

### Summary

Kosovo's economy in the first quarter of 2015 marked an annual growth of 1.6 percent, while during the two consecutive quarters was marked an accelerated economic growth rate (4.8 percent of growth in Q2 and 4.0 percent in Q3 2015) (KAS, 2015). CBK estimates for 2015 suggest an economic growth rate of 3.5 percent, compared to the growth rate of 1.2 percent in 2014. Kosovo's economy was characterized with a deflation of 0.5 percent in 2015, compared to the inflation of 0.4 percent in the previous year.

Fiscal sector during 2015 was characterized with budgetary income and expenditures growth. Regarding the budgetary income, there was marked a higher growth of domestic income, while within expenditures, the increase of wages and salaries category and subsidies and transfers had an impact on the growth of the budgetary income. Budget balance marked a deficit of euro 110.2 million which is lower for 22.9 percent compared to 2014.

External sector was characterized with a deficit growth of capital and current account, which mainly is attributed to the deficit growth of goods account and to the decline marked in the positive balance of services account and primary and secondary income account. Export of goods marked a growth of 0.2 percent, while import marked a growth of 3.8 percent. Economic activity in 2015 was supported also by two important sources of growth, remittances and FDI.

Loans of the banking sector during 2015 accelerated the growth pace, marking an annual growth rate of 7.3 percent (4.2 percent in 2014). Agricultural, manufacturing and the financial services sector, which comprise the sectors with the highest growth rate of loans received, represent an important development in supporting the economic activities in the country. Also, the year 2015 was characterized with a decline of interest rates on loans, which is expected to have an important role in easing the access to the bank financing. Deposits marked a growth rate of 6.5 percent (3.6 percent in 2014) thus changing the slowdown trend followed during the recent years.

Banking sector continued to improve the credit portfolio quality. The NPL rate decreased to 6.2 percent (8.3 percent in December 2014). The level of banking sector capitalization marked a further strengthening, while also the liquidity position stood at satisfactory level.

With an accelerated activity and financial performance improvement was characterized also the microfinance sector. The insurance sector marked an asset growth as well, albeit the financial performance of this sector continued to remain fragile as a result of loss deepening in 2015. Pension sector marked a slow growth as result of the growth slowdown of new collected contributions and to the negative impact that had developments in international financial markets on the return from investments on pension funds. Despite these developments, the return on investments continues to be positive.

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

Euro area during 2015 was characterized with a growth of its economic activity. The real economic growth rate in 2015 was 1.5 percent, compared to the growth rate of 0.9 percent marked in 2014, which represents a recovery tendency of euro area economies (table1).

Table 1. Real GDP growth rate

Description	2012	2013	2014	2015
Euro area	-0.8	-0.3	0.9	1.5
Germany	0.6	0.4	1.6	1.5
France	0.2	0.7	0.2	1.2
Italy	-2.8	-1.7	-0.4	0.8
Austria	0.8	0.3	0.4	0.8
Spain	-2.1	-1.2	1.4	3.1
Greece	-6.6	-3.9	0.8	-2.3

Source: IMF, WEO, October 2015

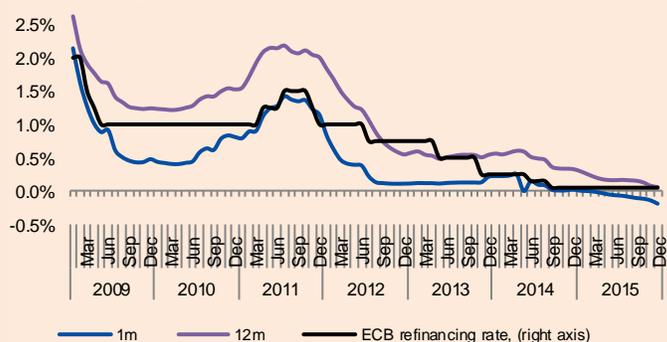
The economic growth in euro area during 2015 was mainly supported by the domestic demand, particularly from the household consumption. An important contribution to the consumption growth was given also by the purchase power of consumers which is attributed to the general price level decline and especially to the oil price decline. However, the economic slowdown of China and other emerging economies was reflected to the decline of external demand, thus causing a demand decline of euro area exports.

According to Eurostat, euro area was characterized with an average annual inflation of 0.1 percent in the fourth quarter of 2015. The inflation rate in 2015 continuously was low, while in 2016 prices are expected to have a growth tendency. According to IMF, the inflation rate in euro area in 2016 is expected to be 1.0 percent, which nevertheless is

below the ECB target to keep the inflation rate at about 2.0 percent. The gradual increase of inflation rate is expected to be driven mainly by the impact of monetary easing policy of ECB in the general euro area demand.

ECB continued to keep the key refinancing rate unchanged in 2015. However, the launch of comprehensive stimulus program since March 2015 has had an impact on the decline of 1-month and 12-month interest rates of interbank Euribor lending. In the fourth quarter of 2015, 1-month Euribor rates have marked an average decline of -0.15 percent from -0.09 percent in the third quarter of 2015. Conversely, the 12-month average rates marked an average decline of 0.09 percent in the fourth quarter of 2015, from an average of 0.17 percent in the third quarter of 2015.

Figure 1. EURIBOR interbank lending and ECB refinancing rate



Source: Euribor (2016) and ECB (2016)

Performance of the economic activity in the Western Balkans during 2015 is estimated to have marked an improvement. Strengthening of the external demand as a result of the euro area gradual recovery, strengthening of the private consumption and lending increase have supported the economic activity in the

Western Balkan countries. According to IMF estimates, the Western Balkan countries marked an average increase of GDP from 2.5 percent in 2015. Montenegro, Macedonia and Kosovo are estimated to have been characterized by a higher economic growth rate of 3.2 percent each, while Serbia is estimated to have recorded the lowest growth of 0.5 percent.

Similarly to the euro area, the Western Balkan countries in 2015 were characterized by weak inflationary pressures, driven mainly by domestic demand which is still weak and lower commodity prices in international markets. The IMF has estimated that the average inflation rate in 2015 was 0.9 percent. Albania is estimated to have been characterized by the highest inflation rate of 2.2 percent, followed by Montenegro and Serbia with 1.7 and 1.6 percent, while Macedonia and Kosovo were characterized by low inflation rate of 0.1 percent and -0.5 percent, respectively.

The exchange rate of euro against major currencies in 2015 marked depreciation. Euro has marked a depreciation of 16.6 percent against the US dollar, 12.2 percent against the Swiss franc, 9.3 percent against the British pound and, 0.2 percent against the Albanian lek, while was appreciated against the Serbian dinar and the Turkish lira by about 3.0 percent.

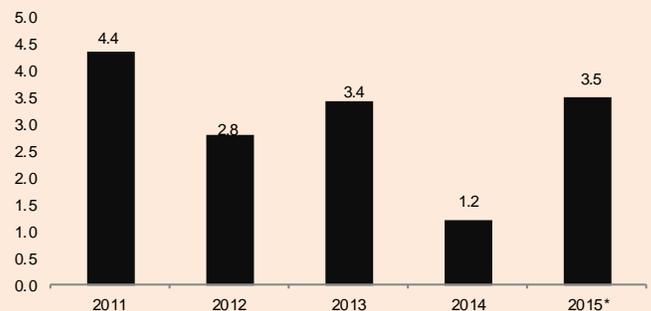
## Kosovo's Economy

### Real Sector

Based on macroeconomic indicators, it is estimated that Kosovo's economy in 2015 was characterized by an increase in its economic activity. According to KAS, Kosovo's economy marked a growth of 1.6 percent in the first quarter of 2015, while in Q2 2015 marked a considerably higher growth rate of 4.8 percent. The accelerated economic growth pace was present also in the third quarter of 2015, when the real growth rate of GDP reached 4.0 percent.

For the whole year of 2015, the CBK estimates suggest that real growth rate of GDP was 3.5 percent, generated mainly by domestic demand (figure 2).

Figure 2. Real GDP growth rate, in percent



\* The data for 2015 present CBK forecasts  
Source: KAS (2015)

According to estimates of KAS, investments increased by 9.2 percent until September (4.7 percent decrease in the same period of 2014), while consumption increased by 1.2 percent (3.8 percent increase in the same period of 2014). The sectors that recorded the highest growth rate were the sector of electricity supply, gas and water (16.4 percent), hotels and restaurants sector (15.3 percent), construction (10.7 percent) and trade (4.5 percent). Sectors that marked

a decline were the public administration sector (4.9 percent) and other services (1.5 percent).

The increase of domestic demand is estimated to have led to an increase in imports and, consequently, to an increase of the current account deficit. While the financial account of the balance of payments has improved, mainly as a result of increased foreign direct investments.

The price level in Kosovo, expressed through the consumer price index (CPI) in 2015 was characterized by a deflation of 0.5 percent, compared with the inflation of 0.4 percent in 2014 (figure 3).

Figura 3. Inflation rate, annual change in percent

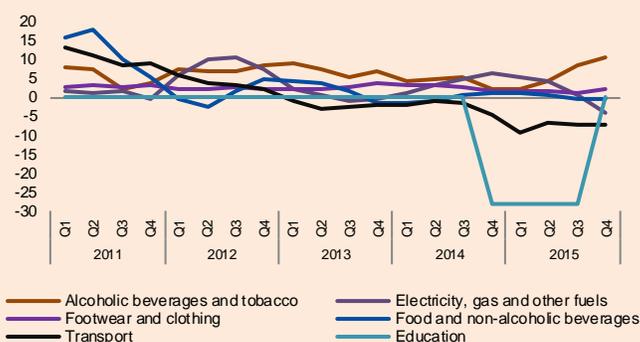


Source: KAS (2016)

The decline of the general level of prices mainly was influenced by educational services prices, which marked a decrease of 22.6 percent, transport prices which declined by 7.5 percent and prices of restaurant and hotels services, which marked a decline of 2.1 percent. The price decline of educational services is attributed to the government's decision to decrease the payment to 50 percent for public university students, a decision that was applied in the beginning of the academic year in October 2014, while the decline in prices of transportation services is

attributed to the price decline of oil. On the other hand, prices of alcoholic beverages and tobacco increased by 6.5 percent and prices of housing, water, electricity, gas and other fuels increased by 1.6 percent. With an increase of 0.4 percent were characterized also food prices and non-alcoholic beverages, which represent about 40.9 percent of Kosovo's consumer basket (figure 4).

Figura 4. Price movement by main components, annual change in percent

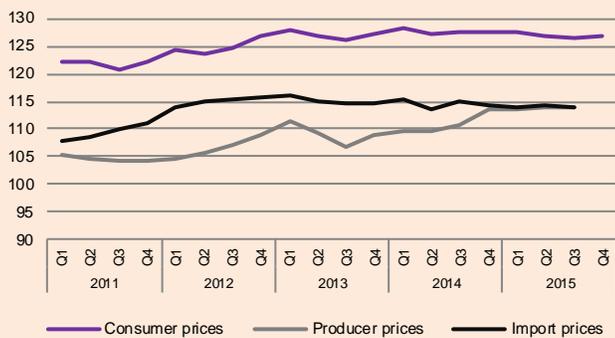


Source: KAS (2016)

Price movement in Kosovo is similar to the movement of prices in international markets due to the high dependence of the Kosovo's economy on imports. This is shown by the similar behavior of import price index and the consumer price index in Kosovo (figure 5). Import prices<sup>1</sup> until September 2015 against the same period of the previous year marked an average decline of 0.6 percent. Prices of mineral products (mainly oil and its derivatives), which are the main category of import price index, recorded the highest decline, followed by the prices of plastics, base metals and transport vehicles.

<sup>1</sup> Based on the publication calendar of KAS IPI and PPI for the fourth quarter of 2015 will be published on 11 and 14 of March 2016.

