

Summary

Financial system continued to expand also in Q4 2018, albeit at a slower pace compared to the same period of the previous year. The increase of assets of the system during this quarter was mainly attributable to assets growth of the banking sector and microfinance sector.

During Q4 2018, banking sector continued to be characterized with an accelerated increase of its credit activity, satisfactory financial performance and a satisfactory level of key indicators which measure the soundness of the sector. Banking sector assets increased by EUR 150.6 million, in Q4 2018, primarily as a result of the growth of credit activity and the increase of cash held at treasury and at the CBK. The growth of credit activity during 2018, on quarterly and annual basis as well, was attributed to the eased supply side and favorable conditions, along with the demand increase for loans.

Credit activity continued to be financed by deposits collected within the country's economy, which in Q4 2018, comprised 80.4 percent of total liabilities and own resources of the sector. In the fourth quarter, deposits increased by EUR 154.6 million, primarily due to expansion of enterprise deposits held at the banking sector during this period.

Within the credit supply conditions, financing cost at banks were characterized with a further improvement in 2018. In Q4 2018, average interest rate on loans declined to the lowest level of 6.3 percent, ever marked in the banking sector. At the same time, interest rates on deposits marked a slight annual increase and reached an average of 1.4 percent.

Financial performance of the banking sector during this quarter was characterized with the highest value of the profit. More specifically, the profit realized was a result of the increase of 17.4 percent of the received value, primarily from interest income from loans and the income from fees and commissions on services provided by the banking sector. Meanwhile, the annual increase of expenses, which primarily reflects the increase of general expenditures

and personnel expenses, resulted to be lower for 6.2 percent.

The credit portfolio quality of the banking sector improved further, marking the lowest level of nonperforming loans since the second half of 2010, dropping to 2.7 percent

and ensuring satisfactory coverage of nonperforming loans with loan loss provisions (152.0 percent). Moreover, Capital Adequacy Ratio (CAR) (17.0 percent) and the liquidity level (39.1 percent) suggest that the banking sector is sustainable against the potential risks that it may face with.

In the fourth quarter, the pension sector was characterized with a negative performance from investments, despite the increase of new contributions received. As a consequence of high fluctuations of global financial markets in December 2018, the value of invested assets abroad declined and resulted in a negative gross return on investments. These dynamics were reflected also in the decline of the unit price.

Insurance sector closed this quarter with a positive financial result, albeit at lower levels compared to the same quarter of the previous year. More specifically, factors which had an impact on the dynamics of insurance sector were the increase of net income from premiums, while factors which had a negative contribution were the significant increase of incurred claims and the increase of expenditures of the sector, marked in Q4 2017.

Microfinance sector continued to increase its activity, where also the fourth quarter was characterized with a significant increase of assets as a result of the stock increase of loans of the sector. At the same time, the dynamics of this sector and the increase of income, resulted in a profit increase during this quarter.

Kosovo's Government securities market, during this quarter, was characterized with a growth of the issued value, lengthened maturity, and also a higher investment demand for securities. The increase of interest rate, in Q4 2018, may be attributable to some extent to the orientation towards issuing securities with longer maturity.

BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
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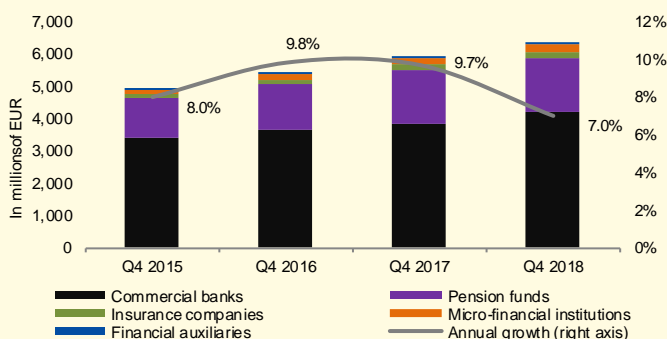
ABBREVIATIONS

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

Financial system

The total value of assets of Kosovo’s financial system reached EUR 6.32 billion at the end of Q4 2018, representing an annual increase of 7.0 percent (figure 1). Banking sector continued to have the main contribution to the expansion of financial system activity, being followed by microfinance sector. Unlike in the previous year, when the pension sector had the same contribution as the banking sector, to the increase of the system assets, the negative return from investments in 2018 had an impact on the decline of the contribution of this sector to the increase of total assets of the system.

Figure 1. Assets value of Kosovo’s financial system



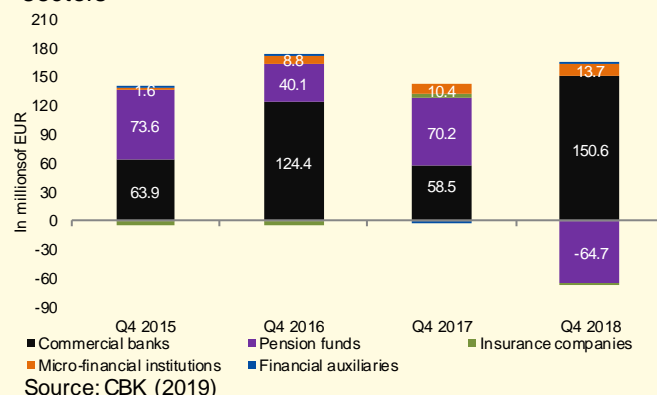
Note: The data are as at end of the noted quarter
Source: CBK (2019)

On quarterly basis, financial system assets marked an increase of EUR 96.6 million in Q4 2018, mainly as a result of the increase of the banking sector assets (EUR 150.6 million) and microfinance sector (EUR 13.7 million). Conversely, other segments of financial system as pension sector and insurance sector declined in Q4 2018, for EUR 64.7 million, namely EUR 3.8 million (figure 2).

The expansion activity of the banking sector and microfinance sector continued to be supported by

deposits of the clients, and from borrowings from the external sector (different credit lines). While, the contraction of assets of the pension sector was primarily attributable to the negative investments return in Q4 2018.

Figure 2. Assets of financial system constituent sectors



Source: CBK (2019)

Banking Sector

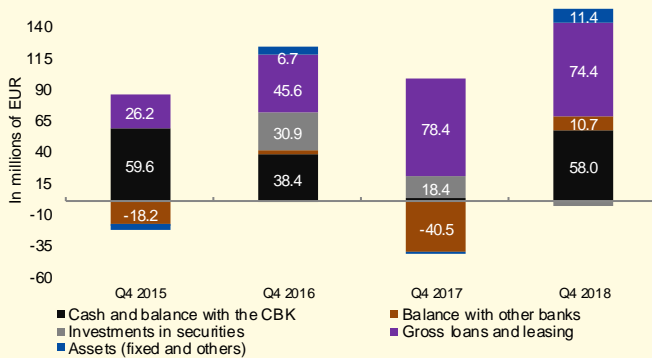
Banking sector during this quarter continued to be characterized with a high increase of credit activity, cash held at treasury and at the CBK, whereas it was characterized with a slight decline of investments in securities.

Assets

In Q4 2018, assets of the banking sector were expanded by EUR 150.6 million reaching the total value of EUR 4.18 billion at the end of the period. The overall increase of assets of the banking sector are attributable to the positive lending dynamics, an activity that was supported by eased supply side of banks through offering better lending conditions, and also the increase of credit demand. Meanwhile, on quarter basis, in Q4

2018, almost all categories of assets marked an increase, excluding investments in securities (figure 3).

Figure 3. Annual change in the banking sector assets structure



Source: CBK (2019)

Unlike the same quarter of the previous year, cash and balance with the CBK marked a slower increase in Q4 2018, expanding by EUR 58.0 million (EUR 2.4 million in Q4 2017) reaching the value of EUR 541.8 million at the end of the period. This decline of assets of this category mainly reflects the level of cash held at banks' treasury, and to lower levels at the CBK.

