



KOSOVO: Robust growth despite political quarrelling

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Despite a politically disputatious environment, economic growth in Kosovo is expected to home in on some 4% in both the current year and the two years thereafter. Owing to the marked wage increases in the period leading up to the parliamentary elections in June 2014, growth in the current year is even expected to surpass 4%. Growth prospects depend on developments in Germany and Switzerland, the two top remittance- sending countries for Kosovan migrants.

Five months after the 8 June 2014 general elections in Kosovo the newly elected MPs were not able to nominate the president of the assembly according to the procedure provided by the constitution and interpreted by the constitutional court. As a consequence also no government could be formed so far. The incumbent Prime Minister Hashim Thaci's party, the PDK, has won the relative but not the absolute majority in the parliament. All the major opposition parties (LDK, AAK, Nisma, Vetevendosje) have formed a coalition after the elections and want to take over both the assembly presidency and the government. President Atifete Jahjaga has the duty to solve this political stalemate via intense consultations with the opposing parties. Important legislation and decisions are therefore delayed, such as the planned telecom privatisation.

Despite these political quarrels the economic outlook is still quite stable. The current growth path seems to centre on some 4% of real GDP increase per annum. For the year 2014 we expect a somewhat higher GDP growth rate due to increased government consumption in the run-up to this year's elections. In the first half of 2014 government revenues stagnated while expenditures increased by about 2% as compared to the same period of the previous year. However, the composition of the expenditures has changed markedly. Public capital investment decreased by almost 30% while public expenditures on wages and salaries increased by some 34% over the same period. Average net real monthly wages throughout the economy increased by as much as 12% in the first half of 2014 on the year.

Rising wages together with slightly increasing remittances (+2.4% year on year in the first quarter of 2014) will carry the day via household consumption growth. By contrast, investment will not contribute to GDP growth in 2014 given the strong reduction in public capital spending. Falling public investment as well as less FDI will probably be compensated by rising domestic investment as suggested by the development of new loans. Over the first seven months of 2014 total new loans were increasing by more than 37% year on year. Growth in investment loans to non-financial corporations was particularly strong and stood at 77%. Mortgage loans to households rose by 19%.

Customs statistics for the first half of 2014 reveal a slight drop of about 5% in exports year on year while imports increased by less than a percentage point. Hence we can expect net exports to negatively impact overall GDP growth. Still the external sector is very important for Kosovo. Remittances from migrant workers, living mostly in Germany and Switzerland, make up about 12% of GDP and are constantly fuelling household consumption and providing the means to cover the huge trade deficit. Both the German and the Swiss economy are expected to grow by about 1.3% to 1.8% in 2014. Especially in the case of Germany this is a strong increase when compared to an almost-stagnation in 2013.

However, most recently the 2014 GDP growth forecasts for Germany have been somewhat reduced, e.g. by the European Commission from 1.8% earlier this year to 1.3% in early November 2014. This is also the main reason why, since the last forecast update in July 2014, we had to slightly reduce our forecasts for the GDP growth of Kosovo in 2014 from 5% to 4.7% and similarly from 4% to 3.8% and 3.7% in 2015 and 2016, respectively. Obviously the political stalemate after the June 2014 elections has also negatively influenced the forecast revision.

