

Summary

- **In Q1 2025, the euro area economy recorded a growth of 0.6%, reflecting an improvement compared to the previous quarter, while inflation stood at 2.3%, in line with the ECB's medium-term target.** The Western Balkan countries registered an average growth of 2.7%, supported by private consumption and public investment, while the average inflation rate was 3.3%.
- **Kosovo's economy in Q1 2025 recorded a slower growth of 3.6%, compared to 5.6% in Q1 2024, mainly due to slower consumption growth, a decline in goods exports, and an increase in imports.** On the other hand, investment inflows and services exports, particularly travel services, supported economic activity during the reference period. For 2025, CBK projections foresee a real GDP growth of 4.1%.
- **Inflation in Q1 2025 accelerated to 2.0%, from 0.7% in the previous quarter.** The increase in food prices was the main driver of inflation dynamics, although inflationary pressures were also observed in other components. Core inflation declined to 1.0%, however, it showed increasing inflationary pressures throughout the quarter. The import price index recorded a year-on-year decline, while the producer and construction cost indices increased. CBK forecasts suggest an inflation rate of around 3.3% in 2025, with performance primarily exposed to external risks such as geopolitical and trade tensions and climatic conditions.
- **Primary budget revenues in Q1 2025 reached EUR 709.6 million, marking a year-on-year increase of 2.3%. Budget expenditures increased by 18.3%, reaching EUR 677.4 million, while a primary budget surplus of EUR 46.0 million was created.** Tax revenues amounted to EUR 641.7 million, registering an increase of 2.4%, with notable growth from both direct and indirect taxes, including VAT and customs duties. Current expenditures increased by 19.4%, while capital expenditures rose by 11.7%. The public debt-to-GDP ratio declined to 15.3%, while total public debt reached EUR 1.7 billion, marking a 3.1% increase, reflecting the growth of external debt.
- **In Q1 2025, the current account deficit widened by 9.5%, reaching EUR 347.6 million, mainly due to a deterioration in the trade balance.** Nevertheless, the services sector, as well as primary and secondary income, had a positive impact, providing a stable source of financial inflows. Remittances during this quarter amounted to EUR 291.3 million, with a slower growth of 3.6%. Meanwhile, foreign direct investments declined by 8.1%, reaching EUR 197.6 million, although there was an increase in investments in the real estate sector.
- The banking sector recorded an accelerated annual growth of assets in Q1 2025, reaching EUR 8.63 billion. Lending activity continued its strong growth in both the household and nonfinancial corporation segments. Notably, new mortgage loans and business investment loans marked significant growth. Deposits experienced accelerated year-on-year growth, although at a slower pace than lending, resulting in a further increase in the loan-to-deposit ratio. The level of non-performing loans declined, contributing to an improvement in credit portfolio quality. The sector's net profit decreased compared to a year earlier, mainly due to a higher increase in expenses against a slower growth in income. The capital position was slightly strengthened from the previous year, while liquidity and funding indicators showed a downward trend but remained well above regulatory minimum levels.
- The pension sector faced increased risks in financial markets, reflected in a negative return on investments. Nevertheless, the value of assets continued to grow, albeit at a slower pace compared to the same period of the previous year. Contributions increased moderately, supporting the ongoing accumulation of funds. The sector's investments were more focused on the domestic market, which recorded higher growth rates compared to the external market. Despite the uncertainty in the investment environment, the unit price of shares in both funds recorded a slight increase.
- The insurance sector experienced a slowdown in the annual growth of assets, mainly due to a sharp deceleration in the growth of premium income in non-life insurance. However, the sector recorded an annual increase in net profit, supported by faster growth in income compared to the slower expansion of expenses. Stability indicators of the sector—specifically capital adequacy and liquidity—recorded an annual increase overall.
- The microfinance and non-bank financial sector continued its double-digit asset growth, although at a slower pace compared to the previous year, reflecting the deceleration in the growth of external funding sources. Nevertheless, lending—as the dominant activity—slightly accelerated its growth rate, while leasing activity slowed down following significant growth in the previous year. The sector's net profit increased, however, the average return on assets and equity recorded a slight decline. The non-performing loan ratio remained unchanged compared to the same period a year earlier.

List of abbreviation

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

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1. Euro area and Western Balkans

In Q1 2025, the euro area economy grew by 0.6%, compared to the previous quarter, marking a slight improvement over the 0.3% growth recorded in Q4 2024. On an annual basis, economic growth reached 1.5%, signaling a stabilization of the domestic economy, although it remains exposed to external pressures and uncertainties. Growth was supported by private consumption, which contributed 0.1 percentage points, due to improved financing conditions following the continued interest rate cuts by the ECB. Public consumption had a neutral contribution, while gross capital formation contributed with 0.4 percentage points. Net exports contributed positively with 0.3 percentage points, as a result of an acceleration in exports ahead of the implementation of U.S. trade tariffs on certain European products. **For 2025, the ECB forecasts a growth of 0.9%**, supported by expectations of increased private consumption as a result of rising real households income and eased financing conditions. However, the outlook remains fragile due to risks stemming from geopolitical tensions and the deterioration of trade relations with the U.S., which may have direct implications on exports and investments.

In Q1 2025, euro area inflation stood at 2.3%, reflecting continued normalization toward the ECB's target. Price increases were mainly driven by services, which remained the primary source of inflationary pressure, driven by wage growth. Additionally, prices of food, alcohol, and tobacco—especially unprocessed foods—contributed to the annual inflation rate increase.

On the other hand, energy prices recorded a 1.0% annual decline in March, having a mitigation effect on overall inflation. This trend suggests a slow stabilization of inflation, which remains vulnerable to internal pressures (such as wage growth) and external risks (such as supply chain disruptions and geopolitical tensions).

According to June 2025 projections, the ECB expects inflation to further slow to 2.0% in 2025 and 1.6% in 2026.

In June 2025, the ECB implemented its eighth consecutive interest rate cut, lowering the deposit facility rate to 2.00%, the refinancing rate to 2.15%, and the lending rate to 2.40%.

In the Western Balkan countries, economic growth in Q1 2025 is estimated at an average of 2.7%, mainly driven by private consumption, public investment, and improved labor market conditions. This positive performance comes despite a series of structural challenges and external risks that continue to weigh on the region's outlook. Key risks include the slowdown in external demand due to weaker economic activity in the euro area, domestic political uncertainty in several countries in the region, and worsening global financing conditions. Other challenging factors include the impact of climate change, delays in implementing structural reforms, and ongoing labor force emigration. **According to the IMF, Western Balkan countries recorded an average economic growth of 3.4% in 2024 and are expected to grow at a similar rate in 2025.** Geopolitical tensions and exposure to fluctuations in the euro area economy make the region vulnerable to external shocks, while interest rates remain moderate and demand for exports continues to be subdued. **The average inflation rate in Q1 2025 was 3.3%, with the highest rate recorded in Serbia at 4.5%, while Kosovo registered the lowest inflation rate at 2.0%.**

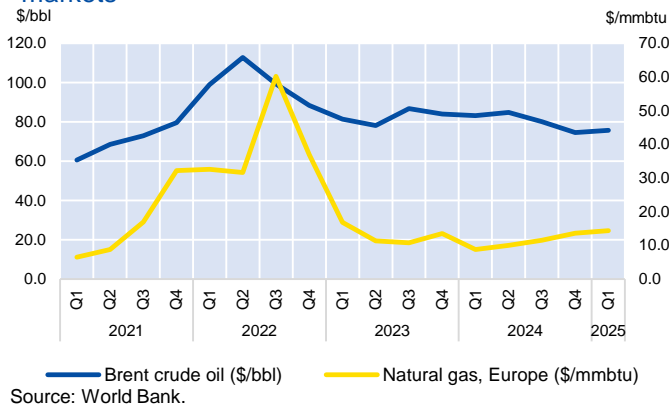
In Q1 2025, the euro exchange rate against the currencies of trading partners showed mixed developments. The euro appreciated against the Turkish lira compared to the previous quarter, while it depreciated against the Albanian lek, U.S. dollar, British pound, and Swiss franc. It remained nearly unchanged against the Macedonian denar.

2. Main commodity prices in international markets

Main commodity prices in international markets marked a slight increase in Q1 2025. According to the World Bank, the commodity price index rose by an average of 0.9% compared to the same period of the previous year and by 2.2% compared to the previous quarter. The World Bank forecasts a decline in prices for the remainder of the year, due to slowing global demand and increasing supply, particularly in energy markets. Nevertheless, upward risks remain, driven by escalating trade and geopolitical tensions as well as climate-related conditions.

The average price of Brent crude oil was \$75.6 per barrel in Q1 2025, reflecting a 9.0% decline compared to the same period last year, and a 1.4% increase compared to the previous quarter (chart 1). This increase is linked to strict U.S. sanctions on oil exports from Russia and Iran in January 2025, as well as a cold wave in North America that raised concerns about energy supply. However, a slight price decline was observed throughout Q1 2025, as a result of the deteriorating global economic outlook and expectations that OPEC+ will lift production limits. Oil price dynamics remain vulnerable to potential risks such as the escalation of geopolitical tensions—particularly in the Middle East—and trade disputes. Still, the slowdown in global economic activity is expected to exert dominant downward pressure.

Chart 1. Oil and natural gas prices in international markets



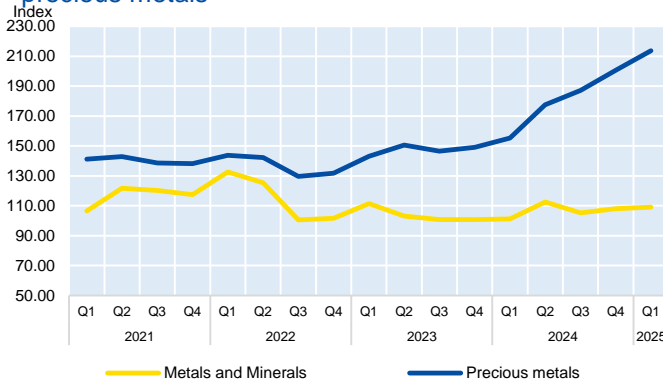
Source: World Bank.

European natural gas prices rose to \$14.4/mmbtu, marking a quarterly increase of 6.2% and an annual increase of 64.6% (chart 1). The price dynamics were primarily driven by seasonal heating demand, which contributed to a faster decrease of reserves, as well as increased LNG demand from Asian countries. The World Bank projects a rise in prices during 2025 due to global LNG supply constraints and rising demand.

Risks that may lead to higher-than-expected prices include pressure to build up reserves, increased competition for LNG, and climate conditions. On the other hand, the slowdown in economic activity—particularly in Asia’s industrial sector—could ease inflationary pressures on gas prices.

The metals and minerals price index continued its upward trend, recording an annual increase of 7.9% in Q1 2025 (chart 2).

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



Source: World Bank.

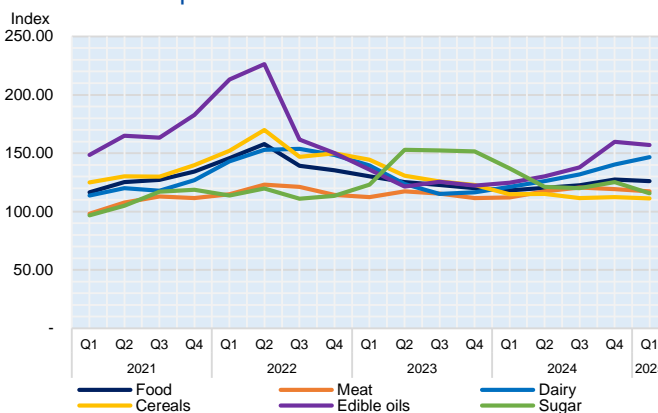
Compared to the previous quarter, prices rose by 1.1%, mainly driven by higher prices of aluminum, copper, and tin, as a result of supply concerns following U.S. announcements of potential tariffs on imports of these metals. Conversely, inflationary pressures were slightly offset by declines in the prices of lead, nickel, and zinc, due to weakening demand from the automotive and energy transition sectors, and the high supply of nickel, and the slowdown in China’s

construction activity, which contributed to the fall in zinc prices. Base metal prices are projected to decline in 2025 as supply improves relative to weakened demand.

The precious metals price index recorded an annual increase of 37.6% (chart 2). On a quarterly basis, it rose by 6.5%, mainly driven by rising prices of gold and silver. Gold and silver prices reached historically high monthly levels, with gold prices which increased by 7.5% and silver prices which increased by 1.6% in Q1 2025 compared to the previous quarter. The increase in prices continues to be driven by high geopolitical uncertainty and a worsening economic outlook, which has turned these metals into safe-haven assets. As a result, the trajectory of precious metals prices is expected to remain influenced by the same factors.

According to the FAO, the food price index in Q1 2025 was 7.0% higher compared to Q1 2024, while 0.9% lower compared to the previous quarter (chart 3). Climatic conditions and supply-demand dynamics continue to significantly influence food price movements in international markets. Compared to Q1 2024, there was a notable increase in the prices of oils (25.9%), dairy (21.0%), and meat (4.6%). Compared to the previous quarter, strong global demand for dairy imports and limited supply resulted in a 4.5% price increase for this category. However, prices of oils and meat—despite fluctuations during the quarter—fell by 1.7% and 1.6%, respectively. Improved weather conditions and thus expectations for higher sugar yields led to a 7.6% drop in sugar prices. Meanwhile, grain prices remained mostly unchanged, with a slight decline of 0.9%.

Chart 3. Food price index



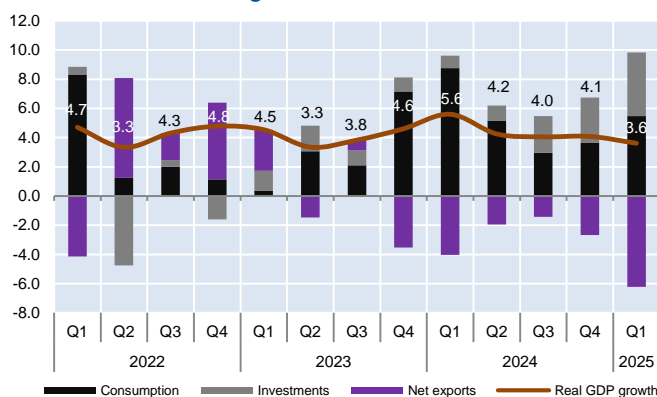
Source: FAO.

