



PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

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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	Million EUR				
	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”.

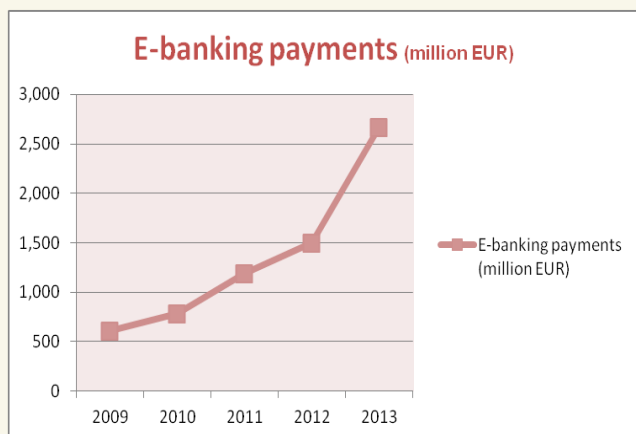


Fig. 1 | Source: CBK – Payment System (December, 2013)

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.

Number of employment 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)

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

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 - by channels

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

Remittances - by countries

Description	2009	2010	2011	2012	2013
Germanu	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%
Finland	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.

PART II HIGHLIGHTED APRIL NEWS FROM THE BANKING INDUSTRY

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)

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