

Summary

The easing of containment measures as a result of the progress marked in managing the pandemic that was accompanied by mass vaccination and declining of the infection rates, was reflected in the economic recovery in the euro area. In Q2 2021, economic activity was characterized by real annual growth of 13.7%, from the decline recorded in the previous quarter of 1.3%. The second quarter of 2021 was also positively affected by the increase in external demand and significant fiscal stimulus. Also the region countries started with an economic recovery, after being affected by the Covid-19 pandemics. In Q1 2021, estimates suggest that the region countries were characterized with an average economic growth of 0.9%, while the IMF forecasts for the whole year of 2021 suggest an increase in economic activity of 5.1% for the region.

Kosovo's economy is also estimated to have been recovered in the first half of 2021, being attributed to the easing of restrictive measures as a result of the improvement of the health crisis in this period. According to KAS estimates, real GDP in Q1 2021 has marked an accelerated growth of 5.6%, an increase that is estimated to have continued also in Q2 2021. These estimates are based on increased exports of goods and services, consumption and public investments, remittances, as well as increased industrial production and retail trade.

Consumer prices and other price indexes have marked high increase in the first half of 2021. However, the increase in prices turns out to be driven by temporary internal and external factors that are mainly attributed to the effect of recovery from the pandemic crisis (details in box no. 1).

The increase of the economic activity in the reporting period was accompanied by an improvement of the budget revenues performance. Budget revenues, in Q2 2021, marked an increase of 45.3%, while budget expenditures marked a decline of 4.6%, making the Kosovo budget record a primary surplus of EUR 46.9 million. Public debt has continued with double-digit annual growth of 24.3% and has reached the value of EUR 1.6 billion, while as a percentage of GDP, it has reached 23.2% in Q2 2021.

Against the previous year, financial system expanded with an accelerated pace, primarily being supported by the developments in the banking and pension sector. Assets of financial system reached the value of EUR 8.3 billion, in Q2 2021. In the banking sector, the activity was supported by the growth of lending and deposits, while the growth recorded in the pension sector was attributed to the increase of contributions collected from contributors and the positive return on investments.

The current account deficit has doubled in Q2 2021, mainly due to the increase in the goods deficit and the decline in the positive balance of primary income, while the balance of services and secondary income has improved. The trade deficit of goods was EUR 952.0 million or 56.6% higher compared to Q2 2020, a dynamic that was mainly attributed to the increase of import, despite the considerable increase of export. Within the balance of payments, a considerable increase was marked also by remittances in Q2 2021 (24.8%), and FDI (78.8%).

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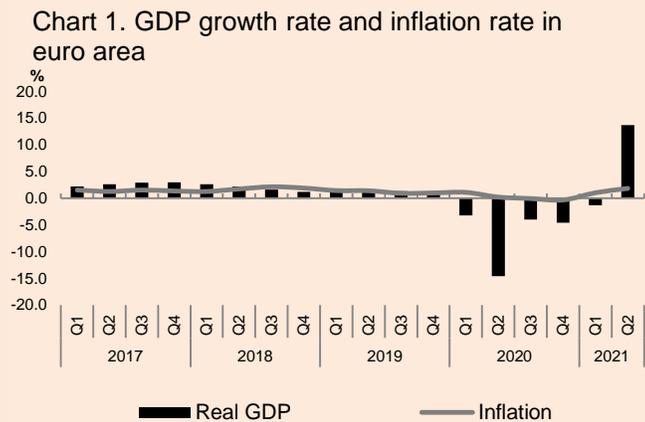
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ABBREVIATIONS

CBK	Central Bank of the Republic of Kosovo
CPI	Consumer Price Index
ECB	Central European Bank
EUR	Euro currency
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPI	Import Price Index
KAS	Kosovo Agency of Statistics
MF	Ministry of Finance of the Republic of Kosovo
WEO	World Economic Outlook

Euro area and Western Balkans

The improvement of the pandemic situation and the mass vaccination were accompanied by the easing of containment measures, thus being reflected in the recovery of economic activity in the euro area. Also, the strengthening of external demand and fiscal stimulus packages were reflected in an annual increase of 13.7% in the second quarter of 2021, compared to the decline of 1.3% recorded in the previous quarter (chart 1).



Source: Eurostat.

Spain recorded the highest growth rate of economic activity of 19.8%, followed by France and Italy, which reported a growth in economic activity of 18.7% and 17.3%, respectively, while Germany reported a growth in economic activity of 9.2%. With the easing of containment measures and the increase of consumer confidence as a result of mass vaccination, in the forecasts realized in June 2021, the ECB expects a recovery of economic activity of 4.6%, in 2021.

