



### Summary

Euro area's economy, based on the preliminary data of Eurostat, was characterized with a slowdown economic activity increase, in Q1 2019 (with around 1.2 percent), while the inflation rate increased slightly (1.4 percent). Despite the slowdown increase of economic activity in euro area, Western Balkan countries were characterized with an accelerated growth of economic activity (3.4 percent in TM4 2018 from 2.8 percent in Q4 2017).

According to the recent Kosovo Agency of Statistics (KAS) data, real GDP growth rate marked an annual increase of 3.9 percent in 2018, which basically was supported by the increase of investments and consumption, whereas net exports had a negative impact. Due to the lack of official data for Q1 2019 which have not yet been published by KAS, thus being relied on other more frequently published indicators, the economic quarterly and annual growth, in Q1 2019, was estimated to have marked a lower rate. Estimates for lower growth rates are relied on slower growth of public consumption, the decline of public investments, the decrease of new loans and the increase of imported goods.

The price level of consumption in domestic economy increased by 3.2 percent, in Q1 2019, mainly as a result of the increase of foods prices. Core inflation (excluding food, energy, alcoholic beverages and tobacco), marked an increase of only 0.6 percent or 2.6 percentage points lower compared to the general inflation.

Fiscal sector, in Q1 2019 was characterized with an increase of budget revenues and expenditures with 10.4 percent and -4.5 percent, respectively. Consequently, taking into account higher increase of revenues and the decline of budget expenditures, Kosovo's budget marked a primary budgetary surplus of EUR 6.1 million (a surplus of EUR 48.6 million marked in Q1 2018). Public debt, in Q1 2019, reached EUR 1.1 billion, which is for 8.5 percent higher compared to Q1 2018. The increase of public debt in Kosovo is attributable to domestic debt increase, while the external public debt was characterized with a decline. As a percentage to GDP, public debt reached 16.3 percent from 16.1 percent as it was in Q1 2018.

In the first two months of 2019, the external sector was characterized with an annual deficit increase of current account of 38.2 percent. This increase of current account deficit was attributable to goods deficit increase and the decline of the surplus of services and of primary income, whereas the balance of secondary income marked an increase. Within the balance of payments, remittances and Foreign Direct Investments (FDI) marked an annual increase of 4.5 percent and 54.9 percent, respectively.

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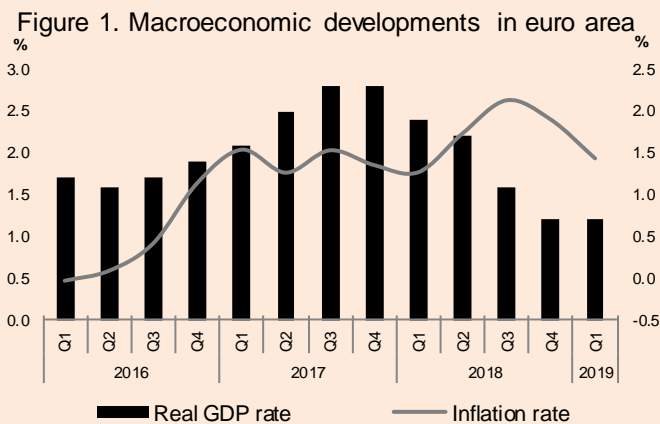
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## **ABBREVIATIONS**

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
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 Q1 2019, euro area economy marked an annual increase of 1.2 percent, representing a slowdown economic increase compared to the previous growth of 2.1 percent marked in Q1 2018.



The slowdown economic activity was attributable to negative developments with which euro area was characterized in 2018, interrelated to protectionism, increase of tariffs and other trade barriers, the increase of a no-deal Brexit possibility, the decline of automobile manufacturing, etc. The negative developments have 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 (1.7 percent in 2019, and 1.5 percent in 2021).

In Q1 2019, the average of Consumer Harmonized Price Index, in euro area was 1.4 percent, representing a slightly higher level compared to Q1 2018 (figure 1). An important contribution to the increase of inflation rate was given by monetary expansionary policies and non-conventional measures taken by the ECB within the quantitative easing program. Moreover, 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 -0.40 percent, respectively). Also, the Supervisory Committee has noted that aims at continuing reinvestment on full principal payments by assets that mature (which were bought within the program), for a lengthened period of time, for as long as it is assessed as needed to ensure favorable conditions of liquidity in the market.

