

## Summary

Economic activity in euro area marked an increase of 5.3%, in 2021. The recovery of economic activity has been driven mainly by domestic demand, as a result of the improvement of the pandemic situation, the easing of restrictive measures as well as the supportive fiscal and monetary policy. Economic growth lost its momentum in Q4 2021, mainly due to the new variant of the corona virus "Omicron" and the return of measures in different countries, as well as rising energy prices and obvious problems in the supply chain. Due to the uncertainties caused by the war in Ukraine, the ECB revised its macroeconomic projections in March 2022, presenting three scenarios for economic growth and the growth rate of inflation. The baseline scenario suggests that the real GDP growth in 2022 will be 3.7%, followed by a slower growth of 2.8% in 2023 and 1.6% in 2024.

Also in the region countries, there has been a high growth of economic activity until September 2021, a dynamic that turns out to have weakened in the fourth quarter of the year. Serbia and North Macedonia reported an increase in economic activity of 7.0% and 2.3%, respectively, while other countries have not yet published their estimates. The IMF estimates for 2021 suggest an increase in economic activity of 5.3% for the countries of the Western Balkans, while the forecasts realized in October 2021 suggested a slowdown in growth of 4.4% in 2022. As the risks associated with the pandemic have declined, the war in Ukraine will be reflected in an even slower growth in the countries of the region.

According to preliminary estimates of KAS, Kosovo marked an economic growth of 10.5%, in 2021. This high growth of economic activity was mainly attributed to the improvement of the health crisis - a dynamic that was reflected in the easing of restrictive measures and increased income from abroad (mainly from diaspora), and stimulating financial and fiscal policies. Only in Q4 2021, real GDP growth turned out to have been 6.4%, supported by the growth of domestic demand while net exports had a negative contribution to the generated economic activity.

The increase in aggregate demand as a result of the economic recovery, associated with external inflationary pressures as a result of rising energy prices and commodity prices imported from partner countries was translated into rising overall prices in Kosovo as well. Consumer price index increased by 3.4% in 2021, while the highest increase in consumer prices was recorded in Q4 2021 when the average inflation rate of 6.4% was recorded.

The growth of economic activity in the reporting period was accompanied by the improvement of the performance of budget revenues during 2021.

Only in Q4 2021, budget revenues increased by 12.9%, while budget expenditures increased by only 0.7%. Public debt has continued with double-digit growth of 13.1% and has reached the value of EUR 1.68 billion, while as a percentage of GDP, it has reached 23.3%, in Q4 2021.

The activity generated within the external sector turns out to have had the main weight in the overall economic activity in the country in 2021. The increase of income from diaspora through major channels such as remittances, travel expenses and real estate purchases was translated into a growth of overall demand in the country, supporting both consumption and investment growth, in 2021. The increase in domestic demand resulted in an increase in imports, which worsened the balance of goods, despite the increase in exports. Only in Q4 2021, the trade deficit in goods increased by 34.4% and reached the level of EUR 1.0 billion, while the balance of services reached the value of EUR 139.2 million from EUR 95.2 million, in Q4 2020.

The financial system was characterized by increased activity in all its constituent segments. The sound banking sector (high degree of capitalization, liquidity and high quality of the loan portfolio) played an important role in financing economic activity throughout 2021. The increase in bank lending was supported by both the financial measures taken by the CBK, the mitigation of risks perceived by the banking sector, the increase in total deposits and the increase in demand with the increase of the absorption capacity in the country. For 2022, banks expect a more controlled lending growth of about 15.6%, an increase that will be supported mainly by deposits that are expected to grow by about 5.0%. The pension sector closed 2021 with a high level of return on investments, despite fluctuations in foreign markets as a result of the pandemic. Contributions collected from the contributors continued to grow at a steady pace, albeit at a lower intensity. The year 2022 is accompanied by many uncertainties, and the performance of financial markets is subject to the impact that economic sanctions will have on Russia as a result of the war started in Ukraine and other chain effects. The insurance sector expanded as a result of the higher level of written premiums compared to 2020, while during 2022, it is expected to grow at a lower rate (pre-pandemic level). The growth of the microfinance sector was made possible primarily by borrowing from financial institutions (mainly from abroad), which continue to have the highest share in total liabilities, followed by own capital and accounts payable.

## CONTENTS

Summary	i
Euro area and Western Balkans	6
Kosovo's Economy	7
Real Sector	7
Prices	8
Fiscal Sector	9
External Sector	10
Financial System	13
1. Banking Sector	14
1.1. Balance sheet - Assets	14
Performance of the Banking Sector	19
Pension sector	24
Insurance sector	25
Performance of the insurance sector	26
Microfinance sector	27
Assets	27
Performance of the microfinance sector	29
Securities market	30

## CHARTS AND TABLES

Chart 1. Real GDP growth rate and main contributors .....	07
Chart 2. Headline inflation and core inflation .....	08
Chart 3. Current account deficit and its components .....	10
Chart 4. Export and import of goods .....	10
Chart 5. Main categories of goods export .....	11
Chart 6. Main categories of goods import .....	11
Chart 7. Remittances .....	12
Chart 8. Structure of foreign direct investments.....	13
Chart 09. Assets value of financial system in Kosovo .....	13
Chart 10. Concentration of financial system assets .....	14
Chart 11. Balance sheet of the banking sector.....	14
Chart 12. Stock of total loans.....	15
Chart 13. New loans .....	15
Chart 14. Share in total loans to nonfinancial corporations .....	16
Chart 15. Annual change on loans to nonfinancial corporations .....	16
Chart 16. Balance sheet of the banking sector.....	17
Chart 17. Stock of total deposits.....	17
Chart 18. Contribution to annual growth of total deposits.....	17
Chart 19. New deposits .....	18
Chart 20. Structure of deposits by main categories .....	18
Chart 21. Interest rate on loans and deposits .....	18
Chart 22. Interest rates on loans to nonfinancial corporations.....	19
Chart 23. Interest rates on loans to households .....	19
Chart 24. Interest rates on deposits.....	19
Chart 25. Profit and profitability indicators of the banking sector .....	20
Chart 26. Nonperforming loans and loan loss provisions .....	20
Chart 27. Solvency indicators .....	20
Chart 28. Liquidity indicators .....	21
Chart 29. Assets of the pension sector.....	24
Chart 30. Structure of KPST assets.....	24
Chart 31. Structure of SKPF assets.....	25
Chart 32. Return on investments and KPST performance .....	25
Chart 33. Assets of insurance sector .....	26
Chart 34. Written premiums and claims paid .....	26
Chart 35. Assets of microfinance sector .....	27
Chart 36. Value of loans to households and to nonfinancial corporations .....	27
Chart 37. Value of loans to nonfinancial corporations, by economic sectors.....	28
Chart 38. Value of microfinance sector leasing .....	28

Chart 39. Average interest rate on microfinance sector loans -----	28
Chart 40. Average interest rate on loans to enterprises, by economic sectors -----	29
Chart 41. Income and expenses of microfinance sector -----	29
Chart 42. Profitability indicators of microfinance sector -----	29
Chart 43. Indicators of loans portfolio quality -----	30
Chart 44. Amount and maturity of issued debt -----	30
Chart 45. Bid to cover ratio-----	30
Chart 46. Structure of Government securities -----	31
Table 1. Contribution of specific categories to the headline inflation-----	08
Table 2. Macroeconomic selected indicators -----	33

## **ABBREVIATIONS**

CBK	Central Bank of the Republic of Kosovo
CPI	Consumer Price Index
ECB	European Central Bank
EUR	Euro currency
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPI	Import Price Index
KAS	Kosovo Agency of Statistics
MFLT	Ministry of Finance, Labor and Transfers of Kosovo
WEO	World Economic Outlook

## **Euro area and Western Balkans**

Economic activity in euro area marked an increase of 5.3%, in 2021. The recovery of economic activity has been driven mainly by domestic demand, as a result of the improvement of the pandemic situation, the easing of restrictive measures as well as the supportive fiscal and monetary policy. In contrast to the second and third quarters of 2021 when real GDP growth is estimated to have been high, economic activity in Q4 slowed down to 0.3% compared to the previous quarter, mainly due to the spread of the new variant of the corona virus "Omicron" and the restoration of the containment measures in different places. Also, the real growth of the economy was impacted by the increase of energy prices and the still obvious problems in the supply chains. The economic perspective will depend on the course of the Russia-Ukraine war and the impact of economic and financial sanctions and other measures. Due to these uncertainties, the ECB's latest projection for real GDP growth, the baseline scenario, has been reduced to 3.7% for 2022, from 4.2% as it was in December 2021 .

The average inflation rate in 2021 was 2.6%, while in Q4 2021, the euro area reported the highest average inflation rate recorded in recent decades of 4.7%. This high increase in prices in the euro area, in addition to the increase in demand, was also attributed to temporary pandemic-related factors, such as rising input costs as a result of supply disruptions and the cost increase of energy. Given the uncertain environment caused by the Russia-Ukraine war, the Governing Council of the ECB decided to gradually reduce net asset purchases. These asset purchases

could be completed in the third quarter, if the data show that the inflation outlook will not be weakened. Any change in interest rates will come only some time after the completion of net asset purchases and will be a gradual process. For 2022, the ECB has projected an average inflation rate of 5.1%, a rate that is expected to normalize in the next two years to 2.1% and 1.9%, respectively.

Lending and depositing activities in euro area has marked a slower increase compared to the previous year. Loans to enterprises marked an increase of 3.7% in Q4 2021, while loans to households increased by 4.2%. On the other hand, enterprise deposits increased by 8.5%, while household deposits marked an increase of 5.5%.

Also, the Western Balkan countries were characterized with an economic recovery , after they had been affected by the Covid-19 pandemics. In Q3 2021, the economic activity in these countries was characterized with an average increase of 11.6%. All countries recorded an increase in economic activity, while the highest growth was recorded in Montenegro (25.8%) and Kosovo (14.5%). Also in the region countries it was observed a slowdown increase of the economic activity during Q4 2021. Initial estimates are that economic activity in Serbia increased by 7.0% in Q4 whereas in North Macedonia by 2.3%. IMF estimates suggest that economic activity in the region has grown by an average of 5.3% in 2021, while for 2022, the IMF has projected a real GDP growth of 4.4%. However, with growing uncertainties as a result of the war in Ukraine and measures taken by the EU and the US in the form of sanctions, similar to the euro area, the region will also face a slowdown in economic growth.

An increase of inflation rate was reported also in the Western Balkan countries, as a result of the growth of the domestic demand and the increase of prices in international markets. The average inflation rate, in Q4 2021, was 5.4%, where Kosovo and Serbia recorded the highest inflation growth rate of 6.4% and 7.3%, respectively.

Western Balkans recorded an increase of the lending activity of 9.9%. The highest growth rate was recorded in Kosovo (15.5%), followed by Serbia (9.8%), Albania (9.5%), North Macedonia (8.3%) and Montenegro (6.4%). Deposits marked an average increase of 13.4%, representing the highest growth rate in the recent years. In terms of deposits, the highest growth rate was recorded in Montenegro (24.6%), Serbia (12.8%), Kosovo (12.4%), Albania (9.4%) and North Macedonia (7.8%).

During Q4 2021, EUR appreciated against the Turkish lira (35.9%), remained unchanged against the Serbian dinar and the Macedonian denar, while depreciated against the British pound (6.1%), the US dollar (4.1%), the Swiss franc (2.2%), Albanian lek (1.8%), Croatian kuna (0.6%), etc.

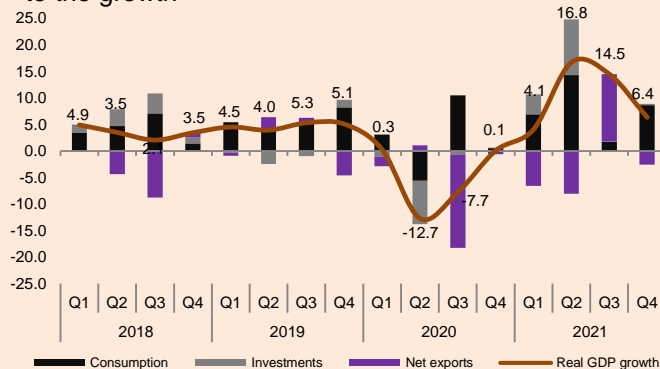
## Kosovo's Economy

### Real Sector

According to preliminary estimates of KAS, Kosovo's economy has marked a considerable growth of 10.5%, in 2021 (-5.3% in 2020). The high growth of economic activity was mainly a result of improved public health as well as stimulating fiscal and financial policies. The easing of restrictive measures has supported free movement, a dynamic that was reflected in a very high support to the economic activity generated by diaspora.

