

## **KOSOVO ECONOMY REPORT**

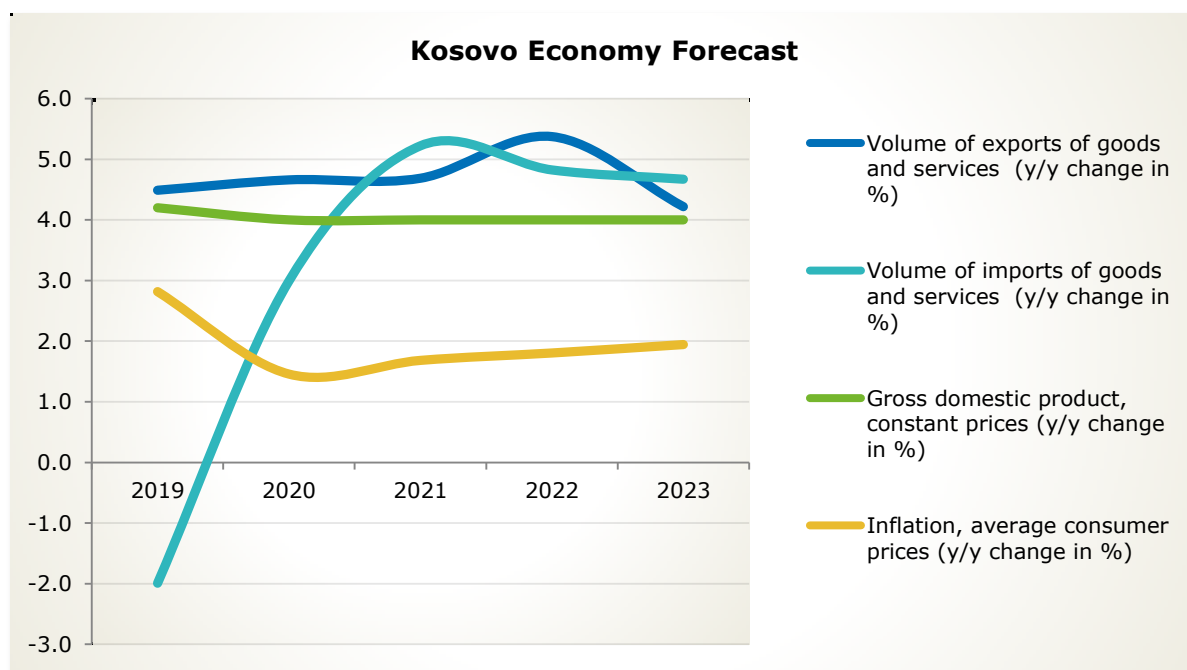
### Q2 2019

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

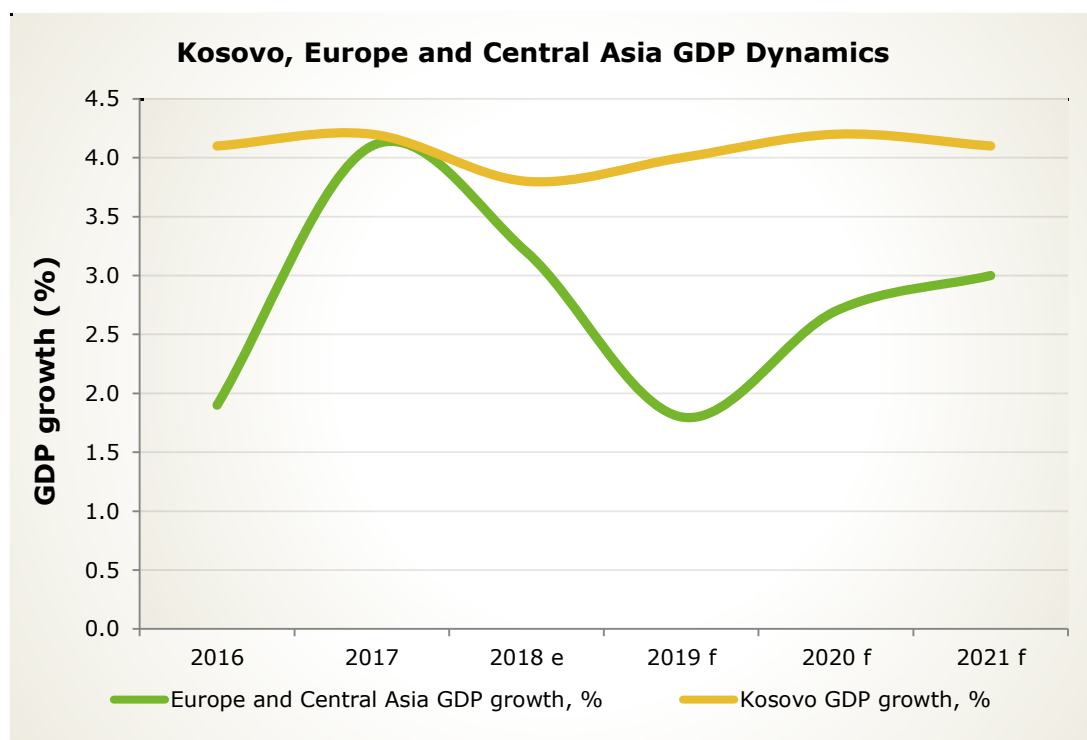
KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q2 2019	
<b>GDP Growth</b>	4.1% y/y
<b>Industrial sales y/y change in</b>	
- Mining	- 3.1%
- Manufacturing	7.4%
- Electricity and gas supply	- 6.3%
- Water supply	1.9%
<b>Annual inflation</b>	3.0%
<b>Unemployment rate</b>	25.3%
<b>Household loans</b>	10.4% y/y
<b>Gross external debt</b>	EUR 2.142 bln
<b>Current account deficit</b>	EUR 205.6 mln
<b>Net FDI inflow</b>	EUR 41.1 mln
<b>Foreign trade deficit</b>	EUR 791.4 mln
<b>Number of foreign tourist overnights</b>	9.5% y/y



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

According to the International Monetary Fund (IMF), Kosovo's economic performance continues to be solid, with growth in 2019 expected at about 4.2%, up from a real GDP growth rate of 4.1% in 2018. Inflation remains subdued and will stabilize below 2.0% in the period 2020 - 2023. In the same time IMF sees fiscal risks increased on spending for social benefit programs and tax revenue shortfalls.

According to the World Bank estimates from October 2019, GDP growth is likely to come in at 3.8% in 2018, and accelerate to 4.0% in 2019 and 4.2% in 2020, respectively. This is higher than the projected growth for Europe and Central Asia, of 3.2% in 2018.



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

The World Bank projects economic growth in Kosovo to reach 3.8% in 2018, as public and private investments are expected to grow, and higher disposable incomes will contribute to private consumption increase of 4.8% on the year. The contribution of net exports will turn to positive in the medium term because of faster export growth.

