

Summary

The euro area is characterized by economic growth of 5.4% in Q1 2022, despite of being faced with increased inflationary pressures as a result of continuous disruptions in supply chains since the pandemic, and more recently, the economic and social consequences caused by the beginning of the war in Ukraine. In response to Russian aggression, EU countries have imposed economic and financial sanctions on Russia, which has been translated into increased prices of food, gas and oil. Uncertainties related to the geopolitical situation and the energy supply situation in the euro area have pressured the ECB to review the forecasts of the main macroeconomic indicators. In June 2022, the ECB lowered the forecast for economic growth to 2.8% for 2022, from 3.7%, as it was in March 2022, while it increased the forecast for inflation to 6.8%, from 5.1%, as it was the previous forecast.

Western Balkans recorded an increase of the lending activity with 4.7%, in Q1 2022. Montenegro reported the highest economic activity growth of 7.2%, while North Macedonia reported the lowest growth of the economic activity with 2.4%. While risks related to the pandemic have diminished, the war in Ukraine is expected to be translated into slower economic growth. IMF has reduced the forecast for Western Balkan countries from 4.4% to 2.9% for 2022.

According to KAS estimates, Kosovo's economy has recorded an increase of 4.9% in Q1 2022, while for 2022, CBK projections suggest that economic activity will increase by 3.0%. The slowdown in the growth of economic activity is expected to be influenced by the lower growth of domestic demand. The war in Ukraine has increased the risks to the economic outlook, and the impact of this crisis is expected to be reflected in further potential increases in energy, oil and food prices in the following months of the year, with negative effects on consumer confidence and purchasing power.

The increase in aggregate demand as a result of the economic recovery in 2021 and the relatively high increase in global prices of intermediate inputs and energy, as a result of the combination of the effects of the pandemic and the war in Ukraine, has caused the consumer price index to mark a growth of 8.2% in Q1 2022. The accelerated trend of rising prices is expected to continue and according to the CBK forecasts, the average inflation rate for this year is expected to be 11.0%.

The economic activity accompanied by an increase in prices, results in a significant increase in budget revenues in Q1 2022 (19.3%), while budget expenditures recorded a decrease of 12.2%, thus having an impact on the Kosovo Budget to record a primary budget balance of EUR 114.5 million.

Public debt has marked an increase of 9.7% and has reached the value of EUR 1.68 billion, while as a percentage of GDP, it has reached 20.3%.

The current account deficit increased by 126.5%, reaching EUR 344.6 million. The high increase of goods import significantly deteriorated the balance of goods, despite the growth that was marked by export. Conversely, the balance of services and the balance of secondary income have marked an improvement in Q1 2022. The trade deficit of goods increased by 34.9% and reached the level of EUR 939.7 million, while the balance of services recorded an increase of 21.3%, reaching the value of EUR 174.0 million.

The slowdown increase of financial system assets compared to the previous year's growth reflects mainly the developments in the banking sector, namely the slowdown increase of deposits. Banking sector marked a significant increase of lending since 2009, supporting the overall economic activity in the country. Banks held optimal level of capitalization, liquidity and high quality of loans also during the first quarter of 2022. The high increase in the credit activity of the banking sector after a year of slower growth turns out to have been mainly supported by the increased credit demand, but also by the facilitated credit supply. Deposits, which represent the main financing source of the banks, marked an annual slowdown increase during this period. This slowdown can be attributed to some extent to inflationary pressures and prospects for price dynamics in the coming months. The behavior of the main participants in the market, under the prospects for the deterioration of the inflation rate, turns out to have been translated into an increase in the use of deposits by two segments (households and enterprises) and an increase in the demand for loans (financing of working capital and increase in stocks from businesses; purchase of real estate from households).

Pension sector during this quarter marked an activity increase, being supported by the collected contributions from the contributors and the return on investments realized in the previous year. During this quarter, pension sector realized negative return on investments due to the negative effects of the war in Ukraine on the international financial markets. Insurance sector expanded as a consequence of the higher level of written premiums compared to the same period of the previous year, while claims paid remained almost at the same level of the previous period (marginal decline). The increase in the microfinance sector was enabled mainly by the borrowings from financial institutions (mainly from abroad), which financed the leasing and credit activity for households and enterprises.

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ABBREVIATIONS

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

Euro area and Western Balkans

The positive macroeconomic dynamics that characterized the year 2021 continued also in Q1 2022, when the euro area appears to have recorded a real GDP growth rate of 5.4%, despite increased inflationary pressures as a result of evident obstacles in supply chains and pressures on energy prices and other goods. The beginning of the war in Ukraine at the end of February caused new economic challenges, being reflected in the form of increased inflationary pressures and the decline of the customers' confidence. The severity of the geopolitical situation and the uncertainties surrounding the ongoing war, as well as the economic consequences related to the economic and financial sanctions imposed on Russia, have negatively affected the prospects for economic activity for this year. The ECB projection for real GDP growth, carried out in June 2022, has decreased to 2.8% for 2022, from 3.7%, as it was in March 2022.

The dynamics in prices followed an upward trend even during Q1 2022, thus being reflected in the highest inflation rate recorded in the last decade of 6.1%. Obvious obstacles in the production chains as a result of the pandemic, accompanied by a significant increase in demand with the reopening of economies in 2021 that was strongly supported by the fiscal and monetary packages of governments, has caused increasing pressure on product prices and production costs. The increasing inflation rate was further intensified with the beginning of the war in Ukraine and sanctions

imposed on Russia. The subsequent effects on the further increase in the prices of food products, gas and oil and consequently energy costs, further aggravated the situation in the euro area, considering the high dependence of the euro area on the supply with gas from Russia.

In an environment with considerable uncertainties about geopolitical developments and the situation with inflation as a consequence, the Governing Council of the ECB decided to keep monetary policy flexible, keeping options open depending on how the economy develops, while communicating expectations for the end of the purchase program of net assets in the third quarter. For 2022, the ECB has projected an inflation rate of 6.8%, a rate that is expected to normalize in the next two years to 3.5% and 2.1%, respectively, in the baseline scenario.¹

Lending and depositing activity has continued to increase in the euro area. Loans to enterprises marked an increase of 3.5% in Q1 2022, while loans to households increased by 4.5%. On the other hand, enterprise deposits increased by 6.5%, while household deposits marked an increase of 4.0%.

Western Balkans recorded an increase of the lending activity with 4.7%, in Q1 2022. All countries recorded an increase in economic activity, while the highest growth was recorded in Montenegro (7.2%) and the lowest increase was marked in North Macedonia (2.4%). As a result of the war in Ukraine, IMF has

¹ In addition to the basic scenario, the negative scenario has also been realized, which assumes that the war in Ukraine will be more intense and longer than in the basic scenario,

extending into 2023. The negative scenario presents a more severe situation where economic growth would be slower in 2022 (1.3%) and inflationary pressures would be higher (6.4%).

reduced the forecast for Western Balkan countries from 4.4% to 2.9% for 2022.

An increase of inflation rate was reported also in the Western Balkan countries, as a result of the growth of the domestic demand and the increase of prices in international markets. The average inflation rate, in Q1 2022, was 7.2%, where Serbia and Kosovo recorded the highest inflation growth rate of 8.7% and 8.2%, respectively.

Western Balkans recorded an increase of the lending activity of 11.4%. The highest increased rate was marked in Kosovo (18.4%) and Albania (11.9%), whereas the lowest was in Montenegro (5.4%). Deposits marked an increase of 10.4%, representing lower growth rate compared to the previous quarter. The highest increased rate of deposits was marked in Montenegro (23.8%) and Albania (9.4%), whereas the lowest was in North Macedonia (3.5%).

During Q1 2022, EUR currency was appreciated against the Turkish lira (75.8%), the Macedonian denar (0.1%), while it remained unchanged against the Serbian dinar, and depreciated against the US dollar (6.9%), the Swiss franc (4.9%), British pound (4.4%), Albanian lek (1.3%), etc.

Kosovo's Economy

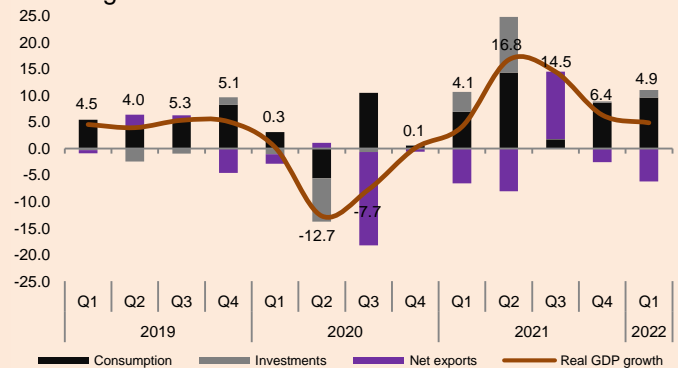
Real Sector

According to preliminary estimates of KAS, Kosovo's economy has marked a considerable growth of 10.5%, in 2021 (-5.3% in 2020). The high increase of the economic activity was attributable to the increase of the inflow from diaspora, with the recovery of the pandemic dynamics and the ease of restrictive measures as a consequence, and the incentive fiscal

and financial policies. The income from diaspora (remittances, travel expenses and real estate investments) result to have had a high share to total GDP generated in the country of around 39% in 2021.

KAS suggest that during Q1 2022 it was marked an economic activity growth of 4.9%. Consumption and investments are estimated to have contributed positively with 9.6 and 1.4 percentage points, respectively, while net exports had a negative contribution of 6.2 percentage points (chart 1).

Chart 1. Real GDP growth rate and main contributors to the growth



Source: KAS and CBK calculations.

The high real GDP growth marked in Q1 2022, according to KAS, was recorded in the financial and insurance activities sector (8.8%), trade (8.6%), processing industry (5.4%), etc. The increased economic activity in this quarter turns out to have been supported to a large extent by lending of the banking sector.

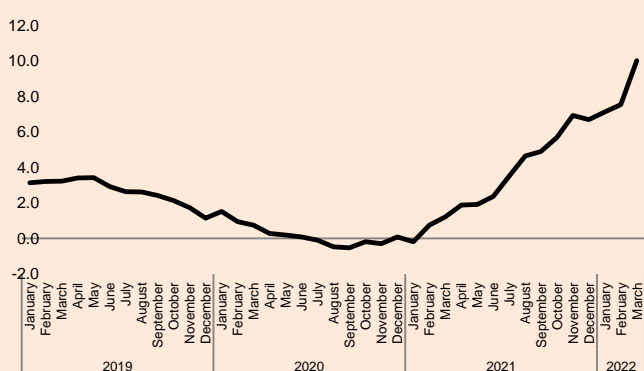
Regarding 2022, the CBK projections suggest that the economic activity will record a slower growth of around 3.0%. The slowdown in the growth of the economic activity is expected to be a consequence of the lower growth of domestic demand. The war in Ukraine has increased the risks to the economic outlook, and the

impact of this crisis is expected to be reflected in further potential increases in energy, oil and food prices, with negative effects on consumer confidence and purchasing power. Assuming that the geopolitical crisis does not end quickly and the most severe scenarios are materialized where the inflation rate rises further, the economic outlook for Kosovo will be more pessimistic than initially expected.

Prices

Inflationary pressures which accompanied many economies, were reflected also in the domestic economy. The relatively high increase in global prices of intermediate inputs and energy that began in the previous year has been accelerated by the beginning of the war in Ukraine. The consumer price index has recorded an increase of 8.2% in Q1 2022, while only in March the inflation rate has reached 10.0% (chart 2).

Chart 2. Headline inflation, annual change in percent



Source: KAS and CBK calculations.

The highest increase in prices during this quarter was recorded in transport; housing, water, and electricity; food and non-alcoholic beverages; etc. Conversely, only prices of footwear and clothing marked a decline. The structure of the Kosovan consumer basket is dominated by food and non-alcoholic beverages

(39.6%), as well as the category of transport costs (15.9%). These categories had a higher contribution to the overall prices increase with 4.3% and 2.2%, respectively (table 1).

Table 1. Contribution of specific categories to total inflation, in Q1 2022

Description	Weight 2022	Inflation rate	Contribution
Total	100.0%	8.2	8.2
Food and non-alc. beverages	39.6%	10.5	4.3
Alcoholic beverages and tobacco	6.1%	2.6	0.2
Footwear and clothing	4.2%	-0.9	0.0
Housing, water, electricity	7.3%	11.1	0.8
Furnishing	7.5%	3.8	0.3
Health	2.6%	1.5	0.0
Transport	15.9%	14.8	2.2
Communication	3.6%	0.3	0.0
Recreation and culture	4.2%	1.7	0.1
Education	1.3%	1.5	0.0
Hotels	3.6%	7.0	0.2
Goods and other services	4.2%	2.6	0.1

Source: KAS and CBK calculations

Food and non-alcoholic beverage prices marked an increase of 10.5%. Within food category, prices of edible oils and fats increased more significantly (36.3%), followed by prices of bread and cereals (17.9%), vegetables (13.2%), as well as milk, cheese and eggs (12.8%)., while only fruit prices marked a decline of 8.1% , in Q1 2022.

According to the World Bank, Brent crude oil prices reached an average of \$ 96.6 per barrel in Q1 2022, indicating an annual price increase of 62.9%. Due to the increase in the price of oil products, transport costs increased by 14.8%, in Q1 2022. The highest increase in transport prices was recorded in the use of personal transport equipment (23.8%), followed by the purchase of vehicles (5.6%), as well as transport services (5.5%).

Prices of electricity, gas and other fuels marked an increase of 16.1% in Q1 2022. This increase in energy prices was a result of the energy crisis, caused by high energy prices in the international market, but also due

to the increase in consumption during this period, since a vast amount of energy is used for heating.

The accelerated trend of rising prices is expected to continue also during the remainder of 2022 and according to the CBK forecasts, the average inflation rate for 2022 is expected to be 11.0%. Similar to the CBK forecasts are the expectations of commercial banks as well, which stated that they expect the inflation rate to increase.

Fiscal Sector

The fiscal sector during Q1 2022 was characterized by an increase in budget revenues and a decrease in budget expenditures, making the budget balance to stand at a positive level. Budget revenues² reached the net value of EUR 542.6 million (an increase of 19.3%), while budget expenditures³ reached the value of EUR 428.1 million (a decline of 12.2%). Consequently, Kosovo's budget recorded a primary budget balance of EUR 114.5 million during this quarter.

Economic activity accompanied by price increases has influenced direct taxes to reach the value of EUR 100.0 million in Q1 2022 or 31.9% more compared to Q1 2021. As a result of this increase, the share of direct taxes to total budget revenues has also increased from 16.7% in Q1 2021, to 18.4% in Q1 2022. Corporate income tax marked an increase of 80.4%, while personal income tax, which represent the main category of direct tax income, marked an increase of 14.1%. Prices increase has had an impact on the increase of the imported goods value, which consequently impacted the increase of indirect income taxes of 16.9%. In Q1 2022, indirect income taxes reached the value of EUR 393.0 million,

comprising 72.4% of total budget revenues. VAT and excise, which represent the two main categories of indirect income taxes, marked a growth of 23.0% and 5.6%, respectively.

In terms of expenditures, the main category that contributed to the increase in budget expenditures were capital expenditures, which only in Q1 2022 reached the value of EUR 28.0 million or 51.6% lower compared to Q1 2021. During this quarter, budget expenditures comprised only 6.5% of total budget expenditures (11.9% in Q1 2021). Also current expenditures marked a decline of 6.9% and reached the value of EUR 400.1 million. Within current expenditures, subsidies and transfers decreased by 13.0% and reached the value of EUR 171.1 million. Expenses on salaries marked a decline of 6.3%, reaching the value of EUR 164.2 million, while government expenditures on goods and services (including municipal utilities) increased by 11.9% and reached the value of EUR 64.8 million.

Public debt, in Q1 2022, reached EUR 1.68 billion, which is for 9.7% higher compared to Q1 2021. As a percentage to GDP, public debt reached 20.3% from 21.8% as it was in Q1 2021. The increase of public debt is attributed to the growth of domestic public debt of 10.3% (which reached EUR 1.12 billion), and the increase of external public debt of 8.6% (reaching to EUR 561.3 million). The threshold of public debt in Kosovo is set by law at 40% of GDP, and consequently the level of 20.3% ranks Kosovo in the position of the country with the lowest level of public debt compared to the region countries.

