

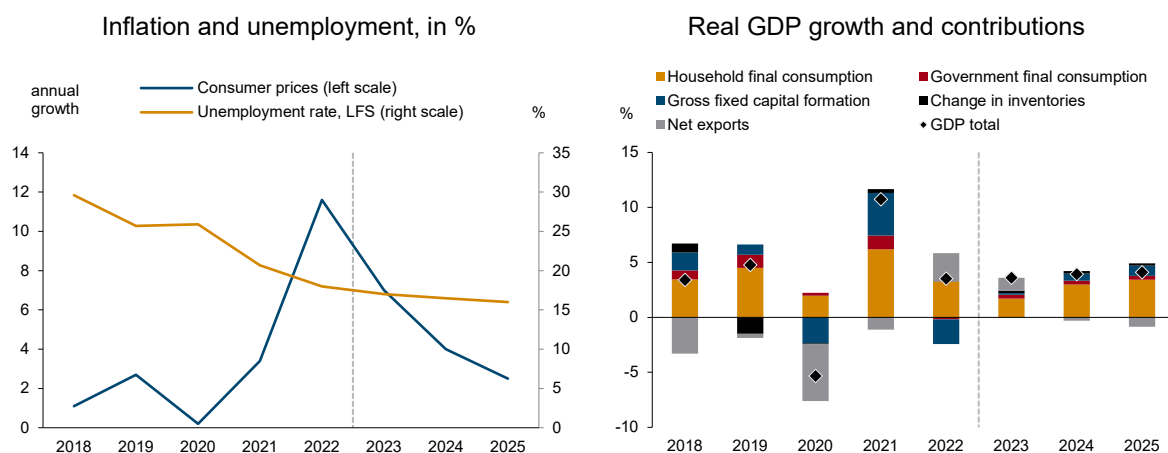


KOSOVO: Strong exports and public investment to sustain growth in 2023

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Despite the challenges of 2022, Kosovo's economy remained resilient, thanks to its robust export performance in both goods and services, as well as strong household consumption, encouraged by remittances. These factors are expected to continue to drive economic growth in 2023, supported by an accelerated trend in capital investment.

Figure 5.10 / Kosovo: Main macroeconomic indicators



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

Kosovo's economy saw commendable growth in 2022, with real GDP expanding by 3.5%. This was fuelled primarily by the robust performance of exports and private consumption. Growth remained strong in the second half of the year as well, with the final quarter witnessing an expansion of 3.6% year on year, driven by the manufacturing industry and the finance and insurance sector.

Kosovo's export landscape has undergone a significant transformation. Exports of goods and services grew by 17% in 2022 (in real terms), driven by the furniture-manufacturing industry, which emerged as a major new player after ferro-nickel production was suspended on account of surging energy prices. With the new developments in the sector, there is every chance that ferro-nickel may soon regain its status as a top export product, further bolstering growth. Meanwhile, the country has also experienced an impressive double-digit expansion in service exports, with IT and call-centre services leading the charge.

Private consumption has likewise been strong, buoyed by a significant inflow of remittances.

These amounted to EUR 1.2bn in 2022, or around 13% of GDP. This marked a 6% increase on the previous year, when remittances grew by even more (17%). Remittances continue to play a vital role in promoting Kosovo's economic growth and supporting household spending. While the global pandemic had a severe impact on remittances in many countries, Kosovo's resilience in this regard highlights its strong ties to its diaspora and the importance of such flows for the country's economic well-being. The latest indicators reveal a robust surge in remittances in the first two months of 2023, amounting to a notable 14.7% increase year on year.

Kosovo experienced a decline in both public and private investment in 2022, with the figures falling short of expectations.

As far as public investment is concerned, the slowdown was partly caused by economic operators seeking to review their contracts due to rising costs. There is good reason for optimism over the coming period, as the unfulfilled public investments are expected to be realised in 2023, following successful negotiations between the government and the operators. This should have a positive impact on growth in the year ahead and perhaps even beyond 2023.

