

# Kosovo Watch: Sluggish Q3 growth and diminished rebound hopes in near future

With the GDP growth of 2.1% in Q3 2022 and our expectations for an even harder Q4, due to the ongoing energy crisis and elevated prices, we have downgraded our full year 2022 real GDP growth forecast to 2.7%, from 3.5% previously. At the moment we are keeping our GDP growth projection of 2.9% in 2023 due to the relatively high inflation and energy crunch in the first part of the year.

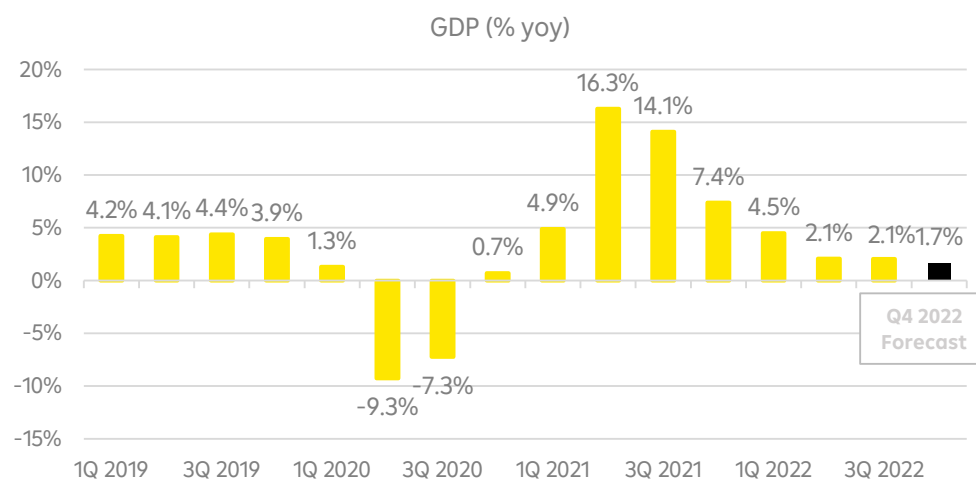


Source: Eurostat

## Q2 2022 growth pace halved compared to Q1 - War taking a toll

The slowdown of Kosovo's economy became clearer in **Q3 2022**, as the yearly GDP growth remained at the **same low level denoted in Q2 2022 at 2.1%**, lower than our forecast of 3.0%. In addition to the **persistent high inflationary pressures**, the ongoing **energy crisis** is becoming a real challenge for the small economy of Kosovo, and it's impacting its ability to reach the **potential growth rate**.

## Economic growth clouded by decreased spending power of consumers



Source: ASK, RBI/Raiffeisen Research

Looking at the GDP components, private consumption and export of goods and services were the main source of the subdued growth. However, private consumption — the largest component of GDP in Kosovo — grew marginally by **only 3.0% yoy**, impacted by high inflation rates that have diminished the ability of individuals and the Diaspora to keep the purchasing power intact. Meanwhile, exports of goods and services increased **moderately by 6.0% yoy** (versus 145% yoy in Q3 2021) mainly due to the **base effect**. Even **public consumption**, with only **0.5% yoy growth** couldn't help the economy

