

KOSOVO ECONOMY REPORT

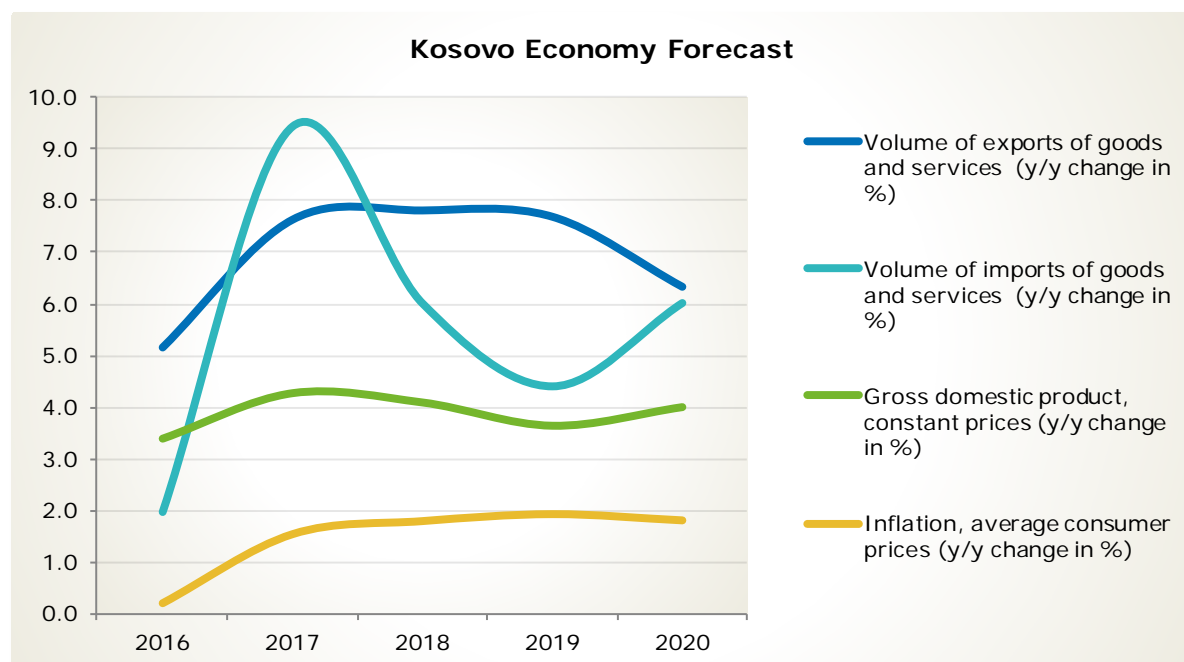
Q1 2016

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1. MACROECONOMIC SNAPSHOT AND FORECAST

KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q1 2016	
GDP Growth	3.8% y/y
Industrial sales y/y change in	
- Mining	66.0%
- Manufacturing	-4.8%
- Electricity and gas supply	7.9%
- Water supply	-2.6%
Average annual inflation	-0.1%
Unemployment rate	32.9% (2015)
Household loans	14.1% y/y
Gross external debt	EUR 1.928 bln
Current account deficit	EUR 110.5 mln
Net FDI inflow	EUR 57.100 mln
Foreign trade deficit	EUR 489.9 mln
Number of foreign tourist overnights	3.2% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2016

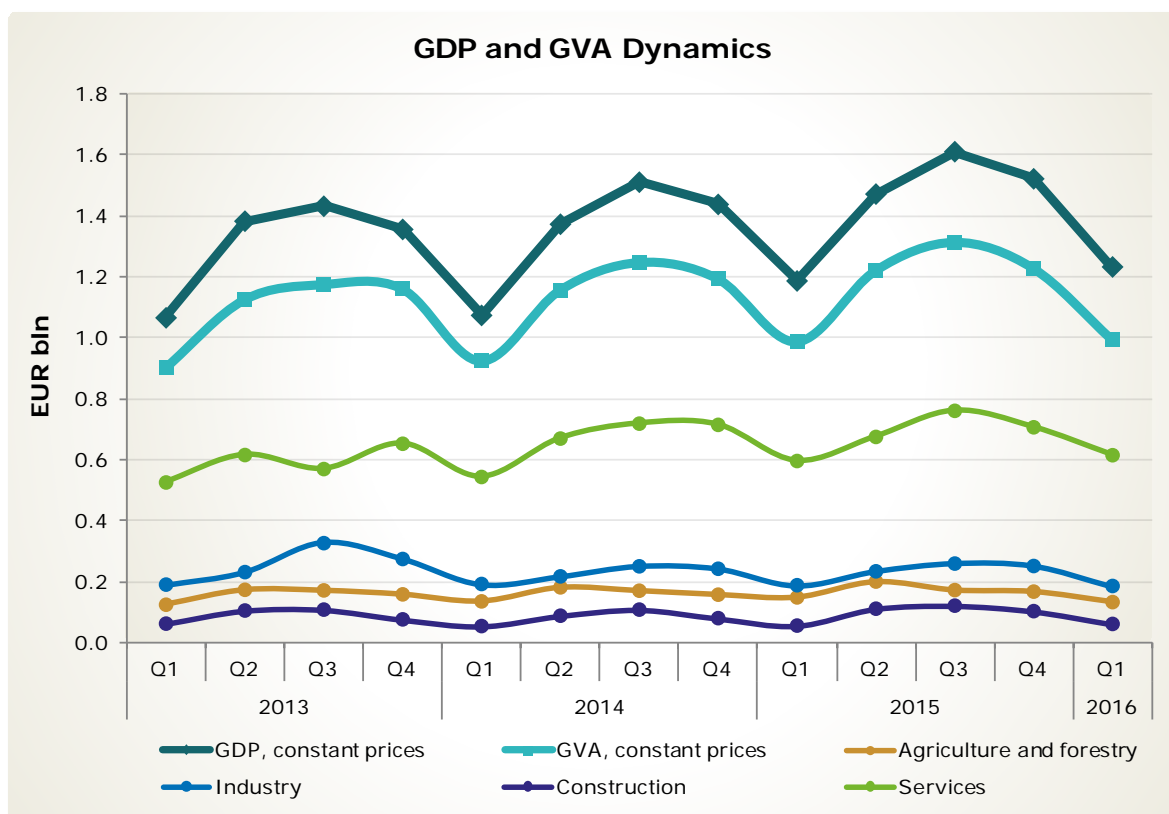
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 3.8% y/y in Q1 2016, compared to a 1.6% y/y rise in the year-ago quarter

