



Euro area economy, based on the preliminary data, in the first quarter of 2018 was characterized with a relatively similar growth as in 2017 (around 2.5 percent), while inflation continued to remain at the ECB target despite the significant increase compared to previous years (1.2 percent).

The strengthened demand in euro area was positively reflected in economic developments of Western Balkan countries, which were characterized with an increase of economic activity during 2017.

In the first quarter of 2018, prices of main commodities in international markets increased compared to previous quarter and against the whole year of 2017, primarily as a result of dynamic changes of supply and demand side in the market due to the increase of geopolitical tensions in different countries.

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, which primarily was supported by the improvement of net exports position and investment position. Due to the absence of KAS official data of real GDP for the first quarter of 2018, based on other frequent published indicators, the quarter economic growth is expected to be higher, primarily as a result of base effect and the improvement of the trend of private consumption and government expenditures (especially current expenditures).

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 of 2017.

Consumer price level of the domestic economy stabilized at 0.0 percent in the first quarter of 2018 after a slowdown pace that had been marked since the second half of 2017. Conversely, core inflation (excluding food, energy, alcoholic beverages and tobacco), in the first quarter of 2018 resulted to be slightly higher against the general inflation which stood at 0.1 percent, mainly as a result of the decline of energy prices.

Fiscal sector was characterized with an increase of budget revenues and expenditures with 6.7 and 20.2 percent, respectively. Taking into account higher increase of expenditures compared to revenues, Kosovo's budget marked a primary budgetary deficit of EUR 38.6 million (a surplus of EUR 5.9 million marked in the first quarter 2017). Public debt, in the first quarter of 2018 reached EUR 1.0 billion, which is for 9.1 percent higher than the public debt marked in the first 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.

In the first quarter of 2018, external sector was characterized with a decline of current account deficit of 6.2 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 in goods marked an increase. Within the balance of payments, remittances were characterized with an increase of 4.3 percent while Foreign Direct Investments (FDI) marked a slight decline of 1.0 percent.

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ABBREVIATIONS

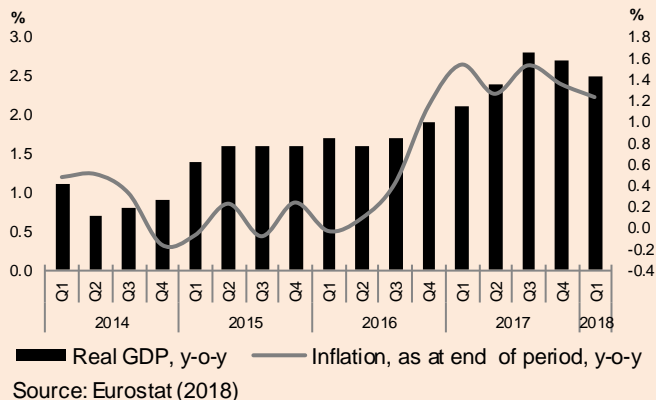
CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CPI	Consumer Price Index
EUR	Euro currency
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPI	Import Price Index
KAS	Kosovo Agency of Statistics
MF	Ministry of Finance of the Republic of Kosovo
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 preliminary data of Eurostat, in the first quarter of 2018, euro area economy marked a similar increase as in 2017, with around 2.5 percent (figure 1). Compared to the fourth quarter of 2017, the economy of euro area marked a weaker increase than forecasted, around 0.4 percent, due to the short-term shocks. Consequently, expectations on the trend of economic activity in euro area are optimistic for the upcoming quarters of 2018, which are supported also by employment indicators improvement and high values of indexes on confidence of businesses and individuals. 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. The projection for GDP growth rate in euro area, for 2018, was revised upward, reaching 2.4 percent.

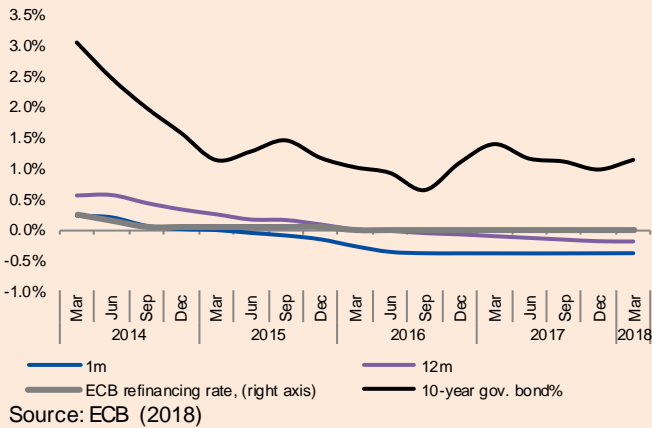
In compliance with the economic activity trend of euro area, general developments of prices indicate weak inflationary pressures in the beginning of 2018. In the first quarter of this year, the Harmonized Price Index in euro area stood at 1.2 percent, representing a lower level than the ECB target (figure 1). Inflation in euro area is expected to reach an average of 1.4 percent in 2018 and 2019, while the negative pressures, which come from the trend of energy sub-indicators, will compensate the strengthening of core inflation. In 2020, inflation is expected to converge towards the ECB target, thus approximately reaching the value of 1.7 percent.

