

### Summary

In the first half of 2019, Kosovo's economy is estimated to have marked an accelerated growth of economic activity. In Q1 2019, real GDP marked an annual growth of 4.1 percent, and meanwhile, as a result of positive developments in the external sector and the increase of the public consumption, economic activity, in Q2 2019, is estimated to have been characterized with higher increase. The increase of the economic activity, among others, has had an impact on the increase of budget revenues, whereas budget expenditures were characterized with a slowdown increase.

During the second quarter of 2019, financial system was characterized with an overall assets increase for EUR 153.3 million, primarily supported by the increase of banking sector and the pension sector assets. Credit activity, as the main contributor to the growth of the banking sector assets, continued its positive growth trend. Credit activity, only during the second quarter of this year, had an impact on the expansion of the credit stock with EUR 115.9 million. However, this value was lower compared to the same quarter of the previous year, mainly being impacted by dynamics of loans to enterprises.

Credit activity of the sector mainly was supported by the accelerated growth of deposits during the second quarter, an increase which was primarily attributed to the increase of interest rates, especially interest rates applied for households deposits. Unlike in the previous quarters when transferable deposits were dominating, in Q2 2019, time deposits dominated the structure of sector's total deposits.

Financial performance of the banking sector during this quarter resulted to have been positive, albeit standing at a marginal growth compared to the same period of the previous year. Banking sector was characterized with higher increase of overall expenditures as a result of the increase of expenses for provisions and deposits, along the increase

of the sector's income as a result of the increase of interest income.

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 2.5 percent, thus ensuring a satisfactory coverage level of nonperforming loans with loan loss provisions with 161.2 percent. In addition, the Capital Adequacy Ratio (CAR) of 16.8 percent and the liquidity level, expressed through the ratio of liquid assets to short-term liabilities, which stood at 35.1 percent, suggest a sustainability of the sector.

Pension sector continued to expand, being supported by the positive investments and the contributions collected in the reporting period.

During the second quarter, insurance sector marked an increase of its activity. However, despite the increase of written premiums, the increase of operating expenses and the compensation for claims paid was translated into negative financial results.

Microfinance sector showed slowdown signs of its activity during Q2 2019, a period which was characterized with a slowdown increase of credit activity, a decline of the profit realized, and an increase of loans with problems.

In Q2 2019, Kosovo's Government issued debt with a value of EUR 110 million, in an environment where the offer from financial institutions overpassed the amount demanded by the Ministry of Finance.

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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	British Pound
GDP	Gross Domestic Product
IMF	International Monetary Fund
KAS	Kosovo Agency of Statistics
MF	Ministry of Finance of the Republic of Kosovo
NPL	Nonperforming loans
REER	Real Effective Exchange Rate
ROAA	Return on Average Assets
ROAE	Return on Average Equity
RWA	Risk-Weighted assets
SEE	Southeastern Europe
USD	American Dollar
WEO	World Economic Outlook

## **Macroeconomic Developments<sup>1</sup>**

According to the preliminary Kosovo Agency of Statistics (KAS) data, real GDP growth rate marked an annual increase of 4.1 percent in Q1 2019, which basically was supported by the increase of investments and consumption, whereas net exports had a negative impact. Due to the lack of official data for Q2 2019, being relied on other more frequently published indicators, the economic growth during this quarter is estimated to have been higher. The estimates for higher growth are supported by positive developments in the external sector (the accelerated growth of export of goods and services, FDI, remittances, compensation of employees) and the increase of public consumption.

The price level of consumption until June 2019 increased by 3.1 percent, mainly as a result of the increase of food prices. Core inflation (excluding food, energy, alcoholic beverages and tobacco), marked an increase of only 0.4 percent or 2.7 percentage points lower compared to the general inflation.

Fiscal sector until June 2019 was characterized with an increase of income with 7.7 percent and a slowdown increase of budgetary expenditures of 2.9 percent. Consequently, Kosovo's budget recorded a primary budget surplus of EUR 0.3 million (EUR 37.1 million deficit in the same period of 2018). Public debt, in the second quarter of 2019 reached EUR 1.13 billion, which is for 9.3 percent higher than the public debt marked in the second quarter of 2018. As a percentage to GDP,

public debt reached 16.5 percent from 16.3 percent as it was in Q2 of 2018.

Until June 2019, the external sector was characterized with a deficit decline of current account of 10.0 percent. The decline of the current account deficit is attributed to the increase of the positive services balance, of the primary and secondary income account while the deficit of goods marked an increase. Within the balance of payments, remittances and Foreign Direct Investments (FDI) marked an annual increase of 5.5 percent and 53.2 percent, respectively.

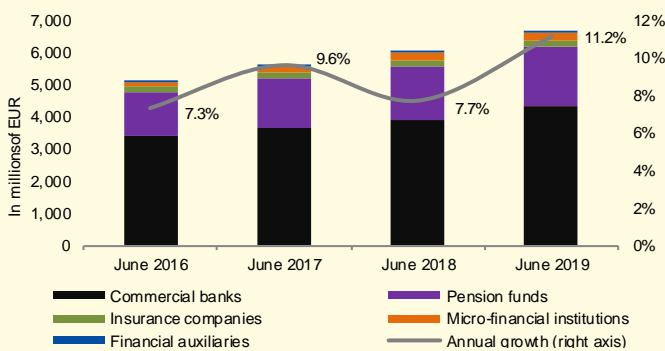
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<sup>1</sup> For more information on macroeconomic developments, please refer to: Quarterly Assessment of Macroeconomic Developments (Q2 2019) published at the CBK website.

## Financial System

The total value of assets of Kosovo's financial system reached EUR 6.67 billion at the end of the first half of 2019, representing an annual increase of 11.2 percent (figure 1).

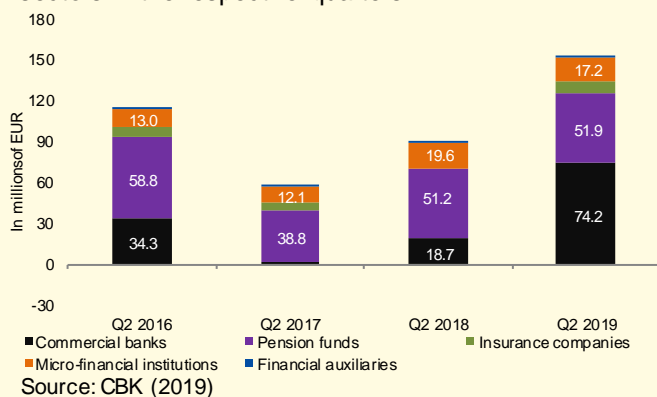
Figure 1. Assets value of Kosovo's financial system



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

On quarter basis, assets of financial system increased for EUR 153.3 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 in the respective quarters



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. Financial position of credit activity was strengthened, mainly through the improvement of conditions offered from banks regarding deposits. The sector continued to be well capitalized and liquid, with slightly higher net profit compared to the same quarter of the previous year.

