

## KOSOVO ECONOMY REPORT

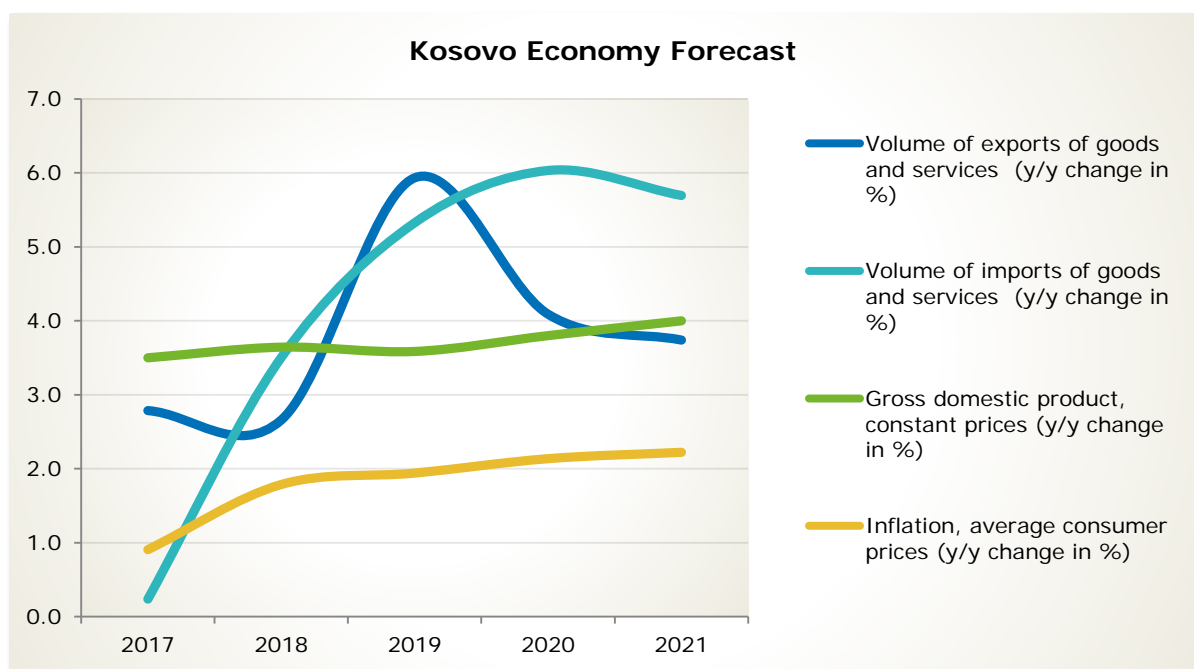
### Q1 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q1 2017	
<b>GDP Growth</b>	3.9% y/y
<b>Industrial sales y/y change in</b>	
- Mining	54.1%
- Manufacturing	3.2%
- Electricity and gas supply	7.3%
- Water supply	14.7%
<b>Annual inflation</b>	1.5%
<b>Unemployment rate</b>	30.5%
<b>Household loans</b>	14.0% y/y
<b>Gross external debt</b>	EUR 2.108 bln
<b>Current account deficit</b>	EUR 150.6 mln
<b>Net FDI inflow</b>	EUR 65.1 mln
<b>Foreign trade deficit</b>	EUR 533.0 mln
<b>Number of foreign tourist overnights</b>	-2.7% y/y



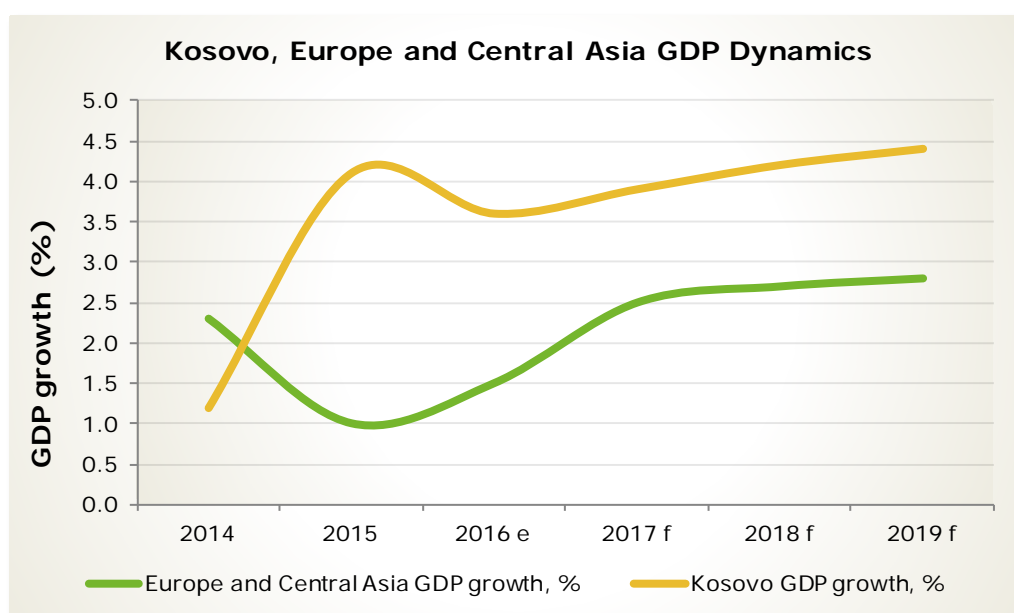
Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2017

According to a recent IMF forecast, the GDP of Kosovo will rise by 3.5% in 2017, up from realized 3.4% growth in 2016 and driven by strong domestic demand. In the medium term, the acceleration of key infrastructure projects should boost investment and expand the production base. This, together with the ongoing removal of obstacles to bank lending and

progress in realigning labor costs via public sector wage moderation, should help support medium-term growth in the range of 3.5 to 4.0% in 2018-2021.

After deflation averaged -0.5% over 2015 and remaining negative through most of 2016, inflation has started to recover. The drivers of this turnaround have been external food and energy prices. Base effects should imply a modest but positive inflation for 2017 as a whole, according to IMF estimates.

Risks to the GDP growth on the downside the IMF points possible political tensions, both domestic and regional, which could weigh on confidence. In addition, the run up to local and general elections could see the return of populist measures that could compromise medium term stability.



Source: World Bank, Europe and Central Asia Economic Update, May 2017

The World Bank projects economic growth in Kosovo to reach 3.9% in 2017, as higher public and private investments are expected to contribute 2.7 pp to overall growth, and higher disposable incomes will contribute to higher consumption - a further 2.3 pp of overall GDP growth. The contribution of net exports will remain negative because of fast import growth and weak exports constrained by a small export base.

Investment growth will cause a slight widening of the current account deficit in 2017-2018. FDI is expected to increase in 2018-2019 with new investments in power generation capacities. This should boost growth and provide additional employment opportunities, according to the bank forecasts.

