

## Summary

- **Euro area economy**, continued to be impacted by geopolitical developments interlinked with the war in Ukraine, namely, weakening of the economic activity, inflationary pressures and tightening of the monetary policy, dynamics which have weakened the capacity of borrowers' solvency of households and enterprises. In the third quarter of 2022, the euro area economy has marked an increase of 2.1%, which was mainly supported by the domestic demand. **The high inflation rate has continued with its growing trend in the euro area**, where prices of energy and food remain the main contributors. In 2023, the economic activity in the euro area is expected to slow down as a consequence of the continuous inflationary pressures and tightening of the financing conditions. The decline of the economic activity in the euro area and price fluctuations international markets are expected to reflect in the overall economic dynamics of **the Western Balkans, where the GDP in Q3 2022 is estimated to have slowed down in general.**
- **The real Gross Domestic Product (GDP) growth** in Kosovo, in Q3 2022, was positive, albeit it stood at lower levels compared to the previous quarter. The economic growth was supported by the domestic demand, namely private and public consumption, export of services, and the decline of goods import, while negative impact was given by the low level of investments and the growth of services import. The same trend of economic growth is expected also in the following quarter, as a consequence of the inflationary pressures of the purchasing power and consequently in the domestic demand, while the external trade is expected to significantly support the economic growth based on the increase of services export and the decline of goods import.
- Inflation in the country continued to be driven by price fluctuations of energy and food in international markets. However, the spread of inflationary pressures in other sectors made the base inflation to expand further thus impacting also the growth of domestic inflation. Positive signals from international markets regarding energy and food prices, as well as slower expected growth in consumption, are expected to translate into easing inflationary pressures in the next quarter, although high uncertainties continue to characterize the macroeconomic environment on the global level.
- **The current account**, in Q3 2022, recorded a positive balance of EUR 157.5 million, mainly as a result of the higher number of diaspora visits, which has influenced the increase in the balance of services, while, also received remittances recorded an accelerated growth. Conversely, the balance of goods, being impacted by prices increase of goods in international markets, had a negative impact on the current account. Also, FDI resulted to have grown with an accelerated trend, a dynamic which to some extent may be attributable to the price increase of inputs in construction, taking into account that the majority of FDI is concentrated in real estate sector (around 70%).
- **The budget of Kosovo** has recorded a primary budget balance of EUR 117.4 million in Q3 2022, as a result of the higher growth of budget revenues compared to expenditures, meanwhile public debt has declined to 20.5% of GDP.
- **The financial system** has been characterized by stability and without any materialized risk during Q3 2022, despite concerns about the economic slowdown, inflationary pressures and increased uncertainties in international markets.
  - **The banking sector** has managed to maintain a high level of capitalization and liquidity, as well as to maintain a low level of nonperforming loans, which has been translated into an absorbing capacity of the sector over the years. While it is estimated that the high rate of inflation throughout the year has affected the potential reduction of disposable income in the economy, potentially putting at risk the borrowers solvency (potential increase in credit risk) and discouraging savings (liquidity risk), and consequently the data in the first nine months of 2022 do not indicate the materialization of these risks in the activity and performance of the sector. In Q3 2022, lending activity was the main positive contributor to the increase in assets of the financial system, while investments in securities marked a slowdown increase. The increased uncertainty from the rise in prices in the country and globally, a development that coincided with the slowdown in the growth of deposits in this quarter, pushed the banking sector to offer more favorable conditions to obtain financing.
  - **The pension sector** recorded a slowdown in growth and a decline of investments return compared to the previous year, mainly as a result of the unfavorable dynamics marked in international financial markets. While the value of collected contributions increased in both pension funds, the return on investments suffered a decrease in value.
  - Insurance sector was characterized with an approximate level of assets increase as in the previous year, being favored by the high level of collected premiums. However, the accelerated growth of claims incurred, resulted in a slower financial performance compared to the previous year.
  - Also **the microfinance sector** was characterized with an accelerated increase of assets, mainly being attributable to the increase of lending activity. Financial soundness indicators show as well a stability of the sector in general, while the financial result turns out to be the highest since the consolidation of the sector. In the following periods, the dynamics of the increase in interest rates in the international markets are expected to be reflected in the increase in financing costs for the microfinance sector.

Contents

Summary .....	i
Euro area and Western Balkans .....	2
Main commodity prices in international markets .....	2
Kosovo's Economy.....	4
Economic growth.....	4
Prices .....	5
Fiscal Sector .....	8
External Sector.....	9
Financial system .....	12
1. Banking Sector.....	12
1.1. Liabilities and Own Resources .....	15
1.2. Interest rates .....	16
Pension sector .....	19
Insurance sector.....	20
Microfinance sector .....	21
Performance of the microfinance sector .....	23
Kosovo's Government securities market .....	24

## Euro area and Western Balkans

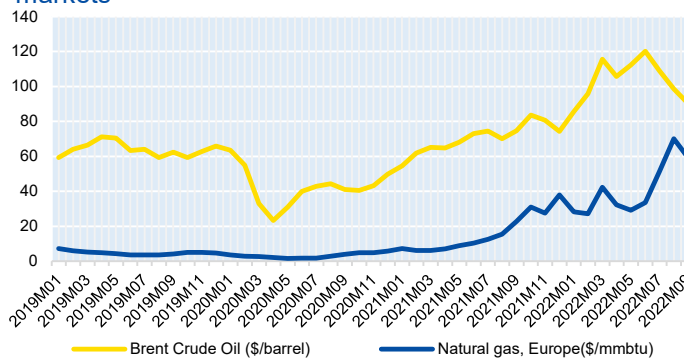
The euro area economy recorded a real growth of 2.1% in the third quarter of 2022, a growth that, according to Eurostat, was mainly supported by the increased domestic demand after a good tourist season (especially in Italy and Spain), and by increased demand for services after lifting the most of the measures against COVID-19. Projections for the annual economic growth for euro area were revised in December against the projections of September, at 3.4% for 2022, 0.5% for 2023 and 1.9% for 2024. The economy of the euro area is among the economies most exposed to the consequences caused by the war in Ukraine, as a result of the geographical proximity to the war, but especially, due to the great dependence on gas imported from the Russian Federation. As a result, rising inflation, high energy prices and general instability in the economy caused by the war in Ukraine have resulted in reduced consumer purchasing power and increased production costs. **The inflation rate in the euro area has continued the trend of further growth, reaching 9.3% in Q3 2022**, where energy and food prices remain the main contributors to overall inflation, although price increases have also been recorded in other categories. The last quarter of 2022 and the year 2023 are expected to be very challenging for the euro area, as a result of inflationary pressures and tight monetary policy, factors that are expected to shrink the overall demand, while also the economic activity at the global level is expected to mark a decline. **In October, for the third time within 2022, the ECB increased the base interest rate by 75 basis points, reaching the level of 2%, aiming at curbing the inflation rate.** December ECB projections for 2022 suggest that the average rate of inflation in the euro area is expected to be 8.4%, from 8.1% as it was forecasted in September. Regarding monetary policy interventions and the expected transmission channel, the ECB forecasts that inflation is expected to normalize to 3.4% during 2024.

Similar to the euro area, also the Western Balkans was facing with a slowdown economic increase in 2022 against the previous year, while the third quarter resulted to have been better in the countries where services have a higher share to GDP. Until June 2022 the real GDP growth in the region was 4.95%, while for the whole year the IMF forecasts an increase of 3.4%, and 2.6% in 2023. The slowdown increases of GDP in the euro area, which comprise the main trading partner for the region, and the sensitivity of the region countries to the crises of the food and energy prices, are expected to reflect on the overall economic dynamics of the region. **The higher inflation rate of 16.9% was marked in Bosnia and Herzegovina in Q3 2022, followed by Montenegro with 15.3%, while Albania marked the lowest inflation rate of 7.9%.**

## Main commodity prices in international markets

According to the World Bank, energy prices continued to increase, where the average price of Brent crude oil reached \$99.2 per barrel during Q3 2022, representing a decline of 12.0% compared to the previous quarter, and an increase of 35.9% compared to Q3 2021. The growth trend of oil prices in international markets is expected to continue in the following months as a consequence of OPEC member states decision which have come to an agreement to reduce the production of oil, a decision that has been reasoned with uncertainties which surround the global economy and the perspective of the oil market. Whereas, natural gas reached a quarterly average of \$60.2/mmbtu, marking an increase of 90.1% compared to the previous quarter (chart 1). Moreover, natural gas in August reached the price of \$70.0/mmbtu, marking the highest increase ever recorded in the market. The high prices of natural gas come as a result of the reduction in the amount of supply from the Russian Federation, as a response to the sanctions imposed by the European Union. In July, 27 EU Member States agreed to reduce the supply with gas from Russia at 15% less compared to the previous year, while increased the attempt to construct alternative sources of energy and creating the appropriate infrastructure. Moreover, in order to avoid obstacles from the possible reduction of supply from the Russian

Chart 1. Prices of oil and natural gas in international markets

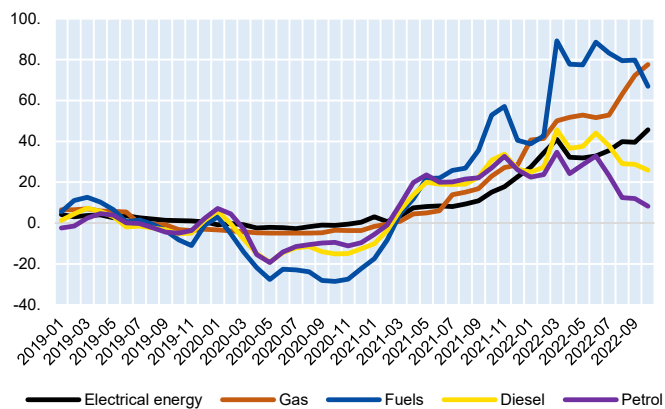


Source: World Bank.

Federation, EU countries have started importing liquefied natural gas (LNG) in tankers from producers such as the USA and Qatar, to replace the natural gas that has been previously imported from Russia.

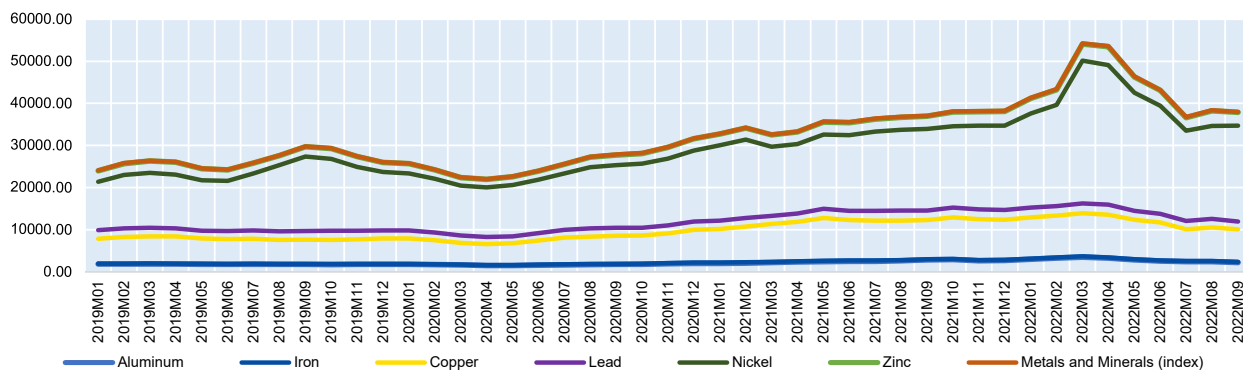
**The high increase of prices in international markets has had a direct impact on the price increase of energy in the euro area, which marked an increase of 39.6%.** According to Eurostat, a higher price increase during Q3 2022 compared to the same quarter of the previous year was recorded in the gas category with 62.7%, followed by electrical energy with an increase of 38.3%, petroleum with 28.5%, and diesel which marked an increase of 31.8%. Geopolitical factors and infrastructure difficulties have contributed to the cost increase of energy, especially the Russian invasion of Ukraine in the beginning of 2022. Lower renewable generation of energy through solar and wind, in Q3 2022, further increased dependence on natural gas. The high price increase of natural gas has returned the usage of coal to produce electrical energy in many countries, a factor which is affecting the increase of CO2 emission on the global level.

Chart 2. Energy prices, in euro area



Source: Eurostat.

Chart 3. Metal prices in international markets

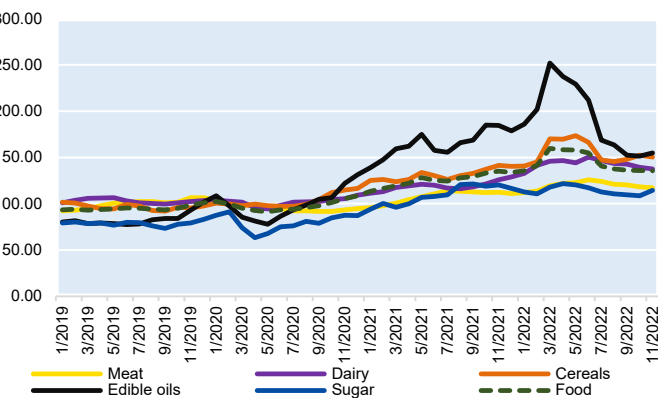


Source: World Bank.