The country's GDP increased by a real 3.8% y/y and totalled EUR 1.232 bln at constant prices in Q1 2016, according to preliminary data of Kosovo Agency of Statistics (ASK).

Final consumption, increased in value terms by 4.5% y/y and amounted to EUR 1.313 bln. Gross capital formation went up by 20.9% to EUR 315.5 mln. Exports inched up by 0.6% y/y, while imports rose by 11.9%.



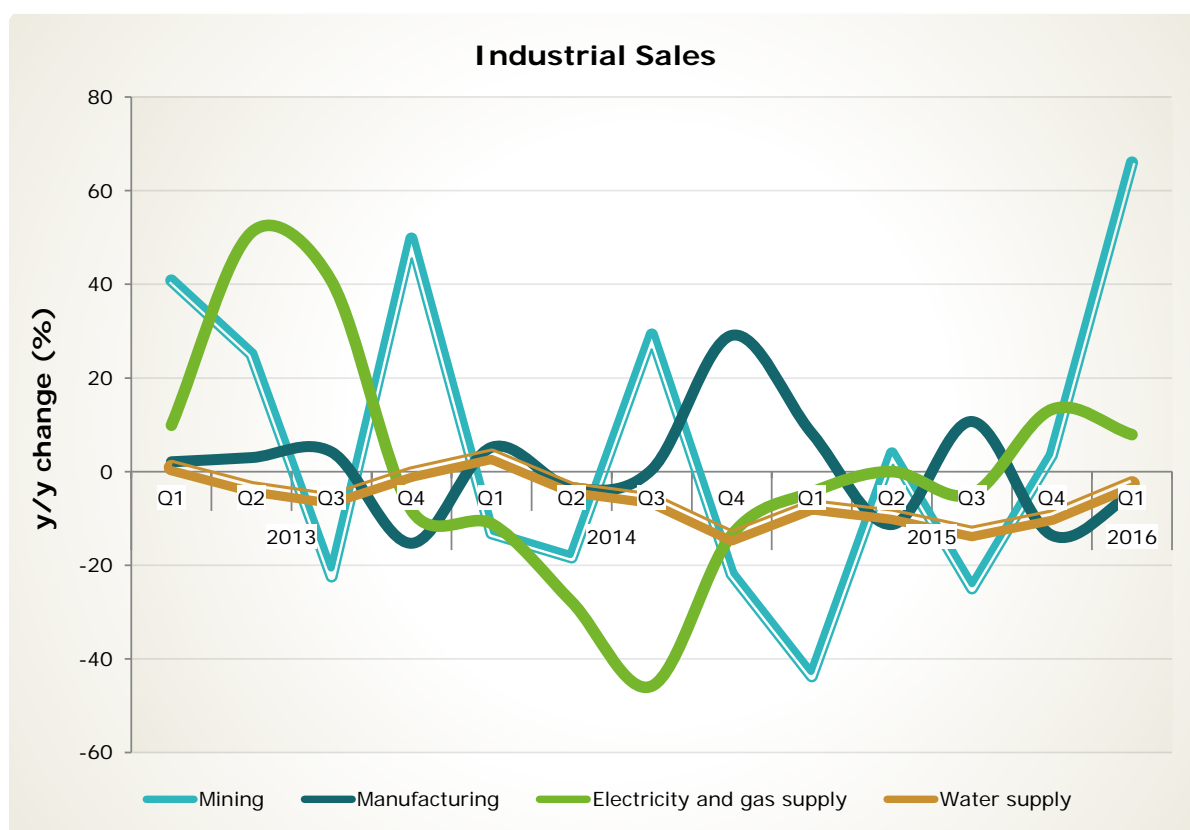
Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 0.7% y/y in Q1 2016 and totalled EUR 993.5 mln. The industrial sector declined by 1.3% and its share in the GVA structure went down to 18.7% from 19.0%. The services sector recorded a 3.2% annual increase, slicing a 61.8% share in the GVA compared to 60.3% a year earlier. The agricultural sector registered an annual drop of 10.4%, thus narrowing its share in the GVA to 13.3%, from 15.0%. The construction industry jumped by 9.7% and raised its share in the GVA to 6.1% from 5.6%.

2.2. INDUSTRIAL SALES

Industrial sales show mixed results in Q1 2016

Industrial sales in the mining industry jumped by 66.0% y/y in Q1 2016, ASK data showed. Electricity and gas supply had a much lower increase in sales, of 7.9%, while sales in the manufacturing and water supply industries fell by 4.8% and 2.6%, respectively.