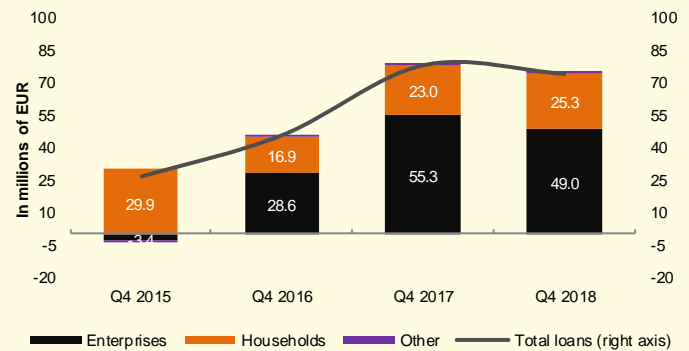
The balance with other banks was characterized with an increase of EUR 10.7 million in Q4 2018, against the decline of EUR 40.5 million marked in Q4 2017, and reached the value of EUR 340.8 million at the end of the mentioned period.

In Q4 2018, securities stock of the banking sector contracted by EUR 4.0 million and amounted to EUR 430.2 million at the end of the reporting period. Investments in Kosovo's Government securities continued to mark an increase, albeit, investments of foreign governments in securities were characterized with a decline, which consequently reflected in an overall contraction of investments in this instrument, in Q4 2018.

Loans

Economic activity continued to be characterized with an accelerated increase, also during Q4 2018. At the end of the mentioned period, loans reached a value of EUR 2.76 billion, corresponding to an annual increase of 10.9 percent. On quarterly basis, loans marked an increase of EUR 74.4 million, compared to the increase of 78.4 million in Q4 2017 (figure 4).

Figure 4. Annual changes in total loans value and the main categories



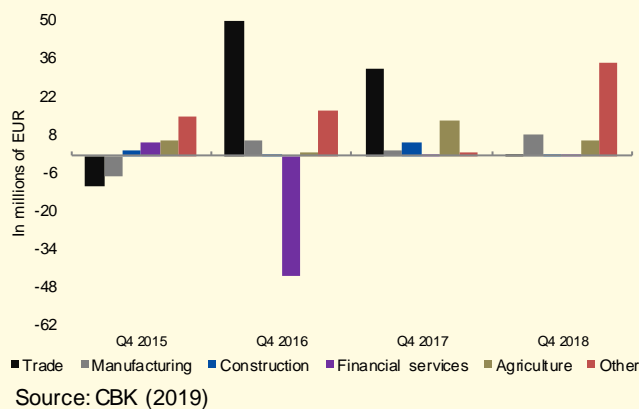
Source: CBK (2019)

In Q4 2018, it was marked an impact on the increase of active loans by new loans issued to enterprises (amounted to EUR 231.0 million) and to households (amounted to EUR 133.6 million). More favorable banks offers, being expressed by improvements of lending conditions for enterprises and households as well, resulted in the increase of total active loans stock until the end of the mentioned period. Also, the increase of demand for loans from both categories, resulted in an overall increase of credit activity during the all quarters of 2018.

In Q4 2018, loans to enterprises increased by EUR 49.0 million (a growth of EUR 55.3 million in Q4 2017), reaching the value of EUR 1.75 billion at the end of the period. On quarterly basis, at the end of Q4 2018,

excluding lending to agriculture and to mining sector, which were characterized with a decline, lending to all other economic sectors marked an increase.

Figure 5. Credit structure by economic activity



Whereas, on quarterly basis, the seasonal effect and dynamics with which are characterized different economic sectors result to have high fluctuations from year on year. In this context, sector of other services increased by EUR 34.5 million in Q4 2018 (an increase of EUR 1.4 million in Q4 2017), whereas trade sector increased by EUR 0.2 million compared with the increase of EUR 32.0 million marked in Q4 2017. Developments in other sectors marked no significant changes compared to Q4 2017 (figure 5). New loans to enterprises, in Q4 2018, reached the value of EUR 231.0 million, of which EUR 152.8 million designated for investments, while EUR 69.8 million for non-investments purposes. New loans to agriculture sector in Q4 2018 amounted to EUR 6.5 million, marking an increase of EUR 0.3 million compared to Q4 2017. New loans designated to industry, increased by EUR 41.2 million, reaching the value of EUR 80.7 million, in Q4 2018. Whereas, new loans to services sector declined by EUR 31.4 million, dropping to EUR 107.7 million, in Q4 2018.

Loans to households increased by EUR 25.3 million, in Q4 2018, reaching the total value of loans stock to EUR 998.5 million at the end of the mentioned period. Regarding new loans to households, in this quarter it was marked a decline of EUR 10.3 million, resulting to a total value of EUR 133.6 million marked in Q4 2018. This decline was reflected more on new consumer loans, which, during Q4 2018, declined by EUR 10.5 million compared to Q4 2017, standing at EUR 95.5 million. Meanwhile, mortgage loans, in Q4 2018 reached the value of EUR 24.4 million, representing the same level as in Q4 2017.

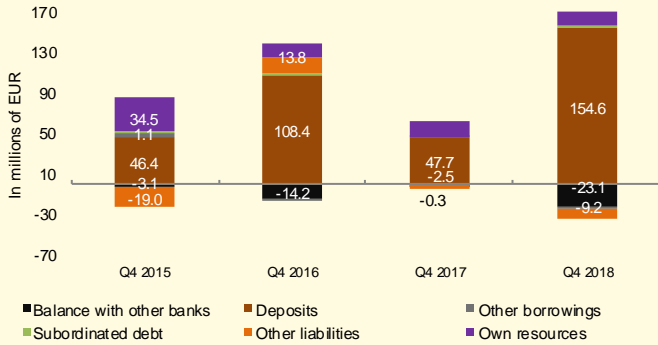
Liabilities and Own Resources

The structure of the banking sector liabilities was dominated by deposits, which comprise around 80.4 percent of total liabilities and own resources. On quarter basis deposits, marked an increase of EUR 154.6 million in this quarter, compared to the increase of EUR 47.7 million in Q4 2017 (figure 6).

The category own resources, was characterized with an increase of EUR 26.1 million in Q4 2018 (a growth of EUR 14.2 million marked in Q4 2017). This increase is primarily attributable to the profit increase marked in the reported quarter. At the end of Q4 2018, the value of banks capital reached EUR 496.7 million.

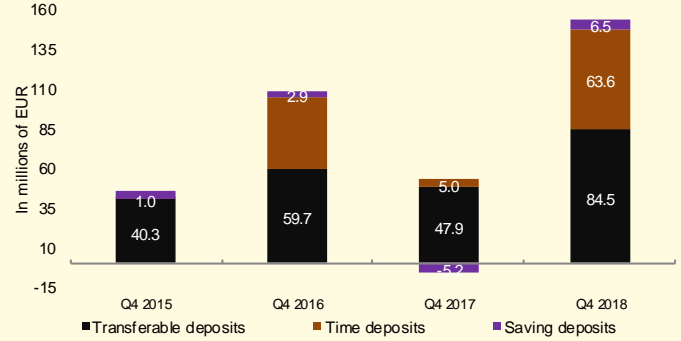
Whereas, the category which marked a decline during this quarter was the balance with other banks, which declined by EUR 23.1 million, a decline which mainly reflects the decline of borrowings or other different credit lines taken from banks abroad, namely from parent banks. At the end of Q4 2018, the value of borrowings from commercial banks reached EUR 106.6 million.

Figure 6. Structure of liabilities and own resources



Source: CBK (2019)

Figure 8. Balance structure of deposits in Q4

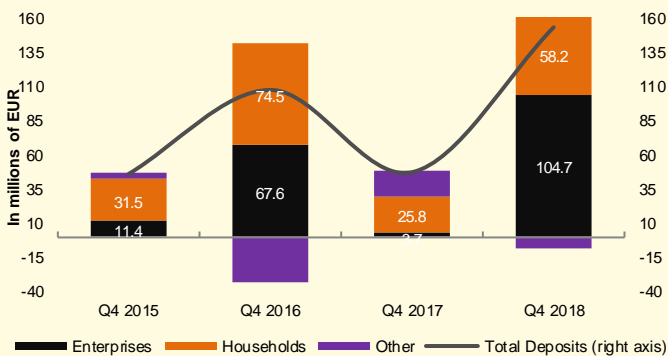


Source: CBK (2019)

Deposits

Deposits of the banking sector in Kosovo increased by EUR 154.6 million in Q4 2018, on quarterly basis, amounting to EUR 3.36 billion. Developments within deposits of the banking sector, in Q4 2018, primarily are attributable to enterprise deposits, and households deposits as well. Enterprise deposits increased by EUR 104.7 million in this quarter, reaching the value of EUR 872.4 million at the end of the mentioned period.