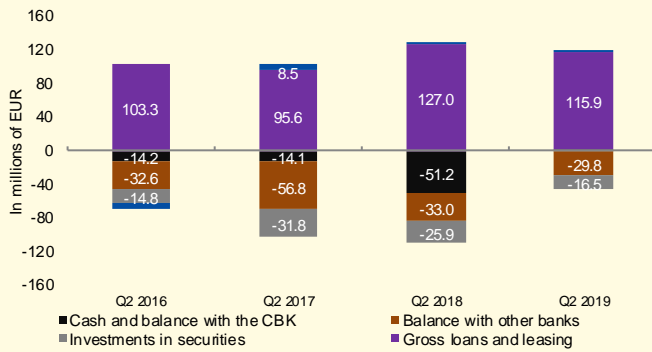
### Assets

In Q2 2019, assets of the banking sector were expanded by EUR 74.3 million contributing to the total assets stock value of EUR 4.30 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 (figure 3).

The category of cash held at banks treasuries increased by EUR 6.0 million in this quarter, while the balance with the CBK (banks reserves held at the CBK) decreased by EUR 4.8 million.

The balance with other banks decreased for EUR 29.8 million compared to the decline of EUR 33.0 million marked in Q2 2018, where their stock declined at the value of EUR 284.5 million at the end of the period.

Figure 3. Banking sector assets structure in the respective quarters



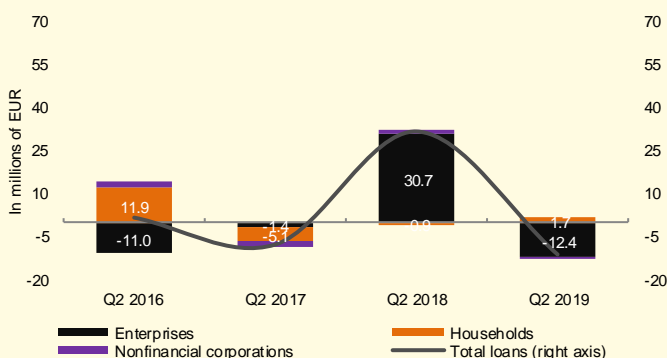
Source: CBK (2019)

At the end of the reporting period, securities stock of the banking sector reached the value of EUR 419.7 million, narrowing for EUR 16.5 million during Q2 2019. However, investments in securities of foreign governments declined for EUR 16.5 million, investments in securities of Kosovo's Government had a neutral effect to the growth.

## Loans

Economic activity continued to be characterized with an increase, also during Q2 2019.

Figure 4. Quarter change of loans and main categories of loans, of the specific quarters

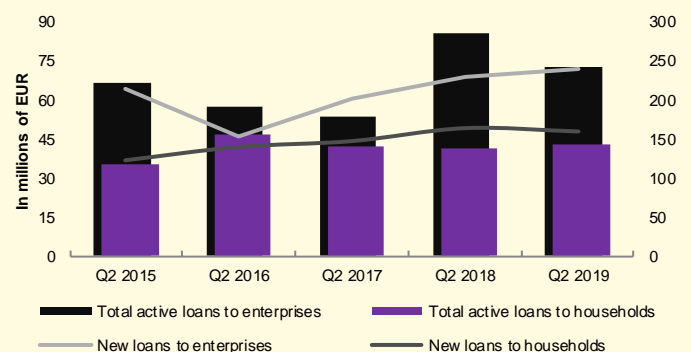


Source: CBK (2019)

At the end of the mentioned period, loans reached a value of EUR 2.94 billion, corresponding to an annual increase of 10.5 percent. Only in Q2 2019, loans marked an increase of EUR 115.9 million, compared to the increase of 127.0 million, in Q2 2018 (figure 3).

Positive impact on the increase of active loans, in Q2 2019, was marked by new loans granted to enterprises and households as well (figure 5). Banking sector eased offer, expressed through the improved credit conditions, and the increase of credit demand from both categories, resulted in a general increase of credit activity.

Figure 5. Active loans and new loans to enterprises and households



Source: CBK (2019)

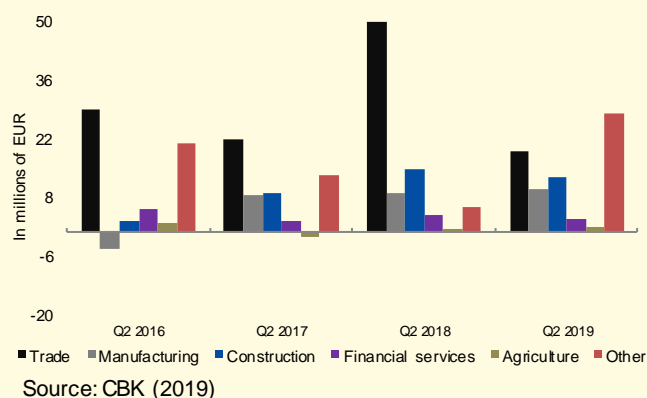
Loans to enterprises<sup>1</sup> increased by EUR 72.5 million during the second quarter, reaching the value of EUR 1.87 billion (figure 4). On annual basis, lending to all economic sectors was characterized with an accelerated expansion in the reporting period, except lending to trade sector which was characterized with slowdown increase.

Only in the second quarter, lending to manufacturing sector expanded by EUR 10 million, construction with EUR 13.1 million, while loans to trade sector marked

<sup>1</sup> Includes only loans to nonfinancial corporations.

an increase of EUR 19.1 million (during the same quarter of the previous year was EUR 53.7 million) (figure 6).

Figure 6. Credit structure by economic activity



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 (excluding manufacturing).

New loans to enterprises, in Q2 2019, reached the value of EUR 240.6 million, of which EUR 139.8 million designated for investments, while EUR 97.6 million for non-investments purposes. As regards to the economic sectors, new loans to agriculture sector amounted to EUR 5.3 million, marking an increase of EUR 2.2 million compared to Q2 2018. Also, new loans designated to industry rose by EUR 9.4 million compared to the same quarter of the previous year, whose amount of EUR 85.9 million in Q2 2019. Meanwhile, new loans to services sector declined by EUR 5.9 million, dropping to EUR 130.2 million.

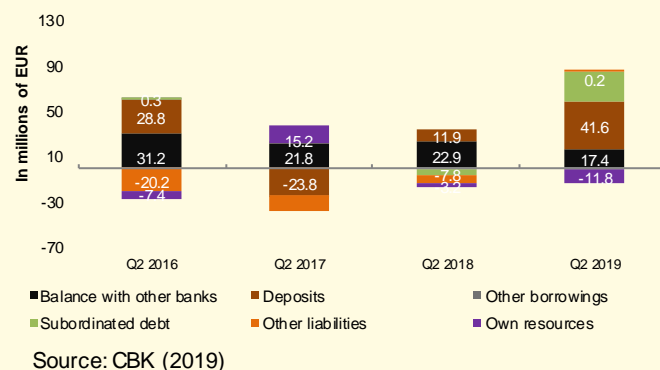
Loans to households, in Q2 2019, increased by EUR 42.9 million, reaching a value of EUR 1.06 billion at the end of the period (figure 4). Regarding new loans to households, in this quarter it was marked a quarterly

decline of EUR 4.3 million, reflecting on the total value of EUR 160.7 million, marked in Q2 2019 (EUR 165.0 million marked in Q2 2018). This decline was reflected more on new consumer loans, which declined by EUR 6.3 million compared to the same quarter of the previous year. Whereas, new mortgage loans issued, amounted to EUR 27.6 million, or EUR 0.7 million more than the value marked in Q2 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. In this quarter, deposits marked an increase of EUR 41.6 million, hence resulting to a positive development compared to the growth of EUR 11.9 million, marked in Q2 2018 (figure 7). The stock of deposits reached the value of EUR 3.43 billion, at the end of Q2 2019.