Source: ASK

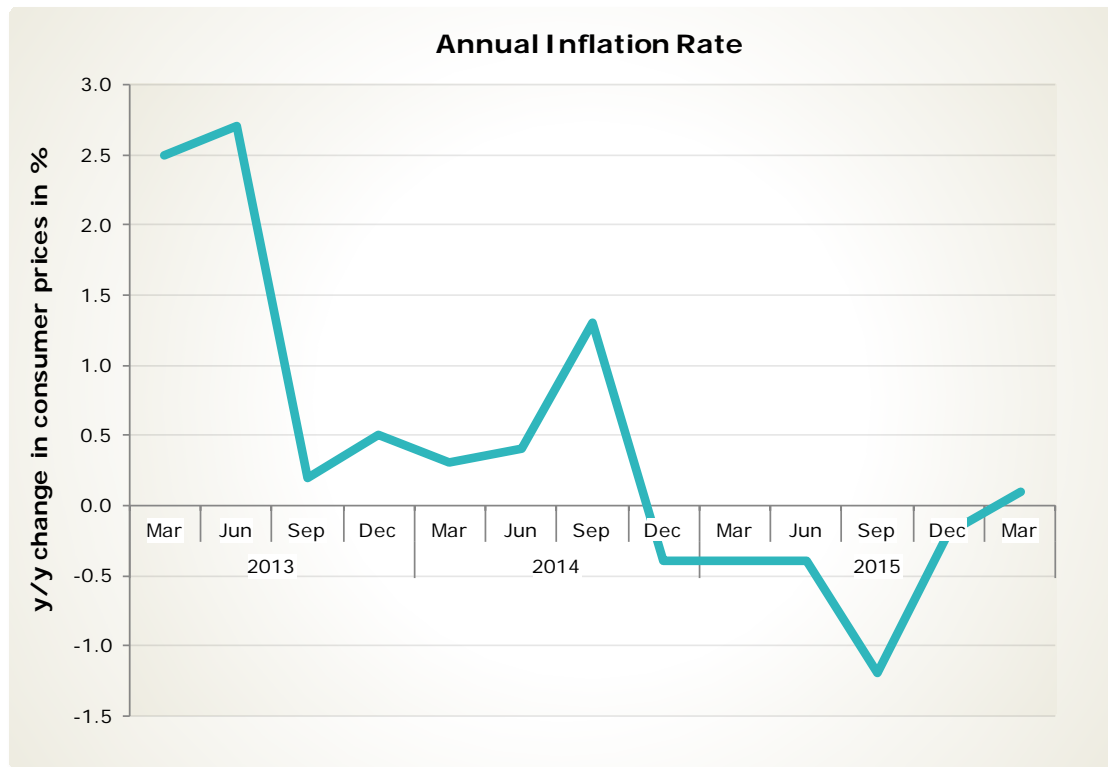
2.3. INFLATION

Annual inflation of 0.1% in March 2016

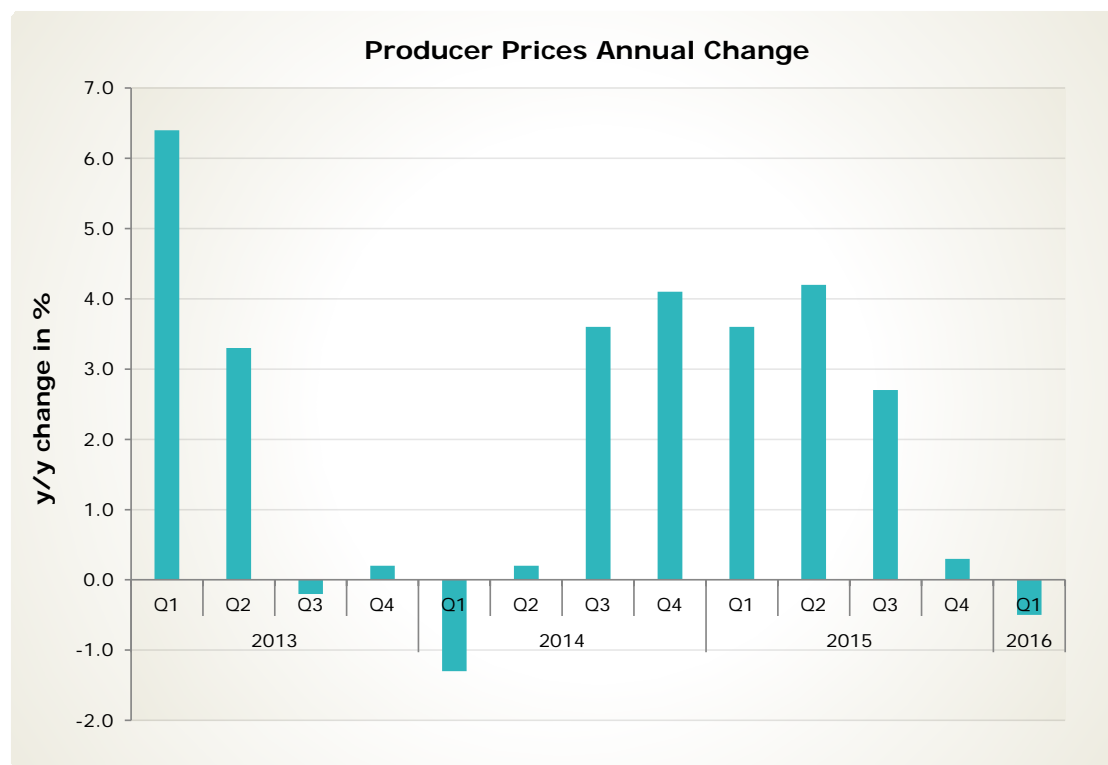
Inflation in March 2016 remained unchanged in comparison to the previous month, at 0.1%, according to ASK. In January it was higher, at 0.2%, following a deflation period of more than a year.

Prices of alcoholic beverages registered the sharpest annual inflation, of 15.5%, in March 2016, followed by tobacco with 11.0%, and sugar, jam, honey, chocolate and confectionery with 8.9%.

In terms of highest annual deflation, personal transport equipment stood on top with 9.0%, followed by vegetables – 7.8% and water supply services – 6.7%.



