

Monthly report - Kosovo

28 June 2010

Area (km ²)	10.887
Population (in mio)	2,15
BDP per capita	1.731,0 EUR (2009)
President	Fatmir Sejdiu
Prime minister	Hashim Thaqi

Relatively strong economic growth expected also in 2010

Important news

The government reached an agreement with the IMF about 106 mio € stand-by loan

At the end of May Government of Hashim Thaqi reached an **agreement with the International monetary fund (IMF)** for granting a stand-by loan in the amount of € 106 million, which the country intends to use for financing state projects. As it was a condition for approval of a loan, the Government of the Republic of Kosovo undertook that in 2010 it will introduce fiscal measures to limit the budget deficit to 3.4% of GDP. In this way it would achieve better economic stability and thus become more attractive for foreign investors. The period of the loan is 18 months, where € 21.5 million is available immediately, i.e. upon approval of the loan. An agreement with IMP also enabled a release of both the EU and the World Bank funds for the purpose of improving the state budget in the total amount of € 227 million

The French-turkish consortium won the concession tender to run Pristinas airport

A consortium, consisting of two aircraft operators, the French Aeroport de Lyon and Turkish Limak, won the concession tender to run Pristina airport. Concession is awarded for a period of 20 years. The consortium undertook to invest in this period the sum of € 100 million to build a new terminal, control tower and other pertaining infrastructure. Each year it will contribute to the Government of the Republic of Kosovo a concession fee in the amount of 39.43% of all revenues.

The american-turkish consortium has started to built a new highway

In April, the American-Turkish consortium, consisting of an American Bechtel and Turkish Enka, started to build a 103 km long four-lane highway road. The road will connect Pristina with the Albanian seaport Draç and thus contribute considerably to the development of the road infrastructure in Kosovo. The total value of the project amounts to € 800 million, and the Government intends to finance one half of it from the state budget and the other half by means of international loans. Other projects, which are interesting for foreign investors and are to be implemented in the near future, also include investments in exploration of energy resources and privatisation of telecommunication services.

The Government plans to construct a new coal-fired power plant in the near future, which will be able to produce 1,000 MWh of energy. Last year, due to the lack of interest of foreign investors it suspended the construction project of a new coal-fired power plant, which would be able to produce 2,000 MWh of energy and thereby become a major regional exporter of energy. Construction of a new power plant should be carried out in two phases, and the total value of investment is estimated to between € 700 and 1,000 million. Kosovo has a great potential in the field of energy export, since according to some rough assessments it has around 14,000 tons of lignite, which puts it on the third place in Europe, immediately after Germany and Poland.



Kosovo financial minister Ahmet Shala and his Montenegro colleague Branko Vijiović met in Podgorica and agreed upon more intensive economic co-operation in the field of privatisation, energy and tourism, and elimination of double taxation between the two countries.

The main priority, however, remains the fight against corruption, organized crime and high unemployment

The two major priorities of Kosovo, however, remain **fight against corruption and organised crime, and fight against high unemployment**. According to the World Bank data, this year the unemployment reached 48%. Due to a weak judicial system and inefficiency of authorities in coping with the criminal and corruption, Kosovo remains isolated and a poor country, not interesting for foreign investors. In order to come as close as possible to the EU guidelines, it must more efficiently tackle its internal problems, which are destroying the country. In this way it would become much more interesting for foreign investors. A certain progress is already noticed, especially in internal stabilisation of the country. Thus a number of NATO's soldiers should decrease in the near future from the current 10,000 to 5,700 and later on 2,000 soldiers.

Macroeconomic indicators

This years economic growth is planned to be between 5-6% of GDP

Forecasts of the Government and IMF regarding this year's **economic growth** are that it should exceed the initially planned 4.2% of GDP. According to the estimates of financial minister Ahmet Shala it should range between 5-6%. Kosovo is rich in mineral raw materials, such as zinc, copper, nickel and lignite. Better exploitation and increased exports of these raw materials would undoubtedly have positive effects on the Kosovo economy, and therefore it could achieve the planned growth in the following years. Thus in the future three years, according to the forecasts of the Ministry of Finance, the economic growth of 6.1% could be achieved. In spite of optimistic forecasts of the Government about the planned growth in the future years, Kosovo with its € 1,731 of GDP per capita remains one of the poorest countries on the Balkans.

