

## Summary

The economy of euro area has continued with a sustainable increase in 2017, whereas inflation continued to remain below the ECB target despite the increase marked compared to the previous years. Favorable financing conditions supported by monetary stimulating policies of the ECB, the optimism for the prospects of the economic agents and financial markets, along with the decline of the political uncertainties were the main supporting factors for consumption and investments as the contributing factors for the economic increase in the euro area. The strengthened demand in euro area was positively reflected in economic developments of Western Balkan countries, which were characterized with an increase of exports, investments and consumption.

The growth of economic activity in Kosovo in 2017 was supported by investments increase and the increase of goods and services export. Based on the preliminary estimates of KAS, Kosovo's economy in 2017 has marked a real GDP growth rate of 3.7 percent. The main contribution to the real GDP growth was given by construction, trade, financial and insurance activities along with the processing industry.

During the fourth quarter of 2017, prices of main goods in international markets, with the exception of food, have continued their increasing trend with which were characterized during the whole year of 2017.

As a result of the price increase in international markets, but also the increase of the economic activity in the country, the inflation rate in 2017 has reached an increased average rate of 1.5 percent.

The first half of the year was characterized with a higher increase of prices, while in the second half, especially in the last quarter, the price increasing trend was slowed down.

Fiscal sector during 2017 was characterized with an increase of budget revenues and expenditures with 5.3 percent and 5.0 percent, respectively. The primary budget deficit as a percentage to GDP was 0.9 percent, representing a lower level compared to the deficit of 1.0 percent marked in the previous year. Alongside with consistent increase of revenues, Kosovo has also the lowest burden of the economy with taxes compared to the region countries; meanwhile also the budget expenditures and the public debt ratio to GDP are lower compared to the region.

During 2017, the external sector was characterized with positive developments in the current and financial account as well. Current account deficit to GDP ratio declined to 6.4 percent from 7.9 percent as it was in 2016, while the balance of the financial account has reached 5.1 percent of the GDP from 3.3 percent as it was in 2016. The improvement of the current account deficit is attributable to the increase of the surplus of the services balance, the secondary income account and the account of the primary income, while the deficit in the goods trade has marked an increase. Within the financial account, foreign direct investments have marked an increase of 30.8 percent compared to 2016.

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## CONTENTS

<b>SUMMARY</b> -----	<b>i</b>
<b>Euro area and Western Balkans</b> -----	<b>03</b>
<b>Kosovo's Economy</b> -----	<b>06</b>
Real sector-----	06
Prices-----	08
Business registry-----	09
Fiscal Sector-----	10
External Sector -----	11

## FIGURES AND TABLES

Figure 1. Macroeconomic developments in the euro area-----	03
Figure 2. Main interest rates in euro areas-----	04
Figure 3. Brent crude oil price-----	05
Figure 4. Metal prices -----	06
Figure 5. Real GDP growth rate and main contributors -----	06
Figure 6. Private consumption and financing sources -----	07
Figure 7. Indirect indicators of private investments-----	07
Figure 8. General inflation and base inflation-----	08
Figure 9. Price movements by main components -----	08
Figure 10. Consumer, producer and import price indices-----	09
Figure 11. Import price movements-----	09
Figure 12. Producer price movements -----	09
Figure 13. Business registry -----	10
Figure 14. Structure of new enterprises-----	10
Figure 15. Export and import of goods -----	12
Figure 16. Structure of exports by category -----	12
Figure 17. Structure of imports by category -----	13
Figure 18. Remittances -----	14
Figure 19. Structure of foreign direct investments by components -----	14
Table 1. Annual real GDP growth rate -----	04
Table 2. Macroeconomic selected indicators-----	17

## ABBREVIATIONS

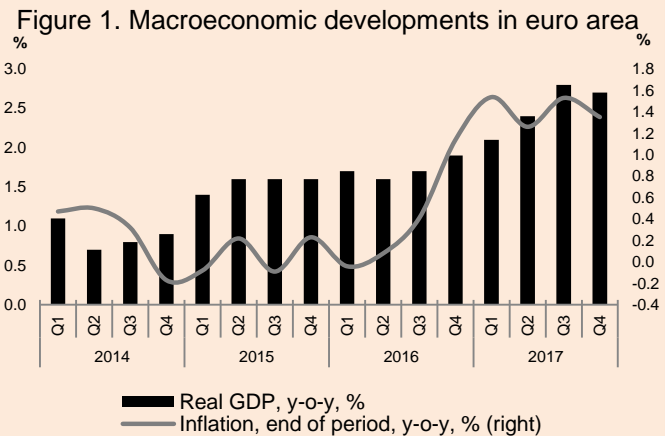
CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CPI	Consumer Price Index
EUR	Euro currency
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPI	Import Price Index
KAS	Kosovo Agency of Statistics
MF	Ministry of Finance of the Republic of Kosovo
REER	Real Effective Exchange Rate
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RWA	Risk-Weighted assets
SEE	Southeastern Europe
WEO	World Economic Outlook

## Euro area and Western Balkans

Based on the preliminary data of Eurostat, in the fourth quarter of 2017 euro area economy increased by around 2.7 percent and 0.6 percent, on annual and quarter basis, respectively. During the whole year of 2017, euro area was characterized with an average increase of GDP of 2.7 percent, while in 2016 the economic increase ranged around the rate of 0.7 percent (figure 1). Unlike the concentration of the economic increase in some of the central countries in the previous years, in 2017 in general and specifically in the fourth quarter, the economic activity increase was more spread among other countries and economic sectors. Euro area economy was characterized with high values of confidence indices, improvement of the labor market indicators and real estate markets, favorable financing conditions supported by monetary stimulating policies of the ECB and an improvement of the external demand as a result of improvement of the global economy prospects. According to the European Central Bank (ECB) projections, in the three upcoming years, euro area is expected to be characterized with a sustainable economic growth, significantly above the potential level. The projection for the GDP growth rate in euro area for 2018 was upwardly revised, reaching 2.3 percent.

