

## Summary

- **The euro area economy, according to Eurostat, marked a slowdown growth of 0.6% in Q2 2024, and an increase of 0.2% against the previous quarter.** The European Central Bank (ECB) has projected an economic growth of 0.8% for 2024 and 1.3% for 2025. The inflation rate in Q2 2024 reached 2.5%, marking a significant decrease compared to the same period of the previous year (6.2% in Q2 2023). The ECB projections suggest a slowdown in inflation to 2.5% in 2024 and 2.2% in 2025.
- **Kosovo's economy** marked an increase of 4.9% in the first half of 2024, supported by increased consumption and investments, while net exports had a negative impact. **Only during Q2 2024, economic activity increased by 4.3%, due to an increase in consumption by 5.9% and investments by 3.0%, while the trade deficit widened by 7.7%.** In the second half of the year, it is estimated that the growth of economic activity was slower, due to the lower growth of key indicators related to economic activity, such as remittances, FDI, public consumption and public investments, etc. The year 2024 is expected to end with a 4.3% growth in economic activity, which will be slightly higher compared to the last year, when the growth was 4.1%. However, uncertainties remained high due to the slowdown of the world economic growth and geopolitical tensions.
- **Inflation in Q2 2024 accelerated to 2.4% from 2.1% in the previous quarter.** The main contribution to the acceleration of inflation was marked by the annual increase in oil prices, while the contribution from food, services, and other goods remained almost unchanged compared to the previous quarter. Acceleration was also evident in core inflation, mainly due to the increase in prices of transport services.
- **In Q2 2024, primary budget revenues reached EUR 735.9 million, an increase of 7.8%. Primary expenditures increased by 4.8%, reaching EUR 649.1 million, and as a result, a positive balance of EUR 86.8 million was recorded.** Tax revenues increased by 4.5%, with indirect taxes increasing by 6.8%, while non-tax revenues increased by 42.1%. Expenses on salaries increased by 18.8%, while capital expenditures decreased by 0.9%. The public debt-to-GDP ratio fell to 15.8%, reaching EUR 1.66 billion, a decrease of 0.7% compared to Q2 2023.
- **The current account in Q2 2024 was characterized by an increase in the deficit of 16.3%, reaching the value of EUR 372.3 million.** Dynamics in the current account, in Q2 2024, continued to be determined mainly by developments in the trade balance of goods. Remittances, as one of the crucial source of financing the consumption, marked a decline of 2.0%, reaching the value of EUR 349.0 million. Whereas, foreign direct investments marked an increase of 8.6%, reaching the value of EUR 204.0 million.
- **The banking sector** has continued to expand at a double-digit rate, but at a slower pace compared to the first half of the previous year. This development in the sector's assets can be attributed in part to the slower growth of deposits as the main source of financing, but also to the relatively lower demand for loans from nonfinancial corporations, while lending to households accelerated and made the main contribution to the growth of the lending activity. Banks have maintained a strong capital base, high liquidity and good credit portfolio. Investments in securities increased, benefiting from still high interest rates, despite the ECB's key rate cut.
- **The pension sector** was characterized by accelerated annual growth in assets, influenced by positive return on investments as a result of the improvement to some extent of global macroeconomic indicators, as well as the increase in contributions collected during this period.
- **Assets of insurance sector** have continued their growth trend, albeit with a slower pace compared to the previous year. While income of the sector and the profit recorded an accelerated annual growth, sector sustainability indicators and liquidity indicators recorded a slight decline as of the first half of the previous year.
- **Microfinance sector** has marked a high increase of its assets, mainly being impacted by the increase of lending activity. The sector's profitability also marked a significant increase compared to the previous year, while non-performing loans and the level of liquidity marked a slight decrease.

## List of abbreviation

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

## Contents

Summary .....	0
1. Euro area and Western Balkans .....	3
2. Main commodity prices in international markets .....	4
3. Kosovo's Economy.....	6
3.1. Economic growth.....	6
3.2. Prices .....	7
3.3. Fiscal Sector .....	9
3.4. External Sector.....	10
4. Financial system .....	14
4.1. Banking Sector.....	14
4.2. Pension sector .....	22
4.3. Insurance sector.....	23
4.4. Microfinance sector .....	26
4.5. Securities market of Kosovo's Government.....	29

## 1. Euro area and Western Balkans

The euro area economy, according to Eurostat, marked an annual growth of 0.6%, and a quarterly increase of 0.2% in Q2 2024. The main contribution to this growth was made by net exports, which contributed by 0.5 percentage points, reflecting the improvement in the trade balance and the increase in external demand for euro area goods and services. Public consumption contributed by 0.1 percentage points, while private consumption remained unchanged, contributing by 0.0 percentage points. Meanwhile, gross capital formation was negatively affected by 0.5 percentage points.

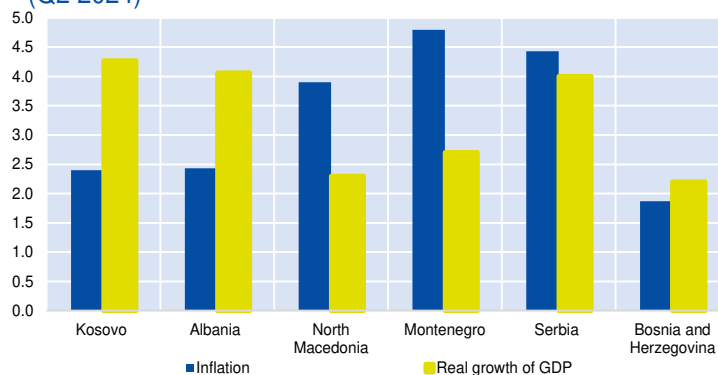
Germany, as the largest economy in the euro area, recorded a contraction of 0.1% compared to the previous quarter and a stagnation compared to the same period of the previous year, mainly due to the decline in private consumption and construction investment. **The ECB's economic growth projections have been revised downward by -0.1 percentage points in September 2024 compared to June 2024 projections, to a projected economic growth of 0.8% for 2024 and 1.3% for 2025.** Despite the weak performance in this quarter, projections suggest that being supported by the increase in disposable income in the economy with the stabilization of inflation and the increase in salaries, private consumption is expected to remain the main supporter of the economic growth.

**The inflation rate in Q2 2024 reached 2.5%, marking a significant decrease from 6.2% as it was in Q2 2023.** The ECB projections suggest that inflation will slowdown 2.5% in 2024 and 2.2% in 2025. However, inflation dynamics could be affected by geopolitical tensions, particularly in the Middle East, potentially reflected in energy prices and commodity costs.

For the first time in nine months, in June 2024, the ECB lowered reference rates by 25 basis points, as a result of improved prospects for inflation dynamics and a decline in the inflation rate throughout the year. By October 2024, key interest rates were lowered three times, reflecting efforts to maintain financial stability and balance the economic growth. The interest rate on deposits fell to 3.25% from 4.00%, the rate on refinancing operations decreased to 3.40% from 4.50%, and the marginal lending rate decreased to 3.65% from 4.75%.

**In the Western Balkans, the average economic growth in Q2 2024 was 3.3%, with the highest growth recorded in Kosovo at 4.3%, while the lowest growth recorded in Bosnia and Herzegovina at 2.2% (chart 1).** The growth was supported by consumption and investments, while economic uncertainty and geopolitical tensions remain challenges to the stability of the region. Likewise, the slowing growth of economic activity in EU countries as an important trading partner, together with internal challenges such as dealing with rising prices and migration, pose ongoing challenges to maintaining economic growth in the region. **IMF projections, conducted in October 2024, suggest that Western Balkan countries are expected to record an average economic growth of 3.2% in 2024 and 3.6% in 2025.**

Chart 1. Economic growth and inflation in Western Balkans (Q2 2024)



Source: Respective statistical offices.

The average inflation rate in Q2 2024 was 3.3%, with the highest rate recorded in Montenegro of 4.8%, while Bosnia and Herzegovina recorded the lowest inflation rate of 1.9%. In Q2 2024, the euro appreciated against

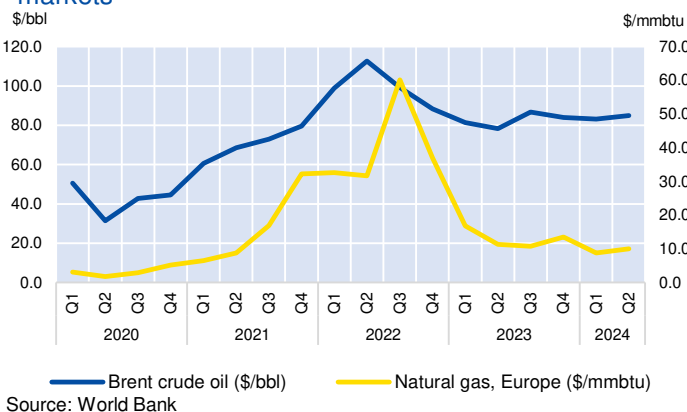
the Turkish lira and the Swiss franc compared to the previous quarter, while it depreciated against the Albanian lek, the US dollar, the British pound and the Macedonian denar.

## 2. Main commodity prices in international markets

Main commodity prices in international markets marked an increase in Q2 2024. The commodity price index, according to the World Bank, marked an average increase of 4.0% in Q2 2024 compared to the previous quarter and 4.7% compared to Q2 2023. This increase was mainly driven by the prices of energy, beverages, metals and minerals. Inflationary pressures were more pronounced in April, as a result of rising oil prices, and weakened in the following two months. In annual terms, prices of basic commodities are estimated to have declined in 2024, a trend that is expected to continue in the next two years. The forecasts, however, are subject to potential risks that continue to tilt to the upside, such as geopolitical tensions and potential supply shocks, weather conditions, trade barriers, and the like.

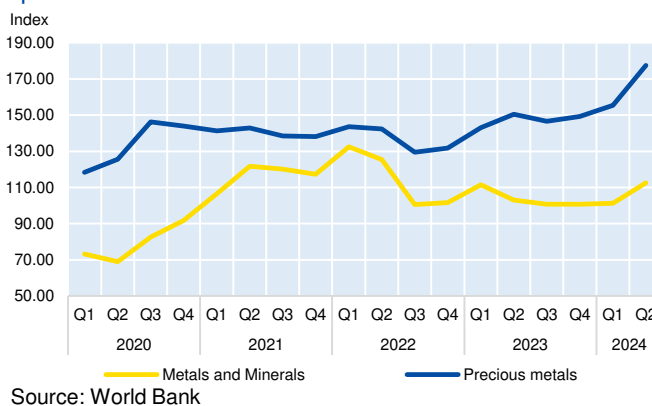
**Brent crude oil prices, according to the World Bank averaged \$84.9 per barrel in Q2 2024, representing an increase of 8.5% against the same of the previous year (chart 2).** Oil prices also increased compared to the previous quarter, as a result of the intensification of geopolitical tensions in the Middle East against a backdrop of reduced supply from OPEC+ and signals of improvement in global industrial activity. However, this increase was of a short-term, as prices fell from \$90 per barrel in April to an average of \$82.3 per barrel in the following two months, mainly as a result of developments in the Middle East conflict and rising oil reserves. According to World Bank forecasts, oil prices will reach an annual average of \$80 per barrel in 2024 and could fall to \$73 per barrel in 2025, due to expectations of increased production by OPEC+ after the lifting of production cuts, improved supply chains and a slowdown in global oil demand. The biggest risk to oil prices remains geopolitical tensions, which could cause unexpected price fluctuations.

Chart 2. Oil and natural gas prices in international markets



**Natural gas prices in Europe in Q2 2024 averaged \$10.0/mmbtu, representing an annual decline of 11.5%,** as a result of price stabilization following reconfigurations in supply chains and increased natural gas reserves in Europe (chart 2). However, compared to the previous quarter, natural gas prices in Europe increased by 14.5%, continuing the growth trend that was evident at the end of the previous quarter. This increase was also linked to concerns about security of supply in Europe, geopolitical tensions and supply reductions, as well as increased global competition for liquefied natural gas (LNG) exports from the USA. According to the World Bank, natural gas prices in Europe are expected to reach an annual average of

Chart 3. Price index of metals and minerals and precious metals



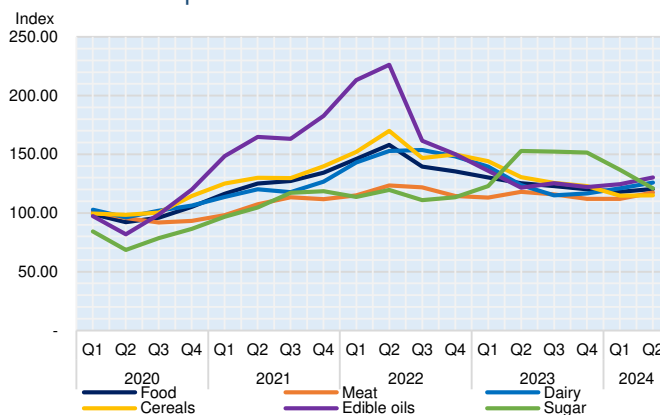
\$10.8/mmbtu in 2024 and rise to \$11.5/mmbtu in 2025, based on expectations of increased industrial demand as a result of lower gas prices.

The metals and minerals price index stood at 9.3% higher compared to the corresponding period of the previous year, with all categories of metals and minerals recording an annual growth, except for nickel (chart 3). The increase in metal prices reflects expectations for improved global demand, as well as concerns about supply security due to trade barriers and other obstacles. The metals and minerals price index increased by 11.3% compared to the previous quarter, driven by increases in copper and aluminum prices, while iron ore prices decreased. Industrial metal prices are expected to remain stable, with rising global industrial activity expected to offset falling demand from the construction sector in China.

**The precious metals price index continued to follow an upward trend throughout Q2 2024, marking an increase of 5.5% compared to the previous quarter and standing for 27.7% higher compared to Q2 2023.** Gold and silver prices recorded an annual increase of 28.6% and 24.9% respectively, driven by increased demand for gold from several central banks and as a result of geopolitical tensions, making it a safe instrument for preserving the value of money. Precious metal prices are expected to remain high in 2025, given heightened geopolitical tensions.

