

### Summary

Financial system in the country was characterized with an accelerating dynamic of growth in Q1 2019, which was primarily supported by assets increase of the banking sector and pension sector.

During Q1 2019, banking sector continued to be characterized with an increase of its credit activity, satisfactory financial performance and a satisfactory level of key indicators which measure the soundness of the sector. Banking sector assets increased by EUR 45.2 million, in Q1 2019, primarily as a result of the growth of credit activity and the increase of investments in securities. The growth of credit activity during the reporting period, was attributed to the eased supply side and favorable credit conditions, along with the demand increase for loans.

Credit activity was mainly supported by deposits collected within the domestic economy, which by the end of Q1 2019 represented 80 percent of total liabilities and own resources of the sector. In the first quarter, deposits rose by EUR 19.1 million, primarily as a result of the increase of household deposits, attributed to the favorable conditions applied by banks through the increase of interest rates on deposits.

Within the credit supply side, credit conditions improved further through the decline of financing cost. In Q1 2019, average interest rate on loans declined to 6.7 percent. At the same time, interest rates on deposits marked a slight annual increase, reaching an average of 1.5 percent.

Dynamics within the sector imposed a positive financial performance of the banking sector along this quarter, albeit standing at lower level compared to the same period of the previous year. More specifically, the lower profit was attributed by the increase of expenditures with 11.2 percent, mainly non-interest expenses (provision expenses) and interest expenses (interest expenses on deposits and borrowings). Meanwhile, the annual increase of income, which primarily reflects the increase

of interest expenses, especially on loans, resulted to be 8.5 percent.

The credit portfolio quality of the banking sector improved further, marking the lowest level of nonperforming loans since the second half of 2010, dropping to 2.6 percent and ensuring a satisfactory coverage level of nonperforming loans with loan loss provisions with 158.3 percent.

Moreover, Capital Adequacy Ratio (CAR) (17.1 percent) and the liquidity level (36.1 percent) suggest that the banking sector is sustainable against the potential risks that it may face with.

Regarding the performance of the pension sector, gross return on investments reached the highest value ever registered since the commencement of its operation, as a result of the favorable conditions in the external markets. Also, the insurance sector had a positive financial performance, albeit at lower levels compared to the same quarter of the previous year. More specifically, factors which had an impact on the dynamic of the insurance sector were marked by higher increase of expenses on claims incurred and operating expenses, despite the increase of gross written premiums.

Microfinance sector has continued to expand its activity, being characterized with a significant increase of assets, as a result of the emphasized increase of credit activity and to some extent also the increase of leasing. This sector continued to have satisfactory financial performance and low level of loans with problems.

The trend of internal market of financial instruments reflects the financing requests of Kosovo's Government and investment demand of banking and non-bank institutions on these safe instruments with favorable returns. During this quarter, the value of the securities issued, was dominated by government bonds with a maturity of over 2 years, and it was lower 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

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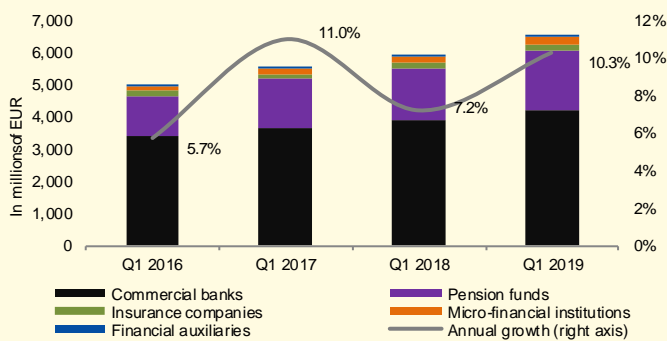
## **ABBREVIATIONS**

CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CHF	Swiss Franc
EUR	Euro currency
FDI	Foreign Direct Investments
GBP	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	Nonperforming loans
REER	Real Effective Exchange Rate
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RWA	Risk-Weighted assets
SEE	Southeastern Europe
USD	American Dollar
WEO	World Economic Outlook

## Financial System

The total value of assets of Kosovo's financial system reached EUR 6.51 billion at the end of Q1 2019, representing an annual increase of 10.3 percent (figure 1).

Figure 1. Assets value of Kosovo's financial system

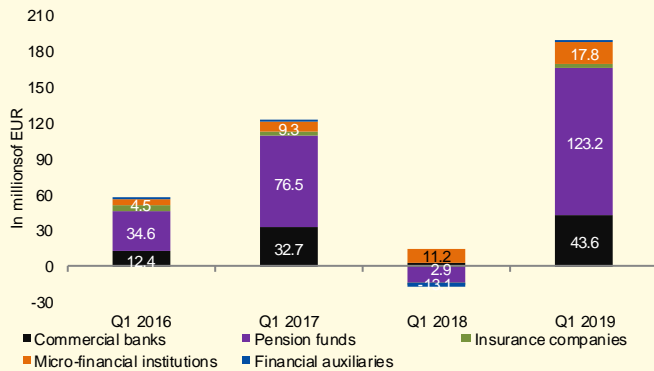


Note: The data are as at end of the noted quarter

Source: CBK (2019)

On quarter basis, assets of financial system increased for EUR 190.2 million. Banking sector continued to have the main contribution to the expansion of financial system activity, being followed by microfinance sector (figure 2).

Figure 2. Assets of financial system constituent sectors



Source: CBK (2019)

The expansion of credit activity of the banking sector was mainly supported by the increase of deposits, while

the activity of the pension sector was supported by a satisfactory return on investments.

## Banking Sector

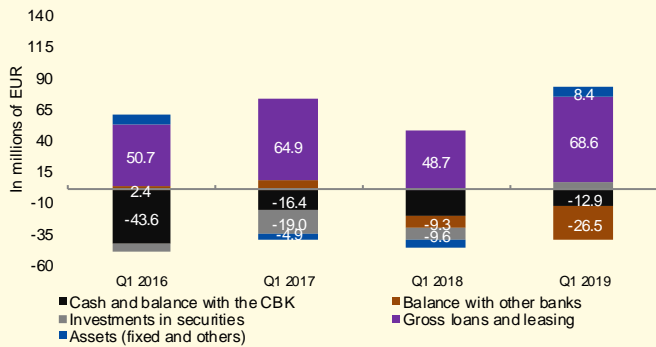
The banking sector during this quarter was characterized with a high increase of credit activity, being positively impacted by credit supply and demand side for loans. The conditions improved by banks for deposits, strengthened financing positions of credit activity. The sector continued to be well capitalized and liquid, despite the slightly lower net profit compared to the same quarter of the previous year.

### Assets

In Q1 2019, assets of the banking sector were expanded by EUR 45.2 million contributing to the total stock value of EUR 4.23 billion at the end of the period. The overall increase of assets of the banking sector are attributable to the positive credit dynamics, an activity that was supported by increased demand for loans, and eased supply side of banks through offering better credit conditions, albeit at lower extent. Except cash and balance with commercial banks, all other asset categories marked an increase in Q1 2019 (figure 3).

Continuing with the same declining trend of previous years, cash held at banks' treasuries shrank by EUR 51.5 million, while the balance with the CBK, which accounts for banks reserves held at the CBK, expanded by EUR 38.6 million.

Figure 3. Assets structure of the banking sector, in the respective quarters



Source: CBK (2019)

The balance with other banks decreased for EUR 26.5 million compared to the decline of EUR 9.3 million marked in Q1 2018, where their stock declined at the value of EUR 314.3 million at the end of the period.

