Quarterly Assessment of the Economy
No. 49, Q IV/2024

Summary

- **In Q4 2024, the euro area economy recorded a real economic growth of 0.2%, which is a slowdown in the growth trend compared to the previous quarter, while annual growth resulted in 1.2%, supported by consumption and investments.** Despite the slowdown in economic activity in this period, ECB forecasts suggest that the economy will continue to grow, with an increase of 0.9% in 2025 and 1.2% in 2026. At the same time, inflation in the euro area increased by 2.2% in Q4 2024, mainly due to high prices of services and energy. However, the ECB's expectations suggest that inflation will slow down to 2.3% in 2025 and 1.9% in 2026, while the outlook remains uncertain due to geopolitical risks and potential fluctuations in global commodity markets, which could affect inflation dynamics.
- **Kosovo's economy marked a growth of 4.4% in 2024, supported by increased consumption and investments, whereas net exports had a negative impact in the economic activity. In Q4 2024, Kosovo's economy marked an increase of 4.1%, compared to the same period of the previous year.** The increase was mainly driven by the increase of consumption, investments and exports growth. On the other hand, imports of goods and services negatively affected economic activity, a dynamic that resulted from increased domestic demand and visa liberalization. The increase of economic activity was supported by the processing industry, trade and construction.
- **Inflation in Q4 2024 dropped to 0.7%, from 1.3% as it was in the previous quarter.** The decline in energy prices and the easing dynamics in the prices of other goods and services affected the downward trend in inflation. On the other hand, the accelerated increase of food prices resulted to be the main driver of inflation increase in Q4 2024. The declining trend of prices was reflected also in the core inflation decline which slowed down to 2.2% from 3.3% that was marked in the previous quarter. The import price index marked a slowed down increase, whereas it was marked an increase of inflationary pressures in the cost of domestic production.
- **In Q4 2024, primary budget revenues reached the net value of EUR 823.4 million, marking an an increase of 11.6%. Primary expenditures increased by 7.0%, reaching EUR 1.1 billion. As a result of the higher level of budget expenditures compared to income, Kosovo's budget recorded a primary deficit of EUR 289.3 million.** Tax revenues increased by 11.1%, with direct taxes increasing by 10.7%, while indirect taxes revenues increased by 10.1%. Meanwhile, non-tax revenues recorded a significant increase of 16.8%, which have a smaller share in total budget revenues. Regarding budget expenditures, current expenditures marked an increase of 5.5%, while capital expenditures marked a higher increase of 10.8% compared to the same period of the previous year.
- **The current account deficit marked an annual increase of 18.3% in Q4 2024 and reached EUR 488.0 million, primarily due to the deterioration of the trade balance and the decline in secondary income.** However, the sector of services and primary income had a positive impact, providing a sustainable source of financial income. Remittances reached EUR 344.2 million in this quarter, marking a slowdown growth of 3.0%. Whereas, foreign direct investments marked a decline of 17.1%, falling at EUR 183.4 million, albeit the real estate sector continued to withdraw considerable capital.
- **Banking sector** marked an accelerated annual growth of assets, mainly being driven by the accelerated expansion of credit activity. In the last quarter of 2024, loans to households and nonfinancial corporations segment were characterized by an accelerated growth trend. This dynamic was a result of the expansion of consumer credit and mortgage loans within the households segment, whereas the expansion of loans to NFCs was mainly influenced by the significant increase of investment loans. Also, deposits, which comprise the main source of financing the credit activity, marked a higher increase compared to the previous year. The sector's profit was characterized by an accelerated increase, driven by the higher increase of income compared to the slower increase of expenditures. The capital position was further strengthened from the previous quarter, but compared to the previous year, the capital adequacy indicator has marked a slight decrease as a result of the higher growth in risk-weighted assets. Also, liquidity and financial indicators marked a declining trend, albeit remained highly above the minimal regulatory requirement levels.
- **Pension sector** - continued the accelerated annual growth of assets, mainly as a result of the considerable increase of the gross return on investments in the national market, while at a lower extent, from the increase of new contributions. Moreover, the share price increased compared to the previous year.
- **Insurance sector** - marked a further increase of assets, albeit at a slower pace compared to the previous year. The improvement of sector's net profit was impacted by the increase of income, especially from the growth of net premiums of non-life insurance, and from the slowdown pace of the increase of expenditures and claims incurred.
- **Microfinance sector -** continued the high increase mainly driven by lending activity, albeit at a slower pace compared to the previous year. Also, the borrowings from the external sector, comprising the main source of financing, marked a slowing down trend of increase. The sector's profit marked an accelerated increase, as a result of the increase of the income level compared to the increase of expenditures. Loan portfolio quality remained sustainable, with low levels of nonperforming loans.

PUBLISHER: ©Central Bank of the Republic of Kosovo, Economic Analysis and Financial Stability Department.
Address: Garibaldi 33, Prishtinë 10000, Tel: +383 38 222 055, Fax: +383 38 243 763 E-mail: economic.analysis@bqk-kos.org

This publication includes the data available until 31 December 2024.

List of abbreviation

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

Contents

1. Euro area and Western Balkans

Euro area's economy marked a modest increase in Q4 2024. According to data from Eurostat, GDP in the euro area grew by only 0.2% compared to the previous quarter, a significant slowdown compared to the previous quarter, where the growth was 0.4%. In annual terms, economic activity in the euro area marked an increase of 1.2%, a stable level, despite the impact of the ECB's monetary policies and global economic uncertainty. Economic growth was supported by private consumption (0.2 percentage points), public consumption (0.1 percentage points) and gross capital formation (0.1 percentage points), while the change in inventory had a negative impact (-0.2 percentage points). Net exports had neutral contribution to the growth (0.0 percentage points).

Some of the major euro area economies showed mixed results, reflecting the impact of still high interest rates, inflation and fluctuations in global demand. Germany's economy contracted by -0.2% in Q4 2024 compared to the previous quarter, mainly affected by the decline in exports, while private final consumption and public consumption recorded a growth. France, the euro area's second-largest economy, recorded a slight decline of -0.1%, mainly influenced by the end of the Olympic Games effect. Unlike the other countries, Spain managed to maintain the economic activity growth of 0.8%. **Euro area's economy is expected to continue with a cautious increase. Forecasts from the ECB for 2025 suggest a growth of 0.9%, while a further expansion of up to 1.2% is expected for 2026.** These projections depend on several key factors, such as the ECB's monetary policy, which aims to balance inflation and economic growth, but also on the stability of supply chains and global trade relations. Despite the stabilization of inflation and the possibility that the ECB will take easing measures in monetary policy, structural challenges and geopolitical tensions may affect the economic growth outlook.

Inflation in euro area showed a slight trend of increase in December, reaching 2.4%. This increase was mainly impacted by high prices of services and partly by energy prices. Inflation in the sector services reached 4.0%, in December. Whereas energy prices, which in the first half of the year had an impact on the slowdown of inflation, marked a slight increase. Commodity prices, alcohol and tobacco remained sustainable at 2.6%. **ECB projections suggest a slowdown in inflation to 2.3% for 2025 and 1.9% for 2026**, however geopolitical uncertainties and potential price fluctuations in global markets could affect inflation dynamics. In April 2025, the ECB declined for the seventh time consequently the interest rates, further continuing with easing monetary policy which commenced in June 2024. Deposit rate, dropped at 2.25%, whereas the rate for re-financing operations at 2.40%, while the lending rate at 2.65%.

IMF projections suggest that the the Western Balkan countries are expected to mark an average economic growth of 3.2% in 2024 and 3.6% in 2025. However, countries in the region continue to face significant challenges, such as still high interest rates and the slowdown in economic activity in the euro area. Regarding inflation, the average rate for the last quarter of 2024 was 2.5%, indicating a moderate tendency to keep inflation under control. However, as inflation is lower in some of the countries, differences among the regional countries remain significant. Serbia recorded the highest inflation (4.4%), whereas Kosovo had the lowest rate (0.7%).

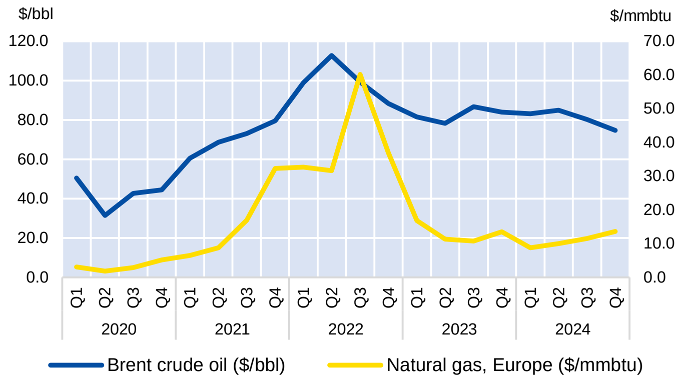
In Q4 2024, the dynamic of euro exchange rate showed significant changes against the trading partners currencies. The value of the euro remained stable against the Macedonian denar and the Turkish lira compared to the previous quarter, while it depreciated against other currencies, including the US dollar, the Swiss franc, the Albanian lek and the British pound.

2. Main commodity prices in international markets

In Q4 2024, the index of major commodity prices, according to the World Bank, continued further with the declining trend, marking an annual decline of 4.2%, ending the year with a decrease of 2.7%. This was mainly driven by the oil price decline, which reflected an improvement of the supply. However, inflationary pressures were observed in natural gas and food prices, which were impacted by the demand and climatic conditions. Also, base metal prices marked an increase, driven by the incentive policy in China, and the prices of precious metals, which reflected geopolitical tensions and macroeconomic uncertainties.

Brent crude oil prices fell to $74.6/barrel in Q4 2024, marking an annual decline of 11.2% and ending 2024 with a decline of 2.3% (chart 1). In the beginning of the quarter, the geopolitical tensions in the Middle East caused an increase of prices at over $80/barrel. However, the sustainable supply side and the slowdown increase in demand, caused pressure in the declining direction and made prices to return on the falling trend. Forecasts for 2025 suggest price stabilization at around $72/barrel, supported mainly by expanding global supply. However, oil prices remain sensitive to macroeconomic factors and geopolitical developments, with risks associated with OPEC+ decisions on production reduction policy, global demand performance, and geopolitical tensions.

Chart 1. Oil and natural gas prices in international markets

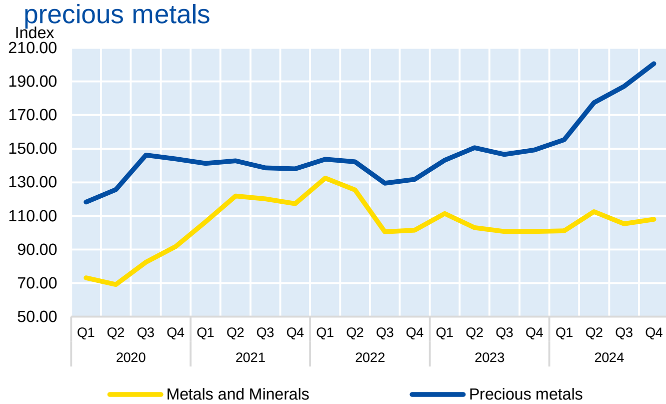


Source: World Bank.

Natural gas prices in Europe rose to $13.6/mmbtu, marking an annual increase of 0.3% against a higher base in Q4 2023, but an increase of 18.0% compared to the previous quarter (chart 1). The increase was driven by intensifying global competition for LNG exports, uncertainties over gas supplies from Russia, and high seasonal demand which accelerated the contraction of reserves beyond expectations. However, on annual terms, natural gas prices in Europe declined by 16.4% in 2024. Forecasts for 2025 suggest an increase of 6.5%, with risks primarily interlinked to the global demand, the competition for LNG and geopolitical factors which may affect the supply of gas from Russia.

Metals and minerals prices marked an annual increase of 7.2% in Q4 2024, ending the year with an increase of 2.6% (chart 2). The annual increase in the base metals index, of 12.9%, was driven by expectations of increased demand in China as a result of stimulus policies. However, the low effectiveness of these policies, stable supply, and the slowdown in industrial activity in major economies caused prices to return to their downward trend. Iron ore, nickel and lead prices declined, while other metals increased due to stable demand from energy transition processes. The forecasts for 2025 suggest a modest increase of 0.8% in base metal prices, mainly constrained by weak growth in industrial activity.

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

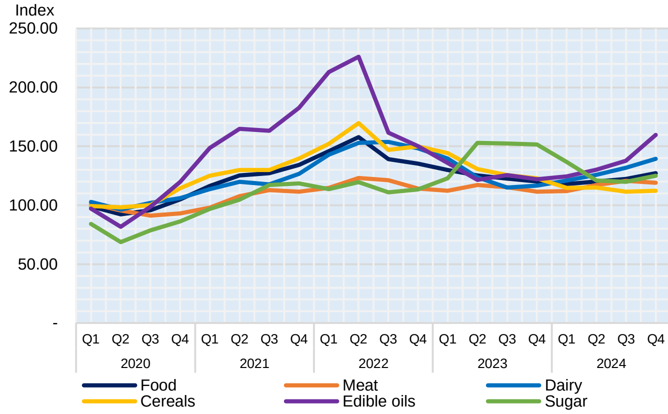


Source: World Bank.

On the other hand, precious metal prices recorded an annual increase of 34.5%, led by the price of gold with an increase of 34.8% and silver with 35.2%. The price of gold reached a historic high level, being driven by high demand as a consequence of geopolitical tensions. For 2025, precious metal prices are forecast to remain high, with the price of gold supported by geopolitical tensions and macroeconomic uncertainties, while silver prices are expected to increase due to limited supply and stable demand, particularly from the renewable energy sector.

According to the FAO index, food prices recorded an annual nominal increase of 6.0% in Q4 2024 (chart 3). However, in annual terms, they were 2.0% lower compared to 2023. A more significant increase was recorded in oil prices, driven by uncertainties over supply as a result of unfavorable weather conditions. Diary prices were mainly supported by the stable demand against the supply-side constraints. The annual increase in meat prices reflected a base effect. On the other hand, moderate demand against a relatively stable supply of cereals, together with improving climatic conditions in the main sugar exporting countries, exerted downward pressure on prices for these categories.

Chart 3. Food price index



Source: FAO.

