

BANKING PERIODIC

**OVERVIEW OF THE FINANCIAL
SECTOR IN KOSOVO**



**DEPOSITS WITHIN
LIABILITIES OF THE
BANKING INDUSTRY
IN KOSOVO**

BANKING PERIODIC



SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

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DEPOSITS WITHIN LIABILITIES OF THE BANKING INDUSTRY IN KOSOVO

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DEPOSITS OF THE BANKING INDUSTRY



Deposits of the banking industry in Kosovo have continued to mark an ongoing increase, which has caused this sector to be more reliable and secure in its performance. In this context, the total amount of deposits of the banking industry has continued to increase, with a similar ratio to the total liabilities of the industry. This implies that the banking industry has developed a sustainable and profitable business on an ongoing basis, which is necessary for any business to perform in a stable basis, leading also to safer deposits for the citizens of Kosovo.

STRUCTURE OF LIABILITIES OF THE BANKING INDUSTRY (2010 –2015)						Million Euro
Description	2010	2011	2012	2013	2014	Aug-2015
Balance from other banks	70.7	40.0	6.0	16.5	31.8	42.5
Deposits	1,936.8	2,104.0	2,279.1	2,449.0	2,537.5	2,656.9
Other borrowings	23.4	30.4	18.9	13.4	14.1	13.1
Written down provisions	0.1	0.2	1.7	2.0	2.9	4.3
Other liabilities	160.1	191.3	221.4	244.1	229.9	220.3
Subordinated debt	33.5	31.0	31.0	56.3	47.3	47.4
Bank's liabilities on acceptances outstanding	-	-	0.5	0.1	-	-
Own resources	230.4	252.8	270.7	277.8	323.1	364.5
Total liabilities	2,455.1	2,649.7	2,829.3	3,059.3	3,186.6	3,349.2

Tab. 1 | Source: CBK – Balance sheet of other depository corporations

Liabilities of the banking industry have increased, in which case, as of August 2015 showed an increase of 5.1%, while liability's growth for the entire 2014 was 4.1%. As seen in Table 1, within total liabilities, the main part is comprised of deposits, own resources, other liabilities and so on. It is important to note that liabilities and other borrowings have declined, while other categories have marked a significant increase during 2015.

