

Summary

Economic activity in euro area has continued to be characterized with a sustainable increase also during Q3 2017. At the same time, inflation rate in euro area marked an increase, mainly being impacted by eased monetary policy in euro area and the increase of energy, services and food prices.

The ease of financing conditions, as a result of the expansionary policies and non-convention measures taken by the ECB and the improvement of domestic demand have supported the economic activity in euro area. The strengthened demand in euro area was positively reflected in economic developments of Western Balkan countries, which were characterized with an increase of exports, investments and consumption.

The growth of economic activity in Kosovo in the first half of 2017 was supported by investments increase and the increase of goods and services export. Based on KAS estimates, Kosovo's economy was characterized with a real growth of 4.3 percent of GDP in the first half of 2017, while this increasing trend is expected to continue also in the second half of the year. As a result of the increase of the economic activity along with the price increase of international markets, the inflation rate until September has reached an average rate of 1.7 percent.

Fiscal sector was characterized with an increase of budget revenues and expenditures with 3.8 percent and 7.2 percent, respectively. Consequently, Kosovo's budget recorded a primary budget balance of EUR 60.8 million until September 2017, compared to the budget balance of EUR 95.1 million in the same period of 2016.

The current and capital account deficit reached the value of EUR 154.2 million, until September, compared with the deficit of EUR 323.2 million as in the same period of the

previous year. This improvement of the current and capital account is mainly attributed to a more significant increase of goods and services export and the increase of primary and secondary income, whereas the deficit of goods trade marked an increase.

Within the financial account, foreign direct investments, until September 2017, have marked an increase of 10.5 percent compared to the same period of 2016.

Until Q3 2017, the banking sector was characterized with an accelerated increase of lending activity (10.2 percent), mainly as a result of eased conditions of lending by banks, and also the increase of loans demand. Lending increase continued consistently to be financed by deposits collected within the country's economy, which during this period marked an annual increase of 9.2 percent.

Interest rates on loans, in September 2017, were decreased to 6.5 percent, while the average interest rate on deposits marked a slight decline of 0.9 percent.

The NPL rate continued to follow a decreasing trend, falling to 3.6 percent until September 2017, while also other financial soundness indicators continued to have satisfactory levels.

With an activity increase were characterized also other segments of financial system, as pension sector, insurance sector and microfinance sector. As regards to the performance, pension sector realized a significantly higher return on investments compared to the same period of the previous year. Also, microfinance and insurance sector were characterized with an increase of profit in September 2017 compared to the same period of the previous year.

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

CONTENTS

Summary	i
Euro area and the Western Balkans	05
Kosovo's Economy	07
Real Sector	07
Fiscal Sector	10
External Sector	10
Financial System	13
Banking Sector	13
Pension Sector	20
Insurance Sector	21
Microfinance Sector	23
Securities Market	26
Figures and Tables	05
Figure 1. Annual real GDP growth rate in euro area	05
Figure 2. EURIBOR interbank lending rate and ECB refinancing rate	06
Figure 3. Real GDP growth and contributors to the growth	07
Figure 4. Inflation rate	08
Figure 5. Price movements by main components	08
Figure 6. Consumer, producer and import price indices	08
Figure 7. Price movements of import prices	08
Figure 8. Producer price movements	09
Figure 9. Business registry	09
Figure 10. Structure of new enterprises	09
Figure 11. Exports and imports of goods	11
Figure 12. Structure of exports by category	11
Figure 13. Structure of imports by category	11
Figure 14. Remittances	12
Figure 15. Structure of foreign direct investments by components	12
Figure 16. The value of assets of Kosovo's financial system	13
Figure 17. Assets structure of the banking sector	13
Figure 18. Growth trend of loans and deposits	14
Figure 19. Loans to enterprises and loans to households	14
Figure 20. Loans by economic sectors	14

Figure 21. Annual growth of loans by economic sectors -----	15
Figure 22. Deposits-----	16
Figure 23. Structure of deposits-----	16
Figure 24. Average interest rate on loans and deposits-----	16
Figure 25. Average interest rates on loans to households and to enterprises-----	17
Figure 26. Average interest rate on loans-----	17
Figure 27. Average interest rate on deposits-----	17
Figure 28. Average interest rate on enterprise deposits-----	18
Figure 29. Average interest rate on household deposits-----	18
Figure 30. Net profit of the banking sector-----	18
Figure 31. Income and expenditures of the banking sector-----	19
Figure 32. Profitability indicators of the banking sector-----	19
Figure 33. Indicators of credit portfolio quality and NPL growth rate-----	20
Figure 34. Liquidity and solvency Indicators-----	20
Figure 35. Assets of pension sector-----	21
Figure 36. KPSF investments-----	21
Figure 37. Assets of insurance sector-----	22
Figure 38. Written premiums and claims paid-----	22
Figure 39. Assets of microfinance sector-----	23
Figure 40. The value of loans to households and to enterprises-----	23
Figure 41. Growth rate of loans to enterprises-----	24
Figure 42. Microfinance sector leasing-----	24
Figure 43. Average interest rate on microfinance sector loans-----	24
Figure 44. Average interest rate on loans, by economic sectors-----	25
Figure 45. Microfinance sector income and expenditures-----	25
Figure 46. Profitability indicators of microfinance sector-----	25
Figure 47. Indicators of credit portfolio quality-----	26
Figure 48. Value of issued debt-----	26
Figure 49. Structure of Government securities-----	27
Figure 50. Interest rates on Government securities by maturity-----	27
Table 1. Annual real GDP growth rate-----	06
Table 2. Number and value of securities issued by Kosovo's Government-----	26
Table 3. Selected macroeconomic indicators-----	29

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
MF	Ministry of Finance of the Republic of Kosovo
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

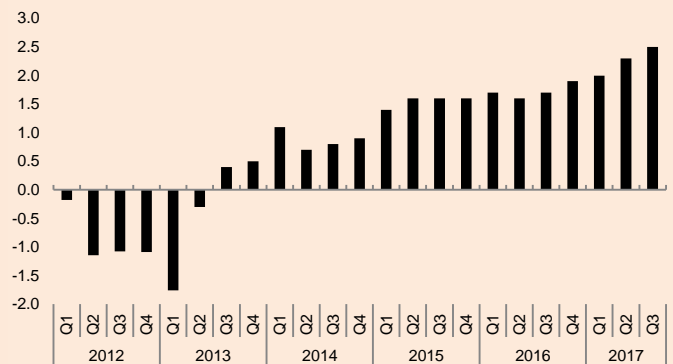
Euro area and Western Balkans

During Q3 2017, euro area was characterized with an accelerated increase of the economic activity. Further strengthening of the domestic demand in euro area, the improvement of labor market and the increase of external demand were reflected positively in the euro area economic activity. Moreover, expansionary policies and non-conventional measures taken by the ECB within the quantitative easing program significantly eased financing conditions in euro area, thus further supporting the economic activity expansion. The increase of confidence in economic stability in euro area had an impact on ECB to take a decision on reducing the investments on government securities within the quantitative easing program commencing as of January 2018. Compared to the same period of the previous year, in Q3 2017, the euro area economy marked an increase of 2.5 percent (figure 1). While, compared to the previous quarter, euro area was characterized with an increase of 0.6 percent. The increase of added value of GDP, mainly impacted by exports increase to Germany and Italy, was positively reflected in the overall increase of real GDP in euro area.

In 2017, the ECB has forecasted a real GDP growth rate of 2.2 percent and 1.8 percent for 2018, mainly being supported by strengthening of euro area exports, eased monetary policy and improvement of labor market conditions. The economic growth in Q3 2017 remained concentrated in central euro area economies as in Germany (2.8 percent), France (2.2 percent), Holland (3.3 percent), Italy (1.8 percent) and Spain (3.1 percent).

In September 2017, inflation rate reached 1.5 percent, unlike in the same period of the previous year when it was 0.4 percent. Eased monetary policy and the price increase of main categories as energy, services and food were reflected in a significant increase of inflation rate in the reporting period.

Figure 1. Annual real GDP growth rate in euro area



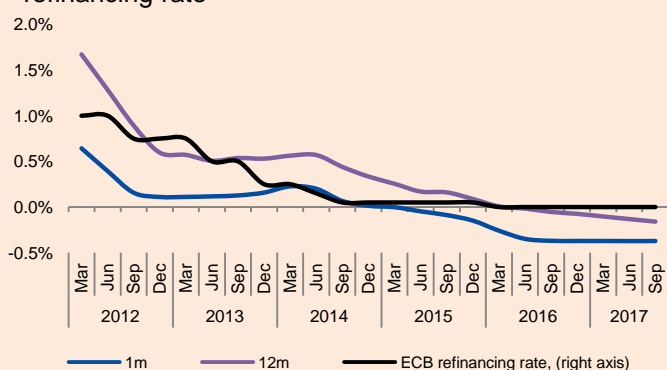
Source: Eurostat (2017)

For 2017, based on the ECB forecasts, the average inflation rate in euro area is expected to be 1.5 percent, further declining to 1.2 percent in 2018, mainly being impacted by energy prices. The launch of the comprehensive stimulus program since March 2016 was reflected in a decline of 12-month interest rates of interbank Euribor lending in Q3 2017. The ECB continued to keep the interest rate on main refinancing operations at zero percent (figure 2).

In the third quarter of 2017, lending activity in euro area continued with recovery, thus being characterized with an annual increase of 4.3 percent. In this period, households were characterized with a lending increase of 2.7 percent, while loans to enterprises marked an annual increase of 0.1 percent.

During this period, the increase of disposable income in euro area may have had an impact on the increase of 3.3 percent of resident deposits in the banking sector of euro area. Enterprise deposits marked a higher growth during this period (6.6 percent), followed by household deposits (3.7 percent).

Figure 2. EURIBOR interbank lending and ECB refinancing rate



Source: Euribor (2017) and ECB (2017)

Performance of the economic activity in the Western Balkans during Q3 2017 continued to mark an improvement. The increased demand in the euro area, as the main trading partner for the Western Balkan countries, was translated in an improvement of net exports position in some of the region countries. The exports growth, along with the increase of foreign investments and domestic consumption, represented important contributors to the average increase of GDP of 3.4 percent in the Western Balkans for 2017 (table 1).

The same as in the euro area, the price increase in international markets was reflected in an increase of inflation rate in Western Balkans. Until September 2017, Serbia was characterized with the highest inflation rate of 3.2 percent, being followed by Montenegro with an average of 2.7 percent, while

Macedonia was characterized with the lowest inflation rate of 1.0 percent¹ and Bosnia and Herzegovina with 1.2 percent. Kosovo marked an average inflation rate of 1.7 percent until September 2017.

