is developing, the benefit or replenishment of their coffers is mainly from neighboring countries. And seeing that the Balkan states being small states without any major impact and each with its own currency is influencing their own exports and imports to become more expensive when we consider the issue of transaction costs over the course of exchange between these states. Each transaction would have been much easier if they all used the same currency. There would be higher price transparency within the states and at the same time it would save time having the same currency can make payments faster and without any transaction costs.

Although many economists in the Balkans are skeptical that their country will join the eurozone as they think that their country still has the conditions to join the eurozone, as they have not met all the points of the optimal currency area in order to be ready to join the monetary union. But there are those who insist that the Balkan countries should join the monetary union and be part of the eurozone.

The euro celebrates its 20th anniversary despite various world skeptics that the life of the euro as a currency will not be long it is standing and we can say that it is among the most stable currencies of the moment and competitive in the market with other unions. So, seeing the benefits that euro brings, perhaps the time has come for other Balkan countries to change their direction and attitude towards the euro.

## **3. Comparison of Goods Versus Problems in the Case of Kosovo**

### **3.1. Benefits of Staying in the Eurozone**

Adopting a foreign currency is always claimed to bring economic stability to the country. But the issue of Kosovo is a little different. As a new state Kosovo did not have a currency of its own to which it would give up another currency. The process of adopting the euro or dollarization / euroization for Kosovo has been an ongoing process. In its past, Kosovo has used the German mark to later convert to the euro without any agreement with the European Central Bank but also without opposition from it. The same case happened with Montenegro. Kosovo benefits in the case of

euro adoption are listed as in the table below:

<b>Eliminate the cost of coin printing</b>	Being a small country without any prior monetary history, if Kosovo were not allowed to use the euro, this would cost the country a lot, given the economic situation and the budget of Kosovo. In such a case, Kosovo would not have sufficient funds to start implementing the plan for currency printing and allowing the use of the euro has eliminated this.
<b>Elimination of transaction costs</b>	<p>Monetary union is an important point for traders because it eliminates transaction costs, so there is no foreign exchange transaction. If we analyze the exports of Kosovo (Appendix tab. 1) we see the countries to which Kosovo exports the most are the countries of Cefta 41.3% than with the countries of the European Union 32.2%, the countries of Asia 18.4%, EFTA 6% and 2.1% other countries. So, we notice that 67.8% of Kosovo's exports are realized with countries outside the European Union. Kosovo realizes the largest part of its exports with countries outside the EU, while with those of the EU only 32.2%. If analyzed from a monetary point of view, the value of exports is not very large 40 million 470 compared to imports which are 336 million 866 thousand euros. With EU countries Kosovo has realized 48.4% of imports, with Cefta 14.6%, EFTA 0.9%, other European countries 12.5%, other non-European countries 2.7%, Asian countries 11.1% and others 9.6%.</p> <p>So, we see that for imports Kosovo has approximately the same scope both with EU countries and with countries outside it. So, Kosovo in terms of exports does not have great benefits and relief at this point in terms of transaction costs. The largest exports are to countries that are not part of the euro area and Kosovo has to pay the transaction cost by paying the exchange rate cost with these countries. In terms of imports, the country is a little better, balancing the countries that are in the eurozone and those outside the eurozone. So, Kosovar companies face transaction costs when purchasing products as 51.4% are imports with other countries outside the EU, countries that do not use the euro and to which Kosovo must be subject to the exchange rate. This is also the reason for the change in the price of products because the real price of the product is in the local currency, which is subject to the exchange rate and all together make the transaction cost to be attached to the final price of the product. Always assuming that payment is not made immediately the exchange rate may move and this makes the company may pay less or more.</p>

