

KOSOVO ECONOMY REPORT

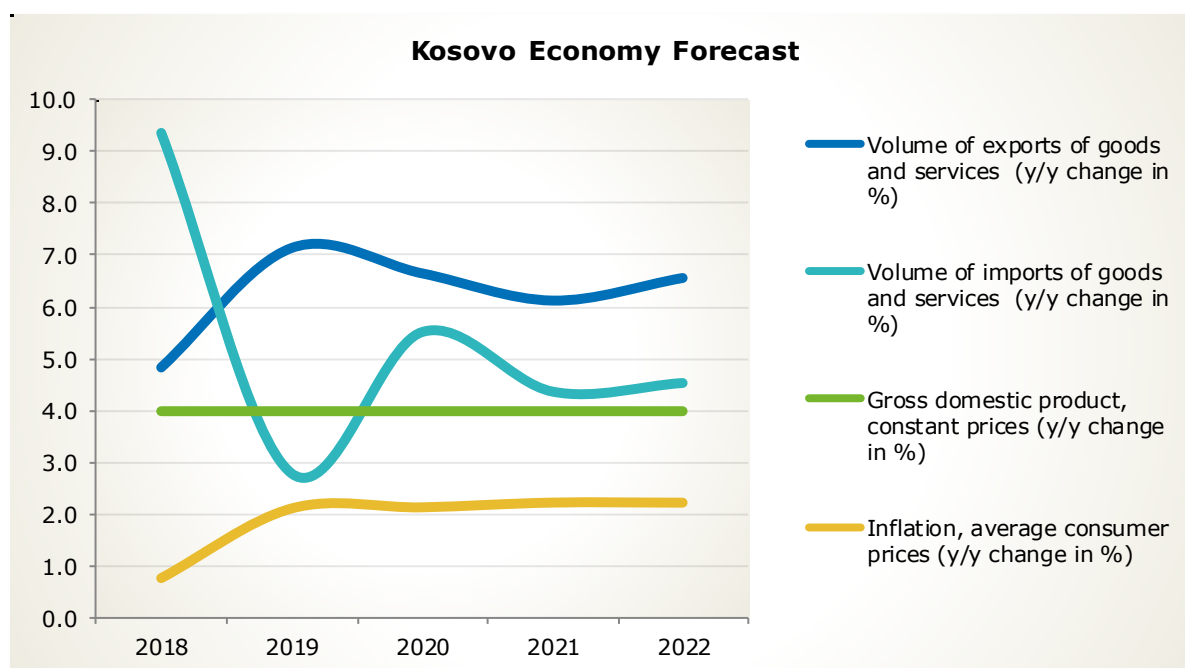
Q2 2018

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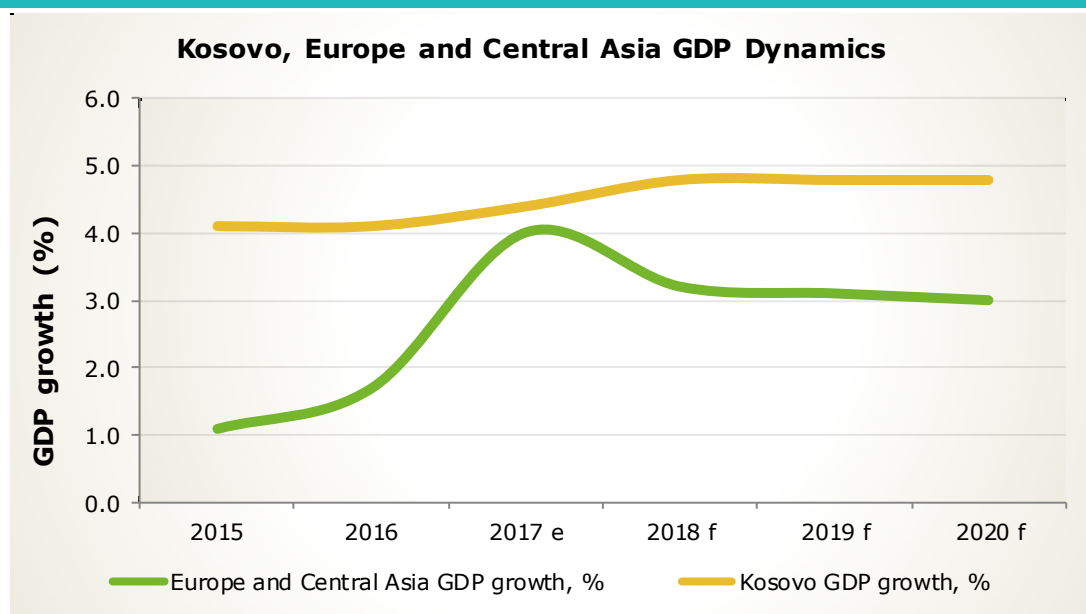
1. MACROECONOMIC SNAPSHOT AND FORECAST

KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q2 2018	
GDP Growth	4.7% y/y
Industrial sales y/y change in	
- Mining	9.9%
- Manufacturing	0.1%
- Electricity and gas supply	-9.3%
- Water supply	5.0%
Annual inflation	0.8%
Unemployment rate	29.4%
Household loans	12.0% y/y
Gross external debt	EUR 1.998 bln (Q1 2018)
Current account deficit	EUR 278.5 mln
Net FDI inflow	EUR 57.8 mln
Foreign trade deficit	EUR 791.2 mln
Number of foreign tourist overnights	90.2% y/y



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 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, May 2018

