BANKA QENDRORE E REPUBLIKËS SË KOSOVËS
CENTRALNA BANKA REPUBLIKE KOSOVA
CENTRAL BANK OF THE REPUBLIC OF KOSOVO

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ABBREVIATIONS:

ATM	Automated Teller Machines
CAR	Capital Adequacy Ratio
CBK	Central Bank of the Republic of Kosovo
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IMF	International Monetary Fund
INM	Interest Net Margine
FDI	Foreign Direct Investments
KPST	Kosovo Pension Saving Fund
MF	Ministry of Finance
MFI	Micro-Finance Institutions
MTA	Money Transfer Agencies
NFA	Net Foreign Assets
NPISH	Non-Profitable Instituions Serving Households
NPL	Non-performing Loans
POS	Point of Sales
pp	Percentage Points
PTK	Post and Telecommunication of Kosovo
ODC	Other Depository Corporations
OECD	Organization for Economic Cooperation and Devlepoment
RI	Raiffeisen International
RLI	Rule of Law Index
ROAA	Return Average on Assets
ROAE	Return on Average Equity
ROE	Return on Equity
RWA	Risk Weighted Assets
SDR	Special Drawing Rights
SEE	South-Eastern Europe
SOK	Statistical Office of Kosovo
TPL	Third Party Liabilities
VAT	Value Added Tax

CONVENTIONS:

" — "	event does not exist
" . "	event exists, data are not available
" … "	nil or negligible
(e)	estimate
(p)	preliminary
(r)	revised

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1. Foreword

The Kosovo's economy continues to be stable, reflecting a positive growth rate and adequate stability in the fiscal and monetary area. Consumption and investments of private sector continued to have a primary role in the expansion of the economic activity in the country, while the fiscal sector also kept playing a continuous role in this growth, especially in the aspect of public investments. Unfavourable position of the trade balance with foreign countries continues to have a negative impact on the current account balance of our country's economy, but it is an encouraging the fact that the coverage of imports by exports is recording a growing trend. However, Kosovo's economy keeps suffering from the high unemployment rate, which requires a larger dynamic and a more enriched "menu" of the economic activity that would generate more new job places.

Kosovo's stable financial sector represents the most important source of financing and one of the most important pillars of stability for the country's economy. The core of the financial sector is represented by the banking system which is continuing to perform with the health and stability among the best even compared to many systems with longer tradition in the region and beyond. Commercial banks in Kosovo have accelerated the credit flow towards the real sector of the economy, while the increased public confidence on the banking system has resulted in a continuous growth of deposits in the banks. Kosovo's banking system is almost not exposed at all to problems related to the cross-border and cross-currency borrowing and lending activity. Commercial banks operating in the country are always maintaining high levels of liquidity and capitalization, thus exceeding even the CBK's regulatory requirements and some of the international standards in this area. Such stability of the financial sector makes the country's economic perspective more positive and immune against negative shocks that may come from the external sector.

However, the difficulties and uncertainties that are currently prevailing in the Eurozone economy also represent a concern for Kosovo's small and open economy, substantially due to potential negative developments that may affect remittances, exports and foreign direct investments in the economy of Kosovo. All these represent a concern for the performance of the real sector of Kosovo's economy, which can also affect negatively the performance of the country's banking system by weakening the borrowers' solvency. Undoubtedly, the banking system should continue to support the country's economy through lending, but the expansion of the lending activity should be carried out with caution, in order to maintain the financial stability as a highly important precondition to the overall economic stability in the country.

Precisely, with a view to the primary objective of the CBK for safeguarding the financial stability, this *Financial Stability Report* aims at analysing the main developments in the financial sector, including the subordinating aspect between the sectors inside and outside the country's economy as well as elaborating specific topics which jointly aim at contributing to the public debate and analysis on issues which are imporant to the stability and the development of Kosovo's economy.

Gani Gërguri
Governor

2. Executive summary

Recuperation signs of the global economy that emerged during 2010 did not follow at the same pace during year 2011, which is expected to result in a slowdown of growth for the global economy in 2011. Slowdown of growth of the global economy mainly stems from the economic difficulties faced by the Eurozone and the USA, while the developing countries continue to record a relatively high economic growth rate. Problems related to the high level of public debt in some of the Eurozone countries continued to represent the most important development in the Eurozone economy, and these problems became even more serious compared to the previous year. Deepening of the public debts crisis in the Eurozone had an impact on the increase of systematic risk level in banks exposed to these countries. Banks of the Eurozone countries, which purchased higher values of public debt that is valued with higher risk, have been characterized with tensions and poorer performance that, in turn, led to a slowdown of lending towards the real sector of the economy. The main foreign banking groups that have their entities in Kosovo, despite an inconvenient environment in the Eurozone economy, until June 2011, have marked an improvement of their performance compared to the same period of the previous year. The uncertainty related to the economic developments in Eurozone has also influenced the depreciation of the euro currency against the other most important world currencies since May 2011, while in the first months of this year euro appreciated against the other main currencies.

The countries of the SEE region were mainly characterized with a recuperation of the economic activity during the second half of 2010 and the beginning of 2011. However, the forecasts on the economic activity developments in SEE for the second half of 2011 and for 2012 remain modest, whereas the region continues to be sensitive towards developments in the Eurozone economy in terms of trade, foreign direct investments (FDI), large presence of foreign banks and remittances. Despite positive economic growth rates, some of the SEE countries recorded an increase of the unemployment rate, which continues to represent one of the most significant challenges to all SEE countries. The increase of budget revenues as a result of the economic activity growth resulted on the improvement of the budget balance for the majority of the SEE countries, while the level of public debt has an average of 40 percent of GDP. During the first half of 2011, almost all SEE countries faced inflationary pressures, which basically were a reflection of the increase of oil and food prices at global level as well as of the producer prices at the local level. Unlike 2010, the banking systems in majority of the regional countries expanded their lending activity, while deposits continued to be characterized with slower growth rates. During this period, it was observed a worsening of the credit portfolio quality of banks operating in these countries.

Economic developments during the first six months of 2011 suggest that the economic activity in Kosovo continues to expand and, as a result, the real economic growth for 2011 is envisaged to reach at around 5.0 percent compared to 3.9 percent in 2010. The growth of banking system loans, government expenditures and remittances have encouraged the overall consumption level in the country during the first half of 2011. Also, investments, including both private and public, are estimated to have increased. Continuous expansion of lending by Kosovo's banking system continues to remain an important source of finance for the private sector investments in the country, whereas the foreign direct investments also recorded a growth during the first half of 2011. Trade balance, which is being characterized with a high level of deficit, continues to have a negative impact on Kosovo's GDP. During the first half of 2011, the trade deficit in Kosovo reached the amount of euro

925.4 million, which represents an annual growth of 16.1 percent. During this period, imports recorded an annual growth of 16.5 percent, while exports increased by 18.6 percent. The high trade deficit continues to contribute to the high current account deficit, yet its impact is to some extent mitigated by a positive balance of the current transfers account, which basically consist of remittances. Remittances amounted at euro 234.2 million until June 2011 and recorded an annual growth of 1.2 percent. During the first half of 2011, Kosovo's economy continued to face inflationary pressures. Consumer Price Index for the first six months of 2011 recorded an average annual growth of 9.7 percent, which represents a relatively higher inflation rate compared to the same period of the previous year, when annual inflation recorded an average rate of 1.4 percent.

One of the factors that affected the economic activity growth in Kosovo during this period was also the increased financial intermediation activity of the country's financial sector, which, to some extent was a result of a better performance of the country's economy in general. Kosovo's financial sector during this period had a structure quite similar to the previous periods, where the banking system represented the largest share of assets of this sector, followed by the pension funds system. The banking system continues to be dominated by foreign-owned banks, both in terms of the number of banks and of their share in total assets of the banking system. The structure of the banking market continues to be characterized with a relatively high concentration rate, but which is continuously declining, what can imply an increase of competitive pressures in this industry. Since June 2010, commercial banks continued to expand their infrastructure, both in terms of bank branches and in terms of the other accompanying infrastructure, such as Automated Teller Machines (ATM) and Point of Sales (POS), which contributes to the increase of access to banking services in Kosovo. Aiming at the further increase of the efficiency of banking services, the Central Bank of the Republic of Kosovo continued to advance the interbank payment system in the country, whereas concrete maeasures have been foreseen within the Strategy for the Development of the National Payments System. Furthermore, during 2011, the CBK drafted the new Law on Commercial Banks, Microfinance Institutions and Nonbank Financial Institutions, whereby it aims at further strengthening the CBK's supervising and regulatory capacities as well as contributing to the strengthening of the internal governance within the financial institutions.

The financial intermediation activity of the Kosovo's banking system has been characterized with a faster growth trend since June of last year, resulting in an annual credit growth rate of 15.7 percent in June 2011, compared to the growth rate of 9.7 percent in June 2010. As a result, the total amount of loans issued by Kosovo's banking system in June 2011 reached at euro 1.6 billion, representing 65 percent of total banking system assets. While in the previous year, a rather significant growth was recorded by loans to households and the credit tightening mainly weighted on the loans to enterprises, during the first half of 2011, lending to private enterprises was the main contributor to the increase of the overall level of loans issued by the banking system. The enhancement of confidence of commercial banks on the performance of enterprises, as a sector with higher sensitivity towards fluctuations in domestic and global economy, has influenced the decrease of interest rates for loans to private enterprises, which have also affected the increase of the credit demand by this sector. The structure of loans issued to enterprises continued to be dominated by loans issued to the trade sector, which in June 2011 represented 52.5 percent of total loans to enterprise. The structure of loans in terms of maturity continues to be dominated by loans with maturity of over two years, although these loans were characterized with a decrease of their share to total loans during the reporting period.

Loans issued from Kosovo's banking system, which represent the major share of assets of this system, have almost all been issued to barrowers inside Kosovo, which makes the Kosovo's banking system have a relatively low exposure to foreign markets. Consequently, the potential shocks in the external markets have a lower probability to have a significant direct impact on the Kosovo's banking system. However, in addition to investments in the domestic market, a portion of the banking system assets is also invested in external markets, especially in form of placements with commercial banks and investments in securities. Investments in securities continued the growing trend also during this period, thus reaching at 8.6 percent of total banking system assets.

The activity of Kosovo's banking system continues to be financed largely by using domestic financing sources, namely deposits collected inside Kosovo. In June 2011, total deposits in Kosovo's baking system amounted at euro 1.9 billion, recording an annual growth of 11.8 percent. The main source of Kosovo's banking system deposits continue to be the household deposits, which in June 2011 amounted at euro 1.4 billion (69.2 percent of total deposits). Good performance and stability shown by Kosovo's banking system created more opportunities for banks operating in Kosovo to have access also in the financing sources from external markets, which increase the bank potentials for further expansion of lending activity in Kosovo. One of these financing sources that marked a continuous growth consists of the subordinated debt, which in June 2011 reached the amount of euro 33.5 million from euro 24.4 million in June 2010. However, the financing of banks operating in the country from external markets continues to be low relative to the domestic financing. Considering the stage that the global economy is going through, this represents a positive factor for the sustainability of the country's banking system at a time when the uncertainty that has overwhelmed the external markets can result in more significant oscillations in the supply and cost of liquid assets.

Interest rates in Kosovo's banking system continued to remain at a generally similar level with the previous year, but characterized with a slight decline both in loans and in deposits. The average interest rate for loans issued by commercial banks had an average of 14.3 in the first half of 2011, while the average interest rate on deposits was 3.4 percent. The net profit of Kosovo's banking system remained positive also during the first half of 2011, but compared to the same period of the previous year it marked a decline. Net profit of Kosovo's banking system was euro 14.9 million in June 2011, which represents a decline of 13 percent compared to June 2010. The decrease of profit is primarily resulted from the faster increase of expenditure compared to the overall banking system revenues, despite the fact that financial intermediation increased during this period. The increase of expenditures for loan loss provisions had the largest impact on the increase of total expenditures during this period. The faster increase of expenditures compared to the revenues led to a worsening of some efficiency indicators for the banking system, such as the cost to income ratio, which in June 2011 reached at 85.4 percent from 81.2 percent in the same period of the previous year.

Kosovo's banking system continues to be characterized with a satisfactory liquidity level, which makes the commercial banks' liabilities against depositors and other lenders serviced on time and without any difficulty. The satisfactory liquidity position of commercial banks operating in the country is a result of a prudent management of the commercial banks' balance sheet, both in terms of assets and liabilities. In June 2011, the loan-to-deposit ratio stood at 83.0 percent, which is basically in line with the CBK recommendations to banks to maintain the loan-to-deposit ratio at an average of 80 percent. Nevertheless, compared to the previous year, a slight decline is observed on some liquidity indicators, such as the share of liquid assets to total assets, but they still remain at a satisfactory level ensuring a good liquidity position of the system. Kosovo's banking system continued to be quite conservative regarding the level of reserves, which continuously exceeded the minimum level required by the CBK, thus further strengthening the liquidity position of this system.

Kosovo's banking system continues to have the lowest level of non-performing loans among the SEE region countries, with an NPL to total loans ratio of 5.9 percent. Nevertheless, the NPL ratio recorded an annual increase of 1.4 pp compared to the same period of the previous year. The largest portion of non-performing loans in Kosovo refers to loans issued to enterprises, while loans to households are characterized with a better quality concerning repayment. Non-performing loans in Kosovo continue to be covered by over 100 percent with provisions for loan losses and togather with their current low level do not threaten the banking system stability. During the observing period, the banks' loan portfolio was also characterized with a growth of larger credit exposures to single parties.

The high capital adequacy ratio continues to be a distinctive feature of Kosovo's banking system, contributing to the reduction of insolvency risk and strengthening the sustainability of this system. In June 2011, the capital adequacy ratio stood at 17.2 percent, which represents a higher level than the minimum required by the CBK. Furthermore, the capital of the Kosovo's banking system is characterized with a very good quality, where the shareholders' capital comprises around 60 percent of total capital. A satisfactory situation of Kosovo's banking system sustainability is also suggested by the results of the stress-test analysis for the banking system, where it was tested the sensitivity of commercial banks operating in Kosovo against the liquidity risk and credit risk, combined with the interest rate risk and the exchange rate risk. On this occasion, results suggest that commercial banks operating in Kosovo have sufficient amounts of available liquid assets to cope with quite high withdrawal rates of deposits, which were assumed under a hypothetical scenario. Also, the current high level of capitalization and the current relatively low level of non-performing loans make Kosovo's banking system capable of withstanding higher levels of nonperforming loans. Furthermore, the fact that the largest portion of loans and deposits in Kosovo's banking system are denominated in Euro as well as the fact that the dominant share of loans and deposits bear fixed interest rates, make Kosovo's banking system be minimally exposed to potential fluctuations of interest rates and currency exchange rates.

An important contribution to the Kosovo's economy is also give by Other Financial Institutions, which consist of pension funds, insurance companies, microfinance institutions and financial auxiliaries. Assets of Kosovo's pension funds until June 2011 reached the amount of euro 551.5 million, compared to euro 412.5 million in June 2010, mainly consisting of Kosovo Pension Savings Trust (KPST) assets. In the first half of 2011, KPST marked a significant improvement of its performance, compared to the same period of the last year, recording an increase of its share prices and higher return on investments. Improved performance was also recorded by the insurance companies operating in Kosovo, the assets of which reached at euro 103.4 million. In June 2011, the system of insurance companies recorded a net profit of euro 1.2 million, unlike last year when it recorded losses. Microfinance institutions continued to expand their lending activity, but with a lower growth rate compared to the previous periods. Total loans issued by the microfinance institutions amounted at euro 115.2 million in June 2011, which represents an annual growth of only 1.2 percent. During 2011, problems related to the internal governance emerged in one of the largest microfinance institutions operating in the country, pushing the CBK to take this institution under temporary administration, which resulted in restoring the normality in this financial institution and, subsequently, successful finalization of its administration.

This edition of the Financial Stability Report also contains some thematic analyses, which treat specific topics on the functioning of the banking system in the country and wider as well as on the country's economy in general. Specific topics presented in this report are: 1. Bank Lending Survey for Kosovo; 2. Determinants of Nonperforming Loans in Transition Countries; and 3. Determinants of Migrants' Investments: is there Room for Policymaking?

3. Macroeconomic and Financial Developments in the World Economy

The global economic activity is experiencing growth slowdown in 2011. Macroeconomic risks have marked an increase during the second and the third quarter of 2011, while the differences between regions and countries kept increasing. Positive developments that characterized the global economy during 2010 did not follow in 2011. The global growth slowed down to around 4 percent compared to the annual growth of 5.1 percent in 2011. Global growth trend slowed down in 2011 mainly due to the slowdown of industrial production and global trade that among other was caused also by the earthquake and tsunami in Japan as well as the increase of oil prices due to political problems and crisis that the Middle East countries faced during this year. The slowdown of economic growth was more significant in developed countries, where the decline of foreign demand and the return of uncertainty and tensions in the fiscal and financial sectors during 2011 resulted in lower consumption and investments. Developing countries are also expected to be characterized with a slowdown of economic growth, as the powerful increase of domestic demand in 2010 is expected to be restrained by a tighter monetary policy during 2011.

According to the IMF projections, the economic growth rate of USA will slowdown to 1.5 percent in 2011 from 3.0 percent in 2010. Projections for the Eurozone have been reviewed in the second half of 2011. Eurozone is expected to record an annual growth of 1.6 percent in 2011 compared to the annual growth of 1.8 percent in 2010 (Table 1). Among the Eurozone countries, Germany and Italy are expected to be characterized with a slowdown of growth (0.9 and 0.7 pp, respectively), while France is expected to record a slight increase of economic growth (0.3 pp in 2011). Regarding developing economies, growth is expected to slowdown from 7.3 percent in 2010 to 6.4 percent in 2011. A rather slower trend of economic growth is expected in China and Italy with 9.5 and 7.8 percent, respectively (10.3 and 7.8 percent in 2010, respectively), while Russia is expected to record an annual growth of 4.3 percent in 2011 compared to 4.0 percent in 2010. The slowdown of economic growth especially in the developed countries is expected to affect also the fiscal and financial sectors in the global level in the periods to come. Projections for a slower growth trend are hindering the sustainability of the fiscal sector and impeding the overcoming of the public debt crisis, which is causing loss of confidence in the markets, increase of financing costs and possible increase of nonperforming loans.

The recent global financial crisis has been reflected in a continuous increase of public debt in developed countries since 2008. While in Eurozone, USA and Japan, the public finance risks have mainly been triggered by the decline of tax revenues, the projections for a lower economic growth as well as by the support to the fragile financial institutions, some of countries in the periphery of Europe faced increased burden of public debts mainly due to mismanagement of public finances during the pre-crisis periods. These developments, supplemented also by projections for a weakened performance of the real sector in developed countries, have led to a further increase of the market participants' uncertainty on the sustainability of fiscal policies and public debts.

Table 1. Key macroeconomic indicators

Description	GDP		Inflation		Current account (% of GDP)	
	2010	2011	2010	2011	2010	2011
World economy	5.1	3.9	4.2	4.6	0.5	0.7
USA	3.0	1.5	1.7	2.5	-3.2	-3.1
Eurozone	1.8	1.6	2.2	2.3	0.3	0.1
Developing countries	7.3	6.4	6.7	7.0	1.9	2.4
Central and Southeastern Europe	4.5	4.3	5.2	5.5	-4.6	-4.2

Source: IMF (September 2011)

In 2010, the level of public debt in Eurozone reached at 85.4 percent of GDP (25.4 pp above the Maastricht criteria). The highest level of public debt in 2010 was reported by Greece (144.9 percent of GDP), followed by Italy (118.4 percent of GDP), Ireland (94.9 percent of GDP) and Portugal (93.3 percent of GDP). Recent data indicate a further increase of public debt to 86.1 and 87.0 percent of GDP in the first and the second quarter of 2011, respectively. Besides the increase of the government debt level, these countries have also faced an increase of the budget deficit, even though the indicators suggest a declining tendency of budget deficit in 2011. Budget deficit in Eurozone reached at 6.2 percent of GDP in 2010, which exceeds the threshold of 3 percent of GDP, established under the Maastricht criteria. Rather more significant problems with budget deficit in 2011 were reported by Ireland and Greece (31.3 and 10.6 percent of GDP, respectively), followed by Spain and Portugal (9.8 and 9.3 percent of GDP, respectively). As expected, the budget deficit was characterized with a declining trend in the first half of 2011. Budget deficit in Eurozone in the first quarter of 2011 resulted in 6.0 percent of GDP, recording a further decrease to 3.7 percent of GDP in the following quarter.

