

BANKING PERIODIC

OVERVIEW OF THE FINANCIAL
SECTOR IN KOSOVO

STRUCTURE OF FINANCIAL SYSTEM ASSETS

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SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

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STRUCTURE OF FINANCIAL SYSTEM ASSETS

CONTENT

Part I

Financial system in Kosovo	1-2
Financial system assets	2-3
Composition of financial system assets	3-5

Part II

News from the banking industry	7-10
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FINANCIAL SYSTEM IN KOSOVO

The financial system, namely banking, enables the system of various payments such as local and international transfers, bill payments, remittance deliveries etc. At the same time, commercial banks enable saving deposits of citizens and businesses and simultaneously lending to those in need of capital. A financial system can operate on a global, regional, local, and a more specific scale. The financial system includes capital markets, intermediary institutions, financial regulators and other financial institutions which are used to conduct financial operations of households, enterprises and other governmental institutions.

The financial system in Kosovo after the war and until this period has increased continuously in most of its values, indicating that financial institutions in Kosovo have established a sound base of operation by providing security and trust to clients. This has made the financial system in Kosovo to continually contribute to the economic development of the country through the lending process by credit institutions (through commercial banks and microfinance institutions), but also through the services provided by insurance companies.

The number of financial institutions is increasing continuously, which indicates that this sector is attractive to investors and offers a high level of security and reliability for citizens.

This can be seen from table 1 presented for 2010-2014, which shows that at the end of 2010 the financial system in Kosovo comprised of a total of 67 institutions, while in June 2014, their number has reached a total of 84 institutions.

NUMBER OF FINANCIAL INSTITUTIONS					
Description	2010	2011	2012	2013	Jun-2014
Commercial banks	8	8	8	9	10
Insurance companies	12	13	13	13	13
Pension funds	2	2	2	2	2
Financial auxiliaries	28	34	34	38	41
Microfinance institutions	17	20	20	17	18
Total	67	77	77	79	84

Tab. 1 | Source: CBK – Annual report (2013) and Financial Stability Report no.06

In an interval of three years and a half, a total of 17 institutions have been added, including two additional commercial banks, an insurance company, thirteen financial auxiliaries and a microfinance institution compared to 2010. This shows that the largest increase in the number of institutions is marked by financial auxiliaries with thirteen institutions.

FINANCIAL SYSTEM ASSETS

At the end of June 2014, the assets of the financial system in Kosovo reached a value of 4,314.40 billion euro. The value of total assets of the financial system has increased continuously over the years. This can be seen from the table no. 2 shown below.

STRUCTURE OF FINANCIAL SYSTEM ASSETS					
	Million Euro				
Description	2010	2011	2012	2013	Jun-2014
Commercial banks	2,455.10	2,649.70	2,829.30	3,059.30	3,059.50
Insurance companies	97.2	106	130.8	132.5	135.60
Pension funds	493.7	593.3	744.6	918.7	997.30
Microfinance institutions	134	121.9	115.8	112.9	113.10
Financial auxiliaries			8.2	7.60	8.90
Total	3,180.00	3,470.90	3,828.70	4,231.00	4,314.40

Tab. 2 | Source: CBK – Annual Report (2010-2013) and Financial Stability Report no.06

In June 2014, from the total assets of the financial system, the majority was comprised of banking industry with a value of 3,059.50 billion euro. Thereafter, pension funds are ranked with a value of 997.30 million euro, insurance companies in the amount of 135.60 million euro, microfinance institutions in the amount of 113.10 million euro and at the end financial auxiliaries with a value of 8.9 million euro. The assets of the financial system in Kosovo, in an interval of three and a half years have increased over one billion euro, i.e. from 3,180 billion euro at the end of 2010, at 4,314.40 billion euro at the end of June 2014.

