

Summary

Financial system in Kosovo continued to mark a growth also in the second quarter of 2018. Comparative quarterly analysis shows an expansion of financial system assets, primarily as a result of the assets increase of the banking sector and pension sector.

Banking sector continued to be characterized with an accelerated increase of its credit activity, better financial performance and a satisfactory level of indicators, which measure the health of the sector. In the second quarter of 2018, assets of the banking sector increased by EUR 18.7 million, mainly as a result of credit growth. The stock increase of total loans, among others, resulted from the increase of new loans during this period, especially the increase of investment loans (loans to enterprises) and consumer loans (loans to households). Economic sectors, which were more credited in this period, were trade, construction and manufacturing.

Credit growth continued sustainably to be financed by deposits collected within the country's economy, which in the second quarter of 2018 comprised 79.3 percent of total liabilities of the sector. In the second quarter of 2018, deposits increased by EUR 11.9 million, primarily due to expansion of enterprise deposits held at the banking sector, during this period.

In the second quarter of 2018, interest rates on loans continued to be characterized with a declining trend, while interest rates on deposits marked a slight annual increase. Interest rate on loans, in the second quarter of 2018, stood at 6.7 percent, while interest rate on deposits reached 1.2 percent.

Banking sector was characterized with a satisfactory financial performance in the second quarter of 2018, realizing a net profit of EUR 20.9 million, albeit representing a lower level compared to the same quarter of the previous year. The slight decline of the realized profit, was mainly a consequence of expenditures increase, while also income marked a slight decline compared to the second quarter of 2017.

Banking sector marked an improvement of the key financial health indicators. In the second quarter of 2018, the banking sector recorded a decline of nonperforming loans (2.8 percent) and an improvement of their coverage with loan loss provisions (155.6 percent). At the same time, Capital Adequacy Ratio stood at 17.4 percent, and the liquidity position of the banking sector marked a satisfactory liquidity level of 33.2 percent.

In the second quarter of 2018, pension sector marked a growth of assets, which also reflected on the increase of the sector's weight to assets of the financial system compared to the same period of the previous year. In the second quarter, this sector was characterized with a positive growth trend of new contributions, and also a positive performance regarding gross return on investments.

Insurance sector closed this quarter with a positive financial result, albeit with a lower value compared to the same quarter of the previous year. More specifically, factors which had an impact on the insurance sector's dynamics were marked by the increase of net income realized by premiums and efficient management of sector's expenditures, while factors which had a negative contribution were the increase of claims incurred in the second quarter of 2018.

Microfinance sector continued to increase its activity, where also the second quarter was characterized with a significant increase of assets as a result of the considerable 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 decline of the value issued, lengthened maturity, and also a higher investment demand for securities. The longer maturity may have had an impact on the increase of the overall rate in the second quarter of 2018.

BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
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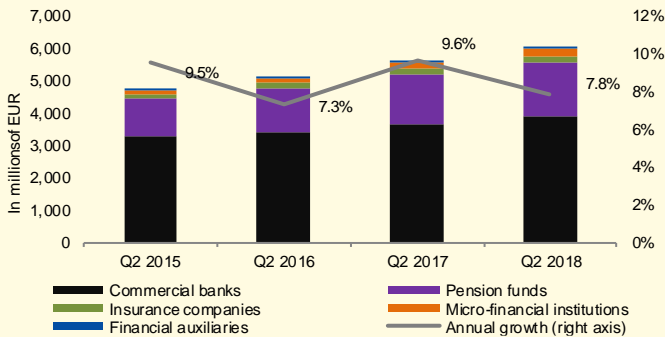
ABBREVIATIONS

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

Financial system marked an increase in all its sectors. A higher contribution to assets increase of financial system was marked especially by banking sector and pension sector assets, while also insurance sector and microfinance sector had a positive contribution to the expansion of the system, albeit at lower levels.

Figure 1. Assets value of of Kosovo's financial system

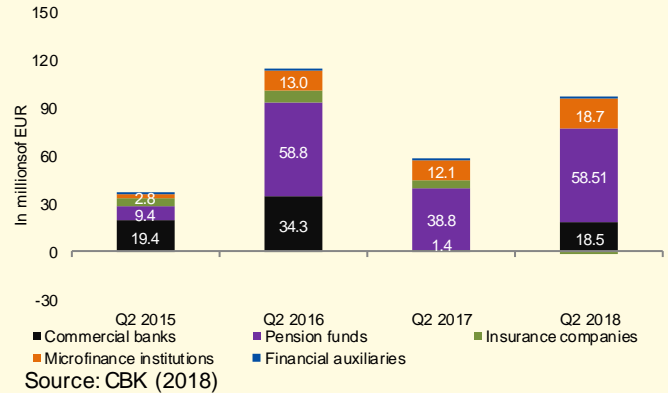


Note: The data are as at end of the noted quarter
Source: CBK (2018)

All the constituent sectors of financial system increased their assets in the reporting period reaching the value of EUR 6.0 billion at the end of the second quarter of 2018, representing an annual growth of 7.8 percent (figure 1). Positive developments in financial system contributed to a more comprehensive access of the public to financial services.

Meanwhile, on quarter basis, assets of financial system marked an increase of EUR 96.3 million in the second quarter of 2018 against the same quarter of the previous year, mainly due to the increase of assets of the banking sector and pension sector (figure 2).

Figure 2. Assets of financial system constituent sectors



The expansion of the activity of the banking sector and microfinance sector primarily was relied on their readiness to expand the credit activity. While, the expansion of pension sector assets was supported by new collections and positive developments in international financial markets which resulted with positive return from assets investments. Also, insurance sector was characterized with an increase of gross written premiums, an increase of income and better management of expenditures against the increase of claims occurred.

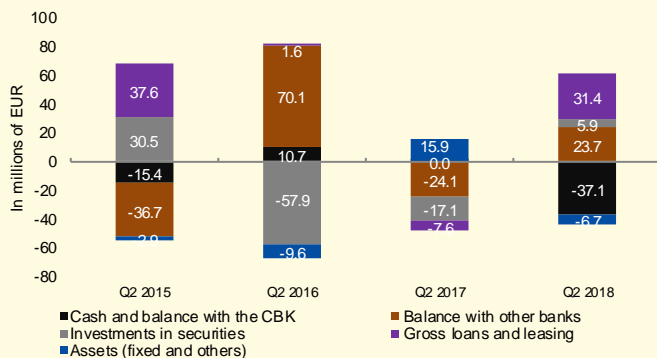
Banking Sector

Banking sector was characterized with an accelerated increase of assets and a good financial performance, as a result of the accelerated credit activity against the same period of the previous year. Banks were characterized also with a high satisfactory level of indicators, which measure the health of the sector.

Assets

In the second quarter of 2018, assets of the banking sector were expanded by EUR 18.7 million reaching the value of EUR 3.89 billion at the end of the period. The increase of banking sector assets mainly is attributed to the credit growth supported by eased offer for loans applied by banks. Compared to the previous quarter almost all categories of assets marked a decline, which suggests an orientation of assets towards loans (figure 3).