To prevent a further deepening of the fiscal crisis, in mid-2010, the EU countries decided to establish the European Financial Stabilization Facility (EFSF), which through the European Central Bank (ECB) and the IMF allotted a special fund in the amount of euro 750 billion. This fund was allocated to Greece (euro 110 billion), Ireland (euro 85 billion) and Portugal (euro 78 billion). Japan, Italy and Belgium have also faced the challenge of overcoming the increase of their public debt levels in 2011, yet the debt sustainability in these countries is considered easier achievable since creditors in these countries are mainly domestic institutions. On the other hand, since creditors in Greece, Portugal and Spain are mainly foreign creditors, the fulfillment of liabilities against the foreign creditors in time is therefore considered more challenging for these countries considering the loss of credibility in financial markets. The last meeting of EU countries in July 2011 resulted in a package that will cover Greece financing needs though a decrease of interest rates and extension of the period for the repayment of loans that Greece obtained from the EU countries and the IMF.

The increase of risks on the sustainability of public finances led to a reaction of markets that was mainly manifested with higher premiums for public debt, while the rating of countries experiencing fiscal difficulties deteriorated. Therefore, despite that many of the Eurozone countries reported a successful reduction of budget deficits compared to the previous year, the difference in borrowing rates (that is, the difference between the interest rates in government bonds and the benchmark rate, in this case Bund or the German government bonds) has increased significantly in the most of the Eurozone countries.

The progress achieved for the stabilization of global financial system was obstructed by fiscal difficulties and the stress of public debts in 2011, which was reflected in an increase of market and credit risks. The spread of the public debt crisis from Greece to Ireland and Portugal, and then to Spain, Belgium and Italy had an impact on the increase of the systematic risk level in banks that have been exposed to these countries. Banks in the Eurozone banking system, which have larger amounts of public debts bearing higher risks, have been characterized with tension and declining performance in this period. Moreover, the failure of various government guarantees, the decline in the value of governments' securities kept as collateral and the downgrading of banks rating is continuously leading tp an increase of financing costs, incurring negative implications for the stability of the banking system and the financial sector in general. The increase of credit risk in the financial system, resulting from public debts, can have further negative implications for the financing markets and the credit flow to the real sector.

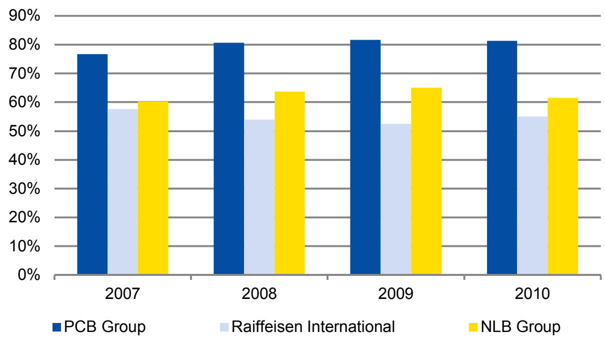
Despite the fragility of the economic environment in the euro area countries and the increased level of risks for the performance of the banking system, major foreign banking groups with entities in Kosovo, up to June 2011, marked improvement performance compared to the same period of the previous year (Box 1).

Box 1. The performance of foreign banking groups operating in Kosovo[1]

Procredit Group (Germany)

During 2010, PCB Group reported improvement in most of its financial indicators compared to 2009, regardless of the difficult environment that resulted from the financial crisis. At the end of 2010, total assets of the PCB Group reached at euro 5.18 billion euro, recording an annual growth of 4.8 percent. The value of gross loans to consumers amounted at euro 3.65 billion (annual growth of 9.3 percent), while deposits amounted at euro 3.22 billion (annual growth of 7.7 percent). Operating income recorded a growth of 0.2 percent compared to 2009, amounting at euro 378.9 million. On the other hand, operating expenditures decreased by 0.4 percent compared to 2009, reaching the amount of euro 356.1 million. The decline of expenditures was a result of measures taken by PCB Group to decrease the number of employees (-20.5 percent) and the number of branches (-11.0 percent). Consequently, the cost to income ratio in 2010 declined to 81.3 percent, which represents a decrease by 0.4 pp (Figure 1). PCB Group ended year 2010 with a net consolidated profit of euro 12.5 million, which represents an annual growth of 8.9 percent. Regardless of profit growth, the Return on Equity (ROE) remained unchanged at 3.8 percent same as in 2009 (Figure 2). PCB Group in continuity maintained a satisfactory level of capitalization expressed through the Capital Adequacy Ratio (CAR), which reached at 16.5 percent in 2010 (16.2 percent in 2009). PCB Group ended year 2010 with a credit rating of BBB (Fitch Group) similar to the end of 2009.

Figure 1. Cost-to-income ratio for banking groups, in percent

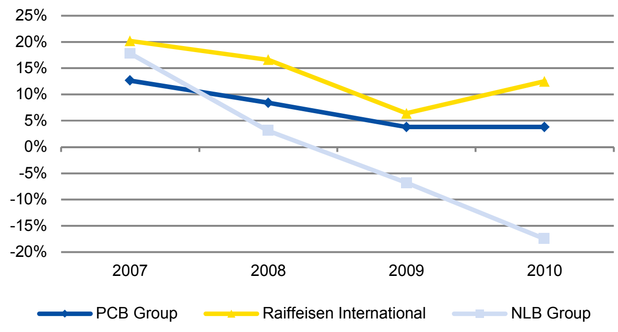


Source: Annual reports of appropriate banks

[1] Data on banking groups have been taken from the 2010 annual reports and the second quarter 2011 reports of respective banking groups.

In the first half of 2011, PCB Group reported a net consolidated profit amounting to euro 17.9 million, which represents a significant improvement of profitability compared to the same period of the last year (euro -5.1 million in June 2010). The cost to income ratio in June 2011 stood at 87.5 percent, which is by 12.7 pp lower than in June 2010. Whereas, the capital adequacy ratio declined to 15.9% (16.5% in June 2010). In June 2011, the ProCredit Bank assets in Kosovo consisted 14.8 percent of total assets of the PCB Group.

Figure 2. Return on capital for banking groups, in percent



Source: Annual reports of appropriate banks

Raiffeisen International - RBI (Austria)

Raiffeisen International (RBI) ended year 2010 with positive financial results. During 2010, total assets of the RBI recorded an annual growth of 9.9 percent, amounting at euro 131.17 billion. The total value of gross loans to consumers amounted to euro 75.6 billion (annual growth of 4.3 percent), while deposits amounted at euro 57.6 billion (annual growth of 4.0 percent). During this period, the operating income amounted at euro 5.4 billion (growth of 4.6 percent). Also, operating expenditures recorded a growth of 9.8 percent, amounting at euro 2.9 billion. Cost to income ratio reached at 55.1 percent, recording a growth of 2.6 pp. RBI ended year 2010 with a net consolidated profit of euro 1.08 billion, recording a considerable growth of 141.6 percent compared to 2009.[2] The profit growth was mainly driven by the reduction of provisioning expenditures by 47.0 percent. In 2010, ROE reached at 12.5 percent from 6.4 percent that was reported in 2009. RBI concluded 2010 with credit rating A (Fitch Group) that is higher than at the end of 2009. At the end of 2010, RBI had a satisfactory level of capitalization with a CAR of 13.3 percent (decline by 0.2 pp). The RBI share price was euro 41.0, while the bank's capitalization in the Austrian stock market amounted at euro 8.0 billion.

RBI marked performance improvement also during the first half of 2011. In June 2011, RBI reported a net consolidated profit in the amount of euro 615 million, which is by 30.3 percent higher than the profit reported during the same period of the last year. The profit growth had also a positive impact on the ROE, which increased at 13.2 percent (10.9 percent in June 2010). On the other hand, cost to income ratio reached at 55.1 percent, compared to 53.0 percent in June 2010. CAR decreased by 0.3 pp, standing at 13.0 percent. In June 2011, Raiffeisen Bank Kosovo consisted 0.48 percent of total assets of Raiffeisen International.

NLB Group (Slovenia)

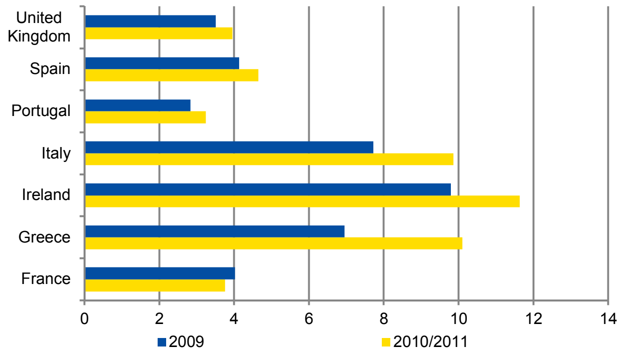
At the end of 2010, the value of total assets of the NLB Group reached euro 17.8 billion, which represents an annual decline of 9.0 percent. Gross loans to consumers amounted to euro 13.0 billion (annual decline of 1 percent). Deposits also recorded an annual decline of 3.0 percent, dropping to euro 10.3 billion. During this period, NLB Group reported operating income in the amount of euro 639.2 million, which represents a similar level to the previous year. Whereas, the operating expenditures amounted at euro 393.1 million, which represents an annual decline of 5 percent compared to 2009. Cost to income ratio declined from 65.0 percent in 2009 to 61.5 percent in 2010. Net consolidated profit for 2010 reached euro -202.3 million, which represents a further decline compared to 2009 that was euro -86.8 million. The decline in the performance of NLB Group was to a considerable extent influenced by the increase of provisions for loan losses. In December 2010, provisions for loan losses increased to euro 477 million from euro 315 million euro in 2009. Profit decline was also reflected in the ROE, which in 2010 stood at -17.5 percent (-6.8 percent in 2009). At the end of 2010, CAR for NLB Group was 10.2 percent or by 0.5 pp lower than in 2009. During this

[2] In addition to positive performance, the improvement of RI rating was also driven by the merger of operations with the RZB Group.

period, the performance decline had an impact on the NLB Group rating, which was downgraded from A1 to A3 (Moodies).

In the first part of 2011, NLB Group managed to consolidate banking operations to some extent, by reporting a net consolidated profit amounting to euro 0.9 million (June 2011) compared to euro -34.6 million in June 2010. The positive profit level was also reflected in the profitability indicator ROE, which reached at 0.2 percent (June 2011) compared to -5.8 percent (June 2010). A positive development was also stressed by the cost to income ratio, which decreased to 59.8 percent from 62.5 percent that was recorded in 2010. In the first half of 2011, NLB Group succeeded to increase its capital by euro 250 million. The growth of capital was also reflected in the improvement of the capital adequacy ratio (CAR), which in June 2011 increased to 12.1 percent compared to 10.7 percent in June 2010. In June 2011, NLB Prishtina consisted 2.04 percent of total assets of NLB Group.

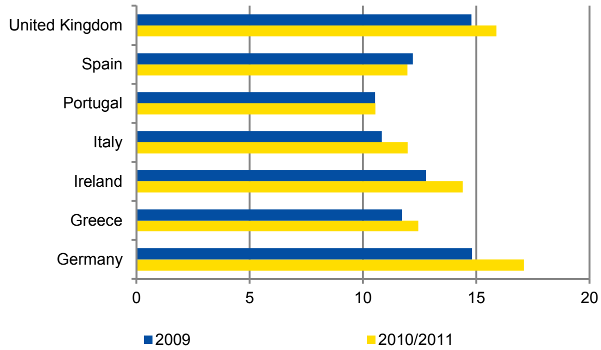
Figure 3. Non-Performing Loan ratio in selected Eurozone countries



Source: CBK (2011)

The flow of credit in most of the developed countries continues to be at low levels. In the Eurozone countries, especially in countries that are facing budgetary crises, banks are facing difficulties in accessing low-cost financing. Also, potential losses from investments on government bonds are forcing banks to reduce their assets, thus causing a slowdown of crediting to the economy. During this period, banks in most of the Eurozone countries experienced detoriaration in the quality of loan portfolio (Figure 3). On the other hand, banks in the Eurozone countries, have reported an improvomenet in the CAR level (Figure 4). In countries like Ireland, Spain, Greece and Portugal, although an improvement has been reported in the CAR level, there are still some banks that may face difficulties considering that they have invested substantial amounts of funds on government bonds and real estate. In the UK, banks are facing depreciation of assets as of the beginning of the crisis. But taking into account that the profitability levels are satisfactory, the banking system in general is considered to have a good capitalization position. The issue of banks capitalisation is one of the main pillars for the banking system sustainability. The issue of banks capitalization has received considerable attention also in the new regulatory framework Basel III for the banking system. This framework aims at further improving the existing regulatory framework for the banking system (Box 2).

Figure 4. Capital Adequacy Ratios for selected Eurozone countries

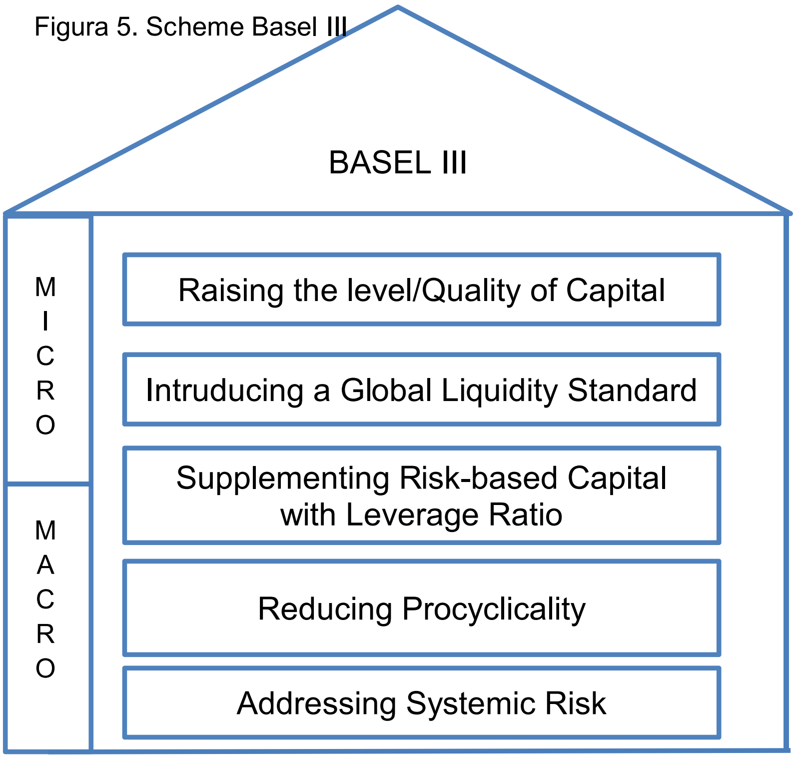


Source: CBK (2011)

Box 2. Reformation of the regulatory framework of banking system through Basel III

The financial crisis that started during 2007, which resulted in a decline of economic activity and considerable losses in the financial markets, pressed the Central Banks in many countries to review and improve the current financial regulative. Consequently, the Basel Committee on Banking Supervision, which operates under the umbrella of the Bank for International Settlements (BIS), proposed a set of recommendations to amend the existing regulatory framework called Basel II. This set of recommendations, named as Basel III, was published in December 2010, with the main purpose to strengthen the regulation, supervision and risk management in the banking system. Amendments in Basel regulatory framework are focused on micro and macro level. In the micro level, a priority was given to the introduction of new standards for the improvement of quality of capital, introduction of global standards on liquidity and supplementation of the capitalization ratio with the leverage ratio as well as complementing the capital indicators with the leverage ratio (Figure 5).[3] In the macro level, amendments were concentrated on reducing the level of pro-cyclicality as well as on addressing the systemic risks.

Figura 5. Scheme Basel III



Source: BIS

The first part of recommendations is related to the amendments in retained capital. The principal purpose of these amendments is to improve the banking capital both in terms of quality and quantity, in order to increase the Capital Adequacy Ratio (CAR). Within the components of banking capital, priority will be given to the increase of common equity, while the use of financial hybrid instruments and subordinated debt as part of paid-in capital will be limited. Also, there will be stricter criteria for measuring the Risk Weighted Assets (RWA).

The Basel III package recommends that banks, in addition to the existing capital (Tier 1 capital and Tier 2 capital), will need to allocate to two additional levels of capital, consisting of the conservation buffer and countercyclical buffer. Both these two changes aim to reduce pro-cyclical behavior of the banks during the periods of economic shocks, where the possible negative shocks in the economy of a country could further deteriorate as a consequence of eventual credit tightening by commercial banks. These measures also aim at introducing limitations to banks in terms of distribution of profit in form of dividend, obliging them to keep additional levels of capital to cover potential losses.

[3] Publications of Bank for International Settlements (BIS).

In addition to changes in calculation of the existing capital components, through Basel III it is recommended that reporting on the capital indicators should be supplemented with a new ratio, namely the Leverage Ratio. According to this recommendation, the ratio between Tier 1 capital and the total amount of assets and off-balance items of a bank should be preserved at a level of three percent at minimum. Through this ratio, banks will be forced to reduce the balance sheet financing through external debt.

Table 2. Time period for implementation of Basel III[4]

	2113	2114	2115	2116	2117	2118	2119
CET1 ruquirement	Gradual implementation 3.5%	Gradual implementation 4%	Final implementation 4.5%				
Tier 1 capital	Gradual implementation 4.5%	Gradual implementation 5.5%	Final implementation 6%				
Total capital requirement	Final implementation						
Capital conservation buffer				Gradual implementation 0.65%	Gradual implementation 1.25%	Gradual implementation 1.875%	Final implementation 2.5%
Phasing in of new deductions from capital base		Gradual implementation 20%	Gradual implementation 40%	Gradual implementation 60%		Final implementation 100%	
Leverage ratio	Observation	Observation	Publication			Final implementation	
Liquidity civerage	Observation	Observation	Final implementation				
Net stable funding ratio	Observation O	bservation O	bservation	Observation	Observation	Final implementation	

Source: Riksbank (2010).

In addition to changes in the standards for setting the capitalization level for the banking system, Basel III also recommends the implementation of two quantitative standards which aim at improving the management and strengthen the liquidity position. These two standards will be implemented through the reporting of two new ratios, consisting of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). LCR aims at strengthening the liquidity position in short-term periods, obliging banks to keep sufficient amounts of high quality assets in order to cover the Net Outflow of Money (NOM) based on an assumption of a stress-scenario lasting for around 30 days. Whereas, NSFR obliges banks to ensure financing through safer and more stable funds for long-term credit financing. This implies that banks have to be concentrated on narrowing the gap between the maturity period for assets and the maturity period for liabilities.

The last part of recommendations, which is related to the macro aspect, is concentrated on decreasing the pro-cyclicality and addressing the systemic risks. However, due to the complex nature of these issues, the Basel III macro platform has not been finished yet and more time is needed to have a complete set of recommendations.

Basel Committee on Banking Supervision has also adopted the transitory period for the gradual implementation of the recommended measures as well as the period when their implementation should be effective (Table 2). New standards on the capital level and capital adequacy ratio should start to be implemented gradually from 2013, and to be finalized in 2019. Banks have to start

[4] Financial Stability Report, Riksbank, 2:2010

publishing the standards on leverage ratio in 2015, while the final implementation will be done in 2018. As for the standards on the liquidity management, LCR will have a monitoring period from 2013-2014, while the final implementation is envisaged to be completed in 2015. Also, NSFR will have a monitoring period lasting from 2013 to 2017, while the final implementation is envisaged to be completed in 2018. Basel III recommendations are expected to be adopted in form of a Law for the EU member states.

