

Summary

According to the recent Kosovo Agency of Statistics (KAS) data, real GDP growth rate marked an increase of 4.2 percent in the first half of 2019, which basically was supported by the increase of investments and a recovery of net exports. Due to the lack of official data for Q3 2019, being relied on other more frequent published indicators, the economic growth during this quarter is estimated to have been similar to other previous quarters of 2019. These estimates are supported by positive developments in the external sector (the accelerated growth of export of goods and services, and FDI) and the increase of new loans.

Assets of financial system continued with an increasing trend, reaching an annual increase of 12.5 percent, reaching the value of EUR 7.0 billion at the end of 2019. The main contribution to the expansion of the activity of the financial system continued to be marked by the banking sector, followed by the pension sector. The increase of assets of the banking sector was enabled mainly by the increase of credit activity, which came as a result of the higher demand for loans and the improvement of the lending conditions. In Q3, the value of loans issued marked an increase, albeit compared to the third quarter of the previous year, this amount was lower, mainly being impacted by the decline of loans to nonfinancial corporations.

The expansion of credit activity was enabled by the positive dynamic of deposits, which only in Q3 2019 increased by EUR 310.3 million. A more significant increase was marked by household deposits, the majority of which is comprised by transferable deposits. During the reporting period, the interest rate on household deposits marked a slight increase with 0.04 percentage points, whereas the interest rate on nonfinancial corporation deposits marked a decline of 0.2 percentage points along with the same period of the previous year.

The banking sector, also during the Q3 2019, continued to have a good performance, as a result of the higher increase of income compared the increase of expenditures.

The increase of income, on quarter bases, was 11.5 percent, driven mainly by the increase of interest income. On the other hand, expenditures marked a slowdown increase of 4.7 percent. Regarding the financial soundness, the banking sector continued to have low level of nonperforming loans with 2.3 percent and an increase of their coverage with loan loss provisions, reaching 161.3 percent. Moreover, the respective indicators suggest that the level of capitalization and liquidity of the sector stands at a satisfactory level.

The pension sector, as the second sector by the weight of importance in the financial system, also during this quarter continued to have a positive return on investments and an increase of new contributions. These developments had an impact on the the increase of the overall assets, where a considerable part were invested in the domestic sector, namely in the deposits of the banking sector and in securities. Focusing on investment in the domestic economy of the country resulted to be a strategy of the pension sector, in order to support the domestic sector and to diversify the assets under management.

Insurance sector, also in Q3 2019, continued to be characterized with a negative performance, despite the expansion of the assets and the increase of the written premiums. The weak performance in this sector mainly is attributable to the faster increase of the level of claims paid during this period, and other operating expenditures. However, the sector has maintained during this quarter to mitigate the level of losses realized compared to the previous quarter.

Microfinance sector was characterized with an accelerated increase of its lending activity and a good financial performance. Nevertheless, also loans with problems marked an increase, albeit stood at the same level.

In the securities market, the amount of the debt issued by the Kosovo's Government was EUR 105 million and the average interest rate of securities was 2.11 percent.

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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 Developments¹

According to the recent Kosovo Agency of Statistics (KAS), real GDP annual growth rate marked an increase of 4.2 percent in 2019, an increase which was relied mainly on the increase of investments and the improvements on net exports. Due to the lack of official data for Q3 2019, being relied on other more frequent published indicators, the economic growth during this quarter is estimated to have been similar to other previous quarters. These estimates are supported by positive developments in the external sector (the accelerated growth of export of goods and services, and FDI) and the increase of new loans.

The price level of consumption until September 2019 increased by 3.0 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 2.6 percentage points lower compared to the general inflation.

Fiscal sector, by September 2019, was characterized with an increase of revenues with 6.9 percent and a slowdown increase of budgetary expenditures of 3.8 percent. Consequently, Kosovo's budget recorded a primary budget surplus of EUR 39.1 million (EUR 0.8 million deficit in the same period of 2018). Public debt, in Q3 2019, reached EUR 1.19 billion, which is for 10.7 percent higher than the public debt marked in Q3 2018. As a percentage to GDP, public debt reached 17.4 percent from 16.9 percent as it was in Q3 2018.

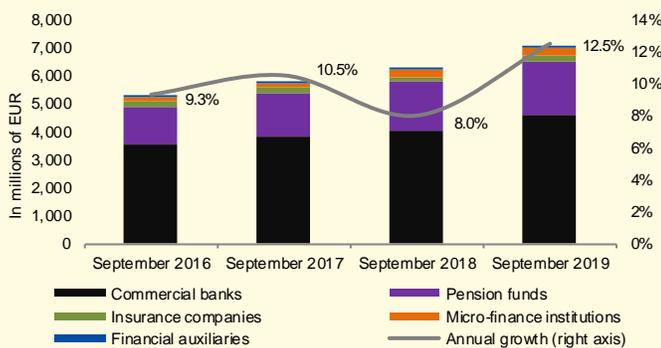
Until August 2019, the external sector was characterized with a decline of the current account deficit of 60.7 percent. The decline of the deficit of the current account is attributable to the positive balance of services, the primary income and the secondary income, whereas the goods deficit marked an increase. Within the balance of payments, remittances and Foreign Direct Investments (FDI) marked an annual increase of 6.3 percent and 22.9 percent, respectively.

¹ For more information on macroeconomic developments, please refer to: Quarterly Assessment of Macroeconomic Developments (Q3 2019) published at the CBK website.

Financial System

Assets of Kosovo's financial system, at the end of the third quarter of 2019, marked an annual increase of 12.5 percent, and reached the value of EUR 7.0 billion (figure 1).

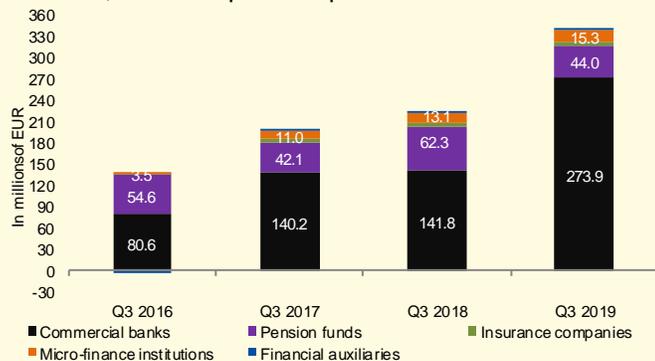
Figure 1. Assets value of Kosovo's financial system



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

On quarter basis, assets of financial system increased for EUR 340.0 million. Banking sector continued to have the main contribution to the expansion of financial system activity, being followed by pension 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

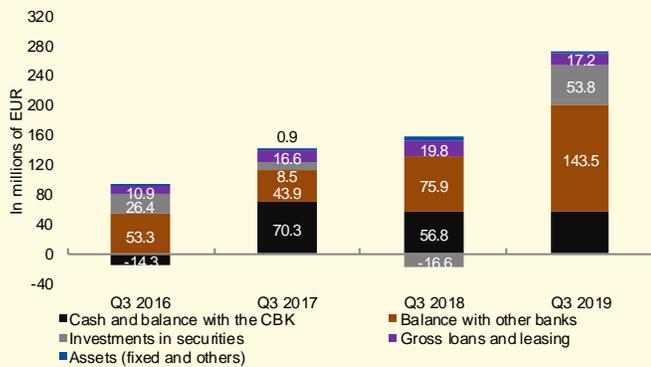
Banking sector during this quarter continued to have an increase of the activity and a satisfactory performance. Lending activity marked an expansion as a result of the increase of the demand for loans and an improvement of lending conditions. The expansion of credit activity was enabled by the positive dynamic of deposits, which in Q3 2019, marked a considerable increase. The sector continued to show sustainability, based on the net profit and the satisfactory level of the capitalization of liquidity.