Figure 7. Structure of liabilities and own resources



The category of own resources was characterized with an increase of EUR 11.8 million, in Q2 2019 (a growth of EUR 3.2 million marked in Q2 2018), where its stock reached EUR 506.2 million, which primarily reflects the spread of dividend during this quarter.

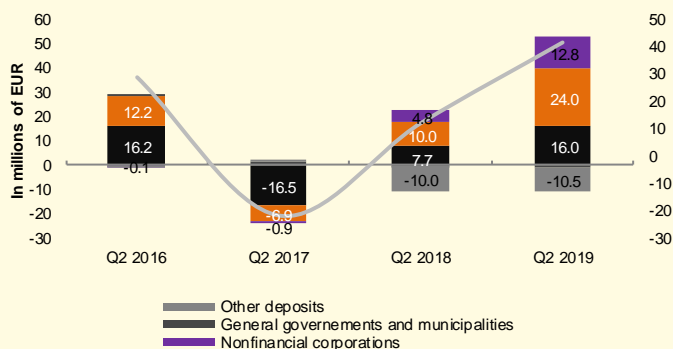


Whereas, the category of the balances from other banks marked an increase of EUR 17.4 million (EUR 22.9 million in Q2 2018), a dynamic which mainly reflects the increase of borrowings or different credit lines from banks abroad, namely parent banks. At the end of Q2 2019, the stock of balance with commercial banks declined to EUR 87.0 million (EUR 98.9 million in Q2 2018).

### Deposits

Developments within banking sector deposits, in Q2 2019, are attributable to the positive trend of household deposits, whereas the trends in enterprise deposits had a slower increasing contribution. Enterprise deposits<sup>2</sup> increased by EUR 16.0 million in this quarter, whose stock reached the value of EUR 596.8 million, at the end of the mentioned period (figure 8).

Figure 8. Total deposits value and main categories, in Q2



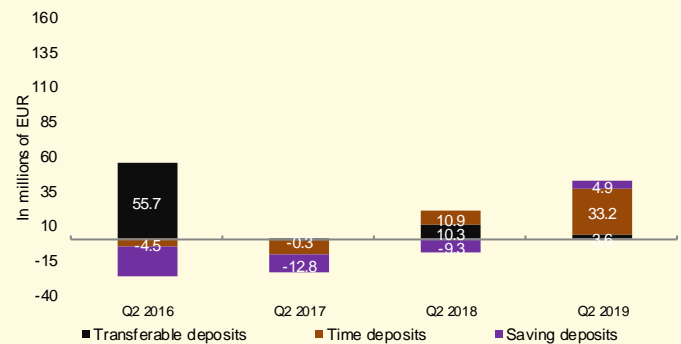
Source: CBK (2019)

This dynamic reflects the increase of household time deposits, which interrelated to the increase of interest rates on time deposits.

Conversely, household deposits increased by EUR 24.0 million in this quarter, amounting to EUR 2.42 billion at the end of the mentioned period (figure 8).

Regarding the categories of deposits, transferable deposits declined by EUR 3.6 million, in Q2 2019, marking a value of EUR 2.01 billion at the end of the period. While, time deposits increased by EUR 33.2 million (their stock amounted to EUR 920.7 million). Also, saving deposits increased by EUR 4.9 million, whose stock amounted to EUR 490.3 million (figure 9).

Figure 9. Deposits structure during the reporting periods



Source: CBK (2019)

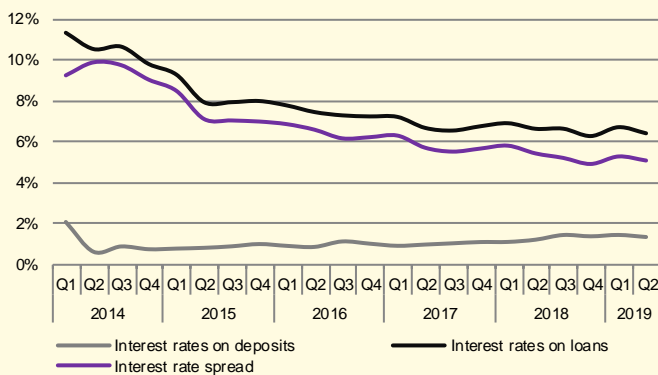
Unlike the previous periods, banks recently have offered more favorable conditions against the returns from deposits which resulted in positive changes in the structure of deposits of the banking sector. The expansion of the share of time deposits to total deposits of the sector against the contraction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

<sup>2</sup> Includes only nonfinancial corporations deposits.

### Interest Rates<sup>3</sup>

In Q2 2019, the level of interest rate on loans decreased by 0.2 percentage points compared to the previous year, while the average interest rate on deposits increased by 0.1 percentage points. Consequently, the interest rate spread of loans and deposits narrowed down to 5.1 percentage points in the reporting period (5.4 percentage points in Q2 2018) (figure 10).

Figure 10. Interest rates on loans and deposits



Source: CBK (2019)

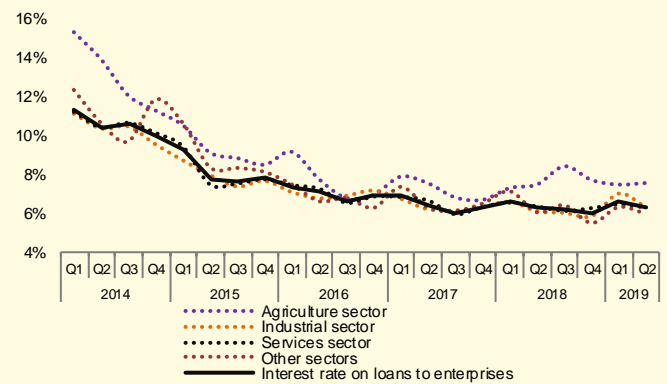
### Interest rates on loans

In the second quarter, interest rate on loans to enterprises stood at the same level compared to the same period of the previous year, namely at the average of 6.3 percent (figure 11).

The category of investment loans and loans with favorable conditions had lower interest rates compared to the same period of the previous year, dropping down to 6.24 percent and 2.83 percent, respectively. While, the average interest rate on non-investment loans increased to 6.44 percent.

Interest rates on loans to agriculture and industry sectors increased at a quarter average of 7.6 percent and 6.3 percent, respectively. Whereas, loans to services sector and other sectors had unchanged interest rates of 6.4 and 6.0 percent, respectively (figure 11).

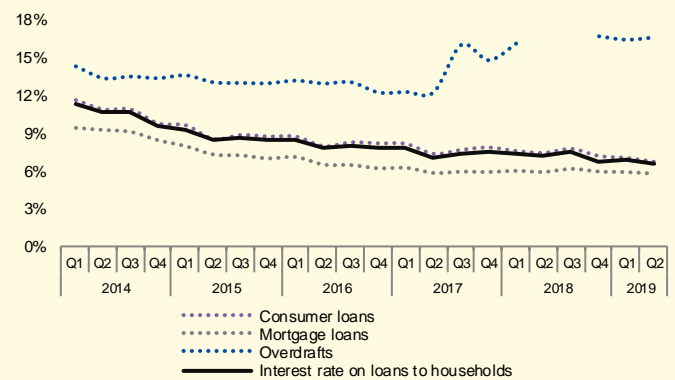
Figure 11. Interest rate on loans to enterprises



Source: CBK

Interest rates on loans to households continued with a declining trend also in Q2 2019.