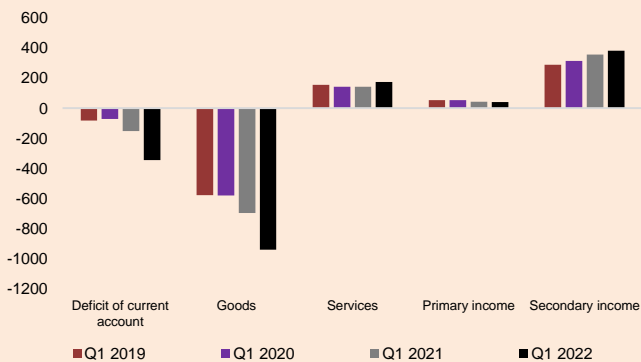
² Within budget revenues are not included receipts from financing.

³ Within budget revenues are not included financing payments.

External Sector

The current account deficit increased by 126.5%, reaching EUR 344.6 million. The high increase of goods import deteriorated the balance of goods, despite the growth that was marked by export.

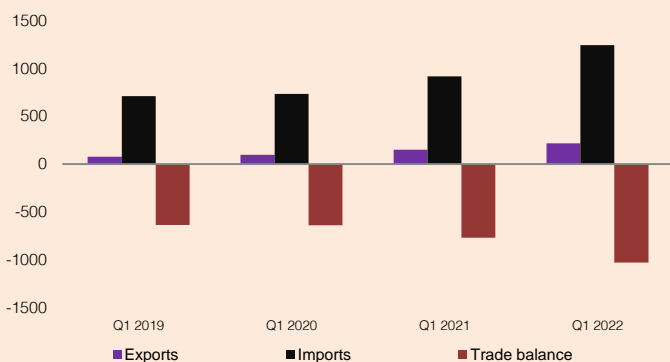
Chart 3. Current account deficit and its components, EUR million



Source: CBK.

Conversely, the balance of services and the balance of secondary income have marked an improvement in Q1 2022 (chart 3).

Chart 4. Export and import of goods, EUR million

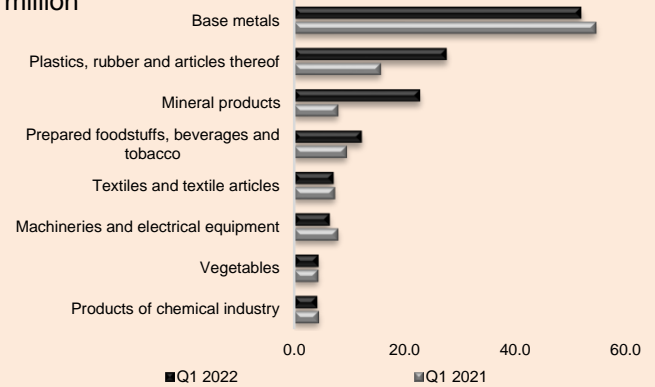


Source: KAS.

Export of goods, in Q1 2022, marked an increase of 42.7%, while import of goods increased by 35.5%. The high base and the significant growth of imports, has had an impact on the trade deficit of goods to increase

by 34.1%, reaching the level of EUR 1.0 billion (chart 4).

Chart 5. Main categories of goods export, EUR million



Source: KAS.

The value of exports of goods, in Q1 2022, was EUR 218.1 million, where the higher increase compared to the same period of 2021 was marked in mineral products, plastic products, prepared foodstuff, beverages and tobacco, etc. (chart 5).

Chart 6. Main categories of goods import, EUR million



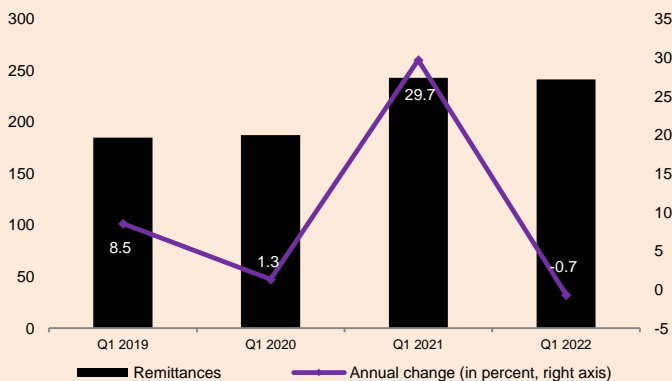
Source: KAS.

The value of imports of goods, in Q1 2022, was EUR 1.2 billion, representing an increase of 35.5%. Almost all categories of imports have increased, while the highest growth has been recorded by imports of mineral products, followed by base metals, machinery and electrical equipment, prepared foodstuff, beverages and tobacco, etc. (chart 6).

With the easing and lifting the restrictive measures, also the trade in services has continued to increase in Q1 2022. The balance in trade of services reached a value of EUR 174.0 million, from EUR 143.4 million as it was in Q1 2021.

The value of export of services amounted to EUR 375.6 million, from EUR 284.3 millions, as it was in Q1 2021. The highest growth was marked by export of travel services and computer services. Export of travel services in this quarter reached the value of EUR 258.2 million (EUR 181.4 million in Q1 2021). Also, the import of services marked an increase in Q1 2022, where the value of imported services amounted to EUR 201.6 million (EUR 140.8 million, in Q1 2021). In terms of import of services, the highest increase was marked in services of travel and transport.

Chart 7. Remittances, EUR million



Source: CBK.

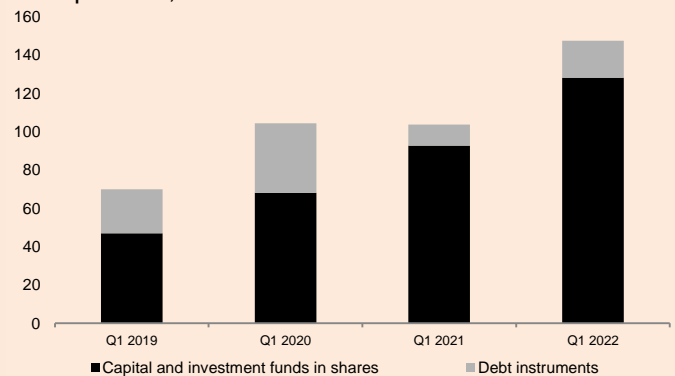
The primary income account marked a decline of 8.0% in Q1 2022, since the investments income in Kosovo were higher. Income from compensation of employees abroad marked an increase of 1.7%, whereas remittances marked a slight decline. Unlike the previous quarters of 2021 when a high increase in remittances had been marked, in Q1 2022 the level of

remittances was EUR 241.4 million, or 0.6% less compared to Q1 2021 (chart 7).

In terms of transferring channels, 63.5% of remittances came through money transferring agencies, which marked an increase of 3.0%. Remittances received through banks marked an increase of 25.4% and comprise 17.4% of total remittances received in Q1 2022. Remittances received through “informal” channel marked a decline of 24.1%, comprising 19.1% of total remittances. Remittances in Kosovo come mainly from Germany and Switzerland with 40.0% and 18.5%, respectively, of total remittances received in Q1 2022. A considerable amount of remittances was received also from the USA (8.0% of total remittances).

Foreign Direct Investments (FDI) during Q1 2022 reached the value of EUR 147.4 million or 42.1% more compared to Q1 2021. Within the structure of FDI, capital and fund of investments in shares reached EUR 128.2 million, or 38.2% more, while debt instruments reached the value of EUR 19.3 million or 75.1% more compared to Q1 2021 (chart 8).

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



Source: CBK.

The increase of FDI was mainly recorded in real estate sector (an increase of 75.8%), where the share of this

sector to total FDI reached 95.8% from 61.2% as it was in Q1 2021. Such a high increase in real estate investments can also be attributed to the increase in inflation and the depreciation of the EUR currency, where various investors have felt safer investing in real estate. Investment increase in real estate sector is

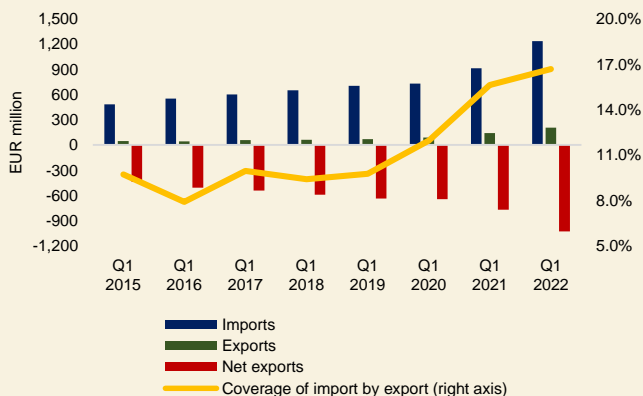
also a result of the increase of mortgage loans of 53.2% in Q1 2022. In addition to investments in real estate, FDI has also increased in the mining, manufacturing, etc., while in the financial and insurance activities sectors, energy supply, etc., was observed a decrease in FDI.

Box: Import and export of goods in Kosovo

One of the structural problems of the economic model in Kosovo is the high trade deficit of goods. Exports cover imports with only 17% (chart 1) (around 58% in Albania, and 95% in euro area). With the growth of manufacturing and processing capacities in the economy, the coverage of imports with exports has gradually improved, albeit at a low rate.

The main import categories, mineral products and basic metals, which have a share of 20.3% and 10.6%, respectively, to the total imports, recorded the highest increase in import (127.4% and 48.7%, respectively) (chart 2). The high increase of these categories mainly was attributable to the increase of crude oil of 62.9%, and the increase of base metal prices of 34.5% in Q1 2022.

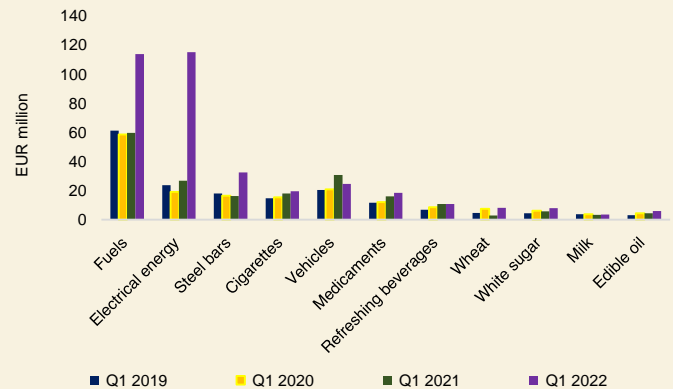
Chart 1. Value of exports and imports



Source: Kosovo customs.

In Q1 2022, the import level of goods reached EUR 1.24 billion, representing an annual increase of 35.5%. The significant increase in the value of the import of goods during Q1 2022 is mainly attributed to the high increase in prices in international markets, also supported by the recorded increase in import of consumer goods of 15.0%.

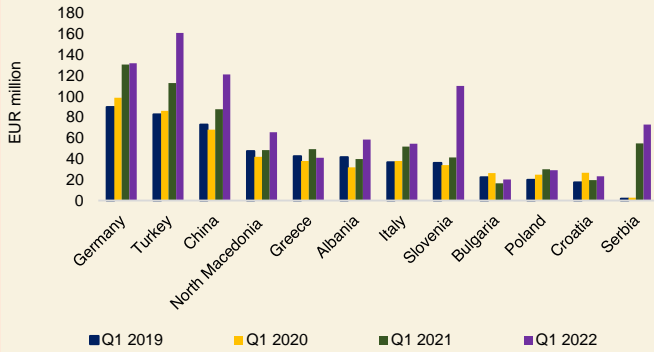
Chart 2. Imports, by main categories



Source: Kosovo customs.

Regarding the structure of imports by countries, EU countries and CEFTA member countries are the ones from where Kosovo imports most of the goods. In Q1 2022, Kosovo imported 45.0% of total goods from EU countries or 25.8% more compared to Q1 2021, as well as 17.0% of total imports from CEFTA countries or 34.8% more compared to Q1 2021 (chart 3).

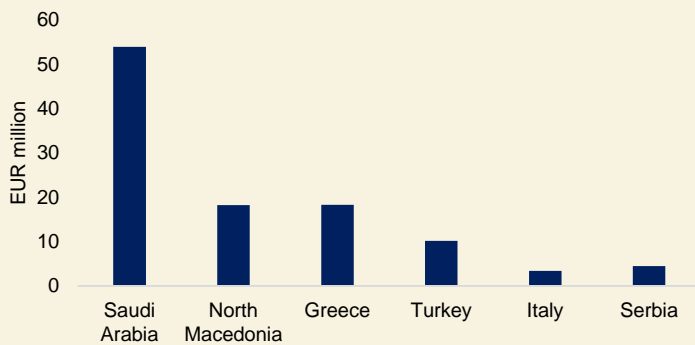
Chart 3. Import of goods, main exporting countries



Source: Kosovo customs.

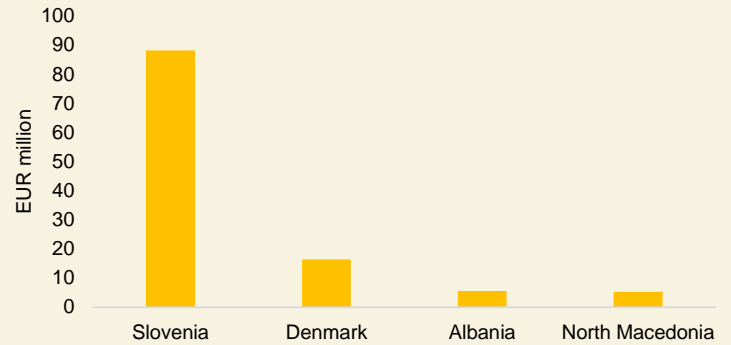
As for the countries in particular, in recent years Germany had the highest share in the total import of goods, while this quarter, it turns out to have been exceeded by Turkey. A large share of the import of goods was also realized from China and Slovenia (9.8% and 8.8%, respectively, of the total imports). Kosovo imported from Slovenia mainly electricity during this quarter, a dynamic which resulted in higher prices of electricity for Kosovan consumers. Low level of imports from Serbia in Q1 2019 and Q1 2020, as depicted in chart 2, mainly reflects the embargo on goods imported from this country during that period.

Chart 4. Main importing countries of fuels



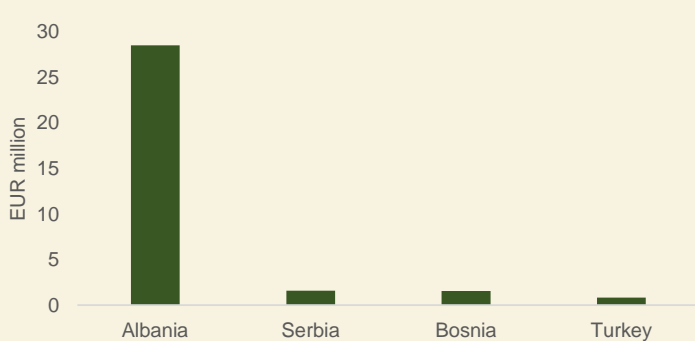
Source: Kosovo customs.

Chart 5. Main importing countries of electrical energy



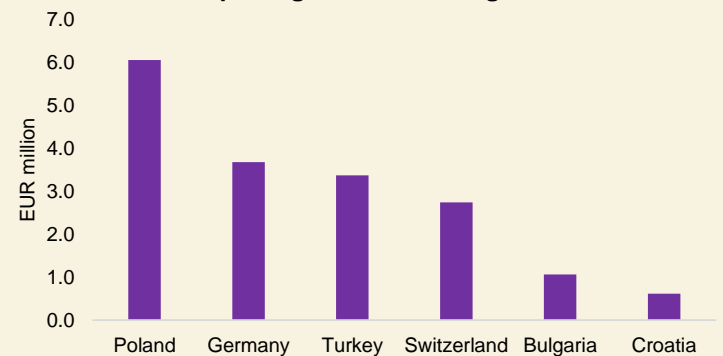
Source: Kosovo customs.

Chart 6. Main importing countries of steel bars



Source: Kosovo customs.

Chart 7. Main importing countries of cigarettes

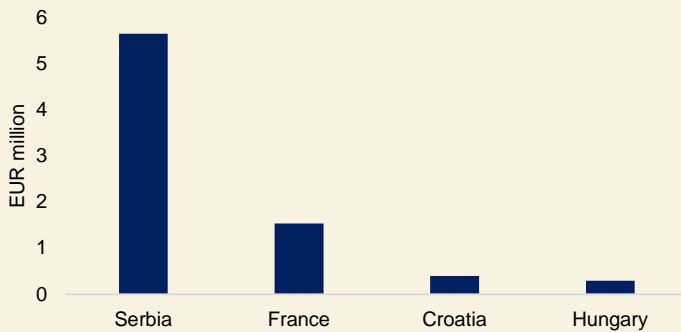


Source: Kosovo customs.