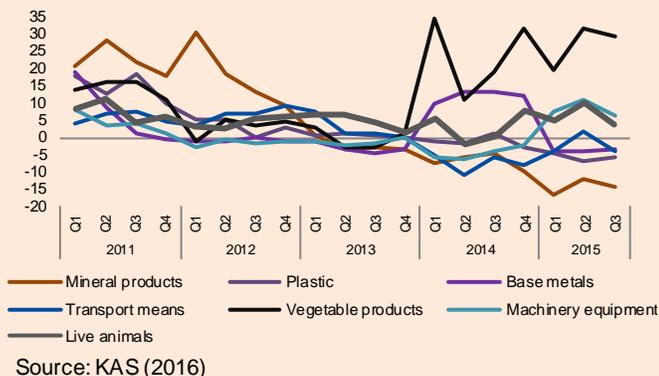
Figure 5. Consumer, producer and import price indices



Source: KAS (2016)

On the other hand, prices of vegetable products and machinery equipment recorded the highest increase, followed by live animals and their products (figure 6).

Figure 6. Import price movements, annual change in percent

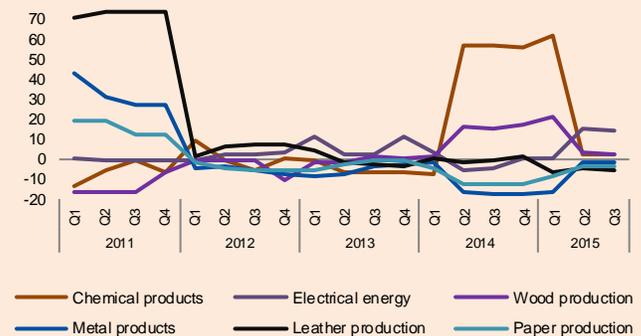


Source: KAS (2016)

The producer price index until September 2015 recorded an average annual growth of 3.5 percent. The producer price increase was more pronounced in the producer prices of chemical products, followed by electricity prices, gas, steam and air conditioning supply, the prices of wood production and wood products. On the other hand, the decline in producer prices was mostly present in the production of metal products, manufacture of leather and leather

products, the decline in producer prices of paper and paper products (figure 7).

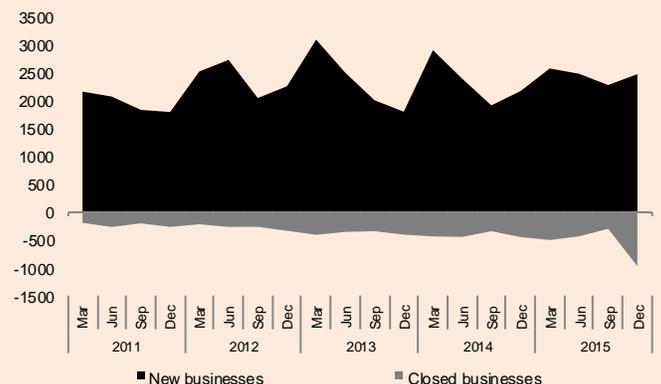
Figure 7. Producer price movements, annual change in percent



Source: KAS (2016)

Regarding the registry of enterprises, it was marked an increase in the number of registered enterprises and also in the number of closed enterprises. The number of new registered enterprises in 2015 was 9,833, which represents 429 enterprises more than in the previous year, while 2,205 were closed or 534 enterprises more than in the previous year (figure 8).

Figure 8. Business registry, non-cummulative

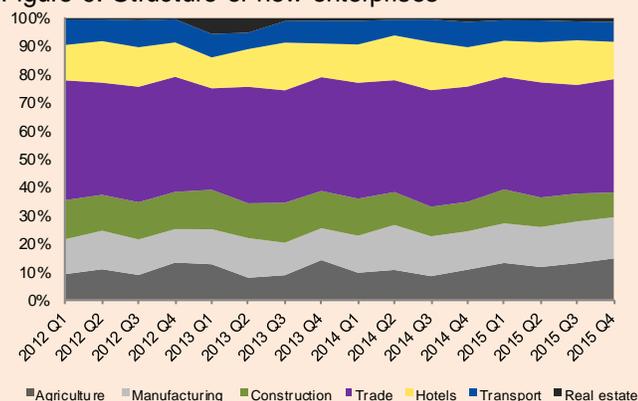


Source: KAS (2016)

Also during 2015, the largest number of registered enterprises was in the trade sector with 2,903 new enterprises, followed by the manufacturing sector with 1,047 enterprises, hotels with 1,018 and

agricultural sector with 945 enterprises (figure 9). The agriculture sector recorded the highest growth of registered enterprises with 271 new enterprises more than in the same period of the previous year, followed by trade sector, where the number of enterprises increased by 89 and the manufacturing sector, which has increased the number of registered enterprises with more than 69 compared to the same period of the previous year. Meanwhile, in the construction sector were registered 50 enterprises fewer compared with the previous year, in the hotels sector 16 enterprises fewer and in transport sector 10 enterprises fewer than in the same period of the previous year.

Figure 9. Structure of new enterprises



Source: KAS (2016)

### Fiscal Sector

Budget revenues<sup>2</sup> in 2015 reached a gross value of euro 1.49 billion. If euro 35.7 million of the returns from VAT and other taxes of Tax Administration and Customs of Kosovo were excluded, the budget revenues would amount net euro 1.46 billion, representing an annual increase of 9.3 percent.

Budget expenditures<sup>3</sup> reached a value of euro 1.57 billion representing an annual increase of 6.2 percent compared with the previous year. Consequently, in 2015, Kosovo's budget recorded a budget balance of around euro -110.2 million compared with the budget balance of -143.0 million euro in 2014.

Regarding the structure of budget revenues, there is an increase of revenues collected from local taxes which amounted to gross euro 332.8 million. If gross euro 28.8 million returns from tax administration were excluded, the net revenues from domestic taxes would mark an increase of 11.5 percent and would reach an amount of net euro 304.0 million. Revenues collected from border taxes amounted to net euro 944.9 million which are for 8.8 percent higher than in 2014. Non-tax revenues amounted to euro 188.1 million or 9.8 percent more than in the previous year.

Regarding expenditures, wages and salaries and subsidies and transfers increased compared with the same period of the last year, while capital outlays and goods and services marked a decline. Capital investments, which represent about 25.8 percent of total expenditures were lower by 1.8 percent compared with the previous year and reached a value of euro 404.0 million. Government expenditures on goods and services declined by 0.8 percent and reached a value of euro 204.2 million. On the other hand, government expenditure on wages and salaries increased by 8.2 percent and reached euro 524.8 million. Subsidies and transfers have also marked an increase of 16.0 percent reaching euro 418.9 million.

<sup>2</sup> 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.

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

Public debt, in December 2015, reached euro 748.9 million, which is for 28.5 percent higher compared with the public debt in December 2014. As a percentage to GDP, public debt has reached about 12.98 percent from 10.63 percent in the previous year. This increase in public debt is mainly attributed to the growth of domestic debt of 47.3 percent (which reached euro 377.8 million), while also the external debt increased significantly by 13.7 percent, reaching euro 371.2 million. While in the past years public debt was dominated by external debt, at the end of 2015 domestic debt had a higher share (50.4 percent) to total public debt.

### External Sector

Until November 2015, the current and capital account deficit recorded a value of euro 469.9 million, compared to the deficit of euro 393.9 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 decreases in positive balance of services account, and in primary and secondary income as well. Until November 2015, the deficit in goods trade was characterized by an annual increase of 1.2 percent compared with the same period of the previous year, while the surplus in services trade was lower for 2.0 percent. Also, the positive balance of primary and secondary income was lower for 25.0 and 1.3 percent, respectively.

Export of goods in 2015 amounted to euro 325.3 million, corresponding to an annual increase of 0.2

percent (10.4 percent increase in 2014) (figure 10).<sup>4</sup> The growth of goods exports, in 2015, was mainly attributed to the increased exports of plastics and rubber, food products and increased exports of mineral products. As a result of the price decline in the international markets of the main metals that Kosovo exports, the export of base metals marked a decrease.

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



Source: KAS (2016)

Imports of goods in 2015 amounted to euro 2.6 billion, which represents an annual increase of 3.8 percent. Within the import of goods, food products, base metals, rubber and plastics and import of vehicles were characterized with a growth. As a result of faster growth of goods imports compared to exports of goods in 2015, the coverage rate of imports by exports decreased from 12.8 percent, in 2014, to 12.5 percent in 2015.

The balance of trade in services reached a value of euro 313.0 million until November 2015 (euro 319.5 million in the same period of 2014).<sup>5</sup> Export of services until November 2015 recorded an annual growth of

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

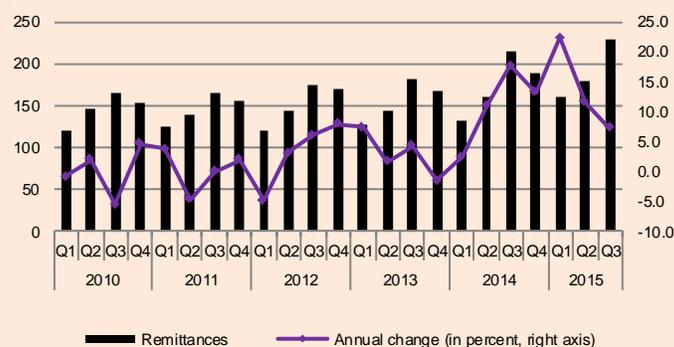
<sup>5</sup> The latest data available for services trade are until November 2015.

2.6 percent, reaching a value of euro 712.4 million. In the same period, the value of import of services marked an increase of 6.5 percent and amounted to euro 399.4 million. In the context of services export, travel services were characterized by an annual growth of 9.4 percent until November 2015, while the category of computer services, information and telecommunications as well as the category of business services was characterized by a decline of 27.1 and 19.4 percent, respectively. Regarding the import of services, two main categories of services, namely transportation and travel services increased by 55.6 percent and 9.0 percent, respectively.

The lower balance of primary income is attributed to a higher level of payments that have made foreign direct enterprises to direct investors in Kosovo, mainly in the form of dividend. The revenues derived from direct investors, until November 2015 have reached euro 102.7 million from euro 65.7 million as they were in the same period of 2014. The largest category within the primary income account remained revenues from the compensation of employees, namely the income from the proceeds of Kosovo employees abroad.<sup>6</sup> Until November 2015, revenues from the compensation of employees increased by 3.4 percent, reaching euro 193.0 million.

The lower balance of the secondary income is 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. On the other hand, remittances received in

Figure 11. Remittances, in millions of euro



Source: CBK (2016)

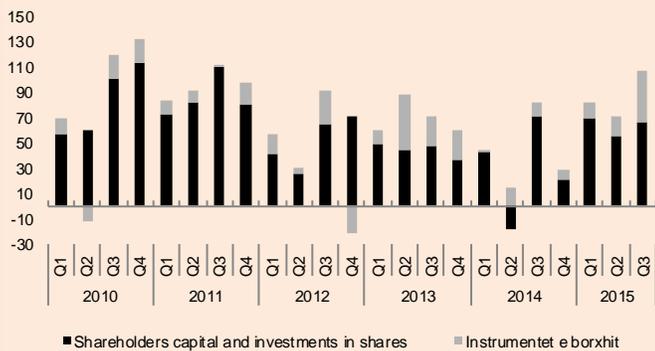
Kosovo, which simultaneously represent the largest category within the secondary income account until November 2015 reached a value of euro 682.7 million, representing an annual increase of 9.0 percent (figure 11). Remittances received in Kosovo come mainly from Germany and Switzerland, which represent the countries with a share of 36.0 percent and 22.4 percent, respectively, of total remittances received. A significant amount of remittances, in 2015, was received by the US as well, namely 7.9 percent of total remittances received in Kosovo.

The balance of foreign direct investments until November 2015 amounted to euro 289.7 million, which represents a significant increase compared to the value of euro 135.6 million in the same period of the previous year. Foreign Direct Investments (FDI) in Kosovo until November 2015, reached a value of euro 316.3 million (euro 159.9 million in the same period of 2014). Within the structure of FDI, with a growth value were characterized two forms of FDI, including capital and fund investments in shares, and investments in debt instruments. Equity and investment funds in shares, which represent about 71.0 percent of total FDI reached a value of euro 224.5

<sup>6</sup> Compensation of employees includes wages, salaries and benefits paid for non-resident employees in the country, or received by resident employees from abroad. In this context, are included seasonal employees or other short-term contracted employees (less than one year) and custom employees whose interest economic centre is in their economy.

million or 82.2 percent more than in the same period of the previous year. A higher growth rate (150.7 percent) was marked also by FDI in the form of debt instruments, which reached euro 91.8 million until November 2014 (figure 12).

