

KOSOVO ECONOMY REPORT

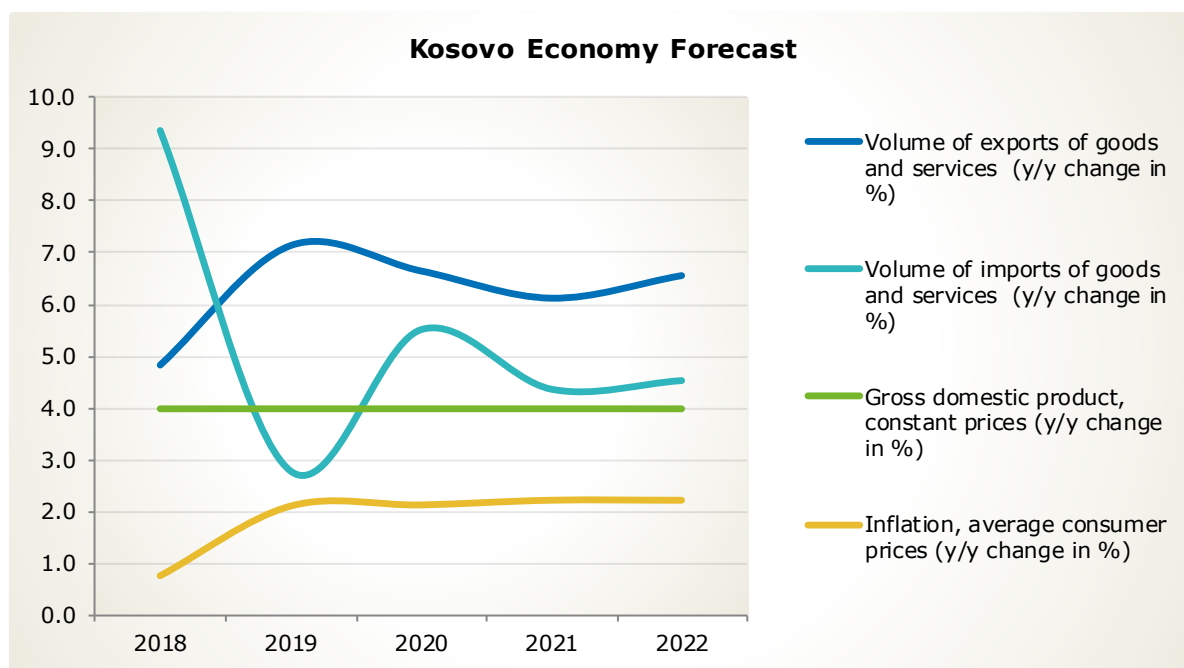
Q3 2018

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1. MACROECONOMIC SNAPSHOT AND FORECAST

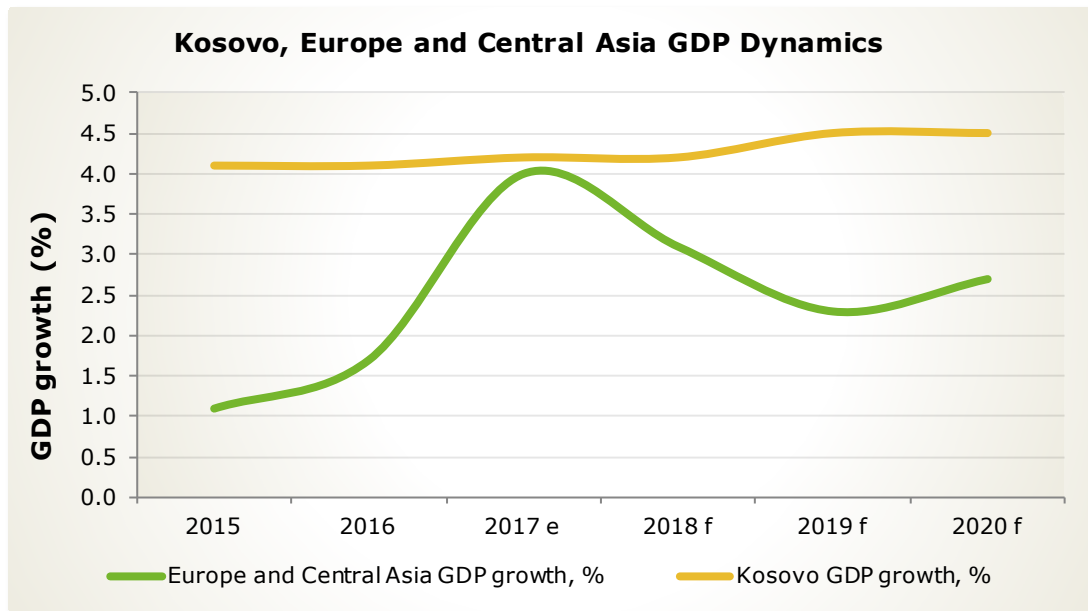
| KOSOVO – MACROECONOMIC SNAPSHOT AS OF Q3 2018 | |
|-----------------------------------------------|---------------|
| GDP Growth | 3.4% y/y |
| Industrial sales y/y change in | |
| - Mining | -3.5% |
| - Manufacturing | -1.2% |
| - Electricity and gas supply | -4.3% |
| - Water supply | -9.8% |
| Annual inflation | 1.4% |
| Unemployment rate | 30.7% |
| Household loans | 11.2% y/y |
| Gross external debt | EUR 2.090 bln |
| Current account surplus | EUR 133.0 mln |
| Net FDI inflow | EUR 84.5 mln |
| Foreign trade deficit | EUR 814.1 mln |
| Number of foreign tourist overnights | 172.1% 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%, down from a real GDP growth rate of 4.2% 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.