Assets

Assets of the banking sector in Q3 2019, increased by EUR 273.9 million, contributing to the total assets stock value of EUR of 4.57 billion at the end of the period. This increase of assets of the banking sector was driven mainly by the increase of credit activity, which came as a result of the higher demand for loans and the improvement of the lending conditions (figure 3). The category of cash held at the treasury of banks, and the balance with the CBK (banks reserves held at the CBK), marked an increase of EUR 8.5 million and EUR 48.7 million, respectively, in this quarter. The balance with other banks marked a considerable increase of EUR 143.5 million, compared to Q3 2018, increasing their stock with a value of EUR 428.0 million at the end of the period. This increase is

attributable mainly to the increase of deposits of the banking sector, which only in Q3 2019 expanded for EUR 136.4 million.

Figure 3. Banking sector assets structure in the respective quarters



Source: CBK (2019)

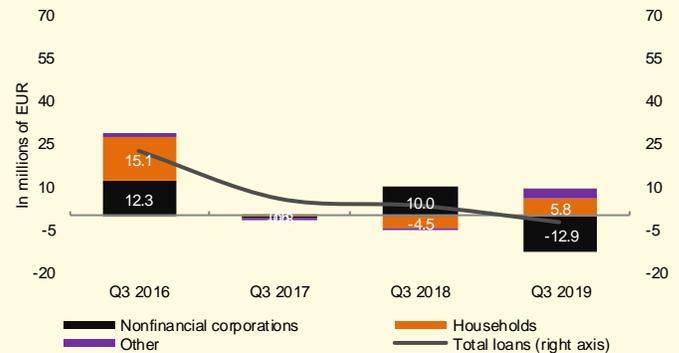
The securities stock of the banking, during Q3 2019, increased by EUR 53.8 million, thus reaching a value of EUR 473.5 million as at end of the reporting period. Investments in securities during this period increased by EUR 53.8 million.

Loans

Lending activity continued to be characterized with an increase, also during Q3 2019. By the end of the mentioned period, loans marked an annual increase of 10.3 percent, and their stock reached a value of EUR 2.95 billion. Only in Q3 2019, loans marked an increase of EUR 17.2 million, representing a lower value compared to Q3 2018 (EUR 19.8 million) (figure 3).

The slower increase of loans during this quarter compared to the same period of the previous year was mainly impacted by the decline of loans to nonfinancial corporations (EUR 12.9 million on quarter basis) (figure 4). Conversely, loans to households were characterized with an increase, in active loans and in new loans, as well.

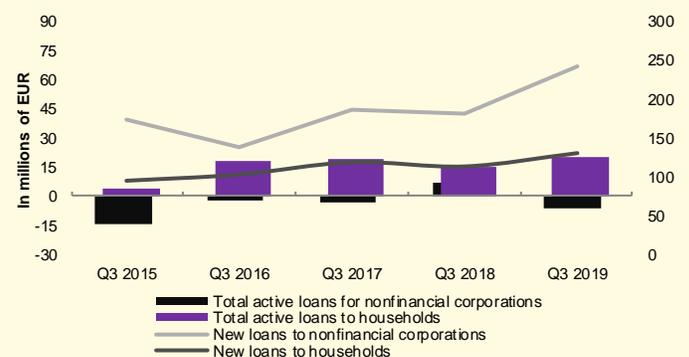
Figure 4. Annual change of the respective quarters of loans and main categories of loans



Source: CBK (2019)

Only in Q3 2019, active loans to households marked an increase of EUR 20.5 million. An increase was marked also in new loans issued for both categories, nonfinancial corporations and households as well (figure 5).

Figure 5. Active loans and new loans to nonfinancial corporations and households

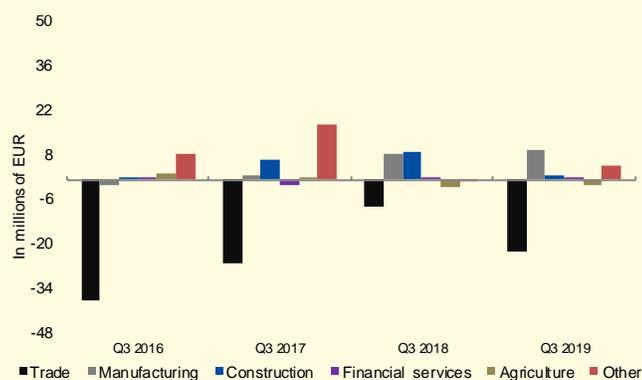


Source: CBK (2019)

The general increase of the lending activity was mainly driven by the increase of the demand for loans and the improvement of lending conditions. Despite the fact that the stock of total loans marked an increase, active loans to nonfinancial corporations decreased by EUR 6.0 million on quarter basis, reaching the value of EUR 1.86 billion at the end of the period (figure 5). On quarter basis, lending to the agriculture sector and especially to the trade sector was characterized with a

decline, while loans to manufacturing marked an increase. With an increase was characterized also lending to the construction sector, albeit to a lower level against the same period of the previous year.

Figure 6. Credit structure by economic activity



Source: CBK (2019)

During the third quarter, lending to manufacturing sector expanded by EUR 9.3 million, in construction sector for EUR 1.3 million, and financial services for EUR 0.3 million (figure 6). Compared to the previous quarter, lending to the manufacturing sector marked a higher increase, while the trade sector marked a considerable decline.

Total new loans, in Q3 2019, reached a value of EUR 371.7 million, which comparing to Q3 2018, results to be higher for 26.1 percent. New loans to nonfinancial corporations reached the value of EUR 241.9 million, of which EUR 131.7 million designated to investments, while EUR 106.0 million for non-investments purposes. On the sectoral aspect, new loans to industry marked an increase of 59.2 percent compared to Q3 2018, reaching a value of EUR 81.6 million only in Q3 2019. Also, loans to services sector marked an increase of 27.6 percent against the same quarter of the previous year, reaching the value of EUR 136.3 million. Despite the fact that new loans to agriculture expanded for

EUR 4.9 million, in Q3 2019 compared to Q3 2018, these loans marked a slight decline of 1.2 percent.

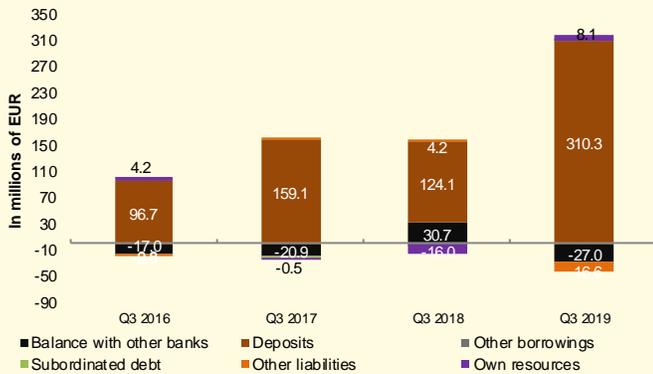
Loans to households, in Q3 2019, increased by EUR 20.5 million, reaching a value of EUR 1.08 billion at the end of the period (figure 4). Moreover, new loans to households marked an increase of EUR 16.6 million, on quarter basis, compared to the previous year, amounting to a total value EUR 129.8 million. This increase was reflected to both categories, to new consumer loans with EUR 12.6 million, and to new mortgage loans with EUR 3.3 million, as well.

