

### Summary

Economic activity in Kosovo was recovered during the first quarter of 2021, after the decline that had been marked in 2020. In Q1 2021, real GDP growth rate according to KAS was 5.6%, where the growth of consumption and investments contributed positively, while net exports contributed negatively. Based on the indicators with the highest frequency of publication such as exports of goods and services, consumption and public investments, remittances, etc., real GDP growth is estimated to have continued in Q2 2021.

The financial system marked an increase of its activity during the first quarter of 2021, although still facing the challenges of the health and economic crisis caused by Covid-19 pandemic. All the constituent sectors contributed to the growth, where the total amount of assets reached EUR 8.07 billion at the end of March 2021. Financial system expanded with an accelerated pace compared to the same period of the previous year, mainly being affected by the dynamics in the banking and pension sector.

On quarterly basis, the activity of the banking sector was mainly supported by the increase of lending, followed by the increase of investments in securities and cash held at commercial banks. Whereas, within liabilities, deposits marked the most significant increase in this quarter. With an increase were characterized also the category of own resources (from the retained earnings and realized profit). Despite the increased risks due to the pandemic situation, the banking sector has shown good absorption capabilities mainly as a result of the favorable position in its soundness indicators, such as: good capitalization position, liquidity, high quality of loans portfolio and sustainable profitability.

Pension sector continued to be characterized with positive dynamics in overall assets also in Q1 2021. Despite the withdrawal of 10% of funds from contributors, the increase of assets in this sector was mainly enabled by the increase in contributions received during this period and the positive return on investments.

During the first quarter of 2021, insurance sector was characterized with an increase, marking a higher level of premiums received. However, the higher level of claims paid (insurers and KIB), had an impact on the insurance sector to operate with loss, in Q1 2021.

While the slower growth of assets of the microfinance sector, during 2020, was mainly attributed to the revocation of the licenses of two microfinance institutions and the effects of the COVID-19 pandemic, in Q1 2021, this sector recovered its lending activity, marked a positive financial performance and reported low level of nonperforming loans.

During the first quarter of 2021, the Government of Kosovo issued debt with an amount of EUR 85.0 million, where the submitted bidding amount to invest in government bonds was 2.18 times higher than the amount offered by the Government of Kosovo.

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## **Macroeconomic Developments<sup>1</sup>**

Based on KAS estimates, real GDP in Kosovo marked an accelerated increase of 5.6%, during Q1 2021. Consumption and investments resulted to have had a positive contribution to the growth, whereas net exports had a negative impact on the economic activity. The accelerated increase of the economic activity is estimated to have continued also in Q2 2021. These estimates are based on the increase of exports of goods and services, of public consumption and investments, the increase of remittances, etc.

Consumer prices increased by 0.6% in Q1 2021, mainly due to the increase in prices of communication means, alcoholic beverages and tobacco, health services, education, hotels, and the slowdown increase of food prices.

The mitigation of the negative effects of the Covid-19 pandemic on the economic developments has improved the performance of budget revenues compared to previous quarters. Budget revenues, in Q1 2021, marked an increase of 14.5%, while budget expenditures marked an even higher increase (30.5%) making the Kosovo budget record a primary deficit of EUR 32.6 million. Public debt reached EUR 1.5 billion which is for 28.3% higher compared to Q1 2020, whereas as a percentage to GDP, public debt reached 21.8% from 16.5%.

In the external sector, the current account deficit has more than doubled in Q1 2021, mainly due to the increase of the goods deficit, while the positive balance of services and secondary income marked an increase. The trade deficit of goods was EUR 767.3 million or 20.0% higher compared to Q1 2020, a dynamic that was mainly attributed to the significant increase of import despite the considerable increase of export. Within the balance of payments, a considerable increase was marked also by remittances in Q1 2021 (29.7%), while FDI marked an increase of 2.0%.

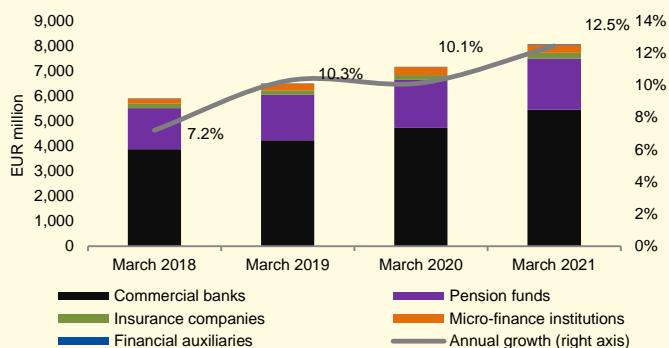
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<sup>1</sup> For more information on macroeconomic developments, please refer to:  
Quarterly Assessment of Macroeconomic Developments (Q1 2021) published on  
the CBK website.

## Financial System

**Assets of financial system reached a value of EUR 8.07 billion, by the end of March 2021. Compared to the same period of the previous year, the financial system in the country was characterized by accelerated growth, supported mainly by positive dynamics in the banking and pension sector, and to a lesser extent by other sectors (chart 1).**

Chart 1. Assets value of Kosovo's financial system



Source: CBK.

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

Banking sector had the main contribution to assets growth of the financial system in the reporting period, marking an annual increase of 15.4% in March 2021 (11.7% in the same period of the previous year). Another segment that marked an accelerated increase of asset of 7.0% from 5.5% as it was in March 2020 is also the pension sector, despite the withdrawal of about EUR 197.2 million by the end of March 2021 within the economic recovery package (10% of trust funds as a measure within the economic recovery package). Also other sectors had positive contribution to the growth of assets of the system, albeit at lower level due to their low weight they have in the financial system. Insurance sector marked an accelerated increase of its

activity, while the microfinance sector was characterized with a slowdown increase compared to the same period of the previous year.

On quarterly basis, financial system assets increased by EUR 160.0 million, primarily being affected by the banking sector activity (EUR +96.0 million) and the pension sector (EUR +56.1 million). Insurance sector increased by EUR 5.3 million, while microfinance sector marked an increase of EUR 0.5 million.

Chart 2. Quarterly change of assets of financial system constituent sectors



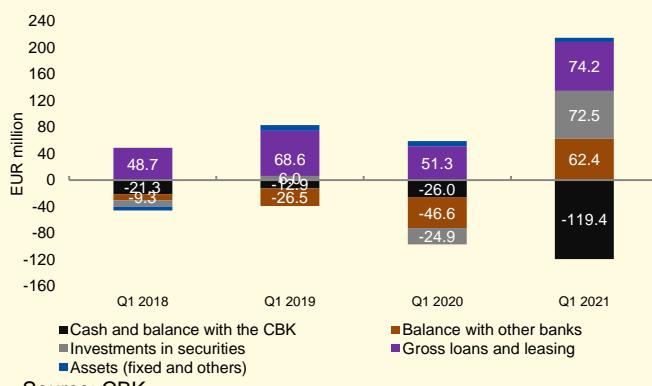
The significant increase in assets of the banking sector in this quarter reflects the increase of deposits, while the increase of the activity of the pension sector was attributed to the increase in contributions received and a positive return on investments.

## Banking Sector

*Within assets of the banking sector, lending activity marked the highest increase, followed by investments in securities, and cash held at commercial banks. Whereas, within liabilities, deposits marked the most significant increase in this quarter. With an increase was characterized also the category of own resources (from the retained earnings and realized profit, during Q1*

**2021). Regarding the soundness indicators of the sector, banks continue to be well capitalized, to have satisfactory level of liquidity, and high quality of loans portfolio.**

Chart 3. Banking sector assets structure in the respective quarters



## Assets

The value of total assets of the banking sector at the end of Q1 2021, reached EUR 5.45 billion, representing the highest annual growth in the recent eleven years with 15.4%. This significant increase of the activity reflects mainly the increase of the deposits level, especially household deposits. Whereas, on quarterly basis, assets of the banking sector increased by EUR 96.0 million, in Q1 2021. Lending activity of the banking sector (which has the largest weight within the assets of the sector, with a share of 60.9%) marked an increase of EUR 74.2 million in this quarter (chart 3). The category of balance sheet with commercial banks, which is mainly comprised of deposits and the like, invested in banks abroad, marked an increase of EUR 62.4 million. The category of investments in securities marked an increase of EUR 72.5 million in Q1 2021. Meanwhile, the category of cash held at the

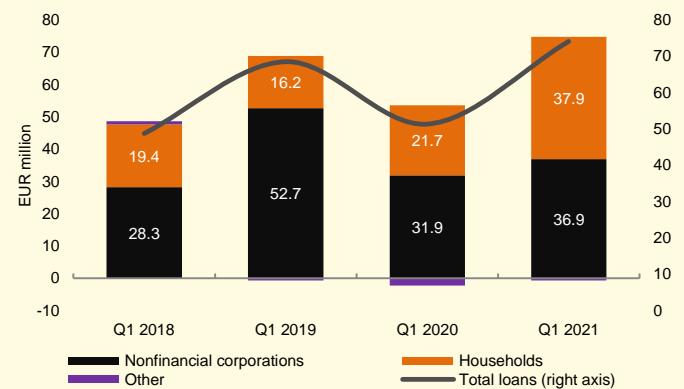
treasury and the CBK decreased by EUR 119.4 million in this quarter, which reflects the distribution of funds in investment items which have higher returns, such as lending, securities and deposits in banks abroad.