3. Kosovo’s Economy

3.1. Economic growth

Kosovo’s Economy in Q1 2025 marked a slower growth rate compared to the same period of 2024. According to data from the Kosovo Agency of Statistics (KAS), real GDP grew by 3.6%, compared to the growth of 5.6% in Q1 2024 (chart 4). The slowdown in economic activity primarily reflects a deceleration in consumption growth, a decline in goods exports, and an increase in goods imports. Meanwhile, investments and service exports were the main contributors to the growth.

Chart 4. Real GDP growth

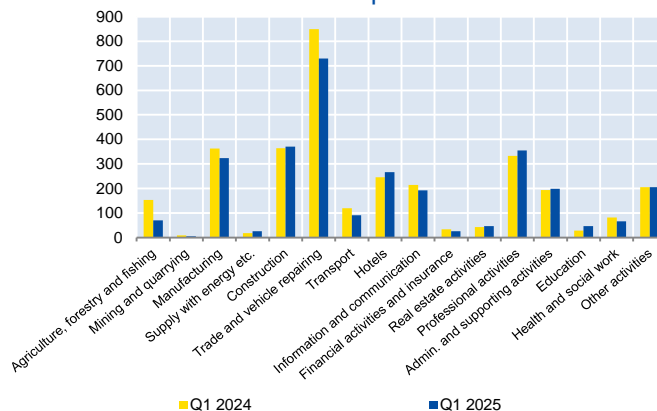


Source: KAS and CBK calculations.

Final consumption expenditures increased by 5.2%, compared to 8.6% in Q1 2024. Private consumption rose by 4.3%, down from 9.5% in the same period last year, due to slower growth in key sources of financing, including consumer loans, employee compensation, and remittances. On the other hand, public consumption increased by 11.6%, compared to 2.5% in Q1 2024, driven by higher current government expenditures. Investments posted a substantial growth of 13.6%, significantly higher than the 2.6% increase in Q1 2024. This growth was mainly supported by increased lending and public investments. An indication of rising investment activity is reflected in the increased imports of capital goods and higher FDI inflows in the real estate sector.

Net exports continued to have a negative contribution to economic growth, although total exports of goods and services rose by 12.1%, compared to 10.1% in Q1 2024. Within this category, the export of services grew markedly by 18.9%, with travel services being the main contributor, increasing by 12.5% in nominal terms. In contrast, goods exports declined by 6.4%, primarily due to lower exports of basic metals and food products. At the same time, imports of goods and services increased by 14.4%, up from 10.8% in Q1 2024. Goods imports rose by 17.7%, while service imports increased by only 0.3%, reflecting sustained domestic demand for both consumer and investment goods, despite slower consumption growth.

Chart 5. Number of new enterprises



Source: KAS.

Economic activity was supported by several sectors with different performance during Q1 2025. The construction sector grew by 9.8%, making a significant contribution to overall activity. The trade and manufacturing sectors also recorded positive performance, each growing by 4.5%, driven by strong domestic demand. Conversely, the electricity sector experienced a notable decline of 8.0%, having a negative impact on overall economic dynamics.

This slowdown was also reflected in new business registration trends, as 3,015 new businesses were registered in Q1 2025 — a 7.2% decrease compared to Q1 2024.

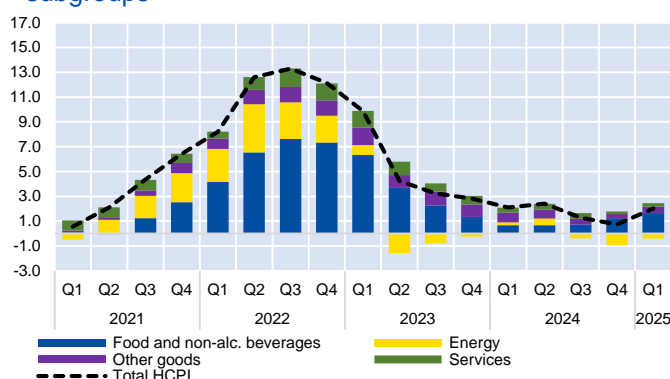
Sectors contributing most to the decline were trade, agriculture, manufacturing, and transport, where fewer businesses were registered compared to Q1 2024. Nonetheless, some sectors showed a positive trend in new registrations. These included professional activities, hospitality, education, energy, construction, administrative services, and real estate, all of which recorded an increase in number of business registrations (chart 5). In addition, the number of business closures declined by 13.6%, reaching 342 enterprises.

Overall, Q1 2025 was characterized by moderate economic growth, driven by investments and service exports, while the trade deficit remains a key challenge. For the year 2025, CBK projections suggest that the economy will grow by 4.1%, with key contributions from consumption, investments, and exports of goods and services. Imports of goods and services are expected to have a negative impact on economic growth.

3.2. Prices

Inflation in Q1 2025 accelerated to 2.0% from 0.7% in the previous quarter. During this quarter, there were observed inflationary pressures, with an annual rate reaching 2.9% in March 2025. This increase was mainly driven by the rise in food prices, while inflationary pressures were also observed in other goods and services categories (chart 6). Although energy prices declined year-on-year, they still contributed to the rise in inflation due to the fading of the negative contribution from this component.

Chart 6. Inflation by contribution of respective subgroups



Source: KAS and CBK calculations.

Food prices recorded an annual increase of 4.2% in Q1 2025, reflecting an acceleration compared to 2.3% in the previous quarter. In line with trends in international markets, the faster growth in the prices of oils (9.7%), meat (6.2%), dairy products (4.9%), and vegetables (4.5%) were the main factors exerting pressure on inflation.

Fuel prices recorded an annual decline of 4.4%. However, the quarterly upward trend in oil prices in international markets was also reflected domestically, with an increase of 2.9% compared to the previous quarter. Similarly, electricity prices declined year-on-year by 0.4%, while a quarterly increase of 4.6% was recorded compared to the previous quarter. This change may have been influenced by the seasonal increase in electricity consumption for heating during the winter months, as an increase was also observed in the prices of solid fuels.

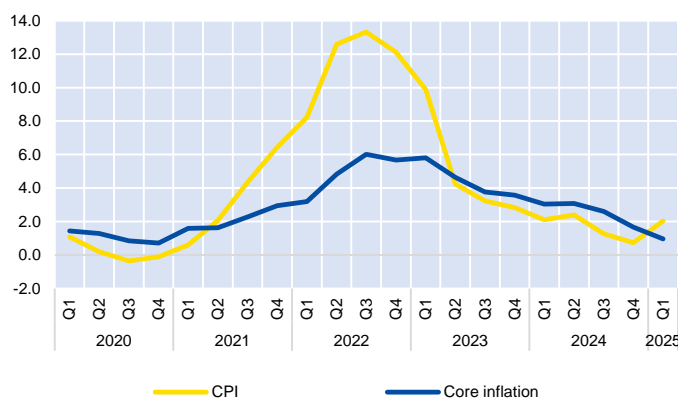
The contribution of food to the average inflation rate in Q1 2025 rose to 1.1 percentage points, from 0.7 percentage points in the previous quarter. The main contributors to food inflation were meat prices with 0.4 percentage points and dairy products with 0.3 percentage points. The contribution of energy decreased to -0.4 percentage points from -0.9 percentage points in the previous quarter, as a result of the more moderate decline in oil prices. The contribution of other goods prices increased by 0.2 percentage points, due to the slower decline in vehicle prices, the accelerated increase in alcohol and tobacco prices, clothing, and to a lesser extent, prices of other goods such as medical, school, personal care items, etc. Meanwhile, the contribution of services increased by 0.1 percentage points due to the rise in hotel and outpatient service prices, which were, however, somewhat offset by the annual decline in transport service prices.

The increase in inflationary pressures was also reflected in core inflation, which stood at 1.0% in Q1 2025. Although lower by 0.7 percentage points compared to Q4 2024 (chart 7), core inflation showed an upward

trend throughout the first quarter, reaching 2.0% in March.¹ More pronounced increases were recorded in restaurant prices, influenced by higher food prices and seasonal effects in March 2025. Price increases were also observed in other categories such as furniture, clothing, personal care goods and services, and others. On the other hand, declines were observed only in transport service prices and communication equipment and services.

In terms of the origin of inflation, the increase in foreign inflationary pressures was reflected in the rise in the contribution of imported inflation to 1.8 percentage points from 0.5 percentage points in Q4 2024. This increase mainly reflects the greater contribution to inflation from the rise in prices of imported food and other goods. Although inflationary pressures in service prices were present, the decline in transport service prices caused the contribution of domestic inflation to remain unchanged at 0.2 percentage points.

Chart 7. Core and headline inflation of consumption



Source: KAS and CBK calculations.

The Import Price Index (IPI), according to KAS data, recorded an annual decline of 1.9%. This decrease reflects the fall in prices in most categories of imported goods in the basket of this index. The most notable declines were in the prices of mineral products, down by 8.1%, while basic metals recorded a decrease of 3.8%, reflecting the dynamics of weakening global demand. Processed food product prices registered a slight annual decline of 0.1%. On the other hand, plant product prices recorded an annual increase of 4.2%, and those of live animals and their products by 1.2%, which was also reflected in the prices of these categories in Kosovo.

The Producer Price Index (PPI) in Q1 2025 recorded an annual increase of 8.8%. The prices of main components, such as electricity production, food product processing, and the production of non-metallic mineral products, increased by 25.1%, 3.6%, and 0.8%, respectively. However, compared to the previous quarter, the PPI recorded a slight decline of 0.1%.

On the other hand, the Construction Cost Index (CCI) recorded an annual increase of 6.5%. This increase was mainly driven by the annual rise in the prices of construction materials (4.1%), wages (13.5%), electricity (14.6%), and transport (5.2%). According to CBK projections, the overall inflation rate is expected to be around 3.3% in 2025. Food prices remain the main driver of inflationary pressures. However, the expected decline in food prices in international markets may also be reflected domestically through import channels. Nonetheless, the risks that could affect these projections remain significant, particularly those related to geopolitical uncertainties, the impact of rising electricity tariffs on other sectors, trade barriers against the country and its trading partners, and climate-related effects.

3.3. Fiscal Sector

Primary budget revenues² in Q1 2025 reached EUR 709.6 million, marking a year-on-year increase of 2.3%. Meanwhile, budgetary expenditures³ marked an accelerated of 18.3%, reaching the value of EUR 677.4 millions.

¹ Core inflation for 2024 was revised following the revision of weights within the consumption basket by the Kosovo Agency of Statistics in May 2025.

² Within budget revenues are not included receipts from borrowings among the countries.

³ Within budget expenditures are not included financing payments.

Despite the higher increase of expenditures, the higher level of income resulted in primary budget surplus of EUR 46.0 million.

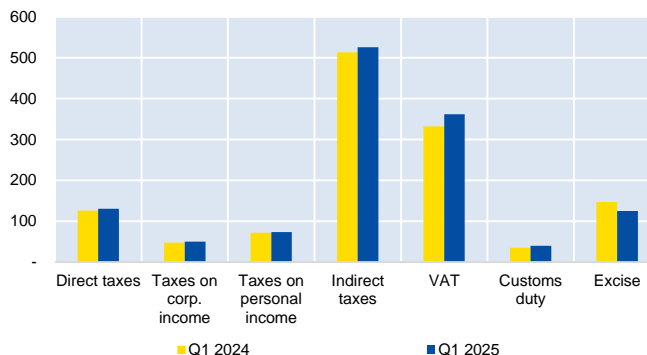
Tax revenues in Q4 2025 reached EUR 641.7 million, marking an increase of 2.4% compared to Q1 2024. During this period, most of the tax categories marked a slower increase. Revenues from direct taxes increased by 4.0%, reaching EUR 130.7 million. Within this category, corporate income tax revenues rose by 5.3%, personal income tax increased by 2.2%, and property tax grew by 14.3%.

Revenues from indirect taxes rose by 2.5%, amounting to EUR 526.1 million, which accounted for 74.1% of total budget revenues. This increase was mainly driven by a 9.0% rise in VAT revenues, reaching EUR 361.9 million, as well as by customs duties, which grew by 13.3%. On the other hand, excise tax revenues declined by 14.8% (chart 8). **Non-tax revenues recorded slower growth of 1.6%, reaching EUR 66.3 million.** This category includes revenues from the central government, which decreased by 13.1%, reaching EUR 34.4 million, while revenues from local governments increased by 24.1%, reaching EUR 16.4 million.

Regarding budget expenditures, current expenditures increased by 19.4%. Within this category, expenditures for subsidies and transfers, as the main category, increased by 34.4%, reaching EUR 252.8 million. Expenditures for goods and services, including utility costs, increased by 35.8% and reached EUR 95.9 million. Wage expenditures recorded a smaller increase of 1.8%, reaching EUR 219.5 million. Capital expenditures recorded a slower increase compared to current expenditures, reaching EUR 97.7 million, which is an 11.7% increase compared to the same period of the previous year (chart 9).

