

BANKING PERIODIC

OVERVIEW OF THE FINANCIAL
SECTOR IN KOSOVO

THE EFFECTIVE INTEREST RATE OF THE BANKING INDUSTRY

BANKING PERIODIC



SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

 Banka Ekonomike

 BKT
BANKA KOMBETARE TREGTARE

 BPB

 iSBANK

NLB  Prishtina

 ProCredit Bank

 Raiffeisen
BANK

 TEB
BNP PARIBAS JOINT VENTURE

 ZiraatBank

PREPARED BY:

DR. SC. PETRIT BALIJA,
Editor - in - chief

KRESHNIK KOSUMI,
Editor

MIRANDA RUGOVAJ
Coordinator

KOSOVO BANKING ASSOCIATION

DATE OF PUBLICATION,
December 2015

BANKING PERIODIC IS SUPPORTED BY
THE EUROPEAN FUND FOR SOUTHEAST
EUROPE



EUROPEAN FUND FOR SOUTHEAST EUROPE
DEVELOPMENT FACILITY

Findings, interpretations and conclusions expressed in this publication do not necessarily reflect the views of the European Fund for Southeast Europe, its shareholders and/or its service providers.



SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

The views and opinions expressed in this publication are a summary of the discussions by panels of the Finance Fair 2015. These views and opinions do not necessarily reflect the views of the Kosovo Banking Association. This review will serve as a reflection on what has been concluded from the discussions at the two-day conferences and opening of the Finance Fair 2015 so that the relevant institutions can take respective measures to improve the business environment in Kosovo.

THE EFFECTIVE INTEREST RATE OF THE BANKING INDUSTRY

CONTENT

PART I

The effective interest rate on loans **1-5**

The effective interest rate on deposits **5-7**

The spread of the average effective interest rates **7-8**

Rate of non-performing loans **8-9**

PART II

News from the banking industry **10**



THE EFFECTIVE INTEREST RATE OF THE BANKING INDUSTRY

The banking industry in Kosovo has reached the highest value of loans ever recorded of 1,993 million Euros issued to Kosovo's economy as of September 2015, while deposits amounted to 2,656 million Euros by the end of September 2015. Like any other business operating in Kosovo, the banking industry has also faced difficulties and different challenges during its activity, which has made the level of risk in the market in which it operates to be considered high. However, recent years have marked improvements in this regard and trends indicate that interest rates on loans with a faster trend over the past years have been decreasing to the extent that are more suitable for businesses and households in Kosovo. This has made Kosovo be comparable with countries in the region regarding this aspect and be in line with average rates of these countries. If the decreasing trend continues, then Kosovo could have among the lowest rates in relation to these countries.

The effective interest rate represents the exact rate of interest earned in the cases of funds deposited in the form of deposits. It can be referred to as market interest rate or as interest earned in relation to the term. So, it presents the total income earned from interest on funds deposited. While in terms of loans, the effective interest rate represents the total cost of expenditure that the customer must pay for a loan obtained from financial institutions. Hence, it includes the nominal interest rate, administrative expenses, and all other costs associated with the loan.



Source: images.google.com

In Kosovo's banking industry, these interest rates on loans as well as deposits have marked constant fluctuation, especially in the past two years. Trends of these fluctuations can be seen in the following headings.

THE EFFECTIVE INTEREST RATE ON LOANS

The effective interest rate on loans, especially in the past two years has dropped significantly, reaching for single digits for the first time by the end of 2014. The same decreasing trend continued in 2015, marking its lowest value of only 7.63% in June 2015.

EFFECTIVE INTEREST RATES ON LOANS (2010 - SEPTEMBER 2015)						
Description	2010	2011	2012	2013	2014	Sep-2015
Overdraft	12.65%	11.84%	10.26%	9.36%	9.49%	7.54%
Credit lines	13.27%	12.12%	11.37%	11.03%	11.76%	9.46%
Consumer loans	14.56%	14.02%	12.37%	11.69%	9.11%	8.79%
Mortgage loans	11.20%	11.76%	10.00%	9.72%	7.88%	7.01%
Loans with favorable conditions	7.71%	7.74%	6.30%	5.68%	2.76%	5.41%
Other loans	14.14%	13.09%	12.35%	10.75%	9.56%	7.58%
Agriculture	21.90%	21.35%	17.29%	13.88%	11.32%	9.80%
Industrial	14.94%	12.67%	13.22%	10.97%	8.87%	7.45%
Service	13.83%	13.21%	11.88%	10.53%	9.99%	7.37%
Effective rate on total new loans	13.97%	13.30%	12.24%	10.90%	9.29%	7.90%

Tab. 1 | Source: CBK – Effective interest rates on loans (November 2015)

As seen from Table 1, the effective interest rates at the end of September 2015 compared to the end of 2010 have decreased significantly, which is a very large reduction compared to five years ago. This reduction is the result of many factors, but in particular due to improving environment for doing business, such as the work initiation of private enforcers, but also as a result of reduced costs of the banking industry and its reflection in reducing Interest rates on loans. Within the different sectors of the economy in Kosovo, it may be noted that for the first time single digits have been marked on interest rates for agricultural loans, a sector that is considered very important in economic development of the country, but also in the reduction of the gap in the trade balance of the country.

