

## Summary

Economy of the euro area is being faced with an economic crises of an unprecedented magnitude and accelerated pace. Based on the preliminary estimates of Eurostat, the economic activity marked a decline of 3.2 percent in Q1 2020, marking the highest decline ever since the second world war. Since the economic activity is expected to be characterized with weak dynamics even prior to facing with the global pandemics, the decline marked in the first quarter was mainly attributable to the impact of the measures taken to prevent the spread of COVID-19 virus. The new economic and social crisis was reflected also from the dynamics of the prices in euro area, while the inflation rate reached 0.8 percent. In this period, also the Western Balkans is being faced with this unprecedented economic crisis, which based on the IMF, this region is expected to be characterized with a decline of 5.2 percent in 2020.

According to the estimates of Kosovo Agency of Statistics (KAS), real GDP growth rate marked an average increase of 4.2 in 2019, which basically was supported by the recovery of net exports. Due to the lack of official data for Q1 2020, being relied on other more frequently published indicators, the economic growth during this quarter is slowed down mainly as a consequence of the preventing measures taken against the spread of COVID-19. For the whole year of 2020, the CBK forecasts a decline of economic activity of 5.9 percent. Based on the key scenario, the second quarter is expected to mark the sharpest decline, with a gradual improvement of the activity in Q3 and a modest recovery in Q4 2020.

Consumer prices in Q1 2020 marked a slowdown increase of 1.1 percent (3.2 percent in Q1 2019), mainly as a result of the slowdown increase of food prices. Base inflation marked an increase of only 0.4 percent in Q1

2020. Fiscal sector, in Q1 2020, was characterized with an increase of revenues of 2.2 percent and a decline of budgetary expenditures of 2.3 percent. Consequently, Kosovo's budget recorded a primary budget deficit of EUR 23.5 million (a deficit of EUR 6.1 million marked in Q1 2019). Public debt reached EUR 1.2 billion, which is for 6.8 percent higher compared to Q1 2019. As a percentage to GDP, public debt reached 16.5 percent, from 16.3 percent as it was in Q1 2019.

Assets of financial system contracted for EUR 78.1 million in Q1 2020, mainly being impacted by the decline of assets of the pension sector and of the banking sector assets. The decline of pension sector assets is attributable mainly to the consequences of the global pandemic, a shock which was reflected in a considerable loss from investments in the foreign markets. Also, deposits held at the banking sector marked a decline compared to the previous period. Insurance sector was characterized with an activity expansion, an increase of the level of premiums and an increase of the profit realized. At the same period, microfinance sector marked a slowdown increase of its activity, a satisfactory level of the profit realized and low level of loans with problems. In Q3, the external sector was characterized with an increase of the current account deficit of 2.6 percent, an increase which is primarily attributed to the decline of the positive balance of services and primary income and the slight increase of the deficit of goods. The secondary income account was characterized with an increase. Within the balance of payments, remittances were characterized with an increase of 1.3 percent, while Foreign Direct Investments (FDI) marked an increase of 60.5 percent.

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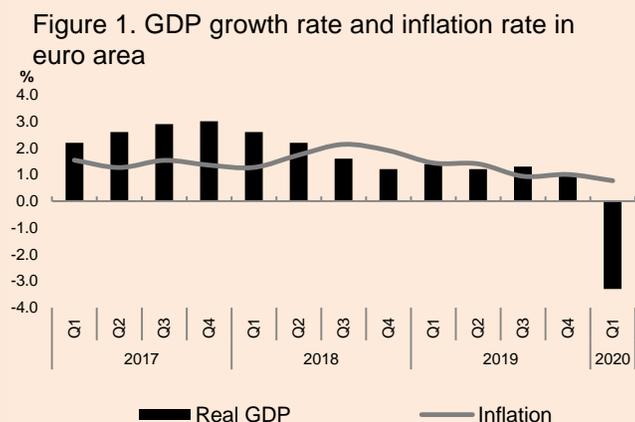
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## **ABBREVIATIONS**

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
WEO	World Economic Outlook

## Euro area and Western Balkans

The first quarter of 2020 was characterized with a decline of the economic activity of 3.2 percent (figure 1), which at the same time represents also the sharpest contraction of the economic activity since 1995 when Eurostat started to publish these time series.



