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**Republika Kosova - Republic of Kosovo**

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**Department of Macroeconomic Policy and International Financial Cooperation**

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*The Quarterly Economic Bulletin provides an update of some of the key developments within some sectors of the economy for the reporting quarter. The bulletin is designed to be informative for all readers. The bulletin can be used for research or presentation purposes, with source citation only.*

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## Executive Summary

The first quarter of 2022 was characterized by a slowdown in economic growth and price increases at the global level. The effects of the Covid-19 pandemic followed by the energy crisis that started in the last quarter of 2021 as well as the invasion of Ukraine by Russia at the end of February this year, reflects the biggest contributors to the economic growth constraint and drivers of the main causes of the upward trend of inflation at the global level.

Global events were also reflected in the country, thus, in this quarter the trend of economic growth was slower than previous quarters. The economy of Kosovo recorded a growth of about 4.9% in real terms. This growth is mainly attributed to the growth in private consumption, supported by a lighter growth in the export of goods and services, whereas investments for this quarter had a modest contribution.

Influenced by the international price trend, inflation in the country continued its upward trend in this quarter as well, recording an average annual increase by 8.2%, with the main contribution generated by the food category, and by the “operation of personal transport equipment” category.

The above-mentioned events affected the deterioration of the payments balance. The current account deficit in this

quarter was 126.5% higher than the one of same quarter of 2021. This deepening is mainly attributed to the deficit in the goods sector, meanwhile, the trade balance of services resulted positive. Likewise, the financial account marked a deepening of the deficit, as a result of the negative balance in portfolio investments, as well as in the category of other investments.

The financial sector was characterized by a significant increase in new loans, whereas new deposits continued to decline compared to the same periods of 2020 and 2021. The effective interest rate for new loans and deposits marked a slight decrease compared to Q1 2020 and Q1 2021. On the other hand, the value of non-performing loans continues to remain low even in Q1 2022, representing only 2.3% of the value of total loans.

The first quarter of 2022 marked a satisfactory performance of budget revenues, with an annual increase by 19.3% compared to Q1 2021. However, the budget expenditures recorded a decrease by 12.2% compared to the same period last year, mainly as a result of the low dynamics of the execution of capital expenditures. As a result of developments in revenues and expenses, the total budget balance improved, recording a slight deficit by 13.1 million Euros.

## External economic environment

The beginning of the invasion of Ukraine by the Russian Federation at the end of February, represents the main global development in the first quarter of 2022. Over the past two years, the global economy, in addition to the aforementioned war, has experienced two other major shocks. First, since March 2020 the COVID-19 pandemic began; secondly, the latest energy crisis that started in the last quarter of 2021. These three shocks are contributing to the slowdown of global economic growth, as well as the increase in prices. Considering that Kosovo is a country with a negative trade balance, it is of particular importance to analyze these global developments and their effect on the economy as they, in one way or another, will also manifest in Kosovo.

The latest war is expected to slow down the recovery from the pandemic, affect the increase in prices and the duration of this increase. According to assessments by the International Monetary Fund (IMF), this war is expected to affect the global economy through trade, and to some extent through financial channels. The impact of the war is expected to contribute to the further increase in the price of food and fuel; moreover, this increase in prices is expected to last longer than the forecasts before the start of the war. Against this background, it is quite challenging for policy makers, as they have to implement economic policies, which on the one hand ensure the continuation

of the economic recovery from the pandemic, and on the other hand affect to some extent in controlling inflation.

The latest IMF projections published in April 2022, which also considers the war between Ukraine and the Russian Federation, suggest that real world economic growth in 2022 will be 3.6%, a downward revision by 0.8 p.p compared to the preliminary forecast published in January 2022. On the other hand, the IMF predicts that inflation during 2022 will be around 5.7% in advanced economies, this figure is 1.8 p.p higher than the forecasts in the analyzes published in January 2022. As for developing European economies, the inflation rate is expected to reach 27.1%, with the highest inflation recorded in Turkey (60.5%) and Russia (21.3%).

Table 1 shows the price movements in percentage of some specific goods in Q1 2020, Q1 2021, and Q1 2022. As can be seen in the table, in Q1 2022 all presented goods marked an increase.<sup>1</sup> Whereas the price of energy increased by almost 79.9% in Q1 2022 compared to the same period in 2021, the price of food increased by 24.7%. The price of oil also had an upward trend by over 62.9%, metals and minerals by 24.5%, and nickel by almost 51.9%. Whereas the price of artificial fertilizer recorded the highest increase in this quarter; compared to Q1 2021, the price of artificial fertilizer increased by almost 120.0%.

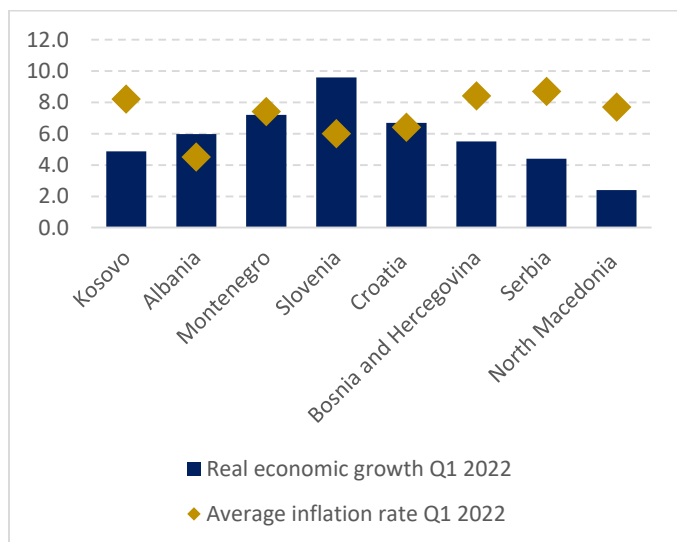
Table 1 - Price movements in international markets according to quarterly periods

