

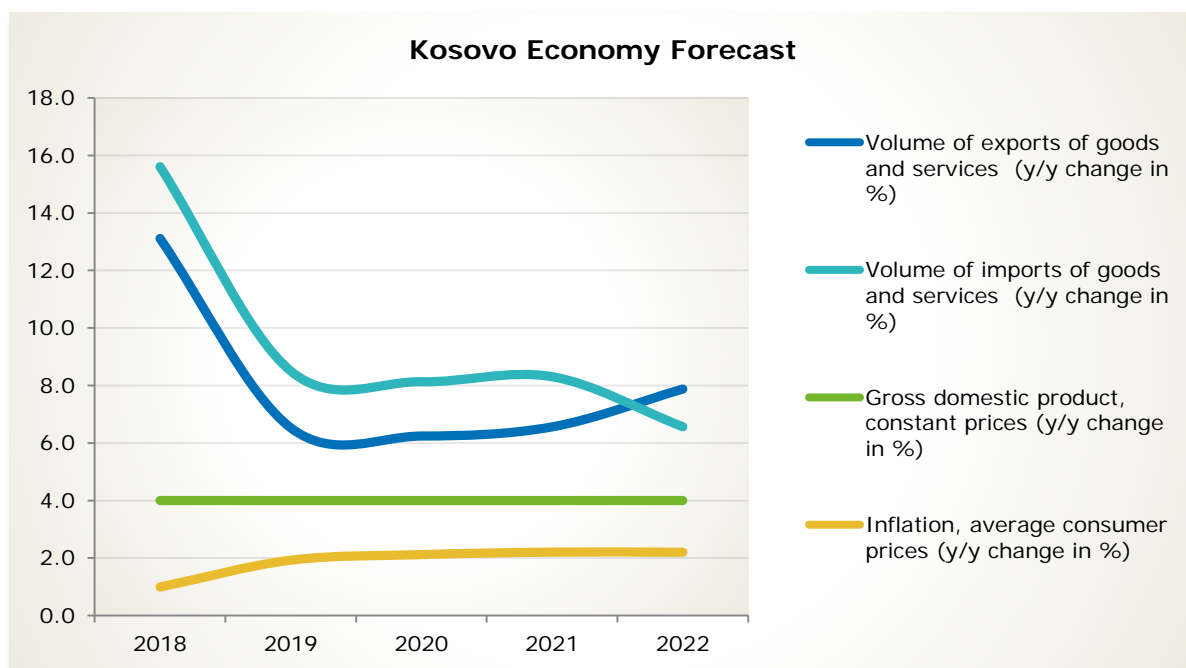
KOSOVO ECONOMY REPORT 2017

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1. MACROECONOMIC SNAPSHOT AND FORECAST

KOSOVO – MACROECONOMIC SNAPSHOT AS OF end-2017	
GDP Growth	4.2% y/y
Industrial sales y/y change in	
- Mining	31.3%
- Manufacturing	3.2%
- Electricity and gas supply	7.8%
- Water supply	6.1%
Annual inflation	1.5%
Unemployment rate	30.5%
Household loans	12.7% y/y
Gross external debt	EUR 2.092 bln
Current account deficit	EUR 413.2 mln
Net FDI inflow	EUR 287.8 mln
Foreign trade deficit	EUR 2.669 bln
Number of foreign tourist overnights	9.8% y/y

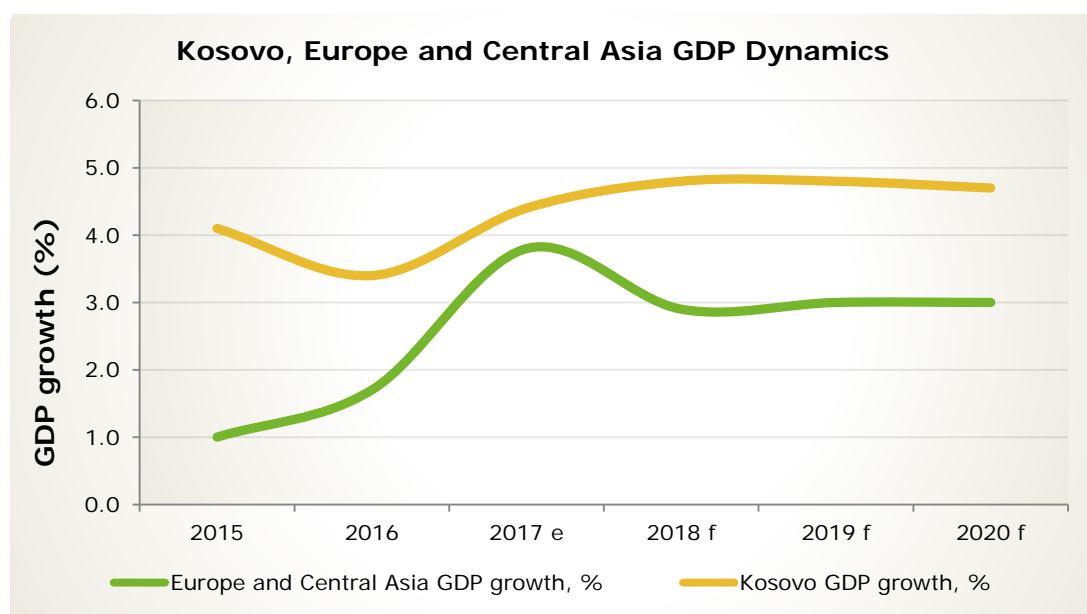


Source: International Monetary Fund (IMF) World Economic Outlook Database – April 2018

According to the latest IMF forecast, the GDP of Kosovo will rise by 4.0% in 2018 driven by strong domestic demand, down from the reported 4.2% growth in 2017. In the medium term over 2022, the fund projects GDP growth of 4.0% on average under the assumption of a gradual pace of reform efforts. The economy is expected to be driven mainly by private consumption and investment, with exports (mainly minerals) making an increasing but still relatively minor contribution to growth. With the economy growing at its current potential,

inflation is projected to remain slightly above the euro area average of 1.8% throughout the projection period, reflecting productivity gains. The trade deficit is expected to remain large, though on a declining path, while largely funded by non-debt creating inflows, namely remittances and FDI.

Among the challenges to the economic forecasts IMF points the overall weak external competitiveness, high informality, low labor force participation and high unemployment, particularly among young workers, and a large infrastructure gap continue to constrain Kosovo's growth potential.



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

The World Bank projects economic growth in Kosovo to reach 4.1% in 2018, as public and private investments are expected to grow by 8.7%, and higher disposable incomes will contribute to private consumption increase of 2.4% 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.

