

### Summary

- **In Q2 2025, the euro area economy recorded a growth of 0.1%, reflecting a notable slowdown compared to the previous quarter.** Inflation also declined, reaching 2.0%, in line with the ECB's annual target. Regarding the Western Balkans, the IMF projects economic growth of 3.4% in 2025, supported by consumption, investment, and public spending. Although the region continues to show resilient growth amid external challenges such as geopolitical tensions and uncertainty in the euro area, the growth outlook remains weaker compared to initial forecasts. On the other hand, inflation increased by 3.7%, marking an acceleration compared to the previous quarter, mainly due to higher food and energy prices.
- **During Q2 2025, Kosovo's economy recorded real growth of 4.6%, compared to 4.3% in Q2 2024, mainly supported by higher public consumption and investments, while net exports contributed negatively due to a decline in goods exports and an increase in imports.** Private consumption grew at a slower pace, reflecting the more moderate growth of its main financing sources in an environment of higher inflation. Remittances and public investment continued to play a supportive role in overall consumption. Value added in Gross Domestic Product (GDP) increased mainly in the construction, trade, and financial services sectors, while the electricity sector made a negative contribution. For the whole year 2025, the CBK projects economic growth of 3.9%, supported by consumption, investments, and the export of services, while imports are expected to have a negative impact.
- **Inflation accelerated to 3.7% in Q2 2025, driven mainly by higher food and service prices.** Prices of other goods remained almost unchanged, while energy prices contributed to easing inflationary pressures during the quarter. An upward trend was also observed in core inflation, which stood at 2.0%, influenced by higher service prices. In terms of origin, inflation reflected combined pressures from external factors through imported food and from domestic factors through services, with external factors being dominant.
- **The fiscal sector recorded growth in Q2 2025, both in revenues and expenditures. Primary budget revenues reached EUR 864.5 million, an increase of 17.0%. Budget expenditures amounted to EUR 761.4 million, marking a rise of 15.5%.** The primary budget surplus stood at EUR 27.6 million. Tax revenues increased by 18.1%, reaching EUR 766.4 million, driven by higher direct and indirect taxes, particularly VAT and excise duties. Capital expenditures rose significantly by 33.3%, while current expenditures increased by 11.9%. The GDP to public debt ratio increased to 16.0%, while total public debt rose by 6.3%, reaching EUR 1.77 billion.
- **In Q1 2025, the current account deficit widened by 27.0%, reaching EUR 455.4 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 363.4 million, marking a slower annual growth of 4.1%. Also, foreign direct investments marked an increase of 19.4%, reaching the value of EUR 243.6 million.
- **Banking sector was characterized with an accelerated annual growth of assets, mainly being driven by the accelerated expansion of credit activity.** However, compared to the previous quarter, the pace of credit growth slowed and stabilized, driven by a deceleration in new investment loans to non-financial corporations and in mortgage loans to households. Deposits, although recording a faster annual growth compared to last year, declined compared to the first quarter of this year. The average lending rate increased by the end of June 2025, while the deposit rate declined, further widening the interest rate spread. The quality of the loan portfolio remains sound, with a marginal decrease in the level of non-performing loans compared to the previous year, although a slight increase was recorded relative to the previous quarter. Banking sector profitability, along with key indicators such as the average return on assets and return on equity, declined from last year. On the other hand, the capital position further strengthened, while liquidity and funding indicators continued their gradual decline, yet remained well above the minimum regulatory thresholds.
- The pension sector recorded a recovery in returns, offsetting the losses experienced in the first quarter of the year, as a result of improved conditions in global financial markets. The value of assets and contributions continued to grow steadily. Investments remained concentrated in foreign markets, with a high exposure to mutual funds.
- The insurance sector experienced a slowdown in the growth of assets and written premiums, particularly in the non-life segment. Conversely, claims paid increased, while net profit maintained a positive trend, supported by revenue growth and stable expense management. Solvency and liquidity indicators for insurers remained at sound levels.
- **The microfinance and non-bank financial sector** continued to record double-digit growth, albeit at a slower pace, reflecting the deceleration in external financing growth. Lending expanded for both households and nonfinancial corporations, whereas leasing activity declined, particularly in the non-financial corporate segment. Net profit growth slowed due to a faster increase in expenses, while non-performing loans remained low and well-provisioned.

## List of abbreviations

CBK	Central Bank of the Republic of Kosovo
CPI	Consumer Price Index
ECB	European Central Bank
EUR	Euro currency
FAO	Food and Agriculture Organization
FDI	Foreign Direct 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

**According to preliminary estimates by Eurostat, the euro area economy grew by 0.1% in Q2 2025 compared to the previous quarter, marking a notable slowdown from the 0.6% growth recorded in Q1 2025.** On an annual basis as well, euro area economies registered a slower annual growth rate of 1.4%, compared to 1.6% in the same period of the previous year. Economic growth was mainly supported by household consumption, which contributed by 0.1 percentage points. However, this contribution was lower than in the previous quarter, reflecting an unfavorable economic environment. Public consumption also contributed by 0.1 percentage points, with government spending helping to offset declines in other sectors. On the other hand, gross capital formation was the main negative factor, contributing -0.4 percentage points, due to a decline in investment in machinery and, to a lesser extent, in construction. Geopolitical tensions, inflation uncertainty, and rising construction costs have weakened confidence among construction companies. Overall investment was affected by uncertainty in trade policies, particularly by trade tariffs imposed by the United States. These tariffs also negatively affected the trade balance through a decline in exports, with an overall negative contribution of -0.2 percentage points. The slowdown in imports likewise reflected a decrease in overall demand and spending. Among the largest economies of the currency union, Germany contracted by 0.3%, Italy by 0.1%, while France and Spain recorded growth of 0.3% and 0.7%, respectively. Regarding projections for 2025, the ECB forecasts economic growth of 0.9%.

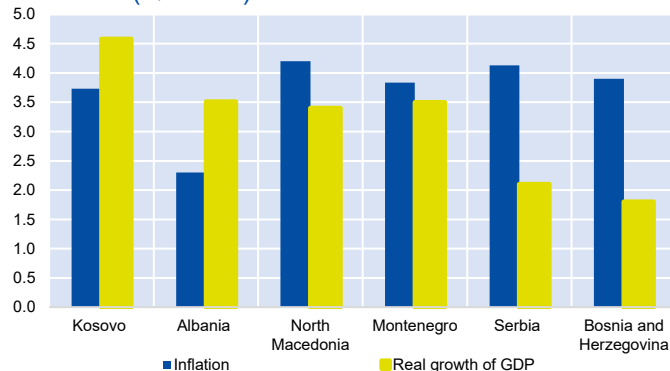
**Inflation in the euro area stood at 2.0% in Q2 2025, down from 2.3% in Q1 2025.** The main contributors to inflation were services, with around +1.65 percentage points, followed by food, alcohol, and tobacco with +0.58 percentage points. Industrial goods made a more modest contribution to inflation, with around +0.14 percentage points. Energy was the main factor that helped reduce inflation, with a negative contribution of -0.3 percentage points, due to the decline in electricity prices. This downward trend, which began in mid-2023, has also eased international trade conditions and contributed to a further reduction in inflation. During this period, the ECB lowered the lending rate by 0.25 percentage points in both April and June, bringing it down to 2.4%. According to projections, inflation in the euro area is expected to decline further in the coming years. However, the euro area remains exposed to geopolitical developments in Europe, the Middle East, and the United States, which could disrupt supply chains and push up the prices of goods and services.

**Inflation in the euro area stood at 2.0% in Q2 2025, marking a slowdown from 2.3% in Q1.** During this period, the ECB cut its interest rate by 0.25 percentage points in April and another 0.25 percentage points in June, bringing it down to 2.0%. There are no clear signals of further interest rate cuts, as inflation remained stable at 2.0% in July. Nevertheless, the ECB has stated that future rate decisions will depend on ongoing assessments of inflation developments. The main contributors to inflation growth were services, with around +1.65 percentage points, followed by food, alcohol, and tobacco with +0.58 percentage points. Industrial goods made a more modest contribution to inflation, with around 0.14 percentage points. Energy was the main factor that helped reduce inflation, with a negative contribution of -0.3 percentage points, due to the decline in electricity prices. This downward trend, which began in mid-2023, has also eased international trade conditions and contributed to a further reduction in inflation. According to projections, inflation in the euro area is expected to decline further in the coming years. However, the euro area remains exposed to geopolitical developments in Europe, the Middle East, and the United States, which could disrupt supply chains and push up the prices of goods and services.

**Western Balkan countries recorded average economic growth of 3.1% in Q2 2025.**

This moderate pace of growth demonstrates the region’s resilience amid structural challenges and external risks that continue to weigh on the economic outlook. Geopolitical tensions trade barriers and exposure to fluctuations in the euro area economy make the region vulnerable to external shocks, while interest rates remain moderate and demand for export continues to be subdued. IMF projections suggest that the region will achieve average economic growth of 3.4% in 2025, driven mainly by private consumption, investment, and public spending. Nevertheless, the growth outlook remains weaker compared to previous forecasts, when the IMF had projected growth of 3.6%. The main challenge to economic growth in the region relates to the slowdown of economic activity in the euro area, a key trading partner of the Western Balkans, with potential effects on exports, remittances, and foreign direct investment inflows. Additional uncertainty arises from global trade policies, which may affect supply chains, as well as from domestic factors, including political uncertainty. **The average inflation rate in Q2 2025 accelerated to 3.7% (from 3.3%), mainly driven by higher food and energy prices. North Macedonia recorded the highest inflation rate at 4.2%, while Albania registered the lowest at 2.3%.**

Chart 1. Economic growth and inflation in Western Balkans (Q2 2025)



Source: Respective statistical agencies.

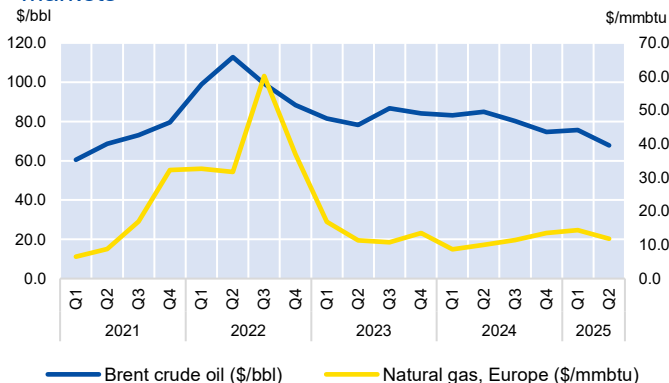
In Q2 2025, the euro exchange rate showed mixed movements against the currencies of major trading partners. The euro appreciated against the Turkish lira and the US dollar compared to the previous quarter, while it depreciated against the Swiss franc, the Albanian lek, and the British pound. The euro exchange rate remained almost unchanged against the Macedonian denar.

## 2. Main commodity prices in international markets

**Commodity prices in international markets were favorable in Q2 2025, with the corresponding World Bank index recording an annual decline of 11.0%.**

This performance mainly reflects the drop in oil and base metal prices, as a result of the slowdown in global economic activity. For the entire year 2025, the World Bank projects a further decline in commodity prices, averaging 12.4%. However, the outlook remains clouded by uncertainties surrounding geopolitical developments, global trade, and overall economic activity.

Chart 2. Oil and natural gas prices in international markets



Source: World Bank

**The price of Brent crude oil averaged USD**

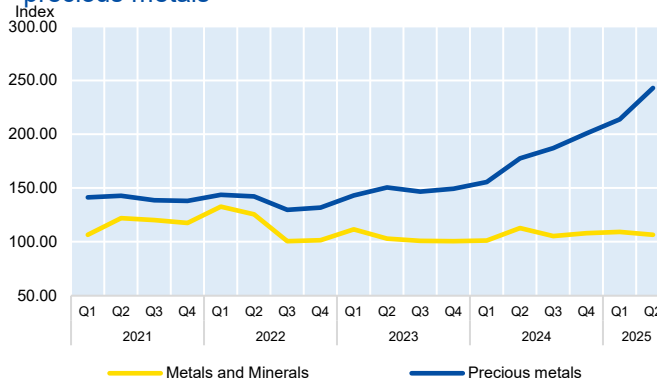
**67.8 per barrel in Q2 2025, marking an annual decline of 20.1% and a quarterly decrease of 10.4% (chart 2).** This movement was influenced by the increase in oil production by OPEC+, the decline in demand due to the slowdown in global economic activity, and uncertainties regarding global trade prospects following the imposition of tariffs by the United States. Although temporary inflationary pressures were observed in June

due to the short Iran–Israel conflict, these pressures eased in the following months. In the coming period, the slowdown in global economic activity and higher production from OPEC+ are expected to exert downward pressure on oil prices. Nevertheless, oil price developments remain vulnerable to potential risks such as an escalation of geopolitical and trade tensions.

**Natural gas prices in Europe reached USD 11.9/mmbtu in Q2 2025, recording an annual increase of 18.4%, mainly due to a base effect from the lower price level in Q2 2024.** However, on a quarterly basis, natural gas prices fell by 17.6%, reflecting weaker demand for liquefied natural gas (LNG) from Asia as a result of trade tensions. By August, prices had recorded an annual increase of 28.5%, significantly above the World Bank projection of 5.8% for 2025.

**The metal and mineral price index recorded an annual decline of 5.4% and a quarterly decrease of 2.5% (chart 3).** The decline was driven by the bleak global economic outlook, trade tensions, and weak construction activity in China. Consequently, prices of iron ore and other base metals fell, while tin and copper prices increased, reflecting supply constraints and strong demand from the green energy and electric vehicle sectors. According to the World Bank, metal and mineral prices are expected to decline by 9.8% in 2025, mainly driven by global economic developments, with potential risks from supply shocks and trade tensions.