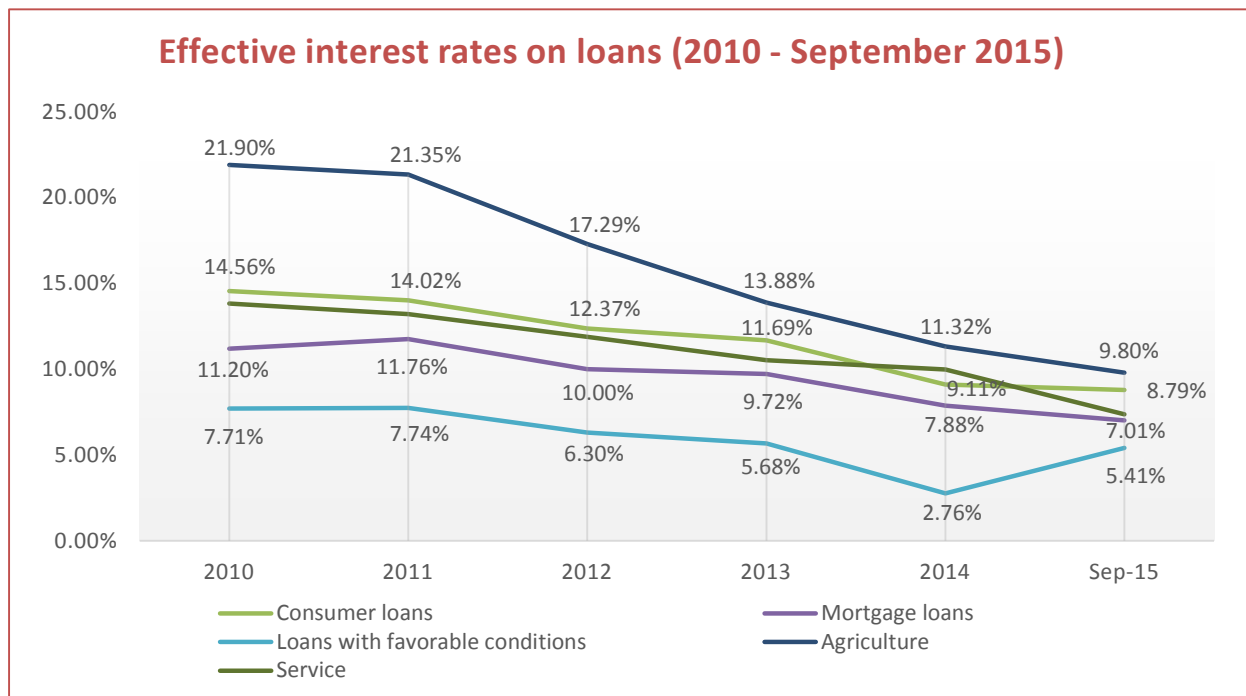


Fig. 1 | Source: CBK – Effective interest rates on loans (November 2015)

In Figure 1 we can see the trend of all types of loans issued to different sectors which have recorded continuous declining trends in the interest rates, in which case the largest decrease was recorded in the past two years. It is important to assess that all loans issued to various sectors taken for comparison have single digit effective interest rates at the end of September 2015.



Source: images.google.com

EFFECTIVE INTEREST RATES ON NON-FINANCIAL CORPORATION LOANS (2010 - SEPTEMBER 2015)						
Description	2010	2011	2012	2013	2014	Sep-15
Overdraft	12.65%	11.38%	10.20%	9.36%	9.35%	7.26%
Credit lines	13.27%	12.12%	11.37%	11.03%	11.76%	9.46%
Loans with favorable conditions	7.62%	8.02%	5.53%	5.97%	2.24%	2.88%
Other loans	14.11%	13.04%	12.34%	10.75%	9.56%	7.54%
Agriculture	22.44%	21.13%	17.59%	13.88%	11.32%	9.28%
Industrial	14.94%	12.67%	13.22%	10.97%	8.87%	7.45%
Services	13.83%	13.21%	11.88%	10.53%	9.99%	7.37%
Effective rate on total new loans	14.11%	13.04%	12.34%	10.75%	9.56%	7.54%

Tab. 2 | Source: CBK – Effective interest rates on loans (November 2015)

There is a relatively same trend of effective interest rates for loans issued only to non-financial corporations, which in the narrow sense means the loans issued to legal entities. This can be seen from Table 2, where the average effective interest rate for such loans at the end of September 2015 marked the value of 7.54%, which is below the general average of loans issued (7.90%).