Figure 7. Total deposits and main categories value in Q4



Source: CBK (2019)

Conversely, household deposits increased by EUR 58.2 million in this quarter, amounting to EUR 2.33 billion at the end of the mentioned period (figure 7).

Regarding the categories of deposits, transferable deposits rose by EUR 84.5 million in Q4 2018 (figure 8), marking a value of EUR 2.01 billion at the end of the above mentioned period. Also, time deposits increased by EUR 63.6 million, in this quarter, reaching a value of EUR 881.5 million at the end of the period. Meanwhile, enterprise deposits increased by EUR 6.5 million, on quarterly basis, reaching a value of EUR 469.1 million at the end of the mentioned period.

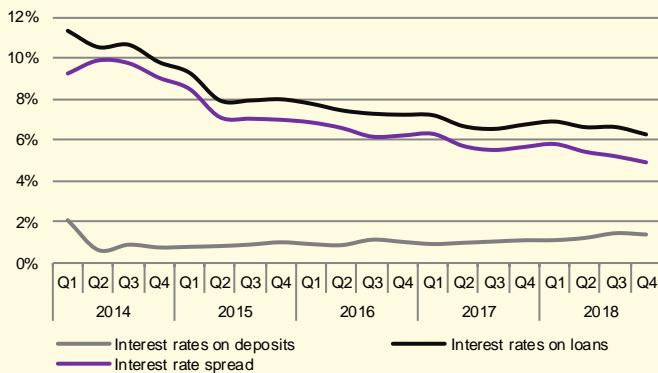
Interest Rates¹

In Q4 2018, interest rate on loans marked an annual decline, reaching the lowest historic level, while interest rates on deposits marked an increase compared to the same period of the previous year. The interest rate spread of loans and deposits narrowed

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

down to 4.9 percentage points in the reporting period (5.7 percentage points in Q4 2017).

Figure 9. Interest rates on loans and deposits



Source: CBK (2019)

Interest rates on loans, in Q4 2018, increased for 0.5 percentage points, thus reaching 6.3 percent, while the interest rate on deposits increased by 0.3 percentage points, reaching 1.4 percent (figure 9).

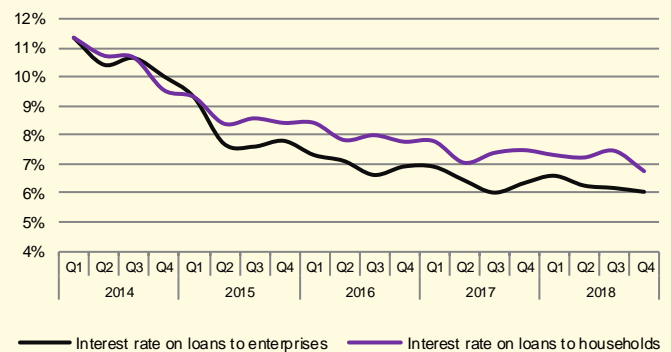
Interest rates on loans

Interest rates on loans to enterprises declined to 6.1 percent, from 6.4 percent as they were in Q4 2017 (figure 10).

Almost all categories of interest rates on loans to enterprises, in Q4 2018, were characterized with an annual decline. The highest decline (0.5 percentage points) was marked in loans intended for investments, which had an interest rate of 6.0 percent. The category of overdrafts declined by 0.1 percentage points compared to Q4 2017, dropping to 6.5 percent. Meanwhile, interest rates applied on loans with favorable conditions remained unchanged as in the same period of the previous year, standing at 2.5 percent. In the same period, interest rates applied on loans for non-investments purposes had an interest

rate of 6.3 percent, representing an annual increase of 0.2 percentage points.

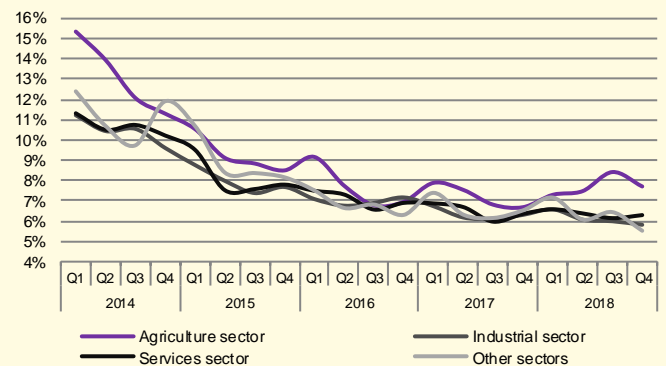
Figure 10. Interest rates on loans to enterprises and to households



Source: CBK (2019)

Interest rates on loans to economic sectors marked a decline for almost all economic activities, excluding the agriculture sector where interest rates marked an annual increase of 1.0 percent, thus reaching 7.7 percent (figure 11). Interest rates on loans to industry sector declined for 0.5 percent, standing at 5.9 percent in Q4 2018. In services sector, interest rate on loans declined by 0.1 percentage points, dropping down to 6.3 percent in Q4 2018.

Figure 11. Interest rates on loans, by economic sectors

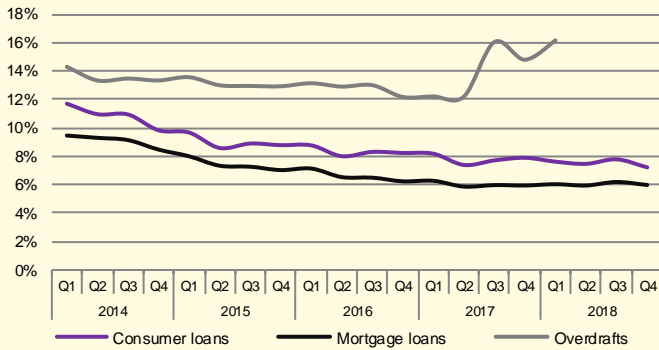


Source: CBK (2019)

However, the highest decline of interest rates on loans, with 1.0 percentage points was marked in the category of other sectors, whose interest rates stood at 5.5 percent in Q4 2018.

Also, interest rates on loans to households followed the same trend of other interest rates applied by banks. Interest rates applied on mortgage loans continued to be more favorable, while a more significant interest rate decline was marked by loans to consumer loans.

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



Source: CBK (2019)

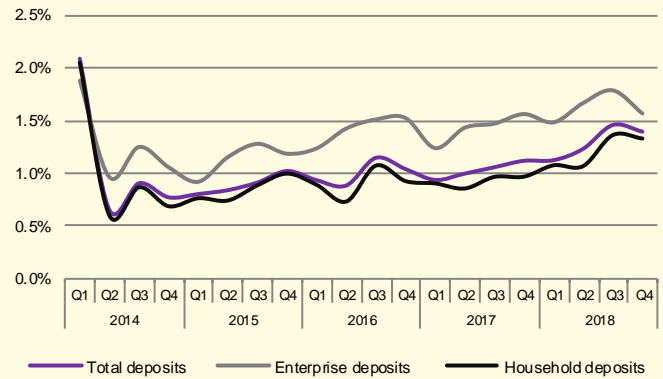
In Q4 2018, interest rates applied to mortgage loans stood at 5.9 percent, representing a similar level as in the corresponding period of the previous year. At the same period, interest rate applied to consumer loans stood at 7.2 percent, representing a decline of 0.7 percentage points compared to the previous period (figure 12).

Interest rates on deposits

Interest rates on deposits followed a declining trend during the four quarters of 2018, compared to 2017. Despite of the lower level compared to periods prior to 2014, the interest rates on deposits during Q4 2018

stood at higher levels for 0.3 percent compared to Q4 2017, reaching 1.4 percent (figure 13).