In Q1 2019, securities stock of the banking sector reached the value of EUR 436.3 million, expanding for EUR 6.0 million. Foreign governments investments in securities with an amount of EUR 13.3 million had a more significant impact on the growth of securities stock, as the Kosovo's Government investments in securities contracted by EUR 12.1 million compared to the previous quarter.

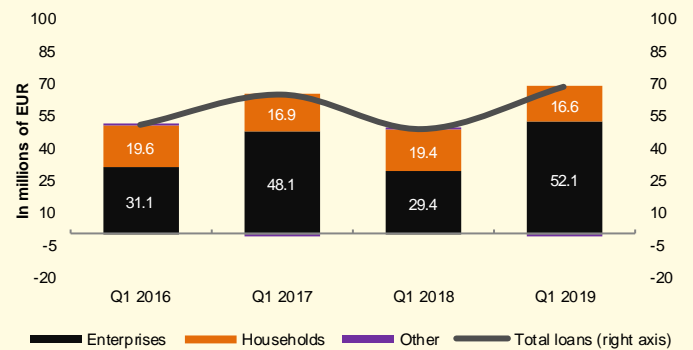
## Loans

Economic activity continued to be characterized with an accelerated increase, also during Q1 2019. At the end of the mentioned period, loans reached a value of EUR 2.82 billion, corresponding to an annual increase of 11.4 percent. Only in Q1 2019, loans marked an increase of EUR 68.6 million, compared to the increase of 48.7 million, in Q1 2018 (figure 3).

Positive impact on the increase of active loans, in Q1 2019, was marked by new loans granted to enterprises and households as well. More favorable banks supply

side, being expressed by improvements of lending conditions for enterprises and households, resulted in the increase of total active loans stock until the end of the mentioned period.

Figure 4. Total loans value and main categories

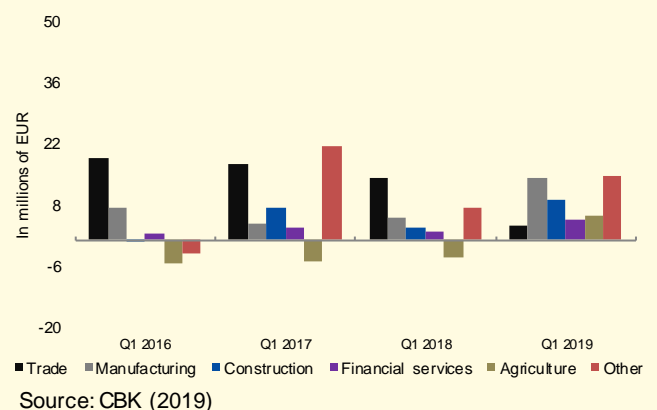


Source: CBK (2019)

Also, the increase of demand for loans from both categories, resulted in an overall increase of credit activity.

The stock of loans to enterprises increased by EUR 52.2 million during the first quarter, reaching the value of EUR 1.80 billion (figure 4). On annual basis, lending to all other economic sectors was characterized with an accelerated expansion, except lending to trade sector which was characterized with slowdown increase.

Figure 5. Credit structure by economic activity



Source: CBK (2019)

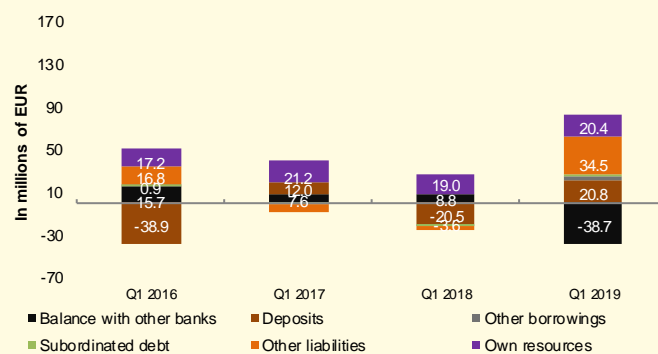
The category of other services increased by EUR 14.4 million, followed by the expansion of manufacturing and trade sectors with EUR 14.2 million and EUR 9.2 million, respectively (figure 5). Despite the seasonal and dynamic impacts with which certain economic sectors are characterized in different periods, the above mentioned sectors marked higher increase also compared to the previous quarter. New loans to enterprises, in Q1 2019, reached the value of EUR 172.9 million, of which EUR 108.5 million designated for investments, while EUR 60.9 million for non-investments purposes. As regards to the economic sectors, new loans to agriculture sector amounted to EUR 4.4 million, marking an increase of EUR 0.7 million compared to Q1 2018. Also, new loans designated to industry rose by EUR 5.9 million, whose stock reached an amount of EUR 48.5 million. Meanwhile, new loans to services sector declined by EUR 8.9 million, dropping to EUR 102.5 million.

Loans to households, in the first quarter of 2019, increased by EUR 16.6 million, reaching a value of EUR 1.02 billion at the end of the period (figure 4). Regarding new loans to households, in this quarter it was marked a decline of EUR 13.9 million, reflecting on the total value of EUR 125.0, marked in Q1 2019 (138.9 million marked in Q1 2018). This decline was reflected more on new consumer loans, which declined by EUR 16.6 million compared to the same period of the previous year. Whereas, mortgage loans issued amounted to EUR 25.4 million, or EUR 2.3 million more than the value marked in Q1 2018.

## Liabilities and Own Resources

The structure of the banking sector liabilities was dominated by deposits, which comprise around 80 percent of total liabilities and own resources. Deposits marked an increase of EUR 19.1 million in this quarter, hence resulting to a positive development compared to the decline of EUR 20.5 million, marked in Q1 2018 (figure 6). The stock of deposits reached the value of EUR 3.38 billion, at the end of Q1 2019.

Figure 6. Structure of liabilities and own resources



Source: CBK (2019)

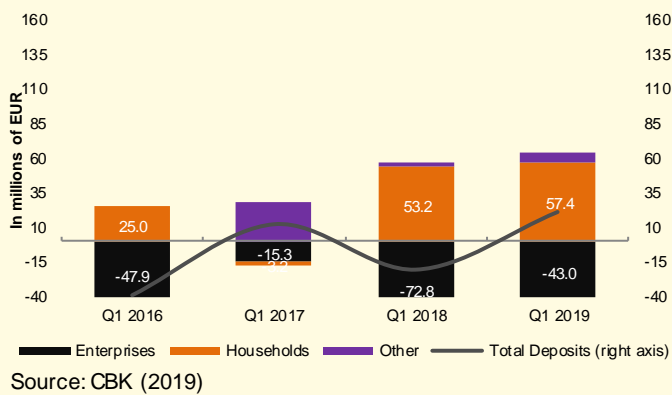
The category of own resources was characterized with an increase of EUR 21.3 million, in Q1 2019 (a growth of EUR 19.0 million marked in Q1 2018), where its stock reached EUR 517.9 million, which primarily reflects the dynamics of retained profit from the previous periods.

While, the category which marked a significant decline during this quarter was the balance with other banks, which contracted by EUR 37.0 million, a decline which mainly reflects the decrease of borrowings or other different credit lines taken from banks abroad, namely from parent banks. At the end of Q1 2019, the stock of balance with commercial banks declined to EUR 69.6 million (EUR 76.0 million in Q1 2018).

## Deposits

Developments within banking sector deposits, in Q1 2019, are attributable to the positive trend of households deposits, whereas the trends in enterprise deposits had a slower increasing contribution. Enterprise deposits contracted by EUR 46.8 million in this quarter, whose stock dropped to the value of EUR 825.5 million, at the end of the mentioned period (figure 7).

