

Summary

Economic activity during Q1 2014 can be considered to have been characterized by relatively similar developments with the same period of the previous year. Despite the slight decline of exports and imports, the trade deficit was quite similar compared with Q1 2013. Conversely, public sector contribution to overall economic activity weakened during this period as a result of the reduced public expenditures. Financial sector continued to have an important role in financing the economic activity and maintain the overall macroeconomic stability of the country. Loans issued by the banking sector continued to grow during Q1 2014, marking an increase of 2.4 percent compared to Q1 2013.

Deposits continued to be a sustainable source of financing the lending activity, marking an annual growth of 7.1 percent which also implies a high level of confidence in the banking system. As a result, loans to deposits ratio in Q1 2014 was 75.1 percent compared to 78.5 percent in Q1 2013.

Financial intermediation activity of the banking sector has continued to be characterized by a decrease in interest rates on loans and deposits as well.

Despite the slight increase of the non-performing loans rate, the banking sector continues to have good quality loan portfolio. In Q1 2014, non-performing loans ratio to total loans reached 8.6 percent. The banking sector continues to have satisfactory position also as regards capitalization and liquidity level.

Inflationary pressures in Q1 2014 have significantly been softened. In Q1 2014, the inflation rate was 0.2 percent. Inflation rate in Kosovo continues to largely reflect the movement of import prices.

During 2014, according to the CBK projections the real economic growth rate will be 4 percent. This growth is expected to be driven by the private sector component through consumption and investments as well. The financial sector in 2014 is expected to increase its contribution to the country's economy by accelerating the pace of credit growth. Also, the external sector is expected to have positive implications for the local economy through expectations on further exports increase.

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

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ABBREVIATIONS:

| | |
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| 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 |

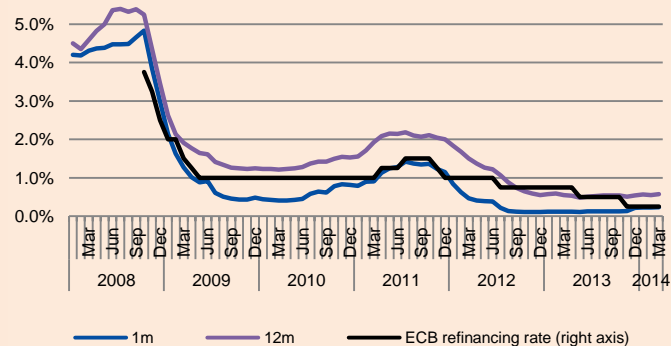
Global Economy

Economic activity has continued to strengthen on the global level during 2014, and the same trend is projected to continue during 2015. The global economic growth according to the latest IMF projections for 2014 is 3.6 percent. However, this growth can be affected by low inflation which continues to present a problem for the euro area countries. On the global level, inflation in 2014 is expected to be around 3.5 percent compared with 3.6 percent as it was in the previous year. Considering the current inflation projections, expectations indicate that developed countries will be the main contributors to the global growth, while developing countries, despite improvements, are facing slower growth compared with the previous years (MFI WOE, 2014). However, if the price declines accelerate, the growth for 2014 may weaken, especially in the developed countries.

The euro area is expected to mark a growth of 1.2 percent in 2014. According to the European Central Bank, current projections show that prices in 2014 will mark an increase of 1.5 percent. However, concerns about further declines continue to be present. Annual inflation rate in the euro area in Q1 2014 was 1.1 percent, which represents a lower rate than the target of the ECB. To avoid further price decreases, which can lead to deflation, ECB changed the base refinancing rate in November 2013, to the lowest historic level, dropping down to only 0.25 percent. The change of the refinancing rate is expected to ease bank lending and, consequently stimulate economic activity.

Interest rates on interbank lending were characterized by an increase of one-month rates to an average of 0.23 percent in Q1 2014 from 0.12 percent in Q1 2013. Conversely, average rates for 12-month period were characterized by a slight decline from an average of 0.57 in Q1 2013 to 0.56 percent in Q1 2014. The increase of interest rates of the interbank lending during this period to some extent is addressed to the reluctance of banks, from the major euro area countries, to lend to the peripheral countries.

Figure 1. EURIOBOR interbank lending rate and ECB refinancing rate



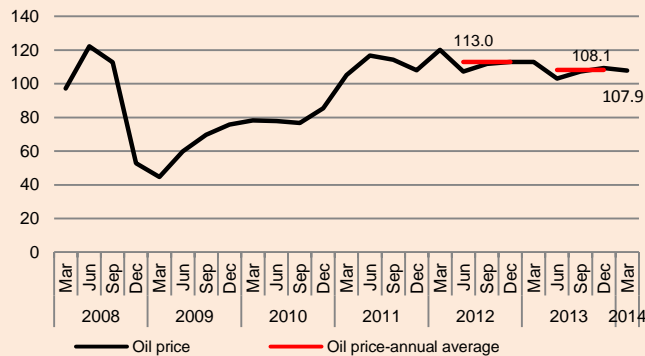
Source: Euribor (2014) and ECB (2014)

The region of Southeastern Europe (SEE) in general was characterized by a solid economic growth during 2013 and is expected to further strengthen in 2014. Projections for 2014 suggest an average increase of 2.4 percent for the SEE countries. Kosovo is expected to have the highest annual growth of GDP within the SEE countries with 4.0 percent for 2014. Economic growth rate is expected to be positive also in other countries, including Macedonia and Montenegro with a growth of around 2.5 and 2.7 percent, respectively, Albania and Bosnia and Herzegovina with around 2 percent, and Serbia with 1.3 percent. Whereas Croatia

is expected to be the only country in the region which is characterized by economic decline (0.6 percent).

Brent crude prices¹ in Q1 2014 marked a decrease of around 4.4 percent compared with Q1 2013.

Figure 2. Brent crude oil price, in USD



Source: Bloomberg (2014) and CBK calculations

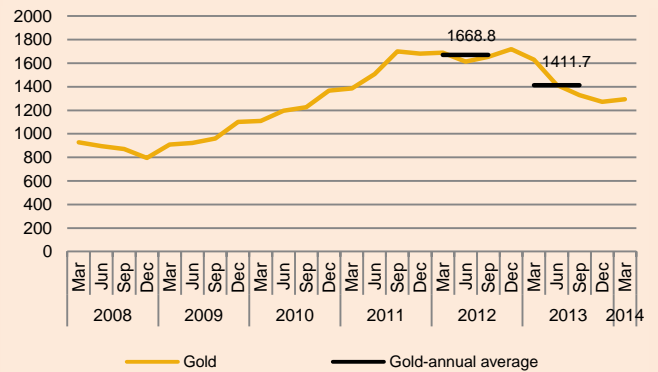
Current projections suggest that oil prices on the global level will continue to have a downward trend, mainly due to the shock absorption capacity of supply-side in the developed countries and the difficulties in reaching an agreement to reduce the supply of organization of Petroleum Exporting Countries (OPEC), (Bloomberg, 2014).

