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## Kosovo: Cooperation for integration

***Our forecast for Kosovo is a robust 3% GDP growth for 2013 and a reinforced growth of 5% in 2014. For 2015 and the medium term, growth prospects are expected to hover around a trend growth rate of about 4%. Expansion in 2014 will not only be due to improved external factors, but also to parliamentary elections that are likely to be held in early 2014. Thus, a fiscal stimulus can be expected to boost both consumption and investment. The budget deficit will not necessarily be overly affected given the inflow of funds in the wake of the privatisation of the Post and Telecom of Kosovo (PTK). At the end of April 2013, 75% of PTK, comprising two business units, Telecom (fixed-line telephony) and Vala (mobile telephony), were sold at a relatively low price of EUR 277 million to ACP Axos Capital, an international consortium from Hamburg.***

Kosovo and Serbia adopted a historical agreement on normalising relations on 19 April 2013. The implementation of the agreement is the condition for Serbia to obtain a start date for the opening of accession talks with the EU, while Kosovo has the prospect of obtaining a Stabilisation and Association Agreement (SAA) with the EU. The draft agreement mainly concerns the future of the Serbian community in northern Kosovo, the formation of an Association of Serbian Municipalities with broad autonomy rights and the stepwise abolition of the Serbian state-run parallel institutions there. The prime ministers of Kosovo and Serbia (Hashim Thaçi and Ivica Dačić) at the end of May agreed in principle on the steps for the implementation of the agreement over the next months. A successful implementation is an important precondition for a peaceful and prosperous development of both countries – but also of the wider region – as it signals a fundamental willingness to cooperate after years of more or less open conflict.

Certainly, in the medium to long run a peace dividend can be reaped also in economic terms, fostering investments, employment and economic growth. However, Kosovo growth prospects in the short to medium run mostly depend on the development in the main host countries to Kosovo's large diaspora – Germany and Switzerland. While in recent years remittances sent into the country by Kosovo migrant workers from abroad were falling or stagnating at a level below EUR 600 million per year (about 12% of GDP), remittances in

2012 grew by almost 4% and are now close to the all-time peak of 2008. The European Commission forecasts for Germany a somewhat slower GDP growth development for 2013 (0.4%) and a substantial improvement in 2014 (1.8%). The Swiss State Secretariat for Economic Affairs expects a slight increase of growth in 2013 (1.3%) and also stronger growth in 2014 (2.1%) in Switzerland. Certainly downside risks cannot be neglected in both cases.

In terms of export development, 2012 was rather disappointing. It was only due to a very weak domestic demand that imports fell even more. For 2013 exports are expected to rise again. Customs data for goods exports in the first four months of 2013 indicate an increase of more than 20% as compared to the same period a year earlier. This happened against the background of rather stagnant or even falling commodity prices (Kosovo's main exports are base metals) and a stable real effective exchange rate. In the same period, imports of goods increased by less than 3%. While these trade growth rates will most likely adjust to a certain extent, the general trend seems to indicate positive dynamics on the side of external demand.

The development of domestic demand appears to be mixed. Overall, new loans to the economy were stagnant over the first four months of 2013 as compared to the same period one year earlier. However, investment loans to non-financial corporations experienced a significant drop of 14%. At the same time household consumer loans increased by almost 21% and household mortgage loans by more than 11%. It seems that deleveraging is primarily occurring in the firms' sector. This is probably also where most of the non-performing loans (NPLs) are concentrated. NPLs increased by about two percentage points to almost 8% of total loans by the end of January 2013. Nevertheless, the financial system of Kosovo appears to be quite stable. The banking system's average capital adequacy ratio stood at 15% at the end of January 2013, well above the regulatory minimum of 12%.