Source: ASK



Source: ASK

3. LABOUR MARKET

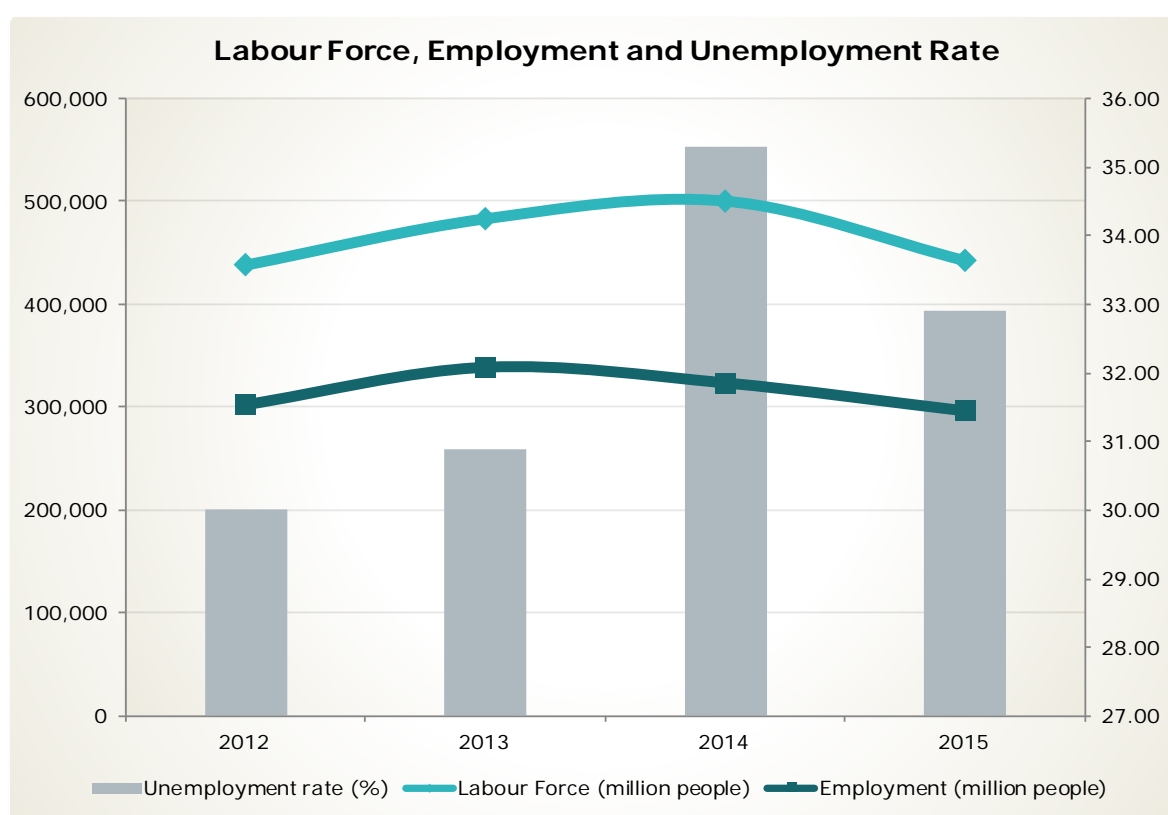
Unemployment rate went down y/y to 32.9% in 2015*

*Only annual data is available.

Unemployment in Kosovo fell to 32.9% of the total labour force in 2015 from 35.3% a year earlier, according to data of ASK.

The employed population aged 15 years and older was 296,940 in 2015, down by 8.2% y/y.

The youth (population aged 15-24) unemployment rate also narrowed, to 57.7% from 61.0%.



Source: ASK

Average monthly net wage up 9.9% y/y in Q1 2016

The average monthly net salary in the public sector in Kosovo rose by 9.9% y/y to EUR 466 in the first quarter of 2016, according to ASK.

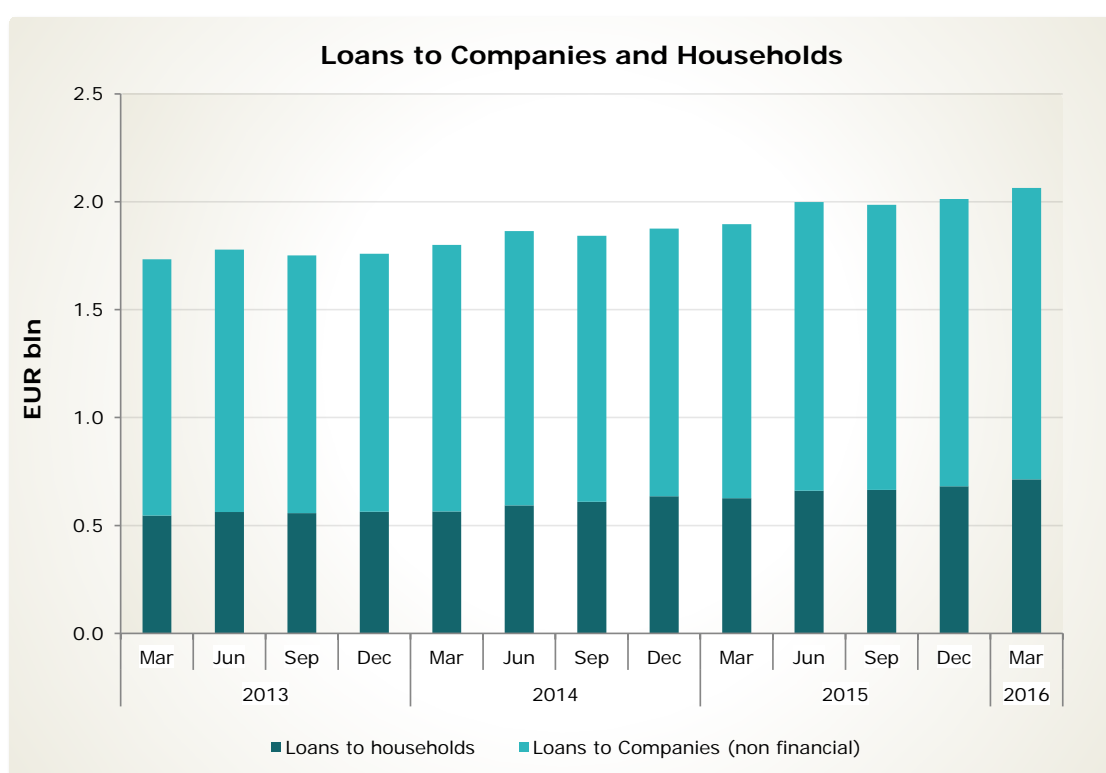
Employees in the public order and security, followed by healthcare professionals, earned the highest salaries, of EUR 516 and EUR 494, respectively. Third in terms of wages was the general services sector with EUR 489.

