

Summary

- The euro area economy, according to Eurostat, marked a slowdown growth of 0.4% in Q1 2024, impacted by still high interest rates. The ECB projections suggest a real GDP growth of 0.9% for 2024, and 1.4% for 2025. Inflation rate in Q4 2024 reached 2.6%, marking a significant decrease compared to the same period of the previous year (8.0% in Q1 2023). The ECB projections suggest a slowdown in inflation to 2.5% in 2024, and further to 2.2% in 2025.
- **According to the preliminary estimates of KAS, the economic activity in Kosovo in Q1 2024 has recorded an accelerated growth of 5.6%, a dynamic which is mainly influenced by the domestic demand.** Private consumption, investments and export of services contributed positively to the real economic growth, while the decline of goods export and the increase of goods and services import had a negative impact. The CBK forecasts for 2024 suggest that Kosovo's economy will be supported by the increase in real disposable income, due to the decrease in inflation, and the increase in financing sources. **The CBK forecasts an economic growth of 3.9% for 2024**, which is expected to be supported by the increase in consumption, investments and export of goods and services, against the negative impact of the import of goods and services on GDP.
- **Inflation followed a downward trend in Q1 2024, with an average rate of 2.1%.** The slowdown pace was largely a result of easing supply chains and commodity prices in international markets. A slowdown increase was marked in most components of the consumer basket, while prices of electricity and solid fuels marked an increase. Core inflation stagnated at 3.6%, in Q1 2024. According to the CBK projections, inflation is expected to continue the slowdown trend, reaching an annual average of 2.5% in 2024.
- **In Q1 2024, Kosovo's primary budget revenues increased by 17.1%** compared to the same period of the previous year, supported by economic activity, the formalization of the economy and the improvement of fiscal responsibility. **Also budget expenditures increased by 14.7%, albeit, the increased revenues ensured a positive budget balance. Public debt was declined to 15.6% of the GDP, compared to 18.1% as it was in Q1 2023.** The increase in revenues and nominal GDP were the main factors that influenced the reduction of public debt.
- **The current account in Q1 2024 was characterized by an increase in the deficit of 40.4%, reaching the value of EUR 318.9 million (15.2% of GDP).** Dynamics in the current account, in Q1 2024, continued to be determined mainly by developments in the trade balance of goods. Remittances, as one of the most important sources of financing consumption, increased by 3.6% and reached the value of EUR 281.1 million, while foreign direct investments increased by 13.2% and reached the value of EUR 214.7 million.
- **The banking sector** maintained high levels of capitalization, liquidity, and asset quality, with low levels of nonperforming loans. **Lending activity** was the main contributor to assets growth in the banking sector, despite the slower pace compared to the previous year, followed by **investments in securities**, which were characterized with increased interest rates. The dynamics in the monetary policy of the ECB have also partially influenced the interest rates applied by local banks, since the signals for the interruption of the upward trend of interest rates from the ECB were reflected in the decrease of interest rates on loans and the interruption of the upward trend of the interest rate on deposits. Assets of the pension sector recorded high growth in March 2024, after a significant slowdown in the previous year, as a result of positive returns from investments in foreign markets benefiting from high interest rates and increasing contributions from salary earners in the country.
- **Insurance sector** was characterized with an increase, but of a slower pace for the first time in the last five years. The expansion of the sector came from the increase in technical reserves, which is a result of the written premiums until March 2024, as well as the insurers' own capital.
- **The microfinance sector** recorded high activity growth, mainly supported by borrowings from the external sector to finance lending and leasing. The sector has maintained low level of loans with problems and realized high level of profitability.

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
MMBTU	Metric Million British Thermal Unit
NFC	Nonfinancial corporations
WEO	World Economic Outlook

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1. Euro area and Western Balkans

The euro area economy, according to Eurostat estimates, recorded an annual growth of only 0.4% in Q1 2024, and a quarterly growth of 0.3%. The slowdown economic growth was impacted by the still high interest rates which hampered consumption and investments. The main components that influenced the economic growth of the euro area in Q1 2024 were the final consumption of households of 0.1 percentage points and the net export of 0.9 percentage points, while the gross capital formation and inventory contributed negatively with 0.3 percentage points. **The ECB projections for economic growth in the euro area were revised in June 2024 against the projections of March, to 0.9% for 2024 and 1.4% for 2025.** Private consumption is expected to be the main driver of economic growth, attributed to the decline of inflation and the increase of real income. Moreover, the decline of uncertainties and the improvement of consumers' confidence are expected to give additional support for private consumption.

Inflation rate in Q1 2024 reached 2.6%, marking a significant decrease against the same period of the previous year (8.0% in Q1 2023). The ECB projections suggest a slowdown in inflation to 2.5% in 2024 and 2.2% in 2025. However, inflation dynamics may be affected throughout the projection years with further deterioration of current geopolitical tensions, especially in the Middle East, reflecting on potential energy prices and commodity costs. Considering the continuous slowdown of inflation (2.6% in Q1 2024), at the ECB meeting held in June 2024, it was decided to lower interest rates by 0.25 basis points. The interest rate on deposits at 3.75%, the rate on new financing operations at 4.25% and the marginal lending rate at 4.50%. These high rates may negatively impact economic growth in the following months, possibly prompting the ECB to lower the key interest rates in 2024.

IMF projections, realized in April 2024, suggest that the Western Balkan countries recorded an average economic growth of 3.0% in 2023 and are expected to mark a growth rate of 3.2% in 2024. The economic growth is expected to be affected by external pressures, including the slowdown of the economic activity in the euro area, and by internal effects such as facing with inflation and the still high cost of financing. The average inflation rate, in Q1 2024, turns out to have been 3.5%, with the highest rate recorded in Serbia of 5.7%, while Bosnia and Herzegovina results to have marked the lowest inflation rate of 2.0%.

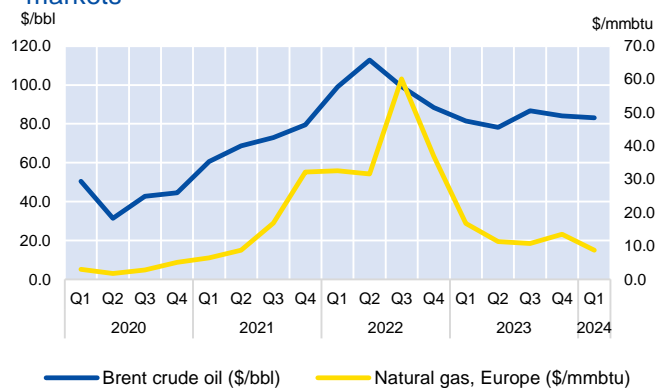
In Q1 2024, the currency exchange market of the EUR against the currencies of the trading partners, namely Turkish lira and U.S. dollar marked an appreciation compared to the previous quarter. The value of EUR depreciated against Albanian lek, British sterling and Swiss franc, whereas remained almost the same against the Macedonian denar.

2. Main commodity prices in international markets

Main commodity prices in international markets continued to ease during Q1 2024. According to the World Bank, the price index of major commodities decreased in Q1 2024 compared to the previous quarter, simultaneously supported by the slowdown in demand and improvement in supply. The impact of the conflict in the Middle East was marginal, contributing to a slight increase in oil and gold prices. Meanwhile, the impact of obstacles in transport in the Red Sea was limited. Prices are expected to follow a downward trend throughout 2024, but potential risks such as the worsening of geopolitical tensions, the impact of climatic conditions on the supply of food commodities, the reduction of oil production by OPEC+, etc., may change this trend.

In Q1 2024, Brent crude oil prices, according to the World Bank, reached \$83.1 per barrel, representing an increase of 2.1% compared to Q1 2023, due to supply shocks (chart 1). Compared to the previous quarter, oil prices decreased by 1.1%, due to the slowdown in global economic activity. Throughout the quarter, inflationary pressures were observed with increased concerns about the security of supply as a result of the conflict in the Middle East, the continuation of reductions in supply by OPEC+, and the mutual attacks between Russia and Ukraine targeting the energy infrastructure. However, the effect of slowing global demand and increased US oil production neutralized these pressures with Brent oil prices falling to \$81 per barrel, in May. According to the World Bank, the annual average price of Brent crude oil, for 2024, is expected to be around \$84 per barrel, with upside risks mainly from potential supply constraints.

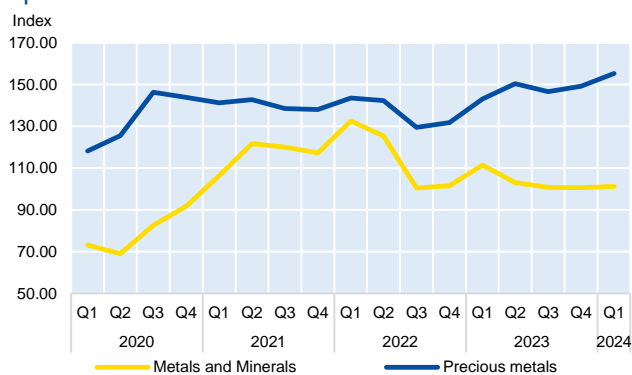
Chart 1. Oil and natural gas prices in international markets



Source: World Bank.

Natural gas prices in Europe, in Q1 2024, fell to \$8.8/mmbtu, halving down against the same period of the previous year (chart 1). Similarly, a significant decrease of 35.3% was observed in relation to the previous quarter, supported by sufficient reserves and mild climatic conditions. However, in March were observed inflationary pressures from increased demand for natural gas in Asia and concerns following unplanned supply cuts from Norway, which exposed the market's sensitivity to uncertainties despite sufficient reserve levels. Natural gas prices in Europe are expected to mark an annual average of \$9.5/mmbtu in 2024, with upside risks mainly from geopolitical tensions and climate conditions.

Chart 2. Price index of metals and minerals and precious metals



Source: World Bank.

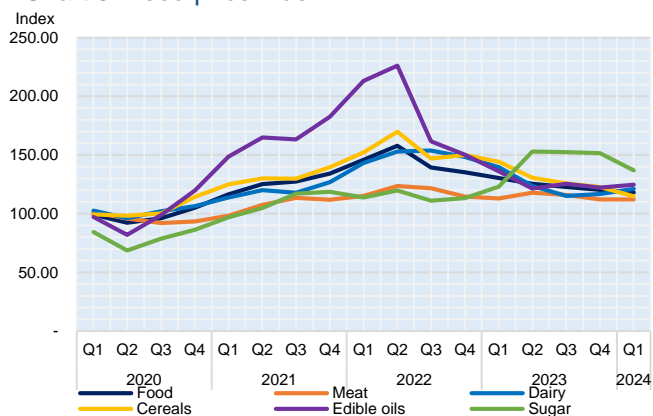
The price index of metals and minerals recorded a decrease of 9.2% compared to Q1 2023 as a result of the slowdown in global economic activity, significantly being impacted by the slowdown in the construction sector in China (chart 2). Declining performance in annual terms was observed in all categories of metals and minerals within the index. Compared to the previous quarter, this index recorded an increase of 0.5%, driven by the

increase in the prices of copper, aluminum and tin, as a result of supply constraints such as trade restrictions and production cuts that are expected to continue throughout the year. This is expected to have an impact on maintaining the price level, disregarding the slowdown of the demand. The potential upside risks include further trade limitations and the increase of industrial turnover in China.

The price index of precious metals was higher for 8.6% in Q1 2024 against the same quarter of the previous year (chart 2). An increase was also observed compared to the previous quarter, when this index rose by 4.2% as a consequence of the 4.9% increase of gold price. This increase is attributed primarily to the purchase of gold from some Central Banks and, to a lesser extent, the usage of gold as a safe-haven asset. Gold prices are expected to further increase, resulting in an average annual rise of 8.1% in 2024.

The food price index, in Q4 2024, according to FAO¹, marked an annual decline of 9.4% against the corresponding period of the previous year (chart 3). This decline reflects the significant price decrease of grains, dairy and edible oil. Food prices continued to ease also against the previous quarter, declining by 1.9%. All food categories marked a decline, besides the prices of dairy which were driven by the increase in demand (chart 3). The performance of grains prices varied between categories, with wheat prices falling as a result of the competition between global exporters following a drop in demand from China, while corn prices rose due to logistical bottlenecks in Ukraine.

Chart 3. Food price index



Source: FAO.

Oil prices were affected by the yield decline along with the sustainable demand. Whereas, the prices of sugar marked a decline as a result of the improved expectations of the yield in India and Thailand. The ease in food prices are expected to continue along 2024, primarily based on expectations on sustainability on the supply side.

¹ Food and Agriculture Organization of the United Nations (FAO) - Food Price Index.

3. Kosovo's Economy

3.1. Economic growth

According to preliminary estimates of KAS, Kosovo marked an economic growth of 5.6%, in Q1 2024.

The acceleration of economic growth compared to the same period of the previous year is mainly related to the dynamics of domestic demand, while net exports negatively affected economic activity as a result of the increase in domestic demand that was accompanied by an increase in imports, the liberalization of visas that affected the growth of the import of travel services, price dynamics in international markets and weakened demand in the euro area.

The forecasts for 2024 suggest that Kosovo's economy is expected to mark an accelerated increase, being supported by the increase in real disposable income, due to the decrease in inflation and the increase in financing sources. According to the CBK projections, the economy is expected to mark a growth of 3.9% during 2024. This growth is expected to be supported by the increase of consumption, investments and export of goods and services. Meanwhile, the import of goods and services is expected to have a negative impact on the GDP growth.