Kosovo – GDP, Inflation, Current Account Balance and Debt Dynamics (y/y change in %)						
	2015	2016	2017 e	2018 f	2019 f	2020 f
Real GDP growth, at constant market prices, y/y change	4.1	4.1	4.4	4.8	4.8	4.8
Private Consumption	4.3	5.7	0.3	2.0	2.5	2.2
Government Consumption	-6.5	-6.3	1.0	4.5	1.5	3.3
Gross Fixed Capital Investment	12.1	7.3	11.3	12.1	11.8	10.5
Exports, Goods and Services	1.9	7.5	15.6	8.3	7.9	7.7
Imports, Goods and Services	3.8	7.0	5.1	5.9	5.9	5.3
Real GDP growth, at constant factor prices (by sectors)	3.0	2.4	4.5	3.6	5.1	5.0
Agriculture	-4.1	3.1	3.7	6.6	8.4	6.2
Industry	5.9	1.8	3.8	-0.5	5.8	4.5
Services	3.0	2.6	5.1	5.4	3.9	4.9
Inflation (Consumer Price Index)	-0.5	0.3	1.5	1.7	1.7	1.7
Current Account Balance (% of GDP)	-8.6	-8.2	-5.1	-6.0	-7.0	-7.5

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

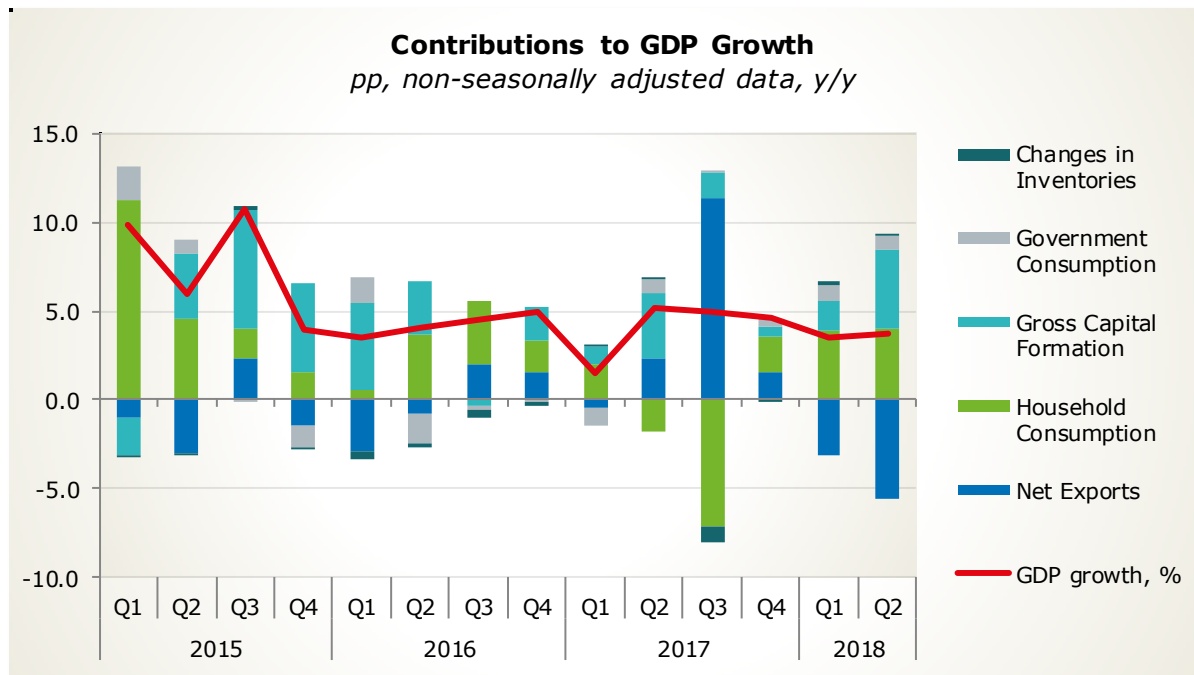
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 4.7% y/y in Q2 2018, up from 4.3% in Q2 2017

The country's GDP increased by a real 4.7% y/y and totalled EUR 1.665 bln at constant prices in Q2 2018, according to preliminary data of Kosovo Agency of Statistics (ASK).

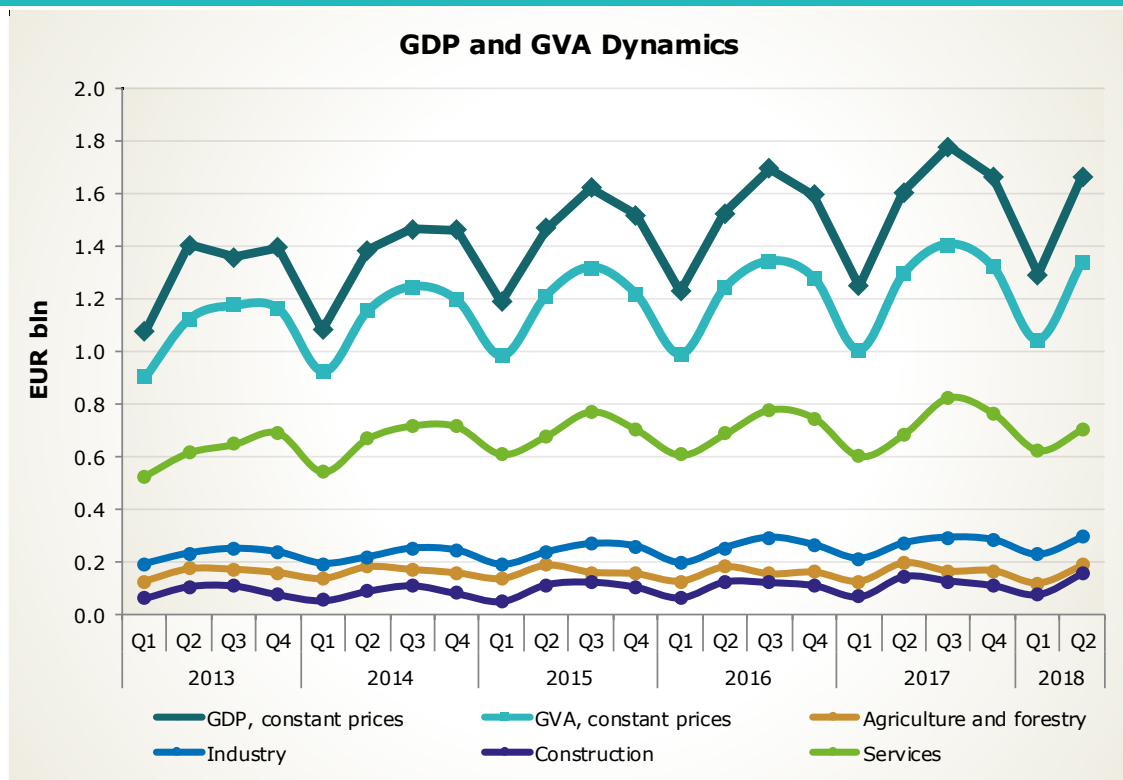
The largest growth contributors during the quarter were household consumption and gross capital formation with 4.0 pp and 4.4 pp, respectively.



