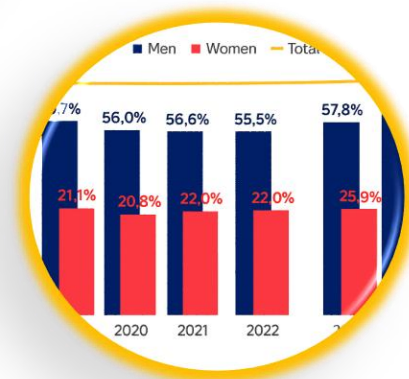
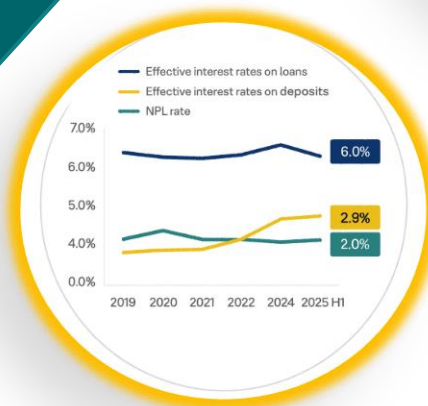
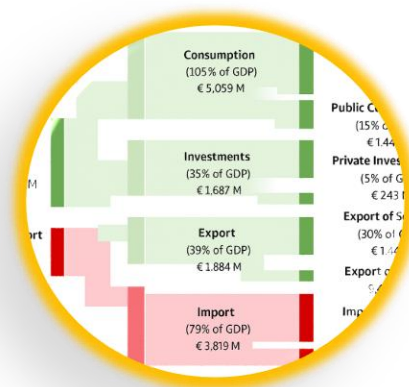




# KOSOVO ECONOMY AT A GLANCE

*Prepared by the Secretariat of the National  
Council for Economy and Investments*

**December 2025**



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## EXECUTIVE SUMMARY

Kosovo's economy has maintained a stable growth trajectory in recent years. After the sharp pandemic-related contraction in 2020, real GDP growth rebounded strongly in 2021 and has since stabilised at around 4 % annually. Preliminary data for the first half (H1) of 2025 show continued expansion, with GDP rising by 3.8 % year-on-year, indicating steady economic momentum despite a challenging environment.

Growth remains primarily driven by consumption, supported by remittances and gradual increases in wage levels, while investment continues to play an important but fluctuating role. The structure of production is dominated by services, with trade, financial services, and construction accounting for a significant share of output. Manufacturing activity remains stable but still faces structural constraints related to productivity, energy reliability, and workforce skills. Price pressures that peaked in 2022 have eased considerably, with inflation stabilising around 2.8 % in H1 2025, contributing to a more predictable price environment.

Labour market outcomes have improved, with unemployment reaching one of its lowest levels in 2024, although demographic factors and outward migration continue to limit participation. Significant gender gaps persist, and unemployment remains highest among younger workers. Salary growth has continued in nominal terms, while real wages have shown gradual improvement in recent years.

Kosovo's external position continues to reflect a large goods trade deficit, partially offset by strong surpluses in services and secondary income. Travel services, as part of the service export structure, remain the dominant contributor, supported by diaspora tourism. The current account deficit has fluctuated between -6% and -9% of GDP in recent years, while remittances remain a key source of external stability. Foreign direct investment continues to increase but remains concentrated in real estate, underscoring the need for broader diversification toward tradable and higher value-added sectors.

The financial sector remains stable, supported by strong credit growth, rising loan-to-GDP ratios, and consistently low non-performing loans. Deposit growth has moderated, narrowing the funding gap, but overall balance-sheet indicators remain solid.

Fiscal performance has improved markedly since 2020. The overall budget balance returned to near equilibrium in 2022 and shifted into a small surplus in 2023–2024. The surplus recorded in H1 2025 reflects seasonal spending patterns, rather than a structural change in fiscal stance. Revenue performance remains strong, driven primarily by indirect taxes, while expenditure composition continues to emphasise transfers and subsidies. Public debt remains low and well below the 40% of GDP ceiling, ensuring a favourable degree of fiscal space.

Overall, Kosovo's economy demonstrates resilience, supported by stable domestic demand, a sound financial sector, and prudent fiscal management. However, long-term growth prospects will depend on strengthening export capacity, enhancing productivity, diversifying FDI inflows, and accelerating progress in labour market participation, particularly among women and young people.

# **REAL SECTOR**

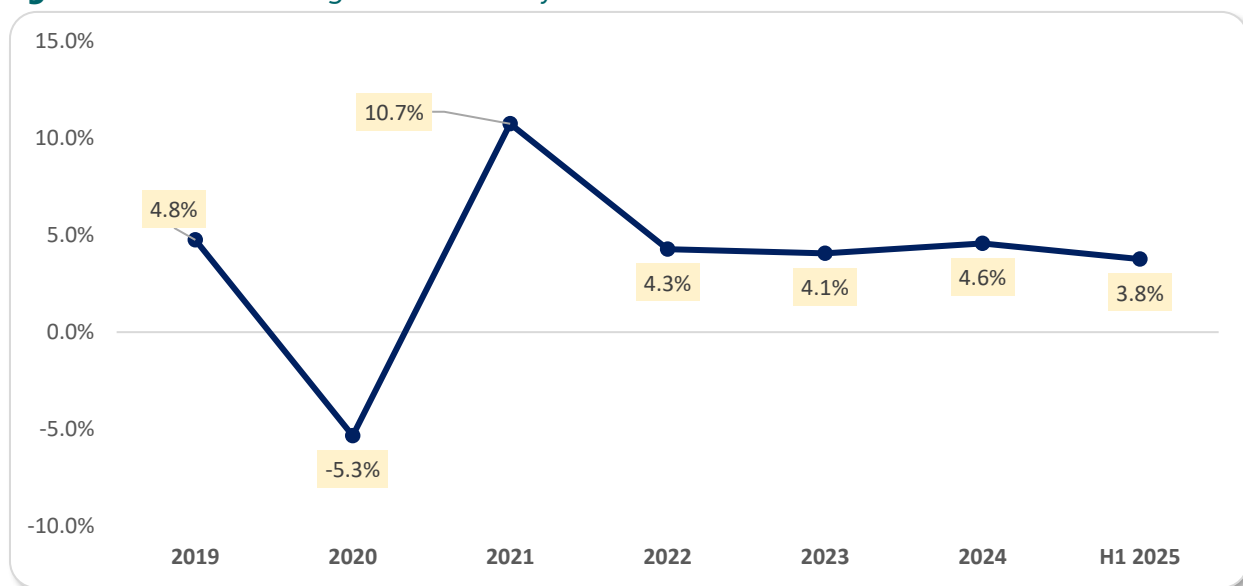
# 1. GROSS DOMESTIC PRODUCT

Kosovo's economy has experienced notable fluctuations in recent years, shaped by both domestic and global developments. After expanding by 4.8% in 2019, real GDP contracted sharply by 5.3% in 2020, reflecting the impact of the COVID-19 pandemic and protective measures that disrupted economic activity. This was followed by a strong rebound in 2021, when growth reached 10.7%, driven by the recovery of consumption, investment, and services, as well as large inflows of remittances.

Since 2022, economic growth has stabilized at a moderate pace, averaging around 4% annually, supported by steady domestic demand and government spending. In 2024, real GDP increased by 4.6%, indicating sustained expansion despite a challenging regional environment marked by inflationary pressures and external uncertainties.

Preliminary data for the first half of 2025 show that the economy continues to grow, with real GDP rising by 3.8% year-on-year. Overall, these trends highlight Kosovo's resilience and gradual return to stable growth.

**Figure 1.** Real economic growth over the years

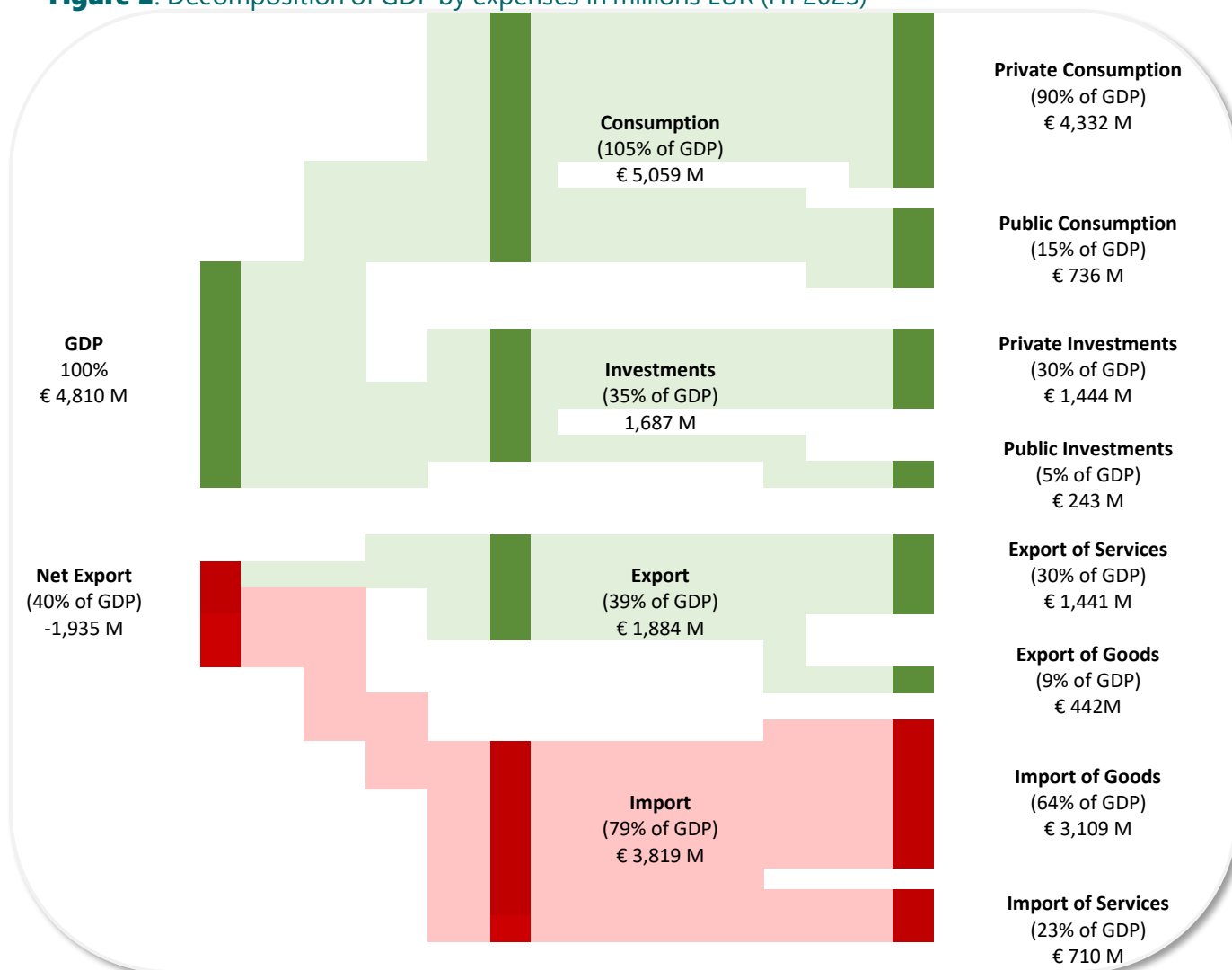


Data source: Kosovo Agency of Statistics

## 1.1. GDP by expenses

The structure of GDP by expenditure in H1 2025 remains broadly similar to previous years, with consumption continuing to be the main driver of economic activity (Figure 2). Total consumption accounted for 105% of GDP, reflecting the strong influence of household spending on overall growth. Investments represented about 35% of GDP, maintaining their historical share, while net exports remained negative (−40.2%), illustrating Kosovo’s persistent trade deficit driven by high import dependence.