The average rate of Harmonized Consumer Price Index, in Q2 2021, was 1.8% (0.2% in Q2 2020). The rise in prices in the euro area, in addition to the increase in

demand, was also attributed to temporary pandemic-related factors, such as rising input costs as a result of supply disruptions. Taking into account the current dynamic assessments and outlook of inflation, which are unanimously considered by central banks to be of a temporary nature, the Governing Council of the ECB decided to keep the monetary policy unchanged, while favorable financing conditions to be maintained with a moderately lower rate of asset purchases under the Pandemic Asset Purchase Program. The purchase of assets under the program, which is already a subject to the inflation outlook, is expected to be completed in March 2022 with an amount of EUR 1.85 billion. For 2021, the ECB has projected an average inflation rate of 2.2% in 2021, a rate that is expected to normalize in the next two years to 1.7% and 1.5% in 2022 and 2023, respectively.

Credit and depository activity in euro area continued to increase, by which were characterized enterprises and households as well. Loans to enterprises marked an increase of 1.4% in Q2 2021, while loans to households increased by 4.5%. With a high increase were characterized also deposits, where enterprise deposits marked an increase of 7.9%, while household deposits increased by 6.8%.

Also the Western Balkan countries started with an economic recovery after being affected by the Covid-19 pandemics. In Q1 2021¹ the economic activity in the Western Balkans was characterized with an average increase of 0.9%. The highest growth of economic activity, in Q1 2021, was marked in Kosovo and Albania. With an increase of the economic activity was

¹ The data for Q2 2021 have not been published yet.

characterized also Serbia, whereas other countries have marked a decline (table 1). For Q2 2021, only the Statistical Office of Serbia has published GDP estimates, which suggest that economic activity in Serbia has increased by 13.7%, from 1.8% as it was in Q1 2021. IMF forecasts suggest an increase of the economic activity in the region of 5.1%, for the year of 2021.

Table 1. Real GDP growth rate in W. Balkans

Description	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1
Serbia	2.6	2.9	4.9	6.3	5.2	-6.3	-1.4	-1.0	1.8
Montenegro	3.2	3.6	5.2	3.7	2.6	-20.3	-26.9	-7.5	-6.4
Kosovo	4.3	2.9	6.0	5.6	1.6	-7.1	-6.3	0.8	5.6
North Macedonia	1.4	4.3	3.6	3.3	0.9	-14.9	-3.3	-0.7	-1.9
Albania	2.3	2.1	4.2	-0.1	-2.8	-11.3	-3.5	2.4	5.5

Source: National Statistics Offices of the respective countries

An increase of inflation rate was reported also in the Western Balkan countries, as a result of the growth of the domestic demand and the increase of prices in international markets. The average inflation rate, in Q2 2021, was 2.4%. Serbia recorded the highest inflation growth rate of 3.2%, while Albania recorded a lower rate compared to other countries (1.8%) (table 2).

Table 2. Annual inflation rate in W. Balkans

Description	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2
Kosovo	3.2	3.3	2.6	1.7	1.1	0.2	-0.4	-0.1	0.6	2.1
Montenegro	0.4	0.5	-0.1	1.1	0.5	-1.1	-1.4	-1.3	-0.1	2.3
North Macedonia	1.2	1.2	0.6	0.0	0.6	0.5	1.5	2.2	2.0	2.8
Serbia	2.4	2.3	1.3	1.4	1.7	1.0	1.9	1.6	1.4	3.2
Albania	1.6	1.4	1.4	1.3	1.6	1.9	1.4	1.6	0.9	1.8

Source: National Statistics Offices of the respective countries

In terms of developments in the banking sector, Western Balkan countries recorded an increase of 7.4% in lending activity, representing the same rate compared to Q2 2020. The highest growth rate was recorded in Kosovo (12.2%), followed by Serbia (7.0%), Montenegro (6.8%), Albania (5.9%) and North Macedonia (5.1%). Deposits marked an average increase of 10.7%, representing a higher growth rate compared to the increase of 9.4% recorded in Q2 2020. The highest increased rate of deposits was marked in

Kosovo and Serbia (14.7%, and 12.1%, respectively), followed by Montenegro (11.4%), Albania (8.6%) and North Macedonia (6.8%).