The global economic growth is expected to strengthen in 2014, mainly based on the growth of the developed countries. Nevertheless, the risk from deflation continued to be a concern especially for the euro area growth.

Prices of Gold during Q1 2014 have marked a significant decrease compared with Q1 2014, but in comparison to Q4 2013 the price has started to

recover. Projections suggest that the price of gold will continue to decline slightly in 2014 (IMF, 2014).

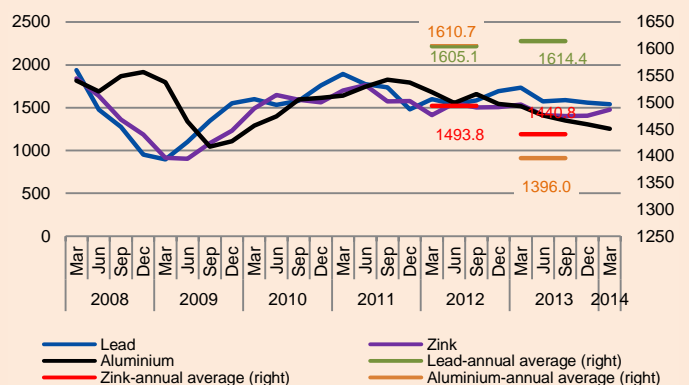
Figure 3. Gold price per ounce



Source: Bloomberg (2014) and CBK calculations

Other metals, except zinc, marked a significant decrease. In Q1 2014 compared with Q1 2013, aluminum prices marked an annual decline of 17.4 percent. These movements in aluminum prices are dictated mainly from the high supply on the global level. The price of lead has decreased by around 11.3 percent compared with the same period of the previous year (Figure 4).

Figure 4. Metal prices, in USD per ton



Source: Bloomberg (2014) and CBK calculations

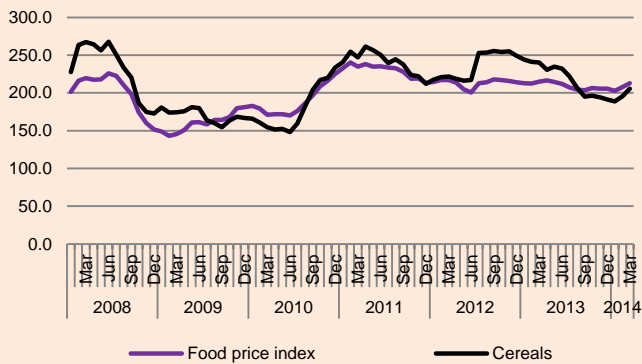
Zinc marked a decrease of 3.9 percent in Q1 2014 compared to Q1 2013, whilst compared with the previous quarter there was an increase of 4.8 percent,

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

which was affected by the lower supply during this quarter. The latest IMF projections suggest a decline in metal prices during 2014.

Food commodities during Q1 2014 were characterized by price decrease compared to Q1 2013. However, mainly due to uncertainties caused by climate conditions in manufacturing countries (especially the U.S.) primary commodities such as cereals and food prices were higher in Q1 2014 compared with Q4 2013. The decline of cereal prices during Q1 2014 compared to Q1 2013 was 18.6 percent, while the overall index of food commodities was lower by around 2.7 percent.

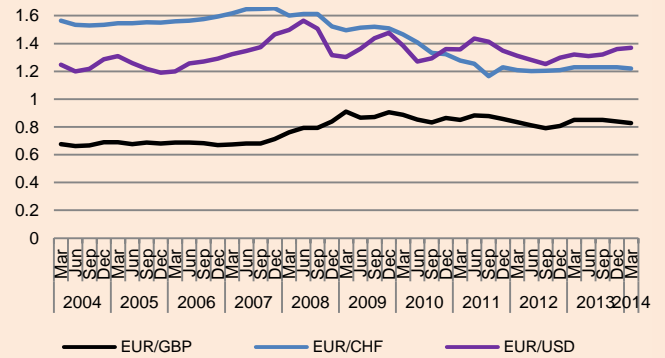
Figure 5. Food price index



Source: FAOUN (2014)

Exchange rate of euro against major currencies in Q1 2014 has marked slight movements. Euro marked a depreciation of 1.6 percent against the British pound; against the Swiss franc has marked a depreciation of 0.8 percent; while, against the U.S. dollar has marked an appreciation of 0.7 percent.

Figure 6. Euro exchange rate



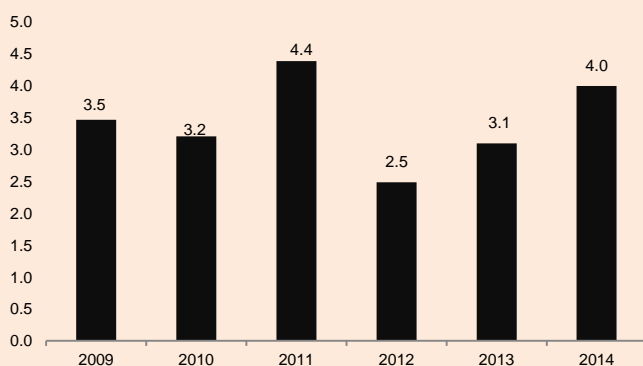
Source: CBK (2014)

Kosovo's Economy

Real Sector

Economic growth rate in 2013, according to the Central Bank of the Republic of Kosovo (CBK), is estimated to have been around 3.1 percent, which is 0.6 percentage points higher than the growth rate recorded in the previous year. In this context, it is worth mentioning the increase in exports and decline in imports which has had an impact in the trade deficit improvement. During 2013, economic activity in Kosovo was also supported by components such as remittances and foreign direct investments, which had the best performance as a result of economic growth in developed countries. Private sector activity was supported by loans of the banking sector which continued to mark positive growth rates. Also government expenditures marked an increase, but at a lower rate than in the previous year, mainly due to lower rate of budget execution.

Figure 7. Real GDP growth rate, in percent



Source: KAS and CBK for 2013 and 2014

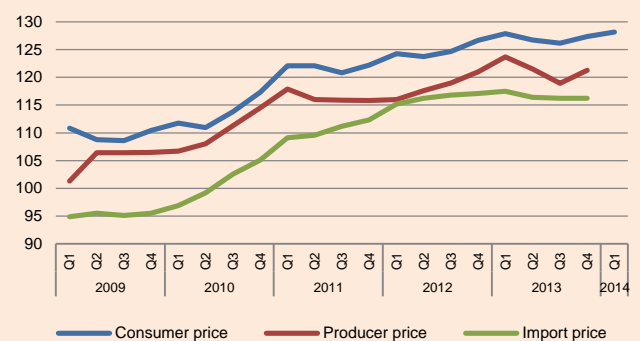
Also in 2014, projections indicate an economic growth activity with a real GDP growth rate of around 4.0 percent (Figure 7).

