

KOSOVO ECONOMY REPORT

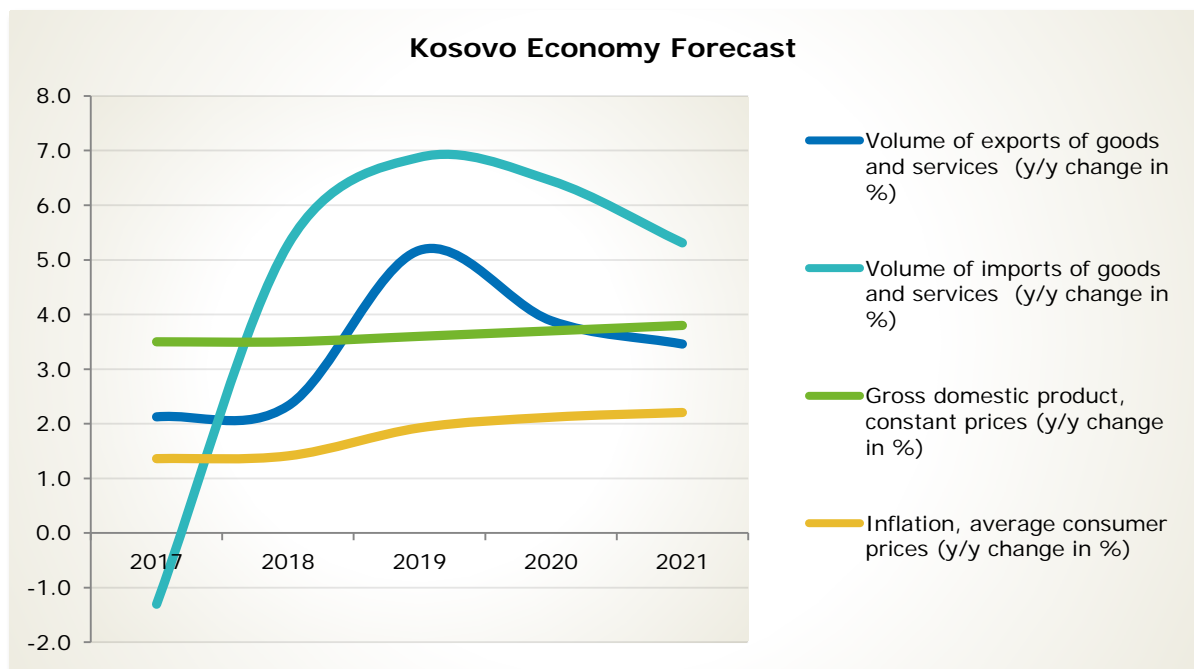
Q2 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

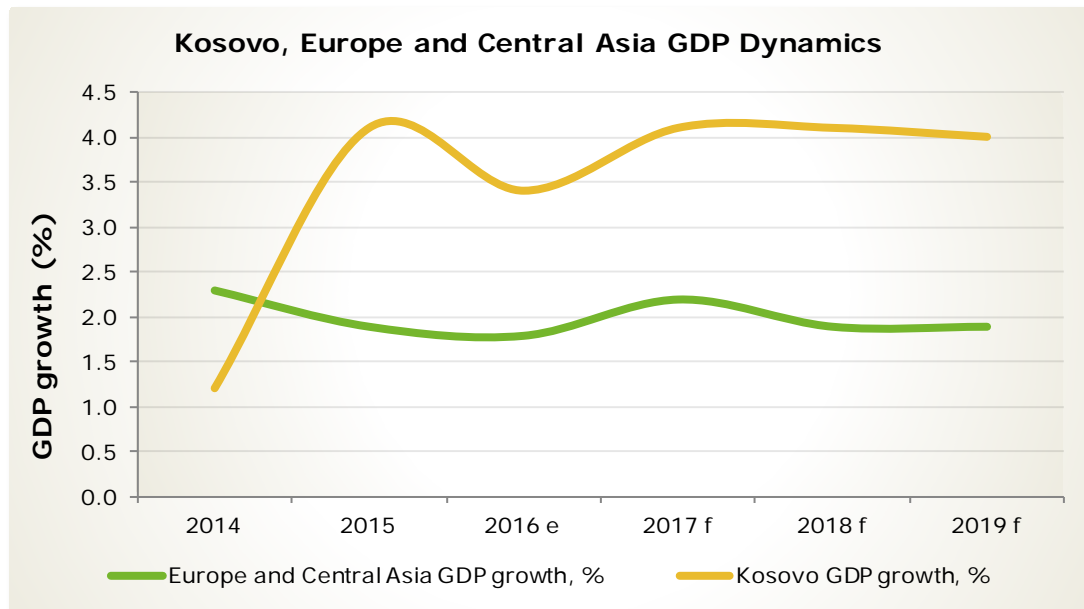
KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q2 2017	
GDP Growth	4.6% y/y
Industrial sales y/y change in	
- Mining	46.1%
- Manufacturing	4.0%
- Electricity and gas supply	15.3%
- Water supply	16.1%
Annual inflation	1.9%
Unemployment rate	30.6%
Household loans	12.5% y/y
Gross external debt	EUR 2.174 bln
Current account deficit	EUR 243.9 mln
Net FDI inflow	EUR 83.5 mln
Foreign trade deficit	EUR 684.0 mln
Number of foreign tourist overnights	12.8% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 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 should help support medium-term growth in the range of 3.5% to 3.8% in 2018-2021.

After deflation averaged 0.5% over 2015 and barely turned to positive in 2016, inflation has started to recover. The drivers of this turnaround have been external food and energy prices. Base effects should imply inflation of 1.4% for 2017 as a whole, according to IMF estimates.



