

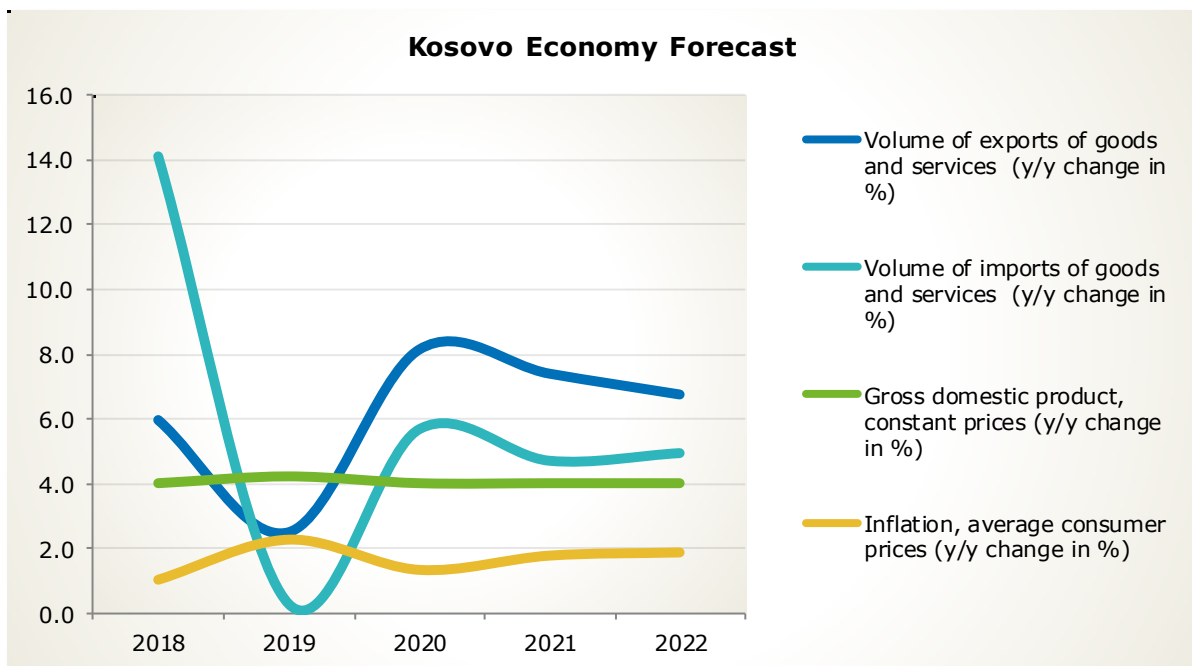
KOSOVO ECONOMY REPORT Q1 2019

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1. MACROECONOMIC SNAPSHOT AND FORECAST

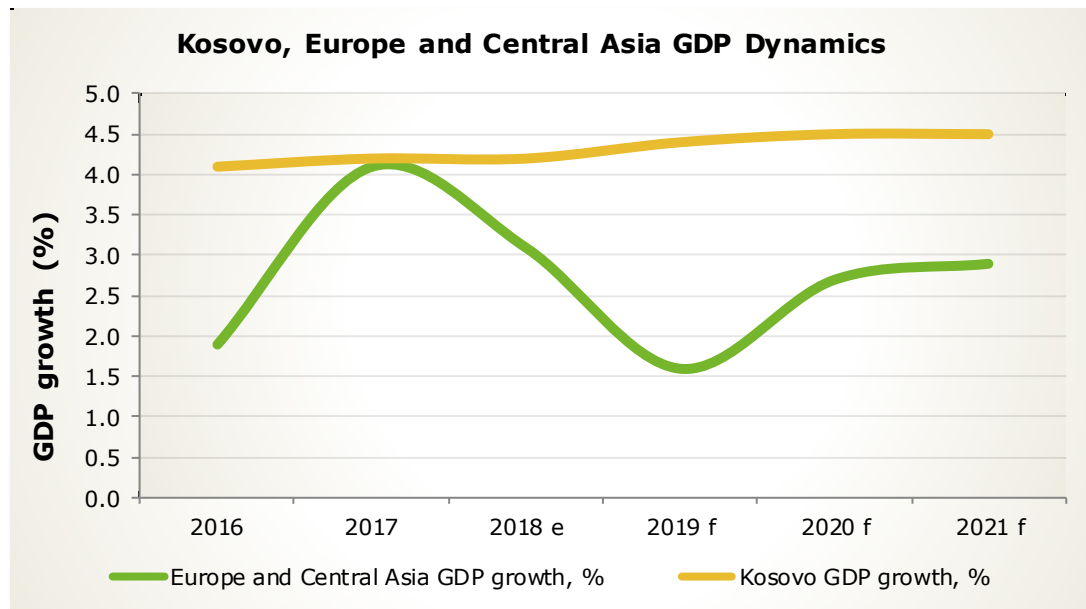
KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q1 2019	
GDP Growth	4.1% y/y
Industrial sales y/y change in	
- Mining	6.0%
- Manufacturing	2.3%
- Electricity and gas supply	0.5%
- Water supply	4.3%
Annual inflation	3.3%
Unemployment rate	26.9%
Household loans	10.7% y/y
Gross external debt	EUR 2.038 bln
Current account deficit	EUR 153.9 mln
Net FDI inflow	EUR 71.7 mln
Foreign trade deficit	EUR 635.0 bln
Number of foreign tourist overnights	23.7% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2019

According to the International Monetary Fund (IMF), Kosovo economic performance continues to be solid, with growth in 2019 expected at about 4.2%, up from a real GDP growth rate of 4.0% in 2018. Inflation remains subdued and the external current account deficit has widened. In the same time IMF sees fiscal risks increased on lifted spending, related to social benefit programs.