The income from diaspora (remittances, travel expenses and real estate investments) result to have had a high share to total GDP generated in the country of around 39% in 2021.

Chart 1. Real GDP growth rate and main contributors to the growth



Source: KAS and CBK calculations.

In Q4 2021, it was marked an economic activity growth of 6.4%. Consumption and investments are estimated to have contributed positively with 8.6 and 0.3 percentage points, respectively, while net exports had a negative contribution of 2.6 percentage points. (chart 1).

According to KAS, the highest increase of GDP, in Q4 2021, was marked in the sector of hotels and restaurants (25.0%), trade (13.7%), transport and storage (12.2%), processing industry (8.8%), etc. Conversely, in the sectors of supply with electricity and construction it was marked a decline of 13.2% and 5.2%, respectively.

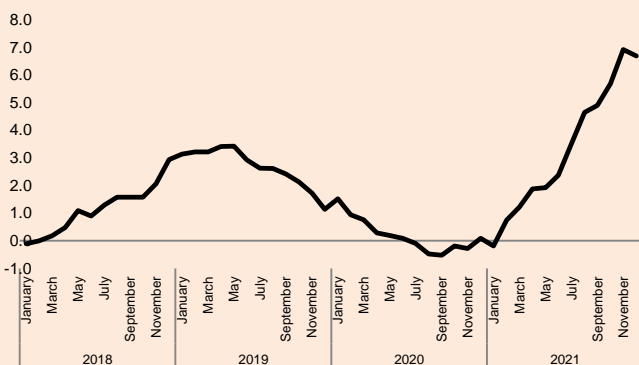
Regarding 2022, the CBK projections suggest that economic activity will record a slower growth of about 3.3%. The slowdown in economic activity is expected to be mainly due to lower domestic demand growth, as well as the increase in the net export deficit. The war in Ukraine has increased the risks to the economic

outlook, and the impact of this crisis is expected to be reflected in further potential increases in energy, oil and food prices, with negative effects on consumer confidence and purchasing power. Assuming that the geopolitical crisis does not end quickly and the most severe scenarios materialize where the inflation rate rises further to double digits, the economic outlook for Kosovo will be more pessimistic than initially expected.

### Prices

Inflationary pressures that accompanied the global economy, as well as the euro area and the countries of the region during 2021, were reflected also in the country's economy.

Chart 2. Headline inflation and core inflation, annual change in percent



Source: KAS and CBK calculations.

The increase in aggregate demand as a result of the economic recovery, associated with external inflationary pressures as a result of rising energy prices and commodity prices imported from partner countries, led Kosovo to report an increase in aggregate prices in the country, measured through four indices compiled by KAS. Consumer price index increased by 3.4% in 2021, followed by producer price index which increased by 4.9%, construction cost index by 10.9%, and import price index which increased by 11.1%.

The highest increase in consumer prices was marked in Q4 2021, when the average inflation rate of 6.4% was recorded. (chart 2).

The highest increase in prices during this quarter was recorded in transport, communication means, food and non-alcoholic beverages, electricity, gas and other fuels, etc. Conversely, only prices of footwear and clothing marked a decline (table 1). The structure of the Kosovar consumer basket is dominated by the category of food and non-alcoholic beverages (39.9%), as well as the category of transport costs (15.8%). These categories result to have contributed to the aggregate prices with 2.6% and 2.2%, respectively.

Table 1. Contribution of specific categories to the headline inflation, in Q4 2021

Description	Weight 2021	Inflation rate	Contribution
Total	100.0%	6.4	6.4
Food and non-alc. beverages	39.9%	6.3	2.6
Alcoholic beverages and tobacco	6.4%	3.7	0.3
Footwear and clothing	4.2%	-0.2	0.0
Housing, water, electricity	7.8%	4.2	0.3
Furnishing	7.7%	2.4	0.2
Health	2.1%	1.1	0.0
Transport	15.8%	15.1	2.2
Communication	3.3%	10.7	0.3
Recreation and culture	4.2%	1.4	0.1
Education	1.0%	1.6	0.0
Hotels	3.1%	4.3	0.1
Goods and other services	4.6%	2.3	0.3

Source: KAS and CBK calculations

Food and non-alcoholic beverage prices marked an increase of 6.3%. Within food category, prices of oils and fats increased significantly (30.5%), followed by prices of bread and cereals (11.1%), vegetables (9.1%), as well as milk, cheese and eggs (6.9%)., while only fruit prices marked a decline of 3.8% , in Q4 2021.

According to the World Bank, Brent crude oil prices reached an average of \$ 78.3 per barrel in Q4 2021, indicating an annual price increase of 79.4%. Due to



the increase in the price of oil products, transport costs increased by 15.1%, in Q4 2021. The highest increase in transport prices was recorded in the use of personal transport equipment (25.8%), followed by the purchase of vehicles (5.2%), as well as transport services (1.9%).

Prices of electricity, gas and other fuels by September 2021 marked a decrease of 1.2%, while in Q4 2021 recorded an increase of 5.9%. This increase in energy prices in Q4 2021 was a result of the energy crisis, caused by high energy prices in the international market but also due to the increase in consumption during the winter months, since, a vast amount of energy is used for heating.

The accelerated trend of rising prices is expected to continue in 2022 and according to the CBK forecasts, the average inflation rate for this year is expected to be 6.4%. Similar to the CBK forecasts are the expectations of commercial banks as well, which stated that the inflation level will be higher this year compared to the previous year. However, given the recent developments, after the Russian invasion of Ukraine, the inflation rate may be even higher.

### **Fiscal Sector**

Budget revenues<sup>1</sup> in 2021 marked an increase of 27.1%, while budget expenditures<sup>2</sup> increased by only 2.3%, making the budget deficit quite low. In 2021 the level of primary budget deficit was EUR 67.9 million while in 2020 this level of deficit was EUR 485.3 million. Only in Q4 2021, budget revenues amounted to EUR 575.2 million, representing an annual growth of 12.9%, while budget expenditures increased by 0.7% and reached the value of EUR 794.2 million. Consequently,

Kosovo's budget recorded a primary budget deficit of EUR 219.0 million during this quarter.

The recovery of the economic activity results to have affected the considerable increase of direct tax revenues of 15.8%, in Q4 2021. Corporate income tax marked an increase of 33.2%, while personal income tax, which represent the main category of direct tax revenues, marked a growth of 12.1%. With an increase of domestic demand, which has affected the growth of imports of goods, there has been marked an increase of 21.6% also in indirect tax revenues, a category that dominates budget revenues by around 78%. In Q4 2021, indirect tax revenues amounted to EUR 447.7 million, where VAT and excise as the two main categories of indirect tax revenues marked a growth of 24.4% and 17.7%, respectively.

In terms of expenditures, the main category that contributed to the increase in budget expenditures were capital expenditures, which reached the value of EUR 199.0 million or 13.4% more compared to Q4 2020. On the other hand, current expenditures marked a decline of 2.9% and reached the value of EUR 595.2 million. Within current expenditures, subsidies and transfers decreased by 6.3% and reached the value of EUR 301.8 million. Expenses on salaries marked a decline of 2.1%, reaching the value of EUR 166.8 million, while government expenditures on goods and services (including municipal utilities) increased by 4.7% and reached the value of EUR 126.5 million.

Public debt, in Q4 2021, reached EUR 1.68 billion, which is for 13.1% higher than the public debt that had been marked in Q4 2020. As a percentage to GDP,

<sup>1</sup> Within budget revenues are not included receipts from financing.

<sup>2</sup> Within budget revenues are not included financing payments.

public debt reached 23.3% from 22.4% as it was in Q4 2020. The increase of public debt is attributed to the growth of domestic public debt of 15.0% (which reached EUR 1.11 billion), and the increase of external public debt of 9.6% (which reached to EUR 576.4 million). The threshold of public debt in Kosovo is set by law at 40% of GDP, and consequently the level of 23.3% ranks Kosovo in the position of the country with the lowest level of public debt compared to the region countries. Nevertheless, this low level of public debt may quickly surge in the future as a result of the negative impact of Covid-19 pandemic in Kosovo's economy.

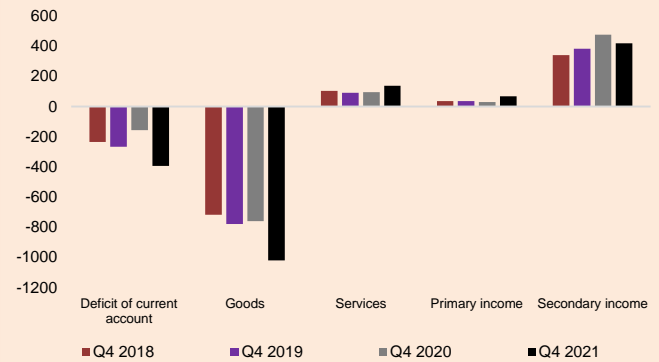
**External Sector**

The activity generated within the external sector turns out to have had the main weight in the overall economic activity in the country in 2021. The increase of income from diaspora, through major channels such as remittances, travel expenses and real estate purchases was translated into a growth of overall demand in the supporting both consumption and investment growth, in 2021. The increase in domestic demand resulted in an increase in imports, which worsened the balance of goods, despite the increase in exports.

In 2021, the current account deficit increased by 46.4%, reaching EUR 691.2 million. As a share to GDP, current account deficit reached 8.9% in 2021, from 7.0% as it was in 2020. Only in Q4 2021, the deficit increased by 150.8%, reaching EUR 392.8 million (chart 3). This deterioration in the current account balance is attributed to the increase in the goods deficit and the balance decline of secondary income, while the

balance of services and that of primary income has marked an improvement.

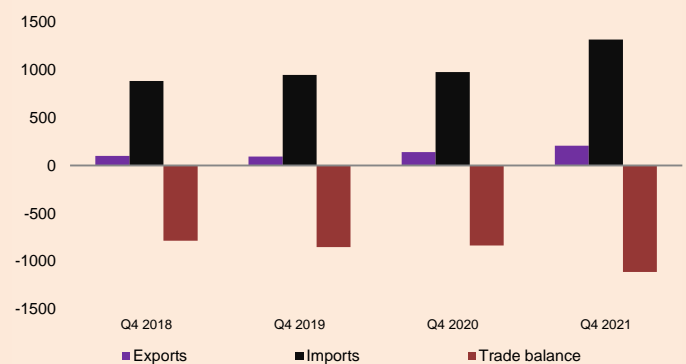
**Chart 3. Current account deficit and its components, EUR million**



Source: CBK.

Export of goods, in Q4 2021, marked an increase of 46.1%, while import of goods increased by 36.3%. Despite the higher growth of exports, the significantly higher level of imports has led to an increase in the trade deficit of goods by 34.4%, reaching the level of EUR 1.0 billion (chart 4).

**Chart 4. Export and import of goods, EUR million**

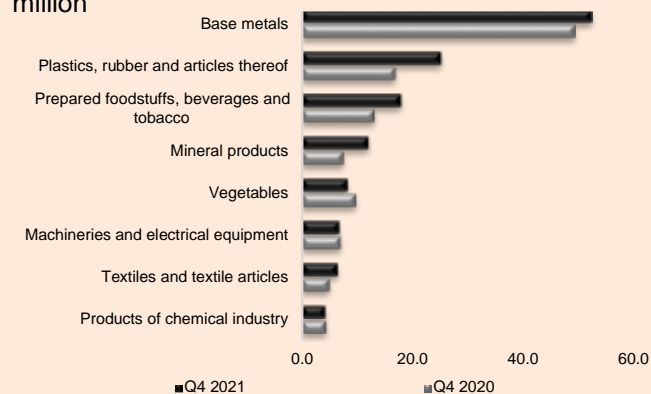


Source: KAS.

The value of exports of goods, in Q4 2021, was EUR 209.8 million and almost all export categories marked an increase, while the highest increase compared to the same period of 2020, was marked in plastic products,

prepared foods, beverages and tobacco, mineral products, base metals, etc. (chart 5).

Chart 5. Main categories of goods export, EUR million



Source: KAS.