Figure 12. Interest rates on loans to households



Source: CBK

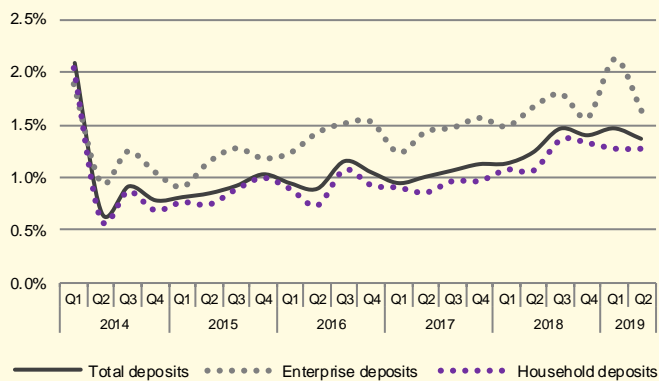
Interest rates applied to mortgage loans continued to be more favorable, standing at an average of 5.7 percent, while interest rates on consumer loans stood at an average of 6.7 percent (figure 12).

<sup>3</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”.

### Interest rates on deposits

Interest rates on deposits continued with a growth trend of the previous year. Interest rate of 1.4 percent in deposits marked in Q2 2019, resulted to be higher for 0.1 percentage points, compared to Q2 2018 (figure 13).

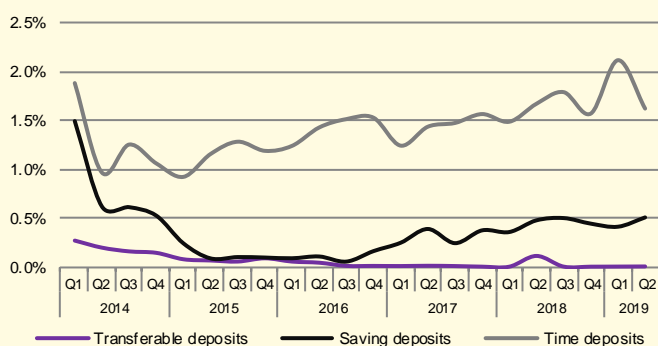
Figure 13. Interest rates on deposits



Source: CBK (2019)

Interest rates on enterprise deposits continued to be more favorable compared to rates applied to household deposits. Average interest rate on enterprise deposits remained almost at the same level of 1.6 percent against the same period of the previous year, with a slight decline of 0.05 percentage points.

Figure 14. Interest rates on enterprise deposits, by categories

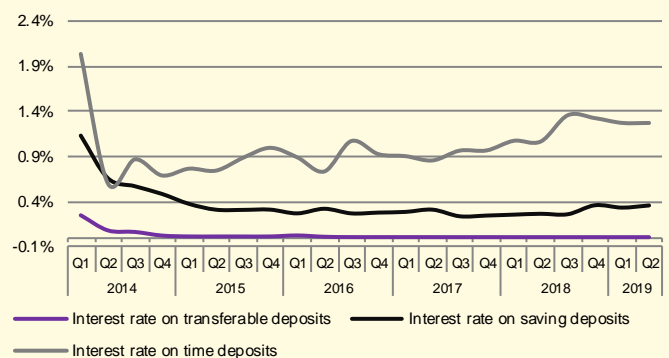


Source: CBK (2019)

This decline reflects the decrease of interest rate on transferable deposits which dropped to 0.0 percent from 0.1 percent, and the slight increase of 0.05 percent marked by time deposits. (figure 14).

Interest rates on household deposits increased by 0.2 percentage points, reaching 1.3 percent (figure 15).

Figure 15. Interest rates on household deposits, by categories



Source: CBK (2019)

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 0.4 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.

### Performance of the Banking Sector

The value of the profit realized during Q2 2019 resulted to be higher for EUR 0.4 million, compared to the same quarter of the previous year, reaching EUR 21.2 million. The profit realized only in the second quarter of 2019, compared to the same quarter of the previous

year was attributed mainly to the higher increase of interest income on loans.

However, for the six-month period of the year, the profit results to be lower for EUR 0.2 million compared to the previous year, which primarily is attributable to the higher increase of expenditures of the sector against the increase of the income (figure 16).

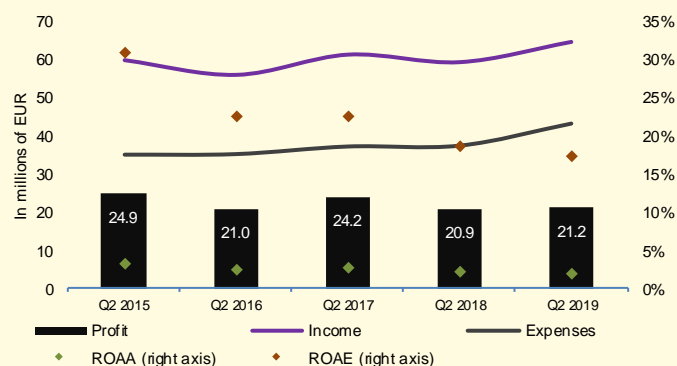
Income of the banking sector were characterized with an annual increase of 8.8 percent, primarily as a result of the performance of interest income (mainly from loans and securities), but also due to income from fees and commissions, within non-interest income (figure 16).

Conversely, value of expenditures of the banking sector, in Q2 2019, marked an increase of 15.9 percent compared to the same quarter of the previous year (figure 16). 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 increased by EUR 5.9 million from EUR 3.2 million in Q2 2018. Meanwhile, within interest expenses, an increase was marked primarily by time deposits interest expenses as a result of their financing cost increase. On the other hand, the category of administrative and general expenses increased slightly for EUR 26.5 million, compared to Q2 2018 when it was marked an increase of EUR 24.1 million.

As a result of higher expenditures increase, expenditures to income ratio rose to 67.2 in Q2 2019, implying that for every EUR 1 collected, the expenses of the banking sector reaches EUR 0.672, representing

a higher value for 4.1 percentage points. Consequently, the banking sector financial position, in Q2 2019, was negatively reflected also in two profitability indicators, namely Return on Average Assets (ROAA), and Return on Average Equity (ROAE).

Figure 16. Profit and profitability indicators of the banking sector



Source: CBK (2019)

ROAA declined by 0.3 percentage points dropping down to 2.0 percent, while ROAE shrank by 1.2 percentage points, falling at 17.5 percent (figure 16).

### Financial Soundness Indicators

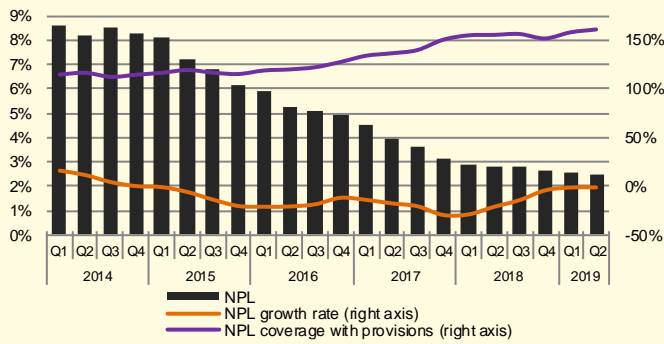
Banking sector continued to be characterized with an improvement of credit portfolio quality based on the further decline of the level of nonperforming loans and an improvement of their coverage with loan loss provisions.