According to the World Bank estimates from June 2019, GDP growth is likely to remain at 4.2% in 2018, and accelerate to 4.4% in 2019 and 4.5% in 2020, respectively. This is higher than the projected growth for Europe and Central Asia, of 3.1% in 2018.



Source: World Bank's Global Economic Prospects, June 2019

The World Bank projects economic growth in Kosovo to reach 4.2% in 2018, as public and private investments are expected to grow, and higher disposable incomes will contribute to private consumption increase of 2.2% on the year. The contribution of net exports will turn to positive because of faster export growth.

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

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change	4.1	4.2	4.2	4.4	4.5	4.5
Private Consumption	6.6	1.8	2.2	2.1	2.2	2.8
Government Consumption	-6.3	-0.6	1.6	5.2	0.6	0.0
Gross Fixed Capital Investment	7.3	5.5	14.9	14.0	11.4	10.9
Exports, Goods and Services	2.4	16.8	9.0	7.4	8.5	7.4
Imports, Goods and Services	6.4	5.4	8.0	7.0	5.6	6.0
Real GDP growth, at constant factor prices (by sectors)	2.4	5.6	4.0	4.4	4.5	4.5
Agriculture	3.1	3.7	3.0	3.1	3.2	3.2
Industry	1.6	6.5	0.4	3.5	3.9	3.9
Services	2.8	5.5	6.4	5.1	5.0	5.1
Inflation (Consumer Price Index)	0.3	1.5	1.1	2.6	1.9	1.8
Current Account Balance (% of GDP)	-7.9	-6.0	-8.7	-8.9	-10.3	-10.7

Source: World Bank, Europe and Central Asia Economic Update, April 2019

The outlook is subject to downside risks, which include perceived fragility of the minority government, which can lead to rising fiscal pressures and a delay in fiscal reforms.

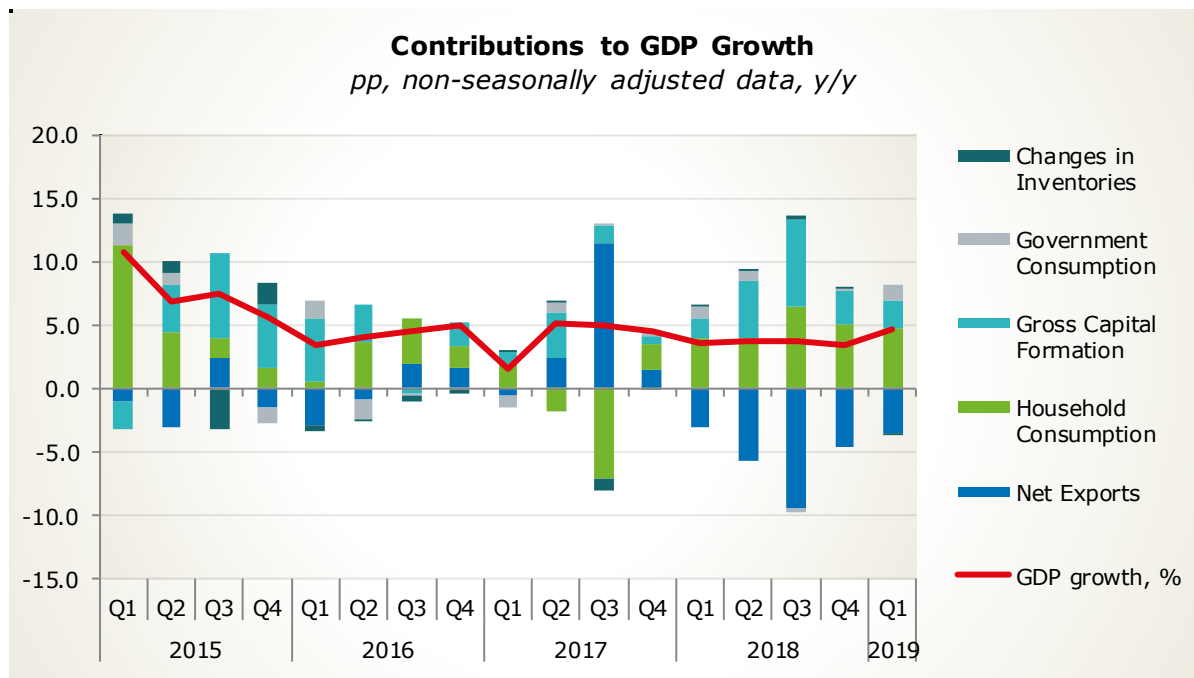
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 4.1% y/y in Q1 2019, up from 3.5% in Q1 2018

The country's GDP increased by a real 4.1% y/y and totalled EUR 1.352 bln at constant prices in Q1 2019, according to preliminary data of Kosovo Agency of Statistics (ASK).