**The food price index, in Q4 2024, according to FAO, marked an annual decline of 4.1% against the corresponding period of the previous year** (chart 4). This decline reflects the annual decline in grain and sugar prices, as a result of improved production and favorable climatic conditions in exporting countries. However, compared to the previous quarter, the food price index increased by 2.0%, after a year of continuous decline in quarterly terms. This increase was mainly dictated by the prices of meat, dairy, oils and cereals, while sugar prices continued to follow a downward trend in quarterly terms. The food prices are expected to follow a downward trend along the year of 2025, based on expectations on supply stabilization.

Chart 4. Food price index



Source: FAO.

### 3. Kosovo's Economy

#### 3.1. Economic growth

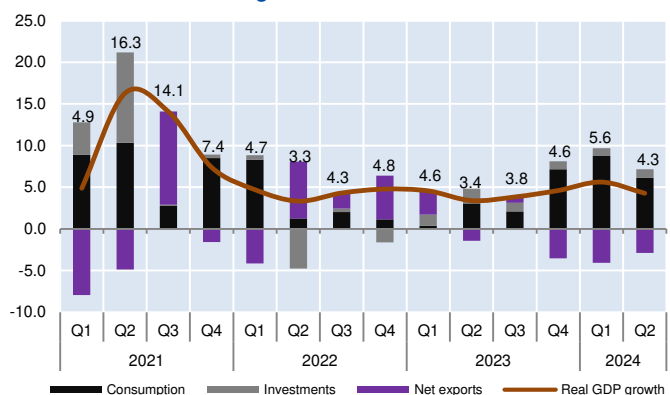
Kosovo's economy has been characterized by improved macroeconomic conditions in the first half of 2024. According to KAS estimates, real GDP has increased by 4.9%, supported by increased consumption and investments, while net exports negatively affected economic activity. However, in the second half of the year, it is estimated that the growth of activity was slower compared to the first half, due to the lower growth of key indicators related to economic activity, such as remittances, FDI, public consumption and public investments, etc. The year 2024 is expected to end with an economic growth of 4.3%, with consumption, investments and exports of goods and services as the main contributors, while imports of goods and services are expected to have a negative impact on GDP growth. In addition to financing sources, growth is also expected to be supported by lower inflation and potential positive effects on domestic financing conditions, as a result of monetary policy easing in the euro area. However, uncertainties remained high due to the weaker of the the euro area economic growth and geopolitical tensions.

**During Q2 2024, Kosovo's economy grew by 4.3% (chart 5).** This acceleration of economic growth compared to the same period of the previous year is mainly related to the dynamics of domestic demand. However, net exports negatively affected economic activity, due to the increase in domestic demand that was accompanied by increased imports, visa liberalization and the effects on the increase in imports of services, and other global factors such as prices in international markets and weakened demand in the euro area.

During this quarter, consumption increased by 5.9%, marking a considerable increase compared to the same quarter of the previous year. This growth was enabled by increased financing sources, including increased consumer credit, workers' compensation, and increased public consumption, while remittances recorded a slight decline. Investments increased by 3.0%, mainly as a result of increased FDI and lending, while imports of capital goods also increased significantly. Regarding foreign trade, the trade deficit widened by 7.7%, as a result of an increase in the import of goods by 5.5% and the import of services by 17.8%, while the export of goods and services increased by 10.7% and 6.8%, respectively.

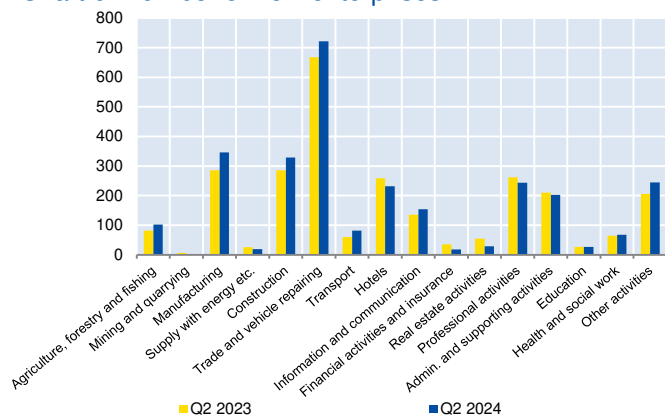
**The increase of the economic activity in Q2 2024 was mainly supported by the increase in the added value in the sector of supplying with electricity and gas (25.3%), information and communication (4.2%), processing industry (3.8%), hotels and restaurants (3.8%), Trade sector (3.7%), extracting industry (2.3%), and financial activities and insurance (2.2%), etc.**

Chart 5. Real GDP growth



Source: KAS and CBK calculations.

Chart 6. Number of new enterprises



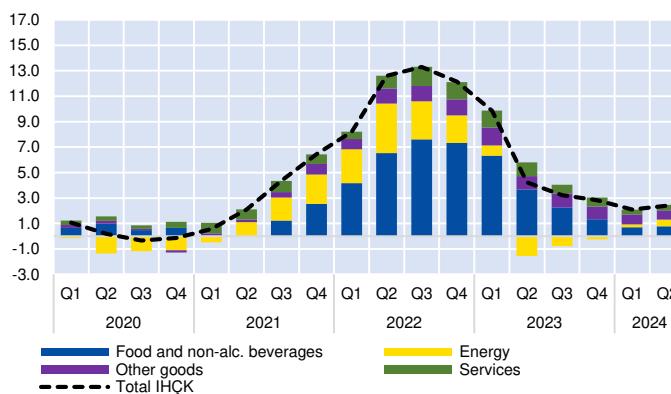
Source: KAS.

This economic dynamic marked had an impact also in the increase of the number of registered enterprises, reaching 2,815 new enterprises in Q2 2024, namely an increase of 5.7% compared to Q2 2023. The sectors of manufacturing, trade, construction, transport and agriculture have recorded the largest number of new enterprises, reflecting significant growth compared to the same period of 2023 (chart 6). Also, during Q2 2024, the number of closed enterprises decreased by 9.7% compared to Q2 2023, reaching 355 enterprises.

### 3.2. Prices

**Inflation in Q2 2024 marked an average annual increase of 2.4%, accelerating from 2.1% in the previous quarter.** The increase in oil prices in international markets was weakly reflected in domestic oil prices in April, however, the low comparative base resulted in fuel prices being the main driver of inflation acceleration in Q2 2024. Food and service prices remained stable, continuing to contribute positively to inflation. Similarly, a positive contribution continued to be recorded by the prices of other goods, which marked a slight slowdown in annual growth (chart 7).

Chart 7. Inflation by contribution of respective subgroups



Source: KAS and CBK calculations.

**The annual increase in food prices**

**remained almost the same compared to the previous quarter, resulting in 1.1% in Q2 2024.** Slower growth was evident in the prices of almost half of the food basket, more specifically in the prices of meat, fish, fruit, sugar and food products; while vegetable prices recorded an annual decline for the first time since Q1 2021. Although dairy and oil prices continued to decline annually, the slower pace of their price decline contributed to an increase in the positive contribution of food to inflation. Conversely, prices of bread and cereals accelerated in April and June. However, the impact of this increase was offset by easing dynamics in the prices of other food items, causing the contribution of food to total inflation to remain the same as in the previous quarter.

**Transport prices recorded an annual increase of 2.1%, which represents an acceleration compared to the previous quarter when transport prices resulted in an annual decrease of 1.8%.** This increase was largely dictated by the annual increase in oil prices as a result of the low comparative base, and the increase in the prices of transport services.

**The contribution of food to the average inflation rate in Q2 2024 remained almost the same as in the previous quarter, resulting in 0.4 percentage points.** However, the dynamics of food subcategories varied, with the slowdown in the decline in dairy prices reducing the negative contribution of this category to inflation. However, this impact was completely neutralized by the decline in vegetable prices, changes that came after a period of steady upward trend in vegetable prices and downward trend in dairy prices. A positive contribution was also recorded from the increase in the prices of bread by 0.2 percentage points, fruit by 0.2 percentage points, sugar by 0.1 percentage points, etc. Non-alcoholic beverages also contributed positively to inflation by around 0.3 percentage points, as a result of continued inflationary pressures in this category, which were influenced by developments in international markets.

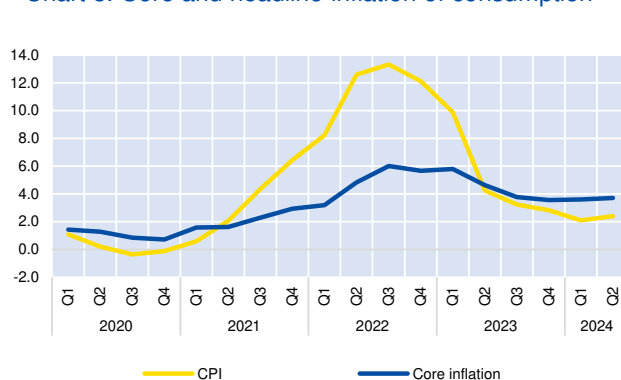
**The contribution of energy to overall inflation in Q2 2024 increased to 0.5 percentage points, driven by the annual increase in oil prices.** The contribution of oil prices increased by 0.6 percentage points, while the

contribution of electricity and other fuel prices decreased by 0.3 percentage points, mainly as a result of the decline in demand for electricity for heating in the spring season.

The contribution of other goods prices remained almost unchanged (0.7 percentage points), determined by the contrasting dynamics between goods prices, the slowdown in prices and the low comparative base for certain items. Similarly, the contribution of services in Q2 2024 remained close to that in the previous quarter (0.4 percentage points), with slight inflationary pressures in transport services influenced by the annual increase in oil prices and seasonality in the prices of flight travel.

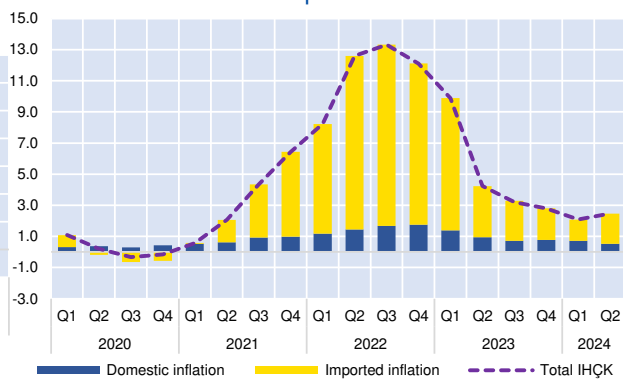
**Core inflation in Q2 2024 marked an annual increase of 3.6%**, stagnating compared to the previous quarter (chart 8). The increase in prices of transportation services and various goods and services was neutralized by the slowdown in prices of recreation and culture, housing maintenance, and other categories within the core inflation index.

Chart 8. Core and headline inflation of consumption



Source: KAS and CBK calculations.

Chart 9. Domestic and imported inflation



Source: KAS and CBK calculations.

**Based on the magnitude of food and energy imports into Kosovo, inflation dynamics are directly affected by those of commodity prices in international markets.** Consequently, the increased contribution of oil prices in Q2 2024 was reflected in an increase in imported inflation from 1.4 to 1.9 percentage points, while domestic inflation slowed to 0.5 percentage points, reflecting, among other things, the decline in domestic electricity prices.

**Import price index (IPI) marked an annual increase of 1.0% in Q2 2024, which represents a slowdown against the increase of 2.4%, 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) prepared food products, beverages and tobacco, as and ii) transport means recorded an annual growth of 2.5% and 2.8%, respectively, while iii) mineral products, base metals and related articles and V) machinery and electrical equipment and products, marked an annual decrease of 1.5%, 1.3% and 0.2%, respectively. Compared to the previous quarter, the IPI marked a decrease of 1.1% as a result of the decline/stagnation in all categories within this index.

**Producer Price Index (PPI) resulted to have marked an increase of 0.9% in Q2 2024 against Q2 2023.** This increase was mainly determined by the increase in prices of food processing products of 5.3%, beverage production of 3.6%, metal production of 5.1%, etc. However, other categories with a large weight in the index, such as electricity production, non-metallic minerals, and furniture, continued to result lower compared to the same period of the previous year. However, compared to the previous quarter, an increase in production prices was recorded in the categories with the largest weight in this index, causing the production price index to increase by 1.7% in quarterly terms.

**The Construction Cost Index (CCI) in Q2 2024 marked an annual increase of 3.9%**, driven mainly by the increase in wages in the construction sector of 16.8%, the increase in prices of construction materials (2.0%),

and transportation (6.3%). Whereas, there was observed a price decline of machineries and energy. Compared to Q1 2024, the CCI resulted in an increase of 3.2%, as a result of price increases in all categories, especially wages that increased by 8.4%, and the increase in machinery and energy prices, after the decline recorded in the previous quarter.

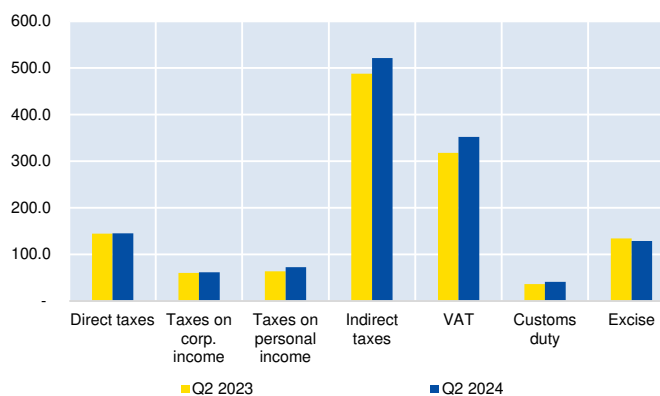
**Regarding the inflation outlook in Kosovo, the CBK forecasts that inflation in 2025 will reach an annual average of 1.8%.** This trend is expected to be supported, among other things, by expectations for stabilization of commodity prices in international markets, the decline in inflation in the euro area, tight financing conditions and the resulting impact on economic activity, etc. Risks associated with inflation projections continue to be tilted to the upside and consist mainly of supply shock risks. These include geopolitical tensions, trade barriers and global climate conditions, while risks from the domestic economy are mainly related to labor market and wage dynamics.