	Q1 2020	Q1 2021	Q1 2022
	<i>y-o-y (in percentage)</i>		
Energy	-22.4	24.9	79.9
Food	4.5	27.4	24.7
Oil	-18.9	20.9	62.9
Artificial fertilizer	-15.9	33.5	119.4
Metals and minerals	-7.4	45.6	24.5
Nickel	2.2	38.8	51.9

<sup>1</sup> These results were calculated based on data from the World Bank for the market of goods located in <https://www.worldbank.org/en/research/commodity-markets>

Graph 1 shows that during Q1 2022 there was positive economic growth in the entire region. At the same time, inflation also recorded positive growth in all the countries presented in the graph.<sup>2</sup> The highest economic growth in Q1 2022 from the region was recorded by Slovenia in value by 9.6%. Whereas the highest high rate of inflation was achieved by Serbia with a rate of 8.7%. Except for Slovenia, in all other countries, the highest inflation rate was recorded in March for this quarter.

Graph 1 - Real economic growth and the average rate of inflation in the region for Q1 2022



## Real sector

### Economic growth

According to the latest data of the Kosovo Statistics Agency (KAS), the country's economy in the first quarter of 2022 recorded a real annual growth by 4.9%; whereas in nominal terms the annual growth reached 10.1%.

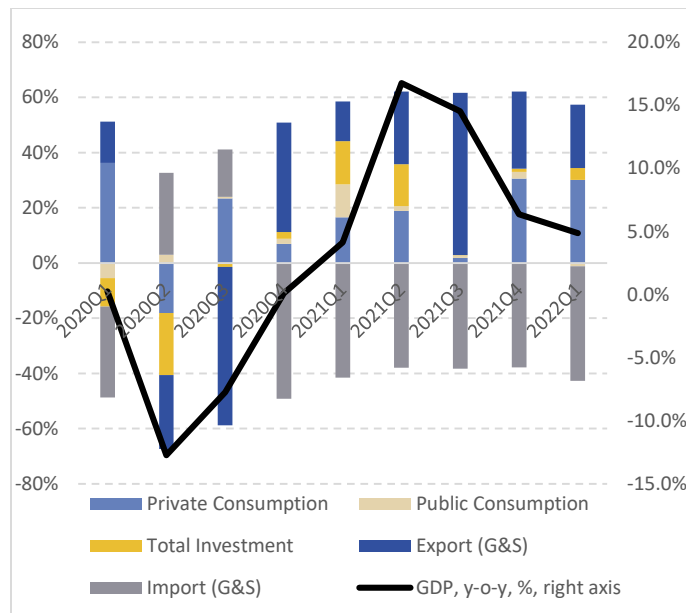
According to the expenditure method (graph 2), in real terms, the main contribution to GDP growth is attributed to **total consumption** with around 9.6 p.p or with an annual increase by 9.5% (private with around 11.6% whereas the public one marked a decrease by about 2.5%). The increase in private consumption, as in the previous quarter, was also reflected in the collection of VAT (annual increase by 23.0%) and the increase in the import of goods for consumption by about 15.0% (y-o-y), whereas the increase in new loans for consumption this

quarter had a constant trend with a modest annual growth by 3.8%.

**Total investments** (private and public) had a slight contribution to the real GDP growth by about 1.4 p.p or annual growth by about 4.4% (y-o-y). The annual increase in loans for investment purposes (100.0%) and the increase in the import of capital goods (7.3%, y-o-y) are among the main factors that supported the increase in total investments in this quarter.

On the other hand, **net export** of goods and services had a negative contribution by about 6.2 p.p or 17.7% (y-o-y). This negative contribution, derives as result of **imports** increase (22.1%), which exceeded the increase of export of **goods and services** which marked an annual increase by 27.6% in real terms.

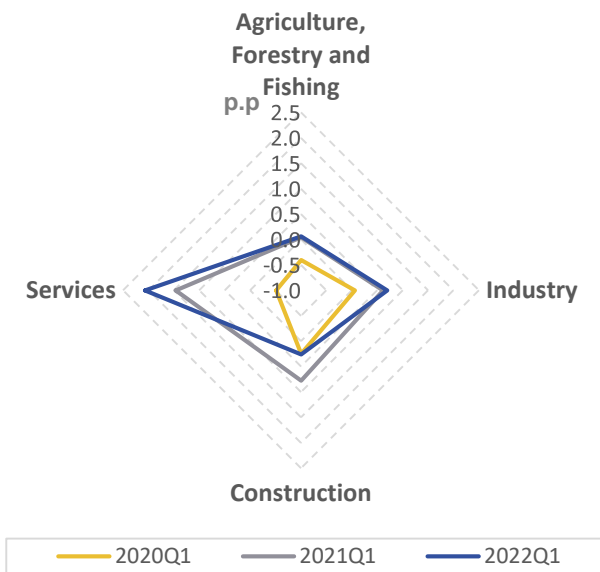
Graph 2 - Real GDP growth (%) and key contributors (p.p)



Based on GDP according to economic activities, in Q1 2022 the sectors that had the greatest contribution were: the services sector with 2.1 p.p, followed by the industry sector with 0.7 p.p. The contribution of the construction sector was positive (about 0.3 p.p), smaller than in the same quarter last year, whereas the agriculture, forestry and fishing sector continued to have a negligible contribution.