This increase of the economic activity is expected to be generated mainly by increased consumption and net exports.

Consumer Price Index (CPI) indicates that inflation in Kosovo was characterized by a decrease, in Q1 2014.

The annual inflation rate average in Q1 2014 was 0.2 percent compared with the rate of 2.9 percent in Q1 2013 (Figure 8). Regarding the components of the CPI, prices increase in Q1 2014 was marked mainly in communication with 5.5 percent, housing, water, electricity, gas and other fuels with 3.7 percent, restaurants and hotels with 1.3 percent. While the price decline was mainly marked in food and non-alcoholic beverages with -1.4 percent, alcoholic beverages and tobacco with -1.7 percent to -6.5 percent, footwear and clothing with -6.5 percent, transport with -11.3 percent.

Figure 8. Consumer, Producer and Import price indices

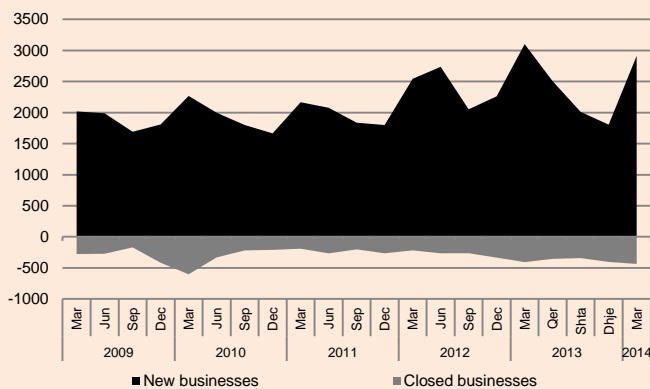


Source: KAS (2014)

Price movement in Kosovo is quite similar to price developments at the global level due to the high dependence of the economy on imports (Figure 8). Import Price Index (IPI) until December 2013 marked an average increase of 0.2 percent. Meanwhile, producer prices until December 2013 were characterized by an annual average growth rate of 2.5 percent, an increase that was driven by the increase of the prices of coal extraction, lignite, minerals and other extracting industries.

During Q1 2014, in Kosovo were registered 2,912 new businesses or 189 less than in Q1 2013, while 436 businesses were closed or 29 more than in Q1 2013 (Figure 9). Data on registered businesses continue to be encouraging as the closure of businesses still is low against new registered businesses (1.5 businesses closed out of 10 new registered businesses).

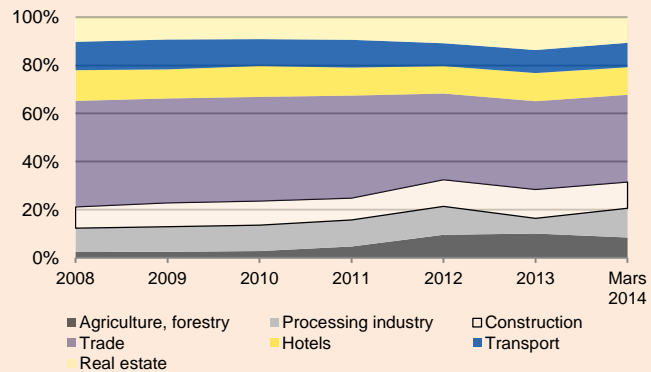
Figure 9. Business registry, quarterly flow data



Source: KAS (2014)

Trends regarding the structure of enterprises continued to be similar to the previous year, but this year has been characterized by an increased number of new businesses in trade, hotels and restaurants, and transport and telecommunications, whereas agriculture and construction marked a decline compared to Q1 2013 (Figure 10).

Figure 10. Structure of new enterprises



Source: KAS (2014)

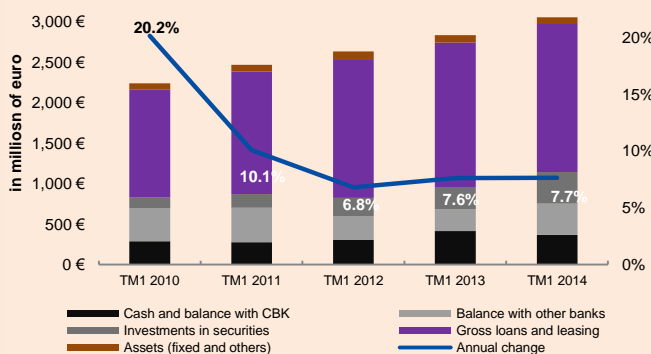
Financial System

In general, the financial system during Q1 2014 was characterized by increased activity. Total assets of the system, until March 2014, reached a value of euro 4.3 billion, marking an annual increase of 9.6 percent. The growth of total financial system assets mainly is attributed to the increase of pension fund assets and the assets of commercial banks, and also to the slight increase of insurance companies assets. Whereas a negative impact on the growth of total financial system assets was marked by microfinance institutions and financial auxiliaries which registered assets decline in Q1 2014.

Banking Sector

Kosovo's banking sector in Q1 2014 was characterized with growth. Assets of the banking sector reached the value of euro 3.05 billion, representing an annual increase of 7.7 percent (Figure 11).

Figure 11. Assets of commercial banks, annual changes



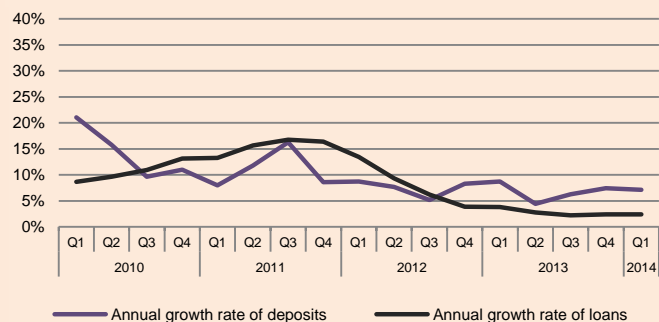
Source: CBK (2014)

The total assets growth of the banking sector mainly is attributed to the increase of investments in securities and the balance with commercial banks. Until March 2014, investments in securities marked an annual growth of 42.5 percent. This development among others may reflect the orientation of banks in diversifying the portfolio towards categories with lower risk and lower demand for loans. While the balance with commercial banks recorded an annual growth of 42.5 percent, mainly as a result of increased investments in the form of deposits in the foreign banks.

Loans

The slowdown of lending activity continued also in Q1 2014. At the end of March 2014, total loans amounted to euro 1.82 billion, representing an annual increase of 2.4 percent (3.8 percent in Q1 2013) (Figure 12).