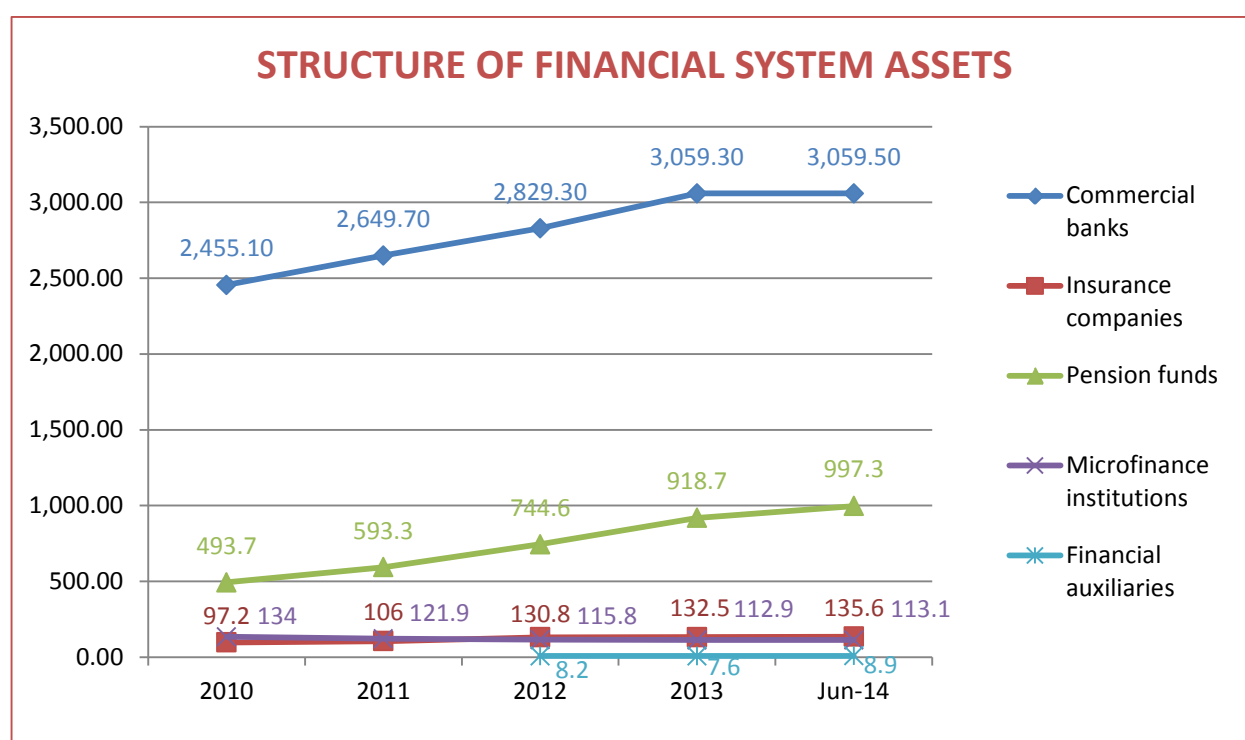


Fig. 1 | Source: CBK – Annual Report (2010-2013) and Financial Stability Report no.06

From the presented figure number 1, it can be noted that the significant increase in their total assets at fair value was recorded by commercial banks and pension funds, while in lower values there was also a slight increase in the assets of insurance companies and microfinance institutions.

Table no. 3 presents participation percentages of sectors in the overall financial system in Kosovo. The banking industry continues to dominate the greatest participation within the financial system which at the end of June 2014 accounted for 70.8% of total assets of the financial system, although this percentage has continuously marked decrease in recent years.