The weak dynamic of the economic increase in the euro area countries in the last year as a consequence of the weakened global trade, the slowdown of the economic increase in China and the geopolitical increased uncertainties, was significantly deteriorated in this quarter. Measures taken to prevent the spread of COVID-19, since March, by the member states of the euro area were translated in a decline of the activity in almost all the member states. For 2020, mainly as a consequence of the health, economic and social crises caused by pandemics, the European Central Bank (ECB) has forecasted an economic decline of 8.7 percent.

The decline of the economic activity was translated in weak dynamics also in the level of euro area prices. In

Q1 2020, the average rate of the Harmonized Index of Consumer Prices in euro area was 0.8 percent (1.4 percent in Q1 2019) (figure 1).

Aiming at softening the effects of pandemics and assisting the economic recovery through the support of financing the real economy (especially businesses and households), in June 2020, the ECB took a decision on the new program of the quantity easing. This program, named as “Pandemic Emergency Assets Purchase Program” increased to EUR 1,35 billion, and is expected to continue until the end of June 2021.

Conversely, 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 3.9 percent, while loans to households expanded by 3.6 percent. On the other hand, with a high increase were characterized also deposits of the banking system, where enterprise deposits marked an increase of 7.4 percent, while household deposits increased by 5.7 percent.

In the Western Balkan countries, the economic activity in 2019<sup>1</sup> marked an increase of 3.4 percent, representing a slowdown increase compared to the previous year (4.0 percent). While for 2020, mainly as a consequence of the economic and social crises caused by pandemics COVID-19, the IMF has forecasted a decline of the economic activity at a rate of 5.2 percent in the region. For 2021, the IMF forecasts an economic recovery in the Western Balkans, namely an average increase of 6.7 percent (table 1).

<sup>1</sup> The data for Q1 2020 have not been published yet.

**Table 1. Real GDP growth rate**

Description	2017	2018	2019	2020	2021
Albania	3.8	4.1	2.2	-5.0	8.0
Bosnia and Herzegovina	3.1	3.6	2.7	-5.0	3.5
Kosovo	4.2	3.8	4.0	-5.0	7.5
Montenegro	4.7	5.1	3.6	-9.0	6.5
North Macedonia	1.1	2.7	3.6	-4.0	7.0
Serbia	2.0	4.4	4.2	-3.0	7.5

Source: IMF, WEO, April 2020

The average inflation rate in Q1 2020 was 1.0 percent, representing a lower rate compared with 1.8 percent as it was in Q1 2019. Lower inflation rates were present in all of the countries (table 2). This trend of the decline of inflation is expected to continue also in other following quarters and based on the IMF, the average inflation rate in 2020 is expected to be 0.7 percent.

**Table 2. Annual inflation rate**

Description	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1
Kosovo	0.0	0.7	1.4	2.2	3.2	3.3	2.6	1.7	1.1
Montenegro	3.7	3.7	2.4	1.7	0.4	0.5	-0.1	1.1	0.5
North Macedonia	2.6	2.3	2.2	1.9	1.9	1.4	0.1	-0.5	-0.1
Serbia	1.6	1.8	2.4	2.0	2.4	2.3	1.3	1.4	1.8
Albania	1.6	1.9	2.1	1.5	2.0	1.5	1.5	1.6	1.9

Source: National Statistics Offices of the respective countries

In Q1 2020, regarding the developments in the banking sector, the average increased rate of loans was 7.6 percent (7.4 percent in Q1 2019).

Countries which marked the lowest credit growth rates were Bosnia and Herzegovina and Montenegro (3.7 percent and 4.3 percent, respectively), while Kosovo and Albania were characterized with higher rates (9.2 percent and 9.1 percent, respectively). Conversely, deposits marked a slowdown increase. The average increased rate of deposits was 7.2 percent (8.6 percent in Q1 2019). In Kosovo and Serbia it was marked a higher increased rate of deposits and loans (13.6 percent, and 10.1 percent, respectively), followed by North Macedonia 7.5 percent, Bosnia Herzegovina with 7.2 percent, etc.

In Q1 2020, EUR currency marked a slight appreciation against Croatian kuna and Macedonian denar (0.9 percent and 0.1 percent, respectively), while it was depreciated against other currencies: Swiss franc with 5.8 percent, U.S. Dollar with 2.9 percent, Albanian lek with 1.5 percent, and 1.2 percent against British pound. EUR marked a depreciation also against Serbian dinar with 0.6 percent in the reporting period.