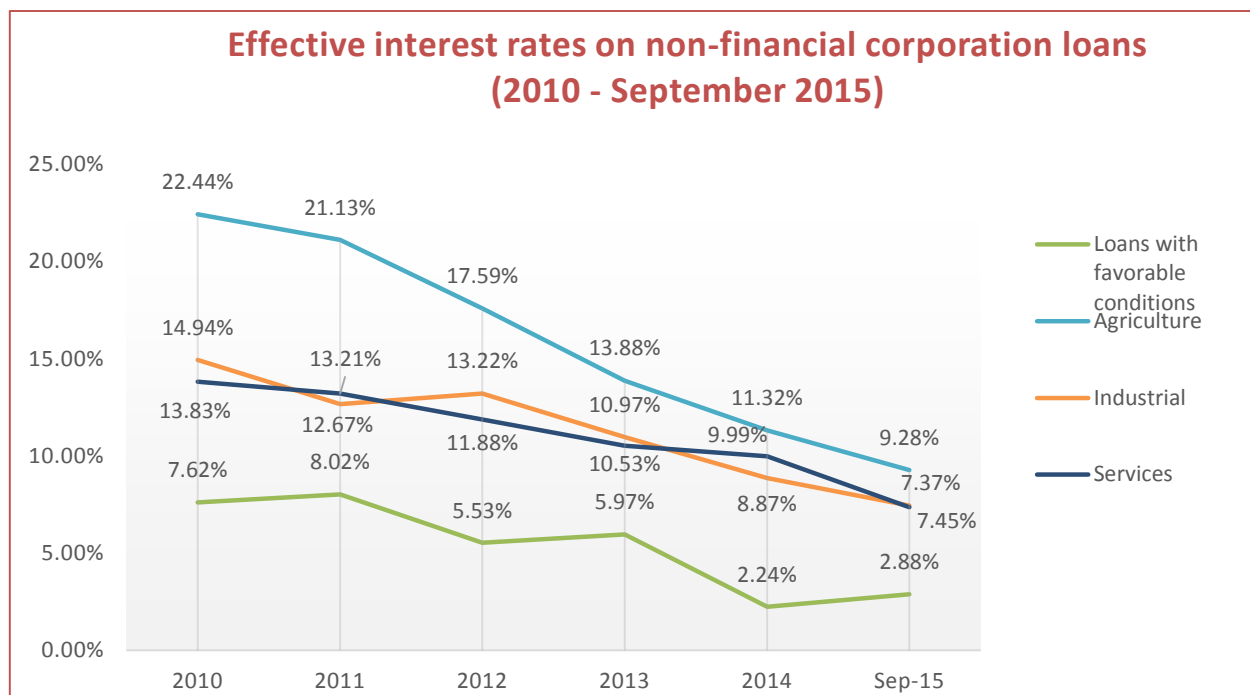


Fig. 2 | Source: CBK – Effective interest rates on loans (November 2015)

Just like the overall average effective interest rate on total loans, the effective interest rate on loans to non-financial corporations' marked a decline over the past five years for all sectors taken for comparison as well, in which case at the end of September 2015 all have a single-digit value. Even agricultural loans to non-financial corporations have a lower level than the overall average for total agricultural loans (9.8%), which recorded a value of 9.28%.

EFFECTIVE INTEREST RATES ON LOANS TO HOUSEHOLDS (2010 - SEPTEMBER 2015)						
Description	2010	2011	2012	2013	2014	Sep-15
Overdraft		16.44%	11.82%	14.88%	12.92%	12.30%
Consumer loans	14.56%	14.02%	12.37%	11.69%	9.11%	8.79%
Mortgage loans	11.20%	11.76%	10.00%	9.72%	7.88%	7.01%
Loans with favorable conditions	7.76%	7.56%	6.83%	5.37%	3.15%	6.18%
Other loans	19.95%	21.35%	15.04%		14.43%	13.00%
Agriculture	19.95%	21.35%	15.04%		14.43%	13.00%
Effective rate on total new loans	13.77%	13.85%	12.00%	11.33%	8.88%	8.48%

Tab. 3 | Source: CBK – Effective interest rates on loans (November 2015)

Table 3 shows the effective interest rate on loans to households, in which case we can see that even for this category for different types of loans, the rates have dropped sharply. The effective interest rate on total loans to households at the end of September had among the lowest values ever marked by the banking industry, with 8.48%.

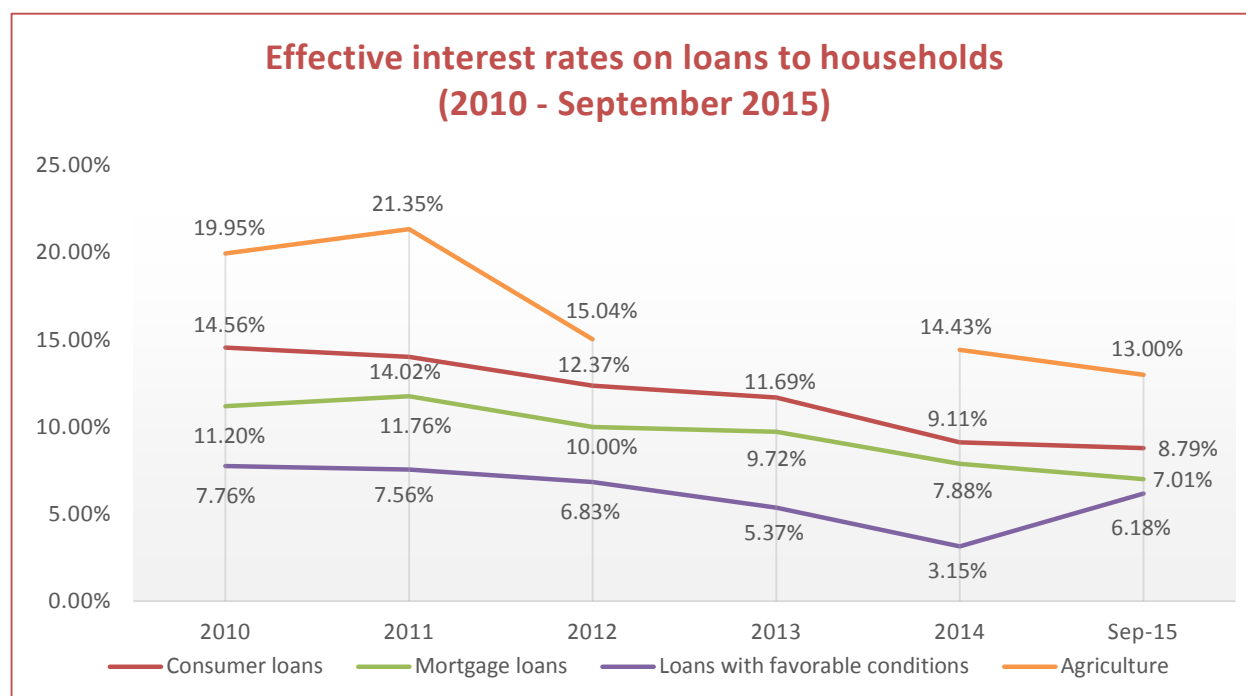


Fig. 3 | Source: CBK – Effective interest rates on loans (November 2015)

The downward trend in the effective interest rates on loans to households can also be seen in Figure 3. Except interest rates for loans with favorable terms, mortgage loans issued to households represent among the lowest interest rates of 7.01% by the end of September 2015.