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



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

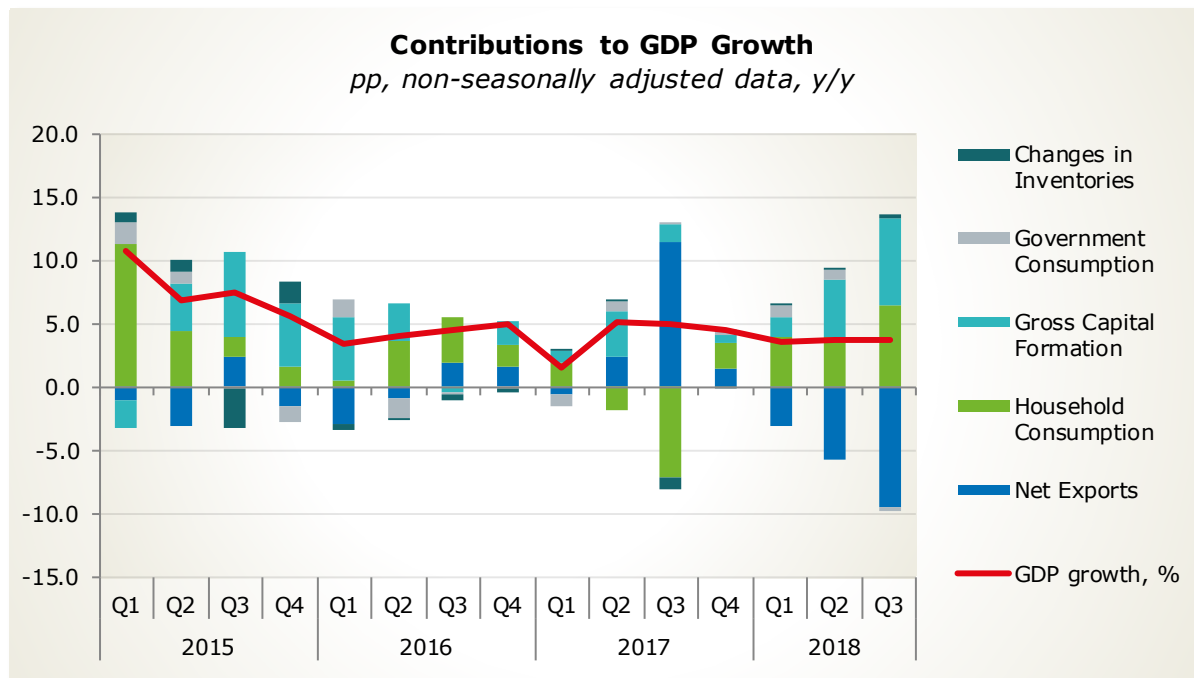
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP went up by real 3.4% y/y in Q3 2018, down from 4.4% in Q3 2017

The country's GDP increased by a real 3.4% y/y and totalled EUR 1.846 bln at constant prices in Q3 2018, according to preliminary data of Kosovo Agency of Statistics (ASK).

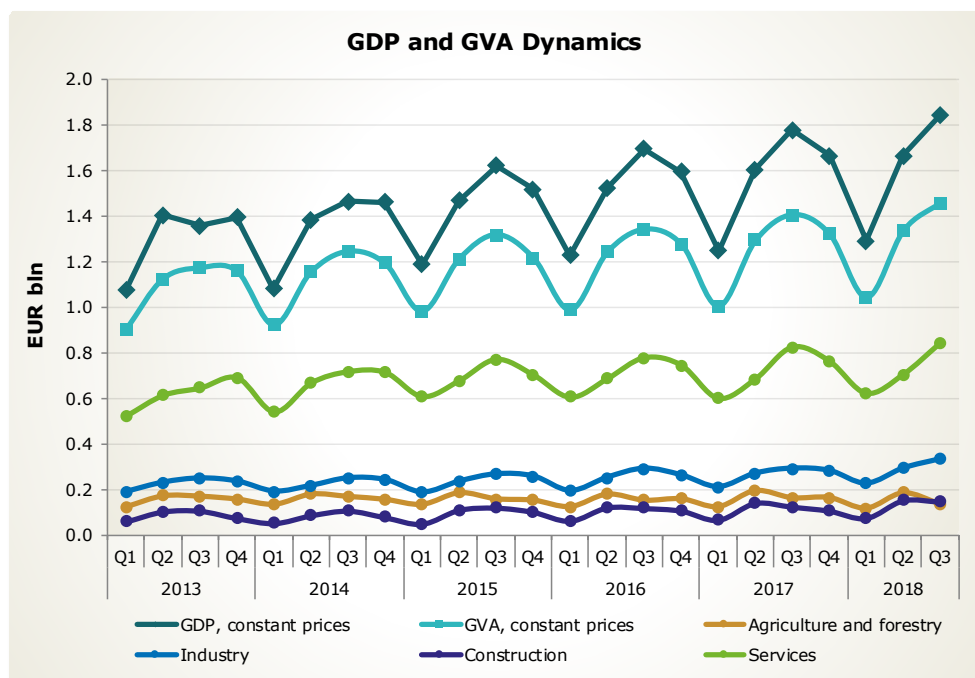
The largest growth contributors during the quarter were household consumption and gross capital formation with 6.5 pp and 6.8 pp, respectively.