STRUCTURE OF FINANCIAL SYSTEM ASSETS EXPRESSED IN PERCENTAGE					
Description	Million Euro				
	2010	2011	2012	2013	Jun-2014
Commercial banks	76.9%	76.1%	73.9%	72.3%	70.8%
Insurance companies	3.0%	3.2%	3.4%	3.1%	3.1%
Pension funds	15.5%	17.0%	19.5%	21.7%	23.2%
Financial auxiliaries	0.2%	0.1%	0.2%	0.2%	0.3%
Microfinance institutions	4.4%	3.6%	3.0%	2.7%	2.6%

Tab. 3 | Source: CBK – Annual Report (2010-2013) and Financial Stability Report no.06

If we consider the longer term perspective (2010-June 2014), as we can see in Figure number 2 and 3, the participation rate of the banking industry in the overall financial system assets decreased from 76.9% at the end of 2010 (figure 2), to 70.8% at the end of June (Fig.3). That happened due to increased pension funds which at the end of June 2014 have reached a value close to one billion euro.

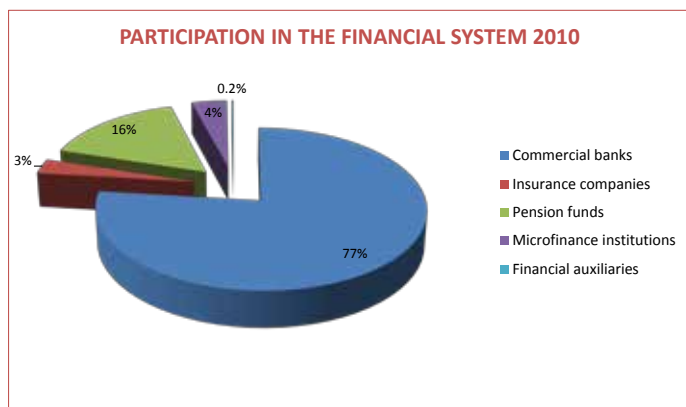


Fig. 2 | Source: CBK – Annual Report (2010-2013) and Financial Stability Report no.06

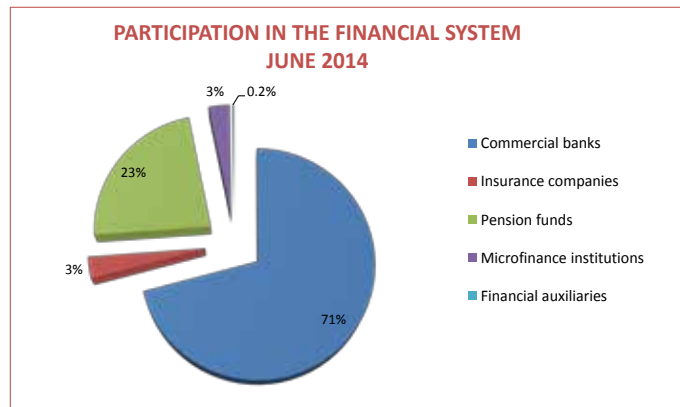


Fig. 3| Source: CBK – Annual Report (2010-2013) and Financial Stability Report no.06

The participation of pension fund assets has continued to increase in total assets of the financial system, where as seen in Figure 3 at the end of June, they have reached 23.2%, while in 2010 as presented in Figure 2, it was 15.5%. During this comparative period (2010-June 2014), insurance companies have managed to overcome microfinance institutions in the percentage of participation in relation to total assets. In June 2014, insurance companies accounted for 3.1% of total assets of the financial system, while microfinance institutions accounted for 2.6%.

It is important to note that all actors of the financial system have increased their assets, if we compare the period June 2014 and the end of 2013. So the financial system, during the first half of 2014, steadily continued the development and expansion of its activity, despite the challenges faced by the working environment in which they interact.

COMPOSITION OF FINANCIAL SYSTEM ASSETS

In this section, two of the main industries that make up the financial system will be broken down, which in our case are the banking industry and pension funds. The composition of the banking industry as the largest sector that includes 70.8% of the total assets of the financial system is dominated by gross loans and leasing which in June constituted about 61.7% of total assets of the banking industry.

As seen in the table and figure number 4, the rest consists of securities with 13.2% of total assets, cash and balances with CBK constitutes 11.7%, balance with commercial banks with 10.4% and so on.

