

Selected Indicators	2009	2010	2011	2012	2013
Real GDP Growth (%)	3.5	3.2	4.4	2.5	3.1 (e)
GDP (mil EUR)	4007.8	4291.1	4769.8	4916.4	
Inflation (Annual Average)	-2.4	3.5	7.3	2.5	1.8
Loans (mil EUR)	1289	1458.7	1698.1	1763.4	1805.8
Deposits (mil EUR)	1744.8	1936.9	2104	2279	2449.0
Exports (mil EUR)	165.3	295.9	319.2	276.1	293.9
Imports (mil EUR)	1935.5	2157.7	2492.3	2507.6	2450.4

Note: (e) Estimation, Source: CBK and KAS (2013)

Summary

Economic activity during 2013 was characterized by positive trends and the growth rate reached 3.1 percent. Improvements in the net exports position in goods and services resulted in a positive contribution of this component. Besides external position, the consumption continued to maintain positive trends, being supported by remittances, consumer loans and wages. Regarding investments, their positive trend was supported by foreign direct investments and investment loans. The fiscal sector has also been with positive contribution to the economic growth, being characterized by increased revenues and expenditures.

General trends of lower global inflation rate were also present in Kosovo during 2013; however, the inflation of 1.8 percent in Kosovo was driven more by developments in international prices rather than domestic demand.

Main developments in Q IV

Real GDP Growth for 2013 is estimated to have reached 3.1 percent.

Annual inflation rate reached 1.8 percent, driven by international price developments.

Remittances and foreign direct investments until Q3 2013 continued with positive growth rates.

Banking sector assets have continued to grow. The most significant growth within assets was marked by securities investments, while the bank lending, despite the positive growth rate, continues to be characterized by slower growth trend.

Treasury bond market continued to be characterized by high bidding and low interest rates, but in the recent months, the demand for securities by primary dealers shifted towards securities with longer term maturities. However, all indicators within this market reflect financial and fiscal stability in Kosovo.

BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

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ABBREVIATIONS:

CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CHF	Swiss Franc
CPI	Consumer Price Index
SEE	Southeastern Europe
EUR	Euro currency
IPI	Import Price Index
FDI	Foreign Direct Investments
GBP	The Pound Sterling
GDP	Gross Domestic Product
IMF	International Monetary Fund
KAS	Kosovo Agency of Statistics
NPL	Non-Performing Loans
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RWA	Risk Weighted Assets
USD	United States Dollar
WEO	World Economic Outlook

Global economy

The **global economic** growth in 2013 was positive but lower compared with the previous year. Despite stable growth rates in developed countries, a lower growth than expected was marked in the developing countries where the global growth rate reached 3.0 percent compared with 3.1 percent in 2012. Among the developing countries which experienced slower growth rates than in 2012 were mainly countries such as China and India, while the countries of Eastern and Southeastern Europe marked accelerated growth rates. Projections for 2014 are encouraging as the global growth is expected to reach 3.7 percent, while this growth is expected to be balanced between developed and developing countries (IMF WOE, 2014).

Euro area countries during 2013 concluded the year with negative growth of 0.4 percent, but in the second half of the year recovery signs have been reported. European countries, in which the Kosovar diaspora is concentrated, for 2014, are expected to have positive economic growth. For example, the growth in countries like Germany and Switzerland are expected to be 1.4 percent and 1.8 percent, respectively, against the growth of 0.7 and 1.7 percent in the previous year.

The decline in the economic activity that characterized the euro area in 2013 and the unemployment growth resulted in lower consumer expenditures which led in a continuous decline of prices. According to the European Central Bank (ECB), expectations are that prices in 2014 will mark an increase of 1.5 percent, thus reducing to some extent the concerns raised about potential deflation.

The annual inflation rate in the euro area in 2013 was 1.4 percent (2.5 percent in 2012), which at the same time represents the lowest rate of inflation in the euro area marked since 2009.

Countries of Southeastern Europe (SEE) in general were characterized by positive economic growth: Macedonia with 2.2%, Montenegro with 1.5%, Albania with 1.7% and Serbia with 2.0%, while Bosnia and Herzegovina despite of emerging from recession, was characterized by a marginal increase of 0.5%. Croatia on the other hand continued for the third consequent year to face recession of 0.6% (IMF WOE, 2013). 2014 is expected to be a year of significant recovery for all countries of the region, with Kosovo expected to have the highest economic growth rate.

Global economic growth lower than earlier projections as a result of weaker demand of developing countries; weaker demand and the supply stability resulted in downward trend for the prices of most commodities resulting in a moderate inflation. In order to avoid deflation, the euro area reduced the base interest rate at lowest historic level.

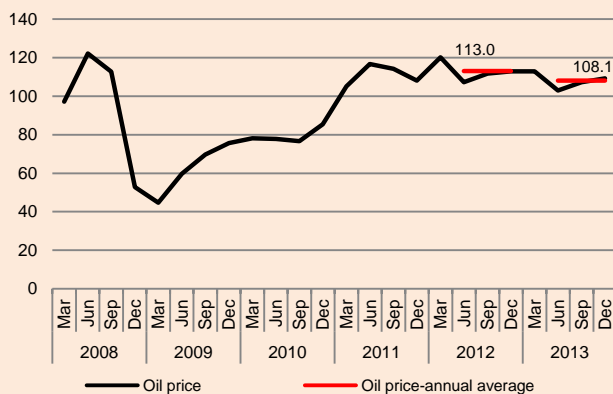
Brent crude prices¹ in the period of January-December 2013 marked a decline of 4.3 percent compared with the same period of the previous year (figure 1). Lower oil prices during 2013 were as a result of the increased production in the U.S. which lowered the U.S. demand for oil imports. Additionally, political stability in some oil producing countries in

¹ 'Brent Crude' represents commercial classification for oil produced in the North Sea as a representative of oil prices on the global level.

the Middle East decreased the risk of supply side shocks and lower prices.

Oil prices are expected to be relatively stable or with downward pressure between 5 to 10 percent during 2014 as a result of increased reserves in developed countries in order to absorb shocks from the supply side. In addition, during 2014 *Organization of Petroleum Exporting Countries* (OPEC) may face difficulties in taking measures to limit the supply, which are measures usually undertaken to increase the price (Bloomberg, 2014). These difficulties in limiting the supply are expected to be as a result of the needs for export in some countries which have just emerged from crisis such as Libya and Iraq, and also if Iran is released from the international sanctions.

Figure 1. Brent crude oil price, in USD

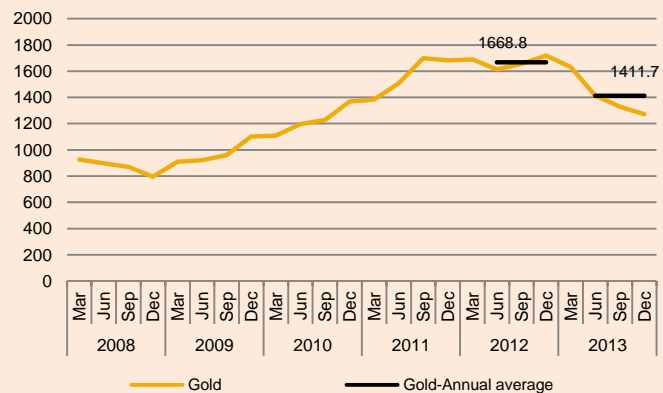


Source: Bloomberg (2014) and CBK calculations

Stability or the decline in oil prices is expected to reflect also on the stability of prices of consumer goods, especially food prices as oil and energy are important components in the manufacturing and transportation process. Effects of oil prices in 2014 are expected to reflect positively on economic growth rates for importing countries as a result of improvements in the current account deficit.