#### Kosovo – GDP, Inflation, Current Account Balance and FDI Dynamics (y/y change in %)

	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change in %	1.2	4.1	3.6	3.9	4.2	4.4
Private Consumption	4.8	4.0	5.8	2.0	3.3	2.2

Government Consumption	-2.5	-6.5	-4.1	3.7	1.8	1.6
Gross Fixed Capital Investment	-3.3	12.5	8.6	10.6	8.0	7.0
Exports, Goods and Services	16.8	2.5	4.8	2.8	5.0	8.4
Imports, Goods and Services	8.6	3.6	8.1	4.4	4.2	2.9
Real GDP growth, at constant factor prices (by sectors)	5.1	2.9	5.7	4.4	4.9	5.2
Agriculture	0.8	-4.1	13.2	6.8	8.4	9
Industry	0.1	5.9	6.8	4.8	5.9	6.2
Services	9.3	2.9	3.4	3.6	3.4	3.6
Inflation (Consumer Price Index)	0.4	-0.5	0.3	0.7	1.2	1.7
Current Account Balance (% of GDP)	-9.1	-10.4	-11.5	-12.5	-13.3	-12.9
Debt (% of GDP)	10.6	12.9	14.6	17.6	20.4	22

Source: World Bank, Europe and Central Asia Economic Update, May 2017

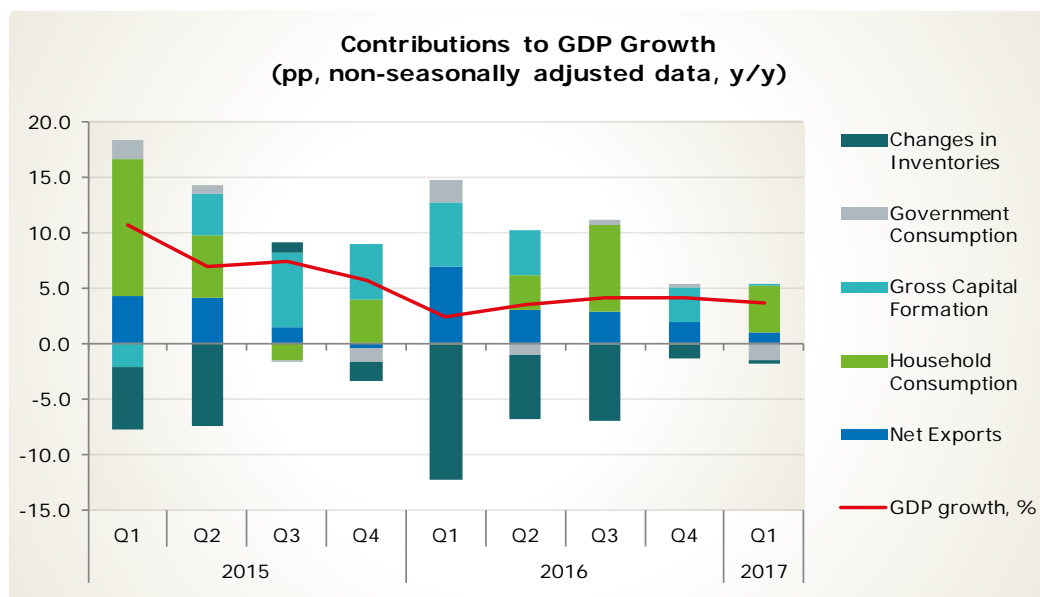
The outlook is subject to downside risks, which include the sensitive political situation in the north and demarcation with Montenegro, and perceived high corruption, that have disrupted economic agenda.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

*GDP went up by real 3.9% y/y in Q1 2017, up from 3.0% y/y rise in Q4 2016*

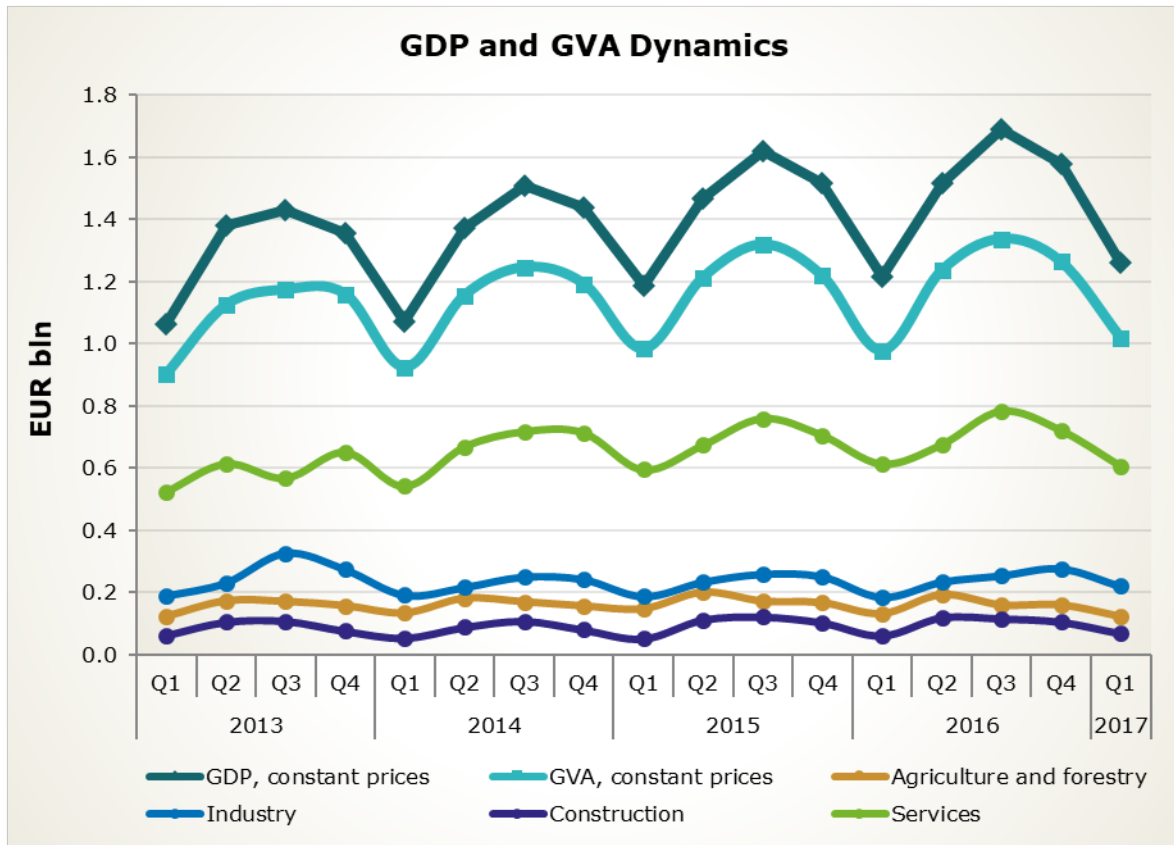
The country's GDP increased by a real 3.9% y/y and totalled EUR 1.261 bln at constant prices in Q1 2017, according to preliminary data of Kosovo Agency of Statistics (ASK).