### 3.3. Fiscal Sector

In Q2 2024, primary budget revenues<sup>1</sup> reached EUR 735.9 million, marking an annual an increase of 7.8%. This increase was the result of positive dynamics of economic activity, improvement of the revenue collection process and activities to combat tax evasion. At the same time, primary budget expenditures<sup>2</sup> rose by 4.8%, reaching EUR 649.1 million. As a result of the higher increase of budget revenues, Kosovo’s budget registered a positive balance of EUR 86.8 million.

**Tax revenues in Q2 2024 reached EUR 649.0 million, marking an increase of 4.5% compared to Q2 2023.** During this period, most tax categories recorded increases, with the highest increase recorded in indirect tax revenues, which accounted for about 70.8% of total budget revenues. Indirect tax revenues marked an increase of 6.8%, reaching the value of EUR 521.1 million. Within indirect taxes, revenues from VAT and customs duties increased by 10.7% and 13.2%, respectively, while the excise tax marked a decline of 4.2%, mainly as a result of the decline in the amount of imported tobacco (chart 10). Direct tax

Chart 10. Tax income structure



Source: MFLT and CBK calculations.

revenues marked an increase of only 0.6%, reaching the value of EUR 145.1 million. This slowdown growth was influenced by the decline in property tax revenues by 45.0%, reaching the level of EUR 11.1 million. However, personal income tax, which comprises the main category, marked an annual increase of 14.2%, while corporate income tax, marked an annual increase of 4.6%. **Non-tax revenues marked a higher increase of 42.1%, reaching EUR 87.0 million.** Within this category, revenues from the central government reached the value of EUR 58.1 million, marking a growth of 62.7%, while the revenues from the local government marked a growth of 6.1%, amounting to EUR 16.0 million.

**As regards to budget expenditures, current expenditures marked an increase of 4.8%.** Within this category expenses on salaries prices increased by 18.8%, reaching the value of 226.9 million, while government

<sup>1</sup> Within the budget revenues were not included the interest income, financing receipts and payments from donor designated grants.

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

expenditures on goods and services including municipal expenditures, marked an increase of 7.7% reaching the value of EUR 103.6 million. On the other hand, expenditures on subsidies and transfers marked a decline of 5.7% reaching the value of EUR 209.4 million. **Also, capital expenditures marked a decline of 0.9%, reaching the value of EUR 109.2 million.**

**Public debt to GDP ratio declined to 15.8% in Q2 2024, compared to 17.3%, as it was in Q2 2023.** This decrease was the result of the government’s improved budget balance, thus reducing the need for debt. In absolute terms, the public debt has reached EUR 1.66 billion in Q2 2024, marking a decline of 0.7% compared to Q2 2023. The decrease of public debt is attributed to the decline of domestic public debt of 5.3%, reaching EUR 956.3 million, while external public debt marked a growth of 6.4%, reaching EUR 706.3 million.

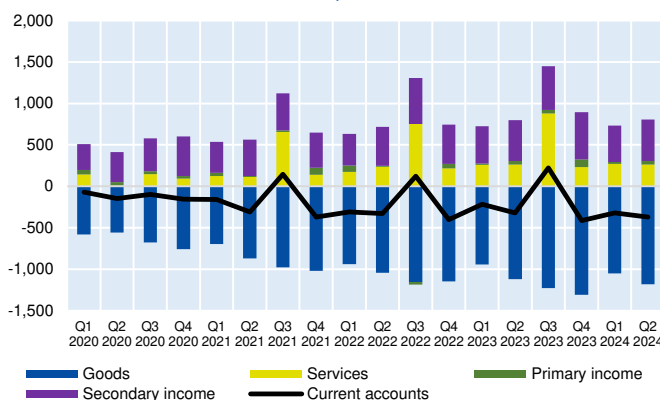
External public debt is comprised of liabilities to International Agency for Development (37%), European Union (14%), International Bank for Reconstruction and Developments (12%), International Monetary Fund (10%), etc. Conversely, domestic debt primarily is comprised of Kosovo’s Government debt (securities) to pension funds (48%), commercial banks (22%), public institutions (21%)

### 3.4. External Sector

**The negative current account balance in Q2 2024 widened by EUR 372.3 million (15.4% of GDP), marking an increase of 16.3% compared to Q2 2023 (chart 11).** This development was mainly influenced by the deterioration of the trade balance of goods and the decline in primary income, which added the negative pressure on the current account balance. On the other hand, secondary income, including remittances, as well as travel and other exported services, helped to reduce the deficit.

**In Q2 2024, the trade deficit in goods increased by 6.1% compared to the same period of the previous year, reaching EUR 1.3 billion (chart 12).** This increase in the deficit mainly reflects the expansion of imports of goods, which reached a value of EUR 1.5 billion, driven by the increase in the quantity of imported goods, especially mineral products, machinery and transport vehicles. On the other hand, exports reached a value of EUR 232.3 million, but remained at relatively low levels, covering only 15.2% of imports or a 1:6.6 trade ratio.

Chart 11. Current account, EUR million

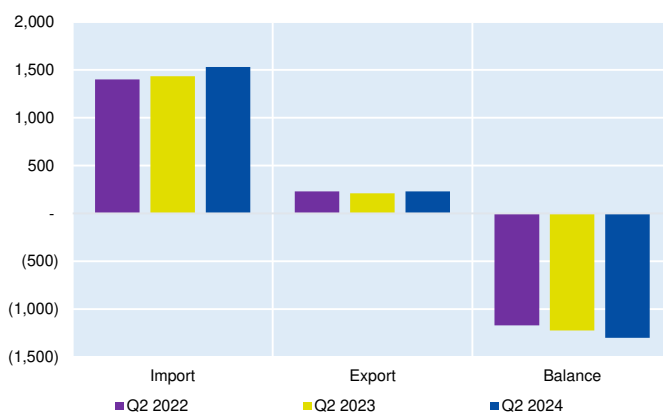


Source: CBK.

**Exports of goods in Q2 2024 marked an increase of 10.3%, reaching EUR 232.3 million, a significant improvement compared to the same period of the previous year (chart 13).** This growth was mainly supported by positive performance in several sectors, with base metals exports increasing by 27.3%, reaching EUR 58.3 million, influenced by increased demand for metals in international markets, especially in regional and EU countries. Likewise, exports of plastic and rubber products increased by 7.5%, while exports of unprocessed foods, beverages and tobacco increased by 23.7%, reflecting an expanding demand in the foreign market. However, in Q2 2024, a notable decline of 16.7% was observed in the other products category, mainly due to the decline in mattress exports to the USA market, a dynamic that is expected to affect the future export trend. From a geographical perspective, the Western Balkan countries remain the main export partners, representing 45.3% of total exports, while EU countries cover 33.7%, with Germany remaining the main partner with 11.1% of total exports.

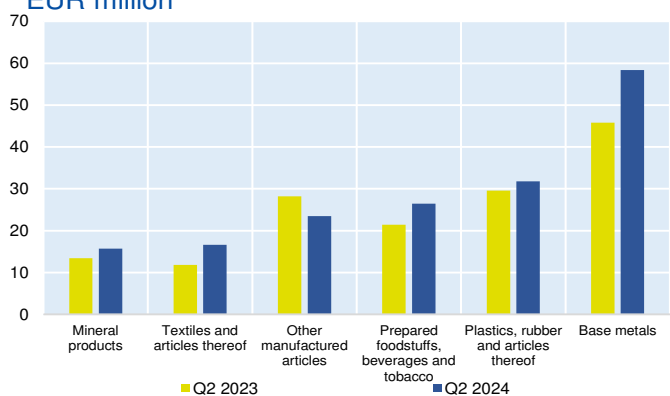
**The value of total imported goods in Q2 2024 reached EUR 1.5 billion, thus marking an annual increase of 6.7% (63.1% of the GDP).** This increase was mainly influenced by increased demand, which was reflected in an increase of 8.0% in the quantity of goods and 5.4% in their overall weight. Imports of goods continue to be dominated by mineral products, machinery and household appliances, means of transport and foodstuffs (chart 14). The share by main import categories was dominated by intermediate goods, with 44.4% of total imported goods, consumer goods with 31.3%, and capital goods accounting for only 11.5% of total imports. Regarding trading partners, the European Union represents about 46.5% (EUR 711.9 million) of imports, with Germany holding the main share with 14.0% of total imports. From Turkey, were imported goods with a value of EUR 201.6 million (13.2% of total imports). Imports of goods from countries in the region account for 12.9% of total imports, marking a decline compared to 17.3% marked in Q2 2023. This contraction was mainly influenced by the decrease in imports from Serbia, following the measures taken by the Government of Kosovo against Serbian goods, reorienting trade mainly towards EU countries.

Chart 12. Trade balance of goods



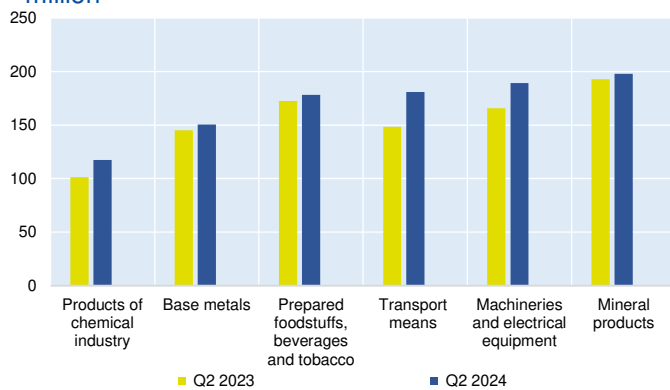
Source: KAS.

Chart 13. Main categories of exported goods, EUR million



Source: CBK.

Chart 14. Main categories of imported goods, EUR million

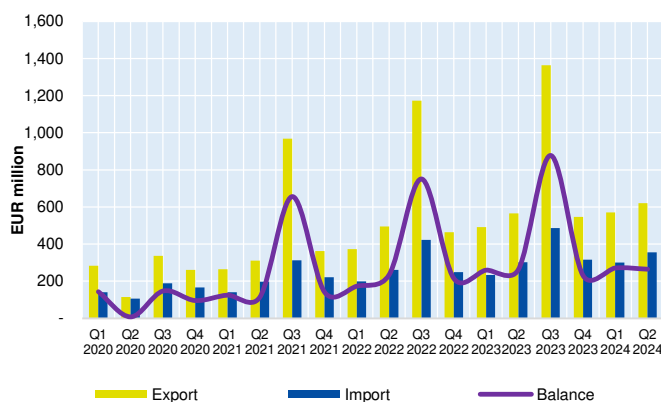


Source:

From Turkey, were imported goods with a value of EUR 201.6 million (13.2% of total imports). Imports of goods from countries in the region account for 12.9% of total imports, marking a decline compared to 17.3% marked in Q2 2023. This contraction was mainly influenced by the decrease in imports from Serbia, following the measures taken by the Government of Kosovo against Serbian goods, reorienting trade mainly towards EU countries.

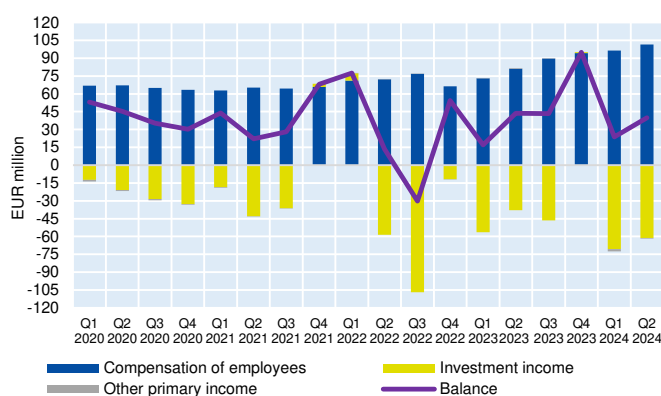
**The services balance in Q2 2024 reached the value of EUR 264.2 million, marking a slowed growth of 0.8% (11.9% annual growth in Q2 2023).** Services exports were mainly attributed to the increase in services in the travel category, which reached a value of EUR 380.7 million (15.7% of GDP), mainly influenced by the increase in the number of travelers. The growth in services exports was also influenced by the computer services category, with an increase of 5.4%, reaching a value of EUR 79.3 million. Likewise, the export of services expanded to other business services, which recorded an increase of 44.1%, reaching a value of EUR 62.8 million (EUR 43.6 million in Q2 2023). On the other hand, the import of services marked an increase of 17.7%, mainly influenced by the increase in the import of travel services, which increased by 19.1% compared to the previous year, reaching a value of EUR 158.6 million, which constitutes 44.5% of total import of services (chart 15). The continued growth in the import of services, especially in the travel sector, driven by free movement with EU countries since the beginning of 2024, is expected to directly impact the contraction of the positive balance of services. During the period of January-July 2024, the services balance grew by only 3.8%, a noticeable slowdown compared to the average growth of 32.8% during the January-July period of 2019-2023. In this context, the increase in services imports could have contributed to the deepening of the current account deficit.

Chart 15. Balance of services



Source: CBK.

Chart 16. Balance of primary income

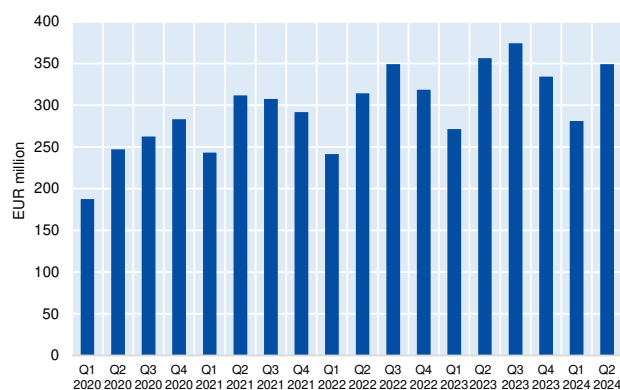


Source: CBK.

**Current account balance reached EUR 39.8 million, in Q2 2024 (EUR 43.6 million, in Q2 2023 (chart 16).** Budgetary revenues reached EUR 101.6 million, marking an increase of 25.3% compared to the same period of the previous year. Meanwhile, investment income recorded a negative balance of EUR 61.1 million (EUR 37.9 million in Q2 2023), as a result of the return of dividends from foreign direct investments.