<sup>2</sup> Data on economic growth and inflation rates were obtained from the websites of official national statistics agencies for each country.

Graph 3 - Real GDP by activities



## Inflation

The trend of increasing inflation continued during the first quarter of 2022. According to KAS data, the average annual growth rate of inflation for this quarter was 8.2%. Respectively, 7.1%, 7.5% and 10.1% for the months of January, February and March respectively.

Table 2 - Contributions of the key categories to annual inflation

Main (sub)categories of CPI (contribution in percentage points, unless otherwise stated)	2020				2021				2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>Food and Non-Alcoholic Beverages</b>	<b>0.7</b>	<b>1.0</b>	<b>0.5</b>	<b>0.7</b>	<b>0.1</b>	<b>0.0</b>	<b>1.3</b>	<b>2.6</b>	<b>4.6</b>
<i>Food</i>	0.6	0.8	0.4	0.6	0.1	-0.1	1.2	2.5	4.3
<i>of which: Bread and Cereals</i>	0.2	0.2	0.3	0.2	0.3	0.2	0.2	1.1	2.0
<i>Fruit</i>	0.3	0.3	0.0	-0.1	-0.3	-0.3	-0.1	-0.1	-0.2
<i>Vegetables</i>	-0.4	-0.3	-0.1	0.2	-0.2	0.0	0.5	0.3	0.4
<b>Alcoholic Beverages, Tobacco and Narcotics</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>
<i>of which: Tobacco</i>	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2
<b>Communication</b>	<b>0.0</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.2</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.4</b>	<b>0.0</b>
<b>Electricity, gas and other fuels</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.9</b>
<b>Hotels, Restaurants and Coffee bars</b>	<b>0.1</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>
<b>Operation of personal transport equipment</b>	<b>-0.6</b>	<b>-1.4</b>	<b>-1.2</b>	<b>-1.1</b>	<b>-0.3</b>	<b>1.3</b>	<b>1.6</b>	<b>2.0</b>	<b>1.9</b>
<b>CPI (y-o-y, %)</b>	<b>1.1</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.6</b>	<b>2.1</b>	<b>4.4</b>	<b>6.4</b>	<b>8.2</b>

The continuation of the upward trend of inflation comes mainly from the side of aggregate supply, as a result of disruptions in the supply chain reflected by the pandemic, and then further incited by the war in Ukraine. On the other hand, the effect of the increase in aggregate demand, as a result of the pandemic, on the increase in inflation has started to fade.

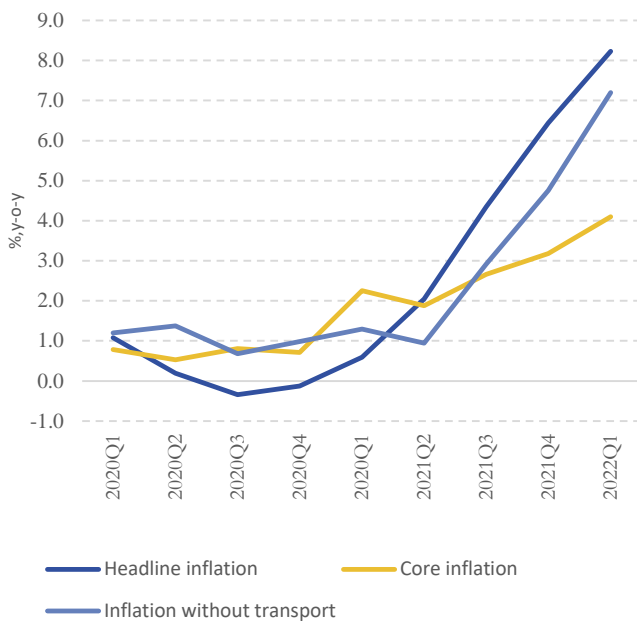
The increase in inflation this quarter is mainly attributed to the increase in food and fuel prices. Respectively, the consumer price index subcategories that showed the highest growth for this quarter were:

- Category “Food” had annual increase by 11.3%, with contribution by 4.3 p.p;
- Category “Electricity, gas and other fuels” had an annual increase of 16.1%, with a contribution by 0.9 p.p;
- Category “Operation of personal transport equipment” had an annual increase of 23.7%, with a contribution by 1.9 p.p.

Table 2 reflects a more detailed summary of the contributions of the main subcategories of CPI:

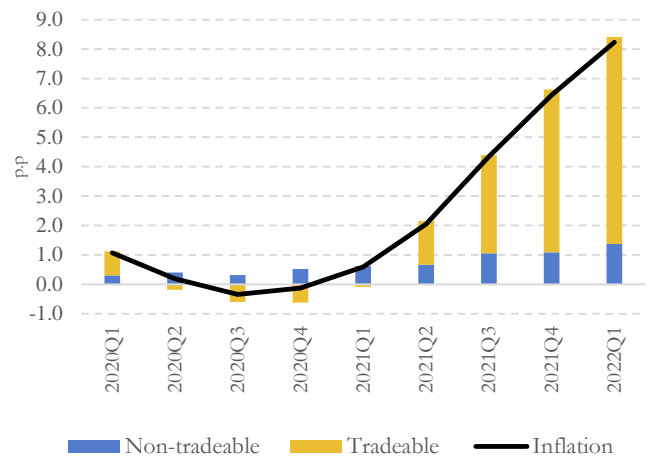
The events caused as a result of the invasion of Ukraine by Russia in the second half of this quarter, together with the increased uncertainty about the future, was reflected in the country as well, as in other countries of the world with a sharp rise in food and oil prices. This quarter, core inflation, excluding the categories “food and non-alcoholic beverages” and the category “transportation”, marked an annual increase by 4.1%; whereas when only the “transportation” category is excluded, the core inflation is estimated to be 7.2%. Out of this, both measurements are lower than total inflation, estimated at 8.2% on average.