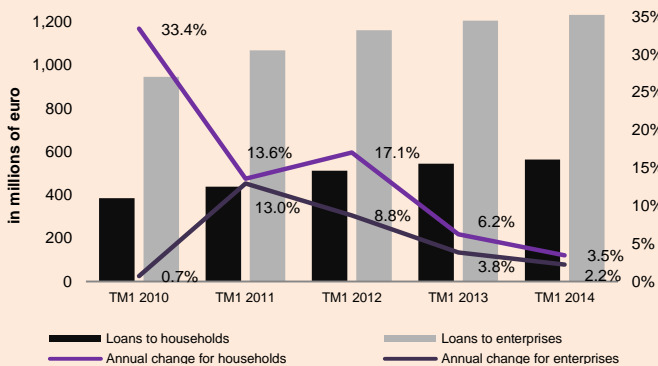
Figure 12. Growth trend of loans and deposits, in percent



Source: CBK (2014)

The largest amount of loans continues to be represented by loans issued to enterprises, which comprise 67.6 percent of total loans. The remainder is comprised of loans to households with a share of 30.9 percent and other loans (non-residents in non-euro etc.) with 1.4 percent. Loans to enterprises in Q1 2014 marked an annual growth of 2.2 percent (3.8 percent in Q1 2013), whilst loans to households were characterized with an annual growth of 3.5 percent (6.2 percent in Q1 2013). These developments show that the slowdown in credit growth is observed in enterprises and households as well.

Figure 13. Loans value and annual change



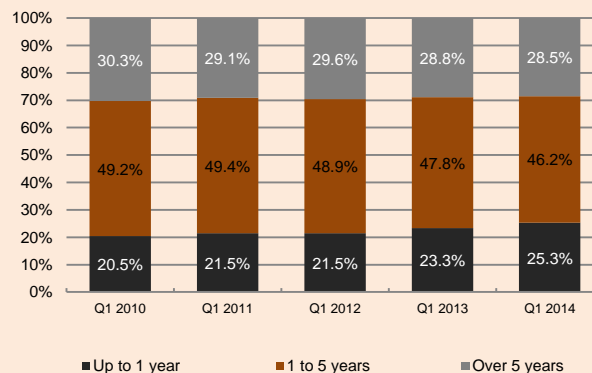
Source: CBK (2014)

Banking sector assets increase was mainly a result of a more significant growth of securities and the balance with the commercial banks, while crediting activity was characterized with slower growth compared to the previous year.

The structure of loans by maturity continues to be dominated by medium-term loans. However, in recent years there has been a slight narrowing of the share of loans with long maturity, and at the same time a

slight expansion of the share of loans with short-term maturity.

Figure 14. Structure of loans maturity

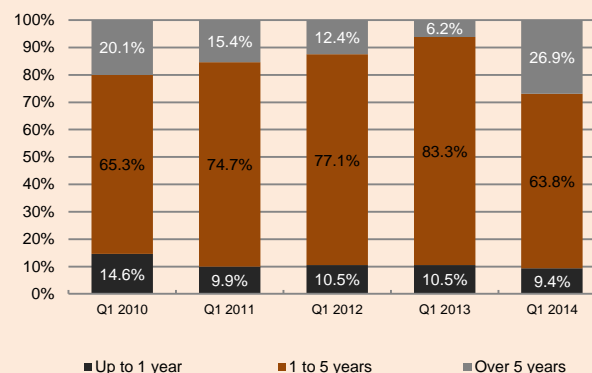


Source: CBK (2014)

However, if we analyze the structure of 'new loans' by maturity in recent years, in Q1 2014 loans with maturity of 'over five years' marked an expansion compared with continuous contraction during previous quarters.

Also, the new medium-term loans compared to the previous years have significantly reduced their share.

Figure 15. Structure of new loans maturity

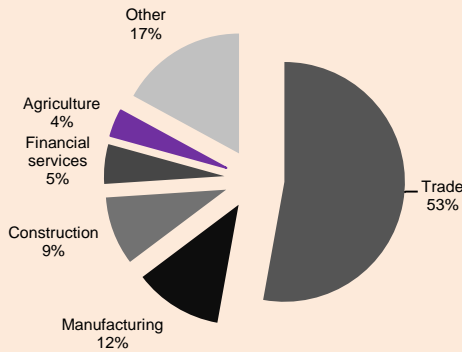


Source: CBK (2014)

According to specific economic sectors, the structure of loans to enterprises remained similar to the previous year. In Q1 2014, the majority of loans to enterprises

was intended for the trade sector (52.8 percent of total loans).

Figure 16. Loans by specific economic sectors, in percent (Q1 - 2014)



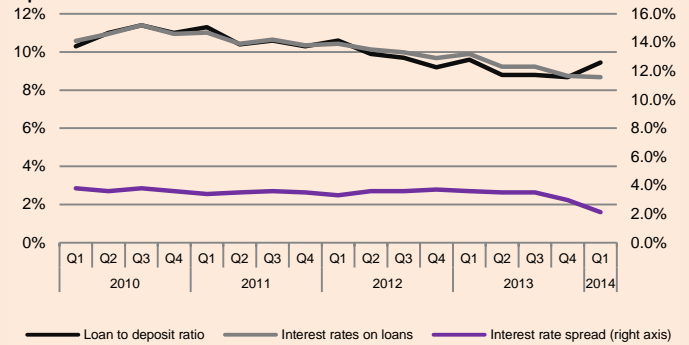
Source: CBK (2014)

Loans dedicated to the manufacturing sector and financial services (real estate, rental, etc.) were characterized by a slight increase of the share to total loans to enterprises. Manufacturing increased its share to 11.9 percent from 10.6 percent in Q1 2013, while other financial services increased their share to 5.3 percent from 4.5 percent as it was in Q1 2013. Slight decrease in the structure share of loans was marked by trade, construction and agricultural loans. Trade loans declined their share to total loans for enterprise for 0.3 percent, construction loans marked a decrease of 1.3 percent, whilst agricultural loans marked an annual decline of 0.1 percent.

Interest rate

During the first quarter of 2014, the effective interest rate on loans decreased to 11.6 percent compared to 13.2 percent as it was in the same period of the previous year (Figure 17).

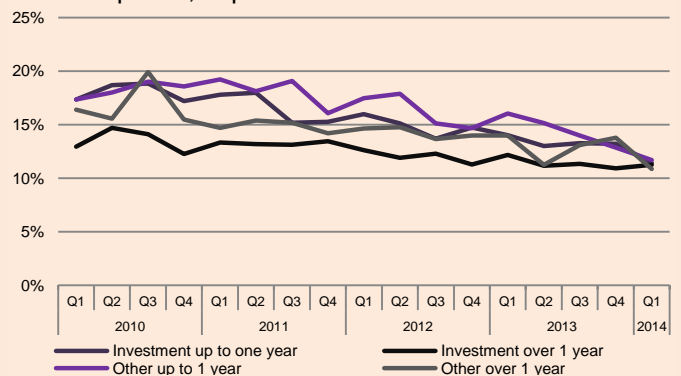
Figure 17. Quarterly average interest rates, in percent



Source: CBK (2014)

The trend of average interest rates on loans to enterprises shows that the average interest rate for investment loans has decreased (from 12.8. percent in Q1 2013 to 11.3 percent in Q1 2014). This decrease was driven primarily by the decline in interest rate on loans with maturity up to one year. Conversely, the average annual growth rate of interest rates on other business loans marked a more significant decline (from 14.7 percent in Q1 2013 to 11.1 percent in Q1 2014) (Figure 18).