Figure 1. Macroeconomic developments in the euro area



In January and March 2018, 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. Regarding the non-conventional policies, the ECB Supervisory Council has confirmed that the program of assets purchase will continue with the same pace, EUR 30 billion monthly, until September 2018, or beyond that time frame if needed. 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 growth in the fourth quarter of 2018, falling at around the level of 1.15 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



Credit activity in euro area has marked a slight improvement in the first quarter of 2018. This increase has primarily come as a result of loans to households, which have marked an annual increase of 3 percent. Meanwhile, the increase of loans to enterprises was negative with around -0.6 percent on annual terms. Similar to credit and economic activity movements, deposits of the banking system were characterized with the same trends. In the fourth quarter of 2017, deposits increased by 1.6 percent, primarily as a result of the increase of enterprise savings.

Economic activity in the Western Balkans, in the fourth quarter 2017, was mainly fluctuated around the average value marked in the first quarter of the year (table 1). Macedonia and Serbia are the only region countries that marked a more significant increase in the last quarter, with around 1.2 and 2.5 percent, respectively. The recovery of the economic activity in Macedonia was a result of the overcoming of the long political stalemate, which has contributed to the decline of uncertainties about the future. While in Serbia, the economic growth in the fourth quarter

of 2017 was lead by the good performance of construction sector and whole and retail sale sectors. Unlike Macedonia and Serbia, Albania marked a slowdown economic increase that fluctuated around 3.4 percent in the last quarter of the year, as a result of the negative impact of public consumption and net exports. The economic increase in Montenegro and Bosnia and Herzegovina has reached 4.0 and 3.0 percent, respectively.

In the first quarter of 2018, the movement trend of inflation was different among the region countries. Serbia and Bosnia and Herzegovina have marked lower increasing rates compared to the average of 2017. Montenegro has registered an average inflation rate of 3.7 percent, standing for 1 percentage points higher than the value registered during 2017, due to the energy price increase and the increase of certain taxes within the fiscal policies. In Albania, the average inflation in the first quarter marked a value of 1.9 percent, slightly standing above the value of the previous quarter. Positive domestic pressures of inflation, during this quarter, were off-set by the strong movement of the exchange rate costs.

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 2018, Albania and Serbia have marked significant rates of loans and deposits compared to the same quarter of 2017. Conversely, three other countries, (Macedonia, Montenegro and Bosnia and Herzegovina) have marked improvements with regard to activity and the growth of deposits.

During the first quarter of 2018, EUR appreciated by around 0.2 percent compared to the major currencies of the Kosovo’s trading partners. This appreciation of EUR currency was impacted by American dollar (15.5 percent), Swiss franc (7.65 percent), British pound (8.9) percent) and Croatian kuna (19.2 percent).

Table 1. Annual real GDP growth rate

Description	2015	2016	2017 Q1	2017 Q2	2017Q3	2017Q4
Bosnia and Herzegovina	3.0	3.2	3.4	2.8	3.0	3.0
Kosovo	4.1	4.1	2.8	4.4	4.4	3.2
Montenegro	3.4	2.9	3.1	5.2	4.7	4.0
Macedonia	3.8	2.9	0.0	-1.3	0.2	1.2
Serbia	0.8	2.8	1.2	1.5	2.2	2.5
Albania	2.2	3.4	4.0	4.4	3.6	3.4

Source: National Statistics Offices of the respective countries

EUR marked an appreciation also against the Albanian lek and Serbian dinar with 2.5 percent and 4.4 percent, respectively.

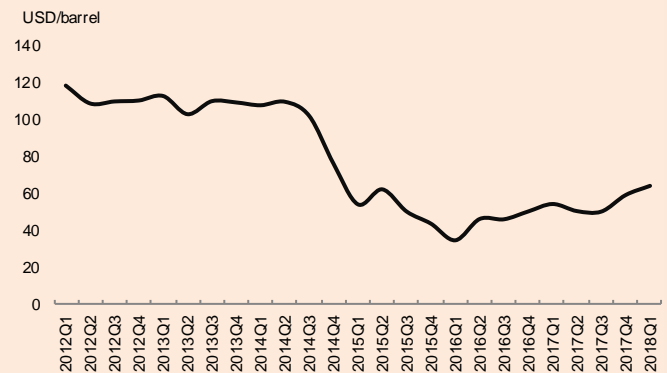
Main commodity prices in international markets

In the first quarter of 2018, commodity prices in international markets increased compared to previous quarter and against the whole year of 2017, as a result of demand and supply factors and due to the growing geopolitical tensions in different countries.