Source: SeeNews calculations; ASK

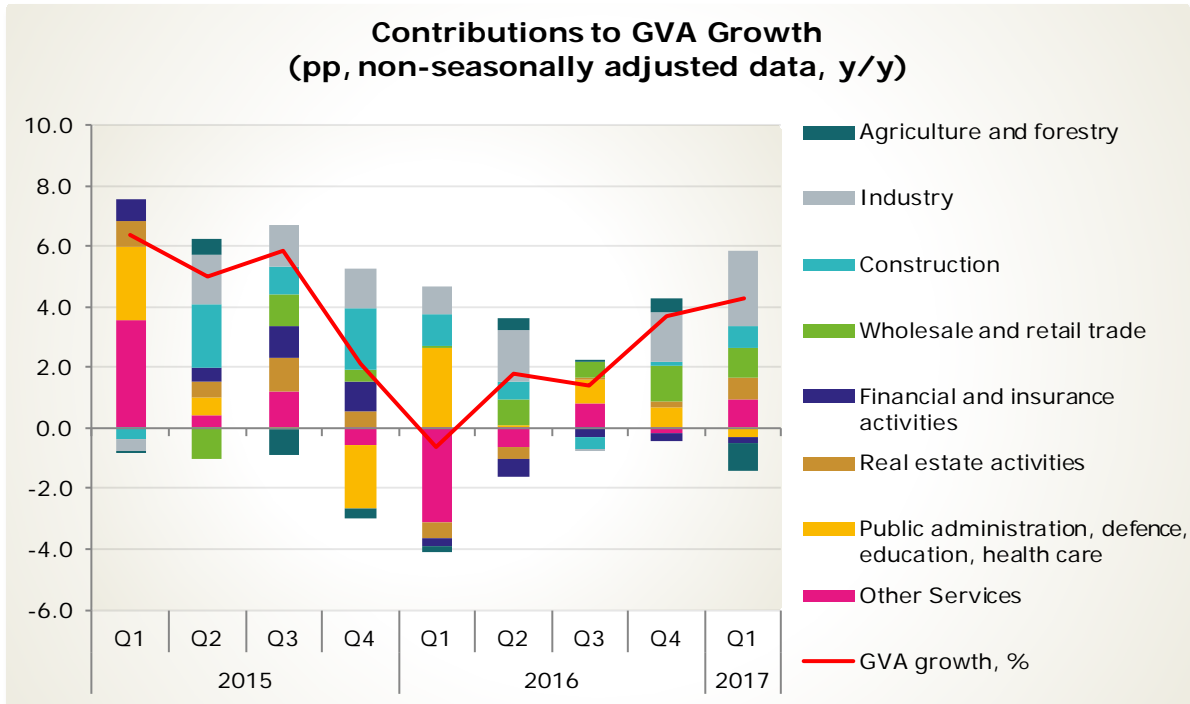
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

Final consumption, increased in value terms by 2.5% y/y and amounted to EUR 1.338 bln. Gross capital formation went up by 0.9% to EUR 323.5 mln. Exports grew by 4.7% y/y, while imports rose by 0.2%.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 4.3% y/y in Q1 2017 and totalled EUR 1.020 bln. The industrial sector grew by 18.6%, and its share in the GVA structure increased to 21.6% from 19.0%. The services sector recorded a 1.1% annual decrease, slicing a 59.6% share in the GVA, down from 62.8% a year earlier. The agricultural sector registered an annual fall of 6.9%, and its share in the GVA fell to 12.1% from 13.6% a year earlier. The construction industry grew by 11.6% and its share in the GVA increased to 6.7% from 6.3%.



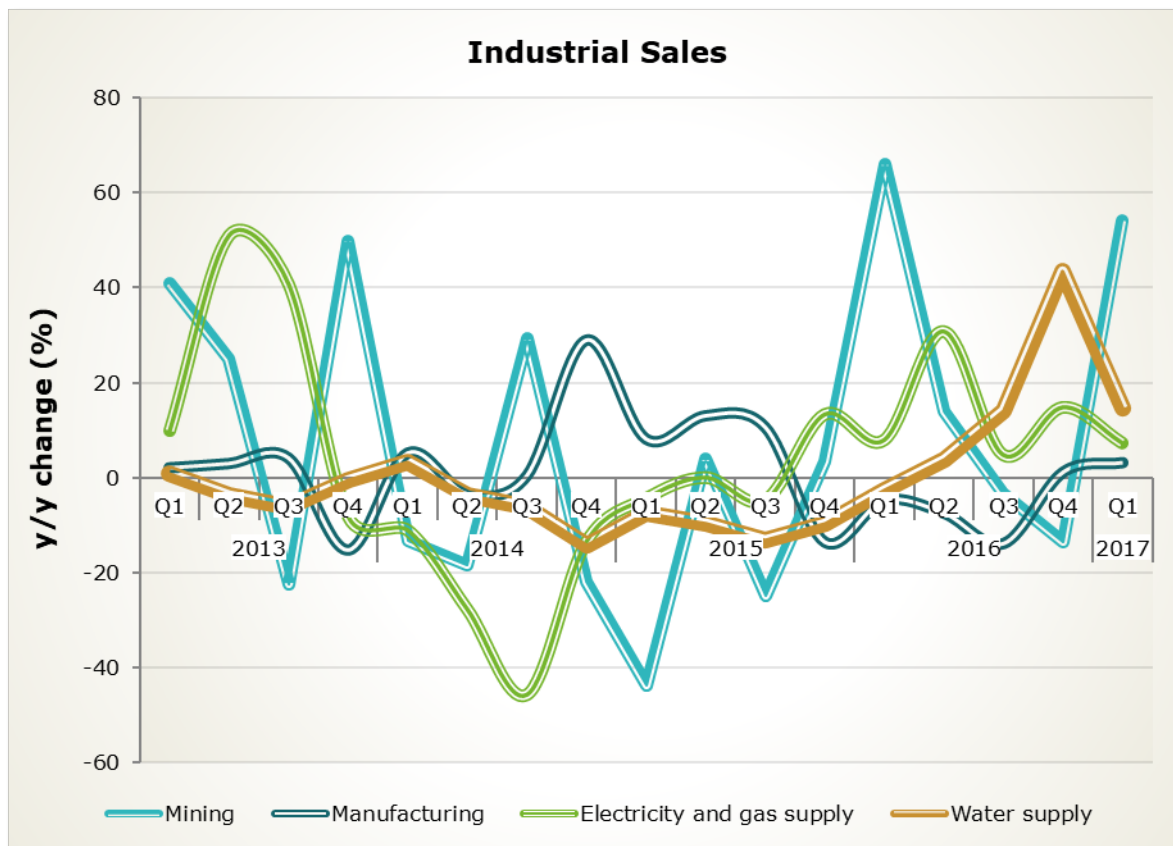
Source: SeeNews Calculations; ASK

Note: Non-additive data due to direct chain linking of GDP and its components.

## 2.2. INDUSTRIAL SALES

### Industrial sales grew in all sectors in Q1 2017

The sales of all industries grew annually in the first quarter of 2017, ASK data showed. Sales in the mining industry jumped by 54.1%, followed by the 14.7% growth in the water supply sector. Industrial sales in the electricity and gas supply, and manufacturing industries increased by 7.3% and 3.2%, respectively.