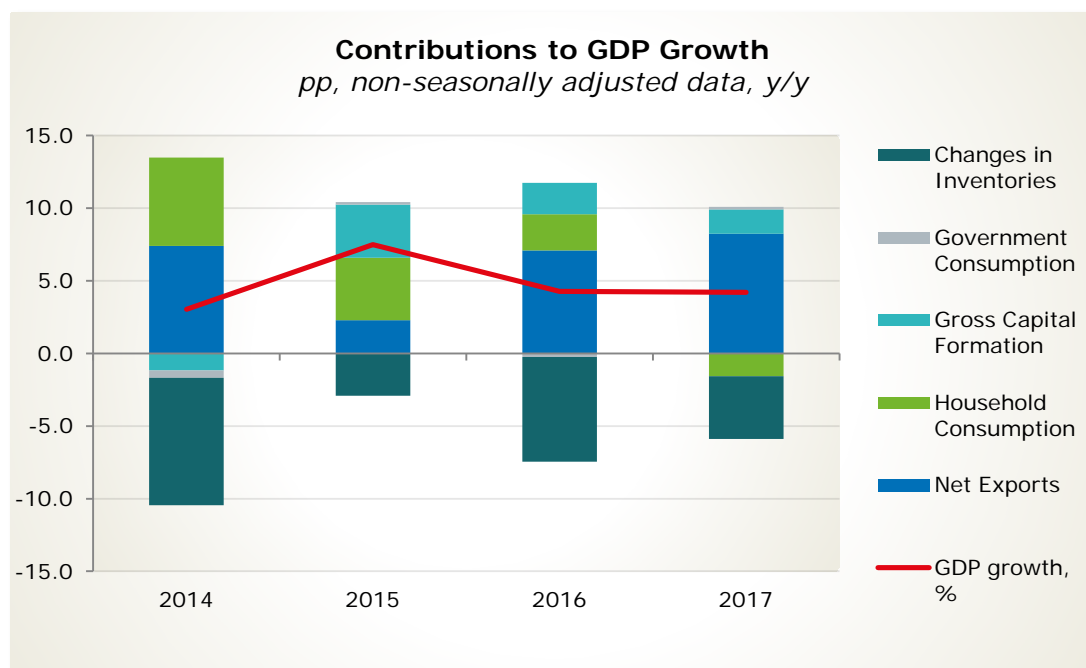
2. REAL SECTOR

2.1. GROSS DOMESTIC PRODUCT (GDP)

GDP growth remain strong at real 4.2% y/y in 2017

The country's GDP increased by a real 4.2% y/y and totalled EUR 6.297 bln at constant prices in 2017, according to preliminary data of Kosovo Agency of Statistics (ASK).

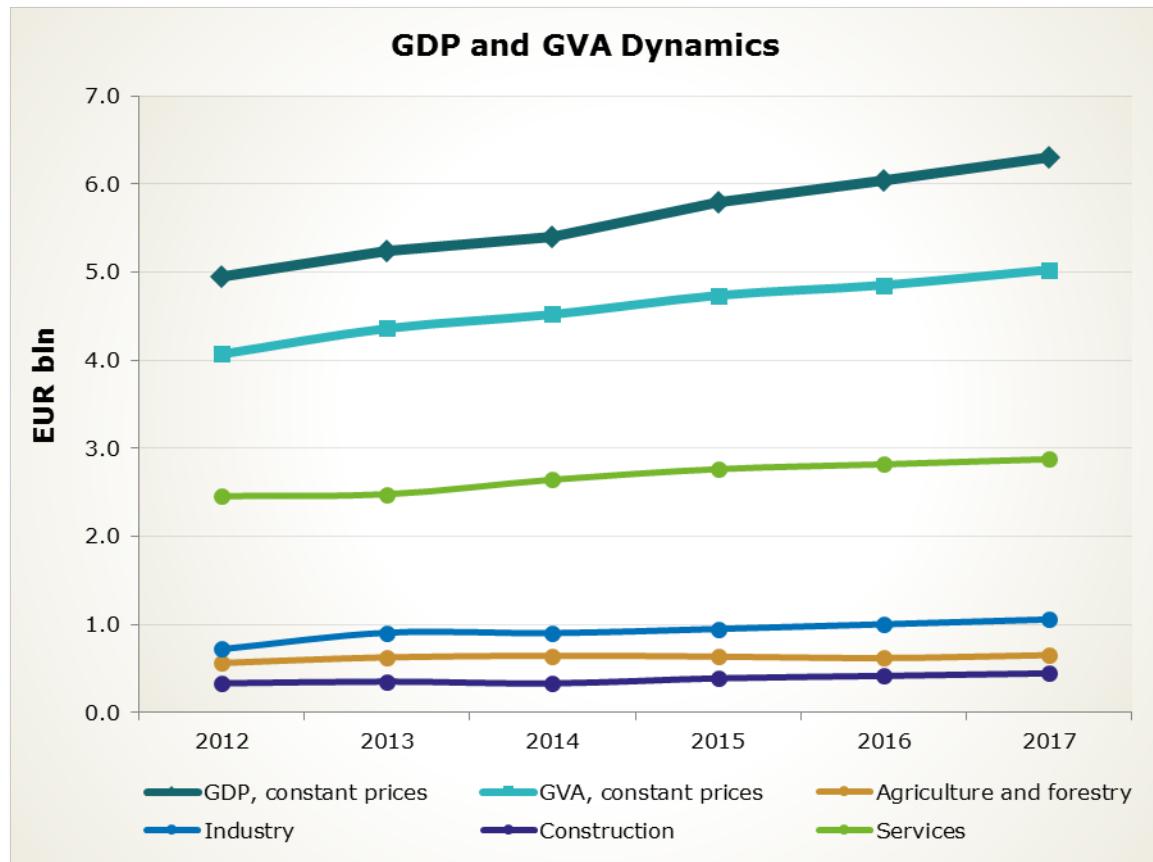
Final consumption decreased in real terms by 1.4% y/y and amounted to EUR 6.046 bln. Gross capital formation went up by 6.2% to EUR 1.827 bln. Exports jumped by 27.7% y/y, while imports grew by 4.1%.



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.

