



Summary

According to the estimates of Kosovo Agency of Statistics (KAS), real GDP growth rate marked an annual increase of 4.3 percent, until September 2019, which basically was supported by the recovery of net exports. Due to the lack of official data for Q4 2019, being relied on other more frequent published indicators, the economic growth during this quarter is estimated to have been weaker compared to other previous quarters of 2019. These estimates are supported by not so favorable developments in the external sector (the decline of export of goods and services, and the decline of Foreign Direct Investments (FDI), the accelerating increase of imports, etc.) and the decline of new consumer and investment loans.

Assets of financial system continued to expand also in the last quarter of 2019, reaching the value of EUR 7.2 billion in December. The expansion of the activity of the financial system, in Q4 2019, was enabled mainly by the banking and pension sectors, which at the same time have the highest weight to total assets of the system. The banking sector expanded its activity, in Q4 2019, primarily being supported by the higher level of collected deposits, which represent the main source of financing the credit activity. During Q4 2019, lending to nonfinancial corporations marked a significant increase compared to lending to households.

Also in Q4 2019, the performance of the banking sector was satisfactory, generating a net profit of a value of EUR 20.6 million. However, compared to the same period of the previous year, the banking sector has marked a decline of the profit as a result of the income decline (mainly from non-interest), while the level of incurred expenditures has remained almost the same. The indicators of credit portfolio also in Q4 2019 were of a satisfactory level, with low level of nonperforming loans and an increase of coverage level of provisions. Moreover, also the

indicators of solvency and liquidity stand above the minimal level as recommended by the regulations, which show that the trade is well capitalized and liquid.

The pension sector, as the second sector by the weight of importance in the financial system, during this quarter continued to have an increase of assets, mainly as a result of collected contributions and positive return on investments. The assets structure of pension sector mainly consists of assets invested abroad (75.2 percent) and assets invested in the country, namely in securities and deposits certificates (23.3 percent).

Insurance sector during this quarter was characterized with a negative performance, despite the increase of the value of written premiums. Similarly as the written premiums, also the claims paid by sector marked an increase, consequently resulting in a negative performance during this period. The higher loss realized compared to the previous quarter was as a consequence of the higher increase of claims (paid and incurred claims) along with the increase of written premiums.

Microfinance sector was characterized with a slower increase of its activity in Q4 2019, compared to the same period of the previous year, as a consequence of the slower increase of lending, especially for households. The sector realized a quite high level of net profits in this quarter, while the level of loans with problems at the end of the period (December 2019) has marked an increase compared to the previous period (December 2018), albeit remains at quite low levels and well provisioned.

In the securities market, the amount of the debt issued by the Kosovo's Government reached the value of EUR 40 million, which is significantly lower than in Q4 2018. This is a consequence of the lower demand of the Government, as the supply of the main participants of the securities market exceeded the amount that was demanded.

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ABBREVIATIONS

RWA	Risk-Weighted assets
KAS	Kosovo Agency of Statistics
GDP	Gross Domestic Product
CBK	Central Bank of the Republic of Kosovo
CHF	Swiss Franc
SEE	Southeastern Europe
EUR	Euro currency
IMF	International Monetary Fund
GBP	British Pound
FDI	Foreign Direct Investments
NPL	Nonperforming loans
ROAA	Return on Average Assets
ROAE	Return on Average Equity
MF	Ministry of Finance of the Republic of Kosovo
REER	Real Effective Exchange Rate
CAR	Capital Adequacy Ratio
USD	American Dollar
WEO	World Economic Outlook

Macroeconomic Developments¹

According to the estimates of Kosovo Agency of Statistics (KAS), real GDP growth rate marked an annual increase of 4.3 percent, until September 2019, which basically was supported by the recovery of net exports. The highest increase was marked by financial and insurance activities (14.7 percent), followed by the processing industry (7.2 percent), construction (6.8 percent) and trade (6.2 percent). Due to the lack of official data for Q4 2019, being relied on other more frequent published indicators, the economic growth during this quarter was weaker compared to other previous quarters. These estimates are supported by not so favorable developments in the external sector, which was characterized with a decline of export and an accelerating increase of import of goods. In addition, also new consumer loans and investment loans marked a decline.

The price level of consumption, until December 2019, increased by 2.7 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 0.3 percent or 2.3 percentage points lower compared to the general inflation.

Fiscal sector, by December 2019, was characterized with an increase of revenues with 7.5 percent and a slowdown increase of budgetary expenditures of 7.2 percent. Consequently, Kosovo's budget recorded a primary budget deficit of EUR 168.4 million (a deficit

of EUR 162.7 million marked in the same period of 2018).

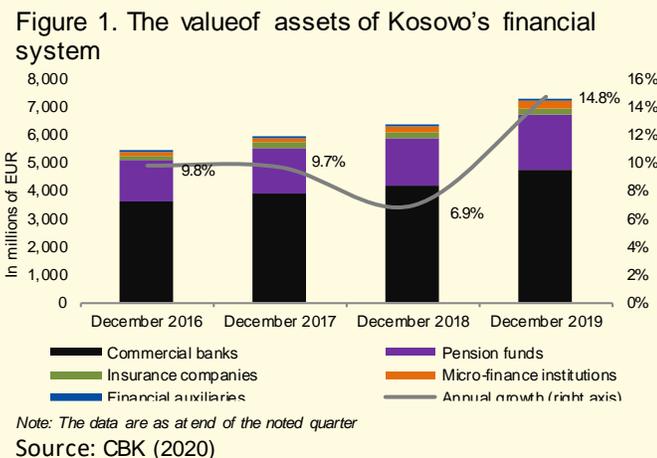
Public debt until December 2019 reached EUR 1.2 billion which is for 9.9 percent higher than the public debt marked in 2018. As a percentage to GDP, public debt reached 17.5 percent from 17.1 percent as it was in December of 2018.

Until December 2019, the external sector was characterized with a decline of the current account deficit of 23.0 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 a slowdown increase. Within the balance of payments, remittances and Foreign Direct Investments marked an annual increase of 6.4 percent and a decline 2.1 percent, respectively.

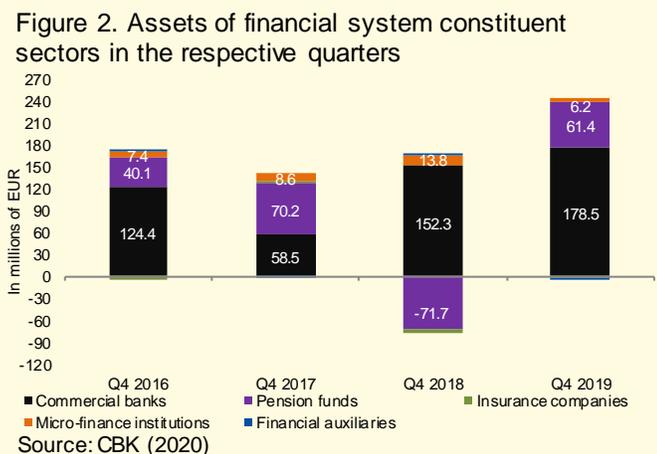
¹For more information on macroeconomic developments, please refer to: "Quarterly Assessment of Macroeconomic Developments" (Q4 2019) published on the CBK website.

Financial System

Assets of financial system in Kosovo marked an accelerated increase of its activity in 2019, reaching the value of EUR 7.25 billion at the end of the fourth quarter of 2019 (figure 1).



On quarter basis, financial system assets expanded by EUR 243.2 million, primarily with a contribution of the banking sector (EUR 178.5 million) and of the pension sector (EUR 61.4 million) (figure 2).



The highest contribution the growth of assets of the banking sector was marked by the increase of lending activity, enabled by the continuous growth of deposits. In the pension sector, the collected contributions and

the satisfactory return from investments gave a contribution to assets increase.