<i>Greater investment security</i>	On this issue we can not say that Kosovo has not benefited as it is a user of the euro and has a monetary policy controlled by the European Central Bank and a monitored fiscal policy. This has made investors more confident about exchange rate volatility. If Kosovo had its own currency we can not say that the same exchange rate stability would be what it is today with the use of the euro.
<i>Greater price transparency</i>	Being part of monetary unions achieves price transparency by not giving sellers the opportunity to manipulate prices. It is known that when prices are in different currencies sellers have the opportunity to play with prices and the same company in two different states may have different prices and buyers do not notice this fact as it has to go towards the exchange procedure. Monetary union ensures greater price transparency and the buyer knows exactly how much the same product costs in another country. In Kosovo, despite price transparency, this indicator has not led to price reductions but has only made consumers have access to the prices of the same products within the European Monetary Union. So price transparency does not have any positive impact on Kosovo. In other words, it does not make the prices of products the same as in the eurozone countries, but on the contrary they are sometimes even higher.
<i>Encouraging domestic investors</i>	The use of the euro has encouraged domestic investors to make these investments in Kosovo, creating greater security for them. If Kosovo had its own currency, investors would be at greater risk of exchange rate fluctuations.
<i>Increase productivity and keep inflation low</i>	Increasing productivity and keeping low inflation is not a key point for Kosovo. The country is in the development phase with an inflation slightly higher than the allowed rate and this is currently seen as something positive, and this is "food" and "comfort" for the economy.

### 3.2. Cost of Staying in Monetary Union

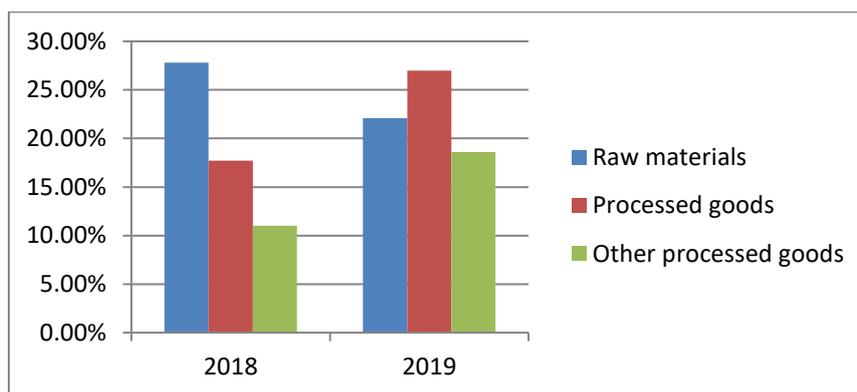
If the benefits and costs of adopting the euro are put on a scale, we see that despite the benefits of adopting the euro, mentioned above, this adoption also has its costs. In the case of Kosovo, the costs of adopting the euro are:

- asymmetric shock;
- very low inflation;
- Seigniorage

Let's look at the costs of adopting the euro: **asymmetric shock**- if any eurozone

country faces an asymmetric shock what actions will undertake ECB in these cases?

In our case, Kosovo will face a shock that would affect exports and being a small country mainly exports base metals and mineral products. Products exported from Kosovo are products which are not exported from other eurozone countries.

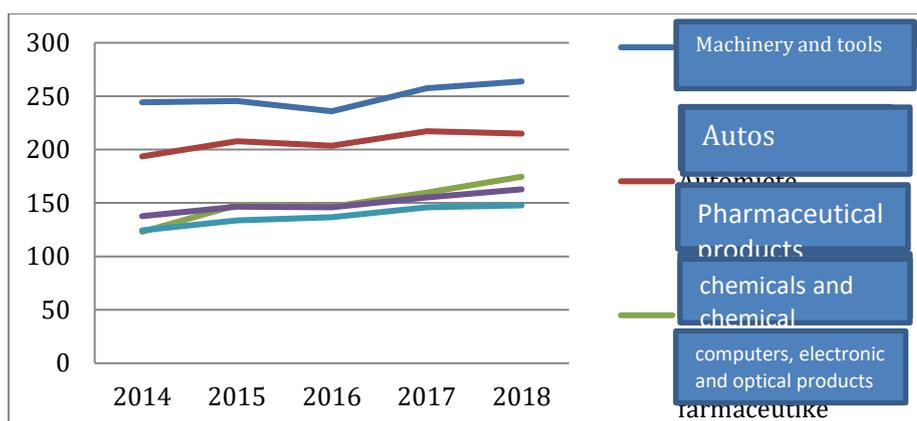


**Figure 2. Exported Products**

Source: based to (Agjencia e Statistikave të Kosovës - ASK, 2019) elaborated by the author

Eurozone countries mainly export the following products:

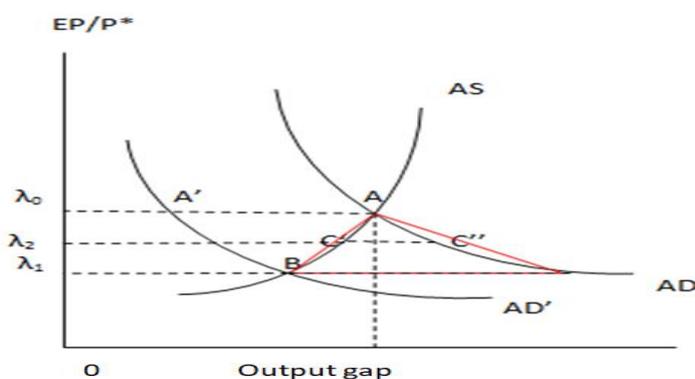
- Machinery and tools;
- Autos;
- Pharmaceutical products;
- chemicals and chemical products;
- computers, electronic and optical products.



**Figure 3. Products Exported by Eurozone Countries**

Source: Based to (Eurostat, n.d.) Elaborated by the Author

Products that are mostly exported from European Union countries are also presented in Figure 3. As can be seen, the products that Kosovo exports do not occupy an important place in EU exports. If Kosovo is affected by a potential crisis in base metals and mineral products, the European Central Bank would not do much for the fact that Kosovo is a small country with diversified trade and its impact on the euro area is also small. Kosovo, since it has adopted the euro currency, does not have a representative in the European Central Bank who would elaborate its problems and ask for these problems to be taken into account. All these facts make that Kosovo would pay the bill of any potential friend alone. The following graphic illustration is also given to better explain this.



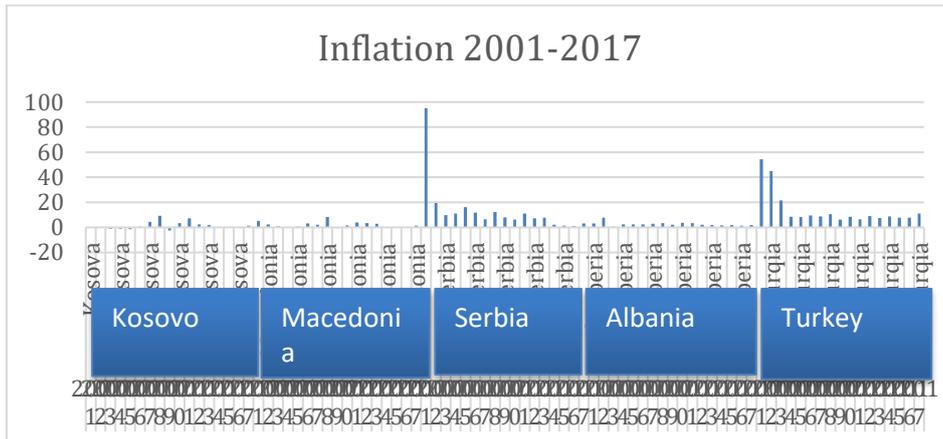
**Figure 4. Asymmetric Shock**

Source: Author

We reiterate that in the case of Kosovo the ECB will not take concrete action because Kosovo's economy is small and the country is not represented in the Eurozone. In this case, Kosovo's economy will be relocated to point B without any assistance or facilities from the ECB. Kosovo would face such a case alone by lowering prices and experiencing complete deflation. The government will not be able to act as there is no monetary and fiscal policy and is powerless to resolve the case. We would have rising unemployment and non-utilization of productive capacities (Xhepa, 2002). The situation would have been different if Kosovo had not been within the monetary union and had its own currency. Even if it were to be hit by a shock, the government in this case would use the exchange rate to get out of this situation by devaluing its currency during the crisis to cope with it more easily, although according to Xhepa (2002:27) „*There is little space for monetary policy instruments to be used as counter-cyclical instruments and to bring the economy into equilibrium*”.

Another cost that Kosovo is paying during its stay in the monetary union is low inflation which is acting as a „tight jacket” for the Kosovo market. Given that we are a country with a small and developing economy, keeping inflation at low rates