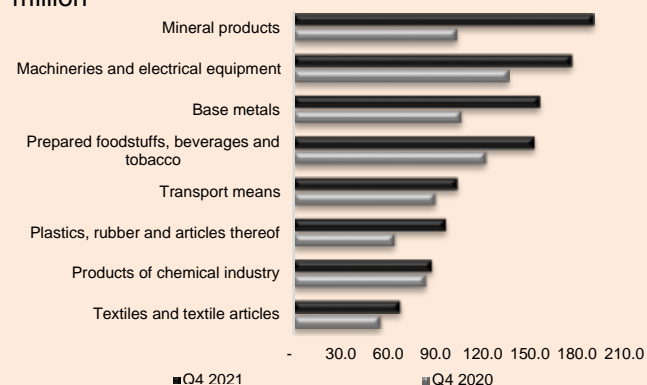
Almost all of these categories marked an increase of prices in international markets. Base metal prices in Q4 2021 marked an increase of 37.9% and this has affected the increase of metal exports by 6.2%. Also, the index of energy prices in international markets and the index of food prices increased by 106.3% and 20.6%, respectively, while the increase in exports of minerals and prepared foods was 60.1% and 36.4%, respectively, in Q4 2021.

CEFTA member countries and EU countries continue to represent Kosovo's main trading partners for exports, with a share of 34.3% and 28.5% of total exports in Q4 2021. Exports to CEFTA member countries, only in Q4 2021, amounted to EUR 71.6 million, marking an increase of 16.4%, while exports of goods to EU countries was EUR 59.4 million or 27.1% more compared to Q4 2020. Exports to USA have continued to be characterized with a high increasing trend. In Q4 2021, the level of exports of goods to the US was EUR 45.9 million (EUR 10.6 million in Q4

2020), making the share of total exports to US reach 22.0% from only 7.4% as it was in Q4 2020.

The value of imports of goods, in Q4 2021, was EUR 1.2 billion, representing an annual increase of 36.3%. Almost all categories of imports have increased, while the highest growth has been recorded by imports of mineral products, followed by base metals, machinery and electrical equipment, prepared foods, beverages and tobacco, etc. (chart 6).

Chart 6. Main categories of goods import, EUR million



Source: KAS.

The import of goods, in addition to the increase in domestic demand, has also been affected by the high increase in prices in international markets. The average price of crude oil increased by 79.4% in Q4 2021, while import of mineral products, which at the same time represents one of the main categories of import of goods, increased by 83.9%.

Regarding the structure of imports by countries, EU countries and CEFTA member countries are the ones from where Kosovo imports most of the goods. In Q4 2021, Kosovo imported 43.7% of total goods from EU countries or 31.7% more compared to Q4 2020, as well as 19.3% of total imports from CEFTA countries or 26.2% more compared to Q4 2020. A large part of

import of goods was also realized from Turkey and China. Import of goods from Turkey were about 12.9% of total imports or 42.7% more compared to Q4 2020, while import of goods from China accounted for 10.4% of total imports of goods or 33.5% more compared to Q4 2020.

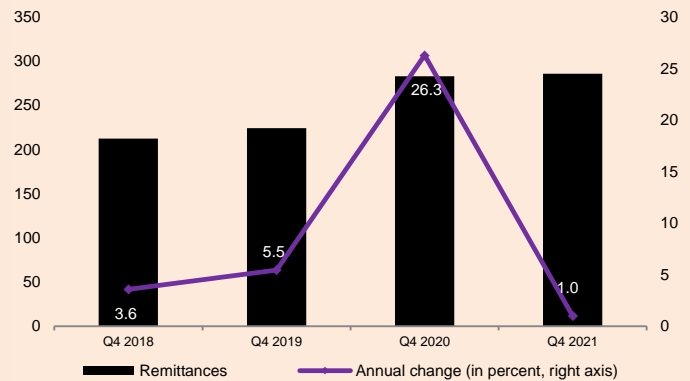
With the easing and lifting the restrictive measures, also the trade in services has marked an accelerated increase in 2021. In Q4 2021, the balance in trade of services reached a value of EUR 139.2 million, from EUR 95.2 million as it was in Q4 2020.

The value of export of services amounted to EUR 354.2 million, from EUR 261.6 millions, as it was in Q4 2020. The highest growth was recorded in export of travel and transport services, where as a result of the largest number of diaspora who visited Kosovo, the export of travel services only in this quarter reached the value of EUR 219.2 million (EUR 157.8 million in Q4 2020). Also, the import of services marked an increase in Q4 2021, where the value of services imported amounted to EUR 214.9 million (EUR 166.4 million, in Q3 2020). Also, in terms of import, the highest increase was marked in services of travel and transport. It is worth noting that the export and import of services was higher for 34.5% and 24.7%, respectively, also compared to Q4 2019.

The primary income account increased by 125.6% in Q4 2021, as investment income in Kosovo was lower, while income from compensation of employees outside Kosovo was higher. The high growth rate of remittances in 2020, despite the difficult situation created by the Covid-19 pandemic, has continued also in 2021. During 2021 the level of remittances has

reached EUR 1.15 billion or 17.1% more compared to 2020. Unlike the previous quarters when there was a high increase in remittances, in Q4 2021 there was a slowdown in their growth. During Q4 2021, the value of remittances received was EUR 285.9 million or 1.0% more compared to Q4 2020 (chart 7).

**Chart 7. Remittances, EUR million**



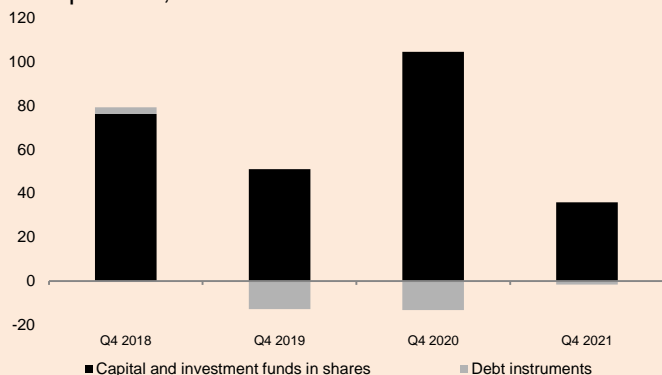
Source: CBK.

In terms of transferring channels, more than half of remittances (57.9%) came through money transferring agencies, which in Q4 2021 marked a decline of 4.9%. Remittances received through banks marked an increase of 14.7% and comprise 15.6% of total remittances received in Q4 2021. As a result of the opening of the borders and easing of containment measures, also remittances through “informal” channel have increased by 7.9%, reaching the level of EUR 75.6 million in Q4 2021. Remittances in Kosovo come mainly from Germany and Switzerland with 40.0% and 18.6%, respectively, of total remittances received until September 2021. A considerable amount of remittances was received also from the USA (7.3% of total remittances).

Foreign Direct Investments (FDI) during 2021 reached the value of EUR 421.0 million or 21.8% more

compared to 2020. Unlike the previous quarters when there was a high increase in FDI, in Q4 2021 there was marked a lower level, mainly due to the distribution of the dividend.

Chart 8. Structure of foreign direct investments by components, EUR million



Source: CBK.

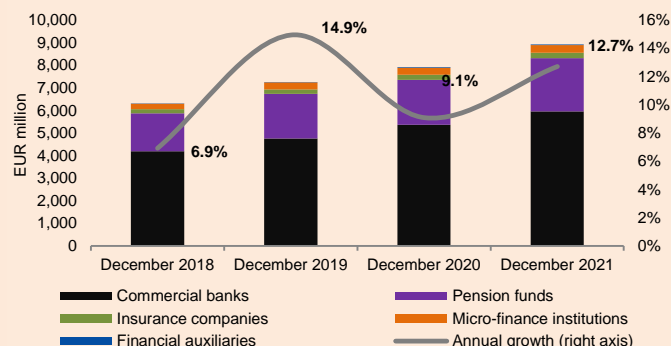
During Q4 2021 the level of FDI was EUR 34.3 million or 62.5% less compared to Q4 2020. Within the structure of FDI, capital and fund of investments in shares reached EUR 35.9 million, while debt instruments marked a decline of EUR 1.7 million (chart 8).

The decline of FDI was recorded mainly in the sectors of financial activities and in supply with electricity, etc., while in the sectors of real estate activities, construction, etc., there has been marked an increase of FDI.

## Financial System

The financial system was characterized by increased activity in all its constituent segments. Measures taken by the CBK in the form of moratorium and restructuring, the positive sentiment in key market players, banking sector soundness indicators and increased overall demand in the country resulted in increased lending, thus supporting the recovery of the country's economy. The contribution of also other segments to the growth of financial system assets, especially the pension system, was positive during 2021, based on the overall positive economic performance.

Chart 09. Assets value of Kosovo's financial system



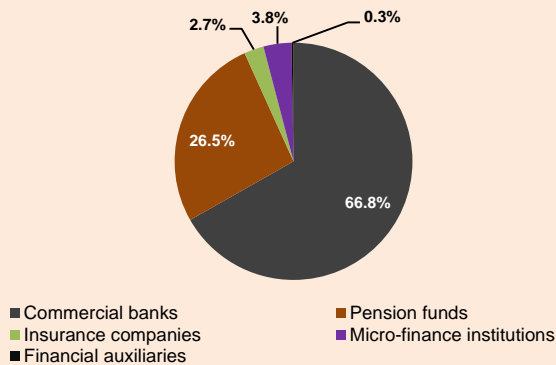
Source: CBK.

At the end of December 2021, financial system assets reached the value of EUR 8.93 billion, representing an annual increase of 12.7% (chart 09).

The double-digit growth of financial system assets mainly reflects the growth of banking sector assets as a result of the increase in the level of deposits, as well as the higher return on investments and new receipts from contributors within the pension sector.

The banking sector continues to have the main share within the financial system and is the main source of financing for businesses and households (chart 10). The pension sector represents 26.5% of the domestic financial market, followed by microfinance institutions, insurance sector and financial auxiliaries.

Chart 10. Concentration of financial system assets, by constituent sectors



Source: CBK.

## 1. Banking Sector

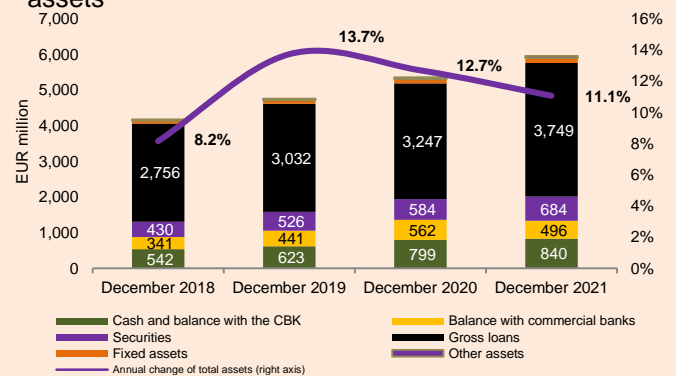
*Banking sector during 2021 was characterized with an optimal level of capitalization, liquidity and high quality of loan portfolio, despite the recorded pandemic crises (Covid-19). Moreover, the banking sector managed to realize profit in record value and was characterized by accelerated growth of lending activity and double-digit growth of deposits.*

### 1.1. Balance sheet - Assets

Banking sector assets were characterized with a double-digit annual growth in three recent years, mainly financed through collected deposits. In December 2021, total assets of the banking sector reached EUR 5.96 billion, representing an annual

increase of 11.1% (chart 11). The structure of assets continues to be similar to previous years, with loans having the largest share of assets (62.9%), followed by cash (14.1%), securities (11.5%), and assets held in other commercial banks (11.1%) which are mainly located abroad.

Chart 11. Balance sheet of the banking sector - assets



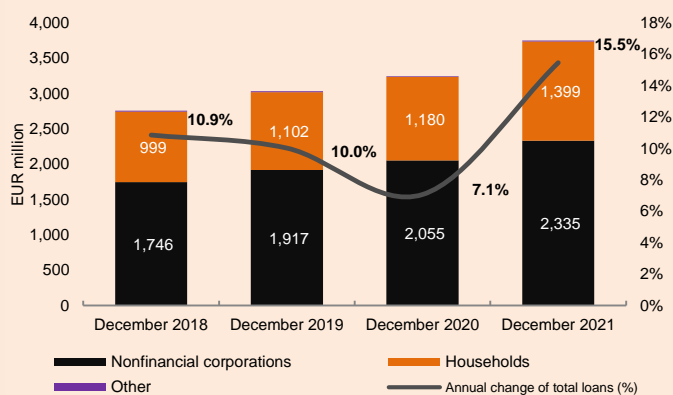
Source: CBK.