THE EFFECTIVE INTEREST RATE ON DEPOSITS

The effective interest rates on deposits have also had fluctuations in different periods. With the decline of interest rates on loans, this has also been reflected in deposit interest rates, especially in the past two years. The reduction in interest rates on deposits is mainly reflected in the decline of interest rates on loans, thus stimulating more lending. Table 4 shows all these fluctuations.

EFFECTIVE INTEREST RATES ON DEPOSITS (2010 – SEPTEMBER 2015)						
Description	2010	2011	2012	2013	2014	Sep-15
Transferable deposits			0.67%	0.48%	0.04%	0.03%
Savings deposits			2.07%	1.66%	0.58%	0.30%
Term deposits			3.72%	2.40%	1.11%	0.91%
Effective rate on total new deposits	3.38%	3.62%	3.72%	2.40%	1.11%	0.91%

Tab. 4 | Source: CBK – Effective interest rates on deposits (November 2015)

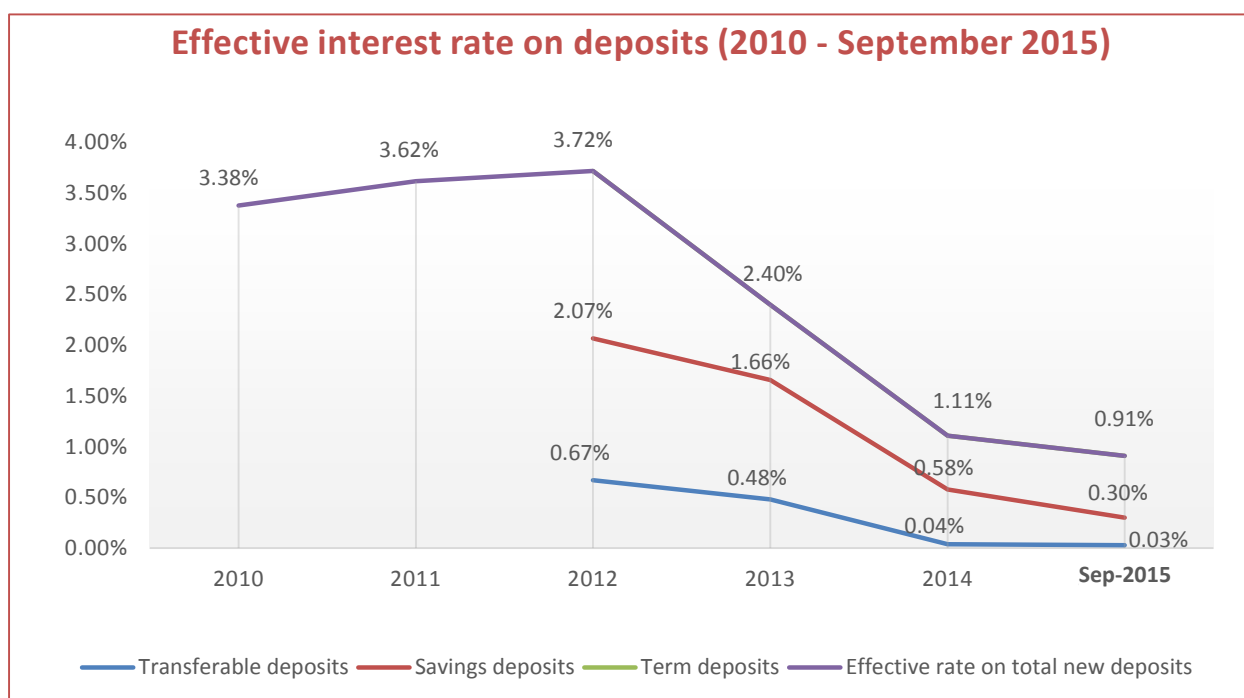


Fig. 4 | Source: CBK – Effective interest rates on deposits (November 2015)

As shown in Figure 4, the effective interest rates on deposits from 2010 to 2012 have increased slightly, while from 2013 until the end of September 2015, they have decreased significantly. From Table 4 presented, it can be seen that the rate of interest earned on deposits in current accounts is too small. This decrease in interest rates is a result of global international trends, where in some western countries some banks have started implementing interest (negative interest) for the deposits that customers deposited in the bank. This is also made in order to reduce financing costs.



The interest rates on deposits of non-financial corporations have had the same declining trend, as seen in table 5. In some cases, this percentage is lower than the average interest rate on total deposits listed in Table 4.