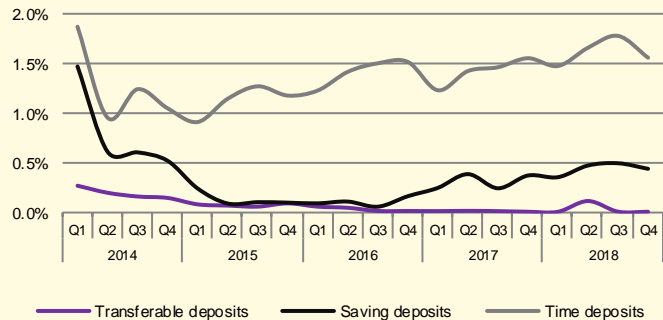
Figure 13. Interest rates on deposits



Source: CBK (2019)

Interest rates on enterprise deposits continued to be more favorable compared to rates applied to household deposits.

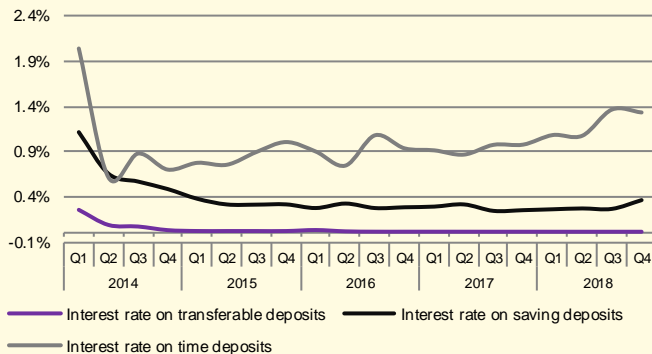
Figure 14. Interest rates on enterprise deposits, by categories



Source: CBK (2019)

Interest rate on enterprise deposits stood at 1.6 percent, in Q4 2018, representing the same level as in the previous period. Interest rate on time deposits was 1.6 percent, representing a same rate as in Q4 2017. Also, interest rates on time deposits and transferable deposits remained at the same levels as in the previous periods, namely at 0.4 percent and 0.01 percent, respectively (figure 14).

Figure 15. Interest rates on household deposits, by categories



Source: CBK (2019)

Interest rates on household deposits marked an annual increase of 0.4 percentage points in Q4 2018, standing at 1.3 percent (figure 15). Interest rate on transferable deposits was the same as in the previous period (0.001 percent), while interest rates on saving deposits marked an increase of 0.1 percent, reaching 0.4 percent in Q4 2018.

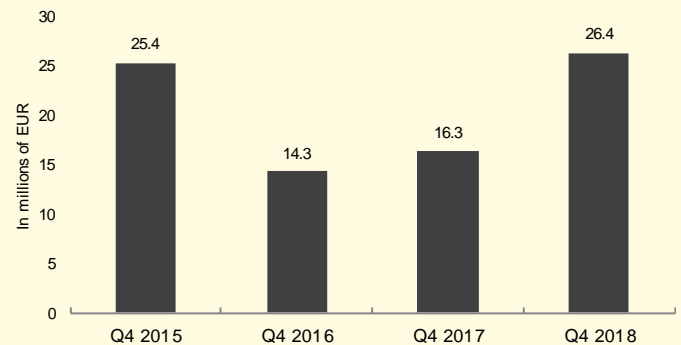
Performance of the Banking Sector

The value of the profit realized during the last quarter of 2018 resulted to be higher for EUR 10.1 million, compared to the same quarter of the previous year, reaching EUR 26.4 million (figure 16).

Expenditures of the banking sector marked an increase during the reporting period, nevertheless there was marked a profit growth of the sector due to the higher income increase in Q4 2018.

Income of the banking sector, in Q4 2018, was characterized with an accelerated increase, primarily as a result of the performance of interest income (mainly from loans), but also due to income from fees and commissions, within the non-interest income (figure 17).

Figure 16. Net profit of the banking sector, in millions of EUR



Source: CBK (2019)

Conversely, total value of expenditures of the banking sector, in Q4 2018, reached EUR 46.0 million, representing an increase of EUR 2.7 million compared to the same quarter of the previous year (figure 17). The increase of the banking sector expenditures was mainly attributable to the increase of general and administrative expenses with EUR 2.2 million in Q4 2018, compared to Q4 2017, reaching the value of EUR 30.7 millions.

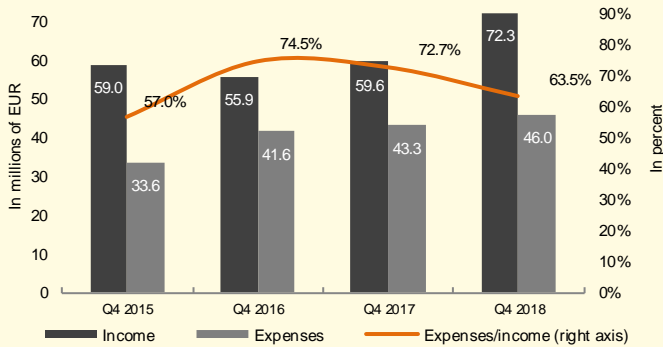
Within these expenditures, the highest contribution to the growth was marked by the subcategory of personnel expenses, which amounted to EUR 13.3 million. The second category which marked the highest increase was marked by interest expenses, which in Q4 2018 marked an annual quarterly growth of EUR 1.9 million reaching EUR 6.3 million. Within this subcategory of expenses, in Q4 2018, it was marked an increase of interest expenses cost of time deposits and other borrowings. Whereas, the category of non-interest expenses resulted to be the only category which marked a decline of EUR 2.0 million, amounting to EUR 5.0 million, compared to Q4 2017.

The decline of expenditures in this category primarily is attributable to significant reduction of loan loss

provision expenses, which in the reporting period declined by EUR 2.9 million, dropping to EUR 0.2 million, compared to Q4 2017.

As a consequence of developments of income and expenditures of the banking sector, expenditures to income ratio in Q4 2018 increased by 9.1 percentage points against the same period of the previous year, standing at 63.5 percent (figure 17).

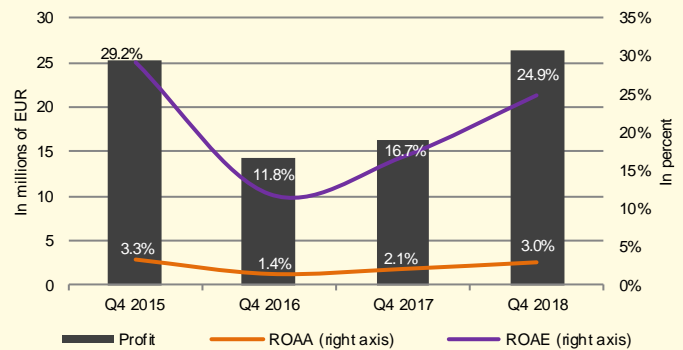
Figure 17. Income and expenses of the banking sector



Source: CBK (2019)

Consequently, the banking sector financial position in Q4 2018 was reflected also in two profitability indicators, namely Return on Average Assets (ROAA), and Return on Average Equity (ROAE). In Q4 2018, ROAA declined by 0.9 percentage points dropping down to 3.0 percent, while ROAE shrank by 8.1 percentage points, falling at 24.9 percent (figure 18). The increase of profitability indicators reflects also the highest profit realized by the banking sector, which during the last quarter reached the value of EUR 26.4 million (EUR 16.3 million in Q4 2017).

Figure 18. Profitability indicators of the banking sector

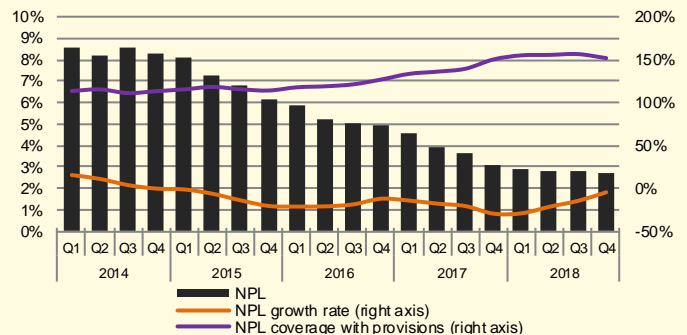


Note: ROAA and ROAE calculation for the appropriate quarter was annualized
Source: CBK (2019)

Financial Soundness Indicators

Banking sector continues to be characterized with a consistent decline of nonperforming loans in the recent years and an improvement of the coverage of loans with loan loss provisions. The level of nonperforming loans, at the end of Q4 2018, stood at 2.7 percent, representing a decline of 0.4 percentage points, compared to the same period of the previous year (figure 19).