**Prices of metals and minerals decreased by 18.2% compared to the previous quarter, and a decrease of 11.0% compared to Q3 2021 (chart 3).** Slowing demand from the main importer of metals, China, prospects for a potential global recession, the revaluation of the US dollar, and the tightening of monetary policy appear to have influenced the decline in base metal prices.

**The artificial fertilizer price index recorded a decrease of 7.57%, as a result of the decrease in demand from the high price in the previous months of 2022.** Despite the decrease, the price of artificial fertilizer continues to be high compared to the same period of the previous year. Fertilizer prices increased to record levels at the beginning of the year, after sanctions against Belarus, which is one of the main producers, but also Russia's war in Ukraine fueled the increase in the prices of artificial fertilizer, whose production is linked to natural gas. The resulting situation led many fertilizer importing countries to increase purchases and ship massive quantities of the product to avoid problems in supply chains

Chart 4. Food prices index



Source: FAO.

and trade restrictions in export markets such as Russia. High price of artificial fertilizer creates certain uncertainties as regards the potential crises of securing food on the global level.

**The food price index according to FAO marked a decline of 12.1% compared to the previous quarter.** Despite this decline, food prices continued to stand at higher levels compared to the previous year of 8.5% (chart 4). Food prices marked a decline in Q3 2022, primarily due to the lower prices of wheat and edible oil, more productive harvests compared to the previous year and the overall slowdown of the global economy. A determining factor of the food prices dynamic results to be also the agreement between Ukraine and Russia to allow the export of cereals and other food products from Ukraine through the secured corridor in the Black Sea.

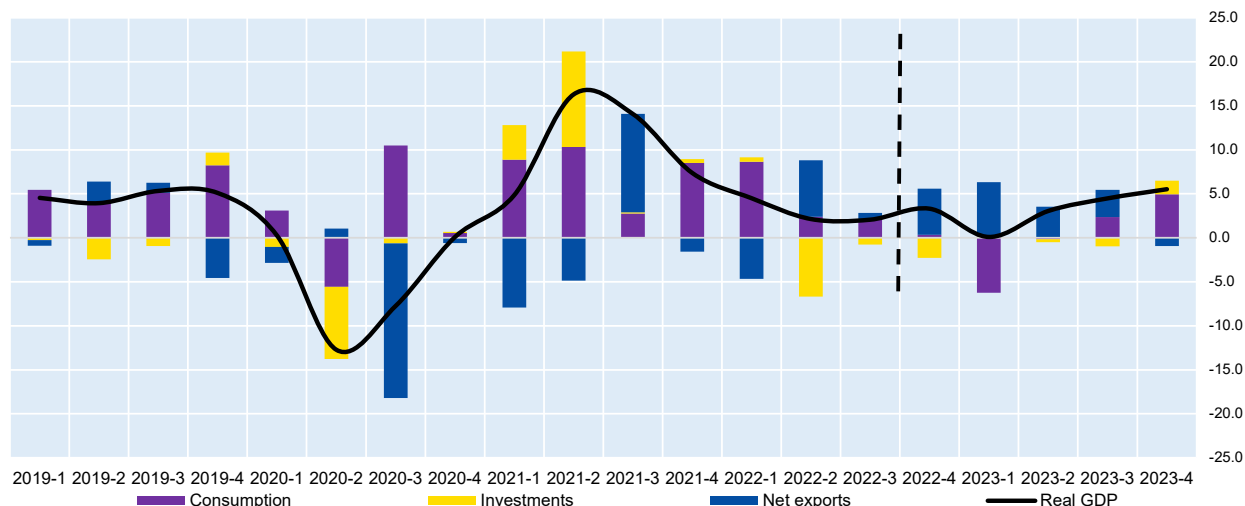
## Kosovo’s Economy

### Economic growth

**Economic activity in Kosovo, according to Kosovo Agency of Statistics (KAS) estimates, marked a real growth of 2.07% in Q3 2022.** Unlike the previous quarter, domestic demand contributed positively to real GDP growth by 1.4% points (-4.3 percentage points in Q2 2022), while the contribution of net exports remained positive by 0.7 percentage points, which compared to the previous quarter, this represents a significant slowdown (chart 5).

Private consumption contributed with 2.08 percentage points to the real GDP growth supported by positive dynamics in the main funding sources such as the increase in employees’ compensation, remittances, new consumer credit, as well as the increase in public transfers. Compared to the previous quarter, the contribution from private consumption, in Q3 2022, turned out to have slowed down, which can mainly be attributed to the translation of the price crisis into the decline of purchasing power, as well as higher prices of imported goods. In addition to private consumption, also public consumption marked an increase, thus leaving the negative territory, however, the value of the contribution to the total GDP was only 0.05 percentage points and is attributed to the increase in public consumption of goods and services. In contrast, investments recorded a negative contribution of 0.8 percentage points in real GDP, mainly as a result of the decrease in capital expenditures by the government, the decrease in new investment loans, as well as the slowdown of economic activity in the construction sector. Regarding foreign trade, the main contribution within this category was given by the export of services, while the decrease in the import of goods positively affected the real GDP rate, slightly neutralizing the negative contribution from the import of services.

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



Source: KAS and CBK calculations.

**According to the production approach, the real growth of Kosovo's economy during Q3 2022 was mainly supported by the growth in the sector of (i) financial and insurance activities (12.7% annual growth), (ii) scientific, professional and technical activities, service, administrative and support activities (8.6%), (iii) information and communication (8.3%), (iv) manufacturing industry (9.2%), and others.** Conversely, the decline of added value during Q3 2022 continued to be marked in the construction sector which marked a decline of 7.8%. This decline of the economic activity in the construction sector largely is attributable to the cost increase of construction. While, the reduction of production gap in this sector in relation to the previous quarter (-17.9% in Q2 2022) was supported by the increase of FDI in construction and in the real estate activities.

**The slowdown in economic activity was also reflected in the number of enterprises registered in Q3 2022, which reached 2,722 enterprises, i.e. 4.9% less than in Q2 2022.** A smaller number of registered enterprises compared to the previous quarter was noted in the trade, hotel, administrative and support activities, information and communication sectors, etc. Whereas, the sectors that were preferred by entrepreneurs in Q3 2022, include manufacturing, recreation and culture, professional, scientific and technical activities, as well as other service activities. Conversely, during Q3 2022, there were closed 372 enterprises or 19.1% fewer compared to the previous quarter.

**CBK forecasts for the whole year of 2022 suggest an economic growth rate of 2.9% (chart 5).** The dynamics that characterized the general economic activity during the January-September period are estimated to have continued in the remainder of 2022, as a result of the continuation of broad-based inflationary pressures and the resulting impact on the decline of purchasing power and consumers' confidence. As for Q4 2022, the latest available data show a decrease in the import of consumer goods and a decrease in new consumer credit, which can be considered as indications of the consumption trend. However, public transfers within the package to deal with inflation, the increase in remittances as well as the easing of the prices of basic goods in the international markets are expected to support consumption. Moreover, investments are expected to be affected by the higher rate of capital expenditures in the last quarter of the year, as well as by the increase in the import of capital goods evident in October 2022, but that effect is expected to be neutralized by the expected decline in investments in construction sector in the last quarter. Net exports are expected to positively affect the economic growth as a result of the decline of goods and services import along with the increase of export of these two categories.

## Prices

**Inflation rate rate in Kosovo reached 13.3% in Q3 2022, representing an increase of 0.7% compared to the previous quarter.** However, inflation trend during this period shows a slowdown prices increase on monthly basis, where during the month of September inflation rate dropped at 12.7% from the highest point of 14.2% that was reached in July. This slowdown in price increase reflects the easing of pressures on energy and food prices, following the decline in fuel prices on international markets and the easing of obstacles in food supply chains.

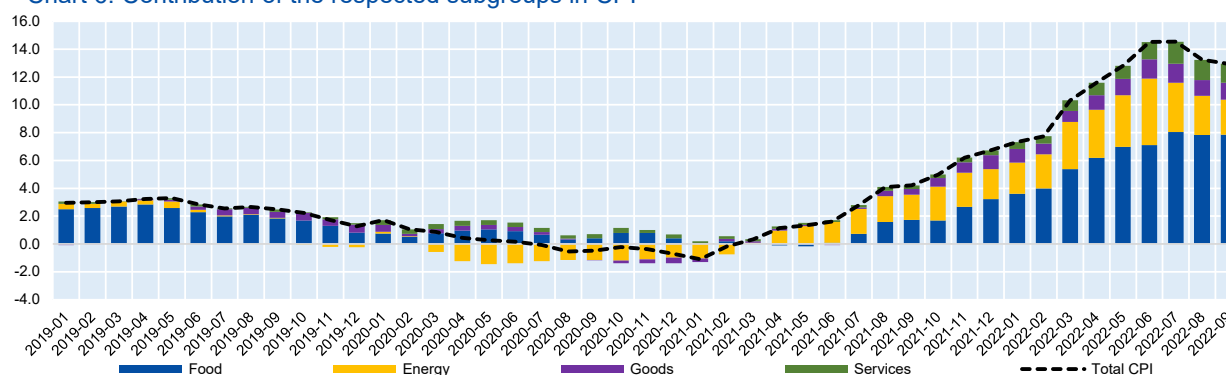
**Global inflationary pressures continue to dictate prices in Kosovo, with the risk of amplification when we consider the sensitivity of the country's economy as a result of the high concentration of the food and energy component in the consumer basket (around 55.5%) and the high level of import.** Consequently, the categories with the highest price increases compared to Q3 2021 include food and non-alcoholic beverages and transportation, which recorded an increase of 19.5% and 18.2%, respectively. Annual inflation rate of food, in Q3 2022, marked an increase of 2.9% compared to the previous quarter, whereas the prices increase of transport show a slowdown trend by declining for 5.7 percentage points. Within the category of food and non-alcoholic beverages, the highest annual increase was recorded in the prices of edible oils and fats (52.0%), bread and cereals (32.7%), milk, cheese and eggs (26.1%) and meat (22.2%). On monthly basis,



there was observed an accelerated price increase of bread and cereals, while a slowdown increase of prices of edible oils and fats, fruits, and vegetables.

**The contribution of food to the headline inflation, in Q3 2022, was 7.4 percentage points**, where 2.4 percentage points represent the contribution from the increase in the prices of bread and cereals, 2.1 percentage points was the contribution from the increase in the price of meat, while 1.6 percentage points is the contribution from prices of milk, cheese, and eggs. Whereas, within the transport category, which recorded a contribution of 2.9 percentage points to the total inflation rate, the largest part comes from the category of the use of equipment for personal transport (where fuel is included) with a contribution of 2.1 percentage points.

Chart 6. Contribution of the respected subgroups in CPI



Source: KAS and CBK calculations.

**The consumer price index (CPI) shows an expansion of the inflation base in Q3 2022, where the most of the consumer basket (80.0% of the basket) recorded price increases which stood at higher level than 5.0%.** The expansion of the inflation base as a result of the increase in demand against the slower growth of supply side and the transfer of the increased cost of energy prices to the prices of other goods and services affected the contribution of goods and services (excluding food and energy) to the headline inflation to mark a significant increase (chart 6). The contribution from the services sector, which provides an overview of inflation driven by the domestic economy, reached 1.5 percentage points in Q3 2022 from 0.2 percentage points in Q3 2021. Within the category of services, inflation originates from the increase of hotel prices, transport services, personal care, and maintaining and furnishing of the residence. During the months of July and August 2022, the substantial contribution to the increase in the prices of services turns out to have been given by subcategories of holidays organized within the framework of recreation and culture, a contribution which faded in September.

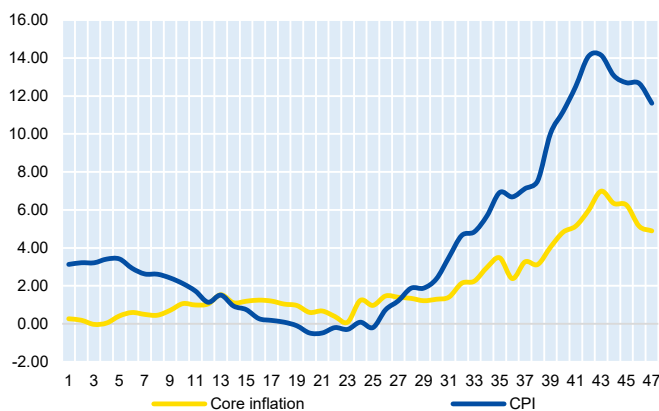
**The distribution of inflation in other sectors is also observed in the increase in core inflation**, which shows the longer-term trend of inflation, consistently excluding the CPI categories with the most frequent price fluctuations (food and non-alcoholic beverages, alcoholic beverages and tobacco, and energy). Core inflation, in Q3 2022, reached 6.5%, which compared to the previous quarter marked an increase of 1.2 percentage points, mainly as a result of the increase in the cost of services (chart 7). However, on a monthly basis, there is also a decrease in core inflation as a result of the mitigation of inflationary pressures from the slowdown in energy prices in international markets and the resulting impact on other sectors, as well as the contraction of demand, especially in the services sector at the end of Q3 2022.