COMPOSITION OF FINANCIAL SYSTEM ASSETS	
Description	Jun-2014
Cash and balances with CBK	11.7%
Balance with commercial banks	10.4%
Securities	13.2%
Gross loans and leasing	61.8%
Fixed assets	1.8%
Other assets	1.1%

Tab. 4 | Source: CBK – Balance Sheet of Other Depository Corporations

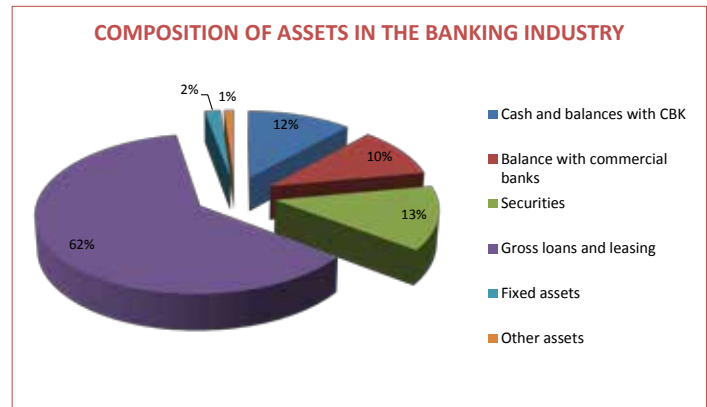


Fig. 4 | Source: CBK – Balance Sheet of Other Depository Corporations (June 2014)

Pension funds rank second based on assets of the financial system, which in June 2014 accounted for 23.2% of total assets. Within the Pension Funds, as shown in the table and figure number 5, the main part of their assets is comprised of private placements making up 75.4% of total assets.

PENSION FUND ASSET COMPOSITION	
Description	Jun-2014
Cash on hand and in banks	18.2%
Total government bonds	6.4%
Private placements	75.4%
Other assets	0.0%

Tab. 5 | Source: Balance Sheet of the Trust (Q2 - 2014) and SKPF Annual Report 2013

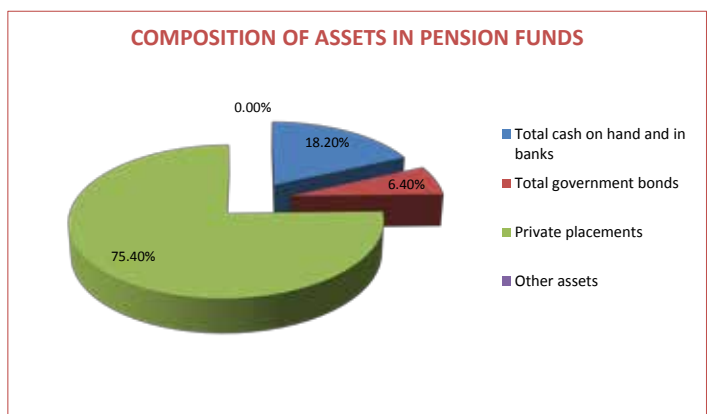


Fig. 5 | Source: Balance Sheet of the Trust (Q2 - 2014) and SKPF Annual Report 2013

Following private placements within the assets, cash on hand and in banks is listed with a total of 18.2% of total assets of pension funds. The rest is comprised of government bonds and other assets.

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PART II

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF JANUARY

THE COLLECTIVE AGREEMENT IS SUSPENDED

Two euro per day salary increase for 0.5 percent for every year of work, eight hours of work, and insurance on the job. Much of these were the expectations of workers in the event that the Collective Agreement would have been implemented beginning January 1st. However, the implementation of this agreement has been suspended. The suspension of the agreement was confirmed by the Minister of Labor and Social Welfare, Arban Abrashi. He announced that the suspension was made because it was not in accordance with the Labor Law. (Zeri, 8 January 2015)