The level of nonperforming loans, at the end of Q2 2019, decreased at 2.5 percent, representing a decline of 0.3 percentage points compared to the same period of the previous year (figure 17).

The decline of nonperforming loans and the increase of provisions by the end of the second quarter, made the coverage ratio of nonperforming loans with loan loss provisions which stood at 161.2 percent to be for 5.6

percentage points higher compared to the end of the second quarter of the previous year.

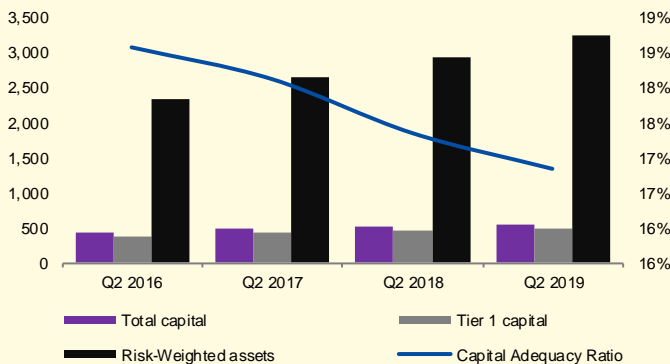
**Figure 17. Indicators of credit portfolio quality and NPL growth rate**



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

The capital position of the sector continued to reflect high sustainability. Capital Adequacy Ratio reached at 16.8 percent, at the end of Q2 2019, from 17.4 percent as it was in Q2 2018. The credit activity increase marked in this year has had an impact on the increase of exposure of the sector to assets with risk weight.

**Figure 18. Solvency indicator**



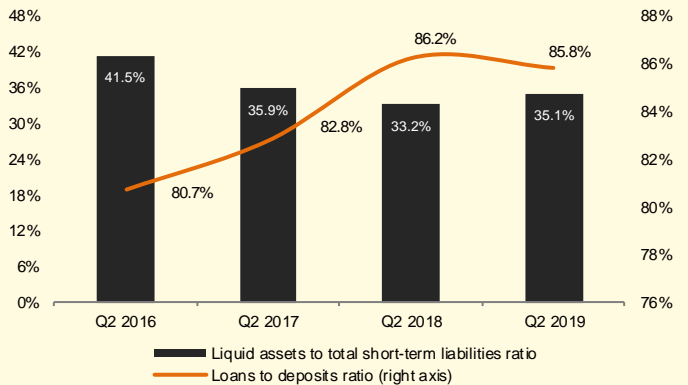
Source: CBK (2019)

As a consequence, despite the increase of 6.5 percent of the regulatory capital, the higher effect of the increase of 9.8 percent of risk weighted assets against the increase of the regulatory capital, was reflected to the decline of capital adequacy ratio for 0.5 percentage

points. Despite the decline, banking sector has strong base of the regulatory capital, of which, 88.4 percent is Tier 1 capital. This capital comes mainly from the realized and retained profit, implying that banks are oriented in creating capital primarily within their activity holding the profit in the form of equity (figure 18).

The key liquidity indicator, being presented by the liquid assets to total short-term liabilities ratio stood at 35.1 percent, marking an increase of 1.9 percentage points compared to Q2 2018. The higher increase of liquid assets, namely the balance with the CBK and deposits and placements in other banks, was reflected in an increase of this indicator. Loans to deposits ratio stood at 85.8 percent, representing a lower level and has a declining trend, mainly as a consequence of the accelerated increase of deposits compared to the increase of credit activity (figure 19).

**Figure 19. Liquidity indicators**



Source: CBK (2019)

## **Pension Sector**

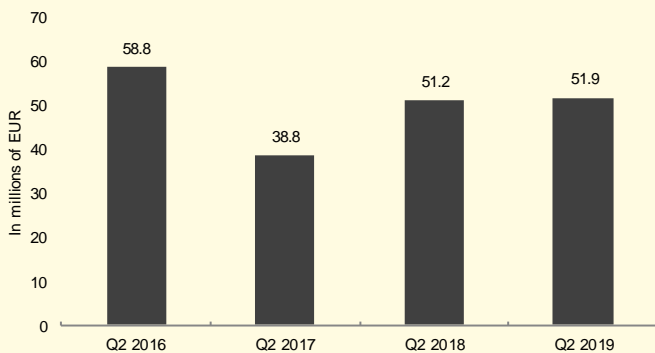
*Pension sector was characterized with an increase of assets, which primarily was*

*attributed to the positive return from investments and contributions collected during this period.*

Pension sector is the second sector by importance of weight in the financial system, which comprises 28.1 percent of total assets of the financial system in the country. At the end of Q2 2019, the value of total assets of the Kosovo's financial system reached EUR 1.87 billion, representing an annual increase of 10.6 percent.

In Q2 2019, assets of the sector expanded by EUR 51.9 million, which is a consequence of the contributions collected from investments returns during this period (figure 20).

Figure 20. Assets of the pension sector, quarter change



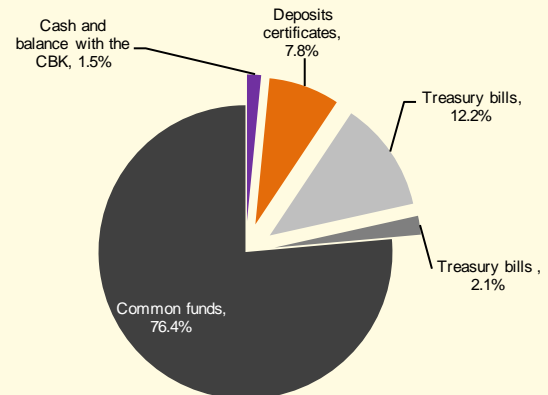
Source: CBK (2019)

KPST, which comprises 99.6 percent of assets of the sector, the majority of its assets are invested in the external sector (figure 21).

In this quarter, KPST marked a positive return in investments with a value of EUR 19.5 million (figure 23). This increase came primarily as a result of investments performance in external markets (EUR +17.8 million), being impacted by the improvement of economic key indicators in the global markets and to

some extent, as a result of the mitigation of “trade disagreements” between U.S.A and China.

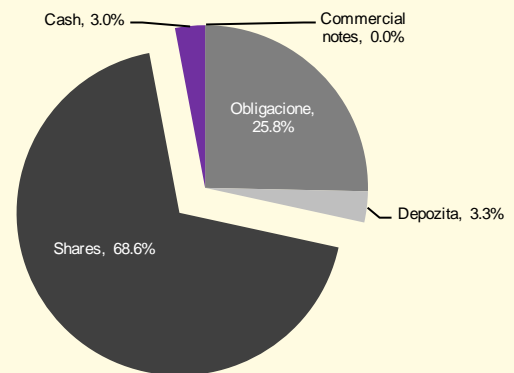
Figure 21. Structure of KPST assets (Q2 2019)



Source: KPSF (2019)

Investments within the country in Q2 2019 were characterized with a positive performance as well (EUR +1.8 million).