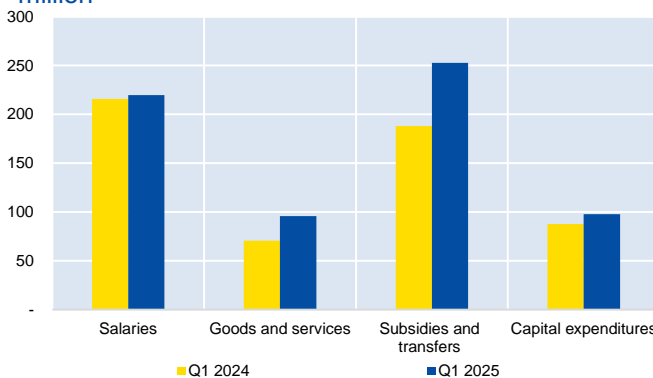
The public debt-to-GDP ratio declined to 15.3% in Q1 2025, compared to 15.6% in Q1 2024. This reduction in the public debt ratio during the last quarter was the result of the increased government budget balance, reducing the need for borrowing, as well as the nominal increase in GDP. In absolute terms, public debt amounted to EUR 1.7 billion in Q1 2025, marking an increase of 3.1% compared to Q1 2024. This increase was driven by external public debt, which rose by 8.7%, reaching EUR 758.8 million. Meanwhile, domestic public debt decreased by 1.1%, reaching EUR 934.7 million.

Chart 8. Tax income by categories, EUR million



Source: MFLT.

Chart 09. Budget expenditures by categories, EUR million



Source: MFLT.

External public debt includes obligations to international institutions such as the International Development Association (35% of external debt), the European Union (13%), the International Bank for Reconstruction and Development (10%), the International Monetary Fund (9%), etc. Domestic public debt mainly consists of the Government of Kosovo’s debt (securities) toward pension funds (46%), commercial banks (21%), public institutions (24%), etc.

3.4. External Sector

In Q1 2025, the current account deficit increased by 9.5%, reaching EUR 347.6 million (15.8% of GDP). This increase resulted from the further widening of the goods trade deficit, reflecting faster growth in imports against the exports growth.

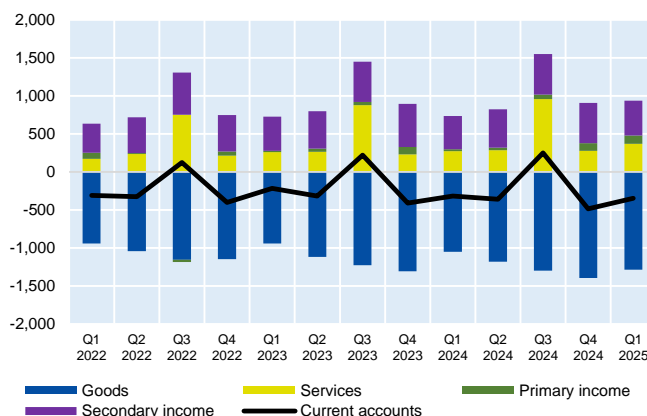
Meanwhile, primary and secondary income, along with services—especially travel services—contributed positively to mitigating this deficit (chart 10). Despite this balancing impact, the income from these components was not sufficient to fully offset the negative effect caused by the deterioration of the trade balance of goods.

The goods trade deficit in Q1 2025 increased by 20.8%, reaching EUR 1.4 billion, as a result of continued growth in goods imports (chart 11). The value of imported goods expanded to EUR 1.6 billion, mainly driven by an increase in the quantity of imported mineral products and transport equipment. On the other hand, exports remained at low levels, reaching EUR 201.7 million, covering only 12.6% of imports, which reflects a further deepening of the trade deficit. This unfavorable trade ratio of 1:7.9 illustrates the high dependency on imports and limited export capacities, further emphasizing the structural challenges for the economy. The high demand for foreign goods highlights the continued reliance on international markets to meet domestic needs and exposes the economy to external fluctuations and risks.

Exports of goods declined by 4.5% in Q1 2025, mainly due to the poor performance of key categories such as base metals and other manufactured items (chart 12). Base metals, for instance, declined by 10.2%, contributing -2.7 percentage points to total exports. This decrease reflects reduced demand and stabilizing prices in international markets. Likewise, other manufactured items declined by 19.1%, contributing -2.6 percentage points to the overall drop in exports.

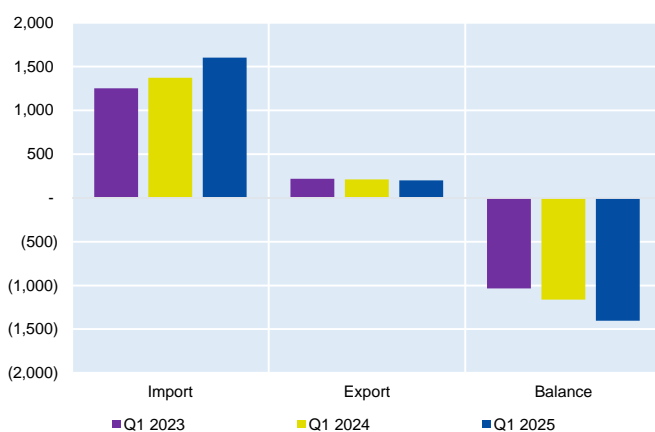
However, mineral products, textiles, and food products contributed positively, partially offsetting the negative impact from other categories and providing partial support for total goods exports during this period. From a geographical perspective, the Western Balkans remains the main export partner, accounting for 42.9% of total

Chart 10. Current account, EUR million



Source: CBK.

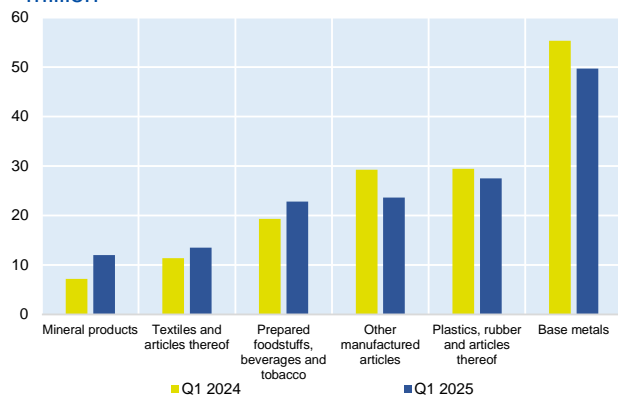
Chart 11. Trade balance of goods



Source: KAS.

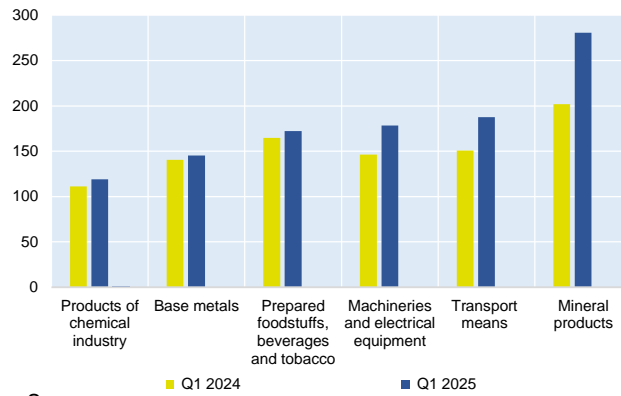
exports, with Albania and North Macedonia as the primary destinations. Meanwhile, EU countries account for 36.2% of total exports, with Germany as the main destination. This highlights a strong reliance on the regional market, but also presents an opportunity for expansion and integration into global supply chains.

Chart 12. Main categories of exported goods, EUR million



Source: CBK.

Chart 13. Main categories of imported goods, EUR million

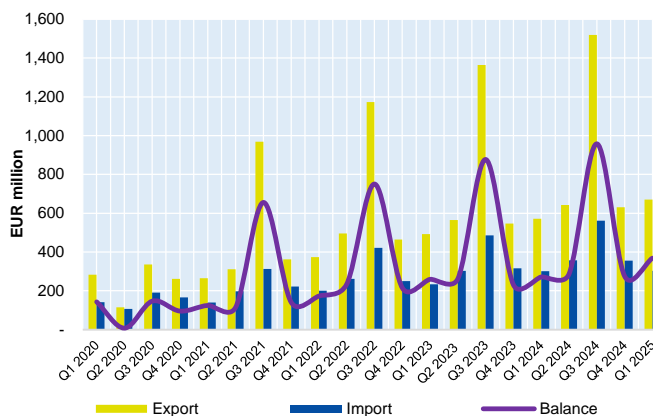


Source:

Goods imports recorded double-digit growth of 16.9%, reaching a value of EUR 1.6 billion (72.7% of GDP).

This increase was mainly supported by the import of mineral products, which contributed by 5.7 percentage points to total import growth, with an annual increase of 38.9%, reaching EUR 280.7 million. Within this category, electricity imports stood out, which, according to Kosovo Customs, reached a value of EUR 126.2 million in Q1 2025. Besides mineral products, the increase in imports was also supported by the import of transport equipment, which contributed with 2.7 percentage points, growing by 24.4% and reaching EUR 187.6 million, mainly driven by vehicle imports from South Korea (chart 13). EU countries represent around 42.6% of imports, while regional countries account for 16.8% of total imports.

Chart 14. Balance of services



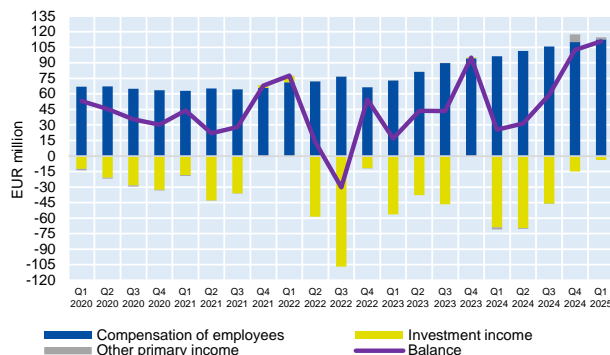
Source: CBK.

The services balance reached EUR 368.4 million, recording a significant annual increase of 35.8%, notably higher than the 4.7% increase in Q1 2024 (chart 14). Services exports reached EUR 670.6 million, increasing by 17.3% year-on-year, mainly supported by travel services.

This category, which represents the majority of services exports, grew by 19.1%, reaching EUR 442.5 million, as a result of increased travelers and visits from the diaspora. Positive contributions also came from exports of computer, information, and telecommunication services, which rose by 23.0%, reaching EUR 90.4 million. On the other hand, services imports reached EUR 302.2 million, recording only modest growth of 0.6%, due to the base effect created by last year's visa liberalization, which had generated a 29.0% increase. As a result, travel services imports decreased by 8.6%, falling to EUR 120.4 million. In contrast, transport services showed a positive trend, increasing by 31.3% and reaching EUR 80.2 million. The sustained expansion of IT and other business service exports represents an important indicator of structural transformation in the services sector and a trend toward diversifying the export portfolio of the economy.

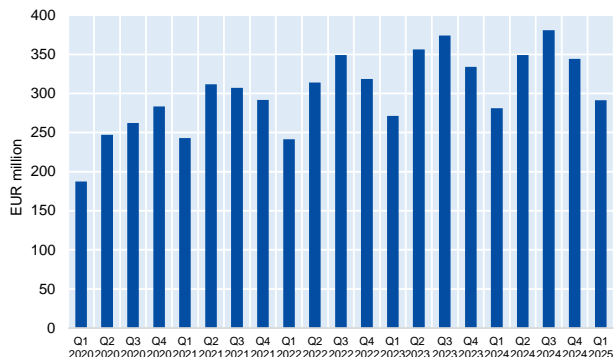
The primary income balance in Q1 2025 reached EUR 110.7 million, marking a significant increase compared to the previous year (chart 15). Compensation of employees contributed strongly to this improvement, with an annual increase of 16.9%, reaching EUR 112.7 million.

Chart 15. Balance of primary income



Source: CBK.

Chart 16. Remittances

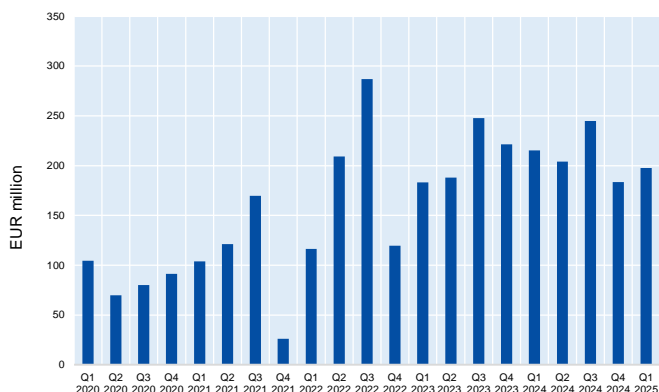


Source: CBK.

On the other hand, the investment income balance remained negative, amounting to EUR 3.9 million, due to reinvested earnings from foreign direct investments. Remittances continued to grow in Q1 2025, albeit at a slower pace of 3.6%, reaching EUR 291.3 million (chart 16). This growth was recorded both in formal channels, which increased by 3.6%, and informal channels, which grew by 4.0%. 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. The slower growth pace of remittances, compared to previous periods when growth was in double digits, may result from the base effect, as remittances have now reached a high level, making it more difficult to sustain high growth rates.

Foreign direct investment (FDI) reached EUR 197.6 million, marking a decline of 8.1% (chart 17). However, the pace of decline was partly mitigated by increased investments in the real estate sector. Investments in this sector rose by 11.7%, reaching EUR 158.9 million (80.4% of total FDIs), mainly due to rising property prices and strong demand. On the other hand, direct investments by Kosovo residents abroad recorded a noticeable increase in Q1 2025, reaching EUR

Chart 17. Foreign Direct Investments



Source: CBK.

74.3 million, compared to EUR 37.3 million in the same period of 2024. These investments were primarily oriented toward the real estate sector in regional countries, reflecting growing demand for investments abroad.

4. Financial system

In Q1 2025, the financial system in the country recorded strong growth, continuing the trend of accelerated growth that began in the second half of last year. Its value reached EUR 12.85 billion, marking an annual increase of 14.4% (chart 18). The banking sector and financial auxiliaries were characterized by accelerated annual growth, while the pension funds, insurance, and microfinance and non-bank financial sectors recorded slower annual growth compared to the same period last year.

As of March 2025, the banking sector accounted for 67.2% of the total assets of the financial system. Due to its significant share, it had the main contribution to the accelerated expansion of the financial system (chart 19). On the other hand, pension funds recorded slower growth of 11.9%, down from 16.4% in the same period of the previous year. As a result, their share within the financial system declined by 0.6 percentage points, falling to 25.0%.