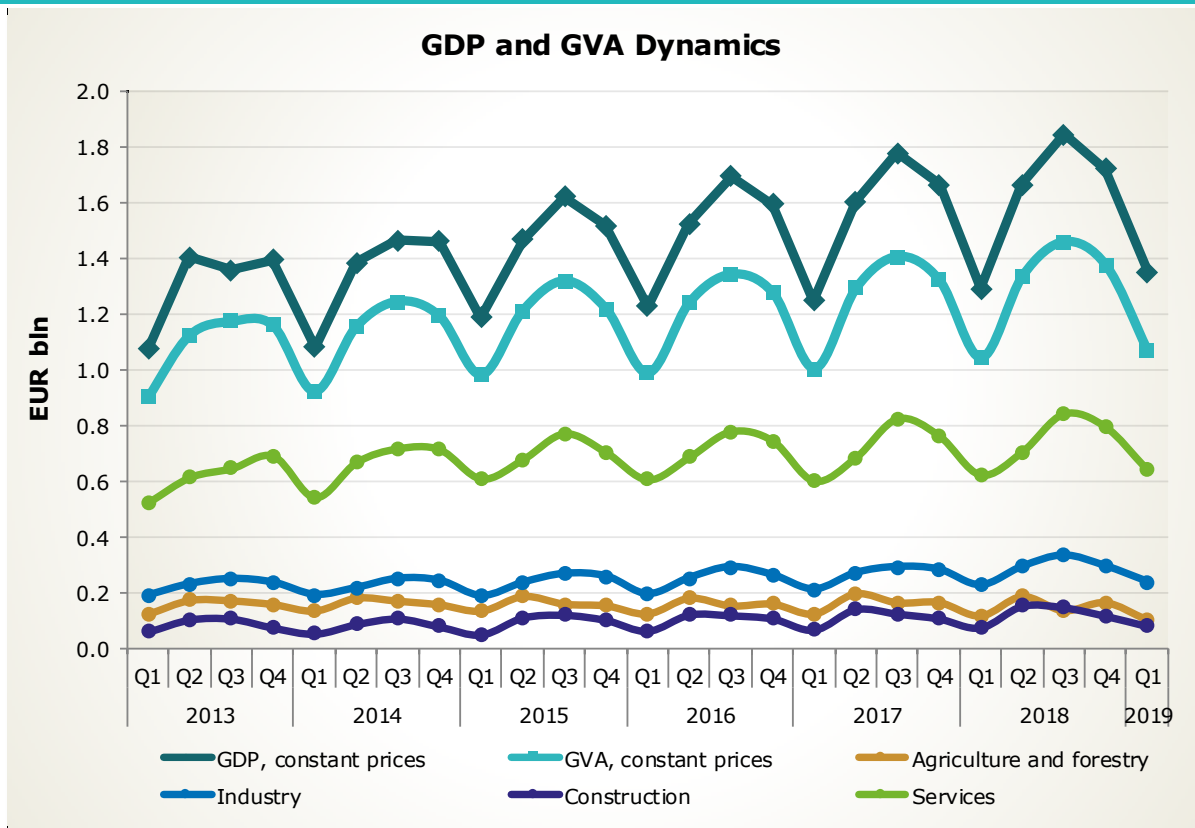
Final consumption increased in real terms by 5.6% y/y and amounted to EUR 1.472 bln. Gross capital formation went up by 8.1% to EUR 372.4 mln. Imports jumped by 9.0% y/y, while exports grew by 7.2%.



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.

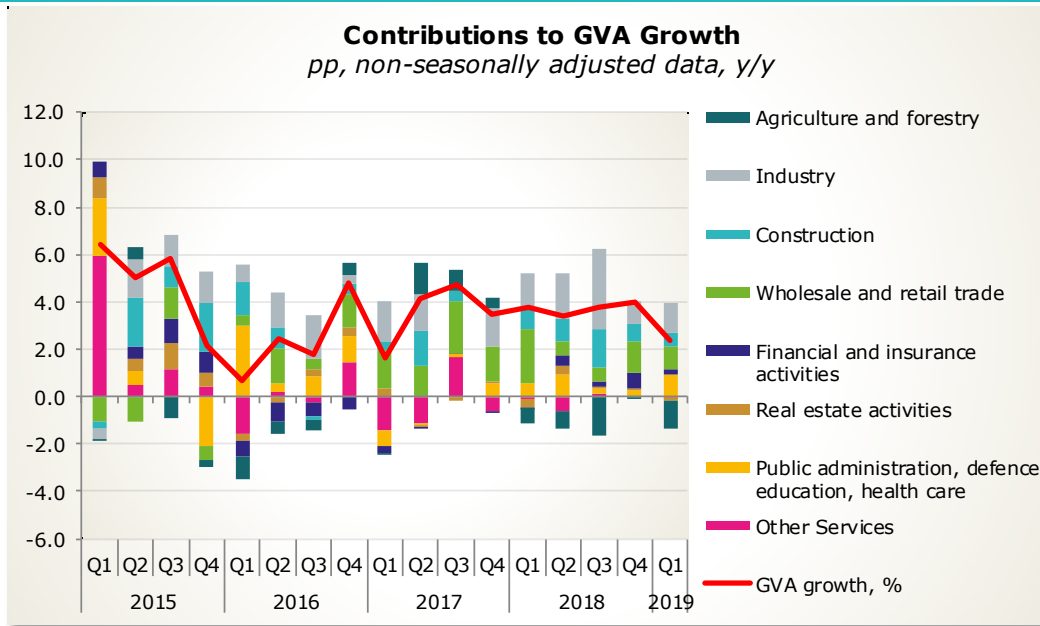
The largest growth contributors during the quarter were household consumption and gross capital formation with 4.8 pp and 2.2 pp, respectively. The import of goods and services took away 5.0 pp from the GDP increase during the quarter.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 2.4% y/y in Q1 2019 and totalled EUR 1.069 bln. The construction industry surged by 7.3%, while industrial sector recorded an 5.7% annual increase. The agricultural sector registered an annual fall of 11.7%. Services sector grew by 3.2%.

In terms of contributions, the industry sector added 1.2 pp to the y/y GVA growth in Q1 2019, followed by the wholesale and retail trade and public administration, defence, education, health care with 1.0 pp each. Construction sector alone contributed with 0.6 pp to the overall GVA growth.