Crude oil prices rose 10 percent in the first quarter (q/q). Prices have more than doubled from the trough in early 2016. Steady growth of oil consumption and greater-than-expected compliance by the OPEC and non-OPEC producers to their agreed production cuts helped reduce inventories. Oil inventories are now just 30 million barrels above their 5-year average. Rising geopolitical tensions, such as the possible reinstatement of U.S. sanctions against Iran, military escalation in Syria, and tensions between Saudi

Arabia and Iran have threatened oil exports. In the first quarter of 2018, Brent crude oil price reached the value of \$64/bbl, marking an increase of 23 percent from the average of \$54/bbl as it was in 2017.

Figure 3. Brent crude oil price



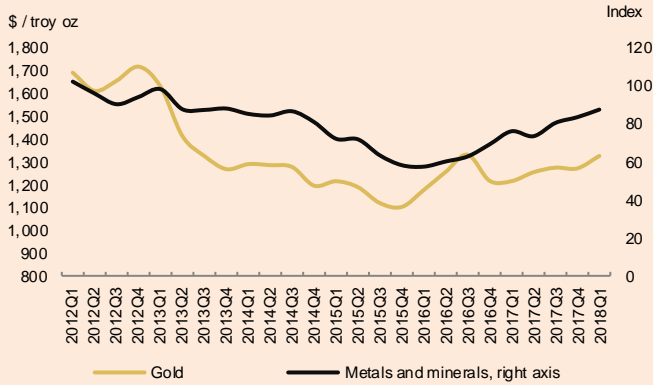
Source: World Bank (2018)

Crude oil prices are projected to average \$65/bbl in 2018 and 2019. 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).

Metals and minerals prices increased by 4 percent on quarter basis, representing a more moderate rate than the one registered in 2017 (around 24 percent), as a result of the strong demand on global terms and certain “constraints” by supply side. In 2018, metal prices are projected to increase by 9 percent. Iron ore prices are projected to decline 11 percent due to over supply, which are more than offset by increase in all base metals prices, led by nickel. 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 rose in the first quarter of 2018 with around 4 and 9 percent on quarter and annual basis, respectively, reaching \$1,329/toz, on stronger investment demand amid a weakening dollar and rising inflation. While higher U.S. policy rates tend to reduce investment demand for non-yielding assets such as gold, the rate hike on March by the U.S. Federal Reserve had been anticipated and gold prices remained broadly steady. Prices of gold are projected to rise 3 percent in 2018, as a result of investment demand.

In the first quarter of 2018, agriculture price index marked an increase since mid-2016, gaining 2.2 percent compared to the previous quarter, the first significant increase since mid-2016, as a result of reduced plantings of key crops in the United States (notably maize and soybean) and unfavorable weather in South Africa. In 2018 and later, food prices are forecasted to stabilize, with a slight rise trend as a consequence of the projected tightness supply.

Kosovo's Economy

Real Sector

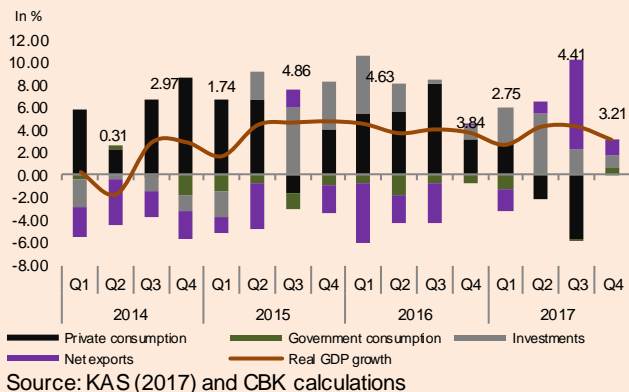
According to the recent Kosovo Agency of Statistics (KAS) data, real GDP for the fourth quarter of 2017 marked an annual growth of 3.2 percent. The main contribution to this growth was given by net exports (goods and services) and total investments, with around 1.46 percentage points and 1.10 percentage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

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).

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.

Figure 5. Real GDP growth rate and main contributors



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 the real GDP.