Figure 12. Structure of FDI by components, in millions of euro



Source: CBK (2016)

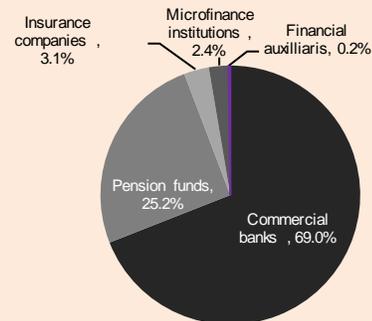
The sectors that benefited mostly from the growth of FDI were represented by the real estate which amounted to euro 170.7 million or 31.6 percent more compared to the same period of 2014, followed by the financial services sector which reached a value of euro 54.0 million or 17.1 percent more compared to the same period of last year, then the construction sector which amounted to euro 53.7 million (only euro 3.0 million until September 2014), etc.

## Financial System

In December 2015, the value of total assets of the Kosovo's financial system amounted to euro 4.91 billion, corresponding to an annual increase of 8.1 percent (figure 13).

Banking sector and pension sector continue to have the major contribution to the expansion of the financial system activity.

Figure 13. Assets of microfinance system, in percent



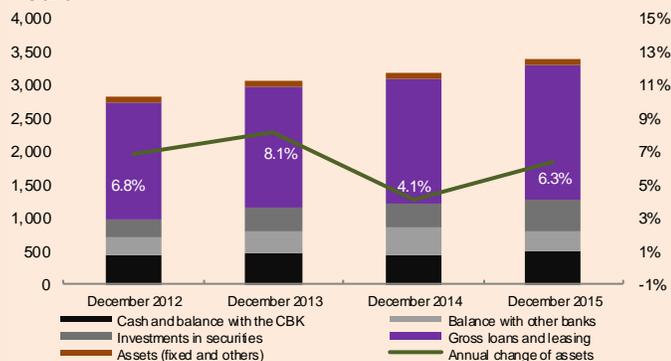
Source: CBK (2016)

## Banking Sector

### Assets

Banking sector, in December 2015, expanded its assets value to euro 3.39 billion, corresponding to an annual growth of 6.3 percent (4.1 percent in December 2014) (figure 14). The highest contribution to the growth of the banking sector assets was given by the expansion of the loan portfolio which continues to be the dominant category in the structure of the banking sector assets. The accelerated growth rate of the banking sector activity reflects the steady progress of deposits, which also marked an acceleration of the growth rate.

Figure 14. Assets of banking sector, in millions of euro



Source: CBK (2016)

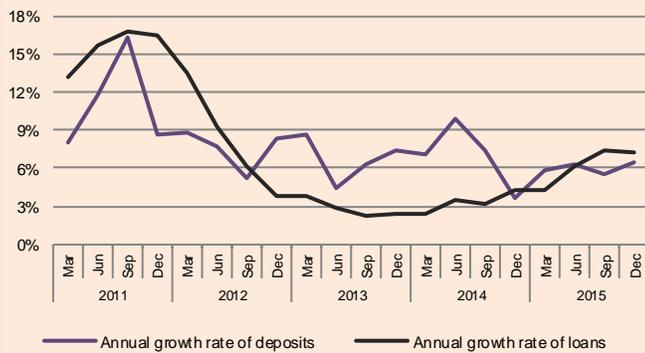
Within the banking sector assets, a more significant annual increase of 23.4 percent was marked by the category of securities (8.3 percent in December 2014). Consequently, the share of the category of securities to total assets of the banking sector reached 14.0 percent from 12.0 percent as it was in December 2014. The expansion of the securities portfolio during 2015 is mainly attributed to the growth of investments in foreign governments' securities, unlike the previous year when the main contribution to the growth was given by investments of Kosovo's Government securities. In December 2015, investments in securities of foreign governments were characterized by an increase of 29.4 percent compared with the decline of 25.0 percent recorded in December 2014. While investments in securities of the Kosovo's Government, in December 2015, recorded a growth rate of 17.4 percent, which represents a slower growth compared with the annual growth rate of 92.6 percent recorded in the previous year. These developments may have been influenced by the lower supply side of Kosovo's Government to issue securities compared with the previous year.

Also cash and balance with CBK marked a significant growth during 2015. In December 2015, cash was characterized by an annual growth of 9.9 percent compared with the decline of 3.5 percent recorded in December 2014. The growth of this category reflects the deposits increase of the banking sector as well as the low interest rates, even negative interest rates, in international markets which have limited the possibilities of commercial banks to invest in these markets. These developments led to a reduction of the balance with commercial banks, which account for deposits and credit lines with banks abroad. This category recorded an annual decline of 19.1 percent in December 2015, compared with the growth of 15.0 percent recorded in December 2014.

### Loans

Banking sector loans continued to be characterized by accelerated growth since the previous year. In December 2015, the value of total loans amounted to euro 2.02 billion, representing an annual increase of 7.3 percent (4.2 percent in December 2014) (figure 15). Lending growth in 2015 was mainly attributed to the ease of lending standards and conditions by banks, performed by lowering the interest rates, extension of loan amount and maturity on issued loans. A contribution was also given by the increased demand for loans from enterprises and households.

Figure 15. Growth trend of loans and deposits

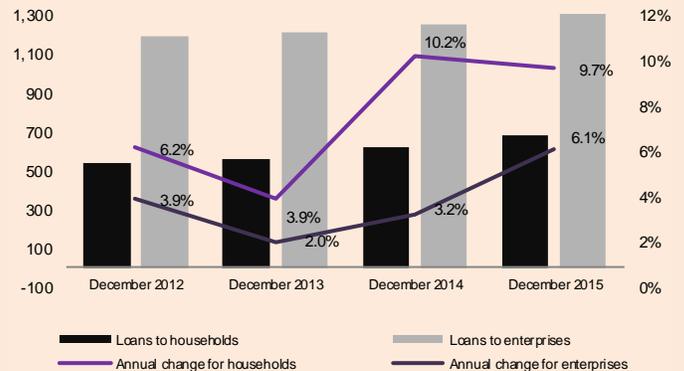


Source: CBK (2016)

Within total loans, the highest annual growth was marked by loans to households which in December 2015 recorded an increase of 9.7 percent (10.2 percent in December 2014). The growth of lending to households was mainly attributed to the growth of new mortgage loans with 27.7 percent and to the increase of 55.8 percent of new loans with favorable conditions, along with the decline of 2.8 percent of new consumer loans. The increase of mortgage lending among others reflects the decline in the interest rate of 0.9 percentage points compared with the decline of 0.4 percentage points in interest rates on consumer loans.

However, the main contribution to the total accelerated growth in lending to the sector was given by loans to enterprises, which at the same time have the major share within loans (account for 65.9 percent of total loans). These loans recorded an annual growth of 6.1 percent in December 2015 (3.2 percent in December 2014) (figure 16).

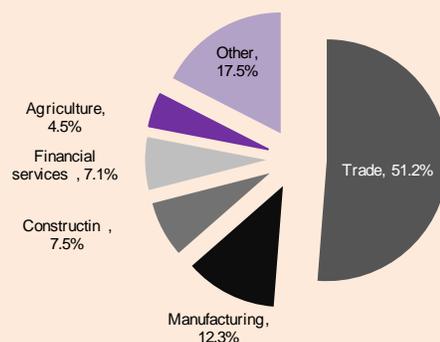
Figure 16. Loans to enterprises and loans to households



Source: CBK (2016)

The structure of lending to enterprises by economic activity remains headed by loans intended to the trade sector (with a share of 51.2 percent), followed by loans to manufacturing (12.3 percent) and construction (7.5 percent). The agricultural sector continues to have lower share in bank financing with 4.5 percent, albeit during this period was characterized by an accelerated growth (figure 17).

Figure 17. Loans by economic sectors, in percent



Source: CBK (2016)

Regarding the recent lending trends of economic sectors, until December 2015, lending to all sectors marked an increase, excluding construction sector which continues to be characterized by a downward

trend since 2013. It should be noted that sectors which generally have lower share in bank lending, such as agriculture and financial services, in 2015 marked a more significant growth, representing an important development in supporting the economic developments in the country.

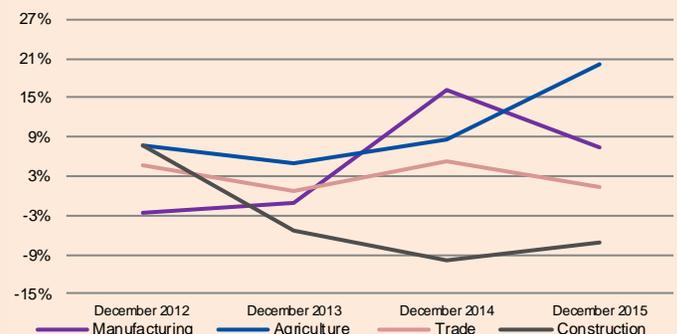
The most pronounced annual growth of 55.1 percent within loans to enterprises was marked by loans to the financial services sector, representing a significant improvement compared with the decline of 11.9 percent recorded in December 2014. The recovery is mainly attributed to the growth of new enterprises registered with financial and insurance activity, where the year 2015 marked the highest number of registrations in this sector compared to all previous periods. More specifically, until December 2015, the number of new enterprises was doubled, thus reaching 95 enterprises compared with the previous year (43 until December 2014).

The second highest growth rate of 20.3 percent was recorded in lending to agriculture sector, which represents a significant improvement compared with the growth of 8.7 percent recorded in December 2014. The improvement may have been influenced by doubling the government budget, for 2015, dedicated to the program of subsidies and grants in this sector, which was also reflected by increasing the number of new registered businesses in this sector. Until December 2015, 40 percent of new businesses in the agricultural sector were reported compared to the same period of the last year. At the same time, the interest rate on new loans to agricultural sector, in December 2015, marked the sharpest decline of 4.3 percentage points compared with other sectors. As a

result of the significant reduction, in December 2015, the interest rate on loans to agricultural enterprises was the lowest of all other sectors, unlike previous years when interest rates for agricultural enterprises were the highest ones.

Lending to the trade sector, in December 2015, marked an increase of 1.3 percent, which represents a slowdown in growth compared with the rate of 5.3 percent recorded in December 2014. The slower growth pace, among other issues, reflects the performance of similar activity of Kosovo's trade with other countries which shows poor performance of exports as well as imports.

Figure18. Annual change of loans by economic sectors



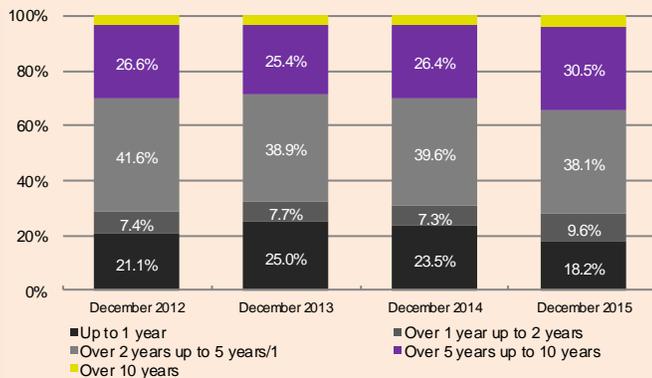
Source: CBK (2016)

Also loans to the industrial sector marked a growth, albeit with a slower pace of growth compared with the previous year, when this sector was among the sectors with the highest growth in lending in 2015. The annual growth rate of loans of this sector, in December 2015, was 7.3 percent (16.2 percent in December 2014) (figure 18).

On the other hand, despite the decline in interest rates and easing the lending standards by banks, lending to construction sector continues to decrease.

In December 2015, loans to construction sector recorded an annual decline of 7.0 percent (a decline of 9.9 percent in December 2014).

Figura 19. Structure of loans by maturity, in percent



Source: CBK (2016)

According to the maturity, the structure of total loans continues to be dominated by medium-term loans, namely loans with maturity 'over 2 up to 5 years' (figure 19). However, compared with previous periods, there is a tendency of moving toward long-term lending. In December 2015, short-term loans 'up to 1 year' decreased their share in the structure, whereas the category of long-term loans 'over 5 years' continued to grow at a faster pace.

