



SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

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PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

**COMPENDIUM OF MONTHLY PUBLICATIONS
FOR 2014**

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

PREPARED BY:

PETRIT BALIJA,
Executive Director

KRESHNIK KOSUMI,
Policy and Statistics Officer

Kosovo Banking Association

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SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

Bajram Kelmendi no.15,

Prishtina, 10 000,

Republic of Kosovo

Tel. +381 38 246 171

email: contact@bankassoc-kos.com

www.bankassoc-kos.com

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PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

JANUARY 2014

FINANCIAL SYSTEM IN KOSOVO

The financial system assets in Kosovo year after year have continuously increased, while showing a positive sustainable trend.

The total value of the financial sector in Kosovo at the end of the third quarter of 2013 has reached at 4.0 billion euro. This value shows that the financial corporate assets have increased by 8% compared with the same period of the past year.

In the framework of the financial corporate assets, the banking system constitutes the main part of the financial system with 2.9 billion euro, which compared to the same period of the past year has increased with 6.1%.

Pension fund consists 854 million euro of the total financial assets, while the assets of the microfinance institutions have a value of 111.8 million euro. The value of insurance companies assets have reached the amount of 131.6 million euro, which compared to the previous year represents an annual increase of 0.9%.

BANKING SECTOR ASSETS

From the structure of the banking system assets, loans and leasing constitutes the main amount with 61.2%. Cash on hand and balances with Central Bank of Kosovo are listed as second highest with 14.9%, balance with commercial banks represents 10.2%, securities 9.4%, while the other part is consisted to be fixed and other assets.

Banking system assets in Kosovo (Fig. 1) have increased continuously through the years as a result of the good performance that commercial banks have shown. Besides the growth in lending and the investments of the banks in securities, such growth is attributed also to cash on hand and balance with Central Bank of Kosovo.

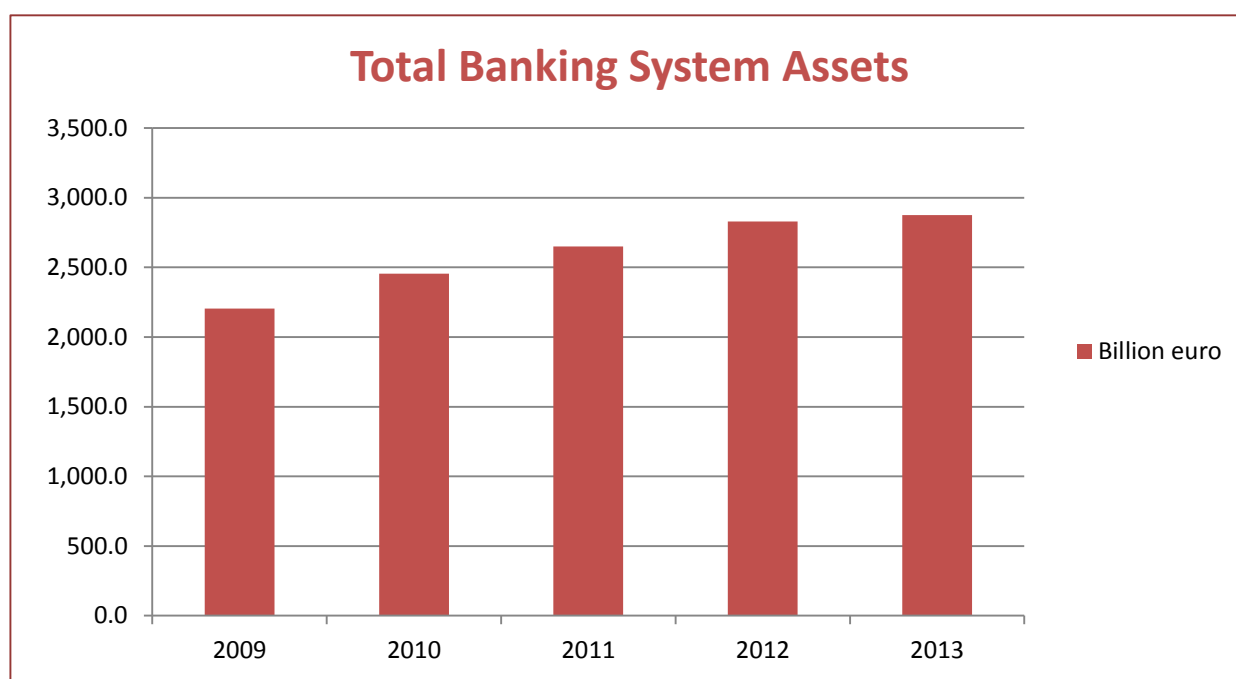


Fig. 1 | Source: CBK 2012 Annual Report and Quarterly Assessment of the economy no.4

STRUCTURE OF THE BANKING SYSTEM ASSETS					
Description	Dec-09 In millions of euro	Dec -10 In millions of euro	Dec - 11 In millions of euro	Dec - 12 In millions of euro	Sep - 13 In millions of euro
Cash and balance with CBK	322.2	307.5	331.5	425.7	427.2
Balance with commercial banks	405.6	439.0	329.5	287.9	294.0
Securities	97.0	173.4	202.0	256.6	276.0
Loans and leasing	1,289.0	1,458.7	1,698.1	1,763.4	1,798.0
Fixed assets	43.1	44.0	47.4	57.7	54.4
Other assets	47.7	32.3	41.3	38.1	26.1
Total	2,204.6	2,454.9	2,649.8	2,829.4	2,875.7

Table no. 1 | Source: CBK 2012 Annually Report and Quarterly Assessment of the economy no.4

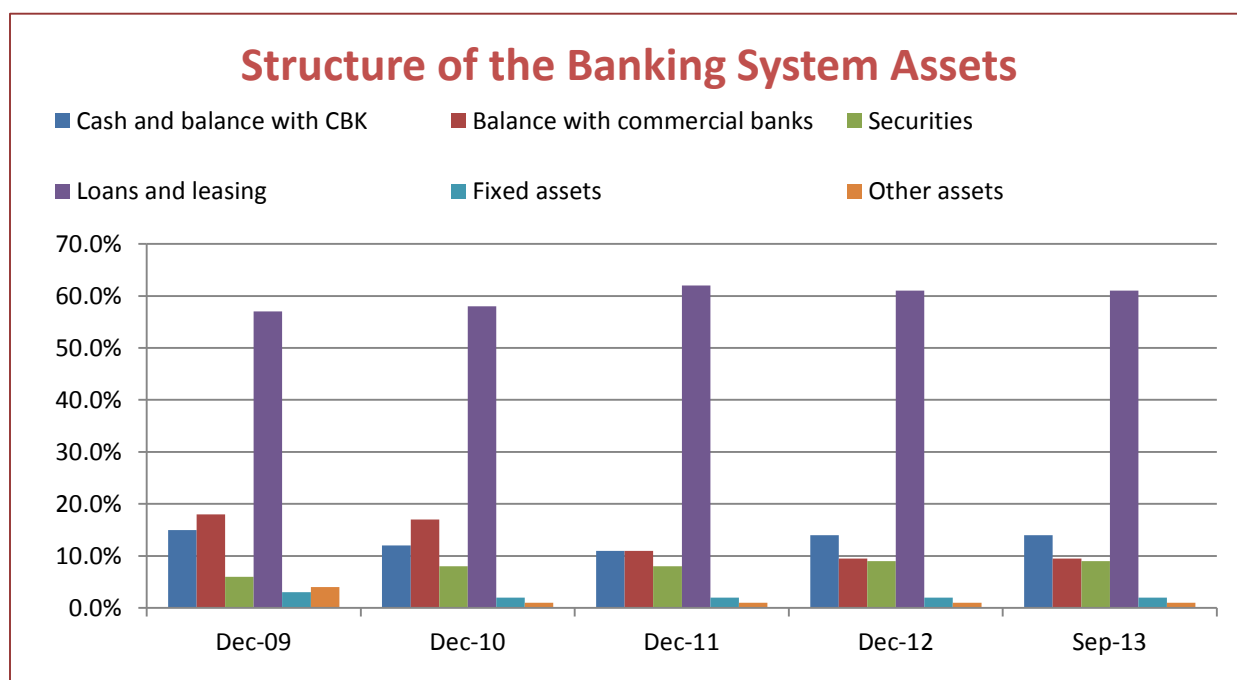


Fig. 2 | Source: CBK 2012 Annually Report and Quarterly Assessment of the economy no.4

As shown on the table no. 1 the main activity of the banks through the years was lending. At the end of the third quarter of 2013 the value of lending reached at 1.77 billion euro. Lending through the years has shown positive growth trend, while this growth trend was 2.2% in third quarter of 2013 which compared to the previous year this represents a lower level of growth, since in the third quarter of 2012 this growth was at 2.8%.

“The total value of the financial sector in Kosovo at the end of the third quarter of 2013 has reached 4.0 billion euro. The banking system constitutes the main part of the financial system with 2.9 billion euro or 72.5% of the total assets”

The slower lending growth can be attributed to a reduction of the feasible demands for loans or as a result of the increased criteria by the banks in the process for obtaining the loan, as preventive measures for maintaining the NPL at a lower level.

In addition, commercial banks have continued to expand their POS network, ATM and the number of e-banking account users.

As a result of increasing the network points, commercial banks have offered more favorable conditions for the users of these services. Fig. No.3 shows a significant increase in the use of electronic payments, especially e-banking. At the end of 2012 there were 1,499 million euro in payments through e-banking, which compared

with the previous year this represents an increase of approximately 20%. This growth trend has continued also during 2013.

This effort by the banks has been undertaken with the purpose to decrease the cash payments which is also part of the strategy of banking industry and of the Central Bank of the Republic of Kosovo.

Fixed and other assets of the banks have shown a decrease in their value. This is due to the reduction of the branches and sub-branches of the banks if compared with the same period of the previous year.

Commercial banks are focusing their activities on electronic payments, in order to increase the use, as much as possible, of the electronic instruments through banking cards, ATM, e-banking, direct debit etc.

Banking system in Kosovo has successfully developed and today is considered as one of the most consistent and stable industries in the Kosovo economy.

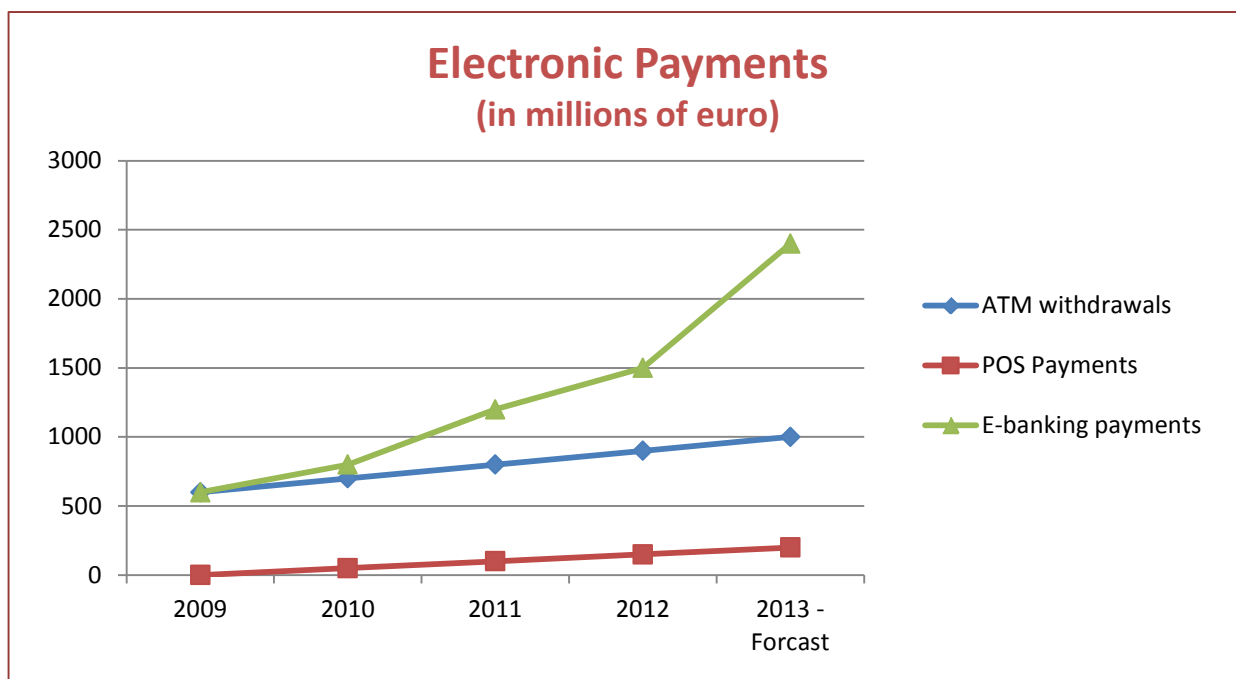


Fig. 3 | Source: CBK 2012 Annually Report and Quarterly Assessment of the economy no.4

KOSOVO BANKING SYSTEM DEPOSITS					
	Dec - 09	Dec - 10	Dec - 11	Dec - 12	Sep - 13
In millions of euro	1,744.8	1,936.9	2,104.0	2,279.1	2,344.7

Table no. 2 | Source: CBK 2012 Annually Report and Quarterly Assessment of the economy

KOSOVO BANKING SECTOR DEPOSITS

Deposits of the banking sector in Kosovo have steadily increased over the years and at the end of September 2013 have reached the value of 2.3 billion euro. This value compared with the same period of last year has increased by 6.3%.

With regard to deposits' structure, their main part comprises of household deposits which represents about 70% of their total, while the remainder of the deposits belong to public and private enterprises, government and others.

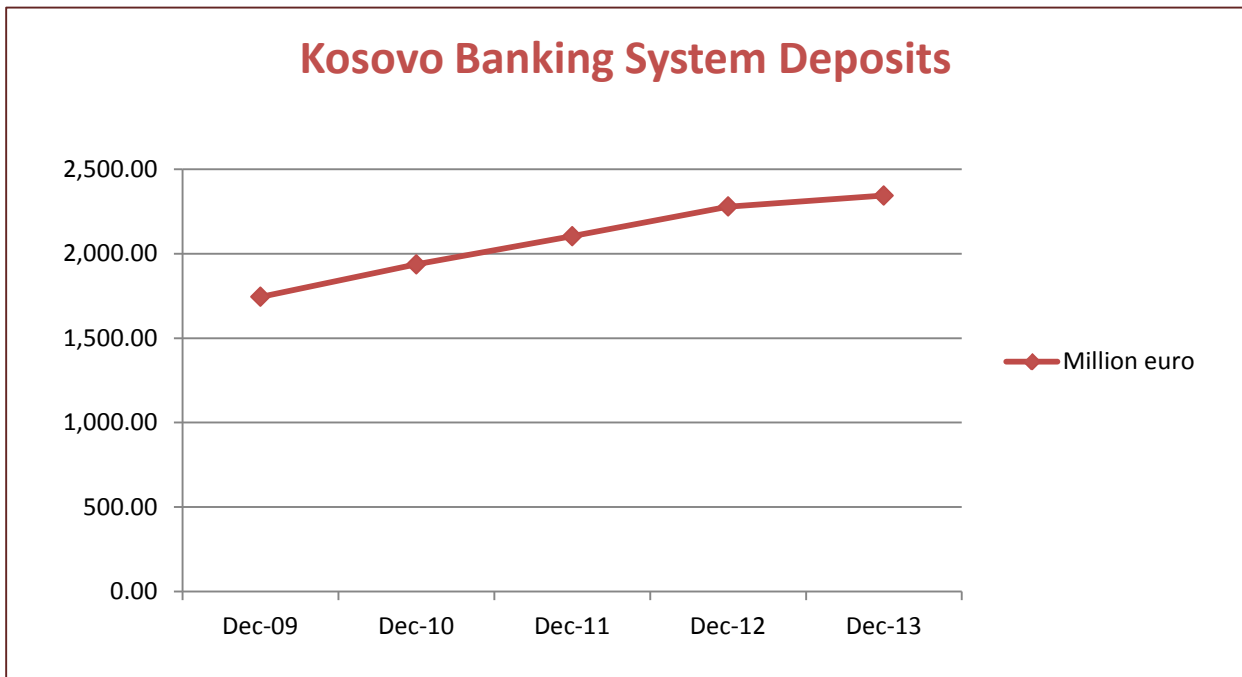


Fig. 3 | Source: CBK 2012 Annually Report and Quarterly Assessment of the economy no.4

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

FEBRUARY 2014

KOSOVO BANKING SYSTEM LIABILITIES

STRUCTURE OF LIABILITIES

Liabilities of the banking system in December 2013 reached the value of 3,057.5 million euro, which represents an annual increase of 8%. This increase in liabilities is higher than that of the previous year of 6.8%. Structure of liabilities continues to be dominated by deposits which at the end of 2013 accounted for approximately 80.1% of total liabilities of the banking system.

Deposits of the banking system at the end of 2013 amounted to 2,449 million euro, which represents an annual increase of 7.5%. In table no.1 and fig. no. 1 have a continuous trend of increase through the years in the value of deposits, is depicted, although this increase at the end of this year was with a lower percentage than the previous year.

The second category within the structure of liabilities are own resources which constitute 278.5 million euro or 9.1% of total liabilities, which represents an annual increase of 2.9%, which represents an important source of financing the commercial banks.

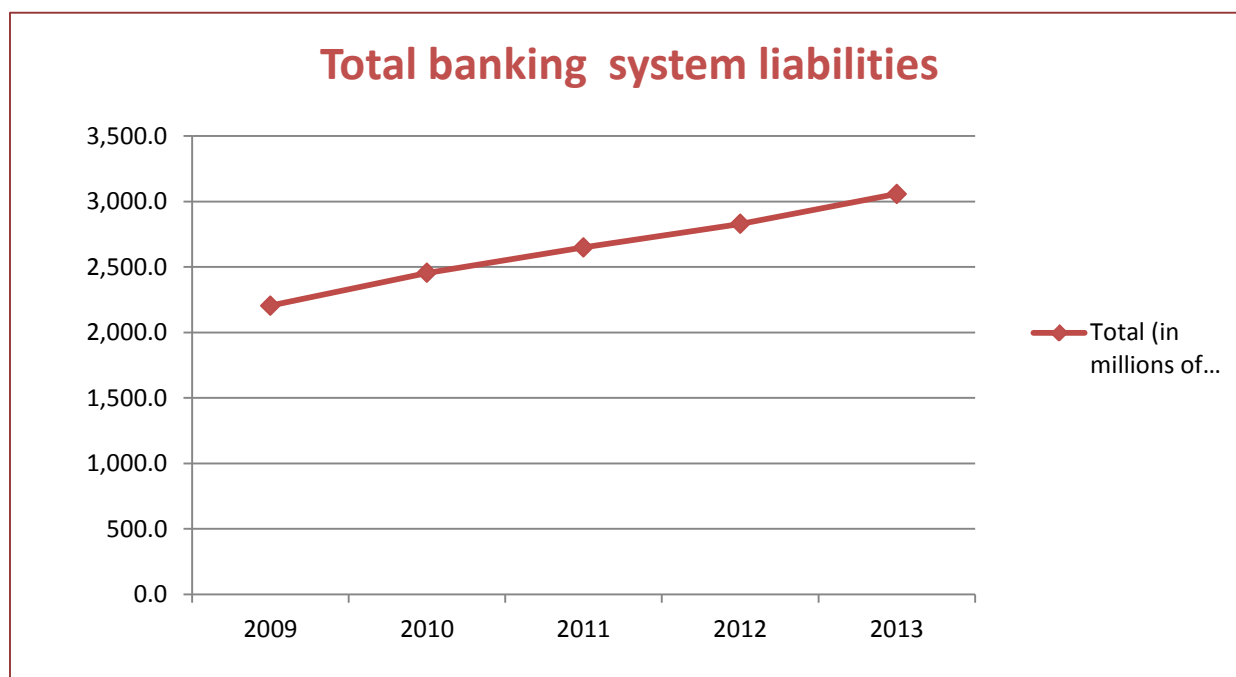


Fig. 1 | Source: CBK - Annual Report (2012) & Other Depository Corporations Balance Sheet (2013)

STRUCTURE OF THE BANKING SYSTEM LIABILITIES					
Description	2009 In millions	2010 In millions	2011 In millions	2012 In millions	2013 In millions
Balance with other banks	58.5	94.0	40.0	6.0	16.5
Deposits	1,744.8	1,936.9	2,104.0	2,279.1	2,449.0
Other borrowings	0.0	0.1	30.4	18.9	13.4
Other liabilities	171.3	160.0	190.1	223.6	243.8
Subordinated debt	24.4	33.5	31.0	31.0	56.3
Own resources	205.6	230.5	254.3	270.7	278.5
Total liabilities	2,204.6	2,455.0	2,649.8	2,829.3	3,057.5

Tab. 1 | Source: CBK - Annual Report (2012) & Other Depository Corporations Balance Sheet (2013)

STRUCTURE OF DEPOSITS

From the structure of banking system deposits, 1,774 million euro are household deposits or 72% of total deposits, 397.8 million euro or 16% of total deposits are deposits of non-financial corporations, while 276.3 million euro of deposits are constituted by the others. On the table no.2 are presented the detailed data on deposits structure for the end of 2013 in regard to the maturity and their separation by depositors categorization.

As regards the structure of maturity, termed deposits comprise the main part of deposits of 46.7%; transferable deposits constitute 36.8%, while savings deposits account for 16.5% of total deposits.

STRUCTURE OF THE BANKING SYSTEM DEPOSITS 2013									
Description (In millions of euro)	Main Government	Local Government	Oth. financial corporates	Oth. public corporations	Non-financial corporates	Households	NPHSO	Non-Resident	Total
Transferable deposits	0.6	0.1	11.8	16.4	299.6	506.6	22.8	42.9	900.8
Other deposits	0.1	1.0	73.9	55.7	81.0	896.2	3.8	32.3	1,143.9
Saving deposits	0.1	0.0	0.7	0.1	17.2	372.1	0.2	13.9	404.3
Total	0.8	1.1	86.4	72.2	397.8	1,774.9	26.8	89.1	2,449.0

Tab. 2 | Source: CBK - Other Depository Corporations Balance Sheet (2013)

“From the structure of banking system deposits, 1,774 million euro are household deposits or 72% of total deposits, 397.8 million euro or 16% of total deposits are deposits of non-financial corporations, while 276.3 million euro of deposits are constituted by the others.”

Despite the continued growth of total deposits, from the table no.3 can be noted that at the end of 2013 termed deposits comprise 46.7% of total deposits, while at the end of 2012 this percentage was higher or 51.4 % of total deposits. Even though we have a lower percentage in 2013 regarding the percentage of termed deposits, banks continue to have a significant share of termed deposits to total deposits ratio.

STRUCTURE OF THE BANKING SYSTEM DEPOSITS 2009 - 2013

Description (In millions of euro)	2009	2010	2011	2012	2013
Transferable deposits	515.0	670.9	699.0	751.9	900.8
Other deposits	1,229.8	923.2	1,056.8	1,172.1	1,143.9
Saving deposits	0.0	342.7	348.2	355.0	404.3
Total	1,744.8	1,936.8	2,104.0	2,279.1	2,449.0

Tab. 3 | Source: CBK - Other Depository Corporations Balance Sheet (2013)

Transferable deposits at the end of 2013 rose to 6.5%, while in 2012 this increase was 2.5%. The same increasing trend was also for savings deposits which at the end of 2013 recorded an increase of 49.3 million euro or 2.2%, while in 2012 they grew by 0.3%.

THE RATIO BETWEEN LOANS AND DEPOSITS

The ratio between loans and deposits at the end of 2013 amounted to 73.7%, which means that the level of liquidity in the banking system continues to be at a good level.

As the table no. 4 shows, the ratio between loans and deposits in the last four years has a constantly unchanging trend, which shows a stable performance when it comes to the ratio between deposits and loans. Banks remain cautious in the process of approving the loan, taking into account all the necessary criteria customers must meet, in order to reduce as much risk exposure as possible and to ensure best performance of loans.

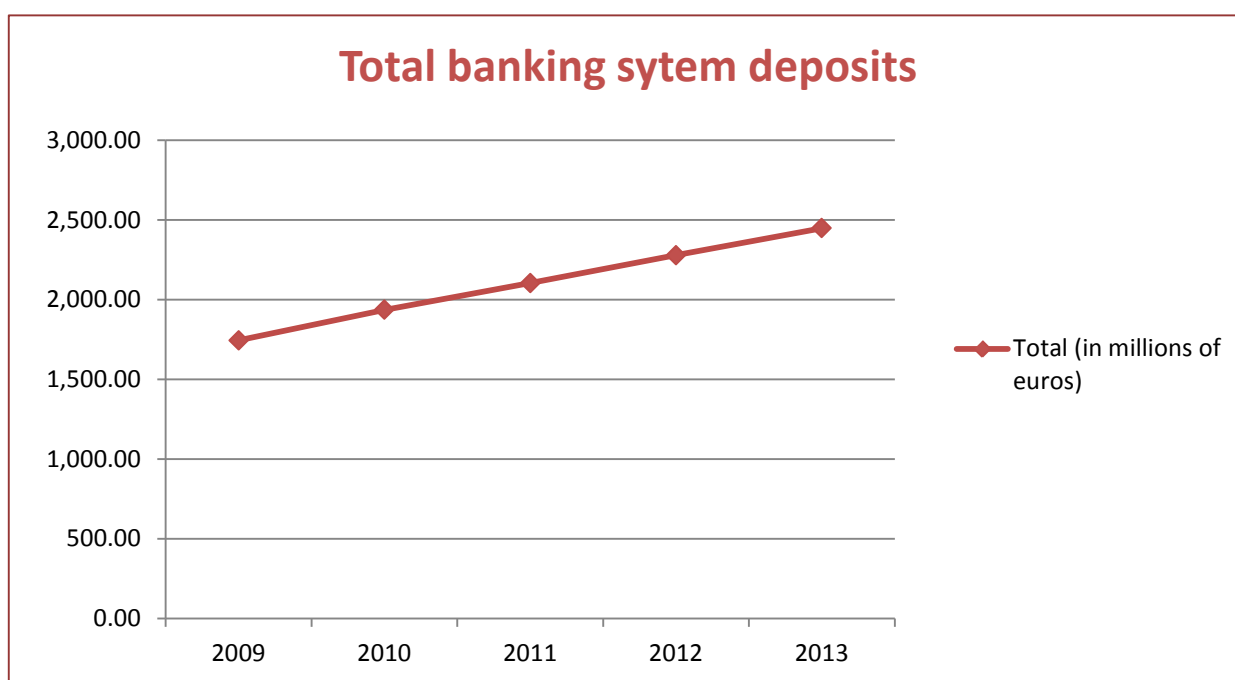


Fig. 2 | Source: CBK - Other Depository Corporations Balance Sheet (2013)

THE RATIO BETWEEN LOANS AND DEPOSITS

Description (In million of euro)	2009	2010	2011	2012	2013
Deposits	1,744.8	1,936.9	2,104.0	2,279.1	2,449.0
Loans and leasing	1,289.0	1,458.7	1,698.1	1,763.4	1,805.8
Percentage	73.9%	75.3%	80.7%	77.4%	73.7%

Tab. 4 | Source: CBK - Other Depository Corporations Balance Sheet (2013)

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

MARCH 2014

KOSOVO BANKING SYSTEM DEPOSITS BY MATURITY

At the end of February 2014, the total of deposits in the banking system reached the amount of over 2.4 billion euro. Below listed table depicts that the largest portion of the total deposits is comprised of the household deposits.

Household deposits comprise 68.9% of the total deposits. The main income source for the Kosovo banking system is the household deposits.

Also, in terms of the total of deposits, a considerable portion is comprised of other non-financial corporations. Deposits of this category amount to 323.2 million euro, respectively 7.54% of the total of deposits.

An important source of deposits is also the deposit of nonresident persons, which is amounted to over 102 million euro. Compared to the total deposits, non-residents comprise 4.1% of the total of deposits.

DEPOSIT BY MATURITY (FEBRUARY 2014)										
No. Sector	Deposits in non-euros	Transferable deposits	Saving Deposits	Other deposits						Total
				Up to 1 month	1-3 month	3-6 month	6-12 month	1-2 years	Over 2 years	
1. Government		0.6	0.1	0.1	-	-	1.0	-	-	1.8
2. Other Depositing Corporation		5.1	-	-	-	-	-	-	0.7	5.8
3. Other Financial Intermediaries		1.9	0.8	1.0	-	1.6	7.1	0.1	0.4	12.9
4. Insurance Companies		5.9	-	1.9	0.4	4.9	33.7	13.1	12.0	71.7
5. Pension Fund		0.8	10.5	-	-	-	4.2	0.2	0.3	16.1
6. Financial auxiliaries		0.2	-	-	-	-	0.3	-	-	0.4
7. Non-Financial Public Corporation		10.7	0.2	4.4	6.5	22.0	1.3	1.0	12.2	58.4
8. Other Non-Financial Corporation		243.4	7.0	8.0	1.3	2.1	48.5	6.9	6.0	323.2
9. Consumer Deposits		466.6	365.3	6.4	15.6	23.3	440.0	191.5	173.8	1682.5
10. NPHSO		25.1	0.1	-	-	0.1	1.9	-	1.7	28.9
11. Non-resident		59.0	13.6	-	0.2	0.2	16.7	5.2	7.1	102.1
12. Deposits in non-euro	135.0	-	-	-	-	-	-	-	-	0.0
Total	135.0	819.4	397.7	21.6	24.0	54.1	554.7	218.0	214.2	2438.8

Tab. 1 | Source: CBK - Deposits in euro by maturity (February, 2014)

Insurance companies and other non-financial public corporations also comprise an important value of the total of deposits, respectively with insurance companies comprising 2.9% of total deposits, while 2.3% are derived from non-financial public corporations.

Out of the total deposits of the banking system, 33.5% are transferable deposits, 16.3% are saving deposits, while 44.5% are termed deposits. Non-euro currency deposits comprise 5.5% of their total. The largest portion of termed deposits is comprised of 6-12 months termed deposits or 22.7% of the total deposits. Deposits with maturity period from 1 – 2 years comprise 8.9% of the total of deposits, whereas those with maturity period of

over five (5) years comprise 8.7%.

The banking system in Kosovo, at this level and this structure of deposits, where the main part of the deposits are transferable, adding the saving deposits and those termed deposits from 6-12 months, indicates that banking system can't issue loans in long term bases.

“Out of the total deposits of the banking system, 33.5% are transferable deposits, 16.3% are saving deposits, while 44.5% are termed deposits. The largest portion of termed deposits is comprised of 6-12 months termed deposits or 22.7% of the total deposits.”

LOANS BY MATURITY

LOANS BY MATURITY (FEBRUARY 2014)							
No.Sector	Loans in non-euro	Loans by maturity					Total
		Up to 1 year	1-2 years	2-5 years	5-10 years	Over 10 years	
1. Other Financial Intermediaries	-	3.8	0.1	12.9	-	-	16.7
2. Insurance Companies	-	2.0	0.3	-	-	-	2.4
3. Non-Financial Public Corporation	-	0.1	-	-	0.1	-	0.2
4. Non-Financial Corporation	-	366.5	90.5	474.9	243.1	15.1	1,190.0
5. Consumer Loans	-	60.1	32.7	216.3	212.7	37.6	559.3
6. NPHSO	-	-	0.1	0.3	0.2	-	0.6
7. Other Non-Depositing Corporation	-	-	0.1	2.2	16.7	0.1	19.1
8. Other Non-Financial Corporation	5.9	-	-	-	-	-	5.9
Total	5.9	432.4	123.7	706.6	472.9	52.8	1,794.2

Tab. 2 | Source: CBK - Loans in euro by maturity (February, 2014)

In February of 2014, the total value of loans issued by the banking sector amounted to 1.79 billion euro.

Most of the loans issued by the banking sector have maturities of 2 to 5 years, which comprise 39.3 % of the total issued loans.

Loans issued with maturity of 5 to 10 years account for 26.3 % of total loans issued, while 24 % are loans with maturity of up to one year.

Within loans granted to households, most of the loans have a maturity of 2 to 5 years, which constitute 38.6 % of total loans issued to households, while 38% are loans with maturity of 5 to 10 years.

Even in non-financial corporations, loans issued with maturities of 2 to 5 years constitute the majority with 39.9 % of total loans issued to these corporations, while 30.7 % are loans of maturity of up to one year.

NEW LOANS

During the month of February 2014, 57.8 million euro of new loans were issued, of which 36 were issued to non-financial corporations, while 21.8 were issued to household. Of the total new loans issued during this period, 27 % have a maturity of 1 to 5 years.