Credit and depository activity, in euro area continued to increase also in Q1 2019, by which were characterized enterprises and households as well. Loans to enterprises marked an increase of 2.4 percent, while loans to households expanded by 3.1 percent. Conversely, deposits of the banking system have marked a further increase reaching a growth rate of 5.7 percent.

Economic activity in the Western Balkans, in Q4 2018<sup>1</sup> has marked an annual average increase of 3.4 percent (2.8 percent in Q4 2017). Montenegro and Kosovo

<sup>1</sup> The data for Q1 2019 have not been published yet, whereas for Bosnia and Herzegovina the data for Q3 2018 and Q4 2018 have not been published either.

marked a higher increase, being followed by Serbia, Albania and North Macedonia (table 1).

**Table 1. Annual real GDP growth rate**

Description	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Bosnia and Herzegovina	-3.0	0.9	10.5	2.5	2.0	3.4		
Kosovo	2.8	4.4	4.4	3.2	3.5	4.7	3.4	3.8
Montenegro	2.9	5.0	4.8	3.9	4.5	4.9	5.0	4.8
North Macedonia	0.0	-1.3	1.5	1.0	-0.1	4.9	2.8	2.0
Serbia	1.6	1.8	2.2	2.5	4.8	4.9	4.1	3.4
Albania	3.9	4.3	3.5	3.7	4.3	4.2	4.7	3.1

Source: National Statistics Offices of the respective countries

Inflation in Western Balkans was characterized with a slight increase, which in Q1 2019 marked an average rate of 1.8 percent (1.6 percent in Q1 2018). Higher inflation rates were marked in Kosovo and Serbia, whereas in Montenegro, Albania and North Macedonia inflation rates were lower.

**Table 2. Annual inflation rate**

Description	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
Bosnia and Herzegovina	1.1	1.2	1.3	1.3	0.8	1.4	1.8	1.8	
Kosovo	1.6	1.9	1.7	0.7	0.0	0.7	1.4	2.2	3.2
Montenegro	2.5	2.5	3.3	2.9	3.7	3.7	2.4	1.7	0.4
North Macedonia	0.5	1.2	1.6	2.2	1.5	1.5	1.6	1.2	1.2
Serbia	3.1	3.7	3.0	2.9	1.6	1.8	2.4	2.0	2.4
Albania	3.8	3.6	2.7	2.7	1.9	2.2	2.2	1.8	1.6

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 Q1 2019, the average increased rate of loans was 7.2 percent (5.6 percent in Q1 2018). Countries which marked higher credit growth were Montenegro and Kosovo (11.4 percent and 10.2 percent, respectively) while other countries were characterized with lower increase of lending, except Albania which reported to have marked a decline in lending with 0.2 percent. Deposits marked higher growth rates compared to loans increase. On the region level, the average increased rate of deposits was 7.7 percent, in Q1 2019. The highest increased rate of deposits was marked in Serbia with 10.4 percent,

followed by Kosovo with 10.1 percent, North Macedonia with 9.6 percent, Bosnia and Herzegovina with 8.5 percent, etc.

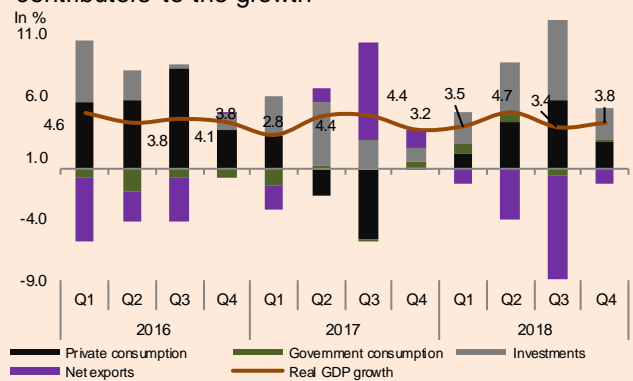
During Q1 2019, EUR appreciated against the Turkish lira with 29.1 percent, whereas it was depreciated against other major currencies and also against the currencies of the region. EUR was depreciated against U.S. dollar with 8.4 percent, Swiss franc with 3.2 percent, Albanian lek with 4.8 percent, Croatian kuna with 0.2 percent and Serbian dinar with 0.2 percent.