## Loans

The value of total active loans at the end of March 2021 reached EUR 3.32 billion, representing an annual increase of 7.7% (an increase of 9.2% marked at the end of March 2020). Loans to nonfinancial corporations, which comprise 63.0% of total loans, marked a slowdown increase of 7.3% (8.4% at the end of March 2020).

Similarly, loans to households marked a slowdown increase, which was 8.4% from 10.7% as it was in March 2020.

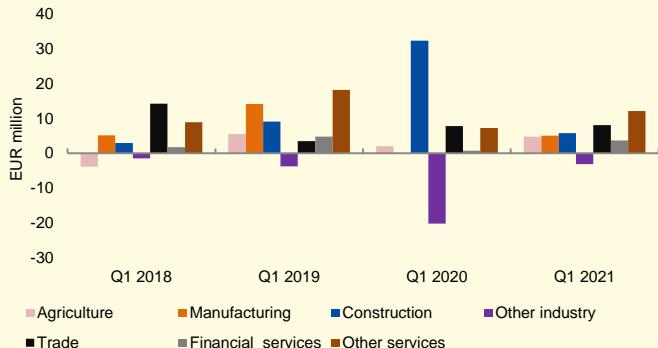
Chart 4. Quarterly change of loans stock



On quarterly basis, loans to households increased by EUR 37.9 million during Q1 2021 (EUR 21.7 million during Q1 2020), while loans to nonfinancial corporations increased by EUR 36.9 million (EUR 31.9 million during Q1 2020) (chart 4).

In terms of economic activities, on a quarterly basis, the sectors with the largest share of active loans stock were characterized by growth.

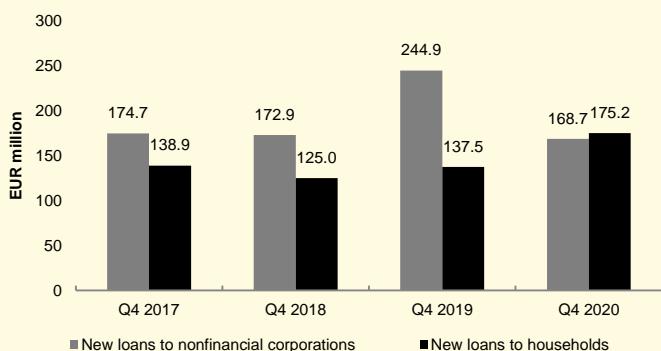
**Chart 5. Quarterly change on loans to nonfinancial corporations, by economic activity**



Source: CBK.

Lending to the main sectors of the economy, such as agriculture, manufacturing, construction and trade were characterized by a growth. The sectors of mining and energy were characterized by a decline of lending, which compared to the previous period, this decline was less pronounced.

**Chart 6. New loans to nonfinancial corporations and households, in Q1**



Source: CBK.

New loans, in Q1 2021 declined at the value of EUR 343.9 million, representing an annual decrease of 10.1% compared to Q1 2020. New loans designated to nonfinancial corporations declined by 31.1%, amounting to EUR 168.7 million, in Q1 2020 (chart 6). A significant contraction was marked by loans with investment purposes, from 53.6%, whose value reached EUR 85.6 million in this quarter. While, new loans

with investment purpose were characterized with an annual growth of 40.6%, falling at the value of EUR 78.1 million in Q1 2021. By sectoral terms, new loans to agriculture sector marked an increase, whereas other sectors were characterized with a decline in Q1 2020 (industry, services, other sectors).

Conversely, new loans to households marked a significant increase. The value of total new loans was for EUR 37.7 million higher against Q1 2020, amounting to EUR 175.2 million in Q1 2021. Of which, new consumer credit marked an increase of 20.4%, reaching the value of EUR 122.3 million, in Q1 2021. With a more pronounced increase of 61.1% were characterized new mortgage loans, which reached the value of EUR 42.9 million during Q1 2021.

## Liabilities and Own Resources

The structure of liabilities and own resources is mainly comprised by deposits (81.2%), whose stock, at the end of March 2021, reached EUR 4.42 billion marking an annual growth of 15.0% (13.6% in March 2020). Also, on quarterly basis, deposits marked a significant increase compared to Q1 2020 (chart 7).

**Chart 7. Structure of liabilities and own resources, quarterly change**



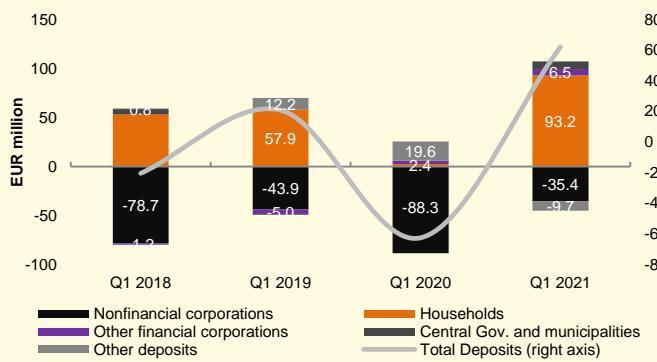
Source: CBK.

The category of own resources of the sector increased by EUR 31.8 million in Q1 2021 (EUR 21.8 million in Q1 2020), as a consequence of the profit realized and retained earnings during this period. At the end of the March 2021, the stock of total equity reached the value of EUR 641.9 million, marking an annual increase of 18.5%.

## Deposits

The double-digit increase of 15.0% of the deposits stock for the third consecutive year, despite the negative effects caused by the Covid-19 pandemic, may be, among other things, the result of the transfer of 10% of pension funds to contributors' accounts at the end of the last year. Also, the significant increase of remittances during 2020 and in the beginning of 2021 may have had an impact on the growth of household deposits.

**Chart 8. Deposits by sources, quarterly change**



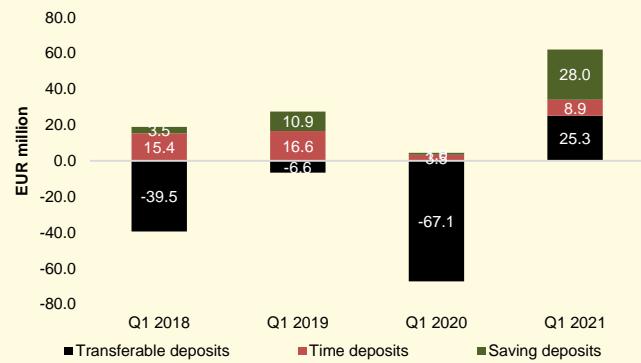
Source: CBK.

At the end of March 2021, the stock of total deposits reached the value of EUR 4.42 billion, an increase that mainly reflects the performance of deposits collected from households. On quarterly basis, only in Q1 2021, deposits increased by EUR 62.2 million (a decline of EUR 62.7 million, in Q1 2020). Deposits collected from

households, during Q1 2021, increased by EUR 93.2 million (EUR +2.4 million in Q1 2020), while the stock value at the end of the period reached EUR 3.03 billion. On the other side, deposits collected from nonfinancial corporations during this period decreased by EUR 35.4 million (EUR -88.3 million in Q1 2020), while the stock value at the end of the period reached EUR 792.0 million.

Deposits from other financial corporations in this quarter expanded by EUR 6.5 million (EUR +3.6 million in Q1 2020), which mainly reflects the developments in the pension sector. At the end of the period, the stock of this category amounted to EUR 269.9 million.

**Chart 9. Deposits structure by main categories, quarterly change**



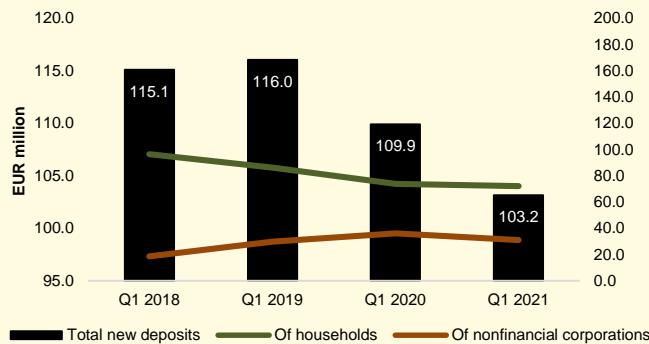
Source: CBK.

