



Summary

Euro area's economy, based on the preliminary data of Eurostat, was characterized with a slowdown economic activity increase, in Q3 2019 (1.2 percent), which had an impact also on the slowdown increase of inflation rate (0.9 percent). Similar to euro area, also the economic activity in Western Balkan countries was characterized with a slowdown increase (3.1 percent in Q2 2019).

According to the recent Kosovo Agency of Statistics (KAS) data, real GDP growth rate marked an increase of 4.2 percent in the first half of 2019, which basically was supported by the increase of investments and a recovery of net exports. Due to the lack of official data for Q3 2019, being relied on other more frequently published indicators, the economic growth during this quarter is estimated to have been similar to other quarters of 2019. These estimates are supported by positive developments in the external sector (the accelerated growth of export of goods and services, and FDI) and the increase of new loans.

The price level of consumption until September 2019 increased by 3.0 percent, mainly as a result of the increase of food prices. Core inflation (excluding food, energy, alcoholic beverages and tobacco), marked an increase of only 0.4 percent or 2.6 percentage points lower compared to the general inflation.

Fiscal sector by September 2019 was characterized with an increase of revenues with 6.9 percent and a slowdown increase of budgetary expenditures of 3.8 percent.

Consequently, Kosovo's budget recorded a primary budget surplus of EUR 39.1 million (EUR 0.8 million deficit in the same period of 2018). Public debt, in Q3 2019, reached EUR 1.19 billion, which is for 10.7 percent higher than the public debt marked in Q3 2018. As a percentage to GDP, public debt reached 17.4 percent from 16.9 percent as it was in Q3 2018.

During the second quarter of 2019, assets of financial sector expanded for EUR 340.0 million, mainly as a result of the activity increase of the banking sector and pension sector, which present the sectors with the highest contribution to the financial system in the country. Moreover, microfinance sector was characterized with an increase of its activity, whereas the insurance sector marked an improvement of the activity.

Until August 2019, the external sector was characterized with a deficit decline of current account of 60.7 percent. The decline of the current account deficit is attributed to the increase of the positive services balance, of the primary and secondary income account while the deficit of goods marked a slowdown increase. Within the balance of payments, remittances and Foreign Direct Investments (FDI) marked an annual increase of 6.3 percent and 22.9 percent, respectively.

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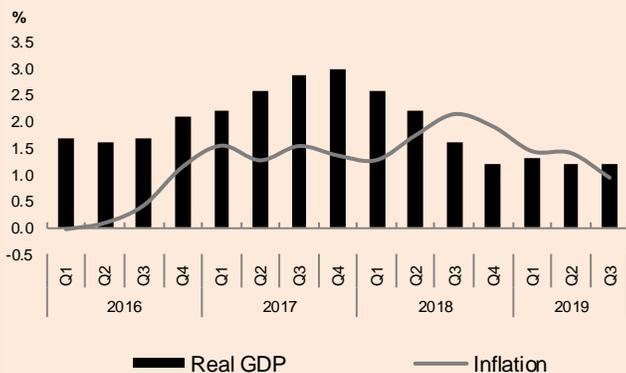
ABBREVIATIONS

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
SEE	Southeastern Europe
WEO	World Economic Outlook

Euro area and Western Balkans

Based on the European Union Statistics Agency (Eurostat) preliminary data, in Q3 2019, euro area economy marked an annual increase of 1.2 percent, representing a slowdown economic increase compared to the previous growth of 2.6 percent marked in Q3 2018 (figure 1)

Figure 1. GDP growth rate and inflation in euro area



Source: Eurostat (2019)

This slowdown pace of economic activity reflects mainly the weaknesses in the global trade which is being characterized with an increase of protectionism, the possibilities of a no-deal Brexit, the decline of vehicles manufacturing, etc.. The slowdown of economic activity, especially in the sectors exposed to global trade, has had an impact on the business confidence, and consequently the expectations on the economic activity trend in the following periods are not so optimistic.

Henceforth, European Central Bank (ECB) projections suggest a slowdown economic growth in the following

three years (1.1 percent in 2019, 1.2 percent in 2020, and 1.4 percent in 2021).