As a result of price stability on the global level, gold prices marked a decline as it was not necessary for investors to back their assets with gold. In addition, also the debt problems in some euro area countries which were present during the previous year have contributed on expectations that the gold supply will increase, since sales of gold were viewed as a way to pay the debt; declining the gold prices for more than 15 percent during the year, which has gradually slowed down.

Figure 2. Gold price per Ounce

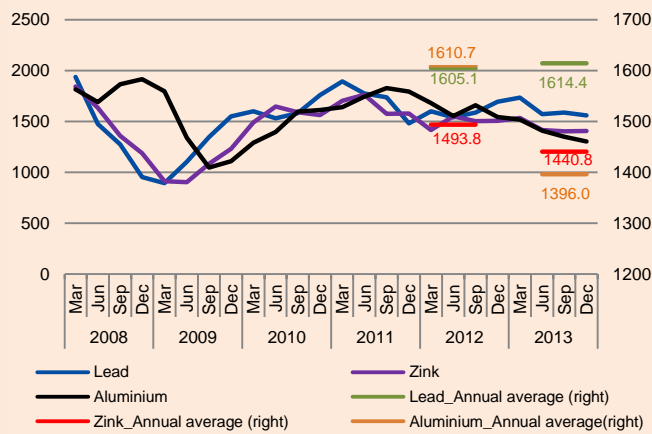


Source: Bloomberg and CBK calculations (2014)

Other metals have had similar movements in comparison with the previous year, characterized by slight decline. An exception is the aluminum price, which marked significant decrease of 13 percent as a result of supply on the global level. Zinc has also marked a decrease of 3.5 percent due to the strong global supply however the decline was more moderate as a result of the increased demand in some developing countries. Lead price remained at similar level as a result of the recovery in the automobile industry on the global level (figure 3), (ABN-AMRO, 2013).

Various projections suggest that the main commodity prices are expected to be relatively stable during 2014 as a result of increased demand and investment on the global level. However, the exception here is gold given the projections for improved economic performance on the global level. This lowers the need of investors to back their assets with gold from any adverse economic shocks.

Figure 3. Metal prices , in USD per ton



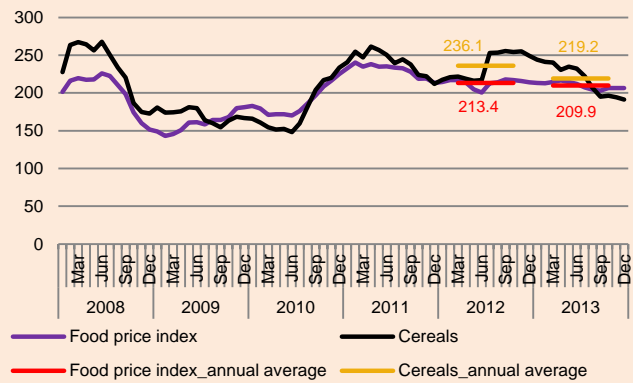
Source: Bloomberg and BQK calculations (2014)

Food products were characterized with a slight decline driven by cereal category. The food price index on the global level has marked a decrease of 1.6 percent compared with the previous year, while the cereal category, which marked a decline of 7.2 percent, was the contributor in the general decline of the index (figure 4).

The decline of food prices is largely affected by the supply side. During 2013, the supply of food products on the global level was considered quite stable as a result of the favorable weather conditions in the producer countries, thus providing stable performance. On the other hand, in addition to the stable supply of food products, the decline of energy

and oil prices contributed to the decrease of production cost for most food products.

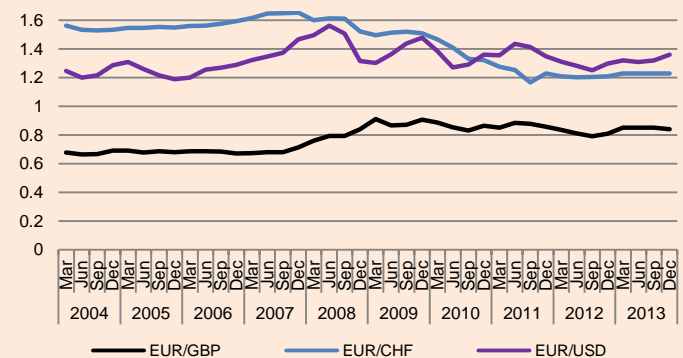
Figure 4. Food price index



Source: FAOUN (2014)

Exchange rate of euro against major currencies recovered during 2013 thus coming back to stable conditions after having endured problems during the previous year. In this context, the exchange rate of euro against the Swiss franc was 1.23 and 0.85 against the British pound. Euro considerably appreciated also against the U.S. dollar, reaching 1.33.

Figure 5. Euro exchange rate

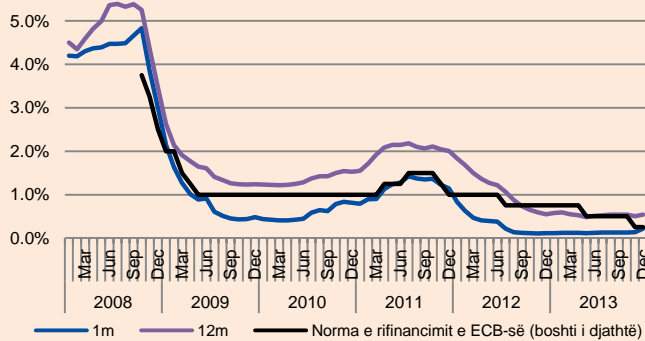


Source: CBK (2014)

Since the last change in May 2013 the base interest rate of the European Central Bank remained

unchanged until November 2013. As of 7 November 2013, the base interest rate was reduced to the lowest historical level, reaching only 0.25 percent, which represents the lowest possible level.

Figure 6. EURIBOR interbank lending rate and ECB refinancing rate



Source: Euribor and ECB (2014)

The reason for these changes in the base interest rate is considered to be the continuous decline of inflation rate in the euro area. Therefore in addition to the easing of the financing of banks, besides stimulating the economic activity, the ECB has taken the appropriate measures to avoid the price decline which are in the direction of negative rates or towards deflation.

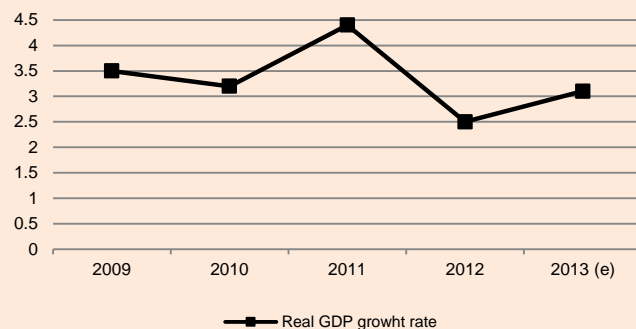
Interest rates on interbank lending during Q4 2013 were characterized by small changes. In Q4 2013 1-month rates marked an increase compared to the previous period from the average of 0.13 to 0.16 percent, while 12-month rates were characterized by a slight decline from 0.54 to 0.53 percent on average.