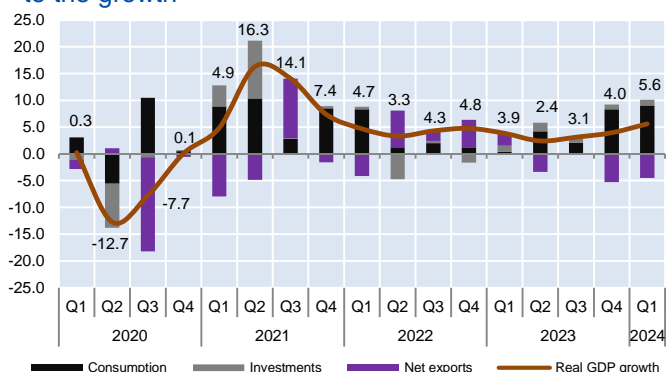
The economic growth marked in Q1 2024 was primarily supported by consumption and investments, which contributed by 9.1 and 1.0 percentage points, respectively. Conversely, net exports have had a negative contribution to the GDP growth with 4.5 percentage points (chart 4).

In Q1 2024, consumption increased by 8.9%, reaching a significantly higher growth compared to the same quarter of the previous year. Investments marked an increase of 3.1%, primarily as a result of the increase of public investments and lending dynamics. As regards to external trade, net exports have deepened the trade deficit for 12.7%. The increase in the trade deficit was a consequence of the increase in import of goods and services by 9.1% (import of goods increased by 6.9%, while the import of services increased by 30.8%), as well as the decrease in the export of goods by 1.9%, while the export of services increased by 14.0%.

The increase of the economic activity in Q1 2024 was mainly supported by the increase in the added value in the sector of supplying with electricity and gas (3.8%), financial and the insurance activities (2.3%), hotels and restaurants (1.6%), extracting industry (1.4%), processing industry (1.3%), trade sector (1.2%), etc.

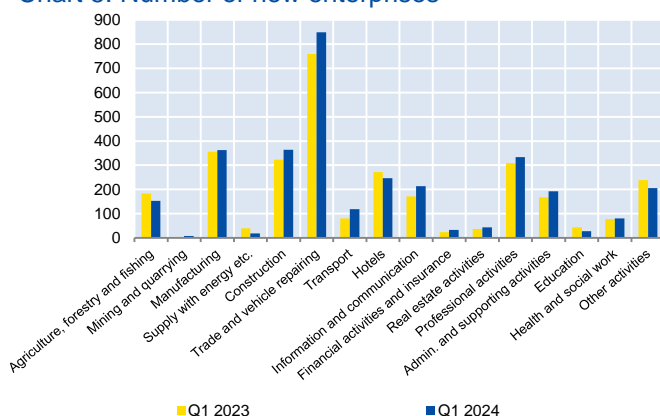
Economic activity was reflected in the increase of the number of registered enterprises, reaching 3,249 enterprises in Q1 2024, namely an increase of 5.3% compared to Q1 2023. Trade sector, information and

Chart 4. Real GDP growth rate and main contributors to the growth



Source: KAS and CBK calculations.

Chart 5. Number of new enterprises



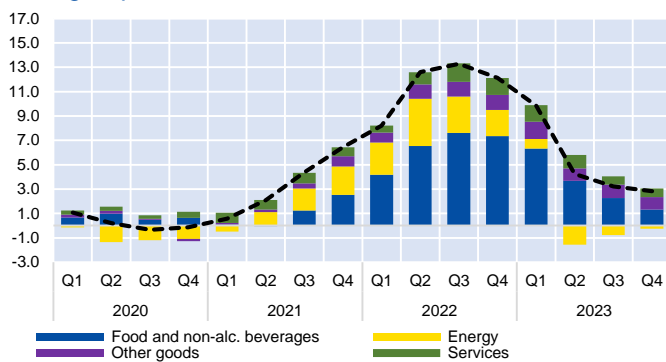
Source: KAS.

communication, construction, transport, etc., marked a high number of registered enterprises. These sectors showed a significant increase in the number of enterprises compared to the same period of 2023 (chart 5). However, in Q1 2024, 467 enterprises were closed in total or 6.9% more compared to Q1 2023.

3.2. Prices

Inflation continued to follow a slowdown trend, resulting to 2.1% in Q1 2024 from 2.8% as it was in the previous quarter. The slowdown in inflation was supported by the softening of external inflationary pressures as a result of the stabilization of supply and the fall in the prices of major commodities in international markets. In Q1 2024, inflation in Kosovo was determined by the slowing growth of food prices, services and other goods, while energy contributed positively to inflation after three quarters with a mitigating effect on inflation (chart 6).

Chart 6. Inflation by contribution of respective subgroups

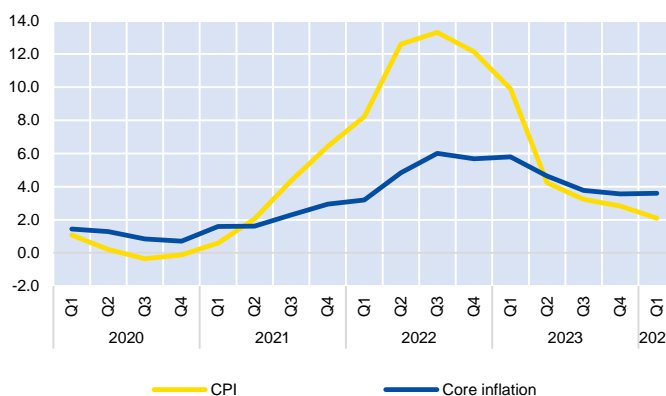


Source: KAS and CBK calculations.

The increase of food prices slowed down at 1.0% in Q1 2024, from 3.0% in the previous quarter. A slowdown was observed in all categories of food except in prices of fish. However, annual growth continued to remain high in the prices of fruits (11.1% in Q1 2024), fish (9.4%), sugar and its products (6.6%), food products (5.4%), etc. Conversely, there was evident a price decline of milk, cheese and eggs with 5.0%, and edible oils with 6.3%. Despite the decline/slowdown in some food products, food prices remain around 30% above their levels that were marked before the war in Ukraine, continuing to burden the disposable household income, given the weight of food in the consumption basket in the country (30.3%).

Prices of transport marked an annual decline of 1.8%, representing a further slowdown pace compared to the rate of -1.5% marked in the previous quarter. This decline was driven by a 1.0% annual drop in vehicle prices, and the decrease, albeit of a slower pace, of 2.9% in fuel prices. On the other hand, transport services were characterized with inflationary pressures resulting in an annual growth of 4.6%.

Chart 7. Core and headline inflation of consumption



Source: KAS and CBK calculations.

The contribution of food to the average inflation rate, in Q1 2024, decreased to 0.3 percentage points from 1.0 percentage points in the previous quarter. The highest contribution was marked by the increase of prices of bread and cereals, vegetables, and fruits. The contribution of energy to headline inflation in Q1 2024 increased to 0.2 percentage points, from the annual increase in electricity and solid fuel prices due to increased heating demand. The contribution of prices of other goods marked a slight decrease at 0.8 percentage points in Q1 2024 based on the slowdown prices of tobacco and the decline in prices of vehicle purchase.

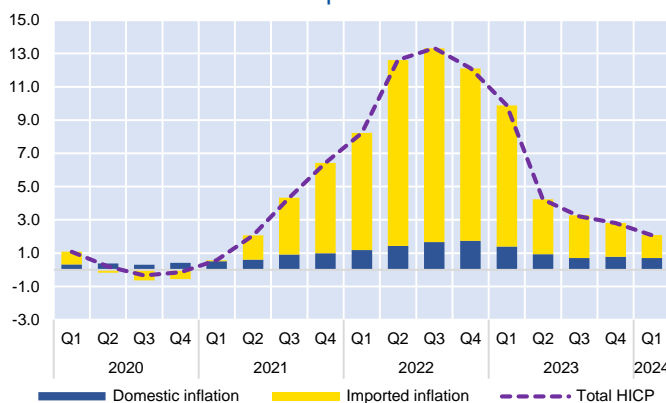
Whereas, the contribution of services to total CPI edged down to 0.5 percentage points (from 0.7 percentage points, in Q4 2023) after the slowdown in the price increase of services, especially hotel services.

Core inflation marked an increase of 3.6% in Q1 2024, stagnating against the previous quarter, as a consequence of the annual price increase of transport services and housing which totally offset the slowdown pace of inflationary pressures in other categories (chart 7).

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 an impact on the inflation rate in Kosovo and is largely determined by the prices of imported goods. In Q1 2024, 1.4 percentage points of inflation in Kosovo was imported, while 0.7 percentage points was generated by internal inflationary pressures (chart 8).

Import price index (IPI) marked an annual increase of 2.4% in Q1 2024, representing an acceleration against the increase of 1.0%, marked in the previous quarter. Compared to the same quarter of the previous year, the categories with the highest weight within this index which include: i) transport means, ii) prepared food products, beverages and tobacco, and iii.) machinery and electrical equipment, recorded an annual growth of 9.6%, 6.1% and 1.2%, respectively, while iv) base metals and related articles, and v) mineral products, marked an annual decrease of 3.4% and 1.5%, respectively. In relation to the previous quarter, the IPI recorded an increase of 2.5% as a result of the increase in prices in all categories of the index, with the exception of import prices of wood and related items, which recorded a slight decrease on quarterly basis.

Chart 8. Domestic and imported inflation



Source: KAS and CBK calculations.

The producer price index (PPI) resulted in a decline of 0.9% in Q1 2024, compared to the same quarter of the previous year, mainly as a result of the decline of electricity production (-3.4%), non-metal minerals (-0.1%), furniture (-6.2), and others. Meanwhile, the prices of processing food products and production of beverages recorded an annual increase of 2.6% each. The index of production prices also recorded a decrease compared to the previous quarter, by 0.4%, determined by similar dynamics, with the exception of metal production prices, which rose slightly on a quarterly basis.

Construction cost index (CCI) marked an annual increase of 0.7%, in Q4 2023. This increase was significantly driven by the rise in salaries in construction sector (9.6%), the price increase of construction materials (0.5%), and transport (3.2%). Whereas, there was observed a price decline of machineries and energy. In relation to Q4 2023, CCI resulted with a decline of -0.3%, as a consequence of the price decline of energy and machineries and the slower rise of salaries in construction sector on quarterly basis.

Regarding the inflation outlook in Kosovo, the CBK forecasts that inflation in 2024 will slow down to 2.5%. Factors expected to contribute to these dynamics include the stabilization of supply side and the prices of major commodities in international markets along with the slowdown of the global economic activity, the downward trend in inflation in the euro area, the transmission of tightening of financing conditions in the domestic demand, etc. Risks interlinked to inflation tend towards an upward direction and mainly consist of the risks of disruptions in supply chains as a result of the geopolitical tensions, the production cuts by OPEC+, an impact of potential migration after visa liberalization, a potential accelerated demand, and others.

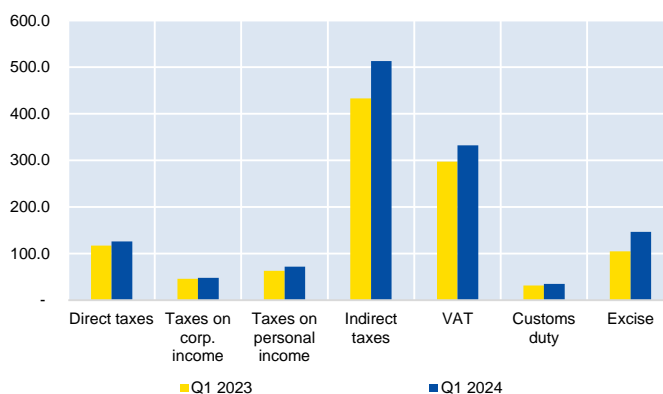
3.3. Fiscal Sector

Primary budget revenues², in Q1 2024, reached a net value of EUR 692.1 million, representing an annual increase of 17.1%. The main factors that contributed to this increase include economic activity, efforts to formalize the economy, and improved responsibility and accountability. At the same time, primary budget expenditures³ rose by 14.7%, reaching EUR 561.9 million. As a result of the higher increase of budget revenues, Kosovo's budget registered a positive budget balance of EUR 130.3 million.

Tax revenues in Q1 2024 reached EUR 626.8 million, marking an increase of 17.4% compared to Q1 2023.

All the categories of taxes marked an increase during this period. The highest growth was observed in indirect tax revenues, which comprised around 74.2% of total budget revenues. This income marked an increase of 18.5%, reaching the value of EUR 513.2 million. Within indirect taxes, revenues from VAT and customs duties increased by 11.8% and 12.1%, respectively, while the excise tax marked an even higher increase (39.5%), as a result of the increase in the amount of imported goods, mainly cigarettes, oil products, vehicles, etc. (chart 9). Direct tax revenues marked an increase of 7.6%, reaching the value of EUR 125.7 million. This increase was influenced by the improvement of the revenue collection process, the activities to combat tax evasion and the strengthening of voluntary compliance by taxpayers. Within this category, personal income tax, which comprises the main category, marked an annual increase of 14.3%, while corporate income tax, marked an annual increase of 4.6%.