Figure 3. Annual change of the banking sector assets structure



Source: CBK (2018)

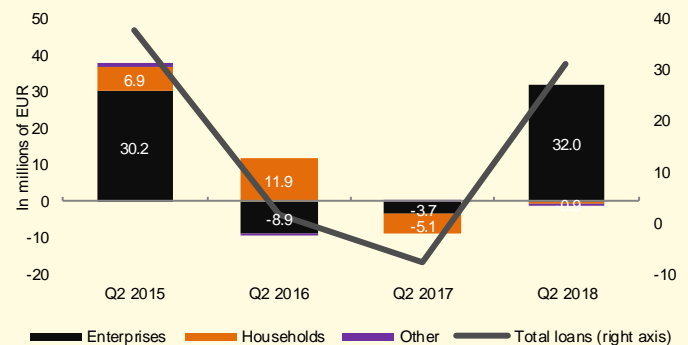
Unlike the previous quarter, cash and balance with the CBK declined by EUR 37.1 million in the second quarter of 2018, dropping to the value of EUR 426.9 million at the end of the mentioned period. The decline of this category mainly reflects the level of cash held at banks' treasury and at the CBK, which declined by EUR 13.9 million and EUR 23.2 million, respectively, compared to the second quarter of 2017. This development reflects a shift of assets of the banking sector towards assets, which result to be more profitable than loans, which in this quarter accelerated the increase.

In the second quarter of 2018, securities stock of the banking sector contracted by EUR 25.9 million and amounted to EUR 450.8 million at the end of the reporting period. The stock of securities was characterized with an annual increase of EUR 5.9 million compared to the same quarter of 2017. Low rates of return from securities may have had an impact on shifting banks' investments from securities towards credit activity, as an instrument with higher return.

Loans

Loans issued by the banking sector marked an accelerated increase in the second quarter of 2018. Banking sector issued loans to the domestic economy with an amount of EUR 127.0 million in the second quarter of 2018, reaching the value of EUR 2.66 billion at the end of the mentioned period (figure 4).

Figure 4. Annual change of total loans value of main categories



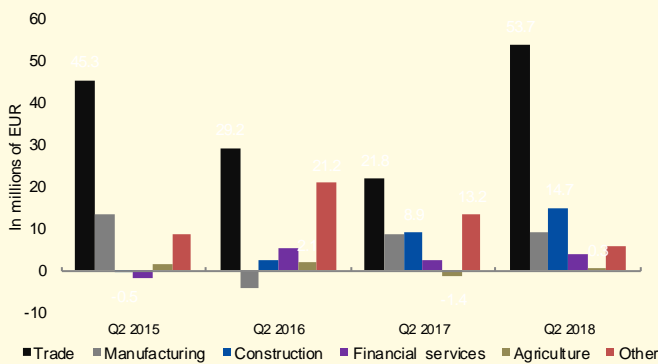
Source: CBK (2018)

An impact on the increase of active loans was marked by new loans issued to enterprises (amounted to EUR 229.1 million in the second quarter of 2018) and to households (amounted to EUR 165.0 million). Developments in the stock of active loans and new ones, among others, were impacted by eased supply

side applied by banks through improving credit terms and conditions for both economic categories.

The stock of loans to enterprises increased by EUR 32.0 million amounting to EUR 1.70 billion at the end of the period compared to the second quarter of 2017 (figure 4). Within loans to enterprises, sectors of trade and agriculture marked the highest increase, followed by manufacturing sector (figure 5).

Figure 5. Credit structure by economic activity



Source: CBK (2018)

Balance of loans to trade sector, which dominate the structure of total loans to enterprises, totaled EUR 53.7 million in the second quarter of 2018 and their stock amounted to EUR 855.7 million at the end of the mentioned period. On the other hand, lending to construction sector during the second quarter was EUR 14.7 million, reaching the stock value of EUR 147.7 million. Loans to manufacturing sector continued to be characterized with an increase in the second quarter of 2018 (EUR 9.3 million), where the stock value reached EUR 202.0 million.

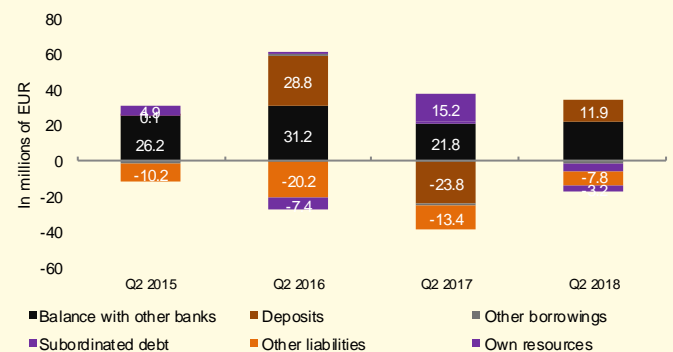
Loans to households amounted to EUR 41.2 million in the second quarter of 2018, reaching a stock value of EUR 958.4 million. This increase, among others, reflects the trend of new loans issued by banks during

this period. More specifically, during this period, the value of new loans designated for consumption amounted to 127.1 million, or EUR 18.3 million more than the value in the second quarter of 2017. Whereas, mortgage loans issued by banks amounted to EUR 26.9 million, or EUR 1.0 million more than the value marked in the second quarter of 2017.

Liabilities and Own Resources

The structure of liabilities and own resources of the banking sector is dominated by deposits, which comprise 79.3 percent of total liabilities. Compared to the previous quarter, when deposits had marked a decline, in the second quarter of 2018 it was marked an increase of EUR 11.9 million, representing an annual growth of EUR 35.7 million compared to the second quarter of 2017.

Figure 6. Structure of liabilities and own resources



Source: CBK (2018)

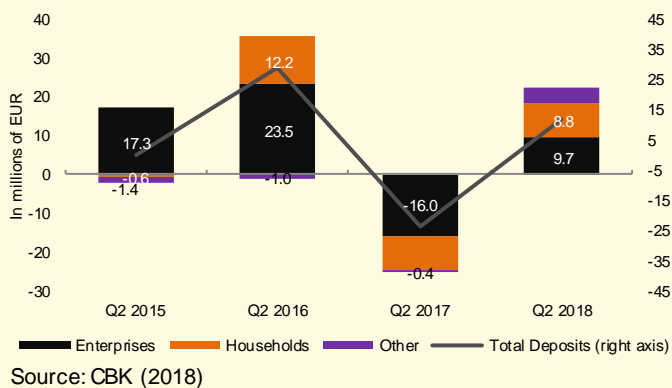
The second most important category, namely own resources, mainly as a result of the increase of the profit, was characterized with a decline of EUR 3.2 million compared to the previous quarter. The other categories have not marked significant changes

within the structure of total liabilities and own resources in the second quarter of 2018 (figure 6).

Deposits

Deposits of the banking sector in Kosovo increased by EUR 11.9 million in the second quarter of 2018, amounting to EUR 3.09 billion. Dynamics with which were characterized deposits of the banking sector in the second quarter of 2018 mainly are attributed to developments within enterprises and households deposits. Enterprise deposits increased by EUR 9.7 million against the previous quarter reaching a value of EUR 698.7 million at the end of the mentioned period.

Figure 7. Total deposits value of main categories

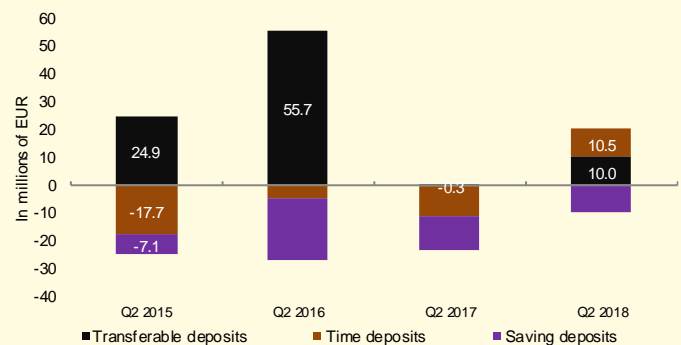


Conversely, household deposits increased by EUR 8.8 million compared to the previous quarter, reaching the value of EUR 2.23 billion at the end of the period (figure 7).

