

Summary

- The euro area economy shrank in the third quarter of 2023, declining to 0.1 percent according to Eurostat, driven by still high inflation and rising interest rates. ECB projections for economic growth in the euro area suggest a real GDP growth rate of 0.7 in 2023 and 1.0% in 2024. **Inflation rate was 4.9% in Q3 2023, slowing down from the rate of 9.3% marked in Q3 2022.** While inflation fell sharply in October, at the ECB meeting held in October 26, 2023, interest rates were kept unchanged, while further decisions were stated to be subject to macroeconomic data/dynamics. The ECB projections suggest a slowdown in inflation to 5.6% in 2023 and 3.2% in 2024.
- **Economic activity in Kosovo marked a real growth of 3.0% in Q3 2023**, which was attributable to positive contribution of consumption and investments, whereas net exports gave negative contribution to the real GDP growth rate. Consumption turns out to have marked higher increase, while the increase of investments was determined mainly by public investments increase. For Q4 2023, the CBK estimates that the economic activity recorded a higher growth compared to the previous quarters, making the end-year of 2023 mark an increase in GDP of 3.4%. The growth in Q4 2023 is estimated to have been supported by overall investments, public consumption and the export of services, while the estimates for the decrease in export of goods are expected to negatively affect the general economic activity.
- **Inflation continued to follow a slow-down trend in Q3 2023, marking an annual increase of 3.2%** as a result of the base effect, ease in supply chains and commodity prices in international markets. A slow growth was observed in most of the components in the consumer's basket, while energy prices were characterized with increasing trend compared to the previous quarter. Similarly, also the core inflation showed slowdown signs in Q3 2023, albeit the dynamics during the quarter were characterized with fluctuations. According to the CBK projections, inflation is expected to continue the slowdown trend, reaching 3.0% in 2024.
- **Kosovo's budget has recorded a primary positive budget balance in Q3 2023**, despite of the higher growth of budget expenditures compared to revenues, while public debt has declined to 16.8% of GDP, compared to the level of 20.5%, marked in Q3 2022. The improvement of the government's budget balance, which comes from the increase of revenues and nominal GDP growth, reduces the debt to GDP ratio, have been the main factors which influenced the decrease of the level of public debt.
- **Current account reached EUR 121.7 million in Q3 2023 (EUR 121.9 million, in Q3 2022).** Dynamics in the current account, in Q3 2023, continued to be determined mainly by developments in the trade balance of goods. Within the current account, one of the most important financing sources of consumption, comprised of remittances, recorded an increase of 7.2%, reaching EUR 374.0 million. Whereas, foreign direct investments, in Q3 2023, result to have marked a decline of 17.5%, reaching the value of EUR 236.7 million.
- **The financial system in the country has expanded at a high rate for the third year in a row, while the dynamics in the next year are expected to be subject to general macroeconomic developments and the capacity to increase funds (increase in deposits).**
- **The banking sector** along the years has ensured a high level of capitalization, and high quality of assets (loans). The level of capitalization beyond regulatory requirements makes the sector more resilient to uncertainties caused by geopolitical crises, rising inflation and slowing economic activity. Lending activity was the main contributor to the increase in assets of the banking system, followed by investments in securities. European Central Bank has not further increased interest rates, which is an indicator of halting inflation rate, which is expected to have a slight increase and then a gradual decline in 2024, whereas in 2025 is expected to decline at a recommended level (below 2.0%). These developments in the ECB's monetary policy will also affect the interest rates applied by local banks, which, if they do not decrease, are expected not to increase further.
- Pension sector was characterized with a return of accelerated increase, after a significant slowdown marked in the previous year which was a consequence of oscillations in financial markets. Both pension funds marked a positive return from investments in foreign markets and an increase from the collected contributions.
- The activity of the **insurance sector** marked the highest growth in the last five years, and was characterized by an increase in written premiums, also reflected in positive financial performance. However, the quality of assets, capital and some of the key indicators need further improvement for more satisfactory levels to stand above regulatory requirements.
- **Microfinance sector** marked an accelerated increase, mainly from expansion of lending and leasing, and the increase of own capital. The sector approximately marked a same profit as in the previous year, and maintained the quality of loan portfolio and ensured a high level of loan loss provisions.

List of abbreviation

CBK	Central Bank of the Republic of Kosovo
CPI	Consumer Price Index
ECB	European Central Bank
EUR	Euro currency
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPI	Import Price Index
KAS	Kosovo Agency of Statistics
MFLT	Ministry of Finance, Labor and Transfers of Kosovo
MMBTU	Metric Million British Thermal Unit
WEO	World Economic Outlook

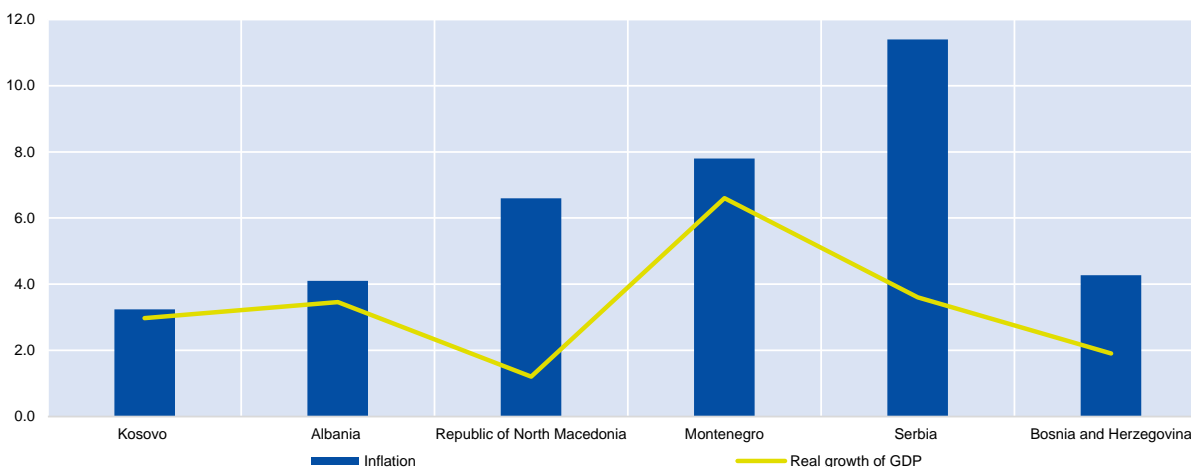
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1. Euro area and Western Balkans

The euro area economy shrank by 0.1% in the third quarter of 2023, slowing significantly from the growth of 0.2 recorded in the previous quarter. The increase in uncertainty about the economic perspective and the increase in the cost of living as a result of the high inflation rate and also the increase in interest rates results in the decrease of the demand for goods and services. Germany, which represents the largest euro area economy, marked a decline of economic activity of 0.1% affected by the decline of export. The export decline in Germany's economy was influenced by the slowdown in global economic growth, which had an impact on the decrease in demand for German goods and services. **ECB projections for economic growth in the euro area were revised in September against the projections of June, to 0.7% for 2023 and 1.0% for 2024.** The outlook for the euro area economy remains uncertain, as a result of the geopolitical tensions and dynamics in the global economy, both in the context of general demand and the prices of the main goods in international markets. **The inflation rate in Q3 2023 reached 4.9%, a significant slowdown compared to the rate of 9.3% marked in the same period of the previous year.** Although the inflation rate slowed down significantly in October, at the meeting held in October 26, 2023, the ECB decided to keep interest rates unchanged. Still high interest rates are expected to weigh on economic growth in the coming months, discouraging the demand for borrowings and investments. **The ECB projections suggest a slowdown in inflation to 5.6% in 2023, and 3.2% in 2024.**

Chart 1. Economic growth and inflation in Western Balkans (Q3 2023)



Source: Respective statistics offices.

The countries of the Western Balkans are estimated to have recorded an economic growth of 3.3%, in the third quarter of 2023. Economic growth was mainly supported by the increase in domestic demand, with Montenegro recording the highest economic growth in the region of 6.6%, followed by Serbia and Albania with the growth of 3.6% and 3.5%, respectively, while Kosovo recorded an economic growth of 3.0%. IMF projections suggest that the countries of the Western Balkans are expected to record an economic growth of 2.5% in 2023 and 3.2% in 2024. The economic growth in the Western Balkans was estimated to have been affected both by external pressures (slowing down economic activity in the euro area) and also by internal effects (still high prices and increasing the cost of financing).

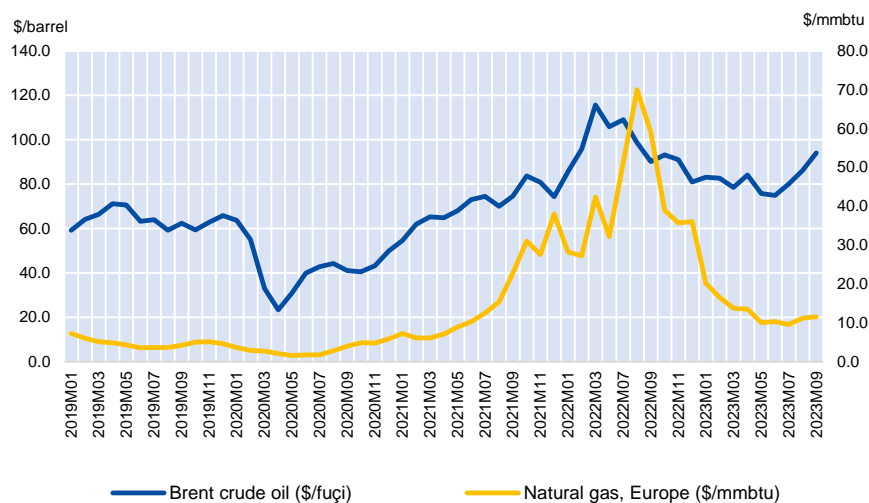
The average inflation rate, in Q3 2023, in the countries of the region turns out to have been 6.2%, with the highest rate recorded in Serbia of 11.4%, while Kosovo recorded the lowest inflation rate of 3.2% (chart 1).

2. Main commodity prices in international markets

The prices of major commodities in international markets continued to ease in Q3 2023 against the same period of the previous year, as a result of the stabilization of supply and trade routes, and the impact of tightening financing conditions on global demand. Whereas, compared to the previous quarter, the price index of major commodities according to the World Bank showed an upward trend, driven by the rise in energy prices, which neutralized the reductions in the prices of other non-energy commodities. Major commodity prices are expected to follow a downward trend based on the slowdown in global economic activity that weighs particularly on energy and metal prices, as well as supported by stable supply and the limited impact of geopolitical tensions in Europe and the Middle East.

Prices of Brent crude oil, according to the World Bank, reached an average of \$86.8 per barrel in Q3 2023, marking a decline of 12.6% compared to the same period of the previous year when oil prices were close to their highest levels (chart 2). Whereas, compared to the previous quarter when a drop in oil prices was recorded (\$78.2 per barrel in Q2 2023), in Q3 2023 oil prices recorded an increase of 10.9% as a result of increased concerns about the contraction of global oil

Chart 2. Oil and natural gas prices in international markets



Source: World Bank

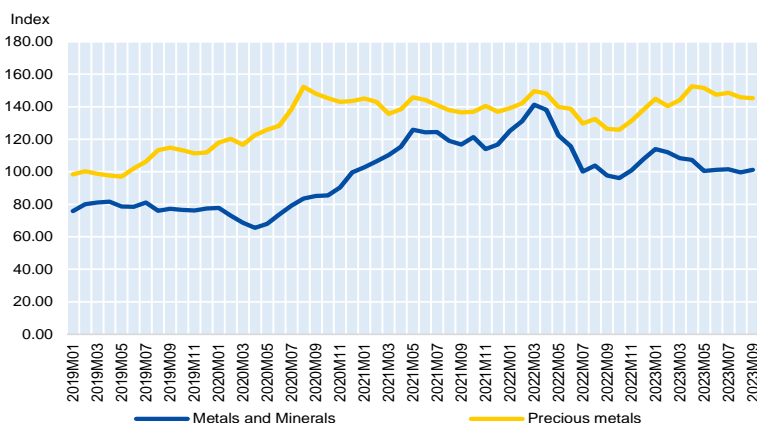
supply after the announcement of Saudi Arabia and Russia to extend production cuts of 1 million barrels per day (mf/d) and 0.3 mf/d, respectively, until the end of the year, which resulted in price increases to \$94.0 per barrel at the end of September. According to the World Bank, the average of oil prices for 2024 is foreseen to be around \$81 per barrel. However, this forecast is accompanied by upside risks such as the potential reduction in the amount of oil production from exporting countries, geopolitical tensions intensified with the conflict in the Middle East, and others; while the slowdown in global economic activity, and lower demand for oil especially in China, is expected to support the easing of oil prices.

Natural gas prices in Europe, in Q3 2023, fell to \$10.8/mmbtu, resulting in an annual decline of 82.1% compared to the same quarter last year when the price of natural gas in Europe reached the highest levels after Russia cut off natural gas exports in Europe (chart 2). The decline in natural gas prices in Europe, in Q3 2023, is attributed to imports of liquefied natural gas from the USA that eased concerns about security of supply as well as measures taken by the EU to increase efficiency and save energy. Unlike Q2 2023 when gas prices followed a downward trajectory, the dynamics within the third quarter showed an upward trend as a result of obstacles in the supply of liquefied natural gas (LNG), and later the conflict in the Middle East that influenced the further growth of natural gas prices at \$14.5/mmbtu in October and November 2023.