Chart 9. Tax income structure



Source: MFLT and CBK calculations.

Besides tax revenues, also non-tax revenues marked a growth of 14.7%, reaching EUR 65.3 million. Within this category, revenues from the central government reached the value of EUR 39.6 million, marking a growth of 30.3%, while the revenues from the local government declined by 11.5%, amounting to EUR 13.2 million.

As regards to budget expenditures, current expenditures marked a slower increase of 5.6%. Within this category, expenses for salaries increased by 19.2% and reached the value of EUR 215.7 million, expenses for goods and services, including utilities, increased by 15.7% and reached the value of EUR 70.6 million, while expenses for subsidies and transfers decreased for 9.3% and reached the value of EUR 188.0 million. **Whereas, capital expenditures marked a three-digit increase with 116.0%, reaching the value of EUR 87.4 million.**

Public debt to GDP ratio declined to 15.6% in Q1 2024, compared to 18.1%, as it was in Q1 2023. The decrease in public debt to GDP ratio resulted from the improvement of the government's budget balance, which lowers the need for debt. In absolute terms, the public debt has reached EUR 1.64 billion in Q1 2024, marking a decline of 112.1% compared to Q1 2023. The decrease of public debt is attributed to the decline of domestic public debt of 165.4%, reaching EUR 945.0 million, while external public debt marked a growth of 53.3%, reaching EUR 698.0 million.

²Within budget revenues are not included grants and receipts from financing.

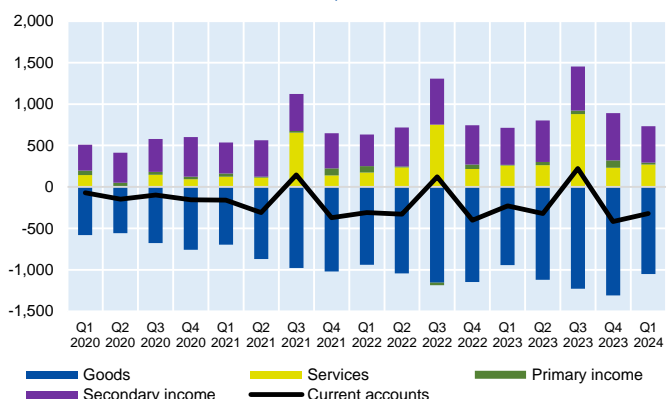
³Within budget expenditures are not included grants and financing payments.

External public debt is comprised of liabilities to International Agency for Development (36%), European Union (14%), International Bank for Reconstruction and Developments (12%), International Monetary Fund (10%), etc. Conversely, domestic debt primarily is comprised of Kosovo’s Government debt (securities) to pension funds (46%), commercial banks (24%), public institutions (22%), etc.

3.4. External Sector

The deficit of current account reached the value of EUR 318.9 million in Q1 2024, representing an annual increase of 40.4 % (EUR 227.2 million in Q1 2023). The balance of the current account in Q1 2024 continued to be determined mainly by developments in the trade balance of goods, a component which deteriorated as a result of the increase in import of goods and the decrease in exports. Meanwhile, primary income, secondary income and services had an impact on the reduction of the current account deficit (chart 10).

Chart 10. Current account, EUR million

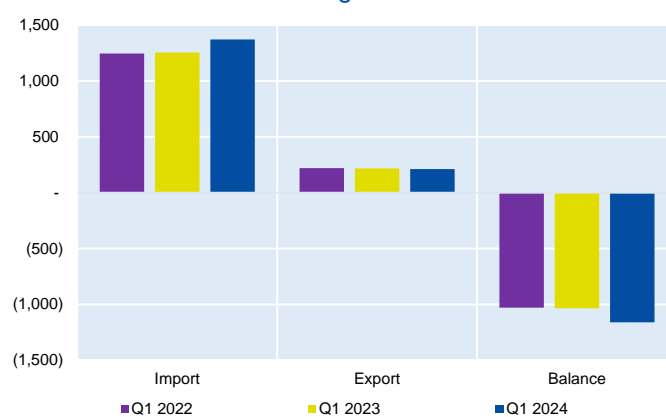


Source: CBK.

The category of goods in Q1 2024, marked an annual increase of deficit of 12.0%, reaching EUR 1.16 billion (chart 11). The main reason for the increase in the trade deficit is related to the significant increase in the import of goods and the decline in exports. Export of goods covered import by only 15.4%, representing a trade ratio of 1:6.5 in Q1 2024.

Export of goods recorded an annual decrease of 2.7% in Q1 2024, reaching the value of EUR 211.2 million (EUR 217.1 million in Q1 2023). The decrease in the export of goods is mainly attributed to the weakening of external demand (the amount of exported goods decreased by 18.1%) and partly to price dynamics in international markets. However, despite the slight decline in exports, the categories with the largest share recorded an annual growth, where export of base metals recorded an increase of 31.0% in Q1 2024, reaching the value of EUR 55.3 million (EUR 42.2 million in Q1 2023). Whereas, export of plastic products marked an annual growth of 9.2% reaching the value of EUR 29.4 million (chart 12). The main partners for the export of goods, in Q1 2024, were the countries of the Western Balkans with a share of 39.2% of the total goods exported and the EU countries with a share of 33.7%, among which the main share continues to have Germany, with 10.8% of total Kosovan exports.

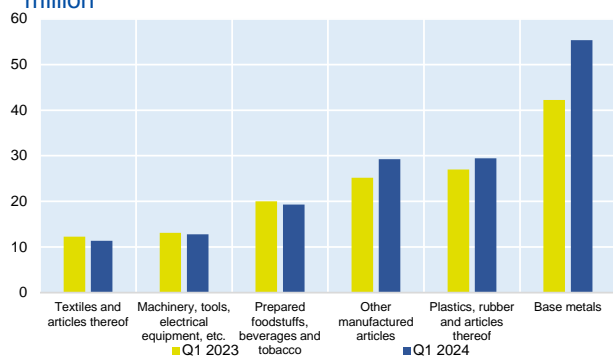
Chart 11. Trade balance of goods



Source: KAS.

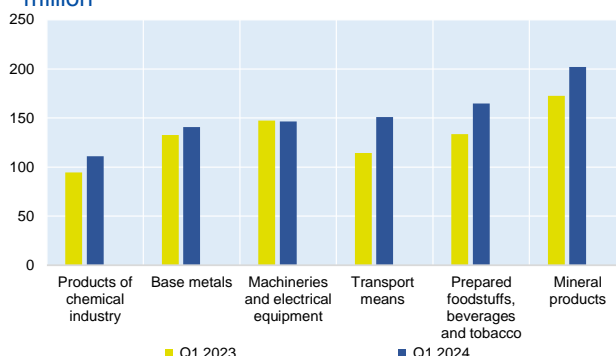
The goods imported in Q1 2024 reached the value of EUR 1.37 billion, marking an annual increase of 9.5%. The structure of imported goods continued to be dominated by import of mineral products, food commodities, and transport means (chart 13). Import by the main categories was dominated by the category of intermediary goods, with 47.0%, consumer goods 33.2%, while the category of capital goods remains low at 9.6% of total **import**. The dynamics of prices in international markets influenced the increase in the amount of imported goods, especially in the category of intermediary goods and consumer goods, which recorded an

Chart 12. Main categories of exported goods, EUR million



Source: CBK.

Chart 13. Main categories of imported goods, EUR million

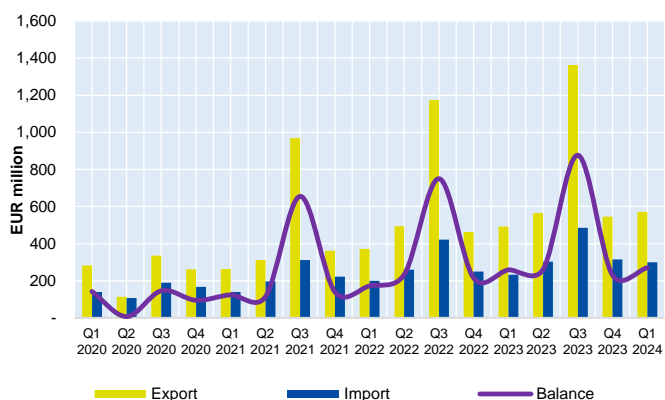


Source: CBK.

increase in import of 7.3% and 9.2%, respectively. The structure of trade partners remained unchanged, with the European Union leading with around 46.3% of imports, where Germany continues to have the main share of 14.2% of total Kosovan imports. Kosovo imported from the region countries 14.7% of total imports or EUR 201.3 million. Meanwhile, the import of goods from Turkey has reached the amount of EUR 223.7 million or 16.3% of the overall value of imports.

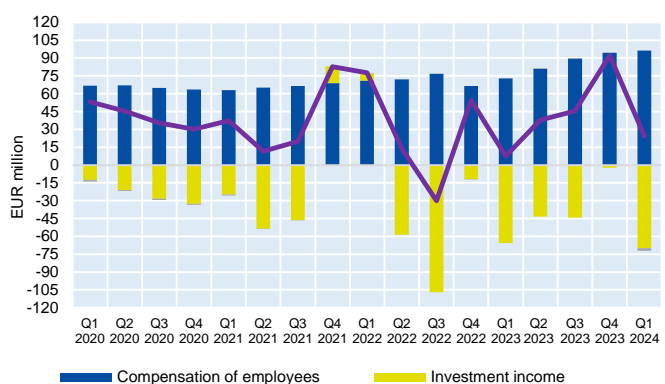
Services have continued to contribute positively within the current account, with an annual growth of 4.5%, reaching a value of EUR 270.8 million in Q1 2024 (chart 14). The export of services increased by 16.1%, amounting to EUR 571.2 million. The increase in export of services was mainly a result of an increase in travel services of 12.7%, a category that reached the value of EUR 370.9 million, mainly influenced by the increase in the number of travelers by 29.2% compared to the same period of the previous year. Also, the category of information technology services contributed to the increase in the export of services, which marked an increase of 26.9% and reached the value of EUR 73.5 million from EUR 57.9 million, as it was in Q1 2023. Conversely, import of services reached the value of Eur 300.4 million, representing an annual increase of 29.0%, having an impact on the slowdown growth of the services positive balance. The increase in the import of services was mainly attributed to the increase in travel services, which accounted for 43.8% of the total value of the import of services, reaching a value of EUR 131.7 million in Q1 2024 (EUR 86.3 million in Q1 2023). The import of travel services increased as a result of the more frequent visits of citizens from Kosovo to EU countries after the visa liberalization, marking an annual increase in the number of flights from International Airport of Prishtina (IAP)

Chart 14. Balance of services



Source: CBK.

Chart 15. Balance of primary income



Source: CBK.

for 26.3% in Q1 2024, as well as 24.3% more passengers checked out at customs points in Q1 2024 compared to Q1 2023.

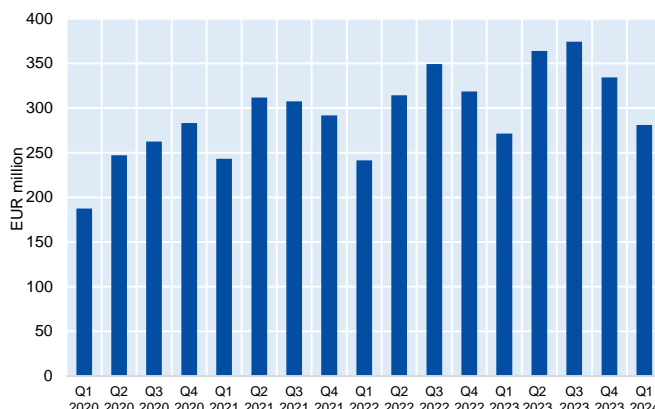
Current account balance reached EUR 24.4 million, in Q1 2024 (EUR 7.5 million, in Q1 2023). The increase in primary income was mainly influenced by employees' compensation income, the balance of which reached the value of EUR 96.4 million, representing an increase of 31.9% compared to the same period of the previous year. At the same time, the balance of investment income was negative with EUR 69.9 million, in Q1 2024, as a result of the income from foreign direct investments with a value of EUR 80.2 million (chart 15). Meanwhile, portfolio investments recorded a positive balance of EUR 8.5 million, mainly influenced by securities, followed by other investments with a negative balance of EUR 1.4 million and reserve assets with a positive balance of EUR 3.0 million.

The value of remittances received in Q1 2024, reached EUR 281.0 million, representing an increase of 3.6% compared to Q1 2023 (chart 16).

The slowdown growth of remittances in the first three months after the liberalization of visas with EU countries may have been influenced by the increase of visits by Kosovan diaspora, who provide financial support to their families to cover travel expenses. Remittances mainly come from Germany and Switzerland, which comprise around 55.5% of total remittances received. Remittances through formal channels (banks and other institutions) have recorded an increase of 3.0% in Q1 2024, while there has been an increase of 5.8% of remittances received through non-formal channels, potentially being impacted by the increase of Kosovan diaspora visits.