The growth of household deposits in this quarter, may be attributable to some extent to the increase of income in the economy during this quarter, as a result

of the increase of net average salary¹ and to the increase of remittances in this quarter. The slight increase of interest rates on deposits may have also had a contribution to the growth. On the other hand, the increase of interest rate on enterprise deposits, may have had an impact to some extent on their increase during this quarter (figure 7).

Figure 8. Balance structure of deposits



Source: CBK (2018)

Regarding the categories of deposits, transferable deposits rose by EUR 10.0 million in the second quarter of 2018, on quarter basis, marking a value of EUR 1.84 billion at the end of the above mentioned period. Conversely, time deposits increased by EUR 10.5 million, in this quarter, reaching a value of EUR 773.9 million at the end of the period. Meanwhile, saving deposits declined by EUR 9.7 million on quarter basis, falling at the value of EUR 471.6 million at the end of the mentioned period (figure 8).

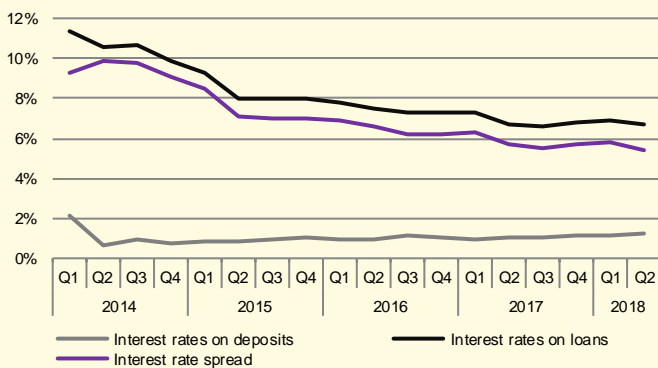
Interest rates on saving deposits may have had an impact on the decline of this category of deposits.

¹ According to the Quarterly Bulletin of the second quarter of 2018, Kosovo Agency of Statistics (KAS) (July 2018).

Interest Rates²

In the second quarter of 2018, interest rates on loans continued to be characterized with a declining trend, while interest rates on deposits marked a slight annual increase. The interest rate spread of loans and deposits narrowed down to 5.4 percentage points (5.7 percentage points in the second quarter of 2017).

Figure 9. Interest rate on loans and deposits



Source: CBK (2018)

Interest rates on loans, in the second quarter of 2018, decreased to 6.7 percent, while the interest rate on deposits marked a slight increase to 1.2 percent (figure 9).

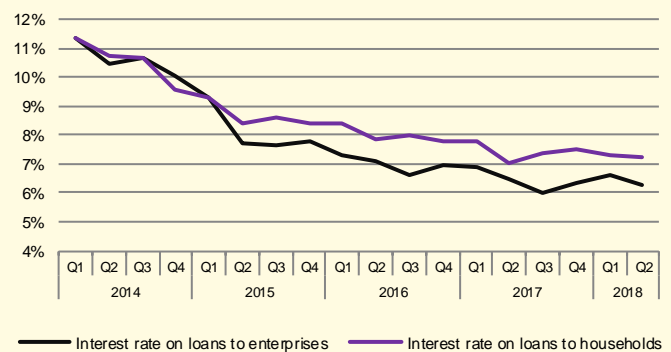
Interest rates on loans

The interest rate on loans to enterprises decreased to 6.3 percent, from 6.5 percent as it was in the second quarter of 2017 (figure 10).

All the categories of interest rates on loans to enterprises in the second quarter of 2018 were characterized with an annual decline. The highest decline (0.3 percentage points) was marked in non-

investment loans, declining to 6.2 percent. In the reporting period, interest rates on loans intended for investments had an interest rate of 5.9 percent. Other categories of interest rates applied for enterprises, such as loans with favorable conditions, marked an increase during this period, which still continued to have quite low interest rate (3.4 percent in the second quarter of 2018), taking into account that they are covered with cash and other liquid assets.

Figure 10. Interest rate on loans to enterprises and households



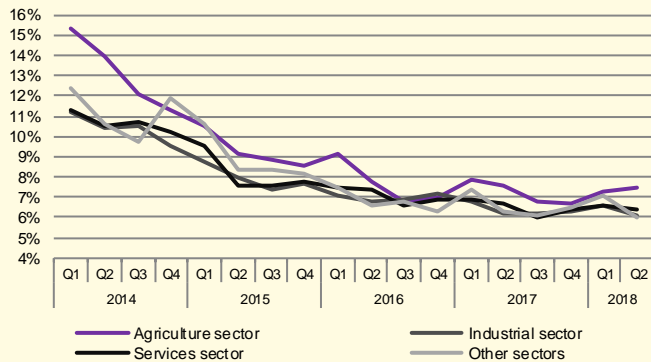
Source: CBK (2018)

Interest rates on loans to all economic sectors continued to mark a decline, albeit with slower pace compared to 2014 and 2015. In the second quarter of 2018, the lowest interest rate was marked by loans to industry sector and to services sector, while the highest interest rate was marked by loans to agriculture sector (figure 11).

Interest rates on loans to households followed the overall trend of interest rates applied by banks. Interest rates applied to mortgage loans, continued to be more favorable, because loans designated for this category of households are covered with real estate.

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

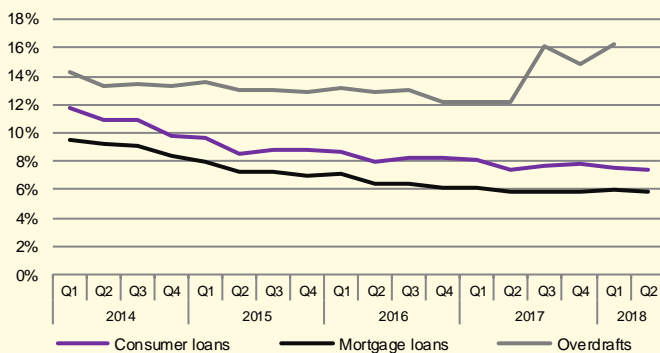
Figure 11. Interest rates on loans, by economic sectors



Source: CBK (2018)

In the second quarter of 2018, interest rates applied to mortgage loans stood at 5.9 percent, representing a growth of 0.1 percentage points compared to the second quarter of 2017. Interest rates applied to consumer loans are significantly higher with an average of 7.4 percent, albeit were characterized with an annual decline of 0.1 percentage points (figure 12).

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



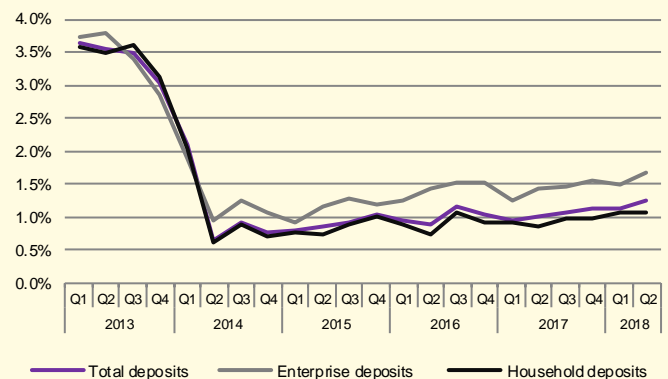
Source: CBK (2018)

Interest rates on deposits

Interest rates on deposits, despite the slight increase marked in the last year, continued to stand at quite low levels compared to periods before 2014 (figure 13).