Source: ASK

## 2.3. INFLATION

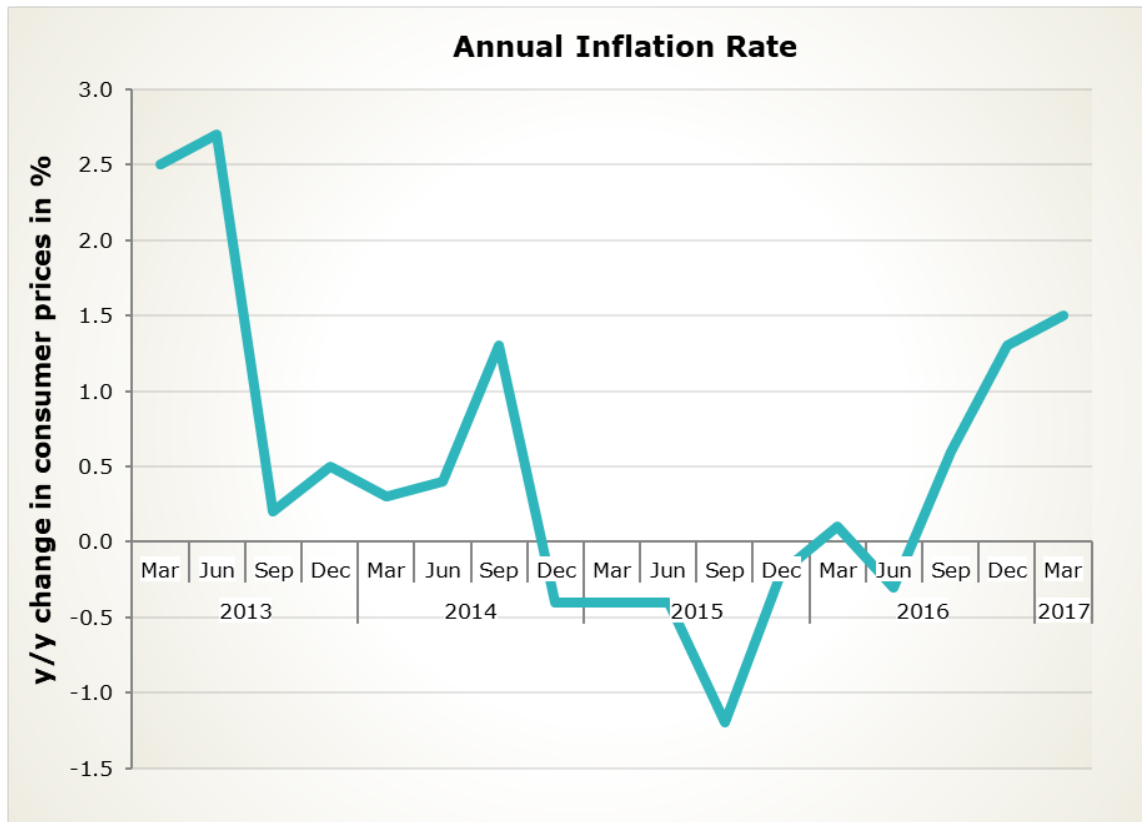
### *Inflation accelerated to 1.5% in March 2017 on higher energy prices*

Kosovo registered an annual inflation of 1.5% in March 2017, compared to inflation of 1.3% in December 2016, according to ASK.

The average consumer prices of the group of housing, water, electricity, gas and other fuels increased by 2.6% y/y, while the Transport sector registered inflation of 5.6% y/y in March 2017. The prices of the group of the alcoholic beverages and tobacco went up by 2.7% y/y on average.

The communication sector registered deflation in March, of 0.7% y/y and the average vegetables prices decreased by 3.2% y/y.

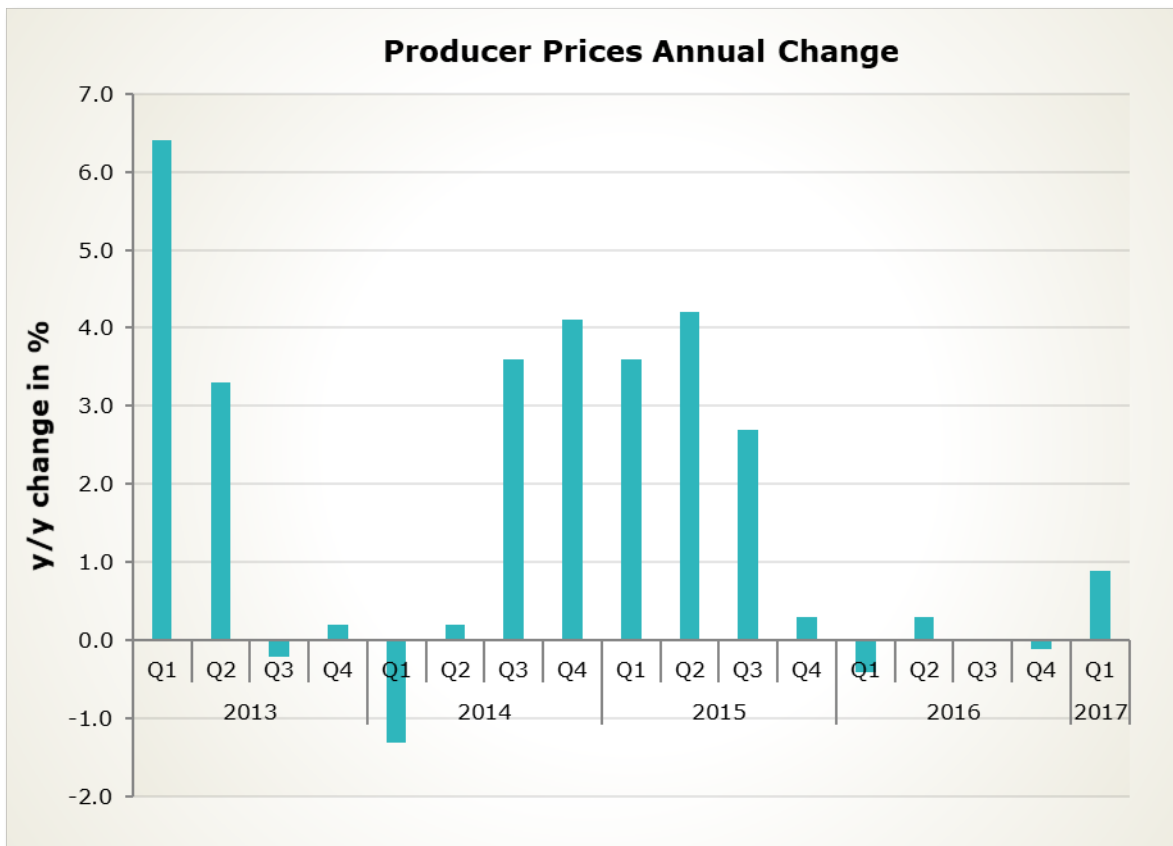




Source: ASK

Producer prices in Kosovo inched up by 0.9% y/y in Q1 2017, according to ASK. The largest increase by sectors is observed in metal mining - 80.4%, manufacture of metal - 16.7%, and manufacture of electrical equipment - 2.5%,

The largest decrease by sectors is observed in motor vehicles, trailers and semi-trailers - 5.8%, beverage production - 4.6%, and production of food products - 3.8%.