4. BANKING AND INSURANCE

Household loans jumped by 14.0% y/y in March 2016

Loans to the non-government sector totalled EUR 2.070 bln as of March 2016, up by 8.8% y/y, according to the Central Bank of Kosovo (BQK). In January 2016 their value was EUR 2.006 bln, rising to EUR 2.026 bln in February.

As of March 2016, household loans increased by 14.0% to EUR 713.9 mln and loans to non-financial corporations rose by 6.2% to EUR 1.350 bln.

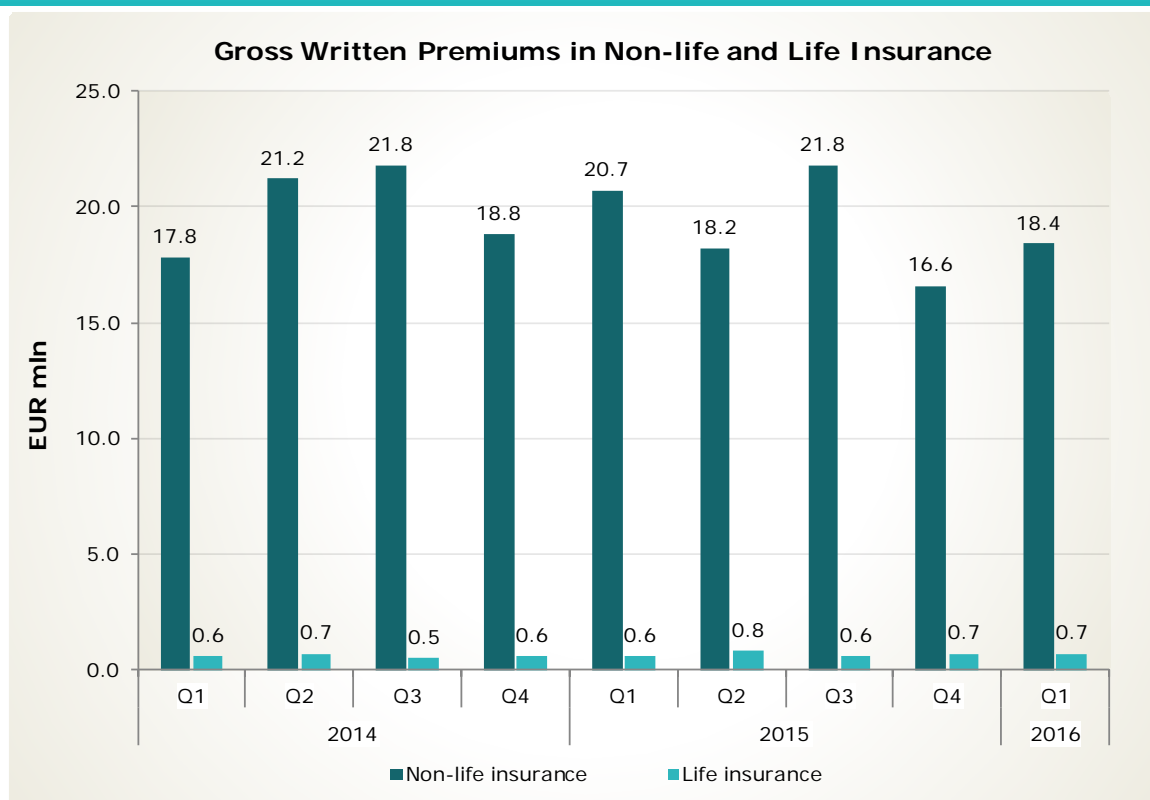


Source: BQK

Insurance premium income fell by 10.8% y/y in Q1 2016

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went down by 10.8% y/y to EUR 19.0 mln in Q1 2016, according to BQK.

The downturn was due to the non-life insurance market, which dropped to EUR 18.4 mln from EUR 20.7 mln a year earlier. The life insurance market grew by 16.7% to EUR 700,000 but couldn't cushion the overall annual drop in premium income as it represented only 3.7% of the total insurance market GWP.