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

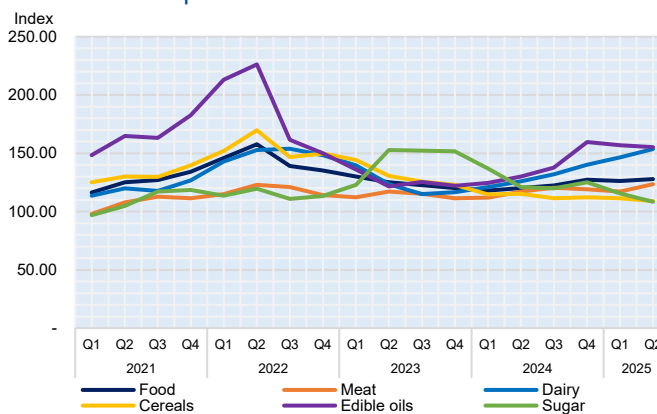


Source: World Bank

**The precious metals price index rose by 36.9% year-on-year (chart 3), driven by record-high gold prices, which increased by 41.0%, silver by 16.8%, and platinum by 8.5%.** On a quarterly basis, the index rose by 13.7%, intensifying during the Iran–Israel conflict, clearly reflecting the impact of geopolitical tensions as the main driver of gold and silver price increases. Meanwhile, the rise in platinum prices was influenced by concerns over supply constraints and speculative demand in global markets.

**According to the FAO, the food price index in Q2 2025 increased by 6.3% year-on-year, driven by higher prices of dairy products, vegetable oils, and meat (chart 4).** Compared with the previous quarter, the index rose by 1.3%, reflecting higher prices of meat (up 5.3%) and dairy (up 4.8%) due to strong demand and limited export supply. In contrast, cereal, oil, and sugar prices declined on a quarterly basis, mainly as a result of higher yields and weaker demand, while sugar prices were further affected by the deteriorating global economic outlook and its potential impact on the beverage and processed food sectors.

Chart 4. Food price index



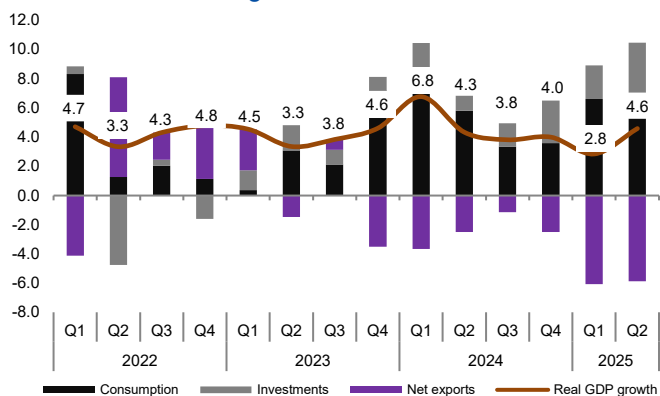
Source: FAO.

### 3. Kosovo’s Economy

#### 3.1. Economic growth

During Q2 2025, Kosovo’s economy recorded higher growth compared to the same period of the previous year. According to data from the Kosovo Agency of Statistics (KAS), real GDP grew by 4.6% in Q2 2025, compared to 4.3% in Q2 2024 (chart 5). Economic activity was mainly supported by domestic demand, with overall consumption increasing by 6.5% and investments rising by a high increase of 11.0%. A positive contribution also came from the export of services, which grew by 15.9%. On the other hand, goods exports declined by 4.5%, while goods imports continued to grow at a high rate of 13.3% in real terms, negatively affecting the trade balance and overall GDP.

Chart 5. Real GDP growth rate

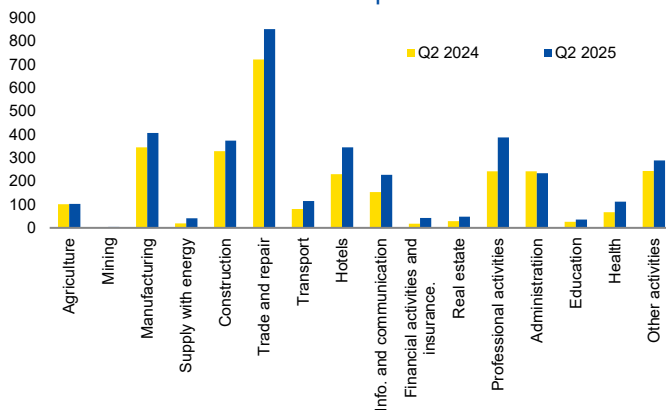


Source: KAS and CBK calculations.

Private consumption contributed positively to economic growth, although at a slower pace, increasing by 3.9% compared to 6.6% in Q2 2024. Remittances continued to support private consumption, growing by 4.1% in Q2 2025, offsetting to some extent the decline in new consumer loans. Government consumption registered strong growth of 25.1% (compared to a 0.9% decline in Q2 2024), mainly driven by higher current expenditures. Investments also recorded accelerated growth of 11.0% (compared to 3.0% in Q2 2024), largely influenced by higher FDI in the real estate sector, increased investment loans, and public investment spending.

The net export deficit deepened further during Q2 2025. Exports of goods fell by 4.5%, contrasting with a 10.4% increase in Q2 2024, mainly due to lower exports of base metals, which have the highest share in total exports. Meanwhile, services exports recorded a considerable increase of 15.9%, particularly in travel services, which grew by 31.4%. Imports of goods rose sharply by 13.3%, more than double the 6.1% increase in Q2 2024, mainly reflecting the increase of domestic demand. Service imports also increased, but at a slower pace of 13.0%, compared to 17.4% in Q2 2024.

Chart 6. Number of new enterprises



Source: KAS.

Economic activity in Q2 2025 was supported by the construction sector, which grew by 4.1%, as well as by trade and manufacturing, which increased by 3.8% and 3.3%, respectively, while financial and insurance services expanded by 8.8%. Conversely, the electricity sector continued to sharply decline by 37.2%, weighing negatively on overall economic performance. Economic dynamics were also reflected in new business registrations. A total of 3,627 new businesses were registered in Q2 2025, or 28.8% more than in Q2 2024. Meanwhile, 349 businesses were closed, or representing a 1.6% fewer businesses than in the same period of the previous year. The sectors with the largest impact during this period were trade, manufacturing, hotels, and professional activities.

Overall, Q2 2025 was characterized by stable economic growth, supported by public consumption, investment, and growth in service exports. However, the trade balance remains a major challenge due to the widening deficit caused by lower goods exports and higher imports. For the entire year 2025, the latest CBK projections suggest that the economy will grow by 3.9%, with consumption, investment, and exports being the main contributors, while imports are expected to have a negative impact on economic growth.

### 3.2. Prices

**During Q2 2025, inflation accelerated to 3.7%, from 2.0% in the previous quarter,** driven mainly by higher prices of food and services, and to a lesser extent by an increase in prices of other goods. On the other hand, the decline in oil prices continued to contribute to easing inflationary pressures. An upward trend was also observed in core inflation, mainly dictated by the rise in service prices.

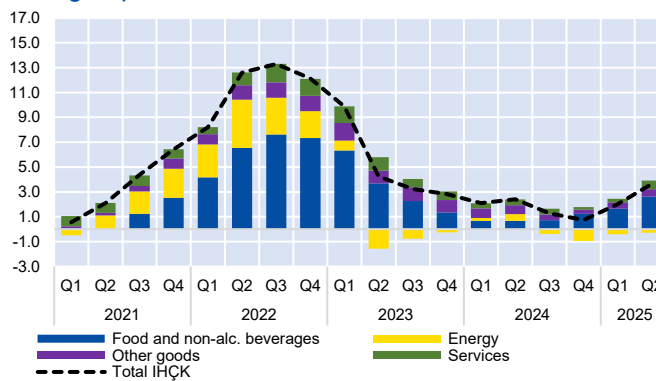
**The annual growth of food prices accelerated significantly to 8.0% in Q2 2025, from 4.2% in the previous quarter.** This increase reflects the transmission of developments in

international markets through the import channel, where, according to the import price index, prices of imported animal and plant products rose by 7.2% and 3.8%, respectively. Consequently, in the domestic market, the strongest increases were recorded in fruit prices (12.9%), meat (11.5%), edible oils (10.6%), vegetables (7.8%), and dairy products (6.6%) (chart 7). However, for edible oils, the import price index recorded an annual decline of 8.3%, suggesting that the increase in domestic prices was also influenced by domestic processing and operating costs, as reflected in the producer price index (PPI).

**Fuel prices recorded an annual decline of 7.8%.** After increasing in Q1 2025, they fell by 5.4% in quarterly terms in Q2, reflecting real-time developments in international markets. The increase in oil prices in international markets during June was also reflected domestically but eased quickly in the following months. Conversely, electricity prices rose by 12.1% due to higher tariffs approved by ERO. While, prices of other fuels declined by 4.7%, reflecting a shift towards alternative heating sources.

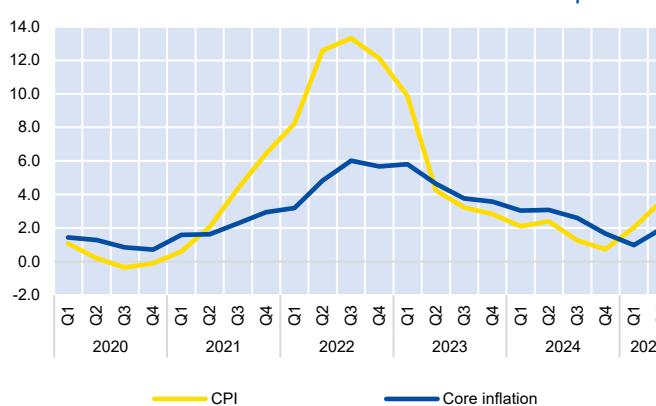
**The contribution of food to average inflation rose to 2.1 percentage points (p.p.) in Q2 2025, from 1.1 p.p. in the previous quarter.** The main contributors to food inflation were higher prices of meat (0.8 p.p.), dairy products (0.4 p.p.), and fruits and vegetables (0.6 p.p.). The contribution of energy remained negative, dominated by the decline in oil prices, although it narrowed by 0.1 p.p. due to higher electricity prices. The contribution of other goods remained almost unchanged, with only a slight increase of 1.0 p.p. Meanwhile, the contribution of services to inflation increased to 0.7 p.p., from 0.3 p.p. in Q1, driven by higher prices of restaurants, transport, outpatient services, tourist packages, and personal care.

Chart 7. Inflation by contribution of respective subgroups



Source: KAS and CBK calculations.

Chart 8. Core and headline inflation of consumption



Source: KAS and CBK calculations.

**The rise in inflationary pressures was also reflected in core inflation, which reached 2.0% in Q2 2025.**

Although food prices are excluded from this index, their indirect effect was evident through the increase in restaurant prices, which were the main contributors to core inflation with 0.7 p.p. The upward trend in core inflation also reflects rising prices of personal care goods and services, housing maintenance, and, to a lesser extent, recreational services and clothing. Conversely, declines in vehicle and communication equipment prices contributed to easing core inflation (chart 8).

**The sources of inflationary pressures in Q2 2025 reflect a combination of external and domestic drivers.** Food remained the main driver of inflation, while import dependence caused higher prices to translate into an increase in imported inflation, which reached 2.9 p.p. At the same time, the rise in service prices contributed to the expansion of domestic inflation to 0.8 p.p.

**The import price index (IPI) recorded an annual increase of 0.7%.** The increase was driven mainly by higher prices of animal products (7.2%) and plant products (3.8%), as well as prepared food, beverages, and tobacco (1.9%). Meanwhile, the weakening of global demand led to a decline in base metal prices (0.3%) and mineral products (3.4%).

**The increase was more pronounced in the domestic producer price index (PPI), which recorded an annual growth of 11.3%.** The main drivers were electricity production (39.7%), food processing (2.7%), and production of wood and furniture (4.3% and 13.0%, respectively). Conversely, prices declined in the production of metals (8.1%), non-metallic mineral products (0.4%), and beverages (0.3%), influenced by dynamics in international metal, oil, and sugar prices.

**The construction cost index (CCI) recorded an annual growth of 4.0%.** This trend was mainly driven by construction material prices, which make up 60.4% of the index and increased by 3.5% year-on-year. Wages also continued to exert upward pressures in this sector, alongside electricity, transport, and other operating costs. **According to CBK projections, the average inflation rate for 2025 is expected to be around 3.8%.** Inflation dynamics are expected to continue to be driven by food price pressures, although base effects may partially offset the impact. The main risks to this projection relate to potential supply shocks in food and energy products in case of geopolitical tensions or adverse climate conditions, as well as to the performance of global demand.

### 3.3. Fiscal Sector

**The fiscal sector recorded an accelerated growth in Q2 2025, both in revenues and expenditures. Primary budget revenues<sup>1</sup> reached EUR 866.5 million, marking an annual increase of 16.9%. Budgetary expenditures also<sup>2</sup> recorded a rapid increase of 15.5%, reaching EUR 761.4 million.**

**Despite the rise in expenditures, the higher level of revenues resulted in a budgetary primary surplus of EUR 118.2 million.**

Tax revenues in Q2 2025 reached EUR 766.4 million, marking a considerable increase of 18.1% compared to Q2 2024. During this period, both main categories of revenues — direct and indirect taxes — recorded positive trends. Revenues from direct taxes increased by 10.7%, reaching EUR 160.6 million. Within this category,

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<sup>1</sup> Within budget revenues are not included receipts from borrowings among the countries.

<sup>2</sup> Within budget expenditures are not included financing payments.

revenues from corporate income tax increased by 13.4%, those from personal income tax rose by 3.8%, while property tax recorded a significant increase of 39.8%.

