

Summary

CBK forecasts for 2016 suggest an economic growth rate of 3.7 percent. This increase is expected to be generated by domestic demand, while net exports are expected to continue to have negative contribution to the GDP growth rate. In Q1 2016 Kosovo's economy was characterized with an inflation of 0.1 percent (-0.4 percent in Q1 2015).

Fiscal sector during Q1 2016 was characterized with an increase of budget revenues and expenditures. A higher increase was recorded in border revenues, while regarding the budget expenditures, almost all categories were characterized with an increase. Kosovo's budget recorded a budgetary balance of around EUR -2.8 million (EUR -5.1 million in Q1 2015).

External sector was characterized with a deficit growth of capital and current account, mainly as a consequence of the deficit growth in goods account and due to the decline marked in the positive balance of primary and secondary income account. In the same period, the positive balance of services account was characterized with an increase. The increase of the deficit of goods during Q1 2016 primarily resulted from the decline of exports of goods value for 5.4 percent and at the same time, the increase of goods imported which marked a growth of 12.5 percent. Two important sources of economic growth, represented by remittances and FDI, were characterized with a decline in Q1 2016. Remittances marked an annual decline of 2.2 percent, while FDI

were characterized with a decline of 12.9 percent.

Banking sector loans accelerated their growth pace, marking an annual growth rate of 8.8 percent in March 2016 (4.3 percent in March 2015). Loans of the banking sector marked a growth for almost all the economic sectors. Also, Q1 2016 was characterized with a further decline of interest rates on loans, which is expected to have an important role in domestic demand in the country. Deposits marked an annual growth of 3.5 percent (5.9 percent in March 2015).

Banking sector continued to improve the quality of loan portfolio. The Non-Performing Loans (NPL) rate decreased to 5.9 percent (8.1 percent in March 2015). The level of capitalization of the banking sector marked a further strength, while also the liquidity position stood at a satisfactory level.

With an activity acceleration and financial performance improvement were characterized also other sectors of the financial system, including microfinance sector, insurance sector and pension sector.

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

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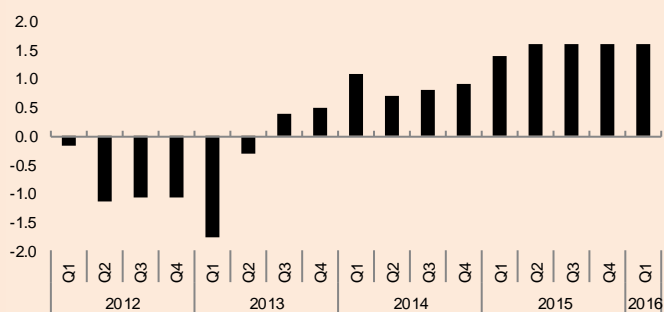
ABBREVIATIONS:

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
WEO	World Economic Outlook

Euro area and Western Balkans

During Q1 2016, euro area was characterized with an accelerated dynamic of the economic activity. The weakening of external demand, as a consequence of the slowdown of the economic activity in the emerging economies (China, Russia and Brazil), and the increase of geopolitical tensions and refugees number, was neutralized by further strengthening of the domestic demand in euro area, especially of the private consumption. Also the further oil price decline in Q1 2016 was reflected to the increase of consumers expenditures. Compared to the same period of the previous year, in Q1 2016, the euro area economy marked an increase of 1.7 percent. While, compared to the previous quarter, the real economic growth rate was 0.6 percent (figure 1). The growth of the economic activity in Q1 2016 mainly was attributed to the higher increase of GDP in the central economies of euro area, especially in Germany, France and Spain (table 1).

Figure 1. Annual GDP growth rate in euro area



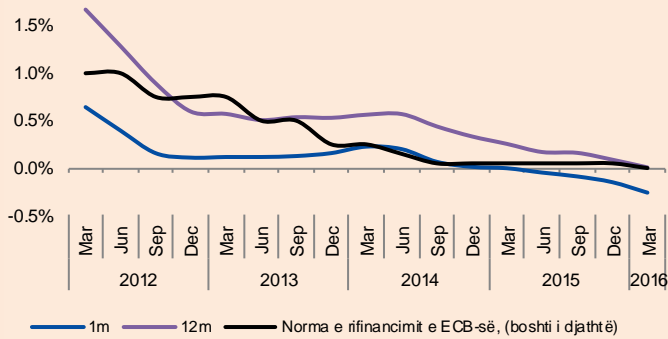
Source: Eurostat (2016)

In Q1 2016, euro area was characterized with an average inflation rate of 0.0 percent, while Eurostat estimates for April show a further decline of inflation

rate standing at -0.2 percent. A weaker activity of the global economy, and the low prices of the main goods in international markets are expected to reflect at low inflationary pressures during 2016. According to the ECB, the average inflation rate in 2016 is expected to be around 0.1 percent.

In order to avoid the potential deflation and to bring back the targeted inflation of 2 percent, hence stimulating an economic dynamic growth of euro area, in March 2016 the ECB launched a new package of measurements within the quantity easing program. More specifically, the new stimulating package of ECB includes the expansion of the easing program through the increase of the volume of securities purchase from EUR 60 billion to EUR 80 billion in a month. Also, besides the purchase of debt government, the new scheme is expected to include also the purchase of private companies bonds, thus increasing the investments range also towards the private share markets. Moreover, the ECB has decided to further reduce the interest rates on deposits at -0.4 percent from -0.3 percent, implying that banks would be obliged to pay a higher cost for their deposits at the ECB. This measurement aims at discouraging private banks of euro area to deposit their funds at the ECB, thus stimulating them to increase lending to businesses and households. Finally, the ECB has decreased base interest rate, namely interest rate on key refinancing operations to zero percent from 0.05 percent as it was since September 2014.

Figure 2. EURIBOR interbank lending rate and ECB refinancing rate



Source: Euribor (2016) and ECB (2016)

The launch of comprehensive stimulus program since March 2015 and the further expansion in March 2016 has had an impact on the decline of 1-month and 12-month interest rates of interbank Euribor lending. In Q1 2016 1-month Euribor rates have marked an average decline of -0.26 percent from -0.15 percent, in Q4 2015. Conversely, the 12-month average rates marked an average decline of 0.01 percent in Q1 2016 from an average of 0.09 percent in Q4 2015 (figure 2).

Performance of the economic activity in the Western Balkans, during Q1 2016, is estimated to have marked an improvement. Strengthening of the external demand as a result of the euro area recovery, the increase of the private consumption and the increase of investments have supported the economic activity in Western Balkan countries. According to the IMF, Western Balkan countries are expected to mark a GDP average growth rate of 3.3 percent in 2016. Montenegro, Macedonia and Albania are expected to be characterized with a higher economic growth rate (4.7, 3.6 and 3.4 percent, respectively), while Serbia is

expected to mark a lower economic growth rate in 2016 (1.8 percent) (table 1).

Table 1. Annual real GDP growth rate

Description	2013	2014	2015	2016
Austria	0.3	0.4	0.9	1.2
France	0.7	0.2	1.1	1.1
Germany	0.4	1.6	1.5	1.5
Greece	-3.2	0.7	-0.2	-0.6
Italy	-1.7	-0.3	0.8	1.0
Spain	-1.7	1.4	3.2	2.6
Bosnia and Herzegovina	2.4	1.1	2.8	3.0
Montenegro	3.5	1.8	4.1	4.7
Macedonia	2.9	3.5	3.7	3.6
Serbia	2.6	-1.8	0.7	1.8
Albania	1.1	2.0	2.6	3.4

Source: WEO (2016)

Similarly to the euro area, the Western Balkan countries, in the first months of 2016, were characterized with weak inflationary pressures, driven mainly by goods low prices in international markets. The IMF has estimated that the average inflation rate in 2016 to be 0.8 percent. Albania is expected to be characterized with the highest inflation rate of 1.9 percent, while Bosnia and Herzegovina is expected to have a deflation of 0.7 percent.

In Q1 2016 the EUR exchange rate against the US dollar was depreciated with an average of 2.2 percent, while it appreciated against the Swiss franc and British pound with 2.2 and 3.6 percent, respectively. At the same time, EUR depreciated against Albanian lek and Croatian kuna with 1.4 and 0.8 percent, while it appreciated against the Macedonian denar and Serbian dinar with 0.2 and 1.1 percent, respectively.

Kosovo's Economy

Real sector

Kosovo's economy in 2016 is expected to mark a growth of 3.7 percent, representing an accelerated growth pace compared to the previous year. This increase is expected to be generated by domestic demand, while net exports are expected to continue to have negative contribution to the GDP growth rate.

The data until March 2016 suggest a consumption growth, which was mainly generated by the increase of consumer loans, current expenditures of the government, etc. The consumption increase can also be expressed through the considerable increase of consumer goods, which in Q1 2016 marked a growth of 13.1 percent. On the other hand, remittances, as an important component in financing the consumption, was characterized with a weak performance compared to the same period of the previous year.

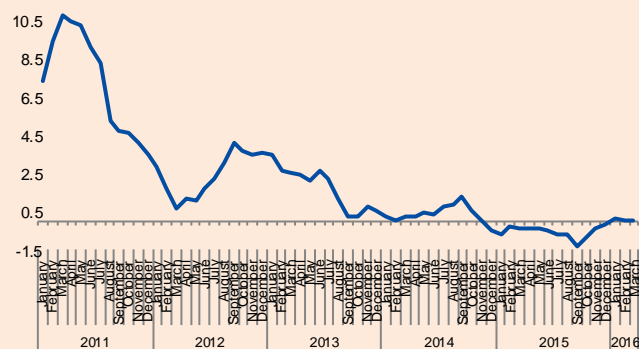
Regarding investments, public investments until March 2016, were characterized with a considerable increase (60.1 percent). Also, the new investment loans were characterized with an increase (13.0 percent) while Foreign Direct Investments (FDI) marked a decline.

With a weaker performance, in Q1 2016, were characterized also Kosovo's exports, while imports marked a considerable increase (12.5 percent) and had an impact in the deterioration of the current account.

Prices

The general price level in Kosovo, expressed through the Consumer Price Index (CPI), in Q1 2016, was characterized with an inflation of 0.1 percent, compared to the deflation of 0.4 percent, in Q1 2015 (figure 3).

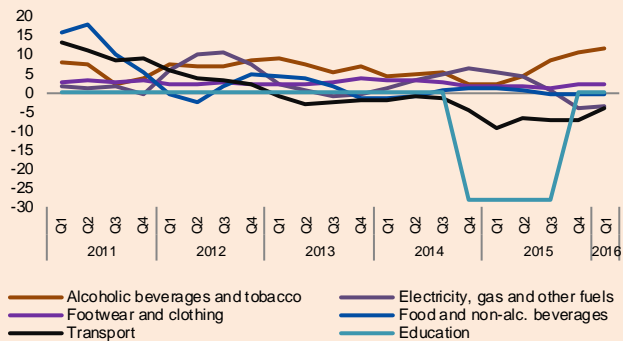
Figure 3. Inflation rate, annual change in percent



Source: KAS (2016)

This slight increase of prices was influenced mainly by the increase of alcoholic beverages and tobacco for 11.5 percent, the increase of health service prices with 3.4 percent, and the increase of footwear and clothing and furnishing which marked an increase of 2.4 percent and 2.0 percent, respectively. Conversely, a price decline was marked in transport services, which marked a decrease of 4.2 percent, followed by the category of electricity, gas and other fuels which marked a decline of 3.5 percent. With a decline of 0.3 percent were characterized food prices which represent 33.9 percent of the Kosovar consumer basket (figure 4).