The index of prices of metals and minerals recorded a decrease of 2.2% compared to the previous quarter as a result of the slowdown in global economic activity, the weak activity of the real estate sector in China, as well as the stabilization of supply after the drop in energy prices (chart 3). Whereas, compared to Q3 2022, the metal price index recorded an increase of 0.2% supported by the recovery in other sectors of China's economy. The price index of precious metals recorded an increase of 13.2% in Q3 2023, compared to the same quarter of

the previous year. Whereas, compared to the previous quarter this index declined by 2.6%. Gold prices fell by 2.5% against the previous quarter as a result of expectations for higher interest rates for longer period of times and the appreciation of the US dollar which eased the demand for gold as a safe haven asset. A similar decrease was noted in the prices of silver and platinum of 2.6% and 9.3%, respectively, although the industrial demand for these products remained stable.

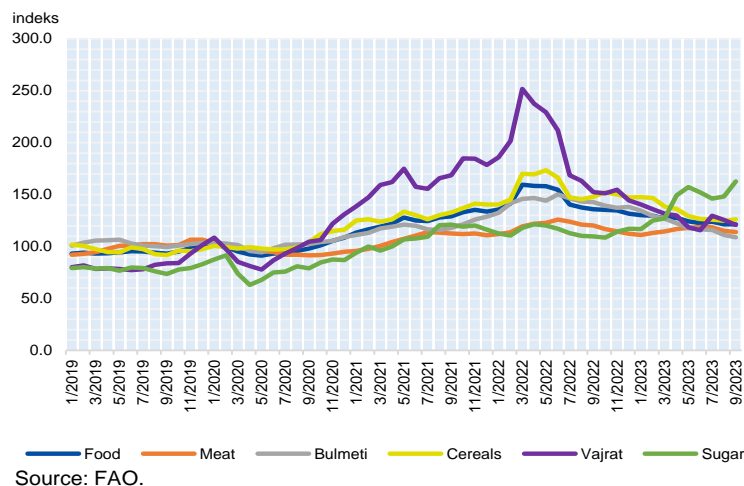
Chart 3. Prices of metals and minerals and of precious metals



Source: World Bank.

Food prices, in Q3 2023, according to the FAO index decreased by 2.0% compared to the previous quarter, with all categories decreasing except for edible oils which increased by 3.3%. Also, a growth trend was recorded in prices of sugar in September, after a price decline that had been recorded in July and August 2023 (chart 4). In relation to Q3 2022, food prices recorded an annual decrease of 11.4%, driven by a significant decline in the prices of edible oils and dairy (-22.3%), cereals (-14.4%) and meat (-4.8%), while sugar prices recorded an annual growth of 37.3%. The ease in food prices are expected to continue also along the year of 2024 based on expectations on yield increases and supply stabilization.

Chart 4. Food price index



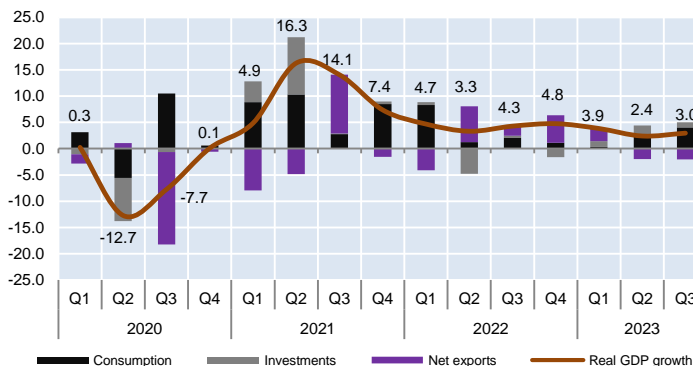
Source: FAO.

3. Kosovo's Economy

3.1. Economic growth

Economic activity in Kosovo is estimated to have marked a real growth of 3.0%, in Q3 2023. The slower growth of economic activity compared to the same period of the previous year was attributed to the consequences of the still high rate of inflation and the increase in interest rates. However, the generated increase from the economic activity is attributable to the positive contribution of consumption and investments with 4.0 and 1.0 percentage points, respectively. Conversely, net exports have had a negative contribution to the GDP growth with 2.0 percentage points (chart 5).

Chart 5. Real GDP growth rate and main contributors to the growth



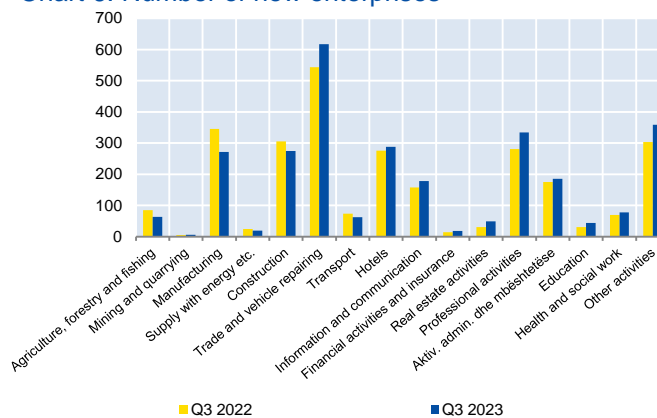
Source: KAS and CBK calculations.

Consumption marked an increase of 5.0% in Q3 2023, representing a higher increase compared to the same quarter of the previous year. The increase of consumption may be attributable to the increase of investment loans, remittances, compensation of employees, public consumption, and also to the slowdown increase of consumer prices. Investments marked an increase of 2.8%, primarily as a result of the increase of public investments. As regards to external trade, net exports have deepened the trade deficit for 12.8% in Q3 2023. The increase in trade deficit was attributed to the increase in the import of goods and services of 2.5% (import of goods marked a decrease of 1.4%, while the import of services marked an increase of 15.5%), as well as the decrease in the export of goods and services of 0.5% (export of goods recorded a decrease of 7.0%, whereas the export of services recorded an increase of 0.9%).

The increase of the economic activity in Q3 2023 was mainly supported by the increase in the added value in the financial activities and insurance sector (5.1%), the sector of processing industry (3.2%), agriculture (3.4%), trade sector (2.9%), etc. Business turnover data confirm this increase, where the turnover in the trade sector has increased by 6.7%, while the sector of processing industry has increased by 8.3%, etc. The activity of the financial and insurance sector has marked a significant increase of 12.7%.

Economic activity was also reflected in the number of registered enterprises, which reached 2,852 enterprises in Q3 2023, namely an increase of 4.8% compared to Q3 2022. The sector of trade, professional activities, information and communication, and real estate activities, marked the highest number of registered enterprises. These sectors showed a significant increase in the number of enterprises compared to the same period of 2022 (chart 6). On the other hand, during Q3 2023, 376 enterprises were closed, or 1.1% more compared to Q3 2022.

Chart 6. Number of new enterprises



Source: KAS.

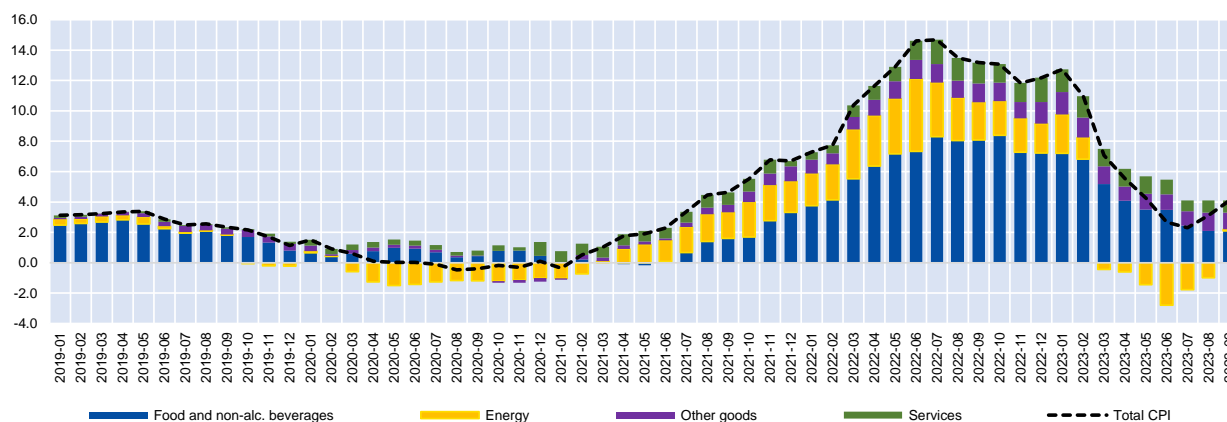
CBK estimates for Q4 2023 suggest an increase of 4.4%, making the year 2023 close with a GDP growth level of 3.4 percent. General investments, consumption as well as the export of services, interlinked to diaspora spendings, are estimated to have been the main drivers of the growth, whereas expectations for a decrease in the export of goods are expected to negatively affect the overall economic activity, due to the current economic structure.

3.2. Prices

The average annual inflation rate, in Q3 2023, slowed down to 3.2% from 4.2% as it was in the previous quarter, as a result of the base effect and eases in commodity prices in international markets. In annual terms, the slowdown in inflation was supported by the slowing growth of food prices, the drop in fuel prices and the softening of inflationary pressures in services, while the prices of other goods contributed positively to the acceleration of inflation (chart 7).

Food prices marked an annual increase of 5.5% in Q3 2023, which represents a slowdown increase of prices against the annual increase of 9.7% marked in the previous quarter. A higher annual growth was recorded in prices of i) vegetables (25.3%), ii) fruits (11.3%), iii) food productions and iv) sugar, marmalade, honey, chocolate and sweets (both categories with an increase of 9.6%). Conversely, there was marked a slowdown increase compared to Q2 2023 in prices of fruits and food production, and a decline in prices of edible oils, fats and vegetables. Whereas, there were recorded inflationary pressures against the previous quarter in prices of bread and cereals, dairy, and sugar and its products. Despite the decline/slowdown in some food items, food prices remain almost 30% above their levels that were marked before the war in Ukraine, continuing to weigh on disposable household income, given the weight of food in the consumption basket in the country (32.2%).

Chart 7. Contribution of the respected subgroups to CPI



Source: KAS and CBK calculations.

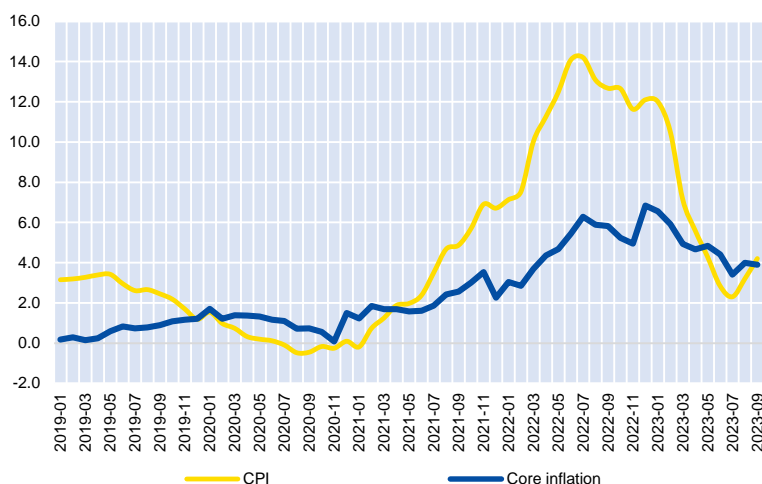
Transport prices recorded an annual decline of 3.7% in Q3 2023 with the subcategory of personal transport equipment, which recorded an annual decline of 10.2% due to the base effect and the decline in fuel prices in international markets compared to the previous year. On the other hand, in quarterly terms, the increase in fuel prices in international markets in Q3 2023 affected fuel prices in the country to increase by 6.7% compared to the previous quarter.

The contribution of food to the average inflation rate in Q3 2023 was 2.0 percentage points, with the highest contribution marked by the increase in prices of vegetables with 0.6 percentage points, bread and cereals with 0.5 percentage points, meat with 0.3 percentage points, and others. Whereas, the contribution of transport to headline inflation in Q3 2023 reached at -0.7 percentage points (from -1.5 percentage points, in Q2 2023), which was mainly defined by the subcategory of personal transport equipment, where fuel is included. The contribution of prices of other non-energy commodities marked an increase of 0.1 percentage points reaching 1.1 percentage points in Q3 2023 compared to the previous quarter based on the price increase of vehicles,

price sustainability of tobacco and alcoholic beverages, household appliances, and others. Whereas, the average quarterly contribution of services to the total CPI edged down to 0.8 percentage points (from 1.1 percentage points, in Q2 2023) after the slowdown in the price increase of transport services, hotel services, services for the usual maintenance of the house, and others.

Core inflation in Q3 2023 marked an annual increase of 3.8%, which compared to the previous quarter represents a slowdown of 0.8 percentage points as a result of the slowdown of inflationary pressures in transport and hotel services, as well as the annual slowdown in the prices of furniture, household appliances and maintenance of the house (graph 8). Meanwhile, an increase was marked in prices of medical equipment and outpatient medical services.

