

Summary

- **The Euro area economy marked a slowdown growth in Q3 2024, with an annual growth rate of 0.9 percent and a quarterly growth rate of 0.4 percent.** The ECB's economic growth projections remain moderate, at 0.7 percent in 2024 and 1.1 percent in 2025, indicating low expectations for a faster recovery. The inflation rate in Q3 2024 was 2.2%, a significant decrease from the same period last year. According to the ECB's projections, inflation will slow to 2.4 percent in 2024 and 2.1 percent in 2025, indicating further stabilization. However, the risk of economic uncertainty is still high.
- **Kosovo's economy** grew by 4.6% through September 2024, driven by increased consumption and investment, while net exports had a negative impact on economic activity. **During the third quarter of 2024, economic activity increased by 4.0 percent, driven by an increase in exports of goods and services of 9.6 percent, investments of 7.6 percent, and consumption of 3.1 percent, while imports of goods and services negatively impacted growth by 9.2 percent.** CBK estimates suggest that Kosovo's economy grew by 4.3 percent in 2024, driven by consumption, investments, and exports of goods and services. Meanwhile, imports of goods and services had a significant negative impact on GDP growth.
- **Inflation in Q3 2024 slowed to 1.3 percent from 2.4 percent in the previous quarter.** Fuel and commodity prices contributed to the slowdown in inflation, service prices maintained their contribution, while food prices showed an upward trend. A slowdown was also evident in core inflation, which increased by 3.3 percent. While foreign inflationary pressures faded significantly, the slowdown in domestic inflation was slower. Moreover, domestic production indices signal an increase in the cost of domestic production in Q3 2024.
- **In Q3 2024, primary budget revenues reached a net value of EUR 816.3 million, marking an increase of 7.2 percent. Primary expenditures increased by 9.7 percent, reaching EUR 743.5 million. As a result of the higher level of budget revenues compared to expenditures, the Kosovo Budget recorded a positive balance of EUR 72.7 million.** Tax revenues increased by 5.9 percent, with indirect taxes increasing by 8.4 percent, while direct taxes increased by 4.2 percent. Meanwhile, non-tax revenues increased significantly by 19.2 percent, which have a smaller share in total budget revenues. Regarding budget expenditures, current expenditures increased by 9.0 percent, while capital expenditures increased by a higher rate of 13.2 percent compared to the same period last year.
- **The current account in Q3 2024 recorded a positive balance of EUR 249.3 million (8.5 percent of GDP), marking an annual increase of 12.8 percent.** The increase in the current account balance is attributed to the positive dynamics in the balance of services, primary and secondary income, while the trade balance of goods continued to have a negative impact. Remittances, one of the most important sources of consumption financing, rose 1.8 percent to EUR 380.7 million. Meanwhile, foreign direct investments decreased by 1.1 percent and totaled EUR 245.0 million.
- **The banking sector** continued its double-digit annual growth during the third quarter of 2024. A more pronounced growth in loans in this quarter contributed to the acceleration of the overall annual dynamics of loan growth, in contrast to the previous quarter when annual growth rate slowed down. Loans to households continued to accelerate significantly, while loans to non-financial corporations maintained a similar level of annual growth as a result of positive growth in Q3, in contrast to the annual decline that characterized the first half of 2024. Deposits, which represent the main source of financing for lending activity, also recorded double-digit annual growth, similar to that of the previous year. The sector's profit grew at a slower rate due to the growth of revenues at a pace similar to the previous year, while expenses accelerated growth. The capital position was further strengthened, while liquidity indicators decreased slightly, but remain well above the minimum regulatory levels.
- **The pension sector** continued its accelerated annual asset growth, driven mainly by positive return on investments and, to a lesser extent, by the increase in new contributions. The return on investments in the third quarter marked a significant increase both in relation to the previous year and in relation to the previous quarter of this year.
- **The insurance sector** continued its trend of asset growth, although at a slower pace than in the previous year. Net profit increased, driven mainly by higher net premium income. Sector sustainability indicators also showed a slight upward trend.
- **Microfinance sector** has seen accelerated growth assets, mainly influenced by the expansion of lending activity. Borrowings from the external sector – as the main source of financing the sector's activity – continued their high growth for the second year in a row. Against the increase in expenses, the sector's net profit increased as a result of the more accelerated growth of revenues. The quality of the credit portfolio remained stable, with low levels of non-performing loans.

List of abbreviations

CBK	Central Bank of the Republic of Kosovo
CPI	Consumer Price Index
ECB	European Central Bank
EUR	Euro Currency
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
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 the Republic of Kosovo
MMBTU	Metric Million British Thermal Unit
NFC	Non-financial corporations
WEO	World Economic Outlook

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1. Euro area and the Western Balkans

The Euro area economy grew by 0.9 percent annually in Q3 2024 and by 0.4 percent quarterly. Economic growth was supported by household final consumption, with a positive contribution of 0.4 percentage points, reflecting the stability of consumer spending in the Euro area. This stability may have been influenced by the solid performance of the labor market and inflation slowdown. Investment and inventory changes also positively impacted quarterly growth, contributing 0.8 percentage points. Government final consumption also had a positive impact, contributing 0.1 percentage points, reflecting the supportive public sector policies and efforts to boost economic growth. On the other hand, net exports negatively impacted economic growth, contributing -0.9 percentage points as a result of the slowdown in trading partners. Furthermore, the possibility of new tariffs by the United States on Euro area goods could worsen the outlook for foreign trade.

Among the largest Euro area economies, Germany recorded a slight growth of 0.1 percent compared to the previous quarter, driven by increased consumer and government spending, but recorded an annual contraction of 0.3 percent. France recorded a quarterly economic growth of 0.4 percent (1.2 percent annual growth), positively affected by economic activities related to the Paris Olympics. Spain performed better among the major economies, with growth of 0.8 percent compared to the previous quarter (3.3 percent annual growth), driven by domestic demand. **The ECB's economic growth projections for the Euro area were revised in December 2024, predicting growth of 0.7 percent for 2024 and 1.1 percent for 2025.** Private consumption is expected to remain the main driver of economic growth, supported by the increase in labor compensation, through wage growth and slowing inflation.

The inflation rate in Q3 2024 reached 2.2 percent, marking a significant decrease compared to the same period last year (4.9 percent in Q3 2023). This quarter resulted in a turning point in the inflation trajectory in the euro area, falling below the 2.0 percent target (1.7 percent in September) for the first time since 2021. This decrease is a reflection of energy prices and the impact of monetary policies that have helped curb inflationary pressures. **The ECB's projections suggest a slowdown in inflation to 2.4 percent for 2024 and 2.1 percent for 2025.** Inflation is expected to continue to gradually slow down until 2026, reaching 2.0 percent on average, however, the outlook remains at risk from geopolitical uncertainties and potential fluctuations in global commodity markets, which could affect inflation dynamics.

The ECB made several important interest rate decisions in the second half of 2024, signaling a shift toward a more cautious approach to monetary policy after a prolonged period of tightening. By December 2024, the ECB had decided to cut key interest rates four times in a year, with the deposit rate falling to 3.0 percent from 4.0 percent the previous year and the refinancing rate dropping to 3.15 percent from 4.50 percent. The marginal lending rate was reduced to 3.40 percent from 4.75 percent. Overall, the ECB continues facing challenges in striking a balance between price stability and economic growth. Despite the effects of tight monetary policies, the eurozone labor market has shown consistent growth. In Q3 2024, employment increased by 0.2% compared to the previous quarter and 1.0% compared to the same period of the previous year.

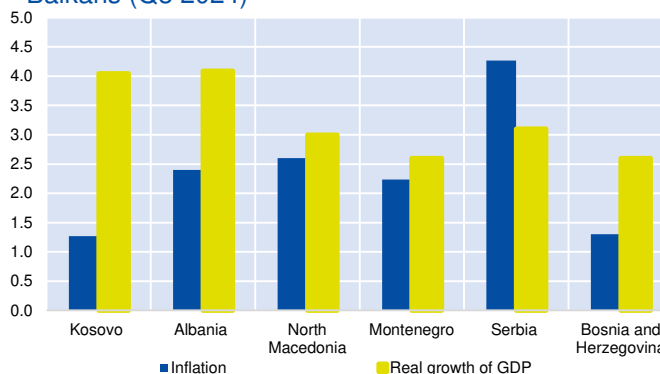
In the Western Balkans, economic growth in Q3 2024 is estimated to have averaged 3.2 percent, an improvement compared to the previous quarter, driven mainly by increased consumption and investment. Albania recorded the highest economic growth of 4.1 percent, supported by strong performance in the tourism and construction sectors. Montenegro, on the other hand, had the slowest growth rate, at only 2.6 percent, owing to a slowdown in tourism. Countries in the region continue to face the challenges of still high interest rates and a slowdown in economic activity in the eurozone.

IMF projections suggest that the region is expected to record average economic growth of 3.2 percent in 2024 and 3.6 percent in 2025. In Q3 2024, the average inflation rate was 2.3 percent, with the highest rate

recorded in Serbia at 4.3 percent, while Bosnia and Herzegovina and Kosovo had the lowest inflation rates at 1.3 percent each.

In Q3 2024, the exchange rate dynamics of the euro showed significant changes against the currencies of trading partners. The euro remained stable against the Macedonian denar, but fell against other currencies, including the Swiss franc, Albanian lek, and British pound, due to global factors and central bank decisions. Compared to the Turkish lira and the US dollar, the euro was stable and appreciated against the previous quarter.

Chart 1. Economic growth and inflation in Western Balkans (Q3 2024)



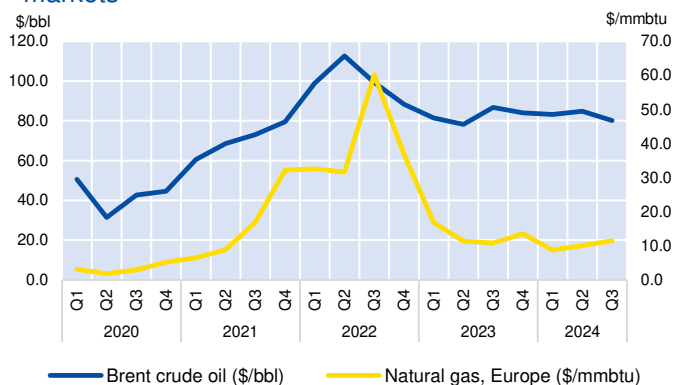
Source: Respective Statistical Agencies.

2. Main commodity prices in international markets

International commodity prices fell 3.7 percent in Q3 2024 compared to Q3 2023, according to the World Bank. This decline was supported by supply stabilization and trade reconfigurations, as well as a slowing in global demand. The commodity price index also fell 4.0 percent from the previous quarter, nearly canceling out the increase seen in Q2 2024. However, price performance in international markets continues to be undermined by geopolitical tensions, trade restrictions, and climatic conditions as some of the major risks to price increases.

Brent crude oil prices fell to \$80.2/barrel in Q3 2024, down 7.6 percent year-on-year and 5.6 percent quarter-on-quarter (Figure 2). Dynamics varied throughout the quarter, with inflationary pressures initially evident based on expectations of increased global demand, but quickly fading as these expectations failed to materialize. In addition to the slowdown in global demand, increased production from non-OPEC+ countries also contributed to the slowdown in oil prices. According to the World Bank, oil prices are expected to continue falling and reach an annual average of \$73.0/barrel in 2025, assuming these dynamics continue.

Chart 2. Oil and natural gas prices in international markets



Source: World Bank.

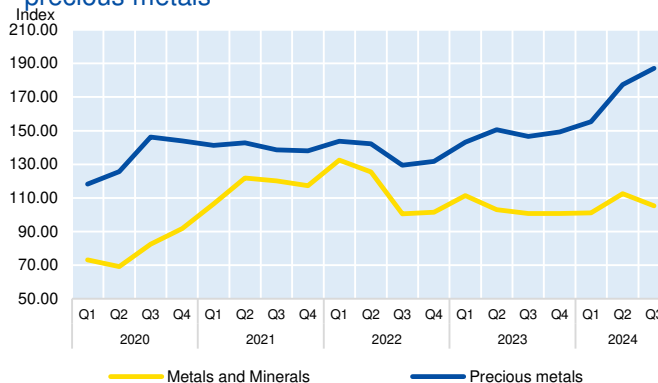
However, the postponement of the removal of OPEC+ cuts, faster-than-expected growth in global demand, and geopolitical tensions remain potential risk factors for oil price developments.

On the other hand, natural gas prices in Europe averaged \$11.5/ mmbtu, with a 6.9 percent annual growth in Q3 2024. Natural gas prices continue to rise quarterly, up 14.7 percent. These inflationary pressures have been driven primarily by rising demand for US LNG exports, which has led to increased global competition.

According to the World Bank, after an average decline of 16.4 percent in 2024, natural gas prices are expected to increase by 6.5 percent in 2025, mainly due to increased demand in Asian countries.

The metals and minerals price index in Q3 2024 was 4.4 percent higher compared to Q3 2023. Meanwhile, compared to the previous quarter, a 6.5 percent decrease was recorded in metals and minerals prices, with a decrease in the prices of all metals and minerals within the index (chart 3). This decrease resulted from a slowdown in global economic activity and a weakening of industrial activity, particularly in China and Europe.

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

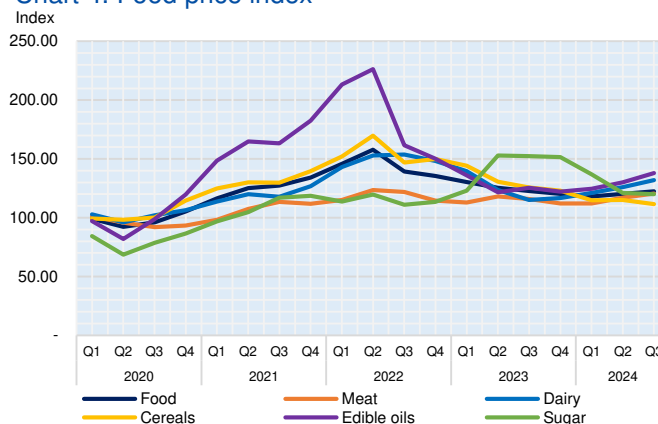


Source: World Bank.