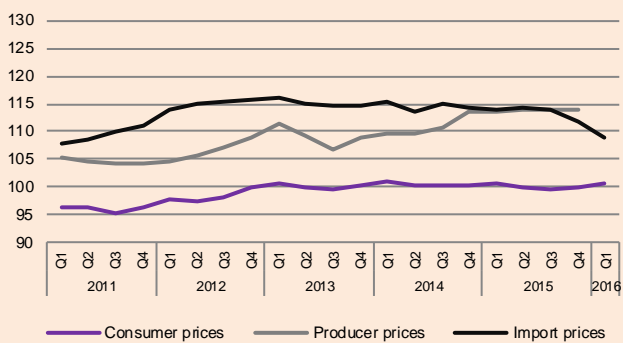
Figure 4. Price movements of main components, annual change in percent



Source: KAS (2016)

Since the Kosovo's economy is small and open to other economies, the price fluctuations in Kosovo is influenced by the price movements in international markets. This is confirmed also by the similar behavior of the import price index and the consumer price index in Kosovo (figure 5).

Figure 5. Consumer, producer and import price indices

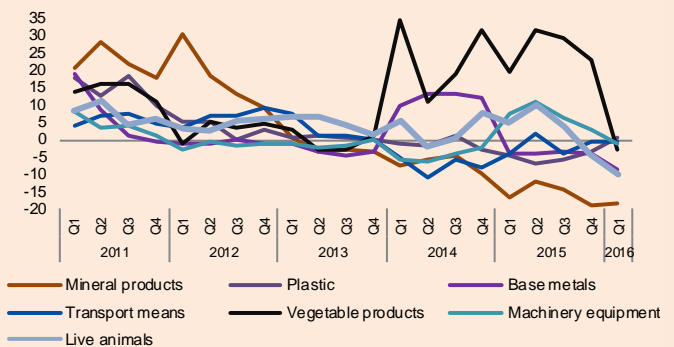


Source: KAS (2016)

Import prices¹ in 2015 against the previous year marked an average decline of 1.0 percent. The prices of mineral products (mainly oil and its derivatives), which represent the main category of import price index, marked the highest decline (15.6 percent),

followed by prices of plastics (5.2 percent), base metals (4.0 percent) and transport means (1.7 percent). On the other hand, within imported goods, the prices of vegetable products and edible oils marked the highest price increase (25.6 percent and 8.2 percent), followed by machinery equipment (6.9 percent) (figure 6).

Figure 6. Import price movements, annual change in percent

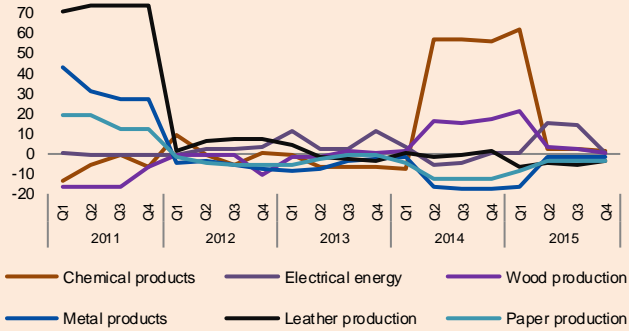


Source: KAS (2016)

Producer Price Index (PPI) in 2015 marked an average annual increase of 2.7 percent. The increase of this index was more pronounced in producer price of chemical products, followed by prices of electricity, gas, steam and supply with conditioned air, prices of wood and wood products. Conversely, the decline of producer prices mostly was evident in production of metal products, manufacturing of leather and its articles, the production of paper and articles thereof (figure7).

¹ Based on the publication calendar of KAS IPI and PPI for Q1 2016 will be published on 10 and 13 June 2016.

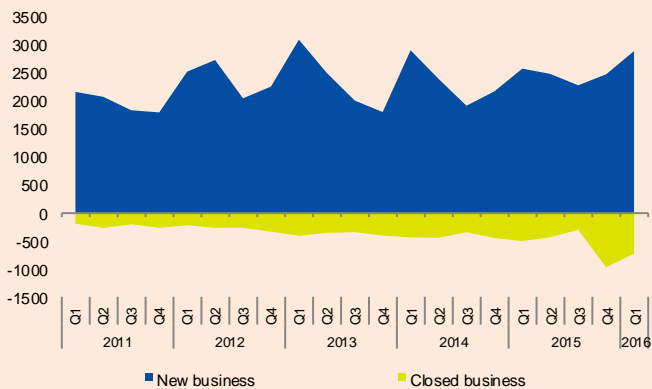
Figure 7. Produce price movements, annual change in percent



Source: KAS (2016)

Regarding the registry of enterprises, in Q1 2016, was marked an increase in the number of registered enterprises and also an increase of the number of closed enterprises. The number of newly registered enterprises, in Q1 2016, was 2,896, representing 314 enterprises more than in the previous year, while 727 enterprises closed or 226 enterprises more than in the previous year (figure 8).

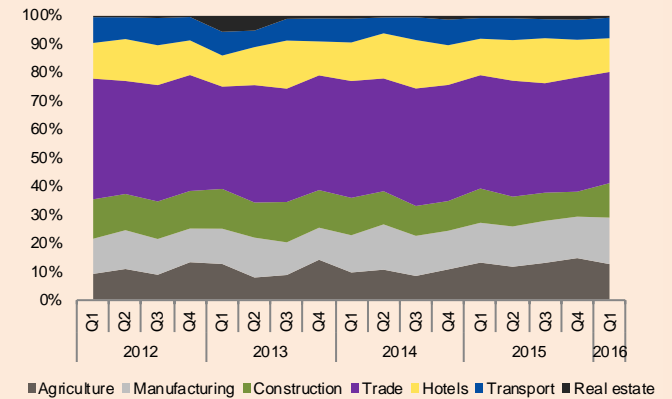
Figure 8. Business registry, non-cummulative



Source: KAS (2016)

Also, during Q1 2016, the largest number of registered enterprises was marked in trade sector with 820 new enterprises, followed by the manufacturing sector with 343 enterprises, hotels with 249 enterprises and agriculture with 261 enterprises (figure 9). Against the same period of the previous year, in the manufacturing sector was marked the highest increase of registered enterprises with 67 enterprises more, followed by trade sector which was characterized with 36 more enterprises against the same period of the previous year. Meanwhile, during this period, in the hotel sector were registered 4 fewer enterprises and in the real estate sector was registered 1 fewer enterprise.

Figure 9. Structure of new businesses



Source: KAS (2016)

Fiscal Sector

Budget revenues² until March 2016 reached the gross value of EUR 340.6 million. If EUR 10.3 million were excluded from VAT returns and other taxes from the Kosovo Tax Administration and Kosovo's Customs, then the budget revenues would reach net EUR 330.3 million, representing an annual increase of 15.6 percent. Budget expenditures³ reached the value of EUR 333.1 million representing an annual increase of 14.6 percent compared to the previous year. Consequently, until March 2015, Kosovo's budget recorded a budget balance of around EUR -2.8 million compared to the budget balance of EUR -5.1 million in March 2015.

Regarding the structure of budget revenues, there is an increase of revenues collected at the border which reached gross EUR 210.9 million representing an increase of 25.0 percent. Revenues from domestic taxes reached gross EUR 86.2 million which is for 2.7 percent higher than in the same period of the previous year. Regarding the types of taxes, it was observed an increase of indirect tax revenues which reached an amount of EUR 247.3 million representing an increase of 19.6 percent. Within indirect taxes, VAT reached the value of EUR 137.1 million which is for 15.2 percent more than in the same period of the previous year, excise reached the value of EUR 81.7 million or 29.6 percent more compared to the same period of the previous year, while customs obligations reached the value of EUR 28.5 or 15.9 percent more compared to the same period of the previous year.

Direct income taxes reached the value of gross EUR 54.2 million which is for 3.8 percent higher than in the same period of the previous year. Non-tax revenues, which include also own revenues, reached the value of 39.0 million or 13.9 percent more than in the same period of the previous year.

Regarding expenditures, almost all categories were characterized with increase. Government expenditures on wages and salaries marked an increase of 7.3 percent and reached a value of EUR 135.7 million. Subsidies and transfers also marked an increase of 7.0 percent, thus reaching the value of EUR 99.1 million. Government expenditures on goods and services (including also the municipal utilities) marked an increase of 18.0 percent and reached a value of EUR 40.6 million. Capital investments, which represent around 15.3 percent of total expenditures, marked the highest increase of 60.1 percent compared to the previous year and reached the value of EUR 51.1 million.

Public debt, in March 2016, reached EUR 799.2 million which is for 28.5 percent higher than the public debt in March 2015. As a percentage to GDP, public debt reached 13.58 percent from 10.75 percent as it was in in the same period of the previous year. This increase in public debt is mainly attributed to the growth of domestic debt of 39.5 percent (which reached EUR 409.7 million), while also the external debt increased significantly with 18.5 percent, reaching EUR 389.5 million. While in the past years public debt was dominated by external debt, in March 2016, domestic debt had a higher share of 51.3 percent to total public debt.

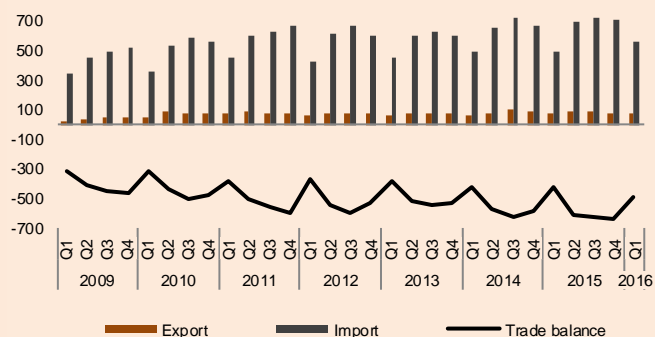
² Within the primary income were not included the revenues from borrowings, income from PAK, receipts of donor defined grants and receipts from deposits in trust.

³ Within primary expenditures are not included debt payments, payments from grants defined from donors and payments from deposits in trust.

External Sector

Until March 2016, the current and capital account deficit reached the value of EUR 108.4 million, compared with the deficit of EUR 30.6 million as it was in the same period of the previous year. This increase in the current and capital account deficit was attributed to the increase of the deficit in goods account and the decrease marked in the positive balance of primary and secondary income. In the same period, the positive balance of services account was characterized with an increase.

Figure 10. Exports, imports and trade balance, in millions of euro



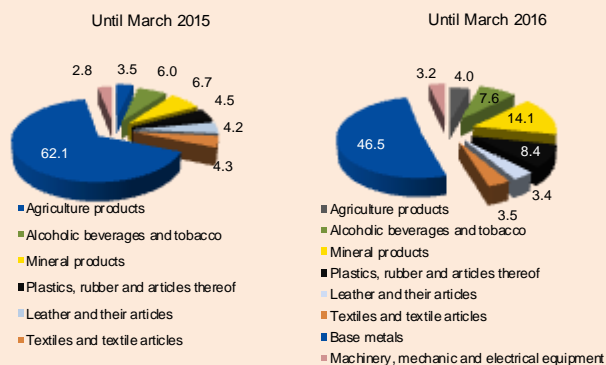
Source: KAS (2016)

The deficit in goods trade was characterized with an annual increase of 17.3 percent in Q1 2016, while the surplus in the primary and secondary account was lower for 24.1 and 6.7 percent, respectively. At the same time, the surplus in services trade was higher for 33.3 percent.

Export of goods, in Q1 2016, had a value of EUR 71.9 million, corresponding to an annual increase of 5.4 percent (15.7 percent in Q1 2015) (figure 10)⁴. The decline of goods export value, in Q1 2016, primarily is

attributed to the exports of base metals, which have the highest share to the structure of total exports of the country (around 43 percent) (figure 11).