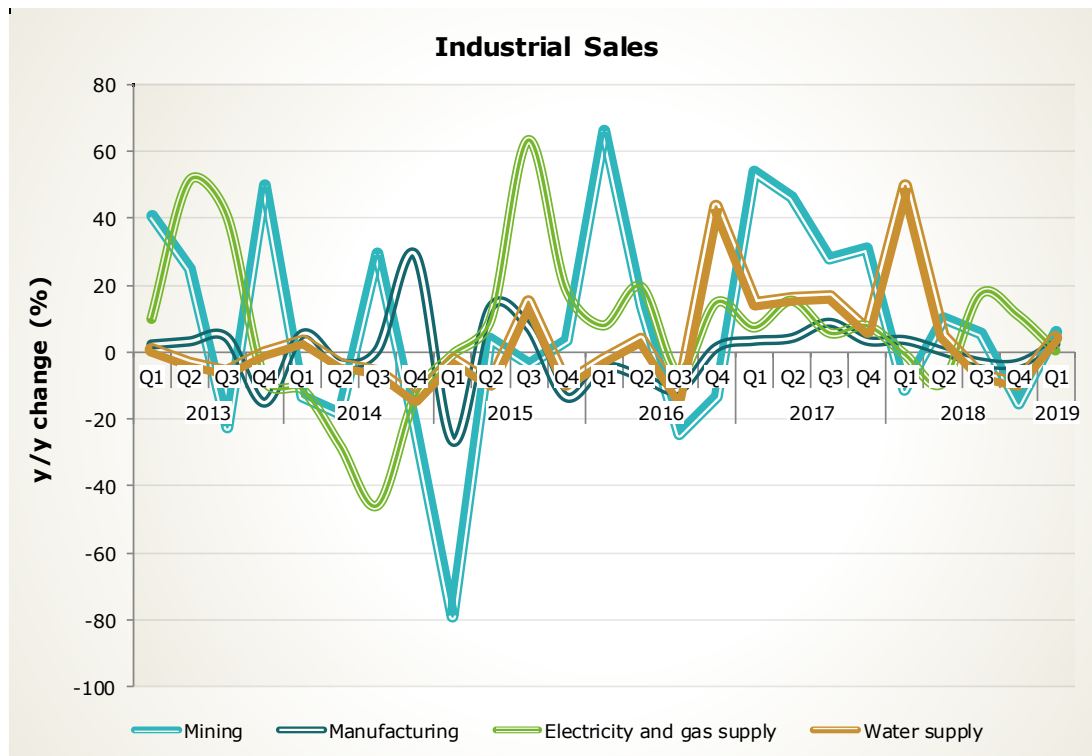
Source: SeeNews Calculations; ASK

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

2.2. INDUSTRIAL SALES

All sectors registered annual rise in industrial sales in the first quarter of 2019

The sales of the mining industry went up by 6.0% y/y in the first quarter of 2019, ASK data showed. Sales in the manufacturing industry increased by 2.3%, and the water supply grew by 4.3% y/y. Electricity and gas supply sales advanced by 0.5% y/y in Q1 2019.



Source: ASK

2.3. INFLATION

Inflation accelerated y/y to 3.3% in March 2019, up from 2.9% in December 2018

Kosovo registered an annual inflation of 3.3% in March 2019, compared to inflation of 2.9% in December 2018 and 0.1% in the same month of the previous year, according to ASK.

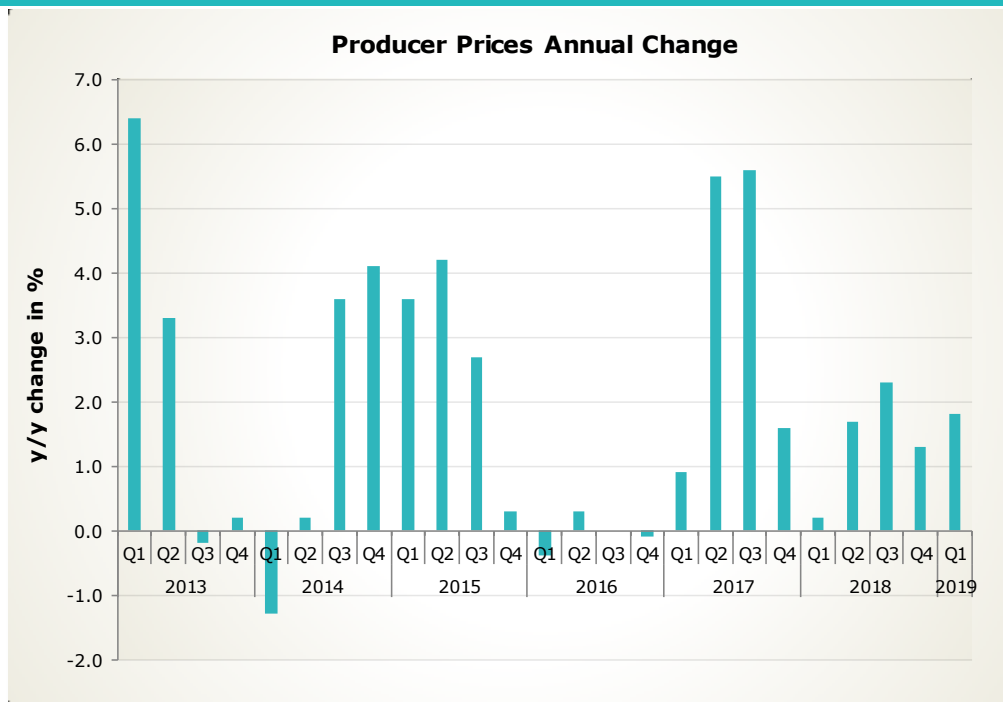
The rise of the price inflation in March 2019 on a year-on-year basis can be attributed to the increase in consumer prices in the groups of vegetables by 32.5%, bread and cereal by 11.6%, use of personal transport means by 6.4% and meat by 3.7%.