Table 1. Annual real GDP growth rate

Description	2013	2014	2015	2016	2017
Bosnia and Herzegovina	2.4	1.1	3.2	3.0	3.2
Kosovo	3.4	1.2	4.1	4.1	4.4*
Montenegro	3.5	1.8	3.4	2.9	2.7
Macedonia	2.9	3.6	3.8	2.4	3.5
Serbia	2.6	-1.8	0.8	2.8	3.0
Albania	1.0	1.8	2.8	3.4	3.7

*CBK forecast.

Source: Statistics agencies of the respective countries, WEO (2017) and CBK forecasts.

Regarding the developments of the banking sector, the region countries were characterized with an increase of lending activity with an average of 3.4 percent in Q3 2017. The highest increase was marked by Kosovo with 10.2 percent followed by Montenegro with 7.7 percent and Macedonia with 3.8 percent. Region countries reported an increase also in deposits with an average of 6.2 percent, where Montenegro marked the highest increase of deposits until September 2017 (9.9 percent), followed by Macedonia (6.0 percent), while the lowest increase was marked by Albania (3.1 percent).

Until September 2017, EUR marked a depreciation against currencies as Albanian lek (2.5 percent), Croatian kuna (1.3 percent), Serbian dinar (0.8 percent) and American dollar (0.2 percent). Meanwhile EUR appreciated against British pound (8.8 percent), Swiss franc (0.1 percent), and Turkish lira (22.2 percent).

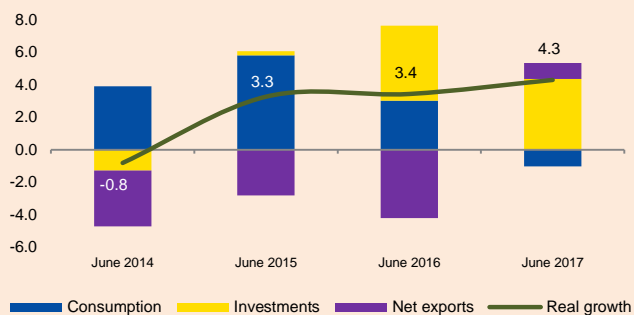
¹ Based on the data until August 2017.

Kosovo's Economy

Real sector

Kosovo's economy, based on KAS estimates, has marked a real GDP growth of 4.3 percent in the first half of 2017. This increase of GDP was generated by investments increase of 15.8 percent and the increase of goods and services export of 12.4 percent. As depicted in figure 3, investments have contributed to the GDP growth with 4.4 percentage points, while net exports have given a positive contribution with 1.0 percentage points.

Figure 3. Real GDP growth and contributors to the growth, In percent



Source: KAS and CBK calculations (2017)

Factors which have given a contribution to investments increase in the first half of the year, among others are also bank lending (10.0 percent), the increase of public investments (18.7 percent), FDI increase (64.2 percent), etc. Whereas factors which have affected the increase of export of goods and services, among others are the increase of metal prices and the improvement of external demand. Regarding the sectors, the real economic growth of Kosovo during the first half of 2017 was primarily supported by the activity increase of extracting

industry sector (22.5 percent), construction sector (20.1 percent), financial activities (11.8 percent) and trade (5.1 percent). Meanwhile, a real decline was assessed to have been marked by agriculture sector (3.3 percent), public administration (2.3 percent) and supply with energy, gas and water (1.8 percent).

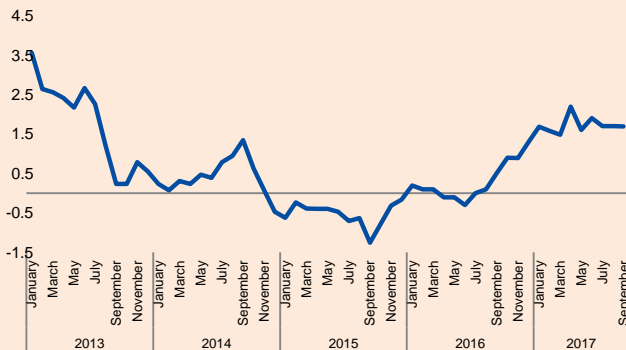
This real growth trend of the economy is expected to continue also in the second half of 2017. Until September 2017, compared to the same period of the previous year, the cumulative growth rate of goods export accelerated to 25.9 percent, while the increased rate of capital and consumer goods increased by 3.4 percent and 4.7 percent, respectively, thus reflecting the increase of aggregated demand. Consequently, the CBK forecasts for 2017 suggest a real economic growth rate of 4.4 percent of Kosovo's economy. This increase is expected to be generated by domestic demand, while net exports are expected to have lower negative contribution to the GDP growth compared to the previous year.

The increase of the economic activity has had a positive effect in performance improvement of labor market in the first half of 2017. Based on the Labor Force Survey, in Q2 2017, the employment rate of total population who reached the age of working reached 29.9 percent (28.0 percent in 2016). Besides the increased rate of employment, an increase was marked also in the participation rate of the labor force, which reached 43.0 percent in Q2 2017 (38.7 percent in 2016). Consequently, the increase of the labor force participation, which was higher than the employment rate, has had an impact on the rise of unemployment rate, which reached 30.6 percent in Q2 2017 (27.5 percent in 2016).

Prices

Until September 2017, the level of prices in Kosovo was characterized with an increase. CPI marked an average increase of 1.7 percent (figure 4).

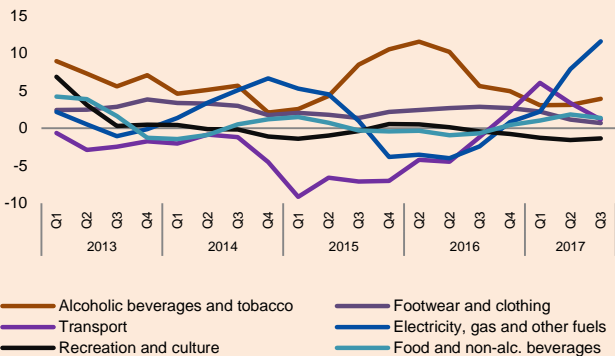
Figure 4. Inflation rate, annual change in percent



Source: KAS (2017)

As regards to the CPI components with an increase were characterized energy prices, gas and other fuels (7.0 percent), transport (3.5 percent), followed by prices of alcoholic beverages and tobacco (3.4 percent), footwear and clothing (1.3 percent).

Figure 5. Price movements by main components, annual change in percent



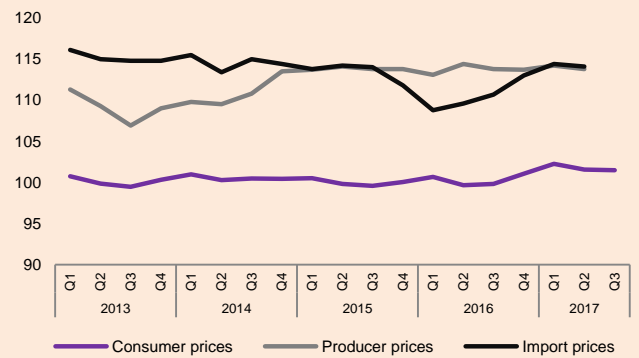
Source: KAS (2017)

With an increase of 1.1 percent were characterized also food prices, which represent around 33.9 percent of the Kosovar consumer basket.

Conversely, a price decline was marked by recreation and culture (1.4 percent) and communication means (0.9 percent) (figure 5).

Import price index, in Q2 2017, marked an increase of 4.1 percent (figure 6).

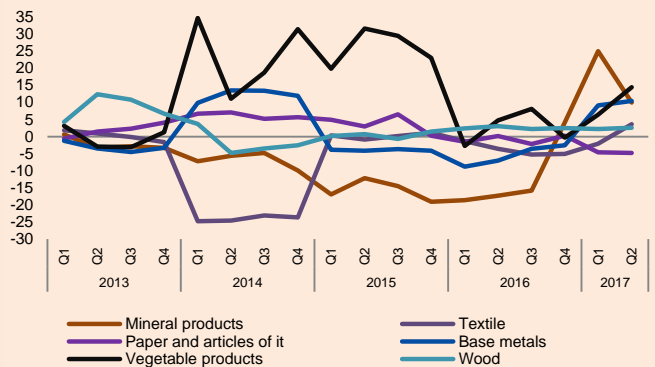
Figure 6. Consumer, producer and import price indices



Source: KAS (2017)

Prices of vegetable products, mineral products and base metals, which represent the main category of import price index, marked higher increase (14.5 and 10.0 percent, respectively), while prices of paper and articles there of marked the highest price decline (4.8 percent) (figure 7).

Figure 7. Price movements of import prices, annual change in percent

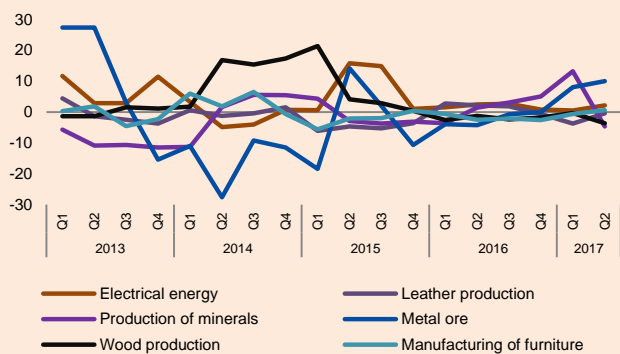


Source: KAS (2017)

Producer price index was characterized with a decline of 0.5 percent. During this period, with an increase of prices were characterized the extraction of metal ore, production of furniture, etc.

Whereas, with a price decline was characterized mainly production of metals, production of wood, manufacturing of leather and its products. (figure 8).

Figure 8. Producer price movements, annual change in percent

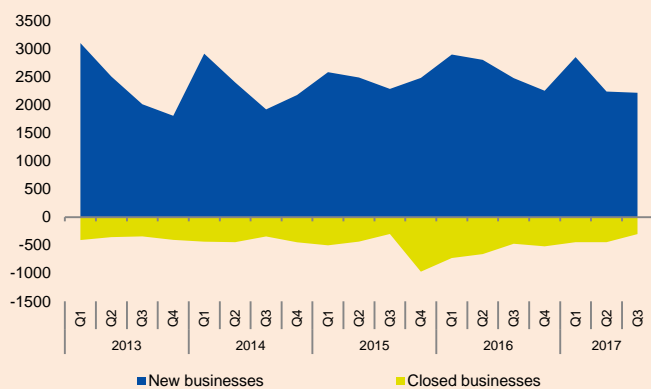


Source: KAS (2017)

Business registry

Regarding the business registry, until September 2017, it was marked a lower number of registered enterprises and lower number of closed enterprises.