On the other hand, the precious metals price index continued to rise, resulting in an annual growth of 27.7 percent and an increase of 5.5 percent compared to the previous quarter. This increase was primarily driven by an increase in gold prices as a result of geopolitical tensions, stable demand from central banks, and, more recently, increased demand from exchange-traded funds (ETFs) and lower interest rates in the United States. According to the World Bank, gold prices are expected to remain high, with a projected decline of only 1% in 2025, assuming the aforementioned determinants continue.

According to FAO, the food price index was 0.2 percent lower in Q3 2024 compared to Q3 2023, while it increased by 1.8 percent compared to the previous quarter. (Chart 4). Food sub-categories exhibited volatility throughout the quarter. The initial relief in cereal prices, thanks to improved harvests and competitive prices, did not last long, as worsening weather conditions in some exporting countries resulted in price increases. On the other hand, the increase in oil and dairy prices was more stable, with continuous monthly increases, supported by increased demand and more limited supply. Meat prices showed inflationary pressures due to increased global demand, but they softened towards the end of the quarter. Meanwhile, sugar prices recorded an annual decline of 21.3%, as a result of supply stabilization following the shocks caused by weather conditions the previous year. According to the World Bank, food prices are expected to continue to fall, with an annual decline of 4.0% projected for 2025.

Chart 4. Food price index



Source: FAO.

3. Kosovo's Economy

3.1. Economic Growth

Kosovo's economy has experienced consistent growth and improved macroeconomic conditions in 2024. According to KAS estimates, real GDP will increase by 4.6% by September 2024, driven by increased consumption and investment, while net exports have a negative impact on economic activity. According to CBK estimates, the economy grew by 4.3 percent in 2024, with consumption, investments, and exports of goods and services being the primary drivers. Meanwhile, imports of goods and services had a significant negative impact on GDP growth.

In Q3 2024, Kosovo's economy grew by 4.0 percent, compared to the same period last year (chart 5). Growth was primarily driven by increased exports of goods and services, investments, and modest consumption expansion. Imports, on the other hand, had a negative impact on economic activity because of increased domestic demand and visa liberalization, both of which contributed to increased imports.

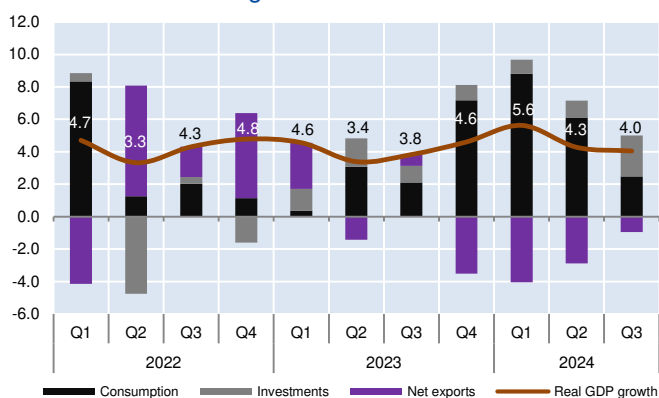
Consumption during this quarter increased by 3.1 percent, marking a higher increase compared to the same quarter of the previous

year. This increase was enabled by the increase in financing sources, including the increase in consumer loans, workers' compensation, remittances and the increase in public consumption. Consumer goods imports rose by 8.6 percent, indicating an increase in household spending. Investments rose by 7.6 percent, owing primarily to an increase in lending and public investment. In addition, imports of capital goods and FDI in the real estate sector have increased significantly.

In terms of foreign trade, exports were the primary source of economic growth. Services exports increased by 9.6 percent, with travel services exports accounting for the majority of the increase (11.0 percent). Goods exports increased by 9.6 percent, primarily due to an increase in base metals and minerals exports. However, the trade deficit level increased by 7.5% due to the higher level of imports, which marked an increase of 7.6% for goods and 14.0 percent for services.

Several sectors contributed to the growth of economic activity in the third quarter of 2024. The sectors that recorded the highest growth include hotels and restaurants, with an increase of 6.3 percent, influenced by the increase in demand for services, as a result of the arrival of the diaspora during the summer. In addition, the processing industry increased by 5.3 percent, helping to boost exports and domestic output. Construction increased by 3.6% as a result of investments in infrastructure and residential buildings, while trade increased by 3.1% due to increased consumption and demand for goods. Agriculture increased by 2.2% due to higher yields, contributing to food security and stabilizing the supply of agricultural products. The transport and warehousing sector experienced a 2.0 percent increase as a result of increased demand for logistics services.

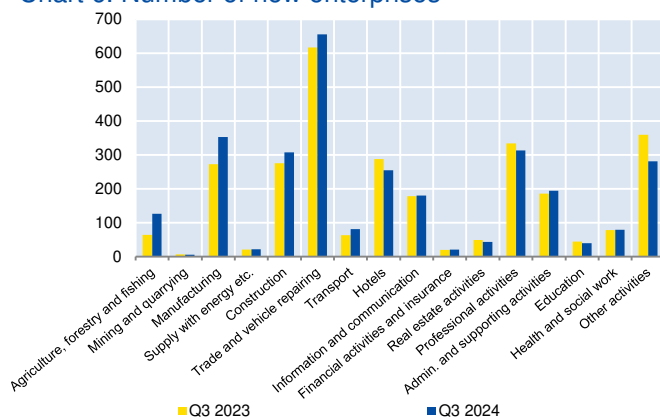
Chart 5. Real GDP growth rate



Source: KAS and CBK calculations.

The increase in economic activity in these sectors has had a significant effect on the number of registered businesses. In Q3 2024, 2,953 new enterprises were registered, which is 3.5% more than Q3 2023. The manufacturing, agriculture, trade, construction and transport sectors recorded the largest number of new enterprises, reflecting significant growth compared to the same period in 2023, while the hospitality, professional activities and education sectors recorded a smaller number of registered enterprises (chart 6). On the other hand, the number of closed enterprises increased by 2.7 percent compared to Q3 2023, reaching 386 enterprises.

Chart 6. Number of new enterprises



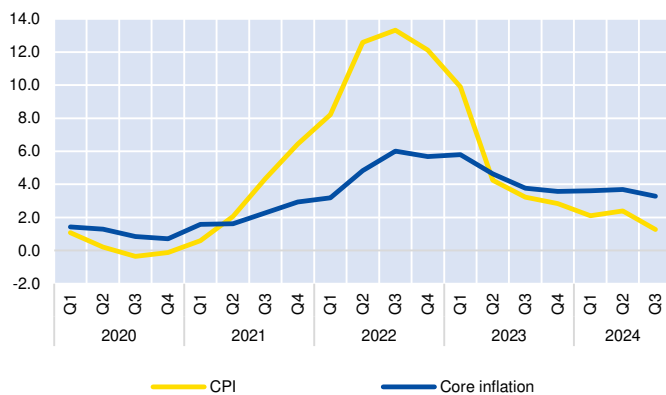
Source: KAS.

3.2. Prices

Inflation in Q3 2024 slowdown to 1.3 percent from 2.4 percent in the previous quarter.

The inflation rate in September was 0.2 percent, the lowest since January 2021. The decline in inflation was the result of lower fuel prices, along with a slowdown in the growth of other non-food prices (chart 7). On the other hand, the contribution of services remained almost unchanged, while that of food increased marginally. As a result, a slowdown was also evident in core inflation, which excludes food and energy prices.

Chart 7. Core and headline inflation of consumption



Source: KAS and CBK calculations.

Food prices increased by 1.2 percent annually, a slight acceleration from 1.1 percent in the previous quarter.

Accelerated increases in the prices of oils and fats, dairy products, and meat were the main contributors to the acceleration in inflation. However, their effect was almost entirely offset by slower price increases in other food subcategories and a decline in vegetable prices.

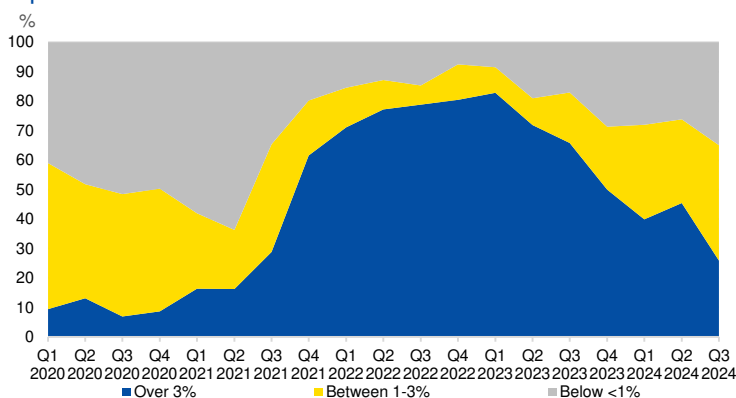
Fuel prices recorded an annual decline of 6.4 percent, reflecting a downward trend in fuel prices in international markets. On the other hand, electricity prices recorded an annual increase of 0.6 percent, accelerating from the previous quarter, when an annual decline of 0.1 percent was recorded.

The contribution of food to the average inflation rate in Q3 2024 increased by 0.1 percentage point compared to the previous quarter. The main drivers of food inflation were cereal prices by 0.2 percentage points and fruits by 0.3 percentage points. Meanwhile, the decline in vegetable prices contributed -0.3 percentage points. The contribution of energy fell to -0.4 percentage points, owing primarily to a -0.5-percentage point drop in fuel prices. The contribution of other goods prices continued to fall, falling 0.4 percentage points in Q3 2024, aided by a drop in vehicle prices and slowed growth in clothing and alcoholic beverage prices. Meanwhile, the contribution of services stagnated at 0.4 percentage points, dictated by the contraction in the contribution of transport services prices, due to the decrease recorded in September and the base effect.

inflationary pressures were also reflected in the slowdown in core inflation to 3.3 percent in Q3 2024 from 3.6 percent in the previous quarter (Chart 8). This contraction reflects the slowdown in price increases in restaurant services, recreation and culture, medical products and outpatient services, as well as furniture, equipment and home maintenance services.

The slowdown in inflation was also reflected in the contraction of the share of items in the consumer basket with a growth rate above 3.0 percent, which fell to 25.8 percent in Q3 2024 from 45.5 in the previous quarter. As a result, the share of items with annual growth of 1.0 to 3.0 percent increased to about 39.2 percent, while 35.0 percent of items recorded annual growth less than 1.0 percent (chart 8).

Chart 8. Products weight in consumer basket by increased price rate



Source: AS (2024) and CBK calculations.

Regarding the origin of inflation, a softening of foreign inflationary pressures was evident, with the

contribution of imported inflation contracting to 1.0 from 1.9 percentage points in Q2 2024. This contraction mainly reflects the decline in fuel prices in international markets and the dynamics of imported goods prices. On the other hand, domestic inflationary pressures contracted by only 0.1 percentage points, resulting in around 0.4 percentage points in Q3 2024.

The determinants of the decline in imported inflation were also evident in the import price index (IPI), which resulted in an annual decline of 0.7 percent. The main drivers of this decline were the annual decline in prices of mineral products (-8.8 percent), food, beverages, and tobacco (-0.1 percent), as well as machinery and electrical equipment (-0.7 percent), and basic metals and related articles (-1.3 percent).

On the other hand, there was an increase of indexes that signal the cost of domestic production, such as producer price index (PPI) and the construction cost index (CCI). The producer price index marked an annual increase of 9.9 percent, driven mainly by the increase in electricity production prices of 26.6 percent and food processing prices of 6.1 percent. Meanwhile, the construction cost index marked an annual increase of 4.5 percent, driven by the annual increase in construction wages of 17.4 percent, the increase of electricity prices (26.6 percent), transport (8.3 percent) and, to a lesser extent, the increase in construction materials prices (2.0 percent).

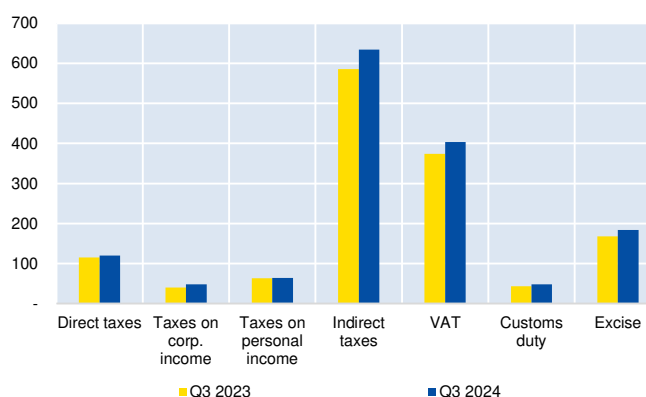
The CBK forecasts suggest that the general inflation rate is expected to be around 1.8% in 2025. Inflationary pressures in domestic food prices remain one of the main inflation performance determinants; however, the projected decline in international food prices may exert downward inflation pressure. Despite this, inflation performance continues to be undermined mainly by potential shocks resulting from geopolitical tensions, trade restrictions and climatic conditions.

3.3 Fiscal Sector

Primary budget revenues totaled EUR 816.3 million in the third quarter of 2024, representing a 7.2 percent increase year on year. This increase was due to the positive dynamics of economic activity, progress in the treatment of tax debts, improvements in the revenue collection process, and tax evasion prevention efforts. During the same period, primary budget expenditures increased by 9.7 percent, totaling EUR 743.5 million. Because of the higher level of budget revenues compared to expenditures, the Kosovo Budget recorded a positive balance of EUR 72.7 million.

Tax revenues in Q3 2024 reached EUR 724.0 million, marking an increase of 5.9 percent compared to Q3 2023. Most tax categories increased during this period, with indirect tax revenues increasing the most, accounting for approximately 77.8 percent of total budget revenue. Indirect tax revenues increased by 8.4 percent, totaling EUR 634.8 million. In the framework of indirect taxes, revenues from VAT recorded an increase of 7.8 percent, customs duty 9.8 percent, and excise duty 9.3 percent, as a result of the increase in the quantity of imports (chart 9).