Regarding the performance of financial markets, stock markets in the USA and Eurozone were characterized with improved performance. In June 2011, the stock markets index in the USA (Standard&Poor's 500) and the index for the European stock markets markets (Dow Jones Euro Stoxx) recorded an increase of 4.7 percent and 18.8 percent, respectively, compared to June 2011. Whereas, the Japanese index (Nikkei 225 Stock Average Index) recorded a decline of 2.5 percent compared to June 2010. The performance of Japanese stock market was influenced to a considerable extent by the earthquake that occurred in March 2011.

In April 2011, the European Central Bank (ECB) decided to increase the key interest rate by 0.25 pp to 1.25 percent. The key interest rate has not been changed since 2009. ECB decided to increase the key interest rate due to increased inflationary pressures in the Eurozone economy. The increase of key interest rate was also reflected in the increase of marginal rate for lending and deposits to 2.0 percent (1.75 percent) and 0.5 percent (0.25 percent), respectively. Whereas the financing rates applied by the US Federal Reserve remained at the range 0.00 - 0.25 percent.

Fluctuations in financial markets led to an increase of the financing costs in interbank markets. In June 2011, the interest rate for interbank financing in Euro, EURIBOR (3 months) doubled to 1.488 percent compared to the same period in the previous year when it stood at 0.727 percent. The interest rate for interbank financing in British Pounds, LIBOR GBP (3 months) also recorded an increase reaching at 0.825 percent (0.728 percent in June 2010). The interest rate for interbank financing in U.S. Dollar, LIBOR USD (3 months) recorded a decline from 0.536 percent to 0.247 percent.

The global economy was characterized with increased inflationary pressures, especially in the first half of 2011. In the second half of 2011, developed countries were characterized with a slowdown of the inflation rate, whereas inflationary pressures in the developing countries remained elevated. Triggered mainly by the increase oil product prices, which was then translated into higher food and electricity prices, inflationary pressures marked an increase in the beginning of 2011. The decline of oil prices and, consequently, the decline of food and electricity prices in the second part of the year led to a decline of the inflation rate both in the USA and in Eurozone. The inflation rate at global level is expected to be higher in 2011 compared to the previous year. At the global level, the inflation rate is expected to be 4.6 percent (4.2 percent in 2010), while inflation in the USA is expected to reach at 2.5 percent in 2011 (1.7 percent in 2010), 2.3 percent in Eurozone (2.2 percent in 2010), 7.0 percent in developing countries (6.7 percent in 2010), and 5.5 percent in Central and Eastern Europe (5.2 percent in 2010).

During 2011, the current account deficit deteriorated further, mainly due to the slowdown of global exports in this period. Exports at the global level are expected to increase to 6.1 percent in 2011 compared with the annual increase of 7.3 percent in 2010. Consequently, the current account deficit at the global level is expected to increase to 0.7 percent of GDP in 2011 (0.5 percent of GDP in 2010). Export growth is expected to record a slowdown in the Eurozone countries (3.9 pp in 2011 compared to 2010) as well as in the developing countries (4.2 pp in 2011 compared to 2010). Nevertheless, the Table 1 indicates that the deterioration of the current account is more evident in developing countries that will record a current account deficit increase from 1.9 percent in 2010 to 2.4 percent in 2011.

The unemployment rate in Eurozone countries is expected to be negatively influenced by the slowdown of economic activity in 2011, with further deterioration in case of potential exacerbation of the current crisis. The current data indicate a decrease of the unemployment rate in the USA to 9.1 percent in June 2011 (9.6 percent in 2010), 4.8 percent in Japan (5.1 percent tin 2010), 4.0 percent China (4.1 percent 2010) and 7.3 percent in Russia (7.5 percent in 2010). In Eurozone, the unemployment rate remained at the same level with the previous year at 10.1 percent in June 2011 (10.1 percent in 2010). Among the Eurozone countries, the unemployment rate in Germany is expected to record a decline of 1.1 pp in 2011, followed by France with a decline of 0.3 pp for the same period. Greece, Portugal and Spain are expected to be characterized with an increase of the unemployment rate in 2011, which will be driven mainly by the slowdown of the economic activity that is expected to weigh on these countries.

Regarding the exchange rate, euro appreciated in January till April, whereas after May and up to September, euro changed the course by depreciating against most of main currencies. Fluctuations of euro against other major currencies mainly reflect the changes of market perceptions for the economic and fiscal perspective of Eurozone countries. The depreciation of euro from May onwards was mainly a consequence of the restored uncertainty due to the elevated risk level and fiscal difficulties faced by a number of the Eurozone countries. The real effective exchange rate of euro based on the consumption prices stood at the approximately same level with the average of 2010, whereas a slight nominal depreciation of euro in the first part of the year was neutralized by a lower inflation rate in Eurozone compared to other countries.

3.1. South-Eastern Europe

The South-Eastern Europe (SEE) countries were characterized with recuperation of the economic activity from the second part of 2010 and onwards. Most of the region countries have shown a tendency for economic activity expansion, while economic growth remained unequal among countries. Until March 2011, according to the European Commission estimates, the average GDP growth for the entire region was 2.8 percent. Economic growth in this period was mainly triggered by export growth that resulted from the recuperation of the overall demand and industrial production at global level. Among the SEE countries, Macedonia recorded the highest GDP growth in the last quarter of 2010 and in the first quarter of 2011 (4.5 percent), while Croatia was the only country that kept reporting an economic decline (-0.7 percent). Projections for developments of economic activities in SEE countries for the second half of 2011 and for 2012 remain modest, whereas the region remains sensitive towards developments in the Eurozone economy in terms of trade, foreign direct investments (FDI), high participation of foreign banks and remittances.

The stabilization of domestic demand in the regional countries is expected to have an impact on the gradual stabilization of the situation in the labor market as well. However, the recent estimates indicate an average unemployment rate of 25.5 percent in the SEE, which is approximate with the estimates for the same period of the previous year. Recession that continued to characterize Croatia's economy led to an increase of the unemployment rate for this country until March 2011 (14.3 percent in the first quarter of 2011 compared to

11.8 percent in 2010). Kosovo remains the country with the highest unemployment rate in the region (around 45 percent), followed by Bosnia and Herzegovina (42.7 percent) and Macedonia (31.1 percent). According to the World Bank, around 7,000 people have lost their jobs in Macedonia during the second quarter of 2011, while around 100,000 job positions have been lost in Serbia during the period October 2010 - April 2011.[5]

The economic activity growth in SEE remained driven mainly by export growth. The demand stabilization in the Eurozone in the first quarter of 2011 was reflected in an average annual growth of exports of 46.7 percent, whereas in the first quarter in 2010, exports recorded an annual growth of 16.1 percent. Nevertheless, the increase of oil and food prices in the first half of 2011 at global level was also reflected in the growth of imports in majority of the SEE countries in this period. Consequently, the current account deficit rate remains high in the SEE region. With exception of Montenegro and Serbia, which were characterized with a decrease of the current account deficit rate in the beginning of 2011 compared to 2010, all the other countries faced an increase of the current account deficit. The deterioration of the current account deficit in the regional countries is also a result of the decline of current transfers in most of the regional economies. Estimates for the first quarter of 2011 indicate an average current account deficit rate of 9.3 percent in SEE countries, while this rate in 2010 stood at 9.1 percent. Montenegro and Kosovo keep reporting the highest current account deficit rates. In the first quarter of 2011 compared with the same period in the previous year, foreign direct investments (FDI) in the region were characterized with a slowdown. The average FDI-to-GDP ratio for the region stood at 6.0 percent in the first quarter of 2011, compared to 7.9 percent in the same period in 2010.

Regarding the budget balance and government debt sustainability, the increase of the budget revenues, driven by the increase of economic activity, resulted in an improvement of the budget balances in many SEE countries. Croatia and Albania were characterized with a rapid increase of expenditures compared to budget revenues, which led to a deepening of their budget deficit. The average budget deficit rate in SEE recorded a decline from 3.9 percent of GDP in 2009 to 3.7 percent of GDP in 2010. In the first half of 2011, the average budget deficit rate in SEE was around 2 percent of GDP. In June 2011, the highest budget deficit rate was recorded in Serbia (3.0 percent of GDP), followed by Albania (2.1 percent of GDP), Macedonia (1.7 percent of GDP) and Montenegro (1.5 of GDP). Kosovo makes an exception, recorded a surplus of 1.1 percent of GDP in June 2011. In the same period, the average government debt-to-GDP ratio in SEE was around 38.4 percent, with Albania and Montenegro reporting the highest debt rate of 58.2 and 51.3 percent of GDP, respectively. Kosovo reported the lowest government debt rate in the region with only 6.9 percent of GDP. To avoid problems in the fiscal sector, Serbia issued a U.S Dollar 1 billion global bond, in addition of U.S. Dollar 400 million borrowing guaranteed by the European Bank for Reconstruction and Development (EBRD) in the beginning of 2011. In April 2011, Montenegro issued a Eurobond of euro 180 million, whereas Macedonia benefitted from an IMF loan amounting at euro 200 million in March 2011 and it is expected to benefit from a loan of euro 130 million through an ERBD guarantee in the end of the year.

During 2011, almost all SEE countries faced inflationary pressures which were mainly a reflection of the increase of oil and food prices at the global level, and production prices at the local level. In May 2011, the average Consumer Price Index in SEE reached at 6.2 percent, compared with 1.9 percent in May 2010. Serbia continued to be characterized with

[5] South East Europe: Regular Economic Report, World Bank (2011).

the highest inflation rate in the region (13.4 percent), whereas Croatia reported the lowest inflation rate in the region (2.5 percent). In Kosovo, the average inflation rate reached 10.4 percent in May 2011.

Regarding the exchange rate between the currencies of the SEE countries and euro, in June 2011, the Albanian lek depreciated against the euro by 2.2 percent, reaching at 139.60 ALL/EUR followed by Croatian Kuna which appreciated by 2.5 percent (7.41 HKR/EUR). In the same period, the Serbian dinar appreciated against euro by 4.4 percent (99.13 RSD/EUR), followed by the Macedonian dinar that appreciated by 0.9 percent in June 2011 (60.98 MKD/EUR).

In the first half of 2011, almost all SEE countries were characterized with a good performance of financial markets. In June 2011 compared to June 2010, the market indices of Macedonia (BID), Croatia (COBEX) and Serbia (BELEXline) recorded an increase of 6.3, 20.2 and 12.1 percent, respectively. Montenegro represents an exception, since the MONEX20 index indicates a decline of the share value of 10.2 percent in June 2011.

Unlike in 2010, most of the regional countries have expanded their crediting activity, while deposits continued to be characterized with a lower growth rate. The data on the first quarter of 2011 show that with the exception of Montenegro that recorded a slowdown of the credit growth, all the other countries recorded a faster credit growth. According to the European Commission's data, the highest growth rate of loans in the first quarter of 2011 was recorded in Serbia (22.0 percent), followed by Kosovo (13.2 percent), Albania (9.6 percent) and Macedonia (7.3 percent), while Montenegro reported a decline of the annual credit growth by 11.2 percent. Credit growth was mainly attributed to the fast growth of household loans, while loans to the private sector have also contributed to the overall credit growth.

Table 3. Annual growth rates of loans and deposits

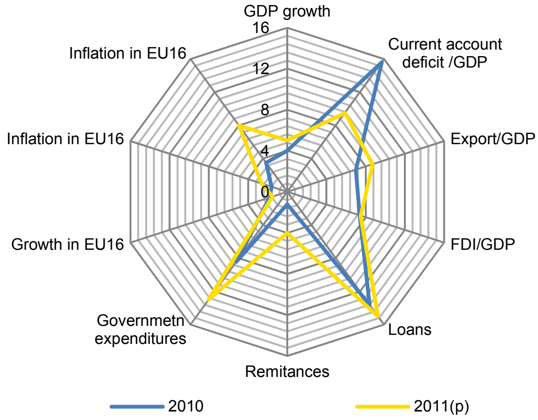
Description	Albania		BiH		Croatia		Macedonia		Montenegro		Serbia		Kosovo	
	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011
Loans	8.9	9.6	-3.1	4.2	-0.7	6.0	2.7	7.3	-12.2	-11.2	22.5	22.0	8.2	13.5
Deposits	12.2	15.9	2.2	4.1	-25.7	-1.4	9.6	12.8	0.4	0.9	21.9	9.3	22.4	8.2

Source: European Commission, Third Quarterly Report 2011

Regarding the deposit growth rate, while Serbia and Kosovo reported a slowdown, Albania was distinguished by a deposit growth rate of 15.9 percent in the first quarter of this year, followed by Macedonia (12.8 percent) (Table 2). Croatia and Montenegro have reported slight improvement of the deposit growth rate. The banking system in SEE was characterized with a deterioration of the credit portfolio during this period. In the first quarter of 2011, Serbia, Bosnia and Herzegovina, and Macedonia reported the highest rates of nonperforming loans in the region with 14.4, 11.7 and 9.4 percent, respectively. The lowest rate of nonperforming loans remains reported in Kosovo, with only 5.9 percent in June 2011.

4. The Economy of Kosovo

Figure 6. Macroeconomic map



Kosovo's economy continues to be one of the economies with the highest growth rate in the region. The main sources of financing for the economic activity have marked a better performance during the first part of the year, thus contributing positively to the overall performance of the country's economy. In this context, the improvement of performance of the global economy supported the exports growth, while a positive growth rate was also recorded in the inflow of remittances. The private sector activity continues to be supported by the banking system loans, which during this period continued to increase with a faster trend, giving also a good signal for the stability of the country's economy. Also, the public sector continues to be a significant participant in the country's economy, with the continuous increase of public expenditures and especially the capital expenditures.

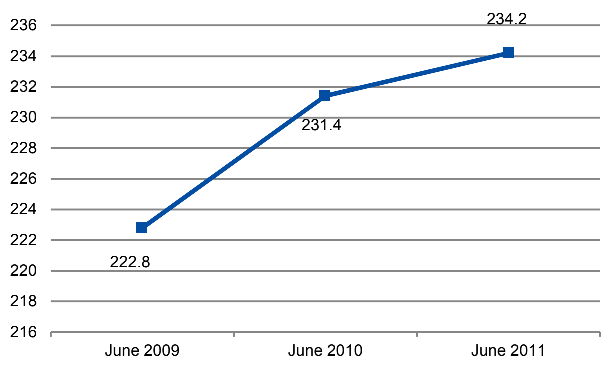
However, the macroeconomic stability in Kosovo continues to be challenged by the main problem of the country's economy, namely the high unemployment rate, which is not being absorbed by the current economic growth rates in the country. As a result of the high dependence of Kosovo's economy on the export of goods from abroad, Kosovo continues to be characterized by a high trade deficit, which represents the main cause for the high rate of current account deficit in the country. The continuous growth of imports, which have a large weight on Kosovo's trade, caused an increase of the current account deficit during 2011, even though exports grew during this period. Kosovo's economy during this year is also facing inflationary pressures, which are more pronounced, compared to the previous year. Inflation in Kosovo was quite volatile in the recent years, reflecting to a large extent the developments of global prices. The high correlation between prices in Kosovo and in the external sector primarilly results from the high dependence of Kosovo's economy on imported goods.

4.1 Real Sector

4.1.1. Gross Domestic Product

Economic developments in the first six months of 2011 suggest that the economic activity in Kosovo is expanding continuously, and as a result, the real economic growth in 2011 is forecasted to be around 5.0 percent (3.9 percent in 2010). In nominal terms, the Gross Domestic Product (GDP) during 2011 is expected to be over euro 4.7 billion. Consumption represents the main GDP component, with a share of around 107 percent of GDP. However, the consumption-to-GDP ratio continues to decrease as a result of the growth of investments in the country, which represent around 35 percent of GDP. The structure of consumption is dominated by the private sector, whereas the public sector consumption recorded a decline.

Figure 7. Remitances, in millions of euro



Source: CBK (2011)

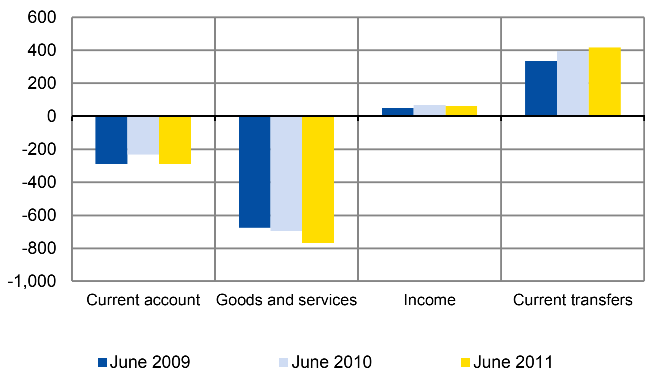
The growth of banking system loans, government expenditures and remittances have supported the overall consumption level in the country during the first half of 2011. Loans to households, as an important source of financing for the consumption, recorded a growth rate of 16.9 percent in June 2011. Until June 2011, remittances amounted at euro 234.2 million, recording an annual growth of 1.2 percent, and continued to have an important role for the financing of households consumption (Figure 7). Nevertheless, the growth trend of remittances in the first six months of 2011 was slower compared to the same period of 2010. On the other hand, government expenditures on consumption of goods and services recorded a decline, thus affecting negatively the total consumption. Nevertheless, the increase of wages for civil servants had a positive impact on the private sector consumption in the country.

Positive developments during this period are recorded also regarding the investments, including private sector and public sector investments. The continuous expansion of the lending activity by Kosovo's banking system remains one of the most important sources of financing for the private sector investments in the country. During the first half of the year, loans issued by the banking system recorded an annual growth of 15.7 percent, with majority being issued to enterprises. Foreign direct investments (FDI) also represent an important component within the private sector investments in the country. In the first part of 2011, FDI recorded a considerable growth reaching at euro 157.6 million compared to euro 103.0 million in the first six months of 2010.

Public investments in the referring period represent a very important component given the continuous growth of capital investments. As a result of these investments, the impact of public expenditures on the overall investments in the country remains positive. Public capital expenditures in the first part of 2011 recorded an annual growth rate of 55 percent. Capital expenditures represent the main category within total budget expenditures, with a share of 32.2 percent (euro 169.8 million). The total value of budget expenditures during the first half of 2011 amounted at euro 528 million, representing a growth of 13 percent compared to the same period of the previous year. The other categories of public expenditures also recorded growth, with exception of goods and services, which in the first six months of 2011 recorded a decline of 8 percent. Wages and salaries as well as subsidies and transfers increased by 28.2 percent and 8 percent, respectively. Despite the growth of public expenditures, Kosovo's budget in the first part of 2011 recorded a surplus of euro 52.1 million, since the level of revenues in this period amounted at euro 579.2 million, which represents an annual growth of 8.6 percent.

Trade balance represents the component with a continuous negative impact on Kosovo's GDP. Kosovo's trade balance is constantly characterized by a high rate of deficit. During the first half of 2011, the trade deficit in Kosovo amounted at euro 925.4 million which represents a growth of 16.1 percent compared to the same period of the previous year. The deficit increase is mostly attributed the rapid growth of imports in this period, which amounted at euro 1.1 billion euro (a growth of 16.5 percent). The growth of imports was also affected by the increase of prices of goods with higher share in total imports. The products with the largest share to total imports are fuel products and the increase of the prices for these products was reflected also in the amount of total imports. On the other hand, exports recoded an annual growth 18.6 percent, reaching the amount of euro169.1 million. Despite a faster growth compared to imports, the impact of exports on the narrowing of the trade deficit remains limited. Nevertheless, the coverage of imports with exports improved, reaching at 15.4 percent in June 2011 compared to 15.1 percent in the same period of the previous year.