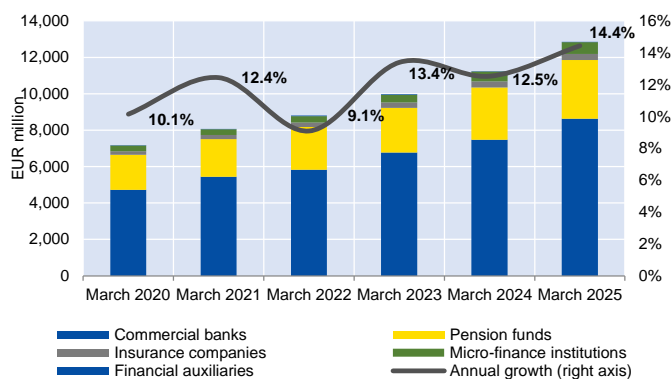
Likewise, the microfinance and non-bank financial sector, as well as the insurance sector, experienced slower growth of 17.5% and 8.1%, down from 31.2% and 9.0%, respectively. Meanwhile, the financial auxiliaries sector recorded accelerated annual growth of 38.1%, following a sharp decline of 66.8% last year due to the reclassification of two operators from financial auxiliaries to MFI/NBFI. However, due to the low weight of this sector, its contribution to overall growth was marginal.

4.1. Banking Sector

The assets of the banking sector reached EUR 8.63 billion, marking an accelerated annual growth of 15.4%, up from 10.6% in March of the previous year (chart 20). This asset dynamic reflects the accelerated expansion of lending activity, which represents 70.9% of the total value of assets.

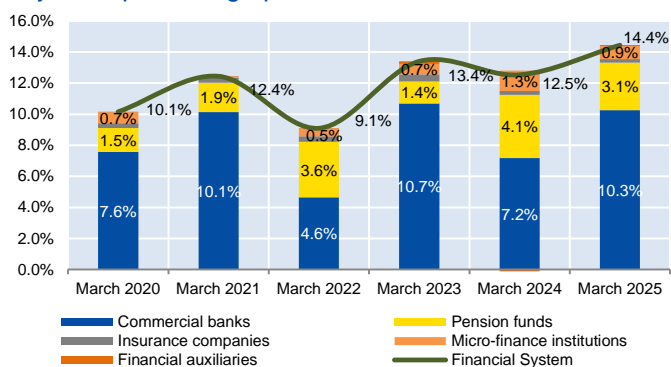
Among other asset components, cash and balances with the CBK recorded accelerated annual growth of 14.0%, up from 5.2% a year earlier. Meanwhile, investments in securities marked a slight contraction of 0.6%, compared to a 26.1% increase in the previous year, mainly due to a

Chart 18. Assets value of Kosovo's financial system



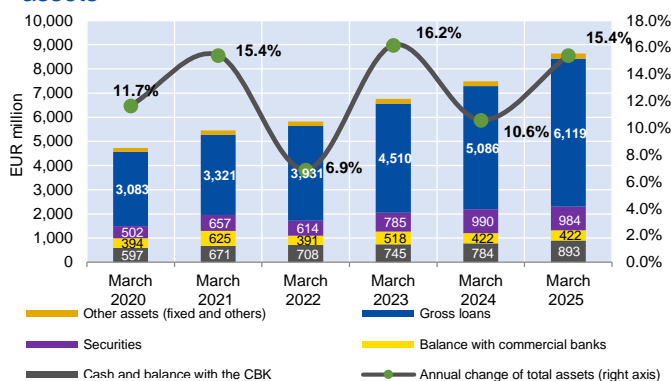
Source: CBK.

Chart 19. Contribution to assets growth of financial system, percentage points



Source: CBK.

Chart 20. Balance sheet of the banking sector - assets



Source: CBK.

decrease in investments in domestic securities. This development reflects, among other things, a strategic shift by the sector toward supporting lending instead of holding positions in domestic securities with relatively lower returns. The balance position with commercial banks remained virtually unchanged from the previous year, with a marginal decline of just 0.03%.

The total stock of loans reached EUR 6.12 billion, recording an accelerated annual growth of 20.3%, up from 12.8% in March of the previous year.

This lending activity was supported by a strong increase in credit since the second half of last year, which continued into the first quarter of this year, in both the non-financial corporate and household segments (charts 21 and 22).

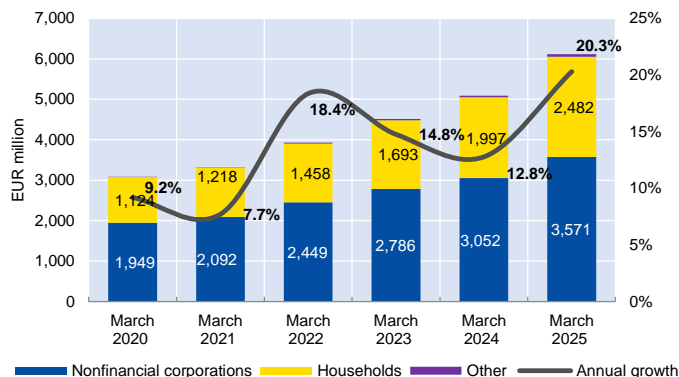
According to the Bank Lending Survey, in Q1 2025, credit growth was mainly driven by high demand from both households and businesses, accompanied by easing on the supply side, primarily through increased approval rates and, especially for SMEs and households in general.

The approval rate for loans increased for both sectors – businesses and households – particularly for SMEs and consumer loans. Loan terms and conditions were eased mainly for SMEs, through reduced collateral requirements and increased loan amounts. For households, mortgage loans saw easing in maturity and collateral requirements, while consumer loans increased in both amount and maturity. Loan demand from enterprises increased in both segments, although at a lower level compared to the previous quarter.

On the other hand, households recorded a faster increase in credit demand, particularly for mortgage loans, more so than for consumer loans. The main drivers of this growth were inventory and working capital financing for businesses, and positive developments in the real estate market, consumer spending, and consumer confidence for households.

In Q2 2025, credit supply is expected to ease further, particularly for SMEs within enterprises and for households in general. Meanwhile, loan demand is expected to continue growing strongly in both segments. The main contribution to credit expansion in the banking sector came from the non-financial corporate segment, which continues to dominate the structure of total loans. However, the household segment is expanding its share relatively quickly due to stronger growth in long-term loan stock. Sustainable credit growth has been accompanied by an expansion of the borrower base, reflecting a further deepening of financial

Chart 21. Stock of total loans, annual change



Source: CBK.

Chart 22. Contribution to the growth of total loans, in percentage points



Source: CBK.

intermediation. The number of new borrowers increased by 14.7% in Q1 2025, compared to 7.4% growth in the same period last year.⁴

Loans to the non-financial corporate segment reached EUR 3.57 billion, recording an annual growth of 17.0%, following a slowdown to 9.5% in the previous year.

This dynamic was driven by a high increase in new loans, with a special emphasis on investment loans. The lending activity of non-financial corporations (NFCs) by economic sector was characterized by accelerated growth in the wholesale trade sector, which recorded an annual increase of 18.6%, up from 8.9% in the previous year. This sector remains the largest contributor to corporate loan dynamics, due to its dominant share of 42.7% (chart 23).

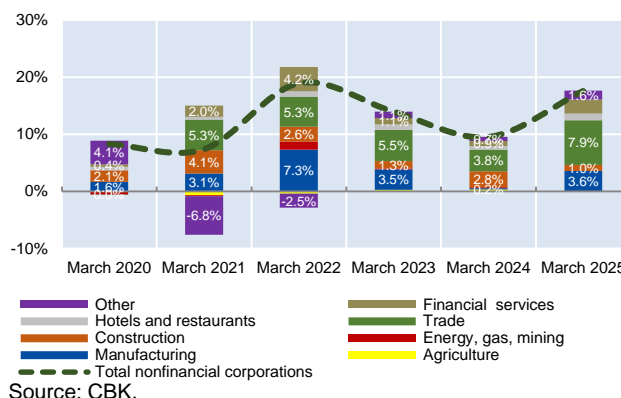
Likewise, the manufacturing and financial services sectors registered accelerated annual growth of 19.5% and 28.9%, respectively, up from 1.0% and 11.1% (chart 24). The construction sector recorded a slowdown of 14.2 percentage points in annual growth, falling to 7.0%. Meanwhile, the agriculture sector experienced an annual decline of 2.4%, compared to the growth of 16.8% in the previous year.

The credit dynamics toward NFCs in sectors such as wholesale trade and manufacturing reflect, to some extent, the increase in gross value added in these sectors.

In contrast, despite the growth of economic activity in the agriculture and construction sectors, lending was marked by either a decline or a deceleration in annual growth. New loans to non-financial corporations rose sharply by 46.3%, compared to a modest growth of only 1.4% in the previous year.

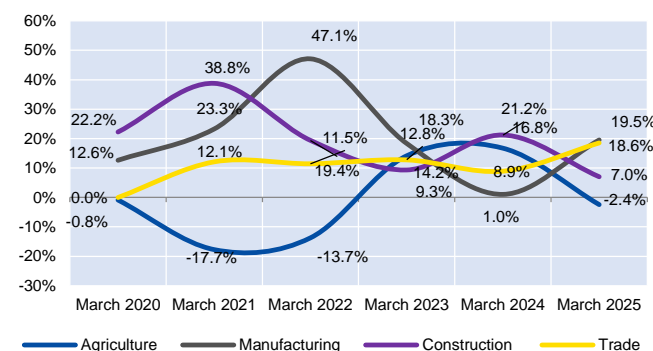
This acceleration was mainly driven by a significant increase in new investment loans, which grew by 63.8%, compared to 3.7% in the previous year. Within the new investment loans category, the strongest growth was recorded in loans to the services and industrial sectors, which increased by 102.7% and 63.7%,

Chart 23. Contribution to the growth of total lending to nonfinancial corporations, by economic activity



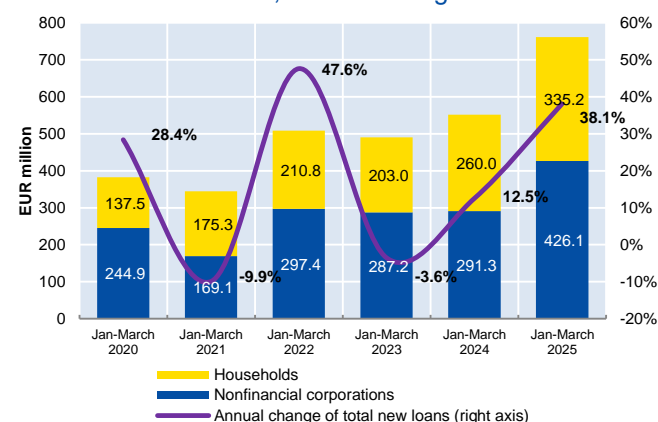
Source: CBK.

Chart 24. Annual change on loans to nonfinancial corporations, by economic activity



Source: CBK.

Chart 25. New loans, annual change



Source: CBK.

⁴ This refers to new borrowers recorded in the Kosovo Credit Registry database.

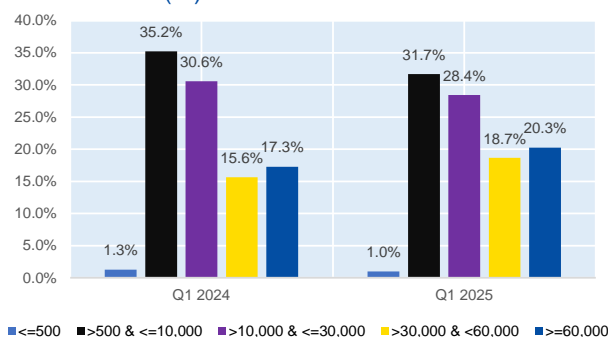
respectively. Additionally, unlike the previous quarter and March of last year, non-investment loans returned to a positive growth trend, registering an increase of 12.5%, compared to a decline of 2.8% in the previous year.

The loan stock to households reached EUR 2.48 billion, marking an accelerated annual growth of 24.3%, up from 17.9% in the previous year.

The main contributor to this increase were new mortgage loans, which recorded accelerated annual growth of 74.4%, up from 14.1% in the same period last year. Meanwhile, new consumer loans recorded slower growth of 20.0%, compared to 31.5% in the previous year, due to the high base effect from last year. The pronounced increase in new mortgage loans has been reflected, among other things, in the maturity structure of household loan stock, which is increasingly shifting toward longer maturities and higher loan amounts.

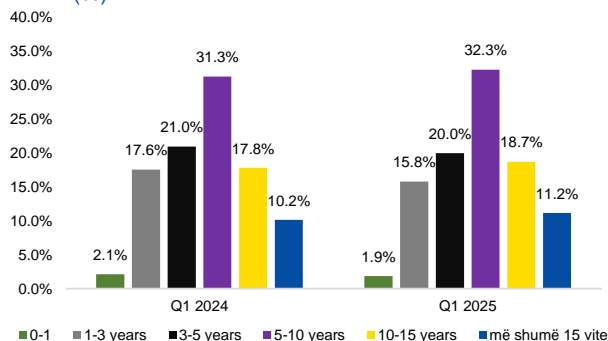
Specifically, the ‘over 10 years’ category expanded its share to 37.2%, up by 2.0 percentage points compared to a year earlier, and by 17.9 percentage points compared to five years ago. Nevertheless, the dominant category remained loans with a maturity of ‘5–10 years’, representing 42.9% of the total.

Chart 25a. New loans to households, by disbursed value at CRK (%)



Source: Credit Registry of Kosovo.

25b. New loans to households by maturity at CRK RKK (%)



Source: Credit Registry of Kosovo.

According to data from the Kosovo Credit Registry (KCR), newly disbursed loans to households during January–March 2025 had an average value of EUR 7.3 thousands and an average maturity of 3.7 years, compared to EUR 6.4 thousands and 3.5 years in the same period of the previous year.