Figure 11. Structure of exports by category



Source: KAS (2016)

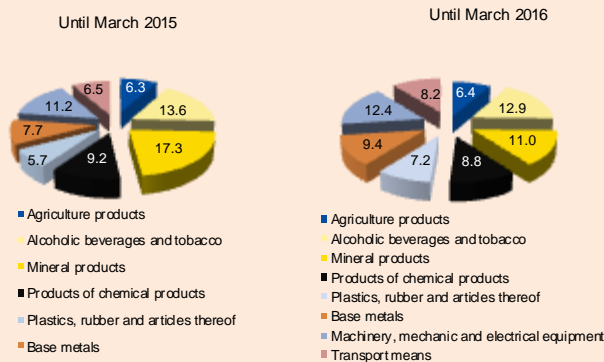
The decline of the total exports value of base metals came as a result of the decrease of nickel production in the country's economy in the first months of 2016 and the price decline of metals in international markets during this period. With a decline were also characterized the textile and articles thereof. Conversely, exports of mineral products, products of plastics and rubber, and exports of food products, during Q1 2016, were characterized with an increase.

The value of total imported goods, in Q1 2016, reached EUR 561.8 million, representing an annual increase of 12.5 percent. In the context of imported goods, with an increase were characterized the import of base metals, import of machinery, mechanical, electrical equipment, and import of transport means (figure 12). Until March 2016, the deficit in goods account reached the value of EUR 489.9 million, while the decline of exports value and the increase of imported goods was translated in the decrease of the

⁴ The data source for goods export and import in Kosovo is KAS, which is the official producer of these statistics.

coverage rate of imports by exports to 12.8 percent in Q1 2016 (15.2 percent in Q1 2015).

Figure 12. Structure of imports by category



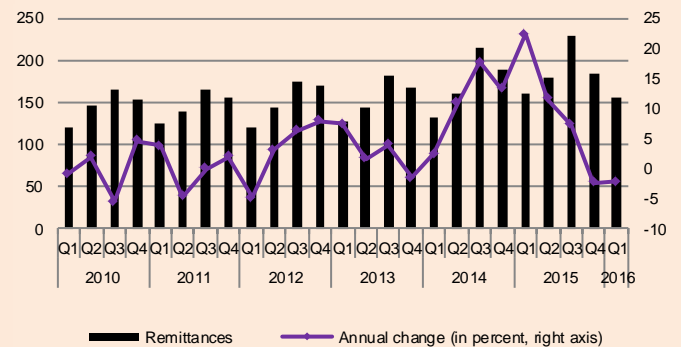
Source: KAS (2016)

The balance in services trade marked a value of EUR 79.4 million until March 2016 (EUR 59.5 million in the same period of 2015). The total value of exported services, in Q1 2016, marked an annual increase of 5.3 percent, thus reaching EUR 150.6 million. At the same time, the value of imported services marked a decline of 14.7 percent and reached EUR 71.2 million. Within the exported services, travel services were characterized with an annual increase of 11.9 percent, while the category of computer services, information and telecommunication and the category of business services were characterized with a decline of 21.2 and 6.8 percent, respectively. Regarding the imported services, two main categories of services, namely the transport and travel services, were characterized with a decline of 14.5 percent and 14.8 percent, respectively.

The balance of primary account was characterized with a decline of 24.1 percent of the positive balance in Q1 2016. While the income from the compensation

of employees⁵ marked a decrease of 8.6 percent, the income realized from the foreign direct investors marked an increase of 8.5 percent.

Figure 13. Remittances, in millions of euro



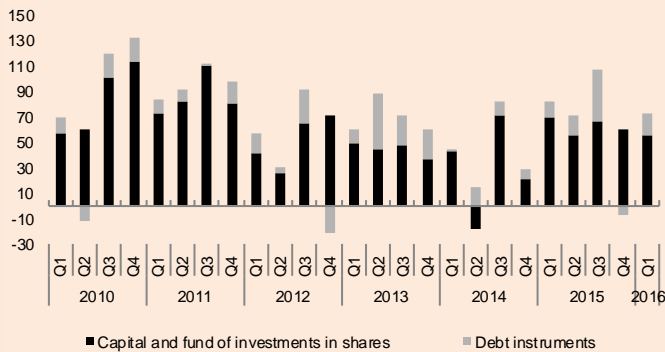
Source: CBK(2016)

The lower balance of the secondary income during Q1 2016 was mainly attributed to the lower level of donations and various grants, but also due to the reduction of expenditures of different international institutions operating in Kosovo. Also, remittances received in Kosovo, which at the same time represent the largest category within the secondary income account, in Q1 2016, reached a value of EUR 156.5 million, representing an annual decline of 2.2 percent (figure 13). Remittances received in Kosovo mainly come from Germany and Switzerland, which represent the countries with a share of 37.8 percent and 21.3 percent, respectively, of total remittances received. A considerable amount of remittances was received from USA, namely 7.6 percent of total remittances received in Kosovo.

⁵ Compensation of employees includes wages, salaries and other benefits received by resident workers abroad. In this context, are included seasonal employees or other short-term contracted employees (less than one year) and custom employees whose interest economic center is in their economy.

Foreign Direct Investments (FDI) received in Kosovo, in Q1 2016, reached a value of EUR 72.0 million, representing a lower level compared with the value of EUR 82.7 million recorded in the same period of 2015. Within the structure of FDI, with a value decline were characterized two forms of FDI, including the capital and investment fund in shares, and investments in debt instruments. The capital and investments fund in shares, which comprises around 71.4 percent of total FDI, marked a value of EUR 55.7 million which is for 9.6 percent lower compared to the same period of the previous year. Also, FDI in the form of debt instruments marked a value of EUR 16.3 million which is for 22.5 percent lower compared to the previous year (figure 14).

Figure 14. Structure of foreign direct investments by components, in millions of EUR



Source: CBK (2016)

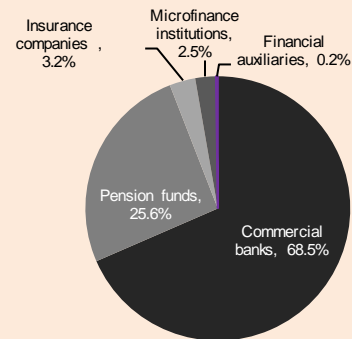
The FDI decrease in Kosovo was observed in real estate sector which marked a value of EUR 44.5 million (EUR 11.5 million less compared to Q1 2015), then sector of financial services which had the value of EUR 14.1 million (EUR 7.4 million less compared to Q1 2015), etc. On the other hand, the economic sectors which were characterized with an increase in FDI was the sector of trade services, the sector of transport and

the agriculture sector. The FDI value in trade services reached EUR 4.2 million (EUR 2.5 million more compared to Q1 2015), in the agriculture sector EUR 0.8 million (EUR 0.6 million more compared to Q1 2015), etc.

Financial System

In March 2016, the value of total assets of the Kosovo's financial system reached EUR 4.96 billion, corresponding to an annual increase of 5.7 percent. The main impact in the activity expansion of financial system had the banking sector and the pension sector.

Figure 15. Assets of financial system, in percent



Source: CBK (2016)

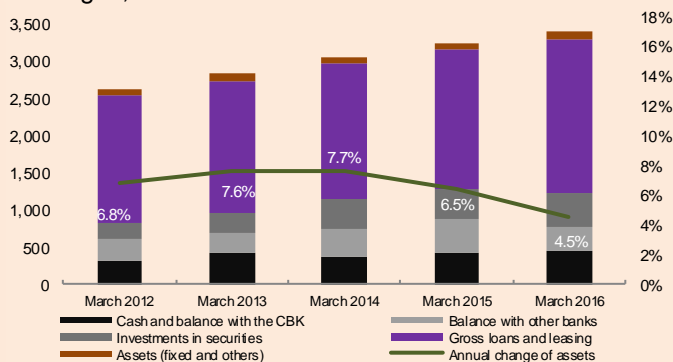
Banking Sector

Assets

The banking sector in Q1 2016 reached an assets value of EUR 3.40 billion, corresponding to an annual growth of 4.5 percent (6.5 percent in Q1 2015) (figure 16). **The main contributor to assets growth of the banking sector was the expansion of the loan portfolio which continues to be the**

category with the largest share to the structure of assets in the banking sector. The activity increase of the banking sector reflects also the deposits sustainable trend, which also marked an increase albeit with a slower pace. This growth trend of deposits was reflected also in the slower growth of the banking sector assets.

Figure 16. Assets of commercial banks, annual changes, in millions of EUR



Source: CBK (2016)

The category of securities was characterized with an accelerated growth of 16.8 percent unlike the increase of 2.1 percent in Q1 2015.

The expansion of securities portfolio during the year was mainly attributed to the growth of investments in foreign governments securities, unlike the previous year when the securities investments of Kosovo's Government had marked the highest increase. In Q1 2016, investments in securities of foreign governments were characterized with a significant increase of 22.1 percent compared to the growth of 23.1 percent marked in Q1 2015. Whereas, investments in Kosovo's Government securities marked an annual growth of 11.3 percent, which represents significantly slower growth with the annual increase of 54.4 percent marked in the

previous year. These developments may have been influenced by the lower interest rate on securities issued by the Kosovo's Government.

Also cash and balance with the CBK marked an increase in Q1 2016 albeit at a slower pace compared to the previous period. Cash was characterized with an annual increase of 5.9 percent compared to the growth of 14.9 percent marked in Q1 2015. The slowdown increase of this category may have been impacted by the increase of bank investments in external sector. Also the slowdown of deposits growth in Q1 2016 may have had an impact, thus having an influence in lowering the bank reserves with 3.7 percent compared to the growth of 16.8 percent in Q1 2015.

These developments also had an impact in decreasing the balance with commercial banks. This category recorded an annual decline of 28.4 percent in Q1 2016 compared to the growth of 15.6 percent marked in Q1 2015. This decline can be attributed to the orientation of funds to investments in securities.

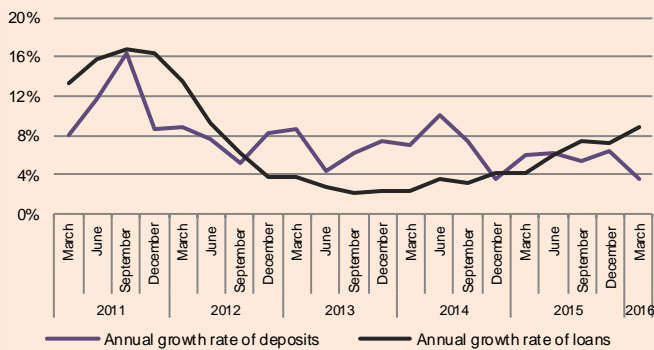
Loans

Loans of the banking sector continued to be characterized with an accelerated increase since the previous year by doubling the growth rate. In Q1 2016, the total value of loans reached EUR 2.07 billion, representing an annual increase of 8.8 percent (4.3 percent in Q1 2015 (figure 17)). Lending growth in 2015 and in Q1 2016 was mainly attributed to the increased demand for loans by households and enterprises as well. A contribution was also given by

the ease of lending standards and conditions applied by banks, realized through the decrease of interest rates and the expansion of loans amount.

A primary contribution to the accelerated growth of total loans of the sector was given by loans to enterprises, which also had the main weight within loans (65.2 percent to total loans).