Banking Sector

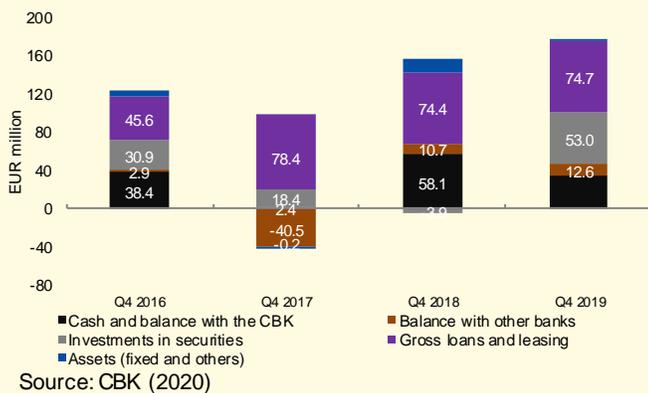
During this quarter, the banking sector continued to have an increasing trend of its activity and a good financial performance. Crediting activity continued to expand with a similar pace as in Q4 2018, and unlike in the previous period there was marked a recovery of investments in securities. Deposits, as the main source of financing the banking activity, marked a considerable increase in Q4 2019. The sector continued to be sustainable, profitable, and with high quality of credit portfolio.

Assets

Assets of the banking during fourth quarter of 2019, expanded by EUR 178.5 million, thus reaching a value of EUR 4.75 billion at the end of the period. This increase was mainly enabled by the credit activity expansion, which comprises around 64 percent of assets of the banking sector. On quarter basis, the category of loans expanded for EUR 74.7 million, a value which is to some extent higher compared to the same period of the previous year (EUR 74.4 million) (figure 3). A considerable increase compared to the same period of the previous year was marked by securities investments, which on quarter basis increased by EUR 53.0 million (EUR -3.9 million in Q4 2018). This increase came as a result of the expansion of investments in the external market, because investments in securities market are following an

increasing trend for the fourth consecutive year. In Q4 2019, the category of cash and balance with the CBK and the one of the balance with commercial banks marked an expansion of EUR 35.1 million and EUR 12.6 million, respectively.

Figure 3. Banking sector assets structure in the respective quarters

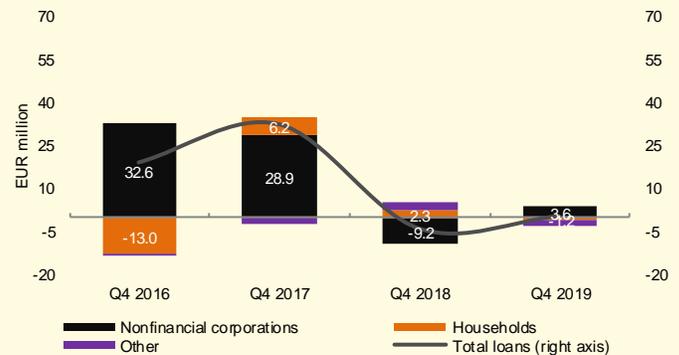


Loans

crediting activity of the banking sector continued to be characterized with an increase in Q4 2019, reaching a value of EUR 3.0 billion at the end of the period. Total loans portfolio in 2019 expanded for 10.0 percent, where the main contribution was given by the increase of the nonfinancial corporations with 9.8 percent, while loans to households marked an annual growth of 10.4 percent. The general increase of the lending activity was mainly driven by the increase of the demand for loans and the improvement of lending conditions. Only in Q4 2019 loans marked an increase of EUR 74.7 million (EUR 74.4 million in Q4 2018). Loans to nonfinancial corporations increased by EUR 52.0 million, whereas loans to households marked an increase of EUR 24.2 million on quarter basis.

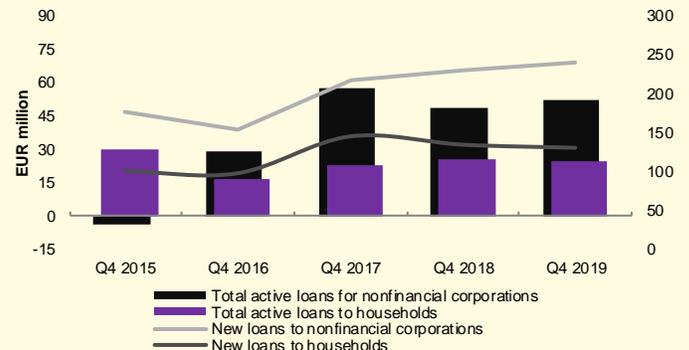
The annual change of credit activity in Q4 2019 and Q4 2018 was EUR 0.4 million (figure 4).

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



The category of nonfinancial corporations had the highest level of increase (EUR 3.6 million), while the category of households marked a decline on quarter basis (EUR -1.2 million).

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

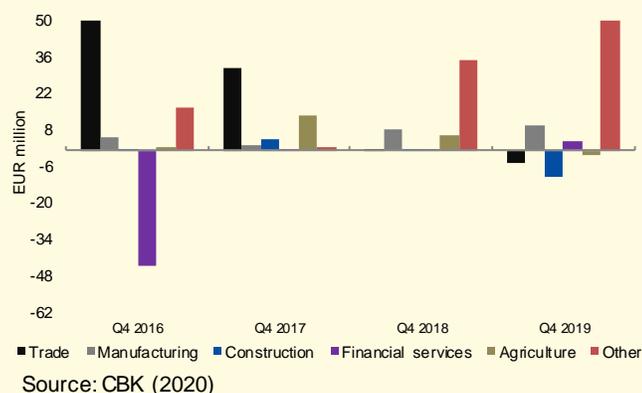


On quarter basis, based on economic activities, lending to manufacturing sector and mining marked the most significant increase, while lending to hotel services and financial services was characterized with a more slight increase (figure 6).

In Q4 2019, lending to manufacturing sector increased by EUR 10.0 million, to mining by EUR 17.5 million, to hotel services by EUR 5.1 million, and financial services by EUR 3.9 million. Compared to the same period of the previous year, the highest increase was

marked by mining sector, with EUR 16.5 million, followed by financial services sector with EUR 3.8 million, hotels and restaurants with EUR 3.0 million, and manufacturing with EUR 1.8 million.

Figure 6. Credit structure by economic activity



Conversely, lending to construction sector marked a decline of EUR 9.9 million, to trade sector declined by EUR 4.6 million, lending to agriculture declined by EUR 1.7 million. The decline of lending to agriculture and construction sector may be associated to seasonal effects, since there is a decline by these sectors during the last quarters of the year. Whereas, the decline of lending to trade sector was affected, among others, by the set of the tariff of 100 percent on products originating from Serbia and Bosnia and Herzegovina. By the end of December 2019, the total value of new loans reached EUR 1.4 billion, whereas only in Q4 2019 amounted to EUR 370.0 million. New loans marked a slight increase of 1.5 percent in this quarter in this quarter, an increase mainly supported by loans to nonfinancial corporations (4.1 percent) (figure 5). The value of new loans to nonfinancial corporations during Q4 2019 reached EUR 240.4 million, of which EUR 144.2 million designated to investments, while EUR 91.1 million for non-investments purposes. On the

sectoral aspect, new loans to agriculture marked an increase of 1.0 million compared to Q4 2018, reaching the value of EUR 7.5 million only in Q4 2019. In addition, an increase was marked by new loans to services sector and industry sector, which reached the value of EUR 118.3 million and EUR 82.0 million, respectively, in Q4 2019.

Conversely, loans to households despite reaching the value of EUR 129.7 million in Q4 2019, compared to the same period of the previous year these loans declined by EUR 3.9 million. By main categories, the value of mortgage loans reached EUR 27.5 million, marking an increase of EUR 3.1 million compared to Q4 2018. On the other hand, the value of consumer loans reached 89.1 million, in Q4 2019, thus marking a decline of EUR 6.4 million compared to the same quarter of the previous year.