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

The World Bank projects economic growth in Kosovo to reach 4.1% in 2017, as public and private investments are expected to grow by 10.6%, and higher disposable incomes will contribute to private consumption increase of 1.7% 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 %)					
	2014	2015	2016 e	2017 f	2018 f	2019 f
Real GDP growth, at constant market prices, y/y change	1.2	4.1	3.4	4.1	4.1	4.0
Private Consumption	7.0	4.3	4.8	1.7	2.4	2.9
Government Consumption	0.5	-3.0	-1.6	0.9	2.8	1.8
Gross Fixed Capital Investment	-2.9	12.5	11.1	10.6	8.7	7.0
Exports, Goods and Services	6.4	1.9	2.4	9.4	5.3	7.2
Imports, Goods and Services	8.6	3.8	7.2	4.6	3.7	3.5
Real GDP growth, at constant factor prices (by sectors)	1.6	3.0	1.6	4.1	4.1	4.0
Agriculture	0.8	-4.1	7.6	8.6	-1.8	-1.1
Industry	0.1	5.9	1.2	2.0	6.7	6.3
Services	2.7	3.0	0.5	4.3	4.1	3.9
Inflation (Consumer Price Index)	0.4	-0.5	0.0	1.7	1.7	1.7
Current Account Balance (% of GDP)	-7.5	-8.3	-9.4	-8.7	-8.9	-8.9
Net Foreign Direct Investment (% of GDP)	2.2	4.7	2.9	8.1	5.1	6.5

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

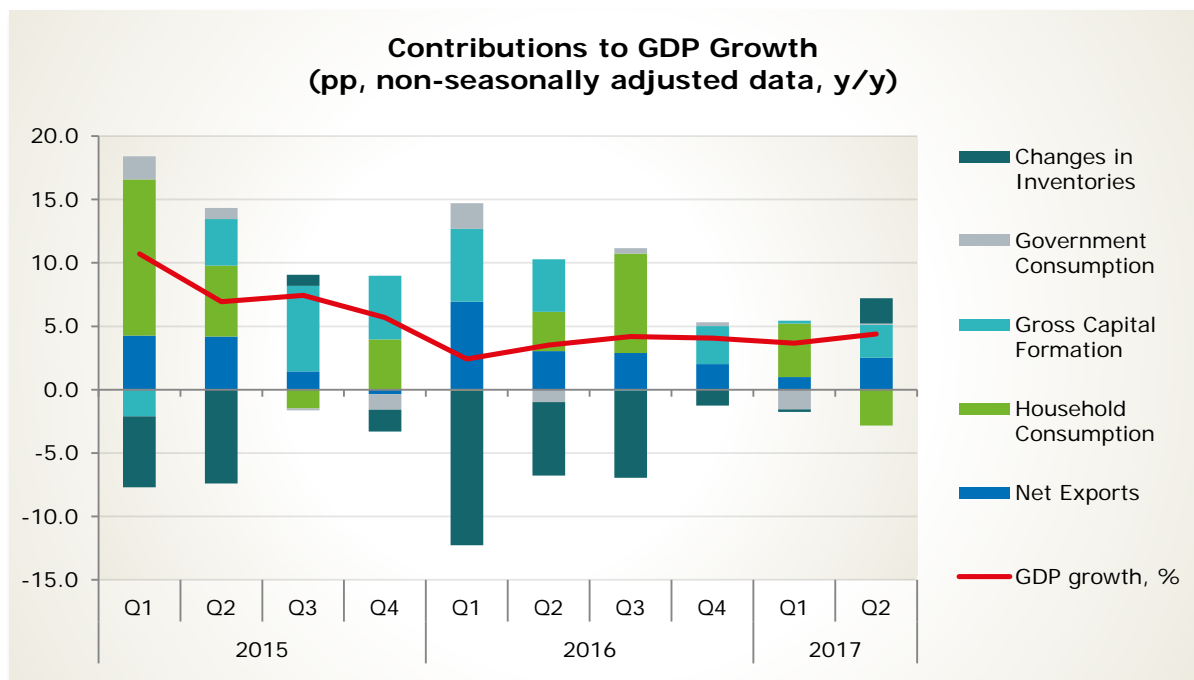
The outlook is subject to downside risks, which include perceived fragility of the newly created minority government, which can lead to rising fiscal pressures and a delay in fiscal reforms.

2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 4.6% y/y in Q2 2017, up from 3.9% y/y rise in Q1 2017

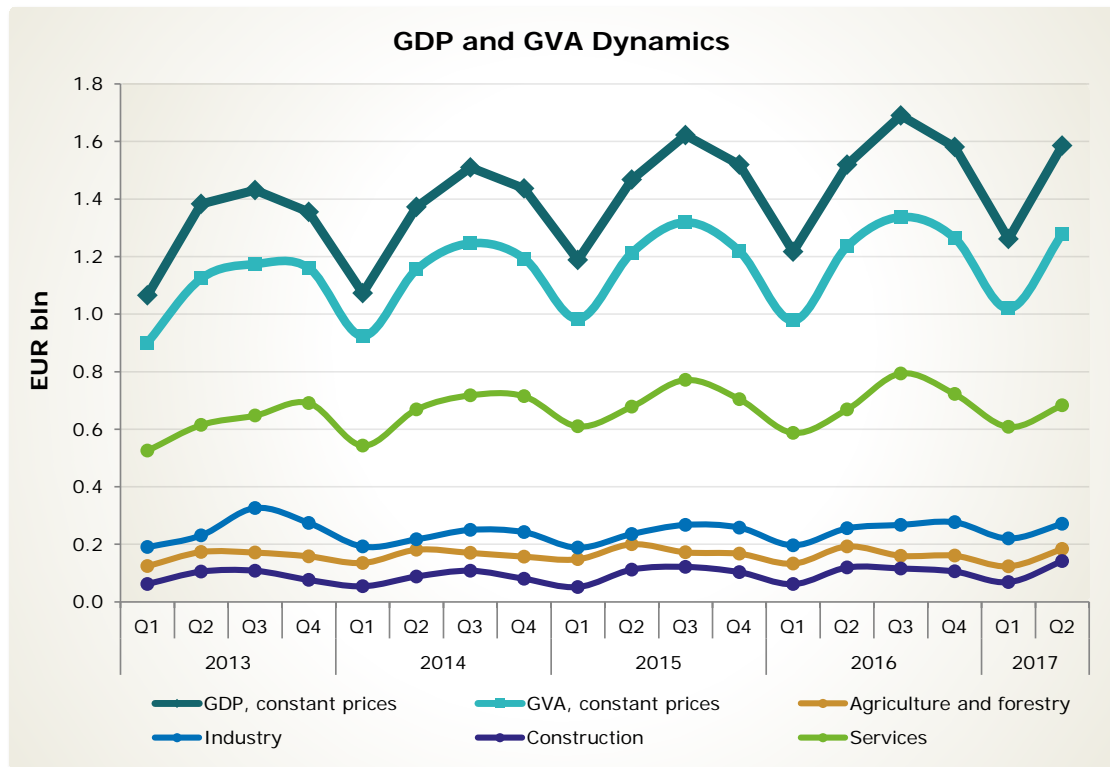
The country's GDP increased by a real 4.6% y/y and totalled EUR 1.586 bln at constant prices in Q2 2017, according to preliminary data of Kosovo Agency of Statistics (ASK).



