

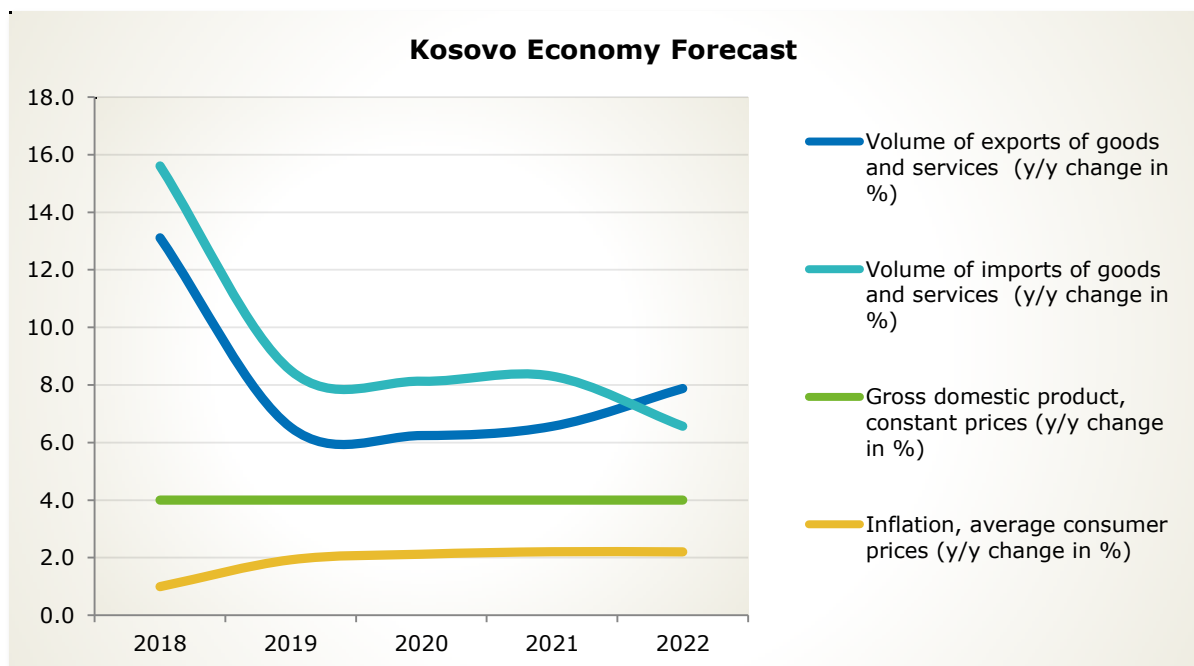
KOSOVO ECONOMY REPORT Q1 2018

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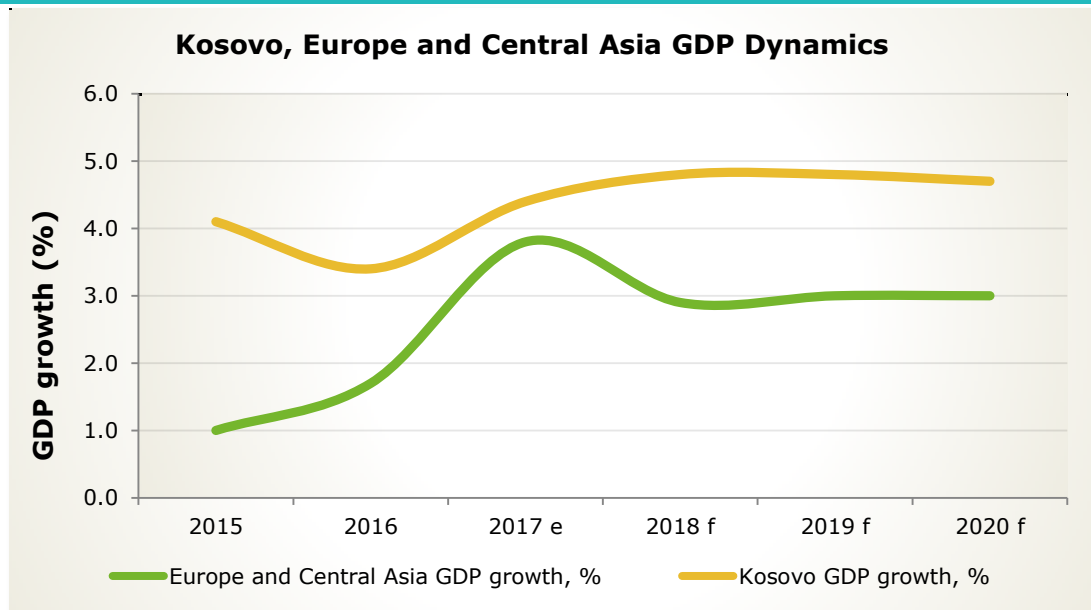
1. MACROECONOMIC SNAPSHOT AND FORECAST

KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q1 2018	
GDP Growth	3.5% y/y
Industrial sales y/y change in	
- Mining	-12.2%
- Manufacturing	4.8%
- Electricity and gas supply	-1.7%
- Water supply	50.4%
Annual inflation	0.1%
Unemployment rate	26.5%
Household loans	12.7% y/y
Gross external debt	EUR 1.998 bln
Current account deficit	EUR 157.9 mln
Net FDI inflow	EUR 64.4 mln
Foreign trade deficit	EUR 582.4 mln
Number of foreign tourist overnights	94.7% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

According to the International Monetary Fund (IMF), Kosovo economic performance continues to be solid, with growth in 2018 expected at about 4.0%, up from a real GDP growth rate of 3.7% in 2017. Inflation remains subdued and the external current account deficit has narrowed. In the same time IMF sees fiscal risks increased on lifted spending, related to social benefit programs.