Liabilities and Own Resources

The structure of liabilities and own resources is comprised of deposits (82.2 percent), which only in Q4 2019 expanded by EUR 172.5 million (figure 7). The stock of deposits marked an annual increase of 16.2 percent, reaching a value of EUR 3.91 billion, at the end of period. Moreover, also own resources expanded during Q4 2019, albeit at a slower pace, mainly as a result of the dividends of the banks during this quarter. The annual increase of own resources was 4.5 percent, and the stock at the end of the period amounted to EUR 520.2 million.

In addition, also the category of other borrowing and the balance with commercial banks marked an increase on quarter basis, with a value of EUR 24.1 million and EUR 7.0 million, respectively. However,

considering the annual basis report the stock of balance from commercial banks marked a decline from EUR 41.3 million to EUR 67.0 million at the end of December 2019, whereas the category of other borrowings marked an increase of EUR from 28.0 million to EUR 42.1 million at the end of December 2019. The decline of the balance with commercial banks is a consequence of the decline of different credit lines from banks abroad, primarily parent banks. Whereas, the increase of the category of other borrowings is a result of receiving loans from other financial institutions (non-bank institutions).

Figure 7. Structure of liabilities and own resources



Source: CBK (2020)

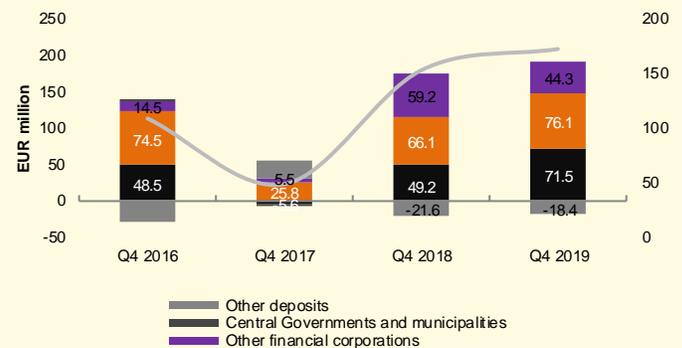
Conversely, subordinated debt and other obligations marked a decline of EUR 18.0 during and EUR 13.1 million, respectively, in Q4 2019.

Deposits

The value of total deposits until December 2019 reached a value of EUR 3.91 billion, representing an annual increase around 16.2 percent. On quarter basis, deposits continued to increase also in Q4 2019, reaching the value of EUR 172.5 million in this period, a value which is higher than the one marked in the same period of the previous year (EUR 152.8 million).

Household deposits increased by EUR 76.1 million, reaching the value of EUR 2.60 billion at the end of the period (December 2019) (figure 8). Similarly, also nonfinancial corporations marked an expansion of the value of EUR 71.5 million, in Q4 2019, reaching the value EUR 747.6 million at the end of the period (December 2019). According to categories, transferable deposits marked a significant increase of EUR 133.0 million (EUR 88.0 million in Q4 2018) on quarter basis, whose stock reached the value of EUR 2.38 billion at the end of the period (December 2019) (figure 9).

Figure 8. Total deposits value and main categories in Q4



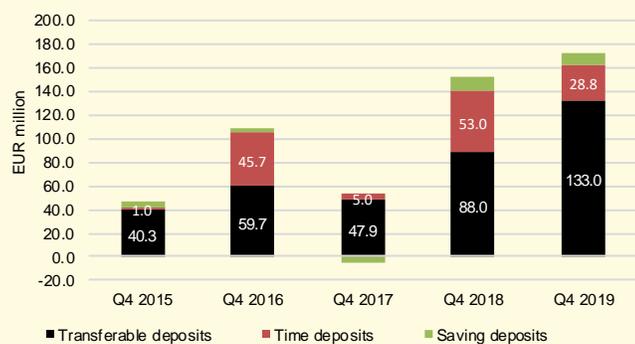
Source: CBK (2020)

More over, also time deposits and saving deposits expanded during this quarter, albeit compared to the same period of the previous year these deposits were at lower levels.

The value of time deposits on quarter basis expanded by EUR 28.8 million, while saving deposits increased by EUR 10.6 million (EUR 53.0 million and EUR 11.9 million, respectively, in the same period). Transferable deposits continued to have the highest share to total deposits of the sector (60.9 percent), followed by time deposits (26.2 percent) and saving deposits (12.9 percent).

New deposits, in Q4 2019 expanded for EUR 165.3 million, of which EUR 82.9 million belonged to nonfinancial corporations and 82.4 million were of households.

Figure 9. Deposits structure during the reporting periods



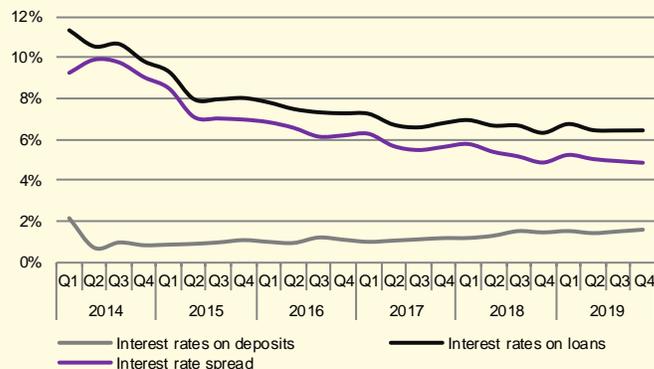
Source: CBK (2020)

Despite that fact that the interest rates on new deposits increased slightly compared to Q4 2018, the value of new deposits in this quarter was lower for EUR 10.4 million compared to the previous period.

Interest Rates²

The average interest rate on loans in Q4 2019 was 6.4 percent, or 0.1 percentage points higher against the previous year. Similarly, the average interest rate on deposits marked an increase of 0.1 percentage points, reaching 1.5 percent. Consequently, the interest rate spread of loans and deposits narrowed down to 4.9 percentage points, representing the same level as in Q4 2018 (figure 10).

Figure 10. Interest rate on loans and deposits



Source: CBK (2020)

Interest rates on loans

The average interest rate on loans in Q4 2019 for nonfinancial corporations was 6.2 percent, or 0.2 percentage points higher against the previous year (figure 11).

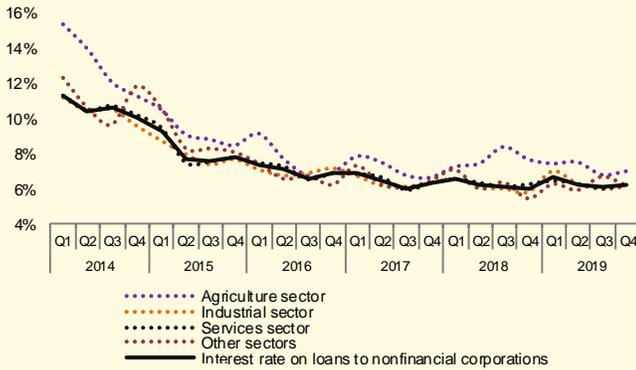
As regards to loans category, the interest rates on investment loans was slightly higher (6.3 percent) while the interest rate on non-investment loans was lower (6.2 percent). Compared to the same period of the previous year, there was observed an increase in interest rates on investment loans from 6.0 percent to 6.3 percent. Conversely, it was noticed a slight decline of interest rates on non-investment loans from 6.3 percent to 6.2 percent.

In sectoral term, the interest rate on agricultural loans marked a decline of 0.7 percentage points on quarter basis, reaching an average of 7.1 percent. On the other hand, interest rate on industry loans marked an increase of 0.3 percentage points, reaching an average rate of 6.1 percent. Whereas, the interest rate on loans

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

to services sector stood at the same level of 6.3 percent (figure 11).