Despite the strengthening of the euro area economic activity, general developments of prices indicate weak inflationary pressures during 2017. In the last quarter of 2017, the Harmonized Price Index stood below the ECB target at 1.3 percent (figure 1). Expectations for EUR appreciation against other

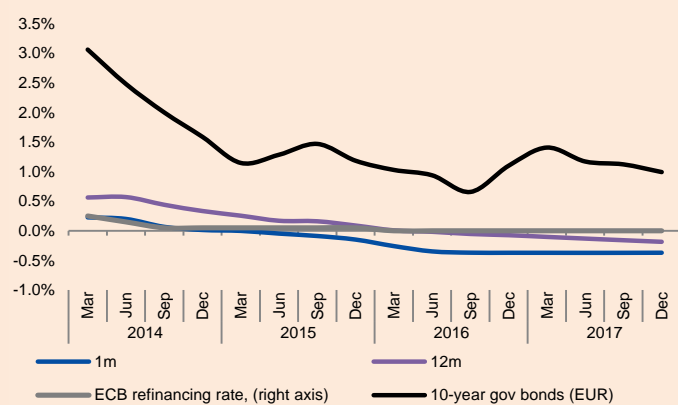
major currencies is expected to hold inflationary pressures at a moderate level.



In October and December 2017, the ECB Supervisory Council decided to keep unchanged the interest rates of main refinancing operations (0.0 percent), the interest rate on credit and deposits facilities, holding at 0.25 percent and -0.40 percent, respectively (figure 2). The ECB is expected to continue to keep unchanged the interest rate on main refinancing operations beyond time frame set by the quantitative easing program or the purchase of assets. As of January 2018 until September 2018, or beyond that if needed, the ECB is expected to spend EUR 30 billion per month to purchase assets as a part of monetary stimulating measures. 1-Month and 12-month Euribor interbank lending rates continued to remain at a negative territory around the value of -0.37 and -0.19 percent, respectively (figure 2), and are anticipated to stand at a negative trend also during 2018 and 2019. Whereas, the yield of the 10-year government bonds, in the euro area, has marked a slight decline in the fourth quarter of 2017, falling at around the level of 1 percent. The ECB projections

show a gradual increase of the ten-year yield at the level of 1.3 percent and 1.6 percent for the years 2018 and 2019, respectively.

Figure 2. Main interest rates in euro area



Source: ECB (2018)

Lending activity has marked an improvement in the fourth quarter of 2017, being in line with economic activities developments. Total loans have marked an annual increase of 5.1 percent, compared to the growth of 3.3 percent marked in 2016. The main contributor to credit growth was marked by the increase of household loans (3.3 percent annual increase), while the increase of loans to enterprises remained unchanged from the previous year (around 1.9 percent). With the same credit and economic activity movements were characterized also deposits of the banking system. In the fourth quarter of 2017, deposits increased by 3.9 percent, primarily as a result of the increase of enterprise savings.

The economic activity of the Western Balkans continued to strengthen in the third quarter of 2017, thus being in line with the euro area developments (table 1). The lowest increase was marked by Macedonia with around 0.2 percent, after a six-month negative average increase. These economic

developments in Macedonia came as a result of the prolonged political stalemate, which hampered the realization of the government expenditures. Whereas, Bosnia and Herzegovina has marked a significant improvement in the third quarter of 2017 (around 2.3 percent) compared to the first part of the year (-0.3 percent).

In December 2017, with the exception of Kosovo, all other region countries were characterized with an increase of the inflation rate on annual terms, which is mainly attributed to the increased trend of the prices of main commodities in international markets. Serbia was characterized with the highest inflation rate of 3.0 percent, followed by Montenegro with an average of 2.9 percent. Whereas, in Macedonia, the inflation was increased significantly compared to September, thus reaching 2.4 percent in December, which mainly reflects positive developments of GDP in the fourth quarter. In Albania and in Bosnia and Herzegovina, inflation reached 1.8 percent and 1.7 percent, respectively.

Table 1. Annual real GDP growth rate

Description	2015	2016	2017 Q1	2017 Q2	2017T3
Bosnia and Herzegovina	3.7	3.0	0.3	-0.6	2.3
Kosovo	4.1	4.1	2.7	4.4	4.4
Montenegro	3.4	2.9	3.1	5.2	4.7
Macedonia	3.8	2.9	0.0	-1.3	0.2
Serbia	0.8	2.8	1.1	1.4	2.1
Albania	2.8	3.4	4.0	4.1	3.6

Source: National Statistics Offices of the respective countries

As regards to the developments of the banking sector, the increasing trend of loans and deposits stood at different rates among the region countries. In the fourth quarter of 2017, Albania and Serbia have marked significant lower increased rates of loans and

deposits compared to the same quarter of 2016. Conversely, three other countries, (Macedonia, Montenegro and Bosnia and Herzegovina) have marked improvements regarding credit activity and the growth of deposits.

During the fourth quarter of 2017, EUR appreciated by around 0.33 percent compared to the major currencies of the Kosovo's trading partners. This appreciation of EUR currency was impacted by American dollar (9.14 percent), Swiss franc (7.65 percent), British pound (2.09 percent) and Croatian kuna (0.14 percent). EUR marked an appreciation also against the Albanian lek and Serbian dinar with 1.94 percent and 3.66 percent, respectively.