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

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices, y/y change	4.1	4.2	3.8	4.0	4.2	4.1
Private Consumption	6.6	1.8	4.8	3.2	3.4	3.6
Government Consumption	-6.3	-0.6	8.9	11.6	3.6	2.6
Gross Fixed Capital Investment	7.3	5.7	6.1	4.0	7.3	5.5
Exports, Goods and Services	2.4	16.8	3.8	4.2	4.4	5.5
Imports, Goods and Services	6.4	5.4	9.0	4.5	4.4	4.3
Inflation (Consumer Price Index)	0.3	1.5	1.1	2.8	1.8	1.5
Current Account Balance (% of GDP)	-7.9	-6.0	-8.2	-8.7	-8.3	-7.4

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

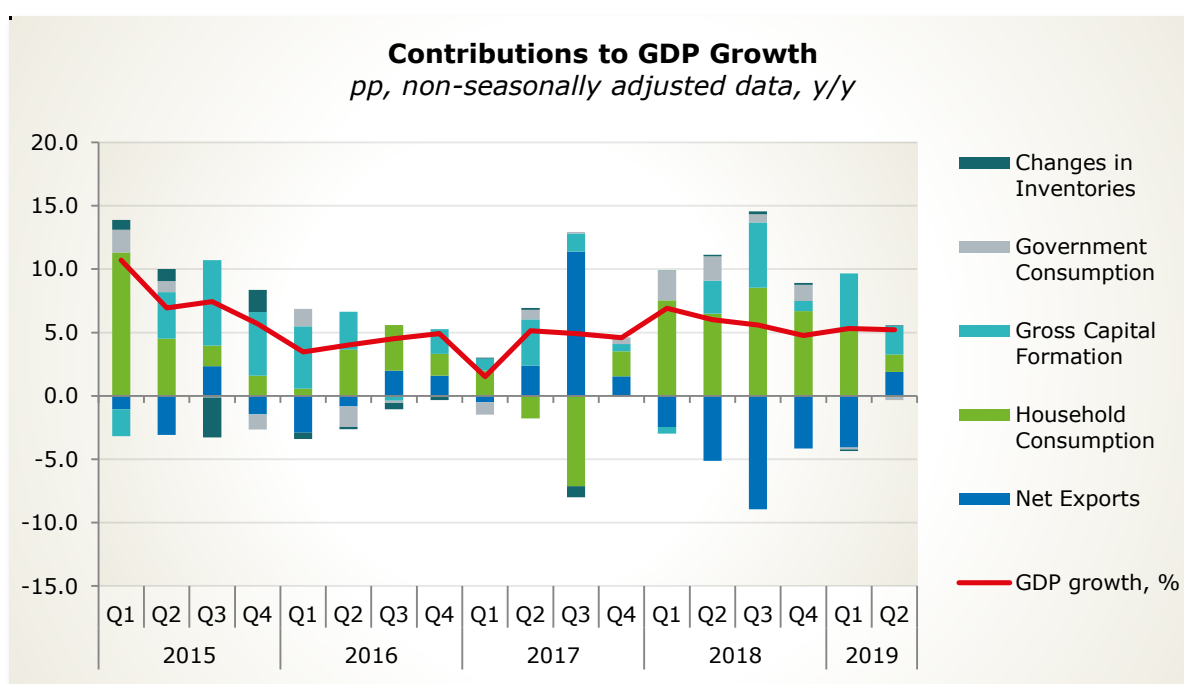
## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

*GDP went up by real 4.1% y/y in Q2 2019, down from 4.4% in Q2 2018*

The country's GDP increased by a real 4.1% y/y and totalled EUR 1.790 bln at constant prices in Q2 2019, according to preliminary data of Kosovo Agency of Statistics (ASK).

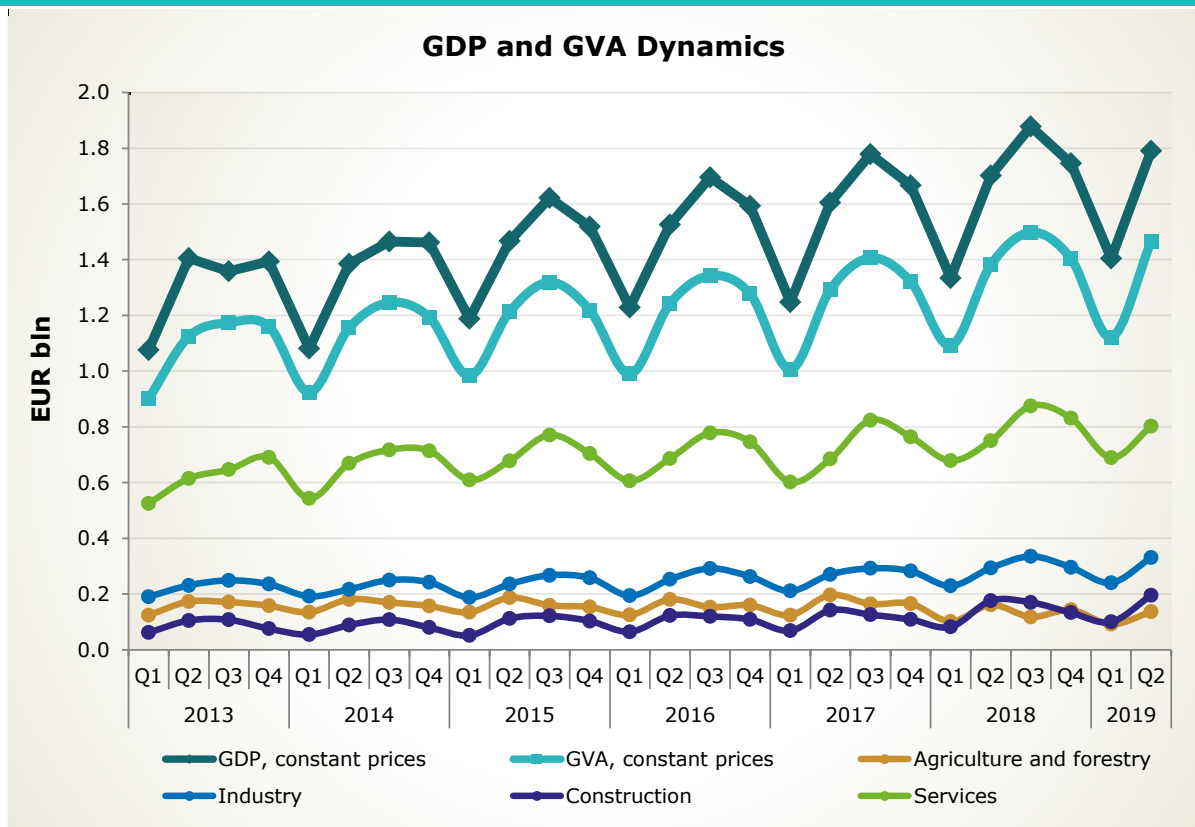
Final consumption increased in real terms by 1.0% y/y and amounted to EUR 1.746 bln. Gross capital formation went up by 6.5% to EUR 625.7 mln. Imports inched up by 0.6% y/y, while exports grew more noticeably, by 11.5%.



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.