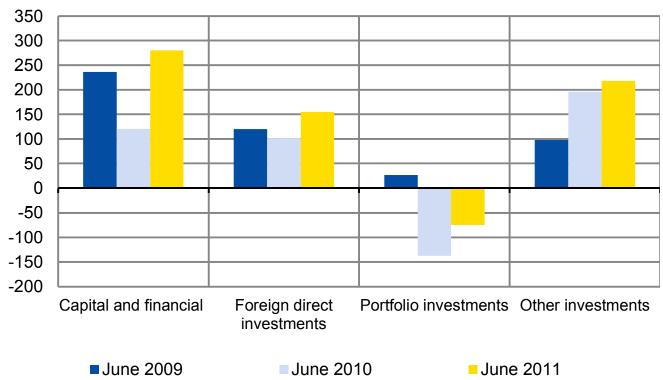
Figure 8. Current account, in millions of euro



Source: CBK (2011)

The high level of trade deficit is also causing a relatively high rate of current account deficit. In June 2011, the current account deficit amounted at euro 287.1 million (Figure 8). The largest component in the current account continues to be represented by goods and services, which is characterized with a relatively large disproportion between imports and exports. On the other hand, another category with a relatively large share in the current account consists of current transfers, which are dominated by migrants' remittances. This category is characterized with a positive balance and it significantly contributed to the narrowing the current account deficit.

Figure 9. Capital and financial account, in millions of euro



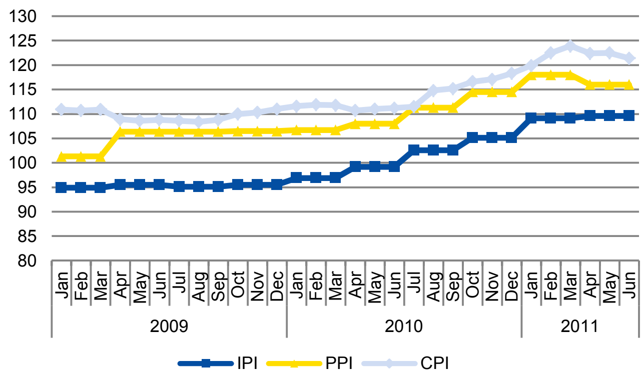
Source: CBK (2011)

Capital and fianancial account in the balance of payments continues to be characterized with a postive balance, mainly driven by Foreing Direct Investments (FDI) and other investments (Figure 9). FDI in Kosovo during the first part of 2011 amounted at 157.6 million, representing a relatively high growth rate compared to the same period of the previous year where FDI amounted at euro 103 million. Other investments are largely composed of trade credit, which experienced a relatively high growth until June 2011, amounting at euro 64.0 million, compared to euro 13.4 million in June 2010. In addition to trade credit, the withdrawal of deposits from abroad had a significant impact on the positive balance of this category. On the other hand, the portfolio investments which mainly consist of investments of Kosovo Pension Savings Trust assets in the financial instruments of the developed countries, continued with a rather slower rate compared to the same period of the previous year.

4.1.2 Prices

Inflationary pressures that started to emerge during the first half of 2010 were also present duirng the second half of 2011. The Consumer Price Index (CPI) for the first six months of 2011 recorded an annual growth of 9.7 percent, representing a relatively high inflation rate compared to the same period of the previous year, where inflation recorded an annual average rate of 1.4 percent, while during the first half of 2009, Kosovo's economy had recorded an average deflation rate of 2.6 percent.

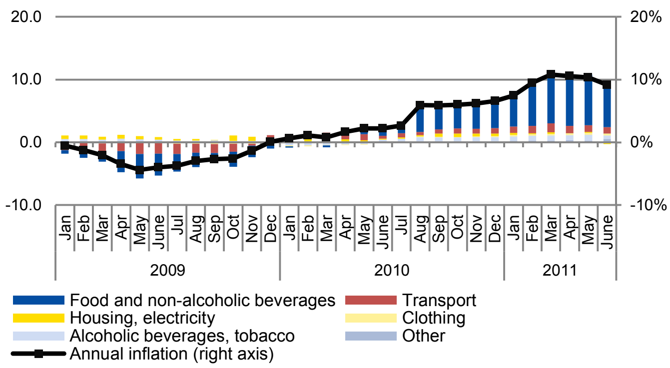
Figure 10. Consumer, Import, and Production Price Indices



Source: SOK (2011)

The increase of prices in the economy of Kosovo was mainly driven by the increase of prices in the international markets, especially the prices of cereals and fuel. The recent wave of the increase of prices in the country was to a considerable extent driven by the increase of prices of food products, which contributed by around 7 percentage points to the total inflation, given that food products have the largest share in the consumer's basket in Kosovo (Figure 11). Fuel prices (within the transport prices) represent a category that has a significant impact on the general level of prices in the country and their contribution was by around 1 percentage point to the total inflation rate.

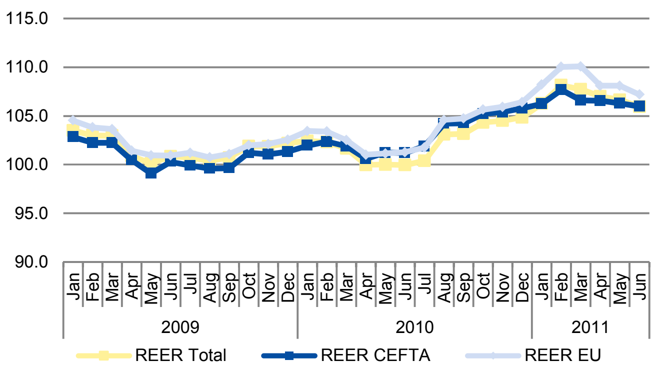
Figure 11. The contribution of CPI components on the annual inflation



Source: SOK (2011); CBK calculations

The high sensitivity of the prices in Kosovo to the international markets is also noticed in Figure 10, which indicates that the trends of consumer and producer price indices in Kosovo followed a very similar trend with the import price index. The large

Figure 12. Real Effective Exchange Rate



Source: SOK (2011)

impact of import prices on producer prices indicates a high dependency of domestic production on the import of raw materials from abroad.

In the first half of 2011, the prices of imported products, expressed through Imports Price Index (IPI) recorded an average annual increase of 11.5 percent, whereas the Producer Price Index (PPI) recorded an average annual increase of 8.9 percent. The increase of producer prices was mainly a result of the increase of prices in the minerals processing industry, in the food and beverage products, etc.

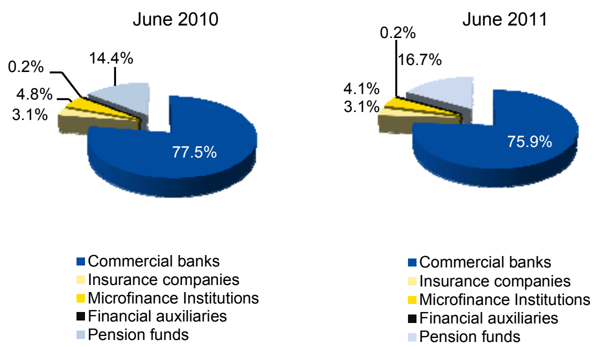
As a result of slowdown of CPI growth, by the end of the second quarter of 2011, the Real Effective Exhange Rage (REER) depreciated against the curencies of trading partners, which represents a postive development for the economy of Kosovo (Figure 12). In the first quarter of 2011, Kosovo's REER had appreciated to a considerable extent against the currencies of trading partners (especially compared to the EU countries) and hence making Kosovo products less competitive in foreign markets. The inflation level, which in Kosovo is higher than in Eurozone and CEFTA countries, continues to be a factor influencing Kosovo's REER against the trading partners. However, the depreciation in the second quarter of 2011 represents an encouraging development for domestic producers towards increasing their competitiveness in foreign markets.

5. Financial Sector in Kosovo

5.1. General Characteristics

The financial sector in Kosovo continued the expansion of its activity and, at the same time, it managed to maintain a satisfactory level of sustainability in all of its constituent segments. In June 2011, the total value of the financial sector assets in Kosovo amounted at euro 3.3 billion, which represents an annual growth of 15.1 percent (17.5 percent in June 2010). This growth is mainly attributed to the second half of 2010, while during the first half of 2011 the financial sector assets recorded a slower growth. The trend of financial sector assets continues to be defined mostly by the trend of the banking system, which represents the largest sector within the financial sector in Kosovo. The banking system assets in June 2011 recorded an annual growth of 12.7 percent (5.1 percent in June 2010). Nevertheless, it is worthy to mention that the lending activity during the one year period recoded a significant growth (15.7 percent) compared to the growth of 9.7 percent in 2010. The growth of lending activity was directly reflected on the interest income from loans, that recorded an annual growth of 9.9 percent.

Figure 13. The structure of financial sector assets by sector



Source: CBK (2011)

Besides the growth of assets of the commercial banks, the growth of pension fund assets, especially of the Kosovo Pension Savings Trust, had a considerable impact on the growth of financial sector assets. In June 2011, the amount of pension fund assets amounted at euro 551.5

million, which represents an annual growth of 33.7 percent. Developments in other sectors, namely insurance companies, microfinance institutions and financial auxiliaries, have a considerably lower impact on the overall developments in the financial sector, as a result of their low share in the total financial sector. The main activity of insurance companies continues to be the Third Party Liability (TPL) insurance, which generates the largest part of the received premiums. In June 2011, the total assets of the insurance companies amounted at euro 103.4 million (annul growth of 14.8 percent). Microfinance institutions keep concentrating their activity mainly in financing businesses and households through loans, the value of which in June 2011 reached euro 115.2 million (annual growth of only 1.2 percent).

While commercial banks manage around 76 percent of the financial sector assets, also the pension funds have a considerable share, which in June 2011 stood at 16.7 percent of total financial sector assets (14.4 percent in June 2010). The share of other sectors, such as insurance companies and financial auxiliaries remained almost unchanged compared to June 2010, whereas it is noted a slight decline in the share of microfinance institutions in total assets of the financial sector (Figure 13).

Also with regard to the number of financial institutions operating in Kosovo, the structure of financial system in Kosovo remains similar to the previous periods. With the exception of three new financial auxiliaries in the market, the number of financial institutions remained similar to the previous year (Table 4). In June 2011, a total of 70 financial institutions operated in Kosovo, with the largest number comprised by financial auxiliaries and microfinance institutions (49 altogether), but which managed the smallest part of the total financial sector assets (4.25 percent). The number of commercial banks and insurance companies in the financial market in Kosovo remained unchanged during the last three years, despite the fact that these industries are quite profitable and continuously expanded their activities, which represent important factors for attracting new financial institutions to enter the market. However, the lack of new entries into the financial market in Kosovo also corresponds with the evolution of the global financial crisis since 2008, which has limited the further expansion of foreign financial institutions towards new markets. A similar impact is being caused also by the current public debt crisis in the Eurozone, which has affected a considerable number of banks in the European Union.

Table 4. Number of financial institutions

Description	June 2008	June 2009	June 2010	June 2011
Commercial banks	8	8	8	8
Insurance companies	12	11	11	11
Pension funds	2	2	2	2
Financial auxilliaries	29	28	29	32
Microfinance institutions	16	19	17	17

Source: CBK (2011)

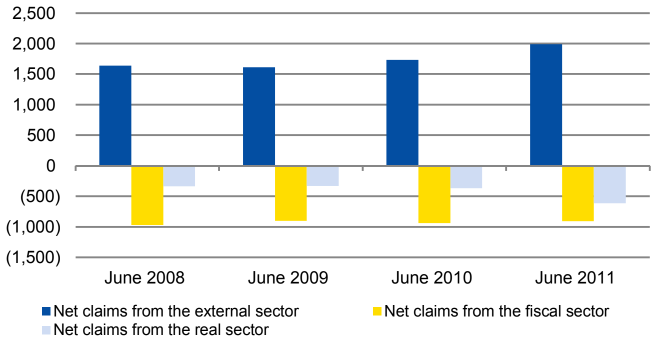
Financial sector in Kosovo (including CBK) keeps investing a considerable part of its assets in the foreign markets; whereas, the use of foreign financing continues to be at a relatively low level. In June 2011, the value of Net Foreign Assets (NFA) amounted at euro 2 billion

(Figure 14), which represents an annual growth of 14.7 percent (7.6 percent in June 2010). The largest part of NFA consists of the CBK assets (58.8 percent), followed by commercial banks (21.1 percent) and other financial institutions (20.1 percent). All financial institutions, except the microfinance institutions, have recorded a positive NFA balance, what means that, in general, claims on nonresidents are greater than liabilities to non-residents (Figure 15).

Claims on nonresidents amounted at euro 2.42 billion, the largest part of which is invested in deposits (48.4 percent) and securities (26.4 percent), representing a similar structure to the previous years (Figure 16). However, on the level of institutions, while CBK has shifted part of investments from securities to deposits, the commercial banks did the opposite by shifting part of investments from deposits to securities. In June 2011, 68.5 percent of the CBK claims on nonresidents consisted of investments in deposits (53.5 percent in June 2010) and 18.8 percent consisted of investments in securities (29.7 percent in June 2010). Regarding the investments of commercial banks in the external sector, deposits consist 44.2 percent of these investments (59.1 percent in June 2010), while 32.4 percent of these investments consists of securities (20.9 percent in June 2010).

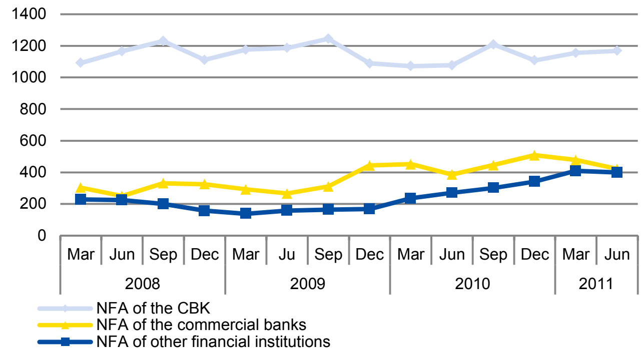
Liabilities of the financial sector in Kosovo to non-residents accounted for euro 432.6 million in June 2011 (annual growth of 18.4 percent). Liabilities to non-residents mainly consist of loans that the financial institutions operating in Kosovo have received from the financial institutions operating abroad (46.2 percent of total liabilities), as well as of the deposits of non-residents in banks operating in Kosovo (23.6 percent) (Figure 17). The largest part of liabilities to non-residents

Figure 14. Net claims of the financial sector, in milions of euro



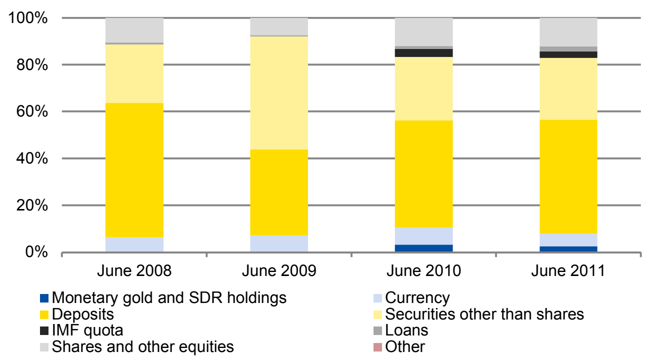
Source: CBK (2011)

Figure 15. Net foreign assets by institutions, in millions of euro



Source: CBK(2011)

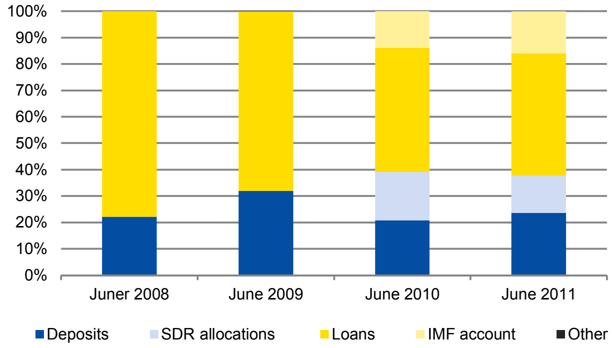
Figure 16. Structure of claims from the external sector



Source: CBK (2011)

belongs to commercial banks and microfinance institutions as the major beneficiaries of loans from abroad and also as depositories of non-resident deposits (only commercial banks). As to the CBK liabilities to non-residents, they are mainly composed of the Special Drawing Rights and the IMF quota.

Figure 17. Structure of liabilities to the external sector



Source: CBK (2011)

The financial sector in Kosovo also continued to increase the claims from the domestic sector. In June 2011, these claims amounted to euro 839.2 million, which represents a growth of 38.8 percent compared to June 2010. Since the liabilities to the domestic sector consist of net claims on the central government and claims on the real sector, their growth generally resulted due to a lower level of government deposits (compared to June 2010) and on the other hand due to significant growth of claims from real sector (around 13 percent). The claims from the real sector are mainly comprised of loans issued by commercial banks and microfinance institutions, the main beneficiaries of which are enterprises and households. When taken into consideration also liabilities to the real sector (mainly deposits in commercial banks), then the net claims on the real sector usually have a negative balance (Figure 14).

5.2. Payments System and Banking System Infrastructure

Payment and clearing systems are a vital part of the economy and the financial infrastructure of a country, representing one of the most important pillars of the stability and efficiency of the overall financial sector. In this regard, one of the most important objectives of the central banks remains the transparent functioning of the payment system and the clear definition of guidelines for all participants in the payment and clearing system. Since a payment represents the transfer of the monetary value from the buyer to the seller, an efficient payment system should ensure the appropriate measures needed for a successful completion of a payment in order to avoid the eventual risks that may hazard any payment. The risk mitigation for a potential incompletion of a payment will result in well-functioning of the financial markets and the national and international banking systems. The recent global crisis proved that the payment systems represent an important artery not only for the financial markets, but also for the economic activity of each individual economy. Therefore, central banks throughout the world are fully engaged in building and supervising the payment systems to ensure the proper economic development.

Regardless of the simplicity it appears to present, a payment incorporates a wide range of steps that have to be taken in order to ensure the progress of the transaction, a process that includes the clearing and the settlement of the payment. The clearing process represents the procedures through which a payment undergoes from the moment a depositor conducts a payment in his bank, until the payment reaches the bank to which the payment was designated to. On the other hand, the settlement represents the final step of transfer of the payment ownership. The availability of the types of payments instruments mainly depends on level of development of the payments system in an economy, while the selection of the payments instruments is usually done in accordance with the type of payment, both by the individuals and the relevant intuitions. In countries with less developed financial systems, cash remains the most usable and acceptable instrument for payments. However, when choosing cash as an instrument for a certain payment one should take into account that cash bears numerous risks such as forgeries, the risk incurred with the transportation of money (thefts or various damages), etc. Payment instruments that are not performed with cash can be paper instruments and electronic instruments. The paper payments instruments are considered Credit Transfers and Cheques, whereas the electronic payment instruments are Debit Cards and Credit Cards (Cards with a payment function), Direct Debit and E-banking. Given that these types of payments instruments go through numerous steps before the finalization of the payment, which at the same time enables the control and evaluation of the instrument's quality and credibility, the continuous preference for other types of payment against cash will led not only to the decrease of the abovementioned risks, but also to the decrease of informality in economy in general.

5.2.1 Payment System in Kosovo

Encouraging a stable financial system, which among others, includes a sustainable, safe and efficient payment system, is the primary objective of the CBK. The payment system in Kosovo includes the institutions, relevant payment instruments, regulations and the technology, which has so far resulted in a sustainable and stable payments system with a continuous growing tendency. As of November 2000, the CBK has engaged at building an interbank payments system in the economy and the Interbank Clearing System (ICS) started operating in May 2001. This payment system consisted of a simple clearing and settlement system for paper payment orders, while the data were recorded manually and semi-manually. In 2002, the second stage of development of the payments system followed, namely with the Electronic Interbank Clearing System (EICS). As of 2009, the EICS fully relies on the web technology, which led to an increased functionality and a facilitation and clarification of its use.