Source: BQK

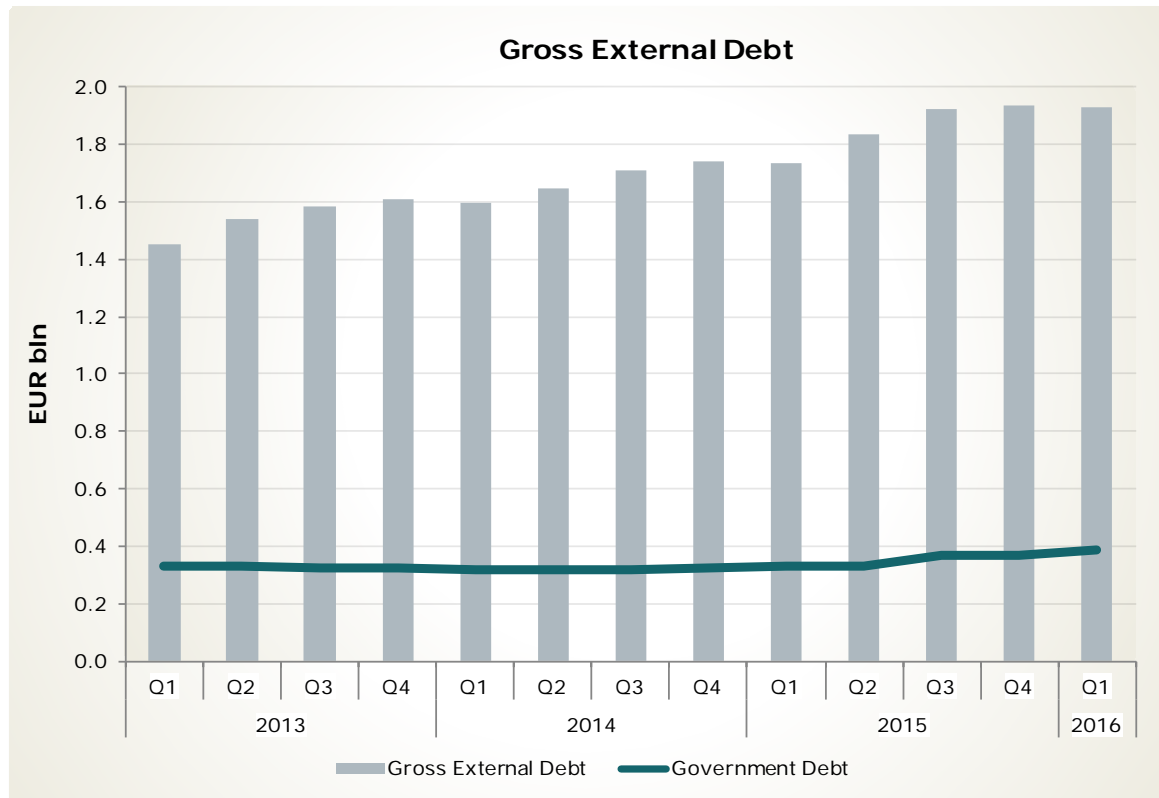
5. EXTERNAL SECTOR

5.1. FOREIGN DEBT

The gross external debt increased y/y to EUR 1.928 bln in Q1 2016

The gross external debt stood at EUR 1.928 bln as of Q1 2016, according to BQK. It grew by 11.2%, or EUR 194.3 mln, in comparison to a year ago. Compared to the end of 2015, the gross external debt inched down by 0.2%.

As of Q1 2016, long-term liabilities amounted to EUR 601.3 mln, or 31.2% of the total debt, rising by 20.8% y/y. Short-term liabilities totalled EUR 540.2 mln, up 7.0% y/y, equal to 28.0% of the total debt.



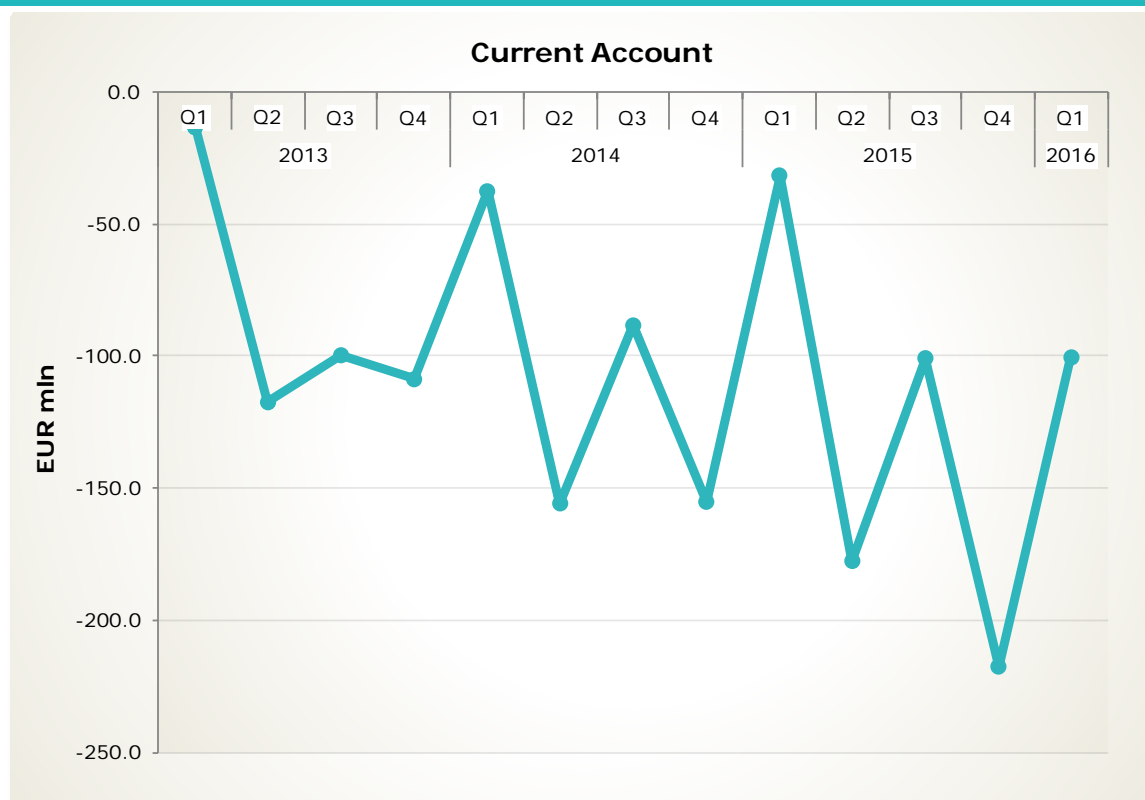
Source: BQK

5.2. BALANCE OF PAYMENTS

Current account gap widened to EUR 110.5 mln in Q1 2016

The current account deficit widened to EUR 100.5 mln in Q1 2016 from EUR 31.6 mln in Q1 2015, according to central bank statistics data. However, compared to the previous quarter, Q4 2015, the current account deficit more than halved.