**Most of the inflation in Kosovo is imported as a result of the dependence of the Kosovo economy on the import of energy and food products, the significant weight of these goods in the consumer's basket, as well as the significant increase in their prices** (chart 8). However, the increase in domestic inflation has

recently begun to be emphasized as a result of the increase in the costs of intermediate inputs in domestic production and the transfer of the increased cost from enterprises to consumers.

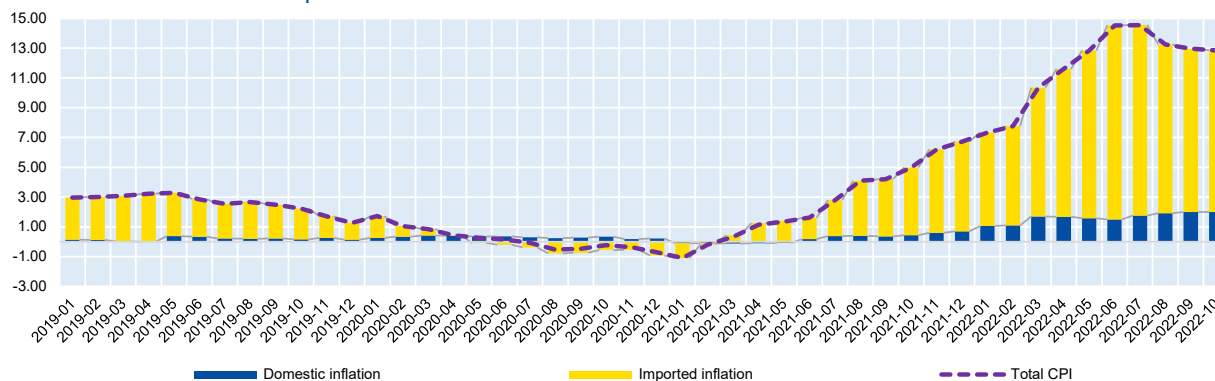
**The impact on Kosovo's economy from the fluctuation of prices in international markets was also reflected in the increase of the import price index (IPI) which reached 17.5% in Q3 2022 compared to Q3 2021 (14.7%).** The prices of (i) mineral products, (ii) articles of stone, plaster, ceramic and glass products, as well as (iii) plastic, rubber, and articles thereof, representing the main categories of IPI in Q3 2022, marked an increase of 52.8%, 41.2 percent, and 18.9%, respectively. Compared to the previous quarter when IPI reached the highest level of 23.3%, this index indicates a slowdown in the growth of prices of imported goods in Q3 2022, especially of prices of industrial goods (base metals and articles thereof, mineral products, products of chemical industries).

Chart 7. Core inflation and headline inflation of consumption



Source: KAS and CBK calculations.

Chart 8. Domestic and imported inflation



Source: KAS and CBK calculations.

**In the same period, the producer price index (PPI) recorded an annual increase of 17.2%, while it increased by 7.2 percentage points compared to Q2 2022.** The categories with the largest weight in this index such as (i) electricity, gas, steam and air conditioning supply, (ii) production of non-metallic mineral products, and (iii) processing of food products recorded an increase of 49.7%, 7.3%, and 14.2%, respectively. Meanwhile, a decrease was noted in the prices of metal ore extraction of 28.8%, and furniture production of 7.3%.

**The construction cost index (CCI), in Q3 2022, was characterized by an annual increase of 19.5%.** In relation to the previous quarter, the dynamics of CCI give positive signals regarding the growth rate of the construction cost, indicating a slowdown in the growth of the construction material prices, which comprise more than half of the weight of CCI (23.4% in Q2 2022, while 21.6% in Q3 2022). Meanwhile within this index, a significant increase was observed in the cost of energy (49.7%) and transport (40.4%).

The CBK projections show that inflation in Kosovo will reach 11.5%, in 2022. The downward trend of inflation in the euro area and in the world economy in general as a result of the tightening of financing conditions is expected to be reflected in the country's economy as well. The CPI is expected to follow a downward trend throughout the remainder of 2022, reaching 11.9% in Q4 2022, and to drop to 5.7%, in 2023. However, upside risks related to inflation, although with a lower probability of materialization, still remain



present, including the emergence of new obstacles in supply chains and increasing commodity prices in international markets, consumer expectations for further increase of inflation, and others.

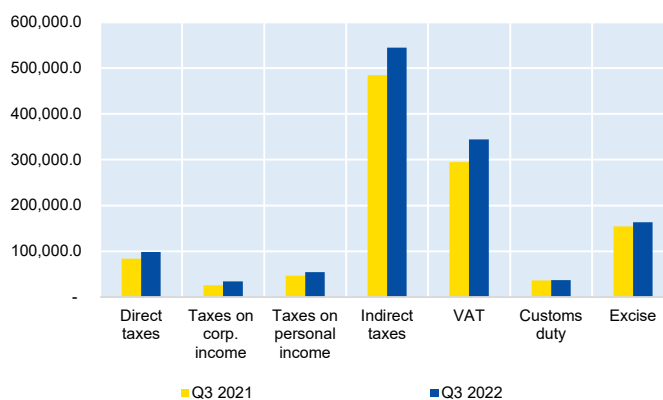
On the other hand, banks' expectations for inflation have continued to follow an upward trend, although they remain below the actual values of the CPI, and do not follow the downward trend of inflation from August onwards.

### Fiscal Sector

Budget revenues, in Q3 2022, amounted to EUR 712.7 million or 13.4% higher compared to the same quarter of the previous year. The increase in the collection of budget revenues came as a result of the recovery of economic activity, the high inflation rate, as well as the efforts undertaken to narrow the tax gap in the country. Similarly, an increase was also noted in budget expenditures, which reached the value of EUR 595.3 million or an increase of 20.0% compared to Q3 2021. Consequently, Kosovo's budget recorded a primary budget balance of EUR 117.4 million during this quarter.

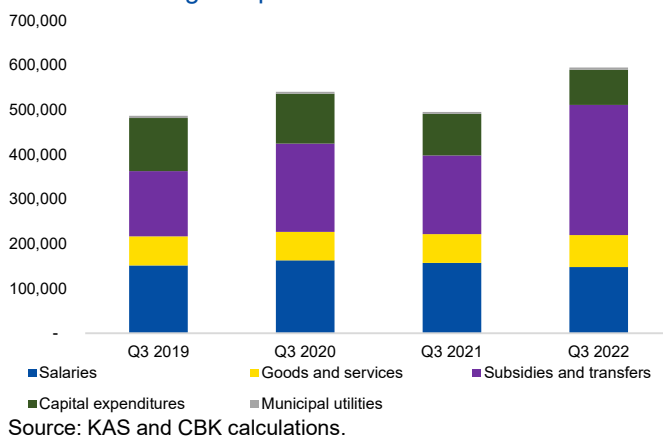
**Regarding the structure of budget revenues, in Q3 2022, 88.5% is comprised of tax revenues**, where a higher increase was observed in indirect tax revenues which reached a net value of EUR 532.6 million after tax returns, and in this capacity they account for 74.7% of total budget revenues. Within indirect taxes, VAT income marked an increase of 17.0% being significantly affected by increase of prices and the growth of economic activity. While, despite the decrease of the imports amount, revenues from customs duty and excise recorded a modest increase of 1.4% and 6.1%, respectively, as a result of the increase in the prices of imported goods. Furthermore, revenues from indirect taxes amounted to EUR 98.3 million or 16.9% more compared to Q3 2021. Within this category, corporate income tax marked an annual increase of 30.8%, while personal income tax, which represent the main category of direct tax revenues, marked an annual growth of 15.2%. Conversely, non-tax revenues which primarily consist of revenues collected from budgetary organizations, reached an amount of EUR 71.5 million, marking a decline of 1.14%, mainly as a result of the decline of income collected from the local government, in September 2022 (chart 9).

Chart 09. Tax income structure



Source: MFLT and CBK calculations.

Chart 10. Budget expenditures structure



Source: KAS and CBK calculations.

**As regards to budget expenditures, current expenditures, in Q3 2022, reached the value of EUR 516.5 million or 28.1% higher compared to Q2 2021.** Within current expenditures, subsidies and transfers marked an increase of 65.0%, reaching the value of EUR 291.5 million. Government expenditures on goods and services (including municipal utilities) marked an annual increase of 11.0%, reaching the value of EUR 76.2 million, meanwhile expenses on salaries declined by 5.8% and reached the value of EUR 148.8 million. Unlike

current expenditures, capital expenditures marked a decline of 15.1% compared to Q3 2021, reaching EUR 78.8 million (chart 10). During this quarter, capital expenditures accounted for only 13.2% of total budget expenditures compared to 18.7% as they were in Q3 2021.

**Public debt reached EUR 1.69 billion in Q3 2022, representing a growth of 2.2% compared to the same period of the previous year.** This increase is attributed to the growth of domestic public debt of 2.7%, reaching EUR 1.11 billion, and the increase of external public debt of 1.4%, which reached EUR 577.4 million. Domestic debt primarily is comprised of Kosovo’s Government debt to pension funds (50%), commercial banks (25%), public institutions (19%), insurance companies (4%), etc. Whereas, external debt is comprised of liabilities to International Agency for Development (29.4%), International Bank for Reconstruction and Developments (17.6%), International Monetary Fund (9.4%), etc. Despite of the public debt increase in absolute terms, the level of public debt as a percentage to GDP declined at 20.5%, in Q3 2022 (23.0% in Q3 2021), thus continuing to stand below the threshold of 40% as set by law. This decline, which was marked in Q3 2022, is attributable to the positive budget balance of the government and the increase of nominal GDP which reduces the debt to GDP ratio.

### External Sector

The developments dynamic of Kosovo’s current account continues to be mainly defined by developments in the trade balance of the country. In the first nine months of 2022, the position of the current account deteriorated due to the increase of the deficit in trade of goods, while the positive balance of the trade of services and the categories such as primary and secondary income contributed to narrowing the deficit. **Unlike the dynamics of the nine months period, the current account, in Q3 2022, recorded a positive balance of EUR 157.5 million, which consists of an annual increase of 9.3%. The increase of the positive balance of the current account is primarily attributed to the increase of positive balance of services and secondary income (the impact of diaspora). Conversely, the balance of goods, being impacted by prices increase of goods in international markets, had a negative impact on the current account (chart 11).**

Trade deficit of goods reached the value of EUR 1.2 billion in Q3 2022, corresponding with an annual decline of 22.7% (chart 12). The main reason for the increase in the trade deficit is related to the significant increase in the import of goods. Total import of goods reached the value of EUR 1.5 billion, in Q3 2022, while export amounted to EUR 238.2 million, implying that export of goods covers import of goods by only 15.8%. The trade deficit of goods comprises a structural problem in the country’s economy and the continuous increase of the import of goods, especially those of consumption and

Chart 11. Financial account, EUR million

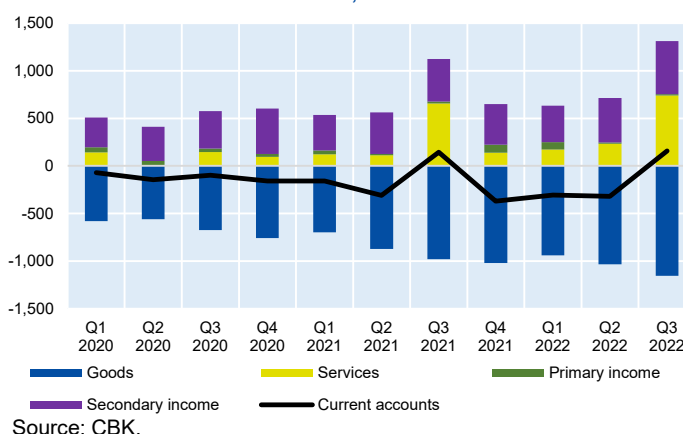
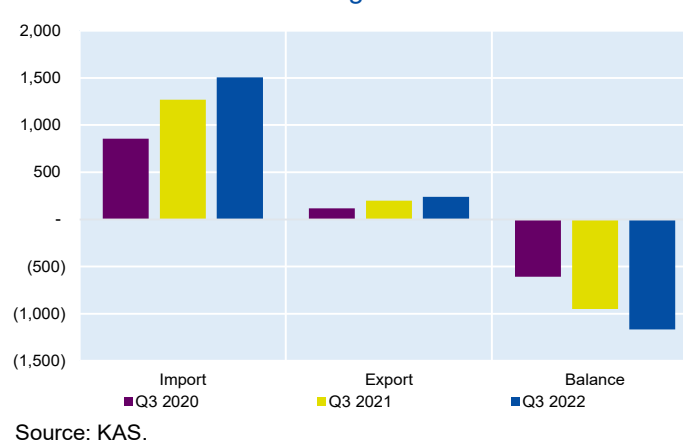


Chart 12. Trade balance of goods

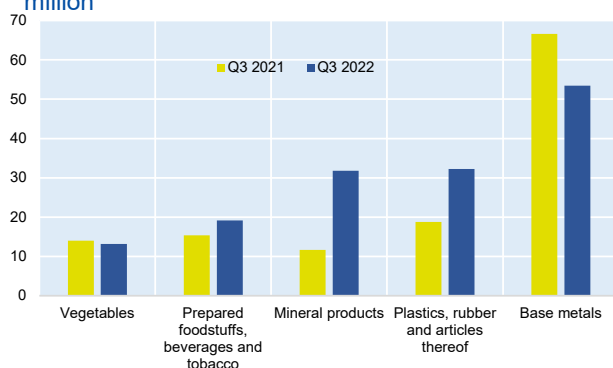


of goods, especially those of consumption and

intermediary goods, signals the increased sensitivity of the country’s economy to dynamics in international markets.