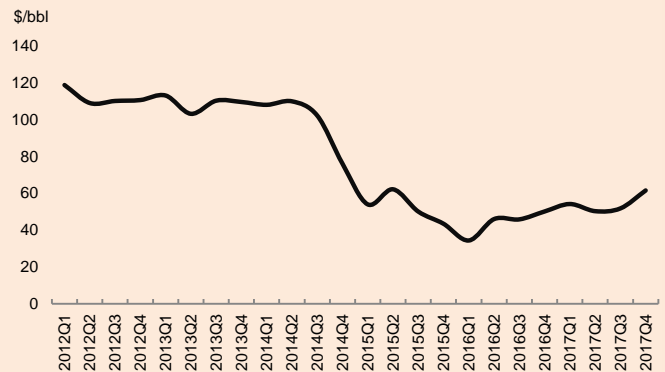
**Main commodity prices in international markets**

During the fourth quarter of 2017, prices of main commodities in international markets, with the exception of food, have continued their increasing trend with which were characterized during the whole year. The price of Brent crude oil, in the fourth quarter of 2017, reached the value of U.S. dollar 61 per barrel, thus marking an annual increase of 23 percent (figure 3). Prices recovered moderately on declining inventories due to strong global demand, improved compliance among OPEC and non-OPEC producers with the agreement, and stabilizing U.S. shale oil production.

According to the World Bank projections, energy prices are forecast to mark an increase of 4 percent in 2018, representing a lower increased rate than in 2017. Brent crude oil prices are anticipated to reach U.S. dollar 56/bbl, while in 2017 averaged U.S. Dollar

53/bbl. However, there are substantial risks to the forecast due to the supply to the global market from politically stressed oil producers which could be volatile. Agreement among OPEC and non-OPEC countries to cut production more deeply could materially tighten markets. Conversely, failure to extend the agreement could exert downward pressure on prices.

Figure 3. Brent crude oil price



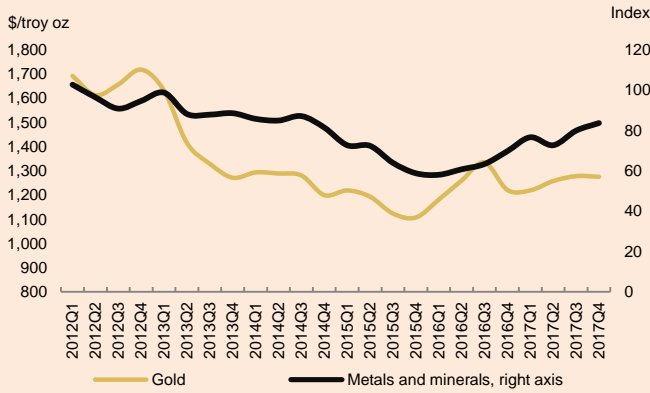
Source: World Bank (2018)

Metals and mineral prices increased by 19 percent in the fourth quarter of 2017 (figure 4), while in the first nine months of the year 2017 these prices had accelerated to around 26 percent. The slight ease of prices in the fourth quarter is a result of the slower-than-anticipated demand in the sectors of infrastructure, manufacturing and real estate in the economy of China. Gold prices rose by 4 percent on annual basis at end-2017, thus reaching an average of U.S. dollar 1275/ounce, mainly as a result of the U.S. Dollar depreciation and the weakening of sustainable demand for investments.

The price increase of metals is seen slipping slightly in 2018 based on the projections of the World Bank. A 10 percent fall in iron ore prices is anticipated to be

offset by increase in all base metals prices, particularly due to mine supply tightness in lead, nickel and zinc.

Figure 4. Metals prices



Source: World Bank (2018)

Upside risks to price forecasts include stronger-than-projected global demand and production shortages. Gold prices are projected to drop 1 percent on expected higher U.S. interest rates in 2018.

In the last quarter of 2017, food prices further receded modestly following a similar path since March, hence marking an annual decline of 1.3 percent. However, food prices are forecast to stabilize in 2018, with a slight rise trend as a consequence of the projected tightness supply.

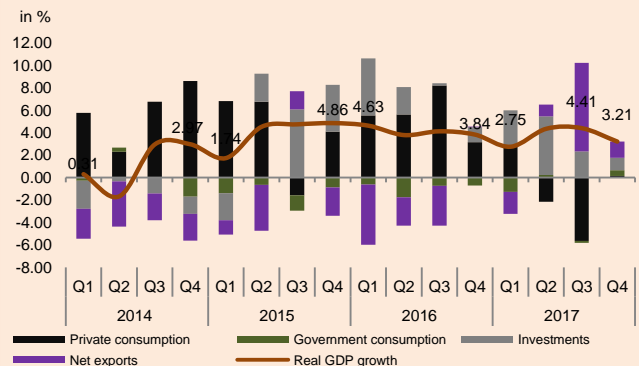
## Kosovo's Economy

### Real Sector

According to the recent Kosovo Agency of Statistics (KAS) data, real GDP for the fourth quarter of 2017 marked an annual growth of 3.2 percent. The main contribution to this growth was given by net exports (goods and services) and total investments, with around 1.46 percentage points and 1.10 percentage

points, respectively (figure 5). The positive contribution to net exports growth in this quarter compared to the same quarter of 2016 is a result of the growth of exports, especially the growth of services export.

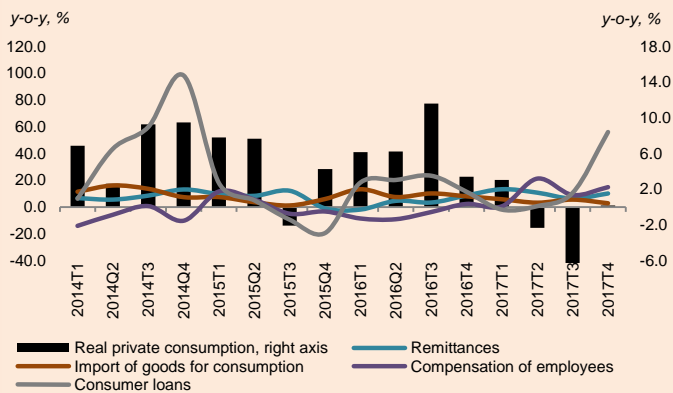
Figure 5. Real GDP growth rate and main contributors



Source: KAS (2017) and CBK calculations

Whereas, private consumption had a slight positive contribution to the real GDP growth in the fourth quarter of 2017, with around 0.14 percentage points, while this contribution in the same period of the previous year fluctuated around the value of 3.15 percent. This positive contribution was supported by positive developments which were recorded in the main financing sources of private consumption. In the fourth quarter of 2017, remittances, compensation of employees and the new loans for consumption have accelerated their growth trend, marking an annual growth of 10 percent, 15 percent and 60 percent, respectively. Meanwhile, the lower value of contribution of private consumption in the fourth quarter of 2017 compared to the same quarter of 2016 was mainly attributable to the slower increase of import of consumption goods (figure 6).