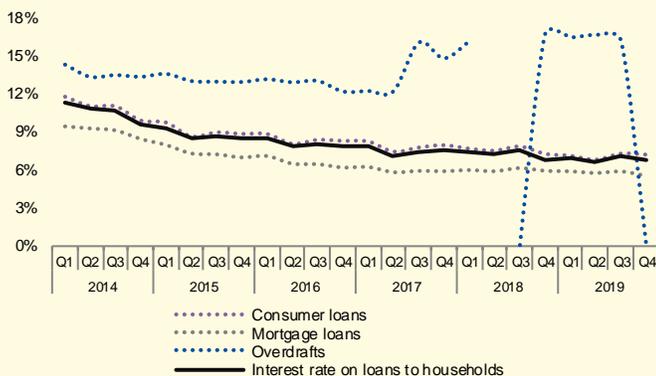
Figure 11. Interest rates on loans to nonfinancial corporations



Source: CBK

Concerning household loans, the interest rate stood at 6.8 percent, representing the same level as in the same period of the previous year. A higher interest rate was on consumer loans (7.1 percent), which compared to the previous year this rate was lower for 0.1 percentage points. In addition, interest rate on mortgage loans marked a decline in this quarter (from 5.9 percent in Q4 2018 to 5.5 percent in Q4 2019) (figure 12).

Figure 12. Interest rates on loans to households

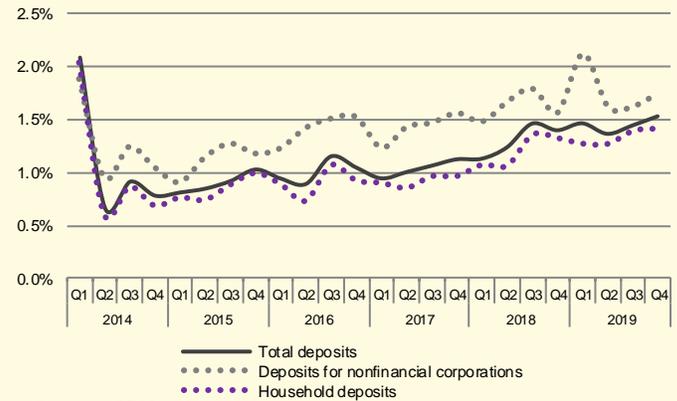


Source: CBK

Interest rates on deposits

The average interest rate on deposits marked a slight increase of 0.1 percentage points in Q4 2019 compared to the same period of the previous year. The average interest rate on deposits was 1.5 percent during this quarter (figure 13).

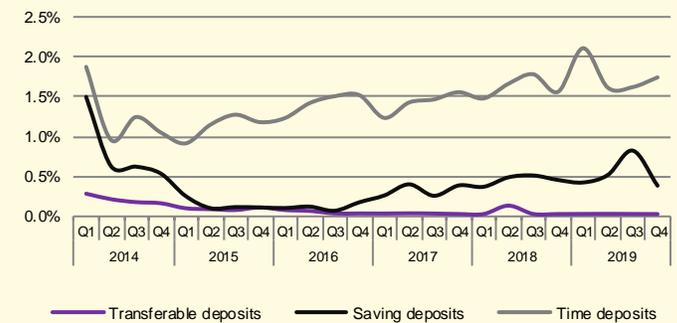
Figure 13. Interest Rates on Deposits



Source: CBK (2020)

Interest rate on nonfinancial corporations continued to be higher also in this quarter. Compared to Q4 2018, the interest rate on nonfinancial corporation deposits marked a decline of 0.2 percentage points, reaching the level of 1.8 percent in the last quarter of 2019.

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

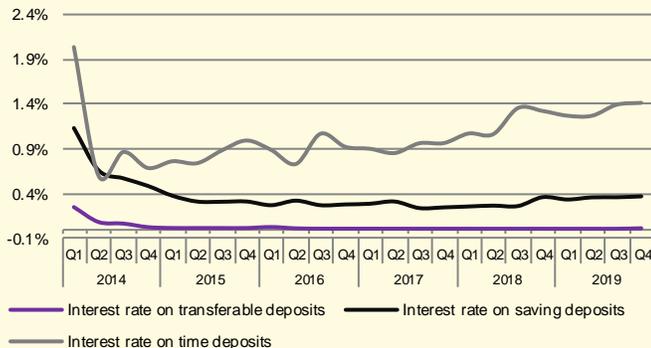


Source: CBK (2020)

More specifically, this increase came as a result of the increase of interest rate on time deposits from 1.6

percent in Q4 2018 to 1.8 percent in Q4 2019. Interest rate on transferable deposits and saving deposits remained at the same level (figure 14).

Figure 15. Interest rates on household deposits, by categories



Source: CBK (2020)

Interest rates on household deposits marked an annual increase of 0.1 percentage points in Q4 2018, reaching the rate of 1.4 percent (figure 15). This came as a result of the rate increase of time deposits of 0.1 percentage points. Interest rate on saving deposits remained at the same level of 0.4 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

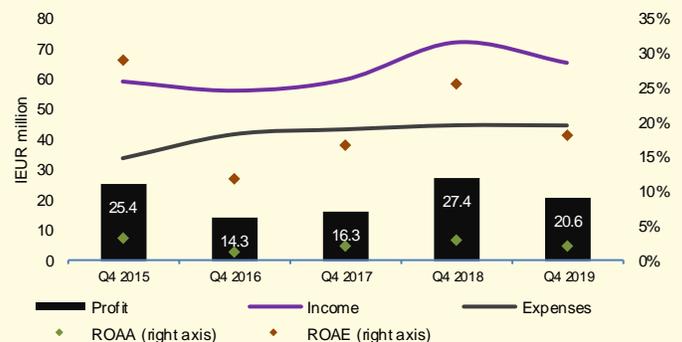
Also in this quarter, the performance of the banking sector was satisfactory, generating a profit with a value of EUR 20.6 million only in Q4 2019, while for the whole year of 2019 the profit reached EUR 86.2 million. However, compared to Q4 2018, net profit for this quarter marked a decline of EUR 6.8 million (figure 16). This decline was a result of the income decline of the sector of EUR 6.8 million, namely the decline of

non-interest income of EUR 6.4 million. In addition, also interest income marked a decline on quarter basis by EUR 2.0 million.

Similarly as the income, also expenditures of the banking sector were characterized with a decline, albeit at lower levels (a decline of EUR 0.1 million) compared to the same period of the previous year. The low quarterly change to total expenditures came as a result of the decline of general and administrative expenditures (for EUR 2.5 million) which neutralized the increase of interest and non-interest expenditures (an increase of EUR 1.5 million each of the categories).

In Q4 2019, expenditures to income ratio was at the rate of 68.4 percent, or 6.4 percentage points higher compared to the same period of the previous year. This increase came as a result of a more significant decline of income along with the low decline of expenditures.

Figure 16. Profit and profitability indicators of the banking sector



Source: CBK (2020)

This ratio indicates that the banking sector spends EUR 0.684 for 1 EUR earned. Further more, these changes reflected also in two profitability indicators, Return on Average Assets (ROAA) and Return on Average Equity (ROAE), which declined by 1.0

percentage points and 7.4 percentage points, respectively, on quarter basis (figure 16).

Financial Soundness Indicators

The indicators of credit portfolio quality also in Q4 2019 were at a satisfactory level, with low level of nonperforming loans (KJP) and an increase of coverage level of provisions. Nonperforming loans at the end of September 2019 marked a decline of 16.0 percent compared to the same period of the previous year, dropping down to 2.0 percent (figure 17). This level of NPL represents the lowest level by now, and is well covered with provisions.