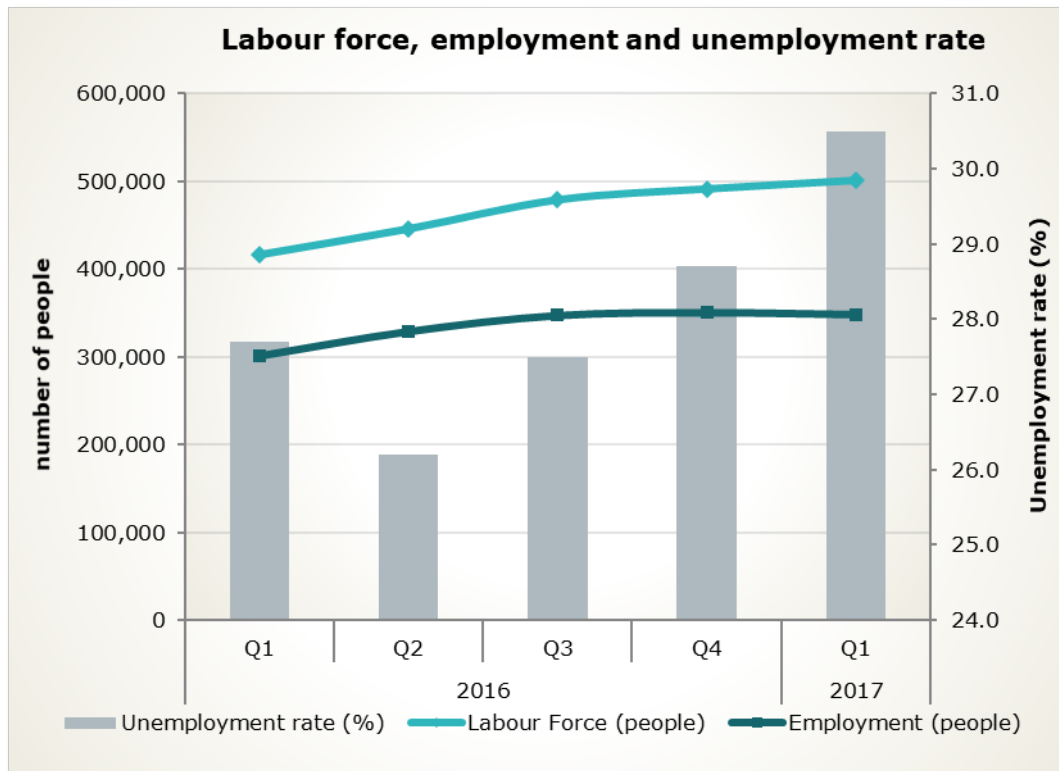
Source: ASK

### 3. LABOUR MARKET

#### *Unemployment rate at 30.5% in Q1 2017*

Unemployment in Kosovo expanded to 30.5% of the total labour force in Q1 2017 from 27.7% a year earlier, according to data of ASK. The youth (population aged 15-24) unemployment rate fell - to 50.5% from 53.8% a year earlier.

The employed population aged 15 years and older increased by 15.8% y/y to 348,200 in Q1 2017.



Source: ASK

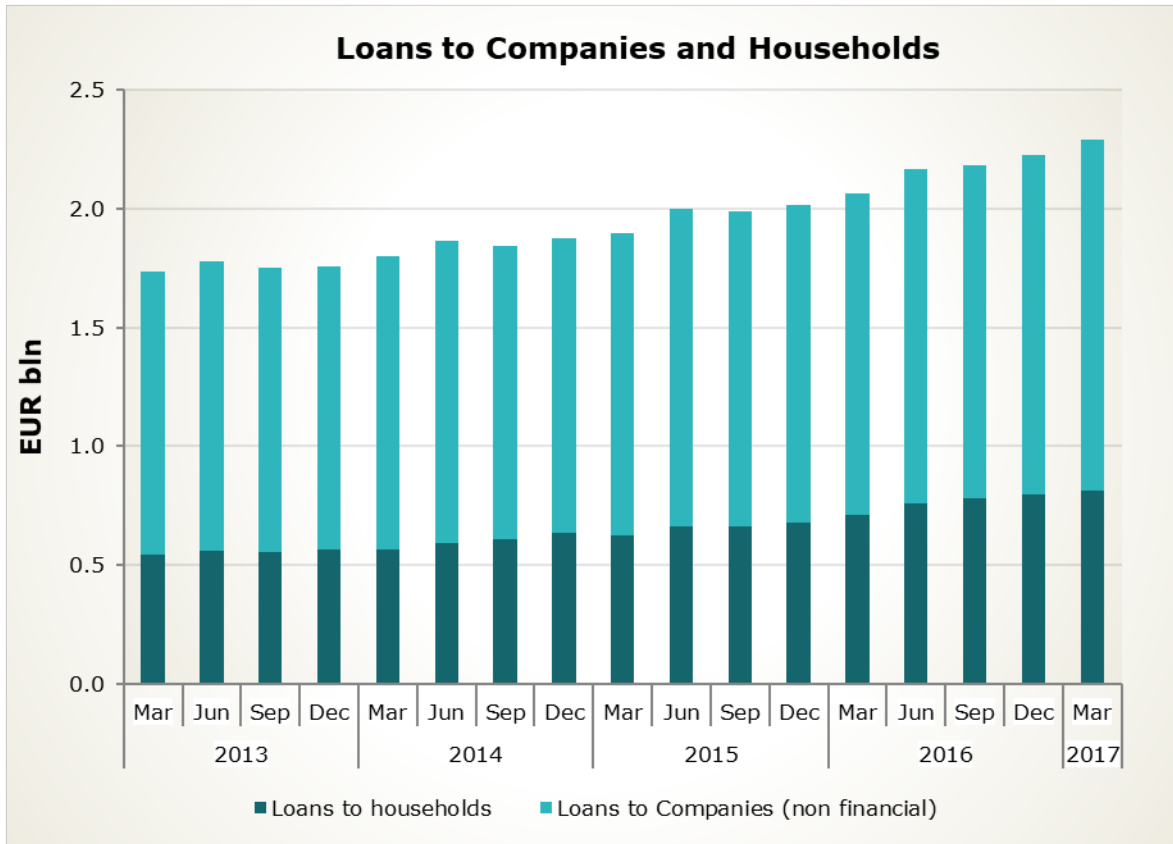
### Average monthly net wage down 5.4% y/y in Q1 2017

The average monthly net salary in the public sector in Kosovo decreased by 5.4% y/y to EUR 441 in Q1 2017, according to ASK.

## 4. BANKING AND INSURANCE

### Household loans jumped by 14.0% y/y as of March 2017

Household loans increased by 14.0% y/y to EUR 813.8 mln as of March 2017, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 9.4% to EUR 1.477 bln.

