

Summary

Financial system in the country continued to consolidate and further expand. Quarterly comparative analysis shows a growth of financial system assets, primarily as a result of the assets increase of the banking sector and pension sector.

Banking sector continued to be characterized with an accelerated increase of its credit activity, satisfactory financial performance and a satisfactory level of indicators which measure the health of the sector. In Q3 2018, assets of the banking sector increased by EUR 141.8 million, mainly as a result of the increase of the balance with other banks, the balance with the CBK and credit activity. The stock increase of total loans, among others, resulted from the increase of new loans during this period, especially the increase of investment loans (loans to enterprises). Economic sectors which were more credited in this period were construction, agriculture, manufacturing and trade.

Credit growth continued sustainably to be financed by deposits collected within the country's economy, which in Q3 2018, comprised 79.6 percent of total liabilities of the sector. In Q3 2018, deposits increased by EUR 124.1 million, primarily due to expansion of households deposits held at the banking sector, during this period.

In Q3 2018, interest rates on loans continued to be characterized with a declining trend, while interest rates on deposits marked a slight annual increase. Interest rate on loans, in Q3 2018, stood at 6.7 percent, while interest rate on deposits reached 1.5 percent.

Banking sector was characterized with a satisfactory financial performance in Q3 2018, realizing a net profit of EUR 20.1 million, albeit representing a lower level compared to the same quarter of the previous year. The slight decline of the realized profit, was mainly a result of the higher increase of expenditures compared to income level, marked in this quarter.

Banking sector marked an improvement of the key financial health indicators. In the second quarter of 2018, banking sector recorded a decline of nonperforming loans (2.8 percent) and an improvement of their coverage with loan loss provisions (156.5 percent). Moreover, Capital Adequacy Ratio (CAR) (16.1 percent) and the liquidity level (36.3 percent) give indications for the sector that is well capitalized and protected from potential risks that it may face with.

In Q3 2018, pension sector marked an assets growth, which also reflected on the increase of the sector's weight to assets of financial system compared to the same period of the previous year. In the third quarter, this sector was characterized with a positive growth trend of new contributions, and also a positive performance regarding gross return on investments and continuous increase of the price unit.

Insurance sector closed this quarter with a higher positive financial result compared to the same quarter of the previous year. More specifically, factors which had an impact on the insurance sector's dynamics were marked by the increase of net income realized by premiums and efficient management of sector's expenditures, while factors which had a negative contribution were the increase of claims incurred in Q3 2018.

Microfinance sector continued to increase its activity, where also the third quarter was characterized with a significant increase of assets as a result of the stock increase of loans of the sector. At the same time, the dynamics of this sector and the increase of income, resulted in a profit increase during this quarter.

Kosovo's Government securities market, during this quarter, was characterized with a growth of the issued value, lengthened maturity, and also a higher investment demand for securities. The increase of interest rate, in Q3 2018, may be attributable to some extent to the orientation towards issuing securities with longer maturity.

Figure 25. Assets of the insurance sector -----	15
Figure 26. Written premiums and claims paid -----	15
Figure 27. Assets of the microfinance sector -----	16
Figure 28. Value of loans to households and to enterprises -----	17
Figure 29. The value of loans to enterprises-----	17
Figure 30. Value of microfinance sector leasing -----	17
Figure 31. Average interest rate on loans of microfinance sector -----	18
Figure 32. Average interest rates on loans to enterprises -----	18
Figure 33. Microfinance sector income and expenses -----	19
Figure 34. Profitability indicators of microfinance sector -----	19
Figure 35. Indicators of credit portfolio quality-----	19
Figure 36. Value of issued debt-----	20
Figure 37. Bid to cover ratio -----	20
Figure 38. Structure of Government securities -----	20
Table 1. Number and amount of securities issued by Kosovo's Government -----	20
Table 2. Macroeconomic selected indicators -----	22

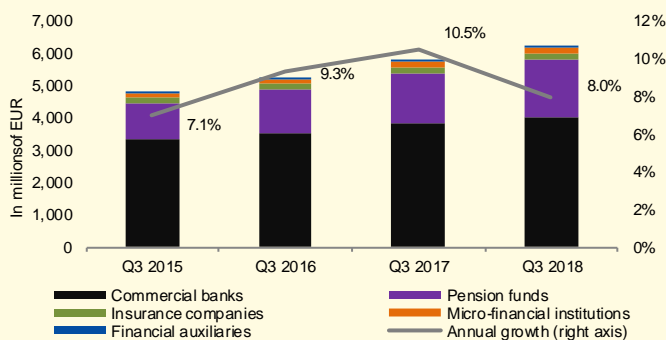
ABBREVIATIONS

CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CHF	Swiss Franc
EUR	Euro currency
FDI	Foreign Direct Investments
GBP	British Pound
GDP	Gross Domestic Product
IMF	International Monetary Fund
KAS	Kosovo Agency of Statistics
MF	Ministry of Finance of the Republic of Kosovo
NPL	Nonperforming loans
REER	Real Effective Exchange Rate
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RWA	Risk-Weighted assets
SEE	Southeastern Europe
USD	American Dollar
WEO	World Economic Outlook

Financial system

Financial system continued to be characterized with a positive increasing trend, albeit with a slower pace. Banking sector and pension sector remain the sectors with the highest contribution to the overall expansion of the financial system. Also, other sectors which have lower weight to total assets, microfinance and insurance sectors, gave positive contribution to the expansion of the financial system.

Figure 1. Assets value of Kosovo's financial system



Note: The data are as at end of the noted quarter
Source: CBK (2018)

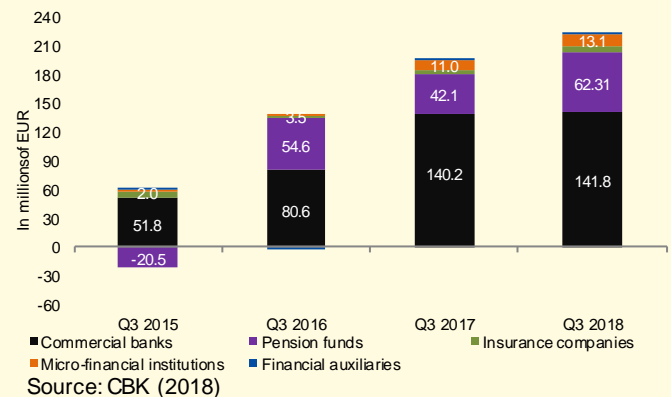
All constituent sectors of the financial system increased their assets in the reporting period, reaching the value of EUR 6.23 billion at the end of Q3 2018, representing an annual growth of 8.0 percent (figure 1).

On quarter basis, financial system assets expanded by EUR 223.6 million in Q3 2018, mainly as a result of the expansion of the pension sector, while other sectors continued with the same trend as in the previous period (figure 2).

The expansion activity of the banking sector and microfinance sector continued to be supported by

deposits of the clients, and from borrowings from the external sector (different credit lines). Meanwhile, the expansion of pension sector assets was supported by new collected contributions and positive return from investment assets in foreign markets. Insurance sector was characterized with an increase of gross written premiums and improvement of financial performance.

Figure 2. Assets of financial system constituent sectors



Source: CBK (2018)

Banking Sector

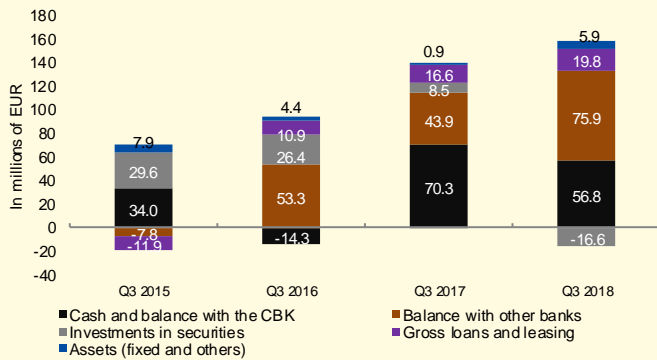
Banking sector during this quarter was characterized with a higher increase of credit activity, a decline of investments in securities, while key financial soundness indicators continued to stand at optimal levels.