Chart 9. Tax income structure

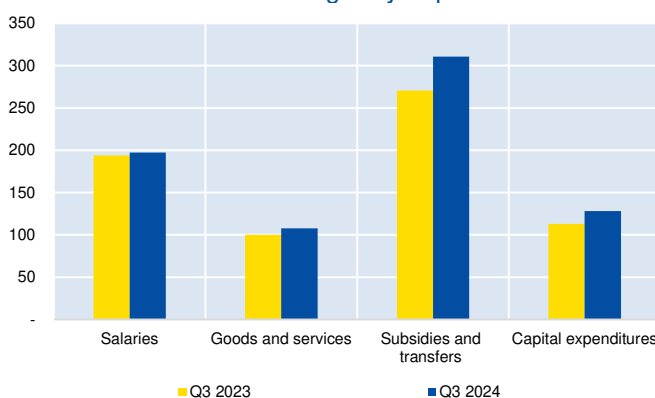


Source: MFLT.

Direct tax revenues rose 4.2 percent to EUR 120.0 million. This increase was driven primarily by a 20.0 percent increase in corporate income tax revenues, which reached EUR 47.8 million. Personal income tax, as the main category of direct taxes, marked a slight increase of 0.8%, reaching a level of EUR 63.7 million, while property tax marked an annual decrease of 23.4%, reaching only EUR 8.5 million. **Non-tax revenues increased by 19.2%, reaching a total of only EUR 92.2 million.** This category includes revenues from the central government, which reached a value of EUR 54.1 million, with an increase of 24.5 percent, while revenues from local government marked an increase of 13.3 percent, reaching a level of EUR 17.8 million.

Regarding budget expenditures, current expenditures increased by 9.0 percent. Within this category, expenditures on subsidies and transfers recorded the highest increase of 14.8 percent, reaching a value of EUR 310.6 million. Expenditures on goods and services, including utilities, recorded an increase of 7.6 percent and reached a value of EUR 107.6 million. Expenditures on salaries recorded a lower increase of 1.6 percent, reaching a value of EUR 97.3 million. **Capital expenditures recorded a higher increase compared to current expenditures, reaching a value of EUR 128.1 million, which is 13.2 percent more compared to the same period of the previous year (chart 10).**

Chart 10. Structure of budgetary expenditures



Source: MFLT.

The public debt-to-GDP ratio decreased to 15.5 percent in Q3 2024, compared to 16.8 percent in Q3 2023. This decrease in the debt ratio was a result of the improvement in the government's budget balance, thus reducing the need for debt, as well as the growth in GDP. However, in absolute terms, public debt was EUR 1.63

billion in Q3 2024, marking a slight increase of 0.5 percent compared to Q3 2023. This increase was driven by the increase in external public debt by 6.1 percent, reaching EUR 695.9 million. Meanwhile, domestic public debt decreased by 3.4 percent, reaching EUR 932.2 million.

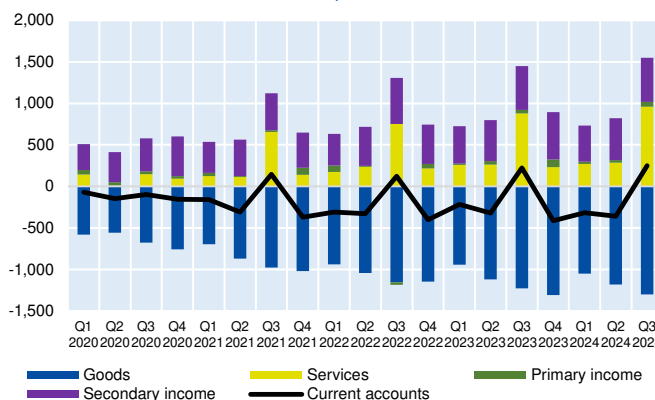
External public debt includes liabilities to international institutions such as the International Development Agency (38% of external debt), the European Union (14%), the International Bank for Reconstruction and Development (11%), the International Monetary Fund (9%), and so on. Conversely, internal public debt primarily includes the debt of the Kosovo’s Government (securities) to pension funds (47%), commercial banks (22%), public institutions (22%), etc.

3.4. External sector

In contrast to the dynamics of the first half of 2024, the current account in Q3 2024 recorded a positive balance of EUR 249.3 million (8.5 percent of GDP), indicating an annual growth of 12.8 percent (chart 11). The increase in the current account balance is primarily due to a positive balance of services, primary and secondary income. Meanwhile, the trade balance of goods continued to negatively affect the current account, primarily due to an increase in the import of goods.

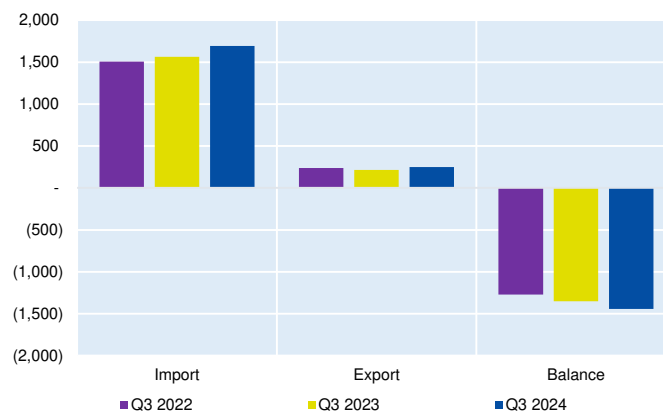
In Q3 2024, the trade deficit in goods increased by 7.0 percent compared to the same period of the previous year, reaching a value of EUR 1.4 billion (chart 12). This increase reflects an expansion in imports, which reached a value of EUR 1.7 billion, primarily influenced by the increase in the quantity of imported goods, particularly mineral products, machinery, and prepared foods. On the other hand, exports remained at a low level, reaching a value of only EUR 247.2 million, covering only 14.6 percent of imports and creating an unfavorable trade ratio of 1:6.8. The low level of exports and high dependence on imports deepened the trade imbalance, demonstrating the ongoing challenges in increasing export capacities, while the demand for imports remains high, reflecting the reliance on international markets to meet domestic needs.

Chart 11. Current account, EUR million



Source: CBK.

Chart 12. Trade balance of goods



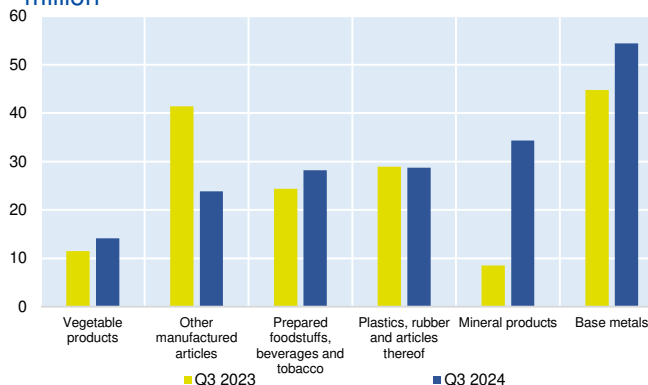
Source: KAS.

Exports of goods in Q3 2024 increased by 16.0 percent, reaching EUR 247.2 million.

This increase was mainly supported by positive performance in several sectors, with exports of base metals as the most important category, which increased by 21.5 percent, reaching EUR 54.4 million, influenced by the increase in demand for metals in international markets (chart 13). After metals, goods exports also increased in mineral products, amounting to EUR 34.3 million, mainly due to the export of electricity (EUR 28.2 million). Exports of plastic and rubber products decreased slightly by 0.7 percent, reaching a value of EUR 28.7 million. From a geographical perspective, the Western Balkans remain Kosovo's main partner in international trade, with 49.5 percent of total exports, while EU countries account for 31.5 percent. Furthermore, Kosovo's trade structure has improved, expanding export reach to a total of 120 countries, from 102 countries in Q3 2023.

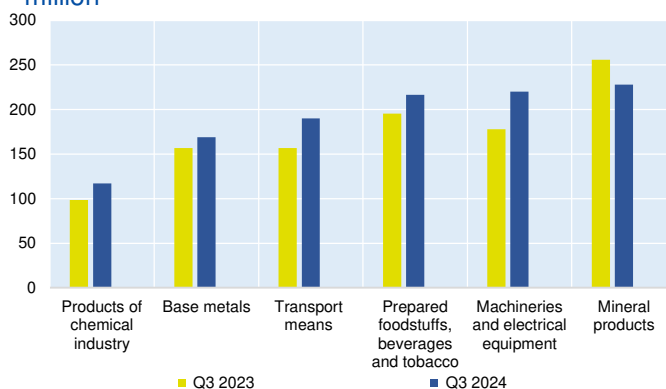
The total value of imported goods in Q3 2024 reached EUR 1.7 billion, an annual increase of 8.2 percent (57.7 percent of GDP). This growth was mainly driven by domestic demand, which was reflected in an increase of 11.9 percent in the total quantity of imported goods. Imports of goods continue to be dominated by mineral products, machinery and household appliances, and food items (chart 14). The structure by main import categories was dominated by intermediate goods, which account for 43.8 percent (47.3 percent in Q3 2023), consumer goods (34.4 percent), and capital goods, which account for only 11.7 percent of total imports. EU countries account for approximately 43.5 percent of total imports, with Germany accounting for the largest share at 13.9 percent. Turkey accounts for 14.5 percent of total imports, followed by China at 13.2 percent. Imports from regional countries account for 12.2 percent of total imports, representing a decrease compared to Q3 2023 (15.6 percent), primarily due to the decrease in imports from North Macedonia, where imports of motor oils decreased by EUR 11.4 million compared to the same period of the previous year.

Chart 13. Main categories of exported goods, EUR million



Source: CBK.

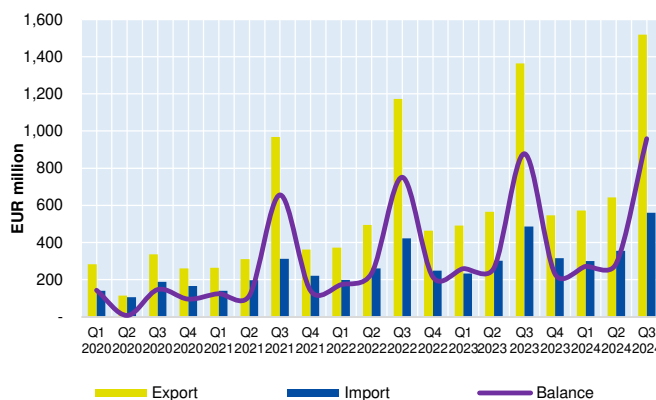
Chart 14. Main categories of imported goods, EUR million



Source: CBK.

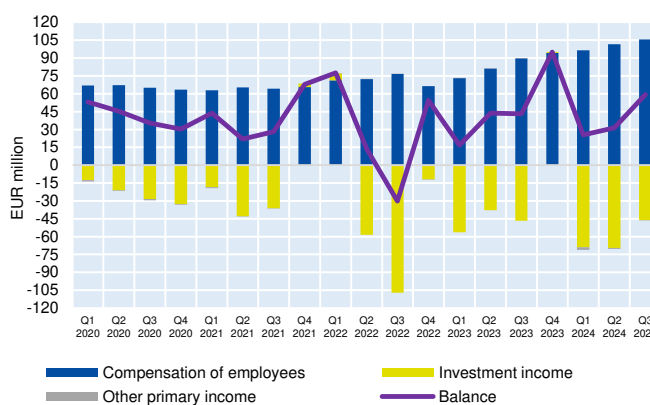
The services balance in Q3 2024 amounted to EUR 958.4 million, marking an increase of 9.2 percent, supported by positive performance in several sectors (chart 15). Services exports reached a value of EUR 1.5 billion or 11.4 percent annual growth, driven mainly by the growth of travel services, which amounted to EUR 1.3 billion (43.6 percent of GDP), mainly driven by the increase in the number of passengers. The growth of services exports was also influenced by the growth of computer services of 32.6 percent, amounting to EUR 93.9 million. Similarly, other business services have contributed with a significant growth of 49.1 percent, reaching a value of EUR 70.6 million. The continuous growth of exports of IT services and other business services is an important indicator of the transformation of the services sector and export diversification. On the other hand, imports of services increased by 15.5 percent, mainly driven by an increase in imports of travel services of 7.7 percent (EUR 314.9 million), which accounted for 55.2 percent of total imports of services. The continued increase in imports of travel services, especially following the free movement of citizens in EU countries since the beginning of 2024, is expected to contribute to the contraction of the positive balance of services.

Chart 15. Balance of services



Source: CBK.

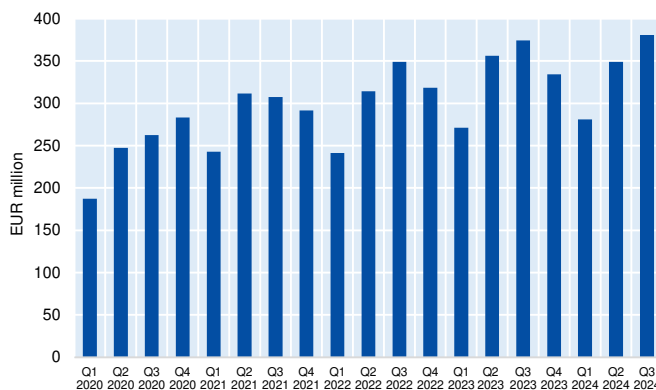
Chart 16. Balance of primary income



Source: CBK.

The primary income balance has increased significantly, reaching EUR 59.2 million in Q3 2024, compared to EUR 43.3 million in the same period of the previous year (chart 16). Compensation of employees has contributed significantly to this improvement, with an annual increase of 17.8 percent, amounting to EUR 105.7 million. On the other hand, the balance of income from investment has continued the negative trend, recording a negative balance of EUR 46.0 million, influenced primarily by newly invested profits and the distribution of dividends from FDI.

Chart 17. Remittances



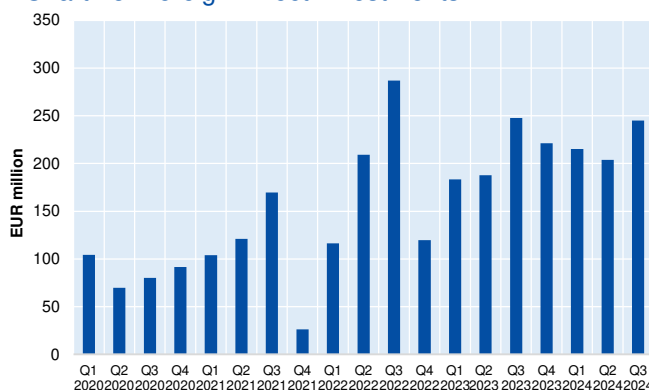
Source: CBK.