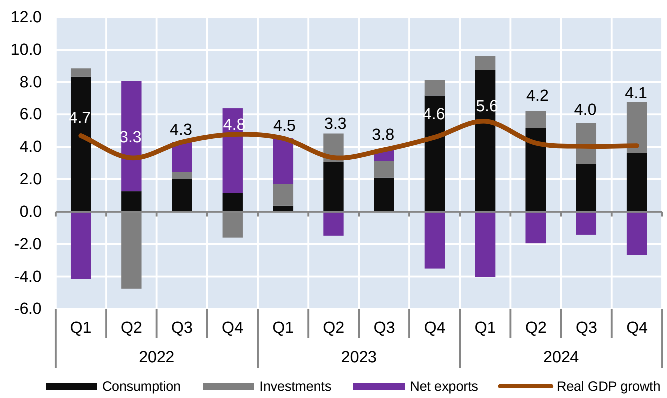
3. Kosovo's Economy

3.1. Economic growth

Kosovo's economy in 2024 marked a sustainable growth and improvement of macroeconomic conditions. According to KAS's quarterly estimates, real GDP has marked a growth of 4.4% in 2024, supported by falling inflation and rising wages. Consumption marked a high increase of 5.0%, showing an improvement of consumers' confidence and a rise in households' income. Investments marked an increase of 5.9%. On the other hand, net exports, had a significant negative impact due to the increase in imports of goods and services, thus deepening the trade deficit. According to the CBK projections, the economy is expected to grow by 4.2% during 2025, 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.

In Q4 2024, Kosovo's economy marked an increase of 4.1%, compared to the same period of the previous year (chart 4). The increase was mainly driven by the increase of consumption, investments and exports growth. On the other hand, imports had a negative impact on economic activity, due to increased domestic demand and the visa liberalization, which contributed to a rise in imports.

Chart 4. Real GDP growth

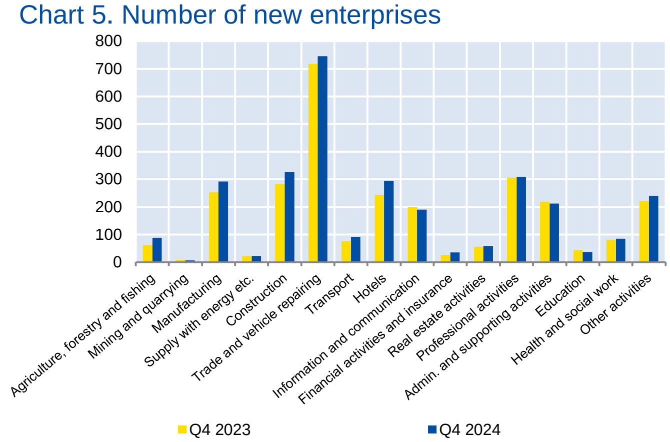


Source: KAS and CBK calculations.

Consumption marked an increase of 3.4%, representing a slower increase compared to the same quarter of the previous year. This slowdown in growth has been influenced by a lower increase in sources of financing, including consumer credit, employee compensation, remittances, and public consumption. Investments marked a higher increase of 9.0%, primarily as a result of the increase of lending and public investments. An indication of investments increase is also the growth of capital goods import and of FDI in the real estate sector.

Net exports marked an increase of trade deficit of 6.7%, due to the high level of import, which marked an increase of 8.0% for goods and 11.4% for services. Also, exports marked an increase, mitigating to some extent the trade deficit. Export of services marked a significant increase of 13.8%, with the export of travel services as the main category, which marked a nominal increase of 12.5%. Also, the export of goods was characterized with an increase which reached 4.7%, mainly due to the increase of base metals and food products export.

Chart 5. Number of new enterprises



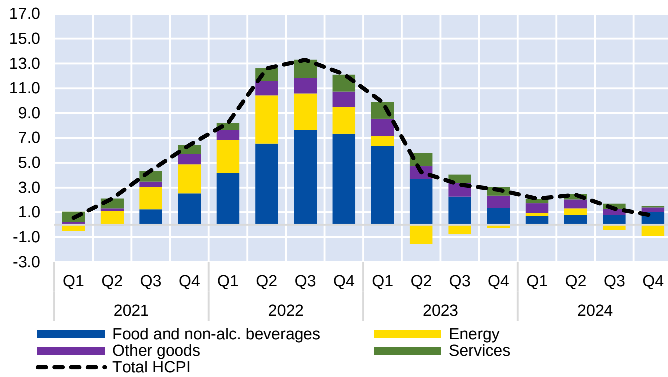
Source: KAS.

The growth of economic activity in Q4 2024 was supported by certain economic sectors. Processing industry marked an increase of 4.3%, contributing to the strengthening of exports and domestic production. Trade increased by 4.1%, due to the increase of consumption and the demand for goods, while construction marked an increase of 3.9%, as a result of investments in infrastructure and residential buildings. The increase of the economic activity in these sectors had important impact on the increase of registered enterprises. In Q4 2024, 3,034 new enterprises were registered, or 7.6% more compared to Q4 2023. The sectors that contributed mostly to this growth are hotels, construction, manufacturing, trade, agriculture, and transport, where a higher number of new enterprises were registered compared to the same period in 2023. On the contrary, the sectors of information and communication, administrative activities and education marked a smaller number of registered enterprises (chart 6). Also, the number of closed enterprises marked an increase of 8.3% compared to Q4 2023, reaching 429 enterprises.

3.2. Prices

Inflation in Kosovo in Q4 2024 slowdown to 0.7%, from 1.3% as it was in the previous quarter. This slowdown is attributed to the expansion of the negative contribution of energy prices, due to the annual decline in prices in this category and due to the base effect. Moreover, the downward trend in inflation was also supported by the slower increase in the prices of other goods and services. On the other hand, the accelerated increase in food prices was the main driving factor of inflation during this period (chart 6).

Chart 6. Inflation by contribution of respective subgroups



Source: KAS and CBK calculations.

Food prices marked an annual increase of 2.3%, which represents an acceleration against of 1.2%, marked in the previous quarter. In line with the trend of food prices in international markets, inflationary pressures re-emerged in the prices of edible oils and fats with an annual increase of 7.2%, dairy products by 3.9%, and meat by 2.9%. Inflationary pressures remained pronounced in the prices of non-alcoholic beverages, particularly in the prices of coffee, tea, and cocoa, which recorded an annual increase of 12.5%.

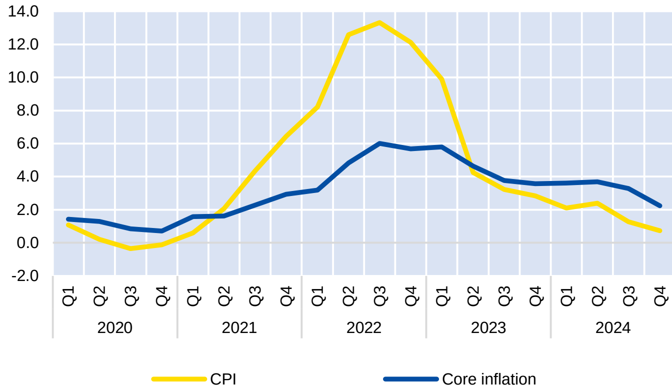
Fuel prices recorded an annual decline of 10.3%, following the downward trend of fuel prices in international markets. The prices of solid fuels recorded an annual decline of 5.5%, which can be attributed to the increased use of more efficient heating devices. Meanwhile, electricity prices were lower by 0.3%, mainly due to a base effect in December 2023, as during this quarter there was observed a price increase resulting from higher heating demand.

The contribution of food inflation rose by 0.7 percentage points, from 0.4 percentage points in the previous quarter. The main contributors in inflation interrelated to food were prices of meat and dairy with 0.2 percentage points, and edible oils and fats with 0.1 percentage points. Meanwhile, the decline of fruit prices marked a negative contribution with 0.1 percentage points.

The contribution of energy on inflation in Q4 2024 marked a further reduction reaching the -0.9 percentage points, from -0.4 percentage points in the previous quarter. This contraction reflects the decline of fuel prices which contributed with -0.8 percentage points and the solid fuels with a contribution of -0.2 percentage points. Electricity prices had a small positive impact of 0.1 percentage points in quarterly average terms.

The contribution of other goods prices marginally decreased to 0.4 percentage points from 0.5 percentage points in the previous quarter, mainly due to the decline in vehicle prices, while the contribution from the price increase of other goods remained almost unchanged. A decrease in the contribution to inflation was also recorded by the services sector, which resulted in a contribution of 0.1 percentage points in Q4 2024 from 0.4 percentage points in the previous quarter. This decrease in contribution was mainly the result of the slower increase in transport services prices, potentially affected by the decline in fuel prices.

Chart 7. Core and headline inflation of consumption

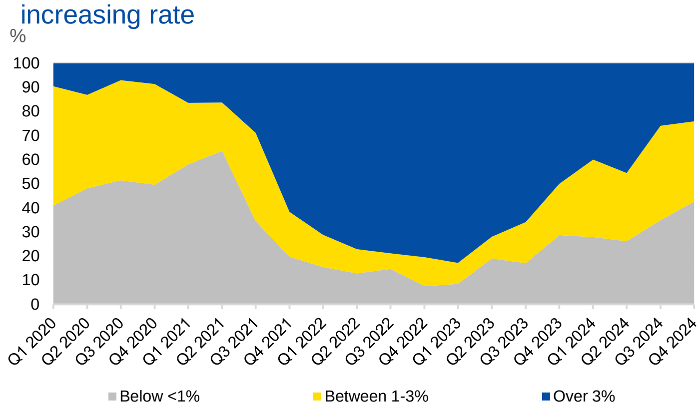


Source: KAS and CBK calculations.

The easing of inflationary pressures was also reflected in the slowdown in core inflation, which fell to 2.2% in Q4 2024 from 3.3% in the previous quarter (chart 7). This decline mainly reflects the decline in vehicle and communication prices, as well as the slowed growth in prices of transportation services, recreation and culture, clothing and footwear, etc.

The slowdown in inflation was also reflected in the expansion of the share of items with annual growth rates lower than 1.0%, which accounted for 42.7% of the consumption basket in Q4 2024, from 35.0% in the previous quarter. Consequently, the share of items with annual price increases of 1.0% – 3.0% shrank to 33.3%, while the share of items with annual price increases above 3.0% marked a modest decline to 24.0% from 25.9% (chart 8).

Chart 8. Products weight in consumption basket by price increasing rate



Source: AS (2024) and CBK calculations.

Regarding the origin of inflation, imported inflation pressures contracted to 0.5 from 1.0 percentage points in Q3 2024, mainly due to the decline in fuel and vehicle prices, as well as the slowing growth in prices of transport services and other goods. On the other hand, domestic inflationary pressures were reduced to 0.2 percentage points in Q4 2024 from 0.4 percentage points in Q3 2024, due to the downward trend in electricity and solid fuel prices.

Import price index resulted with an annual increase of 0.5% in Q4 2024, after a decline 0.7%, marked in the previous quarter. The annual decline in prices of mineral products (-3.9%) and base metals (-1.3%) was offset by increases in prices of transport vehicles (3.7%), machinery and electrical equipment (2.0%), and plant products (7.7%).

Likewise, indices that signal the cost of domestic production, such as the producer price index (PPI) and the construction cost index (CCI), recorded slower growth. The CPI recorded an annual increase of 8.5% in Q4 2024 compared to 9.9% in the previous quarter, mainly due to an increase in electricity production prices of 20.6%, furniture production of 10.3%, and food processing of 6.9%. The CCI recorded an annual increase of 4.4%, continuing to be driven by the annual increase in wages of construction employees of 12.8%, the increase in electricity prices (20.6%), transportation (10.9%), and to a lesser extent by the increase in materials prices (2.7%).

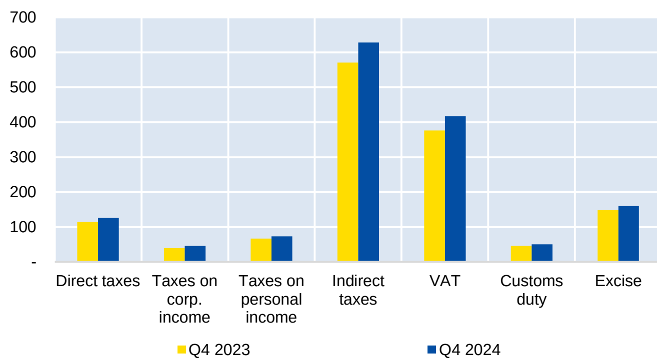
The CBK forecasts suggest that the headline inflation rate is expected to hover around 3.3% in 2025. The return of inflationary pressures in the first quarter of 2025 was driven mainly by rising food prices, as well as the impact of inflation expectations following the announcement of electricity tariff increases. Risks to this projection are tilted to the upside and include: the upward trend in food prices in international markets, as well as the degree of transmission of increased electricity costs into the prices of goods and services produced domestically.

3.3. Fiscal Sector

Primary budget revenues[1] in 2024 reached a net value of EUR 3.1 billion, representing an annual increase of 11.0%. This increase was the result of positive dynamics of economic activity, improvement of the revenues collected from the tax arrears, improvement of revenues collection process and activities to combat tax evasion. At the same time, budgetary expenditures[2] marked slower growth of 8.3%, reaching the value of EUR 3.1 billion. As a result, Kosovo's Budget in 2024 was almost balanced, with a very low primary budget deficit (-0.1%as a percentage of GDP).

However, in Q4 2024, dynamics in the fiscal sector were different compared to the previous quarters, as this period is usually characterized with a higher realization of budget expenditures. **Budget revenues, in Q4 2024, reached a net value of EUR 823.4 million, marking an annual increase of 11.6%. On the other hand, budgetary expenditures marked a growth of 7.0% and reached the value of EUR an 1.1 billion. As a result of the higher level of budget expenditures, Kosovo's budget recorded a primary deficit of EUR 289.3 million in this quarter.**

Chart 9. Tax revenues by categories, EUR million



Source: MFLT.

Tax revenues in Q4 2024 reached EUR 740.3 million, marking an increase of 11.1% compared to Q4 2023. During this period, most of the tax categories were characterized with increase, where the highest one was from direct tax income. Direct tax income marked an increase of 10.7%, reaching the value of EUR 126.4 million. Within this category, corporate income tax revenues increased by 17.2%, personal income tax increased by 9.5%, and property tax had a smaller increase of 1.0%.