Figure 7. Total deposits value and main categories value, in Q1



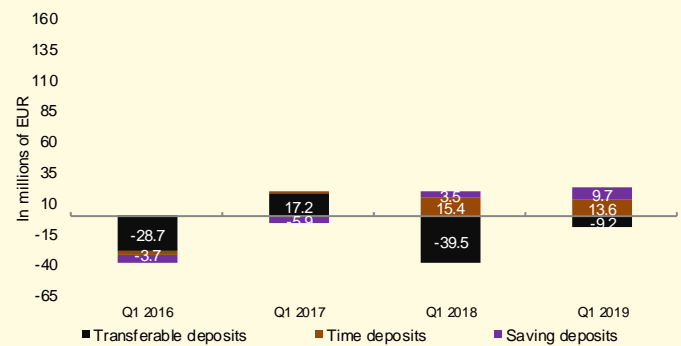
This dynamic reflects the contraction of transferable enterprise deposits which suggests an allocation of their assets in projects with higher financial returns.

Conversely, household deposits increased by EUR 61.3 million in this quarter, amounting to EUR 2.39 billion at the end of the mentioned period (figure 7).

Regarding the categories of deposits, transferable deposits declined by EUR 6.2 million, in Q1 2019 (figure 8), marking a value of EUR 2.00 billion at the end of the period. While, time deposits increased by EUR 10.5 million (their stock amounted to EUR 892.1

million). Also, saving deposits increased by EUR 14.7 million, whose stock amounted to EUR 483.9 million.

Figure 8. Deposits structure during the reporting periods



Source: CBK (2019)

Unlike the previous periods, banks recently have offered more favorable conditions against the returns from deposits which resulted in positive changes in the structure of deposits of the banking sector. The expansion of the share of time deposits to total deposits of the sector against the contraction of transferable deposits (albeit to low extent), may result in risk reduction coming from maturity mismatch between assets and liabilities.

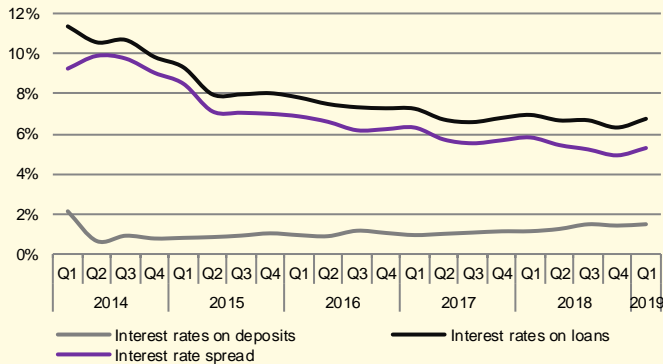
## Interest Rates<sup>1</sup>

In Q1 2019, the level of interest rate on loans decreased by 0.2 percentage points, while the average interest rate on deposits increased by 0.3 percentage points. The interest rate spread of loans and deposits narrowed down to 5.3 percentage points in the reporting period (5.8 percentage points in Q1 2018)(figure 9).

<sup>1</sup> The calculation of interest rates: quarter average of interest rates on loans and deposits. In the text it is referred as "the interest rates".



Figure 9. Interest rate on loans and deposits



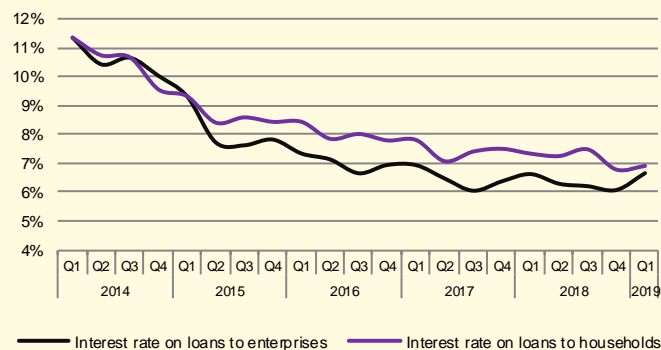
Source: CBK (2019)

### Interest rates on loans

In the first quarter, interest rate on loans to enterprises stood at the same level compared to the same quarter of the previous year, namely at the average of 6.6 percent (figure 10).

The category of loans with favorable conditions and loans for investments had higher interest rates compared to the same period of the previous year, 6.7 percent and 2.8 percent, respectively. While, the average interest rate on non-investment loans decreased to 6.6 percent.

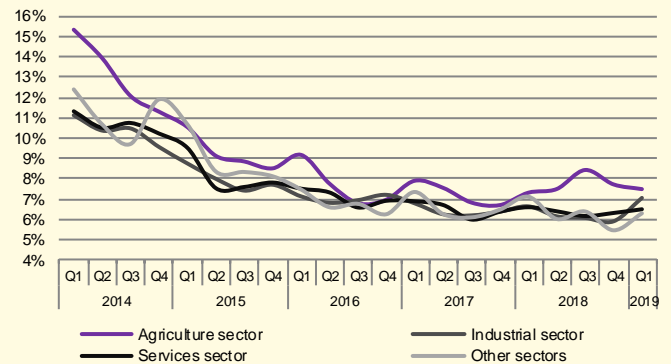
Figure 10. Interest rate on loans to enterprises and households



Source: CBK (2019)

Interest rates on loans to agriculture and industry sectors increased at a quarter average of 7.5 percent and 7.0 percent, respectively.

Figure 11. Interest rate on loans, by economic sectors

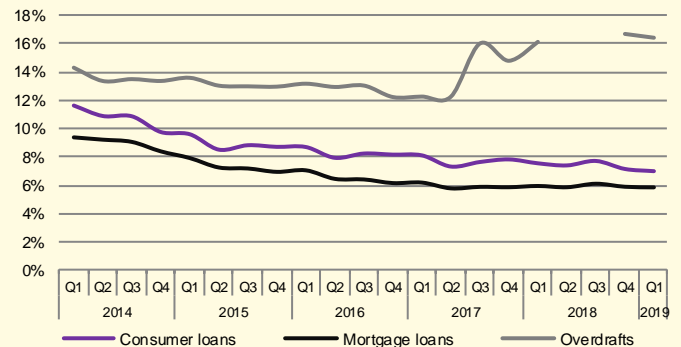


Source: CBK (2019)

Meanwhile, the average interest rate on loans to services sector declined to 6.5 percent and to other sectors dropped to 6.3 percent (figure 11).

Interest rates on loans to households have followed a declining trend since the establishment of the banking sector. Interest rates applied for mortgage loans continued to be more favorable, standing at an average of 5.9 percent, while interest rates on consumer loans stood at an average of 7.0 percent (figure 12).

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

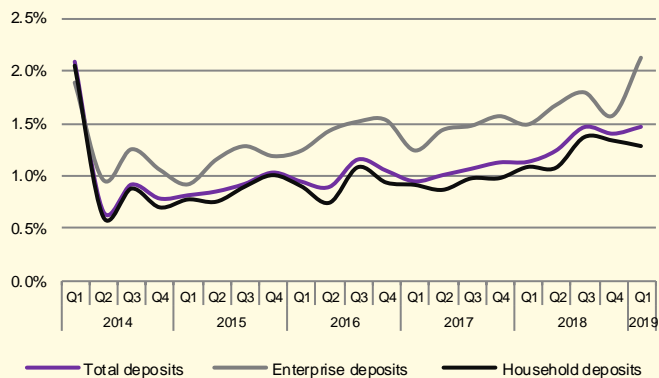


Source: CBK (2019)

### Interest rates on deposits

Interest rates on deposits continued with a growth trend of the previous year. Interest rate of 1.5 percent in deposits marked in Q1 2019, resulted to be higher for 0.3 percentage points, compared to Q1 2018 (figure 13).

