

Kosovo Watch: First signs of the economy slowing down

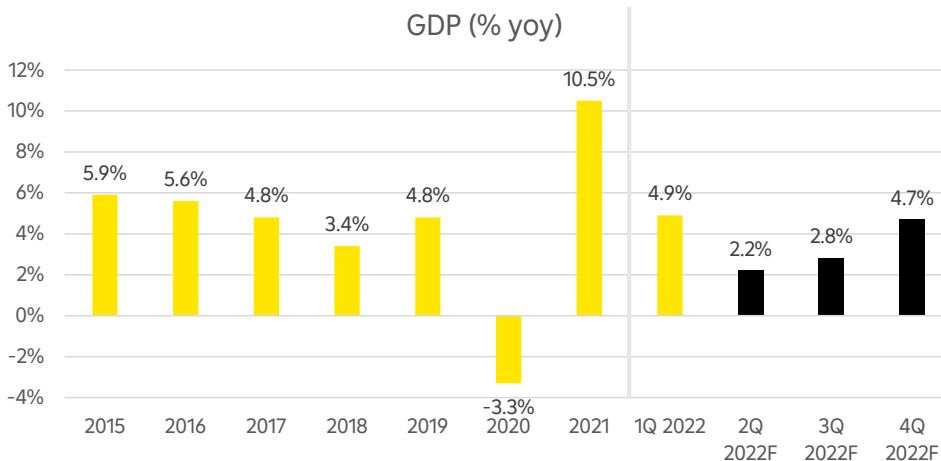
In **Q1 2022** the annual growth of **GDP was at 4.9%, below our forecast of 5.4%**, negatively impacted by increased inflationary pressures and heightened uncertainty. The **latest government interventions** to help households keep the spending power, the **increase in the minimum wage and unrelenting price pressures deriving from the dire international situation** will keep inflation at double-digit levels in 2022, with our forecast at **10.4% on average**, versus the **initial estimate of 8%**.



Deceleration of growth in Q1 2022 vs Q4 2021

After a strong recovery in 2021, with **GDP jumping by 10.5% yoy, (6.4% in Q4 2021)**, Kosovo's economy grew at a relatively moderate rate in the first quarter of 2022. In **Q1 2022** the annual growth of **GDP was 4.9%, below our forecast of 5.4%**, negatively impacted by increased inflationary pressures and heightened uncertainty.

International upheaval to be felt more strongly in the Q2 & Q3 2022



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Private consumption continues to be the main driver of the economy

Like in 2021, **private consumption**, the largest component of the economy, continued to be in the driver seat, **expanding by 11.6% yoy** in Q1 2022. This double-digit expansion of household consumption could be partly explained by **panic buying in the aftermath of the war in Ukraine**. Thus, it is not expected to spread into the rest of the year.

Moreover, **exports** posted a noteworthy **increase of 22.6% yoy**, but with **imports also increasing by 20.0% yoy** the **net foreign trade** contribution to GDP was still negative. On the other hand, private investments contributed positively to the economy, with the **gross**

Deceleration of growth in Q1 2022 vs Q4 2021 **1**

Private consumption continues to be the main driver of the economy **1**

Trade with the highest growth, public administration the only drag on the growth **2**

High inflation to limit consumer spending for the rest of the year **2**

Disclaimer **4**

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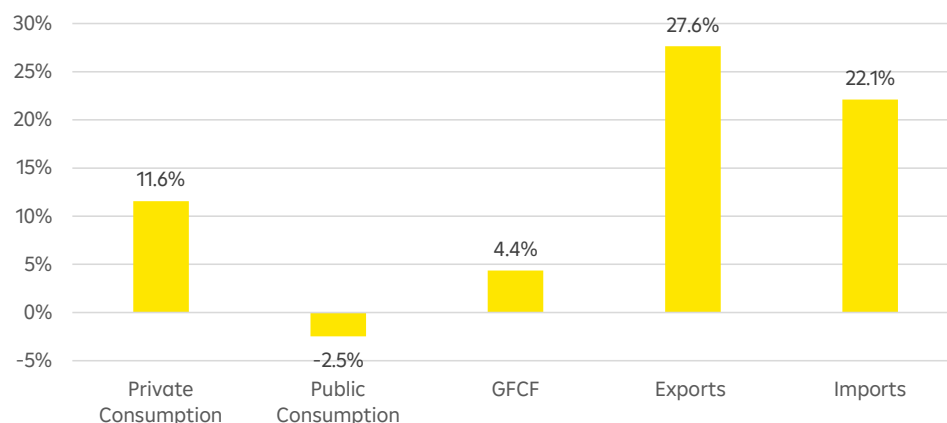
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capital formation up by 4.4%. The component acting as a drag on the overall economic growth was **government expenditures which declined circa 2.5% yoy**, mostly due anti-Covid supportive measures fading away in 2022, in reflection of the improved public health situation.