KOSOVO WITH POSITIVE BALANCE OF INTERNATIONAL INVESTMENT

Central Bank of Kosovo (CBK), has announced that Kosovo continues to record positive balance of its international investment position (IIP) which at the end of the third quarter of 2014 reached a value of 396.7 million euro. CBK has announced that at the end of the previous quarter this value was 327.8 million euro. International obligations have also increased by 115.4 million euro which amounted to 3.90 billion euro at the end of the third quarter of 2014. (Telegrafi, 8 January, 2015)



LEGAL OFFICE: COLLECTIVE AGREEMENT IN VIOLATION OF LABOR LAW

The collective agreement is not in accordance with the Labor Law. This is the official response that the Minister of Labor and Social Welfare, Arban Abrashi has received from the Legal Office of the Ministry. Sources of the Newspaper Tribuna within the ministry, informed that the legal office has found that many articles of the Collective Agreement are inconsistent with the Labor Law. According to the source, one of the controversial provisions of the Labor Law with the Collective Agreement is Article 90.5, which deals with parties who are required to implement this contract. Meanwhile, last week minister Abrashi said for Tribuna that if it is determined that the collective agreement is inconsistent with the Labor Law its implementation will not start. He said it is likely that the implementation of the collective agreement be postponed for a while because the Labor Law will change as well. "We will change the Labor Law, in order for the law to be more attractive to employers as well as employees. Once the law is in the process of alteration, it is logical to expect that the collective agreement be amended under the new law", said Abrashi. (Tribune, 13 January 2015)



COMMITTEES AT KOSOVO BANKING ASSOCIATION ELECT THE NEW CHAIRPERSONS

Within Kosovo Banking Association (KBA) ten committees of different areas of the banking sector function. The committees consist of respective representatives of eight members of KBA. Committees have very important functions to address specific issues affecting the better functioning of the sector. In the second half of 2014 the new Chairpersons of several active committees at KBA was elected.

The newly elected Chairpersons are are:

Committee	Elected chairman	Institution	Elected vice chairman	Institution	Date of Election
Compliance and AML committee	Ali Krasniqi	BKT	Alban Hetemi	ProCredit Bank	24 October 2014
Legal committee	Agron Krasniqi	BpB	Ilir Gaxha	TEB Bank	17 December 2014
Finance committee	Rezak Fetaj	ProCredit Bank	Rudin Lleshaj	BKT	23 October 2014
Marketing and PR committee	Antigona Bejtulahu	Raiffeisen Bank	Zana Rizvanolli	NLB Prishtina	22 September 2014
Risk committee	Gem Maloku	NLB Prishtina	Besian Mustafa	TEB Bank	17 September 2014

As it is defined by the work procedures of these committees, the mandate of the new chairpersons is for two years. Executive Director of KBA Mr. Petrit Balija and KBA's staff take this opportunity to thank all representatives of all the past chairpersons for their work and contribution given during their mandate, and wishes success to the newly elected leadership. (Kosovo Banking Association, 9 January 2015)

REMITTANCES, 214 MILLION EURO

Central Bank of Kosovo (CBK), has announced that remittances in Kosovo were 214 million euro in the third quarter of 2014, marking an increase of 9.2 percent compared with the same period the previous year. According to CBK, in the third quarter of 2014 the current account deficit was 91.8 million euro, which represents a decrease of 7.9 percent compared with the same period of 2013. (Telegrafi, 6 January 2015)



EURO IN "YEAR ZERO"!