## Kosovo's Economy

### Real Sector

Based on the preliminary data of KAS, real GDP during 2018 is estimated to have marked an increase of 3.9 percent. The main contribution to the growth came from investments with 4.0 percentage points and consumption with 3.5 percentage points. Conversely, net exports, as a result of the significant increase of imports and the decline of exports, have had a negative contribution to the GDP growth with -3.7 percentage points (figure 2).

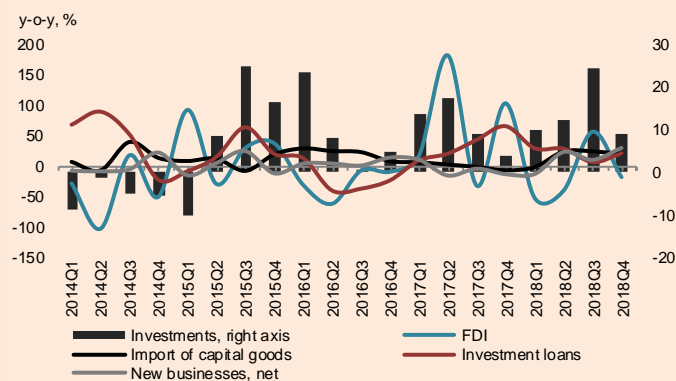
Figure 2. Real GDP growth rate and main contributors to the growth



Source: KAS (2019) and CBK calculations

The positive contribution of total investments is primarily attributable to the increase of new investment loans with 20.9 percent, the increase of government capital expenditures with 13.4 percent, while also the import of capital goods marked an increase of 18.2 percent (figure 3).

Figure 3. Indirect indicators of private investments



Source: KAS (2019) and CBK calculations

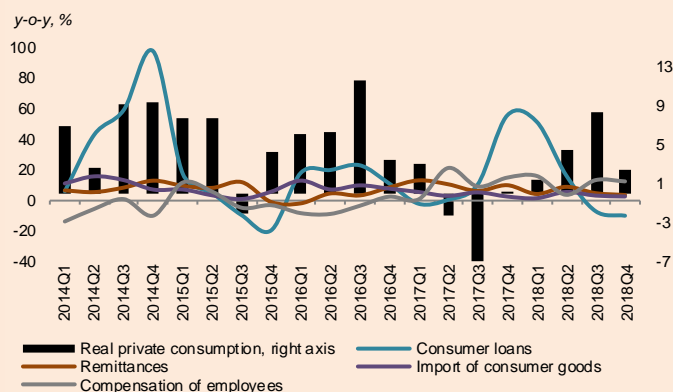
Private consumption has contributed with 3.2 percentage points (-1.2 percentage points in 2017). This contribution was supported by positive developments which were marked in the main financing sources of private consumption.

Remittances and compensation of employees have marked an annual growth of 5.4 and 11.0 percent, respectively. Another indicator of the increase of private consumption, in 2018, was also the increase of import of consumer goods, which marked an increase of 8.9 percent (figure 4). Besides the increase of private consumption, also current expenditures of the government marked an increase of 9.2 percent in 2018.

Based on manufacturing method, the highest contribution to real GDP growth in 2018 was marked by trade (1.1 percentage points), financial and insurance activities (0.7 percentage points each), and

construction (0.7 percentage points), whereas industry had a negative contribution to real GDP growth (0.2 percentage points).

Figure 4. Private consumption and financing sources



Source: KAS (2019) and CBK calculations

Although, the official data of KAS on real GDP, for Q1 2019, have not been published yet, based on other indicators which are published more frequently, the CBK estimates that the quarterly and annual economic growth during this quarter is expected to be lower. CBK expectations for a lower growth mainly are supported on the dynamic changes in the fiscal sector in the beginning of the year (a slower increase of public consumption and the decline of public investments), and also to the decrease of new loans and the increase of goods import.

Regarding consumption, the CBK projections suggest a slower increase. New consumption loans marked a decline of 15.7 percent in Q1 2019, while remittances marked an increase of 4.5 percent in January and February, representing a slower increase compared to the increase of 9.5 percent that had been marked in the same period of 2018. Also current expenditures of the government which marked an increase of 6.0 percent in Q1 2019 (12.0 percent in Q1 2018) suggest for

decelerated increase of public consumption. Conversely, it was observed a significant increase of import of consumer goods with 8.9 percent in Q1 2019 (an increase of 1.7 percent in Q1 2018). Also indirect indicators of investments show not so positive signals in Q1 2019. Capital expenditures of the government and new investment loans have marked a decline of 46.2 percent and 6.4 percent, respectively. On the other hand, FDIs may have had mitigated these negative impacts on the increase of total investments, since they have marked an increase 54.9 percent in the first two months of 2019.