Figure 18. Quarterly average interest rates on loans to enterprises, in percent

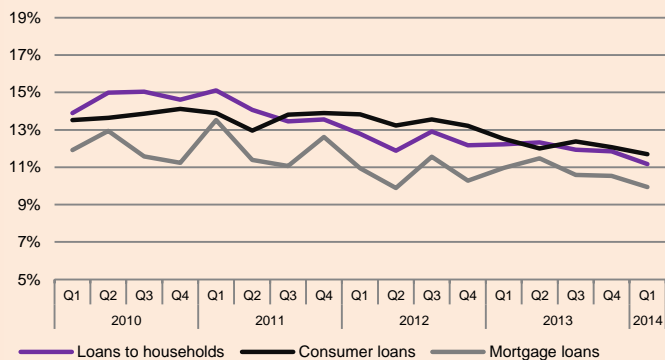


Source: CBK (2014)

The downward tendency is observed also in loans to households, where a more significant decrease is

observed on loans for house purchase (9.9 percent in Q1 2014 from 11 percent in Q1 2013) but a decrease was marked also in interest rates on consumer loans (11.7 percent in Q1 2014 compared with 12.5 percent in Q1 2013) (Figure 19).

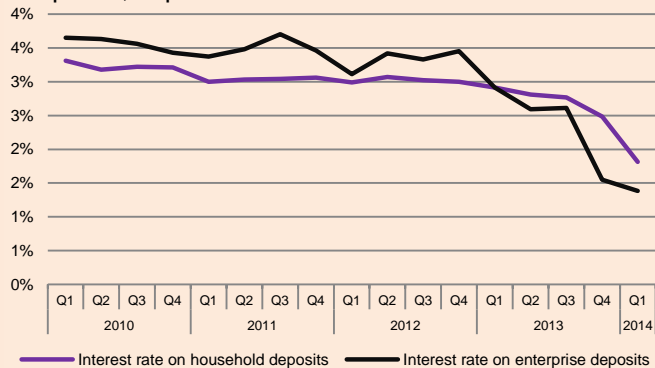
Figure 19. Quarterly average interest rates on loans to households, in percent



Source: CBK (2014)

The average interest rate on deposits in Q1 2014 decreased to 2.13 percent from 3.61 percent as it was in Q1 2013. This decrease is mainly attributed to continued growth of the sector liquidity level.

Figure 20. Quarterly average interest rates on deposits, in percent



Source: CBK (2014)

The continued decrease of interest rates on bank loans is reflected in the narrowing of the interest rate

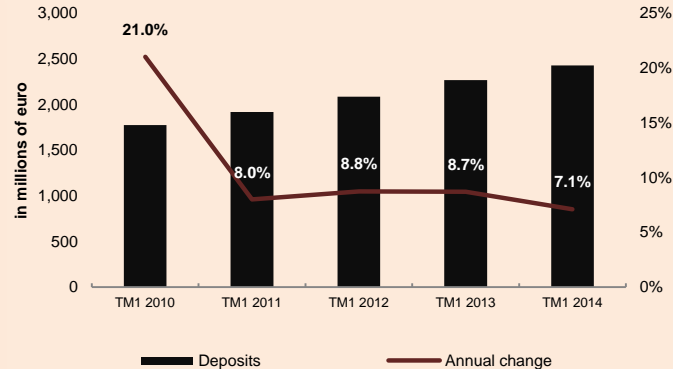
spread. In Q1 2014, this difference was reduced to 9.5 percent, compared to 9.6 percent in Q1 2013.

In general, the effective interest rates on loans and deposits, in Q1 2014, decreased compared to the previous year, thus narrowing the interest rate spread. However, the decline of the interest rate on deposits was more significant.

Deposits

In Q1 2014, total deposits in the banking sector reached the value of euro 2.43 billion, marking an annual increase of 7.1 percent (8.7 percent in Q1 2013) (Figure 21).

Figure 21. Annual change of deposits in commercial banks

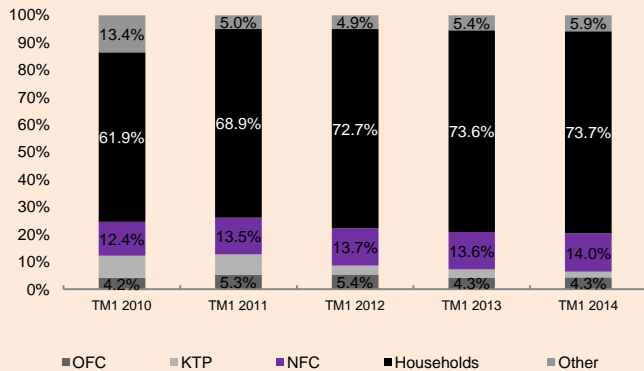


Source: CBK (2014)

The main contributor to the growth of deposits continued to be household deposits, which represent 73.7 percent of total deposits, and at the same time marked an annual increase of 7.2 percent. The remainder is comprised of enterprise deposits with a share of 20.4 percent, which marked an annual growth of 4.7 percent, and other deposits with a share of 5.9 percent marking an annual growth of 15.2 percent. The continued growth of deposits of

commercial banks reflects the stability of the banking sector.

Figure 22. Structure of deposits in commercial banks

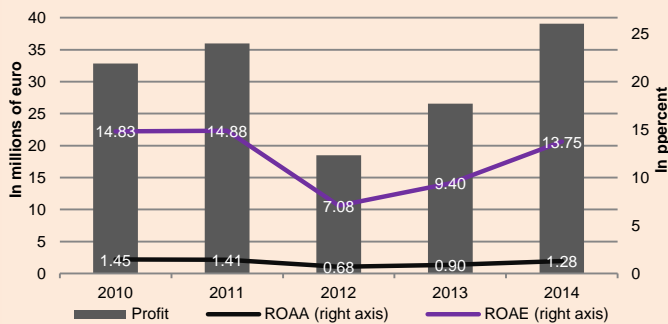


Source: CBK (2014)

Profitability and Performance

The banking sector was characterized by a positive performance during Q1 2014, with a net profit amounting to euro 9.8 million, recording an annual growth of 57.7 percent.