Source: images.google.com

EFFECTIVE INTEREST RATE ON NON-FINANCIAL CORPORATION DEPOSITS (2010 - SEPTEMBER 2015)						
Description	2010	2011	2012	2013	2014	Sep-15
Transferable deposits	0.63%	0.86%	0.83%	0.47%	0.10%	0.07%
Savings deposits	2.07%	2.20%	2.15%	1.74%	0.68%	0.10%
Term deposits			3.88%	1.61%	1.64%	0.60%
Effective rate on total new deposits			3.88%	1.61%	1.64%	0.60%

Tab. 5 | Source: CBK – Effective interest rates on deposits (November 2015)

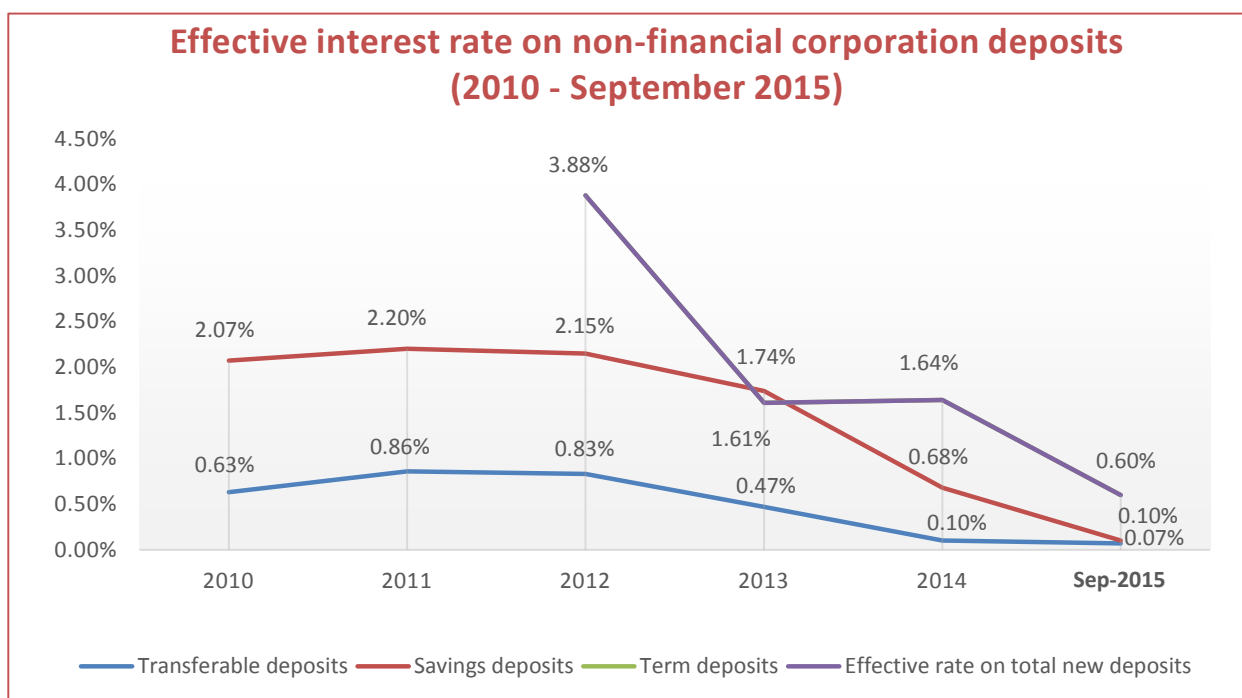


Fig. 5 | Source: CBK – Effective interest rates on deposits (November 2015)

Figure 5 already indicates this trend, in which case the significant reduction of interest rates was recorded mainly in the past two years. Moreover, effective interest rates on deposits for households shown in Table 6 have marked the same fluctuating trend, so the reduction during the past two years.

EFFECTIVE INTEREST RATES ON HOUSEHOLD DEPOSITS (2010 - SEPTEMBER 2015)						
Description	2010	2011	2012	2013	2014	Sep-15
Transferable deposits	0.55%	0.48%	0.54%	0.50%	0.01%	0.01%
Savings deposits	2.21%	2.06%	2.06%	1.66%	0.58%	0.30%
Term deposits			3.66%	2.81%	0.85%	0.91%
Effective rate on total new deposits			3.66%	2.81%	0.85%	0.91%

Tab. 6 | Source: CBK – Effective interest rates on deposits (November 2015)