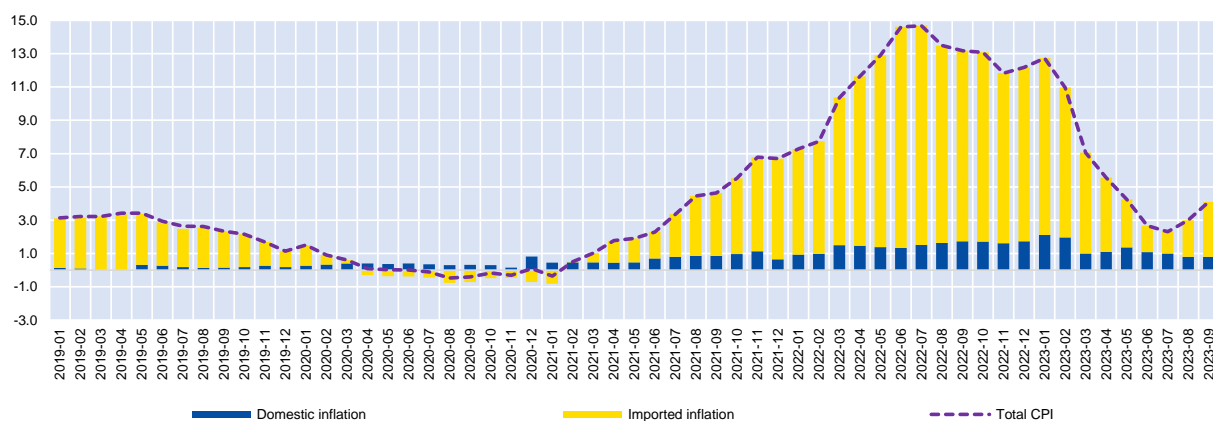
Chart 8. Core and headline inflation of consumption



Source: KAS and CBK calculations.

The dependence of Kosovo’s economy on the import of food commodities and energy, as well as the high degree of their share to the consumption basket, have had an impact on the inflation rate in Kosovo and is largely determined by the prices of imported goods. In Q3 2023, 2.3 percentage points of inflation was imported into Kosovo, while 0.9 percentage points was generated by domestic inflationary pressures (chart 9).

Chart 9. Domestic and imported inflation



Source: KAS and CBK calculations.

Fluctuations in the prices of commodities in international markets, reflected in the prices of imported goods in Kosovo, are summarized through the import price index (IPI), which in Q3 2023 marked an annual increase of 3.0%, representing a slowdown increase against the annual growth of 4.2% marked in Q2 2023. Compared to the same quarter of the previous year, the categories with the highest weight within this index which include i) prepared food products, beverages and tobacco, and ii) machinery and electrical equipment recorded an annual growth of 8.9% and 3.3%, respectively, while i) base metals and related articles and ii) mineral products, marked an annual decrease of 5.1% and 6.0%, respectively. Whereas, in relation to the previous quarter, IPI recorded an increase of 0.6%, mainly as a result of the continuous acceleration of the prices of mineral products and prepared food commodities.

The producer price index (PPI) resulted in a decrease of 12.6% in Q3 2023 compared to the same quarter of the previous year mainly as a result of the decrease in the production price of i) electricity, gas, steam and air conditioning supply (-44.9%), ii) metals (-2.4%), as well as the slowdown in the prices of other components with a significant weight in the PPI such as the production of rubber and plastic products, and of mineral and non-metallic products.

The Construction Cost Index (CCI) in Q3 2023 recorded an annual decrease of 1.5%, driven by the decline in the prices of construction materials (-2.0%), energy (-44.9%) and transport (-8.1%). On the other hand, compared to Q2 2023, a growth of 0.7% was marked in CCI, mainly as a result of the growth in the prices of construction materials, as the component with the highest weight in CCI, and the increase of salaries and other costs, while a decline was noted in the prices of machinery appliances, transport, and energy.

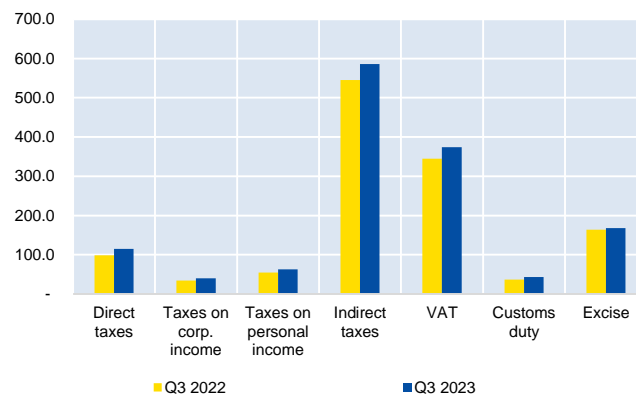
Regarding the perspective of inflation in Kosovo, the CBK forecasts that inflation in 2024 will slow down to 3.0%. Factors expected to contribute to these dynamics include the stabilization of supply side and the prices of major commodities in international markets, the downward trend in inflation in the euro area, the transmission of tightening of financing conditions in the domestic demand, and others. However, the interlinked risks to inflation tend to an upward direction and mainly consist of the risks of disruptions in supply chains as a result of the conflict in the Middle East, the war in Ukraine, the reduction in the amount of production by OPEC+, and others.

3.3. Fiscal Sector

Budget revenues¹, only in Q3 2023, reached a net value of EUR 761.3 million, representing an annual increase of 6.8%. On the other hand, current expenditures² marked a growth of 13.8% and reached the value of EUR 677.7 million. Despite the higher increase of budget expenditures compared to budget revenues, the budget of Kosovo recorded a positive balance of EUR 83.6 million.

Tax revenues reached the value of EUR 683.9 million, marking an increase of 8.4% compared to Q3 2022. All the categories of taxes marked an increase during this period. A higher increase was marked in direct tax revenues, which increased by 17.1%, reaching the value of EUR 115.1 million. The increase of the direct tax revenues which are mainly realized by Kosovo Tax Administration, was a result of an improvement of the collected income, the activities undertaken to combat and prevent tax invasion and the strengthening of the voluntary fulfillment of tax payments by taxpayers, etc. Within this category, personal income tax, which

Chart 10. Tax income structure



Source: MFLT and CBK calculations.

comprises the main category, marked an annual increase of 16.4%, while corporate income tax, marked an annual increase of 16.8%. Indirect tax revenues marked an increase of 7.5%, reaching the value of EUR 585.6 million. The increase of indirect tax revenues, as the main category of budget revenues, among others was also interlinked with the high inflation rate, which despite of being significantly decreased, continued to remain high. Within indirect taxes, VAT income and customs duty marked an increase of 8.6% and 17.8%, respectively, being significantly affected by increase of prices. Conversely, the excise tax recorded a slowdown increase of

¹Within the budget revenues are not included the receipts from financing, and payments from donor designated grants.

²Within the budget expenditures are not included financing payments, and payments for donor designated grants.

2.8%, as a result of the slowdown increase of import of goods (chart 10). Besides tax revenues, also **non-tax revenues marked a growth of 8.1%, reaching the value of EUR 77.3 million**. Within this category, the revenues from the central government reached the value of EUR 43.5 million, marking a growth of 5.0%, while the revenues from the local government increased by 22.1%, amounting to EUR 15.7 million.

Regarding budget expenditures, current expenditures increased by 9.3%, while capital expenditures increased by 43.6%. In the category of current expenditures, expenses for salaries increased by 30.4% and reached the value of EUR 194.1 million, expenses for goods and services, including municipal expenses, increased by 31.3% and reached the value of EUR 100.0 million, while expenses for subsidies and transfers decreased by 7.2% and reached the value of EUR 270.5 million. Capital expenditures marked an increase of 43.6% and reached the value of EUR 113.1 million.

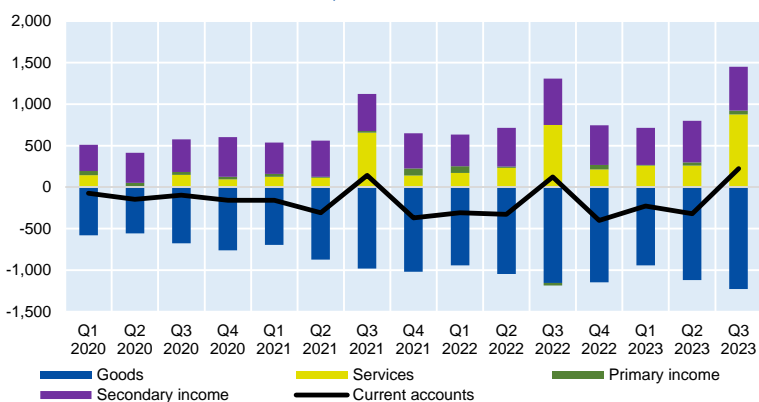
Debt to GDP ratio was 16.8% in Q3 2023, compared to 20.5% as it was in Q3 2022. This decrease was a result of the improvement of the government's budget balance and the increase in nominal GDP, which reduced the debt to GDP ratio. In absolute terms, the public debt has reached EUR 1.62 billion in Q3 2023, marking a decline of 4.2% compared to Q3 2022. The decrease of public debt is attributed to the decline of domestic public debt of 13.4%, reaching EUR 965.1 million, while external public debt marked a growth of 13.6%, reaching EUR 655.7 million.

External public debt is comprised of liabilities to International Agency for Development (37%), European Union (15%), International Bank for Reconstruction and Developments (14%), International Monetary Fund (7%), etc. Conversely, domestic debt primarily is comprised of Kosovo's Government debt to pension funds (47%), commercial banks (23%), public institutions (22%), etc.

3.4. External Sector

Current account reached EUR 223.3 million in Q3 2023 (EUR 121.9 million, in Q3 2022). Dynamics in the current account in the period July-September 2023 have continued to be determined mainly by developments in the trade balance of goods, a component which was deteriorated by the decline in export and partially by the slight increase of goods import. Meanwhile, primary and secondary income and services contributed positively to the current account balance.

Chart 11. Current account, EUR million



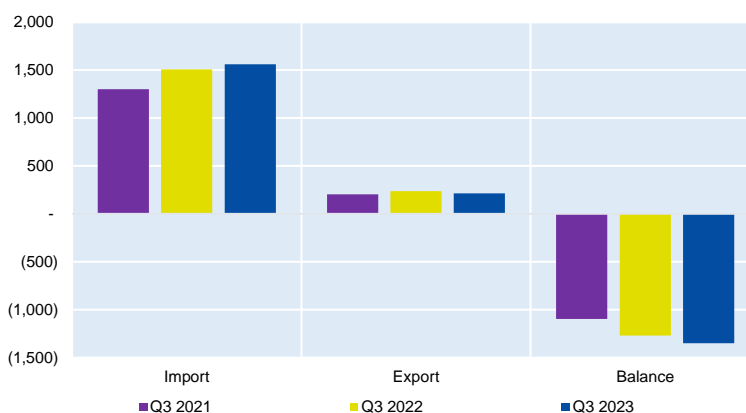
Source: CBK.

Trade balance of goods in Kosovo, in Q3 2023, marked an annual increase of trade deficit of 6.3%, reaching EUR 1.3 billion (chart 11). The annual decline of export and the slight increase of import of goods (the quantity of imported goods) had an impact on the dynamics of this component. The economy of Kosovo turns out to have imported an amount of EUR 1.5 billion, while in the same period, it exported goods with an amount of EUR 213.1 million. Exports have covered imports by only 13.6%, representing a trade ratio of 1:7.3 (chart 12).

The total value of export was EUR 213.1 million, in Q3 2023, representing a decline of 10.6% compared to the same period of the previous year. The structure of goods according to categories remains largely unchanged, while the decline in exports in Q3 2023 was mainly influenced by the export of base metals, which recorded an annual decrease of 16.3%, reaching the value of EUR 44.7 million (chart 13). This dynamic corresponds to the drop in prices in international markets and, to some extent, to the weakening of demand in the foreign market (in Q3 2023, there was marked a decline of 2.2% of the weight of metal exports compared to the same period of the previous year). To the decline of export, an impact was also given by plastics and rubber products (10.5%), which marked the value of EUR 28.9 million (EUR 32.3 million, in Q3 2022). The main trading partners of export of goods in Q2 2023 were: Western Balkans with a share of 39.2% of total exported goods, and EU countries with 32.0%.

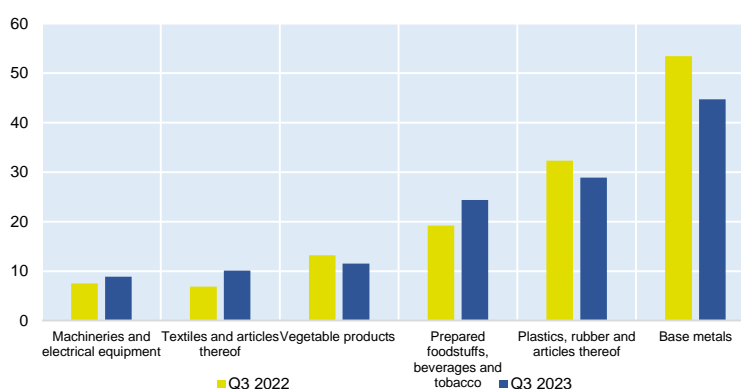
The value of imports, in Q3 2023, reached EUR 1.5 billion, representing an annual increase of 3.6%. The slight increase of import of goods was impacted by the overall quantity and weight, which marked an annual growth of 3.8% and 7.6%, respectively. The structure of imported goods continued to be dominated by import of mineral products, food commodities, and machinery appliances, including household appliances (chart 14). The share by the main categories of imported goods was dominated by the category of intermediary goods of 47.4%, consumer goods 32.8%, while the category of capital goods continues to remain low at 10.3% of total import. According to the main economic categories, intermediary goods decreased by 7.2 percent compared to the same period of the previous year, mainly influenced by price dynamics in international markets. While the category of capital and consumer goods recorded an annual growth of 20.5 and 8.3%, respectively, mainly influenced by the increase in demand in the country. Around

Chart 12. Trade balance of goods



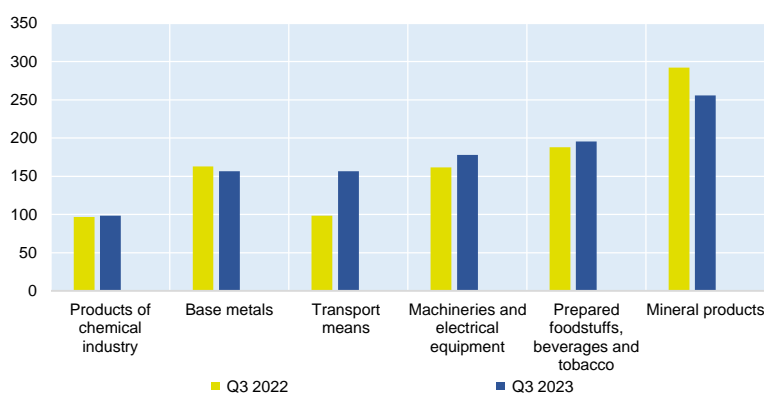
Source: KAS.