Secondary income decreased, both annually and quarterly, to EUR 243.9 mln from EUR 272.4 mln in the previous quarter and EUR 260.3 mln in the year-ago quarter.



Source: BQK

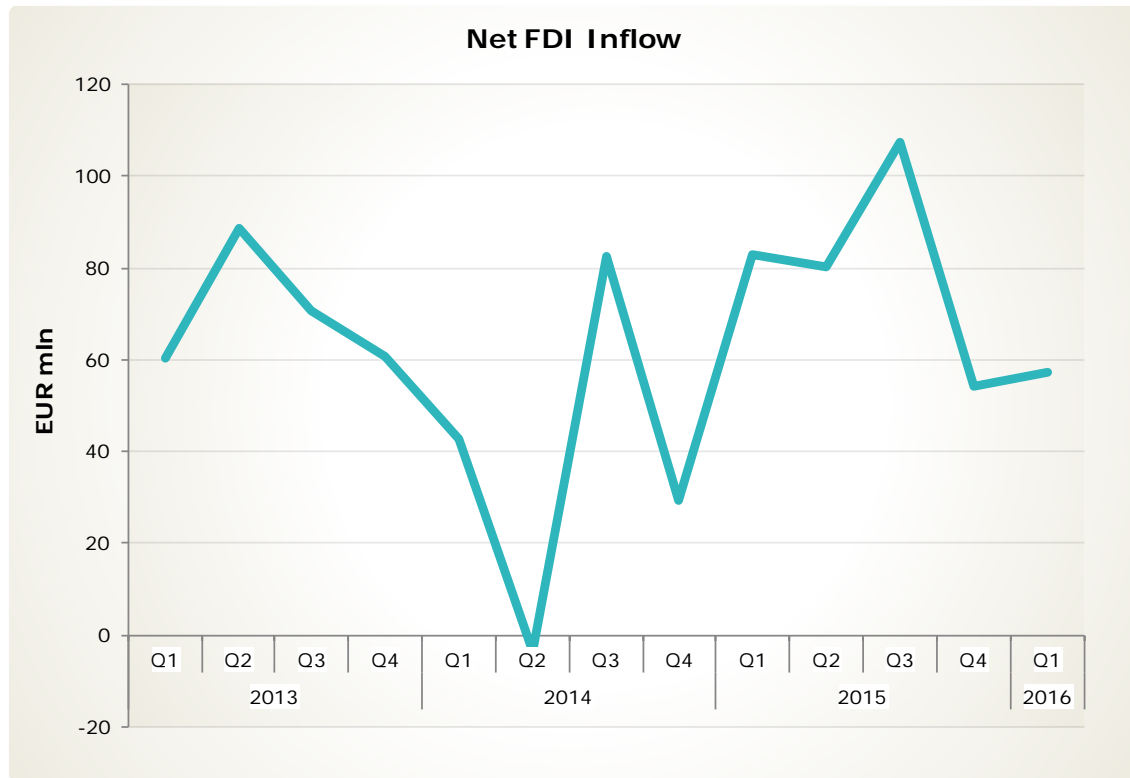
5.3. FDI

Net FDI inflow at EUR 57.1 mln in Q1 2016

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 57.1 mln in Q1 2016, compared to EUR 82.7 mln a year earlier, according to BQK data.

In Q1 2016, the leading sector in terms of attracted FDI was real estate with EUR 50.7 mln, far ahead of the second – financial intermediation with EUR 14.3 mln. The third spot was occupied by the wholesale/retail trade with EUR 4.2 mln.

In the quarter under review, Turkey was the biggest foreign investor in Kosovo with FDI of EUR 22.7 mln, Germany came second with EUR 9.5 mln and Albania was third with EUR 7.1 mln.