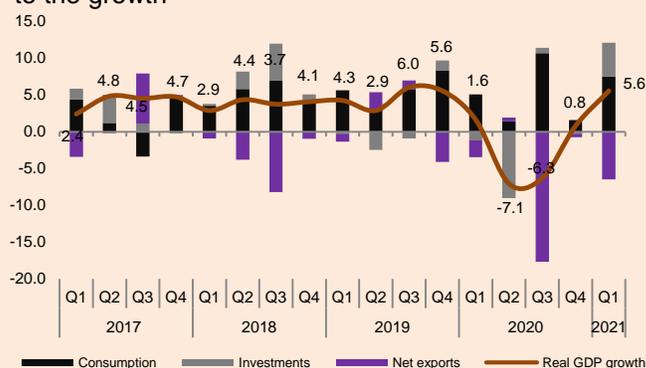
During Q2 2021, EUR appreciated against the Turkish lira (33.8%), the US dollar (9.6%), the Swiss franc (3.5%), while it depreciated against the British pound (2.8%), the Albanian lek (1.2%), Croatian kuna (0.6%), etc.

Kosovo's Economy

Real Sector

As a result of the ease of containment measures for protecting the public health, economic activity has marked an increase in the first half of 2021. Based on KAS estimates, real GDP marked an accelerated increase of 5.6%, during Q1 2021. Consumption and investments have contributed positively with 7.5% and 4.6%, respectively, while net exports have had negative contribution on the economic activity with 6.5 percentage points (chart 2).

Chart 2. Real GDP growth rate and main contributors to the growth



Source: KAS and CBK calculations.

According to KAS, the highest GDP growth rate, in Q1 2021, was recorded in the sectors of health and social work (26.3%), construction (11.5%), public administra-

tion (10.2%), education (9.6%) and financial activities and insurance (8.9%). Also in the trade sector was marked an increase of 2.3%, which is one the sectors with the highest share to total economic activity. Conversely, a decline of 9.9% was marked in the sector of supply with electricity and gas. A decrease in economic activity was also recorded in the extractive industry sector (-5.9%) and transport and storage (-3.1%).

Estimates of the CBK suggest that the accelerated increasing trend of the economic activity has continued also in Q2 2021. These estimates are based on direct or indirect indicators which show the increase of export of goods and services in the reporting period, the increase of consumption and public investments, the increase of remittances, etc. On the other side, the considerable high increase of goods import has contributed negatively to the increase of real GDP in the reporting period.

The increase of economic activity during Q2 2021 is also evidenced by the short-term statistics of industrial production and those of retail trade. The average industrial production index has increased by 30.8%, where the sector of processing industry has increased by 43.6%, the extractive industry sector by 12.7%, etc. Conversely, the average retail turnover index increased by 14.4%.

Box 1. Inflation dynamics during the COVID-19 pandemics and its determinants

The pandemic crisis has been translated into an economic and social crisis, where measures of social distancing and increased uncertainty resulted in a decline in economic activity accompanied by a contraction in investments, a sharp decline in exports of services, and a decline in imports of goods and services. The decline marked in GDP of 3.0% in 2020 was reflected in the deterioration of labor market dynamics, widening of the current account deficit and increasing budget deficit and public debt.

As a result of these economic developments, also the inflation rate was characterized by notable fluctuations. As shown in chart 1, during 2020 the inflation rate has decreased significantly (negative rate in recent months), while 2020 ended with an average inflation rate of 0.2% (2.7% in 2019). The change in the general internal and external macroeconomic dynamics in 2021 was accompanied by an increase in general prices, measured through the four indices compiled by KAS.² By July 2021, the average consumer price rate reached 1.6%, an increase that was mainly recorded in the communication means (16.2%), alcoholic beverages and tobacco (3.4%), transportation (2.0%), health services (1.6%), etc. Price increase was also observed in producer price index, import price index and especially in the prices of construction. Producer price index recorded an average increase of 2.8% in the first half of 2020, mainly due to the increase in metal ore extraction (29.7%), electricity, gas, steam and air conditioning supply (5.7%), metal production (5.0%), etc. In the same period, an increase of 5.1% is evidenced by the import price index, an increase mainly driven by prices of base metals (13.7%), mineral products (11.3%), plastics (8.8%), etc.

² Consumer Price Index; Producer Price Index; Import Price Index; Construction Cost Index.

Chart 1. Overall inflation and core inflation, annual change in percent



Source: KAS and CBK calculations.

The construction cost index in the first half of 2021 increased by 8.7%, mainly due to the increase in the cost of materials by 12.4%, the cost of energy by 5.6% and the cost of machinery by 2.8%.

The inflation dynamics in Kosovo are mainly determined by **domestic demand and the inflation fluctuations in the euro area**. While during the last year the decline in domestic demand was accompanied by a slowdown in price growth, the recovery in aggregate demand in 2021 was also translated into an increase in the inflation rate. In addition, the fluctuation of the inflation rate during the pandemic can be attributed to several temporary factors, such as the redistribution of expenditures and developments in the labor market.