**Figure 2.** Decomposition of GDP by expenses in millions EUR (H1 2025)



Data source: Kosovo Agency of Statistics

This pattern highlights the domestic demand-led nature of Kosovo's economy, where growth is sustained by consumption and investment rather than export performance. The high share of imports relative to exports continues to signal structural weaknesses in tradable sectors and the need for stronger export capacity and diversification. Despite modest improvements in recent years, the expenditure composition of GDP underscores that rebalancing growth toward investment and export-oriented activities remains a key long-term challenge for achieving more sustainable and inclusive economic development.

**Table 1.** Real growth of GDP components by expenditure measurement

	2019	2020	2021	2022	2023	2024	H1 2025
Consumption	6.2%	2.4%	7.6%	3.0%	3.5%	4.9%	6.5%
Investments	-1.6%	-7.1%	10.7%	-3.8%	3.5%	6.3%	9.0%
Export	7.6%	-29.1%	76.8%	18.9%	7.2%	9.4%	11.1%
Import	4.5%	-6.0%	31.4%	5.4%	4.7%	8.7%	13.7%

Data source: Kosovo Agency of Statistics

Recent trends in the main GDP components also reflect this pattern (Table 1). Consumption has continued to grow at a steady pace, while investment has shown some fluctuations but improved again in H1 2025. Exports have generally increased, especially in services, but import growth has remained higher, keeping the contribution of net exports negative. These trends confirm that domestic demand remains the main driver of economic activity.

## 1.2. GDP by economic activity

Kosovo's economic structure remains service-dominated, with trade, manufacturing, and construction accounting for over 40 % of total output. While this composition has shown relative stability, it also highlights a narrow production base and limited diversification toward higher value-added sectors. The economy continues to rely heavily on consumption-driven activities, leaving growth vulnerable to fluctuations in domestic demand and external inflows such as remittances.

The manufacturing sector, though a key contributor (15.4% of GDP), shows signs of stagnation and limited technological advancement. Productivity growth remains modest, reflecting constraints in infrastructure, energy supply, and access to skilled labor. Meanwhile, the electricity sector recorded a sharp contraction (–26.1% in H1 2025), reflecting volatility in energy-related activity. Although the underlying drivers require further assessment, this decline highlights the sector's sensitivity to supply conditions and broader operational challenges.

Services, led by trade (16.8%) and financial activities (6.3%), continue to drive output growth, but much of this expansion stems from non-tradable, low-productivity sectors. The imbalance between the tradable and non-tradable sectors constrains export capacity and limits resilience to external shocks. Furthermore, construction and real estate activities remain strong, reflecting ongoing investment in physical infrastructure, yet these sectors generate relatively few spillovers into innovation or long-term productivity.

To sustain growth, Kosovo must reorient its economic structure toward export-oriented manufacturing, digital services, and energy diversification. Strengthening industrial capabilities, improving infrastructure reliability, and enhancing human capital would reduce dependence on volatile service sectors and move the economy toward more sustainable, productivity-driven growth.

**Table 2.** Structure of GDP by economic activity

Economic Activity	Structure				Real Growth			
	2022	2023	2024	H1 2025	2022	2023	2024	H1 2025
Agriculture, forestry and fishing	9.2%	9.0%	9.3%	8.1%	4.5%	-3.0%	5.2%	3.0%
Mining and quarrying	1.9%	2.0%	2.1%	2.5%	2.9%	4.9%	4.6%	2.5%
Manufacturing	15.9%	16.1%	16.0%	15.4%	9.6%	7.0%	0.6%	4.0%
Electricity, gas, steam and air conditioning supply	4.7%	4.0%	4.0%	3.9%	1.4%	-9.5%	6.1%	-26.1%
Water supply, sewage, waste management and remediation	0.7%	0.7%	0.7%	0.8%	3.0%	4.8%	3.5%	2.3%
Construction	10.7%	10.1%	10.0%	9.9%	-3.1%	3.2%	3.8%	5.9%
Wholesale and retail trade; repair of motor vehicles and motorcycles	17.9%	18.2%	18.1%	16.8%	10.8%	6.9%	2.8%	4.3%
Transportation and storage	5.5%	5.6%	5.6%	4.9%	5.4%	4.5%	2.6%	3.2%
Accommodation and food service activities	2.6%	2.7%	2.7%	2.0%	3.7%	4.2%	5.0%	4.0%
Information and communication	2.5%	2.6%	2.5%	2.1%	9.2%	6.3%	2.6%	2.9%
Financial and insurance activities	4.9%	5.4%	5.4%	6.3%	6.4%	5.4%	3.8%	7.2%
Real estate activities	7.6%	7.4%	7.1%	8.2%	4.1%	3.7%	1.3%	0.7%
Professional, scientific and technical activities	1.7%	1.7%	1.7%	2.1%	7.0%	7.4%	3.1%	4.6%
Administrative and support service activities	0.8%	0.8%	0.8%	0.7%	6.7%	6.4%	1.6%	3.9%
Public administration and defence; compulsory social security	6.3%	6.4%	6.5%	7.7%	-0.5%	1.7%	3.1%	1.7%
Education	3.8%	4.0%	4.0%	4.7%	3.2%	-0.8%	1.2%	1.0%
Human health and social work activities	2.6%	2.8%	2.8%	3.0%	3.6%	3.9%	2.5%	1.2%
Arts, entertainment and recreation	0.2%	0.2%	0.2%	0.3%	4.7%	10.7%	1.5%	2.7%
Other service activities	0.4%	0.4%	0.4%	0.4%	2.6%	4.2%	3.0%	3.1%

Data source: Kosovo Agency of Statistics

## 2. PRICES

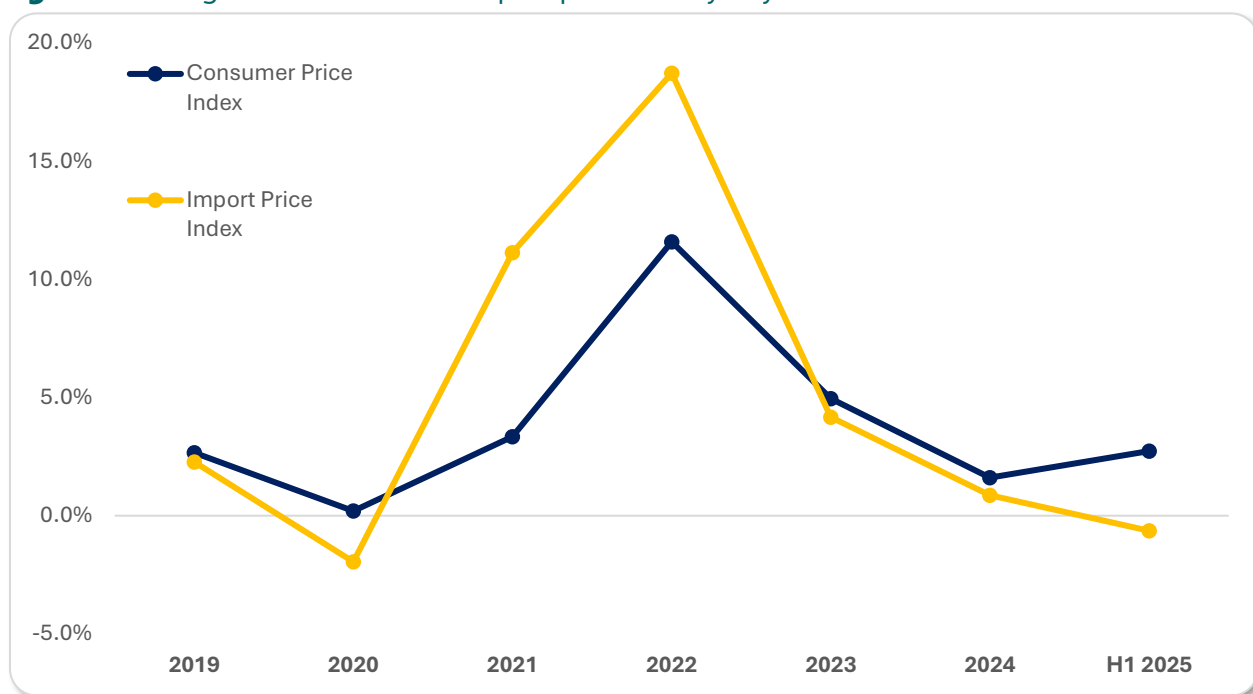
Kosovo's price dynamics in recent years have been shaped by pronounced external shocks, primarily transmitted through imported goods and energy prices. Inflation accelerated sharply in 2022, peaking at 11.6 %, before gradually easing to 5.0 % in 2023 and 1.6 % in 2024. Data for H1 2025 indicate that inflation has stabilized around 2.8 %, signalling a return to a more moderate and sustainable price environment.

**Table 3.** Annual change of CPI by groups of products over the years

	2019	2020	2021	2022	2023	2024	H1 2025
Total CPI - HICP	2.7%	0.2%	3.3%	11.6%	5.0%	1.6%	2.8%
Food and non-Alcoholic Beverages	5.4%	1.7%	2.4%	16.4%	8.4%	2.2%	6.5%
Alcoholic Beverages, Tobacco	2.6%	0.4%	3.3%	4.5%	6.4%	4.1%	3.9%
Clothing and Footwear	0.2%	-0.9%	-0.5%	0.5%	3.4%	2.9%	2.8%
Housing, Water, Electricity, Gas and Other Fuels	0.1%	0.2%	0.7%	12.7%	6.4%	2.7%	0.9%
Furniture household and maintenance	1.3%	0.5%	1.0%	6.8%	7.3%	2.9%	2.7%
Health	0.7%	4.7%	1.1%	2.2%	2.7%	1.2%	3.6%
Transport	0.8%	-5.8%	8.1%	16.8%	-2.2%	-2.0%	-2.7%
Communication	0.2%	1.9%	14.8%	0.3%	-0.5%	-0.7%	-1.9%
Recreation and Culture	0.4%	-0.6%	1.4%	2.6%	2.9%	3.1%	1.5%
Education	-0.7%	0.3%	1.3%	1.3%	1.9%	-0.4%	3.0%
Restaurants and Hotels	1.4%	2.2%	1.8%	10.4%	5.8%	2.0%	5.2%
Miscellaneous goods and services	1.6%	3.4%	1.6%	3.9%	3.8%	2.3%	3.1%

Data source: Kosovo Agency of Statistics

**Figure 3.** Change of consumer and Import price index y-o-y



Data source: Kosovo Agency of Statistics

The close alignment between the import price index and the consumer price index through 2022 demonstrates the strong import-price pass-through typical for Kosovo's open and import-dependent economy. With imports accounting for most of the domestic consumption, external price shocks rapidly influenced consumer prices. However, by H1 2025, this relationship has begun to change. While import prices have slightly declined, consumer prices have increased, suggesting that the current price dynamics are shaped by domestic rather than external factors.