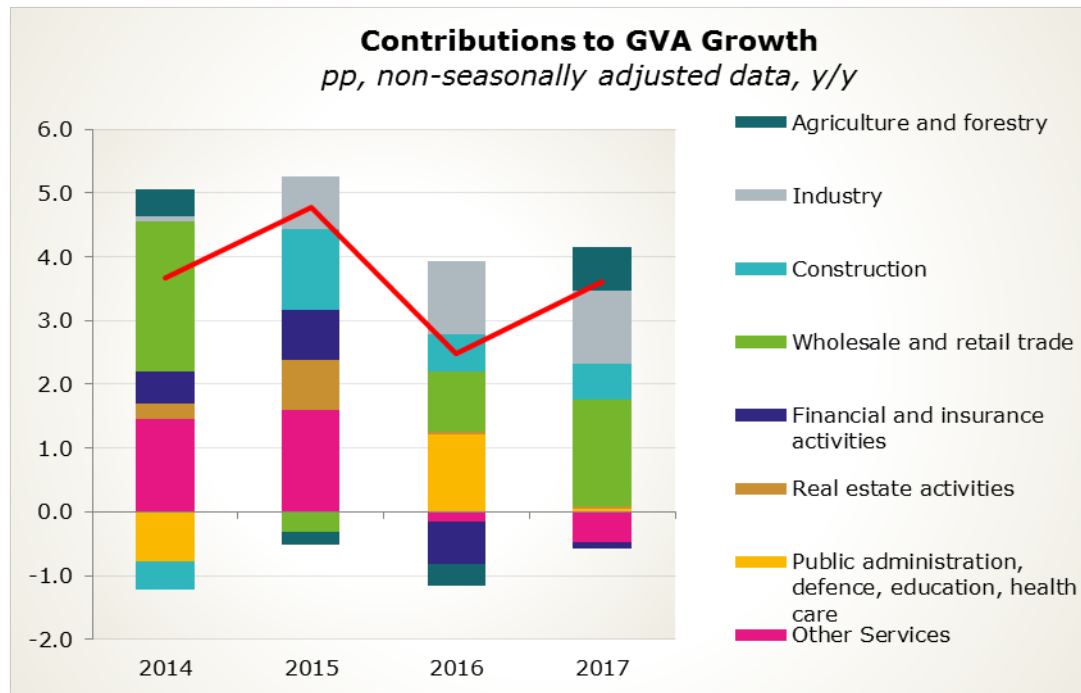
The largest contributor to the GDP growth in the year was the improvement of the foreign trade gap - in real terms the net trade deficit shrank by 13% y/y and contributed with 4.1 pp to the overall GDP expansion in 2017. Gross capital formation contributed with 1.7 pp to GDP growth while household consumption took away 1.6 pp from the GDP increase during the year.



Source: ASK

The gross value added (GVA) generated by the national economy increased in value by 3.6% y/y in 2017 and totalled EUR 5.026 bln. The industrial sector inched up by 5.5% and took 21% of the total GVA. The services sector recorded a 2.1% annual increase, slicing a 57% share in the GVA. The agricultural sector registered an annual raise of 5.3%, and its share in the GVA came in at 13% in 2017. The construction industry grew by 7.0% and its share in the GVA was 8.8%.

In terms of sectors, the retail and wholesale contributed the most to the overall GVA growth in 2017, of 1.7 pp. It was followed by the industry with 1.1 pp and agriculture and forestry with 0.7 pp.



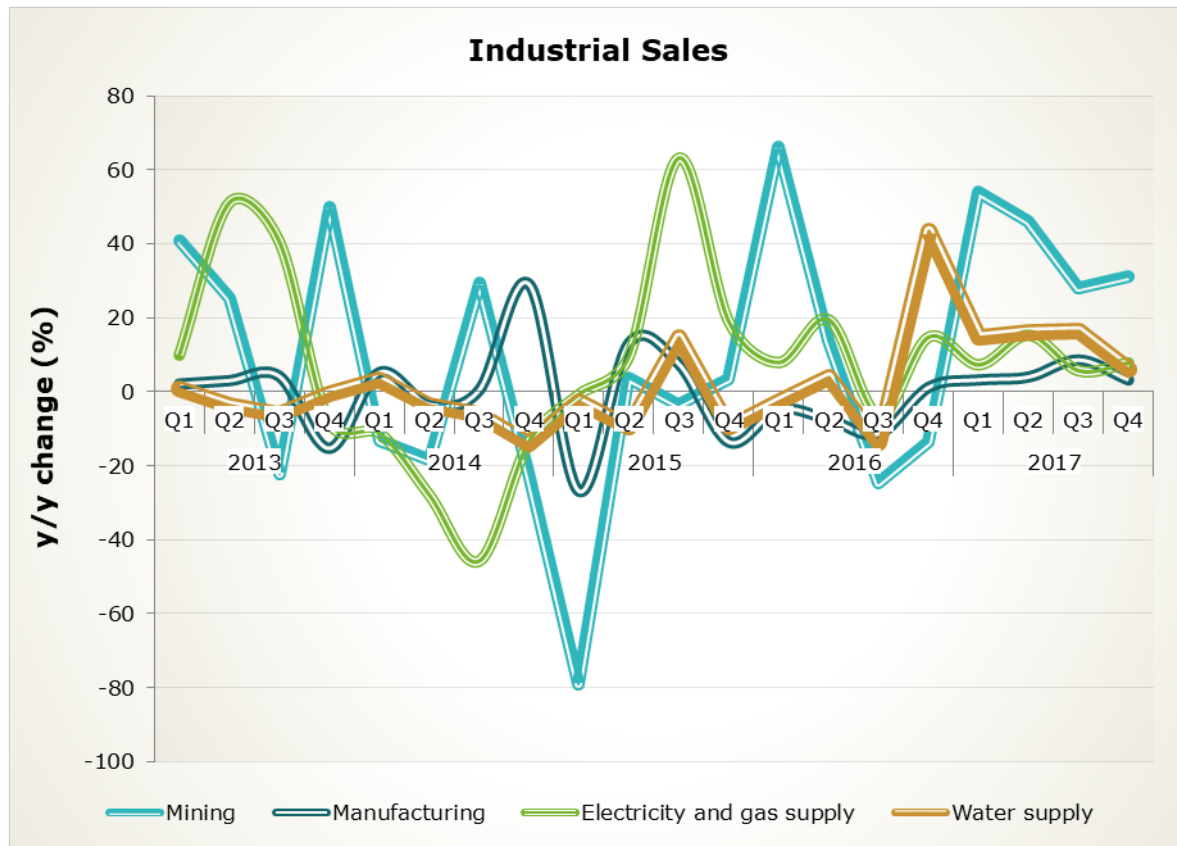
Source: SeeNews Calculations; ASK

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 Q4 2017, mining industry expanded by a third

The sales of all industries went up y/y in the Q4 2017, ASK data showed. Sales in the mining industry jumped by 31.3%, followed by the electricity and gas supply sector with 7.8%. Industrial sales in water supply and manufacturing also increased, by 6.1% and 3.2%, respectively.