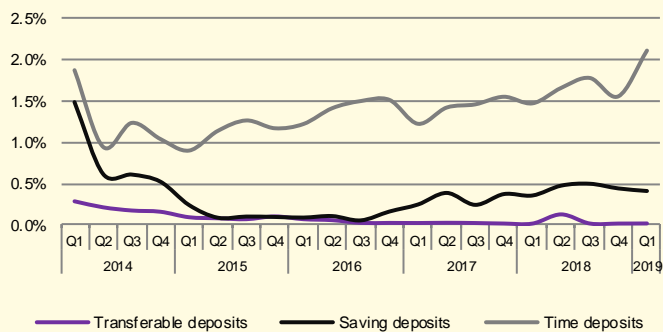
Figure 13. Interest rate on deposits



Source: CBK (2019)

Interest rates on enterprise deposits continued to be more favorable compared to rates applied to household deposits. Enterprise deposits increased by 0.6 percentage points, reaching 2.1 percent compared to the same period of the previous year.

Figure 14. Interest rate on enterprise deposits, by categories



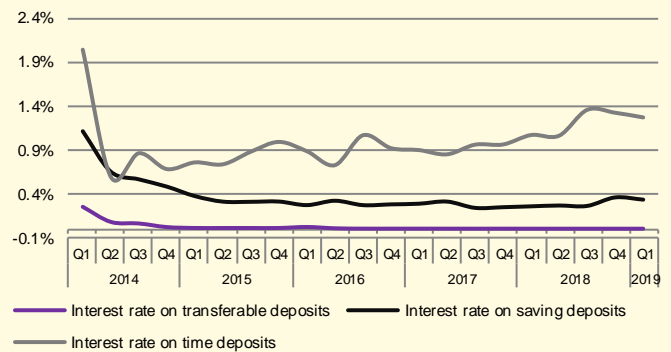
Source: CBK (2019)

This increase reflects the rise of interest rate on time deposits which was 2.1 percent, and the slight increase

of 0.4 percent marked by saving deposits. Whereas, interest rates on transferable deposits remained at the same level as in the previous periods standing at 0.01 percent (figure 14).

Interest rates on household deposits increased by 0.2 percentage points, reaching 1.3 percent (figure 15). This growth reflects the increase of interest rate on time deposits which stood at 1.3 percent and saving deposits which marked an interest rate of 0.3 percent. Interest rate on transferable deposits was similar to the previous period standing at an average quarter of 0.001 percent. The increased rate of deposits represent an incentive for the economy to allocate assets towards instruments with longer maturity, thus creating, at the same time, more stable financing conditions for the banking sector.

Figure 15. Interest rates on household deposits, by categories

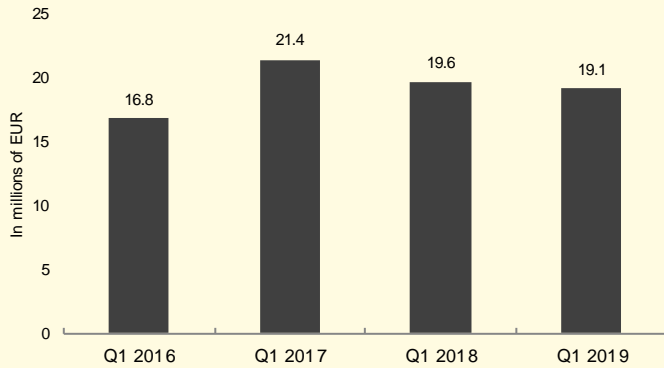


Source: CBK (2019)

### Performance of the Banking Sector

Despite the increase of banking sector income during the first quarter of 2019, the lower realized profit was mainly attributable to higher increase of expenditures of the sector.

Figure 16. Net profit of the banking sector

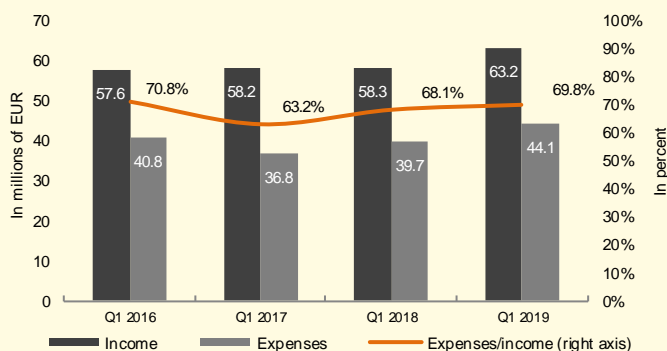


Source: CBK (2019)

The value of the profit realized resulted to be lower for EUR 0.6 million compared to the same quarter of the previous year, dropping to EUR 19.1 million (figure 16).

Income of the banking sector were characterized with an annual increase of 8.5 percent, primarily as a result of the performance of interest income (mainly from loans and securities), but also due to income from fees and commissions, within non-interest income (figure 17).

Figure 17. Income and expenditures of the banking sector



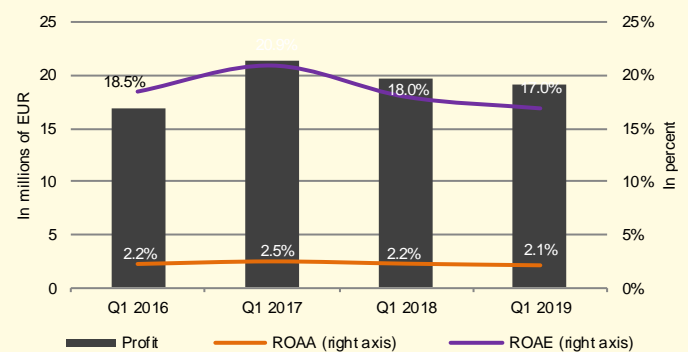
Source: CBK (2019)

Conversely, value of expenditures of the banking sector, in Q1 2019, marked an increase of 11.2 percent

compared to the same quarter of the previous year (figure 17). The increase of expenditures of the banking sector is attributable to the increase of non-interest expenditures, namely the increase of expenditures of the subcategory of loan loss provisions for covering any possible loan losses, which amounted to EUR 6.1 million from EUR 3.5 million in Q1 2018. While, within interest expenses, an increase was marked mainly by time deposits interest expenses as a result of their financing cost increase. Meanwhile, the category of administrative and general expenses stood at the level of EUR 25.6 million, the same as in Q1 2018.

As a result of higher expenditures increase, expenditures to income ratio in Q1 2019 rose to 69.8, implying that for every 1 EUR collected, the expenses of the banking sector reached EUR 0.698, representing a higher value for 1.7 percentage points.

Figure 18. Profitability indicators of the banking sector



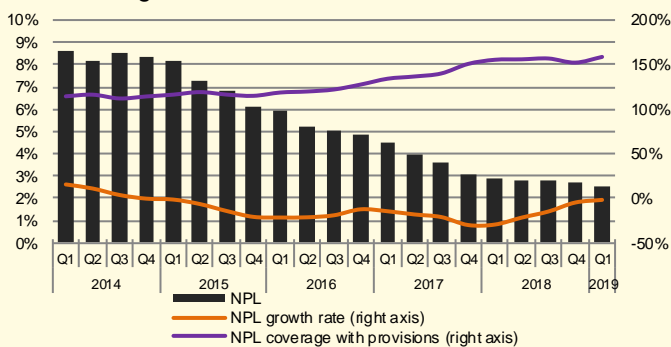
Note: ROAA and ROAE calculation for the appropriate quarter was annualized  
Source: CBK (2019)

Consequently, the banking sector financial position, in Q1 2019, was reflected also in two profitability indicators, namely Return on Average Assets (ROAA), and Return on Average Equity (ROAE). ROAA declined by 0.2 percentage points dropping down to 2.1 percent, while ROAE shrank by 1.1 percentage points, falling at 17.0 percent (figure 18).