Indirect taxes, which account for 72.5% of total tax revenues, grew by 20.2% compared to the previous year. Within this category, the largest component was value added tax (VAT) revenues, which increased by 17.6%, reaching EUR 413.6 million. This growth was mainly supported by the nominal increase in imports of 14.4%, as well as the nominal growth in overall consumption of 8.2%. Following VAT revenues were excise

revenues, which increased by 29.6%, reaching EUR 166.4 million. This increase was driven by a 12.1% rise in the quantity of imported goods during Q2 2025, as well as higher prices and the intensified efforts of the Tax Administration of Kosovo (TAK) to combat informality. As a result, TAK reported EUR 71.2 million more in revenues for the period January–August 2025 compared to the same period of the previous year. Likewise, customs duty revenues increased by 13.4%, reaching EUR 46.4 million (chart 9).

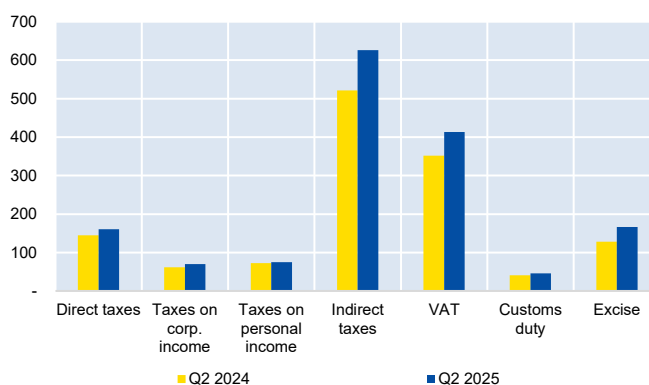
Non-tax revenues recorded slower growth of 9.0%, reaching EUR 96.7 million. This category includes revenues from the central government, which decreased by 21.4%, reaching EUR 45.6 million, while revenues from local governments increased by 19.1%, reaching EUR 19.1 million.

Regarding budget expenditures, current expenditures increased by 11.9%. Within this category, subsidies and transfers, as the main component, increased by 23.6%, reaching EUR 258.8 million. Government expenditures on goods and services, including municipal utilities, marked an increase of 17.1%, reaching the value of 121.3 million, meanwhile expenses on salaries declined by 2.6%, reaching to 221.1 million. Capital expenditures recorded a sharp increase of 33.3% compared to the same period of the previous year, reaching EUR 145.5 million (chart 10).

The public debt-to-GDP ratio slightly increased to 16.0% in Q2 2025, from 15.8% in Q2 2024. This slight increase reflects higher external debt, while domestic debt decreased. In absolute terms, public debt amounted to EUR 1.77 billion in Q2 2025, representing an annual increase of 6.3% compared to Q2 2024. External public debt increased by 20.6%, reaching EUR 851.6 million, while domestic public debt decreased by 4.2%, amounting to EUR 916.2 million.

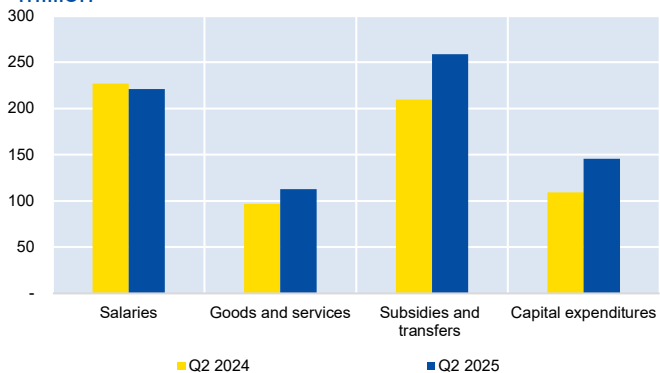
External public debt consists of financial obligations to international institutions, such as the International Development Association (31%), the International Monetary Fund (20%), the European Union (12%), and the International Bank for Reconstruction and Development (9%), among others. Meanwhile, domestic public debt mainly comprises Government of Kosovo securities held by pension funds (45%), commercial banks (23%), and public institutions (23%), among others.

Chart 09. Tax income by categories, EUR million



Source: MFLT.

Chart 10. Budget Expenditures by categories, EUR million

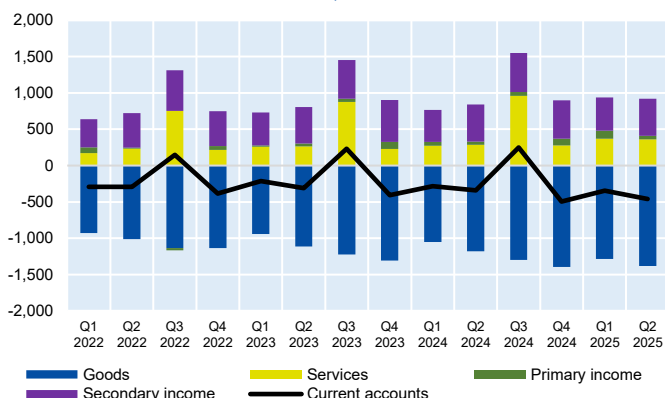


Source: MFLT.

### 3.4. External Sector

**In Q2 2025, the current account deficit deepened by 35.5% compared to the same period of the previous year, reaching EUR 461.5 million.** This development is mainly linked to the widening of the trade deficit in goods, which remains the determining component of the current account. The faster growth of imports compared to exports had a negative impact on this outcome. However, this negative effect was partly offset by the improvement in the services balance, with a notable contribution from travel services, as well as by the positive balances of primary and secondary income (chart 11).

Chart 11. Current account, EUR million

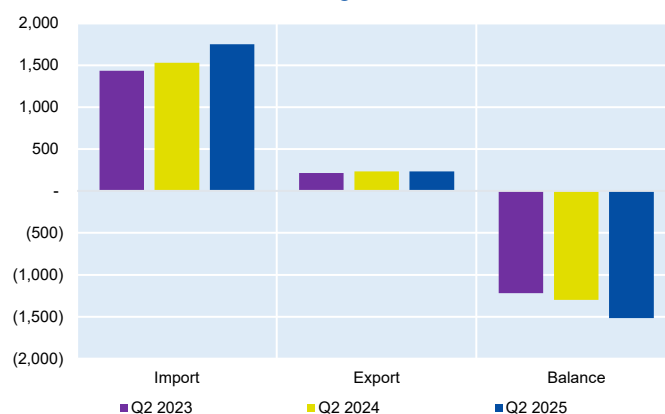


Source: CBK.

**The trade deficit in goods deepened by 16.6%, reaching EUR 1.5 billion (chart 12).**

This deterioration mainly reflects the further expansion of imports, which reached EUR 1.7 billion, driven by increased domestic demand. Conversely, exports remained low, at only EUR 235.6 million, covering just 13.5% of imports. This weak ratio indicates the economy's high dependence on imports and its limited export capacity. Such asymmetry not only burdens the trade balance but also deepens the dependence of domestic demand on foreign markets, exposing the economy to international price fluctuations and external risks.

Chart 12. Trade balance of goods



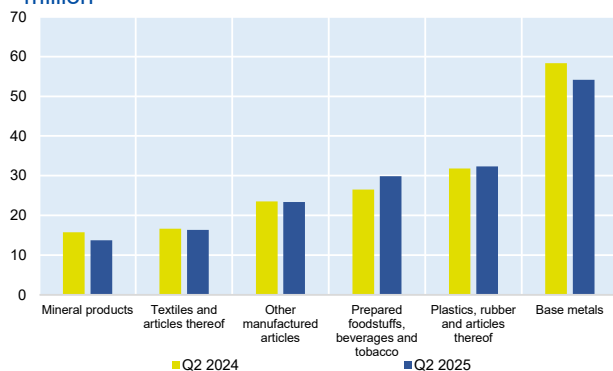
Source: KAS.

**Exports of goods recorded a modest increase of 1.4%, mainly constrained by the weak performance of several key categories, particularly base metals, which declined by 7.2% (chart 13).** The overall contraction of base metal exports by EUR -4.2 million in Q2 2025 was primarily driven by the decrease in exports of ferro-nickel metals by EUR 3.1 million, while external demand for metals also weakened due to the slowdown in global economic activity. Mineral products recorded a decline of 12.7%, contributing -0.9 percentage points to the overall fall in exports. However, several other categories contributed positively, mitigating this negative effect. Exports of plastic products, including rubber, as well as food items, increased and supported the overall performance of goods exports. From a geographical perspective, the Western Balkans remain the main trading partner, accounting for 44.7% of total exports, with North Macedonia and Albania as the main destinations. EU countries accounted for 34.7% of total exports, with Germany as the leading destination.

**Imports of goods recorded double-digit growth of 14.3%, reaching EUR 1.7 billion (chart 14).** This increase was mainly driven by higher import volumes reflecting stronger domestic demand. Growth was concentrated in consumer goods (up 17.3%), followed by capital goods (up 16.2%) and intermediate goods (up 11.2%), reflecting a combination of high consumption and increasing investment. Specific categories such as vehicles contributed significantly to this growth (2.5 percentage points), particularly due to the 25.0%

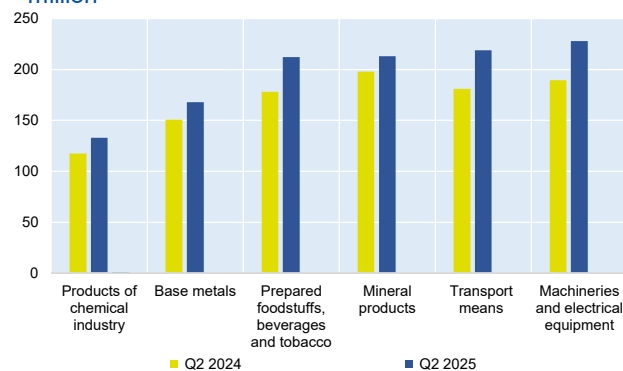
reduction in customs duties on vehicles imported from South Korea. Imports of machinery and electrical equipment also contributed 2.5 percentage points, supported by rising demand for more energy-efficient equipment, while imports of food items contributed 2.2 percentage points, reflecting stable consumption demand.

Chart 13. Main categories of exported goods, EUR million



Source: CBK.

Chart 14. Main categories of imported goods, EUR million

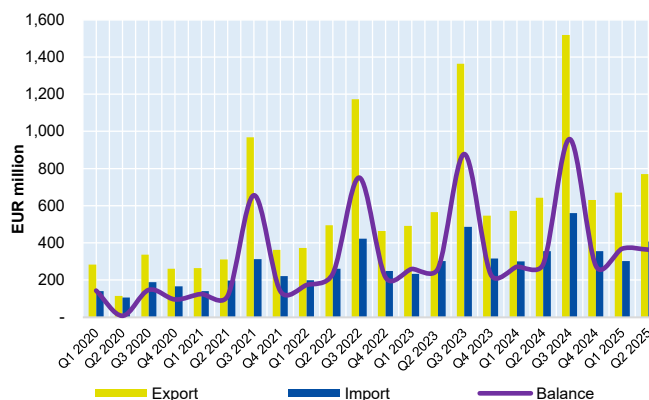


Source: CBK.

Geographically, imports from EU countries represented 43.0% of total imports, while Turkey and regional countries continued gaining ground, with shares of 13.7% and 13.0%, respectively, suggesting an ongoing diversification process that may foster greater competition and reduce costs for domestic importers.

The services balance improved significantly, reaching EUR 363.1 million, with an annual increase of 26.8%. This was mainly driven by a 20.0% increase in exports of services, particularly travel services (+31.4%) and information, computer, and telecommunication services (+19.5%). Exports of services reached EUR 771.0 million, while imports amounted to EUR 407.9 million (+14.5%). The stronger growth of service exports resulted in a positive balance (chart 15). In particular, the role of the diaspora remains crucial in boosting travel services, while IT-related services are increasingly contributing to the gradual transformation of the economy's structure and to the expansion of its export base.

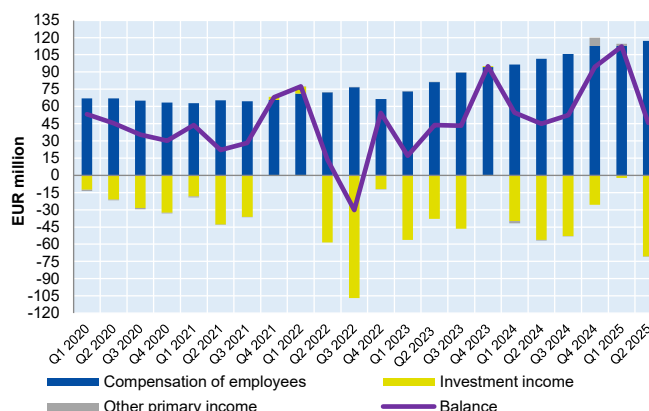
Chart 15. Balance of services



Source: CBK.

**The primary income balance reached EUR 45.8 million, marking a slight annual increase of 2.3% (chart 16).** Compensation of employees contributed strongly to this improvement, with an annual increase of 15.3%, reaching EUR 117.1 million. On the other hand, the investment income balance remained negative, at EUR 70.8 million, mainly due to reinvested earnings by foreign investors.

Chart 16. Balance of primary income

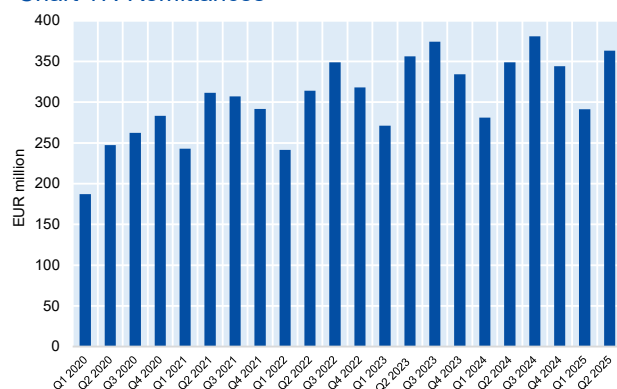


Source: CBK.