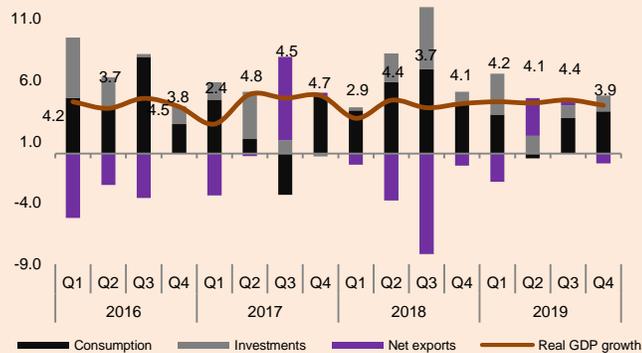
## Kosovo's Economy

### Real Sector

According to the quarter data of KAS, economic activity has marked an average increased rate of 4.2 percent in 2019 compared with 2018, when it had been marked an increase of 3.8 percent. Based on sectoral categories, the highest increase was marked by financial and insurance activities (12.2 percent), followed by extracting and processing industry (5.9 percent), trade (5.7 percent), and construction (5.6 percent).

Regarding the expenditures approach, economic activity was supported by positive contribution of the net export component (0.2 percentage points against the negative contribution of 3.7 percentage points in 2018). Also, the domestic demand had a positive contribution with 2.0 percentage points (3.8 percentage points in 2018) (figure 2).

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



Source: KAS (2020) and CBK calculations

Until December 2019, new consumer loans marked a decline of 4.1 percent, thus having an impact on the slowdown of consumption increase. Besides the decline of consumer loans also other financing sources as compensation of employees and expenses on wages of

the public sector were characterized with a slowdown increase. An important source of consumption being represented by remittances, was characterized with an accelerating increase. Almost the same level as in the previous year of the public investments and FDI has had an impact on the slowdown increase of the overall investments. Conversely, the slowdown of the increase of domestic demand affected 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 0.8 percent on real terms.

### Box 1. Assessing the impact of COVID-19 prevention measures on economic activity

Kosovo's economy during 2020 is being faced with an economic and social crisis caused by the COVID-19 pandemics. Movement restriction measures on the citizens and the closure of some certain economic activity, have caused an economic shock, being transmitted through the external channels and the domestic demand. Especially, the structure of the Kosovo's economy, which is highly dependent on the income flow from abroad (export of services and remittances, which all together comprise one third of the GDP), makes it very sensitive against this global shock. The assessment of the impact on the economic activity continues to be difficult and challenging, since there are still uncertainties about the length of the pandemic-namely if it will be possible to stop it by the end of the first wave during the second quarter of the year, or if there will be a new wave of the virus. Based on the basic assumptions that restriction measures will be lifted by the end of the second quarter, the CBK forecasts suggest a decline of 5.9 percent of the

economic activity in 2020. By lifting the restriction measures, it is forecasted a gradual recovery of the economic activity, albeit the pace and the recovery rate remain very much uncertain.

Being relied on some indicators with high frequency of publication, the CBK assesses that the economic activity in Q1 2020 has slowdown the increasing pace at 3.1 percent (from 4.2 percent in Q1 2019), being affected by the preventing measures against COVID-19 in the domestic demand, and the slight increase of the deficit of net exports. Restriction measures had an impact on the contraction of the economic activity especially in the months of April and May, hence the higher negative impact of COVID-19 pandemic is expected to be materialized in Q2, with negative effects on the economy which will be transferred also in Q3 2020. The economic activity is expected to mark a positive increase in Q4, based on the assumption that the restriction measures would not be taken back again. However, the spread of the contraction and the recovery will be significantly dependent on the length of the pandemics, controlling measures and the effects of the individual behaviors, and the success of the policies in softening the unfavorable impact on the income and employment.