In the last two years, the structure of security investments turns out to have changed and to be mainly oriented towards investments in non-governmental securities, which bear higher risk but also have higher return on investments. Their weight has reached 10.3% of total securities, compared to 5.4% as it was two previous years (December 2019). The change in the structure of securities in the last two years mainly reflected the high rate of liquidity in the banking sector, as the highest return on investment from non-government securities. Assets held in other banks are mainly in the form of time and current accounts, which are also used to conduct international transactions of bank customers.

### 1.1.1 Lending activities

Lending activity marked an accelerated growth compared to the previous year, continuing the pre-pandemic (Covid-19) double-digit growth trend (chart 12). In December 2021, total loans reached EUR 3.75 billion, representing an annual increase of 15.5% (7.1% in the previous period). To this growth contributed the household sector, which recorded a higher increase, and also the non-financial corporations sector, which at the same time had the main contribution to the growth of total loans.

Chart 12. Stock of total loans, annual change

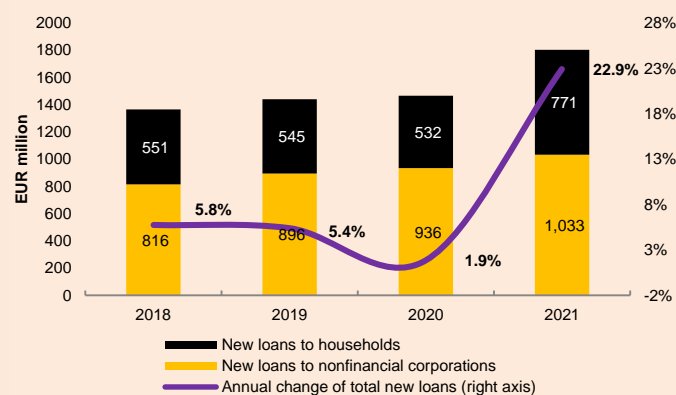


Source: CBK.

The accelerated growth of lending to households and the enterprise sector is mainly attributed to the increase in credit supply by banks, being supported by positive macroeconomic prospects with economic recovery. Also, the high level of capitalization and liquidity, as well as the good quality of the loan portfolio, despite the high degree of restructuring, affected the appetite of banks to increase lending in the country. Lending was also supported by the increase in credit demand, which was mainly supported by the overall increase in domestic demand and aggregate income in the economy (diaspora-based income).

New loans also recovered the growth performance in 2021, after the pandemic year when they had marked a contraction (chart 13). The highest growth within the new loans issued by the banking sector was recorded in the household sector, to which lending increased by 45.0% (-2.4% in 2020). The main increasing contribution of new loans to households continue to have those for consumption purposes, which marked an annual increase of 40.3% (-4.0% in the previous period) and have a share of 68.3% to total loans for this segment. Meanwhile, new mortgage loans, which have a share of 24.8% in total new loans to households sector, recorded the highest increase during this period with 56.5% (12.7% in the previous period).

Chart 13. New loans, annual change



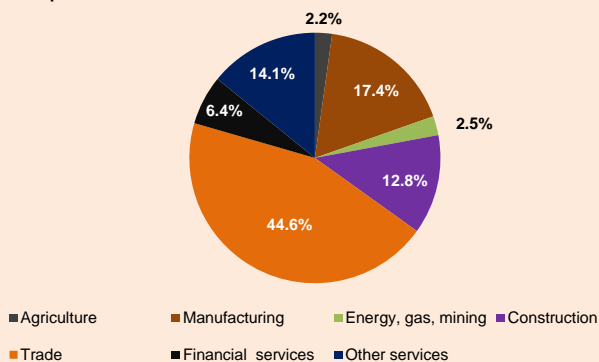
Source: CBK.

The significant increase of mortgage loans has been influenced by the more favorable conditions offered by banks for this category, through the low interest rate and the extension of the maturity term. Moreover, the beginning of equipping with regular real estate documentation has influenced banks to have a higher focus on granting residential loans, as opposed to real estate collateral. The growth of new consumer credit on the other hand can be attributed to the overall growth of consumption in the country, the increase in

remittances (formal and informal) as well as the low level of non-performing loans for this segment.

New loans to nonfinancial corporations, which have the largest share to total loans issued (of 57.2%), increased by 10.4% during this period (an increase of 4.4% in 2020). The performance of new non-investment loans had the highest impact on this growth (an increase of 41.9%), while investment loans continue to have the largest share in total lending to non-financial corporations of 54.7%. New investment loans marked an annual decline of 6.6% (an increase of 15.3% in 2020).

Chart 14. Share in total loans to nonfinancial corporations



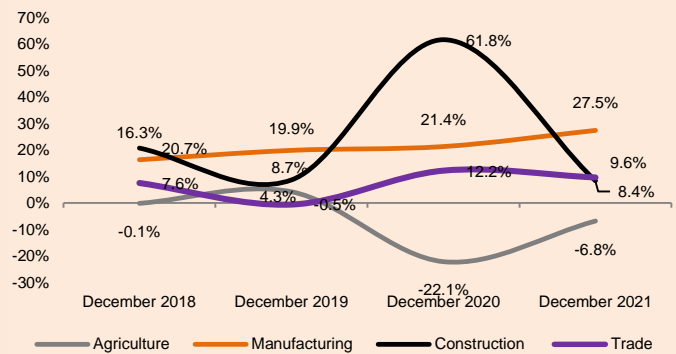
Source: CBK.

The stock of loans to nonfinancial corporations continues to be dominated by the trade sector, followed by the manufacturing sector, while the agriculture sector continues to have the lowest share (chart 14).

Loans to the trade sector increased by 9.6% (12.2% in 2020) and had the highest contribution to the growth of total lending to nonfinancial corporations. Whereas, lending to manufacturing sector marked the highest

increase during this period. Lending to agriculture sector marked a decline, albeit it was lower compared to the decline that had been marked in the previous year. (chart 15).

Chart 15. Annual change on loans to nonfinancial corporations, by economic activity



Source: CBK.

Restructuring loans at the end of December 2021 represented with 19.0% of the loans stock, of which 12.9% belonged to the first phase of the restructuring<sup>3</sup>, 5.8% to the second phase<sup>4</sup> and 0.3% to the third phase<sup>5</sup>. In the first phase, the value of restructured loans reached EUR 1.30 billion, while at the end of December 2021, it dropped to EUR 694 million<sup>6</sup>, of which EUR 190.6 million are restructuring to households, and the remainder to non-financial corporations. Loans under restructuring are expected to mature at the end of February 2022, when the performance of this portfolio is expected to be seen concretely.

In December 2021, out of the total active loans that have been under restructuring, about 71.4% were categorized in the first pillar, 23.4% in the second

<sup>3</sup>The first phase of the restructuring started in March 2020, the second phase of the restructuring started in June 2020, the third phase in February 2021, and the highest levels were reached in November 2020 with 12.0% of the total stock of active loans, and in May 2020 with 42.2% of the total stock of active loans.

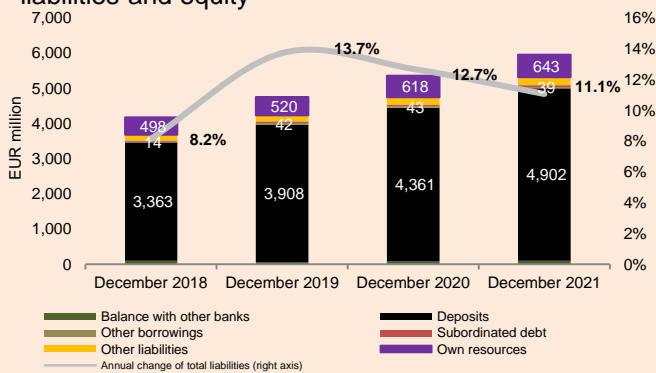


pillar, and 5.2% in the third pillar (nonperforming loans).

## 1.2. Liabilities and Own Resources

The structure of liabilities and own resources of the banking sector continues to be traditional and consists mainly of deposits (82.3%), own resources (10.8%), and other liabilities(3.7%). Historically, deposits have presented a safe resource of financing and of quite low cost for the sector.

Chart 16. Balance sheet of the banking sector - liabilities and equity



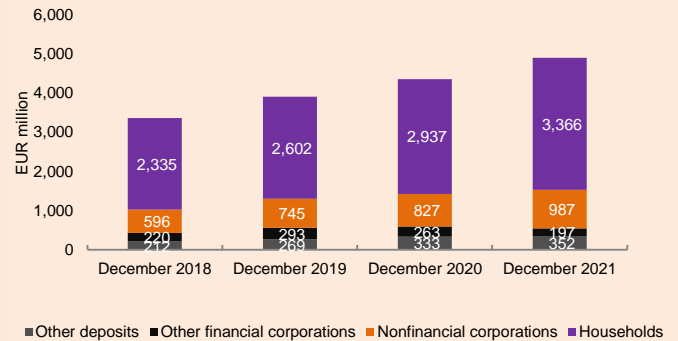
Source: CBK.

### 1.2.1 Deposits

The value of deposits held at the banking sector reached EUR 4.90 billion at the end of 2021, representing an annual increase of 12.4% (charts 17 and 18).

Household deposits continued to have the main contribution to the total growth of deposits, followed by nonfinancial corporation deposits.

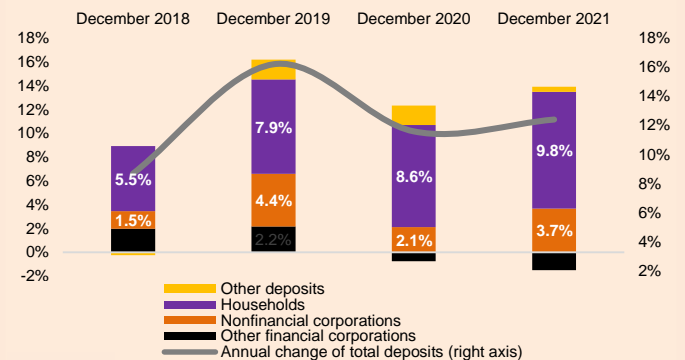
Chart 17. Stock of total deposits



Source: CBK.

Other financial corporation deposits (primarily pension funds) marked an increase, mainly as a consequence of reallocation of assets in the external sector.

Chart 18. Contribution to annual growth of total deposits, percentage points



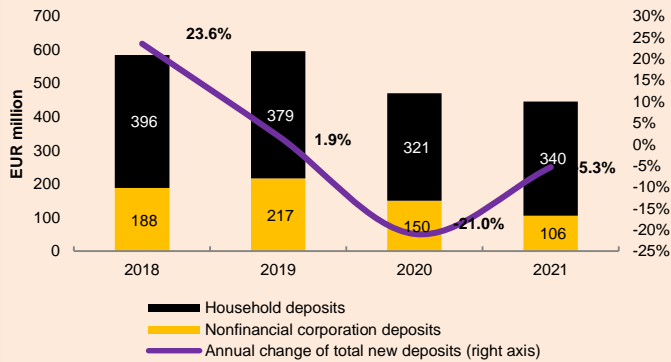
Source: CBK.

Household deposits, which represent about 68.7% of total deposits, marked an annual increase of 14.6% (12.9% in 2020), mainly as a result of the higher inflow of diaspora visit - remittances received in formal and informal channels, as well as the higher probability of saving in times of uncertainty against expenses.

Also the level of deposits held in the banking sector by nonfinancial corporations increased during this period (19.3%), which may reflect to some extent the uncertainty of some businesses to invest in capital

investments, especially businesses of the sectors that have resulted in being more affected by the pandemic crisis.

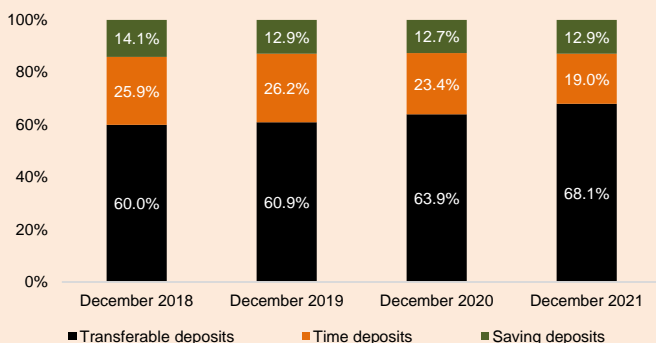
Chart 19. New deposits, annual change



Source: CBK.

In 2021, the value of new deposits collected<sup>7</sup> amounted to EUR 446.1 million, which is for 5.3% lower than in the same period of the previous year (chart 19). The low value of new deposits collected in the recent years reflects the low level of interest rates on time deposits<sup>8</sup>, the structure of which in recent years has contracted against the growth of transferable deposits (chart 20).