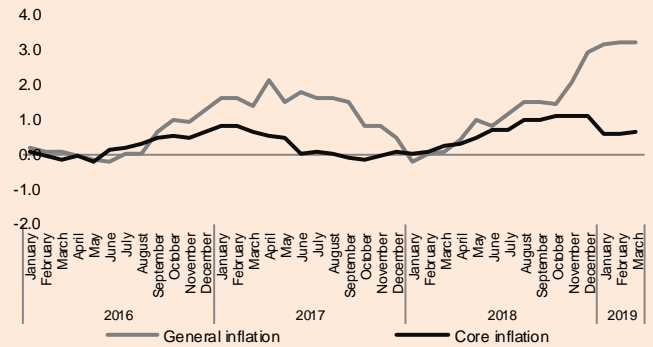
Despite the negative developments marked in the beginning of 2019, CBK projections suggest that the economic activity during 2019 will mark a slight improvement compared to 2018, reaching the rate of 4.2 percent. This slight improvement is mainly attributable to the expectations of decreasing the negative contribution of net exports in the economic activity, but also to the strengthened fiscal incentive and the increase of remittances and FDIs, which are expected to continue to be sustainable sources for financing the economic activity.

**Prices**

Consumer Price Index, in Q1 2019, marked an average increase of 3.2 percent (0.0 percent in Q1 2018) (figure 5).

Regarding the CPI components, in Q1 2019, with an increase were characterized prices of foodstuff and non-alcoholic beverages (6.4 percent), followed by prices of alcoholic beverages and tobacco (3.3 percent), and prices of transport (2.7 percent), etc.

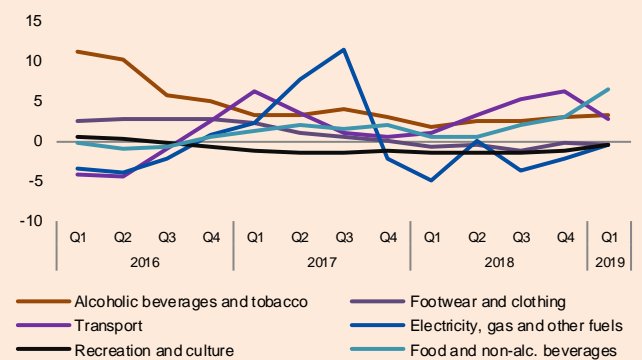
Figure 5. General inflation and base inflation, annual change in percent



Source: KAS and CBK calculations (2019)

Conversely, a slight price decline was marked by electricity, gas and other fuels (0.4 percent), prices of recreation and culture (0.5 percent), prices of footwear and clothing (0.5 percent), etc. (figure 6).

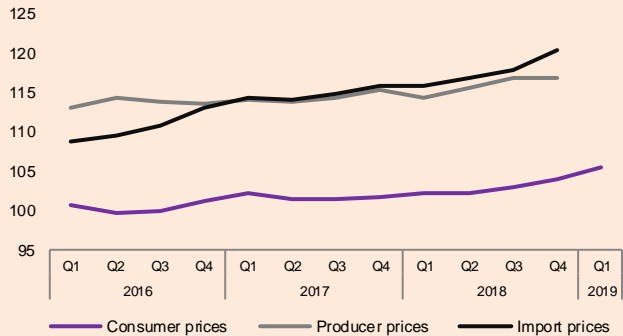
Figure 6. Price movements by main components, annual change in percent



Source: KAS (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), henceforth, also the base inflation which excludes these components, is more stable (figure 5). In Q1 2019, core inflation stood at 0.6 percent, which resulted to be lower for 2.6 percentage points than the overall inflation.

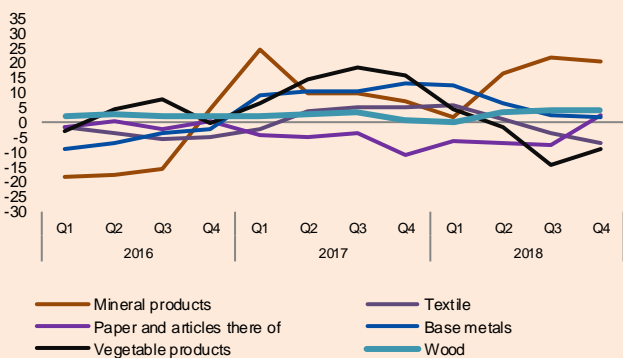
Figure 7. Consumer, producer and import price indices



Source: KAS (2019)

As a consequence of the high dependence of Kosovo's economy on imports, the dynamic of the price movements in Kosovo is highly affected by the fluctuations of import prices. Import price index in Q4 2018 marked an increase of 3.9 percent (figure 7).

