

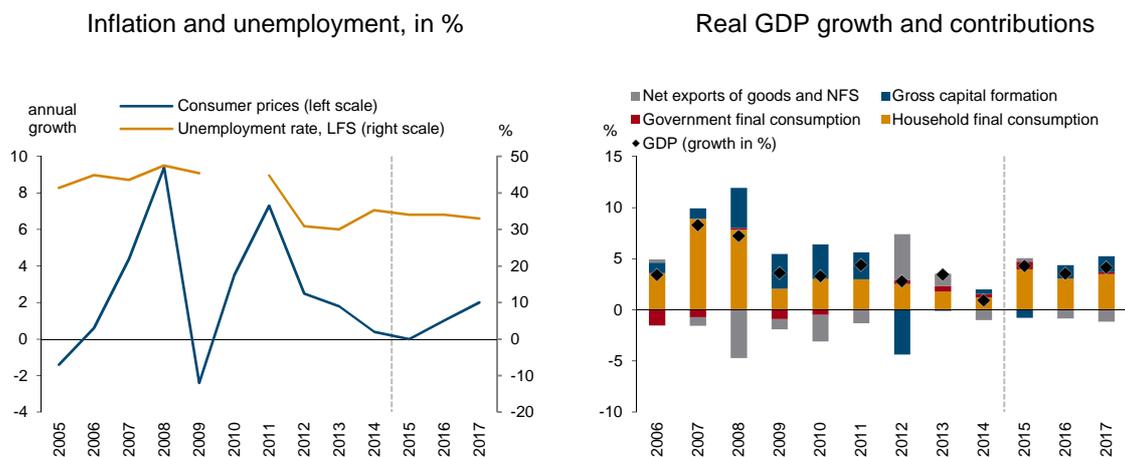


KOSOVO: Ambiguous past but strong future growth

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The growth outlook for Kosovo remains stable. GDP growth in 2015, 2016 and 2017 is expected to hover around 4%, mainly on account of strong household consumption fuelled by pre election public wage increases and a rise in remittances, as well as improved dynamics in gross fixed capital formation over the medium term. The GDP growth figures for 2014 are ambiguous, with the Agency of Statistics and the Central Bank publishing diverging figures. That ambiguity hints at the need for improved statistics.

Figure 48 / Kosovo: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

Although Kosovo statistics have improved substantially over the past several years, there is still scope for enhancement, also in the way data are presented. In recent reports, both the Central Bank of Kosovo (BQK) and the IMF have published a real GDP growth figure of 2.7% for the year 2014. However, data by the Kosovo Agency of Statistics (ASK) suggests that the real output growth rate in 2014 was only 0.9%. (the presumably low economic growth in 2014 was mainly on account of disappointing figures for investment and a temporary electricity production breakdown). An unambiguous and reconciled presentation of data would be very much welcomed as it has also substantial consequences for economic forecasting and consequently policy-making. The wiiw statistics department is in the process of contacting the involved institutions in order to clarify the issue. At the moment we stick to the ASK figures.

In other statistics, recent economic trends have mostly confirmed the latest wiiw forecast update in summer. Hence, overall GDP growth forecasts for the coming years have not been changed. A major driver of the current developments is a peculiar shift in the budget structure in the wake of last year's parliamentary elections. In the public sector, expenditures on wages and salaries were strongly increased whereas capital expenditures massively slashed. This trend will continue for the whole year 2015 as well. Government data for the first seven months of the current year show that compared to the same period of the previous year public payments for wages and salaries have increased by more than 10% while public investment has decreased by almost 12%. Overall government expenditures have increased by more than 4%. At the same time revenues soared by more than 12%, suggesting that, on the one hand, economic activity is picking up and, on the other hand, in net terms the public sector is a drag on the economy, at least in 2015.

Private investment was able to compensate for a part of the cuts in government capital spending. From January to July, cumulative new investment loans increased by more than 12% on the year. Investment was supported by a further significant reduction of effective interest rates on loans to levels of around 8%. Moreover, FDI tripled in the first half of 2015 on the year (from a very low basis); nearly all new projects were realised in the banking, real estate and business activities sectors though. It is questionable to what extent the real sector has benefited from the FDI inflow. Over the medium term it is more important that in April 2015 the Kosovo government signed a EUR 409 million (about 7% of GDP) investment deal for the Brezovica ski resort with a French consortium. Even if only a fraction of the announced sum is invested, this would constitute an important boost for Kosovo's small economy.

Household consumption is fuelled not only by rising wages in the public sector. Over the period of January-July 2015 consumer loans increased by almost 7% year-on-year. Moreover, mortgage loans expanded by some 42% (from low levels though). Even more importantly, remittances increased by about 16% in the first half of 2015 as compared to the same period a year earlier (probably related to intensified Kosovo outward migration). All of this happened against the backdrop of declining inflation rates (since December of last year) which also helped to slightly weaken the country's real effective exchange rate. For the first seven months of this year customs statistics reported an increase in exports by more than 13% and in imports by almost 5% year-on-year (the trade deficit still widened by some 4%).

Overall, we expect real GDP growth to strongly accelerate in 2015 to 4.3%, mainly owing to the wage increases in the public sector and the strong influx of remittances. In the medium term, private investment should replace household consumption as the strongest growth driver. The Kosovo diaspora's remittances are expected to continue to remain important as well, particularly since growth in both Germany and Switzerland – the two main targets of emigration from Kosovo – is forecast to pick up as well in the years to come. Another positive external factor is the further rapprochement of Kosovo and Serbia. The two neighbours signed a landmark accord on 25 August, under the pressure from the EU and Germany. The Community of Serb majority municipalities in Kosovo will be granted considerable autonomy. This agreement will hence contribute to further normalisation of relations between Kosovo and Serbia and will support the region's integration to the EU.