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



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

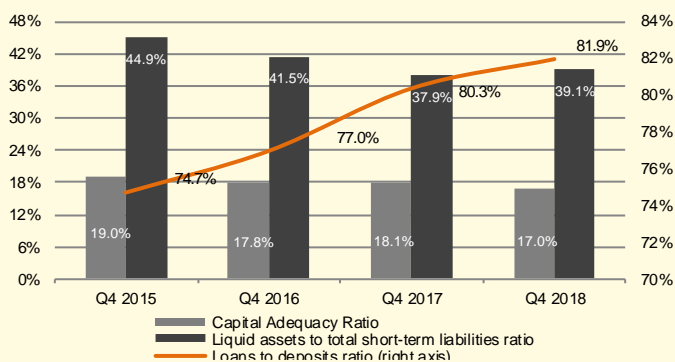
Source: CBK (2019)

The coverage level of nonperforming loans with loan loss provisions was slightly improved compared to the

previous period, standing at the level of 152.0 percent, thus marking an increase of 1.5 percentage points.

The capitalization level of the banking sector continued to significantly remain above the minimum level of 12.0 percent as required by the regulation. Capital Adequacy Ratio stood at 17.0 percent, at the end of Q4 2018.

Figure 20. Liquidity and solvency Indicators



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

Source: CBK (2019)

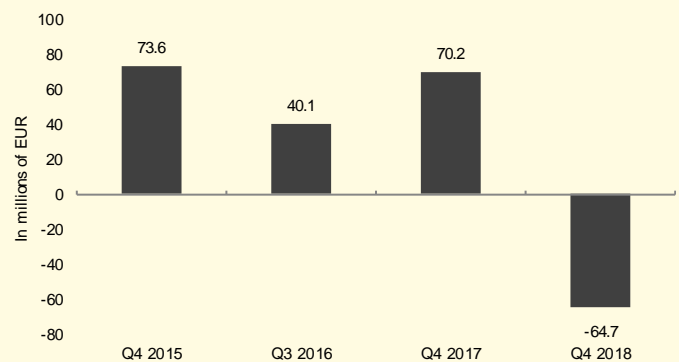
The key liquidity indicator, being presented by the liquid assets to total short-term liabilities ratio, marked a growth at the end of Q4 2018 with 1.2 percentage points compared to Q4 2017, as a result of the higher increase of liquid assets against the increase of short-term liabilities. This indicator stood at 39.1 percent in the reporting period, which is significantly above the minimum regulatory level of 25 percent. Moreover, loans to deposits ratio, at the end of Q4 2018, stood at the level of 81.9 percent, thus standing slightly above 80.0 percent as recommended by the CBK, which is a result of the higher increase of credit activity compared to the increase of deposits of the banking sector.

Pension Sector

Pension sector, in Q4 2018, it was characterized with a slowdown increase, as a result of the negative performance of assets invested in the markets abroad in the last month of 2018, while the increase of new contributions received, had a positive effect on assets growth.

Pension sector continued to be the second sector by the share of assets of financial system with 26.8 percent to total assets. The stock of assets of this sector, until December 2018, reached the value of EUR 1.70 billion, marking a slowdown annual increase of 2.6 percent, compared to the increase of 16.0 percent in the previous year.

Figure 21. Assets of the pension sector,



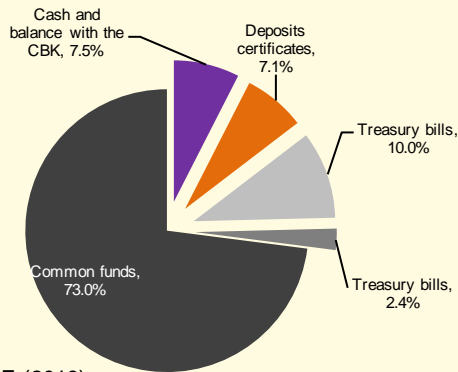
Source: CBK (2019)

During Q4 2018, assets managed by the pension sector declined by EUR 64.7 million (figure 21), which is mainly attributable to the performance of investments allocated abroad, which comprise the majority of total investments of funds. In Q4 2018, the stock of investments in common funds of KPSF, which possesses 99.6 percent of total assets of the pension sector, contracted for EUR 269.6 million. At the same period, investments within the country, namely

investments in Kosovo’s Government securities increased by EUR 16.0 million. Also, during this quarter, a share of assets was reported as money in transit (money in process for investments abroad) and deposit certificates, whose value amounted to EUR 182.4 million higher compared to the previous quarter.

Pension funds operating in Kosovo have different assets investment strategy. Within the strategy for risk diversification from investments in common funds, which are managed by assets management enterprises, as a result of unstable situation in international financial markets, KPSF was focused in increasing investments in securities of Kosovo’s Government and holding assets in the form of cash and debt instruments in Q4 2018.

Figure 22. Structure of KPSF assets (Q4 2018)



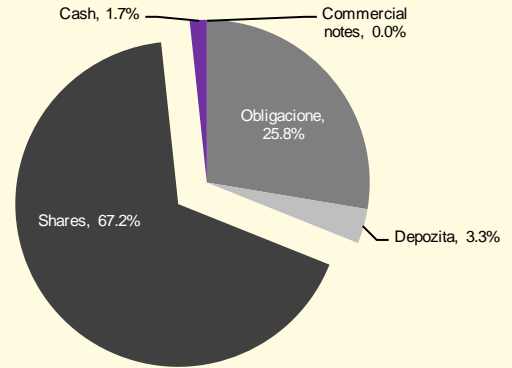
Source: KPSF (2019)

Conversely, SKPF invests its assets mainly in shares abroad, followed by assets invested in securities in Kosovo and abroad as well (figure 22 and 23).

New collections of the sector amounted to EUR 46.0 million in Q4 2018, representing an increase of 8.7 percent compared to the same quarter of the previous

year. Out of these collected contributions, 99.7 percent belong to KPSF.

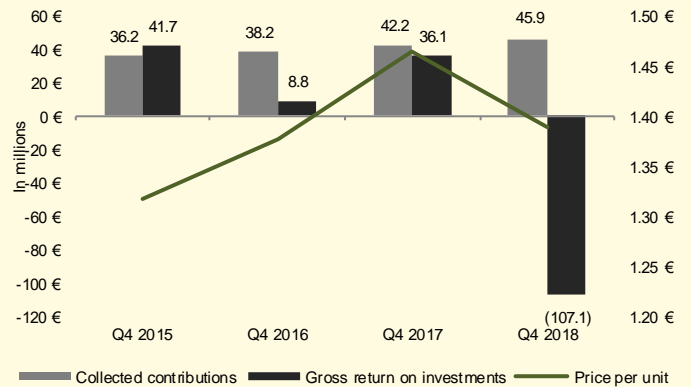
Figure 23. Structure of SKPF assets (Q4 2018)



Source: SKPF (2019)

In this quarter, KPSF was characterized with a positive performance of investments, where the appreciation of investment assets decreased, resulting in a negative gross return of EUR 107.1 million, compared to the gross return of EUR 36.1 million in the fourth quarter of the previous year (figure 24). Also, SKPF marked a negative gross return on investments with EUR 446.6 thousands, from EUR 179.2 thousands in Q4 2017.

Figure 24. Return on investments and KPSF performance



Source: KPSF (2019)

Financial markets in U.S. were characterized with significant fluctuations in Q4 2018, where main

indexes realized high positive return on investments during September and October, whereas a considerable decline of value was marked in December. The decline was primarily attributed to the large selling of financial instruments by investors and securities traders, mainly as a result of trade disagreements between U.S. and China; indications on global economic slowdown; further increase of base rate by Federal Reserves; uncertainties on potential increase of inflation; and political situation within U.S. as well as abroad (the impact of BREXIT in Great Britain and Europe, and China’s economic slowdown).