If we analyze the import of the main goods according to the country of origin, in Q1 2022, it turns out that Saudi Arabia leads the countries from where fuel is

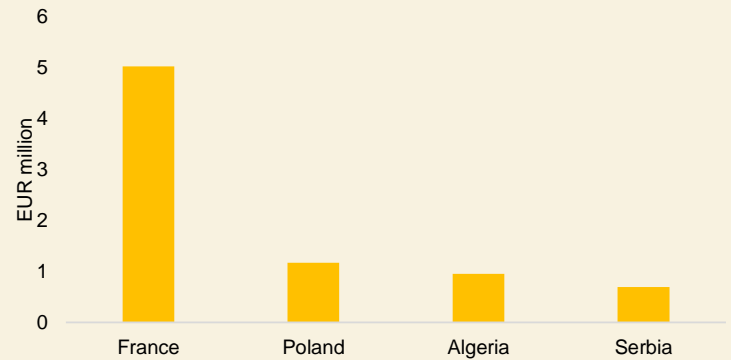
imported, followed by North Macedonia, Greece, etc. Electricity is mainly imported from Slovenia, followed by Denmark and Albania. The largest import of steel

Chart 8. Main importing countries of wheat



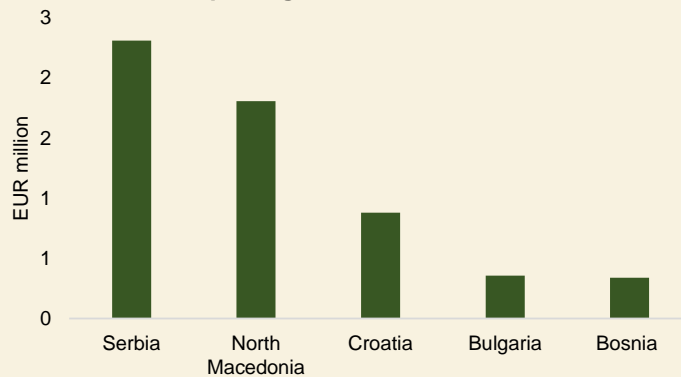
Source: Kosovo customs.

Chart 9. Main importing countries of white sugar



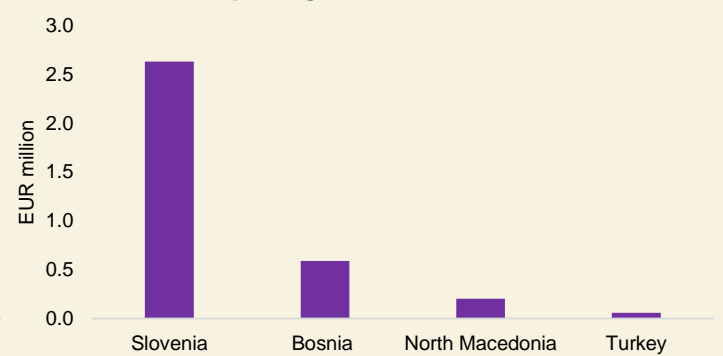
Source: Kosovo customs.

Chart 10. Main importing countries of edible oil



Source: Kosovo customs.

Chart 11. Main importing countries of milk



Source: Kosovo customs.

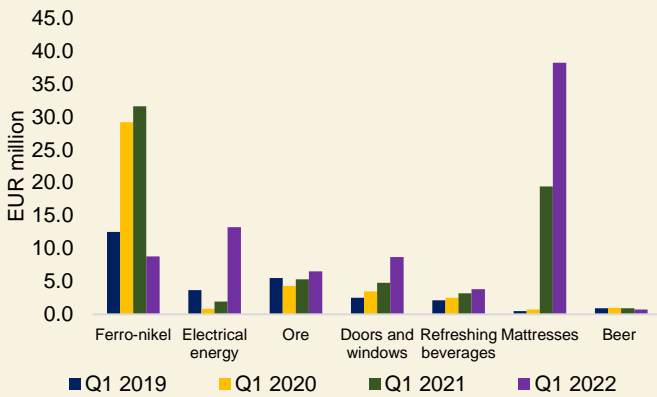
bars was realized from Albania, while cigarettes originate from Poland, Germany, Turkey, Switzerland, etc.

Since the overall structure of imports, by countries of origin, remained unchanged along the years, the war in Ukraine may cause a change of dynamics in the international markets. Movements towards other markets, as a result of the change in general macroeconomic dynamics at the global level, are accompanied by increased costs for importing countries, being reflected in increased prices - with potential effects both in increasing the debt burden and in potential decline of the demand. In the charts from

8 to 11 is shown the import of essential goods by country of origin. Historically, Kosovo results to have imported wheat from Hungary, while in Q1 2022, the imports of wheat mainly originated from Serbia. This dynamic may be attributable to the fact that in this quarter, Hungary has set restrictive measures on the export of wheat abroad. France leads the countries from where it was imported the white sugar, Serbia with edible oil and Slovenia with milk.⁴

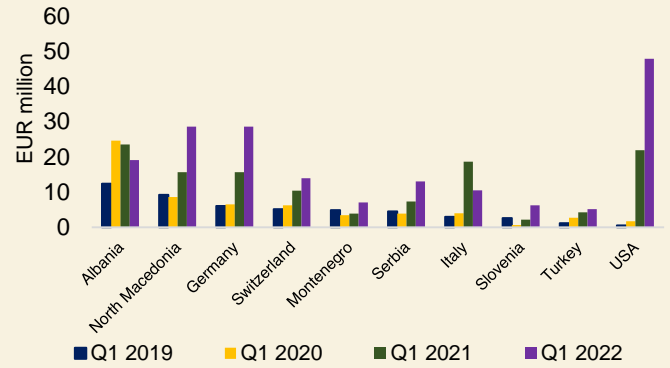
⁴Regarding the details on import prices of essential products, please refer to charts presented in the appendix.

Chart 12. Exports, by main categories



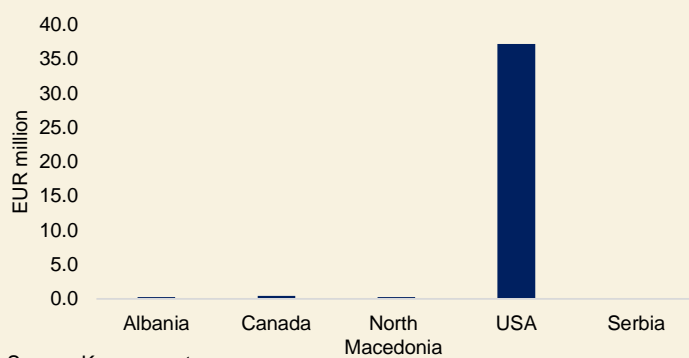
Source: Kosovo customs.

Chart 13. Export of goods, main exporting countries



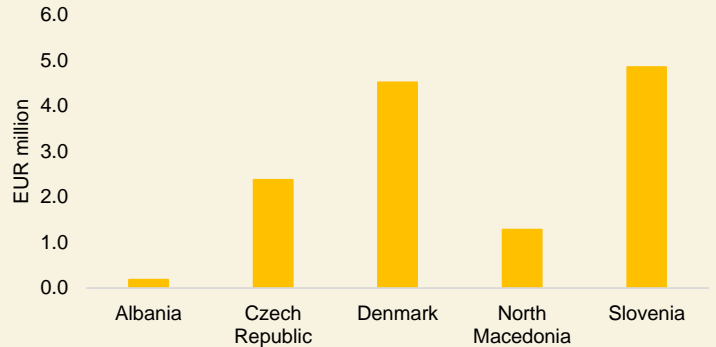
Source: Kosovo customs.

Chart 14. Exporting countries of mattresses



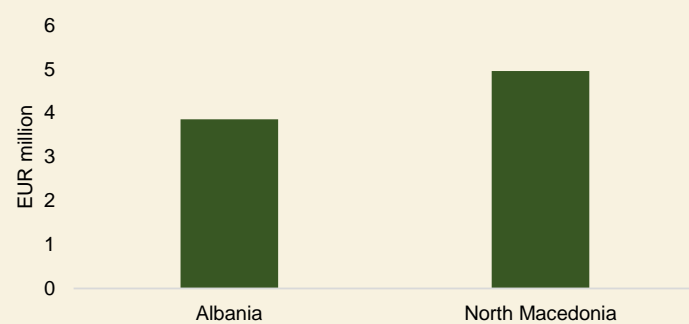
Source: Kosovo customs.

Chart 15. Main exporting countries of electrical energy



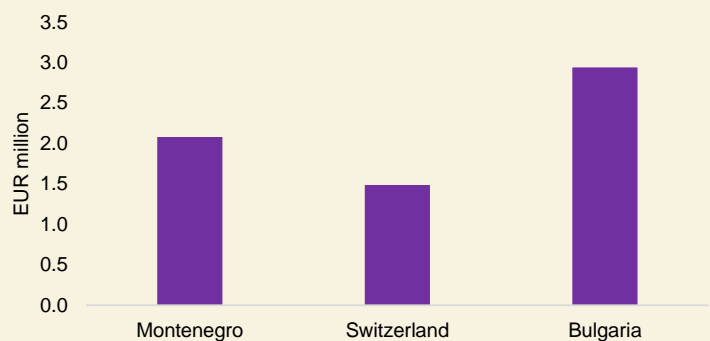
Source: Kosovo customs.

Chart 16. Main exporting countries of ferro-nikel



Source: Kosovo customs.

Chart 17. Exporting countries of ores

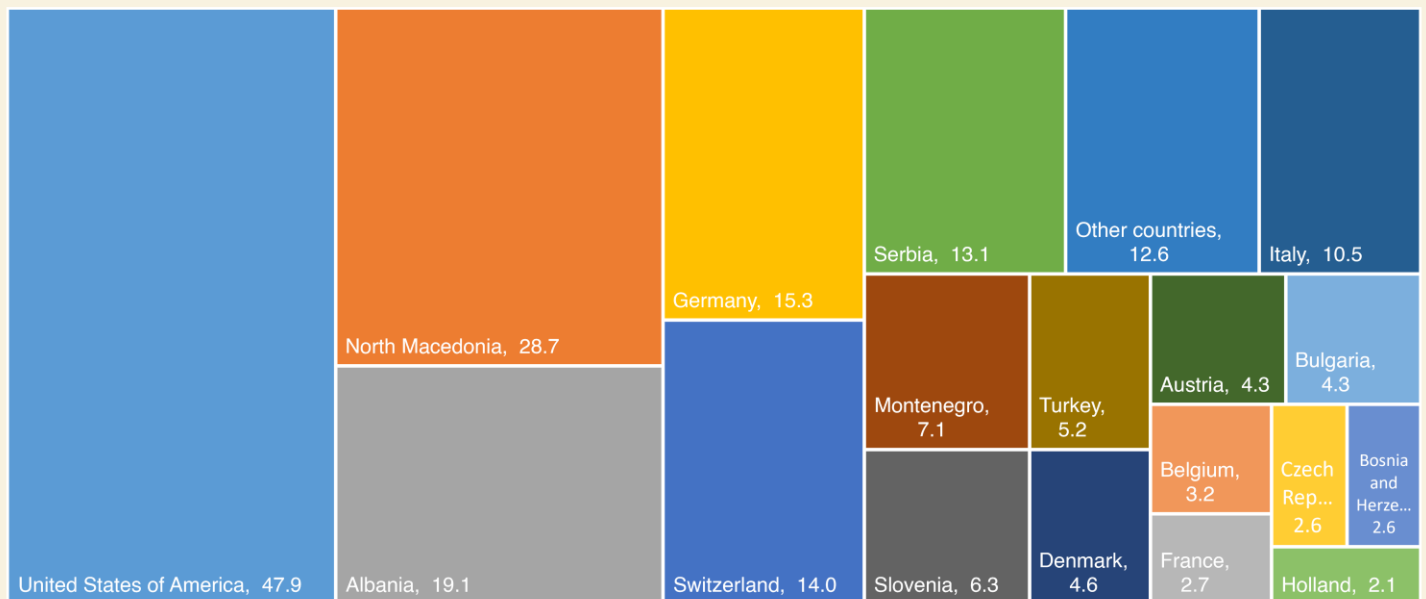


Source: Kosovo customs.

Export of goods has marked an increase of 42.7%, reaching the value of EUR 218.1 million. Also in export,

almost all categories have marked price increases in international markets.

Table 1. Kosovo Exports (by countries), EUR million



Base metals and mineral prices, in Q1 2022, marked an increase of 24.5% and this has affected the double increase of metal exports. Also, the consumer price index marked an increase of 24.7%, while the increase of exports of prepared food was 28.6% (chart 12).

Based on export by countries, Kosovo exports to neighboring countries and in the countries where Kosovan diaspora is concentrated. Export of goods to CEFTA countries has a share of 33.0%, whereas to EU countries the share reaches 32.4%. Exports to CEFTA member countries, only in Q4 2022, amounted to EUR 71.9 million, marking an increase of 32.2%, while exports of goods to EU countries was EUR 70.7 million or 37.1% more compared to Q1 2021. In recent years, Albania, Germany and North Macedonia were the main export destinations, but in the last year they have been exceeded by exports to the USA (chart 13).

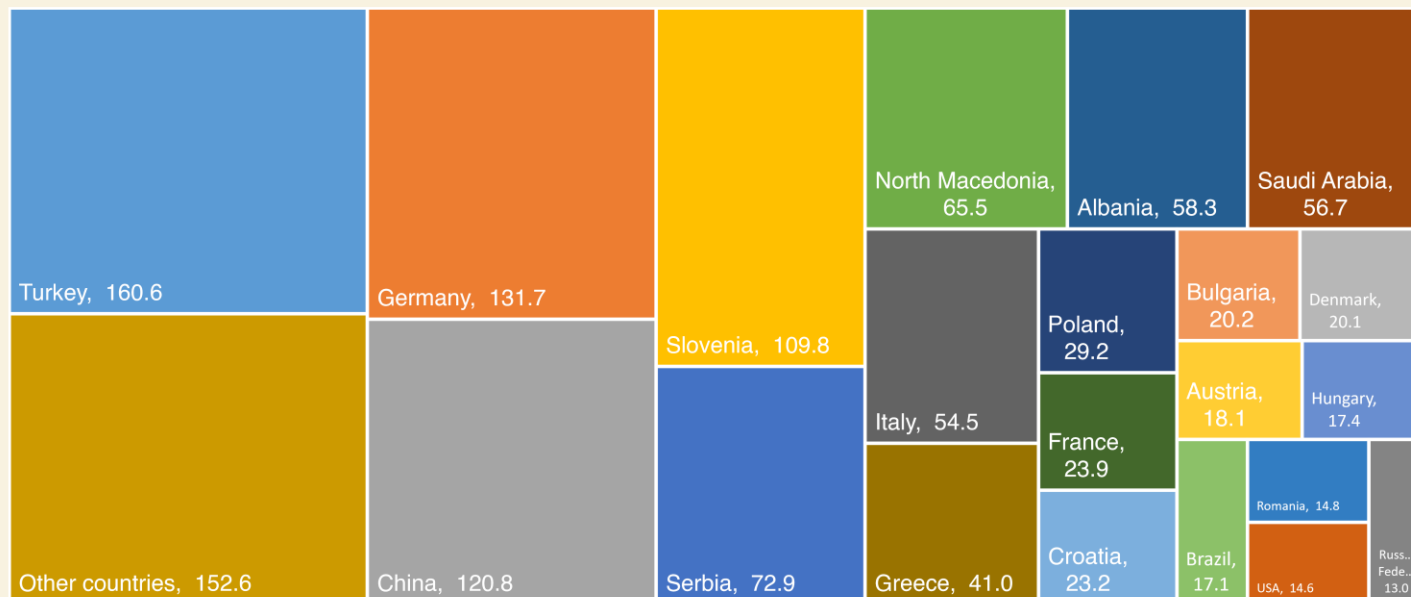
Exports to USA has continued to be characterized with a high increasing trend, where in Q1 2022, the level of

exports of goods to the USA was EUR 48.0 million (EUR 22.0 million in Q1 2021), making the share of total exports to USA reach 22.0% from 14.4% as it was in Q1 2021.

The charts 14-17 show the main products exported by countries, which represent a high degree of concentration - export of the main goods is realized in a small number of countries. The high increase of exports in the last two years was a result of the export increase of mattresses to the USA. Regarding the export of electricity, the same as import, Slovenia leads, followed by Denmark, Czech Republic, etc. Nickel ores are mainly exported to countries in the region, while other ores are exported to Montenegro, Bulgaria and Switzerland.