Figure 6. Private consumption and financing sources



Source: KAS (2017) and CBK calculations

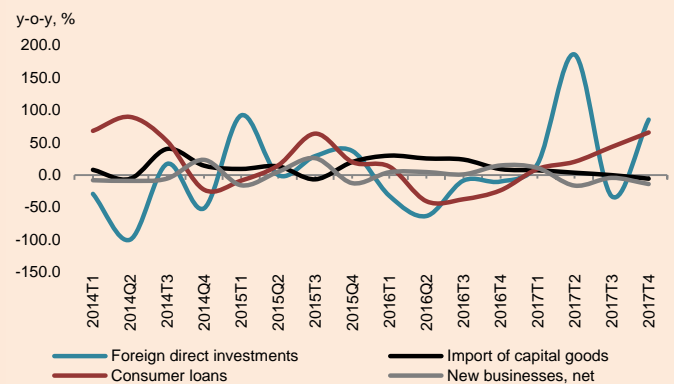
The positive contribution of total investments is attributable mainly to private investments, taking into account that public investments in the fourth quarter of 2017 marked an annual decline of 9 percent.

Indirect indicators of private investments provide different signals in the fourth quarter of 2017. Foreign direct investments and new investment loans have significantly increased in the last quarter, with around 85.4 percent and 65.7 percent, respectively, compared to the previous quarter (figure 7). Whereas, the import of capital goods has marked a decline of 5.7 percent. Also, the number of new businesses compared to the closed ones, has marked a decline of 14 percent.

Based on the manufacturing method, the highest contribution to real GDP growth in the fourth quarter of 2017 was marked by processing industry (1.05 percent), wholesale and retail trade, repairing of vehicles and motorbikes (0.95 percentage points) and financial insurance activities (0.97 percentage points). Meanwhile, the category of “other services” had the

highest negative contribution (2.2 percentage points) to the growth of real GDP.

Figure 7. Indirect indicators of private investments



Source: KAS (2017) and CBK calculations

During the whole year of 2017, Kosovo’s economy has marked an average real growth of around 3.7 percent, thus standing below the average increase of 2016 (around 4.1 percent).

According to the CBK projections, economic activity in 2018 will mark a slight improvement compared to the current data of 2017, fluctuating at around 4.2 and 4.4 percent. This slight recovery is attributable to the strengthened fiscal stimulation during 2018, especially generated by government capital expenditures.

Remittances and lending activity, also in 2018, will continue to remain sustainable sources for financing the economic activity. The external environment will be favorable for the trade balance, as a result of the slower increase of main commodity prices in international markets and an upward revision of the economic activity in Kosovo’s trading partners.

In line with developments in the economic activity, in the fourth quarter of 2017, the employment rate

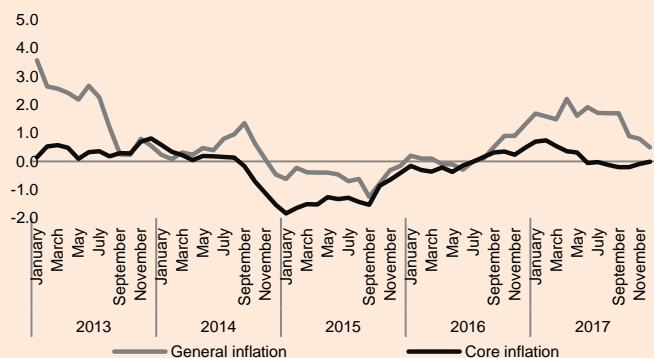


increased slightly at 29.8 percent compared to 29.5 percent in the same period of the previous year. However, the employment rate fluctuated around the value of 30.6 percent in the fourth quarter of 2017, while in the last quarter of 2016 this rate fell to around 28.7 percent. The increased rate of employment did not reflect on the reduction of the unemployment rate due to the increased rate of new labor force with around 42.9 percent at the end of 2017 compared to the rate of 41.3 percent marked at year-end of 2016. The trend of the main labor indicators marked during the fourth quarter are similar to the developments recorded in the whole year of 2017.

### Prices

As a result of the economic activity growth in the country, the general price level in Kosovo, expressed through the consumer price index, was characterized with an average increase of 1.5 percent in 2017. The first half of the year was characterized with a higher increase of prices, while in the second half, especially in the last quarter, the rate of price increase was lower, falling to 0.7 percent (figure 8).

Figure 8. General and core inflation, annual growth in percent

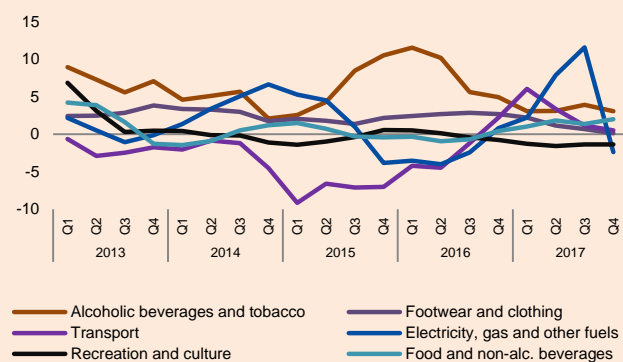


Source: KAS and CBK calculations (2018)

Regarding the CPI components, in Q4 2017, with an increase were characterized prices of alcoholic beverages and tobacco (3.1 percent), followed by food and non-alcoholic beverages (2.0 percent), prices of restaurants and hotels (1.3 percent), etc. Conversely, a price decline was marked by energy prices, gas and other fuels (2.4 percent), mainly due to the modification of energy tariffs in April 2017. A decline was marked also in prices of recreation and culture (1.4 percent) and communication means (1.0 percent) (figure 9).