According to the categories of deposits, transferable deposits expanded by a value of EUR 25.3 million (EUR -67.1 million in Q1 2020) on quarterly basis, while their stock reached the value of EUR 2.81 billion at the end of the period (March 2021) (chart 9).

Over the same period, time deposits increased by euro 8.9 million (EUR +3.5 million during Q1 2020), reaching a value of EUR 1.03 billion at the end of the period (March 2021), while saving deposits increased by EUR 28.0 million (EUR +1.0 million during Q1

2020), reaching the value of EUR 580.8 million at the end of the period (March 2021).

Chart 9-A. New collected deposits, quarterly change



Source: CBK.

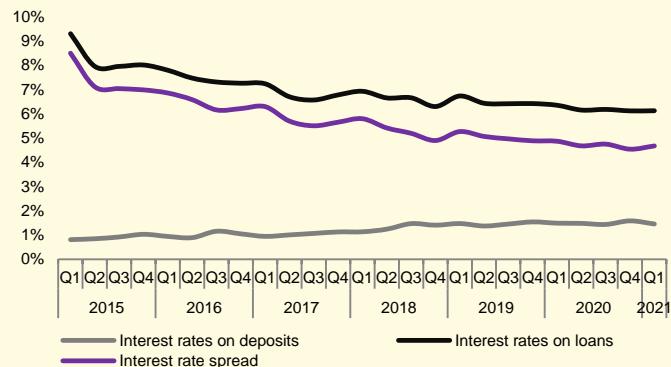
Transferable deposits continued to have the highest share to total deposits of the sector (63.6%), followed by time deposits (23.3%) and saving deposits (13.1%).

The value of new collected deposits,<sup>2</sup> in Q1 2021, was EUR 103.2 million, of which EUR 31.1 million were deposits collected from nonfinancial corporations, whereas EUR 72.1 million belonged to household deposits (chart 9A).

### Interest Rates<sup>3</sup>

The average interest rate on loans in Q1 2021 was 6.1%, or 0.2 percentage points lower against the same period of the previous year. Whereas, interest rates on deposits remained at the same level as in the previous periods, standing at 1.5%, in Q4 2020. Consequently, the interest rate spread of loans and deposits stood at 4.7 percentage points (chart 10).

Chart 10. Interest rates on loans and deposits



Source: CBK.

### Interest rates on loans

Average interest rate on loans to nonfinancial corporations stood at 6.1% during Q1 2021, similar to previous period (chart 11).

As regards to categories of loans, the interest rates on investment loans was higher (6.3%) compared to interest rate on non-investment loans (6.0%). Compared to the same period of the previous year, it was observed a more significant decline of interest rates on non-investment loans (for 0.3 percentage points) than the decline for investment loans (for 0.1 percentage points).

In sectoral term, the interest rate on agriculture loans marked a decline of 1.8 percentage points, falling at an average of 6.0%.

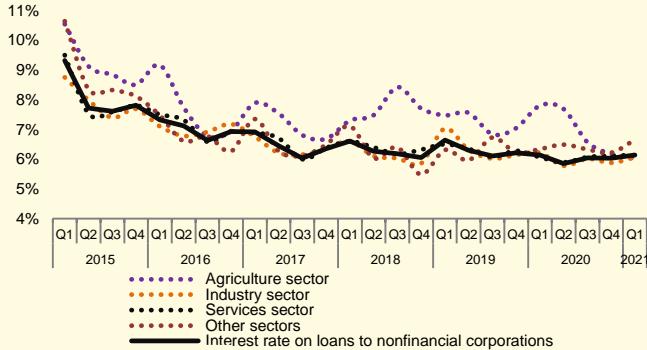
Similarly, also interest rates on loans to industry marked a decline of 0.2 percentage points, dropping at 6.1%.

<sup>2</sup> New deposits include time deposits.

<sup>3</sup> The calculation of interest rates: quarterly average of interest rates on loans and deposits. In the text it is referred as “the interest rates”.

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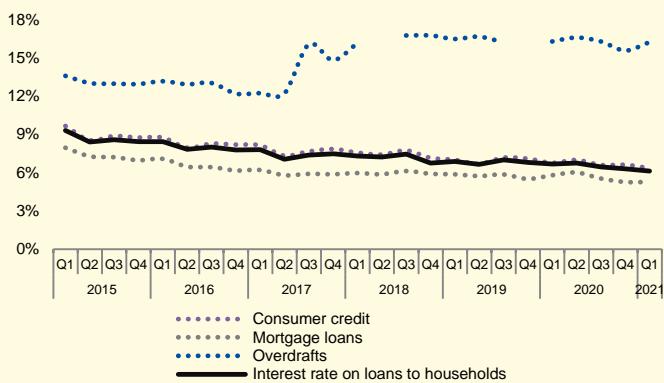
**Chart 11. Interest rates on loans to nonfinancial corporations**



Source: CBK.

Meanwhile, interest rates on loans to the services sector and other sectors increased by 0.1 and 0.3 percentage points, reaching 6.1 and 6.7 percent, respectively.

**Chart 12. Interest rates on loans to households**



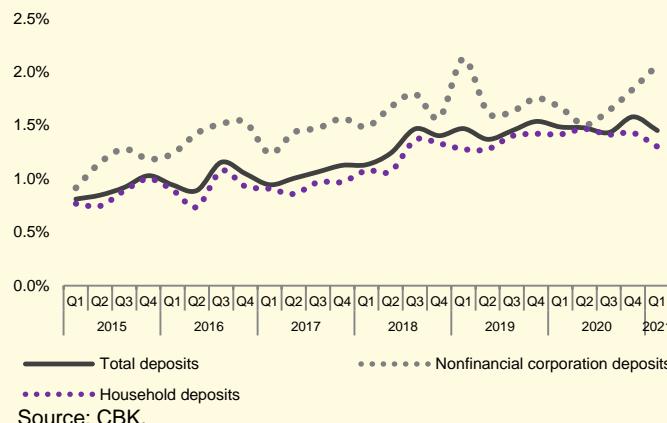
Source: CBK.

Concerning loans to households, the average interest rate stood at 6.1%, representing a decline of 0.5 percentage points compared to Q1 2020. A higher interest rate was marked by consumer credit (6.4%), which recorded a decline of 0.4 percentage points compared to Q1 2020. In addition, also interest rate on mortgage loans marked a decline in this quarter (from 5.8% in Q1 2020 to 5.3% in Q1 2021) (chart 12).

### Interest rates on deposits

The average interest rates on deposits remained almost at the same level as in the previous periods, standing at 1.5% (chart 13).

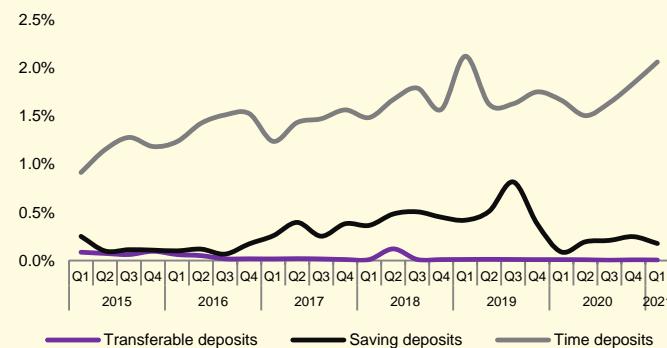
**Chart 13. Interest rates on deposits**



Interest rates on nonfinancial corporation deposits, continued to be more favorable compared to those of households, although the difference between them is not high.

Interest rates on nonfinancial corporation deposits stood at 2.1% (1.7% in Q1 2020) (chart 14).

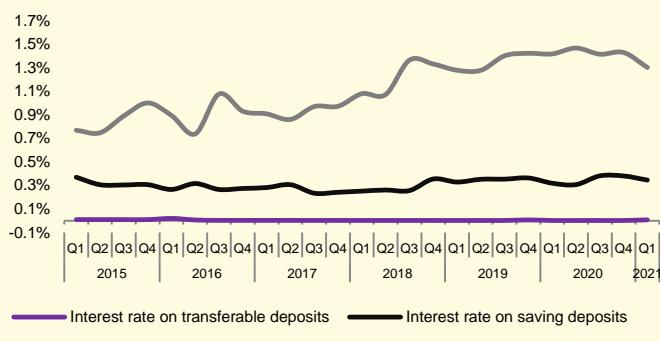
**Chart 14. Interest rate on nonfinancial corporation deposits, by categories**



Source: CBK.