Source: World Bank, Europe and Central Asia Economic Update, June 2018

According to the World Bank estimates from June 2018, GDP growth is likely to come in at 4.8% in 2018, up from 4.4% in 2017. This will be higher than the projected growth for Europe and Central Asia, of 3.2% in 2018.

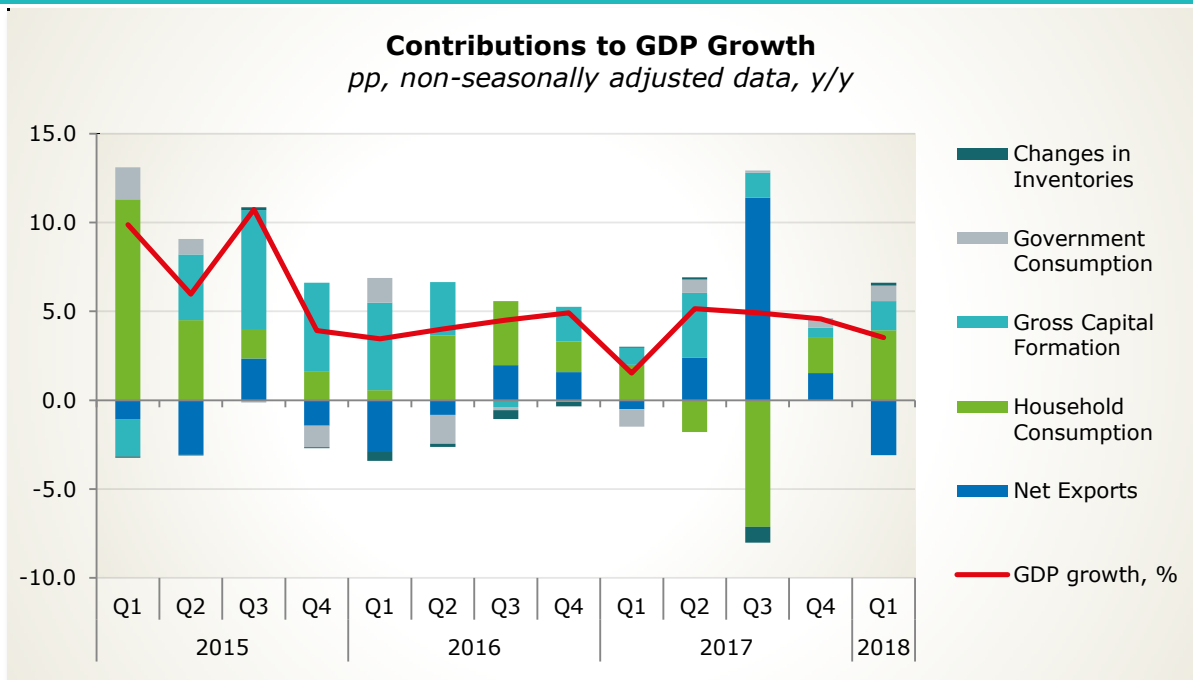
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 3.5% y/y in Q1 2018, up from 2.7% in Q1 2017

The country's GDP increased by a real 3.5% y/y and totalled EUR 1.291 bln at constant prices in Q1 2018, according to preliminary data of Kosovo Agency of Statistics (ASK).

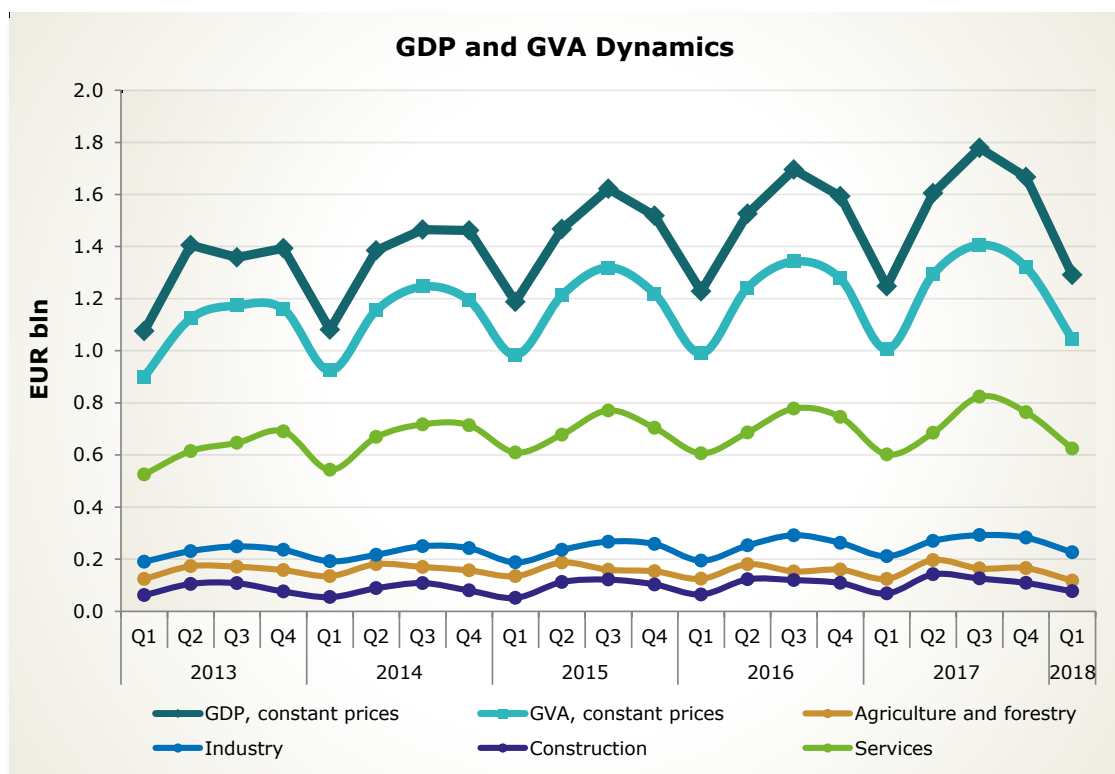
The largest growth contributors during the quarter were household consumption and gross capital formation with 3.9 pp and 1.6 pp, respectively.