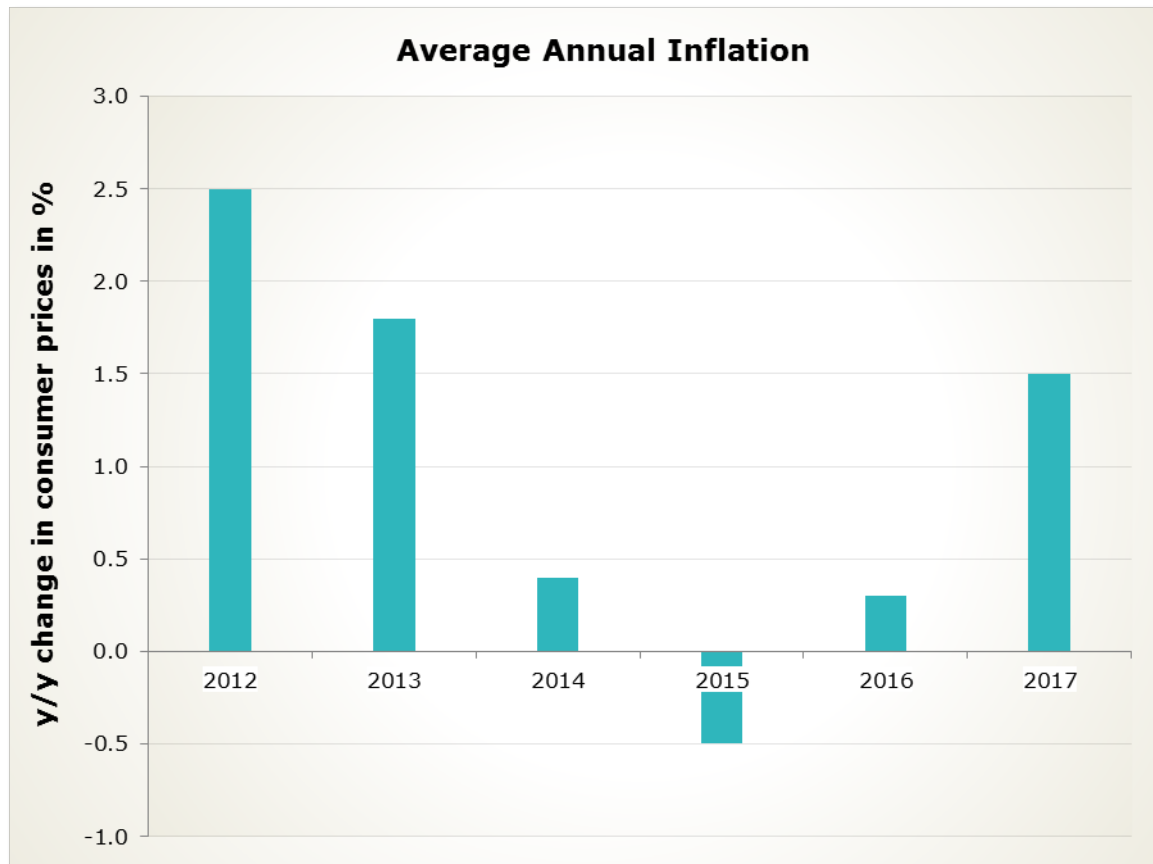
Source: ASK

2.3. INFLATION

Inflation accelerated y/y to 1.5% in 2017

Kosovo registered an annual inflation of 1.5% in 2017, compared to inflation of 0.3% in 2016, according to ASK.

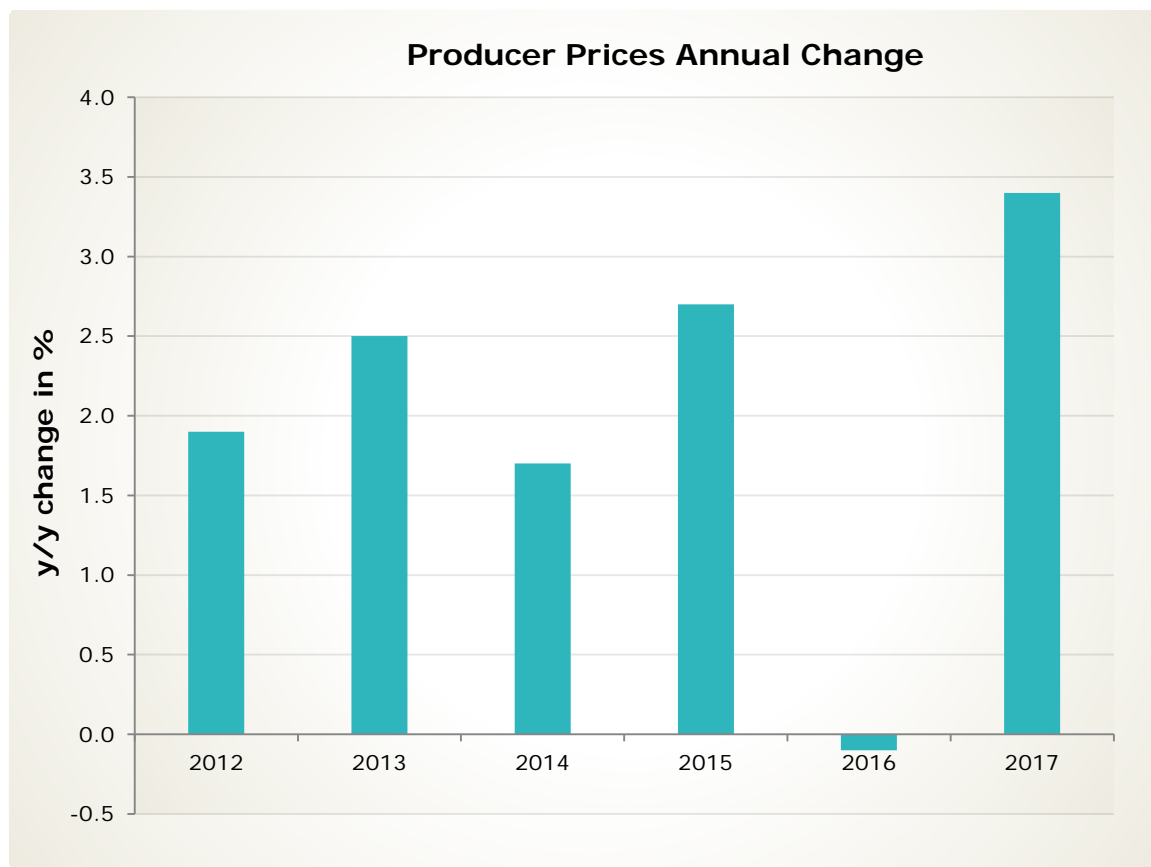
The consumer price index was higher by 0.5% in December 2017 compared to December 2016. The group of the food and non-alcoholic beverage increased prices by 1.5% y/y in Q4 2017 on average, while the group of alcoholic beverages and tobacco experienced inflation of 1.7% y/y during the final quarter of 2017. CPI of the group of housing, water, electricity, gas and other fuels declined by 3.3%, while communication services decreased prices by 1.2% y/y on average in Q4 2017.