Figure 9. Business registry, non-commulative

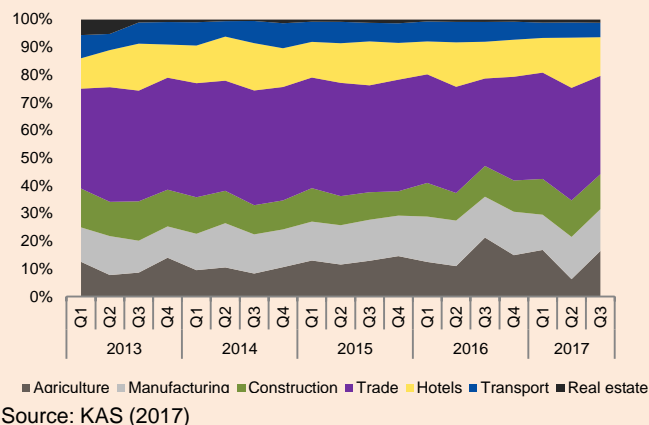


Source: KAS (2017)

The number of new registered enterprises was 7,302 or 871 enterprises fewer than in the same period of 2016, while 1,191 were closed or 666 fewer enterprises (figure 9).

The largest number of new registered enterprises continued to be concentrated in trade sector with 1,951 new enterprises, followed by hotels sector with 747 enterprises, manufacturing sector with 724 enterprises, etc. (figure 10).

Figure 10. Structure of new enterprises



Source: KAS (2017)

Compared to the same period of 2016, in most of the sectors was marked a lower number of registered enterprises. In the manufacturing sector it was marked the highest decline of registered enterprises with 211 enterprises fewer, followed by trade sector which was characterized with 200 fewer registered enterprises. The major sectors which marked the largest number of registered enterprises were the sector of professional activities and construction sector (88 and 9 enterprises more, respectively).

Fiscal Sector

Budget revenues² until September 2017 reached a net value of EUR 1.23 billion, representing an annual increase around 3.8 percent. At the same time, budget expenditures³ reached a value of EUR 1.17 billion, representing an annual increase of around 7.2 percent. Consequently, Kosovo's budget recorded a primary budget balance of EUR 60.8 million, compared to the budget balance of EUR 95.1 million in the same period of 2016.

Regarding the type of taxes, it was observed a higher increase of indirect tax revenues which reached a value of EUR 953.8 million (an increase of 5.4 percent), while direct tax revenues marked a slight increase of 0.5 percent, reaching a value of EUR 179.4 million. A higher increase of budget revenues was marked by non-tax revenues, which reached a value of EUR 138.4 million (an increase of 8.8 percent).

Regarding expenditures, almost all categories were characterized with increase. Government expenditures on wages and salaries marked a slight increase of 0.7 percent and reached a value of EUR 410.0 million. Goods and services (including also the municipal utilities) marked a decrease of 6.0 percent, reaching a value of EUR 137.2 million. Subsidies and transfers also marked an increase of 8.9 percent and reached the value of EUR 349.2 million. The highest increase was marked by capital investments which reached the value of euro 279.8 million, representing

an increase of 18.6 percent compared to the same period of the previous year.

Public debt reached EUR 965.4 million in September 2017, presenting an increase of 14.6 percent compared to the same period of the previous year. As a percentage to GDP, public debt reached around 15.8 percent from 14.3 percent as it was in September 2016. This increase in public debt is attributable to external debt increase of 15.6 percent (its value reached EUR 426.0 million) and the increase of domestic debt with 13.9 percent (EUR 539.4 million).

External Sector

Until September 2017, the current and capital account deficit reached the value of EUR 154.2 million, compared with the deficit of EUR 323.2 million as in the same period of the previous year. This deficit of current and capital account is mainly attributable to the increase of the deficit of goods account. Conversely, positive balances of services, primary and secondary income accounts marked an increase.

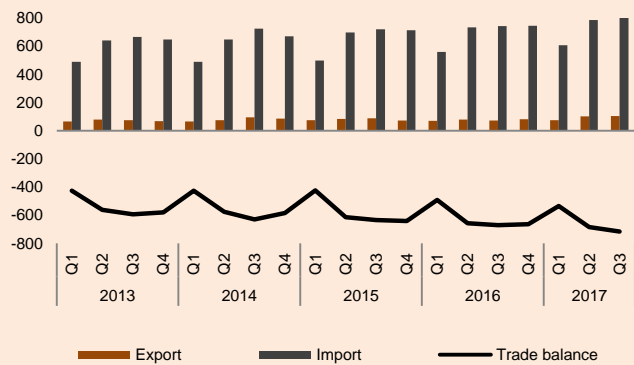
The deficit in trade of goods was characterized with an annual increase of 6.4 percent until September 2017. Export of goods reached the value of EUR 284.4 million, corresponding with an annual increase of 25.9 percent (figure 11).⁴

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

³ Within budget expenditures are not included debt payments, membership payments at International Financial Organizations (IFO), returns from deposit funds, and the return of loans from public enterprises is treated as expenditures reduction.

⁴ The source of data for import and export of goods in Kosovo is Kosovo Agency of Statistics.

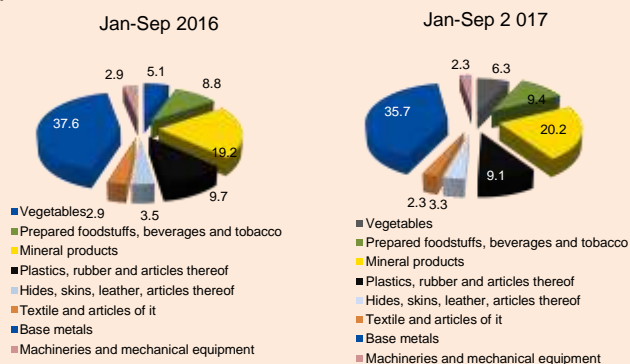
Figure 11. Export and import of goods, in millions of EUR



Source: KAS (2017)

The increase of the value of export of goods during this period is mainly attributed to the increase of export of base metals, mineral products, processed food, beverages, vegetables, etc. On the other hand, with a slight decline was characterized the export of shoes (figure 12).

Figure 12. Structure of exports by category, in percent

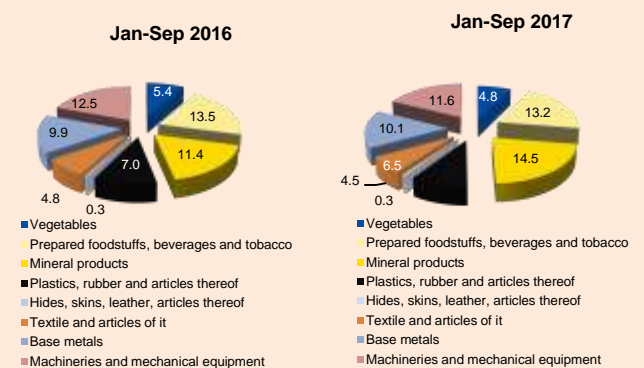


Source: KAS (2017)

The value of total imported goods reached EUR 2.2 billion until September 2017, representing an annual increase of 8.6 percent. The growth of import was mainly a result of the increase of mineral products, which accounts for import of oil and its derivatives, whose prices had marked an increase in international markets. With an increase was characterized also the

import of transport means, base metals, beverages and tobacco, etc. Conversely, the import of vegetables, articles of stone, ceramic products, glass, etc. marked a decline (figure 13). In September 2017, the coverage rate of imports by exports stood at 12.8 percent (11.1 percent in September 2016).

Figure 13. Structure of imports by category, in percent



Source: KAS (2017)

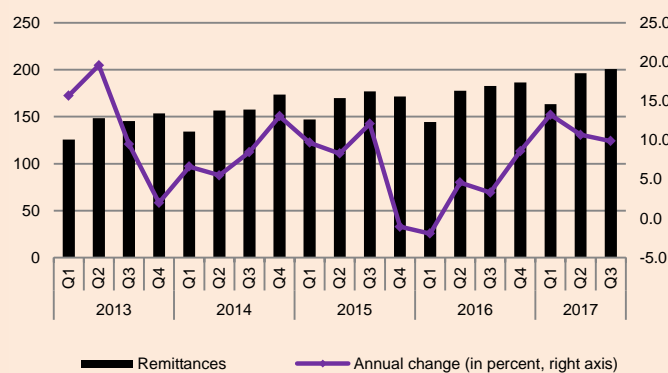
The balance in services trade marked a value of EUR 703.2 million until September 2017, representing a growth of 33.5 percent compared to the same period of 2016. The value of total exported services marked an annual increase of 23.5 percent, reaching EUR 1.1 billion, while the value of imported services marked an increase of 9.4 percent, reaching a value of EUR 413.1 million.

Within the export of services, travel services comprise the main category (85.2 percent of total export of services) marking the highest increase, while construction services marked a decline. As regards to import of services, transport services, pension and insurance services marked a decline, whereas travel and other business services marked an increase.

Primary income account was characterized with an increase of 195.8 percent. The balance of income from

the compensation of employees⁵ marked an increase of 10.5 percent, while the balance of income realized from investments declined for 56.6 percent. At the same time, the balance of secondary income marked an increase of 3.3 percent, which is attributable to the higher level of remittances. Remittances received in Kosovo, which at the same time represent the largest category within the secondary income account, reached the value of EUR 560.7 million, representing an annual increase of 11.1 percent (figure 14).

Figure 14. Remittances, in millions of EUR



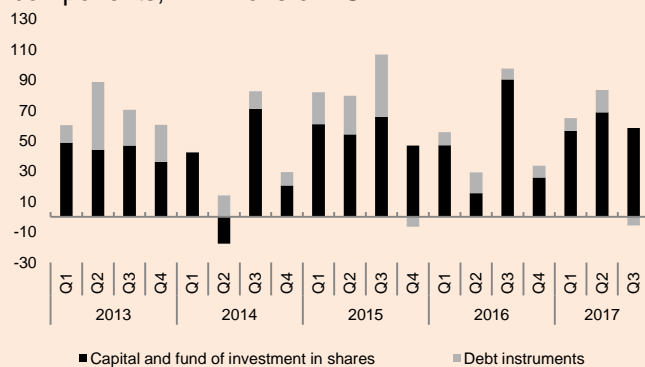
Source: CBK (2017)

Remittances received in Kosovo mainly come from Germany and Switzerland, which represent the countries with a share of 39.2 percent and 22.6 percent, respectively, of total remittances received. A considerable amount of remittances was received from USA, namely 7.3 percent of total remittances received in Kosovo.

Foreign Direct Investments (FDI) received in Kosovo reached the value of EUR 201.5 million until September 2017, representing an increase of 10.5

percent compared to the same period of the previous year. Within the structure of FDI, with an increase was characterized the capital and fund of investment in shares, while investments in debt instruments marked a decline (figure 15).