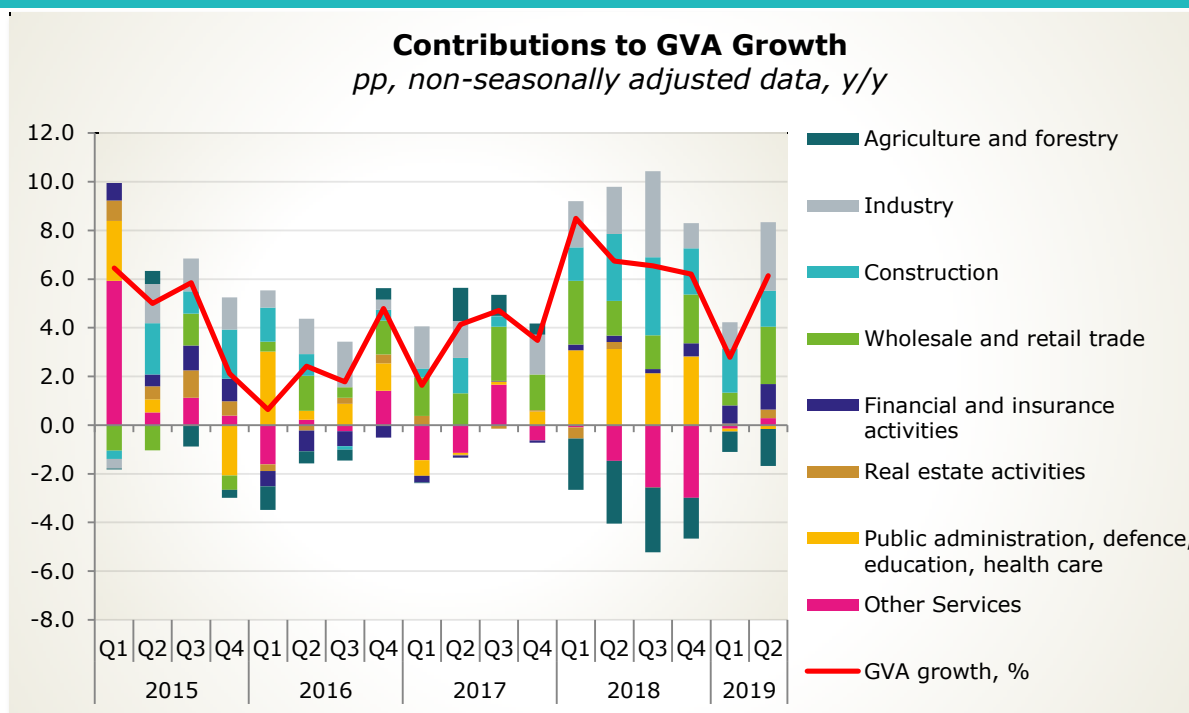
The largest growth contributors during the quarter were gross capital formation and net exports with 2.3 pp and 1.9 pp, respectively.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 6.1% y/y in Q2 2019 and totalled EUR 1.465 bln. Construction surged by 11.3%, while the industrial sector recorded a 12.7% annual increase. The agricultural sector registered an annual fall of 15.5%. Services sector grew by 7.0%.

In terms of contributions, the industry sector added 2.8 pp to the y/y GVA growth in Q2 2019, followed by the wholesale and retail trade with 2.4 pp. The construction sector alone contributed with 1.5 pp to the overall GVA growth.



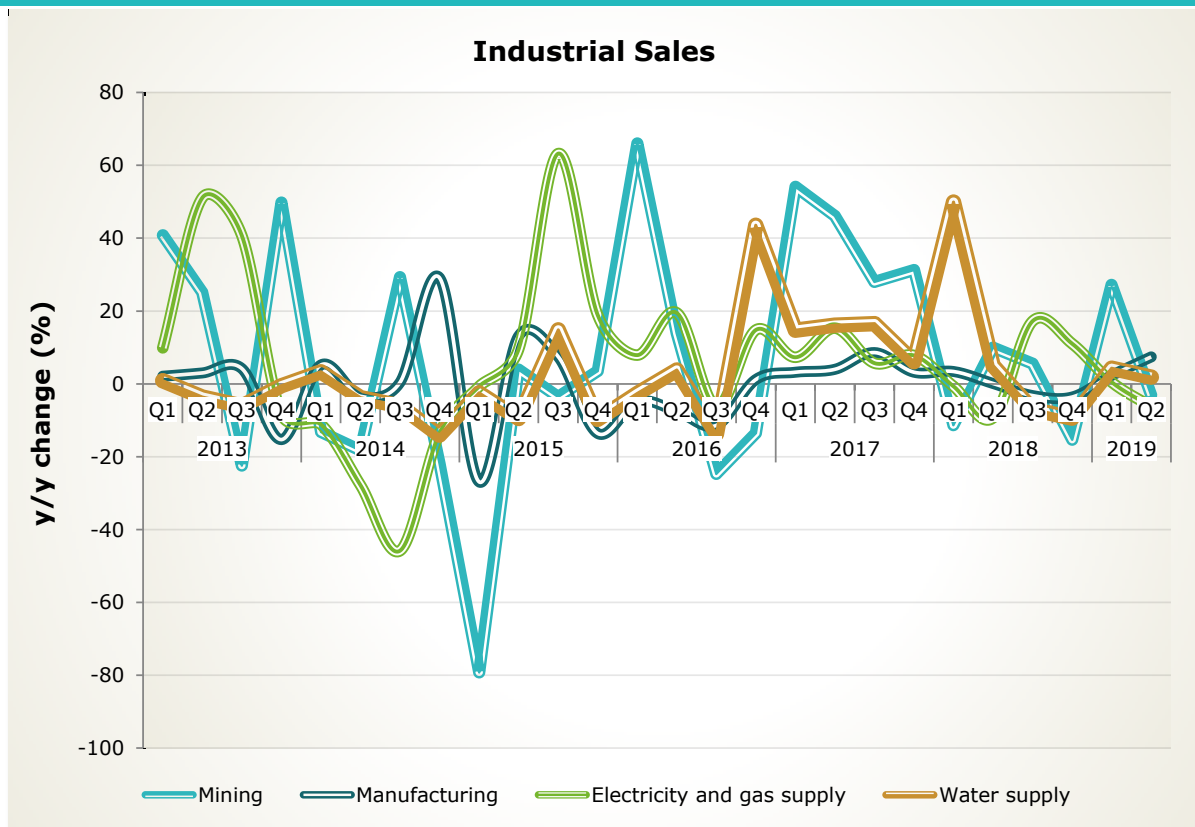
Source: SeeNews Calculations; ASK

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

## 2.2. INDUSTRIAL SALES

### Mining and electricity and gas supply sales down in Q2 2019

The sales of the mining industry went down by 3.1% y/y in the second quarter of 2019, ASK data showed. Sales in the manufacturing industry increased by 7.4%, and the water supply grew by 1.9% y/y. Electricity and gas supply sales declined by 6.3% y/y in Q2 2019.