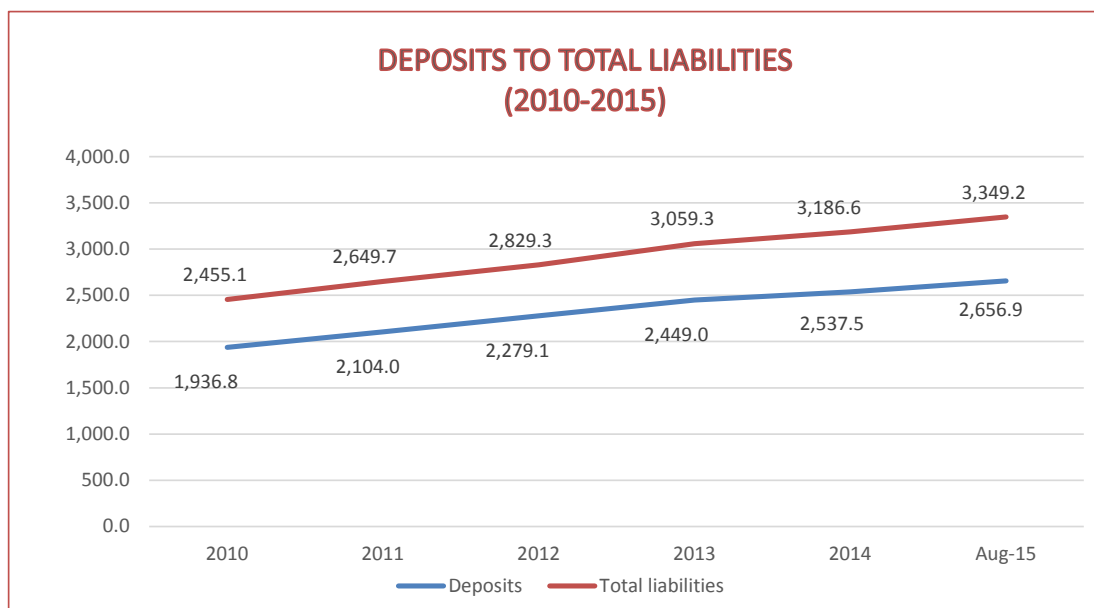


Fig. 1 | Source: CBK – Balance sheet of other depository corporations

Figure 1 shows the upward parallel trend of deposits to total liabilities. This shows that the banking industry deposits constitute the main source of revenue for this industry. Deposits in 2015 constitute 79.3% of total liabilities of the banking industry, while roughly the same composition was present in the past years.

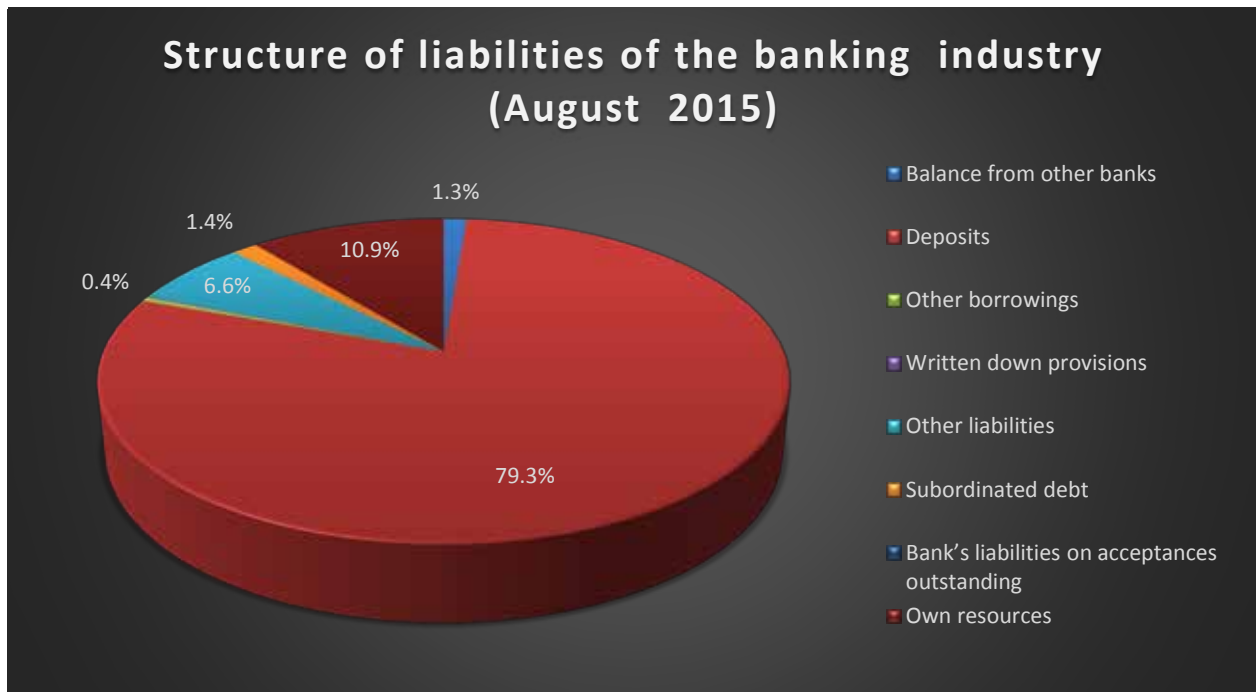


Fig. 2 | Source: CBK – Balance sheet of other depository corporations

Figure 2 shows the current liabilities structure of the industry, where the dominance of deposits is noted in the context of total liabilities, own resources or capital constitutes 10.9% of total liabilities, while other categories account for less than ten percent of total liabilities.

