

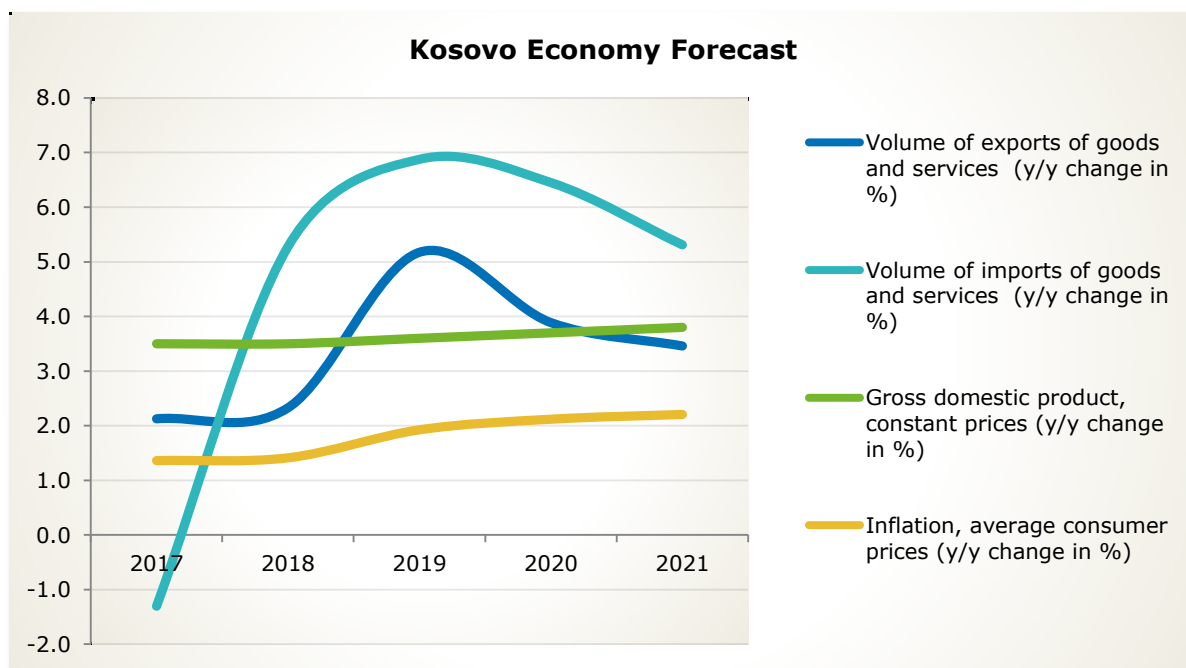
## **KOSOVO ECONOMY REPORT** Q3 2017

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## 1. MACROECONOMIC SNAPSHOT AND FORECAST

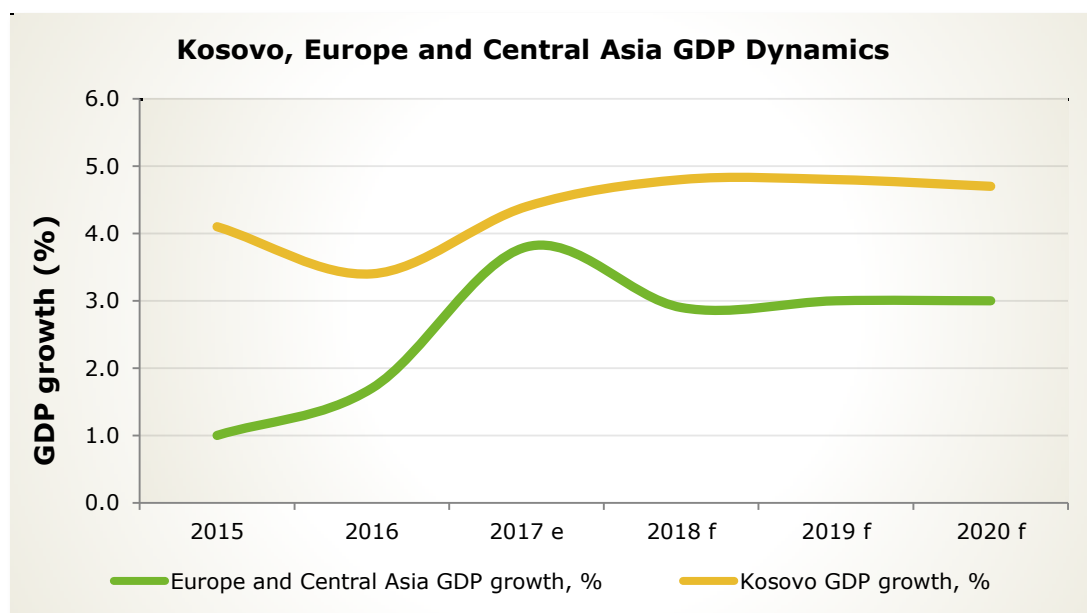
| KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q3 2017 |               |
|---|---------------|
| <b>GDP Growth</b>                             | 4.4% y/y      |
| <b>Industrial sales y/y change in</b>         |               |
| - Mining                                      | 28.0%         |
| - Manufacturing                               | 8.6%          |
| - Electricity and gas supply                  | 5.7%          |
| - Water supply                                | 16.5%         |
| <b>Annual inflation</b>                       | 1.7%          |
| <b>Unemployment rate</b>                      | 30.2%         |
| <b>Household loans</b>                        | 12.2% y/y     |
| <b>Gross external debt</b>                    | EUR 2.064 bln |
| <b>Current account surplus</b>                | EUR 262.2 mln |
| <b>Net FDI inflow</b>                         | EUR 65.5 mln  |
| <b>Foreign trade deficit</b>                  | EUR 715.7 mln |
| <b>Number of foreign tourist overnights</b>   | 6.5% y/y      |