**The value of remittances received in Q2 2024, reached EUR 349.0 million, which comprises 14.4% of the the GDP growth, representing a decline of 2.0% compared to Q2 2023 (chart 17).** Germany and Switzerland continue to be the main sources of remittances, accounting for 56.6% of total remittances, followed by the US and other EU countries. Remittances through formal channels, such as banks and other financial institutions, increased by 1.9%, while remittances through informal channels decreased by 12.1%.

Chart 17. Remittances



Source: CBK.

Chart 18. Foreign Direct Investments

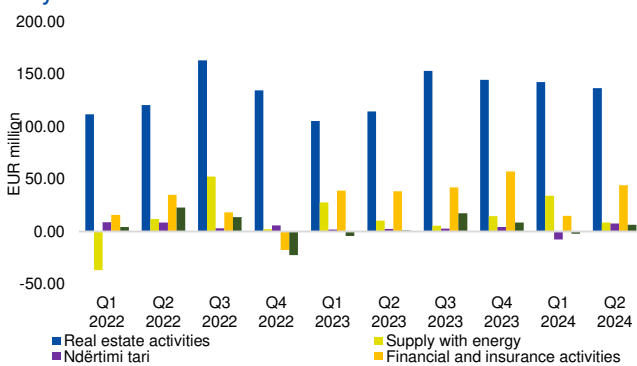


Source: CBK.

The slowdown in remittance growth of only 0.3% in Q2 2024 compared to the same period last year may have been influenced by visa liberalization with EU countries. This process has influenced the increase in visits by Kosovars to the diaspora, where most migrants financially help their families to cover travel expenses. Slower growth in remittances, combined with increased imports of travel services, could negatively impact economic growth and the purchasing power of the population.

**FDI in Q2 2024 resulted in an annual growth of 8.6%, reaching a value of EUR 204.0 million, which constitutes 8.4% of GDP (chart 18).** The increase of FDI was mainly recorded in the real estate sector, reaching 19.3%, which amounted EUR 136.6 million (EUR 114.5 million marked in Q2 2023). In Q2 2024, there was also an increase in FDI in financial activities (including insurance), electricity supply and construction (chart 19). Direct investments of

Chart 19. Investimet e huaja direkte sipas aktiviteve kryesore



Source: CBK.

residents from Kosovo in other countries increased by 33.4% in Q2 2024, reaching a value of EUR 70.0 million (EUR 52.5 million in Q2 2023). These investments are mainly focused on the real estate sector and are directed mainly to countries in the region.

## 4. Financial system

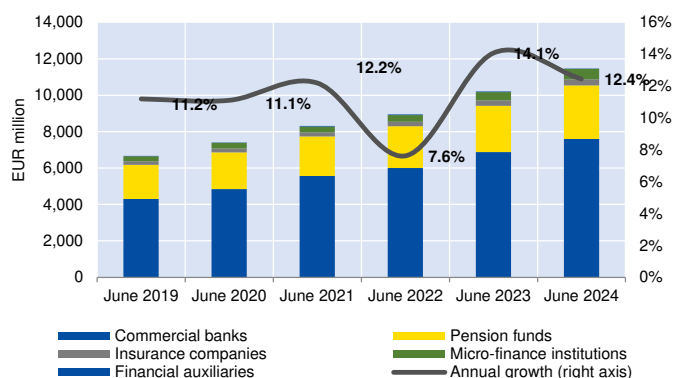
The financial system in the country continued to expand at a rapid double-digit growth rate in the first half of 2024, albeit lower than in the previous year. In June 2024, financial system assets reached the value of EUR 11.47 billion, representing an annual increase of 12.4% (chart 20). The pension and microfinance sectors recorded accelerated growth, while the banking and insurance sectors recorded a slowdown in the annual growth rate of assets.

The banking sector, in June 2024, represented 66.3% of total assets of the financial system, and due to its high weight in the system, gave the main contribution to its expansion despite the slower annual growth (chart 21). Pension funds recorded higher annual growth compared to the previous year, increasing their share in the total assets of the financial system to 25.6%. Meanwhile, financial auxiliaries recorded an annual decline, but due to their low weight of only 0.1% of the financial system's assets, they had a marginal negative contribution to the growth.

### 4.1. Banking Sector

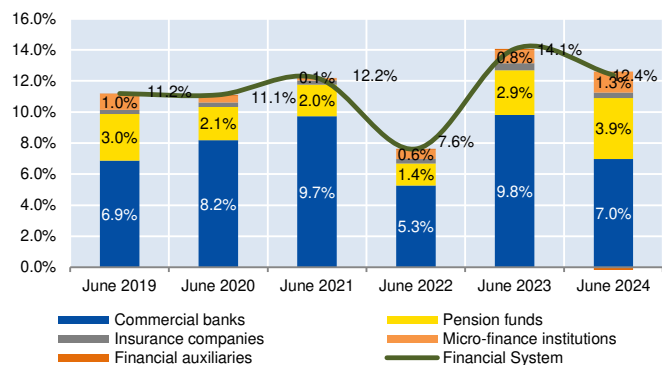
Banking sector assets reached the value of EUR 7.60 billion, which corresponds with an annual increase of 10.3%, which is for 4.3 percentage points lower compared to the same period of the previous year (chart 22). The slower annual growth of banks' funding sources, among other things, was reflected in the dynamics of the main items of banks' balance sheets, lending and investments in securities, which, despite the high growth, recorded a slightly lower growth rate compared to the same period of the previous year. Within the framework of other items of the sector's balance sheet, the balance sheet with commercial banks was characterized by an annual decline, potentially influenced by the decline in interest rates at the global level.

Chart 20. Assets value of Kosovo's financial system



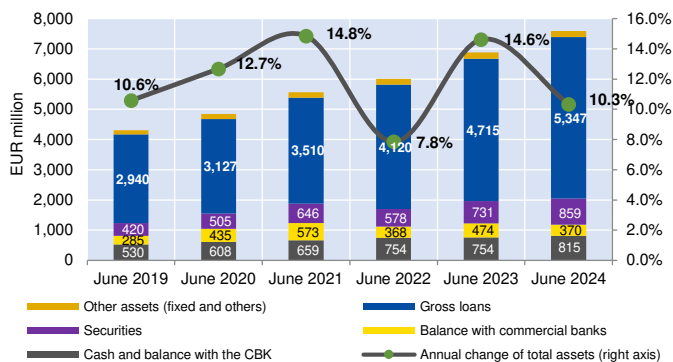
Source: CBK.

Chart 21. Contribution to assets growth of financial system, percentage points



Source: CBK.

Chart 22. Balance sheet of the banking sector - assets

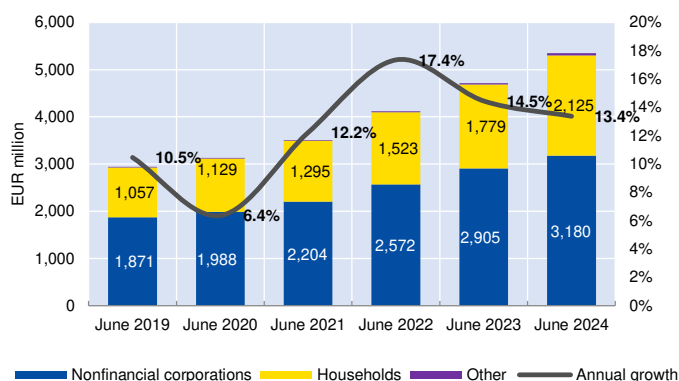


Source: CBK.

Lending recorded an annual growth of 13.4%, which is for 1.1 percentage points lower compared to the first half of the previous year. This development reflects the slower growth trend of lending to nonfinancial corporations, as loans to households accelerated the annual growth rate, giving the main contribution to the total increase of lending (charts 23 and 24). According to the Kosovo Bank Lending Survey (KBLS), credit demand affected lending dynamics in the second quarter of 2024, as credit supply underwent minimal changes mainly through the provision of slightly lower interest rates, also influenced by global interest rate dynamics. This development was more pronounced for households, while for nonfinancial corporations the standards remained largely unchanged. Although the overall lending structure continues to be dominated by the nonfinancial corporate segment, the household segment is expanding its share in total lending to the sector relatively more rapidly. This growth is being driven mainly by the expansion of household loans with longer maturities, while loans to nonfinancial corporations did not experience any change in maturity structure from last year. In addition to the overall increase in lending, financial inclusion, namely the number of new borrowers, has also increased. In the first half of the year, the number of new borrowers was 4.8% higher than in the first half of 2023 (3.5% annual growth of new borrowers in the first half of 2023).

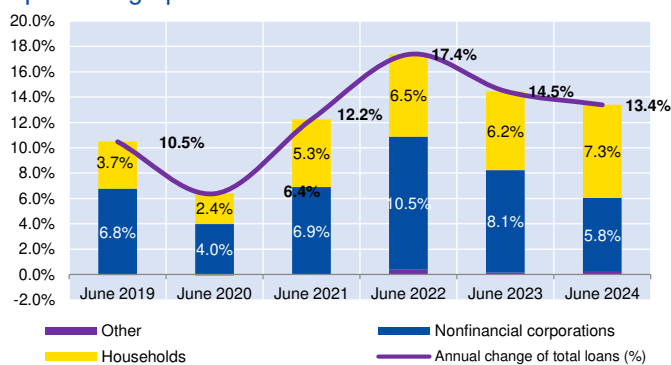
The higher growth in lending to households reflects the relatively greater scope for expansion in this segment, given the still lower level of financial intermediation compared to the region,<sup>3</sup> as well as the high rate of households that do not have any loans at all,<sup>4</sup> while the loan repayment performance of this segment has historically been satisfactory. Also, increased income or

Chart 23. Stock of total loans, annual change



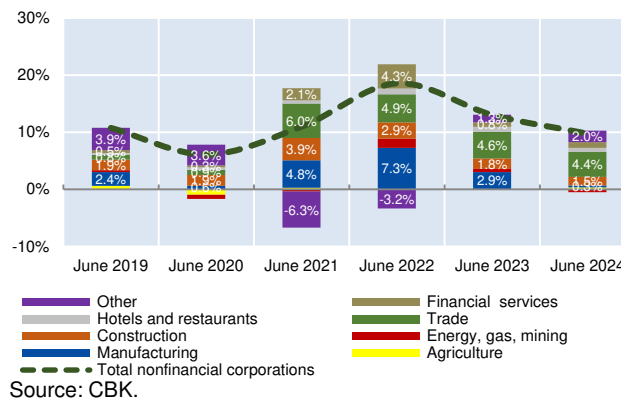
Source: CBK.

Chart 24. Contribution to the growth of total loans, in percentage points



Source: CBK.

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



Source: CBK.

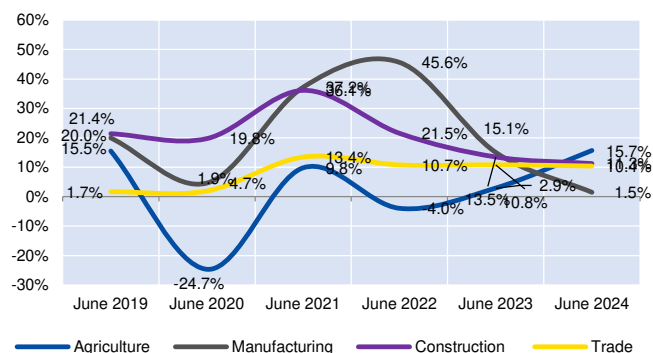
<sup>3</sup> The household sector credit gap to GDP compared to the region, in June 2024, was -0.5 percentage points, which means that in Kosovo, the level of household credit to GDP is lower than in the countries of the region by 0.5 pp. The same indicator for loans to enterprises stood at 10.6 percentage points above the regional average.

<sup>4</sup> A household survey, commissioned by the CBK and conducted by Ubo Consulting, in 2021, found that the rate of households that do not have any loans at all was 60.3%.

expectations of increased public sector revenue may have positively influenced households' increased willingness to borrow, reflecting more optimistic expectations for the future or a preference for investments as a method of preserving the value of money. Furthermore, the increased prices of products and services in the years following the pandemic have led to an increase in the value of loans requested from banks for consumption and renovation purposes, which is also supported by the increase in the average loan value.

**The segment of nonfinancial corporations recorded an annual growth of loans stock of 9.5%, which is for 3.4 percentage points lower compared to the first half of the previous year.** The manufacturing sector was characterized by the most pronounced slowdown in growth rate, namely annual growth of 1.5% from 15.1% in the first half of the previous year. Lending to the trade sector recorded slightly lower annual growth compared to the previous year, but continues to remain the largest contributor to the growth of the total loan stock (chart 25). Lending to the agriculture sector marked significant annual

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



Source: CBK.

growth, also influenced by the support of the Kosovo Credit Guarantee Fund (KCGF) (chart 26). **The slowdown in lending to key economic sectors during this period is in line with the contribution of these segments to GDP, which on average in the first half of 2024 has marked a slowdown in the manufacturing industry, construction and trade compared to a year earlier. Meanwhile, the contribution of the agriculture sector to GDP in the first half of 2024 was positive compared to the negative impact marked in the previous year.** New loans granted to the nonfinancial corporate segment marked an annual decline of 1.8% compared to an increase of 11.1% in the same period of the last year. This decline was influenced by both categories of new loans to nonfinancial corporations, those with an investment character that recorded a slower growth rate of 4.6% compared to the growth of 13.6% marked in the previous year, as well as loans with a non-investment character that experienced a decline of 13.9%, compared to the growth of 11.6% marked in the previous year. Interest rates applied by banks to the nonfinancial corporate segment generally did not change significantly during this period, with marginal declines noted in several months.