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*Lending activity of the banking sector during 2015 was characterized by accelerated growth rate. An increase was marked by loans to sectors which have low share in bank lending such as agriculture, manufacturing and financial services, which indicates an increase in financial support for these very important sectors for the economic developments.*

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## Liabilities

The structure of liabilities of the banking sector is dominated by deposits, which account for about 79.8 percent of total liabilities, 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, the sector avoids exposure to movements in foreign financial markets.

The category of balance with other banks in December 2015 amounted to euro 43.4 million, which corresponds to an annual growth of 37.2 percent. The category of other borrowings (including certificates of deposits) increased by 24.7 percent, recorded in December 2015, and amounted to euro 17.6 million.

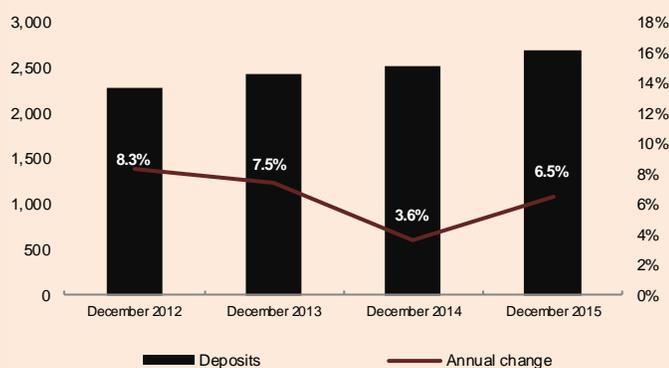
With a significant increase were characterized also the banking sector's own funds, which are the second largest category with a share of 11.6 percent to total liabilities of the sector. In December 2015, own funds recorded a growth of 21.9 percent (16.3 percent in December 2014). The increase was mainly due to the highest profits realized in the banking sector during 2015.

## Deposits

The value of total deposits in the banking sector amounted to euro 2.70 billion in December 2015, representing an annual increase of 6.5 percent (3.6 percent in December 2014) (figure 20). This growth rate represents a recovery of deposit performance compared to previous years, when the growth pace of

deposits was slowing down. To the deposit growth, among others, may have contributed the interruption of the downward trend of interest rates on deposits since the second quarter of 2015.

Figure 20. Deposits, in millions of euro



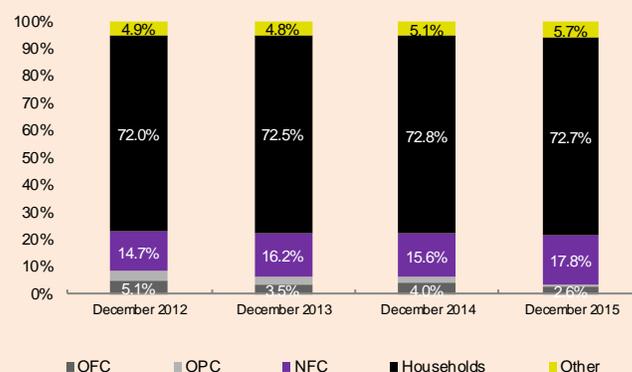
Source: CBK (2016)

The structure of total deposits of the sector is dominated by household deposits, which represent 72.7 percent of total deposits. Enterprise deposits which have a share of 21.6 percent represent the second category by weight of the structure. While the remainder of 5.7 percent is comprised of other deposits (deposits of non-residents, non-governmental organizations, central and local governments) (figure 21).

Regarding the deposits movement, the growth rate of total deposits is influenced mainly by household deposits as the dominant category. In December 2015, household deposits recorded an annual growth rate of 6.3 percent (4.1 percent in December 2014).

However the performance of total deposits may have been affected positively also by enterprise deposits which in December 2015 recorded a significant annual increase of 4.2 percent (from 0.7 percent growth in December 2014).

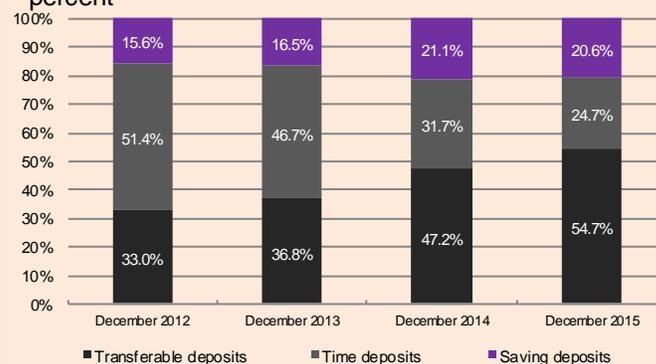
Figure 21. Structure of deposits, in percent



Source: CBK (2016)

Other deposits (deposits of non-residents, non-governmental organizations, central and local governments, etc.) were also characterized by a significant annual growth of 19.0 percent in December 2015 (9.4 percent in December 2014), mainly due to the pronounced growth of non-resident deposits.

Figure 22. Structure of time deposits by maturity, in percent



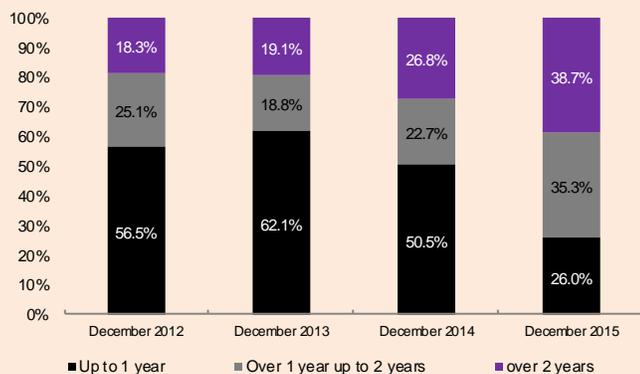
Source: CBK (2016)

The maturity structure of deposits has suffered significant changes compared to previous years. Time deposits continue to narrow their share in the structure with a significant pace since 2013, which could be a result of the declining interest rates during that period. In December 2015, time deposits narrowed their share to 24.7 percent of total deposits

(from 31.7 percent in December 2014), while transferable deposits expanded their share to 54.7 percent (47.2 percent in December 2014). The category of saving deposits, in December 2015, slightly reduced its share to 20.6 percent of total deposits (from 21.1 percent in December 2014) (figure 22).

Although the total time deposits were characterized by a decline where in the context of their structure it is noted a pronounced shift towards longer terms of maturity. Deposits with long maturities 'over 2 years' medium-term deposits 'over 1 up to 2 years' increased their share in the structure, while short-term deposits 'up to 1 year' reduced their share in the structure of total time deposits (figure 23).

Figure 23. Time deposits, in percent



Source: CBK (2016)

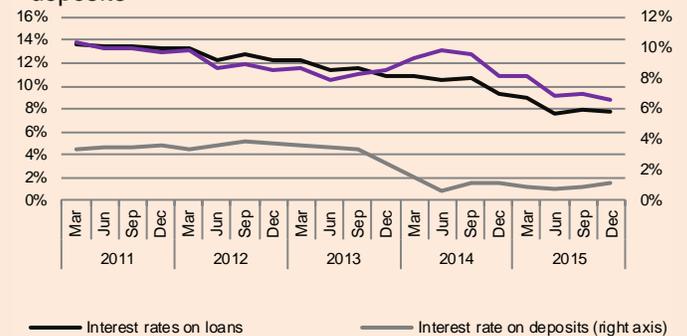
These trends are consistent with the movements of interest rates, which remain higher in deposits with longer maturities.

*During 2015, deposits of the banking sector accelerated their growth pace, thus interrupting the slow trend of the recent years. The trend of narrowing the time deposits and the expansion of transferable deposits continued during this period, mainly reflecting the low level of interest rates on deposits.*

## Interest Rate

Interest rates on loans in 2015 marked a more significant decline. In December 2015, the average interest rate on loans decreased to 7.7 percent from 9.3 percent in December 2014. On the other hand, interest rates on deposits increased slightly, unlike in 2014 when they had marked a sharp decline. In December 2015, the average interest rate on deposits reached 1.2 percent from 1.1 percent in December 2014. The interest rate spread on loans and deposits, in December 2015, was reduced to 6.5 percent from 8.2 percent in December 2014 (figure 24).

Figure 24. Average interest rates on loans and deposits



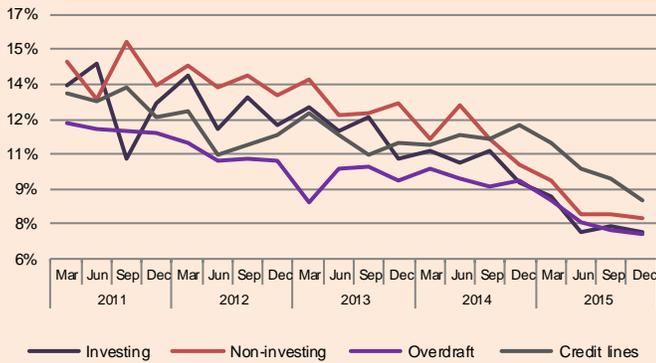
Source: CBK (2016)

## Interest rate on loans

Interest rates on loans marked a more pronounced decline in 2015. In December 2015, the average interest rate on loans decreased to 7.7 percent from 9.3 percent in December 2014. In the context of enterprise loans, investment loans continue to be characterized by lower interest rates with an average of 7.2 percent in December 2015, while the average

interest rate for non-investment loans was 7.8 percent in December 2015 (figure 25).

Figure 25. Average interest rate on loans to enterprises



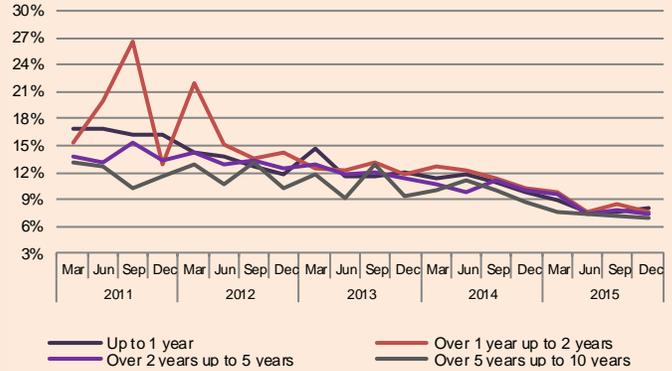
Source: CBK (2016)

The lower level of interest rates for investment loans may have influenced a faster growth of new loans of this category, which recorded an annual growth of 20.8 percent in 2015, compared with the interest rates of new non-investment loans, which recorded a growth of 7.1 percent in 2015. With a decline in interest rates were characterized also other categories as overdrafts and various credit lines to enterprises. Interest rates on various credit lines to enterprises marked a significant decline, dropping down to 8.5 percent from 11.8 percent in December 2014. Meanwhile, the average interest rate on enterprise overdrafts decreased to 7.1 percent from 9.4 percent in December 2014.

According to the maturity of loans, the most significant decline in interest rates of 2.8 percentage points was recorded in loans with medium-term maturities (figure 26). In December 2015, the lowest interest rate of 6.9 percent was recorded in loans with maturities of “over 5 up to 10 years” which also was

reflected in the high annual increase of 62.6 percent of new loans in this category during the same period. The highest interest rate of 8.0 percent was recorded in loans with maturity “up to 1 year”.

Figura 26. Average interest rates on loans to enterprises, by maturity



Source: CBK (2016)

As regards to the economic activity, with a decline in interest rates were characterized loans of all economic sectors, but the most pronounced decline was recorded in loans to agriculture and services. In December 2015, the average interest rate on loans to the agricultural sector decreased to 7.1 percent from 11.3 percent in December 2014 (figure 27). The interest rate reduction for these loans is estimated to have been an important contributor to the acceleration of the growth in loans to the agricultural sector, which in 2015 was the sector with the highest growth in lending. The interest rate on loans to the services sector (including trade which represents 70.2 percent of the total stock of loans to services) decreased to 7.4 percent (10.0 percent in December 2014), which was reflected also in the accelerated growth of lending for other services (including financial services) compared with the previous year, while loans to the trade sector slowed down. A decline was marked also in interest

rates for loans to industry, which declined to 7.4 percent in December 2015 (8.9 percent in December 2014).