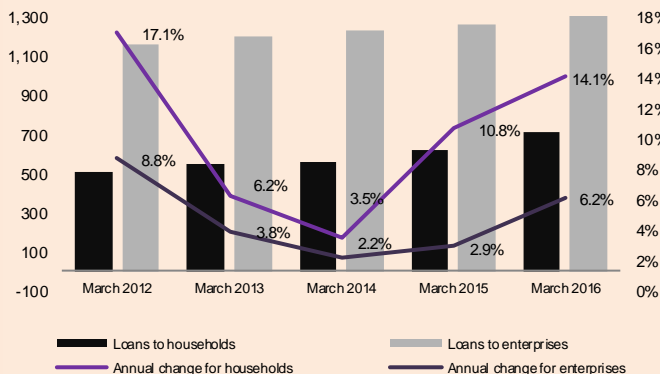
Figure 17. Growth trend of loans and deposits, in percent



Source: CBK (2016)

These loans marked an annual increase of 6.2 percent in Q1 (2.9 percent in Q1 2015) (figure 18).

Figure 18. Loans to enterprises and loans to households



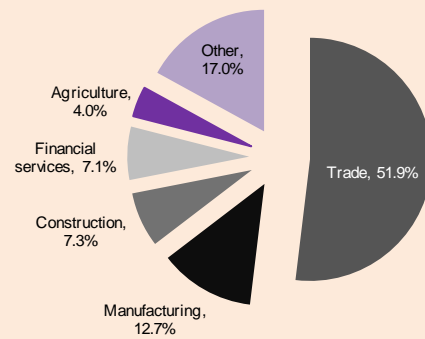
Source: CBK (2016)

Whereas, the highest annual growth was marked by loans to households, which marked an increase of 14.1 percent in Q1 2015. This

performance was mainly attributed to the growth rate of 18.3 percent of new consumer loans, to the increase of 17.6 percent of new mortgage loans, along with the increase of 90.7 percent of new loans with favorable conditions.

The structure of lending to enterprises by economic activity remains lead by loans intended to the trade sector, followed by loans to manufacturing and construction (figure 19).

Figure 19. Loans by economic sectors, in percent (March 2016)



Source: CBK (2016)

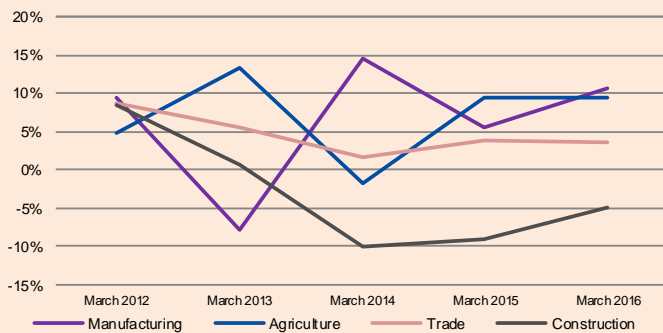
Regarding the recent lending trends of economic sectors, until Q1 2016, lending to all sectors marked an increase, excluding the construction sector which continued to have a negative value, despite of marking an improvement compared to Q1 2015.

Within loans to enterprises, lending to financial services sector recorded the highest annual increase by doubling its growth to 27.7 percent.

The second highest increase of 10.7 percent (5.5 percent in Q1 2015) was recorded by lending to manufacturing sector which represents a significant recovery. As a result of the positive performance of the manufacturing sector, the overall

industrial sector reached an annual considerable increase of 3.0 percent (0.5 percent in Q1 2015) (figure 20).

Figure 20. Annual change of loans by economic sectors



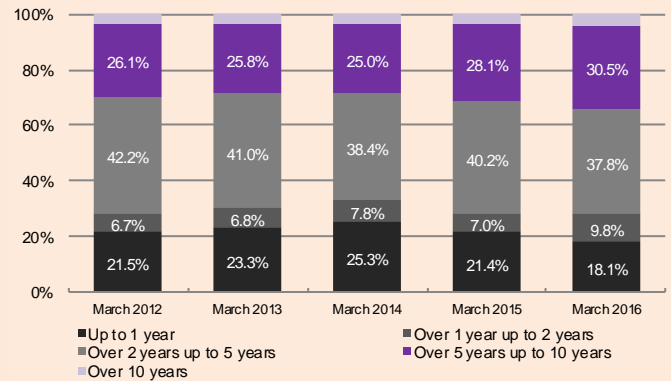
Source: CBK (2016)

Lending to the trade and agriculture sector, similar to the previous year, continues to have a sustainable increase. More specifically, the agriculture sector marked an increase of 9.5 percent while the trade sector marked an increase of 3.5 percent. The lending growth of the trade sector, among others, can be attributed to the import growth during Q1 2016.

Conversely, despite the interest rates decline marked by banks, lending to the construction sector continues to record a decrease albeit at a slower pace than in the previous year. In Q1 2016 loans to the construction sector marked an annual decline of 4.9 percent (a decline of 9.0 percent in Q1 2015).

According to the maturity, the structure of total loans continues to be dominated by medium-term loans, namely loans with a maturity “over 2 up 5 years”. However, there was observed a tendency of shifting towards long-term lending (figure 21).

Figure 21. Loans by maturity, in percent



Source: CBK (2016)

Lending activity of the banking sector, during Q1 2016, was characterized by accelerated growth trend. A more significant increase was marked by loans to the sectors which had lower share to the bank lending, such as manufacturing sector, agriculture, financial services and other services.

Liabilities

The structure of banking sector liabilities is dominated by deposits, which comprise around 78.4 percent of total liabilities, thus representing the main source of funding for the banking sector. The high reliance on deposits collected in the country, and particularly in household deposits which are considered to be a more stable source of funding, avoids the exposure of the sector towards movements in foreign financial markets.

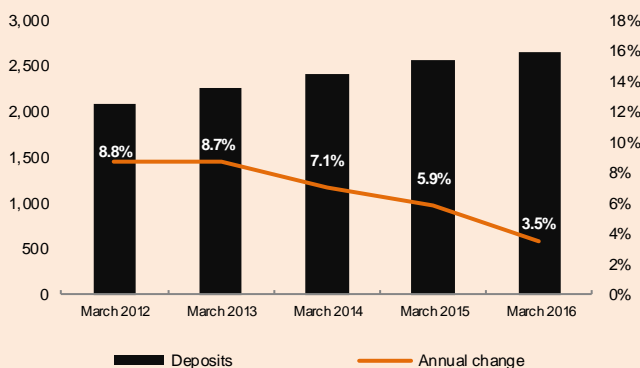
With a significant increase were characterized also the banking sector's own funds, which are the second largest category with a share of 12.1 percent to total liabilities of the sector. Own resources marked an annual increase of 18.9 percent

(19.9 percent in Q1 2015).. The increase was mainly due to the higher profit realized by the banking sector in Q1 2016.

Deposits

The value of total deposits in the Kosovo's banking sector amounted to EUR 2.66 billion representing an annual increase of 3.5 percent (5.9 percent in Q1 2015) (figure 22). To the deposit growth, among others, may have contributed also the interruption of the downward trend of interests on deposits since the second quarter of 2015.

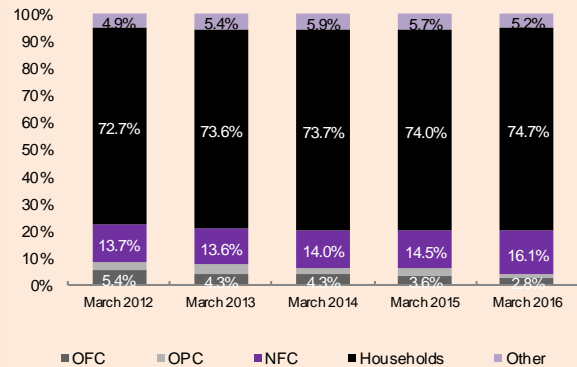
Figure 22. Deposits, in millions of EUR



Source: CBK (2016)

Regarding the deposits movements, the growth rate of total deposits is mainly influenced by household deposits as the dominant category (figure 23). **In Q1 2016 household deposits recorded an annual increase of 4.5 percent (6.3 percent in Q1 2015).**

Figure 23. Structure of deposits, in percent

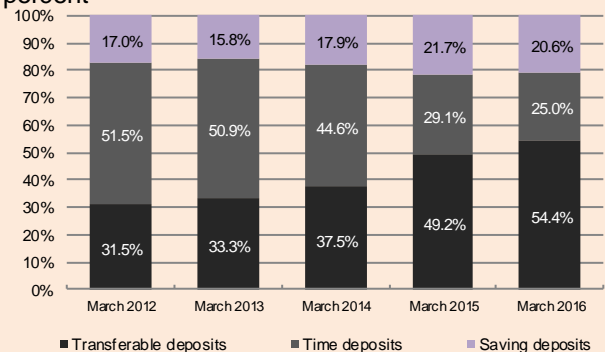


Source: CBK (2016)

Enterprise deposits comprise 20.1 percent of total deposits, and marked an annual increase of 2.7 percent (5.1 percent in Q1 2015).

The structure of deposits by maturity has followed the same trend as in the previous year. Time deposits continued to narrow their share in the structure with a significant pace since 2013 despite the fact that the interest rates on this category of deposits marked a growth in Q1 2016 compared to Q1 of the previous years. Whereas, transferable deposits expanded their growing trend share to total deposits (figure 24).

Figure 24. Structure of deposits by maturity, in percent



Source: CBK (2016)

Although the total time deposits were characterized with a decline, where in the context of their structure

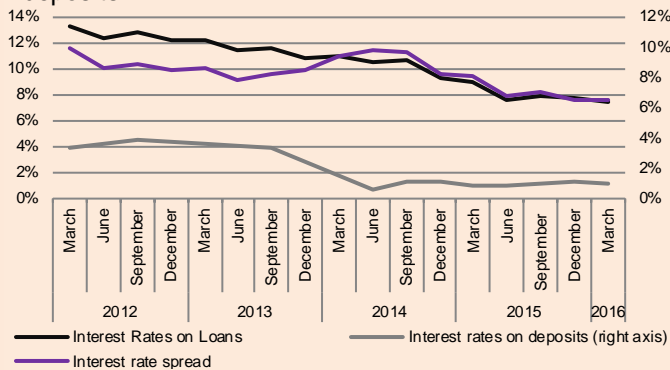
it was noted a pronounced shift towards longer term of maturity. These developments are in compliance with the interest rates movements, which remained higher in deposits with longer maturity.

During Q1 2016, deposits of the banking sector continued to mark a growth, albeit with a slower pace. Despite the slight increase of interest rates on deposits, the trend of narrowing the time deposits and the expansion of transferable deposits continued also during this period.

Interest Rates

Interest rates on loans during Q1 2016 was decreased to 7.4 percent (8.9 percent in March 2015), while the average interest rate on deposits marked a slight increase to 0.9 percent (0.8 percent in March 2015). Interest rate spread on loans and deposits decreased to 6.5 percent (8.1 percent in March 2015) (figure 25).

Figure 25. Average interest rate on loans and deposits



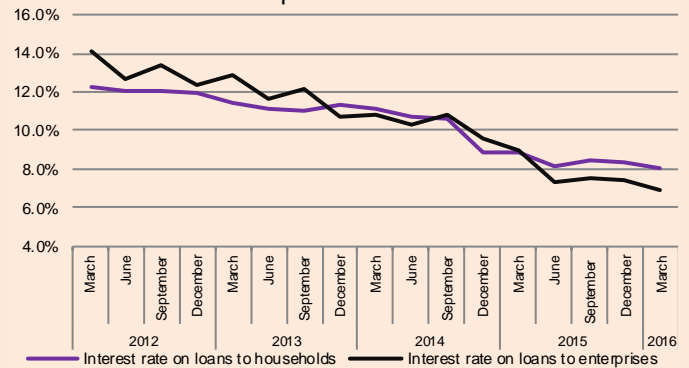
Source: CBK (2016)

Interest Rates on Loans

During Q1 2016 the average interest rates continued to decrease on loans to households and loans to

enterprises as well. The decline was more pronounced on loans to enterprises, which had an impact on the average interest rates to be lower compared with loans to households (figure 26).