In the two tables below, for informational purposes, the value of imported/exported goods by country, and the share of each country in total imports/exports, are presented in charts

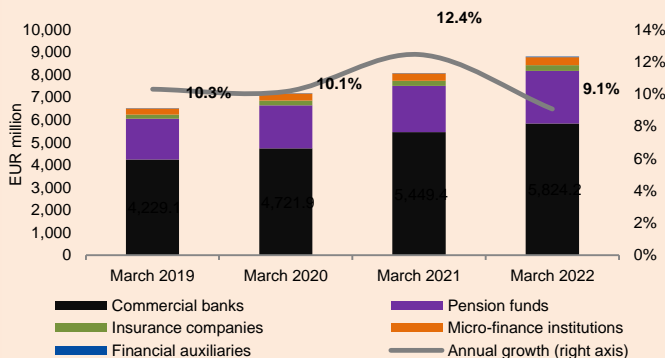
Table 2. Imports, by country of origin (EUR million)



Financial System

The financial system continued the positive growth trend, but at a significantly slower pace compared to the previous period. The dynamics in the financial system during the first quarter of 2022 were mainly determined by the slowdown in the growth of deposits, while lending marked a significant increase. The pension sector contributed positively to the growth of the financial system assets, based mainly on the collections from the contributors, while the turmoil in the financial markets with the beginning of the war in Ukraine was accompanied by a negative return on the sector's investments. Other sectors had positive contribution to the growth, albeit their weight in the system remained low.

Chart 09. Assets value of Kosovo's financial system



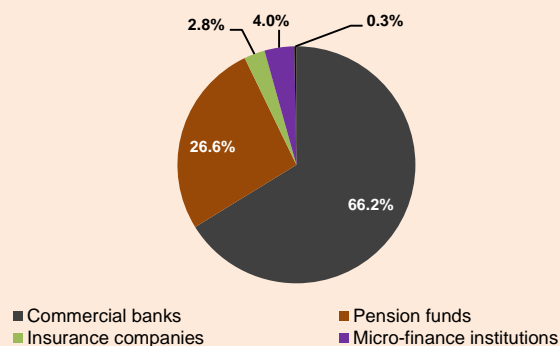
Source: CBK.

At the end of December 2022, financial system assets reached the value of EUR 8.80 billion, representing an annual increase of 9.1% (12.4% in the previous year) (chart 09). Banking sector marked a slowdown increase compared to the previous period, which mainly reflects the deposits trend, which marked a lower increase compared to the increase that had been marked in the

previous year. The pension sector, as the second sector in terms of weight within the financial system (chart 10), recorded an accelerated annual growth of assets, influenced by the return on investments during the first quarter of 2022. Realized losses from investments during the first quarter of 2022 limited the growth of the sector's assets.

The microfinance sector recorded accelerated growth compared to the previous year, as a result of increased lending activity, supported mainly by financing from the external sector. The insurance sector continued the growth trend of the past two years, which mainly reflects the contribution of the increase in gross written premiums during this period.

Chart 10. Concentration of financial system assets, by constituent sectors



Source: CBK.

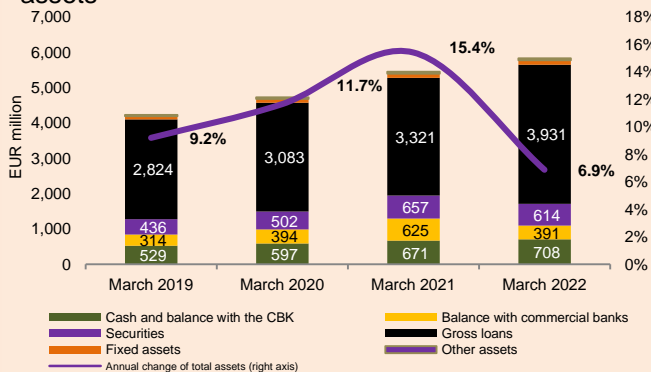
1. Banking Sector

In general, the banking sector continues to operate in an environment with low levels of loans with problems, optimal liquidity and in a state of being well-capitalized. Banking sector marked a significant increase of lending during this period, being supported by the increase in demand, financed by deposits. These dynamics were translated in a record increase of the realized profit.

1.1. Balance sheet - Assets

The growth of the banking sector assets slowed down, after three years of accelerated growth, mainly reflecting the performance of deposit collections. In March 2022, total assets of the banking sector reached EUR 5.82 billion, representing an annual increase of 6.9% (chart 11). The structure of assets continues to be similar to previous years, with loans having the largest share of assets (67.5%), followed by cash (12.2%), securities (10.5%), and assets held in other commercial banks (6.7%) which are mainly located abroad.

Chart 11. Balance sheet of the banking sector - assets



Source: CBK.

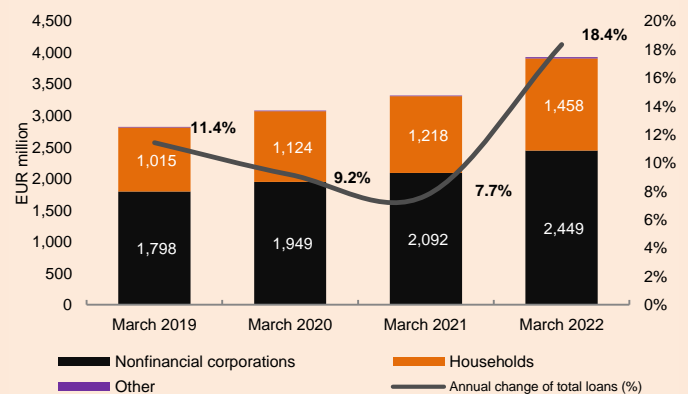
The structure of securities continues to be dominated by investments in treasury bills and in government bonds (domestic and foreign), but in the last three years there has been observed a significant increase in investments in non-government securities, which have a higher return. The weight of investments in non-government securities at the end of March 2022 was 10.9% compared to the weight of 4.1% of total investments in securities in March 2019. Kosovo's Government Securities dominate the structure of total securities (46.5%) followed by those of foreign governments (42.6%). In the reporting period, there was a decrease in investments in securities, both

domestic (annual decrease of 2.8%) and foreign (annual decrease of 7.4%). The contraction of investments in the instrument of securities largely reflects the reallocation of funds towards lending activity. Similar to the developments in securities, the banking sector reduced the level of exposure with banks and other financial institutions, which are mainly held abroad in the form of time deposits and current accounts.

1.1.1 Lending activity

Lending activity marked an accelerated growth compared to the same period of the previous year, compensating the slowdown in growth of the two previous periods, which was, among others, influenced by the spread of the Covid 19 pandemics. In March 2022, total loans reached EUR 3.93 billion, representing an annual increase of 18.4% (7.7% in the previous period). Household sector contributed to this growth, which recorded a higher annual increase, and also the nonfinancial corporations sector, which at the same time had the main contribution to the growth of total loans.

Chart 12. Stock of total loans, annual change



Source: CBK.

The accelerated growth of lending to households and the enterprise sector is mainly attributed to the

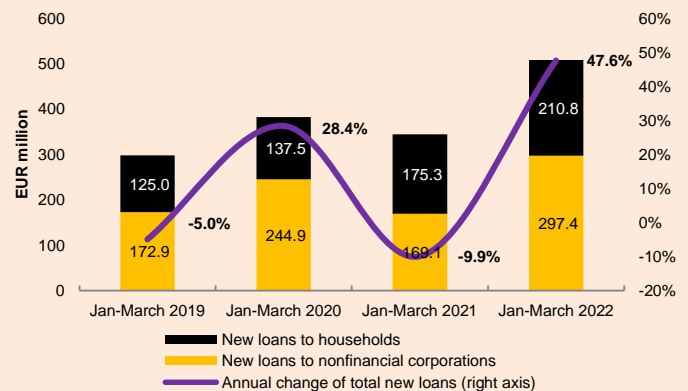
increase in credit demand, supported by the general increase in domestic demand and general income in the economy (diaspora-based inflow). Also, at a lower level, lending was supported by credit supply, based on the positive macroeconomic prospects after the normalization of the situation with the Covid-19 pandemic and the strong economic recovery during 2021.

Moreover, new loans during the period January-March 2022 marked a significant annual increase compared to the decrease recorded in the same period of 2021 (chart 13). The highest growth within the new loans issued by the banking sector was recorded in the nonfinancial corporations, to which lending increased by 75.9%. In the growth of new loans during Q1 2022, the highest impact was given by the performance of new loans for investment purposes, which doubled in value compared to the previous year, reaching EUR 297.4 million at the end of Q1 2022. Also, new loans with non-investment purposes recorded a considerable growth (an increase of 42.2%), and reached the value of EUR 111.6 million at the end of Q1 2022. Therefore, the increase in lending to nonfinancial corporations, especially those for investment purposes, has been preceded by a rising inflation, so that businesses can accumulate working capital and commodity reserves at current prices, and to have as low level as possible of losses from the rising cost of basic products with which they work.

The main contribution to the growth of new loans to households during this period was given for the first time by mortgage loans. These loans for the second consecutive year marked a significant increase, reaching the value of EUR 65.8 million only in Q1 2022,

representing an annual growth of 53.2%. The significant increase of mortgage loans has been influenced by the more favorable conditions offered by banks for this category, through lowering the collateral requirements, declining interest rate, increasing the approved amount, and the extension of the maturity term. Moreover, the beginning of possessing the regular real estate documentation has influenced banks to have a higher focus on granting residential loans, as opposed to real estate collateral. Households, on the other hand, have increased investment in real estate during this period, as a result of banks offering more favorable conditions for these loans, expectations for further increases in real estate prices in the following months, and the low level of interest rates on time deposits.

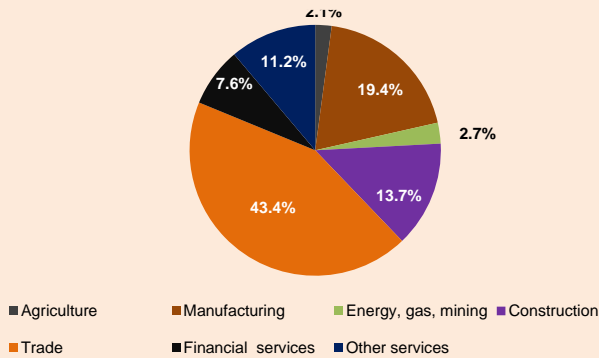
Chart 13. New loans, annual change



Source: CBK.

During this quarter, consumer credit marked a significantly slower growth compared to the previous year and the general trend. These loans marked an annual increase of 3.8% in Q1 2022 (20.4% in Q1 2021). Loans with consumer purposes continued to have a higher weight within new loans to households, with 60.2%. In Q1 2022, loans value with consumer purposes reached the value of EUR 210.8 million.

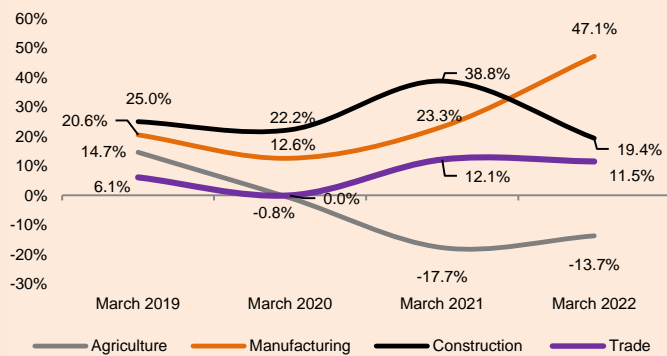
Chart 14. Share in total loans to nonfinancial corporations



Source: CBK.

The stock of loans to nonfinancial corporations continues to be dominated by the trade sector, followed by the manufacturing sector and construction, while the agriculture sector continues to have a lower share (chart 14).

Chart 15. Annual change on loans to nonfinancial corporations, by economic activity



Source: CBK.

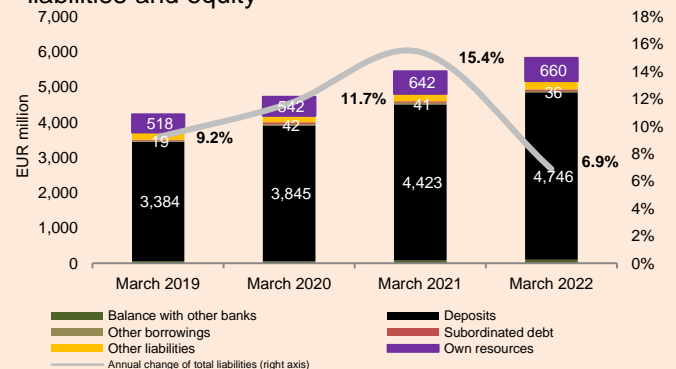
Loans to the trade sector increased by 11.5% (12.1% in March 2021) and had the second highest contribution to the growth of total lending to nonfinancial corporations. Meanwhile, lending to the manufacturing sector marked a significant increase during this period (47.1% from 23.3% in March 2021) and had the main contribution to the increase of loans to nonfinancial corporations. Lending to the agricultural sector for the second consecutive year

marked a decrease, albeit of a lower level (a decrease of 13.7%) compared to the decrease of the previous year (of 17.7%) (chart 15).

1.2. Liabilities and Own Resources

The structure of liabilities and own resources of the banking sector continues to be traditional and consists mainly of deposits (81.5%), own resources (11.3%), and other liabilities (3.9%). Historically, deposits have presented a safe resource of financing and of quite low cost for the sector.

Chart 16. Balance sheet of the banking sector - liabilities and equity



Source: CBK.

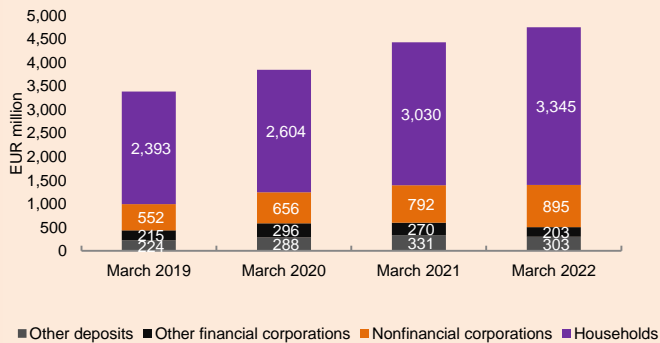
1.2.1 Deposits

The value of deposits held at the banking sector reached EUR 4.75 billion at the end of 2021, representing an annual increase of 7.3% (charts 17 and 18).

Household deposits continued to have the main contribution to the total growth of deposits, followed by nonfinancial corporation deposits.

Other financial corporation deposits (primarily pension funds) marked an increase, mainly as a consequence of allocation of assets in the external sector.

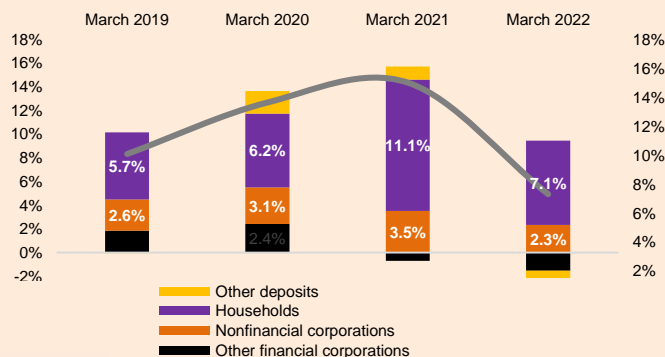
Chart 17. Stock of total deposits



Source: CBK.

Household deposits, which comprise 70.5% of total deposits, marked an annual increase of 10.4% (16.4% in March 2021). The slowdown in the growth of household deposits compared to the same period of the previous year may be a result of the increase in the level of capital/consumption investments.

Chart 18. Contribution to annual growth of total deposits, percentage points



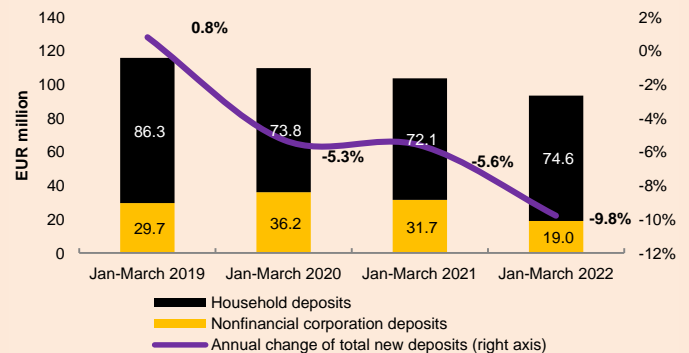
Source: CBK.