Source: SeeNews calculations; ASK

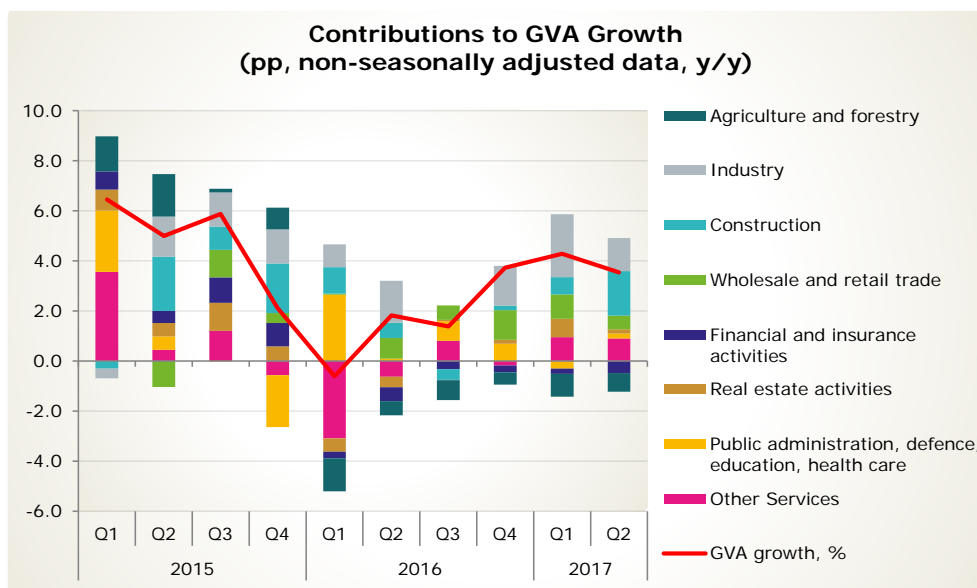
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

Final consumption decreased in value terms by 2.6% y/y and amounted to EUR 1.553 bln. Gross capital formation went up by 8.4% to EUR 546.5 mln. Exports jumped by 20.7% y/y, while imports fell by 1.7%.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 3.5% y/y in Q2 2017 and totalled EUR 1.279 bln. The industrial sector grew by 6.2%, and its share in the GVA structure increased to 21.2% from 20.7%. The services sector recorded a 2.2% annual increase, slicing a 53.4% share in the GVA, down from 54.1% a year earlier. The agricultural sector registered an annual fall of 4.8%, and its share in the GVA fell to 14.3% from 15.6% a year earlier. The construction industry grew by 18.8% and its share in the GVA increased to 11.1% from 9.7%.



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 Q2 2017

The sales of all industries grew annually in the second quarter of 2017, ASK data showed. Sales in the mining industry jumped by 46.1%, followed by the 16.1% growth in the water supply sector. Industrial sales in the electricity and gas supply, and manufacturing industries also increased, by 15.3% and 4.0%, respectively.



Source: ASK

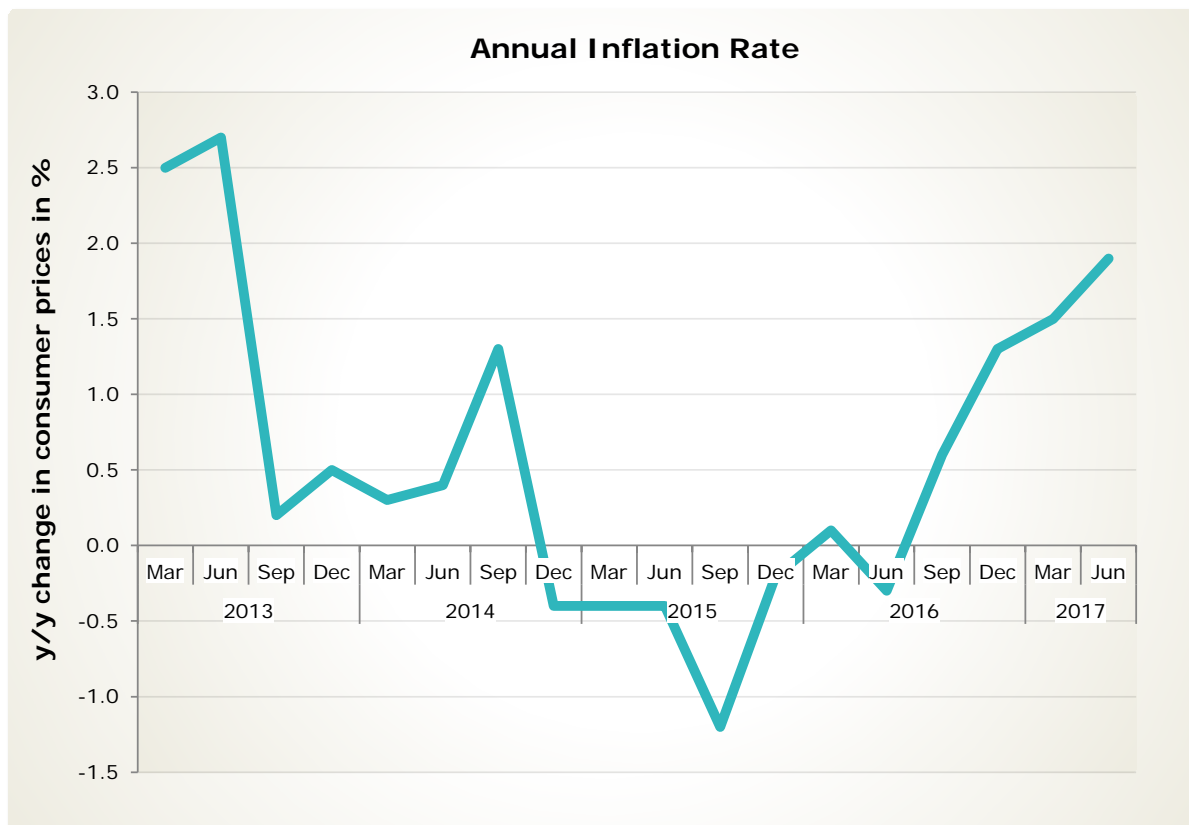
2.3. INFLATION

Inflation accelerated to 1.9% in June 2017 on higher energy prices

Kosovo registered an annual inflation of 1.9% in June 2017, compared to inflation of 1.5% in March 2017, according to ASK.