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.

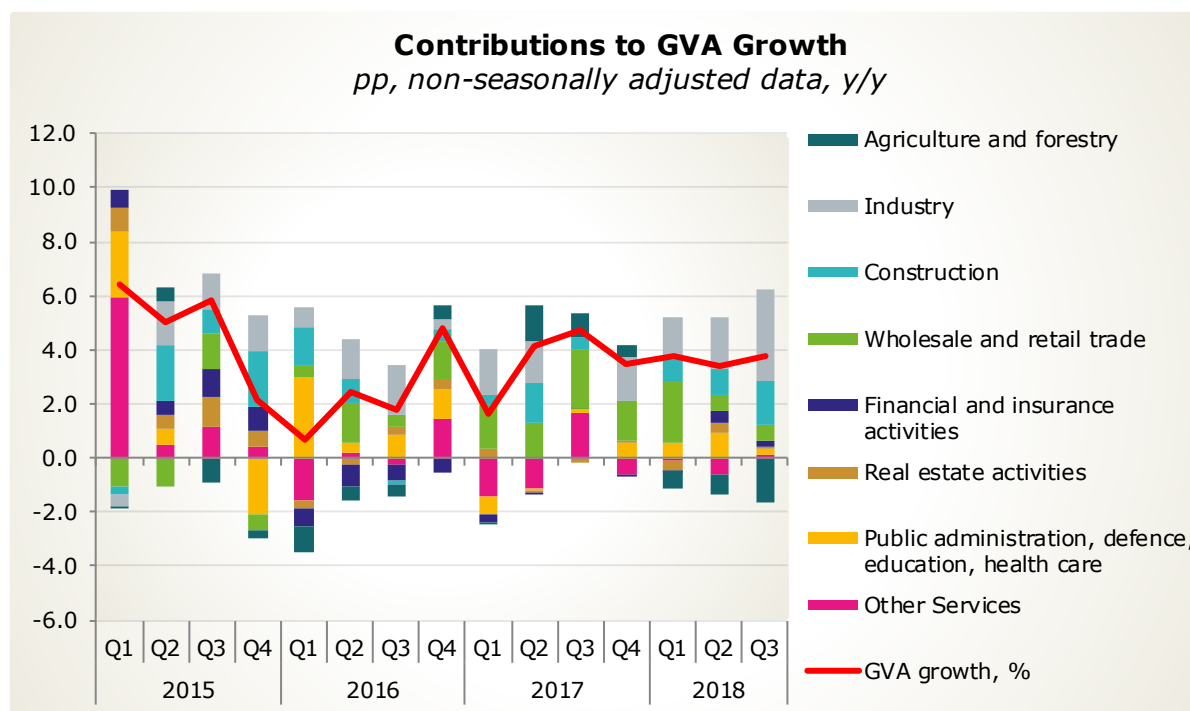
Final consumption increased in value terms by 7.9% y/y and amounted to EUR 1.471 bln. Gross capital formation jumped by 24.8% to EUR 614.2 mln. Exports went down by 5.2% y/y, while imports grew by 12.8% y/y.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 3.8% y/y in Q3 2018 and totalled EUR 1.459 bln. The construction industry surged by 18.1%, while services recorded a 2.1% annual increase. The agricultural sector registered an annual fall of 17.2%. The industrial sector grew by 14.1%.

In terms of contributions, the industrial sector added 3.4 pp to the y/y GVA growth in Q3 2018, followed by the construction industry with 1.6 pp and services sector with 1.2 pp.



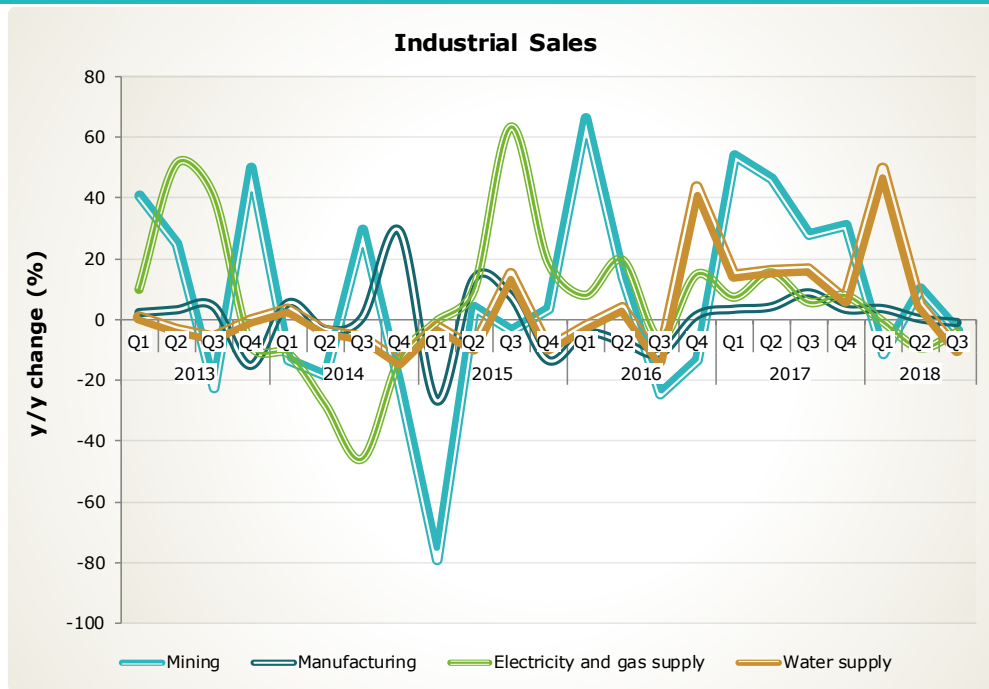
Source: SeeNews Calculations; ASK

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

2.2. INDUSTRIAL SALES

All sectors registered annual decline in industrial sales in Q3 2018

The sales of the mining industry went down by 3.5% y/y in the third quarter of 2018, ASK data showed. Sales in the manufacturing industry decreased by 1.2%, and the water supply shrank by 9.8% y/y. Electricity and gas supply sales dropped by 4.3% y/y in Q3 2018.