### Financial Soundness Indicators

Banking sector continued to be characterized with an improvement of credit portfolio quality based on the further decline of the level of nonperforming loans and an improvement of their coverage with loan loss provisions.

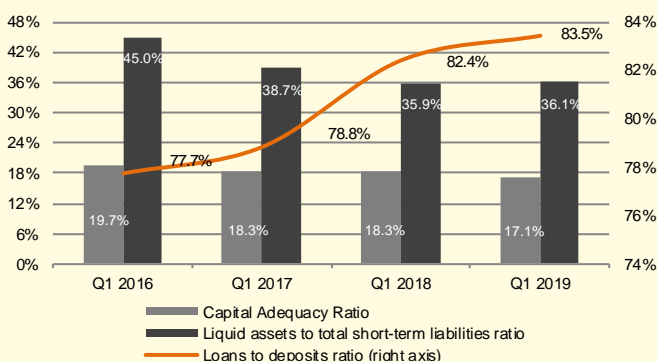
Figure 19. Indicators of credit portfolio quality and NPL growth rate



Note: The data are as at end of the noted quarter  
Source: CBK (2019)

The level of nonperforming loans, at the end of the first quarter of 2019, stood at 2.6 percent, representing a decline of 0.3 percentage points compared to the same period of the previous year (figure 19).

Figure 20. Liquidity and solvency Indicators



Note: The data are as at end of the noted quarter  
Source: CBK (2019)

The decline of nonperforming loans by the end of the first quarter made the ratio of 158.3 percent of the coverage of nonperforming loans with loan loss

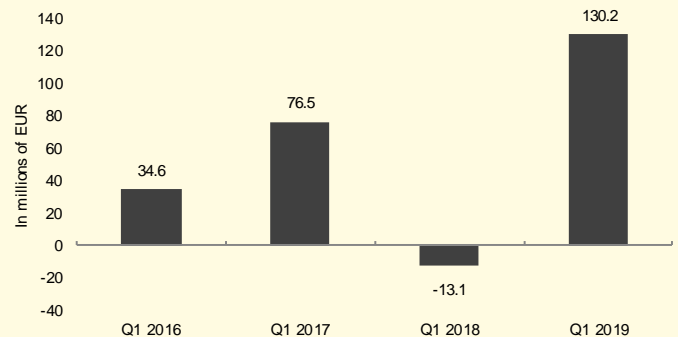
provisions to be for 3.2 percentage points higher compared to the end of the first quarter of the previous year. Capital Adequacy Ratio reached at 17.1 percent, at the end of Q1 2019 (figure 20).

The key liquidity indicator, being presented by the liquid assets to total short-term liabilities ratio, marked a growth at the end of Q1 2019 with 0.2 percentage points, compared to Q1 2018, as a result of the higher increase of liquid assets against the increase of short-term liabilities. This indicator stood at the level of 36.1 percent. Moreover, loans to deposits ratio stood at the level of 83.5 percent, thus standing slightly above 80.0 percent as recommended by the CBK, which is a result of the higher increase of credit activity against the increase of its financing.

### Pension Sector

*The successful performance of the pension sector in this quarter was realized from the high investment return and the increase of new collected contributions.*

Figure 21. Assets of the pension sector, quarter change



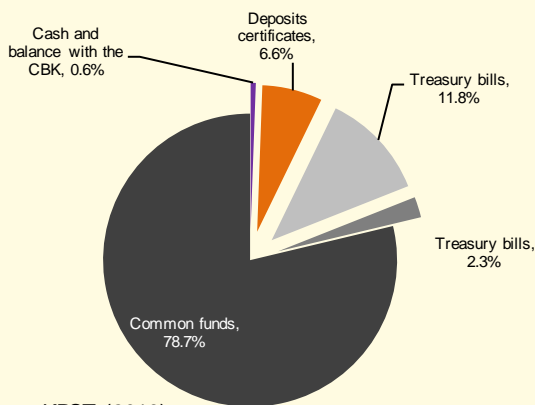
Source: CBK (2019)

Pension sector is the second sector by importance of weight in the financial system, which comprises 27.9

percent of total assets of the financial system in the country.

In Q1 2019, the value of assets managed by pension sector expanded for 10.9 percent reaching an amount of EUR 1.82 billion, representing a dynamic mainly being reflected by the performance investments abroad. Also, investments in financial instruments in the domestic market have brought favorable returns for the pension sector, which at the same time represents the main investor in Kosovo's Government securities.

Figure 22. Structure of KPST assets (Q1 2019)

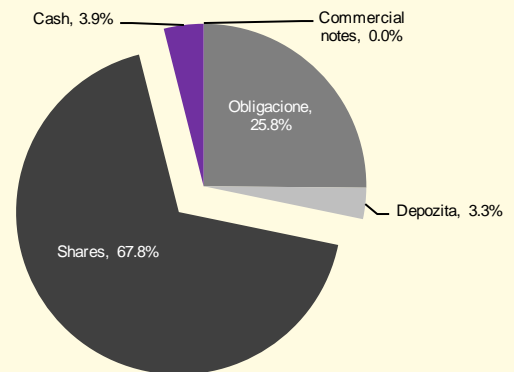


Source: KPST (2019)

More favorable investment conditions in external markets made KPST, increase investments value in common funds for EUR 199.0 million. At the same period, investments in Kosovo's Government securities increased by EUR 45.9 million. Also, investments in deposit certificates and cash held at the CBK increased by EUR 0.5 million and EUR 4.0 million, respectively (figure 22). As a result, in Q1 2019, KPST marked positive investments return of EUR 95.9 million, representing the highest value realized during a quarter, unlike the emphasized loss marked in the fourth quarter of 2018 (figure 24).

Assets investments of SKPF are diversified mainly in shares abroad, followed by Kosovo's Government and other foreign governments treasury bonds (figure 23). SKPF marked a positive gross return on investments with EUR 573.5 thousands (EUR 107.9 thousands Q1 2018).

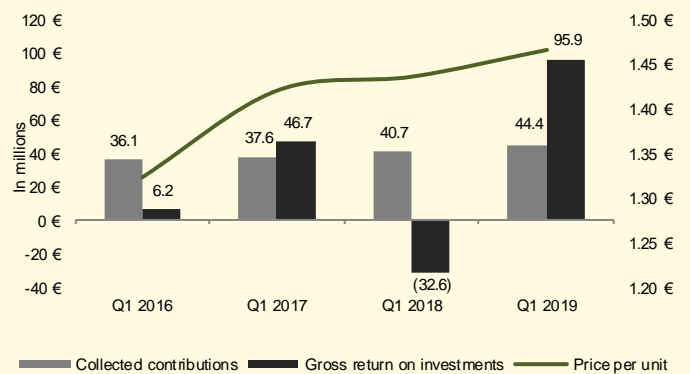
Figure 23. Structure of SKPF assets (Q1 2019)



Source: SKPF (2019)

New collections of the pension sector amounted to EUR 44.5 million in Q1 2019, representing an increase of 9.2 percent compared to the same quarter of the previous year. Out of these collected contributions, 99.7 percent belong to KPST.