Kosovo's economy

Real Sector

Developments in the key macroeconomic indicators during 2013 suggest that economic activity has improved compared with 2012. Accordingly, the CBK estimates are that the real economic growth rate reached 3.1 percent (figure 7).

Figure 7. Real GDP growth rate, in percent



Source: KAS, (e) CBK (2014)

Unlike the previous years, in 2013, the improved economic activity in the country is suggested by external sector developments. This is because, the data shows a narrowing trade deficit in goods, implying an import substitution of goods with domestic products.

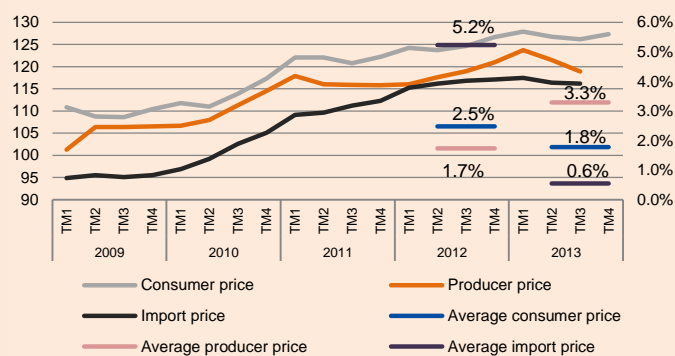
Other GDP components continued to have a positive growth rate, but their effect on economic growth remains limited. Consequently, sources of financing consumption such as remittances, new consumer loans, salaries etc. had positive performance, ensuring growth in the consumption component. Also in terms of investments, funding sources as Foreign Direct Investments (FDI) and new investment loans have

recorded positive growth rates. These investment components were slightly influenced by the decline in public investments, but the overall trend remained positive.

Kosovo's Economy is experiencing the highest growth rate in the region; during 2014, the growth is expected to accelerate. The external sector of the economy is expected to have positive contribution to economic growth as a result of favorable oil prices. This contribution is expected to come from the improvement of the current account balance.

Inflation in Kosovo, measured by the Consumer Price Index (CPI) during 2013 was characterized by slower growth rate than in the previous year. Consequently, the average annual inflation rate in 2013 was 1.8 percent compared with 2.5 percent in 2012 (figure 8). Inflationary pressures were higher in Q1 2013, while during the rest of the year, these pressures have eased, especially in Q4 2013. Regarding the CPI components, price increase during 2013 was marked by beverages and tobacco with 7.2 percent (7.5 percent in 2012), footwear and clothing with 2.9 percent (2.5 percent in 2012), recreation and culture with 2.7 percent (4.6 percent in 2012), food and soft drinks with 2.1 percent (1.0 percent in 2012), etc., while the price decline was observed in transport with 1.9 percent (3.8 percent increase in 2012) and communication equipment by 0.9 percent (4.0 percent decrease in 2012).

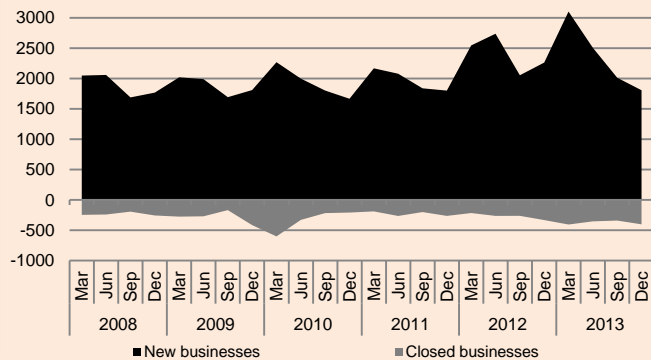
Figure 8. Consumer, Producer and Import price indices



Source: KAS (2014)

Price movements in Kosovo continue to be similar to the developments in the global economy due to the high reliance of the economy on imports, and consequently the overall price level in the country is affected by the price movements of imported goods, given that the price decline of main commodities, such as oil, affects production costs in Kosovo. This is confirmed to some extent also by the Import Price Index (IPI). IPI until September 2013 marked an increase of 0.6 percent, and as presented in figure 8, the CPI has shown similar pattern as IPI. Meanwhile, producer prices until September 2013 were characterized by annual growth of 3.3 percent, an increase that was driven by increased prices of coal and lignite, minerals and other mining industries.

Figure 9. Business registry, quarterly flow data

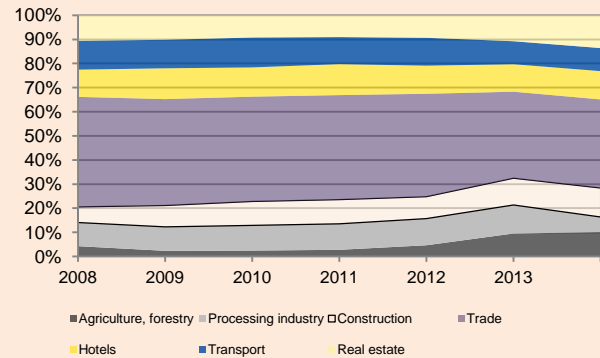


Source: KAS (2014)

During Q4 2013, in Kosovo were registered 1805 new businesses whereas 404 businesses were closed. During January-December 2013 the total number of new businesses that opened reached 9421 or 171 businesses less than in the previous year. The total number of closed businesses reached 1508, or 427 more than in the previous year. However, considering the high level of new business registrations in the last two years, it is expected that the number of closed businesses may increase. As a percentage, closed businesses against opened ones are under the level of the year 2010 which had marked higher rates.

In comparison with other countries, the data on registered businesses are encouraging, given that the closure of businesses still marks 1 or 2 businesses closed out of 10, while other countries have 3 closed businesses within the first year out of 10 registered businesses. This ratio may increase also in Kosovo, but as long as it does not exceed the average of other countries, it does not represent any risks for economic activity in the country.

Figure 10. Structure of new enterprises



Source: KAS (2014)

Trends regarding the structure of enterprises continued to be similar to the previous periods of this year, but this year is characterized by accelerated growth of new registered businesses in agriculture (figure 10) and real estate sector, while trade has maintained a similar level with the previous years. The data are consistent with the lending data by industry, where it is observed an increase of the banking system support to agriculture, real estate and hotels and restaurants, while the support to trade sector has maintained a similar level to the previous year, whereas lending to construction and manufacturing sectors decreased. Agriculture as one of the industries with positive trends during this year has had a larger support from the government through subsidies and transfers.

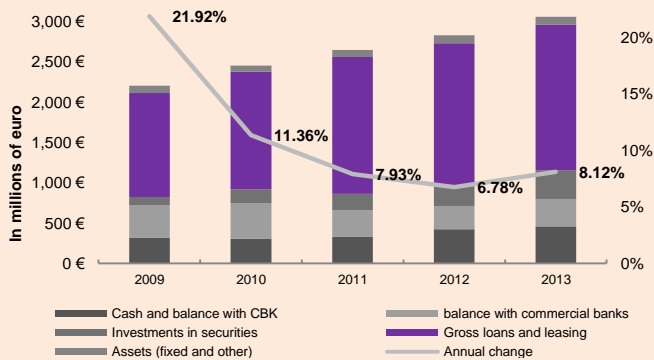
Financial System

Banking Sector

Assets

The banking sector in Kosovo during Q4 2013 was characterized by positive developments. Assets of commercial banks amounted to euro 3.06 billion, which represents an annual increase of 8 percent (6.8 percent in 2012), (figure 11).