Chart 13. Main categories of exported goods, EUR million



Source: CBK.

Chart 14. Main categories of imported goods, EUR million



Source: CBK.

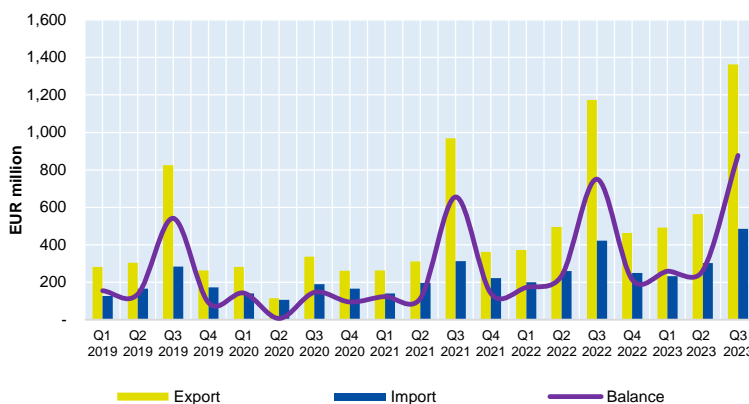
the category of intermediary goods of 47.4%, consumer goods 32.8%, while the category of capital goods continues to remain low at 10.3% of total import. According to the main economic categories, intermediary goods decreased by 7.2 percent compared to the same period of the previous year, mainly influenced by price dynamics in international markets. While the category of capital and consumer goods recorded an annual growth of 20.5 and 8.3%, respectively, mainly influenced by the increase in demand in the country. Around

42.2% of goods imported came from European Union countries (EUR 659.9 million) , among which, Germany continues to have the main weight with 12.5% of total imports. Kosovo imported from the region countries 15.6% of total imports or EUR 243.8 million. Meanwhile, the import of goods from Turkey has reached the amount of EUR 193.0 million or 12.4% of the total imports.

Services have continued to increase the positive contribution within the current account, with an annual growth of the positive balance of 16.9%, reaching a net value of EUR 877.6 million in Q3 2023. Export of services was attributable mainly to the increase of services in the category of travel with 17.8%, which reached the value of 1.1 billion, and the category of computer services marking an increase of 12.5%, reaching the value of EUR 70.8 million (EUR 62.9 million in Q3 2022). On the other hand, the increase in import of services was attributed to the increase in travel and transport components, which comprise 75.8% of total import of services. **The balance of primary income has reached EUR 45.5 million in Q3 2023, influenced by the increase in income from compensation of employees of 16.8%, which reached a net value of EUR 89.6 million.** While the balance of income from investments, mainly from direct investments, marked the value of EUR 44.3 million in the period of July-September 2023 (EUR 107.0 million in Q3 2022) (chart 16).

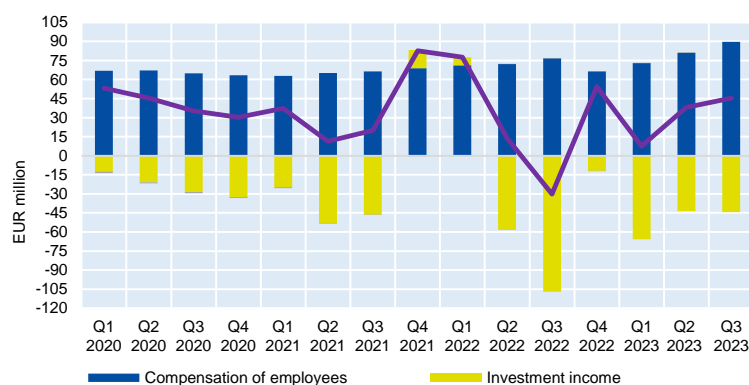
The value of remittances received during Q3 2023, reached EUR 374.2 million, representing an increase of 7.2% compared to the same period of the previous year. Received remittances continue to come mainly from Germany and Switzerland, which comprise around 55.0% of total remittances, followed by the USA and other euro area countries (chart 17). Remittances by formal channels (banks and other institutions) have recorded an increase in the value of EUR 11.5 million, while there has been an increase of EUR 13.6 million in remittances received through non-formal channels. Considering that the largest amount of remittances received in Kosovo have the main source the euro area

Chart 15. Balance of services



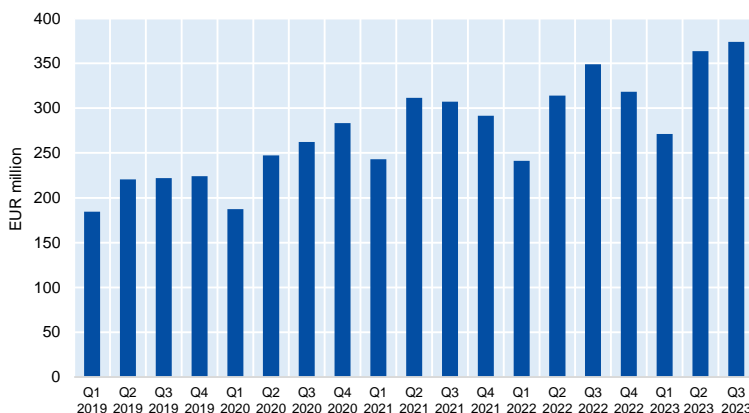
Source: CBK.

Chart 16. Balance of primary income



Source: CBK.

Chart 17. Remittances



Source: CBK.

countries (60.0%), the slowdown economic activity in the euro area may have implications on this important inflow for the economy of Kosovo.

Foreign direct investments, in Q3 2023, result to have marked a decline of 14.5%, reaching the value of EUR 245.2 million.

The FDI decline was mainly recorded in the real estate sector, which was characterized by a decrease of 6.2% and reached the value of EUR 152.9 million (EUR 163.1 million in Q3 2022). While the real estate sector remains the main sector for FDI, during the period of July-September 2023, an increase in foreign direct investments was observed in financial activities, insurance activities, mining activities and quarries. Foreign direct investments of residents from Kosovo in other countries have marked an increase of 49.4% in the period of July-September 2023, reaching the value of EUR 59.4 million (EUR 39.8 million in July-September 2022), investments destined to the countries of the region and mainly oriented to the real estate sector (chart 18).

Chart 18. Foreign direct investments



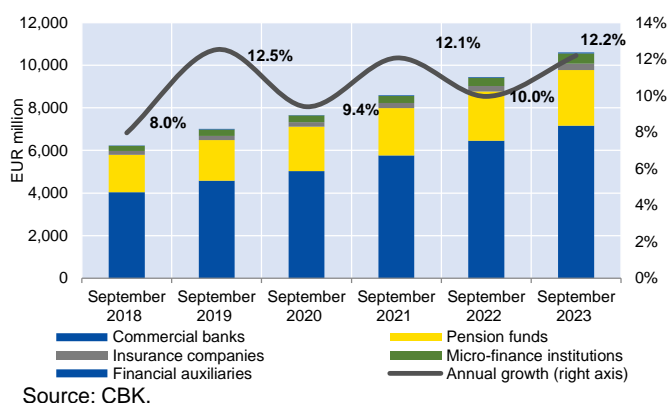
Source: CBK.

4. Financial system

The financial system in the country has expanded at a high rate for the third year in a row, while the increase in the next year is expected to be subject to general macroeconomic developments and the capacity to increase funds (increase in deposits).

Assets of the financial system in the country at the end of September 2023 reached a value of EUR 10.60 billion, representing an annual increase of 12.2% (chart 19). All the constituent sectors were characterized with a high annual increase of assets (chart 19).

Chart 19. Assets value of Kosovo's financial system



The banking sector, in September 2023, represented around 67.6% of total assets of the financial system, thus giving the main contribution to the expansion of the total assets of the financial system (chart 19). The second sector by weight to the financial system was presented by pension funds, which marked an accelerated increase of assets compared to the previous year (chart 19). The other sectors, microfinance, insurance and financial auxiliaries, recorded significant growth during this period, but due to their low weight, they had a low contribution to the growth of the total assets of the financial system.

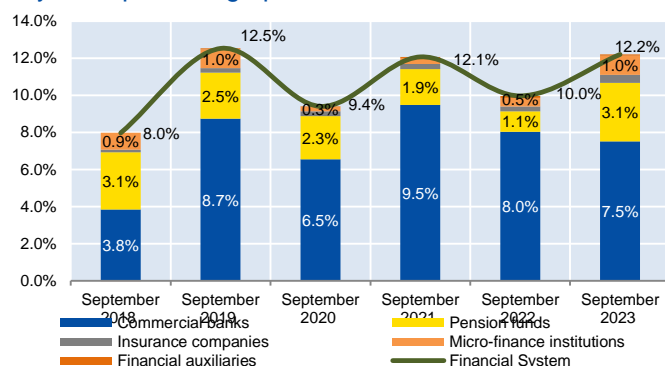
4.1. Banking Sector

The banking sector, in particular, and the financial system in general were exposed to risks stemming from worsening macroeconomic factors. The deterioration of the geopolitical situation and the carryover effects of inflation continued to affect economic growth throughout 2023. The tight monetary policies influenced the reduction of the inflation level, albeit the consequences of inflation transmitted to other segments are still current. Inflation has produced a negative effect on the consumption basket, increased interest rates on loans, increase in real estate prices, the labor market - pressure on salaries; but these pressures are expected to be softened in the coming year. The banking sector in Kosovo due to its weight, structure and low complexity, does not have high exposure to the external sector and any potential consequences of any crises or the like in the financial sector would not put at risk the banking sector in a direct manner. Meanwhile, the negative effects stemming from macroeconomic dynamics such as economic growth in the euro area, the inflation rate and the increase in the cost of financing have a more direct impact on domestic demand in Kosovo and, consequently, implications on the dynamics in the banking sector.

Assets

Banking sector assets reached the value of EUR 7.16 billion in September 2023, which corresponds with an annual increase of 11.0%, which is for 1 percentage points lower compared to the same period of the previous year (chart 20). The main contribution to the growth was

Chart 20. Contribution to assets growth of financial system, percentage points



given by lending expansion which is the main activity of the banking sector, followed by investments in securities and the increase of assets held at other banks. Whereas, the item of cash and the balance with the CBK marked a decline during this period, as the banks oriented investments in assets with higher return on investments (lending and securities).

Lending

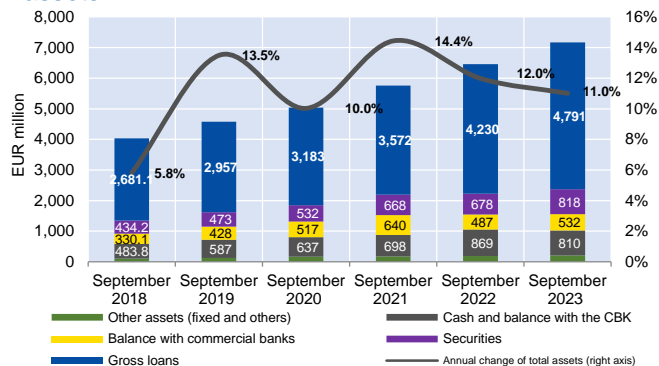
Lending activity of the sector marked an annual growth of 13.3%, which corresponds to a lower increasing rate compared to the previous year, thus reflecting the slowdown in lending of nonfinancial corporations. According to the Bank Lending Survey in Kosovo (BLSK), lending dynamics also in the second quarter of 2023, as during the whole year, were largely influenced by credit demand, whereas credit supply was characterized with marginal changes.

The segment of nonfinancial corporations recorded an annual loans stock of 10.8%, which coincides with an annual slowdown growth trend of 7.6 percentage points (chart 21). A slowdown increase in lending was marked for all economic sectors, with higher weight of lending to trade sector, manufacturing and industry. This development was affected by the credit supply, where in the BLSK, banks stated marginally tightened credit standards for large enterprises, while for SMEs there was marked an ease for the third quarter of the year. In the context of the factors that influenced these developments, the increase in the EURIBOR rate and the poor outlook in the global markets resulted to have been the main negative contributors to credit standards. Meanwhile, the support given by the KCGF and the favorable liquidity position had a positive impact, to some extent, in credit standards.

Whereas, loans to households maintained the previous year's increasing level of 17.3%. Due to the higher share in total loans, the segment of nonfinancial corporations had the main contribution to the deceleration of total lending of the banking sector (chart 23).