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Analyst **7**

Fjorent RRUSHI

Analyst

+355 4 2381000-2504

Fjorent.Rrushii@raiffeisen.al

Valbona GJEKA

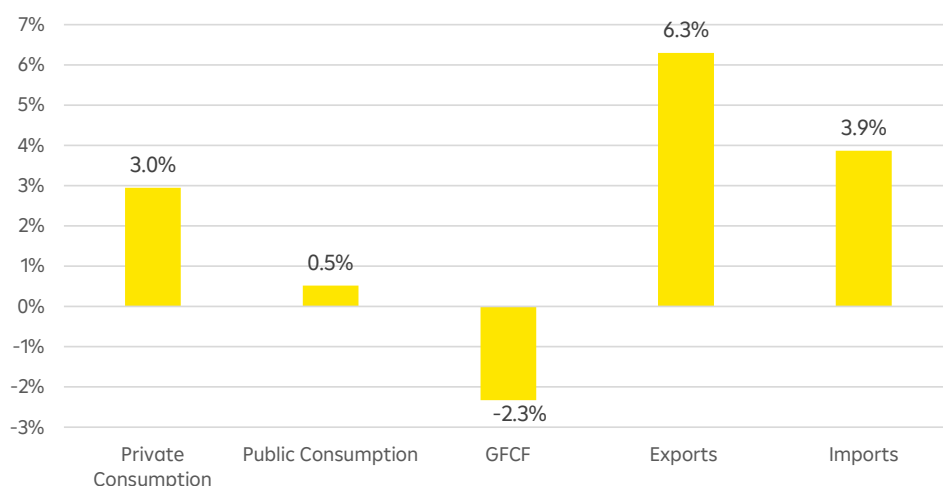
Analyst

+355 4 2381000-2714

valbona.gjeka@raiffeisen.al

overcome the decelerated rate of the other components. Moreover, **gross fixed capital formation posted a decline of 2.3% yoy**. This is another proof that confirms hesitation by the private sector towards investments in the presence of high uncertainty stemming from the new geopolitical scenario in Europe and its consequences for the local economy. On the other side, **imports of goods and services increased by 3.9%**, affected negatively by the imports of goods (with a **negative growth of -1.4%**), pointing to a slowdown of the domestic demand for imported goods, mostly due to the unrelenting jump in **prices of imported goods**, which reached **17.5% on average in Q3 2022** (somehow lower than the **maximum of 23.3% in Q2 2022**). The impact of such a bounce is expected to be felt in the following quarters too.

### Investments feeling the pinch of uncertainty

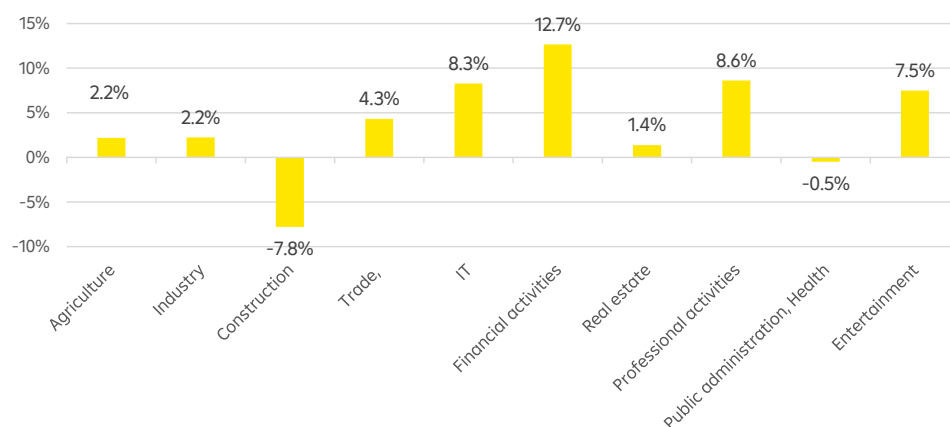


Source: ASK, RBI/Raiffeisen Research

### Construction suffering from high raw material prices

All sectors of the economy, except **construction and public administration**, experienced growth in Q3 2022. It should be noted however, that the main sectors of economy i.e., **trade, industry, and agriculture** marked low to moderate real growth rates. Hence, **trade expanded by 4.3% yoy**, while **industry and agriculture grew by only 2.2% yoy**. Service sectors such as financial industry, professional and scientific activities, IT, communication and leisure activities increased by **12.7%, 8.6%, 8.2% and 7.5%** respectively, but each of these sectors contribute for only a small part in the GDP structure. Construction, with a **decline of 7.8%**, in line with the negative growth rate of gross capital formation, was impacted negatively by the significant increase of construction costs. In fact, the **construction cost index was up 19.5% yoy** in Q3 2022, with pronounced cost increases in energy, transport, construction materials and machinery.