Source: CBK.

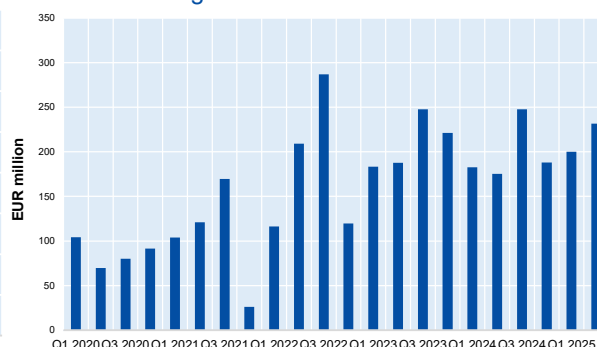
**Remittances continued their growth trend in Q2 2025, increasing by 4.1% year-on-year to EUR 363.4 million, representing a faster pace than in the previous quarter (chart 17).** The structure of remittance channels shows a noticeable shift: transfers through banks and money transfer agencies declined slightly by 0.9%, while remittances through other channels rose significantly by 19.2%, supported by the higher number of diaspora visits during this period. Nevertheless, formal channels still dominate the total value, accounting for 71.4% of remittances, while the remainder continues to be transferred through informal means. Geographically, Germany and Switzerland remain the main sources of remittances (56.5% of total), followed by the United States and other EU countries. This structure indicates a stable base, as most remittances originate from the diaspora residing in European countries, confirming that remittances remain an important source of income and consumption in the country.

Chart 17. Remittances



Source: CBK.

Chart 18. Foreign Direct Investments



Source: CBK.

**Foreign direct investment (FDI) reached EUR 231.5 million in Q2 2025, marking an annual increase of 32.1% (chart 18).** These investments were mainly concentrated in the real estate sector (80.8%), driven largely by diaspora demand and rising domestic real estate prices. Meanwhile, other sectors such as finance, energy, and mining recorded declining activity, highlighting the lack of diversification in foreign investments and the risk of high concentration in the real estate sector. On the other hand, direct investments abroad by Kosovo residents increased significantly by 34.0%, though at a slower pace than in the previous quarter. The value of these investments in Q2 2025 reached EUR 93.8 million, primarily in the real estate sector.

## 4. Financial system

In the second quarter of 2025, the domestic financial system recorded accelerated annual growth, following the slowdown observed in the same period of the previous year. The total value of financial system assets at the end of the period reached EUR 13.11 billion, marking an increase of 14.6%, compared to 12.3% in the previous year (chart 19). The dynamics of developments by sector remained unchanged from the previous quarter: the banking sector and financial auxiliaries recorded accelerated annual growth, while the pension funds, insurance, microfinance, and other non-bank financial sectors experienced a slowdown in their annual growth rates compared to June of the previous year.

The main contribution to the expansion of the financial system came from the banking sector, which continues to dominate, representing 66.3% of total financial system assets as of June 2025 (chart 20). Pension funds and the insurance sector recorded slower annual growth rates of 15.0% and 6.3%, respectively, compared to 15.8% and 12.2% in the same period of the previous year. However, due to the significantly lower growth in the insurance sector, pension funds slightly increased their share in the financial system, reaching 25.8%, up by 0.1 percentage point year-on-year. Meanwhile, the share of the insurance sector declined to 2.7%, from 2.9% in June of the previous year. The microfinance and non-bank financial sector, despite a slowdown in annual growth to 18.2% from 28.7%, registered a slight increase in its share of total system assets, reaching 5.1%, up from 5.0%. At the same time, the financial auxiliaries sector recorded accelerated annual growth of 21.8%, following a sharp decline of 60.7% in the previous year, which had resulted from the reclassification of two operators from financial auxiliaries to MFIs/NBFIs. Nevertheless, due to its small weight within the financial system, this sector's contribution to overall growth remained minimal.

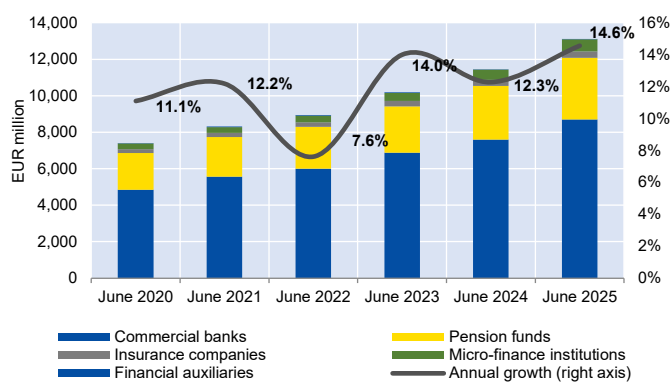
The banking sector's assets reached EUR 8.69 billion, marking an accelerated annual growth of 14.5%, compared to 10.3% in June of the previous year (chart 21). This development was mainly supported by the strong annual growth in lending, which represents 73.4% of the total value of banking sector assets. Cash and balances with the CBK, the second-largest asset category, increased by 12.4%, up from 8.1% a year earlier.

### 4.1. Banking Sector

The banking sector's assets reached EUR 8.69 billion, marking an accelerated annual growth of 14.5%, compared to 10.3% in June of the previous year (chart 21). This development was mainly supported by the strong annual growth in lending, which represents 73.4% of the total value of banking sector assets. Cash and balances with the CBK, the second-largest asset category, increased by 12.4%, up from 8.1% a year earlier.

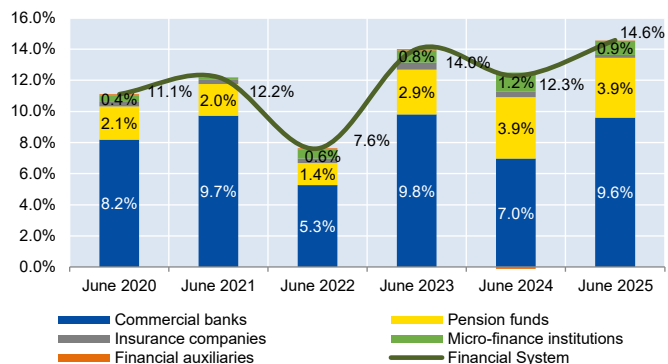
Meanwhile, securities and balances with commercial banks recorded declines, mainly as a result of a strategic reallocation of funds toward credit growth. More specifically, securities decreased by 1.1%, driven by a 3.9% decline in investments in foreign securities. However, this decline was partially offset by a 7.6% increase in

Chart 19. Assets value of Kosovo's financial system



Source: CBK.

Chart 20. Contribution to assets growth of financial system, percentage points



Source: CBK.

investments in domestic securities. At the same time, balances with commercial banks fell for the second consecutive year, decreasing by 11.9% compared to 21.9% a year earlier.

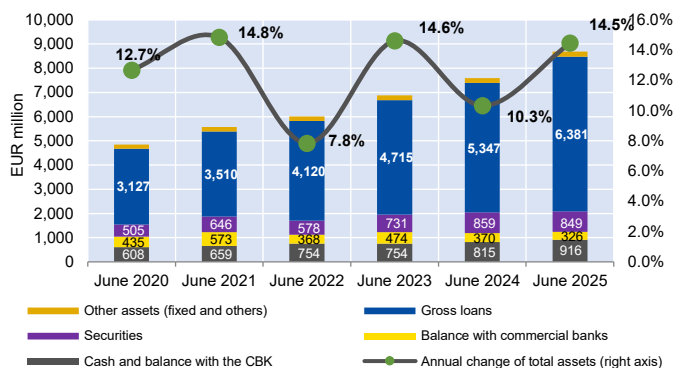
**The total stock of loans reached EUR 6.38 billion, recording an accelerated annual growth of 19.3%, up from 13.4% in June 2024. However, compared to the first quarter of this year, the pace of credit growth slightly slowed (chart 22).** New investment loans to nonfinancial corporations, as well as mortgage loans to households, declined compared to the previous quarter, during which they had recorded high growth.

**According to the Bank Lending Survey for Q2 2025, the slowdown in growth during this quarter reflects a tightening of credit supply to some extent — both for households and nonfinancial corporations.** Credit supply tightened for households in general, affecting both housing and consumer loans. Among enterprises, the tightening was more pronounced for large corporations. The loan approval rate increased slightly for both sectors — enterprises and households — but at a lower pace compared to the previous quarter. As for lending conditions and terms for enterprises, they moved in different directions but with a general tendency toward tightening, including higher interest rates on new loans in certain sectors.

For households, alongside higher interest rates on specific loan products, banks also reported a moderate tightening in average loan size, collateral requirements, and other non-interest-related charges.

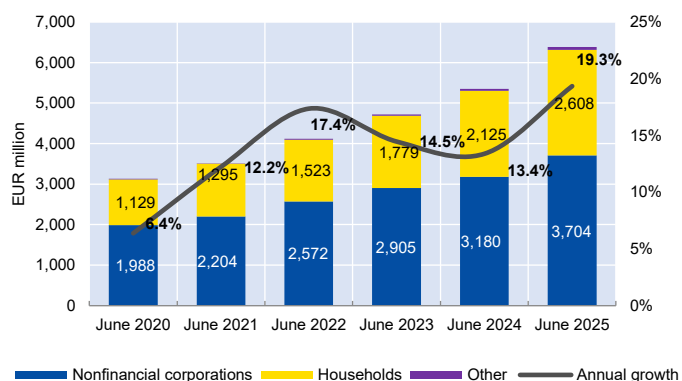
**Loan demand increased across both sectors, though at a slower rate than in the previous quarter.** The main factors driving loan demand were the need for inventory and working capital financing for enterprises, and consumption expenditures and consumer confidence for households. In Q3 2025, the credit supply is expected to remain broadly unchanged for enterprises overall, with a tightening tendency for large corporations. For households, a marginal tightening of credit supply is anticipated. Loan demand is expected to strengthen among SMEs, while demand from large enterprises is projected to decline. Household demand for both consumer and housing loans is expected to remain stable.

Chart 21. Balance sheet of the banking sector - assets



Source: CBK.

Chart 22. Stock of total loans, annual change



Source: CBK.

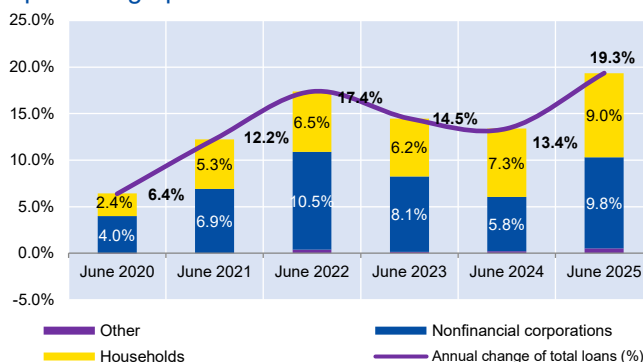
The expansion of the banking sector’s loan portfolio was mainly driven by the dynamics of loans to nonfinancial corporations, given their higher share (58.0% of total loans). However, their share declined slightly by 1.4 percentage points compared to the same period of the previous year, reflecting a faster pace of lending to households — particularly long-term mortgage loans. This trend indicates a gradual shift in portfolio structure, reflecting a market orientation toward expanding credit to individuals and real estate.

Alongside the growth in total loan value, the number of borrowers continued to increase at an accelerated annual rate, signaling further deepening of financial intermediation. According to the Credit Registry of Kosovo, the number of new borrowers during January–June 2025 reached 13,019 individuals, marking a 12.4% increase compared to a 4.7% rise in the same period of the previous year.<sup>3</sup>

The stock of loans to nonfinancial corporations in June 2025 recorded strong annual growth, influenced by the high volume of new loans issued in the second half of 2024 and in the first quarter of 2025. **However, in Q2 2025, new corporate loans declined by 15.9% compared to the previous quarter.** The total stock of loans to NFCs reached EUR 3.70 billion, growing annually by 16.5%, compared to 9.5% a year earlier. New loans issued to NFCs during the first half of the year increased by 24.9%, compared to a decline of 1.8% in the previous year. More specifically, new investment loans grew by 42.4%, compared to only 4.6% in the previous year, while new non-investment loans fell slightly by 0.2%, compared to a decline of 13.9% a year earlier. **However, new loans issued only in the second quarter decreased compared to the first quarter,** due to a drop of 12.4% in investment loans and 18.1% in non-investment loans, signaling a slowdown in lending activity.

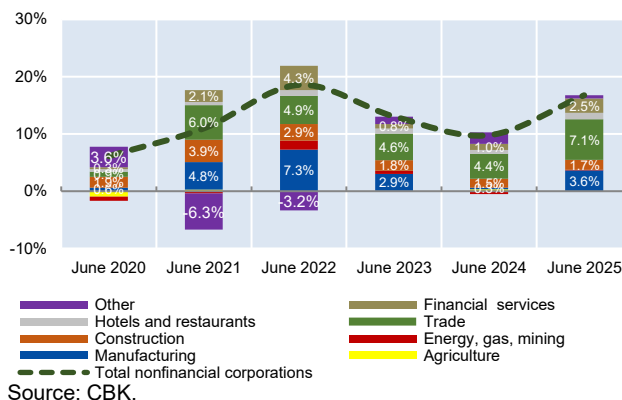
Lending activity to NFCs by economic sector continues to be dominated by trade, which recorded annual loan growth of 16.8%, up from 10.4% a year earlier, accounting for 42.3% of the total loan portfolio (chart 23). Manufacturing, the second-largest contributor to NFC loan growth, recorded accelerated growth of 19.7%, compared to 1.5% in the previous year (chart 24). Financial services and construction also recorded faster growth rates of 30.4% and 12.3%, respectively, up from 12.9% and 11.3%.