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.

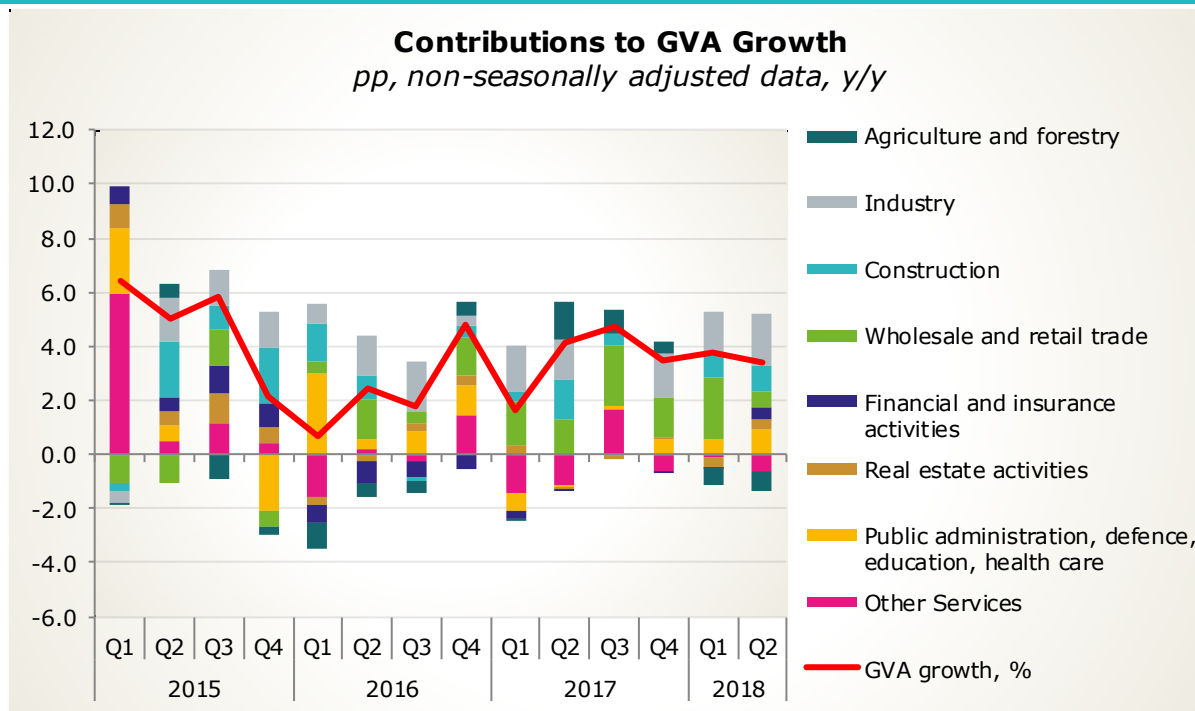
Final consumption increased in value terms by 4.8% y/y and amounted to EUR 1.671 bln. Gross capital formation went up by 12.8% to EUR 616.6 mln. Exports jumped by 13.7% y/y, while imports grew by 15.2% y/y.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 3.4% y/y in Q2 2018 and totalled EUR 1.338 bln. The industrial sector surged by 8.4%, while services recorded a 3.0% annual increase. The agricultural sector registered an annual fall of 5.1%. The construction industry grew by 8.2%.

In terms of contributions, the industrial sector added 1.9 pp to the y/y GVA growth in Q2 2018, followed by the services sector with 1.5 pp. Wholesale and retail trade alone contributed with 0.6 pp to the overall GVA growth.