Figure 8. Price movements of import prices, annual change in percent



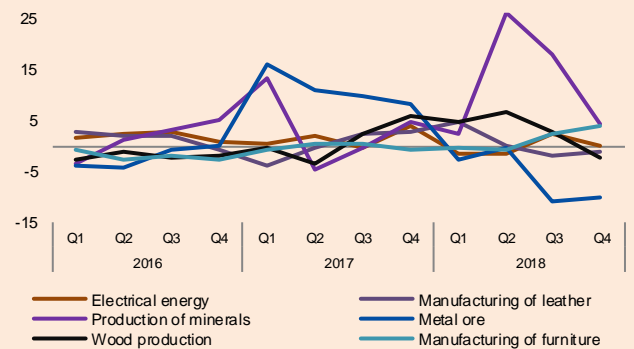
Source: KAS (2019)

Prices of mineral products and base metals, which comprise the main categories within import price indices, marked an increase of 20.7 percent and 2.0 percent, respectively, while prices of vegetable products and prices of paper and articles thereof

marked a price decline of 8.6 percent and 7.2 percent, respectively (figure 8).

In Q4 2018, producer price index was characterized with an annual increase of 1.3 percent.

Figure 9. Producer price movements, annual change in percent



Source: KAS (2019)

The highest price increase was marked by metals production and furniture manufacturing (4.2 percent and 3.9 percent, respectively), while with a price decline were characterized extracting of iron ore and manufacturing of leather (10.3 percent, and 1.3 percent, respectively) (figure 9).

### Fiscal Sector

Budget revenues<sup>2</sup>, in Q1 2019, reached a net value of EUR 388.5 million, representing an annual increase of 10.4 percent. Regarding the type of taxes, it was observed a higher increase of direct taxes which reached the value of EUR 68.2 million (an increase of 9.0 percent), while indirect tax income marked an annual increase of 8.9 percent and reached the value of EUR 284.7 million. Non-tax revenues marked an

<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.



increase of 11.4 percent and reached the value of EUR 45.8 million.

Whereas, regarding budget expenditures<sup>3</sup>, they reached a value of EUR 382.5 million, representing an annual decline 4.5 percent. This decline 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 decline of budget expenditures was the one of capital expenditures which stood at EUR 43.5 million, representing a decline of 46.2 percent, compared to Q1 2018. Other categories of budget expenditures were characterized with an increase. Government expenditures on wages and salaries marked an increase of 4.0 percent and reached a value of EUR 149.4 million. Government expenditures on goods and services (including municipal utilities) marked an increase of 1.9 percent, reaching a value of EUR 49.8 million. Subsidies and transfers increased by 9.8 percent and reached the value of EUR 139.7 million. Consequently, taking into account higher increase of revenues and the decline of budget expenditures, Kosovo's budget marked a primary budgetary surplus of EUR 6.1 million (a surplus of EUR 48.6 million marked in Q1 2018).

Public debt, in Q1 2019, reached EUR 1.1 billion, which is for 8.5 percent higher compared to Q1 2018. As a percentage to GDP, public debt reached 16.3 percent from 16.1 percent as it was in Q1 2018. This increase of public debt in Kosovo is attributed to the growth of domestic debt with 14.5 percent (which reached EUR 701.6 million), while public external debt declined with

0.4 percent, reaching EUR 414.1 million. The share of public external debt to total public debt decreased to 37.1 percent from 40.4 percent as it was in Q1 2018.

Despite the increase marked, this level is still far from the threshold of 40 percent set by the law. Moreover, this level of the public debt ranks Kosovo as the country with the lowest level of public debt compared to the region countries, which according to the IMF, their public debt averages 54.3 percent.