NEW LOANS (FEBRUARY 2014)								
Description	Investing Loans			Non-investing Loans			Loans with favorable terms	Total
	Up to 1 year	1-5 years	Over 5 years	Up to 1 year	1-5 years	Over 5 years		
Non-Financial Corporation	0.7	13.6	3.0	2.6	8.6	1.2	6.3	36.0

Description	Consumer Loans	Mortgages			Loans with favorable terms	Other Loans	Total
		Up to 1 year	1-5 years	Over 5 years			
Ekonomitë familjare	15.4	-	2.1	1.6	1.8	0.9	21.8

Tab. 3 | Source: CBK - New Loans (February, 2014)

LOANS BY ECONOMIC ACTIVITY

LOANS BY ECONOMIC SECTORS										
Year	Agriculture	Mines	Production	Energy	Construction	Trade	Hotels & Restaurants	Other trade	Other services	Total
Feb - 14	45.3	20.7	135.1	16.7	114.0	643.5	47.8	19.5	169.0	1211.5
Feb - 13	44.7	15.6	135.5	14.3	126.3	640.3	40.3	22.8	159.4	1199.2
Feb - 12	39.4	17.8	131.7	14.1	126.5	605.5	39.6	25.6	147.7	1147.9
Feb - 11	37.6	12.5	128.4	12.3	115.3	542.2	38.9	21.7	137.4	1046.2
Feb - 10	38.1	13.5	132.9	9.2	98.8	456.7	37.4	24.8	107.6	918.9

Tab. 4 | Source: CBK - Loans by economic activity (February, 2014)

According to their economic activity, 1.2 billion euro were issued in loans by the end of February 2014. Of the total loans issued, most loans comprise loans issued for trade, respectively 53.1%. 3.7% of total loans issued as per economic activity consist of those that have been issued for the agricultural sector.

It is important to affirm that agricultural loans at fair value have been steadily increasing, albeit gradually, while their share in total loans issued as per economic activity has remained roughly the same.

Productivity is another important sector for economic development in the country and also in the composition of loans issued within the banking sector.

LOANS BY SECTORS

Regarding the loans issued by the banking sector until February 2014, 66.3 % cover the loans issued to non-financial corporations. It is important to note that the composition of these loans within the frame of total loans has been approximately the same in the past years.

Households continue to represent substantial part of total issued loans with a percentage of 31.1% in 2014. Even to this type of loan issued, the composition has been approximately the same in the context of total loans compared with previous years.

Such a trend of credit growth in the financial sector over the years shows sustainability and financial stability, which is one of the most important factors on the safety and efficiency of an economy.

LOANS BY SECTORS 2010-2014					
No.Sector	Feb-14	Feb-13	Feb-12	Feb-11	Feb-10
1 Other Financial Intermediaries	16.7	16.1	14.6	7.6	1.5
2 Insurance Companies	2.4	3.0	1.5	2.9	0.8
3 Non-Financial Public Corporation	0.2	0.4	1.3	0.3	7.5
4 Non-Financial Corporation	1,190.0	1,176.9	1,130.7	1,032.7	907.6
5 Consumer Loans	559.3	540.9	504.6	436.0	377.4
6 NPHSO	0.6	0.4	0.8	0.1	0.2
7 Other Depositing Corporation	-	-	1.0	1.0	1.0
8 Other Non-Depositing Corporation	19.1	20.9	31.1	0.7	-
9 Other Non-Financial Corporation	5.9	7.0	6.6	2.7	1.5
Total	1,794.2	1,765.6	1,692.2	1,483.9	1,297.5

Tab. 5 | Source: CBK - Loans by economic sectors (February, 2014)

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

APRIL 2014

PAYMENT SYSTEM IN BANKING INDUSTRY IN KOSOVO

The payment system within the banking industry has marked positive progress over the years, whether it is by increasing the number and value of payments, as well as through the expansion of the range of products and services offered by this industry, thus making the use of electronic services in Kosovo grow significantly.

At the end of last year (2013), the value of payments effected in the banking industry has reached the nominal value of 10.234 million of euro or increased by 19.5 % compared to the end of 2012, while growth at the end of 2012, compared to 2011, was 12.3 %.

Increased use of electronic services is part of the national strategy of the Central Bank of the Republic of Kosovo, through which it aims to reduce the informal economy in Kosovo.

Therefore, the banking sector, in line with this strategy, is investing heavily in the advancement of technology, in order to offer customers the use of more contemporary services, while simultaneously providing greater safety, ease and speed in the use of these services. This is all done in order to fulfill the needs of the customers.

PAYMENT SYSTEM					
Description (in million of euro)	2009	2010	2011	2012	2013
Interbank Payment System	3,976	4,660	5,087	5,681	6,435
ATM withdrawal	438	508	608	673	710
ATM withdrawal in foreign countries	144	132	182	200	226
POS Payment	58	78	121	150	159
POS Payment in foreign countries	11	16	22	27	33
E-banking payment	607	782	1,192	1,499	2,671
Total	5,234	6,176	7,212	8,230	10,234

Tab. 1 | Source: CBK – Payment System (December, 2013)

Table 1 depicts that within the payment system, the largest increase has been recorded in payments that are made through e-banking service. At the end of 2013, the value of payments effected through this service was 2,671 million euro, an amount that represents an increase of 43.8 % compared to the same period of 2012. All types of electronic services offered by the banking sector recorded continuous growth, compared with previous periods.

“Within the payment system, the largest increase has been recorded in payments that are made through e-banking service, with an increase of 43.8 % compared to the same period of 2012 presented in figure 1”.

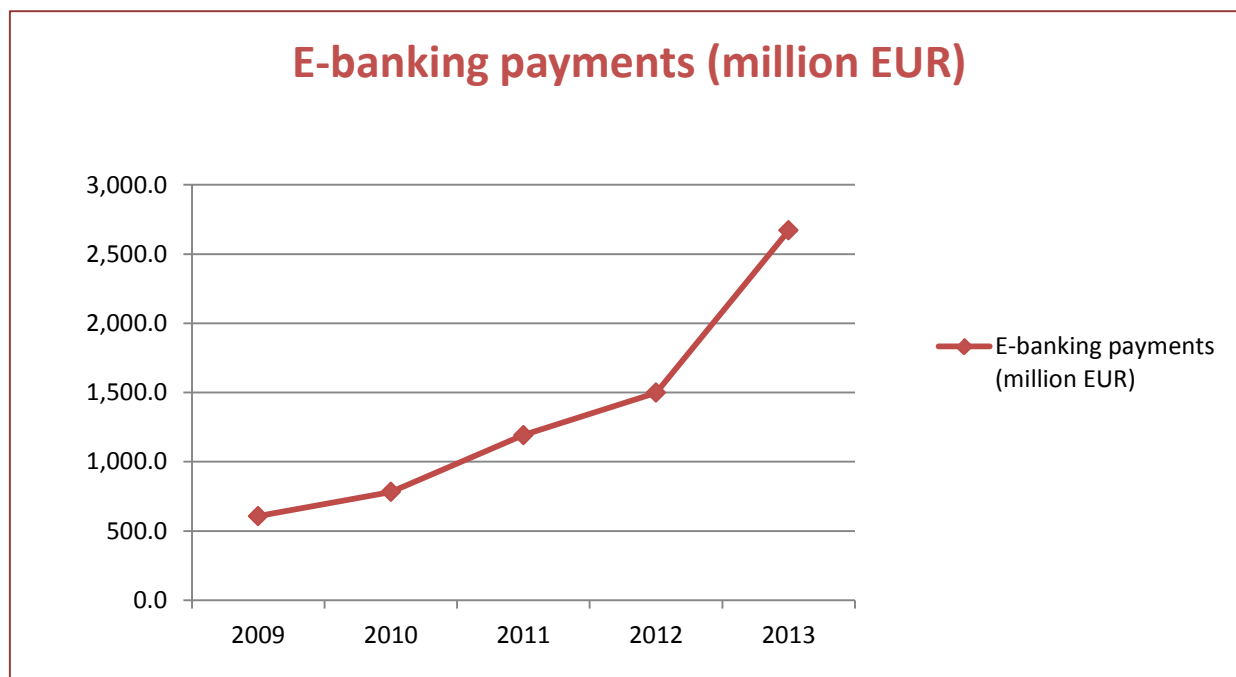


Fig. 1 | Source: CBK - Payment System (December, 2013)

INFRASTRUCTURE IN BANKING SECTOR

The infrastructure of the banking industry in Kosovo in the past five years has continue to be reformed based on the market needs with the aim to decrease the operational costs and to increase the quality of the services, whereby it is seen that the electronic services have made possible to reduce the number of branches at certain banks.

Moreover, the banking sector in Kosovo in accordance with the national strategy of the Central Bank is offering an ever increasing number of products and new electronic services, which means that the client has a lesser need to physically go to the bank branches to execute a banking service, enabling them to perform these services from home (through e-banking) or directly from the place where the customer receives the product or service (e.g. through POS or ATM).

BANKING BRANCHES NETWORK IN KOSOVO					
Description	2009	2010	2011	2012	2013
Prishtina Region	97	100	102	101	102
Prizren Region	46	49	50	50	46
Peja Region	52	57	59	59	53
Gjilan Region	64	66	64	67	63
Mitrovica Region	36	39	35	33	35
Total	295	311	310	310	299

Tab. 2 | Source: CBK - Other Depository Corporation Network and number of employees (February, 2014)

In line with this strategy, i.e. bank investments in electronic products and services, has ensured that the payments processes within this sector has become safer, easier and faster, thus allowing the process to be automated.

As a result of electronic products and services, the number of employees within the banking sector in the past five years has remained stable, although the banking sector has provided services and new products in the market, without having the need to increase the number of employees. Also the value and number of these services has increased significantly.

NUMBER OF EMPLOYEES IN BANKING SECTOR					
Description	2009	2010	2011	2012	2013
Banking sector	3459	3610	3728	3727	3549

Tab. 3 | Source: CBK – Other Depository Corporation Network and number of employees (February, 2014)

REMITTANCES

Remittances in Kosovo have consistently increased their value, while remittances have been transferred mainly through the banking sector, but also through other channels such as those for transfers of money or other forms identified. The growth of these transfers is evident from year to year.

Remittances using banking channels at the end of 2013 increased by 6.8 % compared to the same period of 2012.

REMITTANCES - BY CHANNELS					
Description (in million euro)	2009	2010	2011	2012	2013
Banks	148.8	141.3	139.7	126.5	158.9
ATM's	213.1	213.1	225.3	218.5	211.4
Other	223.8	229.9	219.8	260.6	250.5
Total	585.7	584.3	584.8	605.6	620.8

Tab. 4 | Source: CBK – Remittances by channels (December, 2014)

REMITTANCES - BY COUNTRIES					
Description	2009	2010	2011	2012	2013
Germany	38%	34%	34%	34%	33%
Switzerland	22%	22%	22%	21%	22%
Italy	10%	7%	7%	9%	20%
Austria	5%	5%	5%	6%	2%
Belgium	3%	3%	3%	3%	1%
USA	2%	3%	4%	4%	5%
Sweden	3%	4%	3%	3%	2%
France	4%	4%	4%	3%	4%
Norway	3%	3%	3%	2%	2%
Canada	2%	2%	2%	2%	1%
Great Britain	1%	1%	1%	2%	2%
Denmark	1%	1%	1%	1%	0%
Finlanda	1%	1%	1%	1%	0%
Netherlands	1%	1%	0%	1%	2%
Slovenia	1%	4%	4%	4%	1%
Other Countries	2%	5%	5%	6%	2%

Tab. 4 | Source: CBK – Remittances by countries (December, 2014)

The main part of remittances in Kosovo come from Germany, Switzerland and Italy. Germany and Switzerland alone account for over 55% of total remittances. The remittances from Italy have increased from 9% as it was at the end of 2012, to 20% at the end of 2013.

It is important to note that remittances received from the United States in last five (5) years have marked continuous growth, where in late 2013 they represented over 5% of total remittances.

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

MAY 2014

BANKING INDUSTRY REVENUES IN KOSOVO

Banking industry in Kosovo year after year has shown a continuous increase of revenues, while the growth at the end of 2013 was for 0.8 million euro or 0.3% higher than the end of 2012. The difference between the end of 2013 and 2012 as shown in the table 1 is that the interest income from loans have marked a decrease for 2.4 million euro or 1.2% of total interest income for loans issued, while a slight increase have shown the revenues received from non-interest for 3.9 million euro or 6.2% comparing with 2012. This shows that despite the increase of total loans issued from the industry (2012-2013), the interest income for loans issued have marked a decrease, which reflects that the interest effective rate for loans have decreased. While the income from tariffs and commissions have remained almost the same as in 2012.

BANKING INDUSTRY REVENUES							
							Million EUR
Period	Interest income				Non-interest income		Total
	Loans	Placements with banks	Securities	Other	Tariffs & Commissions	Other operational income	
2010	169.6	2.7	3.1	0.4	37.5	3.9	217.2
2011	186.3	4.1	4.2	0.5	41.7	3.3	240.1
2012	194.9	2.0	3.0	0.6	44.2	2.4	247.0
2013	192.5	1.4	2.3	2.0	45.6	3.9	247.8

Tab. 1 | Source: CBK - Income Statement (April, 2014)

As shown at the table 1 and below fig. 1 & 2, at the end of last year, banking industry has received 247.8 million euro in total, while the main revenues were coming from the interest income for loans issued in an amount of 192.5 or 77.6% of total income. At the end of 2013, 80% of total income of banking industry was constituted from the interest income, which includes the income from loans interest, placements with commercial banks, securities and other.

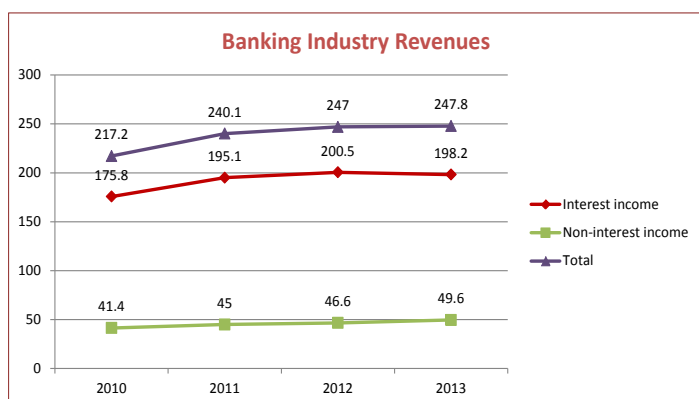


Fig. 1 | Source: CBK - Income Statement (April, 2014)

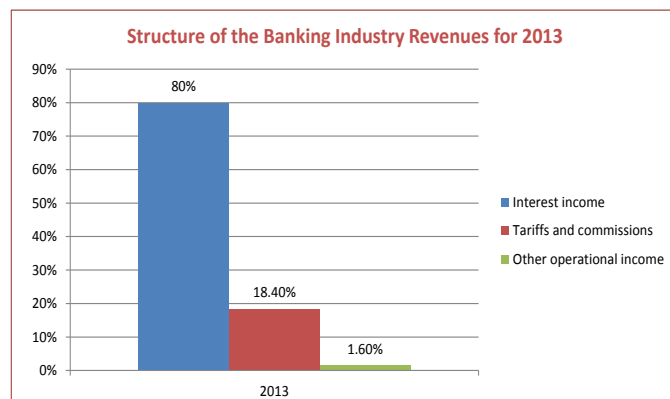


Fig. 2 | Source: CBK - Income Statement (April, 2014)

From the total of revenues, 18.4% is constituted from non-interest income, respectively the income from tariffs and commissions, while other operational incomes are 1.6%.

Regarding the 2014, as shown at the tab. 2, the main part of the banking industry revenues are constituted from the interest received of loans issued, while a significant portion of these revenues are constituted also from tariffs and commissions income.

BANKING INDUSTRY REVENUES FOR 2014

BANKING INDUSTRY REVENUES FOR 2014								Million EUR
Period	Interest income				Non-interest income		Total	
	Loans	Placements with banks	Securities	Other	Tariffs & Commissions	Other operational income		
April 2013	63.6	0.5	0.9	0.6	14.5	1.1	81.2	
April 2014	61.5	0.5	0.8	1.1	14.5	1.1	79.5	

Tab. 2 | Source: CBK - Income Statement (April, 2014)

Until the end of April of 2014, total revenues of banking industry have reached the amount of 79.5 million euro.

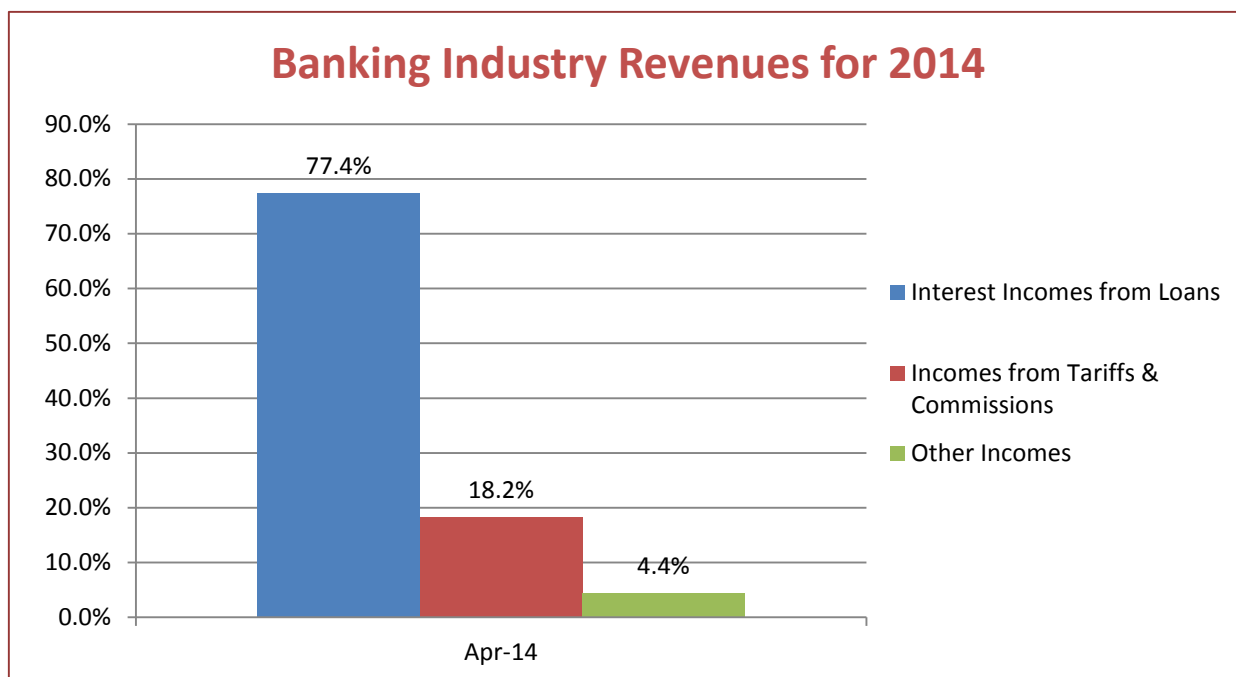


Fig. 3 | Source: CBK - Income Statement (April, 2014)

From the total amount of these incomes, as it is presented in fig.3, 77.4% of the revenues are constituted from the interest of loans issued, while 22.6% are constituted from other incomes. The revenues from tariffs and commissions consists 18.2% of total income of the industry. Almost the same structure of the revenues was also in previous years.

BANKING INDUSTRY EXPENSES

The total expenses of banking industry until the end of April 2014, as it is presented at tab.3, have reached 65.5 million euro.

BANKING INDUSTRY EXPENSES FOR 2014

BANKING INDUSTRY EXPENSES FOR 2014										Millin EUR
Period	Interest expenses			Non-Interest expenses		General & Admin. Expenses			Total	
	Deposits	Borrowings	Other	Tariffs & Commissions	Provisions for losses of loans	Personal expenses	General expenses	Other non-interest expenses		
April 2013	19.9	0.9	0.7	3.1	15.1	13.8	11.9	7.1	72.4	
April 2014	15.6	0.8	1.5	3.9	11.5	13.9	11.6	6.8	65.5	

Tab. 3 | Source: CBK - Income Statement (April, 2014)

Unlike the banking industry revenues, the expenses structure (fig.4) of the banking industry is more dispersed, in which case the interest expenses are consisted with 27.3% (deposits, borrowings and other), 23.5% constitutes the costs from non-interest (tariffs, commissions and provisions from the losses of the loans) and 49.3% of total expenditures comprises the general and administrative costs.

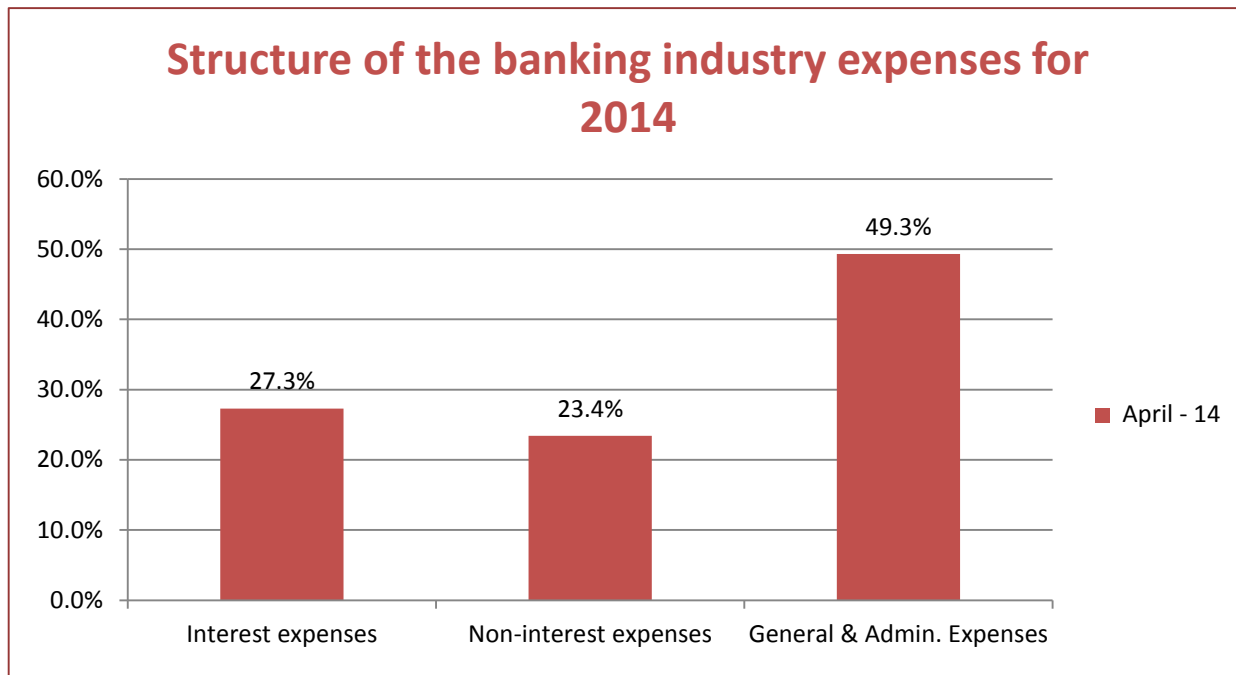


Fig. 4 | Source: CBK - Income Statement (April, 2014)

Banking industry expenses over the years (tab.4), as well as revenues, have increased, although at the end of the year of 2013 the total expenses was 219.8 million euro or 2.1% lower than the expenses of 2012.

BANKING INDUSTRY EXPENSES									
									Million EUR
Period	Interest expenses			Non-interest expenses		General & Admin. Expenses			Total
	Deposits	Borrowings	Other	Tariffs & Commis-sions	Provisions for losses of loans	Personal ex-penses	General expenses	Other non-interest expenses	
2010	49.4	4.8	1.1	7.7	28.3	37.8	37.6	12.6	179.4
2011	51.3	5.6	1.5	8.5	34.8	40.7	33.5	22.9	198.8
2012	57.6	3.2	2.3	8.7	50.3	42.3	35.5	24.5	224.6
2013	58.0	2.6	3.2	9.4	46.1	42.3	35.6	22.5	219.8

Tab. 4 | Source: CBK - Income Statement (April, 2014)

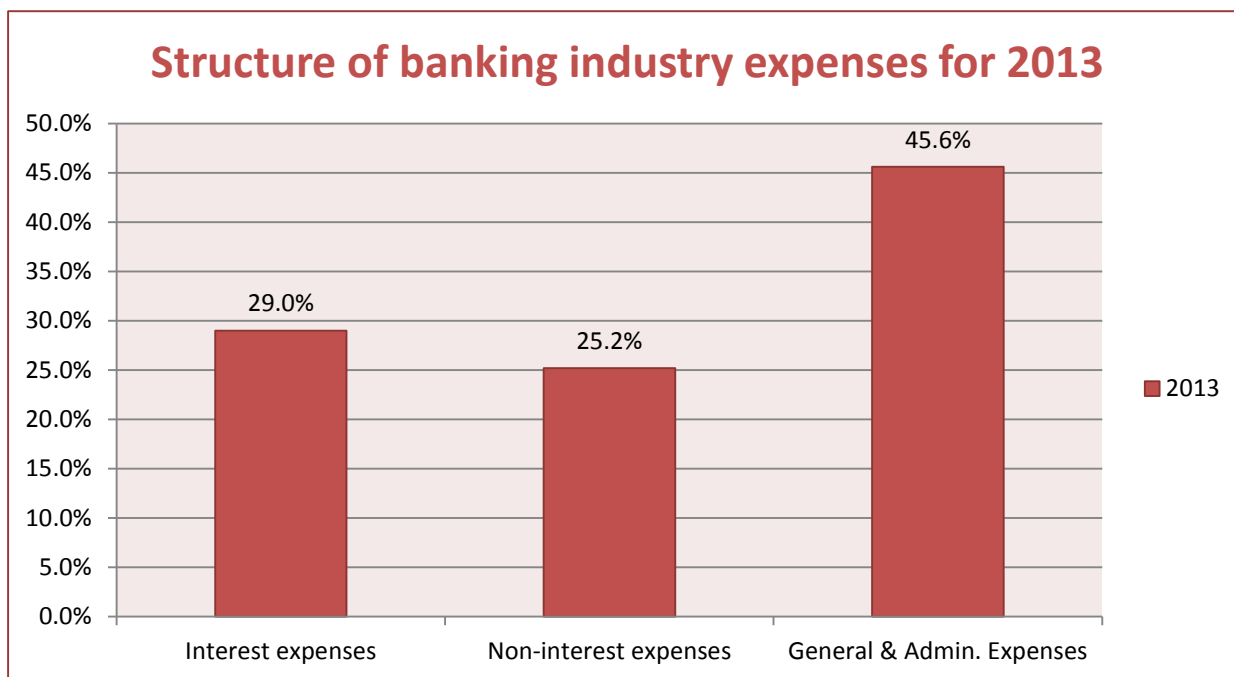


Fig. 5 | Source: CBK - Income Statement (April, 2014)

What mostly affected in decreasing the expenses for 2013 comparing with 2012 was the decrease of costs of the provisions for losses of loans for 4.2 million euro or 8.3% less than 2012 as well as the decrease of other non-interest expenses for 2 million euro or 8.1% less expenses.

OPERATIONAL NET INCOME OF BANKING INDUSTRY

OPERATIONAL NET INCOME OF BANKING INDUSTRY							
							Million EUR
Period	Revenue	Expenses	Net Income	Net Profit (loss)	Extraordinary items	Provisions for taxes	Net Profit/loss for the period
	A	B	A-B=C	D	E	F	C+D+E-F
2010	217.2	179.4	37.8	-0.6	-0.1	4.3	32.8
2011	240.1	198.8	41.3	-0.4	-0.7	4.2	36.0
2012	247.0	224.6	22.5	-0.6	-	3.3	18.5
2013	247.8	219.8	28.0	1.2	-	3.2	26.0

Tab. 5 | Source: CBK - Income Statement (April, 2014)

The revenues of the banking industry in Kosovo have consistently recorded positive values in report to the costs incurred over the years (tab.5), which shows that the banking industry in Kosovo provides financial safety and sustainability, this very important factor for the economic stability and development of our country.

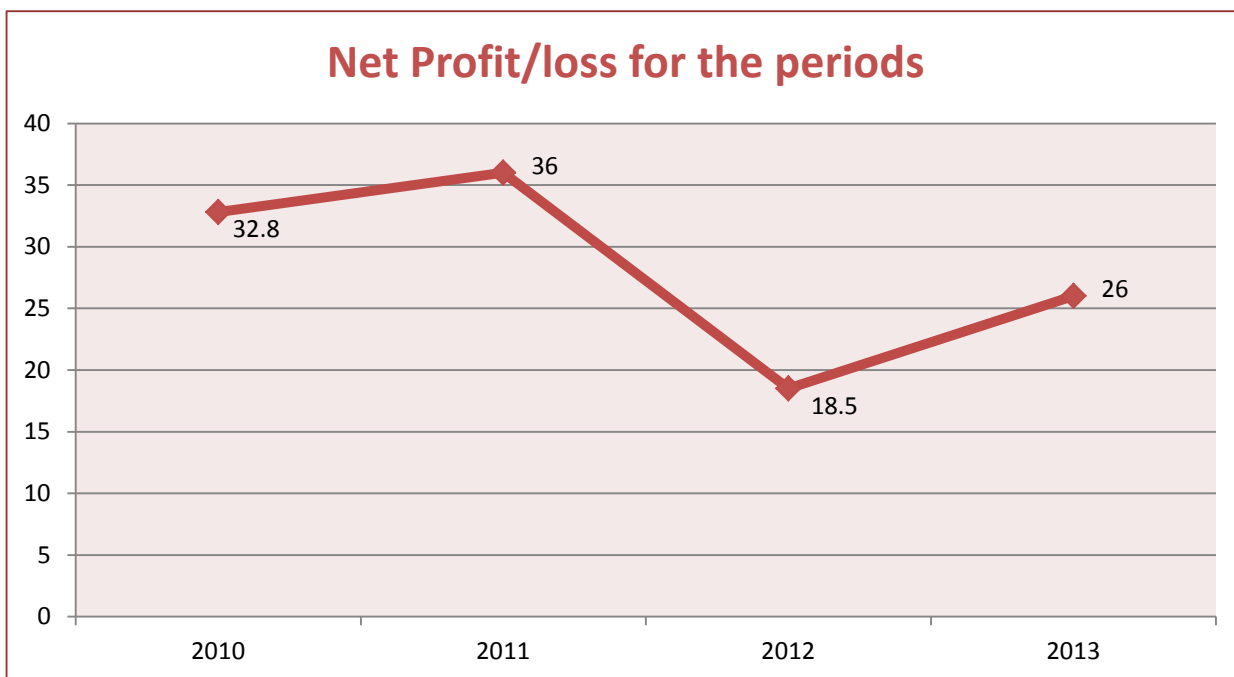


Fig. 6 | Source: CBK - Income Statement (April, 2014)

At the end of 2013 net profit after provision for taxes was 26.0 million euro, which represents an increase of 7.5 million euro or 40.5% compared with 2012. The figure no. 6 depicts that there is a decrease in the profit made since 2011 when it was 36 million euro to 18.5 million euro or 48.6% less profit than year-end of 2011. However, the upward trend has continued in 2013, while the similar trend continues to be well over 2014.

OPERATIONAL NET INCOME OF BANKING INDUSTRY							
							Million EUR
Period	Revenues	Expenses	Net Income	Net Profit (loss)	Extraordinary Items	Provisions for taxes	Net Profit/loss for the period
April 2013	81.2	72.4	8.8	0.2	-	1.3	7.7
April 2014	79.5	65.5	14.0	0.2	-	1.7	12.5

Tab. 6 | Source: CBK - Income Statement (April, 2014)

Net operating income after provision for banking industry taxes in April 2014 amounted to 12.5 million euro, which indicates a growing trend in the same period last year.

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO JUNE 2014

EFFECTIVE INTEREST RATES OF BANKING INDUSTRY

Banking industry in Kosovo has reached a record high for loans with 1,805 million euro at the end of 2013, while deposits reached the amount of 2,449 million euro at the end of December of 2013. As all other businesses that are operating in Kosovo, banking industry as well has been faced with difficulties and different challenges during its activity for the past 13 years, which have caused the operational costs and the level of the risk in the market to be higher. Nevertheless, some progress has been made in the recent years and the trends are showing that the interest rates are slowly falling to a level that makes loans more affordable for Kosovo businesses and households.

From table no. 1 we can see that the effective interest rates for loans (representing the total annual costs of the loans – interests and other commissions) of the banking industry in Kosovo at the end of 2010 were 14.31%, while the effective interest rates for deposits were 3.38%.

EFFECTIVE INTEREST RATES(2010 - 2013)			
Description	Loans	Deposits	Margin
2010	14.31%	3.38%	10.93%
2011	13.86%	3.62%	10.24%
2012	12.86%	3.74%	9.12%
2013	11.07%	2.39%	8.68%

Tab. 1 | Source: CBK – Effective interest rates (December,2013)

From the table no. 1 and figure no. 1 presented, we can see that the effective interest rates for loans have a continuous trend of decreasing, as well as the effective interest rates for deposits have marked decrease, especially at the end of the previous year (2013).