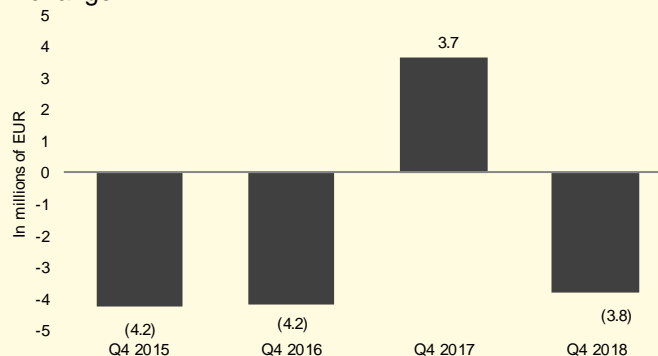
These global dynamics resulted on negative gross return on investments of KPSF, where 73 percent of its investments were invested abroad and consequently exposed to negative risk movements in global financial markets.

Insurance Sector

Insurance sector during this quarter marked an accelerated gross increase of written premiums, which was reflected on income growth of the sector and positive financial result, despite the claims incurred and the increase of expenditures.

Assets of insurance sector, in Q4 2018, were characterized with a decline of EUR 7.5 million compared to the same quarter of the previous year. In Q4 2018, assets of insurance sector declined by EUR 3.8 million, whereas the stock of assets until December 2018 reached a value of EUR 177.3 million at the end of the period (an annual marginal increase of assets stock of 0.2 percent) (figure 25).

Figure 25. Assets of the insurance sector, quarter change



Source: CBK (2019)

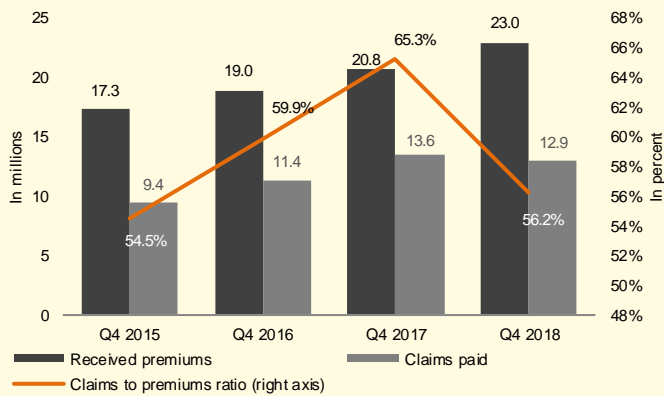
During this quarter, cash and deposits held at the CBK were characterized with an increase, while deposits held at commercial banks marked a contraction. Within investments in securities, securities held until maturity marked a rise during this quarter, where those which were available to the market marked a decline.

The trend of total assets of the sector reflects the developments in “non-life” insurance, whose assets increased by EUR 3.0 million compared to the fourth quarter of the previous year. Although the sector of “life” insurance had low weight to total assets of the sector, the decline of these assets by EUR 4.5 million, had had an impact as well on the overall contraction of the sector’s assets. The decline of life sector assets was affected by the withdrawal from the market of one of life insurance companies.

The value of written premiums of insurance companies, in Q4 2018, amounted to EUR 23.0 million, representing an annual increase of 10.6 percent. Premiums of “non-life” insurance account for 96.6 percent of total written premiums structure. The

written premiums value of “non-life” insurance marked an annual increase of 10.3 percent, reaching a value of EUR 22.2 million. Whereas, the value of the written premiums of “life” insurance marked an annual increase of 21.9 percent, reaching a value of EUR 781.8 thousands.

Figure 26. Written premiums and claims paid



Source: CBK (2019)

Claims paid by insurance sector and Kosovo Insurance Bureau (KIB), reached EUR 12.9 million in Q4 2018 (EUR 13.6 million in Q4 2017), representing an annual decline of 4.7 percent. The decline of the level of claims paid and the increase of written premiums, had an impact on the improvement of claims to premiums ratio, which, in Q4 2018, dropped to 56.2 percent from 65.3 percent as it was in Q4 2017. This development shows that a considerable amount of income realized from premiums should be dedicated for covering claims (figure 26).

Performance of the Insurance Sector

Insurance sector in Q4 2018 marked a positive financial result, albeit with a lower net profit compared to Q4 2017 as a consequence of the higher increase of

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

Net income from premiums of the insurance sector, in Q4 2018, marked an annual increase of 6.2 percent, while at the same time, expenditures of the insurance sector were characterized with a growth of 4.7 percent, and 37.8 percent, respectively, compared to Q4 2017. Consequently, despite the increase of claims incurred and the increase of expenditures, the sector’s income increase affected the positive performance, although it stood at lower level compared to the same quarter of the previous year, marking a profit of EUR 0.9 million compared to EUR 3.3 million in Q4 2017.

Regarding the liquidity position of the sector, this indicator marked a decline of liquidity, taking into account the stock of assets until December 2018. This decline of liquidity indicator of the sector is attributable mainly to the annual decline of the stock of cash and its equivalent (3.0 percent) against the decline of technical reserves (2.4 percent), where their ratio reached 98.7 percent from 104.3 as it was in December 2017. Meanwhile, the other liquidity indicator declined, mainly being impacted by the marginal decline of total liabilities with 0.2 percent against the more significant decline of cash and its equivalents. The ratio of cash and its equivalents to total liabilities, in December 2018, stood at 88.7 percent, from 91.3 percent as it was in December of the previous year.

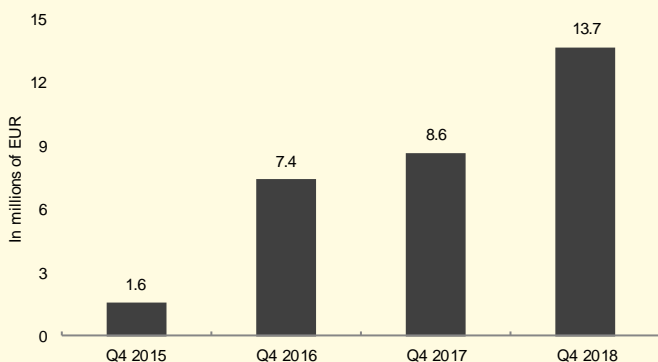
Microfinance Sector

The considerable assets increase of the sector continued to be influenced by the significant increase of loans of this sector. Consequently, the sector was characterized with an increase of income and positive financial performance.

Assets

Microfinance sector was the sector with the highest increase of assets stock within financial system until December 2018. Despite of an increase of the weight of this sector to total assets of financial system, its share still remains low with around 4.0 percent.

Figure 27. Assets of the microfinance sector, quarter change



Source: CBK (2019)

During Q4 2018, the value of total assets of microfinance sector increased by EUR 13.7 million (EUR 8.6 million in Q4 2017) (figure 27), amounting to EUR 249.9 million in December 2018.

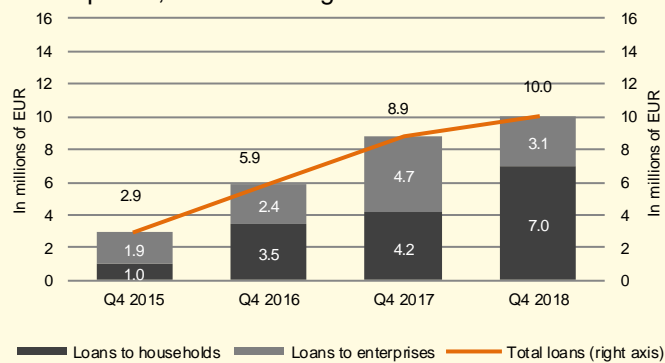
The expansion of microfinance sector mainly is attributed to the increase of credit activity, which is financed by borrowings from external sector (67.3 percent of total assets).

Loans

In Q4 2018, the stock of loans increased by EUR 10.0 million, representing a higher increase for EUR 1.2 million compared to the value marked in Q4 2017 (figure 28).