The coverage of nonperforming loans with loan loss provisions at the end of December 2019 marked an increase of 11.4 percentage points compared to the end of the previous year, reaching the level of 163.5 percent.

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



Note: The data are as at end of the noted quarter
Source: CBK (2020)

This increase was enabled by the significant decline of the value of nonperforming loans along with the decline of the level of provisions for loans.

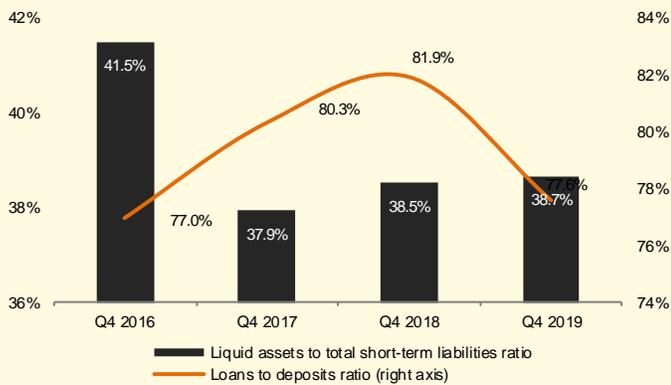
Figure 18. Solvency indicator



Source: CBK (2020)

The banking sector continues to be well capitalized and sustainable also during Q4 2019. During this period, the Capital Adequacy Ratio was at the level of 15.9 percent, representing a lower level for 1.1 percentage points than in the same period of the previous year (figure 18). Although standing slightly at lower level, this indicator remained at satisfactory level and above the required regulatory capital. The high credit activity level that characterized the year of 2019 had an impact on the increase of risk weighted assets, which marked an annual increase of 11.5 percent. Conversely, regulatory capital marked an annual increase of 4.5 percent, albeit at lower level compared to risk weighted assets, as a result of the distribution of the dividend in 2019. The base of the regulatory capital of the banking sector is comprised of Tier 1 capital with 89.4 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 18).

Figure 19. Liquidity indicators



Source: CBK (2020)

Concerning the liquidity, the liquid assets to short-term liabilities ratio marked a slight increase of 0.2 percentage points compared to Q4 2018, standing at 38.7 percent. The increase of this indicator was enabled mainly by the increase of liquid assets, namely from cash, balance with the CBK and the balance with other banks. Loans to deposits ratio stood at 77.6 percent, representing a lower level for 4.4 percentage points compared to Q4 2018, mainly as a consequence of the accelerated increase of deposits (an annual increase of 16.2 percent) compared to the increase of credit activity (an annual increase of 10.0 percent) (figure 19).

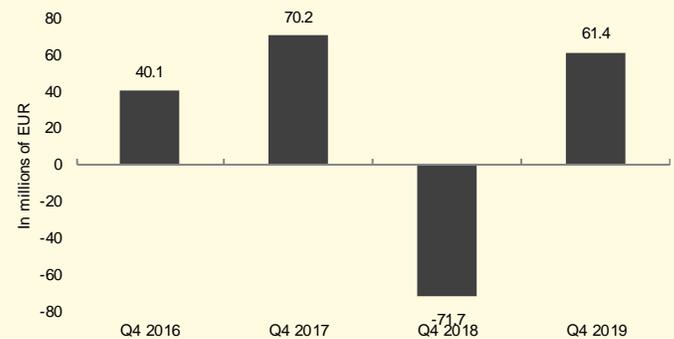
Pension Sector

pension sector marked an increase of new contributions and positive return on investments, and as a result also an increase of assets.

Pension sector as the second sector by importance of weight in the financial system, which comprises 27.3 percent of total assets of the financial system in the country. Total assets of the pension sector marked an annual increase of 17.0 percent and their value reached EUR 1.98 billion at the end of the period in 2019. On

quarter basis, only in Q4 2019, assets of the pension sector expanded by ER 61.4 million, as a result of the increase of collected contributions and positive return on investments (figure 20).

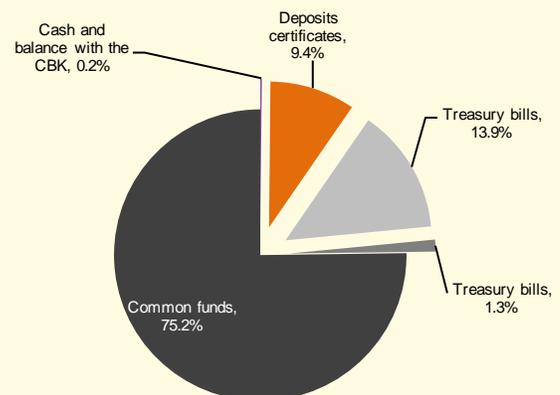
Figure 20. Assets of the pension sector, quarter change



Source: CBK (2020)

Assets of the pension sector consist of 99.6 percent which belong to Kosovo Pension Saving Trust (KPST) and 0.4 percent of assets accounted for Slovenian-Kosovo Pension Fund (SKPF). KPST assets structure is mainly comprised of assets invested abroad allocated in common investment funds (75.2 percent), assets invested in Kosovo's Government Securities (15.2 percent), deposits certificates in the banking sector (9.4 percent), and in cash (0.2 percent) (figure 21).

Figure 21. Structure of KPSF assets (Q4 2019)



Source: KPSF (2020)

During this quarter, KPST assets expanded by EUR 61.2 million mainly as a result of the increase of investments abroad whose value was EUR 52.3 million (EUR -269.6 million in Q4 2018). Besides investments abroad, also investments in deposits in the commercial banks operating in Kosovo marked an increase on quarter basis for EUR 11.6 million (EUR 64.0 million in Q4 2018). Despite the annual growth marked by investments in Government Securities, on quarter basis they marked a decline of EUR 295.7 thousands (EUR 15.9 million in Q4 2018).

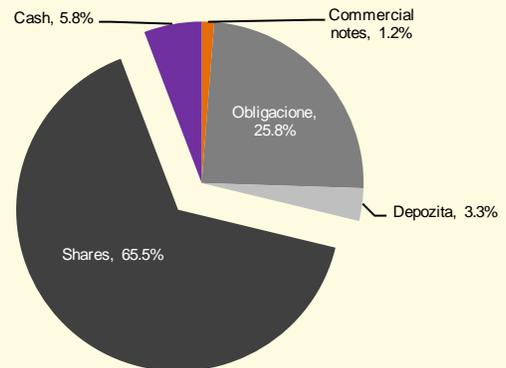
Assets structure of SKPF is mainly comprised of shares invested abroad (65.5 percent), bonds of foreign governments and of Kosovo's government (24.3 percent) and other assets in the form of cash and deposits (figure 22). Total assets of SKPF, in Q4 2019, expanded by EUR 289.1 thousands mainly as a result of the increase of the investments abroad in commercial notes and shares. In addition, also investments in the form of deposits in commercial banks operating in Kosovo and in Government securities expanded on quarter basis.

During Q4 2019, SKPF marked a good performance of investments, realizing gross positive return from investments of a value of EUR 269.0 thousands (EUR -446.8 thousands in Q4 2018). Moreover, SKPF had registered new collections in Q4 2019, which amounted to EUR 153.0 thousands (EUR 138.3 thousands in Q3 2018).

In this quarter, contributions collected by KPST increased by EUR 50.1 million, representing an increase of 9.2 percent, compared to the same period of the previous year. Moreover, KPST marked a positive

return on investments with a value of EUR 23.4 million (figure 23).

