



PERIODIC OVERVIEW OF FINANCIAL SECTOR IN KOSOVO

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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

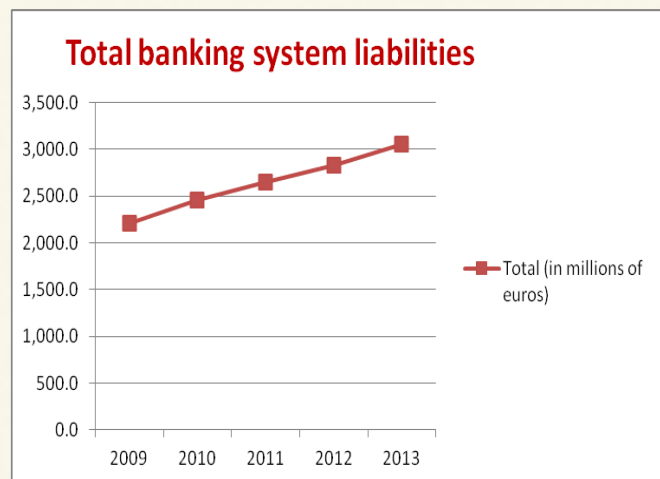


Fig. 1 | Surce: CBK - Annual Report (2012) & Other Depository Corporations Balance Sheet (2013)

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.

Euro					
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.

In millions of euro		Structure of the banking system deposits 2013							
Description	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.

In millions of euro		Structure of the banking system deposits 2009 - 2013				
Description	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

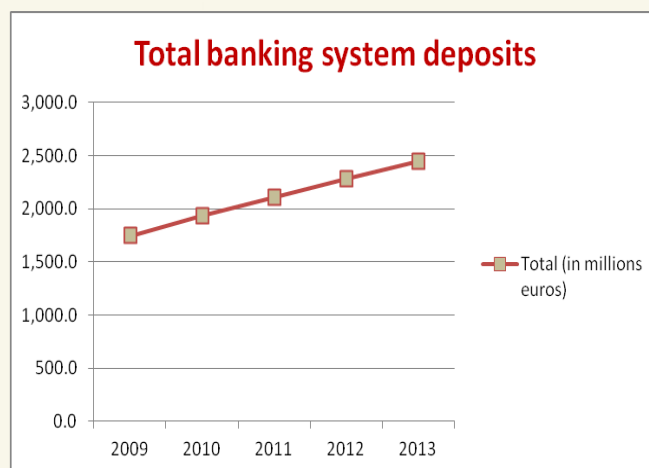


Fig. 2 | Source: CBK - Other Depository Corporations Balance Sheet (2013)

necessary criteria customers must meet, in order to reduce as much risk exposure as possible and to ensure best performance of loans.

In millions of euro		The ratio between loans and deposits				
	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)

HIGHLIGHTED JANUARY NEWS FROM THE BANKING SYSTEM

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)

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)

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