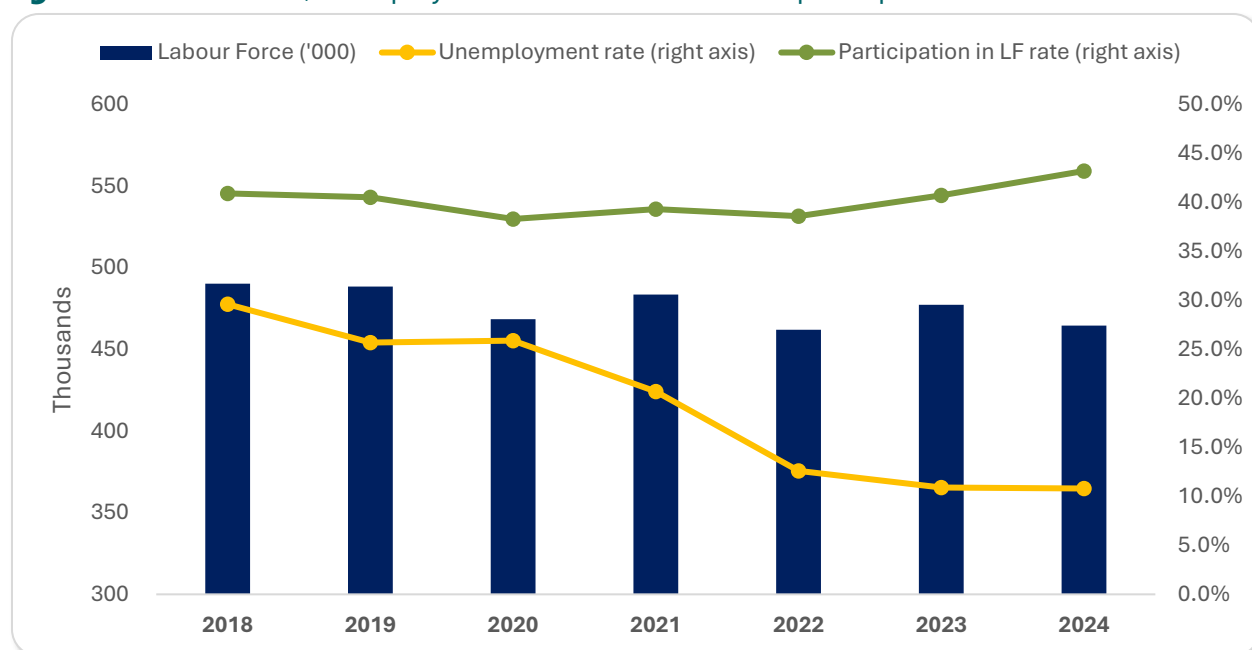
Rising prices in services such as restaurants, hotels, and health indicate that part of the inflation is now linked to higher wages, stronger local demand, and cost adjustments within the domestic economy.

### 3. LABOUR MARKET

Data on unemployment and labour market indicators are available up to 2024, according to the Kosovo Agency of Statistics. Although more recent figures are not yet published, the 2024 data remain reliable and relevant for assessing current labour market conditions.

The unemployment rate in Kosovo has shown a steady downward trend over the past several years, reaching one of its lowest recorded levels in 2024. This improvement partly reflects positive labour market developments, including job creation in certain sectors and the gradual recovery of economic activity. At the same time, a portion of the decline is associated with demographic and structural factors, such as outward migration which have contributed to a smaller overall labour force.

**Figure 4.** Labour Force, unemployment rate and labour force participation rate



Data source: Kosovo Agency of Statistics

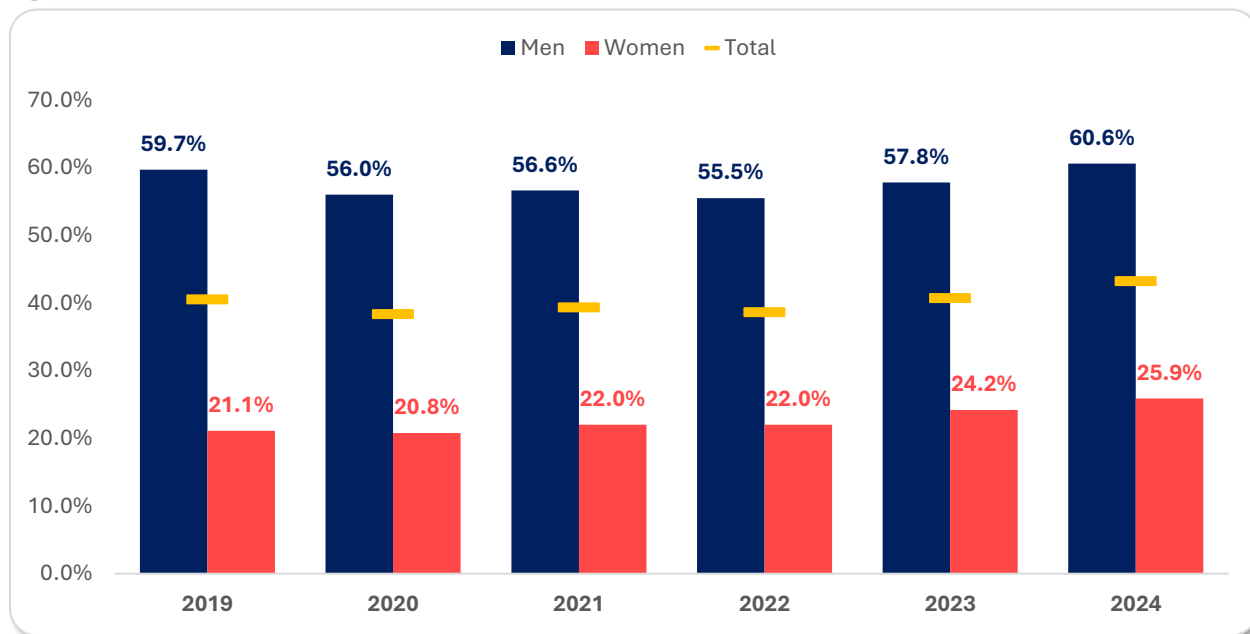
While the labour force has slightly decreased compared with pre-pandemic levels, the labour force participation rate has risen, indicating modest gains in labour market engagement. However, this increase should be interpreted carefully, as it reflects both greater participation and the effects of a smaller labour force base. Overall, the data point to a more stable but still evolving labour market, where improvements in employment coexist with broader demographic pressures.

### 3.1. Demographic Structure of the Labour Market

The composition of Kosovo’s labour market is closely shaped by its demographic profile. With a predominantly young population and ongoing social and economic transitions, demographic characteristics such as age distribution and gender balance continue to play a defining role in labour market dynamics. Understanding these structural features is essential for interpreting participation trends, employment opportunities, and the overall functioning of the labour market.

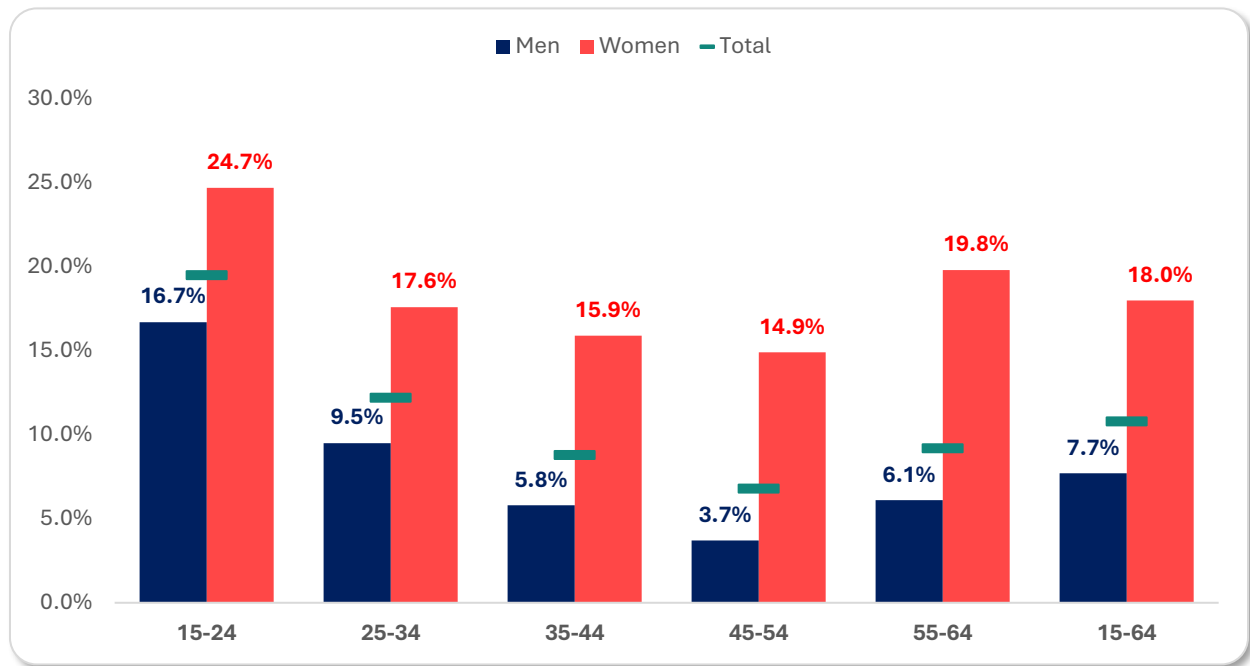
The labour force participation rate in Kosovo continues to differ substantially between men and women. As shown in the figure, participation among men remains in the range of 55–60 %, while participation among women is much lower, at around 20–26 %. This means that although women represent roughly half of the total population, their share in the labour force is considerably smaller. Recent years show a slight increase in women participation, but the overall gap between men and women remains wide.

**Figure 5.** Labour Force participation rate by gender



Data source: Kosovo Agency of Statistics

**Figure 6.** Unemployment by age group and gender (2024)



Data source: Kosovo Agency of Statistics

Unemployment rates differ considerably across age groups, with the highest levels observed among young people. As shown in the figure 6, individuals aged 15–24 experience unemployment rates of around 16–25 %, much higher than the rates recorded for other age groups. Unemployment declines steadily with age, reaching its lowest levels among those aged 45–54. Across all age groups, women record higher unemployment rates than men, a pattern that remains consistent throughout the working-age population. The combined 15–64 category reflects these differences, with overall unemployment influenced most strongly by the higher rates among younger workers.

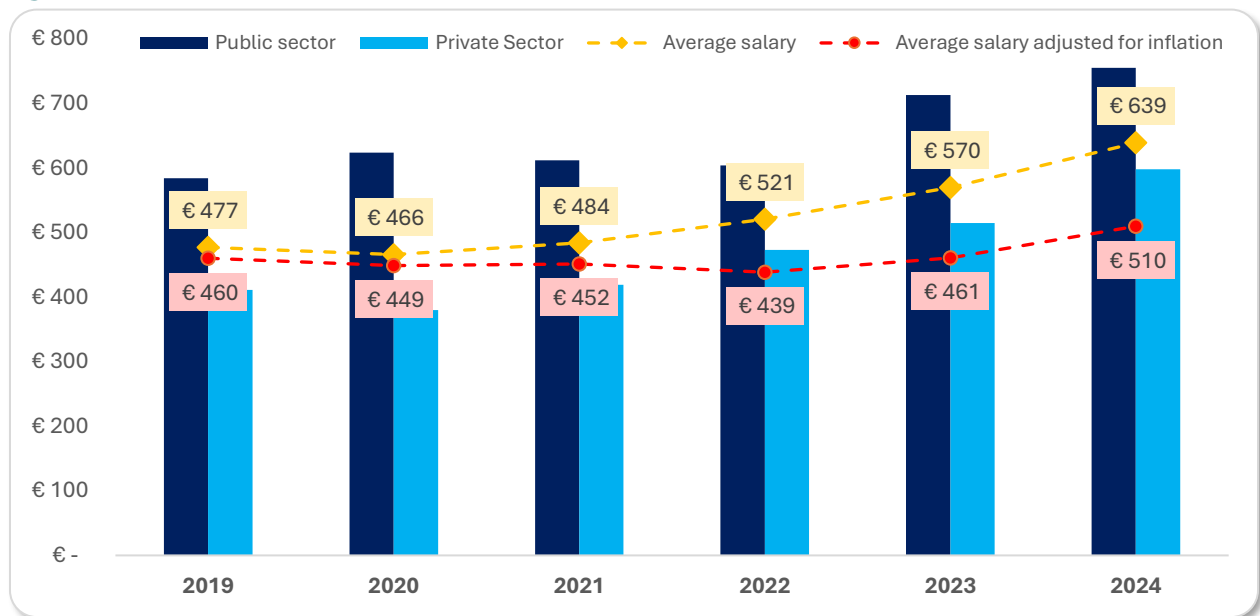
Overall, the demographic structure of Kosovo’s labour market is marked by two prominent patterns. First, women continue to participate in the labour force at considerably lower rates than men, resulting in a large and persistent gender gap in labour market engagement. Second, unemployment remains highest among young people, especially those aged 15–24, whose rates are significantly above those of older age groups. These two trends shape much of the labour market’s overall performance and provide important context for interpreting broader employment developments in Kosovo.