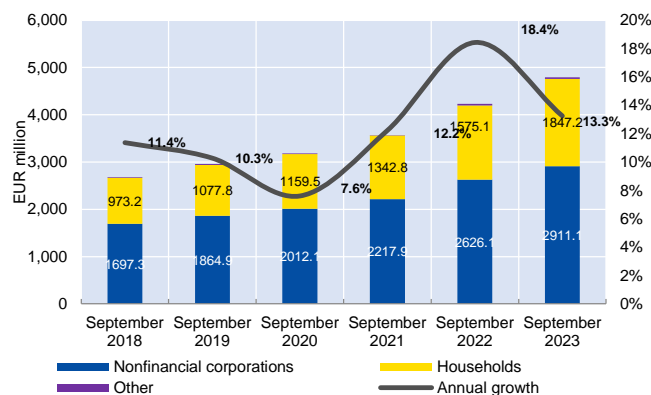
New loans, until September 2023, halved down the increasing rate, standing at 8.9% from the increase of 16.3% as it was in the same period of the previous year. The segment of nonfinancial corporations was characterized

Chart 21. Balance sheet of the banking sector - assets



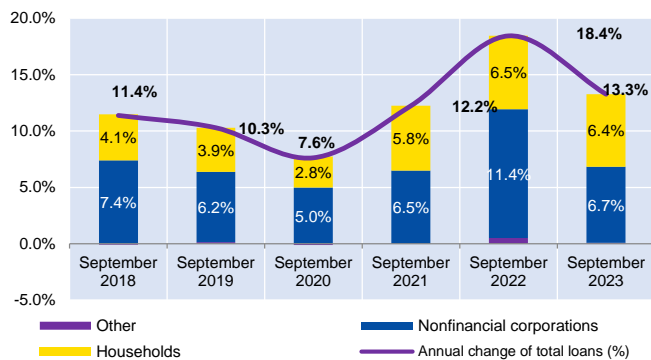
Source: CBK.

Chart 22. Stock of total loans, annual change



Source: CBK.

Chart 23. Contribution to the growth of total loans, in percentage points



Source: CBK.

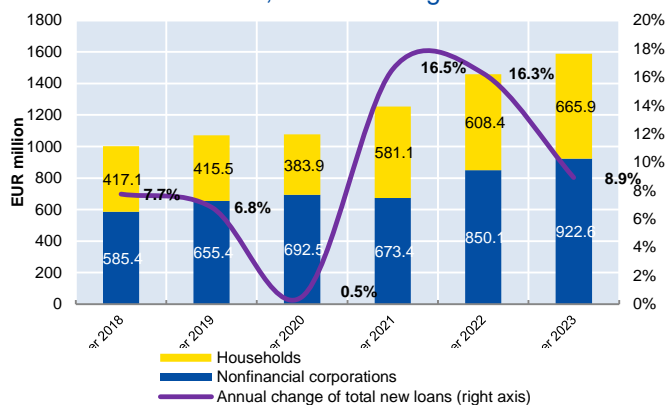
by a slowdown in the annual growth rate of new loans, while that of households recorded an accelerated growth compared to the previous year (chart 23).

New loans designated to nonfinancial corporations increased by 8.5% compared to the increase of 26.2% that had been marked by September 2022. New loans with investment purpose increased by 8.4%, and loans with non-investment purpose marked an annual increase of 14.0%. New loans to households marked an accelerated annual increase of 9.5% during this period. Within the household segment, new consumer credit recorded an annual increase of 14.4%, from a decrease of 2.5% marked until September 2022, while new mortgage loans recorded an annual decrease of 9.2%, in contrast to an increase of 8.7% marked in the same period of the previous year. Foreign direct investments in the real estate sector showed a declining trend until September 2023. This, along with the decline in mortgage loans, may suggest a declining sentiment for investments in real estate, influenced by rising interest rates as well as the increase of prices in real estate sector.

In terms of loans to nonfinancial corporations, lending to the trade sector was at the highest levels over the years, followed by the manufacturing and construction sector, which have gradually expanded in the recent years, thus increasing their share to total loans of the banking sector. As at end of September 2023, lending to trade sector had the highest contribution to the growth of total loans to nonfinancial corporate segment (chart 24), as a result of the high weight in this segment and the annual growth of 9.3% (chart 25).

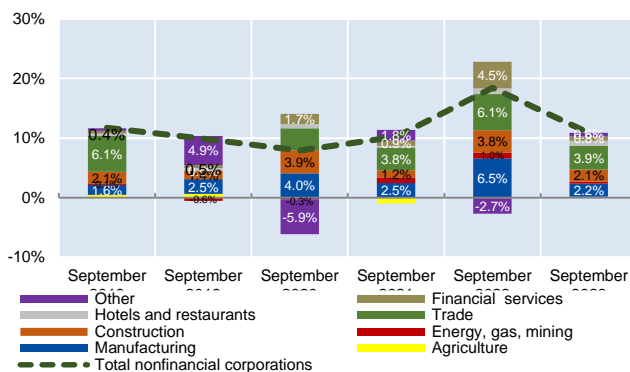
The manufacturing sector, which last year had the highest weight in the growth of total lending for this segment, in September 2023 recorded a slower annual growth of 11.2% from 38.1% that had been marked in the previous year, when it was also supported by the subsidy measures of the Government within the economic recovery package. Lending to the construction sector marked a halved down annual growth, falling at 15.1% in September 2023, from 29.9% that had been marked in the previous year. The slowdown in lending for this sector may have also been influenced also by the high rate of inflation marked in 2022 - the increase in

Chart 24. New loans, annual change



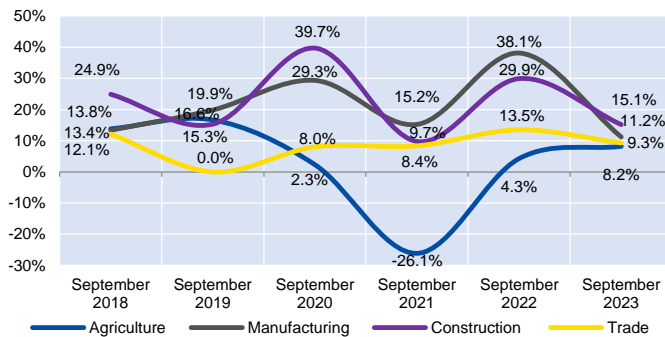
Source: CBK.

Chart 25. Contribution to the growth of total lending to nonfinancial corporations, by economic activity



Source: CBK.

Chart 26. Annual change on loans to nonfinancial corporations, by economic activity



Source: CBK.

the price of construction materials that has been transmitted to the slowdown of construction dynamic or their temporary interruption. Agriculture sector, which is at the same time the least credited sector by commercial banks, was characterized with an increase of 8.2%, in contrast to the previous year when it had been marked a growth of 4.3%.

Liabilities and own resources

Financing of the banking sector activities continued to rely on customer's deposits and own capital, namely retained earnings from the previous periods and realized earnings until September 2023. Both of these items comprise 93.2% of liabilities and equity, where 81.7% is comprised only by deposits. Therefore, the growth of the banking sector to a larger extent is dependent on deposits trend, which determine the sector direction movement.

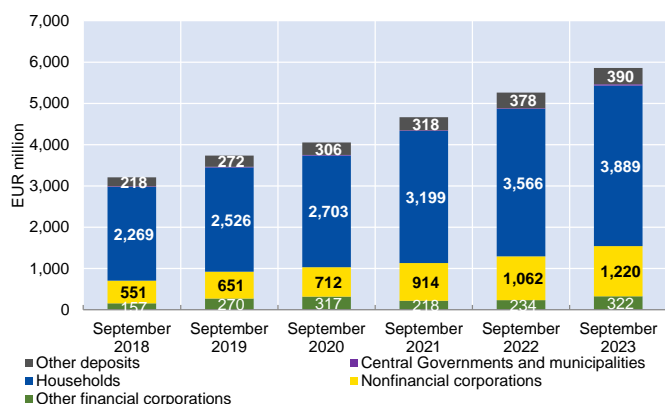
Deposits

The value of the stock of deposits, at the end of September 2023, reached EUR 5.85 billion (chart 27), representing an annual growth of 11.3%, from 12.7% marked in September 2022. The deposits of the two segments of the private sector slightly showed a slowdown in growth, but this lower growth was more of the comparative effect of 2022 with 2021, given that Q3 of 2022 was characterized by much more pronounced annual growth that could to have been affected by the beginning of the increase in interest rates in that period. Moreover, deposits have followed a steady growth trend until September 2023, where the average annual growth of deposits during the months of January-September 2023 was 15.1%, which exceeds the average annual growth of deposits during the previous year, which was 9.7%.

Deposits collected from public corporations, nonresidents and NGOs marked a more slower increase compared to the previous year. Whereas, deposits collected from other financial corporations, which mainly are pension funds deposits, marked an accelerated increase compared to the previous year.

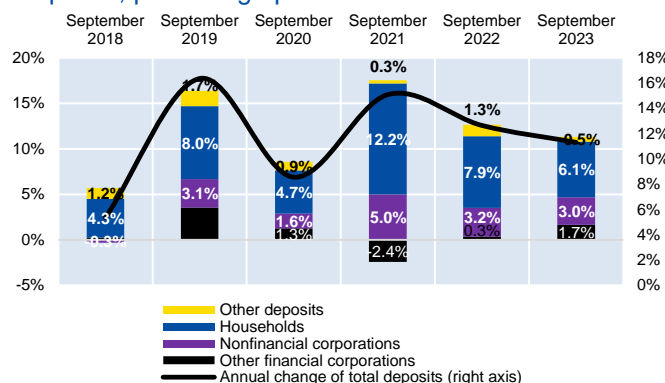
In September 2023, the value of household deposits reached EUR 3.89 billion, marking an annual growth of 9.0% from 11.5% that had been marked in the previous year, thus, also determining the overall trend of deposits in the banking sector (chart 28). Regarding the level of new deposits collected from households, which include only time deposits, until September 2023, reached the value of EUR 430.9 million, representing an annual increase of 37.3%, which is higher than the increase marked in the previous year of 22.6% (chart 29).

Chart 27. Stock of total deposits



Source: CBK.

Chart 28. Contribution to annual growth of total deposits, percentage points



Source: CBK.

The stock of nonfinancial corporation deposits reached EUR 1.22 billion at the end of September 2023, representing an annual increase of 14.9% from 16.2% marked in the same period of the previous year. New deposits received by September 2023 from this segment increased to EUR 186.5 million from EUR 121.8 million that had been marked in the same period of 2022 (annual growth of 53.1% from the growth of 70.0% in the same period of the previous year). The continuous increase in competition in the country for securing and holding deposits encouraged banks to offer more attractive conditions for depositing funds mainly through the increase of interest rates on deposits, a change which was also reflected in the increase marked in time deposits from the two segments. In line with these dynamics, the results of BLSK also indicate an increase in access to financing of the banking sector during Q3 2023 compared to the previous quarter, from both segments.

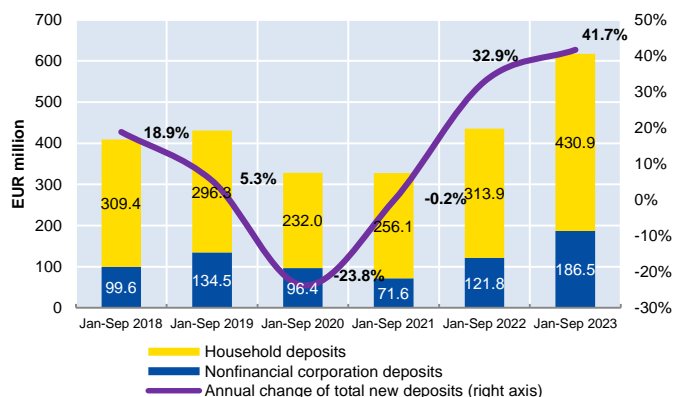
Interest rates

European Central Bank has not further increased interest rates, which is an indicator of halting inflation rate, being expected to have a slight increase and then a gradual decline in 2024, whereas in 2025 is expected to decline at a recommended level (below 2.0%). These developments in the ECB's monetary policy will also affect the interest rates applied by local banks, which if do not mark a decrease, are expected not to increase further, as it happened in the second half of the previous year. Moreover, also in the recent survey realized by the CBK with the commercial banks, the latter ones do not expect to increase the interest rates.

Interest rates on new loans and deposits had gradually increased since the beginning of last year, implicated by the application of tight monetary policies by central banks in combating inflation.

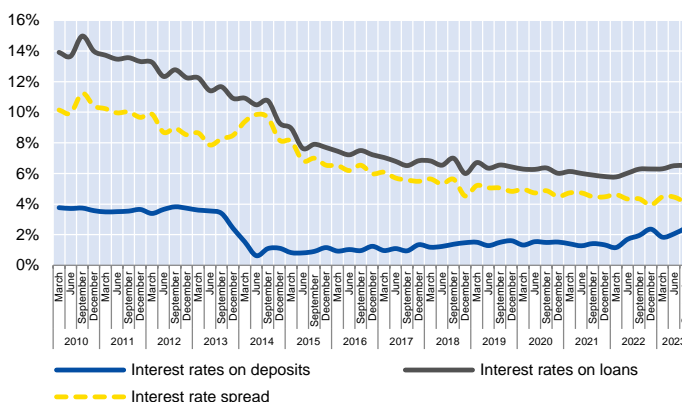
In the banking market in Kosovo, interest rates on new deposits have been affected at a higher level than interest rates on new loans. In September of this year, the interest rate on loans reached 6.5% from 6.3% in September 2022. Also the average interest rate on deposits increased to 2.4%, from 1.9% as it was in September 2022. The interest rate spread of loans and deposits narrowed down to 4.08 percentage points from 4.33 percentage points, due to the higher increase of interest rates on deposits (chart 30).