The pandemic has affected a **redistribution of consumer spending into different categories**. During the period when the strictest restrictive measures were in force, expenses for tourism, travel, clothing and footwear, etc. were almost non-existent, in contrast to the increase in health expenses, home-related items (including food and equipment needed to work and learn at home). Such an issue was observed from the decline, namely the growth of economic activity in the respective sectors during 2020. More specifically, in the transport and storage sector it was marked the highest decline in economic activity (-22.6%), followed by hotels and restaurants (-20.4%) as well as in the arts,

entertainment and recreation sector (-16.7%). On the other hand, the highest growth of economic activity was recorded in the health sector and social work activities (18.4%). Similar movements were recorded in the consumer basket, where transport prices marked the highest decline (-5.8%), followed by recreation and culture prices (-0.6%), while prices of health services and food prices marked an increase of 4.7% and 1.6%, respectively.

Another determinant of inflation dynamics are the **developments in the labor market**, as an increase in unemployment or a decrease in wages affects the decline in purchasing power and potential consumer spending. Official labor market statistics show that the average unemployment rate in 2020 has marked a slight increase to 25.9% from 25.7%, as it was in 2019. The rise in unemployment rate has been limited by fiscal support for firms and employees by the government but also by the fact that businesses in sectors affected by the pandemic crisis have managed the downturn by reducing incomes and working hours, rather than dismissing employees. The average gross salary in Kosovo marked a decline of 2.3% during 2020.

Due to the pandemic that resulted in the closure and reduction of business activity, gross salary in the private sector decreased by 7.5% while gross salary in the public sector increased by 6.8%, which can be attributed to additional payments to the sectors which were more exposed to the virus.

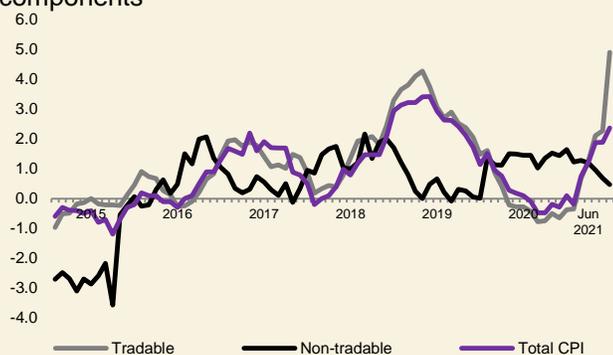
Since Kosovo's economy is small and opened to other countries, **external factors are important determinants of inflation dynamics in the country**. As a consequence of Covid-19 pandemic, during 2020 it was marked a decline in import prices of 1.9%. Prices of mineral products, as well as prices of textile products marked the highest decline (-15.9% and -13.8%, respectively), while prices of base metals decreased by 2.2%. In the first half of 2021, when the situation with the Covid-19 pandemic began to improve,

import prices increased by 5.1%. The highest increase in import prices was marked by base metals (13.7%), mineral products (11.3%), plastics (8.8%), leather (8.8%), and edible oils (8.1%).

The impact of external factors on inflation dynamics in Kosovo can well be observed through the price index of tradable components and the price index of non-tradable components. As shown in chart 2, the overall price fluctuation in Kosovo is more determined by tradable components against non-tradable components. This is due to the fact that the vast majority of the Kosovar consumer basket consists of tradable components (about 82% in 2021), while the rest (mainly services) consists of non-tradable components.

By June 2021, the prices of tradable goods and services increased by 1.8%, from 0.4%, as it was in the same period of 2020. On the other hand, non-tradable goods and services recorded an inflation rate of 1.0% from the rate of 1.3% as it was in the same period of 2020. The increase in inflation of tradable goods and services is mainly attributed to the increase in import prices.

Chart 2. The indices of tradable and non-tradable components



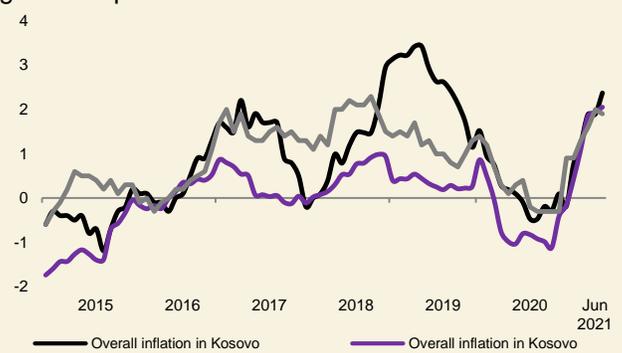
Source: KAS and CBK calculations.

