

Kosovo Watch: Growth slows amid ongoing geopolitical turmoil

All in all, **low economic growth in Q2 2022** is another confirmation of the impact that the war in Ukraine, through **elevated inflation and ongoing energy crisis**, will have on the economy not only in the second part of the year but also in 2023. Therefore, due to the **worsening market conditions and increased geopolitical risks in Eastern Europe** we have put under revision Kosovo's GDP growth of 2022 with a possible **downgrade compared to our actual forecast of 3.7% yoy**.

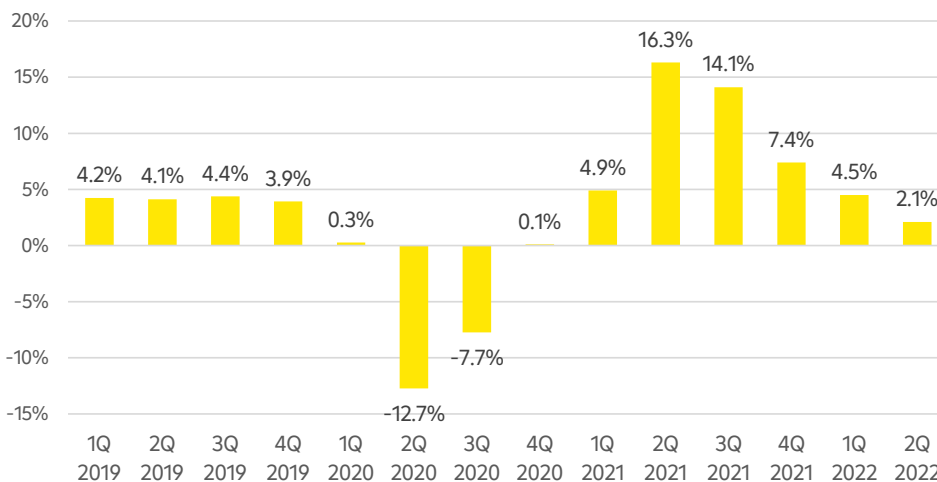


Source: Source: Eurostat

Q2 2022 growth pace halved compared to Q1 with war taking a toll

After a significant rebound of the economy by **10.7% yoy (upgraded from 10.4% previously)** in 2021 and a moderate expansion of **4.5% yoy in Q1 2022 (slightly lower from the 4.9% preliminary figure)**, the economy of Kosovo lost further pace to just **2.1% yoy growth in Q2 2022**, but in line with our **forecast of 2.2%**.

Economic growth facing the headwinds of international upheaval



Source: ASK, RBI/Raiffeisen Research

The breakdown of GDP components, points to **decelerating household consumption at a significantly lower pace of 3.2% compared to 10.4% increase of the previous quarter**. Private consumption has been one of the pillars of economic growth and is hugely impacted by inflows of Kosovars working abroad.

One of the brightest points were **exports of goods and services which jumped by 36.0% yoy** thanks to **travel services** that moved **up by 55.3% yoy**. Gross capital formation

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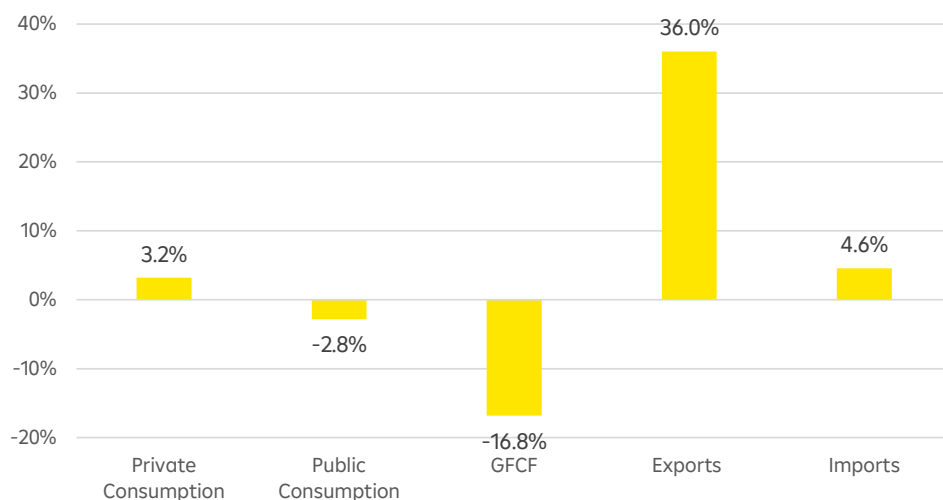
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declined substantially by **16.8% yoy** pointing to soured mood of private companies, especially in the construction sector. Fiscal impulse was also absent with **government consumption decreasing by 2.8%** compared to previous year.

