



Euro area's economy, based on the preliminary data, in the second quarter of 2018, was characterized with a slowdown economic increase (with around 2.1 percent), while the inflation rate moved closely to the ECB target (1.7 percent). Despite the slowdown increase of the demand in euro area, the economic activity in Western Balkan countries was characterized with an increase (3.2 percent in the first quarter of 2018).

During the second quarter of 2018, main commodity prices in international markets marked an increase compared to the same quarter of 2017, primarily as a result of geopolitical tensions which had an impact on the change of supply and demand dynamics in the market.

According to the recent Kosovo Agency of Statistics (KAS) data, real GDP growth rate marked an annual increase of 3.5 percent, in the first quarter of 2018, which basically was supported by the increase of investments and consumption. Since KAS official data for the second quarter of 2018 have not yet been published, primarily relying on other indicators which have a higher frequency of publication, the economic growth in the second quarter of 2018 is expected to be higher, mainly as a result of the credit growth, the increase of remittances and the growth of government expenditures.

During the second quarter of 2018, prices of main commodities in international markets have continued their increasing trend with which were characterized also during the previous quarters. As a result, the

price level of consumption in the domestic economy increased by 0.8 percent in the second quarter of 2018, after a slowdown trend marked in the first quarter of 2018. Conversely, core inflation (excluding food, energy, alcoholic beverages and tobacco), in the second quarter of 2018 was lower for 0.3 percentage points compared to the general inflation, standing at 0.5 percent, mainly as a result of the decline of energy prices.

Fiscal sector was characterized with an increase of budget revenues and expenditures with 6.3 and 10.3 percent, respectively. Taking into account higher increase of budget expenditures compared to revenues, Kosovo's budget until June 2018 marked a primary budgetary deficit of EUR 27.1 million (a surplus of EUR 2.8 million marked in the first quarter of 2017). Public debt, in the second quarter of 2018 reached EUR 1.03 billion, which is for 9.2 percent higher than the public debt marked in the second quarter of 2017. The increase of public debt in Kosovo is attributable to domestic debt increase while the external public debt was characterized with a decline.

Until May 2018, the external sector was characterized with a deficit decline of current account of 2.2 percent. The improvement of the current account deficit is attributed to the increase of the positive services balance, and of the primary and secondary income account while the deficit in goods marked an increase. Within the balance of payments, remittances were characterized with an increase of 6.5 percent while Foreign Direct Investments (FDI) marked a decline of 34.0 percent.

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## 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

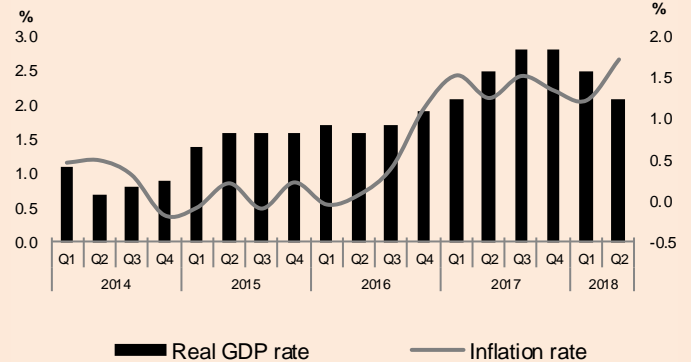
## Euro area and Western Balkans

Based on the Eurostat preliminary data, in the second quarter of 2018, euro area economy marked an annual increase of 2.1 percent, representing a slowdown economic increase compared to the previous quarter and also to the same quarter of the previous year (an increase of 2.5 percent in both quarters) (figure 1). This slowdown of the economic activity partly may be explained by certain temporary factors, including unfavorable weather conditions, strikes in some euro area countries, and due to the strong increasing pace marked in 2017. Expectations on the trend of economic activity in euro area, for the upcoming quarters of 2018 are optimistic, in line with the high index levels of business and individuals' confidence. According to the European Central Bank (ECB) projections, euro area is expected to mark an economic growth of 2.1 percent in 2018, which is expected to slowdown gradually in the upcoming three years (1.7 percent in 2020). The sustainability of the economic growth in euro area may potentially be under risk in the upcoming periods in case of implementing higher trade tariffs, the possibility of widening protective measures and tightening financial conditions.

While the beginning of 2018 was characterized with weak inflationary pressures, the overall developments of prices in euro area have shown an increasing trend in the following months, where the inflation rate reached the ECB target of 2 percent, in June 2018. In the second quarter of 2018, the average of Harmonized Index of Consumer Prices in euro area was 1.7 percent (figure 1), where the main contribution to the annual inflation rate came from services (+0.58 percentage points), followed by energy

(+0.53 percentage points), food, and alcoholic beverages and tobacco (+0.50 percentage points).