Source: ASK

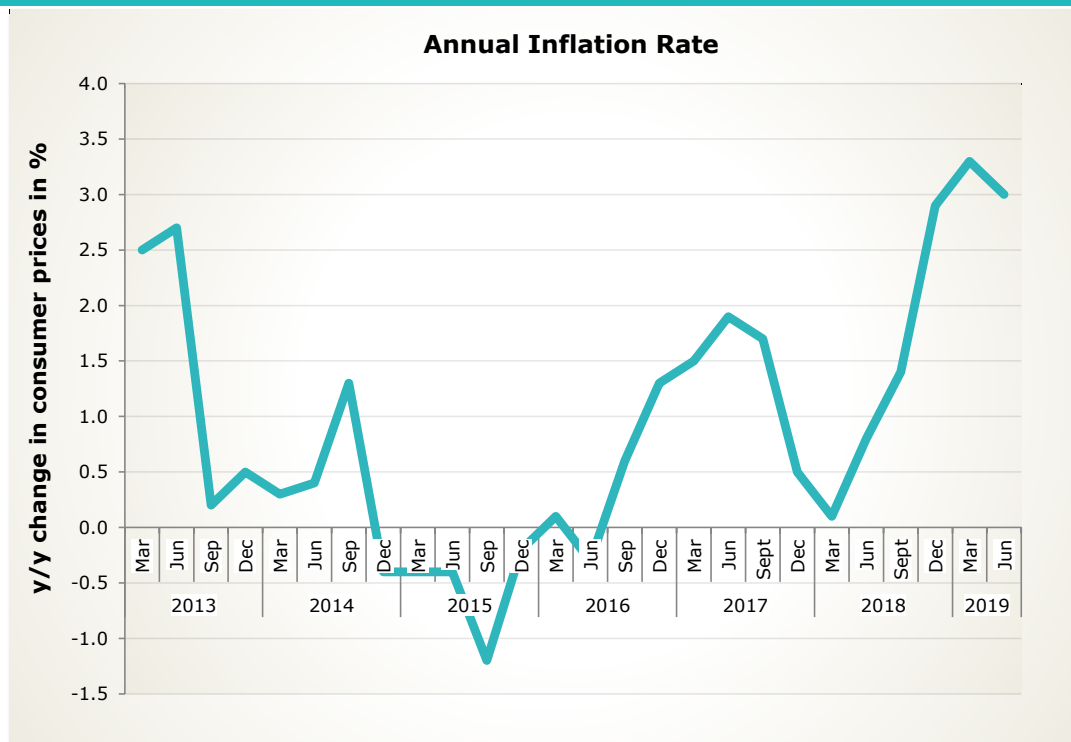
## 2.3. INFLATION

*Inflation accelerated y/y to 3.0% in June 2019, up from 0.8% in June 2018*

Kosovo registered an annual inflation of 3.0% in June 2019, compared to inflation of 3.3% in March 2019 and 0.8% in the same month of the previous year, according to ASK.

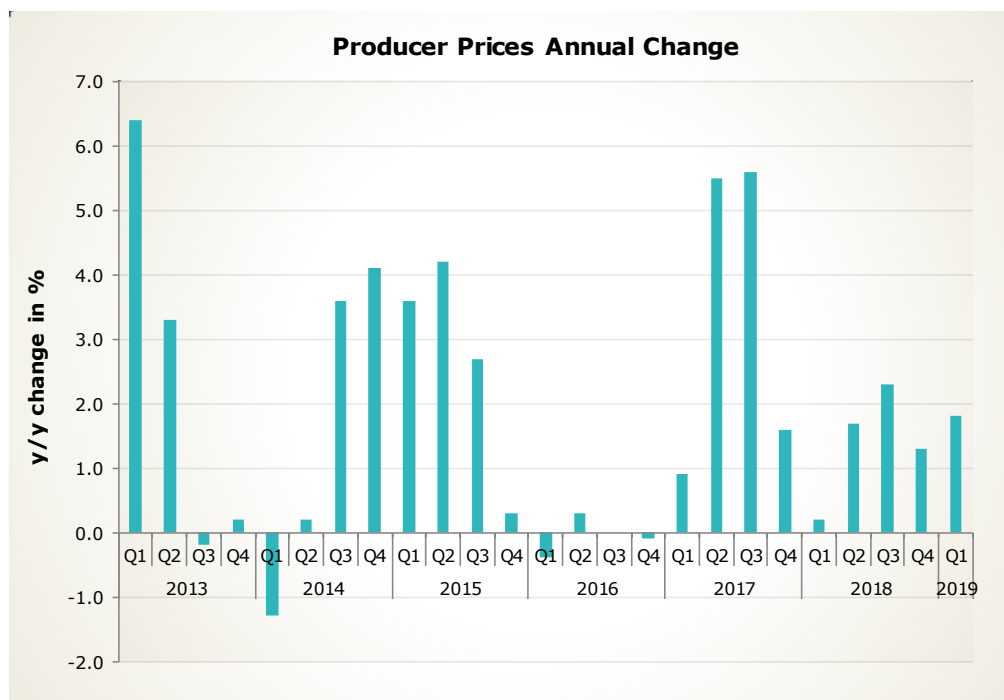
The rise of the price inflation in June 2019 on a year-on-year basis can be attributed to the increase in consumer prices in the groups of food and non-alcoholic beverages by 5.9%, alcoholic beverages and tobacco by 2.4% and restaurants and hotels by 2.1%.





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%.



Source: ASK

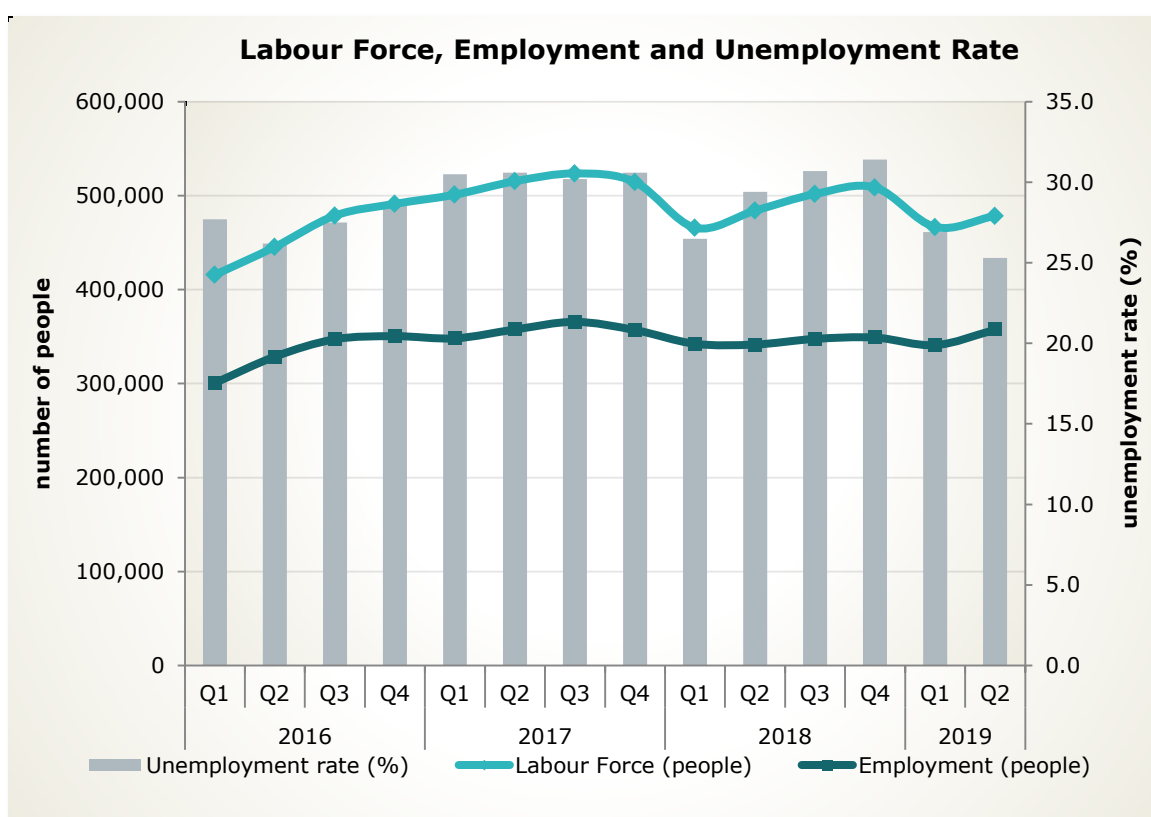
Editor's Note: Data for the producer prices in Q2 2019 was not available at the time of the preparation of this report

## 3. LABOUR MARKET

### Unemployment rate decreased to 25.3% in Q2 2019, down from 29.4% in Q2 2018

Unemployment in Kosovo declined to 25.3% of the total labour force in Q2 2019, down from 29.4% in Q2 2018, according to data of ASK. The youth (population aged 15-24) unemployment rate improved to 49.1% from 55.0% in Q2 2018.