Inflation dynamics in Kosovo are also determined by the very high share of products with seasonal price movements, such as: food, alcoholic beverages and tobacco and energy. The share of these categories in the Kosovan consumer basket in 2021 is about 54.1% (39.9% of food and non-alcoholic

beverages) and has remained almost unchanged over the years, which is significantly higher compared to the average of euro area (31.3%) and closer to the average of the region countries (52.0%). Prices of these products determined the price fluctuations during the past years not only because of the high share that they have in the consumer basket but also because the movement of these prices has been more significant. This makes the impact of these categories to total movement of prices to be higher than in other countries which have lower share of these categories in the consumer basket.

Core inflation, which excludes categories which are characterized by a more pronounced change in prices, presents a clearer picture regarding inflation in Kosovo. As shown in chart 3, core inflation has historically been lower than the overall inflation and has marked a more approximate movement compared to the overall inflation fluctuation in the euro area.

Chart 3. Overall inflation and core inflation, annual growth in percent



Source: KAS and CBK calculations.

In the first half of 2021, a similar movement of overall and core inflation was observed compared to inflation in the euro area. Therefore, core inflation was 1.2% and overall inflation was 1.3% (table 1), while inflation in the euro area was 1.4 percent, in the first half of 2021.

Price level dynamics are not expected to change in the second half of 2021.

Table 1. Contribution of specific categories to total inflation, in Q1 2021

Description	Weight 2021	Annual average growth, %						
		2015	2016	2017	2018	2019	2020	Jun 2021
CPI	100.0%	-0.5	0.3	1.5	1.1	2.7	0.2	1.3
Split of CPI								
Food and non-alc. beverages	39.9%	0.3	-0.6	1.4	1.8	6.0	1.6	0.1
Energy	7.9%	1.6	-2.2	4.5	-2.7	0.1	0.2	-2.6
Other goods	18.3%	3.1	4.0	1.4	0.6	1.4	0.0	0.9
Services	34.0%	-5.1	0.3	0.4	0.6	0.6	0.9	3.5
Core inflation, except:								
Food and non-alc. beverages	60.1%	-0.2	0.2	0.9	0.5	0.5	-0.5	1.3
Food, non-alcoholic beverages and energy	52.4%	-0.8	0.6	0.5	0.7	0.5	-0.5	1.4
Food, non-alcoholic beverages, energy, alcoholic beverages and	46.0%	-1.2	0.1	0.3	0.5	0.3	-0.5	1.2

Source: KAS and CBK calculations

Domestic economic recovery and inflationary pressures from outside are expected to affect the inflation rate in the country. For 2021, the CBK anticipates that the average inflation rate will be around 3.2%, while at the end of the year, in December 2021, the inflation rate is projected to be 5.4%. The CBK forecasts are mainly based on the trend, but also on the forecasts for price movements of trading partners, especially in the euro area, when it is considered the high rate of price correlation in Kosovo and those in the euro area. Also commercial banks, in the last survey conducted in June 2021, have stated that they expect the inflation rate to be significantly higher compared to the previous year (1.9%). Similar dynamics of price increase are expected also in the main trading partners. According to the ECB, the inflation rate in the euro area is projected to be 1.9% in 2021, reaching the highest level of 2.6% in Q4 2021, while the countries of the region are facing an even higher growth rate of prices. The increase of inflationary pressures on the global level are generally expected to stabilize as the main drivers of these pressures this year are estimated to be temporary. Potentially more stable growth of inflation or inflation expectations could be accompanied by tightening of monetary policy and tightening of global financial conditions, thus weighing on economic recovery, especially in developing countries which have higher needs for external financing. In Kosovo, the increase of inflation rate in 2021, accompanied by a decrease in the average salary, gives an indication of a potential decline in purchasing power, having a potential chain effect on businesses. The ECB forecasts for a decline in the inflation rate in the next two years give positive signals for the continuation of the overall recovery process from the effects of the pandemic.

Fiscal Sector

Budget revenues³ in the first half of 2021 marked an increase of 29.2% while budget expenditures⁴ marked an increase of 10.3%. Only in Q2 2021, budget revenues amounted to EUR 527.6 million, representing an annual growth of 45.3%, while budget expenditures in this quarter declined by 4.6% and reached the value of euro 480.7 million. Consequently, Kosovo's budget recorded a primary budget surplus of EUR 46.9 million during this quarter.