Figure 11. Assets of commercial banks, annual changes

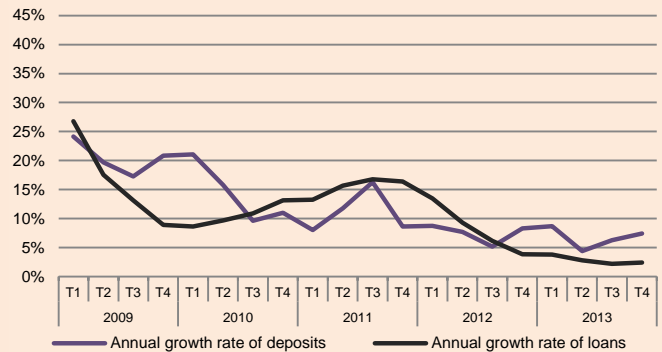


Source: CBK (2014)

The increase is mainly attributed to the significant increase of investment in securities and reserves held at the CBK. Unlike the previous quarters, for the first time in Q4 2013, investments in securities, exceeded in value the reserves held at the CBK. Investments amounted to euro 354.5 million, marking an annual growth of 38 percent (27 percent in 2012). This development reflects the orientation of banks towards the long-term instruments which have higher returns. Meanwhile, the balance of commercial banks with CBK amounted to euro 331.8 million representing an annual increase of 10 percent (37 percent in 2012).

Loans

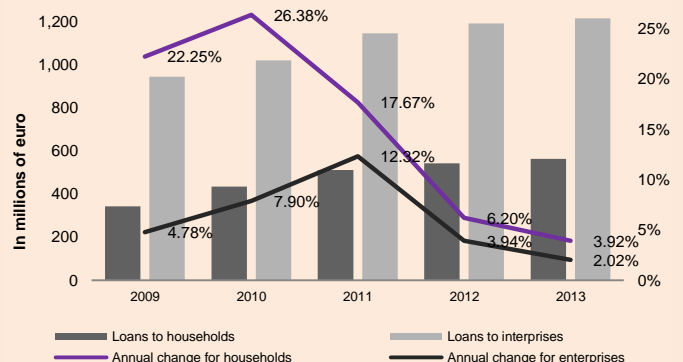
Figure 12. Growth trend of loans and deposits, in percent



Source: CBK (2014)

Lending activity has continued to grow also in Q4 2013, but with a slower pace compared to the previous year. In December 2013, total loans amounted to euro 1.81 billion, which represents an annual increase of 2.4 percent (3.9 percent in 2012) (figure 12).

Figure 13. Loans value and annual changes



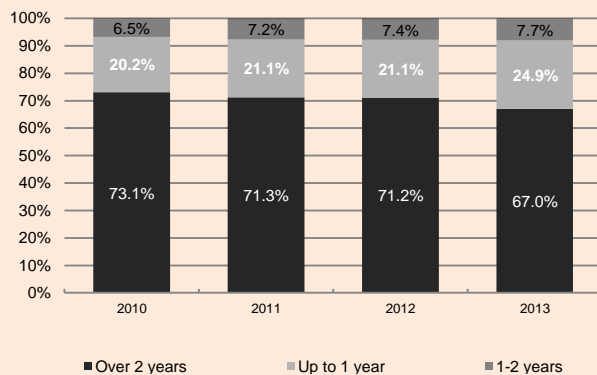
Source: CBK (2014)

Most of the loans continue to be represented by loans issued to enterprises which constitute 67 percent of total loans. The remainder consists of loans to households with a share of 31 percent and other loans (nonresidents, in non-euro etc.) with 2 percent.

While loans to enterprises in Q4 2013 marked an annual increase of 2 percent (4 percent in 2012), loans to households were characterized with 4 percent annual growth (6.2 percent in 2012). These developments show that the slowdown in lending in previous years had affected more enterprises, while during 2013 has begun to be observed a more significant slowing pace also in loans to households.

Positive developments in the banking sector are primarily a result of higher growth rate of investments in securities and reserves at the CBK. Modest contribution to these developments was also given by the lending activity which was characterized by slower growth compared to the previous year.

Figure 14. Structure of loans maturity



Source: CBK (2014)

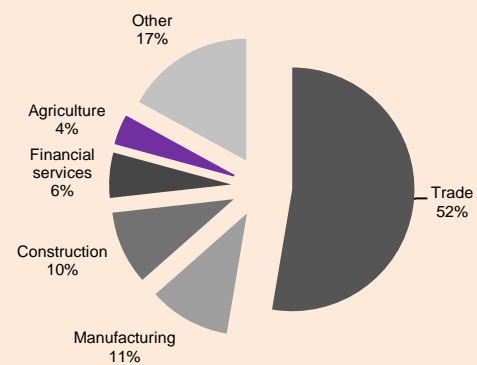
In terms of maturity structure, long term loans with a maturity of “over two years” continue to dominate, which in Q4 2013 accounted for 67 percent of total loans (71 percent in 2012).

Considerable share have also loans with a maturity of “up to one year” which in Q4 2013 reached 25 percent (21 percent in 2012). Loans with maturity “over one

year up to two years” reached a share of 7.7 percent in Q4 2013 (figure 14). Consequently, there is a slight shift of loans with longer term maturity to loans with shorter maturities. This is a characteristic of the loan market for the fourth consecutive year that reflects the perceptions of banks for lower risk in this category.

According to special economic sectors, also in Q4 2013 the majority of lending was oriented to the trade sector, which comprises 52.6 percent of total loans.

Figure 15. Loans by economic sectors, in percent



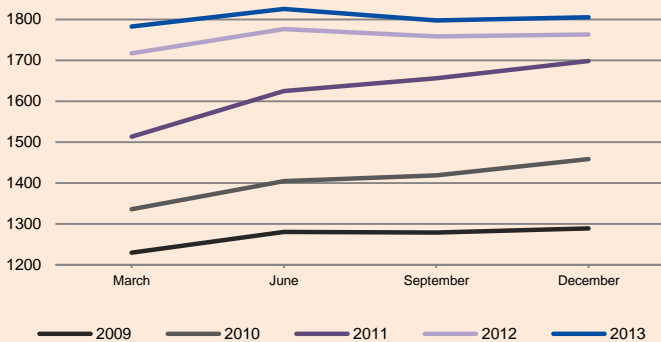
Source: CBK (2014)

The slowdown in lending of the banking sector was reflected more in loans to construction and manufacturing sector. Loans to construction marked a decline of 5.2 percent while loans to manufacturing were characterized by an annual decline of 1 percent. Sectors which marked a growth in Q4 2013 were trade, agriculture and other financial services. Trade loans were characterized with an annual growth of 1 percent, which was significantly lower compared to the previous year (4.8 percent in 2012). Lending to agriculture sector marked an annual growth of 5 percent compared with Q4 2012 which had recorded an annual growth of 7.7 percent. Although loans to

financial services (real estate, renting, etc.) represent only 5.6 percent of loans, were characterized with an annual growth of 26.2 percent.

Analysis of quarterly developments reveals that loans in Q4 2013 were characterized by an increase of 0.4 percent compared with Q3 2013 (which marked a decrease of 1.5 percent). The main factors that contributed to the increase were the growth of loans to other financial corporations (8.6 percent) and the growth of loans to households (1.3 percent).