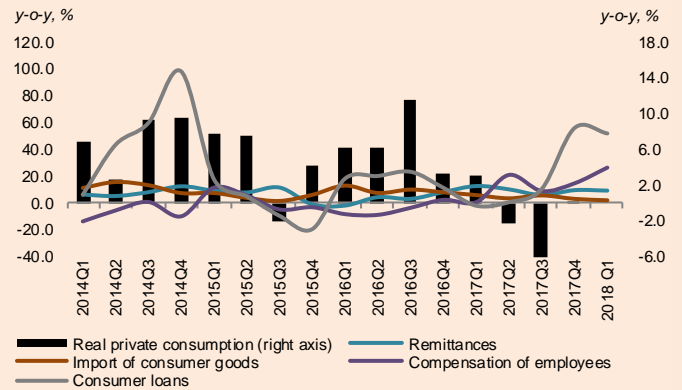
During the whole year of 2017, Kosovo’s economy has marked an average real growth of around 3.9 percent, thus standing below the average increase of 2016 (around 4.1 percent).

Due to the absence of KAS official data of real GDP for the first quarter of 2018, based on other frequent published indicators, the economic growth of this quarter is expected to be higher, primarily as a result of base effect and the improvement of the trend of private consumption and government expenditures (especially current expenditures).

Net exports deteriorated in the first two months of 2018, deepening their negative balance with around 26%. Capital expenditures in January and February 2018 have marked an increase of 9 percent compared to the same period of the previous year, while government current expenditures increased by 12 percent.

As regards to the trend of private consumption, in the first quarter of 2018, main financing sources indicate positive signals (figure 6). Import of consumption goods increased by 1.7 percent on annual terms in this quarter. Also, remittances, compensation of employees and new loans for consumption have accelerated their growth trend, marking an annual increase of 9 percent, 27 percent and 52 percent, respectively.

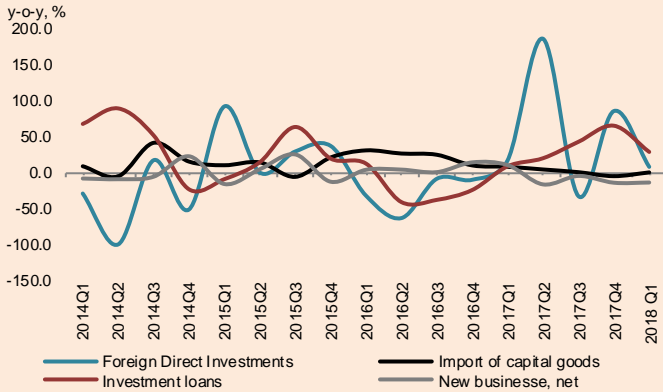
Figure 6. Private consumption and financing sources



Indirect indicators on private investments provide negative signals in the fourth quarter of 2018. Foreign direct investments and new investment loans have marked moderate increasing rates, with around 7.9 percent and 29 percent, respectively, compared to the previous year’s quarter. Whereas, the import of capital goods has marked a decline of 0.5 percent.

Moreover, the number of new businesses compared to the closed ones, has marked a decline of 13 percent.

Figure 7. Indirect indicators of private investments



Source: KAS (2017) 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 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.

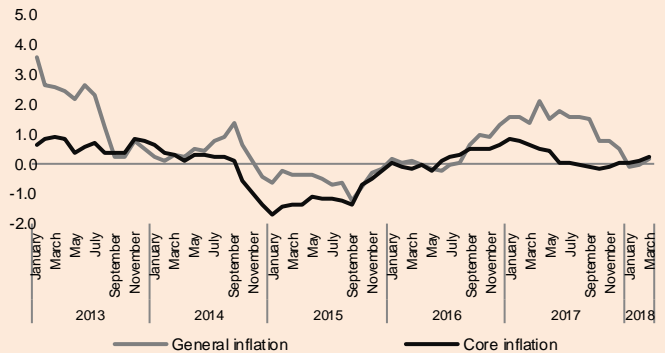
In the fourth quarter of 2017, employment rate increased slightly at 29.8 percent compared to 29.5 percent in the same period of the previous year. However, the employment rate fluctuated around the value of 30.6 percent in the fourth quarter of 2017, while in the last quarter of 2016 this rate stood 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

The change of consumer price index, which has began to mark a slowdown increase in the second half of 2017, now is stabilized where in the first quarter of 2018 the increasing rate stood at 0.0 percent (figure 8).