In line with the slowdown of economic activity, also the inflation rate was lower compared to the same period of 2018. The average of Harmonized Index of Consumer Prices in euro area during the first half of 2019 was 0.9 percent (2.1 percent in the first half of 2018) (figure 1). As a result of the low level of inflation, in September 2019, the ECB 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 (0.25 percent and -0.50 percent, respectively).

Credit and depository activity in euro area continued to increase, by which were characterized enterprises and households as well. Loans to enterprises marked an increase of 2.9 percent, while loans to households expanded by 3.2 percent. Conversely, deposits of the banking system have marked a further increase reaching a growth rate of 5.6 percent for enterprises and 5.5 percent for households.

Table 1. Real GDP growth rate

Description	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
Kosovo	2.9	4.4	3.7	4.1	4.2	4.1
Montenegro	4.5	4.9	5.0	4.8	3.0	3.2
North Macedonia	0.9	3.0	3.0	3.7	4.1	3.1
Serbia	4.9	4.9	4.1	3.4	2.7	2.9
Albania	4.3	4.3	4.7	3.3	2.4	2.3

Source: National Statistics Offices of the respective countries

Economic activity, also in the Western Balkans, in Q2 2019¹ has marked an average increase of 3.1 percent (4.3 percent in Q2 2018). Almost all countries marked a slowdown increase compared to the same period of 2018 (table 1).

¹ The data for Q2 2019 have not been published yet, whereas for Bosnia and Herzegovina the data were not published since Q2 2018.

In Q3 2019, the average inflation rate of 1.0 percent was lower compared to the inflation rate of 1.9 percent marked in Q3 2018. Lower inflation rates were marked in Montenegro, Bosnia and Herzegovina and in North Macedonia, whereas in Kosovo, Albania and in Serbia inflation rates were higher (table 2).

Table 2. Annual inflation rate

Description	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Bosnia and Herzegovina	0.8	1.4	1.8	1.7	1.0	0.6	0.4
Kosovo	0.0	0.7	1.4	2.2	3.2	3.3	2.6
Montenegro	3.7	3.7	2.4	1.7	0.4	0.5	-0.1
North Macedonia	1.5	1.5	1.6	1.2	1.2	1.2	0.6
Serbia	1.6	1.8	2.4	2.0	2.4	2.3	1.3
Albania	1.9	2.2	2.2	1.8	1.6	1.4	1.4

Source: National Statistics Offices of the respective countries

Regarding developments in the banking sector, the increase of loans and deposits was significant and with emphasized changes among the countries. In Q3 2019, the average increased rate of loans was 6.5 percent (6.1 percent in Q3 2018). Kosovo and Serbia marked higher credit growth (10.4 percent and 9.7 percent, respectively). Deposits marked higher growth rates compared to loans increase. In Q3 2019, the average increased rate of deposits was 8.3 percent, in the region. In Kosovo and Serbia was marked a higher increased rate of deposits and loans (13.7 percent, for both categories) followed by Bosnia and Herzegovina with 9.5, North Macedonia with 8.8 percent, etc.

During the first half of 2019, EUR appreciated against the Turkish lira with 25.6 percent, whereas it was depreciated against other major currencies and also against the currencies of the region. EUR was depreciated against U.S. dollar with 6.7 percent, Albanian lek with 4.7 percent, Swiss franc with 3.4 percent, and Serbian dinar with 0.2 percent.

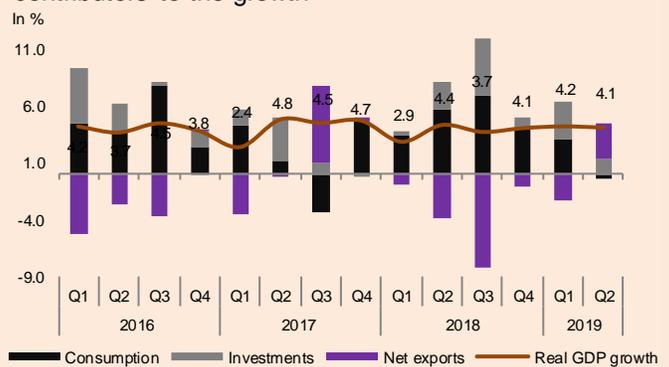
Kosovo's Economy

Real Sector

According to the quarter data of KAS, economic activity has marked an average increased rate of 4.2 percent in the first half of 2019 compared to the same period of 2018 when it was marked an increase of 3.7 percent. The highest contribution to the growth was marked by construction which marked an increase of 8.8 percent, processing industry (an increase of 7.4 percent) and trade (an increase of 6.1 percent).