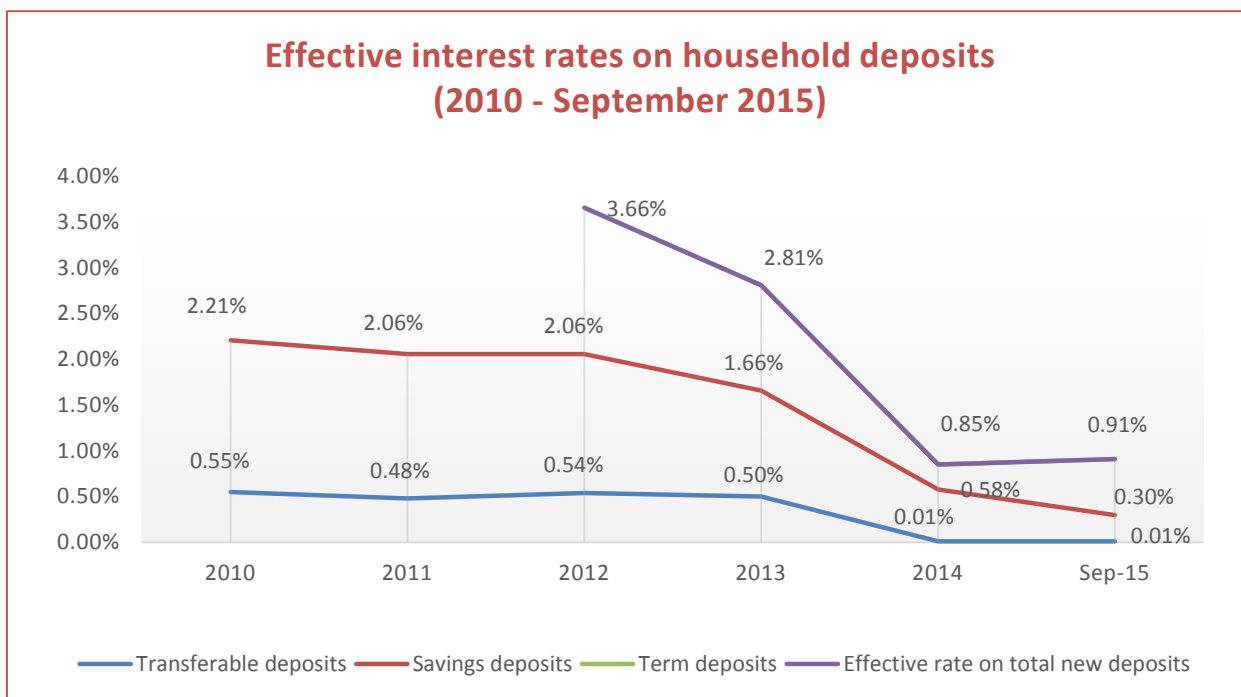


Fig. 6 | Source: CBK – Effective interest rates on deposits (November 2015)

As shown in Figure 6, term deposits have recorded the largest decline from 3.66% in 2010 to 0.91% at the end of September 2015.

THE SPREAD OF THE AVERAGE EFFECTIVE INTEREST RATES

Although interest rates on deposits have decreased, nonetheless, the most significant decrease in the effective interest rates was recorded on loans, making the spread between these two rates decrease continuously.

This fluctuation, namely the reduction of the difference can be seen in Figure 7.

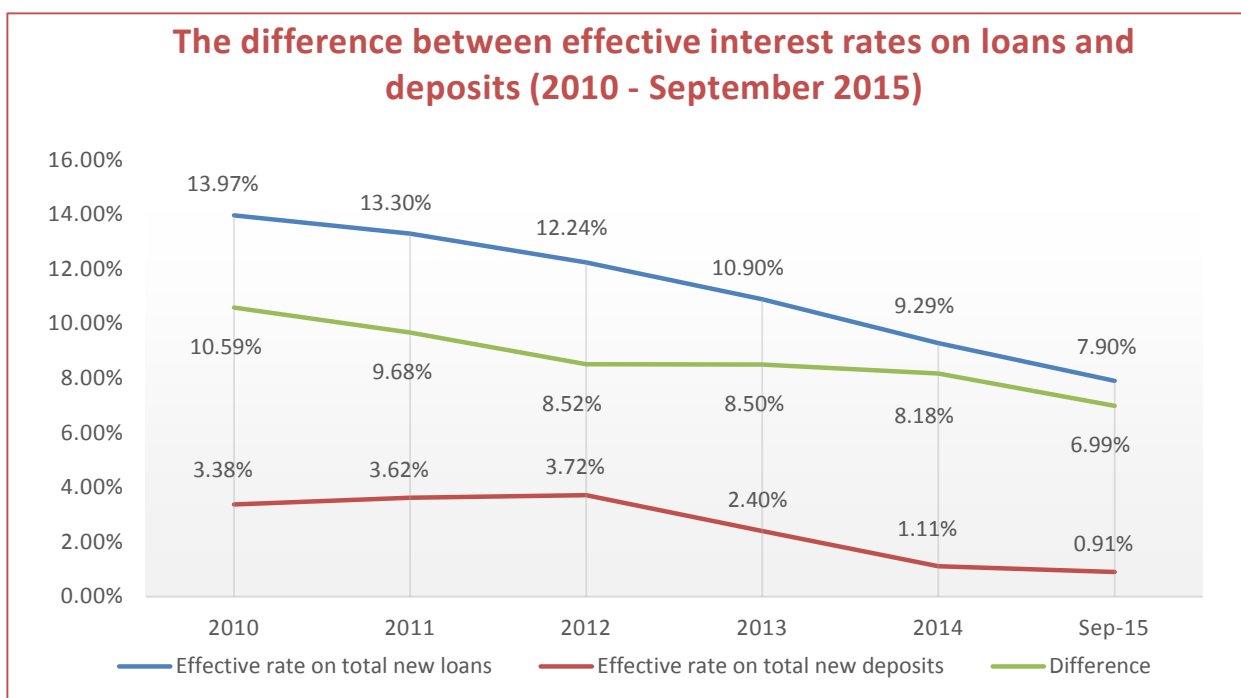


Fig. 7 | Source: CBK – Effective interest rates on deposits and loans (November 2015)

In late September 2015, the difference between interest rates on loans and deposits marked the lowest values since the post-war period reaching 6.63%, from 10.73% as at the end of 2010.

This reduction in the gap, attests to the great commitment that the banking industry has made towards improving the financial offer to all its citizens, in which case the lending process directly affects the economic development of the country. However, it is estimated that improving conditions depends on many factors and not only the banking industry, so in that sense there is still work to be done to further improve the environment of doing business with the aim of creating better conditions.

RATE OF NON-PERFORMING LOANS (NPLS)

The good performance of the banking industry especially towards the reduction of interest rates on loans with the purpose of creating and providing the best lending conditions to citizens of Kosovo can be seen from the loan portfolio management of the banking industry in Kosovo. Table 7 shows the fluctuation in the percentage of non-performing loans and coverage that banks have against loan loss.