Assets

In Q3 2018, assets of the banking sector were expanded by EUR 141.8 million reaching the total value of EUR 4.03 billion at the end of the period. The overall increase of assets of the banking sector continued to be a result of the positive trend of credit

activity, which considerably was affected by eased credit supply side applied by banks. Meanwhile, on quarter basis, in Q3 2018, almost all categories of assets marked an increase, excluding investments in securities (figure 3).

Figure 3. Annual change in the banking sector assets structure



Source: CBK (2018)

The balance with other banks was the category which marked the highest increase with EUR 75.9 million in this quarter (EUR 43.9 million in Q3 2017), and reached the value of EUR 330.1 million at the end of the mentioned period. Unlike the same quarter of the previous year, cash and balance with the CBK marked a slower increase in Q3 2018, expanding by EUR 56.8 million (EUR 70.3 million in Q3 2017) reaching the value of EUR 483.8 million at the end of the mentioned period. The slowdown increase of this category mainly reflects the level of cash held at banks' treasury and at the CBK, which increased by EUR 51.5 million in Q3 2018, against the growth of EUR 72.0 million marked in Q3 2017.

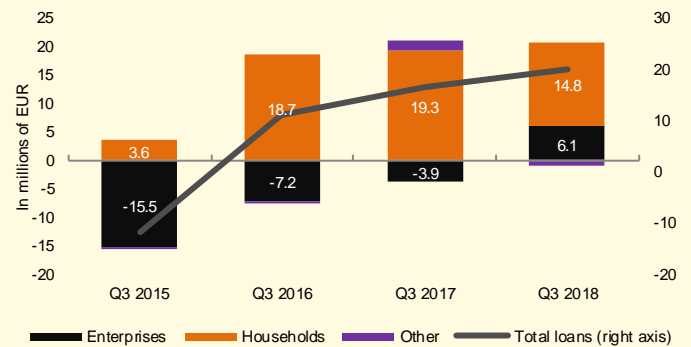
In Q3 2018, securities stock of the banking sector contracted by EUR 16.6 million and amounted to EUR 434.2 million at the end of the reporting period. Investments in Kosovo's Government securities

continued to mark an increase, albeit investments of foreign governments in securities marked a decline, which consequently reflected in a decline of investments in this instrument in Q3 2018. Moreover, the low rates of return from securities may have had an impact on shifting banks' investments from securities towards credit activity, as an instrument with higher return.

Loans

Economic activity in euro area has continued to be characterized with an accelerated increase, also during Q3 2018. At the end of the mentioned period, loans reached a value of EUR 2.68 billion, corresponding to an annual increase of 11.4 percent. On quarter basis, loans marked an increase of EUR 19.8 million, compared to the increase of 16.6 million in Q3 2017 (figure 4).

Figure 4. Annual changes of total loans value and the main categories



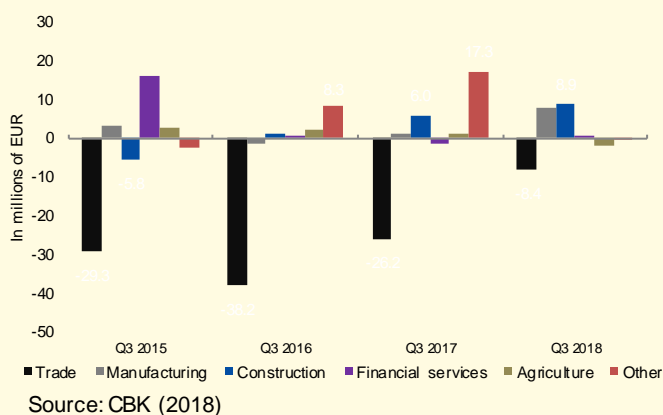
Source: CBK (2018)

In Q3 2018, it was marked an impact on the increase of active loans by new loans issued to enterprises (amounted to EUR 181.6 million) and to households (amounted to EUR 113.3 million). More favorable banks offers, being expressed by improvements of lending conditions for enterprises and households as

well, resulted in the increase of total active loans stock until the end of the mentioned period.

In Q3 2018, loans to enterprises marked an increase of EUR 6.1 million (a decline of EUR 3.9 million in Q3 2017), reaching the value of EUR 1.70 billion at the end of the period. On annual basis, at the end of Q3 2018, excluding the sector of other services, credit activity to all other economic sectors was characterized with a double digit increase. Construction sector marked the highest annual increase, followed by agriculture, manufacturing and trade sector.

Figure 5. Credit structure by economic activity



While, on quarter basis, due to the seasonal effect, there were observed significant changes regarding the increase of loans in the third quarter in specific sectors of the economy (figure 5). The only sectors which marked an increase in credit activity in this quarter were construction (EUR 8.9 million), manufacturing (EUR 7.9 million), and financial services (EUR 0.4 million). Whereas, with a decline of lending in this quarter was characterized trade sector (EUR 8.4 million) and agriculture sector (EUR 2.1 million). New loans to enterprises, in Q3 2018, reached the value of EUR 181.6 million, of which EUR

111.8 million designated to investments, while EUR 65.8 million for non-investments purposes. New loans to agriculture sector increased by EUR 0.8 million compared to the same period of the previous year, amounting to EUR 5.0 million, in Q3 2018. New loans designated to industry, shrank by EUR 1.6 million, reaching the value of EUR 51.3 million, in Q3 2018. Whereas, new loans to services sector increased by EUR 2.8 million, amounting to EUR 106.8 million, in Q3 2018.

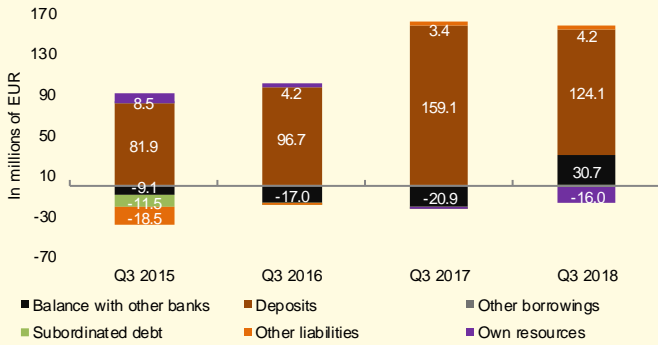
Loans to households increased by EUR 14.8 million in Q3 2018, reaching the total value of loans stock of EUR 973.2 million. This increase, among others, reflects the trend of new loans issued by banks during this period. More specifically, during this quarter, the value of new loans designated for consumption amounted to EUR 79.1 million, or EUR 5.8 million lower than the value marked in Q3 2017. Whereas, mortgage loans issued by banks amounted to EUR 24.5 million, or EUR 5.2 million more than the value marked in Q3 2017.

Liabilities and Own Resources

The structure of liabilities and own resources of the banking sector is dominated by deposits, which comprise 79.6 percent of total liabilities. On quarter basis deposits marked an increase of EUR 124.1 million, compared to the increase of EUR 159.1 million in Q3 2017 (figure 6).

The second most important category, namely the category of own resources, was characterized with a decline of EUR 16.0 million in Q3 2018 (a decline of EUR 0.5 million marked in Q3 2017).

Figure 6. Structure of liabilities and own resources



Source: CBK (2018)

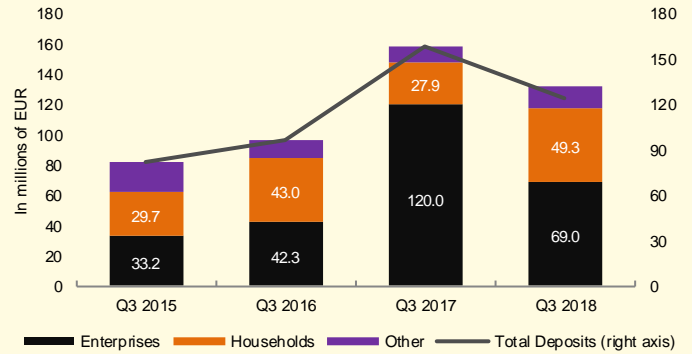
This decline is attributable, primarily to the distribution of the dividend, which was higher than the profit realized in this quarter. The category which marked a significant increase during this quarter was the balance with other banks, which increased by EUR 30.7 million against the increase of EUR 20.9 million marked in Q3 2017, and is mainly as a result of borrowings or other different credit lines taken from banks abroad, namely from parent banks.