## 3.2. Salary levels

An important aspect of the labour market is the level and evolution of salaries, as they directly influence labour supply, productivity, and overall competitiveness. In Kosovo, wage developments are shaped by differences between the public and private sectors in terms of pay structures and employment conditions, which in turn affect each sector's ability to attract and retain qualified workers. Tracking salary trends—both in nominal terms and adjusted for inflation—is essential for assessing workers' purchasing power and the labour market's capacity to sustain real income growth.

Recent data show that nominal wages in Kosovo have continued to rise steadily in recent years, while real wages (adjusted for inflation) have remained relatively stable. In 2024, the average real gross monthly salary reached €510, compared with around €460 in 2019, reflecting modest gains in purchasing power. Public sector wages remain higher on average than those in the private sector, though the gap has narrowed gradually, indicating a slow convergence in earnings across sectors.

**Figure 7.** Gross average salary over the years



Data source: Kosovo Agency of Statistics

# **EXTERNAL SECTOR**

## 4. TRADE AND SERVICE BALANCE

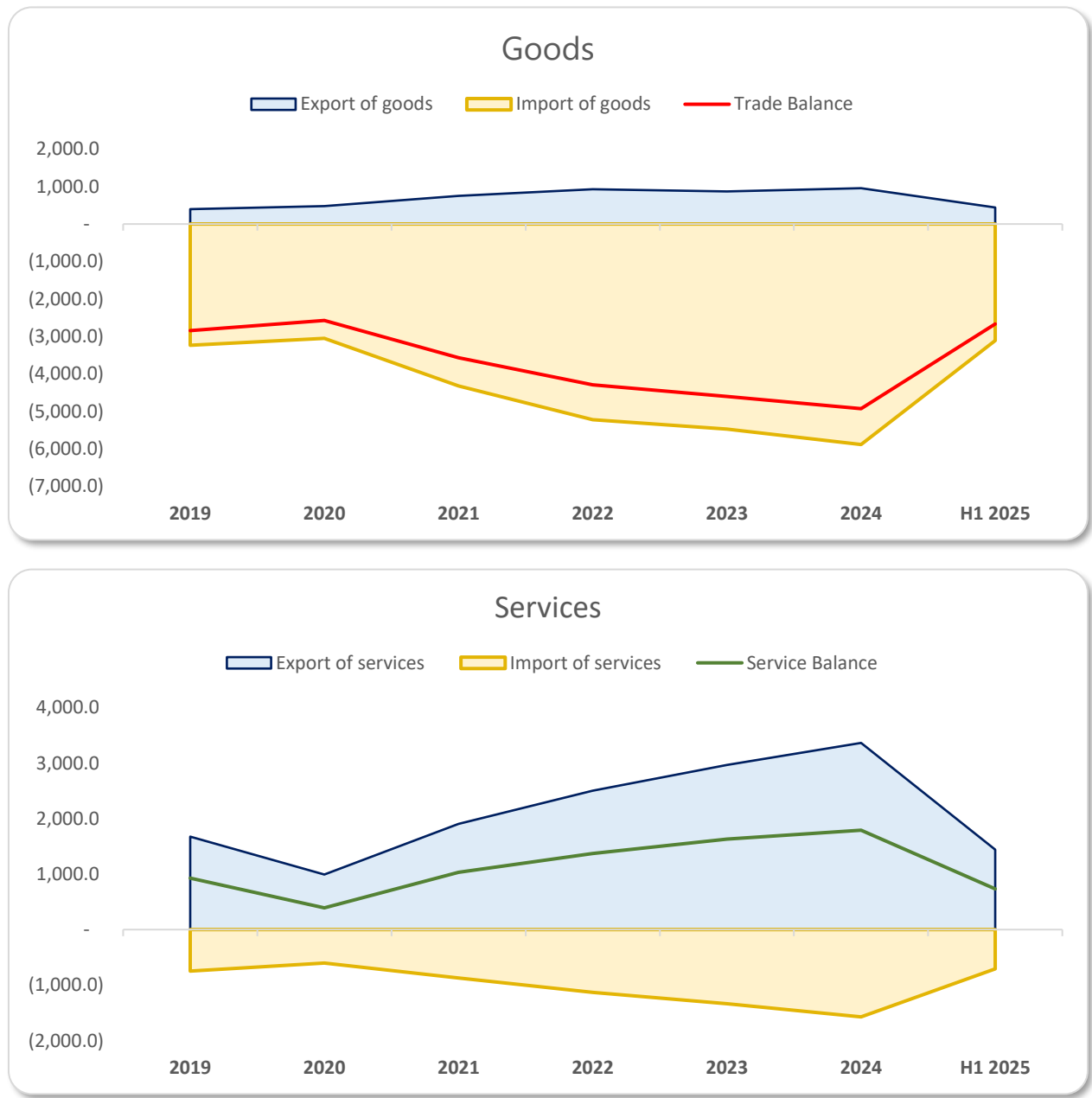
Kosovo's economy relies heavily on imported goods, while services play an increasingly important role in generating external income. This contrast between a persistent goods deficit and a steadily growing surplus in services remains one of the defining characteristics of Kosovo's external position.

In recent years, external developments have also been shaped by broader global trends, including price volatility, shifts in consumption patterns, and the post-pandemic recovery in travel and tourism. At the same time, migration and close ties with the diaspora continue to influence both spending and service exports, reinforcing the importance of remittances and travel-related inflows in the balance of payments.

Preliminary data for H1 2025 show that these structural patterns largely persist (figure 8). Goods imports remain high despite some easing in import prices, while service exports continue to play a stabilizing role. The services sector still generates a sizeable surplus, helping to offset part of the goods deficit and supporting overall external resilience.

The figures below provide an overview of how exports and imports of goods and services have evolved over time, highlighting the large goods trade deficit and the strong, sustained contribution of services. These trends offer important context for understanding Kosovo's external balance and the economy's continued reliance on imports, remittances, and service-sector performance.

**Figure 8.** Trade balance of goods and services over the years in millions EUR

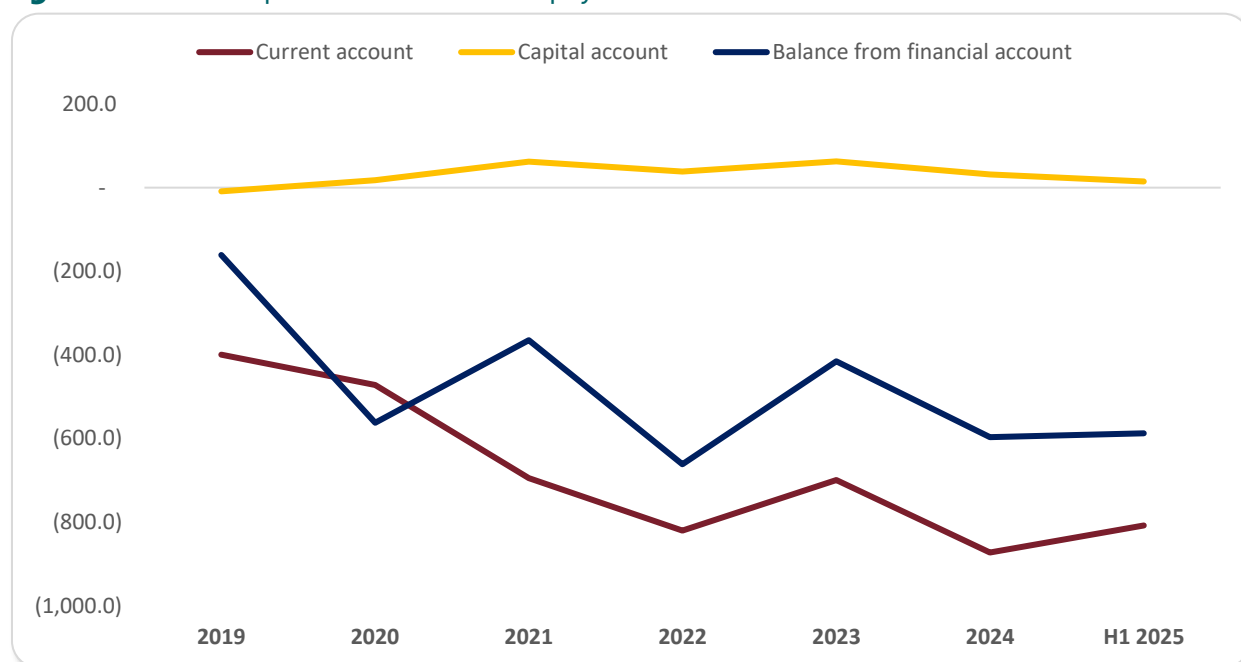


Data source: Kosovo Agency of Statistics

## 5. BALANCE OF PAYMENTS OVERVIEW

Kosovo's balance of payments continues to reflect a combination of structural import dependence and strong inflows from the diaspora, alongside gradually rising investment activity. The current account deficit has remained persistently negative over the past years, largely driven by the sizeable goods trade gap. However, consistent surpluses in services and secondary income (especially remittances) help mitigate pressures on the external position. As shown in the figure 9, the current account deficit widened in 2021–2022 during a period of elevated global prices and strong import demand, before narrowing temporarily in 2023. The first half of 2025 shows a seasonally weaker balance, as diaspora-related inflows typically intensify in the second half of the year.

**Figure 9.** Main components of balance of payments in millions EUR

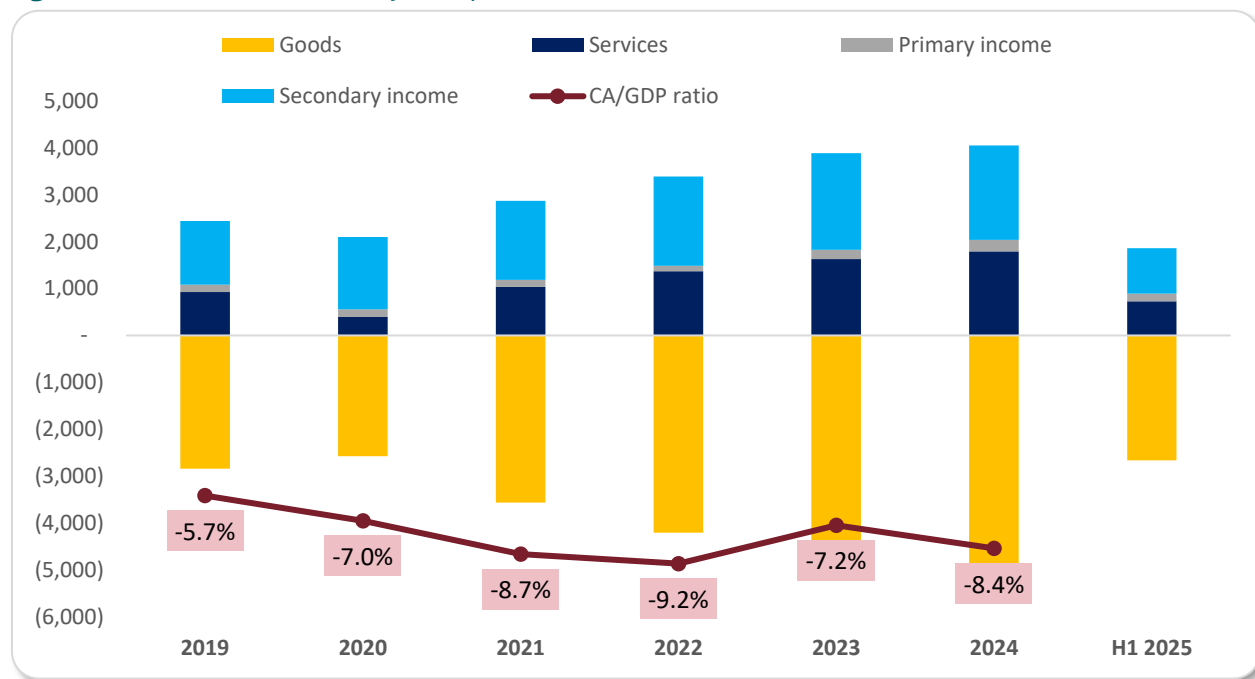


Data source: Central Bank of Kosovo

The composition of the current account highlights the structural features of Kosovo's economy. The goods deficit remains very large, reflecting high import intensity across consumption. By contrast, services exports, dominated by travel services related to diaspora tourism, generate a substantial and growing surplus. Secondary income, largely remittances, consistently provides the most important offset to the goods deficit. Primary income remains modestly positive across all years, reflecting inflows from compensation

of employees and income on foreign assets, although the surplus is relatively small compared with other components of the current account. As a result, the CA-to-GDP ratio has fluctuated between –6% and –9% in recent years, with the weakest outcome recorded in 2022, before stabilising around similar levels in 2023–2024 and H1 2025.