Based on expenditures approach, investments marked the main contribution to the economic growth with 2.3 percentage points, followed by consumption with 1.2 percentage points and net exports with 0.7 percentage points (figure 2).

Figure 2. Real GDP growth rate and main contributors to the growth



Source: KAS (2019) and CBK calculations

In the first half of 2019, new consumer loans marked a decline of 9.8 percent thus having an impact on the slowdown of consumption increase. Besides the decline of consumer loans also other financing sources as remittances, compensation of employees and expenses on wages of the public sector were characterized with a slowdown increase. At the same time, FDI which

marked an increase of 19.3 percent had an impact on the increase of investments. Conversely, the slowdown of the increase of domestic demand had an impact on the decline of import, while export has marked an accelerated increase. This has made net exports to mark a lower trade deficit with around of 1.0 percent compared to the same period of 2018.

Due to the lack of official KAS data for GDP for the period of Q3 2019, being relied on other more frequently published indicators, the CBK has estimated that the economic growth during this quarter to has been similar to other quarters of 2019. The CBK expectations for this growth of economic activity are supported by positive developments in the external sector (accelerated growth of export of goods and services, FDI), and the increase of new loans but also the increase of consumption and public investments. On the other hand, import of goods and services has marked a higher increase in Q3 2019, compared to the previous quarter.

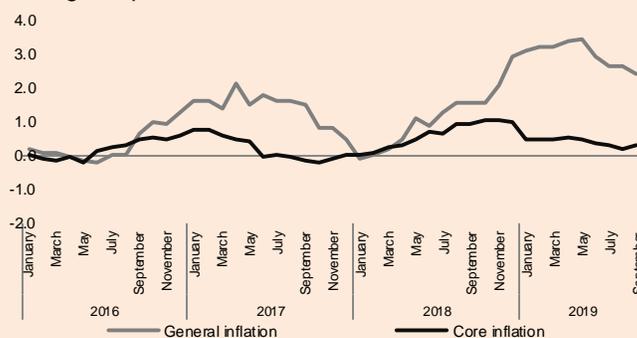
Prices

Consumer Price Index (CPI) marked a significant increase since the last quarter of 2018 and is continuing the same increasing trend also in 2019 (figure 3).

Until September 2019, the average increase rate of consumer prices was 3.0 percent (0.7 percent in the same period of 2018). This price increase was more emphasized in food prices and non-alcoholic beverages, which contributed with 2.42 percentage points in the overall inflation, followed by transport prices with 0.19 percentage points and prices of alcoholic beverages and

tobacco with 0.18 percentage points (table 3).

Figure 3. General inflation and core inflation, annual change in percent



Source: KAS and CBK calculations (2019)

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), the exclusion of these components makes the core inflation to be more stable (figure 3). Until September 2019, core inflation stood at 0.4 percent, which resulted to be lower for 2.6 percentage points than the overall inflation.

Table 3. Contribution of specific categories to overall inflation

Description	Weight 2019	Inflation rate	Contribution
<i>Total</i>	100.0%	3.0	3.00
Food and non-alc. beverages	40.0%	6.1	2.42
Alcoholic beverages and tobacco	5.6%	2.8	0.18
Footw ear and clothing	3.9%	0.4	0.02
Energy	7.7%	0.3	0.02
Furnishing	7.9%	1.0	0.08
Health	2.5%	0.4	0.01
Transport	15.4%	1.2	0.19
Communication	3.7%	0.0	0.00
Recreation	4.4%	0.4	0.02
Education	1.0%	-0.9	-0.01
Hotels	3.1%	1.5	0.05
Goods and other services	4.9%	1.2	0.06

Source: KAS and CBK calculations

Due to the high dependence of Kosovo's economy on import, the dynamic of Kosovar consumer basket is mainly determined by import price fluctuations, which until June 2019 marked an average increasing rate of

3.7 percent, representing a lower level compared to the consumer price index. Besides import prices, also producer prices were characterized with an increase which stood at 1.5 percent, albeit this rate was significantly lower compared to import prices.