Source: International Monetary Fund (IMF) World Economic Outlook Database – October 2017

According to the latest IMF forecast, the GDP of Kosovo will rise by 3.5% driven by strong domestic demand in 2017, up from the reported 3.4% growth in 2016. 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 rise. The drivers of this turnaround are the 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

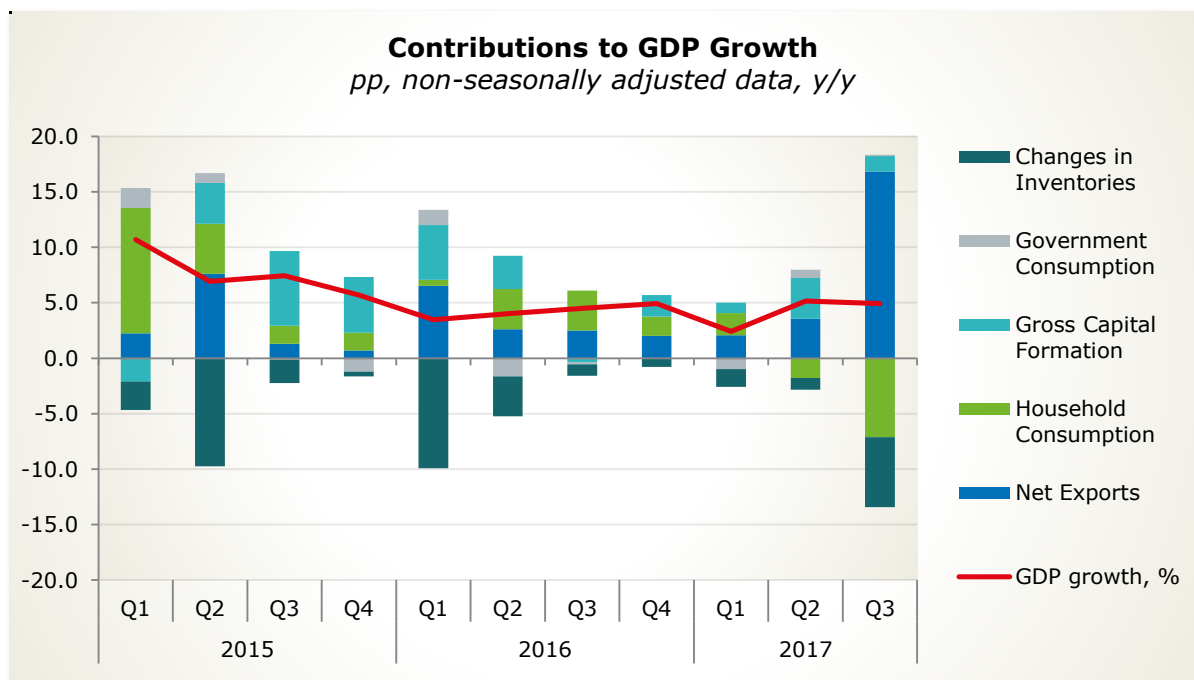
The outlook is subject to downside risks, which include perceived fragility of the minority government, which can lead to rising fiscal pressures and a delay in fiscal reforms.

## 2. REAL SECTOR

### 2.1. GROSS DOMESTIC PRODUCT (GDP)

*GDP went up by real 4.4% y/y in Q3 2017, unchanged from Q2 2017*

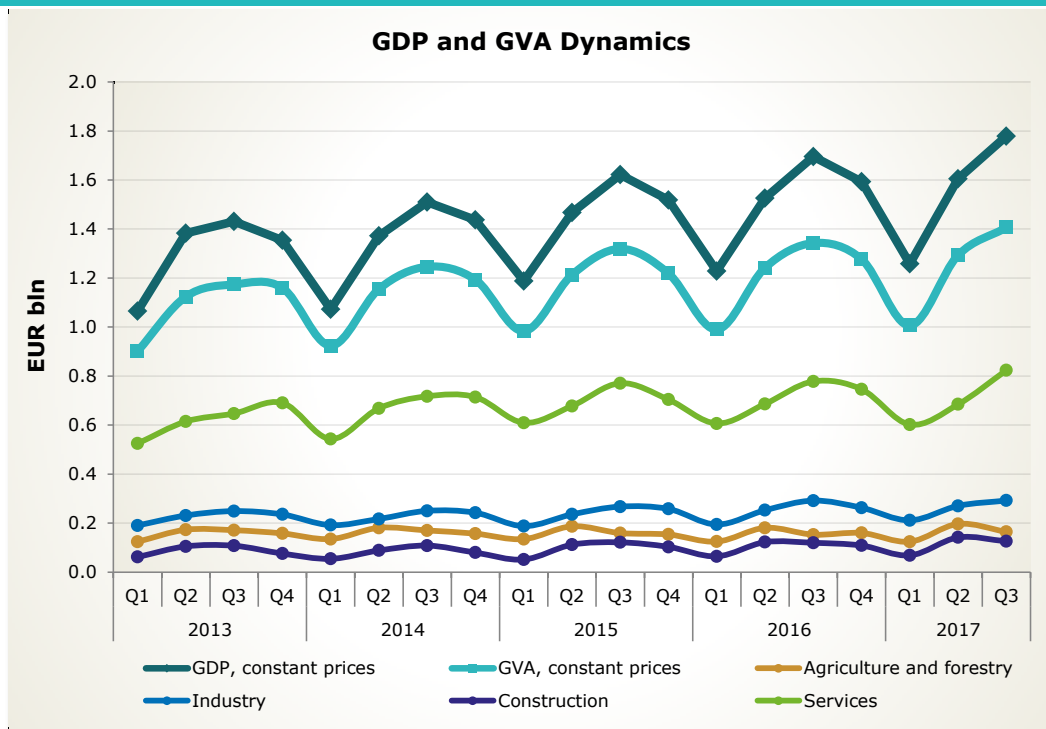
The country's GDP increased by a real 4.4% y/y and totalled EUR 1.778 bln at constant prices in Q3 2017, according to preliminary data of Kosovo Agency of Statistics (ASK).