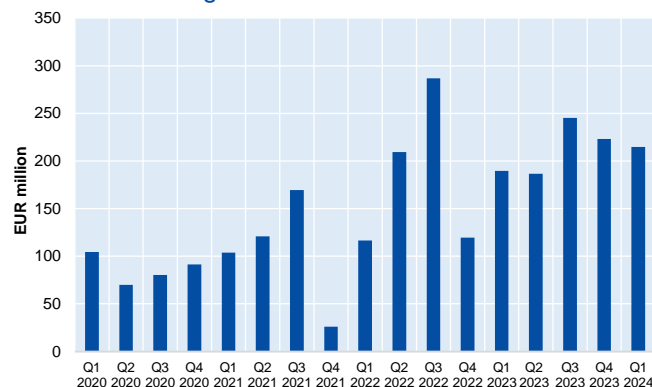
FDI reached a value of EUR 214.7 million in Q1 2024, representing an increase of 13.2% compared to Q1 2023 (chart 17). The increase of FDI was mainly recorded in the real estate sector, with an increase of 34.7%, reaching the value of EUR 141.9 million, representing around 66.1% of total FDI. An FDI increase was also observed in the sector of electricity, trade and financial sector including insurance sector. Direct investments invested by residents from Kosovo in other countries marked a decline of 24.5% in Q1 2024, reaching the value of only EUR 37.1 million compared to EUR 49.1 million marked in Q1 2023, investments which were mainly destined to the region countries in the real estate sector.

Chart 16. Remittances



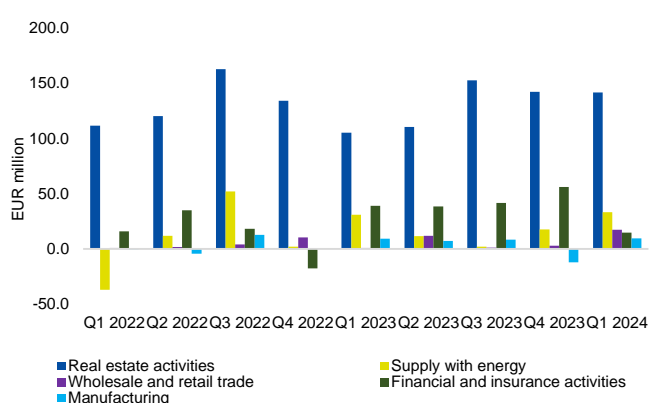
Source: CBK.

Chart 17. Foreign Direct Investments



Source: CBK.

Chart 18. FDI by main activities



Source: CBK.

4. Financial system

The financial system in the country has continued to expand throughout the first quarter of 2024, albeit at a slower pace. Assets of the financial system, in March 2024, reached a value of EUR 11.25 billion, representing an annual increase of 12.7% (chart 19). The banking and insurance sectors were characterized by a slowdown in the annual growth rate of assets, while pension funds and the microfinance sector were characterized by accelerated growth.

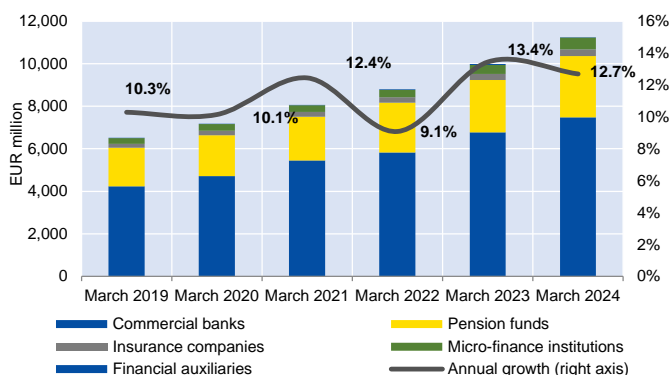
The banking sector, in March 2024, represented 66.5% of total assets of the financial system, and due to its high weight in the financial system, gave the main contribution to its expansion despite the slower annual growth (chart 20). Pension funds marked an accelerated annual increase and consequently expanded their share to total financial system assets at 25.5%. Whereas, financial auxiliaries which comprise only 0.1% of financial system assets, marked an annual decline, and gave a negative contribution on a marginal level.

4.1. Banking Sector

Banking sector assets reached the value of EUR 7.48 billion, which corresponds with an annual increase of 10.6%, which is for 5.6 percentage points lower compared to the same period of the previous year (chart 21). This dynamic was influenced by lending activity - as the main activity of the banking sector - which grew at a slower pace compared to the previous year. The environment of higher interest rates influenced the amount of investments in securities to grow at a higher accelerated pace for the second consecutive year, while the items with lower return such as the balance with other banks, and the item of cash and the balance with the CBK recorded a decline, namely a slowdown growth.

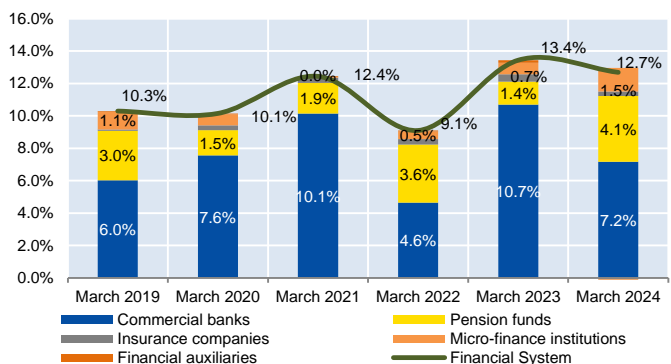
Lending recorded an annual growth of 12.8%, which is for 2.0 percentage points lower compared to the previous year. This development reflects the slower growth trend of lending to nonfinancial corporations, as loans to households accelerated the annual growth rate (charts 22 and 23). According to the Bank Lending Survey in Kosovo (AKBK), lending dynamics in the first quarter of 2024, as during the last quarter of 2023 were

Chart 19. Assets value of Kosovo's financial system



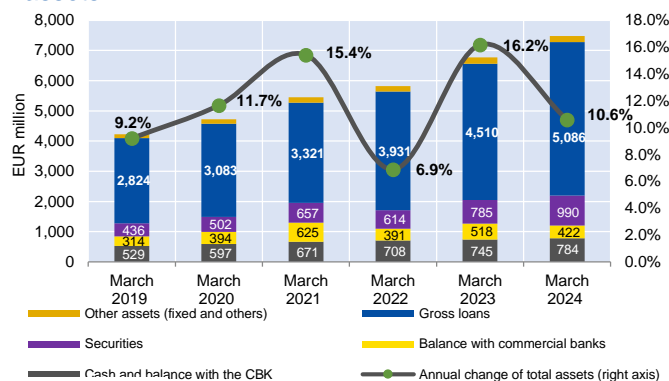
Source: CBK.

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



Source: CBK.

Chart 21. Balance sheet of the banking sector - assets



Source:

to a larger extent influenced by credit demand, while credit supply had smaller changes: an ease to a certain extent for households, while for enterprises credit terms and conditions remained mostly unchanged.

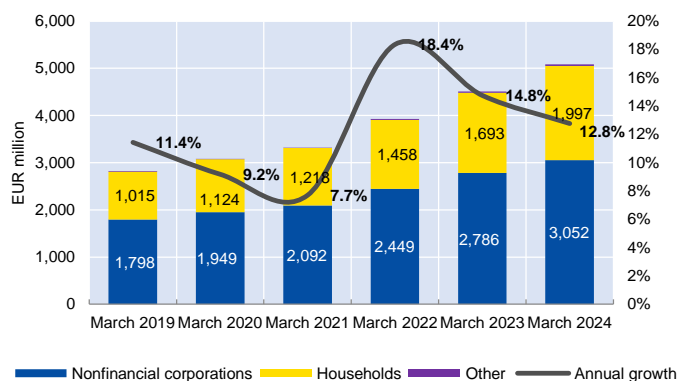
The slowdown in the growth of total lending, influenced by the performance of lending to nonfinancial corporations, corresponds to the lower turnover of companies, which recorded a growth of only 4.5% in Q1 2024 compared to 13.4% growth in the same period of the previous year. There was a slowdown in turnover for the trade and manufacturing sector, while a decline in turnover was marked by the construction sector, a sector that has a high weight in the banks' credit portfolio.

The segment of nonfinancial corporations recorded an annual growth of loans stock of 9.5%, which is for 4.4 percentage points lower compared to the previous year. There was a slowdown in lending in sectors with a higher weight in lending, such as trade and manufacturing, which together represent 60.8% of the stock of loans for this segment. (chart 24). Agriculture continues to be one of the activities least credited by the banking sector, albeit in the last two years it has marked a significant growth, supported by the Kosovo Credit Guarantee Fund (KCGF) (chart 25). **Loans to households accelerated the annual growth to 17.9% from 16.1%, as it was in the previous year.** The high growth was also observed by the results of the Bank Lending Survey in Kosovo, for Q1 2024, which suggest a high demand from this segment to finance the needs for consumption and for the house purchase, as well as an ease to a lesser extent in supply side.

The dynamics of new loans during this quarter was characterized by accelerated growth, in contrast to the lending stock, which marked a slowdown in growth. Total new loans increased by 12.5%, against the decline of 6.5% marked in the same period of the previous year.

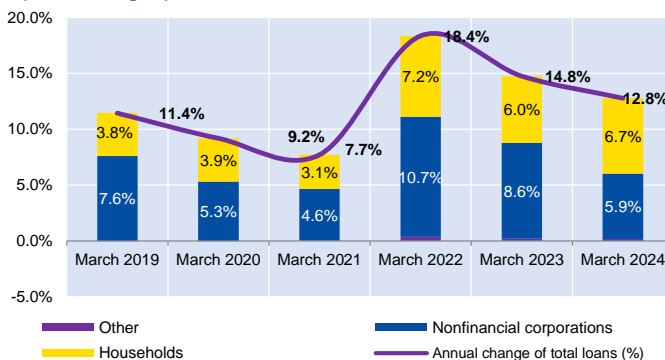
The segment of nonfinancial corporations was characterized by an annual growth of 1.4% from the decline of 3.4% marked in the same period of the previous year, while the household segment marked an accelerated increase of 28.1% against the decline of 3.7% (chart 26).

Chart 22. Stock of total loans, annual change



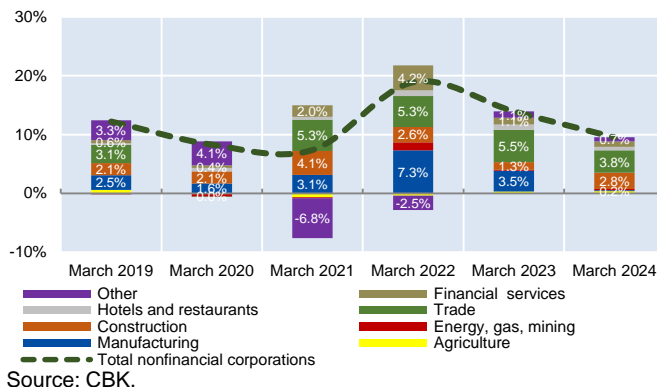
Source: CBK.

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



Source: CBK.

Chart 24. Contribution to the growth of total lending to nonfinancial corporations, by economic activity

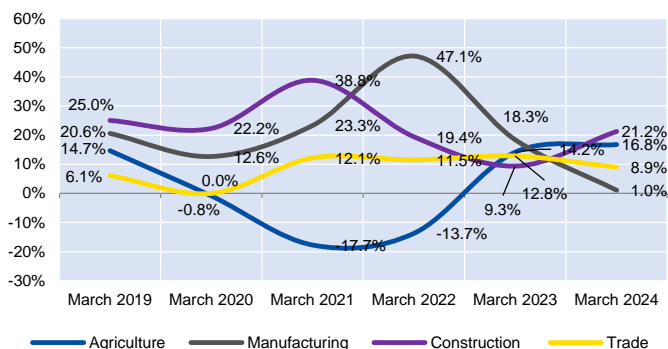


Source: CBK.

Within the nonfinancial corporations (NFC), with an increase were characterized new loans for investment purposes, which increased by 3.7% compared to the decline of 3.9% marked in the previous year, whereas loans with non-investment purposes marked an annual decline of 2.8% from the growth of 4.6%. Within the household segment, new mortgage loans recovered the upward trend of the previous years, marking an annual increase of 14.1% from the decline of 22.8 recorded in the previous year. **Financing of the banking sector activity continued mainly to be supported by the client deposits, which in the first quarter of 2024 were characterized with an annual slowdown growth.** The value of total deposits reached EUR 6.05 billion (chart 27), representing a growth of 8.9% against the increase of 17.1% marked in the previous year. The two main segments, namely nonfinancial corporations and households recorded a slowdown in the growth trend of deposits, with 12.4% from 21.5%, and 8.7% from 11.8% growth marked in the previous year. Whereas, deposits of public corporations marked a decline, adding a slowdown contribution to the overall increase of deposits. Other financial corporation deposits, which are comprised mainly by pension funds deposits, marked a significantly slower increase compared to the high growth marked in the previous year, as a result of the higher concentration in investments abroad (chart 28). At the end of the third quarter of 2024, deposits comprised 80.9% of total liabilities and equity of the sector, representing a decline of 1.3 percentage points compared to the first quarter of the previous year.