Figure 24. Return on investments and KPST performance



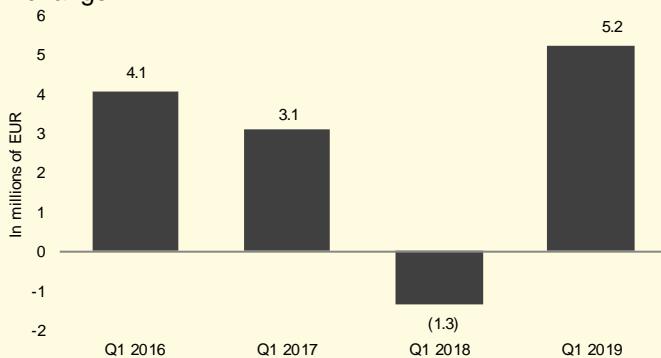
Source: KPST (2019)

## Insurance Sector

*Insurance sector was characterized with an activity expansion, an increase of written premiums and positive financial performance.*

Assets of insurance sector, in Q1 2018, increased by EUR 5.2 million (figure 25), while the value of assets stock of the sector until the end of March reached EUR 181.0 million (annual increase of 3.1 percent).

Figure 25. Assets of the insurance sector, quarter change



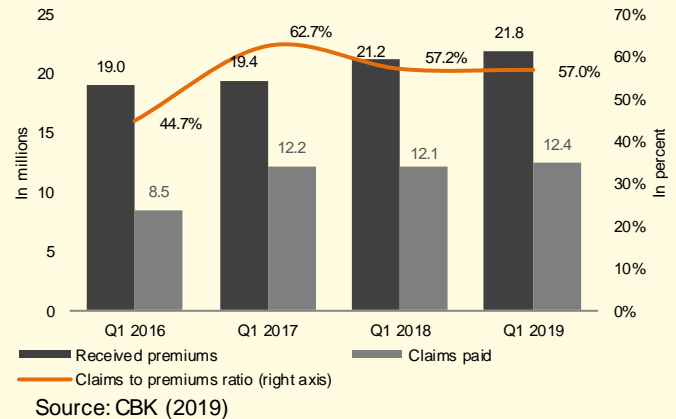
Source: CBK (2019)

During this quarter, the category of deposits of commercial banks marked a significant decline of EUR 3.6 million, while cash and deposits held at the CBK marked an increase of EUR 0.8 million. Within investments in securities, securities held until maturity marked an increase of EUR 0.9 million, whereas those which were available to the market marked a decline.

The trend of total assets of the sector reflects the developments in “non-life” insurance, which comprise 90.8 percent of the sector assets. “Non-life” assets of insurance companies increased by EUR 4.8 million, during this quarter, while assets of “life” insurance” increased by 0.4 million.

The value of written premiums of insurance companies, in the first quarter of 2019, amounted to EUR 21.8 million, representing an annual increase of 3.2 percent. “Non-life” insurance premiums represent 96.1 percent of total written premiums, whose value reached EUR 21.0 million (increased by 2.5 percent). Whereas, the value of the written premiums of “life” insurance marked an annual increase of 21.5 percent, reaching a value of EUR 858.7 thousands.

Figure 26. Written premiums and claims paid



Source: CBK (2019)

Claims paid by insurance sector and Kosovo Insurance Bureau (KIB) marked an increase of EUR 0.3 million in this quarter, reaching a value of EUR 12.4 million (EUR 12.1 million in Q1 2018). Higher increase of written premiums compared to the increase of claims paid, had an impact on the slight improvement of claims to premiums ratio, which declined to 57.0 percent from 57.2 percent as it was in the first quarter of the previous year (figure 26).

## Performance of the Insurance Sector

Insurance sector in the first quarter of 2019 marked a positive financial result, albeit at lower levels compared to the first quarter of 2018, as a consequence

of the higher increase of claims incurred and annual increase of expenditures compared to the increase of income.

Net income from premiums of the insurance sector, marked an annual increase of 6.2 percent, while at the same time, claims incurred and operating expenses were characterized with a growth of 7.7 percent, and 7.4 percent, respectively, compared to Q1 2018. Expenses for claims incurred resulted from higher reserves paid for reported claims. The increase of operating expenses was a result of the increase of administrative expenses for EUR 0.5 million.

Liquidity position indicators of the sector declined in the reporting period. As a result of the annual decline of the stock of cash and its equivalents of 1.6 percent against the increase of 4.7 percent of technical reserves, their ratio reached 93.5 percent from 99.5 percent as it was in March 2018. Also, the other liquidity indicator represented by cash and its equivalent to total liabilities declined to 83.1 percent from 87.3 percent as it was in March of the previous year, as a result of the increase of liabilities of 3.5 percent.

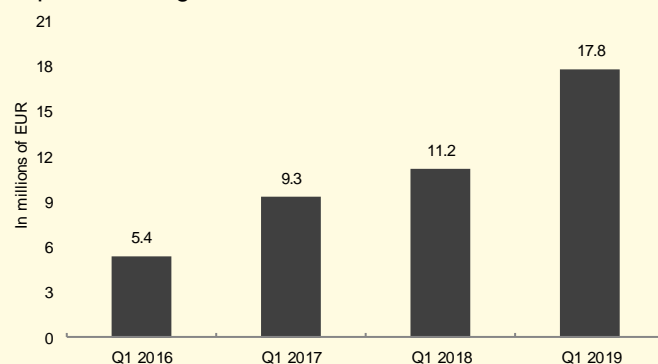
## **Microfinance Sector**

*The significant increase of assets of the sector for the fourth consecutive year was supported by the increase of credit portfolio, and the activity of leasing. This sector continued to have positive financial performance and low level of loans with problems.*

## **Assets**

Microfinance sector was the sector with the highest increase of assets stock within financial system in three recent periods (March 2017 to March 2019). Despite of the continuous increase of the weight of this sector to total assets of financial system, its share still remains low with around 4.1 percent.

Figure 27. Assets of the microfinance sector, quarter change



Source: CBK (2019)

During the first quarter of 2019, the value of assets of microfinance sector increased by EUR 17.9 million reaching the value of EUR 267.8 million in March 2019 (figure 27).

The expansion of microfinance sector mainly is attributed to the increase of credit activity, and to a lower extent to leasing activity, being financed by borrowings from external sector which comprise 67.6 percent of total assets. Whereas, borrowings from the internal sector and own resources account for 8.5 and 23.9 percent of total assets.

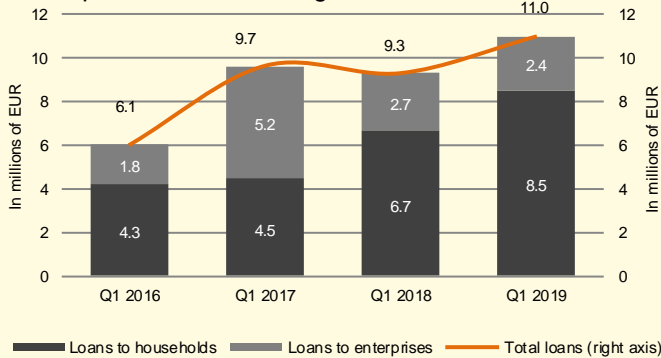
## **Loans**

In Q1 2019, loans increased by EUR 10.8 million, an increase which primarily came from loans to households which marked an increase of EUR 8.5

million, whose share reached 66.5 percent to total loans of the sector.

Meanwhile, loans to enterprises, which comprise 33.5 percent of total loans of the sector, marked an increase of EUR 2.3 million (figure 28).