Source: ASK

Producer prices in Kosovo went up by 1.6% y/y in 2017, according to ASK. Production prices in Kosovo rose to an average of 1.6% y/y in Q4 2017. The largest increase by economic activity is observed in manufacture of electrical equipment (18.1%), metal ore extraction (8.2%), manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials (5.6%), manufacture of metals (4.9%), supply of electricity, gas, steam and air conditioning (4.0%), manufacture of leather and articles thereof (2.7%), manufacture of food products (1.1%), manufacture of chemical products (1.0%), collection, treatment and supply of water (0.2%) and manufacture of non-metallic mineral products (0.2%).

Producer prices deflation in Q4 2017 was observed in the manufacture of beverages (-3.7%), manufacture of motor vehicles (transport), trailers and semi-trailers (-2.5%), manufacture of rubber and plastic (-1.2%), manufacture of fabricated metal products, except machinery and equipment (-1.2%), manufacture of furniture (-0.8%), manufacture of machinery and equipment p.k.t (-0.1%) and manufacture of paper and paper products (-0.1%).



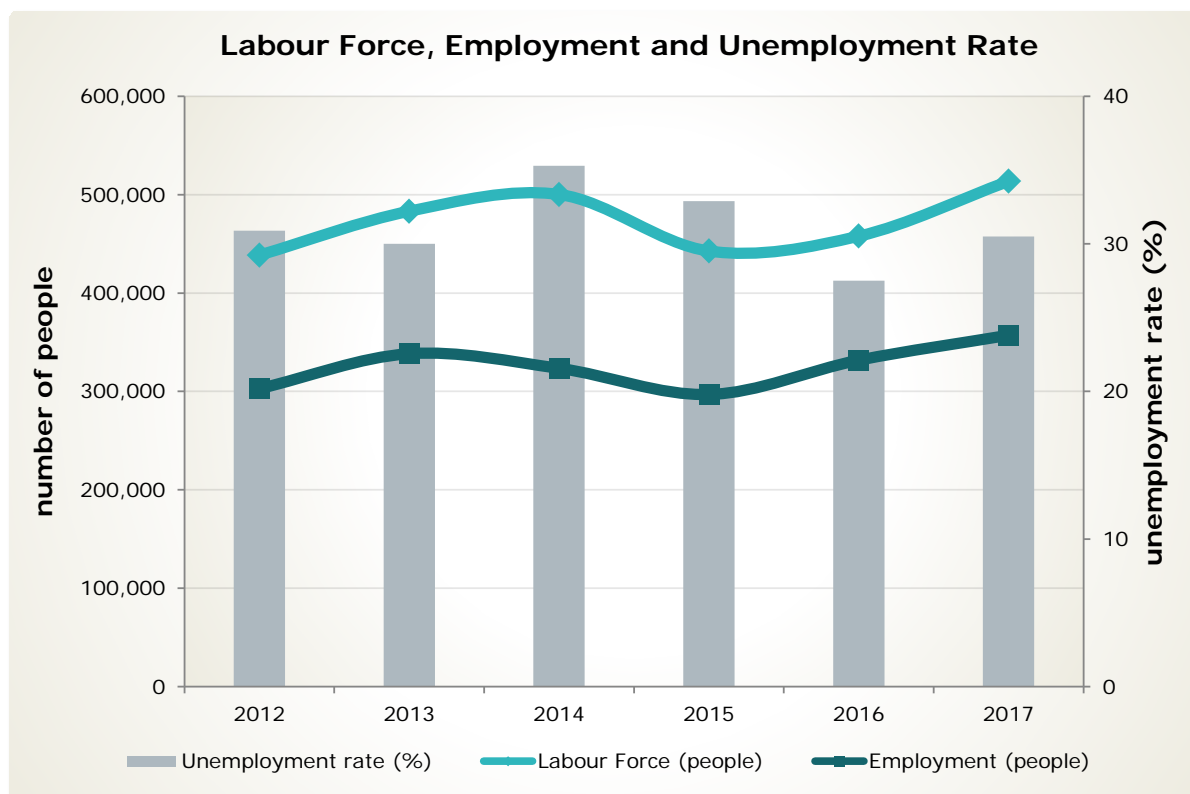
Source: ASK

3. LABOUR MARKET

Unemployment rate at 30.2% in 2017

Unemployment in Kosovo expanded to 30.5% of the total labour force in 2017, up from 27.5% a year earlier, according to data of ASK. The youth (population aged 15-24) unemployment rate inched up to 52.7% from 52.4% in 2016.

The employed population aged 15 years and older increased by 7.6% y/y to 357,125 in 2017.



Source: ASK

Average monthly net wage down by 2.4% y/y in 2017

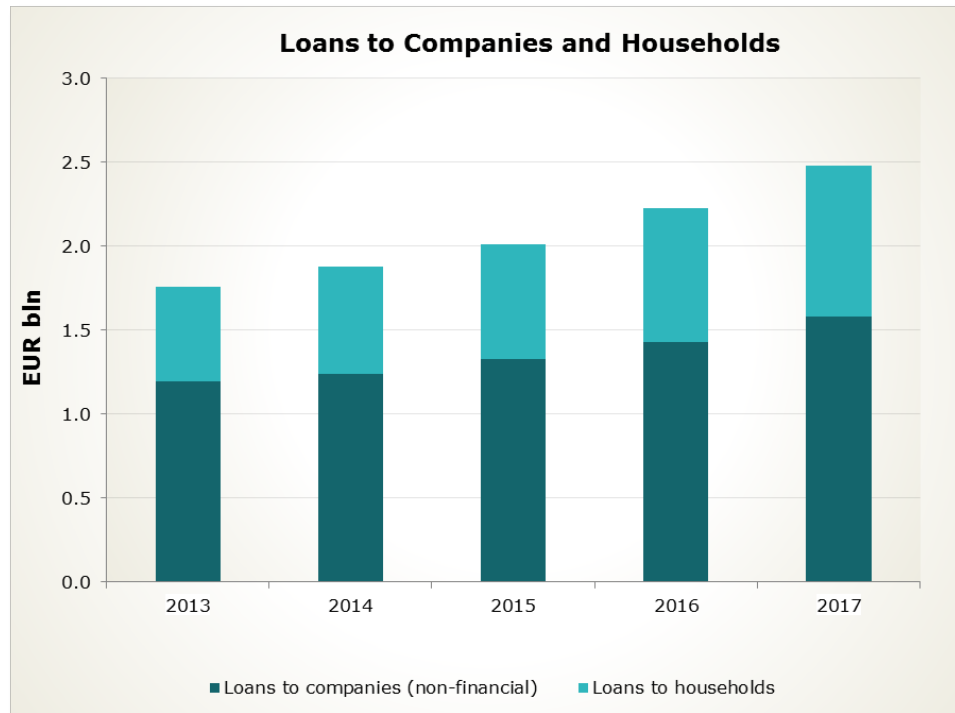
The average monthly net salary in the public sector in Kosovo decreased by 2.4% y/y to EUR 452 in 2017, according to ASK.