Forecasts suggest that consumption, as the main component of domestic demand, is expected to mark a real decline of 2.9 percent in 2020, based on expectations that public consumption will decrease by 2.5 percent and private consumption by 3.0 percent. Expenses on salaries in the public sector marked an increase due to additional payment processed for a part of the staff of the public sector who were more exposed to the virus, whereas regarding the expenditures for

goods and services it is expected to have savings from that part that was budgeted. In terms of private consumption, the decline is expected to be caused by a direct impact factor (measures taken by the government to avoid gathering people by closing markets, banning the activities of many businesses such as gastronomy, transport, etc.) as well as by indirect factor (declining disposable income as a result of potential increase in unemployment and/or reduction of wages in the private sector, decrease in lending due to increased perceived risks, etc.). Also, as a result of the global nature of pandemic, external sources of consumer finance are expected to decline as a result of declining economic activity in countries where Kosovar migrants are located, restricting movement as a preventive measure for the spread of COVID-19. and potentially the protective approach that individuals may have to the risk. Remittances are expected to mark a decline of 4.7 percent, while compensation of employees is expected to mark a decline of 11.1 percent. The impact of COVID-19 on the private consumption in medium-term period is associated with many uncertainties, among others, from the dynamics of the consumers' behaviors and the efficiency of the potential of public policies.

Investments are expected to be characterized with a real decline of 12.1 percent in 2020, based on the forecasts of considerable decline of public investments (22.1 percent) and private investments (9.0 percent). Government capital expenditures are expected to have a low realization rate (62 percent), a rate that can be attributed to: late approval of the budget (the budget was not approved by the Assembly of Kosovo until March); expectations for a decline in budget revenues

as a result of the ban on the activity of a large number of businesses and the decline in imports; expectations that part of the capital expenditures be used for other purposes prioritizing over mitigating the negative effects on the economy caused by COVID-19. The shrinkage or the complete interruption of the activity in the services sector is expected to have an impact on the decline of private investments. Slowing down production as a result of supply difficulties and restricting movement is expected to increase the costs of doing business, while according to the bank lending survey, there may be a tightening of lending to some extent during the second quarter of the year. Also, the Foreign Direct Investments are expected to mark a decline (10.1 percent). From a sectoral point of view, services (especially tourism, transport and recreational and cultural services) are expected to be significantly affected by the measures taken to prevent the spread of the virus. The decline in cash flow, the inability to pay liabilities and the possible bankruptcy of companies are expected to negatively affect the decisions of the future investments.

Data on the performance of external trade in goods and services for Q1 2020, suggest a slowdown in growth. However, the early recovery signs of the trade balance in the beginning of 2020 were changed due to the effects of the pandemics. During January and February there was a very high growth, both in exports (19.9 percent) and imports (14.9 percent), while in March, when the austerity measures began due to pandemics, exports of goods and services declined by 31.4 percent while imports of goods and services declined by 12.7 percent. Given this declining trend of exports and imports as well as the paralysis of the economy caused

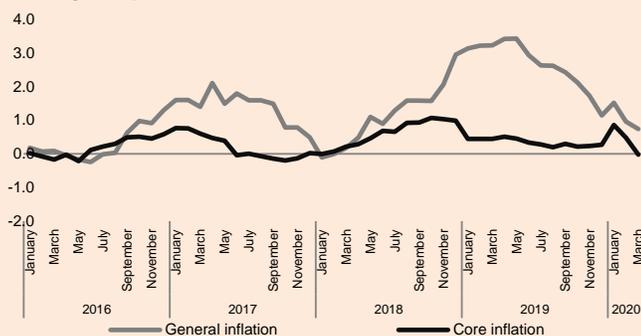
by COVID-19 especially during Q2 2020, external trade is expected to weaken especially in Q2 2020. For the whole year of 2020, trade deficit of goods and services is expected to be narrowed on real terms for 2.5 percent. A determining point is expected to be marked by the expected value of imports of goods and services for 7.9 percent (goods -6.1 percent, services with -16.4 percent). Export of goods and services is expected to mark a decline of 13.7 percent (goods -12.1 percent, services -14.1 percent). This decline of export, especially the decline of export of travel services (expenses of diaspora in Kosovo), is expected to have severe consequences for the Kosovo's economy given the high dependency of Kosovo on export of these services.

Based on KAS estimates, the average inflation rate during the period of January-April 2020 dropped at 0.9 percent, from 3.3 percent as it was in the same period of 2019. This decline of the inflation rate was mainly driven by the decline of oil prices, and the slowdown increase of food prices. The decline of the economic activity is expected to weaken the dynamics of the prices in the coming months. Expectations of the CBK suggest that the average inflation rate in 2020 will be 0.8 percent. Nevertheless, the implications of COVID-19 on inflation are accompanied by a high uncertainty, given that declining pressures, as a result of weakening the overall demand, may be partially offset by rising pressures related to circuit breakdowns of supply.