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

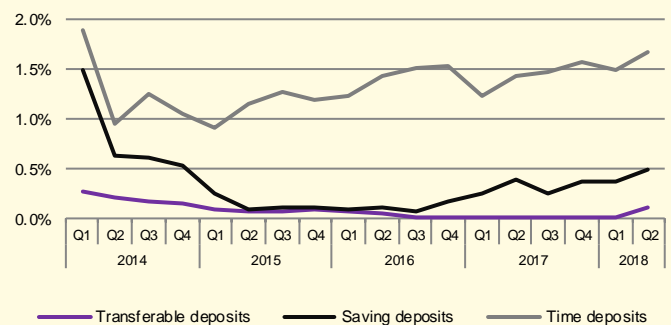
Figure 13. Interest rates on deposits



Source: CBK (2018)

Interest rates on enterprise deposits stood at 1.7 percent in the second quarter of 2018, being characterized with an increase of 0.2 percentage points compared to the second quarter of the previous year.

Figure 14. Interest rates on enterprise deposits, by categories



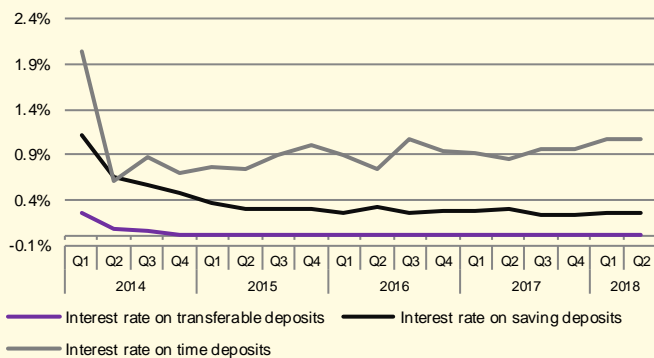
Source: CBK (2018)

More specifically, an increase was marked by interest rates on saving deposits (1.7 percent in the second quarter of 2018, from 1.5 percent in the second quarter of 2017). Interest rates on enterprise time deposits marked a slight increase, while transferable

deposits remained at similar levels as in the same period of the previous year (figure 14).

Interest rates on household deposits stood at 1.1 percent in the second quarter of 2018 (figure 15). Interest rates on transferable deposits (0.001 percent), saving deposits (0.3 percent) and time deposits (1.1 percent), in the second quarter of 2018, are the same as the rates applied in the second quarter of 2017, and almost unchanged in the last three years.

Figure 15. Interest rates on household deposits, by categories



Source: CBK (2018)

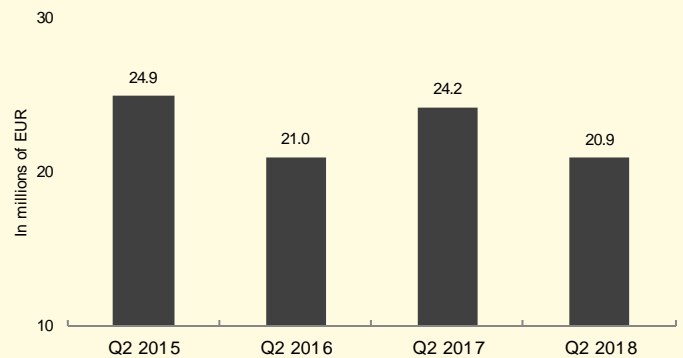
Performance of the Banking Sector

The profit realized in the second quarter of 2018 reached EUR 20.9 million, which is for EUR 3.3 million lower compared to the same quarter of the previous year (figure 16). On annual basis, the slight decline of the profit realized in the second quarter of 2018 mainly is attributable to the decline of non-interest income.

Income of the banking sector in the second quarter of 2018 were characterized with a significant increase, mainly as a result of the increase of interest income.

Non-interest income were characterized also with a quarterly increase.

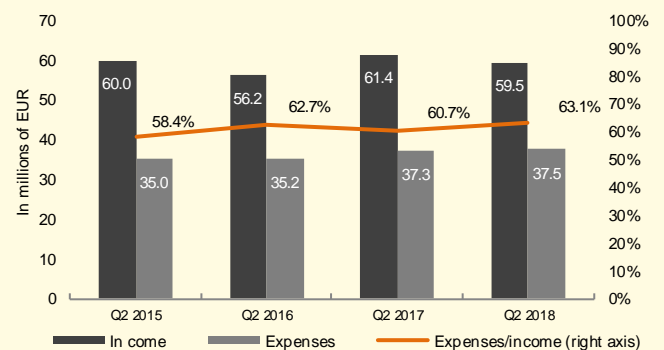
Figure 16. Net profit of the banking sector, in millions of EUR



Source: CBK (2018)

However, compared to the same quarter of the previous year, the value of total income declined by EUR 2.0 million dropping to EUR 59.5 million (figure 17).

Figure 17. Income and expenditures of the banking sector



Source: CBK (2018)

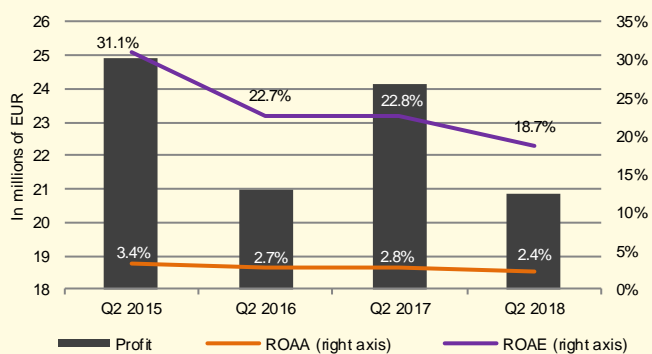
Conversely, total value of expenditures of the banking sector, in the second quarter of 2018, reached EUR 37.5 million, representing an increase of EUR 0.2 million compared to the same quarter of the previous year (figure 17).

The increase of the banking sector expenditures mainly is attributable to the increase of non-interest expenses, which increased by EUR 2.3 million on annual basis. Within non-interest expenses, a higher impact on the increase was marked by the sub-category of possible loan losses. This category increased by EUR 2.2 million compared to the second quarter of 2017, reaching the value of EUR 6.8 million. Within general and administrative expenses, compared to the second quarter of 2017, it was marked a decline for all the comprising categories (personnel expenses, general, and other expenses). Also, interest expenses on annual basis had a slight decline in the same period of the previous year, mainly as a result of changes of interest rates of borrowings from banks and the decline of interest rates of other financial products.

characterized with a slight increase compared to the second quarter of 2017 (figure 17).

Financial performance of the banking sector in this quarter was reflected also in two profitability indicators, namely Return on Average Assets (ROAA), and Return on Average Equity (ROAE). ROAA declined by 0.4 percentage points dropping down to 2.4 percent, while ROAE shrank by 4.1 percentage points, falling at 18.7 percent in the second quarter of 2018 (figure 18). The decline of these indicators reflects the lower income of this quarter compared to the same quarter of the previous year. Moreover, due to the variable of “profit before tax” as part of the calculation of indicators, an impact was given by higher provision on taxes compared to the previous year.

Figure 18. Profitability indicators of the banking sector



Note: ROAA and ROAE calculation for the respective quarter was annualized
 Source: CBK (2018)

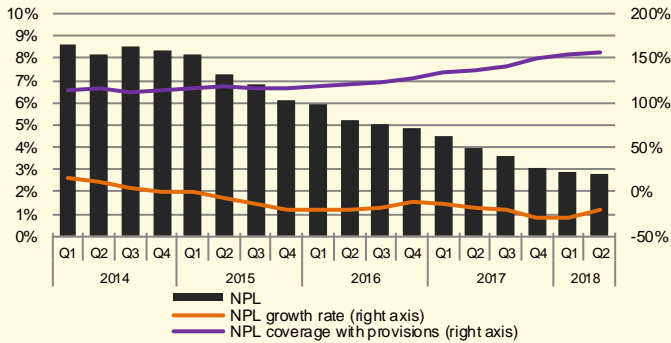
Expenditures to income ratio of the sector marked an increase of 2.4 percent in the second quarter of 2018, compared to the same period of the previous year, standing at 63.1 percent. This came as a result of the overall income decline when expenditures were

Financial Soundness Indicators

Banking sector, also in the second quarter of 2018, was characterized with a decline of nonperforming loans and an improvement of their coverage with loan loss provisions. The level of nonperforming loans, at the end of the second quarter of 2018 stood at 2.8 percent, representing a decline of 1.1 percentage points compared to the same period of the previous year (figure 19).