Chart 20. Structure of deposits by main categories



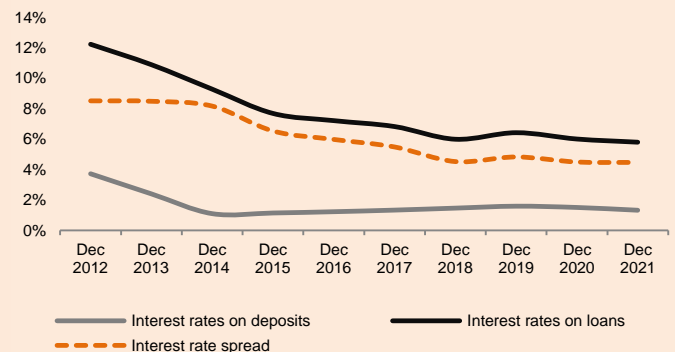
Source: CBK.

New deposits collected from nonfinancial corporations (time deposits) during this period reached the value of EUR 106.2 million, representing a decline of 29.4%. Whereas, new deposits collected from households (time deposits), reached the value of EUR 339.9 million in 2021, representing an annual increase of 6.0%.

### 1.3. Interest rates

Interest rates on loans have marked a gradual decline over the years, thus reaching at an approximate level of the region countries. However, the average interest rate on deposits has remained almost unchanged in the recent years, which mainly reflected the high level of liquidity of banks.

Chart 21. Interest rate on loans and deposits



Source: CBK.

In December 2021, the interest rate on loans was 5.8% and on deposits stood at 1.3%, narrowing the interest rate spread of loans and deposits at 4.5 percentage points (chart 21).

#### 1.3.1 Interest rates on loans

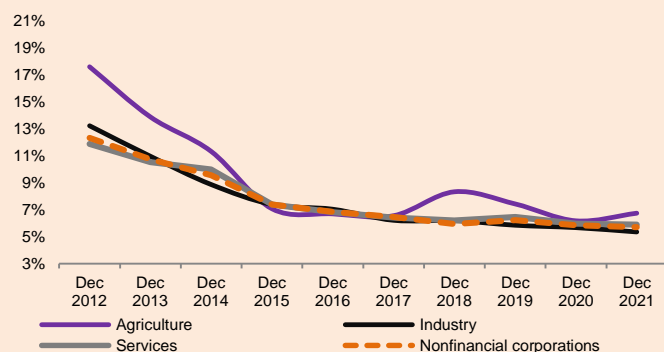
Interest rates on loans to nonfinancial corporations, to some extent, are more favorable compared to interest rates on loans to households (chart 22). In December

<sup>7</sup> New deposits include time deposits.

<sup>8</sup> The average interest rate on time deposits of the banking sector during January-December 2021 was 1.3%.

2021, interest rates on loans to nonfinancial corporations stood at 5.7% (5.9% in December 2020) (chart 22).

Chart 22. Interest rate on loans to nonfinancial corporations

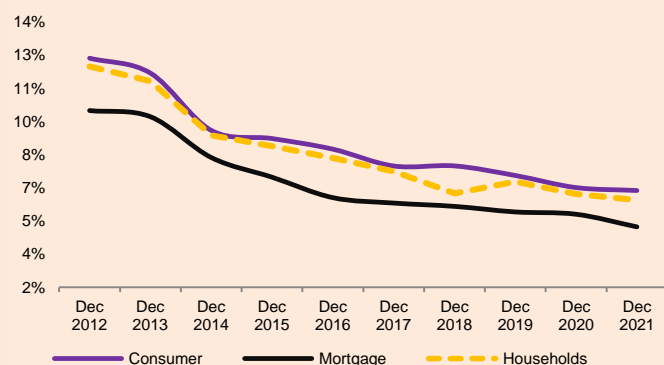


Source: CBK.

Interest rate on loans to services and industry sectors are more favorable compared to loans to agriculture sector.

Higher interest rates on loans to the agriculture sector are a result of the higher risk that this sector bears, although in the recent years there has been a decrease in the cost of financing also for this sector (chart 22).

Chart 23. Interest rate on loans to households



Source: CBK.

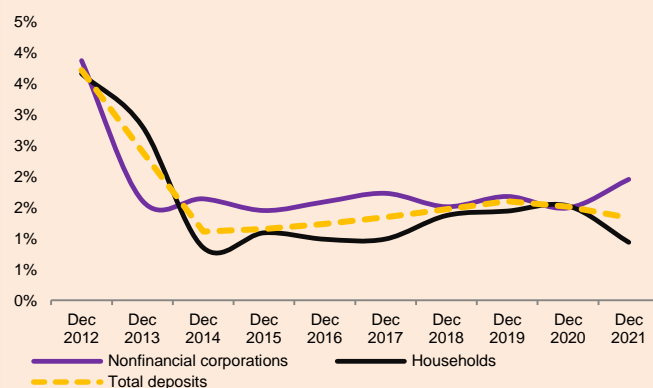
Interest rates on loans to households continued with the same declining trend as of nonfinancial corporations. Interest rates on this segment stood at 6.0%, in December 2021. A more favorable interest rate

was marked by mortgage loans - reflecting the high increase of new mortgage loans during 2021. While, interest rates on consumer credit were higher than the segment's average, albeit compared to previous periods, there has been marked a significant decline (chart 23).

### 1.3.2 Interest rates on deposits

Interest rates on deposits continue to remain low, with more favorable rates for nonfinancial corporations (2.0%) compared to those for households (0.9%) (chart 24).

Chart 24. Interest rates on deposits



Source: CBK.

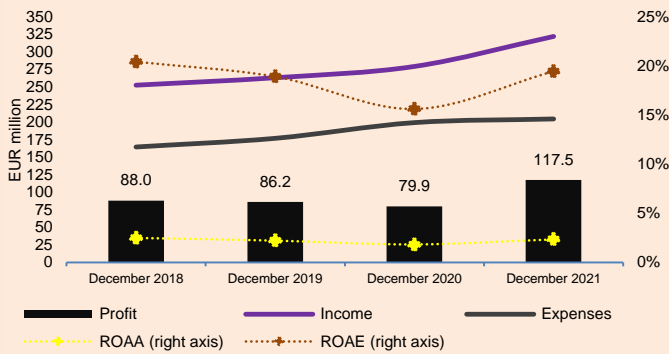
### Performance of the Banking Sector

The banking sector, until December 2021, realized a profit with a value of EUR 117.5 million, which is for EUR 37.6 million higher compared to the statement as of end-December 2020 (chart 25). The highest profit realized in this period reflects the performance of income (which increased by 15.4%) and expenditures (which marked a marginal increase of 2.6%).

Within income, interest income is the category with the largest share (70.4%) and marked an annual increase of 6.9%, an increase mainly attributed to interest

income on loans. Non-interest income, which have the lowest share in total income of the sector (26.7%) had the highest contribution to the growth of sector's income, as they increased by 31.0%. The subcategory which marked the highest increase was the one of fees and commissions, reflecting the cost increase of banking services and the higher use of e-banking.

Chart 25. Profit and profitability indicators of the banking sector



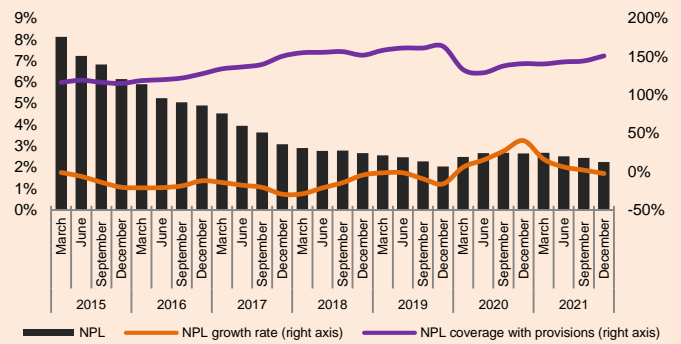
Source: CBK.

Within expenditures, the category of general and administrative expenditures that has the largest share in total expenditures (58.9%) marked an annual increase of 11.6% during this period. Whereas, the second category with the largest share, that of non-interest expenses (22.6%) marked an annual decrease of 24.5% as a result of the decrease of loan loss provision expenses. This subcategory had also the highest contribution to the significant slowdown increase of total expenditures in this year. The category of interest expenses represents only 11.9% of total expenses and marked an annual increase of 16.9% during this period, mainly as a result of the increase in other interest expenses.

## Financial Soundness Indicators

The banking sector has inherited from previous years a high level of capitalization, liquidity and high quality of loans portfolio.

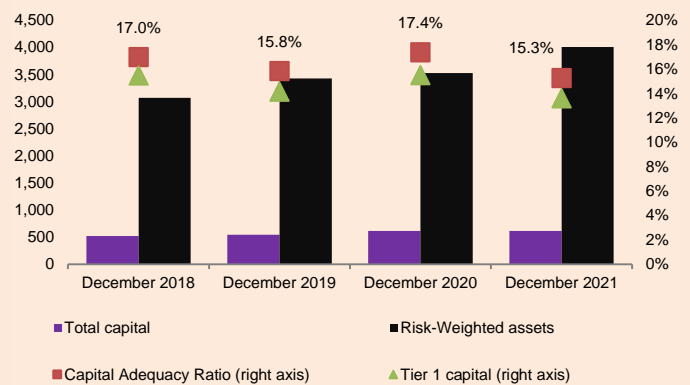
Chart 26. Nonperforming loans and loan loss provisions



Source: CBK.

This has affected the sector to have the capacity to absorb the crisis caused by the Covid-19 pandemic in 2020, while maintaining a good level of key indicators of the banking soundness.

Chart 27. Solvency indicator



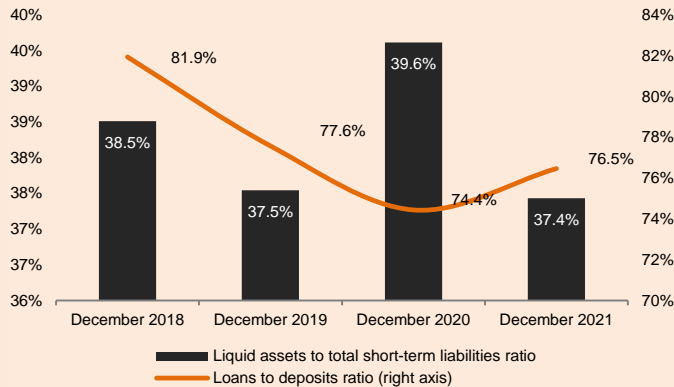
Source: CBK.

The level of nonperforming loans, in December 2021, stood at 2.3%, and the coverage with provisions from potential losses at 151.0% (chart 26). The capital adequacy ratio stood at 15.3%, significantly above the

minimum level of 12.0% as required by the regulation (chart 27).

ratio of liquid assets to total current liabilities in December 2021 stood at 37.4% (chart 28).

Chart 28. Liquidity indicators



Source: CBK.

*In general, the banking sector continues to operate in an environment with low levels of loans with problems, high liquidity and in a state of being well-capitalized. This has resulted in the sector allocating less expenses for loan loss provisions, and lower level of interest expenses. Stable interest income and increasing income from fees and commissions have increased the profit of the banking sector during this period.*

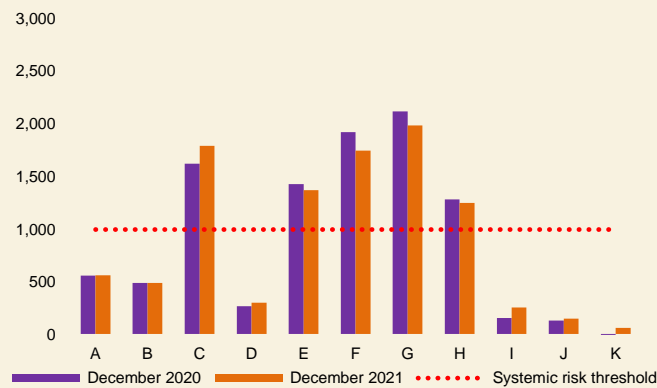
Moreover, the liquidity of the sector was significantly above the recommended minimum level of 25.0%. The

## Box

### Banks with systemic importance<sup>9</sup>

- Five largest banks have resulted with general systemic importance in the banking sector (chart 1).