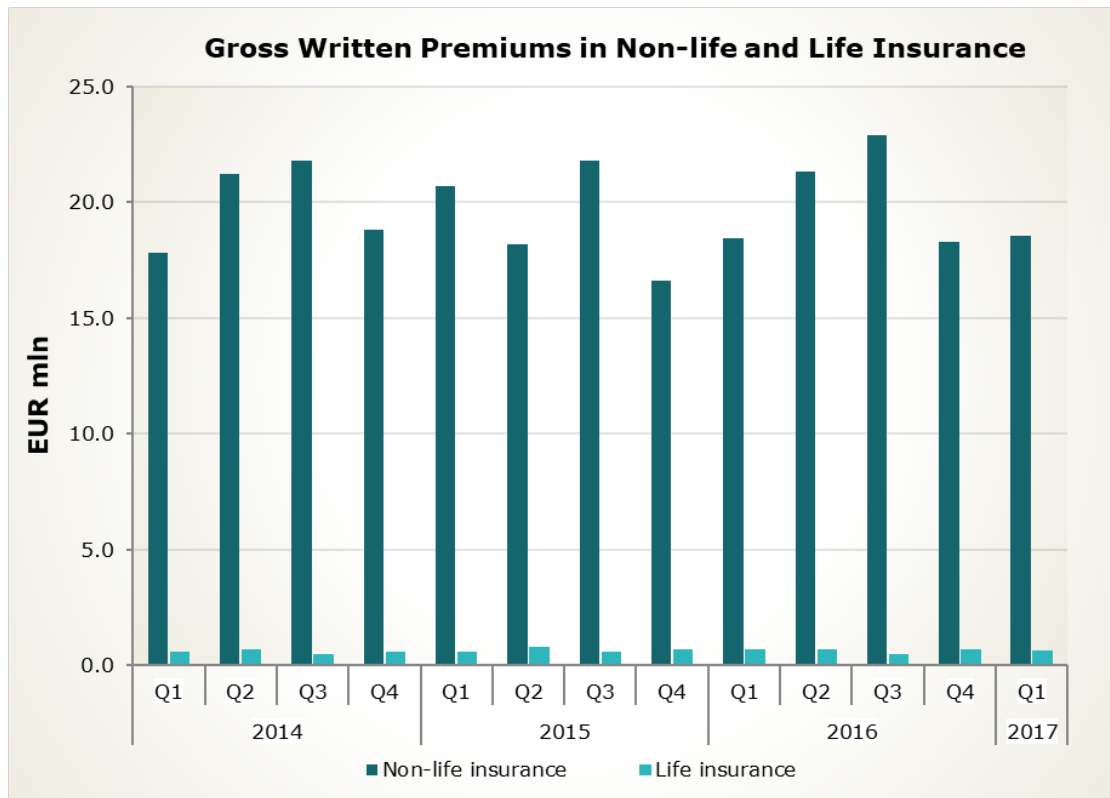


Source: BQK

### Insurance premium income grew by 0.1% y/y in Q1 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo inched up by 0.1% y/y to EUR 19.2 mln in Q1 2017, according to BQK.

The upturn was due to the non-life insurance market, which grew to EUR 18.529 mln from EUR 18.458 mln a year earlier. The life insurance market dropped by 7.2% to EUR 0.641 mln.



Source: BQK

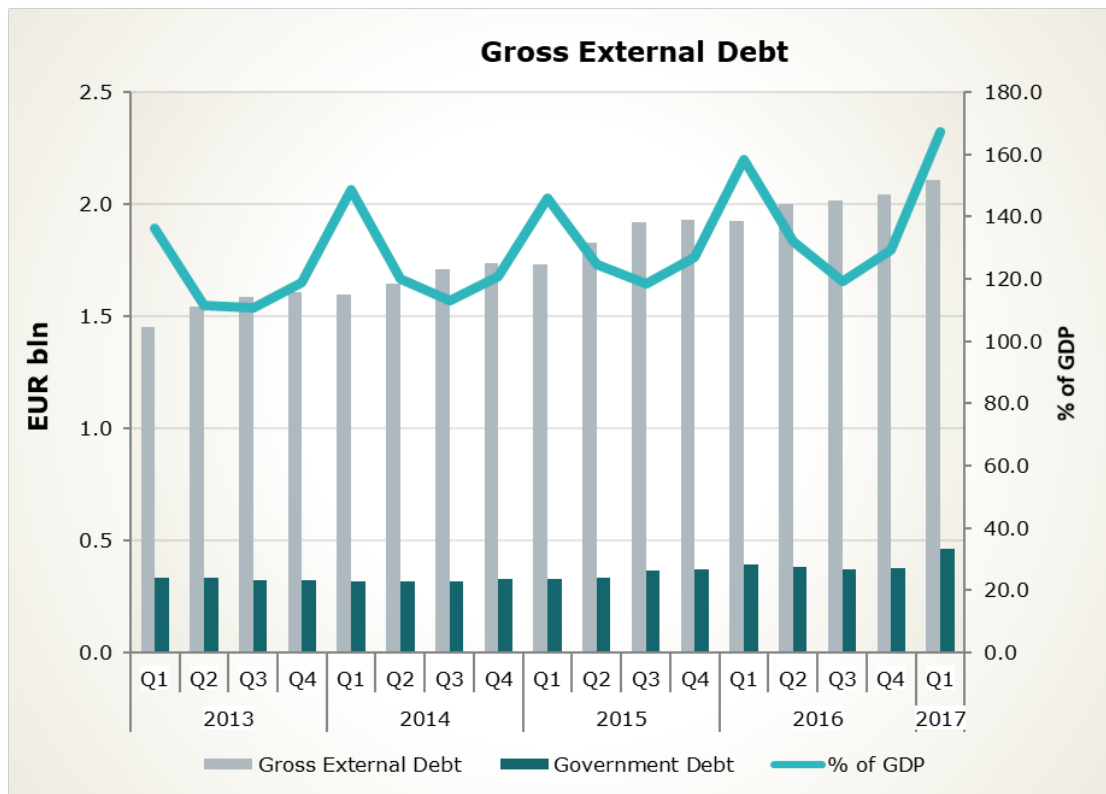
## 5. EXTERNAL SECTOR

### 5.1. FOREIGN DEBT

*The gross external debt increased y/y to EUR 2.108 bln in Q1 2017*

The gross external debt stood at EUR 2.108 bln as of Q1 2017, according to BQK. It grew by 9.4%, or EUR 180.5 mln, in comparison to the previous year. The gross external debt accounted for 41.8% of the country's annualized GDP as of Q1 2017.

In Q1 2017, long-term liabilities amounted to EUR 726.0 mln, or 34.4% of the total debt, rising by 20.7% y/y. Short-term liabilities totalled EUR 581.4 mln, up 7.6% y/y, equal to 27.6% of the total debt.