**Household loans accelerated annual growth to 19.4%, from 16.8% in the previous year, a development reflected by the accelerated growth of new loans for this segment of 36.4%, from 6.1% growth in the same period of the previous year (chart 27).** This growth was mainly influenced by the dynamics of consumer credit, which recorded a high annual growth of 44.2% from 10.6% in the same period of the previous year. Likewise, mortgage loans recovered the upward trend of previous years, increasing by 16.8%, after a decline of 9.6% in the same period of the previous year. The results of the Kosovo Bank Lending Survey for Q2 2024 suggest that the increase came from higher demand from households to finance consumption and house purchase needs, and a more eased offer for this segment compared to that for businesses. Within new consumer credit, the most pronounced growth is concentrated in loans with higher values, namely in amounts over EUR 10 thousand and which have longer-term maturities.

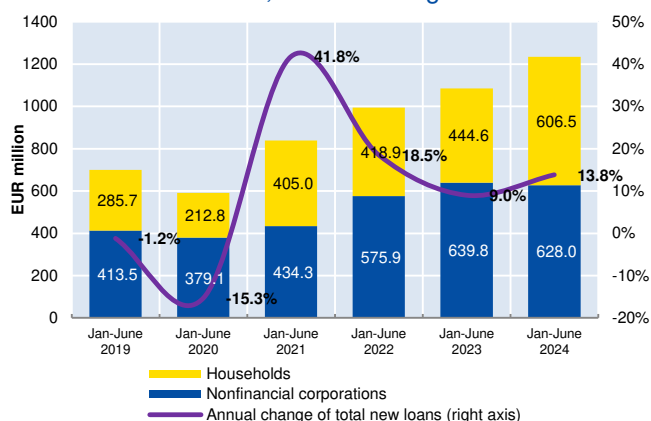
In line with this, as highlighted earlier, the increase in household lending has been accompanied by a gradual shift in the maturity structure of loans, mainly towards longer-term loans. Specifically, the “over 10 years” category has expanded its share to 35.5%, which is for 2.0 percentage points higher than a year ago,

and compared to five previous years it has increased by 20.7 percentage points. However, the dominant category continued to be that of maturity “5 to 10 years”, with a share of 43.6%.

According to data from the Credit Registry of Kosovo (CRK), new household loans <sup>5</sup> disbursed during the period January-June 2024 were, on average, worth EUR 10.1 thousand and had an average maturity of 4.9 years. More specifically, in terms of the number of new loans issued in this period, 23.6% of them were in value under EUR 500, which mainly represent debt used on credit cards, but which in terms of total value had a share of only 0.95%. Loans in the range of EUR 10-30 thousand accounted for 18.8% of the total number of loans disbursed, while in terms of value they had a share of 36.0%, resulting in the dominant category in terms of the value of total new loans to households. Loans in the range of EUR 30-60 thousand had a share of 5.6% in number, while 22.4% in value of total loans. Loans with a value equal to or over EUR 60 thousand, which mainly include mortgage loans and leasing, had a low share in number, at 1.8%, but in value they had a share of 20.8% of the total value of new loans. In terms of maturity, the number of loans with a maturity of 3-5 years had a dominant share of 42.6%. While, based on the value of disbursed loans, loans with a maturity of 5-10 years have a dominant share of 38.2%.

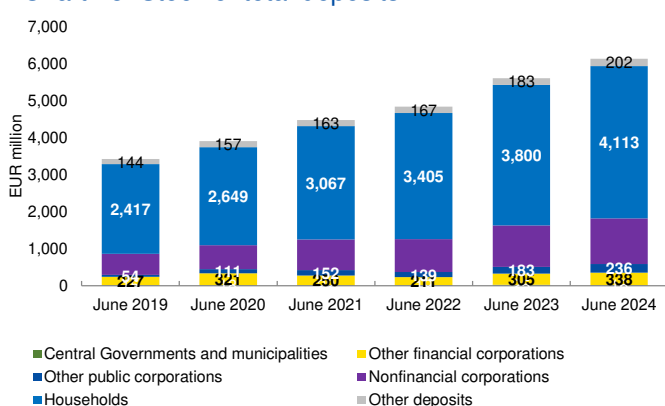
**Banking sector deposits in the first half of the year recorded an annual growth of 9.4%, 6.6 percentage points lower compared to a year earlier.** Total value of deposits reached EUR 6.13 billion (chart 28). The two main segments, nonfinancial corporations and households, recorded a slowdown in the annual deposit growth trend to 10.5% from 24.7% and to 8.2% from 11.6%, respectively. Public corporate deposits recorded a high double-digit growth, but at a slower pace compared to a year earlier. Deposits of other financial corporations, which are comprised mainly by pension funds deposits,

Chart 27. New loans, annual change



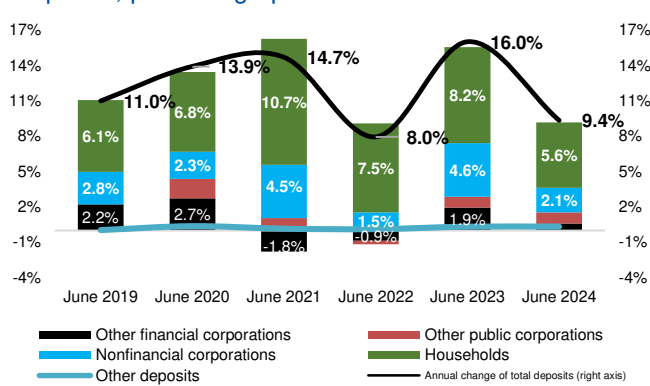
Source: CBK.

Chart 28. Stock of total deposits



Source: CBK.

Chart 29. Contribution to annual growth of total deposits, percentage points



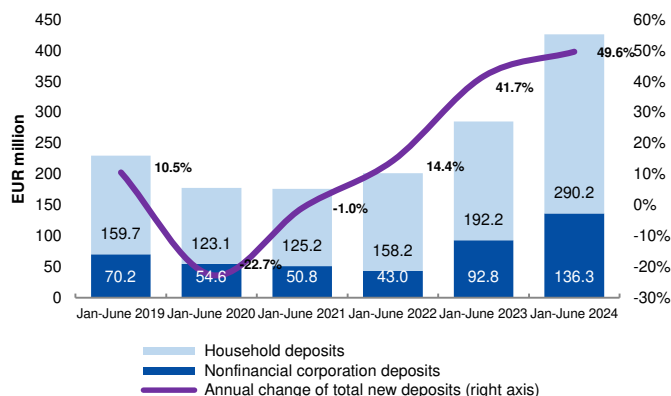
Source: CBK.

<sup>5</sup> Excluding overdrafts, the value of which constituted 2.01% of the total amount of disbursed household loans during this period (first half of 2024).

marked a slow increase compared to the high growth marked in the previous year, as a result of the higher investments in foreign market (chart 29). At the end of the second quarter of 2024, deposits comprised 80.8% of total liabilities and equity of the sector, representing a decline of 0.7 percentage points compared to the end of the second quarter of the of the previous year.

**New deposits, including only time deposits, continued to grow at a higher pace, driven by the environment with higher interest rates and of the banks' campaigns to increase deposits in the banking sector.** At the end of June 2024, the value of these deposits reached EUR 426.5 million, compared to EUR 285.1 million a year earlier, marking an annual increase of 49.6%, from 41.7% in the previous year. New household deposits recorded a higher increase of 51.0% from 21.5% marked in the previous year, reaching EUR 290.2 million (compared to 192.2 million in the end of Q2 2023). Also, new deposits of nonfinancial corporations increased significantly, reaching EUR 136.3 million from EUR 92.8 million marked in the previous year (chart 30).

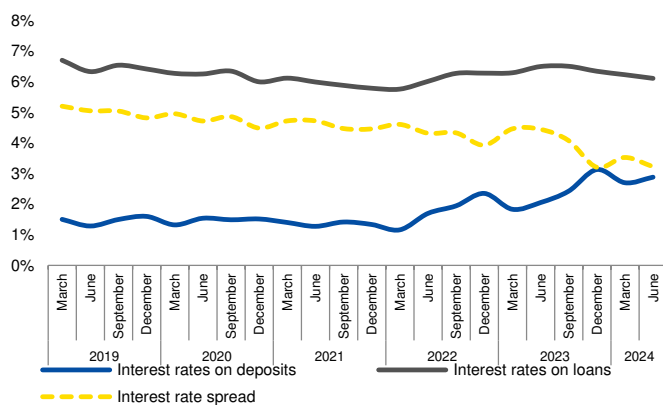
Chart 30. New deposits, annual change



Source: CBK.

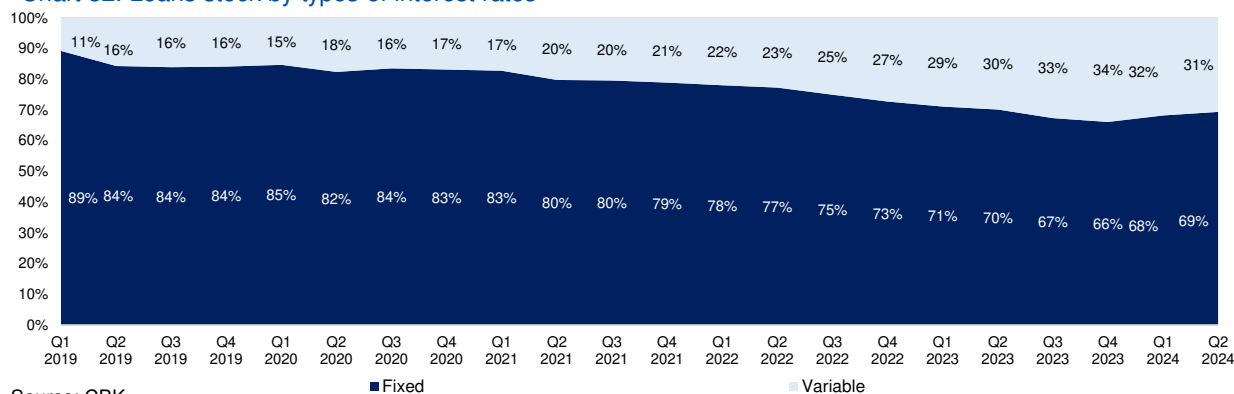
**The downward trend in inflation, accompanied by a reduction in key interest rates by the European Central Bank (ECB), has contributed to the reduction of interest rate pressures in the banking sector in the country, as well as the interruption of the upward trend in the share of loans with variable interest rates.** The transmission mechanism of the interest rate decrease from the ECB to the domestic market was more effective on the credit side, which marked a decrease in the interest rate to 6.1% from 6.5% as it was in the previous year. Meanwhile, on the deposit side, competitive pressures for deposits remain high and contributed to the further increase in interest rates. In June 2024, the interest rate on deposits reached the highest level in the last eleven years, corresponding to 2.9%, from 2.1% in June 2023. Consequently, the margin of interest rate spread of loans and deposits narrowed to 3.2 percentage points from 4.4 percentage points in June 2023 (chart 31). Loans with variable interest rates, after having reached the peak at the end of the fourth quarter of 2023, decreased their share to 30.6% in June 2024 from 31.8% in the previous quarter (chart 32).

Chart 31. Interest rate on loans and deposits



Source: CBK.

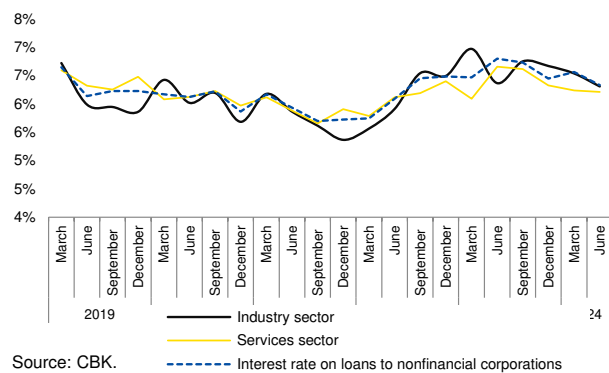
Chart 32. Loans stock by types of interest rates



Source: CBK.

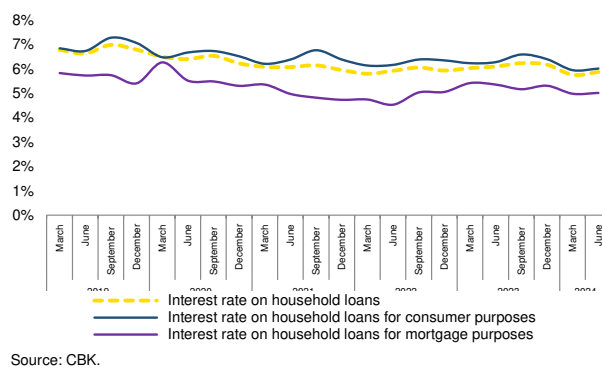
The average interest rate on loans to nonfinancial corporations, in June 2024, decreased to 6.3%, compared to 6.8% as it was in the previous year. Within the lending categories, a more favorable interest rate on loans was marked for loans to services sector, with an average of 6.2% (chart 33). Whereas, interest rate on loans to households dropped to 5.8%, marking an annual decline of 0.22 percentage points. Mortgage loans, which are considered to have lower risk due to collateral coverage, had the most favorable interest rates with an average of 5.0%. Conversely, consumer credit continued to have higher interest rates, with an average of 6.0% in June 2024 (chart 34).

Chart 33. Interest rate on loans to nonfinancial corporations



Source: CBK.

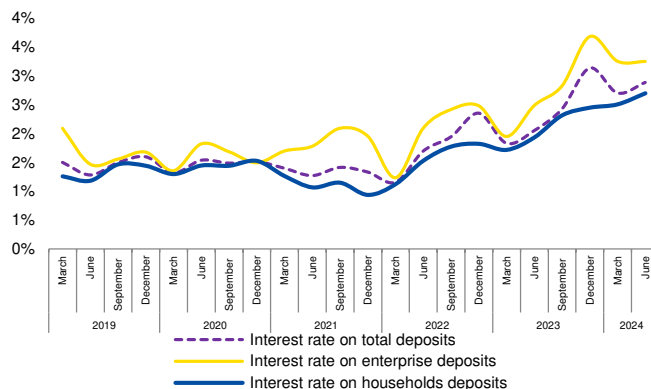
Chart 34. Interest rate on loans to households



Source: CBK.