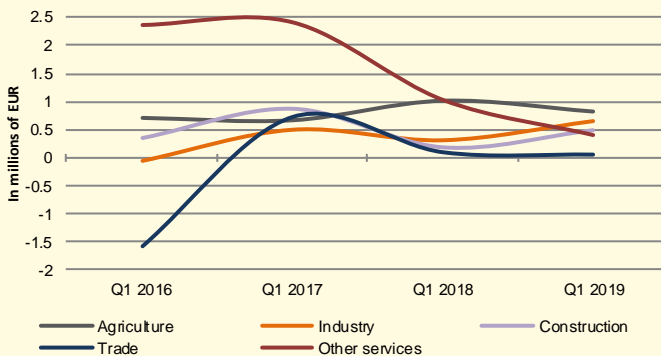
**Figure 28. Value of loans to households and to enterprises, annual change of loans**



Source: CBK (2019)

Regarding credit activity by economic sectors, with an increase, albeit at a slower pace, were characterized all economic sectors, especially agriculture, industry, and trade sector. The highest credit increase was marked by loans granted to agriculture sector, which rose by EUR 0.8 million, in Q1 2019 (figure 29).

**Figure 29. Value of loans to enterprises, by economic sectors, in Q1**



Source: CBK (2019)

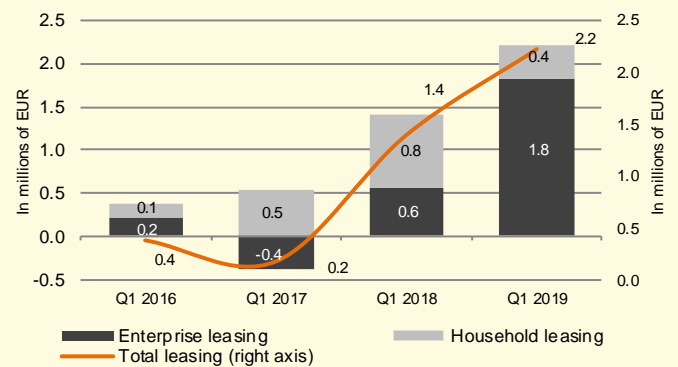
Unlike in the banking sector, where lending to agriculture is more limited, in the microfinance sector

these loans comprise one of the main categories representing 26.6 percent of total lending to the economy.

### Leasing

The stock of leasing, in Q1 2019, increased by EUR 2.3 million (EUR 1.4 million in Q1 2018) (figure 30).

**Figure 30. Value of microfinance sector leasing**



Source: CBK (2019)

The increase of leasing to enterprises contributed to the increase of the value of “leasing for equipment” and “other leasing”.

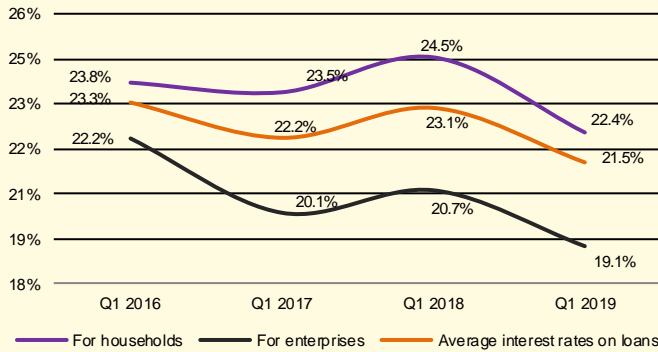
### Interest Rates

The average interest rates on loans, in Q1 2019, declined at 21.5 percent, from 23.1 percent as it was in Q1 2018. With a more significant decline were characterized interest rates on loans to households (with 2.2 percentage points), while interest rates on loans to enterprises decreased for 1.6 percentage points (figure 31).

Within loans to households, average interest rate on consumer loans marked the sharpest decline with 5.8 percentage points, dropping to 22.3 percent in Q1 2019.



Figure 31. Average interest rate on microfinance sector loans

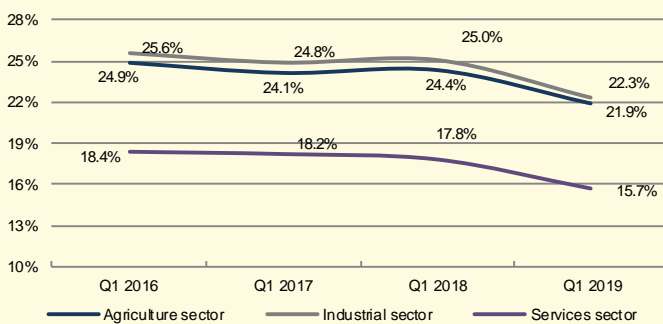


Source: CBK (2019)

Also, interest rate on mortgage loans during this period declined by 4.0 percentage points, falling at 21.6 percent.

Within loans to enterprises, services sector results to have the lowest interest rate, further declining for 2.1 percentage points thus standing at 15.7 percent in Q1 2019.

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



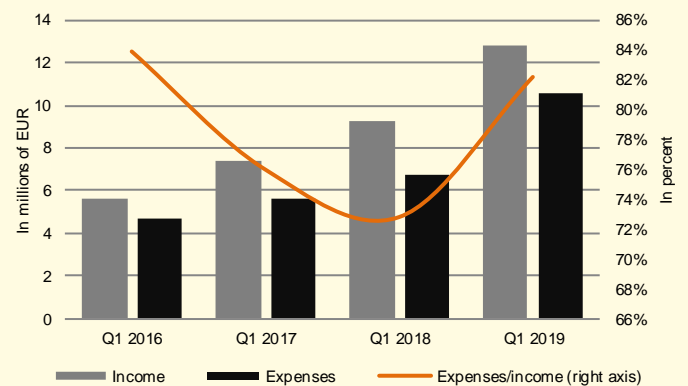
Source: CBK (2019)

Whereas, industry sector remained the sector with the highest interest rate on loans with 22.3 percent, despite the decline of 2.8 percentage points of interest rate against Q1 2018 (figure 32).

## Performance of the Microfinance Sector

Microfinance sector continued to have positive financial result. However, compared to the first quarter of the previous year, the profit with a value of EUR 2.2 million, realized in this quarter, was lower for EUR 0.3 million.

Figure 33. Income and expenses of microfinance sector



Source: CBK (2019)

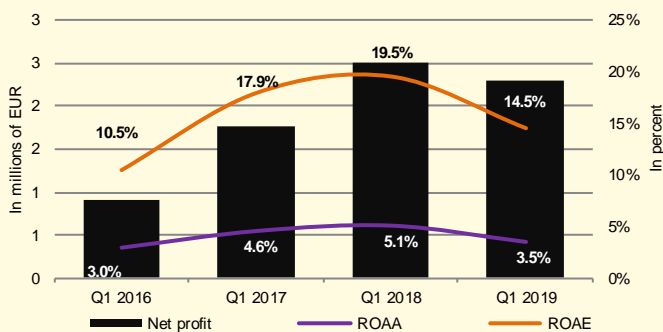
This profit is attributable to income increase, namely interest income realized from the increased activity of loans and leasing. More specifically, the income of the sector marked an increase of EUR 3.6 million, while interest income increased by EUR 2.1 million, a category which comprises 80.0 percent of total income. Meanwhile, the realized profit, which stands at lower levels compared to the previous year's quarter, reflects the increased expenses incurred (figure 33).

Expenses of the sector marked an increase of EUR 3.9 million, compared to Q1 2018, reaching EUR 10.6 million, in Q1 2019. The highest increase was marked by non-interest expenses, which increased by EUR 2.5 million. This increase came as a result of the higher share of loan loss provisions as a consequence of a more significant increase of loans stock. Also, the

subcategory of personnel expenses marked a considerable increase as a result of the increase of employees and new branches.