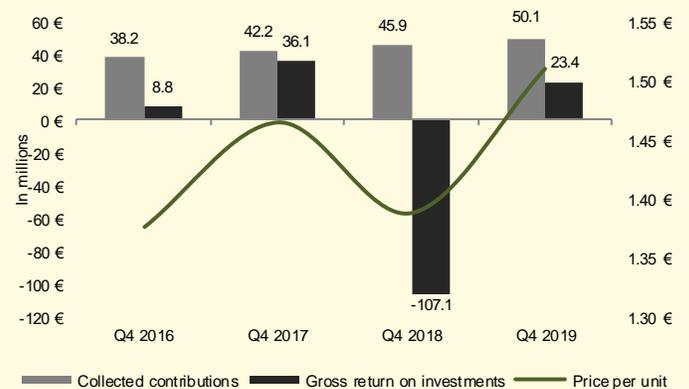
Figure 22. Structure of SKPF assets (Q4 2019)



Source: SKPF (2020)

This increase came as a result of the performance of investments in external markets.

Figure 23. Return on investments and KPSF performance



Source: KPSF (2020)

Regarding the pension sector in general, gross return on investments was EUR 23.6 million, while the contributions collected were EUR 50.2 million, of which 99.7 percent belong to KPST.

Insurance Sector

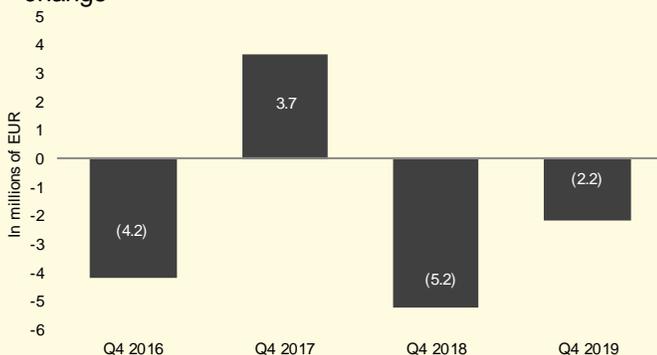
The insurance sector during this quarter marked a decline of assets value, an increase of the level

of written premiums, where the higher increase of claims paid, had an effect on the negative financial performance.

Assets of the insurance sector, in the fourth quarter of 2019, decreased by EUR 2.2 million, thus reaching a value of EUR 193.9 million as at end of period (December 2019). This total decline of assets was affected by the decline of borrowings and of assets collected, and from the decline of reserves from premiums and claims during this period. Compared to the same period of the previous year where assets on quarter basis marked a decline of EUR 5.2 million, in Q4 2019, the sector marked a slowdown decline (figure 24).

Similarly to assets, also the overall capitalization level of the sector was characterized with a decline in Q4 2019. Only during this quarter, the total capital marked a decline of EUR 1.7 million, thus reaching the value of EUR 48.1 million as at end of period (December 2019). This slowdown decline, marked in Q4 2019, came as a result of the increase of the value of losses retained from the previous periods and the increase of the value of net loss until the end of December.

Figure 24. Assets of the insurance sector, quarter change

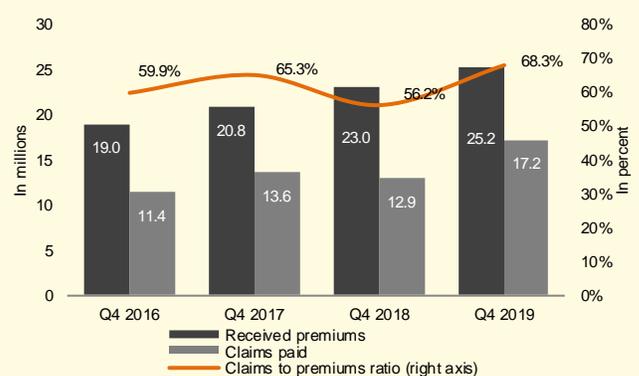


Source: CBK (2020)

Liabilities were characterized with a slight decline of EUR 494.6 thousands compared to assets. A more significant decline was marked by reserves on gross claims and payable reinsurance.

The value of written premiums of insurance companies, in 2019, amounted to EUR 99.2 million, representing an annual increase of 7.7 percent. On a quarter basis, during Q4 2019, the value of written premiums marked an increase with a value of EUR 25.2 million (figure 25), compared to the same period of the previous year, the value of written premiums was higher for EUR 2.2 million. “Non-life” premiums account for 96.4 percent of total written premium, whereas “life” premiums comprise 3.6 percent. In Q4 2019 premiums of the “non-life” category increase by EUR 24.3 million mainly as a result of the amount increase of the premiums “third party liabilities”. During this period premiums of the category “life” increased by EUR 0.9 million.

Figure 25. Written premiums and claims paid



Source: CBK (2020)

Similarly to the level of the written premiums, also claims paid by the insurance sector (including also the Kosovo Insurance Bureau), during this quarter marked an increase of EUR 17.2 million (Q4 2019), and reached the value of EUR 55.1 million at the end of the period

(in 2019) (figure 25). The value of claims paid was higher for EUR 4.3 million compared to Q4 2018. As a consequence of the higher increase of claims paid compared to the received premiums, during this quarter the ratio of claims to premiums during this quarter increased by 12.0 percentage points compared to the same period of the previous year, reaching 68.3 percent.

Performance of the Insurance Sector

In Q4 2019, the insurance sector marked a higher loss compared to the same quarter of the previous year, amounting to EUR -2.1 million (EUR -0.5 million in Q3 2019). Financial losses in this quarter came as a result of the higher increase of claims level (paid and incurred) compared to the level of written premiums.

Regarding the liquidity of the insurance sector, until December 2019, the indicator of cash and its equivalent to technical reserves ratio shows that liquidity stood at the level of 97.2 percent, representing the same level as in the previous year. Moreover, the other indicator of cash and its equivalent to total liabilities shows a decline of 1.7 percentage points of the level of the sector's liquidity, thus reaching at 85.6 percent (87.3 percent in December 2018). This decline was a result of the higher annual increase of total liabilities (10.7 percent) along with the cash and its equivalent (8.5 percent).

Microfinance Sector

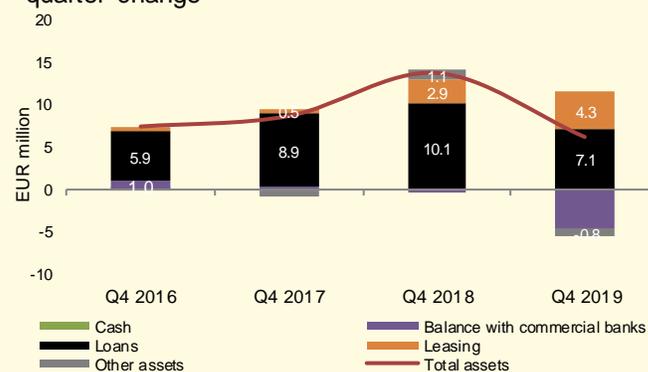
Microfinance sector marked an expansion of its credit activity also in Q4 2019, albeit at lower level compared to the previous year. Moreover, the

sector was characterized with a satisfactory performance, despite the slight increase of loans with problems.

Assets

Total assets of microfinance sector continued with an increasing trend, marking an annual increase of 22.6 percent, in December 2019, reaching the value of EUR 306.5 at the end of the period. On quarter basis, assets increased by EUR 6.2 million, whereas compared to Q4 2018 this value was lower for EUR 7.6 million. The increase of assets mainly was a result of the increase of lending activity (EUR 7.1 million on quarter basis) and the increase of leasing (EUR 4.3 million on quarter basis) (figure 26).

Figure 26. Assets of the microfinance sector, quarter change



Source: KPSF (2020)

Conversely, the category of cash marked a slight increase of EUR 0.1 million, while the balance with commercial banks had a decline of EUR 4.6 million on quarter basis.