Whereas, interest rates on household deposits remained approximate in this quarter compared to the previous period (Q1 2020). The average interest rate on household deposits stood at 1.3%, similar to the rate on time deposits, while those on saving deposits stood at 0.3% (chart 15).

**Chart 15. Interest rates on household deposits, by categories**



Source: CBK.

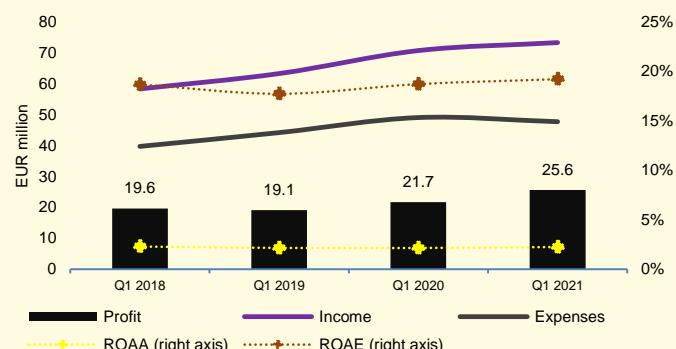
## Performance of the Banking Sector

The banking sector realized a profit with a value of EUR 25.6 million, in Q1 2021, which is for EUR 3.9 million higher compared to Q1 2020 (chart 16). The profit realized in Q4 2020 was mainly a result of the higher increase of income (for EUR 2.6 million) compared to the decline of expenditures (for EUR 1.3 million). During this quarter income amounted to EUR 73.3 million, where interest income (mainly interest income on loans) dropped to EUR 50.2 million (annual decline of EUR 1.8 million). Conversely, non-interest income (primarily income from fees and commissions), marked an annual increase of EUR 1.9 million in Q1 2020 amounting to EUR 18.1 million.

Expenditures of the banking sector marked a value of EUR 47.7 million in Q1 2021. The largest category,

general and administrative expenses reached the value of EUR 27.5 million, representing an approximate amount as in Q1 2020. The category of non-interest expenses, marked the value of EUR 11.8 million in Q1 2021 (for EUR 1.7 million lower compared to the previous period), mainly as a consequence of the lower share for expenses on loan loss provisions. Whereas, the category of interest expenditures during this period decreased for EUR 0.3 million, thus standing at EUR 5.6 million, in Q1 2021.

**Chart 16. Profit and profitability indicators of the banking sector**



Source: CBK.

The increase in income (3.7%) against the decrease in expenditures (-2.7%), had an impact on expenditures to income ratio to improve, dropping to 65.0%, in Q1 2021. This ratio indicates that the banking sector spends EUR 0.650 for every EUR 1 earned (chart 16).

## Financial Soundness Indicators

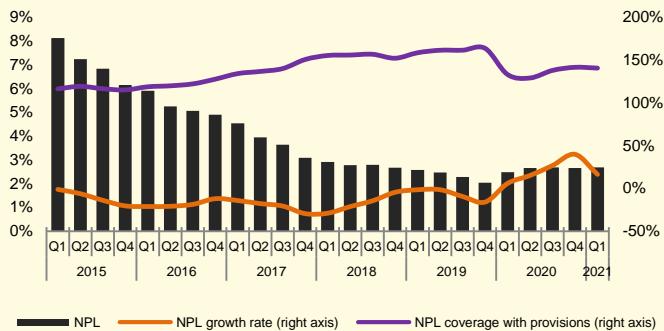
Financial soundness indicators of the banking sector continued to be at high level in Q1 2021, exceeding the minimum level as required by the regulation.

Nonperforming loans, despite of being characterized with an increasing trend in Q1 2020, they continued to remain at low level and to be well covered with provisions. The NPL rate to total loans ratio stood at

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the level of 2.7%, in March 2021 (2.5% at the end of March 2020) (chart 17).

**Chart 17. Nonperforming loans and coverage with provisions**

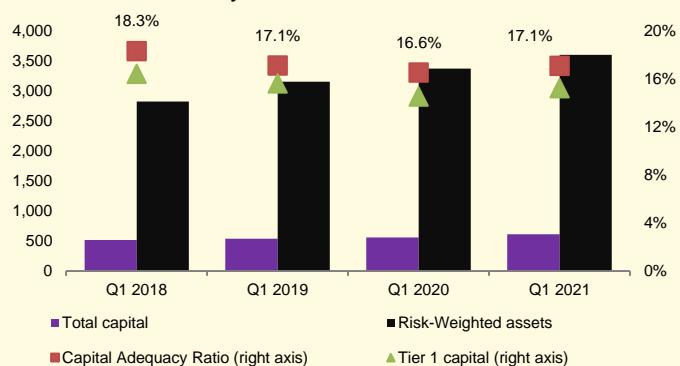


Source: CBK.

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

Nonperforming loans continued to be well provisioned, at the level of 140.5% (133.0% at the end of March 2020). As a result of the capital level inherited from the previous years and the profit realized in the first quarter of 2021, the level of capitalization of the banking sector stood at a satisfactory level. During the reporting period, the Capital Adequacy Ratio stood at the level of 17.1%, representing a higher level for 0.6 percentage points than in the same period of the previous year (chart 18).

**Chart 18. Solvency indicator**

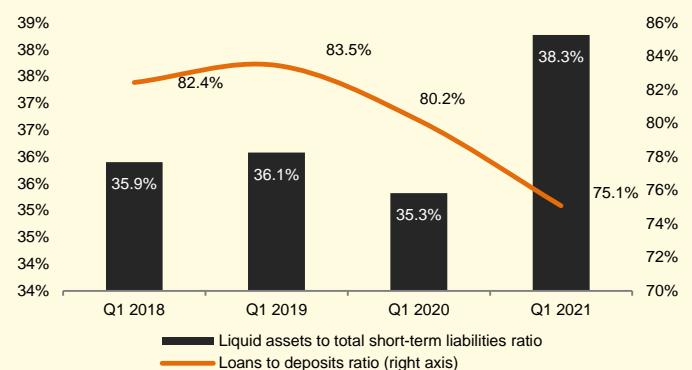


Source: CBK.

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

The increase of this indicator is attributable to the higher increase of the total capital compared to the slower increase of risk weighted assets. Therefore, the capital increase was impacted by the profit realized until March 2021, and the profit accumulated from the previous periods. Whereas, the slower increase of risk weighted assets reflects the slowdown growth of lending compared to the previous period.

**Chart 19. Liquidity indicators**



Source: CBK.

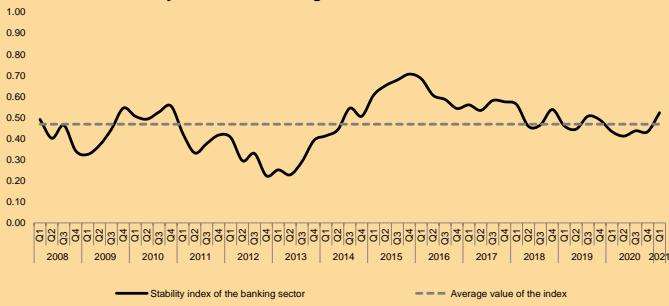
Note: The data are as at end of the noted quarter

As regards to the liquidity of the banking sector, the liquid assets to short-term liabilities ratio marked a slight improvement of 2.9 percentage points compared to Q1 2020, standing at the level of 38.3%. The increase of this indicator, came as a result of the more accelerated increase of liquid assets (cash and its equivalents, the balance with other banks, investments in securities) compared to the slower increase of short-term liabilities (mainly transferable deposits).

## **Box 1. Stability index of the banking sector**

Banking sector, before the outbreak of Covid-19 pandemic, operated in an environment with low risks level. The spread of the Covid-19 pandemic in 2020 as well as the measures taken to mitigate the consequences on the economic and social crisis have been reflected in the growing uncertainties of the main participants in the economy, and consequently, an increase of risks to which the banking sector is exposed. Being relied on the more frequent indicators of the banking sector, the stability index of the banking sector is constructed to measure and assess the internal soundness of the banking sector which reflect the stability of the banking sector. The index has been constructed on the base of 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.<sup>4</sup> The index has been calculated on quarterly basis in order to assess the increase or the decline of the risk sensitivity through this index.