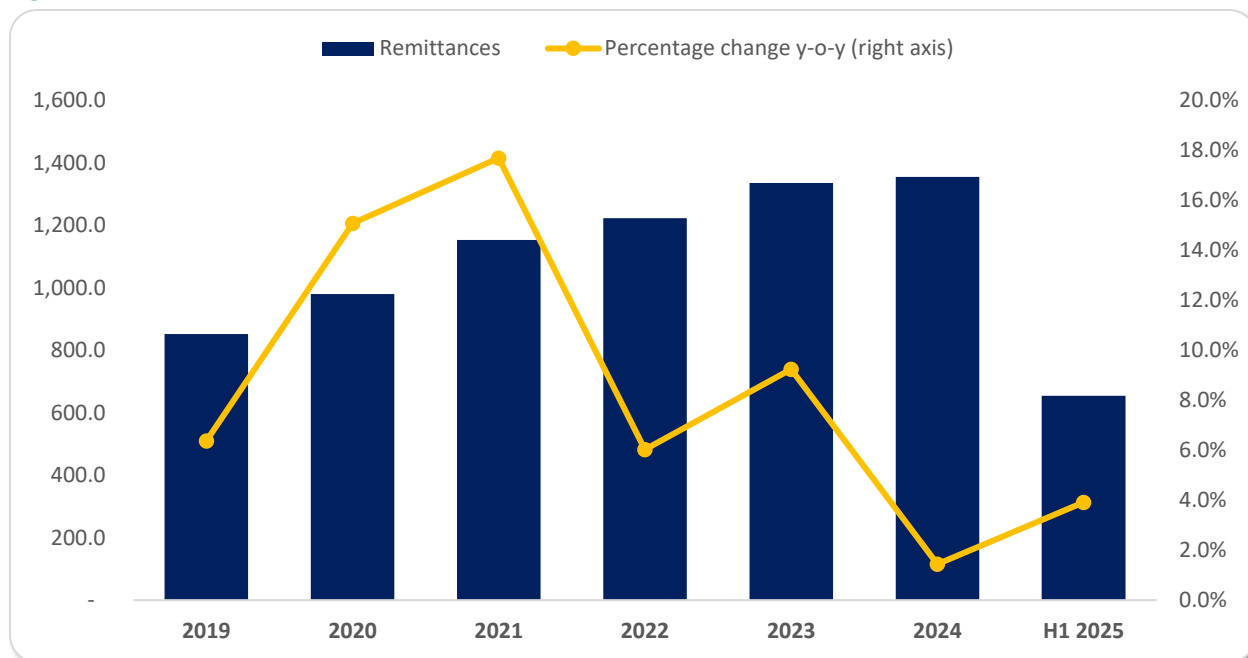
**Figure 10.** Current Account by components in millions EUR



Data source: Central Bank of Kosovo

Remittances continue to represent a cornerstone of Kosovo’s external stability. Inflows remain substantial, providing essential support to household consumption and contributing significantly to the current account. Data for H1 2025 shows an increase compared with H1 2024, reflecting continued engagement of the diaspora and stable income transfers. While mid-year remittance levels are typically lower than full-year totals, this is primarily due to the strong seasonal concentration of inflows during July–August and December. As such, H1 data should be viewed within this seasonal context rather than as an indication of structural change.

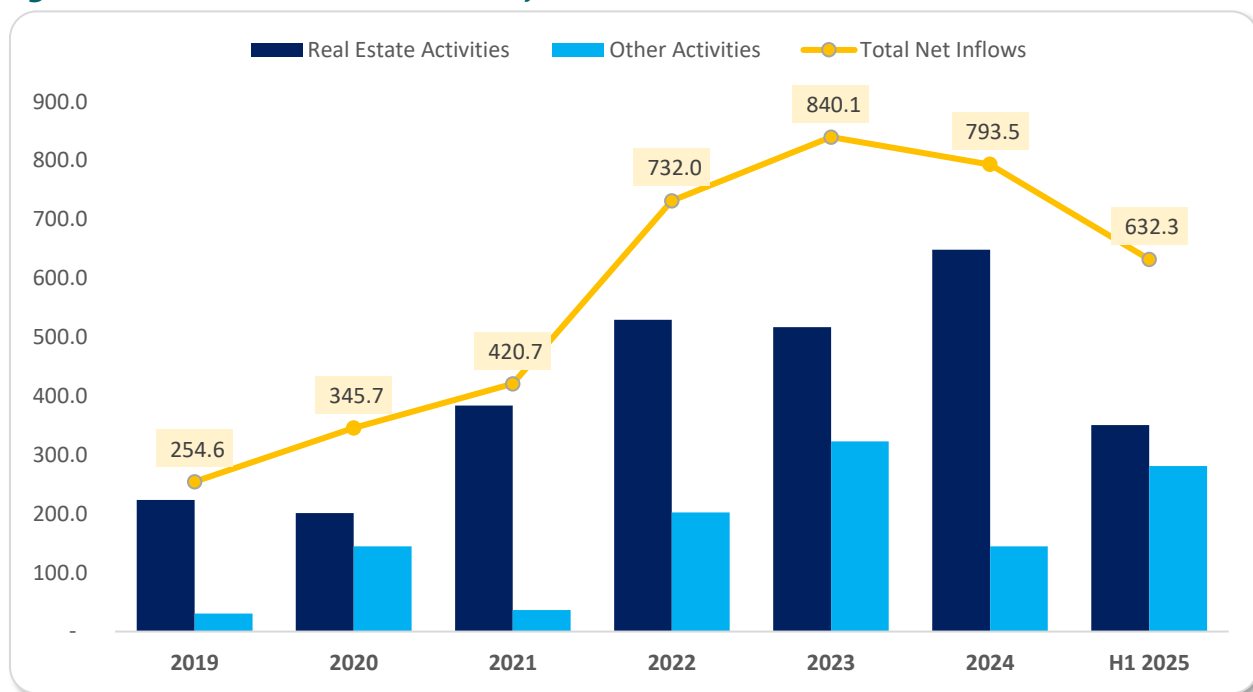
**Figure 11.** Remittances over the years in millions EUR



Data source: Central Bank of Kosovo

Foreign direct investment has increased in recent years, reflecting steady investor and diaspora interest. However, inflows remain highly concentrated in real estate, a sector that supports construction activity but generates limited value added and few productivity spillovers. This pattern highlights the need to diversify FDI toward tradable and higher value-added sectors, where investment can strengthen export capacity, create better jobs, and support long-term competitiveness.

**Figure 12.** FDI net inflow as a total and by main sector(s) in millions EUR



Data source: Central Bank of Kosovo

## 6. EXPORT

While total exports of goods and services have continued to grow in real terms over the years, only exports of goods recorded negative real growth in 2023 and again in H1 2025. This decline is largely driven by the temporary ban imposed by U.S. authorities on imports of mattresses from Kosovo, following concerns related to alleged dumping practices. As mattresses represent a significant share of Kosovo's goods export basket, this measure has had a notable impact on overall goods export performance during this period.

Building on these trends, the remainder of this chapter examines the structure of Kosovo's exports, focusing separately on goods and services. We analyze exports by type of product and type of service, highlighting the key categories that drive performance, their contribution to total exports, and the shifts observed over recent years.

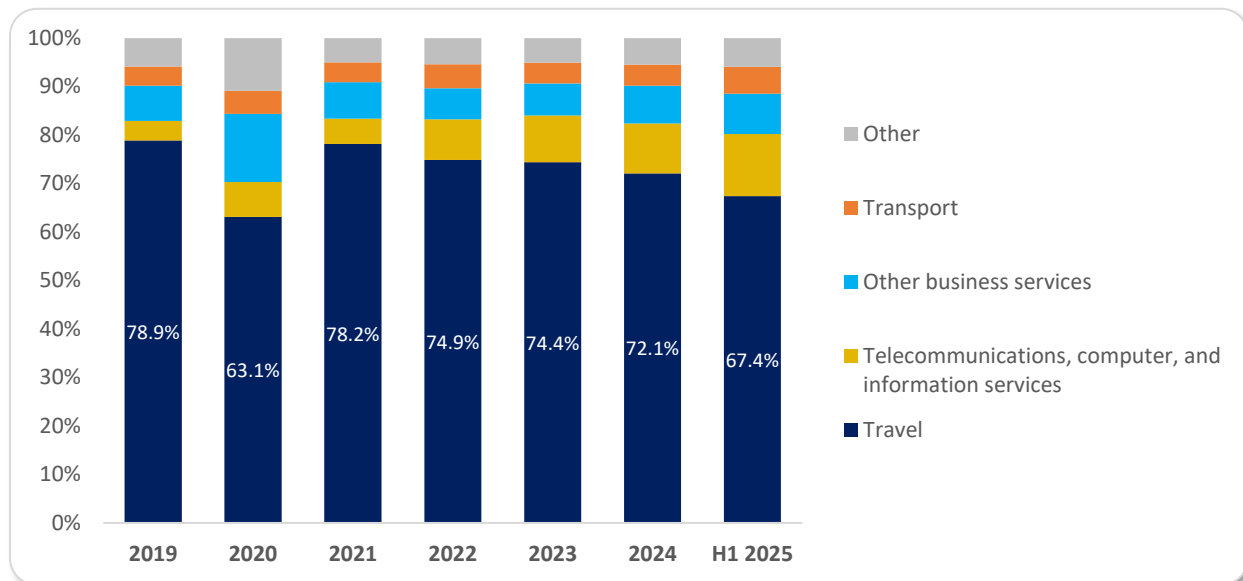
### 6.1. Export of Services

Export of services remains a central pillar of Kosovo's external sector, consistently making up more than two-thirds of total exports (goods and services). Within this category, travel services are by far the dominant component, driven largely by diaspora tourism and seasonal visits. The temporarily lower share recorded in H1 2025 does not reflect a structural weakening, but rather the strong seasonal pattern of these inflows, which peak during July–August and again in December. As a result, the majority of travel-related revenues are typically captured in the second half of the year.

Travel services continue to play a vital economic role. However, despite their importance, the heavy reliance on travel services also highlights the need for broader diversification. A more balanced export structure would strengthen resilience, reduce vulnerability to seasonal fluctuations, and help Kosovo move toward higher-value and less variable service exports. Strengthening capacity in emerging export-oriented service industries is therefore essential for long-term competitiveness.