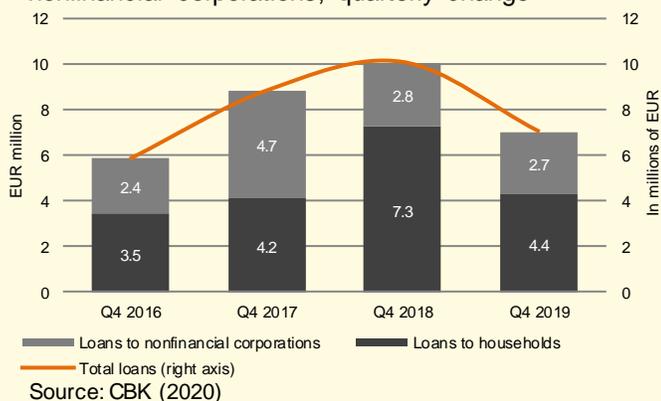
Loans

The stock of total loans, in Q4 2019 expanded by EUR 7.1 million on quarter basis, a value which is lower for

EUR 3.0 million compared to Q4 2018. However, on annual basis total loans marked an increase of 20.5 percent by the end of December 2019, reached the value of EUR 221.6 million. A higher increase during this period was marked by loans to households with 23.3 percent, reaching the value of EUR 149.6 million at the end of the period.

Only in Q4 2019, loans to households marked an increase of EUR 4.4 million (figure 27).

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

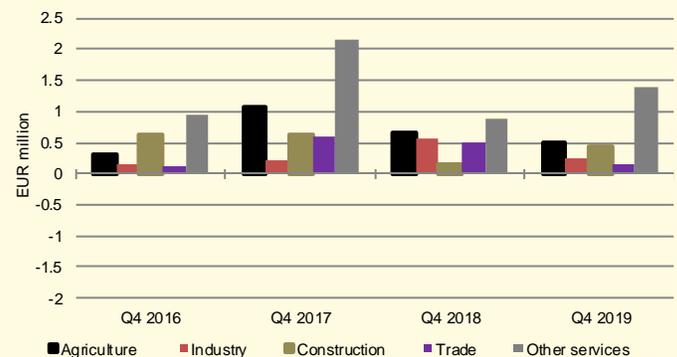


Moreover, also loans to nonfinancial corporations marked an annual increase until December 2019, albeit at a lower rate compared to loans to households. The stock of these loans reached EUR 72.0 million, representing an annual increase of 15.3 percent. On quarterly basis, during Q4 2019, loans to nonfinancial corporations marked an increase of EUR 2.7 million (figure 27).

Based on sectoral basis, the value of loans granted to other services sector marked the highest increase for this period, reaching EUR 1.4 million on quarter basis (figure 28). Moreover, also lending to other sectors expanded during quarter, albeit at lower rate. Loans to agriculture sector expanded by EUR 0.5 million, to

construction sector loans marked an increase of 0.4 million, and loans to industry and trade sector marked an increase EUR 0.2 million.

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



Source: CBK (2020)

Leasing

The activity of leasing of the microfinance sector marked an increase during Q4 2019 with a value of EUR 4.3 million, reaching the value of EUR 52.7 million at the end of the period. This increase was mainly a result of leasing to households, the value of which increased by EUR 2.7 million during this quarter, reaching the value of EUR 24.6 million at the end of the period (figure 29).

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



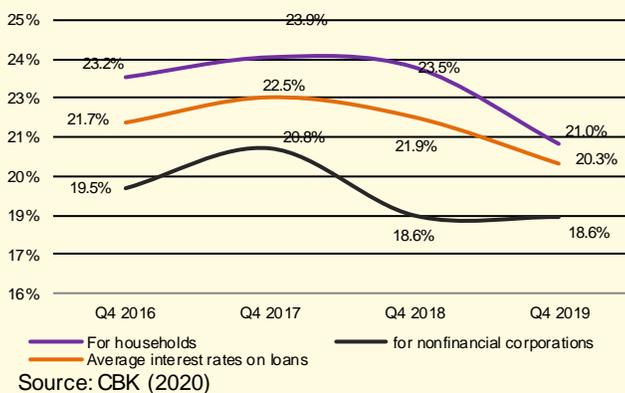
Source: CBK (2020)

Similarly, also the leasing to nonfinancial corporations increased by EUR 1.7 million in Q4 2019, reaching the total value of EUR 28.1 million at the end of the mentioned period.

Interest Rates

During the last quarter of 2019, the average interest on loans was 20.3 percent, representing a lower rate for 1.6 percentage points compared to the same period of the previous year (figure 30).

Figure 30. Average interest rate on microfinance sector loans

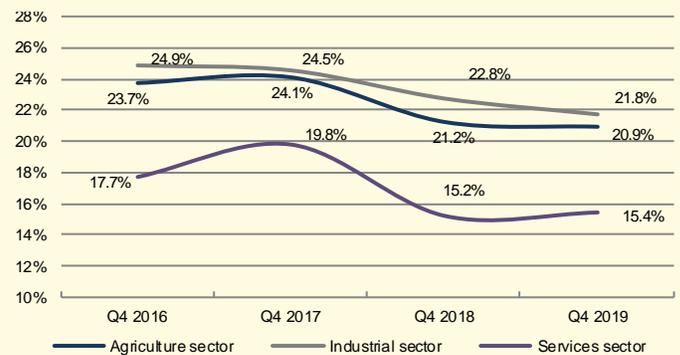


The average interest rate on loans to households marked a decline of 2.6 percent compared to Q4 2018, falling to 21.0 percent. Regarding the categories of loans, interest rates of consumer loans to households marked the most significant decline compared to Q4 2018 with 5.0 percentage points, dropping to 21.1 percent in Q4 2019. Whereas, the average interest rate on mortgage loans marked in Q4 2019 compared to the previous period, was characterized with an increasing trend (an increase of 0.1 percentage points) reaching 21.0 percent (figure 30).

Similar to households, also interest rate on loans to nonfinancial corporations marked a decline, albeit at a

slower pace. In Q4 2019, the average interest rate on loans to nonfinancial corporations stood at 18.6 percent, representing the same level as in the previous period.

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



In a sectoral aspect, a lower interest rate of loans was marked in services sector, 15.4 percent, while the highest interest rate was marked in the sector of industry, with 21.8 percent (figure 31).

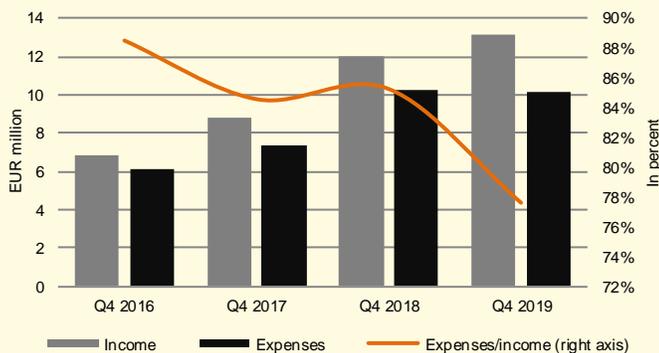
Performance of the Microfinance Sector

Microfinance sector was characterized with a satisfactory financial performance also in the end of 2019. Only during this quarter, the income of the sector marked an increase of EUR 13.1 million, thus reaching the value of EUR 56.4 million as at end of period (December 2019). This increase was enabled mainly by the increase of interest income (figure 32).