STRUCTURE OF DEPOSITS IN THE BANKING INDUSTRY

Besides the various structure of liabilities of the banking industry, deposits of this industry also have a varying structure, depending on the legal status of the banks' clients. In this context, the composition of deposits is also different, which at the same time presents a special importance, as these represent the main source of revenue for the industry.



STRUCTURE OF DEPOSITS IN THE BANKING INDUSTRY (2010-2015)						Million Euro
Description	2010	2011	2012	2013	2014	Aug-2015
Government	11.7	2.7	0.7	1.8	8.8	10.9
Other depository corporations	7.3	9.9	3.8	2.5	2.8	5.6
Other financial intermediaries	7.9	6.8	6.2	7.4	5.1	3.6
Insurance companies	47.6	57.2	64.3	72.3	79.3	62.1
Pension funds	41.6	43.1	45.3	5.7	17.1	12.3
Financial auxiliaries	0.6	0.5	0.4	0.3	0.3	2.1
Public nonfinancial corporations	122.3	128.5	75.6	72.1	61.8	43.4
Other non-financial corporations	292.5	278.1	326.1	383.5	387.9	443.1
Households	1,206.1	1,373.4	1,535.4	1,658.7	1,750.6	1,830.1
Non-profit organizations	14.0	22.2	23.2	26.4	30.6	32.2
Nonresidents	79.1	60.0	81.7	83.4	82.1	95.7
Non-euro deposits	106.0	121.6	116.3	134.9	111.2	116.0
Total liabilities	1,936.8	2,104.0	2,279.1	2,449.0	2,537.5	2,656.9

Tab. 2 | Source: CBK – Deposits of other depository corporations by original maturity and non-euro deposits

Table 2 shows the structure of deposits, where it can be seen that except that deposits have increased within their total, the majority of their sub-categories have also increased in 2015. Deposits of public non-financial corporations, pension funds, insurance companies and other financial intermediaries are the exceptions to this growth of deposits.

In August 2015, deposits of the banking industry increased by 4.7% compared to the end of 2014, which represents an increase greater than the total growth of 3.6% in 2014 compared to 2013. Household deposits continue to dominate within total deposits, making up 68.9% of total deposits in August of 2015.

Household deposits, just like total deposits, have marked a steady increase over the years, where in August 2015 these deposits increased by 4.5% compared to the end of 2014.