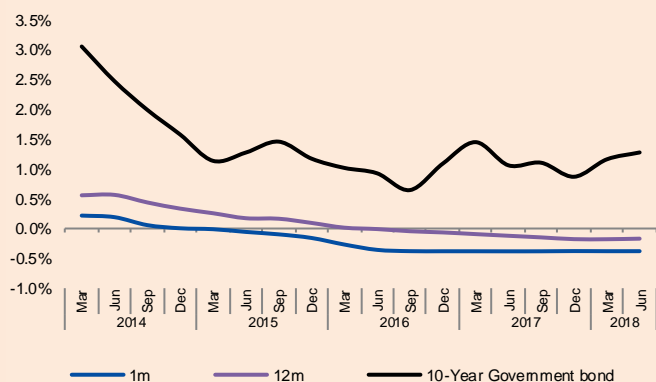
Figure 1. Macroeconomic developments in the euro area



Source: Eurostat (2018)

In June 2018, the Supervisory Committee of the ECB has confirmed that the program for purchasing assets with a value of EUR 30 billion will continue beyond September 2018, depending on the developments in the level of prices, and the purchase of assets will drop down to EUR 15 billion by the end-December 2018. Moreover, the Supervisory Committee has decided to keep unchanged the interest rate on main refinancing operations (0.0 percent), the interest rate on credit and deposits facilities (holding at 0.25 percent and -0.40 percent, respectively). The ECB is expected to continue to keep unchanged the interest rate on main refinancing operations beyond time frame set for the quantitative easing program. 1-Month and 12-month Euribor interbank lending rates continued to remain at a negative territory (-0.37 and -0.18 percent, respectively), while the 10-year government bonds yield, in euro area, marked a slight increase in the second quarter of 2018, reaching 1.29 percent (figure 2).

Figure 2. Main interest rates in euro area



Source: ECB (2018)

Credit activity in euro area has marked a slight improvement in the second quarter of 2018. This increase was a result of the credit expansion towards households and enterprises as well. Loans to households marked an increase of 2.9 percent while loans to enterprises expanded by 2.6 percent. With the same credit and economic activity movements were characterized also deposits of the banking system. In the second quarter of 2018, enterprise deposits increased by 5.4 percent, while household deposits marked an increase of 3.9 percent.

Economic activity in the Western Balkans, in the first quarter of 2018<sup>1</sup> has marked an average increase of 3.2 percent (1.3 percent in the first quarter of 2017). Serbia, Montenegro and Albania marked a higher increase (around 4.5 percent each), followed by Kosovo and Bosnia and Herzegovina with 3.5 percent and 2.0 percent, respectively. Improvement of the economic activity in these countries was mainly driven by good performance of construction, trade and industry sectors. Unlike the economies of other Western Balkan countries, Macedonian economy could not

mark an improvement during the first quarter of 2018, however the overcoming of the long political stalemate is expected to contribute positively in declining uncertainties for the future and consequently the economic activity would increase in 2018.

Table 1. Annual real GDP growth rate

Description	2016	2017	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
Bosnia and Herzegovina	3.0	1.2	-2.7	1.0	6.1	0.5	2.0
Kosovo	4.1	3.7	2.8	4.4	4.4	3.2	3.5
Montenegro	2.9	4.2	2.9	5.0	4.8	3.9	4.5
Macedonia	2.9	0.0	0.0	-1.3	0.2	1.2	0.1
Serbia	2.8	1.9	1.1	1.6	2.3	2.4	4.6
Albania	3.4	3.8	3.9	4.3	3.5	3.6	4.5

Source: National Statistics Offices of the respective countries

In the second quarter of 2018, the average inflation rate reached 1.6 percent in Western Balkans (2.2 percent in the second quarter of 2017). Weaker inflationary pressures were marked in Macedonia (0.3 percent), Kosovo (0.7 percent), Bosnia and Herzegovina (1.2 percent) and Serbia (1.8 percent), whereas in Montenegro and Albania inflation rates were higher compared to other countries and also compared to the second quarter of 2017. In Montenegro, the average inflation rate was 3.7 percent (2.5 percent in the second quarter of 2017), due to the energy price increase and the rise of certain taxes within the regulation of fiscal policies. In Albania, the average inflation rate reached 2.2 percent in the second quarter of 2018 (2.0 percent in the second quarter of 2017). Positive domestic pressures on inflation, during this quarter, were offset by the strong movement of the exchange rate costs.

Regarding developments in the banking sector, the increase of loans and deposits was significant and with emphasized changes among the countries. Until

<sup>1</sup> The data for the second quarter of 2018 have not been published yet.

June 2018, the average increase of loans was 6.7 percent (4.9 percent until June 2017). Countries, which marked higher credit growth, were Montenegro and Kosovo (13.0 percent and 11.3 percent, respectively) while Serbia and Macedonia were characterized with lower increase (3.9 percent and 5.3 percent, respectively). Deposits marked higher growth rates compared to loans increase. Until June 2018, the average increase of deposits was 10.9 percent (7.2 percent until June 2017). In Montenegro, deposits marked the highest increase (15.2 percent), followed by Serbia (11.0 percent), Macedonia (9.8 percent), etc.

In the second quarter of 2018, EUR appreciated against Turkish lira with 32.5 percent, American dollar and Swiss franc with 8.4 percent each and against British pound with 1.8 percent, while against Albanian lek and Serbian dinar EUR depreciated by 5.2 percent and 3.9 percent, respectively.