Interest rates on deposits, after a decline in the previous quarter, increased in the second quarter (chart 35). Compared to the same period of the previous year, interest rates increased by 0.8 percentage points, reaching 2.9% in June 2024. Interest rates on nonfinancial corporation deposits increased by 0.8 percentage points, reaching 3.3%. Also, for household deposits the interest rate was increased by 0.8 percentage points, reaching 2.7% in June 2024 (chart 35).

Chart 35. Interest rates on deposits



Source: CBK.

The banking sector closed the first half of 2024 with a net profit of EUR 90.9 million, representing a slowed down annual increase of 10.1% against 22.3% as it was in the previous year. This development reflects the highest annual

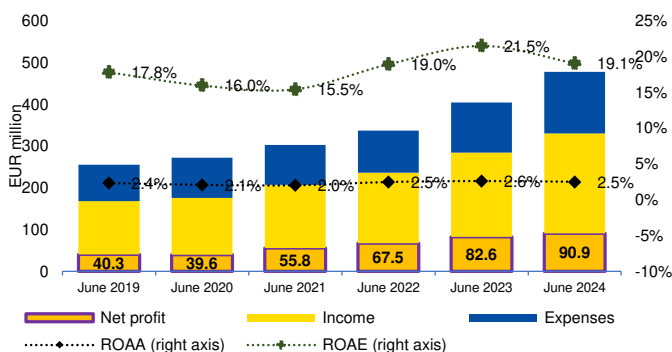
development reflects the highest annual

**increase in expenditures, as revenues recorded a slightly lower growth rate compared to the previous year.** Total revenues in the first half of the year reached EUR 239.3 million, marking an annual increase of 18.2% compared to an increase of 19.9% as it was the previous year. Interest income represent 76.9% of total income and contributed mainly to this growth, driven by increased lending and higher interest rates in the last two years. Also, income from securities increased as a result of higher investments in this category and higher returns. Non-interest income, mainly from fees and commissions, increased by 6.2%, reaching EUR 47.4 million at the end of June 2024.

**Banking sector expenses reached the value of EUR 148.4 million, representing an annual increase of 23.7%, compared to the increase of 18.3% marked in the previous year.** The highest increase was in general and administrative expenses, as well as in interest expenses. The category with the highest weight, general and administrative expenses, represents 58.2% of total expenses and increased by 21.4% from 15.5% a year earlier, reaching EUR 86.3 million in June 2024. Interest expenses, for the second year in a row, marked a significant increase of 47.5%, compared to 51.7% a year earlier, as a result of the increase in interest rates in all categories that generate interest expenses, as well as the increase in the stock of time deposits (19.4% and 41.8%, respectively). 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 19.1% 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 during this period (chart 36).

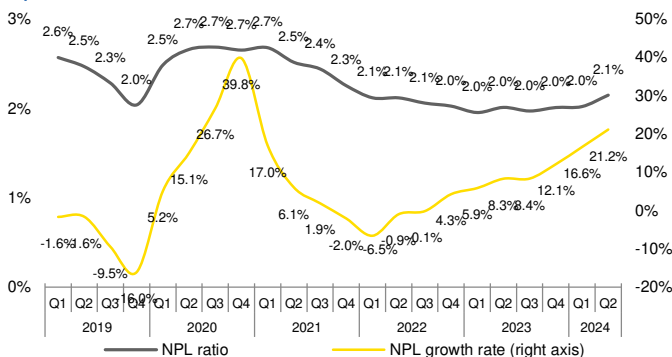
**Nonperforming loans of the banking sector increased by 21.2% compared to the increase of 8.3% marked in the previous year; however, the nonperforming loans to total loans ratio remained at a low level of 2.1%.** The coverage by loan loss provisions declined to 125.6%, from 137.8% as it was in the same period of the of the previous year, due to the higher increase marked in the value of nonperforming loans than the growth of provisions allocated for loan losses (chart 37).

Chart 36. Profit and profitability indicators of the banking sector



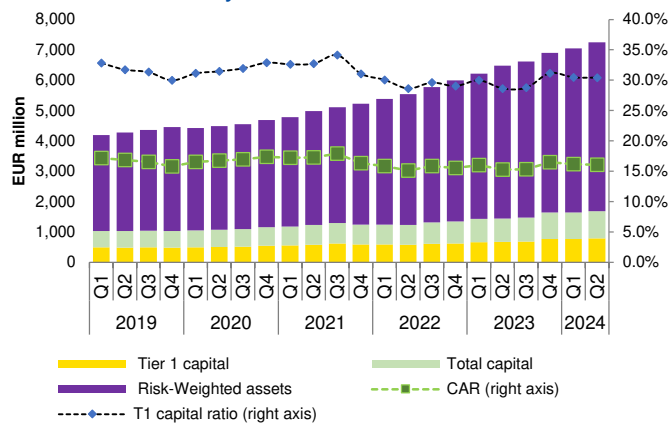
Source: CBK.

Chart 37. Nonperforming loans and loan loss provisions



Source: CBK.

Chart 38. Solvency indicator

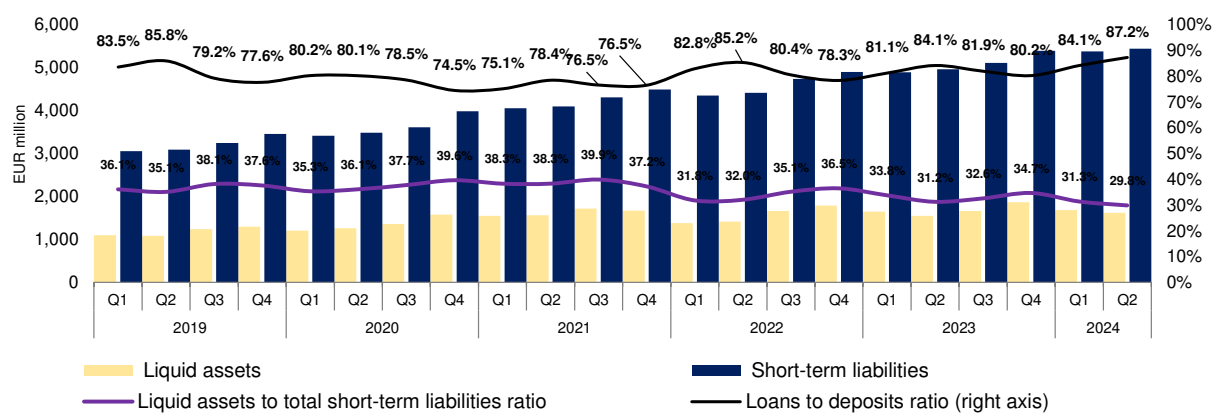


Source: CBK.

**The household segment increased the level of nonperforming loans to 1.7% from 1.3% in the previous year, while nonfinancial corporations maintained a similar nonperforming loans rate of 2.5%.** Households were characterized by a more pronounced increase in nonperforming exposures in the amount of EUR 12.8 million or 55.8% annual growth, compared to the increase in lending for this segment of 19.4%. For the segment of nonfinancial corporations, nonperforming exposures increased by EUR 7.2 million, or by 10.0%, whereas total loans to nonfinancial corporations increased by 9.5%. The manufacturing and agriculture sectors marked an increase in the value of NPLs by EUR 8.2 and EUR 1.1 million, respectively, with an increase in relation to loans of 1.2 and 1.9 percentage points, reaching NPL rates of 3.0% for manufacturing and 7.1% for agriculture. On the other hand, sectors such as trade and services recorded a decrease in the value of NPLs of EUR 1.28 and 1.27 million, resulting in non-performing loan rates of 1.6% for trade and 3.3% for services.

**The capital position, expressed through the ratio of regulatory capital to risk-weighted assets, increased slightly to 16.1% from 15.3% as it was in June 2023.** The annual increase in regulatory capital by 0.8 percentage points compared to the end of the second quarter of 2023 was influenced by the higher growth in regulatory capital relative to the growth in risk-weighted assets, which marked the most pronounced slowdown in the growth rate. Regulatory capital at the end of the second quarter marked an annual increase of 16.2% from 17.8% growth a year earlier, as a result of slowing profit growth until June 2024. At the same time, risk-weighted assets recorded a slowdown in growth of 10.2% from 16.3% in June 2023 (chart 38), affected by the credit performance.

Chart 39. Liquidity indicators



Source: CBK.

**The sector's liquidity coverage ratio (LCR) remained above the minimum level of 100% required by regulation, and marked a slight annual increase to 204.2% from 197.2% in June 2023.** This level proves that banks hold sufficient liquid assets to meet their outflow (cash flow) needs for a 30-day period. Furthermore, also the Net Sustainable Funding Ratio (NSFR) increased from 197.2% to 204.2% in June 2024, suggesting a strengthening of the longer-term liquidity position of banks. Meanwhile, the liquidity ratio - expressed as the ratio of liquid assets to short-term liabilities, marked an annual decline of 1.4 percentage points, falling to 29.8%. This is as a result of the more pronounced annual increase in short-term liabilities of 9.6% compared to the increase in liquid assets of 4.7% (chart 39). Also, the higher growth of lending in relation to deposits has influenced the growth of the loan-deposit ratio by 3.1 percentage points, reaching to 87.2%.

## 4.2. Pension sector

**Assets of the pension sector recorded a significant annual growth of 15.8% in the first half of 2024, from the increase of 11.2% in the same period of the previous year (chart 40).**

The improvement to some extent of the global macroeconomic indicators, mainly influenced by the decline in the global inflation trend and expectations for monetary policy easing, among other things, reflected positively on the accelerated growth of the sector. During the period of January-June 2024, the Kosovo Pension Savings Trust (KPST) has managed to record an increase in return on investments and an increase in contributions collected. Likewise, the Slovenian-Kosovar Pension Fund (SKPF) has recorded an increase in return on investments, but contributions collected have decreased compared to the previous year.

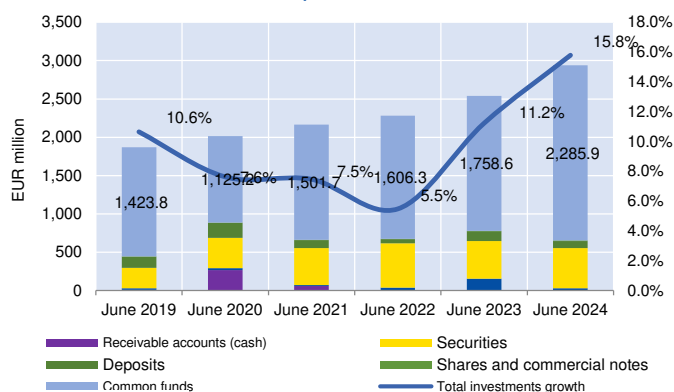
The total value of pension fund assets reached EUR 2.94 billion, where the KPST represents 99.7% of assets, and the SKPF accounting for the remainder of 0.3%. KPST assets grew by 15.8% annually, while SKPF assets increased by 11.8% compared to the previous year.

**KPST assets are invested mainly in the foreign market, with a share which increased by 8.3 percentage points in the first half of the year, reaching 78.0% of the total investment portfolio.** The value of assets invested abroad reached EUR 2.29 billion, invested mainly in mutual funds. While the rest of the investments, of EUR 643.4 million, are diversified in the domestic market. These investments reduced their share to 22.0% of the total investment portfolio, a decrease of 8.3 percentage points from the previous year.

The items that recorded an annual decline within investments in the domestic market were cash held at the CBK and investments in certificates of deposit. Cash at the CBK decreased to EUR 27.6 million from EUR 149.0 million as they were in the previous year, or to 0.9% of the total investment portfolio from the share of 5.9% marked in the previous year. Certificates of deposit in local banks, decreased to EUR 91.6 million from EUR 128.9 million, or 3.1% share of total investments, from 5.1%, as they were in the previous year. Whereas, unlike other categories of domestic investments, the category of investments in Kosovo Government securities increased to EUR 524.3 million from EUR 448.4 million, but due to their lower growth within the framework of the increase in total assets, the weight of investments in Kosovo Government securities within total investments decreased to 17.9% from 19.3% in the previous year.

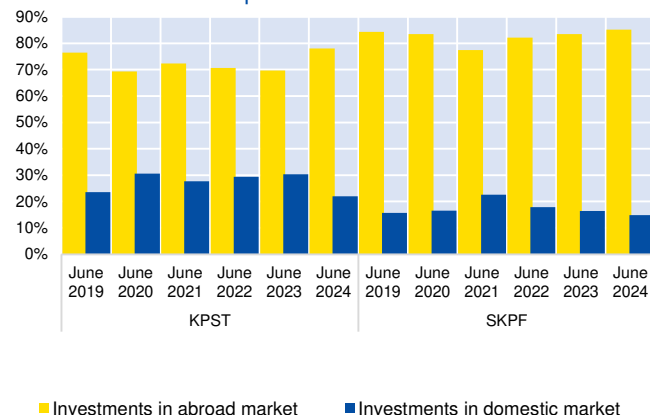
**The contributions collected by KPST by the end of June 2024 reached EUR 153.0 million, marking a slower annual growth of 13.6% from 15.9% in the previous year (chart 42).** The slower growth marked this year resulted from the higher contribution marked in the previous year, influenced by the increase in the salaries of civil servants at the beginning of 2023.

Chart 40. Assets of the pension sector



Source: CBK.

Chart 41. Structure of pension funds investments



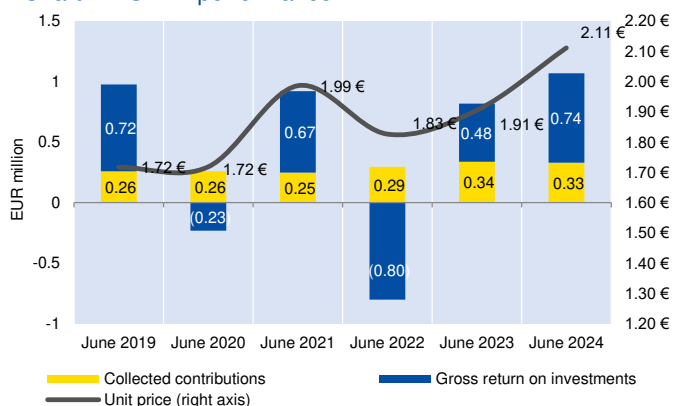
Source: KPST, SKPF

**The gross return on investment reached EUR 117.8 million, many times higher compared to the return during the same period of the previous year of EUR 24.1 million.** The main contribution was made by returns of EUR 108.3 million in the first quarter of the year, influenced by the increase in stock prices in international markets, as a result of the positive monetary policies signals to curb further increases in key interest rates. Meanwhile, returns in the second quarter of the year fell significantly to EUR 9.6 million and compared to the second quarter of the previous year, they marked a decrease of 59.5%. The prolonged effects of tight monetary policy and the slower decline of inflation than expected led to lower returns on investments in international markets compared to the previous quarter and the previous year.