Inflation increased significantly in 2022, to average 11.6%. It peaked in January 2023 at 11.9% year on year, since when it has fallen – to 7.6% in March. It is expected to continue decreasing gradually, averaging 7% in 2023; this downward movement could be influenced by a decline in international commodity prices. However, moderate second-round effects could lead to inflation remaining elevated, at around 4% in 2024. Additionally, recent wage increases could contribute to inflationary pressures.

Kosovo's formalisation of its labour market has continued, and the trend is expected to persist.

The data suggest that the growth in employment from 2021 to 2022 was approximately 10.6%. This was driven primarily by a shift towards formalisation, but also by the creation of new jobs and by emigration. However, the labour market still faces a degree of inactivity, as well as gender imbalances. Addressing these issues will be crucial for the long-term sustainability of Kosovo's economic growth. According to data from the National Tax Agency, there has been a marked 5% increase in employment in Q1 2023, indicating a significant fall in the unemployment rate.

Over the past two years, Kosovo has successfully replenished its fiscal buffers, thanks to positive budget revenue performance, driven by the effects of inflation and gains arising from the formalisation of the informal economy.

Notably, underspending on capital investment has contributed to the accumulation of these buffers. Despite potential macroeconomic risk, the country's fiscal situation is currently favourable, providing a degree of protection against economic volatility. Thanks to its healthy fiscal position, the country may be able to mitigate the negative effects of economic risks and cushion unforeseen challenges.

The rise in global energy and food prices has had an adverse impact on the current account. The goods deficit reached EUR 4.2bn in 2022, although a surplus in services did somewhat offset the damage. Still, the overall deficit increased to EUR 2.8bn in 2022 – up EUR 350m. However, it is worth noting that the deficit is being funded by remittances and foreign direct investment (FDI), thereby mitigating the negative impact on the economy. Recent data on international trade in goods reveal a marked decline in the trade deficit for the month of February 2023. The export sector demonstrated its resilience by outpacing imports, with export values exceeding imports by a significant margin.

FDI experienced significant growth in 2022. According to central bank figures, FDI inflows to the country rose by an impressive 85% year on year, with the total amount reaching EUR 778m (8.7% of GDP), compared to EUR 421m (5.3% of GDP) in 2021. Moreover, there has been a promising start to 2023, with FDI in January alone reaching EUR 56m – year-on-year growth of 79%.

Kosovo's economic outlook for 2023 remains promising, with growth forecast at 3.6%. However, it is important to note that this forecast is contingent on several factors, including a much-needed respite from rising international commodity prices, the execution of public investments that have been lagging and adequate growth in exports. The country's policy makers must continue to monitor these factors closely, to ensure that Kosovo's economy continues on its positive trajectory.

The recent uptick in energy prices may prove something of a drag on private demand and economic activity. Kosovo's energy production continues to be dominated by lignite, and while in February and March of 2022 the government did increase the price of electricity for households consuming over 800 kW hours per month, state subsidies meant that businesses experienced no such hike. However, as from April 2023, the cost of energy has increased by 15%, and the government plans to subsidise only those households that consume less than 800 kW hours. The hike in energy prices is expected to have an impact on household spending, and businesses will have to adapt to the new cost structure. It remains to be seen how this will affect Kosovo's economic performance, given the importance of affordable energy prices for businesses and households alike.