The recovery of the economic activity results to have affected the considerable increase of direct tax revenues of 63.0%, in Q2 2021. Tax on personal income, as the main category of the direct tax revenues, increased by 37.3%, while tax on corporate income increased by 80.9%. With an increase of domestic demand, which has affected the growth of imports of goods, there has been marked an increase of 44.0% also in indirect tax revenues, a category that dominates budget revenues by around 75%. In Q2 2021, indirect tax revenues amounted to EUR 395.9 million, where VAT and excise as the two main categories of indirect tax revenues marked a growth of 54.9% and 26.9%, respectively.

The main category which contributed to the decline of budget expenditures, during Q2 2021, was the one of subsidies and transfers, which reached the value of EUR 167.6 million, representing a decline of 18.0%, compared to Q2 2020. Also, expenses on salaries marked a slight decline of 2.6%, reaching the value of EUR 167.3 million, while government expenditures on goods and services (including municipal utilities)

³ Within budget revenues are not included receipts from financing.

⁴ Within budget revenues are not included financing payments.

marked an increase of 17.8% and reached the value of EUR 74.7 million. Capital expenditures, in Q2 2021, reached the value of EUR 71.1 million or 10.8% more compared with Q2 2020.

Public debt, in Q2 2021, reached EUR 1.6 billion, which is for 24.3% higher compared to Q2 2020. As a percentage to GDP, public debt reached 23.2%, from 18.2% as it was in Q2 2020. The increase of public debt is attributed to the growth of domestic debt of 20.0% (which reached EUR 1.06 billion), and the increase of external debt of 33.1% (which reached EUR 571.6 million). The threshold of public debt in Kosovo is set by law at 40% of GDP, and consequently the level of 23.2% ranks Kosovo in the position of the country with the lowest level of public debt compared to the region countries. Nevertheless, this low level of public debt may quickly surge in the future as a result of the negative impact of Covid-19 pandemic in Kosovo's economy and due to the Government's plans to finance the budget deficit through the public debt.

Financial Sector⁵

Assets of the financial system at the end of June 2021 reached a value of EUR 8.31 billion, representing an annual increase of 12.2%. Also on quarterly basis, financial system expanded, mainly being supported by the banking sector (deposits) and pension sector (collected contributions and return on investments). Also other sectors had positive contribution to the growth, albeit at low level due to the low weight they have in the financial system.

On quarterly basis, the banking sector activity within assets was supported by the increase in lending, whereas other balance sheet items declined (balance sheets with commercial banks, investments in securities, and money held at commercial banks). Whereas, within liabilities, deposits marked the most significant increase in this quarter (mainly from deposits collected from households) and equity (realized profit).

Indicators that measure the soundness of the banking sector suggest that at the end of Q2 2021 the banking sector marked an improvement in the level of liquidity, capitalization, profitability and higher quality of the loan portfolio.

Pension sector was characterized with positive dynamics in overall assets and investments performance as well, in Q2 2021. The increase in contributions collected during this period as well as the positive return on investments contributed to the increase in the sector's assets, despite the impact that the withdrawal of 10% of funds from contributors, an opportunity which terminated at the beginning of this quarter.

During the second quarter of 2021, with an increase were characterized also assets of insurance sector. Also, accelerated growth was marked by gross written premiums against claims incurred, which resulted in positive performance of the sector in this quarter.

Compared to last year, the microfinance sector marked an acceleration of lending activity, translated into an acceleration of assets growth on a quarterly basis. The

⁵ For more information on financial sector, please refer to: Quarterly Assessment of Financial System (Q2 2021) published at the CBK website.

sector also closed the second quarter with a positive financial result and a satisfactory level of credit portfolio quality based on the low level of nonperforming loans.

During the second quarter of 2021, the Government of Kosovo issued debt in the amount of EUR 100.0 million, through treasury bonds with a maturity of 3 to 10 years. Also, in auctions during this quarter, the submitted bidding amount to invest in government bonds exceeded the offer by 1.46 times.

External Sector

External sector of the economy was the main channel through which was transmitted the economic and social crises driven by the Covid-19 pandemic in Kosovo. The current account deficit, which in 2020 was increased for 20.4%, has continued with an accelerated trend also in 2021. Only in Q2 2021, the current account deficit has doubled from EUR 144.8 million, as it was in Q2 2020, to EUR 295.5 million, in Q2 2021.

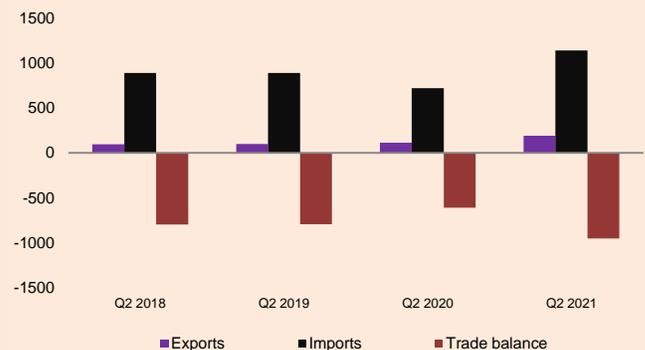
Chart 3. Current account deficit and its components, EUR million



Source: CBK.