In this context, the ICT sector stands out as one of the most dynamic components of Kosovo's service exports. Although still smaller than travel services, ICT exports have expanded steadily over the years, supported by a young workforce, strong digital skills, and increasing integration of Kosovo's IT professionals into global markets. This growth signals a promising structural shift toward knowledge-based services that are less seasonal, more scalable, and capable of generating higher value added.

**Figure 13.** Structure of export of services by sector



Data source: Central Bank of Kosovo

## 6.2. Export of goods

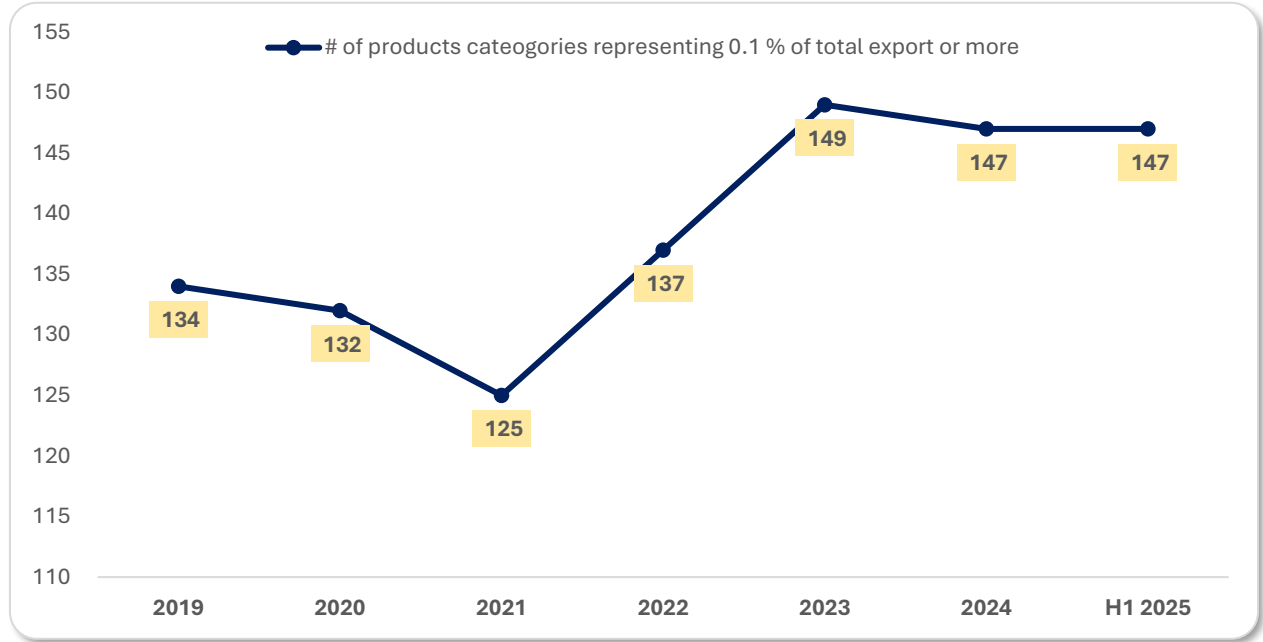
Export of goods represents around 10 % of GDP in recent years, a level significantly lower than imports of goods and one that continues to contribute to Kosovo's persistent trade deficit. Despite this structural imbalance, there have been notable developments within the composition and diversification of exported products.

To better understand these dynamics, Figure 14 presents a simple indicator constructed using detailed 10-digit product-level data from Kosovo Customs. The indicator counts the number of product categories that account for 0.1 % or more of total goods exports in each year. This threshold provides a practical way to assess diversification by capturing how many products contribute meaningfully to the export basket.

The results show that the number of significant export products has fluctuated over time but generally increased since 2021, rising from 125 categories in 2021 to around 147–149

categories in 2023–H1 2025. This suggests that — despite the relatively small scale of goods exports — Kosovo has been experiencing gradual diversification in its export structure, with more products reaching a measurable share of total exports.

**Figure 14.** Number of product categories representing 0.1% or more of total export



Data source: Kosovo Customs

Another important indicator of structural change is the evolution of the products that dominate Kosovo’s exports. Over the years, the composition of the top export categories has not remained static; instead, several products have increased or decreased in importance as global demand, production capacity, and market access have shifted. New products have emerged to represent a meaningful share of exports, while others that previously held a strong position have declined—whether due to market saturation, regulatory changes, or disruptions such as the temporary ban on mattress exports to the U.S. This rotation among leading export products signals a gradually evolving export base, reflecting both opportunities for specialization and the need for continued upgrading and expansion into higher-value product categories.

The table below illustrates these shifts by presenting the five most exported goods for each year from 2019 to H1 2025. The data show a clear transition in the structure of leading exports. Ferro-nickel dominated early years but lost prominence as the main producer has gone through privatisation and stopped production temporarily. In [Page 27 | 39](#)

contrast, mattresses emerged as the single largest export product between 2020 and 2023, before declining sharply following the U.S. import restrictions. Meanwhile, doors, windows, and frames (plastic and aluminium) have consistently remained among the top performers, highlighting the growing role of the construction-materials industry in Kosovo's export base. Electrical energy, whose position fluctuates depending on domestic production levels and regional market conditions, also appears frequently among the top categories. In the most recent period, wooden furniture has entered the top five, pointing to new developments in Kosovo's light manufacturing sector.

**Table 4.** Top 5 products exported through the years

2019	2020	2021	2022	2023	2024	H1 2025
Ferro-nickel	Ferro-nickel	Mattresses (other materials)	Mattresses (other materials)	Mattresses (other materials)	Electrical energy	Doors, windows & frames (plastic)
Other ferrous waste & scrap	Doors, windows & frames (plastic)	Ferro-nickel	Electrical energy	Doors, windows & frames (plastic)	Doors, windows & frames (plastic)	Soft drinks (sweetened)
Electrical energy	Mattresses (other materials)	Other ferrous waste & scrap	Doors, windows & frames (plastic)	Other ferrous waste & scrap	Soft drinks (sweetened)	Electrical energy
Doors, windows & frames (plastic)	Other ferrous waste & scrap	Doors, windows & frames (plastic)	Other ferrous waste & scrap	Soft drinks (sweetened)	Other ferrous waste & scrap	Other ferrous waste & scrap
Lead ores & concentrates	Soft drinks (sweetened)	Soft drinks (sweetened)	Sheets & plates (plastic)	Electrical energy	Doors, windows & frames (aluminium)	Wooden furniture (other)

Data source: Kosovo Customs

Taken together, these patterns reveal that Kosovo's export structure is not fixed but gradually diversifying. Although a few products still account for a substantial share of total exports, the increasing variety of goods appearing in the top categories suggests broader productive capacity and an expanding industrial base. This evolution, combined with ongoing efforts to strengthen manufacturing, presents an opportunity for Kosovo to reduce concentration risks and enhance the resilience of its export sector over the medium term.

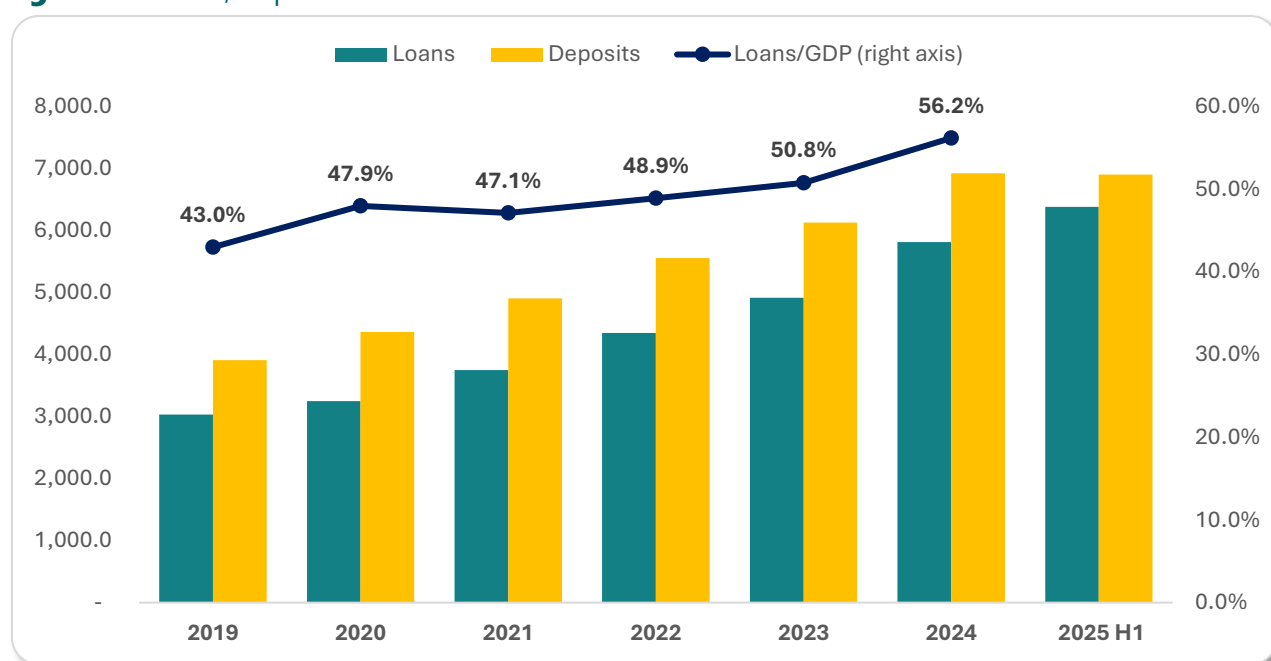
# **FINANCIAL SECTOR**

## 7. MAIN FINANCIAL INDICATORS

Kosovo's financial sector remains in good overall condition, supported by a stable banking system, healthy asset quality, and solid profitability. Banks continue to dominate financial intermediation, and lending activity has expanded steadily in recent years. Loan growth was particularly strong during 2024 and continued into H1 2025, pushing the loans-to-GDP ratio to its highest level in the past several years (Figure 15).

Deposit growth has been more moderate, leading to a gradual narrowing of the funding gap between loans and deposits. While this trend should be monitored, especially if loan demand remains elevated, it does not currently indicate pressures on liquidity or financial stability. The lower deposit level in H1 2025 also reflects typical seasonal patterns, as mid-year balances tend to be lower than end-year totals.

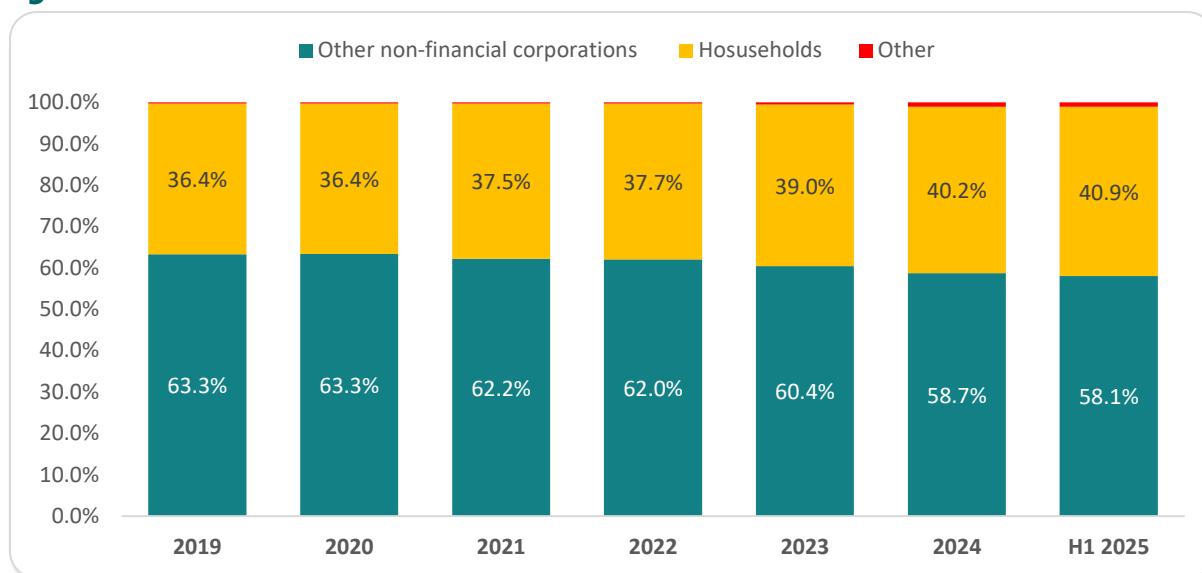
**Figure 15.** Loans, Deposits in millions EUR and ratio Loans-to-GDP



Data source: Central Bank of Kosovo

The structure of lending has shifted slowly over time, with loans to households increasing as a share of total credit, while lending to non-financial corporations has moderated (Figure 16). Although this reflects rising demand for housing and consumer loans, a sustained shift away from enterprise lending could limit credit support for investment and business growth.

