KOSOVO: Opposition parties triumph

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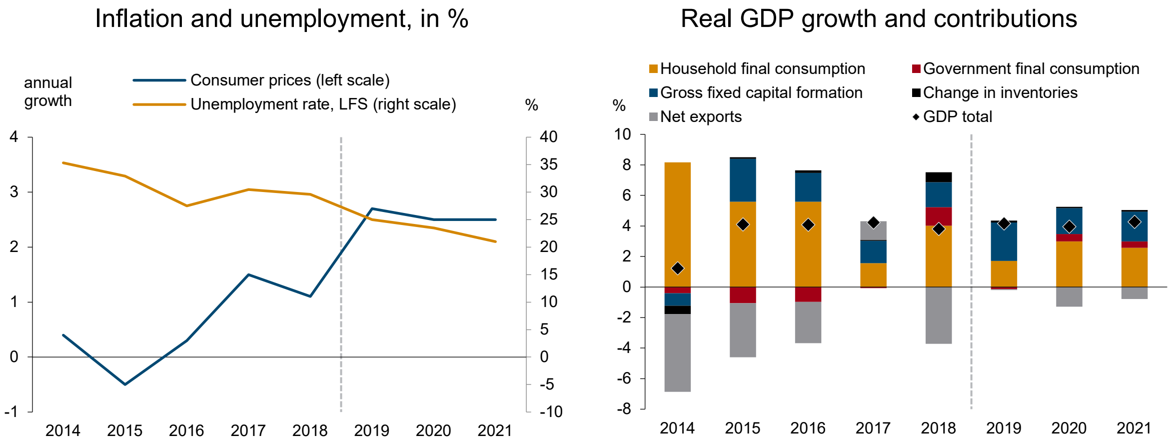
Kosovo has been one of the fastest growing economies in the region and is likely to remain so. Growth will be supported by consumption and gross fixed capital formation. The 100% tariff imposed on imports from Serbia and Bosnia and Herzegovina in 2019 is likely to remain in place, and will continue to push up prices. The new government could deliver important domestic reforms, and is also likely to shake up international relations in the Western Balkans region.

Figure 5.10 / Kosovo: Main macroeconomic indicators



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

Opposition parties came out victorious from October 2019 early parliamentary elections. In July 2019 the former Prime Minister Ramush Haradinaj announced his resignation and consequently triggered early parliamentary elections after being called for questioning by Kosovo Special Court of Justice[21] in The Hague. The self-determination party ‘Levizja Vete Vetevendosje – LVV’ and the Democratic League of Kosovo (LDK) have been the main winners. The new government will be led by these two parties which gained close to 50% of votes and 61 out of 120 places in the new parliament. The LVV is a new movement, founded in 2005 and led by Albin Kurti – whose opposition towards previous governments - for alleged corruption, nepotism and lack of reforms - has been very tough and radical.

[21] Kosovo Specialist Chambers and Specialist Prosecutor´s Office is part of Kosovo judicial system, but sits in The Hague. The court is composed of international judges and prosecutors who are supposed to investigate alleged crimes during the Kosovo war - 1998 to 2000 period.

Vetevendosje, on the whole, owes its victory to the youth vote. Kurti managed to give voice to their frustrations at not being heard, not being represented, not being offered the chance to build a decent life at home as well being denied the possibility to build it elsewhere. The LDK - founded 30 years ago by Ibrahim Rugova – was represented by Vjosa Osmani. She is one of the lawyers who defended the legitimacy of Kosovo's independence declaration in front of International Court of Justice. Another winner from these parliamentary elections has also been Srpska Lista (SL) of Kosovo - a minority political party in Kosovo backed by government of Serbia - who got 6.7% of votes – their best result achieved ever.

The geopolitics in the Western Balkans is likely to take a new route as Albin Kurti takes office as Prime Minister. The already difficult Kosovo – Serbia dialogue will have another epicentre. According to Albin Kurti pronouncements, the discourse of the Kosovo – Serbia dialogue might shift from 'Kosovo recognition' to 'what Serbia is indebted to Kosovo'. Also, he is prone to further integration between Kosovo and Albania and supports the idea 'one nation, one state' of ethnic Albanians. Last April 2019, LVV officially extended and established its activity in Albania too. Therefore, new and unexplored paths might emerge in the Western Balkan region as the new Prime Minister takes office in Kosovo. The role that international partners will play – given the new political constellation in Kosovo as well as recently nominated representatives of the EU and the USA in this matter - still remains to be seen.

Strong impetus to growth thanks to consumption and infrastructure investment projects. GDP growth for the first half of the year 2019, y-o-y, was close to 4.2%, driven by both domestic and external demand. Gross fixed capital formation expanded at 9%. Household consumption went up by 3.6% whereas government consumption shrank by 2.6% over the same period. In production terms, growth characterised all sectors of the economy by and large, except for agriculture and public administration. Sectors which expanded the most have been financial and insurance activities, manufacturing and wholesale and retail trade.