Figure 23. Profitability indicators



For 2014 profitability indicators were calculated based on the performance in Q1 2014

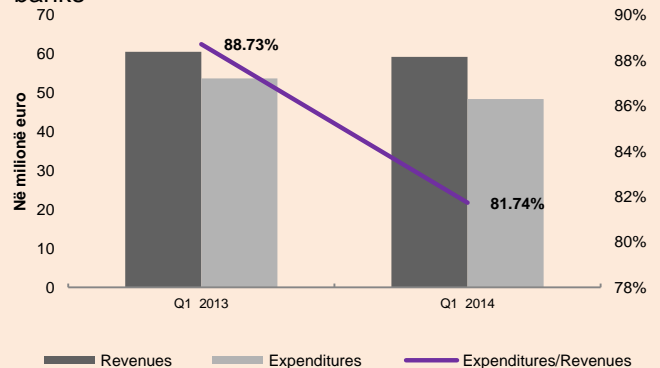
Source: CBK (2014)

The profit growth was also reflected in the improvement of profitability indicators such as Return on Average Assets (ROAA) and Return on Average Equity (ROAE). ROAA marked an improvement of 1.3 percent from 0.9 percent in Q1

2013, while ROAE improved to 13.8 percent from 9.4 percent as it was in Q1 2013 (Figure 23).²

During Q1 2014, revenues and expenditures of the banking sector decreased in comparison to the same period of the previous year. This decline was more significant on expenditures, which resulted in increased net banking profit despite the decline of revenues. Consequently, also the efficiency indicator, which measures the expenditures to revenues ratio was improved significantly by declining at 81.7 percent from 88.7 percent as it was in Q1 2013 (Figure 24).

Figure 24. Revenues and expenditures of commercial banks



Source: CBK (2014)

The decrease of 2.1 percent of the revenues resulted from the lower interest revenues which marked a decline of 2.6 percent. Non-interest revenues remained at the same level. The main contributor to the decline of 9.8 percent in expenditures, were non-interest expenditures which marked a decline of 18.4 percent. Within non-interest expenditures the main movement was recorded by expenditures for

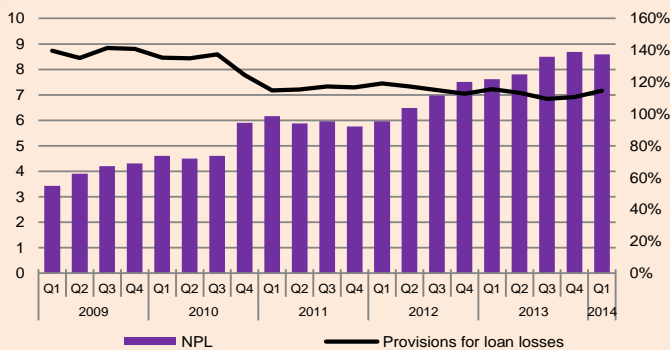
² ROAA and ROAE are annualized with the performance of the banking sector until March 2014.

provisions which marked a decrease of 29.3 percent, whereas general and administrative expenditures marked a decrease of 1.5 percent. Interest expenses in Q1 2014 marked an annual decline of 15.3 percent, thus giving high contribution to the decrease of total expenditures.

The more significant decline of interest expenditures in comparison to the decline of interest revenues resulted in net annual increase of interest income of the sector for 3.7 percent. The decrease in interest income, among others, may be a reflection of the reduction in loan interest rate compared to the previous years and the slowdown trend of credit growth.

In Q1 2014, the share of non-performing loans to total loans reached 8.6 percent compared to 7.6 percent in Q1 2013 (Figure 25). Despite the increase of non-performing loans with 1 percentage point, their upward trend is declining. The annual growth rate of the value of non-performing loans was 15.5 percent in Q1 2014, compared to 32.9 percent in Q1 2013 (Figure 26). The growth slowdown of non-performing loans among others, may be a result of the growth slowdown in lending.

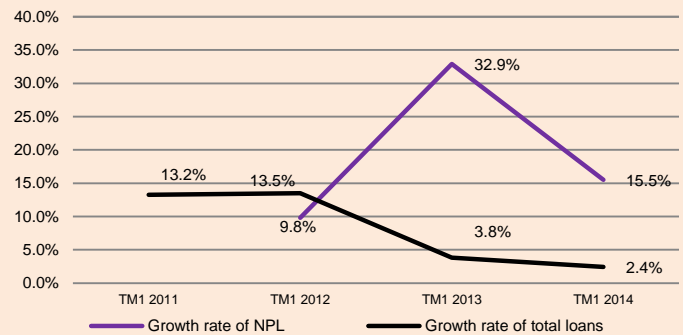
Figure 25. NPL and loan loss provisions



Burimi: BQK (2014)

Non-performing loans continue to be well covered by provisions for potential loan losses. In Q1 2014, provision coverage was 114.6 percent (115.5 percent in Q1 2013).

Figure 26. Annual growth rate of loans and nonperforming loans, in percent



Source: CBK (2014)

The banking sector has strengthened more the level of capitalization in Q1 2014, with Capital Adequacy Ratio (CAR) reaching 17.4 percent from 15.1 percent as it was in Q1 2013. Strengthened capitalization mainly was attributed to the improved performance of the banking sector due to the profit growth and increased capital by shareholders as a result of new requirements from the CBK.

Also, during Q1 2014 the banking sector continued to maintain high level of liquidity. The loan to deposit ratio in Q1 2014 decreased to 75.1 percent from 78.6 percent in Q1 2013, further strengthening liquidity position. Another important indicator of bank stability is the ratio between liquid assets to total short-term liabilities, which in March 2014 stood at 45.3 percent. With the CBK regulations is required a minimum ratio of liquid assets to short-term liabilities to be 25

percent. This is another indicator of the stability of the banking sector in the country.

Insurance companies

Total assets of the insurance sector in Q1 2014 recorded an annual growth of 3.4 percent, reaching the value of euro 132.2 million. Within total assets, non-life insurance include euro 118.9 million, while life insurance amount to euro 13.3 million.

The value of premiums written during this period amounted to euro 18.4 million, which compared to Q1 2013, represent a decrease of 12.9 percent. Premiums of non-life insurance generated euro 17.8 million, while life insurance generated euro 654 thousand. The total value of claims paid amounted to euro 7.0 million, of which euro 4.1 million were claims paid within the third party liabilities insurance.

In Q1 2014, the insurance sector recorded a loss in the amount of euro 369 thousand, compared with the same period of the previous year when was recorded a profit of euro 14.1 thousand. The main contributor to the loss of Q1 2014 mainly were non-life insurance, which doubled the loss compared to the previous year (euro 347.8 thousand loss in Q1 2014 compared with euro 142.3 thousand loss in Q1 2013) and life insurance which in Q1 2014 marked a loss of euros 21.2 thousand compared with the of profit euro 156.4 thousand in Q1 2013.