Liabilities and Own Resources

The structure of the banking sector liabilities is dominated by deposits, which comprise around 79.2 percent of total liabilities and own resources. In Q3 2019, deposits were characterized with positive developments, expanding to a value of EUR 310.3 million compared to the value of EUR 124.1 million in Q3 2018 (figure 7). The stock of deposits marked an increase of 16.4 percent, reaching a value of EUR 3.74 billion, at the end of Q3 2019.

Unlike Q3 2018, the category of own resources marked a slower increase for EUR 8.1 million in Q3 2019 (EUR 16 million in Q3 2018) whose stock reached EUR 514.3 million at the end of the mentioned period. Whereas, the category of the balances from other banks marked an increase of EUR 27 million (EUR 30.7 million in Q3 2018), a dynamic which mainly reflects the decline of borrowings credit lines from banks abroad, namely parent banks.

Figure 7. Structure of liabilities and own resources



Source: CBK (2019)

At the end of Q3 2019, the stock of balance with commercial banks declined to EUR 59.9 million (EUR 129.6 million in Q3 2018).

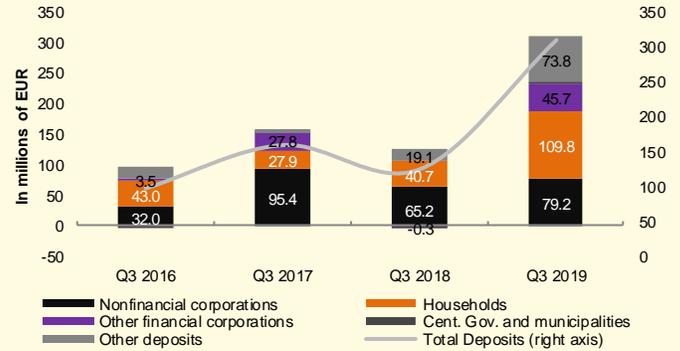
Deposits

Deposits during Q3 2019 marked an increase with a value of EUR 310.3 million, which is attributable mainly to the positive trend of household deposits and nonfinancial corporations, albeit the latter with a slower growth pace. Household deposits marked a higher increase during this period, expanding by EUR 109.8 million, reaching a value of EUR 2.52 billion at the end of the period (figure 8).

Nonfinancial corporation deposits increased by EUR 79.2 million in this quarter, reaching the value of EUR 676 million at the end of the mentioned period (figure 8).

Regarding the categories of deposits, transferable deposits marked a more emphasized increase which increased by EUR 233.3 million, in Q3 2019, whose stock reached a value of EUR 2.25 billion at the end of the period.

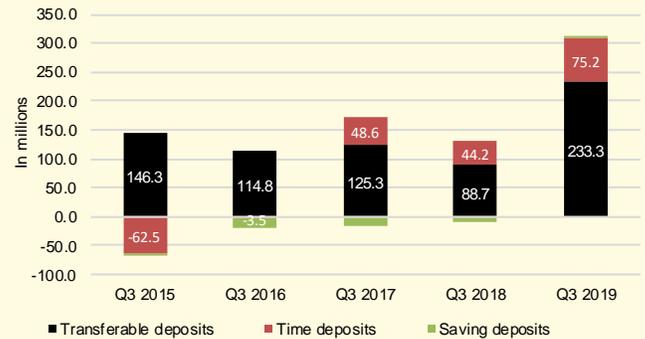
Figure 8. Total deposits value and main categories, in Q3



Source: CBK (2019)

Moreover, an increase was marked also in time deposits with a value of EUR 75.2 million, and saving deposits with a value of EUR 1.5 million, reaching a stock value of EUR 995.9 million and EUR 491.9 million, respectively, (figure 9).

Figure 9. Deposits structure during the reporting periods



Source: CBK (2019)

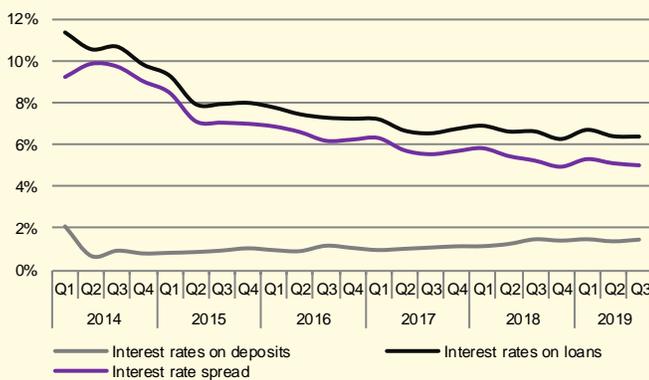
Compared to the quarter of the previous year, the share of time deposits to total deposits of the sector marked a decline from 35.6 percent at 24.3 percent. On the other hand, the share of saving deposits marked a slight increase of 0.5 percent, compared to the decline of 7.0 percent marked in Q3 2018.

This increase may be a result of the slight increase of the interest rate on saving deposits. Moreover, another factor which had an impact on the increase of household deposits may have been the number of migrants who visited Kosovo during the summer period.

Interest Rates²

The average interest rate on loans in Q3 2019 was 6.4 percent, or 0.2 percentage points lower against the previous year. Conversely, the average interest rate on deposits remained almost the same as in the previous year standing at 1.4 percent. Consequently, the interest rate spread of loans and deposits narrowed down to 5.0 percentage points in this period (5.2 percentage points in Q3 2018) (figure 10).

Figure 10. Interest rate on loans and deposits



Source: CBK (2019)

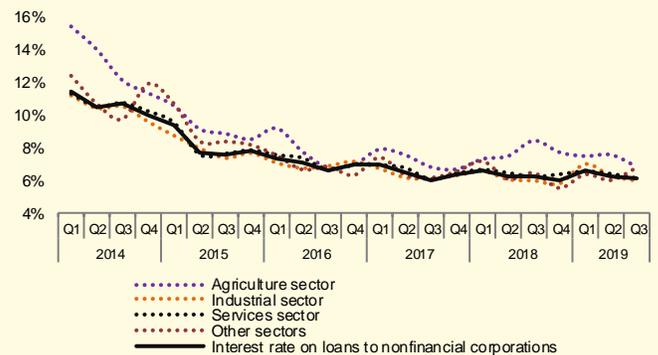
Interest rates on loans

Interest rate on loans to nonfinancial corporations declined by 0.1 percentage points compared to the same

period of the previous year, standing at the average of 6.1 percent (figure 11).

According to the category of loans, with a decline of interest rate were characterized loans for non-investment purposes and loans with favorable conditions (5.95 percent and 2.73 percent, respectively). On the other hand, interest rate on investment loans marked an increase of 0.1 percentage points, reaching the rate of 6.26.

Figure 11. Interest rates on loans to nonfinancial corporations



Source: CBK (2019)

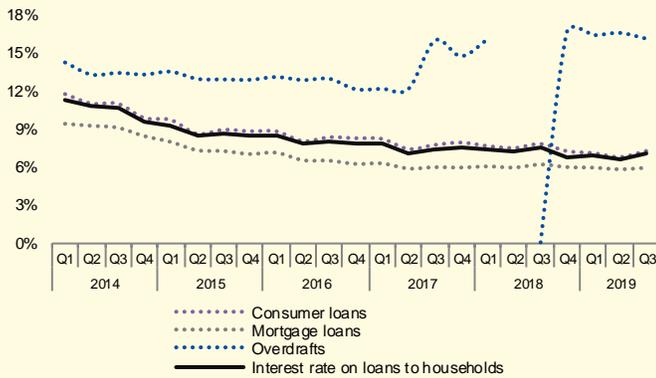
On the sectoral basis, interest rates on loans to agriculture and to services declined for 1.6 percentage points and 0.1 percentage points on quarter basis, standing at the average of 6.8 percent and 6.1 percent, respectively. Whereas, loans to industry sector had unchanged interest rates of 6.0 percent (figure 11).