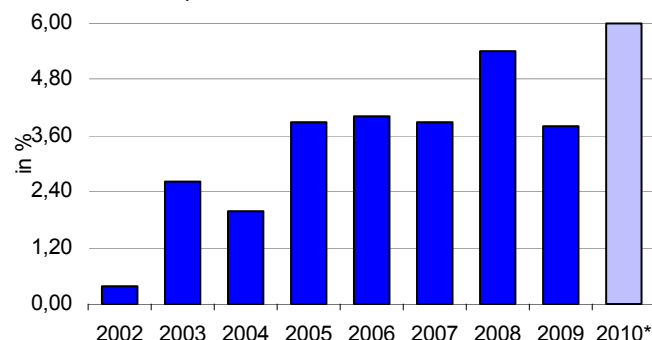
Lower value of FDI due to the financial crisis

Last year, the **current account of the balance of payments** recorded a deficit of € -645.9 million. The high deficit in the current account is the result of the high deficit in the balance of foreign trade. In April, this amounted to € -154.8 million. Kosovo is very dependent on imports. On average, the export-to-import ratio in the first four months was 13.8%. Last year, the value of **direct foreign investments (DFI)** amounted to € 291.5 million, which represented a 20% decrease as compared to 2008. The reasons for their decrease should be sought mainly in the consequences of financial crisis, which affected foreign investors, and in corruption and organised crime, which are the burden of a country.

The greatest decrease was recorded with investments in financial assets, transport and telecommunications. The former dropped by 9.4 pp and the latter by 6.4 pp. An increase in investments was observed in production and construction sectors. Investments in production increased by 11.1 pp and in construction by 8.3 pp as compared to the year before.

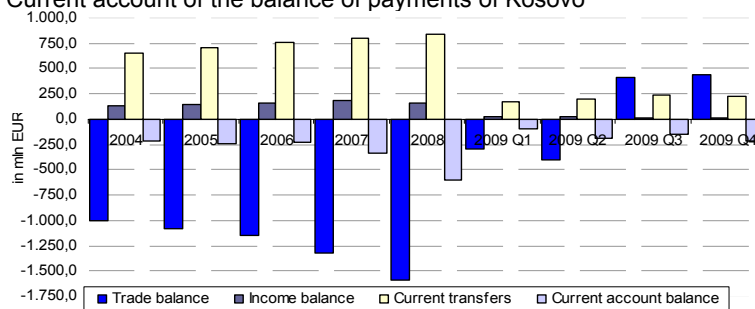
Besides its dependence on direct foreign investments, Kosovo also depends on **money transfers from abroad**. Last year these fell by 8% and amounted to € 505.6 million. Most of transfers came from Germany (about 40%), Switzerland (20%) and Italy (10%).

Gross domestic product



Source: CBK

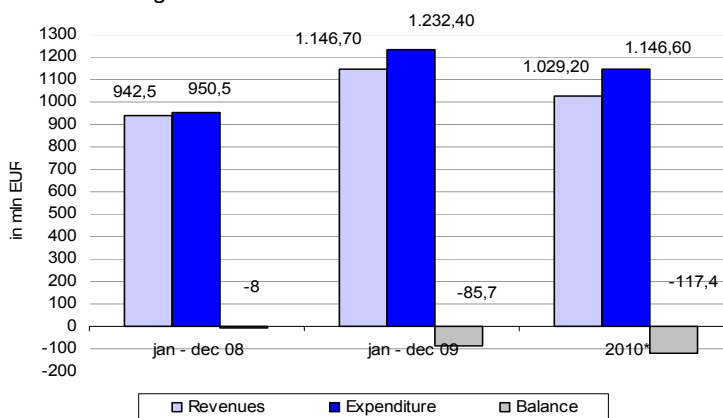
Current account of the balance of payments of Kosovo



Source: CBK

In 2009, **Kosovo's budget recorded a deficit** in the amount of € -85.7 million. The revenues reached the amount of € 1,146.7 million, while expenses totalled € 1,232.4 million. The major portion of revenues, as much as 71%, came from collected taxes (€ 815.7 million), and the biggest share of tax revenues was represented by value added tax and minor part by excise duties. As regards expenses, the largest part was represented by expenses intended for capital investments, which amounted to € 400.4 million. Those were followed by expenses for transfers (€ 396.6 million) and expenses for wages and salaries (€ 264.4 million).