Remittances are an important source of Kosovo's economy, supporting domestic consumption. **In Q3 2024, the value of remittances received reached EUR 380.7 million, or 13.0 percent of GDP (chart 17).** However, the annual growth of remittances slowed down to only 1.8 percent, compared to a growth of 7.2 percent in the same period of 2023. This slowdown may be due to economic uncertainty and remaining high inflation in the countries where Kosovar diaspora lives and

works, reducing their ability to send remittances. Germany and Switzerland continue to be the main sources of remittances, accounting for 56.3 percent of total remittances, followed by the US and other EU countries. Remittances through formal channels, such as banks and money transfer agencies, increased by 1.5 percent, while remittances through informal channels increased by only 2.3 percent. The slower growth through formal channels could be attributed to visa liberalization, which has allowed Kosovars to visit family members in EU countries more frequently. This change allows remittances to be physically delivered during these visits, resulting in more limited reporting of remittances.

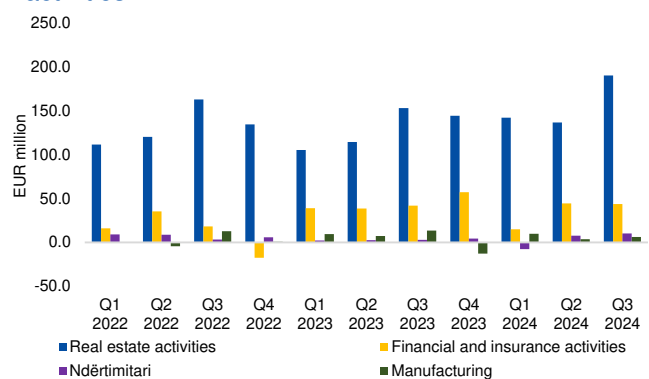
FDI during Q3 2024 marked a slight decrease of 1.1 percent, reaching the value of EUR 245.0 million, or 8.4 percent of GDP (chart 18). However, significant increases were observed in several sectors. The largest increase was recorded in the real estate sector, where investments increased by 24.5 percent, amounting to EUR 190.3 million. This increase was mainly influenced by real estate prices and increasing demand for real estate. FDI also marked a positive trend in financial activities sectors, including insurance, as well as construction and manufacturing, reflecting diversification and development of these sectors (chart 19). Meanwhile, direct investments of Kosovar residents in other countries decreased by 12.4 percent in Q3 2024, amounting to EUR 52.7 million, mainly oriented towards the real estate sector in the countries of the region.

Chart 18. Foreign Direct Investments



Source: CBK.

Chart 19. Foreign direct investments by main activities



Source: CBK.

4. Financial system

The financial system in the country continued to expand at an accelerated pace throughout the third quarter of 2024. The financial system assets in September 2024 reached EUR 12.01 billion, marking an annual growth of 13.4 percent from 12.2 percent in September of the previous year (chart 20). All sectors of the financial system were characterized by double-digit annual growth, except for the financial auxiliary’s sector, which recorded a significant decline as a result of the reclassification of two operators from financial auxiliaries to MFIs/NBFIs.

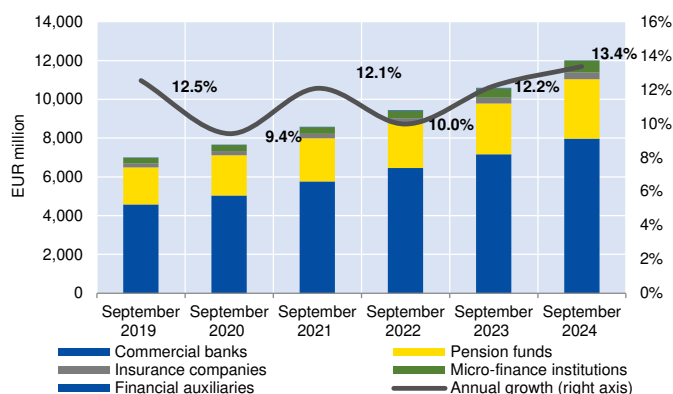
The banking sector contributed the most to the country’s financial system expansion, as evidenced by its accelerated annual growth and significant share of total system assets, which stood at 66.3 percent in September 2024 (chart 21). Furthermore, the accelerated growth of pension fund assets influenced the expansion of the financial system, as well as the increase in the share of pension funds in total assets of the financial system to 25.6 percent from 24.7 percent in the previous year. The insurance sector has marked high annual growth, slightly slowing from the previous year, but has maintained its 2.8 percent share of total financial system assets. Meanwhile, the financial auxiliaries sector, despite the significant annual decline, had a marginal negative contribution to the growth of total assets of the financial system due to its low share in total assets of only 0.1%.

4.1. Banking sector

Banking sector assets amounted to EUR 7.97 billion, marking an annual growth of 11.2 percent, similar to the 11.0 percent rate recorded in September of last year (chart 22). Following the slowdown in annual growth in the previous quarter, the acceleration of lending activity – which accounts for 69.2 percent of total banking sector assets – was the main factor driving asset growth during this quarter.

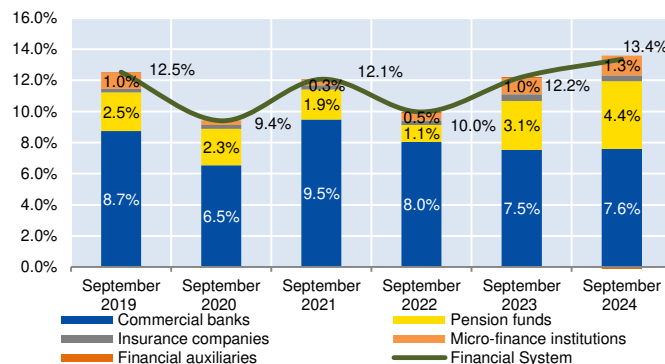
Meanwhile, securities recorded a double-digit growth for a second consecutive year, mainly due to increased investments in foreign markets, although at a more moderate pace compared to the previous year. Cash and balance at CBK, as the third most

Chart 20. Assets value of Kosovo’s financial system



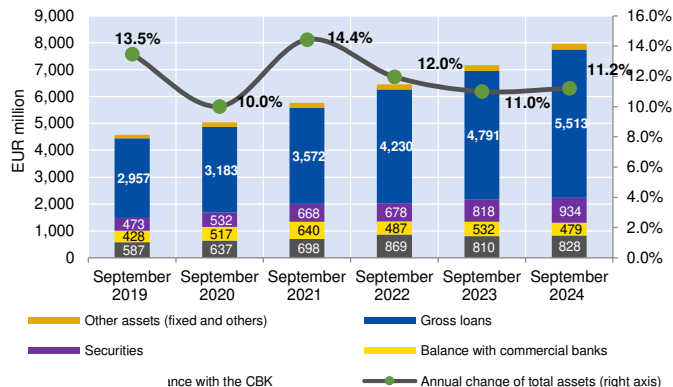
Source: CBK.

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



Source: CBK.

Chart 22. Balance sheet of the banking sector - assets



Source:

in cooperation with the CBK

important category for contributing to the growth of assets, recorded a slight increase, reversing the decline recorded a year earlier.

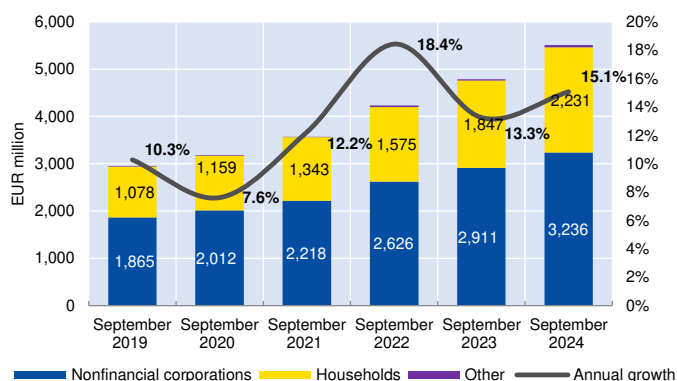
On the other hand, the balance with commercial banks experienced a significant decline compared to the previous year. However, due to the low weight of this category in total assets, its impact was minimally negative. This decline reflects a strategic reorientation of these assets towards supporting accelerated lending growth during the reporting period.

Lending increased by 15.1 percent annually, which was 1.8 percentage points faster than it was during the same time last year. In contrast to the preceding quarter, which was marked by a slowdown in annual growth, the third quarter's more noticeable loan growth helped to accelerate the overall annual growth dynamics. Loans to households showed a significant acceleration, while loans to non-financial corporations continued to grow at a pace similar to the previous year (charts 23 and 24). According to the Bank Lending Survey (BLS), the lending dynamics during the third quarter of 2024 were mainly driven by the increased credit demand from both segments - households and non-financial corporations - while the supply remained relatively unchanged. The increased demand for loans, among other things, was influenced by the easing of conditions and rules applied by banks. Accordingly, there was an easing in the demand for collateral and in the average loan amount. Credit supply, on the other hand, was positively affected by factors such as the decline in the Euribor rate, support from the Kosovo Credit Guarantee Fund (KCGF), and the sufficient liquidity position of banks. However, these positive effects were neutralized by lower risk tolerance and concerns regarding the quality of the credit portfolio.

Although loans to non-financial corporations still account for the majority of the loan structure (58.7% of the total loan stock of the banking sector), loans to households are progressively gaining ground due to their comparatively faster growth rate. Household loans accounted for 40.5% of all loans in the third quarter of 2024, up from 38.6% the year before. This trend is primarily driven by an increase in loans to households with longer maturities, which reflects rising demand for loans for real estate purchases and other capital investments. At the same time, the maturity structure of loans to non-financial corporations remained unchanged compared to the previous year, indicating that this segment's financing patterns are stable.

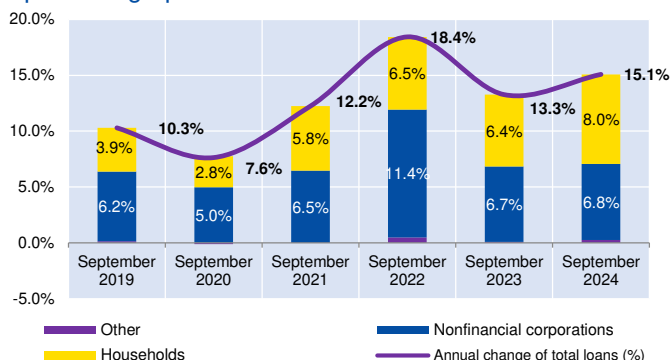
Along with the overall expansion of lending, financial inclusion has increased, as evidenced by the rapid growth in the number of new borrowers. According to the Credit Registry database, by the end of the third quarter of

Chart 23. Stock of total loans, annual change



Source: CBK.

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

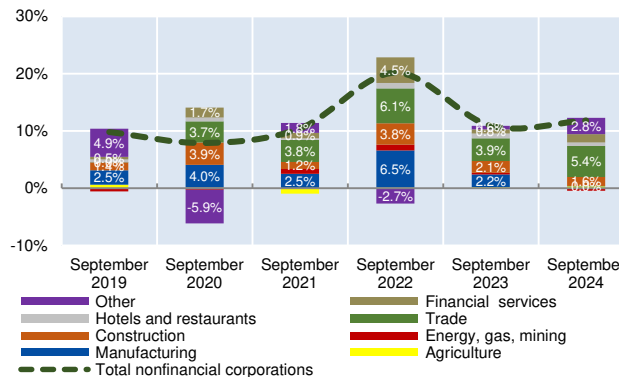


Source: CBK.

2024, the number of new borrowers had reached 16,549, representing a 4.9 percent annual increase from 1.9 percent in the same period the previous year.

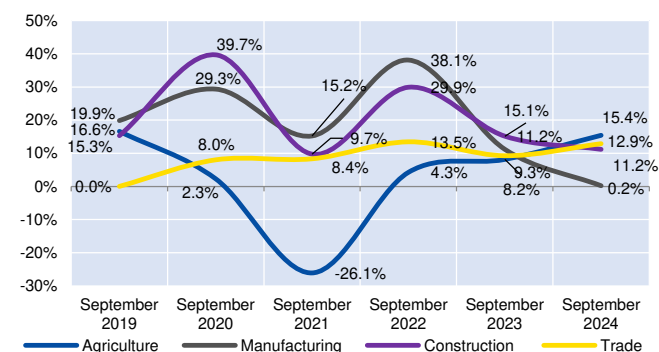
The non-financial corporate segment experienced an annual increase of 11.2 percent in loan stock, 0.3 percentage points higher than the previous year. The acceleration of the annual growth rate reflects the more pronounced expansion of loans to NFEs in this quarter, in contrast to the previous quarter, where the annual growth rate was slower. The wholesale trade sector recorded an annual growth of 12.9 percent while remaining the category with the largest contribution to the dynamics of corporate loans, due to its dominant share of 42.3 percent (chart 25). The agriculture sector, which also benefited from KGFK support, experienced accelerated growth (chart 26). Manufacturing, on the other hand, experienced a significant slowdown in annual growth, falling to 0.2 percent from 11.2 percent the previous year. The construction sector experienced an annual growth rate of 11.2 percent, 3.9 percentage points lower than the previous year. The dynamics of lending to NFEs by economic sector reflects to some extent the trends in turnover in these sectors: agriculture recorded the highest annual growth in turnover, while manufacturing and construction experienced a significant slowdown compared to the previous year. New loans to non-financial corporations rose by 5.5 percent, 3.0 percentage points less than the annual growth rate in September 2023. However, the third quarter saw an increase in new loans, particularly for investment purposes, which helped to improve the overall trend. New loans to enterprises increased at a positive rate, surpassing the decline recorded in the first half of 2024. By September 2024, new loans for investment purposes recorded an increase of 19.3 percent compared to 8.4 percent a year earlier, while loans for non-investment purposes recorded a decrease of 12.5 percent from a 14.0 percent increase the year before.