SKPF has also increased investments in the foreign market against a decrease in investments in the domestic market, reaching the share of 78.7% of the total investment portfolio (chart 41). The value of assets invested abroad increased by 0.8 percentage points from June last year and reached EUR 8.0 million. Investments in the foreign market are mainly oriented towards stocks with a share of 82.9% of the total investment portfolio. The rest consists of cash with a share of 2.2% in the total investment portfolio. Meanwhile, within the framework of domestic investments, the main weight is held by investments in securities of the Government of Kosovo, with a share of 13.2% in the total investment portfolio, reaching a value of EUR 1.2 million. 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.

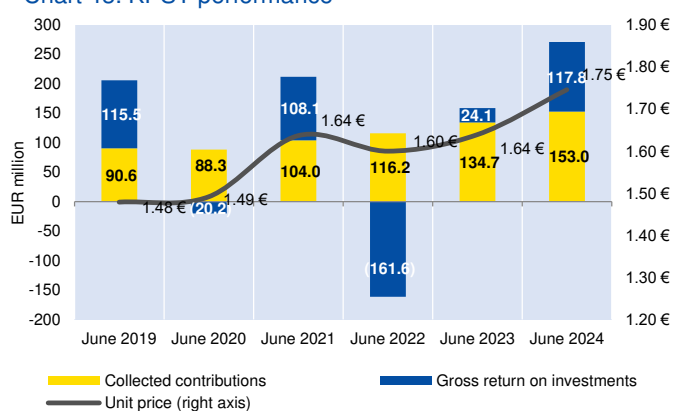
The value of contributions collected by SKPF until the end of June 2024 declined to EUR 330.2 thousand, representing an annual increase of 2.0% compared to the same period of the previous year (chart 43). Meanwhile, SKPF's return on investment marked a high increase, reaching EUR 737.8 thousand from EUR 481.7 thousand of the profit in the same period of the previous year.

Chart 42. SKPF performance



Source: SKPF

Chart 43. KPST performance



Source: KPST

The value of contributions collected by SKPF until the end of June 2024 declined to EUR 330.2 thousand, representing an annual increase of 2.0% compared to the same period of the previous year (chart 43). Meanwhile, SKPF's return on investment marked a high increase, reaching EUR 737.8 thousand from EUR 481.7 thousand of the profit in the same period of the previous year.

### 4.3. Insurance sector

**Insurance sector assets continued their growth trend throughout the second quarter of 2024, albeit at a slower pace than in the previous year for this reporting period.** At the end of June 2024, the total assets value reached EUR 330.1 million, marking an annual growth of 12.2% from of the growth of 16.0% marked the previous year (chart 44). The expansion of the sector was enabled by the increase of the written premiums throughout the first half of 2024, as well as the insurers' own capital. The most significant increase within assets was marked by the category of deposits held in commercial banks, mainly time deposits, which marked an

increase of 14.8% and are at the same time the category with the main weight in total assets. A growth was also recorded in the Kosovo Government Securities category and re-insurers' technical reserves, which increased by 7.6% and 18.4%, respectively.

Chart 44. Assets of insurance sector



Source: CBK.

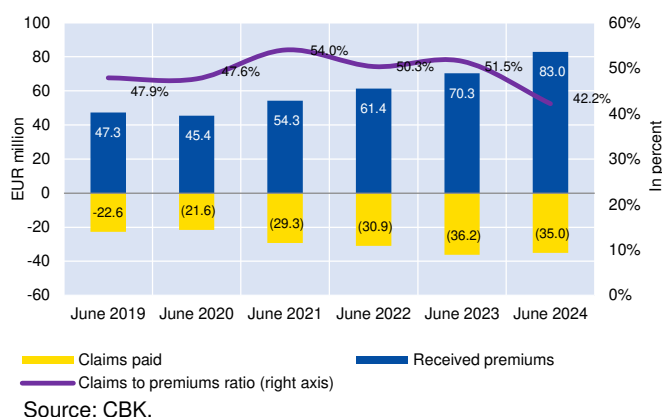
**Gross written premiums reached EUR 83.0 million, marking an accelerated annual growth of 18.0% from 14.5% in the same period of the previous year.** “Non-life” insurance marked a gross written premiums annual growth of 18.5%, while “Life” insurance increased by 9.4% compared to the first half of the previous year. The 'Third Party Motor Liability' category, which has the main weight within 'Non-Life' insurance, with a share of 51.9%, had the main contribution to the growth of 'Non-Life' insurance. The value of gross written premiums of this category reached EUR 40.6 million or an annual increase of 11.7% from 8.7% growth in June of the previous year. Also, categories such as 'Health insurance', 'Fire and natural forces insurance' and 'Guarantee insurance', within the framework of voluntary 'Non-Life' insurance, recorded a significant growth. The value of premiums for the “Health Insurance” category marked an accelerated growth of 24.5% from 20.8% in the previous year, reaching EUR 18.9 million. Likewise, the categories “Fire and natural forces insurance” and “Guarantee insurance” recorded an accelerated annual growth in gross written premiums, respectively an increase of 32.0% and 26.1%, reaching EUR 4.7 and EUR 5.4 million, respectively. Gross written premiums within “Life” insurance reached EUR 3.9 million or an annual increase of 9.4% from 4.3% as it was in June 2023. The main contributor to this growth was the “Debtor Life” category, which marked an accelerated annual growth of 17.1% from 3.3% and represented 51.7% of total “Life” written premiums at the end of the period.

**The number of insurance policies continued its growth trend in the second quarter of the year, reaching EUR 977.7 thousand policies sold or an annual increase of 46.9%.** The “Non-Life” insurance sector marked the most significant increase in the number of policies sold, reaching EUR 938.5 thousand policies sold or an increase of 49.4%. Whereas the segment of “Life” insurance marked lower growth of only 5.6%. The health insurance within the “Non-Life” insurance marked the most significant increase in the policies sold, reaching 390.2 thousand policies or an increase of 125.1%. However, the main weight in the number of policies sold continues to be the category “Motor Third Party Liability”, which represents 52.2% of total policies sold and reached 489.7 thousand policies by the end of June 2024.

**The value of claims paid by insurance companies and the Kosovo Insurance Bureau marked a slight decrease, unlike the second half of the previous year which was characterized by growth. Their value decreased to EUR 35.0 million from EUR 36.2 million, or a decrease of 3.4% from the increase of 17.2% in the previous year (chart 45).** The value of claims paid by insurance companies marked an annual decrease

of 5.4%, declining to EUR 31.4 million at the end of June 2024. Meanwhile, the value of claims paid by KIB reached EUR 3.6 million at the end of June 2024 marking an annual increase of 19.0%. However, due to the small share of only 10.4% of claims paid by KIB in total claims paid, the increase in this category did not affect the overall increase in claims paid. The main contribution to the decline in claims paid by the insurance sector, similar to the previous quarter, was the category "Fire and natural forces insurance", which marked a decrease of EUR 4.7 million, falling to EUR 568.5 thousand. While, the category with the largest weight within the category of claims paid, that of "Motor Third Party Liabilities", increased by 5.8%, mainly from the border policies and the internal MTPL.

Chart 45. Written premiums and claims paid



**The net profit of the insurance sector in the first half of the year marked an accelerated annual growth, namely an increase of 46.2% and reached a value of EUR 8.6 million.** The higher rate of revenues growth compared to expenses and incurred (but not paid) claims contributed to the increase in the sector's profits. The sector's revenues, which are mainly from written premiums, reached EUR 70.9 million, or an increase of 17.2% from the previous year. Claims incurred (but not paid) amounted to EUR 37.8 million, or an increase of 14.7% from June of the previous year. Likewise, operational expenses (which include personnel and administrative expenses) recorded an annual increase of 15.0%, reaching EUR 22.1 million. The increase of net profit was reflected in an increase of profitability indicators. Return on equity reached 11.0% from 8.6% from the previous year, while return on assets reached 3.1% from 2.4% as it was in the previous year.

The sustainability indicators of the sector marked a decline compared at end-2023. In June 2024, the capital in relation to the guarantee fund for non-life insurers decreased at 156.8% from 159.2% at the end of the previous year, while for life insurers the ratio was 166.6%. Capital in relation to the minimum Solvency margin for non-life insurers was 146.2% from 161.4% in December 2023, while for life insurers it was 777.3%, being above the accepted rate of 100%. Meanwhile, the coverage of technical provisions with eligible assets reached 110.4% from 108.6% at the end of 2023 for non-life insurers, while for life insurers it decreased to 114.9% from 115.0%.

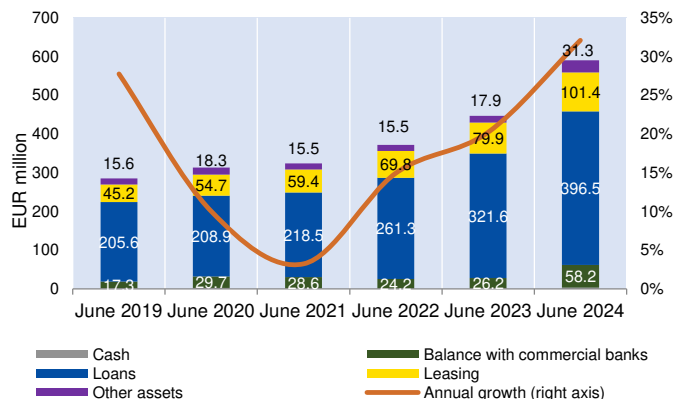
The sector's liquidity level marked a slight decrease compared to the previous year. The cash and cash equivalents to reserves ratio fell to 95.4% from 96.3% as it was in June 2023, as a result of the lower annual growth in cash and cash equivalents of 12.0%, compared to the higher growth of 13.1% of the technical reserves of the insurance sector. Whereas, the cash and its equivalents to total liabilities ratio remained at the same level of 83.3% as it was in the previous year.

#### 4.4. Microfinance sector

**Microfinance sector assets reached EUR 590.9 million, a significantly more accelerated annual growth of 32.1% from 20.2% in Q2 2023.** This development was mainly influenced by the high growth in lending activity and, to a lesser extent, by the increase in the balance with commercial banks and leasing (chart 46). Although interest rates in the international markets from which the sector is financed remained high until June 2024 when the European Central Bank decided to lower the base interest rate, the sector increased its external financing. In June 2024, borrowings (credit lines) abroad increased by 30.8%. 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.

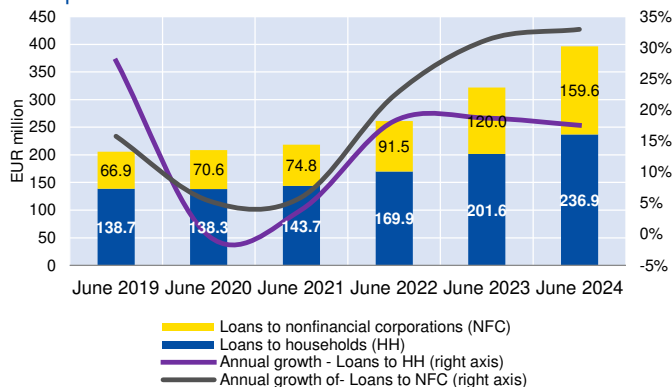
**Microfinance sector loans reached EUR 396.5 million at the end of the second quarter of the year, marking an annual growth of 23.3%, slightly accelerated from 23.1% as it was in the previous year.** The value of loans to households reached EUR 236.9 million, representing an accelerated annual increase, namely an increase of 17.5% (chart 47). Lending to non-financial corporations also marked accelerated annual growth at 32.9%. The growth of loans to NFCs was positively influenced by lending to all economic sectors (chart 48). The most significant annual growth within the NFCs was recorded by the trade segment, which reached EUR 18.4 million, marking an annual growth of 47.9%. The high growth of this segment led to an increase of its share in total loans to NFCs by 1.2 percentage points, reaching 11.5%.

Chart 46. Assets of the microfinance sector



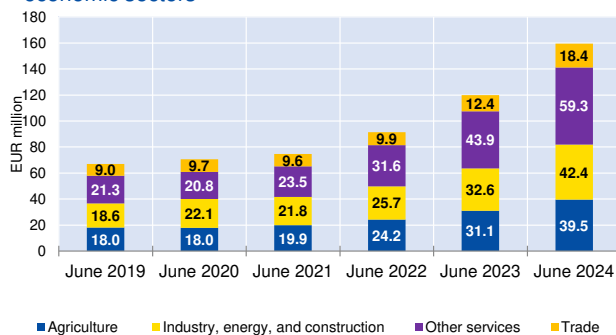
Source: CBK.

Chart 47. Value of loans to households and to nonfinancial corporations



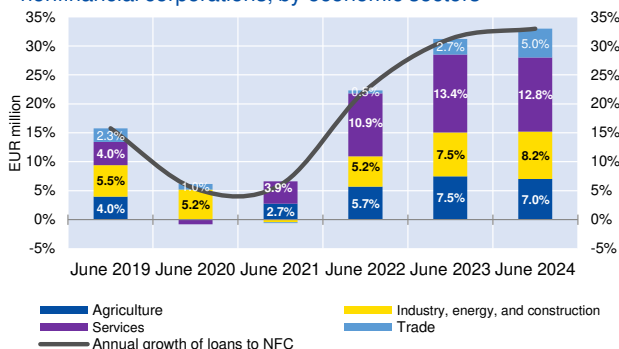
Source: CBK.

Chart 48. Value of loans to nonfinancial corporations, by economic sectors



Source: CBK.