Figure 16. Growth trend of loans , in millions of euro

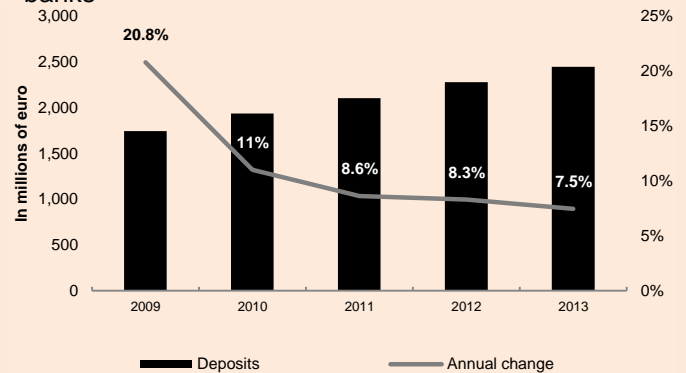


Source: CBK (2014)

However, the increase of loans during the fourth quarter, among others, reflects also the effect of seasonality. Based on figure 15, it is observed that also in the previous years the fourth quarter is characterized by a higher level of loans compared to previous quarters.

Deposits

Figure 17. Annual change of deposits in commercial banks

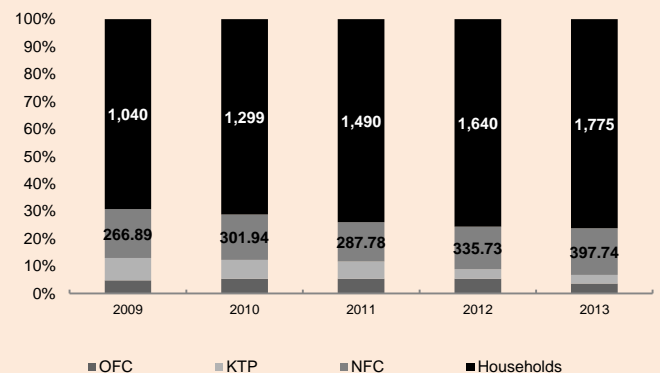


Source: CBK (2014)

During Q4 2013, total deposits in the banking system amounted to euro 2.4 billion, marking an annual increase of 7.5 percent (8.3 percent in 2012) (figure 17).

The main contributor to the deposits growth, continued to be household deposits representing 72 percent of total deposits in the banking sector (figure 18) which recorded annual growth of 8 percent.

Figure 18. Structure of deposits in commercial banks

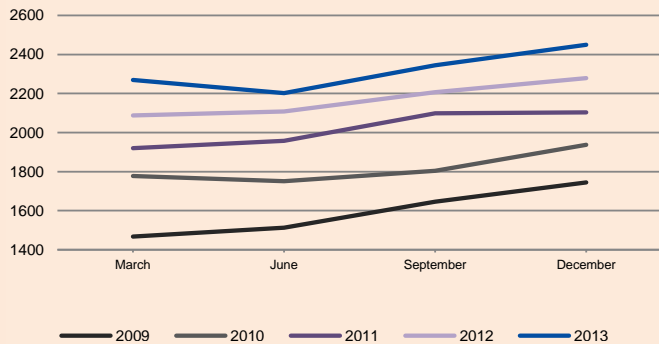


Source: CBK (2014)

Deposits of private companies (representing 16 percent of total deposits) were characterized with annual growth of 18.5 percent in December 2013 (16.6

percent in 2012). This trend of deposits growth reflects confidence in the banking system in the country.

Figure 19. Deposits growth trends, in millions of euro



Source: CBK (2014)

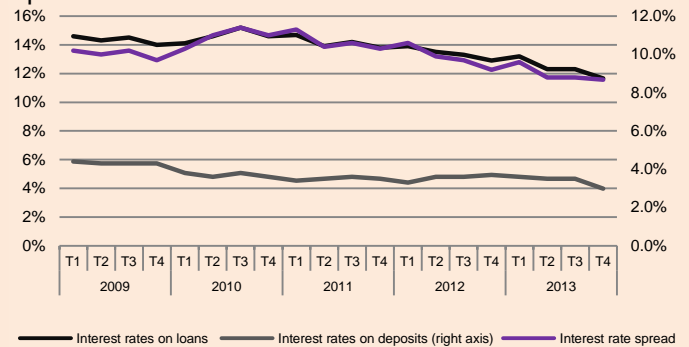
Quarterly trend developments show that deposits in Q4 2013 were characterized by an increase of 4.5 percent compared to Q3 2013. However, this increase, among other issues, reflects also the effect of seasonality (figure 19).

Interest rates

In Q4 2013, the effective interest rate on loans decreased to 11.6 percent compared with 12.9 percent in the same period of the previous year (figure 20).

Quarterly development trend of the average interest rates on loans to enterprises shows that the average interest rate on investment loans has marked a slight decline (from 12 percent in Q3 to 11.7 percent in Q4), while for other business loans the interest rate has remained relatively the same (figure 21).

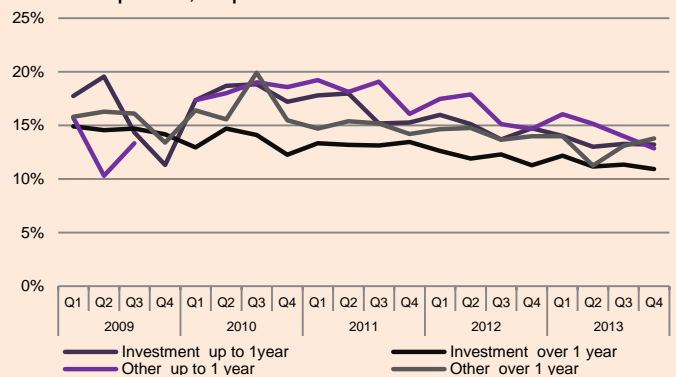
Figure 20. Quarterly average interest rates, in percent



Source: CBK (2014)

The decrease in interest rates on investment loans was driven by the decline in interest rates on loans with a maturity of one up to five years, while the growth rates for other business loans was a result of loan growth with a maturity over five years.

Figure 21. Quarterly average interest rates on loans to enterprises, in percent

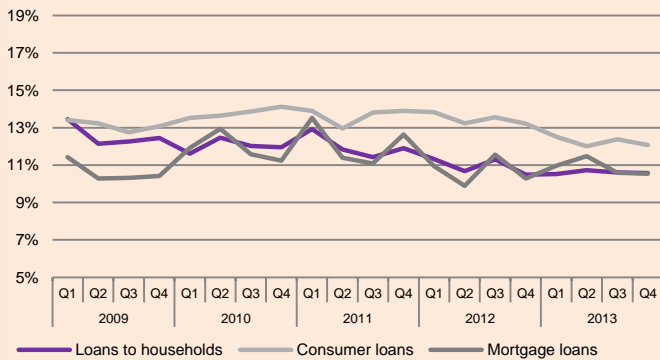


Source: CBQK (2014)

Regarding loans to households the quarterly trend development shows that the average interest rate on consumer loans is characterized by a slight decrease (12 percent in Q4 2013 compared with 13.2 percent in Q4 2012). Whereas the average interest rates on loans to house purchase have marked a slight increase (10.5

percent in Q4 2013 from 10.3 percent in Q4 2012) (figure 22).