This increase of the current account deficit is attributable to the increase of the goods deficit and the decline in the positive balance of primary income, while the balance of services and secondary income has improved (chart 3).

Chart 4. Export and import of goods, EUR million



Source: KAS.

Export⁶ of goods, only in Q2 2021, has marked an increase of 64.7%, while import of goods increased by 57.9%. Despite the higher growth rate of exports, the significantly higher level of imports of goods has led to an increase in the trade deficit of goods by 56.6%, reaching the level of EUR 952.0 million (chart 4).

The value of exports of goods, in Q2 2021, was EUR 191.1 million and almost all export categories marked an increase, while the highest increase compared to the same period of 2020, was marked in base metals, plastic and rubber products, mineral products, etc. (chart 5).

About 36% of exported goods consists of base metal products, where the changes in metal prices in international markets reflect the nominal value of exports. Base metal prices in Q2 2021 marked an

⁶ The source of data for import and export of goods in Kosovo is Kosovo Agency of Statistics.

increase of 68.3 percent and this has affected the increase of metal exports by 37.2%. Also, the index of mineral prices in international markets and the index of food prices increased by 68.3% and 41.6%, respectively, while the increase in exports of minerals and prepared foods was 123.6% and 38.0%, respectively, in Q2 2021.

Chart 5. Export of goods, EUR million

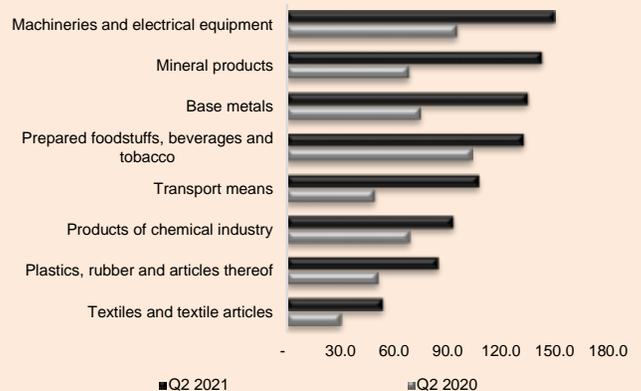


Source: KAS.

EU countries and CEFTA member countries continue to represent Kosovo's main trading partners for exports, with a share of 33.3% and 39.1% of total exports in Q2 2021. Exports to EU countries, only in Q2 2021, amounted to EUR 64.0 million, marking an increase of 40.1% while exports of goods to CEFTA countries reached EUR 74.9 million or 35.9% more compared to Q2 2020. Exports to the US are showing a fairly high growth trend. In Q2 2021, the share of total exports of goods to US was 12.9% from only 2.6% as it was in Q2 2020.

The value of imports of goods, in Q2 2021, was EUR 1.1 billion, representing an annual increase of 57.9%. As with the export of goods, the high growth of imports of goods, in addition to the growth of domestic demand, can be explained also by the high growth of prices in international markets.

Chart 6. Import of goods, EUR million



Source: KAS.

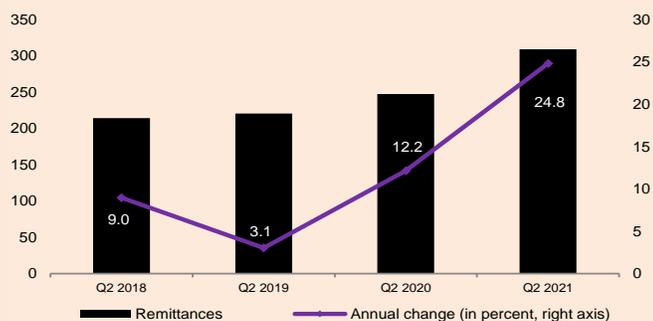
Almost all categories of imports have increased, while the highest increase has been recorded by imports of mineral products (including imports of oil products), followed by base metals, means of transport, as well as machinery and electrical equipment (chart 6).

The average price of crude oil increased by 121.3% in Q2 2021, while imports of commodities, as one of the main categories of imports of goods, increased by 108.6%.