The average consumer prices of the group of housing, water, electricity, gas and other fuels jumped by 11.3% y/y. The prices of the group of the alcoholic beverages and tobacco came second in terms of average annual inflation with 3.5%.

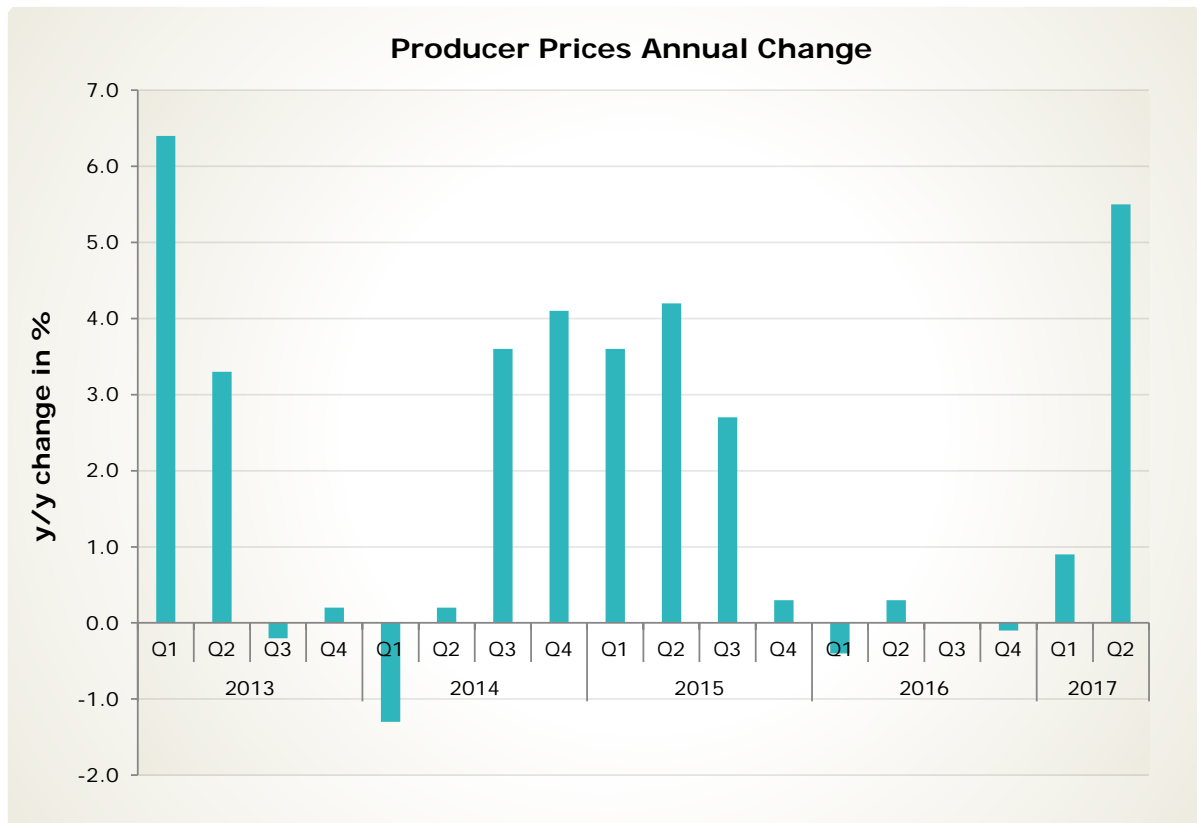
The recreation and culture sector registered the sharpest deflation in June, of 1.6% y/y and the average communication prices decreased by 1.3% y/y.



Source: ASK

Producer prices in Kosovo went up by 5.5% y/y in Q2 2017, according to ASK. The largest increase by sectors was observed in metal ore mining - 54.9%, electricity, gas, steam and air conditioning supply - 25.2%, and manufacture of electrical equipment - 4.4%.

The largest decrease by sectors was recorded in food processing - 4.1%, manufacture of wood and products of wood with 3.5%, and production of beverages and chemical products with 3.3% each.