Exports powering ahead, but from a low base

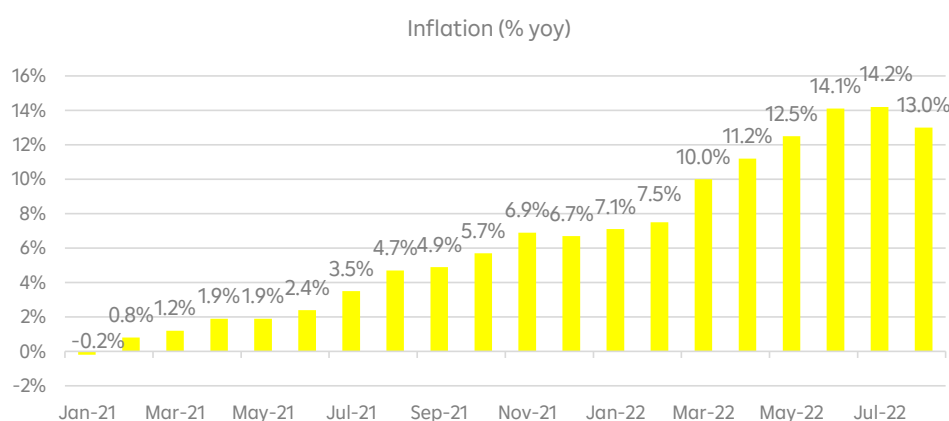


Source: ASK, RBI/Raiffeisen Research

Private consumption to suffer from high inflation

New price developments in the global markets reflecting the worsening armed conflict in Ukraine and high uncertainties linked to it, have adversely affected the small economy of Kosovo. The inflation rate has been gradually on the rise, **peaking at 14.2% in July 2022**, but posted a **deceleration** in August for the first time in eight months. Still, it **remains high at 13.0%**, with **food prices increasing by 19.3% yoy**, denting the purchasing power of households in the quarters to come.

However, the latest government decision to **support the economy with other Eur 150 mn** to help the most vulnerable to tackle inflation could somehow **mitigate** the impact on private consumption.

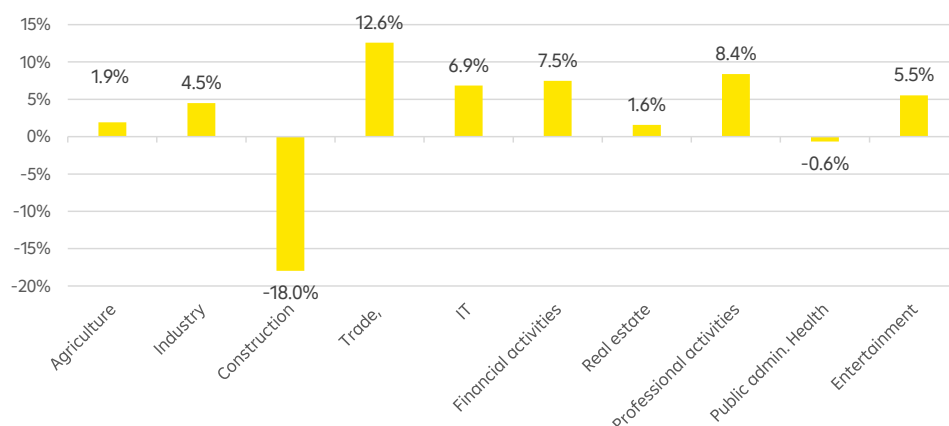


Source: ASK, RBI/Raiffeisen Research

Construction acts as a drag on the economy

In Q2 2022, **Construction, and Public administration** (health, education, social insurance, and social activities) contributed **negatively to growth, declining respectively by 18.0% yoy and 0.6% yoy**. However, Construction's significant decline is due to higher prices reflected in the elevated construction costs. Furthermore, public investments in infrastructure, another important part of construction industry, were

about **35% lower** than in the first half of the previous year. On the positive side, **Trade** (tourism, transport included) — one of the largest sectors of the economy — marked the highest growth, **jumping by 12.6% yoy**, providing the main positive contribution to real GDP. The other sectors had a net positive contribution in real GDP, but with a lower impact.



Source: ASK, RBI/Raiffeisen Research

Downside risks for GDP growth in H2 2022

All in all, low economic growth in Q2 2022 is another confirmation of the impact that the war in Ukraine, **through elevated inflation and ongoing energy crisis, will have on the economy not only in the second part of the year but also in 2023.** Therefore, due to the worsening market conditions and increased geopolitical risks in Eastern Europe we have **put under revision Kosovo's GDP growth of 2022 with a possible downgrade compared to our actual forecast of 3.7% yoy.**

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