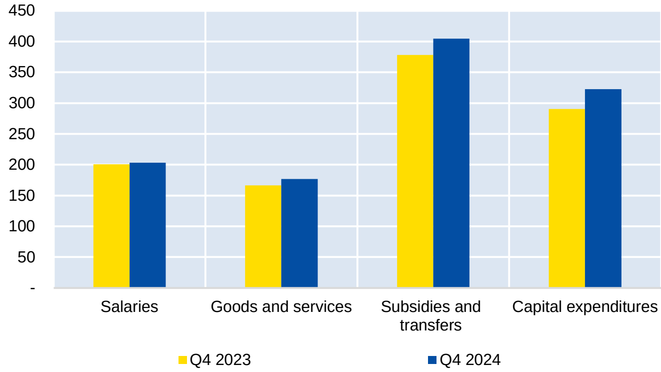
Indirect tax income marked an increase of 10.1%, amounting to EUR 628.0 million, which comprise 76.3% of total budgetary revenues. This increase was mainly driven by the increase of 10.9% of VAT, reaching the value of EUR 417.6 million, from customs duty which had an increase of 10.6%, and from excise which increased by 8.0% as a result of the quantity increase of import (chart 9). **Non-tax revenues marked a higher increase of 16.8%, reaching EUR 81.2 million.** This category is comprised by revenues from the

[1] Within budget revenues are not included receipts from borrowings among the countries.

[2] Within budget expenditures are not included financing payments.

central government, which reached the value of EUR 45.8 million, marking a growth of 18.7%, while revenues from the local government marked a growth of 14.5%, amounting to EUR 19.2 million.

Chart 10. Budget expenditures by categories, EUR million



Source: MFLT.

As regards to budget expenditures, current expenditures marked an increase of 5.5%. Within this category, expenditures on subsidies and transfers marked the highest increase of 7.1%, reaching the value of EUR 405.2 million. Expenditures on goods and services, including municipal utilities, marked an increase of 6.3%, reaching a value of EUR 178.0 million. Expenditures on salaries marked a lower increase of 1.4%, reaching the value of EUR 203.2 million. **Capital expenditures marked a higher increase compared to current expenditures, reaching the value of EUR 326.5 million, representing an increase of 10.8% compared to the same period of the previous year (chart 10)**.

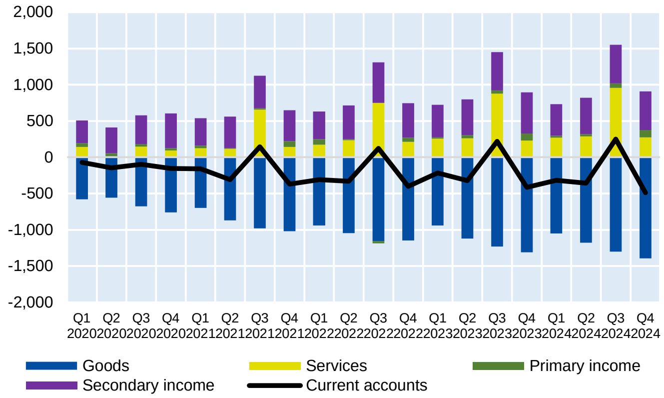
Debt to GDP ratio declined to 16.5% in Q4 2024, compared to 17.5% as it was in Q4 2023, whereas compared to the previous quarter there was marked an increase 1.1 percentage points. This increase of public debt ratio, marked in the third quarter of the year, was a result of the budget deficit increase of the government, increasing the necessity for government borrowing. In absolute terms, the public debt has reached EUR 1.7 billion in Q4 2024, marking a growth of 4.6% compared to Q4 2023. This increase was influenced by the increase in public external debt by 12.2%, which reached EUR 777.2 million. Meanwhile, the domestic public debt marked a slight decline of 0.8%, reaching the amount of EUR 962.2 million.

External public debt is comprised of liabilities to International Institutions, such as the International Agency for Development (with 34% of the external debt), European Union (13%), International Bank for Reconstruction and Developments (10%), International Monetary Fund (10%), etc. Conversely, domestic public debt primarily is comprised of Kosovo's Government debt (securities) to pension funds (45%), commercial banks (24%), public institutions (22%), etc.

3.4. External Sector

In 2024, the current account deficit increased by 25.4%, reaching EUR 914.8 million. Only in Q4 2024, the current account deficit reached EUR 488.0 million, marking an annual growth of 18.3% (chart 10). The main factors contributing to to the expansion of the current account deficit were the deterioration of trade balance of goods and the decline of secondary income. Meanwhile, the services sector had a positive contribution, continuing to generate sustainable income, especially in the sectors of traveling and information technology. Moreover, primary income had an easing impact on the current account deficit.

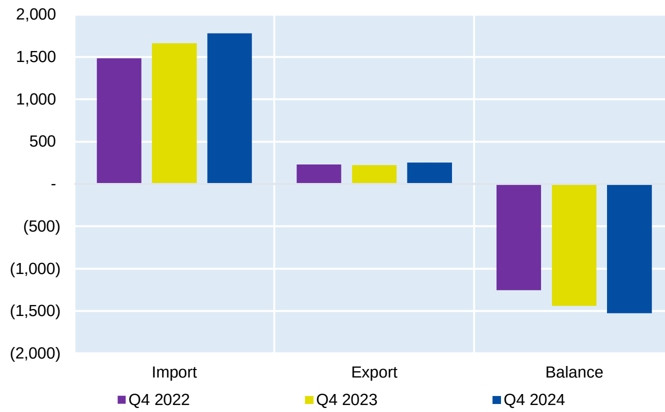
Chart 11. Current account, EUR million



Source: CBK.

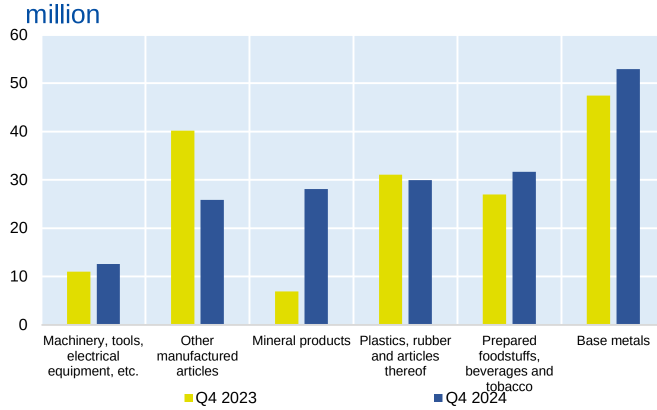
Trade deficit in 2024 increased by 7.5% reaching the value of EUR 5.4 billion, as a consequence of the continuous increase of goods import. This increasing trend was reflected also in Q4 2024, where the trade deficit of goods marked an increase of 5.8% compared to the same period of the previous year and reached the value of EUR 1.5 billion (chart 11). This increase reflects the expansion of imports, which reached the value of EUR 1.8 billion, mainly influenced by the increase in the quantity of imported goods, especially mineral products, machinery and transport vehicles. Conversely, exports remained at low levels, reaching EUR 253.0 million and covering import by only 14.2%. As a consequence, unfavorable trade balance of 1:7 reflects the deepening of trade disbalance. The high dependence on imports and limited export capacity continued to pose structural challenges to the economy, making it difficult to improve the trade balance. Meanwhile, the high demand for goods import has resulted on dependence for international markets to fulfill the domestic needs.

Chart 12. Trade balance of goods



Source: KAS.

Chart 13. Main categories of exported goods, EUR million

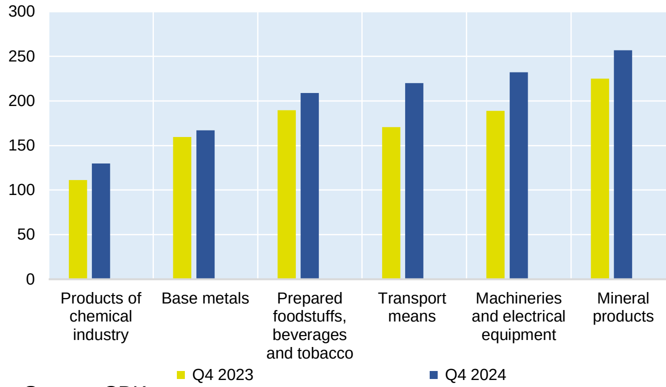


Source: CBK.

In 2024, the export of goods reached EUR 943.6 million, marking an annual growth of 9.3%. This trend was intensified in Q4 2024, where exports rose by 13.8%, reaching the value of EUR 253.0 million. This growth was mainly supported by positive performance in several sectors, with base metals exports as an important category marking an increase of 11.5% and amounting to the total value of EUR 52.9 million, influenced by increased demand for metals in international markets. After the category of metals, the export of food products increased by 17.4%, reaching EUR 31.7 million. Exports of plastic and rubber products recorded a slight decline of 3.7%, but remained one of the main sectors for goods exports, reaching a value of EUR 29.9 million (chart 12). From a geographical perspective, the Western Balkans remains Kosovo's main trading partner, accounting for 46.6% of total exports, with Albania and North Macedonia as the primary destinations. Meanwhile, EU countries account for 33.8% of total exports, with Germany and Austria being the main destinations. This export structure highlights a strong dependence on the regional market, but the significant share in the European market demonstrates considerable potential for expansion and integration into global supply chains.

In 2024, the import of goods reached EUR 6.4 billion, marking an annual growth of 7.8%. In Q4 2024, the import of goods reached EUR 1.8 billion, marking an annual growth of 6.9%. This increase was primarily driven by domestic demand, which was reflected in a 4.3% rise in the total volume of imported goods. The structure of imports remains concentrated in a few main categories, with mineral products and machinery (including household appliances and transport equipment) dominating the total volume of imported goods. EU countries account for around 43.2% of imports, dominated by transport equipment and food products. Meanwhile, imports from Turkey accounted for 13.9% of the total, mainly concentrated in basic metals and machinery, including tools and electrical equipment. Countries in the region accounted for 13.8% of imports, with mineral products and food items having the largest share.

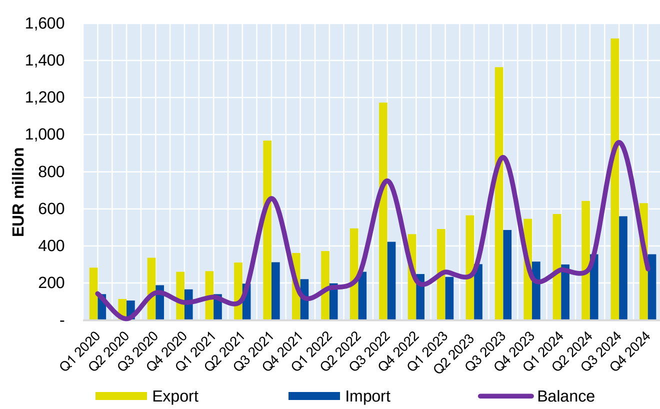
Chart 14. Main categories of imported goods, EUR million



Source: CBK.

In 2024, the services balance reached EUR 1.8 billion, marking an annual increase of 9.9%, significantly slower compared to the 18.7% growth in 2023. However, in Q4 2024, the balance of services marked a good performance, reaching EUR 275.5 million, an annual growth of 19.5% (chart 14). Exports of services reached EUR 631.3 million, an annual increase of 15.6%, primarily supported by the growth in travel services. This segment, which makes up the largest portion of service exports, grew by 12.5%, reaching EUR 373.3 million, as a result of the increase in the number of travelers and visits from the diaspora. The growth in services exports was also influenced by the computer services, information and telecommunication services, with an increase of 24.0%, reaching a value of EUR 101.8 million. Business services have also contributed with a notable increase of 12.2%, reaching a value of EUR 68.6 million. On the other hand, imports of services increased by 12.7%, primarily due to a 21.0% rise in travel services imports, reaching EUR 137.5 million, which accounts for 38.8% of total service imports. Also, the the import of transport services marked an significant increase of 28.7 percent, reaching EUR 90.8 million. The continuous expansion of IT services exports and other business services is an important indicator of the transformation of the services sector and the diversification of exports. However, the increase in services import, particularly in the travel sector, could have negative impacts on the overall services balance.

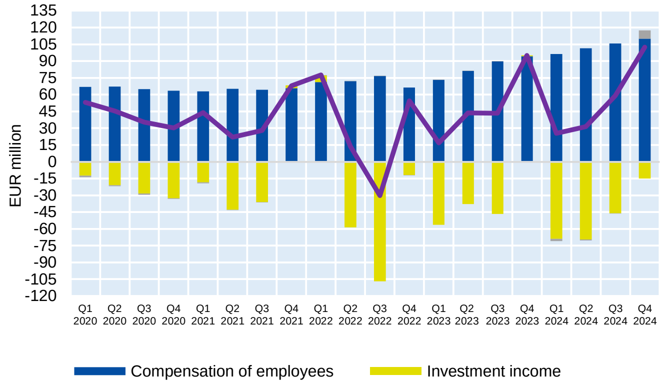
Chart 15. Balance of services



Source: CBK.

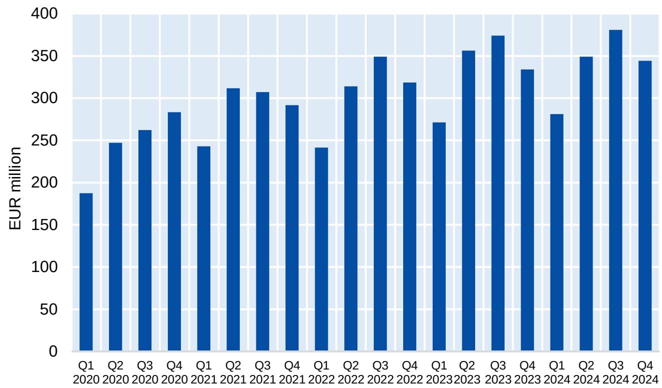
The balance of primary income in 2024 reached a value of EUR 218.2 million, marking a growth of 9.7%. In Q4 2024, the increase was 7.6%, reaching EUR 102.3 million, compared to EUR 95.1 million in the same period of 2023 (chart 15). Employee' compensation has significantly contributed to this improvement, with an annual increase of 16.6%, reaching EUR 109.9 million. On the other hand, the investment income balance has continued its negative trend, recording a negative balance of EUR 15.1 million, as a result of the increased negative balance of direct investments, primarily influenced by reinvested earnings and dividend distribution from FDI.

Chart 16. Balance of primary income



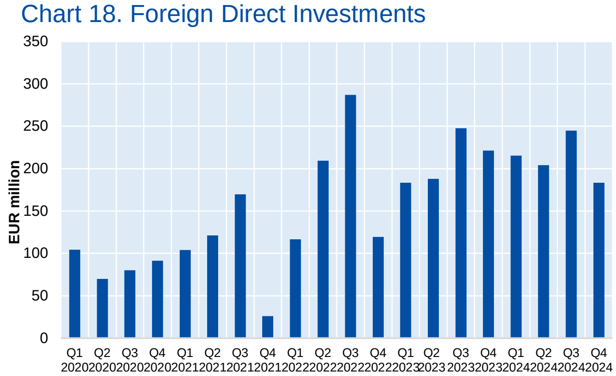
In 2024, remittances, as one of the main sources of secondary income in the balance of payments, reached EUR 1.35 billion, marking a slower increase of 1.4% compared to the 9.2% growth in 2023. In Q4 2024, received remittances reached EUR 344.2 million, reflecting the trend of slowing growth with only a 3.0% increase. This slowdown may be a result of economic uncertainty and still-high inflation in the countries where the Kosovo diaspora lives and works, reducing their ability to send remittances. Germany and Switzerland continue to be the main sources of remittances, accounting for 56.5% of total remittances, followed by the US and other EU countries. Remittances through formal channels, such as banks and money transferring agencies increased by 1.6%, while remittances through informal channels growth by 6.8%.