Chart 23. Contribution to the growth of total loans, in percentage points



Source: CBK.

Chart 24. Contribution to the growth of total lending to nonfinancial corporations, by economic activity



Source: CBK.

<sup>3</sup> This refers to new borrowers recorded in the Credit Registry of Kosovo database.

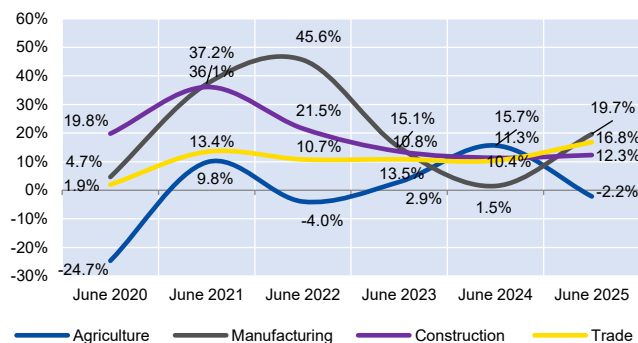
However, despite faster credit growth in these sectors, data from the Tax Administration of Kosovo indicate a slowdown in turnover growth in trade, financial services, and construction, and a decline in turnover in manufacturing.

**The stock of household loans reached EUR 2.61 billion, recording accelerated annual growth of 22.8%, compared to 19.4% in the previous year. This trend in the loan stock was driven by the strong increase in new mortgage loans during the first quarter of the year, while in the second quarter overall lending activity slowed.**

New mortgage loans in the first half of the year increased by 56.2%, compared to 16.8% a year earlier (chart 26). Meanwhile, new consumer loans recorded a much slower annual growth of 0.7% compared to 44.2% in the previous year. However, the growth dynamics of new loans changed during the second quarter of the year. Total new loans issued in this quarter declined both annually and compared to the loans issued in Q1. New mortgage loans fell by 17.6% compared to the first quarter of this year, while new consumer loans increased by 4.4% compared to the previous quarter.

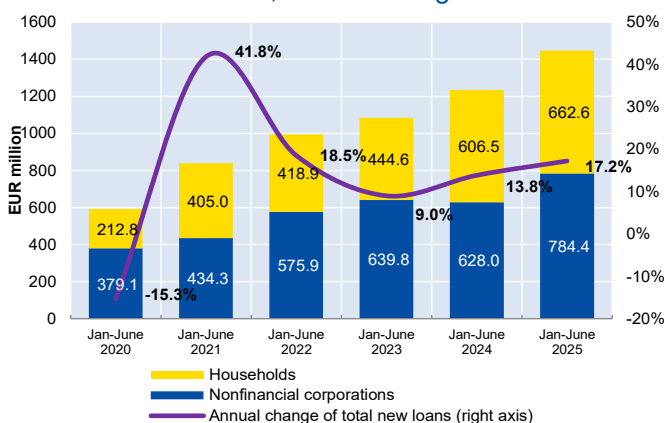
The strong annual growth of mortgage loans was also reflected in the maturity structure of the household loan stock, showing an increase in long-term loans. Specifically, the category “over 10 years” expanded its share to 37.7%, 2.2 percentage points higher than a year earlier. According to data from the Credit Registry of Kosovo (CRK), the average value of new loans in the first half of the year increased to EUR 7.3 thousand, compared to EUR 6.8 thousand in the same period of the previous year. Likewise, the average maturity period increased slightly, reaching 3.67 years, compared to 3.58 years a year earlier (charts 26a and 26b).

Chart 25. Annual change on loans to nonfinancial corporations, by economic activity



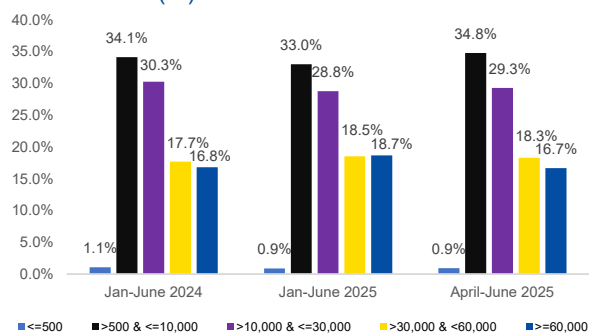
Source: CBK.

Chart 26. New loans, annual change



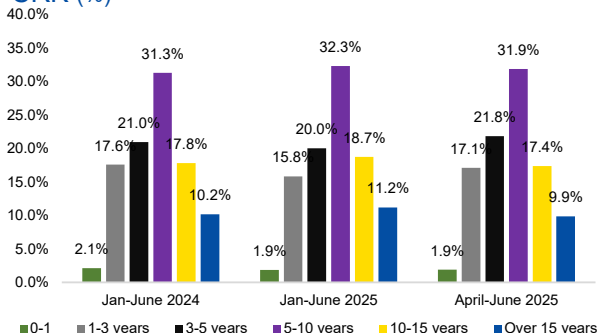
Source: CBK.

Chart 26a. New loans to households by the disbursed value in CRK (%)



Source: Credit Registry of Kosovo

Chart 26b. New loans to households by maturity in CRK (%)



Source: Credit Registry of Kosovo

Chart 27. Stock of total deposits

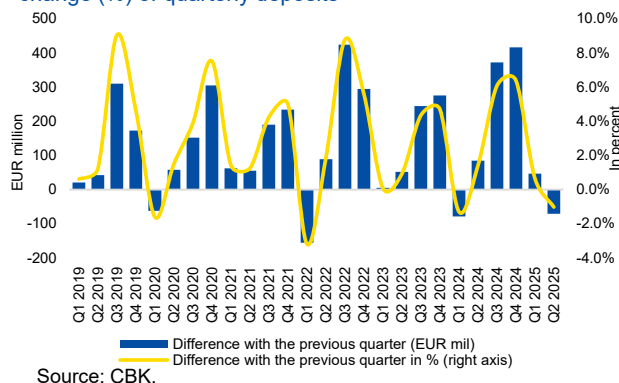


Source: CBK.

However, in the second quarter, a shift was observed — the number of new loans increased, but in smaller amounts and with shorter maturities compared to the first quarter. Specifically, when comparing only Q2 with Q1 of 2025, the disbursed amount of new loans increased in the categories with maturities of 1 to 5 years. Meanwhile, the number of new loans rose in the category of loans with maturities up to 3 years in Q2 compared to Q1 of this year.

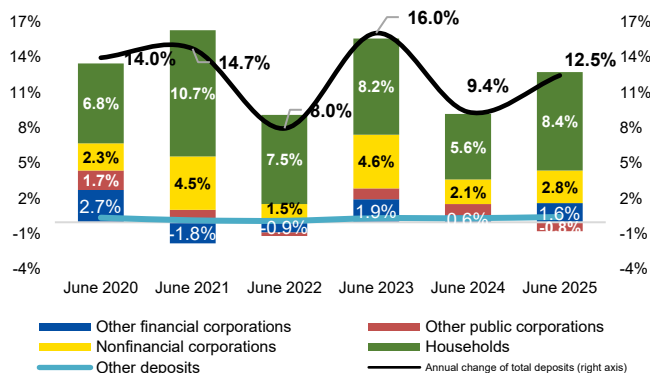
**The stock of deposits in the banking sector reached EUR 6.90 billion in June 2025, marking an accelerated annual growth of 12.5% compared to 9.4% in the same period of the previous year (chart 27). However, the value of deposits in Q2 compared to the previous quarter decreased by 1.0% (chart 27a). Household deposits provided the main contribution to the annual growth of total deposits, owing to their accelerated growth rate and their 67.1% share in total deposits. In June 2025, the stock of household deposits recorded an annual growth of 12.5% compared to 8.2% in the previous year. Corporate deposits of nonfinancial corporations and other financial corporations also grew significantly, by 13.8% and 29.3%, respectively, compared to 10.5% and 10.8% in June of the previous year (chart 28). On the other hand, public corporation deposits fell by 19.9% annually, following an increase of 28.9% a year earlier. The decline in public corporation deposits was mainly driven by large depositors, particularly from the energy sector. The decrease in deposit value in Q2 compared to Q1 mainly reflected lower transferable and savings deposits from households, nonfinancial corporations, and public corporations. In June 2025, deposits accounted for 79.3% of total liabilities and equity in the banking sector, down by 1.4 percentage points annually, mainly due to the increase in balances with commercial banks and higher own funds.**

Chart 27a. Difference (EUR mil) and value change (%) of quarterly deposits



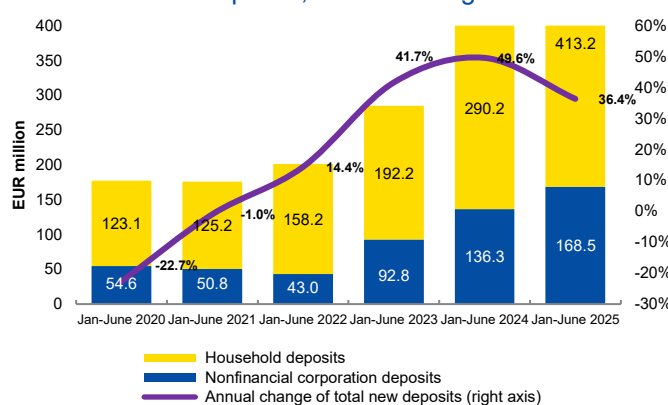
Source: CBK.

Chart 28. Contribution to annual growth of total deposits, percentage points



Source: CBK.

Chart 29. New deposits, annual change

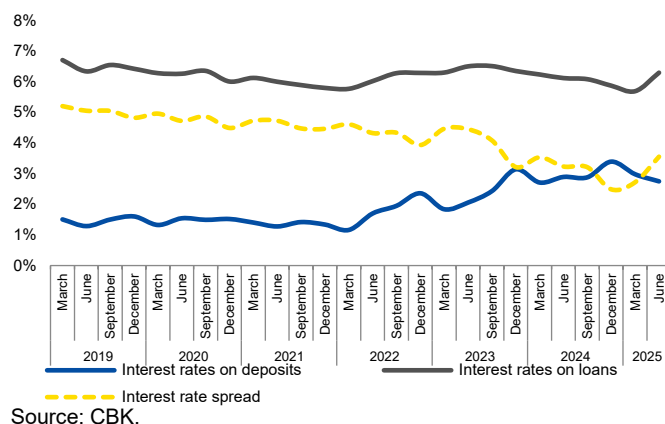


Source: CBK.

**New deposits, which include only term deposits, continued the trend of slower growth compared to the previous quarter, mainly due to the high base effect from last year.** The value of new deposits for the January–June period reached EUR 581.7 million, marking annual growth of 36.4% compared to 49.6% a year earlier. The household segment recorded an annual growth of 42.4%, compared to 51.0% in June of the previous year, and remained the main contributor to total new deposits. Similarly, new deposits from nonfinancial corporations recorded slower annual growth of 23.6%, compared to 46.9% in the previous year (chart 29).

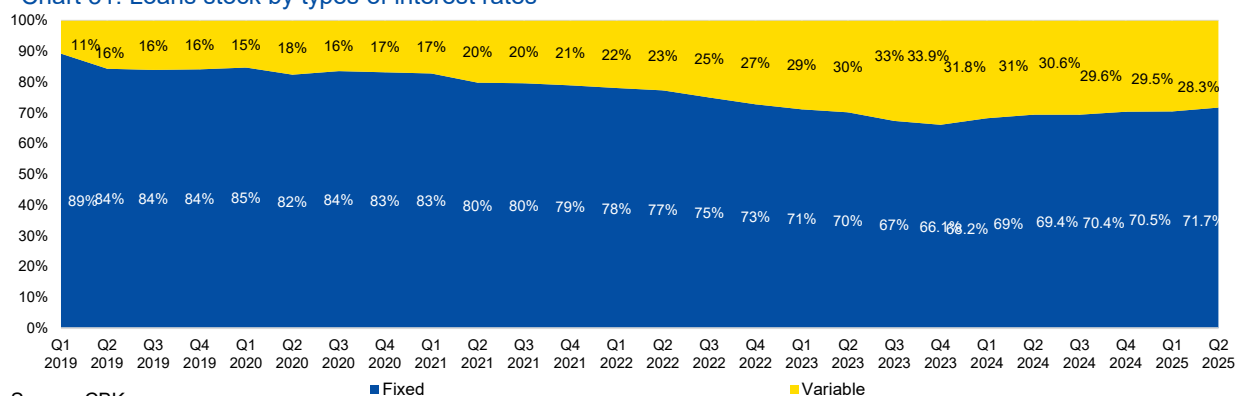
**The average interest rate on loans increased compared to both the previous quarter and June of the previous year. Conversely, the interest rate on deposits declined during the same comparison periods.** In June 2025, the average lending rate reached 6.3%, compared to 5.7% in March 2025, and increased by 0.2 percentage points from June 2024. The rise in lending rates corresponds with the results of the Bank Lending Survey in Kosovo, which indicates a tightening of financing conditions — including higher interest rates — as a result of faster credit growth in the previous quarter relative to deposit growth. Meanwhile, the average interest rate on deposits declined slightly to 2.7% in June 2025, down by 0.2 percentage points from March 2025 and 0.1 percentage points from June of the previous year. As a result, the interest rate spread between loans and deposits widened again, reaching 3.6 percentage points compared to 3.2 percentage points a year earlier. Compared to March 2025, this spread increased by 0.8 percentage points, reflecting both lower deposit rates and higher lending rates (chart 30).

Chart 30. Interest rate on loans and deposits



**The structure of loans by interest rate type continued to shift in favor of fixed-rate loans.** Specifically, in June 2025, the share of fixed-rate loans reached 71.7%, up from 69.7% in the same period of the previous year. Compared to the previous quarter, this share increased by 1.2 percentage points (chart 31).