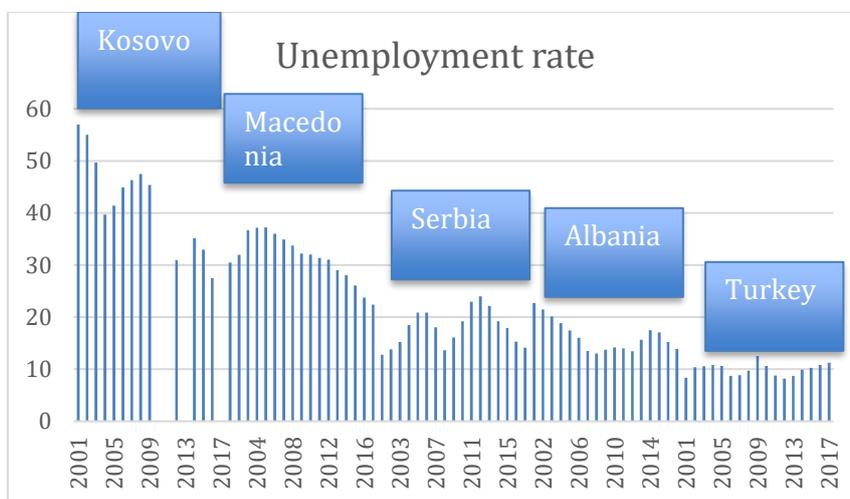
leads to suffocation of the economy. A dose of inflation does not harm the economy, but rather affects productivity growth, acting as a catalyst in increasing the money spent on consumption.



**Figure 5. Inflation 2001 -2017**

*Source: Author*

Inflation from 2001 to 2017 fluctuated and being in the eurozone it is obliged to keep a low inflation rate. If we analyze the countries of the region, we see that they have slightly higher inflation than Kosovo as a result of market and economic development. If we analyze Turkey, we see a country which in its development phase has managed to have slightly higher inflation rates. So, we reiterate that a dose of inflation does not harm the economy because it serves to increase the amount of currency in the market leading to increased demand for products which would affect increased employment and reduced unemployment. For this we can say that Kosovo's inflation is quite low for the stage in which Kosovo is. If the graph is analyzed, it can be seen that countries with lower inflation have higher unemployment.



**Figura 6. Unemployment Rate**

*Source: Author*

**Seigniora** realistically represents the cost of color and paper spent on printing coins versus the numerical value written on it. According to Smaghi & Gros (2000) seignorage is the difference between the return received on assets and the amount of liabilities paid. According to the authors, the amount of liabilities paid is small as the largest amount of liabilities contains banknotes that are in circulation and in reality they have no return. In other words, seignorage is the profit that the government gets after issuing the currency by removing the costs. If a eurozone country emits euros, assuming the cost of issuing € 1 is 0.05 cents, the seignorage of that country is 0.95 cents. Once the operating cost is deducted the seignorage is transferred to the government budget, in which case the seignorage represents an additional source of budget revenue (Smaghi & Gros, 2000).

However, this means that every time states make a profit, they can also have a loss, and this loss mainly lies in coins, as smelting metals is often more expensive than the value of the currency itself. The euro seignorage is distributed within the union between all countries within it as shown in the table below.

**Table 2. Seignorage within European Union countries**

Beneficiary bank	Percentage of seignorage	Beneficiary bank	Percentage of seignorage
Bank of Belgium	2.83%	Banka e Hollande	4.43%
Bank of Danmark	1.72%	Bank of Austria	2.30%
Bank of Germany	23.4%	Bank of Portugal	2.01%
Bank of Greece	2.16%	Bank of Finland	1.43%
Bank of Spain	8.78%	Bank of Sweden	2.66%
Bank of France	16.52%	Bank of England	15.98%
Banka e Ireland	1.03%	Bank of Luxembourg	0.17%
Bank of Italy	14.57%		

Source: ("Bankat, bankieret dhe monedhat!," n.d.)

From the table we see that the ECB quotas are also distributed for countries that are not users of the euro, such as England, Denmark and Sweden, making these countries double beneficiaries, once from the seignorage quotas of their national currency and also from the seignorage of the euro currency. Since Kosovo has never possessed its own currency, this income is not benefited by our country and the same goes to the Central Bank of another country. The opposite would have happened if Kosovo had its own currency and signage would increase the country's budget

In our case, Kosovo has lost this by not receiving any benefit from the Central Bank due to the lack of its currency. If viewed in monetary terms with the use of the euro, the Kosovo budget loses a certain amount which represents a cost for the country.

The Central Bank can use this seignorage for lending to commercial banks, which would reduce the interest rate. In these circumstances, Kosovo can not possess such a convenience as the Central Bank of Kosovo can not lend to commercial banks and does not have the opportunity to use this seignorage. We reiterate that this represents a very high cost for the budget of the citizens of Kosovo, affecting their pockets due to high interest rates, given that most commercial banks operate with foreign capital and without any Central Bank lending.