Interest rates on loans to households continued with a declining trend also in Q3 2019. Average interest rate on mortgage loans declined by 0.3 percentage points in Q3 2018, standing at the level of 5.9 percent. On consumer loans, the average interest rate declined for

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

0.6 percentage points, standing at the level of 7.2 percent (figure 12).

Figure 12. Interest rates on loans to households

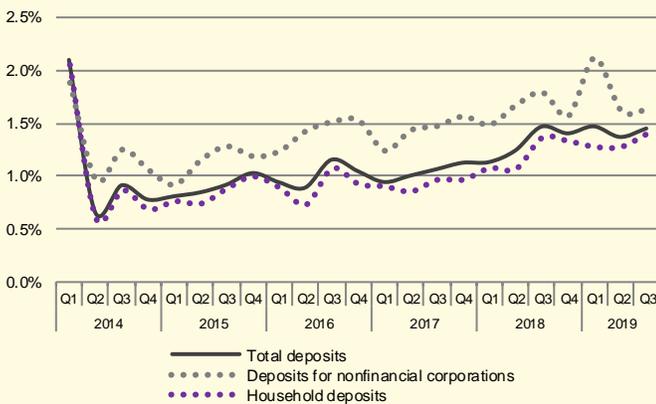


Source: CBK

Interest rates on deposits

Interest rates on deposits did not mark significant changes compared to the previous year. During Q3 2019, the average interest rate on deposits was 1.4 percent and remained almost unchanged compared to Q3 2018, marking a decline of 0.02 percentage points. (figure 13).

Figure 13. Interest rates on deposits

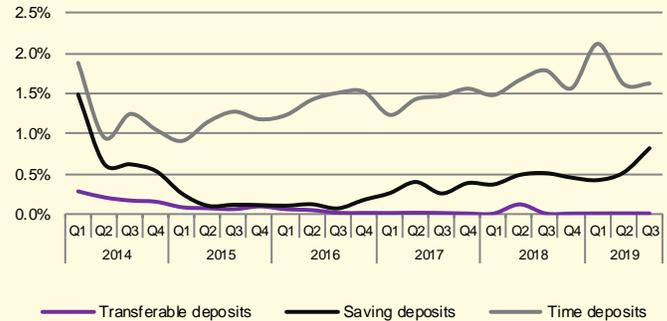


Source: CBK (2019)

Interest rate offered for deposits of nonfinancial corporates continued to be higher compared to the interest rates offered for households. In Q3 2019,

interest rate on nonfinancial corporations deposits marked a decline of 0.2 percentage points, compared to the same period of the previous year.

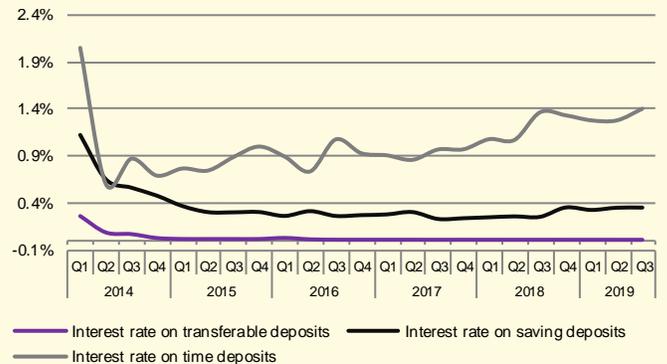
Figure 14. Interest rate on deposits of nonfinancial corporations, by categories



Source: CBK (2019)

This decline reflects the decline of interest rate of time deposits from 1.8 percent to 1.6 percent. On the other hand, interest rates on saving deposits marked an increase of 0.3 percentage points (figure 14).

Figure 15. Interest rates on household deposits, by categories



Source: CBK (2019)

Interest rates on household deposits remained almost the same compared to the previous year, marking slight increase of 0.04 percentage points (figure 15). This increase represents the increase of interest rate on saving deposits for 0.1 percentage points and on time deposits with 0.04 percentage points. Interest

rates on transferable deposits remained almost the same compared to the previous period. 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

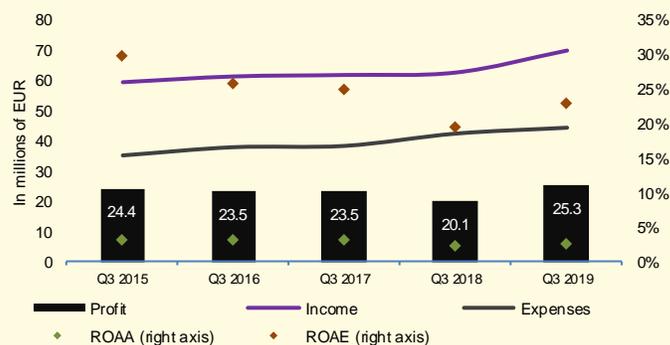
The profit realized during Q3 2019 reached the value of EUR 25.3 million, representing a higher value for EUR 5.2 million compared to the same quarter of the previous year. This realized increased profit during this quarter was mainly attributable to the higher increase of interest income.

The income of the banking sector was characterized with an increase of 11.5 percent compared to the same period of the previous year, mainly as a result of the performance of the interest income (mainly from loans), but also the increase of non-interest income (mainly from fees and commissions) (figure 16).

On the other hand, expenditures of the banking sector, in Q3 2019, marked an increase of 4.7 percent or EUR 2.0 million 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 interest expenditures, which increased for 25.6 percent (from EUR 3.9 million in Q3 2018 to EUR 4.9 million). Moreover, a slight increase was marked also by administrative and general expenses, from EUR 24.5 million in Q3 2018 to EUR 26.8 million. On the other hand, in the category of non-interest expenses, provisions for loan losses marked a decline of EUR 3.8

million, while fees and commissions marked an increase of EUR 0.7 million.

Figure 16. Profit and profitability indicators of the banking sector



Source: CBK (2019)

Expenditures to income ratio, in Q3 2019, declined for 4.1 percentage points compared to the same period of the previous year, mainly as a result of the higher increase of income. Consequently, expenditures to income ratio during this quarter was 63.8 percent, implying that for each single 1 EUR collected, the banking sector spends EUR 0.638. This decline on expenditures to income ratio was reflected also in two other profitability indicators, Return on Average Assets (ROAA), and Return on Average Equity (ROAE), which had marked an increase of 0.4 percentage points and 3.6 percentage points, respectively (figure 16).

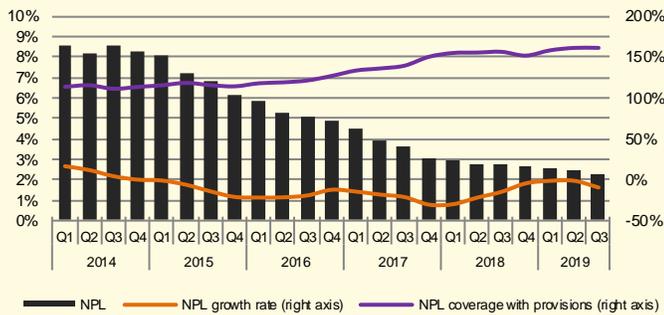
Financial Soundness Indicators

Banking sector continues to be characterized with a further decline of nonperforming loans in the recent years and an improvement of the coverage of loans with loan loss provisions.