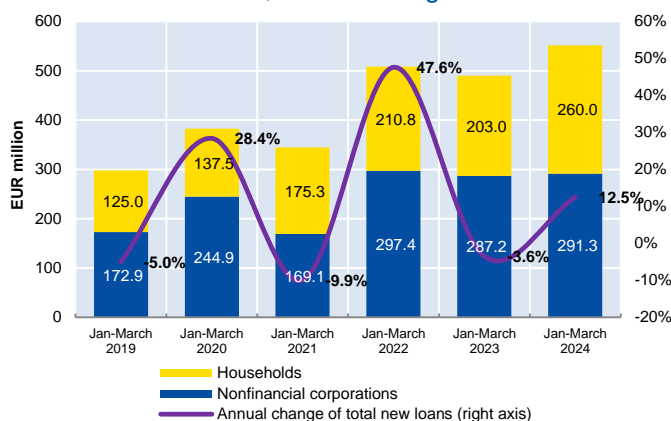
New deposits, including only time deposits, continued to grow at a high rate, attributed to the environment with higher interest rates and the continuation of the banks' deposit withdrawal campaigns. At the end of March 2024, these deposits reached EUR 238.8 million from EUR 152.6 million as they were in the previous year, representing an annual increase of 56.5%, from 63.0% in the previous year. New household deposits recorded a higher increase of 61.9% from the

Chart 25. Annual change on loans to nonfinancial corporations, by economic activity



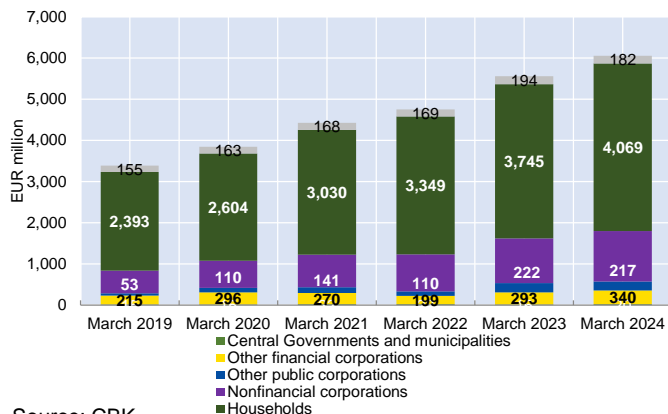
Source: CBK.

Chart 26. New loans, annual change



Source: CBK.

Chart 27. Stock of total deposits



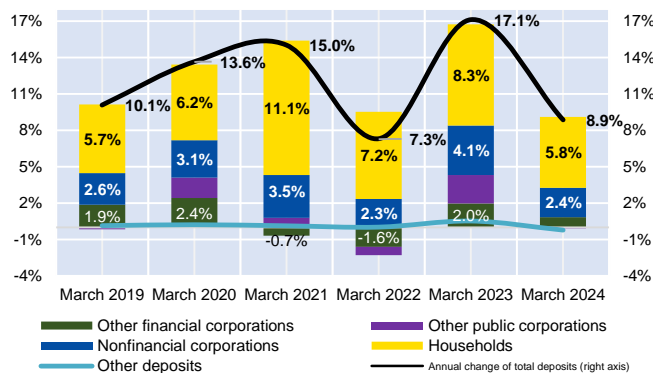
Source: CBK.

increase of 29.3% marked in the previous year, reaching EUR 156.1 million (EUR 96.4 million in Q1 2023). New deposits of nonfinancial corporations also recorded a high increase, reaching the value of EUR 82.7 million from EUR 56.2 million as they were in the previous year (chart 29).

The downward trend of inflation and the positive signals from the European Central Bank to reduce the base interest rates in the near future, have influenced the reduction of pressures on interest rates in the banking sector in the country. However, competition pressures to attract deposits to finance banking activities remain at high levels. In March 2024, interest rate on loans declined to 6.2% from 6.3%, as it was in the beginning and at year-end 2023. While the interest rate on deposits reached 2.7%, marking the highest rate compared to recent years (1.8% interest rate on deposits in March 2023). Nevertheless, compared to the previous quarter, interest rates on deposits marked a slight decline of 0.4 percentage points. The interest rate spread of loans and deposits narrowed down to 3.5 percentage points in March 2024, from 4.5 percentage points in March 2023, due to the higher increase of interest rates on deposits and the slight decline of interest rates on loans (chart 30). However, compared to the previous quarter, this gap increased by 0.3 percentage points, due to the sharper drop in interest rates on deposits, compared to the decline of interest rates on loans.

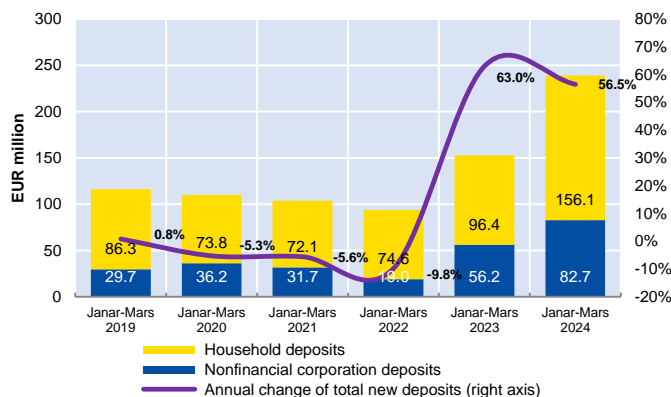
The decline of inflationary pressures and the subsequent dynamics in the interest rate influenced the increasing trend of loans with variable interest rates to change direction. Consequently, in March 2024, the share of loans with variable interest rate decreased to 31.8% from 33.9% in the previous quarter. This share continues to be higher compared to the previous year, where the share of loans with variable interest rate was 29% of the total credit portfolio (chart 31).

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



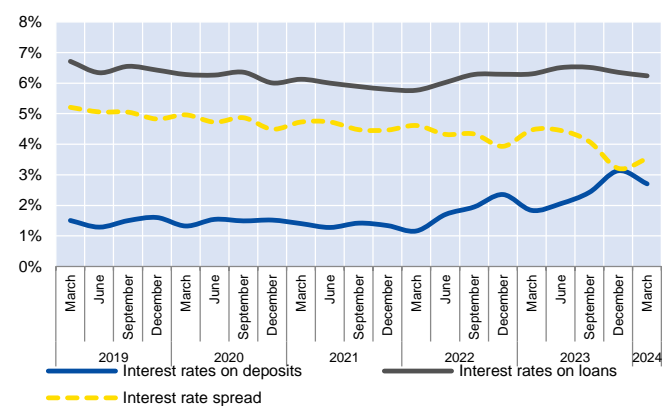
Source: CBK.

Chart 29. New deposits, annual change



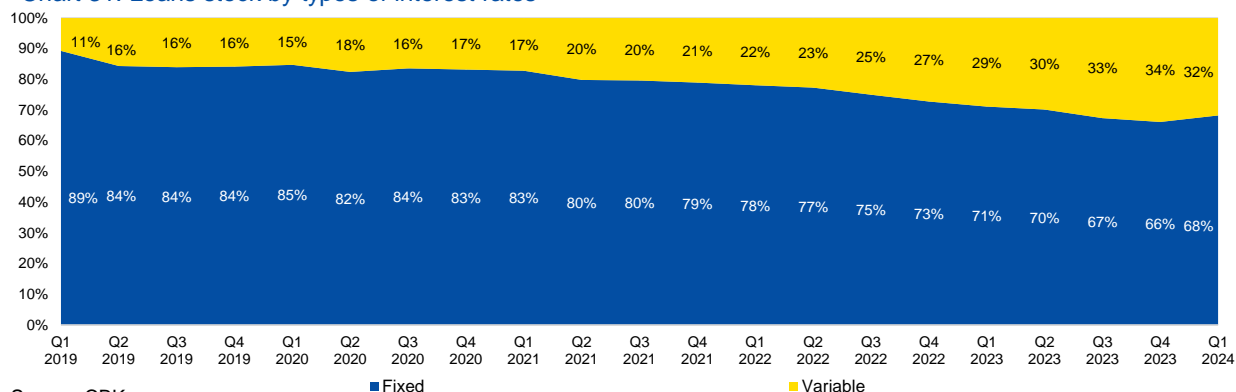
Source: CBK.

Chart 30. Interest rate on loans and deposits



Source: CBK.

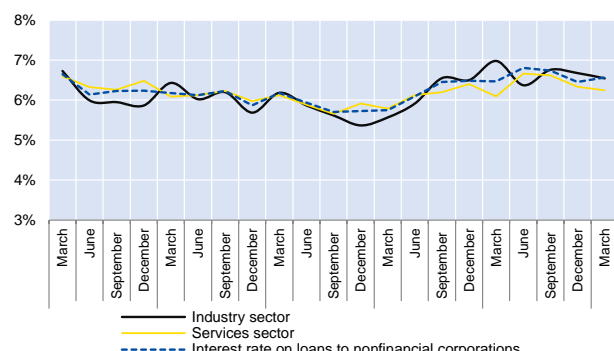
Chart 31. Loans stock by types of interest rates



Source: CBK.

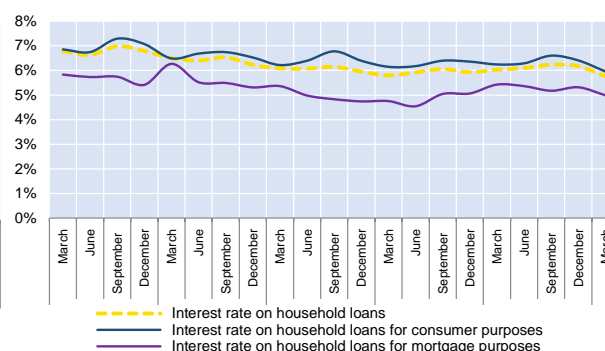
The average interest rate on loans to nonfinancial corporations, in March 2024, reached 6.6%, which is for 0.1 percentage points higher compared to the same period of the previous year. Within the nonfinancial corporations (NFC), a more favorable interest rate was marked for loans to services sector of 6.2% (chart 32). Whereas, interest rate on loans to households dropped to 5.8%, marking an annual decline of 0.27 percentage points. More favorable interest rates have been applied to mortgage loans, with an average of 5.0%, since they are considered to have a lower risk as being covered by collateral (mortgage). However, consumer credit continue to have higher interest rates with an average of 6.0% as they were in March 2024 (chart 33).

Chart 32. Interest rate on loans to nonfinancial corporations



Source: CBK.

Chart 33. Interest rate on loans to households



Source: CBK.

Interest rates on deposits marked a downward trend in the first quarter of 2024, in contrast to the upward trend since June 2022. However, compared to the same period of the previous year, interest rates increased by 0.9 percentage points, reaching 2.7% in March 2024. The average interest rate on nonfinancial corporation deposits increased by 1.3 percentage points, reaching 3.3%, and for households the interest rate on deposits increased by 0.8 percentage points, reaching 2.5% in March 2024 (chart 34).

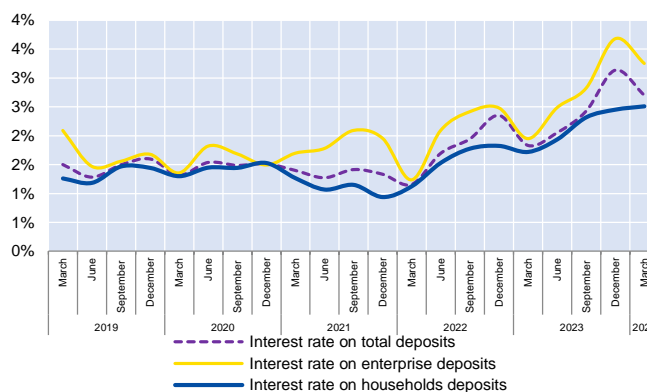
The banking sector closed the first quarter of 2024 with a net profit of EUR 43.5 million, representing a slowdown annual increase of 7.9% compared to the increase of 29.7% marked in the previous year. The profitability of the sector was largely influenced by the income increase, more specifically the increase of income from interest rates on loans. The further increase in profitability was offset by the high increase in expenses, with special emphasis on personnel and general expenses, as well as interest expenses. Total income reached EUR 116.3 million, marking an annual increase of 25.2% from 13.1% marked in the previous year. Within income increase, interest income from loans were the main driver, which represent 78.0% of total income. Within the interest income, the interest income from loans had the main contribution to

this increase, a category which was influenced mainly by the significant increase in lending and at the same time the increased rates on loans in the last two years. Additionally, also income from securities increased due to the investment increase in this category and higher returns, while placements with banks slowed significantly compared to the previous year. The category of non-interest income, mainly from fees and commissions, marked an increase of 17.0% compared to the decline of 2.6% marked in the previous year, reaching the value of EUR 23.4 million, at the end of March 2024.

Banking sector expenses reached the value of EUR 72.8 million, representing an annual increase of 38.5%, which is significantly higher compared to the increase of 2.2% marked in the previous year. The highest contribution was given by the increase of general and administrative expenses and interest expenses. The category with the highest weight to total expenses, which consists of general and administrative expenses with a share of 57.6%, increased by 29.8% from the increase of 5.8% marked in the previous year, and reached the value of EUR 42.0 million in March 2024. The increase of general and administrative expenses mainly reflects the increase of personnel expenses. Furthermore, interest expenses recorded an annual increase of 51.2% from the increase of 51.1% marked in the previous year, which is attributed to the increase of all categories that yield interest expenses and simultaneously an increase in the stock of deposits. The lower annual growth of the sector's profit in relation to the higher growth of capital, **influenced the Capital Adequacy Ratio to be reduced to 19.2% from 21.5% in the previous year.** While return on assets decreased to 2.5% from 2.6% as a result of the slower annual profit growth compared to the higher asset growth in this period (chart 35).