Fiscal Sector

Budget revenues² until September 2019 reached a net value of EUR 1.38 billion, representing an annual increase of 6.9 percent, while budget expenditures³ reached the value of EUR 1.34 billion, representing an annual increase of 3.8 percent. Considering the higher increase of budget revenues compared to budget expenditures, Kosovo's budget marked a primary budgetary surplus of EUR 39.1 million (a surplus of EUR 0.8 million marked in the same period of 2018).

The higher growth of budget revenues was primarily impacted by the trend of items interrelated to goods import. The indirect tax revenues comprise around 75.0 percent of total budget revenues and consist mainly from revenues collected at the border. These revenues reached EUR 1.03 billion or 4.4 percent more compared to the same period of 2018. Direct tax revenues amounted to EUR 219.9 million representing an increase of 11.3 percent. Non-tax revenues marked an increase of 14.1 percent and reached the value of EUR 157.3 million.

This slower increase of budget expenditures was a result of the delay of budget approval for 2019, undertaken by Kosovo's Assembly. The main category which contributed to the slower increase of budget expenditures was the one of capital expenditures which

were for 12.7 percent lower compared to the same period of 2018. Other categories of budget expenditures were characterized with increase. Government expenditures on salaries marked an increase of 4.1 percent and reached a value of EUR 457.3 million. Government expenditures on goods and services (including municipal utilities) marked an increase of 16.0 percent, reaching a value of EUR 183.4 million. Subsidies and transfers increased by 11.0 percent and reached the value of EUR 445.6 million.

Public debt, in Q3 2019, reached EUR 1.19 billion, which is for 10.7 percent higher compared to Q3 2018. As a percentage to GDP, public debt reached 17.4 percent from 16.9 percent as it was in Q3 2018. This increase of public debt in Kosovo is attributed to the growth of domestic debt with 18.6 percent (which reached EUR 786.9 million), while public external debt declined with 1.9 percent, reaching EUR 408.5 million in Q3 2018. The share of public external debt to total public debt decreased to 34.2 percent from 38.6 percent as it was in September 2018. Despite the growth, this debt level is still far from the threshold of 40 percent set by the law, and also ranks Kosovo in the position of the country with the lowest level of public debt compared to the region countries.

² 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.

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

Financial Sector⁴

During the third quarter of 2019 assets of financial system continued with an increasing trend of 12.5 percent reaching the value of EUR 7.0 billion at the end of the period. The main contribution to the expansion of the activity of the financial system continued to be marked by the banking sector, followed by the pension sector. The increase of assets of the banking sector was enabled mainly by the increase of credit activity, which came as a result of the higher demand for loans and the improvement of the lending conditions. In Q3 2019, the value of loans issued marked an increase, albeit compared to the third quarter of the previous year, this amount was lower, mainly being impacted by the decline of loans to nonfinancial corporations.

The expansion of credit activity was enabled by the positive developments of deposits, which only in Q3 2019 increased by EUR 310.3 million. A more significant increase was marked by household deposits, the majority of which is comprised by transferable deposits. The interest rate on nonfinancial corporations deposits marked a decline of 0.2 percentage points compared to the same period of the previous year, while interest rate on household deposits marked a slight increase with 0.04 percentage points.

The banking sector in Q3 2019 continued to have a good performance, as a result of the higher increase of income compared the increase of expenditures. The increase of income on quarter bases was 11.5 percent, enabled mainly by the increase of interest income. On the other hand, expenditures marked a slowdown

increase of 4.7 percent. Regarding the financial soundness, the banking sector continued to have low level of nonperforming loans with 2.3 percent and an increase of their coverage with loan loss provisions reaching 161.2 percent. Moreover, the respective indicators suggest that the level of capitalization and liquidity of the sector stands at a satisfactory level.

The pension sector as the second sector by the weight of importance in the financial system, also during this quarter continued to have a positive return on investments and an increase of new contributions. These developments had an impact on the the increase of assets in general. The insurance sector on quarter basis marked an improvement on the activity based on the growth trend of written premiums and claims paid. Despite the financial negative results at the end of the period, only in Q3 2019, net profit marked an increase. Microfinance sector was characterized with an increase of its activity, in the lending side and in the overall performance realized.

In Q3 2019, in the securities market, the amount of the debt issued by the Kosovo's Government was EUR 105 million and the average interest rate of securities was 2.11 percent.