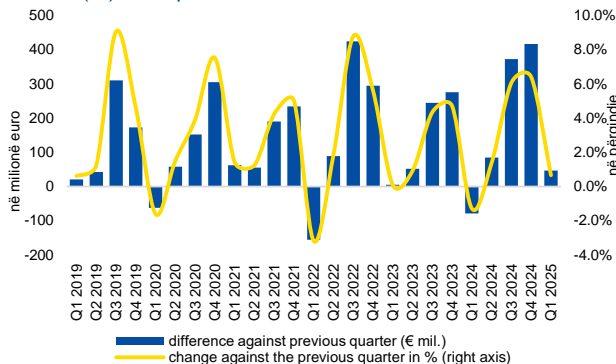
More specifically, in terms of loan value, 31.7% of new loans were in the EUR 500–10,000 interval, compared to 35.2% in the previous year, remaining the dominant category for households.

Chart 26. Stock of total deposits



Source: CBK.

Chart 26a. Diferenca (mil. €) dhe ndryshimi i vlerës (%) së depozitave në kuartale



Source: CBK.

Meanwhile, loans in the EUR 30,000–60,000 range, as well as those equal to or above EUR 60,000, increased their share, contributing to the rise in the average value of new household loans (chart 25a). In terms of

maturity, loans with a ‘5–10 years’ maturity accounted for 32.3% of the total value of newly disbursed loans to households. At the same time, loans with maturities of ‘10–15 years’ and ‘over 15 years’ registered growth in both number and value disbursed, confirming the trend toward longer-term and higher-value financing (chart 25b).

The deposit stock in the banking sector reached EUR 6.97 billion, marking an accelerated annual increase of 15.2%, up from 8.9% in March 2024 (chart 26).

Compared to the previous quarter, deposits increased by 0.7%, in contrast to a decline of 1.3% in the same period of the previous year (chart 26a). The main driver of total deposit growth was household deposits, which represent about 66.5% of the total portfolio, and recorded accelerated annual growth of 14.0%, up from 8.7% in the previous year. Non-financial corporation deposits also accelerated to 14.9%, up from 12.4% last year. Deposits from other financial corporations and public corporations also contributed significantly, recording annual growth of 27.4% and 13.5%, up from 16.2% and -2.2%, respectively (chart 27).

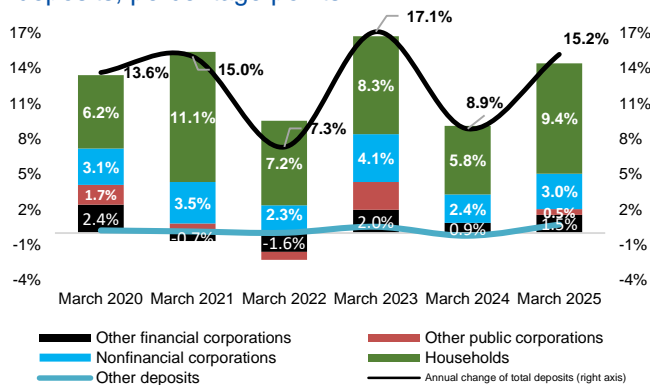
The growth in these categories was mainly driven by large depositors, particularly pension funds, insurance companies, and the energy sector. Competitive pressures and the banks’ liquidity needs led to the offering of more attractive interest rates compared to a year earlier, which positively affected deposit growth overall. In March 2025, deposits accounted for 80.7% of total liabilities and equity in the banking sector, marking a slight annual decline of 0.1 percentage points, mainly due to the higher growth in own funds.

New deposits, which include only time deposits, were characterized by a slowdown in annual growth for both households and non-financial corporations. This deceleration is mainly attributed to the base effect, following high growth levels in the previous year. The value of new deposits reached EUR 296.9 million at the end of March 2025, representing an annual growth of 24.3%, compared to 56.5% in the previous year. The household segment slowed to 31.3% growth, down from 61.9% in the previous year.

Likewise, new deposits from non-financial corporations increased by 11.2%, compared to 47.2% last year (chart 28). The interest rate on loans continued its downward trend in Q1 2025, driven by easing inflationary pressures and the further reduction of the European Central Bank’s base interest rate.

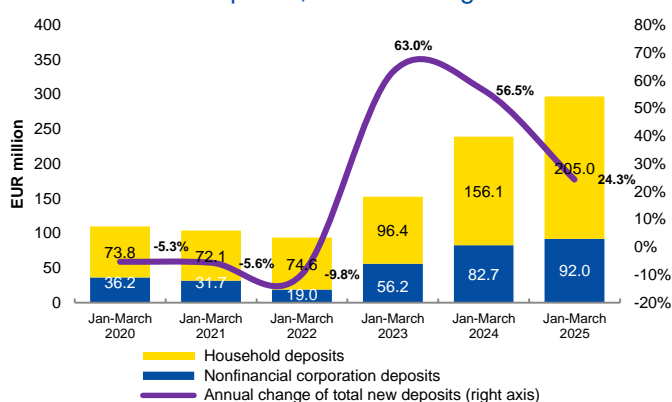
Conversely, the interest rate on deposits increased compared to the same period last year, although it declined from the previous quarter. In March 2025, the average interest rate on loans fell to 5.7%, down from 6.2 percent in March 2024, and by 0.2 percentage points compared to December 2024. Interbank competition for attracting deposits and the need for liquidity contributed to the increase in deposit interest

Chart 27. Contribution to annual growth of total deposits, percentage points



Source: CBK.

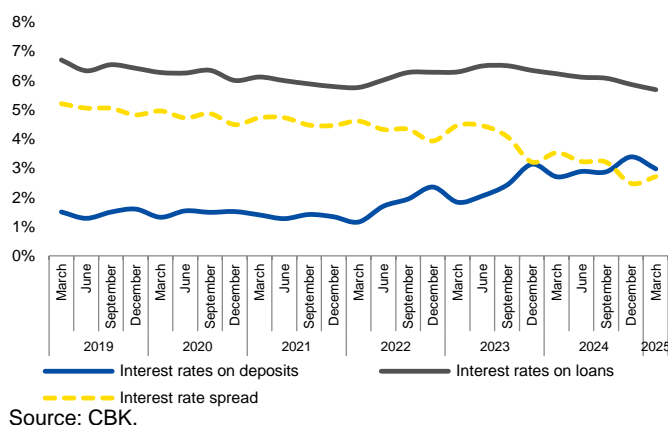
Chart 28. New deposits, annual change



Source: CBK.

rates to 3.0% , from 2.7%in the previous year. However, from December 2024, this rate declined by 0.4 percentage points. As a result of lower lending rates and higher deposit rates, the interest rate margin (loan-deposit spread) dropped to 2.7 percentage points in March 2024, from 3.5 percentage points in the same period last year. However, compared to December 2024, the margin rose by 0.2 percentage points, due to a sharper decline in deposit rates than in lending rates (chart 29). The downward trend of the Euribor rate affected the structure of loans by type of interest rate, encouraging a higher share of fixed-rate loans in total loan portfolio after a continuous four-year declining trend.

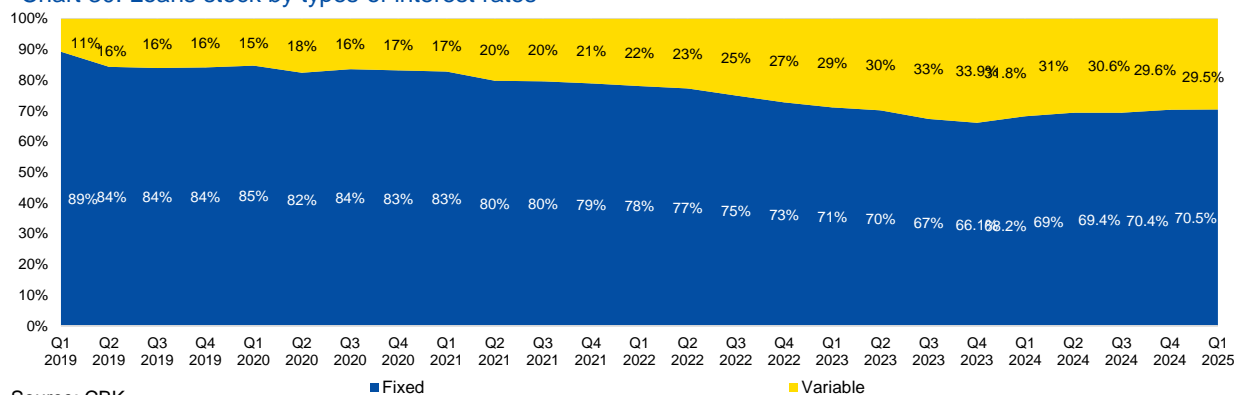
Chart 29. Interest rate on loans and deposits



Source: CBK.

Specifically, in March 2025, the share of fixed interest rate loans increased to 70.5%, up from 68.2%in the same period of the previous year. Compared to the previous quarter, this share rose marginally by 0.1 percentage points (chart 30).

Chart 30. Loans stock by types of interest rates

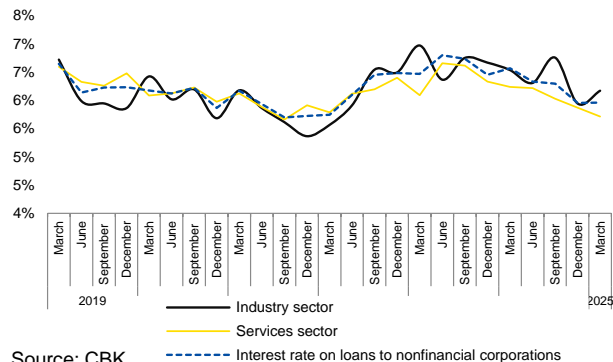


Source: CBK.

In March 2025, the average interest rate on loans to nonfinancial corporations decreased to 6.0%, marking an annual decline of 0.6 percentage points.

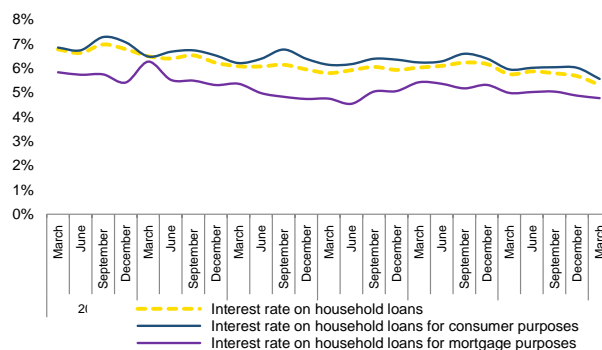
Compared to the previous quarter, the average interest rate for this segment remained nearly unchanged, with a marginal increase of 0.01 percentage points. Within nonfinancial corporations, the average interest rate for the services and agriculture sectors decreased compared to both the same period of the previous year and the previous quarter, dropping to an average of 5.7%and 7.8%, respectively (chart 31). The interest rate for the industry sector declined by 0.4 percentage points year-on-year to 6.2%, but compared to the previous quarter, it increased by 0.2 percentage points.

Chart 31. Norma e interesit në kredi për korporatat jo-financiare



Source: CBK.

Chart 32. Interest rate on loans to households

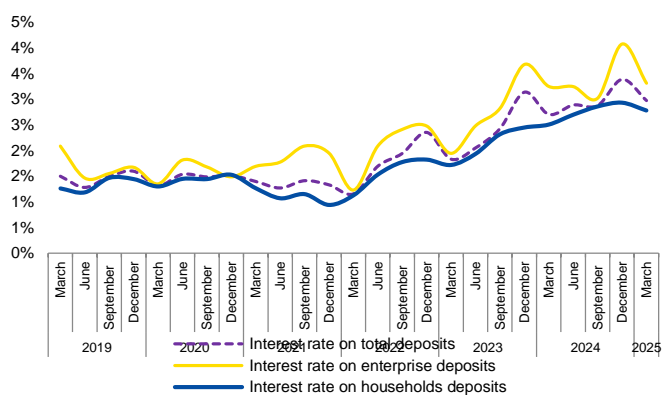


Source: CBK.

The average interest rate for households declined to 5.3%, down 0.4 percentage points compared to both March and December of the previous year. Within households, mortgage loans had more favorable interest rates, averaging 4.8%, while consumer loans averaged 5.6% (chart 32). Compared to the previous quarter, the mortgage loan rate decreased by 0.1 percentage points, while the consumer loan rate declined by 0.5 percentage points.

Deposit interest rates averaged 3.0 percent, up 0.2 percentage points year-on-year, but down 0.4 percentage points from the previous quarter. In March 2025, the average deposit interest rate for nonfinancial corporations rose by 0.1 percentage points annually to 3.3 percent (chart 33). However, compared to the previous quarter, it fell by 0.8 percentage points. For households, the average deposit interest rate increased by 0.3 percentage points annually, reaching 2.8 percent. Compared to the previous quarter, this rate marked a slight decline of 0.2 percentage points.

Chart 33. Interest rates on deposits



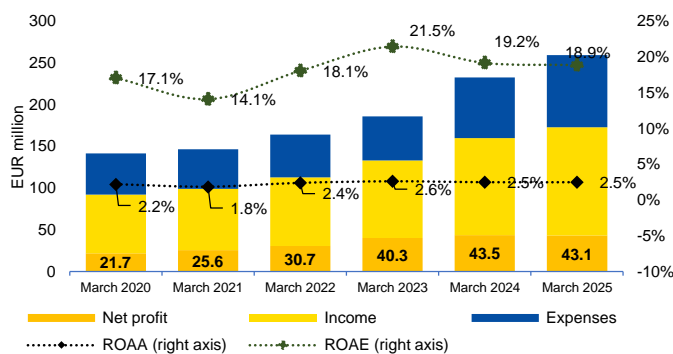
Source: CBK.