The increase in investments, especially in real estate sector (also reflected by the significant increase in mortgage loans), may be an impulse caused by increased inflationary pressures, since the interest rates on deposits are quite low (around 1.0%), while the trend of real estate prices is increasing. Moreover,

historically during the first and second quarters, the level of deposits is lower compared to the third (inflow of remittances and overall economic activity) and the fourth quarter of the year.

Also the level of deposits held in the banking sector by nonfinancial corporations showed a slower growth compared to the previous period, of 13.1% (20.6% in March 2021), which mainly reflects the inflationary pressures since the beginning of the Ukraine-Russia war, which has influenced the increase of the prices of essential goods. Businesses have responded to this uncertainty by increasing reserves both in working capital as well as increasing merchandise stocks.

Chart 19. New deposits, annual change



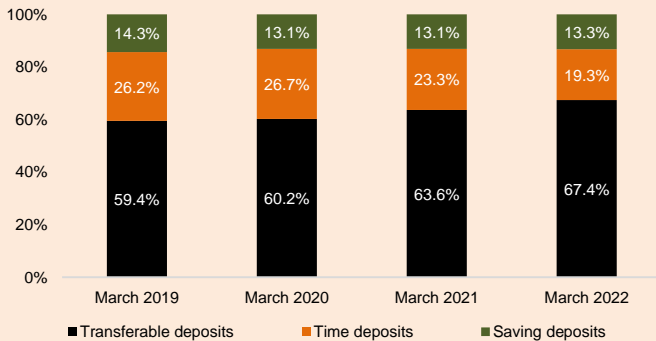
Source: CBK.

During the period of January-March 2022, the value of new deposits collected⁵ amounted to EUR 93.6 million, which is for 9.8% lower than in the same period of the previous year (chart 19). The low value of new deposits collected in the recent years reflects also the low level of interest rates on time deposits⁶, the structure of which in recent years has contracted against the growth of transferable deposits (chart 20).

⁵ New deposits include time deposits.

⁶ The average interest rate on time deposits of the banking sector during January-March 2022 was 1.3%.

Chart 20. Structure of deposits, by main categories



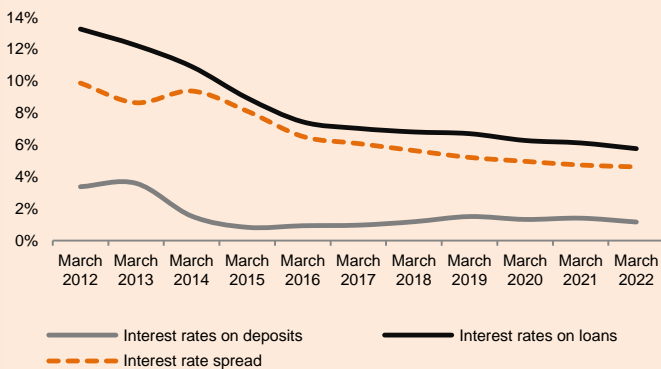
Source: CBK.

New deposits collected from nonfinancial corporations (time deposits) during this period reached the value of EUR 19.0 million, representing a decline of 39.9%. Whereas, new deposits collected from households (time deposits), reached the value of EUR 74.6 million during this period, representing an annual increase of 3.5%.

1.3. Interest rates

Interest rates on loans have marked a gradual decline over the years, thus reaching at an approximate level of the region countries. However, the average interest rate on deposits has remained almost unchanged in the recent years, which mainly reflected the high level of liquidity of banks.

Chart 21. Interest rate on loans and deposits



Source: CBK.

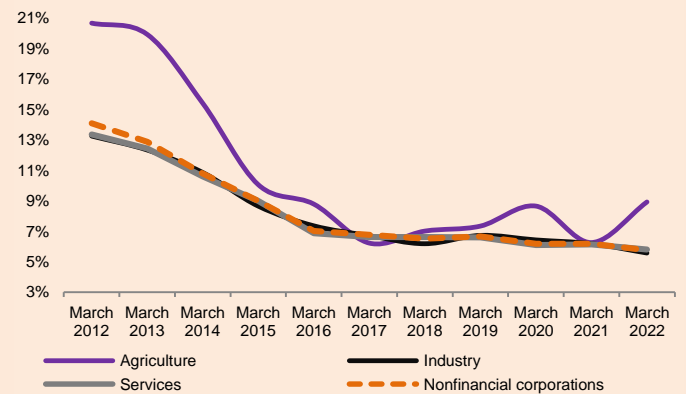
In March 2022, the interest rate on loans was 5.8% while interest rate on deposits stood at 1.2%, narrowing the interest rate spread of loans and deposits at 4.6 percentage points (chart 21).

1.3.1 Interest rates on loans

Interest rates on loans to nonfinancial corporations, to some extent, are more favorable compared to interest rates on loans to households (chart 22). In March 2022, interest rates on loans to nonfinancial corporations stood at 5.7% (6.2% in March 2021) (chart 22).

Interest rate on loans to services and industry sectors are more favorable compared to loans to agriculture sector. Higher interest rates on loans to the agriculture sector are a result of the higher risk that this sector bears (chart 22).

Chart 22. Interest rate on loans to nonfinancial corporations



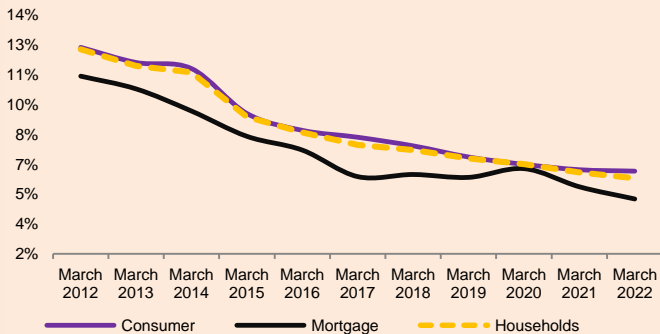
Source: CBK.

Interest rates on loans to households continued with the same declining trend as of nonfinancial corporations. Interest rates on this segment in March 2022 stood at 5.8%.

A more favorable interest rate was marked by mortgage loans, reflecting the high increase of new mortgage loans during this period.

While, interest rates on consumer credit were higher than the segment's average, albeit compared to previous periods, there has been marked a decline (chart 23).

Chart 23. Interest rate on loans to households

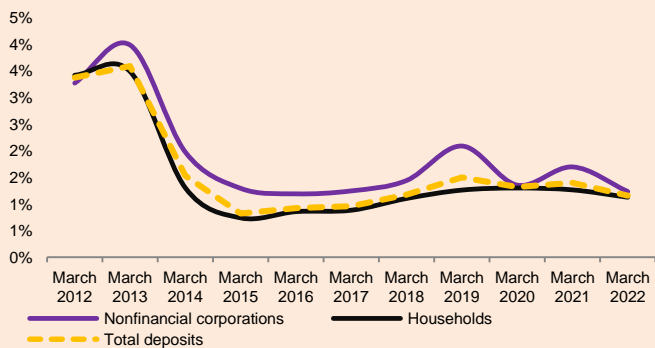


Source: CBK.

1.3.2 Interest rates on deposits

Interest rates on deposits continue to remain low, with slightly more favorable rates for nonfinancial corporations (1.2%) compared to those for households (1.1%) (chart 24).

Chart 24. Interest rates on deposits



Source: CBK.

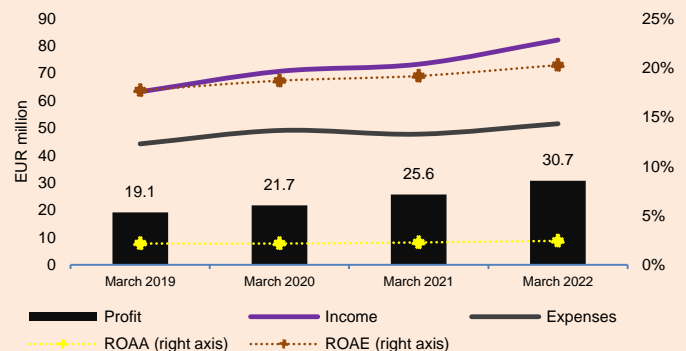
Performance of the Banking Sector

The banking sector realized a profit with a value of EUR 30.7 million until March 2022, which is for EUR

5.0 million higher compared to the statement as of end-March 2021 (chart 25). The highest profit realized in this period reflects the performance of income (which increased by 12.0%), whereas expenditures increased by 7.9% during this period.

Within income, interest income is the category with the largest share (72.1%) and marked an annual increase of 10.4%, an increase mainly attributed to interest income on loans, followed by income from placements in banks and other financial institutions. Non-interest income, which have lower weight in total income of the sector (25.1%) marked an increase of 13.8%. The subcategory which marked the highest increase was the one of fees and commissions, reflecting the cost increase of banking services and the higher use of e-banking services. The number of e-banking accounts has increased by 30.5% compared to the statement at the end of March 2021, and has reached the number of 567.2 thousands of e-banking accounts. Moreover, in terms of the number and value of card transactions, there is an increase compared to the same period of the previous year, for 26.7% and 36.0%, respectively.

Chart 25. Profit and profitability indicators of the banking sector



Source: CBK.

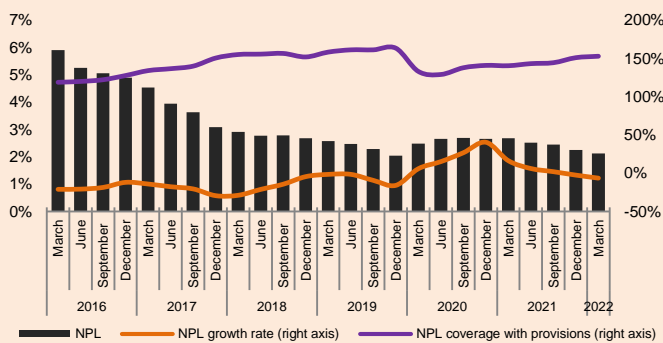
Within expenditures, the category of general and administrative expenditures that has the largest share

in total expenditures (59.4%) marked an annual increase of 11.3% during this period. The significant increase in this category came as a result of the increase in personnel expenses (increase in the number of employees) and follow-up expenses. Whereas, the second category with the largest share, that of non-interest expenses (22.5%) marked an annual decrease of 1.6% mainly reflecting the decrease of loan loss provision expenses.

Financial Soundness Indicators

The banking sector has inherited from previous years a high level of capitalization, liquidity and high quality of loans portfolio. This has affected the sector to have the capacity to absorb the crisis caused by the Covid-19 pandemic in 2020, while maintaining a good level of key indicators of the banking soundness, during 2021 and the first quarter of 2022.

Chart 26. Nonperforming loans and loan loss provisions

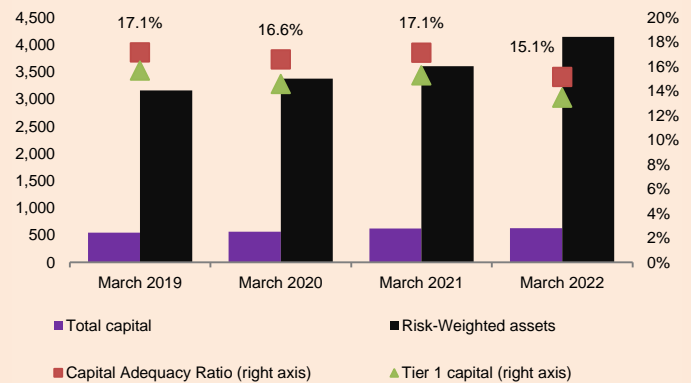


Source: CBK.

However, compared to the same period of the previous year, in March 2022, capitalization and liquidity indicators have marked a decline, albeit continue to remain significantly above the minimum regulatory requirements. Moreover, banking sector has marked an improvement of loans portfolio, thus declining as a ratio (NPL/total lending) and in value.

The level of nonperforming loans, in March 2022, stood at 2.1%, and the coverage with provisions from potential losses at 152.9% (chart 26). The capital adequacy ratio stood at 15.1%, significantly above the minimum regulatory level of 12.0% (chart 27).

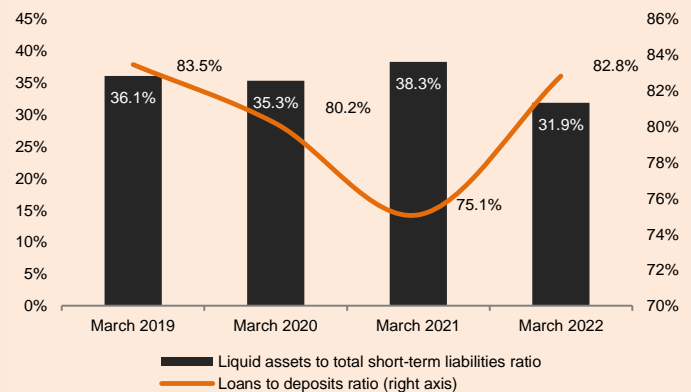
Chart 27. Solvency indicator



Source: CBK.

Also, the liquidity of the sector was significantly above the recommended minimum level of 25.0%. The ratio of liquid assets to total short-term liabilities, in March 2022, stood at 31.9% (chart 28).

Chart 28. Liquidity indicators



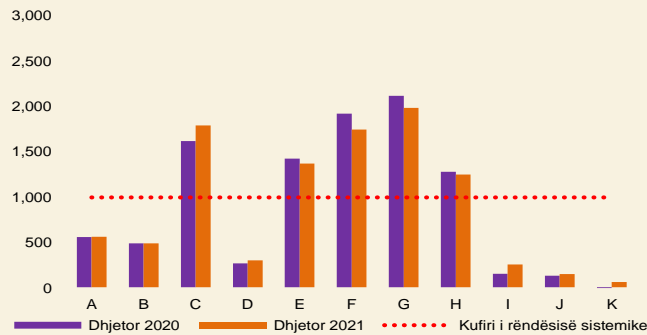
Source: CBK.

Box

Banks with systemic importance⁷

- Five largest banks have resulted with general systemic importance in the banking sector (chart 1).

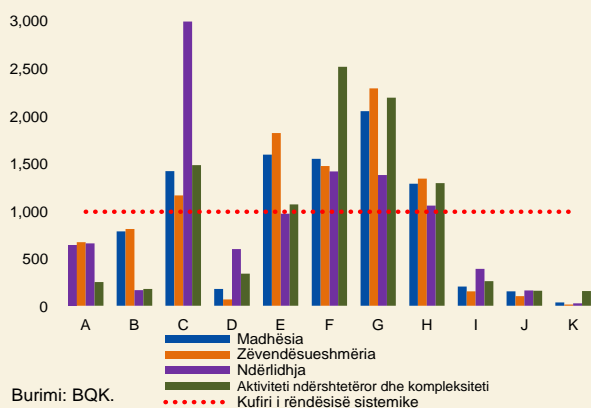
Grafik 1. Shkalla e përgjithshme e rëndësisë sistemike



Burimi: BQK.

In the specific criteria, banks of general systemic importance have turned out to be the same also in other constituent criteria (excluding that of interconnectedness and cross-jurisdictional activity) (chart 2).

Grafik 2. Shkalla e rëndësisë sistemike, sipas kritereve



Burimi: BQK.

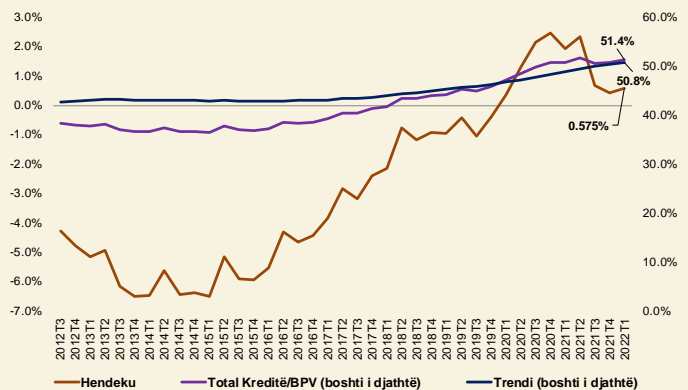
Interconnectedness criteria has the highest level of systemic points as only three banks with overall systemic importance resulted as such in this criteria. This came as a result of the low level of assets/liabilities with banks and other financial institutions and exposure in securities.