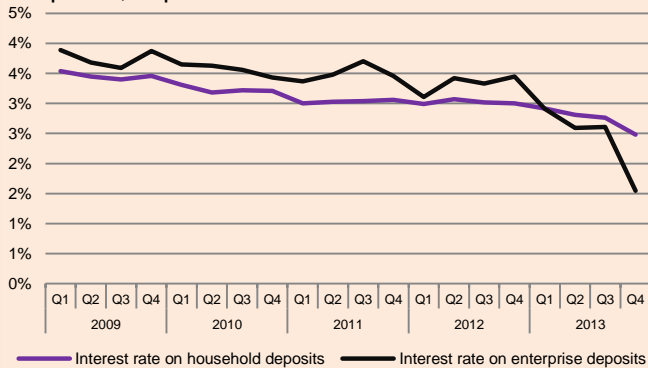
Figure 22. Quarterly average interest rates on loans to households, in percent



Burimi: BQK (2014)

The continuous decline of interest rates on loans issued by the banks is reflected in narrowing the gap of the interest rate spread on loans and deposits. In Q4 2013, the spread was reduced to 8.7 percent, compared with 9.2 percent in Q4 2012.

Figure 23. Quarterly average interest rates on deposits, in percent



Source: CBK (2014)

The average interest rate on deposits in Q4 2013 decreased to 2.98 percent from 3.73 percent in Q4 2012. This decrease is mainly attributed to the decrease of average interest rates on deposits of

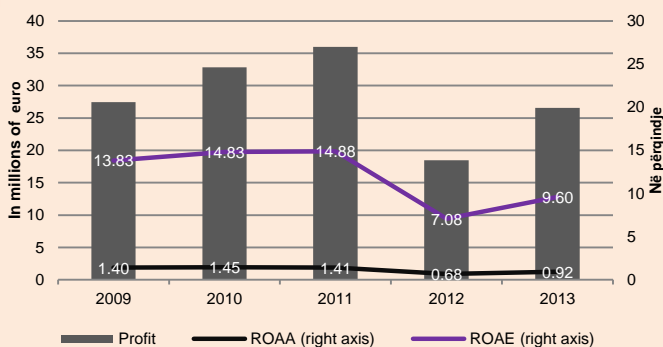
enterprises (more significant decline) and on household deposits as well.

In general, the effective interest rates on loans and deposits in Q4 2013 marked a decrease compared with the previous year. Nevertheless, the decline in the interest rates on loans was considerably more significant and is reflected in narrowing the gap of the interest rate spread on loans and deposits.

Net Foreign Assets

Net foreign assets (NFA) of commercial banks in Q4 2013 marked an annual growth of 16.8 percent. Claims on nonresidents marked an annual increase of 18 percent. The largest part of claims on nonresidents is comprised of securities, deposits and loans. Meanwhile, liabilities to nonresidents were characterized with an annual growth of 25.5 percent. Liabilities to external sector mainly consist of nonresident deposits and loans most of which commercial banks in Kosovo have borrowed from parent banks.

Figure 24. Profitability indicators



*Annualized profit of Q3
Source: CBK (2014)

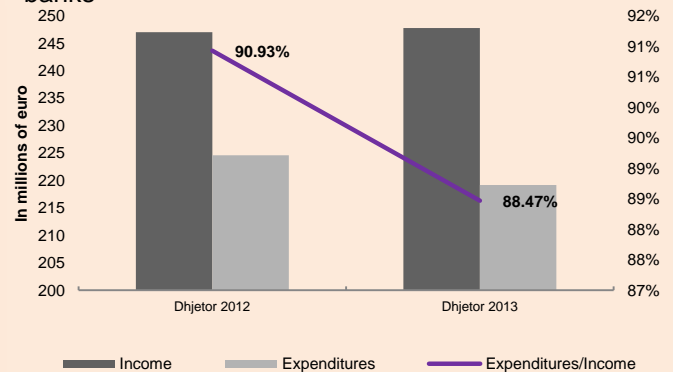
The banking sector was characterized by positive performance during Q4 2013, with the net profit amounting to euro 26.6 million, marking an annual increase of 44 percent compared to Q4 2012.

Regarding other performance indicators such as Return on Average Assets (ROAA) marked an improvement of 0.9 percent from 0.7 percent in Q4 2012. Return on Average Equity (ROE) in Q4 2013 improved to 9.6 percent from 7.1 percent in Q4 2012 (figure 24). These developments reflect a more

efficient management of capital and assets compared to the previous year.

During Q4 2013 the banking sector income has increased compared to the same period of the previous year, whereas total expenditures have marked a decline. These movements are reflected also in the efficiency indicator which measures the expenditure to income ratio of the banking sector. In Q4 2013, this indicator was 88.5 percent, which shows efficiency improvement compared to the previous year (90.9 percent in Q4 2012) (figure 25).

Figure 25. Income and expenditures of commercial banks



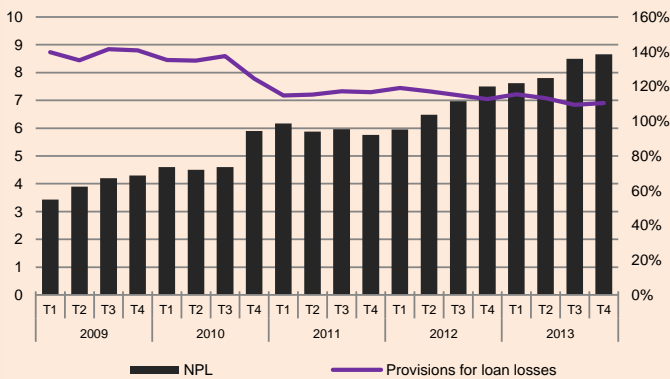
Source: CBK (2014)

The increase of income is primarily a result of increased noninterest income which marked an annual growth of 6.44 percent unlike the annual decline of 1.11 percent of interest income. While the main contributor to expenditures decline were noninterest expenses which marked a decline of 7.3 percent compared to Q4 2012. Within noninterest expenses the main movement was in expenses for provision which decreased for 9.6% compared to the previous year.

In Q4 2013 the banking sector income marked an increase while expenses declined compared to the previous year. These developments suggest more efficient management of banks compared to the previous year.

During Q4 2013 the share of nonperforming loans to total loans reached 8.7 percent compared with 7.5 percent in Q4 2012 (figure 26).

Figure 26. NPL and loan loss provisions

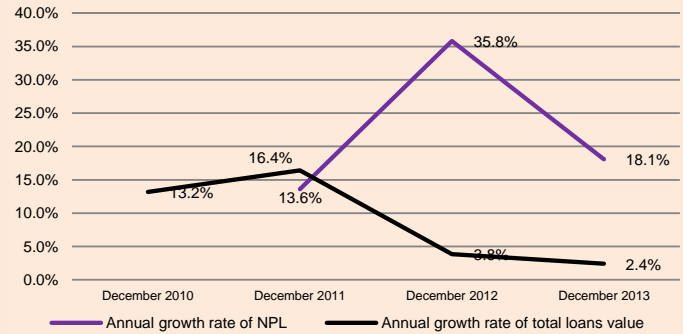


Source: CBK (2014)

Thus, this increase may reflect mainly the tightening of lending by commercial banks (figure 27).

Nonperforming loans continue to be well covered by provisions for potential loan losses. In Q4 2013, the coverage of nonperforming loans by provisions for loan losses was 110.5 percent (112.6 percent in 2012).

Figure 27. Annual growth rate of loans and nonperforming loans, in percent



Source: CBK (2014)

The banking sector has strengthened the level of capital during Q4 2013 where the Capital Adequacy Ratio (CAR) amounted to 16.7 percent from 14.2 percent in Q4 2012. Strengthening is mainly attributed to improvement of the performance of the banking sector due to increased profitability and to the growth of the shareholders capital as a result of the new regulatory requirements.