## Prices

The consumer price index marked a slowdown increase of 1.1 percent in Q1 2020, compared to the same quarter of 2019 when it had been marked an increase of 3.2 percent (figure 3).

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



Source: KAS and CBK calculations (2020)

The highest increase was recorded in the prices of health services, hotels, household furniture and goods and other services, which contributed with 0.48 percentage points to total inflation. Other categories marked a slowdown increase of prices, namely they were characterized with a decline. Prices of food and non-alcoholic beverages marked a significantly lower increase in Q1 2020 (1.6 percent) compared to the same period of 2019 (6.4 percent), however, due to the large weight in the consumer basket, contributed positively by 0.67 percentage points to the overall inflation (table 3).

Table 3. Contribution of specific categories to overall inflation

Description	Weight 2020	Inflation rate	Contribution
<i>Total</i>	100.0%	1.1	1.07
Food and non-alc. beverages	40.1%	1.6	0.67
Alcoholic beverages and tobacco	5.7%	-0.2	-0.01
Footwear and clothing	4.1%	-0.6	-0.02
Energy	7.7%	-0.3	-0.02
Furnishing	7.6%	2.0	0.15
Health	2.1%	4.2	0.09
Transport	15.7%	-0.1	-0.02
Communication	3.8%	1.0	0.03
Recreation	4.4%	-0.3	-0.01
Education	1.0%	0.1	0.00
Hotels	3.2%	2.5	0.08
Goods and other services	4.5%	3.7	0.16

Source: KAS and CBK calculations

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). In Q1 2020, core inflation stood at 0.4 percent, which resulted to be lower for 0.7 percentage points than the overall inflation.

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 in Q1 2020 marked an average decline rate of 0.6 percent (an increase of 3.4 percent in Q1 2019). Besides import prices, also producer prices were characterized with a decline which stood at 0.2 percent, albeit this rate was significantly lower compared to import prices.

## **Fiscal Sector**

Budget revenues<sup>2</sup> in Q1 2020 reached a net value of EUR 397.3 million, representing an annual increase of 2.2 percent, while budget expenditures<sup>3</sup> reached the value of EUR 373.7 million, representing an annual increase of 2.3 percent. Consequently, Kosovo's budget recorded a primary budget balance of EUR 23.5 million, compared to the budget balance of EUR 6.1 million marked in Q1 2019.

Within tax revenues, it was observed an increase of 3.3 percent of indirect tax revenues which reached the value of EUR 294.1 million. Indirect tax revenues are primarily related to import of goods, and comprise around 74.0 percent of total budget revenues. Conversely, direct tax revenues marked a decline of 3.4 percent and reached the value of EUR 65.9 million. Also, non-tax revenues marked a decline of 2.1 percent, reaching the value of EUR 44.8 million.

The slight decline of budget expenditures primarily is attributed to the delay of budget approval for 2020, undertaken by Kosovo's Assembly. The main category that contributed to the decline of budget expenditures was the category of capital expenditures, which marked a value of EUR 28.4 million and were characterized with a decline of 34.9 percent compared to Q1 2019.

With a decline of 5.9 percent were characterized also expenditures of goods and services (including also the municipal utilities), which reached the level of EUR 46.9 million. Other categories of budget expenditures were characterized with increase. Government expenditures on wages marked an increase of 3.5 percent, reaching the value of EUR 154.6 million, while subsidies and transfers increased by 3.0 percent and reached the value of EUR 143.9 million.

Public debt, in Q1 2020, reached EUR 1.2 billion, which is for 6.8 percent higher compared to Q1 2019. As a percentage to GDP, public debt reached 16.5 percent from 16.3 percent as it was in Q1 2019. This increase of public debt in Kosovo is attributed to the growth of domestic debt with 12.9 percent (which reached EUR 792.0 million), while public external debt fell to EUR 399.3 million, namely marking a decline of 3.6 percent compared to Q1 2019. The share of public external debt to total public debt decreased to 33.5 percent, from 37.1 percent as it was in Q1 2019. The threshold of public debt in Kosovo is set by law to 40 percent, and consequently the level of 16.5 percent ranks Kosovo in the position of the country with the lowest level of public debt compared to the region countries.