External Sector

Until August 2019, the current account deficit amounted to EUR 67.0 million which is for 60.7 percent lower compared to the same period of 2018. Narrowing of the current account deficit is attributable to the increase of the positive balance of services, primary

⁴For more information on financial system, please refer to: Quarterly Assessment of Financial System (Q3 2019) published at the CBK website.

income and secondary income whereas the deficit of goods marked an increase (figure 4).

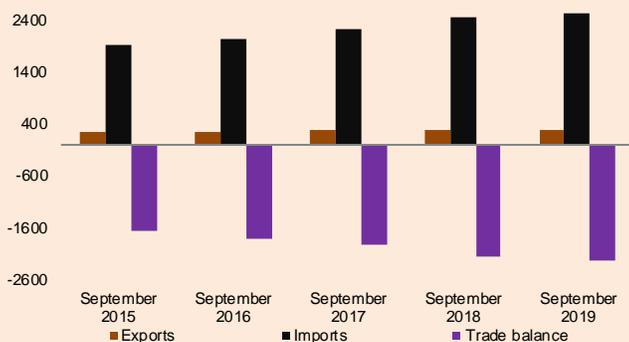
Figure 4. Current account deficit and its components, in millions of EUR



Source: CBK (2019)

The deficit in goods account⁵ reached EUR 1.26 billion until September 2019, representing an annual increase of 3.3 percent. While in 2018 it was marked a decline of goods export, and an accelerated increase of import, in 2019 it is being marked an increase of export of goods and a slowdown increase of import.

Figure 5. Export and import of goods, in millions of EUR



Source: KAS (2019)

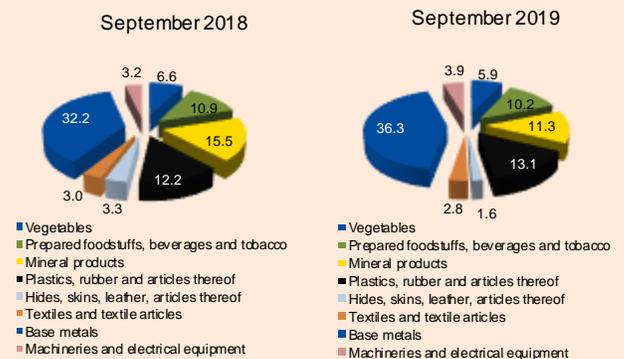
This has had an impact on the slight improvement of the coverage rate of imports by exports from 10.8

percent as it was in September 2018 to 11.3 percent in September 2019.

Export of goods until September 2019, amounted to EUR 288.8 million, which is for 9.0 percent higher compared to the same period of 2018 (figure 5).

The increase of export of goods was more significant in base metals, products of plastics and rubber, and machinery and electrical equipment. Conversely, a decline was marked by export of mineral products, leather and articles thereof, export of vegetables, etc.. (figure 6).

Figure 6. Structure of exports by category, in percent



Source: KAS (2019)

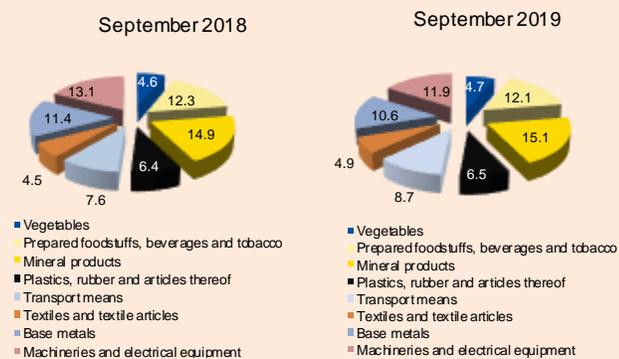
The value of import of goods until September 2019, was EUR 2.5 billion, which is for 3.6 percent higher compared to the same period of 2018. A higher increase was marked in import of transport vehicles, mineral products, textile and articles of it, and products of plastics and rubber, etc. (figure 7).

The balance in trade of services marked a value of EUR 803.3 million until August 2019, representing a growth of 11.2 percent compared to the same period of 2018. The value of total exported services marked an annual

⁵The source of data for import and export of goods in Kosovo is Kosovo Agency of Statistics.

increase of 8.5 percent, reaching EUR 1.3 billion, while the value of imported services marked an increase of 4.3 percent, reaching a value of EUR 499.1 million.