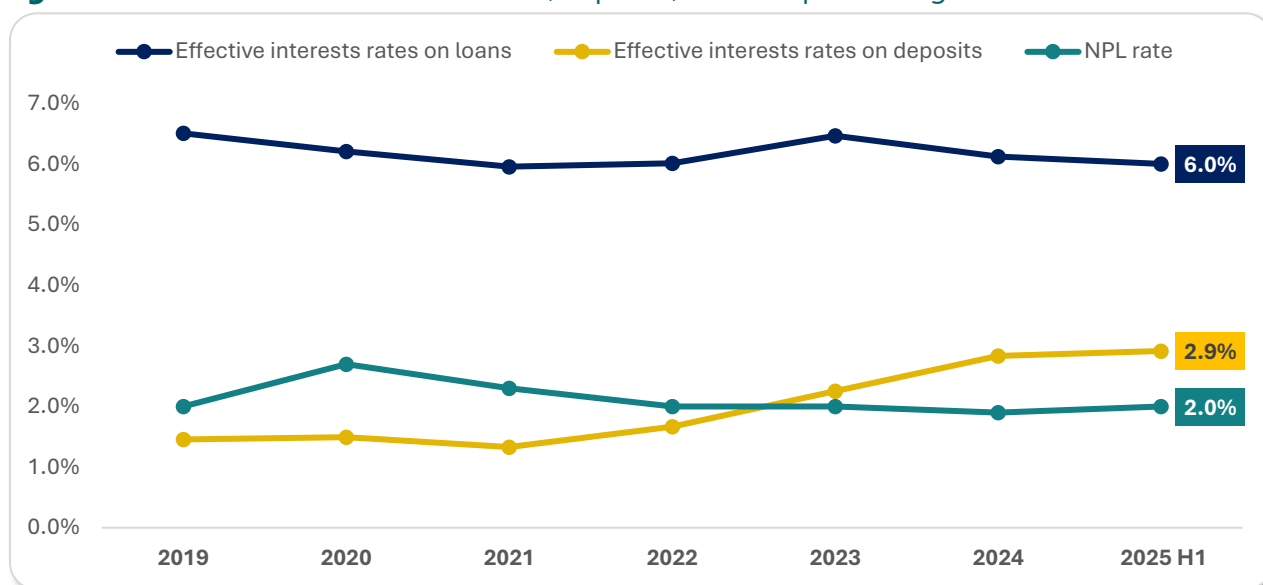
**Figure 16.** Structure of loans



Data source: Central Bank of Kosovo

Interest rate developments have remained relatively stable. Effective lending rates have remain close to around 6 %, while deposit rates have increased gradually since 2022, narrowing the interest rate margin (Figure 17). Importantly, the non-performing loan (NPL) rate remains low at around 2 %, indicating that credit expansion has not undermined asset quality.

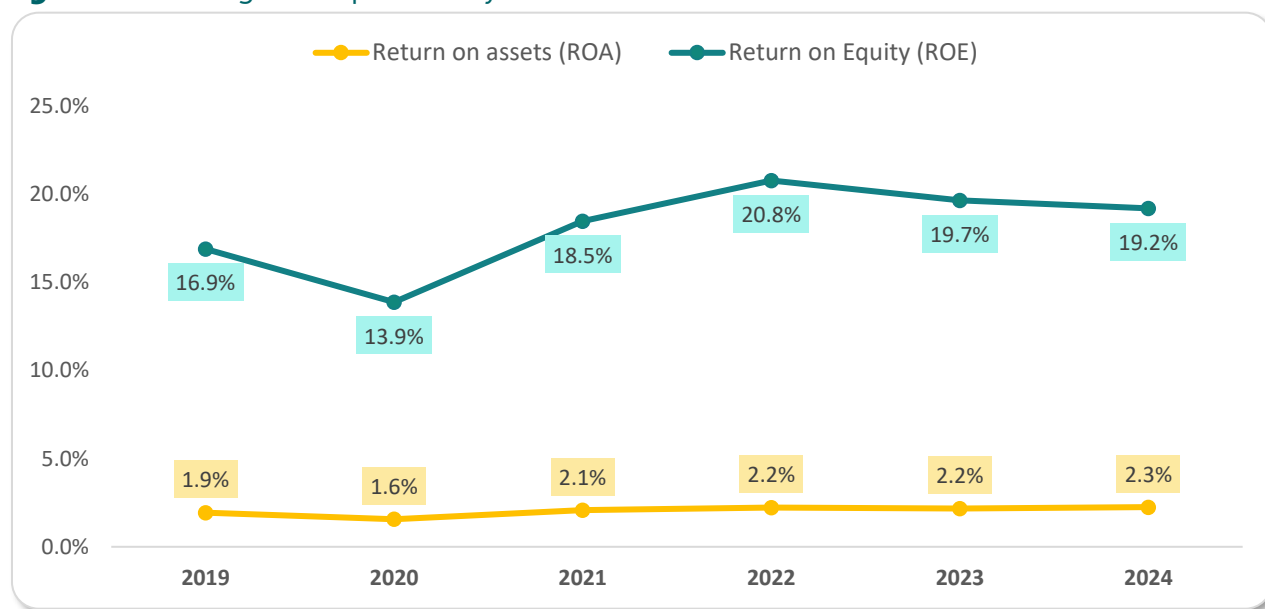
**Figure 17.** Effective interest rates on loans, deposits, and non-performing loans rate



Data source: Central Bank of Kosovo

Bank profitability remains strong, with both return on assets (ROA) and return on equity (ROE) maintaining solid levels in 2023–2024 (Figure 18). Profitability indicators suggest that banks continue to operate with healthy buffers and sustainable business models.

**Figure 18.** Banking sector profitability Indicators



Data source: Central Bank of Kosovo

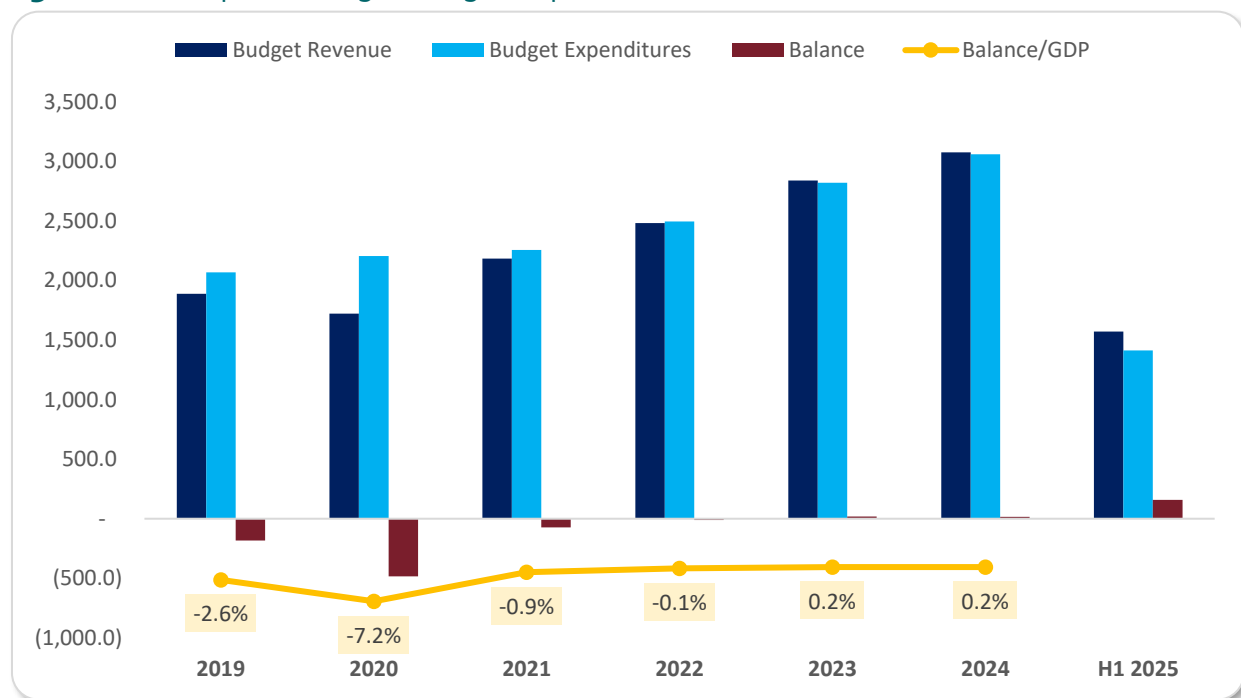
Overall, the financial sector continues to perform well, characterised by strong credit activity, stable asset quality, and solid profitability. The slower growth of deposits and the emerging shift in loan composition warrant attention, but they do not currently pose significant risks to the sector's stability.

# **FISCAL SECTOR**

## 8. PUBLIC BUDGET AND BALANCE

Kosovo's fiscal balance has shown a clear path of stabilization in recent years, following the large pandemic-related deficit in 2020. After the fiscal balance reached  $-7.2\%$  of GDP in 2020 due to emergency measures, the position improved sharply: the deficit narrowed to  $-0.9\%$  in 2021, remained close to balance in 2022 ( $-0.1\%$ ) and shifted into a small surplus in 2023–2024 ( $0.2\%$ ). This reflects stronger revenue performance, improved collection, and the gradual withdrawal of temporary pandemic-related spending. Overall, the trend demonstrates that the fiscal stance returned to its pre-crisis pattern of low and manageable deficits.

**Figure 19.** Main public budget categories performance in millions EUR



**Data source:** Treasury of Kosovo (monthly fiscal data)

It is important to note that the Balance/GDP ratio shown in the chart is a raw fiscal balance, meaning it includes all expenditures. It does not exclude the items that are omitted under Kosovo's fiscal rule framework—such as donor-financed capital projects or certain investment expenditures. Therefore, while the figure accurately illustrates the general fiscal trajectory, it should not be interpreted as the official balance used for assessing compliance with the fiscal rule.

The data for H1 2025 show a relatively high surplus compared with previous full-year outcomes. However, this requires careful interpretation because the comparison is made against full-year data for prior years, while 2025 currently includes only the first six months. Two factors explain this temporarily stronger balance. First, since March 2025 Kosovo has been under a caretaker government, which limits new fiscal commitments and slows the pace of budget execution, particularly for larger or politically sensitive expenditures. Second, capital expenditures in Kosovo are historically concentrated in the second half of the year due to procurement cycles and project implementation timelines.

Overall, the fiscal balance trajectory indicates stability, improved post-pandemic consolidation, and continued adherence to fiscal rules. The temporary surplus in H1 2025 reflects execution timing rather than a change in policy stance.