Deposits

Deposits of the banking sector in Kosovo increased by EUR 124.1 million in Q3 2018, amounting to EUR 3.21 billion. Dynamics with which were characterized deposits of the banking sector in Q3 2018, are attributed to developments within enterprises and household deposits as well. Enterprise deposits increased by EUR 69.0 million in this quarter reaching a value of EUR 767.7 million at the end of the mentioned period.

Conversely, household deposits increased by EUR 49.3 million in this quarter, amounting to EUR 2.28 billion at the end of the mentioned period (figure 7).

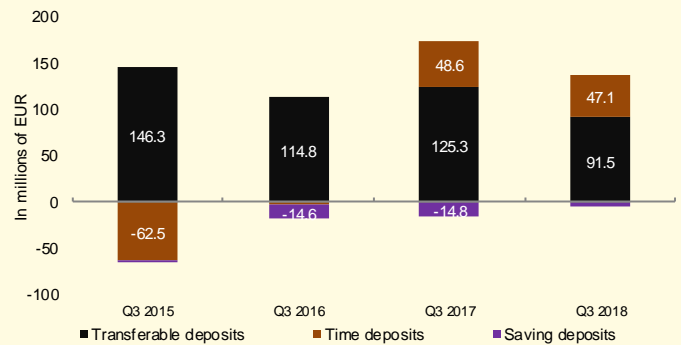
Figure 7. Total deposits and main categories value in Q3



Source: CBK (2018)

The growth of household deposits in this quarter, may be attributable to some extent to the increase of income in the economy (as a result of the rise of net average salary¹) and to the increase of remittances in 2018. Also, the slight increase of interest rates on deposits may have had positive effect on the overall increase of household deposits in the banking sector.

Figure 8. Balance structure of deposits, in Q3



Source: CBK (2018)

Regarding the categories of deposits, transferable deposits rose by EUR 91.5 million in Q3 2018 (figure 8), marking a value of EUR 1.93 billion at the end of the above mentioned period. Also, time deposits

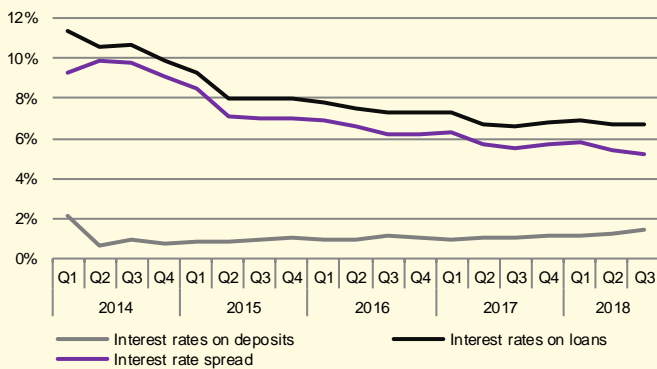
¹ According to the Quarterly Bulletin for Q2 2018, Kosovo Agency of Statistics (KAS) (July 2018).

increased by EUR 47.1 million, in this quarter, reaching a value of EUR 821.0 million at the end of the period. Conversely, saving deposits declined by EUR 5.9 million, on quarter basis, dropping at a value of EUR 465.7 million at the end of the mentioned period.

Interest Rates²

In Q3 2018, interest rates on loans have interrupted the significant declining trend, while interest rates on deposits marked a slight annual increase. The interest rate spread of loans and deposits narrowed down to 5.2 percentage points (5.5 percentage points in Q3 2017).

Figure 9. Interest rates on loans and deposits



Source: CBK (2018)

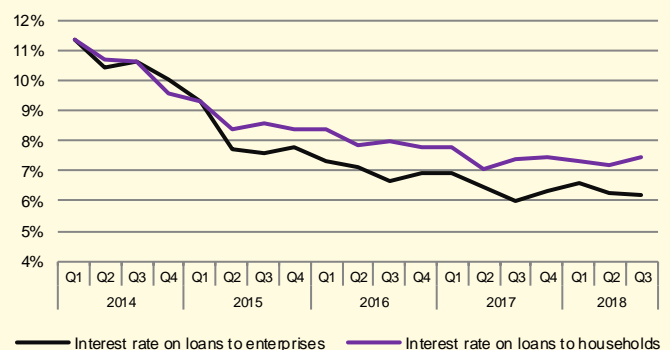
Interest rates on loans, in Q3 2018, increased for 0.1 percentage points, thus reaching 6.7 percent, while the interest rate on deposits increased by 0.4 percentage points, reaching 1.5 percent (figure 9).

Interest rates on loans

Interest rates on loans to enterprises increased to 6.2 percent, from 6.0 percent as it was in Q3 2017 (figure 10).

All the categories of interest rates on loans to enterprises, in Q3 2018, were characterized with an annual growth. The highest growth (0.2 percentage points) was marked in loans intended for investments which had an interest rate of 6.2 percent. In the reporting period, interest rates on loans intended for non-investments purposes had an interest rate of 6.3 percent, representing an annual increase of 0.1 percentage points. Conversely, interest rates on loans with favorable conditions declined to 3.1 percent during this period, marking an annual decline of 1.4 percentage points.

Figure 10. Interest rate on loans to enterprises and households



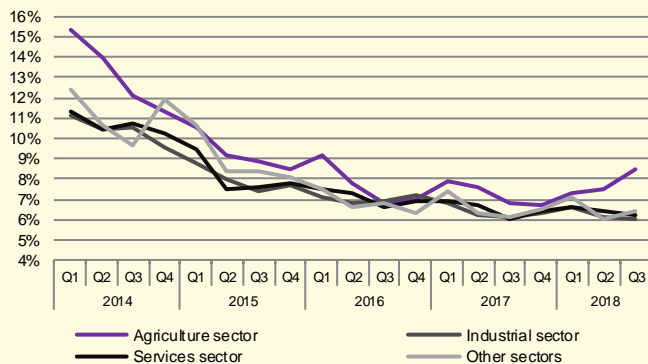
Source: CBK (2018)

Interest rate on all economic sectors during this quarter marked a slight annual increase, compared to the third quarter of the previous year, excluding the industry sector, which was characterized with an annual decline of 0.1 percentage points, dropping to 6.0 percent (figure 11). Interest rates on loans to

² The calculation of interest rates: quarter average of interest rates on loans and deposits. In the text it is referred as "the interest rates".

agriculture marked a higher increase of 1.6 percentage points compared to Q3 2017, reaching 8.4 percent in Q3 2018.

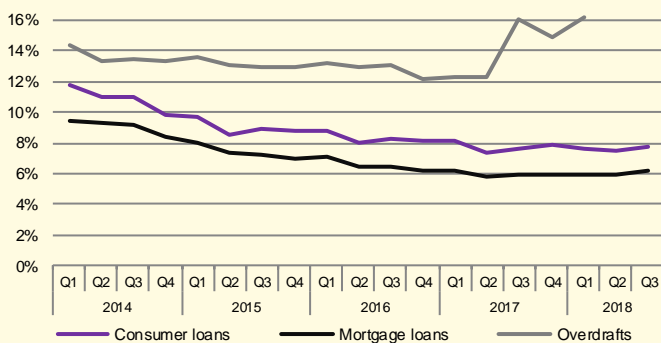
Figure 11. Interest rates on loans, by economic sectors



Source: CBK (2018)

Interest rates on loans to households followed the overall trend of interest rates applied by banks. Interest rates of mortgage loans, continued to be more favorable, because loans designated for this category of households are covered with real estate.

Figure 12. Average interest rate on loans to households, by purpose



Source: CBK (2018)

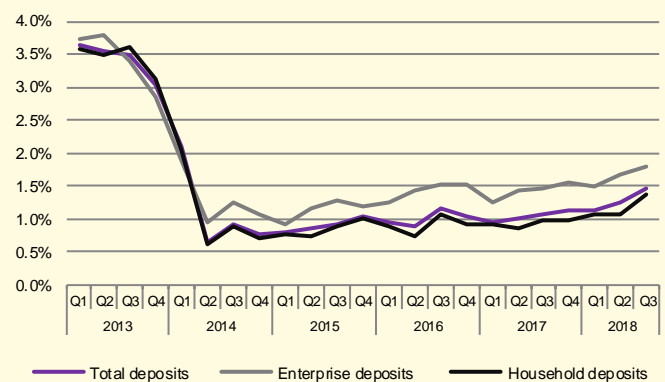
In Q3 2018, interest rates applied to mortgage loans stood at 6.1 percent, representing a growth of 0.2 percentage points compared to Q3 2017. Interest rates applied to consumer loans are significantly higher

with an average rate of 7.7 percent, the same as in the previous period.