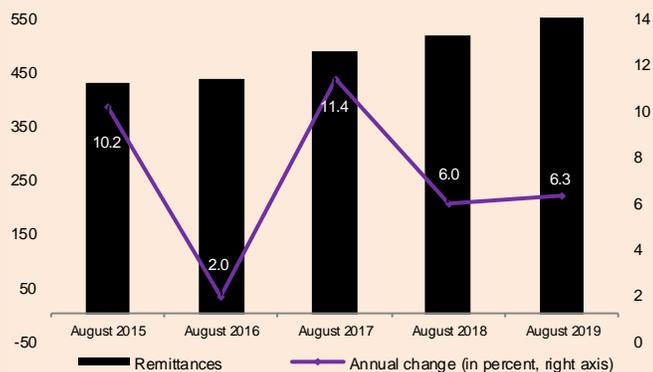
Figure 7. Structure of imports by category, in percent



Source: KAS (2019)

The balance of the primary income account, by August 2019, marked a value of EUR 115.5 million, representing a growth of 73.0 percent. The balance of secondary income marked an increase of 2.2 percent, which is mainly attributable to the higher level of remittances. Remittances received in Kosovo, which represent the main category within the secondary income account, marked a value of EUR 553.3 million until August 2019, or 6.3 percent higher compared to the same period of 2018 (figure 8).

Figure 8. Remittances, in millions of EUR



Source: CBK (2019)

Remittances received in Kosovo mainly come from Germany and Switzerland, which represent the countries with a share of 41.3 and 19.8 percent, respectively, of total remittances. A considerable amount of remittances was received also from the U.S.A, namely 7.1 percent of total remittances received in Kosovo. Within the financial account, foreign direct investments (FDI), amounted to EUR 199.2 million, marking an increase of 22.9 percent compared to the same period of 2018. Within FDI structure, capital and investments fund in shares reached the value of EUR 161.0 million marking an increase of 2.1 percent, while FDI in the form of debt instruments marked a value of EUR 38.2 million (EUR 4.4 million in the same period of 2018) (figure 9).

Figure 9. Structure of foreign direct investments by components, in millions of EUR



Source: CBK (2019)

The highest level of FDI was marked in the real estate sector (EUR 150.8 million), and comparing to the same period of 2018 it was marked an increase of 1.1 percent. The second sector by importance was financial services sector, where the FDI level amounted to EUR 24.3 million (-10.5 percent more compared to the same period of 2018). Regarding the origin of FDI, Germany represents the country from where came the majority of FDI (EUR 53.4 million), followed by Switzerland with EUR 41.2 million, the U.S.A with 27.9 million, etc.

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Macroeconomic selected indicators

Description	September 2018	September 2019
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	3,066.6	3,245.3
Consumer prices (annual average)	0.7%	3.0%
Consumer prices (end of period)	1.5%	2.4%
Fiscal Sector* 2/		
Budget Revenues (in millions of EUR)	1,289.9	1,379.3
Budget Expenditures (in millions of EUR)	1,290.7	1,340.3
Primary balance (in millions of EUR)	-0.8	39.1
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	6,226.2	7,006.3
of which : Banks	4,033.3	4,577.2
Loans	2,681.1	2,957.2
Deposits	3,210.1	3,735.6
<i>Interest Rates on Loans, end of period</i>	7.0%	6.5%
<i>Interest Rates on Loans, end of period</i>	1.4%	1.5%
Interest rate gap	5.6%	5.0%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-180.8	-76.5
of which: remittances	520.3	553.3
Financial account	-120.5	-0.5
Foreign Direct Investments in Kosovo	162.1	199.2
Portfolio investments, net	-31.6	-59.5
Other investments, net	-192.2	-123.1
International Investment Position (PNI), net*	-257.1	-452.4
Assets	4,755.3	4,912.3
Liabilities	5,012.4	5,364.7
External debt, total*	2,072.2	2,141.7
Private external debt	1,575.6	1,649.9
Public external debt	496.7	491.7

Source:

1/ KAS (2019).

2/ MF (2019).

3/ CBK (2019).

*Data for the balance of payment are until August 2019, whereas for GDP, IIP and external debt are until June 2019.



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