Source: SeeNews calculations; ASK

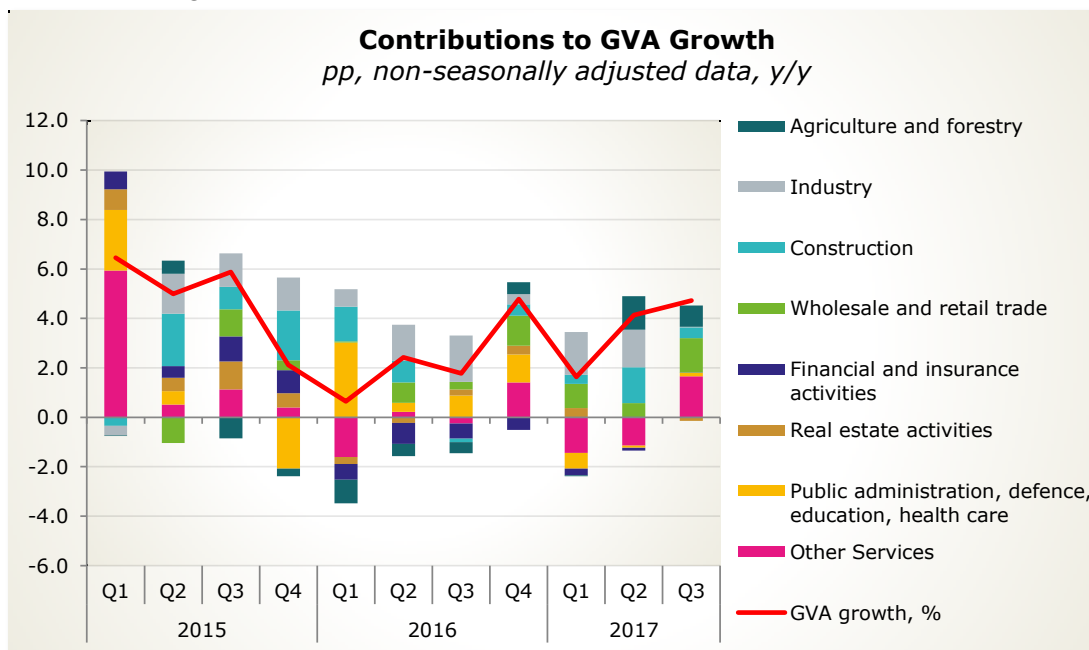
Note: Non-additive data due to direct chain-linking of GDP and its components. Contribution of changes in inventories has been derived as a residual.

Final consumption decreased in value terms by 8.2% y/y and amounted to EUR 1.364 bln. Gross capital formation went up by 5.3% to EUR 492.2 mln. Exports jumped by 36.7% y/y, while imports grew by 5.3%.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 4.7% y/y in Q3 2017 and totalled EUR 1.406 bln. The industrial sector inched up by 0.1%, but its share in the GVA structure decreased to 20.8% from 21.7%. The services sector recorded a 5.9% annual increase, slicing a 58.6% share in the GVA, up from 58.0% a year earlier. The agricultural sector registered an annual raise of 7.3%, and its share in the GVA grew to 11.7% from 11.4% a year earlier. The construction industry grew by 5.1% and its share in the GVA remained unchanged at 8.9%.