Nonperforming loans at the end of September 2019 marked a decline of 0.5 percentage points compared to

the same period of the previous year, dropping down to 2.3 percent (figure 17).

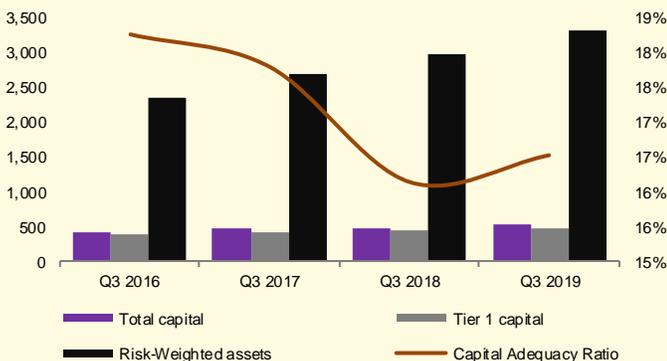
Figure 17. Indicators of credit portfolio quality and NPL growth rate



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

Moreover, the coverage of nonperforming loans with loan loss provisions during this period marked an increase with 4.8 percentage points compared to the third quarter of the previous year, reaching the level of 161.3 percent. This increase was mainly driven by the decline of the level of nonperforming loans and the increase of provisions.

Figure 18. Solvency indicator

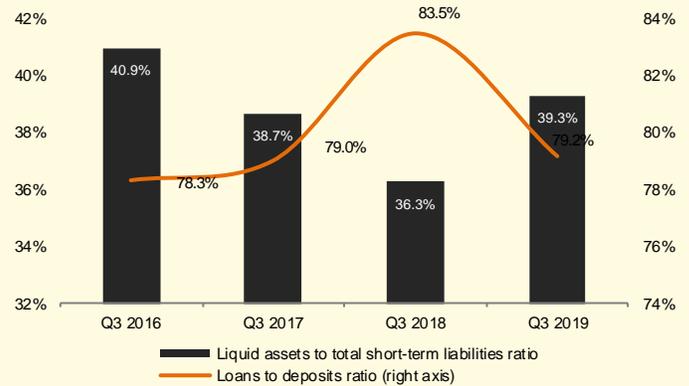


Source: CBK (2019)

The banking sector continues to be well capitalized and sustainable, in Q3 2019. Capital Adequacy Ratio reached at 16.5 percent, at the end of Q3 2019, representing the same level as it was in Q3 2018. The

increase of lending resulted in an increase of 11.0 percent of assets with risk weight, while the regulatory capital marked an increase of 11.3 percent. The base of the regulatory capital of the banking sector is comprised of Tier 1 capital with 89.5 percent, which is mainly comprised by common shares, the profit realized in the period and the profit retained. This implies that the creation of the capital of the banking sector is mainly focused within the banks activities, retaining the profit in the form of equity (figure 19).

Figure 19. Liquidity indicators



Source: CBK (2019)

In this aspect of liquidity, the ratio of liquid assets to short-term liabilities marked an increase of 3.0 percentage points compared to Q3 2018, standing at 39.3 percent. The increase of this indicator was enabled mainly by the increase of liquid assets, namely from cash and balance with other banks. Loans to deposits ratio stood at 79.2 percent, representing a lower level compared to Q3 2018, mainly as a consequence of the accelerated increase of deposits compared to the increase of credit activity (figure 19).

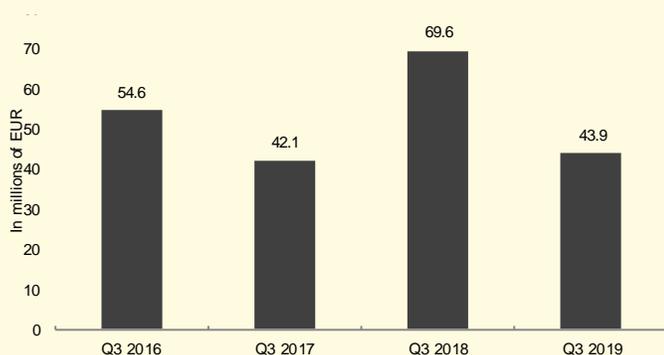
Pension Sector

Pension sector continued to have positive return on investments and an increase of new contributions, which consequently resulted in an increase of assets.

Pension sector comprises 27.3 percent of total assets of the country's financial system, representing the second sector with the importance of the weight in the financial system. The stock value of total assets managed by pension funds marked an annual growth of 8.8 percent, reaching the amount of EUR 1.91 billion at the end of Q3 2019.

On quarter basis, assets of the pension sector expanded by ER 43.9 million, as a result of the increase of collected contributions and return on investments. Along with Q3 2018, the value of total assets for this quarter was lower for EUR 25.7 million, mainly as a result of the value of the return from investments (figure 20).

Figure 20. Assets of the pension sector, quarter change

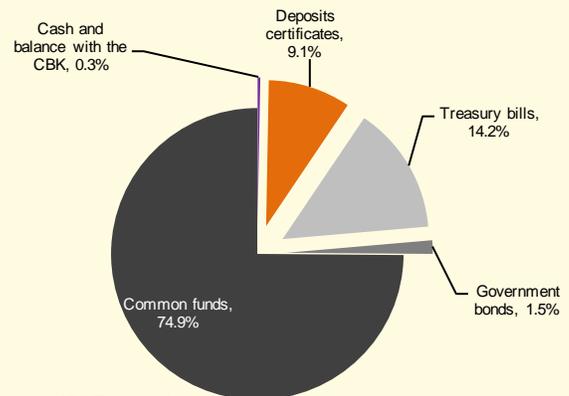


Source: CBK (2019)

KPST comprises 99.6 percent of assets of the sector, whereas SKPF 0.4 percent. KPST assets are mainly invested in the external sector (around 74.9 percent), while the remainder is invested in Kosovo's

Government Securities and deposits certificates (banking sector) (figure 21).

Figure 21. Structure of KPST assets (Q3 2019)

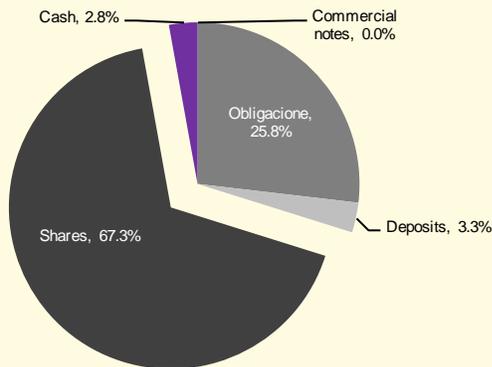


Source: KPSF (2019)

In this quarter, contributions collected by KPST marked a value of EUR 46.0 million, representing an increase of 6.1 percent, compared to the same period of the previous year. Moreover, KPST marked a positive return on investments with a value of EUR 21.8 million (figure 23). This increase came as a result of the performance of investments in external markets and those within the country. Investments in Kosovo's Government Securities during this quarter increased by EUR 34.1 million (in Q3 2018 it was marked an increase of EUR 40.9 million). Compared to Q3 2018, during this quarter, pension funds increased their investments in the form of deposits in commercial banks in the country. . Only in Q3 2019, deposits of the pension funds increased by EUR 28.6 million (in Q3 2018 it was marked an increase of EUR 4.5 million). Focusing on investments in the domestic economy of the country resulted to be a strategy of the pension sector in order to support the domestic sector and to diversify the assets under management.