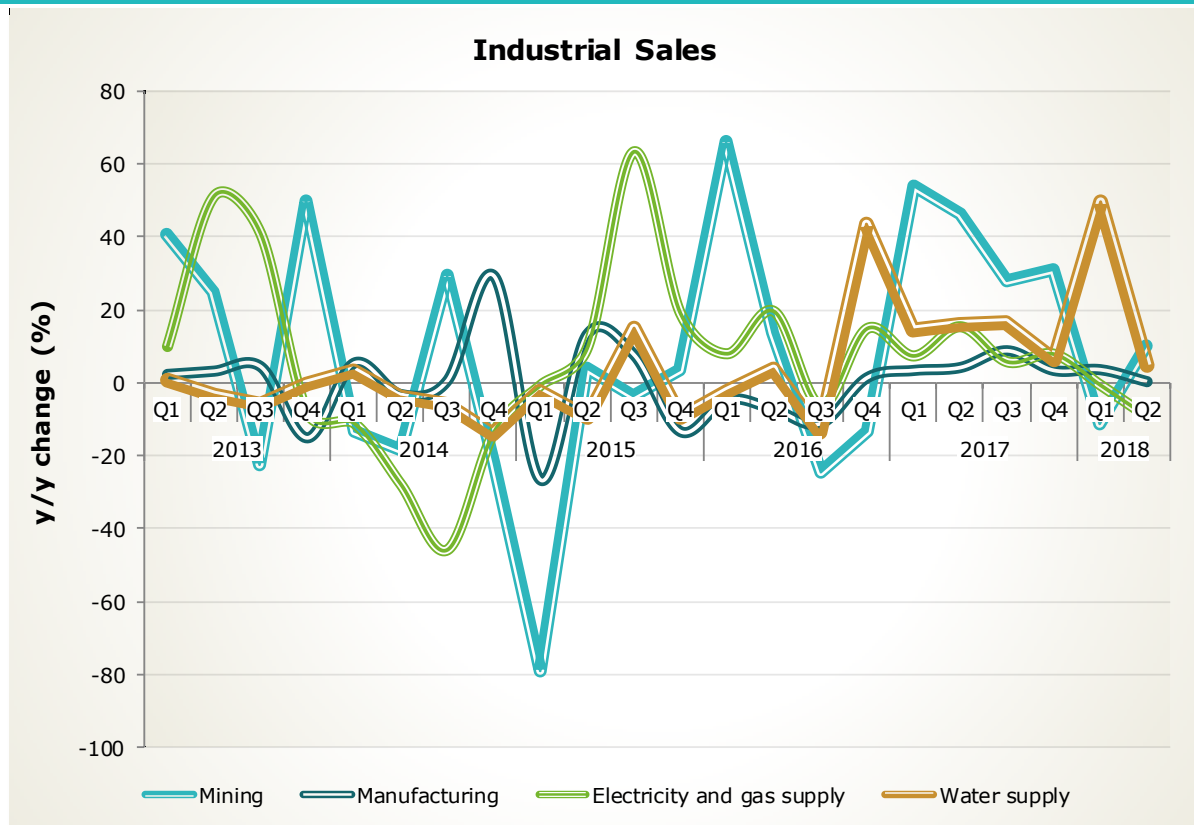
Source: SeeNews Calculations; ASK

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

2.2. INDUSTRIAL SALES

Mining sales grew by 9.9% y/y in the second quarter of 2018

The sales of the mining industry went up by 9.9% y/y in the second quarter of 2018, ASK data showed. Sales in the manufacturing industry slightly increased by 0.1%, while electricity and gas supply shrank by 9.3% y/y. Water supply sales rose by 5.0% y/y in the second quarter.



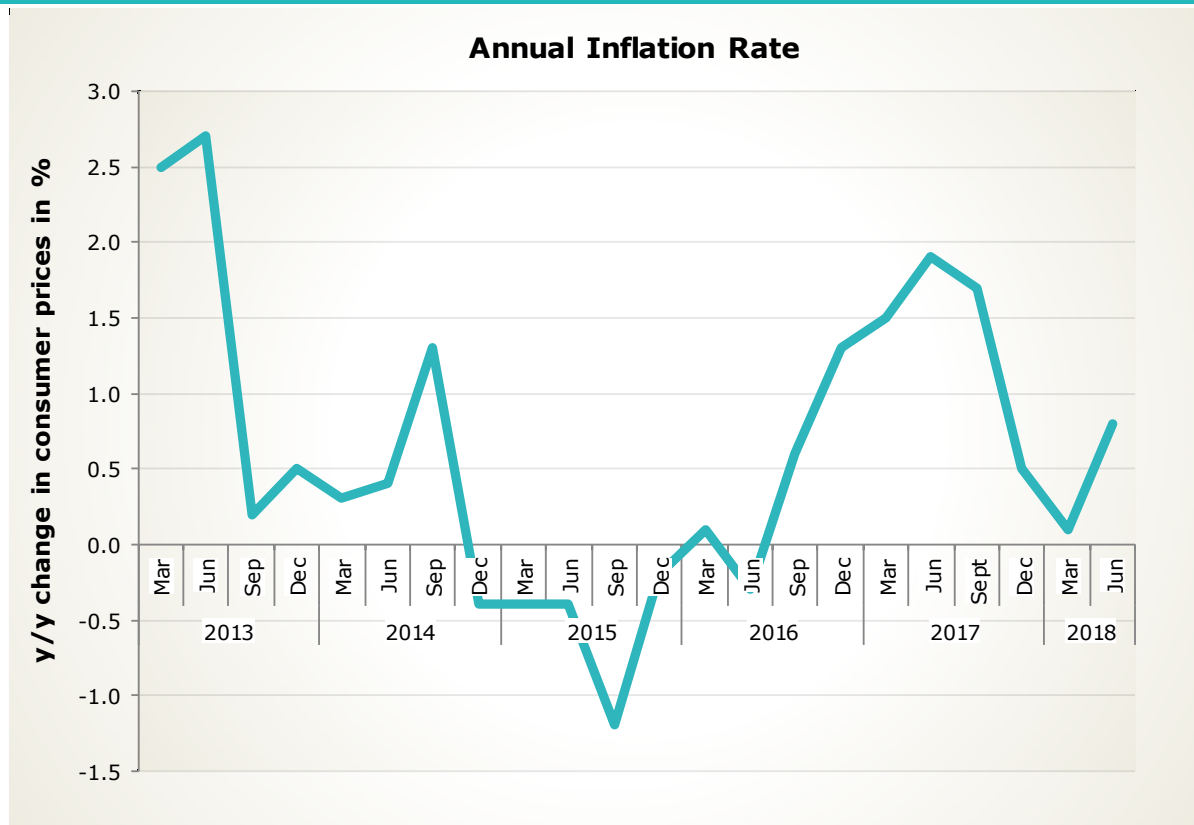
Source: ASK

2.3. INFLATION

Inflation accelerated y/y to 0.8% in June 2018, up from 0.1% in March 2018

Kosovo registered an annual inflation of 0.8% in June 2018, compared to inflation of 0.1% in March 2018 and 1.9% in the same month of the previous year, according to ASK.