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.

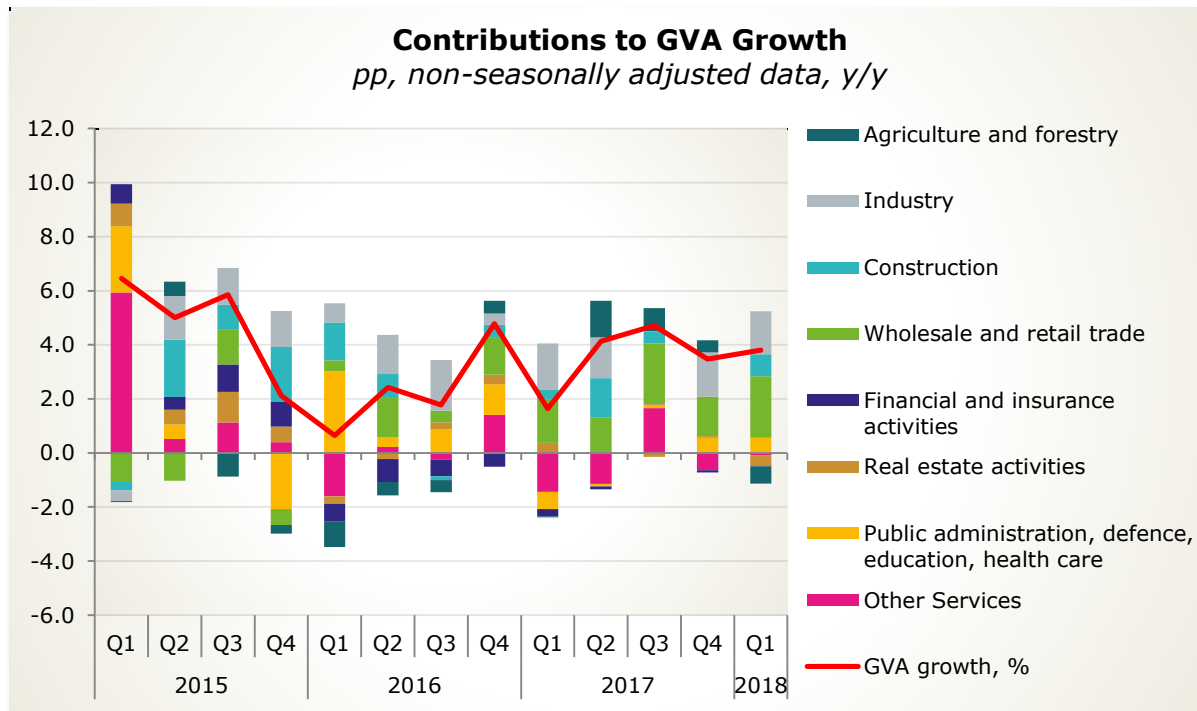
Final consumption increased in value terms by 4.4% y/y and amounted to EUR 1.394 bln. Gross capital formation went up by 6.5% to EUR 344.6 mln. Exports jumped by 15.6% y/y, while imports grew by 11.2% y/y.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 3.8% y/y in Q1 2018 and totalled EUR 1.044 bln. The industrial sector surged by 7.1%, while services recorded a 3.7% annual increase. The agricultural sector registered an annual fall of 5.6%. The construction industry grew by 11.8%.

In terms of contributions, the services sector added 2.2 pp to the y/y GVA growth in Q1 2018, followed by the industrial sector with 1.6 pp. Wholesale and retail trade alone contributed with 2.3 pp to the overall GVA growth.