Chart 1. General scale of systemic importance



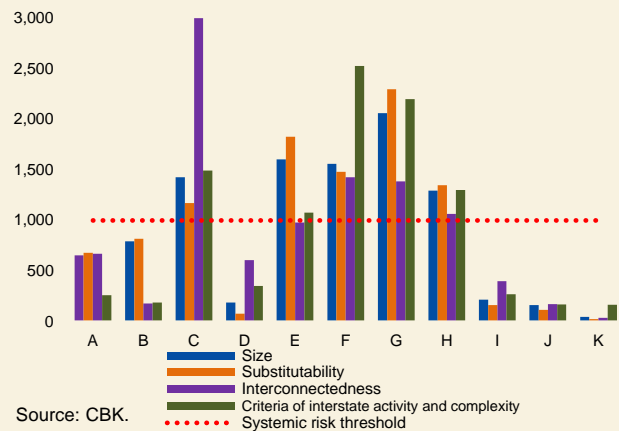
Source: CBK.

- In the specific criteria, banks of general systemic importance have turned out to be the same also in other

constituent criteria (excluding that of interconnectedness) (chart 2).

- The cross-jurisdictional activity and criteria of complexity has the highest level of systemic points, due to the fact that small banks have more limited access in financing with the external sector compared to large banks. Also, only certain banks exercise this right, hence there is a higher concentration in this criteria.

Chart 2. General scale of systemic importance, by criteria

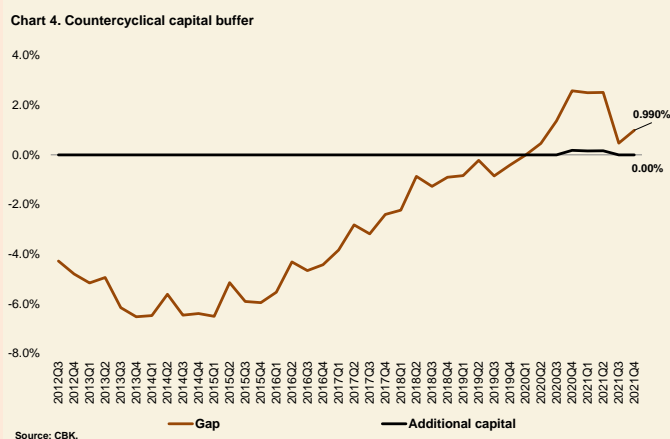
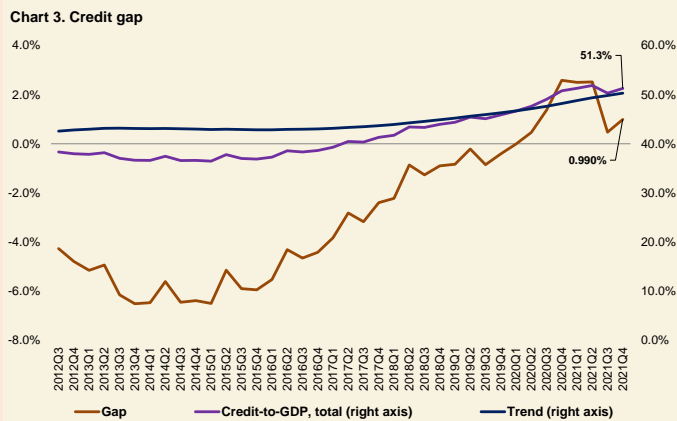


Source: CBK.

<sup>9</sup>For the theoretical basis and complete methodology of assessment of Banks with Systemic Importance, see the CBK working paper no. 7 "Identification of Banks with Systemic Importance and Additional Capital in Kosovo".

### Countercyclical capital buffer<sup>10</sup>

- The calculation of the required capital buffer was made in accordance to the relevant instructions given by the Basel Committee where the demand for capital buffer (as a percentage of risk-weighted assets) is zero when the gap is less than 2 percentage points, and when the gap increases within the range of the value from 2 to 10 percentage points it is required the maintenance of the capital buffer up to the maximum level of 2.5%.
- Loans/GDP gap was below the threshold of 2.0 percentage points in December 2021, namely 0,990 (chart 3), meaning that the banking sector does not need capital buffer to risk weighted assets (chart 4).



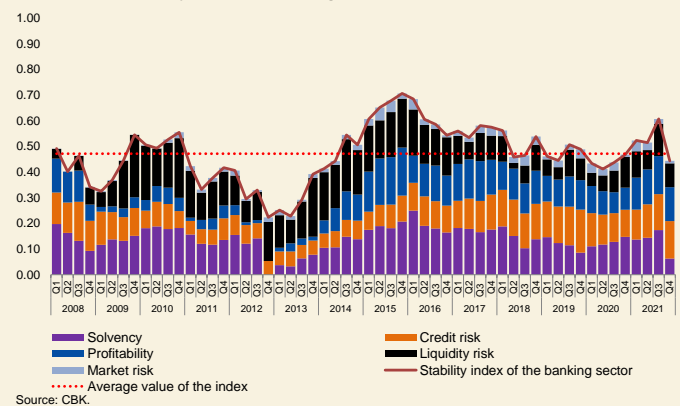
### Stability index of the banking sector<sup>11</sup>

- The stability index of the banking sector is constructed based on the indicators used more frequently in the banking sector, to measure and assess the internal conditions of the banking sector which reflect the stability

of the banking sector. The index has been constructed based on the financial indicators of the banking sector, taking the values ranging from 0 to 1, where the higher values represent a risk in decline and vice versa.

- Based on the general aggregated index of the sector's stability, at an average, it was marked an increase of the risk sensitivity at the end of Q4 2021 compared to Q4 2020.

Chart 5. General stability index of the banking sector and constituent criteria



- The total value of the index at the end of Q4 2021 is below the average value of the index (chart 5), similar to 2020 (the most critical period due to the Covid-19 pandemic). Also, this quarter in 2021 was the only one in which the overall average value of the index was below the historical average.
- The evident increase in risk sensitivity was influenced by solvency indicators and liquidity indicators. However, indicators of credit risk, profitability, and market were characterized by significant reduction of the risk .
- The increase in risk sensitivity in the solvency indicator is mainly attributed to the lower level of capital indicators (Capital Adequacy Ratio & Tier 1 capital) compared to the situation of the previous year, which is a result of dividend distribution in October 2021 with the expiration of the recommendation measure by the CBK, while lending increased rapidly. The sector continued to exceed the recommended minimum of 12% of CAR.
- The increase in risk sensitivity to the liquidity indicator was mainly a result of the lower level of liquidity, expressed through liquid assets to short-term liabilities (lower increase of liquid assets against the higher growth of short-term liabilities), as well as to total assets (lower increase of liquid assets against total assets).

<sup>10</sup>Bank for International Settlements (2010) Guidelines for national authorities operating the countercyclical capital buffer, Basel Committee on Banking Supervision.

<sup>11</sup>For further details on the methodology of construction of the stability index of the banking sector, please refer to the Financial Stability Report no. 9.

- The decrease in risk sensitivity to credit risk indicators was mainly a result of the decrease in the value and level of NPLs in 2021 compared to the previous year.
- The decrease in risk sensitivity to the profitability indicator was attributed to the high realized profit, influenced by the high increase in income generated (by interest, especially from fees and commissions) and the marked slowdown in growth in expenditures (mainly a result of reduction of provisions for possible loan losses).

## Pension sector

*The increase in the vaccination process and the economic recovery on the global level contributed to the improvement of the performance of the global markets, hence the positive financial performance of the pension funds in 2021.*

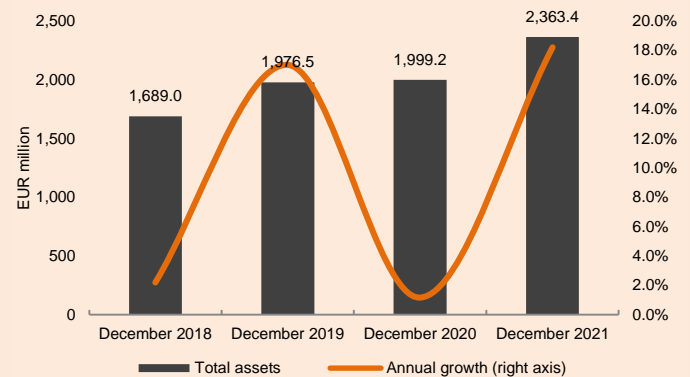
Pension sector, as the second sector by importance of weight in the financial sector, comprises 26.5% of total assets of the financial system. Assets of the pension sector marked an annual increase of 18.2% in December 2021, reaching the value of EUR 2.36 billion (chart 29). The increase of assets mainly reflects the increase of new contributions and return on investments in 2021.

Assets of the pension sector are comprised of Kosovo Pension Saving Trust (KPST) assets with a share of 99.6% and Slovenian-Kosovo Pension Fund (SKPF) assets which have a share of 0.4%.

Assets structure of KPST is mainly comprised of assets invested abroad, which, over the years their weight gradually declined against the increase of the assets weight invested in the country. Around 76.9% of KPST assets are held abroad. More specifically, in monetary terms, about EUR 1.81 billion are allocated to mutual investment funds and EUR 1.0 million are money in banks (in transit) (chart 30).

The remainder of assets were invested in the country, reaching the value of EUR 544.6 million at the end of December 2021.

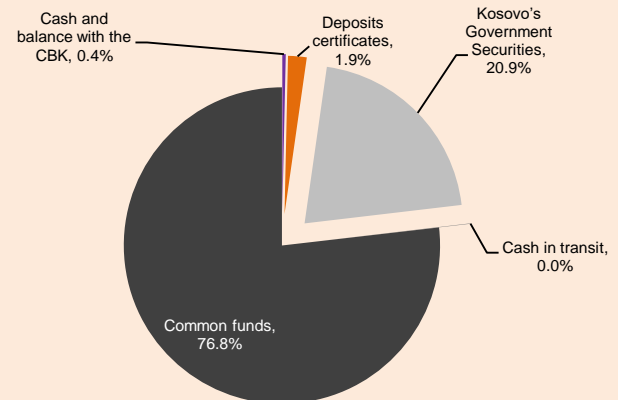
Chart 29. Assets of the pension sector



Source: CBK.

The largest portion of these assets are invested on treasury bonds and treasury bills of Kosovo's Government, which at the end of December 2021 amounted to EUR 491.5 million, representing an annual growth of 9.0%. Cash held at the Central Bank of Kosovo decreased significantly, as a result of the reallocation of funds to the external sector during this period.

Chart 30. Structure of KPST assets (December 2021)



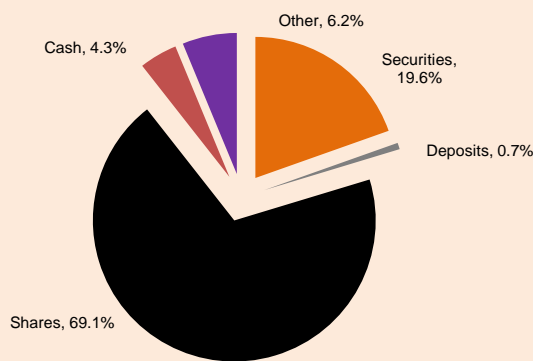
Source: KPST

Also, the value of assets held at commercial banks, in the form of Certificates of Deposit, was significantly

reduced, due to the orientation of the strategy to investments abroad.

The structure of SKPF assets similar to that of KPST, where around 79.3% of them are invested abroad, and the remainder is invested in Kosovo. SKPF portfolio is mainly comprised of shares invested abroad (69.1%), treasury bonds of foreign governments and of Kosovo's Government (19.6%), cash (4.3%) and other instruments (7.0 %) (chart 31). Total assets of SKPF, until December 2021, reached EUR 9.5 million, representing an annual increase of 11.1%.

Chart 31. Structure of SKPF assets (December 2021)



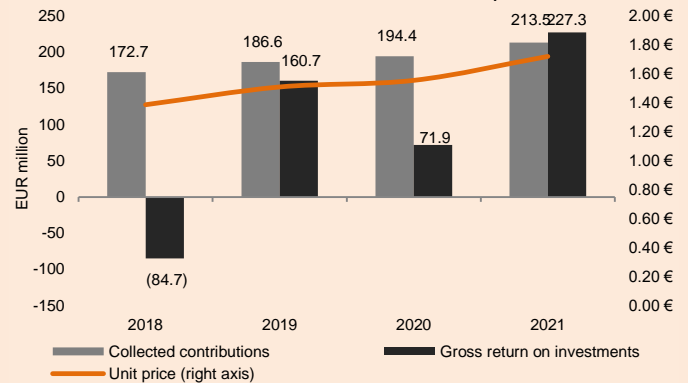
Source: SKPF

The growth of FSKP assets reflects the significant annual growth of investments abroad in shares, namely by 19.1% .