Pension funds

Assets of the pension sector reached a value of euro 954.2 million in Q1 2014, recording an annual growth of 19.2 percent. The structure of assets of the pension

sector is dominated by the Kosovo Pension Savings Fund (KPSF) which manages 99.4 percent of total assets, whilst the remainder of 0.6 percent is managed by the Slovenian-Kosovo Pension Fund (SKPF).

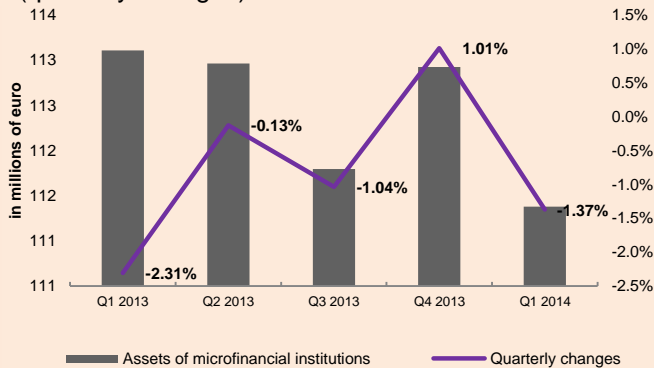
KPSF continued the growth trend of assets and net return on investments also in Q1 2014. The total assets of KPSF in Q1 2014 amounted to euro 948.7 million. Gross return of euro 10 million and new contributions in Q1 2014 reached a value of euro 30.2 million were the main contributors to the growth of assets under management of KPSF. On the last day of March 2014 the share price amounted to euro 1.22 (euro 1.16 in Q1 2013).

SKPF followed the positive trend of asset growth during Q1 2014 as well, which reached a value of euro 5.5 million from euro 5 million as they were in Q1 2013. The growth is mainly attributed to the return on investments, which amounted to euro 0.5 million (euro 0.3 million in Q1 2013). On the last day of March 2014 the share price of SKPF reached euro 140.8.

Microfinance institutions

Microfinance sector assets at the end of March 2014 marked an annual decline of 1.5 percent, reaching euro 111.4 million.

Figure 27. Assets of microfinancial institutions (quarterly changes)



Source: CBK (2014)

The decrease is mainly attributed to the slower crediting activity. In Q1 2014, total loans declined by 2 percent, which is significantly lower compared to the previous year (annual decline of 9.2 percent in Q1 2013). Loans to businesses declined by 6.7 percent, while loans to households marked a growth of 0.4 percent. On the other hand, leasing was characterized with an annual growth of 5.2 percent. Leasing designated for businesses marked a decrease of 5.1 percent, while those to households were characterized by an increase of 39.3 percent.

Average effective interest rate for loans issued by microfinance institutions during Q1 2014 reached 24 percent from 23.5 percent in the same period of the previous year.

In Q1 2014, the share of non-performing loans to total loans of microfinance institutions decreased to 5.8

percent compared with 6.6 percent in Q1 2013 (Figure 27). Non-performing loans continue to be well covered by provisions for possible loan losses, where in Q1 2014, the coverage with provisions was 106.3 percent (107.9 percent in Q1 2013).

In Q1 2014, the sector realized euro 4.6 million revenues, representing an annual decline of 12 percent (euro 5.3 million in Q1 2013). However, the annual expenditures marked a significant decline of 15.5 percent, making the sector narrow the losses to euro 0.2 million compared with euro 0.5 million in Q1 2013. Return on average assets (ROAA) and return on average equity (ROAE) deteriorated compared to the previous year. ROAA decreased to -0.9 percent from -0.3 percent in Q4 2013, while ROAE decreased to -3.2 percent from -1.1 percent as it was in Q4 2013.³

During Q1 2014, Kosovo Pension Saving Fund continued to mark assets growth and positive return of investments. In addition, the insurance sector marked an asset growth. Whereas, microfinance sector continued to decrease its financial activity but at a slower rate.

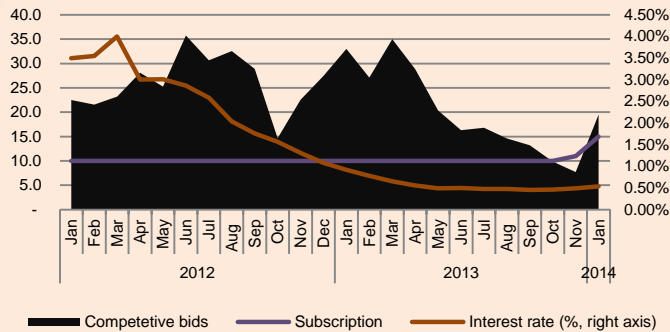
Treasury Bonds Market

Until March 2014, the calendar published for securities recorded a total of six auctions, of which 1 with maturity of 91 days, 3 auctions for 182 days maturity period and one auction for 364 days maturity. Also in March 2014, for the first time, was issued a two-year government bonds. Compared with the previous year, in bidding by the primary actors

³ ROAA and ROAE for 2014 are annualized with the performance of the sector until March 2014.

some changes were observed where short-term securities moved toward longer-term ones.

Figure 28. Government securities auctions, in millions of euro



Note: Auctions are for the amount offered for 91 days.
Source: CBK (2014)

Interest rate on 182-day securities declined to 1 percent in Q1 2014, compared to 1.25 percent as it was in the previous year. This decrease is mainly a result of continued excessive demand from the Treasury on long-term securities from the primary actors bidding. Despite the lowest bidding in the short-term securities also this category was characterized by declining interest rate (0.5 percent in Q1 2014 compared with 0.8 percent in the previous year). On the other hand, interest rates for securities with maturities of 364 days were 1.37 percent, while the interest rate on two-year government bonds was 2.4 percent.

Fiscal Sector

Net budget revenues in Q1 2014 recorded an annual growth of 0.9 percent, reaching euro 273.1 million. On the other hand, the value of total budget expenditures amounted to euro 254.7 million, which represents an annual decline of 9.0 percent. Consequently, the budget of Kosovo in Q1 2014 recorded a surplus of euro 18.4 million. Execution of planned expenditures

until March 2014 reached over 16 percent of the plan for 2014, while the realization of the budget revenues were higher than expenditures reaching about 19 percent of the plan for 2014.

Regarding the structure of the budget revenues, it was observed an increase in the revenues collected at the border recording an annual growth of 12.1 percent thus reaching the level of euro 165.5 million gross. Increased revenues collected at the border, to some extent, reflect the increase of controls at all border crossings and improvement of the evaluation quality of goods border clearance process. Apart from revenues collected at the border, also the domestic revenues marked a growth of 2.9 percent and reached the gross level of euro 75.0 million. This increase in domestic revenues is the result of KTA efficiency increase in revenues collection and the facilitation of the procedures for the declaration and payment of tax obligations but also the growth of economic activity in the country.