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Table XK

## Kosovo: Selected Economic Indicators

	2009	2010	2011	2012 <sup>1)</sup>	2012 1st quarter	2013	2013	2014	2015
							Forecast		
Population, th pers., average	1748	1775	1802	1816	.	.	1829	1842	1856
Gross domestic product, EUR mn, nom.	4008	4291	4776	5000	.	.	5300	5800	6300
annual change in % (real)	3.5	3.2	4.5	2.1	.	.	3.0	5.0	4.0
GDP/capita (EUR at exchange rate)	2300	2400	2700	2800	.	.	.	.	.
GDP/capita (EUR at PPP)	5000	5300	5600	6000	.	.	.	.	.
Consumption of households, EUR mn, nom.	3605	3822	4220	4300	.	.	.	.	.
annual change in % (real)	8.9	-0.2	5.9	-0.6	.	.	2.0	4.0	3.0
Gross fixed capital form., EUR mn, nom.	1027	1193	1374	1500	.	.	.	.	.
annual change in % (real)	20.4	8.6	15.5	6.6	.	.	3.0	10.0	9.0
Gross industrial production <sup>2)</sup>									
annual change in % (real)	-1.5	-5.6	19.2	-10.0	.	.	4.0	7.0	10.0
Gross agricultural production <sup>2)</sup>									
annual change in % (real)	19.3	0.5	26.3	0.0	.	.	3.0	4.0	3.0
Construction output <sup>2)</sup>									
annual change in % (real)	32.8	-27.7	11.2	3.0	.	.	3.0	6.0	4.0
Unemployment rate, LFS, in %, average	45.4	45.1	44.8	44.0	.	.	43.0	41.0	39.0
Reg. unemployed persons, th, end of period	339	335	325	264	.	.	.	.	.
Average net monthly wages, EUR	246	286	348	360	.	.	.	.	.
annual change in % (real, net)	22.8	12.5	14.6	0.9	.	.	2.0	10.0	5.0
Consumer prices, % p.a.	-2.4	3.5	7.3	2.5	1.7	2.9	3.0	4.0	4.0
Producer prices in industry, % p.a.	3.8	4.7	5.7	1.0	0.3	.	.	.	.
General governm.budget, nat.def., % of GDP <sup>3)</sup>									
Revenues	36.7	33.8	35.3	35.2	.	.	35.0	37.0	38.0
Expenditures	32.6	35.1	35.5	36.3	.	.	36.0	39.0	38.0
Deficit (-) / surplus (+)	4.1	-1.3	-0.2	-1.2	.	.	-1.0	-2.0	0.0
Public debt, nat.def., % of GDP <sup>3)</sup>	6.2	6.1	5.3	6.2	.	.	6.9	8.3	7.6
Central bank policy rate, % p.a., end of period <sup>4)</sup>	14.1	14.3	13.7	12.7	13.8	12.6	.	.	.
Current account, EUR mn	-374.2	-515.7	-658.4	-380.2	-20.9	.	-600	-900	-800
Current account, % of GDP	-9.3	-12.0	-13.8	-7.6	.	.	-11.3	-15.5	-12.7
Exports of goods, BOP, EUR mn	177.2	305.0	324.9	286.9	61.5	67.3	310	330	350
annual change in %	-18.2	72.1	6.5	-11.7	.	9.5	8.0	6.5	6.1
Imports of goods, BOP, EUR mn	1828.9	2057.1	2383.9	2359.7	434.4	484.6	2450	2800	2600
annual change in %	-2.0	12.5	15.9	-1.0	.	11.6	3.8	14.3	-7.1
Exports of services, BOP, EUR mn	517.6	573.0	618.5	635.1	106.6	.	640	650	660
annual change in %	31.9	10.7	7.9	2.7	.	.	0.8	1.6	1.5
Imports of services, BOP, EUR mn	285.3	386.1	352.8	288.8	59.2	.	300	350	330
annual change in %	18.5	35.3	-8.6	-18.1	.	.	3.9	16.7	-5.7
FDI inflow, EUR mn	291.4	365.8	394.6	232.0	56.7	.	700	400	500
FDI outflow, EUR mn	10.5	34.7	15.7	15.8	1.7	.	20	30	40
Gross reserves of NB excl. gold, EUR mn	576	634	575	840	.	.	.	.	.
Gross external debt, EUR mn	1146	1348	1427	1518	.	.	.	.	.
Gross external debt, % of GDP	28.6	31.4	29.9	30.4	.	.	.	.	.
Purchasing power parity EUR/EUR	0.455	0.457	0.471	0.468	.	.	.	.	.

1) Preliminary. - 2) According to gross value added data. - 3) National definition based on ESA'95. - 4) Average weighted lending interest rate (Kosovo uses the euro as national currency).

Source: National statistics and IMF. Forecasts by wiw.