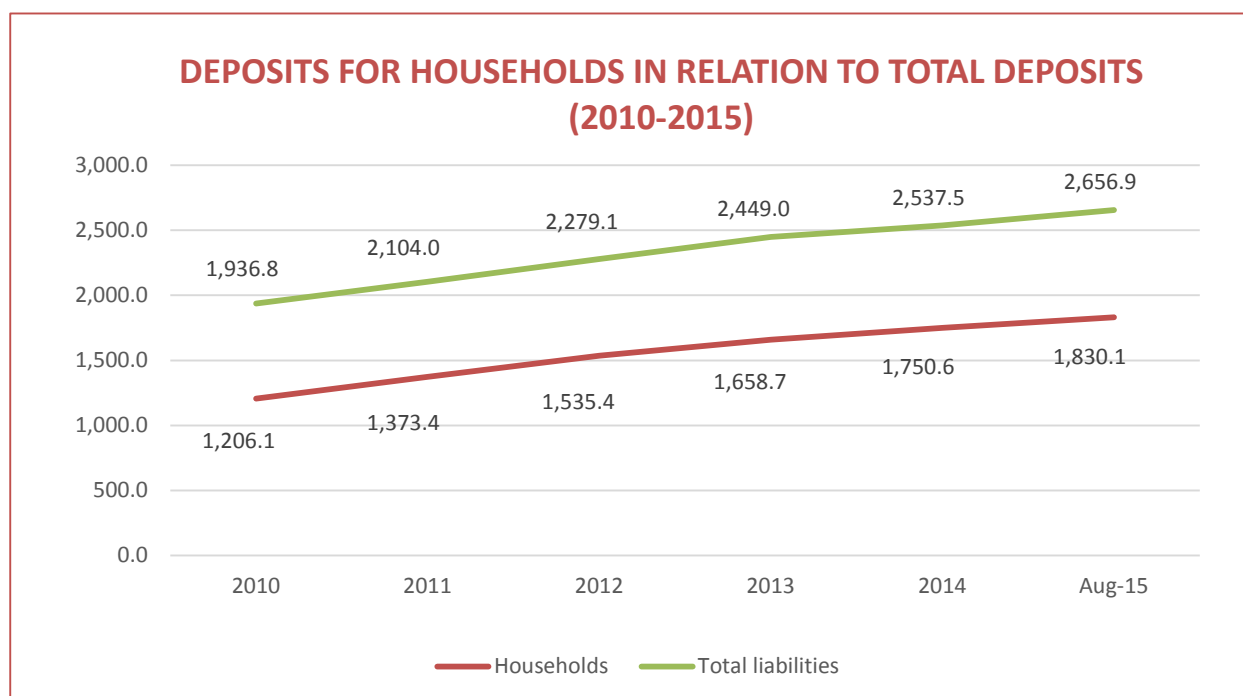


Fig.3 | Source: CBK – Deposits of other depository corporations by original maturity

The approximately same growth of deposits for households in relation to total deposits can be seen in Figure 3, where the upward trends for both the categories are shown.

A significant part of the total structure of deposits is comprised of deposits from other non-financial corporations which comprise 16.7% of total deposits, followed by deposits that are denominated in other currencies, non-resident deposits and so on.

STRUCTURE OF DEPOSITS BY MATURITY IN THE BANKING INDUSTRY



The structure of deposits by maturity in the banking industry is of great importance, since through deposits which constitute the majority of bank revenues in Kosovo, lending to citizens of the Republic of Kosovo is enabled. The longer the deposits are deposited in the banking industry, the longer will the customer lending be.

THE STRUCTURE OF DEPOSITS BY MATURITY IN THE BANKING INDUSTRY (2010-2015)						Million Euro
Description	2010	2011	2012	2013	2014	Aug-2015
Transferable deposits	625.9	643.5	696.4	825.0	1,123.0	1,330.2
Saving deposits	315.0	315.1	326.6	373.8	513.0	529.5
Time deposits	889.9	1,023.8	1,139.8	1,115.3	790.5	681.2
Total liabilities	1,830.8	1,982.4	2,162.8	2,314.1	2,426.6	2,540.9

Tab. 3 | Source: CBK – Deposits of other depository corporations by original maturity

Table 3 shows the balance of deposits in the banking industry over the years, which can be seen, that in August 2015 the main part of deposits are transferable deposits that constitute 52.4%. These types of deposits are available for use by bank clients and can be used for continuous circulation. The second group of deposits is comprised of time deposits with 26.8% participation, while the third is comprised of savings deposits with 20.8% participation.

The composition structure of deposits by maturity has not been the same over the years, as shown in Table 3. More details on the changing structure based on the movement trends are presented in Figure 4.