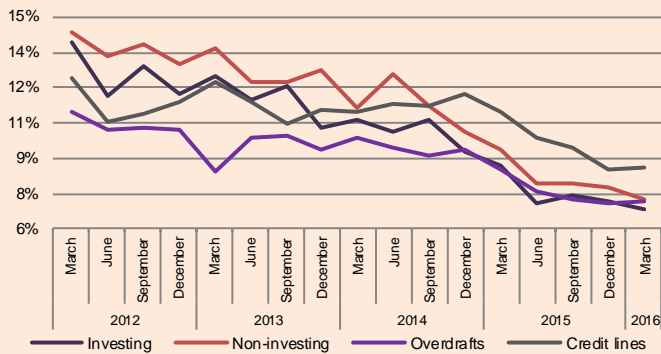
Figura 26. Average interest rate on loans to households and enterprises



Source: CBK (2016)

The average interest rate on loans to enterprises decreased to 7.0 percent. Within these loans, investment loans continued to be characterized with lower interest rates with an average of 6.8 percent, while the average interest rate on non-investment loans declined to 7.3 percent. The factors which might have had an impact on the decline of the average interest rates are the continuous increase of deposits, the higher competition for lending, and the decline of non-performing loans (figure 27).

Figura 27. Average interest rate on loans to enterprises

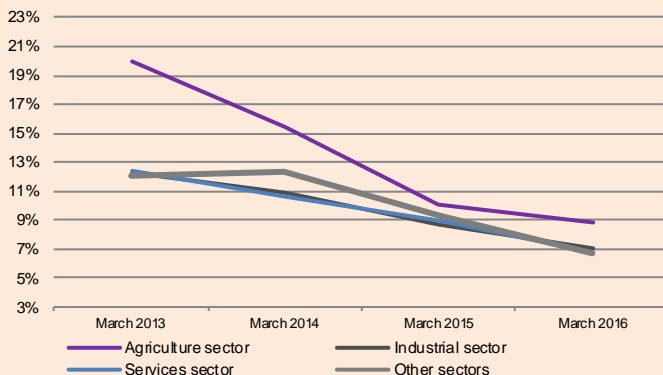


Source: CBK (2016)

According to the maturity of loans to enterprises, the lowest interest rate (6.3 percent) was recorded on loans with a maturity of “over 5 up to 10 years”, while the highest interest rate (7.7 percent) was recorded on loans with a maturity of “over 2 years up to 5 years”.

As regards to the economic activity, with a decline in interest rates were characterized loans to all economic sectors. A more slight decline was marked in loans to agriculture and industrial sectors; while a more significant increase was marked on loans to other sectors and services sector.

Figure 28. Average interest rate on loans, by economic sectors

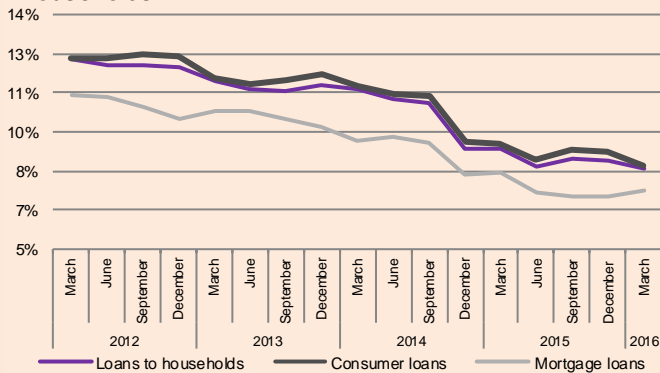


Source: CBK (2016)

In March 2016 the average interest rate on loans to agriculture sector decreased to 8.8 percent (figure 28). The interest rate reduction for these loans was estimated to have been an important contributor to the acceleration of the growth in loans to the agricultural sector, which continued to remain one of the sectors with the highest annual growth of lending. Also, the average interest rate on loans to the industrial sector marked a decline (at 7.1 percent), which was followed with slight annual increase of loans of this sector (at 3.0 percent). Moreover, the average interest rate on loans to services sector (including trade wick accounts for 70.9 percent of the total loans stock of services) marked a decline of 2.2 percentage points (at 6.8 percent). While the highest average interest rates decline of 2.6 percentage points (at 6.8 percent) was marked by other economic sectors.

Regarding loans to households, in March 2016, the average interest rate decreased to 8.1 percent. In consumer loans, the average interest rate decreased to 8.2 percent, followed by mortgage loans which decreased to 7.2 percent. Within mortgage loans, loans with longer term of maturity had lower interest rates compared to loans with shorter term of maturity. The lower interest rate (6.7 percent) was registered in mortgage loans with a maturity “over 10 years”, the highest interest rate (7.5 percent) was recorded on loans with a maturity (over 2 up to 5 years”.

Figure 29. Average interest rate on loans to households

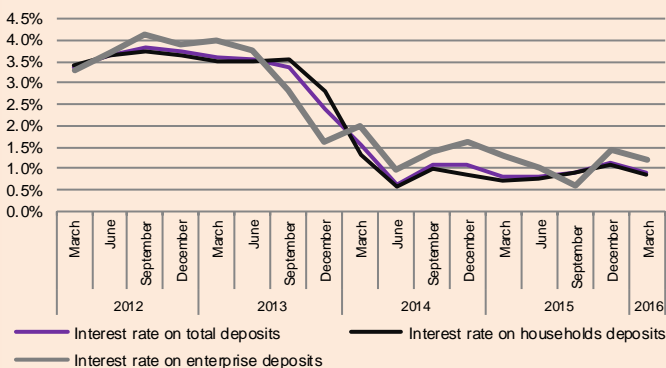


Source: CBK (2016)

Interest Rates on Deposits

In March 2016 the average interest rate on total deposits marked a slight increase (0.9 percent) compared to the same period of the previous year (0.8 percent). This increase mainly reflects the growth of interest rate on household deposits, which dominate the structure of deposits of the banking sector (74.7 percent). While, average interest rate on enterprise deposits marked a slight decline, albeit continued to remain higher compared to the interest rate on household deposits (figure 30).

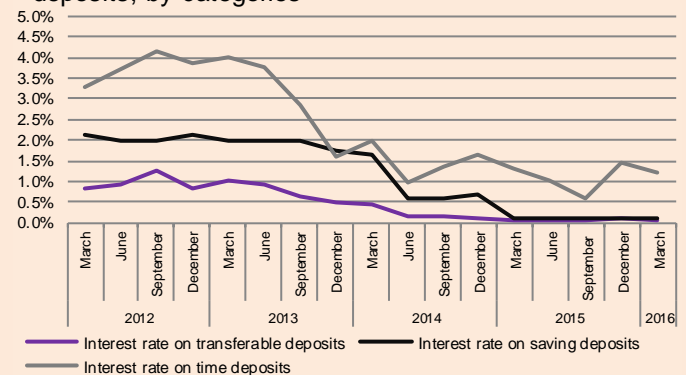
Figure 30. Average interest rate on deposits



Source: CBK (2016)

The average interest rate on enterprise deposits decreased to 1.2 percent (1.3 percent in March 2015) (figure 31). Within this category, the decline of average interest rates (at 1.2 percent) of time deposits had a direct impact in decreasing the average interest rates on enterprise deposits. As regards to the structure of maturity, lower interest rates (0.2 percent) were observed on deposits with a maturity “over 1 month up to 3 months”, while the highest interest rates (1.4 percent) were applied in deposits with a maturity of (over 6 months up to 1 year”.

Figure 31. Average interest rate on enterprise deposits, by categories



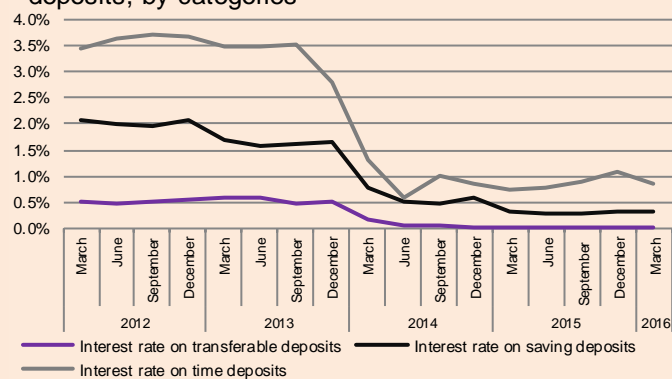
Source: CBK (2016)

The average interest rate on household deposits, unlike enterprise deposits, increased to 0.9 percent (0.7 percent in March 2015). The positive trend of the average interest rates on deposits mainly reflects the slight increase in the interest rate on time deposits, since the interest rates on saving deposits did not have significant changes since March 2015 (figure 32)

Within time deposits, the lowest interest rate (0.2 percent) was registered in deposits with a maturity “over 1 month”, while the highest interest rate (1.9

percent) was recorded on deposits with a maturity “over 2 years”.

Figure 32. Average interest rate on household deposits, by categories

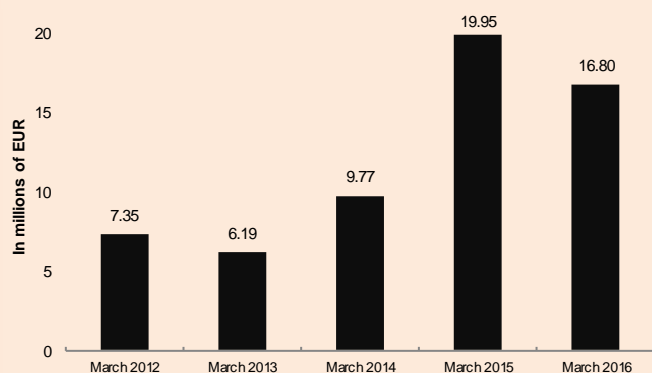


Source: CBK (2016)

Performance of the Banking Sector

In the first quarter of 2016 the profit realized by the banking sector amounted to EUR 16.8 million, representing a lower level of the profit compared to the same period of the previous year (EUR 19.9 million). The decline of revenues and the increase of expenditures had an impact on the slowdown of the profit of the banking sector.

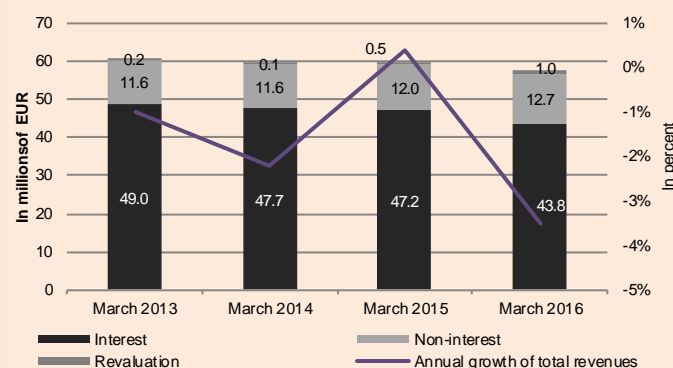
Figure 33. Net profit of the banking sector



Source: CBK (2016)

The revenues of the banking sector continue to follow a downward trend. The revenues of the banking sector reached the value of EUR 57.6 million, representing an annual decline of 3.5 percent. The main contribution to the total revenues decline was given by the decrease of interest income, which resulted from the decrease of the average interest rates on loans, despite the growth of total loans in the first quarter of 2016 (figure 34).