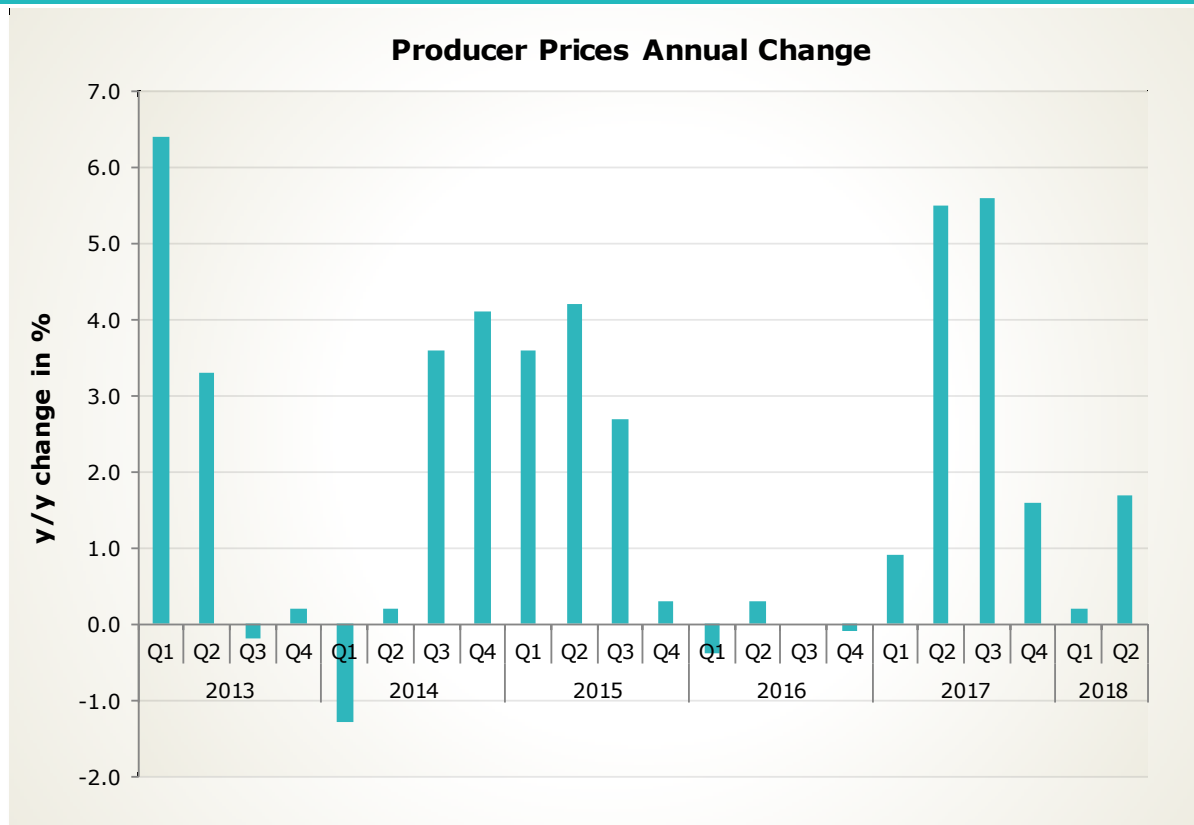
The rise of the price inflation in June 2018 on a year-on-year basis can be attributed to the increase in consumer prices in the groups of vegetables, by 9.0%, equipment operations of personal transportation, by 8.4%, tobacco with 3.2% and transport services, by 2.5%.



Source: ASK

Producer prices in Kosovo went up by 1.7% y/y in Q2 2018, according to ASK. The largest increase by economic activity was observed in the manufacture of metals with 26.1%, manufacture of electrical equipment with 11.8%, manufacture of wood and of products of wood and cork, except furniture with 6.8% and manufacture of machinery and equipment with 3.1%.

Declines of the average producer prices in Q2 2018 compared to Q2 2017 were registered in the groups of manufacture of beverages, by 1.7%, supply of electricity, gas, steam and air conditioning, by 1.5%, manufacture of furniture, by 0.6%, metal ore extraction, by 0.3%, and manufacture of leather and articles with 0.1%.



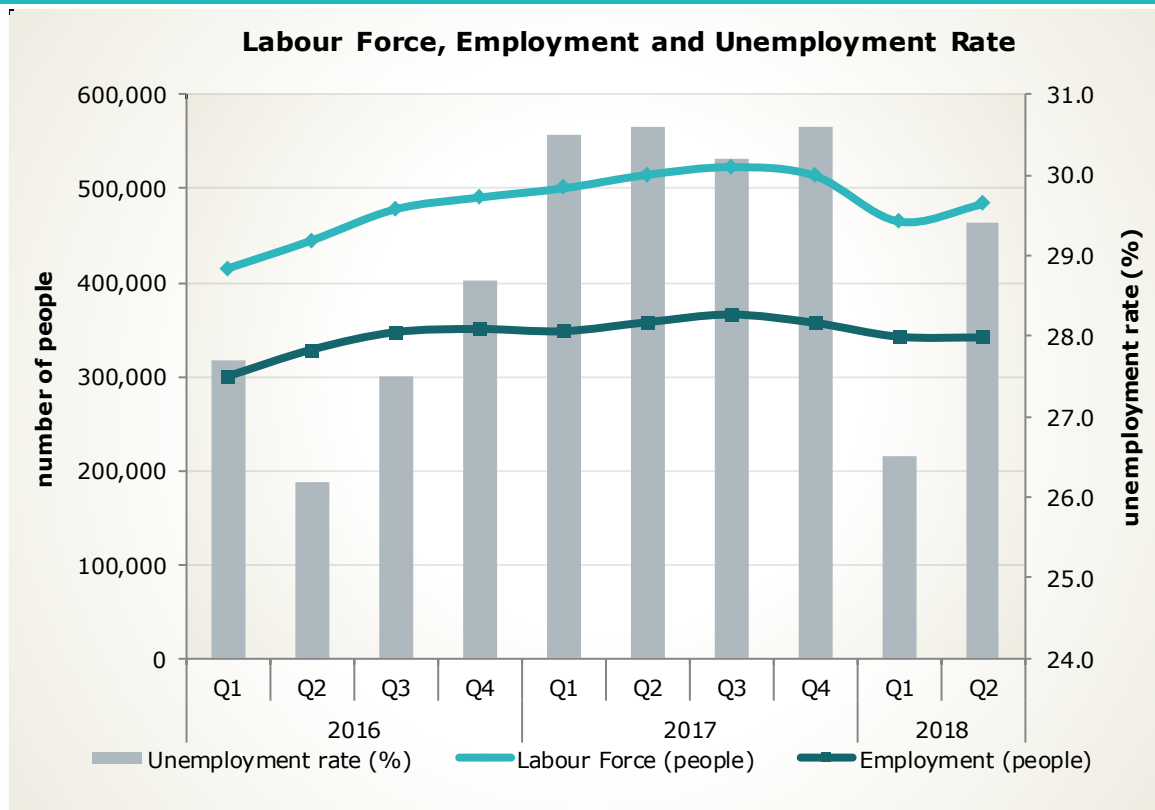
Source: ASK

3. LABOUR MARKET

Unemployment rate increased to 29.4% in Q2 2018, up from 26.5% in Q1 2018

Unemployment in Kosovo rose to 29.4% of the total labour force in Q2 2018, up from 26.5% in Q1 2018, according to data of ASK. The youth (population aged 15-24) unemployment rate inched up to 55.0% from 54.0% in Q1 2018.