## Good performance in Services somehow mitigated the decline in Construction



Source: ASK, RBI/Raiffeisen Research

## High inflation to act as a drag on private consumption in the next quarters

**Inflation**, has entered a downward trajectory although it remains high. After **peaking at 14.2% in July 2022**, the inflation rate started to steadily drop in the following months. November's print was **11.6%, down from 12.7%** a month earlier. Nevertheless, food prices, energy and transport costs, the main components of household expenditures, remain high with respective annual increase of **17.9%, 13.5% and 10.5%, respectively, in November**. These increases are significantly impacting the purchasing power of the individuals, the confidence levels and their financial situation. Nevertheless, there are some positive signs stemming from core inflation which has started to lean lower from **5.8% in June**, the highest level of the year, to **2.9% in October**, impacted also by reduced domestic demand. In 2022, the government intends to support the economy with circa Eur 150 mn by helping households handle the increased prices of basic goods. We expect **inflation** to close the year at a rate of **11.2%**, while next year our forecast is for a decline to an average of **5.8% yoy**, as the global price dynamics are expected to be less impactful and still relatively high, prices will knock — at least partially — the aggregate demand.

## Downside risks for GDP growth in Q4 2022

To sum up, with the **GDP growth of 2.1% in Q3 2022** and our expectations for an even harder Q4, due to the ongoing energy crisis and elevated prices, we have **downgraded our full year 2022 real GDP growth forecast to 2.7% from 3.5% previously**. At the moment we are keeping our GDP growth **projection of 2.9% in 2023** due to the relatively high inflation and energy crunch in the first part of the year.

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Thomas Sternbach Legal and Compliance Raiffeisen Bank International AG Am Stadtpark 9, 1030 Wien Tel: +43-1-71707-1541 Fax: +43-1-71707-761541 [thomas.sternbach@rbinternational.com](mailto:thomas.sternbach@rbinternational.com)


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## FABIAN BLASCH

📍 Austria   
✉ [fabian.blasch@rbinternational.com](mailto:fabian.blasch@rbinternational.com)

## AMADEA HIESS

📍 Austria   
✉ [amadea.hiess@rbinternational.com](mailto:amadea.hiess@rbinternational.com)

## MARKUS TSCHAEPECK

📍 Austria   
✉ [markus.tschaepeck@rbinternational.com](mailto:markus.tschaepeck@rbinternational.com)


## BRISIDA BUZI

📍 Albania   
✉ [Brisida.BUZI@raiffeisen.al](mailto:Brisida.BUZI@raiffeisen.al)

## ARISTEA VLLAHU

📍 Albania   
✉ [Aristea.Vllahu@raiffeisen.al](mailto:Aristea.Vllahu@raiffeisen.al)


## IVONA ZAMETICA

📍 Bosnia Herzegovina   
✉ [ivona.zametica@raiffeisengroup.ba](mailto:ivona.zametica@raiffeisengroup.ba)

## ELIZABETA SABOLEK-RESANOVIC

📍 Croatia   
✉ [elizabeta.sabolek-resanovic@rba.hr](mailto:elizabeta.sabolek-resanovic@rba.hr)

## DAVID VAGENKNECHT

📍 Czech Republic   
✉ [david.vagenknecht@rb.cz](mailto:david.vagenknecht@rb.cz)

## ZOLTÁN TÖRÖK

📍 Hungary   
✉ [torok.zoltan@raiffeisen.hu](mailto:torok.zoltan@raiffeisen.hu)

## ANDREEA-ELENA DRAGHIA

📍 Romania   
✉ [Andreea-Elena.DRAGHIA@raiffeisen.ro](mailto:Andreea-Elena.DRAGHIA@raiffeisen.ro)


## GREGORY CHEPKOV

📍 Russia   
✉ [grigory.chepkov@raiffeisen.ru](mailto:grigory.chepkov@raiffeisen.ru)

## TIBOR LORINCZ

📍 Slovakia   
✉ [tibor\\_lorincz@tatrabanka.sk](mailto:tibor_lorincz@tatrabanka.sk)