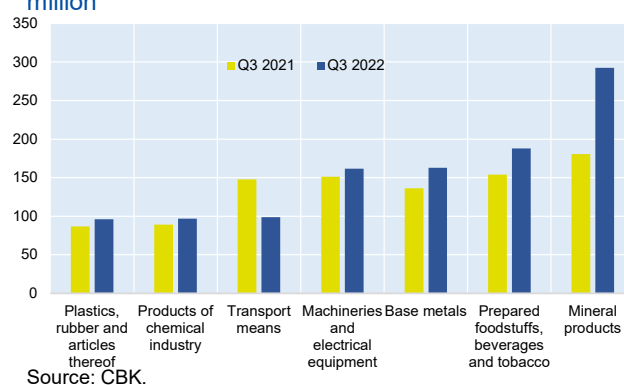
The export of goods, in Q3 2022, recorded an annual increase of 21.2%, an increase that is mainly attributed to the increase in prices in international markets, while the weight of exported goods marked a decline of 35.1%. Inflationary dynamics were reflected in Kosovo’s external trade primarily through the increase of export of mineral products, plastic and rubber products, and food stuff products (chart 13). Main trading partners of Kosovo, in Q3 2022, were EU countries and the Western Balkans, which had the same share with 36.3% to total export of goods. Within EU countries, Kosovan exports were primarily concentrated to Germany, Italy, Denmark and Holland, while as regards to region countries mostly it was exported to Albania, Macedonia and Serbia.

Chart 13. Main categories of goods export, EUR million



Source: CBK.

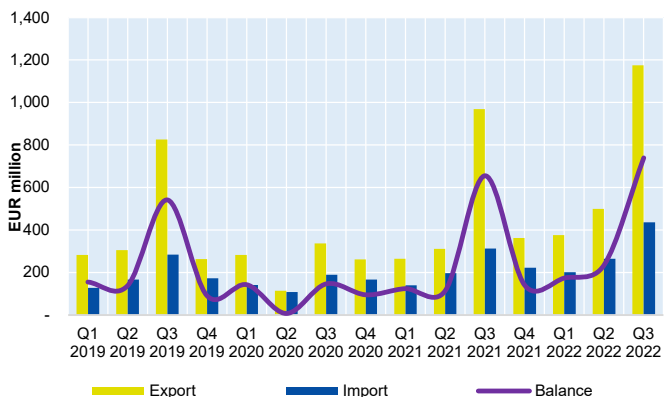
Chart 14. Main categories of goods import, EUR million



Source: CBK.

High increase of prices has affected the increase of goods import of 18.8%, reaching the value of EUR 1.5 billion, whereas the slowdown increase of the overall demand in the country has affected the weight of goods import to mark a decline of 14.3%. Also the data of GDP, for Q3 2022, suggest a real decline of goods import of 1.4%. As the structure of trade partners and main import categories remained unchanged, Kosovo mainly imported mineral products and metals from the countries of the region, food products and metals from the EU countries, while from China were imported mainly machinery, electrical equipment, and plastic products.

Chart 15. Balance of services



Source: CBK.

**Unlike from the trade balance, services marked a positive balance in Q3 2022.** The export of services reached the value of EUR 1.2 billion in Q3 2022, marking an annual increase of 12.8% (chart 15).

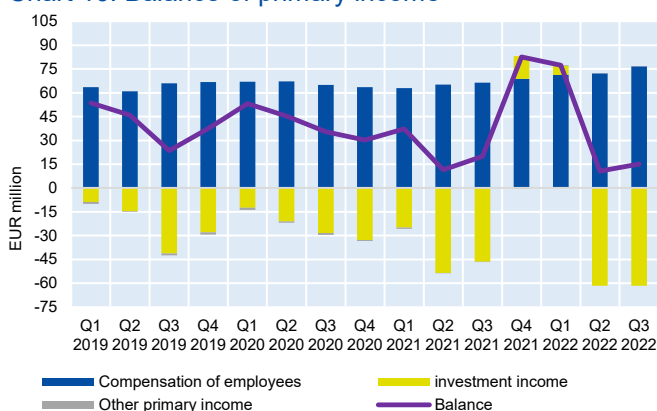
Export of services marked a significant increase as a result of the increase of travel services export, which reached the value of EUR 991.9 or 14.8% more compared to Q3 2021. A high annual increase of EUR 35.1 million was also recorded in the export of computer and telecommunication services, a category that reached EUR 61.6 million, in Q3 2022. Import of services marked an increase of 39.4% in Q3 2022, reaching a value of EUR 435.7 million. A higher increase was also marked in the import of travel and transport services, which is also related to the increase in costs as a result of the increase in the prices of the main goods.

The balance of the primary income account marked a decrease of 23.4% compared to the same quarter of the previous year, a decrease that was mainly attributed to the dividend return from direct investments in the amount of EUR 73.5 million or EUR 27.8 million more than in Q3 2021. An increase of 20.1% was also marked in compensation of employees, the balance of which reached EUR 76.7 million (chart 16).

Remittances comprise one of the main consumption funders, and have a share of 14.1% to total GDP generated in the country. The value of remittances received in Q3 2022 reached EUR 349.1 million, representing an annual increase of 13.6% compared to the same period of the previous year (chart 17). Remittances mainly come from Germany (39.4%), Switzerland (18.2%) and USA (8.2% of total remittances received in Kosovo). In addition to the altruistic factor that characterizes the remittances of immigrants sent to Kosovo, which may have been strengthened as a result of the reduction of available income in the economy as a result of inflation, the increase in remittances during the summer months can also be attributed to the depreciation of the EUR against other currencies. In Q3 2022, it was observed an increase of 21.6% of remittances sent through banks, while remittances sent through money transferring agencies marked an increase of 14.3%.

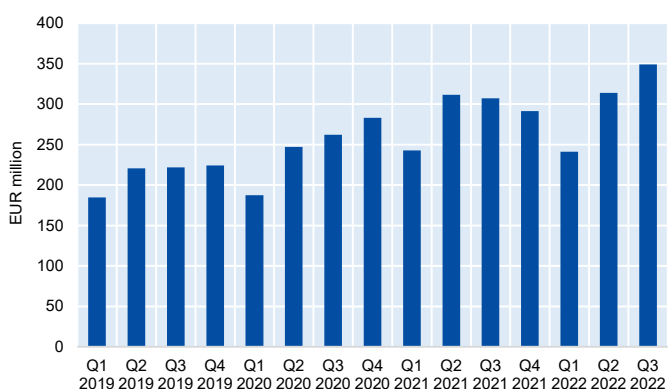
FDI, in Q3 2022, reached the value of EUR 239.5 million or 41.2% more compared to Q3 2021. The most significant increase was observed in the capital and investments fund in shares of EUR 212.9 million, or an increase of 26.5% compared to Q3 2021 (chart 18). Whereas, debt instruments marked an increase of EUR 26.7 million. The structure of FDI continued to be concentrated mainly in the real estate sector (67.9% of total FDI in Q3 2022), which marked an increase of 32.9%. This FDI increase in the real estate, among others, may be attributable to the increase of 19.5% of prices of construction cost input. Also, other sectors were characterized with a good performance, where the balance of re-invested profit only during this quarter was EUR 40.0 million, or 21.1% higher compared to Q3 2021. Also, direct investments of Kosovo residents to other countries were higher in Q3 2022, compared to the same period of the previous year, reaching the value of EUR 39.4 million (EUR 37.0 million in Q3 2021). Direct investments of Kosovo residents outside Kosovo's economy are mainly comprised of capital

Chart 16. Balance of primary income



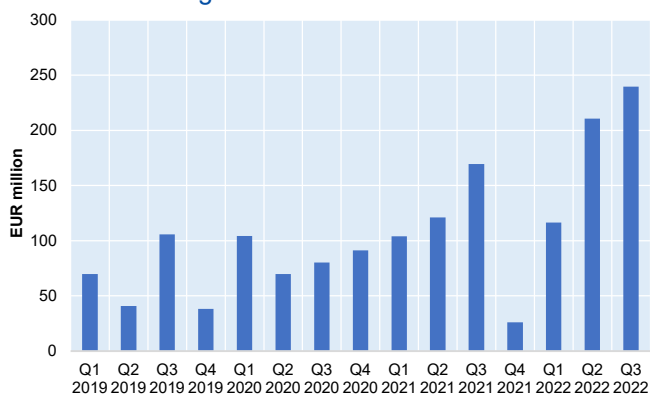
Source: CBK.

Chart 17. Remittances



Source: CBK.

Chart 18. Foreign Direct Investments



Source: CBK.

investments, which mostly consist of the real estate purchase, primarily in the region countries (Albania, Montenegro and North Macedonia).

## Financial system

**Financial system was characterized with a significant expansion of its activity, despite the high increase of inflation, concerns about slowdown of the economic activity and the fluctuations of goods prices in the international markets.**

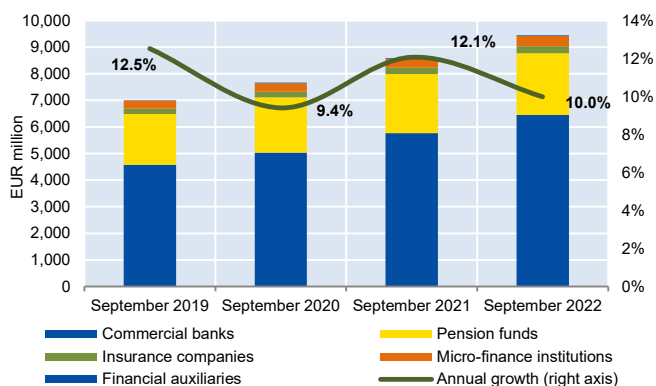
Inflationary pressures have inhibited the rapid post-pandemic economic recovery, increasing the uncertainties and sensitivity of the financial system as well. Financial system assets in the country slowed down the annual growth for 2.1 percentage points, and their value reached EUR 9.4 billion. The slowdown of growth trend was impacted by the developments in the banking sector and pension sector, whereas assets of other sectors marked an accelerated growth (chart 19). A slower increase of the banking sector is primarily a result of the slower increase of deposits. Meanwhile, pension sector was characterized with a decline of investments value, which almost halved down the growth trend of assets of this sector.

The banking sector, in September 2022 represented about 68.2% of the total assets of the financial system, giving the main contribution to the expansion of the total assets of the financial system, although at a slower level compared to the previous period (chart 20). While the microfinance sector, insurance and financial intermediaries, due to their lower weight, had a more limited impact on the overall structure of the system's assets, despite the accelerated increase marked during this period.

### 1. Banking Sector

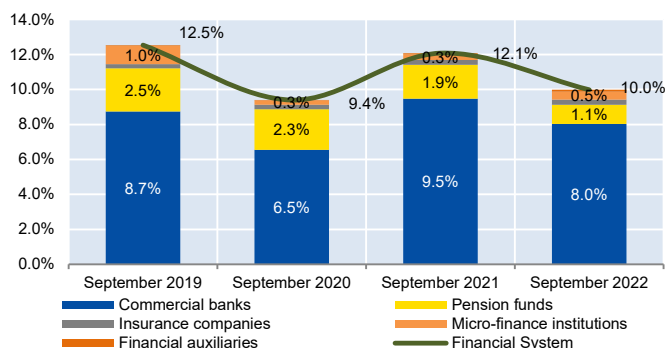
**The risks for the banking sector from unfavorable geopolitical, macroeconomic and financial developments remain high, although in the first nine months of 2022 they do not appear to have been translated into the sector's activity and its performance.** Continuous inflationary pressures are estimated to have affected the decline of disposable income in the economy, which has been translated into a potential decrease in borrowers' solvency (increased credit risk) and weakening of saving capacity (increased liquidity risk). Expenditures increase of energy during the winter period and potential energy cuts are expected to further contribute to the increase of credit risk for the banking sector.