The employed population aged 15 years and older increased by 4.6% y/y to 357,300 in Q2 2019.



Source: ASK

### Average monthly net wage up 8.4% y/y in Q4 2018<sup>1</sup>

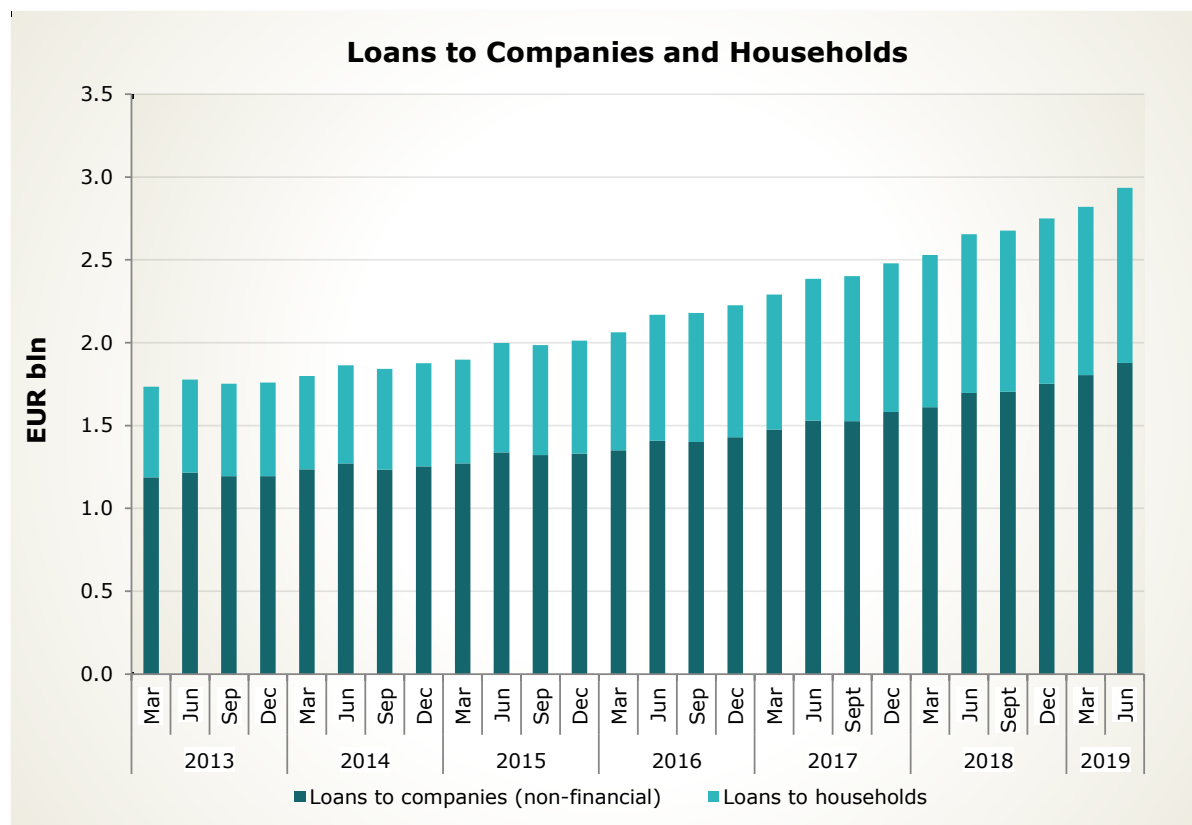
The average monthly net salary in the public sector in Kosovo increased by 8.5% y/y to EUR 498 in Q4 2018, according to ASK.

<sup>1</sup> Data for Average monthly net wage for Q2 2019 was not available at the time of preparation of this report.

## 4. BANKING AND INSURANCE

### Household loans jumped by 10.4% y/y as of June 2019

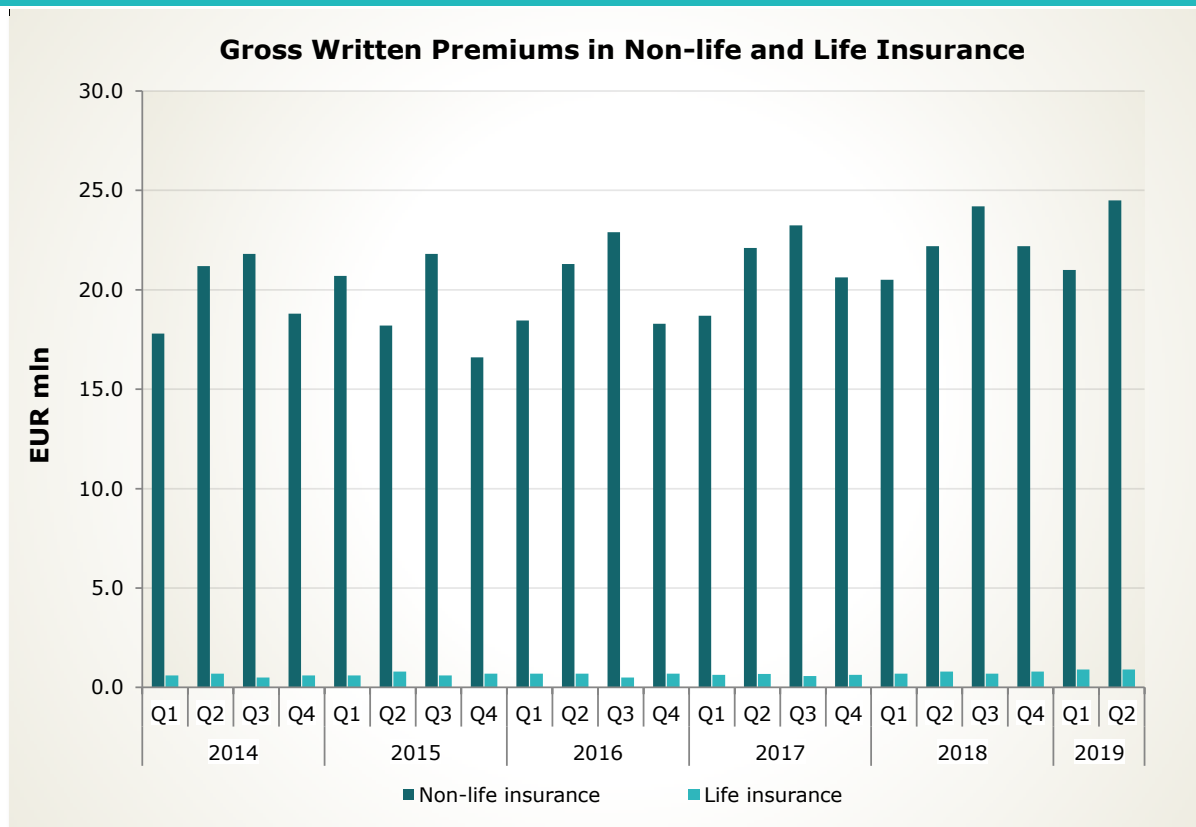
Household loans increased by 10.4% y/y to EUR 1.058 bln as of June 2019, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 10.6% to EUR 1.878 bln.