As depicted in figure 8, core inflation excluding food, energy, alcoholic beverages and tobacco, was more stable than the general inflation fluctuations during 2017, whereas in Q4 2017 core inflation was negative ranging at the level of -0.1 percent.

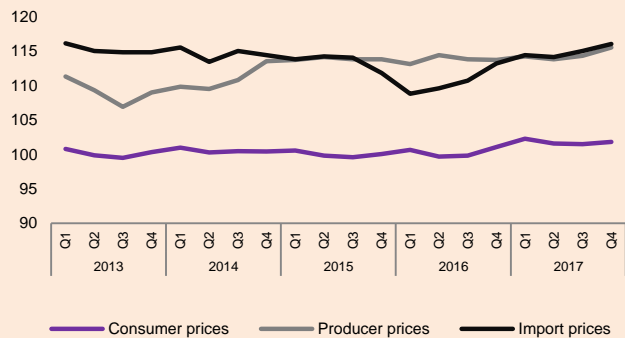
Figure 9. Price movements by main components, annual change in percent



Source: KAS (2018)

This lower level of core inflation is due to the very high share of products in the Kosovar consumer basket which are characterized with seasonal price fluctuations (food, energy, alcoholic beverages and tobacco) but also to the more significant movements of these prices.

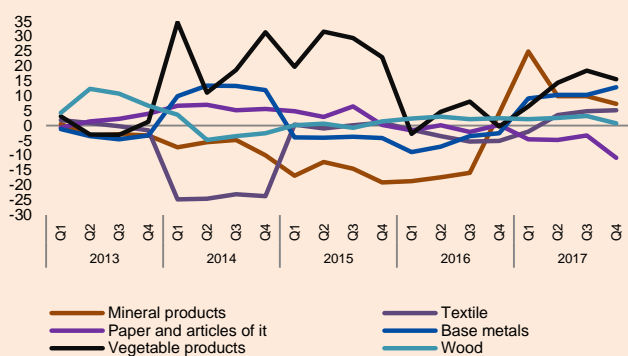
Figure 10. Consumer, producer and import price indices



Source: KAS (2018)

The dynamic which has followed the price level in Kosovo in 2017, and specifically in the fourth quarter, is not attributable only to the growth of economic activity but also to the price increase in international markets, due to high dependence of Kosovo's economy on imports. Import price index in the second quarter of 2017 marked an increase of 2.5 percent (figure 10).

Figure 11. Price movements of import prices, annual change in percent

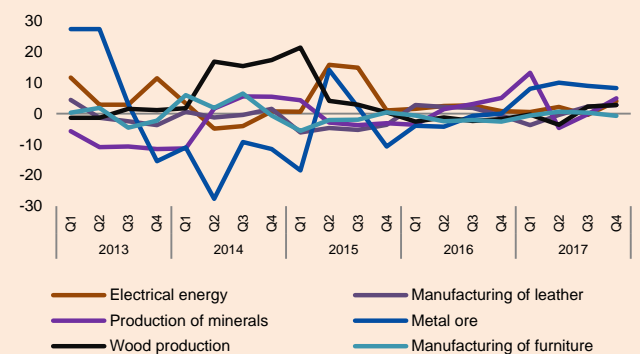


Source: KAS (2018)

Prices of vegetable products, base metals and mineral products, which convey the main categories within import price indices, marked a higher increase (15.6, 12.9 and 7.4 percent, respectively), while prices of paper and articles thereof and prices of leather

marked a more significant price decline (10.8 percent and 4.0 percent) (figure 11).

Figure 12. Producer price movements, annual change in percent



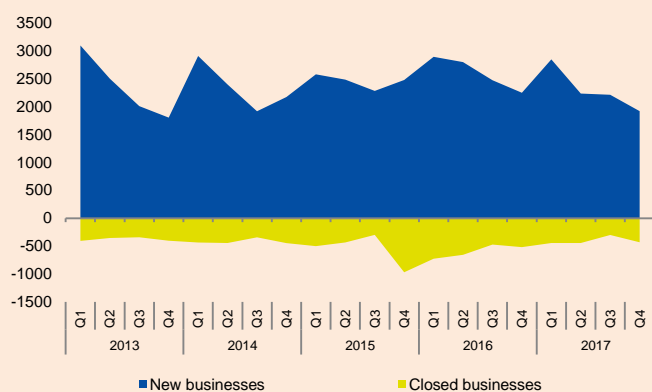
Source: KAS (2018)

In the fourth quarter of 2017, producer price index was characterized with an increase of 1.6 percent. During this period, with an increase of prices were characterized the extraction of metal ore, production of furniture, manufacturing of leather, etc. Whereas, with a price decline were characterized mainly beverages production, manufacturing of furniture, etc. (figure 12).

### Business registry

In 2017 it was marked a lower number of registered and closed enterprises as well. With a similar trend was characterized also the last quarter of 2017, where were registered 1,921 new enterprises or 330 fewer enterprises than in the corresponding quarter of 2016, whereas 432 enterprises were closed or 87 fewer enterprises (figure 13).