Chart 19. Assets value of Kosovo's financial system



Source: CBK.

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



Source: CBK.

## Assets

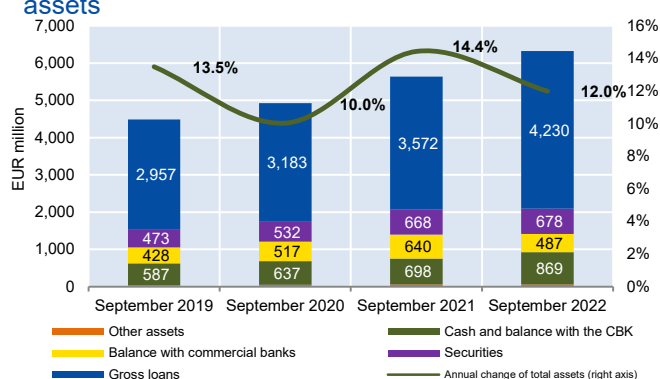
The slowdown increase of deposits, which is the main source of financing of the banking sector, had an impact on the slowdown increase of the total banking sector assets (chart 21). However, lending activity was characterized with a significant accelerated increase, giving the main positive contribution to the growth of assets. The balance with commercial banks marked an annual decline of 23.9%, unlike the exact growth of 23.9% marked in the previous year. Within investments in securities, investments in the foreign market were characterized with an annual growth of 15.5%, while investments balance in Kosovo's Government securities marked a decline of 14.6%. The category of cash and balance with the CBK marked an annual increase of 24%, mainly being influenced by the increase of reserves of banks with the CBK.

## Lending

**Lending activity of the sector marked an annual growth of 18.4%, which corresponds to the highest growth marked in the recent 12 years. The high increase of the lending of the sector continued also in the third quarter of the year, mainly being impacted by the credit demand, while the supply side was characterized with a slight tightening mainly as a consequence of the uncertainties about the domestic market outlook.** The increase of demand from large enterprises to finance inventories and working capital, and the increase of demand for consumer credit had an impact on the total increase of demand for loans, at a marginal level in relation to the previous quarter, while the demand for loans from SMEs and the demand for loans to invest in real estate result to have marked a decline.

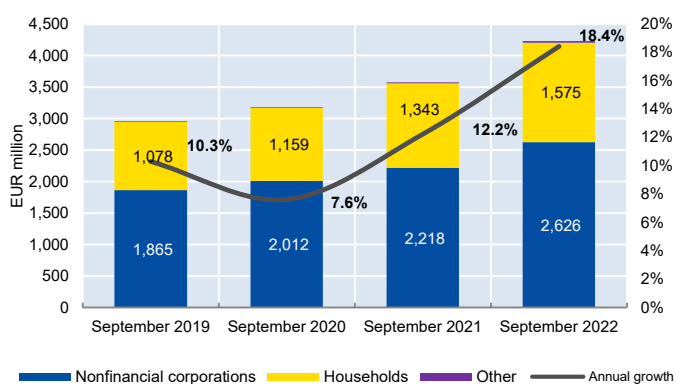
With a more significant increase of lending of 18.4% was characterized the segment of nonfinancial corporations, whose loans value reached EUR 2.6 billion (chart 22). The increase of lending to nonfinancial corporations was higher in an almost double level, reaching the increase of 10.2% in the previous year, and almost doubling the dominating contribution that this segment has to the total increase of the lending of the sector (chart 23). Loans to

Chart 21. Balance sheet of the banking sector - assets



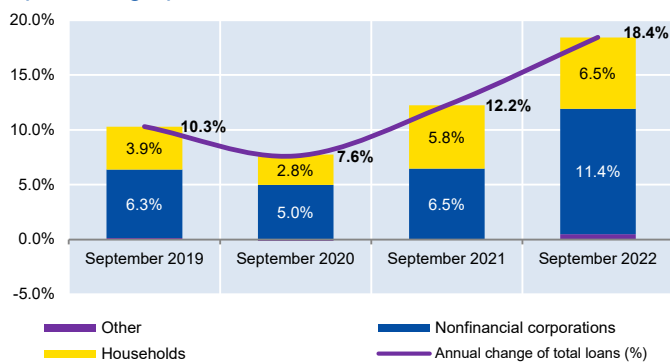
Source: CBK.

Chart 22. Stock of total loans, annual change



Source: CBK.

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



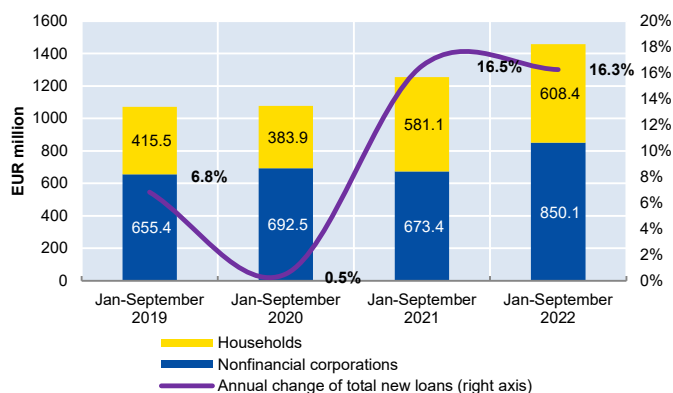
Source: CBK.



households marked an annual growth of 17.3%, which is more approximate with the increase of 15.8% that was marked in the previous year.

New loans marked a similar increase that was recorded in the same period of 2021 of 16.3%. However, unlike in the previous year, which was characterized with a higher increase of new loans to households, in this year the increase was much more significant for nonfinancial corporations (chart 24). Until September 2022, new loans to nonfinancial corporations increased by 26.2%. The increase was higher for both investment loans, 22.4%, and non-investment loans with 27.6%. New loans to households marked a much slower increase of 4.7%. The increase was higher for consumer credit, 15.7%, whereas mortgage loans slowed down their increasing trend with which they were characterized in the previous year, thus reaching 8.7%, until September 2022. This period was characterized with a notable increase of the usage of credit products such as overdrafts and credit lines, from nonfinancial corporations, and of households, as well.

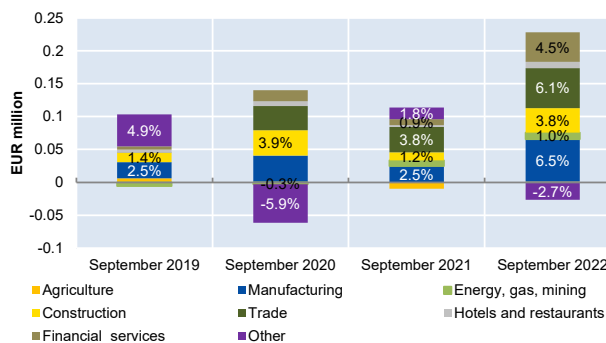
Chart 24. New loans, annual change



Source: CBK.

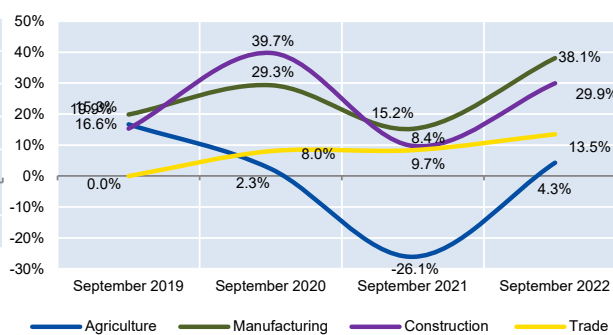
households marked an annual growth of 17.3%, which is more approximate with the increase of 15.8% that was marked in the previous year.

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



Source: CBK.

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. Until September 2022, lending to manufacturing sector had the highest contribution to the growth of total loans to nonfinancial corporations (chart 25), as a result of the high annual increase - the second highest annual increase (chart 26). The sector of financial services marked the most accelerated lending growth - almost doubled the portfolio to EUR 223.3 million from EUR 124.7 million that was in the previous year, and resulted the third sector by contribution to the growth of total loans to nonfinancial corporations. The construction sector marked an accelerated increase of 29.9%, despite the challenges that this sector was facing due to the high increase of inflation - the increase of prices of construction materials. Agriculture sector was characterized with a positive increase in this year, unlike the notable decline marked in the previous year.

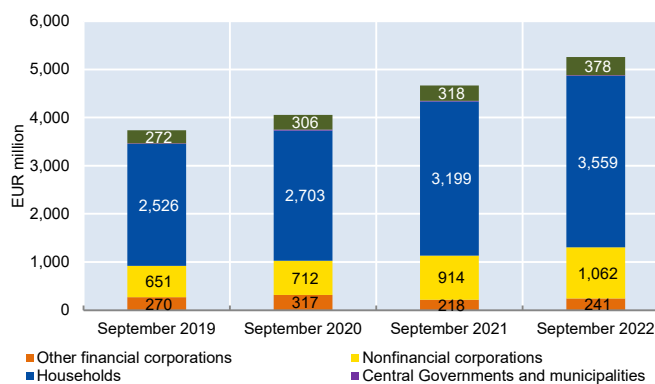
Lending to nonfinancial corporations, namely to manufacturing sector was supported by the Economic Recovery Package, through subsidizing investment loans for manufacturing businesses. The implementation of this measure during this year may have had an impact on accelerating the increase of loans to manufacturing sector.

### 1.1. Liabilities and Own Resources

**Financing of the banking sector activities continued to rely on customer’s deposits and own capital, namely retained earnings and realized earnings during the current year.**

Both of these items comprise 92.4% of liabilities and equity, where 81.5% is comprised only by deposits. However, the increased uncertainties as a result of inflationary pressures and the slowdown of economic activity were reflected in consumers behavior through the slowdown increase of deposits, which encouraged the banking sector to offer more favorable conditions for securing the financing and to start increasing the interest rate on deposits.

Chart 27. Stock of total deposits

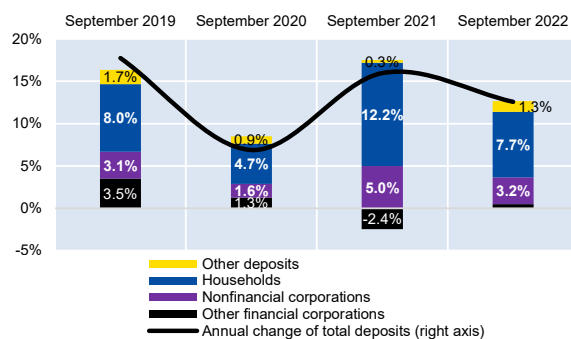


Source: CBK.

#### 1.1.1 Deposits

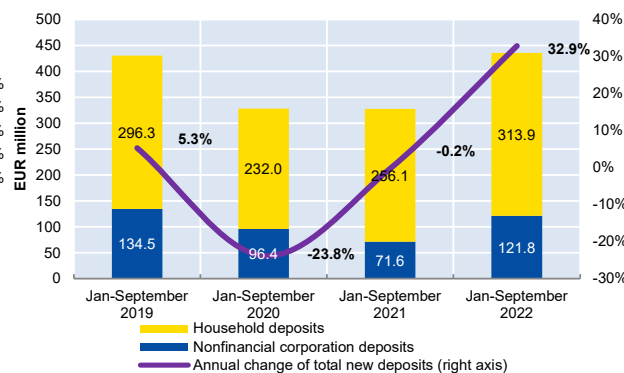
The value of total stock of deposits at the end of September 2022, reached EUR 5.26 billion (chart 27), representing an annual slowdown increase of 12.7%, from 15.1% as it was in September 2021.

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



Source: CBK.

Chart 29. New deposits, annual change



Source: CBK.

The slowdown increase of total deposits primarily reflects the trend of household deposits, as they have the highest weight to total deposits (chart 28), a dynamic which may have been affected by higher expenses during this year as a result of prices increase. Total household deposits, at the end of September 2022, reached the value of EUR 3.56 billion, representing an annual increase of 11.3% (an increase of 18.3% marked in the previous year). Regarding the level of new deposits collected from households, which include only time deposits, during the period of January to September 2022, they reached the value of EUR 256.1 million, representing an annual increase of 10.4%, while in the previous year it was marked an annual decline of 21.7% (chart 29). This increase is mainly attributed to the increase in interest rates on deposits for this category, which were increased by banks in an effort to increase deposits/financing to support the high level of lending in the country, as the increase in interest rates globally which further has influenced the increase of the cost of financing from abroad.