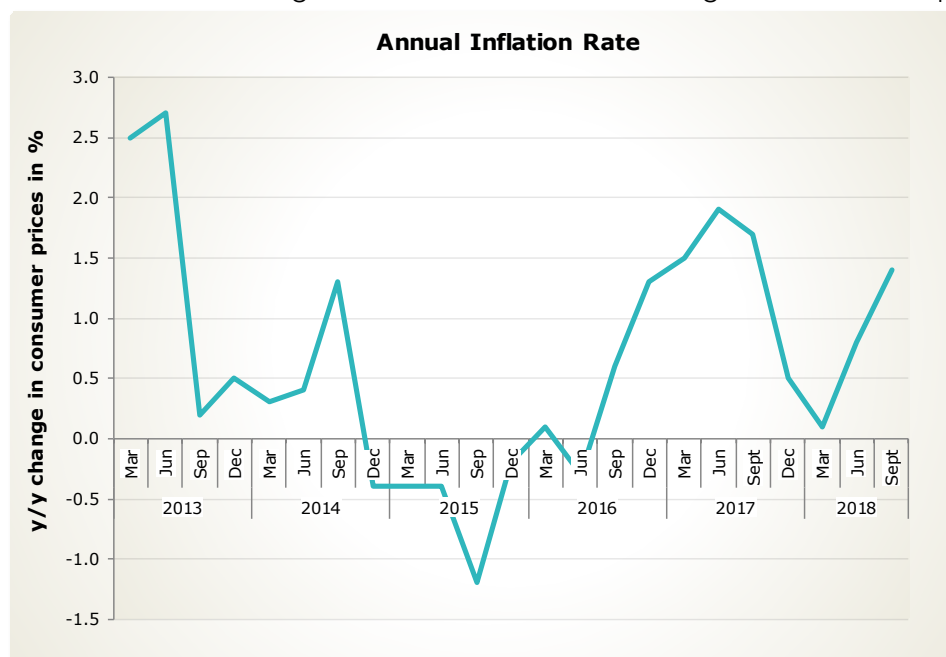
Source: ASK

2.3. INFLATION

Annual inflation accelerated to 1.4% in September 2018

Kosovo registered an annual inflation of 1.4% in September 2018, compared to an inflation of 0.8% in June 2018 and 1.7% in September 2017, according to ASK.

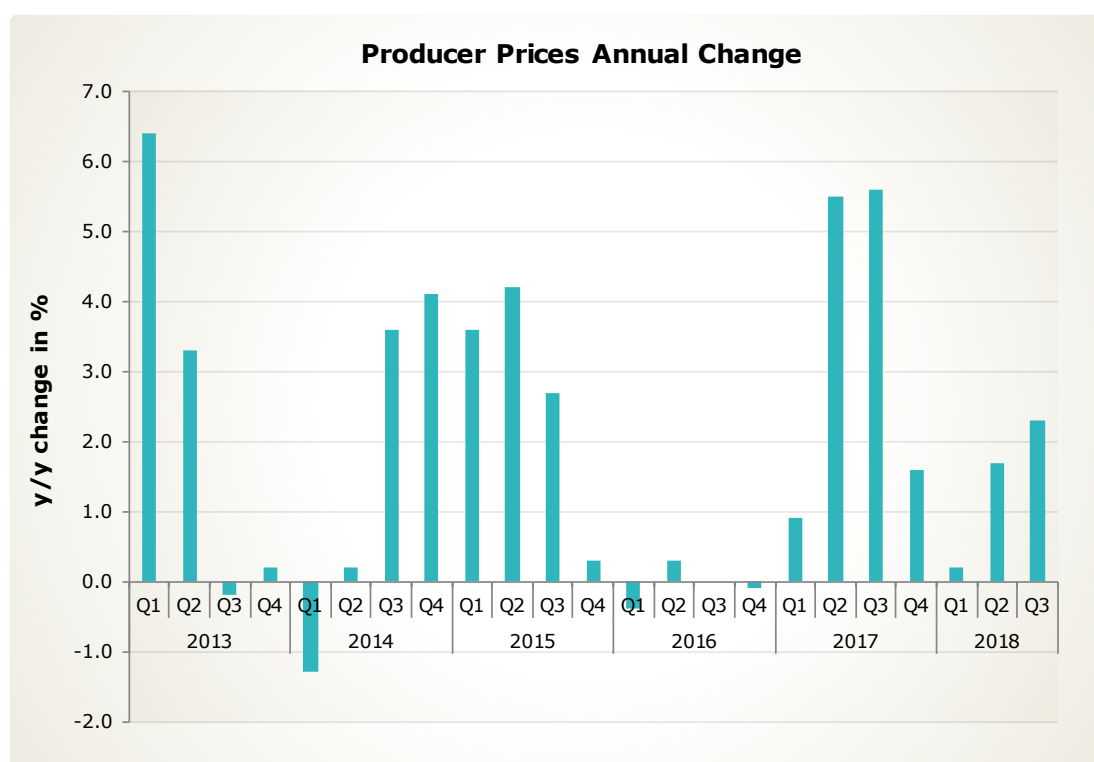
The annual rise in prices in September 2018 can be attributed to the 2.1% increase in prices of food and non-alcoholic beverages, as well as alcoholic beverages and tobacco products.