The net profit of the banking sector amounted to EUR 43.1 million, down from EUR 43.5 million in the previous year, reflecting an annual decrease of 0.9 percent, compared to a growth of 7.9 percent one year earlier. This outcome reflects a higher growth in expenditures relative to a slower increase in revenues.

Total income reached EUR 129.7 million, an annual increase of 11.5 percent, significantly lower than the 25.2 percent growth in the previous year. The slower growth in revenues was mainly due to interest income, which constitutes around 78.4 percent of total income and increased by 12.1 percent, down from 31.3 percent the previous year. Specifically, interest income from loans rose by 19.0 percent, down from 19.4 percent a year earlier, reflecting the lower interest rates and base effects. Additionally, interest income from securities investments fell to EUR 7.9 million, from EUR 9.3 million in the previous year, due to the decline in investments in securities. Interest income from placements with banks also decreased, falling to EUR 3.8 million, from EUR 5.8 million in March last year. Unlike interest income, non-interest income – primarily from fees and commissions – recorded an accelerated annual growth of 11.6 percent, compared to 9.3 percent in the previous year, reaching EUR 24.9 million at the end of March 2025.

Banking sector expenditures reached EUR 86.6 million, marking a slower annual growth of 18.9 percent, compared to 38.5 percent in the same period of the previous year. This dynamic was mainly driven by lower growth in interest expenses, as well as in general and administrative expenses. Specifically, interest expenses totaled EUR 17.7 million, with annual growth slowing to 37.8 percent, down from 51.2 percent a year earlier, affected by the decline in deposit interest rates and high base effects from last year. Similarly, general and administrative expenses grew more slowly, at 11.2%, compared to 29.8% the previous year, mainly due to the deceleration in personnel expense growth.

Chart 34. Profit and profitability indicators of the banking sector

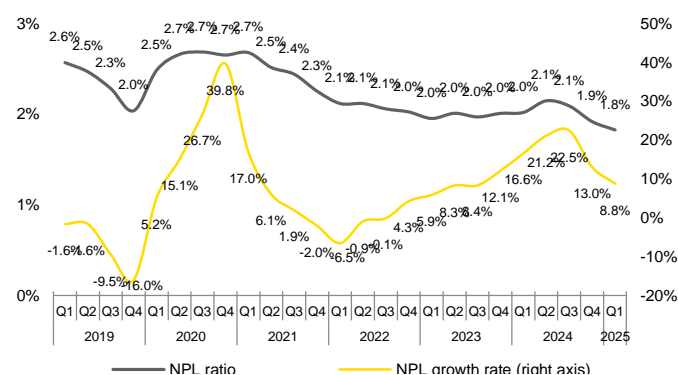


Source: CBK.

The slower profit growth compared to capital growth caused the Return on Equity (ROE) to slightly decline to 18.9, from 19.2% in the previous year. Meanwhile, the Return on Assets (ROA) remained unchanged at 2.5% (chart 34).

The non-performing loan (NPL) ratio declined to 1.8%, a decrease of 0.2 percentage points year-on-year and 0.1 percentage points quarter-on-quarter. This development was the result of a relatively lower increase in the value of non-performing loans compared to the accelerated growth of total loans during Q1 2025 (chart 35). On the other hand, the coverage with provisions for potential loan losses declined to 125.8% from 141.4% in the same period of the previous year, as a result of a decrease in the value of provisions set aside for covering loans and an increase in the value of non-performing exposures compared to the previous year. However, compared to the previous quarter, it fell by 1.4 percentage points.

Chart 35. Annual change of NPL value and NPL to total loans ratio



Source: CBK.

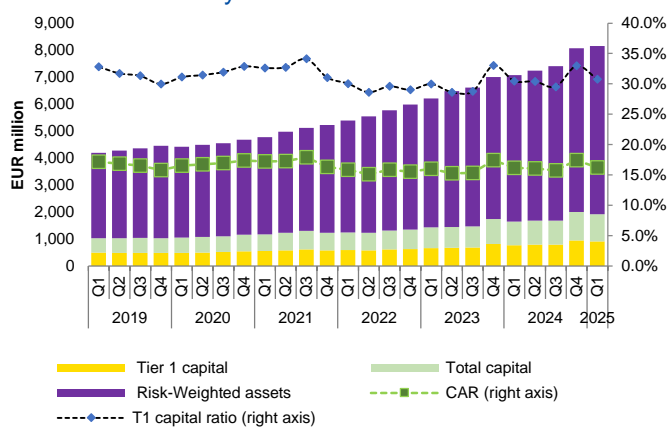
The non-performing loans (NPL) ratio recorded a year-on-year decline for both nonfinancial corporations and households. More specifically, the NPL ratio for nonfinancial corporations dropped to 2.1%, while for households it decreased to 1.4%.

Households were characterized by a slower growth in non-performing exposures, with an annual increase of 19.1%, compared to 33.2% a year earlier. Compared to the previous quarter, the NPL ratio for households remained nearly unchanged, with only a marginal decrease of 0.04 percentage points. Similarly, nonfinancial corporations recorded a deceleration in the annual growth of non-performing exposures to 4.9% from 10.6% in the previous year. Within NFCs, the services and trade sectors experienced a slight annual decline in the NPL ratio—less than 1 percentage point—resulting in NPL ratios of 2.8% for services and 1.3% for trade. Likewise, the construction sector recorded a marginal annual decline of 0.1 percentage points in the NPL ratio, dropping to 2.8%, due to a higher increase in total loans compared to the increase in non-performing loans.

On the other hand, sectors that recorded an annual increase in the NPL ratio included manufacturing and transportation. The NPL ratio reached 2.8% from 2.3% for manufacturing, and 2.9% from 1.1% for transportation.

The capital position, expressed through the capital adequacy ratio (CAR) to risk-weighted assets, reached 16.2%, up from 16.1% in the previous year. However, compared to the end of 2024, this indicator recorded a decrease of 1.2 percentage points. The slight annual increase in the capital adequacy ratio was driven by a higher growth in capital compared to the growth in risk-weighted assets. Specifically, the regulatory capital of the sector in Q1 2025 recorded an annual increase of 15.4%, up from 14.6% in the previous year, while risk-weighted assets grew by 15.0%, compared to 13.4% in March 2024 (chart 36).

Chart 36. Solvency indicator

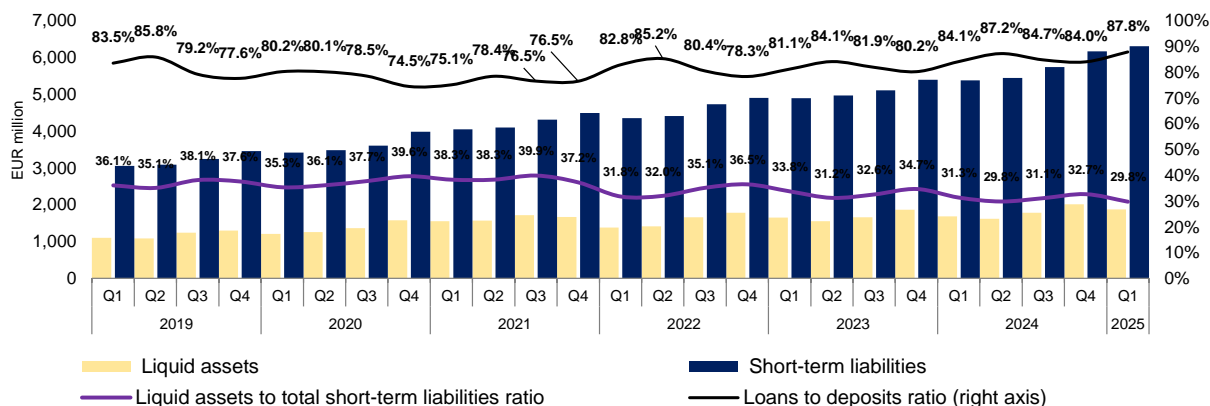


Source: CBK.

Conversely, the decline in the capital adequacy ratio compared to the previous quarter reflects a 4.3% decrease in regulatory capital—mainly due to dividend payouts during this period—while risk-weighted assets increased by 2.8%.

Liquidity and funding indicators declined compared to the previous year, although they remain well above regulatory requirements. The Liquidity Coverage Ratio (LCR) dropped to 185.4% in March 2025, down by 30.2 percentage points, but remained well above the regulatory minimum of 100%. This level indicates that banks hold sufficient liquid assets to meet outflows over a 30-calendar-day stress period. Similarly, the Net Stable Funding Ratio (NSFR) fell to 134.8% from 142.7% in March 2024, but remains above the 100% regulatory minimum, indicating that banks maintain adequate and stable funding to meet longer-term liquidity needs.

Chart 37. Liquidity indicators



Source: CBK.

Furthermore, the liquidity ratio—expressed as the ratio of liquid assets to short-term liabilities—recorded an annual decline of 1.6 percentage points, dropping to 29.8%. This was due to a more pronounced annual increase of 17.2% in short-term liabilities, compared to an 11.3% increase in liquid assets. Additionally, the faster growth in lending relative to deposits contributed to an increase of 3.7 percentage points in the loan-to-deposit ratio, reaching 87.8% (chart 37).

4.2. Pension sector

The pension sector was characterized by increased risks in financial markets, which were reflected in negative returns from investments, in contrast to the positive performance recorded in the same period of the previous year. Nevertheless, the value of assets continued its double-digit annual growth, albeit at a slower pace compared to the same period of the previous year. At the end of the first quarter of 2025, the assets of the pension sector amounted to EUR 3.2 billion, reflecting a slowdown in annual growth by 4.4 percentage points (chart 38).

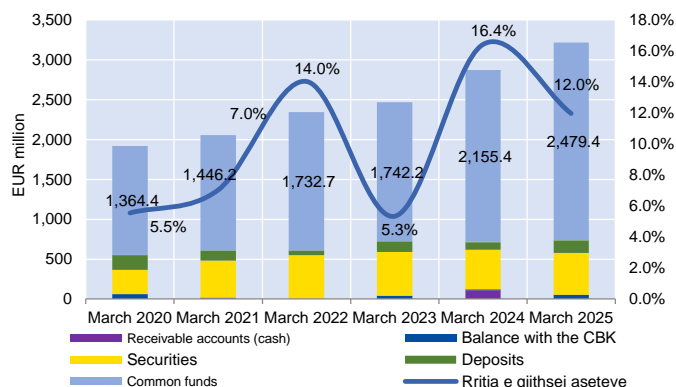
The sector's dynamics were mainly determined by the Kosovo Pension Savings Trust (KPST), which represented 99.7% of total assets at the end of March 2025. The annual growth of this fund's assets slowed to 12%, from 16.4% a year earlier. The Slovenian-Kosovo Pension Fund (SKPF) recorded an even more pronounced slowdown, with an annual growth of 4.1% compared to 12.6%.

The structure of the pension sector's investment portfolio during Q1 2025 reflected an immediate response to unfavorable developments in international markets, resulting in a partial shift of investments toward the domestic market. KPST recorded a slowdown in the annual growth of foreign investments, to 9.6% from 29.7% in the same period of the previous year.

As a result, the share of these investments in the total portfolio declined from 79.0% to 77.4%. These investments remain almost entirely concentrated in mutual funds, accounting for 99.9% of the portfolio. At the same time, investments in the domestic market recorded a considerable increase of 20.9%, offsetting the 16.0% decline recorded in Q1 of the previous year. Within domestic investments, the dynamics were characterized by a shift toward more flexible and liquid instruments.

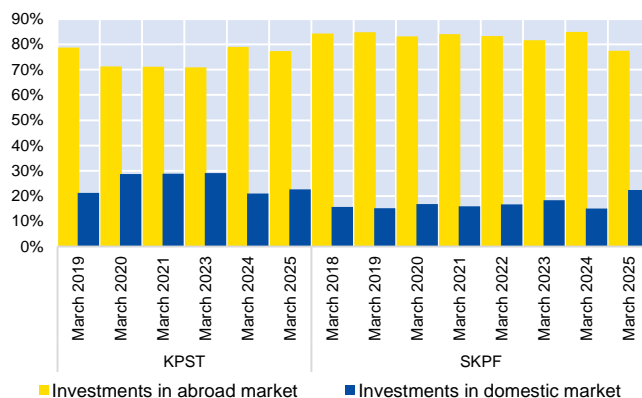
Certificates of deposit recorded the highest growth both in nominal terms and in portfolio weight, expanding by 69.0% and increasing their share from 15.1% to 21.1%. In contrast, securities – which remain the dominant item of domestic market investments – recorded a modest growth of 4.8%, decreasing their share from 82.8% to 71.7%. The total amount of liquid assets held outside investment markets (cash and funds held at the CBK) tripled, increasing to over EUR 51.9 million. As a result, their share in total investments increased from 2.1% to 7.2%, reflecting a more cautious approach to liquidity management and greater cash preservation in response to uncertainties in financial markets. SKPF followed similar investment strategies, increasing exposure in both markets but at a faster pace in the domestic market. Foreign investments increased by 3.0% annually, while domestic investments grew by 67.7%, increasing their share in total investments to 22.5% from 15.1% in the same period of the previous year. Within the overall portfolio, 94.1% of assets are invested in equities, 5.7% in securities, and 0.3% are held in cash. Within the domestic investment portfolio, Government

Chart 38. Assets of the pension sector



Source: CBK.

Chart 39. Structure of pension funds investments



Source: KPST, SKPF

of Kosovo securities account for 75.7% of total SKPF assets. The rest of this portfolio consists of cash holdings with a share of 7.5% and deposits in commercial banks representing 16.9%.

During Q1 2025, pension funds recorded negative investment returns amounting to EUR 40.5 million, compared to a positive return of EUR 108.8 million in the same period of the previous year.

This development was driven by trade tensions caused by increased tariffs in international trade, which generated uncertainty and heightened volatility in global stock markets where the Kosovo pension sector is exposed. KPST recorded a negative gross return of EUR 40.3 million, compared to a positive return of EUR 108.3 million in the same period of the previous year, as a result of the significant decline in international financial markets (chart 40).