The stock of nonfinancial corporation deposits reached EUR 1.06 billion at the end of September 2022, representing an annual increase of 16.2% (an annual growth of 28.4%, in September 2022). New deposits collected from this segment marked an annual decline of 25.7% in the first nine months of the year, following a similar trend of the decline of 28.3% that had been marked in the previous year. This development is

estimated to have been affected by added economic activity of enterprises during the post-pandemic period, and the increase of prices, which have increased the need to invest funds in working capital, in order to expand and reserve the actual prices, considering the expectations of continuous prices increase.

### 1.2. Interest rates

Interest rates on new loans and deposits have suffered movements towards increases, after declining trends marked in the previous years. In September 2022, interest rate on loans was 6.3% from 5.9% in the previous year, whereas interest rate on deposits increased to 1.9% from 1.4%. The margin of interest rate spread of loans and deposits narrowed to 4.3 percentage points from 4.5 percentage points (chart 30).

Chart 30. Interest rate on loans and deposits

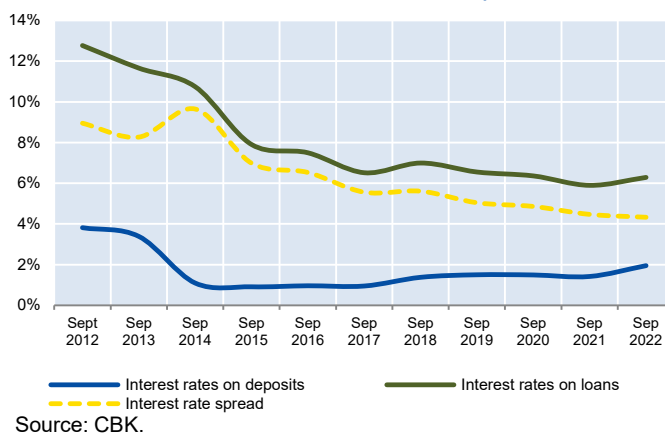
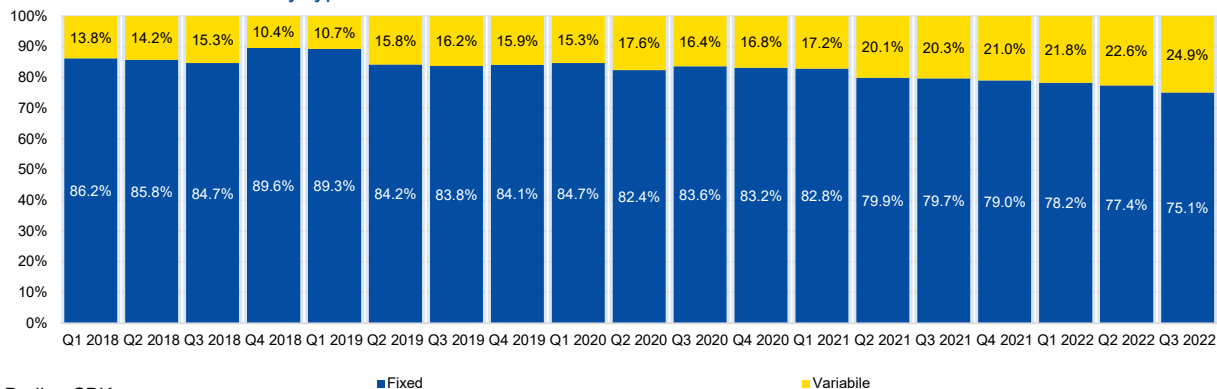
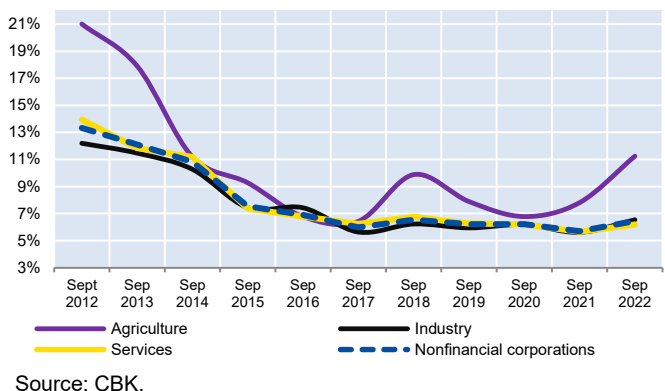


Chart 30a. Loans stock by types of interest rates



The dynamics of interest rates on loans and deposits were influenced by developments at the global level, where most central banks in response to inflation have increased base interest rates. Also, the increase of liquidity risk as a consequence of the increased inflation has encouraged banks to increase interest rates on deposits, in order to attract depositors. These developments at the same time have had an impact on the change of the loans structure by the types of interest rates. While last year and until March of this year, 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 16.7% of the loans portfolio, this level has risen to 21.8% this year. Moreover, some of the banks which were applying fixed rates only, this year they have started to apply variable rates (chart 30a).

Chart 31. Interest rate on loans to nonfinancial corporations



This dynamic shows a prudent approach, which has been adopted by banks to manage the increasing risk of inflation, and developments of the same directions on the global level. According to these expectations this share and the increase of interest rates will continue also in the following periods, relying also on banks statements given in the Bank Lending Survey report.

**The average interest rate on loans to nonfinancial corporations was 6.5% in September 2022, or for 0.8 percentage points higher compared to the same period of the previous year.** More favorable interest rates on loans were offered for services segment (6.2%), while the highest interest rate of 11.2% was for agriculture sector due to the higher risk these loans bear (chart 31).

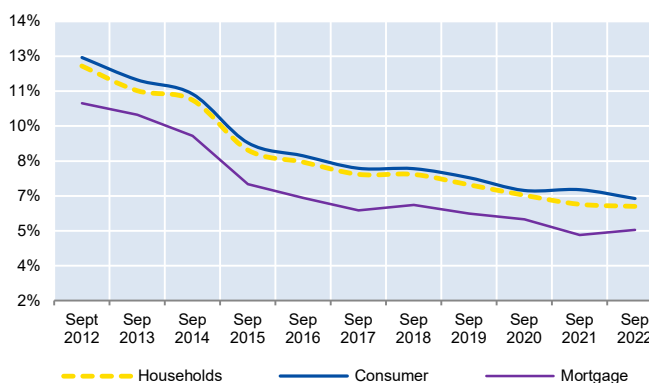
**The average interest rate on loans to households stood at 6.1%, in September 2022, which is almost the same interest rate as in the previous year.** Interest rates on mortgage loans are more favorable (5.0%), due to their lower risk, as they are covered by collateral (mortgage). Whereas, consumer credit continues to have higher interest rates (6.4%) despite of marking marginal decline of 0.4%, compared to the same period of the previous year (chart 32). **Interest rates on deposits interrupted their declining trend of the recent years and were characterized with an increase.** The average interest rate on nonfinancial corporation deposits increased by 0.3 percentage points, reaching 2.4%, while for households there was marked an increase of 0.6 percentage points, reaching 1.8% (chart 33).

### Performance of the Banking Sector

Banking sector realized a profit with a value of EUR 107.7 million in September of 2022, representing the highest value registered for the same periods, since the foundation of the banking sector. This financial result is attributable to the higher income growth, and the lower increase of expenditures (chart 34).

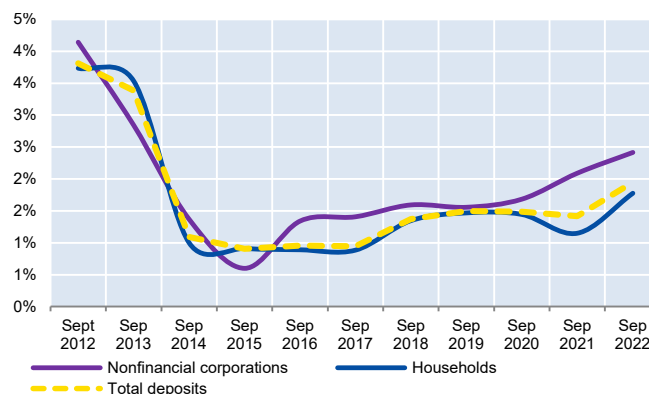
Total income reached the value of EUR 270.5 million, representing an annual increase of 13.6% (an increase of 14.8% marked in the previous year). Interest income, which represent 70.4% of total income, gave the main contribution to the growth of income. In the context of interest income, the collection of interest on loans had the main contribution to this increase, a category which was influenced by the significant increase in lending.

Chart 32. Interest rate on loans to households



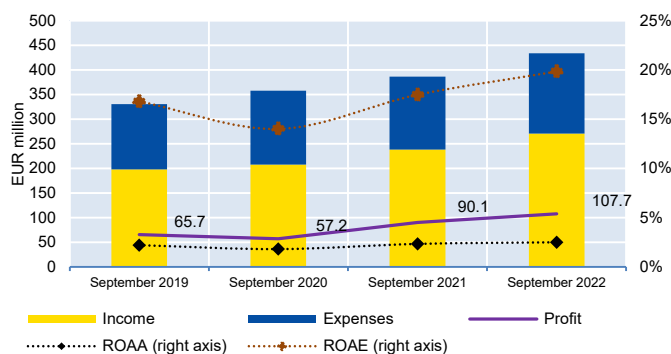
Source: CBK.

Chart 33. Interest rates on deposits



Source: CBK.

Chart 34. Profit and profitability indicators of the banking sector



Source: CBK.

It is worth noting that this year, interest income from placements at other banks, have significantly increased compared to the previous year. Meanwhile, the category of non-interest income, mainly derived from fees and commissions, recorded a slower growth compared to the previous year, of 9.1% from 37.3% as it was in September 2021, and reached the value of EUR 70.1 million.

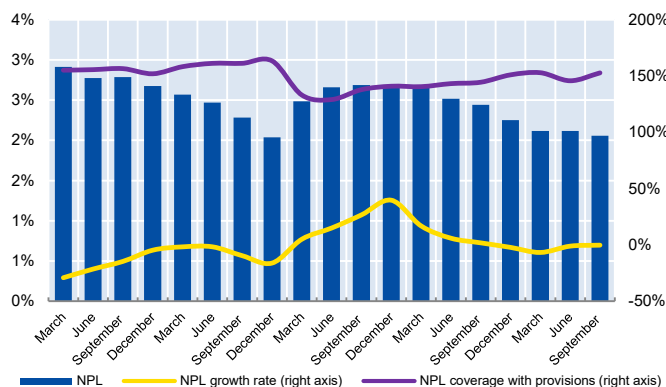
Expenditures increased by 10.0% until September 2022 (a decline of 1.5% marked in September 2021) and reached the value of EUR 162.8 million. The contribution to this difference was given by the increase of 9.0% of general and administrative expenses, which mainly reflects the increase of personnel expenses of 12.2% (or EUR 4.5 million). This increase suggests the increase in the salaries of employees in the banking sector, which may be a correction for the increase of inflation in the country. Also, the category of non-interest expenses marked an increase compared to the decline that had been marked in the previous year, primarily due to the increase of loan loss provisions (an increase of EUR 3.4 million or 36.6%).

### 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.

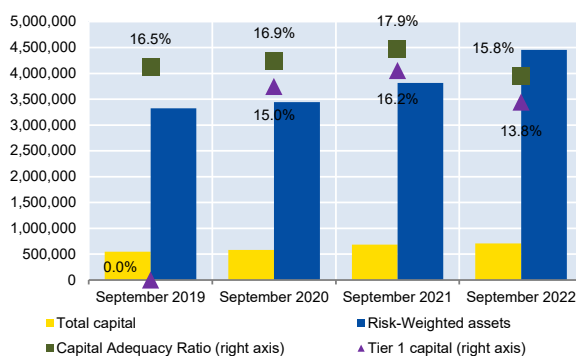
The satisfactory state of these indicators gives priority to the sector in absorbing shocks from uncertainties caused by geopolitical crises, the increase of inflation and economic slowdown activity.

Chart 35. Nonperforming loans and loan loss provisions



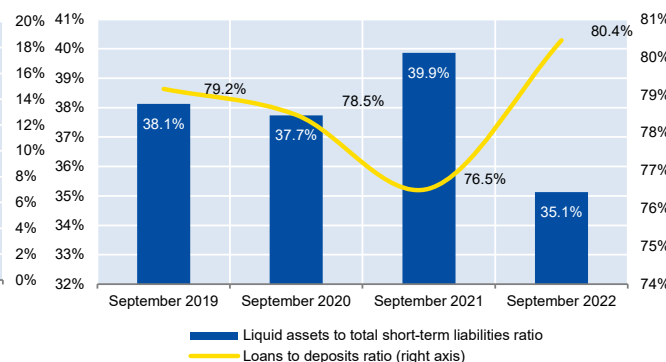
Source: CBK.

Chart 36. Solvency indicator



Source: CBK.

Chart 37. Liquidity indicators



Source: CBK.