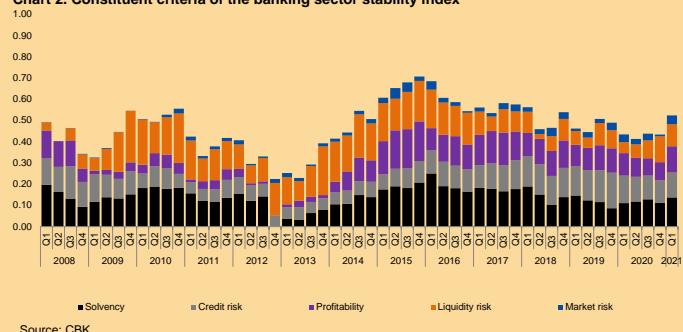
**Chart 1. Overall stability index of the banking sector**



Based on the general aggregated index of the sector's stability, at an average, it was marked a decline of the risk sensitivity (read: a growth of the index) in Q1 2021 compared to Q1 2020. The total value of the index in Q1 2021 is significantly above the average value of the index (chart 1), in contrast to the previous year where as a result of the pandemic crisis, the overall index turned out to be below the historical average values in each quarter.

Compared to the same quarter of the previous year, a decline of the index (read: an increase of risk sensitivity) was marked by credit risk indicator. Whereas, an increase of index (a decline of risk sensitivity) was marked by the risk indicator of solvency, liquidity, profitability, and market risk indicator. It is worth mentioning that the indicator that measures the market risk, has quite low weight to the overall index and the fluctuations of this indicator do not pose risk for the banking sector as a result of the low level of assets held in foreign currency (chart 2).

**Chart 2. Constituent criteria of the banking sector stability index**



**The decline of sensitivity to solvency**, at the end of Q1 2021, compared to the statement marked in Q1 2020 is attributable to the increase of capitalization level of the sector. The increase of the capital has influenced the faster growth of regulatory capital against the slower growth of risk-bearing assets. The increase of the capital level is a result of the retained earnings from the previous years as well as the profit realized in the first quarter of 2021. Whereas, the slowdown increase of risk-bearing assets is a result of the slowdown of lending growth activity since the beginning of the pandemic compared to the performance of recent years (double-digit increase in the previous three years).

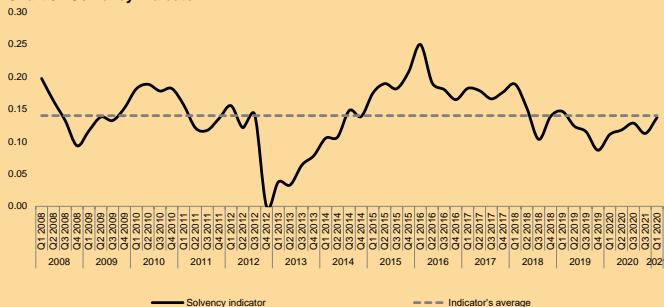
**The increase of sensitivity to liquidity risk**, in Q1 2021, compared to the level marked in the same period of the previous year, mainly is attributable to the higher increase

<sup>4</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.

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of liquid assets compared to the slower growth of the short-term liabilities.

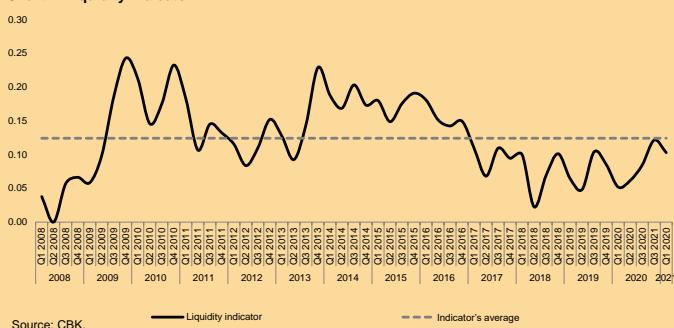
**Chart 3. Solvency indicator**



Within the liquid assets, there was observed a significant increase of cash held at the CBK, at commercial banks and other financial institutions, and an increase in securities investments. A significant increase of liquid assets reflects the trend of total deposits, which were characterized with a pronounced increase compared to March of the previous year.

Conversely, short-term liabilities marked a slower increase against the liquid assets, which mainly consist of deposits within a one year of maturity.

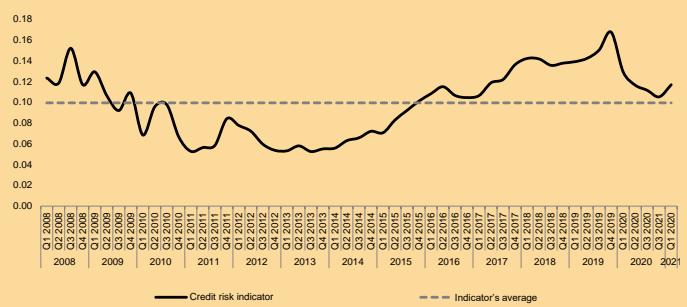
**Chart 4. Liquidity indicator**



The increase in credit risk sensitivity mainly was attributable to the increase of nonperforming loans in absolute value and as a ratio to total loans. The declining trend of nonperforming loans was interrupted for the first time in Q1 2020, since Q4 2014 when it had begun to decrease, which among others was affected by the methodological change with the beginning of the implementation of ISFR-9 standards. The NPL rate is

expected to increase also in the following periods, due to consequences of the Covid-19 pandemic on the economy.

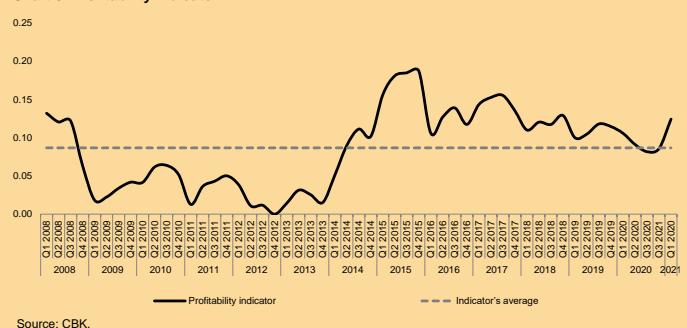
**Chart 5. Credit risk indicator**



The decline of sensitivity to profitability risk is attributable to the developments in income and expenses of the banking sector during this period. The increase in sector income of 3.7% compared to the same period of the previous year was a result of non-interest income (fees and commissions), while interest income was lower for 1.6% compared to the first quarter of 2020.

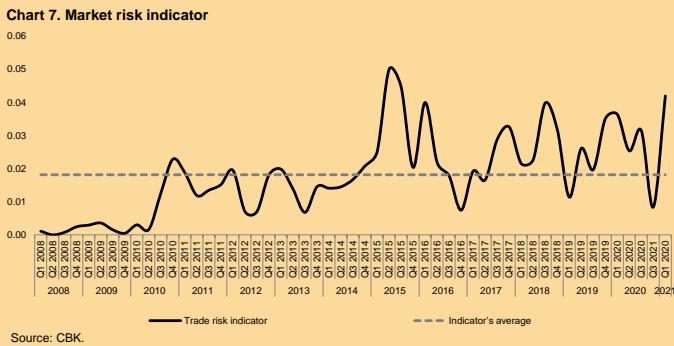
However, the decrease in expenses of 2.7% came mainly as a result of the decrease in expenses for possible loan loss provisions. Consequently, the higher profit compared to Q1 2020 has had an impact on the improvement of the profitability indicators such as Return on Average Equity (ROAE), and on the expenditures to income ratio.

**Chart 6. Profitability indicator**



The decline of the market risk sensitivity was mainly attributable to the decrease of net position in foreign currency of the banking sector. This indicator has lower weight in the overall financial stability index due to the low level of exposure to both assets and liabilities.

Furthermore, the level of foreign currency loans and deposits is quite low. As a consequence, movements of this indicator have quite low impact in the aggregated index of the financial stability.

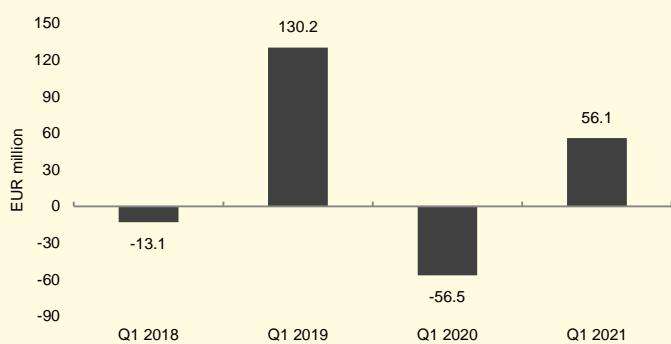


## Pension sector

**The activity of the pension sector during Q1 2021 expanded, mainly as a result of the positive return on investments and contributions received from contributors.**

Pension sector, as the second sector by importance of weight in the financial sector, comprises 25.5% of total assets of the financial system.