The employed population aged 15 years and older decreased by 4.5% y/y to 341,600 in Q2 2018.



Source: ASK

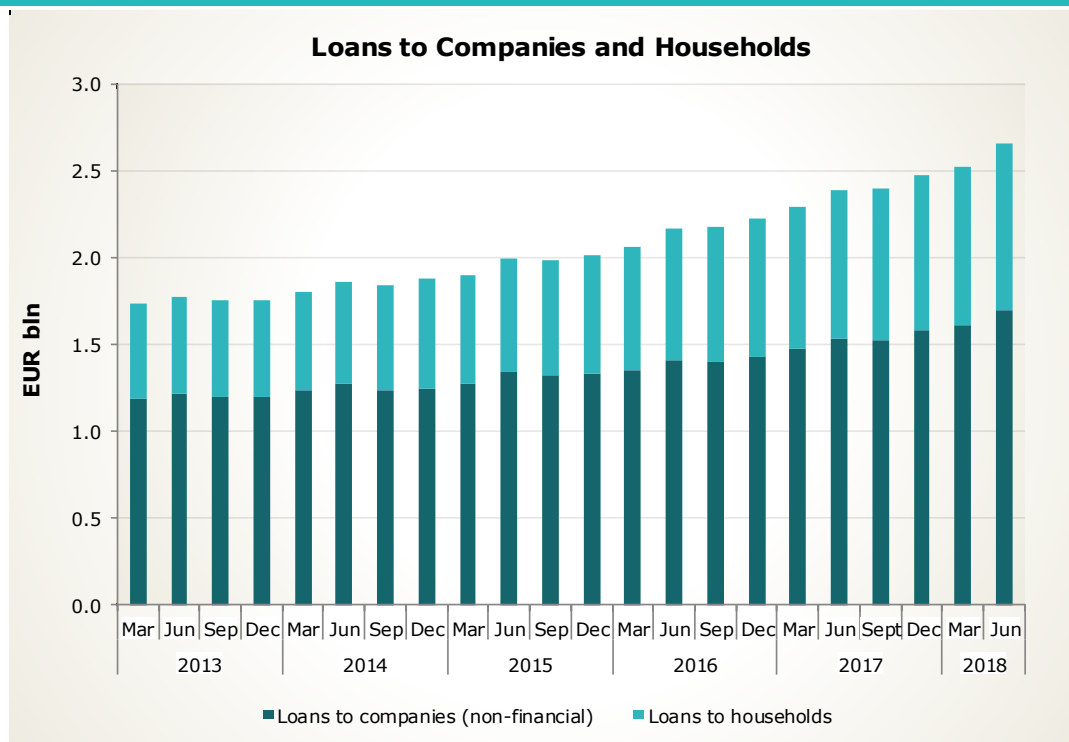
Average monthly net wage up 8.2% y/y in Q2 2018

The average monthly net salary in the public sector in Kosovo increased by 8.2% y/y to EUR 492 in Q2 2018, according to ASK.

4. BANKING AND INSURANCE

Household loans jumped by 12.0% y/y as of June 2018

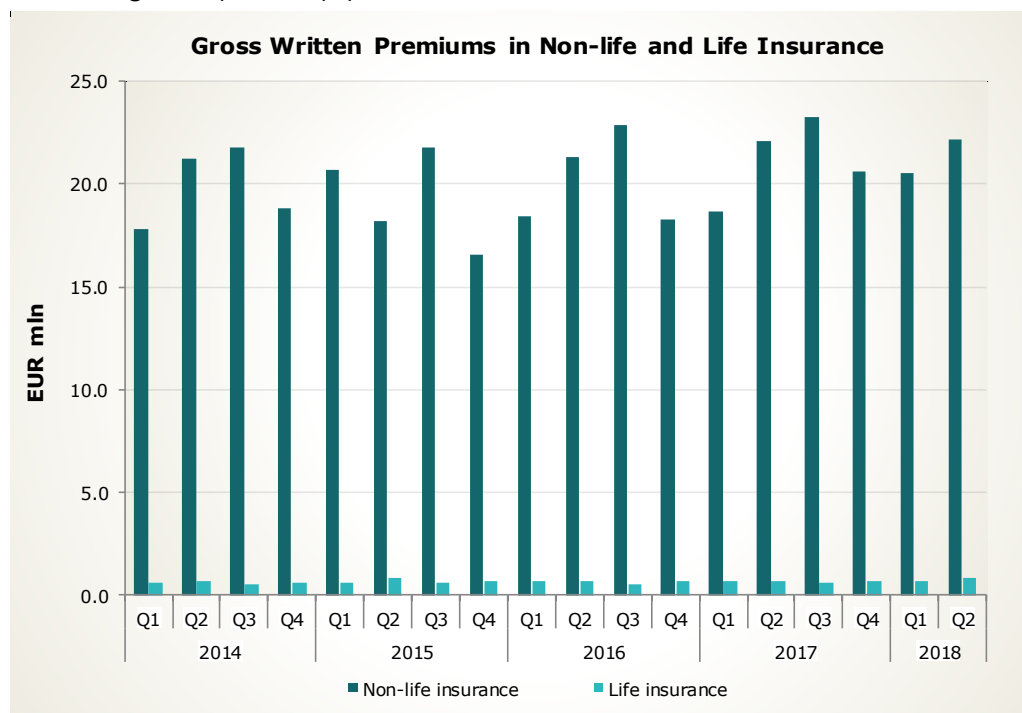
Household loans increased by 12.0% y/y to EUR 0.958 bln as of June 2018, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 10.9% to EUR 1.697 bln.