Chart 49. Contribution to the growth of lending to nonfinancial corporations, by economic sectors

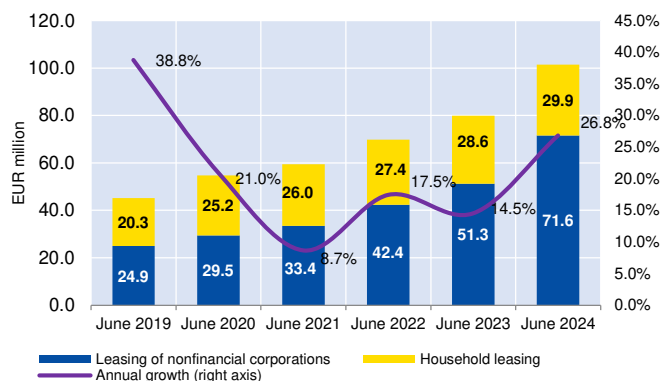


Source: CBK.

The value of loans to agriculture sector reached EUR 39.5 million, marking an accelerated annual growth, namely a growth of 27.1%. Although the agriculture segment continues to have the largest share in total loans to NFCs, compared to the previous period, it marked a decline in share to 24.8% from 25.9% of total loans to the sector. The consistent support of the Kosovo Credit Guarantee Fund (KCGF) continues to have a positive impact on the growth of lending to the agriculture sector (chart 49).

**Leasing reached the value of EUR 101.4 million, marking an accelerated annual growth of 26.8% from 14.5% in the previous year.** The main contribution to the growth of leasing came from nonfinancial corporations, which recorded an annual growth of 39.5% and have the highest share of 70.6% in total leasing. Meanwhile, the contribution of household leasing was significantly lower considering their low share within total leasing and the annual growth of only 4.2% (chart 50).

Chart 50. Value of microfinance sector leasing

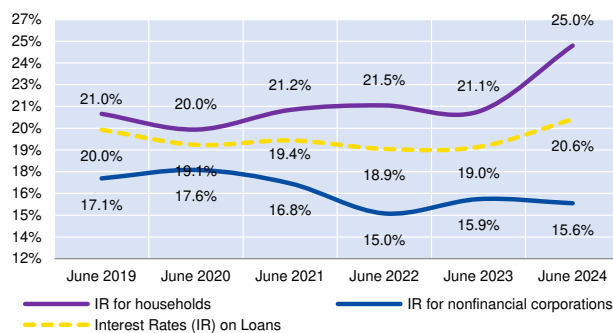


Source: CBK.

**The average interest rate on loans issued by microfinance institutions in June 2024 was 20.6%, marking an increase of 1.7 percentage points compared to the same period of the previous year.**

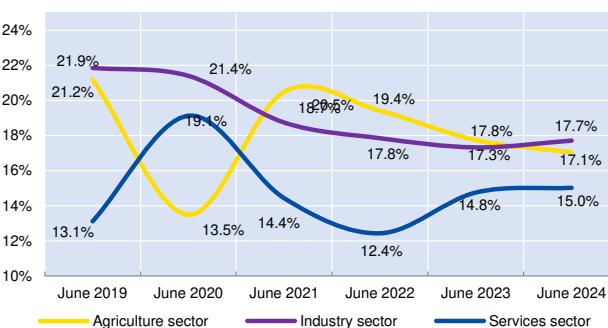
The average interest rate for households was characterized by an increase to 25.0% from 21.1%, while loans to nonfinancial corporations were characterized by a decrease of 0.2 percentage points to 15.6%. An increase of interest rates was marked by consumer credit, reaching 24.5% from 23.1%, while mortgage loans decline by 1.1 percentage points, dropping at 15.9% (chart 51). While, the interest rate on loans to the agriculture sectors loans marked a decline of 0.7 percentage points, falling at 17.1%. The average interest rate on loans to industry and services sector marked an increase of 0.4 and 0.3 percentage points, reaching 17.7% and 15.0%, respectively (chart 52).

Chart 51. Average interest rate on microfinance sector loans



Source: CBK.

Chart 52. Average interest rate on loans to enterprises, by economic sectors



Source: CBK.

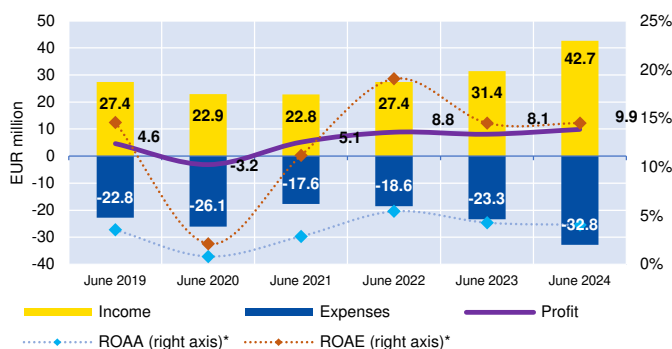
The microfinance sector's net profit reached EUR 9.9 million, an accelerated annual growth of 22.2% from the decline of 8.6% decline in the previous year. The income of the sector reached the value of EUR 42.7 million, representing an annual or increase of 35.8% (chart 53). The main contribution to the increase in income was the accelerated annual growth of interest income to 24.2% from 18.6% in the previous year, mainly as a result of high lending growth. The value of this income category reached EUR 35.6 million, representing 83.5% of total income. The non-interest income reached EUR 7.1 million, representing an increase of EUR 4.3 million compared to the same period of the previous year. The significant increase in these revenues is mainly due to

the reclassification of the two financial institutions from being treated as financial auxiliaries to being categorized as MFIs/NBFIs,<sup>6</sup> whose main activity is payment services. 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).

Expenditures marked a significant increase of 40.5% from an increase of 25.7% marked in the previous year, thus reaching the value of EUR 32.8 million. Within expenditures, the category of interest expenses has marked a significant increase, reaching the value of EUR 10.6 million or an annual increase of 84.5% compared to 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 (61.8% of total liabilities and equity). Also, the category of non-interest expenses marked an increase, amounting at EUR 16.2 million, representing an annual increase of 20.3%. The main contribution to this dynamic was the annual increase of 17.2% in personnel and administrative expenses, which reached a value of EUR 15.0 million.

**The ratio of nonperforming loans to total loans marked a slight annual increase, reaching 1.9% from 1.8% in June 2023.** The value of nonperforming loans reached EUR 8.9 million from EUR 7.1 million as it was in the previous year. In June 2024, the coverage level of nonperforming loans with loan loss provisions decreased to 157.6% from 169.0% (chart 54) The level of nonperforming loans continued to be higher for NBFIs against MFI. Compared to June of last year, the level of nonperforming loans for NBFIs remained at the same level of 2.8%, while for MFIs it increased from 1.5% to 1.7% (chart 55).

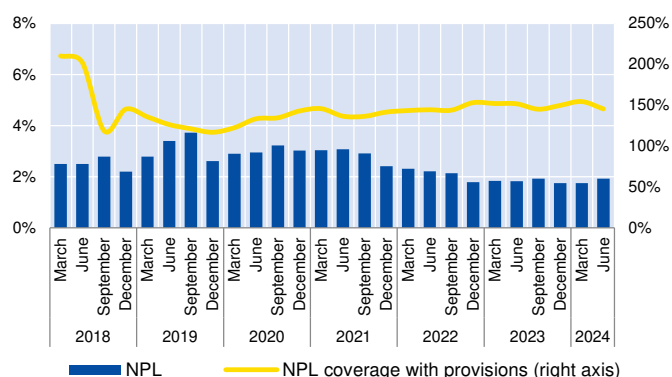
Chart 53. Profit and profitability indicators of the microfinance sector



Source: CBK.

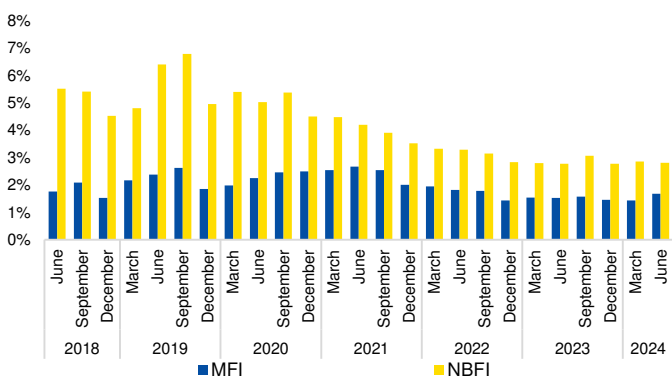
\*The value of September 2022 is

Chart 54. Indicators of credit portfolio quality



Source: CBK.

Chart 55. NPL level of MFI and NBFIs



Source: CBK.

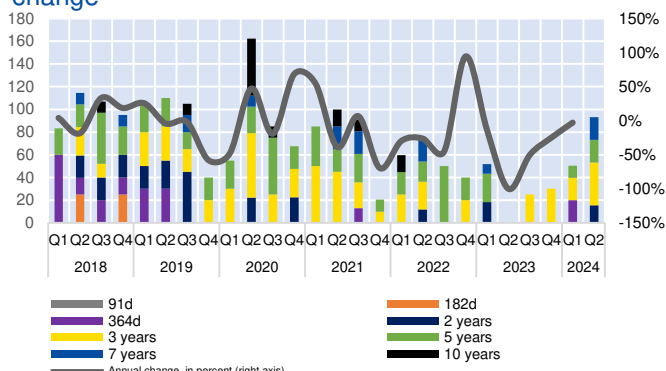
<sup>6</sup> In November 2023, two financial intermediaries were reclassified into other financial intermediaries (MFIs & IFIBs).

### 4.5. Securities market of Kosovo’s Government

Securities issued during the second quarter of 2024 amounted to EUR 93.2 million, unlike the second quarter of the previous year when no securities were issued (chart 56). However, the ratio of domestic debt to Gross Domestic Product (GDP) decreased to 9.06% in June 2024 from 10.05% in the same period in the previous year, as a result of the higher rate of GDP growth in relation to issuances which were at a lower level than the value of maturities. The demand to invest in government securities marginally exceeded the offering amount for 1.26 times (chart 57).

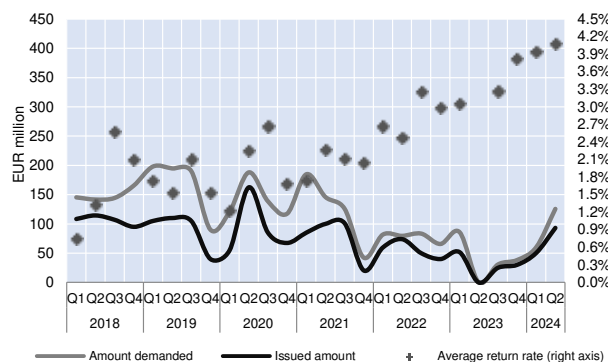
Pension funds held the largest share of government securities with 48% of the stock of the government debt, followed by commercial banks 22%, public institutions 21%, and insurance companies which comprise 6% of the debt stock. The remainder of 3% is held by other investors.

Chart 56. Amount and maturity of issued debt, annual change



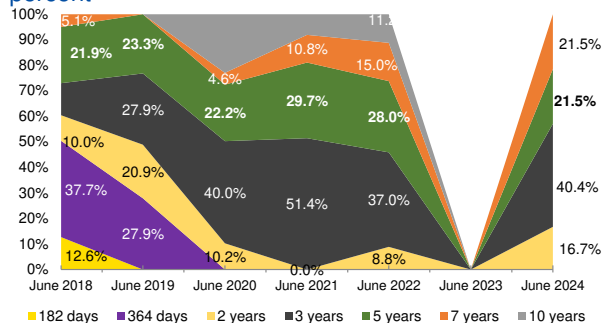
Source: Ministry of Finance, Labor and Transfers.

Chart 57. Bid to cover ratio



Source: Ministry of Finance, Labor and Transfers.

Chart 58. Government securities structure, in percent



Source: Ministry of Finance, Labor and Transfers.

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 956.3 million, at the end of June 2024, from EUR 970.2 million 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- June 2024, the structure was dominated by the government bonds with a maturity of 3 years, which comprise around 40.4% of new issuances, followed by those with a maturity of 5 and 7 years (chart 58).

### **The suggested citation of this publication:**

CBK. Quarterly Assessment of the Economy No. 47 Q2 2024, Central Bank of the Republic of Kosovo

### **References**

#### **CBK.**

- a) Monthly Statistics Bulletin: [Monthly Statistics Bulletin | Central Bank of the Republic of Kosovo \(bqk-kos.org\)](#)
- b) Official CBK statistics, Time series: [time series | Central Bank of the Republic of Kosovo \(bqk-kos.org\)](#)

#### **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) Construction cost index: <https://ask.rks-gov.net/>
- e) Statistical Report on economic enterprises: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- f) External trade statistics: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>

#### **Other:**

- a) Announcements and Results of Auctions for Government securities: <https://mf.rks-gov.net/>
- b) Kosovo Credit Guarantee Fund: <http://fondikgk.org/>
- c) Kosovo Pension Saving Trust: <http://www.trusti.org/en/>
- d) Ministry of Finance, Labor and Transfers - Nine-month data on state debt and state guarantees: <file:///C:/Users/bbojaj/Downloads/NINE-MONTH%20DATA%20ON%20STATE%20DEBT%20AND%20STATE%20GUARANTEES%20JANUARY%20-%20SEPTEMBER%202023.pdf>
- e) Ministry of Finance Labor and Transfers - Nine-Month Financial Report, Budget of the Republic of Kosovo: <file:///C:/Users/bbojaj/Downloads/Nine-%20Monthly%20Financial%20Report%202023.pdf>

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

**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 \(IMF\)](#)

**World Economic Outlook:** [World Economic Outlook \(www.imf.org\)](#)

**World Bank:** Commodity Markets: [Commodity Markets \(www.worldbank.org\)](#)



Str. Garibaldi, no. 33, 10000 Prishtina,  
Republic of Kosovo  
Tel: +383 38 222 055; Fax: +383, 38, 243 763  
Web:[www.bqk-kos.org](http://www.bqk-kos.org)