Source: ASK

Producer prices in Kosovo went up by 2.3% y/y in Q3 2018, according to ASK. The largest increase in producer prices by sectors was observed in manufacture of metals - 14.6%, manufacture of machinery and equipment - 7.3%, and manufacture of electrical equipment with - 6.0%.

In terms of annual decline, the worst performing sectors were mining of metal ore with a drop of 11.1%, manufacture of chemical products - 3.1%, and manufacture of leather and leather articles - 1.9%.



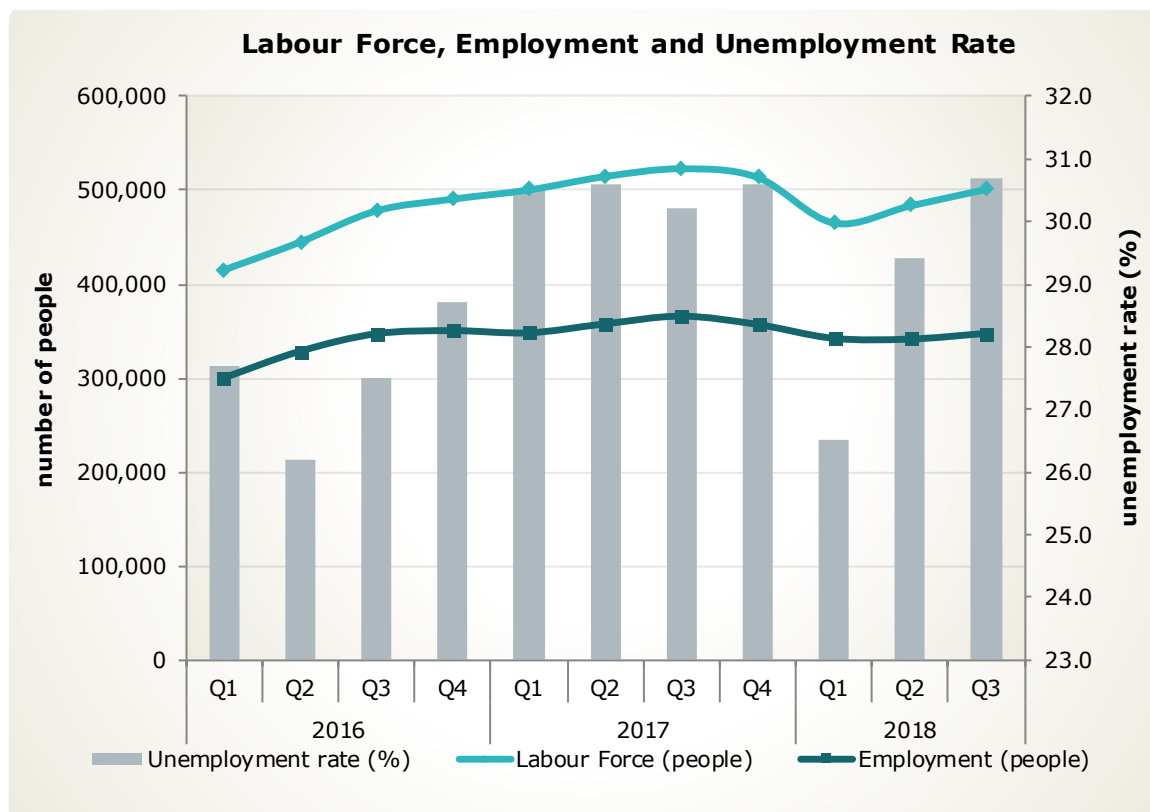
Source: ASK

3. LABOUR MARKET

Unemployment rate increased to 30.7% in Q3 2018, from 29.4% in Q2 2018

Unemployment in Kosovo rose to 30.7% of the total labour force in Q3 2018, up from 29.4% in Q2 2018, according to data of ASK. The youth (population aged 15-24) unemployment rate remained unchanged q/q, at 55.0% in Q3 2018.

The employed population aged 15 years and older decreased by 4.9% y/y to 347,600 in Q3 2018.



Source: ASK

Average monthly net wage up 6.8% y/y in Q3 2018

The average monthly net salary in the public sector in Kosovo increased by 6.8% y/y to EUR 485 in Q3 2018, according to ASK. The highest monthly net salary, of EUR 567, was registered in the public order and security sector, while the employed recreation and culture earned the lowest – EUR 407.