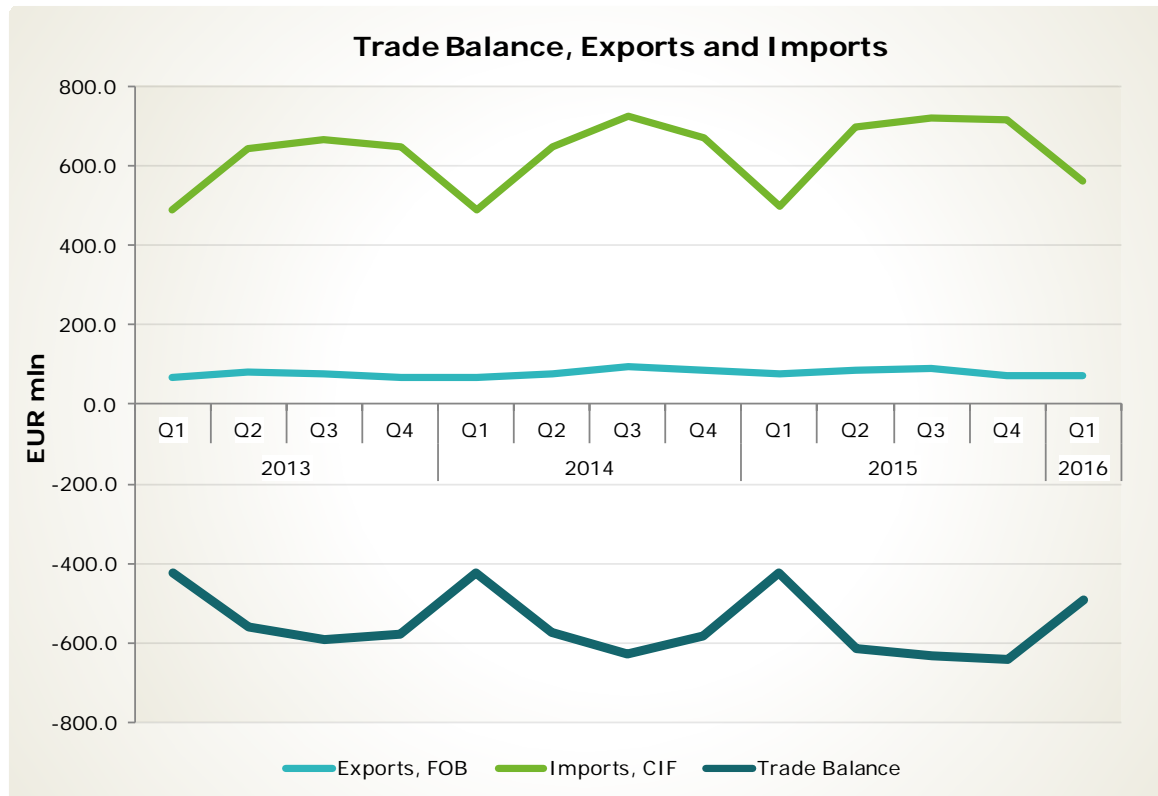
Source: BQK

5.4. FOREIGN TRADE

Foreign trade deficit increased by 15.8% y/y in Q1 2016

The trade deficit stood at EUR 489.9 mln in Q1 2016, compared to EUR 423.2 mln in the corresponding quarter of the previous year, according to BQK data.

In the first quarter of 2016, manufactured goods classified chiefly by material had the largest share, of 46.7%, in the total exports, while machinery and transport equipment was the leader in terms of imports with a share of 20.5%.



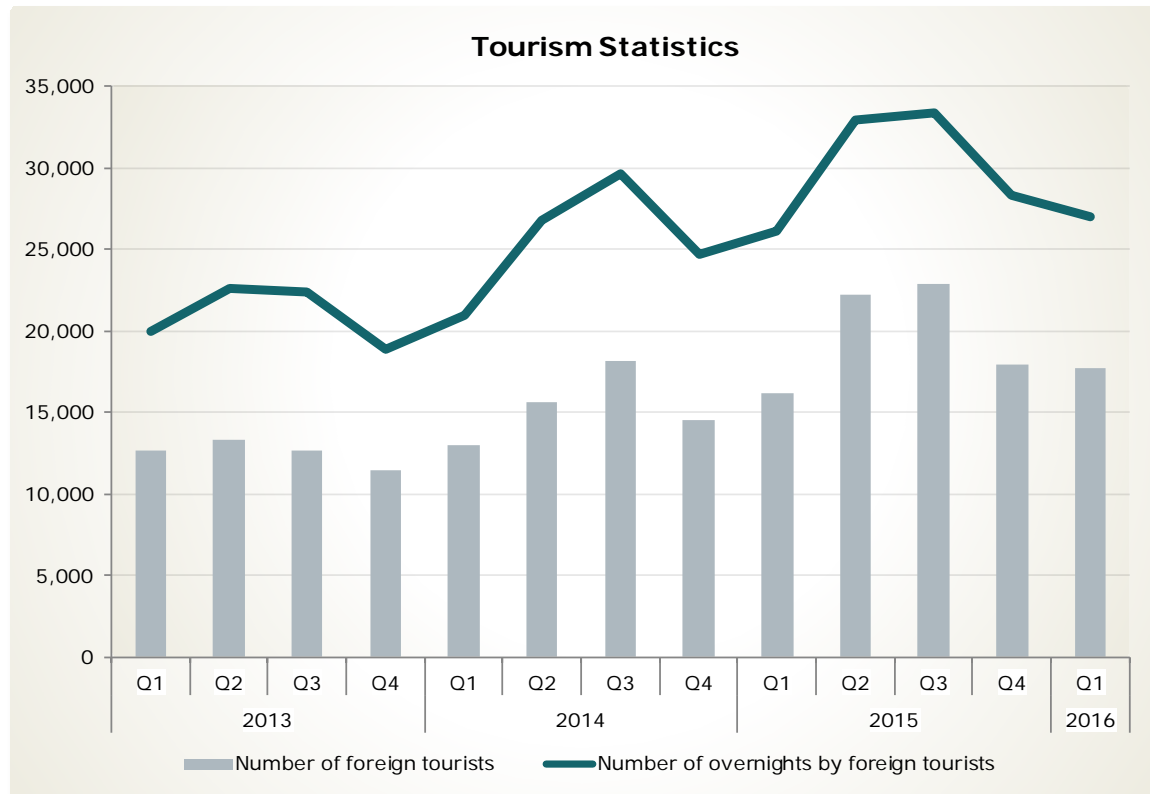
Source: BQK

5.5. TOURSIM

Number of foreign tourist overnights increased by 3.2% y/y in Q1 2016

Tourist overnights of foreigners went up by an annual 3.2% to 26,973 in Q1 2016, according to ASK. They accounted for 58.0% of the total number of tourist overnights in the country.

The number of foreign tourists rose by 9.1% y/y to 17,690. Most foreign tourists visiting Kosovo came from Albania – 3,811, Turkey – 1,258 and Germany – 1,180.



Source: BQK

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