Loans to households, which have a share of 65.8 percent to total loans of the sector, accelerated their increase with EUR 7.0 million (EUR 4.2 million in Q4 2017). Meanwhile, loans to enterprises, which comprise 34.2 percent of total loans of the sector, increased by EUR 3.1 million, representing a lower value than in Q4 2017 (figure 28). As a result of these dynamics, the stock of loans to enterprises and households marked a significant annual increase.

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

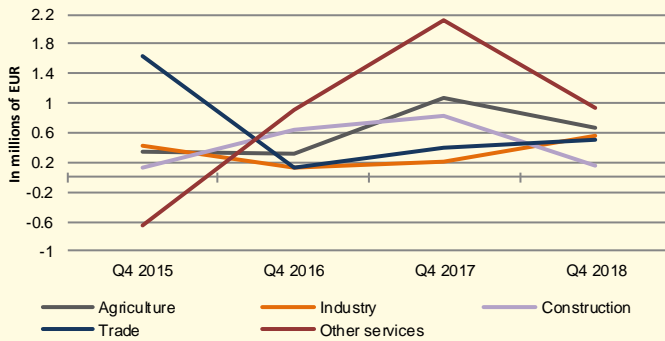


Source: CBK (2019)

Regarding lending activity by economic sectors, stock of loans issued to the most important sectors such as agriculture, construction, trade and industry were characterized with a positive trend during this quarter. During Q4 2018, the annual increase of lending activity by economic sectors resulted to be slower compared to the previous year. The sector which marked the highest increase in this quarter was the sector of “other services” with EUR 1.0 million, which at the same time

represents the most important category of loans to enterprises (33.5 percent of total stock of loans to enterprises) (figure 29).

Figure 29. Value of loans to enterprises, by economic sectors in Q4

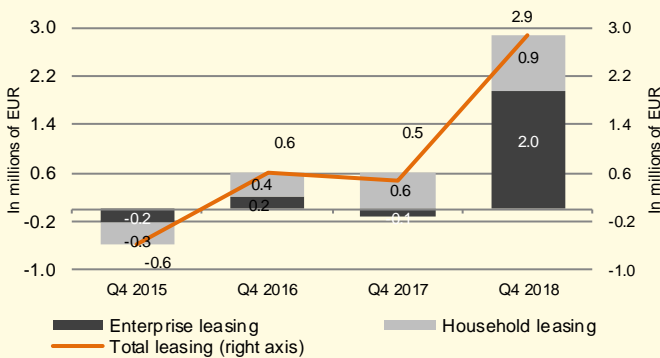


Source: CBK (2019)

Leasing

The stock of leasing, in Q4 2018, increased by EUR 2.9 million (EUR 0.5 million in Q4 2017) (figure 30).

Figure 30. Value of microfinance sector leasing



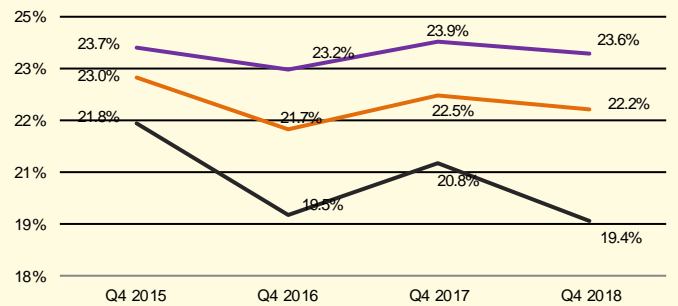
Source: CBK (2019)

The increase of leasing value during this quarter was primarily supported by the increase of “other leasing” mainly to enterprises, being followed by the increase of mortgage leasing to households.

Interest Rates

The average interest rates on loans, in Q4 2018, changed their increasing trend from the previous year, declining at 22.2 percent, from 22.5 percent as they were in Q4 2017. The same trend was followed by interest rates on loans to enterprises and households as well, namely a decline of 1.5 percentage points, and 0.3 percent, respectively (figure 31).

Figure 31. Average interest rate on microfinance sector loans

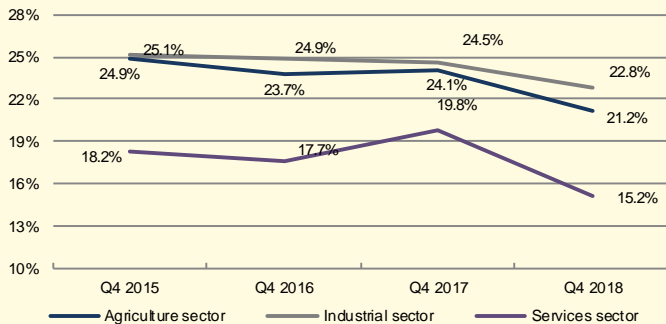


Source: CBK (2019)

Within loans to households, the average interest rate on consumer loans increased by 1.6 percentage points, reaching 26.1 percent, while the average interest rate on mortgage loans declined by 4.3 percentage points, falling at 20.9 percent.

Within loans to enterprises, services sector results to have the lowest interest rate, further declining for 4.6 percentage points and falling to 15.2 percent in Q4 2018. Whereas, industry sector remained the sector with the highest interest rate on loans with 22.8 percent, despite the decline of 1.7 percentage points of interest rate against Q4 2017 (figure 32).

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



Source: CBK (2019)

Performance of the Microfinance Sector

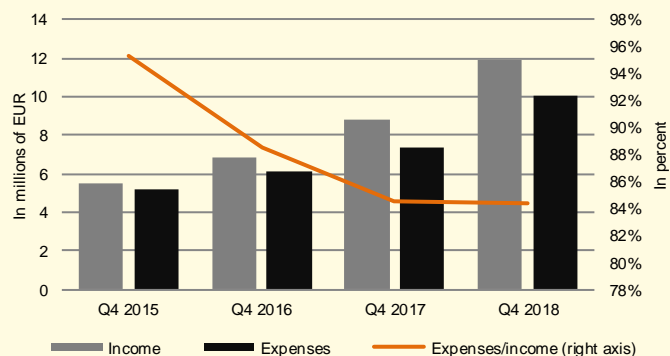
Developments in credit activity and leasing activity within the sector, had an impact on the good financial performance of microfinance institutions marked in Q4 2018. The profit of the sector reached a value of EUR 1.9 million, in Q4 2017, when this sector realized a profit of EUR 1.4 million (figure 33).

The profit increase primarily was attributed to the significant increase of income with EUR 3.1 million, whose value reached EUR 11.9 million in Q4 2018. More specifically, the profit increase is attributable to income increase of EUR 9.9 million, which comprises 86.6 percent of total income.

The increase of interest income was a result of the continuous significant increase of lending activity marked by microfinance institutions during the previous three years. Total expenditures of the sector marked an increase of EUR 2.6 million, in Q4 2017, reaching EUR 10.0 million in Q4 2018. The highest increase was marked by non-interest expenses, which increased by EUR 5.8 million. Within expenditures of the sector, the increase of personnel and

administrative expenses contributed to the overall increase of expenditures as a consequence of the increase of employees number in this sector. Also, an impact was given by the increase of provision expenses for possible loan losses, albeit to some lower extent.

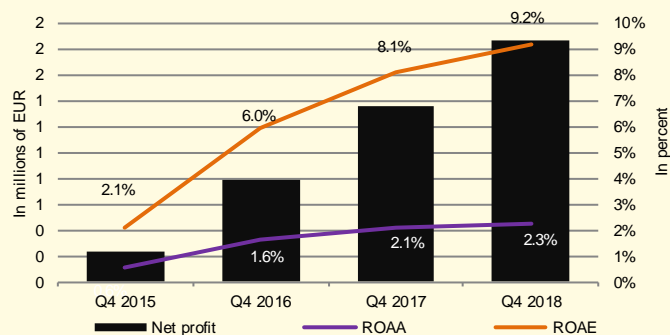
Figure 33. Microfinance sector income and expenses



Source: CBK (2019)

As a result of the positive financial performance not only during this quarter but also during the whole year of 2018, profitability indicators, annualized for the respective quarter, marked an improvement (figure 34).