Public consumption holding back growth in Q1 after reducing pandemic costs

Expenditure components of GDP in Q1 2022 (% yoy)

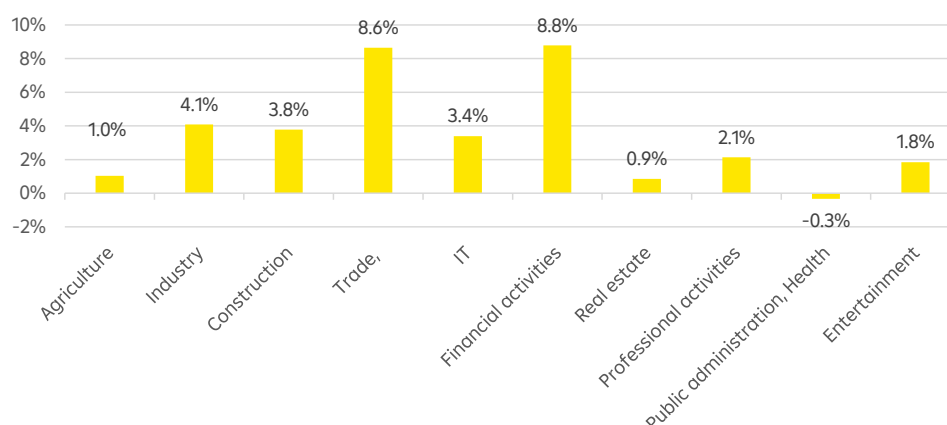


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Trade with the highest growth, public administration the only drag on the growth

In first quarter of 2022, all sectors of the economy, besides public administration (health, education, social insurance, and social activities) contributed positively to the growth. **Trade (tourism, transport included)** - one of the largest sectors of the economy - marked the highest growth, **jumping by 8.6% yoy** and providing the main positive contribution to the real GDP. Furthermore, **industry growing by 4.1% yoy and construction by 3.8% yoy** were also net contributors to the economic expansion. Other sectors had a lower impact, while **public administration decreased by 0.3%**, mostly due to the fact that last year the government was more active in supporting the health sector to face the pandemic consequences.

Strong increase for trade & financial activities in Q1 2022



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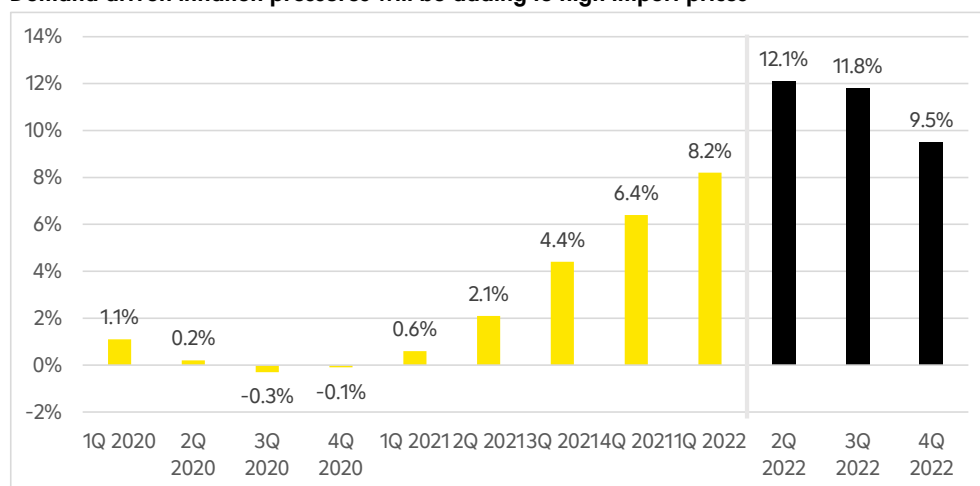
High inflation to limit consumer spending for the rest of the year

The inflation rate has been rising gradually since the second half of last year. However, amid war in the first months of 2022, it grew **remarkably higher in May 2022 — at 12.5%** — moving past our inflation forecast in the first half of 2022.

The **latest government interventions** to help households keep the spending power, the **increase in the minimum wage and unrelenting price pressures deriving from the**

dire international situation will keep inflation at double-digit levels in 2022, with our current forecast **at 10.4% on average**, versus **initial expectation of 8%**.

Demand driven inflation pressures will be adding to high import prices



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Our forecast for the real **GDP growth in the second quarter is limited to around 2.2%** **yoy** undermined by the high prices which will be reflected also in the Diaspora inflows due to **high inflation** levels in Eurozone.

The high CPI will **dent in our view the private consumption**, and it will impact more the vulnerable households as the food category is the largest component in the consumer basket. However, there are also some **upward risks** to the overall impact as some help is being provided by the government to the population. Therefore, the **GDP growth in the second part of the year is forecasted higher at 2.8% in 3Q and 4.7% in Q4 2022**, unchanged from our previous call.

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