The state budget for 2009 and a forecast for 2010

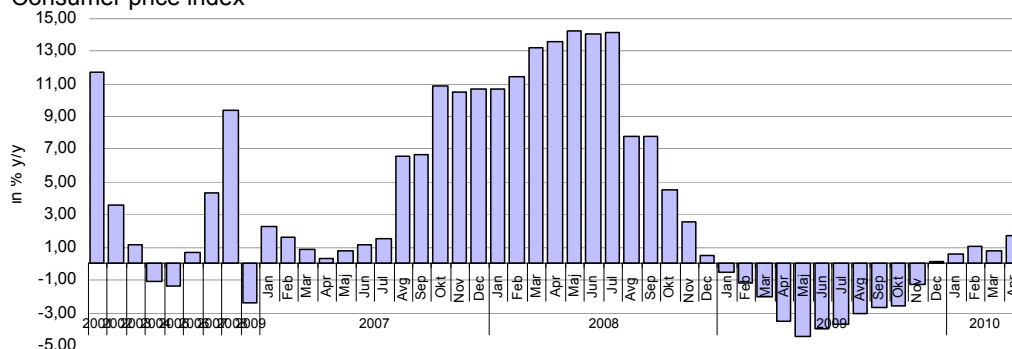


Source: CBK

In december 2009, inflation was recorded again

Last year in December, for the first time after 2008, **inflation was recorded again**. This continued also in the first five months of this year and on average amounted to 1.28% (y/y). The increase of inflation was influenced among other by increase in prices of transport – petrol and diesel, which in the first five months rose on average by 14.6% (y/y), and prices grew most in April (18.9%). These were followed by price increase in electricity and gas, as well as vegetables. The rise in consumer prices is also shown by monthly data. Thus slight price increase was recorded in January (0.5% m/m), February (0.3% m/m) and May (0.3% m/m), while decrease was recorded in March (-0.1% m/m) and April (-1.0% m/m).

Consumer price index



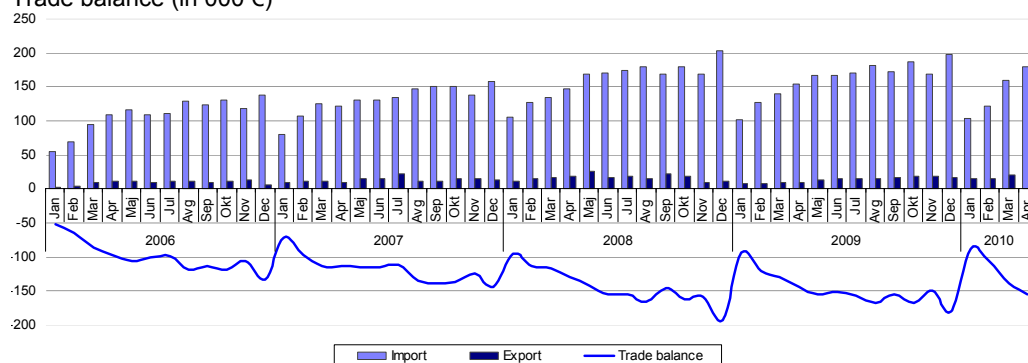
Source: Statistical office of Kosovo

According to the last data of the Statistical Office the **foreign trade deficit** in 2009 amounted to € 180.5 million, which was an improvement of 6.2% as compared to 2008. The largest share of exports belonged to exports of metals. In December 2009, these reached the amount of € 82.7 million and represented 50.3% of total exports in 2009. The structure of imports in 2009 was similar to the structure of imports in previous years. Import of mineral substances decreased by 17.8%. This decrease was mostly influenced by decrease in their prices on international markets. Thus in December 2009, the share of mineral substances in the total import represented 16.4%, which was 3.2 pp less than the year before. Last year, the EU market represented the major export market (42.8%) as well as the major import market (39.7%).

In the first four months of this year, increase was observed in both exports and imports. The largest part in exports was represented by metal products, in April it amounted to 68.7%. This was followed by exports of metal machines and appliances, exports of mineral products etc. In April, the share of the former was 7.6% and of the latter 5.1%. As regards imports, the largest part was represented by the import of metal machines and appliances. In April, their share in imports amounted to 16.7%. This was followed by imports of mineral products (11.7%), drinks and tobacco (10.7%), etc.