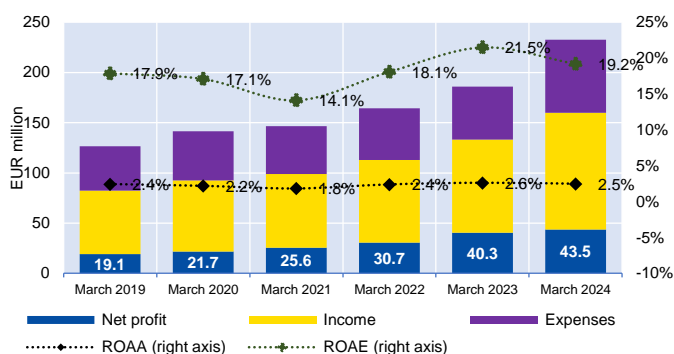
Nonperforming exposures increased by 16.6% compared to the annual increase of 5.9% marked in the previous year; however, the nonperforming loans to total loans ratio remained at the same low level of 2.0%, which is a result of the high increase in lending. The coverage by loan loss provisions declined to 141.4%, from 149.1% as it was in the same period of the previous year, due to the higher increase marked in the value of nonperforming loans than the value of provisions allocated for loan losses (chart 36).

Chart 34. Interest rates on deposits



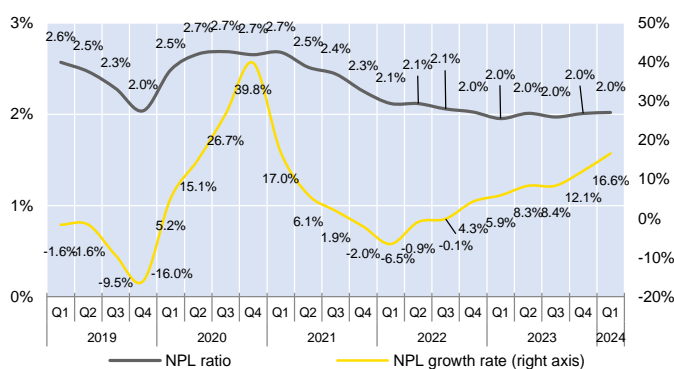
Source: CBK.

Chart 35. Profit and profitability indicators of the banking sector



Source: CBK.

Chart 36. Nonperforming loans and loan loss provisions

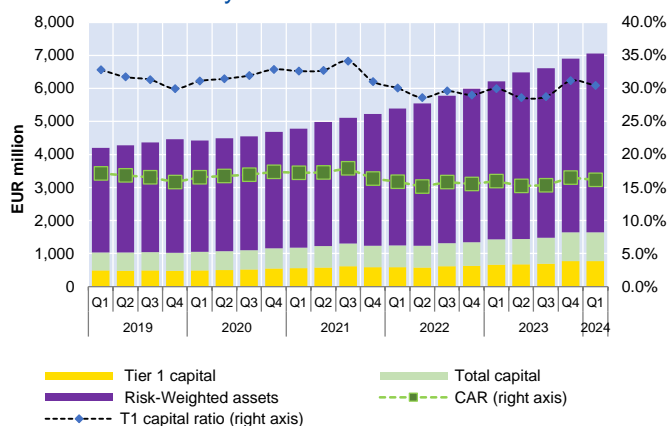


Source: CBK.

The household segment increased the level of nonperforming loans to 1.5% from 1.3% in the previous year, while nonfinancial corporations maintained a similar nonperforming loans rate of 2.4%. Households were characterized by a more pronounced increase in nonperforming exposures in the amount of EUR 7.5 million or 33.2%, compared to the increase in lending for this segment of 17.9%. For the segment of nonfinancial corporations, nonperforming exposures increased by EUR 6.9 million, or by 10.6%, while total loans to nonfinancial corporations increased by 9.5%. With an increase of NPL value was characterized also the sector of manufacturing, energy and agriculture, which increased by EUR 4.1 million, EUR 3.9 million, and EUR 1.2 million, respectively, whereas as a ratio to loans, it increased by 0.6, 9.5 and 2.1 percentage points, respectively. Consequently, the NPL rate for manufacturing sector reached to 2.2%, for energy sector 11.3%, and for the agriculture sector 6.8%. Sectors such as trade and services recorded an annual decrease in the NPL value for EUR 0.6 and EUR 1.6 million, respectively, resulting in a nonperforming loans rate of 1.7% from 2.0% for the trade sector, and 3.5% from 4.9% for the service sector.

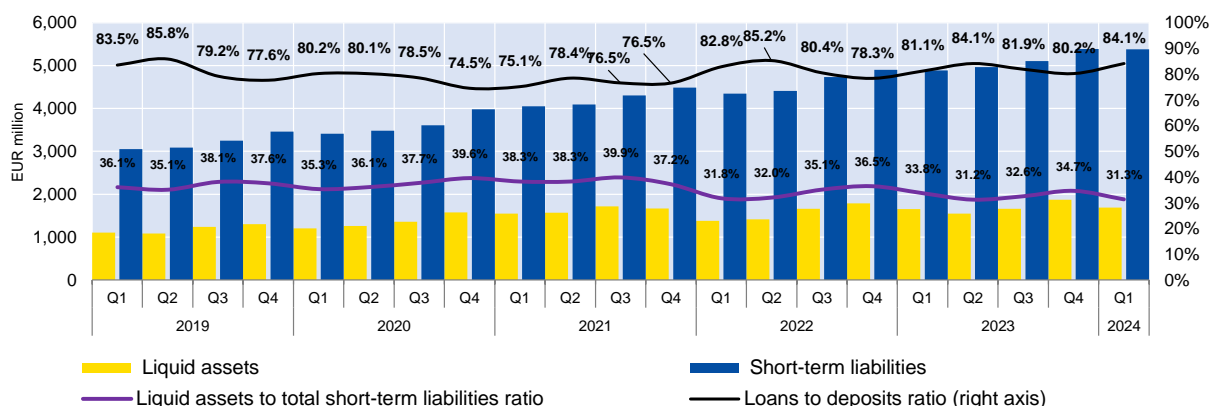
The capital position, expressed through the regulatory capital to risk-weighted assets ratio, has increased slightly to 16.1% from 16.0% in March 2023, whereas compared to the statement as at end-December 2023, it has decreased by 0.4 percentage points. The low increase in the capitalization rate compared to the previous year, specifically the decrease compared to the statement marked in December 2023, is mainly a result of the distribution of the dividend at the end of the first quarter of 2024, as well as the lower growth of the profit rate. Consequently, the regulatory capital of the sector at the end of the first quarter recorded a decelerated annual growth of 11.9% from 20.0% growth in the previous year. At the same time, risk-weighted assets have recorded a slowdown in growth of 13.2% from 15.3% in March 2023 (chart 37), influenced by credit performance.

Chart 37. Solvency indicator



Source: CBK.

Chart 38. Liquidity indicators



Source: CBK.

The sector's liquidity ratio recorded an annual decrease of 2.4 percentage points, to 31.3%, as a result of the more pronounced increase in short-term liabilities of 10.0% in relation to the increase in liquid assets of 2.1% (chart 38). Also, the higher growth of lending in relation to deposits has influenced the growth

of the loan-deposit ratio by 3.0 percentage points, to 84.1%. The liquidity coverage ratio (LCR) remained well above the minimum of 100% required by the regulation, namely at 215.5% in March 2024, hiking up from 170.6% as it was in the previous year. Liquid assets in the liquidity coverage indicator are dominated by assets considered more liquid, such as cash and reserves with the CBK with a share of 28%, and central government assets with 58%.

Despite the high level of liquidity and the stable source of funding such as deposits are, liquidity requires special monitoring, considering the market circumstances with increased competition and higher funding costs, as well as the adaptation that the actors of the sector will have in addition to these dynamics. As a result, it is expected that the sector will increase the share of financing from institutional customers with potential implications in the concentration of deposits/financing. At the same time, the increase in the cost of financing may encourage the actors of the sector to invest in less liquid instruments, albeit with a higher return, as a compensation for narrowing of the interest rate margin due to the disproportion of the increase in the interest rate in loans and deposits. In particular, there has been an increase in investments in financial instruments of foreign markets, while investments in government securities in the country have generally decreased. The structure of investments abroad, in March 2024, was dominated by securities with a share of 53.2%, which was historically dominated by deposits held abroad, which decreased the share to 37.8%, compared to 55.4% in the four previous years.

4.2. Pension sector

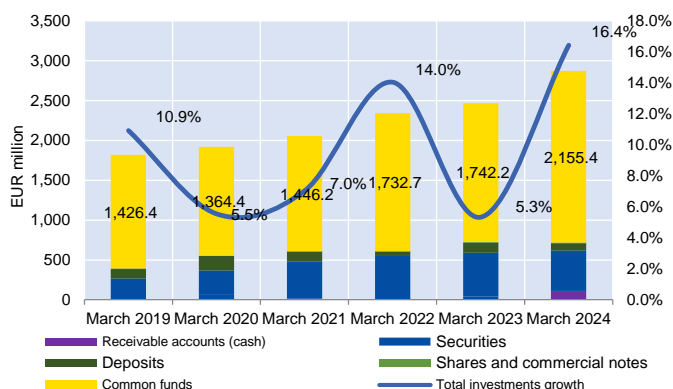
Assets of the pension sector recorded a significant annual growth of 16.4% until March 2024, from the increase of 5.3% in the same period of the previous year (chart 39). This development was influenced by the good performance in the European and in the USA markets, as a result of the optimism for hampering further increase of the base interest rates by the central banks and the softening of the inflationary pressures. Return on investments and collected contributions in the period of January-March 2024 marked an increase both for the Kosovo Pension Savings Trust (KPST) and for the Slovenian-Kosovar Pension Fund (SKPF).

The total value of pension fund assets in March 2024 reached EUR 2.87 billion, of which 99.7% is comprised by KPST assets, and the remainder of 0.3% is comprised by SKPF assets. KPST assets grew by 16.4% annually, while SKPF assets increased by 12.6% compared to the previous year.

KPST assets are mainly invested in foreign market and their share, in March 2024, increased by 4.3 percentage points, reaching 79.0% of total investment portfolio (chart 40).

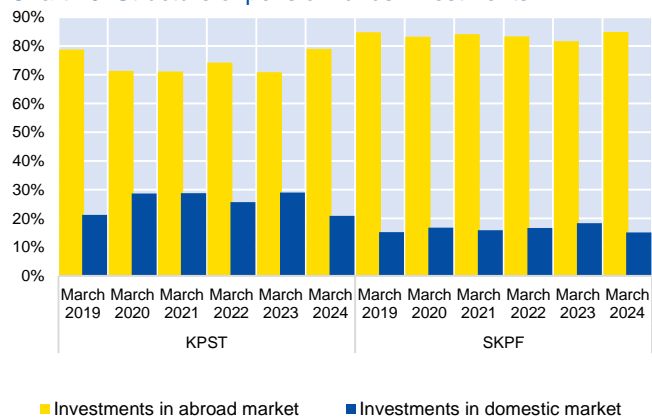
The value of these investments, which is mainly comprised by mutual fund portfolios, reached EUR 2.16 billion, while the remainder of investments is diversified in the

Chart 39. Assets of the pension sector



Source: CBK.

Chart 40. Structure of pension funds investments



Source: KPST, SKPF.

domestic market. While investments in foreign markets have increased, those in the domestic market recorded an annual decrease in the amount of EUR 114.1 million, as a result of the decrease in investments in securities of the Government of Kosovo and certificates of deposit.

Investments in Kosovo government securities, at the end of March 2024, decreased to EUR 497.2 million from EUR 549.8 million as they were in the previous year, or to 17.4% of the total investment portfolio from the share of 22.4% marked in the previous year. Certificates of deposit in local banks, decreased to EUR 90.8 million from EUR 128.2 million, or 3.2% share of total investments, from 5.2%, as they were in the previous year.

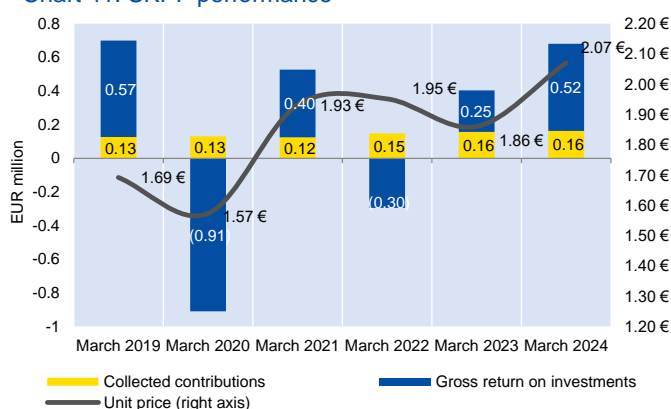
The value of contributions collected by KPST at the end of March 2024 reached EUR 75.8 million, marking a slower annual growth of 14.6% from 18.1% in the previous year (chart 41). This development is suggested to be the result of the higher base effect of the contribution in the previous year, influenced by the increase in the salaries of civil servants at the beginning of 2023.

Gross return on investments reached EUR 108.3 million, marking the highest increase in this comparing period along the years. The return from investments, especially in March 2024, was positively influenced by the increase in the value of shares in the international markets, as a result of the signals of monetary policies to restrain the further increase of the base interest rates.