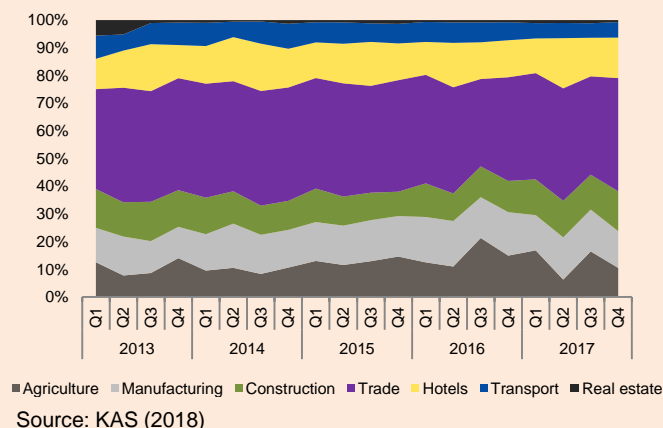
Figure 13. Business registry, non-commulative



Source: KAS (2018)

Regarding the structure of new enterprises, the trend continued to relatively be the same as in the previous quarters. The largest number of new registered enterprises continued to be concentrated in trade sector with 511 new enterprises, followed by hotels sector with 183 enterprises, construction with 180 enterprises, etc. (figure 14).

Figure 14. Structure of new enterprises



Source: KAS (2018)

Compared to the same period of 2016, in most of the sectors it was marked a lower number of registered enterprises. In the agriculture sector were registered 103 fewer enterprises, in manufacturing sector 80 fewer enterprises, in trade sector 76 fewer enterprises were registered, etc. The main sectors which marked

the largest number of registered enterprises were health, information and communication sectors, where 11 more enterprises were registered compared to the fourth quarter of 2016.

### Fiscal Sector

During 2017, fiscal sector was characterized with a better performance of budget revenues and an increase of budget expenditures. Besides the consistent increase of revenues, Kosovo also has the lowest level of burden of the economy with taxes compared to the region countries. Budgetary revenues to GDP ratio in 2017 was 26.1 percent compared to the average of the region of 37.0 percent. At the same time, budget expenditures to GDP ratio was 27.0 percent in Kosovo compared to the average of the region which reached 39.5 percent.

Budget revenues<sup>1</sup>, in 2017, amounted to EUR 1.68 billion or 5.3 percent higher compared to the previous year. The increase of budget revenues was a result of the economic activity growth but also due to the reforms taken by revenues agencies which aim at narrowing the taxes gap. As regarding the type of taxes, it was noted a higher increase of indirect taxes revenues which are interlinked with import movements which has marked a considerable increase in 2017. Indirect income amounted to EUR 1.3 billion (an increase of 7.2 percent). Also, direct taxes revenues were characterized with an increase, which are received from personal income and property income taxes. Tax revenues marked an increase of 2.5 percent and reached the value of euro 238.0 million.

<sup>1</sup> Within the primary income were not included the revenues from borrowings, income from privatization, receipts of donor defined grants and receipts from deposits in trust.

Non-tax revenues, which mainly consist of the revenues from budgetary organizations, marked an increase of 6.0 percent amounting to EUR 185.8 million.

At the same time, budget expenditures<sup>2</sup> reached a value of EUR 1.74 billion, representing an annual increase of around 5.0 percent. In 2017 all categories of budget expenditures were characterized with an increase. Government expenditures on wages and salaries marked an increase of 1.2 percent and reached a value of EUR 550.0 million. Subsidies and transfers marked an increase of 6.7 percent and reached the value of EUR 506.4 million. Capital investments, which represent around 26.9 percent of total budget expenditures, marked an increase of 5.4 percent and reached the value of EUR 467.5 million. Government expenditures on goods and services (including also the municipal utilities) marked an increase of 11.4 percent and reached a value of EUR 226.0 million.

Taking into account this increase which is almost the same for revenues and expenditures, Kosovo's budget recorded a low budget deficit of EUR 59.0 million compared to the deficit of EUR 61.1 million registered in 2016, whereas as a percentage to GDP, primary deficit in 2017 was 0.9 percent compared to 1.0 percent as it was in 2016.

Public debt, in 2017, reached EUR 996.4 million which is for 16.8 percent higher than the public debt marked in 2016. The growth dynamic of public debt characterized all the quarters of 2017, while only in the fourth quarter of 2017 public debt marked an

increase of EUR 31.1 million, where the public domestic debt increased by EUR 34.9 million whereas the public external debt decreased by EUR 3.8 million.

The increase of public debt in Kosovo is attributed to the growth of domestic debt of 19.9 percent (which reached EUR 574.3 million), while the external debt increased significantly with 12.9 percent, reaching EUR 422.2 million. Hence, the majority of the public debt (57.6 percent) is comprised of domestic debt, which primarily consists of Kosovo's Government debt to commercial banks (42 percent), public institutions (35 percent), pension funds (18 percent), etc. The remainder of the public debt (42.4 percent) consists of the external debt, which mainly is comprised of the debt to International Monetary Fund with 38.1 percent, International Bank for Reconstruction and Developments with 37.5 percent, German Agency for Reconstruction with 13.0 percent, etc.

As a percentage to GDP, public debt reached 16.6 percent from 14.6 percent as it was in September 2016. Despite the increase marked, this level is still far from the threshold of 40 percent set by the law. Moreover, this level of the public debt ranks Kosovo as the country with the lowest level of public debt compared to the region countries, which according to the IMF, their public debt averages 59.1 percent.

## External Sector

During 2017, the external sector was characterized with positive developments in the current and financial account as well. Current account deficit to GDP ratio declined to 6.4 percent from 7.9 percent as

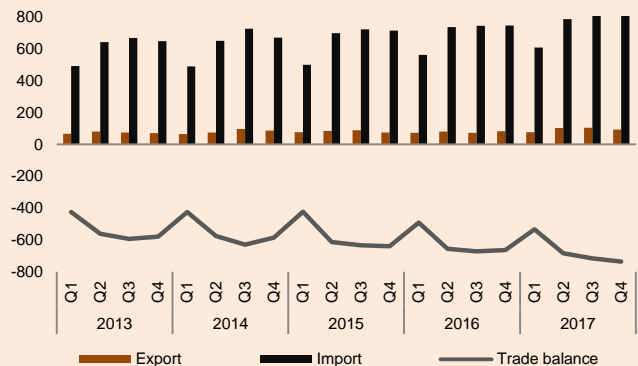
<sup>2</sup> Within budget expenditures are not included debt payments, membership payments at International Financial Organizations (IFO), and returns from deposit funds.

it was in 2016, while the balance of the financial account has reached 5.1 percent of the GDP from 3.3 percent as it was in 2016.

