

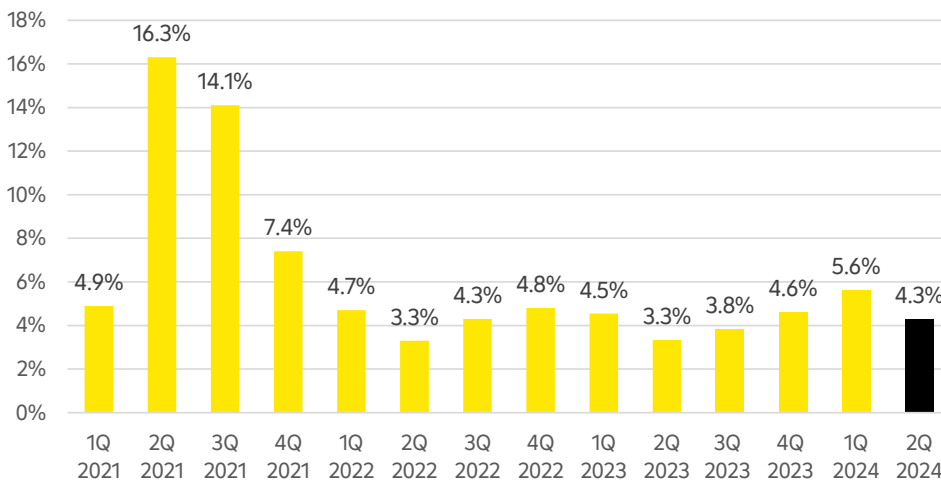
Kosovo Watch: Economic momentum spurs 2024 GDP forecast upgrade to 4.7%

Given the remarkable momentum of Kosovo's economy in the first half of the year and our optimistic outlook for the remainder, we are revising our 2024 forecast upwards. Originally projected at 3.9%, we now anticipate the GDP will grow by 4.7% in 2024. This upward revision is driven by robust household consumption, increased investment activity, and a surge in exports of goods and services, all of which underscore the country's economic vitality.



Kosovo's economy shines with resilient Q2 growth amid robust 2024 start

Following an **outstanding** first quarter in 2024, Kosovo's economy continued to display exceptional performance in the second quarter. The nation achieved a robust year-over-year growth rate of **4.3% in Q2**, showcasing its resilience despite a slight dip from the impressive **5.6% growth recorded in Q1 2024**.



Source: ASK, RBI/Raiffeisen Research

Kosovo's GDP growth recalibrated: Significant revisions unveil economic surge

Although our nowcast predicted nearly **5.0%** GDP growth for the second quarter, the difference from the actual figure is due to a **significant revision** of the prior year's quarterly data. The Kosovo Agency of Statistics raised the real GDP growth for **Q2 2023 from 2.4% to 3.3% yoy, a 0.9 percentage point adjustment**. This substantial revision explains the discrepancy in our projected growth rate. Had the initial figure remained, the GDP growth for Q2 2024 would have been **5.2%**.