With constant decline during the first days of this year, the common European currency has not only reached the lowest level in the past nine years, but also it has reversed itself to the point where it was 16 years ago. In closing of the first day of debut on the market, on January 4th, 1999, Euro was exchanged for 1.1825 dollars. Today its worth is almost the same as in the first moment of entry into the European markets, with an exchange rate of 1.1868 dollars. During these 16 years, the common European currency has traversed a not so easy trajectory: three European central bank presidents, two economic recessions or even continuous expansion of boundaries. (Telegrafi, 8 January, 2015)



WB: IN 2015 GLOBAL ECONOMIC GROWTH WILL REACH 3%

In 2015, global economic growth will reach 3 percent, according to the World Banks' latest report "Global Economic Prospects". WB noted that with improvement of employment and monetary easing policies, a strengthening of the US and British economy is observed. Meanwhile, the Eurozone and Japan do not have an optimistic situation and on the other side deflation that has hit the Eurozone seems to be continuing for a long time. (Telegrafi, 14 January 2015)



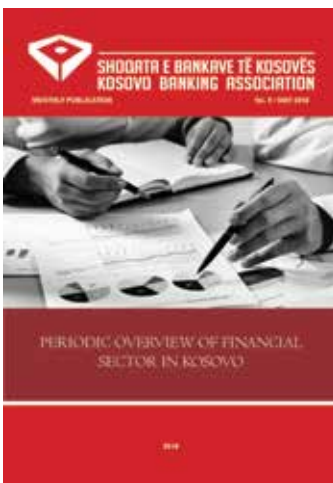
INTEREST-FREE LOANS FOR AGRI-BUSINESSES

Agribusiness and small enterprises in Gjilan this year will be offered a good opportunity to take advantage of bank loans, without being forced to pay more than they received. Micro businesses and farmers can benefit loans in amounts of 5,000, 7,000 and 10,000 euros, for a period of three years or even longer, depending on the bank and they will be obliged to pay back only the basic amount without interest rate. The municipality pays the interest rate and the risk of the loan is taken by the bank itself. (Kosova Sot, 23 January 2015).

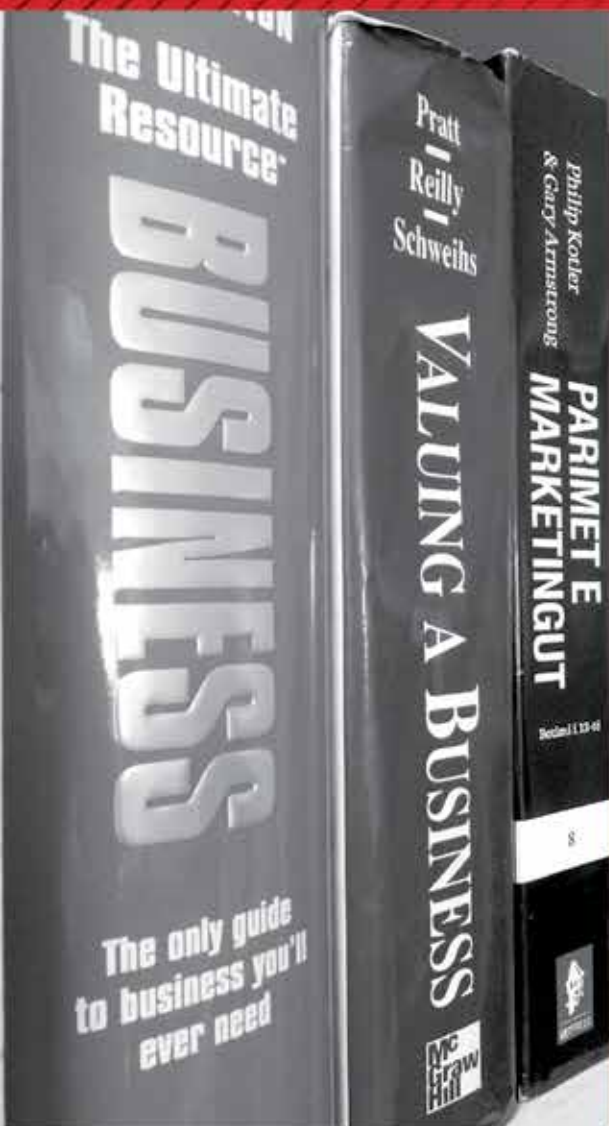


PUBLICATIONS OF THE KOSOVO BANKING ASSOCIATION

“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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