Source: BQK

### Insurance premium income grew by 10.4% y/y in Q2 2019

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went up by 10.4% y/y to EUR 25.4 mln in Q2 2019, according to BQK. The upturn was due to the non-life insurance market, which grew to EUR 24.5 mln from EUR 22.2 mln a year earlier. Life insurance GWP grew by 12.5% y/y to EUR 0.9 mln.



Source: BQK

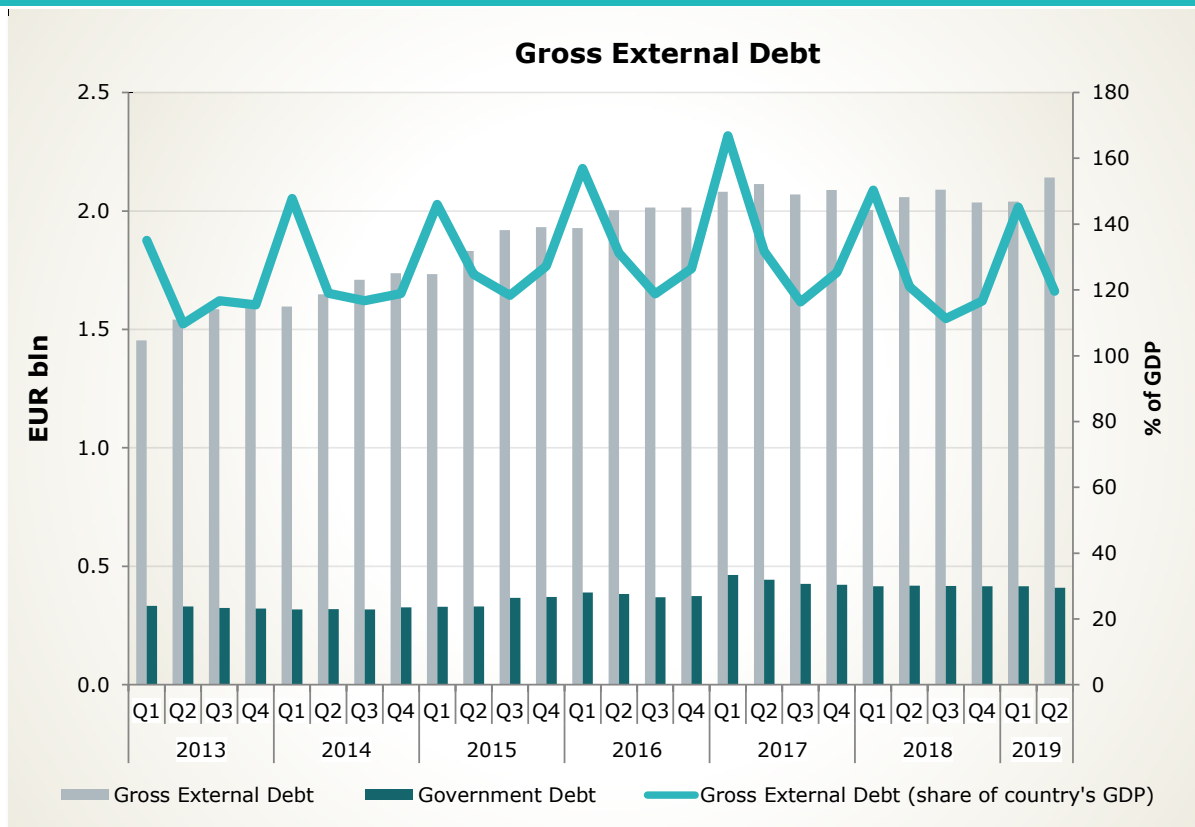
## 5. EXTERNAL SECTOR

### 5.1. FOREIGN DEBT

#### Gross external debt increased y/y to EUR 2.142 bln in Q2 2019

Gross external debt stood at EUR 2.142 bln as of end-June 2019, according to BQK. It grew by 4.1%, or EUR 83.4 mln, in comparison to Q2 2018.

In Q2 2019, long-term liabilities amounted to EUR 811.6 mln, or 37.1% of the total debt, increasing by 5.3% y/y. Short-term liabilities totalled EUR 743.7 mln, up by 6.4% y/y, equal to 35.9% of the total debt.