Current account deficit in 2017 amounted to EUR 413.2 million, decreasing by 14.2 percent compared to the previous year. Only in the fourth quarter of 2017, the current account deficit amounted to EUR 232.7 million, which is for 3.4 percent lower compared to the fourth quarter of 2016. The improvement of the current account deficit is attributable to the increase of the surplus of the services balance and of the secondary income account, while the deficit in the goods trade has marked an increase.

The deficit in goods account reached EUR 2.7 billion in 2017, representing an annual increase of 7.6 percent. The increase of prices, especially metals prices, but also the increase of external demand, has had an impact on accelerating the increase of goods export.

Figure 15. Export and import of goods, in millions of EUR



Source: KAS (2018)

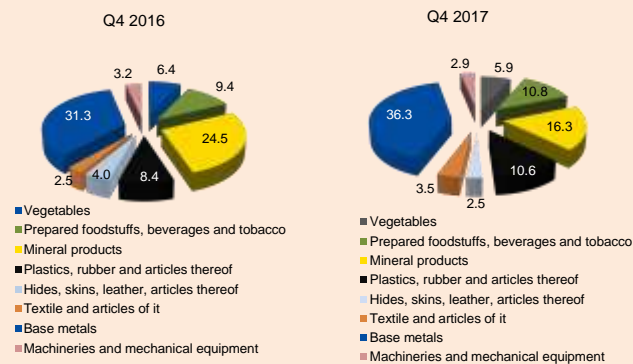
In 2017, export of goods amounted to EUR 378.0 million marking an increase of 22.1 percent compared to the previous year, representing the highest increase in the recent years. As a result of the

increase of goods export, the exports to GDP ratio reached 6.0 percent from 5.1 percent as it was in the previous year.

The increasing dynamic has continued also in the fourth quarter of 2017, albeit with a slower trend. Export of goods reached the value of EUR 93.6 million in the fourth quarter of 2017, corresponding with an annual increase of 11.8 percent (figure 15).<sup>3</sup>

The increase of the value of export of goods during this quarter is mainly attributed to the increase of export of base metals, plastic and rubber, textile, beverages and tobacco, etc. Conversely, with an increase were characterized export of mineral products, leather, shoes, etc. (figure 16).

Figure 16. Structure of exports by category, in percent



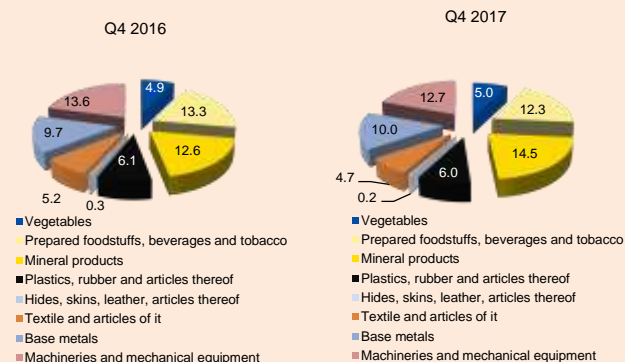
Source: KAS (2018)

As a result of the increase of domestic demand, with a considerable increase was also characterized the import of goods. In 2017, the import value of goods reached EUR 3.0 billion (around 47.3 percent of GDP), which is for 9.2 percent higher compared to the previous year. The increasing dynamic of import of goods accelerated in the second half of 2017, where

<sup>3</sup> The source of data for import and export of goods in Kosovo is Kosovo Agency of Statistics.

only in the fourth quarter of 2017, the value of total goods imported reached EUR 830.1 million and marked an annual growth of 11.0 percent. The growth of import was mainly a result of the increase of mineral products, which accounts for import of oil and its derivatives, whose prices had marked an increase in international markets. With an increase was characterized also the import of vehicles, base metals, vegetables, etc. (figure 17). Conversely, import of shoes, leather and articles thereof, etc., marked a decline. In the fourth quarter of 2017, the coverage rate of imports by exports was the same as in the fourth quarter of 2016 (11.3 percent).

Figure 17. Structure of imports by category, in percent



Source: KAS (2018)

The balance in trade of services marked a value of EUR 77.1 million in the fourth quarter of 2017, representing an increase of 47.5 percent compared to the same period of 2016. The value of total exported services marked an annual increase of 21.4 percent, reaching EUR 202.2 million, while the value of imported services marked an increase of 9.4 percent, reaching a value of EUR 125.1 million.

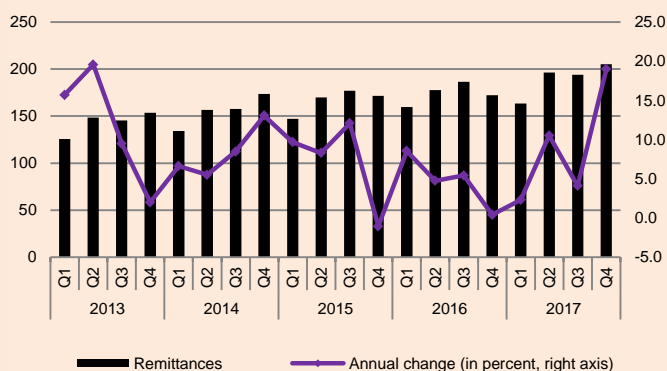
Within the export of services, travel services comprise the main category (60.9 percent of total export of services) marking the highest increase, while construction services marked a decline. As regards to the import of services, business and travel services were characterized with an increase, while computer services and maintenance and repair services marked a decline.