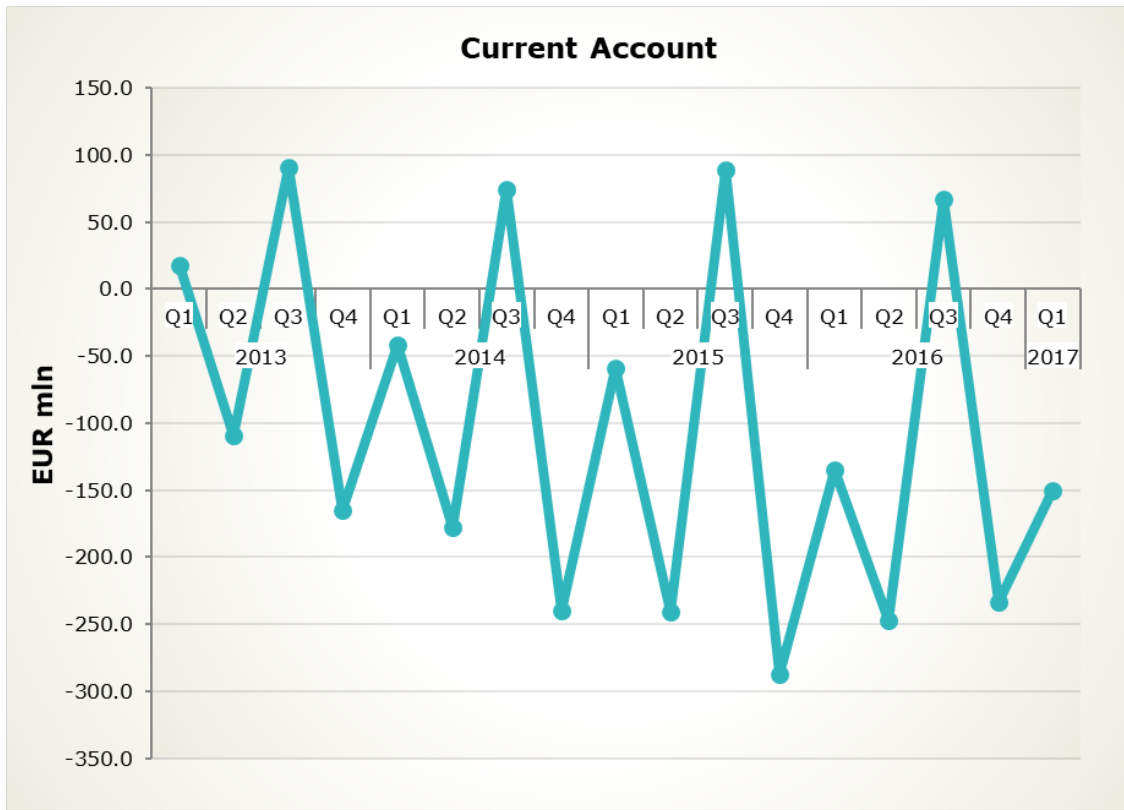
Source: BQK

## 5.2. BALANCE OF PAYMENTS

*Current account deficit widened to EUR 150.6 mln in Q1 2017, up 11.9% y/y*

The current account deficit widened to EUR 150.6 mln in Q1 2017 from EUR 134.6 mln in Q1 2016, according to central bank statistics data.

Secondary income increased annually to EUR 246.4 mln from EUR 231.7 mln in Q1 2016.



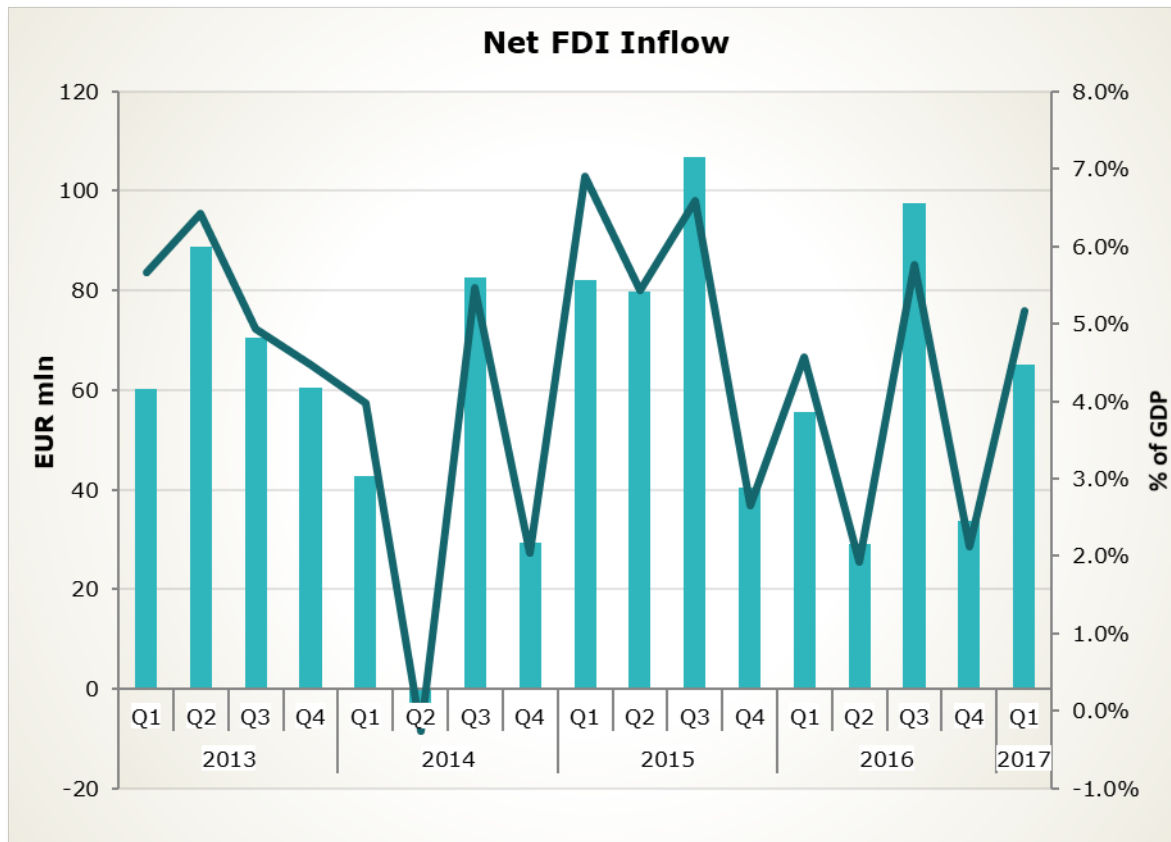
Source: BQK

### 5.3. FDI

#### Net FDI inflow up 17.1% y/y to EUR 65.1 mln in Q1 2017

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 65.1 mln in Q1 2017, compared to EUR 55.6 mln a year earlier, according to BQK data.

Capital and investments fund in shares comprised 81% of total FDI and increased by 17.4% compared to Q1 2016. FDI in the form of debt instruments reached a value of EUR 13.0 mln, representing an increase of 54.0% y/y. FDI in the services sector registered an annual increase of 46.2%, while FDIs in the real estate sector declined by 28.7% y/y.



Source: BQK

## 5.4. FOREIGN TRADE

### Foreign trade deficit increased by 8.8% y/y in Q1 2017

The trade deficit stood at EUR 533.0 mln in the first three months of 2017, up 8.8% y/y, according to BQK data.