Source: ASK

Producer prices in Kosovo went up by 1.8% y/y in Q1 2019, according to ASK. The largest increase by economic activity was observed in the manufacture of non-metallic mineral products with 6.0%, processing of food products with 5.7% and of manufacture of machinery and equipment with 4.6%.

Declines of the average producer prices in Q1 2019 compared to Q1 2018 were registered in the groups of metal mining by 16.0%, manufacture of electrical equipment by 8.4%, and chemical products with 2.6%.



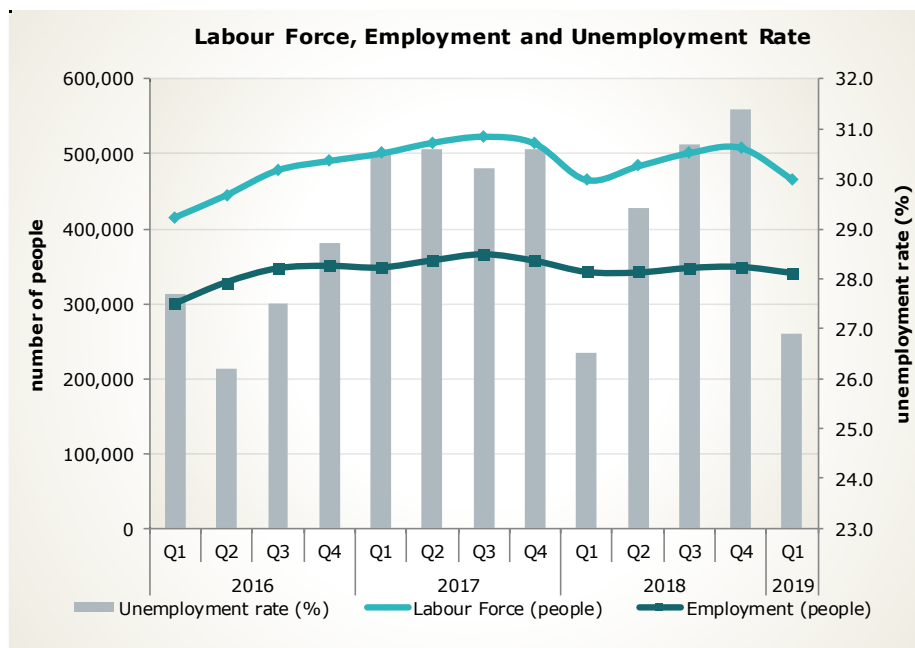
Source: ASK

3. LABOUR MARKET

Unemployment rate decreased to 26.9% in Q1 2019, down from 31.4% in Q4 2018

Unemployment in Kosovo declined to 26.9% of the total labour force in Q1 2019, down from 31.4% in Q4 2018, according to data of ASK. The youth (population aged 15-24) unemployment rate inched down to 50.6% from 57.3% in Q4 2018.

The employed population aged 15 years and older decreased by 0.4% y/y to 341,000 in Q1 2019.



Source: ASK

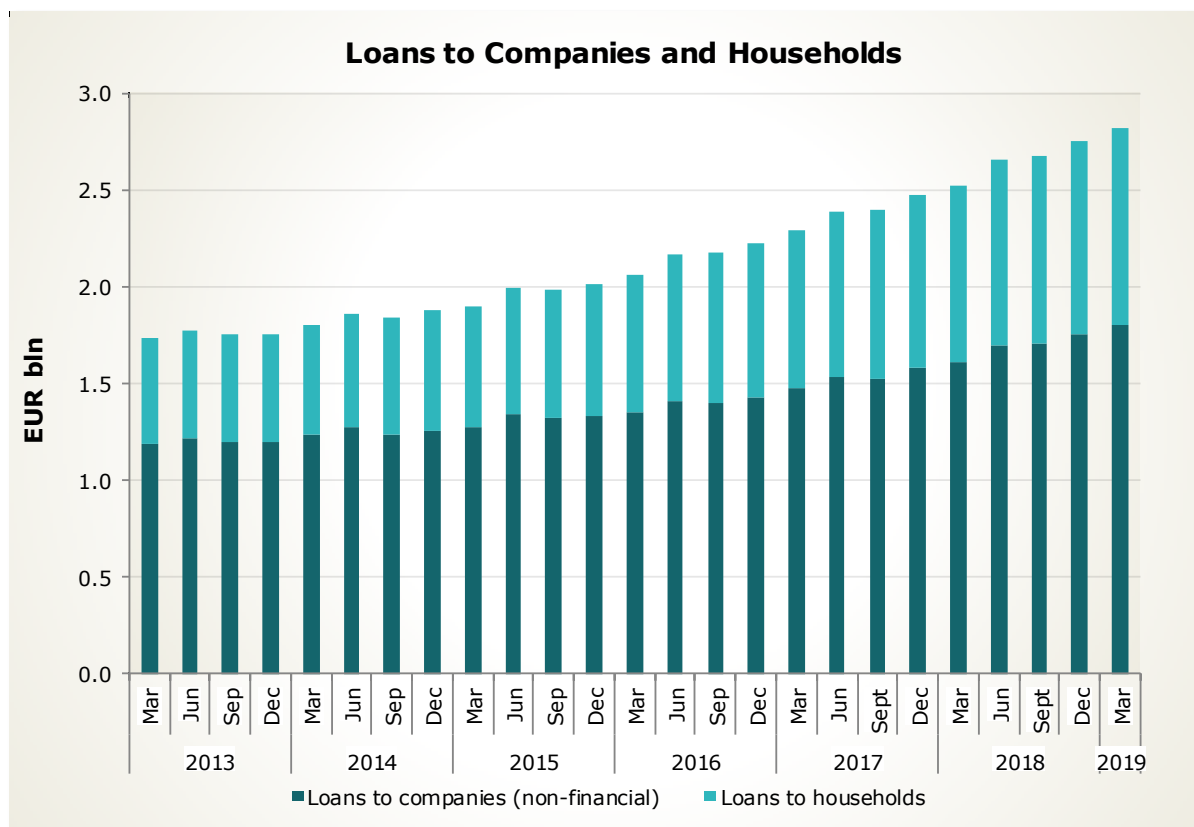
Average monthly net wage up 8.4% y/y in Q4 2018¹