CBK is not only the operator, monitor and the regulator of the only interbank payment system in the economy, but it is also a participant in the system on its behalf and on behalf of the government institutions. Besides the CBK, there are eight commercial banks operating in the payment system in the country, which at the same time operate as payment agents for microfinance institutions and insurance companies. Commercial banks are connected with the EICS after "Hub-and-Spoke" technology, through lines reserved by the telecommunication companies, whereas recent developments will eventually lead to the replacement of reserved lines by optical fibers. The central systems of participants in the national payments system are electronically connected with the EICS. Payments regarded as priority and urgent payments are cleared on gross basis, while other payments on net basis in four clearing functions present in the EICS. Other payments include individual payments, mass payments, Kos-Giro payments, and direct debit payments.

The payments system in Kosovo mainly relies on cash payments, although the advancement of the interbank payment system during the recent years has led to a continuous increase of non-cash payments. Among non-cash payments, the most dominant instrument is represented by Credit Transfers, which can be payment orders in electronic form or in paper form. Commercial banks in the country are encouraging citizens and business, through different products, to increase the use of electronic payments against paper payments. However, the number of credit transfers remains higher compared with the electronic ones. An important payment instrument that has shown a continuous increase of its usage since its first presentation in 2005 is Kos-Giro, a payment instrument created to increase the efficiency of payments in paper form not only for banks and customers but also for different utility companies. The Kos-Giro payments are a type of credit transfer – payment order in the paper form which enables the payment of bills through banks (registration payments, taxes and public utilities bills). Consumers of Kosovo Energy Corporation (KEK), Post and Telecommunication of Kosovo (PTK) and Custom Service have led to a continuous increase of the Kos-Giro payments in value and volume. Another important payment instrument, present in the market since the end of 2009 is the Direct Debit. Although the number and the value of payments realized through direct debit is still low given that it represents a new instrument in the market, an increase of the usage of this instrument is expected since the largest utility companies joined the scheme. Direct debit is a debit instrument, suitable for periodic payments such as electricity bills, telephone bills etc. For a proper functioning of the direct debit instrument, the client has to sign an authorization for direct debit, in order to allow the company to withdraw the money from the client's bank account for the benefit of the company. The company then will notify the client for the amount and the date of withdrawal and it will provide the data to its bank, which initiates a request for direct debit through EICS. The last step of this instrument includes the process for execution of the request for direct debit through EICS.

Electronic payments, widely spread in developed economies, are mainly executed through cards with payments function which can be debit cards and credit cards. Debit card remain the most popular cards in the Kosovo market. These cards enable the cardholder to withdraw money from the account through ATM (Automated Teller Machine) as well as make payments in POS (Point-of-Sale). On the other hand, credit cards represent an open credit line for the card owner, enabling him or her to make payments and withdraw money according to a predetermined limit. The use of credit cards recorded a considerable increase in the last years. Internet banking or e-banking is characterized with a constant increase of use since its first presentation.

Table 5. Participation of payment instruments in total IECS transactions

Description	Number of transactions in total		Total value of transactions	
	First semiannual 2010	First semiannual 2011	First semiannual 2010	First semiannual 2011
Normal	13.7	15.9	60.1	60.0
Prioritised	0.3	0.4	13.8	12.1
Returned	0.0	0.0	0.0	0.0
Massive Normal(detailed)	75.3	71.9	9.9	10.1
Giro(detailed)	10.5	11.6	16.1	17.6
Massive Prioritised (detailed)	0.1	0.1	0.0	0.0
Direct debit	0.1	0.2	0.0	0.1

Source: CBK (2011)

Currently, a large number of banks in the Kosovo's banking system offer this service and clients can authorize transfers, payments and realize orders through personal computers.

The interbank payment system in Kosovo clears the large value payments, small value payments, priority payments, individual and mass payments, Kos-Giro payments and direct debit payments. Priority payments can be individual payments or mass payments, mainly used for urgent commercial payments.

The number and value of transactions processed by EICS recorded an increase in the past few years. In the first six months of 2011, the EICS system realized a number of 2.0 million transactions, with a total value of euro 2.2 billion. Compared to the first six months of 2010, the number of total transactions resulted in an increase of 7.8 percent, while the value of total transactions cleared increased by 10.8 percent in the same period. Similar to the previous year, the number and value of total transactions cleared in the first six months of the year results to be concentrated in the second quarter of 2011. On average, every day in the EICS are processed and cleared around 16,734 transactions with an average daily flow of euro 17.9 million.

It is worth to mention that in EICS, excluding CBK as a participant in the system, around 56.3 percent of the number of total transactions is managed by three participating banks in the system, while around 69.9 percent of the value of total transactions is managed by the three largest banks in banking system in Kosovo.

5.2.2 Payment Instruments

Regarding the number of transactions executed through IECS, the Direct Debit payments have recorded a rapid growth from 1,050 to 3,205. The number of priority payments, normal payments and Kos-Giro payments, until June 2011 compared to June 2010 were also characterized with a rapid growth of 26.9, 25.1 and 18.8 percent respectively. Also, in terms of the volume of transactions executed through IECS, taking into consideration their low base, the payments through direct debit recorded a rapid annual growth (from euro 954,224 thousand in June 2010 to euro 2.9 million in June 2011). A growth in volume was also recorded by Kos-Giro transactions, which in the first six months of 2011 compared to the first six months of the previous year were characterized with an annual growth of 21.0 percent. Normal payments (60.0 percent of the total value of transactions) have the highest share to total transactions, though the value of Kos-Giro and Direct Debit payments have recorded a continuous growth (Table 5).

Until June 2011, the total number of bank accounts valid to make payments reached at 1.6 million clients' accounts, recoding an annual growth of 12.9 percent.[6] Out of the total bank accounts, around 59 thousand accounts consist of E-Banking accounts, and are used for online access through internet to banking services. These accounts recorded an annual growth of 19.3 percent in the first six months of this year compared to the same period of the previous year. Despite the growth recorded in recent years, the use of E-Banking accounts is still considered low, given that these accounts consist only 3.6 percent of total bank accounts. The number of cards offering cash withdrawal services and different payment services (debit and credit cards) reached at 584,139 in the first six months, a growth of 14.3 percent compared to the same period of the previous year. In the first six

[6] The number of total bank accounts includes: the number of current accounts, saving and other accounts in bank, the number of E-Banking account, the number of accounts using a standing order and the number of accounts using Direct Debit (DD)

months of 2011, the number of debit cards reached at 1.0 million, whereas the number of total credit cards reached at 99,384. Despite the low level of use, the use of credit cards are characterized with a rapid increase compared to the increase of the number of debit cards. In the first six months of 2011, the number of debit cards was characterized with an annual growth of 8.3 percent, whereas the number of credit cards recorded an annual growth of 53.0 percent.

Kosovo's banking system continued expanding the banking infrastructure, facilitating the clients' access to banking services.

Table 6. Banking system network

Description	June 2008	June 2009	June 2010	June 2011
Number of ATM	219	282	380	441
Number of POS	2.837	4.612	5.493	6,654
Number of e-banking accounts	11,242	17,496	49,188	58,675

Source: CBK (2011)

This is expressed by continuous increase of the number of ATM and POS equipment installed by commercial banks, which recorded an annual growth of 16.1 and 21.1 percent, respectively. In June 2011, the number of ATM's installed reached at 441 while the number of Points of Sale (POS) reached at 6,654 during the same period (Table 2). During the period January-June 2011, the number of ATM withdrawals (including bank clients and clients of other banks) reached at 2.0 million, with a total flow of euro 191.6 million (euro 147.4 million in the first six months of 2010). During the same period, 587,448 transactions were processed by the use of POS by local and foreign cards, with a total flow of euro 33.8 million (euro 22.4 million in the first six months of 2010). Out of the total card transactions (ATM, POS and E-Banking), the share of cash withdrawal from ATM by June 2011 was around 82.4 percent, whereas around 14.5 percent are clients' payments by cards in POS equipments and 3.1 percent comprise of e-banking transactions. This indicates a relatively high level of the use of cash in the country's economy.

The expansion rate of the banking system infrastructure in Kosovo is quite intense, what made Kosovo converge well to other region countries in this aspect. Regarding the number of total cards, in year 2010, Kosovo had 271 cards per 1,000 inhabitants, followed by Albania with 207 cards per 1,000 inhabitants. Among the regional countries, Croatia had the largest number of cards with 6.8 million in 2010, which means 1,500 cards per 1,000 inhabitants. Regarding the installed ATM equipments, Kosovo had 0.23 ATMs per 1,000 inhabitants; Albania had 0.24 ATMs per 1,000 inhabitants; while, Croatia had 0.86 ATMs per 1,000 inhabitants. Regarding payments executed through e-banking, the data show that Albania has the lowest number of payments realized through internet (27,368 thousand in 2010), followed by Kosovo (55,292 in 2010) and Macedonia (221,599 in 2010). Croatia leads in the region with the highest number of e-banking payments that reached at with 989,862 in 2010.

Recognizing the the important role of a functional and efficient payment system, CBK has continuously contributed in developing the interbank payment system in the country by monitoring and stimulating the participants in this system. To further develop and modernize the national payments system, CBK drafted a document called the Vision of the Future of the National Payments System, which includes the vision on the strategy for the development of the National Payments System and the action plan for the implementation of this vision (Box 3).

Box 3. The Strategy for the Development of the National Payments System

The Central Bank of the Republic of Kosovo (CBK), supported by the World Bank, has drafted the Strategy for the Development of the National Payments System. This strategy, through the identification of the development path, has set the objectives and the means for the medium term implementation. Its formulation is considered to be of great importance given that it makes transparent to all stakeholders the development path of the payment system in the Republic of Kosovo.

The Strategy for the Development of the National Payments System is structured in nine main pillars: i) legal framework, ii) high value and urgent payments, iii) low value payments, iv) government transactions, v) securities, vi) monetary market, vii) migrants' remittances, viii) supervision of payments system and ix) cooperation and coordination between stakeholders of payments.

For the implementation of the strategy, working groups for all pillars envisaged in the strategy have been established and a wide range of relevant activities have been undertaken. Specifically, the terms of reference have been established for new payment systems (pillar ii, iv and vi) and the Law on payment system was drafted as well (pillar i).

In the area of monitoring the payment system (pillar vii) CBK has established and developed the functions in line with the international principles and standards. Regarding the monitoring of the payment system, it is worthy to mention that there have been regular publications of analytical indicators on the payment instruments in Kosovo. Moreover, the regulations on payment instruments statistics were drafted and the reporting methodology were amended and reviewed. As provided on pillar ix of the strategy, the National Payments Council (NPC) has become functional. NPC is composed of the highest representatives for CBK, Treasury/Ministry of Finance, Kosovo Bankers' Association and commercial banks. NPC aims at supporting the development of sustainable and efficient system for the clearing and settlement of payments and securities in Kosovo and it can serve as a cooperation forum for the provision of the necessary conditions in regional and international payment systems. A separate working group on the reduction of cash payments was established and started to operate within the NPC.

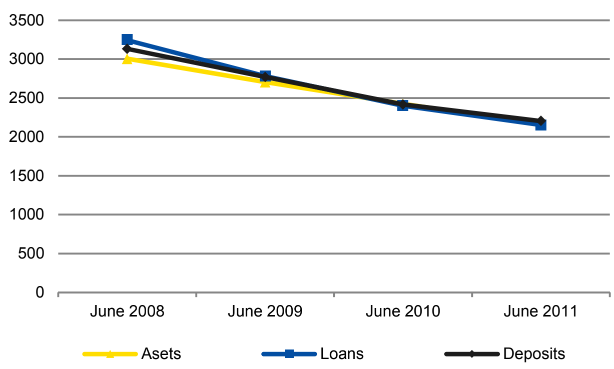
Some of the major projects of essential importance to the national payments system are on the finalization process. Among others, it is important to mention the project for government wages and pensions, which is expected to be automatized in the context of the processing of data, which until now have been processed manually by the commercial banks. A project of a particular importance is also the project on clearing and deposit system for the trading of securities based on the Central Securities Depository (CSD) package, which is planned to be implemented in the begging of next year. Also, CBK is taking the first steps towards the implementation of a contemporary system on the automation of the RTGS flow and payments. This system will mainly process the high value payments (or "whole payments") between banks in the country and government and trade institutions. It is also worthy to mention the activities taken for implementation of the project on the reduction of the use of cash for banks, businesses and individuals. This project is expected to generate the necessary processes and infrastructure to attract the use of other alternatives for making payments against the use of cash.

6. Banking system in Kosovo

6.1. General characteristics of the banking system

The structure of the banking system in Kosovo during the first half of 2011 was similar to the last year. Eight commercial banks continued to operate in the banking system in the country, of which six were foreign owned and two domestically owned. In June 2011, the foreign owned banks dominated the market with a share of around 90.0 percent of total banking system assets, while domestic banks managed the remainder of 10.0 percent.

Figure 18. HHI for assets, loans and deposits



Source: CBK (2011)

Baking market in the country continues to be characterized with a high concentration rate, given that 74.5 percent of total assets of the banking system are managed by the three largest banks (79.6 percent in June 2010). Nevertheless, the continuous activity growth of smaller banks made the market concentration rate follow a declining trend since 2007. The decline of the market concentration rate is expressed through the Herfindahl-Hirschman Index (HHI). According to the HHI for total assets, in June 2011, the banking system was characterized with a concentration rate of 2,157 points, which compared to the same period of the last year, indicates a decline of the concentration rate by 265.2 HHI points. The concentration rate of the banking system is noticed to have recorded a continuous decline since 2008 also based on the HHI for total deposits and loans (Figure 18).

Commercial banks continued to expand their infrastructure, thus bringing their services closer to clients. However, the dynamics of infrastructure expansion is noticed to have slowed down compared to the previous two years, which can reflect the measures taken by banks to reduce their expenditure, and also reflecting the fact that banks that have been operating in Kosovo have managed to consolidate well their presence in the market in terms of their banking units in the territory of Kosovo. In June 2011, the number of branches and sub-branches of commercial banks reached at 301, which represents an annual expansion by 5 units (7 units 2010, 43 units in 2009). At the same time, the number of employees in commercial banks recorded an increase compared to 2010. In June 2011, the banking system had 3,654 employees compared to 3,561 employees in June 2010.

During 2011, further advancements were conducted with regard to the regulatory framework of banking system with the finalization of the drafting of the new Law on Commercial Banks, Microfinance Institutions and Non-bank Financial Institutions by the CBK. The implementation of the new Law is expected to further strengthen the supervisory capacity of the CBK in its role as the financial sector regulator and contribute to the strengthening of the internal governance of financial institutions (Box 4).

Box 4. The law on bank and non-bank financial institutions

Regulatory and supervisory framework of the CBK has been improved with the new law on commercial banks, microfinance institutions and non-bank financial institutions. This law includes the latest practices and the international standards on banking aiming at enhancing the efficiency of licensing, supervision and financial sector regulation. We can distinguish the following most important issues which add value to the new law compared to the previous one:

Expansion of supervision mechanisms, including the option of administrating the banks that may experience short-term liquidity problems, but which are considered to be solvent;

Strengthening the regulatory requirements for corporate governance, eligibility requirements, 'fit and proper' tests to the administrators of financial institutions;

Increased enforcement mechanisms and sanctions in case of non-fulfilment of the principles and requirements for the management of banking risks;

Consolidated supervision as a comprehensive dimension for monitoring the overall profile of the group of financial institutions;

Clearer differentiation of regulatory and supervisory requirements for banks incorporated in the market as subsidiaries and branches of foreign banks;

Definition of prudential limits on exposures with regard to related groups and interests associated with the bank;

Islamic banking option; and

Strengthening the regulatory and supervisory framework of microfinance institutions and non-bank financial institutions.

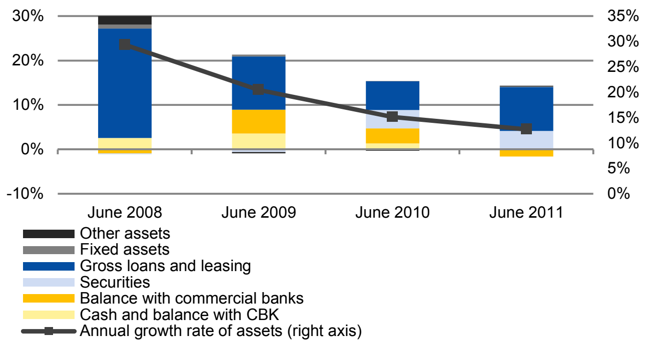
This law is expected to be approved by the Assembly of the Republic of Kosovo by the end of 2011.

6.2. Banking system Balance Sheet

6.2.1 Assets

Banking system continued to expand its activity during the last period, thus continuing to be one of the main promoters of the economic activity in the country. Amounting at euro 2.5 billion (52.8 percent of GDP), the total assets managed by the commercial banks in Kosovo recorded an annual growth of 12.7 percent in June 2011.[7] The core contributor to the

Figure 19. The contribution in asset growth by category, in percent



Source: CBK (2011)

[7] Given that banking system assets include assets until June 2011, while the GDP figure consists of the forecast for the entire year, the total assets to GDP ratio might have been underestimated.

overall growth of banking system assets continues to be the category of loans and investments in securities. The recovery of the economic activity in the country and in the global economy affected the confidence of commercial banks positively, and hence reflected in a stronger lending activity to the economy and greater investments in securities in foreign markets. Lending and investments in securities contributed to the annual growth rate of total assets with 9.9 pp and 4.1 pp, respectively. On the other hand, balances with commercial banks contributed negatively to the growth rate of total assets by -1.4 pp (Figure 19).

The banking system activity continues to be concentrated in the activity of financial intermediation in the Kosovo's economy, while 25.3 percent of total assets remained invested in foreign markets in June 2011 (24.5 percent until June 2010). Investments in the foreign markets largely consist of the placements by the local commercial banks to banks abroad and investments in securities.

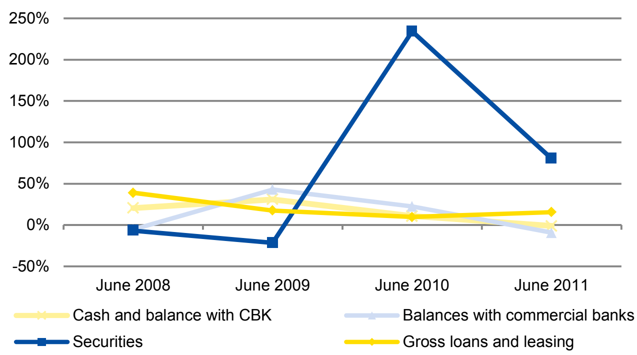
Table 7. The structure of banking system assets

Description	June 2008		June 2009		June 2010		June 2011	
	In millions of euro	In percent	In millions of euro	In percent	In millions of euro	In percent	In millions of euro	In percent (%)
Cash and Balances w ith CBK	184.5	11.5	241.9	12.5	268.1	12.1	265.3	10.6
Balances w ith commercial banks	200.4	12.5	286.7	14.9	351.6	15.8	319.5	12.8
Securities	43.4	2.7	34.1	1.8	114.0	5.1	205.6	8.2
Gross Loans and Leasing	1089.7	68.1	1,280.9	66.5	1,404.6	63.3	1,624.9	65.0
Fixed assets	33.4	2.1	40.1	2.1	42.6	1.9	45.0	1.8
Other assets	48.2	3.0	43.5	2.3	37.8	1.7	40.8	1.6
Total assets	1,599.6	100.0	1,927.1	100.0	2,218.8	100.0	2,501.1	100.0

Source: CBK (2011)

The structure of banking system assets continues to be dominated by loans, which in June 2011, increased their share to total assets to 65.0 percent from 63.3 percent in June 2010, thus reflecting a faster trend of credit growth during this period (Table 7). Investments in securities abroad continued the growing trend during the first half of 2011. Amounting at euro 205.6 million in June 2011 (euro 114.0 million in June 2010), the share of investments in securities in total assets of the banking system was 8.2 percent, which represents the highest level of banks' investments in securities since 2006. Investments of the commercial banks in securities mainly consist of investments in government securities (86.2 percent), financial corporations (13.6 percent) and non-financial corporations (0.2 percent). The higher growth of loans and investments in securities led to the decrease of some other categories of banking system assets, such as banks' reserves in CBK and deposits of commercial banks operating in Kosovo in banks abroad. The reserves of commercial banks declined from euro 185.6 million in June 2010 to euro 169.9 million in June 2011, which is an annual decline of 8.5 percent (Figure 20). Despite the lower level, commercial banks'

Figure 20. Annual growth rate of asset components, in percent



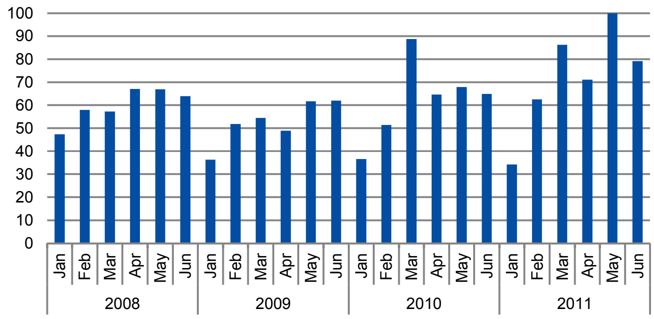
Source: CBK (2011)

reserves continue to maintain a higher than the minimum required by the Central Bank. A similar development characterized also the balances of commercial banks operating in Kosovo with banks abroad, which recorded an annual decline of 13.9 percent. The decrease of these two categories of assets and the increase of banks investments in loans and securities indicate a more pronounced orientation of the banking system investments towards more profitable financial products.