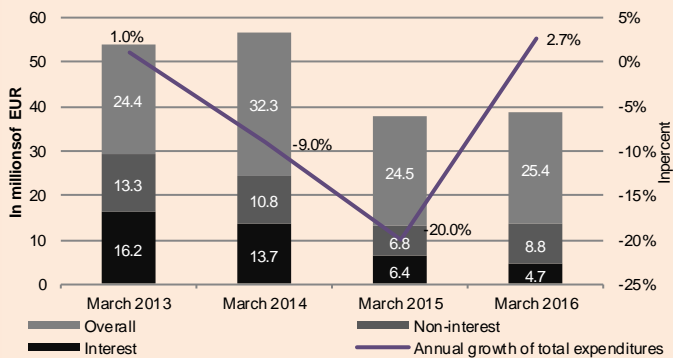
Figure 34. The value of revenues by categories, annual increase



Source: CBK (2016)

The value of total expenditures of the banking sector reached EUR 40.8 million, representing an annual increase of 2.7 percent. The increase of total expenditures was mainly influenced by the growth of non-interest expenditures, and the increase of the general and administrative expenditures (figure 35).

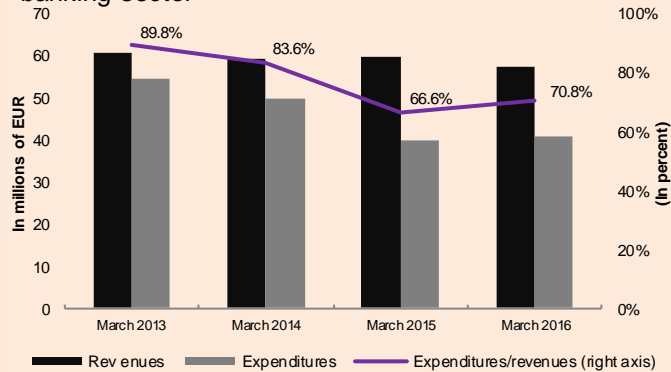
Figure 35. The value of expenditures by categories, annual increase



Source: CBK (2016)

As a result of the income decrease and the increase of expenditures, expenditures to income ratio of the sector was deteriorated reaching 70.8 percent in March 2016 compared to 66.6 percent as it was in the same period of the previous year (figure 36).

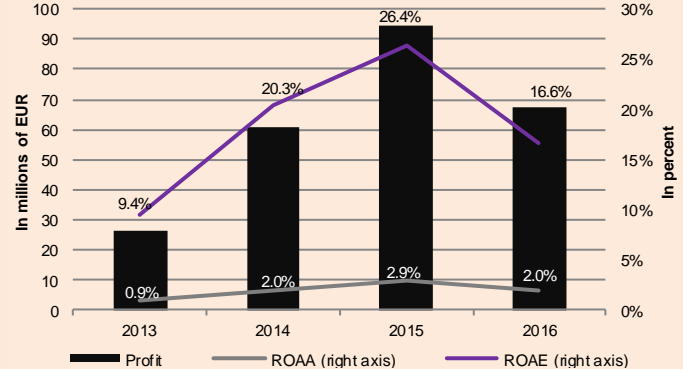
Figure 36. Revenues and expenditures of the banking sector



Source: CBK (2016)

The profit decline in Q1 2016 had an impact on the value decline of profitability indicators, such as the Return on Average Assets (ROAA), and Return on Average Equity (ROAE), thus interrupting the increasing trend that was marked in the three previous years. The profitability indicator of ROAA declined at 2.0 percent, while ROAE declined at 16.6 percent (figure 37).

Figure 37. Profitability indicators of the banking sector

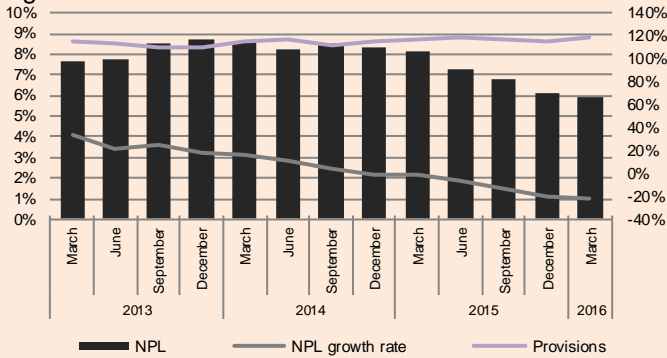


Source: CBK (2016)

Financial Soundness Indicators

During Q1 2016 the banking sector recorded a decline of nonperforming loans, and an improvement of their coverage with provisions. The share of non-performing loans to total loans of the sector decreased at 5.9 percent, as a result of the annual decline of 21.2 percent of the non-performing loans value, in one side and, on the other hand, the acceleration of the total loans growth (figure 38). The value of non-performing loans is at its lowest level recorded in the recent years in the Kosovo's banking sector, and lower compared to the region countries. Regarding the coverage of non-performing loans by loan loss provisions, this indicator increased at 118.8 percent. Moreover, the Capital Adequacy Ratio (CAR) reached 19.7 percent, continuing to have a satisfactory level of capitalization.

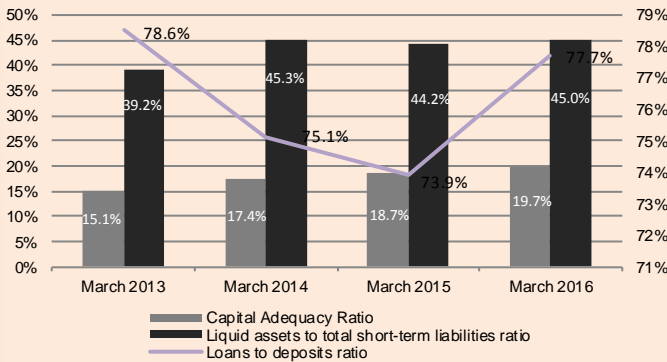
Figure 38. Indicators of loan portfolio quality and NPL growth rate



Source: CBK (2016)

Also, the liquidity indicators continued to have satisfactory position (figure 39).

Figure 39. Liquidity and solvency Indicators



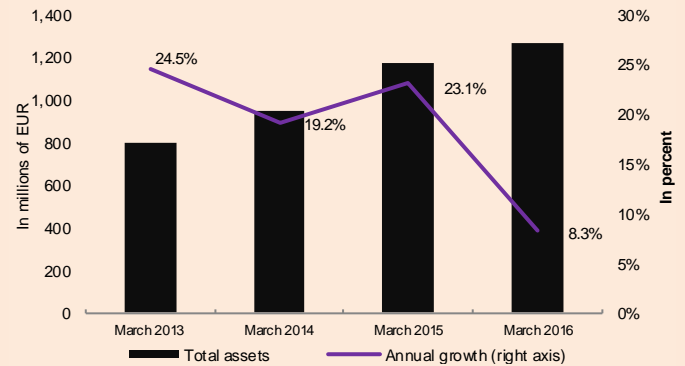
Source: CBK (2016)

During Q1 2016, the profit value realized by the Kosovo's banking sector was EUR 16.8 million, representing a decreased profit value, as a result of the income decline and the increase of expenditures. The loan portfolio quality marked a further improvement, reaching the lowest rate of non-performing loans recorded in the recent years. Moreover, the banking sector continues to have high level of capitalization and strong liquidity position.

Pension Sector

Pension sector is comprised of two pension funds the value of which in Q1 2016 reached EUR 1.27 billion, marking an annual growth of 8.3 percent (figure 40).

Figure 40. Assets of pension sector, in millions of EUR



Source: CBK (2016)

In Q1 2016, the value of total assets of Kosovo Pension Saving Fund (KPSF), which comprise 99.5 percent of total assets of the pension system, reached EUR 1.27 billion. This value corresponds with an annual increase of 8.3 percent, representing a slower increase compared to the annual growth of 23.2 percent recorded in Q1 2015. The slowdown of KPSF assets growth was attributed to the performance trend of investments returns. During this period, the return on investments was EUR 6.2 million, representing a decline of 88.7 percent compared with the return realized during the same period of the previous year. The general decline of investments return was a consequence of weaker performance of KPSF investments in the external sector, as a result of developments in the international financial markets. On the last day of

March 2016, the share price reached EUR 1.32 (EUR 1.35 in March 2015).

The value of new collected contributions reached EUR 36.1 million (an annual increase of 10.6 percent) compared to the value of contributions received, in Q1 2015, which amounted to EUR 32.7 million (an annual increase of 8.4 percent).

The Slovenian-Kosovo Pension Fund (SKPF) marked an annual increase of assets and new contributions received in Q1 2016. The total value of SKPF assets reached EUR 6.1 million, thus marking an annual slight growth of 0.5 percent (10.6 percent in Q1 2015). The growth slowdown of SKPF assets was a result of the considerable decline of investments return. The value of contributions received reached EUR 118.6 thousands, corresponding with an annual increase of 25.3 percent. This represents a considerable increase compared to Q1 2015, when EUR 94.6 thousands were received representing an annual decline of 10.9 percent.

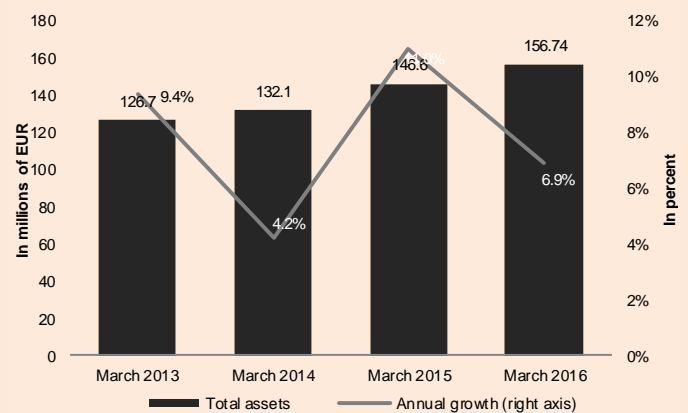
Gross investments return of SKPF decreased to EUR 45.3 thousands, which is considerably lower compared to the return of EUR 208.3 thousands recorded in Q1 2015. The same as KPSF, the investments performance of SKPF was impacted by the movements in the global financial markets in Q1 2016. On the last day of Q1 2016, the share price of SKPF reached EUR 145.63 (EUR 151.41 in Q1 2015)⁶.

Pension sector in Q1 2016 marked a slowdown growth of assets, compared to the previous year. This was mainly attributed to the weaker performance of fund investments in the external sector as a consequence of developments in the international financial markets. Whereas, the collection of new contributions marked an improvement compared to the same period of the previous year.

Insurance Sector

Total assets of the insurance sector marked an annual increase of 6.9 percent in Q1 2016 (figure 41).

Figure 41. Assets of insurance sector



Non-life insurance represent the largest part of the sector (90.2 percent of total assets assets of the sector), and marked an annual growth of 7.0 percent. The remainder of assets accounts for life insurance, which marked an annual increase of 6.3 percent.

Activity

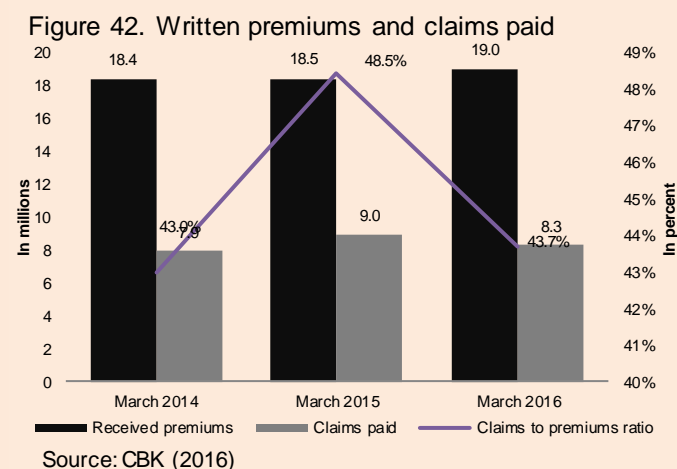
The value of total written premiums in Q1 2016 marked an annual increase of 3.0 percent, unlike in

⁶ The base value of SKPF share price is 100 unlike KPSF which is 1.

the previous year when written premiums had marked an annual increase of 0.3 percent.