Regarding the structure of imports by trading partners, EU countries and CEFTA member countries are the countries from which Kosovo imports most of its goods. In Q2 2021, Kosovo imported about 44.6% of total imports from EU countries or 53.3% more compared to Q2 2020, as well as 20.4% of total imports from CEFTA countries or 54.7% more compared to Q2 2020. A large part of import of goods was also realized from Turkey and China. Imports of goods from Turkey were about 13.3% of total imports or 63.4% more compared to Q2 2020, while imports of goods from China accounted for 8.9% of total imports of goods or 54.3% more compared to Q2 2020.

Within the balance of payments, trade of services was the component that suffered the sharpest decline during 2020, as a direct consequence of the restrictive measures taken to manage the health crises. With the easing and lifting the restrictive measures, also the trade in services has begun to normalize. In Q2 2021, the balance in trade of services reached a value of EUR 137.6 million, from EUR 7.7 million as it was in Q2 2020. The value of export of services amounted to EUR 332.1 million, from EUR 114.6 millions, as it was in Q2 2020. The highest growth was marked by export of travel services, transport, construction, etc. Also the import of services marked a slight increase in Q2 2021, where the value of services imported amounted to EUR 194.5 million (EUR 106.8 million in Q2 2020). The highest increase was marked in travel services, transport and in pension and insurance services. It is worth mentioning that the export and import of services was higher compared to Q2 2019 by 9.0 and 16.5%, respectively.

Chart 7. Remittances, EUR million



Source: CBK.

The primary income account decreased by 49.7% in Q2 2021, mainly as a result of the income from investments, while also the income from employees compensation were characterized with a decrease. The balance of secondary income marked an increase of 15.3%, which is mainly attributable to the higher level of remittances. The high growth rate of remittances in 2020, despite the difficult situation created by the Covid-19 pandemic, has continued also in 2021 with an accelerated growth trend. Only in Q2 2021, the value of remittances received was EUR 309.0 million or 24.8% more compared to

Q2 2020 (chart 7). In terms of transferring channels, the vast majority of remittances (62.0%) came through money transferring agencies, which marked a decline of 3.7%. As last year, especially in Q2 and Q3, there were border closures, also the value of remittances through the "informal" channels was reduced to a minimum. With the opening of the borders, remittances through the "informal" channel have increased and reached the level of EUR 73.8 million only in Q2 2021 from EUR 11.3 million in Q2 2020. Remittances received through banks marked an increase of 18.6% and comprise 14.1% of total remittances sent in Q2 2021. Remittances received in Kosovo mainly come from Germany and Switzerland, which represent the countries with a share of 39.5% and 17.3%, respectively, of total remittances. A considerable amount of remittances was received also from the U.S.A (7.0% of total remittances).

Chart 8. Structure of foreign direct investments by components, EUR million



Source: CBK.

Foreign Direct Investments (FDI), in Q2 2021, reached the value of EUR 123.5 million, representing an increase of 78.8%. The high increase of FDI is mainly attributable to the economic recovery, which has been translated into a higher profit realized by reinvestments and an increase of borrowings. Within the structure of FDI, capital and fund of investments in shares reached EUR 106.1 million, while debt instruments reached EUR 17.4 million (chart 8). The growth of FDI was recorded mainly in the sectors of real estate, information and communication, supply with electricity, etc., while in the sectors of mining and quarrying, trade, manufacturing, etc., there has been marked a decline of FDI.

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Macroeconomic selected indicators

Description	June 2020	June 2021
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)*	1,409.9	1,492.6
Consumer prices (annual average)	0.6%	1.3%
Consumer prices (end of period)	0.1%	2.4%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	760.3	982.5
Budget Expenditures (in millions of EUR)	877.5	968.3
Primary balance (in millions of EUR)	-117.2	14.2
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	7,406.9	8,309.2
of which : Banks	4,849.0	5,568.9
Loans	3,127.4	3,510.1
Deposits	3,903.2	4,477.8
<i>Interest Rates on Loans, end of period</i>	6.3%	6.0%
<i>Interest Rates on Loans, end of period</i>	1.5%	1.3%
Interest rate gap	4.7%	4.7%
External sector,(in millions of EUR) 3/		
Balance of payments		
Current accounts	-217.3	-449.6
of which: remittances	434.9	552.0
Financial account	-311.8	-256.9
Foreign Direct Investments in Kosovo	173.5	230.1
Portfolio investments, net	-389.1	42.1
Other investments, net	195.5	-132.2
International Investment Position (PNI), net*	-592.2	-887.4
Assets	5,054.3	5,348.4
Liabilities	5,646.6	6,235.8
External debt, total*	2,206.9	2,513.8
Private external debt	1,717.5	1,907.3
Public external debt	489.4	606.5

Source:

1/ KAS (2021);

2/ MF (2021);

3/ CBK (2021).

*Data on GDP, IIP and external debt are as of March 2021.