The average monthly net salary in the public sector in Kosovo increased by 8.4% y/y to EUR 498 in Q4 2018, according to ASK.

4. BANKING AND INSURANCE

Household loans jumped by 10.7% y/y as of March 2019

Household loans increased by 10.7% y/y to EUR 1.015 bln as of March 2019, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 12.0% to EUR 1.805 bln.

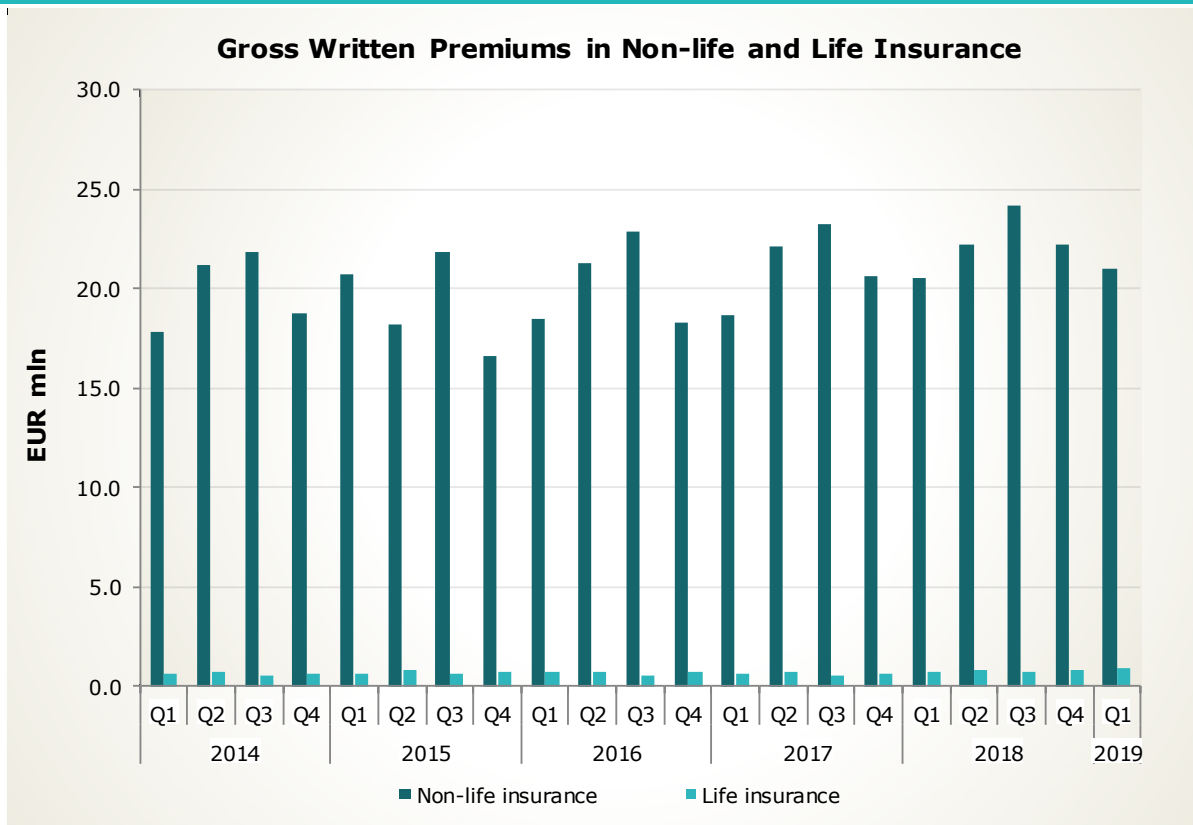


Source: BQK

Insurance premium income grew by 3.3% y/y in Q1 2019

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went up by 3.3% y/y to EUR 21.9 mln in Q1 2019, according to BQK. The upturn was due to the non-life insurance market, which grew to EUR 21.0 mln from EUR 20.5 mln a year earlier. Life insurance GWP grew by 28.6% y/y to EUR 0.9 mln.

¹ Data for Average monthly net wage for Q1 2019 was not available at the time of preparation of this report.