Figure 15. Structure of foreign direct investments by components, in millions of EUR



Source: CBK (2017)

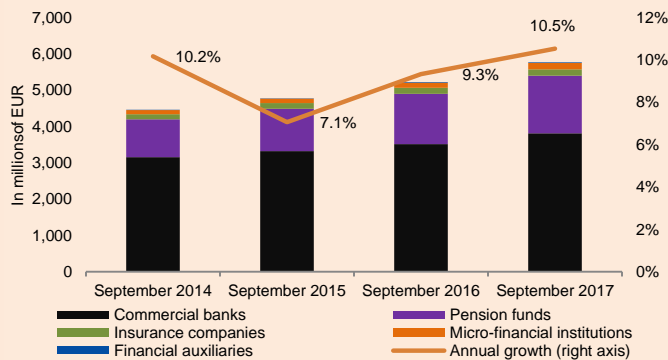
The capital and investments fund in shares, which comprises around 91.2 percent of total FDI, reached the value of EUR 183.8 million marking an increase of 20.0 percent. FDI in the form of debt instruments reached a value of EUR 17.6 million, representing a decline of 39.5 percent. A higher increase of FDI was marked in the sector of financial services and other services (30.2 percent, namely EUR 13.7 million more compared to the same period of the previous year), while in the sectors of real estate and construction it was marked a higher decline of FDI compared to the same period of 2016.

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

Financial System

The total value of assets of Kosovo’s financial system reached EUR 5.77 billion in September 2017, representing an annual increase of 10.5 percent (figure 16).

Figure 16. The value of assets of Kosovo’s financial system



Source: CBK (2017)

The main contribution to expansion of assets of financial system continued to be marked by the increase of the banking sector and pension sector activity, while the increase of the activity of other financial institutions gave fairly a slight contribution due to their low share in financial system assets.

Banking Sector

Assets

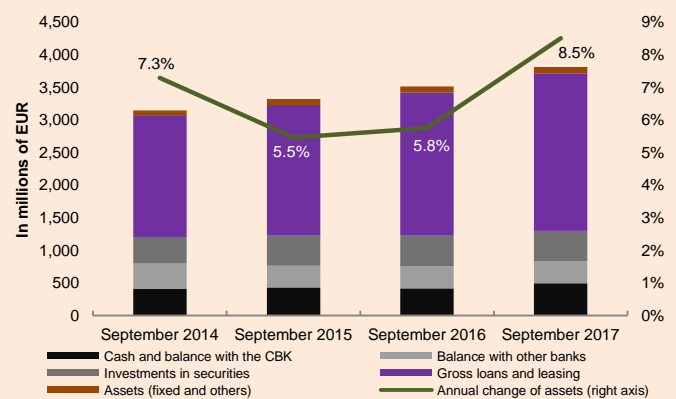
In September 2017, assets of the banking sector marked an annual increase of 8.5 percent, thus reaching EUR 3.81 billion (figure 17). The increase of the banking sector assets continued to be supported mainly by the growth of the lending activity.

The expansion of lending activity of the banking sector continued to be supported by deposits trend

whose growth reflects the main source of financing lending in the country.

In September 2017, the securities stock of the banking sector marked an annual decline of 2.4 percent from 1.3 percent as it was in the previous year.

Figure 17. Assets structure of the banking sector



Source: CBK (2017)

The decline of this category is attributable to the decline of 13.9 percent of foreign governments investments in securities (an increase of 13.7 percent in September 2016), despite the annual growth of 12.5 percent marked by Kosovo’s Government investments in securities (a decline of 11.3 percent in September 2016). The slowdown investments increase in securities by foreign governments is attributed to low interest rates in external markets. Conversely, the continuous improvement of credit portfolio and higher returns from investments in loans, has had an impact on banks to shift their investments from securities towards lending.

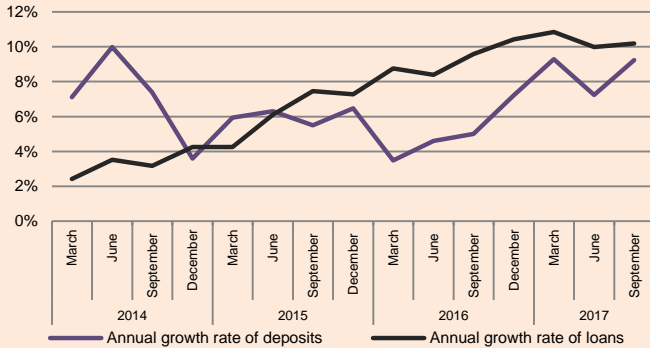
Cash and balance with the CBK marked an annual growth of 18.7 percent compared to the decline of 2.9 percent marked in the previous

year. The increase was mainly a result of the increase of general reserves of commercial banks held at the CBK.

Loans

Loans of the banking sector continued their positive increasing trend, marking an annual growth of 10.2 percent in September 2017 (figure 18). The value of total loans reached EUR 2.41 billion in the reporting period, mainly as a result of eased credit supply conditions, especially for SMEs, as well as the increased demand for loans from both economic categories.

Figure 18. Growth trend of loans and deposits, in percent



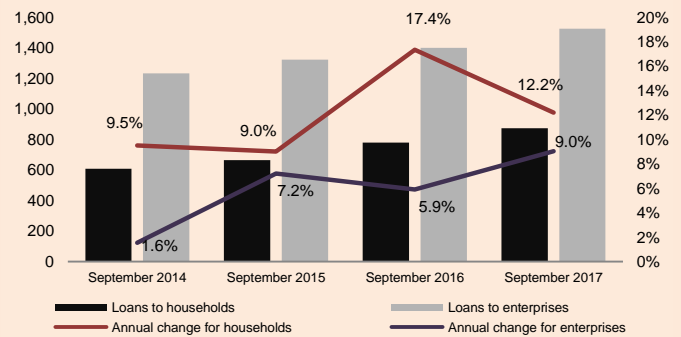
Source: CBK (2017)

Household loans stock continued to be the category with the highest increased rate in the recent four years. In September 2017, this category marked an annual increase of 12.2 percent (figure 19). Whereas, new loans issued to households was characterized with a slowdown increase. These loans marked an annual increase of 6.0 percent, in September 2017 (15.3 percent in the same period of 2016). The slowdown increase of new loans to

households was primarily impacted by the sluggish increase of new consumer loans portfolio.

Loans to enterprises accelerated their annual increase in the reporting period (figure 4). New loans issued to enterprises marked a significant increase during this period (31.7 percent) against the annual decline with which were characterized in the previous year (18.5 percent).

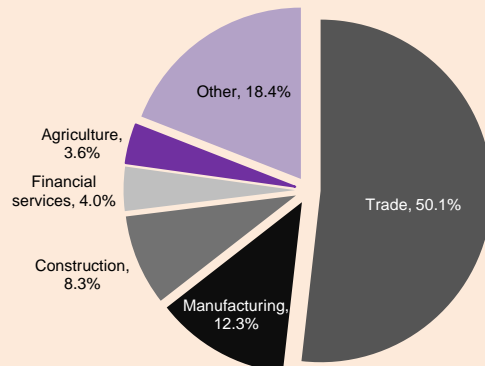
Figure 19. Loans to enterprises and loans to households



Source: CBK (2017)

The structure of loans to enterprises by economic activity continued to remain dominated by loans intended to the trade sector (figure 20).

Figure 20. Loans by economic sectors, in percent (Sep. 2017)

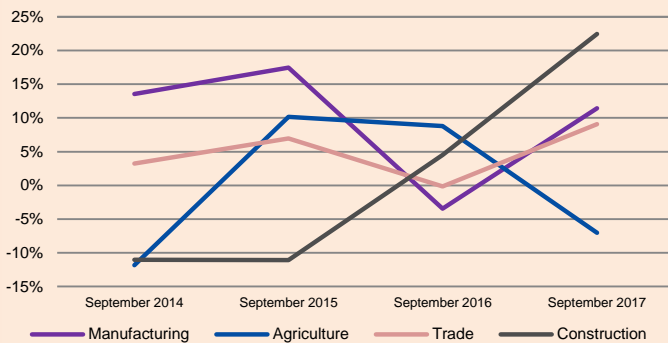


Source: CBK (2017)

In September 2017, lending to economic sectors with a higher share in the economy, marked an increase (figure 21).

Significant annual growth of loans stock was marked especially by construction sector, manufacturing, trade and other services category, which together account for 89.1 percent of lending to enterprises.

Figure 21. Annual growth of loans by economic sectors



Source: CBK (2017)

Whereas, with a decline were characterized the sectors of financial services, energy and agriculture, which together comprise 9.0 percent of total lending to the sector.

New loans to economic sectors, which in the previous year were characterized with a decline, until September 2017 marked a significant increase. The main contribution to the increase of new loans to enterprises was given by loans with non-investment purpose (40.9 percent), followed by investment loans (23.6 percent). As regards to the economic sectors, new loans to industry and services sector marked a significant annual growth of 51.0 percent and 25.5 percent, respectively, until September 2017. Meanwhile, new loans to agriculture sector were

characterized with a declining trend for the second consecutive year.

The increased banking sector activity, until September 2017, was primarily supported by expansion of credit portfolio, as a result of the credit supply increase. Regarding the lending structure by economic sectors, it continued to remain the same as in the previous period. Significant annual increase of lending was marked by construction, manufacturing and trade sector.

Liabilities and Own Resources

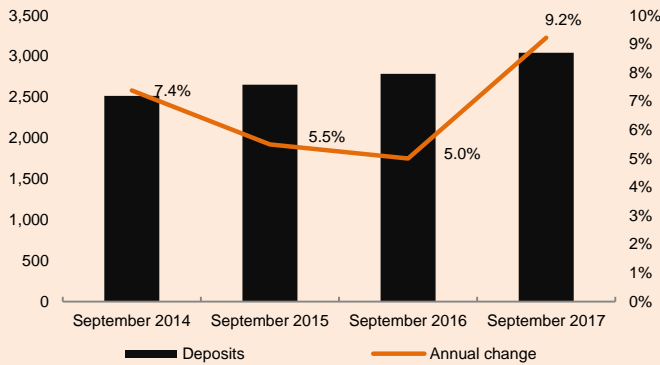
The structure of banking sector liabilities is dominated by deposits, which comprise around 79.9 percent of total liabilities and own resources. The main source of financing the banking sector activities continue to remain deposits. **The category of own resources of the banking sector comprise 12.0 percent of total liabilities and own resources, which in September was characterized with an annual increase of 12.2 percent, mainly as a result of the significant increase of the current profit and of retained earnings of EUR 69.2 and EUR 105.4 million, respectively, (from EUR 61.3 and EUR 68.7 million, respectively, in September 2016).**

Deposits

Deposits at the banking sector of Kosovo marked an annual increase of 9.2 percent, representing a more accelerated pace compared to the same period of the previous year (5.0 percent in September 2016). The value of total

deposits, until September 2017, amounted to EUR 3.05 billion (figure 22).