**Chart 20. Assets of the pension sector, quarterly change**



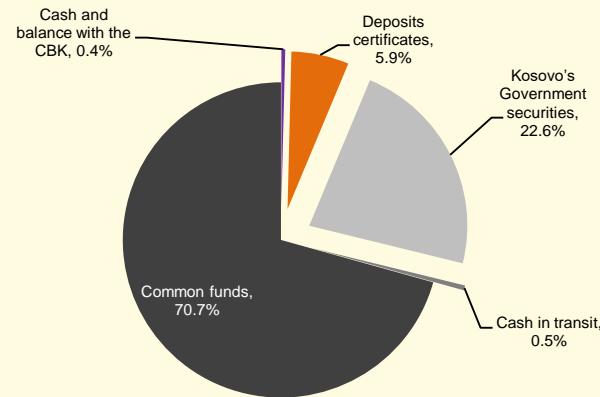
Source: CBK.

Despite the 10% withdrawal of assets by the contributors at the end of 2020, total assets of the pension sector marked an annual increase of 7.0%, in

March 2021, reaching the value of EUR 2.06 billion. Whereas, on quarterly basis, only in Q1 2021, assets of pension sector increased by EUR 56.1 million (a decline of EUR 56.5 million in Q1 2020) (chart 20).

Assets of the pension sector consist of 99.6% of assets which belong to Kosovo Pension Saving Trust (KPST) and 0.4% of assets of Slovenian-Kosovo Pension Fund (SKPF).

**Chart 21. Structure of KPST assets (Q1 2021)**

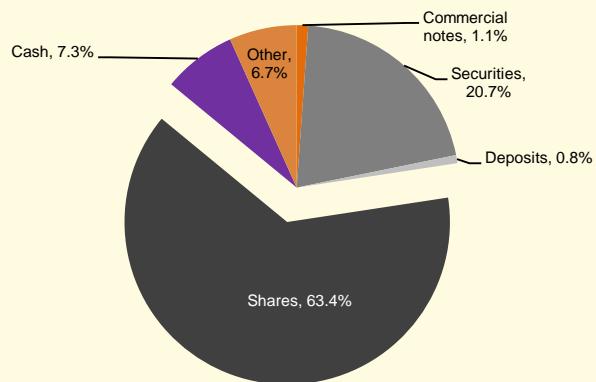


Source: KPST.

Assets structure of KPST is mainly comprised of assets invested abroad, albeit their weight gradually declined against the increase of the assets weight invested in the country. Around 71.2% of KPST assets are held abroad, or about EUR 1.46 billion allocated in common investment funds (chart 21). The remainder of assets were invested in the country, reaching the value of EUR 590.2 million at the end of March 2021. The largest portion of these assets are invested on bonds and treasury bills of Kosovo's Government, which only in Q1 2020 marked an increase of EUR 10.5 million. The category of assets invested in the banking sector shrank by EUR 9.1 million in this quarter. Whereas, cash held at the Central Bank of Kosovo marked a more significant decline of EUR 47.5 million in Q1 2021. The

decrease in cash (at the CBK) and deposits held at commercial banks also reflect the withdrawal of 10% of trust funds by contributors at the end of the previous year.

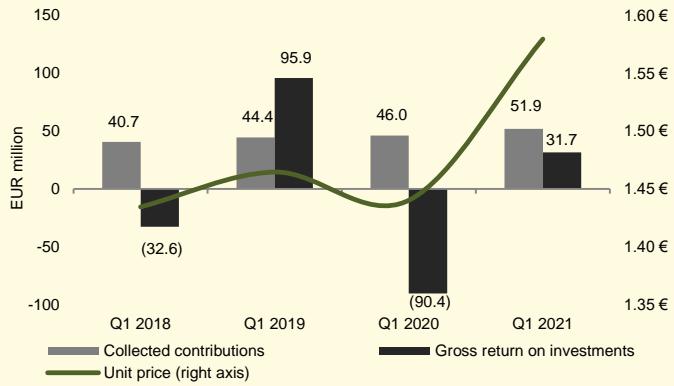
Chart 22. Structure of SKPF assets (Q1 2021)



Source: FSKP.

The structure of SKPF assets is similar to that of KPST, where around 78.4% of them are invested abroad, and the remainder is invested in Kosovo. Portfolio of SKPF is mainly comprised of shares invested abroad (63.4%), treasury bonds of foreign governments and of Kosovo's Government (20.7%), cash (7.3%) and other instruments (chart 22). Total assets of SKPF increased by EUR 264.7 thousands in Q1 2021, of which the majority were invested in the domestic sector.

Chart 23. Return on investments and KPST performance



Source: KPST.

During Q1 2021, the SKPF realized a gross profit from investments with a value of EUR 402.9 thousands (EUR -910.0 thousands in Q1 2020). Whereas, the value of new collections of contributors amounted to EUR 124.3 thousands in Q1 2021 (EUR 130.0 thousands in Q1 2020).

In this quarter, contributions collected by KPST increased by EUR 51.9 million, representing an increase of 12.8%, compared to the same period of the previous year. KPST realized gross return on investments with an amount of EUR 31.7 million during Q1 2021, compared to losses of EUR 90.4 million in the same period of the previous year, when Covid-19 began to spread, destabilizing financial markets and the global economy.

### **Insurance sector**

***Insurance sector during the first quarter of 2021 was characterized with an activity expansion and a higher level of premiums received. However, the higher level of claims paid (insurers and KIB), had an impact on the sector to operate with loss, in Q1 2021.***

Assets of insurance sector by the end of March 2021, reached the value of EUR 224.5 million, representing an annual growth of 12.0%. Deposits held at commercial banks and investments in Kosovo's Government securities were the items with the highest growth. Whereas, only during Q1 2021, assets of the insurance sector increased by EUR 5.3 million (chart 24), an increase supported mainly by deposits held at commercial banks, the category of re-insurers for

technical reserves as well as borrowings and receivables.

Within capital and liabilities, in this quarter the highest increase was marked by technical reserves, primarily for claims paid. While, premium reserves increased at a lower level. The overall level of the capitalization of the sector was characterized by a slight decline. Only during this quarter, the total capital decreased by EUR 0.1 million, whereas the value was EUR 58.9 million at the end of March 2021. Total liabilities of the sector increased by EUR 5.4 million during this period, whose value reached EUR 165.7 million at the end of March 2021.

**Chart 24. Assets of the insurance sector, quarterly change**



Source: CBK.

The value of gross written premiums of insurance companies, in Q1 2021, amounted to EUR 25.1 million, representing an annual growth of 12.6% (an annual growth of 2.1% in Q1 2020) (chart 25). “Non-life” premiums account for 95.9% of total written premium, whereas “life” premiums comprise 4.1%.

The value of claims paid by the insurance sector (including Kosovo Insurance Bureau) marked a growth in Q1 2021 against the same period of the previous

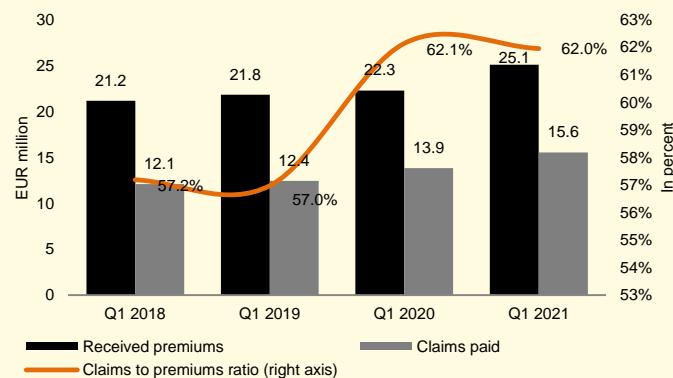
year. In Q1 2021, claims paid reached a value of EUR 15.6 million (EUR 13.9 million in Q1 2020) (chart 25). As premiums and claims during this period increased uniformly, claims to premiums ratio, in Q1 2021, remained almost unchanged from the previous period, standing at 62.0% (chart 25).

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

During Q1 2021, insurance sector performed with a net loss of EUR 578.1 thousands (a net profit of EUR 1.7 million in Q1 2020).<sup>5</sup>

The negative financial results during this quarter mainly reflect the higher level of claims incurred compared to the level of received written premiums.

**Chart 25. Written premiums and claims paid**



Source: CBK.

### **Microfinance sector**

*During Q1 2021, the sector recorded an increase in lending, positive financial performance, as well as a low level of nonperforming loans.*

<sup>5</sup> From the net profit was deducted profit/loss of the insurance company which has been revoked the license in 2019.

## Assets

The microfinance sector recorded a slower growth of assets of 1.9% (15.7% annual growth in March 2020), the value of which reached EUR 315.9 million at the end of March 2021.

**Chart 26. Assets of the microfinance sector, quarterly change**



Source: CBK.