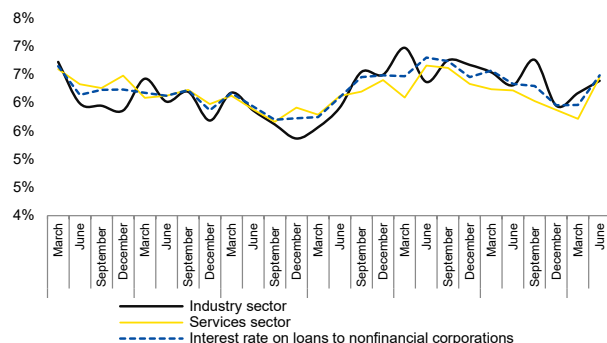
Chart 31. Loans stock by types of interest rates



**In June 2025, the average interest rate on loans to nonfinancial corporations reached 6.5%, an annual increase of 0.2 percentage points. Compared to the previous quarter, this rate increased by 0.5 percentage points.** Within NFCs, the average lending rate rose in both the industry and services sectors — compared to both the same period last year and the end of the previous quarter — reaching an average of 6.4%

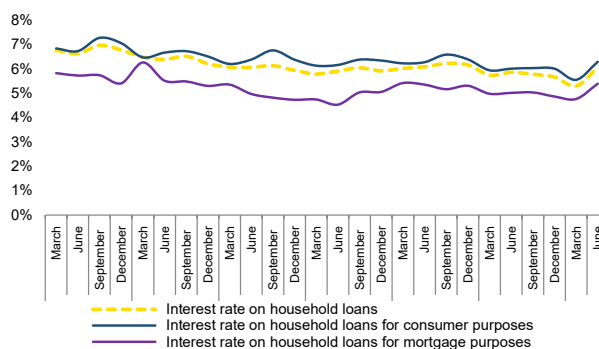
and 6.5%, respectively (chart 32). Conversely, the interest rate for the agriculture sector declined annually by 0.6 percentage points, falling to 7.8%, while remaining almost unchanged compared to the previous quarter.

**Chart 32. Interest rate on loans to nonfinancial corporations**



Source: CBK.

**Chart 33. Interest rate on loans to households**

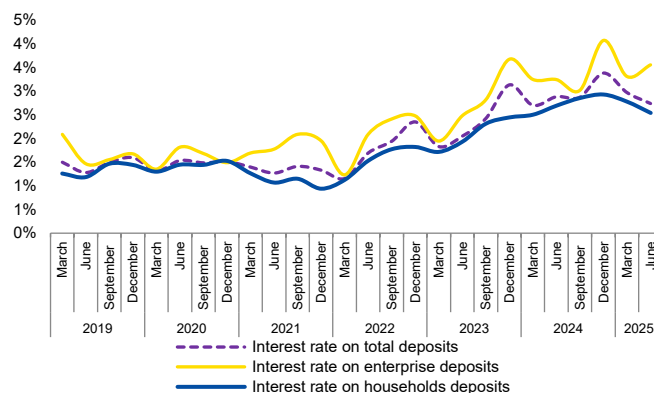


Source: CBK.

**The average interest rate for households reached 6.1%, marking an increase of 0.2 percentage points from the previous year and 0.8 percentage points from March of this year.** Within households, the interest rate on consumer loans rose to 6.3%, up by 0.3 percentage points from June 2024 and by 0.7 percentage points from the previous quarter. Similarly, the mortgage loan rate increased to 5.4%, which is 0.4 percentage points higher than a year earlier and 0.6 percentage points higher compared to the end of the previous quarter (chart 33).

**The overall decline in deposit interest rates was driven by lower rates on household deposits, as rates on nonfinancial corporation deposits increased.** Specifically, the average interest rate on household deposits decreased by 0.2 percentage points compared to both June of the previous year and March of this year, falling to 2.5% (chart 34). In contrast, for nonfinancial corporations, the average interest rate on deposits increased by 0.3 percentage points year-on-year, reaching 3.6%. Compared to March of this year, this rate rose by 0.2 percentage points.

**Chart 34. Interest rates on deposits**



Source: CBK.

**The net profit of the banking sector amounted to EUR 87.3 million, marking a decline compared to the same period of the previous year (EUR 90.93 million), corresponding to an annual decrease of 4.0%, after an increase of 10.1% a year earlier.** This performance, as in the previous quarter, resulted from faster growth in expenses compared to slower growth in revenues. Total revenues reached EUR 264.9 million, recording annual growth of 10.7% compared to 18.2% a year earlier. The slower growth in revenues was mainly due to interest income, which constitutes around 78.0% of total income and increased by 12.2%, down from 21.8% the previous year. Specifically, interest income from loans increased by 15.0% compared to 26.6% in the previous year, reflecting the impact of lower interest rates and the base effect. Additionally, due to the decline in investments in securities, interest income from this category slowed to 34.1%, from 55.0% a year earlier. Meanwhile, interest income from placements with banks declined, falling to EUR 6.7 million from EUR 12.2 million in June of the previous year. Noninterest income — primarily from fees and commissions —

recorded accelerated annual growth of 10.2%, compared to 6.2% a year earlier, reaching EUR 52.2 million by the end of June 2025.

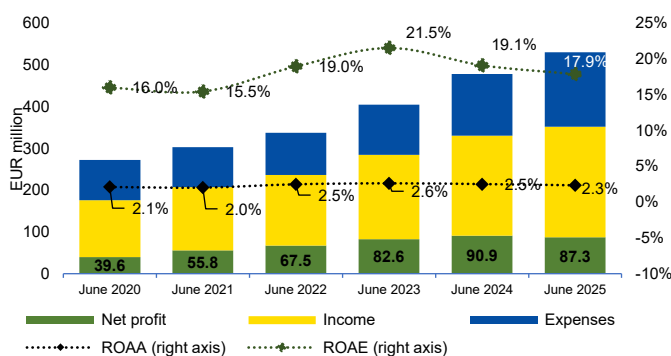
**Sector expenses reached EUR 177.6 million, representing an annual increase of 19.7% compared to 23.7% in the same period of the previous year.** As in the previous quarter, this development was influenced by slower growth in interest expenses, as well as general and administrative expenses. Specifically, interest expenses totaled EUR 36.3 million, with annual growth slowing to 37.8 percent, down from 47.5 percent a year earlier, affected by the decline in deposit interest rates and high base effects from last year. Furthermore, general and administrative expenses grew at a slower annual rate of 10.0%, compared to 21.4% in the previous year.

**The slower profit growth compared to capital growth caused the Return on Equity (ROE) to to 17.9, from 19.1% in the previous year.** Similarly, the Return on Assets recorded an annual decline of 0.2 percentage points, dropping to 2.3%, as a result of the accelerated growth in assets compared to the slower increase in profit (chart 35).

**The ratio of nonperforming loans fell to 2.0%, marking a slight decrease of 0.1 percentage points compared to the previous year.** This was influenced by the slower growth in the value of nonperforming loans relative to the rapid increase in total loans (chart 36). More specifically, the value of nonperforming loans increased by 11.7%, compared to 21.2% a year earlier, while total loans accelerated to 19.3% from 13.4%. **However, compared to the previous quarter, the ratio of nonperforming loans rose by 0.2 percentage points.** Furthermore, the coverage with provisions for potential loan losses declined, falling to 115.4% from 125.6% in the same period of the previous year and 125.8% in March of this year.

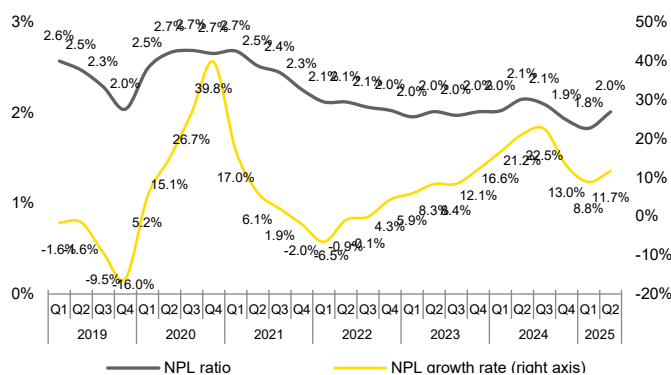
**The ratio of nonperforming loans, as in the previous quarter, recorded an annual decline for both the nonfinancial corporation and household segments.** More specifically, the ratio of nonperforming loans for nonfinancial corporations declined to 2.4% from 2.5%, while for households it fell to 1.4% from 1.7%. Households were characterized by a significantly slower increase in nonperforming exposures, rising by only 3.5% compared to 55.8% a year earlier. Compared to the previous quarter, the NPL ratio for households remained nearly unchanged, with only a marginal decrease of 0.02 percentage points. Meanwhile, nonfinancial corporations recorded accelerated annual growth in nonperforming exposures of 15.3%, compared to 10.0% a year earlier. The main contribution to the increase in nonperforming loans within nonfinancial corporations came from the trade sector, which grew by 49.8%. However, this growth was mainly driven by specific developments in one institution and does not reflect the general dynamics of the sector. The communications

Chart 35. Profit and profitability indicators of the banking sector



Source: CBK.

Chart 36. Annual change of NPL value and NPL to total loans ratio

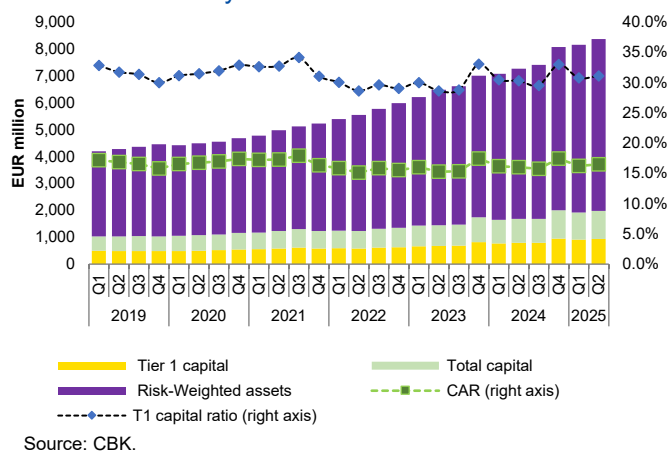


Source: CBK.

sector also recorded a significant increase in nonperforming loans, with annual growth of 125.5%, reaching 3.2% from 1.3% in the previous year. In contrast, the agriculture, manufacturing, construction and real estate sectors recorded a decline of 0.4 percentage points in their nonperforming loan ratios, falling to 6.7% for agriculture and 2.6% for the other two sectors.

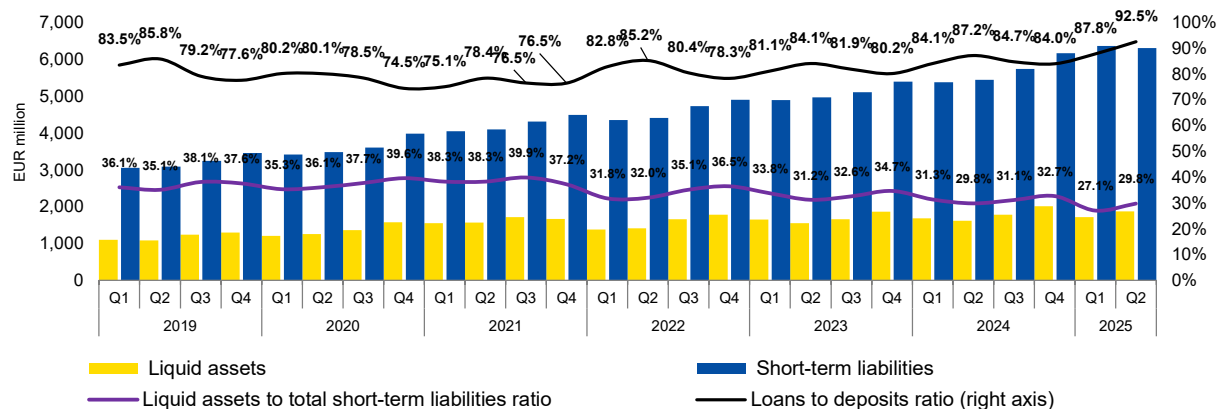
**The capital position, expressed through the regulatory capital ratio to risk-weighted assets, reached 16.5%, up from 16.0% in the previous year.** Compared to the previous quarter, this indicator also increased by 0.3 percentage points. The slight improvement in the capitalization ratio was driven by higher capital growth relative to the increase in risk-weighted assets. Specifically, the sector’s regulatory capital recorded an annual increase of 18.0%, compared to 16.2% a year earlier. The sector’s regulatory capital remains of high quality, mainly supported by retained earnings and capital injections. Within the capital structure, 88.3% consists of Tier 1 capital, of which 64.4% represents retained earnings. Furthermore, compared to June of the previous year, there was an increase in the use of additional Tier 1 and Tier 2 capital instruments, further strengthening the overall capital position. Meanwhile, risk-weighted assets grew by 14.6%, compared to 10.6% in June 2024 (chart 37).

Chart 37. Solvency indicator



Source: CBK.

Chart 38. Liquidity indicators



Source: CBK.

**The downward trend in liquidity and funding indicators continued during Q2 2025; however, the liquidity position remains stable, with indicator values well above the regulatory minimum.** The Liquidity Coverage Ratio (LCR) declined to 174.6% in June 2025, down by 29.6 percentage points from a year earlier and by 10.8 percentage points from the previous quarter, yet 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. Excess liquidity in June 2025 was 3.1% higher than a year earlier, while net liquidity outflows were 20.6% higher over the same period. Similarly, the Net Stable Funding Ratio (NSFR) declined to 133.0% from 142.5% in June 2024, marking a decrease of 1.8 percentage points compared to the first quarter of this year. However, it remains above the regulatory minimum of 100%, suggesting that banks have sufficient and stable funding to cover their longer-term funding and liquidity needs.