Furthermore, the coverage level of nonperforming loans with loan loss provisions marked a further improvement reaching at 155.6 percent, mainly as a consequence of a significant decline of nonperforming loans value and the increase of provisions for loan losses in the reporting period.

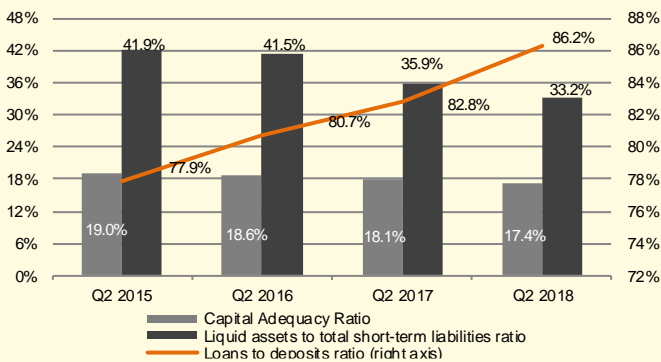
Figure 19. Indicators of loan portfolio quality and NPL growth rate



Note: The data are as at end of the noted quarter
Source: CBK (2018)

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 the level of 17.4 percent.

Figure 20. Liquidity and solvency Indicators



Note: The data are as at end of the noted quarter
Source: CBK (2018)

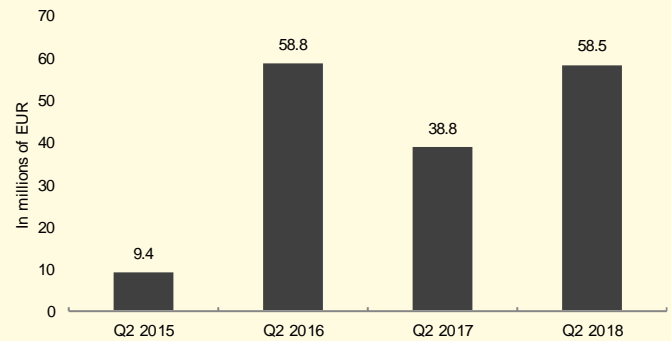
The key liquidity indicator, being presented by the liquid assets to total short-term liabilities ratio, marked a decline at the end of the second quarter of 2018 compared to the corresponding period of 2017. This indicator stood at the level of 33.2 percent, representing a decline of 2.7 percentage points compared to the second quarter of 2017. The decline

of this indicator is attributable to the increase of loans, which had an impact on the decline of liquid assets, and to the increase of short-term liabilities as a result of the increase of transferable deposits (figure 20).

Pension Sector

Pension sector in the second quarter of 2018 was characterized with an increase, as a result of the new contributions collected and positive performance of invested assets, mainly in foreign markets.

Figure 21. Assets of the pension sector, quarter change



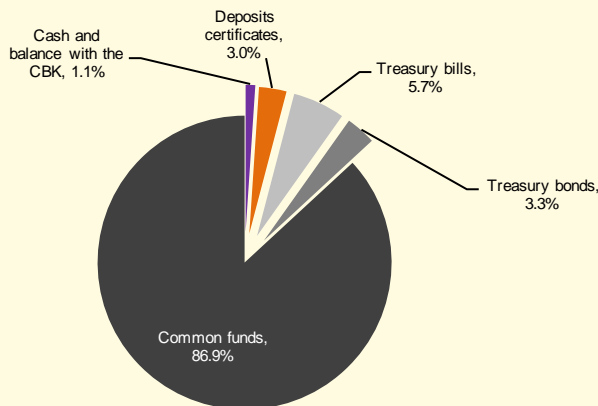
Source: CBK (2018)

Pension sector continued to be the second sector by share of assets to financial system with 28.3 percent to total assets, where the stock of assets of this sector, until June 2018, reached the value of EUR 1.70 billion, representing an annual increase of 10.2 percent.

In second quarter of 2018, assets managed by the pension sector increased by EUR 58.5 million, which is significantly higher compared to the same period of the previous year (figure 21). This assets increase

reflects the investments performance, which mainly are allocated abroad, and comprise the largest share of pension funds assets. More specifically, KPSF which has the highest share to total assets of the pension funds with 99.6 percent, in this quarter increased investments in common funds for EUR 18.0 million compared to the second quarter of 2018. During this period, also investments within the country, respectively investments in Kosovo’s Government securities increased by EUR 29.8 million compared to the second quarter of the previous year.

Figure 22. Structure of KPSF assets (Q2 2018)



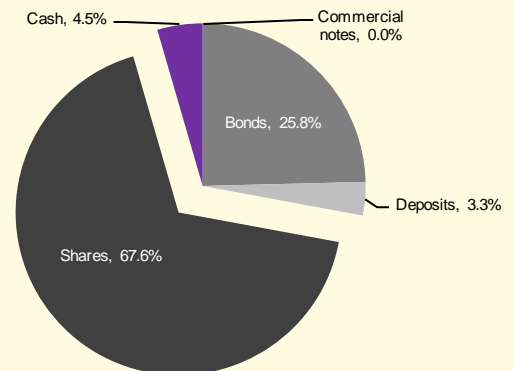
Source: KPSF (2018)

Pension funds operating in Kosovo have a different assets investment strategy. KPSF follows a cautious strategy of investment, thus ensuring a diversification of the risk in common investment funds which are managed by assets management enterprises. 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).

The new contributors’ collections increased by EUR 3.5 million (8.7 percent), in the second quarter of 2018, amounting to EUR 43.1 million, compared to

the same quarter of the previous year. Out of these collected contributions, 99.4 percent belong to KPSF, while the remainder is comprised of SKPF contributions.

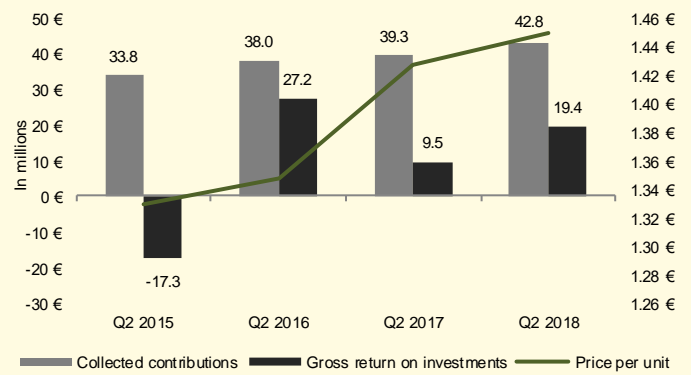
Figure 23. Structure of SKPF assets (Q2 2018)



Source: SKPF (2018)

In this quarter, KPSF was characterized with a positive performance of investments where the appreciation of investment assets increased resulting in a gross return of EUR 19.4 million compared to the gross return of EUR 9.5 million marked in the second quarter of the previous year (figure 24). While, SKPF marked a slowdown of gross returns from investments declining at EUR 54.1 thousands from EUR 227.8 thousands as it was in the second quarter of 2018.