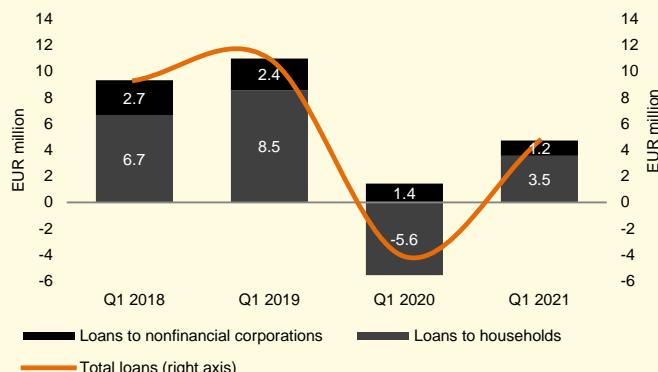
Whereas, on quarterly basis, assets contracted for EUR 0.5 million, during Q1 2021, compared to the increase of EUR 0.2 million in the same period of the previous year. The sector's lending activity increased despite the implementation of Covid-19 pandemic containment measures. Moreover, also the leasing activity was characterized with an increase during this period (chart 26).

## Loans

On annual basis, total loans issued by the microfinance sector marked a decline of 3.1% by the end of March 2021, while their stock dropped to the value of EUR 209.0 million. The annual decline of lending of the sector affected both categories, namely nonfinancial corporations and households. Lending to households marked a decline of 3.4% (an annual growth of 9.6% by March 2020), thus reducing the amount at EUR 137.6

million at the end of March 2021. Whereas, only in Q1 2021, loans to households increased by EUR 3.5 million (chart 27).

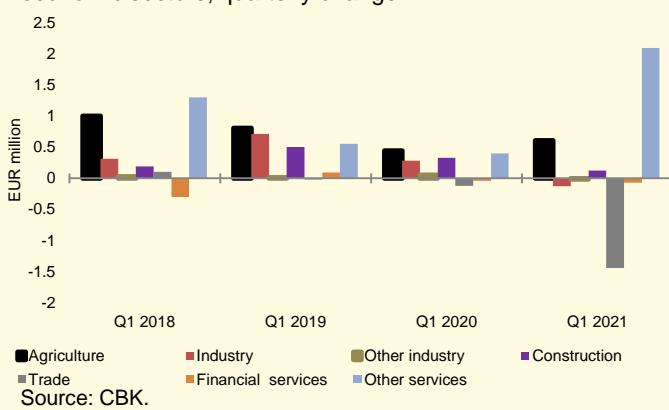
**Chart 27. Value of loans to households and nonfinancial corporations, annual change of loans**



Source: CBK.

Loans stock to nonfinancial corporations declined at the value of EUR 71.4 million at the end of March 2021, representing an annual decline of 2.7% (an annual growth of 13.1% until March 2020). On quarterly basis, during Q1 2021, loans to nonfinancial corporations increased by EUR 1.2 million.

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



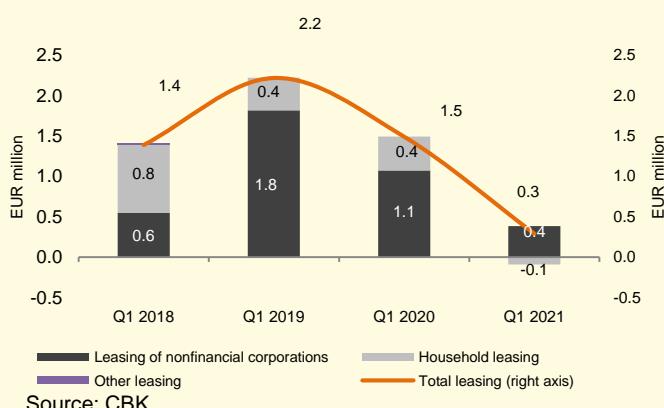
On sectoral terms, on quarterly basis, lending to agriculture sector and other services was characterized with an increase. Lending to the trade sector declined,

while lending to the construction, industry and other industries stagnated in Q1 2021 (chart 28).

### Leasing

On quarterly basis, also leasing had same performance as the lending activity of the microfinance sector during Q1 2021. The activity of leasing marked an increase with a value EUR 0.3 million during Q1 2021 (EUR 1.5 million in Q1 2020), reaching the value of EUR 57.6 million at the end of the period. This increase mainly reflects leasing to nonfinancial corporations, the value of which increased by EUR 0.4 million during this quarter, reaching the value of EUR 31.8 million at the end of the period (chart 29).

Chart 29. Value of microfinance sector leasing



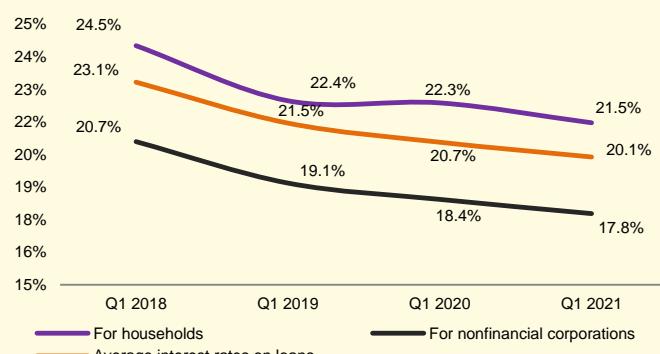
Whereas, leasing to households declined by EUR 0.1 million during Q1 2021, and their total value reached EUR 25.8 million at the end of March 2021.

### Interest rates

During the first quarter of 2021, the average interest rate on loans was 20.1%, or for 0.6 percentage points lower compared to the same period of the previous year (chart 30).

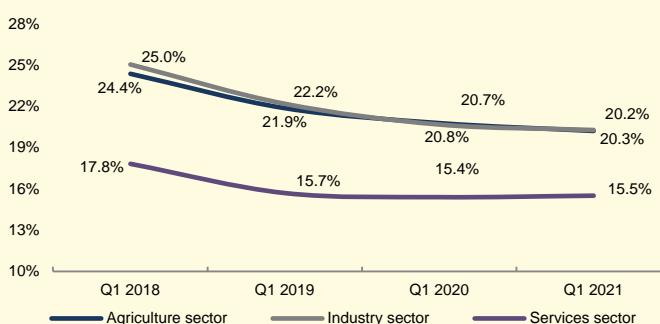
The average interest rate on loans to households marked a decline of 0.8 percentage points, dropping at 21.5% during Q1 2021 (chart 30). By loan categories, the average interest rate on mortgage loans decreased by 2.1 percentage points falling at 19.9%, in Q1 2021. Whereas, mortgage loans were characterized with an increase of 0.8 percentage points, reaching 22.9%.

Chart 30. Average interest rate on microfinance sector loans



Also, the average interest rate on loans to nonfinancial corporations decreased slightly by 0.6 percentage points, dropping at 17.8%. On sectoral terms, a more favorable interest rate was marked by loans to services sector, followed by loans to agriculture and industry sector.

Chart 31. Average interest rate on loans to enterprises, by economic sectors



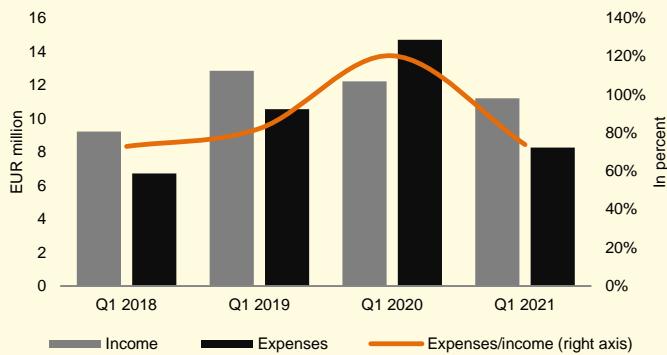
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The quarterly average interest rate on loans to agriculture and industry marked an annual decline of 0.6 and 0.4 percentage points, respectively. Whereas, marginal increase was marked by interest rates on loans to services sector, which historically had more favorable conditions for loans, reaching 15.5% during Q1 2021 (chart 31).

### Performance of the microfinance sector

Microfinance sector enclosed the first quarter of 2021 with net profit amounting to EUR 2.9 million. Whereas, during the same period of the previous year the sector operated with a loss of EUR 2.5 million. This profit increase was mainly a result of a more accelerated decline of expenditures against the decrease of income. During this quarter, the income of the sector amounted to EUR 11.2 million, representing a decline of EUR 1.0 million compared to the same quarter of the previous year. The decline was attributable to the reduction of interest income of EUR 1.1 million which dropped at EUR 10.2 million during Q1 2021 (chart 32). Non-interest income increased by EUR 0.1 million during this quarter, reaching EUR 1.0 million, which primarily reflects the trend of income from administrative services.