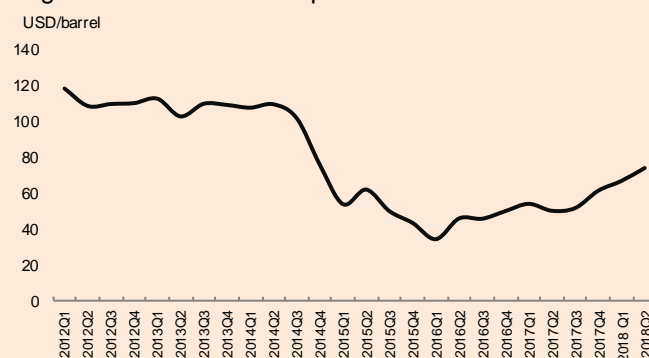
### **Main commodity prices in international markets**

During the second quarter of 2018, main commodity prices in international markets marked an increase compared to the previous quarter and to the second quarter of 2017, as a result of geopolitical tensions which had an impact on the change of supply and demand dynamics in the market.

Prices of crude oil marked an increase of 10.7 percent compared to the previous quarter, whereas compared to the second quarter of 2017 the increase was even higher (47.5 percent). Prices of *Brent oil* marked an average value of \$74.1/bbl in the second quarter of 2018 (\$50.2/bbl in the second quarter of 2017). Price increase of oil was affected by certain factors which have restraint its export: stocks have rapidly declined

as a result of the increase of world demand, agreement among OPEC countries to reduce oil supply, geopolitical tensions in Middle East, etc. Crude oil prices are projected to average \$65/bbl in 2018. The longer-term outlook for oil prices depends heavily on the balance between rising U.S. oil production, and the persistence and depth of OPEC production cuts (figure 3).

Figure 3. Brent crude oil prices

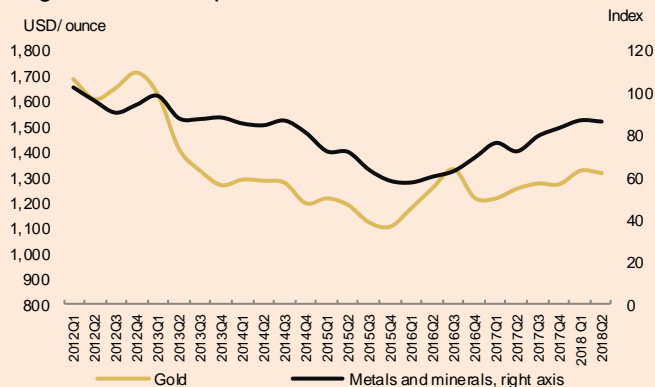


Source: World Bank (2018)

Prices of metals and minerals marked an increase of 19.2 percent compared to the second quarter of 2017, whereas compared to the previous quarter declined by 0.7 percent. The slight ease of prices is a result of the slower-than-anticipated demand in the sectors of infrastructure, manufacturing and real estate in the economy of China. Also for the rest of the year, the increase of metal prices is anticipated to slowdown. Due to the high supply, the price of iron ore is expected to decline by 11 percent, which will be offset by the increase of other main metal prices, especially nickel price. In addition, China's economy will have an important role on global markets, taking into account that it composes 50% of metals consumption on global level. China is expected to reform the process of mining and processing sectors and will be

focused on consumption, which will have an impact on the slowdown increase of metals demand (figure 4).

Figure 4. Metals prices



Source: World Bank (2018)

Gold prices have marked an annual increase of 4.9 percent in second quarter of 2018, reaching the value of USD 1,319.1/ounce. This increase is attributable to the stronger investment demand, while the USD weakened whereas inflation increased. Despite tightening of monetary policy by Federal Reserves, which is expected to reduce investment demand for non-yielding assets such as gold, the increase of base interest rate did not have an impact on gold prices which remained broadly steady. During 2018, gold prices are projected to rise with around 3.3 percent, as a result of the increase of investment demand.

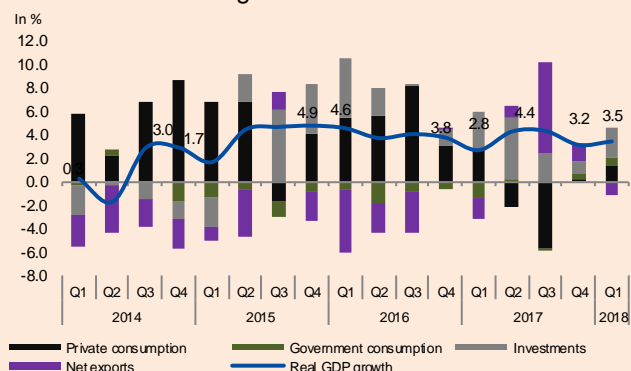
In the second quarter of 2018, food price index marked an increase of 6.5 percent compared to the second quarter of 2017, as a result of the reduction of corn planting and shrinkage of production in Southern America due to weather conditions. In 2018 and later, food prices are expected to stabilize, with a slight rise trend as a consequence of the projected tightness supply.

## Kosovo's Economy

### Real Sector

According to Kosovo Agency of Statistics (KAS) data, real GDP for the first quarter of 2018 marked an annual growth of 3.5 percent. The main contribution to the growth came from investments with 2.5 percentage points, while consumption has given a contribution with 2.1 percentage points. Conversely, net exports, as a result of the significant increase of imports, have had a negative contribution to the GDP growth with 1.1 percentage points (figure 5).