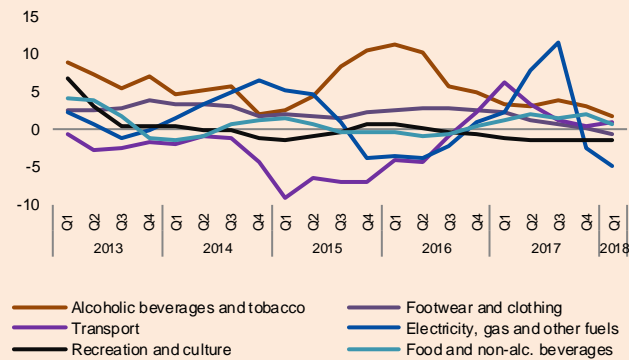
Figure 8. General inflation and core inflation, annual growth in percent



Source: KAS and CBK calculations (2018)

Regarding the CPI components, in the first quarter of 2018, with an increase were characterized prices of alcoholic beverages and tobacco (1.7 percent), followed by prices of transport (1.0 percent), foodstuffs and non-alcoholic beverage prices (0.6 percent), etc.

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

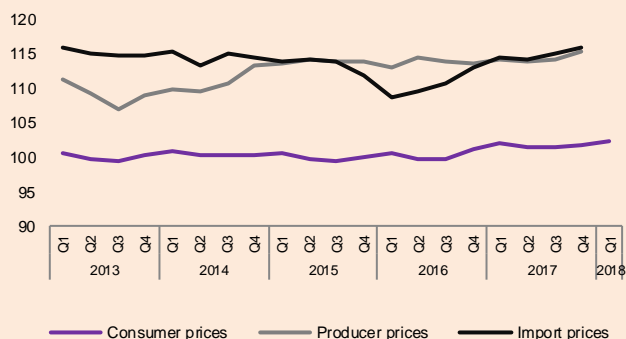


Source: KAS (2018)

Conversely, housing prices, water, electricity, gas and other fuels (5.0 percent), mainly due to the modification of energy tariffs in April 2017, marked a price decline. A decline was marked also in prices of recreation and culture (1.6 percent), and footwear and clothing (0.7 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 the first quarter of 2018 core inflation (0.1 percent) was slightly higher compared to general inflation.

Figure 10. Consumer, producer and import price indices

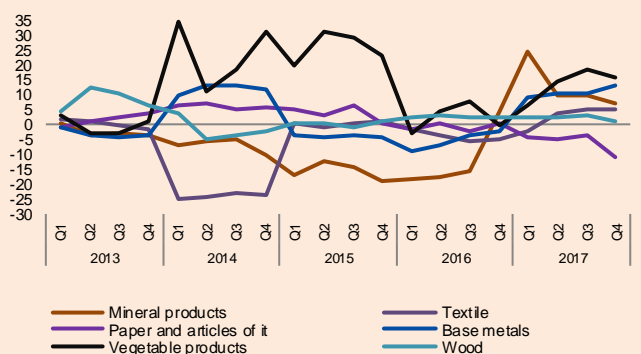


Source: KAS (2018)

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

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).

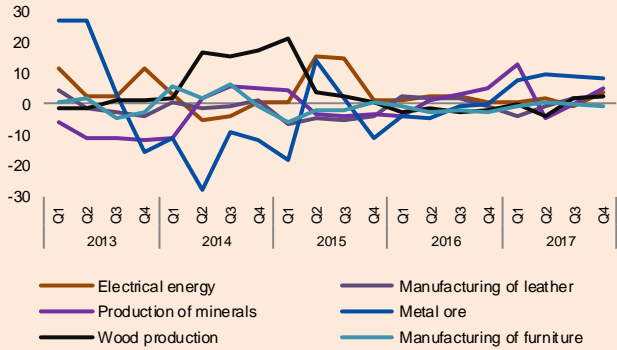
Figure 11. Price movements of import prices, annual change in percent



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)

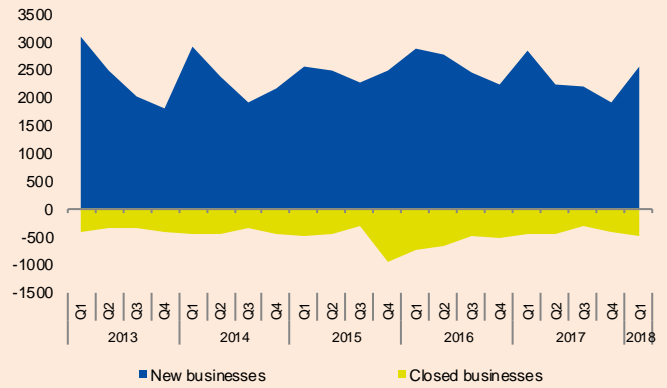
In the fourth quarter of 2017, producer price index was characterized with an increase of 1.6 percent. During this period, with an increase of prices were characterized the extraction of metal ore, production of furniture, manufacturing of leather, etc. Whereas, with a price decline were characterized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

Business registry

The low number of registered enterprises that characterized the year 2017 continued with the same trend also in 2018. In the first quarter of 2018, 2,556 new enterprises were registered or 294 enterprises fewer than in the first quarter of 2017. In the first quarter of 2018, 482 enterprises were closed or 37 enterprises more compared to the first quarter of 2017 (figure 13).