Despite strong economic growth, improvements in the labour market remain meagre. More than 15,000 new jobs were created between Q2/2018 and Q2/2019. The employment rate rose by 2 pp but at 29.8% in the second quarter is still extremely low. The inactivity rate stands at 60.1 %. Youth unemployment is one of the highest in the region - at 49.1%. The employment rate among women is one of lowest in the region - at only 13%. This is a continuous source of frustration and social tensions especially between youths and women.

Public debt slightly declined to 16.5% of GDP for the first half of 2019. General budget revenues by far exceeded expenditures generating a surplus in the general government budget and lowering public debt over the first half of 2019, y-o-y. Despite, the wage hike in the public sector – at 15% - compensation to employees still only soared by 4% for the first half of 2019, y-o-y. With the establishment of the new government the outlook might change in the sense that rising expenditures on health and education will be prioritised against infrastructure projects. It is likely that EUR 1 billion infrastructure projects are under threat, e.g. the Dukagjini highway announced by the previous government will not make its way through parliament since both the LVV and LDK have been against it.

The 100% tariff imposed on imports from Serbia and Bosnia and Herzegovina last year will most probably stay. In their electoral campaign, all political parties - including the LVV and LDK – have been in favour of preserving the tariff. Because of the tariff, imports from Serbia and Bosnia and Herzegovina dropped to close to nil and imports from CEFTA as a whole fell by 43%. North Macedonia and Montenegro have benefited by gaining parts of the Kosovo trade markets that Serbia lost: North Macedonia expanded exports to Kosovo by almost 50% and Montenegro almost doubled its exports (starting from a low base), while Albanian imports to Kosovo rose by only 21% for January – August 2019, y-o-y. Imports from Greece, as well as from Turkey, China, Brazil and Egypt have also replaced imports from Serbia to some extent. The prohibitive tariff also fuelled inflation: import prices and consumer prices in general soared – especially for food, meat and other consumption goods – respectively by 3.9 and 2.7% for the second quarter of 2019, y-o-y. Thus, consumers have been affected and this is becoming visible. Overall, imports of goods grew by 4.4% January – August 2019, y-o-y.

Goods exports went up and the merchandise trade deficit slightly improved. In nominal terms goods exports soared by 10% while imports by 4.4%, January – August 2019, y-o-y. Still, the goods trade deficit remains high, with the cover ratio of exports to imports at only 13% over the same period. Exports of services achieved a growth of 11% for the first half of the year, y-o-y, against services imports expansion at 7% over the same period. Nevertheless, the current account deficit will persist being high and close to 8% of GDP despite positive developments.

The foreign direct investment position ameliorated over the first half of 2019. Over this period, FDI inflows recovered by 23%. Albeit, the largest share of FDI inflows continued being absorbed by the Real Estate sector. Countries which intensified their FDI inflows to Kosovo over this period were Germany, Slovenia, USA, Albania and the Netherlands – countries where large communities of migrants from Kosovo are settled hinting that ethnic networks might have been important for mobilising FDI inflows to Kosovo. Otherwise, expectancies about the lignite power plant ‘Kosova e Re’ are dying out. The World Bank withdrew from the project and currently it does not have the support of either the former or the new government.

Remittances continue to be an important source of secondary income. Kosovo diaspora abroad is estimated to be at 42% of its current population. Remittances inflow increased by 7% for January – August 2019, y-o-y and in 2018 it amounted to 12% of GDP. However, close to 75% of remittances go for smoothing consumption. Recently, business associations representing the diaspora of Kosovo launched the idea of a Diaspora Bank underpinned with capital from the diaspora – an initiative that if it gets through would certainly contribute to leverage financial support for entrepreneurs and boost job creation in Kosovo.

For the forecasting period we expect economic growth to accelerate above 4% backed by improved domestic demand. The new government ruled by the new coalition – the LVV and LDK – is likely to undertake structural reforms which might give a new impetus to the Kosovo economy.