Interest rates on deposits

Despite the slight increase marked in the last year, interest rates on deposits continued to stand at quite low levels compared to periods before 2014 (figure 13).

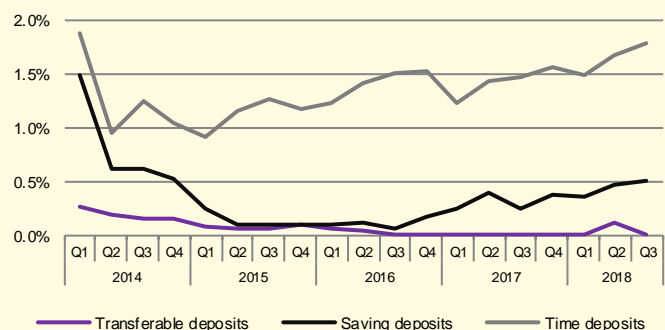
Figure 13. Interest rates on deposits



Source: CBK (2018)

Interest rates on enterprise deposits continued to be more favorable compared to rates applied to household deposits.

Figure 14. Interest rates on enterprise deposits, by categories



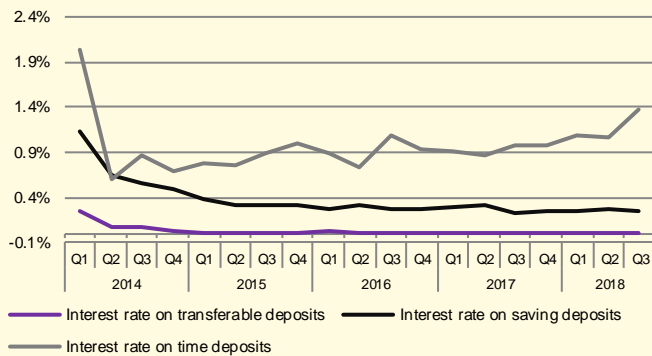
Source: CBK (2018)

Interest rates on enterprise deposits stood at 1.8 percent in Q3 2018, being characterized with an increase of 0.3 percentage points compared to the

third quarter of the previous year. More specifically, an increase was marked by interest rates on saving deposits (reached 1.8 percent in Q3 2018, from 1.5 percent in Q3 2017). Interest rates on enterprise time deposits marked a slight increase, while transferable deposits remained at similar levels as in the same period of the previous year (figure 14).

Interest rates on household deposits stood at 1.4 percent in Q3 2018 (figure 15). Interest rates on transferable deposits (0.001 percent), saving deposits (0.3 percent) and time deposits (1.4 percent), in Q3 2018, are almost the same as the rates applied in Q3 2017, and nearly unchanged in the last three years, excluding interest rates applied on time deposits which have marked an increase in this quarter.

Figure 15. Interest rates on household deposits, by categories

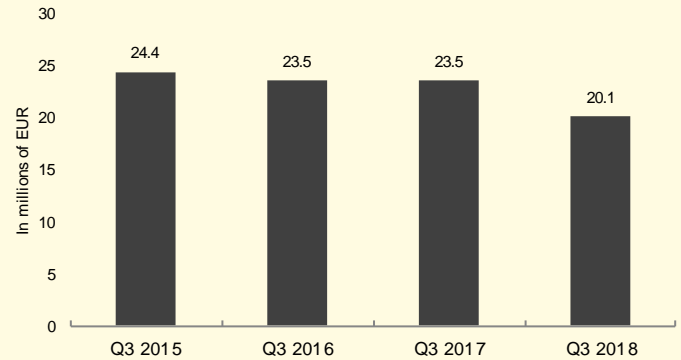


Source: CBK (2018)

Performance of the Banking Sector

The profit realized in Q3 2018 reached EUR 20.1 million, which is for EUR 3.4 million lower compared to the same quarter of the previous year (figure 16).

Figure 16. Net profit of the banking sector, in millions of EUR

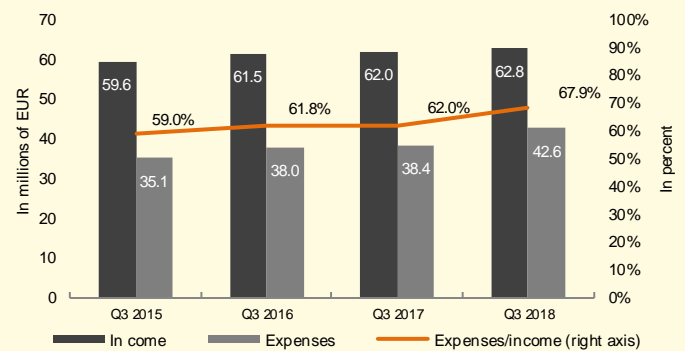


Source: CBK (2018)

The slight decline of the realized profit in Q3 2018, was mainly a result of the higher increase of expenditures against the increase of income.

Income of the banking sector, in Q3 2018, was characterized with a slight decline, primarily as a result of the decline of non-interest income, namely income from fees and commissions, and the income from revaluation. Whereas, interest income marked a slight decline compared to the income realized at the same time of the previous year. (figure 17).

Figure 17. Income and expenses of the banking sector

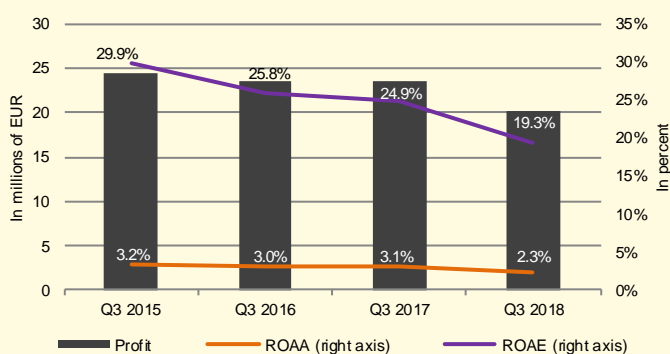


Source: CBK (2018)

Conversely, total value of expenditures of the banking sector, in Q3 2018, reached EUR 42.6 million, representing an increase of EUR 4.2 million compared to the same quarter of the previous year (figure 17).

The increase of the banking sector expenditures mainly is attributable to the increase of non-interest expenses, which increased by EUR 11.6 million in this quarter compared to Q3 2017. Within non-interest expenses, a higher impact on the increase was marked by the sub-category of provisions dedicated to possible loan losses, followed by provisions on fees and commissions. Within general and administrative expenses, the sub-category of expenses for personnel and general expenses marked a decline compared to Q3 2017. Also, interest expenses during this quarter marked a slight decline compared to Q3 2017, as a result of the decline of interest expenses on deposits.

Figure 18. Profitability indicators of the banking sector



Note: ROAA and ROAE calculation for the appropriate quarter was annualized
Source: CBK (2018)

As a consequence of developments of income and expenditures of the banking sector, expenditures to income ratio in Q3 2018 increased by 5.9 percentage points against the same period of the previous year, standing at 67.9 percent (figure 17).

Financial performance of the banking sector in this quarter was reflected also in two profitability indicators, namely Return on Average Assets (ROAA), and Return on Average Equity (ROAE). In Q3 2018, ROAA declined by 0.8 percentage points dropping down to 2.3 percent, while ROAE shrank by 5.6 percentage points, falling at 19.3 percent (figure 18). The decline of these indicators reflects the lower profit in this quarter compared to the same quarter of the previous year.

Financial Soundness Indicators

Banking sector, also in Q3 2018, was characterized with a decline of nonperforming loans and an improvement of their coverage with loan loss provisions. The level of nonperforming loans, at the end of the second quarter of 2018 stood at 2.8 percent, representing a decline of 0.8 percentage points compared to the same period of the previous year (figure 19).