#### **4. If Kosovo had its Own Currency**

Every division has a cost and the division or leaving the monetary union as well. If we start from the fact that a small and developing country like the case of Kosovo, leaving the eurozone would have a high cost.

Being a new state officially formed in 2008, Kosovo has never had its own currency. Prior to 1999, Kosovo was part of Yugoslavia and the currency in use was the dinar as the official currency and the German mark as the unofficial currency until the end of the war in 1999. The use of the German mark continued until the launch of the euro. After the abandonment of the German mark from the market, Kosovo again adopted the euro in an unofficial form, without agreement and without representatives of Kosovo's interests in the European Central Bank.

Let us hypothetically analyze the situation in Kosovo. In 2001, with the launch of the euro, Kosovo immediately began using it. But let's assume the country decided to create and print its own national money. Being a young state with no experience in this field, Kosovo would initially have to hire experts in the field and purchase the necessary equipment to create its own currency. This whole process would take a long time. First the name for the new currency would have to be found, its appearance would have to be worked out, what would be the figures or objects that would be placed in it without leaving aside the rules and tasks for the Central Bank. Although it would take time I think Kosovo would overcome this stage. The next stage was to think about whether Kosovo would have the knowledge and proper management of its currency. We assume that even this phase has been overcome and Kosovo has met the conditions to have a currency of its own. Let us analyze how Kosovo would have faced the challenges presented by the introduction of the national currency.

If we start from the trend of increasing salaries and taking into account that the president of Kosovo has a salary of 76% of GDP per capita, which falls to be 16 times higher than the minimum wage in the country (Abazi & Ejupi, 2018) and seeing the trend of wage increases in the public sector and not in the private one would bring greater money pressure to cover these increases.

**Tabel 3. Wages in Kosovo**

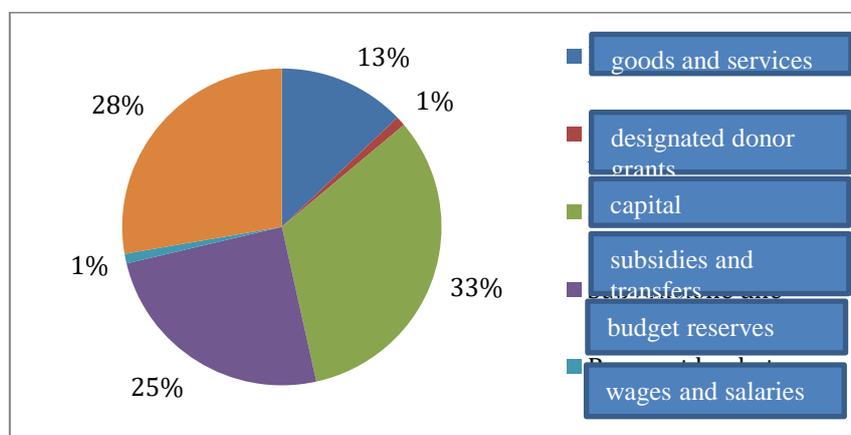
Year	Average salary	Public sector	Private sector	Public enterprises
2012	431€	407€	367€	518€
2013	444€	415€	367€	549€
2014	482€	465€	358€	624€
2015	510€	511€	367€	651€
2016	519€	525€	371€	660€

*Source: Elaborated by the author based in the data of (Abazi & Ejupi, 2018)*

As underlined by Abazi dhe Ejupi (2018:9) *“The increase in the cost of living, wage increases in various sectors and the stagnation of the minimum wage, all this in 7 years, has directly affected the monthly basket of the individual and the family.”*

So, these increases have led to higher prices of basic products even though private

sector wages have not increased. If Kosovo had its own currency, would it manage this situation? The answer to this question would be NO for the sole reason that these increases would affect in rising inflation and in this case the money would depreciate until it reached a point where it would be necessary the adopting a foreign currency in order to cope with the situation. So, wage growth should really be related to inflation, labor force level and employment, poverty reduction, etc.(Abazi & Ejupi, 2018).=Let us analyze the other factors that reinforce this attitude. If Kosovo had its own currency, what would be the financial situation of Kosovo at the moment? Would our economy be like that of Greece? Let us analyze the macroeconomic indicators of Kosovo and see how Kosovo would have stood in this case, with these indicators, if it had its own currency.