Source: BQK

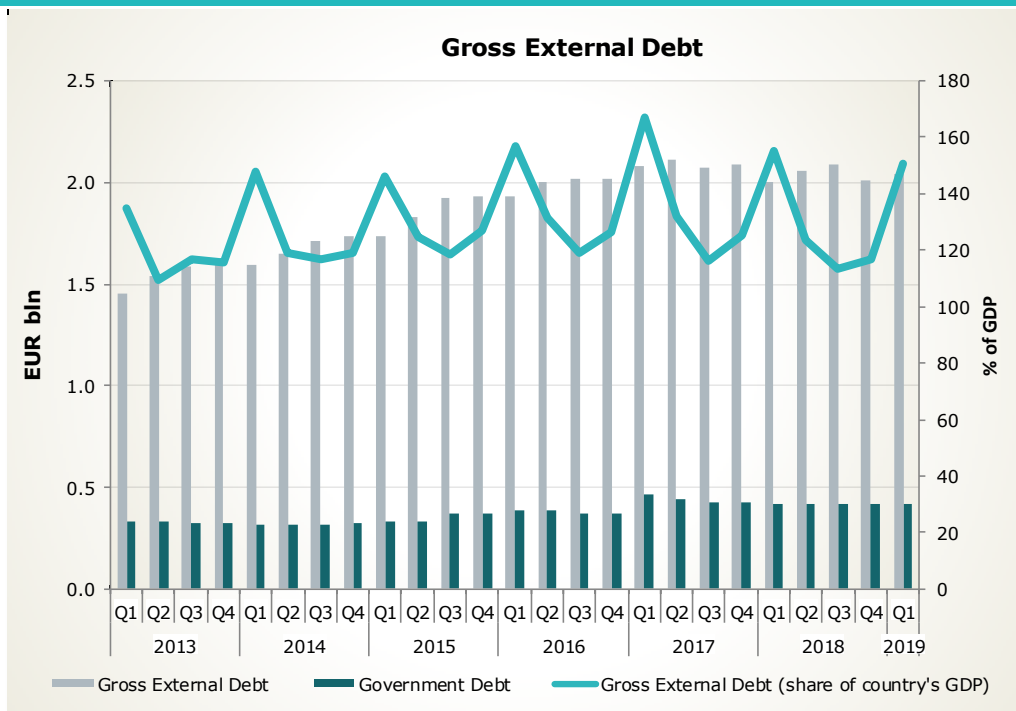
5. EXTERNAL SECTOR

5.1. FOREIGN DEBT

Gross external debt increased y/y to EUR 2.038 bln in Q1 2019

Gross external debt stood at EUR 2.038 bln as of end-March 2019, according to BQK. It grew by 1.7%, or EUR 33.6 mln, in comparison to Q1 2018.

In Q1 2019, long-term liabilities amounted to EUR 791.1 mln, or 38.8% of the total debt, increasing by 4.4% y/y. Short-term liabilities totalled EUR 661.0 mln, up by 6.3% y/y, equal to 32.4% of the total debt.



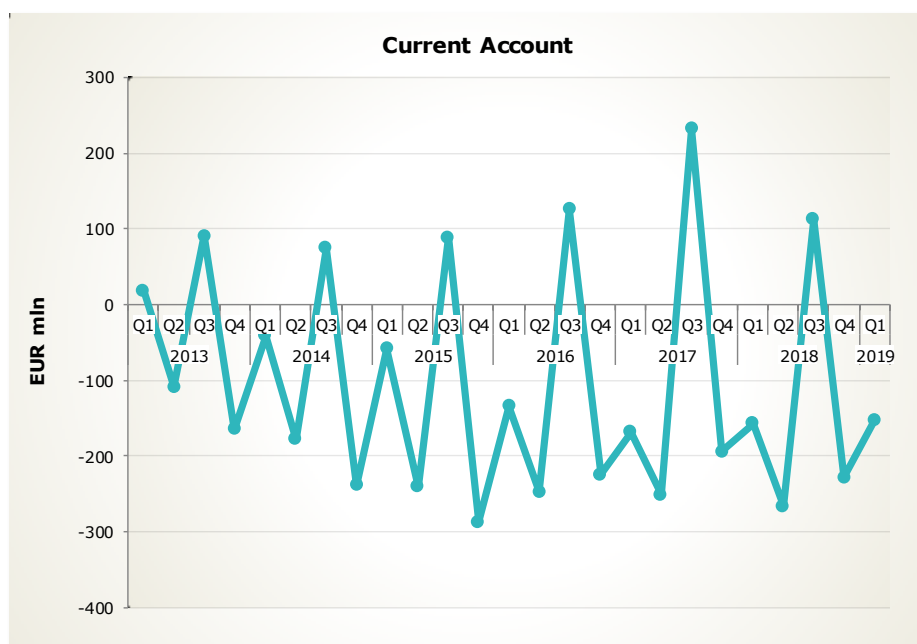
Source: BQK

5.2. BALANCE OF PAYMENTS

Current account deficit of EUR 153.9 mln in Q1 2019, down 2.3% y/y

The current account deficit declined to EUR 153.9 mln in Q1 2019 from EUR 157.5 mln in Q1 2018, according to central bank statistics data.

Secondary income increased annually by 6.0% y/y to EUR 288.2 mln from EUR 272.0 mln in Q1 2018.