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<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.

### Financial Sector<sup>4</sup>

On quarter basis, financial system assets contracted by EUR 78.1 million, primarily being affected by the pension sector (EUR -56.5 million) and the banking sector (EUR -33.8 million). The decline of assets of these two sectors, especially of the pension sector, mainly is attributable to investments in foreign markets by announcing the pandemic situation on the global level. Although with limited effect, as the closure of the economy began only in the last two weeks of March 2020, the banking sector marked a decline in deposits held in the banking sector in Q1 2020 compared to the previous period. In Q1 2020, the performance of the banking sector was satisfactory, generating a net profit of a value of EUR 21.7 million. The higher increase in the level of income, by 11.8 percent (mainly from interest on loans), compared to the slower growth of expenditures, by 11.0 percent (mainly from non-interest and operating expenses), had an impact on the sector to realize net profits in record values during the first quarter of the year. Financial soundness indicators of the sector continued to stand at optimal values. Banking sector continued to be characterized with a high credit portfolio quality, with a low level of nonperforming loans and satisfactory coverage with loan loss provisions. The solvency and liquidity indicators, despite of marking a decline, continued to remain above the minimal level recommended by the regulation.

Although for the real economy and the banking sector the impact of the measures applied for the non-spread of Covid-19 virus will be largely evidenced in Q2 2020,

while the pension sector was also affected during Q1. The structure of the pension sector assets is mainly composed of assets invested abroad, which affected the negative fluctuations in global financial markets as a result of uncertainty caused by the pandemic crisis would be translated into negative returns from investments and consequently, a decline of sector assets. A factor which had a positive impact on assets of the sector were the new contributions of the pension sector, which marked an increase during this quarter.

Insurance sector during the first quarter of 2020 was characterized with an activity expansion, albeit at a lower level. The level of written premiums was higher compared to the same quarter of the previous year, influenced by the increase in prices of compulsory insurance premiums of vehicles at the end of the last year. The insurance sector recorded a profit increase this quarter, mainly as a result of the decline of claims incurred and the reduction of other operating expenses, which may have been affected by the undertaken preventing measures for the spread of COVID-19 in the last two weeks of Q1 2020.

In the reporting period, also the microfinance sector grew at a slower pace, mainly due to the slowdown in credit growth (especially for households). The banking sector activity was affected by increased uncertainties caused by pandemics and measures taken by institutions in order to prevent the spread of the virus, despite that measures were taken only in the last two weeks of this quarter. The sector realized a satisfactory level of net profits in this quarter, while the level of loans with problems at the end of the period (March

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<sup>4</sup>For more information on financial sector, please refer to: Quarterly Assessment of Financial System (Q1 2020) published at the CBK website.

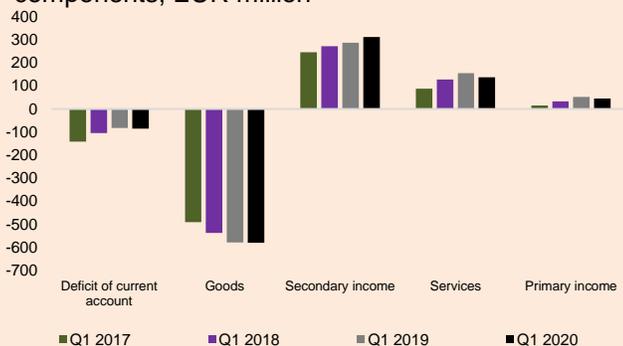
2020) has marked an increase compared to the previous period (March 2019), and also in the previous quarter (December 2019). Nevertheless, loans with problems remained at quite low levels and well provisioned.

In the securities market, the amount of the debt issued by the Kosovo's Government reached the value of EUR 55 million, which is significantly lower than in Q1 2019. As a consequence of the delay of the establishment of the institutions in the beginning of 2020, the demand from the Government was lower, while the the bid of the main participants of the securities market exceeded the ask.

### External Sector

In Q1 2020, the current account deficit amounted to EUR 84.6 million, which is for 2.6 percent higher compared to Q1 2019. The increase of the deficit of the current account is attributable to the decline of the positive balance of services and primary income and the slight increase of the deficit of goods.