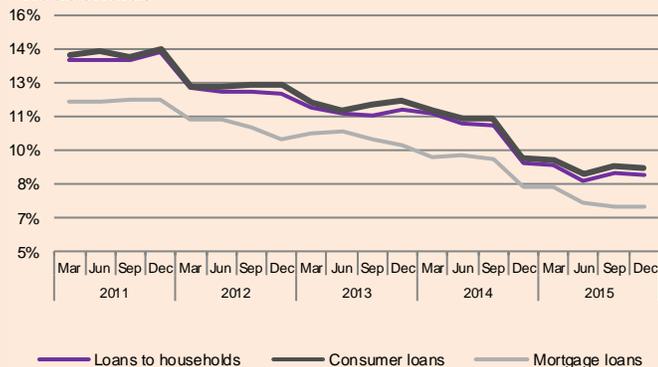
Figure 27. Average interest rate on loans, by economic sectors



Source: CBK (2016)

Regarding loans to households, in December 2015, the average interest rate decreased to 8.4 percent from 8.9 percent in December 2014. The most significant decline was recorded in mortgage loans, whose average interest rate decreased to 7.0 percent from 7.9 percent in December 2014.

Figure 28. Average interest rates on loans to households



Source: CBK (2016)

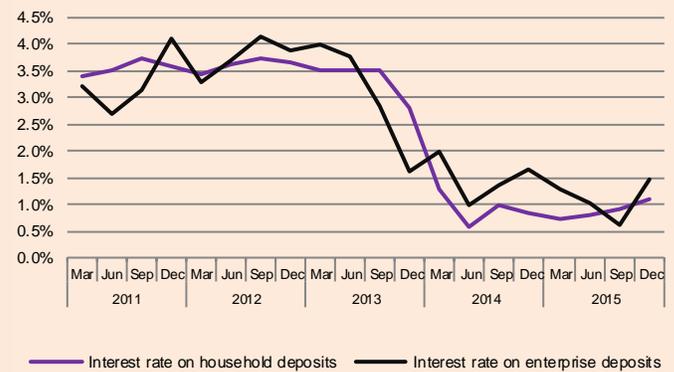
Meanwhile, the average interest rate on consumer loans decreased to 8.7 percent from 9.1 percent in December 2014 (figure 28). In the context of mortgage

loans, loans with longer maturities had lower interest rates compared to loans with shorter term of maturity. The lowest interest rate of 5.9 percent was recorded in mortgage loans with maturity "over 10 years", while the highest interest rate of 7.4 percent was recorded in loans with maturity 'over 2 years up to 5 years'. Within mortgage loans, loans with a maturity of 'over 10 years' recorded the sharpest annual decline of the average interest rate with 1.9 percentage points.

**Interest rate on deposits**

The upward trend of the interest rate on total deposits from the second quarter of 2015 primarily reflects the increase in the interest rate on household deposits, which dominate the structure of deposits of the banking sector. Meanwhile, interest rates on enterprise deposits interrupted the downward trend in the fourth quarter of 2015.

Figure 29. Average interest rates on deposits



Source: CBK (2016)

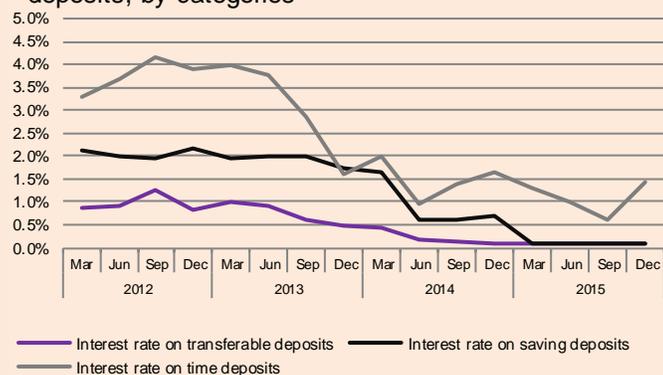
However, it is worth mentioning that during the longest period of 2015 (excluding the third quarter), the interest rate on enterprise deposits was higher

compared to interest rates of household deposits (figure 29).

In December 2015, the interest rate on enterprise deposits decreased to 1.5 percent in December 2015 from 1.6 percent in December 2014 (figure 29). Interest rates on time deposits decreased to 1.5 percent in December 2015 (1.6 in December 2014), while saving deposit interest rate decreased to 0.1 percent in December 2015 (0.7 percent in December 2014) (figure 30).

As regards to the structure of maturity, lower interest rates were observed on deposits with maturity “over 1 month up to 3 months” (0.7 percent), while the highest interest rates were found in deposits with maturity 'over 2 years' (3.2 percent).

Figura 30. Average interest rates on enterprise deposits, by categories

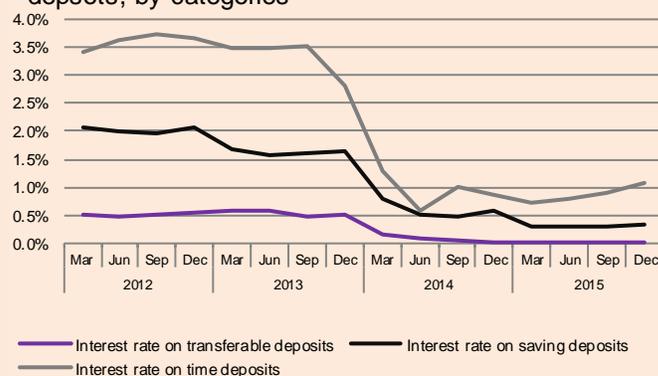


Source: CBK (2016)

The average interest rate on household deposits in December 2015 reached 1.1 percent from 0.9 percent in December 2014. The positive trend of the average interest rate on deposits largely reflects the slight increase in the interest rate on time deposits. In December 2015, the interest rate on time deposits reached 1.1 percent from 0.9 percent in December 2014 (figure 30).

Within deposits, the lowest interest rate of 0.2 percent was recorded in deposits with maturity “up to 1 month”, while the highest value of 2.2 percent was recorded in deposits with maturity 'over 2 years'. Meanwhile a more pronounced annual growth of 0.6 percentage points was marked in interest rate on deposits with maturity "over 1 year up to 2 years.

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



Source: CBK (2016)

On the other hand interest rate on household saving deposits, in December 2015, was reduced to 0.3 percent from 0.6 percent in December 2014. The lower interest rates on time deposits and saving deposits in the last two years contributed to shifting of household and enterprise deposits to transferable deposits, which have become the category with the largest share to total deposits.

### Performance of the banking sector

The net profit of the banking sector in 2015 amounted to euro 94.7 million (euro 60.5 million in 2014), representing the highest profit recorded since the beginning of the functioning of this sector. The improvement of the financial performance of the banking sector was a result of significant

expenditures reduction, while revenues of this sector marked a decline.

In December 2015, revenues of the banking sector amounted to euro 238.2 million, representing an annual decline of 2.9 percent. The main contribution to total revenues decline was given by interest income which in December 2015 recorded an annual decline of 5.7 percent. The decrease in interest income is largely attributed to the decrease of interest income on loans mainly due to the decline of interest rates, despite the acceleration of lending activity during this period. Non-interest income, in December 2015, recorded a growth of 7.2 percent mainly as a result of increased income from fees and commissions, which among others reflects the increase of services offered by bank branches.

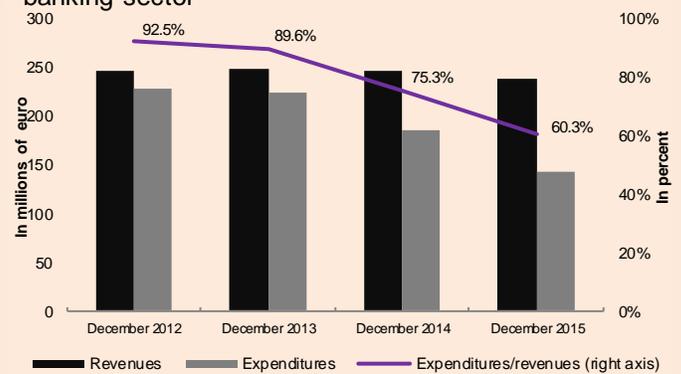
The value of total banking sector expenditures in December 2015 amounted to euro 143.5 million, representing an annual decline of 22.3 percent. The reduction of total expenditures was largely a result of reduced non-interest expenditures, which declined by 88.6 percent. Within these expenditures, a more pronounced decline was marked by the decline of provision expenditures on loans which recorded an annual decline of 141.1 percent, primarily due to the reduction of non-performing loans.

Also, interest expenditures had a significant impact to the decline of total expenditures by marking a decline of 48.7 percent, mainly as a result of the decline of 54.0 percent of the interest expenditures on deposits. Despite the slight increase in deposit interest rates during the longest period of 2015, their significant

reduction during the last two years was reflected in expenditures decline in 2015.

General and administrative expenditures, which represent the majority of total expenditures, were the only category that increased, marking an annual growth rate of 5.2 percent in 2015. This increase is mainly attributed to other non-interest expenditures (marketing, legal expenses, undisclosed expenditures etc.), while the increased personnel expenditures had a lower contribution.

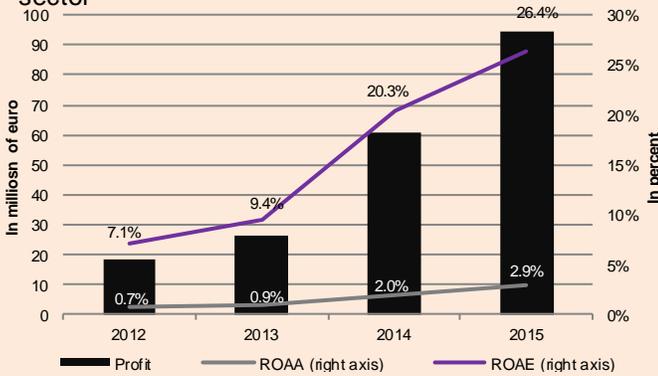
Figure 32. Revenues and expenditures of the banking sector



Source: CBK (2016)

The expenditures to income ratio had improved significantly compared to the previous year as a result of the sharp expenditures decline. In December 2015, this indicator improved to 60.3 percent compared with 75.3 percent in the previous year (figure 32).

Figure 33. Profitability indicators of the banking sector



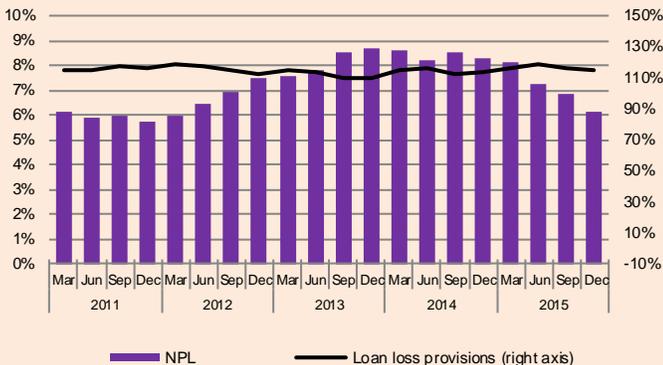
Source: CBK (2016)

The profit realized in 2015 contributed to a further improvement of profitability indicators such as Return on Average Assets (ROAA) and Return on Average Equity (ROAE). ROAA reached 2.9 percent from 2.0 percent in 2014, while ROAE reached 26.4 percent, from 20.3 percent in 2014 (figure 33).

### Financial soundness indicators

During 2015, the banking sector recorded a decline of non-performing loans and, simultaneously, marked an improvement in their coverage by provisions (figure 34).