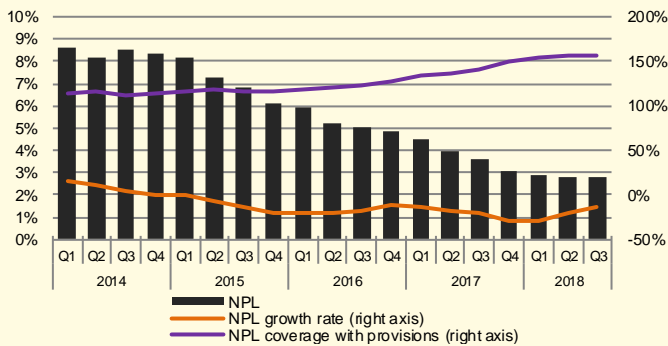
The coverage level of nonperforming loans with loan loss provisions was further improved, standing at 156.5 percent, marking an increase that mainly is attributable to the decline of the value of nonperforming loans.

The capitalization level of the banking sector continued to significantly remain above the minimum level of 12.0 percent as required by the regulation. Capital Adequacy Ratio stood at 16.1 percent at the end of Q3 2018.

The key liquidity indicator, being presented by the liquid assets to total short-term liabilities ratio,

marked a decline at the end of Q3 2018 for 2.4 percentage points compared to Q3 2017.

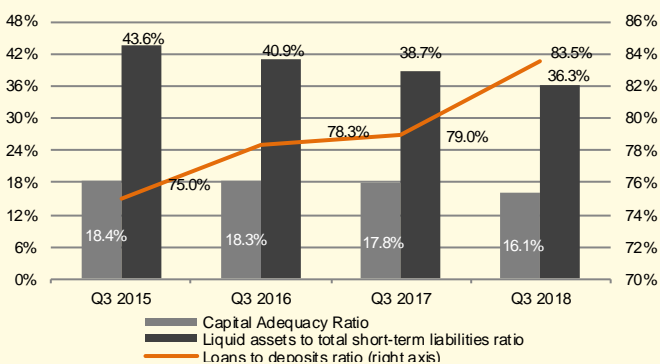
Figure 19. Indicators of loan portfolio quality and NPL growth rate



Note: The data are as at end of the noted quarter
 Source: CBK (2018)

This indicator stood at the level of 36.3 percent in the reporting period. The decline of this indicator is attributable to the increase of loans(which had an impact on the decline of liquid assets, and to the increase of short-term liabilities (as a result of the increase of transferable deposits) (figure 20).

Figure 20. Liquidity and solvency indicators



Note: The data are as at end of the noted quarter
 Source: CBK (2018)

Moreover, loans to deposits ratio, at the end of Q3 2017, stood at the level of 83.5 percent, thus standing above 80.0 percent as recommended by the CBK, which is a result of the higher increase of credit

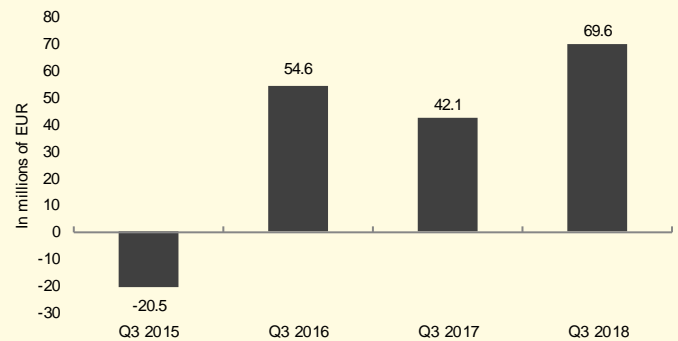
activity compared to the increase of deposits of the banking sector.

Pension Sector

Pension sector in Q3 2018 was characterized with an increase, as a result of the new contributions collected and positive performance of investment assets, mainly in foreign markets.

Pension sector continued to be the second sector by the share of assets to financial system with 28.3 percent to total assets. The stock of assets of this sector, until September 2018, reached the value of EUR 1.76 billion, marking an annual increase of 11.2 percent.

Figure 21. Assets of the pension sector, quarterly changes



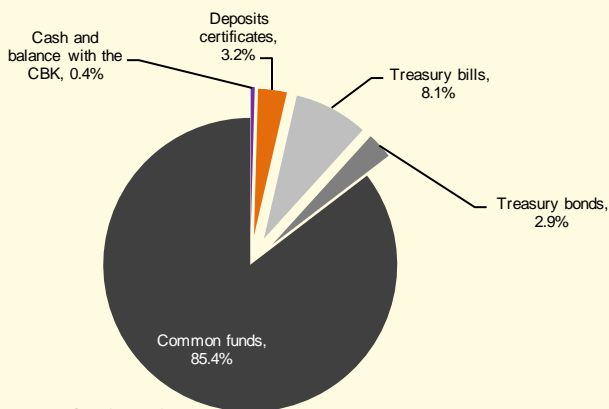
Source: CBK (2018)

In Q3 2018, assets managed by the pension sector increased by EUR 69.6 million, which is significantly higher value compared to the same period of the previous year (figure 21). Assets increase reflects the investments performance, mainly allocated abroad, and comprises the largest share of pension fund assets. In this quarter, the value of EUR 34.0 million was added to the stock of KPSF common funds

investments, which comprises 99.6 percent of total assets of the pension sector. During this period, also investments within the country, respectively investments in Kosovo's Government securities increased by EUR 40.9 million.

Pension funds operating in Kosovo have different assets investment strategy. KPSF follows a cautious strategy of investment, thus ensuring a diversification of the risk investments in common investment funds which are managed by assets management enterprises.

Figure 22. Structure of KPSF assets (Q3 2018)



Source: KPSF (2018)

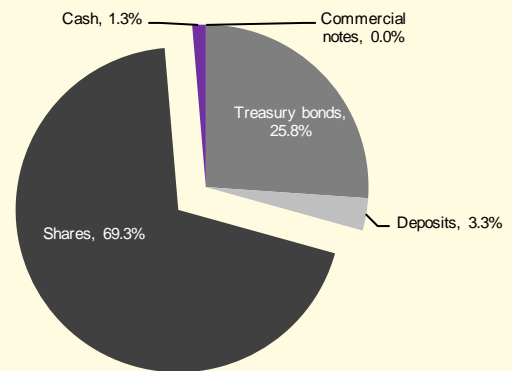
Conversely, SKPF invests its assets mainly in shares abroad, followed by assets invested in securities in Kosovo and abroad as well (figure 22 and 23).

In Q3 2018, new collections amounted to EUR 43.4 million, representing an increase of 6.8 presents compared to the same quarter of the previous year. Out of these collected contributions, 99.7 percent belong to KPSF.

In this quarter, KPSF was characterized with a positive performance of investments where the appreciation of investment assets increased, resulting

in a gross return of EUR 35.6 million compared to the gross return of EUR 10.2 million in the third quarter of the previous year (figure 24).

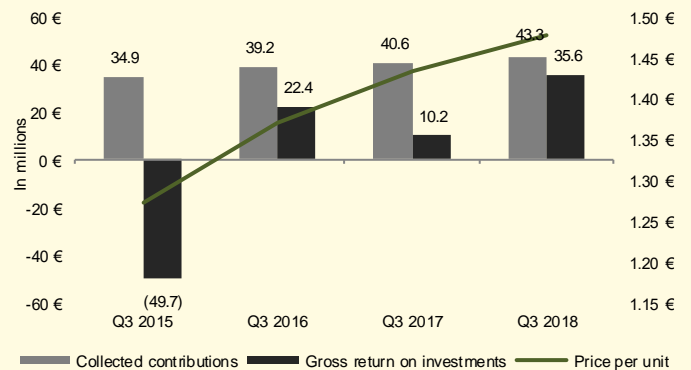
Figure 23. Structure of SKPF assets (Q3 2018)



Source: SKPF (2018)

While, SKPF marked a slowdown of gross returns from investments declining at EUR 225.9 thousands, in Q3 2018, from EUR 349.4 thousands.

Figure 24. Return on investments and KPSF performance



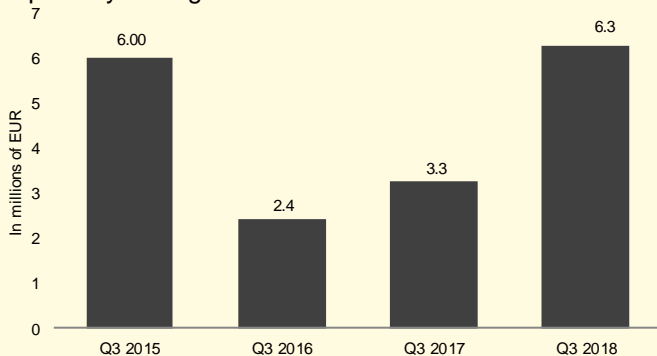
Source: KPSF (2018)

Insurance Sector

The increase of income from premiums and the efficient management of operating expenses had an impact on the sector's positive financial performance. As a result of the positive dynamics in the sector, the increase of expenses for claims

paid did not affect the net income, which resulted to be higher compared to the same period of the previous year.