Figure 4. Current account deficit and its components, EUR million



Source: CBK (2020)

During this period, the secondary income marked an increase (figure 4).

The deficit in goods<sup>5</sup> account reached the value of EUR 639.6 million in Q1 2020, representing an annual increase of 0.7 percent (an increase of 8.5 percent in Q1 2019). This slower increase of the trade deficit of goods was due to the significant increase of export of goods and the slow increase of import, unlike the same period of 2019 when it had been marked a higher increase of import of goods compared to export.

The export of goods reached a value of EUR 97.0 million, marking a considerable annual increase of 25.9 percent (5.1 percent in Q1 2019) (figure 5).

Figure 5. Export and import of goods, EUR million



Source: KAS (2020)

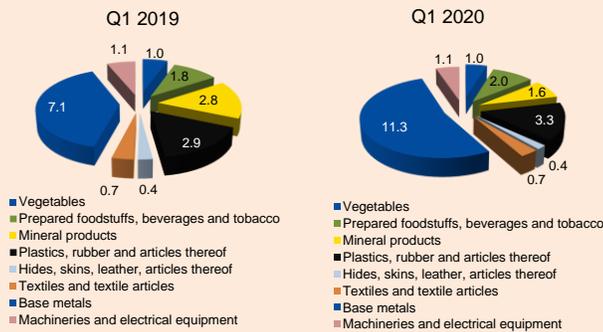
The increase of export of goods was more significant in base metals, products of plastics and rubber, prepared foodstuff, and beverages and tobacco. Conversely, a decline was marked by export of mineral products, leather and articles thereof etc. (figure 6).

The imports value of goods reached EUR 736.7 million, representing a slower increase of 3.4 percent compared

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

to the same period of the previous year when it had been marked an increase of 8.2 percent.

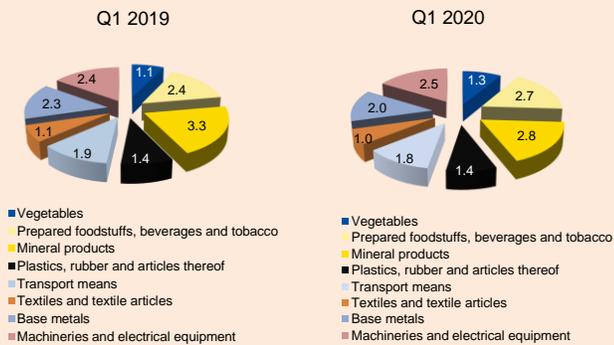
Figure 6. Structure of exports by category, in percent



Source: KAS (2020)

The slowdown in the growth of imports of goods has been mainly influenced by the lower level of imports of mineral products (mainly oil products) and base metals, categories which have been characterized by declining prices during Q1 2020. Conversely, import of prepared foodstuffs, beverages, tobacco, import of vegetables and import of machinery and electrical equipment marked an increase (figure 7).

Figure 7. Structure of imports by category, in percent



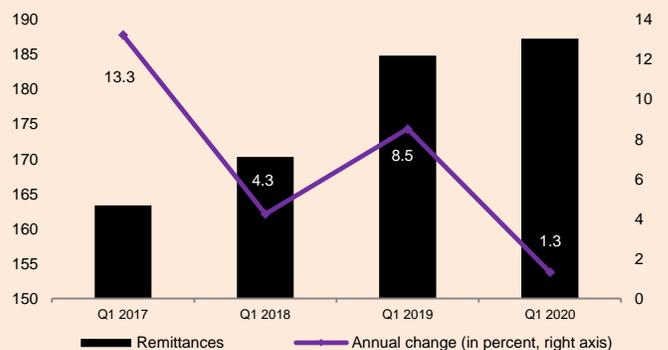
Source: KAS (2020)

The balance in trade of services marked a value of EUR 137.8 million, representing a decline of 11.5 percent compared to Q1 2019. The value of total exported

services marked an annual decline of 3.1 percent, reaching EUR 273.2 million, while the value of imported services marked an increase of 7.1 percent, reaching a value of EUR 135.5 million.