Regarding expenditures, all categories marked a decline in Q1 2014 compared with Q1 2013, with the exception of wages and salaries which marked an increase from euro 69.6 million to euro 105.3 million in Q1 2014 (41.2 percent of total expenditures compared to 24.8 percent total expenditures in Q1 2013). Government expenditures on goods and services marked a decline of 14 percent amounting to euro 32.6 million. Subsidies and transfers marked a decline of 11 percent thus reaching a value of euro 70.8 million. Government expenditures recorded a value of euro 39.8 million on capital investments in Q1 2014 compared with euro 87.9 million in Q1 2013.

A significant decline of capital investment category is addressed to the completion of the highway project, a component which in Q1 2013 was being implemented.

External Sector

Balance of payments position in Kosovo marked an improvement in 2013, mainly as a result of the continuous decline of the current account deficit. In 2013, current account marked a deficit of euro 339.4 million, representing an annual decline of 10.7 percent. The current account deficit declined to the lowest level recorded in the recent years reaching around 6.6 percent of GDP in 2013 (7.7 percent of GDP in 2012). Current account deficit is mainly attributed to the trade deficit.

In Q1 2014 the trade deficit marked a growth of 0.2 percent, reaching euro 425 million compared to Q1 2013. This increase was due to the faster decline of the value of exports compared to the total value of imports.

Figure 29. Exports, imports and trade balance, in millions of euro



Source: KAS (2014)

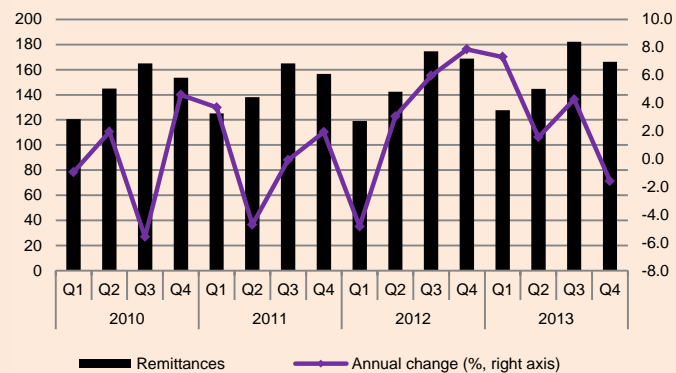
The value of total exports in Q1 2014 was characterized by a decline of 2.3 percent, dropping to euro 65.7 million. The decline of exports in Q1 2014

mainly is attributed to the decline of metal prices in international markets.

At the same period, imports were characterized with a decline of 0.1 percent, reaching the value of euro 490.7 million. As a result of the decline of exports value in Q1 2014, the coverage rate of imports with exports was decreased from 13.7 percent in Q1 2013 to 13.4 percent in Q1 2014.

One of the most important categories within the Kosovo's balance of payments which continues to contribute in narrowing the current account deficit are remittances. Until December 2013, remittances reached the value of euro 620.8 million, marking an annual growth of 2.6 percent (Figure 29).

Figure 30. Remittances, in millions of euro

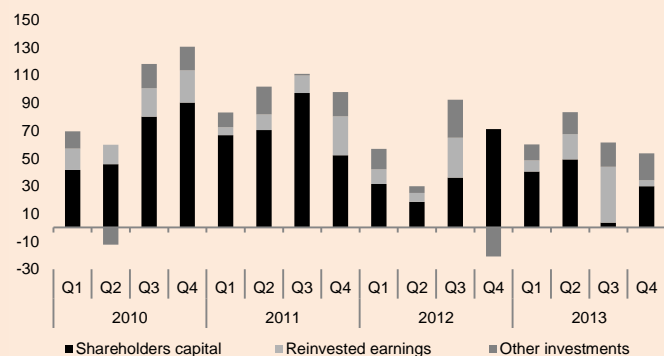


Source: CBK (2014)

Another important component within the balance of payments is the category of Foreign Direct Investment (FDI). The value of total FDI amounted to euro 258.9 million in December 2013, representing an annual growth of 13.2 percent. This increase of FDI is mainly generated by reinvested profits of companies operating in Kosovo, which marked an increase of 56.9 percent, reaching a value of euro 71.6 million.

With an annual increase were also characterized other investments, which are mainly belong to inter-company loans. Other investments within FDI reached a value of euro 90.7 million at the end of 2013 from euro 26.4 million in the same period of the previous year. Share holder capital, which has the largest share in FDI structure, is reduced to euro 96.6 million in 2013, from euro 157.1 million in 2012 (Figure 31).

Figure 31. Structure of foreign direct investments by components, in millions of euro



Source: CBK (2014)

In 2013, the structure of FDI was mainly concentrated in the real estate sector (35.4 percent), construction (15.1 percent), telecommunication and transport (14.2 percent) and financial services sector (11.0 percent). Regarding the origin of FDI in Kosovo, countries that have realized the largest investments in Kosovo remain Turkey with euro 86.8 million, followed by Switzerland with euro 41.7 million, Germany with euro 21.7 million and Albania with euro 20.5 million.

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CBK (2014): Quarterly Economic Assessment No. 6 Q1 2014, Central Bank of the Republic of Kosovo, Prishtina

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Selected macroeconomic indicators

| Description | March 2013 | March 2014 |
|---|------------|------------|
| Real sector 1/ | | |
| PBB (in millions of euro) | - | - |
| Prices (annual average) | 2.8% | 1.1% |
| Prices (year-on-year) | 2.6% | 0.3% |
| Fiscal sector 2/ | | |
| Revenues (in millions of euro) 3/ | 292.6 | 273.1 |
| Expenditures (in millions of euro) | 280.0 | 254.7 |
| Balance, as percentage to GDP | - | - |
| Financial sector (in millions of euro) 3/ | | |
| Financial corporations assets | 3,884.1 | 4,258.9 |
| of which: Banks | 2,835.7 | 3,053.3 |
| Loans | 1,782.7 | 1,825.9 |
| Deposits | 2,269.4 | 2,430.8 |
| Interest rates on loans | 12.6 | 11.2 |
| Interest rates on deposits | 3.5 | 1.7 |
| Interest rate spread | 9.1 | 9.5 |
| External sector, (in millions of euro) 3/ | | |
| Balance of payments | | |
| Current account | -380.2 | -339.4 |
| of which: remittances | 605.1 | 620.8 |
| Financial account | 130.3 | 133.4 |
| Foreign direct investments in Kosovo | 213.3 | 241.0 |
| Portfolio investments, net | -184.9 | -133.8 |
| Other investments, net | 369.2 | 5.1 |
| International investments position, net | 248.8 | 387.0 |
| Assets | 3,705.1 | 4,083.4 |
| Liabilities | 3,456.3 | 3,696.4 |
| External debt, total | 1,517.3 | 1,594.3 |
| External private debt | 1,115.9 | 1,210.4 |
| External public debt | 401.4 | 383.9 |

Source:

1/ KAS (2014).

2/ MF (2014).

3/ CBK (2014).