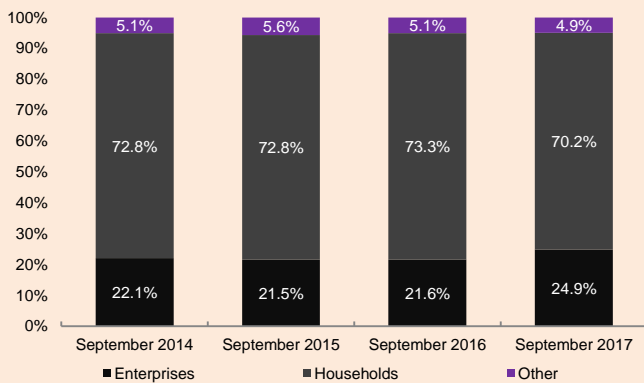
Figure 22. Deposits, in millions of EUR



Source: CBK (2017)

The deposits level of the banking sector reflects the trend of household deposits, which dominate the structure of total deposits and in the reporting period marked an annual increase of 4.6 percent (figure 23).

Figure 23. Structure of deposits, in percent



Source: CBK (2017)

Until September 2017, enterprise deposits marked an accelerated annual increase of 26.0 percent, which may have been impacted by the increase of the average interest rate of enterprise deposits. As regards to the category of deposits,

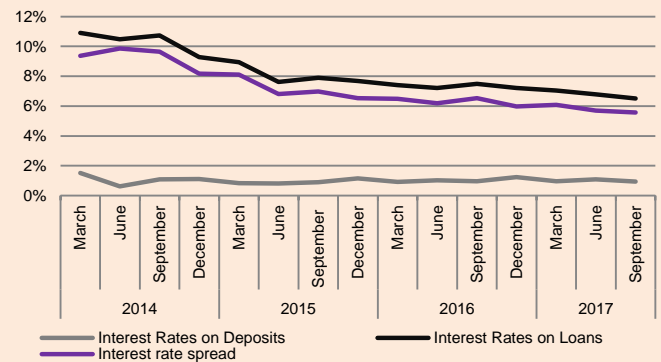
transferable deposits marked the highest increase in share within total deposits though with slower pace compared to the same period of the four previous years. Time deposits had also marked a slight increase in their share which may be attributable to some extent to the of enterprise time deposits interest rates. Conversely, saving deposits declined their share.

After the second consecutive year's slowdown increase, banking sector deposits, in September 2017, accelerated the increasing pace. Transferable deposits continued to dominate the structure of deposits and to expand their share, the same as time deposits, while saving deposits decreased their share to total deposits.

Interest Rates

The interest rate spread between loans and deposits narrowed to 5.6 percentage points from 6.5 percentage points as it was in the same period of the previous year.

Figure 24. Average interest rate on loans and deposits



Source: CBK (2017)

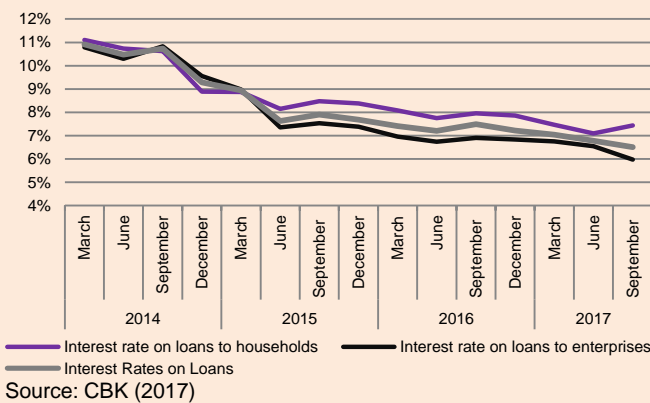
Interest rates on loans, in September 2017, was decreased to 6.5 percent while the average interest rate on deposits marked a slight decline of 0.9 percent (figure 24).

Interest Rates on Loans

The average interest rate on loans to enterprises, in September 2017, decreased to 6.0 percent from 6.9 percent as it was in September 2016 (figure 25).

Within this category, interest rates on investment and non-investment loans continued to follow a declining trend for the fifth consecutive year. Also other categories as interest rates on “overdrafts” and “credit lines” during this period were characterized with a decline compared to the previous period, while interest rates on “loans with favorable conditions” doubled compared to the previous year.

Figure 25. Average interest rate on loans to households and enterprises

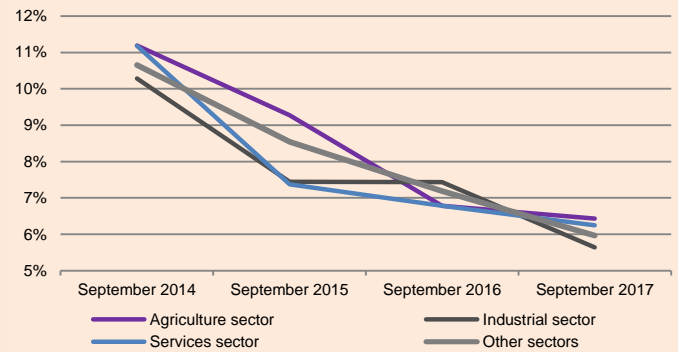


Source: CBK (2017)

Interest rates on all economic sectors marked a decline. Interest rate on industry sector marked a more significant decline, unlike the agriculture, and services sector which had marked a slight decline (figure 26).

Interest rates on loans to households continued with a declining trend dropping to 7.4 percent from 8.0 percent in September 2016.

Figure 26. Average interest rate on loans, by economic sectors



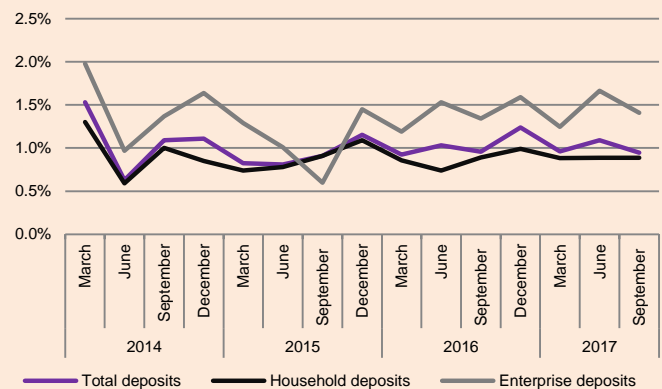
Source: CBK (2017)

Within loans to households, the average interest rate on consumer loans declined further to 7.7 percent (8.2 percent in September 2016), and the average interest rate on mortgage loans declined to 5.9 percent (6.4 percent in September 2016).

Interest Rates on Deposits

The average interest rate on total deposits marked a slight increase compared to the same period of the previous year (figure 27).

Figure 27. Average interest rate on deposits

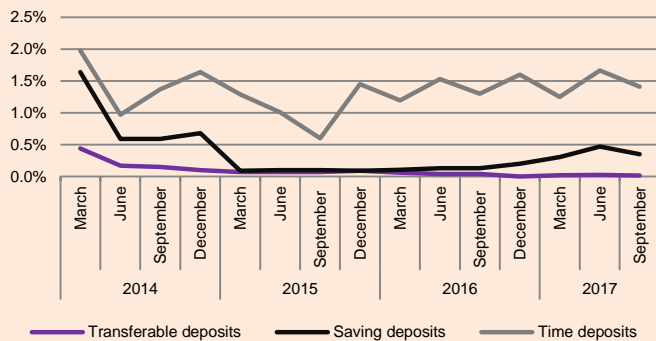


Source: CBK (2017)

The average interest rate on enterprise deposits reached 1.4 percent from 1.3 percent as it was in the same period of the previous year.

More specifically, an increase was marked on interest rates of saving and time deposits of enterprises with 0.3 percentage points and 0.1 percent percentage points, respectively (figure 28).

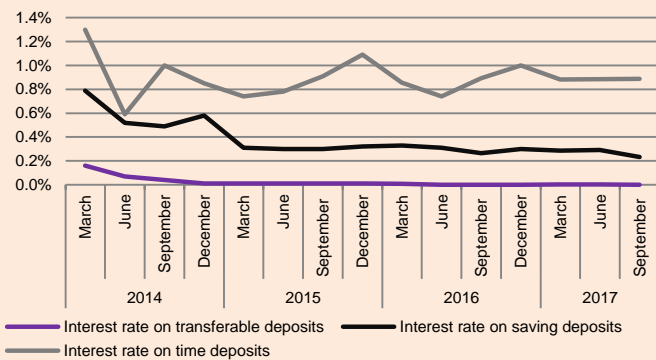
Figure 28. Average interest rates on enterprise deposits, by category



Source: CBK (2017)

Also, the average interest rate on household deposits remained unchanged as in the same period of the previous year standing at 0.9 percent.

Figure 29. Average interest rate on deposits to households, by categories



Source: CBK (2017)

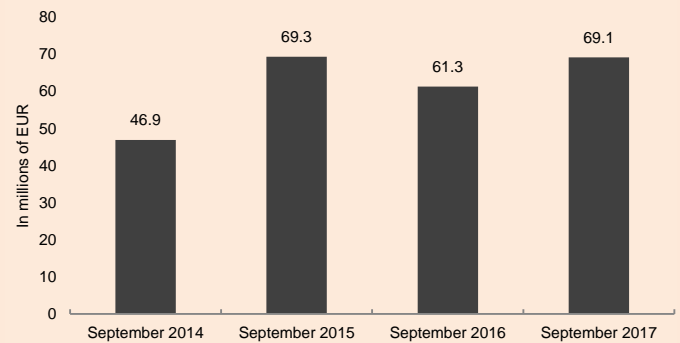
Average interest rates of transferable and time deposits remained almost the same, while the average interest rate on saving deposits marked a slight decline (figure 29).

Performance of the Banking Sector

Banking sector was characterized with a positive financial performance with an accelerated annual increase of the profit, as a result of the accelerated increase of the sector's income alongside with the decline of expenditures.

The profit value realized, until September 2017, was EUR 69.1 million, representing an annual increase of 12.8 percent (figure 30).