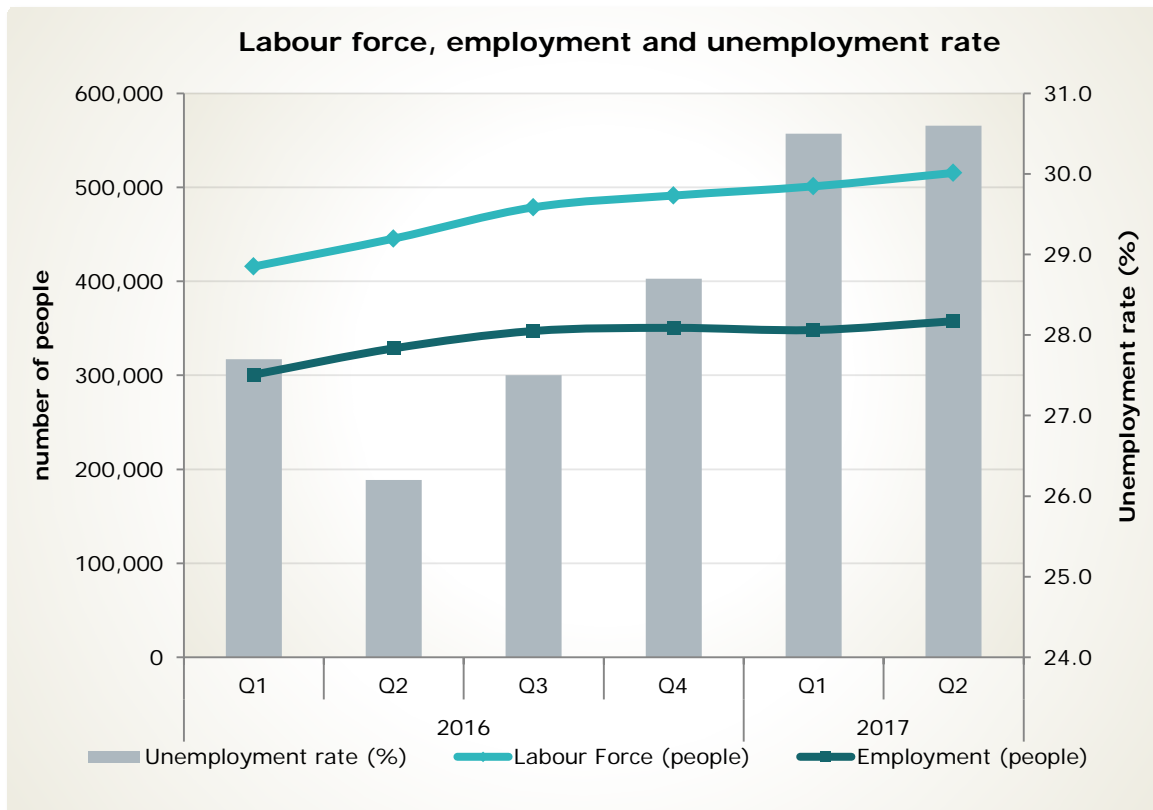
Source: ASK

3. LABOUR MARKET

Unemployment rate at 30.6% in Q2 2017

Unemployment in Kosovo expanded to 30.6% of the total labour force in Q2 2017 from 26.2% a year earlier, according to data of ASK. The youth (population aged 15-24) unemployment rate inched down to 50.9% from 51.0% a year earlier.

The employed population aged 15 years and older increased by 8.8% y/y to 357,600 in Q2 2017.



Source: ASK

Average monthly net wage down 2.8% y/y in Q2 2017

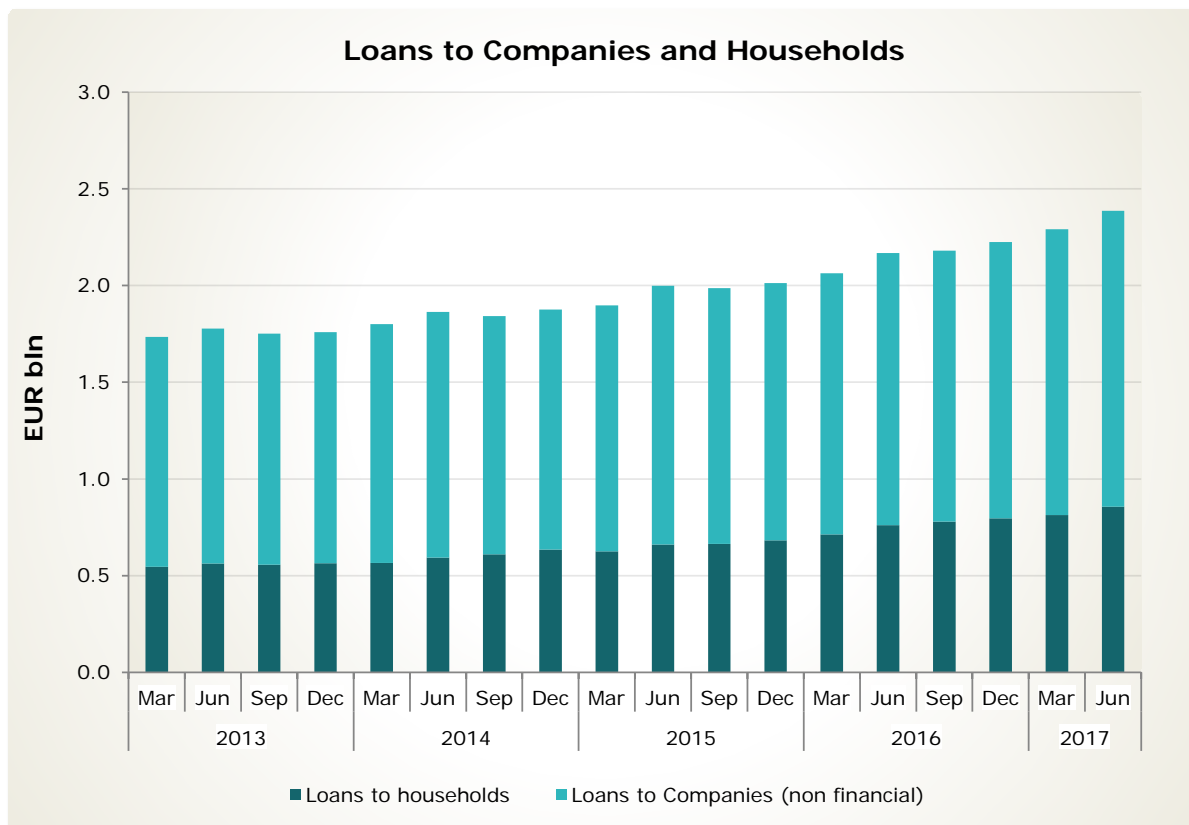
The average monthly net salary in the public sector in Kosovo decreased by 2.8% y/y to EUR 455 in Q2 2017, according to ASK.

Employees in the public order and security sector earned the highest average monthly net salary in the country – EUR 521, while recreation and culture staff was on the other end with salaries of EUR 395.

4. BANKING AND INSURANCE

Household loans jumped by 12.5% y/y as of June 2017

Household loans increased by 12.5% y/y to EUR 855.9 mln as of June 2017, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 8.8% to EUR 1.531 bln.