The credit quality has improved compared to the previous year's quality. Nonperforming loans ratio stood at 2.1% from 2.4% as it was in the previous year, where the value of nonperforming loans decreased by 0.1% (from the increase of 1.9% as it had been marked in September 2021). The coverage with provisions from possible loan losses, stood at 152.8% from 144.4% (chart 35).

Capital Adequacy Ratio dropped at the level of 15.8% from 17.9% in September 2021, which is a result of the increase of risk weighted assets due to the significant increase of lending (chart 36).

Liquid assets to total short-term liabilities ratio, declined to 35.1% from 39.9% (chart 37). The decline of liquidity level compared to the previous year's level is a result of the increase of short-term liabilities of 9.9% and the decrease of liquid assets of 3.2%. Liquid assets have declined as a consequence of the lower investments

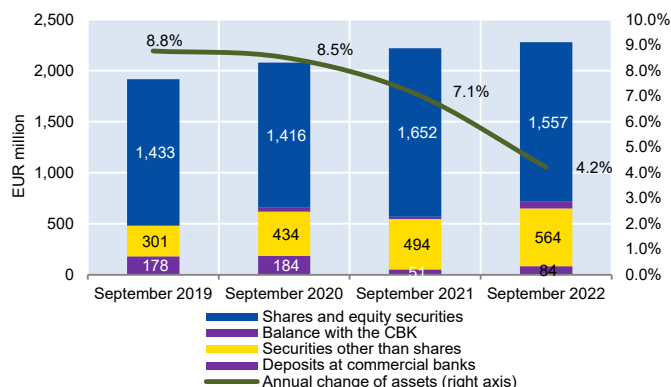
in securities and deposits in banks and in other financial institutions, orienting these assets into lending. Also, loans to deposits ratio increased to 80.4%, as a result of the high lending during this year.

### Pension sector

**The pension sector recorded a slowdown in growth and a decline of investments return compared to the previous year, mainly as a result of the unfavorable dynamics marked in international financial markets.**

With the second highest share to total assets of the financial system, assets of pension funds marked a further increase of 4.2% (an increase of 7.1% marked in the same period of the previous year). The value of pension funds' assets reached EUR 2.32 billion, of which 99.6% are represented by Kosovo Pension Saving Trust (KPST), whereas the remainder belongs to Slovenian-Kosovo Pension Fund (SKPF) (chart 38).

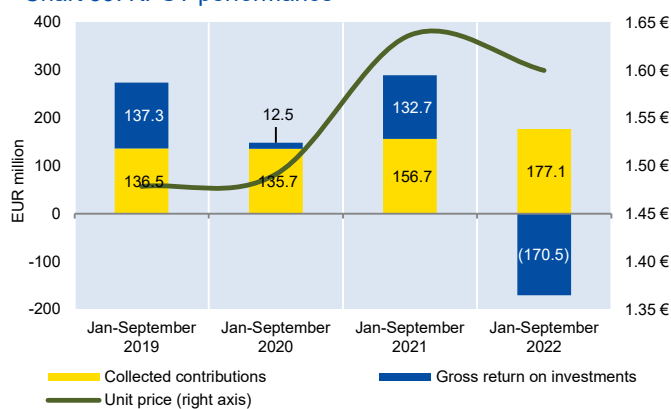
Chart 38. Assets of the pension sector



Source: CBK.

Investments from KPST are mainly focused on the external market (70.6% of investment portfolio), primarily in joint funds worth with a value of EUR 1.6 billion (or 67.2% of total assets of KPST), and the rest of the investments are diversified in securities of the Kosovo's Government in the value of EUR 562.0 million or 25.6% of total investments and certificates of deposit in the banking sector in the amount of EUR 84.1 million (3.8% of total investments). The investment portfolio structure of SKPF is the same as KPST structure. The majority of Slovenian-Kosovo Pension Fund assets are invested in the external sector, mainly in shares (75.4% of investment portfolio), and of marginal value in securities (6.1% of investments). Meanwhile, investments within the country are mainly focused on Kosovo's Government securities which account for 18.1% of total investment portfolio.

Chart 39. KPST performance



Source: KPST

While the value of collected contributions increased in both pension funds, the return on investments suffered a decrease in value, affected by fluctuations in the financial markets. Unfavorable circumstances created by the beginning of the war in Ukraine and rising inflationary pressures caused destabilization of the markets, thus affecting the performance of pension funds to be weaker in this quarter.

The value of contributions collected by SKPF during the period of January–September 2022 reached EUR 442.6 thousand, which represents an annual increase of 15.9%, influenced by the increase of the number of contributors. Whereas, the gross return on investments was of a negative value of EUR 895.3 thousand, while until September 2021 the return was positive with a value of EUR 715.7 thousand.

The value of collected contributions by KPST, until September 2022, with an annual increase of 13.0%, reached the value of EUR 177.1 million. While KPST investments suffered a decline in value, with a negative return of



EUR 170.5 million (positive return of EUR 132.7 million until September 2021) (chart 39). The investment policy of the funds requires diversification of investments and aims for a positive return in the long term, while simultaneously maintaining a so-called “conservative” portfolio whose assets account for contributors who soon will be retired, which in order to maintain the value of these assets, they are invested in shorter terms and with a safe positive return - such as investments in securities of Kosovo.

### Insurance sector

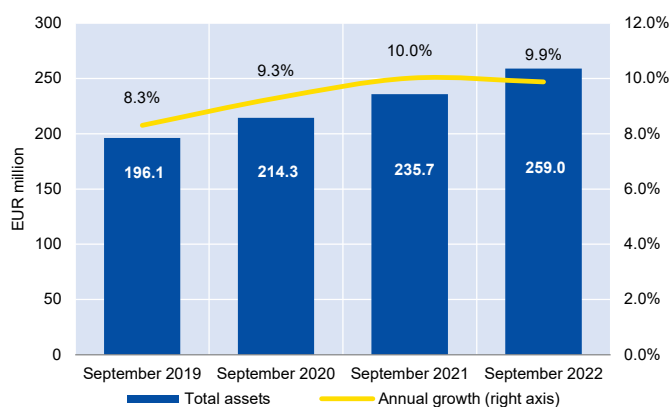
**Insurance sector marked an approximate level of assets increase as in the previous year, being favored by the high level of collected premiums. However, the accelerated growth of claims incurred resulted in a slower financial performance compared to the previous year.**

Insurance sector comprises 2.8% of financial system in the country, which is a relatively same performance along five recent years. Sector’s assets continued with a positive increasing trend of the last years (chart 40). The highest contribution to the increase of assets was marked by the category of deposits held at commercial banks which marked an annual growth of 11.3% (an increase of EUR 12.0 million), and reached EUR 117.9 million, followed by technical reserves for insurance with an annual increase of 27.9% (an increase of EUR 6.7 million), reaching the value of EUR 30.7 million. Whereas, within liabilities, technical reserves increased by 10.3%, or for EUR 15.7 million, and reached the value of EUR 167.9 million, as a consequence of the written premiums increase. The movements in technical reserves had the main contribution to total increase of liabilities, which increased for 11.7% until September 2022.

The value of written premiums reached EUR 98.2 million until September 2022, representing a same annual increase of 13.1% marked in the previous year. The increase of written premiums mainly reflects the increase of third party liabilities written premiums, which comprise 60.5% of total non-life written premiums.

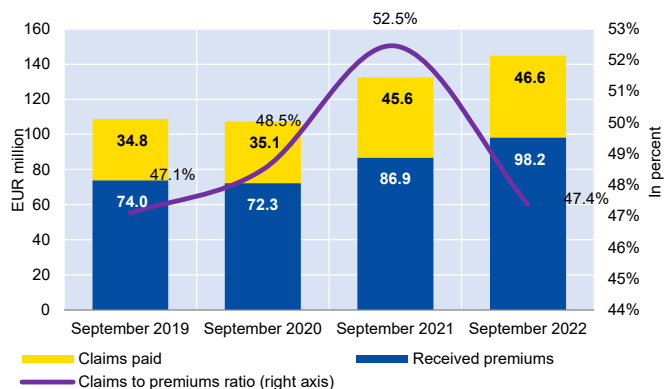
On the other hand, the value of claims paid by insurance companies and the Kosovo Insurance Bureau, until September 2022, reached the value of EUR 46.6 million, representing an annual growth of 2.2% (30.0 percent in the previous year) (chart 41). The value of claims paid by KIB decreased by 11.8%, while the claims paid by insurance companies marked an annual increase of 4.8%. The insurance sector until September 2022 recorded

Chart 40. Assets of insurance sector



Source: CBK.

Chart 41. Written premiums and claims paid



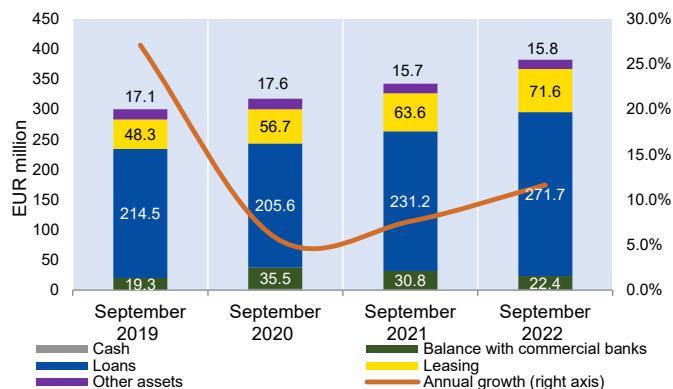
Source: CBK.

a profit in the amount of EUR 3.1 million<sup>1</sup> (EUR 5.9 million<sup>2</sup> in the same period of the previous year). The lower profit realized during this period compared with the same one of the previous year, was impacted by the higher increase of the level of claims incurred, namely 22.0%, than the net income from premiums with the annual increase of 9.3%. Also, the decline of the profit of an additional insurer, as a consequence of the revoking of a license, compared to the previous year had an impact on a lower profit.

### Microfinance sector

**Microfinance sector marked an accelerated increase of assets until September of 2022, mainly influenced by the increase of lending activity. The financial result turned out to be the highest since the consolidation of the sector in the respective period, namely the increase of income was twice higher compared to the increase of expenses. The support of the lending activity was financed by borrowings from the external sector (credit lines). Financial soundness indicators also show an overall stability of the sector. However, based on the continued increase in prices, the microfinance sector is expected to face increased funding costs due to the increase in base interest rates as part of the monetary policies applied by a large number of foreign countries in terms of facing inflation. These dynamics, may reflect the increase of interest rates on loans by this sector. Therefore, expecting weaker economic activity, despite of being followed by many uncertainties, there may be expected a decline of the financing demand by this sector.**

Chart 42. Assets of the microfinance sector

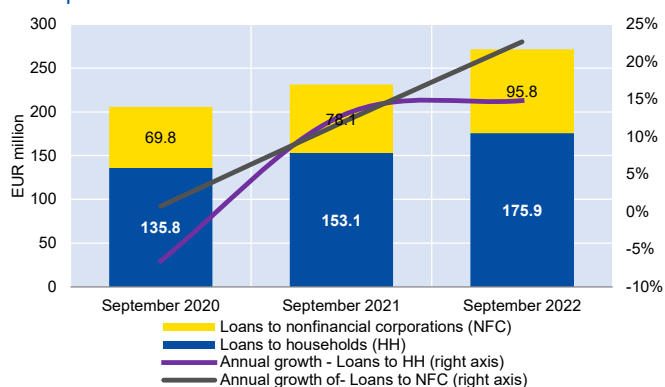


Source: CBK.

### Assets

Assets of the microfinance sector recorded an accelerated annual growth of 11.7% in September 2022, reaching the value of EUR 382.7 million at the end of the period (chart 42). The main contribution to this increase was given by lending increase, which marked a double digit at the end of September 2022. Lending activity of the sector continued to be supported by borrowings (credit lines) abroad which increased by 9.1%. Also, the contribution to the increase of the sector's activity was given also by the increase of the capital level, mainly through the profit retained over the years and the profit realized until September 2022, components which increased by 31.2% and 29.4%, respectively.

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



Source: CBK.