## GUNTER DEUBER

📍 Austria   
✉ [gunter.deuber@rbinternational.com](mailto:gunter.deuber@rbinternational.com)

## MATTHIAS REITH

📍 Austria   
✉ [matthias.reith@rbinternational.com](mailto:matthias.reith@rbinternational.com)

## ANNE VALDER

📍 Austria  German,  
✉ [anne.valder@rbinternational.com](mailto:anne.valder@rbinternational.com)


## VALBONA GJEKA

📍 Albania   
✉ [valbona.gjeka@raiffeisen.al](mailto:valbona.gjeka@raiffeisen.al)


## OLGA ZHEGULO

📍 Belarus   
✉ [olga.zhegulo@priorbank.by](mailto:olga.zhegulo@priorbank.by)

## MIRZA ZORNIC

📍 Bosnia Herzegovina   
✉ [mirza.zornic@raiffeisengroup.ba](mailto:mirza.zornic@raiffeisengroup.ba)


## ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia   
✉ [zrinka.zivkovic-matijevic@rba.hr](mailto:zrinka.zivkovic-matijevic@rba.hr)

## LEVENTE BLAHÓ

📍 Hungary   
✉ [levente.blaho@raiffeisen.hu](mailto:levente.blaho@raiffeisen.hu)


## DOROTA STRAUCH

📍 Poland   
✉ [dorota.strauch@raiffeisen.pl](mailto:dorota.strauch@raiffeisen.pl)


## IONUT DUMITRU

📍 Romania   
✉ [Ionut.Dumitru@raiffeisen.ro](mailto:Ionut.Dumitru@raiffeisen.ro)

## STANISLAV MURASHOV

📍 Russia   
✉ [stanislav.murashov@raiffeisen.ru](mailto:stanislav.murashov@raiffeisen.ru)

## SERHII KOLODII

📍 Ukraine   
✉ [serhii.kolodii@raiffeisen.ua](mailto:serhii.kolodii@raiffeisen.ua)


## CASPER ENGELEN

📍 Austria   
✉ [casper.engelen@rbinternational.com](mailto:casper.engelen@rbinternational.com)

## GOTTFRIED STEINDL

📍 Austria   
✉ [gottfried.steindl@rbinternational.com](mailto:gottfried.steindl@rbinternational.com)


## FRANZ ZOBL

📍 Austria   
✉ [franz.zobl@rbinternational.com](mailto:franz.zobl@rbinternational.com)


## FJORENT RRUSHI

📍 Albania   
✉ [Fjorent.Rrushi@raiffeisen.al](mailto:Fjorent.Rrushi@raiffeisen.al)


## ASJA GRDJO

📍 Bosnia Herzegovina   
✉ [asja.grdjo@raiffeisengroup.ba](mailto:asja.grdjo@raiffeisengroup.ba)

## ANA LESAR

📍 Croatia   
✉ [ana.lesar@rba.hr](mailto:ana.lesar@rba.hr)

## HELENA HORSKA

📍 Czech Republic   
✉ [Helena.Horska@rb.cz](mailto:Helena.Horska@rb.cz)

## GERGELY PÁLFFY

📍 Hungary   
✉ [gergely.palfy@raiffeisen.hu](mailto:gergely.palfy@raiffeisen.hu)

## NICOLAE COVRIG

📍 Romania   
✉ [Nicolae.Covrig@raiffeisen.ro](mailto:Nicolae.Covrig@raiffeisen.ro)

## ANASTASIA BAYKOVA

📍 Russia   
✉ [ABAIKOVA@raiffeisen.ru](mailto:ABAIKOVA@raiffeisen.ru)

## LJILJANA GRUBIC

📍 Serbia   
✉ [ljiljana.grubic@raiffeisenbank.rs](mailto:ljiljana.grubic@raiffeisenbank.rs)

## OLEKSANDR PECHERYTSYN

📍 Ukraine   
✉ [oleksandr.pecherytsyn@raiffeisen.ua](mailto:oleksandr.pecherytsyn@raiffeisen.ua)

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