4. BANKING AND INSURANCE

Household loans jumped by 11.2% y/y as of September 2018

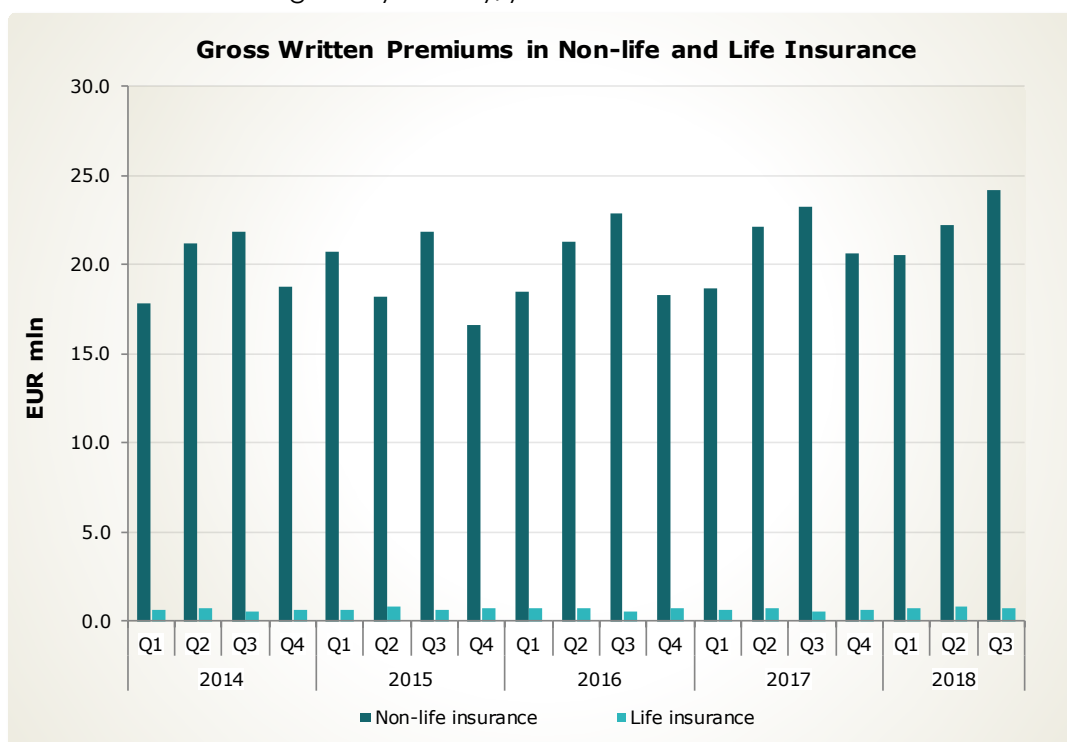
Household loans increased by 11.2% y/y to EUR 973.2 mln as of September 2018, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 11.6% to EUR 1.704 bln.



Source: BQK

Insurance premium income registered an increase of 4.6% y/y in Q3 2018

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went up by 4.6% y/y to EUR 24.900 mln in Q3 2018, according to BQK. The upturn was due to the non-life insurance market, which grew to EUR 24.200 mln from EUR 23.236 mln a year earlier. Life insurance GWP grew by 23.3% y/y to EUR 0.700 mln.



Source: BQK

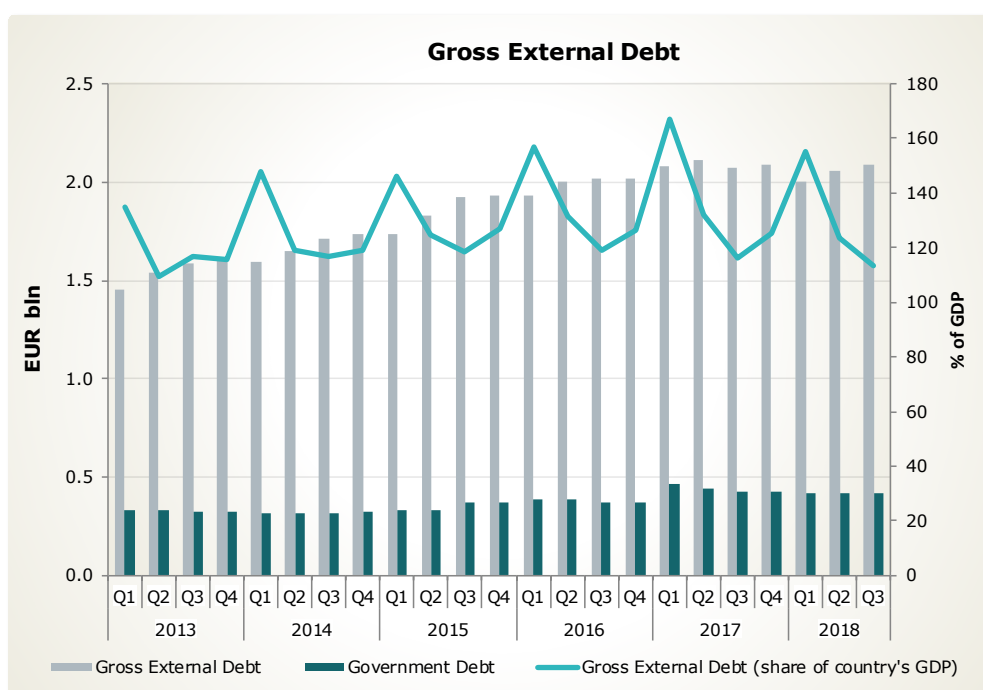
5. EXTERNAL SECTOR

5.1. FOREIGN DEBT

Gross external debt increased y/y to EUR 2.090 bln in Q3 2018

Gross external debt stood at EUR 2.090 bln in Q3 2018, according to BQK. It rose by 1.0%, or EUR 20.3 mln, in comparison to Q3 2017.

In Q3 2018, long-term liabilities amounted to EUR 774.8 mln, or 37.1% of the total debt, up by 8.2% y/y. Short-term liabilities totalled EUR 750.4 mln, up by 13.4% y/y, equal to 35.9% of the total debt.