Regarding the structure of new enterprises, the trend continued to be relatively the same as in the previous quarters.

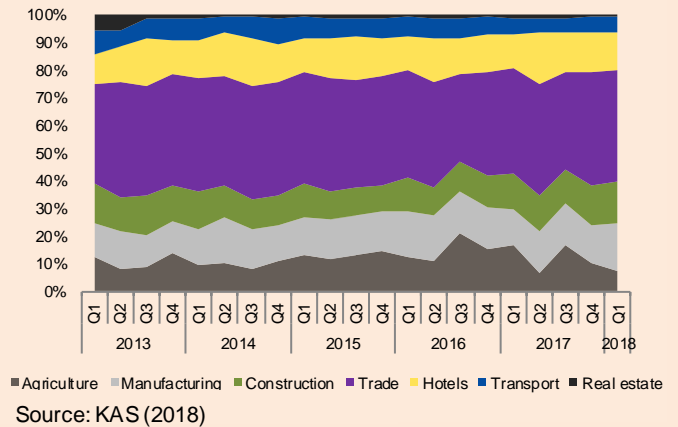
Figure 13. Business registry, non-commulative



Source: KAS (2018)

The largest number of new registered enterprises continued to be concentrated in trade sector with 722 new enterprises, followed by manufacturing sector with 316 enterprises, construction with 266 enterprises, etc. (figure 14).

Figure 14. Structure of new enterprises



Source: KAS (2018)

Compared to the first quarter of 2017, in most of the sectors it was marked a lower number of registered enterprises. In the agriculture sector were registered 223 fewer enterprises, in manufacturing sector 77 fewer enterprises, and in trade sector 21 fewer enterprises were registered, etc. The main sectors which marked the largest number of registered enterprises were manufacturing sector and

professional activities sector, where 51 and 16 more enterprises were registered compared to the first quarter of 2017.

Fiscal Sector

During the first quarter of 2018, fiscal sector was characterized with a better performance of budget revenues and an increase of budget expenditures. Budgetary revenues reached EUR 362.0 million or 6.7 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. These revenues in the first quarter of 2018 marked an increase of 26.5 percent and reached the value of EUR 72.5 million. With an increase were characterized also direct tax revenues, which are interlinked with import movements that has marked a considerable increase in the first quarter of 2018. Indirect income amounted to EUR 261.5 million (an increase of 3.5 percent). Non-tax revenues, which mainly consist of the revenues from budgetary organizations, marked a decline of 8.3 percent amounting to EUR 41.1 million.

At the same time, budget expenditures¹ reached a value of EUR 400.7 million, representing an annual increase of around 20.2 percent. During this period all categories of budget expenditures were characterized

with an increase. Government expenditures on salaries marked an increase of 5.1 percent and reached a value of EUR 143.6 million. Subsidies and transfers marked an increase of 17.7 percent and reached the value of EUR 127.3 million. Government expenditures on goods and services (including also the municipal utilities) marked an increase of 20.2 percent and reached a value of EUR 48.9 million. Capital investments, which represent around 20.2 percent of total budget expenditures, marked an increase of 44.0 percent and reached the value of EUR 80.9 million.

Taking into account higher increase of expenditures compared to the increase of revenues, Kosovo's budget marked a primary budgetary deficit of EUR 38.6 million (a surplus of EUR 5.9 million marked in the first quarter of 2017).

Public debt, in the first quarter of 2018 reached EUR 1.0 billion which is for 9.1 percent higher than the public debt marked in the first quarter of 2017. The decline of public debt in Kosovo is attributed to the growth of domestic debt of 27.8 percent (which reached EUR 612.5 million), while external debt increased significantly with 10.2 percent, reaching EUR 416.0 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 (43 percent), public institutions (33 percent), pension funds (20 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 38 percent, International Bank for Reconstruction and

¹ Within budget expenditures are not included debt payments, membership payments at International Financial Organizations (IFO), and returns from deposit funds.

Developments with 37 percent, German Agency for Reconstruction with 13.0 percent, etc.