Chart 17. Remittances



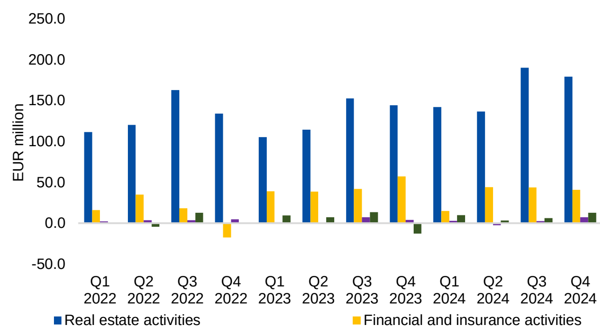
Source: CBK.

Chart 18. Foreign Direct Investments



Source: CBK.

Chart 19. Foreign Direct Investments, by sectors



Source: CBK.

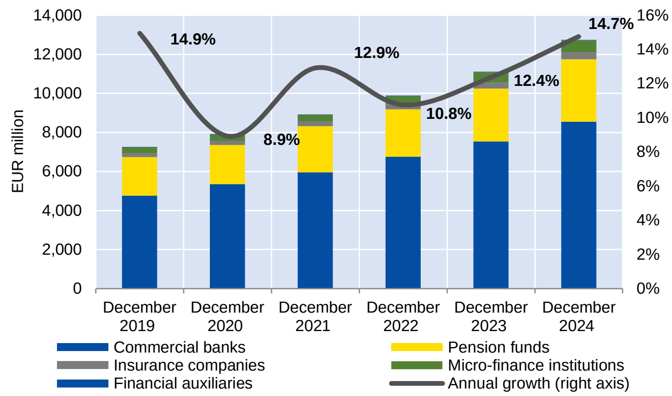
In 2024, FDI reached EUR 847.4 million, marking a slower increase of 0.9%, significantly slower compared to the 14.8% growth in 2023. This slowdown was particularly reflected in Q4 2024, where FDI recorded a decline of 17.1%, shrinking to EUR 183.4 million. However, the growth of investments in the real estate sector has been a balancing factor in the overall FDI balance. Investments in this sector increased by 24.3%, reaching EUR 179.5 million, primarily as a result of rising real estate prices and high demand for properties. On the other hand, direct investments from residents of Kosovo abroad showed a noticeable increase in Q4 2024, reaching EUR 64.3 million, compared to EUR 28.2 million in the same period of 2023. These investments were primarily focused on the real estate sector in the countries of the region, reflecting capital diversification and the growing demand for investments outside Kosovo.

4. Financial system

Financial system in Kosovo has continued to expand, marking an accelerated annual growth in the fourth quarter of 2024. Assets of the financial system, in December 2024, reached EUR 12.75 billion, marking an annual increase of 14.7% from 12.4% in December of the previous year (chart 20). Banking sector, pension funds and financial auxiliaries were characterized with an accelerated annual growth, whereas insurance and microfinance sector marked a slower annual growth compared to the previous year.

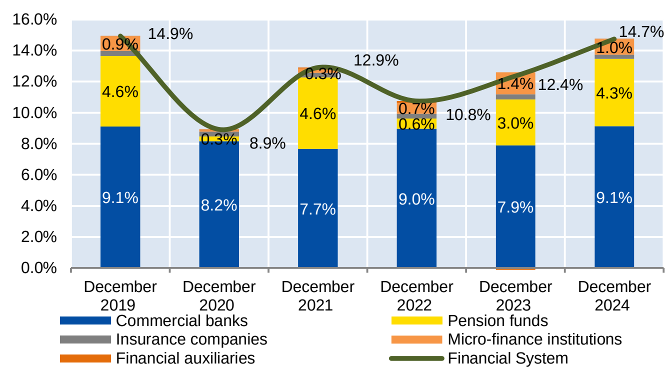
The main contribution to the expansion of the financial system in the country continued to have the accelerated growth of the banking sector, representing the sector with the highest share within the financial system, with 67.1% in December 2024 (chart 21). The accelerated growth of pension fund assets has also contributed to the expansion of the financial system, while simultaneously increasing the share of pension funds in total financial system assets to 25.0% from 24.4% in the previous year. The microfinance sector recorded a more moderate annual growth of 20.5%, down from 34.8% in the previous year. The insurance sector also experienced a slowdown in annual growth, reaching 9.8%, compared to 12.7% a year earlier. Meanwhile, the sector of financial auxiliaries recorded an accelerated annual growth of 15.0%, following a significant decline of 64.4% in the previous year, which resulted from the reclassification of two operators from financial auxiliaries to MFIs/NBFIs.

Chart 20. Assets valueof Kosovo's financial system



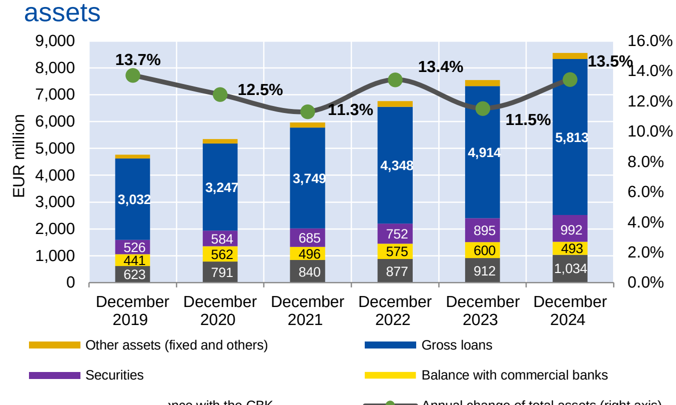
Source: CBK.

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



Source: CBK.

Chart 22. Balance sheet of the banking sector - assets



Source:

4.1. Banking Sector

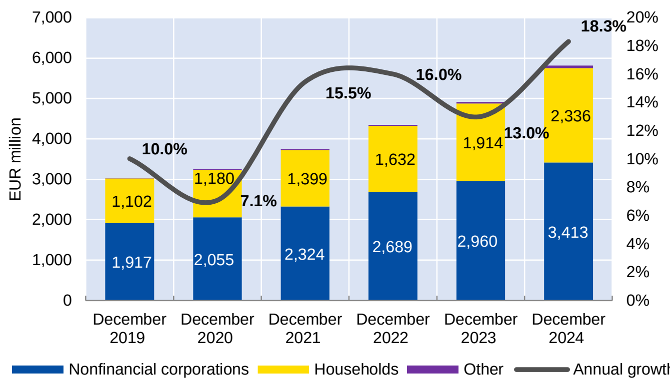
Assets of the Banking sector, reached EUR 8.56 billion, marking an accelerated annual growth of 13.5% from 11.5% in December of the previous year (chart 22). The rapid expansion of credit activity, similar to the previous quarter, was the main factor influencing the growth of the banking sector assets. This also resulted in an increase in the share of loans in total assets, reaching 67.9%, or an increase of 2.8 percentage points compared to the previous year.

Cash and balance with the Central Bank of Kosovo (CBK), as the second most important category contributing to the growth of assets, marked an accelerated annual increase of 13.4%, compared to only 3.9% a year ago.

Meanwhile, the category of securities recorded a slowdown in annual growth to 10.8% from 19.0% in the previous year, primarily due to the slowdown in the growth of investments in foreign markets. On the other hand, the balance with commercial banks experienced a significant decline of 17.8% from the growth of 4.3% in the previous year, and as a result, had a negative contribution to the growth of total banking sector assets. The decline in this category reflects, among other factors, the strategic reorientation towards supporting the accelerated growth of lending during the reporting period.

Lending has shown a continuous growth trend throughout 2024, with particular emphasis in the fourth quarter of the year. The total stock of loans has increased by 18.3%, or 5.3 percentage points higher compared to the previous year. Also, compared to the previous quarter, the loan stock has grown by 5.4%. This acceleration in loan growth has been reflected by the significant increase in lending, both for households and nonfinancial corporations (charts 23 and 24). The results of the Bank Lending Survey in Kosovo (BLSK) show that the dynamics of lending during the fourth quarter of 2024 were primarily influenced by the increased credit demand from households and nonfinancial corporations. On the other hand, the supply remained relatively unchanged for households, while there were small easements for the SME segment within nonfinancial corporations, in terms of interest rates and collateral requirements. The increased demand for loans from enterprises was mainly driven by the need for financing fixed investments and working capital. Meanwhile, the increased loan demand from households was influenced by the rise in consumer confidence, higher spending on other consumption, and a positive outlook for the real estate market. On the supply side, as in the previous quarter, it was positively influenced 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 largely neutralized by lower risk tolerance and concerns regarding the quality of the loan portfolio.

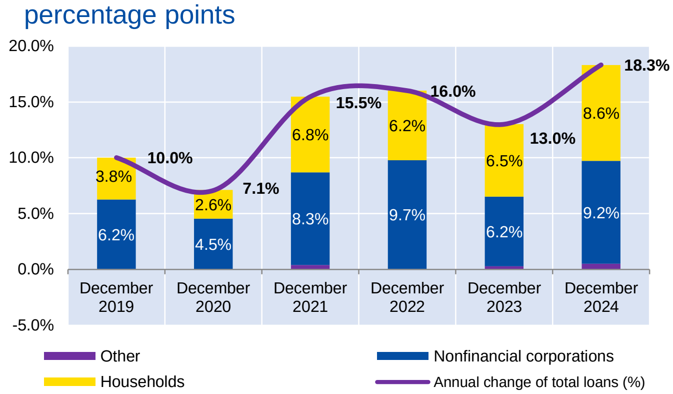
Chart 23. Stock of total loans, annual change



Source: CBK.

The main contribution to the expansion of banking sector lending during the fourth quarter came from the nonfinancial corporations' segment, with significant growth in investment loans. Loans to NFCs continue to dominate the structure of total loans, and in the last two years, the growth in this segment has been characterized by an increase in short-term loans stock compared to long-term loans. However, the household segment is relatively quickly expanding its share in total sector lending, showing higher growth in the stock of loans with longer maturity periods. Alongside the overall growth in lending, financial inclusion has also increased, specifically the number of new borrowers. In December 2024, the number of new borrowers, according to the Credit Registry database, reached 23,000, showing an annual increase of 6.8%, compared to a 2.0% annual increase in new borrowers in December 2023.

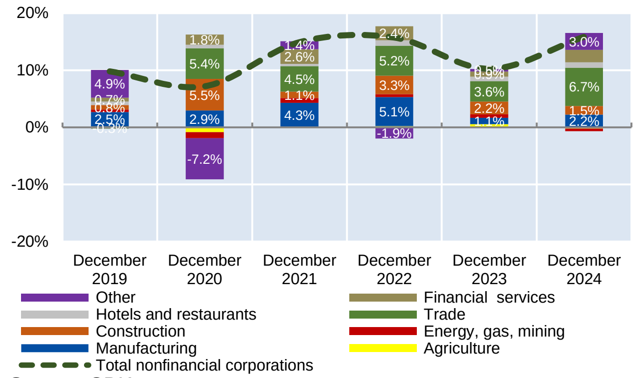
Chart 24. Contribution to the growth of total loans, in percentage points



Source: CBK.

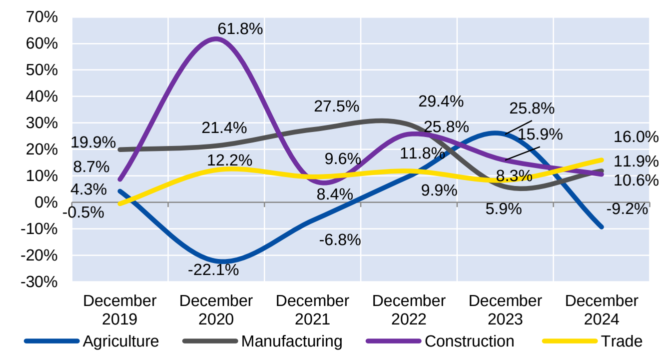
The segment of nonfinancial corporations recorded an accelerated annual growth of loans stock of 15.3%, which is for 5.2 percentage points higher compared to the previous year. This development reflects the high increase of new investment loans to NFCs during this quarter, compared to the previous year The lending activity to nonfinancial corporations by economic sectors was characterized by an accelerated growth in certain sectors, such as wholesale trade, the financial services sector, and manufacturing, despite the slowdown in the real economic growth of the aforementioned sectors. Meanwhile, lending to the agriculture sector experienced a decline despite the growth in the economic activity of this sector. Specifically, the wholesale trade sector showed an annual growth of 16.0%, remaining the category with the highest contribution to the dynamics of corporate credit, due to its dominant share of 42.0% (chart 25). The financial services and manufacturing sectors marked an annual growth of 26.7% and 11.9%, respectively (chart 26). The construction sector experienced a slowdown in annual growth by 5.3 percentage points, dropping to 10.6%. On the other hand, agriculture recorded a significant annual decline of 9.2%, compared to a growth of 25.8% in the previous year. New loans for nonfinancial corporations, after a slowdown in growth in the previous quarter, recorded an accelerated annual growth during this quarter. They grew by 18.3%, which is for 11.3 percentage points higher than the previous year. This dynamic was influenced by the growth of new loans for investment purposes, which increased by 42.2% compared to a 3.6% growth in the previous year. Among the new investment loans, those for the services and industrial sectors marked growths of 51.4% and 50.5%, respectively. Meanwhile, loans for non-investment purposes saw a decline of 10.5%, compared to a growth of 15.6% in the previous year, resulting in a negative contribution to the overall growth of new loans for nonfinancial corporations.