Table 1 / Kosovo: Selected Economic Indicators

	2010	2011	2012	2013 ¹⁾	2013 January-June	2014	2014 Forecast	2015 Forecast	2016
Population, th pers., average	1,775	1,800	1,816	1,829	.	.	1,845	1,861	1,877
Gross domestic product, EUR mn, nom. ²⁾	4,402	4,815	5,059	5,327	.	.	5,600	5,900	6,200
annual change in % (real) ²⁾	3.3	4.4	2.8	3.4	.	.	4.7	3.8	3.7
GDP/capita (EUR at exchange rate)	2,500	2,700	2,800	2,900	.	.	.	.	.
GDP/capita (EUR at PPP)	5,300	5,400	5,600	5,800	.	.	.	.	.
Consumption of households, EUR mn, nom. ²⁾	3,768	4,142	4,458	4,652	.	.	.	.	.
annual change in % (real) ²⁾	3.5	3.5	2.9	2.0	.	.	5.0	4.0	3.0
Gross fixed capital form., EUR mn, nom. ²⁾	1,301	1,476	1,317	1,323	.	.	.	.	.
annual change in % (real) ²⁾	11.0	8.1	-13.6	-0.2	.	.	0.0	3.0	0.0
Gross industrial production ³⁾									
annual change in % (real)	-16.6	3.6	32.6	.	.	.	2.0	10.0	5.0
Gross agricultural production ³⁾									
annual change in % (real)	-9.6	-3.4	5.6	.	.	.	4.0	3.0	4.0
Construction output ³⁾									
annual change in % (real)	-15.7	-15.3	-24.5	.	.	.	3.0	3.0	4.0
Unemployment rate, LFS, in %, average ⁴⁾	45.1	44.8	30.9	30.0	.	.	30.0	29.0	29.0
Reg. unemployed persons, th, end of period	335	325	260	268	266	272	.	.	.
Average monthly net wages, EUR	286	348	354	364	356	399	.	.	.
annual change in % (real, net)	12.7	14.4	-0.8	1.0	-0.7	11.8	10.0	2.0	2.0
Consumer prices, % p.a.	3.5	7.3	2.5	1.8	2.7	0.3	1.0	2.0	2.0
Producer prices in industry, % p.a.	4.7	5.7	1.7	2.5	5.0	-1.0	.	.	.
General government budget, nat. def., % of GDP ⁵⁾									
Revenues	25.9	27.2	27.3	35.0	.	.	36.0	38.0	37.0
Expenditures	27.7	28.3	28.6	37.0	.	.	38.0	38.0	38.0
Deficit (-) / surplus (+)	-1.8	-1.1	-1.2	-2.0	.	.	-2.0	0.0	-1.0
Public debt, nat. def., % of GDP ⁵⁾	5.9	5.3	8.1	8.9	8.6	10.3	10.5	9.9	10.5
Central bank policy rate, % p.a., end of period ⁶⁾	14.3	13.9	12.9	11.1	12.0	10.6	.	.	.
Current account, EUR mn	-516	-658	-380	-339	-131	.	-500	-600	-700
Current account, % of GDP	-11.7	-13.7	-7.5	-6.4	.	.	-8.9	-10.2	-11.3
Exports of goods, BOP, EUR mn	305	325	287	305	156	.	300	350	400
annual change in %	72.1	6.5	-11.7	6.3	-8.0	.	-1.7	16.7	14.3
Imports of goods, BOP, EUR mn	2,057	2,384	2,360	2,297	1,063	.	2,300	2,350	2,450
annual change in %	12.5	15.9	-1.0	-2.7	-0.3	.	0.1	2.2	4.3
Exports of services, BOP, EUR mn	573	618	635	622	252	.	700	750	800
annual change in %	10.7	7.9	2.7	-2.1	-7.5	.	12.5	7.1	6.7
Imports of services, BOP, EUR mn	386	353	289	314	114	.	410	450	500
annual change in %	35.3	-8.6	-18.1	8.6	-19.4	.	30.7	9.8	11.1
FDI inflow (liabilities), EUR mn	366	394	229	259	144	.	250	500	500
FDI outflow (assets), EUR mn	35	16	16	18	6	.	30	40	50
Gross reserves of NB excl. gold, EUR mn	634	575	840	799	846	.	.	.	.
Gross external debt, EUR mn	1,361	1,428	1,517	1,596	1,539	.	.	.	.
Gross external debt, % of GDP	30.9	29.7	30.0	30.0	.	.	.	.	.
Purchasing power parity EUR/EUR	0.463	0.4879	0.4927	0.4999	.	.	.	.	.

1) Preliminary. - 2) According to ESA 2010. - 3) According to gross value added data. - 4) From 2012 new improved sample survey based on census 2011, not comparable with previous years. - 5) National definition based on ESA 2010. - 6) Average weighted lending interest rate (Kosovo uses the euro as national currency).

Source: National statistics and IMF. Forecasts by wiiw.