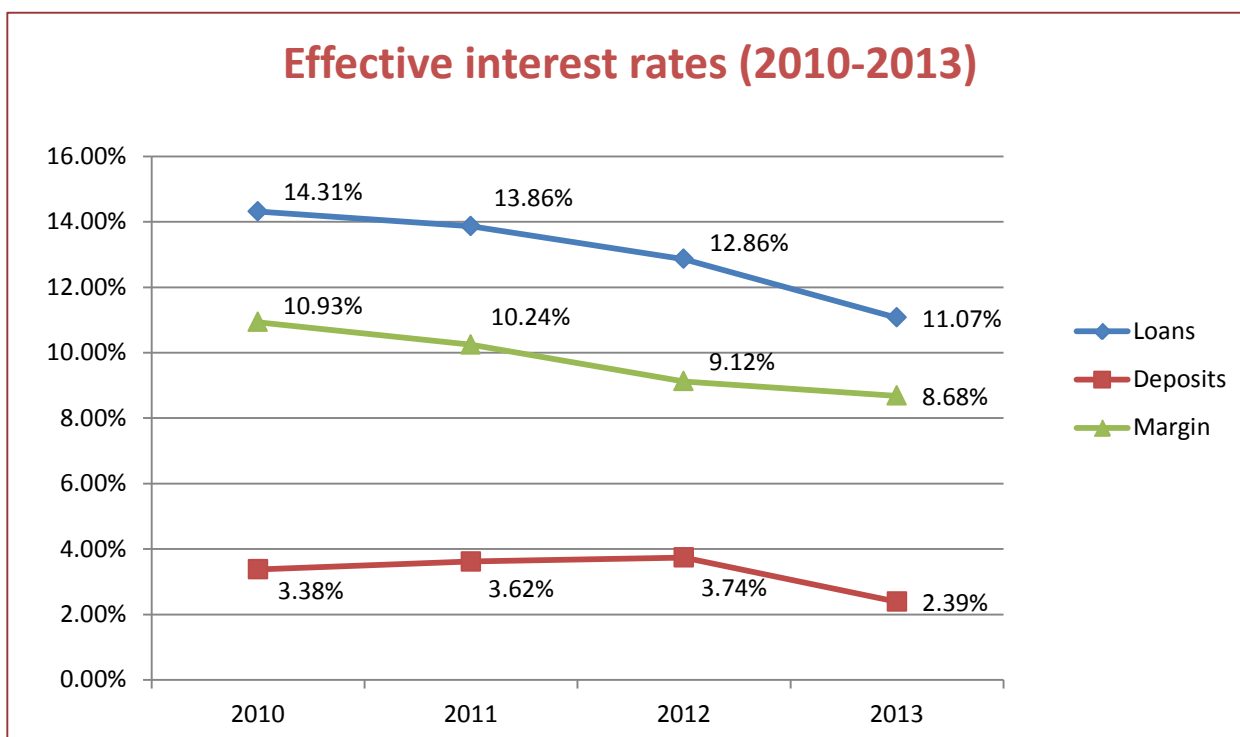


Fig. 1 | Source: CBK – Effective interest rates (December,2013)

It is interesting and important to emphasize that the margin of the effective interest rates between loans and deposits since 2010 have marked a decrease from 10.93% to 8.68% at the end of the year of 2013.

The continuous decrease of effective interest rates for loans indicates that the banking industry is continuously seeking to offer favorable conditions to its customers, in accordance with circumstances and environment in which the financial institutions are operating.

EFFECTIVE INTEREST RATES OF LOANS FOR NONFINANCIAL CORPORATIONS AND HOUSEHOLDS

Effective interest rates of loans for nonfinancial corporations

Depending on the nature of the businesses, types, products and services, the effective interest rates of loans for nonfinancial corporations varies from the lowest value which is 5.97% (2013) up to the highest one 12.90% (2013).

EFFECTIVE INTEREST RATES OF LOANS FOR NONFINANCIAL CORPORATIONS										
Description	Investment Loans			Other non-investments loans			Overdraft	Credit Lines	Loans with favourable conditions	
	Up to 1 year	1-5 years	Over 5 years	Up to 1 years	1-5 years	Over 5 years			Cash over loans	Other loans
2010	16.13%	13.95%	-	18.66%	14.44%	-	12.65%	13.27%	7.69%	-
2011	17.07%	13.55%	-	16.40%	13.80%	-	11.78%	12.12%	6.10%	9.88%
2012	15.37%	12.03%	10.19%	15.29%	13.66%	-	10.70%	11.90%	5.92%	-
2013	12.29%	10.93%	9.46%	11.62%	12.90%	-	9.36%	11.03%	5.97%	-

Tab. 2 | Source: CBK - Effective interest rates (December,2013)

This means that for particular clients with lower risk and better business plans banks offer better rates of interests based on their risk level.

From the table no. 2 we can conclude that almost all types of loans issued for nonfinancial corporations have marked decrease from 2010 up to the end of December 2013.

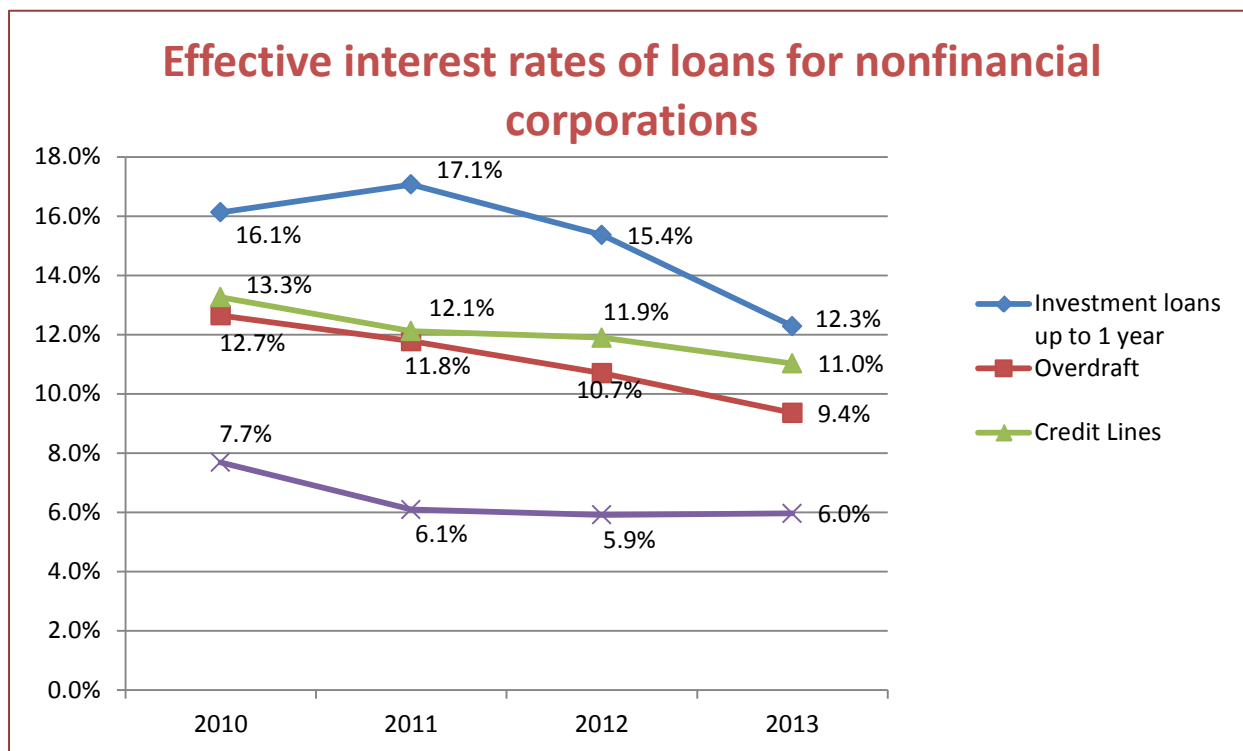


Fig. 2 | Source: CBK - Effective interest rates December, 2013)

Also in figure no. 2 we can see the decreasing trend of effective interest rates of loans for nonfinancial corporations, especially for investment loans up to 1 year, where from 16.13% that was at the end of 2010, they have dropped to 12.29% at the end of December of 2013.

Effective interest rates of loans for households

The effective interest rates of loans issued for households as well as for loans issued for nonfinancial corporations, vary depending on the type of the product and the fulfillment of the criteria's by the bank client. In the table no. 3 presented in this publication, we can see that the maximum value of effective interest rates at the end of December of 2013 was 14.41% issued for Overdraft product, while the lowest value of the rates was 7.28% issued for the loans with favorable conditions.

EFFECTIVE INTEREST RATES OF LOANS FOR HOUSEHOLDS							
Description	Overdraft	Loans with favourable conditions		Consumer Loans	Mortgage Loans		
		Cash over loans	Other loans		Up to 5 years	5-10 years	Over 10 years
2010	22.57%	6.57%	8.56%	14.56%	-	11.67%	10.26%
2011	16.44%	6.01%	8.58%	14.02%	14.31%	11.99%	10.83%
2012	12.46%	6.11%	7.97%	13.06%	-	10.78%	9.79%
2013	14.41%	4.59%	7.28%	11.69%	-	10.43%	9.00%

Tab. 3 | Source: CBK - Effective interest rates (December,2013)

The same decreasing trend of the effective interest rates of loans for households was followed almost in all types of loans issued from 2010-2013, including consumer loans, mortgages, overdraft or loans with favorable conditions. Banking industry offers favorable conditions for the clients which are evaluated with lower risk during the entire maturity process for the loan received.

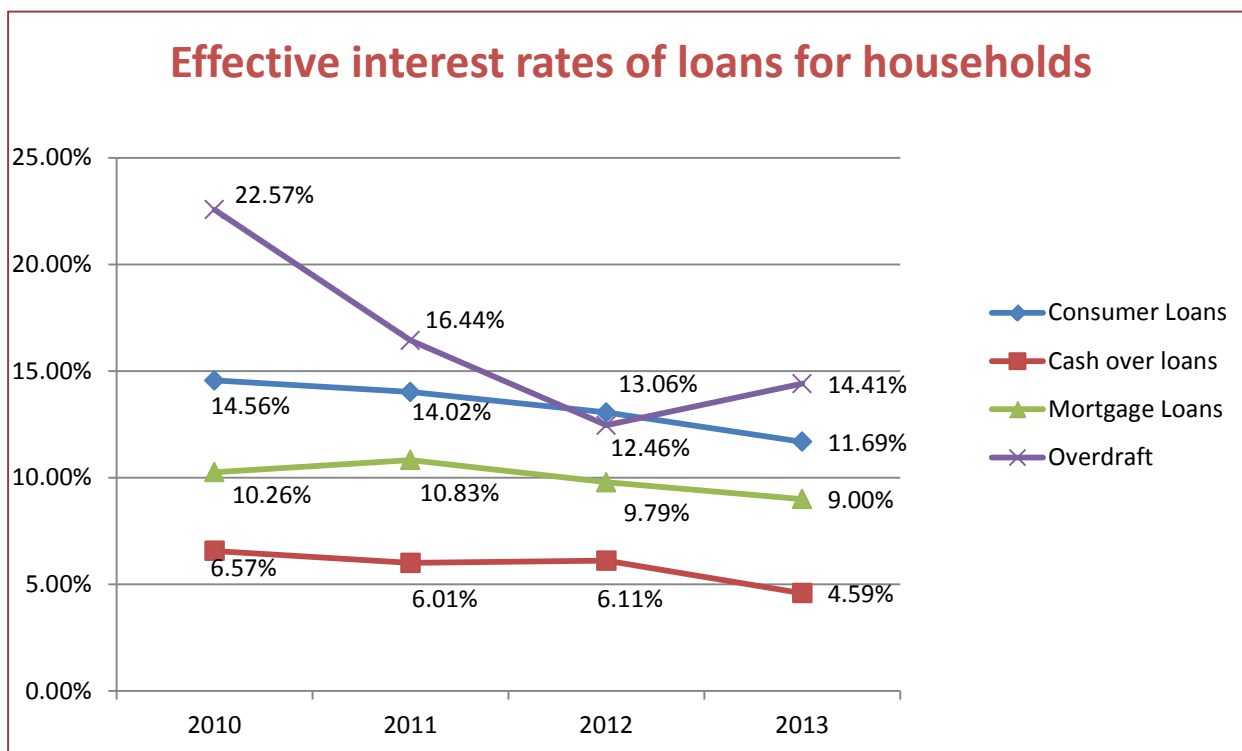


Fig. 3 | Source: CBK - Effective interest rates (December,2013)

From the figure no. 3, we can see that along with all other types of the loans where the interest rates have marked decrease, overdraft as special lending product has marked the highest decrease from 2010 up to the end of the year of 2013.

EFFECTIVE INTEREST RATES OF DEPOSITS FOR NONFINANCIAL CORPORATIONS AND HOUSEHOLDS

Similar to other expenditures of the banking industry, deposits represent itself a cost of funds for the industry. This is due to the fact that for the deposits that are received t the banks are obliged to pay interest.

Margin created between the interest rates on loans issued by the banking industry and interest rates of deposits represent the interest margin for the banks. The banking industry carefully maintains this gap in order to achieve its strategic goals, where one of the most important objectives, in addition to profit, is also the financial sustainability and stability that enables citizens to feel secure with their assets that this sector manages with.

EFFECTIVE INTEREST RATES OF DEPOSITS FOR NONFINANCIAL CORPORATIONS														
Description	Trans-ferable Deposits	Other Deposits												Saving Deposits
		Less than 250.000 euro						Equalor more than 250.000 euro						
		1 months	1-3 months	3-6 months	6 monts – 1 year	1-2 years	Over 2 years	1 months	1-3 months	3-6 months	6 monts – 1 year	1-2 years	Over 2 years	
2010	0.63%	2.44%	3.08%	3.87%	4.96%	-	5.14%	-	3.74%	-	-	-	-	2.07%
2011	0.86%	2.22%	2.91%	3.53%	4.90%	-	5.05%	2.63%	3.88%	-	5.25%	-	-	2.20%
2012	0.83%	-	2.79%	-	-	-	-	2.67%	4.02%	-	4.75%	-	-	2.15%
2013	0.47%	0.83%	-	1.57%	0.48%	2.86%	-	-	-	-	-	-	3.42%	1.74%

Tab. 4 | Source: CBK – Effective interest rates (December,2013)

Table no. 4 depicts that in addition to lowering the effective interest rate for loans, the banking industry has been obliged to also reduce their overall costs of funding thus it has made the reduction of interest rates on deposits from year to year. But what should be emphasized is that the interest margin has decreased on continuous basis.

EFFECTIVE INTEREST RATES OF DEPOSITS FOR HOUSEHOLDS								
Description	Transferable Deposits	Other Deposits						Saving Deposits
		1 month	1-3 months	3-6 months	6 months – 1 year	1-2 years	Over 2 years	
2010	0.55%	2.58%	2.63%	3.15%	4.49%	4.77%	5.14%	2.21%
2011	0.48%	2.49%	2.47%	2.88%	4.21%	4.56%	5.36%	2.06%
2012	0.54%	2.30%	2.46%	2.84%	4.20%	4.52%	4.76%	2.06%
2013	0.50%	1.66%	1.75%	2.03%	2.93%	3.38%	4.01%	1.66%

Tab. 5 | Source: CBK – Effective interest rates (December,2013)

Similar to loan interest rates, when it comes to the effective rate of interest for deposits, their percentage varies depending on the type of product. What can be seen from the figure no. 4 and table no. 5 is that the greatest reduction in interest rates for deposits within households has been marked amongst deposits with maturity of over 2 years, where from 5.4% as it was in late 2011, it has dropped to 4.0% at the end of December 2013.

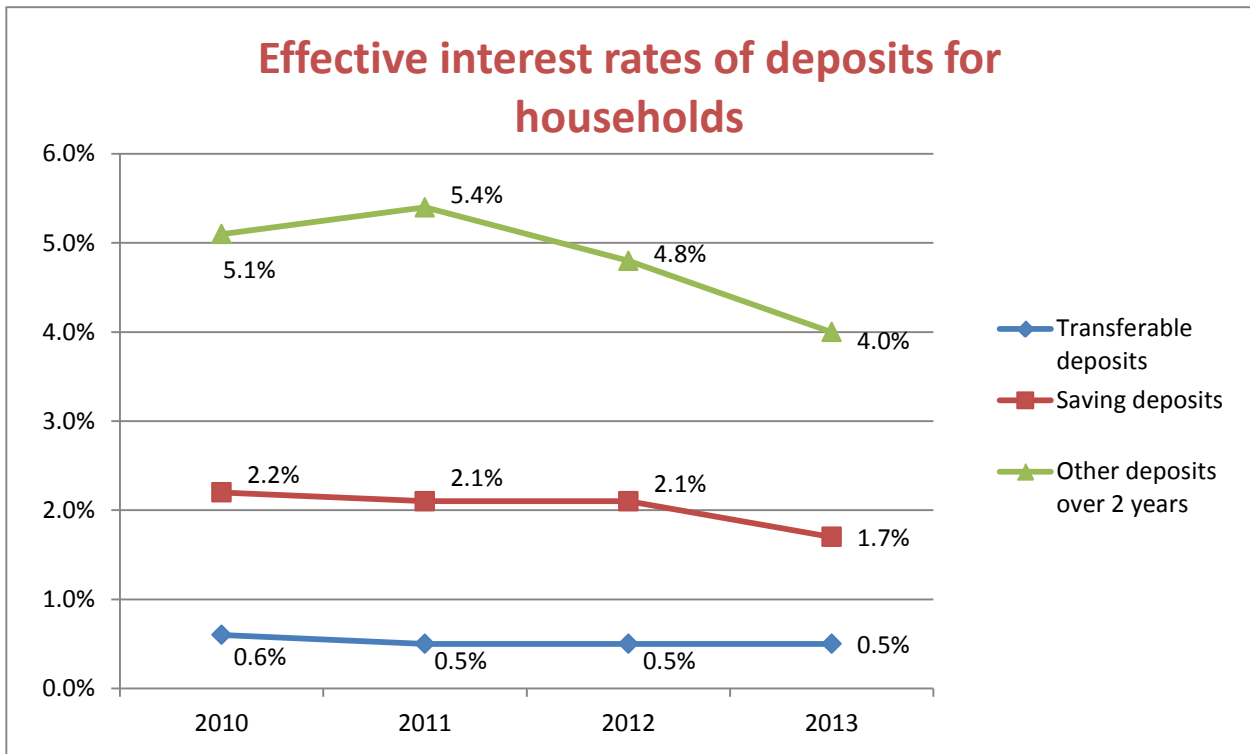


Fig. 4 | Source: CBK - Effective interest rates (December, 2013)

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

JULY 2014

WHAT ARE NON-PERFORMING LOANS AND WHAT IS THEIR IMPACT IN BANKING INDUSTRY?

One of the main activities of the banking industry is lending. Banks during the entire lending process and until its maturation phase is faced with the risk whether the client has the potential to pay back the loan within the deadline or within the terms defined with contract. In case the client does not manage to pay back within the timeframe defined by the contract, it is considered as a problematic loan and if this problem is not solved within 90 days, than this loan is considered as non-performing.

The consequences for the banking industry, as a result of non-performing loans, can be major, in case prevention measures are not taken. Non-performing loans affect negatively the performance and the stability of the banking industry, through increasing provisions, shrinking the lending and in serious cases can bring the financial institution into an insolvent position,

During the lending process, banking industry is faced with different risks, including: lending risk, liquidity risk, market risk, operational risk, reputational risk and legal risk. Therefore, this industry is very sensitive and the impact can have huge consequences on the economy of the country. In this regard, the banking industry has a supervisory body as a regulator which in Kosovo's case is the Central Bank of the Republic of Kosovo which supervises the industry according to the legislation in force, but also supervises through the regulations that are approved for this industry.

With the purpose of protecting themselves from non-performing loans, commercial banks in Kosovo take preventative steps in order to minimize the consequences and to lower the impact on performance.

The reserve requirements that each bank is obliged to deposit in the Central Bank of the Republic of Kosovo (CBK), represents the first step of protecting from the risk where reserves are used only in cases when the bank cannot cover its liabilities. Loans provision is another measure, where the banks for each loan issued, are allocating provisions at CBK. In addition, banks are obliged to maintain also the levels of liquidity in order to be able to pay at any time the obligations that the bank has towards its clients.

Besides the legal measures that commercial banks are obliged to respect during the lending process, in order to ensure the repayment of the loan, banks require from the client as pledge immovable properties or collateral to cover the loan and in case that the client cannot repay the loan, the bank can own that property up to the value of the damage that may have been incurred to the bank as a result of non-repayment of the loan.

NON-PERFORMING LOANS IN KOSOVO

In Kosovo, non-performing loans have marked a slight increase from year to year, while at the end of 2013 the value of NPL reached 8.5% compared to total gross loans issued from the banking industry. At the end of March 2014, non-performing loans reached the value of 8.4% (CBK - Monthly Information Report of the Financial System no.5).

Figure no.1 shows that the growth rate of non-performing loans has decreased by 18.1% during the last year compared to the previous year when this growth was 35.8%.

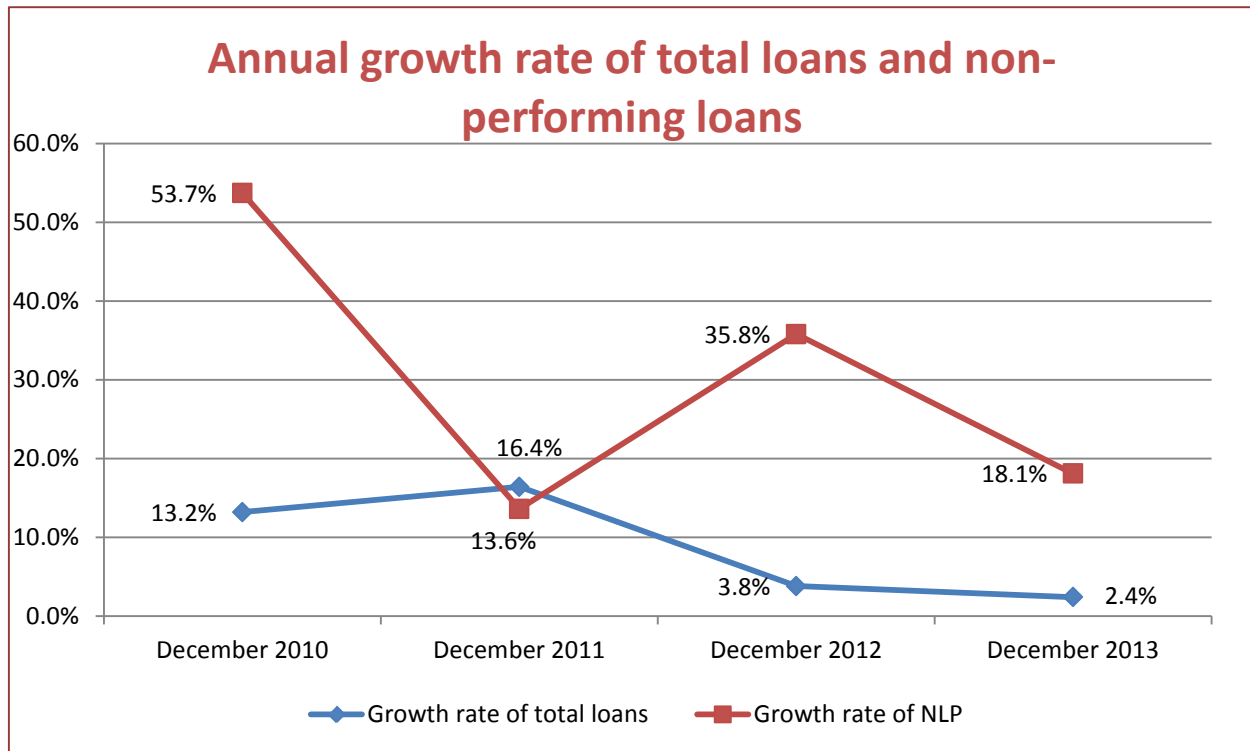


Fig. 1 | Source: Central Bank of Kosovo – 2013 Annual Report

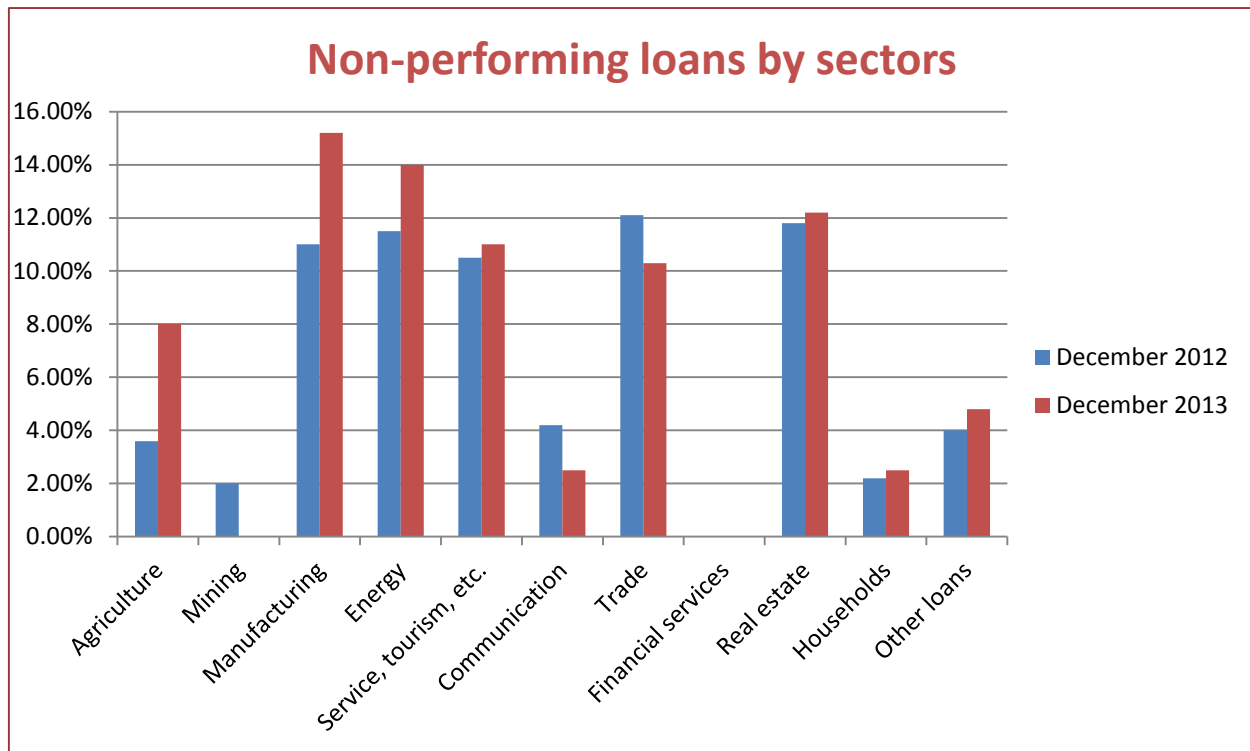


Fig. 2 | Source: Central Bank of Kosovo – 2013 Annual Report

Non-performing loans rate is higher for enterprises than for households. This can be seen in figure no.2 , while the highest non-performing loans rate was for production sector with 15.2%, while trade was with 12.2%. Households had the lowest rate of non-performing loans with 2.6%.

From the total value of loans issued from the banking industry, 66.3% of them constitute the issued loans for non-financial corporation’s (KBA - Periodic Overview of Financial Sector in Kosovo no.3), which means that this considerable amount of loans are attributed with higher rate of non-performing loans. This shows that businesses in Kosovo still do not offer such assurance and financial stability, where banking industry would have more confidence in the process of issuing loans for enterprises.

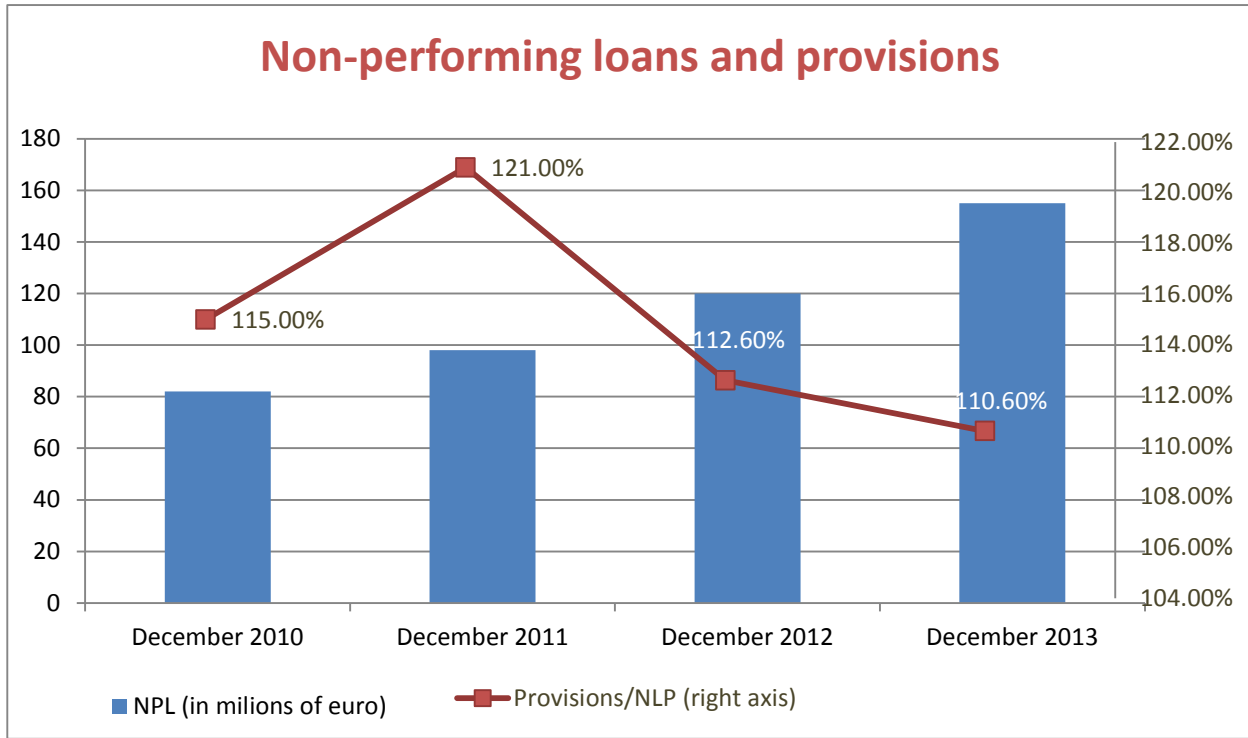


Fig. 3 | Source: Central Bank of Kosovo - 2013 Annual Report

As we have addressed in the first part of this publication, one of the prevention measures that banks undertake to protect themselves from credit risk, respectively from non-performing loans, is provisioning of issued loans. Figure no.3, shows that at the end of 2013 banks have allocated provisions up to 110.6% in order to cover the possible losses from non-performing loans. This means that banks are able to cover all losses that may derive as a result of non-performing loans.

THE LEVEL OF NONPERFORMING LOANS IN KOSOVO, THE REGION, EUROPE AND THE WORLD

Kosovo compared with countries in the region has the lowest percentage rates of non-performing loans, in comparison with Albania, Macedonia, Montenegro and Serbia.

Kosovo in late 2013 recorded 8.5% of non-performing loans compare to total loans that the banking industry has issued to its customers and the monetary value of which was 1,805 million euros. From the region, Albania has registered the highest value of non-performing loans by 23.5%, while Serbia has registered 20.6% of total gross loans.

Table 1 depicts that almost all countries have a growing trend of non-performing loans, particularly in the western Balkan countries. Although Kosovo has managed to keep this trend in single digits, the values however show an upward trend.