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



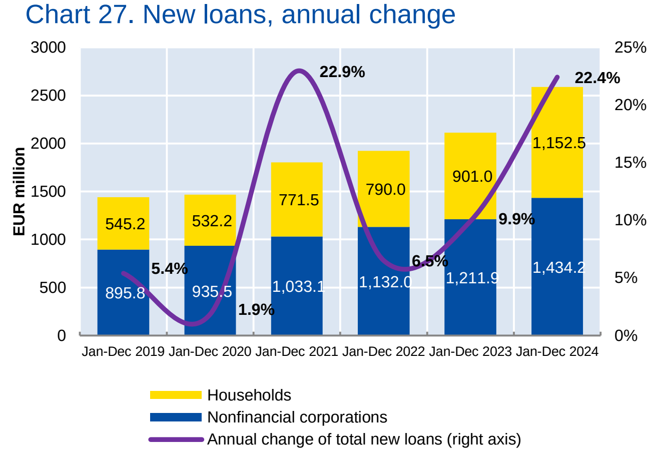
Source: CBK.

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



Source: CBK.

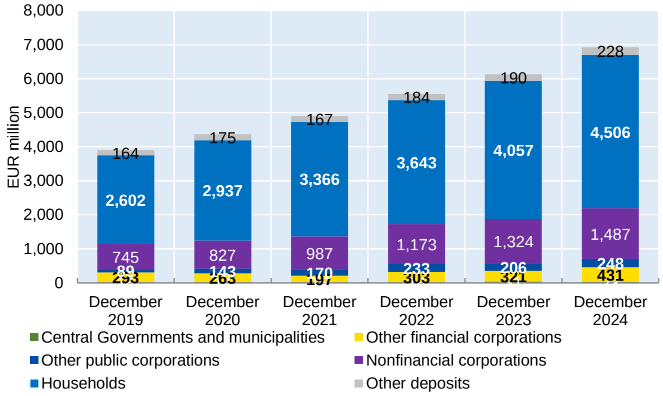
Chart 27. New loans, annual change



Source: CBK.

The household sector continued its trend of accelerated growth, influenced by the expansion of consumer and mortgage loans. Total lending to households marked an annual growth of the loan stock by 22.0%, up from 17.3% in the previous year (chart 27). The main contribution to this growth was given by new consumer loans, which recorded an accelerated annual growth of 27.1%, compared to 23.2% in the previous year. Additionally, unlike the previous year, a positive contribution to the growth of lending to households came from new mortgage loans, which returned to a positive growth trend, showing an annual increase of 37.9%, compared to a decline of 11.3% in the previous year. Along with the expansion of the loan stock, the maturity structure of household loans gradually shifted, increasingly orienting toward longer-term loans and higher amounts. Specifically, the category "over 10 years" expanded its share to 36.7%, marking an increase of 2.3 percentage points compared to the previous year, while compared to five years ago, it increased by 20.6 percentage points. Nevertheless, the dominant category remained "5 to 10 years" maturity, with a share of 42.9%.

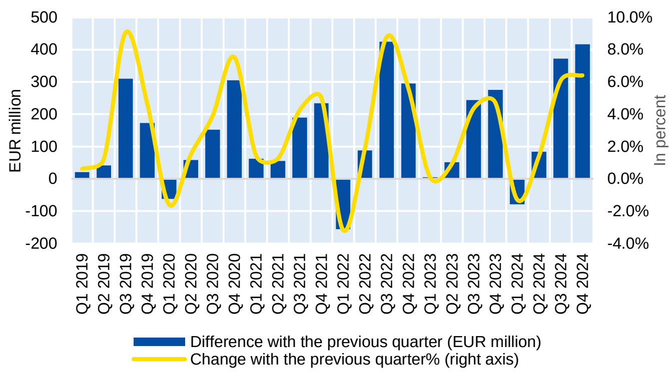
Chart 28. Stock of total deposits



Source: CBK.

According to data from the Credit Registry of Kosovo (CRK), new loans disbursed to households during the period January-December 2024 have an average amount of EUR 10,300 and an average maturity of 4.9 years. Specifically, in terms of the value of new loans issued during this period, 34.5% were in the range of EUR 10,000-30,000, positioning it as the dominant category for households. In terms of the number of loans disbursed, this category had a share of 18.5%. Loans in the range of EUR 30-60 thousand had a share of 5.7% in number, while 22.7% in value of total loans. Loans with a value equal to or above EUR 60,000 – which mainly include mortgage loans and leasing – accounted for only 1.9% of the number of loans, but represented 22.1% in terms of value. Meanwhile, loans below EUR 500 – which mainly reflect the utilized balance on credit cards – accounted for 22.1% of the number of loans, but only 0.86% in terms of value. In terms of maturity, loans with a duration of 3–5 years were dominant in terms of number, accounting for 44.1%. Meanwhile, loans with a maturity of 5–10 years accounted for 37.8% of the total value of new loans disbursed to households, confirming the trend of a shift toward longer-term financing and higher loan amounts.

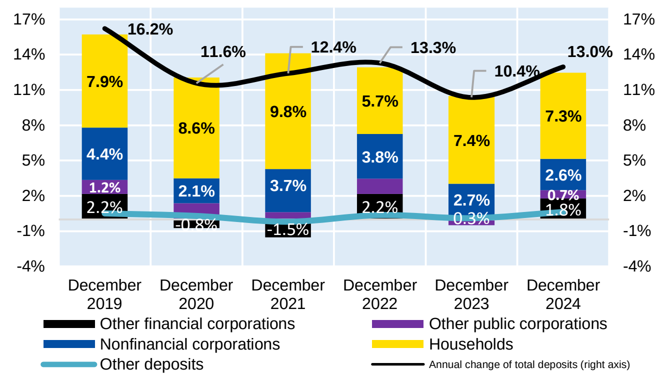
Chart 28a. Quarterly difference (EUR million) and change in value (%) of deposits



Source: CBK.

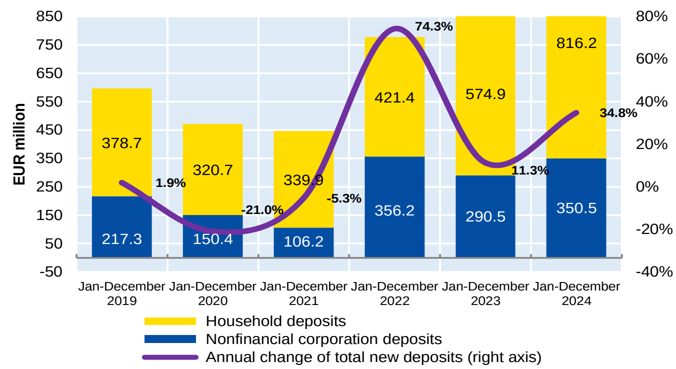
The value of deposits, in the banking sector, reached EUR 6.92 billion, marking an annual increase of 13.0% from 10.4% in the previous year (chart 28). In line with the typical seasonality of deposits—stronger growth during the second half of the year—deposits marked a significant increase for the second consecutive quarter (chart 28a). Household deposits, which account for around 65.1% of the total deposit portfolio, maintained almost the same growth rate as in the previous year, at 11.1% compared to 11.3% a year earlier. Similarly, deposits from nonfinancial corporations recorded an annual growth rate of 12.3%, down slightly from 12.9%. Meanwhile, deposits from other financial corporations and public corporations marked an accelerated annual growth of 34.2% and 20.6%, respectively—an increase of 28.4 and 32.4 percentage points compared to the previous year (chart 29). This development was mainly driven by large depositors, who represent a considerable share of growth in these categories, particularly from the pension funds sector, insurance companies, and the energy sector. Banks' need for liquidity and interbank competition to retain and attract large depositors contributed to the offering of attractive interest rates for institutional clients. In the last quarter of 2024, deposits comprised 80.9% of total liabilities and equity of the banking sector, marking a slight annual decline of 0.4 percentage points, primarily due to the balance sheet expansion by commercial banks.

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



Source: CBK.

Chart 30. New deposits, annual change

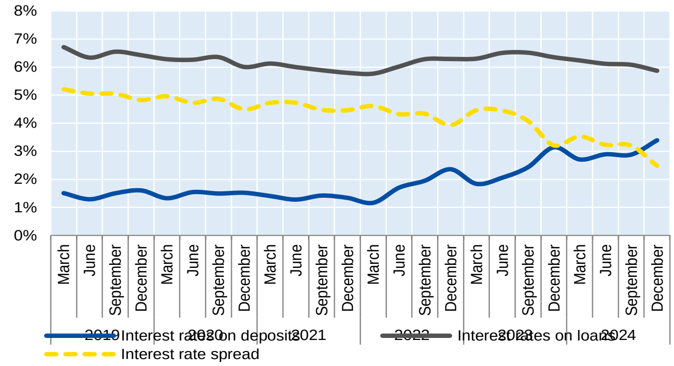


Source: CBK.

New deposits, referring only to time deposits, accelerated their annual growth rate for both households and nonfinancial corporations. The value of new deposits reached EUR 1.17 billion at the end of December 2024, recording an annual increase of 34.8% from 11.3% a year earlier. The household segment continued its trend of accelerated growth, with an annual increase of 42.0% compared to 36.4% in the previous year. New deposits by nonfinancial corporations also recorded strong growth of 20.7%, following a sharp decline of 18.4% in the previous year (chart 30).

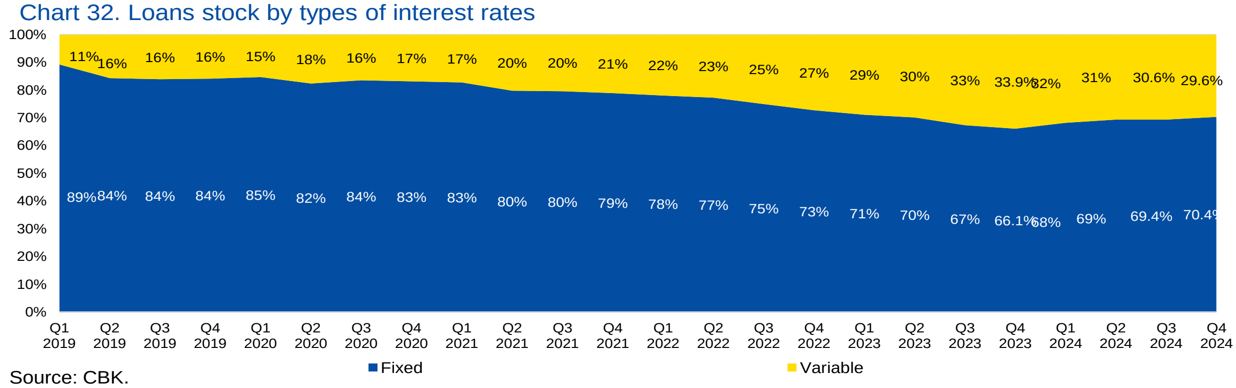
Interest rates in the domestic banking sector experienced a gradual decline on loans, influenced by global developments, where most central banks further eased their monetary policies. Meanwhile, banks' need for liquidity and increased interbank competition contributed to higher interest rates on deposits. In December 2024, the average interest rate on loans declined to 5.9% from 6.3% a year earlier. At the same time, heightened interbank competition for attracting deposits contributed to an increase in the deposit interest rate, which rose to 3.4% from 3.1% in the previous year. As a result of the decline in loan interest rates and the increase in deposit interest rates, the interest rate spread between loans and deposits dropped to its lowest level in years, reaching 2.5 percentage points in December 2024, down from 3.2 percentage points in December of the previous year and the previous quarter (chart 31).

Chart 31. Interest rate on loans and deposits



Source: CBK.

Chart 32. Loans stock by types of interest rates

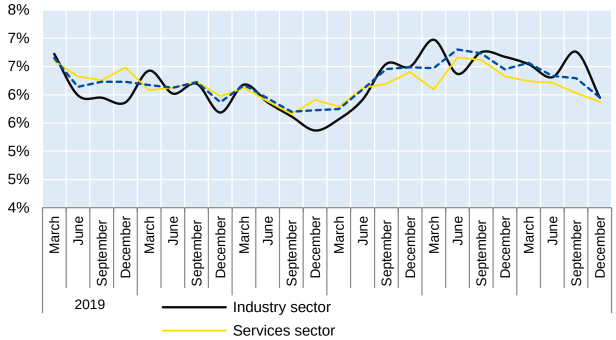


Source: CBK.

The downward trend of the EURIBOR rate has affected the structure of loans by type of interest rate, making variable-rate loans less attractive for banks. As a result, in December 2024, the share of variable interest rate loans declined to 29.6%, from 33.9% in the same period of the previous year. This share also dropped by 0.9 percentage points compared to the previous quarter (chart 32).

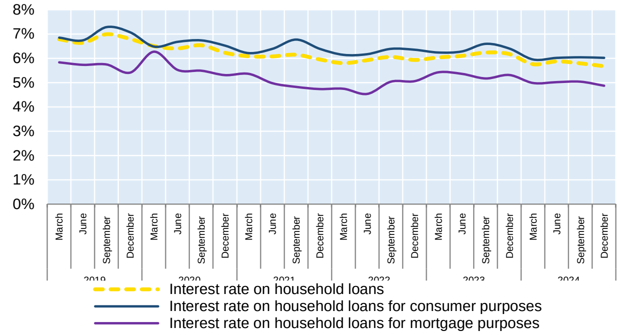
In December 2024, the average interest rate on loans to both nonfinancial corporations and households recorded an annual decline of 0.5 percentage points compared to the previous year. The the average interest rate on loans to nonfinancial corporations decreased to 6.0%, while the average interest rate on loans to households decreased to 5.7%. Within the nonfinancial corporations (NFC), a more favorable interest rate was marked in loans to industry and services sector, with an average of 5.9% (chart 33). Within loans to households, more favorable interest rates were applied to mortgage loans, with an average of 4.9%, while consumer credit had an average interest rate of 6.0% (chart 34). Compared to the previous quarter, the interest rate for mortgage loans decreased by 0.2 percentage points, while for consumer credit, it remained similar with a marginal decline of 0.02 percentage points.

Chart 33. Norma e interesit në kredi për korporatat jo-financiare



Source: CBK.

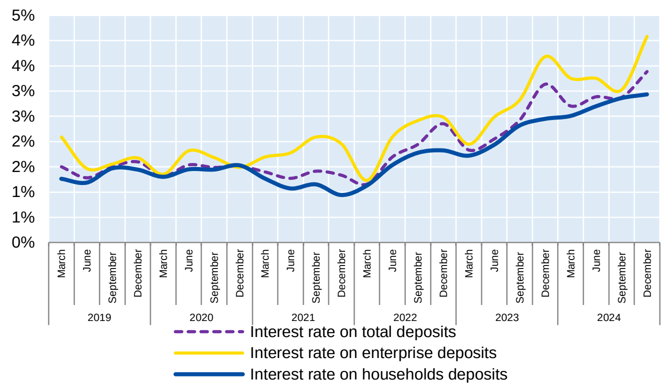
Chart 34. Interest rate on loans to households



Source: CBK.