Chart 29. New deposits, annual change



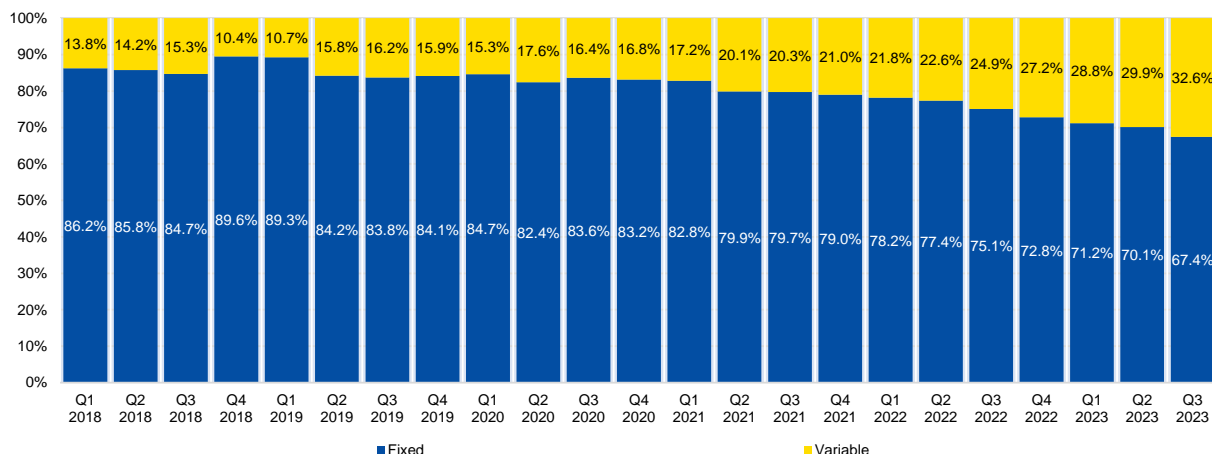
Source: CBK.

Chart 30. Interest rate on loans and deposits



Source: CBK.

Chart 30a. Loans stock by types of interest rates



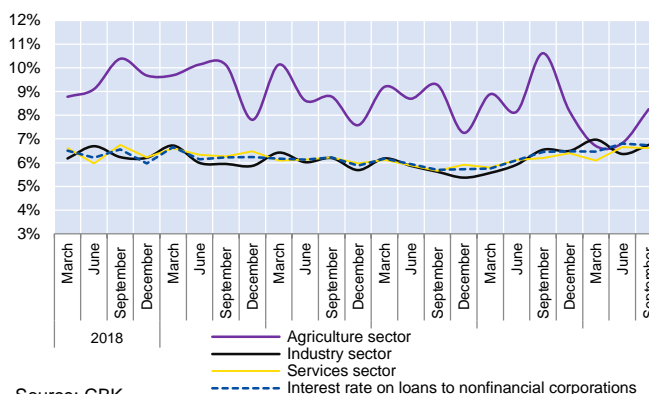
Source: CBK.

The dynamics of interest rates influenced by developments at the global level, as well as the increase in liquidity risk and uncertainties about future developments as a result of increased inflationary pressures, in addition to driving the banks in the country to increase interest rates on loans and deposits, at the same time have influenced the change in the structure of loans according to the type of interest rates. While during the years 2019, 2020 and 2021, loans with variable interest rates, which are mainly determined by the movements of the Euribor rate for the additional margin, accounted for an average of 15.9% of the loan portfolio and 16.8%, respectively, where this level, in September 2022, has reached 24.9%, and until September 2023 was further increased to 32.6% (chart 30a).

The average interest rate on loans to nonfinancial corporations was 6.7% in September 2023, or for 0.2 percentage points higher compared to the same period of the previous year. More favorable interest rates on loans were offered for industry sector with 6.6%, while the highest average interest rate of 8.3% was for agriculture sector (chart 31).

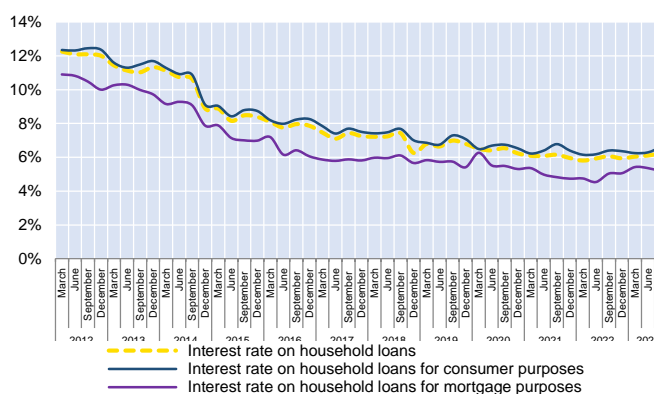
The average interest rate on loans to households reached 6.2%, which is for 0.1 percentage points higher compared to the same period of the previous year. More favorable interest rates have been applied to mortgage loans with an average of 5.2%, since they are considered to have a lower risk when being covered by collateral (mortgage). However, consumer credit continue to have higher interest rates with an average of 6.6% (chart 32).

Chart 31. Interest rate on loans to nonfinancial corporations



Source: CBK.

Chart 32. Interest rate on loans to households



Source: CBK.

More favorable interest rates have been applied to mortgage loans with an average of 5.2%, since they are considered to have a lower risk when being covered by collateral (mortgage). However, consumer credit continue to have higher interest rates with an average of 6.6% (chart 32).

Interest rates on deposits began with a growth trend since June 2022. In September 2023 the average interest rate on deposits reached 2.4%, which is for 0.5 percentage points higher than in September 2022. Interest rates on nonfinancial corporation deposits increased by 0.4 percentage points, reaching 2.8%. Also, for household deposits the interest rate was increased by 0.5 percentage points, reaching 2.3% in September 2023 (chart 33).

Performance of the banking sector

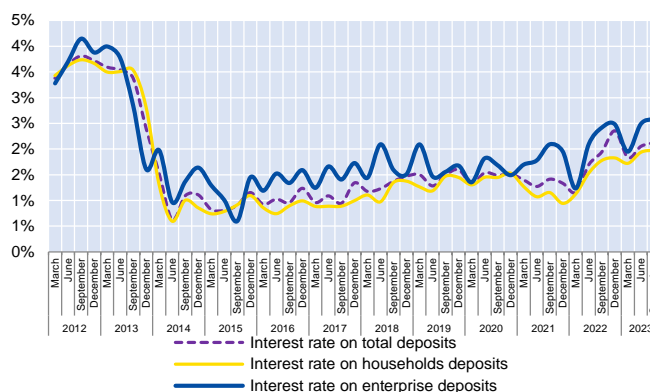
The banking sector as at end of the second half of 2023, realized a net profit of EUR 123.7 million, reaching a higher level compared to the same periods of the previous years. Such a financial result was achieved mainly by the growth of income, which was higher compared to the previous year's, while also expenses continued the upward trend for the second consecutive year (chart 34).

Total income reached the value of EUR 317.1 million, representing an annual increase of 17.2% (an increase of 13.6% marked in September 2022). Interest income, which represent 74.0% of total income, gave the main contribution to the growth of income. In the context of interest income, the collection from loans interest rates had the main contribution to this increase, a category which was influenced by the significant increase in lending, especially in the three previous years, and also the increase of interest rates on loans. Moreover, the income from placements with the banks were increased significantly compared to the same period of the previous year.

Whereas, the category of non-interest income, mainly from fees and commissions, marked a slower annual growth of 4.1% after the significant increase of 14.1% marked in the previous year, reaching the value of EUR 72.0 million at the end of September 2023.

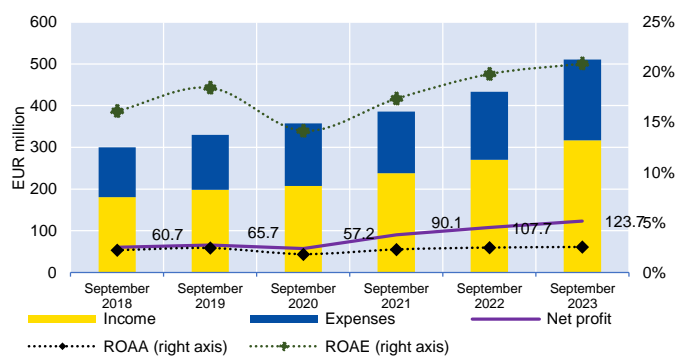
The value of expenditures of the banking sector reached EUR 193.4 million, until September 2023. With an accelerated annual increase were characterized also expenditures, reaching an increase of 18.8% from 10.0% as they were until September of the previous year. The highest contribution to this increase was marked by general and administrative expenses and interest expenses. The category with the largest weight in total expenditures, which consists of general and administrative expenses with a share of 57.2%, increased by 17.5% compared to the previous year (an increase of 9.0% in the previous year), and reached the value of EUR 110.6 million at the end of September 2023. The increase of general and administrative expenses mainly reflects the increase of personnel expenses, in order to adjust the salaries level to inflation increasing trend. Also interest expenses recorded an annual increase of 97.4% from the decline recorded in the previous year of 27.1%, which is attributed especially to the increase in interest rates on deposits and financing in general, and simultaneously to the increase in the stock of deposits.

Chart 33. Interest rates on deposits



Source: CBK.

Chart 34. Profit and profitability indicators of the banking sector



Source: CBK.

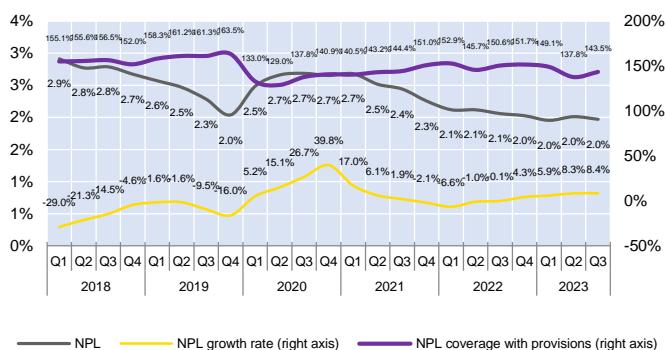
Financial soundness indicators

Over the years, the banking sector has managed to ensure a high level of capitalization and liquidity, as well as to maintain a low level of nonperforming loans. The levels of these indicators beyond the regulatory requirements give priority to the sector in absorbing possible losses that would be caused in a case of any negative macroeconomic and financial shocks.

Assets quality, namely loan portfolio marked an improvement starting from the last quarter of 2021 until September of the previous year, where the value of nonperforming loans had a downward trend with an average of 2.5%. Whereas, since the last quarter of 2022, the value of non-performing loans began to increase, rising for 4.3% at the end of 2022, and 8.4 percent in September 2023. As a ratio to the loan stock, NPLs edged down to 2.0% from 2.1% in September of the previous year, as a result of the more pronounced growth of lending during this period. The coverage by loan loss provisions declined slightly to 143.5%, from 150.6% as it was in September 2022, due to the higher increase marked in the value of nonperforming loans than the value of provisions dedicated for loan losses (chart 35).

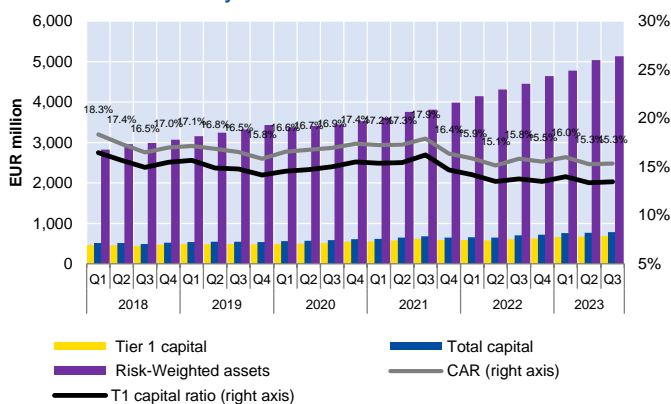
NPL rate continued to be low for households with 1.4%, albeit as a value it has marked an increase of EUR 4.7 million compared to the previous year. Meanwhile, for the segment of the nonfinancial corporations, NPL rate stood at 2.4%, and their value marked an annual increase of 1.4%. With an increase of NPL value was characterized also the sector of energy and manufacturing, which increased by EUR 3.5 million and EUR 3.7 million, respectively, whereas as a ratio to loans, it increased for 6.6 percentage points and 0.5 percentage points, reaching the level of 9.1% and 1.9%, respectively. The NPL value for the trade sector decreased for EUR 2.0 million, whereas the NPL to total loans ratio for this sector fell at 1.8% from 2.2%. Conversely, for other sectors, the NPL value and its ratio suffered marginal movements compared to the previous year.

Chart 35. Nonperforming loans and loan loss provisions



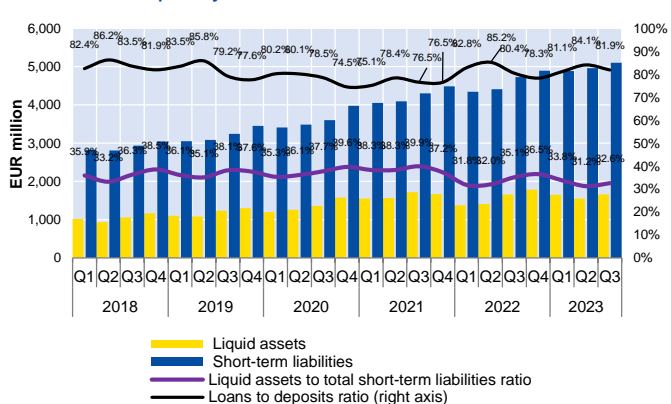
Source: CBK.

Chart 36. Solvency indicator



Source: CBK.

Chart 37. Liquidity indicators



Source: CBK.

Capital Adequacy Ratio declined for 0.5 percentage points compared to the previous year, falling at the level of 15.3%. This is as a result of the higher growth of risk-weighted assets due to increased credit activity and investments in securities, compared to the relatively slower capital growth (chart 36).

The ratio of liquid assets to total short-term liabilities, in September 2023, was 32.6%, which is for 2.6 percentage points lower compared to the previous year (chart 37). The slight decrease in the liquidity ratio, was due to the more pronounced increase in short-term liabilities of 8.0% compared to the increase in liquid assets of 0.1%. Whereas, loans to deposits ratio increased to 81.9% from 80.4% as it was in the previous year.