Figure 5. Real GDP growth rate and main contributors to the growth



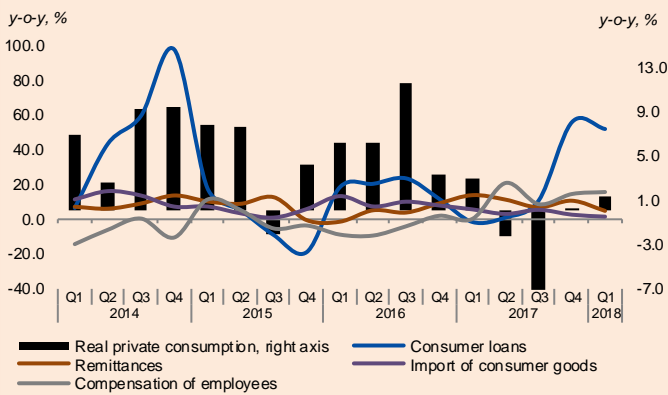
Source: KAS (2018) and CBK calculations

The positive contribution to total investments is attributable primarily to public investments, since government capital expenditures marked an increase of 44.0 percent in the first quarter of 2018. Private consumption has contributed with 1.3 percentage points (2.8 percentage points in the first quarter of 2017). This positive contribution was supported by positive developments, which were recorded in the main financing sources of private consumption. New loans for consumption, compensation of employees and remittances have accelerated their growth trend, marking an annual increase of 52.0, 16.0 and 4.2



percent, respectively, in the first quarter of 2018. Meanwhile, the lower value of the contribution of private consumption, in the first quarter of 2018, compared to the first quarter of 2017, is attributable primarily to the slower increase of imports of consumption goods which increased by 1.7 percent (5.7 percent in the first quarter of 2017) (figure 6). Besides private consumption also public consumption had a positive contribution to real GDP growth (0.8 percentage points), due to increase of current expenditures with 8.6 percent.

Figure 6. Private consumption and financing sources



Source: KAS (2018) and CBK calculations

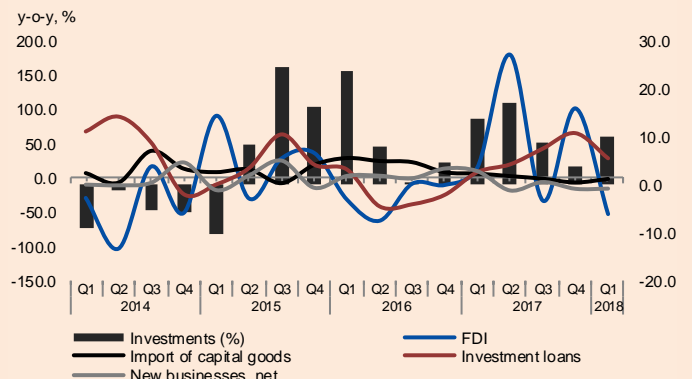
Based on manufacturing method, the highest contribution to real GDP growth in the first quarter of 2018 was marked by trade and construction (0.6 percent each), financial activities and processing industry (0.4 percentage points each), etc. Whereas, extractive industry had a negative contribution (0.4 percentage points) to the real GDP growth rate.

Due to the absence of KAS official data for real GDP, for the second quarter of 2018, based on other more frequent published indicators, the economic growth of this quarter is expected to be higher, primarily as a

result of the improvement of the trend of consumption and investments.

As regards to the trend of consumption, main sources of financing give positive signals (figure 6). New loans for consumption and current expenditures increased by 16.8 percent and 7.2 percent, respectively, in the second quarter of 2018. In addition, remittances and compensation of employees have increased by 9.5 percent and 10.4 percent, respectively, in April-May 2018. Another signal of the increase of consumption is represented by the increase of consumption goods with 5.8 percent marked in the second quarter of 2018. Also indirect indicators of private investments show positive signals in the second quarter of 2018. New loans for investments and import of capital goods have marked an increase of 28.7 percent and 24.8 percent, respectively. Moreover, the number of new businesses compared to the closed ones, has marked a growth of 24.4 percent in the second quarter of 2018. Conversely, net exports deteriorated in the second quarter of 2018, widening their negative balance with around 12.2 percent.

Figure 7. Indirect indicators of private investments



Source: KAS (2018) and CBK calculations

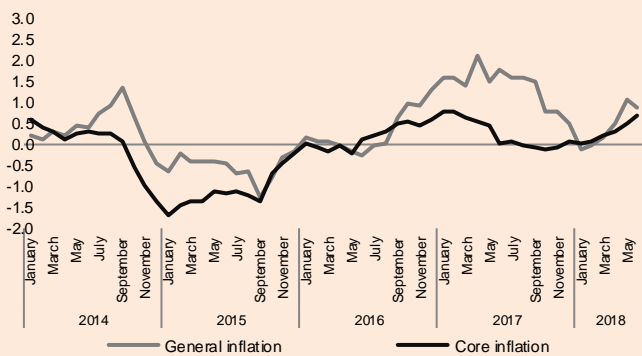


According to the CBK projections, economic activity in 2018 will mark a slight improvement compared to the current data of 2017, fluctuating at around 4.2 and 4.4 percent. This slight improvement is attributable mainly to the strengthened fiscal incentives, credit growth and the increase of remittances in 2018, which are expected to be sustainable sources for financing the economic activity.

### Prices

Consumer Price Index (CPI), which during the first quarter of 2018 remained unchanged, in the second quarter of 2018 began to be characterized with an increase. The average inflation rate in the second quarter of 2018 was 0.8 percent (figure 8).