Chart 32. Microfinance sector income and expenses

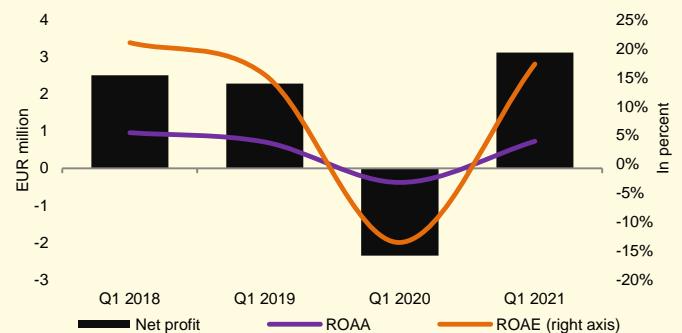


Source: CBK.

Expenditures of the sector marked the value of EUR 8.3 million in Q1 2021, representing a value which is lower for EUR 6.4 million compared to the same quarter of the previous year. The decline of expenditures mainly reflects the

decrease of non-interest expenses (loan loss provisions). At the same time, interest expenses and operating expenses marked a lower decline.

Chart 33. Profitability indicators of microfinance sector

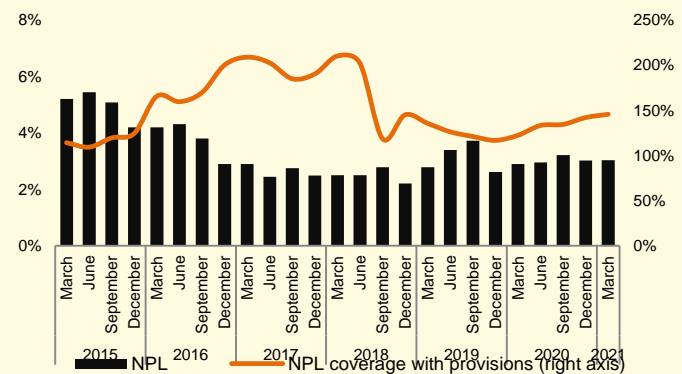


Source: CBK.

\*Profit was annualized for the respective quarter

As a consequence of the recovery of sector's performance, expenses to income ratio marked a significant recovery, declining for 46.6 percentage points compared to the previous period, standing at the level of 73.8%, in Q1 2021.

Chart 34. Indicators of credit portfolio quality



Source: CBK.

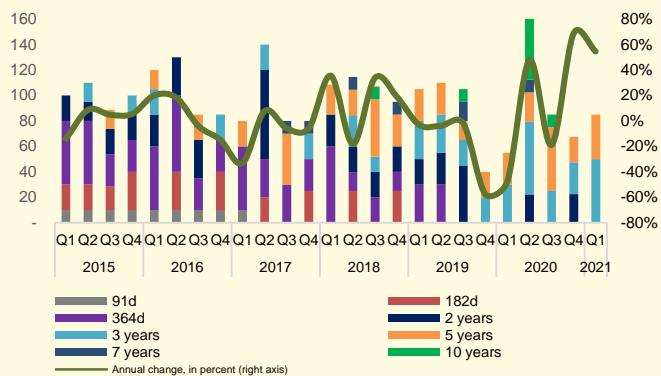
This implies that for every EUR 1 invested, the microfinance sector spent around EUR 0.738. The financial performance of the sector was reflected also on two other profitability indicators, Return on Average Assets (ROAA) and Return on Average Equity (ROAE), which considerably increased in Q1 2021 (at 4.0% and 17.3%, respectively, ) compared to the trend marked in Q1 2020 (chart 33).

Regarding the indicators of loans portfolio quality in microfinance institutions, nonperforming loans continued to stand at low levels and were characterized with good coverage with provisions. Until the end of the period, nonperforming loans stood at 3.0%, while the NPL coverage with provisions reached 145.8% at the end of Q1 2021 (chart 34).

## **Securities market**

**During the first quarter of 2021, Kosovo's Government issued debt with a significant higher value compared to the same quarter of the previous year.**

Chart 35. Amount of issued debt, annual change



Source: Ministry of Finance.

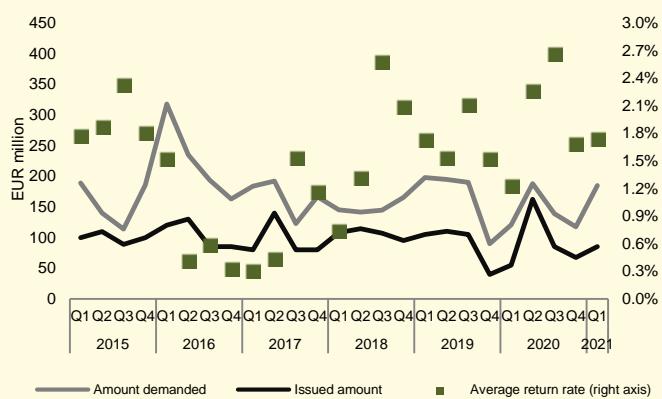
The debt issued by Kosovo's Government marked an annual growth of 54.5% in Q1 2021 compared to Q1 2020, reaching the value of EUR 85.0 million (chart 35).

The demand to invest in Kosovo's Government securities continued to exceed the offer, where the bidding amount, in Q1 2021, was for 2.18 times higher than the amount offered by the Kosovo's Government. The average interest rate on securities was 1.7% in Q1 2021, representing a higher rate for 0.5 percentage points than in Q1 2020 (chart 36).

The increase of interest rate compared to the previous period reflects the trend of securities issuance towards long-term maturities. The securities structure is dominated by

government bonds, with a maturity of 3 years, followed by securities with a 5-year maturity.

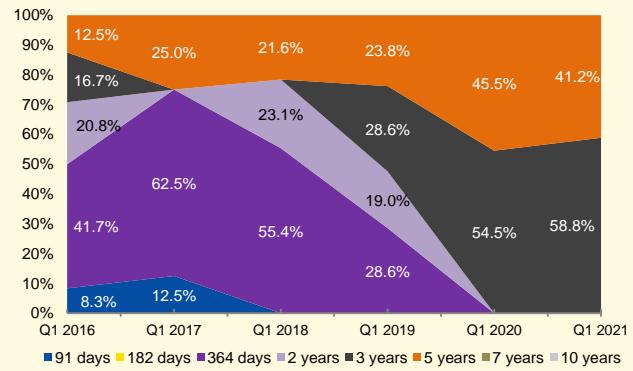
Chart 36. Bid to cover ratio



Source: Ministry of Finance.

It is worth noting that for the second consecutive year, there is no issuance of treasury bills, whose longest maturity does not exceed 364 days (chart 37).

Chart 37. Government securities structure, in percent



Source: Ministry of Finance.

The banking sector, pension funds and insurance companies continued to represent the investment institutions in the primary market of Kosovo's Government securities, where the pension sector continues to be the most exposed sector.

**The suggested citation of this publication:**

CBK (2021): Quarterly Assessment of Financial System No. 34 Q1 2021, Central Bank of the Republic of Kosovo, Prishtina

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## Macroeconomic selected indicators

<b>Description</b>	<b>March 2020</b>	<b>March 2021</b>
Real sector 1/		
Gross Domestic Product (GDP) (in millions of EUR)	1,410.0	1,493.0
Consumer prices (annual average)	1.1%	0.6%
Consumer prices (end of period)	0.8%	1.2%
Fiscal Sector 2/		
Budget Revenues (in millions of EUR)	397.3	454.9
Budget Expenditures (in millions of EUR)	373.7	487.5
Primary balance (in millions of EUR)	23.5	-32.6
Financial sector (in millions of EUR) 3/		
Assets of financial corporations	7,174.0	8,067.7
of which : Banks	4,721.9	5,449.2
Loans	3,083.3	3,320.8
Deposits	3,845.4	4,422.9
<i>Interest Rates on Loans, end of period</i>	6.28%	6.12%
<i>Interest Rates on Loans, end of period</i>	1.32%	1.39%
Interest rate gap	5.0%	4.7%
External sector,(in millions of EUR) 3/		
Balance of payments		
Current accounts	-72.5	-154.0
of which: remittances	187.3	242.9
Financial account	-103.5	-96.2
Foreign Direct Investmentsin Kosovo	104.5	106.6
Portfolio investments, net	-17.4	94.2
Other investments, net	29.1	-3.8
International Investment Position (IIP), net	-592.2	-887.4
Assets	5,054.3	5,348.4
Liabilities	5,646.6	6,235.8
External debt	2,206.9	2,513.8
Private external debt	1,717.5	1,907.3
Public external debt	489.4	606.5

Source:

- 1/ KAS (2021);
- 2/ MF (2021);
- 3/ CBK (2021).