### **External Sector**

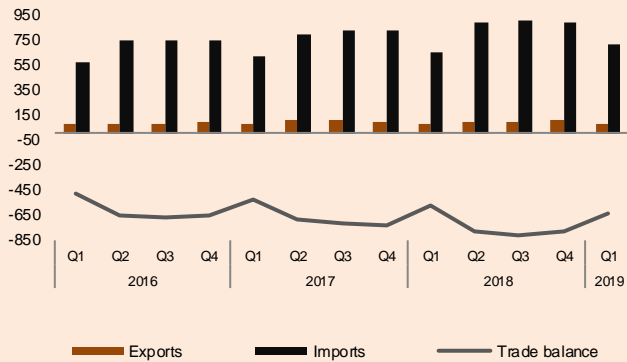
In the first two months of 2019, the current account deficit amounted to EUR 93.5 million which is for 38.2 percent lower compared to the same period of 2018. This increase of current account deficit is attributable to goods deficit increase and the decline of the surplus of services and of primary income, whereas the balance of secondary income marked an increase.

The deficit in goods account<sup>4</sup> reached EUR 635.2 million in Q1 2019, representing an annual increase of 9.1 percent. While in 2018 it was marked a decline of goods export, in Q1 2019 there was marked an increase of export of goods and a higher increase of import. The high level of goods import resulted in a decline of coverage rate of imports by exports at 10.8 percent from 11.2 percent in Q1 2018.

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

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

Figure 10. Export and import of goods, in millions of EUR

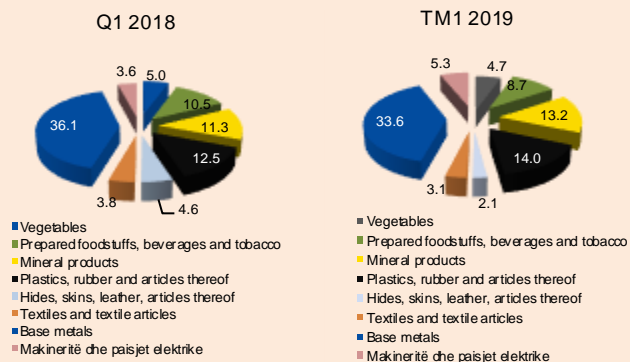


Source: KAS (2019)

In Q1 2019, export of goods amounted to EUR 77.1 million, which is for 5.1 percent higher compared to Q1 2018 (figure 10).

The increase of export of goods during this quarter was more significant in mineral products, plastics, rubber, and machinery and electrical equipment. Conversely, a decline was marked by export of leather and articles thereof, prepared foodstuffs, base metals, etc. (figure 11).

Figure 11. Structure of exports by category, in percent

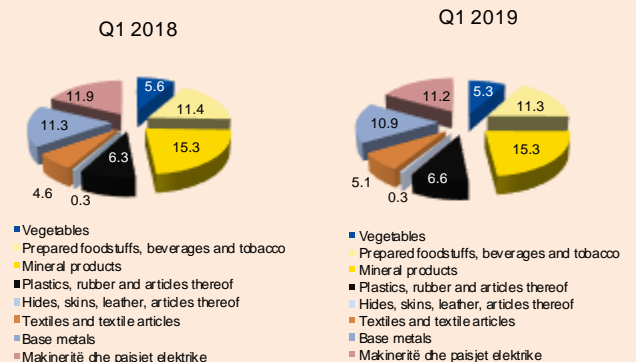


Source: KAS (2019)

In Q1 2019, the value of imported goods amounted to EUR 712.3 million, which is for 8.6 percent higher compared to Q1 2018. A higher increase was marked by import of mineral products, plastics, rubber and

articles thereof, import of textile and articles of it, etc. (figure 12).

Figura 12. Structure of imports by category, in percent

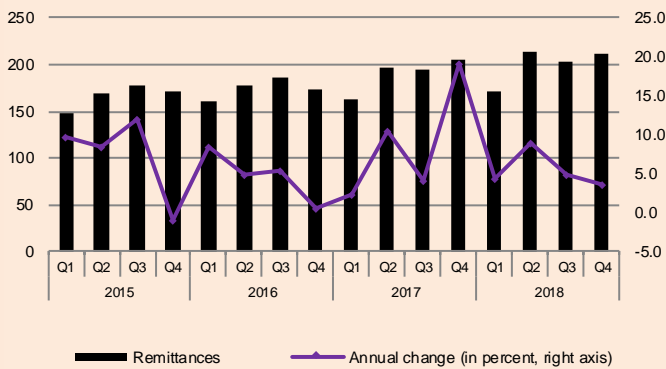


Source: KAS (2019)

The balance in trade of services marked a value of EUR 55.5 million until February 2019, representing a decline of 1.6 percent compared to the same period of 2018. The value of total exported services marked an annual increase of 3.3 percent, reaching EUR 128.9 million, while the value of imported services marked a decrease of 4.6 percent, reaching a value of EUR 73.4 million.