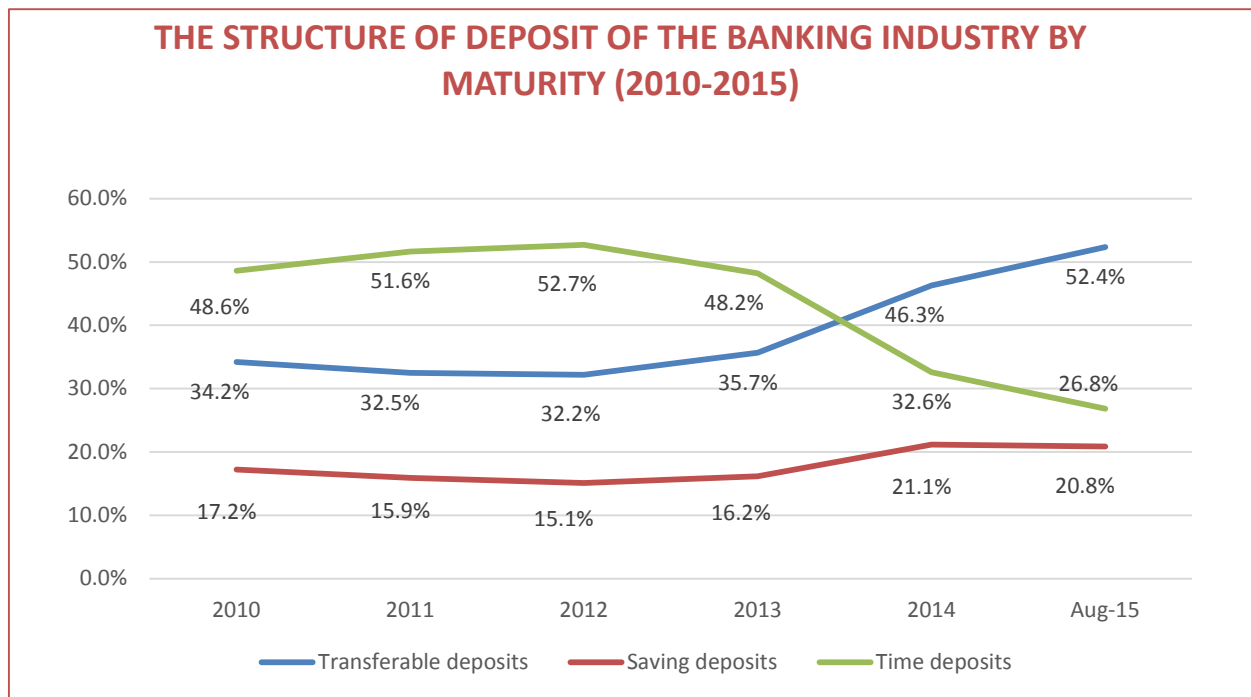


Fig. 4 | Source: CBK – Deposits of other depository corporations by original maturity

In 2010, time deposits accounted for the main group of deposits by maturity with 48.6% share, a participation rate which dropped to 26.8% in August of 2015. This change in time deposits is mainly reflected in transferable deposits shifting from 34.2% in 2010 to 52.4% in August 2015. This transfer can also be reflected as a result of lower interest rates on time deposits, since the banking industry in Kosovo has followed international fluctuations, whereas deposit interest rates in many Western European countries have decreased.

RATIO BETWEEN LOANS AND DEPOSITS IN THE BANKING INDUSTRY

In order to maintain the liquidity of the banking industry, banks should be prepared to cover all liabilities that may arise at any time. In this case, it is important that the banking industry carefully manage the ratio between deposits which it possesses within its portfolio and on the other side, loans issued to customers.

RATIO BETWEEN LOANS AND DEPOSITS (2010-2015)						Million Euro
Description	2010	2011	2012	2013	2014	Aug-2015
Deposits	1,936.8	2,104.0	2,279.1	2,449.0	2,537.5	2,656.9
Loans	1,458.7	1,698.1	1,763.4	1,805.8	1,882.4	1,985.1
Ratio	75.3%	80.7%	77.4%	73.7%	74.2%	74.7%

Tab. 4 | Source: CBK – Balance sheet of other depository corporations

The ratio between loans and deposits is shown in Table 4, where it can be seen that over the years, the banking industry has not exceeded eighty percent; thus, providing security and financial stability. In August of 2015, this ratio is at the level of 74.7%

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Central Bank of the Republic of Kosovo, Deposits of other depository corporations by original maturity and non-euro deposits, October 2015, <http://bqk-kos.org/?id=55>;

PJESA II

**BANKING INDUSTRY NEWS THAT MARKED THE MONTH
OF AUGUST**

KOSOVO ISSUES 5-YEAR BONDS FOR THE FIRST TIME



Being committed to the development of the financial market and creating new opportunities for investment, the Ministry of Finance announced the upcoming auction of the securities, in the form of 5-year bonds, which will be held on August 28th, 2015, notifies the Ministry of Finance, emphasizing that the auction for offers closes at 11:00. The maturity of bonds issued so far has been 3 months, 6 months, 12 months, 2 and 3 years. Hence, this auction marks the first issuance of bonds with a maturity of 5 years in the history of securities market in the Republic of Kosovo. The addition of new maturities indicates a healthy growth of the securities market. (Kosova Sot, Zeri, News Agency Ekonomia, August 25th, 2015).