Assets investments of SKPF, are diversified abroad, in shares and treasury bonds of foreign governments, followed by Kosovo Government's treasury bonds (figure 22). During Q3 2019, SKPF marked a positive gross return on investments with EUR 220.5 thousands (EUR 48.7 thousands Q3 2018). Moreover, SKPF had also new collections in Q3 2019, which amounted to EUR 137.5 thousands (EUR 126.1 thousands in Q3 2018) (figure 23).

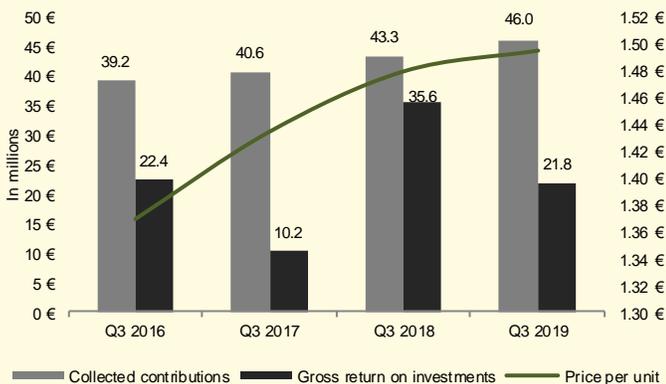
Figure 22. Structure of SKPF assets (Q3 2019)



Source: SKPF (2019)

Regarding the pension sector in general, gross return on investments was EUR 22.04 million, while the contributions collected were EUR 46.08 million, of which 99.7 percent belong to KPST.

Figure 23. Return on investments and KPST performance



Source: KPST (2019)

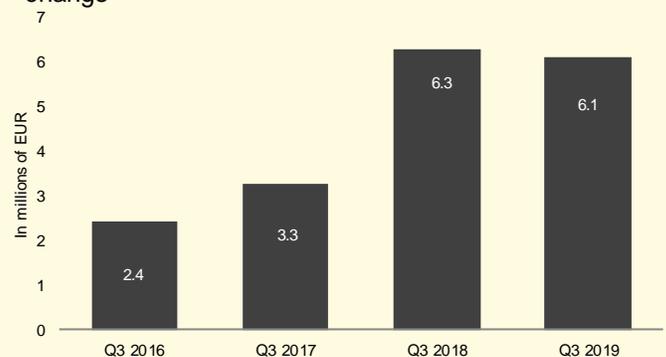
Insurance Sector

Insurance sector, in Q3 2019, marked an increase of the base of assets and the level of written premiums, albeit it was not sufficient, hence, the sector continued to operate with a loss.

Assets in the insurance sector continued their growing trend also in Q3, reaching the value of EUR 196.1 million until the end of September. Only in Q3 2019, total assets of the sector expanded by EUR 6.1 million, albeit compared to Q3 2018 this value was lower for EUR 0.2 million (figure 24).

Within own resources of the sector, during Q3 2019 the capital was characterized with an increase of EUR 4.5 million, reaching the value of EUR 49.8 million at the end of the period. This increase was enabled by the expansion of the shareholders paid capital, and to some extent from the decline of the value of the loss retained from the previous period.

Figure 24. Assets of the insurance sector, quarter change



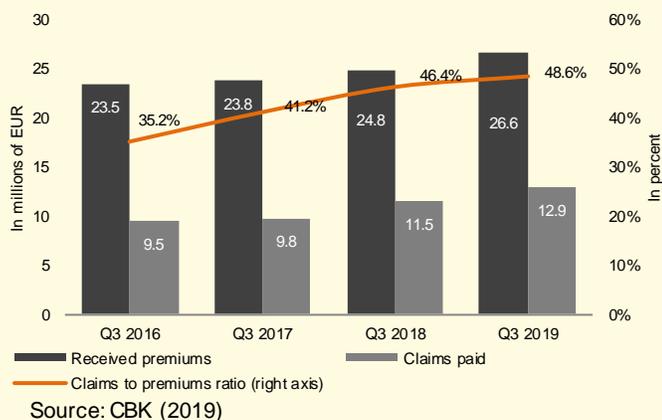
Source: CBK (2019)

Regarding the liabilities of the sector, in Q3 2019, they were characterized with a slower increase against assets, with EUR 1.6 million. A more emphasized increase was marked by reserves for gross premiums,

while reserves for gross claims declined for EUR 0.7 million.

Value of written premiums of insurance companies, during the third quarter of 2019 marked an annual increase of 7.3 percent, or a growth with a value of EUR 26.6 million (figure 25). Premiums of “non-life” category comprise 97 percent of total written premiums, and only in Q3 2019 they increased for EUR 25.9 million. This value is mainly a result of the increase of the amount of the premiums of “third party liabilities” and the number of sold policies in this category. Conversely, premiums of the “life” category comprise 3.0 percent of total written premiums, and only in this quarter increased for EUR 0.8 million.

Figure 25. Written premiums and claims paid



The same as the written premiums, claims paid by the insurance sector (including the Kosovo Insurance Bureau) marked an annual increase of 12.4 percent, reaching the value of EUR 12.9 million in Q3 2019. As a consequence of the higher increase of claims paid compared to the received premiums, during this quarter the ratio of claims to premiums increased by 2.2 percentage points compared to the same period of the previous year, reaching 48.6 percent.

Performance of the Insurance Sector

In Q3 2019, the insurance sector mitigated the value of the loss incurred until the first half of 2019, thus reducing the loss to EUR 0.7 million, from 2.7 million, as it was at the end of Q2 2019. This decline of the loss it was a result of the higher increase of the value of the collected premiums in this quarter compared to the slower increase of the claims paid, as well as, the value of the claims incurred during this period was lower compared to Q3 2018.

Until September 2019, the liquidity of the insurance sector marked a decline compared to the same period of the previous year. One of the liquidity indicator, the cash to its equivalents to technical reserves ratio, declined for 2.6 percentage points against the previous year, declining to 96.1 percent in September 2019. This decline was a result of the slower annual increase of cash and its equivalent (5.8 percent) compared to the annual increase of the technical reserves (8.7 percent). Moreover, another liquidity indicator, the ratio of cash and its equivalent to total liabilities declined at 84.5 percent, or 2.5 percentage points lower compared to the same period of the previous year. Similar to the previous indicator, this decline was a result of the higher annual increase of total liabilities (9.0 percent) along with the cash and its equivalent.

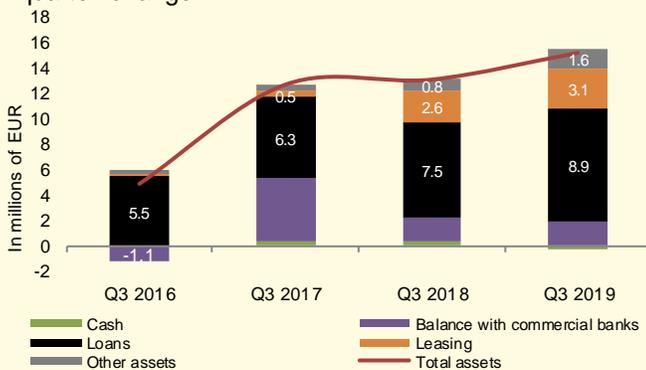
Microfinance Sector

Microfinance sector marked an increase of its activity, in Q3 2019, in the credit activity and in the overall performance realized. Moreover, an increase was marked also in loans with problems, albeit to a lower level.

Assets

Assets of the microfinance sector marked an annual increase of 27.1 percent, reaching a value of EUR 300.3 million, at the end of Q3 2019. On quarter basis, total assets marked an increase of EUR 15.3 million, or EUR 2.1 million more compared to the same period of the previous year. The increase of assets mainly was attributed to the increase of the lending activity with EUR 8.9 million in the reporting period (EUR 1.4 million more compared to the previous year) (figure 26).