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 12.7% y/y in 2017

Household loans increased by 12.7% y/y to EUR 898 mln as of end-2017, according to the Central Bank of Kosovo (BQK). Loans to non-financial corporations rose by 10.7% to EUR 1.582 bln.

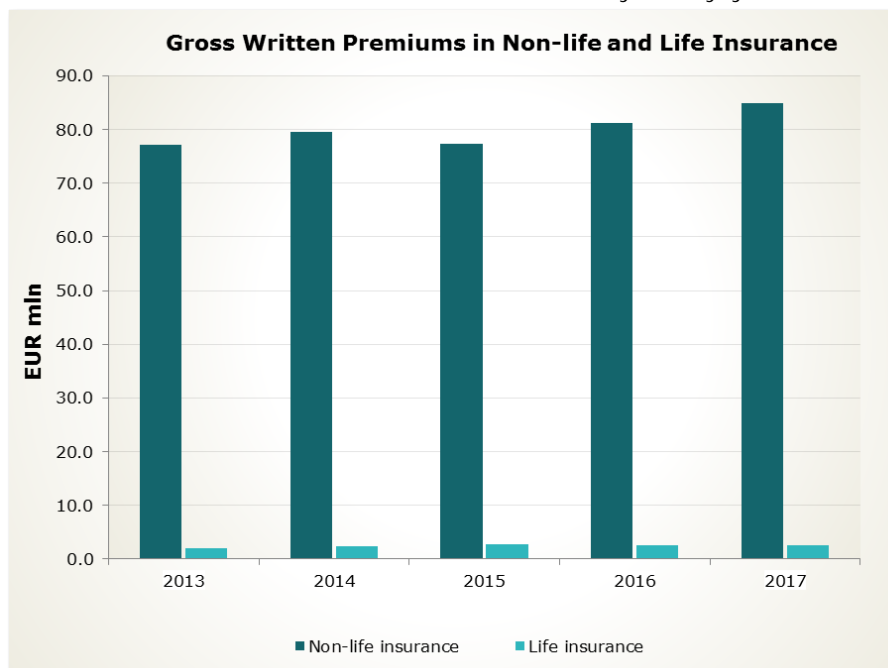


Source: BQK

Insurance premium income grew by 4.3% y/y in 2017

The total gross written premiums (GWP) of the non-life and life insurance companies in Kosovo went up by 4.3% y/y to EUR 87.4 mln in 2017, according to BQK.

The upturn was due to the non-life insurance market, which grew to EUR 84.9 mln from EUR 81.2 mln a year earlier. The life insurance market declined by 3.3% y/y to EUR 2.5 mln.



Source: BQK

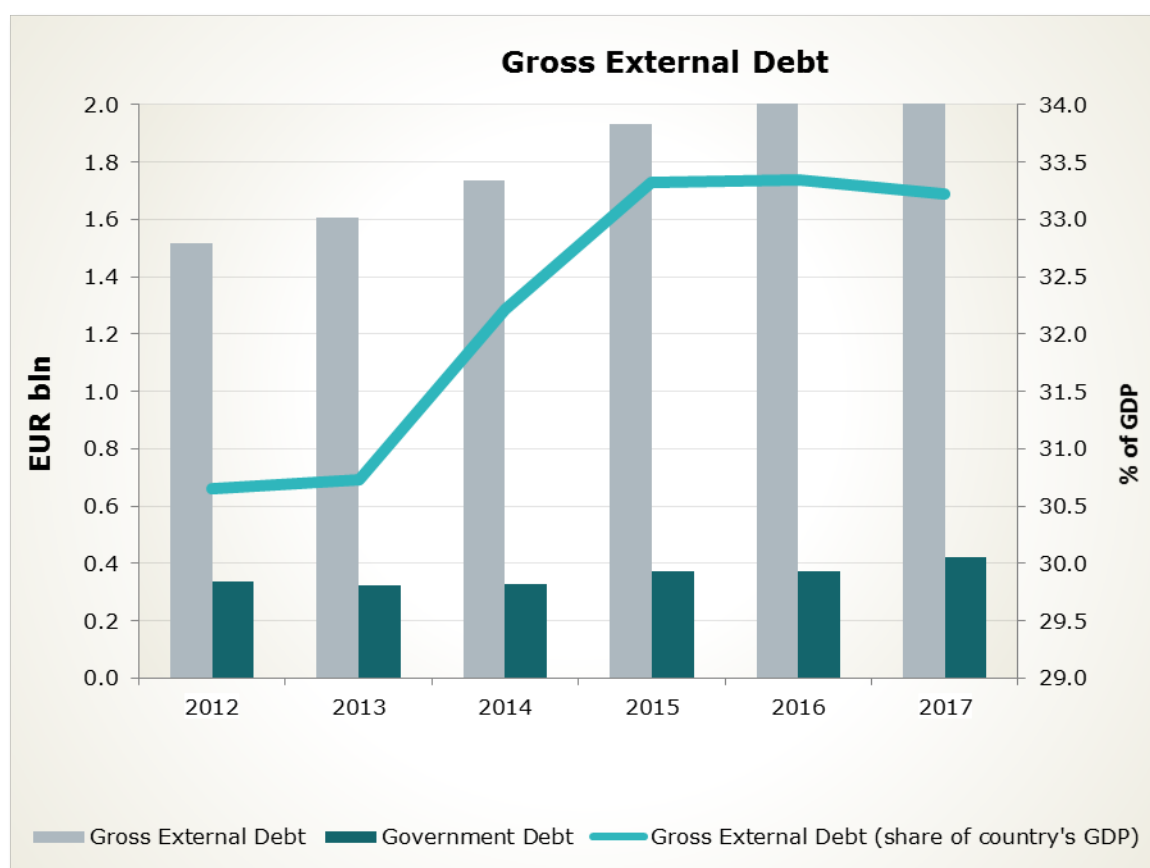
5. EXTERNAL SECTOR

5.1. FOREIGN DEBT

The gross external debt increased by 3.8 y/y to EUR 2.092 bln in 2017

The gross external debt stood at EUR 2.092 bln in 2017, according to BQK. It grew by 4.3% in 2016.