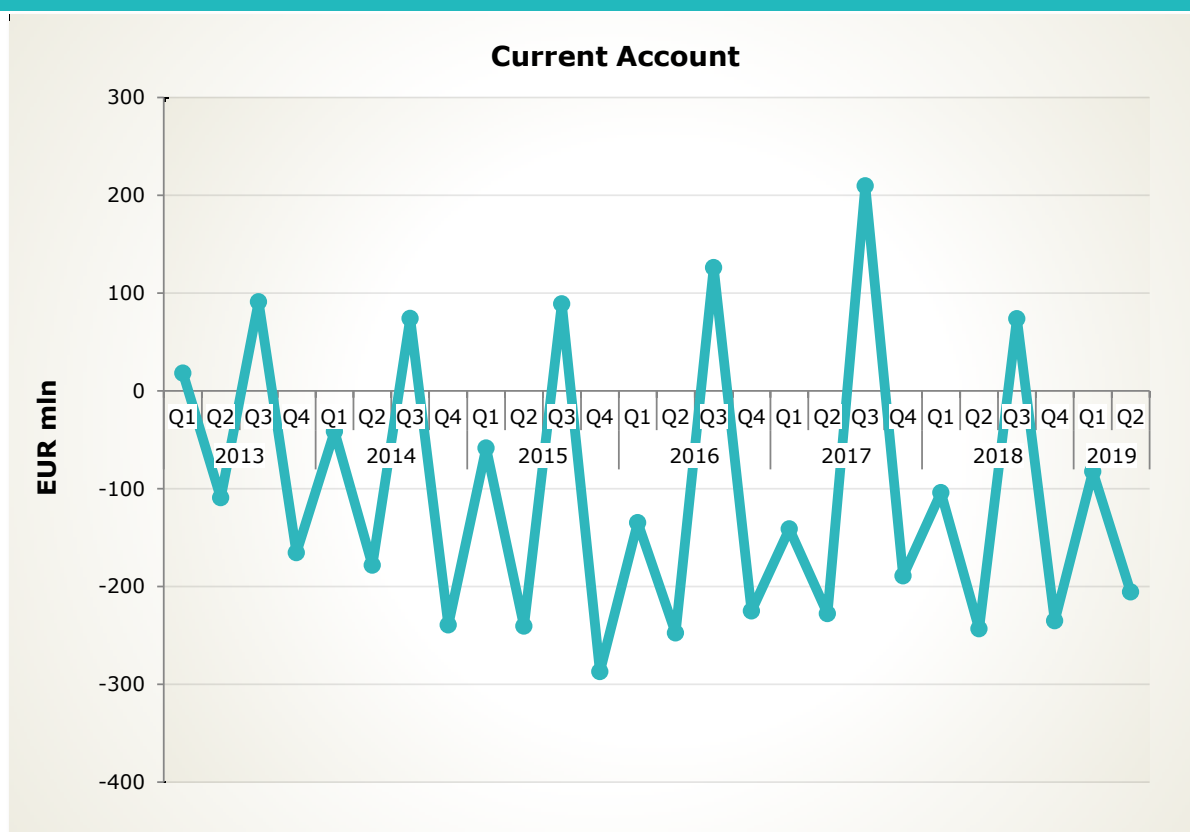


## 5.2. BALANCE OF PAYMENTS

**Current account deficit of EUR 205.6 mln in Q2 2019, down 15.5% y/y**

The current account deficit declined to EUR 205.6 mln in Q2 2019 from EUR 243.3 mln in Q2 2018, according to central bank statistics data.

Secondary income increased annually by 1.0% y/y to EUR 334.9 mln from EUR 331.6 mln in Q2 2018.

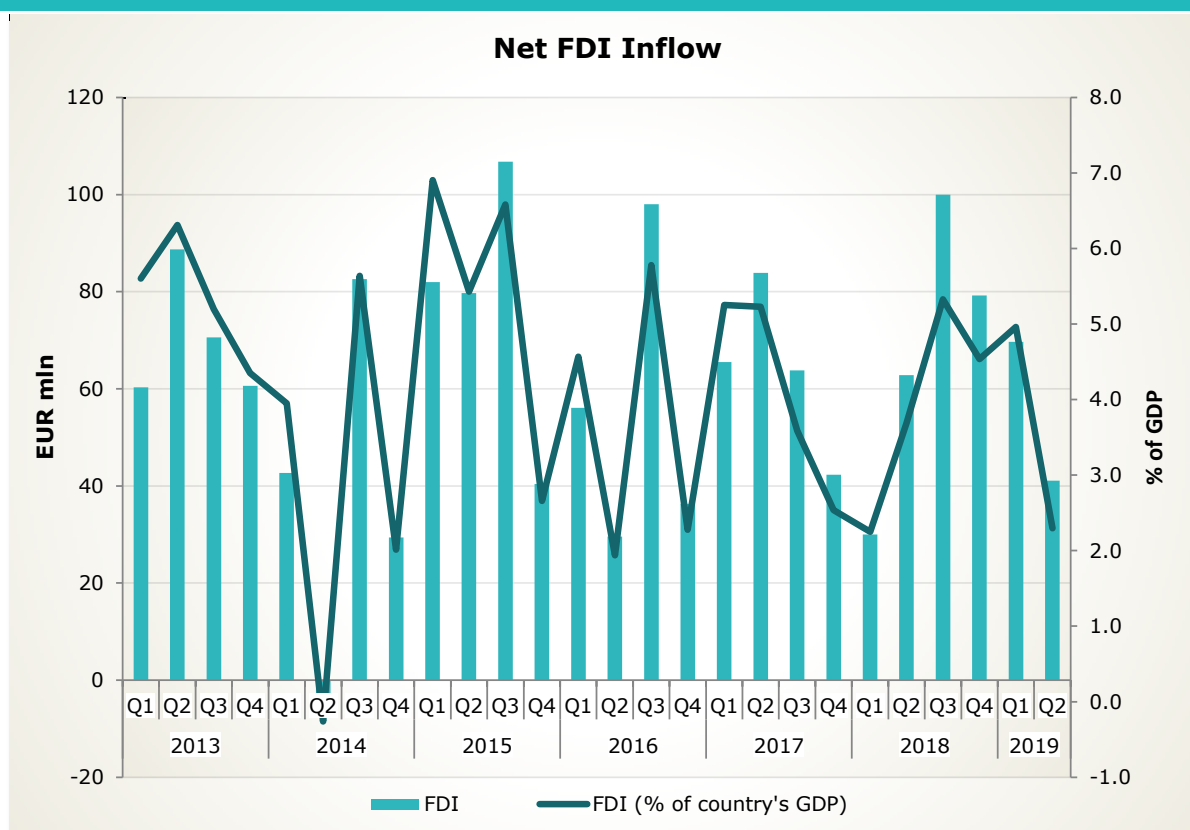


Source: BQK

### 5.3. FDI

#### Net FDI inflow decreased y/y to EUR 41.1 mln in Q2 2019

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 41.1 mln in Q2 2019, compared to EUR 62.8 mln a year earlier, according to BQK data. FDI covered 20.0% of the country's current account deficit in Q2 2019 and accounted for 2.3% of its GDP.



Source: BQK

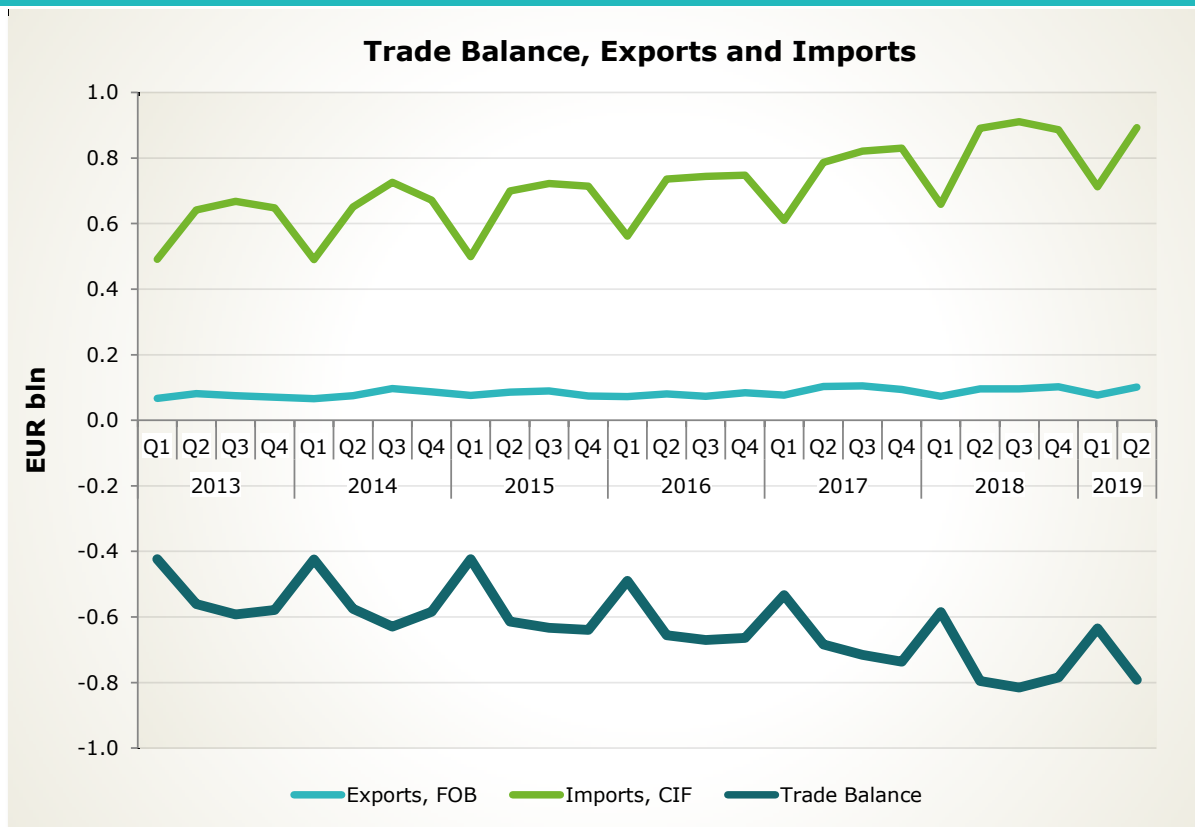
## 5.4. FOREIGN TRADE

### Foreign trade deficit declined by 0.4% y/y in Q2 2019

The trade deficit stood at EUR 791.4 mln in the second quarter of 2019, down 0.4% y/y, according to BQK data.