Figure 26. Assets of the microfinance sector, quarter change



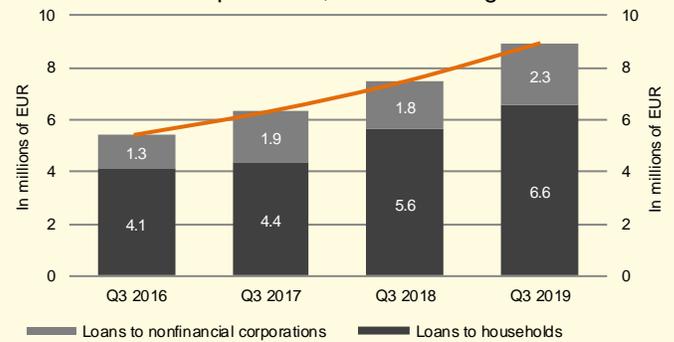
Source: KPST (2019)

Besides this, an increase was marked by leasing and the balance with commercial banks, for EUR 3.1 million and EUR 2.0 million, respectively. Unlikely, cash declined during this quarter, for EUR 0.3 million.

Loans

In the reporting period, a higher increase of lending was marked in household loans. Loans for this category marked an annual increase of 27.3 percent by September 2019, reaching a value of 145.3 million. Only in Q3 2019, loans to households marked an increase of EUR 6.6 million (figure 27).

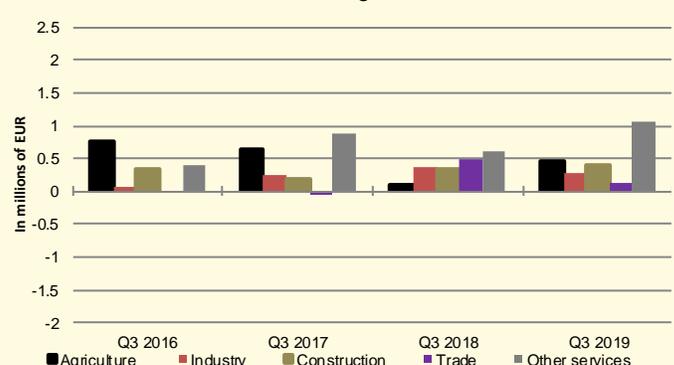
Figure 27. Loans value to households and to nonfinancial corporations, annual change



Source: CBK (2019)

Moreover, also loans to nonfinancial corporations marked an increase during this period, albeit to a lower pace. Only in Q3 2019, they expanded for EUR 2.3 million.

Figure 28. Loans value to nonfinancial corporations, by economic sectors, annual change



Source: CBK (2019)

On the sectoral aspect, on quarter basis, loans to agriculture and other services were characterized with an increase of EUR 0.4 million, whereas loans to construction for EUR 0.1 million. Industry and trade, marked a slower increase compared to the previous period (figure 28).

Leasing

The activity of leasing in the microfinance sector was characterized with an increase in Q3 2019, being mainly driven by households. During this period, total leasing expanded by EUR 3.1 million, reaching the value of EUR 48.3 million until the end of the month of September (figure 29).

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



Source: CBK (2019)

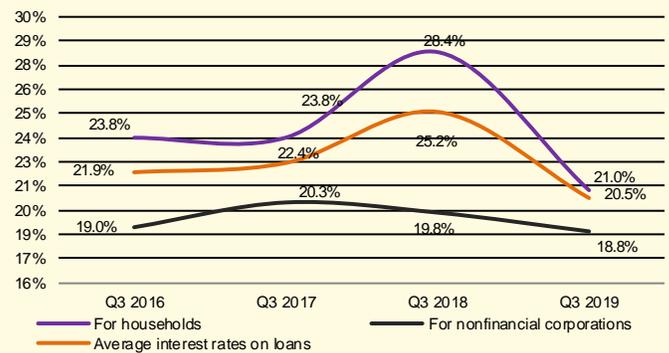
The value of leasing to households increased for EUR 1.6 million in this quarter, and reached the value of EUR 21.9 million at the end of the period. Similarly, also the leasing to nonfinancial corporation increased by EUR 1.5 million in Q3 2019, reaching the value of EUR 26.5 million at the end of the mentioned period.

Interest Rates

The average interest rate on loans during the third quarter of 2019 was 20.5 percent, which compared to

the same period of the previous year, it was for 4.5 percentage points lower (figure 30).

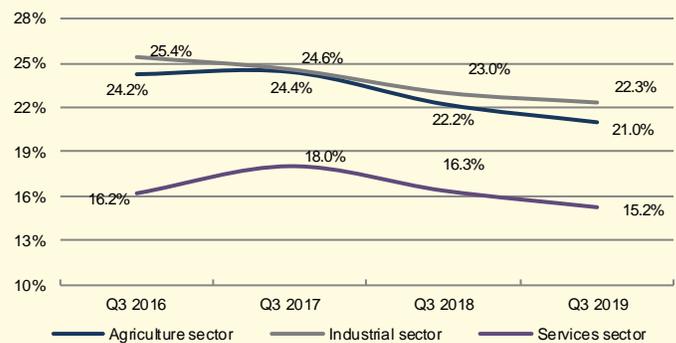
Figure 30. Average interest rate on microfinance sector loans



Source: CBK (2019)

A more significant decline was marked by interest rates applied to households, from 28.2 percent to 21.0 percent. With a significant decline were characterized consumer loans, where the average interest rate on loans declined for 34.3 percentage points compared to Q3 2018.

Figure 31. Average interest rate on loans to nonfinancial corporations, by economic sectors



Source: CBK (2019)

Also, the interest rate on mortgage loans marked a decline of 1.1 percentage points.

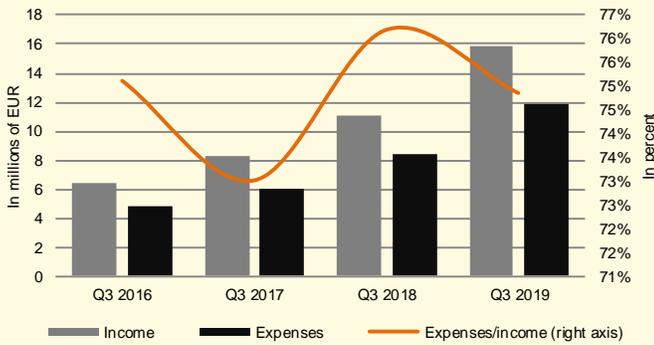
Similar to households, also interest rate on loans to enterprises marked a decline, albeit at a slower pace. In a sectoral aspect, a lower interest rate of loans was

marked in services sector, 15.2 percent, while the highest interest rate was marked in the sector of industry, with 22.3 percent (figure 31).

Performance of the Microfinance Sector

Microfinance sector has continued to be characterized with positive performance also in Q3 2019. During this quarter, income marked an increase of EUR 15.8 million, mainly driven by high interest income (figure 32). Moreover, also expenditures were characterized with an increase of EUR 11.9 million, during this period. The increase of expenditures was mainly a result of the increase of administrative and personnel expenses, and the increase of interest expenses.