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

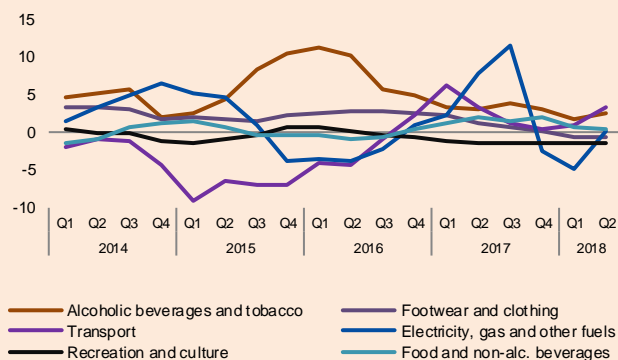


Source: KAS and CBK calculations (2018)

Regarding the CPI components, in the second quarter of 2018, with an increase were characterized prices of transport (3.3 percent), followed by prices of alcoholic beverages and tobacco (2.4 percent), prices of restaurants and hotels (1.4 percent), prices of foodstuff and non-alcoholic beverages (0.5 percent), etc. On the other hand, a decline of prices were marked by recreation and culture (1.5 percent), communication means (1.2 percent), footwear and

clothing (0.6 percent), prices of electricity, gas and other fuels (0.6 percent), etc. (figure 9).

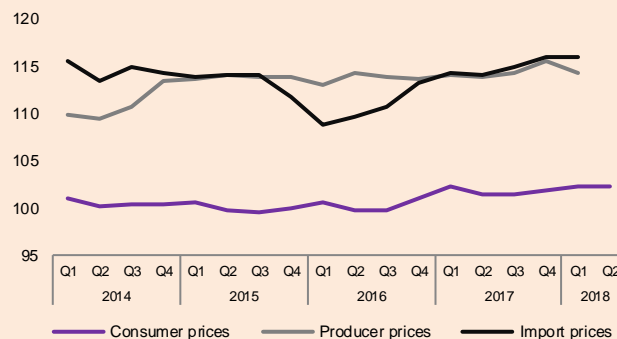
Figure 9. Price movements by main components, annual change in percent



Source: KAS (2018)

Since the Kosovar consumer basket is characterized with a very high share of products with seasonal fluctuations of prices (food, energy, alcoholic beverages and tobacco), then also the core inflation which excludes these components, is more stable (figure 9). A similar trend was noted in the second quarter of 2018 where the core inflation of 0.5 percent was for 0.3 percentage points lower than the general inflation.

Figure 10. Consumer, producer and import price indices

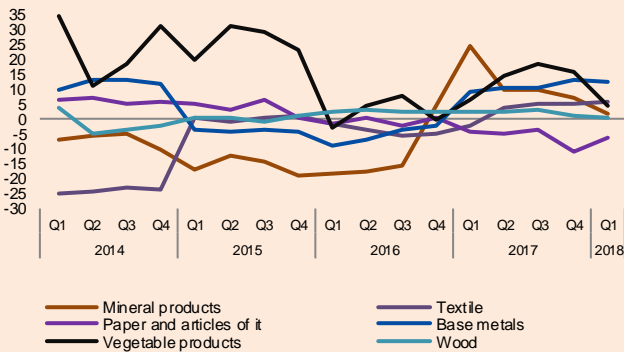


Source: KAS (2018)

As a consequence of the high dependence of Kosovo's economy on imports, the dynamic of the prices

movements in Kosovo is highly affected by the fluctuations of import prices. Import price index in the first quarter of 2018 marked an increase of 1.4 percent (figure 10).

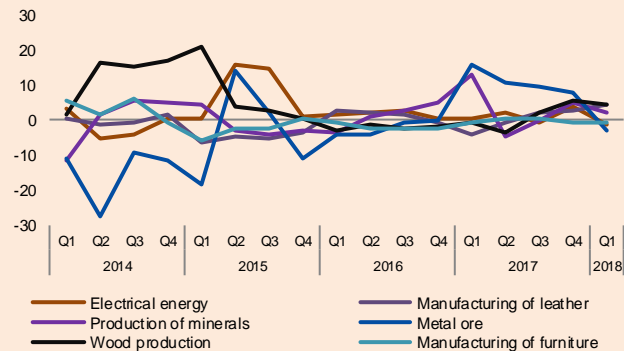
Figure 11. Import price movements, annual change in percent



Source: KAS (2018)

Prices of base metals, textile and vegetable products, which represent the main category of import price index, marked the highest increase (12.3, 6.1 percent, and 4.8 percent, respectively), while prices of hides and prices of paper and articles there of marked the highest price decline (10.5 percent and 6.2 percent, respectively) (figure 11).

Figure 12. Producer price movements, annual change in percent



Source: KAS (2018)

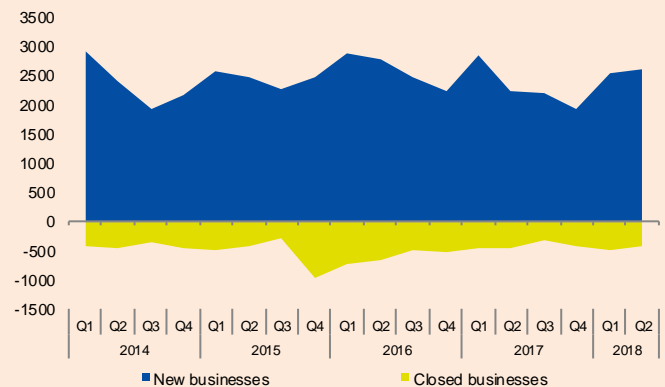
In the first quarter of 2018, producer price index was characterized with an annual increase of 0.2 percent.