Figure 30. Net profit of the banking sector, in millions of EUR



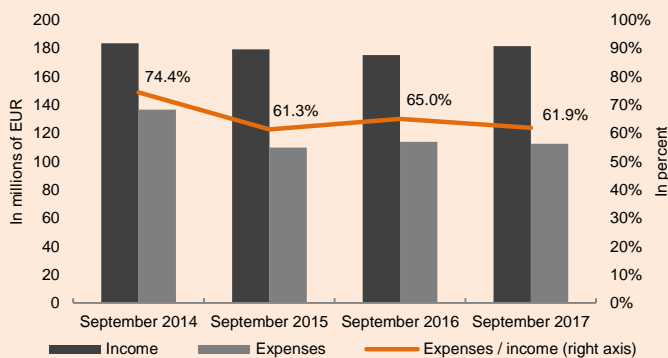
Source: CBK (2017)

The income of the banking sector interrupted their declining trend of the three consecutive years. Until September 2017, the value of income reached EUR 181.6 million, thus marking an annual increase of 3.6 percent (figure 31). The increase of income is mainly attributable to the increase of non-interest income, namely the increase of fees and commissions and the income from other operations. However, the declining trend of interest income continued for the fifth consecutive year despite the accelerated banking sector lending activity. This development may be attributed to the continuous decline of average

interest rate on loans, where 94.9 percent of interest income is generated from loans interest rate.

The value of total expenditures of the banking sector reached EUR 112.5 million, representing an annual decline of 1.3 percent (figure 31).

Figure 31. Income and expenditures of the banking sector



Source: CBK (2017)

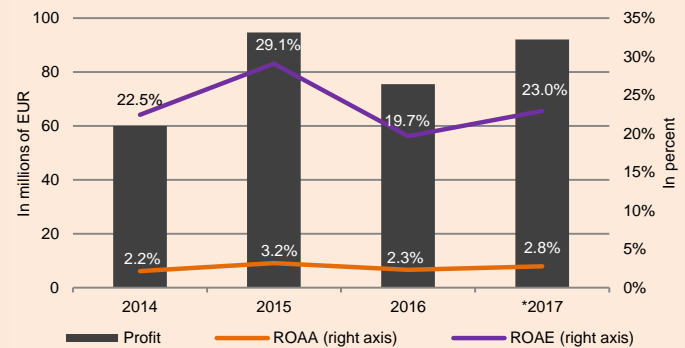
The decline of total expenditures was primarily a result of the decline of non-interest expenditures and to some extent also to the decline of interest expenditures. Within the category of non-interest expenditures, loan loss provisions was the category that marked an annual decline.

Expenditures to income ratio of the sector marked an improvement, dropping to 61.9 percent, mainly as a result of income performance improvement of banks and better management of expenditures (figure 16).

The significant increase of the banking sector profit in September 2017 was followed with improvement of two profitability indicators as Return on Average Assets (ROAA) and Return on Average Assets (ROAA). ROAA increased to 2.6 percent, whereas ROAE increased to 23.0 percent,

implying a more efficient management of assets and capital by the banking sector (figure 32).

Figure 32. Profitability indicators of the banking sector



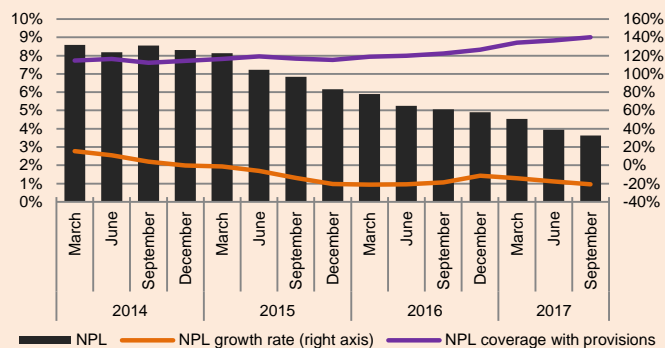
*For 2017 profitability indicators were calculated based on the performance until Sep. 2017
Source: CBK (2017)

Financial Soundness Indicators

The banking sector recorded a decline of nonperforming loans, and an improvement of their coverage with provisions. The level of nonperforming loans, until September 2017, declined to 3.6 percent, representing a low rate compared to Western Balkans euro area countries (figure 33).

Furthermore, the coverage level of nonperforming loans with loan loss provisions marked a further improvement reaching at 139.9 percent, mainly as a consequence of a significant decline of nonperforming loans value in the reporting period, while despite the decline of nonperforming loans provisions did not decline to significantly.

Figure 33. Indicators of credit portfolio quality, and NPL growth rate



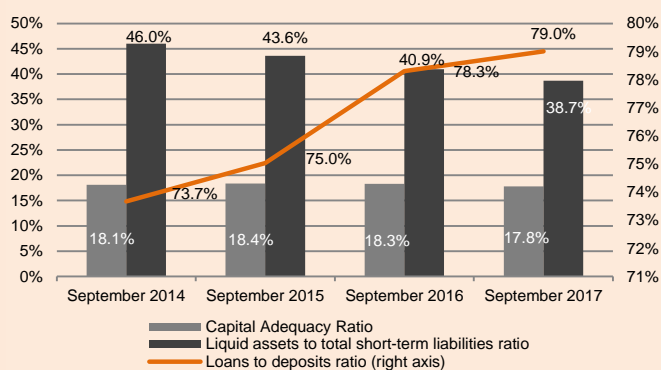
Source: CBK (2017)

transferable deposits within total deposits. However, the banking sector continued to be characterized with a satisfactory level of liquidity (figure 34).

Until September 2017, the banking sector marked a significant increase of the profit as a result of income increase and decrease of expenditures. The level of nonperforming loans is quite low compared to the coverage level with loan loss provisions. Moreover, the banking sector continues to have high level of capitalization and satisfactory position of liquidity.

Despite the slight decline of the capital adequacy ratio, the banking sector continued to have high level of capitalization. This indicator was lower for 0.5 percentage points compared to the same period of the previous year as a consequence of the higher increase of risk weighted assets against the capital.

Figure 34. Liquidity and solvency Indicators



Source: CBK (2017)

The key liquidity indicator, being presented by the liquid assets ratio to total short-term liabilities, marked a decline compared to previous year. A contribution to this development was given by short-term liabilities, reflecting a higher share of

Pension Sector

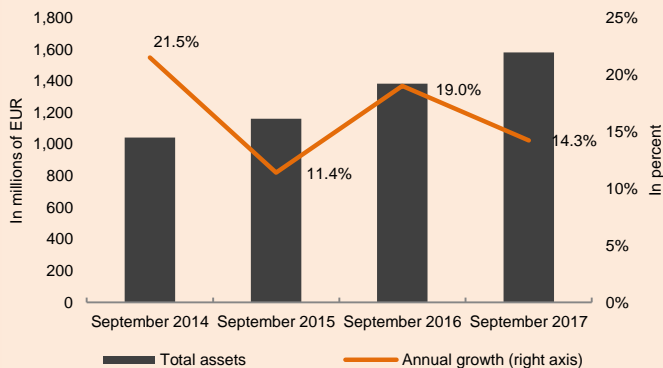
Pension sector continues to have a high share to total assets of financial sector with 27.5 percent. **Until September 2017, assets of the pension sector expanded at a rate of 14.3 percent, compared to the same period of the previous year.** In September 2017, the value of total assets of the pension sector reached EUR 1.58 billion, which mainly reflects the increase of new contributions and return on investments during the current year (figure 35).

The value of new collections, until September 2017, reached EUR 117.9 million, compared to the value of EUR 113.6 million by September 2016. The value of new collections of Kosovo Pension Saving Fund (KPSF), until September 2017, reached the value of EUR 117.6 million, whereas the new collections of Slovenian-Kosovo Pension Fund (SKPF) amounted to EUR 365.4 thousands.

Kosovo's pension sector has reached the highest value of investments return during this period, ever since the commencement of its operation. **By September 2017, both Kosovo's pension funds**

realized investment return of EUR 66.8 million, unlike the amount of investments return of EUR 56.2 million marked in the same period of the previous year.

Figure 35. Assets of pension sector



Source: CBK (2017)

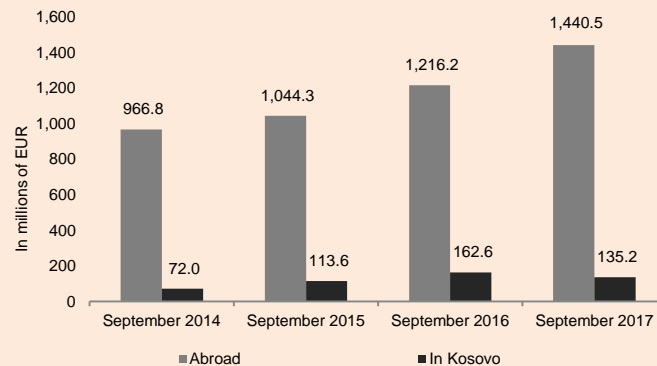
In this period, KPSF realized positive investments return of EUR 66.4 million, while SKPF investments return reached EUR 349.4 thousands. The significant improvement of key economic indicators in USA, Europe and Asia, stimulated a profit increase of the global market shares, which was also reflected on foreign investments of the fund.

KPSF, which comprises 99.5 percent of total assets of the pension sector, continues to have the highest share of investments in foreign markets. KPSF investments abroad reached the value of EUR 1.44 billion (EUR 1.22 billion in September 2016). Meanwhile, investments in the domestic market were characterized with a decline, as a result of the securities decline of Kosovo's Government and due to the decline of assets held at the CBK.

The only categories which marked an increase within the domestic sector were investments in the banking

sector - deposit certificates and cash held at the treasury (figure 36).

Figure 36. KPSF investments, in millions of EUR



Source: KPSF (2017)

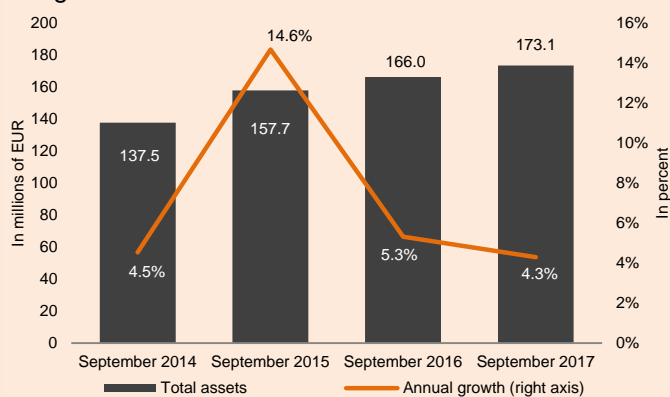
Pension sector continues to be characterized with a significant increase of assets, as a result of new contributions and positive return on investments. Over 90 percent of assets continued to be invested in the external sector (investment funds); whereas assets held within the country, are mainly invested in Kosovo's Government securities and in commercial banks - deposits certificate.

Insurance Sector

Insurance sector, as another important component within the financial system, in September 2017, had a share of 3.0 percent to total assets.