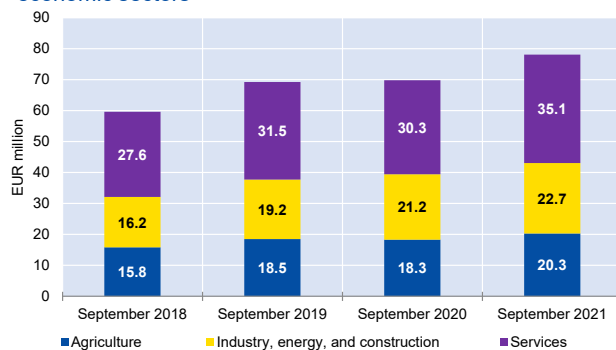
<sup>1</sup> Excluding net profit/loss of the insurance companies Insig&Kosova e Re (retained after revoking the license)

<sup>2</sup> Excluding profit/loss of the insurance companies Insig (retained after revoking the license)

### Loans

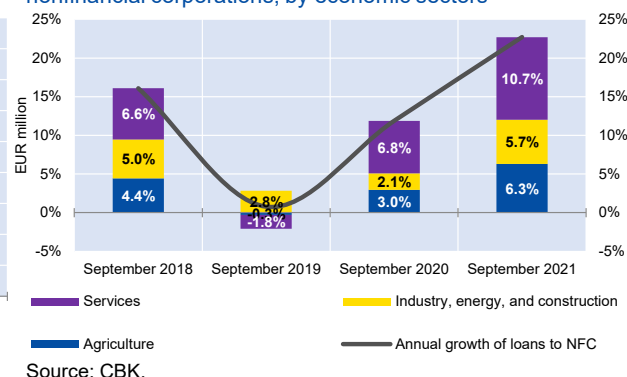
The lending activity of the microfinance sector marked an accelerated growth, approaching the level of lending growth that had been marked in the pre-pandemic period.

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



Source: CBK.

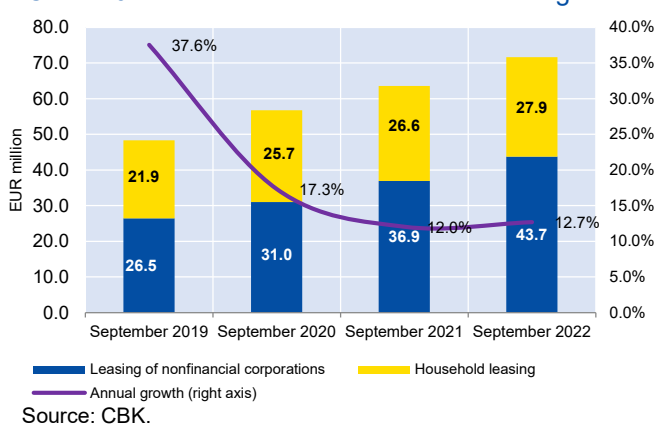
Chart 45. Contribution to the growth of lending to nonfinancial corporations, by economic sectors



Source: CBK.

Total loans issued by the microfinance sector marked an accelerated growth of 17.5% in September 2022, while their stock reached the value of EUR 271.7 million. Lending of the sector increased for both economic segments, namely for nonfinancial corporations and households. More specifically, lending to households marked an annual increase of 14.8% (an annual increase of 12.8% marked in September 2021), reaching the value of EUR 175.9 million at the end of September 2022 (chart 43). Loans stock to nonfinancial corporations marked a value of EUR 95.8 million, representing an annual increase of 22.7% (an increase of 11.9%, in September 2021). In terms of loans to nonfinancial corporations, lending to the services sector was characterized by a higher increase, followed by agriculture and industry, energy and construction sector (charts 44 and 45).

Chart 46. Value of microfinance sector leasing



Source: CBK.

### Leasing

The value of leasing, at the end of September 2022, reached EUR 71.6 million, representing an annual increase of 12.7%, which is an approximate increase as in the previous year (chart 46). The highest contribution to this growth was given by the segment of nonfinancial corporations, which expanded by EUR 18.4 million, reaching EUR 43.7 million. Whereas, leasing to households increased by EUR 4.7%, compared to the previous year, and their stock reached EUR 27.9 million.

### Interest rates

The average interest rate on issued loans by this sector was 19.1% in September 2022, or for 1.2 percentage points lower compared to the same period of the previous year (chart 47). However, due to the increase of base interest rates as part of the monetary policy applied by a vast majority of foreign countries in order to manage inflation, microfinance sector is expected to face increased financing costs, which may reflect to an increase of interest rates on loans from this sector.

Interest rates on loans to households marked an annual decline of 0.9 percentage points, falling at 20.9%. By loan categories, the average interest rate on consumer credit declined by 1.6 percentage points, reaching 21.3%. Meanwhile, mortgage loans continue to have the lowest interest rates, at an average of 16.9% in September 2022, marking an annual decline of 2.7 percentage points.

The average interest rate on loans to nonfinancial corporations decreased by 2.0 percentage points, dropping at 16.1%. By economic sectors, a more favorable interest rate was marked by loans oriented to services sector, marking a decline of 1.2 percentage points compared to the previous year, whereas if they are compared to the previous quarter they are characterized with an increase of 2.6% of interest rate. A more significant decline of interest rates was marked by interest rates for the sector of industry with 4.2 percentage points. Despite the decline of 1.5 percentage points, agriculture sector continued to have the highest interest rate (chart 48).

### Performance of the microfinance sector

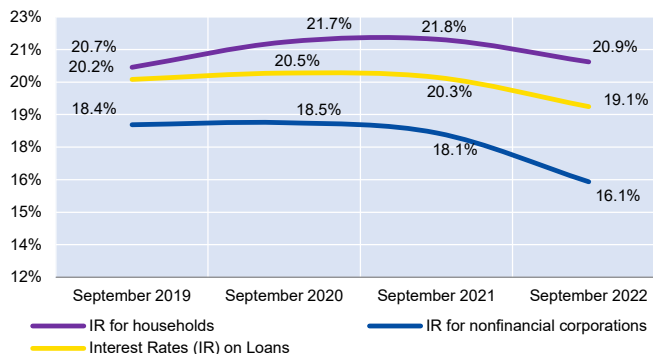
Microfinance sector marked the record highest profit value in September 2022, against the same period, since the beginning of its operation. Net profit of the sector was EUR 13.5 million, which is for EUR 3.1 million more compared to the same period of the previous year (chart 49).

The income of the sector marked the value of EUR 41.5 million in September 2022, representing an annual increase of 15.0%. This increase was attributable to the increase of interest income on loans and leasing. Also, non-interest income, mainly derived from other operating income, were characterized with an increase.

Expenditures of the sector marked an annual increase of 8.9%, reaching the value of EUR 27.2 million, at the end of September 2022. Expenditures increase reflects the trend of non-interest expenses, namely those of administrative and personnel expenses.

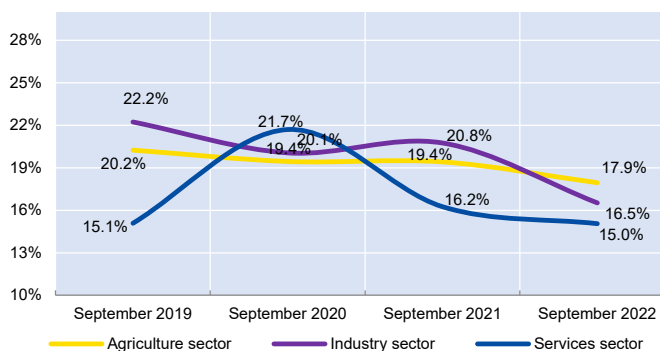
As a consequence of the recovery of sector’s performance, expenditures to income ratio marked a recovery by declining for 3.7 percentage points, compared to the same period of the previous year, standing at the level of 65.6%.

Chart 47. Average interest rate on microfinance sector loans



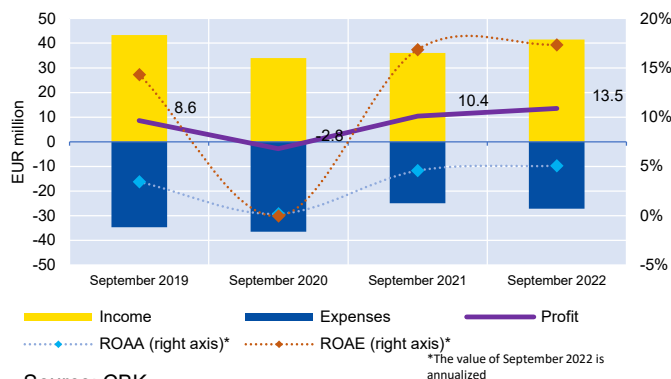
Source: CBK.

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



Source: CBK.

Chart 49. Profit and profitability indicators of the microfinance sector



Source: CBK.

The financial performance of the sector was reflected also on two other profitability indicators, return on average assets (ROAA) and return on average equity (ROAE), which increased by 5.1% and 17.3%, from 4.6% and 16.8%, respectively, as they were in September 2021.

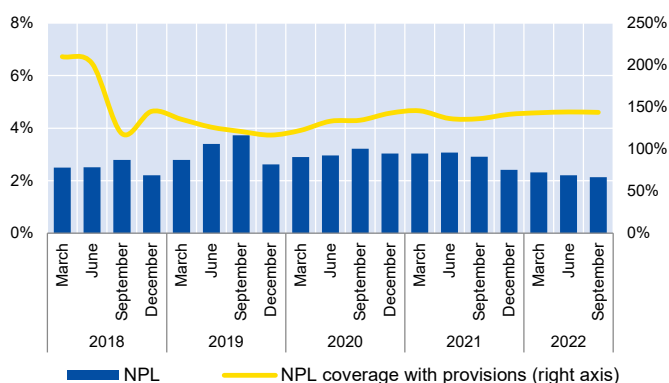
Regarding the loan portfolio quality, nonperforming loans continued to stand at low level and had a higher coverage with provisions. More precisely, in September 2022, nonperforming loans declined at 2.1% from 2.9%, as they were in September 2021. While, the coverage of NPL with loan loss provisions reached 144.0% from 136.5% in September of the previous year (chart 50).

### Kosovo's Government securities market

**Issuance of government securities in September 2022 was significantly lower compared to the previous year, while the demand to invest in these securities continued to exceed the supply side of the government. In line with maturities of emissions, also the average interest rate increased, which among other things, reflects the narrowing of the demand/supply ratio, as well as the global tendency to increase interest rates in financial instruments.**

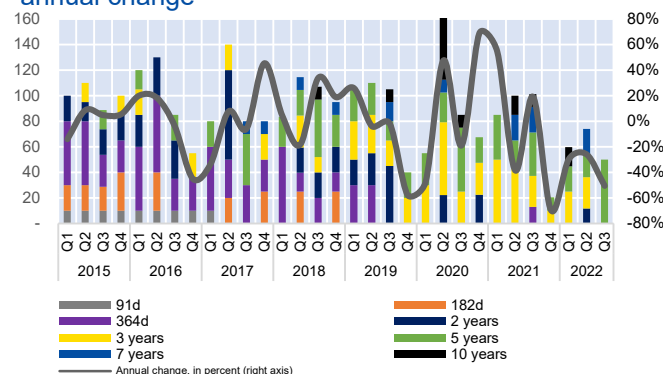
Until September 2022, Kosovo's Government issued debt with a value of EUR 183.8 million, for 35.8% less than in the previous year (chart 51). Meanwhile, the demand to invest, in the absence of investment alternatives for asset diversification, has continuously exceeded the supply, albeit this ratio was lower than in the previous year. The demand for securities of Kosovo's Government was 1.33 times higher than the amount offered by the Government, while in the previous year it was 1.60 times higher. This decline of demand to supply ratio reflects the decrease in demand by 46.4% compared to the previous year as well as the offer from the Government or the announced amount which was lower for 32.8%. Pension funds, as the main investors in government securities, have increased their share in total government debt from 45.0%, as it was in September 2021, to 50.0%, while commercial banks have reduced their share to 25.0% from 30.0%, in September 2021. Banks may have reduced the demand for securities in the period when lending was at a relatively higher level.

Chart 50. Indicators of loans portfolio quality



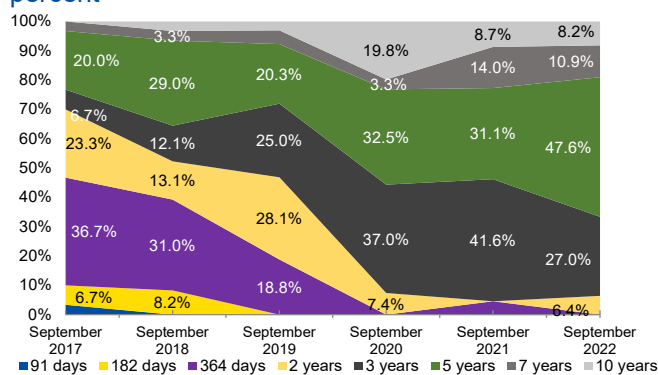
Source: CBK.

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



Source: Ministry of Finance, Labor and Transfers.

Chart 52. Government securities structure, in percent



Source: Ministry of Finance, Labor and Transfers.

The average interest rate on securities during the period of January-September 2022 was 2.8%, marking an increase of 0.7 percentage points compared to the same period of the previous year. The increase in the interest rate reflects, among others, the narrowing of the demand/supply ratio, as well as the global tendency to increase interest rates in financial instruments. The structure of Kosovo's Government securities over the years has undergone gradual changes towards the issuance of securities with longer maturities. During the period of Jan-September 2022, the structure was dominated by government bonds with a maturity of "5 years", unlike in the previous year, when the issuances of "3 years" government bonds were leading by share (chart 52).



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