In this period, with an increase of prices were characterized manufacturing of electrical equipment, manufacturing of wood, manufacturing of metals (14.8 percent, 4.7 percent, and 2.5 percent, respectively), while with price decline were characterized the extraction of iron ore, electricity, manufacturing of furniture (2.8 percent, 1.4 percent, and 0.5 percent, respectively) (figure 12).

### Business registry

An important indicator of developments in the real sector is also the number of new registered businesses. Unlike in 2017 and in the first quarter of 2018, when the number of new registered enterprises was lower, in the second quarter of 2018 was marked an increasing trend.

Figure 13. Business registry, non-commulative



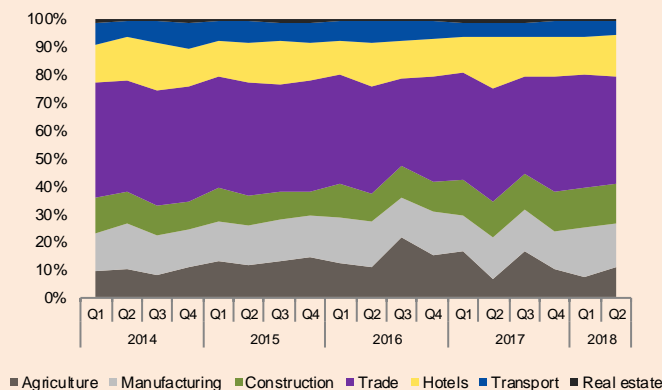
Source: KAS (2018)

In the second quarter of 2018 were registered 2,636 enterprises or 399 enterprises more compared to the second quarter of 2017. Moreover, in the second quarter of 2018, 407 enterprises were closed or 38

enterprises more compared to the second quarter of 2017 (figure 13).

A more preferable economic activity continued to be the trade sector where 723 new enterprises were registered or 16.1 percent more compared to the second quarter of 2017, while it is encouraging the increased number of enterprises in the agriculture sector and in the manufacturing sector. In the agriculture sector were registered 198 new enterprises marking a double increase compared to the second quarter of 2017, while in the manufacturing sector were registered 299 new enterprises or 27.8 percent more compared to the second quarter of 2017. A considerable increased number of new registered enterprises was marked also in the construction sector with 260 enterprises or 28.7 percent more compared to the second quarter of 2017. (figure 14).

Figure 14. Structure of new enterprises



Source: KAS (2018)

## Fiscal Sector

Until June 2018, fiscal sector was characterized with a better performance of budget revenues and an increase of budget expenditures. The increase of

expenditures was higher than the increase of revenues and consequently Kosovo's budget recorded a primary budget deficit, which amounted to EUR 27.1 million (a surplus of EUR 2.8 million was marked in the first half of 2017).

Budgetary revenues<sup>2</sup> reached EUR 801.3 million or 6.3 percent more compared to the same period of 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 tax gap. Regarding the type of taxes, it was observed a higher increase of direct tax revenues, which are received from personal income and property income taxes. Tax revenues marked an increase of 20.8 percent and reached the value of euro 143.8 million. With an increase were characterized also indirect tax revenues, which are interlinked with import movements, which has marked a considerable increase. Indirect income amounted to EUR 600.6 million (an increase of 4.7 percent). Conversely, non-tax revenues, which mainly consist of the revenues from budgetary organizations, marked a decline of 5.4 percent amounting to EUR 86.0 million.

Whereas, regarding budget expenditures<sup>3</sup> they reached a value of EUR 828.4 million, representing an annual increase of 10.3 percent. During this period all categories of budget expenditures were characterized with an increase. The highest increase was marked by capital expenditures, which reached the value of EUR 183.1 million, representing an increase of 14.9 percent compared to the first half of 2017. Besides this, it was

<sup>2</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.

<sup>3</sup> Within budget expenditures are not included debt payments, membership payments at International Financial Organizations (IFO), and returns from deposit funds.

observed a higher level of realization of capital expenditures which has reached 33.5 percent (32.0 percent in the first half of 2017). Government expenditures on goods and services (including also the municipal utilities) marked an increase of 10.0 percent and reached a value of EUR 104.4 million. Subsidies and transfers increased by 9.8 percent and reached the value of EUR 253.6 million. The category of salaries which comprises the main category of budget expenses (35.5 percent of total expenses), increased by of 7.2 percent amounting to EUR 293.8 million.

Public debt, in the second quarter of 2018 reached EUR 1.03 billion, which is for 9.2 percent higher than the public debt marked in the second quarter of 2017. The decline of public debt in Kosovo is attributed to the growth of domestic public debt of 22.2 percent (which reached EUR 616.8 million), while external public debt declined by 5.6 percent, reaching EUR 418.4 million. Hence, the majority of the public debt (59.6 percent) is comprised of domestic debt, which primarily consists of Kosovo's Government debt to commercial banks (41 percent), pension funds (25 percent), etc. The remainder of the public debt (40.4 percent) consists of the external debt, which mainly is comprised by the debt to International Monetary Fund with 39 percent, International Bank for Reconstruction and Developments with 37 percent, German Agency for Reconstruction with 12 percent, etc.