Exports increased by 5.5% y/y to EUR 100.9 mln, while imports notched up by 0.2% y/y to EUR 892.3 mln in Q2 2019.

In the quarter under review, the coverage rate of imports with exports stood at 11.3%, up from 10.7% in the corresponding quarter of the previous year.



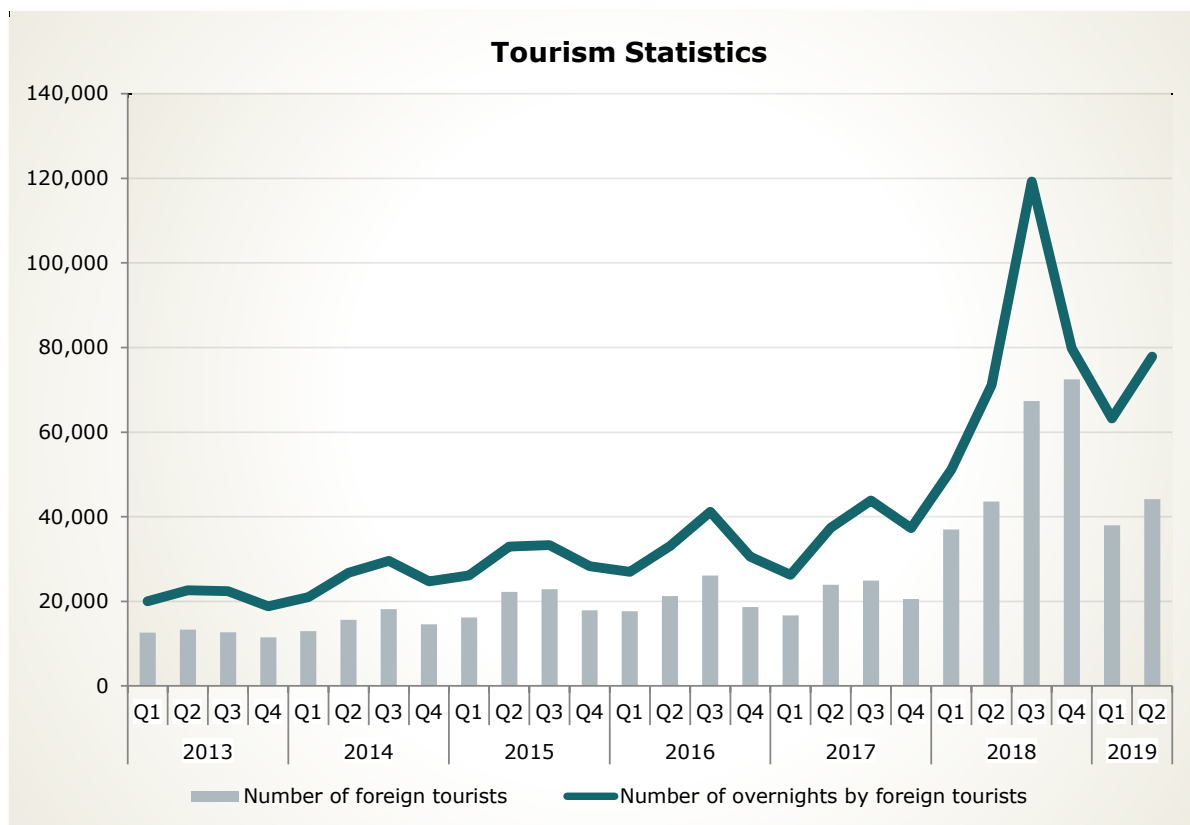
Source: ASK

## 5.5. TOURSIM

### Number of foreign tourist overnights up by 9.5% y/y in Q2 2019

Tourist overnights of foreigners rose by an annual 9.5% to 77,831 in Q2 2019, according to ASK. They accounted for 67.4% of the total number of tourist overnights in the country. The number of foreign tourists rose to 44,138 in the second quarter of 2019 from 43,604 in Q2 2018.





Source: ASK

## 6. MAJOR DEVELOPMENTS

### **EBRD considering EUR 55 mln loan to finance 105 MW wind farm in Kosovo**

June 14, 2019

The European Bank for Reconstruction and Development (EBRD) said on Friday it is considering a EUR 55 mln (USD 62.1 mln) senior long-term loan to finance the construction of a 105 MW wind farm in Kosovo's northern municipality of Mitrovica.

[Read the full story here](#)

### **Kosovo opens for traffic motorway link to border with N. Macedonia**

May 29, 2019

Kosovo inaugurated on Wednesday the 65-kilometre long motorway linking capital Pristina to the border with North Macedonia, Kosovo's infrastructure ministry said.

[Read the full story here](#)

### **EBRD considers EUR 10 mln loan for expansion of Kosovo's Drenas industrial zone**

May 23, 2019

The European Bank for Reconstruction and Development (EBRD) said on Thursday it is considering a EUR 10 mln loan to finance an extension of an existing industrial zone located in Kosovo's municipality of Drenas.

[Read the full story here](#)

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**Kosovo import tariffs damaging SEE business climate - SEEBDN**

May 20, 2019

Kosovo's tariffs imposed on imports from Serbia and Bosnia are damaging the business climate in the entire region of Southeastern Europe (SEE) and need to be revoked as soon as possible, a representative of Vienna-based Southeast Europe Business Development Network (SEEBDN) said.

[Read the full story here](#)

**Germany grants EUR 2.0 mln to improve Kosovo's public finances**

May 15, 2019

Kosovo's finance ministry said it signed a grant agreement worth EUR 2.0 mln with the German government to finance the fourth phase of a project to improve Kosovo's public finances system.

[Read the full story here](#)

**EBRD maintains Kosovo's 2019 economic growth projection at 4%**

May 8, 2019

The European Bank for Reconstruction and Development (EBRD) said on Wednesday it expects Kosovo's economy to grow by 4.0% this year, affirming its last projection from November, as domestic demand is seen remaining the main growth driver.

[Read the full story here](#)

**EBRD seeks consultant to support privatisation of Kosovo Telecom**

Apr 3, 2019

The European Bank for Reconstruction and Development (EBRD) is seeking a consultant to advise Kosovo's government in designing a process for the privatisation of Kosovo Telecom based on international experience, the bank said on Wednesday.

[Read the full story here](#)

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