Figure 25. Assets of the insurance sector, quarterly changes



Source: CBK (2018)

Assets of the insurance sector in Q3 2018 were characterized with an accelerated increase, thus having an impact on the gradual recuperation of the sector from an unfavorable financial statement in the previous years. In Q3 2018, assets of insurance sector expanded at a rate of EUR 6.3 million reaching the value of EUR 181.0 million at the end of the period, compared to the increase of EUR 3.3 million marked in Q3 2017 (figure 25).

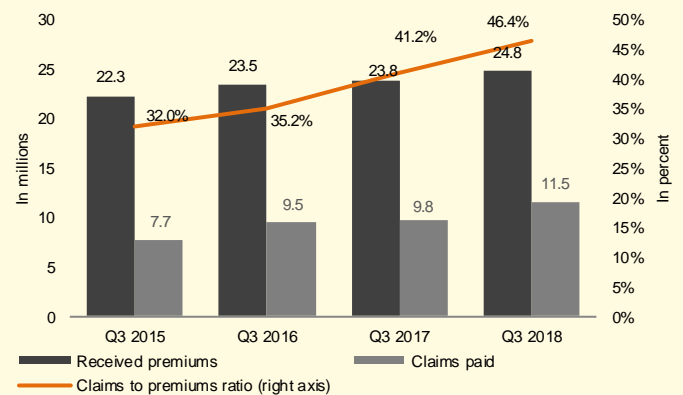
During this quarter, the strategy of assets management shifted from cash and deposits held at commercial banks, which were characterized with a decline, to investments in securities, which marked an increase. This strategy may have been affected by the increased rate of return from this instrument during the reporting quarter.

The trend of total assets of the sector reflects the developments in “non-life” insurance, whose assets increased by EUR 4.1 million in the third quarter. Although the sector of “life” insurance has low weight

to total assets of the sector, whose assets increased by EUR 2.2 million, having an impact on the overall positive trend of the sector’s assets.

The value of written premiums of insurance companies, in the second quarter of 2018, amounted to EUR 24.8 million, representing an annual increase of 4.3 percent. Premiums of “non-life” insurance account for 96.9 percent of total written premiums structure. The written premiums value of “non-life” insurance marked an annual increase of 3.9 percent, reaching a value of EUR 24.1 million. Whereas, the value of the written premiums of “life” insurance marked an annual increase of 18.0 percent, reaching a value of EUR 673.7 thousands.

Figure 26. Written premiums and claims paid



Source: CBK (2018)

Claims paid by insurance sector and Kosovo Insurance Bureau (KIB), reached EUR 11.5 million in Q3 2018 (EUR 9.8 million in Q3 2017), representing a growth 17.4 percent. Despite of having an increase of written premiums, the higher level of claims paid had an impact on the deterioration of claims to premiums ratio, which, in Q3 2018, reached 46.4 percent from 41.2 percent as it was in Q3 2017. This development shows that a considerable amount of income realized

from premiums should be dedicated for covering claims (figure 26).

Performance of the Insurance Sector

Insurance sector in Q3 2018 marked a better financial performance compared to Q3 2017, as a consequence of the decline of expenses and the increase of income.

Net income from premiums of the insurance sector, in Q3 2018, marked an annual increase of 6.8 percent, while at the same time, expenditures of the insurance sector were characterized with a decline of 11.3 percent compared to Q3 2017. Consequently, the increase of income and the decline of expenses mitigated the impact of the increase of claims incurred which reached 38.2 percent, resulting in a higher profit of EUR 1.3 million compared to the same quarter of the previous year (EUR 1.1 million in Q3 2017).

Regarding the liquidity position of the sector, this indicator marked an improvement in Q3 2018, taking into account the stock of assets by September 2018. This improvement of liquidity indicator of the sector is attributable mainly to the lower annual decline of the stock of cash and its equivalent (0.7 percent) against the decline of technical reserves (0.9 percent), where their ratio reached 98.7 percent from 98.6 as it was in September 2017. Meanwhile, the other liquidity indicator declined slightly, mainly being impacted by the overall increase of liabilities with 1.3 percent against the slight decline of cash and its equivalents. The ratio of cash and its equivalents to total liabilities, in September 2018, stood at 87.0 percent,

from 88.8 percent as it was in September of the previous year.

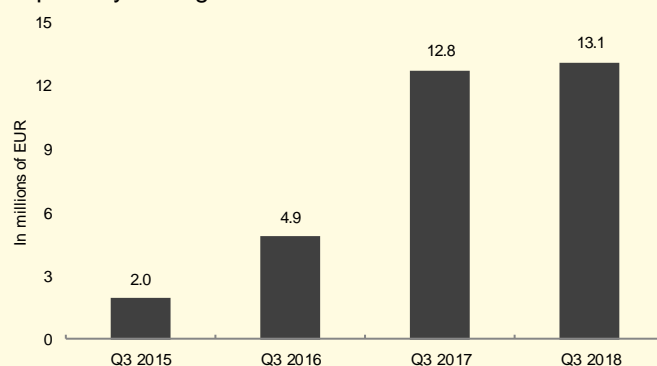
Microfinance Sector

The considerable assets increase of the sector continued to be influenced by the significant increase of loans stock of this sector. Consequently, the sector was characterized with an increase of income and positive financial performance.

Assets

Microfinance sector was the sector with the highest increase of assets stock within financial system until September 2018. Despite of an increase of the weight of this sector to total assets of financial system, its share still remains low with around 3.8 percent.

Figure 27. Assets of microfinance sector, quarterly changes



Source: CBK (2018)

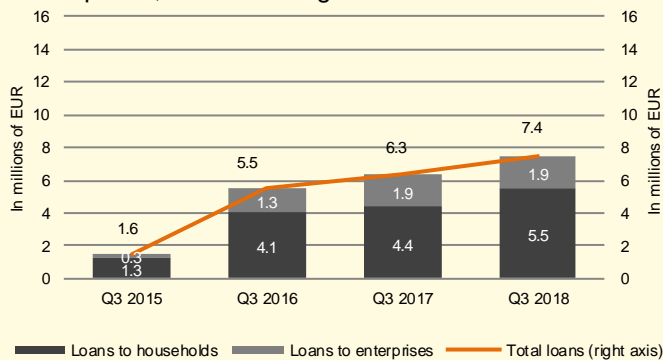
During Q3 2018, the value of total assets of microfinance sector increased by EUR 13.1 million (EUR 12.8 million in Q3 2017) (figure 27), amounting to EUR 236.2 million in September 2018. The expansion of microfinance sector mainly is attributed to the increase of credit activity, which is financed by

borrowings from external sector (68.5 percent of total assets).

Loans

In Q3 2018, the stock of loans increased by EUR 7.4 million, representing a higher increase for EUR 1.1 million compared to Q3 2017 (figure 28). Loans to households, which have a share of 65.6 percent to total loans of the sector, accelerated their increase with EUR 5.5 million (EUR 4.4 million in Q3 2017). Meanwhile, loans to enterprises, which comprise 34.4 percent of total loans of the sector, declined by EUR 1.9 million, representing the same value as in Q3 2017. As a result of these dynamics, the stock of loans to enterprises and households marked a significant annual increase.