Interest rates on deposits reached 3.4%, marking an increase of 0.2 percentage points compared to the previous year and an increase of 0.5 percentage points from the previous quarter. In December 2024, the average interest rate on deposits to nonfinancial corporations marked an annual increase of 0.4 percentage points, reaching 4.1%. Also, for household deposits the average interest rate was increased by 0.5 percentage points, reaching 2.9% (chart 35).

Chart 35. Interest rates on deposits

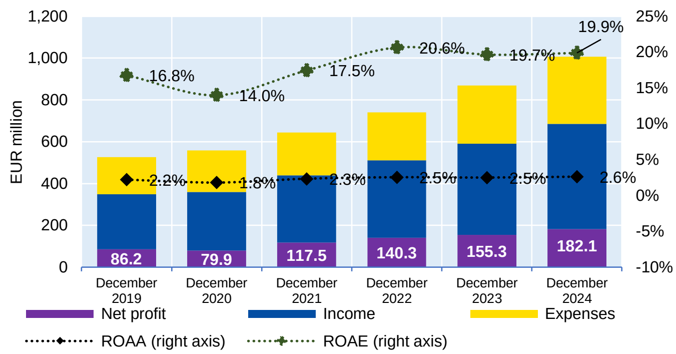


Source: CBK.

The net profit of the banking sector, in December 2024, reached EUR 182.1 million marking an accelerated annual growth of 17.3% from 10.7% in the previous year. This dynamic is a result of the higher increase of income against the slowed down increase of expenditures. Total revenues reached EUR 503.3 million, being characterized by an annual growth of 15.7%. The main contribution to the increase in revenues came from interest income, which represents 76.0% of the total sector revenues, marking an annual growth of 18.1%. Despite the accelerated growth in lending, the decline in the average interest rate on loans during this period has resulted in a slower year-on-year increase in interest income from loans, with a growth of 17.4% compared to 23.1% in the previous year. Income from securities also showed a slowdown in growth to 37.9% from 48.5%, reflecting the slower growth in investments in securities compared to the previous year. Similarly, as a result of the decline in the balance with commercial banks during this quarter, income from placements with banks showed a slowdown in year-on-year growth during this period. The category of non-interest income, mainly consisting of income from fees and commissions, increased by 8.4% from 3.2% a year earlier, reaching EUR 103.7 million by the end of December 2024. However, despite the accelerated year-on-year growth, non-interest income marked a decrease in its share of total sector income, dropping to 20.6% from 22.0%. This is due to the higher growth of interest income relative to non-interest income.

The banking sector's expenses reached EUR 321.2 million, showing a slowdown in year-on-year growth to 14.9% from 21.5% a year earlier. The largest contribution to the overall increase in expenses came from the rise in general and administrative expenses, as well as interest expenses. General and administrative expenses, accounting for 57.1% of total expenses, reached EUR 183.2 million, a year-on-year increase of 16.9% compared to 15.9% in the previous year. Meanwhile, interest expenses showed a slower annual growth of 42.2% compared to a 55.4% increase in the previous year, due to the effect of the higher base growth in the previous year.

Chart 36. Profit and profitability indicators of the banking sector

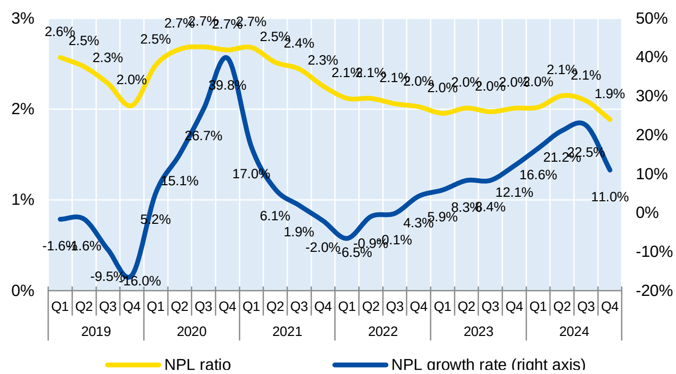


Source: CBK.

The higher annual growth in sector's profits to capital growth ratio led to an increase in the Return on Equity (ROE) to 19.9% from 19.7% a year earlier. Similarly, the return on assets increased, reaching 2.6% from 2.5% last year, as a result of a more accelerated profit growth to asset growth ratio (chart 36).

Nonperforming loans in the banking sector increased by 11.0% year-on-year from 12.1% in the previous year. As a result of the slower annual growth in nonperforming loans and the faster growth in total loans, their ratio decreased by 0.1 percentage points, falling to 1.9% (chart 37). Meanwhile, the coverage ratio with provisions for potential loan losses decreased to 123.9% from 145.8% in the same period of the previous year, due to the reduction in the value of loan loss provisions.

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

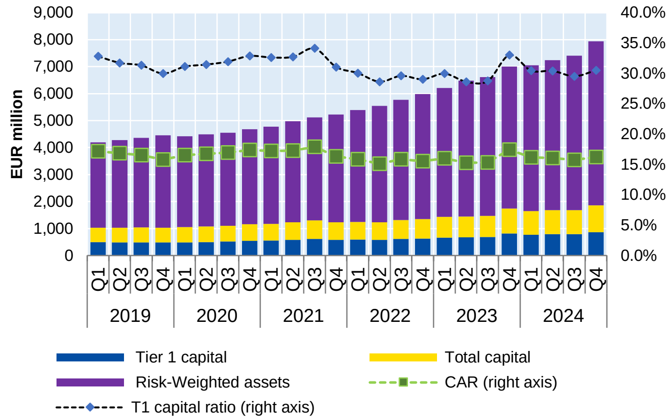


Source: CBK.

The rate of nonperforming loans for the segment of nonfinancial corporations marked a decline of 0.2 percentage points, whereas for the segment of households marked an increase of of 0.1 percentage points from the previous year. More precisely, nonperforming loans ratio to total loans for nonfinancial corporations declined at 2.2%, while for households this ratio stood at 1.5%. Households were characterized by a significant increase in nonperforming exposures, with an annual growth of 35.9% from 36.1% a year earlier. Compared to the previous quarter, the nonperforming loans to total loans ratio for households remained unchanged. Meanwhile, for the segment of nonfinancial corporations, nonperforming exposures slowed their growth rate to 3.1% from 5.0% growth last year. Compared to the balance at the end of the previous quarter, the value of nonperforming loans for nonfinancial corporations decreased by 8.8%, in contrast to the 5.5% growth in the value of loans, causing the nonperforming loans to total loans ratio for this segment to drop by 0.4 percentage points from the previous quarter. The services and trade sectors experienced an annual decline in the nonperforming loans to total loans ratio by 1.6 and 0.4 percentage points, respectively, resulting in a nonperforming loans rate of 2.4% for the services sector and 1.5% for the trade sector. On the other hand, manufacturing and agriculture sectors were observed to have marked an annual increase of nonperforming loans. The nonperforming loan rate reached 2.8% from 2.2% for the manufacturing sector and 6.6% from 4.8% for agriculture sector.

The capital position, expressed through the regulatory capital ratio to risk-weighted assets, decreased to 16.2% from 17.4% a year earlier. The 1.2 percentage point decline in the capitalization rate was driven by a higher increase in risk-weighted assets compared to the increase in regulatory capital. More specifically, the regulatory capital of the sector at the end of the fourth quarter of 2024 recorded an annual growth rate of 7.4% from 27.3% in the previous year. Risk weighted assets recorded an acceleration in growth to 15.6% from 13.4% in December 2023, mainly as a result of the high increase in lending: exposures to individuals and SMEs and commercial real estate mortgage loans (chart 38).

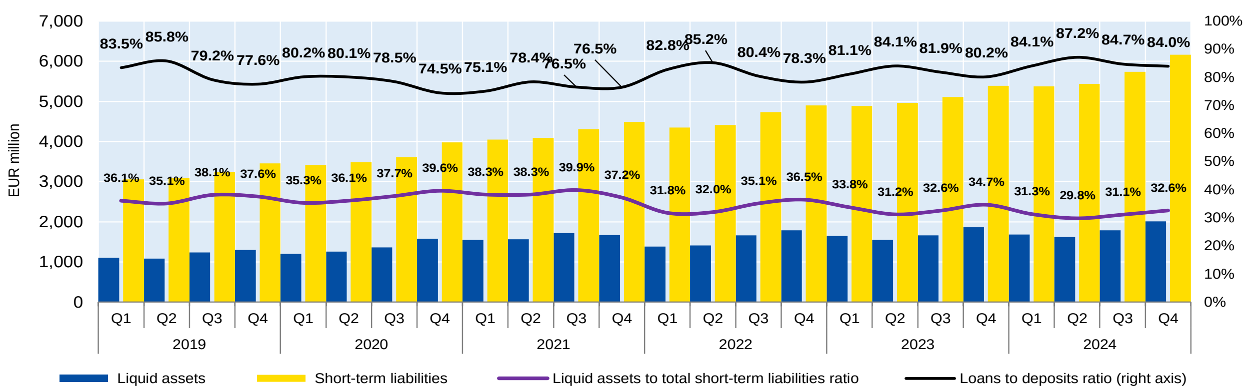
Chart 38. Solvency indicator



Source: CBK.

Liquidity and financial indicators despite the declining trend, stood above the minimal regulatory requirement levels. The liquidity coverage ratio (LCR) remained well above the required regulatory minimum of 100%, standing at 210.9% in December 2024, albeit compared to the same period of the previous year it recorded a decline of 68.9 percentage points. This level proves that banks hold sufficient liquid assets to meet their outflow (cash flow) needs for a 30-day period. Similarly, the Net Stable Funding Ratio (NSFR) recorded a decline to 136.0% from 150.3% in December 2023 though remains above the regulatory minimum of 100% suggesting that banks have sufficient and stable funding to cover longer term funding and liquidity needs.

Chart 39. Liquidity indicators



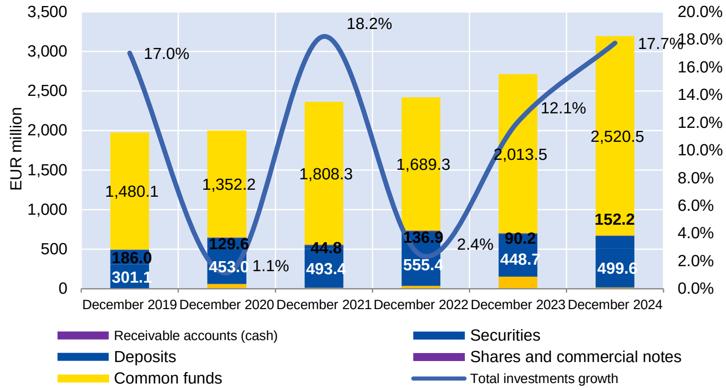
Source: CBK.

Meanwhile, the liquidity ratio - expressed as the ratio of liquid assets to short-term liabilities, marked an annual decline of 2.0 percentage points, falling to 32.6%. This is as a result of the more pronounced annual increase in short-term liabilities of 14.4% compared to the increase in liquid assets of 7.6%. Also, the higher growth of lending in relation to deposits has influenced the growth of the loan-deposit ratio by 3.8 percentage points, reaching to 84.0% (chart 39).

4.2. Pension sector

Assets of the pension sector reached EUR 3.2 billion at the end of December 2024, recording an accelerated annual growth of 17.7%, compared to the increase of 12.1% in the previous year (chart 40).

Chart 40. Assets of the pension sector



Source: CBK.

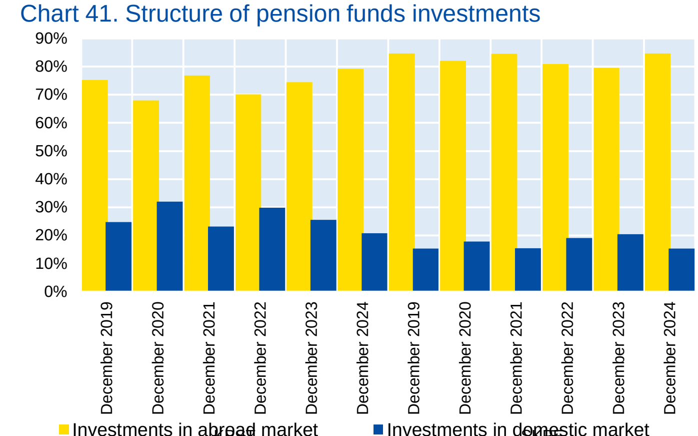
The pension sector ended the year with a gross return on investments of EUR 248.4 million marking a significant increase compared to EUR 88.5 million in the same period of the previous year. This performance was supported by positive dynamics in international markets being supported by improvements in global macroeconomic indicators as a result of declining inflation, the easing monetary policy of central banks, and advancements in the technology sector (artificial intelligence), which contributed to high profits in financial markets. Meanwhile, contributions collected marked a slight increase, reaching EUR 316.5 million from EUR 286.8 million a year earlier.

The Kosovo Pension Savings Trust (KPST), which covers 99.7% of the total assets in the pension sector, reached an asset value of EUR 3.2 billion, marking a significant annual increase of 17.8% compared to the 12.1% growth in the previous year. Similarly, the Slovenian-Kosovar Pension Fund (SKPF) recorded an annual growth of 13.6%, up from 9.9% a year earlier, reaching an asset value of EUR 10.7 million.

Both funds have followed a similar investment approach, increasing exposure to foreign markets and reducing investments in the domestic market (chart 41).

KPST continued to expand its investments in foreign markets with a total value of EUR 2.5 billion, increasing its portfolio share to 79.2% from 74.5% a year earlier. Investments were primarily focused on mutual funds (99.9% of the total), while EUR 1.2 million was held in the form of cash.

Chart 41. Structure of pension funds investments



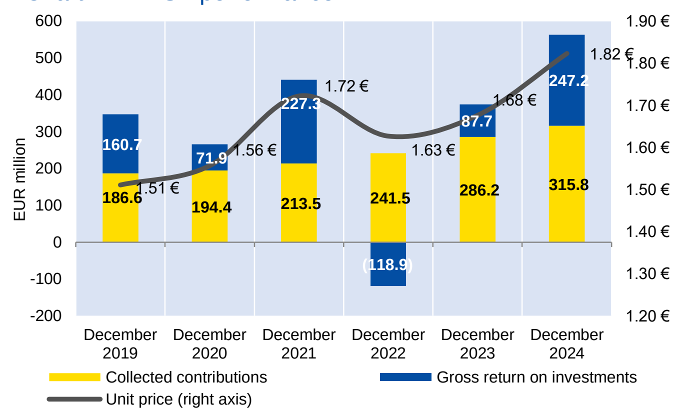
Source: KPST, SKPF

Otherwise, KPST reduced its investments in the domestic market by EUR 27.8 million in December 2024. Cash and deposits at the Central Bank of Kosovo (CBK) recorded a significant decline of 45.2% and 92.8%, respectively, as a result of redirecting investments towards more profitable alternatives, such as securities and deposit certificates. Although investments in Kosovo Government securities increased by 11.4% in 2024, reversing a 19.3% decline marked in the previous year, their share in total investments decreased to 15.7% from 16.5%. This decline reflects the slower growth pace of investments in securities compared to to the expansion of total assets. Meanwhile, investments in deposit certificates in local banks recorded a sharp increase of 68.8% in 2024, following a decline of 34.2% in the previous year. Despite this significant increase, their share in total investments rose only slightly, reaching 4.8% from 3.3%, without significantly affecting the overall structure of the investment portfolio.