In the first four months of this year, Kosovo exported mainly to Italy, Macedonia and Albania, while the main export markets were Macedonia, Germany and Serbia.

Trade balance (in 000 €)



Source: Statistical office of Kosovo

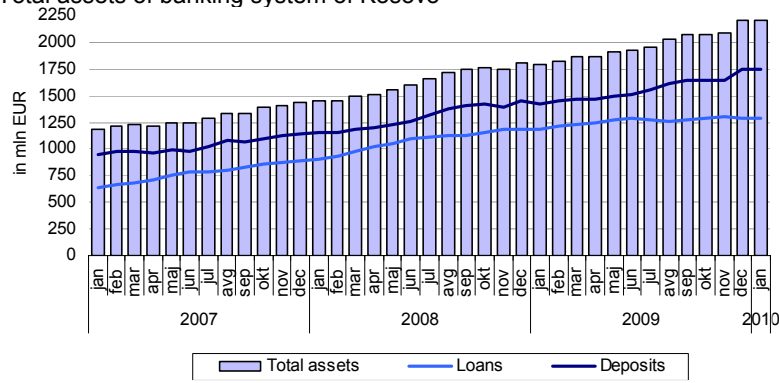
Banking sector and central bank regulations

In January this year, the **aggregate total assets** of commercial banks operating in Kosovo amounted to € 2,206.1 million, which was an increase of 23% as compared to 2009. The **total loans** of the banking sector in January 2010 amounted to € 1,287.7 million, which was a 8.3% growth at the annual level. Higher growth was observed in **deposits**, which increased by 23.4% at the annual level and in January 2010 totalled € 1,754.1 million.

The structure of banking sector remains the same

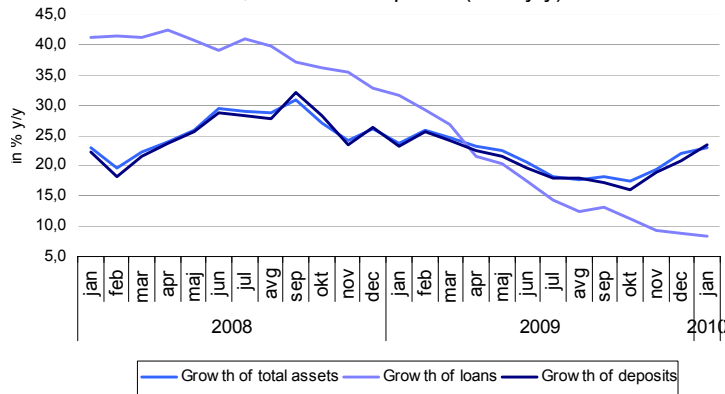
The structure of the banking sector remains unchanged. There are eight commercial banks operating at Kosovo, six of them are in foreign ownership and two in domestic ownership. In the market structure great concentration is present, and three largest banks control more than 80% of the entire banking sector.

Total assets of banking system of Kosovo



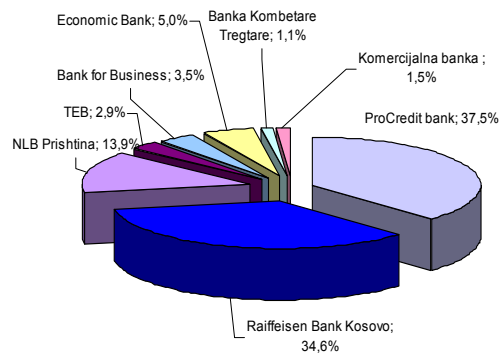
Source: CBK

Growth of total assets, loans and deposits (in % y/y)

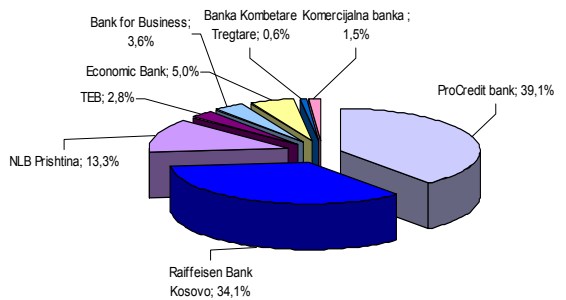


Source: CBK

Market shares of banks in Kosovo (total assests)