Structure of written premiums is led by non-life insurance, which represent 96.4 percent of total written premiums. Their value during this period was EUR 18.4 million, representing an annual increase of 2.9 percent. Whereas, the remainder of written premiums is comprised of life insurance premiums which reached the value of EUR 0.7 million (an annual increase of 7.8 percent).

Total claims paid by insurance companies and the Kosovo Insurance Bureau (KIB) in Q1 2016 marked an annual increase of 7.1 percent (an increase of 13.0 percent in Q1 2015 (figure 42). In this context, claims paid by non-life insurance marked a decline of 3.5 percent (an increase of 9.9 percent in Q1 2015). Also, claims paid by Kosovo Insurance Bureau marked a decline, thus recording an annual decline of 40.0 percent (an increase of 37.6 percent in Q1 2015).



The value decline of claims paid along with the increase of written premiums, resulted in a decline of total claims paid to written premiums ratio (figure 42).

Performance of the Insurance Sector

In Q1 2016, the insurance sector recorded a profit with a value of EUR 0.5 million (a loss of EUR 131.1 thousands in Q1 2015). Until Q1 2016, non-life insurance realized a profit of EUR 369.2 thousands (a loss of EUR 256.8 thousands in Q1 2015), while life insurance recorded a profit of EUR 129.4 thousands (EUR 125.7 thousands in Q1 2015).

Conversely, the insurance sector was characterized with a deterioration of liquidity level. The cash and cash equivalents to reserves ratio decreased to 90.8 percent in Q1 2016 (121.7 percent in Q1 2015), while cash and cash equivalents to total liabilities ratio declined to 80.2 percent (104.2 percent in Q1 2015). The liabilities to total assets ratio was characterized with a growth in Q1 2016, thus reaching 67.3 percent from 64.8 percent as it was in Q1 2015.

The insurance sector in Q1 2016 marked an increase in assets, while a decline in the value of claims paid. The increase of premiums alongside with the decline of claims paid during this period, had an impact on the written premiums to claims paid ratio. The financial performance of the insurance sector marked a slight improvement, being characterized with a profit increase compared to the same period of the previous year.

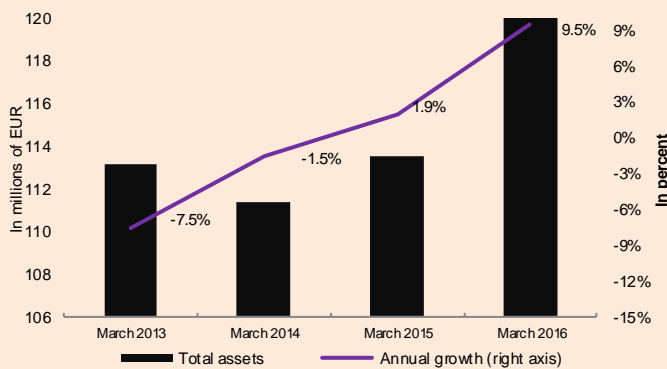
Microfinance Sector

Assets

In Q1 2016, microfinance sector was characterized with a significant expansion of its activity. The value of assets of the sector reached EUR 124.3 million,

corresponding to the annual growth of 9.5 percent (figure 43). The activity of microfinance sector mainly relies on borrowings from the external sector. In March 2016, total borrowings reached a value of EUR 65.6 million, corresponding to an annual increase of 8.5 percent. The increase of borrowings from the external sector was reflected mainly in the significant growth of lending activity (17.7 percent) during Q1 2016 (figure 43).

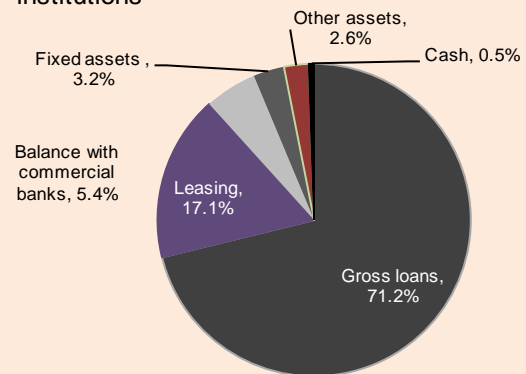
Figure 43. Assets of the microfinance sector



Source: CBK (2016)

The structure of microfinance sector assets continues to be dominated by loans (71.2 percent). Other important categories by weight account for leasing (17.1 percent), followed by the balance with commercial banks, fixed assets, other assets, and cash (figure 44).

Figura 44. Structure of assets of microfinance institutions

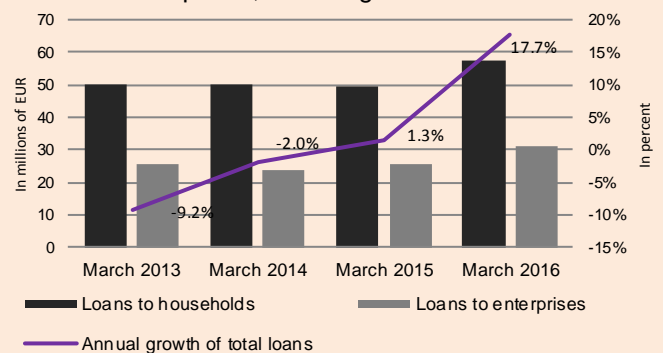


Source: CBK (2016)

Loans

In March 2016, the value of total loans of the microfinance sector reached EUR 88.5 million, representing a significant annual increase of 17.7 percent, compared to 1.3 percent as it was in the same period of the previous year (figure 45).

Figure 45. The value of loans to households and loans to enterprises, annual growth of loans



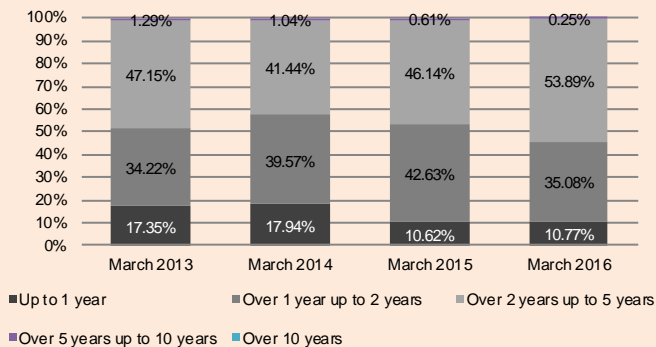
Source: CBK (2016)

The major contribution to issued loans growth by the microfinance sector was marked by the category of household loans, which represent 64.9 percent of total loans of the sector. In Q1 2016, loans households marked an annual increase of

16.0 percent, representing a significant recovery compared to the annual decline of 1.8 percent during the same period of the previous year.

Within the structure of loans to households it was observed a shift towards longer term of maturities. In Q1 2016, the structure of loans to households for the first time was dominated by loans with maturity “over 2 up to 5 years”, which represented 43.9 percent of total loans, unlike in the previous years when this structure was dominated by loans with a maturity of “over 1 up to 2 years” (figure 46).

Figure 46. Loans by maturity, in percent



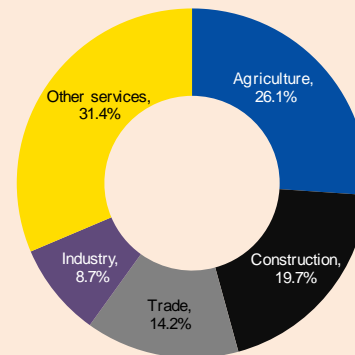
Source: CBK (2016)

A pronounced increase was also marked by loans to enterprises, which recorded an annual increase of 20.9 percent (8.0 percent in March 2015). The loans structure of this sector is also dominated by loans with a maturity of “over 2 up to 5 years” with 53.9 percent of total loans, followed by loans with a maturity of “over 1 up to 2 years” with 35.1 percent.

The structure lending to enterprises by economic sectors remains similar to previous periods. As the main category of the total loans of the sector remained

loans designated for other services (31.4 percent), followed by agriculture loans, loans to construction and loans to trade sector. Industrial sector remained one of the sectors with the lowest share to microfinance funding (figure 47). Trade sector marked the most annual significant decline (17.5 percent in March 2015), while, loans designated to other services marked the highest increase of the share (28.3 percent in March 2015).

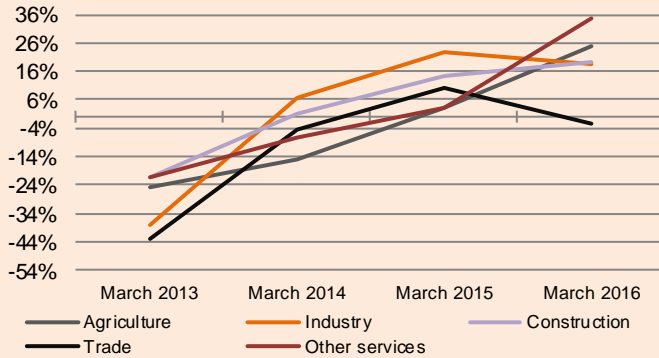
Figure 47. Microfinance sector loans by economic sector, in percent



Source: CBK (2016)

Regarding the lending trend by economic sectors, loans designated to other services recorded the highest annual increase (34.0 percent), followed by agriculture sector (24.5 percent), construction sector (19.2 percent), and industry sector (18.5 percent). Whereas, lending to trade sector was the only sector that marked an annual decline of 2.1 percent (figure 48).

Figure 48. Growth rate of loans to enterprises, by economic sectors

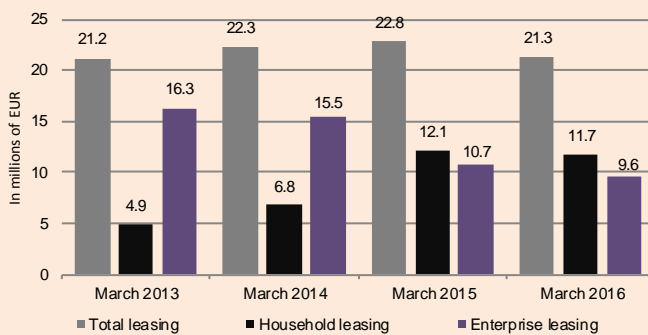


Source: CBK (2016)

Leasing

Leasing continued to be the second category by weight (17.1 percent) in the structure of assets of the microfinance sector, despite the annual decline of 6.4 percent marked in March 2016 (figure 49).

Figure 49. Microfinance sector leasing



Source: CBK (2016)

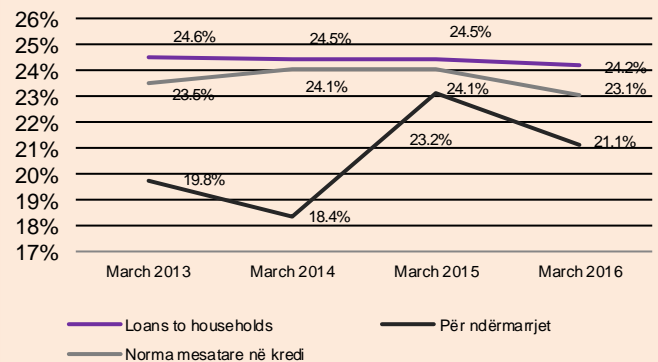
The decline of total leasing is mainly attributed to the annual decline of 9.7 percent of leasing to enterprises which comprise 45.2 percent of the total leasing of the sector. Within leasing to enterprises, primarily the category of leasing for equipment had an impact on the decline of this category, being followed by the decline of leasing of the mortgage category. Moreover,

the decline of total leasing was attributed also to the annual decline of 3.5 percent of leasing to households, which account for 54.8 percent of total leasing of the sector. The major contribution to the households leasing decline was marked by mortgage leasing (a decline of 3.4 percent), which comprise 92.6 percent of total value of household leasing.