This decline primarily affected the standard portfolio, which includes contributors up to the age of 57 and has higher exposure to risky instruments.

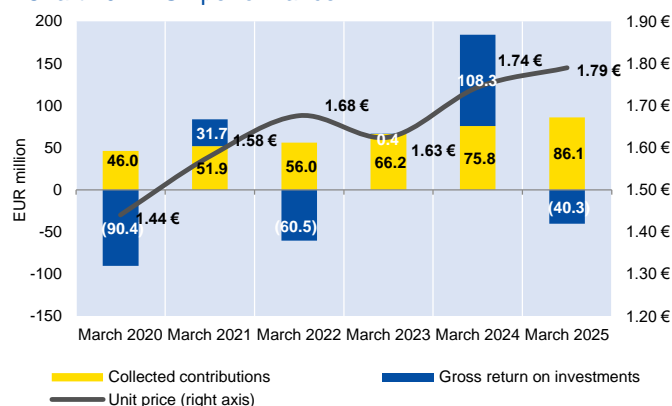
Meanwhile, contributors over 63 years old – who are in the withdrawal phase – benefit from a more conservative investment structure and recorded positive returns, being protected from market fluctuations.

The recorded losses represent unrealized portfolio depreciation, which may be recovered as market conditions improve. Despite the overall negative investment performance, the unit price of KPSF shares slightly increased to EUR 1.79 from EUR 1.74 in the same period of the previous year. The SKPF portfolio was also affected by fluctuations in international financial markets, resulting in a negative gross return of EUR 240 thousand during Q1 2025, compared to a positive return of EUR 520 thousand in the same period of the previous year (chart 41). Similar to developments in KPST, this decline reflects a temporary depreciation of invested assets, influenced by the international financial environment, but does not constitute a realized loss, as long as asset prices may recover in the coming periods. The share price of SKPF increased at EUR 2.09 per unit, from 2.07 EUR as it was in the previous year.

Contributions collected marked a slight increase, reaching EUR 86.4 million for both funds with EUR 76.0 million marked in the same period of the previous year. This slight increase in contributions has helped maintain the positive trend in the overall growth of assets, despite the weaker performance of financial markets.

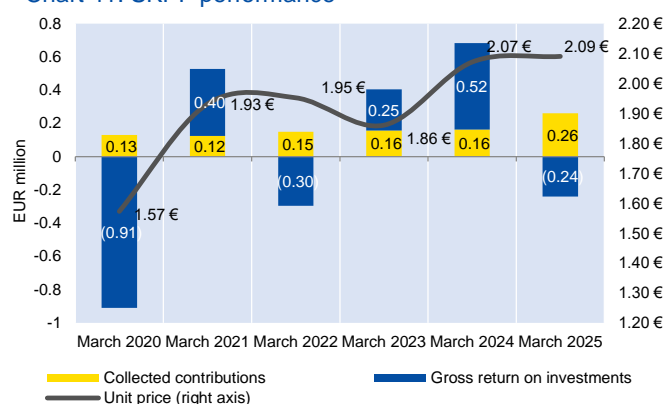
The value of contributions collected by the KPST (Kosovo Pension Savings Trust) by the end of the first quarter reached EUR 86.1 million, marking an annual increase of 13.5%, compared to 14.6% a year earlier (chart 40). Despite the increase in collected contributions, the number of active accounts in Q1 2025 recorded an annual decline of 1.1%, in contrast to the 3.7% growth recorded in the same period of the previous year.

Chart 40. KPST performance



Source: KPST.

Chart 41. SKPF performance



Source: SKPF

Meanwhile, contributions collected by the KPCF (Kosovo Private Pension Fund) at the end of Q1 2025 increased to EUR 260 thousand from EUR 160 thousand in the same period of the previous year.

4.3. Insurance sector

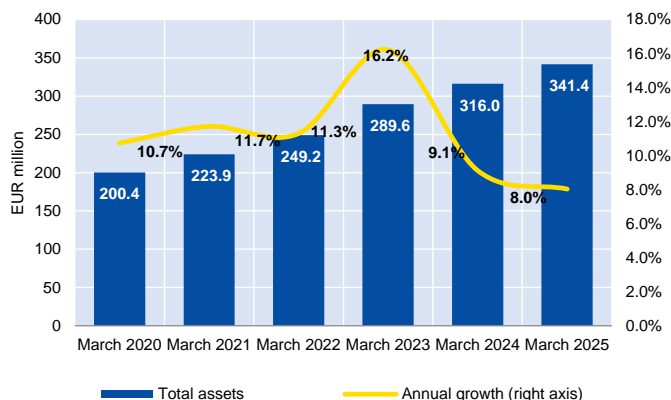
The insurance sector recorded a slower pace of annual asset growth, reflecting the deceleration in the growth of written premiums, with the largest impact stemming from the biggest market segment – non-life insurance. Assets marked an annual growth of 8.0%, reaching EUR 341.4 million (chart 42).

The asset structure remained primarily oriented towards low-risk and highly liquid instruments, dominated by bank deposits and securities. Bank deposits recorded an annual growth of 15.6%, increasing their share in total assets from 44.2% to 48.1%. Meanwhile, Government of Kosovo securities, as the second most important category in the portfolio, recorded a slowdown in growth from 10.9% in March 2024 to only 1.1% in March 2025. As a result, their share in the asset structure slightly declined from 16.5% to 15.4%. Likewise, reinsurers’ technical reserves recorded a slowdown in annual growth from 8.1% to just 1.1%, reducing their share in total assets to 14.1% from 15.1% a year earlier. **The total value of written premiums recorded a slowdown in annual growth to 2.2%, compared to 21.7% in the same period of the previous year (chart 43).**

This deceleration was especially driven by non-life insurance, which makes up the largest share of the market and recorded an annual growth of only 2.0%, compared to 22.4% a year earlier. Within the non-life insurance segment, the category "Motor Third-Party Liability" (domestic MTPL) remains dominant, accounting for 49.8% of total premiums in March 2025, up from 49.3% a year earlier. This category marked an annual premium growth of 6.3%, compared to a 10.1% increase in the same period of the previous year. On the other hand, the "Health Insurance" category, the second largest in this segment with 25.3% of total premiums, recorded an annual decline of 1.9%, in contrast to a significant growth of 31.8% in March 2024.

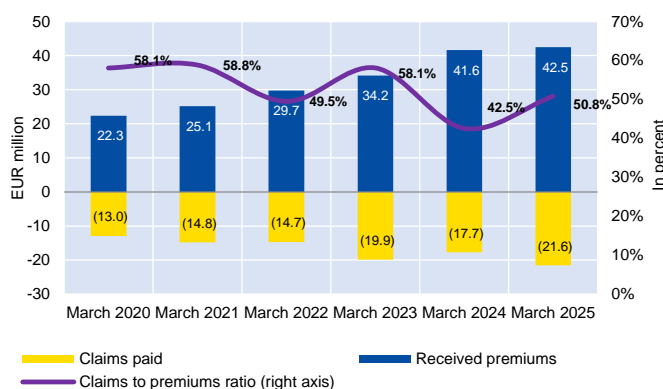
The non-life insurance sector also experienced a significant annual decline in the number of policies, down by 20.2%, compared to a considerable growth of 51.0% in Q1 2024. The largest contribution to this decline came from health insurance policies, which contracted by 42.5% following a significant increase of 123.3% a year earlier. As a result, the share of this category in total non-life insurance policies dropped to 34.8% from 48.3% in March 2024. Meanwhile, the "Motor Third-Party Liability" (MTPL) category, which represents 57.5% of the total number of policies, registered modest growth of 1.7%, compared to a 16.7% increase in Q1 2024. Life insurance, which constitutes a relatively small share of total premiums (4.5%), recorded an annual growth of 7.2%, down from 9.6% a year earlier. The value of gross written premiums in the life insurance segment was

Chart 42. Assets of insurance sector



Source: CBK.

Chart 43. Written premiums and claims paid



Source: CBK.

primarily influenced by the “Debtor’s Life” category, which accounted for 51.8% of total premiums in this segment in March 2025. This category recorded an annual growth of 10.6%, compared to an increase of 20.0% in the same period of the previous year. Meanwhile, the “Combined Life” category, which holds 34.0% of total premiums in this segment, recorded an annual decline of 1.72%, compared to a drop of 0.18% in March 2024.

Claims paid by insurance companies and the Kosovo Insurance Bureau recorded an annual increase of 22.1% in March 2025, following a decline of 10.8% in the same period of the previous year (chart 43).

Claims paid by insurance companies increased by 27.5% from a decrease of 13.3%, while claims paid by the Kosovo Insurance Bureau recorded an annual decline of 23.4%, in contrast to a 17.6% increase in the previous period. Meanwhile, claims covered by reinsurers increased significantly, nearly tripling compared to a year earlier. Within paid non-life insurance claims, the category “Motor Third-Party Liability”, with a share of 50.4%, recorded an annual growth of 4.3%, reaching EUR 10.6 million. This increase was mainly driven by claims related to border policies and domestic MTPLs. Meanwhile, the “Health Insurance” category, which accounted for 25.2% of the total, recorded an annual increase of 7.6%, reaching EUR 5.3 million.

The net profit of the sector recorded an annual growth of 6.7%, reaching EUR 4.0 million, as a result of faster revenue growth compared to the slower pace of expenditure expansion.

Total income, primarily supported by written premiums, increased by 4.3% to EUR 36.6 million, while expenditures expanded at a slower rate of 4.0%, reaching EUR 32.7 million. The ratio of paid claims to accepted premiums rose to 50.8% in March 2025, from 42.5% a year earlier, due to the faster growth of claims compared to premium income (chart 43). Within the expenditure structure, claims paid increased by 3.7%, reaching EUR 19.5 million, while operational expenses – including personnel and administration – increased by 3.5%, reaching EUR 12.3 million.

Profitability indicators have declined due to the faster expansion of the asset and capital base. As a result, the average return on assets (ROA) fell to 5.4% from 6.0%, while the average return on equity (ROE) dropped from 21.1% to 17.7% in March 2025.

The sustainability indicators of the non-life segment, which dominates the insurance sector, showed improvement at the sectoral level, while life insurance was characterized by mixed developments in these indicators, although remaining above regulatory requirements.

The capital-to-solvency margin ratio for non-life insurers increased to 170.0% from 150.2% in the same period of the previous year, while for life insurers this ratio recorded a slight annual decline, reaching 680.9% from 716.0%. The capital-to-guarantee fund ratio for non-life insurers remained above the minimum required threshold and further increased to 195.4% from 158.3% in 2024. For life insurers, this indicator also improved, reaching 177.0% from 143.6% a year earlier. The technical provisions coverage ratio for the non-life insurance sector slightly improved to 113.0%, from 109.2% in March 2024. Meanwhile, the life insurance sector experienced a slight decline, with coverage dropping to 117.9% from 115.5% in the corresponding period of the previous year. Liquidity indicators also improved, with the ratio between liquid assets and technical provisions increasing to 95.7% compared to 91.1% at the end of March 2024. Similarly, the ratio between liquid assets and total liabilities improved to 83.5% from 79.5% a year earlier.

4.4. Microfinance sector and non-bank financial institutions

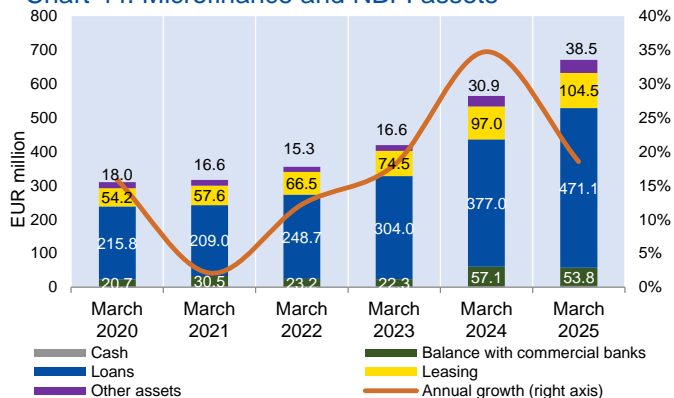
The sector continued its strong double-digit growth, with an annual increase in assets of 18.5% in March 2025, although at a slower pace compared to the sharp growth of the previous year. **This dynamic reflects the decelerating trend in the growth of external sources of financing.** The value of the sector's assets reached EUR 671.4 million. The portfolio structure continues to be dominated by loans, followed by leasing and liquid assets held in commercial banks (chart 44). With the exception of balances in commercial banks, which recorded an annual decline, all other asset categories were characterized by annual growth. On the financing side, borrowings from the external sector – the main source of funding for this sector – continued to grow, but at a slower pace, increasing by 17.0% in March 2025 compared to 34.3% a year earlier.

The stock of loans in the sector reached EUR 471.1 million, maintaining a high growth trend of 25.0% from 24.0% a year earlier.

Loans to households rose to EUR 276.9 million, with an annual increase of 21.7% from 18.5% in March 2024, while loans to nonfinancial corporations expanded to EUR 194.2 million, up by 30.0% from 33.5% in March 2024 (chart 45).

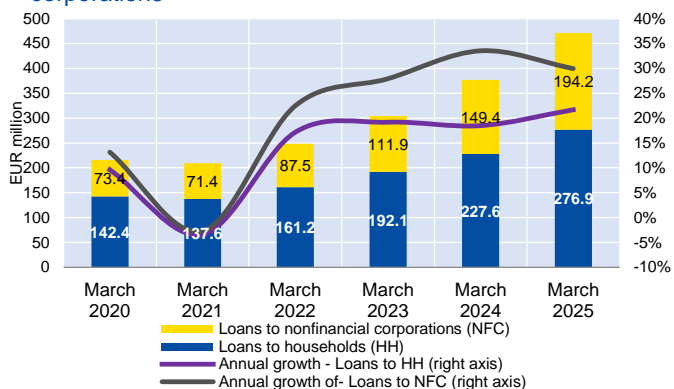
This dynamic was also reflected in the structure of the loan portfolio, where the share of loans to nonfinancial corporations increased to 41.2% from 39.6% a year earlier, while the share of loans to households decreased to 58.8% from 60.4%.