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Fjorent RRUSHI

Analyst

+355 4 2381000-2504

Fjorent.Rrushii@raiffeisen.al

Valbona GJEKA

Analyst

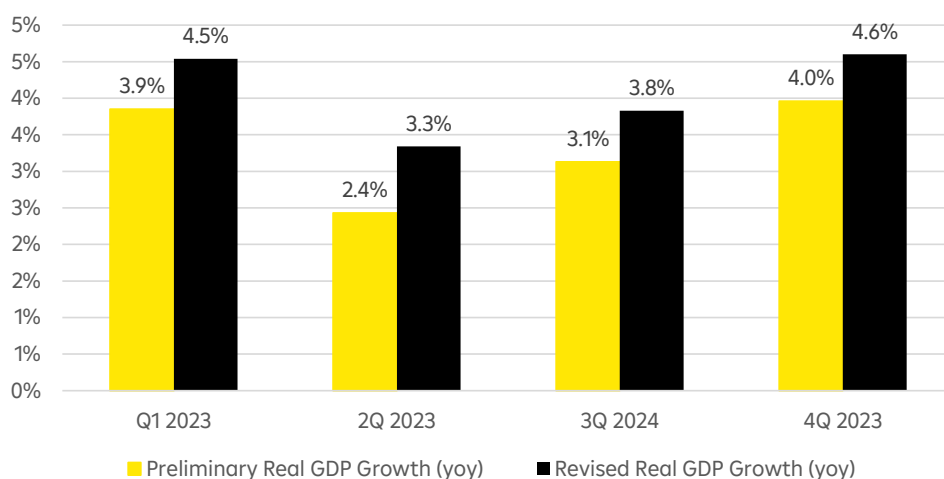
+355 4 2381000-2714

valbona.gjeka@raiffeisen.al

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Revisions to preliminary GDP figures are standard among statistical agencies, but Kosovo's **adjustments** are particularly **noteworthy**. The Kosovo Statistical Agency has officially revised the GDP growth for each quarter of 2023, resulting in an annual growth rate adjustment **from 3.3% to an official 4.1%**. This substantial upward revision has critical implications for economic analysis and forecasting. Additionally, the data for the first two quarters of 2024 are **estimates** and could also undergo substantial revisions, similar to the 2023 quarterly data. Our earlier forecast of **4.2%** proved to be much closer to the finalized 2023 real GDP growth rate, with high-frequency data confirming the accuracy of our projection.

Real GDP growth rate revisions

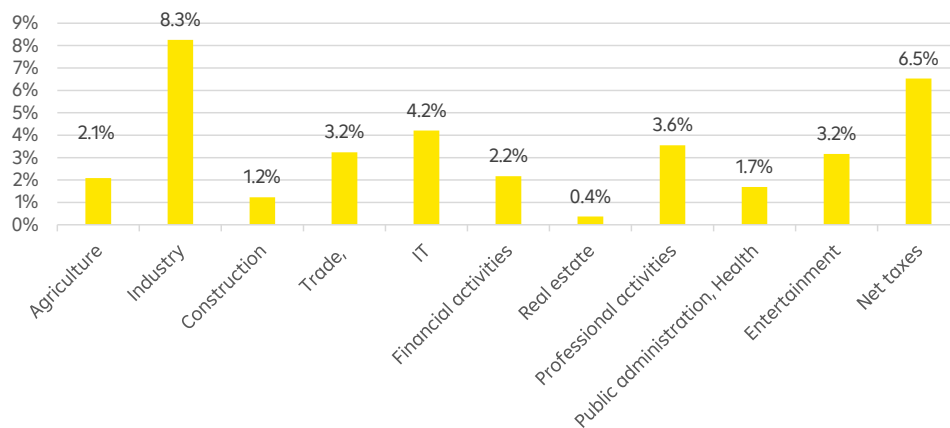


Source: ASK, RBI/Raiffeisen Research

Kosovo's Q2 economic uplift: Industry leads with stellar 8.3% growth, sectoral gains spread across the board

Analyzing sectoral performance in Q2 2024, all segments of Kosovo's economy reported growth, although at varying rates. The **industrial** sector led with an **impressive 8.3%** year-over-year increase, rebounding from negative growth the previous year and a modest **1.7% growth in Q1 2024**. Within the industry, manufacturing posted a moderate growth of 3.8%, indicating that the extractive sector experienced significantly higher growth. This surge is attributed to increased exports of metals and minerals.

The IT & Communication sector experienced a **4.2%** yoy growth, recovering from the subdued 0.8% growth in the first quarter. Professional activities, which have become a vital sector for the youth, expanded by 3.6% yoy. Both, Trade and Entertainment sectors grew by 3.2% yoy, likely influenced by the tourism industry. Importantly, the Trade sector, which holds significant weight in the GDP, rebounded from a **minimal 1.1%** growth in Q1, while Entertainment saw a slight increase.