Unlike the previous year, throughout this year, also SKPF have increased investments in the foreign market against the reduction of investments in the domestic sector (chart 40). This was a result of the favorable developments in international markets along the first quarter of 2024. SKPF investment portfolio is similarly diversified as the KPST investment portfolio, being mainly oriented in the foreign market, more specifically in shares which comprise 79.3% of the investment portfolio and the remainder in securities, which comprise 3.6%, of total investments. Meanwhile, investments within the country are mainly focused on Kosovo’s Government securities which account for 13.4% in total investments portfolio. The remainder of assets held in the country, which is comprised of cash and deposits held at commercial banks, account for 1.7% of the portfolio.

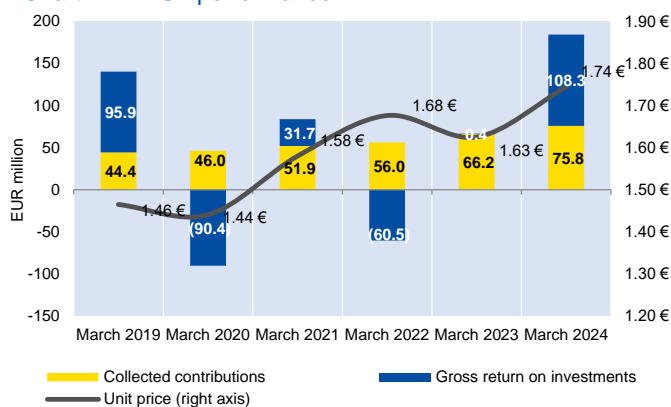
The value of contributions collected by SKPF, until the end of March 2024, reached EUR 163.2 thousand, representing an annual increase of 4.1%, influenced by the increase of the number of contributors and at the same time by the increase of salaries in line with inflation indexation, mainly from the private sector (chart 42). The gross cumulative return on investment in Q1 2024 reached the value of EUR 518.8 thousand, representing a double growth, namely an annual increase of 109.8%.

Chart 41. SKPF performance



Source: SKPF

Chart 42. KPST performance



Source: KPST.

4.3. Insurance sector

The insurance sector, with a share of 2.8% in the total assets of the financial system, was characterized by a growth, albeit at a slower level than in the recent years in this reporting period. At the end of March 2024, the total assets value reached EUR 316.0 million, representing an annual growth of 9.0% (chart 43). The expansion of the sector was enabled by the increase of technical reserves, which are a result of the written premiums throughout Q1 2024, as well as the insurers' own capital. Within assets, the most significant increase was recorded in the category of deposits held at commercial banks, which are mainly in the form

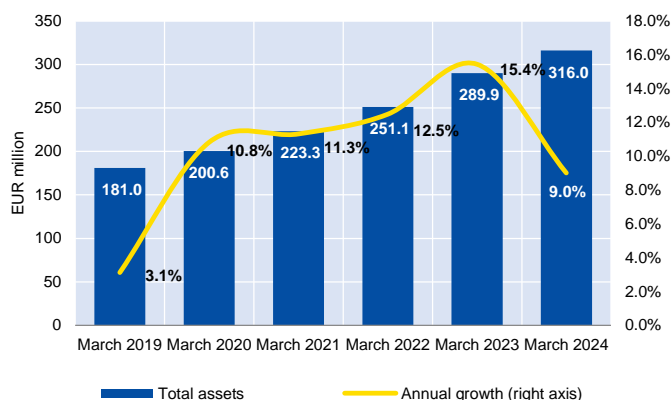
of time deposits, being financed by income from written premiums. The second category in terms of weight, which is comprised of Kosovo's Government securities, recorded, as well, a high growth compared to March of the previous year.

The value of gross written premiums recorded an accelerated annual growth of 21.7% from 15.1% growth in the same period of the previous year, reaching a value of EUR 41.6 million. "Non-life" insurance marked an annual growth of 22.4% in gross written premiums, while "Life" insurance increased by 9.6% compared to the first quarter of the previous year. The annual increase within "Non-life" insurance was mainly influenced by the increase in written premiums of the category of "Motor Third Party Liability" within the compulsory insurance, as well as "Health insurance" and "Insurance against fire and natural forces", within the voluntary insurance. The category "Motor Third Party Liability" marked an annual increase of 10.1%, reaching the value of EUR 19.0 million of gross written premiums at the end of March 2024. Although, over the years, this category has marked a decreasing trend in the share of the total premiums written 'Non-life', it still continues to have the main weight, representing 49.2% of the total "Non-life" written premiums. The value of "Health insurance" premiums reached EUR 10.4 million, marking an annual increase of 31.8%. Whereas, the value of written premiums for the category of "Insurance against fire and natural forces" marked an increase of 51.4%, reaching the amount of EUR 2.9 million. The value of written premiums within "Life" insurance reached EUR 2.0 million, mainly influenced by the increase in written premiums for the category of "Debtor's Life". This category marked an increase of 20.0% and comprises around 50.2% of total written premiums in the segment of "Life Insurance".

The number of insurance policies marked a significant annual increase of 47.4%, and reached 475.5 thousand policies sold in the first quarter of 2024. The segment of "Non-life" insurance marked the highest increase in the number of sold policies of 51.0%. Whereas the segment of "Life Insurance" marked an increase of only 3.9%. Within "Non-life" insurance, "Health insurance" reached 217.1 thousand policies sold or 123.3% more than in the same period of the previous year. As a result, for the first time it has exceeded the number of sold policies of the type "Motor Third Party Liabilities", whose number reached 202.8 thousand in the period of Jan-March 2024, marking an annual increase of 16.3%.

In Q1 2024, the value of claims paid by insurance companies and the Kosovo Insurance Bureau decreased at EUR 17.7 million, representing an annual decline of 10.8%, compared to the increase of 35.0% recorded in Q1 2023 (chart 44). The value of claims paid by insurance companies only marked an annual decrease of 13.3%, declining to EUR 15.8 million at the end of March 2024. Meanwhile, the value of

Chart 43. Assets of insurance sector



Source: CBK.

claims paid by KIB reached EUR 1.9 million at the end of March 2024 from EUR 1.6 million in the previous year, marking an annual increase of 17.6%. In the overall decline in claims paid by the insurance sector, the main contribution was made by the category “Insurance against fire and natural forces”, decreasing by 92.3%. While, the category with the largest weight within the category of claims paid, that of "Motor Third Party Liabilities", increased by 11.9%, mainly from the internal MTPL.

In Q1 2024, insurance sector recorded a profit in the amount of EUR 3.9 million from EUR 2.3 million in the previous year.

The better financial performance in this period is a result of the higher growth of collections from written premiums in relation to the slower growth of incurred (unpaid) claims. While operational expenses (which include personnel and administrative expenses) recorded a higher annual growth, albeit due to the low weight within the total expenses, they did not significantly affect the profit of the sector. Positive developments marked in the profit of the sector had an impact on the return on equity to be high, where this ratio increased to 21.1% from 13.7% as it was in the previous year. Also, return on assets increased to 6.0% from 4.2% as it was in the previous year.

The insurance sector is growing and developing gradually, however the quality of assets and the key indicators remain to be further improved. In March 2024, the capital in relation to the guarantee fund for non-life insurers increased by 6 percentage points to 159.4%, while for life insurers the ratio was 146.97%. The capital in relation to the minimum solvency margin for non-life insurers was 151.3%, while for life insurers it was 1,000%. The coverage of technical provisions by received assets reached 109.2% for non-life insurers and 115.5% for life insurers.

The liquidity level of the sector remained the same as in the previous year. The cash and cash equivalents to reserves ratio fell to 94.8% from 95.6% in 2023, as a result of the lower annual growth in cash and cash equivalents of 9.3%, compared to the higher growth of 10.3% of the technical reserves of the insurance sector. Whereas, the cash and its equivalents to total liabilities ratio increased to 83.3% from the increase of 82.2% as it was in the previous year.

4.4. Microfinance sector

The microfinance sector recorded high growth in assets in Q1 2024, mainly as a result of the acceleration of lending and leasing growth. Assets value of the sector in 2024 reached EUR 564.6 million, corresponding to an annual growth of 34.7% (chart 45). Main contribution to this growth was given by the increase of lending and to a lesser extent by the increase of leasing. Also, during this period an increase was marked by the balance with commercial banks, which primarily are held in the current account. The main financing source of the increase of the

Chart 44. Written premiums and claims paid

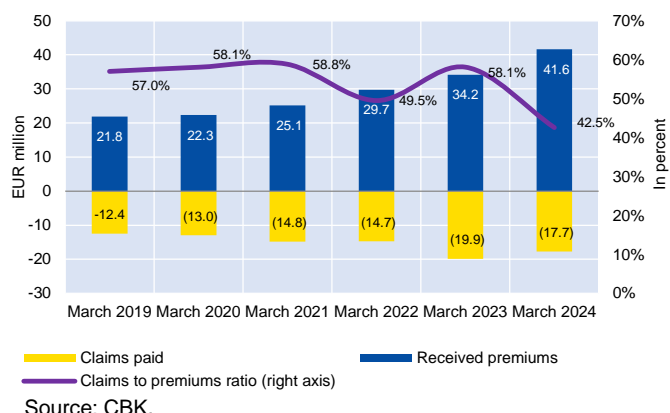
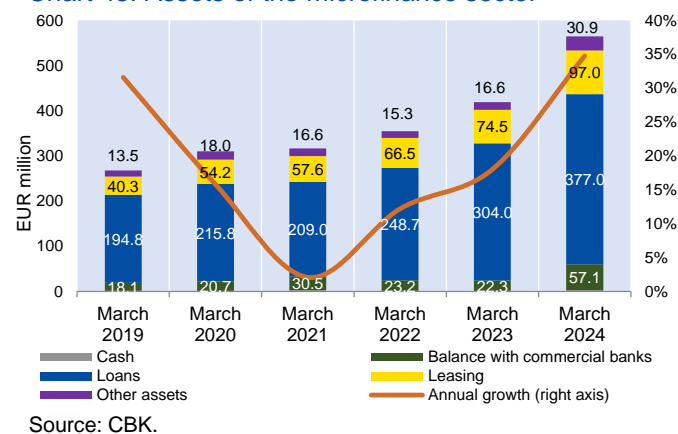


Chart 45. Assets of the microfinance sector

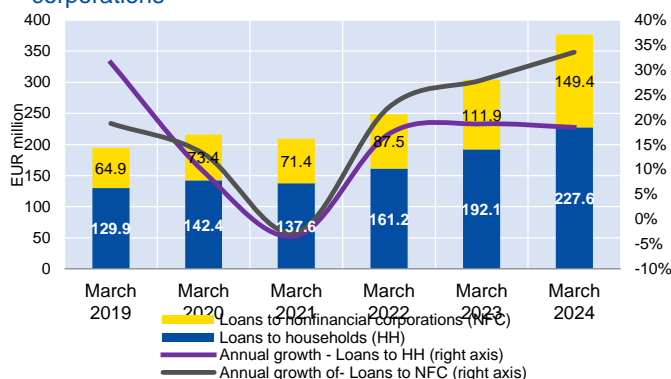


sector's activity remained borrowings (credit lines) from abroad, which increased by 34.3%. Also, the level increase of the capital contributed to the increase of the sector's activity, mainly through the retained profit over the years and the realized profit during this period.

Loans of the sector in the first quarter of the year grew at an accelerated rate, reaching the value of EUR 377.0 million, representing an annual increase of 24.0% (an increase of 22.4% marked in the previous year). Both segments, nonfinancial corporations and households, were characterized with an increase.

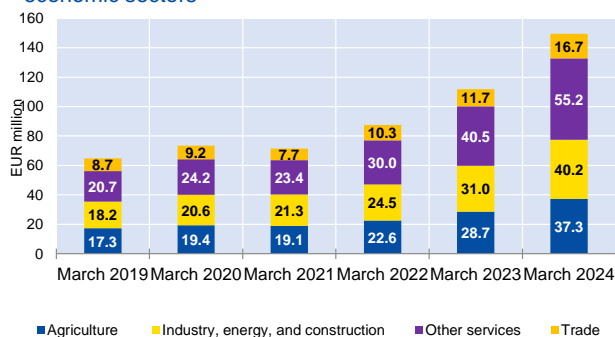
The value of loans to households in Q1 2024 reached EUR 227.6 million, representing an annual increase of 18.5% (chart 46). Lending to nonfinancial corporations reached the value of EUR 149.4 million,

Chart 46. Value of loans to households and to nonfinancial corporations



Source: CBK.

Chart 47. Value of loans to nonfinancial corporations, by economic sectors

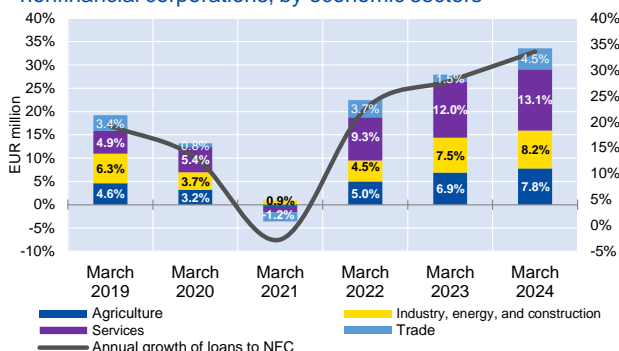


Source: CBK.

marking an annual increase of 33.5%, influenced by the growth in all economic sectors (chart 47).