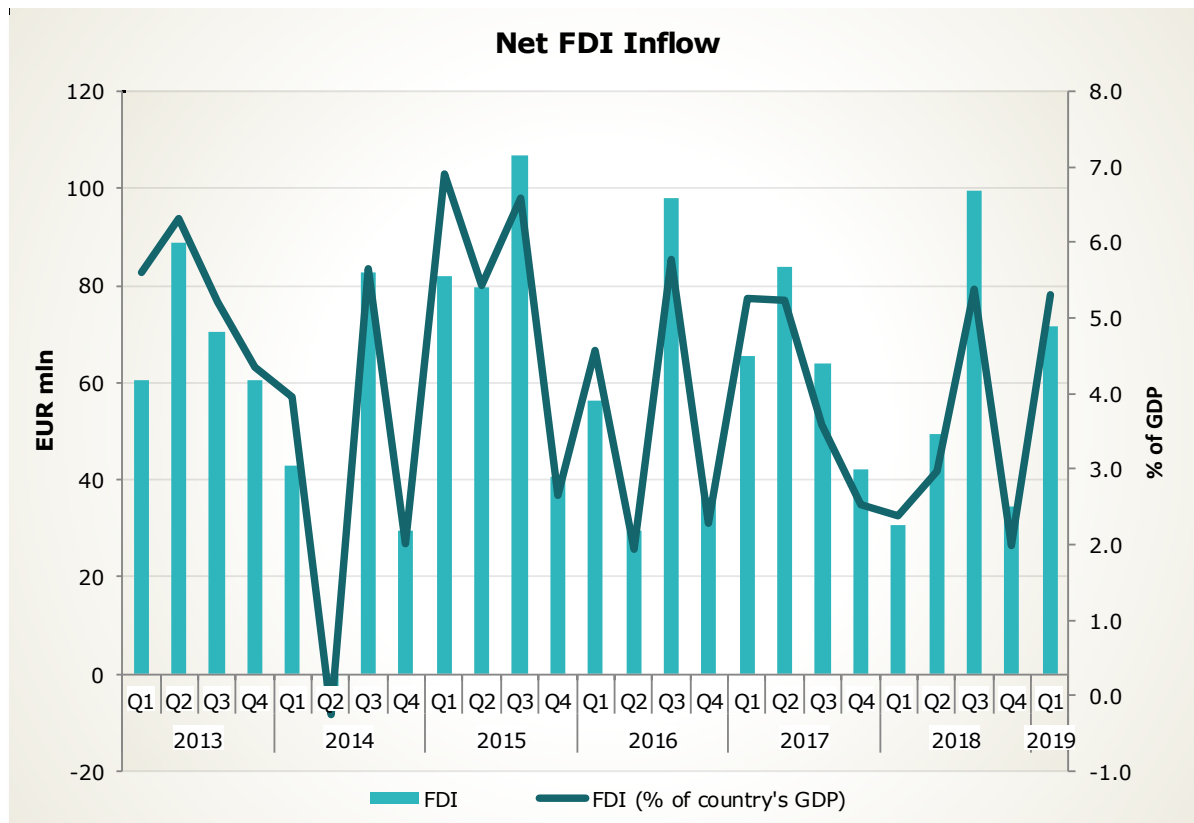


Source: BQK

5.3. FDI

Net FDI inflow doubled y/y at EUR 71.7 mln in Q1 2019

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 71.7 mln in Q1 2019, compared to EUR 30.6 mln a year earlier, according to BQK data. FDI covered 46.6% of the country's current account deficit in Q1 2019 and accounted for 5.3% of its GDP.



Source: BQK

5.4. FOREIGN TRADE

Foreign trade deficit jumped by 9.0% y/y in Q1 2019

The trade deficit stood at EUR 635.0 mln in the first quarter of 2019, up 9.0% y/y, according to BQK data.

Exports increased by 5.1% y/y to EUR 77.1 mln, while imports went up by 8.6% y/y to EUR 712.3 mln in Q1 2019.

In the quarter under review, the coverage rate of imports with exports stood at 10.8%, down from 11.2% in the corresponding quarter of the previous year.



Source: ASK

5.5. TOURSIM

Number of foreign tourists overnights up by 23.7% y/y in Q1 2019

Tourist overnights of foreigners rose by an annual 23.7% to 63,260 in Q1 2019, according to ASK. They accounted for 60.3% of the total number of tourist overnights in the country. The number of foreign tourists surged to 37,953 in the first quarter of 2019 from 36,968 in Q1 2018.



Source: ASK

6. MAJOR DEVELOPMENTS

European Parliament confirms will to back visa waiver for Kosovo

Mar 28, 2019

The European Parliament confirmed its negotiating position to demand a visa waiver for Kosovo's citizens in view of the end of the legislature.

[Read the full story here](#)

EBRD, EU offer EUR 30 mln to support SMEs in Kosovo

Mar 20, 2019

The European Bank for Reconstruction and Development (EBRD) and the EU will provide a total of EUR 30 mln in loans and grants to help enhance the competitiveness of Kosovo's small and medium-sized enterprises, according to the bank.

[Read the full story here](#)

Kosovo must lift import tariffs to allow normalisation talks with Serbia to continue

Feb 19, 2019

The European Union will not organise new rounds of talks for normalisation of relations between Kosovo and Serbia until Pristina revokes the tariffs imposed on imports from Serbia and Bosnia, the EU foreign policy chief said.

[Read the full story here](#)

World Bank lending EUR 14.6 mln to Kosovo for improving cadastre data

Feb 7, 2019

Kosovo's finance ministry said it signed a EUR 14.6 mln loan agreement with the World Bank to finance improvements in cadastre data and services.

[Read the full story here](#)

EBRD plans to raise investment in Kosovo to around EUR 100 mln annually

Feb 4, 2019

The European Bank for Reconstruction and Development (EBRD) said it plans to scale up investment in Kosovo to close to EUR 100 mln annually over the next few years.

[Read the full story here](#)

EIB grants EUR 1.0 mln for Kosovo motorway project

Jan 17, 2019

Kosovo's finance ministry signed a EUR 1.0 mln grant agreement with the European Investment Bank (EIB) for the construction of a 31 km motorway section.

[Read the full story here](#)

EBRD mulls EUR 10 mln loan to finance infrastructure project in Kosovo

Jan 11, 2019

The European Bank for Reconstruction and Development said it is considering a sovereign loan of up to EUR 10 mln to finance a project to extend an existing industrial zone in Kosovo's municipality of Drenas.

[Read the full story here](#)

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