NON-PERFORMING LOANS - NPL (2010 - SEPTEMBER 2015)						
Description	2010	2011	2012	2013	2014	Sep-15
NPL	5.9%	5.8%	7.5%	8.7%	8.3%	6.8%
Loan loss provision	115.0%	116.7%	112.7%	110.5%	114.4%	116.5%

Tab. 7 | Burimi: BQK – Raporti vjetor 2014 dhe 2015 dhe Raporti i informatave mujore të sistemit financiar – shtator 2015)

With the added diligence by the banking industry and through its legislation, the Central Bank of Kosovo ensures that banks have provisions for each loan lost, thus being ready at any moment to cover all obligations that can arise from bad loans.

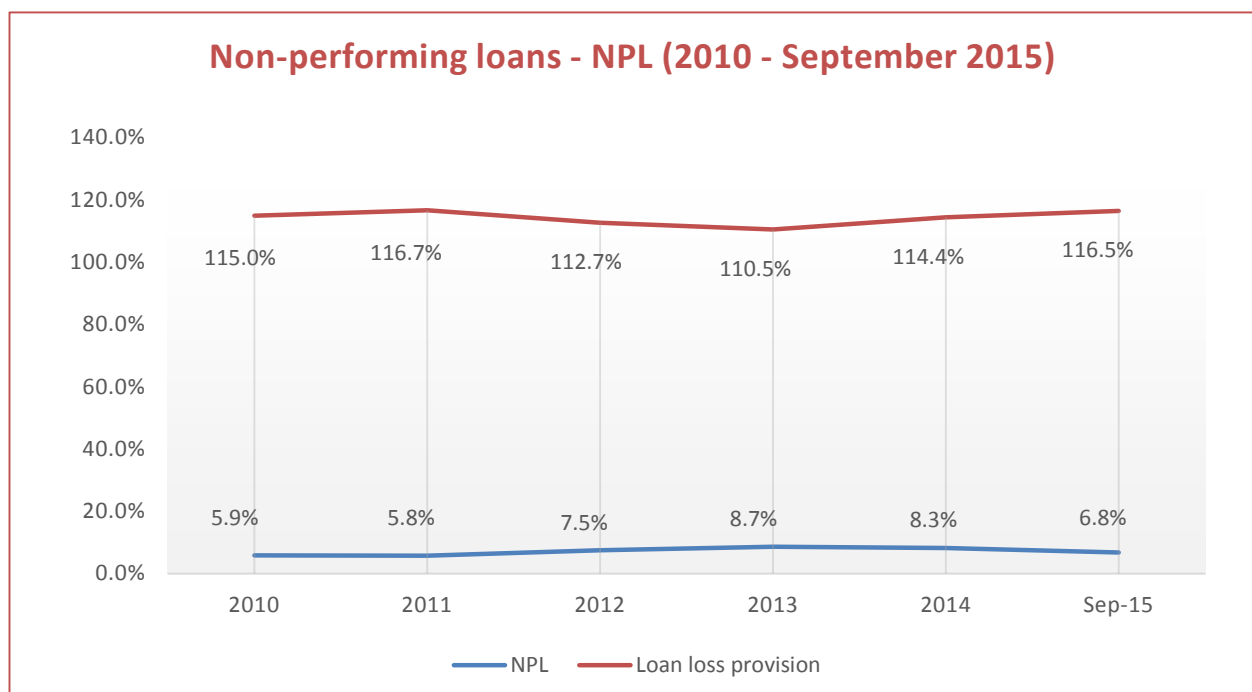


Fig. 8 | Source: CBK – Annual Report 2014 and 2015 and Financial System Monthly Information Report (- September 2015)

Figure 8 shows the fluctuating trend of the percentage of non-performing loans, but also the trend over the loan loss provisioning. In the past two years, non-performing loans have declined significantly, but at the same time presenting the lowest rate in the region, indicating that banks in Kosovo have been very cautious and conservative in terms of risk. This testifies to the security that the banking industry offers and the reliability already established over the years for the citizens, namely its clients.

REFERENCES

Central Bank of the Republic of Kosovo, Balance sheet of other depository corporations by maturity, October 2015, <http://bqk-kos.org/?id=55>

Central Bank of the Republic of Kosovo, The effective interest rates on deposits for the banking sector, November 2015, <http://bqk-kos.org/?id=55>

Central Bank of the Republic of Kosovo, The effective interest rates on loans for the banking sector, November 2015, <http://bqk-kos.org/?id=55>

Central Bank of the Republic of Kosovo, Financial System Monthly Information Report, September 2015, <http://bqk-kos.org/?id=98>

Central Bank of the Republic of Kosovo, The Annual Report 2014 and 2015, <http://bqk-kos.org/?id=102>

PART II

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF OCTOBER

KOSOVO WITH LOWEST BAD DEBT IN THE REGION



Source: images.google.com

Currently, their value is around 140 million Euros, or about 7.1 percent of the total loan portfolio. So says the director of the Kosovo Banking Association, Baliija, for Radio Kosova. Although lending in Kosovo has increased this year compared to last year, non-performing loans, which are known as bad debt that is not repaid on time from borrowers, has declined. The Director of the Kosovo Banking Association, Petrit Baliija stressed for Radio Kosova that currently, the level of non-performing loans in Kosovo is the lowest in the region. The decline in non-performing loans, according to him, is the result of the commitment of both parties involved in this process. Otherwise, as of August this year, the overall level of loans has exceeded 2 billion Euros, which is the highest level since the postwar period, while the average interest rates have fallen to 7.9 percent. Businessman Ramiz Kelmendi says that due to high interest rates that have been present so far, some businessmen may face the problem of repaying old loans. (Telegrafi, Radio Kosova -13 October 2015, Zeri-14 October 2015).