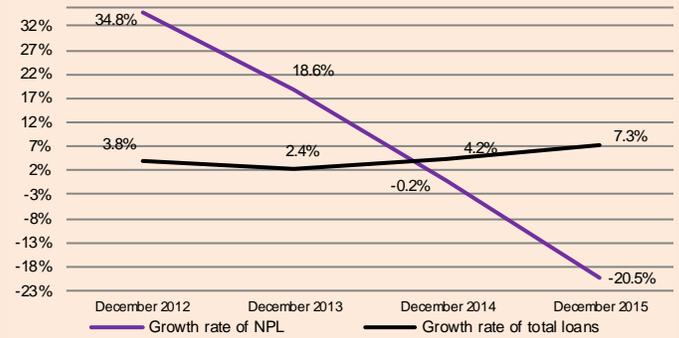
Figure 34. Indicators of loans portfolio quality



Source: CBK (2016)

In December 2015, the share of nonperforming loans to total loans sector decreased to 6.2 percent (8.3 percent in December 2014) mainly as a result of the annual decline of 20.5 percent of the value of non-performing loans, on one hand, and due to accelerated growth of total loans, on the other hand (figure 35). The coverage of non-performing loans by loan loss provisions, in December 2015, improved to 115.1 percent compared with 114.4 percent marked in December 2014.

Figure 35. Annual growth rate of total loans and non-performing loans



Source: CBK (2016)

The banking sector continues to have a satisfactory level of capitalization, where the capital adequacy ratio (CAR) reached 19.0 percent in December 2015 from 17.8 percent as it was in December 2014. The strengthening of capitalization of the banking sector is mainly attributed to the realized profit growth by banks. The banking sector continues also to have a satisfactory liquidity position. In December 2015, loan to deposit ratio was 74.8 percent, while the liquid assets to total short-term liabilities ratio stood at 44.9 percent in December 2015.

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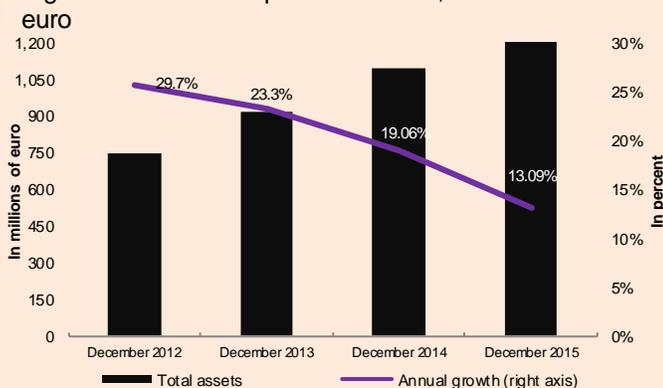
*Kosovo's banking sector recorded the highest level of profitability in 2015 as a result of expenditures reduction. The loan portfolio quality recorded a further improvement, thus reaching the lowest rate of non-performing loans marked in the recent years. The banking sector continues to have a high level of capitalization and strong liquidity position.*

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## **Pension Sector**

The value of assets of the pension sector in December 2015 reached euro 1.24 billion, marking an annual increase of 13.1 percent (figure 36). Kosovo Pension Savings Fund (KPSF) represents the majority of the sector's assets (99.4 percent), while the remainder (0.6 percent) is managed by the Slovenian-Kosovo Pension Fund (SKPF).

Figure 36. Assets of pension sector, in millions of euro



Source: CBK (2016)

In December 2015, the value of KPSF total assets amounted to euro 1.23 billion, corresponding to an annual growth of 13.1 percent, representing a slower growth compared with the annual growth of 19.1 percent recorded in December 2014. The slowdown of

KPSF assets growth is attributed to the performance of new collections and returns on investments performance. New collections until December 2015 amounted to about euro 137.5 million from around 508.0 thousand contributors which coincides with an annual increase of 6.8 percent. Consequently, it is observed a slower growth pace compared with December 2014 when euro 128.7 million were received from about 476.6 thousand representing an annual increase of 8.0 percent.

With slower growth were characterized also the return on investments, where until December 2015 the return on investments value was euro 29.6 million (or 2.3 percent) compared to the return of euro 66.7 million (or 6.3 percent) until December 2014. This was as a result of the negative return from investments in external sector during the second and third quarter of 2015. The lower return on investments in 2015 was impacted by large movements in global financial markets during the second and third quarter of 2015 as result of economic and political developments in some countries of the euro area and due to the forecasts on weakening of the Chinese economy, which was reflected also in the US economy, and consequently affected the external KPSF investments. On the last day of December 2015, the share price amounted to euro 1.317 (euro 1.288 in December 2014).

The Slovenian-Kosovo Pension Fund recorded an annual growth of assets and a positive return on investments. In December 2015, the value of total SKPF assets amounted to euro 6.0 million, marking an annual increase of 3.0 percent, which is lower than the growth of 9.2 percent in December 2014. The

growth slowdown of SKPF assets value was a result of slower growth of new collections and also due to the lower increase of return on investments. The value of contributions received until December 2015 amounted to euro 461.4 thousand from 4,025 contributors, corresponding to an annual increase of 1.8 percent. This represents a slight slowdown increase compared with December 2014 when euro 453.2 thousand were received (2.1 per cent annual growth) from 393.0 thousand contributors.

Gross investments return of SKPF until December 2015 amounted to euro 158.7 thousands, which is significantly lower than the return of euro 371.9 thousand registered in 2014. The same as KPSF, the investment performance of SKPF was influenced by movements in global financial markets during the second and third quarter of 2015. On the last day of December 2015, the share price of SKPF amounted to euro 145.30 (euro 145.16 in December 2014)<sup>7</sup>.

*Pension sector in 2015 marked a slowdown growth of assets primarily as a result of the progress of the new collection of contributions and slower growth in investment returns as a result of developments in international financial markets.*

## **Insurance sector**

Total assets of the insurance sector in December 2015 recorded a growth of 9.1 percent, reaching euro 152.7 million (figure 37).

<sup>7</sup> The base value of SKPF share price is 100 unlike KPSF which is 1.

Figure 37. Assets of insurance sector, in millions of euro



Source: CBK (2016)

Non-life insurance represent the largest part of the sector (90.0 percent of total assets of the sector), and recorded an annual growth of 9.2 percent, unlike the previous year when it was recorded an annual growth of 5.1 percent. The growth of non-life insurance assets is mainly attributed to the commencement of the operation of two new companies in this sector. While life insurance represents the remainder of the sector assets (10.0 percent of total assets) which in December 2015 recorded a growth of 7.7 percent (9.2 percent in 2014).

## **Activity**

The value of total written premiums in December 2015 reached euro 80.0 million, representing an annual decline of 2.6 percent, unlike in the previous year when written premiums had marked a growth of 3.8 percent.

Structure of written premiums is led by non-life insurance, which represents 96.6 percent of total written premiums. Consequently, the performance of total premiums is led by the trend of non-life insurance premiums. Non-life written premiums in

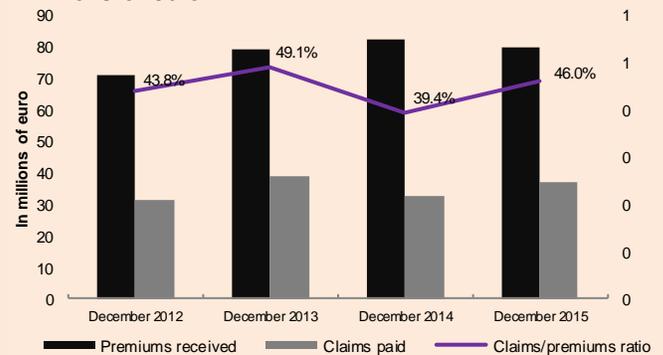
December 2015 amounted to euro 77.3 million corresponding to a decline of 3.0 percent, compared with the annual growth of 3.4 percent recorded in December 2014.

Life insurance premiums represent only 3.4 percent of total premiums of the sector. In December 2015, life insurance premiums amounted to euro 2.7 million, representing an annual growth of 11.1 percent (18.9 percent in December 2014). The increase of non-life insurance premiums contributed to mitigating the annual decline of total written premiums.

Total claims paid by insurance companies and the Kosovo Insurance Bureau (KIB) in December 2015 amounted to euro 36.2 million, marking an annual growth of 11.7 percent, unlike the previous year when the value of claims paid had marked an annual decrease of 16.8 percent. An important impact on the growth of total claims paid has been given by the increase of claims paid to non-life insurance, which recorded a growth of 14.6 percent, compared with an annual decline of 16.6 percent in 2014. An increase was also marked by claims paid for life insurance, which recorded a growth of 38.27 percent, compared with an annual decline of 5.0 percent recorded in 2014. Claims paid by Kosovo Insurance Bureau (KIB) marked an increase as well, registering an annual growth rate of 6.8 percent (-18.2 percent in December 2014).

The growth of claims paid and the decline of the premiums value resulted in an increase of claims paid to premiums written ratio, which in December 2015 reached 64.0 percent compared with 52.0 percent in December 2014 (figure 38).

Figure 38. Premiums received and claims paid, in millions of euro.

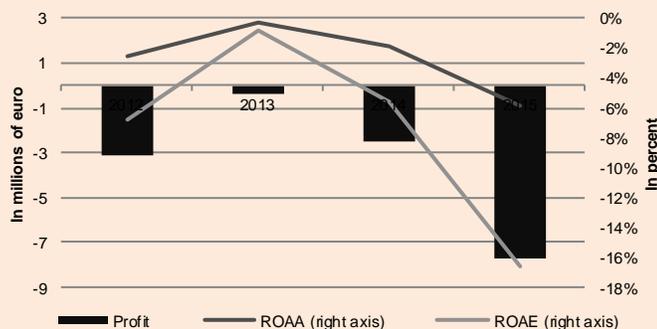


Source: CBK (2016)

### Performance of the insurance sector

In 2015, the insurance sector recorded a loss in a value of euro 7.7 million, compared with the loss of euro 2.5 million in the previous year. The loss deepening was recorded due to the loss marked within non-life insurance, while financial performance of life insurance was positive. During 2015, non-life insurance recorded a loss of euro 8.1 million (a loss of 3.0 million in 2014), while life insurance recorded a profit with an amount of euro 377.9 thousand in 2015 (euro 487.5 thousand in 2014). Loss deepening of the sector had a negative impact on further deterioration of profitability indicators such as Return on Average Assets (ROAA) and Return on Average Equity (ROA). ROAA deteriorated to -5.3 percent (-1.8 percent in 2014), while the ROAE to -16.0 percent (-5.5 percent in 2014). The insurance sector was also characterized by deterioration of liquidity.

Figure 39. Profitability indicators of insurance sector



Source: CBK (2016)

The cash and cash equivalents to reserves ratio decreased to 101.1 percent in 2015 (in December 2014 was 119.3 percent), while cash and cash equivalents to total liabilities ratio decreased to 91.9 percent (in December 2014 was 102.3 percent).

*The insurance sector in 2015 marked an increase in assets, but the value of written premiums was characterized by a decline. On the other hand, the value of claims paid marked an increase, thus affecting the increase of claims paid and premiums written ratio. The financial performance of the insurance sector continues to be fragile, characterized by deepening its loss in 2015.*

## **Microfinance Sector**

### **Assets**

Microfinance sector was characterized by accelerated expansion of its activity, where the value of the sector assets in December 2015 reached euro 119.7 million, corresponding to an annual increase of 6.0 percent (figure 40).

Figure 40. Assets of microfinance sector



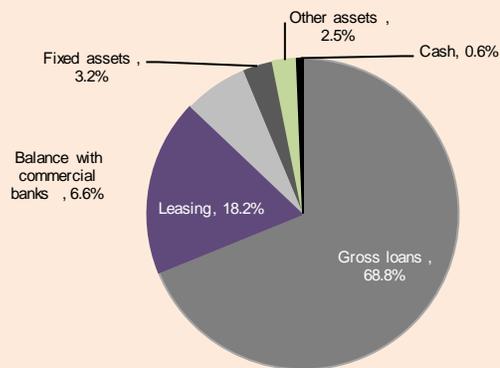
Source: CBK (2016)

The structure of the microfinance sector assets is dominated by loans which comprise 68.8 percent of total assets of the sector, hence the development of the sector activity primarily reflects the performance of loans as the main category within the structure of total assets of the sector. The second most important category by weight is leasing with a share of 18.2 percent of total assets of the sector (figure 40).

### **Loans**

The value of total loans of the microfinance sector in December 2015 amounted to euro 82.4 million, representing an annual accelerated growth of 10.7 percent (2.9 percent in December 2014). During 2015, loans to enterprises recorded a higher annual growth rate (15.6 percent) compared to loans to households (8.2 percent). However, loans to households was the main category of microfinance sector loans, which gave the main contribution to the growth of total loans issued by this sector.