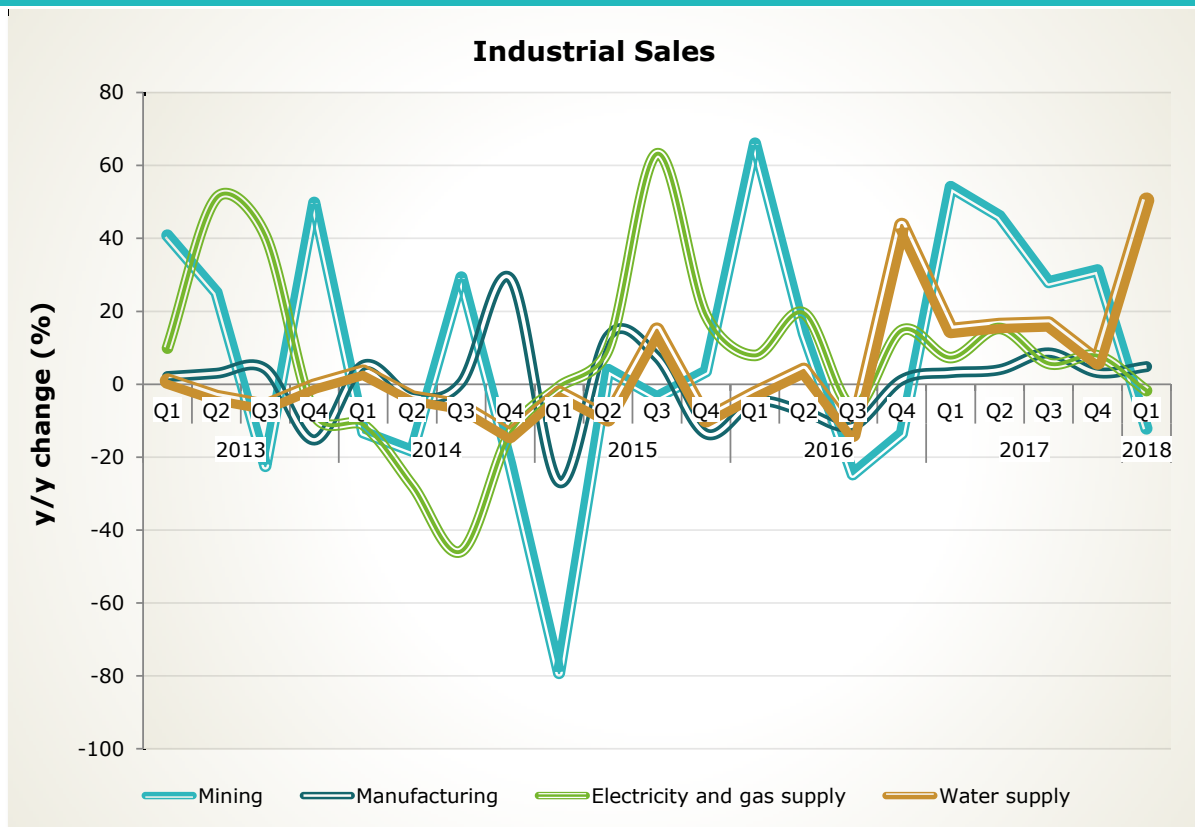
Source: SeeNews Calculations; ASK

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

2.2. INDUSTRIAL SALES

Manufacturing sales grew by 4.8% y/y in the first quarter of 2018

The sales of the manufacturing industry went up by 4.8% y/y in the first quarter of 2018, ASK data showed. Sales in the mining industry shrank by 12.2%, while electricity and gas supply sales also decreased, by 1.7% y/y. Water supply sales surged by 50.4% y/y in the first quarter.



Source: ASK

2.3. INFLATION

Inflation decelerated y/y to 0.1% in March 2018, down from 0.5% in December 2017

Kosovo registered an annual inflation of 0.1% in March 2018, compared to inflation of 0.5% in December 2017 and 1.5% in the same month of the previous year, according to ASK.

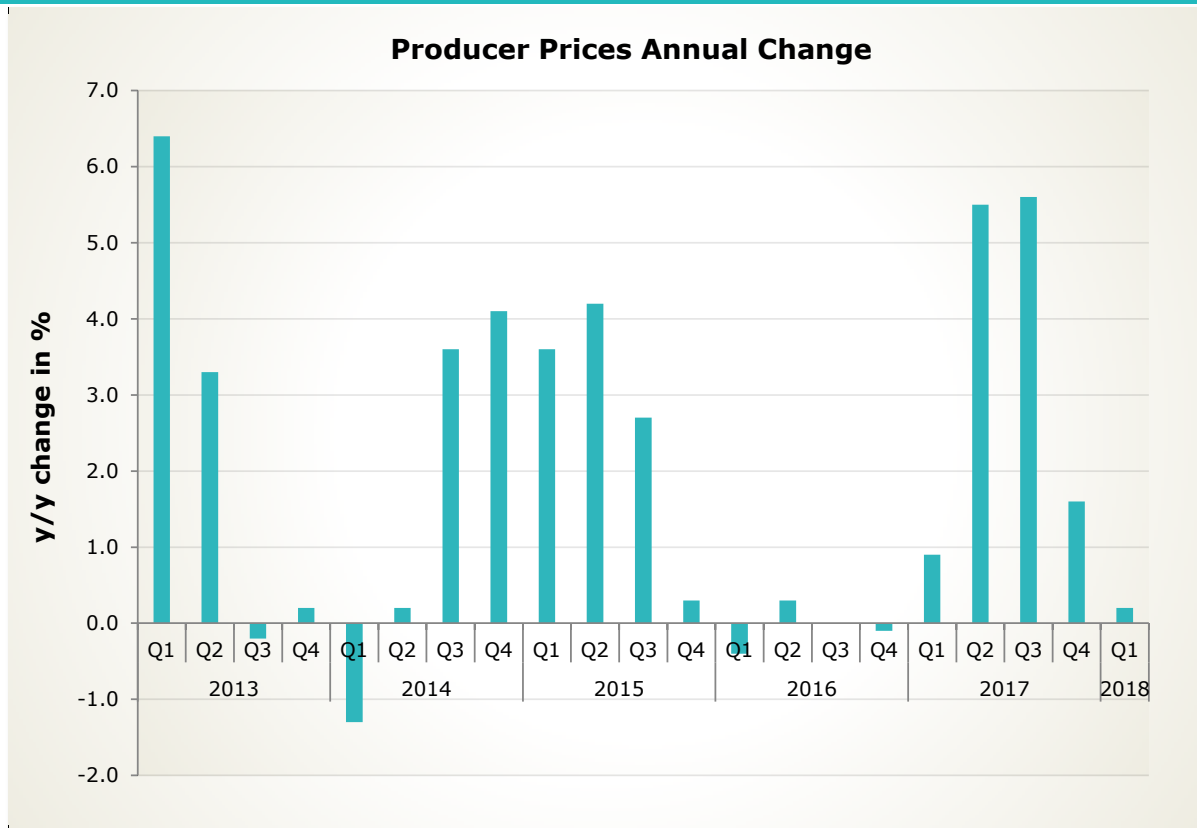
The rise of the price inflation in March 2018 on a year-on-year basis can be attributed to the increase in consumer prices in the groups of fruits, by 8.8%, transport services, by 7.1%, coffee and tea with 3.9% and tobacco, by 3.2%.