The balance of the primary income account reached the value of EUR 11.3 million, until February 2019, representing a decline of 55.1 percent. At the same time, the balance of secondary income marked an increase of 3.4 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 113.0 million until February 2019, or 4.5 percent higher compared to the same period of 2018 percent (figure 13).

Figure 13. Remittances, in millions of EUR



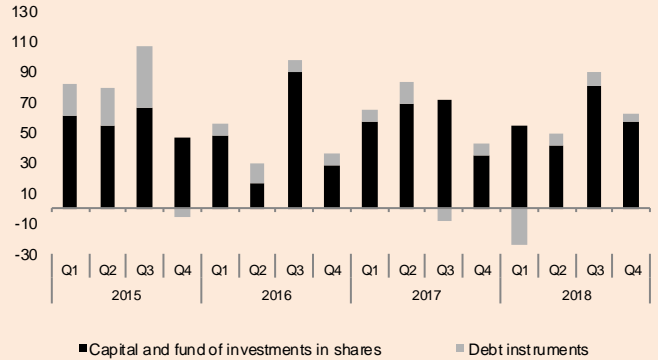
Source: CBK (2019)

Remittances received in Kosovo mainly come from Germany and Switzerland, which represent the countries with a share of 40.4 and 21.7 percent, respectively, of total remittances. A considerable amount of remittances was received also from the U.S.A, namely 6.7 percent of total remittances received in Kosovo.

Financial account marked a balance of EUR 41.8 million, in February 2019, (EUR 11.8 million in February 2018). Within the financial account, foreign direct investments (FDI), amounted to EUR 44.7 million, marking an increase of 54.9 percent compared to the same period of 2018.

Within FDI structure, capital and investments fund in shares reached the value of EUR 41.2 million marking an increase of 21.1 percent, while FDI in the form of debt instruments marked a value of EUR 3.4 million (EUR -5.2 million in the same period of 2018) (figure 14).

Figure 14. 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 29.1 million), albeit comparing to the same period of 2018 it was marked a decline of 5.7 percent. The second sector by importance was financial services sector, where the FDI level amounted to EUR 11.5 million or 47.4 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 10.3 million), followed by Switzerland with EUR 5.6 million, the U.S.A with 4.3 million, etc.

**The suggested citation of this publication:**

CBK (2019): Quarterly Assessment of Macroeconomic Developments No. 26 Q1 2019, Central Bank of the Republic of Kosovo

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## Macroeconomic selected indicators

Description	Q1 2018	Q1 2019
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	1,298.8	-
Consumer prices (annual average)	0.0%	3.2%
Consumer prices (end of period)	0.1%	3.2%
Fiscal Sector* 2/		
Budget Revenues (in millions of EUR)	352.1	388.5
Budget Expenditures (in millions of EUR)	400.7	382.5
Primary balance (in millions of EUR)	-48.6	6.1
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,905.3	6,513.1
of which : Banks	3,872.8	4,229.1
Loans	2,534.3	2,824.1
Deposits	3,074.0	3,383.7
<i>Interest Rates on Loans, end of period</i>	6.8%	6.7%
<i>Interest Rates on Loans, end of period</i>	1.2%	1.5%
Interest rate gap	5.6%	5.2%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-71.9	-95.6
of which: remittances	108.2	113.0
Financial account	11.8	41.8
Foreign Direct Investments in Kosovo	28.8	44.7
Portfolio investments, net	4.3	-56.0
Other investments, net	-19.0	-13.4
International Investment Position (PNI), net*	-115.1	-310.9
Assets	4,829.9	4,763.4
Liabilities	4,944.9	5,074.4
External debt, total*	2,088.5	2,011.8
Private external debt	1,589.2	1,517.0
Public external debt	499.3	498.1

Source:

1/ KAS (2019), the data for GDP for Q1 2019 have not been published yet;

2/ MF (2019);

3/ CBK (2019).

\*Data for the fiscal sector are until February 2019, whereas for IIP and external debt are until December 2018.