Figure 28. The value of loans to households and to enterprises, annual change of loans

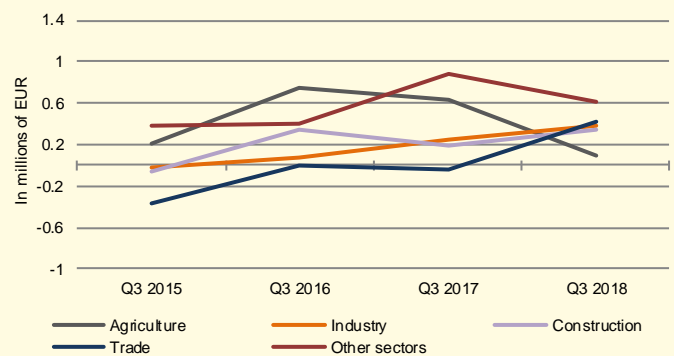


Source: CBK (2018)

Regarding lending activity by economic sectors, stock of loans to the most important sectors such as agriculture, construction, trade and industry were characterized with a positive trend during this quarter. Loans to agriculture sector were characterized with a marginal increase during this quarter, and moreover these loans were characterized

with a lower level compared to the trend of Q3 2017. The sector which marked the highest increase in this quarter was trade sector with EUR 0.5 million, which at the same time comprises the most important category of loans to enterprises (12.9 percent of total stock of loans) (figure 29).

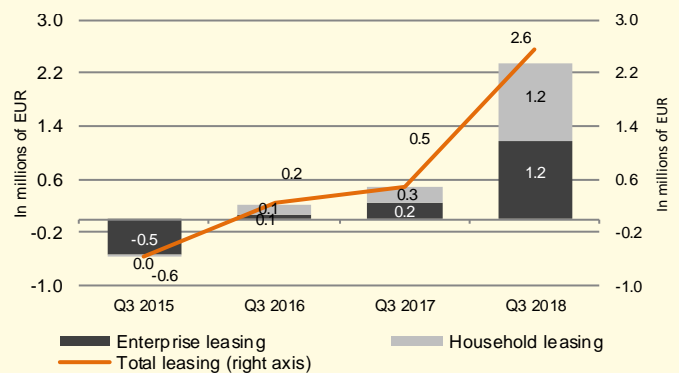
Figure 29. The value of loans to enterprises, by economic sectors in Q3



Source: CBK (2018)

Leasing

Figure 30. Value of microfinance sector leasing



Source: CBK (2018)

The stock of leasing in Q3 2018 increased by EUR 2.6 million (EUR 0.5 million in Q3 2017) (figure 30).

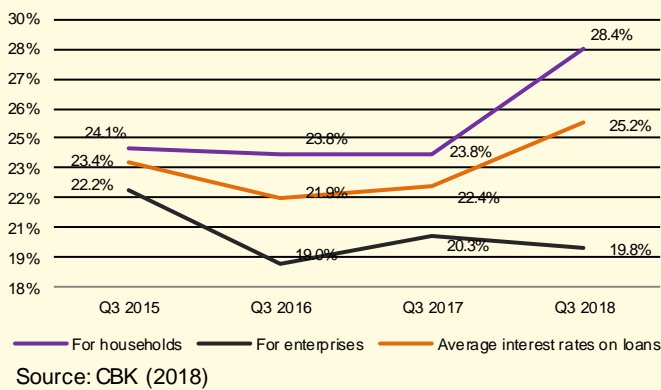
The increase of leasing value during this quarter was primarily supported by the increase of “other leasing”

mainly to enterprises, being followed by the increase of mortgage leasing to households.

Interest Rates

The average interest rates on loans changed their trend from the previous year, increasing to 25.2 percent, from 22.4 percent as they were in Q3 2017. An exception was observed with interest rates on loans to enterprises which were characterized with a decline unlike the same quarter of the previous year.

Figure 31. Average interest rates on loans of microfinance sector

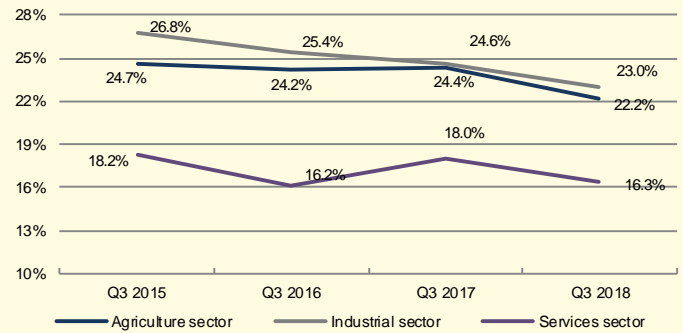


Interest rate on loans to households marked a considerable increase with 4.6 percentage points, whereas interest rate on loans to enterprises was characterized with a decline of 0.5 percentage points (figure 31). Within loans to households the average interest rate on consumer loans increased by 31.4 percentage points, reaching 56.0 percent, while the average interest rate on mortgage loans declined by 3.0 percentage points, falling at 22.4 percent.

Within loans to enterprises, services sector results to have the lowest interest rate. Whereas, industry sector remained the sector with the highest interest rate on loans, despite the decline of 1.6 percentage

points of interest rate compared to Q3 2017 (figure 32).

Figure 32. Average interest rate on loans to enterprises, by economic sectors



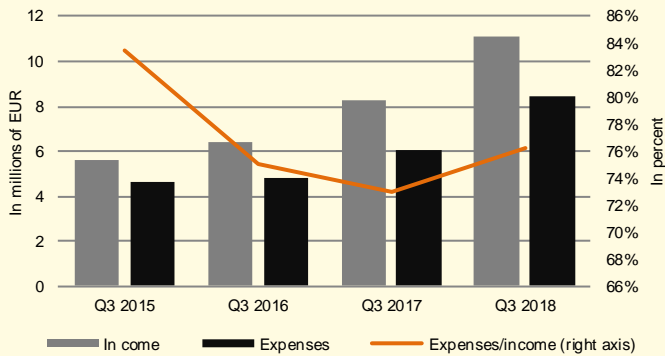
Performance of the Microfinance Sector

Developments in credit activity and leasing activity within the sector, had an impact on the good financial performance of microfinance institutions marked in Q3 2018. The profit of the sector reached a value of EUR 2.7 million against the profit of EUR 2.2 million marked in Q3 2017 (figure 33).

The profit increase primarily was attributed to the significant increase of income with EUR 2.8 million, whose value reached EUR 11.1 million in Q3 2018. The profit increase is attributable to income increase of EUR 2.5 million, which comprises around 88.0 percent of total income.

The increase of interest income was a result of credit activity increase marked by microfinance institutions in the last three years, and as well a result of the increase of interest rates applied on loans. Total expenditures of the sector marked an increase of EUR 2.4 million reaching EUR 8.5 million in Q3 2018.

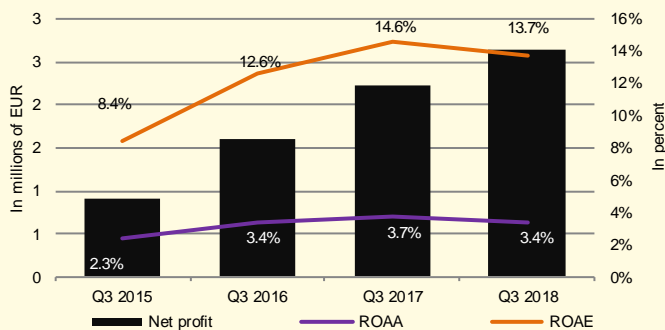
Figure 33. Microfinance sector income and expenses



Source: CBK (2018)

The highest increase was marked by non-interest expenses with EUR 5.0 million, as a result of the increase of personnel and administrative expenses. Also, the increase of provision expenses for possible loan losses gave a contribution, albeit to some lower extent.

Figure 34. Profitability indicators of microfinance sector

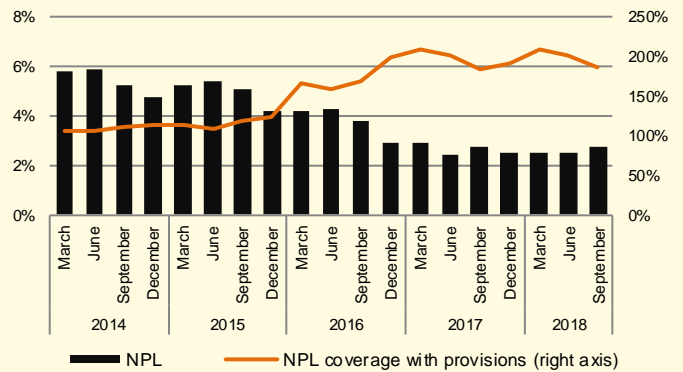


*Profit was annualized for the respective quarter
Source: CBK (2018)

As a result of the positive financial performance during the first quarter, profitability indicators, calculated for the whole year, except the indicator of return from equity, which compared to Q3 2017 marked a decline due to the higher increase of capital than the profit during Q3 2018 (figure 34).