Figure 24. Return on investments and KPSF performance

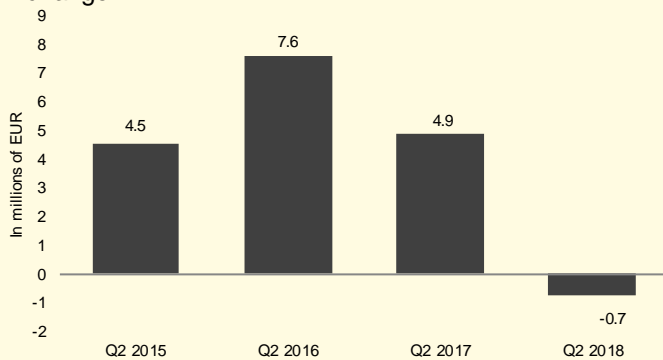


Source: KPSF (2018)

Insurance Sector

The increase of income from premiums and the efficient management of operating expenses had an impact on the sector to have positive financial performance. However, the increase of expenses for claims paid were reflected in an increase of the cost, having an impact on the level of net income which were significantly lower compared the same period of the previous year.

Figure 25. Assets of the insurance sector, quarter change



Source: CBK (2018)

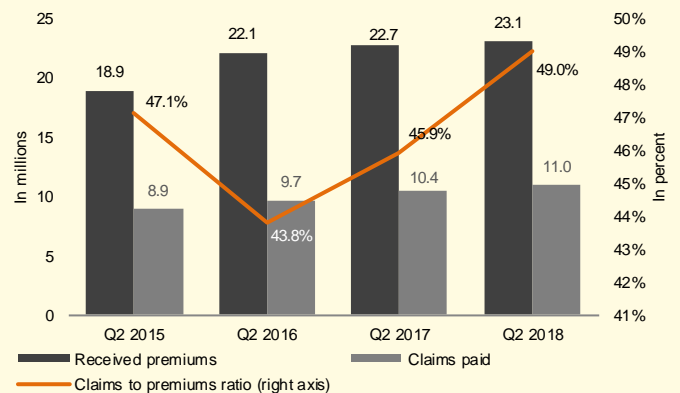
Although, the insurance sector was characterized with a slight contraction of assets in the second quarter of 2018, in general this sector marked positive financial results and is continuing to decline the loss value accumulated from the previous years.

The slight decline of assets of the insurance sector in this quarter was impacted mainly by the decline of investments in securities, while the sector was characterized with an increase of the level of liquid assets. In the second quarter of 2018, assets resulted to have a negative value of EUR 0.7 million, representing an annual decline of EUR 5.6 million compared to the second quarter of 2017 (figure 25).

The trend of total assets of the sector reflects the developments in “life” insurance, whose assets declined for EUR 1.9 million in the second quarter of 2018. A further negative effect was off-set by “non-life” insurance, whose assets increased by EUR 1.2 million during this quarter.

The value of written premiums of insurance companies, in the second quarter of 2018, amounted to EUR 23.1 million, representing an annual increase of 1.4 percent. Premiums of “non-life” insurance account for 96.6 percent of total written premiums structure. The value of written premiums from non-life insurance reached EUR 22.3 million in the first quarter of 2018, marking an annual increase of 0.9 percent. The written premiums value of “life” insurance marked an annual increase of 16.7 percent, reaching a value of EUR 791.2 thousands.

Figure 26. Written premiums and claims paid



Source: CBK (2018)

Claims paid by insurance sector and Kosovo Insurance Bureau (KIB), reached EUR 11.3 million until the second quarter of 2018 (EUR 10.4 million in the second quarter of 2017), representing a growth 8.3 percent. Despite of having an increase of written premiums, the higher level of claims paid had an

impact on the deterioration of claims to premiums ratio, which, in the second quarter of 2018, increased to 49.0 percent from 45.9 percent as it was in the second quarter of 2017 (figure 26).

Performance of the Insurance Sector

Insurance sector marked a good financial performance in the second quarter of 2018, albeit at lower levels compared to the second quarter of 2017, as a consequence of the increase of expenditures on claims paid.

Net income from premiums of the insurance sector, in the second quarter of 2018, marked an annual increase of 6.1 percent, while at the same time, expenditures of the insurance sector were characterized with a significant annual decline of 0.6 percent compared to the second quarter of 2017. Despite the increase of income against the slight decline of expenditures, the increase of 28.6 percent of claims incurred, had an impact on the insurance sector's profit to reach EUR 343.3 thousands, which was marked in the second quarter of 2018, representing a significantly lower level than the profit of EUR 1.1 million marked in the second quarter of 2017.

Regarding the liquidity position of the sector, this indicator marked an improvement in the second quarter of 2018, taking into account the stock of assets by June 2018. This improvement was impacted by the increase of cash and its equivalents (0.3 percent), and the decline of technical reserves (2.7 percent) which resulted in an increased ratio of these two categories to 97.0 percent from 94.2 percent as it

was in June 2017. Also, other liquidity indicators improved, primarily being supported by the higher decline of liabilities of the sector, against the slight increase of the stock of cash and its equivalents. The ratio of cash and its equivalents to total liabilities, in June 2018, stood at 86.5 percent, from 85.2 percent as it was in June of the previous year.

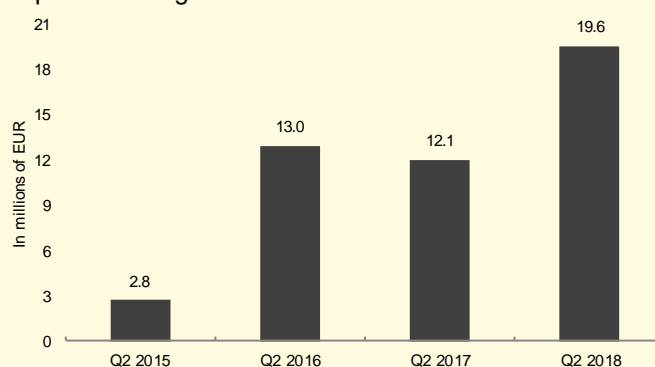
Microfinance Sector

The significant assets increase of the sector continued to be influenced by the significant increase of loans stock. Similarly, the sector is being characterized with a significant increase of income and consequently positive financial performance.

Assets

Microfinance sector was the sector with the highest increase of assets stock within financial system until June 2018. Despite of an increase of the weight of this sector to total assets of financial system, its share remains low with around 3.7 percent.

Figure 27. Assets of the microfinance sector, quarter change



Source: CBK (2018)

During the second quarter of 2018, the value of total assets of microfinance sector increased by EUR 19.6 million (EUR 12.1 million in the second quarter of 2017, amounting to EUR 223.1 million in June 2018 (figure 27).

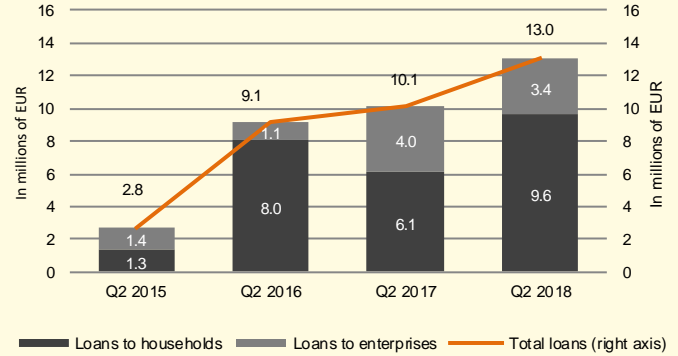
The expansion of microfinance sector mainly is attributed to the increase of credit activity, which primarily was financed by borrowings from external sector (68.4 percent of total assets).