Table 5.10 / Kosovo: Selected economic indicators

	2019	2020	2021	2022 ¹⁾	2023	2024 Forecast	2025
Population, th pers., average	1,789	1,790	1,786	1,782	1,778	1,774	1,770
Gross domestic product, EUR m, nom.	7,056	6,772	7,958	8,955	9,900	10,800	11,600
annual change in % (real)	4.8	-5.3	10.7	3.5	3.6	3.9	4.1
GDP/capita (EUR at PPP)	7780	7400	8660	9170	.	.	.
Consumption of households, EUR m, nom.	5,621	5,718	6,572	7,656	.	.	.
annual change in % (real)	5.7	2.5	7.3	3.9	2.0	3.5	4.0
Gross fixed capital form., EUR m, nom.	2,190	2,012	2,617	2,848	.	.	.
annual change in % (real)	2.9	-7.6	13.0	-6.8	0.5	2.0	3.0
Gross industrial production ²⁾							
annual change in % (real)	6.3	0.8	0.3	0.2	2.0	2.0	3.0
Gross agricultural production							
annual change in % (real)	9.5	2.7	-2.0	15.0	.	.	.
Construction output ³⁾							
annual change in % (real)	1.5	-9.0	8.8	10.0	.	.	.
Employed persons, LFS, th, average ⁴⁾	363.2	347.1	383.3	389.0	395	405	415
annual change in %	5.2	-4.4	10.4	1.5	1.5	2.0	2.0
Unemployed persons, LFS, th, average ⁴⁾	125.3	121.4	100.2	90.0	80	80	80
Unemployment rate, LFS, in %, average ⁴⁾	25.7	25.9	20.7	18.0	17.0	16.5	16.0
Reg. unemployment rate, in %, eop
Average monthly gross wages, EUR	477	466	484	580	630	670	710
annual change in % (real, gross)	2.5	-2.5	0.4	8.0	1.0	3.0	3.0
Average monthly net wages, EUR	430	416	432	520	560	600	630
annual change in % (real, net)	2.4	-3.4	0.4	8.0	1.0	3.0	3.0
Consumer prices (HICP), % p.a.	2.7	0.2	3.4	11.6	7.0	4.0	2.5
Producer prices, % p.a.	0.9	-0.6	4.9	9.3	7.0	4.0	2.5
General governm. budget, nat. def., % of GDP							
Revenues	26.8	25.4	27.4	27.7	28.5	29.0	29.5
Expenditures	29.7	33.0	28.8	28.3	29.0	30.0	30.5
Deficit (-) / surplus (+)	-2.9	-7.6	-1.3	-0.5	-0.5	-1.0	-1.0
General gov. gross debt, nat. def., % of GDP	17.0	22.0	21.1	19.6	20.0	20.0	20.0
Stock of loans of non-fin. private sector, % p.a.	10.0	7.1	15.4	16.1	.	.	.
Non-performing loans (NPL), in %, eop	2.0	2.7	2.3	2.0	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	6.42	6.01	5.80	6.29	7.0	6.5	6.0
Current account, EUR m	-399	-472	-695	-940	-960	-1020	-1080
Current account, % of GDP	-5.7	-7.0	-8.7	-10.5	-9.7	-9.4	-9.3
Exports of goods, BOP, EUR m	393	475	753	932	1,080	1,240	1,380
annual change in %	4.4	20.8	58.4	23.8	16.0	15.0	11.0
Imports of goods, BOP, EUR m	3,233	3,048	4,320	5,219	5,900	6,520	7,110
annual change in %	3.8	-5.7	41.7	20.8	13.0	10.5	9.0
Exports of services, BOP, EUR m	1,675	995	1,906	2,503	2,930	3,330	3,700
annual change in %	7.3	-40.6	91.6	31.3	17.0	13.5	11.0
Imports of services, BOP, EUR m	749	603	871	1,127	1,270	1,420	1,550
annual change in %	6.1	-19.5	44.4	29.4	13.0	11.5	9.5
FDI liabilities, EUR mn	255	346	421	778	.	.	.
FDI assets, EUR mn	66	59	100	176	.	.	.
Gross reserves of CB excl. gold, EUR m	864	901	1,100	1,176	.	.	.
Gross external debt, EUR m	2,185	2,502	2,956	3,424	3,800	4,100	4,400
Gross external debt, % of GDP	31.0	37.0	37.1	38.2	38.0	38.0	38.0

1) Preliminary and wiiw estimates. - 2) Turnover in manufacturing industry (NACE C). - 3) Based on gross value added data. - 4) Population 15-64. - 5) 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.