- Banks which did not result to be of global systemic importance, did not turn out to be as such from none of the comprising indicators.

Countercyclical capital buffer⁸

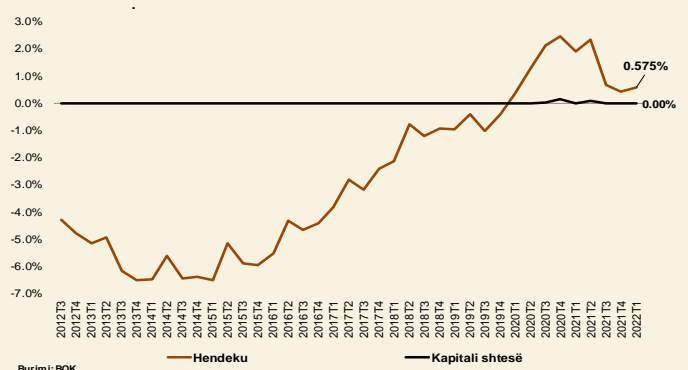
- The calculation of the required capital buffer was made in accordance to the relevant instructions given by the Basel Committee where the demand for capital buffer (as a percentage of risk-weighted assets) is zero when the gap is less than 2 percentage points, and when the gap increases within the range of the value from 2 to 10 percentage points it is required the maintenance of the capital buffer up to the maximum level of 2.5%.
- Loans/GDP gap was below the threshold of 2.0 percentage points in March 2022, namely 0,575 (chart 3), meaning that the banking sector does not need capital buffer to risk weighted assets (chart 4).

Grafik 3. Hendeku i kreditimit



Burimi: BQK.

Grafik 4. Kapitali shtesë kundër-ciklik



Burimi: BQK.

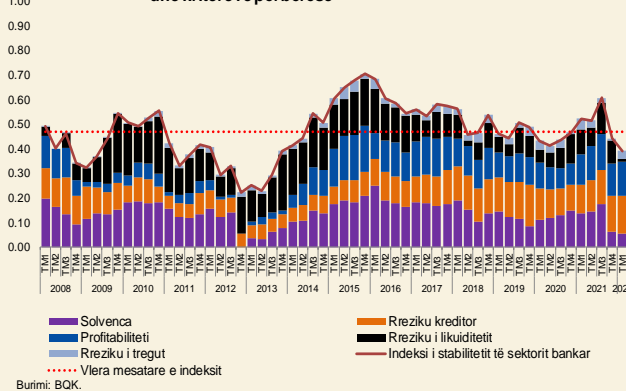
⁷ For the theoretical basis and complete methodology of assessment of Banks with Systemic Importance, see the CBK working paper no. 7 "Identification of Banks with Systemic Importance and Additional Capital in Kosovo".

⁸ Bank for International Settlements (2010). Guidelines for national authorities operating the counter-cyclical capital buffer, Basel Committee on Banking Supervision.

Stability index of the banking sector⁹

- The stability index of the banking sector is constructed based on the indicators used more frequently in the banking sector, to measure and assess the internal conditions of the banking sector which reflect the stability of the banking sector. The index has been constructed based on the financial indicators of the banking sector, taking the values ranging from 0 to 1, where the higher values represent a risk in decline and vice versa.
- Based on the general aggregated index of the sector's stability, at an average, it was marked an increase of the risk sensitivity at the end of Q1 2022 compared to the statement as at end of Q1 2021.
- The overall value of the index as at end of Q1 2022 is below the historic average value (chart 5).

Grafik 5. Indeksi i përgjithshëm i stabilitetit të sektorit bankar dhe kritereve përbërëse



- The evident increase in risk sensitivity was influenced by solvency indicators and liquidity indicators. However, indicators of credit risk, profitability, and market were characterized by significant reduction of the risk.
- The increase in risk sensitivity in the solvency indicator is mainly attributed to the lower level of capital indicators (Capital Adequacy Ratio & Tier 1 capital) compared to the situation of the previous year, which is a result of the dividend distribution in the last year with the expiration of the recommendation measure by the CBK, while lending increased rapidly. The sector continued to exceed the CAR recommended minimum of 12%.
- The increase in risk sensitivity to the liquidity indicator was mainly a result of the lower level of liquidity, expressed through liquid assets to short-term liabilities (lower increase of liquid assets against the higher growth of short-term liabilities), as well as to total assets (lower increase of liquid assets against total assets).
- The decline of the risk sensitivity of the credit risk indicators was mainly a result of the decline of the value and the level of NPL in this period compared to the statement at the end of Q1 2021.
- The decrease in risk sensitivity in the profitability indicator was attributed to the high realized profit, influenced by the higher increase of the generated income (from interest and fees and commission) against the increase in expenses.

Pension sector

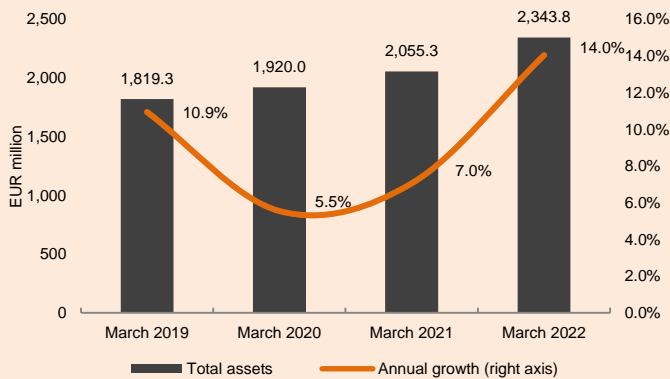
The expansion of the pension sector resulted from the high investment return realized during 2021 and the collected contributions during the first quarter of 2022. Russian invasion in Ukraine caused high negative effects in international financial markets, which consequently were reflected in losses for the pension sector in Q1 2022 and limited a further increase of this sector.

Pension sector, as the second sector by importance of weight in the financial sector, comprises 26.6% of total assets of the financial system. Assets of the pension sector marked an annual increase of 14.0% in March 2022, reaching the value of EUR 2.34 billion (chart 29). The increase in assets mainly reflects the increase in new contributions during this quarter; as well as the value of collected contributions and the high return on

⁹ For further details on the construction methodology of the stability index of the banking sector, please refer to the Financial Stability Report no. 9.

investments accumulated from the periods Q2-2021 and Q4-2021.

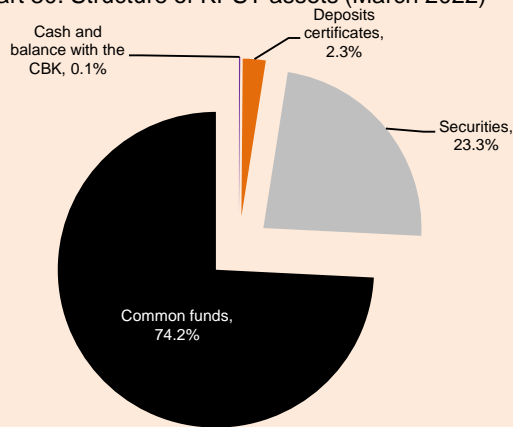
Chart 29. Assets of the pension sector



Source: CBK.

Assets of the pension sector are comprised of Kosovo Pension Saving Trust (KPST) assets with a share of 99.6% and Slovenian-Kosovo Pension Fund (SKPF) assets which have a share of 0.4%.

Chart 30. Structure of KPST assets (March 2022)



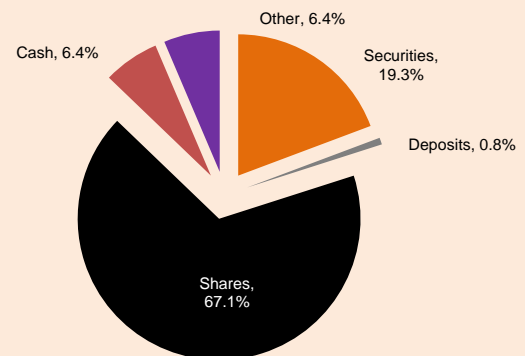
Source: KPST.

Assets structure of KPST is mainly comprised of assets invested abroad, whose value gradually was declined along the years against the increase of the assets weight invested in the country. Around 74.3% of KPST assets are held abroad. More specifically, in monetary terms, around EUR 1.73 billion are allocated to mutual invested funds and EUR 1.8 million are invested in treasury bills (chart 30).

The remainder of assets were invested in the country, reaching the value of EUR 600.2 million at the end of March 2022. The largest portion of these assets are invested in treasury bonds and treasury bills of Kosovo's Government, which at the end of March 2022 amounted to EUR 542.5 million (an annual growth of 17.5%). The value of assets held at commercial banks, in the form of Certificates of Deposit, was significantly reduced, due to the orientation of the strategy to investments abroad. Also, the funds held in the Central Bank of Kosovo continued to contract, to be used in investments, such as securities (of the Kosovo's Government) and joint investment funds (abroad).

At the end of March 2022, the value of total assets of KPST reached 2.33 billion, representing an annual increase of 14.1%.

Chart 31. Structure of SKPF assets (March 2022)



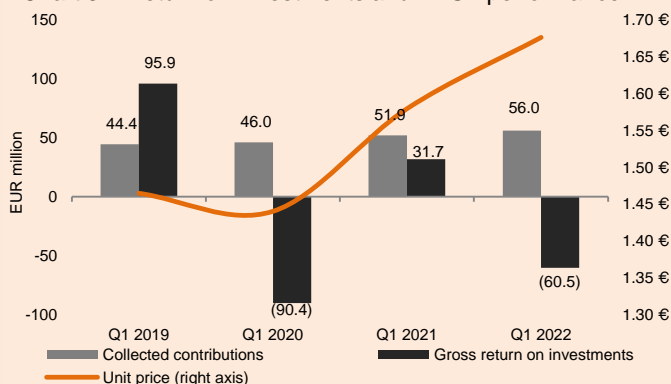
Source: SKPF

The structure of SKPF assets similar to that of KPST, where around 78.0% of them are invested abroad, and the remainder are invested in Kosovo. SKPF portfolio is mainly comprised of shares invested abroad (67.1%), treasury bonds of foreign governments and of Kosovo's Government (19.3%), cash (6.4%) and other instruments (7.2%) (chart 31). Total assets of SKPF,

until March 2022, reached EUR 9.0 million, representing an annual increase of 2.7%.

In the first quarter of this year, the SKPF had negative gross return on investments with a value of EUR 295.8 thousands (EUR +402.9 thousands in Q1 2021). Whereas, the value of new collections of contributors amounted to EUR 148.3 thousands (EUR 124.3 thousands in Q1 2021). Negative return on investments affected also SKPF as a consequence of movements in financial markets as a result of the beginning of the war in Ukraine.

Chart 32. Return on investments and KPST performance



Source: KPST

Similarly, also assets invested in KPST were affected by the war. During the first quarter of 2022, KPST marked a negative return on investments of EUR 60.5 million (+31.7 million in Q1 2021) (chart 32). Meanwhile, the contributions collected by KPST continue to be stable and being characterized with increase, where only in Q1 2022 reached the value of EUR 56.0 million, which is for EUR 4.1 million more compared to the same period of the previous year.

Insurance sector

The insurance sector was characterized by an increase in activity, namely an increase in the

level of written premiums, which was also reflected in the total activity of the sector, as well as a decrease in the level of paid claims that contributed to the positive financial result.

The value of total assets (which comprise 2.8% of total financial system assets) reached EUR 249.0 million, representing an annual increase of 11.5%. In the context of assets, the most significant growth was marked by the category of Kosovo's Government Securities, followed by the category of technical reserves for re-insurers and the balance of deposits in commercial banks. However, the category of investments in property and cash and deposits in the CBK were the only categories that recorded a decrease compared to the situation in the previous year.

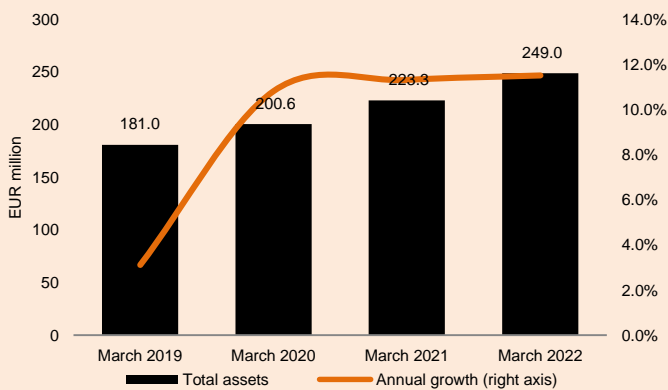
Regarding the liabilities of the sector, technical and mathematical provisions account for the largest part with a total of 64.9%, followed by equity with 25.2% and the remainder from other liabilities. The value of the total capital of insurers during this period marked a significant increase of 11.2%. The increase in capital compared to the same period of the previous year is mainly attributed to the profit realized during the period January-March 2022 as well as the profit retained from the previous periods.

The value of premiums written by insurers in the first quarter of this year amounted to EUR 29.7 million, marking an annual increase of 18.3% (12.6% in the same period of the previous year). The structure of written premiums is dominated by "non-life" insurance premiums which represent 93.7% of total written premiums and the remaining of 6.3% account for "life" insurance.

The increase in the level of written premiums and sold policies compared to the previous year reflects the

performance of sales of third-party liability policies and other policies, while the sale of border policies has decreased, which is the result of the government's decision on covering the whole expenses for border insurance obligations for the diaspora.

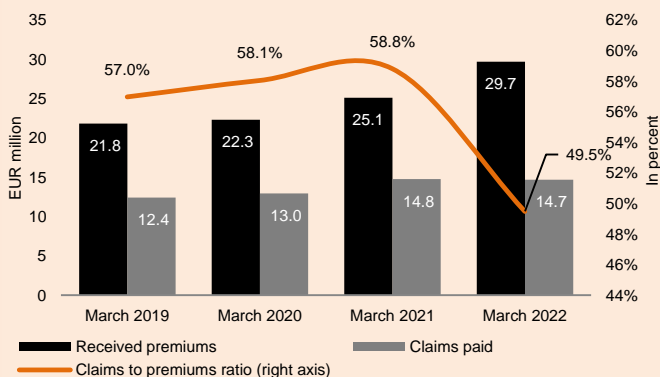
Chart 33. Assets of insurance sector



Source: CBK.

Claims paid by the insurance sector, including insurers and the Kosovo Insurance Bureau (KIB) claims, marked a decline of 0.5%, declining at the value of EUR 14.7 million at the end of March 2022 (EUR 14.8 million until March 2021) (chart 34).

Chart 34. Written premiums and claims paid



Source: CBK.

Of the total amount of claims paid, EUR 12.3 million (EUR 12.1 million by March 2021) were claims paid by

insurers, while EUR 2.4 million (EUR 2.7 million by March 2021) were claims paid by the KIB.

Performance of the insurance sector

The insurance sector realized a positive financial result of EUR 386.4 thousand¹⁰ in the first quarter of 2022, in contrast to the same period of the previous year, which suffered a loss in the amount of EUR 584.2 thousand¹¹. The profit realized during this period compared to the previous year was a result of the increase in the level of written premiums and the reduction of operating expenses. Whereas, the increase of the level of claims incurred diminished the possibility of the sector to realize even higher profit.

Microfinance sector

The microfinance sector recorded a significant increase in activity, supported by the accelerated growth of lending and leasing activity. The sector recorded a positive financial result and at the same time maintained the high quality of the loans portfolio.

Assets

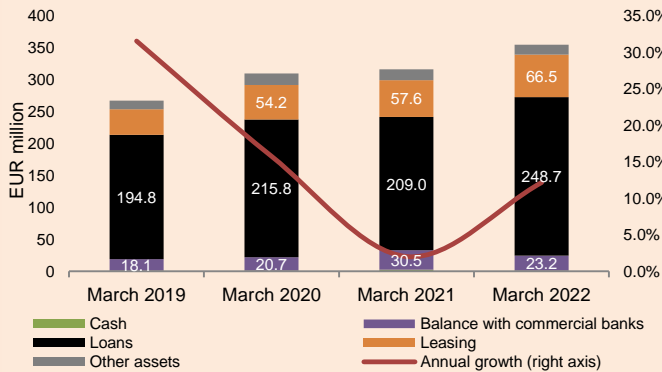
Microfinance sector recorded an annual increase of assets of 12.2% (an annual increase of 2.1% in March 2021), the value of which reached EUR 355.1 million. Although the growth in this period was more accelerated compared to Q1 2021, it still did not reach the growth levels of the two pre-pandemic years, which were significantly higher (chart 35).