In September 2017, the total value of assets of insurance sector reached EUR 173.1 million, representing a significant annual increase of 4.3 percent (figure 37). The main contribution to assets growth of the sector was given by cash held at commercial banks, a category which represents more than the half of total assets of insurance industry.

Figure 37. Assets of insurance sector



Source: CBK (2017)

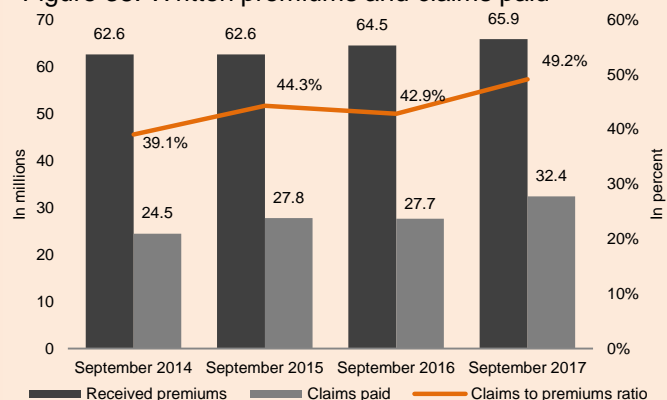
Non-life insurances, which represent the largest share of the sector with 89.1 percent of total assets, marked an annual growth of 2.8 percent in September 2017. Whereas, the remainder of the sector which is presented by “life” insurance, marked a more significant annual increase of 18.0 percent.

Until September 2017, the value of written premiums of insurance companies amounted to EUR 65.9 million, representing an annual increase of 2.1 percent. Premiums of non-life insurance account for 97.1 percent of total written premiums structure. The realized value of written premiums from non-life insurance amounted to EUR 64.0 million until September 2017 (an increase of 2.3 percent), while the value of written premiums from life insurance was characterized with an annual decline of 1.6 percent falling to EUR 1.9 million.

Claims paid by insurance sector, where are included claims of insurance companies and Kosovo Insurance Bureau (KIB), reached EUR 32.4 million until September 2017 (EUR 27.7 million until September 2016), representing a significant annual increase of

17.2 percent (a decline of 0.4 percent until September 2016).

Figure 38. Written premiums and claims paid



Source: CBK (2017)

The high increase of claims occurred during this period, along with the low increase of received premiums had an impact on the increase of total claims paid to written premiums ratio. In September 2017, this ratio increased for 6.3 percentage points compared to the same period of the previous year, reaching 49.2 percent. This implies that half of received premiums are dedicated to claims paid (figure 38).

Performance of the Insurance Sector

Insurance sector until September 2017 was characterized with a positive performance and improvement of profitability indicators.

Net income of premiums of the insurance sector, until in September 2017, reached a value of EUR 57.2 million, whereas expenses amounted to EUR 31.0 million. As a consequence of a more significant decline of expenses, alongside with the slight income increase, insurance sector registered a profit of EUR 3.2 million, until September 2017, compared to the loss of

EUR 12.1 million registered in the same period of the previous year. The profit increase is attributed to the increase marked within “non-life” insurance (EUR 2.9 million), while with a positive performance was characterized also “life” insurance (EUR 270.2 thousands).

A more significant annual increase of cash and its equivalents (14.2 percent), compared to the lower increase of technical reserves (7.8 percent), had an impact on the improvement of the liquidity level of the sector. Cash and its equivalents to technical reserves ratio improved to 82.8 percent, in September 2017 (78.2 percent in September 2016), and also cash and its equivalents to total liabilities ratio improved to 74.6 percent (70.2 in September 2016).

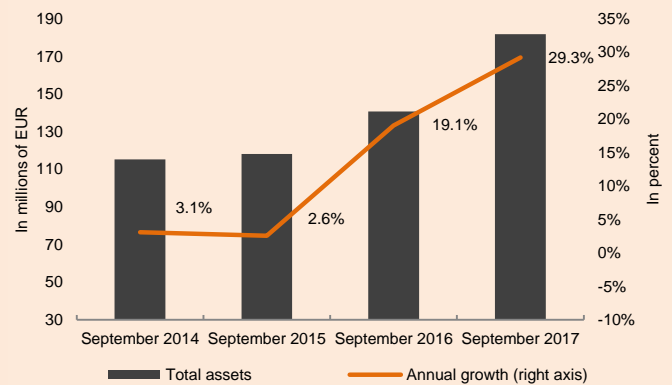
Insurance sector during this reporting period was characterized with an activity increase and improvement of financial performance. This industry was characterized with an increase of the level of written premiums and a decline of expenses, resulting in a positive profit until September 2017. This industry also improved the liquidity level compared to the previous period.

Microfinance Sector

Assets

Microfinance institutions represent the third sector by importance within the system, with a share of 3.2 percent of total assets. At the end of the third quarter of 2017, the value of total assets of the microfinance sector reached EUR 182.0 million, marking a significant annual increase of 29.3 percent (figure 39).

Figure 39. Assets of microfinance sector



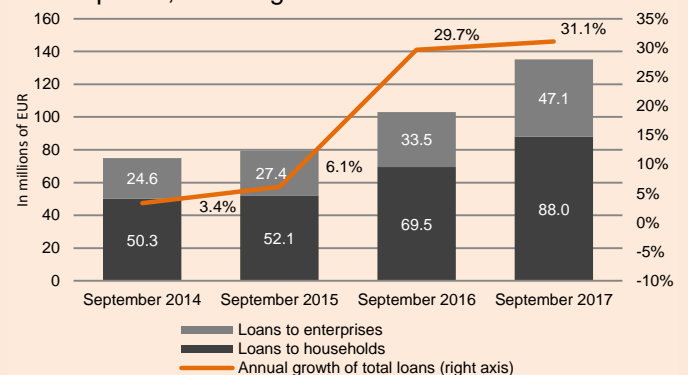
Source: CBK (2017)

The expansion of microfinance sector mainly is attributed to the increase of lending activity, which primarily was financed by borrowings from external sector (67.7 percent of total assets) and borrowings from the domestic sector (6.8 percent of total assets).

Loans

The value of total loans issued by the microfinance institutions until September 2017 reached EUR 135.1 million, representing a significant annual increase of 31.1 percent (figure 40).

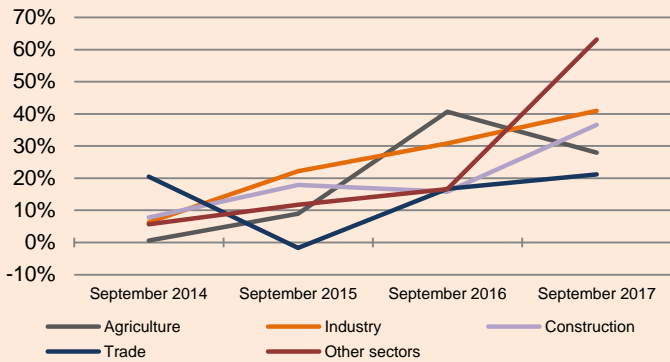
Figure 40. The value of loans to households and enterprises, annual growth of loans



Source: CBK (2017)

Households, which have a share of 65.1 percent of total loans of the sector, were characterized with an annual increase of 26.6 percent. Meanwhile, loans to enterprises, which comprise 34.9 percent of total loans of the sector, marked an annual increase of 40.4 percent.

Figure 41. Growth rate of loans to enterprises, by economic sectors



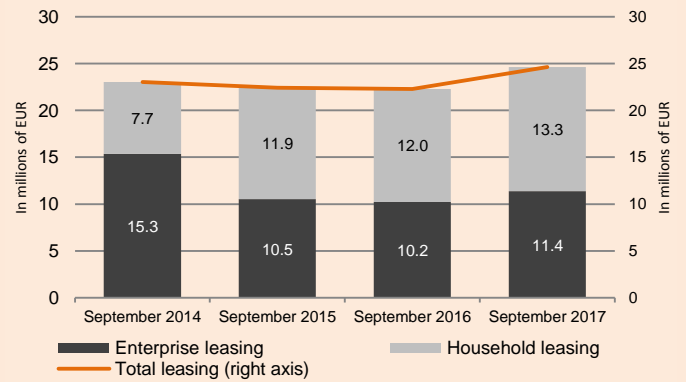
Source: CBK (2017)

As regards to lending to economic sectors, it is worth noting that for the second consecutive year, almost all economic sectors were characterized with a double-digit increase. The sectors with the highest increase was the one of other sectors, being followed by industry sector, construction and agriculture sector (figure 40).

Leasing

Until September 2017, leasing marked an annual increase of 10.6 percent, thus interrupting the declining trend marked in the two previous periods (figure 42).

Figure 42. Microfinance sector leasing



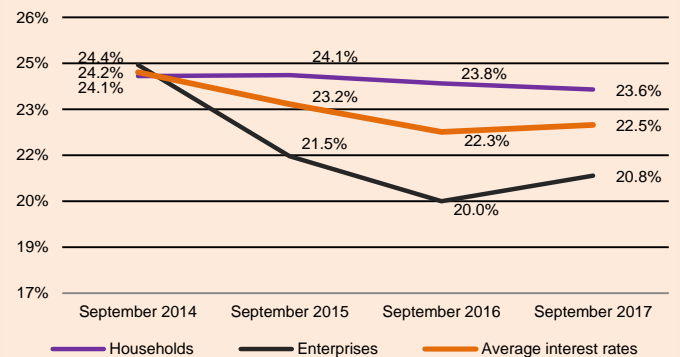
Source: CBK (2017)

The category of “other leasing” (enterprise and households leasing) marked a contribution to the increase of total leasing along with the “mortgage” (for households) category, which marked an annual increase of 22.6 percent and 5.6 percent, respectively, in September 2017.

Interest Rates

Average interest rates on loans continued to stand at same levels as in the previous years. In September 2017, the average interest rate stood at 22.5 percent (22.3 percent in September 2016).

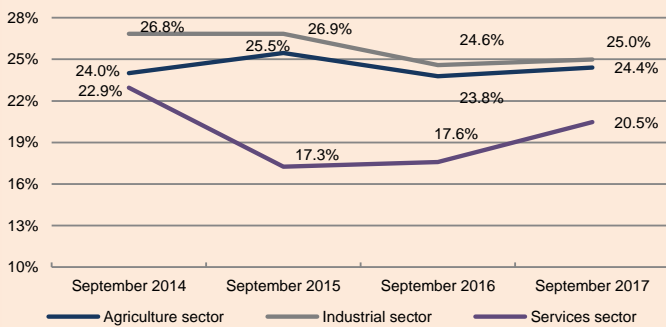
Figure 43. Average interest rate on microfinance sector loans



Source: CBK (2017)

Interest rate on loans to households narrowed slightly for 0.2 percent, whereas interest rate on loans to enterprises was characterized with an increase of 0.8 percent (figure 43).