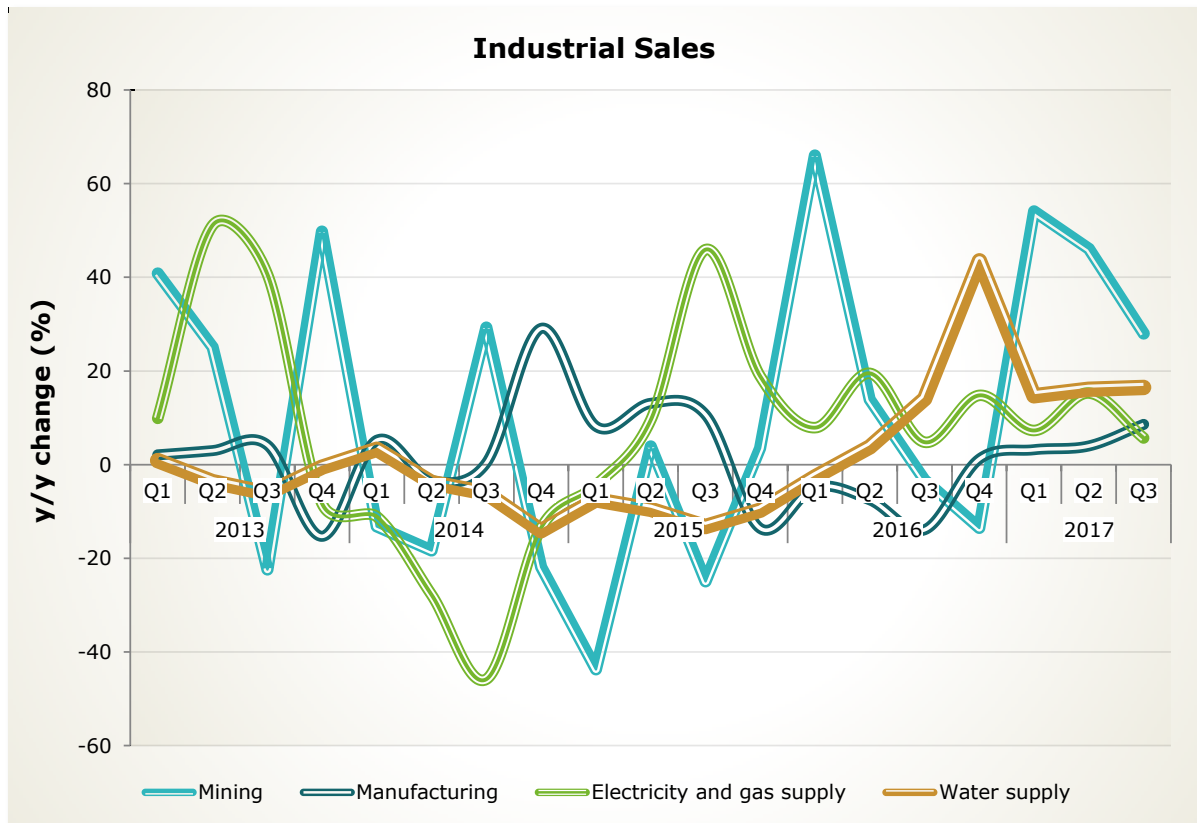
Source: SeeNews Calculations; ASK

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 Q3 2017

The sales of all industries went up y/y in the third quarter of 2017, ASK data showed. Sales in the mining industry jumped by 28.0%, followed by the water supply sector with 16.5%. Industrial sales in manufacturing and electricity and gas supply also increased, by 8.6% and 5.7%, respectively.



Source: ASK

## 2.3. INFLATION

### Inflation accelerated y/y to 1.7% in September 2017

Kosovo registered an annual inflation of 1.7% in September 2017, compared to inflation of 0.6% in June 2017, according to ASK.

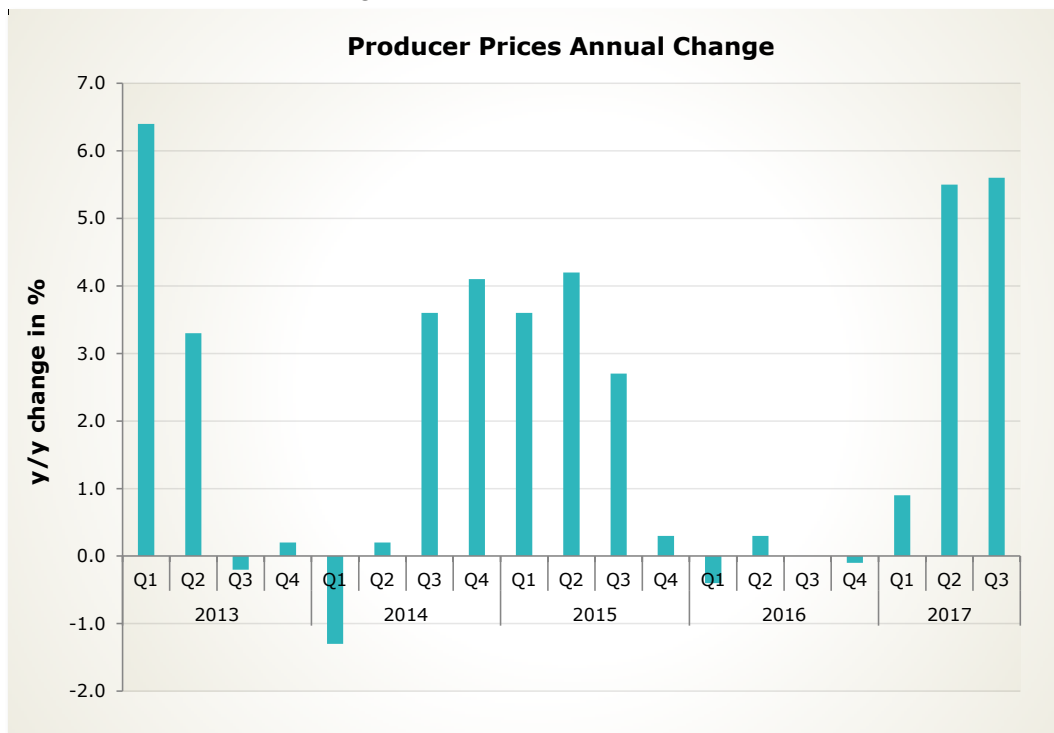
The average consumer prices of the group of housing, water, electricity, gas and other fuels jumped by 11.6% y/y. Alcoholic beverages and tobacco came second in terms of average annual inflation with 4.3%.

The recreation and culture sector registered the sharpest deflation in September 2017, of 1.4% y/y and the average communication prices decreased by 1.3% y/y.



Source: ASK

Producer prices in Kosovo went up by 5.6% y/y in Q3 2017, according to ASK. The largest increase by sectors was observed in metal ore mining - 48.7%, electricity, gas, steam and air conditioning supply - 21.6%, and manufacture of electrical equipment - 2.8%. The largest decrease by sectors was recorded in production of motor vehicles, trailers and semi-trailers - 2.5%, followed by food processing and production of metals with 2.4% each.