Consequently, annualized profitability indicators marked a decline (figure 34).

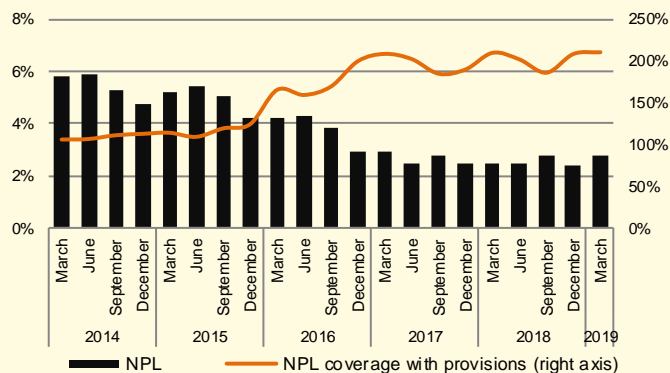
Figure 34. Profitability indicators of microfinance sector



\*Profit was annualized for the respective quarter  
Source: CBK (2019)

Loans with problems marked a slight increase, albeit their ratio to total loans stands at quite low level and are well covered with provisions. Nonperforming loans to total loans ratio stood at 2.8 percent, in March 2019 (2.5 percent in March 2018). Whereas, the coverage level of nonperforming loans with loan loss provisions, in March 2019, reached 210.8 percent, representing the same level as in the previous period (figure 35).

Figure 35. Indicators of credit portfolio quality

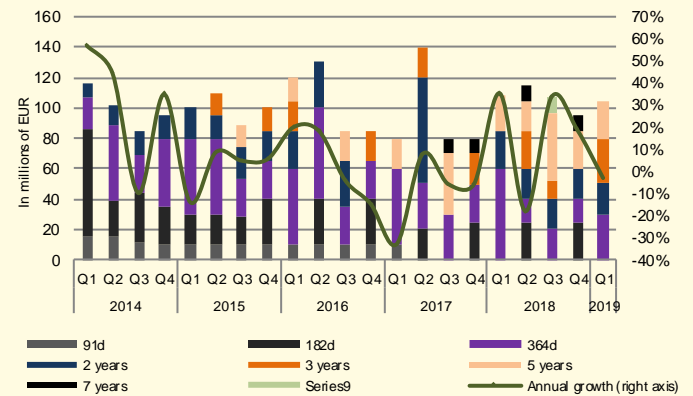


Source: CBK (2019)

## Securities Market

In the first quarter of 2019, were issued treasury bonds and government bonds with a value of EUR 105.0 million.

Figure 36. Value of issued debt, annual growth



Source: Ministry of Finance (2019)

The value of the issued securities in this quarter was 3.1 percent lower than in the same quarter of the previous year, whereas for 10.5 percent higher than in the previous quarter (figure 36).

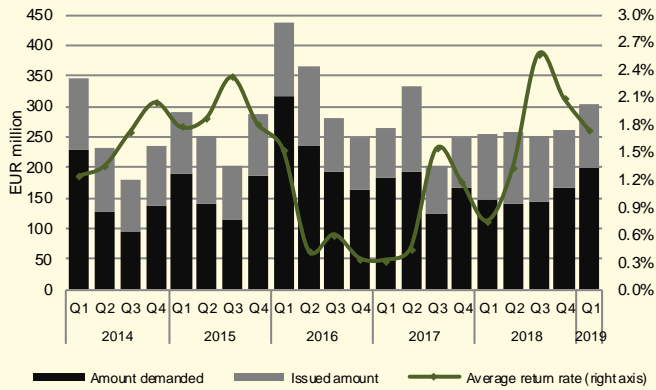
Table 1. Number, amount and average rate of Kosovo's Government Securities

Period	Treasury bills			Treasury bonds		
	Number of the auctions	Received amount	Average rate	Number of the auctions	Received amount	Average rate
Q1 2016	3	60.0	0.70	3	60.0	2.36
Q1 2017	3	60.0	0.12	1	20.0	0.90
Q1 2018	2	60.0	0.36	2	48.4	1.13
Q1 2019	1	30.0	0.61	3	75.0	2.11

Source: Ministry of Finance (2019)

The trend of securities issued, reflects Kosovo's Government demand to finance its capital projects and demand of investors to invest in this debt instrument. Average interest rate in treasury bills, in Q1 2019, was 0.61 percent, whereas interest rate on government bonds was 2.1 percent.

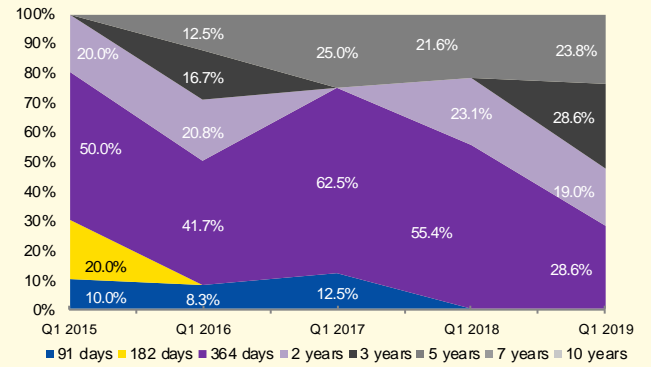
Figure 37. Bid to cover ratio



Source: Ministry of Finance (2019)

Higher interest rate in this period may have been affected by higher number and amount of issued treasury bonds, (table 1) which have higher interest rates because of their long maturity.

Figure 38. Government securities structure, in percent



Source: Ministry of Finance (2019)

The participants' bid amount was higher for 1.9 times than the amount issued at auctions by the Government (1.3 times higher in Q1 2018) (figure 37).

Securities structure by maturity is being oriented more towards longer maturities, dominated by government bonds which comprise 71.4 percent of total securities issued in this quarter.

**The suggested citation of this publication:**

CBK (2019): Quarterly Assessment of Financial System No. 26 Q1 2019, Central Bank of the Republic of Kosovo, Prishtina

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## Macroeconomic selected indicators

Description	Q1 2018	Q1 2019
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	1,298.8	-
Consumer prices (annual average)	0.0%	3.2%
Consumer prices (end of period)	0.1%	3.2%
Fiscal Sector* 2/		
Budget Revenues (in millions of EUR)	352.1	388.5
Budget Expenditures (in millions of EUR)	400.7	382.5
Primary balance (in millions of EUR)	-48.6	6.1
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,905.3	6,513.1
of which : Banks	3,872.8	4,229.1
Loans	2,534.3	2,824.1
Deposits	3,074.0	3,383.7
Interest Rates on Loans, end of period	6.8%	6.7%
Interest Rates on Loans, end of period	1.2%	1.5%
Interest rate gap	5.6%	5.2%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-71.9	-95.6
of which: remittances	108.2	113.0
Financial account	11.8	41.8
Foreign Direct Investmentsin Kosovo	28.8	44.7
Portfolio investments, net	4.3	-56.0
Other investments, net	-19.0	-13.4
International Investment Position (PNI), net*	-115.1	-310.9
Assets	4,829.9	4,763.4
Liabilities	4,944.9	5,074.4
External debt, total*	2,088.5	2,011.8
Private external debt	1,589.2	1,517.0
Public external debt	499.3	498.1

Source:

1/ KAS (2019), the data for GDP for Q1 2019 have not been published yet;

2/ MF (2019);

3/ CBK (2019).

\*Data for the fiscal sector are until February 2019, whereas for IIP and external debt are until December 2018.