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



Source: CBK.

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



Source: CBK.

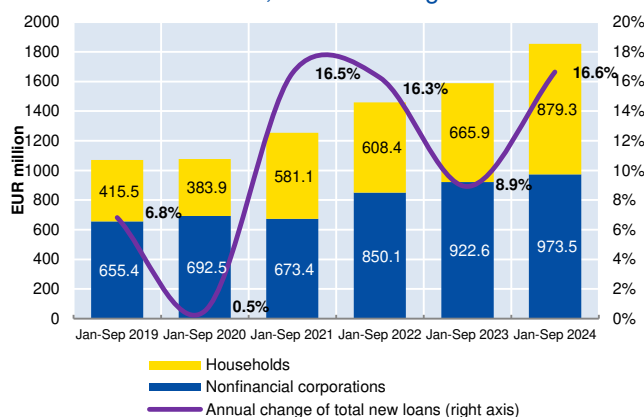
The household segment recorded an accelerated annual growth of the loan stock to 20.8 percent from 17.3 percent in the previous year. In addition to the increase in volume, the maturity structure of loans underwent a gradual change, reflecting a shift towards longer-term loans and higher amounts. According to the Bank Lending Survey, the third quarter's growth was influenced by the high demand for financing consumption needs and real estate purchases. As a result, new loans recorded an annual growth of 32.0 percent, a significant acceleration from the growth of 9.5% in the same period of the previous year. New consumer loans made the most significant contribution, accelerating growth to 35.5 percent from 14.4 percent the previous year. Similarly, mortgage loans showed a positive turn, with an annual growth rate of 27.3 percent, up from a 9.2 percent decline the previous year. As previously stated, the increase in household lending has been accompanied by a gradual shift in the maturity structure of loans, primarily toward longer-term loans. Specifically, the "over 10 years" category has expanded its share to 36.0 percent, 2.1 percentage points higher

than a year earlier, and compared to five years ago it has increased by 20.6 percentage points. However, the dominant category continued to be the “5 to 10 years” maturity category, with a share of 43.1 percent, 1.3 percentage points lower than a year earlier.

According to data from the Kosovo Credit Registry (KCR) database, new household loans disbursed between January and September 2024 were worth an average of EUR 10.5 thousand and had a maturity of 5.0 years. More specifically, in terms of the number of new loans issued in this period, 22.6% of them were worth less than EUR 500, which primarily represents credit card debt. However, in terms of total value, these loans had a share of only 0.86 percent. Loans between EUR 10-30 thousand accounted for 19.0 percent of the total number of loans disbursed, while in terms of value, they had a share of 35.0 percent, positioning themselves as the dominant category in terms of the value of loans to households. Loans in the range of EUR 30-60 thousand had a share of 5.8 percent in number, while 22.5 percent in value of total loans. Loans with a value equal to or above EUR 60 thousand, - which mainly include mortgage loans and leasing - represented only 2.0 percent of the number of loans but in terms of value they had a share of 22.1 percent. In terms of maturity, loans with a duration of 3-5 years were dominant in number, with a share of 43.4 percent. Meanwhile, loans with a maturity of 5-10 years represented 37.7 percent of the total value of new loans disbursed to households, confirming the trend of a shift towards financing with longer maturity periods and higher values.

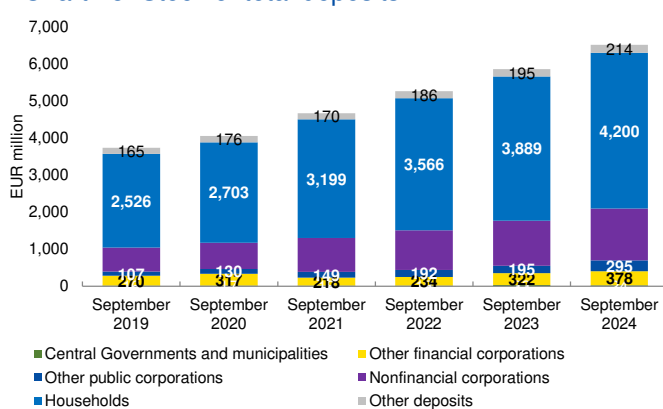
The value of deposits in the banking sector reached EUR 6.51 billion, representing an annual increase of 11.2 percent, nearly matching the 11.3 percent increase recorded a year ago. In line with the typical seasonality of this period, deposits recorded a higher increase compared to the previous quarters of this year, thus reversing the trend of the first half of the year, which was marked by an annual slowdown in growth. Household deposits, which account for approximately 64.5 percent of the total deposit portfolio, increased at a slightly slower annual rate of 8.0 percent compared to 9.0 percent the previous year. Similarly, deposits from non-financial corporations recorded an annual increase of 14.4 percent from 14.9

Chart 27. New loans, annual change



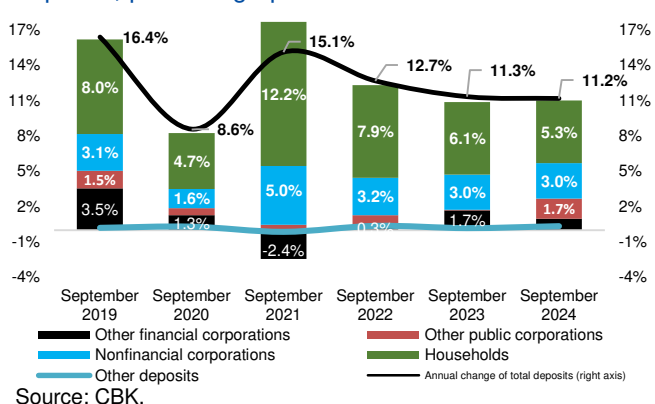
Source: CBK.

Chart 28. Stock of total deposits



Source: CBK.

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



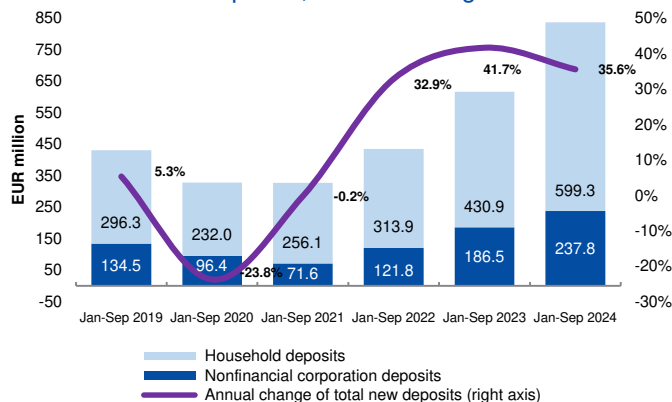
Source: CBK.

percent. Meanwhile, deposits from public corporations increased significantly, by 51.6 percent compared to only 1.4 percent the previous year. (See chart 29). This development has been primarily influenced by large depositors, who represent a significant portion of the growth in this category, especially from the energy sector. Due to the need for liquidity in the banking sector, banks have offered more favorable interest rates to attract institutional depositors, resulting in this phenomenon. In the third quarter of 2024, as in the same period of the previous year, deposits accounted for 81.7 percent of the total liabilities and equity of the banking sector.

New deposits, which include only timed deposits, continued their high growth due to favorable interest rates market.

The value of new deposits reached EUR 837.1 million at the end of September 2024, marking an annual growth of 35.6 percent from 41.7 percent a year earlier. The household segment was characterized by high growth for the second year in a row, with an annual growth of 39.1 percent from 37.3 percent in the previous year. New deposits of non-financial corporations also recorded a high growth of 27.5 percent. However, as a result of the base effect, this growth was slower compared to the 53.1 percent growth recorded last year (chart 30).

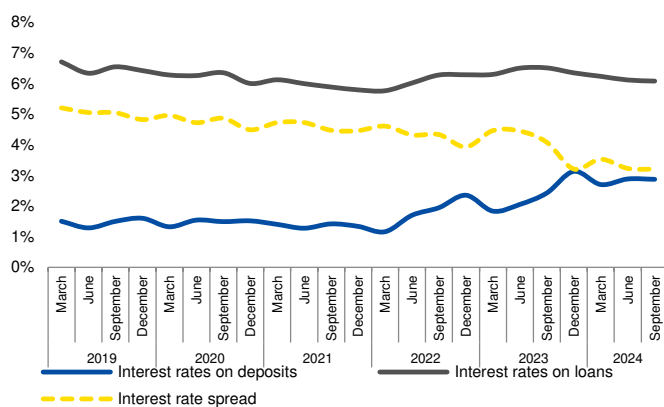
Chart 30. New deposits, annual change



Source: CBK.

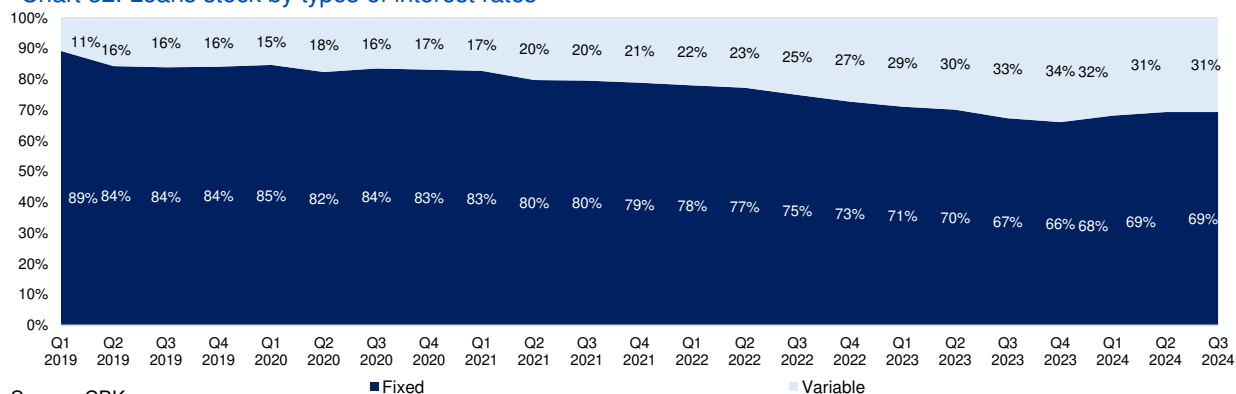
Easing of the monetary policy by the European Central Bank and reduction of inflationary pressures contributed to the easing of interest rate pressures in the domestic banking sector and cessation of the upward trend in the share of loans with variable interest rates. The ECB's interest rate cut reduced interest rates on loans in both the household and non-financial corporate segments. In September 2024, the interest rate on loans decreased to 6.1% from 6.5% the previous year. Meanwhile, increased interbank competition for deposit withdrawals led to an increase in deposit interest rates. It increased to 2.9 percent from 2.4 percent the previous year, making this the highest interest rate on deposits in the last ten years for this reporting period. As a result of the reduction in interest rates on loans and the increase in interest rates on deposits, the loan-deposit interest margin narrowed, falling to 3.2 percentage points in September 2024 from 4.1 percentage points in September last year (chart 31). In comparison to the previous quarter of this year, this gap has remained unchanged due to a marginal decrease in interest rates on loans and deposits from the previous quarter. The decreasing trend in the EURIBOR rate has affected the structure of loans by type of interest rate, making it less attractive for banks to offer variable rate loans. Consequently, in September 2024, the share of variable interest rate loans fell to 30.6 percent, down from 32.6 percent the year before. Meanwhile, this share from the previous quarter has had marginal changes, indicating a decrease in the stock of variable interest rate loans by only 0.07 percentage point (chart 32).

Chart 31. Interest rate on loans and deposits



Source: CBK.

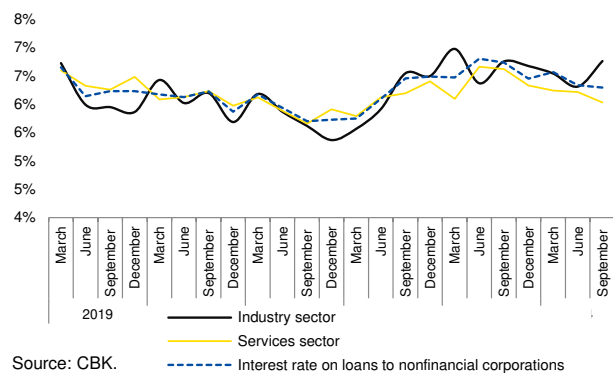
Chart 32. Loans stock by types of interest rates



Source: CBK.

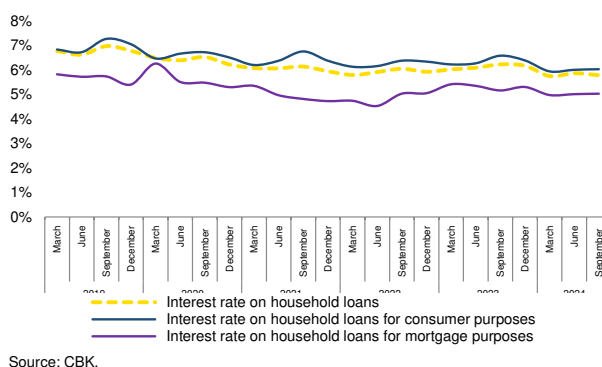
In September 2024, the average interest rate on loans to non-financial corporations and households marked an annual decrease of 0.4 percentage points from the previous year. As a result, the interest rate on loans to non-financial corporations fell to 6.3 percent and for households to 5.8 percent. Within the framework of the CFCs, the services sector received the most favorable interest rates on loans, with an average of 6.0% (chart 33). Meanwhile, within the household Mortgage loans had the lowest interest rates, averaging 5.0 percent, while consumer loans had an average of 6.0 percent (chart 34). In comparison to the previous quarter, the interest rate for mortgage and consumer loans decreased marginally by 0.02 percentage points.

Chart 33. Interest rate on loans to nonfinancial corporations



Source: CBK.