Source: ASK

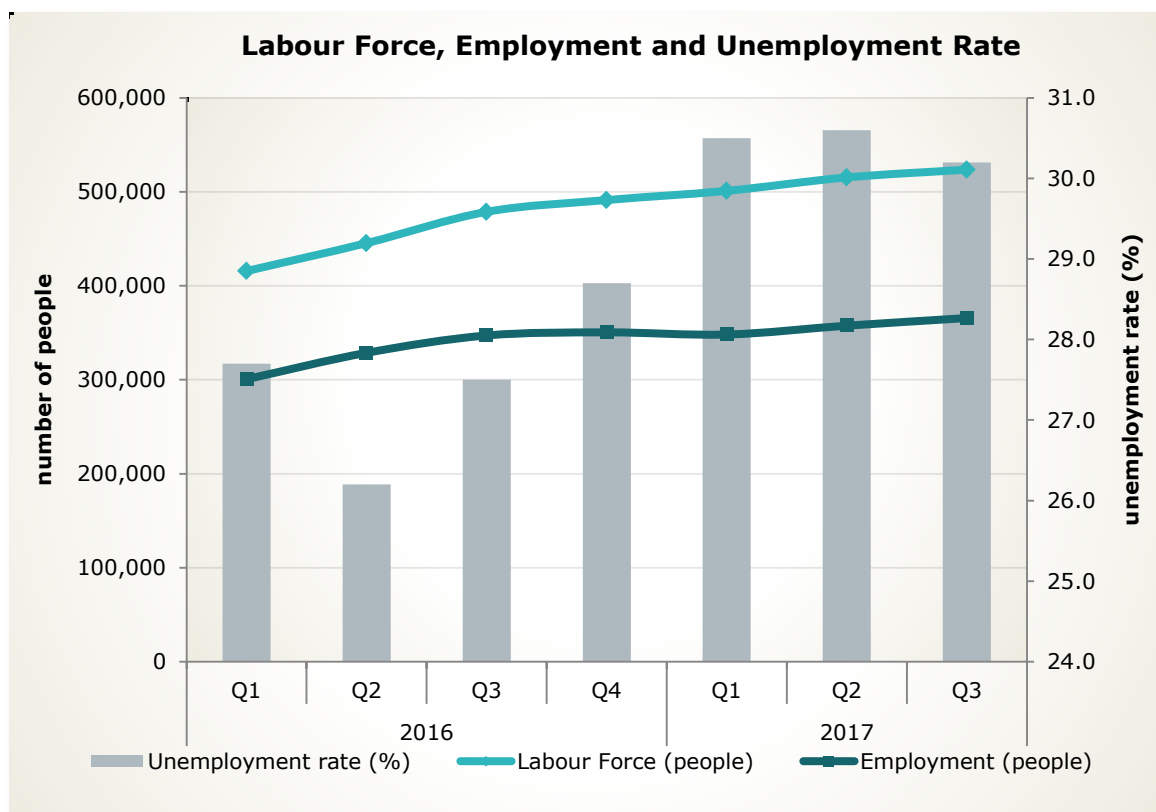


## 3. LABOUR MARKET

### Unemployment rate at 30.2% in Q3 2017

Unemployment in Kosovo expanded to 30.2% of the total labour force in Q3 2017 from 27.5% a year earlier, according to data of ASK. The youth (population aged 15-24) unemployment rate inched up to 53.3% from 52.7% in Q3 2016.

The employed population aged 15 years and older increased by 5.3% y/y to 365,700 in Q3 2017.



Source: ASK

### Average monthly net wage down 2.4% y/y in Q3 2017

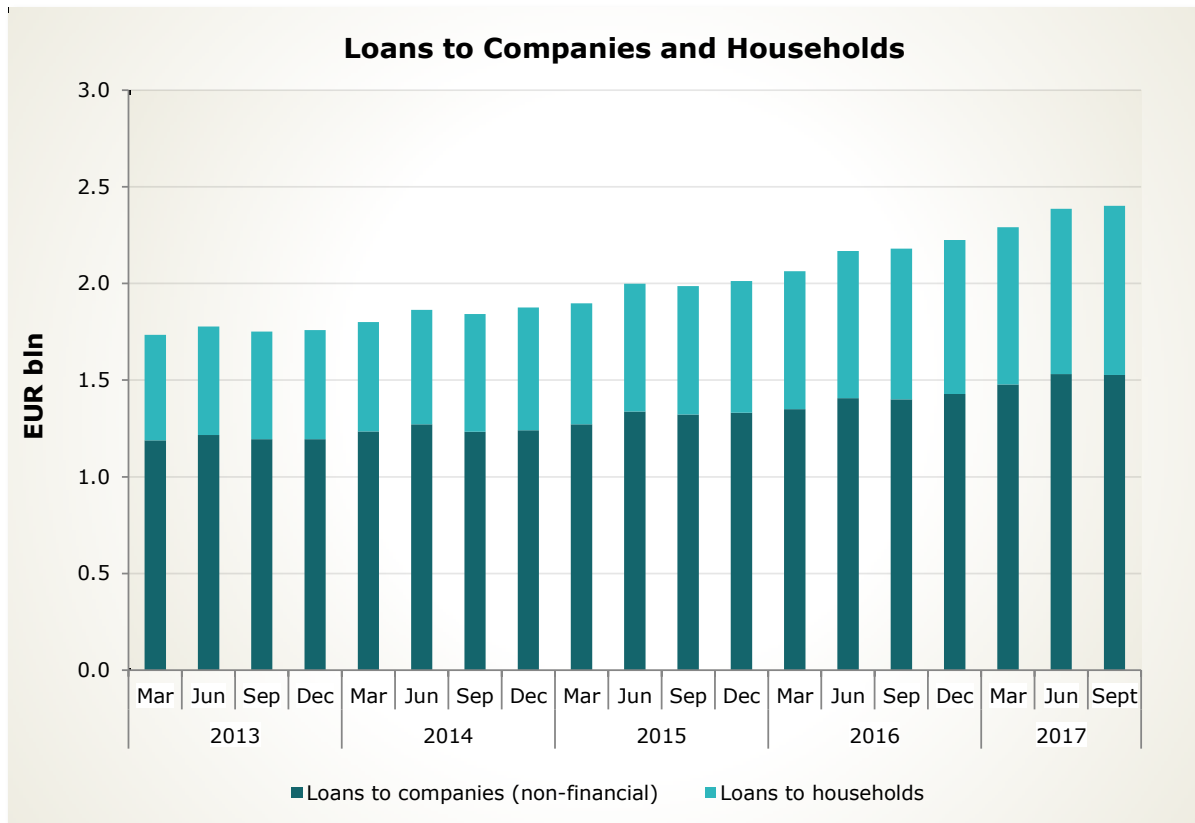
The average monthly net salary in the public sector in Kosovo decreased by 2.4% y/y to EUR 454 in Q3 2017, according to ASK.