Figure 41. Assets of microfinance sector

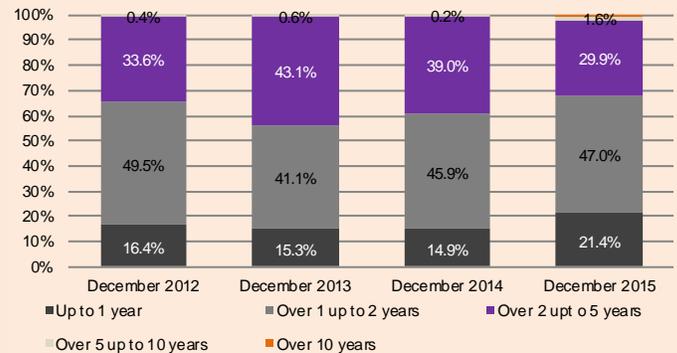


Source: CBK (2016)

Loans to households, in December 2015, recorded an annual growth of 8.2 percent, which represents a pronounced recovery compared with an annual decline of 0.4 percent recorded in December 2014. Loans to households accounted for 64.5 percent of total loans of microfinance sector in December 2015.

The structure of loans to households by maturity continues to be dominated by loans with maturity “over 1 up to 2 years” representing 47.0 percent of total loans, followed by loans with maturity ‘over 2 up to 5 years’ representing 29.9 percent of total loans. Short-term loans “up to 1 year” represent 21.4 percent of total loans, while smaller share of loans to households was marked by loans with maturity “over 10 years“ which account for 0.2 percent (figure 42).

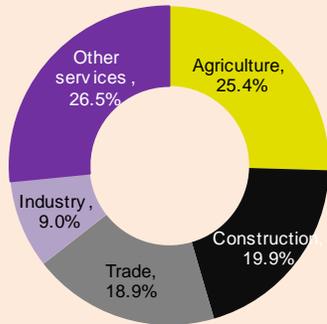
Figure 42. Loans to households by maturity, in percent



Source: CBK(2016)

Lending to businesses, in 2015, marked an annual increase of 15.6 percent compared to the growth of 9.9 percent recorded in December 2014. The structure of lending to enterprises by economic sectors remains similar to previous periods. Loans intended for other services remain the main category which in December 2015 accounted for 26.5 percent of total loans of the microfinance sector. Unlike the banking sector, where loans to agriculture represent the category with the lowest share, as regards to microfinance institutions agriculture is more highly supported representing the second largest category by weight, with a share of 25.4 percent. Construction loans, which have a share of 19.9 percent to total loans in the microfinance sector, remain the third category by share to total loans of the microfinance sector. While lending to the trade sector represents 18.9 percent of total microfinance loans where unlike the bank lending where this sector has a higher share to total loans. Industrial sector remains the sector with the lowest access to microfinance financing with a share of only 9.0 percent (figure 43).

Figure 43. Microfinance sector loans by economic sectors, in percent



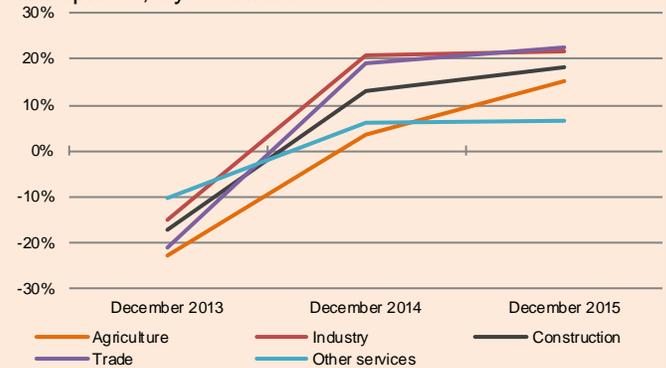
Source: CBK (2016)

Regarding the lending performance by economic sectors, loans to the trade sector recorded the highest annual growth of 22.7 percent in December 2015 (19.1 percent in December 2014). Lending to industrial sector was characterized by annual growth of 21.7 percent (20.6 percent in December 2014), while lending to the construction sector recorded an annual growth of 18.3 percent (12.8 percent in December 2014). A more significant increase of microfinance lending to the trade sector during the slowdown in bank lending growth for the trade sector and the significant increase of microfinance lending for the construction sector along with the decline of bank lending to this category can serve as an evidence to the increase of the microfinance sector ability to supplement the bank lending and at the same time may represent an increased competitive pressure of microfinance sector against the banking sector.

Also lending to the agricultural sector recorded an accelerated annual growth of 15.4 percent (3.6 percent in December 2014) (figure 44). The pronounced increase of microfinance and bank lending to agricultural sector during this period could be as a

result of doubling of the budget allocated to this sector by the government and the significant increase of subsidies and grants from USAID and the European Commission for the sector over the year of 2015.

Figure 44. Microfinance sector growth rate of loans to enterprises, by economic sectors

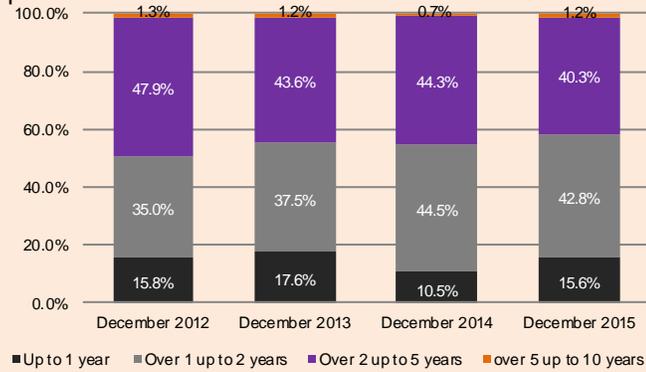


Source: CBK (2016)

Lending to the sector of other services, which also dominates the structure of total loans, in December 2015 recorded an annual growth of 6.4 percent which is similar to the previous year (6.0 percent in December 2014).

The structure of loans to enterprise sector by maturity continues to be dominated by loans with medium-term maturity. In December 2015, loans with maturity “over 1 up to 2 years” with a share of 42.8 percent were followed by loans with maturity “over 2 up to 5 years” with share of 40.3 percent. The third category by weight remain short-term loans “up to 1 year” with a share of 15.6 percent. A smaller share of 1.2 percent was marked by loans with maturity “over 5 to 10 years” (figure 45).

Figure 45. Loans to enterprises by maturity, in percent

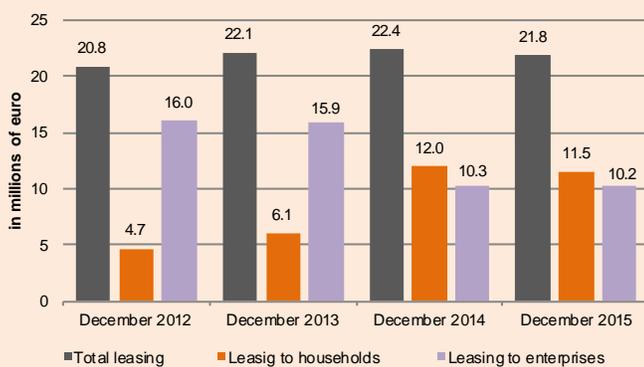


Source: CBK (2016)

### Leasing

Leasing as the second category by weight in the structure of assets of the microfinance sector, in December 2015, reached euro 21.8 million (figure 46), recording an annual decline of 2.5 percent.

Figure 46. Leasing of microfinance sector



Source: CBK (2016)

The decline of total leasing mainly is attributed to the decline of leasing to households which marked a decrease of 3.7 percent in December 2015. During 2015, households leasing were characterized by a decline in mortgage category and in the category of other leasing. The largest contribution to the decline

of leasing to households was marked by mortgage leasing, which recorded an annual decrease of 3.7 percent compared with an annual increase of 110.8 percent recorded in December 2014. Other leasing recorded an annual decline of 2.9 percent (annual growth of 15.2 percent in December 2014). Leasing for households lead the performance of total leasing because represent the dominant category with 52.8 percent of the leasing structure. The structure of for household leasing by maturity continues to be dominated by long-term leasing "over 10 years" with a share of 46.8 percent of the structure, followed by leasing with a maturity "over 5 up to 10 years" with a share of 39.5 percent.

A smaller contribution to the total decline of leasing, was marked by leasing to enterprises which were characterized by a slight annual decline of 0.9 percent and comprise 46.9 percent of total microfinance sector leasing. Within leasing to enterprises was the category of leasing for equipment which had an impact on the decline of this category. At the same time, other leasing, as the largest category by weight (with a share of 83.2 percent of the total leasing structure), made this decline not very sensitive for this category. Until December 2015, leasing for equipment marked a more significant annual decline of 36.5 percent, followed by mortgage leasing, which recorded a decline of 12.6 percent. Unlike these categories, other leasing were characterized with an annual growth of 9.8 percent, thus mitigating the considerable decline of total leasing to enterprises.

The structure of leasing to enterprise by maturity was dominated by medium-term leasing similar to the same period of the previous year. More precisely, the

leasing with a maturity “over 2 up to 5 years” dominated with a share of 89.4 percent of the structure, followed by leasing with a maturity “over 1 up to 2 years” with a share of 7.6 percent.

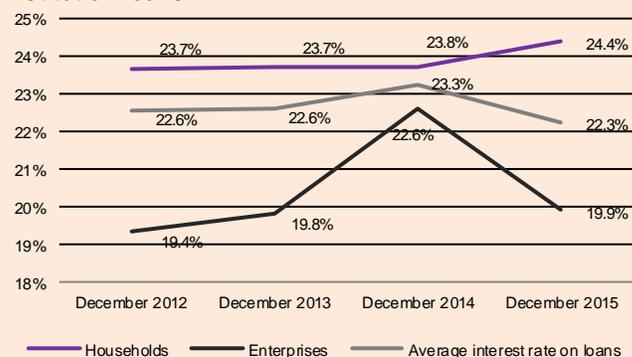
### Liabilities

The activity of the microfinance sector mainly relies on borrowing from the external sector. In December 2015, the total external borrowings amounted to euro 62.7 million, representing an annual increase of 1.4 percent (a decline of 1.4 percent in December 2014). The borrowing increase from the external sector is mainly reflected in the growth of lending activity during this period.

### Interest rate

The average interest rate on microfinance sector loans in 2015 marked a decrease, thus interrupting the upward trend followed during the past three years. In December 2015, the average interest rate on microfinance sector loans decreased to 22.3 percent from 23.3 percent in December 2014. However, this performance reflects mainly the average interest rate on loans to enterprises, while the average interest rate on loans to households continued to follow the upward trend of the past three years. In December 2015, the average interest rate on loans to households increased to 24.4 percent from 23.8 percent in the same period of the previous year. Whereas, the average interest rate on loans to enterprises in December 2015 decreased to 19.9 percent (22.6 percent in December 2014), representing a decrease of 2.7 percentage points (figure 47).

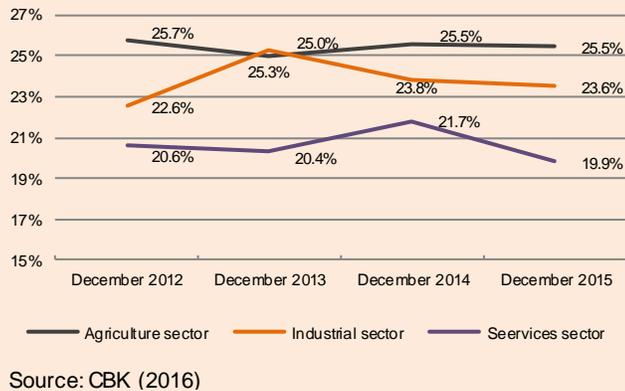
Figure 47. Average interest rate on microfinance institution loans



Source: CBK (2016)

Within loans to enterprises, loans to the services sector had the lowest average interest rate among all other economic sectors. This category was also characterized with a more pronounced decline of 1.8 percentage points thus reaching 19.9 percent in December 2015 from 21.7 percent in December 2014. The average interest rate on loans to the industrial sector marked a decline as well, thus dropping down to 23.6 percent in December 2015 from 23.8 in December 2014. Meanwhile, the average interest rate on loans to the agricultural sector remained at a similar level as in the same period of the previous year, standing at 25.5 percent (figure 48). The decline in interest rates on loans to enterprises may have contributed to the demand increase for loans of the microfinance sector.