During Q4 2013 the banking sector continued to maintain high levels of liquidity as well. Loans to deposits ratio in Q4 2013 decreased to 73.7 percent from 77.3 percent in Q4 2012. Also the liquid assets to total assets ratio of the sector, as well as against short-term liabilities stands at high level. In December 2013, the core liquid assets accounted 25.2 percent of total assets (25.3% in 2012), while the liquid assets to total broad assets increased to 34.0 percent compared to 32.6 percent in the previous year. With the CBK regulation it is required that the minimum level of liquid assets to short term liabilities ratio to be 25 percent. In Q4 2013 for the banking sector this ratio was 43.4 percent, thus significantly exceeding the regulatory requirement.

Insurance Companies

In Q4 2013, total assets of the insurance sector in Kosovo amounted to euro 132 million (euro 119 million of non-life insurance and euro 13 million of life insurance), marking an annual growth of 1.41 percent. The value of premiums written during this period amounted to euro 79 million (euro 77 million of non-life and euro 2 million of life insurance), compared with Q4 2012, representing an annual growth of 11.8 percent. Total claims paid of the sector were characterized with an annual growth of 24 percent, which in Q4 2013 reached a value of euro 38.5 million (euro 31 million in Q4 2012). The insurance sector was characterized with losses of euro 337 thousand (non-life insurance loss of euro 624 thousand and a profit of life insurance of euro 287 thousand) in Q4 2013. However, this was a significantly lower loss compared to the loss of euro 3.1 million in Q4 2012.

Pension funds

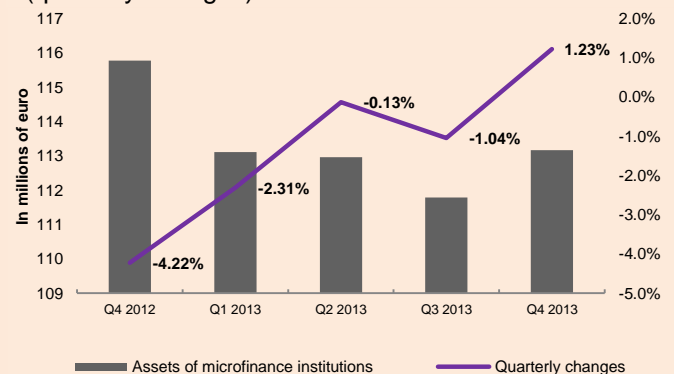
Kosovo Pension Saving Fund (KPSF) continued with the growth trend of assets and net return on investments also in the last quarter of 2013. Total pension assets under Trust management amounted to euro 913.1 million in December 2013, representing an annual growth of 23.4 percent. Gross return on investments in December 2013 amounted to euro 71 million, which in nominal value represents the highest returns realized during its operation. The share price in Q4 recorded an annual growth of 8.5 percent compared with 6.4 percent in Q3, reaching euro 1.21 at the end of 2013 (euro 1.17 in Q3 2012).

Microfinance Institutions

The nominal value of assets of microfinance institutions in December 2013 amounted to euro 113.2 million, contributing to an annual decline of 2.3 percent in Q4 compared with 7.5 percent decline in Q4 2012.

The annual decline in assets is mainly attributed to the slower lending activity. In December 2013, total MFI loans and leasing marked a decline of 4 percent. A more significant annual decline was marked by loans to businesses with 17.4 percent, followed by loans to households with 0.6 percent. Leasing, on the other hand, continued to increase in December 2013 recording an annual growth rate of 6 percent.

Figure 28. Assets of microfinance institutions (quarterly changes)



Source: CBK (2014)

The average effective interest rate on new loans issued by MFIs in 2013 dropped to 23.2 percent from 23.5 percent in 2012. The income of the sector declined as well. In December 2013, the sector realized income of euro 19.1 million, representing an annual decline of 8 percent compared to the previous year (euro 20.8 million in 2012). However, expenditures in 2013 marked an annual decline of 23

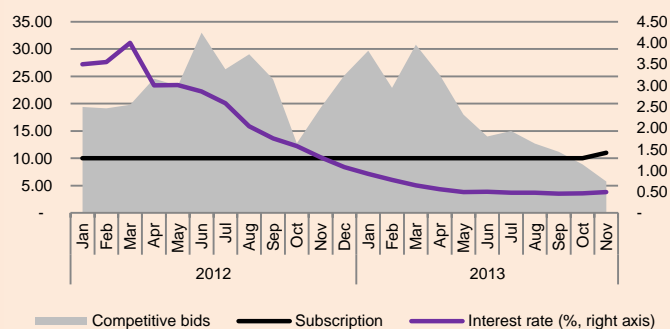
percent, thus having an impact on the sector to narrow the loss to euro 0.3 million compared with euro 4.5 million in Q4 2012.

During Q4 2013 Kosovo's Pension Saving Fund continued to mark a growth in assets and have positive net return on investments. While the insurance and microfinance sector managed to significantly reduce annual decline compared to the previous year.

Treasury bonds market

Until December 2013, the calendar published for securities was scheduled to have 12 auctions with maturities of 91 days, 7 auctions with maturity of 182 days and 2 auctions with maturity of 364 days.

Figure 29. Government securities auction, in millions of euro



Note: Auctions are for the amount offered for 91 days.

Source: CBK (2014)

However, as a result of low bidding on short-term instruments, the Treasury Department has changed the maturity of the auction held in December, from 91 days to 364 days. This is as a result of higher bidding that banks offer for instruments with longer maturity. Unlike the previous periods, in bidding by the primary actors some changes were observed where

three-month securities moved toward longer-term ones. Consequently, in the quarterly bidding was marked a substantial decline in October and November where primary actors covered 97 percent and 62 percent, respectively, of the demand of Treasury Department for securities.

Despite the relatively low bidding for quarterly securities, the interest rate remained low at 0.5 percent. On the other hand, the primary actors bidding for auctions with maturities of 182 days increased compared to the decline of 91-day securities. Accordingly, bidding has consistently exceeded the demand of the treasury, making the interest rate in November reach 1.2% for the amount of euro 20 million.

Also for the three auctions with one year period were offered high biddings while the interest rate has marked a decrease from 1.98 percent in October to 1.71 percent in December.

These developments within securities generally reflect favorable liquidity position of the banks and their orientation towards long-term instruments which have higher returns.

Fiscal Sector²

Budget revenues until November 2013 marked an annual growth of 0.9 percent, amounting to euro 1.20 billion. On the other hand, the total value of the budget expenditures reached euro 1.29 billion, which

² The Budget Balance presented in this report is consistent with the definition of the primary balance. Consequently, it does not include categories such as privatization income and borrowings from financial institutions. In addition, interest payment on behalf of borrowing is not included.

represents an annual increase of 4.1 percent. Consequently, the Kosovo's budget until November 2013 recorded a primary deficit of euro 87.6 million. The execution of the budget plan, until November 2013, reached about 82 percent of the plan for 2013, while the realization of budget revenues were higher than expenditures reaching about 86 percent of the plan for 2013.

Regarding the structure of budget revenues until November 2013, it was marked a better performance in the implementation of domestic revenues which recorded an annual growth of 9.9 percent, thus reaching euro 283.0 million. The increase of the domestic revenues is primarily as a result of increasing the efficiency of KTA in collecting the revenues and facilitating the procedures for declaring and paying the tax obligations but also of the growth of economic activity in the country. On the other hand, despite the decline of imports, the revenue collected at the border maintained the last year's level of euro 755.4 million.