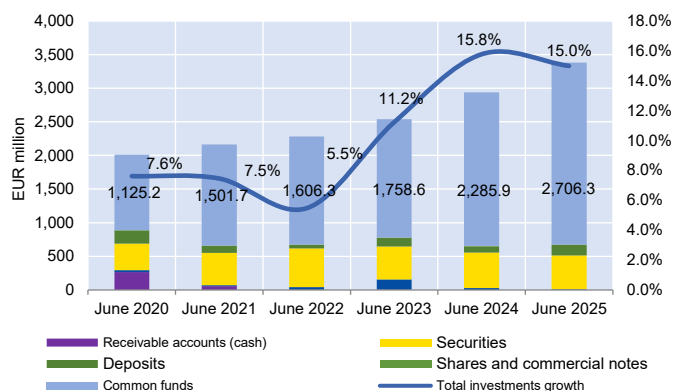
Meanwhile, the liquidity ratio—expressed as the ratio of liquid assets to short-term liabilities—remained unchanged at 29.8%.

This was the result of a roughly similar annual increase in short-term liabilities of 15.9% compared to a 15.6% rise in liquid assets. On the other hand, the faster growth of lending relative to deposits contributed to an increase of 5.3 percentage points in the loan-to-deposit ratio, reaching 92.5% (chart 38).

#### 4.2. Pension sector

**The pension sector in the second quarter of 2025 was characterized by a recovery in investments following the unfavorable developments of the first quarter, when investment returns were negatively affected by fluctuations and uncertainties in international financial markets. The gradual stabilization of global financial conditions during Q2 2025 was reflected in improved returns and continued growth in assets and contributions.** At the end of June 2025, pension sector assets reached EUR 3.4 billion, marking an annual increase of 15.0% (chart 39). The sector's dynamics remain primarily determined by the Kosovo Pension Savings Fund (FKPK), which accounts for 99.7% of total assets, and recorded annual growth of 15.1% compared to 15.8% in Q2 2024. Meanwhile, the Slovenian-Kosovo Pension Fund (FSKP) slowed down, with annual growth of only 4.2% compared to 11.8% in Q2 2024.

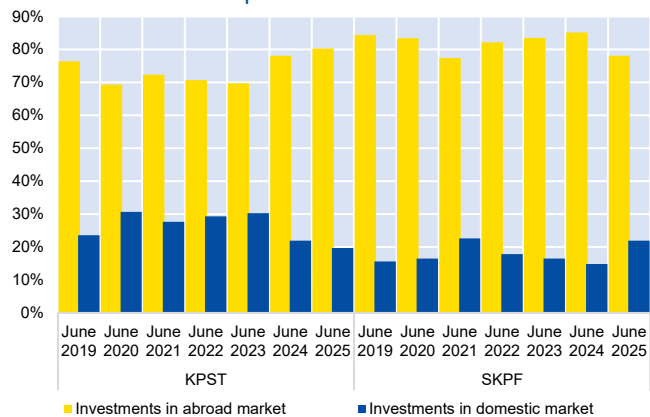
Chart 39. Assets of the pension sector



Source: CBK.

**The investment portfolios of both pension funds continue to be dominated by exposure to foreign markets, which increased this quarter as a result of the recovery in global financial markets after the early-year volatility.** FKPK increased its foreign market exposure by 18.4% in Q2 2025, compared to 9.6% in Q1 2025, although this was lower than the 29.6% growth recorded in Q2 2024. Foreign investments account for 80.3% of the total portfolio, with 99.9% invested in mutual funds. Meanwhile, domestic investments recorded modest growth of 3.2%, reflecting a slowdown compared to Q1 2025 (20.9%), but a significant improvement from the 16.0% decline in Q2 2024. Within the domestic market, securities continue to dominate, accounting for 75.8% of the portfolio. FSKP held 21.9% of its invested assets in the domestic market and 78.1% abroad, with higher growth recorded domestically.

Chart 40. Structure of pension funds investments



Source: KPST, SKPF

**KPST achieved a positive gross return of EUR 62.5 million at the end of Q2 2025, compared to a negative return of EUR 40.3 million in the first quarter of the year. Nevertheless, the cumulative return for the first half of the year remains much lower than the EUR 117.8 million recorded in the same period of 2024.** The positive return in Q2 reflected the improved performance of international financial markets, following the sharp declines in the first quarter. As a result, the unit share price increased slightly to EUR 1.85 from EUR 1.75 at the end of Q2 2024, and from EUR 1.79 in Q1 2025. FSKP achieved a gross return of EUR 23.3 thousand in Q2 2025, significantly lower than the EUR 737.8 thousand return in the same period of the previous year, but a notable recovery from the negative result of EUR 240.7 thousand in Q1 2025 (chart 40). The SKPF share price rose to EUR 2.13 per unit, compared to EUR 2.11 a year earlier.

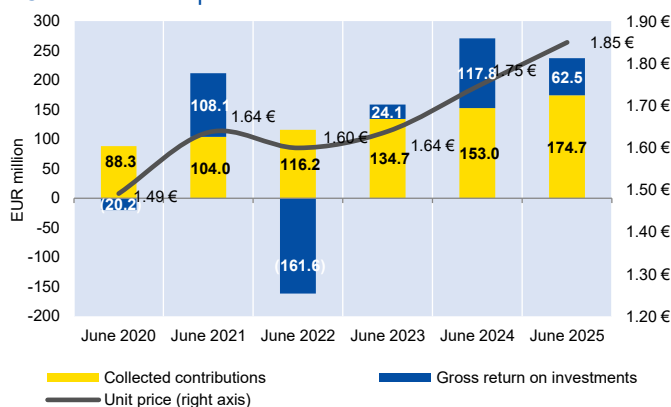
**The value of pension sector contributions collected in the first half of 2025 reached EUR 175.2 million, marking an annual increase of 14.1%.** A key factor supporting this growth was the increase in the coefficient unit for civil servants at the beginning of the year. The sector is dominated by FKPK contributions, which represent 99.7% of the total and recorded an annual increase of 14.2%, compared to 13.6% a year earlier (chart 41). Meanwhile, contributions collected by FSKP recorded a significant annual increase of 42.1% at the end of Q2 2025, following a decline of 2.0% in the same period of the previous year, reaching EUR 469.1 thousand (chart 42).

### 4.3. Insurance sector

The insurance sector recorded a slower annual growth rate of assets, reflecting the deceleration in the growth of written premiums, mainly driven by the dominant non-life insurance segment.

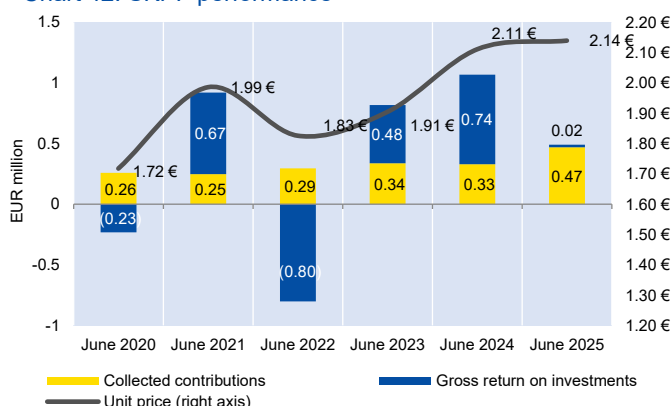
At the end of June 2025, the sector's assets amounted to EUR 349.3 million, marking an annual growth of 5.8%, compared with 12.2% in the same period of the previous year (chart 43). The structure of the sector continues to be dominated by non-life insurance, which represents 91.6% of total assets, while life insurance accounts for 8.4%. The asset structure remained primarily oriented towards low-risk and highly

Chart 41. KPST performance



Source: KPST

Chart 42. SKPF performance



Source: SKPF

Chart 43. Assets of insurance sector

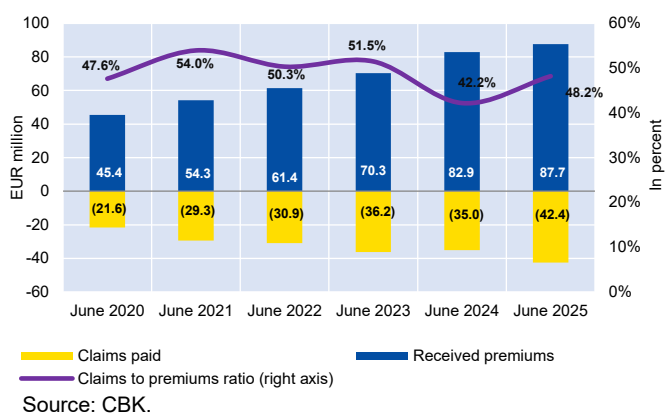


Source: CBK.

liquid instruments, dominated by bank deposits and securities. Bank deposits increased by 15.1% year-on-year, raising their share in total assets from 46.1% to 50.1%. Meanwhile, Kosovo Government securities, the second most important asset category, reversed their growth trend—from an increase of 9.8% in June 2024 to a contraction of 3.6% in June 2025. As a result, their share in total assets declined from 16.1% to 14.6%. Similarly, reinsurance assets (technical reserves of re-insurers) decreased by 5.6% year-on-year, compared with an increase of 21.9% in June 2024, lowering their share in total assets from 16.0% to 14.3%.

**The value of gross written premiums showed a significant slowdown in annual growth, at 5.7% compared with 18.0% in the same period of the previous year (chart 44). The non-life insurance segment recorded slower annual growth of 5.7% compared with 18.5% a year earlier. Likewise, life insurance marked a slowdown pace to 6.4%, down from 9.4%. During the same period, the number of policies declined to 843,093, representing a 13.8% annual decrease.** Within the non-life insurance segment, the “Motor Third-Party Liability” (domestic MTPL) category remains dominant, increasing its share of total premiums to 53.4% from 51.9% a year earlier. This category recorded a slower annual growth in premiums—9.6% compared with 11.7% in the same period of the previous year. In life insurance, the dominant “Debtor’s Life” category grew annually by 5.35%, compared with 17.1% growth in the same period of the last year.

Chart 44. Written premiums and claims paid



**Unlike premiums, which grew at a slower pace, claims paid by insurance companies and the Kosovo Insurance Bureau (KIB) rose at a faster annual rate—21.1%, compared with a decline of 3.4% in the first half of the previous year (chart 44).** Claims paid by insurance companies increased considerably by 25.1% following a 5.4% decline a year earlier, while claims paid by KIB decreased by 13.8%, contrasting with a 19.0% increase in the previous period. Meanwhile, claims covered by re-insurers rose sharply, more than doubling compared with the previous year. Within non-life insurance claims, the “Motor Third-Party Liability” category, which accounted for 54.2% of total claims, increased by 11.3% year-on-year to EUR 22.4 million. This increase was mainly driven by claims related to border policies and domestic MTPLs. The “Health Insurance” category, representing 25.8% of total claims, grew by 11.6%, reaching EUR 10.6 million.

Following the downward trend recorded in the period January–June 2024, the average claim increased by 9.27% in the first half of 2025 compared with the same period of the previous year. This development may be linked to a higher number of large-value claims, increased repair and service costs, as well as inflationary pressures in the market.

**The net profit of the insurance sector recorded an annual increase of 6.3%, reaching EUR 9.3 million.** Total income, mainly supported by written premiums, rose by 6.4% to EUR 75.0 million, while total expenses, dominated by claims paid, expanded at the same rate of 6.4%, reaching EUR 65.7 million. The ratio of claims paid to premiums earned increased to 47.4% in June 2025 from 42.1% a year earlier, due to the faster growth of claims relative to premiums. This dynamic was also reflected in the combined ratio, which increased slightly to 90.4% from 89.4% in June 2024, indicating a higher claims burden. In addition to higher claims, the combined ratio was also affected by a slight increase in the expense ratio to 33.8% from 32.3% a year earlier (chart 44).

Profitability indicators showed mixed developments. The average return on assets (ROA)<sup>4</sup> increased slightly to 5.6% from 5.5%, supported by a faster expansion of annual gross profit relative to the slower growth of average assets. Meanwhile, the average return on equity (ROE) declined considerably to 17.5% from 23.5%, due to a drop in annual net profit and faster growth in average equity.

**Capitalization and liquidity indicators remained above minimum requirements and showed annual improvement overall (table 1).** In the non-life segment, the improvement in the ratio of capital to the solvency margin and guarantee fund was supported by an increase in own funds. In the life segment, although capitalization remains above the minimum requirement, the decline in the ratio to the solvency margin reflects higher capital requirements and lower net profit. Meanwhile, liquidity indicators maintained a solid position, with an increase in liquid assets relative to liabilities and technical provisions, particularly in the non-life segment.