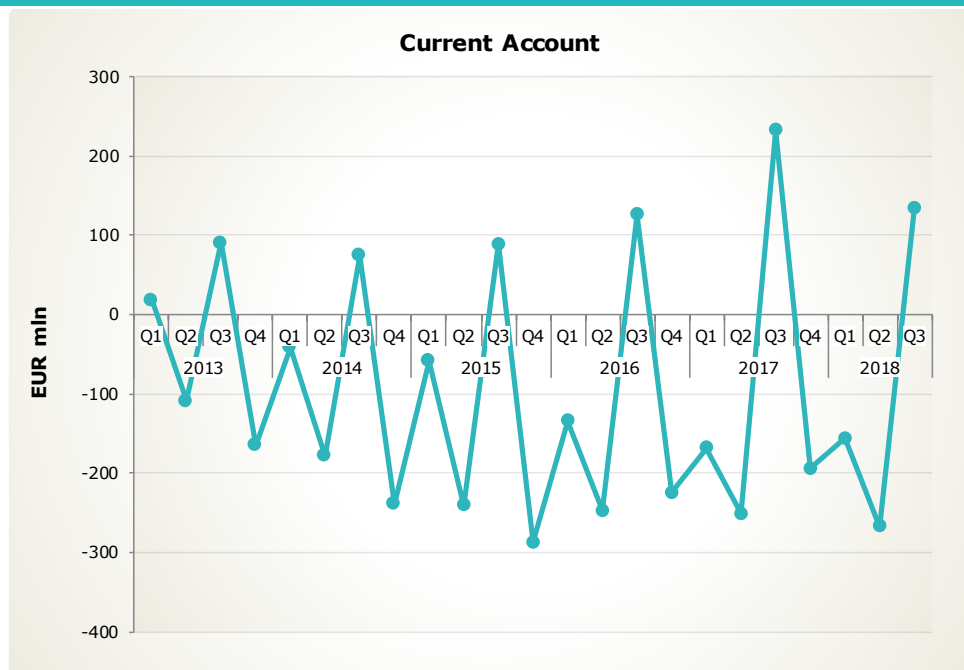
Source: BQK

5.2. BALANCE OF PAYMENTS

Current account surplus of EUR 133.0 mln in Q3 2018

The current account surplus shifted to a surplus of EUR 133.0 mln in Q3 2018 from a deficit of EUR 267.2 mln in Q2 2018, according to central bank statistics data. In comparison to Q3 2017, the surplus in Q3 2018 was by EUR 99.300 mln less.

Secondary income increased annually by 7.4% y/y to EUR 315.5 mln from EUR 293.8 mln in Q3 2017.

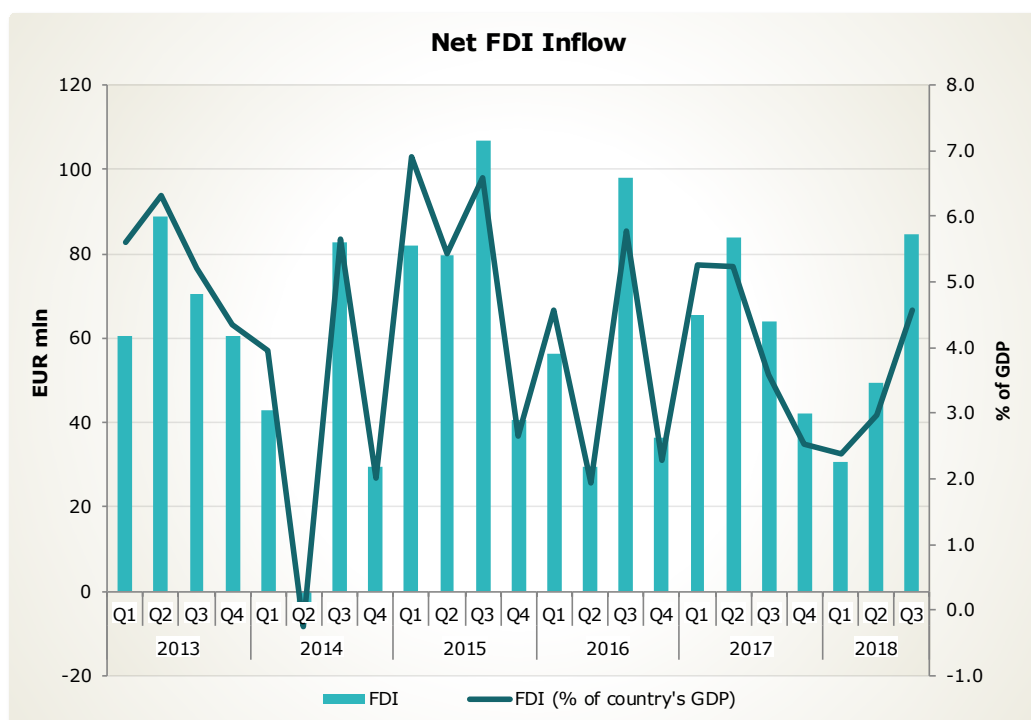


Source: BQK

5.3. FDI

Net FDI inflow at EUR 84.500 mln in Q3 2018, up by 32.4% y/y

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 84.500 mln in Q3 2018, compared to EUR 63.800 mln a year earlier, according to BQK data. FDI covered 63.5% of the country's current account surplus in Q3 2018 and accounted for 4.6% of its GDP.



Source: BQK

5.4. FOREIGN TRADE

Foreign trade deficit jumped by 13.8% y/y in Q3 2018

The trade deficit stood at EUR 814.1 mln in the third quarter of 2018, up 13.8% y/y, according to BQK data.