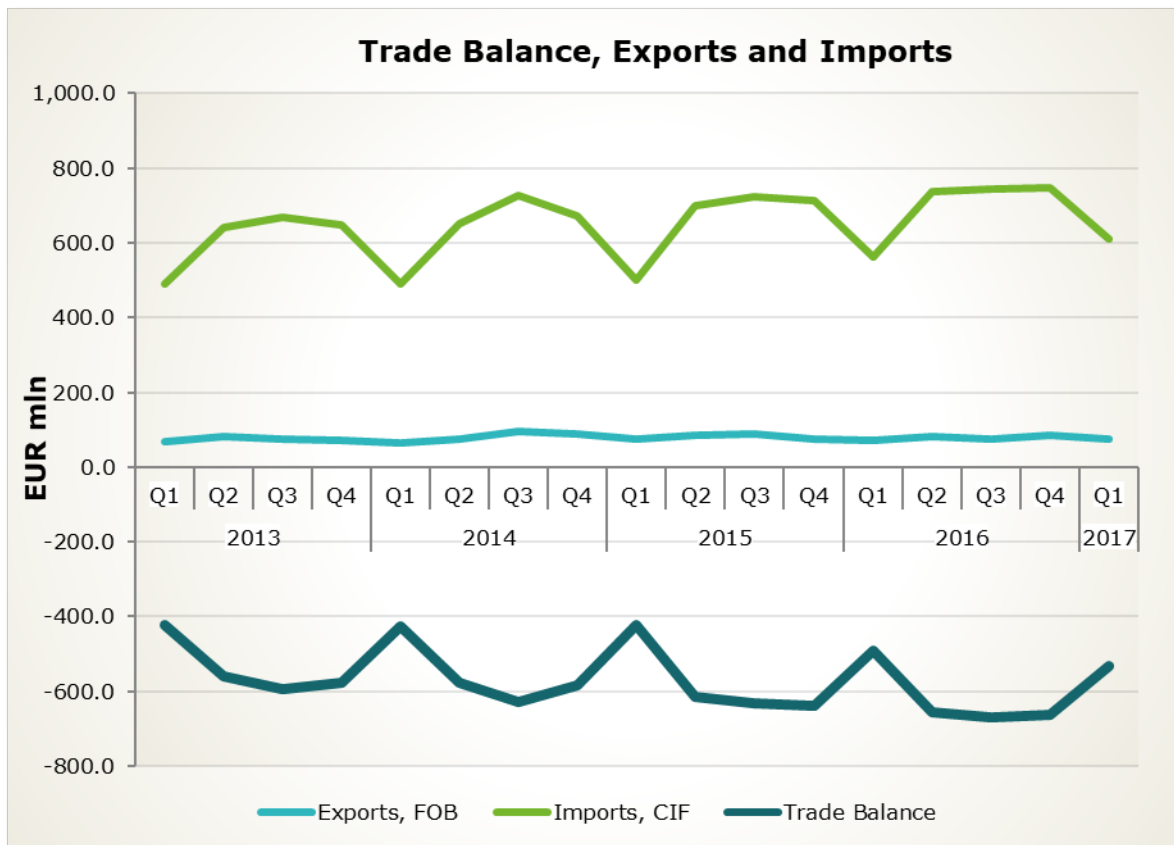
Exports increased by 6.2% y/y to EUR 76.4 mln, while imports went up by 8.5% y/y to EUR 609.4 mln in Q1 2017.

The increase of the value of export of goods during the first quarter was mainly attributed to the increase of export of prepared foodstuffs, beverages, products of plastic, rubber, leather, etc. Exports of base metals, which comprises around 42% of total exports, registered decline.

The growth of import was mainly a result of the increase of mineral products, which accounts for import of oil and its derivatives, whose prices had marked an increase in international markets. Transport means, machinery, prepared foodstuffs, and beverages also saw increased imports into Kosovo. Imports of plastics, articles of stone, ceramic products and glass marked a decline.



In March 2017, the coverage rate of imports with exports stood at 12.5%, down from 12.8% in March 2016.



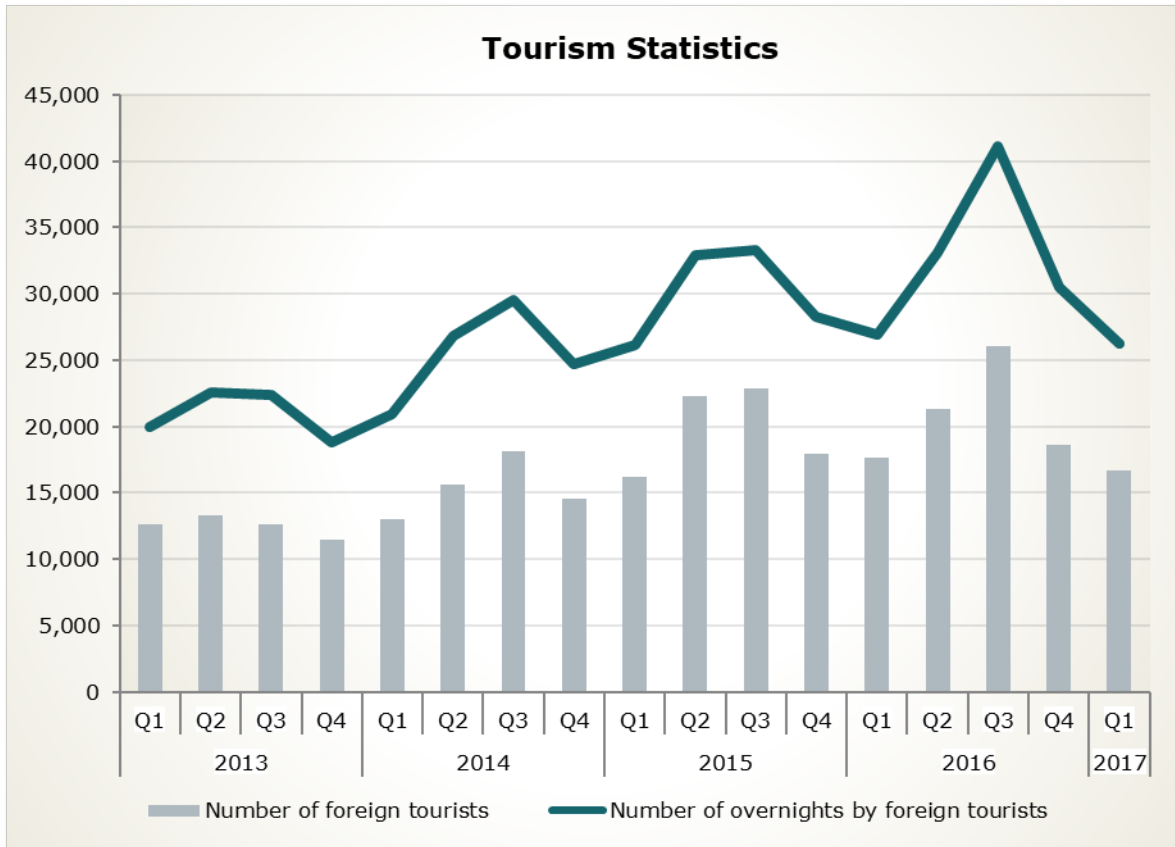
Source: ASK

## 5.5. TOURSIM

### *Number of foreign tourist overnights decreased by 2.7% y/y in Q1 2017*

Tourist overnights of foreigners inched down by an annual 2.7% to 26,258 in Q1 2017, according to ASK. They accounted for 72.8% of the total number of tourist overnights in the country.

The number of foreign tourists went down by 5.5% y/y to 16,710.



Source: ASK

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