Source: BQK

Insurance premium income registered a minor increase 1.0% y/y in Q2 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went up by 1.0% y/y to EUR 23.0 mln in Q2 2018, according to BQK. The upturn was due to the non-life insurance market, which grew to EUR 22.2 mln from EUR 22.1 mln a year earlier. Life insurance GWP grew by 18.0% y/y to EUR 0.8 mln.



Source: BQK

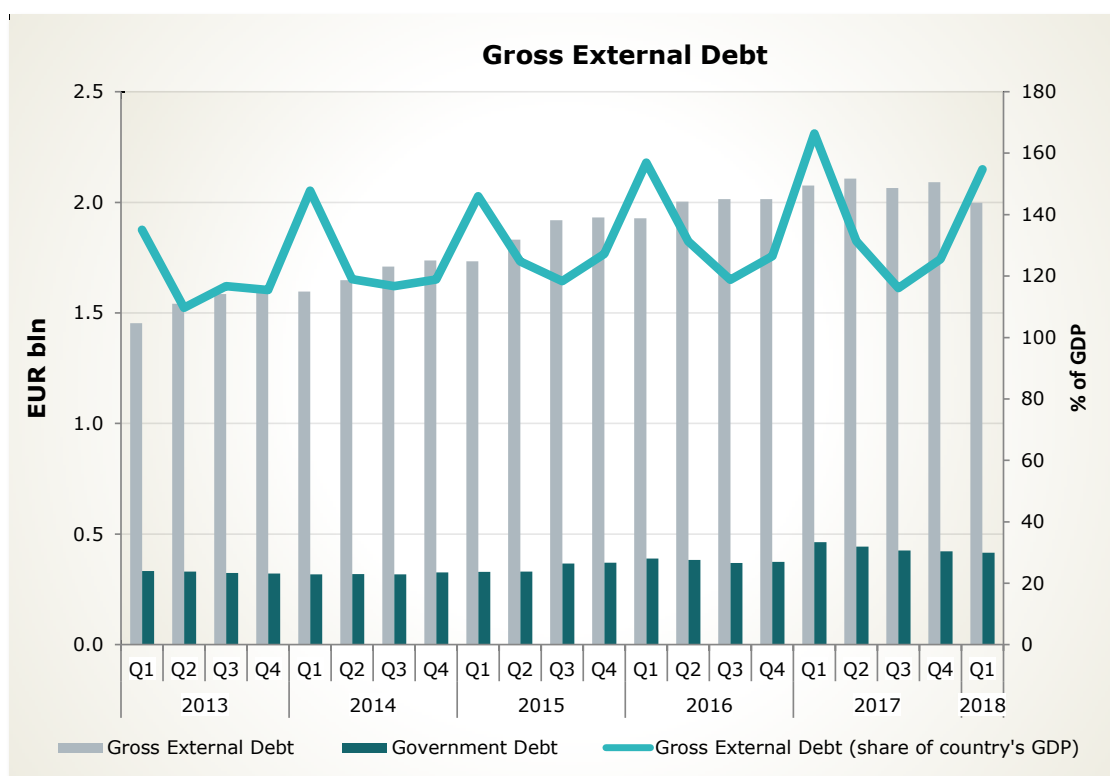
5. EXTERNAL SECTOR

5.1. FOREIGN DEBT

Gross external debt¹ 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

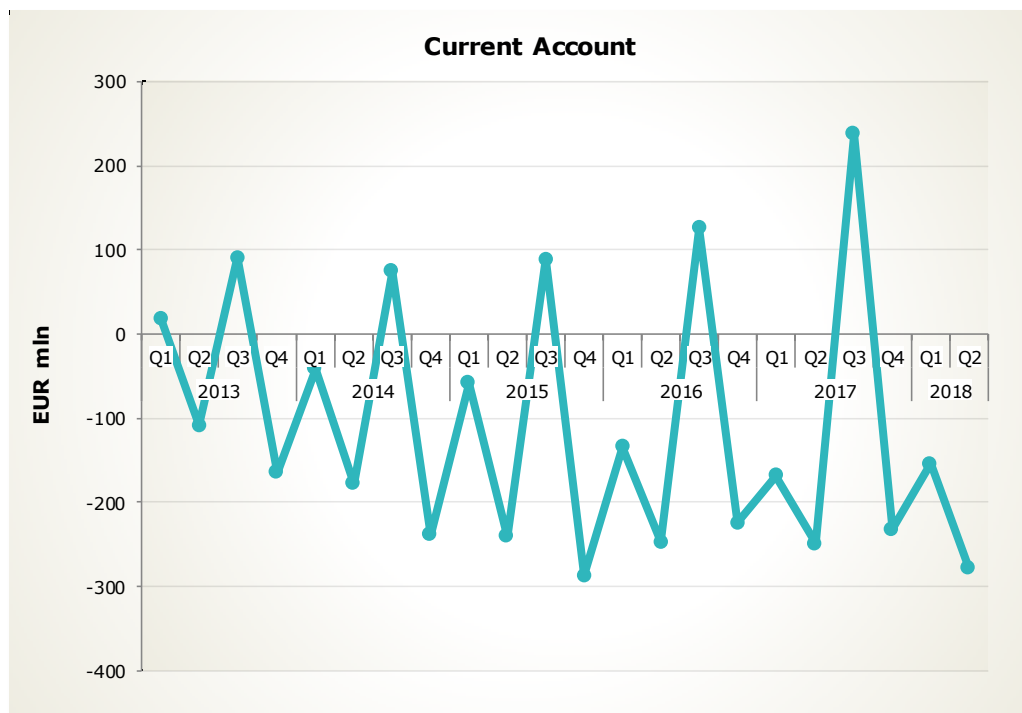
5.2. BALANCE OF PAYMENTS

Current account deficit of EUR 278.5 mln in Q2 2018, up 11.5% y/y

The current account deficit declined to EUR 278.5 mln in Q2 2018 from EUR 249.8 mln in Q2 2017, according to central bank statistics data.