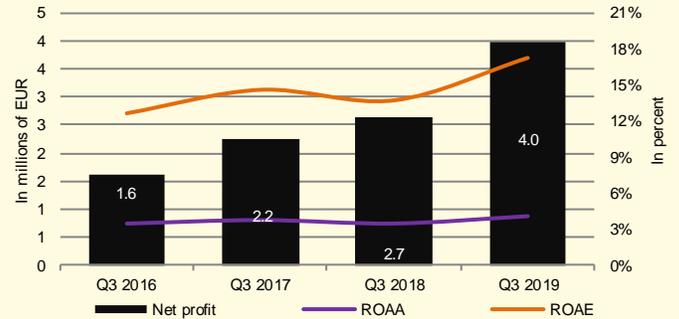
Figure 32. Microfinance sector income and expenditures, in Q3



Source: CBK (2019)

Compared to the same period of the previous year, income marked a higher increase against expenditures, EUR 4.7 million and EUR 3.4 million, respectively. This enabled the net profit of this period to mark an increase of EUR 4.0 million, or EUR 1.3 million more than in Q3 2018 (figure 33).

Figure 33. Profitability indicators of microfinance

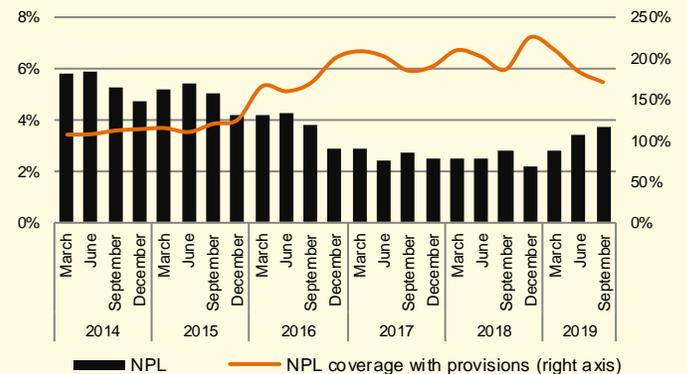


*Profit was annualized for the respective quarter

Source: CBK (2019)

The indicators of the credit quality portfolio in the microfinance institutions show that nonperforming loans continued to stand at low percentage also in this quarter, and are well covered with provisions (figure 34). Despite the fact that comparing with the third quarter of the previous year, the level of nonperforming loans marked an increase of 0.9 percentage points, the level still remained low at 3.7 percent in Q3 2019. Moreover, their coverage with provisions was 170.9 percent, at the end of Q3 2019.

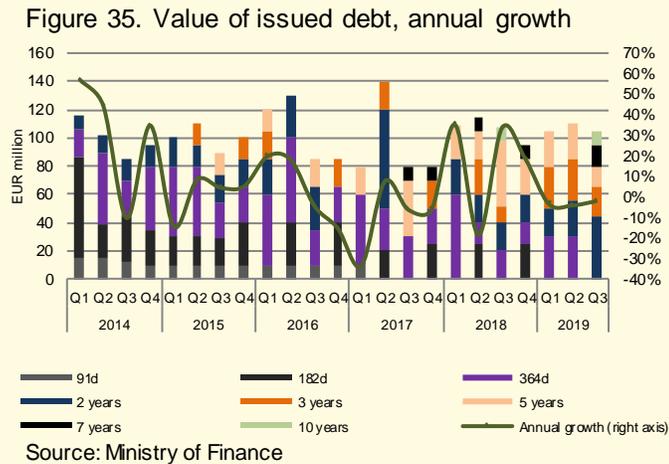
Figure 34. Indicators of credit portfolio quality



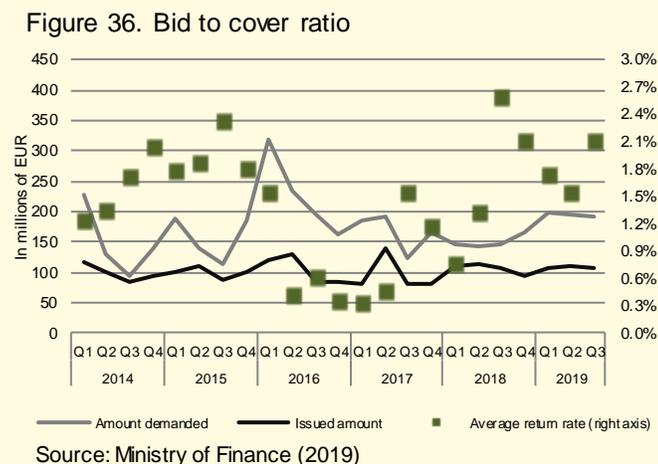
Source: CBK (2019)

Securities Market

In Q3 2019, Kosovo's Government issued debt with a value of EUR 105 million, in an environment where the offer from financial institutions overpassed the amount demanded by the Ministry of Finance.



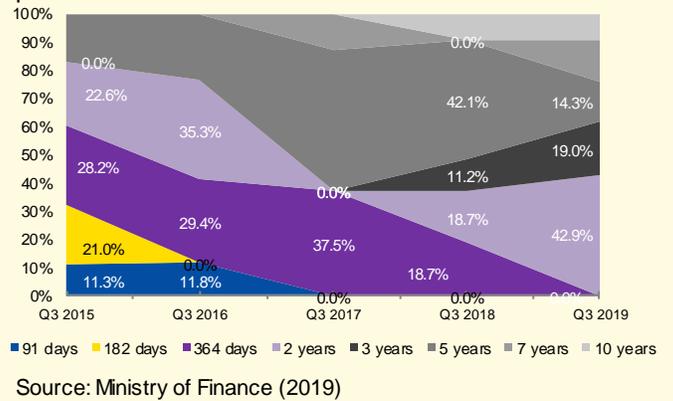
The amount of the debt issued by the Kosovo's Government marked an annual decline of 1.9 percent during Q3 2019 (figure 35).



The issued debt amounted to EUR 105 million, despite the fact that the demand was higher, at the amount of EUR 190.3 million (figure 36).

The average interest rate on securities was 2.11 percent in Q3 2019, representing a lower rate for 0.5 percentage points than in Q3 2018 (figure 36).

Figure 37. Government securities structure, in percent



During Q3 2019, the securities structure of the Government was dominated by government bonds, of which lead those with a maturity of 2 years (figure 37).

The suggested citation of this publication:

CBK (2019): Quarterly Assessment of Financial System No. 28 Q3 2019, Central Bank of the Republic of Kosovo, Prishtina

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Macroeconomic selected indicators

Description	September 2018	September 2019
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	3,066.6	3,245.3
Consumer prices (annual average)	0.7%	3.0%
Consumer prices (end of period)	1.5%	2.4%
Fiscal Sector* 2/		
Budget Revenues (in millions of EUR)	1,289.9	1,379.3
Budget Expenditures (in millions of EUR)	1,290.7	1,340.3
Primary balance (in millions of EUR)	-0.8	39.1
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	6,226.2	7,006.3
of which : Banks	4,033.3	4,577.2
Loans	2,681.1	2,957.2
Deposits	3,210.1	3,735.6
Interest Rates on Loans, end of period	7.0%	6.5%
Interest Rates on Loans, end of period	1.4%	1.5%
Interest rate gap	5.6%	5.0%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-180.8	-76.5
of which: remittances	520.3	553.3
Financial account	-120.5	-0.5
Foreign Direct Investmentsin Kosovo	162.1	199.2
Portfolio investments, net	-31.6	-59.5
Other investments, net	-192.2	-123.1
International Investment Position (PNI), net*	-257.1	-452.4
Assets	4,755.3	4,912.3
Liabilities	5,012.4	5,364.7
External debt, total*	2,072.2	2,141.7
Private external debt	1,575.6	1,649.9
Public external debt	496.7	491.7

Source:

1/ KAS (2019).

2/ MF (2019).

3/ CBK (2019).

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