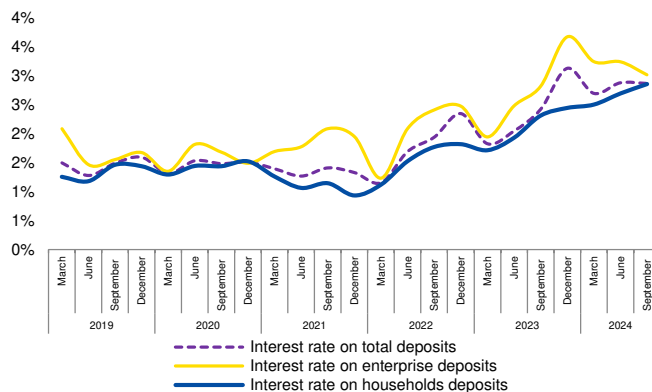
Chart 34. Interest rate on loans to households



Source: CBK.

Interest rates on deposits reached 2.9 percent, marking an increase of 0.4 percentage points from a year earlier. However, compared to the previous quarter, they marked a slight decrease of 0.01 percentage points. In September 2024, average interest rate on deposits for non-financial corporations marked an annual increase of 0.2 percentage points, reaching 3.0 percent. Furthermore, for households, the average interest rate marked an annual increase of 0.5 percentage points, reaching 2.9 percent (chart 35).

Chart 35. Interest rates on deposits



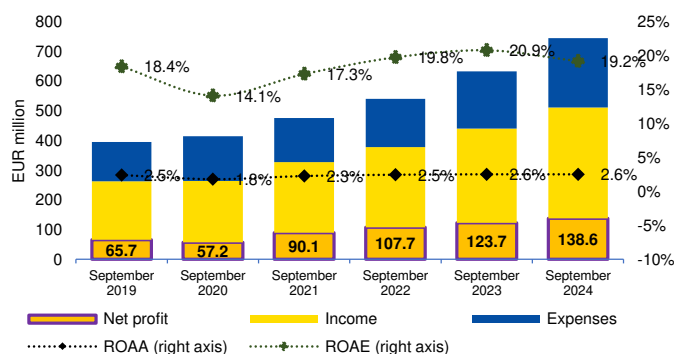
Source: CBK.

The banking sector's net profit in September 2024 amounted to EUR 138.6 million, marking a slower annual growth, namely an increase of 12.1

percent from 14.8 percent a year earlier. This dynamic is the result of the growth of revenues at a similar pace to the previous year, while expenses marked a more pronounced increase. Total revenues amounted to EUR 373.2 million, representing an annual growth of 17.7 percent similar to the previous year of 17.2 percent.

The main contribution to the growth of revenues was from interest income, which represents 75.5 percent of the sector's total revenues, marking an annual growth of 20.0 percent. Despite the annual decline in the average interest rate on loans during this period, higher interest rates on loans in recent years and accelerated lending growth contributed to the growth of this category of income, as interest on loans accounts for 87.5 percent of interest income. Income from securities has slowed significantly, reflecting the slower growth of investments in securities compared to the previous year. Meanwhile, income from placements with banks marked an annual decline in this period, as a result of the decline in the balance with commercial banks during this quarter. The non-interest income category, which is mainly income from fees and commissions, marked an increase of 9.7 percent from 2.2 percent a year earlier, reaching a value of EUR 78.6 million at the end of September 2024. However, despite the higher annual growth, non-interest income marked an annual decline in participation within the total income of the sector to 21.1 percent from 22.6 percent. This is as a result of the higher growth of interest income in relation to non-interest income.

Chart 36. Profit and profitability indicators of the banking sector



Source: CBK.

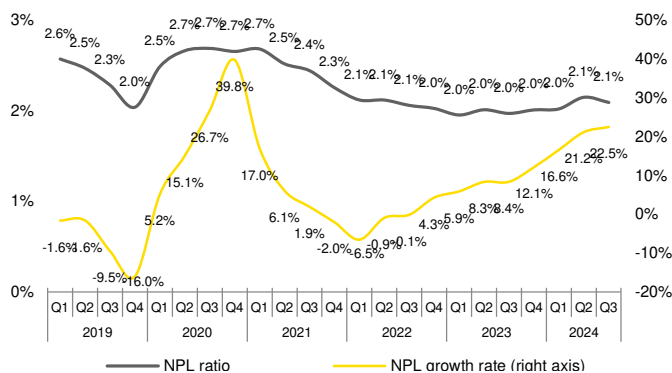
Banking sector expenses amounted to EUR 234.6 million or an accelerated annual growth of 21.3 percent from 18.8 percent a year earlier. The highest contribution came from an increase in general and administrative expenses, as well as interest expenses. General and administrative expenses accounted for 56.4 percent of total spending, reaching EUR 132.2 million, representing a 19.5 percent annual increase from 17.5 percent the previous year. Furthermore, interest expenses recorded a high annual growth of 43.9 percent from an increase of 55.9 percent the previous year, which is primarily attributed to high interest rates on deposits and the increase in their stock. The lower annual growth of the sector's profit in comparison to the higher growth in capital caused the Return on Capital indicator to fall slightly to 19.2 percent from 20.9 percent a year ago. While return on assets remained at the same level of 2.6%, as a result of the approximate annual growth of assets and profit (chart 36).

Despite the fact that non-performing loans in the banking sector increased in monetary value by 22.5% from 8.4% the previous year, the ratio of non-performing loans to total loans remained at 2.1% (chart 37), representing only a 0.1 percentage point increase. This dynamic reflects a more pronounced increase in total lending than an increase in non-performing loans. Coverage with provisions for potential loan losses decreased to 123.8 percent from 143.5 percent in the same period of the previous year, due to the higher increase in the value of non-performing loans in relation to the value of provisions allocated for loan coverage.

The non-performing loan ratio increased by 0.2 percentage points in both the household and non-financial corporate segments over the previous year. More specifically, the ratio of non-performing loans for households reached 1.5 percent, while for non-financial corporations, it reached 2.5 percent. Households experienced a more pronounced annual increase in non-performing exposures, an increase of 10.6

million or 41.8 percent, compared to the EUR 20.8 percent increase in lending for this segment. Meanwhile, compared to the previous quarter, the ratio of non-performing loans to households has decreased by 0.1 percentage points, owing to a 0.2 percent increase in the value of non-performing loans, compared to a 5.0 percent increase in loan value. Non-performing exposures in the non-financial corporate segment increased by EUR 12.4 million, or 17.9 percent, while total loans to non-financial corporations increased by 11.2%. Compared to the balance at the end of the previous quarter, the value of non-performing loans to non-financial corporations increased by 3.0 percent compared to the 1.8 percent increase in the value of loans, resulting in non-performing loan ratio for this segment remaining at the same level as in the previous quarter. The manufacturing, construction and agriculture sectors had an increase in the value of NPLs by 8.8, 4.4 and EUR 1.5 million, respectively, while the ratio of NPLs to loans increased by 1.3, 0.6 and 2.5 percentage points for the respective sectors. Consequently, the rate of NPL reached 3.2 percent for the manufacturing sector, 3.6 percent for the construction sector, and 7.6 percent for agriculture. On the other hand, the sectors that recorded an annual decrease in the value of NPLs were trade and services, with EUR 1.2 and 0.6 million respectively. The NPL rate decreased to 1.5 percent from 1.8 percent for the trade sector and 3.2 percent from 3.9 percent for the services sector.

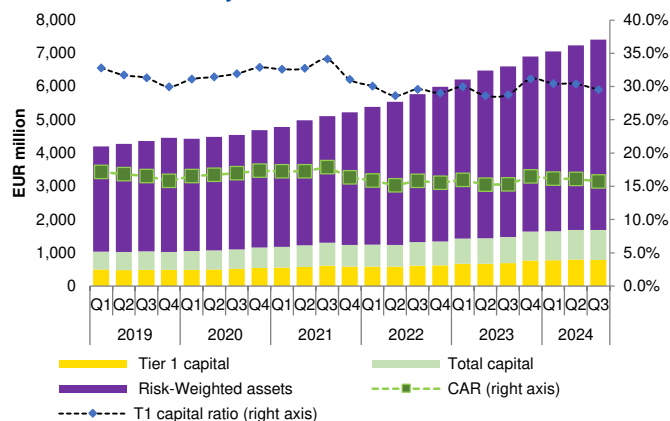
Chart 37. Annual change of NPL value and NPL to total loans ratio



Source: CBK.

The capital position, expressed through the ratio of regulatory capital to risk-weighted assets, increased to 15.7 percent from 15.3 percent a year earlier. The 0.4 percentage point increase in the capitalization rate was influenced by the higher growth of regulatory capital in relation to risk-weighted assets. Specifically, the sector's regulatory capital at the end of the third quarter of 2024 represented an annual increase of 14.4 percent from 11.5%. While risk-weighted assets have slowed their growth to 11.4 percent from 15.2 percent in September 2023 (chart 38). Despite the high growth in assets, the increase in the share of assets with lower risk weight, influenced, among other things, by the increase in the coverage of collateralized loans (mortgages) and the increase in exposures supported by the KGFK, were reflected in the slowdown of the growth of risk-weighted assets.

Chart 38. Solvency indicator

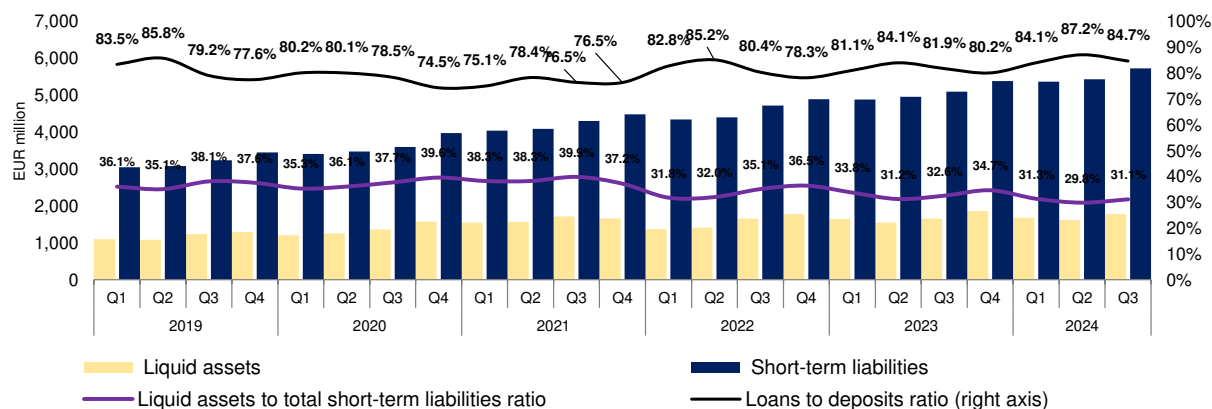


Source: CBK.

Liquidity and funding indicators remained above the minimum regulatory levels; however, they have shown a downward trend. The liquidity coverage ratio (LCR) remained well above the minimum of 100 percent required by regulation, namely 211.4 percent in September 2024, but when compared to the same period of the previous year, it decreased by 49.4 percentage points. This level indicates that banks have enough liquid assets to cover their outflow needs (cash flow) for a 30-day period. Similarly, the Net Sustainable Funding Ratio (NSFR) decreased to 137.3 percent from 142.6 percent in September 2023, but remains above the regulatory minimum of 100 percent, indicating that banks have sufficient and sustainable funding to meet

longer-term funding/liquidity requirements. Furthermore, the liquidity ratio, which is expressed as the ratio of liquid assets to short-term liabilities, fell 1.4 percentage points year on year, to 31.1 percent. This is due to the more pronounced annual growth of short-term liabilities of 12.4% versus the 7.4% increase in liquid assets. Furthermore, the higher growth of lending in relation to deposits has influenced the increase of the loan-deposit ratio by 2.9 percentage points, reaching 84.7 percent (chart 39).

Chart 39. Liquidity indicators



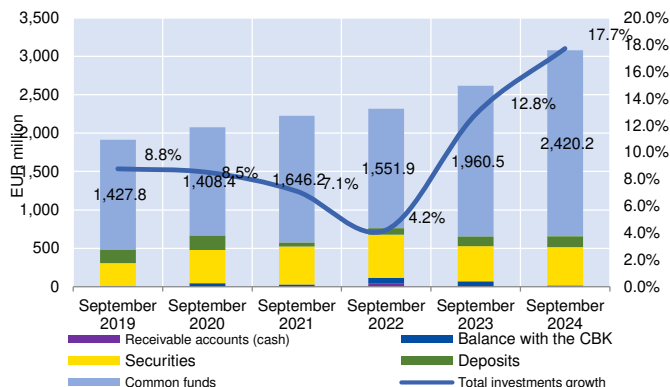
Source: CBK.

4.2. Pension sector

Pension sector assets amounted to EUR 3.1 billion at the end of September 2024, marking an accelerated annual growth of 17.7 percent from 12.8 percent a year earlier. (chart 40).

Gross return on investments marked a significant increase by the third quarter of the year, amounting to EUR 203.5 million compared to EUR 48.0 million in the same period of the previous year. This performance was supported by the positive performance of investments in international markets, as a result of the improvement of global macroeconomic indicators and the easing monetary policies implemented by central banks. Meanwhile, contributions collections marked a slight increase, reaching EUR 227.5 million from EUR 212.8 million a year earlier, therefore their impact on this performance was relatively low.

Chart 40. Assets of the pension sector



Source: CBK.

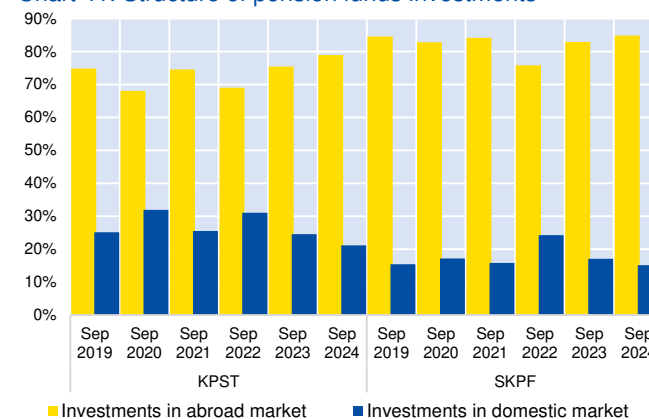
Kosovo Pension Savings Trust (KPST), which covers 99.7 percent of total assets in the pension sector, reached an asset value of EUR 3.1 billion, marking a significant annual increase of 17.7 percent compared to the increase of 12.8 percent in the previous year. Meanwhile, the Slovenian-Kosovar Pension Fund (SKPF), which represents only 0.3 percent of the sector's total assets, reached an asset value of EUR 10.4 million, also marking a significant annual increase of 14.1 percent, from 6.6 percent a year earlier.