The primary income account was characterized with a balance of EUR 35.4 million in the fourth quarter of 2017, which is for 6.5 percent lower compared to the fourth quarter of 2016. The positive balance of income from the compensation of employees<sup>4</sup> marked an increase of 15.9 percent, while the negative balance of income realized from investments marked an increase of 90.7 percent. At the same time, the balance of secondary income marked an increase of 12.7 percent, which is attributable to the higher level of remittances. Remittances received in Kosovo, which at the same time represent the largest category within the secondary income account, in 2017 reached the value of EUR 759.2 million, representing an annual increase of 9.9 percent.

All the quarters of 2017 were characterized with a significant increase of remittances, while only in the fourth quarter of 2017, remittances received in Kosovo amounted to EUR 205.2 million and marked an annual increase of 19.0 percent (figure 18).

<sup>4</sup> Compensation of employees includes wages, salaries and other benefits received by resident workers abroad. In this context, are included seasonal employees or other short-term contracted employees (less than one year) and custom employees whose interest economic center is in their economy.

Figure 18. Remittances, in millions of EUR



Source: CBK (2018)

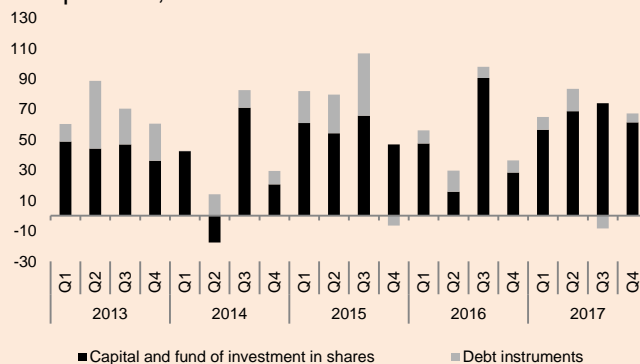
The growth of remittances, to some extent, may be attributable to the increase of the economic activity in euro area and Switzerland, since remittances received in Kosovo come mainly from Germany and Switzerland. Remittances received from these two countries have a share of 38.0 percent and 22.2 percent, respectively, to total remittances. A considerable amount of remittances was received also from USA, namely 6.8 percent of total remittances received in Kosovo.

In addition the financial account was improved significantly in 2017, implying more investments of nonresidents in Kosovo's economy from. Financial account in 2017 has recorded a balance of EUR -330.0 million, which is for 65.8 percent higher than in the previous year. Only in the fourth quarter of 2017, financial account reached the level of EUR -116.4 million compared to the balance of EUR -101.6 million in the fourth quarter of 2016. Liabilities amounted to EUR 134.6 million, which significantly is higher compared to the amount of EUR 48.4 million marked in the fourth quarter of 2016, while assets reached

EUR 18.3 million compared to the value of EUR -53.3 million reached in the fourth quarter of 2016.

Within liabilities, the main category was comprised by Foreign Direct Investments (FDI), which in 2017 reached the value of EUR 287.8 million marking an annual growth of 30.8 percent. Only in the fourth quarter of 2017, FDI in Kosovo amounted to EUR 73.7 million, representing an annual increase of 103.0 percent. The increase of FDI during this period reflects, besides the higher incoming value of FDI, also the lower distribution rate of the dividend compared to 2016. Within the structure of FDI, with an increase was characterized the capital and fund of investment in shares, while investments in debt instruments marked a decline (figure 19).

Figure 19. Structure of foreign direct investments by components, in millions of EUR



Source: CBK (2018)

The capital and investments fund in shares, which comprises around 88.6 percent of total FDI, reached the value of EUR 65.3 million marking an increase of 129.5 percent. FDI in the form of debt instruments reached a value of EUR 8.4 million, representing a growth of 7.0 percent.

A higher increase of FDI was marked in the sector of financial services and real estate sectors (62.7 percent, namely 9.5 percent more compared to the same period of the previous year), while in the sectors of industry and other services it was marked a slight decline of FDI compared to the same period of 2016. Regarding the origin of FDI, Germany represents the country from where came the majority of FDI in the fourth quarter of 2017 (EUR 17.5 million), followed by Switzerland with EUR 14.8 million, United Kingdom with 12.7 million, etc. Conversely, FDI from Turkey and the Netherlands declined for EUR 2.9 million and EUR 3.1 million, respectively.



**Suggested citation for this publication:**

CBK (2018): Quarterly Economic Assessment No. 21, Q4 2017, Central Bank of the Republic of Kosovo, Prishtinë

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## Macroeconomic selected indicators

Description	2016	2017
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	6,070.1	6,282.2
Consumer prices (annual average)	0.3%	1.5%
Consumer prices (end of period)	1.3%	0.5%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	1,596.5	1,681.5
Budget Expenditures (in millions of EUR)	1,657.6	1,740.5
Primary balance (in millions of EUR)	-61.1	-59.0
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,386.9	5,917.1
of which : Banks	3,637.1	3,877.5
Loans	2,230.0	2,485.3
Deposits	2,897.8	3,092.5
Interest Rates on Loans, end of period	7.2%	6.8%
Interest Rates on Loans, end of period	1.2%	1.3%
Interest rate gap	6.0%	5.5%
External sector,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-467.2	-425.1
of which: remittances	691.0	759.2
Financial account	-199.1	-330.0
Foreign Direct Investments in Kosovo	220.0	287.8
Portfolio investments, net	343.6	14.7
Other investments, net	-264.0	-164.7
International Investment Position (PNI), net	-81.0	-120.1
Assets	4,547.7	4,824.4
Liabilities	4,628.7	4,944.4
External debt, total	2,015.1	2,091.6
Private external debt	1,570.5	1,598.3
Public external debt	444.6	493.3

Source:

1/ KAS (2017).

2/ MF (2017).

3/ CBK (2017).