As a percentage to GDP, public debt reached 16.3 percent from 15.5 percent as it was in the second quarter of 2017. Despite the increase marked, this level is still far from the threshold of 40 percent set by

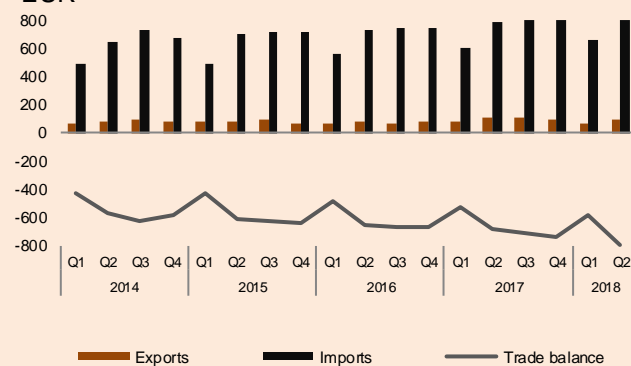
law. Moreover, this level of the public debt ranks Kosovo as the country with the lowest level of public debt compared to the region countries, which according to the IMF, their public debt averages 59.1 percent.

### External Sector

Until May 2018, the external sector was characterized with a deficit decline of current account of 2.2 percent, compared to the same period of the previous year. The improvement of the current account deficit is attributed to the increase of the positive services balance, and of the primary and secondary income account while the deficit of goods marked an increase.

The deficit in goods account reached EUR 791.2 million in the second quarter of 2018, representing an annual increase of 15.7 percent. While in 2017, it was marked a significant increase of goods export, in 2018 this trend was negative.

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

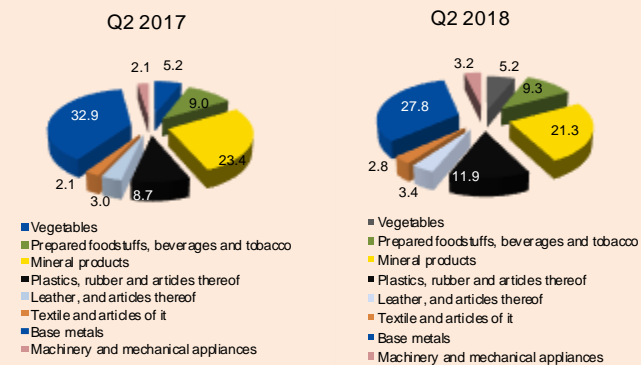


Source: KAS (2018)

In the second quarter of 2018 export of goods amounted to EUR 95.5 million which is for 7.2 percent lower compared to the second quarter of 2017 (figure

15).<sup>4</sup> This decline of export of goods was a result of slowdown increase of prices in international markets and also due to the stabilization of external demand.

Figure 16. Structure of exports by category, in percent



Source: KAS (2018)

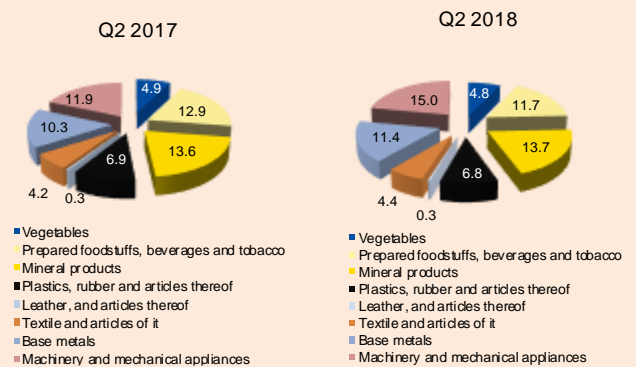
The decline of export of goods during this quarter was more significant in base metals and mineral products. Conversely, with a slight increase was characterized export of plastics and rubber products, export of machinery and electrical equipment, export of textile and articles of it, etc. (figure 16).

As a result of the increase of domestic demand, with a considerable increase was characterized the import of goods. In the second quarter of 2018 export of goods amounted to EUR 886.7 million, which is for 12.7 percent higher compared to the second quarter of 2017. An increase of import of goods was marked almost in all categories, where a sharp rise was marked in the import of machineries and electrical equipment, base metals, mineral products, etc. (figure 17). Because of the high increase of import of goods and the decrease of export, the coverage rate of import with export declined to 10.8 percent, in the second

quarter of 2018, from 12.6 percent as it was in the second quarter of 2017.

The balance in trade of services marked a value of EUR 127.7 million until May 2018, representing a growth of 20.4 percent compared to the same period of 2017. The value of total exported services marked an annual increase of 19.0 percent, reaching EUR 334.8 million, while the value of imported services marked an increase of 18.2 percent, reaching a value of EUR 207.1 million.

Figure 17. Structure of imports by category, in percent



Source: KAS (2018)

Within export of services, travel services, which comprise the main category of export (65.6 percent), marked an increase of 13.9 percent. As regards to import of services, business and travel services were characterized with the highest increase, while computer services, information and telecommunication services marked a decline.