The balance of the primary income account marked a value of EUR 46.0 million, representing a decline of 12.3 percent. The balance of secondary income reached a value of EUR 312.1 million, which is for 8.3 percent higher compared to Q1 2019. The increase of the balance of the secondary income was marked in the months of January and February, a dynamic which changed due to the announcement of preventing measures against the spread of COVID-19. Remittances received in Kosovo marked a value of EUR 187.3 million, representing an increase of 1.3 percent compared to Q1 2019 (figure 8). Remittances marked a double digit increase in the months of January and February, while in March marked a decline of 13.9 percent.

Figure 8. Remittances, EUR million



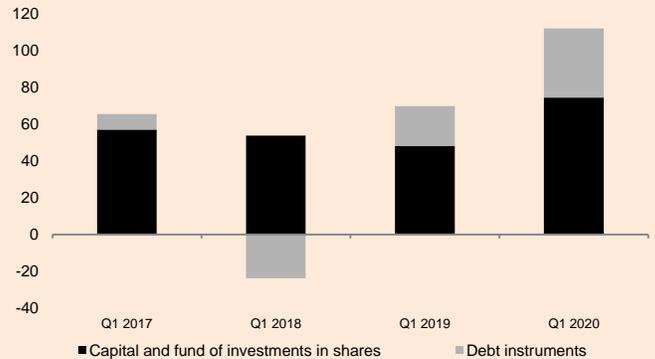
Source: CBK (2020)

Remittances received in Kosovo mainly come from Germany and Switzerland, which represent the countries with a share of 42.4 and 20.8 percent, respectively, of total remittances in Q1 2020. A

considerable amount of remittances was received also from the U.S.A, namely 7.3 percent of total remittances received in Kosovo.

Financial account of the balance of payments marked a value of EUR -86.3 million (EUR -23.9 million in Q1 2019). This increase of the negative balance of financial account was mainly as a result of investments abroad, such as portfolio investments , reserve assets or direct investments. Also, liabilities within the financial account marked an increase (32.4 percent). Within the financial account, FDI in Kosovo reached a value of EUR 112.0 million, which is for 60.5 percent higher compared to Q1 2019. Within FDI structure, capital and investments fund in shares reached the value of EUR 74.5 million, marking an increase of 55.1 percent, while FDI in the form of debt instruments marked an annual increase of EUR 72.5 percent and reached the value of EUR 37.5 million (figure 9).

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



Source: CBK (2020)

The increase of FDI was marked mainly in the sectors of energy, mining, real estate and financial services, while the sectors of construction and industry were characterized with a decline. Regarding the origin of FDI, Hungary represents the country from where came the majority of FDI in Q1 2020 (EUR 24.9 million), followed by Germany with EUR 20.4 million, Albania with EUR 16.0 million, Switzerland with EUR 12.0 million, U.S.A with EUR 7.7 million, etc.

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CBK (2020): Quarterly Assessment of Macroeconomic Developments No. 30 Q1 2020, of the Republic of Kosovo

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## Macroeconomic selected indicators

Description	Q1 2019	Q1 2020
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)*	6,726.1	7,079.6
Consumer prices (annual average)	3.2%	1.1%
Consumer prices (end of period)	3.2%	0.8%
Fiscal Sector* 2/		
Budget Revenues (in millions of EUR)	388.5	397.3
Budget Expenditures (in millions of EUR)	382.5	373.7
Primary balance (in millions of EUR)	6.1	23.5
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	6,513.1	7,174.0
of which : Banks	4,229.1	4,721.9
Loans	2,824.1	3,083.3
Deposits	3,383.7	3,845.4
<i>Interest Rates on Loans, end of period</i>	6.7%	6.3%
<i>Interest Rates on Loans, end of period</i>	1.5%	1.3%
Interest rate gap	5.2%	5.0%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-86.5	-82.7
of which: remittances	184.9	187.3
Financial account	-23.9	-86.3
Foreign Direct Investments in Kosovo	69.8	112.0
Portfolio investments, net	71.1	-17.4
Other investments, net	-152.2	54.1
International Investment Position (PNI), net*	-409.4	-401.6
Assets	4,766.2	5,162.7
Liabilities	5,175.6	5,564.3
External debt, total*	2,035.7	2,179.4
Private external debt	1,537.3	1,680.4
Public external debt	498.4	499.0

Source:

1/ KAS (2020).

2/ MF (2020).

3/ CBK (2020).

\*Data on GDP, IIP and external debt are as of December 2019.