Source: ASK

Producer prices in Kosovo went up by 0.2% y/y in Q1 2018, according to ASK. The largest increase by economic activity was observed in the manufacture of electrical equipment with 14.8%, manufacture of leather and articles thereof with 4.8%, manufacture of wood and of products of wood and cork, except furniture with 4.7% and manufacture of metals with 2.5%.

Declines of the average producer prices in Q1 2018 compared to Q1 2017 were registered in the groups of metal ore extraction, by 2.8%, supply of electricity, gas, steam and air conditioning, by 1.4%, manufacture of fabricated metal products, except machinery and equipment, by 1.0%, manufacture of chemical products, by 0.9%, and manufacture of furniture with 0.5%.



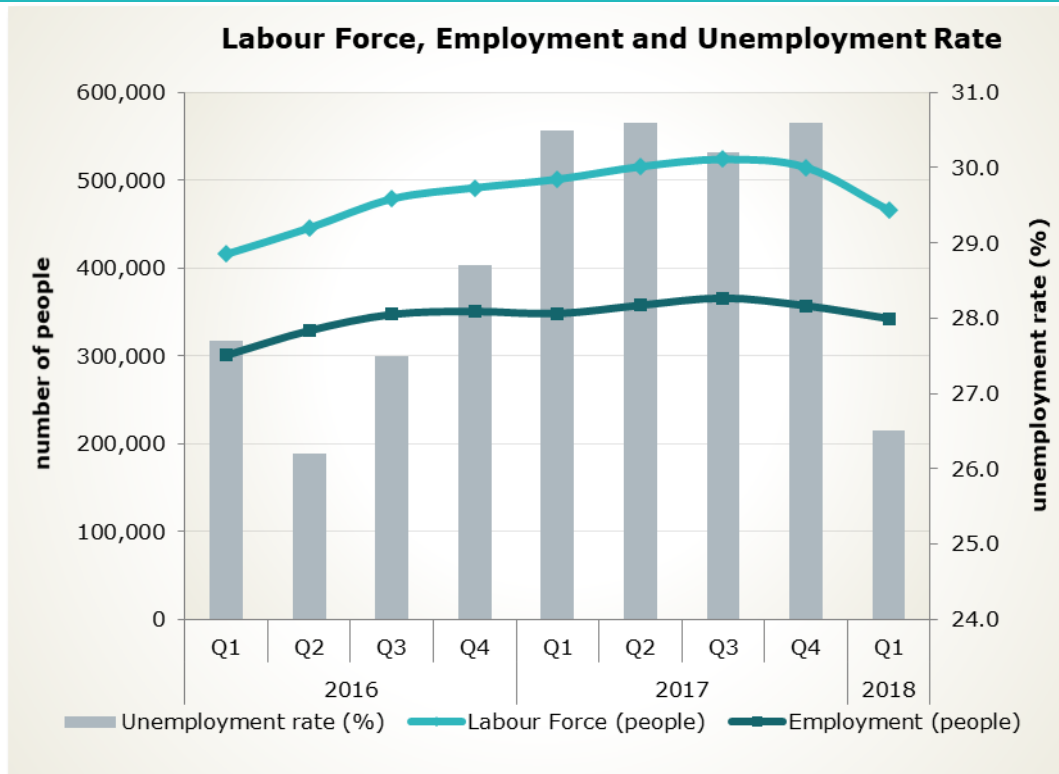
Source: ASK

3. LABOUR MARKET

Unemployment rate decreased to 26.5% in Q1 2018, down from 30.6% in Q4 2017

Unemployment in Kosovo declined to 26.5% of the total labour force in Q1 2018, down from 30.6% in Q4 2017, according to data of ASK. The youth (population aged 15-24) unemployment rate inched down to 54.0% from 55.9% in Q4 2017.

The employed population aged 15 years and older decreased by 1.7% y/y to 342,400 in Q1 2018.