AVERAGE INTEREST RATE ON DEPOSITS 0.8%, LOANS 7.6%

Interest rates on loans continued to follow the downward trend of recent years, while rates on deposits increased slightly compared to the previous year, reports Zëri.info. In June 2015, the average interest rate on loans decreased to 7.6 percent from 10.6 percent in June 2014. According to the Central Bank of Kosovo (CBK) the decline could have been influenced by the pressure of banking competition and the reduction of the cost of financing for banking activities compared to previous years. For deposits, the average interest rate rose to 0.8 percent from 0.6 percent in June 2014. Low interest rates on deposits are mainly due to the presence of sufficient liquidity in the banking sector. (Zeri, 20 October 2015).

THIS IS THE NEW 20 EURO BANKNOTE

When first announced in February of this year, Mario Draghi referred to it as one of the most technologically advanced banknotes regarding the possibility of counterfeit. And in fact, the new 20 Euro banknote, did not disappoint expectations. Depending on the light on the raised paper, the new banknote features different images. However, one of the images that appears on both sides is that of Europa, the Greek mythology figure. Tilting the banknote again against the effect of light, a raised 20 Euro figure appears in silver. Even the number changes its color depending on the light, from emerald green to deep blue. Moreover, in the central security thread, the same effects are observed depending on the light, again revealing the value of the banknote. In the new banknote, the Euro now appears as a symbol rather than a word, conveys Telegrafi from the world media print. The new banknotes whose main purpose is to limit the chance of counterfeiting as much as possible will enter into circulation starting November 25th, this year. The 20 Euro cut is most frequently used by forgers. Hence, the latter, seems they will not be able to duplicate the 20 Euro banknote. (Telegrafi, 22 October 2015).



WisdomTimes.com

Source: images.google.com

DEBATE ON THE ESTABLISHMENT OF THE CREDIT GUARANTEE FUND FOR KOSOVO



The draft law on the establishment of the Credit Guarantee Fund for Kosovo, was the subject of debate at a public hearing organized by the Committee for Economic Development, Infrastructure, Trade and Industry. Speaking about the purpose of the meeting, Chairman of the Committee, Muhamet Mustafa, said that the public hearing was organized with the aim of compiling a better law regulating the credit guarantee fund. Meanwhile, the draft was introduced by the representative of the Ministry of Trade and Industry (MTI), Remzije Hajdari. She said the bill has gone through a long process of public communication, with the goal of this draft to be more adequate and create larger opportunities for businesses. (News Agency Ekonomia, October 29, 2015).

EU COUNCIL APPROVES THE SAA WITH KOSOVO

The Council of the European Union approved the Stabilization and Association Agreement between Kosovo and the European Union on Thursday. Approval of the SAA in the Council of the EU, according to the Government in Pristina, marks the completion of the Stabilization and Association Agreement process and opens the way for signing the SAA on October 27th in Strasbourg. (Zeri, Telegrafi, 23 October 2015).



WB: KOSOVO RANKED AS 66TH ON THE EASE OF DOING BUSINESS

World Bank published its annual report on the ease of doing business that assesses the factors that facilitate or impede business in 189 countries around the world. The evaluation covers the period from 2014 to June 2015. In the latest report of the World Bank "Doing Business", Kosovo is ranked as 66th, while Albania as the 97th. It is noted that Kosovo has made progress compared to the previous year. From other countries in the region, Macedonia is 12th, Croatia 40th, Montenegro is ranked as 46th, Serbia 59th, and Bosnia and Herzegovina 79th (Koha Ditore, Kosova Sot, 29 October 2015).



ELECTRONIC PLATFORM FOR COMPLAINTS

The Department of Trade under the MTI, today has launched the on-line platform for reporting business barriers. This platform will enable the relevant government institutions to react quickly in taking the necessary measures to avoid the barriers and problems in international transactions. Senior Officer in the Department of Trade, Zef Dedaj noted that the platform "Report business barriers" intends faster communication between businesses and relevant institutions to address the barriers in implementing international transactions. According to him, the main beneficiaries of this platform will be all business in Kosovo. (Zeri, Telegrafi, 14 October 2015).

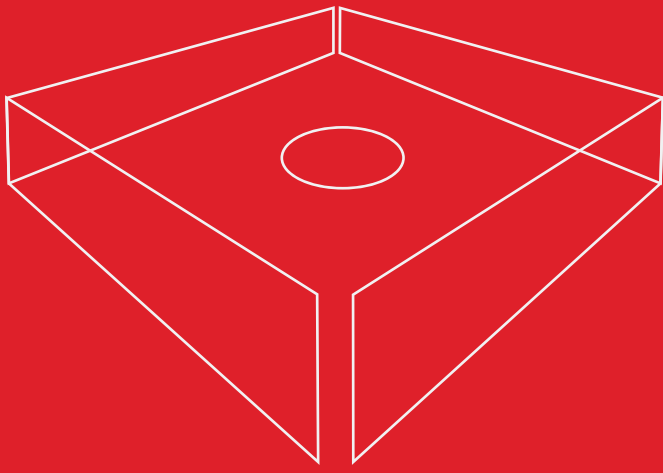


Source: images.google.com

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.
www.bankassos-kos.com.





Training Center for Banking

TRAININGS PLANNED FOR 2015:

Assets and Liability Management

Basic Banking Products

Train the Trainers –Project for Customer Education

Train the Counsels – Project for Customer Education

Project Management

Advanced Negotiations tactics

EFCB certification

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



For more information on registration on the programme, contact Training Center at Kosovo Banking Association at:

038 246 171

kbtraining@bankassoc-kos.com

www.bankassoc-kos.com



SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

Design: Mithat Sejdiu