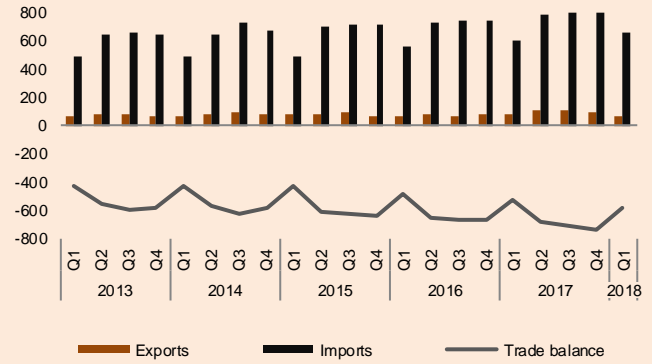
As a percentage to GDP, public debt reached 16.2 percent from 15.0 percent as it was in September 2017. Despite the increase marked, this level is still far from the threshold of 40 percent set by law. Moreover, this level of the public debt ranks Kosovo as the country with the lowest level of public debt compared to the region countries, which according to the IMF, their public debt averages 59.1 percent.

External Sector

In Q1 2018, external sector was characterized with a decline of current account deficit of 6.2 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 balance of services, and of the primary and secondary income account while the deficit in goods marked an increase.

The deficit in goods account reached EUR 582.4 million in the first quarter of 2018, representing an annual increase of 9.3 percent. In 2017, it was marked a significant increase of goods export, in 2018 this trend was negative. In the first quarter of 2018 export of goods amounted to EUR 73.4 million which is for 4.0 percent lower compared to the first quarter of 2017. 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 15).²

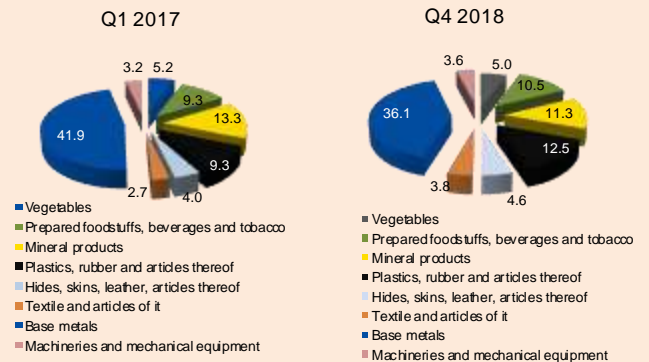
Figure 15. Export and import of goods, in millions of EUR



Source: KAS (2018)

The decline of export of goods during this quarter was more emphasized in base metals and mineral products. Conversely, with an increase was characterized export of plastics and rubber products, textile and articles of it, 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 characterized the import of goods. In the first quarter of 2018 export of goods amounted to EUR 655.7 million, which is for 7.6 percent higher compared to the first quarter of 2017. The increase of import was mainly a result of the growth of base metals import, machineries and mechanical equipment, plastic and rubber products,

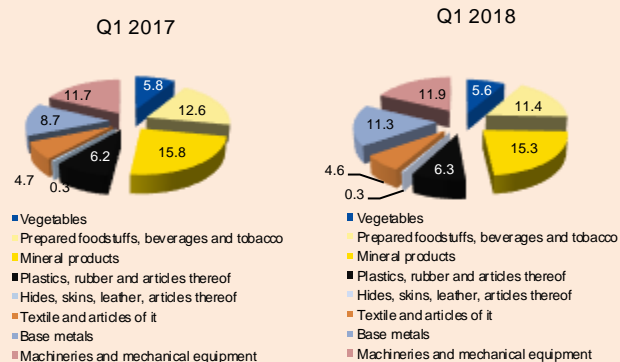
²The source of data for import and export of goods in Kosovo is Kosovo Agency of Statistics.

etc., while import of processed foodstuffs marked a decline (figure 17). In the first quarter of 2018, the coverage rate of imports by exports stood at 11.2 percent (12.5 percent in the first quarter of 2017).

The balance in trade of services marked a value of EUR 82.9 million, representing an increase of 36.3 percent compared to the same period of 2017. The value of total exported services marked an annual increase of 23.2 percent, reaching EUR 194.7 million, while the value of imported services marked an increase of 15.0 percent, reaching a value of EUR 111.8 million.

Within export of services, travel services comprise the main category (67.0 percent of total export of services) marking an increase of 21.9 percent. As regards to the import of services, business and travel services were characterized with the highest increase, while computer services marked a decline.