DIGITAL BANKS



Customers and banks benefit in different ways from the digitization of banks. Some of these benefits to customers are avoiding waiting unnecessarily in lines to carry out any work at the bank, and avoiding adjusting the personal schedule to the hours when the bank is open; there is no need to go to the bank to check the balance and transactions, or the similar. Customers and banks worldwide, but at a satisfactory pace in Kosovo as well, are quickly adapting to digital services, because both sides have realized that digitization improves and fastens several banking processes. In Eastern Europe, particularly in Poland and Czech Republic, some banks constantly work towards digitization and are making great progress. Customers are accepting well these changes by introducing new options such as online banking. Finally, this is also noted in any of the major banks operating in Kosovo. (Express, August 18th, 2015).

KOSOVO'S BANKS PROVIDE LOWEST LOANS SO FAR



The average interest rate for loans in Kosovo marked the lowest level in 15 years.

Executive Director of the Kosovo Banking Association, Petrit Baliija, has announced that the average interest rate on loans is 7.6% as reported at the end of June 2015. He said that 2015 has been a year of unprecedented decline in interest rates on

loans in the past 15 years in Kosovo, thus enabling citizens and businesses of Kosovo a much easier access to credit. Now Kosovo is below the average for the region and we hope that this will contribute positively to the economy.

According to data published by the World Bank, interest rates for loans in the countries of the western Balkans at the end of 2014 were: Albania 8.7%, Bosnia and Herzegovina 8.7%, Macedonia 7.5%, Montenegro 9.4%, and Serbia 14.8%. (Zeri, Telegrafi, RTK Live Botapress, Klan Kosova, Top Channel, Ekonomiks, Ekonomia Online, August 6th 2015).

TAK REIMBURSES CITIZENS



The Tax Administration of Kosovo has announced that the reimbursement of citizens who have applied and submitted envelopes with fiscal receipts has begun on August 6th. TAK has reviewed the applications and envelopes with fiscal receipts and has reimbursed the funds of 2,997 citizens so far, as defined in the Administrative Instruction No. 01/2015. TAK will review all applications in continuity, in order to reimburse all citizens that have applied and submitted envelopes with fiscal receipts. (Zeri, Kosova Sot, August 14th, 2015).

THE LOW RATES ON LENDING INCREASE INVESTMENTS

According to economy experts, the average interest rates for loans in Kosovo which are reduced to 7.6 percent are considered a good opportunity for investment growth. The Economics professor in the “University of Prishtina”, Nagip Skenderi, said for “Epoka e Re” that one of the main preconditions for economic development are new investments. Skenderi has indicated that the lower the interest rates on loans are, the more investors there will be. “The further the reduction on interest rates and the longer the grace period, for example a three year period not to return the activity and interest rate, the higher the development of economic activities of the respective economic subject will be”, he said. While, the deputy head of Business Alliance of Kosovo (BAK), Burim Piraj, said the news for the reduction of interest rates is a very good news in one hand, and on the other hand, not a good indicator. According to him, the good news is that all the entities interested in investing will be able to find the capital that would facilitate their investments and would offer greater opportunities to generate profits. “I think that despite the convenience, hardly there will be significant investments by the end of this year, because we have a total economic policy stagnation which would precede a much-awaited

economic development,” said Piraj adding that all operating banks in Kosovo are commercial banks and their rates are based on supply. “I think that in our country’s case, supply and demand can be the key factors in the declining interest rates, because we have a small market that is saturated at the moment with the presence of many different banks, in turn we have a demand in an economy that, in my opinion, for the first time in the post-war Kosovo will experience a decline. I think that these market factors have been precisely those that have resulted in lowering interest rates and in no way the goodwill of the banking system that is installed in our country,” said Piraj. According to data published by the World Bank, interest rates for loans in the Western Balkans countries at the end of 2014 were: Kosovo 9.2 percent, Albania 8.7 percent, Bosnia and Herzegovina 8.7 percent, Macedonia 7.5 percent, Montenegro 9.4 percent, and Serbia 14.8 percent. (Epoka e Re, News Agency Ekonomia, August 11th, 2015).