Figure 48. Average interest rate on loans, by economic sectors



### Performance of microfinance sector

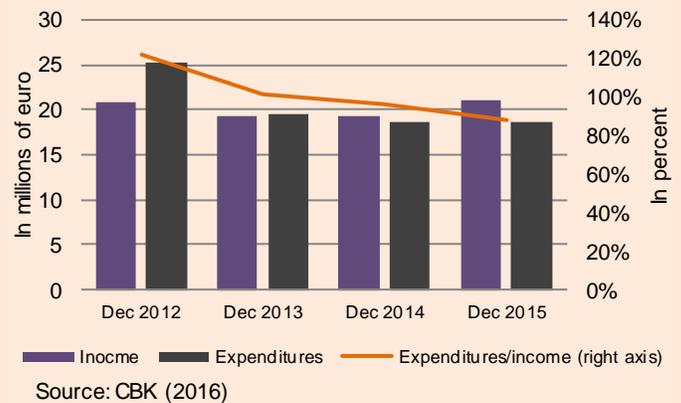
The microfinance sector was characterized by improved financial performance compared with the past three years. Until December 2015, the microfinance sector had a profit from an amount of euro 2.5 million compared with the profit of euro 0.7 million realized in December 2014. The significant increase of the profit was primarily a result of accelerated income growth, while expenditures marked a slower increase.

Until December 2015, the microfinance sector revenues amounted to euro 21.1 million, representing an annual significant increase of 9.4 percent compared with the growth of 0.5 percent recorded until December 2014. Meanwhile, expenditures until December 2015 amounted to euro 18.7 million, representing a slight increase of 0.5 percent compared to the decline of 4.9 percent in December 2014 (figure 49).

The accelerated growth of revenues until December 2015 was mainly a result of the annual increased interest income of 7.0 percent (an increase of 3.3

percent in December 2014) from non-interest income which marked an annual growth of 21.4 percent (a decline of 11.4 percent in December 2014).

Figur 49. Income and expenditures of microfinance sector



Within non-interest income, income from services recorded a growth of 164.9 percent compared to the growth of 11.2 percent in December 2014. Administrative income, in December 2015, had a growth of 23.2 percent compared with the annual growth of 5.6 percent in the previous year. While other operating income marked a significant increase of 2.0 percent compared with the decline of 18.0 percent in December 2014.

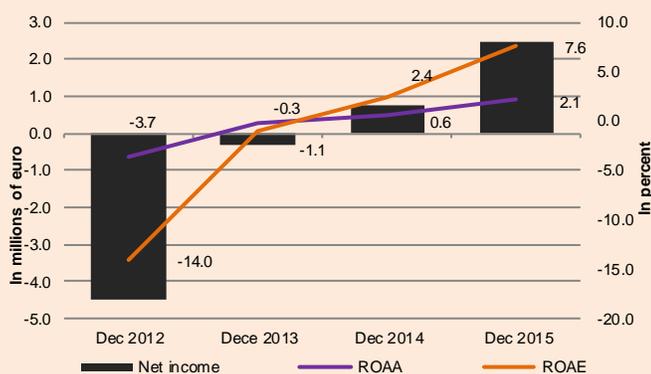
On the other hand, the expenditures increase was mainly a result of non-interest expenditures increase which in December 2015 amounted to euro 12.3 million representing an increase of 0.1 percent compared with the decline of 8.5 percent in the previous year, and interest expenditures which reached euro 4.0 million which represents an increase of 5.0 percent (0.3 percent in December 2014). Within non-interest expenditures, loan loss provision expenditures recorded a significant annual increase of 8.7 percent compared to the decline of 46.7 percent in

December 2014, while personnel and administrative expenditures were characterized by an annual decline of 0.7 percent (a decline of 1.5 percent in December 2014). Also other operating expenditures recorded a sharp decline of 4.5 percent compared with the growth of 7.3 percent marked in the previous year. The decline in personnel expenditures and other operating expenditures contributed to the slow growth of the total microfinance sector expenditures.

The expenditures to income ratio of the microfinance sector has improved significantly compared to last year. In December 2015, this indicator decreased to 88.4 percent compared to 96.2 percent as it was until December 2014. This was as a result of accelerated growth of the microfinance sector revenues until December 2015 and the slowdown in expenditures during this period.

Consequently, the profit realized until December 2015 had a significant impact on improving the profitability indicators where the Return on Average Assets (ROAA) improved to 2.1 percent (0.6 percent in 2014), while Return on Average Equity (ROAE) improved to 7.6 percent (2.4 percent in 2014) (figure 50).

Figure 50. Profitability of microfinance sector



Source: CBK (2016)

The microfinance sector continues to be characterized by relatively low level of non-performing loans and a satisfactory level of provisions to cover non-performing loans. In December 2015, the share of non-performing loans to total loans decreased to 4.2 percent, compared with a rate of 4.8 percent in December 2014, mainly affected by a faster growth rate of the loans stock along with increased value of non-performing loans. Also, the coverage by provisions improved significantly reaching 124.7 percent in December 2015 compared with the level of 113.1 percent in December 2014 (figure 50).

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*Microfinance sector during 2015 was characterized by an acceleration of activity and significant improvement of financial performance compared with the recent years.*

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### Treasury Bills Market

According to the calendar published by the Ministry of Finance, in 2015, were held 21 auctions for the issuance of securities, with a nominal value of euro 398.6 million. The total number of auctions is the same as in 2014, but the issued nominal value was euro 302.2 million or 1.2 percent lower than in 2014.

During 2015, Kosovo's government has issued a smaller number and amount of treasury bonds compared to the previous year. Until December 2015, the number of treasury bonds issued was 14 compared to 17 as it was in December 2014. Besides the decline in number, the issuance of treasury bonds marked a decline in value as well, dropping to euro 278.6 million from euro 345.0 million in December 2014. On

the other hand, the issuance of treasury bills increased in number and value during 2015 compared with the previous year. Until December 2015, were issued 7 government treasury bills with an amount of euro 119.95 million compared with 4 treasury bonds with an amount of euro 52.0 million as of December 2014. Moreover, in 2015 for the first time were issued three government treasury bills with a maturity of 3 and 5 years.

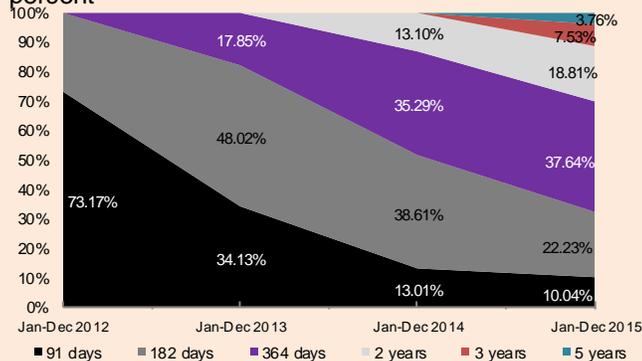
The structure of the Republic of Kosovo's Government securities by maturity was characterized by significant changes in recent years. During the past four years, securities with short-term maturities have followed a downward trend against the significant expansion of the weight with long-term maturity of securities. In December 2015, treasury bills with maturity of 364 days widened their share to 37.6 percent, thus being transformed into the main category within securities structure. This represents a significant change in the structure of securities compared with four previous years when the main category with a share of 73.2 percent was comprised of treasury bills with a maturity of 91 days (figure 51).

The second category by weight, with a share of 22.2 percent in December 2015 was the category of treasury bills with a maturity of 182 days, representing the category that was characterized by narrowing its weight significantly to the overall structure of the securities compared with the previous year.

Government treasury bonds with a maturity of two years, in December 2015, expanded their share to securities structure to 18.8 percent, thus being ranked to the third category by weight. Government bonds with maturities of 3 and 5 years together accounted for 11.3 percent of total structure, albeit for the first time began to be issued in 2015. These developments reflect the orientation of the Republic of Kosovo towards extending the maturity of securities.

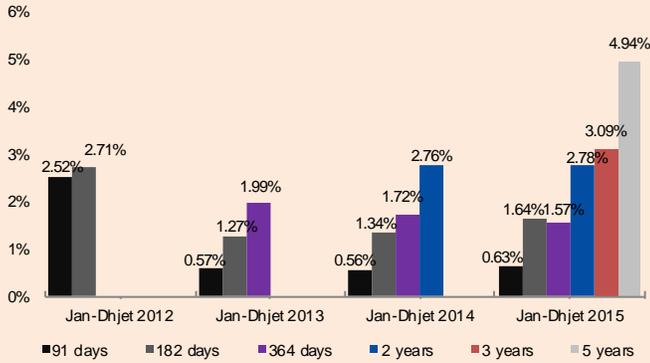
Since the establishment of the treasury bills market in 2012, the amount offered in most cases exceeded the amount announced in auctions by the Treasury Department within the Ministry of Finance. In December 2015, the ratio between the amount offered and the amount announced was 1.55 times higher. This ratio is higher in this year compared to the previous year (1.36 times until December 2014) mainly due to higher bidding by auction participants along with the lower amount announced by the Kosovo's Government in 2015 compared with 2014. This reflects the high interest of the participating entities, mainly from the banking sector, in the domestic market at a time when opportunities for investment in securities of foreign governments are less attractive due to the low rates in these markets.

Figure 51. Structure of Government securities, in percent



Source: CBK (2016)

Figure 52. Interest rates on government securities by maturity, in percent



Source: CBK (2016)

The overall average interest rate on securities, in 2015, was higher (1.94 percent) compared to the same period of the previous year (1.57 percent). To this growth the main contribution was given by the issuance of bonds with a maturity of 3 and 5 years, which also have higher interest rates compared with treasury bills.

During 2015, the highest interest rate of 4.9 percent was recorded in bills with a maturity of 5 years, while the lowest rate of 0.6 percent was recorded in the treasury bonds with maturity of 91 days.

It is worth mentioning that during 2015, the average interest rate on treasury bonds with a maturity of 182 days was characterized by an increase, while the average interest rate on treasury bonds with maturity of 364 days decreased slightly. Meanwhile, the average interest rate on treasury bonds with maturity of 91 days, and the treasury bills with a maturity of 2 years has not changed compared to the previous year (figure 52).

**Suggested citation for this publication:**

CBK (2016): Quarterly Economic Assessment No. 13 Q4 2015, Central Bank of the Republic of Kosovo, Prishtinë

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## Selected Macroeconomic Indicators

Description	December 2014	December 2015
Real sector 1/		
GDP (in millions of euro)	5,567.5	5,755.1
Prices (annual change)	0.4%	-0.5%
Prices (end of period)	-0.5%	-0.2%
Fiscal sector 2/		
Revenues (in millions of euro)	1,332.8	1,456.8
Expenditures (in millions of euro)	1,475.8	1,567.0
Balance, as a share to GDP	-2.6	-1.9
Financial sector (in millions of euro) 3/		
Assets of financial corporations	4,529.4	4,894.9
of which: Banks	3,185.7	3,387.3
Loans	1,882.4	2,019.4
Deposits	2,537.5	2,701.4
interest rate on loans, end of period	9.3	7.7
Interest rate on deposits, end of period	1.1	1.2
Interest rate gap	8.2	6.5
External sector, (in millions of euro) 3/		
Balance of payments		
Capital and current account	-393.9	-469.9
of which: remittances	626.3	682.7
Financial account	-91.6	-223.7
FDI in Kosovo	159.9	316.3
Investments portfolio, net	91.5	7.2
Other investments, net	-84.4	-27.1
international investments position, net*	380.4	151.3
Assets	4,302.2	4,496.0
Liabilities	3,921.8	4,344.7
External debt, total	1,709.0	1,911.7
Private external debt	1,325.6	1,474.9
Public external debt	383.4	436.8

Source:

1/ KAS (2015).

2/ MF (2015).

3/ CBK (2015).

\*For balance of payments the data are until November.

\*\*For IIP and external debt, the data are until September.