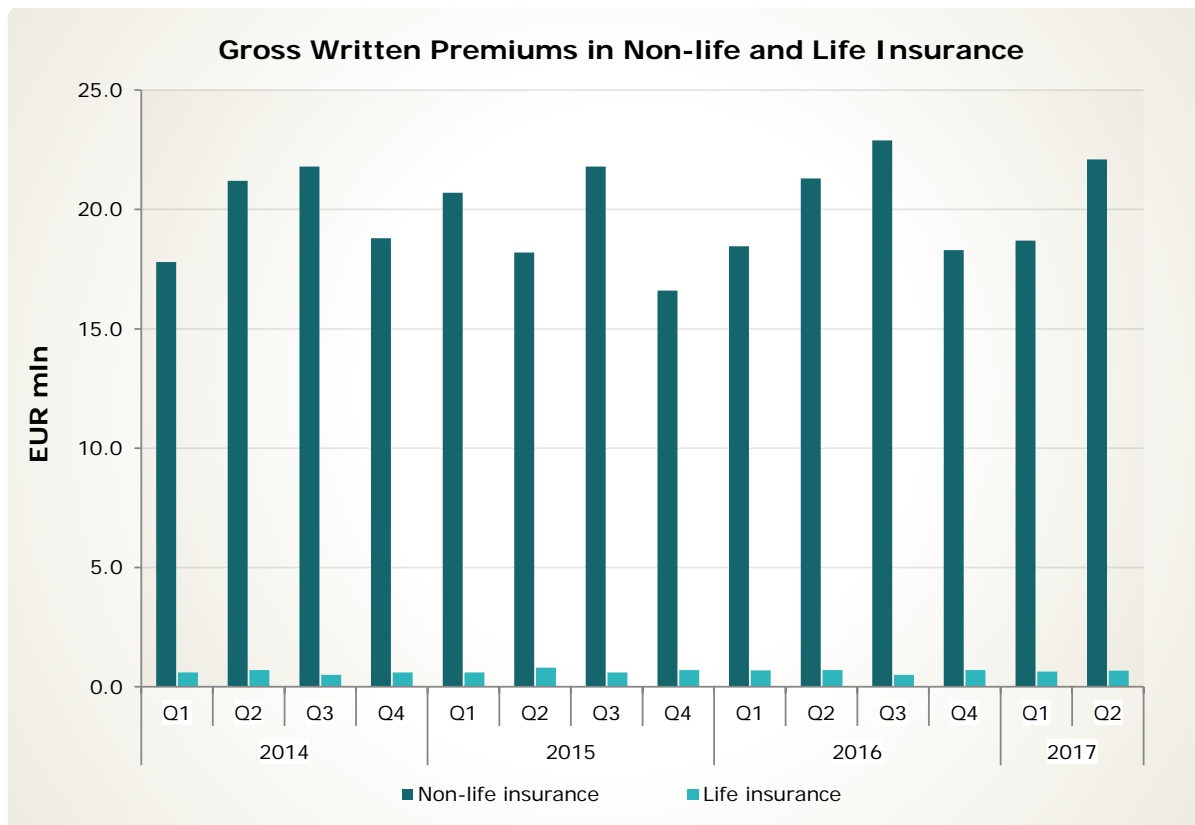


Source: BQK

Insurance premium income grew by 3.1% y/y in Q2 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went up by 3.1% y/y to EUR 22.8 mln in Q2 2017, according to BQK.

The upturn was due to the non-life insurance market, which grew to EUR 22.1 mln from EUR 21.3 mln a year earlier. The life insurance market dropped by 3.1% to EUR 0.678 mln.



Source: BQK

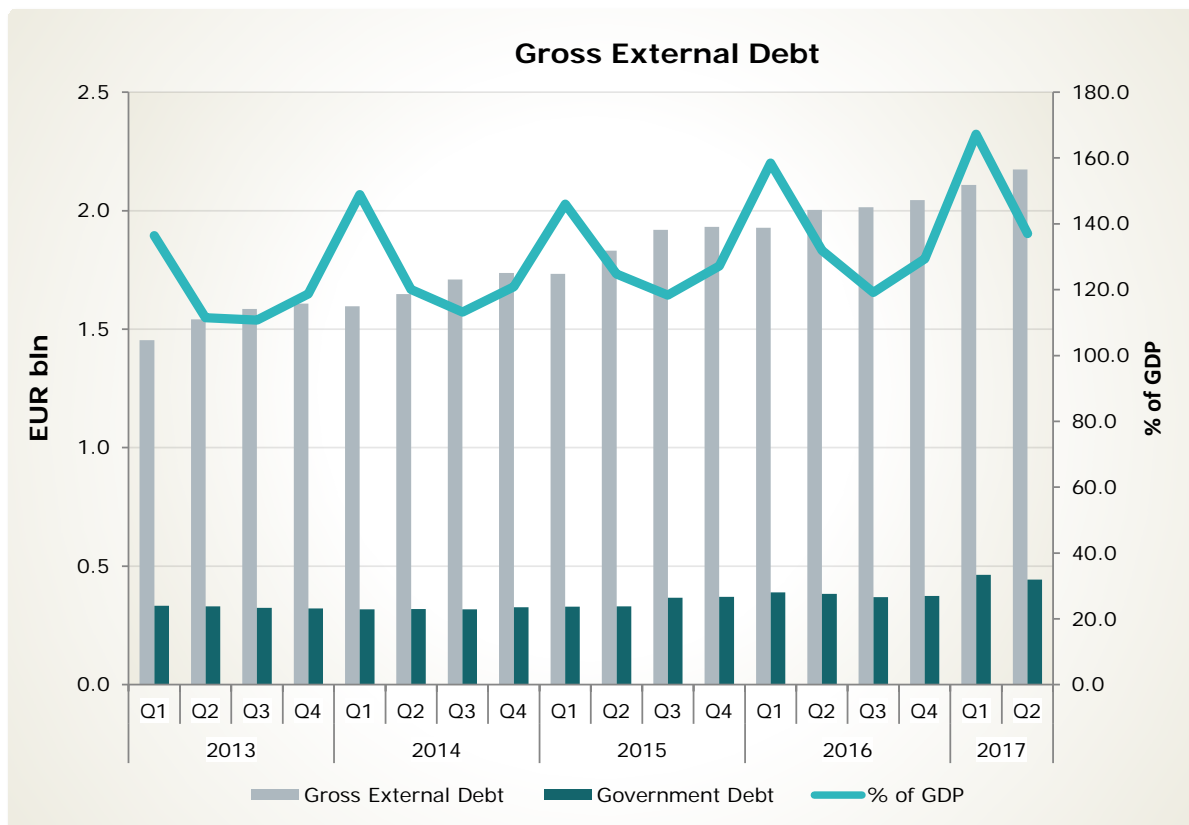
5. EXTERNAL SECTOR

5.1. FOREIGN DEBT

The gross external debt increased y/y to EUR 2.174 bln in Q2 2017

The gross external debt stood at EUR 2.174 bln as of Q2 2017, according to BQK. It grew by 8.5%, or EUR 170.4 mln, in comparison to the same quarter of the previous year.