Market shares of banks in volume of deposits



Source: CBK

Kosovo		GDP real growth	Inflation (CPI)	Unemployment rate	Current account	Trade balance	Export /import ratio	Budget surplus/deficit (cumulative)
		<i>Annual indeks (in %, y/y)</i>			<i>S^a in mio EUR</i>		<i>in %</i>	<i>S^a in mio €</i>
2001		36,00	11,70	57,10		-673,94	1,50	96,00
2002		0,40	3,60	55,00		-827,16	3,20	90,80
2003		2,60	1,20	49,70		-937,64	3,70	62,50
2004		2,00	-1,10	39,70	-208,90	-1.006,78	5,30	-134,60
2005		3,90	-1,40	41,40	-247,60	-1.101,21	4,90	-57,70
2006		4,00	0,60	44,90	-226,10	-1.195,11	8,50	76,50
2007		3,90	4,40	43,60	-331,30	-1.411,07	10,50	241,80
2008		5,40	9,30	44,00	-602,40	-1.681,11	10,30	-8,10
2009		3,80	-2,40	45,00		-1.770,21	8,50	-1,90
2010		6,00*						-117,4*
		<i>Annual indeks (in %, y/y)</i>			<i>S^a in mio EUR</i>		<i>in %</i>	<i>S^a v mio €</i>
2009	Jan		-0,50			-94,22	7,00	32,40
	Feb		-1,20			-119,82	6,10	21,10
	Mar		-2,00		-94,00	-129,59	7,40	25,30
	Apr		-3,50			-143,73	6,60	42,00
	May		-4,40			-154,47	7,80	35,50
	Jun		-4,00		-185,90	-151,25	9,40	22,90
	Jul		-3,70			-156,40	8,60	33,30
	Avg		-3,00			-166,71	8,50	23,90
	Sep		-2,70		-152,20	-155,66	10,00	3,70
	Okt		-2,60			-167,81	10,30	139,41
	Nov		-1,30			-150,05	10,80	124,60
	Dec		0,10		-213,80	-180,50	8,30	-1,90
2010	Jan		0,60			-87,61	15,20	
	Feb		1,10			-106,41	12,80	
	Mar		0,80			-138,14	13,30	
	Apr		1,70			-154,79	14,10	
	Maj		2,20					

Source: Statistical office of Kosovo, CBK

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Pripravili: Rok Gabrovšek (rok.gabrovsek@nlb.si)
Mateja Vidmar (mateja.vidmar@nlb.si)
Sonja Mlakar (sonja.mlakar@nlb.si)

Področje finančnih trgov in zakladništva NLB Skupine				
Group Treasury & Financial Markets				
direktor Matej Narat +386 1 476 70 42				
Poslovni sektor za upravljanje bilance banke		Poslovni sektor trgovanja s finančnimi instrumenti		
Assets and Liabilities Management – ALM		Financial Markets – Front Office		
direktor Marko Jernejčič	+386 1 476 91 51	direktor Andrej Meža	+386 1 476 91 81	
Analize in raziskave (Research & Analysis)				
Dunja Ukmar Hvastija (vodja)	+386 1 476 91 33	Sabina Braniselj	+386 1 476 91 43	
Sonja Mlakar	+386 1 476 91 34	Poslovanje z valutami (FX desk)		
Mateja Vidmar	+386 1 476 91 76	Bojan Pliberšek (vodja)	+386 1 476 91 54	
Poslovanje z obveznicami (Bond desk)				
Upravljanje likvidnostnega in valutnega tveganja		Jernej Kastelic (vodja)	+386 1 476 91 87	
Liquidity & FX Risk Management				
Urša Sekne Kališnik (vodja)	+386 1 476 91 50	Poslovanje z denarjem (Money market)		
Helena Trpin (vodja)				+386 1 476 91 55
Poslovanje z izvedenimi finančnimi instrumenti (Derivatives)				
Upravljanje obrestnega tveganja		Matjaž Jelovčan (vodja)	+386 1 476 91 82	
Interest Risk Management				
Leon Hodošček (vodja)	+386 1 476 91 59	Poslovanje s strankami (Sales desk)		
Goran Pušič (vodja)				+386 1 476 91 99



NLB d.d.
ALM & Treasury
Analysis & Research
Trg republike 2,
SI-1520 Ljubljana
www.nlb.si