Figure 17. Structure of imports by category, in percent

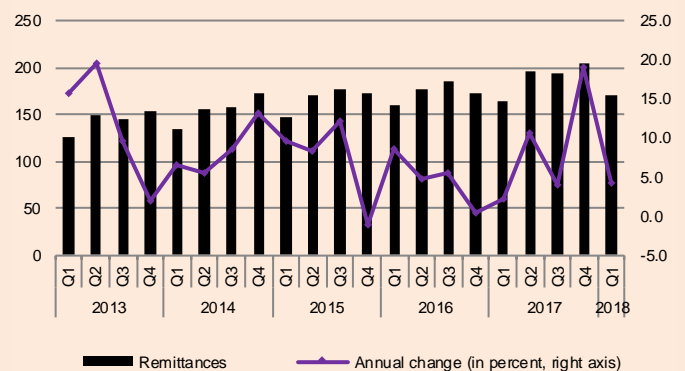


Source: KAS (2018)

The balance of primary income marked a value of EUR 26.4 million (EUR 15.5 million in the same period of 2017). The balance of income from the

compensation of employees³ marked an increase of 17.9 percent, while the balance of income realized by investments declined for 6.7 percent. At the same time, the balance of secondary income marked an increase of 8.9 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 170.4 million, representing an annual increase of 4.3 percent (figure 18).

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 39.3 percent and 22.5 percent, respectively, to total remittances. A considerable amount of remittances was received also from USA, namely 7.0 percent of total remittances received in Kosovo.

³ 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.

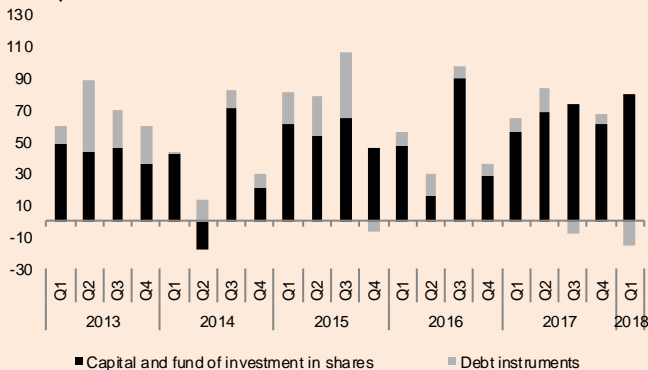
The primary income marked a value of EUR 61.6 million in the first quarter of 2018 (EUR 103.1 million in the same period of the previous year). Liabilities and assets as well marked a pronounced lower level compared to the same period of 2017. Liabilities reached the value of EUR 39.3 million (EUR 161.1 million in the same period of 2017), whereas assets reached the value of EUR -22.3 million (EUR 58.0 million in the same period of 2017).

Within liabilities, the main category was comprised by Foreign Direct Investments (FDI), which reached the value of EUR 64.4 million marking an annual decline of 1.0 percent. 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).

Capital and investments fund in shares, reached the value of EUR 80.1 million marking an increase of 41.4 percent . FDI in the form of debt instruments reached a value of EUR 15.6 million (EUR 8.4 million in the first quarter of 2017).

The higher FDI decline was marked by financial services and construction (EUR 5.9 million and EUR 3.4 million, respectively), whereas in real estate and in trade sector it was marked an FDI increase (EUR 2.1 million and EUR 2.0 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 in the first quarter of 2018 (EUR 17.4 million), followed by Switzerland with EUR 15.4 million, United Kingdom with 8.4 million, etc.

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



Source: CBK (2018)

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CBK (2018): Quarterly Assessments of Macroeconomic Developments No. 22, Q1 2018, Central Bank of the Republic of Kosovo, Prishtina

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Macroeconomic selected indicators

Description	Q1 2017	Q1 2018
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	1,247.5	-
Consumer prices (annual average)	1.6%	0.0%
Consumer prices (end of period)	1.5%	0.1%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	339.3	362.0
Budget Expenditures (in millions of EUR)	333.4	400.7
Primary balance (in millions of EUR)	5.9	-38.6
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,508.8	5,906.3
of which : Banks	3,669.8	3,872.9
Loans	2,294.9	2,534.3
Deposits	2,911.6	3,074.0
<i>Interest Rate s on Loans, end of period</i>	7.0%	6.8%
<i>Interest Rate s on Loans, end of period</i>	0.9%	1.2%
Interest rate gap	6.1%	5.6%
External sector,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-172.2	-165.1
of which: remittances	163.4	170.4
Financial account	-103.1	-61.6
Foreign Direct Investmentsin Kosovo	65.1	64.4
Portfolio investments, net	-26.1	-21.8
Other investments, net	-94.8	-144.4
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	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 (2018).

2/ MF (2018).

3/ CBK (2018).

*Data on IIP and external debt are as at end-2017 and 2016, respectively.