¹ Data for Gross external debt are until Q1 2018, as there was no information for Q2 2018 at the time of preparation of this report.

Secondary income increased annually by 15.8% y/y to EUR 332.8 mln from EUR 287.3 mln in Q2 2017.

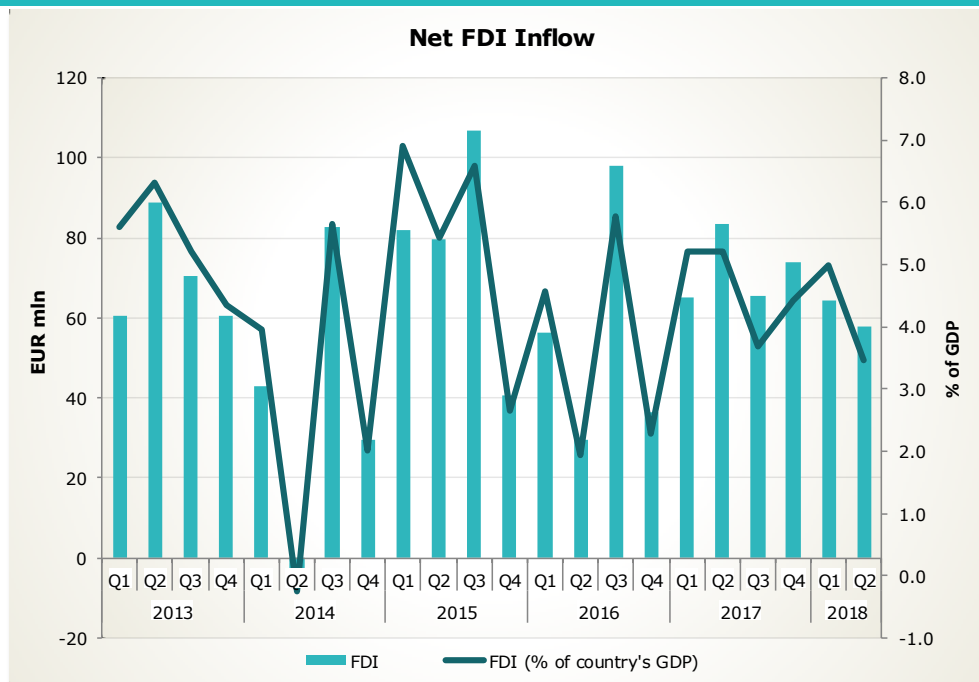


Source: BQK

5.3. FDI

Net FDI inflow at EUR 57.8 mln in Q2 2018, down 30.8% y/y

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 57.8 mln in Q2 2018, compared to EUR 83.5 mln a year earlier, according to BQK data. FDI covered 20.8% of the country's current account deficit in Q2 2018 and accounted for 3.5% of its GDP.



Source: BQK

5.4. FOREIGN TRADE

Foreign trade deficit jumped by 15.7% y/y in Q2 2018

The trade deficit stood at EUR 791.2 mln in the second quarter of 2018, up 15.7% y/y, according to BQK data.

Exports declined by 7.2% y/y to EUR 95.5 mln, while imports went up by 12.7% y/y to EUR 886.7 mln in Q2 2018.

In the quarter under review, the coverage rate of imports with exports stood at 10.8%, down from 13.1% in the corresponding quarter of the previous year.



Source: ASK

5.5. TOURSIM

Number of foreign tourist overnights almost doubled in Q2 2018

Tourist overnights of foreigners rose by an annual 90.2% to 71,086 in Q2 2018, according to ASK. They accounted for 64.8% of the total number of tourist overnights in the country. The number of foreign tourists surged to 43,604 from 23,901 in Q2 2017.



Source: ASK

6. MAJOR DEVELOPMENTS

Presidents of Serbia, Kosovo agree to step up work on normalising relations

June 26, 2018

The president of Serbia, Aleksandar Vucic, and his Kosovo counterpart, Hashim Thaci, have agreed to intensify work on normalising bilateral relations in the coming weeks, the office of the EU Delegation in Serbia said in June.

[Read the full story here](#)

Germany grants EUR 8 mln to improve wastewater management in Kosovo

June 14, 2018

Kosovo's finance ministry said in June it signed a grant agreement worth EUR 8 million (\$9.4 million) with German development bank KfW to finance a project to improve wastewater treatment in three municipalities.

[Read the full story here](#)

Kosovo scraps border controls, roaming fees with Albania

June 1, 2018

The Kosovo parliament said it has decided to remove border controls and roaming fees with neighbouring Albania.

[Read the full story here](#)

EIB lending EUR 80 mln for construction of a 30 km highway in Kosovo

May 30, 2018

The European Investment Bank (EIB) said on Tuesday it is providing a loan of up to EUR 80 mln (\$93.3 million) to co-finance the construction of a 30km highway section in Kosovo.

[Read the full story here](#)

Kosovo, EBRD agree EUR 100 mln support for urban infrastructure upgrades

May 9, 2018

Kosovo has agreed EUR 100 mln (\$119.3 million) cooperation with the European Bank for Reconstruction and Development to support urban renewal, the bank said in May.

[Read the full story here](#)

Kosovo approves EUR 8.8 mln German grants for infrastructure, employment projects

Apr 20, 2018

Kosovo's government said in April it approved two grant agreements with German development bank KfW worth a total of EUR 8.8 mln (\$10.9 million) to provide financing for infrastructure and agriculture projects.

[Read the full story here](#)

EBRD lending EUR 5.0 mln for energy efficiency projects in Kosovo

Apr 17, 2018

The European Bank for Reconstruction and Development (EBRD) said in April it is providing a loan of up to EUR 5.0 mln (\$6.2 million) to the fourth largest lender in Kosovo, TEB Bank, for financing residential energy efficiency projects.

[Read the full story here](#)

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