6.2.2 Loans

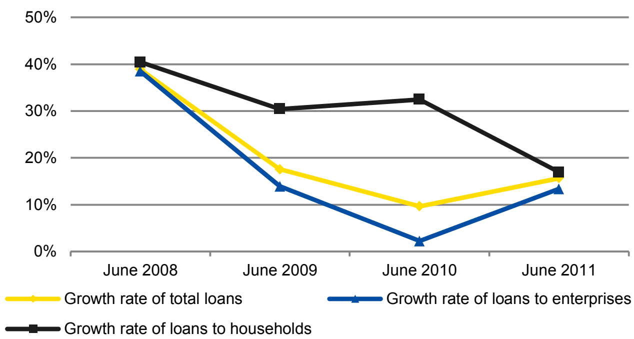
Lending activity of the commercial banks represents one of the main sources of financing for the consumption and investments in the country. The recovery of financial markets in foreign economies and improvements of perceptions of the commercial banks for the economic environment in Kosovo resulted in higher confidence of the commercial banks for the overall economic environment, and consequently, lending by the banking system in Kosovo was characterized with a faster growth trend. The total value of loans issued by the banking system in Kosovo amounted at euro1.6 billion in June 2011 (34.3 percent of GDP), which represents an annual growth rate of 15.7 percent compared with the growth of 9.7 percent in the same period of the last year. Similar developments characterized also the new loans used by the banking system during the first half of 2011, which amounted at euro 433.1 million, an annual increase of 15.9 percent (Figure 21). This shows that lending activity of banks in Kosovo returned to two digit growth rates, after the slowdown period that emerged due to the shocks in the global economy in the last two years.

Figure 21. New loans on monthly basis, in millions of euro



Source: CBK (2011)

Figure 22. Annual growth rates of loans by sector, in percent



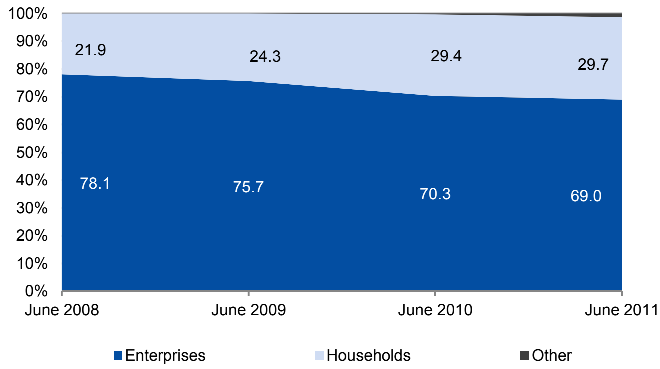
Source: CBK (2011)

Given that during the previous year the credit growth had primarily resulted from lending to households, during the first half of 2011, lending to enterprises was the main driver of the overall credit growth. Lending to enterprises increased by 13.4 percent, representing a contribution of 9.5 pp to the growth of total loans (1.2 pp in June 2010). On the other hand, the growth of loans to households slowed down during this period, recoding an annual growth rate of 16.9 percent compared to a growth rate of 32.5 in June 2010 (Figure 22). Consequently, the contribution of loans to households in the growth of total loans was smaller during this period (5.0 pp in June 2011 compared to 7.9 pp in

June 2010). The improvement of the overall economic activity resulted in higher confidence of commercial banks on the enterprises sector, which is considered as more sensitive to the developments in the domestic and global economic activity. This, in turn, led to a slight decrease of interest rates for loans to private enterprises, which may have also encouraged the credit demand by this sector. On the other hand, the slowdown of lending to households, to some extent, may have been driven by the greater orientation of the banking system towards the crediting of enterprises during this period.

Despite the rapid growth of loans to enterprises, their share to total loans in June 2011 was lower compared to June 2010. The share of loans to enterprises in June 2011 was 69.2 percent compared to 70.6 percent in the same period of the previous year. On the other hand, loans to households kept increasing their share to total loans, reaching at 29.7 percent in June 2011 compared to 29.4 percent in June 2010 (Figure 23).

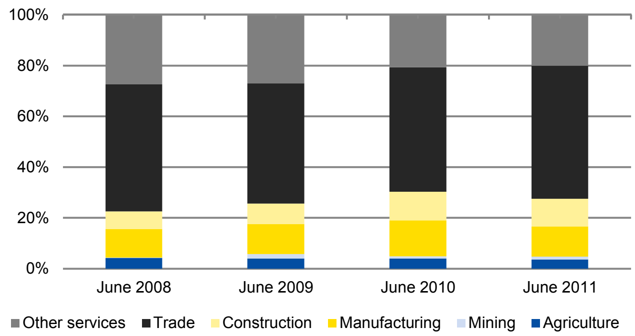
Figure 23. Structure of loans by sector, in percent



Source: CBK (2011)

The structure of loans to enterprises in terms of economic activity continues to be similar to the previous periods. Loans to the services sector dominate the structure of total loans to enterprises with a share of 71.4 percent. Within loans to services, the trade sector absorbed the largest share and accounted for 52.5 percent of total loans to enterprises in June 2011 (Figure 24). A share of 25.1 percent of total loans to enterprises is represented by loans to the industry sector (including mines, production, industry and construction). One of the sectors with the lowest share to total loans continues to be the agriculture sector, with only 3.6 percent of total loans until June 2011 (4.0 percent in June 2010). This suggests that the conservative lending approach of banking system towards the agriculture sector did not mark any improvement during this period. Loans issued to the agriculture sector, in addition to the low volume, are also characterized by highest interest rates, reflecting the perceived uncertainty by banks with regard to to this sector. The high level of interest rates for loans to the agriculture sector may discourage the demand for loans by this sector, therefore, representing an additional factor contributing to the current low level of loans for agriculture.

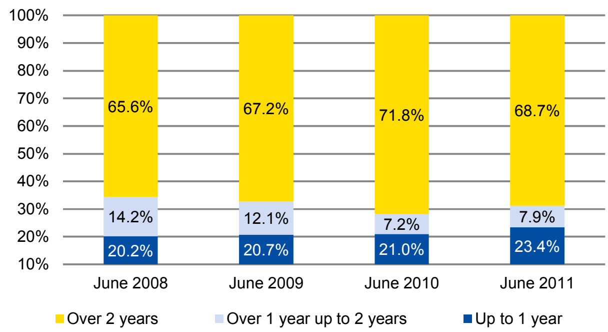
Figure 24. Structure of loans by economic activity, in percent



Source: CBK (2011)

While lending activity for most of the sectors of the economy slowed down until June 2011, loans to trade sector and other services (other trade services, hotel and restaurant services and other services) experienced a relatively faster growth trend. Therefore, it may be considered that the accelerated growth of loans to enterprises in 2011 was primarily as a result of the faster growth of loans to trade sector and other services, while loans to other sectors of the economy have experienced rather a slower growth trend. Lending to trade sector in 2011 amounted at euro 589.5 million, recording an annual growth of 21.3 percent. Also, lending to enterprises providing financial services amounted at euro 24.8 million, representing an annual growth of 37.0 percent. The industry sector was characterized by a slower growth trend during this period. In June 2011, loans to the industry sector recorded an annual growth of 4.8 percent compared to the 20.6 percent annual growth in June 2010. Within the industry sector, with the exception of mining industry that marked a growth both in volume an in share to total loans, lending to all other sectors slowed down. Lending to mining industry, despite their low share in total loans to enterprises (1.1 percent), recorded an annual growth of 61.0 percent in June 2011, reaching the amount of euro 12.7 million. The decrease of the share of loans allocated to the agriculture sector reflects the slower growth in the volume of this loan category. Loans to agriculture increased only by 0.8 percent in June 2011 compared to 2.2 percent in June 2010. The value of total loans to agriculture in June 2011 amounted at euro 40.1 million.

Figure 25. Structure of loans by maturity, in percent



Source: CBK (2011)

Regarding the loan maturity, loans with longer maturity dominate the structure of total loans, although they were characterized with a decrease of their share during the reporting period. In June 2011, total loans with maturity of over two years represented 68.6 percent of total banking system loans (71.8 percent of total loans in June 2010). The structure of loans by maturity continued to be dominated by loans with maturity of over two years up to five years, which consisted 41.8 percent of total loans (41.9 percent in June 2010), followed by loans with maturity of over five years up to ten years, which represented 22.8 percent of total loans (25.5 percent of total loans in June 2010). Loans with maturity of up to two years increased their share, accounting for 31.4 percent of total loans in June 2011 compared to 28.2 percent of total loans in the same period of the last year (Figure 25). Regarding the loans up to two years, until June 2011, they recorded an annual growth of 26.6 percent (decline of 34.8 percent in June 2010), followed by loans with maturity of over two years up to five years that recorded an annual growth of 15.9 percent (decline of 31.8 percent in June 2010). Loans with maturity of up to one year were characterized with an annual growth of 29.1 percent in June 2011, compared to the annual growth of 10.9 in the June of the previous year.

6.2.3 Liabilities

Banking system activity in Kosovo continues to be financed mainly from domestic sources of financing, namely from deposits collected inside Kosovo's economy. In June 2011, deposits had a share of 78.3 percent to total banking system liabilities (Table 8). Another important source of financing for commercial banks in the country consists of own resources, which in June 2011 had a share of 9.6 percent to total liabilities. However, it should be noted that both deposits and own resources are characterized with a slower growth trend during 2011, which was also reflected in their share to total liabilities. Own resources recorded an annual growth of 6.9 percent in June 2011 compared to the annual growth of 10.3 percent in June 2010. The annual growth rate of banks' retained profit at the rate of 30.8 percent in June 2011 (-4.3 percent in June 2010) had a positive impact on the overall increase of own resources, while the slowdown of own resources mainly occured due to the slowdown in growth rate of banks' shareholder capital from 10.0 percent in June 2010 to 3.7 percent in June 2011.

Table 8. Structure of banking system liabilities

Description	June 2008		June 2009		June 2010		June 2011	
	In millions of euro	In percent	In millions of euro	In percent	In millions of euro	In percent	In millions of euro	In percent
Balances from other banks	32.6	2.0	41.8	2.2	65.1	2.9	86.6	3.5
Deposits	1264.4	79.0	1513.0	78.5	1751.5	78.9	1957.8	78.3
Other borrowings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	112.4	7.0	152.1	7.9	152.4	6.9	183.1	7.3
Subordinated debt	7.0	0.4	16.9	0.9	24.4	1.1	33.5	1.3
Own resources	183.2	11.5	203.3	10.5	224.3	10.1	239.9	9.6
Total liabilities	1,599.6	100.0	1,927.1	100.0	2,218.8	100.0	2,501.1	100.0

Source: CBK (2011)

Banking system activity in the country, concentrated in lending to the domestic economy, continues to be financed mainly from household deposits collected inside Kosovo. However, since 2009, it has been noticed an increasing tendency of using also financing from aboard, which increases the commercial banks' potential to expand their lending activity. One of the external sources of finance that recorded a continuous increase is the subordinated debt, which in June 2011, amounted at euro 33.5 million from euro 24.4 million in June of the previous year. Nevertheless, the share of subordinated debt to total banking system liabilities remains low at only 1.3 percent (1.1 percent in June 2010). Total liabilities of Kosovo's banking system to the external sector amounted at euro 212.8 million in June 2011 (euro 158.6 million in June 2010) and mainly consist of loans (52.8 percent of total liabilities of banking system to the external sector) and non-resident deposits in commercial banks operating in Kosovo (47.2 percent of total liabilities to the external sector).

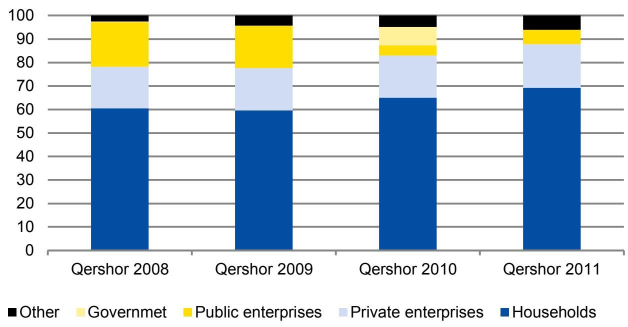
6.2.4 Deposits

In June 2011, total deposit in the banking system of Kosovo reached at euro 1.9 billion, recording an annual growth of 11.8 percent. The slower growth trend that characterized deposits since June 2009 was evident also during this period, given that the annual growth rate of deposits in June 2011 was 4.0 pp lower compared to the previous year. The slowdown of the deposits growth was mainly a consequence of the decline of government deposits in commercial banks.[8] Excluding government deposits, the value of total other deposits recorded an annual growth of 21.3 percent in June 2011 (6.8 percent in June 2010), driven mainly by the increase of household and public enterprises deposits.

[8] The decrease of government deposits is a consequence of constant withdrawals of these deposits from commercial banks during 2010 with the completion of their maturity period. These deposits resulted from the transfer of the Post and Telecommunication of Kosovo (PTK) dividend to the government account in October 2009.

The main source of deposits in the Kosovo's banking system continue to be houshold deposits, which in June 2011 amounted at euro 1.4 billon (69.2 percent of total deposits). Nevertheless, a tendency of slowdown in the growth of household deposits was noticed in the recent period (annual growth of 19.0 percent in June 2011 compared to 26.3 percent in June 2010). The slowdown of household deposits growth rate was not reflected in the share of these deposits to total deposits, given that household deposits represented 69.2 percent of total deposits in June 2011, which is for 4.2 pp higher than in June 2010 (Figure 26). The deposits of enterprises in commercial banks amounted at euro 380.0 million in June 2011, which is an annual growth of 24.1 percent, compared to the annual decline of 36.1 percent in June 2010. A significant growth was marked by deposits of public enterprises, reaching euro 110.0 million in June 2011, compared to euro 75.7 million in June 2010. The growth of the deposits of public enterprises mainly resulted from the growth of deposits of large enterprises providing public utilities such as PTK, KEK and Prishtina International Airport. An increased share to total banking system deposits is also recorded by deposits of the other financial institutions and non-resident deposits. Deposits of other financial institutions amounted at euro 102.7 million in June 2011, which represents an annual growth of 21.7 percent. The deposits of insurance companies and pension funds have the largest share to total deposits from the other financial institutions. Until June 2011, deposits of insurance companies and pension fund represented 92.6 percent of total deposits from the other financial institutions, while the remaining are deposits from microfinance institutions and financial auxiliaries.

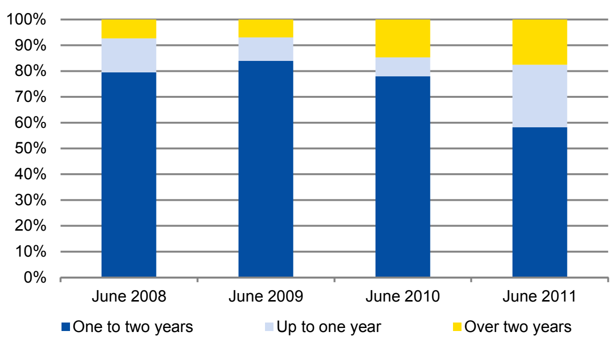
Figure 26. Structure of deposits by sector, in percent



Source: CBK (2011)

Non-resident deposits in Kosovo's banking system are continuously following an increasing trend since June 2008. In June 2011, non-resident deposits amounted at euro 99.7 million, marking an annual growth of 33.7 percent. The share of non-resident deposits to total banking system deposits reached 5.1 percent in June 2011, compared to 4.3 percent in June 2010. The continuous growth of non-resident deposits in the country may be attributed to the favourable interest rates on deposits and the enhanced confidence of the public towards Kosovo's banking system. Deposits in the Kosovo banking system have a minimal exposure against potential exchange rate fluctuations, given that around 96.1 percent of deposits are denominated in euro currency.

Figure 27. Structure of time deposits by maturity, in percent



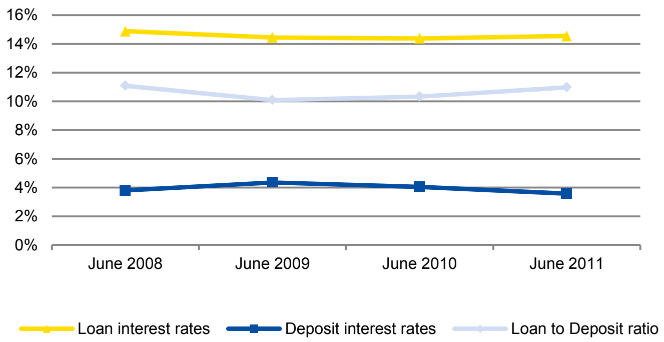
Source: CBK (2011)

The structure of deposits in terms of maturity continued to be dominated by time deposits, which represent around 50.0 percent of total deposits, followed by transferable deposits and saving deposits, which in June 2011 represented around 32.7 and 17.3 percent of total deposits, respectively (Figure 27). Deposits with short-term maturity continue to dominate the structure of time deposits. In June 2011, deposits with maturity up to one year represented 58.3 of total time deposits, followed by deposits with maturity of over one year up to two years which represented 24.1 percent of total time deposits. Following the trend that time deposits pursued during the first half of 2011, it can be noticed an increasing tendency in the share of time deposits with longer maturity. Deposits with maturity of up to one year decreased their share to total time deposits by 19.7 pp, while deposits with maturity of over two years increased their share by 2.9 pp. A rather significant increase has been recorded by deposits with maturity of over one year up to two years, which increased their share to total deposits by 16.9 pp. A potential factor positively contributing to the growth of deposits with longer-term maturity may be related to the approval of the Law on Deposits Insurance, which has a direct impact on the further increase of the depositors' confidence in commercial banks. Also, higher interest rates for deposits with longer-term maturity represent an important factor that may contribute to the increase of maturity period for time deposits.

6.2.5 Interest Rates

The interest rate trends during the first half of 2011 were characterized with a decreasing tendency both with regard to deposits and loans. The average interest rates on deposits in the first six months of 2011 decreased to 3.4 percent from 3.7 in the first six months of 2010. A slight decline was also recorded in the interest rates on loans, which in the first half of 2011 averaged at 14.3 percent compared to 14.4 percent in the same period of the previous year. Consequently, the interest rate spread in the second half of 2011 averaged at 10.9 percent, which represents an annual increase of 0.2 pp (Figure 28).