Employees in the public order and security sector earned the highest average monthly net salary in the country – EUR 526, while recreation and culture staff was on the other end with salaries of EUR 397.

## 4. BANKING AND INSURANCE

### Household loans jumped by 12.2% y/y as of September 2017

Household loans increased by 12.2% y/y to EUR 874.8 mln as of September 2017, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 9.0% to EUR 1.527 bln.

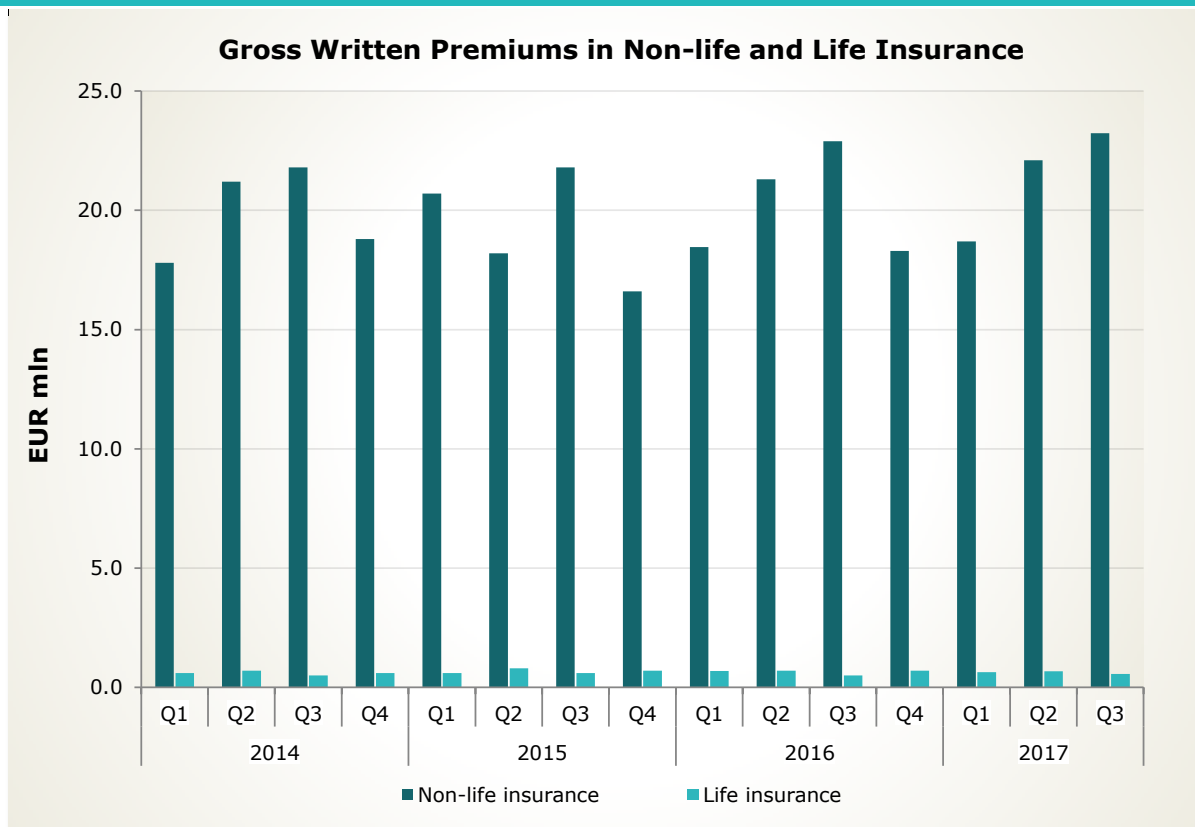


Source: BQK

### Insurance premium income grew by 1.7% y/y in Q3 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went up by 1.7% y/y to EUR 23.8 mln in Q3 2017, according to BQK.

The upturn was due to the non-life insurance market, which grew to EUR 23.2 mln from EUR 22.9 mln a year earlier. The life insurance market grew by 13.5% y/y to EUR 0.568 mln.