Figure 22. Structure of SKPF assets (Q2 2019)



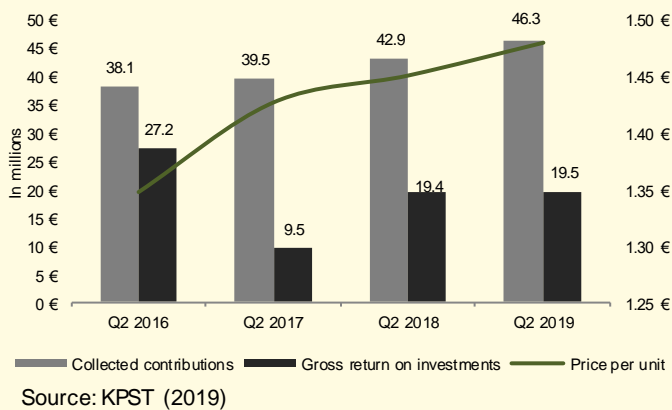
Source: SKPF (2019)

Moreover, during this quarter, investments in Kosovo's Government securities marked an increase of EUR 10.4 million, whereas in deposits certificates (banking sector) was marked an increase of EUR 25.6 million. Assets investments of SKPF are diversified mainly in shares abroad, followed by Kosovo's Government and other foreign governments treasury bonds (figure 22).

SKPF marked a positive gross return on investments with EUR 142.7 thousands (EUR - 53.9 thousands Q2 2018).

New collections of the pension sector amounted to EUR 46.3 million in Q2 2019, representing an increase of 7.9 percent compared to the same quarter of the previous year (figure 23). Out of these collected contributions, 99.7 percent belong to KPST.

Figure 23. Return on investments and KPST performance



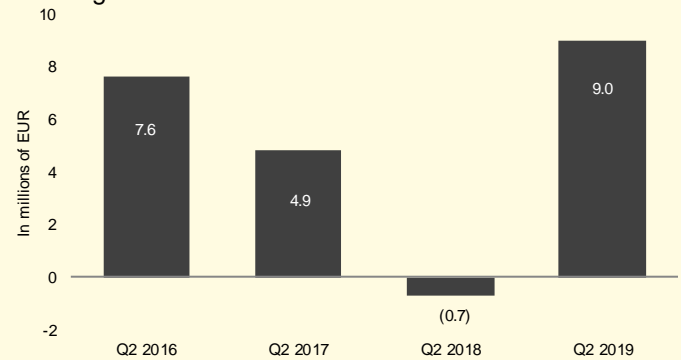
## Insurance Sector

*Insurance sector marked an increase of its activity. However, despite the increase of written premiums, insurance sector was characterized with a negative financial results as a consequence of the increase of operating expenses and compensation for claims paid.* Assets of insurance sector, in Q2 2019, increased by EUR 9.0 million (figure 24), while the value of assets stock of the sector until the end of June reached EUR 190.0 million (annual increase of 8.7 percent).

The increase of the activity of the sector in this quarter was mainly attributed to the increase of liquid assets (EUR +2.6 million), the collected income by the insurer

(EUR +2.3 million) and the increase of investments in securities with EUR 1.3 million.

Figure 24. Assets of the insurance sector, quarter change



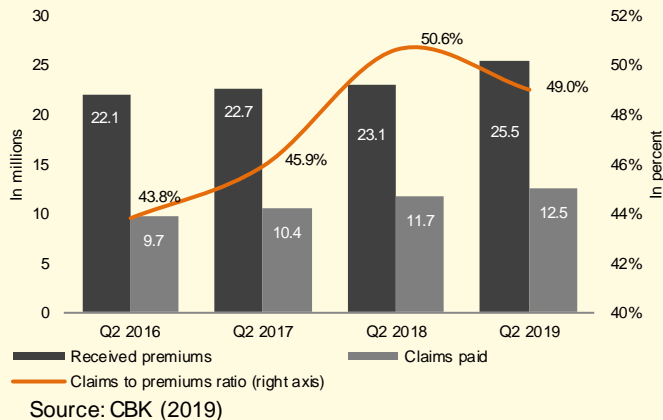
Source: CBK (2019)

Within liabilities and own resources of the sector, the equity of the sector remained almost the same as in the previous period, standing at EUR 45.3 million, at the end of Q2 2019. This came as a result of the operation of the insurance sector with losses, despite the increase of the shareholders capital (EUR +1.7 million) during this quarter. In Q2 2019, within the liabilities of the sector, a more significant increase was marked by the category of technical reserves (EUR +7.1 million) and the category of other payable accounts (EUR +1.7 million). The growth of these two categories, among others, ensures the smooth settlement of liabilities to policyholders.

The value of written premiums of insurance companies, in Q2 2019, amounted to EUR 25.5 million, representing an annual increase of 10.4 percent. The highest contribution to the increase of total premiums was marked by the category of premiums “non-third party liabilities”, such as in the number of the policies sold and in the value of the premiums sold as well. “Non-life” insurance premiums represent 96.4 percent of total written premiums structure, whose value

reached EUR 24.6 million (annual growth of 10.3 percent). Whereas, the value of the written premiums of “life” insurance marked an annual increase of 14.9 percent, reaching a value of EUR 908.8 thousands.

Figure 25. Written premiums and claims paid



Claims paid by insurance sector (including Kosovo Insurance Bureau) marked an increase of EUR 0.8 million in this quarter compared to the same quarter of the previous year, reaching a value of EUR 12.5 million (EUR 11.7 million in Q2 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 49.0 percent from 50.6 percent as it was in the second quarter of the previous year (figure 25).

### Performance of the Insurance Sector

Insurance sector marked a loss of EUR 2.6 million in Q2 2019 against the profit of EUR 0.34 million marked in Q2 2018, despite the increase of the written premiums level, mainly due to the increase of operating expenses and compensations for claims occurred.

The liquidity of the insurance sector marked a decline until June 2019 compared to the same period of the

previous year. The slower annual increase of cash and its equivalents (3.4 percent) compared to the increase of technical reserves (10.6 percent) which resulted in a declined ratio of these two categories to 90.6 percent from 97.0 percent as it was in June 2018. The other liquidity indicator represented by cash and its equivalent to total liabilities ratio declined to 80.1 percent from 86.5 percent as it was in June of the previous year, as a result of the increase of liabilities of 11.6 percent.

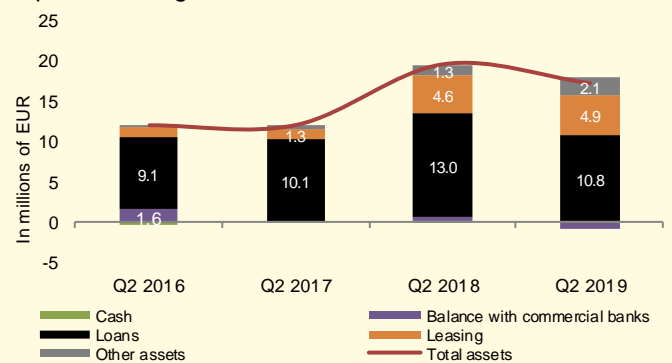
### Microfinance Sector

*Microfinance sector has shown signs of the activity despite the growth marked. In Q2 2019, the sector was characterized with a slowdown increase of credit activity, a decline of the profit realized, and an increase of loans with problems.*

#### Assets

Total assets of the microfinance sector increased by EUR 17.2 million in Q2 2019, contributing to the total assets stock value with EUR 285.1 million at the end of June 2019 (figure 26).