Loans

In the second quarter of 2018, the stock of loans increased by EUR 13.0 million, representing a higher increase for EUR 2.9 million compared to the second quarter of 2017 (figure 28). Loans to households, which have a share of 65.2 percent to total loans of the sector, in the second quarter of 2018 increased by EUR 9.6 million, representing a significant higher value compared to the amount of EUR 6.1 million marked in the second quarter of 2017. Meanwhile, loans to enterprises, which comprise 34.8 percent of total loans of the sector, declined by EUR 0.5 million compared to the second quarter of 2017, dropping to EUR 3.4 million. Despite the quarter dynamics, the stock of loans to enterprises and households marked significant annual increases.

Regarding crediting the economic sectors, the most important sectors being represented by agriculture, construction, trade and industry sectors were characterized with an increase during this quarter, albeit standing at lower levels compared to the second quarter of 2017.

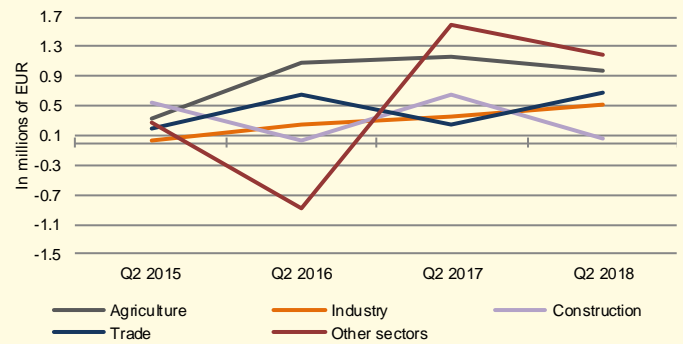
Figure 28. Value of loans to households and to enterprises, annual growth of loans



Source: CBK (2018)

The sector which marked the highest annual increase in this quarter was the agriculture sector with EUR 1.0 million, which at the same time comprises the most important category of loans to enterprises (27.3 percent of total stock of loans) (figure 29).

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



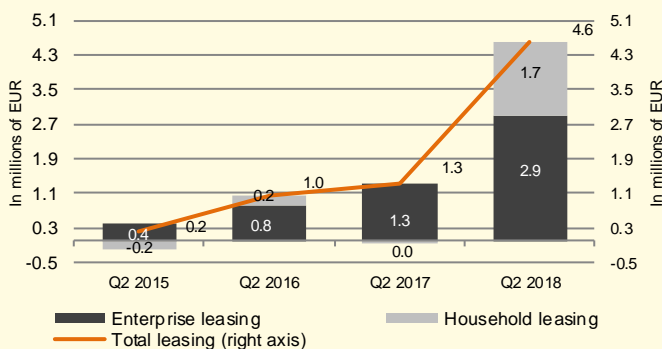
Source: CBK (2018)

Leasing

Leasing to the second quarter of 2018 increased by EUR 4.6 million, which is significantly higher compared to the increase of EUR 1.3 million marked in the second quarter of 2017. (figure 30).

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.

Figure 30. Value of microfinance sector leasing

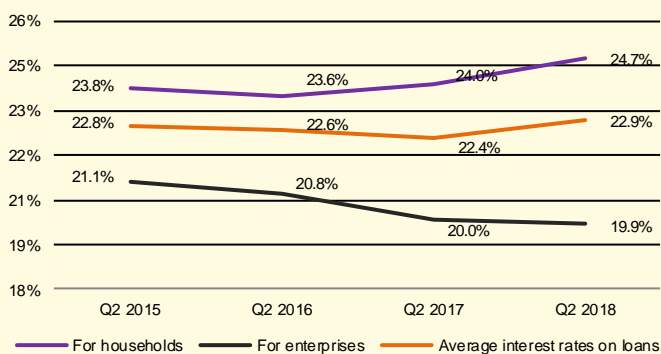


Source: CBK (2018)

Interest Rates

The average interest rates on loans changed their trend from the previous year, increasing to 22.9 percent, from 22.4 percent as they were in the second quarter of 2017.

Figure 31. Average interest rate on microfinance sector



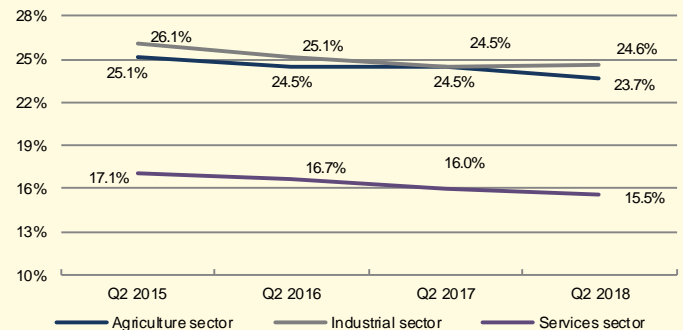
Source: CBK (2018)

Interest rate on loans to households marked a slight increase of 0.8 percentage points, whereas interest

rate on loans to enterprises was characterized with a decline increase of 0.1 percentage points (figure 31). Within loans to households the average interest rate on consumer loans increased by 14.8 percentage points, reaching 39.0 percent, while the average interest rate on mortgage loans declined by 2.3 percentage points, falling at 23.2 percent.

Within loans to enterprises, services sector results to have the lowest interest rate. While, industry sector continued to have the highest interest rate on loans, marking a further increase of 0.1 percentage points (figure 32).

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



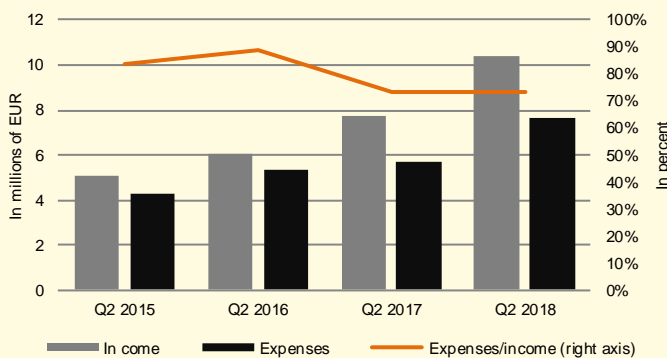
Source: CBK (2018)

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 the second quarter of 2018. The profit of the sector reached a value of EUR 2.8 million against the profit of EUR 2.1 million marked in the second quarter of 2017 (figure 33).

The profit increase is mainly attributed to the significant income increase of EUR 2.6 million, whose value reached EUR 10.4 million in the second quarter of 2018, namely the increase of interest income of EUR 2.6 million, which comprise around 88.6 percent of total income.

Figure 33. Microfinance sector income and expenses

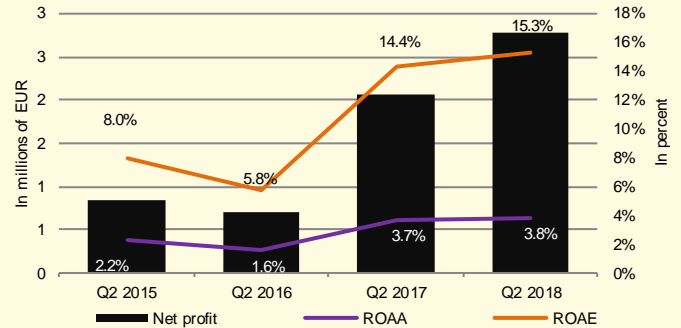


Source: CBK (2018)

The increase of interest income was a result of credit activity increase by microfinance institutions in the last three years, and as well a result of the increase of interest rates applied on loans. Total expenditures of the sector have risen with an amount of EUR 1.9 million, reaching the value of EUR 7.6 million in the second quarter of 2018. The highest increase was marked by non-interest income with an amount of 1.3 million, as a result of the increase of expenses on loss provisions for possible loan losses and from administrative and personnel expenses.

As a result of the positive financial performance during the first quarter, profitability indicators calculated for the whole year marked an improvement (figure 34).