Source: BQK

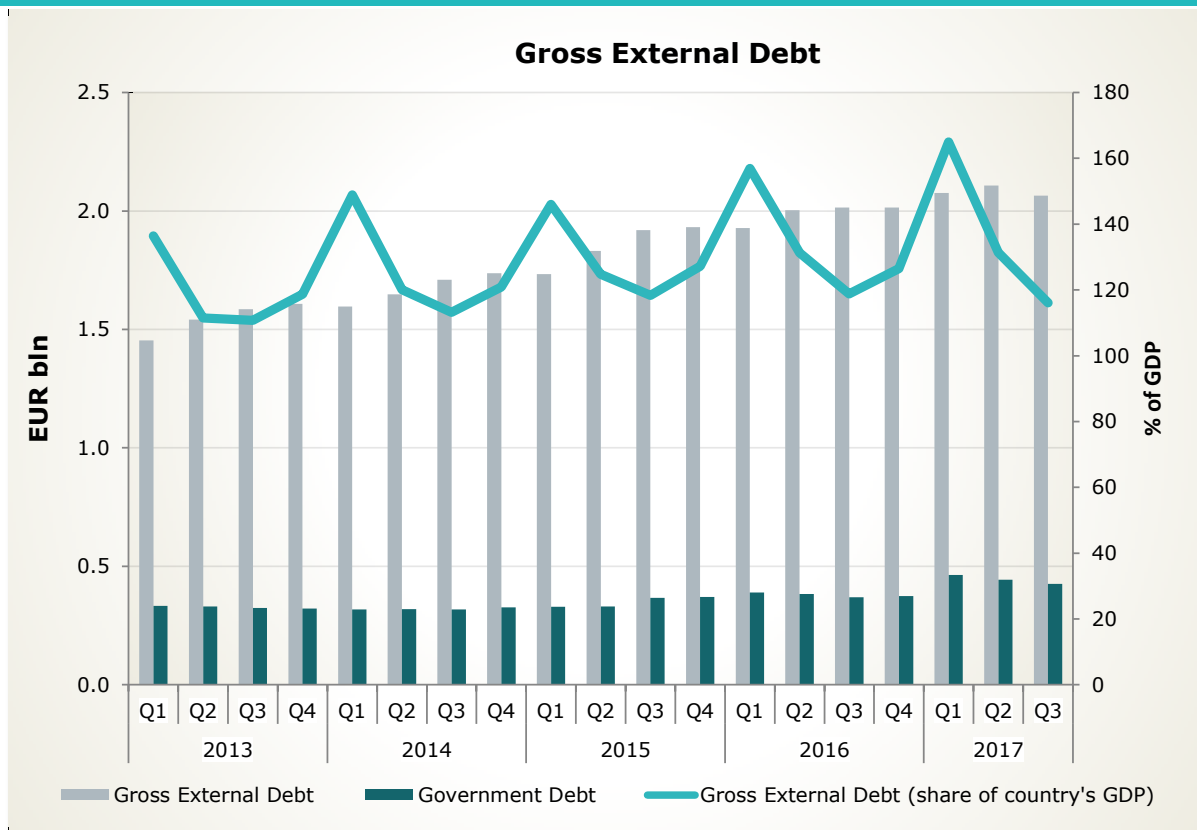
## 5. EXTERNAL SECTOR

### 5.1. FOREIGN DEBT

#### *The gross external debt increased y/y to EUR 2.064 bln in Q3 2017*

The gross external debt stood at EUR 2.064 bln as of Q3 2017, according to BQK. It grew by 2.5%, or EUR 50.0 mln, in comparison to the same quarter of the previous year.

In Q3 2017, long-term liabilities amounted to EUR 710.0 mln, or 34.4% of the total debt, rising by 16.8% y/y. Short-term liabilities totalled EUR 661.5 mln, up 10.4% y/y, equal to 32.0% of the total debt.



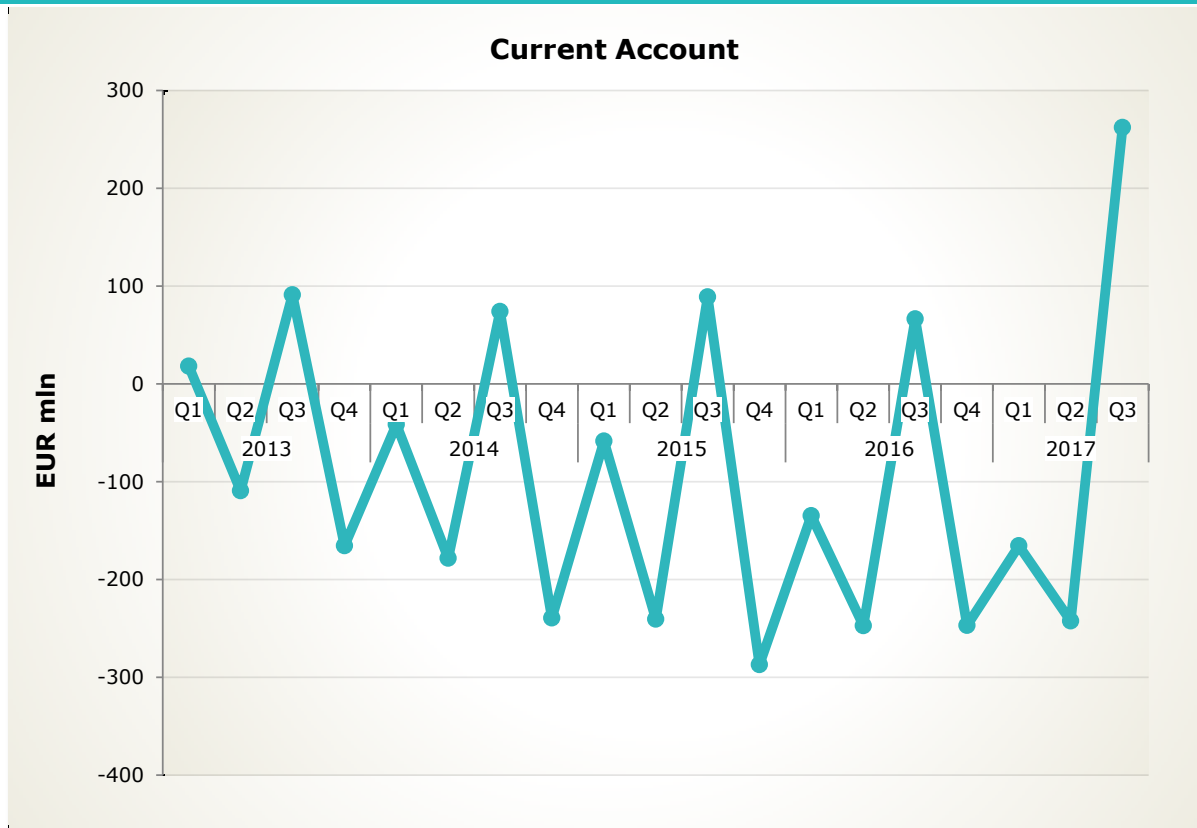
Source: BQK

## 5.2. BALANCE OF PAYMENTS

### Current account surplus expanded four times y/y to EUR 262.2 mln in Q3 2017

The current account surplus jumped fourfold to EUR 262.2 mln in Q3 2017 from EUR 66.5 mln in Q3 2016, according to central bank statistics data.