Graph 4 - Total inflation to core inflation, y-o-y, %



As a country where imports represent a large part of the gross domestic product, the international prices of imported goods and services are quickly reflected in our markets. This is best shown through graph 5, which reflects the contributions of tradable and non-tradable inflation to total inflation. As can be seen, the contribution of the tradable inflation component in the first quarter of 2022 is significantly greater than that of the non-tradable inflation, marking a positive contribution by 7.1 p.p, whereas the non-tradable one reached 1.4 p.p. Both categories marked an increase compared to the previous quarter, reflecting recent global events.

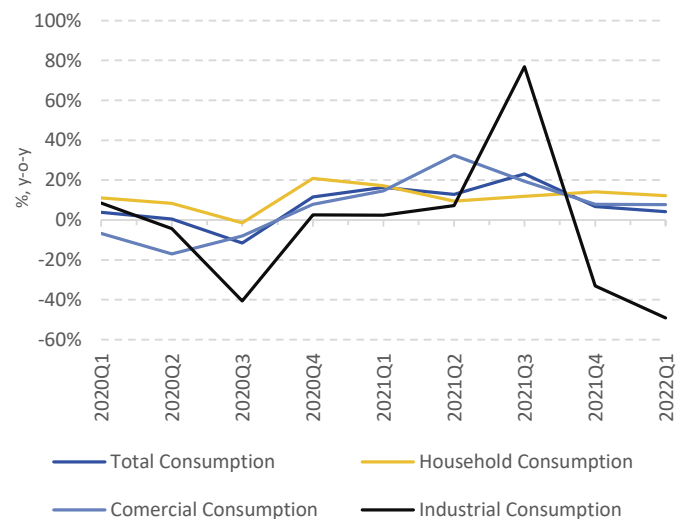
Graph 5 - Tradable and non-tradable inflation contribution



### Energy consumption

In the first quarter of this year, total energy consumption, as one of the indicators that moves significantly with economic growth, was above the level of consumption recorded before the pandemic (2020 Q1). Compared to the same period of last year, total energy consumption increased by 4.2%, driven mainly by household consumption, an annual increase by 12.2% and commercial consumption with an increase by 7.7%. On the other hand, industrial consumption continued the downward trend it had in the last quarter of 2021, mainly due to the stoppage of operation of one of the largest consumers NewCo Ferronickel (graph 6).

Graph 6 - Energy consumption (MWh)





## Businesses' register

In the first quarter of 2022, a total of 2,831 enterprises were registered, which represents a decrease of 3.7% compared to the same quarter of last year or an increase of 17.2% compared to the previous quarter.

According to economic activities, the largest percentage of new businesses belongs to the activity of "Public administration and protection: compulsory social insurance" with an increase of 50.0%, the second is the mining and quarrying activity (42.9%), followed by the "Water supply, sanitation, waste management and land revitalization activities" (33.3%), and Education (30.3%).

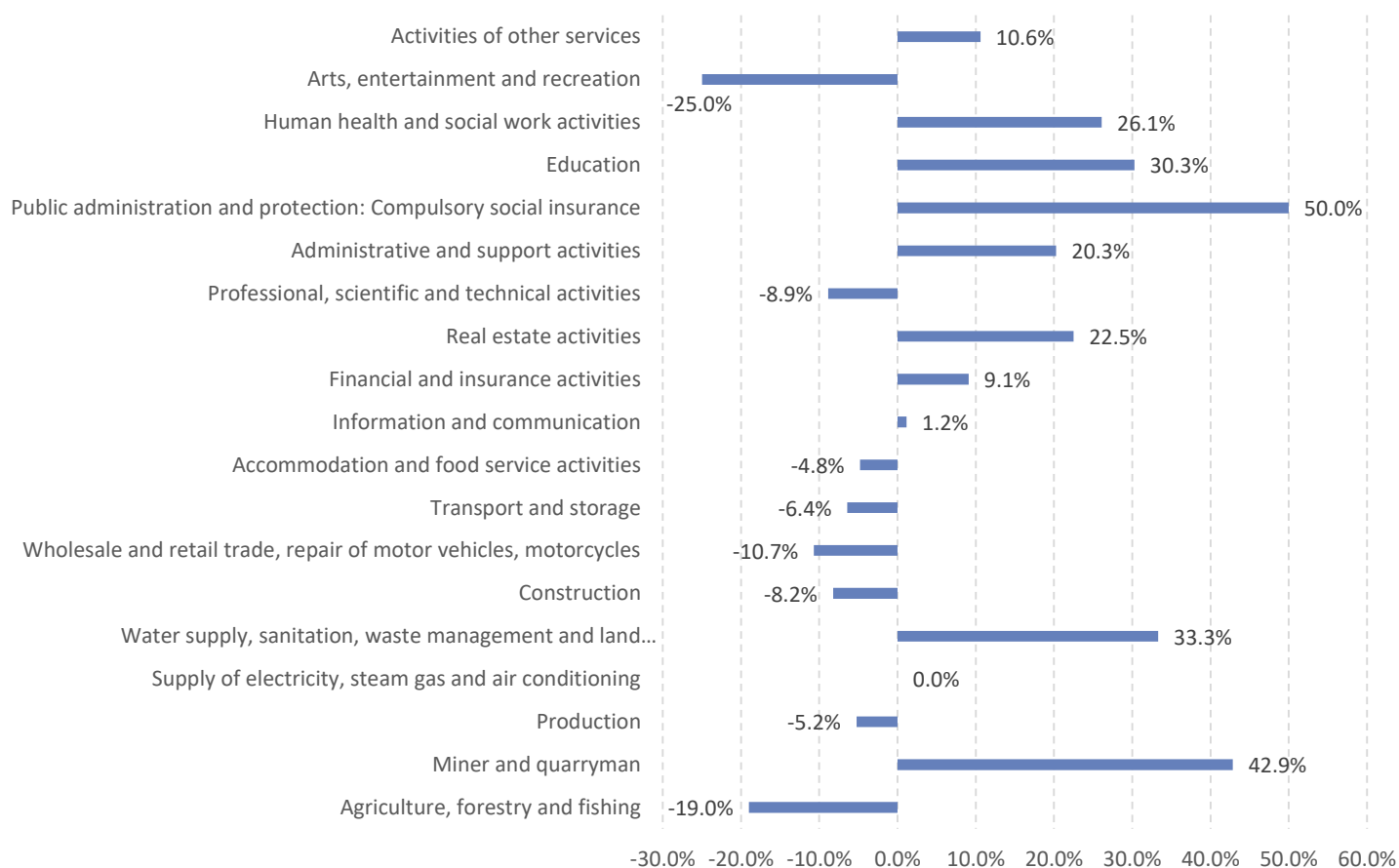
Water supply, sanitation, waste management and land revitalization activities