Chart 44. Microfinance and NBFI assets



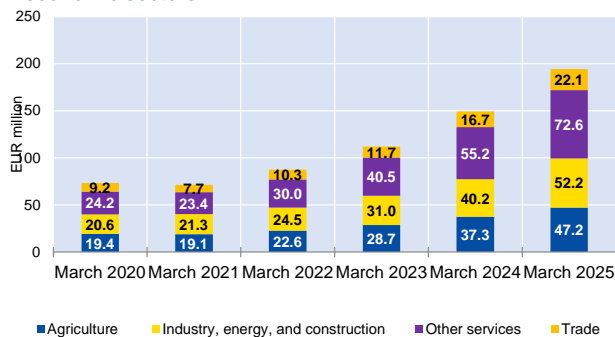
Source: CBK.

Chart 45. Value of loans to households and to nonfinancial corporations



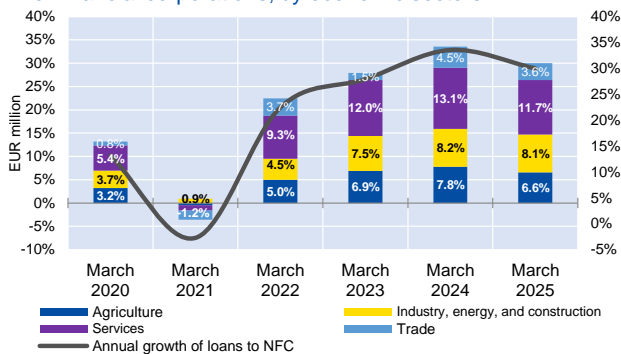
Source: CBK.

Chart 46. Value of loans to nonfinancial corporations, by economic sectors



Source: CBK.

Chart 47. Contribution to the growth of lending to nonfinancial corporations, by economic sectors

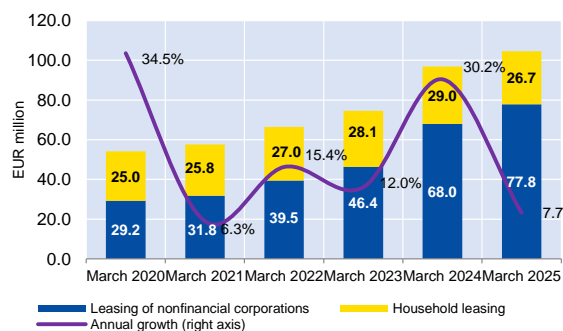


Source: CBK.

All sectors of the economy experienced growth, with the trade sector recording the highest increase of 32.4%.

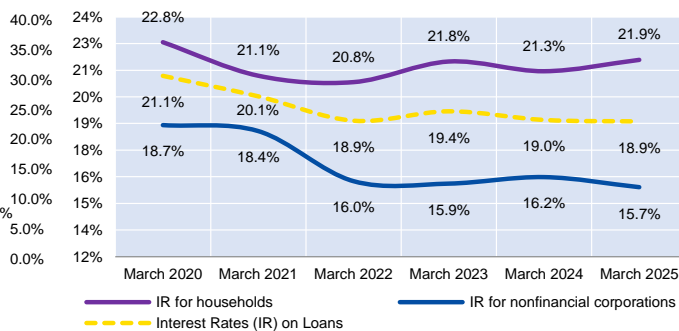
However, due to the higher weight in the loan portfolio of nonfinancial corporations, the agriculture sector—which also recorded high growth of 26.4%—had the highest contribution to the overall increase (charts 46 and 47).

Chart 48. Leasing value of microfinance sector



Source: CBK.

Chart 49. Average interest rate on microfinance sector loans



Source: CBK.

Leasing experienced a decline in its share of the microfinance sector’s assets and a slowdown in the growth rate to 7.7% compared to the significant increase of 30.2% in the previous year.

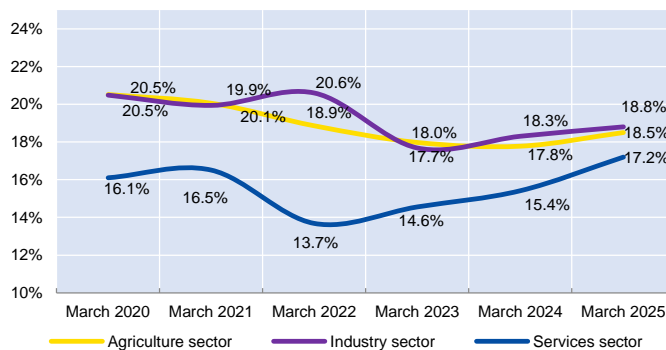
This slowdown was especially pronounced in the nonfinancial corporation segment, which dominates the structure with a share of 74.5% in March 2025.

Meanwhile, leasing to households registered an annual decline of 7.9%, in contrast to the increase of 3.2% recorded a year earlier (chart 48).

The average interest rate on loans issued by the microfinance and non-bank financial sector remained nearly unchanged at 18.9%, with a marginal change of -0.1 percentage points compared to a year earlier.

This average stability reflects opposing movements between the two segments: for nonfinancial corporations, the rate declined by 0.5 percentage points, while for households it increased by the same magnitude (chart 49). Nonfinancial corporations had more favorable interest rates, at 15.7%. At the level of economic sectors, loans to the services sector were characterized by the most favorable interest rate of 17.2%, although this category recorded an annual increase in the interest rate of 1.8 percentage points. Interest rate increases were also recorded in the agriculture and industry sectors, by 0.8 and 0.5 percentage points, respectively (chart 50).

Chart 50. Average interest rate on loans to enterprises by economic sectors



Source: CBK.

On the other hand, households had higher interest rates compared to non-bank financial institutions (NBFIs), with an average rate of 21.8%, increasing by 0.5 percentage points.

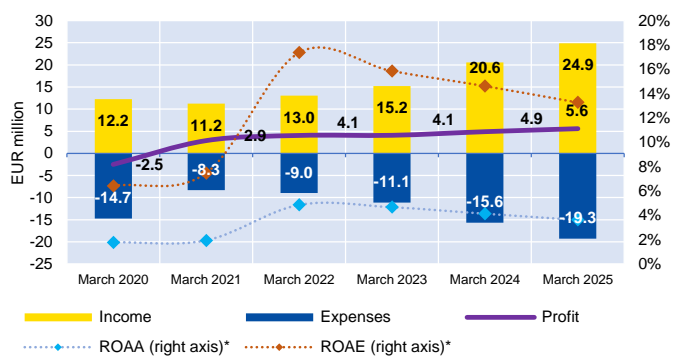
In March 2025, the interest rate on consumer loans increased by 2.4 percentage points to 23.6%, and the interest rate on mortgage loans rose by 1.3 percentage points to 18.6%.

The net profit of the sector reached EUR 5.6 million, marking an annual increase of 17.5%. Total revenues of the sector continued their strong growth during the reporting period, at 20.9%, although at a slower pace than the previous year, reflecting the stabilization of interest rates and, among other factors, the effect of a higher comparative base. Growth continued to be mainly supported by interest income, which remained the dominant source of revenues, reflecting the expansion of lending activity.

Non-interest income also contributed to growth, although at a much more modest rate than last year. Total expenses also slowed their annual growth rate to 21.9%, reflecting the gradual stabilization of costs following the sharp increases in recent years driven by inflation and high financing costs. The main contributor to this slowdown was non-interest expenses, which continued to rise but at a lower intensity, especially in the categories of personnel and administrative expenses. On the other hand, interest expenses increased significantly by 37.5%, although this represents a sharp slowdown compared to the previous year, in line with the normalization of financing conditions.

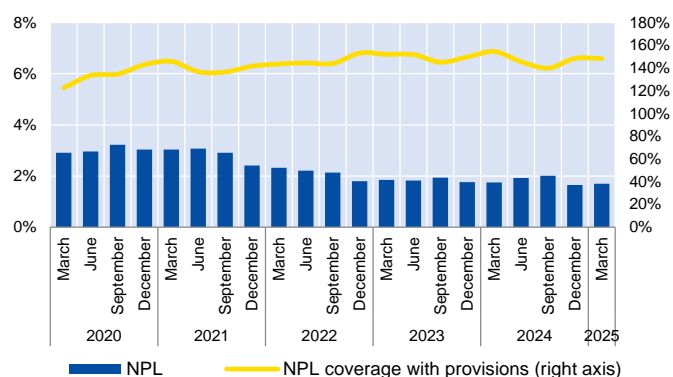
The cost-to-income ratio increased to 77.5% in March 2025, from 76.8% a year earlier, reflecting a slightly faster increase in expenses relative to revenues. Consequently, key profitability indicators declined, with the average return on assets falling to 3.6% from 4.6%, and the average return on equity dropping from 16.6% to 13.3%. The ratio of non-performing loans to total loans in the microfinance and non-bank financial institutions sector remained unchanged at 1.7% at the end of March 2025, indicating stability in the quality of the loan portfolio. The coverage of these loans with provisions remained stable, although it slightly declined to 148.3% from 154.5% in the previous period (chart 52). On the other hand, the non-performing loan ratio remains higher for non-bank financial institutions (NBFIs) compared to microfinance institutions (MFIs), despite the decrease in the ratio for NBFIs.

Chart 51. Profit and profitability indicators of the microfinance sector



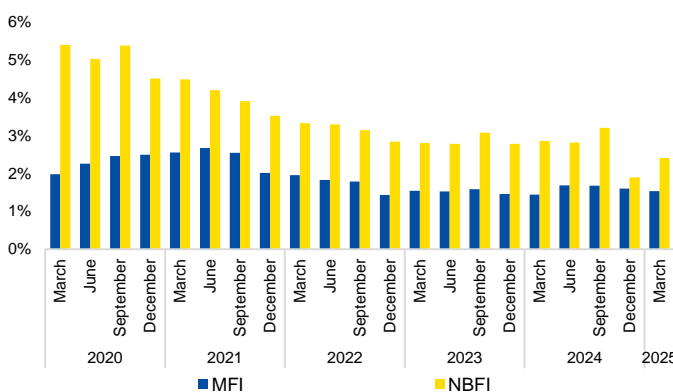
Source: CBK.

Chart 52. Indicators of credit portfolio quality



Source: CBK.

Chart 53. NPL level at MFI and NBF



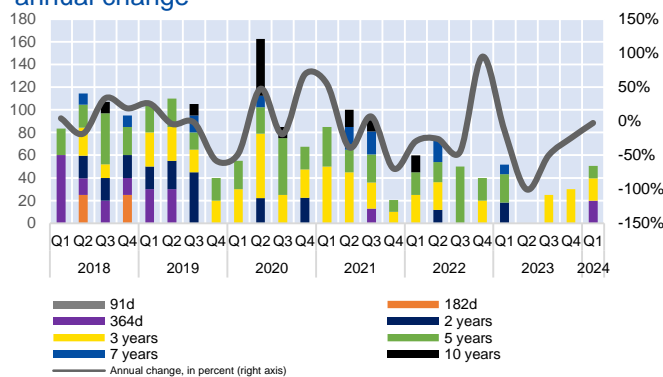
Source: CBK.

For MFIs, this ratio remained unchanged at 1.5%, while for NBFIs it declined to 2.4% from 2.8% in the previous period (chart 53).

4.5. Securities market of Kosovo’s Government

In the first quarter of 2025, the Government of the Republic of Kosovo issued debt in the amount of EUR 60.0 million, marking an increase of 18.9% (chart 54). However, the ratio of domestic debt to Gross Domestic Product (GDP) slightly declined to 8.43% in March 2025, from 8.96% in March 2024, mainly influenced by the amortization of domestic debt. At the end of March 2025, the stock of domestic debt in the form of securities decreased to EUR 934.7 million, from EUR 945.0 million in the same period of the previous year. Despite the lower return rate, demand for securities remained high and exceeded the supply.

Chart 54. Amount and maturity of issued debt, annual change

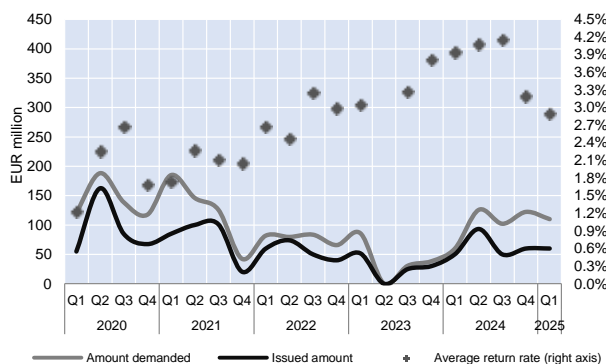


Source: Ministry of Finance, Labor and Transfers.

Nevertheless, the government issued only EUR 60.0 million, which is EUR 49.9 million less than the total demand (chart 55).

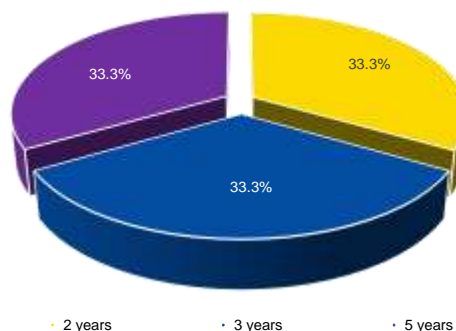
The holders of government securities continue to be led by pension funds, which account for 46% of the government debt stock, followed by commercial banks with 21%, public institutions with 24%, and insurance companies, which account for 5% of the debt stock.

Chart 55. Bid to cover ratio



Source: Ministry of Finance, Labor and Transfers.

Chart 56. Government securities structure by maturity, in %



Source: Ministry of Finance, Labor and Transfers.

During this quarter, the issued securities consisted of bonds with two-, three-, and five-year maturities, each representing 33.3% of the total issued amount of EUR 60.0 million (chart 56).

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

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

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

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

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



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