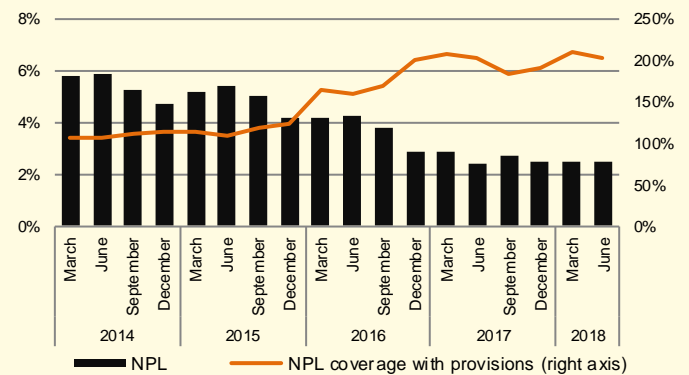
Figure 34. Profitability indicators of microfinance sector



*Profit was annualized for the respective quarter
Source: CBK (2018)

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



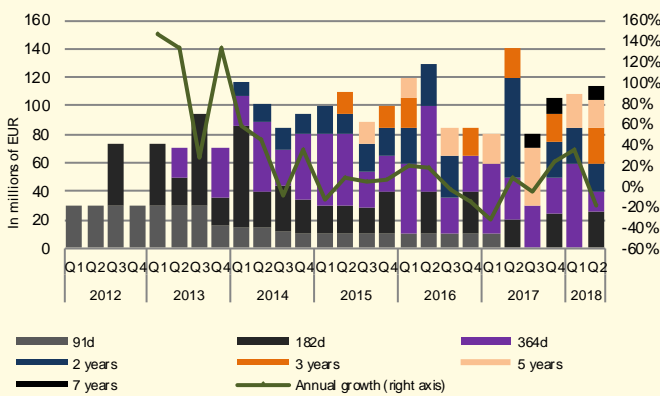
Source: CBK (2018)

The level of nonperforming loans to total loans ratio of the sector, until June 2018, remained unchanged as the same period of the previous year, at the rate of 2.5 percent (figure 35). Whereas, the coverage level of nonperforming loans with loan loss provisions, in June 2018, reached the level of 210.2 percent compared to the level of 202.6 percent in June 2017.

Securities Market

In the second quarter of 2018, Treasury Department of the Ministry of Finance of Kosovo's Government realized 6 auctions, in which government bills and government bonds were issued with a value of EUR 114.4 million (figure 36).

Figure 36. Value of issued debt, annual growth



The value of securities issued in this quarter was lower for 18.3 percent compared to the same quarter of the previous year, whereas for 5.6 percent higher than in the previous quarter of this year. Compared to the same period of the previous year, the issued value of treasury bills and Government bonds marked a decline (table 1).

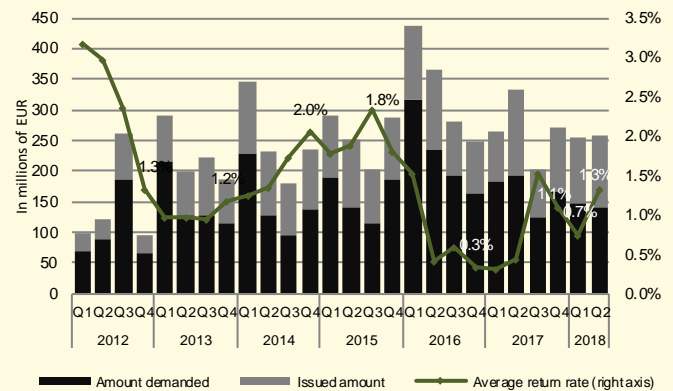
Table 1. Number and amount of securities issued by Kosovo's Government

Period	Treasury bills		Treasury bonds	
	Number realized	Received value	Number realized	Received value
Q2 2015	4	80.00	2	29.95
Q2 2016	4	100.00	1	30.00
Q2 2017	2	50.00	4	90.00
Q2 2018	2	39.57	4	74.85

Source: Ministry of Finance (2018)

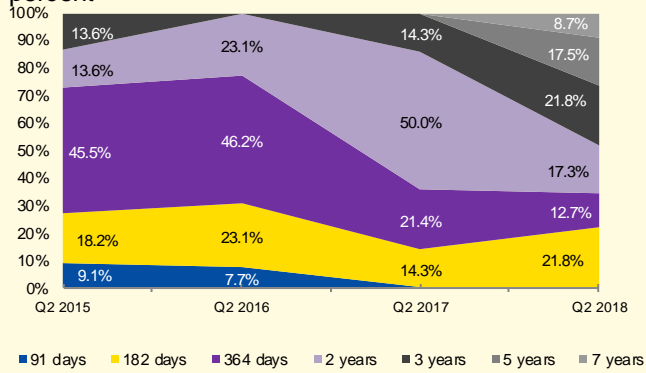
The average interest rate on securities has marked an increase (1.33 percent) in the second quarter of 2018 compared to the second quarter of 2017 (0.44 percent). This increase may have been affected by issuance of treasury bonds with longer maturity compared to the same quarter of the previous year. In addition, the increase of the average interest rate may have been impacted by supply and demand side on securities (figure 37). The participants' bid amount was for 1.2 times higher than the amount issued at auctions by the Ministry of Finance (1.4 times higher in the second quarter of 2017).

Figure 37. Bid to cover ratio



The structure of securities by maturity in this quarter is dominated by treasury bills with a maturity of 182 days and by government bonds with a maturity of 3 years with a share of 21.8 percent in total issued securities of both categories.

Figure 38. Structure of Government securities, in percent



Source: CBK (2018)

Compared to the same period of the previous year, treasury bills with a maturity of 91 days were not issued; whereas the Government intends to issue bonds with a longer maturity (over 5 and over 7 years) (figure 38).

Suggested citation for this publication:

CBK (2018): Quarterly Economic Assessment of the Financial System No. 23, Q2 2018, Central Bank of the Republic of Kosovo, Prishtinë

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- a) Consumer Price Index: <http://ask.rks-gov.net/eng>
- b) Producer Price Index: <http://ask.rks-gov.net/eng/>
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- a) Result announcement of Government's Securities auctions: <https://mf.rks-gov.net/page.aspx?id=1,46>
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Macroeconomic selected indicators

Description	Q2 2017	Q2 2018
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	1,605.1	-
Consumer prices (annual average)	1.9%	0.7%
Consumer prices (end of period)	1.9%	0.8%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	414.6	439.2
Budget Expenditures (in millions of EUR)	417.7	427.7
Primary balance (in millions of EUR)	-3.1	11.5
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	5,566.3	6,002.6
of which : Banks	3,671.2	3,891.5
Loans	2,390.5	2,661.3
Deposits	2,887.8	3,085.9
<i>Interest Rate s on Loans, end of period</i>	6.8%	6.5%
<i>Interest Rate s on Loans, end of period</i>	1.1%	1.2%
Interest rate gap	5.7%	5.3%
External sector*,(in millions of EUR) 3/		
Balance of payments		
Current and capital account	-198.2	-205.1
of which: remittances	125.5	137.4
Financial account	-80.9	-107.8
Foreign Direct Investmentsin Kosovo	50.0	45.5
Portfolio investments, net	13.2	1.3
Other investments, net	-35.2	-101.7
International Investment Position (IIP), net	-89.6	-111.0
Assets	4,650.0	4,776.0
Liabilities	4,739.5	4,887.0
External debt	2,075.4	1,998.3
Private external debt	1,570.5	1,598.3
Public external debt	1541.8	1511.6

Source:

1/ KAS (2018)

2/ MF (2018)

3/ CBK (2018)

*Balance of payments data include the months of April and May, whereas for IIP and external debt the data are presented as of Q1.