## **8.1. Public Revenue**

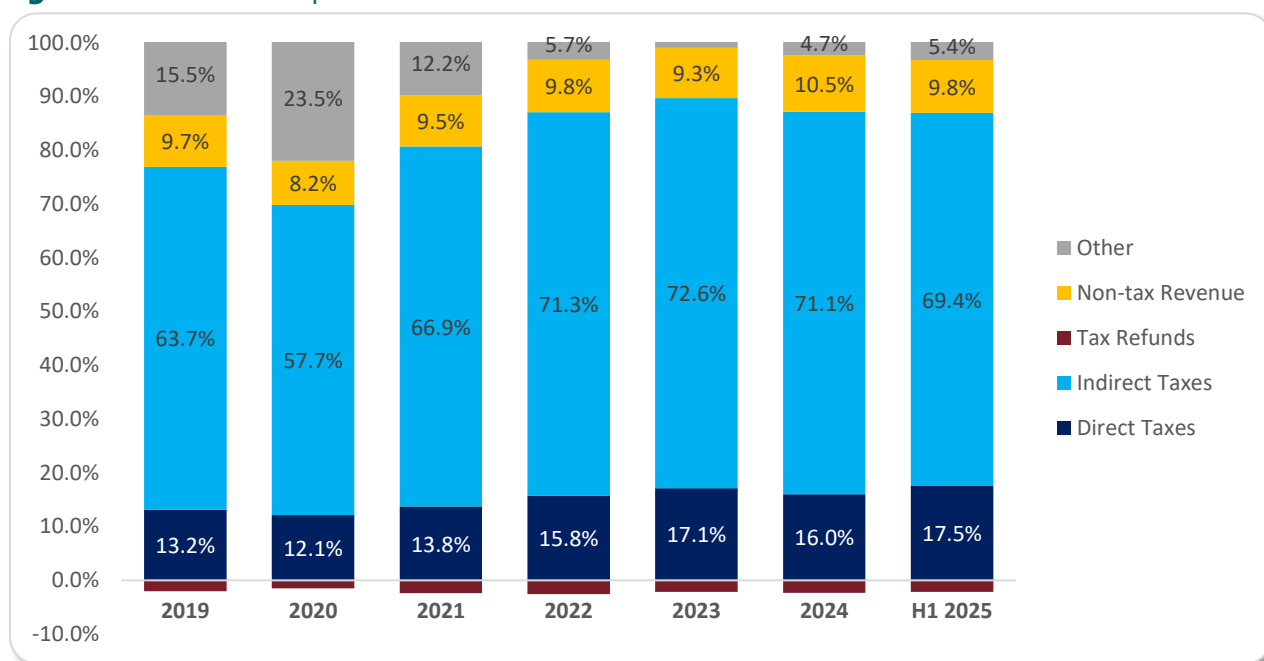
Kosovo's public revenue structure has remained relatively stable from 2019 to H1 2025, with indirect taxes consistently forming the largest share of total revenues. Their proportion ranges between 63–73%, reflecting Kosovo's consumption-driven economy and strong reliance on VAT and excise revenues. Direct taxes account for a smaller but gradually increasing share (around 12–17%), indicating steady improvements in labour and corporate tax collection.

In nominal terms, public revenues have increased steadily over the years, supported by solid economic activity, higher imports, and improved tax administration. This trend continued in H1 2025, when budget revenues rose by 9.9% compared to H1 2024.

Non-tax revenue remains relatively stable, generally contributing 8–10%, though with temporary spikes such as in 2020 due to one-off pandemic-related factors. Tax refunds continue to represent a small share, while movements in the "other" category primarily reflect inflows from donor grants and public debt issuance, which are not part of regular tax and non-tax revenues. This category was notably higher in 2020 due to exceptional donor support and increased borrowing needs related to the COVID-19 pandemic.

The structure in H1 2025 remains broadly aligned with previous years: indirect taxes at 69.4%, direct taxes at 17.5%, and non-tax revenues at 9.8%. Since this reflects only half-year performance, some categories—especially non-tax revenues—may adjust in the second half of the year as inflows normalize.

**Figure 20.** Structure of public revenue



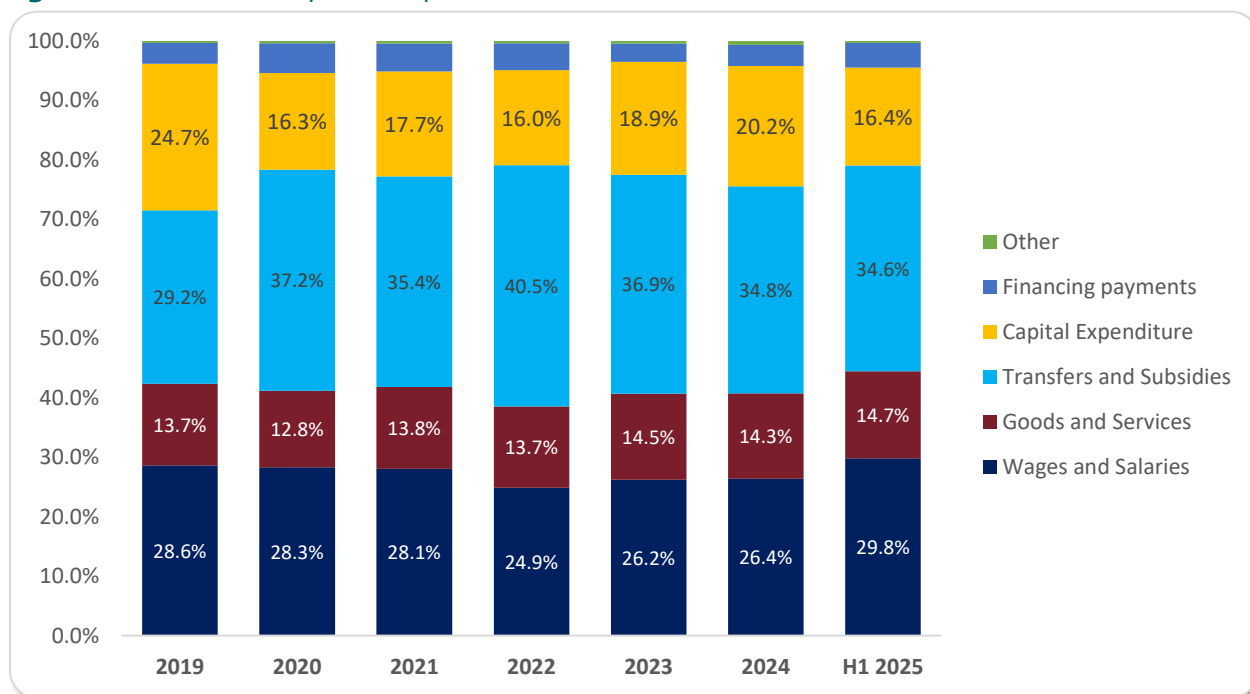
Data source: Treasury of Kosovo (monthly fiscal data)

## 8.2. Public Expenditures

As noted earlier, public expenditures have continued to increase over the years, and even in H1 2025 they expanded by 15.8% year-on-year. Kosovo's expenditure composition from 2019 to H1 2025 shows a stable structure overall, but with a gradual reorientation in how public resources are allocated. Transfers and subsidies consistently represent the largest share of total expenditures, ranging between 35–41%, reflecting the continued emphasis on social support schemes, pension-related spending, and targeted financial assistance to households and specific groups. This share increased especially after 2021, indicating a growing focus on social programs within the budget.

Wages and salaries have remained relatively stable between 25–30%, showing moderate fluctuation but maintaining a significant share of total spending. Goods and services remain steady around 13–15%, pointing to predictable operational costs across central and local government institutions.

**Figure 21.** Structure of public expenditure



**Data source:** Treasury of Kosovo (monthly fiscal data)

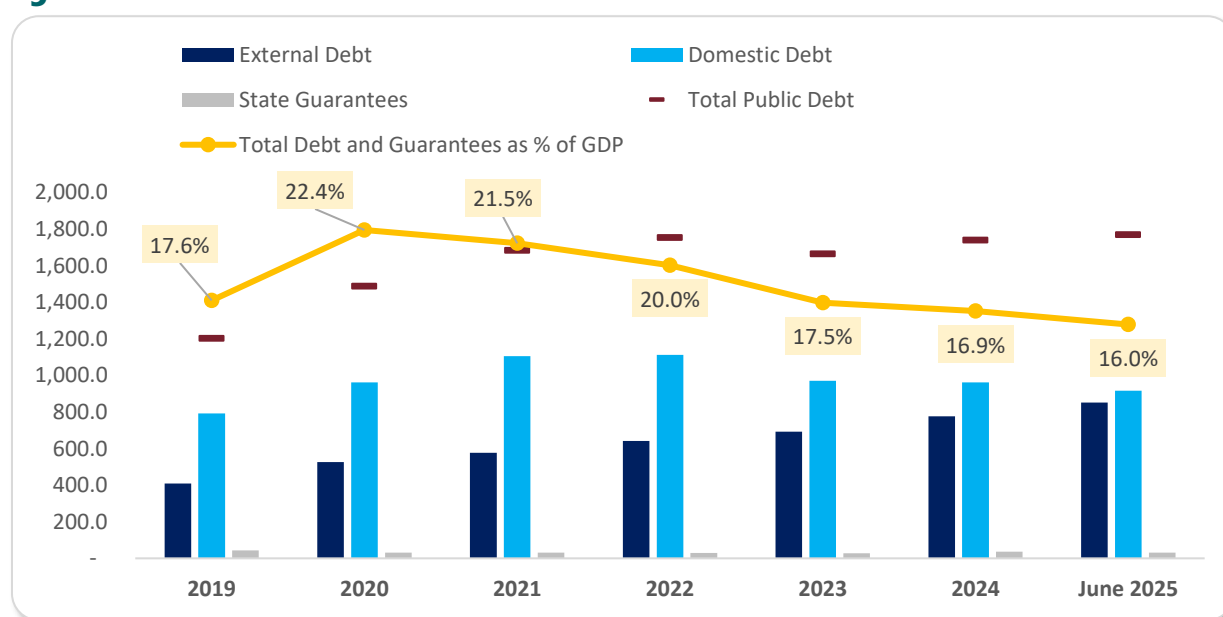
Capital expenditure, by contrast, has played a smaller role in recent years, declining from 25% in 2019 to around 16–20% in the period 2021–2024. This shift reflects changing spending priorities, with a relatively smaller portion of the budget directed toward investment projects and a larger portion toward current expenditure categories. The 16% share in H1 2025 should be interpreted cautiously, as capital spending typically accelerates in the second half of the year. This pattern is even more pronounced in 2025 due to the presence of a caretaker government, which cannot initiate major new investment commitments, slowing the pace of project execution.

Financing payments and the “other” category remain minimal across all years, consistent with Kosovo’s low public debt level and limited interest-related costs.

## 8.3. Public Debt

Kosovo's public debt remains low by regional and international standards, even as it has increased moderately in nominal terms over 2019–June 2025. Both domestic and external debt have grown in line with financing needs, but the overall debt burden remains low. Domestic debt represents a larger share of total public debt, reflecting the government's increasing reliance on issuing domestic bonds to meet funding requirements. External debt, mainly sourced from international financial institutions on favorable terms, remains an important component of long-term financing.

**Figure 22.** Public Debt main indicators in millions EUR



Data source: MFLT, Periodic report on public debt (August 2025)

Kosovo's public debt remains well below the 40% of GDP ceiling defined by the fiscal rule. Operating at levels far below this threshold provides fiscal space and a favorable risk profile, helping safeguard macroeconomic stability.

However, despite the low level of indebtedness, it remains important that future borrowing is directed toward productive and growth-enhancing activities, such as infrastructure, human capital, and energy investments. Ensuring that new debt finances projects with high economic and social returns will strengthen long-term growth prospects and maintain the sustainability of public finances.