4.2. Pension sector

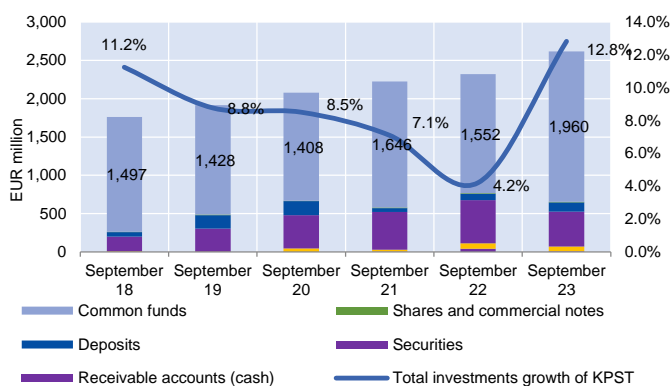
Pension sector assets were characterized with a return of accelerated increase, after a significant slowdown marked in the previous year which was a consequence of oscillations in financial markets. Until September 2023, both pension funds marked a positive return from investments in foreign markets and an increase from the collected contributions.

With the second highest share in total assets of the financial system of 24.7%, assets of pension funds increased by 12.8% at the end of September 2023, compared to the annual growth of 4.2% marked in the previous year (chart 38).

The value of pension funds assets reached EUR 2.62 billion, of which 99.7% are represented by Kosovo Pension Saving Trust (KPST), whereas the remainder belongs to Slovenian-Kosovo Pension Fund (SKPF). While the KPST recorded an annual assets increase of 12.8%, assets of the Slovenian-Kosovo Pension Fund (SKPF) recorded an annual growth 6.6%.

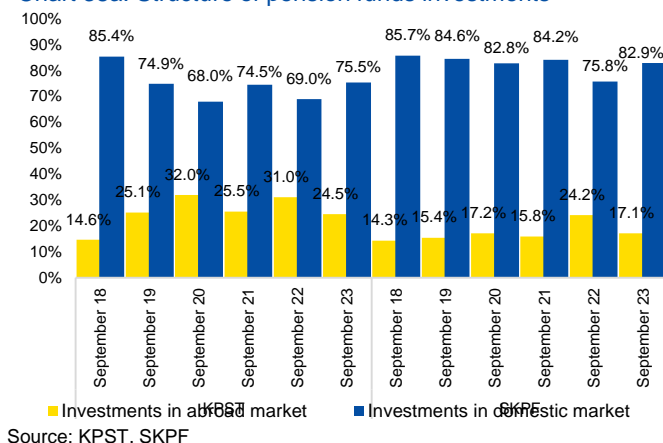
KPST assets are mainly invested in the foreign market (75.5% of investment portfolio). Investments in the portfolio of mutual funds reached the value of EUR 1.96 billion (or 75.2% of the total assets of KPST), while the remainder of the investments are diversified in securities of Kosovo's Government in the amount of EUR 454.4 million or 17.4% of the total investment portfolio and certificates of deposit in the domestic banking sector in the amount of EUR 122.7 million or 4.7% of the total investments. Also, the structure of SKPF investment portfolio is similarly diversified as KPST investment portfolio, being mainly oriented in the foreign market, in shares which comprise 80.7% of the investment portfolio and cash with an investment share of 2.2%, of total investments. Meanwhile, investments within the country are mainly focused on Kosovo's Government securities which account for 14.7% of total investments portfolio. The remainder of assets held in the country (around 2.4%) is comprised by cash and deposits held at commercial banks.

Chart 38. Assets of the pension sector



Source: CBK.

Chart 38a. Structure of pension funds investments



Source: KPST, SKPF

Unlike the previous year, throughout this year both KPST and SKPF have increased investments in the foreign market against the reduction of investments in the domestic sector. (chart 38a).

The value of contributions collected by SKPF, until September 2023, reached EUR 492.0 thousand, which represents an annual increase of 11.2%, influenced at the same time by the increase of the number of contributors and the value of collected contributions. However, the cumulative gross return from investments until September 2023 reached EUR 413.3 thousand compared to losses in the amount of EUR 895.3 thousand marked in the previous year, which was a consequence of oscillations in the financial markets.

The value of contributions collected by the KPST, until September 2023, marked an annual growth of 19.9%, reaching the value of EUR 212.3 million (chart 39b). The high double digit increase of collected contributions, among others, reflects also the increase in salaries of civil servants, which was effective as of the beginning of 2023. Whereas, gross return on investments until September 2023 reached the value of EUR 47.6 million, against the losses with the value of EUR 170.5 million marked in the same period of the previous year. Positive return on investments reflects the good performance in the global financial markets, notably in the second and third quarter of the year.

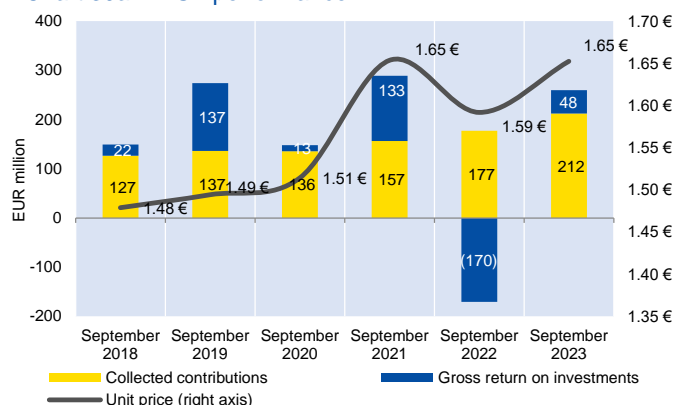
4.3. Insurance sector

The activity of the insurance sector marked the highest growth in the last five years, and was characterized by an increase in written premiums, also reflected in positive financial performance. The quality of assets, capital and the level of key regulatory requirements is to be improved.

Insurance sector assets represented 2.8% of total financial system assets, at the end of September 2023. The value of total assets reached 300.7 million, representing an annual increase of 16.1% (chart 40). The expansion of the sector came mainly as a result of the technical reserves increase, which source out from the written premiums, and own capital of the insurers. The most significant increase was recorded in the category of deposits held at commercial banks, which are mainly in the form of time deposits. The second category in terms of weight, that of Kosovo's Government Securities, recorded a slower growth compared to the previous year, which among others can also be a result of the lower offer of the Government to issue securities.

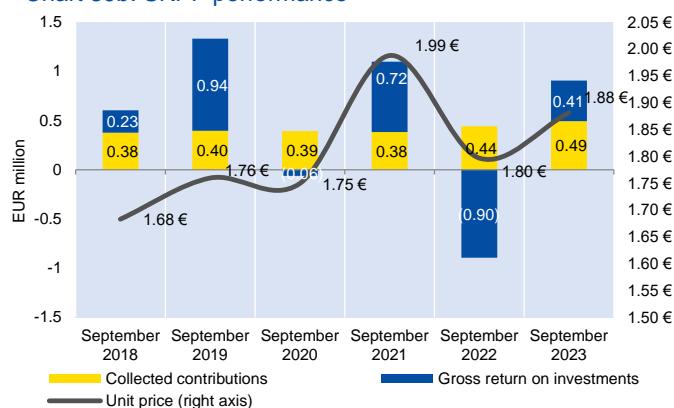
The value of written premiums at the end of September 2023 reached EUR 110.1 million, which represents an annual increase of 12.1%, mainly influenced by the increase in written premiums of the "health insurance" category within the framework of voluntary insurance and "third party liabilities" within the framework of compulsory insurance. The written premiums against compulsory insurance continue to have the largest

Chart 39a. KPST performance



Source: KPST

Chart 39b. SKPF performance



Source: SKPF

weight, reaching 58.4% of the total non-life written premiums. In addition to the 14.5% increase in premiums within the “health insurance”, the number of policies for this category also increased to 235.4 thousand from 183.3 thousand. Whereas the increase in compulsory insurance premiums mainly reflects the category of “Motor Third Party Liabilities – MTPL”, which increased by 8.5%.

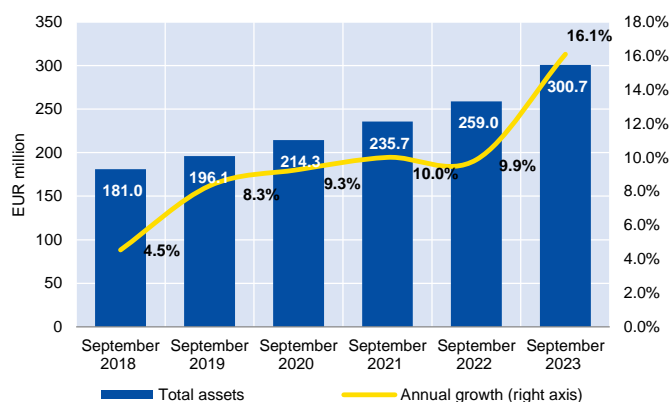
On the other hand, the value of claims paid by insurance companies and the Kosovo Insurance Bureau until September 2023, reached the value of EUR 53.1 million, representing an annual growth of 14.0% (an increase of 2.2% marked in the previous year) (chart 41). The value of claims paid by insurance companies marked an annual growth of 21.9%. The more notable increase of claims paid originated from the segment of “non-life insurance”, namely “fire and natural disasters insurance”, and “health insurance”. Although the category of 'Motor Third Party Liabilities' continues to have the largest weight of 56.8% of the total claims paid by the “non-life” segment, representing an annual increase of only 1.9% did not weigh the claims paid as much as the other categories. The insurance sector until September 2023 realized a profit in the amount of EUR 9.4 million (EUR 2.8 million in the same period of the previous year). The higher value of realized profit came as a result of the higher value of income collected from written premiums compared to expenditures value for claims paid and other operating expenses.

Despite the fulfillment of the regulatory requirements, the quality of assets and capital remain to be improved, as well as the level of key regulatory requirements such as solvency and covering provisions assets.

4.4. Microfinance sector

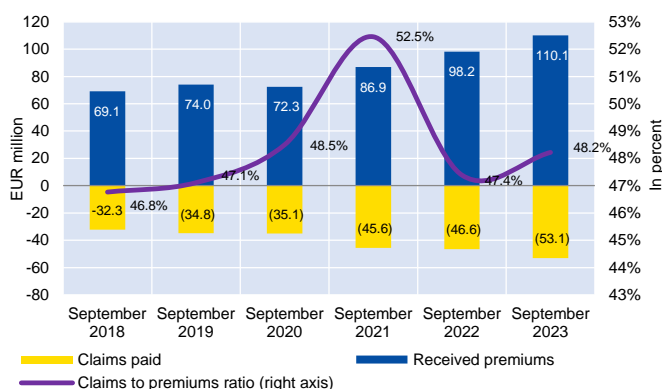
Microfinance sector marked an accelerated increase, mainly from expansion of lending and leasing, and the increase of own capital. The sector approximately marked a same profit as in the previous year, and maintained the quality of loan portfolio while ensuring a high level of loan loss provisions. Financing the activity by borrowing from the external sector makes the microfinance sector more sensitive to dynamics in external markets. As a result, the increase in interest rates at the global level has

Chart 40. Assets of insurance sector



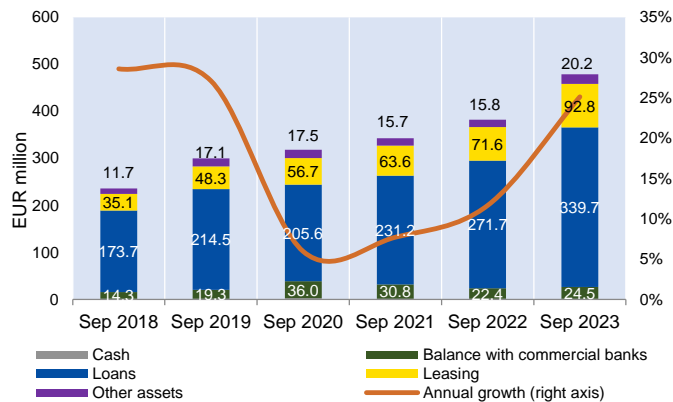
Source: CBK.

Chart 41. Written premiums and claims paid



Source: CBK.

Chart 42. Assets of the microfinance sector



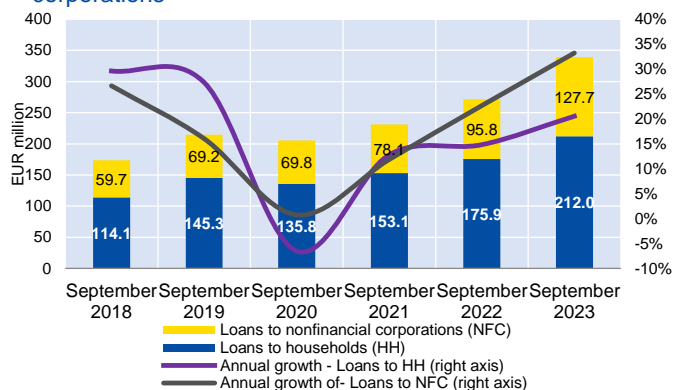
Source: CBK.

affected the financing cost of microfinance institutions more significantly than that of banks whose financing source comes mainly from internal deposits.

Assets

The value of assets of the microfinance sector amounted to EUR 479.0 million, corresponding to an annual growth of 25.1% in September 2023 (chart 42). The main contribution to this growth was given by the increase of lending and to a lesser extent by increase of leasing. Lending activity of the sector continued to be supported by borrowings (credit lines) from abroad, which increased by 29.2%. Also, the level increase of the capital contributed to the increase of the activity of the sector, mainly through the retained profit and the realized profit.