BANK NONPERFORMING LOANS TO TOTAL GROSS LOANS (%)							
No.	Country Name	2008	2009	2010	2011	2012	2013
1	Kosovo	3.3%	4.3%	5.8%	5.7%	7.4%	8.5%
2	Albania	6.6%	10.5%	14.0%	18.8%	22.5%	23.5%
3	Macedonia, FYR	6.7%	8.9%	9.0%	9.5%	10.1%	10.9%
4	Montenegro	7.2%	13.5%	21.0%	15.5%	17.6%	
5	Serbia	11.3%	15.7%	16.9%	20.0%	18.6%	20.6%
6	European Union	2.8%	4.7%	5.4%	5.8%	6.8%	7.3%
7	World	3.0%	4.3%	3.9%	3.8%	3.8%	4.0%

Tab. 1 | Source: World Bank - Bank nonperforming loans to total gross loans (July 29th, 2014)

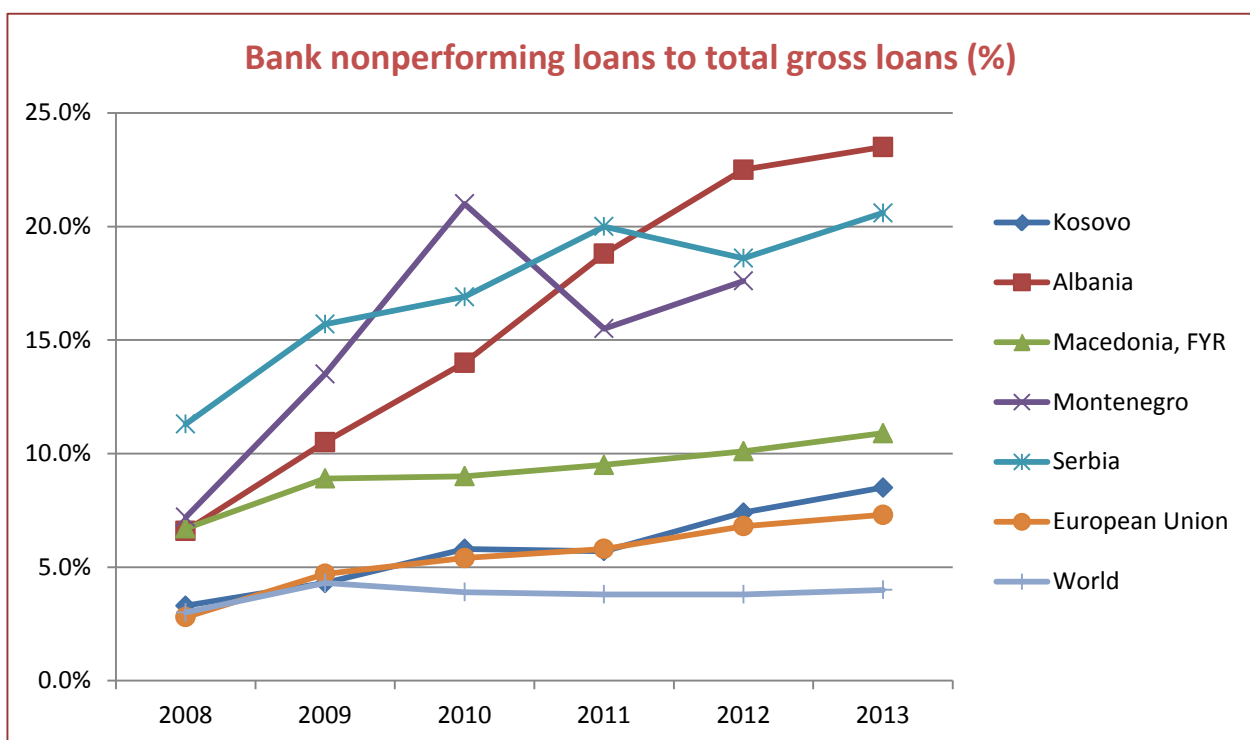


Fig. 4 | Source: World Bank - Bank nonperforming loans to total gross loans (July 29th, 2014)

As it can be seen from Figure 4, the trend of nonperforming loans in Kosovo is low compared with countries in the region, roughly the same trend with European Union countries, while it has a trend somewhat higher than average level of all world countries where the World Bank collects such data.

The world average of non-performing loans is lower than all other countries' averages obtained for comparison in this publication, which means that all countries in the region, including Kosovo, have the highest rate of non-performing loans than the world average in relation to total gross loans issued. This shows that these countries should consider this factor and they should work together with relevant national institutions in greater reduction of effects that can lead to the non-repayment of loans, given that non-performing loans may occur as a result of mutual factors in a country's economy.

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

AUGUST 2014

WHAT ARE SWIFT AND IBAN?

The Society for Worldwide Interbank Financial Telecommunication, or otherwise known as SWIFT, is a worldwide network that enables sending and receiving of information on financial transactions through secure, standardized and reliable channels. SWIFT currently connects over 10,500 financial institutions in 215 different countries worldwide.¹ Most of the interbank information exchanged worldwide use the SWIFT network.



SWIFT was founded in 1973 in Brussels and has become a standardized financial communication organization. Except facilitating the transfer of funds, SWIFT also enables sending of orders that need to be cleared from the corresponding accounts that financial institutions have with each other. This is because in order to exchange banking transactions, every financial institution must have interbank relations with the other bank in order to enjoy these opportunities, the exchange of banking transactions. This exchange is made through the SWIFT network or via BIC (Business Identifier Codes) which are otherwise known as SWIFT codes. Every state has its own code through which it is identified in international transactions.

SWIFT codes consist of 8 or 11 characters and are as follows:

- Bank code (first four characters are only letters)
- Country Code (next two characters are only letters)
- Location Code (next two other characters are letters and digits)

Examples of these codes in the world:

Currency	Bank	Location	SWIFT Code
USD	Deutsche Bank Trust Company Americas	New York	BKTRUS33
GBP	Deutsche Bank AG	London	DEUTGB2L
EUR	Deutsche Bank AG	Frankfurt	DEUTDEFF

Tab. 1 | Source: <http://www.deutschebank.co.in/swift-transfer.html> (August 20th, 2014)

¹ www.swift.com (August 20th, 2014)

Examples of codes in Kosovo:

Currency	Bank	Location	SWIFT Code
EUR	NLB Prishtina	Pristina	NLPRXKPR
EUR	Banka për Biznes	Pristina	BPBXXKPR
EUR	ProCredit Bank	Pristina	MBKOXKPR

Tab. 2 | Source: Kosovo Banking Association

Unlike SWIFT, the International Bank Account Number or as otherwise known by the name IBAN, is a unique way of identifying the bank account in order to improve the effectiveness and efficiency of international payments. IBAN (International Bank Account Number) is an internationally standardized format of the bank account number, which is used in many countries, mainly in Europe.

IBAN came to existence as a European economic integration initiative in the payments area, which means that the primary purpose of the use of IBAN is to reduce the risk of transcription errors in the bank account numbers. The use of IBAN format for bank accounts complements the SWIFT's system functionality associated with international payments of citizens.

IBAN consists of up to 34 characters, which are comprised as follows:

- Country Code (2 characters)
- Check Digits (2 characters)
- Basic Bank Account Number (up to 30 characters)

Examples of bank account numbers formatted according to IBAN standards:

Country	IBAN formatting example
Greece	GR16 0110 1250 0000 0001 2300 695
United Kingdom	GB29 NWBK 6016 1331 9268 19
Saudi Arabia	SA03 8000 0000 6080 1016 7519
Switzerland	CH93 0076 2011 6238 5295 7

Tab. 3 | Source: http://en.wikipedia.org/wiki/International_Bank_Account_Number (August 20th, 2014)

KOSOVO'S MEMBERSHIP IN SWIFT AND IBAN

Kosovo's Membership in the SWIFT and IBAN network has marked one of the greatest achievements of the banking system in Kosovo, thanks to the joint efforts of the Central Bank of Kosovo (CBK), commercial banks and the Kosovo Banking Association which have cooperated closely in this regard.

SWIFT

Membership in this international institution has been very challenging for the new banking system in Kosovo. Today, Kosovo is part of the international payments network and exchange of information and international transactions are made using the network of these international institutions, as do the majority of other countries in the world.

Kosovo became part of SWIFT in late 2013 and began applying its state code in December 2013. After receiving Kosovo's state code within SWIFT, the Kosovo Banking Association, through the Committee of Payments as well as the SWIFT Committee established within the CBK, have contributed greatly to achieve this goal, namely the registration of the Kosovo bank accounts in the IBAN format. It is worth mentioning that this is a great example of cooperation between the Kosovo Banking Association, with the Central Bank of Kosovo and its representatives, in which case the joint work has resulted in registering of the Kosovo bank accounts in the IBAN format.

IBAN

Registration of bank accounts in the IBAN format facilitates incoming and outgoing international transfers; hence, the international identification of the Kosovo bank accounts is done through IBAN. After the acquisition of the IBAN number, the payment/transfer initiation bank is able to identify the country (of the account), the receiving bank and the exact bank account.

Therefore, the registration of accounts according to IBAN provides more accuracy in processing of payments and greater security for bank customers in Kosovo, reducing the risk of an erroneous transcription of bank account numbers.

IBAN format will be optionally used in international payments and will not be reflected in domestic payments. The effective date of the IBAN format of bank accounts in Kosovo will be February 1st, 2015.

THE CREDIT REGISTRY OF KOSOVO

The Credit Registry of Kosovo (CRK) operates with the intention of evaluating banking clients, but also for statistical purposes. CRK is a public register managed by Central Bank of the Republic of Kosovo. CRK serves as credit information for lending institutions in Kosovo. CRK is designed as a web-based application and is accessible online and in real time by financial institutions and other registered parties.

The lending institutions enter and update data to the CRK about their issued loans and at the same time they obtain summarized reports about the level and status of loans concerning their individual clients. The CRK is also designed to allow interested individuals and entities to obtain their own credit details. It is important to emphasize that lending institutions cannot access the personal credit history data of their clients without their consent.

CRK was launched in 2006 and is functioning based on the Regulation for Credit Registry, which was approved in February 12th, 2012 by CBK. Currently a total of 37 institutions are members in CRK, specifically nine (9) commercial banks, fourteen (14) microfinance institutions, four (4) non-banking finance institutions and ten (10) insurance companies.

CRK enables the collection and distribution of credit information between the lending institutions with the intention of improving the loan quality. The register generates the credit report, which is an important document representing information on the loans taken by citizens and businesses of the Republic of Kosovo. This information is used by the lending institutions in the process of evaluating the client's loan application.

The Credit Report contains structured personal information and information on any loan where the client is a guarantor or has any other related role. For all data within the credit report the lending institution that has reported the loan is identified.

The main features of CRK are:

- It contains current information on the loan status and level of retail and individual businesses;
- Lending institution's reporting is mandatory;
- Information sharing takes place among all lending institutions;
- It is designed as a secure web application with 24 hours online availability for the certified staff of lending institutions²;

Every citizen of the Republic of Kosovo can have access to the register. Citizens can obtain information from the register through two different ways, through the client's bank and through real time internet web-based access at www.raportikreditor.org.

Data of citizens' registration in the registry are presented in the figure no.1.

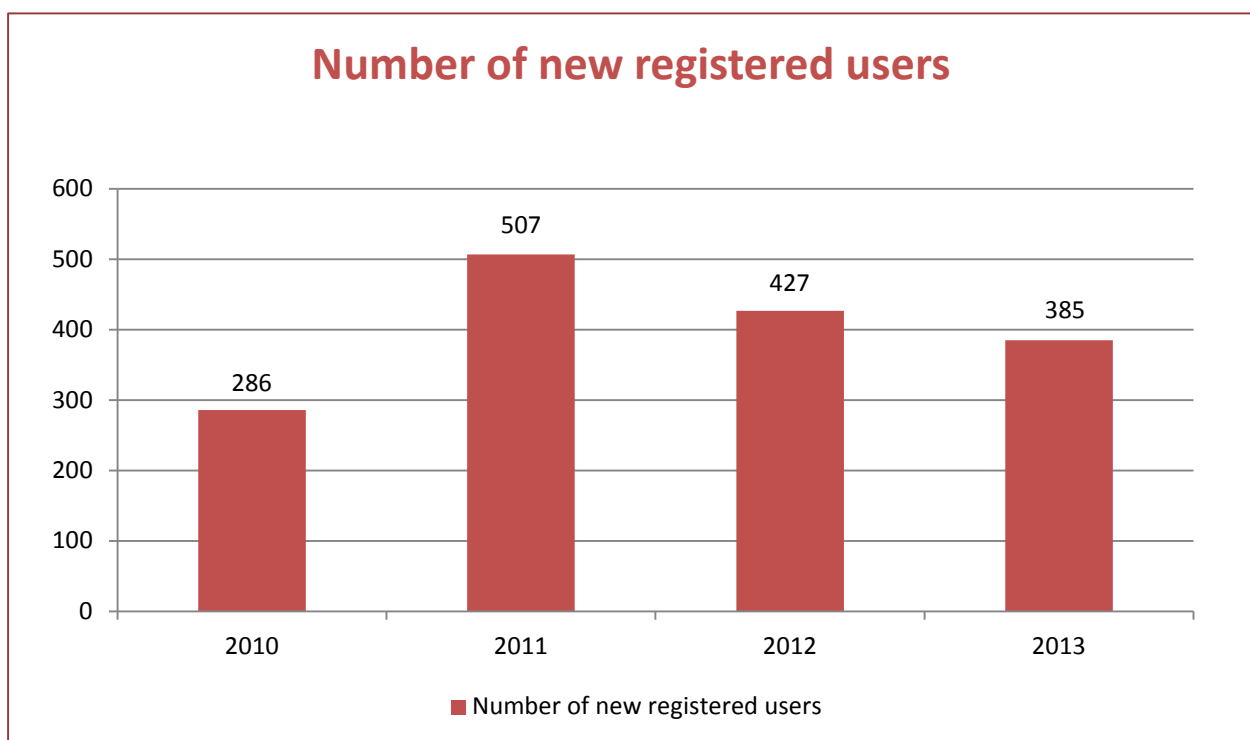


Fig. 1 | Source: CBK - Annual Report 2013

From these data it is obvious that the number of new registrations is more or less similar throughout the years.

Figure no.2 depicts the number of searches in this registry from 2010 to 2013. There is a slight decrease of the number of searches in this registry, especially during 2012 and 2013.

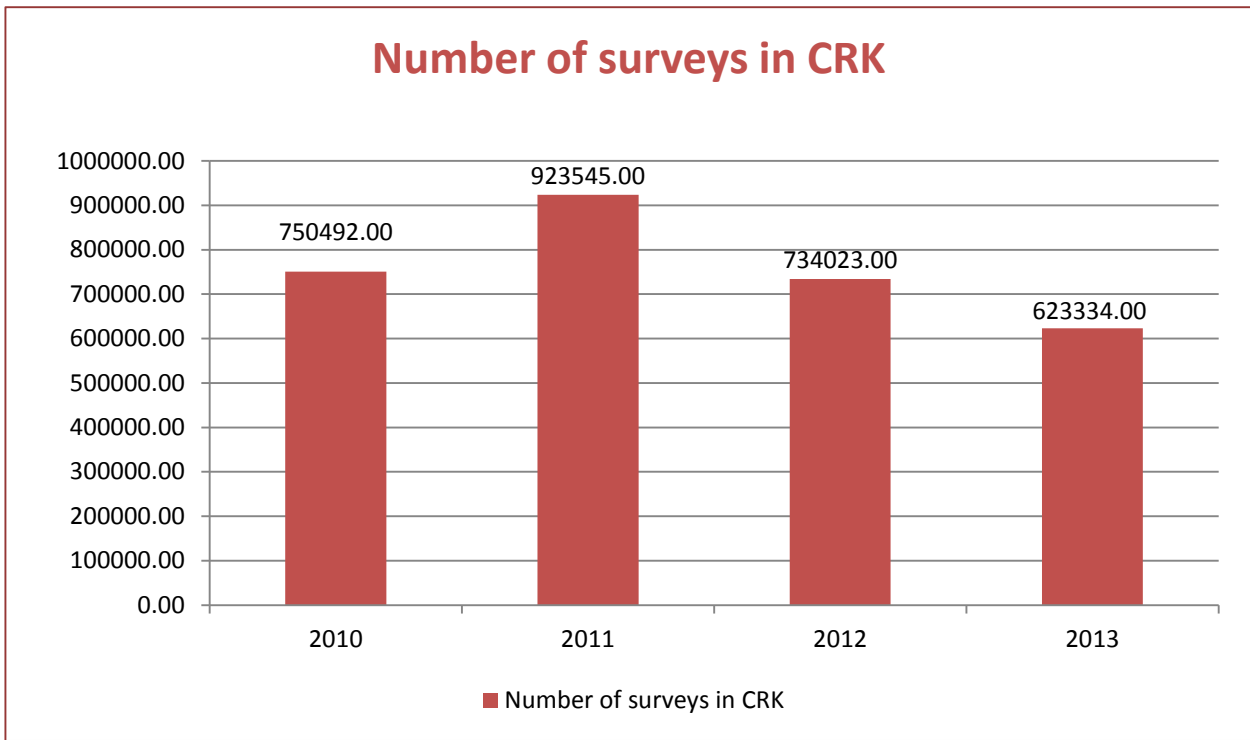


Fig. 2 | Source: CBK - Annual Report 2013

This decrease may have resulted due to the new regulation enforced by the Central Bank of Kosovo in 2012 (Regulation for Credit Registry) which obliges all lending institutions to obtain client consent in advance in order to access the client’s personal data. Another reason can be the decline of demand for loans which is reflected also in the overall loan statistics.

Figure no. 3 indicates the number of new loans registered by lending institutions at CRK system through the years 2010-2013.

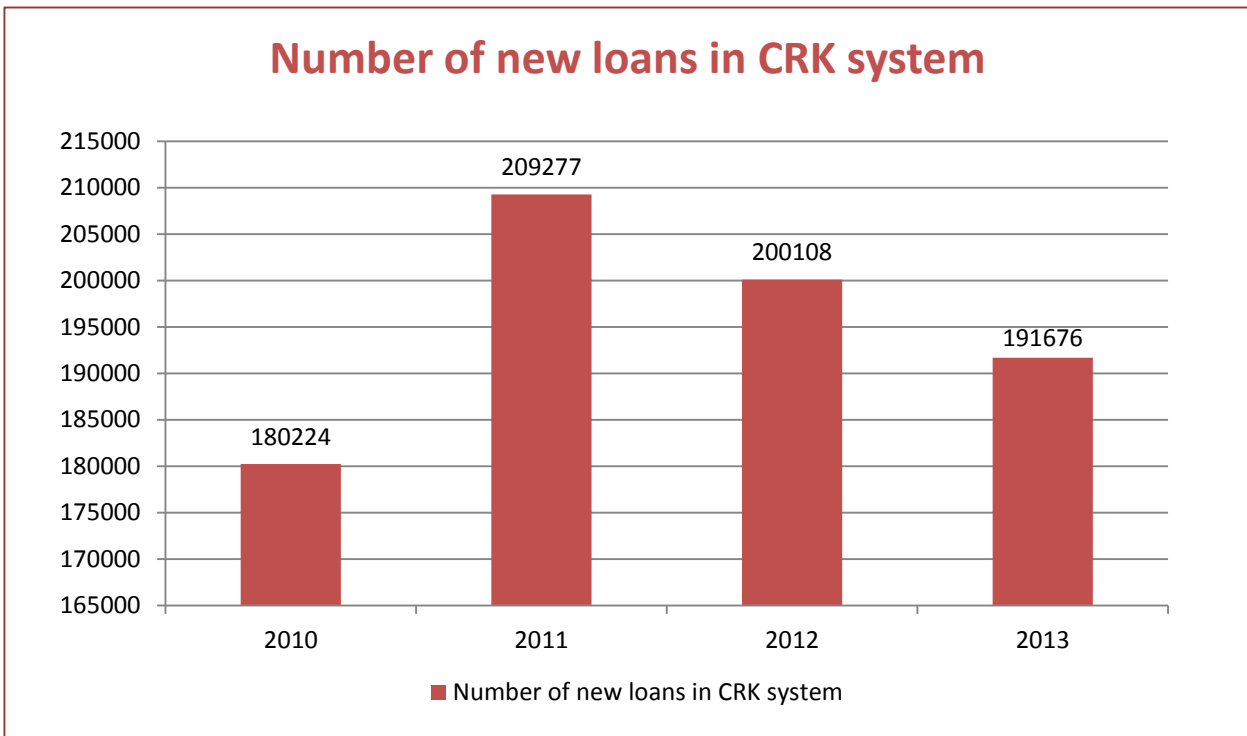


Fig. 3 | Source: CBK - Annual Report 2013

The data presented indicates that the largest number of new loans registered was marked in 2011 with 209,777 in total, while in the following years the numbers have dropped, where in 2013 a total of 191,676 loans were registered.

In conclusion it can be stated that the Credit Registry of Kosovo represents the main source of information for all stakeholders of the financial industry where all issued loans from the respective institutions are registered and documented. Credit Registry is a source of information not only for lending institutions, but is also open to all Kosovo's citizens and businesses and is an essential tool for the development of the financial sector.

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

SEPTEMBER 2014

HISTORY OF THE FINANCE FAIR

Kosovo Banking Association organized the Finance Fair for the first time in 2005 in collaboration with different partners. Initially it was organized once every two years; while since 2011 the Finance Fair is organized annually by the Kosovo Banking Association.

The Finance Fair aims to create and expand contacts between financial institutions, businesses, contributing agencies in this area and potential investors by identifying best cooperation practices that could push forward the development of the financial sector and economic development in Kosovo. Every Finance Fair event aims to address sector-specific issues, bringing together all the relevant institutions to address the challenges and problems facing the sector.

Finance Fair also aims to facilitate the promotion of financial services, namely services that are new and not well known to visitors and which can be very welcome to businesses in particular.

The Finance Fair contains several parallel activities at the same time:

Exposition - represents only one of the main parts of Finance Fair during two full working days, where the financial industry has the opportunity to present its products and services, but at the same time to communicate with different stakeholders, including: individual clients and businesses, regulators and legislators, the media and international organizations as well as potential future employees.



Conferences / Forums - are organized simultaneously with the Finance Fair exposition during the two days of the fair. Each year particular topics, part of the agenda of the financial sector are treated and discussed. Through these events, it is aimed to gather all the relevant stakeholders of the financial industry in one place to discuss the challenges of this sector, where panelists share their experiences, their commitment and contribution to the topics that are selected depending upon the interest of the industry.

Workshop - various workshops are organized during the Finance Fair which also aim to provide financial education to various segments of society. So far, various workshops were organized, including: workshops with students, workshops with certain sectors of industry (i.e. accountants, businesses selling petroleum products, etc.), workshops with journalists etc.

FINANCE FAIR 2014

Finance Fair 2014 was organized on September 23rd and 24th, 2014 at the Swiss Diamond Hotel. Within the Finance Fair this year various companies were exposed, including: banking institutions, microfinance institutions, insurance companies, local public agencies, educational institutions, international organizations and consulting companies.



Besides the exposure activity, two conferences were organized within the Finance Fair 2014 during the first day, a workshop with journalists and a forum during the second day. Topics of first two conferences were: 1. Contract Enforcement and Access to Finance, and 2. How to cooperate with banks for better interest rates? Whilst the forum organized during the second day of the fair contained a discussion on the "Risk on financial environment and credit risk."

During the Finance Fair 2014 a visitor rewards activity was organized with the objective to promote and increase the number of visitors to the fair and reward them in gratitude as clients of financial institutions. The rewards activity was located in the "Mother Teresa" Boulevard during the two days of the Finance Fair 2014. All the fair visitors who managed to collect at least 15 brochures of the exhibiting companies at the fair were qualified to enter the rewards activity. The withdrawal of three individual prizes from KBA was done through the television program "Time for Finance" on KTV.



In this event, Kosovo Banking Association was supported by the General Sponsors: Banka Ekonomike, Bank Kombetare Tregtare, Banka per Biznes, Is Bank, NLB Prishtina, ProCredit Bank, Raiffeisen Bank and TEB - Economic Turk Bankasi. Finance Fair 2014 was also supported by the supportive sponsors Vllasa NBFi, Crimson Finance Fund and IPKO, while the media sponsors were Telegrafi and Radio Dukagjini.

THE OPENING OF FINANCE FAIR 2014

The opening remarks of Finance Fair 2014 were made by Mr. Petrit Balijsa, Executive Director of Kosovo Banking Association, Mr. Robert Wright, Chairman of the Board of Directors of Kosovo Banking Association and Mr. Bedri Hamza, Governor of Central Bank of Kosovo. In their speeches was assessed that Finance Fair has become a traditional event and a place where all banking and non banking financial industry stakeholders meet in order to promote and develop further the Kosovo's economy overall. It was also assessed that Kosovo banking sector continues to be attractive to investors and to reflect high level of sustainability in all aspects, including high level of capitalization, strong liquidity position and good quality portfolio. Today's Finance Fair, besides its role in promoting the financial sector and offering opportunities for new partnership and collaboration between parties, it is also very important platform for financial education to the public and to identify new challenges for the further development of the sector.



Petrit BALIJA
Executive Director
of Kosovo Banking Association



Bedri HAMZA
Governor of Central Bank
of Kosovo



Robert WRIGHT
Chairman of the Board of Directors
of Kosovo Banking Association

DISCUSSION PANELS DURING THE FINANCE FAIR 2014

During the Finance Fair 2014 two conferences were organized on the first day and a forum on the second day, where some of the most important financial sector institutions were represented.

CONTRACT ENFORCEMENT AND ACCESS TO FINANCE

The first panel of the Finance Fair 2014 conference consisted of six panelist: Fehmi Mehmeti - Deputy Governor of the Central Bank of Kosovo (CBK), Ilir Aliu - Executive Director of ProCredit Bank, Frank Lakwijk - International Monetary Fund representative for Kosovo, Asllan Krasniqi - Member of the Judicial Council of Kosovo, Anton Kobakov - Director of the European Bank for Reconstruction and Development, and David Greer - Head of the USAID Program for Execution and Commercial Legislation.



In the first discussions of the conference it was assessed that despite the challenges that the banking sector is faced with, it is constantly contributing to the economy and is stable and sound. CBK has constantly monitored the financial sector closely and at the same time has amended and adopted regulations based on sound international practices.

The initiation of bailiff procedure implementation in early 2014 has greatly influenced the process of contract enforcement. This procedure enabled more adequate investment planning and the preparation of reports making the institutions more transparent, which indirectly affects the economic stability of the country, since it enables better debt management. Better debt management means reducing spending and therefore impacts on improvements of market offers. It was also assessed that the projects in the field of credit insurance are welcome, as these projects will significantly facilitate the lending process as well as impact on risk reduction. Valuation of collateral is currently being done by banks' internal valuers, but local institutions are working to quickly have the first licensed assessors who will assess the property in a more professional and standardized way.



Contract enforcement is the last stage after evaluation of all criteria, so when something doesn't go right, we turn to justice. The borrower pays the loan when knowing that the justice system functions. So we are dealing with a more complex process and involves a whole set of processes. According to the World Bank report on doing business, Kosovo is enlisted as 138 on contract enforcement, which means that in relation to other countries, Kosovo is lagging behind and must make progressive steps compared to countries of the region. This means that expenditure on contract enforcement is higher than elsewhere in the region. This is also one of the reasons why interest rates are higher. It also makes the value of the collateral to be higher than in the region in order to cover for the higher risks prevailing in comparison to other countries.

Based on studies conducted in different countries of the world it is estimated that for a given location is very important how fast the justice system functions. Based on these studies, the analysis has shown that there is a correlation between the speed in handling court cases and interest rates, so the sooner the court cases have been handled, the lower the interest rates on loans have been. This definitely affects the economy in Kosovo.



Like all private sectors in Kosovo's economy, the banking sector also faces the important challenge of access to financing. In the World Bank report on Doing Business, Kosovo ranks as 30 for access to finance, while for the contract enforcement ranks between 130-140 countries in the world. The banking sector has progressed consistently with respect to access to finance, while contract enforcement has stagnated. The judicial system has accumulated cases deposited over five years ago and the issue raises many questions that reflect uncertainty and affect performance. Based on internal estimates of the industry, the justice system is deemed to have over 10,000 cases only from the banking sector that reach a value of over 250 million Euro that have been provisioned for an additional 250 million Euros meaning that about 500 million Euro are blocked. If the banking sector would be assured that the debt will be paid off through the justice system, it would be an easier and faster procedure and banks would be less conservative, while access to finance would be more efficient. All this affects the cost of financing and the interest rates that banks apply. The effectiveness of the courts affects the reduction of informal economy and it also affects the promotion of foreign investors.

In the panel discussion it was also concluded that there is still room to turn the level of non-performing loans back to the level before the global crisis (2007-2008) when it was at 5% although the actual rate of non-performing loans is the best in the region. The banking sector in Kosovo recommends Kosovo institutions to establish special chambers or courts which would work separately with the cases of the financial sector due to their unique case specifications. Another recommendation is for banks to be allowed to disburse higher short-term funding, for example through promissory notes, in which case the bank does not require collateral, but in the event of a dispute, the case goes directly through bailiff procedures where the bank immediately executes the debt through a more efficient justice system.



The justice system in Kosovo is assessed to have been improving and it has been constantly supported by donors such as the Program for Enforcement and Commercial Legislation (CLE USAID). Kosovo Judicial Council has signed an agreement with the Central Bank of Kosovo through which courts are informed on bank account numbers. The Commercial Court with the help of private bailiffs and the support of this program now reaches on average to successfully execute 50-100 cases per month. If this trend persists, the justice system would be closer to the region. In the panel discussion it was emphasized that case execution is not the only obstacle of the justice system, but also the laws that are amended from 2 to 3 times, for example the Law on Execution Procedure was enforced in 2008, but it has just begun being implemented and its results will only be evident next year.



The panel discussion also focused its attention on the lack of capital growth, where businesses can enhance their operations, enter new markets or finance important purchases without making changes in control of the business.



In the end it was considered that the adoption of the new Law on Execution Procedure will be reflected in the assessment of the World Bank which will be done this year. Kosovo now has a new system and this will be a good new start that can only be further developed through a joint collaboration of the Central Bank of Kosovo, the private sector and other public institutions.



HOW TO COOPERATE WITH BANKS FOR A BETTER INTEREST RATE?

The second Conference of the Finance Fair 2014 accounted for six panelist: Ardiana Bunjaku - Executive Director of the Society of Certified Accountants and Auditors of Kosovo, Nahit Sharku - Deputy Director of the Tax Administration of Kosovo, Robert Wright - Executive Director at Raiffeisen Bank, Shefik Gërbovci - Executive Director of the Technical Department at Illyria Insurance, Ismet Hulaj - Financial Officer at Stone Castle and Bersant Disha - Director at Recura Financials.



The opening of the second conference during the first day of the fair was a discussion on the issue of interest rates and the fact that multiple factors should be taken into account in the lending process; also there was a discussion on access to credit and the criteria necessary to be met to qualify for loans. During the discussion it was evaluated that banks in Kosovo are liquid, while funded mainly by their customer deposits. Interest rates on loans are declining, but at the same time deposit interest rates have declined as well. Political and physical security risk have improved, while the judicial system with the new procedures and private bailiffs is improving but at a much slower pace and much remains to be done, in order to positively influence the improvement of business conditions for banks and other businesses.



The panel continued its discussion assessing that one of the reasons why the interest rates are still relatively high is associated with risk factors, namely legal risk, i.e. efficiency of the justice system. Another reason is the risk of the client which can significantly affect in reducing this average, since depending on the number of criteria that the customer meets, the loan interest rates are determined. The higher the number of good clients, the more likely it is to get loans with lower interest rates. The average loan was 10.8% by the end of the second quarter of 2014, but we have issued loans with 7% or even 13%. The client has a high influence on determining the interest rate, depending on the business financial statement audits, tax avoidance history, the concentration of many businesses in a sector, insurance of collateral, business plan, assets, compliance with contractual terms,

credit history and many other aspects that can affect the determination of credit risk. The banking and non-banking financial sector also provides financing for businesses that are not secure and do not offer collateral as pledge for the loan provided, but in such cases it is then reflected in the interest rate of their loans.



In this panel it was also evaluated that businesses in Kosovo face many difficulties during the process of their operation, as they are constantly faced with non-competition policies, unfavorable conditions and lack of financing. Currently bank loans are the leading funders of small and medium enterprises, while these enterprises face many difficulties in access to bank loans due to lack of collateral. In this case it was suggested to improve this situation by enabling these businesses to be financed through bank letter- guarantees, in the absence of collateral.



The discussion also focused on the issue of reporting, evaluating that appropriate reporting and audit of financial statements is very important in the recognition of business history. Some of these businesses keep from two to three financial statements, separate financial statements for the Tax Administration, others for business office purposes, and another set for banks. Based on comments received and evaluations it has been verified that the audit reports were not at a satisfactory level either and that it takes time to change the historical position of the previous system where the auditor assumed the inspectors' role and adapting to new conditions takes time. It is important that attention be given to this issue and contribute more to the quality of auditors' certification based on international best practices, where their inspection is done through the Council of Financial Reporting, a council which now does not verify the quality of Auditors' Reports.