¹⁰ Excluding net profit/loss of the insurance companies Insig and Kosova e Re (retained after the license was revoked)

¹¹ Excluding profit/loss of the insurance companies Insig (retained after the license was revoked)

The sector marked a significant decline in the items of cash and the balance with commercial banks, while it marked a double digit increase of loans and leasing.

Chart 35. Assets of the microfinance sector



Source: CBK.

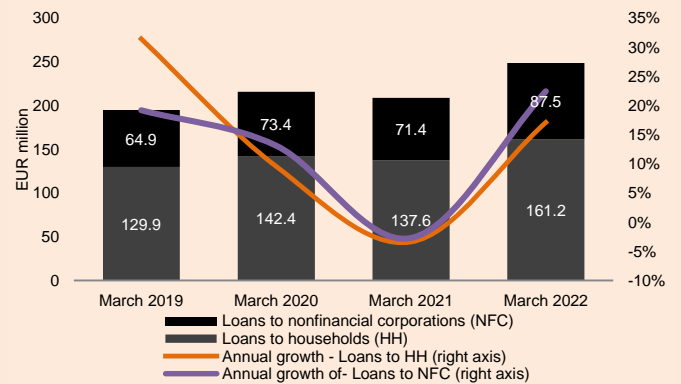
Changes in the structure of assets of the sector suggest an orientation of assets towards the increase of lending activity. These movements in the microfinance sector reflect the return to normality of the economic activity in the country with the easing of restrictive measures, the process of vaccination of the population, the visit of diaspora and the increase of remittances.

Loans

Total loans issued by the microfinance sector marked an accelerated growth of 19.0% in March 2022, while their stock reached the value of EUR 248.7 million. Lending of the sector increased for both economic segments, nonfinancial corporations and households. Lending to households expanded at a rate of 17.1% (an annual decline of 3.4% marked in March 2021), reaching the value of EUR 161.2 million at the end of March 2022 (chart 36).

Loans stock to nonfinancial corporations reached a value of EUR 87.5 million, representing an annual increase of 22.5% (an annual decline of 2.7% in March 2021).

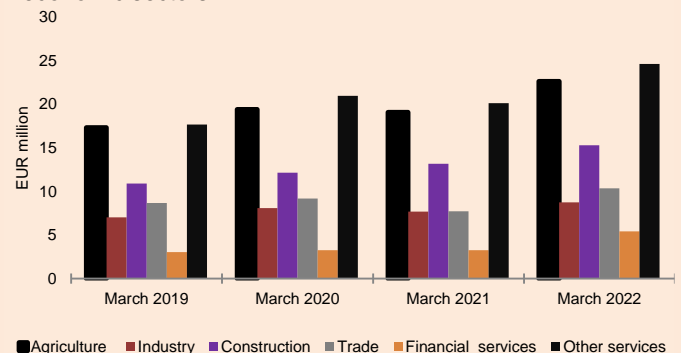
Chart 36. Value of loans to households and to nonfinancial corporations



Source: CBK.

Lending to all of the economic sectors marked an accelerated growth. The highest increase was marked by the financial services sector, being followed by the sectors of trade and agriculture (chart 37).

Chart 37. Value of loans to nonfinancial corporations, by economic sectors



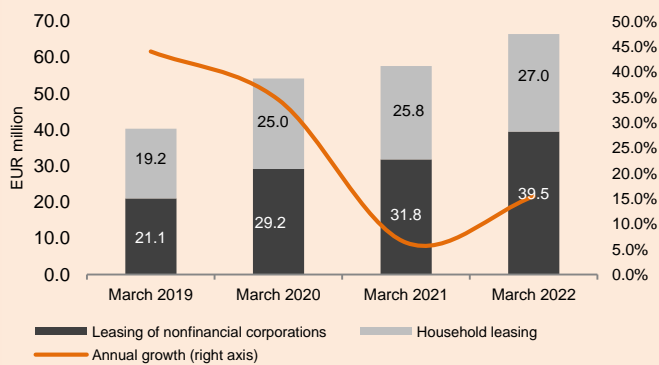
Source: CBK.

Leasing

Leasing continued with increasing trend, albeit at lower level compared to the increasing pace marked before the pandemics. Leasing activity marked an annual increase of 15.4% (6.3% in March 2021), reaching the value of EUR 66.5 million at the end of March 2022.

This increase mainly reflects leasing to nonfinancial corporations, whose value reached EUR 39.5 million, representing an annual increase of 24.2% (chart 38).

Chart 38. Value of microfinance sector leasing



Source: CBK.

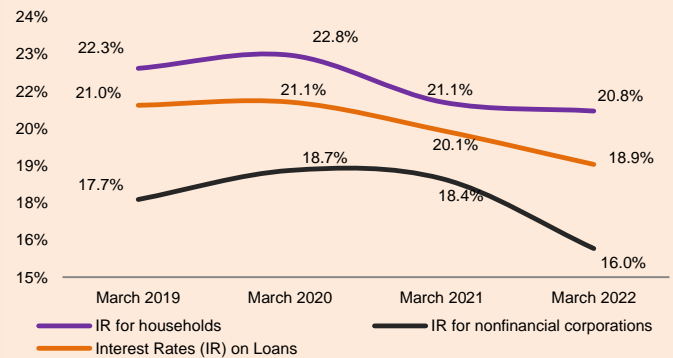
Leasing to households was characterized with a slow increase compared to leasing to nonfinancial corporations, marking an annual increase of 4.6% (3.3% in March 2021), while their total value reached EUR 27.0 million, in March 2022.

Interest rates

The average interest rate on loans issued by this sector, in March 2022, stood at 18.9%, which is for 1.2 percentage points lower than in the same period of the previous year (chart 39).

Interest rates on loans to households marked an annual decline of 0.3 percentage points, reaching 20.8% (chart 39). By loan categories, the average interest rate on mortgage loans significantly declined by 3.6 percentage points, dropping at 16.4%. Whereas, consumer credit were characterized with a decline of 0.5 percentage points, falling at 22.6%.

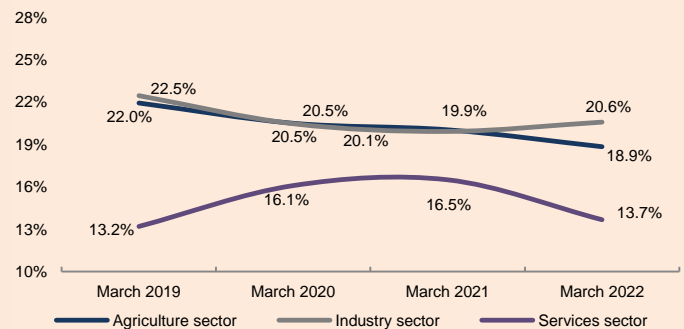
Chart 39. Average interest rate on microfinance sector loans



Source: CBK.

Also, the average interest rate on loans to nonfinancial corporations decreased by 2.4 percentage points, dropping at 16.0%. On sectoral terms, a more favorable interest rate was marked by loans to services sector, followed by loans to agriculture with an interest rate of 13.7% and 18.9%, respectively (chart 40).

Chart 40. Average interest rate on loans to enterprises, by economic sectors

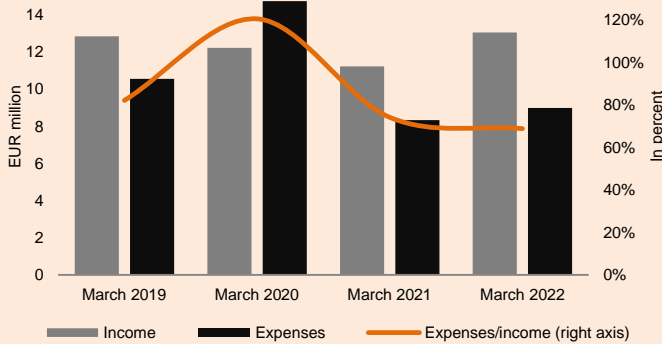


Source: CBK.

Performance of the microfinance sector

Microfinance sector in the first quarter of 2022 realized a net profit of EUR 4.1 million, against the profit of EUR 2.9 million realized in the previous year. The profit realized during the first quarters was the highest profit realized since the consolidation of the sector.

Chart 41. Microfinance sector income and expenses



Source: CBK.

The income of the sector marked the value of EUR 13.0 million in March 2022, representing an annual increase of 16.4%. The increase was mainly attributed to the increase in income from interest in loans and leasing, while non-interest income recorded slower increase (chart 41).

Expenditures of the sector marked an annual increase of 8.0%, reaching a value of EUR 9.0 million, at the end of the first quarter of 2022.

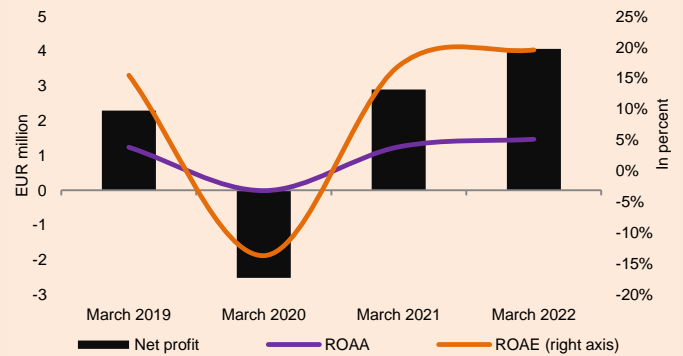
The increase of expenditures mainly reflected the trend of other operating expenses and non-interest expenses. Whereas, interest expenses until March 2022 declined, despite the increase of borrowings level from the external sector.

As a consequence of the recovery of sector's performance, expenses to income ratio marked a recovery, declining for 5.3 percentage points compared to the same period of the previous year, standing at the level of 68.9%, in March 2022.

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 19.6% from 3.9%

and 17.0%, respectively, compared to March 2021 (chart 42).

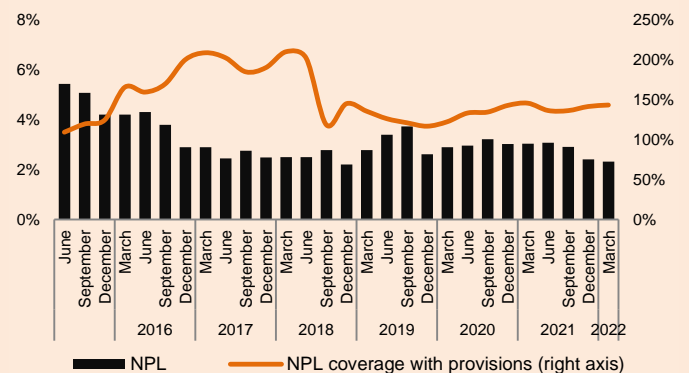
Chart 42. Profitability indicators of microfinance sector



Source: CBK.

Regarding the indicators of loans portfolio quality in microfinance institutions, nonperforming loans continued to stand at low levels and were characterized with high coverage with provisions. In March 2022 nonperforming loans decreased at 2.3% from 3.0% as they were in March 2021. While, the coverage of NPL with loan loss provisions dropped at 143.5% from 145.8% as it was in march of the previous year (chart 43).

Chart 43. Indicators of loans portfolio quality

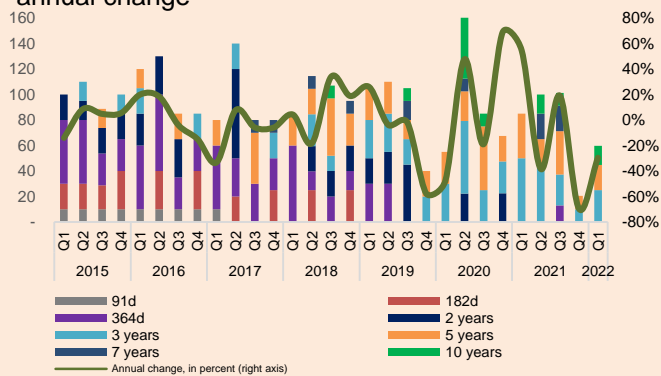


Source: CBK.

Securities market

In the first quarter of 2022 the Kosovo's Government realized three securities auctions, issuing debt with a lower value compared to the same period of 2021. The demand to invest on these auctions continued to exceed the government's offer.

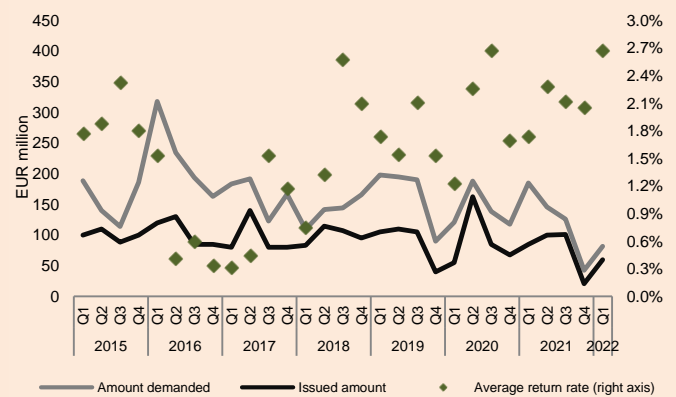
Chart 44. Amount and maturity of issued debt, annual change



Source: Ministry of Finance.

The debt issued by Kosovo's Government in the first quarter of 2022, marked an annual decline of 29.6% compared to the previous year, resulting at the value of EUR 59.8 million (chart 44). The lack of equity market in the country, and the limited possibilities to invest in alternative assets is reflected in the demand to invest in Government securities which consistently exceeds the offer. The demand to invest in Kosovo's Government securities continued to exceed the offer, where the bidding amount was for 1.26 times higher than the amount offered by the Kosovo's Government (2.18 times higher in the previous year). The average interest rate on securities during the first quarter of 2022 was 2.7%, which represents an increase of 1.0 percentage points compared to the average rate in Q1 2021 (chart 45).

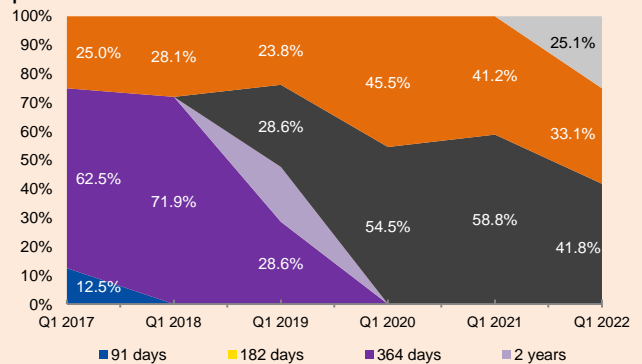
Chart 45. Bid to cover ratio



Source: Ministry of Finance.

The securities structure is dominated by government bonds, with a maturity of 3 years, followed by securities with a 5 and 7 years of maturity (chart 46). It is worth noting, that during this period, for the third consecutive year, Kosovo's Government has not issued treasury bills, being focused only in government bonds with longer maturity.

Chart 46. Structure of Government securities, in percent



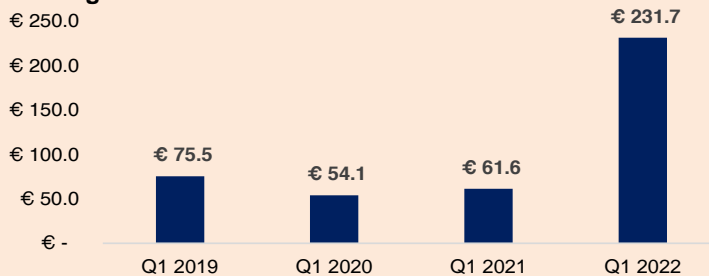
Source: Ministry of Finance.

Pension funds, banking sector, public institutions and insurance companies continue to represent the investment institutions in the primary market of Kosovo's Government securities. The pension sector continues to be the most exposed sector to the government with around 62.3% of the total domestic debt stock. The banking sector has an exposure of around 32.7% of the total domestic debt stock and the remainder of the government debt accounts for the insurance sector (5.1%).

Appendix: import prices of essential products

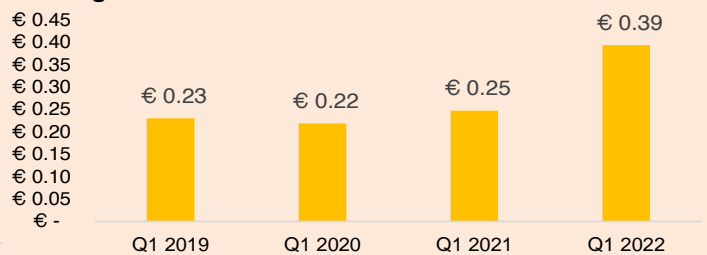
The price does not include customs clearance taxes (VAT, Excise, Customs Tax) as well as other relevant costs.