Source: ASK

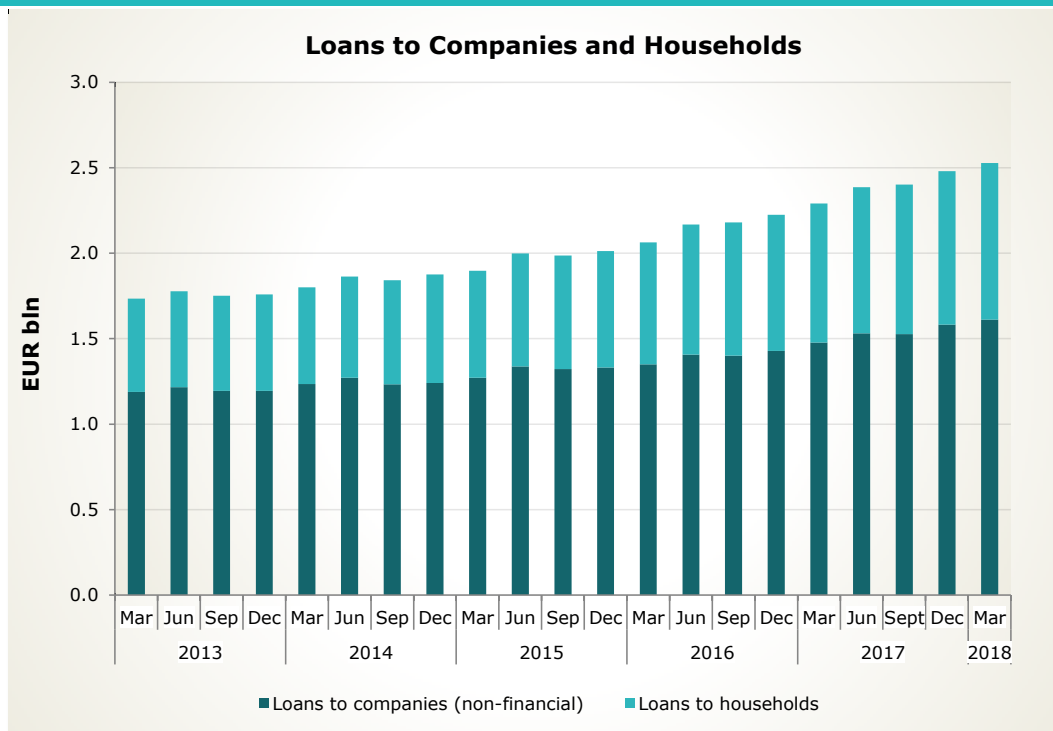
Average monthly net wage up 7.9% y/y in Q1 2018

The average monthly net salary in the public sector in Kosovo increased by 7.9% y/y to EUR 476 in Q1 2018, according to ASK.

4. BANKING AND INSURANCE

Household loans jumped by 12.7% y/y as of March 2018

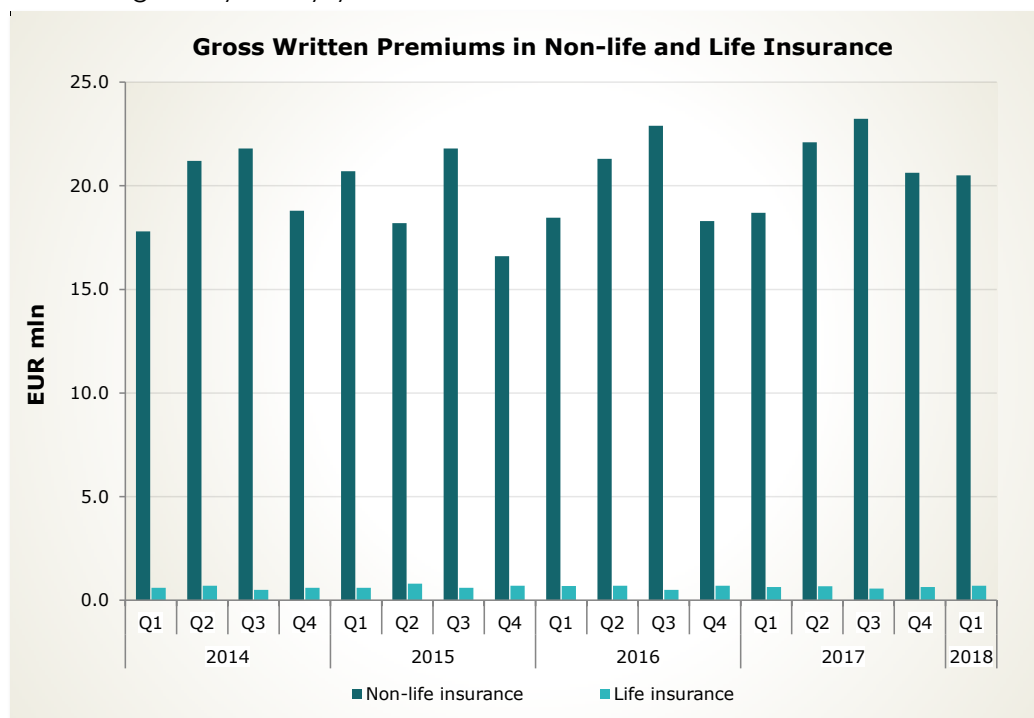
Household loans increased by 12.7% y/y to EUR 0.917 bln as of March 2018, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 9.1% to EUR 1.612 bln.



Source: BQK

Insurance premium income grew by 9.6% y/y in Q1 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went up by 9.6% y/y to EUR 21.2 mln in Q1 2018, according to BQK. The upturn was due to the non-life insurance market, which grew to EUR 20.5 mln from EUR 18.7 mln a year earlier. Life insurance GWP grew by 9.2% y/y to EUR 0.7 mln.