SKPF allocated 84.7% of assets in markets abroad, increasing investments in the external markets by 5.1 percentage points. Within this portfolio, 96.7% of the funds are invested in shares, while the remaining 3.3% is held in cash to maintain liquidity and flexibility. In the domestic market, SKPF allocated 15.3% of assets, mainly in securities of Kosovo's Government. In December 2024, these investments marked an annual declinie of 19.6%, after an increase of 24.6% that had been marked in the previous year. As a result, their share in total investments declined, falling at 12.7% from 15.7% as it was in December 2023. The remainder of assets held in the country, being represented by cash and deposits held at commercial banks, account for 2.7% of the portfolio.

The value of contributions collected by KPST at the end of March 2024 reached EUR 315.8 million, marking a slower annual growth of 10.4% from 18.5% in the previous year (chart 42). The slowdown growth dynamics are attributed to the increased base effect from the previous year, which was influenced by the increase in public sector wages (Implementation of the Law on Public Officials), as well as the pressure to raise wages in the private sector due to high inflation.

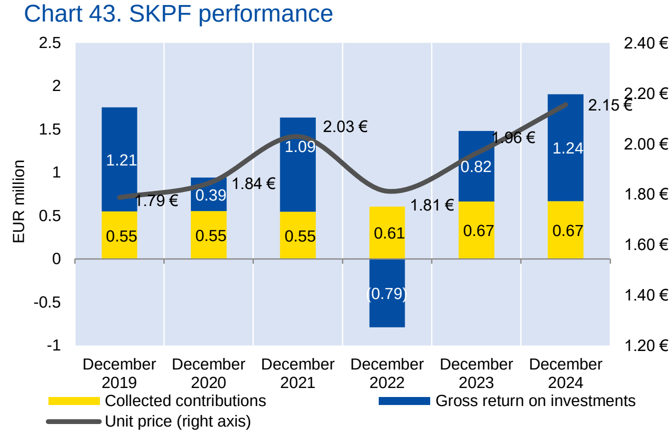
Chart 42. KPST performance



Source: KPST

The gross return on investments reached EUR 247.2 million by December 2024, a value many times higher compared to EUR 87.7 million reached in the previous year. The main contribution to this increase came from the first quarter, driven by the rise in stock prices in international markets, as a result of positive expectations for the slowdown in the increase of base interest rates by central banks. In the second quarter, the return declined significantly compared to the first quarter and to th same period of the previous year. The third quarter marked a considerable gross return of EUR 84.8 million, while the return on investments in the fourth quarter dropped at EUR 44.6 million. However, return on investments in Q4 remained higher compared to EUR 40.1 million marked at the same period of the previous year. The price of KPST shares increased to EUR 1.82 from EUR 1.67 per unit, reflecting successful asset management, aiming at increasing the value of contributors' savings.

Chart 43. SKPF performance



Source: SKPF

SKPF marked an annual growth of 51.4% on gross return on investments in December 2024, reaching **EUR 1.2 million** (chart 43). The first quarter gave the highest contribution to this increase, representing 41.9% of the total return, followed by the fourth quarter with 27.3%. During the fourth quarter, return on investments increased significantly at EUR 337.2 thousands, from EUR 161.7 million in the third quarter. Nevertheless, it was lower compared to Q4 2023, when this level reached EUR 403.7 thousands.

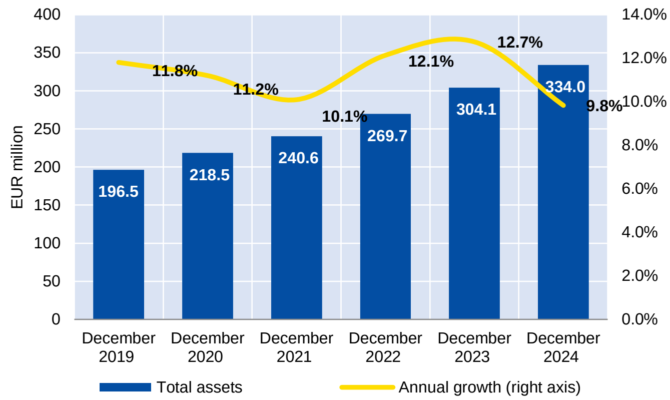
The share price of SKPF increased at EUR 2.15 per unit from 1.96 as it was in the previous year.

At the of December 2024, contributions collected by SKPF marked a significant slowdown of increase, at **0.7%,** from **9.6%** in the previous year, and reached **EUR 0.67 million.**

4.3. Insurance sector

Insurance sector continued to mark a growth, albeit with slower pace compared to the previous year, supported by the accelerated growth rate of written premiums.

Chart 44. Assets of insurance sector

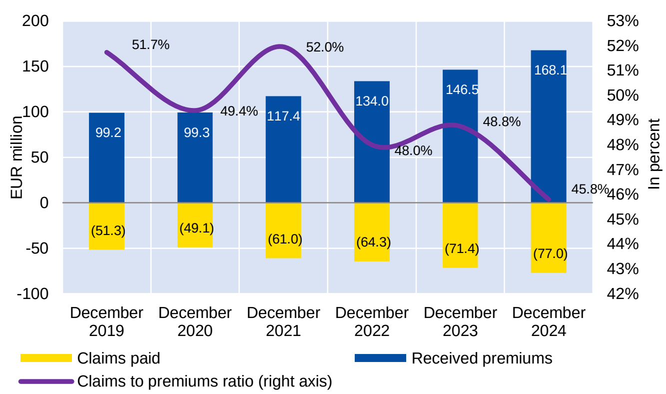


Source: CBK.

At the end of December 2024, the total assets value reached EUR 334.0 million, marking an annual growth **of 9.8%** percent, lower compared to the previous quarter's growth of **12.7% marked** marked in December 2023 (chart 44). Within assets, the highest increase was marked by deposits held at commercial banks, which marked an annual growth of 16.0%. As a result, their share to total assets increased at 48.9%, compared to 46.3% marked in the previous year. Kosovo's Government securities, as the second-largest category by weight, recorded an increase of 3.7%, however, their share in total assets decreased, dropping to 15.8% from 16.7%. Reinsurance technical reserves also recorded an annual increase of 16.0%, raising their share in total assets to 14.9% from 14.1% a year earlier.

The overall value of written premiums marked an annual growth of 14.7% in December 2024, reaching EUR 168.1 million, compared to an increase of 9.4% marked in the previous year (chart 45). "Non-life" insurance marked an annual increase of 14.7%. Meanwhile, "Life" increase, albeit with low share of 4.5% in total premiums, increased with an annual growth of 15.7%.

Chart 45. Written premiums and claims paid



Source: CBK.

Within "Non-life" insurance, the increase of premiums mainly from the category "Motor Third Party Liabilities", namely "Domestic MTPL" which represents 55.5% of the market. This category marked an annual growth of 7.7%, albeit being characterized with a slowdown increase compared to 9.7% growth marked in the previous year. Whereas, "Health insurance", as the second largest category within "Life" insurance, with a share of 22.9%, marked an accelerated annual increase of 28.3%, from only 6.5% as it was in the previous year.

The value of gross written premiums in the 'Life' insurance segment was primarily influenced by the 'Debtor's Life' category, which accounts for 53.8% of the total premiums in this segment. This category recorded a sharp annual increase of 28.0% in 2024, compared to 4.9% in the same period of the previous year.

The 'Non-life' insurance sector recorded a 33.0% increase in the number of policies sold, with the main contribution coming from the 'Motor Third Parties Liabilities' category, which represents 61.1% of the total non-life insurance policies. Meanwhile, the 'Life' insurance sector recorded a 22.6% increase in the number of policies sold, mainly influenced by the 'Group Life' category, which dominated with a share of 70.5% of the total life insurance policies.

The value of claims paid by insurance companies and the Kosovo Insurance Bureau increased at EUR 77.0 million from EUR 71.4, representing an annual increase of 7.8%, , compared to the increase of 11.1% recorded in previous year (chart 45).

At the same period, the number of claims paid increased for 23.5%, reaching thousands 226.6 thousands in December 2024. The higher increase of the number of claims paid in relation to total value of claims suggest that the sector has paid more claims, but with a lower average value per claim paid.

The value of claims paid by insurance companies marked an annual increase of 5.7%, reaching EUR 69.4 million at the end of December 2024. At the same time, the claims paid by the KIB increased by 32.3%, reaching EUR 7.6 million. Although the claims paid by KIB comprised only 10.2% of total claims, their increase had an impact on the overall dynamic of the market.

The main category which contributed to the increase of claims paid was “Motor third party liability”, which was characterized by an increase of EUR 4.7 million and reached EUR 45.2 million, primarily due to the claims from border policies and internal MTPL. Meanwhile, “Health insurance”, which accounts for 25.4% of the total claims paid, marked an increase of 25.9%, reaching EUR 19.2 million.

As a result of the higher increase of premiums compared to the claims increase, claims paid to received premiums ratio declined at 45.8% in December 2024, from 48.8% as it was in the previous year. This shows that the insurance sector is generating more income compared to the claims paid, reflecting an improvement in the financial sustainability.

The increase of income, mainly from received net premiums, exceeded the growth trend of expenditures and claims incurred, increasing the net profit of the sector by 43.0%, from EUR 10.7 million to EUR 15.3 million.

The income of the sector, mainly supported by written premiums, increased by 17.3%, amounting at EUR 147.9 million, whereas expenditures marked a slower expansion of 15.2%, reaching EUR 132.5 million. Within expenditures, claims incurred increased by 7.2%, reaching EUR 77.0 million, while operational expenditures, including those for personnel and administration, rose by 21.4%, reaching EUR 52.3 million. The increase of net profit was reflected in an increase of profitability indicators. Return on average assets increased by 5.4% from 4.4% and return on average equity increased at 18.5% from 14.8% in December 2023.

Equity to the solvency margin ratio for the “Non-life” insurers marked an annual decline at 132.9% from 160.6%. Whereas, equity to the solvency margin ratio for the “life” insurers marked a slight annual increase at 718.3% from 716.0% as it was in the previous year. Equity to guarantee fund ratio for the “Non-life” insurers marked a decline at 147.9% from 158.3% in 2023. Whereas, equity to guarantee fund ratio for the “Non-life” insurers marked a decline at 175.7% from 143.6% in 2023. At the end of the year, the Non-life insurance sector had technical provisions coverage at 111.8%, a slight increase from 108.6% in December 2023. Whereas, the insurance sector for the “Life” category slightly declined the coverage with provisions at 114.3% from 115.0% a year earlier.

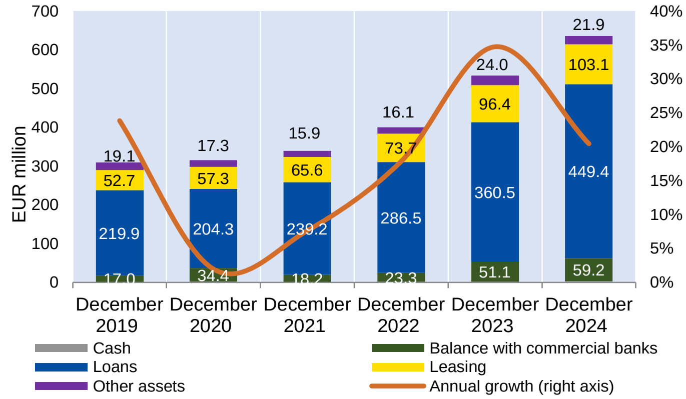
The sector's liquidity level marked a slight increase compared to the previous year. The ratio of cash and its equivalents to reserves increased to 99.0% from 97.5% as it was at the end of 2023. Whereas, the cash and its equivalents to total liabilities ratio increased at 88% compared to 85.6% as it was in the previous year.

4.4. Microfinance sector

The microfinance sector continued to grow, but at a slower pace, driven mainly by the expansion of lending, while the contribution from leasing was more limited. In 2024, assets of the sector reached EUR 650.7 million, marking an increase of 20.5%, which is slower compared to 34.8% in December 2023. All asset categories recorded growth, with loans continuing to account for the largest share of the sector's portfolio, followed by leasing and balances held in commercial banks (chart 46). On the financing side, borrowings from the external sector—the main source of funding for this sector—continued to increase, but at a slower pace, rising by 19.3% in December 2024 compared to 31.9% a year earlier.

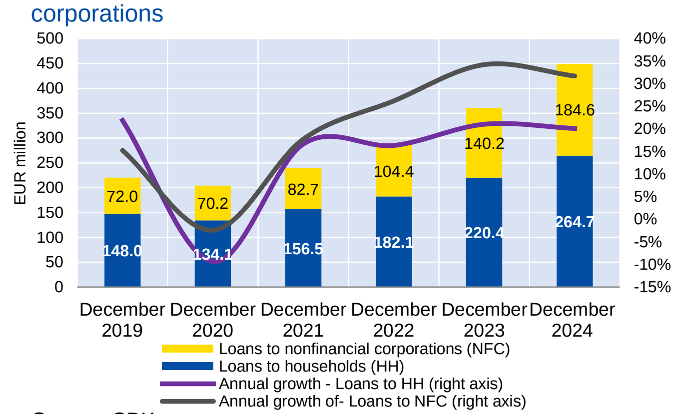
The stock of loans in the microfinance sector reached EUR 449.4 million, marking an annual increase of 24.6%, slightly slower than the 25.9% growth recorded in the previous year. The increase in the value of lending reflects demand for loans from both segments of households and nonfinancial corporations. Lending to households reached EUR 264.7 million in December 2024, marking an annual increase of 20.1% (21.1% in the same period of 2023). Meanwhile, loans to nonfinancial corporations amounted to EUR 184.6 million, recording an annual growth of 31.7% (34.2% in December 2023). The share of loans to nonfinancial corporations in total lending increased to 41.1% from 38.9%, while the share of household loans decreased to 58.9% from 61.1%. This indicates a slight shift in the loan structure, with nonfinancial corporations accounting for a larger share of total lending (chart 47).