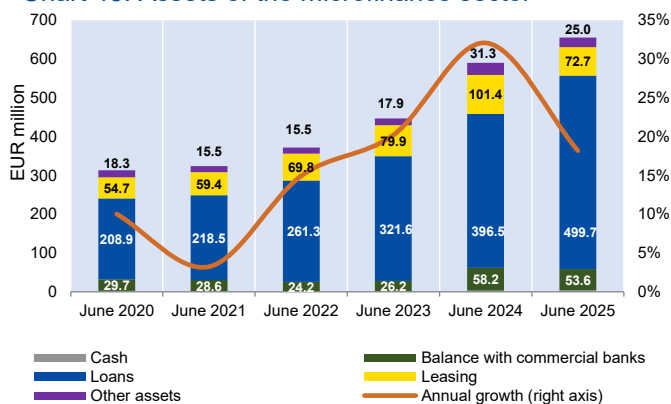
**Table 1. Sustainability indicators**

Description	June 2025	June 2024	Annual change
Capital to solvency margin ratio (non-life)	166.3 %	146.2 %	13.7 %
Capital to solvency margin ratio (life)	658.1 %	777.3 %	-15.3 %
Capital to guarantee fund ratio (non-life)	194.6 %	156.8 %	24.1 %
Capital to guarantee fund ratio (life)	178.3 %	166.6 %	7.0 %
Liquid assets to technical provisions ratio (non-life)	95.7 %	90.7 %	5.5 %
Liquid assets to technical provisions ratio (life)	151.5 %	156.5 %	-3.2 %
Liquid assets to total liabilities ratio (non-life)	83.6 %	78.9 %	6.0 %
Liquid assets to total liabilities ratio (life)	143.4 %	142.80 %	0.4 %

#### 4.4. Microfinance and non-bank financial sector

Similar to the dynamics in the first quarter, the sector in the second quarter also experienced double-digit annual growth in assets, at 18.2%, albeit at a slower pace than the 32.1% growth recorded in the previous year. This dynamic reflects the decelerating trend in the growth of external sources of financing. Sector assets reached EUR 671.3 million, primarily dominated by loans, followed by leasing and liquid assets held in commercial banks (chart 45). Financing remained mainly sourced from external borrowing, which grew by 13.5% year-on-year, significantly slower compared to 25.0% in the same period last year. At the same time,

**Chart 45. Assets of the microfinance sector**



Source: CBK.

<sup>4</sup> The ROA and ROE indicators are calculated using the Trailing Twelve Months (TTM) method, which includes data from the previous 12 months of the reporting period.

financing from the domestic sector recorded substantial annual growth of 139.4% from 22.5% in the same period last year, reflecting the growing importance of domestic funding sources in the overall financing structure.

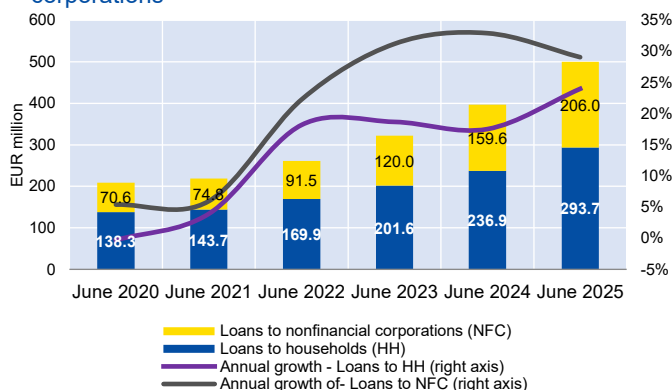
**The sector's loan stock reached EUR 499.7 million, continuing a strong growth trend of 26.0% from 23.3% a year earlier.** Lending to households recorded annual growth of 24.0% from 17.5% in June 2024, while lending to non-financial corporations grew by 29.1% year-on-year from 32.9% in June 2024 (chart 46). The faster growth of corporate loan portfolios, compared to households, slightly altered the structure, with the share of household loans falling to 58.8% from 59.8%, and the share of non-financial corporate loans rising to 41.2% from 40.2%. All sectors of the economy recorded growth, with the industrial sector showing the highest increase of 26.7%. However, due to its larger weight in the corporate loan portfolio, the services sector, which also recorded high growth of 24.9%, contributed most to overall growth.

**Leasing participation in microfinance sector assets declined to 10.8% from 13.9% a year earlier, as a result of a 7.5% annual decrease in leasing activity.** This decline was more pronounced in the non-financial corporate segment, which dominated the structure with 63.2% of total leasing in June 2025. Leasing for households recorded a 10.4% annual decrease, compared with 4.2% growth a year earlier (chart 47).

**The average interest rate on loans issued by the microfinance and non-bank financial sector declined this quarter, particularly for households, where rates fell by 3.6 percentage points, while for non-financial corporations rates decreased by 1.0 percentage point (chart 48).** Households

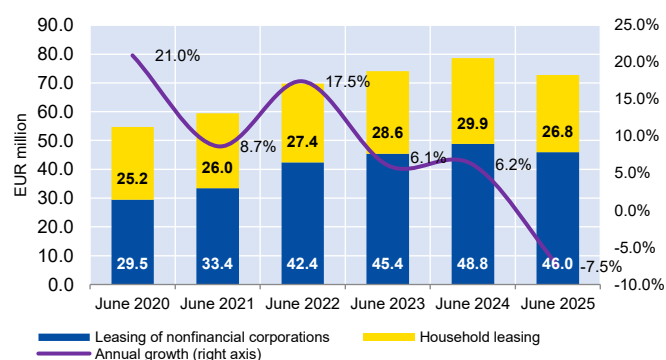
continued to face higher interest rates than non-financial corporations, by 6.8 percentage points. In June 2025, the interest rate for consumer loans fell by 1.2 percentage points to 23.2%, while the mortgage rate increased by 1.4 percentage points to 17.3%. Within corporate loans, interest rates decreased across all economic sectors, with the services sector offering the most favorable rate at 16.1% (chart 49).

Chart 46. Value of loans to households and to nonfinancial corporations



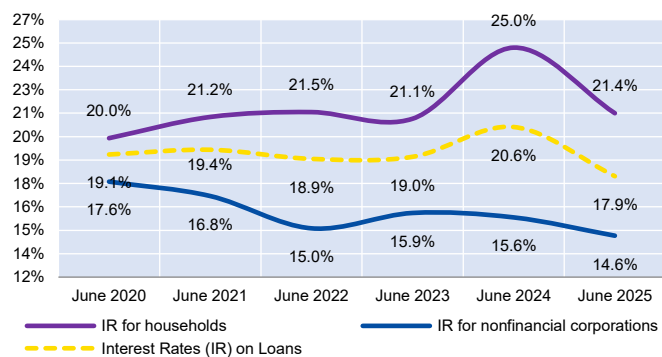
Source: CBK.

Chart 47. Value of microfinance sector leasing



Source: CBK.

Chart 48. Average interest rate on microfinance sector loans

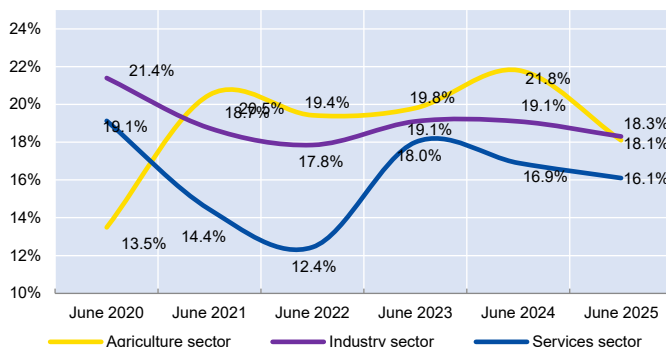


Source: CBK.

The sector's net profit reached EUR 10.7 million, showing a slowdown in annual growth to 8.6% from 22.2% growth a year earlier. This reflects the higher impact of rising expenses compared to income. Total sector revenues continued to grow strongly during the reporting period, at 20.2%, but at a slower pace compared to the previous year, reflecting the stabilization of interest rates and the effect of a higher comparative base.

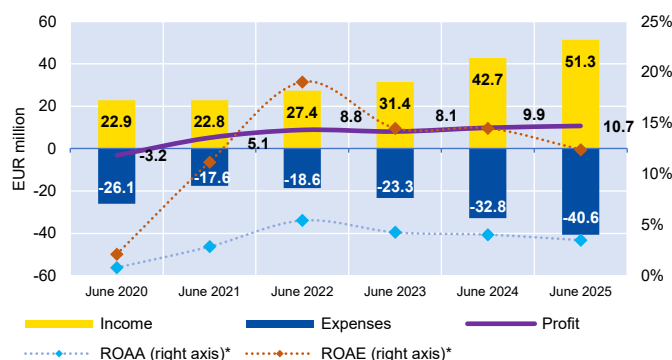
Growth remained largely supported by interest income, which remained the dominant revenue source, reflecting the expansion of lending activity. Non-interest income also contributed to growth, though at a much slower pace than last year. Non-interest income also contributed to growth, although at a much more modest rate than last year. Overall expenses also slowed annual growth to 24.1% from 41.1%, reflecting the gradual stabilization of costs after sharp increases in recent years influenced by inflation and high financing costs. The main contributor to this slowdown was non-interest expenses (18.4% from 20.3%), which continued to grow, but at a lower intensity, particularly in personnel and administrative costs (8.6% from 17.2%). Meanwhile, interest expenses grew by 34.1%, although showing a marked slowdown from 84.6% compared to the previous year, in line with the normalization of financing conditions.

Chart 49. Average interest rate on loans to enterprises, by economic sectors



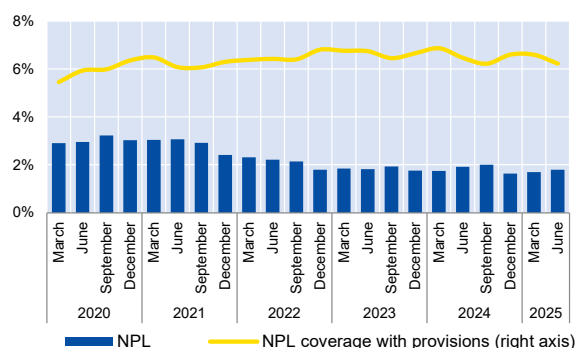
Source: CBK.

Chart 50. Profit and profitability indicators of the microfinance sector



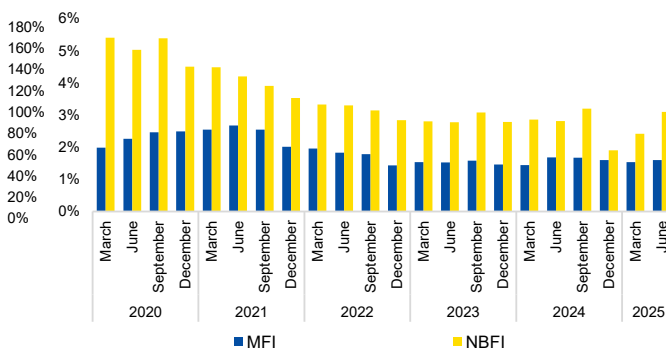
Source: CBK.

Chart 51. Indicators of credit portfolio quality



Source: CBK.

Chart 52. MFI and NBFi NPL level



Source: CBK.

The expense-to-income ratio increased to 79.1% in June 2025 from 75.3% a year earlier, reflecting slightly faster growth of expenses relative to income. Consequently, key profitability indicators declined, with the return on assets (ROA) falling to 3.5% from 4.2% and the return on equity (ROE) dropping from 14.4% to 12.4%.

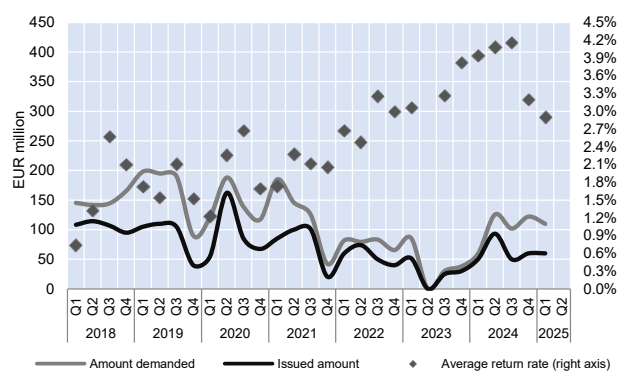
**The ratio of non-performing loans to total loans in the microfinance and non-bank financial institutions sector decreased to 1.8% from 1.9% at the end of June 2024, due to faster growth of total loan stock compared to non-performing loans.**

Coverage of these loans with provisions remained stable, although slightly declining to 140.0% from 145.5% in the previous period (chart 51). Meanwhile, the non-performing loan ratio remains higher for non-bank financial institutions (NBFIs) compared to microfinance institutions (MFIs). For MFIs, the ratio decreased to 1.6% from 1.7%, while for NBFIs it increased to 3.1% from 2.8% 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).

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

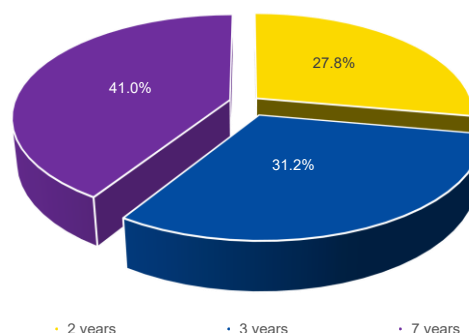
**In the second quarter of 2025, the Government of the Republic of Kosovo issued debt amounting to EUR 48.8 million, marking a 50% reduction compared to the same period of the previous year (chart 53).** However, the ratio of domestic debt to Gross Domestic Product (GDP) slightly declined to 8.27% from 9.06% in June 2024, mainly influenced by the amortization of domestic debt.

Chart 53. Bid to cover ratio



Source: Ministry of Finance, Labor and Transfers.

Chart 54. Structure of Government securities by maturity, in percent



Source: Ministry of Finance, Labor and Transfers.

Despite the lower return rate, demand for securities remained high and exceeded the supply. Despite the lower yield, demand for government securities remained high and exceeded the supply. Nevertheless, the government issued EUR 20.5 million less than the amount requested (chart 53).

The investor structure of government securities remained similar to the previous quarter. Pension funds continued to dominate the market, holding 45% of the total stock, followed by commercial banks and public institutions with 23% each, while insurance companies accounted for 5% of the government debt stock.

During this quarter, the issued securities were mainly dominated by seven-year bonds, followed by three-year and two-year bonds (chart 54).

### The suggested citation of this publication:

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- b) Official CBK statistics, Time series: [time series | Central Bank of the Republic of Kosovo \(bqk-kos.org\)](#)
- c) Credit Registry of Kosovo: [Regjistri i Kredive - BQK \(bqk-kos.org\)](#)

#### **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-Monthly%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 \(www.worldbank.org\)](#)



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