Source: BQK

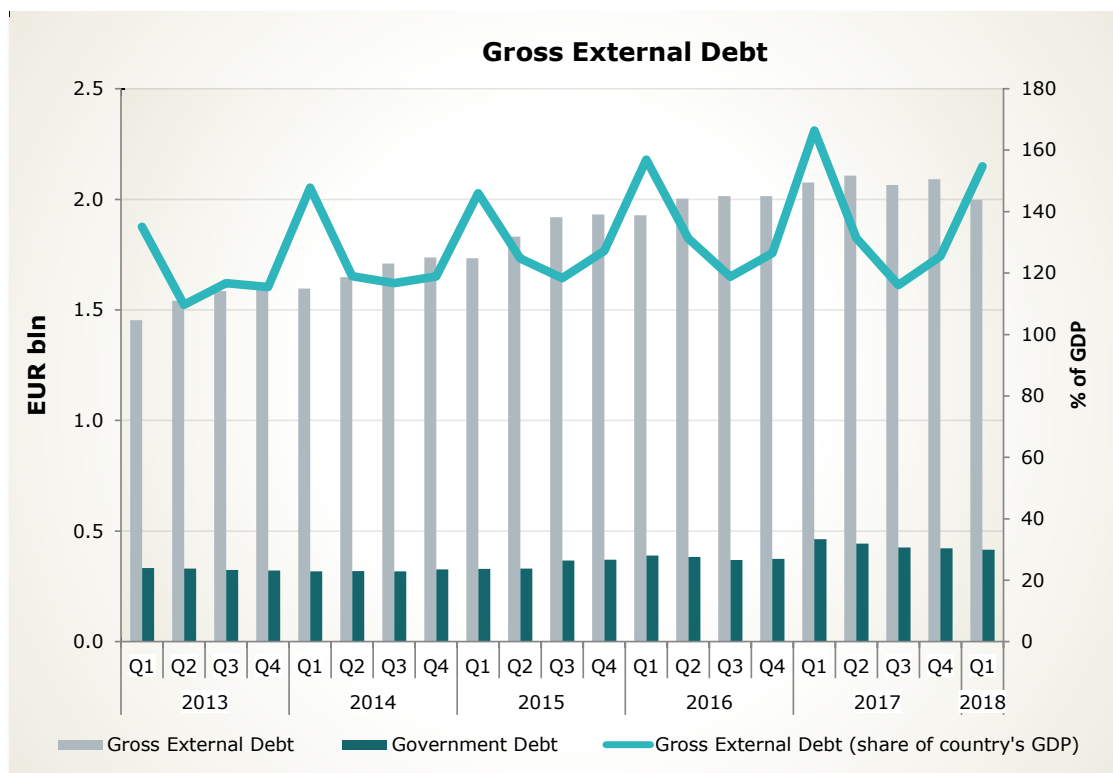
5. EXTERNAL SECTOR

5.1. FOREIGN DEBT

Gross external debt decreased y/y to EUR 1.998 bln in Q1 2018

Gross external debt stood at EUR 1.998 bln as of end-March 2018, according to BQK. It fell by 3.7%, or EUR 77.1 mln, in comparison to Q1 2017.

In Q1 2018, long-term liabilities amounted to EUR 710.9 mln, or 35.6% of the total debt, falling by 2.1% y/y. Short-term liabilities totalled EUR 621.8 mln, up by 6.9% y/y, equal to 31.1% of the total debt.



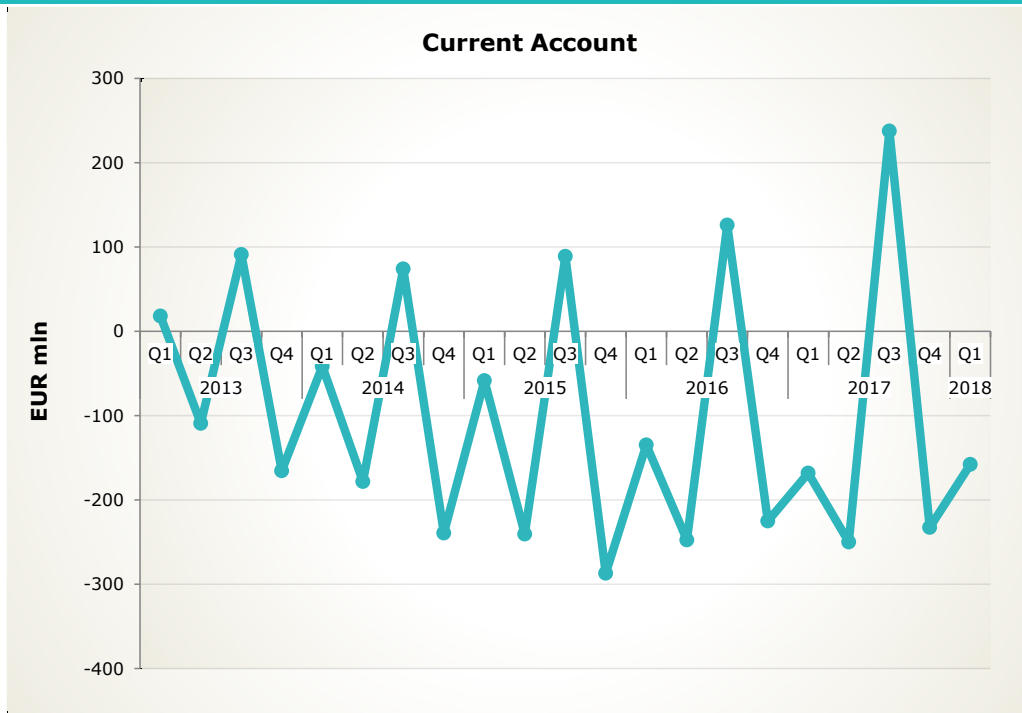
Source: BQK

5.2. BALANCE OF PAYMENTS

Current account deficit of EUR 157.9 mln in Q1 2018, down 6.2% y/y

The current account deficit declined to EUR 157.9 mln in Q1 2018 from EUR 168.3 mln in Q1 2017, according to central bank statistics data.