Both funds have followed a similar investment strategy, focusing primarily on foreign markets. FKPK and FSKP investments increased by 3.4 and 2.0 percentage points, respectively, in the foreign market, while they experienced an equivalent decrease in the domestic market compared to the previous period. (chart 41).

Within the total assets of the KPST, EUR 2.4 billion have been allocated to foreign markets, increasing the share of these investments to 78.9 percent of the investment portfolio from 75.5 percent a year earlier. Of these investments, 99.9 percent have been channeled into mutual funds, with the remaining EUR 1.8 million held in the form of cash.

Investments in the domestic market recorded a slight annual increase of 1.2 percent from a decrease of 10.7 percent in the same period of the previous year, but their participation in total investments decreased to 21.1 percent from 24.5 percent, as a result of the faster growth of foreign investments. Cash and deposits in the CBK fell by about 80% per year, to be invested in more profitable alternatives such as securities and certificates of deposit. Investments in Kosovo's government securities, on the other hand, increased to 10.2 percent from a 19 percent decrease the previous year. However, due to the slower growth of investments in securities in relation to the expansion of total assets, their share in total investments decreased, decreasing to 16.3 percent from 17.4 percent in the same period last year. Certificates of deposit in local banks recorded a slower growth to 9.7 percent from 45.9 percent a year earlier, but their share of total investments decreased to 4.4 percent from 4.7 percent a year earlier.

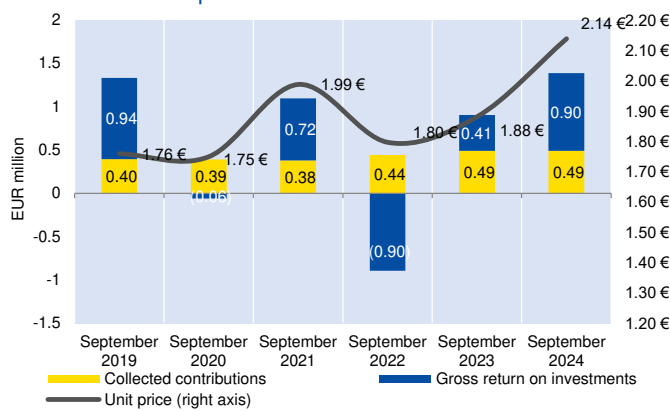
Chart 41. Structure of pension funds investments



Source: KPST, SKPF.

KSPST allocated about 84.9 percent of its assets to markets outside Kosovo, increasing the share of assets invested abroad by 2.0 percentage points. Foreign market investments are primarily focused on shares, accounting for 80.4% of the total investment portfolio. To maintain liquidity and flexibility in the investment portfolio, the remaining portion is held in cash, accounting for 4.4% of the total investment portfolio. In the domestic market, KSPF invested primarily in Kosovo government securities, which decreased by 3.5 percent annually from 2.9 percent the previous year and accounted for 12.4 percent of the total portfolio.

Chart 42. SKPF performance



Source: SKPF

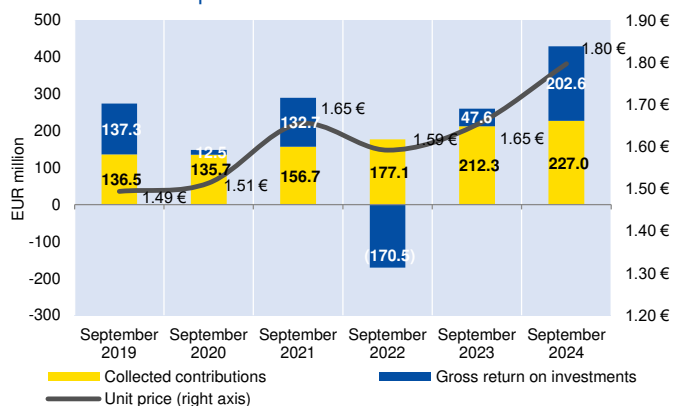
The rest of the assets held in the country, consisting of cash and deposits in commercial banks, represent 2.8 percent of the portfolio, with each category having a 1.4 percent share.

The value of contributions collected by the KPFK until September 2024 reached EUR 227.0 million, reflecting a slower annual growth rate of 6.9 percent, compared to 19.9 percent the previous year (chart 42). This slowdown reflects the absorption of the immediate effects of the Law on Public Officials, as well as wage increases in the private sector due to high inflation. The impacts of these factors were more pronounced initially, resulting in a rapid increase in contributions and a higher growth base in the previous year, while the market has now returned to a sustainable growth rate.

On the other hand, the value of contributions collected by the FSKP until the end of September 2024 showed a slight annual decrease of 0.3%, dropping to EUR 0.49 million (chart 43).

KPST realized a gross return on investments of EUR 202.6 million, a multiple higher value compared to EUR 47.6 million realized in the previous period. The first quarter made the most significant contribution to the increase in returns, driven by an increase in share prices in international markets as a result of positive expectations for further increases in key interest rates. While returns in the second quarter were significantly lower than in the same period the previous year, they increased significantly in the third quarter. The return in the third quarter was EUR 84.8 million, up from EUR 23.5 million in the same period last year and EUR 9.6 million in the second quarter. FKPK's share price increased to EUR 1.80 from EUR 1.65 per unit, reflecting successful asset management, with a focus on increasing the value of contributors' savings.

Chart 43. KPST performance



Source: KPST

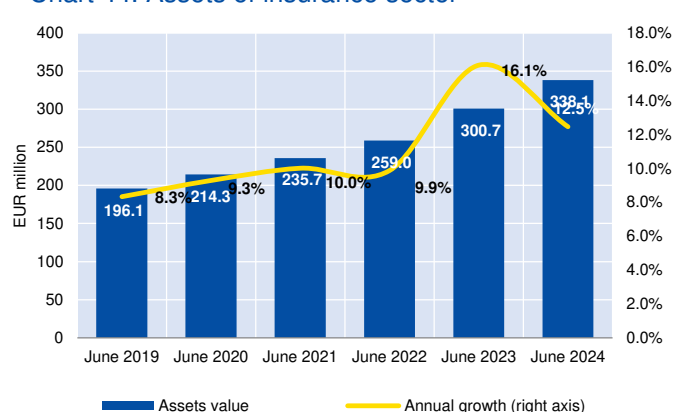
The KSPF also had a good return on investment, with a gross return of EUR 0.90 million compared to EUR 0.41 million in the same period the previous year.

4.3. Insurance sector

The insurance sector was characterized by increased activity, albeit at a slightly slower pace than the same period of the previous year.

The value of total assets reached EUR 338.1 million by the end of September 2024, representing a 12.5 percent annual increase from 16.1 percent in September 2023 (chart 44). 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 15.0 percent and are also the category with the main weight in total assets.

Chart 44. Assets of insurance sector



Source: CBK.

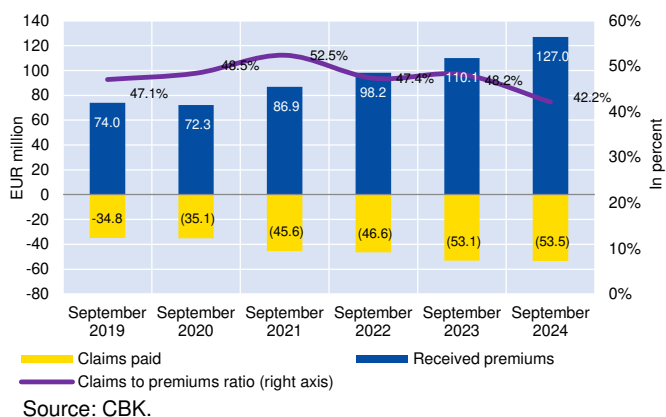
The category of Kosovo Government Securities and technical reserves of reinsurers also showed an increase, increasing by 10.0 percent and 19.5 percent, respectively.

The total value of written premiums increased at an annual rate of 15.4 percent from 12.1 percent to EUR 127.0 million in September 2024. "Non-life insurance premiums" increased by 14.9 percent, while life insurance premiums, with a share of only 4.4 percent in total premiums, increased by 11.5 percent annually. The value of gross written premiums within non-life insurance was mainly influenced by the category "Third Parties Motor liability to", respectively "Domestic MTPL". This category has the main weight within "non-life" insurance, with a share of 55.3 percent and marked an annual increase of 8.7 percent from 8.5 percent increase in September last year. Meanwhile, the second largest category by participation, "Health insurance", which accounts for 22.7 percent of "non-life" insurance, marked a more pronounced increase of 24.2 percent, compared to 14.6 percent in September 2023.

The value of gross written premiums in “Life” insurance sector was mainly influenced by **the 'Debtor Life' Category**. This category accounts for 51.5 percent of total written premiums in this segment and marked a significant increase of 21.4 percent in 2024 compared to 0.7 percent in the same period last year.

The “non-life” insurance sector recorded an increase of 33.5 percent in the number of policies sold, mainly influenced by the category “*Third Party Motor Liability*”, with a share of 60.5 percent of the total. The “Life” insurance sector recorded an increase of 10.6 percent in the number of policies sold, mainly influenced by the “*Group Life*” category, with a dominant share of 73.3 percent in total life premiums.

Chart 45. Written premiums and claims paid



The value of claims paid by insurance companies and the Kosovo Insurance Bureau increased to EUR 53.5 million from EUR 53.1 million, or an increase of 0.9 percent from 14.0 percent in the previous year (Chart 45). In the same period, the number of claims paid increased by 23.2 percent, amounting to 165.9 thousand in September 2024. The much higher increase in the number of claims in relation to the total value of claims suggests that the sector has paid a higher number of claims, but with a lower average value of the claim. The value of claims paid by insurance companies marked an annual decrease of 1.3 percent, falling to EUR 48.1 million at the end of September 2024. On the other hand, claims paid by the KIB amounted to EUR 5.5 million, with an annual increase of 24.6 percent. Despite the relatively low share of KBI claims in total claims paid, with only 10.2 percent in September 2024, their increase affected the overall dynamics of claims during this period.

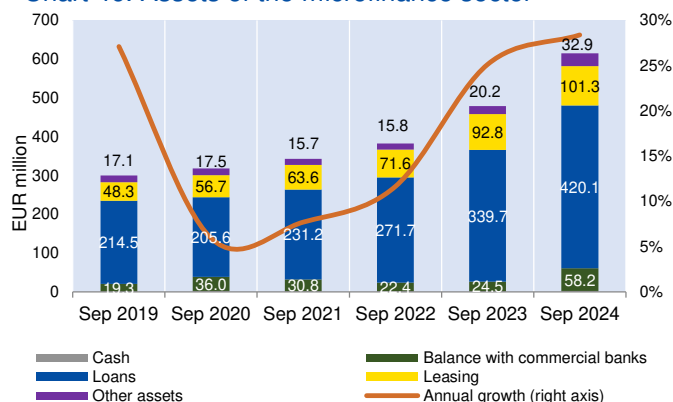
As a result of the higher growth in premiums compared to claims, the ratio of claims paid to premiums received in the sector has decreased to 42.2 percent from 48.2 percent a year earlier, indicating that the sector is generating more income in relation to claims paid. This development, namely the higher income from net premiums earned compared to claims incurred, has led to **the insurance sector's net profit increasing to EUR 10.5 million from EUR 9.2 million a year earlier**. The average return on assets (ROA) increased to 4.6 percent in September 2024 from 4.3 percent, and the average return on equity (ROE) increased to 15.2 percent from 13.9 percent in September 2023.

The sector's sustainability indicators had a slight growth trend in the first quarter of this year. Capital in relation to the solvency margin for “non-life” insurers increased annually to 144.4 percent from 139.5 percent. Whereas, the capital in relation to the solvency margin for “Life” insurers decreased from 802.2 percent to 753.9 percent. Capital in relation to the guarantee fund for non-life insurers increased to 157.6% from 141.1 percent in 2023. Capital for *life insurers* in relation to the guarantee fund has also increased at a rate of 164.9 percent from 149.7 percent. At the end of the third quarter of the year, the *non-life insurance sector* had technical provision coverage at 110.3 percent, slightly increased from 109.9 percent in September 2023. The *Life* insurance sector also increased its provision coverage to 115.2 percent from 104.9 percent a year earlier.

4.4 Microfinance sector

The microfinance sector marked an accelerated growth, driven mainly by the expansion of lending and less by the expansion of leasing. The sector's assets amounted to EUR 615.0 million in September 2024, continuing the accelerated growth, namely an increase of 28.4 percent compared to 25.1 percent in September 2023. All asset categories recorded growth, with loans continuing to constitute the largest share of the sector's assets. They are followed by leasing and commercial bank balances (see chart 46). Borrowings from the external sector, the main source of financing the sector's activity, continued their high growth for the second year in a row, recording an annual growth of 23.6 percent in September 2024 from a 29.2 percent increase the previous year.

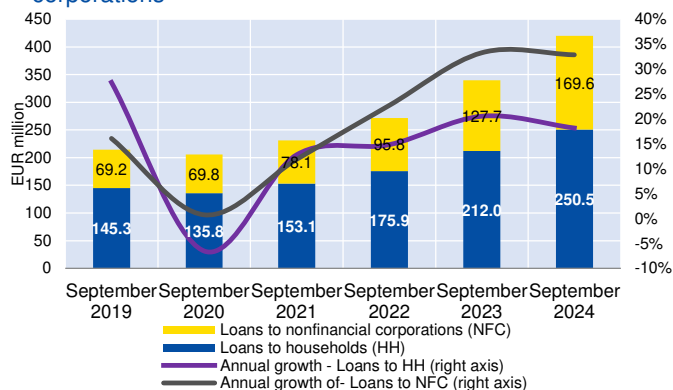
Chart 46. Assets of the microfinance sector



Source: CBK.