In 2017, long-term liabilities amounted to EUR 714.8 mln, or 34.2% of the total debt, rising by 12.9% y/y. Short-term liabilities totalled EUR 707.9 mln, up 20.2% y/y, equal to 29.2% of the total debt.



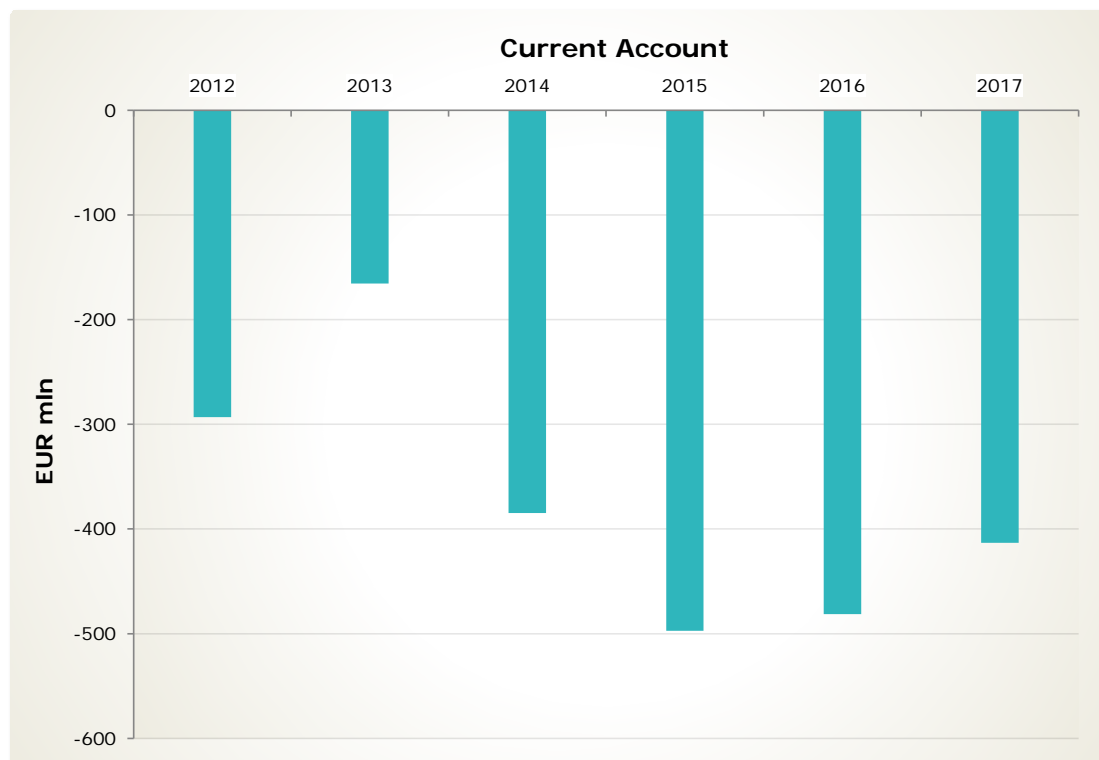
Source: BQK

5.2. BALANCE OF PAYMENTS

Current account deficit fell by 14.2% y/y to EUR 413.2 mln in 2017

The current account deficit shrank by 14.2% y/y to EUR 413.2 mln in 2017, down from EUR 481.4 mln in 2016, according to central bank statistics data.

Secondary income increased annually to EUR 1.162 bln from EUR 1.096 bln in 2016.