Exports declined by 8.7% y/y to EUR 96.0 mln, while imports went up by 10.9% y/y to EUR 910.1 mln in Q3 2018.

In the third quarter of 2018, the coverage rate of imports with exports stood at 10.5%, down from 12.8% in Q3 2017.

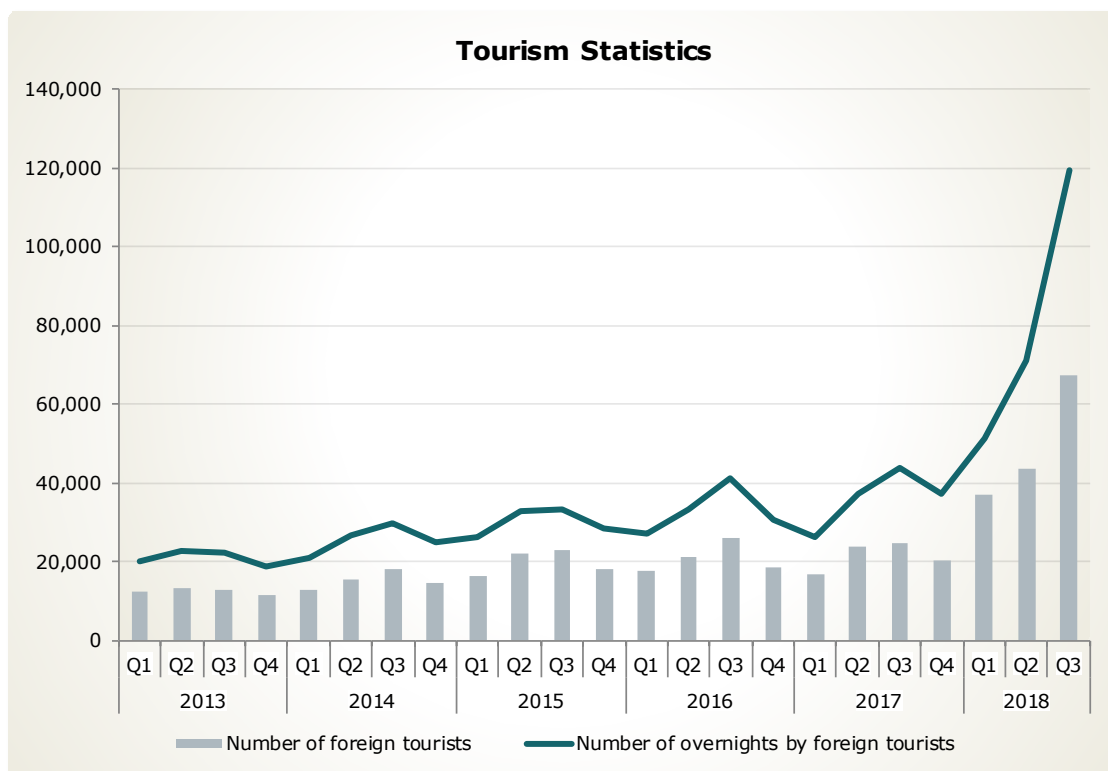


Source: ASK

5.5. TOURSIM

Number of foreign tourist overnights nearly tripled y/y in Q3 2018

Tourist overnights of foreigners rose to 119,275 in Q3 2018 from 43,837 in the same quarter of the previous year, according to ASK. They accounted for 75.0% of the total number of tourist overnights in the country in the period under review. The number of foreign tourists surged to 67,359 from 24,889 in Q3 2017.



Source: ASK

6. MAJOR DEVELOPMENTS

EBRD lending EUR 38.5 mln to finance wastewater projects in Kosovo

Sept 25, 2018

The European Bank for Reconstruction and Development (EBRD) is providing two separate sovereign loans worth a total of EUR 38.5 mln to finance wastewater network projects in two municipalities in Kosovo.

[Read the full story here](#)

Austria loans EUR 5.35 mln to improve wastewater management in Kosovo

Sept 25, 2018

Kosovo's finance ministry said it signed a loan agreement worth EUR 5.35 mln with Unicredit Bank Austria to finance a project for improving wastewater treatment in the northeastern municipality of Podujeva.

[Read the full story here](#)

European Parliament backs talks with Council on visa waiver for Kosovo

Sept 13, 2018

The European Parliament confirmed the mandate for negotiations with the Council on the proposal to waive visa requirements for Kosovo's citizens.

[Read the full story here](#)

Motorway to border with Macedonia to be ready by end-2018

Sept 6, 2018

The construction of the 60-km long motorway linking Pristina to the border with Macedonia is expected to be completed by the end of 2018.

[Read the full story here](#)

EBRD to provide some EUR 120 mln in funding to Kosovo in 2019

Aug 28, 2018

The European Bank for Reconstruction and Development (EBRD) will provide around EUR 120 mln in funding to Kosovo next year.

[Read the full story here](#)

Kosovo signs EUR 20.7 mln loan deal with World Bank to support digital economy

July 20, 2018

Kosovo's finance ministry said in July it signed a EUR 20.7 mln loan agreement with the World Bank to improve access to high-speed broadband Internet and online knowledge sources, services, and labour markets for the people of Kosovo.

[Read the full story here](#)

Kosovo meets all benchmarks for visa liberalisation

July 18, 2018

Kosovo has fulfilled all benchmarks set out in the visa liberalisation roadmap, the European Commission confirmed in July.

[Read the full story here](#)

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