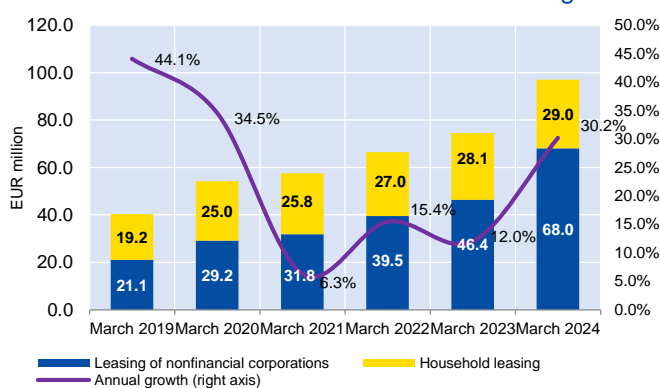
The value of loans to agriculture sector in March 2024 reached EUR 37.3 million, marking an annual increase of 30.3%. Unlike the banking sector where loans to agriculture have a low share, in the microfinance sector these loans have the largest share in total loans to NFCs, namely 25.0% of the share in March 2024. Consequently, the high growth in loans to agriculture, which was also enabled by the continuous support from the guarantees of the Kosovo Credit Guarantee Fund, gave the main contribution to the increase in the total lending to NFCs by microfinance sector (chart 48).

Chart 48. Contribution to the growth of lending to nonfinancial corporations, by economic sectors



Source: CBK.

Chart 49. Value of microfinance sector leasing



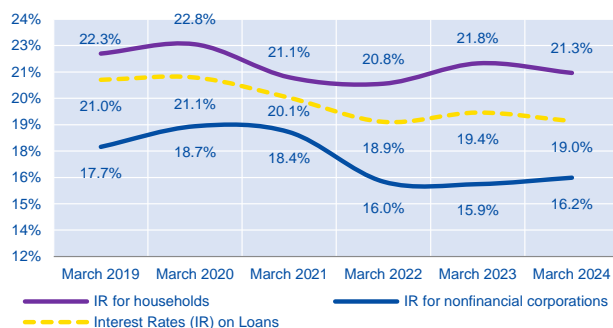
Source: CBK.

Leasing, with a share of 17.2% in assets structure of the sector, marked an accelerated increase as well. Their value reached EUR 97.0 million, marking an annual growth of 30.2% from 12.0% as it was in the previous year

(chart 49). Main contribution to the growth of leasing continue to have nonfinancial corporations, which also have the highest weight of 70.1% of total leasing, whereas the contribution of leasing to households was lower.

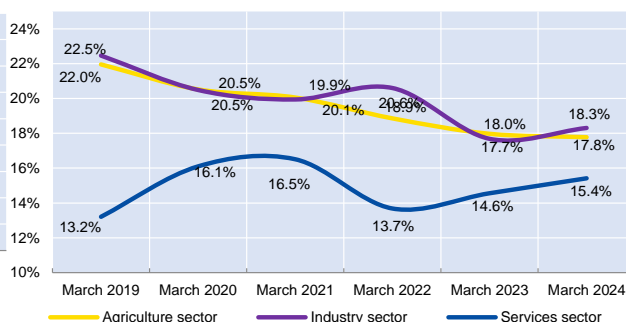
The average interest rate on loans issued by microfinance sector in Q1 2024 was 19.0%, marking a slight decrease of 0.4 percentage points. A decline was marked in interest rates for households, whereas loans to nonfinancial corporations were characterized with an increase. The average interest rate on loans to households decreased to 21.3% from 21.8%. Mortgage loans marked a decline of interest rate, from 19.5% to 17.4%, while consumer credit increased by 0.6 percentage points, reaching 23.7% (chart 50). The average interest rate on loans to nonfinancial corporations increased by 0.3 percentage points, reaching 16.2% (chart 51). The average interest rate on loans to industry and services sector marked an increase of 0.6 and 0.9 percentage points, reaching 18.3% and 15.4%, respectively. Whereas, the interest rate on loans to the agriculture sector marked a decline of 0.2 percentage points compared to the previous year, falling at 17.8% in March 2024.

Chart 50. Average interest rate on microfinance sector



Source: CBK.

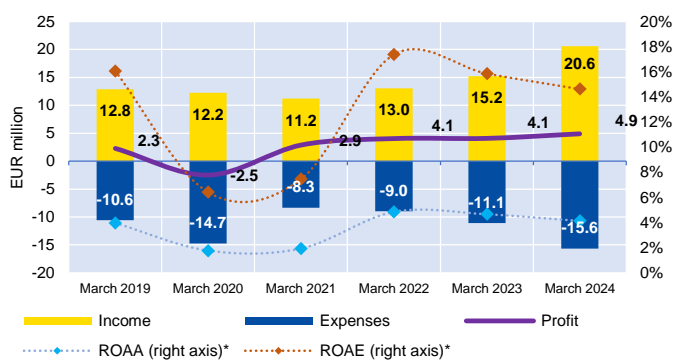
Chart 51. Average interest rate on loans to enterprises, by economic sectors



Source: CBK.

The net profit of the sector in the first quarter of the year marked an accelerated annual growth of 20.0% (0.9% growth in the previous year), reaching the value of EUR 4.9 million. The income of the sector reached the value of EUR 20.6 million, representing an annual increase of 35.2%. Expenditures increased by 40.9%, reaching the value of EUR 15.6 million (chart 52). Interest income recorded an accelerated annual growth of 24.6% from 16.6%, mainly as a result of the high lending growth. Their value reached EUR 17.3 million in March 2024, representing 84.4% of total income. Non-interest income reached EUR 3.2 million, which is for EUR 1.9 million higher than in the previous year (expressed as a percentage, 150.5% higher). This significant increase in non-interest income is mainly a result of the reclassification of two financial institutions with a significant weight within the total assets of the system, which in the past were treated as financial auxiliaries, while now they have been recategorized within MFIs/NBFIs, whose main activity is payment services. Therefore, this has resulted in a significant increase in the subcategory of non-interest income, without affecting interest income (since these institutions do not issue loans).

Chart 52. Profit and profitability indicators of the microfinance sector



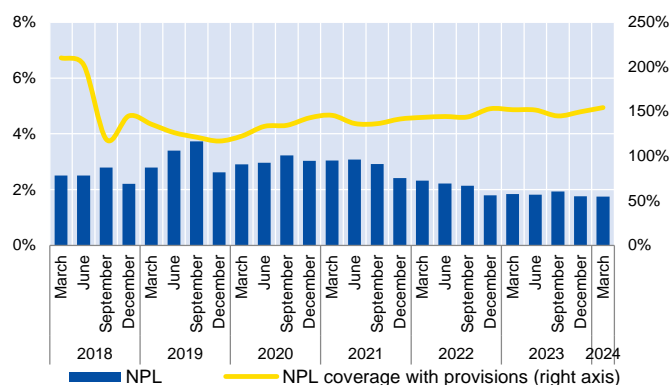
Source: CBK.

*The value of September 2022 is

Within expenditures, the category of interest expenses has marked a significant increase, reaching the value of EUR 5.1 million or an annual increase of 95.4% from the increase of 35.2% marked in the previous year. The increase in the level and in the cost of borrowing from abroad is reflected in this significant increase in interest expenses, since the activity of the microfinance sector finances the activity to the largest extent from these loans/credit lines (60.6% of total liabilities and equity). Also, the category of non-interest expenses marked an increase, amounting at EUR 8.0 million, representing an annual increase of 22.4%. The increase of this category is mainly a result of the increase in personnel and administrative expenses for 18.3%, reaching the value of EUR 7.3 million.

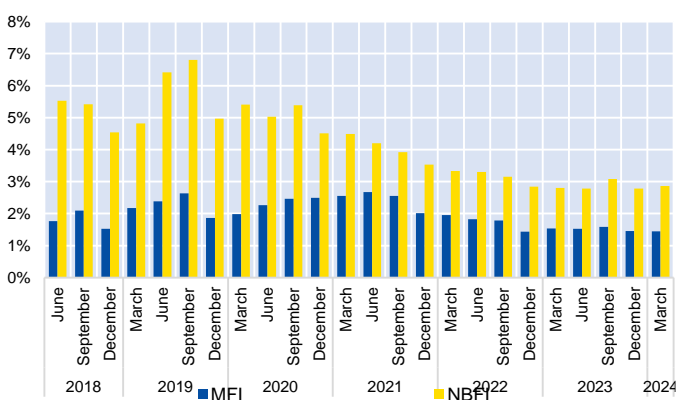
Nonperforming loans to total loans ratio marked an annual decline to 1.7% from 1.8% in March 2023, despite a slight increase in the value of nonperforming loans. The value of nonperforming loans reached EUR 7.7 million from EUR 6.8 million in the previous year, albeit, due to the high growth of lending, nonperforming loans to total loans ratio has decreased. The coverage level of nonperforming loans with loan loss provisions increased by 4.7 percentage points in March 2024, reaching 154.5% (chart 53). The level of nonperforming loans continued to be higher for NBFi against MFI, which gradually has decreased along the years (chart 54).

Chart 53. Indicators of credit portfolio quality



Source: CBK.

Chart 54. NPL level of MFIs and NBFIs

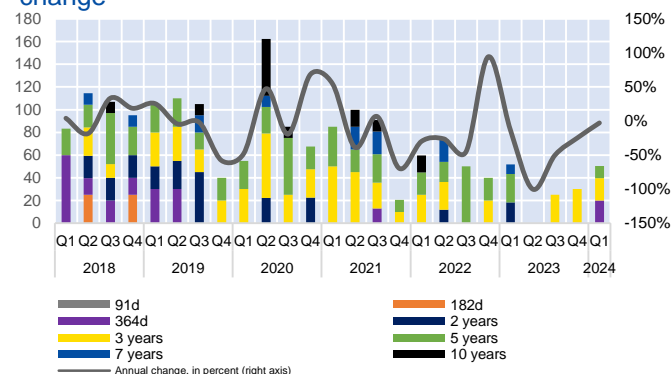


Source: CBK.

4.5. Securities market of Kosovo's Government

The domestic debt to Gross Domestic Product (GDP) ratio has decreased to 8.96% at the end of the first quarter of 2024 from 11.28% in the same period of the previous year. The value of issued securities was EUR 50.5 million, which is lower for 2.6% than in the first quarter of 2023 (chart 55).

Chart 55. Amount and maturity of issued debt, annual change

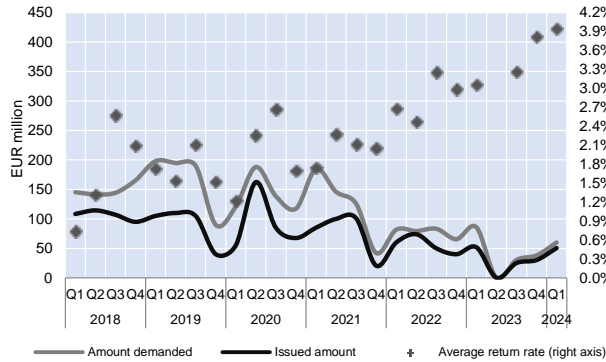


Source: Ministry of Finance, Labor and Transfers.

The demand to invest in government securities marginally exceeded the offering amount for 1.001 times, compared to 1.23 as it was in the previous year (chart 56). This decline in the demand/offer ratio mainly reflects developments in the banking and pension sectors, which have reallocated securities investments to the external sector.

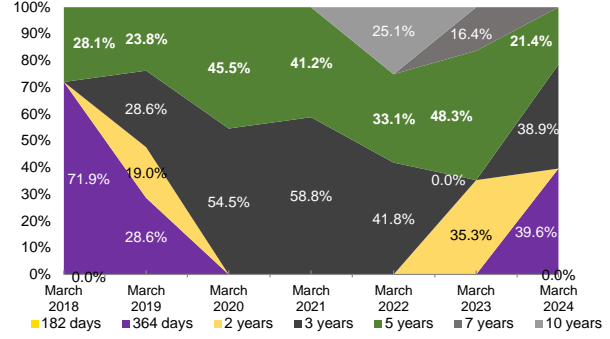
Pension funds held the largest share of government securities with 46% of the stock of the government debt, followed by commercial banks 24%, public institutions 22%, and insurance companies which comprise 5% of the debt stock, and the remainder of 3% is held by other investors.

Chart 56. Bid to cover ratio



Source: Ministry of Finance, Labor and Transfers.

Chart 57. Government securities structure, in percent



Source: Ministry of Finance, Labor and Transfers.

At the end of March 2024, the internal debt stock of Kosovo's government in the form of securities, held by investors, such as, banks, pension funds, public institutions and insurance companies amounted to EUR 945.0 million, from EUR 1.11 billion as it was in the same period of the previous year. The structure of securities by maturity has gradually shifted towards longer maturities. In the period of January- March 2024, the structure was dominated by the government bonds with a maturity of “365 day”, which comprise around 39.6% of new issuances, followed by those with a maturity of “3 years” and “5 years” (chart 57).

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ECB: Economic Bulletin [Research & Publications \(europa.eu\)](#); Key ECB interest rates ([europa.eu](#))

FAO. [Home | Food and Agriculture Organization of the United Nations \(fao.org\)](#)

IMF: [International Monetary Fund \(IMF\)](#)

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