Figure 28. Six-month average interest rates, in percent



Source: CBK (2011)

Intrest rates on the deposits of enterprises had similar rates to the deposits of households during the first six months of 2011. The average interest rate for enterprises deposits in the first six months of 2011 decreased to 3.6 percent from 4.0 percent in the same period of the previous year. A similar trend was followed by interest rates on households' deposits, which decreased to 3.6 percent from 3.9 percent as they were until June 2010.

On the other hand, the average interest rate on loans to households decreased to 12.3 percent (12.7 percent in June 2010), while the average interest rate on loans to enterprises decreased to 15.6 percent (16.2 percent in June 2010). Regarding the average interest rates on loans to households, consumption loans represent an exception given that the average interest rate marked an annual increase of 0.2 pp, averaging at 13.9 percent in June 2011.

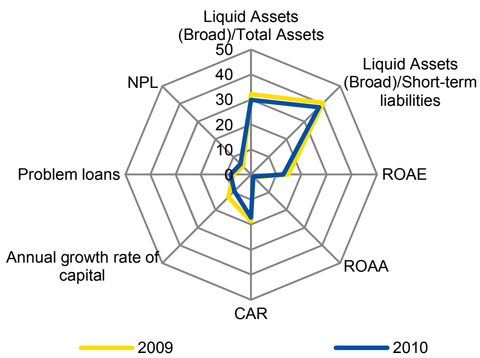
Interest rates on mortgage loans remained at the same level with the first half of the previous year at 11.4 percent.

In terms of maturity, highest interest rates were recorded for enterprises deposits with maturity of over one year up to two years, reaching an average of 5.4 percent until June 2011. Within the deposits of enterprises, the lowest interest rate was applied to deposits with maturity of up to one month (2.3 percent in June 2011). Regarding households' deposits, the highest interest rate with regard to maturity was noticed for deposits of over two years (5.1 percent), while the lowest average interest rates was applied to deposits with maturity of over one month (2.5 percent).

In terms of the purpose of loan, investment loans to enterprises appear to have had the lowest interest rates compared to loans issued to enterprises for other purposes. The lowest average interest rate for loans to enterprises was applied to investment loans with maturity of over five years (12.1 percent in June 2011), while the highest average interest rate was applied to loans with maturity of up to one year (17.9 percent in June 2011). Also, loans issued to enterprises for other purposes have a higher interest rate if the loan has a maturity of up to one year (18.7 percent in June 2011) and a lower interest rate is applied to loans with maturity of over five years (13.5 percent in June 2011). Regarding mortgage loans, loans with maturity of over ten years have the lowest interest rate (10.6 percent in 2011), compared to loans with maturity from five to ten years (12.0 percent in June 2011).

6.3. Banking System Performance and Risks

Figura 29. Financial Stability Map



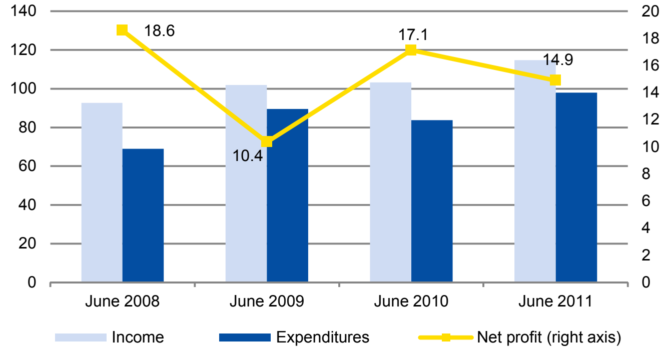
Source: CBK (2011)

Despite unfavorable developments and a rather difficult environment in the global economy, Kosovo's banking system performance continued to be positive and to contribute in maintaining the overall financial and economic stability in the country. In the period June 2010 – June 2011, banking system in Kosovo reported an overall positive performance although with a modest decline compared to the previous year (Figure 29). The banking system continued to be profitable, but with a slight decline in the profitability indicators. Commercial banks operating in Kosovo in continuity have applied prudent approach in risk management. In this context, banks proved to be cautious and conservative in the management of liquidity risk, credit risk and solvency risk. The liquidity indicators, although marking a slight decline, in continuity have proved to be at satisfactory levels to make the banking system capable of fulfilling short term liabilities. Regarding the credit risk, a deterioration in the credit portfolio quality was observed, but it should be emphasized that non-performing loans continue to be well covered by loan provisions. This implies that the current level of non-performing loans does not represent any serious threat to the banking system sustainability. Moreover, Kosovo's banking system continues to be characterized as one of the systems with the best quality of loan portfolio within the regional countries. The prudent approach applied by the banking system of Kosovo to maintain its sustainability is also expressed through the persisting high level of capital adequacy ratio, which kept the insolvency risk at low levels. In June 2011, the capital adequacy ratio continued to exceed the regulatory requirements and even the international standards on the management of solvency risk.

6.3.1 Banking System Performance

In the first six months of 2011, the banking system reported a net profit of euro 14.9 million, which is for 13 percent lower than in June 2010 (Figure 30). The decline of the profit level is mainly a result of the faster increase of total expenditures compared to the total income of the banking system, regardless of the fact that financial intermediation increased during this period. The increase of provisions for covering potential loan losses had a significant impact on the increase of banking expenditures during this period.

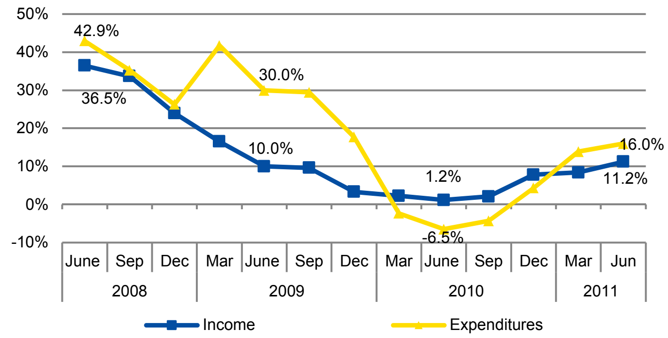
Figure 30. Balance of income and expenditures, in millions of euro



Source: CBK (2011)

In June 2011, total banking system revenues reached at euro 114.8 million, which represents an annual growth of 11.2 percent (Figure 31). During this period, the total interest income amounted to euro 93.7 million (euro 84.5 million in June 2010), whereas non-interest income stood at euro 21.1 million (euro 18.7 million in June 2010). The increase of the banking system income was mainly driven by the faster growth of lending to the economy. The increase of lending contributed to the increase of interest income from loans, which represents the main source of revenues for the banking system. In June 2011, interest income from loans recorded an amount of euro 89.9 million, which represents an annual growth of 9.9 percent compared to the same period of the previous year (Figura 33).

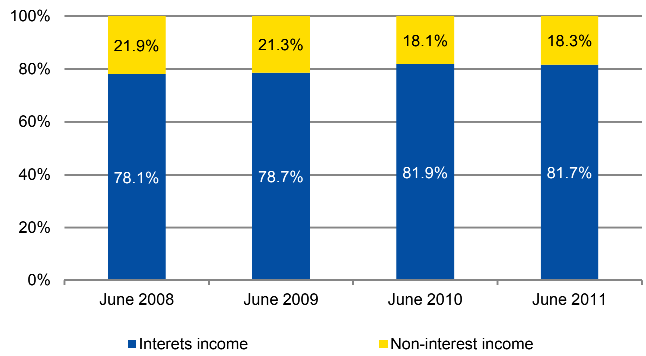
Figure 31. Annual growth rate of income and expenditures



Source: CBK (2011)

Also, funds of the banking system of Kosovo that are invested in form of placements in banks abroad had a positive impact on the increase of interest income. Even though placements with banks abroad decreased for 9 percent in June 2011, the interest income from this asset category increased to euro 1.9 million, which is an annual growth of 64.9 percent. The increase of base interest rate by ECB affected the increase of interest rates offered in the interbank market abroad, which was used very well by banks operating in Kosovo to increase their revenues.

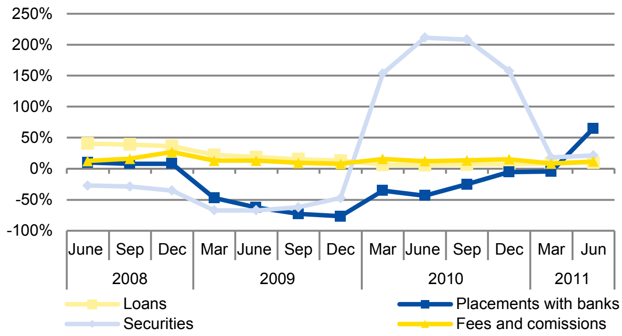
Figure 32. Structure of income, in percent



Source: CBK (2011)

Income from investments in securities also continued to follow an increasing trend during the first half of 2011, amounting to euro 1.7 million, which represents an annual growth of 21.5 percent compared to the same period of the previous year. The increase of income from investments in securities was mainly reflects the continuous expansion of banking system investments in securities abroad. The increase in the performance of this category of income is also a result of the increase of public debt financing costs (increase in yield from government bonds) in some of the Eurozone countries, where banks have purchased government bonds that provided higher yields.

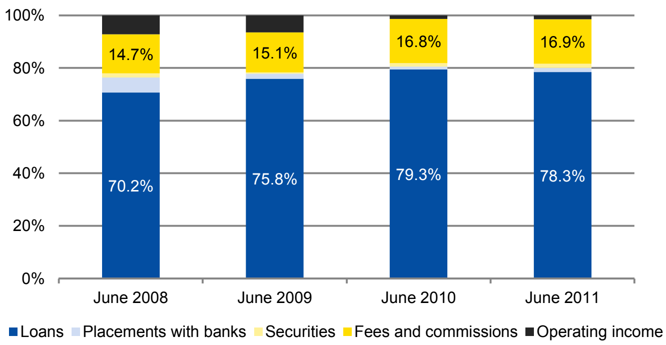
Figure 33. Annual growth rate of income by category



Burimi: BQK (2011)

The structure of total banking system revenues continues to be dominated by interest income form loans (Figure 34). The share of this category to total interest income recorded a slight decline compared to the previous year and stood at 78.3 percent of total banking system revenues (79.3 percent in June 2010). The large share of this category to total revenues could be explained with the lack of development of financial instruments and markets in the country, which in turn could impact the banks capacities to diversify the structure of

Figure 34. Structure of income by categories, in percent



Source: CBK (2011)

investments, and consequently, the structure of revenues. The high concentration of banking revenues on the income from loan interest can make the banking system highly sensitive against the performance of particular segments of banking activity, in our case, lending activity.

Income from fees and commissions represents another important source of banking system revenues. In June 2011, the share of income from fees and commissions to total income was similar to the previous year, standing at 16.9 percent. However, in the past few years, with the introduction of new services and the widening of the range of existing services, this category of income has in continuity increased the share to total banking system income.

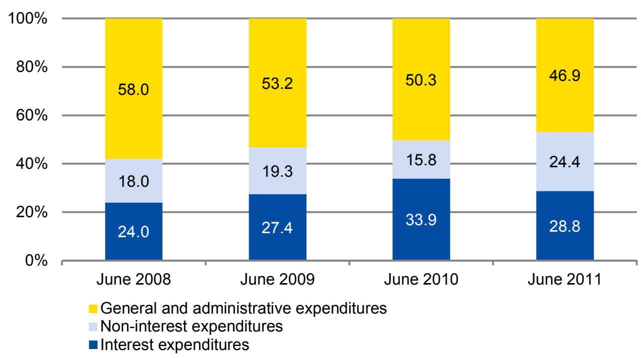
In June 2011, total banking system expenditures amounted to euro 98.0 million, which represents an annual growth of 16.9 percent compared to the decline of 6.5 percent in June 2010. Even though banks were relatively successful in the overall management of operational expenditures, the deterioration of quality of the credit portfolio during the period June 2010 – June 2011 had a considerable impact on the increase of provisioning expenditures for covering potential loan losses.

In June 2011, expenditures for loan loss provisions amounted at euro 19.7 million, which represents a considerable increase, taking into consideration that in June 2010 they were only euro 9.5 million. The increase in provisioning was mainly attributed to the growth of nonperforming loans in banking system during this period, which forced banks to allocate additional funds to cover potential losses.

Increase is noticed also in the category of general and administrative expenditures, which in the first half of 2011 recorded an annual growth of 8.9 percent, amounting at euro 45.9 million (Figure 36). Within this group of expenditure, the most significant increase was reported in the category of other non-interest expenditures, which recorded an amount of euro 6.5 million or an annual growth of 15.6 percent compared to the previous year. On the other hand, expenditure for personnel and rent increased by 8.9 and 6.8 percent, respectively.

The only category of expenditures that was reported to have declined during the first part of 2011 were the interest expenditures, which recorded a modest annual decline of 0.9 percent, amounting at euro 28.2 million. Within this group, it can be mentioned the decline of expenditures on interest paid for deposits from euro 25.9 million that were in June 2010 to euro 24.4 million in June 2011, despite the growth in the total level of deposits. The decline in expenditures paid on interest for deposits was mainly driven by the decline of the overall interest rates on deposits in the banking system of Kosovo.

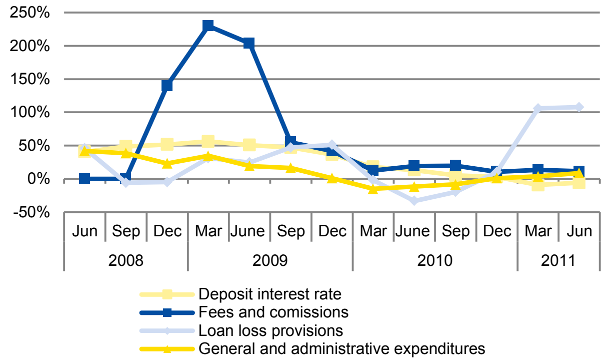
Figure 35. Structure of expenditures, in percent



Source: CBK (2011)

The structure of banking system expenditures continues to be dominated by the category of general and administrative expenditures, but the share of this category continuously is declining (Figure 35). In June 2011, the share of general and administrative expenditures to total expenditure to banking system expenditures was 46.9 percent (50.3 percent in June 2010). On the other hand, the share of interest expenditures to total expenditures declined from 33.9 percent in June 2010 to 28.8 percent in June 2011. The largest increase in noted in the share of non-interest expenditures, which in June 2011 reached at 24.4 percent of total expenditures from 15.8 percent in June 2010. Expenditures for provisioning are also included in this category, and consist 82.7 percent of total non-interest expenditures.

Figure 36. Annual growth rate of expenditures by category, in percent



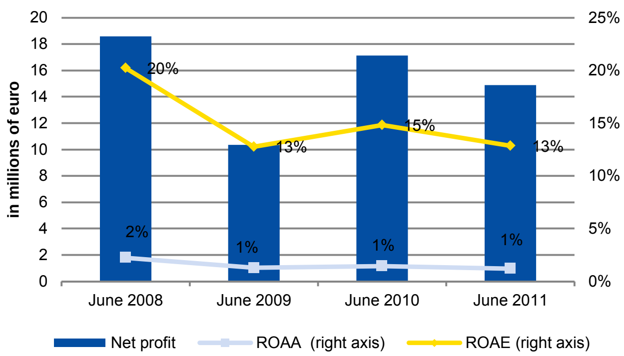
Source: CBK (2011)

6.3.2 Banking system Profitability and Efficiency

The decrease of net profit was also reflected in the deterioration of the banking system profitability indicators, such as the Return on Average Asset (ROAA) and the Return on Average Equity (ROAE). In June 2011, ROAA that can also serve as a banking system efficiency indicator, declined to 1.2 percent compared to 1.5 in June 2010 (Figure 37). Also, ROAE decreased to 12.9 percent compared to 14.9 percent in 2010.

The faster increase of expenditures compared to income affected the deterioration of most of the banking system efficiency indicators. One of the most important indicators for measuring the banking system efficiency is the cost to income ratio. In June 2011, this ratio increased to 85.4 percent from 81.2 percent that was reported in the same period of the previous year (Figure 38). Regardless of the increase in the recent period, this indicator continues to be at a lower level compared to 2009 (87.9 percent). A lower banking system efficiency is also suggested by the ratio between income and total assets, which decreased to 4.59 percent from 4.65 percent in June 2010. Deterioration of this indicator suggests that the banking system was less efficient in generating income from the utilization of its assets.

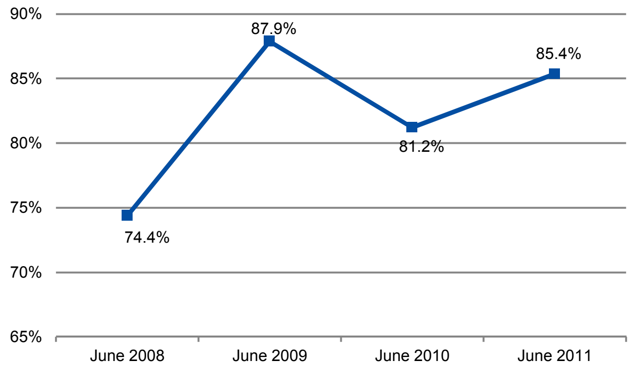
Figure 37. Profitability indicators



Source: CBK (2011)

However, in some segments it is observed improved banking system efficiency also during this period. Despite the increase in the number of employees, the average amount of assets managed by an employee recorded an annual increase of 7.3 percent in June 2011, standing at euro 684.4 thousand per employee (Table 9). The improvement of this indicator has resulted from the faster increase banking system assets during this period (annual growth of 12.7 percent in June 2011).

Figure 38. Cost-to-income ratio, in percent



Source: CBK (2011)

Table 9. Banking sys tem efficiency indi cators, in thousands of euro, unless otherwise indicated

Description	June 2008	June 2009	June 2010	June 2011
Assets/no. of employees	467.6	503.6	637.9	684.4
Net profit/no. of employees	6.9	3.2	5.4	4.1
Number of loans/no. of employees	68.0	66.6	75.8	92.3
Net Interest Margin (in percent)	4.1	3.4	3.0	2.6

Source: CBK (2011)

Improvement of efficiency was observed also with respect to the average number of loans issued by an employee, which in June 2011 increased to 92.3 compared to 75.8 loans per employee in June 2010. Net Interest Margin (NIM) during this period was 3.0 percent and it did not mark any significant change compared to the previous year.

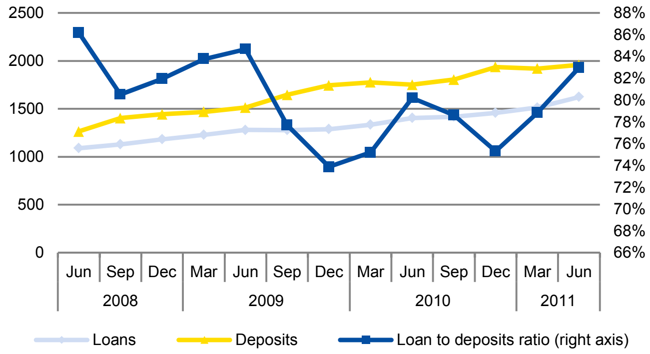
6.4. Banking System Risks

6.4.1 Liquidity Risk

Kosovo's banking system in continuity has been characterized with a satisfactory level of liquidity, which makes liabilities of commercial banks towards depositors and other lenders fulfilled on time and without any difficulties. The satisfactory level of liquidity in commercial banks that operate in the country is a result of a prudent management of the commercial banks' balance sheet both in terms of assets and liabilities. Looking into composition of the balance sheet on the asset side, despite the facts that the structure of assets is mainly dominated by loans, banks have been cautious in holding sufficient levels of assets in form of liquid instruments. Regarding the structure of liabilities, deposits that are collected in Kosovo continue to represent the main financing source for banking system operations. The high dependency on deposits as a main source of financing provides banks with a more stable source of financing and as a result they do not rely on short-term funds, which are more volatile and have a higher financing cost.