Since 2009, based on its designed strategy, the Tax Administration (TAK) has begun using a new approach to businesses in Kosovo by implementing a more transparent system through incentives rather than punitive measures; although these measures can be used as the last resort since they are obligated under law to act in this regard. Tax Administration has developed a detailed action plan dividing businesses by sector, adapting to their needs for which it has developed services to businesses in an educational form. During the discussion it was concluded that for the Tax Administration of Kosovo, the major problem is the malfunction of courts as well, while it was stressed that TAK maintains a very good cooperation with banks. For the future it is recommended the need for financial statement harmonization that businesses present to TAK and banks' approach in these statements, through a transparent process of exchanging information. Electronic declaration has enabled businesses to engage real time and pay obligations that businesses have towards the state. TAK has also created several working groups to unify financial statements for businesses. These changes made recently to the TAK will impact on cost reduction and thus the interest rates that banks apply.



The insurance sector provides services that help the banking industry reduce credit risk for the banks, but it is on the market and therefore the banking sector to see whether the risk cuts should be reflected on the interest rate reduction. It was estimated that the contribution of the insurance sector in the financial sector is only 3.5%, so it is necessary to have a greater contribution from the sector. It was mentioned by the panel that the insurance sector offers several types of services that help the banking sector in insuring agro-businesses' property, while regional governments subsidize these properties. So Kosovo has not fully developed this type of insurance and government offers no such subsidies. Hence, nor the insurance companies have taken over this risk, especially due to recent climate changes, while the businesses have not been well informed about the product and consequently were not even interested. Insurance companies offer insurance options on agricultural yields, properties against natural disasters, borrowers' life insurance, and insurances that help these businesses to have easier access to financial resources. Insurance companies currently contribute to the banking sector with deposits of around 70-80 million Euros which are available for longer term. Finally it was recommended that the Central Bank of Kosovo should not calculate the costs which the client pays for insurance within the effective interest rate, since this expense should not go under it and consequently increases the average percentage.

THE RISK IN THE FINANCIAL ENVIRONMENT AND CREDIT RISK

The Forum of the Finance Fair 2014 which was held during the second day of the fair was organized in cooperation with the Centre for the Promotion of Development which is led by Prof. Dr. Muhamet Sadiku, which consisted of five panelists: Haxhi Gashi - legal expert, Jan Peter Olters - World Bank representative Kosovo, Michael Gold - Managing Director of Crimson Capital Fund and Flamur Keqa - a pundit of financial sector issues.



In the panel discussion of the second day it was agreed that the main activity of commercial banks in Kosovo is lending. The banking sector structure largely consists of the loan portfolio which greatly influences the performance of the sector, while the Central Bank of Kosovo has an obligation to evaluate the values of revenues, quality, and liquidity. During the discussion it was suggested that credit risk should be managed in such a way as not to allow for greater tolerance which could pose a serious problem in the future for the banking business.



The panelists of this forum evaluated several types of risk, such as the local, regional, global or sector risk. Global risk and the global crisis of 2008, although stated earlier that posed no direct impact on Kosovo's economy, however in this discussion was estimated that this crisis has affected Kosovo, but in a later period, therefore no one can be immune to crisis. Business non-performing loans were estimated as higher than the country level average, while the main attention was paid to the possibility that these businesses have access to finance. In Kosovo there are many businesses that do not qualify for a loan, so the most important question to be addressed is not how much the interest rate is, but whether these businesses are eligible to gain access to finance. During the discussion, United States practices were brought up and stated that there are lots of businesses that fail to meet the criteria to gain access to these credit lines. They can use various products such as cash in advance or credit cards, but not credit lines. A very important aspect was deemed to be the area of financial education, whereby customers should be informed more about credit agreements or pledge agreements, and be informed on the possible consequences and obligations they undertake when receiving a credit line.



Kosovo has advanced in the World Bank report on doing business as a result of the improved situation in Kosovo's cadastre. The agency is working and is ready to launch the system for real time information exchange. Cadastral Agency recommended that financial institutions write off repaid loans from the cadastre, since they are not removed from the cadastre registry until an official request is received. Removal can be done at the municipal cadastral offices or in the Cadastral Agency.





The issue of risk is subjective, which means there is lack of trust or lack of information. Currently in Kosovo, the average interest rate is approximately 10.8%, while in Germany it is around 7%, Montenegro about 9.5%. The difference between the interest rates reflects the risk premium, i.e. the difference in risk between these countries. At the discussion, it was considered that the most important thing is that the banking sector is sound, liquid and profitable, but also it is important for banks to be careful not to overestimate the risk of the market, as it may impede the growth or development of the country by as far as the overestimation goes. It is also important that the banking sector cooperate closely with the insurance sector, since the insurance sector still needs to be improved and thereby help each other. It was assessed that it is also important that the banking sector finances sectors or areas that have potential for growth, because there are some sectors in Kosovo that have this potential.

In legal terms the panel discussed mainly on the difficulties encountered by the banking sector in law enforcement. A challenge that was deemed important had to do with contracts, i.e. credit agreements are not fully explained and the client is not fully aware of the obligations it assumes. Also except for the pledge agreements, banks must register the pledge in the register in order to have priority, while all agreements or contracts must be notarized. Regarding the legal infrastructure it was estimated that the fault lies in their interpretation and application. One issue that has been identified as a concern for banks and that later on has been fixed were mortgage agreement cases of disputes that have been processed through the dispute procedure while should have been processed through the execution procedures. This has taken more time to execute the mortgage from banks. Many properties do not have adequate clarification of property rights especially for agricultural lands and as a result this property can't be used as collateral. Also many new properties are not recorded in the Cadastral Agency at all, especially in Pristina.

At the end of this forum, it was concluded that the problems are multi-sector, so the risk is multi-dimensional and each sector and institution must assume their own responsibilities and improve or perform better. The stronger one party is, the more powerful the other one will be.



With the completion of this forum, the official closing of conferences and forums of the Financial Fair 2014 was marked whereby Mr. Petrit Baliija, Executive Director of the Kosovo Banking Association thanked the Chairman of the Board of the Banking Association Mr. Robert Wright and KBA Board members for their support in organizing this event. Mr. Baliija also thanked the general sponsors and supporting sponsors of the Finance Fair 2014 and other participants at the fair.

SPONSORËT

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

OCTOBER 2014



TRENDS OF KEY INDICATORS OF THE BANKING INDUSTRY

The banking industry in Kosovo continues to expand and reflect high levels of sustainability in all aspects, including the high level of capitalization, strong liquidity position and the good quality of the loan portfolio. The banking industry in Kosovo continues to show good performance and growth from year to year. This can be seen from the key indicators that are disclosed for the period December 2013 - September 2014 in this publication.

ASSETS OF THE BANKING INDUSTRY

Assets of the banking industry have consistently recorded positive growth, which indicates a positive development and sustainability of the banking industry. As of the end of September 2014, banking industry assets have reached a value of 3,149.50 Million Euro.

ASSETS OF THE BANKING INDUSTRY										
*Million euro										
Description	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Assets	3,059.3 €	3,048.5 €	3,045.1 €	3,053.3 €	3,038.3 €	3,014.0 €	3,059.5 €	3,116.4 €	3,160.4 €	3,149.5 €

Tab. 1 | Source: CBK - Balance Sheet (31 October 2014)

As illustrated in table no.1 and figure no.1, the value of assets on a monthly basis has fluctuations, but if considered in the longer term basis (December 2013 - September 2014), it is visible that assets have positive trends with an average increase of 2.9%. The greatest value of assets for this year has been recorded in the month of August 2014 with a value of 3,160.4 Million Euro. This value also represents the highest value achieved for the industry so far.

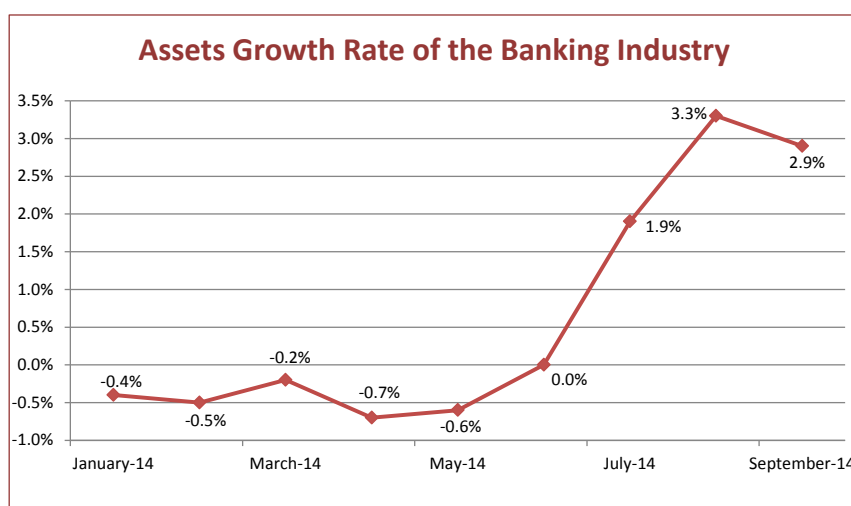


Fig. 1 | Source: CBK - Balance Sheet (31 October 2014)

Loans and leases comprise the majority of the total assets of the banking industry. At the end of September 2014, 59.9% of total assets consisted of loans of the banking industry or 1,855 Million Euro in total of disbursed loans.

GROSS LOANS AND LEASES IN THE BANKING INDUSTRY										
										*Million euro
Description	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Gross loans	1,805.8 €	1,794.5 €	1,794.3 €	1,825.9 €	1,839.7 €	1,856.8 €	1,889.9 €	1,874.3 €	1,848.2 €	1,855.0 €

Tab. 2 | Source: CBK - Balance Sheet (31 October 2014)

The values of the loans disbursed by the banking industry through the months have marked different fluctuations, but if taken on a long-term basis (December 2013 - September 2014), then figure and table no.2 shows that the loans have recorded positive trends of 2.7 % increase or an additional 49.2 Million Euro were issued by the end of September 2014, compared to December 2013. Total gross loans and leasing disbursed by the banking industry by the end of September 2014 were 1,855 Million Euro. The highest amount of loans disbursed during the year was in June in the amount of 1,889.9 Million Euro.

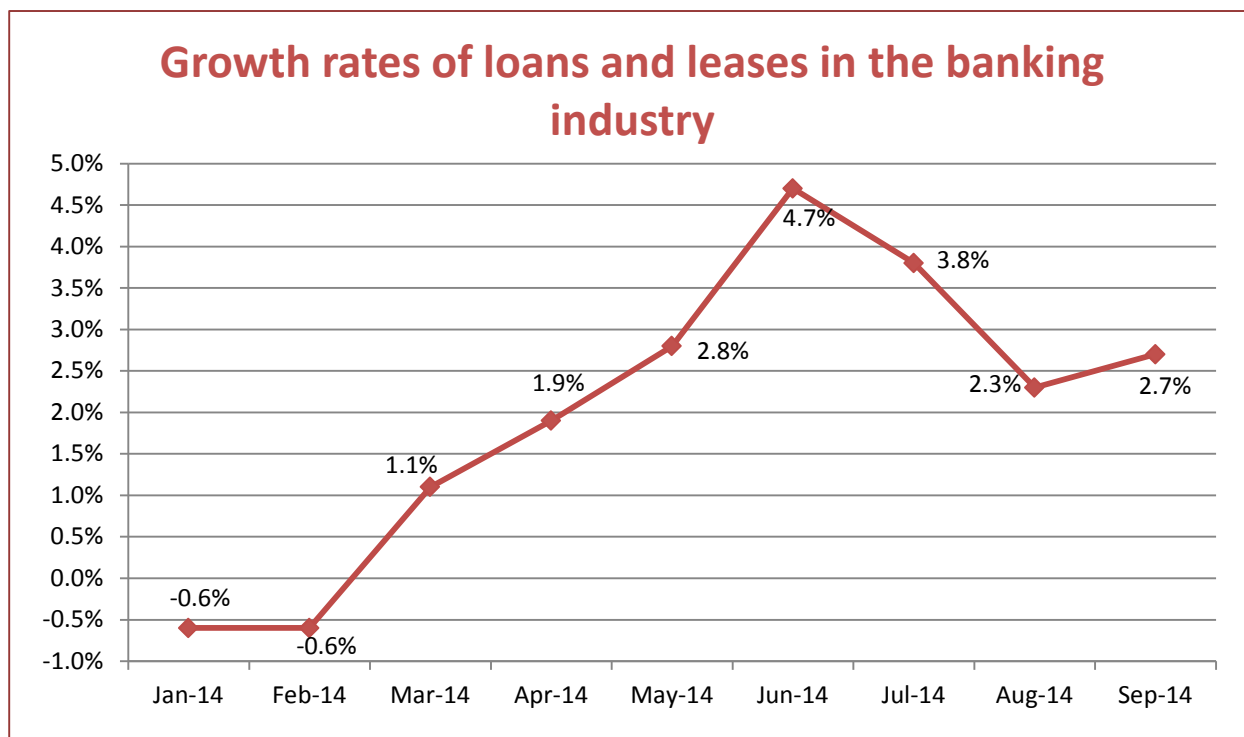


Fig.2 | Source: CBK - Balance Sheet (31 October 2014)

DEPOSITS IN THE BANKING INDUSTRY

One of the main sources of funding for banking industry in Kosovo are deposits that customers place in their bank accounts. For the banking industry, it is important that these deposits show a sustainable growth, in order to finance Kosovo's economy. Based on data available at the Central Bank of the Republic of Kosovo, deposits have increased continuously.

DEPOSITS OF THE BANKING INDUSTRY										
*Milionë euro										
Description	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Deposits	2,499.0 €	2,443.4 €	2,433.4 €	2,430.8 €	2,425.9 €	2,415.1 €	2,421.0 €	2,474.9 €	2,513.6 €	2,518.0 €

Tab. 3 | Source: CBK - Balance Sheet (31 October 2014)

In table no.3, it can be seen that the deposits in the banking industry through the months have marked fluctuations, although in the longer term between December 2013 and September 2014, deposits have recorded a positive trend of growth. Specifically, deposits during this period have increased by 69 Million Euro or 2.8%.

At the end of September 2014, total deposits reached 2,518 Million Euro. This value also represents the highest value ever recorded for deposits of the banking industry in Kosovo.

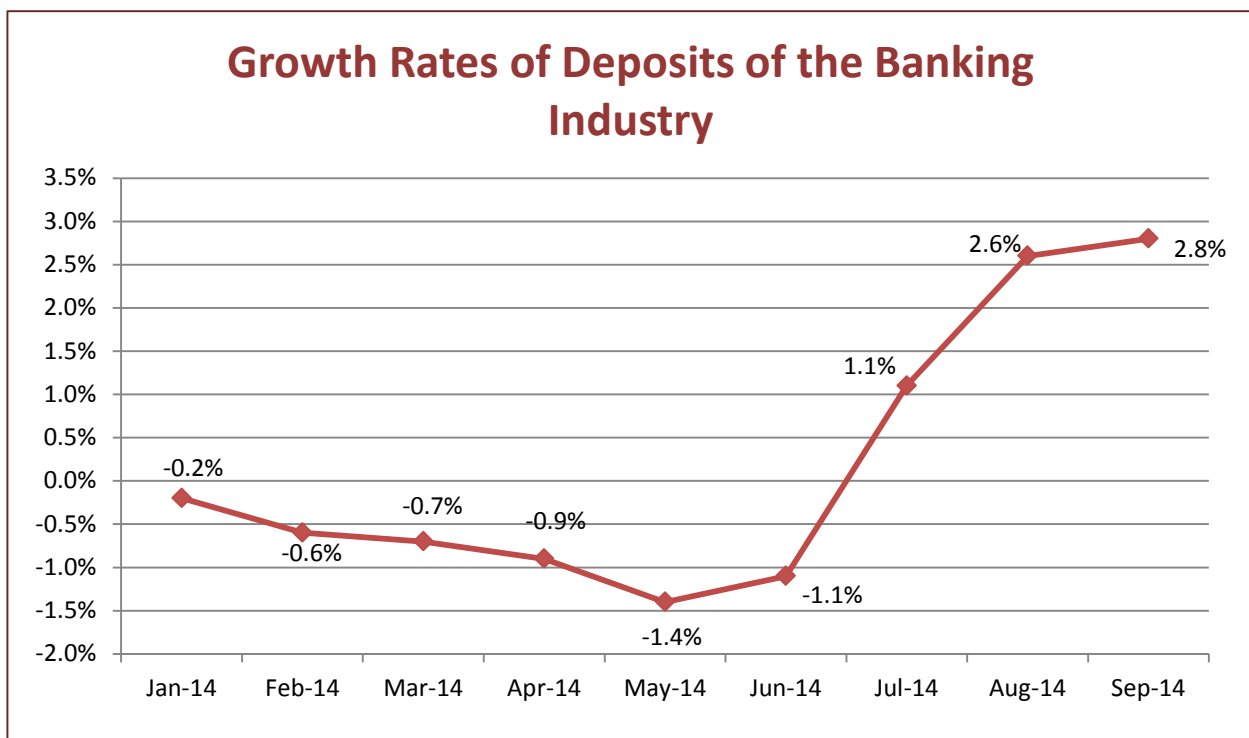


Fig.3 | Source: CBK - Balance Sheet (31 October 2014)

PERFORMANCE INDICATORS OF THE BANKING INDUSTRY

One of the performance indicators of the banking industry is the income statement, respectively the revenues and expenses recorded for the respective period. It is important and essential for a business that these revenues should be sustainable, while the expenditures should be managed in compliance with the revenues. In the table no. 4 is an overview of these revenues and expenses for the period December 2013 - September 2014.

REVENUES AND EXPENSES OF THE BANKING INDUSTRY

*Million Euro

Description	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sept-14
Të hyrat	249.0 €	20.1 €	38.9 €	59.4 €	79.7 €	100.6 €	121.6 €	142.7 €	163.7 €	183.5 €
Shpenzimet	223.0 €	17.1 €	33.6 €	49.7 €	67.2 €	81.2 €	94.7 €	111.2 €	123.1 €	136.6 €
Fitimi / humbja neto	26.0 €	2.9 €	5.4 €	9.8 €	12.5 €	19.4 €	26.9 €	31.5 €	40.7 €	46.9 €

Tab. 4 | Source: CBK - Income Statement (31 October 2014)

In table no.4 it can be seen that throughout the months the positive trend of increased revenue has continued in relation to costs made by this sector. At the end of September 2014 the realized profit of the banking industry is 46.9 Million Euro. Although at the time of this publishing the year 2014 has not ended, the realized profit in the third quarter of the banking industry is significantly greater than the one recorded at the end of December 2013. There is 20.9 Million Euro additional profit compared to the end of last year.

What is important to note from table no. 4 is that the banking industry has achieved to significantly reduce costs, from where it also derives a significant increase of profit for the reporting period, while industry revenues remain approximately the same as last year. It is worth mentioning that this progress in Kosovo's banks' performance comes at a time when the average loan interest rate is the lowest since the establishment of the banking industry in Kosovo.

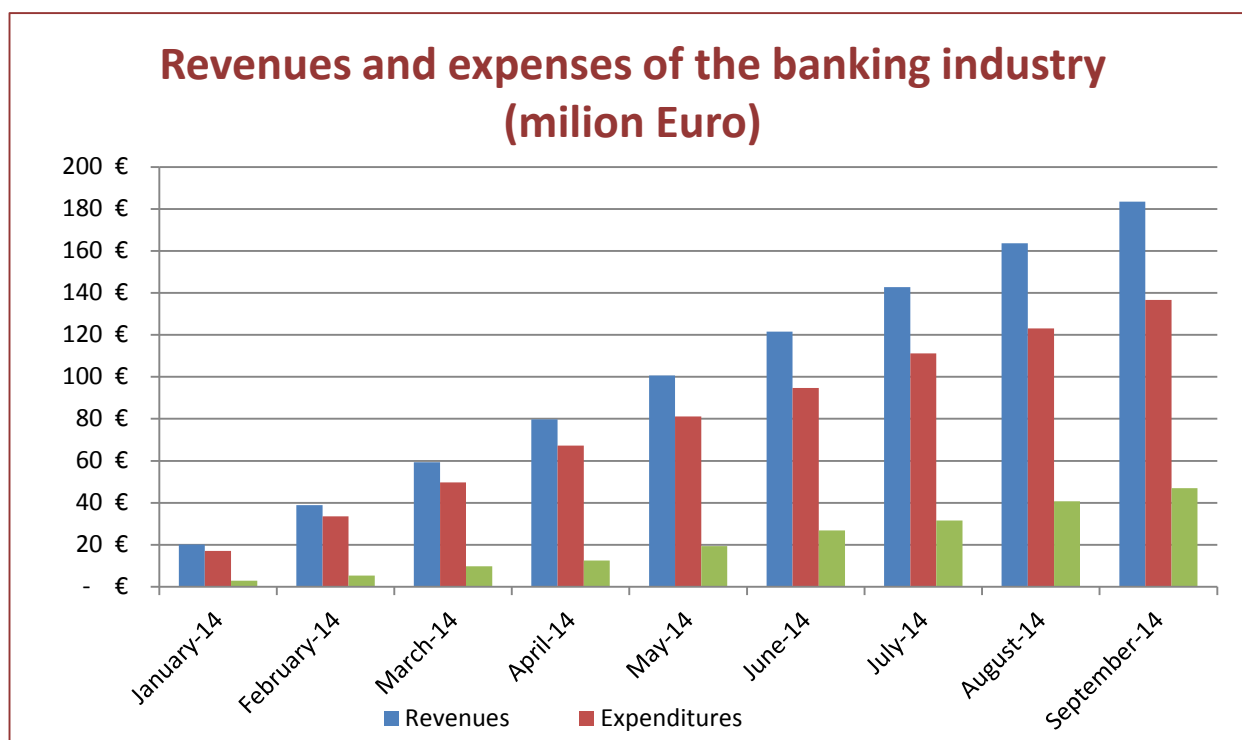


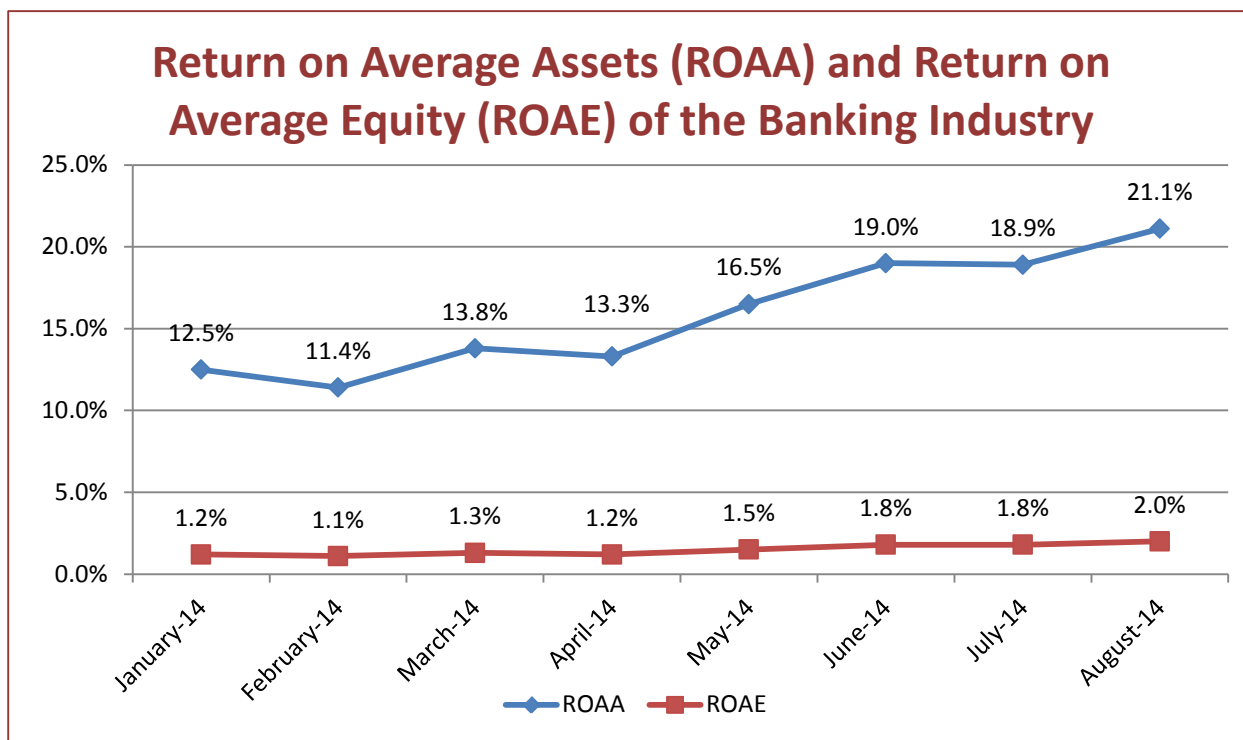
Fig.4 | Source: CBK - Income statement (31 October 2014)

Another important indicator of performance measurement of the banking industry is the Return on Average Assets - ROAA and the Return on Average Equity - ROAE. The ROAA is calculated on a quarterly or annual basis and does not show the highest or lowest level of this return, but rather reflects the average return on assets for the reporting period. Return on average assets represents the ratio between the net income and total average assets. On the other hand, the ROAE represents the ratio between the net income and average shareholders' equity, while the average shareholders' equity is calculated by taking into account the equity at the beginning of the reporting period and equity at the end of the reporting period, divided by two.

The banking industry in Kosovo during the reporting period (December 2013 - August 2014) has consistently recorded positive growth of these two indicators (ROAA and ROAE).

RETURN ON AVERAGE ASSETS (ROAA) AND RETURN OF AVERAGE EQUITY (ROAE) OF THE BANKING INDUSTRY									
*Million Euro									
Description	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
ROAA	0.9%	1.2%	1.1%	1.3%	1.2%	1.5%	1.8%	1.8%	2.0%
ROAE	9.4%	12.5%	11.4%	13.8%	13.3%	16.5%	19.0%	18.9%	21.1%

Tab. 5 | Burimi: BQK – Raporti i informatave Mujore (Publikimi nr.1-8)



Tab. 5 | Source:CBK – Monthly Information Report (Publication no.1-8)

From the presented figure no.5 it can be seen that the positive trend continued during this reporting period for both these indicators. If we consider the profit achieved for this period and these two indicators, then it can be stated that the banking industry shows great stability, which is very important for the safety of the financial system and a satisfactory return for investors.

NON-PERFORMING LOANS IN THE BANKING INDUSTRY

In order to have a clear overview of a larger number of financial indicators for the banking industry, the following information presents the details of non-performing loans.

NON – PERFORMING LOANS OF THE BANKING INDUSTRY (NPL)									
Description	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
NPL	8.7 %	8.7 %	8.8 %	8.6 %	8.6 %	8.4 %	8.2 %	8.2 %	8.3 %
Provision coverage	110.6 %	112.5 %	112.3 %	114.6 %	116.1 %	117.0 %	116.4 %	117.9 %	116.8 %

Tab. 6 | Source: CBK - Monthly Information Report (Publication no.1-8)

Another positive indicator from the banking industry is that non-performing loans (NPL) have decreased to 8.3% in August 2014, in comparison to the end of 2013 when the NPL was 8.7%, while the lowest value was recorded during the month of June 2014 by 8.2%.

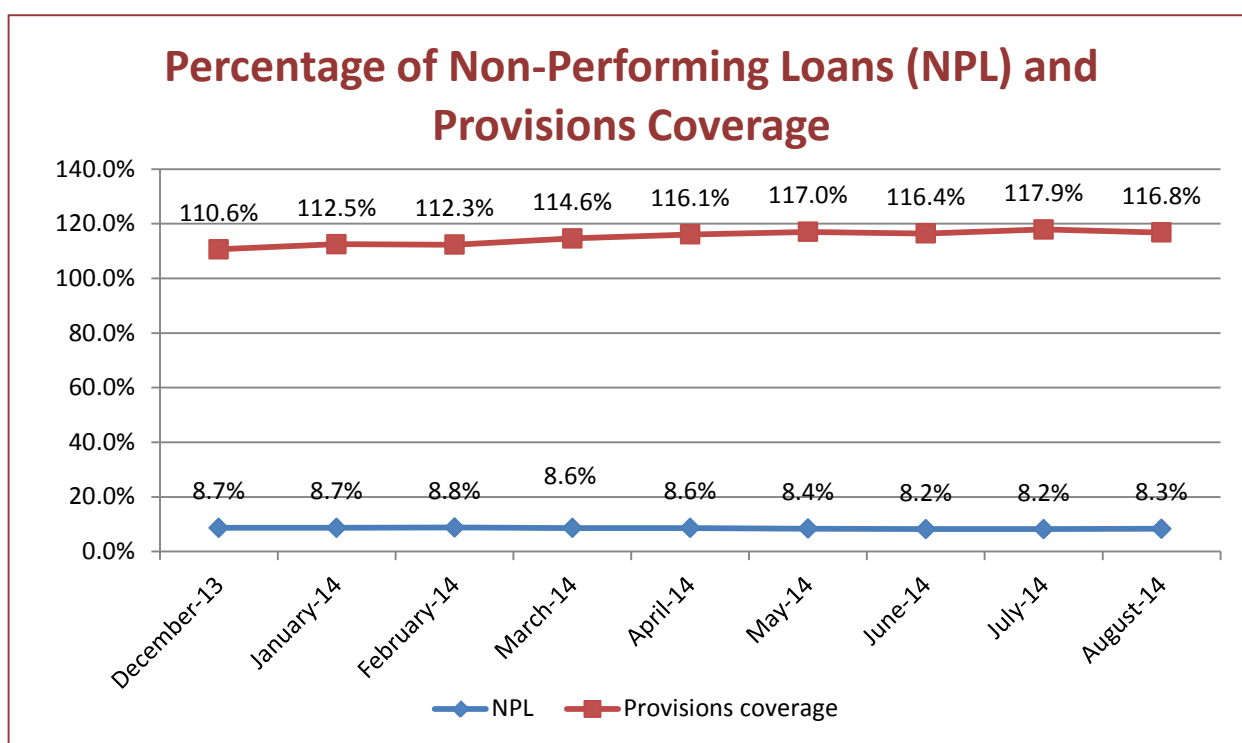


Fig.6 | Source: CBK - Monthly Information Report (Publication no.1-8)

It is important to note that the coverage of non-performing loans is above 100%, which means that the banking industry is well provisioned and therefore the percentages outlined above for non-performing loans do not pose a significant risk to the stability and sustainability of the banking industry in general. In late August 2014, the provision coverage was 116.8%.

THE EFFECTIVE INTEREST RATE IN THE BANKING INDUSTRY (EIR)

The effective loan interest rate includes all costs that the customer or user of the loan must pay to the financial institution for the loan received, including the nominal interest and other possible administrative costs arising from obtaining such a loan. The effective interest rate is applied to both cases, in the interest on the loans that the banking industry disburses and in the case when the banking industry pays interest on customer deposits which it holds. Publication of this information is very important, since it represents the total cost that the

customer must pay to the bank upon receiving the loan. In Kosovo, all banks disclose the EIR, as required under the rules of the Central Bank of Kosovo.

The following are the details of the effective interest rate for the period 2010 - 2014:

EFFECTIVE INTEREST RATE IN THE BANKING INDUSTRY (EIR)					
Description	2010	2011	2012	2013	2014
Loans	14.3 %	13.9 %	12.9 %	11.1 %	10.8 %
Deposits	3.4 %	3.6 %	3.7 %	2.1 %	1.0 %

Tab. 7 | Source: CBK - Effective Interest Rate (31 October 2014)

The Effective Interest Rates have declined consistently in recent years which can also be seen from table no. 7 presented. The effective interest rate at the end of September 2014 is 10.8% for loans, while 1% for deposits. Compared to the end of 2010, EIR for loans has declined by 3.5%. The lowest value of EIR for loans this year was in June 2014 when it was 10.5%.

Figure no. 7 shows the trend of the effective interest rate from 2010 to September 2014. In 2010, the effective interest rate for loans was 14.3%, while in the month of September 2014 is 10.8%. On the other hand, the effective interest rate on deposits have marked an increase from 2010 to 2012 and then have dropped significantly during 2013 and 2014.