Source: ASK, RBI/Raiffeisen Research

Financial & insurance activities and Public administration, defense, health, education, and social work sectors posted modest increases of **2.2% and 1.7% yoy**, respectively. Public administration has recovered from negative growth in the previous quarter, while financial activity decelerated from a 6.0% growth rate. The Real Estate sector remains subdued with a 0.4% year-over-year growth, signalling a **stagnant** period despite historically strong investments from the diaspora. This aligns with the **weak expansion of the construction sector**, which registered a modest 1.2% yoy growth. Additionally, agriculture remains relatively weak at 2.1% yoy growth, although it represents an improvement from the negative rates observed the previous year.

Domestic Demand Fuels Kosovo's Q2 2024 Economic Expansion Amid Import Surge

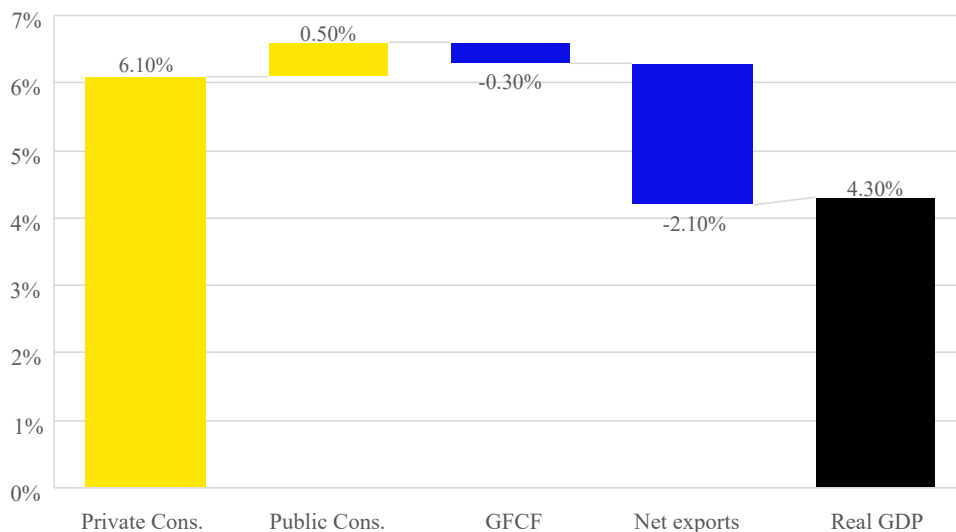
From the expenditure point of view, real GDP growth is driven by a **surge in domestic demand**. Thus, household consumption – the major component in GDP - with an annual growth of 7.0% in Q2 2024 gave a **6.1 percentage points contribution in the real GDP growth**. A notable support of the high consumption of households is the substantial expansion of the **household loans, which signed 19.4% yoy in Q2 2024**. While diaspora remittances have posted a subdued growth rate in the first half of 2024 (only 0.4% yoy), it still is an important source of household consumption.

While higher public sector expenditures were anticipated for 2024, government expenditures in the second quarter grew moderately by **4.8%** compared to the same period the previous year, suggesting that more significant spending is likely deferred to the second half of the year.

Capital formation and net exports contributed negatively to real GDP in Q2 2024, with declines of **0.3 percentage points and 2.1 percentage points**, respectively. The minor negative impact of capital formation is also observed in the minimal growth of the construction sector and lower capital expenditures compared to the same quarter in 2023.

Net exports remained in negative territory despite a **7.8%** year-over-year increase in exports of goods and services. This is due to an equivalent **7.8% year-over-year growth in imports**, which are significantly higher than exports. The rise in imports reflects higher domestic demand for foreign goods and services.

Contribution to Q2 2024 Real GDP Growth



Source: RBI/Raiffeisen Research calculations

Conclusion

Kosovo's economy has demonstrated **exceptional performance** in 2024, with robust growth observed across various sectors in the first half of the year. Driven by substantial household consumption, supported by strong loan growth the nation's GDP growth in Q2 2024 reached an impressive **4.3% year-over-year**. Despite some negative contributions from capital formation and net exports, the overall **economic landscape** remains positive. Noteworthy, revisions to 2023 GDP data have further solidified this upward trajectory. Given these encouraging trends and a positive outlook for the remainder of the year, we have **revised our GDP growth forecast for 2024 from 3.9% to 4.7%**. This forecast underscores Kosovo's economic vitality, bolstered by strong domestic demand, increased investments, and a thriving industrial sector.