Microfinance institutions continued to be characterized with low level of nonperforming loans and good coverage with loan loss provisions.

Figure 35. Indicators of credit portfolio quality



Source: CBK (2018)

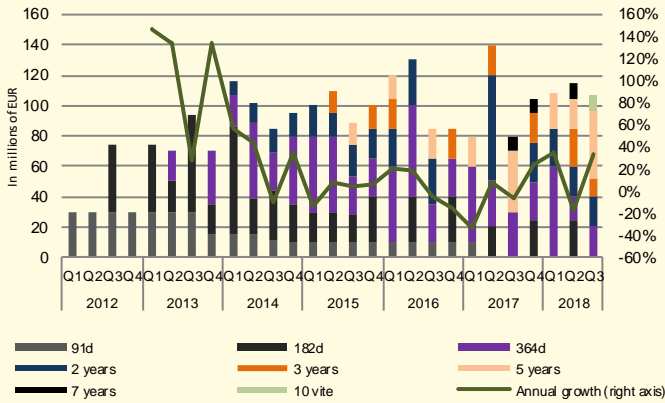
The level of nonperforming loans to total loans ratio of the sector, until September 2018, remained unchanged as in the same period of the previous year, standing at the rate of 2.8 percent (figure 35). Whereas, the coverage level of nonperforming loans with loan loss provisions, in September 2018, reached the level of 186.3 percent compared to the level of 185.0 percent in September 2017.

Securities Market

In the third quarter, Treasury Department of the Ministry of Finance of Kosovo's Government realized 6 auctions, in which were issued government bills and government bonds with a value of EUR 107.0 million (figure 36).

The value of the securities issued during this quarter was 33.8 percent higher than in the same quarter of the previous year, while 6.5 percent lower compared to the previous quarter.

Figure 36. Value of issued debt, annual growth



Source: Ministry of Finance

The significant increase compared to the same period of the previous year, was affected by the issued value of government bonds and lengthening the maturity of securities up to 10 years (table 36).

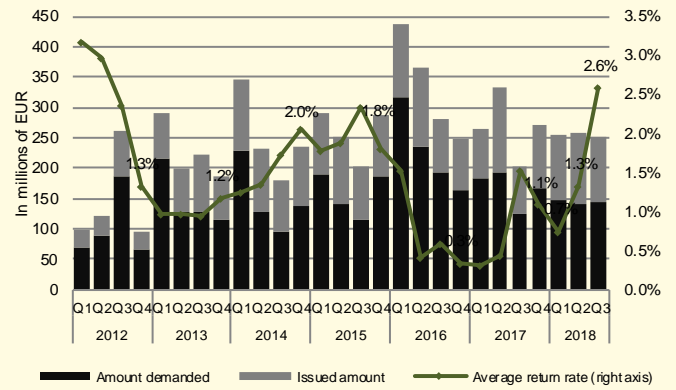
Table 1. The number and amount of securities issued by Kosovo's Government

Period	Treasury bills		Treasury bonds	
	Number realized	Received value	Number realized	Received value
Q3 2015	3	53.60	2	35.00
Q3 2016	2	35.00	2	50.00
Q3 2017	1	30.00	3	50.00
Q3 2018	1	20.00	5	87.00

Source: Ministry of Finance (2018)

The average interest rate on securities, in Q3 2018, has marked an increase (2.58 percent) compared to Q3 2017 (1.53 percent). This increase may have been affected by issuance of treasury bonds with longer maturity compared to the same quarter of the previous year, especially the issuance for the first time of government bonds with a maturity of 10 years. In addition, the increase of the average interest rate may have been impacted by participants' interest on securities auctions. The participants' bid amount was for 1.3 times higher than the amount issued at auctions by the Ministry of Finance (1.5 times higher in Q3 2017) (figure 37).

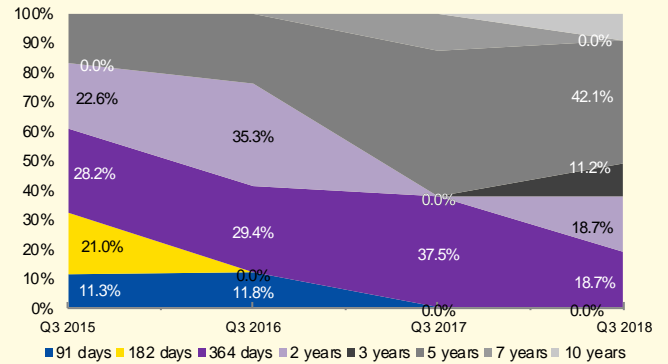
Figure 37. Bid to cover ratio



Source: Ministry of Finance (2018)

Securities structure by maturity in this quarter is dominated by treasury bonds with a maturity of 5 years with a share of 42.1 percent, while treasury bills with a maturity of 365 days and treasury bonds with a maturity of 2 years had the same share with 18.7 percent to total issued securities in this quarter.

Figure 38. Structure of Government securities, in percent



Source: Ministry of Finance (2018)

Similar to the same period of the previous year, there were not issued treasury bills with a maturity less than 365 days, while the issuance trend of securities was more focused on issuing government bonds with a longer maturity (figure 38).

Suggested citation for this publication:

CBK (2018): Quarterly Assessment of Financial System No. 24, Q3 2018, Central Bank of the Republic of Kosovo, Prishtinë

References:

CBK (2018):

- a) Monthly Statistics Bulletin: <http://www.bqk-kos.org>
- b) Official CBK statistics, Time series: <http://www.bqk-kos.org>

KAS (2018):

- a) Consumer Price Index: <http://ask.rks-gov.net/eng>
- b) Producer Price Index: <http://ask.rks-gov.net/eng/>
- c) Import Price Index: <http://ask.rks-gov.net/eng/>
- d) Statistical Report on enterprises: <http://ask.rks-gov.net/eng/>
- e) Statistics of external trade: <http://ask.rks-gov.net/eng>
- f) Quarterly Bulletin: <http://ask.rks-gov.net/sq/agjencia-e-statistikave-te-kosoves/add-news/buletini-tremujor>

Other (2018):

- a) Result announcement of Government's Securities auctions: <https://mf.rks-gov.net/page.aspx?id=1,46>
- b) Kosovo Credit Guarantee Fund: <http://www.fondikgk.org/>
- c) Kosovo Pension Saving Funds; Quarterly reports: <http://www.trusti.org/sq/per-ne/raporte/835-2/>

Bloomberg (2018): Metal Prices database.

FAO (2018): World Food Prices, Food and Agriculture Organization of United Nations: <http://www.fao.org>

Euribor (2018): Euribor Historical Rates:

<http://www.euribor-ebf.eu/euribor-org>

IMF (2018): World Economic Outlook. <http://www.imf.org>

Macroeconomic selected indicators

Description	Q3 2017	Q3 2018
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	-	-
Consumer prices (annual average)	1.7%	1.4%
Consumer prices (end of period)	1.7%	1.5%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	474.9	497.6
Budget Expenditures (in millions of EUR)	416.9	461.3
Primary balance (in millions of EUR)	58.0	36.3
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,765.2	6,226.2
of which : Banks	3,811.4	4,033.3
Loans	2,407.2	2,681.1
Deposits	3,046.9	3,210.1
<i>Interest Rate s on Loans, end of period</i>	6.5%	7.0%
<i>Interest Rate s on Loans, end of period</i>	0.9%	1.4%
Interest rate gap	5.6%	5.6%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	295.6	250.7
of which: remittances	131.0	135.8
Financial account	142.1	122.2
Foreign Direct Investmentsin Kosovo	64.8	42.0
Portfolio investments, net	60.3	-91.5
Other investments, net	17.6	27.1
International Investment Position (IIP), net	-182.5	-261.7
Assets	4,664.3	4,754.4
Liabilities	4,846.8	5,016.1
External debt	2,113.8	2,058.3
Private external debt	1,597.3	1,561.7
Public external debt	516.5	496.7

Source:

1/ KAS (2018).

2/ MF (2018).

3/ CBK (2018).

*Balance of payments data cover the months of July and August, whereas for IIP and external debt the data are presented as of Q2.