In Q2 2017, long-term liabilities amounted to EUR 704.0 mln, or 32.4% of the total debt, rising by 16.3% y/y. Short-term liabilities totalled EUR 653.8 mln, up 9.4% y/y, equal to 30.1% of the total debt.



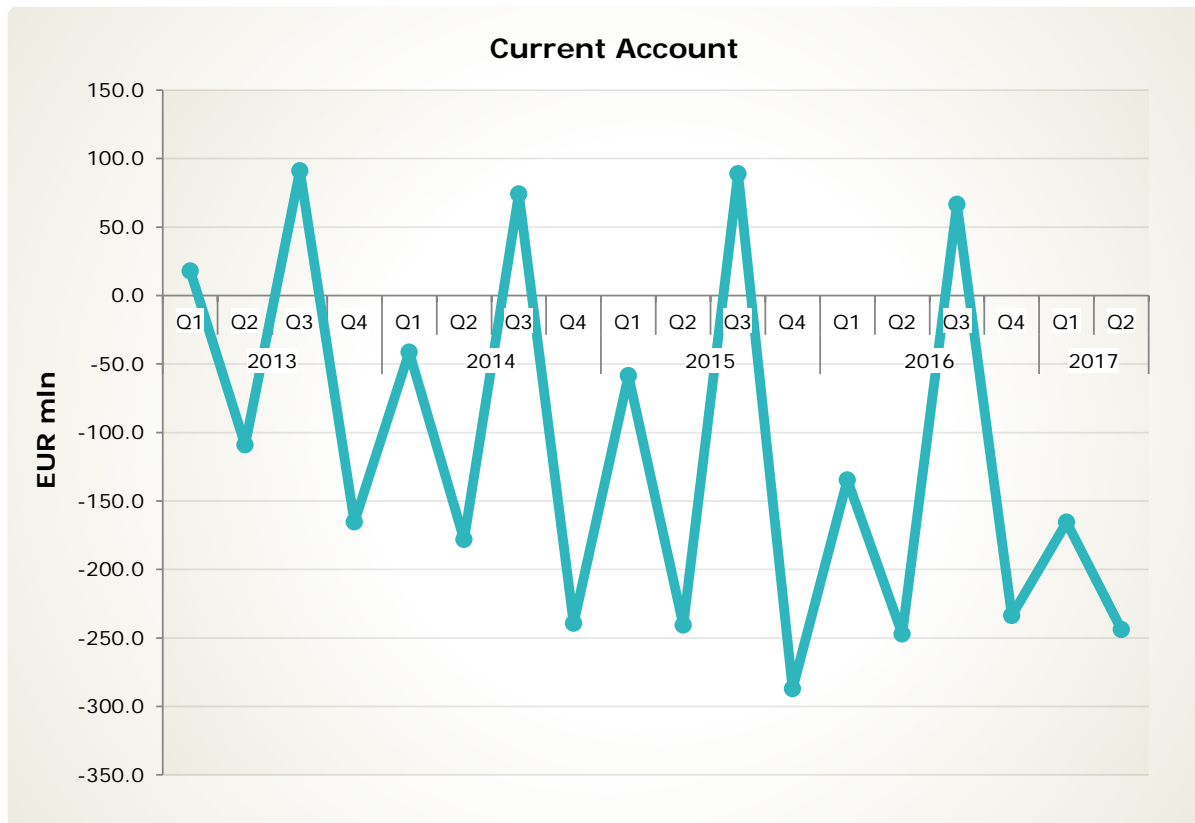
Source: BQK

5.2. BALANCE OF PAYMENTS

Current account deficit narrowed by 1.3% y/y to EUR 243.9 mln in Q2 2017,

The current account deficit narrowed to EUR 243.9 mln in Q2 2017 from EUR 247.1 mln in Q2 2016, according to central bank statistics data.

Secondary income increased annually to EUR 287.0 mln from EUR 278.4 mln in Q2 2016.