Chart 1. Price of electrical energy by unit, quarterly average



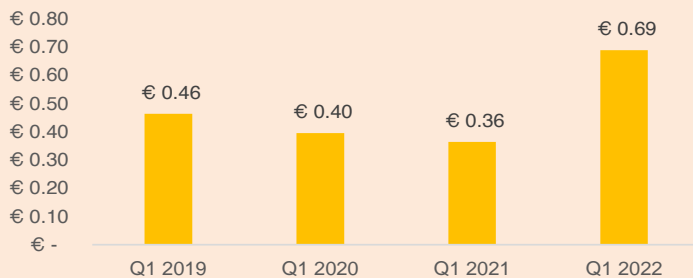
Source: Kosovo customs.

Chart 2. Price of liquid propane gas, by unit, quarterly average



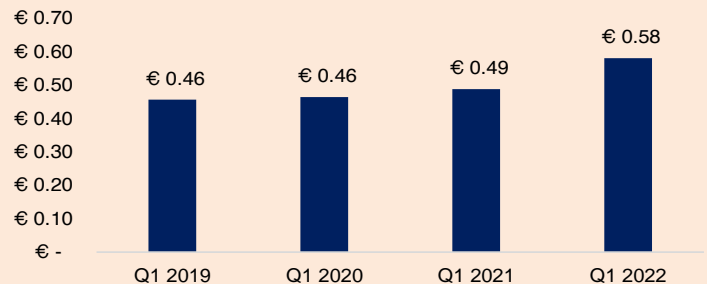
Source: Kosovo customs.

Chart 3. Price of fuel (diesel) by unit, quarterly average



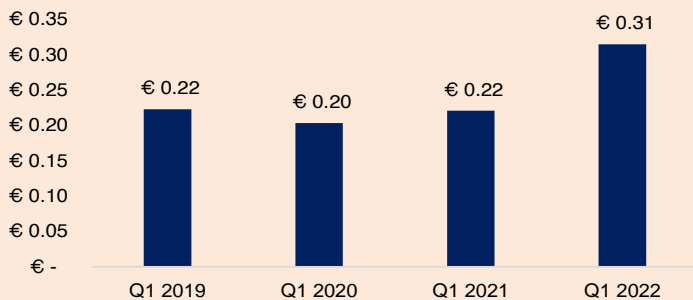
Source: Kosovo customs.

Chart 4. Price of petroleum by unit, quarterly average



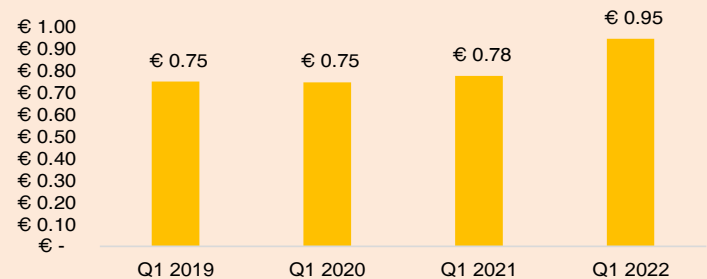
Source: Kosovo customs.

Chart 5. Price of wheat, by unit, quarterly average



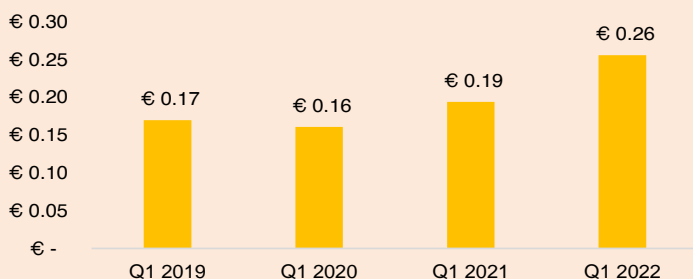
Source: Kosovo customs.

Chart 6. Price of rice by unit, quarterly average



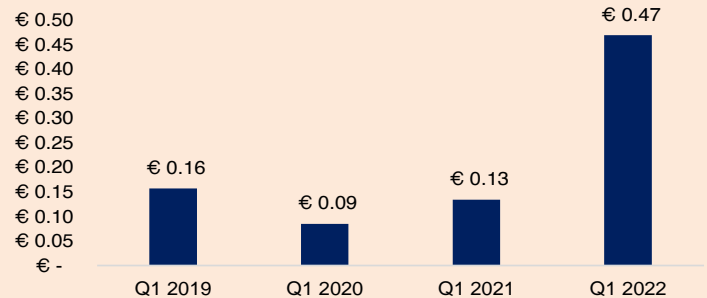
Source: Kosovo customs.

Chart 7. Price of corn by unit, quarterly average



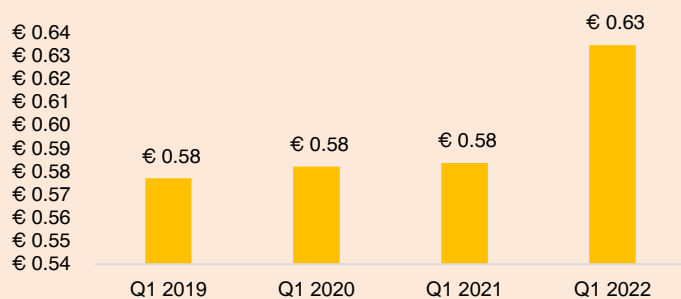
Source: Kosovo customs.

Chart 8. Price of eggs, by unit, quarterly average



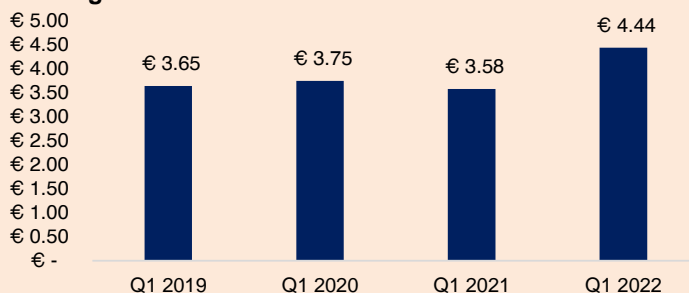
Source: Kosovo customs.

Chart 9. Price of milk by unit, quarterly average



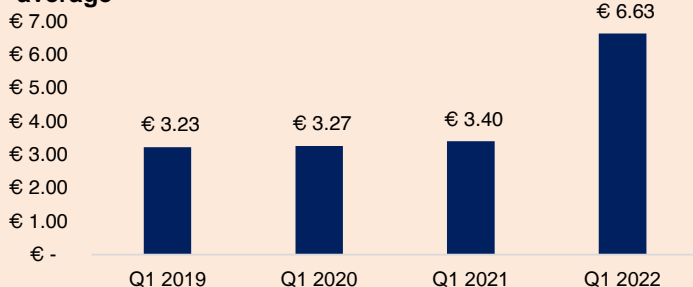
Source: Kosovo customs.

Chart 10. Price of cheese and butter, by unit, quarterly average



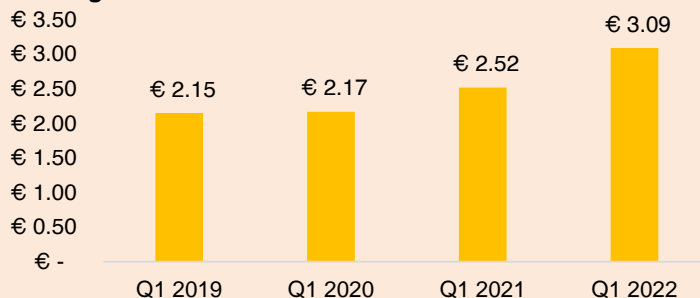
Source: Kosovo customs.

Chart 11. Price of fresh beef meat, by unit, quarterly average



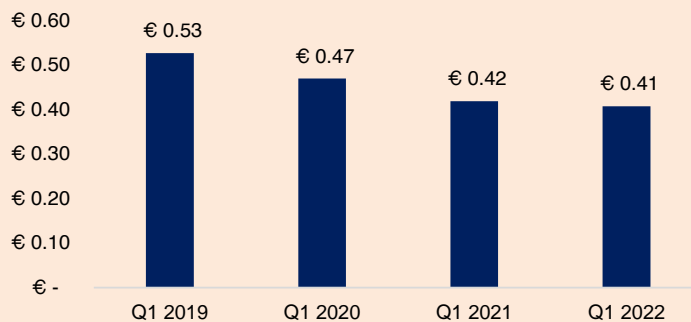
Source: Kosovo customs.

Chart 12. Price of frozen beef meat, by unit, quarterly average



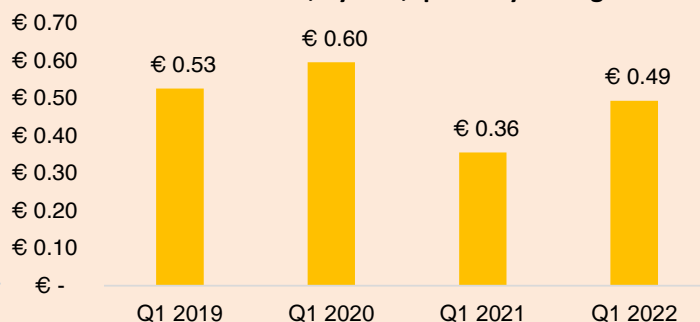
Source: Kosovo customs.

Chart 13. Price of potato by unit, quarterly average



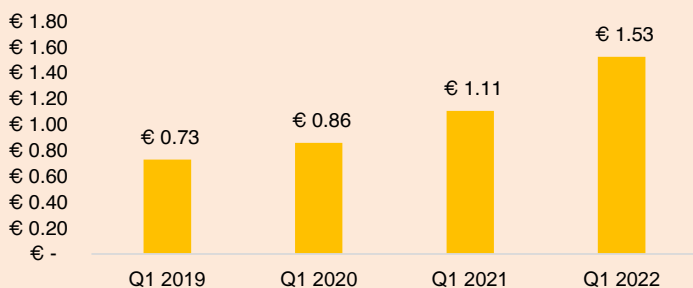
Source: Kosovo customs.

Chart 14. Price of tomato, by unit, quarterly average



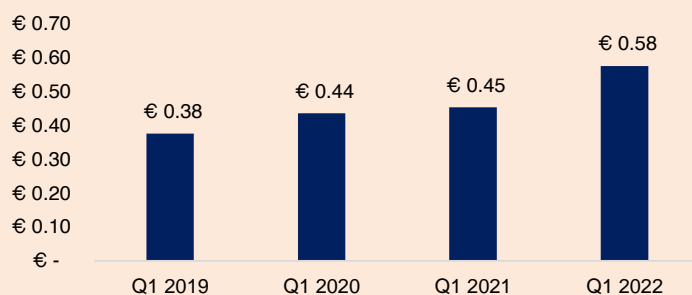
Source: Kosovo customs.

Chart 15. Price of sunflower, by unit, quarterly average



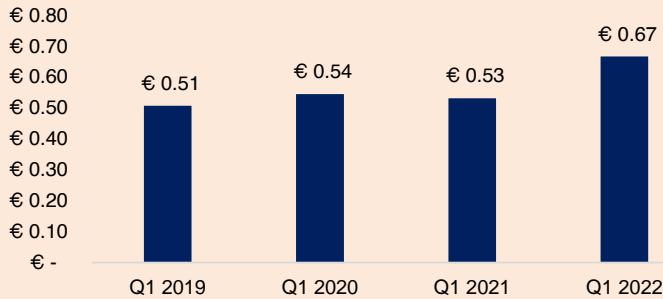
Source: Kosovo customs.

Chart 16. Price of white sugar, by unit, quarterly average



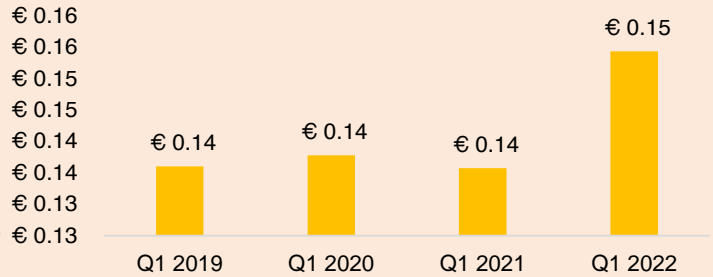
Source: Kosovo customs.

Chart 17. Price of bananas, by unit, quarterly average



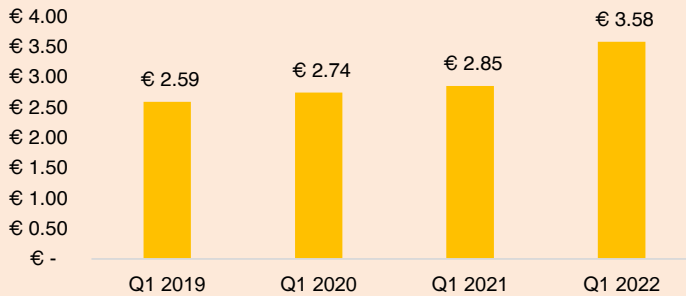
Source: Kosovo customs.

Chart 18. Price of pellets for heating, by unit, quarterly average



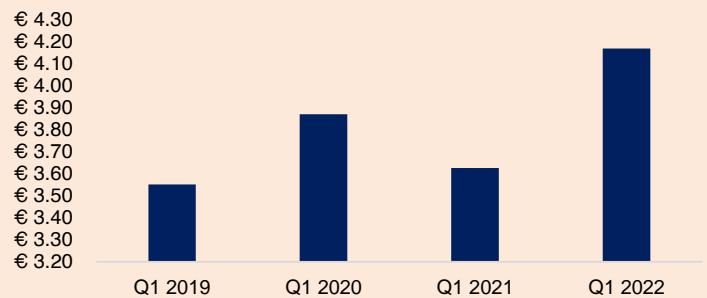
Source: Kosovo customs.

Chart 19. Price of coffee, by unit, quarterly average



Source: Kosovo customs.

Chart 20. Price of tea, by unit, quarterly average



Source: Kosovo customs.

The suggested citation of this publication:

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KAS:

- a) Harmonized index of Consumer Prices: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- b) Producer Price Index: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- c) Import Price Index: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- d) Statistical Report on economic enterprises: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- e) External trade statistics: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>

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- b) Kosovo Credit Guarantee Fund: <http://www.fondikgk.org/>
- c) Kosovo Pension Saving Trust: <http://www.trusti.org/en/>

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FAO: World Food Prices, Food and Agriculture Organization of United Nations:
<http://www.fao.org/worldfoodsituation/foodpricesindex/en/>

Euribor: Euribor Historical Rates: <http://www.euribor-ebf.eu/euribor-org/euribor-rates.html>

IMF: World Economic Outlook: [World Economic Outlook \(imf.org\)](http://www.imf.org)

Macroeconomic selected indicators

Description	March 2021	March 2022
Real sector 1/		
Gross Domestic Product (GDP) (EUR million)*	1,581.6	1,740.7
Consumer prices (annual average)	0.6%	8.2%
Consumer prices (end of period)	1.2%	10.0%
Fiscal Sector 2/		
Budget Revenues (EUR million)	454.9	542.6
Budget Expenditures (EUR million)	487.5	428.1
Primary balance (EUR million)	-32.6	114.5
Financial sector (EUR million) 3/		
Assets of financial corporations	8,066.6	8,797.2
of which : Banks	5,449.4	5,824.2
Loans	3,320.8	3,930.5
Deposits	4,422.9	4,745.8
<i>Interest Rate s on Loans, end of period</i>	6.1%	5.8%
<i>Interest Rate s on Deposits, end of period</i>	1.4%	1.2%
Interest rate gap	4.7%	4.6%
External sector,(EUR million) 3/		
Balance of payments		
Current accounts	-152.1	-344.6
of which: remittances	242.9	241.2
Financial account	-93.8	-307.4
Foreign Direct Investments in Kosovo	103.8	147.4
Portfolio investments, net	94.2	-52.5
Other investments, net	-4.2	-174.6
International Investments Position (IIP), net*	-829.6	-935.6
Assets	5,315.6	6,082.2
Liabilities	6,145.2	7,017.9
External debt, total*	2,517.0	2,977.2
Private external debt	1,901.3	2,206.3
Public external debt	615.8	770.9

Source:

1/ KAS

2/ MFLT

3/ CBK

*Data on IIP and external debt are as of December 2021.