DRAFT LAW FOR THE ESTABLISHMENT OF CREDIT GUARANTEE FUND ADOPTED



In its 43rd regular meeting led by Prime Minister Isa Mustafa, the Government of the Republic of Kosovo, among other things, adopted the Draft Law for the establishment of the Kosovo Credit Guarantee Fund. This fund is being established with the great support of the United States with the application of best practices to support businesses and guarantee business loans, but also due to the significant participation of USAID, namely the United States in this fund, since almost a hundred percent of the initial capital funds will be granted by the United States of America. (Zëri, News Agency Ekonomia, Telegrafi, August 6th, 2015).

CREDIT FUND, OPPORTUNITIES FOR NEW JOBS



Economic experts estimate that the Kosovo Credit Guarantee Fund will enable the creation of new jobs in Kosovo. Furthermore, this fund will improve access to finance for small and medium enterprises. Kosovo's Government Cabinet meeting on Wednesday approved the draft law for the establishment of the Kosovo Credit Guarantee Fund. The fund, according to the Cabinet, will be established with the support of the United States Agency for International Development (USAID), with 20 million dollars allocated as initial capital. Economic affairs expert Naim Gashi, regards the establishment of the Fund considers as crucial for the development of businesses in Kosovo. (Zeri, Telegrafi, August 7th, 2015).

PUBLICATIONS OF THE KOSOVO BANKING ASSOCIATION

“Banking Periodic” is a monthly publication of the Kosovo Banking Association starting with its first publication in January of 2014. Monthly publications are comprised of data and general overview of the financial system in Kosovo. Each monthly publications will address specific issues of the financial system where the main focus is on the banking sector in Kosovo.
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STRUCTURE OF FINANCIAL SYSTEM ASSETS

STRUCTURE OF ASSETS OF THE BANKING INDUSTRY

STRUCTURE OF LIABILITIES OF THE BANKING INDUSTRY

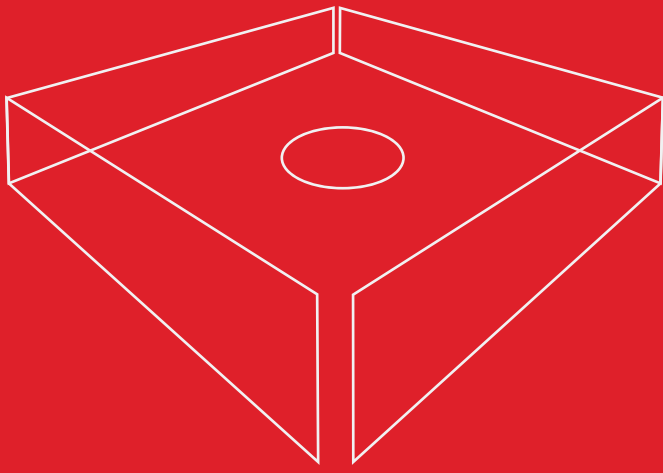


BANKING INDUSTRY - STATISTICS ON INTERBANK TRANSACTIONS

MAIN ECONOMIC INDICATORS IN THE WESTERN BALKAN COUNTRIES

INCOME STATEMENT OF THE BANKING INDUSTRY IN KOSOVO

LOANS WITHIN THE ASSETS OF THE BANKING INDUSTRY IN KOSOVO



Training Center for Banking

TRAININGS PLANNED FOR 2015:

Assets and Liability Management

Basic Banking Products

Train the Trainers –Project for Customer Education

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Improving Service, Communication and Sales

Internal Audit and Control

Managing Technological Risks

Serving clients on social media

Business documentary –Letters of credit and guarantees

Project Finance



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