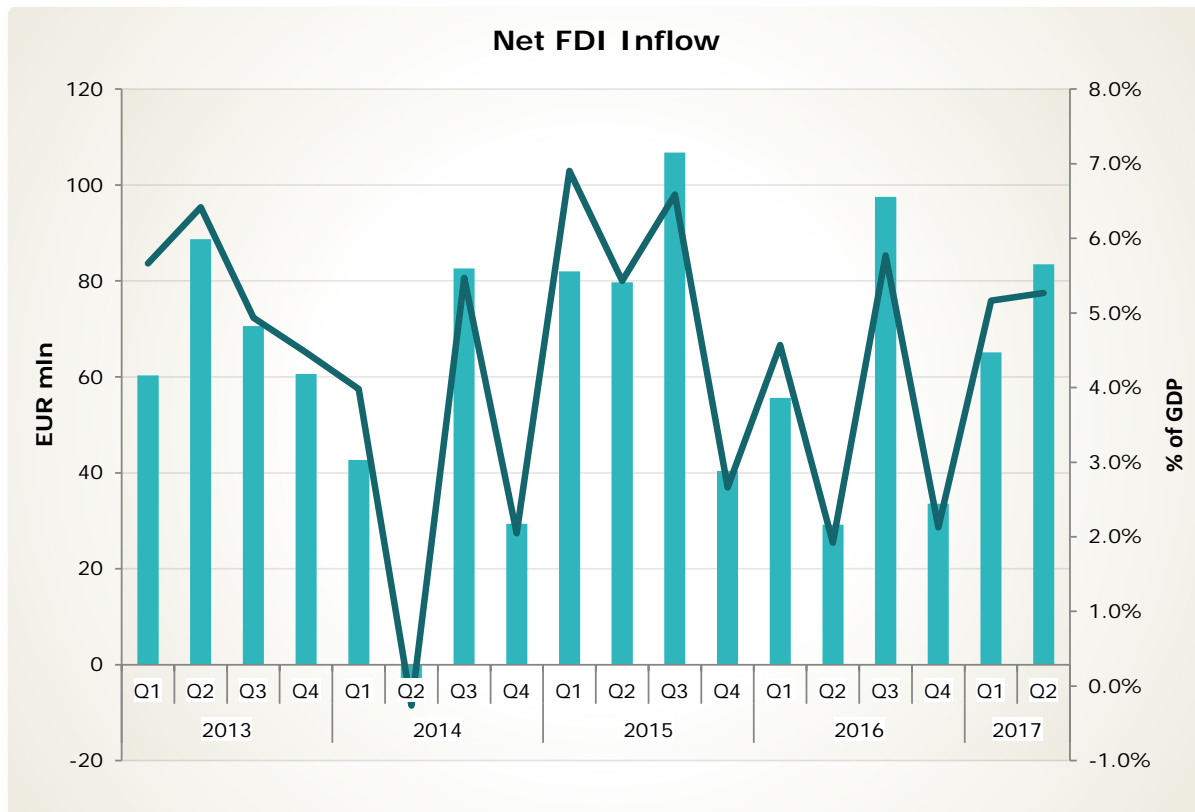
Source: BQK

5.3. FDI

Net FDI inflow nearly tripled y/y to EUR 83.5 mln in Q2 2017

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 83.5 mln in Q2 2017, compared to EUR 29.2 mln a year earlier, according to BQK data.

Germany had the largest share in FDI net inflow in Kosovo in Q2 2017 with EUR 16.1 mln, followed by the UK with 14.0 mln and Switzerland with EUR 11.5 mln. FDI in the real estate sector more than doubled annually and the sector maintained its position as the most preferred sector for foreign investments.



Source: BQK

5.4. FOREIGN TRADE

Foreign trade deficit increased by 4.3% y/y in Q2 2017

The trade deficit stood at EUR 684.0 mln in the second quarter of 2017, up 4.3% y/y, according to BQK data.

Exports jumped by 27.9% y/y to EUR 102.9 mln, while imports went up by 6.9% y/y to EUR 786.9 mln in Q2 2017.

In the quarter under review, the coverage rate of imports with exports stood at 13.1%, up from 10.9% in the corresponding quarter of the previous year.



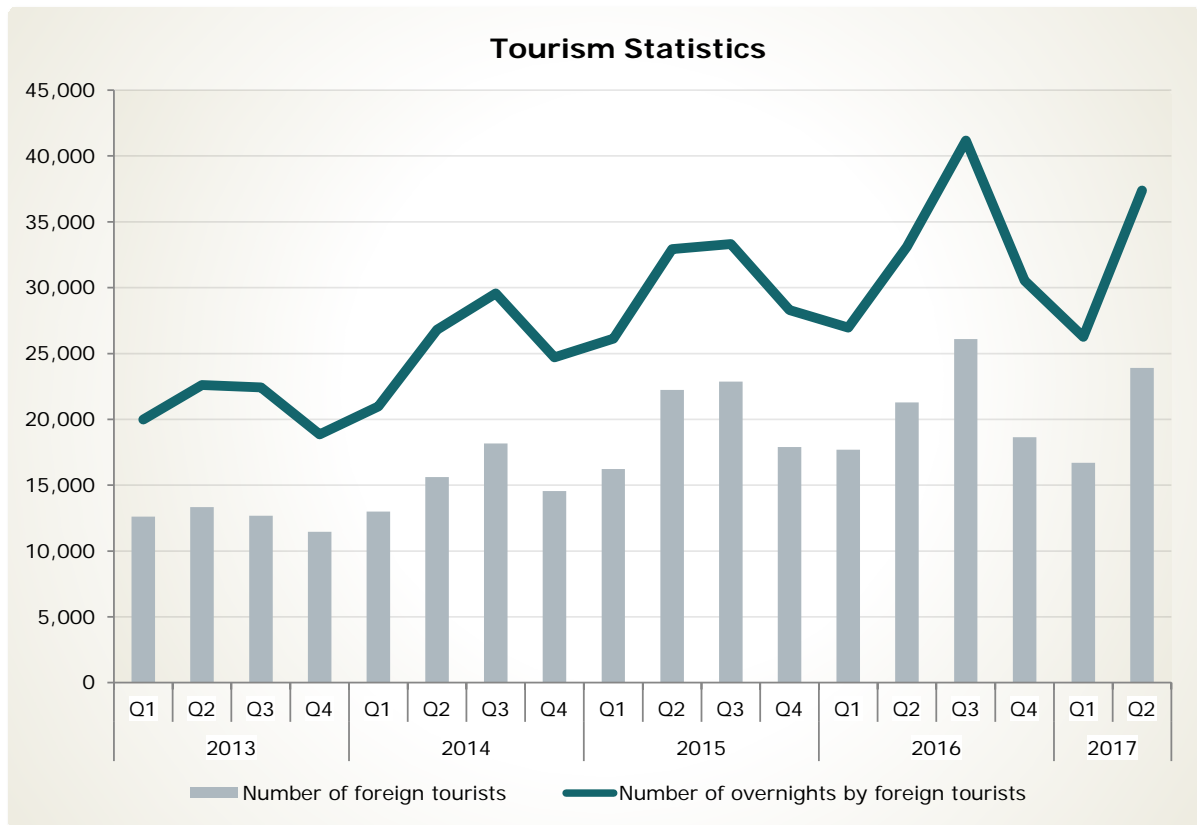
Source: ASK

5.5. TOURSIM

Number of foreign tourist overnights increased by 12.8% y/y in Q2 2017

Tourist overnights of foreigners rose by an annual 12.8% to 37,368 in Q2 2017, according to ASK. They accounted for 77.3% of the total number of tourist overnights in the country.

The number of foreign tourists went up by 12.3% y/y to 23,901.



Source: ASK

6. MAJOR DEVELOPMENTS

Coalition of Kosovo former war leaders wins snap election on 33.74% support - final results

June 29, 2017

An alliance of three democratic parties - PDK, AAK and Nisma - all of them led by former Kosovo Liberation Army (KLA) leaders, won the June 11 snap elections, garnering 33.74% of votes, the final official results showed on Thursday.

[Read the full story here](#)

EU advises Kosovo to strengthen public procurement

May 25, 2017

Kosovo needs to strengthen its institutional capacities for public procurement and management of investment projects in order to meet its ambitious capital spending target this year, the European Council said.

[Read the full story here](#)

World Bank lends USD 15.3 mln to boost Kosovo firms' competitiveness

May 25, 2017

The World Bank said it has approved a loan USD 15.3 mln (EUR 13.6 mln) to Kosovo, which is designed to cut costs for companies in acquiring internationally recognised certifications and product testing.

Read the full story [here](#)

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