Secondary income increased annually by 8.9% y/y to EUR 268.4 mln from EUR 246.4 mln in Q1 2017.

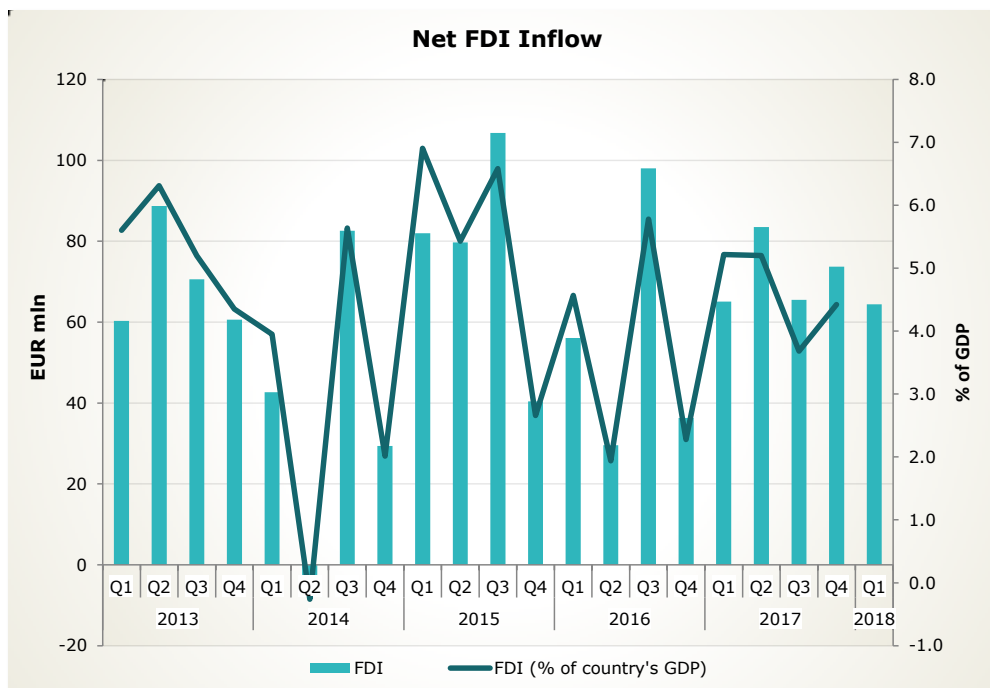


Source: BQK

5.3. FDI

Net FDI inflow at EUR 64.4 mln in Q1 2018, down 1.1% y/y

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 64.4 mln in Q1 2018, compared to EUR 65.1 mln a year earlier, according to BQK data. FDI covered 40.8% of the country's current account deficit in Q1 2018 and accounted for 5.0% of its GDP.



Source: BQK

5.4. FOREIGN TRADE

Foreign trade deficit increased by 9.3% y/y in Q1 2018

The trade deficit stood at EUR 582.4 mln in the first quarter of 2018, up 9.3% y/y, according to BQK data.

Exports declined by 4.0% y/y to EUR 73.4 mln, while imports went up by 7.6% y/y to EUR 655.7 mln in Q1 2018.

In the quarter under review, the coverage rate of imports with exports stood at 11.2%, down from 12.5% in the corresponding quarter of the previous year.



Source: ASK

5.5. TOURSIM

Number of foreign tourist overnights almost doubled in Q1 2018

Tourist overnights of foreigners rose by an annual 94.7% to 51,132 in Q1 2018, according to ASK. They accounted for 59.3% of the total number of tourist overnights in the country. The number of foreign tourists surged to 36,968 from 16,710 in Q1 2017.



Source: ASK

6. MAJOR DEVELOPMENTS

Germany grants EUR 10 mln to improve heating system in Kosovo's capital

Mar 31, 2018

Kosovo finance ministry said it received EUR 10 mln grant from German development bank KfW to finance a project for improvement of the central heating system in Pristina.

[Read the full story here](#)

EBRD agrees to consider financing for road upgrade in Kosovo's Pristina

Feb 28, 2018

The European Bank for Reconstruction and Development (EBRD) has agreed to start negotiations for providing EUR 60 mln financing for a road upgrade project in Kosovo's capital Pristina.

[Read the full story here](#)

Sweden offers EUR 3.2 mln to help improve property tax system in Kosovo

Feb 28, 2018

Kosovo finance ministry signed a EUR 3.2 million agreement with the Swedish government as part of the ProTax 2 project to improve property tax system in Kosovo.

[Read the full story here](#)

EU grants EUR 38.5 mln co-financing to EBRD-funded railway project in Kosovo

Feb 16, 2018

The European Union will provide a grant of EUR 38.5 million to co-finance a project funded by the European Bank for Reconstruction and Development for upgrading Kosovo's only international rail link.

Read the full story [here](#)

EBRD lending up to EUR 1.5 mln for energy efficiency projects in Kosovo

Jan 18, 2018

The European Bank for Reconstruction and Development (EBRD) said it is providing a loan of up to EUR 1.5 mln to the Agency for Finance in Kosovo (AFK) for financing residential energy efficiency projects.

Read the full story [here](#)

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