During 2021, the SKPF realized a gross profit from investments with a value of EUR 1.01 million (EUR 388.8 thousands in in the previous year). Whereas, the value of new collections of contributors amounted to EUR 546.4 thousands in 2021 (EUR 554.1 thousands).

KPST contributions reached the value of EUR 213.5 million at the end of 2021, an annual increase of 9.8% compared to the previous year.

Chart 32. Return on investments and KPST performance



Source: KPST

KPST realized gross return on investments in the amount of EUR 227.3 million in 2021, which is a significant increase compared to the previous year where gross return on investments reached the value of EUR 71.9 million. Main contribution on return on investments was given by the performance of funds in international financial markets, where the KPST funds are concentrated.

## Insurance sector

*Insurance sector was characterized by a high level of written premiums despite the increase in the level of claims paid, good financial performance and an increase in the level of capitalization.*

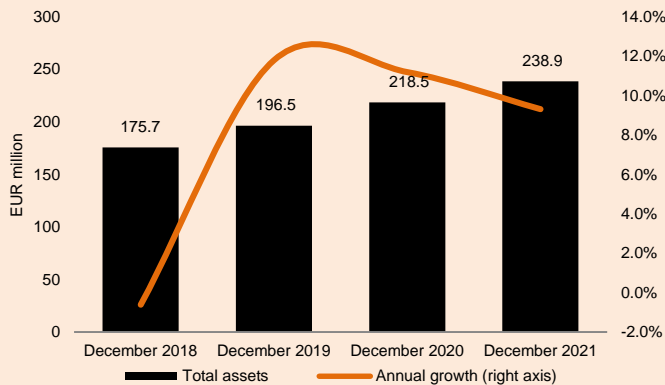
Insurance sector assets represented 2.7% of total financial system assets at the end of 2021 (chart 33). The value of total assets reached 238.9 million, representing an annual increase of 9.3%. Within assets, the most significant increase was recorded in the category of deposits held at commercial banks, which are mainly in the form of time deposits. The second category with the highest increase was investment in securities of Kosovo's Government.



Whereas, the position of loans and receivables, and the position of cash and deposits at the CBK, were the only categories that marked a decrease compared to previous year.

Regarding the liabilities of the sector, technical and mathematical provisions account for the largest part with a total of 63.7%, followed by equity with 27.3% and the remainder from other liabilities. The value of the total capital of insurers during this period marked a significant increase of 15.5%.

**Chart 33. Assets of insurance sector**



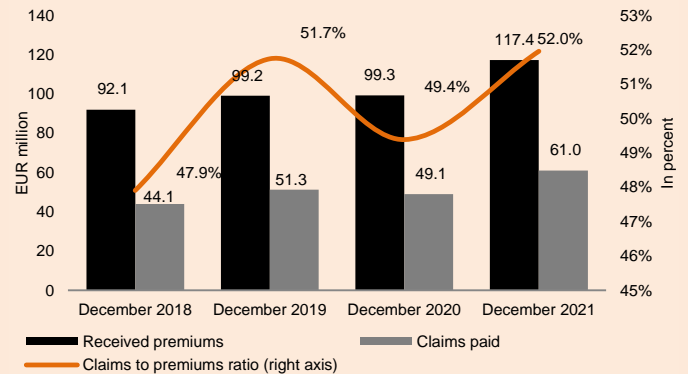
Source: CBK.

The increase in capital compared to the previous year is mainly attributed to the profit realized during 2021, as the paid share capital remained unchanged in 2020. The value of premiums written by insurers in 2021 amounted to EUR 117.4 million, marking an annual increase of 18.2% (0.1% in 2020). The structure of written premiums is dominated by "non-life" insurance premiums which represent 95.9% of total written premiums and the remaining of 4.1% account for "life" insurance. The sharp increase in the level of written premiums and policies sold compared to last year reflects the increased economic activity and the easing of COVID-19 containment measures.

Claims paid by the insurance sector, including insurers and the Kosovo Insurance Bureau (KIB), increased by 24.4%, reaching a value of EUR 61.0 million at the end of 2021 (EUR 49.1 million in 2020) (chart 34). Of the total amount of claims paid, EUR 50.8 million (EUR 43.2 million in 2020) were claims paid by insurers, while EUR 10.2 million (EUR 5.8 million in 2020) were claims paid by the KIB.

24.4%, reaching a value of EUR 61.0 million at the end of 2021 (EUR 49.1 million in 2020) (chart 34). Of the total amount of claims paid, EUR 50.8 million (EUR 43.2 million in 2020) were claims paid by insurers, while EUR 10.2 million (EUR 5.8 million in 2020) were claims paid by the KIB.

**Chart 34. Written premiums and claims paid**



Source: CBK.

The increase in the level of claims paid by insurance companies and the KIB, among others, is the result of a more eased containment measures of the pandemic, applied in Kosovo during 2021 compared to the stricter measures during the last year that were reflected in the level of reduced movements and consequently of damages incurred and paid.

### **Performance of the insurance sector**

The insurance sector closed this year with a positive financial result of EUR 8.7 million, unlike last year where it had recorded a net profit of EUR 2.3 million. The highest level of profit realized in 2021 compared to the previous year is mainly due to the higher level of income from written premiums (for 18.2%). The level of claims incurred this year increased by 25.3%, while net operating expenses of the sector during this period marked an annual decrease of 4.0% compared to 2020.

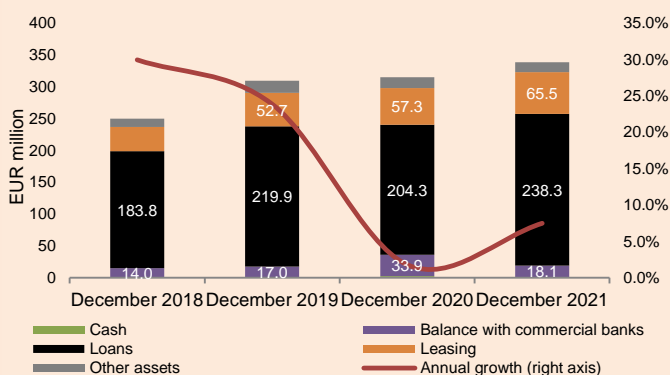
## Microfinance sector

*Microfinance sector expanded during 2021, financed mainly by external and internal borrowing as well as own capital. The sector marked a significant increase in lending activity, offsetting the decline of the previous year, while leasing activity continued its growth trend. The sector continued to have high credit portfolio quality, with low level of loans with problems.*

### Assets

Microfinance sector recorded an annual increase of assets of 7.5% (1.8% annual growth in December 2021), the value of which reached EUR 338.9 million at the end of December 2021. Although the increasing pace of assets accelerated against the slow increase of the previous year, this increase significantly remained at a lower level compared to the increase marked during two previous years (December 2019)(chart 35).

Chart 35. Assets of the microfinance sector



Source: CBK.

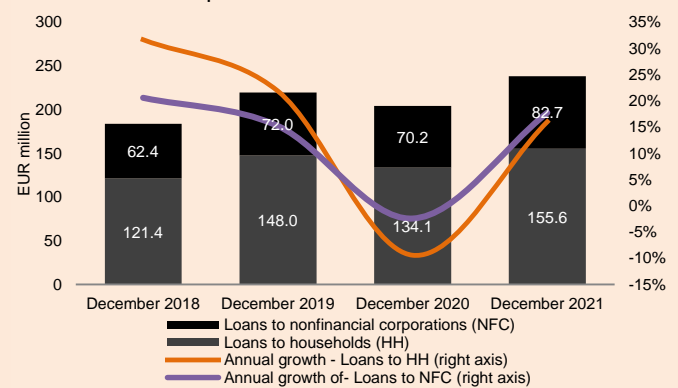
The sector marked a significant decline in the items of cash and the balance with commercial banks, while it marked a double digit increase of loans and leasing.

Changes in the structure of assets of the sector suggest an orientation of assets towards the increase of lending activity. These trends of the microfinance sector reflect a return to normality of the economic activity in the country, especially during the third quarter, based on the ease of Covid-19 containment measures, the high number of visits from diaspora and the increase of remittances.

### Loans

Total loans issued by the microfinance sector marked an accelerated growth of 16.6% in December 2021, while their stock reached the value of EUR 238.3 million. Lending of the sector increased for both categories, nonfinancial corporations and households. Lending to households expanded at a rate of 16.1% (an annual decline of 9.4% marked in December 2020), reaching the value of EUR 155.6 million at the end of December 2021 (chart 36).

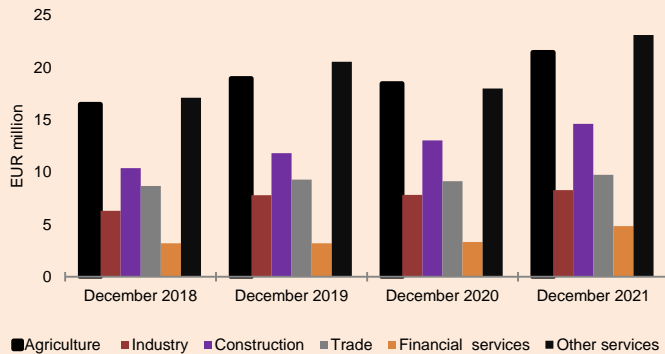
Chart 36. Value of loans to households and to nonfinancial corporations



Source: CBK.

Loans stock to nonfinancial corporations reached a value of EUR 82.7 million, representing an annual increase of 17.8% (an annual decline of 2.4% in December 2020).

Chart 37. Value of loans to nonfinancial corporations, by economic sectors



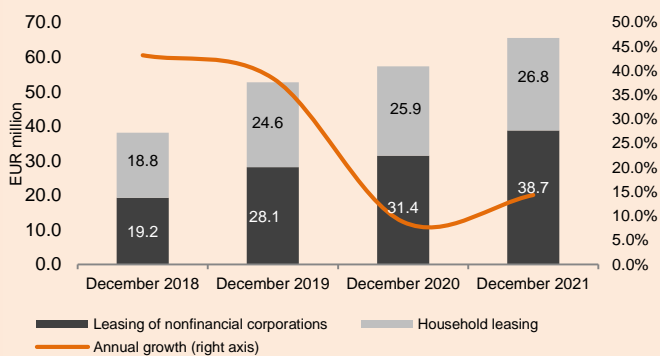
Source: CBK.

On sectoral basis, lending to all of the economic sectors marked an accelerated growth. The highest increase was marked by the financial services sector, being followed by the sector of other services (chart 37).

### Leasing

Leasing continued with increasing trend, albeit at lower level compared to the increasing pace marked before the pandemics.

Chart 38. Value of microfinance sector leasing



Source: CBK.

Leasing activity marked an annual increase of 14.3% (8.8% in 2021), reaching the value of EUR 65.5 million at the end of December 2021.

This increase mainly reflects leasing to nonfinancial corporations, whose value reached EUR 38.7 million, representing an annual increase of 23.2% (chart 38).

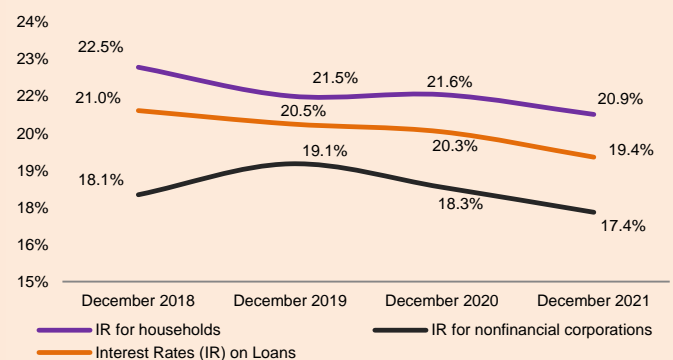
Leasing to households was characterized with a slow increase compared to leasing to nonfinancial corporations, marking an annual increase of 7.3% (3.3% in December 2020), while their total value reached EUR 26.8 million, in September 2021.

### Interest rates

The average interest rate on loans issued by this sector, in December 2021, stood at 19.4%, which is 0.9 percentage points lower than in the same period of the previous year (chart 39).

Interest rates on loans to households marked an annual increase of 0.1 percentage points, reaching 21.8% (chart 39). By loan categories, the average interest rate on mortgage loans increased by 0.3 percentage points, reaching 19.6%. Whereas, consumer credit was characterized with an increase of 1.1 percentage points, reaching 23.0%.