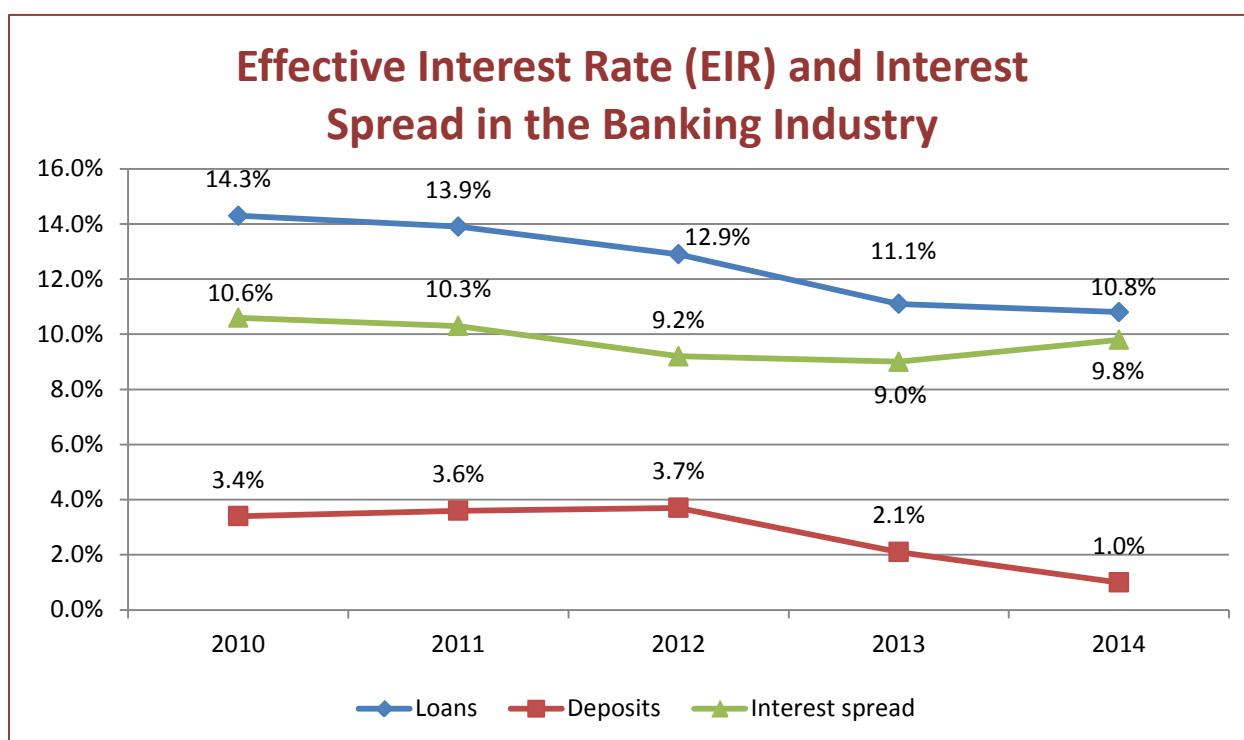


Fig.7 | Source: CBK - Effective Interest Rate (31 October 2014)

It is important to emphasize that the decrease of effective interest rate on deposits in recent years is a Regional and European general trend. For example in Germany it is reported that some of the banks are applying a negative interest rate on deposits, as it is the case with Deutsche Skatbank which is applying an interest rate of -0.25% on deposits, which means that the client should pay the bank for holding the deposits. However, it is positive that the interest rate on loans in Kosovo, according to the above mentioned trends are decreasing, which means that the loans in 2014 are more favorable for banking clients compared with previous periods.

PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

NOVEMBER 2014



NUMBER OF BANKS AND EMPLOYEES IN THE BANKING INDUSTRY IN KOSOVO

Since 2001 to this period, the banking industry in Kosovo has increased continuously in almost all its components, which indicates that the banking industry has established a sound base of operation by providing security and trust to clients. The banking industry has consistently contributed to the economic development of the country through the lending process by being profitable and with a healthy portfolio, which

has led to the number of banks operating in the market to grow.

The number of banks that have entered the market in the banking industry of Kosovo has grown consistently. In addition to this you will find table number 1 which shows the number of banks that have acquired operating licenses by the Central Bank of the Republic of Kosovo and the number of employees in this industry.

BANKING INDUSTRY IN KOSOVO					
Description	2010	2011	2012	2013	2014
Number of banks	8	8	8	9	10
Number of employees	3,610	3,728	3,727	3,549	3,510

Tab. 1 | Source: CBK – ODC network and number of employees (22 December 2014)

By October 2014, the Central Bank of Kosovo licensed a total of ten banks, while the number of employees in this industry reached 3,510 workers. As for the number of employees from the table presented, it is obvious that the number of the previous year (2013), but also during this year have marked a slight decline. One of the possible reasons for the slight decrease in the number of employees in this industry has to do with the fact that the banking sector has made continuous efforts to increase efficiency by implementing new technologies and utilizing the possibilities of moving some operations outside the organization or as it has been recognized in terms of business as “outsourcing” where specialized companies perform some banking operations, especially the maintenance of technology and other assets that impact in lowering operational costs but are often followed by a reduction in staff.

This strategy of the banking industry is also in line with the national strategy devised by the Central Bank of Kosovo to reduce the use of cash and increase bank efficiency to enable services with lower costs and reduce the informal economy through the implementation of electronic banking services.

Another reason why the number of employees has not increased in proportion to the increase in the number of banks in the Kosovo market is the fact that the last two banks are still in the early stages of market penetration, and therefore do not have a large number of employees, but it is expected that their expansion in the Kosovo market will result in increased staff.

DEPOSIT TO LOAN RATIO IN THE BANKING INDUSTRY

Deposits and loans of the banking industry in Kosovo have shown continuous growth, not making any single year of negative growth. This can be seen from the data presented in table no. 2, where since 2010 until the end of October 2014 both these figures have increased continuously, although it was noted that there is a slowdown of the continuous growth.

LOANS AND DEPOSITS OF THE BANKING INDUSTRY					
Million Euro*					
Description	2010	2011	2012	2013	2014
Loans	1,458.7	1,698.1	1,763.4	1,805.8	1,854.0
Deposits	1,936.8	2,104.0	2,279.1	2,449.0	2,514.0
Loan – deposit ratio	75.3%	80.7%	77.4%	73.7%	73.7%
Long growth	13.2%	16.4%	3.8%	2.4%	2.7%
Deposit growth	11.0%	8.6%	8.3%	7.5%	2.7%

Tab. 2 | Source: CBK - Balance Sheet of Other Depository Corporations (22 December 2014)

In late October 2014 the value of total deposits amounted to 2,514 million Euros, while loans to 1,854 million Euros. The ratio between loans and deposits is 73.7%, which means that banks have managed to maintain their liquidity to be able to cover their liabilities at any time, although this liquidity can be considered to be higher than desirable by banking institutions.

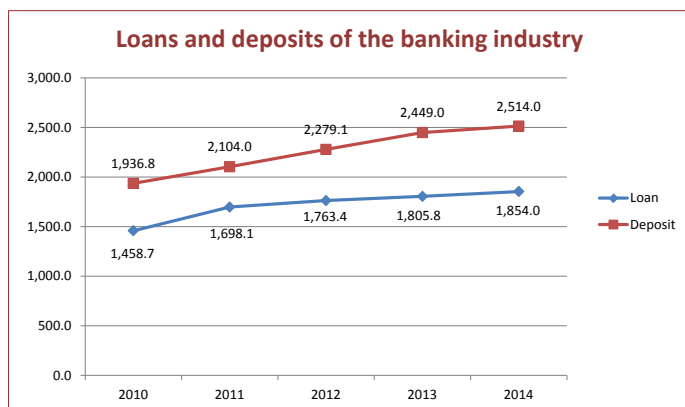


Fig. 1 | Source: CBK - Balance Sheet of Other Depository Corporations (22 December 2014)

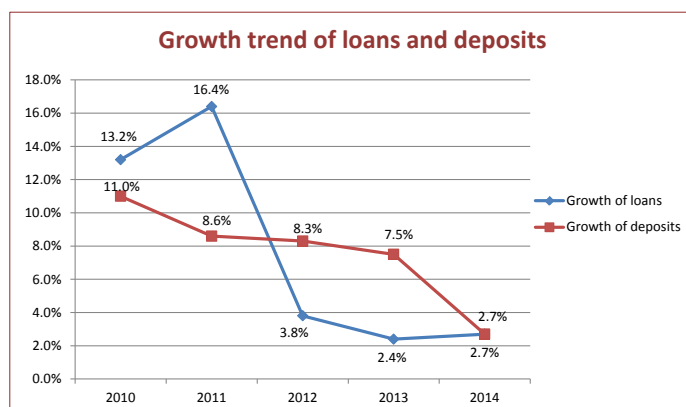


Fig. 2 | Source: CBK - Balance Sheet of Other Depository Corporations (22 December 2014)

Figure no.1 shows the positive trend of simultaneous growth of deposits and loans. This positive growth trend can also be seen in figure no. 2 which shows the percentage of this growth from one year to the other.

Although the growth of deposits and loans is positive, it can be observed that the growth trend in recent years has suffered a slowdown. In October 2014 the loan and deposit growth was 2.7%, which results in a greater increase of loans compared to 2013 (2.4%), but a lower growth of deposits than in 2013 (7.5%). Through this trend, it can be understood that the banking industry continues to be financially sustainable, while its two main components continue to record positive growth rates.

HOUSEHOLD DEPOSITS IN RELATION TO TOTAL DEPOSITS

The main source of income for the banking industry in Kosovo continues to be household deposits. This can be seen from table no.3, where in October 2014 household deposits account for 68.7% of total deposits of the banking industry.

HOUSEHOLD DEPOSITS IN RELATION TO TOTAL DEPOSITS					
Million Euro*					
Description	2010	2011	2012	2013	2014
Gross deposits	1,936.8	2,104.0	2,104.0	2,449.0	2,514.0
Household deposits	1,206.1	1,373.4	1,535.4	1,658.7	1,726.9
Percentage of household deposits	62.3%	65.3%	73.0%	67.7%	68.7%
Growth of household deposits	27.1%	13.9%	11.8%	8.0%	4.1%

Tab. 3 | Source: CBK - Balance Sheet of Other Depository Corporations (22 December 2014)

Similar to the constant growth of total deposits, household deposits have also shown growth throughout the years. However, despite the household deposit growth being positive, the trend of growth is decreasing. This can be observed in the trend presented in figure no.3.

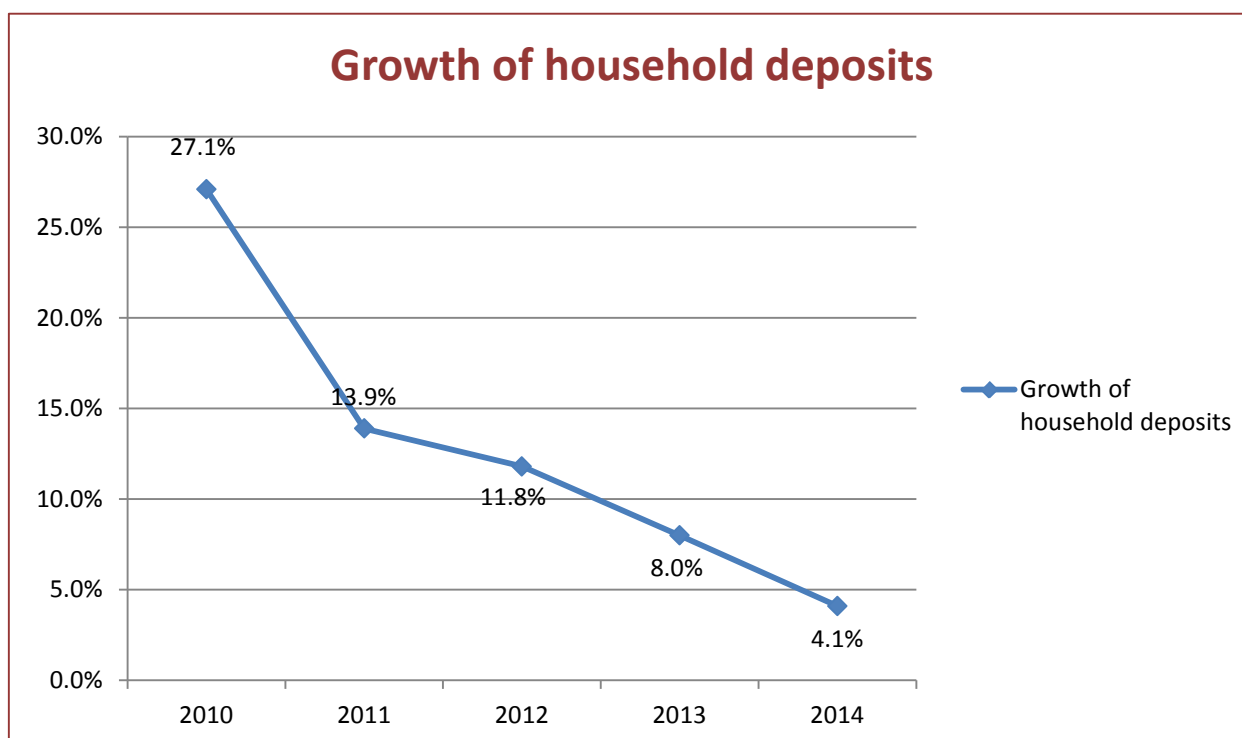


Fig. 3 | Source: CBK - Balance Sheet of Other Depository Corporations (22 December 2014)

LOANS TO HOUSEHOLDS AND LOANS BY ECONOMIC SECTORS IN RELATION TO TOTAL LOANS

Loans generated by households make up a significant part of the portfolio of the banking industry in its lending activity. In October of 2014, the banking industry issued a total of 603.1 million Euros to households. This amount represents 32.5% of total loans generated by the banking sector. As seen in table no. 4, the amount of loans generated for households have been steadily increasing parallel to the growth of gross loans generated, since the percentage of loans to households in relation to gross loans generated is roughly the same over the years, marking a slight increase in recent years.

LOANS IN RELATION TO HOUSEHOLD LOANS					
Million Euro*					
Description	2010	2011	2012	2013	2014
Gross loans	1,458.7	1,698.1	1,763.4	1,805.8	1,854.0
Household loans	434.2	510.9	542.6	563.9	603.1
Percentage of H.Loans	29.8%	30.1%	30.8%	31.2%	32.5%
Growth of H.Loans	26.4%	17.7%	6.2%	3.9%	7.0%

Tab. 4 | Source: CBK – Balance Sheet of Other Depository Corporations (22 December 2014)

Loans generated for households in October 2014 increased by 7% compared to the end of 2013, which represents a better trend than in the past two years when loans to households had increased by 6.2% (2012) or by 3.9% (2013). This positive trend of a greater growth in 2014 in relation to the past two years can be seen in the presented figure no. 4.

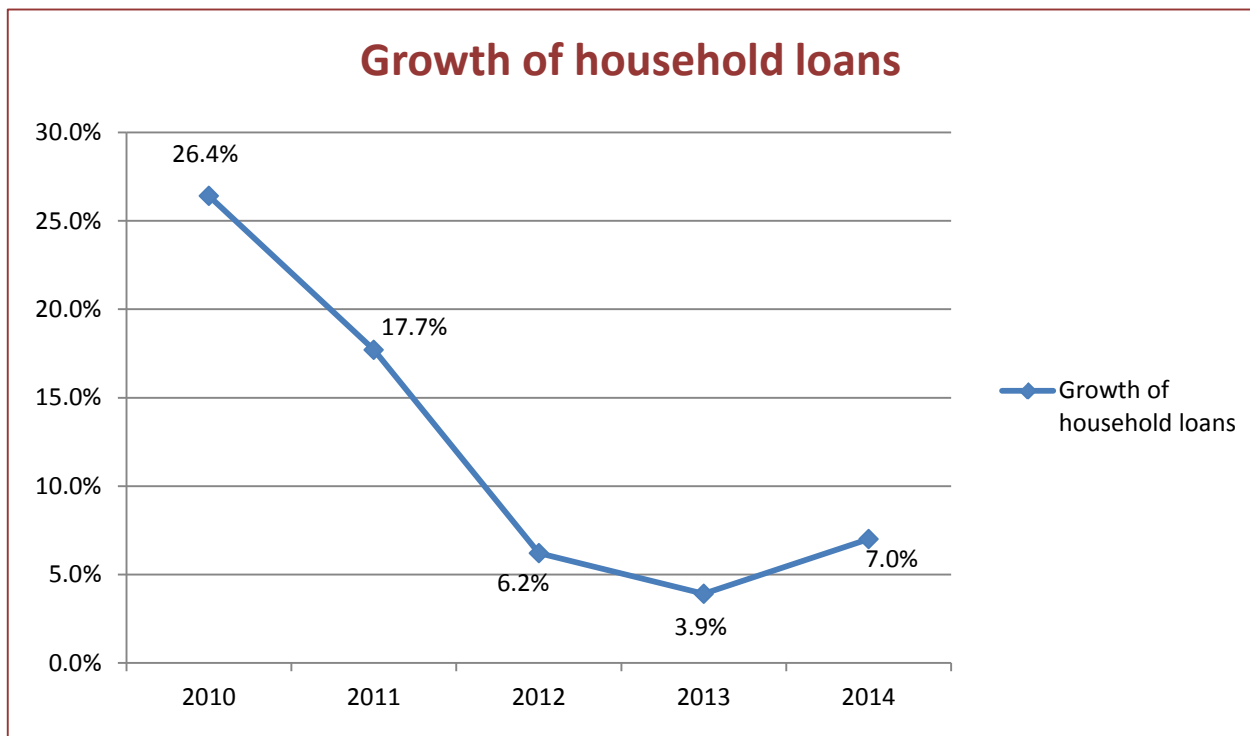


Fig. 4 | Source: CBK – Balance Sheet of Other Depository Corporations (22 December 2014)

Besides the loans generated for households, the most important part of the banking industry loan portfolio is comprised of loans generated for private enterprises, or more precisely for Kosovo's economic sectors. In table no. 5 we can see the total amount of loans generated for economic sectors. In October 2014 the total value of loans generated for economic sectors amounted to 1,246.3 million Euros; while the largest part of these loans comprise the loans generated for services with 902.8 million Euros.

LOANS ACCORDING TO ECONOMIC SECTORS					
					Million Euro*
Description	2010	2011	2012	2013	2014
<i>Agriculture</i>	38.2	40.5	43.6	45.8	48.2
<i>Industry, energy and construction</i>	269.3	284.7	290.4	291.4	295.3
<i>Services</i>	715.3	824.4	860.2	880.2	902.8
<i>Total loans by Economic sector</i>	1,022.8	1,149.5	1,194.2	1,217.4	1,246.3

Tab. 5 | Source: CBK - ODC Loans by economic sectors (22 December 2014)

Loans generated for economic sectors of services include wholesale and retail trade, hotels and restaurants as well as other related services. While the rest of the loans comprise loans generated for industry, energy and construction with 295.3 million Euros as well as loans for agriculture with 48.2 million Euros.

PERCENTAGE OF PARTICIPATION IN RELATION TO LOANS BY ECONOMICS SECTORS					
Description	2010	2011	2012	2013	2014
<i>Agriculture</i>	3.7%	3.5%	3.7%	3.8%	3.9%
<i>Industry, energy and construction</i>	26.3%	24.8%	24.3%	23.9%	23.7%
<i>Services</i>	69.9%	71.7%	72.0%	72.3%	72.4%

Tab. 6 | Source: CBK - ODC Loans by economic sectors (22 December 2014)

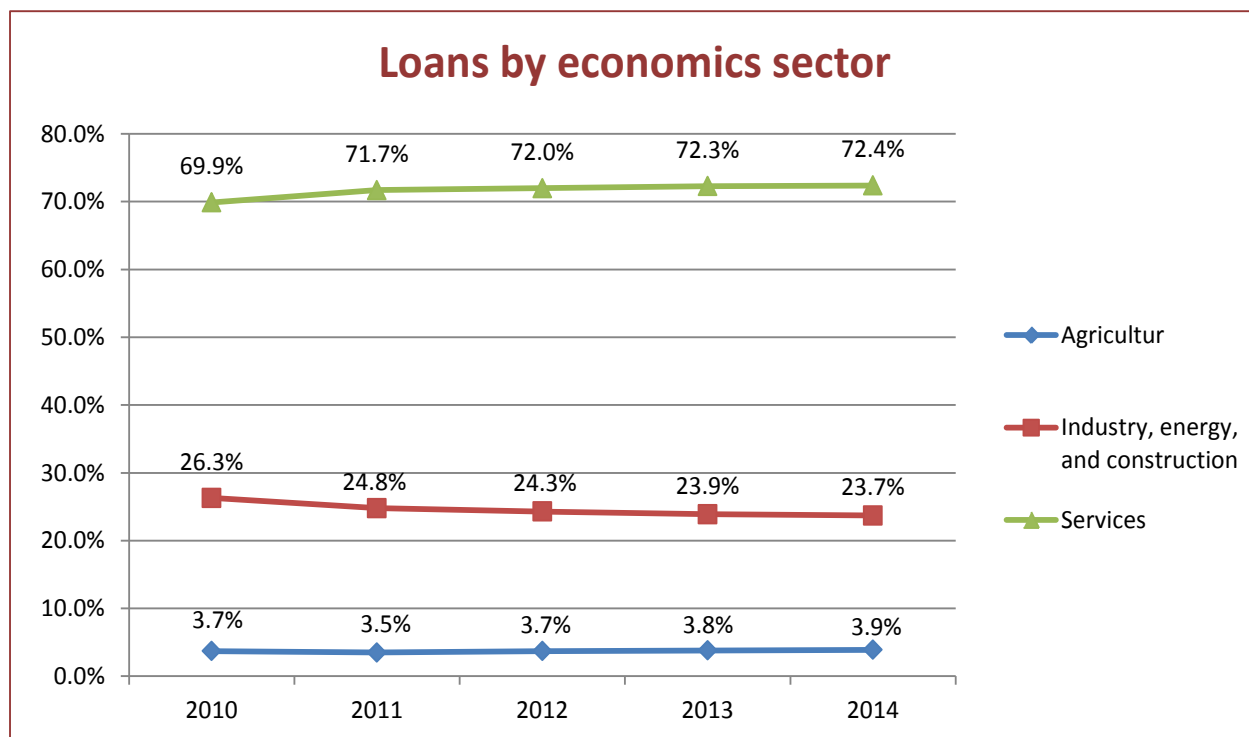


Fig. 5 | Source: CBK - ODC Loans by economic sectors (22 December 2014)

According to the presented table no.6 and figure no.5 it is visible that in October 2014, 72.4% of total loans generated for economic sectors make up loans generated for services, while 23.7% are loans for industry, energy and construction and 3.9% are generated for agriculture loans.

Since 2010, loans for services have increased slightly, while loans for industry, energy and construction have declined slightly. Agricultural loans have also shown a slight increase in percentage.

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PART II

- **BANKING INDUSTRY NEWS**

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF JANUARY 2014

ABOUT 48% OF DEPOSITS ARE TERM DEPOSITS

The Central Bank of the Republic of Kosovo (CBK) announced that the clients' deposits at commercial banks are increased at the amount of 2.36 billion euro. About 48 per cent of deposits are term deposits, while the credit report towards deposits remains at the level of 76 per cent. However, according to the CBK, the loan interest rate by the commercial banks has marked a slight increase compared to the previous period. On average, the interest rate for the month of November was 12.2 per cent. The increase of the overall average for 0.5 percentage points compared to the month of October 2013 came mainly as a result of the slight increase of interest rates for non-financial corporations, as notified by the CBK. (Telegrafi, January 9th, 2014)

STRATEGY IN FIGHTING INFORMAL ECONOMY

Informal economy remains one of the priorities of the Government of Republic of Kosovo, said Besim Beqaj, the minister of Finance during the meeting dedicated to the drafting of the Strategy and Action Plan in Preventing and Fighting Informal Economy, Money Laundering and Financing Terrorism. Minister Beqaj stated that informal economy damages us all: it has negative effects in businesses, employees and the government - thus it is important that relevant institutions do their best in fighting this phenomenon and as a result offer a more reliable business environment. Minister Beqaj said that it is crucial that the Strategy in Preventing and Fighting Informal Economy, Money Laundering and financing of economic crimes becomes comprehensive and a reflection of consultations with all the stakeholders, as a condition for easier implementation. (Tribuna, Zëri & Kosova Sot, January 9th, 2014)

KOSOVO STILL MISSING THE IBAN CODE

After starting to utilize the new SWIFT codes of the Republic of Kosovo by the financial institutions in the country, competent authorities in Prishtina are working towards the equipment with the International Bank Account Number, known with the abbreviation IBAN - say officials at the Central Bank of Kosovo. The International Bank Account Number, or IBAN, is the bank account number format which standardized the international identification of bank accounts and is in use by many countries in the world. Main reason for using IBAN format, according to CBK officials, is the reduction of risk of errors in the transcript of bank account numbers, says "Evropa e Lire". Experts in economic issues consider that the application of the international bank account number may further reduce the time of bank transactions. (Telegrafi, January 20, 2014)

KOSOVO HAS FINANCIAL STABILITY

During the meeting of the National Commission for Financial Stability and Crisis Management on Monday, the Governor of the Central Bank of Kosovo Bedri Hamza, also the chairman of the commission has shared his assessment with other members of the commission that the financial sector continues to have a high level of stability and a positive development trend, thus serving as an important support to the economic development of the country. The Finance Minister, Besim Beqaj, and the Chairperson of the Commission for Budget and Finances at the Assembly of the Republic of Kosovo, Safete Hadërgjonaj pledged to continue the cooperation deriving from the Memorandum, in order to preserve the financial stability in the country. (Kosova Sot, Zëri, Tribuna & Telegrafi, January 21st, 2014)

KOSOVARS HAVE 2 BILLION EURO SAVINGS IN BANKS

Kosovo citizens, who are said to have the lowest salaries in the region and is the country with a high level of unemployment, have deposits at a very high level in commercial banks that operate in Kosovo. The amount of savings or client deposits in nine commercial banks has reached at 2 billion and 441 million euros, said the Governor of the CBK, Bedri Hamza. 'There has been an increase in deposits and this increase compared to the last year is 7.6 per cent. The economy professor, Musa Limani, said that if citizens could save over 2 billion euros in commercial banks, then according to Limani this should be a good signal, since this would enable the decrease of high interest rates in loans. (Telegrafi & Kosova Sot, January 27th, 2014)

OPTIMISTIC PREDICTIONS FOR THE WORLD ECONOMY BY THE IMF

The International Monetary Fund (IMF) joined the attitude of the World Bank (WB) and has projected quite an optimistic view for the world economy in the future. Thus, the global growth, based on the IMF predictions, from three per cent in the last year will be increased to 3.7 per cent this year, however, the industrialized countries and those in economic expansion will grow with different rhythms. At a time when the industrialized countries may expect a growth of 1.3 to 2.2 per cent, the countries in economic expansion with developing economies will have a growth from 4.7 per cent in 2013 to about 5.1 per cent this year. (Zëri & Telegrafi, January 23rd, 2014)

WB: A GROWING GLOBAL ECONOMY IN 2014

The world economy is at a 'turning point', as expressed by the World Bank, and it predicts a strong growth for the year 2014. In its annual report on the global economy, the bank has reported that the richest countries 'are finally making the turn' after the financial crisis. This is expected to support the strongest growth in the developing economies. The World Bank foresees that the global GDP will increase by 3.2 per cent this year, from 2.4 per cent in 2013. On the other hand, the GDP in developing countries will increase by 5.3 per cent this year, from 4.8 per cent in 2013. (Telegrafi, January 16th, 2014)

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF FEBRUARY 2014

A SUSTAINABLE FINANCIAL SYSTEM

The Central Bank of Kosovo (CBK), notified that the financial system of Kosovo has continued to reflect a high level of sustainability in all of its constituent sectors. According to the CBK, the banking sector, as the main component of the financial system of Kosovo, maintained the sustainability level, while the financial mediation activity continued to grow but with a slow rhythm. In the Financial Stability Report of the CBK, it is said that the improvement of the main macroeconomic indicators in Kosovo, compared to last year, presents encouraging signs for the business environment in the country, but, it did not impact the increase in the readiness of the banking sector for an accelerated expansion of lending towards the local economy. (Telegraf, February 5th, 2014)

IFC INVESTS IN RAIFFEISEN

The IFC (International Finance Corporation), a member of the Group of World Bank, will invest up to 150 million EUR in Raiffeisen Bank International (RBI), an investment which will channel the bank branches in Central and Eastern Europe, to encourage economic recovery and development in the region. The branches of RBI in Bosnia and Herzegovina, Kosovo, Poland and Russia will benefit from the investment of the IFC in increasing the capital of RBI. The final amount of the IFC investment will be confirmed when the transaction is closed and it is expected to contribute to the improvement of access to finance and empowerment of private enterprises in the region. (Zëri, February 11, 2014)

BANKS INCREASE THEIR PROFITS FOR 48,1%

According to the CBK, the performance of the banking sector has marked an improvement. The net profit of the sector in June 2013 was increased for 48,1 per cent compared to the same period of the previous year, reaching the amount of 15.2 million euros. However, according to the CBK, the revenues of the sector have marked an annual decrease of 1,2 per cent, and the expenses have also had a more emphasized decrease of 4,7 per cent, affecting with this the increase of profits of the banking sector. The revenues from the interest, including the revenues from the loan interest rates, treasury bills, and the placements with other banks, continue to be the dominating category of the revenues with a participation of 80,8 per cent. (Zëri, February 19th, 2014)

YEAR 2013, THE YEAR OF SECURITIES

The Central Bank of Kosovo (CBK), has informed that until December 2013, the calendar dedicated to securities had foreseen 12 auctions with a maturity period of 91 days, 7 auctions with a maturity period of 182 days and 2 auctions with a maturity period of 364 days. However, as a result of low offers in short term instruments, the Department of Treasury has modified the maturity period for the auction in December, from 91 days to 364 days. This has come as a result of higher bidding for long term instruments by banks. Different from previous periods, in the primary bidding there were changes showing a movement from 91 day securities in direction of those with longer terms. Thus, in the quarterly bids there was a substantial decrease in October and November where the primary stakeholders covered 97, respectively, 62 per cent of the demand of the Treasury Department for securities. Even for the three one-year auctions there has been a high bid while the interest rate marked a decrease from 1.98 per cent in October to 1.71 per cent in December. These developments as a part of the securities in general reflect a favorable position of banks' liquidity and their orientation towards the long-term instruments that have a higher return. (Telegrafi, February 28th, 2014)

BANK ASSETS ARE 3 BILLION EUROS

The Central Bank of the Republic of Kosovo (CBK), notified that the banking sector in Kosovo during the fourth quarter of 2013 was characterized with positive developments. Commercial banks' assets reached the amount of 3.06 billion euros, which presents an annual increase for 8 per cent. The increase is mostly attributed to the emphasized increase of investments in treasury bills and the kept reserves at CBK. Differing from the previous quarters, for the first time in the Fourth Quarter 2013, the investments in treasury bills, exceeded the amount of

reserves kept at the CBK. Investments reached the amount of 354.5 million euros, marking an annual increase of 38 per cent (27 per cent in 2012). (Zëri, February 24th, 2014) arritën vlerën 354.5 milion euro, duke shënuar rritje vjetore prej 38 për qind (27 për qind në 2012). (Zëri, 24 shkurt 2014)

ALBANIA, WITH A LAW FOR NON-PERFORMING LOANS

The Government of Albania is expected to approve a law, which finally clarifies the relationships of banks with the taxes for non-performing loans. The draft, which changes the Law for income tax, determines the criteria when the non-performing loan will be considered as a deductible expense, with the aim that banks do not have conflicts with the tax authorities. According to this draft, taxes are obligatory to recognize the non-performing loans as a deductible expense for banks, in case when two conditions are fulfilled. First of all, the loans that are insured with a collateral, 365 days should pass from the time when banks have deposited the request for the execution at the executive. Meanwhile, the non-collateral loans will be recognized as a deductible expense 365 days after the issuing from the court with an execution order for different assets that may have the debtor. (Kosova Sot & Tribuna, February 24th, 2014)

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF MARCH 2014

THE KOSOVO BANKING ASSOCIATION MET WITH THE IMF MISSION

As a part of the ongoing meetings of the International Monetary Fund (IMF) mission in Kosovo, on March 27 2014, a meeting was held between the Kosovo Banking Association (KBA) and its members, commercial banks in Kosovo and the IMF mission that is visiting Kosovo these days. The Executive Director of the Kosovo Banking Association, Mr. Petrit Balijsa, said that 'at this meeting, important issues for the banking industry were discussed where it was concluded that the banking industry is stable and has sufficient liquidity, but, at the same time, we have also raised our concerns regarding the stagnation of the judicial in treating the banking cases and the execution of contracts which are related to the high risk in Kosovo where there are over 10,000 unfinished cases'. The International Monetary Fund (IMF) at this meeting was represented by the IMF Resident Representative for Kosovo, Mr. Jose Sulemane, Mrs. Pamela Madrid, Senior Economist at the European Department, and Mr. Jacques Miniane, Chief of the IMF Mission in Kosovo, the European Department. Mr. Petrit Balijsa, added by saying that this meeting is very significant for the banking industry and that such meetings and discussions are always fruitful and give good results in the future. Chief Executive Directors of commercial banks that operate in Kosovo, members of the Kosovo Banking Association, were also present at this meeting. (Kosovo Banking Association - March 27th, 2014)