Figure 44. Average interest rate on loans, by economic sectors



Source: CBK (2017)

Within loans to enterprises, services sector results to have the lowest interest rate, however with an increasing trend in the two recent years. While, industry sector, continued to have the highest interest rate on loans (figure 44).

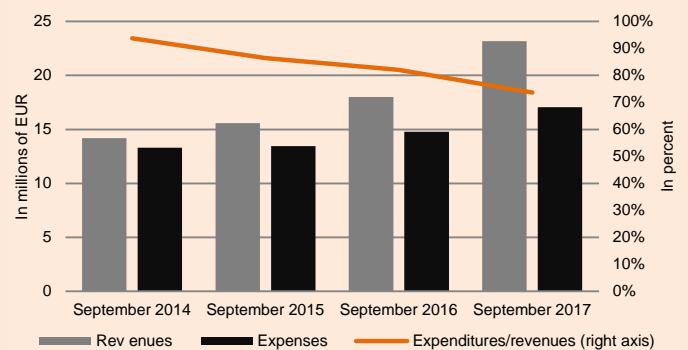
Performance of the Microfinance Sector

Until September 2017, microfinance sector realized a profit with a value of EUR 6.1 million, which is for 2.9 million more against the previous year (figure 45).

The profit increase is mainly attributed to the significant increase of income, namely interest income, which comprise 85.1 percent of total income. Also, an impact on the increase, but with a lower contribution, was marked also by non-interest income, which account for 14.9 percent of total income of microfinance sector (figure 44). The increase of

interest income (for 31.6 percent) was a result of the increase of lending activity of microfinance institutions, especially during the past two years. Conversely, the increase of interest income (an increase of 14.3 percent) is attributed to other operating income.

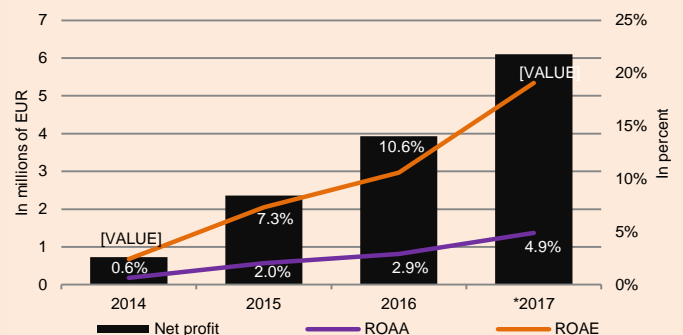
Figure 45. Microfinance sector income and expenditures



Source: CBK (2017)

As a result of the positive financial performance during the first nine months of 2017, profitability indicators marked a significant improvement (figure 46).

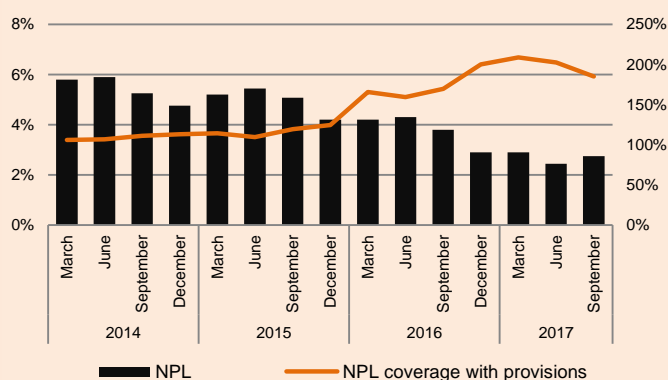
Figure 46. Profitability indicators of microfinance sector



*For 2017 the profit was annualized based on the performance until September 2017
Source: CBK (2017)

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

Figure 47. Indicators of credit portfolio quality



Source: CBK (2017)

The level of nonperforming loans to total loans ratio of the sector, in September 2017, marked a decline of 1.0 percentage points against the previous year, reaching 2.8 percent (figure 47). Whereas, the coverage level of nonperforming loans with loan loss provisions in September 2017 stood at the level of 185.0 percent compared to the level of 169.8 percent in September 2016.

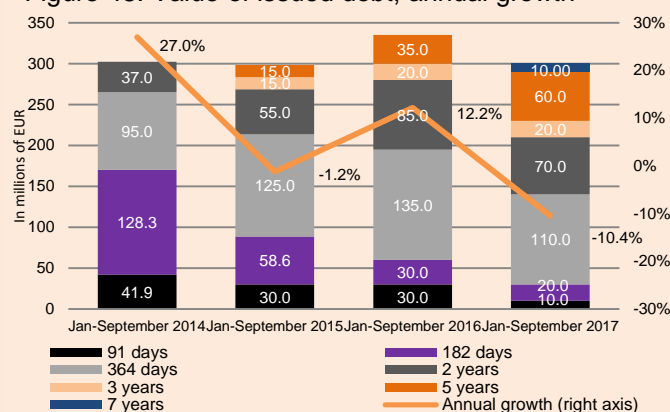
Microfinance sector during this period was characterized with a significant increase of lending activity, despite the high level of interest rates. Also, the sector until September 2017, was characterized with an improvement of key profitability indicators and credit portfolio quality.

Securities Market

Treasury Department, within the Kosovo's Ministry of Finance, until September 2017, realized in total 14 auctions, receiving income with an amount of EUR 300.0 million (figure 48).

It is worth noting that during August 2017, for the first time it was realized the government security auction with a maturity of 7 years.

Figure 48. Value of issued debt, annual growth



Source: CBK (2017)

Compared to the same period of the previous year, the number and the value received from issuing treasury bills declined significantly, while the number and the value received from issuing treasury bonds marked an increase (table 2).

Table 2. The number and value of securities issued by Kosovo's Government

Period	Treasury bills		Treasury bonds	
	Number realized	Received amount	Number realized	Received amount
Jan-September 2014	13	265.2	3	37.0
Jan-September 2015	11	213.6	5	85.0
Jan-September 2016	9	195.0	6	140.0
Jan-September 2017	6	140.0	8	160.0

Source: MF (2017)

According to maturity, the increase of the number of issued bonds with longer maturity was reflected in an increase of the maturity average of securities portfolio (figure 49).

The main category of securities continued to remain treasury bills with a maturity of 364 days and treasury bonds with a maturity of 2 years, which

Suggested citation for this publication:

CBK (2017): Quarterly Economic Assessment No. 20, Q3 2017, Central Bank of the Republic of Kosovo, Prishtinë

References:

CBK (2017):

- a) Monthly Statistics Bulletin: <http://www.bqk-kos.org>
- b) Official CBK statistics, Time series: <http://www.bqk-kos.org>
- c) Announcements and auction Results on Government securities: <http://www.bqk-kos.org>

KAS (2017):

- 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>

Bloomberg (2017): Metal Prices database.

FAO (2017): World Food Prices, Food and Agriculture Organization of United Nations: <http://www.fao.org>

Euribor (2017): Euribor Historical Rates:

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

IMF (2017): World Economic Outlook.

<http://www.imf.org>

Macroeconomic selected indicators

Description	September 2016	September 2017
Real sector 1/		
GDP (in millions of EUR)	-	-
Prices (annual average)	0.1%	1.7%
Prices (end of period)	0.5%	1.7%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	1,184.3	1,228.8
Budget Expenditures (in millions of EUR)	1,089.1	1,168.0
Primary balance (in millions of EUR)	95.1	60.8
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,216.0	5,765.2
of which : Banks	3,512.7	3,811.4
Loans	2,184.4	2,407.2
Deposits	2,789.5	3,046.9
<i>Interest Rates on Loans, end of period</i>	7.5	6.5
<i>Interest Rates on Loans, end of period</i>	1.0	0.9
Interest rate gap	6.5	5.6
External sector,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-323.2	-154.2
of which: remittances	504.5	560.7
Financial account	-32.1	-145.0
Foreign Direct Investments in Kosovo	182.3	201.5
Portfolio investments, net	259.7	-90.5
Other investments, net	-204.1	-114.6
International Investment Position, net*	-61.7	-52.5
Assets	4,475.9	4,844.3
Liabilities	4,537.6	4,896.8
External debt, total*	2,015.1	2,173.5
Private external debt	1,550.3	1,663.0
Public external debt	453.4	510.5

Source:

1/ KAS (2017).

2/ MF (2017).

3/ CBK (2017).

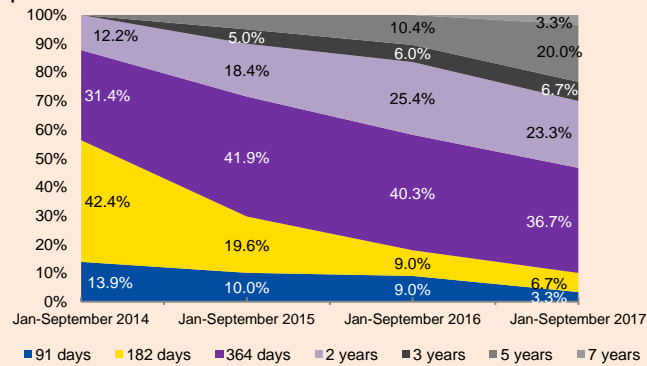
* For IIP and external debt the data are as of June 2017.



narrowed their share compared to the previous period. Meanwhile, treasury bonds with a maturity of 5 years, was the category with the highest increase until September 2017, in the overall structure of securities.

Until September 2017, the securities market, for the second consecutive year, was characterized with a decline of interest rates for each of the categories of maturity of treasury bills (up to 1 year) and treasury bonds (over 1 year) (figure 50).

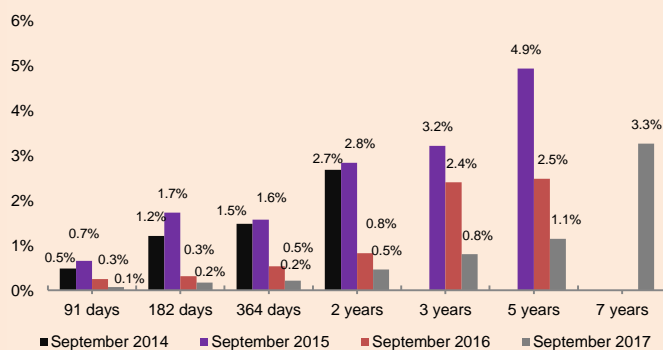
Figure 49. Structure of Government securities, in percente



Source: CBK (2017)

Similar to previous periods, the bidding amounts of participants exceeded the amount announced in auctions by Ministry of Finance. The bidding amount to announced amount ratio was for 1.66 times higher by September 2017 (2.23 times higher in September 2016).

Figure 50. Interest rates on Government securities by maturity, in percent



Source: CBK (2017)