The microfinance sector loans stocks reached EUR 420.1 million, marking an annual growth of 23.7 percent, slightly slowing down from 25.0 percent in the previous year. The increase in the value of loans is reflected in the demand for loans from both segments: households and non-financial corporations. Lending to households, accounting for 59.6 percent of total loans, reached 250.5 million in September 2024, reflecting a decrease in the growth rate to 18.2 percent from 20.5 percent in the same period of 2023.

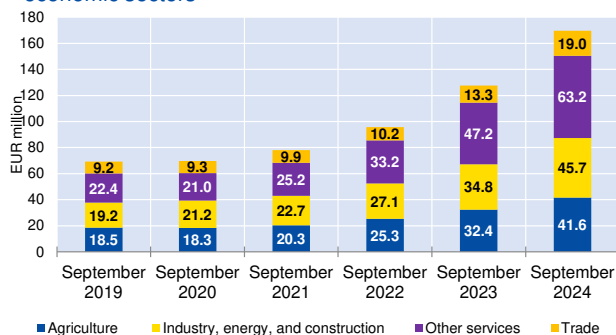
Chart 47. Value of loans to households and to nonfinancial corporations



Source: CBK.

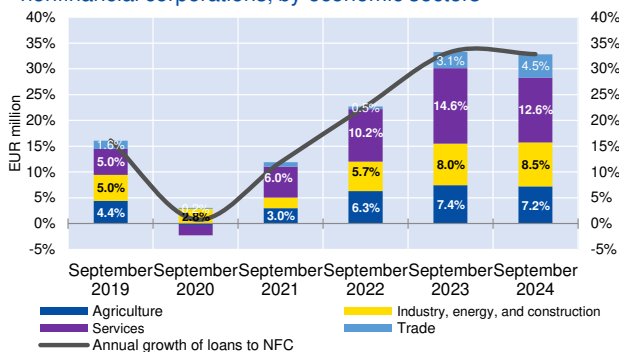
Meanwhile, loans to non-financial corporations totaled EUR 169.6 million, maintaining a high annual growth rate of 32.8 percent, similar to the 33.3 percent growth rate in September 2023. Lending to non-financial corporations made a greater absolute contribution to loan growth, despite their lower participation in total loans (40.4% in September 2024).

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.

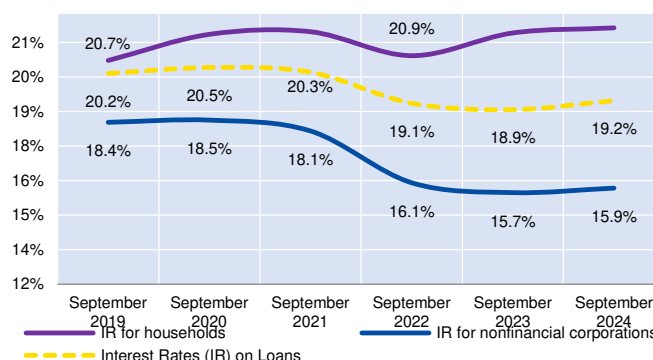
Lending to non-financial corporations by economic sectors has continued the previous year's trend, with an increase in all sectors. The agriculture sector continued to account for the majority of total loans to non-financial corporations, with 24.5 percent, a 28.5 percent increase from the previous year. The trade sector, which accounts for 11.2 percent of total loans to non-financial corporations, marked the largest annual increase of 43.6 percent, an increase from 29.4 percent in the same period the previous year (chart 47). In terms of the contribution to the growth of total lending to NFEs, the agriculture sector had a higher contribution of 7.2 percent due to its higher weight, while trade had 4.5 percent (chart 48).

Leasing, the second most important category by weight, accounted for 16.5% of total microfinance sector assets at the end of September 2024, totaling EUR 101.3 million. This category experienced a significant slowdown in annual growth, dropping to 9.1 percent from 29.6 percent in September 2023. Leasing for non-financial corporations' accounts for a sizable proportion of total leasing (70.7 percent). Its value increased to EUR 71.6 million in September 2024, but the growth rate marked a significant slowdown, falling to 12.2 percent from 45.9 percent in September 2023, when leasing for this segment increased significantly (chart 49).

On the other hand, leasing for households, which accounts for 29.3 percent of total leasing, reached a value of EUR 29.7 million, marking a slower growth of 2.2 percent compared to 4.1 percent a year earlier.

The average microfinance sector loans amounted to 19.2 percent, or 0.3 percentage points higher than in the same period of the previous year (chart 50). However, on average, there was a downward trend in the interest rate from the previous quarter of this year, where the rate decreased by 1.4 percentage points.

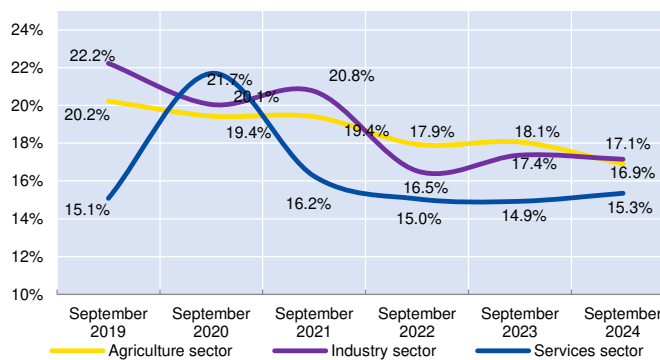
Chart 50. Average interest rate on microfinance sector



Source: CBK.

Non-financial corporations had the lowest interest rates, at 15.9 percent, up 0.2 percentage points from the previous year. In terms of sector, the most favorable interest rate was 15.3 percent for loans for services, representing a 0.4 percentage point increase over the previous year. Meanwhile, the agricultural and industrial sectors' interest rates decreased by 1.2 and 0.3 percentage points, respectively (chart 51).

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



Source: CBK.

Meanwhile, households had higher interest rates compared to NPL, with an average rate of 21.9 percent in September 2024, an increase of only 0.1 percentage points from the previous year.

The interest rate on consumer loans fell to 24.0 percent from 25.1 percent in September 2023. Meanwhile, the interest rate on mortgage loans rose to 18.9 percent in September 2024 from 16.3 percent in September 2023.

Interest expenses have increased significantly, reflecting the sector's rising financing costs. However, the high volume of loans and leases, as well as the higher interest rates on loans at the time, helped to

offset the cost increase. This has resulted in a positive financial performance for the sector, with an annual increase in net profit by 18.8%.

The sector's revenues reached EUR 66.0 million, a significant annual increase of 33.5 percent from 19.1 percent the previous year (chart 52). The main contribution to the increase in revenues was the increase in interest income of 23.9 percent from 20.6 percent the previous year.

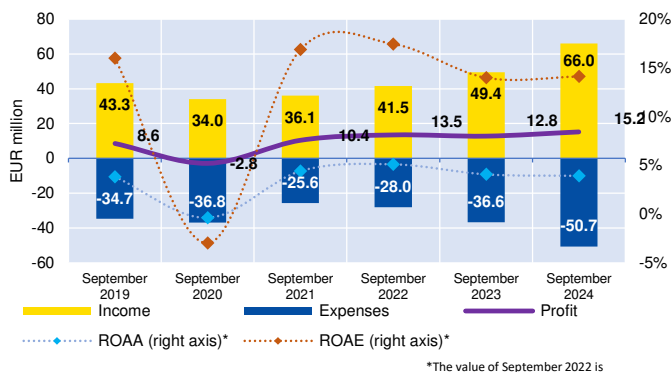
Expenses rose to EUR 50.7 million, a 38.6 percent increase from 30.8 percent the previous year. Expenses were primarily affected by a significant increase in interest expenses, which rose by 76.7 percent compared to 56.0 percent the previous year. Meanwhile, the growth trend in personnel costs has slowed to 16.0% from 19.4%.

The expenditure-to-income ratio increased by 2.7 percentage points and amounted to 76.8 percent in September 2024, indicating a trend of increasing expenditure compared to income.

The main profitability indicators, return on average assets (ROA) fell by 0.2 percentage points, indicating a decrease in profit per unit of total assets. Meanwhile, return on average capital (ROAC) increased by 0.1 percentage points, suggesting better capital management to generate income despite increased expenses.

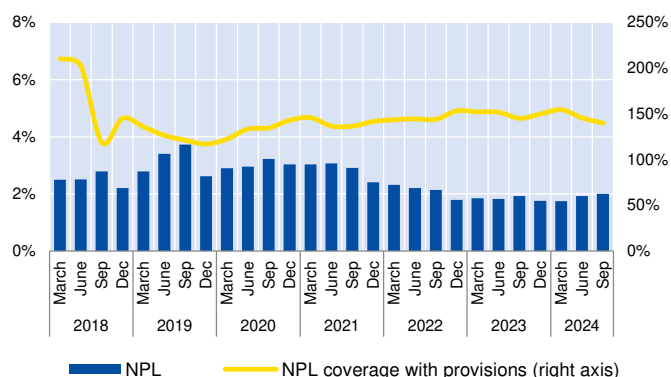
The non-performing loans to total loans of microfinance institutions at the end of September 2024 increased slightly to 2.0 percent from 1.9 percent a year earlier. The coverage of NPLs with provisions remains stable, although it has decreased slightly to 139.8 percent from 145.1 percent a year ago (chart 53). NBFIs continue to have a higher ratio of non-performing loans than MFIs. This ratio has increased from 1.6 percent to 1.7 percent for microfinance institutions and from 3 percent to 3.2 percent for non-bank financial institutions. (chart 54).

Chart 52. Profit and profitability indicators of the microfinance sector



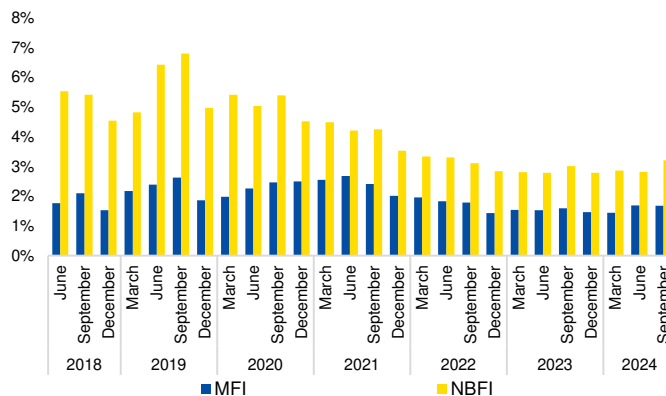
Source: CBK.

Chart 53. Indicators of credit portfolio quality



Source: CBK.

Chart 54. NPL to total loans ratio

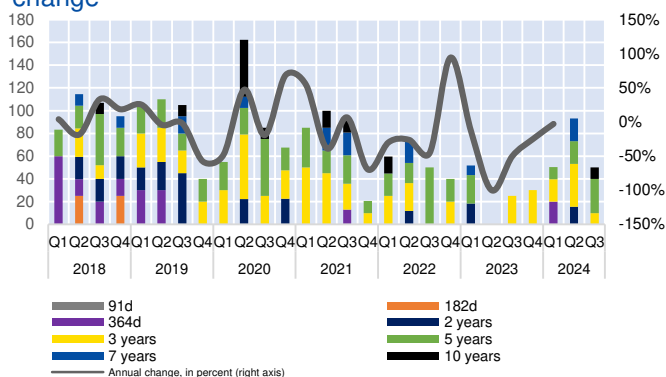


Source: CBK.

4.5. Securities market of the Government of the Republic of Kosovo

During the third quarter of 2024, the debt issued by the Government of the Republic of Kosovo doubled compared to the same quarter of 2023, amounting to a total value of EUR 50 million (chart 55). However, the total domestic debt-to-GDP ratio decreased to 8.83 percent at the end of the third quarter of 2024, from 10.02 percent the previous year. This is as a result of the higher rate of GDP growth in relation to the outstanding debt, which decreased as a result of the higher rate of maturity in relation to the increase in new issuance.

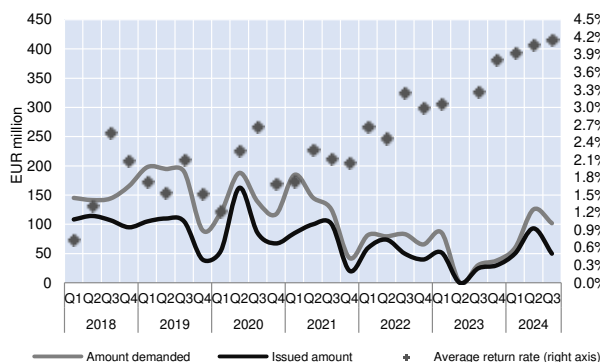
Chart 55. Amount and maturity of issued debt, annual change



Source: Ministry of Finance, Labor and Transfers.

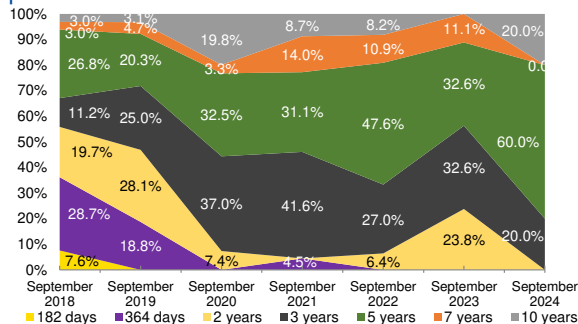
The demand for investments in securities issued by the Government has exceeded by 2 times the available supply for these instruments in this quarter (chart 56). Meanwhile, at the end of September 2024, the stock of domestic debt of the Government of the Republic of Kosovo, in the form of securities, decreased to 932.18 from 970.19 in September 2023.

Chart 56. Bid to cover ratio



Source: Ministry of Finance, Labor and Transfers.

Chart 57. Government securities structure, in percent



Source: Ministry of Finance, Labor and Transfers.

The holders of government securities continue to be led by pension funds, which account for 46 percent of the government debt stock, followed by commercial banks with 24 percent, public institutions with 22 percent, and insurance companies, which account for 5 percent of the debt stock. The remaining 3 percent is held by other investors.

The structure of securities continued to diversify toward longer maturities, with government bonds with a maturity period of 5 years retaining dominance, followed by those with maturities of 3 and 10 years. Meanwhile, treasury bills, which have a maximum maturity of 364 days, were not issued for the third straight year (chart 57).

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

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

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

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



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