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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

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FABIAN BLASCH

📍 Austria  ,
 ✉ fabian.blasch@rbinternational.com

AMADEA HIESS

📍 Austria  ,
 ✉ amadea.hiess@rbinternational.com

MARKUS TSCHAPECK

📍 Austria  ,
 ✉ markus.tschapeck@rbinternational.com


VALBONA GJEKA

📍 Albania  ,
 ✉ valbona.gjeka@raiffeisen.al


OLGA ZHEGULO

📍 Belarus  ,
 ✉ olga.zhegulo@priorbank.by

MIRZA ZORNIC

📍 Bosnia Herzegovina  ,
 ✉ mirza.zornic@raiffeisengroup.ba

HELENA HORSKA

📍 Czech Republic  ,
 ✉ Helena.Horska@rb.cz

ZOLTÁN TÖRÖK

📍 Hungary  ,
 ✉ torok.zoltan@raiffeisen.hu


ANDREEA-ELENA DRAGHIA

📍 Romania  ,
 ✉ Andreea-Elena.DRAGHIA@raiffeisen.ro


GREGORY CHEPKOV

📍 Russia  ,
 ✉ grigory.chepkov@raiffeisen.ru

TIBOR LORINCZ

📍 Slovakia  ,
 ✉ tibor_lorincz@tatrabanka.sk

GUNTER DEUBER

📍 Austria  ,
 ✉ gunter.deuber@rbinternational.com


MATTHIAS REITH

📍 Austria  ,
 ✉ matthias.reith@rbinternational.com


FRANZ ZOBL

📍 Austria  ,
 ✉ franz.zobl@rbinternational.com

FJORENT RRUSHI

📍 Albania  ,
 ✉ Fjorent.Rrushi@raiffeisen.al

ASJA GRDJO

📍 Bosnia Herzegovina  ,
 ✉ asja.grdjo@raiffeisengroup.ba


ELIZABETA SABOLEK-RESANOVIC

📍 Croatia  ,
 ✉ elizabetha.sabolek-resanovic@rba.hr

LEVENTE BLAHÓ

📍 Hungary  ,
 ✉ levente.blaho@raiffeisen.hu


DOROTA STRAUCH

📍 Poland  ,
 ✉ dorota.strauch@raiffeisen.pl

IONUT DUMITRU

📍 Romania  ,
 ✉ Ionut.Dumitru@raiffeisen.ro


STANISLAV MURASHOV

📍 Russia  ,
 ✉ stanislav.murashov@raiffeisen.ru

SERHII KOLODII

📍 Ukraine  ,
 ✉ serhii.kolodii@raiffeisen.ua


CASPER ENGELEN

📍 Austria  ,
 ✉ casper.engelen@rbinternational.com


GOTTFRIED STEINDL

📍 Austria  ,
 ✉ gottfried.steindl@rbinternational.com


BRISIDA BUZI

📍 Albania  ,
 ✉ Brisida.BUZI@raiffeisen.al


ARISTEA VLLAHU

📍 Albania  ,
 ✉ Aristea.Vllahu@raiffeisen.al

IVONA ZAMETICA

📍 Bosnia Herzegovina  ,
 ✉ ivona.zametica@raiffeisengroup.ba

ZRINKA ZIVKOVIC-MATIJEVIC

📍 Croatia  ,
 ✉ zrinka.zivkovic-matijevic@rba.hr

GERGELY PÁLFFY

📍 Hungary  ,
 ✉ gergely.palfy@raiffeisen.hu

NICOLAE COVRIG

📍 Romania  ,
 ✉ Nicolae.Covrig@raiffeisen.ro

ANASTASIA BAYKOVA

📍 Russia  ,
 ✉ ABAIKOVA@raiffeisen.ru

LJILJANA GRUBIC

📍 Serbia  ,
 ✉ ljiljana.grubic@raiffeisenbank.rs

OLEKSANDR PECHERYTSYN

📍 Ukraine  ,
 ✉ oleksandr.pecherytsyn@raiffeisen.ua

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