Based on the size of the businesses, the micro businesses category has the highest percentage (98.7%), followed by small enterprises (1.3%), and only one enterprise in the medium enterprises category.

Regarding the number of closed businesses, we notice a trend, which doesn't differ much from last year (around 495 businesses), which mainly belong to:

- Wholesale and retail trade sector;
- Repair of motor vehicles, motorcycles;
- Accommodation and food service activities.

Graph 7 - Change in the number of new businesses, y-o-y, %



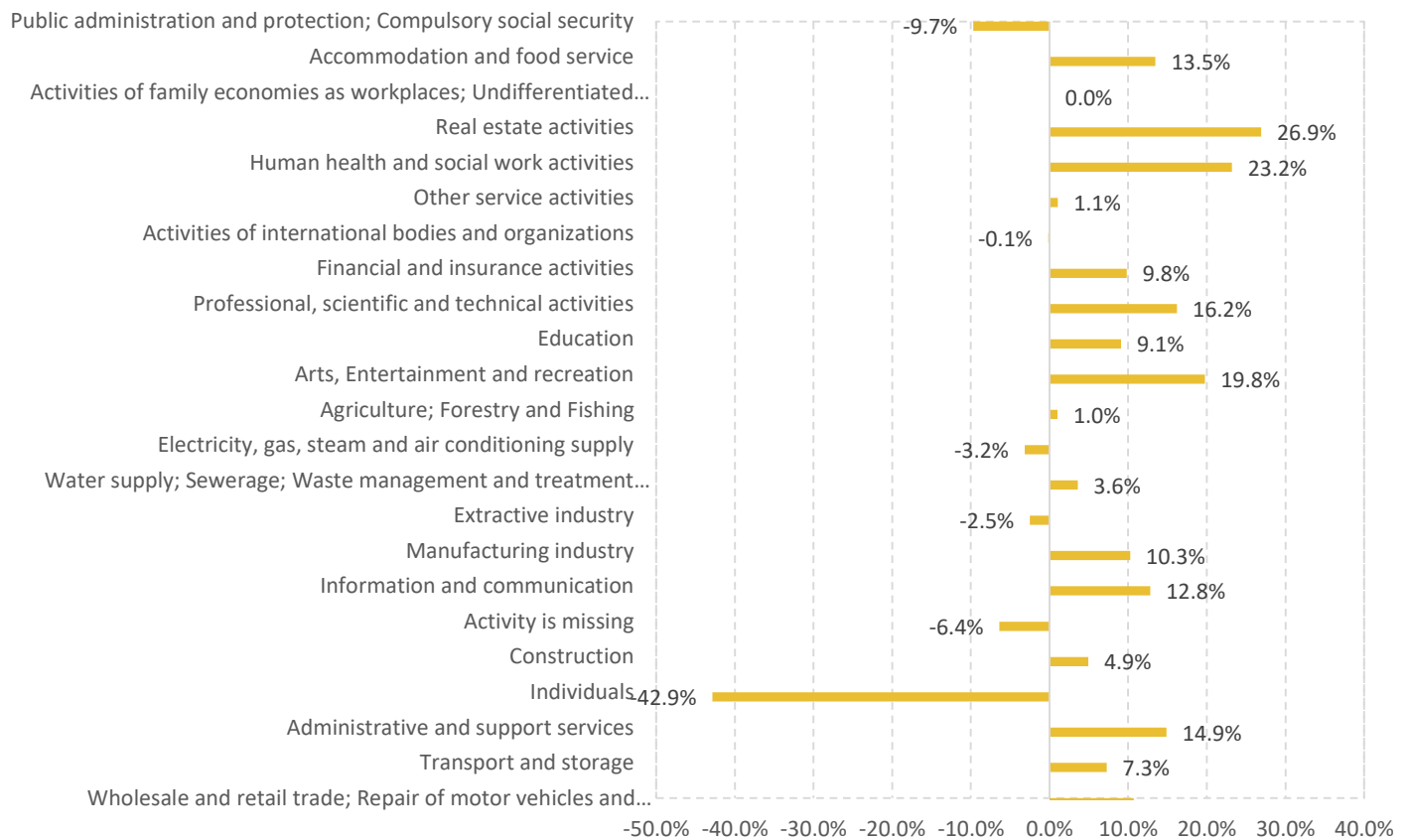
## Employment

In the absence of official data from KAS, data from the Tax Administration of Kosovo indicates that in the first quarter of 2022, about 372,379 persons were employed. If we compare it with the same quarter of last year, we notice an increase by 4.2% of employees. The largest increase comes from Real Estate Activities (26.9%),