Table 15 / Kosovo: Selected economic indicators

	2011	2012	2013	2014 ¹⁾	2014 January-June	2015	2015 Forecast	2016 Forecast	2017
Population, th pers., average ²⁾	1,796	1,807	1,818	1,813	.	.	1,830	1,847	1,860
Gross domestic product, EUR mn, nom. ³⁾	4,815	5,059	5,327	5,485	2,553	.	5,700	6,000	6,400
annual change in % (real)	4.4	2.8	3.4	0.9	-0.4	.	4.3	3.5	4.1
GDP/capita (EUR at exchange rate) ³⁾	2700	2800	2900	3000	.	.	3,100	3,200	3,400
GDP/capita (EUR at PPP) ³⁾	6200	6500	6700	7000	.	.	.	.	.
Consumption of households, EUR mn, nom. ³⁾	4,142	4,458	4,652	4,815	.	.	.	.	.
annual change in % (real)	3.5	2.9	2.0	1.4	.	.	4.5	3.5	4.0
Gross fixed capital form., EUR mn, nom. ³⁾	1,476	1,317	1,323	1,300	.	.	.	.	.
annual change in % (real)	8.1	-13.6	-0.2	0.0	.	.	-3.0	5.0	6.0
Gross industrial production ³⁾⁴⁾									
annual change in % (real)	-5.7	14.9	10.4	-2.3	.	.	8.0	4.0	5.0
Gross agricultural production ³⁾⁴⁾									
annual change in % (real)	0.2	-8.5	1.4	0.4	.	.	.	.	.
Construction output ³⁾⁴⁾									
annual change in % (real)	18.0	-8.5	2.6	-6.0	.	.	.	.	.
Employed persons, LFS, th, average ⁵⁾	280	303	338	324	.	.	330	340	350
annual change in %	.	.	11.7	-4.4	.	.	3.0	3.0	4.0
Unemployed persons, LFS, th, average ⁵⁾	228	136	145	177	.	.	170	180	170
Unemployment rate, LFS, in %, average ⁵⁾	44.8	30.9	30.0	35.3	.	.	34.0	34.0	33.0
Unemployment rate, reg., in %, end of period	.	.	.	.	.	.	.	.	.
Average monthly net wages, EUR	348	354	356	416	399	432	460	460	480
annual change in % (real, net)	13.4	-0.8	-1.2	16.4	11.8	8.7	10.0	0.0	2.0
Consumer prices, % p.a.	7.3	2.5	1.8	0.4	0.3	-0.4	0.0	1.0	2.0
Producer prices, % p.a.	4.5	1.9	2.5	1.7	0.2	4.2	4.0	2.0	2.0
General governm.budget, nat.def., % of GDP									
Revenues	27.2	27.3	25.5	24.6	.	.	27.0	28.0	28.0
Expenditures	28.3	28.6	28.0	27.6	.	.	29.0	29.0	30.0
Deficit (-) / surplus (+)	-1.1	-1.2	-2.5	-3.0	.	.	-2.0	-1.0	-2.0
Public debt, nat.def., % of GDP	5.3	8.1	8.9	10.6	10.3	11.2	12.2	12.6	13.8
Central bank policy rate, % p.a., end of period ⁶⁾	13.9	12.9	11.1	9.2	10.6	7.6	7.0	6.0	6.0
Current account, EUR mn ⁷⁾	-658	-380	-339	-437	-193	-224	-500	-480	-520
Current account, % of GDP ⁷⁾	-13.7	-7.5	-6.4	-8.0	-7.6	.	-8.8	-8.0	-8.1
Exports of goods, BOP, EUR mn ⁷⁾	317	282	292	324	142	158	360	380	400
annual change in %	5.8	-10.9	3.4	11.3	-5.2	11.9	11.0	5.6	5.3
Imports of goods, BOP, EUR mn ⁷⁾	2,364	2,332	2,287	2,383	1,072	1,099	2,500	2,600	2,730
annual change in %	15.8	-1.3	-1.9	4.2	1.3	2.5	4.9	4.0	5.0
Exports of services, BOP, EUR mn ⁷⁾	625	641	633	767	290	322	850	900	960
annual change in %	8.9	2.6	-1.4	21.3	12.8	10.9	10.8	5.9	6.7
Imports of services, BOP, EUR mn ⁷⁾	369	318	320	431	152	188	530	550	580
annual change in %	-7.4	-13.9	0.9	34.6	29.7	24.1	22.9	3.8	5.5
FDI liabilities (inflow), EUR mn ⁷⁾	384	229	280	151	39	164	300	.	.
FDI assets (inflow), EUR mn ⁷⁾	5	16	30	27	1	12	40	.	.
Gross reserves of NB excl. gold, EUR mn	573	840	800	747	772	750	.	.	.
Gross external debt, EUR mn ⁷⁾	1,428	1,517	1,608	1,737	1,648	1,813	1,800	1,900	2,000
Gross external debt, % of GDP ⁷⁾	29.7	30.0	30.2	31.7	30.1	31.8	32.0	31.0	32.0
Purchasing power parity EUR/EUR	0.433	0.431	0.436	0.433	.	.	.	.	.

1) Preliminary. - 2) According to census April 2011. - 3) According to ESA 2010. - 4) According to gross value added (manufacturing industry for industrial production). - 5) Population 15-64. From 2012 new improved sample survey based on census 2011, not comparable with previous years. - 6) Average weighted effective lending interest rate (Kosovo uses the euro as national currency). - 7) BOP 6th edition.

Source: National statistics and IMF. Forecasts by wiiw.