KOSOVO RISKS THE NEW PROGRAM WITH THE IMF

Representatives of the International Monetary Fund (IMF) have expressed their concerns regarding the recent decisions taken by the Government of Kosovo. During yesterday's meeting with the Assembly chairman, Jakup Krasniqi, they have reacted regarding these decisions that were taken on the verge of national elections. "IMF representatives have expressed their concerns regarding three issues, the Governments' decision for the salary increase, which according to them is not in compliance with the economic growth, also for the approval of the Law for war veterans, with their objection on how the law has been approved without knowing the exact number of beneficiaries, and regarding the construction of the Prishtina - Skopje highway, they said that the project risks the financial stability of the country", says the source of "Kosova SOT". (Kosova Sot - March 26th, 2014)

THE COLLECTIVE CONTRACT IS SIGNED

The Prime Minister of Kosovo, Hashim Thaçi, and representatives of the KCC (Kosovo Chamber of Commerce), AKB (Kosovo Business Alliance), and KES (Economic and Social Council), have signed a general collective contract, which determines the rights, obligations and responsibilities of the employer and the employee. Prime Minister Thaçi, after signing this contract claimed that this agreement is of a special importance as it increases the stability of employees in their workplaces. He also added that the Government of Kosovo will be a guarantor of the implementation of this agreement, transmits Kosovapress. 'From this agreement which has a huge positive impact, employers and employees will benefit from it and it will improve the market environment in the country', declared the Prime Minister. (Koha Ditore, Telegraf, Zëri, Tribuna - March 19th, 2014)

THE EUROPEAN BANK, INTERESTED TO HELP BUSINESSES

The conference 'Better financing for businesses', organized by the European Investment Bank, has gathered a big number of local and foreign investors, and business representatives. It was discussed on the support of projects, attracting investors and other details for the improvement of the business environment. Besim Beqaj, Minister of Finance, says that Kosovo as a new country, does not stand very badly, especially in infrastructure investments. The deputy president of the European Investment Bank, Dario Scannapico, said that in this conference it will be shown how to use and to promote together the best financing for businesses in Kosovo. The Prime Minister of Kosovo, Hashim Thaçi, said in the meantime that the Government of Kosovo has improved the business environment and has increased the legal norms of economic growth up to 4.5 per cent. (Telegraf - March 18th, 2014)

COMMERCIAL BANKS IN KOSOVO WILL TRANSMIT THE LOANS OF THE EUROPEAN INVESTMENT BANK

The European Investment Bank is expected to support Kosovo with loans, which according to the Minister of Finance, Besim Beqaj, are loans with very favorable conditions. Loans of the bank will not be given directly to private businesses, but will go through commercial banks operating in Kosovo and which are interested to cooperate with European Investment Bank. Until now agreements of cooperation have been signed with only one bank in Kosovo, but according to Beqaj, this could be done by all the banks that are interested. Beqaj said that banks will be required to respect the agreement with the European Investment Bank and loans will be transmitted based on that agreement. This kind of cooperation is a continuity of the agreement framework signed between the European Investment Bank and Kosovo in June of last year. In the meantime, this is expected to push forward the construction of the railroad and Prishtina-Peja road. The Vice President of the European Investment Bank, Daro Scannapieco, said that the European Investment Bank is committed to support the economy of Kosovo. (Koha Ditore, Tribuna – March 18th, 2014)

THE EUROPEAN BANKING UNION IS AT RISK

The plans of Europe for the creation of the banking union are at risk because of the disagreements related to the closing system of banks that may bankrupt. Germany is opposing the pressure of the European Parliament and seeks a modernization of the decision making of the only supervisor and a strengthening of the fund that will finance the cost of bank closure. While working inside the limits determined by Berlin, the ministers of finance of the European Union have agreed for new concessions towards the European Parliament members, but, some disagreements have returned the fear that the ambitious plan for the creation of the banking union may be postponed for one year or more. Senior officials included in the talks expressed their skepticism to get over the gap between the parties and to reach an agreement until the end of this month. Even the European Parliament is showing few signals that it may withdraw from the main requests. (Kosova Sot, Telegrafi - March 13th, 2014)

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF APRIL 2014

INTEREST RATES FOR LOANS, WITH A DECREASING TREND

The banking sector in Kosovo since after the war has shown continuous financial stability and sustainability which has reflected trust and security with citizens towards financial institution in Kosovo. This has been achieved through continuously overcoming challenges and problems which were faced by this sector, in a difficult business environment such as Kosovo. The Executive Director of Kosovo Banking Association Mr. Petrit Balijs states that “statistics for the banking sector show that there has been gradual but steady increase in access to finance and increase in quality of services while at the same time the banking industry has been able to maintain stability over its main indicators”. This is supported by published statistics on regular basis from Central Bank of Kosovo (CBK), which also shows that this sector has been one of the main carriers of important economic developments in Kosovo. Mr. Balijs states that “published statistics from CBK show that effective interest rates for loans since 2010 have shown a significant decrease. At the end of 2010 the average effective interest rate for loans was 14.31%, whereas at the end of year 2013 this rate has fallen to 11.07%. This shows that within only 3 years the average interest rate for loans issued by this sector has decreased by 3.24%. This considerable decrease in interest rates cannot be ignored especially when we consider the business environment in which this sector operates and the current inefficiency of the judicial system” states Balijs. (Indeksonline & Telegrafi, April 3rd, 2014)

SAVINGS OF KOSOVARs HAVE REACHED AROUND TWO AND A HALF BILLION

The banking industry in Kosovo continues to be stable and to operate profitably. According to the statistical report published by the Central Bank of Kosovo, the capital of commercial banks has reached in February 283,4 million euro, or 0.8 percent higher compared to the same period of 2013, whereas net profit in the first two months of 2014 reached 5.4 million euro. The Executive Director of Kosovo Banking Association, Petrit Balijs in an interview for Radio Kosova stated that this is positive not only for banks but also for the Kosovo economy. “This year also, commercial banks have been operating profitably, which contributes to further stability in the banking industry and further profitable operation of commercial banks, which is good also for the Kosovo economy”, states Balijs. Total loans from commercial banks reached in February 1.8 billion euro, whereas deposits reached 2.4 billion euro. Interest rates in deposits have fallen by 0.6 percent compared to the previous month. On average, the deposit interest rates for February have been 2 percent which shows the lowest level since 2004. According to Balijs this has occurred for several reasons. “Mainly due to the decreasing trend of interest rates in the Eurozone and also due to the liquidity that banks have currently which is not in favor of stimulating deposits. Therefore, this can be considered as a signal to slow down deposits based on the liquidity that banks have”, states Balijs. (RTK Live, April 2nd, 2014)

LOAN GUARANTEE FUND TO BE ESTABLISHED SOON

A loan guarantee fund is expected to be established soon in Kosovo, which will be financed by foreign donors. This was announced by the Ministry of Trade and Industry who have initiated its creation. According to them, the fund is projected to have 11 million euro and will ease access in finance by small and medium enterprises. Creation of the fund has been welcomed by the representatives of the business community. Minister, Bernard Nikaj, says that they have coordinated with most of the donors and are close to finalizing the agreement in creating a trusted fund and an independent institution, in which all the interested donors in guaranteeing loans will put their funds. (Indeksonline, April 1st, 2014)

SUBVENTIONS FOR FOREIGN INVESTMENTS

Minister of Finance, Besim Beqaj, announced that the Government of the Republic of Kosovo will soon approve the document for subventions of investments in Kosovo. “We have thought this through and agreed with businesses today to have at least four categories for subventions. The first category is for investments over 10 million euro and creation of at least 150 jobs, which will have no tax charged for 7 years. For investments reaching up to 10 million euro and create at least 100 jobs there will be no tax charged for first 5 years. For

investments from 2 to 5 million euro and at least 50 jobs creates, no tax will be charged for first 4 years, while for investments up to 2 million euro, which includes smaller investments, youth businesses, women businesses and other categories that are a small investments nature but which create at least 30 new jobs, no tax will be charged for first 3 years”, said minister Beqaj. (Telegrafi, Zëri, Kosova Sot, Tribuna, April 11th, 2014)

EUROPEAN CENTRAL BANK, COOPERATION PROGRAM WITH WESTERN BALKAN COUNTRIES

European Central Bank (ECB) has started today a cooperation program with Bank of Albania (BSH), Central Bank of the Republic of Kosovo (CBK) and National Bank of the Republic of Macedonia. For the program, European Union has given 500 thousand euro from the Pre-Accession Instrument funds. The program aims preparation of the central banks for the membership into European System of Central Banks (ESCB), after the respective economies have fulfilled requirements for membership in EU. It has also been stated that within the program, there will be reports prepares on evaluation of the needs for BSH and CBK, by identifying further progress to be achieved in fulfilling the EU standards for central banks.. (Telegrafi, April 22nd, 2014)

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF MAY 2014

ALBANIA AND KOSOVO CO-ORGANIZED THE FORUM FOR BANKING SECURITY IN PRIZREN

Today has ended the works of the Third National Forum for Banking Security in Prizren. The forum gathered in a roundtable the experts from the banking security field where they have discussed current issues and latest developments in the field of security, where the two elements of banking security were addressed, physical and information security. For the first time the forum was held in co-organization between banking associations of the two countries, Kosovo and Albania.

During the forum, representatives of two countries from the commercial banks, central bank, police, State Agency for Personal Data Protection as well as foreign companies disclosed their concerns and their solutions for physical and information security. (Kosovo Banking Association, May 29th 2014)

ON FRIDAY, THE FOURTH ALBANIAN NATIONAL CARD FORUM WAS HELD

The Fourth Albanian National Card Forum was held on Friday in the premises of Hotel Sheraton in Tirana, with the organization of Albanian Association of Banks. The Kosovo Banking Association was also part taking in the forum, where the vice chairman of the Committee against card fraud, Mr. Fisnik Behxheti, presented the card business in Kosovo banks. Mr. Behxheti presented details and statistics on the level of utilization of bank cards as a payment instrument, in which case Kosovo's progress was emphasized regarding the wide inclusion of card payments, compared to the region. (Kosovo Banking Association, May 19th 2014)

"ZIRAAT BANK" APPLIES AT CBK

The Kosovo's banking market is being dominated by German and Austrian banks with their capital, but recently there is a banking expansion by Turkish commercial banks, actually being there of them operating. According to CBK, we learn that the fourth commercial bank with Turkish capital have applied in request for a working license and are awaiting a decision. Besnik Kada, spokesperson at CBK, said for "Kosova Sot" that the Department for Licensing and Standardization at CBK has accepted an application from a foreign bank and it is about one of the largest banks in Turkey, "Ziraat Bank". "The application from 'Ziraat Bank' is to establish a branch of its bank in Kosovo, which is going to deal with banking activities, among which are also agriculture loans, as a more specialized activity of this bank in Turkey", said Kada. (Kosova Sot, May 23th of 2014).

THE CITIZENS ARE NOT BUYING THE MORTGAGES

For this issue economic experts are having different opinions. The lack of culture for buying the real estate through public auction, is a cause for citizens to hesitate, is saying Berat Rukiqi from Kosovo Chamber of Commerce. "It's a risk issue, especially for mortgages that are part of joint ownership of wider families. Because of the culture aspects that has been inherited for years there is a sort of consultation or 'permission' that you should obtain from neighbors and for this citizens are hesitating", said Rukiqi. The citizens' mentality for not buying the real estate's from the banks is mistaken, considers Milazim Abazi, expert for financial issues. Lack of interest for mortgages, will have also a negative impact for the client which can't pay the loan installments. (Telegrafi, May 05th 2014).

OVER 14 THOUSAND BUSINESSES WERE EXTINCT 130 THOUSAND NEW ONES OPENED

There are new businesses being registered continuously in Kosovo, but there are also many being extinct. Mehdi Pllashniku, coordinator for legal and practical issues at the Agency for Registration of Businesses within MTI, says that only this year, from January 1 till May 13 there are 4122 new businesses registered. During the same time, 14 thousand and 299 businesses were extinct. Visar Hapçiu, an economist at the American Chamber of Commerce in Kosovo said that the number of newly registered enterprises, even though may be an indicator for an environment where it is easy to open a business, is not necessarily an indicator of the economic development of that country. (Kosova Sot, May 15th 2014).

From July, Kosovo part of the 'green card'

Rrahim Pacolli, head of the Kosovo delegation for dialogue in Brussels regarding the green card, has said for Tribuna that Kosovo will be part of the 'green card' as of July this year. "We have been involved into talks even earlier and now we have signals for reaching of the agreement", said Pacolli. He explains that the Council of the European Bureau of Insurance has agreed that Kosovar insurance companies may have a common budget which in fact sends us one step forward towards the green card. "Parallel the agreement with the Serb party, at the same time we will achieve an agreement for a fund in Europe and for the beginning of issuing green card insurance policies", said Pacolli. Based on the report by Central Bank of Kosovo, insurance companies have cashed considerable income from the border insurance policies, while the percentage of damage compensation remains symbolic. The income from border insurance policies has been dozens of millions per year. (Tribuna, May 15th 2014).

KOSOVO CONTINUES TO HAVE THE HIGHEST INTEREST RATES ON LOANS

Radio Kosovo: Kosovo's financial sector, especially the banking sector, continues to play an important role in economic development. How much has this sector developed from year to year?

Petrit Balija: The banking sector in Kosovo is relatively new when compared to the region and other countries. We started with the first banking license in 2001, and since then, we have 9 banks and the 10th has just applied for licensure, so I think that there has been a very good development in the banking sector within a short period. At the same time performance is continuously improving. In 2013 we had an excellent performance and probably one of the best in recent years, so I think that the banking system has performed quite well these past years.

Radio Kosova: Meanwhile lending as well as deposits have stalled. This is also reflected in the recent report of the World Bank. Regarding loans, what is the reason for this stagnation, due to declining demand or stricter criteria imposed by banks?

Petrit Balija: Lending depends on supply and demand. Supply from the banking sector is not lacking, because we have sufficient funds to inject in the market but there has been a decrease in demand, especially in some key sectors of our economy, which are experiencing difficulties during these years and have not experienced rapid development. Interest has decreased and I can say that applications we have received are not feasible for issuing loans. On the other hand, stricter criteria may have occurred in the sectors that are experiencing difficulties because they pose a higher risk for the banks. In general the banks are interested to place their funds in the market because they have surplus, excess liquidity, but the demand is not at an appropriate level.

Radio Kosova: What is the current value of loans and deposits?

Petrit Balija: We have 2.4 billion Euros in deposits while 1.8 billion in the loan portfolio.

Radio Kosova: There is a major discrepancy between interest rates on loans and deposits. Interest rates on loans are still very high, while the ones in deposits have significantly been reduced recently. Why is that?

Petrit Balija: We need to look at long-term trends, because short-term fluctuations are numerous and may confuse the citizen and the customer. If we look at long-term trends from 2010 to 2013 the average interest rate on loans has declined by 3.5 percent. While the interest rates on deposits have also declined by a percentage point, meaning from 3 per cent, where the deposit rates were three years ago, to an average 2 percent at the present. Deposits are now at a level where they are discouraging for consumers to save, but on the other hand, they are stimulating in terms of investing and interest rates on loans are reflecting the decline of interest in deposits. Obviously, the decline cannot be reflected immediately; 6 to 7 months are needed to complete the contracts that we had with different clients however; the fall in deposit rates means a lower cost of funds for banks and also automatically means a lower interest on loans. However, as the Association of Banks and as the banking industry, we aim at consistently lowering the interest rates in line with market risk. Obviously, we cannot reduce the interest rates at the industry's risk, thus ignoring the risk in the market, but in line with the decline of risk we will also reduce interest rates.

Radio Kosova: However, interest rates on loans are the highest in the region, right?

Radio Kosova: Yes, interest rates on loans are the highest in the region. Interest rates on individual loans are not so high. Serbia has higher interest rates on individual loans than Kosovo, so we are within the average in terms of individual loans, but when it comes to business loans, we are still at a higher level compared to the region.

Radio Kosova: Why is that?

Petrit Balija: Due to the risk in our market. For instance, we are listed 138th out of 180 countries in contract enforcement. Meaning, when a contract is signed between the bank and the borrower, the implementation of the contract is problematic to enforce in its entirety. At the moment when there is any difficulty or failure in repaying the loan, the bank is in an unfavorable position, where the law is not at the banks' disposal to execute the contract in question and this presents a huge problem. This is reflected through the fact that we have over 10 thousand cases blocked in courts, representing a value of about half a billion Euros.

Radio Kosova: Within what period of time have all these cases been accumulated?

Petrit Balija: These cases have accumulated over the past ten years; there are cases that are older than 5 years, but there are new cases too. However, there is a total of 10 thousand 500 cases, with 250 million Euro in worth, which means that we have to provision an additional 250 million and this represents half a billion Euros that the economy of Kosovo cannot utilize.

Radio Kosova: Are banks facing difficulty in selling foreclosed mortgage?

Petrit Balija: We are dealing with some deeper problems perhaps even cultural in Kosovo, which have often followed some habits that are not beneficial for the modern economy, and when it comes to selling a property of an individual who has lived there for years, maybe even centuries in terms of family, then it is a problem to be sold to or bought by another party. I think that we, as a society, should reform in this direction because modern economy, free market economy requires such a reform through which there is free trading and no such obstacles. Unfortunately, it is often true that parties who wish to buy a certain property do not feel safe to do so. Hence, the bank is in a position where they have to sell the property probably at its market value and make a loss.

Radio Kosova: There is a high level of non-performing loans, which are known as bad loans, although they still remain the lowest in the region. But according to you, is there a risk that the level is going to increase?

Petrit Balija: In the recent years, we have noticed a concerning increasing trend, which has increased rapidly in the past three years, and has reached 8.6 percent, while during the last six months it has remained stable. Current stability is attributable to the interest of banks to hold nonperforming rate stable because when we realized that we had a growing problem, then banks prioritized the effort to prevent their levels rise too quickly. And thanks to these measures and the caution of the banking industry, we have managed to stabilize the level of non-performing loans. On the other hand, we have pressure to issue more loans, develop and stimulate the economy, and it is very difficult to balance this act when on the one side we stimulate businesses and issue more loans while on the other we control the level of non-performing loans and the level of risky loans.

Radio Kosova: Let's return to loans and their structure. Of the total value, how large is the share of household participation and businesses participation?

Petrit Balija: This is interesting to analyze because if we initially look at deposits, we have more deposits from households and less from businesses but then we have more loans issued to businesses and less to households and this means that households are funding businesses in Kosovo, thus we have more business loans than household loans at a rate of 75 to 25 percent.

Radio Kosova: TEB Bank has already started issuing green loans, with the support of EBRD. How much is this type of loan being utilized?

Petrit Balija: This loan is a very good example of innovative products, which the banking industry in Kosovo is trying to place on the market. This loan enables agro-businesses to have more favorable loans and we have noticed an immediate and great interest from agro-businesses. In this case, the bank in question has taken a long-term loan and will also provide businesses with a longer term grace period and we think that this will lower

the interest rate as well as the burden on the businesses, so that they can have an easier cash flow in their businesses.

Radio Kosova: With the exception of contract execution, what other challenges does the banking sector face with?

Petrit Balija: Yes, that is the primary challenge, but there are other challenges too, for example, we have problems with the cadastre, although the cadastre has recently undertaken a major project in the census of land and we have a very good cooperation with the cadastre and I think that progress is being made, but there are still some problems in this regard. Moreover, there are problems with the financial statements of businesses. Currently, financial statements of businesses are not verifiable, especially for medium and small businesses, because they are not obliged to report their audited financial statements anywhere. At the same time, we do not have access to the tax agency to see those financial statements, so the financial statements which we accept from businesses are completely unfounded and it is very difficult for the bank to measure risk adequately. So, a system of reporting audited statements, where banks can verify those statements could eliminate this barrier.

Radio Kosova: At what level are online banking services being utilized?

Petrit Balija: Banks have invested heavily in this direction in the recent years. This is also in line with the national strategy for reducing the use of cash, established by CBK, and if we look at the statistics, we see that we have doubled the electronic services in the last year, which is very encouraging and we are seeing an increase in the use of electronic services. I believe that customers are also noticing the benefit of their use, saving time; providing safety and being cheaper than physical services.

Radio Kosova: What are your plans for this year as an association and as banking sector in general?

Petrit Balija: This year's priority is the problem of the judiciary, and are working closely with CBK and the relevant institutions, in order to reduce the number of blocked cases and to improve the enforcement system, which has already started to get activated but there are several problems in the legislation and also in implementation, which we have addressed to the Judicial Council and hope to prioritize it this year and solve the issue of the judiciary and financial cases in court.

Radio Kosova: As for the 1.5 billion Euros fund, which has been mentioned as an investment in Kosovo through banks; has this yet been discussed with you and will you be able to play the role of the mediator if requested by you?

Petrit Balija: Regarding the investment fund, it is still unclear as to how this fund is intended to operate. However, the banking industry welcomes any fund that has to do with business stimulation, because even us as an industry, have a problem with the current state of businesses, because as I mentioned earlier, there is an insufficient demand from businesses which is causing excess liquidity in our banks. So, any initiative that would stimulate the private sector and the economy of Kosovo is welcome. Regarding the technical aspects of the implementation of this fund, I think it should be within the free market principles, and through proper required licensing, and if the support of banks is required in this regard, I believe that the banks will also be willing to contribute to any fund that helps the economy of Kosovo. (Radio Kosova, May 27th 2014)

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BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF JUNE 2014

SINGLE-DIGIT INTEREST RATES ARE EXPECTED FOR LOANS

Executive Director of the Kosovo Banking Association (KBA), Petrit Balija, stated that the arrival of “Ziraat Bank” in Kosovo market is very good news because, according to him, the arrival of a serious bank in Kosovo will also enrich even more the level of competition within the sector.

“I think the competition always has a positive influence on raising the quality of services and improve the supply. We are constantly working to eliminate barriers for the banking business in Kosovo market, in order for this market to be more attractive to other banks and to generate interest in this regards,” stated Balija. He stated that interest rates in Kosovo are decreasing. “Often various analysts are cited, saying that interest rates in Kosovo are over 15 percent, but the same cannot be said now, as the average interest rate on loans has decreased significantly to 10.6 percent at the end of April 2014”, he stressed.

Balija in this interview for the newspaper “Epoka e Re” indicated that by next year it is expected a decrease on interest rates for loans. “I think that by next year we will reach single-digit interest rates,” he affirmed.

Regarding high interest rates for loans, he said that they cannot be as low as in developed countries due to the risk that appears in our market. “At the moment there is any difficulty or failure to return the loan, the bank is in a vulnerable position, because the law is not available to the bank to perform the contract in question, and this is a huge issue. We have over 10 thousand cases blocked in court, which worth about half a billion euros,” he added.

“Epoka e re”: How would you rate the banking market in Kosovo?

Balija: The banking sector in Kosovo is relatively new when compared to the region and other countries. We started with the first licensed bank in 2001 and since then now we have nine banks, the 10th have been approved licenses just now. Hence, I think that there been significant development in the banking sector within a short period. At the same time performance is always improving. In 2013 we had very good performance, generating a profit of 26 million Euros for the year 2013 compared with 2012, was 18.5 million Euros more, so I think that the banking system has performed well in recent years despite difficulties that arise in the Kosovo market.

“Epoka e re”: Since there has been criticism of high interest rates, which is causes that banks are not lowering the interest rates?

Balija: Interest rates in Kosovo are decreasing. Often various analysts are cited, saying that interest rates in Kosovo are over 15 percent, but the same cannot be said now, as the average interest rate on loans has decreased significantly to 10.6 percent at the end of April 2014. Therefore, I think that by next year we will be able to have single-digit interest rates. The reason why interest rates on loans cannot be as low as in developed countries is due to the risk that appear in our market. I have consistently stated that we are listed in 136th place out of 189 countries for the implementation of contracts, which means when a contract is signed between the bank and the borrower it is a problem to implement the contract strictly. At the moment there is any difficulty or failure to return the loan, the bank is in a vulnerable position, where the law is not available to the bank to perform the contract in question and this presents a huge problem. This is reflected in the fact that we have over 10 thousand cases blocked in court that are worth about half a billion Euros.

“Epoka e re”: Recent years Turkish banks have arrived in Kosovo. Is Kosovo turning into a banking market of Turkish banks?

Balija: When it comes to business I do not think it is very important where the investor comes from, but more importantly, what is their business concept and how it can affect job creation and economic development in Kosovo. In this case, it is world renowned banks that create new jobs and finance households and businesses in Kosovo.

“Epoka e re”: Do you think that last Turkish bank licensed will result in the reduction of interest rates on loans?

Balija: I think that it is very good news that we have a serious bank in Kosovo, and it certainly will enrich even more the level of competition within the sector. I think competition always has a positive influence on raising the quality of services and improve the supply. We are constantly working to eliminate barriers for banking business in the Kosovo market, in order for this market to be more attractive to other banks and to generate interest in this regard.

“Epoka e re”: The interest rate on deposits is already lowered. How it came to this?

Balija: Taking into account that the ratio between deposits and loans during 2013 was about 75 percent, it has created a higher liquidity and as a result the cost of funds has increased. Therefore, to preserve the stability of banking, banks had to lower deposit interest rates to stabilize the industry in terms of liquidity and funding costs.

“Epoka e re”: Some political parties have planned to create new economic policy, one of them the development fund, the other the Agrobank. How much does this hurt the banking system?

Balija: Different modalities are proposed by political parties during the election campaign, but we still do not have concrete proposals with enough information to give estimates. However, I think that any initiative that would help economic development we will support it, with a condition that these initiatives are within the legal framework and the principle of the free market.

“Epoka e re”: Have you had discussions with foreign investors who are interested to invest in Kosovo for higher lending rates? If so, how they perceive this?

Balija: We have not conducted any research in this regards, but I think a lot of foreign investors are more concerned about the rule of law, contracts enforcement and the level of economic development of Kosovo than to financing options. In Kosovo, interest rates are not fixed they are negotiated on the basis of risk that represents the client and if a foreign investor is a serious company with low risk, then you will be able to get loans at quite affordable rate of interest. (June 13th, 2014 / Epoka e Re)

COMPETITION REDUCES THE INTEREST RATES

In the first four months of this year, there is a decrease for 0.9 percent on deposits, whereas there is an increase for loans for 1.9 percent. Interest rates in Kosovo are over 15 percent, but it cannot be said now, as the average interest rate on loans has decreased significantly to 10.6 percent at the end of April 2014. The entry of a new bank in this market has increased the competition, which impacts positively on raising the quality of services, to improve the supply and reduce the interest rates, said Petrit Balija, Executive Director of the Kosovo Banking Association.

In Kosovo banking market, 10 commercial banks perform their banking activities, hence the entry of a new bank in this market has increased competition, which impacts positively on raising the quality of services, improving the supply and reduce the rates interest, said Petrit Balija, Executive Director of the Kosovo Banking Association. He said that the entry of the Bank “Ziraat Bank” from Turkey and its introduction into the Kosovo market it’s

a good news, because, according to him, the arrival of a serious bank in Kosovo will enrich even more the level of competition within the sector. "I think the competition always has a positive influence on raising the quality of services and improve the supply. We are constantly working to eliminate barriers for the banking business in Kosovo market, in order for this market to be more attractive to other banks and to generate interest in this regards," said Balija for the newspaper "Lajm". He stated that interest rates in Kosovo are decreasing. "Often various analysts are cited, saying that interest rates in Kosovo are over 15 percent, but the same cannot be said now, as the average interest rate on loans has decreased significantly to 10.6 percent at the end of April 2014" stressed Balija.

For newspaper "Lajm" he indicated that by next year it is expected to decline even further the interest rates on loans for citizens, by dropping them in single digits. "I think that by next year we will reach single-digit interest rates," he affirmed. Regarding high interest rates for loans, he said that they cannot be as low as in developed countries due to the risk that appears in our market. "At the moment there is any difficulty or failure to return the loan, the bank is in a vulnerable position, because the law is not available to the bank to perform the contract in question, and this is a huge issue. We have over 10 thousand cases blocked in court, which worth about half a billion euros," he added.

According to him, the arrival of new banks in Kosovo's banking market increase the competition, whereas according to him, the competition is positive, respectively impact positively on increasing the quality of services, and improve the supply and decrease the loan interest rates. "The arrival of "Ziraat Bank" in Kosovo market is very good news because, as it will enrich even more the level of competition within the sector and will bring new offers for the citizens and the businesses in Kosovo", stated Balija. "I think the competition always has a positive influence on raising the quality of services and improve the supply.

We are constantly working to eliminate barriers for the banking business in Kosovo market, in order for this market to be more attractive to other banks and to generate interest in this regards," stated Balija.

He announced that by April 2014 there is a decrease on deposit, over 20 million deposit less. "By the end of April 2014, the banking sector in Kosovo possesses 2,430.1 million deposits or 20.9 million euros less than at the end of 2013, when deposits have recorded 2,451 million euros. This means that we have a decrease for 0.9 percent of deposits for the first four months of 2014," explained Balija. According to him, households have bank deposits mostly or 73.7 percent. "Of the total deposits, 2,430.1 million euros, 1,793 million euros are household deposits. Thus, 73.7 percent of total deposits comprise deposits of households, while the rest of the deposit in the amount of 637 million euros, represent businesses, companies and other public institutions deposits ", he stressed.

For the first four months of this year deposits have declined, while loans have increased. "Unlike deposits recorded a decrease in the first four months of this year, loans extended by the banking sector in April 2014 amounted to 1,839.7 million euros or 33.9 million euros more credit than the end of 2013, when the value total loans issued was 1,805.8 million euros ", underlined Bali. "This means that 1.9 percent has increased the value of loans issued for the first four months of 2014. Out of the total loans extended by the banking sector by the end of the month of April 2014 amounts to 571.2 million euros, or 31 percent are loans issued to households, while 1,268 million euros are loans issued to businesses or to other sectors," said Balija. (June 18th, 2014 / Lajm, Kosova Sot, Telegrafi).

CORPORATE GOVERNANCE, BUSINESS PRIORITY

Kosovo CSR Network, supported by the International Finance Cooperation (IFC), a member of the World Bank Group, has organized on Wednesday a meeting regarding the latest development in best practices of corporate governance, the highest standards of EU on declaration and integrated reporting. In this event, the chairman of the Board on CSR Network, Robert Wright stated that corporate governance should be a top priority for the business sector in Kosovo since according to him, unfortunately, this is not applied as much as it should. "The standards of corporate governance in Kosovo are lower than what is considered normal or acceptable in 2014 in Europe," he said. *(June 12th, 2014 / Epoka e Re)*

MILLIONAIRES, WHOSE MONEY SOURCE IS UNKNOWN

On all existing legal mechanisms for reporting any banking transaction over 10 thousand euro, whether by individuals or entities in various commercial banks, in Kosovo there are millionaire citizens without knowing the source of origin of their financial means, stated experts on economic issues.

Professor Musa Limani, said for Radio Evropa e Lire, that banking transaction should be controlled and financial institutions should seek the source of funds. "It is with no comment why they do not declare it, because in our country there is no responsibility and the 'big fish' are not subject to these procedures. Otherwise, by law no transaction can be implemented without knowing the source. For this reason we have millionaires who do not declare the source of income," said Limani.

On the other hand, Petrit Baliija, executive director of the Kosovo Banking Association, for Radio Evropa e Lire, says it is a legal obligation for commercial banks in the country to search for the source of the transactions. Meanwhile, under the laws it is banned the publication of data of these customers. *(June 24th, 2014 / Telegrafi, Express, Tribuna, Radio Evropa e Lire).*

BUDGET TRANSPARENCY, WEAKNESSES OF GOOD GOVERNANCE

Public budget is required to be transparent so that the general public is notified about the budget expenses and where budget funds are invested. According to experts of economic issues, budgetary transparency in Kosovo is considered to be at a non-satisfactory level, which is a weak point of good governance, and in the future to have higher budget transparency.

The director of the Kosovo Banking Association, Petrit Baliija for "Lajm" newspaper said that one of the most important instruments of a state is public budget, but it should also be transparent so that the public shall be notified about expenditures.

According to him, of course, budget transparency is needed. He explained that budget transparency in Kosovo is considered to be at not satisfactory level. "I think one of the most important economic instruments for state-building and economic development is exactly the state budget. Information on the state budget are generally available to interested parties, but according to the analysis of some independent institutes for economic research, it is considered that budget transparency in Kosovo is not at satisfactory level in terms of drafting, budget spending and reporting", Baliija said.

Furthermore he explained that the budget agencies should not rush and make rushed budget reports. "So I think that ministries and state agencies should not make rushed budget drafting. They should be more comprehensive in the process of drafting the budget and also make a better monitoring of costs and be more transparent in order and reports, in certain intervals, so that the public have greater access on this information and have a greater accountability to the citizens of Kosovo," Baliija said in the end. *(June 25th, 2014 / Lajm)*

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF JULY 2014

IFC SUPPORTS THE FINANCIAL LITERACY PROGRAM IN KOSOVO

IFC, a member of the World Bank Group, have signed an agreement with Kosovo Banking Association, marking a joint commitment to improve the financial literacy in Kosovo. Improving financial literacy will help to increase skills and knowledge of the clients and potential clients of banks in Kosovo on foundations of finance.