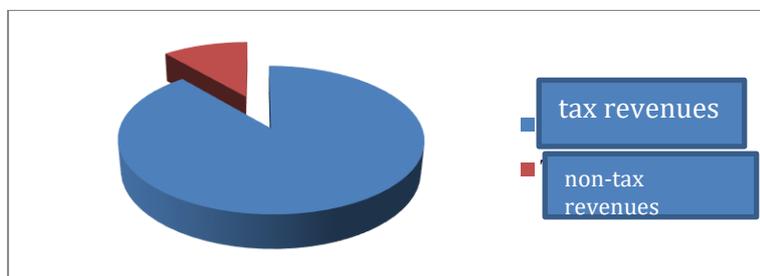


**Figure 7. Kosovo Budget Expenditures for 2018**

Source: Elaborated by the author based on (Ministria e Financave, 2018)

The graph shows that mainly the largest amount of budget money goes to salaries and wages and capital expenditures where 61% of the budget goes to these two categories. If Kosovo had its own currency, the trend of increasing the budget deficit would require greater printing of coins and the question arises whether this trend of increasing the printing of coins would affect the country’s economy?

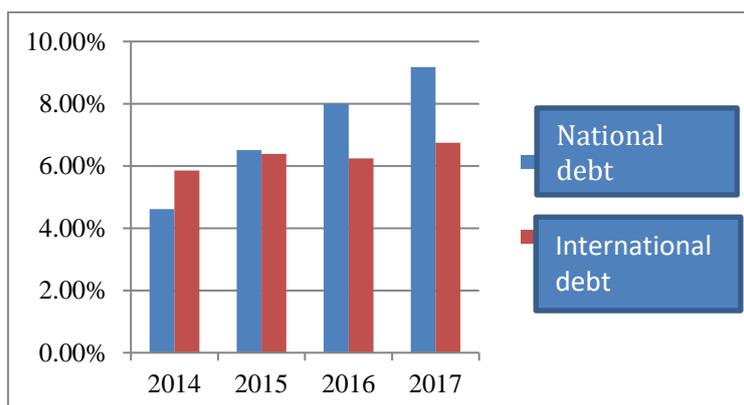
Given the fact that Kosovo is a small country in transition and underdeveloped, with an economy in its early stages of development, this trend of increasing coin printing in an uncontrolled form to cover government debts would make the market to face an asymmetric shock. This would send the country into a deep crisis with no way out, as mainly the entire budget of Kosovo is filled with taxes.



**Figura 8. Filling of Kosovo Budget**

Source: Elaborated by the author based on (Ministria e Financave, 2018)

Therefore, for small countries like Kosovo and without any great tradition of leading the country, leaving the monetary union has a very high cost, in this case leading monetary policy would be an obligation of the state and so far this has been served, while leaving the union, the state must deal with this policy on its own. Knowing that macroeconomic indicators are often unpredictable, this increases the cost of exiting the monetary union.



**Figure 9. National and International Debt**

Source: Elaborated by the Author based on (Ministria e Financave, 2018)

As can be seen from Figure 9, Kosovo owes its state debt and if it had its own currency, this debt would be higher and at the same time the country would not be able to secure international loans. Kosovo owes its external public debt mainly from loans received from international financial institutions. From the International Monetary Fund (IMF) during 2017 Kosovo has borrowed 38% of its international debt. It then borrowed 37.5% from the European Bank for Reconstruction and Development (EBRD), the German Development Bank (GDB) 13%, the World Bank (WB) 9.7% and UniCredit 1.7%.

**Table 4. External Debt Borrowings for 2017**

International financial institutions	% borrowed in relation to GDP
IMF	38 %
EBRD	37.5%
GDB	13%
WB	9.7%
UniCredit	1.7%

*Source: Elaborated by the author based on (Ministria e Financave, 2018)*

If Kosovo had its own currency, it would not offer the security it offers now, as inflation is imported by the ECB, controlled fiscal policy and there is no exchange rate risk.

With its currency Kosovo would not have much experience and reputation considering the fact that the country exists as an independent state since 2008. On the other hand, thanks to the euro, we are classified as a safe country for borrowing, giving us classified as a stable state, Kosovo's monetary policy is led by the European Central Bank and Kosovo operates according to the rules set by it.