Table 5.10 / Kosovo: Selected economic indicators

	2015	2016	2017	2018 1)	2018 January-June	2019 January-June	2019 Forecast	2020 Forecast	2021 Forecast
Population, th pers., average	1,788	1,778	1,791	1,797	.	.	1,820	1,845	1,860
Gross domestic product, EUR mn, nom.	5,807	6,070	6,414	6,726	3,067	3,245	7,200	7,700	8,200
annual change in % (real)	4.1	4.1	4.2	3.8	7.0	4.2	4.2	4.0	4.3
GDP/capita (EUR at PPP)	7400	7600	7800	8300	.	.	.	.	.
Consumption of households, EUR mn, nom.	4,943	5,194	5,370	5,738	2,776	2,891	.	.	.
annual change in % (real)	6.5	6.6	1.8	4.8	6.3	1.5	2.0	3.5	3.0
Gross fixed capital form., EUR mn, nom.	1,499	1,550	1,729	1,888	.	.	.	.	.
annual change in % (real)	12.1	7.3	5.7	6.1	.	.	9.0	6.0	7.0
Gross industrial production 2)									
annual change in % (real)	3.7	-6.7	4.9	-1.3	.	.	3.5	3.0	5.0
Gross agricultural production 3)									
annual change in % (real)	13.8	14.5	-4.1	-20.4	.	.	.	.	.
Construction output 4)									
annual change in % (real)	15.8	4.5	8.6	9.3	.	.	.	.	.
Employed persons, LFS, th, average 5)	296.9	331.8	357.1	345.1	342.0	349.2	360	365	370
annual change in %	-8.2	11.7	7.6	-3.4	-3.1	2.1	3.6	2.0	1.5
Unemployed persons, LFS, th, average 5)	145.8	126.1	156.6	145.0	133.0	123.5	120	110	100
Unemployment rate, LFS, in %, average 5)	32.9	27.5	30.5	29.6	28.0	26.1	25.0	23.5	21.0
Reg. unemployment rate, in %, eop	.	.	.	.	.	.	.	.	.
Average monthly gross wages, EUR	510	519	528	558	.	.	590	630	670
annual change in % (real, gross)	0.0	1.5	1.7	4.7	.	.	5.0	4.0	4.0
Average monthly net wages, EUR	451	457	471	498	.	.	550	590	630
annual change in % (real, net)	5.4	1.0	1.5	4.6	.	.	7.0	5.0	4.0
Consumer prices (HICP), % p.a.	-0.5	0.3	1.5	1.1	0.3	3.2	2.7	2.5	2.5
Producer prices, % p.a.	2.7	-0.1	0.6	1.4	0.9	1.6	1.0	0.5	1.2
General governm.budget, nat.def., % of GDP									
Revenues	29.4	29.3	30.0	29.8	28.4	33.1	31.0	31.0	31.5
Expenditures	27.8	29.1	28.6	29.4	27.9	27.6	33.0	33.0	32.0
Deficit (-) / surplus (+)	1.6	0.2	1.3	0.4	0.5	5.6	-2.0	-2.0	-0.5
General gov.gross debt, nat.def., % of GDP	12.9	14.0	15.5	16.3	16.3	16.3	17.0	17.5	18.0
Stock of loans of non-fin.private sector, % p.a.	7.2	10.5	11.6	10.8	11.4	10.5	.	.	.
Non-performing loans (NPL), in %, eop	6.2	4.9	3.1	2.7	2.8	2.5	.	.	.
Central bank policy rate, % p.a., eop 6)	7.69	7.22	6.83	5.99	6.5	6.3	6.00	6.00	5.50
Current account, EUR mn	-497	-481	-349	-509	-348	-288	-520	-580	-650
Current account, % of GDP	-8.6	-7.9	-5.4	-7.6	-11.3	-8.9	-7.2	-7.5	-7.9
Exports of goods, BOP, EUR mn	322	308	378	377	173	183	400	420	450
annual change in %	-0.6	-4.5	22.9	-0.4	-3.1	5.3	5.0	6.0	6.0
Imports of goods, BOP, EUR mn	2,432	2,599	2,843	3,114	1,443	1,484	3,250	3,460	3,650
annual change in %	2.1	6.9	9.4	9.6	10.7	2.9	4.5	6.5	5.5
Exports of services, BOP, EUR mn	952	1,131	1,359	1,562	523	587	1,700	1,810	1,930
annual change in %	2.5	18.8	20.2	14.9	27.7	12.2	9.0	6.5	6.8
Imports of services, BOP, EUR mn	494	492	531	706	272	293	790	850	910
annual change in %	5.5	-0.5	8.1	32.8	26.6	7.6	12.0	8.0	7.5
FDI liabilities, EUR mn	309	220	255	272	93	111	290	.	.
FDI assets, EUR mn	37	43	43	46	19.5	20.2	20	.	.
Gross reserves of NB excl. gold, EUR mn	708	605	683	769	699	1,006	.	.	.
Gross external debt, EUR mn	1,932	2,015	2,089	2,036	2,072	2,142	2,300	2,500	2,500
Gross external debt, % of GDP	33.3	33.2	32.6	30.3	30.8	29.7	32.5	32.0	31.0

1) Preliminary. - 2) Turnover in manufacturing industry (NACE C). - 3) wiiw estimate in 2018. - 4) Value added. -
5) Population 15-64. - 6) Average weighted effective lending interest rate of commercial banks (Kosovo uses the euro as national currency).

Source: wiiw Databases incorporating national statistics. Forecasts by wiiw.