Figure 34. Profitability indicators of microfinance sector

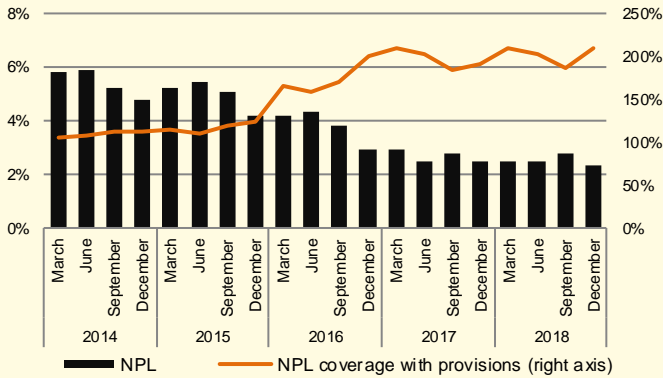


*Profit was annualized for the respective quarter

Source: CBK (2019)

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

Figure 35. Indicators of credit portfolio quality



Source: CBK (2019)

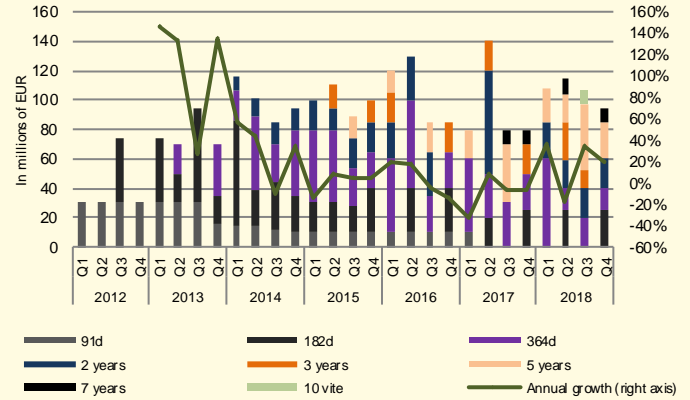
The level of nonperforming loans to total loans ratio of the sector, until December 2018, marked a decline of 0.1 percentage points compared to the same period of the previous year, standing at 2.4 percent (figure 35). Whereas, the coverage level of nonperforming loans with loan loss provisions, in December 2018, reached 208.8 percent compared to the level of 190.3 percent that had been marked in December 2017.

Securities Market

In the fourth quarter, Treasury Department of the Ministry of Finance of Kosovo's Government realized 5 auctions, in which were issued government bills and government bonds with a value of EUR 95.0 million.

The value of the issued securities in this quarter was 18.8 percent higher than in the same quarter of the previous year, whereas for 11.2 percent lower than in the previous quarter (figure 36). The significant increase compared to the same period of the previous year, was affected by the increase of the issued value of government bonds (table 1).

Figure 36. Amount of issued debt, annual growth



Source: Ministry of Finance

The average interest rate on securities, in Q4 2018, marked an increase (2.1 percent) compared to Q4 2017 (1.2 percent).

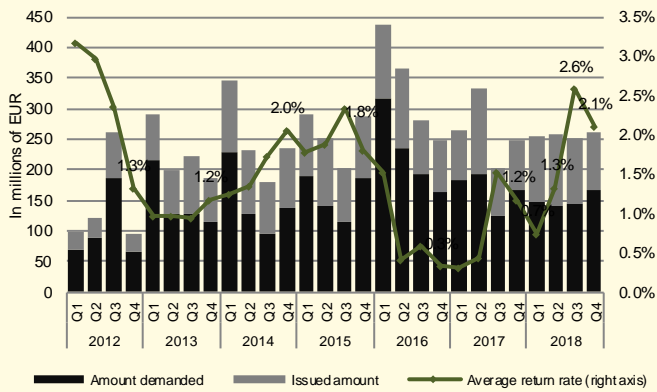
Table 1. Number and amount of securities issued by Kosovo's Government

Period	Treasury bills		Treasury bonds	
	Number realized	Received value	Number realized	Received value
Q4 2015	3	65.00	2	35.00
Q4 2016	3	65.00	1	20.00
Q4 2017	2	49.95	2	30.00
Q4 2018	2	40.00	3	55.00

Source: Ministry of Finance (2019)

This increase may have been affected by issuance of treasury bonds with longer maturity compared to the same quarter of the previous year. In addition, the increase of the average interest rate may have been impacted by participants' interest on securities auctions. The participants' bid amount was higher for 1.7 times than the amount issued at auctions by the Ministry of Finance (2.1 times higher in Q4 2017) (figure 37).

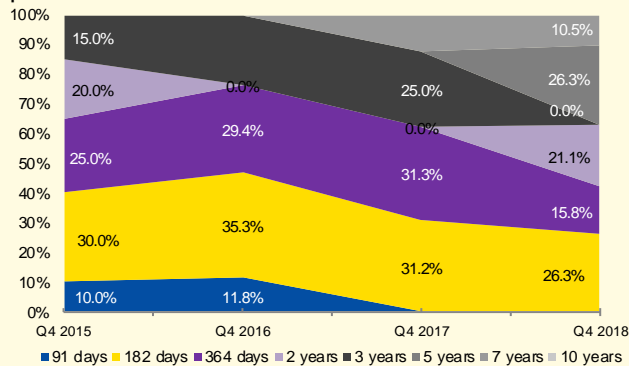
Figure 37. Bid to cover ratio



Source: Ministry of Finance (2019)

Securities structure by maturity in this quarter was dominated by government bonds with a maturity of 5 years with a share of 26.3 percent, where also government bills with a maturity of 182 days had the same share.

Figure 38. Structure of Government securities, in percent



Source: Ministry of Finance (2019)

Similar to the same period of the previous year, there were not issued treasury bills with a maturity of 91 days, while the issuance trend of securities was more focused on issuing government bonds with a longer maturity, as a result of higher return on investments (figure 38).

Suggested citation for this publication:

CBK (2019): Quarterly Assessment of Financial System No. 25, Q4 2018, Central Bank of the Republic of Kosovo, Prishtinë

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- a) Monthly Statistics Bulletin: <http://www.bqk-kos.org>
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KAS (2018):

- a) Consumer Price Index: <http://ask.rks-gov.net/eng>
- b) Producer Price Index: <http://ask.rks-gov.net/eng/>
- c) Import Price Index: <http://ask.rks-gov.net/eng/>
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- e) Statistics of external trade: <http://ask.rks-gov.net/eng>
- f) Quarterly Bulletin: <http://ask.rks-gov.net/sq/agjencia-e-statistikave-te-kosoves/add-news/buletini-tremujor>

Other (2018):

- a) Result announcement of Government's Securities auctions: <https://mf.rks-gov.net/page.aspx?id=1,46>
- b) Kosovo Credit Guarantee Fund: <http://www.fondikgk.org/>
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<http://www.euribor-ebf.eu/euribor-org>

IMF (2018): World Economic Outlook. <http://www.imf.org>

Macroeconomic selected indicators

Description	2017	2018
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	6,413.8	6,739.0
Consumer prices (annual average)	1.5%	1.1%
Consumer prices (end of period)	0.5%	2.9%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	1,530.4	1,598.1
Budget Expenditures (in millions of EUR)	1,464.5	1,655.3
Primary balance (in millions of EUR)	65.9	-57.2
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,907.9	6,322.9
of which : Banks	3,869.8	4,183.9
Loans	2,485.5	2,755.5
Deposits	3,094.5	3,364.6
<i>Interest Rate s on Loans, end of period</i>	6.8%	6.0%
<i>Interest Rate s on Loans, end of period</i>	1.3%	1.5%
Interest rate gap	5.5%	4.5%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-395.0	-575.0
of which: remittances	689.8	731.4
Financial account	-284.3	-287.2
Foreign Direct Investmentsin Kosovo	255.4	231.7
Portfolio investments, net	14.7	-79.9
Other investments, net	-156.9	-104.5
International Investment Position (IIP), net	-78.6	-113.7
Assets	4,774.8	5,001.4
Liabilities	4,853.4	5,115.1
External debt	2,069.2	2,089.5
Private external debt	1,570.7	1,594.7
Public external debt	498.5	494.8

Source:

1/ KAS (2019), GDP for 2018 is the CBK estimate;

2/ MF (2019);

3/ CBK (2019).

*Data for the fiscal sector are until November, whereas for IIP and external debt are until September.