## 5. Conclusions

In the first section of this research, an analysis of the benefits and costs that the use of the euro brings to Kosovo was made. For Kosovo, at this stage, the benefits of using euro are greater than if it had its own currency. First, Kosovo has eliminated the cost of transactions taking into account that 32.2% of exports are with European Union countries and 48% of imports are with the European Union. Another thing for which Kosovo benefits is considered the security in the country for attracting investors due to the application of monetary policy by the ECB, has a controlled fiscal policy and does not pose exchange rate risk, as could happen if the country would to have his own currency. So, all these make the country attractive for attracting foreign and domestic investments.

If we analyze the negative side of the use of the euro we will see that Kosovo is endangered by asymmetric shock. This would happen because Kosovo's exports are not diversified and in case of shocks to raw mineral exports we would have shocks to Kosovo's exports. This category of exports is considered as an advantage for the Kosovo market because it is a category which is not exported much by countries within the euro area. In this case, the chances for the ECB to reduce the impact of this blow on Kosovo are small. Kosovo would be left alone in facing this blow which would be quite severe for the domestic market. On the other hand these shocks are not frequent.

Another cost of using the euro is low inflation. Given that Kosovo is a developing

country, a dose of inflation does not harm the Kosovo market but would act as a catalyst for its development. If we analyze the Balkan countries, it is noticed that the inflation of these countries is slightly higher than that of Kosovo. The same countries also have lower unemployment rates than Kosovo. Regarding the Turkish market, looking at the development stage of the country, we see that Turkey has higher but controllable inflation, which results in a lower unemployment rate than in other Balkan countries. Inflation in our case would help in the recovery of the market and in the creation of new jobs by influencing the reduction of the unemployment rate in Kosovo.

The costs of adopting the euro do not really end here. Another thing that Kosovo's budget loses in this case is seignorage. Given that Kosovo has adopted the euro but is not part of the monetary union, the country does not benefit from the seignorage which would have a positive impact on increasing the state budget. Seignorage would also serve as lending to local banks and consequently in reducing interest rates on loans. The situation would have been different if Kosovo before the adoption of the euro had its own currency and had joined and in this joining the monetary union it would again have benefited from the signaling from the ECB.

The third section analyzes the phenomenon of what the situation would be like if Kosovo had its own currency. Realistically being a new country without any prior history of currency use the country would have faced big difficulties and it would not have been known if Kosovo could face all the challenges that could come its way. First, given that the increase in wages only for the public sector in the last seven years and their non-increase wages in the private sector affects the rise in prices and makes the economy unaffordable. 61% of the country's budget is dedicated to salaries and wages and continuing with this trend the Central Bank, to cover the demand for money after the salary increase. We will have to print money and printing money in an uncontrolled form we know that where he sends us. For this reason, if Kosovo had its own currency, its state debt would be much higher than it is now. Of course now we would be facing very high inflation and even higher unemployment.

The wisest action that Kosovo has taken is to continue using the euro after the devaluation of the German mark. Analyzing the current situation and data for Kosovo, it is more convenient to stay in monetary union than to have its own currency. In this case the country will be more economically stable, more stable for investors, with adopted monetary policy and controlled fiscal policy making the country ranked in the category of safe countries.