Government expenditures on capital outlays until November 2013 marked a slight decline of 0.3 percent and were realized by 74 percent of the plan for 2013. Despite this decline, capital outlays represent the main category of the budget expenditures, with a share of 35.5 percent of total expenditures or euro 457.9 million. On the other hand, current expenditures have positively contributed to the growth of total consumption marking an annual increase of 7.0 percent until November 2013. Within the current expenditures, government expenditures on subsidies and transfers have recorded an annual

growth of 12.0 percent, reaching euro 280.9 million. Government expenditures on goods and services and on wages and salaries marked an increase of 10.0 and 2.2 percent, respectively, thus reaching euro 174.6 and euro 381.2 million, respectively.

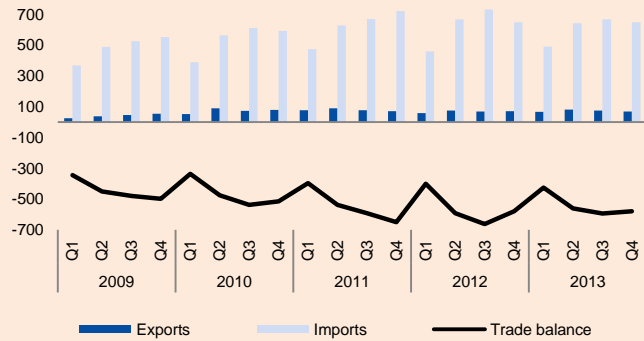
The decline in oil prices may reflect negatively on border tax revenues from custom tax and VAT as a result of the decline of nominal value in payments for this product. Consequently, in nominal terms, payments for this product could be lower. However, this will not affect revenues from excise as the quantity of imported oil is expected to be stable.

External Sector

The current account deficit of the balance of payments of Kosovo was characterized by continuous improvement during 2013. Only in Q3 2013 the deficit amounted at euro 96.5 million (32.8 percent improvement compared to Q3 2012).

This level of current account deficit is mainly caused by the trade deficit. However, the trade deficit in 2013 marked an improvement of 3.4 percent reaching an amount of euro 2.2 billion. The most significant improvement of the trade balance was recorded in Q3 2013 (10.5 percent).

Figure 30. Exports, imports and trade balance, in millions of euro

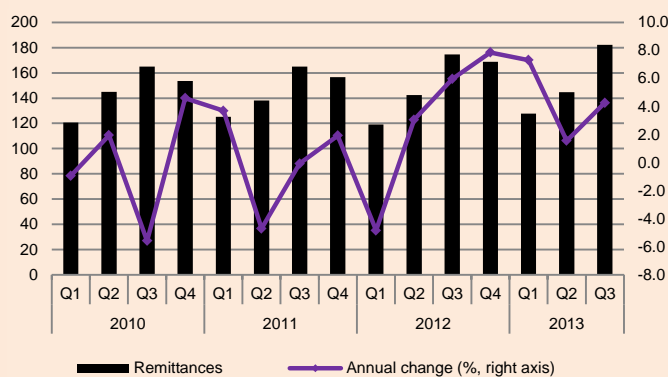


Source: KAS (2014)

Exports during 2013 recorded an annual growth of 6.5 percent amounting to euro 293.9 million, while imports in 2013 were characterized by a decline of 2.3 percent reaching euro 2.4 billion. Consequently, the rate of imports by exports coverage improved from 11.0 percent in 2012 to 12.0 percent in 2013 (figure30).

Among the components with the largest impact in narrowing the current account deficit remains the high level of remittances which until September 2013 reached a value of euro 454.6 million, or 4.2 percent more than in the same period of the previous year (figure 31).

Figure 31. Remittances, in millions of euro

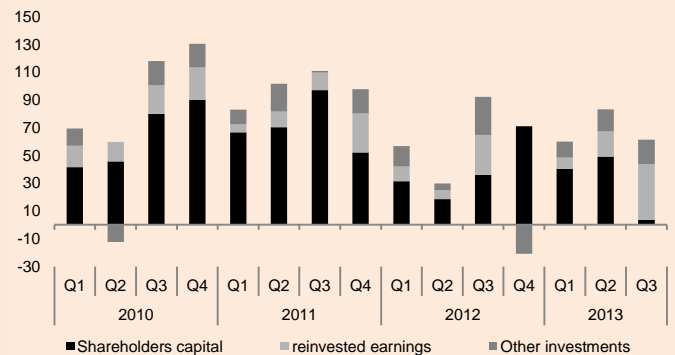


Source: CBK (2014)

Until September 2013, the value of FDI amounted to euro 204.9 million, representing an annual growth of 14.8 percent. This increase in FDI is mainly generated by reinvested earnings of companies operating in Kosovo, which increased by 46.1 percent, reaching at euro 66.9 million. Equity capital, which in the structure of FDI has the largest share, has marked an increase of 8.1 percent thus reaching the value of euro 93.0 million. Other investments, which are mostly inter-company loans, marked a decline of 4.3 percent and reached the value of euro 45.0 million (figure 32).

Regarding the sectors, until September 2013, FDI has been concentrated in the real estate sector (33.4 percent), construction (17.0 percent), transport and telecommunication (14.6 percent), financial services (10.9 percent), etc.

Figure 32. Structure of foreign direct investments by components, in millions of euro



Source: CBK (2014)

Countries which invested in Kosovo were Turkey with euro 72.8 million, followed by Switzerland with euro 31.6 million, Albania with euro 18.3 million, Germany with euro 13.4 million, etc.

The performance of the external sector of Kosovo's economy is expected to continue with the positive trends implying an increase in exports, remittances and foreign direct investments. This comes as a result of expectations for better performance of the real sector of the euro area economy and of the countries with which Kosovo has higher economic activity.

Suggested citation for this publication:

CBK (2014): Quarterly Economic Assessment No. 5 Q4 2013, Central Bank of the Republic of Kosovo, Prishtinë.

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Selected macroeconomic indicators

Description	December 2012	December 2013
Real sector 1/		
Prices (annual average)	2.5%	1.8%
Prices (year-on-year)	3.7%	0.5%
Fiscal sector 2/		
Revenues (in millions of euro) 3/	1,190.7	1,201.0
Expenditures (in millions of euro)	1,237.6	1,288.6
Banking sector (in millions of euro) 3/		
Assets of commercial banks	2,829.3	3,059.1
Loans	1,763.4	1,805.8
Deposits	2,279.1	2,449.0
Interest rates on loans	13.4	12.4
Interest rates on deposits	3.6	3.4
Interest rate spread	9.8	9.0
External sector, (in millions of euro) 3/	September 2012	September 2013
Balance of payments		
Current account	-285.3	-244.1
of which: imported goods	-1,746.0	-1,703.1
of which: remittances	436.2	454.6
Financial account	63.6	130.4
Foreign direct investments in Kosovo	178.4	204.9
Portfolio investments, net	-207.0	-227.9
Other investments, net	334.6	244.2
International investments position, net	236.6	428.9
Assets	3,634.0	4,074.3
Liabilities	3,397.3	3,645.4
External debt, total	1,536.9	1,548.2
External private debt	1,175.8	1,160.4
External public debt	361.2	387.8

Source:

1/ KAS (2013).

2/ MF (2013).

3/ CBK (2013).

