

Mr. Avdullah HOTI

Minister of Finance

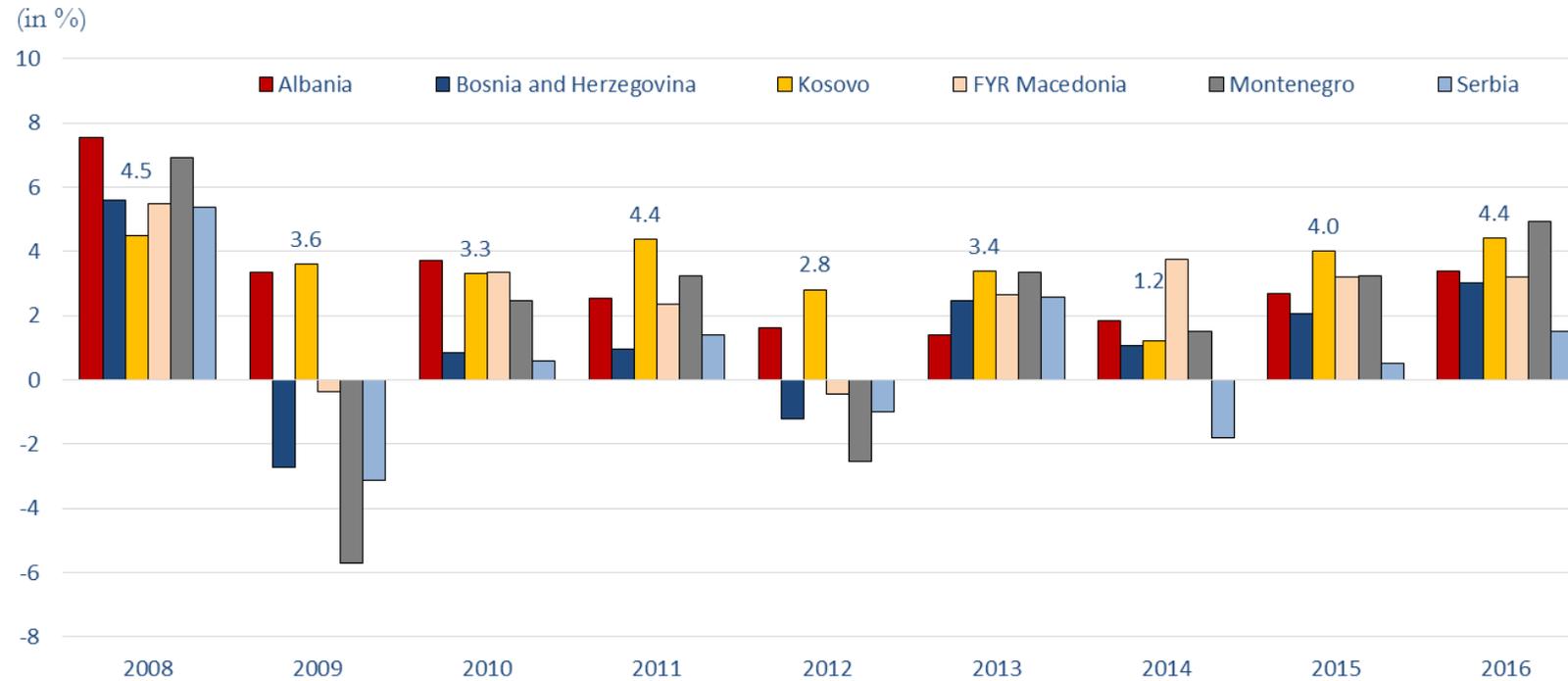


ECONOMIC GROWTH

- Over the past years, the economic growth rate has been one of the highest in the region and beyond.
- The average real growth rate for 2015 and 2016 is estimated to be at around 4% mainly as a result of higher domestic demand, due to:
 - Increase in loans granted to the private sector after the fall in interest rates on loans
 - Increase of private sector and households' disposable income as a result of the fall in oil prices and generally lower inflationary pressures (CPI at 0%, Import Prices -3%)
 - Intensification of public investment
 - Intensification of private investment as a result of more favorable tax policy, resulting from the fiscal reforms undertaken in 2015
 - Low impact of the current account deterioration as a result of recent developments in the global economy



REGIONAL GDP GROWTH '08 – '16



Source: IMF WEO database, Statistical Agency of Kosovo and Ministry of Finance



MEDIUM-TERM PROSPECTS

- The estimated real GDP growth for 2017 is expected to mark 4.4%, supported by the following activities:
 - The significant increase of public investment in infrastructure projects (railways, highways and irrigation projects in agriculture).
 - The increase in export of goods, as a result of the rebound of global nickel demand as well as prices
 - The continuing increase in export of services as per current trends
 - Continued stimulation of consumption and private investment due to more favorable bank intermediation as well as access to credit, also supported by the operationalization of the Kosovo Credit Guarantee Fund
- As such, these estimates are considered to be conservative since this economic outlook does not take into account the latest advancement for increasing energy capacities, the newly created potential from new laws.



STABLE MACROECONOMIC ENVIRONMENT

- **Stable prices**
 - Over the past years (2008-2015) the average inflation rate recorded 2.8%
 - In general, price levels in Kosovo closely follow price developments in the Eurozone, this as a result of;
- **Euroisation**
 - Kosovo has unilaterally adopted the Euro as its official currency
- **Young and qualified labour force**
 - Kosovo enjoys one of the youngest populations in Europe (34% under 18, ~50% under 35) and this potential is expected to contribute highly to the economic developments
- **Access to finance continuously improving**
 - The financial sector continues to be well-capitalized, liquid and highly profitable
 - The past year marked the first year during which the interest rate on loans stood at a single-digit number (decreased for more than 30% during the past two years, currently standing at around 7%)



- Low tax rates and broad tax base
 - Corporate income tax 10%
 - Pension contribution 5%
 - VAT 8%, 16%, 18%
- Non-distortionary exemptions for investments
- Very efficient tax administration
 - Online filing
 - Electronic services
 - Towards paperless services
 - Equal treatment of all citizens and businesses



STABLE PUBLIC FINANCES

- Very low levels of deficit
 - Legally binding fiscal rule in place (deficit limited at 2% of GDP)
- Pro-growth budget
 - Capital investments 36% of total 2017 budget
 - Growth in wages legally limited to GDP growth
- Very low level of Public Debt (around 13% of GDP)
 - As per our DSA, it will take 20-30 years to reach 40% of GDP
 - Investment Clause allows for flexibility for pro-growth investments
- In program relationship with IMF
 - Through its implementation, significant progress in strengthening PFM practices



CHALLENGES & OPPORTUNITIES

- Trade deficit, around 37% of GDP
 - Huge potential for import substitution and exports
- Official unemployment relatively high
 - Youth represent a vital opportunity
- Hard infrastructure still underdeveloped
 - Very attractive opportunities in a number of sectors
- Reliable energy supply
 - New capacities under consideration
- Great opportunities in developing service sector