Human Health Activities (23.0%) and Arts, Entertainment and Recreation (19.8%). The data indicates a decrease in the number of employees in the category of natural persons by about 42.8% and Public Administration by 9.7% compared to the same quarter of the previous year (Q1 2021).



Graph 8 - Employment according to economic activities, TAK, y-o-y %

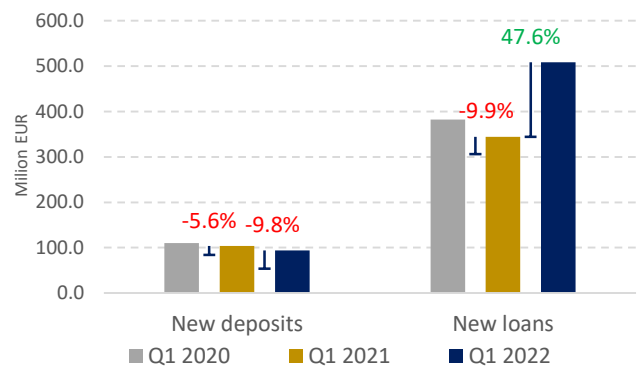


### Financial sector

During the first quarter of this year, the financial sector was characterized by a significant increase of new loans. On the other hand, new deposits continued to decline compared to the same periods of 2020 and 2021. These two developments, to a certain extent, can be explained by inflationary pressures for two reasons. Firstly, under conditions of inflation, the value of the consumption basket increases, which means that consumers will have less funds available for deposits. Secondly, under the condition that the interest rate on loans doesn't increase - as is the case in Kosovo for this quarter - loans are relatively cheaper, and therefore expectations are that the value of new loans will increase.

Compared to the same period of last year, new loans increased by almost 50.0%, whereas new deposits continued to follow a downward trend - similar to the previous period - decreasing by 9.8% (Graph 9).

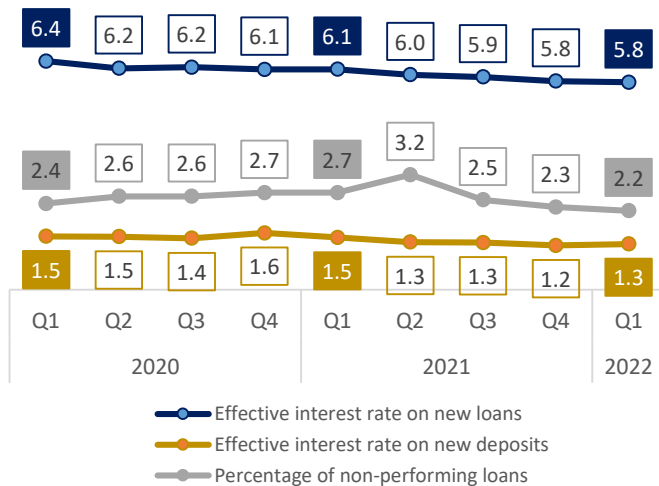
Graph 9 - Deposits and new loans



The effective interest rate for new loans and deposits marked a slight decrease compared to the same periods in 2020 and 2021. According to CBK data, the average effective interest rate for new loans in Q1 2022 was 5.8%, this figure is lower than it was in Q1 2021 and Q2 2020 (graph 10). In regard to new deposits, the average interest rate in Q1 2022 was 1.3%. As can be seen in graph 10, the

effective interest rate on new deposits fell by 0.2 p.p compared to Q1 2021. On the other hand, the value of non-performing loans continues to remain low even in Q1 2022, representing only 2.2% of the value of total loans.

Graph 10 - Effective interest rate and percentage of non-performing loans

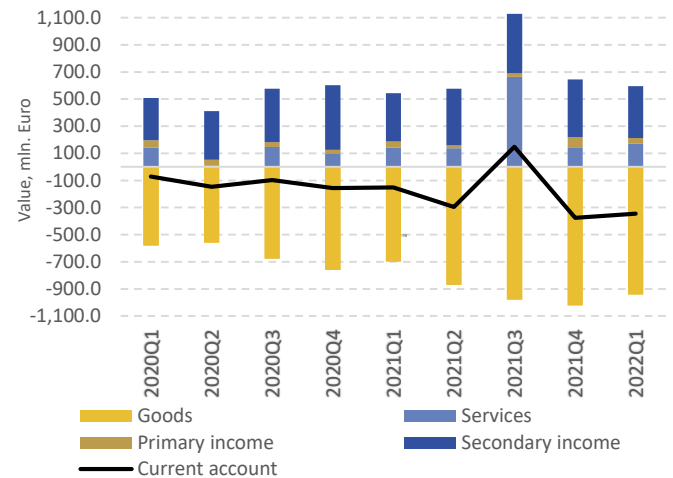


## External sector

### Current account

The Current Account recorded a deficit of 344.6 million Euros, which was 126.5% deeper than in the same quarter of the previous year, and as usual, is attributed to the deficit in the goods sector. This deficit deepened by 34.9% compared to the same period of the previous year, amounting the value of 939.7 million Euros. On the other hand, the services trade balance was positive and increased by 21.3%, marking the value of 174 million Euros. The coverage of imports during this quarter was about 18.0%.