Chart 46. Assets of the microfinance sector



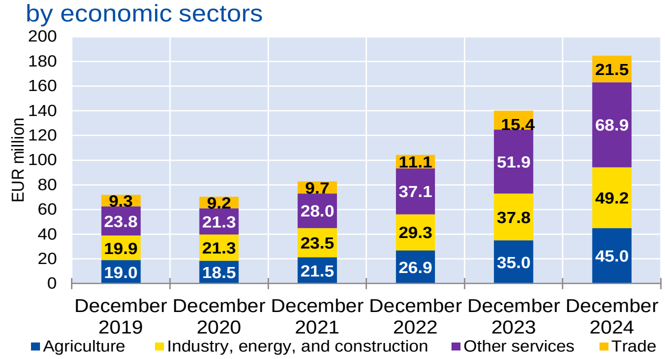
Source: CBK.

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



Source: CBK.

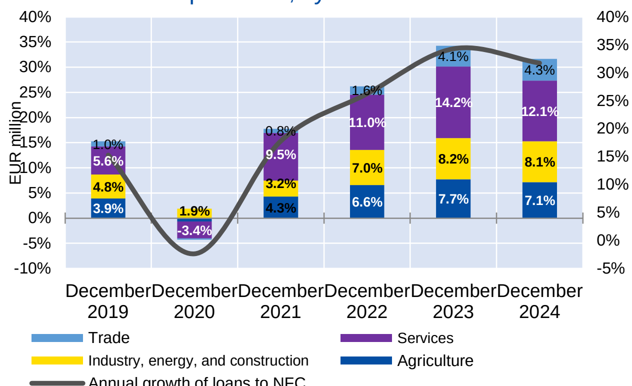
Chart 48. Value of loans to nonfinancial corporations, by economic sectors



Source: CBK.

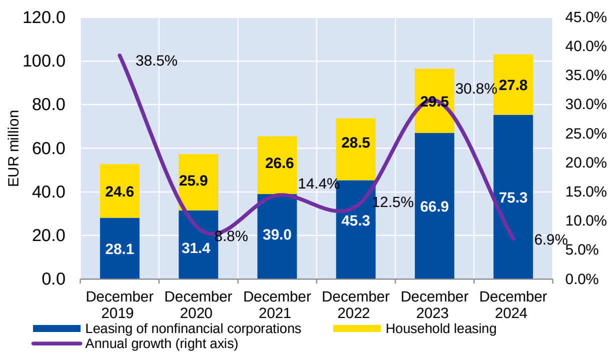
Lending to nonfinancial corporations by economic sectors has continued a previous year's trend, marking an increase in each of the segments. The agriculture sector maintained the largest share of total loans to nonfinancial corporations, at 24.4%, recording an annual increase of 28.6%, down from 30.0%. The trade sector, with a share of 11.6% of total loans to nonfinancial corporations, recorded the largest annual growth of 39.1% (39.0% in the same period last year) (chart 48). In terms of the contribution to the overall growth of microfinance lending, the agriculture sector had the highest contribution with 7.1% due to its larger share, while trade contributed by 4.3% (chart 49).

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



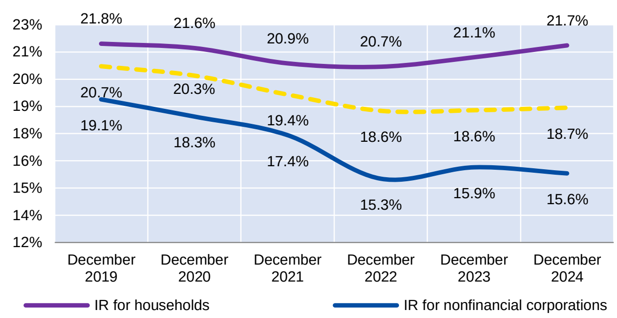
Source: CBK.

Chart 50. Value of microfinance sector leasing



Source: CBK.

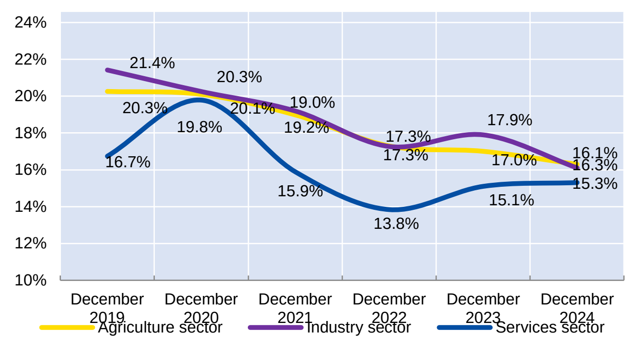
Chart 51. Average interest rate on microfinance sector



Source: CBK.

Leasing, as the second most important category by weight in the assets of the microfinance sector, has reduced its share to 15.8% from 17.9% At the end of December 2024, its vale reached EUR 103.1 million, marking a considerable slowdown of annual increase at 6.9% from 30.8% in December 2023. Leasing to nonfinancial corporations has a considerable weight of 73.1% of total leasing. Its value increased to EUR 75.3 million in December 2024, however, the growth rate showed a significant slowdown, dropping to 12.5% from 47.9% in December 2023, when leasing for this segment grew considerably (chart 50).

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



Source: CBK.

On the other hand, leasing to households, which accounts for 26.9% of the total leasing, reached a value of EUR 27.8 million, marking an annual decrease of 5.9%, in contrast to the 3.5% increase recorded a year earlier.

The average interest rate on loans issued by microfinance institutions was 18.7%, increasing by 0.1 percentage points compared to the same period of the the previous year (chart 51). However, compared to the previous quarter, interest rate was characterized with declining trend, dropping by 0.5 percentage points.

The most favorable interest rates were for nonfinancial corporations, at 15.6%, marking a marginal annual decrease of 0.3 percentage points. On the sectoral level, a more favorable interest rate was marked by loans to services with 15.3%, which marked an annual increase of 0.2 percentage points. Meanwhile, agriculture sector and industry sector were characterized with a decline in interest rate of 0.7 and 1.6 percentage points, respectively (chart 52).

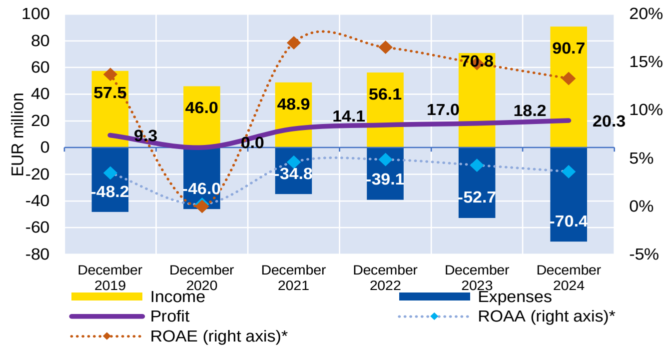
On the other hand, loans to households had higher interest rates compared to to NFC, namely an average interest rate of 21.7%, increasing for 0.6 percentage points in December 2024 compared to the previous year. Interest rate on consumer credit increased by 0.5 percentage points in December 2024 and interest rate on mortgage loans increased by 1.3 percentage points in December 2024.

The net profit of the microfinance sector reached EUR 20.3 million, marking an accelerated annual increase of 12.5% compared to 6.4% a year earlier, influenced by a higher growth rate in revenues compared to expenses.

The sector's revenues increased by EUR 19.9 million, or 28.2%, compared to the previous year, when the growth was 26.1%. The increase in revenues was primarily supported by the growth in interest income, which rose by 23.1% (22.2% last year). Additionally, non-interest income recorded an annual increase of 62.1% (60.7% a year earlier), reaching EUR 14.9 million.

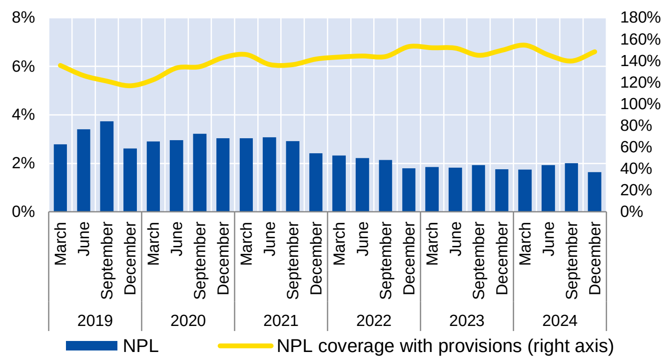
The expenses increased by 33.6%, up from a 34.7% increase a year earlier, primarily driven by the rise in non-interest expenses, which grew by 25.3% (20.5% a year earlier), reaching EUR 34.7 million. Within this category, personnel and administrative expenses increased significantly by 20.7%, compared to 11.6% in the previous year. Interest expenses, amounting to EUR 23.1 million, also contributed to this increase, rising by 63.0%, compared to the higher increase of 69.2% recorded a year earlier. The expense-to-revenue ratio increased by 3.1 percentage points, reaching 77.6% in December 2024, reflecting a higher relative increase in expenses compared to revenues. Key profitability indicators declined in December 2024, with return on average assets falling by 0.6 percentage points and return on average equity decreasing

Chart 53. Profit and profitability indicators of the microfinance sector



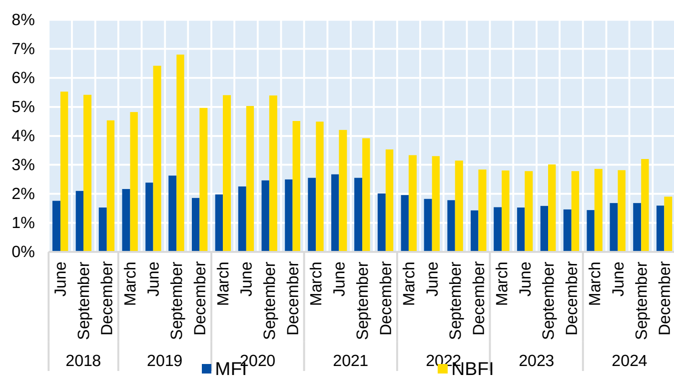
Source: CBK. *The value of September 2022 is

Chart 54. Loans portfolio quality indicators (MFI/NBFI)



Source: CBK.

Chart 55. MFI and NBFI NPL level



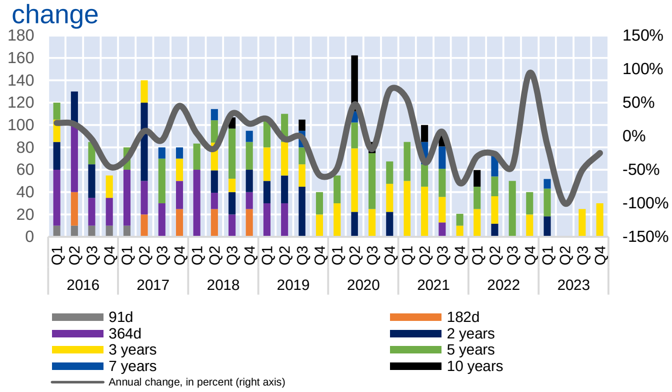
Source: CBK.

by 1.5 percentage points. **The ratio of nonperforming loans to total loans of microfinance institutions and non-bank financial institutions at the end of December 2024 decreased to 1.6%, down from 1.8% a year earlier.** The coverage of NPLs with provisions remains stable, although it slightly decreased to 148.4% from 149.7% a year earlier (chart 54). The ratio of nonperforming loans continued to be higher for NBFI against MFI. For microfinance institutions, this ratio increased to 1.6% from 1.5%, while for non-bank financial institutions, it decreased to 1.9% from 2.8% (chart 55).

4.5. Securities market of Kosovo's Government

In the fourth quarter of 2024, the debt issued by the Government of the Republic of Kosovo doubled compared to the same period in 2023, reaching a total value of EUR 60.0 million (chart 56). However, the domestic total debt to Gross Domestic Product (GDP) ratio decreased to 9.12% at the end of 2024 from 10.02% in the same period of the previous year. This was the result of a higher growth rate of GDP to the outstanding debt ratio, which declined due to a higher rate of maturities compared to the issuance of new debt.

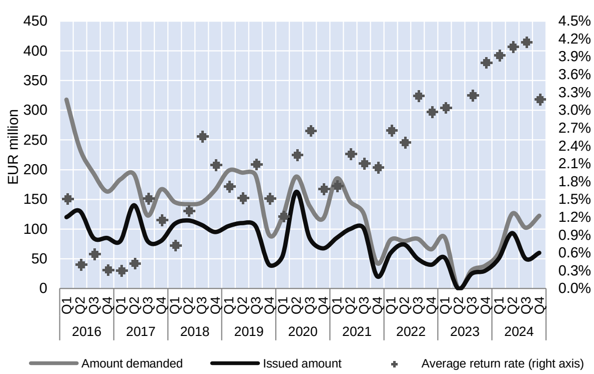
Chart 56. Amount and maturity of issued debt, annual change



Source: Ministry of Finance, Labor and Transfers.

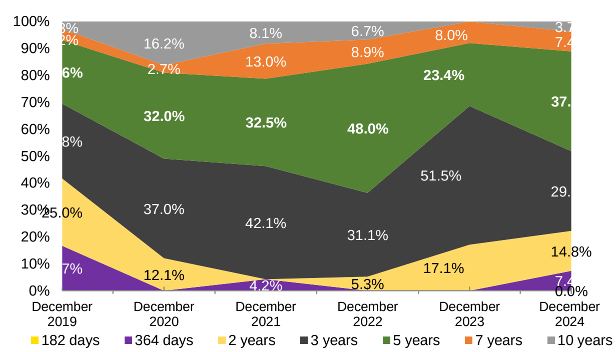
The demand for investments in securities issued by the Government exceeded the available supply of these instruments by a factor of two during this quarter (chart 57). At the end of December 2024, the stock of domestic debt of the Government of the Republic of Kosovo, in the form of securities, declined to EUR 962.2 million from EUR 970.2 million in December 2023.

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.

Government securities continue to be primarily held by pension funds, which account for 45% of the total government debt stock, followed by commercial banks with 24%, public institutions with 22%, and insurance companies holding 5%. The structure of government securities is dominated by government bonds with maturities of 5 years, followed by those with maturities of 3 and 2 years. Treasury bills, which account for 7.4% of the total and have a maximum maturity of 364 days, were issued this year in the amount of EUR 20 million, after a three-year pause (chart 58).

The suggested citation of this publication:

CBK. Quarterly Assessment of the Economy No. 49 Q4 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