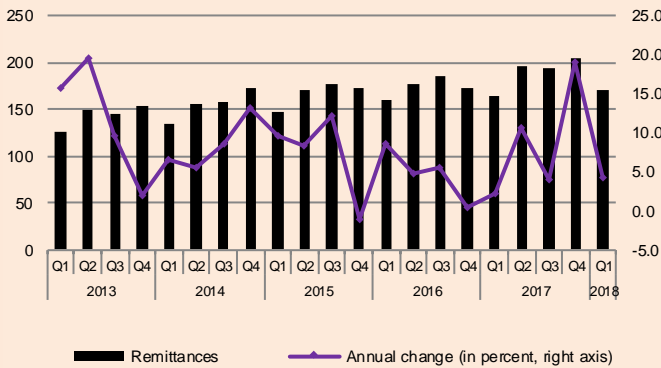
The balance of primary income, until May 2018, marked a value of EUR 53.4 million (EUR 22.7 million in the same period of 2017). The balance of income from the compensation of employees<sup>5</sup> marked

<sup>4</sup> The source of data for import and export of goods in Kosovo is Kosovo Agency of Statistics.

<sup>5</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

an increase of 10.4 percent, while the balance of income realized from investments declined for 35.6 percent. At the same time, the balance of secondary income marked an increase of 11.6 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, reached the value of EUR 307.8 million, representing an annual increase of 6.5 percent (figure 18).

Figure 18. Remittances, in millions of EUR



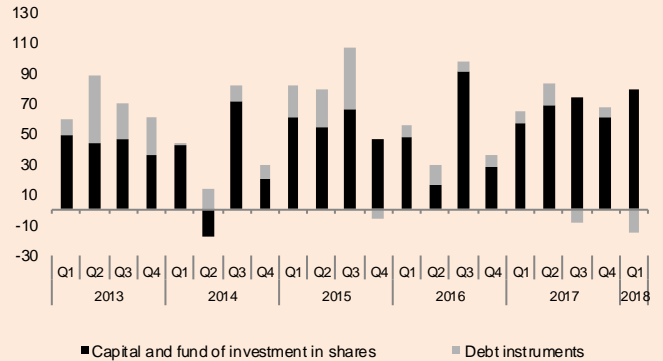
Source: CBK (2018)

Remittances received in Kosovo mainly come from Germany and Switzerland, which represent the countries with a share of 39.8 and 21.5 percent, respectively, of total remittances received. A considerable amount of remittances was received also from USA, namely 6.4 percent of total remittances received in Kosovo. The financial income marked a value of EUR -138.9 million until May 2018 (EUR -184.0 million in the same period of 2017).

Liabilities and assets, as well, marked a significant lower level compared to the same period of 2017. Liabilities reached the value of EUR 111.5 million

(EUR 266.5 million in the same period of 2017), whereas assets reached the value of EUR -27.4 million (EUR 82.5 million in the same period of 2017).

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



Source: CBK (2018)

Within liabilities, the main category is comprised by Foreign Direct Investments (FDI), which reached the value of EUR 76.0 million marking an annual decline of 34.0 percent. Within the structure of FDI, with a decline was characterized the capital and fund of investments in shares and investments in debt instruments (figure 19). Capital and investments fund in shares, reached the value of EUR 94.8 million marking a decline of 3.8 percent. FDI in the form of debt instruments reached a value of EUR 18.8 million (EUR 16.5 million in the same period of 2017). A higher FDI decline was marked by construction and financial sector (EUR 34.1 million and EUR 12.4 million, respectively), whereas in real estate and in trade sector it was marked an FDI increase (EUR 12.2 million and EUR 2.2 million more compared to the same period of the previous year). Regarding the origin of FDI, Germany represents the country from where came the majority of FDI until May 2018 (EUR 30.1 million), followed by Switzerland with EUR 26.4 million, Austria with EUR 13.8 million, etc.

contracted employees (less than one year) and custom employees whose interest economic center is in their economy.



## Macroeconomic selected indicators

Description	Q2 2017	Q2 2018
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	1,605.1	-
Consumer prices (annual average)	1.9%	0.7%
Consumer prices (end of period)	1.9%	0.8%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	414.6	439.2
Budget Expenditures (in millions of EUR)	417.7	427.7
Primary balance (in millions of EUR)	-3.1	11.5
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,566.3	6,002.6
of which : Banks	3,671.2	3,891.5
Loans	2,390.5	2,661.3
Deposits	2,887.8	3,085.9
<i>Interest Rate s on Loans, end of period</i>	6.8%	6.5%
<i>Interest Rate s on Loans, end of period</i>	1.1%	1.2%
Interest rate gap	5.7%	5.3%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-198.2	-205.1
of which: remittances	125.5	137.4
Financial account	-80.9	-107.8
Foreign Direct Investmentsin Kosovo	50.0	45.5
Portfolio investments, net	13.2	1.3
Other investments, net	-35.2	-101.7
International Investment Position (IIP), net	-89.6	-111.0
Assets	4,650.0	4,776.0
Liabilities	4,739.5	4,887.0
External debt	2,075.4	1,998.3
Private external debt	1,570.5	1,598.3
Public external debt	1,541.8	1,511.6

Source:

1/ KAS (2018).

2/ MF (2018).

3/ CBK (2018).

\*Balance of payments data are for the months of April and May, whereas for IIP and external debt the data are presented as of Q1.