Figure 26. Assets of the microfinance sector, quarter change



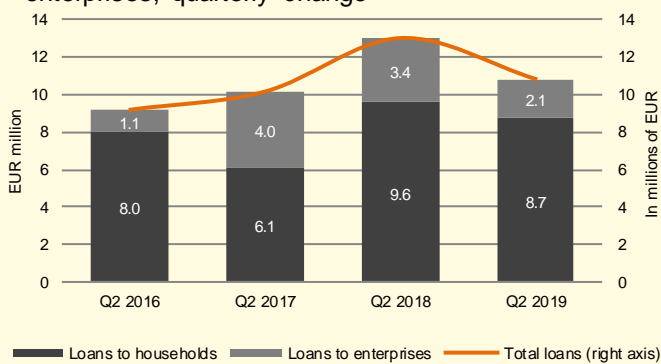
The increase of the credit activity and leasing had the main contribution in the expansion of the sector’s assets in Q2 2019.



Microfinance sector mainly finances the activity through credit lines by other financial institutions, which in Q2 2019 reached the value of EUR 14.2 million (EUR 10.0 million consist of loans issued by the external sector).

**Loans**

Figure 27. Value of loans to households and to enterprises, quarterly change



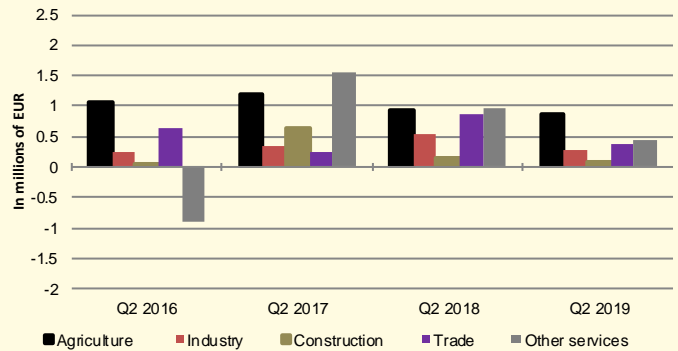
Source: CBK (2019)

In Q2 2019, loans marked an increase of EUR 10.8 million, representing a decline of EUR 2.2 million, compared to Q2 2018 (figure 27).

Loans to households had the main contribution in expanding total credit activity in Q2 2019, despite marking a slower increase.

Similarly, also lending to enterprises was characterized with a slowdown increase. This was reflected also in the sectors which have higher weight to total loans to enterprises such as loans to industrial sector, construction and trade sector (figure 28).

Figure 28. Value of loans to enterprises, by economic sectors, quarterly change

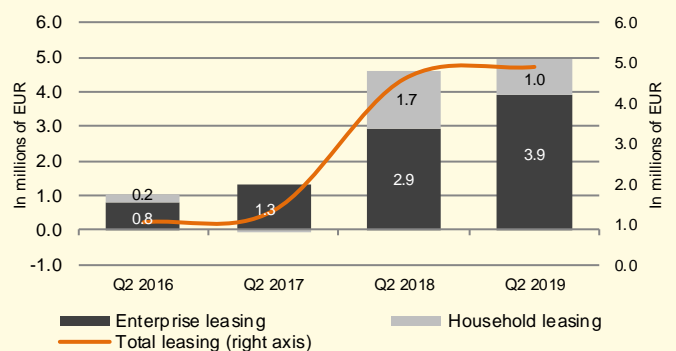


Source: CBK (2019)

**Leasing**

Leasing activity in Q2 2019 increased for EUR 4.9 million, representing an increase of EUR 0.3 million compared to Q2 2018, thus increasing the stock of leasing to EUR 45.2 million at the end of June 2019 (figure 29). Leasing to enterprises marked a more significant increase compared to Q2 2018, while leasing to households marked a slowdown increase.

Figure 29. Value of leasing of microfinance sector, quarterly change

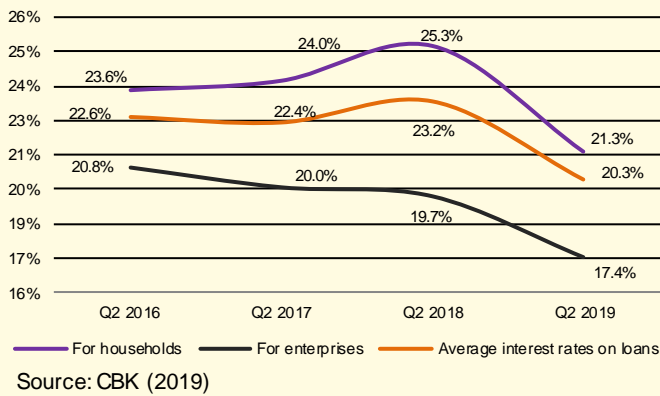


Source: CBK (2019)

### Interest Rates

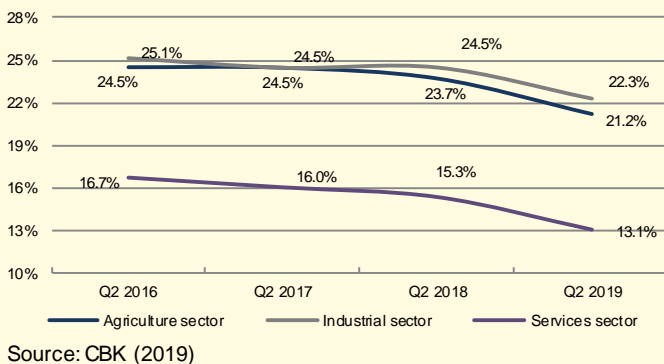
The average interest rates on loans, in Q2 2019, declined at 20.3 percent, from 23.2 percent as it was in Q2 2018. With a more significant decline were characterized interest rates on loans to households (with 4.0 percentage points), while interest rates on loans to enterprises decreased for 2.3 percentage points (figure 30).

Figure 30. Average interest rate on microfinance sector loans



Within households, the average interest rate on consumer loans was 20.7 percent in Q2 2019, while for mortgage loans, the interest rate resulted to be 21.9 percent.

Figure 31. Average interest rates on loans to enterprises, by economic sectors

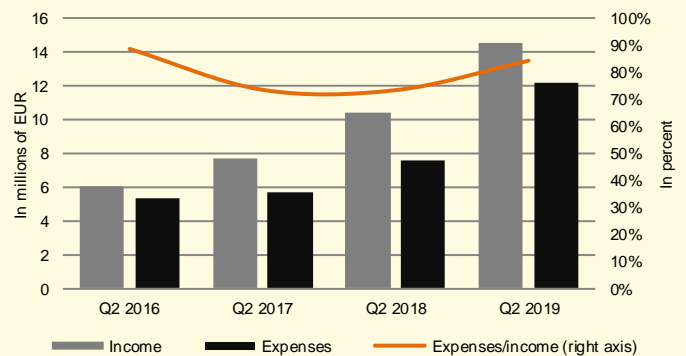


Within loans to enterprises, services sector continued to have a lower interest rate on loans, while agriculture sector continued to have the highest interest rate (figure 31).

### Performance of the Microfinance Sector

During Q2 2019, the higher increase of microfinance sector expenditures against the increase of income reflected in a decline of the profit for EUR 0.5 million realized during this quarter compared to Q2 2018 and the decline of its value at EUR 2.3 million (figure 32 and 33).