Graph 11 - Current account



Import in the category of goods marked an annual increase by 35.5%, where the main contribution was made by the categories: Mineral Products (15.4 p.p) and Basic Metals and their articles (4.7 p.p). In addition to the import, the export of goods marked a significant increase by 42.7%. The categories with the highest export were: Other manufactured items (19.7 p.p), Mineral products (9.7 p.p) and Plastics, tires and their articles with articles thereof (7.8 p.p).

In the services sector, imports recorded an increase by 43.2% with the main contribution from transport (19.1 p.p) and travel (12.2 p.p). Exports increased by 32.1%, with the main contribution coming from the main categories; Travel (27 p.p) and Computer, Information and Telecommunication services (6.7 p.p).

The balance of primary income marked a decline by 8.0%, amounting the value of 40.3 million Euros, mainly due to the deepening of the deficit in the category “revenues from investments”. On the other hand, the balance of secondary revenues increased by 6.6%, marking the value of 380.8 million Euros. As the main component of secondary income is remittances, it is worth noting that in this quarter the balance in income from remittances recorded a slight increase by 0.2%.

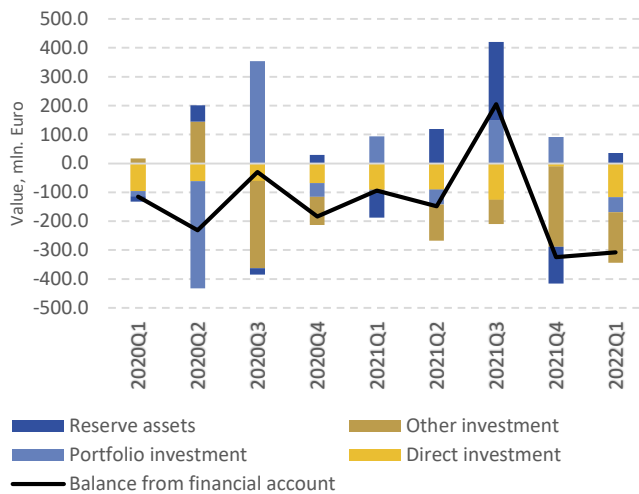
### Financial account

The balance in the financial account marked a deficit by 307.4 million or 227.7% deeper than in the same period of last year. This deepening of the deficit came from the negative balance in portfolio investments as well as in the

category of other investments (decline in the cash and deposits subcategory).

In this quarter, FDI increased by 42.1% amounting the value of 147.4 million Euros. The activities that recorded an increase are Real Estate (46.3 p.p) and Mining and Quarries (4.6 p.p), whereas the activities for the supply of electricity, gas, steam, air conditioning (6.1 p.p), and financial and insurance activities had a negative contribution (12.4 p.p).

Graph 12 - Financial account

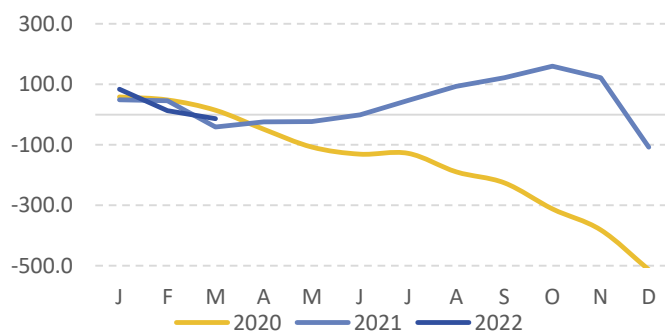


## Public finance

### Total Budget balance

Total Budget balance (cumulative) at the end of first quarter amounted to a surplus by 104.7 million Euros, as a result of increase on Budget revenues on one hand, and on the other hand decline of expenditures.

Graph 13 - Total monthly budget balance, million Eur



## Revenues

This quarter marked a record result in revenue performance. The budget revenues amounted the value of 542.5 million Euros, or about 19.3% higher than the budget revenues in the quarter of the previous year. Most of the budget revenues were tax revenues that amounted the value of 482.2 million Euros by an increase of 20.0% compared to the previous year. Out of them, about 20.0% were revenues from direct taxes, while the rest were indirect taxes.

Direct taxes were 31.9% higher than last year amounting the value of 99.9 million Euros and consisted by:

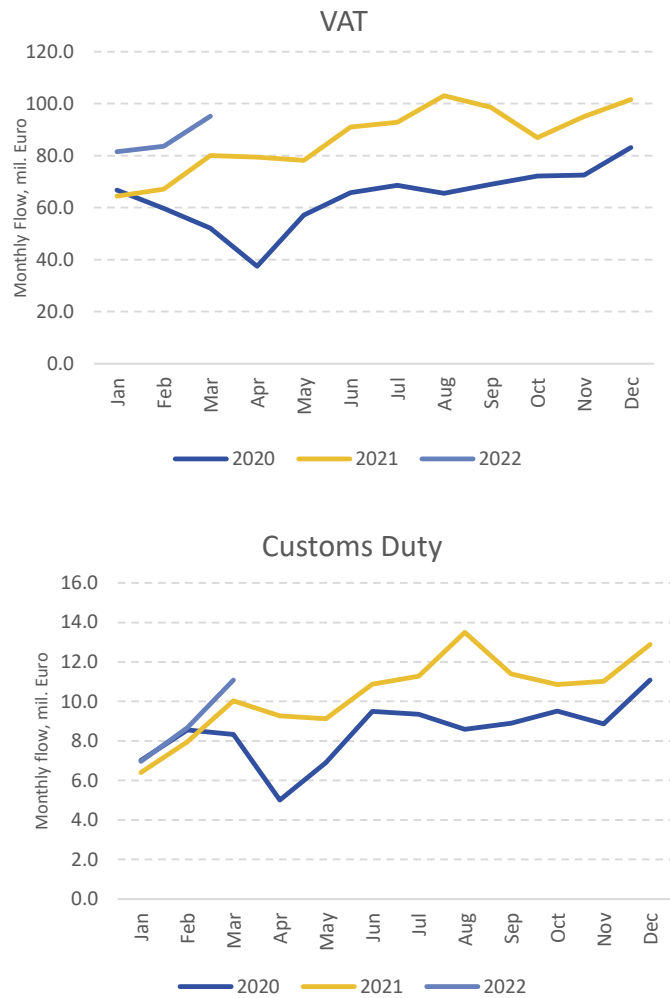
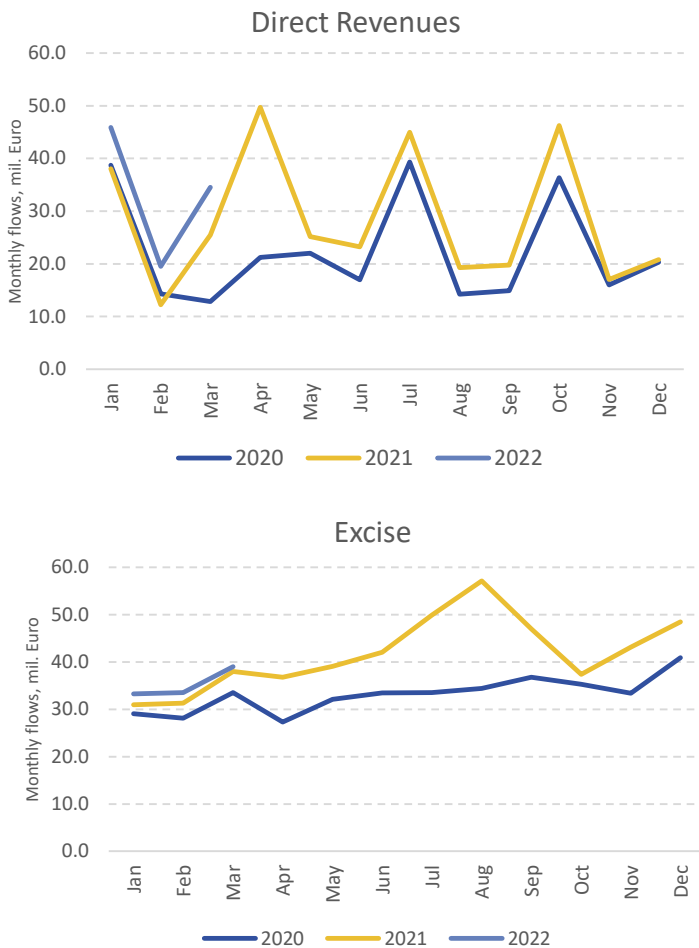
- Revenues Corporate Income Tax amounted the value of 40.7 million with an annual increase by 80.4%;
- Revenues from Personal Income Tax amounted the value of 50.9 million Euro with an annual increase by 14.1%, and
- Revenues from Property Tax amounted the value of 7.2 million with an annual decrease by 12.1%.

Revenues from indirect taxes, as the group with the largest contribution to budget revenues, had an annual increase by 16.9% and amounted the value of 392.9 million Euros. The performance of revenues from indirect taxes was in line with the increase in the import of goods, which was more the result of the increase in import prices than the increase in aggregate demand in the country. The performance of revenues from indirect taxes was as follows:

- Revenues from Value Added Tax amounted the value of 260.3 million Euros with an annual increase by 23.0%.
- Excise revenues amounted the value of 105.9 million Euro with an annual increase by 5.6%.
- Revenues from customs duties amounted the value of 26.7 million Euros with an annual increase by 9.4%.

Non-tax revenues amounted the value of 60.3 million Euros with an annual increase by 13.5%.

Graph 14 - Performance of budget revenues during the first quarter (2020, 2021 and 2022)



**Expenditures**

This quarter, budget expenditures amounted to the value of 428.1 million Euros (excluding the interest expenditures), which compared to the same period of last year, represents a decline of 12.2%. Whereas, interest expenditures for this quarter amounted 9.7 million Euros.

As can be seen even in graph 15, the current expenditures category during this quarter amounted the value of 400.1 million Euros, or a decline by 6.9% compared to the same period of last year.

Moreover, the wages category amounted the value of 164.2 million Euros or a decline by 6.3% compared to the same period of last year. The goods and services category amounted the value of 64.8 million Euros or an annual increase by 11.9%, whereas that of subsidies and transfers amounted the value of 171.1 million Euros or 13.0% lower compared to the same period of last year. In addition, capital expenditures amounted 28 million Euros,

which represents a decline by 51.6% compared to the same period of last year.

Graph 15 - Performance of budget expenditures during the first quarter (2020, 2021 and 2022), y-o-y, %