Interest Rates

The average interest rate on microfinance sector loans in March 2016 decreased to 23.1 percent. The rate decrease was more pronounced in loans to enterprises compared to household loans. The average interest rate on loans to households decreased to 21.1 percent, while the average interest rate on loans to households decreased to 24.2 percent (figure 50).

Figure 50. Average interest rate on microfinance loans

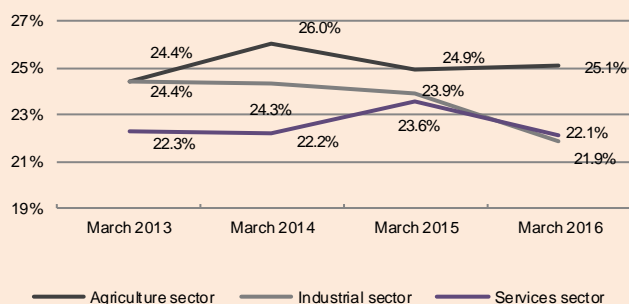


Source: CBK (2016)

Within loans to enterprises, the average interest rate on loans to industry sector marked a decline and continued to remain the lowest one (21.9 percent) among all economic sectors. A decline was also observed in the average interest rates on loans to services (22.1 percent). Unlike the above mentioned sectors, the average interest rate on loans to

agriculture increased to 25.1 percent, thus ranking this sector with the highest interest rate on loans issued by the microfinance sector (figure 51).

Figure 51. Average interest rate on loans by economic sectors



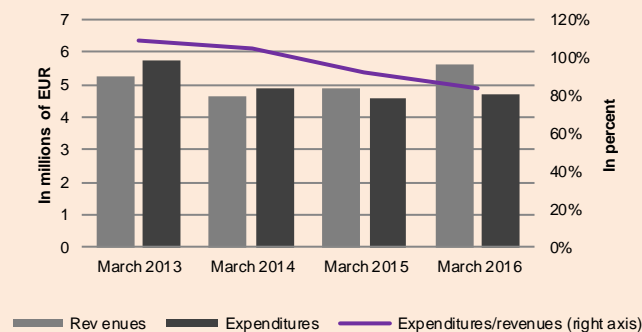
Source: CBK (2016)

Performance of the Microfinance Sector

During Q1, microfinance sector realized a profit with a value of EUR 0.9 million (EUR 0.4 million in March 2015). The significant increase of the profit was mainly a result of the considerable income increase, while expenditures increased with a slower pace.

Microfinance sector realized income with a value of EUR 5.6 million, representing an annual increase of 14.1 percent. The growth of income was mainly attributed to the significant annual increase of 11.9 percent, and to the increase of non-interest income which marked a growth of 25.1 percent.

Figure 52. Revenues and expenditures of the microfinance sector

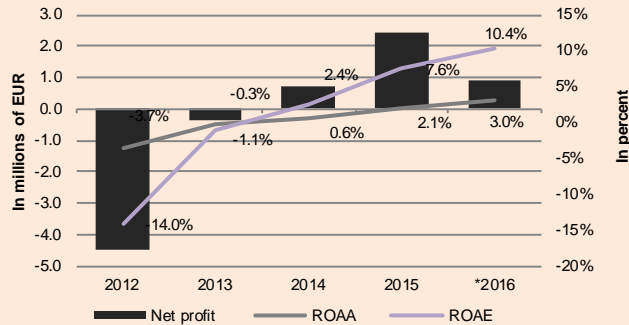


Source: CBK (2016)

Whereas expenditures reached a value of EUR 4.7 million, representing an annual increase of 3.1 percent. Expenditures increase mainly was attributed to the annual growth of interest expenditures (7.2 percent), and to the increase of other operating expenditures (17.8 percent). While, the slight decline (0.4 percent) of non-interest expenditures, which comprise the majority of expenditures (66.0 percent), had an impact on the growth slowdown of microfinance sector expenditures.

The expenditures to income ratio of the microfinance sector in Q1 2016 decreased to 83.6 percent (figure 52). This improvement was a result of the accelerated growth of the sector's income, and of the slight expenditures increase. Consequently, the profit realized in Q1 2016 had an impact on the improvement of the profitability indicators. Return on Average Assets (ROAA) increased to 3.0 percent, while the Return on Average Equity (ROAE) increased to 10.4 percent (figure 53).

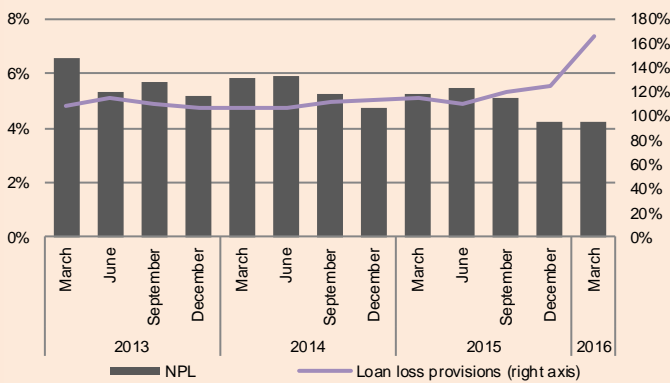
Figure 53. Profitability indicators of the microfinance sector



*For 2016 the profit was annualized based on the performance until March 2016
Source: CBK(2016)

The microfinance sector continued to be characterized by a relatively low level of non-performing loans with 4.2 percent, and a satisfactory coverage level of non-performing loans with loan loss provisions standing at 165.8 percent (figure 54).

Figure 54. Indicators of loans quality portfolio



Source: CBK (2015)

Microfinance sector in Q1 2016 was characterized by an activity acceleration and a significant financial performance compared to the recent years. The interest rates on loans marked a decline, while also the non-performing loans recorded a decrease as well.

Treasury Bills Market

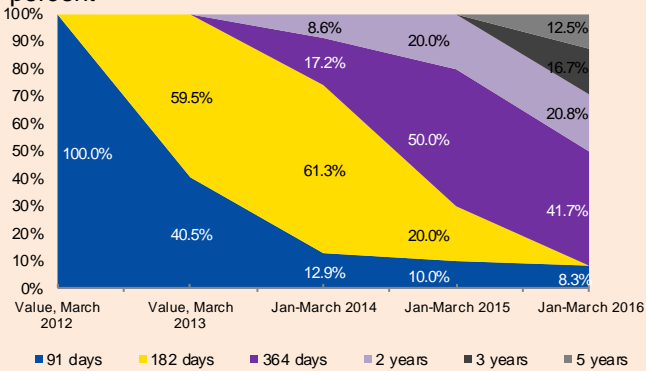
According to the calendar published by the Ministry of Finance, in Q1 2016, were held 6 auctions for the issuance of securities, with a nominal value of EUR 120.0 million. Whereas, in the previous year were held 5 auctions where securities with a nominal value of EUR 100.0 million, were issued.

During Q1 2016, Kosovo's Government has issued a smaller number and a smaller value of treasury bonds compared to the same period of the previous year. The number of treasury bonds issued was 3 (4 up to Q1 2015), where besides the decrease in number the issuance of treasury bonds also marked a decline in its value, decreasing to EUR 60.0 million (80.0 million in Q1 2015). On the other hand, the issuance of treasury bills marked an increase in number and in value in Q1 2016 compared with the previous year. In Q1 2016, were issued 3 government treasury bills with an amount of EUR 60.0 million (one issuance with a value of EUR 20.0 million in Q1 2015).

The structure of the Kosovo's Government securities by maturity, was characterized with significant changes during the recent years. During the five recent years, securities with short-term maturity have followed a downward trend against the significant expansion of the weight of the securities with long-term maturity. The main category in the structure of securities, also in Q1 2016, continued to remain the one of treasury bills with a maturity of 364 days, being followed by treasury bonds with a maturity of two years and government treasury bills with a maturity of three years (figure 55). A significant change in the structure of securities was observed in

the decreased share of treasury bonds with a maturity of 91 days compared to the previous 5 years when they were the only category issued. It is worth noting that in Q1 2016 was not issued any treasury bond with a maturity of 182 days, representing a considerable change compared to the same period of the previous year when this category comprised 20.0 percent of the structure (figure 55).

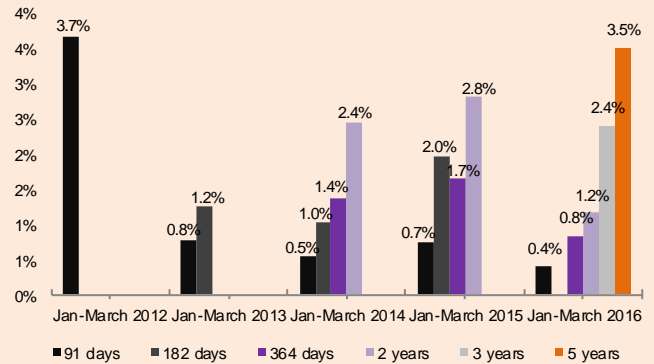
Figure 55. Structure of Government securities, in percent



Source: CBK (2016)

Since the establishment of the treasury bills market in 2012, the amount offered by the participants in most of the cases exceeded the amount announced in auctions by the Treasury Department of the Ministry of Finance. In Q1 2016, the ratio between the amount offered and the amount announced was 2.65 times higher. This ratio is higher compared to the previous year (1.89 times until Q1 2015), mainly as a result of the higher bidding by the participating entities reflecting their high interest in auctions, being represented by the banking sector, that showed an interest in investing in the Kosovo's Government securities.

Figure 56. Interest rate on Government securities by maturity, in percent



Source: CBK (2016)

The overall average interest rate on securities, in Q1 2016, was lower (1.53 percent), compared with the same period of the previous year (1.77 percent). The more significant decline of interest rates was marked by treasury bills with a maturity of 2 years with a change of 1.6 percentage points.

During this quarter, the highest interest rate was recorded in treasury bills with a maturity of 5 years, while the lowest interest rate was recorded in treasury bonds with a maturity of 91 days (figure 56).

Suggested citation for this publication:

CBK (2016): Quarterly Economic Assessment No. 14 Q4 2016, Central Bank of the Republic of Kosovo, Prishtinë

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Selected Macroeconomic Indicators

Description	March 2015	March 2016
Real sector 1/		
GDP (in millions of euro)	-	-
Prices (annual change)	-0.43%	0.13%
Prices (end of period)	-0.40%	0.10%
Fiscal sector 2/		
Revenues (in millions of euro)	285.6	330.3
Expenditures (in millions of euro)	290.7	333.1
Balance, as a share to GDP	-5.1	-2.8
Financial sector (in millions of euro) 3/		
Assets of financial corporations	4,691.79	4,962.34
of which: Banks	3,250.23	3,397.76
Loans	1,903.52	2,070.25
Deposits	2,574.53	2,664.02
interest rate on loans, end of period	8.9	7.4
Interest rate on deposits, end of period	0.8	0.9
Interest rate gap	8.1	6.5
External sector, (in millions of euro) 3/		
Balance of payments		
Capital and current account	-30.6	-108.4
of which: remittances	160.0	156.5
Financial account	30.1	20.6
FDI in Kosovo	82.7	72.0
Investments portfolio, net	4.9	80.6
Other investments, net	81.8	-56.1
international investments position, net*	297.3	94.6
Assets	4276.6	4519.2
Liabilities	3979.3	4424.7
External debt, total	1737.1	1931.5
Private external debt	1344.3	1489.7
Public external debt	392.8	441.8

Source:

1/ KAS (2016).

2/ MF (2016).

3/ CBK (2016).

*For IIP and external debt, the data are until December 2016.