## Appendixes

Vendet	Korrik -2018		Korrik -2019		Vendet	Qer -2018		Qer -2019	
	Vlera	%	Vlera	%		Vlera	%	Vlera	%
	Importet (CIF)					Eksportet (FOB)			
Gjithsej	310.268	100.0	336.866	100.0	Gjithsej	28.802	100.0	40.470	100.0
28 vendet e BE_së	127.067	41.0	163.190	48.4	28 vendet e BE_së	7.600	26.7	13.013	32.2
Austria	5.790	1.9	5.207	1.5	Austria	397	1.4	3.584	8.9
Belgjika	936	0.3	1.719	0.5	Belgjika	105	0.4	445	1.1
Britania e Madhe	2.213	0.7	3.525	1.0	Britania e Madhe	414	1.4	808	2.0
Danimarka	797	0.3	548	0.2	Danimarka	-	-	-	-
Franca	3.452	1.1	4.549	1.4	Franca	312	1.1	713	1.8
Gjermania	35.832	11.5	42.126	12.5	Gjermania	1.792	6.2	2.623	6.5
Greqia	8.969	2.9	15.578	4.6	Greqia	60	0.2	143	0.4
Holanda	2.313	0.7	2.571	0.8	Holanda	1.320	4.6	1.629	4.0
Hungaria	2.916	0.9	5.193	1.5	Hungaria	55	0.2	204	0.5
Irlanda	140	0.0	938	0.3	Irlanda	4	0.0	-	-
Italia	22.193	7.2	24.794	7.4	Italia	419	1.5	780	1.9
Luksemburg	71	0.0	120	0.0	Luksemburg	30	0.1	10	0.0
Polonia	8.121	2.6	10.423	3.1	Polonia	470	1.6	490	1.2
Republika Çeke	2.389	0.8	3.801	1.1	Republika Çeke	0	0.0	250	0.6
Slovakia	1.088	0.4	1.073	0.3	Slovakia	15	0.1	23	0.1
Slovenia	6.901	2.2	10.367	3.1	Slovenia	1.379	4.8	205	0.5
Spanja	4.506	1.5	3.136	0.9	Spanja	69	0.2	1	0.0
Suedia	826	0.3	780	0.2	Suedia	54	0.2	41	0.1
Rumani	7.040	2.3	3.602	1.1	Rumani	133	0.5	139	0.3
Bulgaria	5.096	1.6	12.236	3.6	Bulgaria	446	1.5	488	1.2
Kroacia	4.414	1.4	9.282	2.8	Kroacia	212	1	390	1.0
Të tjera të BE_së	1.073	0.3	1.363	0.4	Të tjera të BE_së	14	0.0	48	0.1
CeFTA	82.774	26.7	40.276	14.6	CeFTA	16.041	66.7	10.698	41.3
Shqipëria	21.568	7.0	22.857	6.8	Shqipëria	6.832	23.7	6.751	16.7
Maqedonia	15.449	5.0	23.032	6.8	Maqedonia	3.668	12.7	4.355	10.8
Mali i Zi	1.624	0.5	2.510	0.7	Mali i Zi	1.579	5.5	2.607	6.4
Serbia	37.558	12.1	348	0.1	Serbia	3.174	11.0	2.440	6.0
Bosnja dhe Hercegovina	6.494	2.1	83	0.0	Bosnja dhe Hercegovina	787	2.7	545	1.3
Moldavia	81	0.0	445	0.1	Moldavia	1	0.0	1	0.0
EFTA	4.366	1.4	3.198	0.9	EFTA	2.836	9.8	2.041	5.0
Zvicra	4.312	1.4	2.951	0.9	Zvicra	2.426	8.4	2.041	5.0
Icelandia	-	-	-	-	Icelandia	-	-	-	-
Norvegjia	37	0.0	209	0.1	Norvegjia	99	0.3	-	-
Liechtensten	6	0.0	38	0.0	Liechtensten	-	-	-	-
Vendet tjera evropiane	32.701	10.6	42.060	12.6	Vendet tjera evropiane	778	2.7	494	1.2
Turpia	30.799	9.9	40.766	12.1	Turpia	777	2.7	494	1.2
Ukraina	1.902	0.6	1.303	0.4	Ukraina	2	0.0	0	0.0
Vendet tjera jo evropiane	7.767	2.6	9.266	2.7	Vendet tjera jo evropiane	180	0.6	310	0.8
SHBA	2.945	0.9	3.868	1.1	SHBA	184	0.6	318	0.8
Canada	107	0.0	177	0.1	Canada	1	0.0	2	0.0
Brazili	4.473	1.4	4.853	1.5	Brazili	-	-	-	-
Mexico	343	0.1	318	0.1	Mexico	1	0.0	-	-
Vendet nga Azia	95.944	31.4	97.449	31.1	Vendet nga Azia	1.090	3.6	7.498	18.4
Japonia	1.097	0.4	1.399	0.4	Japonia	8	0.0	48	0.1
Kina	32.401	10.4	32.757	9.7	Kina	83	0.3	43	0.1
India	1.846	0.6	3.293	1.0	India	948	3.3	7.347	18.2
Të tjera	20.248	6.6	32.402	9.6	Të tjera	642	1.9	467	1.2

Figure 1. Exports and Imports of Kosovo for the period July 2018 - June 2019

Source: (Agjencia e Statistikave të Kosovës, 2019)

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