During this quarter, also expenditures of the sector marked an increase of EUR 10.2 million. At the end of the period of 2019, total expenditures of the sector reached the value of EUR 44.9 million. 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 Q4



Source: CBK (2020)

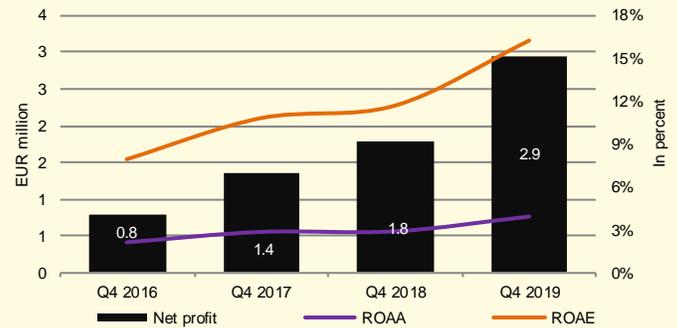
Consequently, expenditures to income ratio was at the rate of 77.6 percent, or 7.6 percentage points lower compared to the same period of the previous year. This decline may have been a result of higher increase of income compared to expenditures. Consequently, the net profit during this quarter marked an increase of EUR 1.2 million compared to Q3 2018, reaching the value of EUR 2.9 million. Moreover, the accumulated profit reached the value of EUR 11.5 million in 2019, and represents a record value realized by this financial sector (figure 33).

The good financial performance was reflected also on two other indicators, Return on Average Assets (ROAA) and Return on Average Equity (ROAE), which increased by 1.0 percentage points and 4.5 percentage points, respectively, compared to Q4 2018 (figure 33).

Regarding the indicators of credit portfolio quality in microfinance institutions, nonperforming loans

continued to stand at low levels and were characterized with good coverage of provisions.

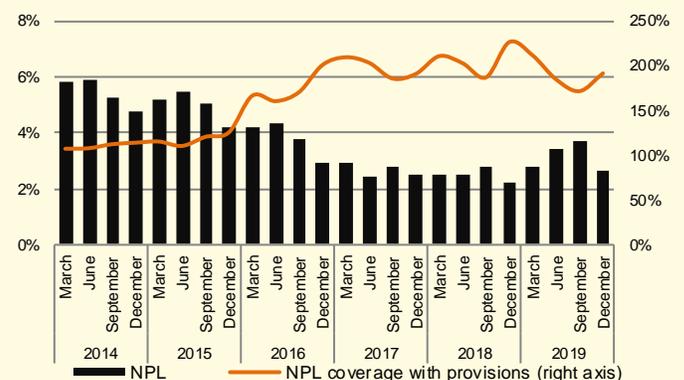
Figure 33. Profitability indicators of microfinance sector, in Q4



*Profit was annualized for the respective quarter

Until the end of the period, nonperforming loans stood at 2.6³ percent, representing a slightly higher level compared to the same period of the previous year (2.2 percent at the end of 2018). Moreover, the NPL coverage with provisions was 190.9 percent, until the end of Q4 2019 (figure 34).

Figure 34. Indicators of credit portfolio quality

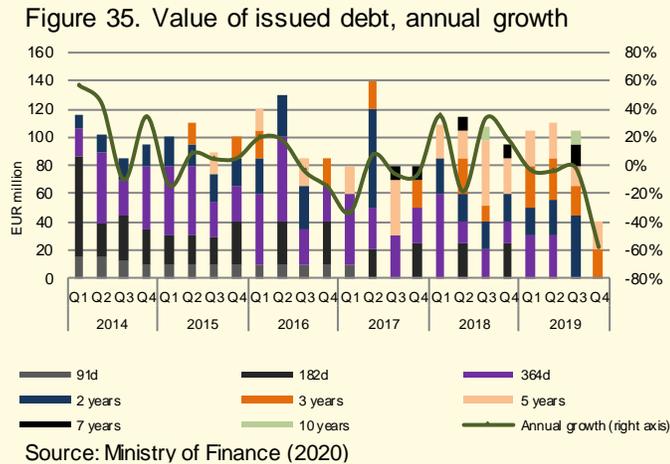


Source: CBK (2020)

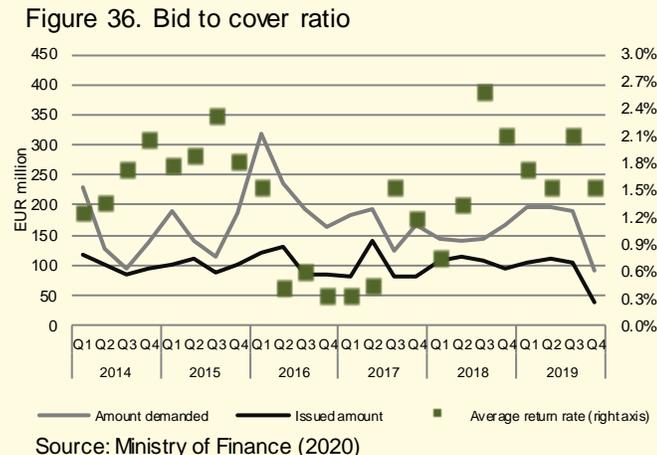
³ In this calculation were not included to financial institutions (MI/NBFI) whose licenses have been revoked and liquidation proceedings have begun.

Securities Market

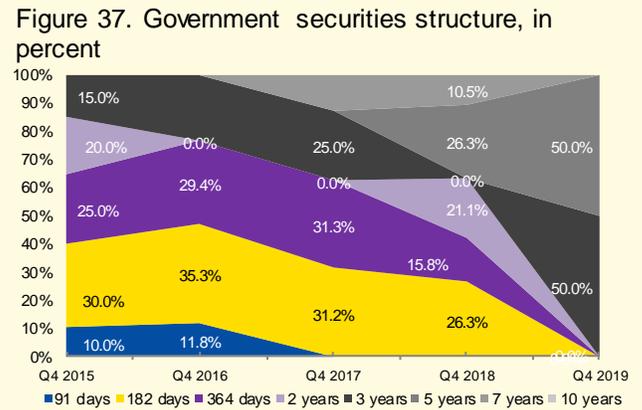
In Q4 2019, Kosovo's Government issued a debt with a quite lower value compared to the previous period, mainly due to the delay of formation of institutions after Q4 2019.



The debt issued by Kosovo's Government marked an annual decline of 57.9 percent in Q4 2019 (figure 35).



The amount of the issued debt during this period amounted to EUR 40 million, despite the fact that the demand was higher for EUR 90.1 million. The average interest rate on securities was 1.5 percent in Q4 2019, representing a lower rate for 0.6 percentage points than in Q4 2018 (figure 36).



During Q4 2019, the securities structure of the Government was dominated by government bonds, of which lead those with a maturity of 3 years and 5 years (figure 37).

The suggested citation of this publication:

CBK (2019): Quarterly Assessment of Financial System No. 29 Q4 2019, Central Bank of the Republic of Kosovo, Prishtina

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Macroeconomic selected indicators

Description	December 2018	December 2019
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)*	4,936.3	5,212.7
Consumer prices (annual average)	1.1%	2.7%
Consumer prices (end of period)	2.9%	1.1%
Fiscal Sector* 2/		
Budget Revenues (in millions of EUR)	1,756.6	1,888.6
Budget Expenditures (in millions of EUR)	1,919.3	2,057.0
Primary balance (in millions of EUR)	-162.7	-168.4
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	6,316.1	7,249.5
of which : Banks	4,185.5	4,755.7
Loans	2,755.5	3,031.9
Deposits	3,362.9	3,908.1
Interest Rates on Loans, end of period	6.0%	6.4%
Interest Rates on Loans, end of period	1.5%	1.6%
Interest rate gap	4.5%	4.8%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-519.9	-400.0
of which: remittances	800.5	851.9
Financial account	-335.5	-185.3
Foreign Direct Investmentsin Kosovo	272.1	266.5
Portfolio investments, net	-199.9	59.0
Other investments, net	3.4	-138.7
International Investment Position (PNI), net*	-126.5	-299.6
Assets	5,005.8	5,185.2
Liabilities	5,132.2	5,484.8
External debt, total*	2,103.4	2,150.6
Private external debt	1,608.6	1,651.7
Public external debt	494.8	498.8

Source:

1/ KAS (2019);

2/ MF (2019).;

3/ CBK (2019).

*Data for the GDP, IIP and external debt until September 2019.