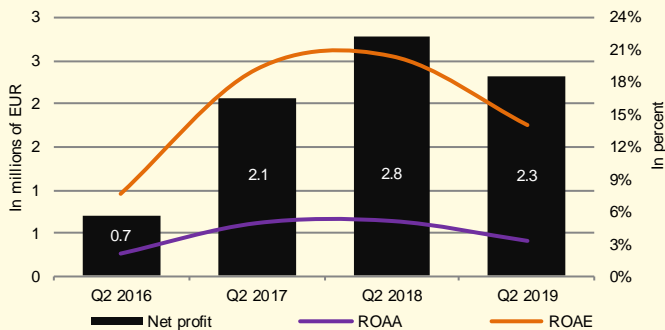
Figure 32. Microfinance sector income and expenditures, in Q2



Interest income in Q2 2019 reached a value of EUR 13.5 million (EUR 9.2 million in Q2 2018), reflecting the high level of credit activity from this sector along with the high interest rates (an average of 20.3 percent in Q2 2019).

The increase of personnel expenses and the higher allocation of provisions for possible loan losses had the main contribution to the increase of general expenditures of microfinance sector.

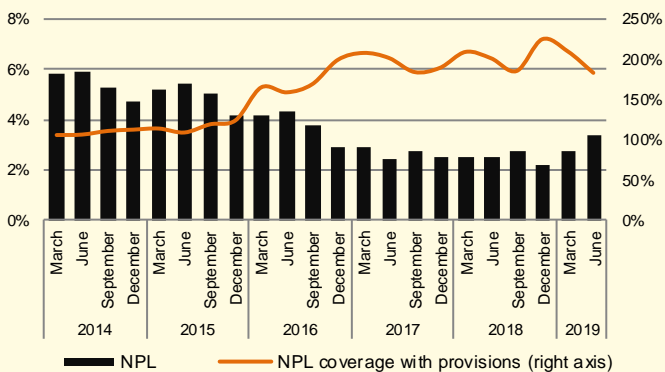
Figure 33. Profitability indicators of microfinance sector, in Q2



\*Profit was annualized for the respective quarter

Loans with problems marked an increase, albeit their ratio to total loans stands at quite low level and is well covered with provisions (figure 34). The NPL level was 3.4 percent in June 2019 (2.5 percent in June 2018). Whereas, the coverage level of nonperforming loans with loan loss provisions, in June 2019, reached the level of 184.0 percent compared to the level of 202.2 percent in June 2018.

Figure 34. Indicators of credit portfolio quality

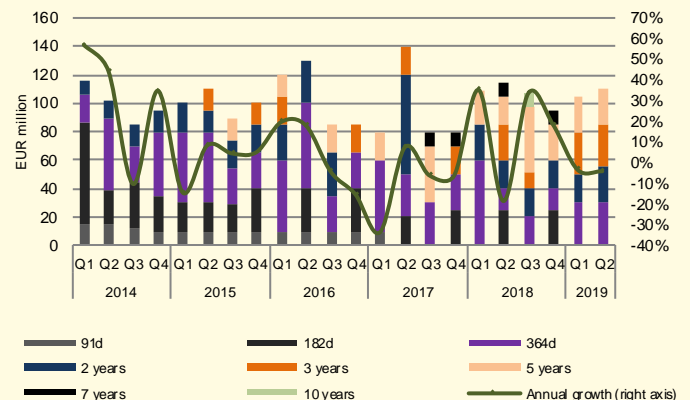


Source: CBK (2019)

## Securities Market

In Q2 2019, Kosovo's Government issued debt with a value of EUR 110 million, in an environment where the offer from financial institutions overpassed the amount demanded by the Ministry of Finance.

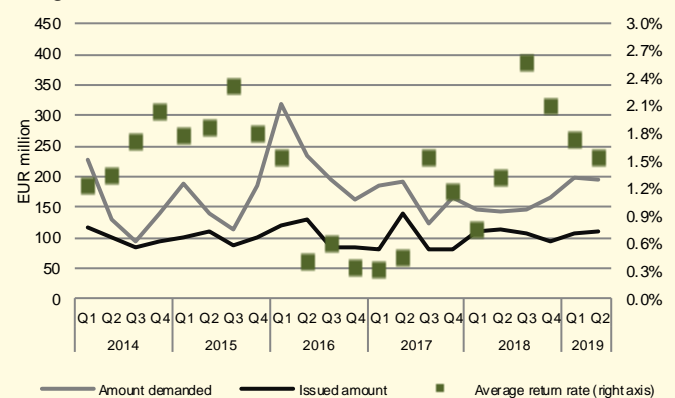
Figure 35. Value of issued debt, annual growth



Source: Ministry of Finance

In Q2 2019, Kosovo's Government issued securities with an amount of EUR 110.0 (EUR 114.4 million in Q2 2018), representing an annual decline of 3.9 percent (figure 35).

Figure 36. Bid to cover ratio



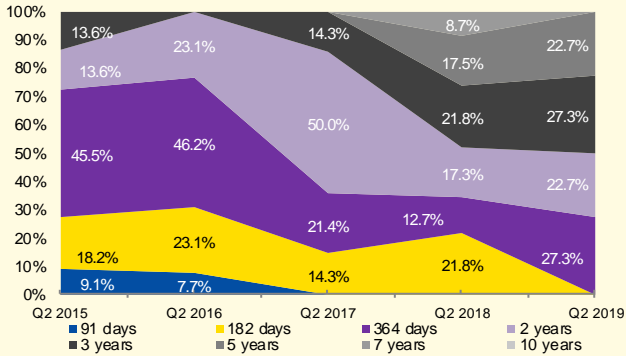
Source: Ministry of Finance (2019)



The average interest rate on securities was 1.54 percent in Q2 2019, representing a higher rate for 0.2 percentage points, compared to Q2 2018 (figure 36).

Securities structure is dominated by government bonds, which comprise around 73.0 percent (lead those with a maturity of 3 years) of total securities and the remainder is comprised by treasury bills (figure 37).

Figure 37. Government securities structure, in percent



Source: Ministry of Finance (2019)

### **The suggested citation of this publication:**

CBK (2019): Quarterly Assessment of Financial System No. 27 Q2 2019, Central Bank of the Republic of Kosovo, Prishtina

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## Macroeconomic selected indicators

Description	June 2018	June 2019
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	1,298.8	1,378.7
Consumer prices (annual average)	0.3%	3.2%
Consumer prices (end of period)	0.8%	2.9%
Fiscal Sector* 2/		
Budget Revenues (in millions of EUR)	792.3	853.5
Budget Expenditures (in millions of EUR)	829.4	853.2
Primary balance (in millions of EUR)	-37.1	0.3
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,995.4	6,666.4
of which : Banks	3,891.5	4,303.4
Loans	2,661.3	2,940.0
Deposits	3,085.9	3,425.3
<i>Interest Rate s on Loans, end of period</i>	6.5%	6.3%
<i>Interest Rate s on Loans, end of period</i>	1.2%	1.3%
Interest rate gap	5.3%	5.1%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-433.8	-388.4
of which: remittances	384.5	405.6
Financial account	-200.1	-160.0
Foreign Direct Investmentsin Kosovo	79.9	122.5
Portfolio investments, net	59.9	-31.7
Other investments, net	-214.5	-265.3
International Investment Position (PNI), net*	-135.4	-345.6
Assets	4,776.0	4,884.9
Liabilities	4,911.4	5,230.6
External debt, total*	2,004.3	2,037.9
Private external debt	1,511.6	1,540.7
Public external debt	492.7	497.3

Source:

1/ KAS (2019), the data for GDP are presented only for Q1, as for Q2 2019 the data have not been published yet.

2/ MF (2019).

3/ CBK (2019).

\*Data for the balance of payment are until June 2019, whereas for IIP and external debt are until March 2019.