Secondary income increased annually to EUR 293.8 mln from EUR 289.3 mln in Q3 2016.



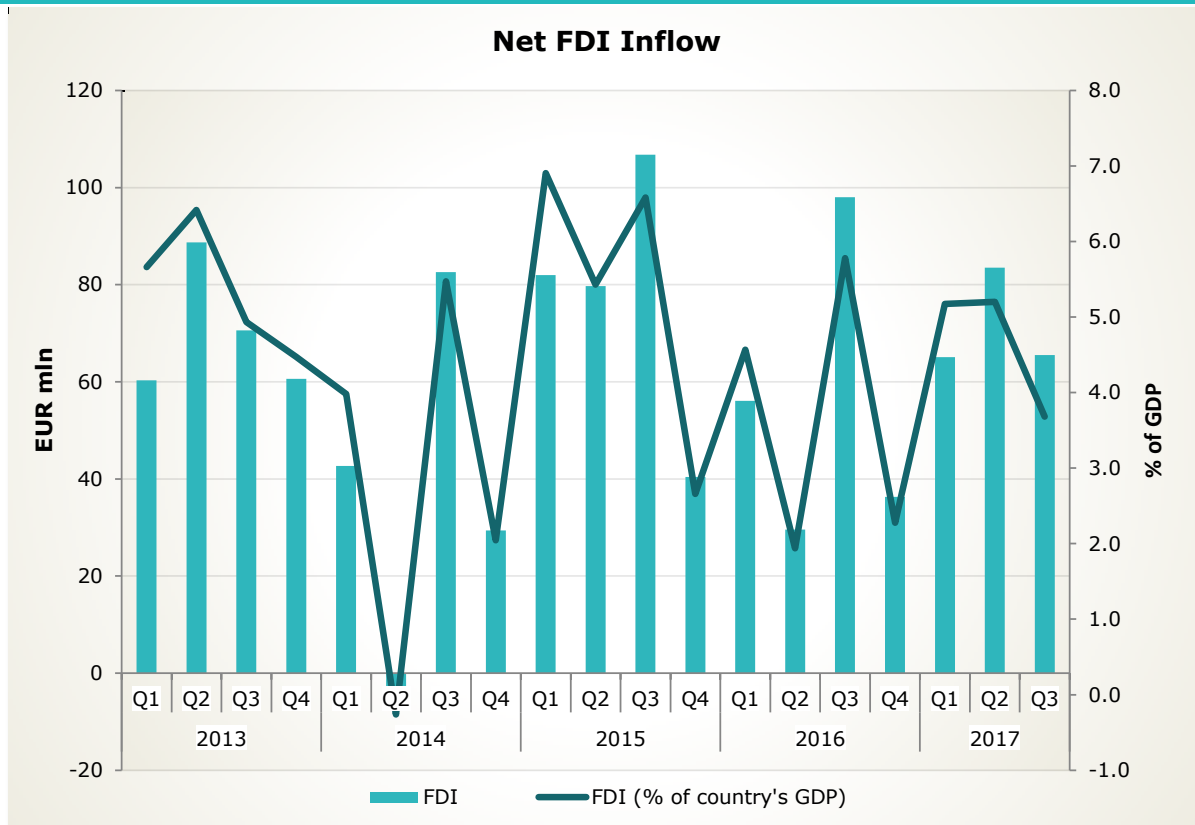
Source: BQK

### 5.3. FDI

#### Net FDI inflow narrowed by a third y/y to EUR 65.5 mln in Q3 2017

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 65.5 mln in Q3 2017, compared to EUR 98.0 mln a year earlier, according to BQK data.

The UK had the largest share in FDI net inflow in Kosovo in Q3 2017 with EUR 20.9 mln, followed by Turkey with 18.8 mln and Switzerland with EUR 13.1 mln. The real estate sector maintained its position as the most preferred sector for foreign investments with net inflow of EUR 57.5 mln.



Source: BQK

## 5.4. FOREIGN TRADE

### Foreign trade deficit increased by 6.7% y/y in Q3 2017

The trade deficit stood at EUR 715.7 mln in the third quarter of 2017, up 6.7% y/y, according to BQK data.

Exports jumped by 42.9% y/y to EUR 105.1 mln, while imports went up by 10.3% y/y to EUR 820.8 mln in Q3 2017.

In the quarter under review, the coverage rate of imports with exports stood at 12.8%, up from 9.9% in the corresponding quarter of the previous year.



Source: ASK

## 5.5. TOURSIM

### Number of foreign tourist overnights increased by 6.5% y/y in Q3 2017

Tourist overnights of foreigners rose by an annual 6.5% to 43,837 in Q3 2017, according to ASK. They accounted for 77.2% of the total number of tourist overnights in the country. The number of foreign tourists went down by 4.6% y/y to 24,889.



Source: ASK

## 6. MAJOR DEVELOPMENTS

### ***EBRD launches ICT capacity building programme in Kosovo***

*Sept 6, 2017*

The European Bank for Reconstruction and Development (EBRD) said in September it has launched a capacity building programme aiming to strengthen the information and communications technology (ICT) sector in Kosovo.

[Read the full story here](#)

### ***Serbia to start building motorway to Kosovo in H2 2018***

*Aug 22, 2017*

Serbia's government plans to start the construction of a motorway that will link the city of Nis with Pristina in Kosovo via Merdare in the second half of 2018, infrastructure minister Zorana Mihajlovic has said.

[Read the full story here](#)

### ***Serbia, Kosovo agree to launch new phase of dialogue***

*July 6, 2017*

The presidents of Serbia and Kosovo have agreed to work on starting a new phase of the dialogue between Belgrade and Pristina for normalisation of relations and reconciliation, the European Union office in Kosovo said.

[Read the full story here](#)



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