As the Kosovo financial sector deepens and consumers with lower financial capability start using more financial services, the country has shifted the attention to the consumer's protection and financial literacy and for ensuring that consumers are treated fairly. Citizens' lack of understanding of contractual relations and basic foundations of finance hamper the development of entrepreneurship, household and small businesses. It is also widely acknowledged that financial understanding among FI's clients, especially consumers, households and MSMEs, is low.

Established in 2002, KBA is the representation of the banking industry. KBA represents all eight commercial banks. It cooperates with the Government, the Central Bank of the Republic of Kosovo, media and the public with the aim of supporting a healthy banking industry, which promotes the long term economic development in Kosovo.

IFC will assist KBA to implement a Financial Literacy program in order to improve the current level of FL of the population, specifically targeted at existing and potential banking clients in Kosovo. This program offers a large set of tools, identifies the best delivery channels, and ensure the consistency of the key messages of the program on nationwide level.

Petrit Balija, Executive Director of the Kosovo Banking Association expressed that "The commercial banks of Kosovo are continuously participating in projects that aim to improve the socio-economic conditions of the citizens of Kosovo. This project between KBA and IFC is a great example of such an initiative that we believe will help to educate and raise awareness about the banking system in our country". In the initial phase of the program, a broad financial literacy study will be conducted, with the objective to assess the current level of financial literacy among population.

Based on study results, trainings and counselling will be organized aimed to increase financial literacy of banking existing clients and potential clients. Moreover, design and development of marketing materials for a wide range of population through different delivery channels, such as television (TV) and radio broadcasts; printing materials and use of new technologies (SMS and/or call center messages). *(July 2nd, Agjensia e Lajmeve Ekonomia, Kosova Live 360)*

BANKS GET "ARMORED"

After a large number of robberies that have occurred this year in Kosovo, but also last year, officials of commercial banks have started to get new security measures in all facilities that they have. PR officer of "ProCredit Bank" Fitore Sinani, told to the newspaper that recently it is noticed an increase number of robberies of various institutions and companies in Kosovo. "We, as a bank, are concerned with such a thing and we consider that these robberies are related to external factors, which require stringent measures and a systematic and coordinated approach to all institutions in the country," she said.

While media and public relations officer of "Raiffeisen Bank", Iliriana Tahiraj, told to the newspaper that this bank in Kosovo implements security measures in accordance with internal policies and procedures and in accordance with applicable laws in Kosovo. Tahiri said that "Raiffeisen Bank" has a very good cooperation with

the Kosovo Police and other security institutions in Kosovo, in order to jointly achieve the desired results in the field of security.

As general figures, police stated that in 2013 are reported a total of 493 cases of robbery, while in 2014 we have had a total of 123 reported cases. *(July 8th, Kosova Sot)*

INTEREST LOANS REMAIN DOUBLE-DIGITS

Kosovo continues to be the country with the highest interest rates on loans in Europe, and so even if we compare with our region. According to economic experts, the reduction of these high interest rates is an imperative need to promote economic development in our country.

Petrit Balijs, executive director of the Kosovo Banking Association, said that there was a decrease in the interest rate on the loan for 4 points if its compared April 2014 to 2010. He believes that by next year the average interest rate for credit will be single digits.

President of BAC, Agim Shahini said that our country leads with higher interest rates on loans. "Unfortunately, in our country operate only commercial banks, where in the market economy demand and supply determine the price. *(July 14th, Kosova Sot)*

BANKS, UP TO 30 EUROS FOR A CERTIFICATE

Commercial banks in Kosovo recently have extremely increased the price of their administrative services. Just for a certificate that was issued to their customers, who no longer have any financial obligation to that bank, depending on the bank it is paid 15, 25 up to 30 euros.

Besnik Kada, CBK spokesman, said that prices and tariffs for products and services offered by banks are set by banks themselves, depending on the assessment of their cost and banks are obliged to disclose these fees, in accurate and clear way for all their clients, in order to enable them to compare the costs for products and services offered by different banks.

Regarding to these extortion that commercial banks are doing to their clientele experts and specialists of banks have separate opinions. Petrit Balijs, executive director of the Kosovo Banking Association, said that commercial banks in Kosovo make cost calculation for providing a service, depending on the nature of the services. "If a service is not part of the regular product-service of the bank and needs more manual work, then the cost is higher for that service. However, consumers should compare banks comprehensively and not just focus on one aspect and so evaluate which bank offers the cheapest prices and best services, in order to choose the best alternative, as this is a matter of free competition between banks. But at the same time we need to clarify that there are some commercial banks, who to their clients for these types of services did not receive any euro "Balijs said. *(July 23rd, Kosova Sot)*

MORTGAGES ARE NOT SOLD

All citizens who have loans in commercial banks, as a guarantee should leave a real estate as collateral, the value of which should be two times higher than that of the borrowed loan.

For this, customers in various commercial banks have left as mortgage shops, homes, cars, lands, electronic and technological equipment.

And if customers have trouble repaying the loans, banks are entitled to issue the mortgage for sale by public auction, in most cases, the value of mortgage greatly impaired.

Experts on financial issues in Kosovo believe that the functioning of the banking system and the beginning of issuing loans, banks have sought high value mortgage and devalue it. Flamur Keqa, considers that in assessing loans, bank analysts should focus more on the possibility of income and not to the mortgage assets.

Regardless, the fact that very often in print media it is noticed the advertisement from commercial banks to sell mortgages, the interest of third parties to buy properties which are the subject of judicial sales is very low. (July 24th, *Radio Evropa e Lire, Tribuna, Telegrafi*)

TEB BANK RELEASES THE 1,000TH AGRO CARD

Upon issuance of the 1,000th Agro card, TEB bank in collaboration with USAID, on Wednesday organized a press conference at the company's facilities "Haxhijaha" in Rahovec.

The CEO of TEB, Ayhan Albeyoglu emphasized that the Agro card since the first day of launch in the market has shown exceptional signs of success. While the Director of the Office of Economic Development at USAID, Scott Cameron, said that it is a pleasure to see with what speed this concept was adapted by businesses and farmers and how banks respond to their requirements consistently. (July 25th, *Telegrafi, Zëri*)

EUROMONEY: RAIFFEISEN BANK , THE BEST BANK

British financial magazine Euromoney awarded the prize as "Best Bank in Central and Eastern Europe" Raiffeisen Bank International AG (RBI) already for the eighth time. The award is given at a ceremony in London last Thursday. At the same time, are awarded the prizes even for the best banks operating in certain markets, among which were the four banks of Raiffeisen Bank International network. Raiffeisen Bank Kosovo has received the award as the "Best Bank in Kosovo" while the same prize in the states where they operate, is awarded to Raiffeisen Bank International in Bosnia and Herzegovina, Romania and Serbia.

"We have always invested in further development of banking products and services in Kosovo. In 2013, we increased the portfolio of loans and deposits. The use of electronic services was one of our priorities in 2013, the use of these services by our customers is increased by 50%. This award recognizes our excellent results and confirms our commitment to meet the demands and needs of our customers," said Robert Wright, executive director of Raiffeisen Bank Kosovo. (July 15th, *Telegrafi, Kosova Sot, Zëri*)

IT IS INAUGURATED THE PARK IN "DARDANIA"

ProCredit Bank as a bank that invests every day in caring for the environment, today inaugurated the park in Dardania in Prishtina. More than 9500 public sqm is green and equipped with seats and baskets - transforming this space in a comfortable park to stay and use for residents who live around. This investment of ProCredit Bank in made possible in cooperation with the Municipality of Prishtina.

Shpend Ahmeti the Mayor of Pristina said that 'this project began as an idea last year, that one of the parks in Dardania to get restored, plant with trees, place benches in order to be used by citizens. Moreover, the idea is that a corporation like ProCredit Bank which operates not only in our community but in our state to use a portion of its turnover to invest in something that has social benefits for all citizens.

The investment in this park reflects the need for more public green spaces in Kosovo and continuing contribution to the environment of a responsible financial institution.

"With this investment we as a bank, aim to contribute in the increase of green areas that are very important in urban areas. This investment closes a project to increase green spaces in many cities nationally, representing a total investment of nearly 60,000 euros, about 415 trees planted and over 10,500 m² of green area," said Ilir Aliu General Director of ProCredit Bank . (July 18th, *Telegrafi*)

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF AUGUST 2014

FROM FEBRUARY 1ST, KOSOVO'S BANKS WILL HAVE IBAN

From February 1st, next year, bank accounts in Kosovo will have the international IBAN format or the International Bank Account Number.

This format will help mitigate the risk of transcription errors in bank account numbers, and will facilitate the inflow of international payments in Kosovo.

On February 1st, next year, the bank accounts in banks of Kosovo will also have the IBAN format or the International Bank Account Number.

A press release of the Central Bank of Kosovo reads that the primary purpose of using IBAN format is to reduce the risk of transcription errors in bank account numbers, as well as to facilitate international payment inflows in Kosovo, enabling foreign banks to have a clear identification of the beneficiary bank account in Kosovo and verification of the accuracy of this account.

Although no figures are given on the number of errors made during transactions so far, officials of the Kosovo Banking Association claim that there have been errors from clients and banks, and each party has taken its responsibility, but according to them, this format will eliminate possible errors and will increase the security of transfers.

"IBAN first identifies the state where the transfer is directed, then identifies the banking institution where the transfer is addressed, and finally the individual subject to transfer. Bank transfers have been safe until now, but the possibility for error was much larger and a lot of attention had to be applied, and in cases when an error occurred it was often incorrigible in international transfers. We cannot say that we have not had a safe system, but this only adds security, and eliminates human errors that can occur during the transfer of payments," says Petrit Balija from the Kosovo Banking Association to RTK.

According to Ibrahim Rexhepi, this format is a step forward for the national banking system towards international integration. "After the acceptance of SWIFT Code it was understandable that the next step will be IBAN or conditionally the establishment of international accounts for each account holder in Kosovo's commercial banks. This will facilitate the work and at the same time is step forward for the integration of banking system in Kosovo towards the European system or general international system", said Ibrahim Rexhepi, expert on economic issues.

Leaders of Kosovo Banking Association evaluate that this format will help national security structures, since this will enable the supervision of each income and outcome transaction. According to them the client is not obliged to pay for the format, if the bank applies the code. (RTKlive, August 8th, 2014).

180 MILLION EURO ON HOUSEHOLD LOANS FOR SIX MONTHS

The economic crisis in the country is increasing greatly. Households are facing huge shortage of cash, while they are forced to take loans to cover essential costs.

Official data shows a continuous increase in demand for loans, while household loans are rising significantly compared to last year. Over 144 million Euros has increased the amount of loans issued this year compared with the same period of last year.

According to the Kosovo Banking Association (KBA) for the first six months of this year, about 512.20 million new loans were issued, while for the same period of last year 367.4 million Euros were issued. Household loans have marked a large increase. Only, during the period January to June 2014 approximately 28.3 million more new loans were issued compared to the same period in 2013, an increase of 18.7 percent.

Petrit Balijs, KBA's director, said that if we compare the new loans issued for two periods, then we can see that households during January-June 2014 had approximately 28.3 million Euros more new loans issued than the same period for 2013. On the other hand, experts on economic environment in the country have estimated that since wages in the country are very low, then households must obtain consumption loans. (*Zëri, August 26th, 2014*)

EBRD MILLIONS "DISSOLVED"

Although there are more than two years since our country became a member country of the European Bank for Reconstruction and Development (EBRD), based on allegations of business representatives and experts in the field of banking and finance, Republic of Kosovo has not seen many benefits from this international bank regarding investments that were expected.

Executive Director of the Kosovo Banking Association, Petrit Balijs, said that Kosovo has become a member of the European Bank for Reconstruction and Development in late 2012. "Membership in this multilateral development bank is very important for Kosovo's economy, because that enables EBRD to inject funds into the Kosovo economy by investing directly into businesses in Kosovo, but also in lending by commercial banks in Kosovo" he said. According to him, a successful example of EBRD lending agreement is reached with the bank TEB in 2013. "This agreement is made for a loan through which EBRD has provided a total of 5 million Euros for TEB, for lending to businesses and individuals for investment in energy efficiency projects", he said.

The President of the Association said that TEB has managed to disburse the loan into Kosovo market almost completely within one year. "From this loan both households and businesses have benefited, through financing for energy efficiency projects and renewable energy", he said. Balijs also mentioned the case of purchasing 10 percent of the shares of Bank for Business in 2011. "This investment has been very useful to BPB, the banking sector as whole, but also for the country's economy, as it indicates a high reliability of the EBRD in Kosovo's banks which is a very positive signal to foreign investors", he said. (*Kosova Sot, August 26th, 2014*)

KOSOVO REMITTANCES HIGHER THAN IN ALBANIA

During 2013, the Kosovar immigrants have sent 621 million Euros to their home country, while Albanian nationals only 497 million Euros.

Meanwhile, Germany is the state from which immigrants have sent the major part of remittances to Kosovo. During 2008-2013 from this country on average 210 million Euros were sent from Kosovar immigrants.

This figure comes as a result of the high number of Kosovar immigrants in Germany. In the second place is kosovar diaspora in Switzerland, with 147.4 million Euros. (*Telegrafi, Tribuna, Kosova Sot, August 1st, 2014*)

MONEY EXCHANGE IN THE STREETS HAS NOT STOPPE

Nearby exchange offices there are plenty exchangers that offer their services on the streets. Petrit Balijs, director of the Kosovo Banking Association, says that the exchange points are not part of the banking industry and Kosovo Banking Association cannot speak on their behalf.

“However, I can say that commercial banks in Kosovo offer exchange of main international currencies including the Euro, U.S. dollar, Swiss franc and British pound. The exchange of these currencies is made on supply and demand basis and is a well supervised service in the banking industry.

However, it is important to have a regulatory basis and a good supervision of these exchangers outside the banking industry in order to prevent the occurrence of problems in the financial sector”, said Balija. While the media officer of the Central Bank of Kosovo, Besnik Kada, said there are a total of 35 foreign exchange offices which are approved by CBK to conduct foreign exchange activities. (*Kosova Sot, August 5th, 2014*)

THE FUNCTIONALITY OF THE CREDIT GUARANTEE FUND IS EXPECTED

The functionality of Credit Guarantee Fund is expected very soon, a fund that is financed by the Government and international donors, government officials stated. This fund aims to facilitate the access to loans for businesses that do not have sufficient collateral for borrowings.

Valdrin Lluka, general director of the Kosovo Investment and Enterprise Support Agency (KIESA), which functions within the Ministry of Trade and Industry, stated for Radio Evropa e Lire that one of the main challenges of businesses in Kosovo remains the access to finance and this fund will ease their burden.

Banks still have in ownership the loan selection process of the loan applications. But, in most cases, small and medium enterprises do not have sufficient pledge to provide banks to get a loan of that amount. And, as a result, we step in to help those companies that do not have enough mortgages. The fund will cover 50 to 75 percent of the pledge”, explains Lluka. (*Radio Evropa e Lire, Telegrafi, August 15th, 2014*)

THE RUSSIANS ENTER THE CBK

Newspaper “Zëri” has obtained documents which show that the Russian company “CMA Small System” through its close relation to the senior official of the CBK, is being favored in the tender for handling RTGS system, which deals with confidential data, where not everyone can have access.

Any transfer, deposit and financial information of Central Bank of Kosovo (CBK) are likely to fall in the hands of the Russian company “CMA Small System”. (*Zëri, August 20th, 2014*)

EXPLANATION BY CBK IN REGARDS TO THE ARTICLE TITLED “THE RUSSIANS ENTER THE CBK”

In the yesterday’s daily newspaper “Zëri” on its front page, an article was published regarding the process of selecting the company that will be contracted in the development and support of the automatic transfer system.

Although the article in general is about the tendering process, we consider that the title of the article and the paragraphs in the text that refer to personal relations, which could have an impact on the selection process appear to be biased and can cause confusion to the public. The purpose of this explanation is not polemical for the article in question, but to provide relevant facts and ensure transparency in the evaluation process of this tender. As pointed out by the deputy-governor Fatmir Gashi, in his statement in the article in question, we reiterate once again that the public tender was open to all interested companies, both local and international.

The fact that the company “CMA” has previously won a tender in CBK, does not mean at all that this company is being favored in the current tender. Contrariwise, the evaluation process is moving forward and currently none of the companies are favored to win the tender. (*Zëri, August 22nd, 2014*)

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF SEPTEMBER 2014

PROPOSAL FOR ESTABLISHING A REGIONAL STOCK EXCHANGE

Kosovo remains the only country in Europe and in the region that does not have a stock exchange market. The expert in this field, Petrit Baliija, president of the Kosovo Banking Association, said that Kosovo has opened the way for the development of financial markets in early 2012, when for the first time treasury bills were issued by the Government of Kosovo and since then much progress has been made in this direction.

“In this regard, it has often been discussed about the possibility of a joint stock exchange market in the region, but there is still nothing concrete,” said Baliija. According to Baliija, creating a successful stock exchange market would enable three main functions for the citizens and businesses of Kosovo: growth of capital for companies and other organizations that need funding, good investment opportunities for those who have excess liquidity where they can choose from a wide range of investment alternatives and the possibility of investment liquidity, as securities can be bought and sold freely at any time.

“Therefore, I consider that the establishment of a regional stock exchange market, where supply and demand is sensational would provide a good opportunity for economic development,” he said. (Kosova Sot, September 2nd, 2014)

KOSOVO BANKING ASSOCIATION (KBA) SIGNED A MEMORANDUM OF UNDERSTANDING WITH THE EUROPEAN BANKING FEDERATION (EBF)

On September 1st, 2014, a memorandum of understanding was signed between Kosovo Banking Association and the European Banking Federation. On the one hand, Kosovo Banking Association as the representative of the banking sector in Kosovo, representing the eight banks, and on the other hand the European Banking Federation as the voice of the joint banks established in Europe, have reached an memorandum of understanding with the aim of developing, strengthening and intensifying the cooperation between the parties to achieve objectives and common goals.

The objectives of this memorandum will be achieved by exchanging information on regulatory developments, exchange of ideas and views on a close cooperation at the global level and with global organizations.

Executive Director of the Kosovo Banking Association, Mr. Petrit Baliija said that the memorandum of understanding paves the way for further membership in international instances for faster integration in the financial system of Kosovo and the Republic of Kosovo in the European Union. The scope of this cooperation includes exchange of information, publications and resources, promotion of best banking practices, arrangement, promotion and support events and meetings between the parties. (Kosovo Banking Association, September 16th, 2014)

FINANCE FAIR 2014 IS CONCLUDED

Today, the Finance Fair 2014 organized by the Kosovo Banking Association (KBA) was concluded. This Fair presented different companies /institutions such as banking institutions, non-banking financial institutions, microfinance institutions, insurance companies, auditing and accounting companies, educational institutions, other diverse agencies and programs.

Besides exposing these various companies, the Finance Fair organized two conferences and a forum. The first conference entitled “Contract enforcement and access to finance” was held on the first day of the Fair, and on the same day also the second conference “How to cooperate with banks for better interest rates?” was held.

While the forum with the theme “Financial Risk Environment” was held on the second day of the Finance Fair 2014. The Executive Director of the Kosovo Banking Association, Petrit Balijsa said that this fair is considered to be one of the best so far, because the interest of visitors was greater during the fair and priority themes for the country’s economy and financial sector in particular were treated.

Conclusions of these conferences held within the Finance Fair 2014 will be published in the Periodic Review of the Financial Sector of Kosovo published by the Kosovo Banking Association in October, a publication which can be downloaded from the web site of the KBA. (Bota Sot, infodirekt, KosovaLive360, September 25th, 2014)

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CREDIT ACTIVITY IS RECOVERED

Kosovo’s banking market continues to be attractive to investors and continues to reflect the high level of sustainability in all aspects, including the high level of capitalization, strong liquidity position and good quality loan portfolio. This was claimed by the governor of the Central Bank of Kosovo (CBK), Bedri Hamza at the opening of Finance Fair 2014, organized by the Kosovo Banking Association. (Kosova Sot, September 25th, 2014)

DEPOSITS GREW BY 25.9 MILLION EUROS

Based on official CBK data, Kosovo Banking Association and representatives of one of the commercial banks, despite the decline of interest rates on deposits, there was no decline in deposits of citizens. Besnik Kada, media relations and communications officer at CBK, said the banking sector deposits amounted to 2.42 billion Euros on June 2014, marking an annual growth of 10.0 percent, which represents the highest rate of growth in the last two years. Moreover, Petrit Balijsa, president of the Kosovo Banking Association, says that based on the reports of the first half of 2014 from the banking sector, deposits have increased by 25.9 million Euros, reaching 2 billion and 474.9 million Euros from the 2 billion and 449 million Euros as of the end of 2013. “According to some studies conducted by several commercial banks in Kosovo, the interest rate is not one of the main selection criteria of the bank by customers in Kosovo,” said Balijsa. He added that research shows that customers prioritize other aspects, such as reliability, customer service, the range of products, a network of branches and ATMs, online services, etc.” (Kosova Sot, September 4th, 2014)

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF OCTOBER 2014

LICENSED REAL ESTATE APPRAISERS

In a ceremony at the Kosovo Chamber of Commerce (KCC), the first licenses for real estate evaluators were delivered. Individual professional licenses were issued by the Board for Licensing of Real Estate Appraisers, after following around 120 hours of training. Trainings are conducted in the Kosovo Chamber of Commerce by trainers from Albania. The President of the Kosovo Banking Association, Petrit Balijsa, said that this early



generation of licensees will have the heaviest burden to establish sound practices for the assessment of real estate. According to him, the real estate market is the main foundation for the development of the banking sector. (Economy Online, October 22, 2014).

IMPROVEMENT OF CLIMATE FOR DOING BUSINESS

In the World Bank report on “Doing Business” for 2015, Kosovo has made progress in the overall ranking in this report; officials of the Agency for Business Registration within the Ministry of Commerce and Industry of the Government have claimed.

They have focused on two of the 10 indicators assessed in the report on “Doing Business”, which are directly linked to the Ministry of Trade and Industry, and the Business Registration Agency.

The World Bank report on “Doing Business” for 2015 has ranked Kosovo at position 75. (Zeri, October 30, 2014).

WORLD SAVINGS DAY MARKED



Today the anniversary of World Savings Day was also marked in Kosovo, at a time when bank deposits in commercial banks in Kosovo have reached the highest amount ever, about 2.5 Billion Euro.

The Executive Director of the Banking Association Mr. Petrit Balija, spoke in an interview for Radio Television of Kosovo, saying that this day is commemorated with the aim of raising awareness to citizens about the importance of opening bank accounts and establishing savings habits. Mr. Balija's message was for Kosovo's citizens not to keep cash in their homes as this way of holding financial assets is unsafe.

He stressed that the banking system in Kosovo is well capitalized and liquid, and provides a safer option for citizens' savings. Mr. Balija also mentioned the Deposit Insurance Fund which already insures part of savings and that this fund is growing. (Radio Television of Kosovo, October 31, 2014)

POLITICAL CRISIS THREATENS BANKING SECTOR

The executive director of the Kosovo Banking Association, Petrit Balija, said that the political deadlock is directly impacting negatively on the banking sector, as in any other sector. If there will be no solution to the political crisis by the end of the year, targets set for reducing interest rates on loans may be at risk. "If this situation persists until the end of the year, this would result in direct adverse effects on the development of the banking sector and many other sectors and will have a real cost that won't be recovered," said Balija. He said that, as in other sectors, the banking sector has been affected by the political deadlock in a negative way. "Like other sectors, the banking sector has been negatively affected by the political situation created, since there are delays in the necessary measures to improve the environment for doing business in Kosovo," said Balija. According to him, there are many reforms that have been undertaken by various ministries and agencies, but there are others that require approval by the Assembly of Kosovo. "There are times when certain councils and boards mandate has expired and we cannot address our requests in these instances until the formation of institutions; some of these cases can carry major consequences," said Balija for the newspaper "Epoka e Re". He added that all these delays are very harmful, when we consider the dynamics of developments in the banking sector. When asked if there will be interest rate cuts on loans next year, Balija responded: "I explained that if the trend of recent years of declining interest rates continues, next year we will certainly have single-digit interest rates on loans, but I hope that the necessary reforms continue to occur in order for this plan to be realized by next year. But, if reforms and economic development stagnate as caused by the political crisis in the country, then these targets may be at risk and we may not see the desired results." (Epoka e Re, October 29, 2014).



JUSTICE CRISIS STRAINS THE BUSINESS



Corruption, dysfunction of the Judiciary, the lack of professionalism among judges is one of the main problems, which businesses operating in Kosovo are facing. The large number of cases affects also the activity of banks in Kosovo. Preveza Muharremi, Head of the Anti-Money Laundering and Legal Compliance Department at ProCredit Bank, explained the problems brought by unresolved cases. There are over 2500 cases subject to the bank she represents. "ProCredit Bank, has over 2500 execution cases, some of these cases date back to 2009," she said. (Kosova Sot, October 15, 2014).

RAIFFEISEN PASSES THE TEST

Raiffeisen Zentralbank Österreich AG Group (RZB) - which represents the central institution of the Austrian Raiffeisen Banking Group, including the Raiffeisen Bank International Group (RBI), companies in specialized



sectors and UNIQA - successfully passed the stress test of the European Central Bank (ECB). RZB significantly exceeded capital adequacy ratios, in the basic scenario as well as the adverse scenario stress test. (Zeri, October 28, 2014)

BQE: 25 BANKA EUROPIANE "TË SËMURA"

Bankat në Europë kanë një mungesë prej 25 miliardë eurosh, apo 31,7 mln dollarë, të cilat do të ishin të nevojshme për t'i mbijetuar një krize financiare apo ekonomike. Lajmi është bërë i ditur nga vet Banka Qendrore Europiane këtë të diel. Përfundimi ishte rezultat i një auditi njëvjeçar i huadhënësve të eurozonës, dhe përbën një pikë kthese potenciale për ekonominë e goditur të rajonit. (Kosova Sot, Koha Ditore, 27 tetor 2014)

GERMAN BANK APPLIES NEGATIVE INTEREST RATE TO CUSTOMERS

On Wednesday, a small German bank announced that it will offer "negative interest" for monetary deposits in large amounts, meaning that customers will get charged 0.25 percent on deposits higher than 500,000 Euro.

European Central Bank, last year, has determined a negative scale for large banks to so-called "overnight deposits" (maintaining daily bargaining), but this is the first time in Germany that customers have to pay banks for custody of their monetary funds, transmits lajmi.net

Skatbank, a small bank in Altenburg city, east of Germany, has announced that negative interest rates will start to apply from next month. The spokesman of this bank said Skatbank, which has 15,000 clients, currently does not pay interest on deposits over 500,000 Euro.

The interest rates in Germany have melted after the European Central Bank tried to revive the dormant area of the eurozone through cheap credit, but it did not give any result to be commended. Financial markets are greeting cheap loans, but rich Germans are protesting because of a lack of opportunities for beneficial investments.

Portal Verivox has announced that commercial banks few weeks ago have started applying the negative interest rates. /lajmi.net/ (Zeri, October 31, 2014)

DRAGHI: EUROZONE AT CRITICAL PHASE

The eurozone is in a critical phase, with an economy that has lost momentum, where investment is weak, confidence is declining, credibility is at stake, inflation is at record-low levels and many decisions taken have not produced the expected results. Grim picture of the economy of the old continent is made by the head of the European Central Bank, Mario Draghi. (Scan TV, October 27, 2014)

BANKING INDUSTRY NEWS THAT MARKED THE MONTH OF NOVEMBER 2014

SWIFT CODE PREVENTS MONEY LAUNDERING



SWIFT bank code acquisition in 2013 and iban in the coming year will help banks in the fight against money laundering. The CBK spokesman Besnik Kada, said for "Kosova Sot" that Kosovo's financial institutions' SWIFT codes with state unique identification are effective starting December 2013. The Director of the Kosovo Banking Association, Petrit Balijsa, told the newspaper "Kosova Sot" that the right to use the state SWIFT code, except for making transfers faster and lower in cost, has its implications on the safety of these transfers, making them safer. According to him, formatting bank accounts with iban affects the reduction of errors in transfers and also affects enhancing the security of transfers. Balijsa said that at

the same time these advancements in international transfers facilitate the work of state agencies dealing with investigation and combating of money laundering, since they make it easier and more accurate to track money movements from Kosovo to other countries and vice versa. (Kosova Sot, November 3, 2014).

THE POLITICAL CRISIS IS REFLECTED IN THE BANKING SYSTEM



The political crisis in the country has begun to be reflected in the country's banking system, where the latter have begun to fear the potential fluctuations due to the problems that the country is facing.

The Bank Association and banks confirm that there have been instances where certain projects have been delayed in the absence of funds. Petrit Balijsa, executive director of the Kosovo Banking Association, told the newspaper "Zeri" that the political and institutional crisis has begun to adversely affect the businesses in Kosovo and the first signs are starting to emerge.

According to him, a large number of businesses in Kosovo, which depend on the works, services and supplies they conduct for the public sector, are having liquidity problems. "It certainly affects negatively the banks' loan portfolio and may affect the decline in demand for loans, as well as increased nonperforming loans," said Balijsa. Also, he said that is the chain or domino effect which then is distributed throughout the private sector that has affected. But, he says that commercial banks in Kosovo have taken these risk factors into account and are standing well throughout the indicators needed to be stable.

Balijsa has mentioned several other issues which are impacting negatively on the performance of the banking system. "I have stressed repeatedly that judicial reform and contract enforcement is necessary to reduce credit risk in Kosovo", he said. Moreover, Iliriana Tahiraj, media and public relations official at "Raiffeisen" bank, has confirmed that even in this bank the state political and financial crisis has been reflected. Also ProCredit mentioned that further proceeding of this institutional vacuum, will result in direct adverse effects of this situation on the development of the banking sector. (Zeri, Telegrafi, November 6, 2014).

KOSOVO BANKING ASSOCIATION SIGNED A MEMORANDUM OF UNDERSTANDING WITH IAK AND GIZ



Within the Kosovo Property Forum entitled Property Market and Property Finance in Kosovo towards European standards – the key to development and progress organized by GIZ and CBK, Kosovo Banking Association has signed a memorandum of understanding with the Insurance Association of Kosovo and GIZ. The contract was signed by Mr. Petrit Baliija (KBA), Mr. Adem Selmani (IAK) and Mr. Guenther Fehlinger (GIZ). The executive director of the Kosovo Banking Association, Mr. Baliija said “One of the most important investments for the citizens of Kosovo is buying residential property. Meanwhile, for the banking industry residential mortgage loans constitute one of the main products for the development of the sector.

In this regard, commercial banks in Kosovo through the Kosovo Banking Association have collaborated with the CBK and the US Treasury advisers to prepare the regulation for Funding Housing in Kosovo which will regulate the financial market for residential properties in Kosovo. This regulation provides safeguards for bank’s customers but also development opportunities for the banking industry. In this context, an important role will also have insurance companies in Kosovo which will secure these properties and thus reducing the risk for owners but also for banks. (News Agency Ekonomia, Infodirekt.tv, November 7, 2014)

HAMZA: STABLE FINANCIAL SECTOR



The Governor of the Central Bank of the Republic of Kosovo, Bedri Hamza, hosted Jorg Asmussen, Permanent State Secretary at German Federal Ministry of Labor and Social Affairs, accompanied by Matthias Kiesler, Deputy Head of Mission of the German Embassy and Head of the German Embassy Economic Department. Governor Hamza informed his guests about recent development in the financial sector in Kosovo, indicating its soundness and positive performance of the banking sector in general. Mr. Hamza emphasized the efforts that the CBK is taking to adopt highest international standards in accordance with Basel Accords and EU Directives in the area of banking regulation and supervision.

In this context, Governor Hamza expressed his appreciation for the invaluable support that the CBK has received from German Government and German taxpayers in general, through technical assistance implemented by GIZ, which is aimed at improving operations of the CBK and enhancing technical and human capacities of the CBK staff. (Tribuna, 26 November 2014)

INFLATION, THE NEXT THREAT



European Central Bank President Mario Draghi, last week has declared being eager to purchase member countries’ debts.

Data that will be published this week will show just how dangerously low inflation has fallen in the \$13 trillion Euro zone economy. A sickly Europe has held back global economic growth in the recent years, and now it is contributing significantly to drag down inflation across the globe. The latest Reuters poll suggests euro zone inflation relapsed to 0.3 percent in November, far from the ECB target of 2 percent.

Despite zero interest rates across mature economies in the world and trillions of dollars worth of emergency stimulus from central banks, alarm bells are ringing worldwide. (Zeri and Telegrafi, 25 November 2014).



SHOQATA E BANKAVE TË KOSOVËS
KOSOVO BANKING ASSOCIATION

Bajram Kelmendi no. 15, Prishtina, 10 000, Republic of Kosovo

Tel. +381 38 246 171

email: contact@bankassoc-kos.com

www.bankassoc-kos.com