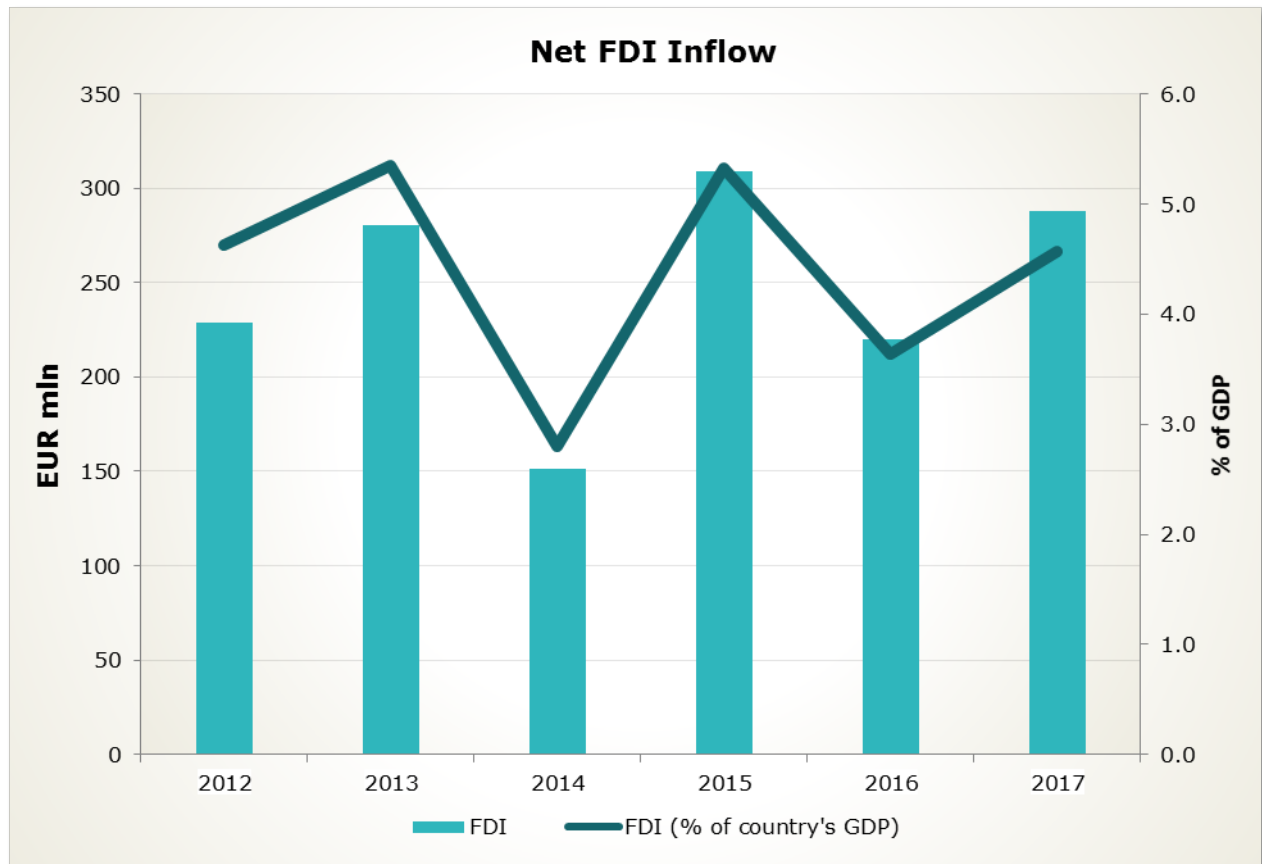
Source: BQK

5.3. FDI

Net FDI inflow expanded by a third y/y to EUR 287.8 mln in 2017

Foreign Direct Investments (FDI) net inflow in Kosovo amounted to EUR 287.8 mln in 2017, compared to EUR 220.0 mln a year earlier, according to BQK data.

Germany had the largest share in FDI net inflow in Kosovo in 2017 with EUR 55.9 mln, followed by the UK with 53.3 mln and Switzerland with EUR 50.6 mln. The real estate sector maintained its position as the most preferred sector for foreign investments with net inflow of EUR 187.3 mln.



Source: BQK

5.4. FOREIGN TRADE

Foreign trade deficit increased by 7.6% y/y in 2017

The trade deficit stood at EUR 2.669 bln in 2017, up 7.6% y/y, according to BQK data.

Exports jumped by 22.1 % y/y to EUR 0.378 bln, while imports went up by 9.2% y/y to EUR 3.047 bln in 2016.

In the year under review, the coverage rate of imports with exports stood at 12.4%, up from 11.1% in 2016.

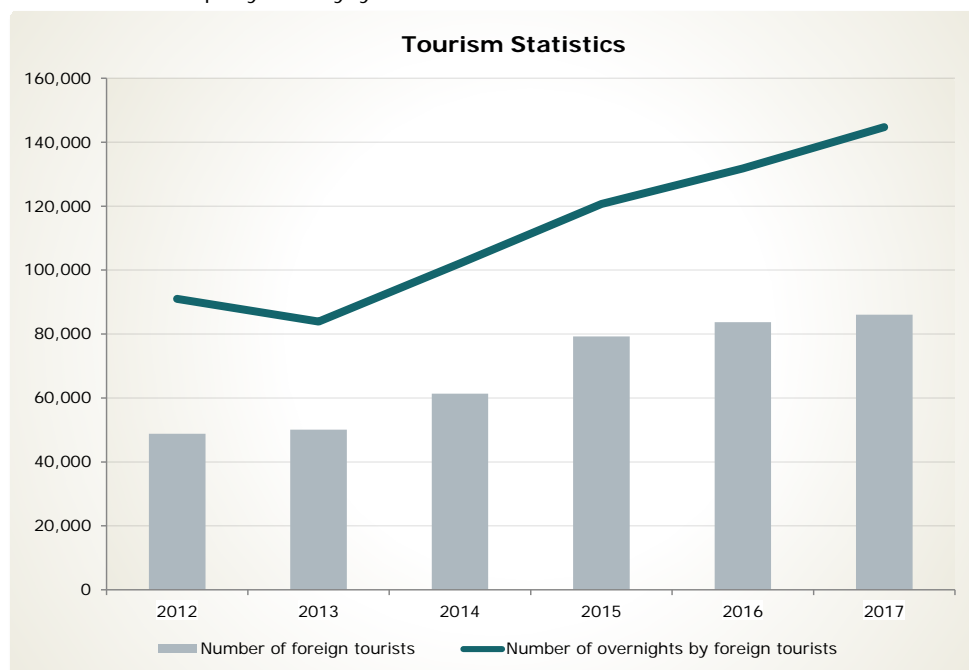


Source: ASK

5.5. TOURSIM

Number of foreign tourist overnights increased by 9.8% y/y in 2017

Tourist overnights of foreigners rose by an annual 9.8% to 144,736 in 2017, according to ASK. They accounted for 75% of the total number of tourist overnights in the country. The number of foreign tourists went up by 2.8% y/y to 86,032.



Source: ASK

6. MAJOR DEVELOPMENTS

Kosovo completes land expropriation in new coal mining zone

Dec 27, 2017

According to the Kosovo government, it successfully concluded the process of expropriation of land in a new coal mining zone - a move aimed at increasing domestic coal output and averting a power shortage.

[Read the full story here](#)

U.S. grants USD 30 mln to Kosovo to address priority development challenges

Dec 19, 2017

The U.S. Agency for International Development (USAID) will grant USD 30 mln (EUR 25.4 mln) to support activities that will address Kosovo's priority development challenges, the office of Kosovo president Hashim Thaci said on Tuesday.

[Read the full story here](#)

EBRD lending EUR 71 mln for Kosovo road expansion project

Dec 18, 2017

The European Bank for Reconstruction and Development (EBRD) said it is extending a EUR 71 mln (USD 83.4 mln) loan to Kosovo's government for the construction of a 30 km highway section.

[Read the full story here](#)

Germany lends EUR 12.95 mln to Kosovo to back employment, promote competition

Dec 11, 2017

Kosovo's finance ministry signed a EUR 12.95 mln loan agreement with the German government to support various project in Kosovo in 2018.

[Read the full story here](#)

Albania, Kosovo sign MoU to set up common energy exchange

Nov 29, 2017

Albania and Kosovo have signed a memorandum of understanding (MoU) on the establishment and operation of a common energy exchange, the Albanian government said.

[Read the full story here](#)

EBRD completes ICT capacity-building programme in Kosovo

Nov 24, 2017

The European Bank for Reconstruction and Development (EBRD) has completed a successful joint capacity-building programme with Kosovo's telecommunications regulator aimed at strengthening the information and communication technology (ICT) sector in the country.

[Read the full story here](#)

Further investment climate reforms needed in Kosovo - EBRD

Nov 23, 2017

Kosovo should implement further reforms to improve its investment climate, the European Bank for Reconstruction and Development (EBRD) said.

[Read the full story here](#)

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