Chart 39. Average interest rate on microfinance sector loans

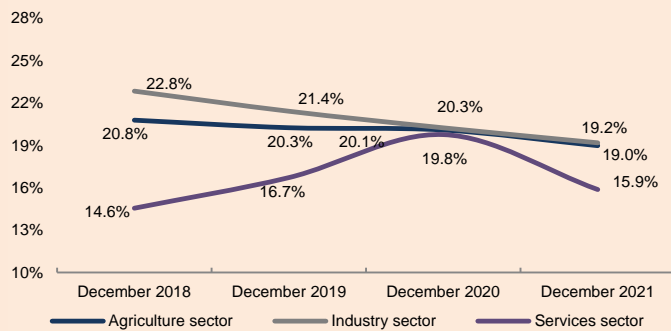


Source: CBK.

Also, the average interest rate on loans to nonfinancial corporations decreased by 0.9 percentage points,

dropping at 17.4%. On sectoral terms, a more favorable interest rate was marked by loans to services sector, followed by loans to agriculture with an interest rate of 15.9% and 19.0%, respectively (chart 40).

Chart 40. Average interest rate on loans to enterprises, by economic sectors



Source: CBK.

## Performance of the microfinance sector

Microfinance sector closed 2021 with a net profit of EUR 14.3 million against the profit of EUR 0.1 million realized in 2020. This was the highest profit since the consolidation of the sector.

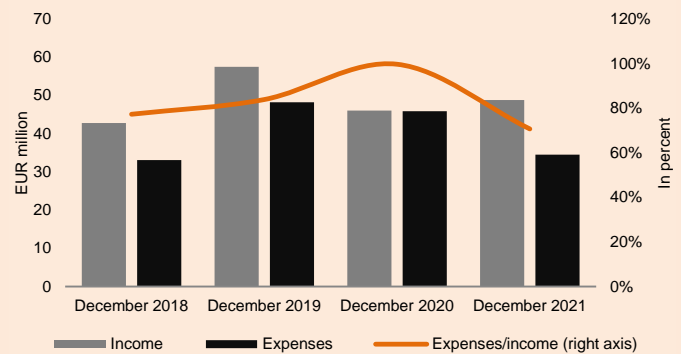
The income of the sector marked the value of EUR 48.8 million in December 2021, representing an annual increase of 6.1%. The increase of income was mainly attributed to the increase of non-interest income, namely the increase of other operating income of EUR 1.1 million (chart 41). Meanwhile, interest income marked an annual increase of 2.7%.

Expenditures of the sector declined to EUR 33.7 million from EUR 45.2 million as they were in December 2020, representing an annual decline of 25.4%.

The decline of expenditures mainly reflects the decrease of non-interest expenses, namely loan loss provisions. At the same time, interest expenses marked

a decline, while operating expenses marked an increase.

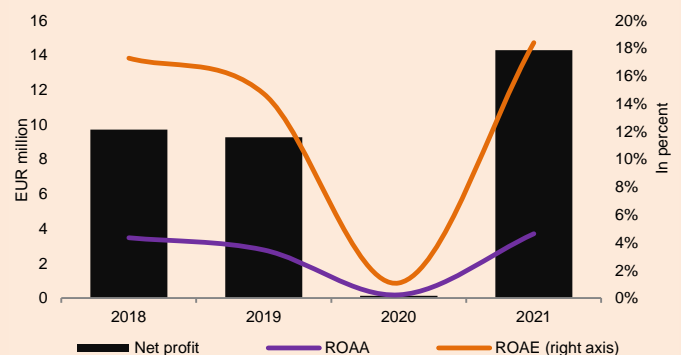
Chart 41. Microfinance sector income and expenses



Source: CBK.

As a consequence of the recovery of sector's performance, expenses to income ratio marked a significant recovery, declining for 29.0 percentage points compared to the same period of the previous year, standing at the level of 70.7%, in December 2021.

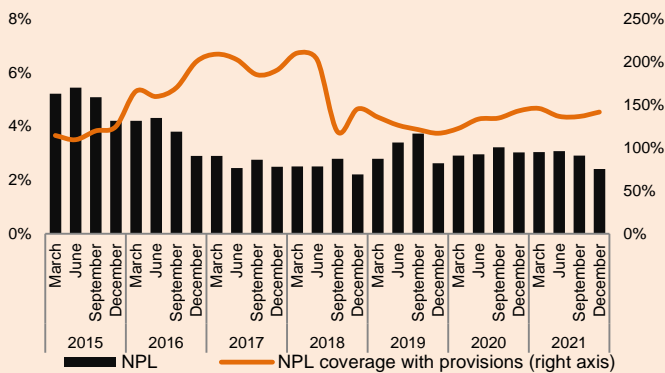
Chart 42. Profitability indicators of microfinance sector



Source: CBK.

The financial performance of the sector was reflected also on two other profitability indicators, return on average assets (ROAA) and return on average equity (ROAE), which considerably increased in 2021 at 4.6% and 18.4%, respectively, compared to the low values marked in December 2020 (chart 42).

Chart 43. Indicators of credit portfolio quality



Source: CBK.

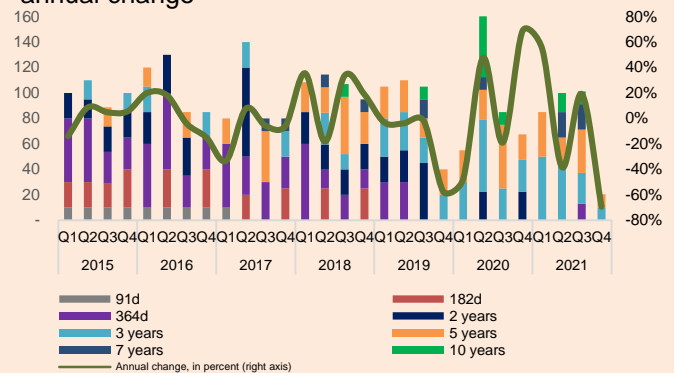
Regarding the indicators of loans portfolio quality in microfinance institutions, nonperforming loans continued to stand at low levels and were characterized with high coverage with provisions. More precisely, in December 2021, nonperforming loans marked a further decline at 2.4% from 3.0%, as they were in December 2020. While, the coverage of NPL with loan loss provisions reached 141.6% from 143.0% as it was in September 2020 (chart 43).

## Securities market

In 2021 the Kosovo's Government realized 18<sup>12</sup> securities auctions, issuing debt with a lower value compared to the same period of 2020. The investment demand to invest on these auctions continued to exceed the government's offer.

The debt issued by Kosovo's Government in 2021, marked an annual decline of 17.1% compared to the previous year, resulting at the value of EUR 306.8 million (chart 44).

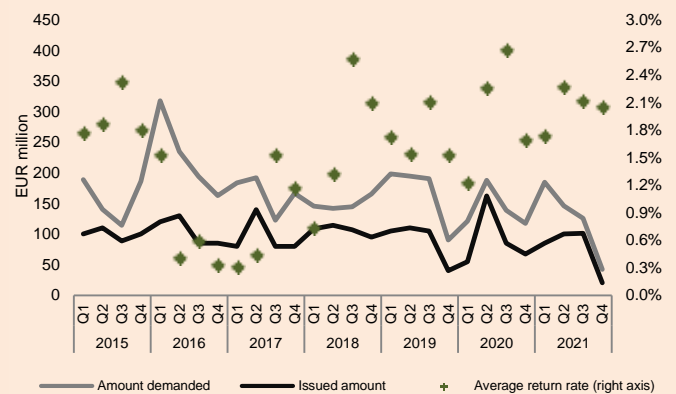
Chart 44. Amount and maturity of issued debt, annual change



Source: Ministry of Finance, Labor and Transfers.

Whereas, if we compare the debt issued in the quarterly period, then during the fourth quarter of 2021, the value of the issued securities was the lowest since the beginning of the issuance (an issuance of EUR 20.6 million, from the historical average of EUR 68.3 million).

Chart 45. Bid to cover ratio



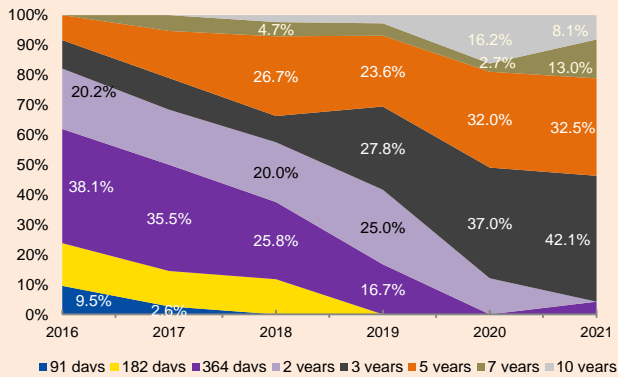
Source: Ministry of Finance, Labor and Transfers.

The lack of financial markets in the country, and the limited possibilities to invest in alternative assets is reflected in the demand to invest in Government securities which consistently exceeds the offer. The demand to invest in Kosovo's Government securities continued to exceed the offer, where the bidding

<sup>12</sup> Two out of eighteen auctions realized in 2021 were issuances of treasury bills for the diaspora.

amount was for 1.63 times higher than the amount offered by the Kosovo's Government. The average interest rate on securities in 2021 was 2.1% , similar to the rate marked in Q4 2021 (chart 45).

Chart 46. Government securities structure, in percent



Source: Ministry of Finance.

The securities structure is dominated by government bonds, with a maturity of 3 years, followed by securities with a 5 and 7 years of maturity (chart 46).

Pension funds, the banking sector, public institutions and the insurance companies continued to represent the main investment institutions in the primary market of Kosovo's

Government securities, where the pension sector continues to be the most exposed sector with 54% of the total stock of the internal debt. The banking sector has an exposure of about 41% of the total domestic debt stock and the remainder accounts for the insurance sector (5%).

**The suggested citation of this publication:**

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KAS.

- a) Harmonized index of Consumer Prices: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- b) Producer Price Index: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- c) Import Price Index: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- d) Statistical Report on economic enterprises: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>
- e) External trade statistics: <https://ask.rks-gov.net/en/kosovo-agency-of-statistics>

Other:

- a) Announcements and Results of Auctions for Government securities: <https://mf.rks-gov.net/>
- b) Kosovo Credit Guarantee Fund: <http://www.fondikgk.org/>
- c) Kosovo Pension Saving Trust: <http://www.trusti.org/en/>

Bloomberg: Metal Prices database: [Commodities - Bloomberg](https://www.bloomberg.com/markets/commodities)

FAO: World Food Prices, Food and Agriculture Organization of United Nations:  
<http://www.fao.org/worldfoodsituation/foodpricesindex/en/>

Euribor: Euribor Historical Rates: <http://www.euribor-ebf.eu/euribor-org/euribor-rates.html>

IMF: World Economic Outlook: World Economic Outlook (imf.org)

## Macroeconomic selected indicators

Description	2020	2021
Real sector 1/		
Gross Domestic Product (GDP) (EUR million)*	6,771.6	7,816.6
Consumer prices (annual average)	0.2%	3.4%
Consumer prices (end of period)	0.1%	6.7%
Fiscal Sector 2/		
Budget Revenues (EUR million)	1,731.3	2,200.5
Budget Expenditures (EUR million)	2,216.6	2,268.4
Primary balance (EUR million)	-485.3	-67.9
Financial sector (EUR million) 3/		
Assets of financial corporations	7,919.2	8,925.6
of which : Banks	5,365.3	5,959.5
Loans	3,246.6	3,748.6
Deposits	4,360.9	4,901.8
<i>Interest Rates on Loans, end of period</i>	6.0%	5.8%
<i>Interest Rates on Deposits, end of period</i>	1.5%	1.3%
Interest rate gap	4.5%	4.5%
External sector,(EUR million) 3/		
Balance of payments		
Current accounts	-472.2	-691.2
of which: remittances	980.1	1147.8
Financial account	-560.9	-438.7
Foreign Direct Investments in Kosovo	345.7	421.0
Portfolio investments, net	-81.7	277.2
Other investments, net	-238.9	-563.3
International Investments Position (IIP), net*	-753.4	-723.6
Assets	5,201.5	6,112.1
Liabilities	5,954.9	6,835.8
External debt, total*	2,361.3	2,841.1
Private external debt	1,863.8	2,078.7
Public external debt	497.4	762.5

Source:

1/ KAS.

2/ MF.

3/ CBK.

\*Data on IIP and external debt are as of September 2021.