Chart 43. Value of loans to households and to nonfinancial corporations

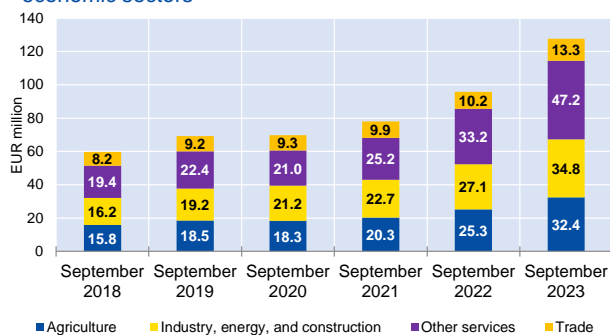


Source: CBK.

Loans

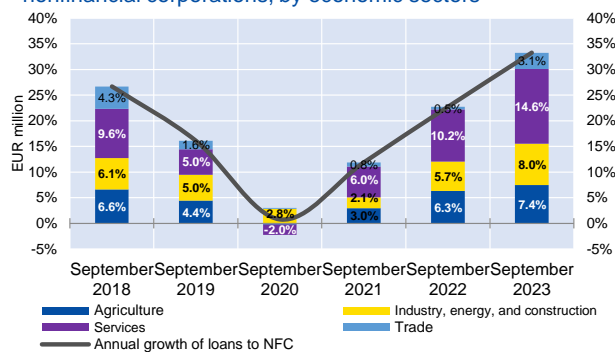
The activity of the microfinance sector continued to increase with an accelerated pace for the third consecutive year, reaching the value of EUR 339.7 million, representing an annual growth of 25.0%.

Chart 44. Value of loans to nonfinancial corporations, by economic sectors



Source: CBK.

Chart 45. Contribution to the growth of lending to nonfinancial corporations, by economic sectors



Source: CBK.

Both segments of the private sector, nonfinancial corporations and households, were characterized with an increase. Lending to households recorded an annual increase of 20.5% (14.8% in September 2022), reaching the value of EUR 212.0 million (chart 43), while the stock of loans to non-financial corporations reached the value of 127.7 million, representing an annual increase of 33.3% (22.7% in September 2022). Lending to nonfinancial corporations has followed a growth trend in all the economic sectors (chart 44). In contrast to the banking sector, the stock of loans to the agriculture segment has the largest weight of 25.4%, in the total lending of nonfinancial corporations issued by microfinance institutions.

Moreover, this segment had the highest contribution to the growth of lending to nonfinancial corporations (chart 45), marking an annual growth of 28.2% in September 2023, where the value of this category reached EUR 32.4 million. However, microfinance sector remains an important instrument for access to finance for certain categories, while funding sources and cost remain a challenge. The increase in lending for the agricultural segment, among others, has also been supported by the Kosovo Credit Guarantee Fund (KCGF).

Leasing

Leasing continued to be the second most important category in terms of weight in the assets structure of the microfinance sector (19.4%). Leasing activity marked an annual increase of 29.6%, whose value reached EUR 92.8 million (chart 46). Nonfinancial corporations continued to make the main contribution to the increase in leasing, while the contribution of leasing to households was lower.

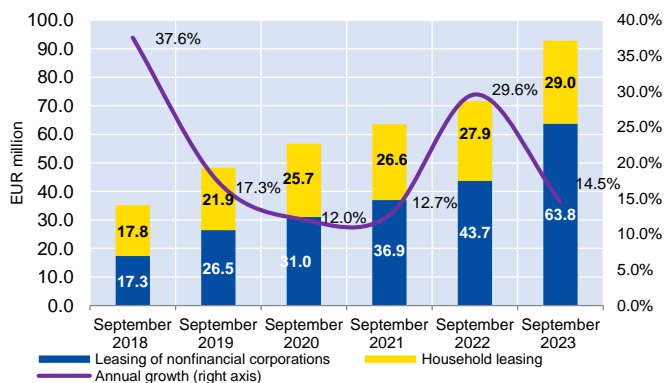
Interest rates

The average interest rate on loans issued by microfinance sector was 18.9%, which is for 0.2 percentage points higher than in the same period of the previous year (chart 47). However, they have been characterized with a downward trend, despite that the recent developments of rate increases on the global level have been reflected in the cost of financing the sector, which has been partially carried over to the increase in interest rates on loans.

Interest rates on loans to households marked an increase of 0.9 percentage points, reaching 21.8%. The average interest rate on consumer credit has increased by 3.3 percentage points, reaching 24.6%, while that of mortgage loans has increased by 2.0 percentage points, reaching an average of 18.9%.

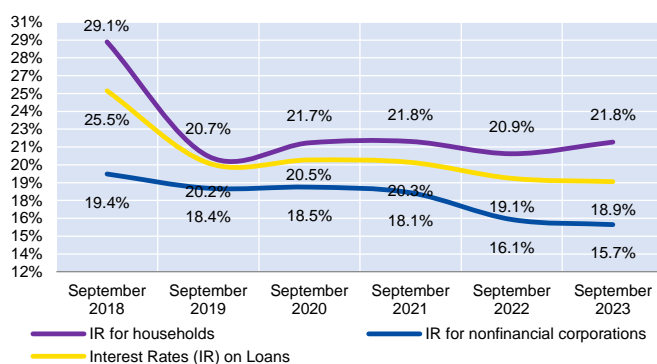
For nonfinancial corporations, the average interest rate decreased by 0.4 percentage points, falling at 15.7% (chart 47). The interest rate on loans to the agriculture and industry sector increased by 0.1 and 0.8 percentage points, standing at 18.1% and 17.4%, respectively. However, the average interest rate on loans to the service sector stands at 14.9%, which maintained almost the same level as in the previous year.

Chart 46. Value of microfinance sector leasing



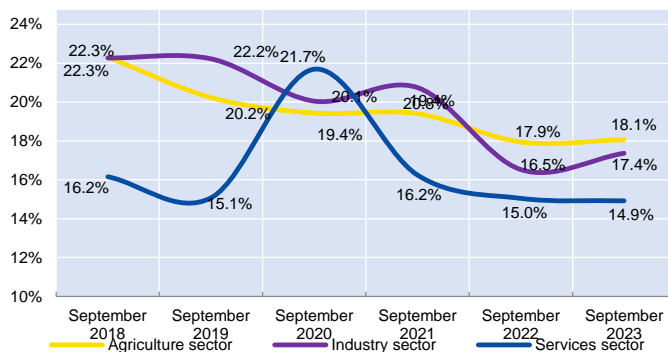
Source: CBK.

Chart 47. Average interest rate on microfinance sector loans



Source: CBK.

Chart 48. Average interest rate on loans to enterprises, by economic sectors



Source: CBK.

Performance of the Microfinance Sector

The microfinance sector, until September 2023, realized a profit with a value of EUR 12.8 million, which is for EUR 0.7 million lower compared to the same period of the previous year (chart 49).

The more significant increase in expenses of 30.8%, compared to the slower increase in income of 19.1%, had an impact on the sector to have a weaker financial performance compared to the previous year.

Within income, interest income, which represent the dominant category of income (90.3%), recorded an annual increase of 20.6% (16.3% until September 2022), as a result of the significant increase in lending. The non-interest income marked an annual increase of 6.8% (an increase of 6.0% marked in the previous year), as a result of the increase of fees and commissions.

Within expenses, the increase was mainly attributed to non-interest expenses, which increased by 30.6% (17.2% a year ago), and reached the value of EUR 20.7 million, mainly from the increase in personnel and administrative expenses. This corresponds also to the model of their business. This subcategory marked an annual growth of 19.4% (an increase of 20.3% marked in the previous year), reaching the value of EUR 19.6 million at the end of the period. Whereas, the category of interest expenses (26.3% of total expenses) marked a significant annual increase of 56.0% (2.8% in the previous year) reaching the value of EUR 9.6 million. The increase of interest expenses has reflected the level of borrowings from the external sector, and the increase of these borrowings. The level of nonperforming loans to total loans ratio slightly decreased to 1.9% from 2.1% as it was in the previous year. The coverage level of nonperforming loans with total loans ratio slightly decreased to 1.9% from 2.1% as it was in the previous year. The coverage level of nonperforming loans with loan loss provisions, in September 2023, increased to 145.1% from 144.0% as it was in September 2022 (chart 50).

Chart 49. Profit and profitability indicators of the microfinance sector

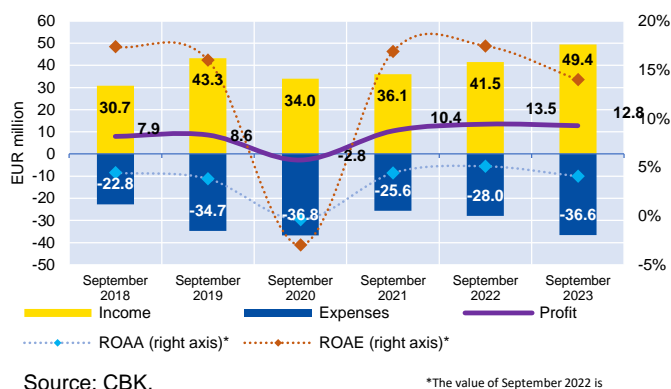
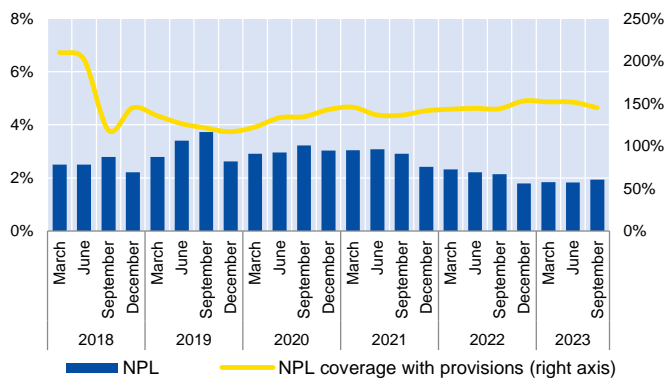


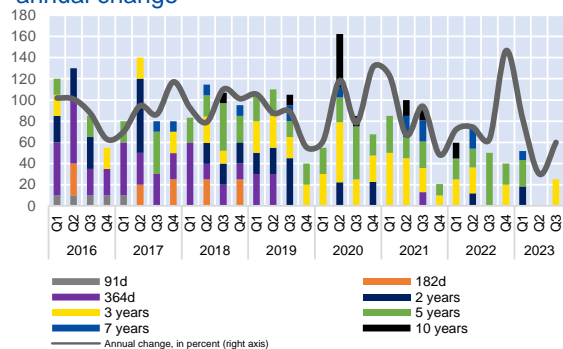
Chart 50. Indicators of loans portfolio quality



4.5. Republic of Kosovo’s Government securities market

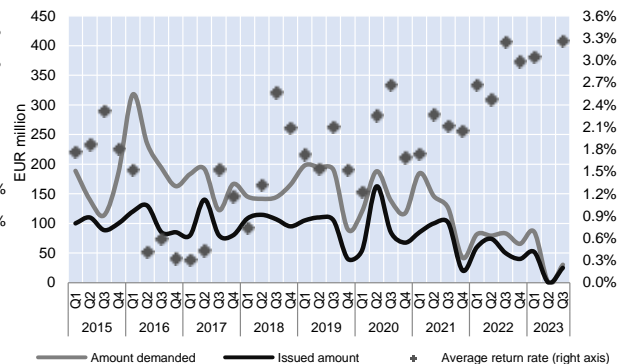
The value of the debt issued until September 2023 was almost halved down compared to the same period of the previous year.

Chart 51. Amount and maturity of issued debt, annual change



Source: Ministry of Finance, Labor and Transfers.

Chart 51a. Bid to cover ratio

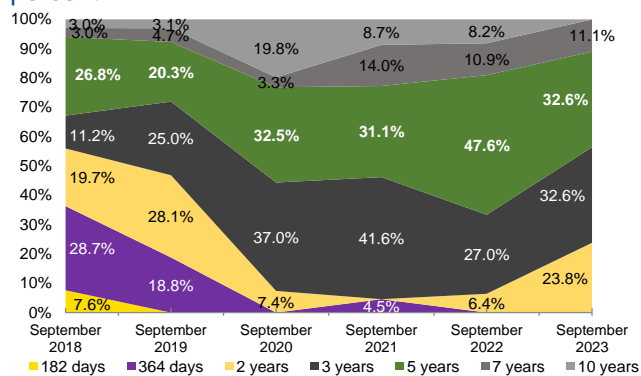


Source: Ministry of Finance, Labor and Transfers.

Unlike in the previous year, in the third quarter of this year was not realized any issuance of debt. However, the demand to invest in securities has continued to exceed the amount offered by the Government.

The debt issued reached the value of EUR 76.8 million, which is for 58.2% lower than in the previous year (chart 51). Meanwhile, the demand of the auction participants to invest in securities exceeded the Government’s offering amount by 1.22 times, representing slightly a higher rate compared to the previous year’s when the demand was higher for 1.19 times. The main investors in government debt are pension funds, which account for 63.4% of the debt stock of the government, followed by commercial banks with 29.9%, and the remainder by insurance companies. Until September 2023, the stock of Kosovo’s Government securities held by commercial banks, pension funds and insurance companies reached the value of EUR 718.7 million (EUR 872.1 million in September of the previous year). The securities structure by maturity has suffered gradual changes along the years, by expanding towards longer maturities. In the period of Jan-September 2023, the structure was dominated by Government bonds with a maturity of “5 years” and “3 years”, which have a same share of 32.6%, followed by the remainder which is represented by Government bonds with a maturity of “2 years” (chart 52).

Chart 52. Government securities structure, in percent



Source: Ministry of Finance, Labor and Transfers.

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