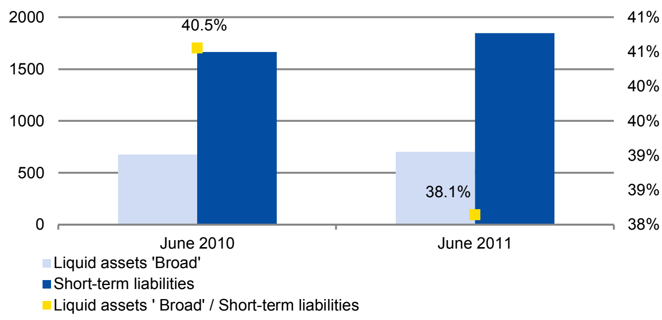
During the first half of 2011, the commercial banks' financing structure in Kosovo did not record any significant change compared to the same period of the last year. In June 2011, deposits continued to represent a dominating category, representing 78.3 percent of total liabilities within the banking system (78.9 percent in June 2010). Another form of financing for the banking operations consists of the subordinated debt, which marked a higher level compared to 2010. In June 2011, the subordinated debt represented 1.3 percent of total liabilities compared to 1.1 percent in June 2010. The remaining part of financing consists of own resources which represent 9.6 percent of total liabilities (10.1 percent in June 2010).

Figure 39. Loans and deposits of the banking system, in millions of euro



Source: CBK (2011)

Figure 40. Liquid assets "broad"/short term liabilities



Source: CBK (2011)

An important indicator for the level of liquidity in the banking system is the loan to deposit ratio. During the first half of 2011, the higher growth rate of loans compared to the growth rate of deposits led to an increased loan-to-deposit ratio. In June 2011, the loan-to-deposit ratio stood at 83.0 percent whereas in June 2010 this ratio was 80.2 percent (Figure 39). The actual loan-to-deposit ratio is in line with the Central Bank recommendations, which suggest that commercial banks operating in Kosovo on average should maintain a loan-to-deposit ratio of around 80 percent.

Another important indicator for the level of liquidity in banking system is the ratio between liquid assets and total assets. According to the IMF definition, liquid assets are divided into core liquid assets and into broad liquid assets. [9] A higher growth rate of loans, which are not considered as liquid assets, had an impact on the decrease of the share of liquid assets to total assets, both in terms of core and broad liquid assets. In June 2011, the share of core liquid assets to total assets of the banking system stood at 24.3 percent, which represents a decline of 5 pp compared to the same period of the previous year. During the same period, the share of broad liquid assets to total assets stood at 29.8 percent, which also represents a decline of 2.3 pp compared to the previous year. The decrease of the share of liquid assets to total assets is mainly attributed to the decrease of funds invested in the form of placements from the banks operating in Kosovo to the banks abroad.

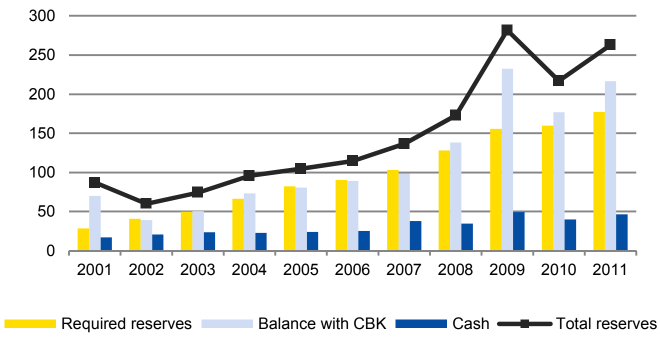
[9] Core liquid assets include cash and balance with CBK, and the current account in other banks and placements in other banks with a maturity of up to 90 days. Broad liquid assets include core marketable assets as well as trading assets and securities with maturity of up to 90 days.

Another important liquidity indicator is the ratio between liquid assets and short-term liabilities. Based on this indicator it can be assessed the capacity of banks to fulfill the short-term liabilities, namely to fulfill claims such as withdrawal of deposits or payment of other debts within a short period of time. In June 2011, the ratio between the core liquid assets and short-term liabilities was 31.1 percent (36.9 percent in June 2010). On the other hand the ratio between broad liquid assets and short-term liabilities was 38.1 percent, compared to 40.5 percent in June 2010 (Figure 40).

Kosovo's banking system has continuously maintained higher level of liquidity reserves compared to the minimal level required by the Central Bank. Based on the applicable rules, in December 2010, commercial banks operating in Kosovo were obliged to keep the mandatory reserve in the amount of euro 159.5 million, whereas the liquidity reserves kept by banks in this period amounted at euro 216.9 million, exceeding by euro 57.4 million the level of mandatory reserve. A similar situation prevailed also in June 2011, when the value of mandatory reserves for commercial banks was euro 177.6 million, whereas banks had allocated a liquidity reserve amounting at euro 262.7 million, exceeding by euro 85.1 million the level of mandatory reserve (Figure 41).

The current level of liquidity, in the banking system in Kosovo have quite a high level of sustainability also against different potential shocks in the funds market, which is also suggested by the stress-test results on liquidity risk (Section 6.5.2). However, considered from the aspect of the banking system efficiency point of view, the "excessive" liquidity reserves are costly taking into account the fact that banks pay interests on these funds, while they do not receive any income in return.

Figure 41. Banking system reserves, in millions of euro



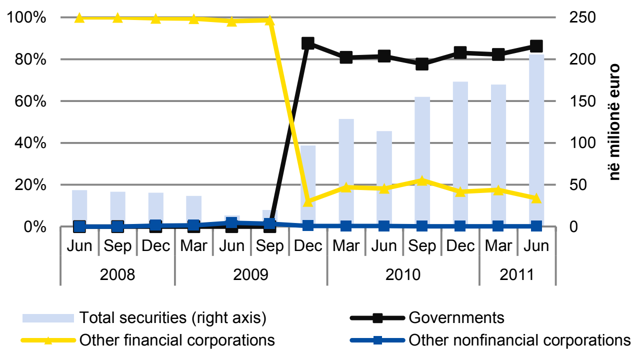
Source: CBK (2011)

Commercial banks operating in Kosovo consistently have been prudent also in terms of the structure of investments in international markets both in the context of financial products and countries where the funds have been invested. Kosovo's banking system investments in international markets are mainly directed to countries and institutions that are part of the Organization for Economic Cooperation and Development (OECD) and, consequently, these investments are considered to have a higher degree of security.

The structure of banks' investments in securities in international market is mainly concentrated in three key categories, which consist of investments in government bonds, financial corporations and nonfinancial corporations. In June 2009, 98.1 percent of funds that were invested in securities consisted of the bonds issued by financial corporations. During this period, these bonds were considered to bear a low risk and yield a higher return in comparison to other alternatives.

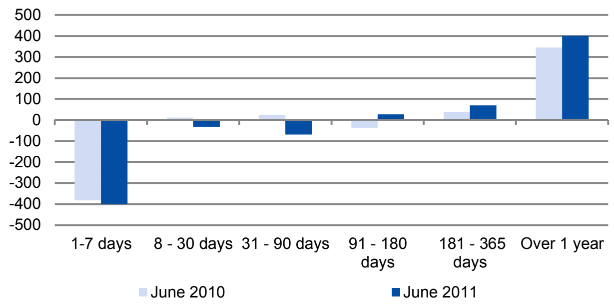
However, with the deterioration of the financial crisis during 2009, the commercial banks in Kosovo have drastically changed the investment strategy in securities. In Figure 42 it can be seen that from mid-2009 banks have constantly shifted their investments from financial corporation securities towards the government securities. In June 2010, 81.5 percent of investments in securities comprised of government securities. In general, government bonds are considered to bear a lower risk but also they yield a lower return compared to financial corporations bonds. However, some of the countries within the Eurozone are experiencing difficulties with the external debt and this has led to higher yields from investments in government bonds. Consequently, even during the first part of 2011, banks increased investments in government bonds, and in June 2011, government bonds represented 86.2 percent of total investments in securities. On the other hand, only 0.2 percent of total funds invested in securities continue to be invested in nonfinancial corporations' bonds. The exposure of commercial banks operating in Kosovo to nonfinancial corporations' securities is considered as marginal. As a result, the general risks for banking system assets is reduced, especially given the high sensitivity of the stock markets during the crisis period, what was clearly observed in the recent periods.

Figure 42. Structure of securities, in percent



Source: CBK (2011)

Figure 43. Liquidity gap, in millions of euro



Source: CBK (2011)

The liquidity gap analysis represents another tool to assess the liquidity risk. This analysis measures the coverage of the assets of certain maturity period by liabilities of the same maturity. The liquidity gap analysis is based on the idea that the value of assets maturing within a certain period should be similar with the value of liabilities maturing within that period. The difference between these two amounts represents the maturity gap or the maturity mismatch. If the value of assets is larger than the value of liabilities within a certain maturity period[10] then it can be considered that the maturity gap is positive. On the other hand, if the value of assets is smaller than the value of liabilities within a certain maturity period, then the gap is negative. Figure 43 shows that maturity gap is more pronounced in the category of 'over 1 year', where the value of assets with maturity of 'over

[10] Maturity of assets and liabilities is divided in the following periods: 1 to 7 days, 8 to 30 days, 91 to 180 days, 181 to 365 days and over 1 year.

one year' exceeds to a considerable extent the value of liabilities with maturity of 'over one year'.

Taking into consideration that in Kosovo's banking system, the largest share of assets consists of loans and the largest share of liabilities consists of deposits, then the maturity mismatch between assets and liabilities mainly reflects the differences between the maturity of loans and deposits. In June 2011, 91.4 percent of deposits had a maturity of 'less than 1 year' (in June 2010 it was 91.4 percent). On the other hand, in the same period, 53.4 percent of total loans had a maturity of 'over 1 year' (53.0 percent in June 2011). This mismatch between the maturity of loans and deposits creates difficulties in the liquidity management for banking system. Therefore, banks should pay more attention towards attracting liabilities with longer maturity, which would narrow the maturity gap, and thus it would reduce the liquidity risk. Moreover, the increase of liabilities with longer maturity could reduce the financing cost and as a result banks could also facilitate the expansion of lending in longer maturities.

Even though there was a decline in some of the liquidity indicators, with the current high level of liquidity in the banking system, this decline is not being reflected in the overall liquidity position of the system, and it should be stated that banks operating in Kosovo consistently are fulfilling their liabilities without any difficulties. The continuous growth of deposits indicates an increasing confidence of the public towards the banking system and also represents a highly important factor for the overall liquidity of this system.

6.4.2 Credit Risk

Positive trends of the economic activity in the country during the second half of 2010 as well as during the first six months of 2011 affected the increase of credit supply from the banking system. Nevertheless, compared to the same period of the previous year, a slight deterioration of the quality of credit portfolio was observed, despite the fact that the economic growth continued to be positive. Taking into consideration that the quality of loans responds with lag to the overall performance of the economy and based on the results of EFSE study, then it can be suggested that the deterioration of the credit portfolio, to a considerable extent, reflects the deterioration in the quality of loans issued during 2007 and 2008, where crediting in economy recorded the highest growth rates (Box 5).

Box 5. Indebtedness and the Performance of Microcredit Clients in Kosovo

In November 2011, the European Fund for South-Easter Europe (EFSE) in cooperation with the Microfinance Center published a study on indebtedness of microcredit clients in Kosovo.[11] The main purpose of the study was to analyze the level of over-indebtedness and the borrowing patterns of clients using microcredit. The study was also focused on identifying the factors that have influenced the credit performance, namely the barrower's capacity to repay the loans. The study was conducted for the period between September 2010 and July 2011, whereas the sample included 1200 microcredit clients.[12] Out of the total clients, 61 percent were clients of microfinance institutions, while 39 percent were clients of the banking system.

The main finding of the report suggests that microcredit clients in Kosovo are not over-indebted, which indicates a satisfactory level of repayment capacities. The level of indebtedness was calculated

[11] EFSE and Microfinance Centre (2011), Study on Indebtedness of Microcredit Clients in Kosovo.

[12] Microcredit is defined as a loan contract for business purposes, which at the time of issuance has a value of up to euro 10,000.

taking into account the monthly income of households or the monthly profits of enterprises, and the monthly loan repayments of these clients. Among the clients included in this study, only 25 percent of them resulted to be over-indebted, of which seven percent resulted to be insolvent.

The study provides a good description of characteristics of the microcredit clients in Kosovo, and also attempts to describe the factors that determined the microcredit performance. Another segment that is examined in this study is related to the borrowers in Kosovo, who act as a guarantee for other borrowers. The findings suggest that the clients, who act as guarantees for clients whose loans are overdue, are more likely to experience repayment problems with their own loans. This could be the case because the clients, who act as a guarantee for overdue loans, have to participate in the repayment of this loan. Hence, this will increase over-indebtedness and weaken client's repayment capacities. This finding highlights the need to provide more detailed information for clients who are willing to act as a guarantee for other clients on the potential implications and consequences in the case when the guaranteed loan is not repaid. Moreover, banks should apply more prudent approach in terms of crediting the clients who already act as a guarantee for other clients. Furthermore, the study suggests that repayment problems are more frequent with clients that have more than one loan contract, compared to the clients who have single loan contracts.

In the study, the performance of microcredit loans was also analyzed based on the year when the loan was issued. It was observed that loans issued in 2007 and 2008 were reported to be more problematic in terms of regular repayment. To a certain extent, this can be related to the fact that during these two years, lending activity in Kosovo registered the highest annual growth rates. In 2007 and 2008 the annual credit growth rate reached at 40.1 percent 32.7 percent, respectively, while in 2009 and 2010 loans increased by 8.9 percent and 13.2 percent, respectively. Higher credit growth rates that were registered during 2007 and 2008 might have been driven by more relaxed terms and conditions applied by financial institutions. This in turn could have resulted in granting loans to clients with inappropriate credit rating. Another finding of particular interest is that the repayment problems are mostly reported to occur in the period closer to the maturity of the loans. Among others, this could be a result of an inadequate assessment of the expected borrower's performance by the lending institutions or by occurrence of unanticipated factors that could impact the borrower's performance. Considering that the study was conducted in the period 2010-2011, this finding could support to some extent the fact that loans issued during 2007 and 2008 resulted to be more problematic in terms of repayment, since during this period they can be closer to maturity.

The selection of potential borrowers by the financial institutions in Kosovo is to a considerable extent hindered by clients' short credit history. This can be attributed to the fact that banking system in Kosovo is relatively new. Based on the data reported in the study, 49 percent of microcredit borrowers have a credit history of no more than two years. This uncertainty that derives from the lack of information regarding credit history of potential borrowers may represent an important factor that is affecting the current level of interest rates, which are considered to be high. Nevertheless, an important contribution on the reduction of uncertainty during the selection stage of borrowers by the lending institutions is attributed to the development of Credit Registry of Kosovo by the CBK. This registry has enabled the exchange of credit history and other credit information between financial institutions for all borrowers in the country's financial system.

In June 2011, the share of classified loans to total loan portfolio continued the growing trend, reaching at 10.7 percent from 10.2 percent in June 2010 (9.0 percent in June 2009).[13] Growth was also recorded by the share of loans with problems in total loans, which in June

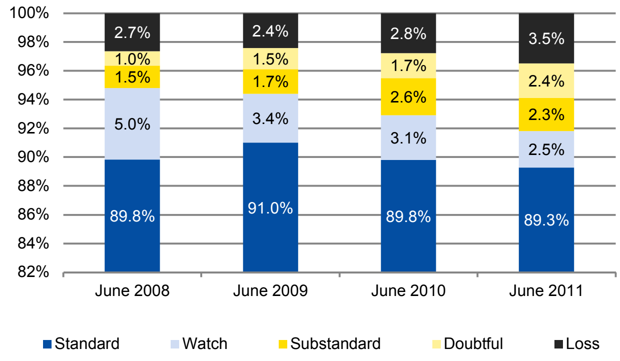
[13] According to CBK regulations, loans are classified as: standard, watch, substandard, doubtful and loss. Classified loans include: watch, substandard, doubtful and loss. Loans with problems include: substandard, doubtful and loss. Non-performing loans include: doubtful and loss.

2011 reached at 8.2 percent compared to 7.1 percent that was in June 2010 (5.6 percent in June 2009).

The most important category for describing the quality of credit portfolio consists of Non-Performing Loans (NPL). In June 2011, the share of NPL to total loan portfolio of the banking system reached at 5.9 percent from 4.5 percent in June 2010. Figure 45 shows that in the first quarter of 2011, NPL reached at 6.2 percent, thus representing the highest level of NPL since when the Kosovo's banking system started to operate. However, during the second quarter of the year, NPL returned to the rate of 5.9 percent, which at the same time shows a relatively stable situation in the credit portfolio quality. In June 2011, the total value of NPL amounted at euro 94.2 million, recording an annual growth of 30.6 percent.

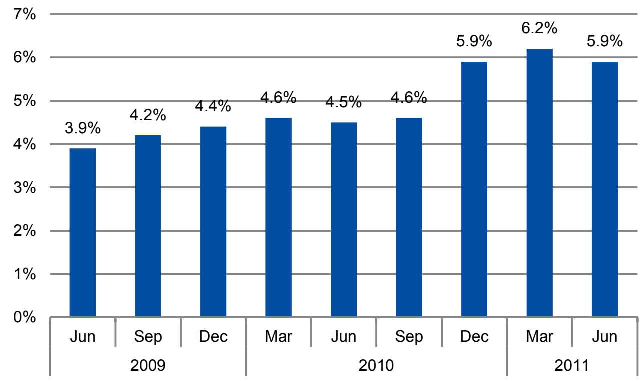
However, the continuation of growth of the NPL value with a faster dynamics compared to the growth of total loans would imply a further deterioration of the credit portfolio quality (Figure 46). Difficulties that the Eurozone economies are going through, which can also be reflected in the real sector of Kosovo's economy, bring about the need for a continuation of banking credit flow, as an important financing source for Kosovo's economy, but at the same time necessitate the need for additional prudence in terms of compliance with sound credit standards.

Figure 44. Structure of loans by classificatoin



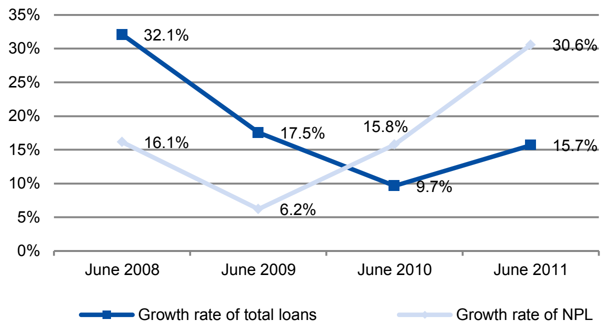
Source: CBK (2011)

Figure 45. NPL to total loans ratio, in percent



Source: CBK (2011)

Figure 46. Annual growth of total loans and NPL



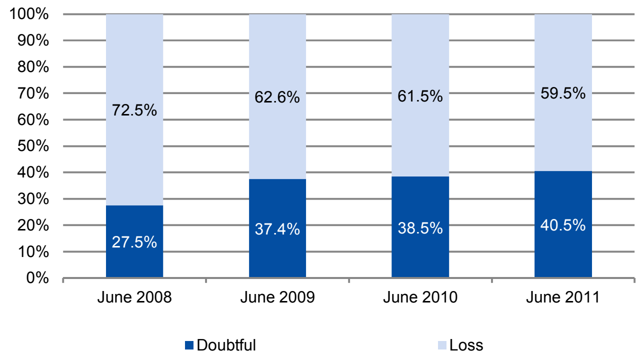
Source: CBK (2011)

Out of the eight banks operating in Kosovo, six of them recorded a deterioriation in the credit portfolio quality in June 2011, wherase only one bank reported a decrease of the share of NPL to total credit portfolio.

The structure of NPL continues to be dominated by loans classified as loss, which consist 59.5 of total NPL, whereas loans classified as doubtful consist 40.5 percent of total NPL. Figure 47 shows a decline in the share of loans classified as loss, whereas the share of loans classified as doubtful increased.

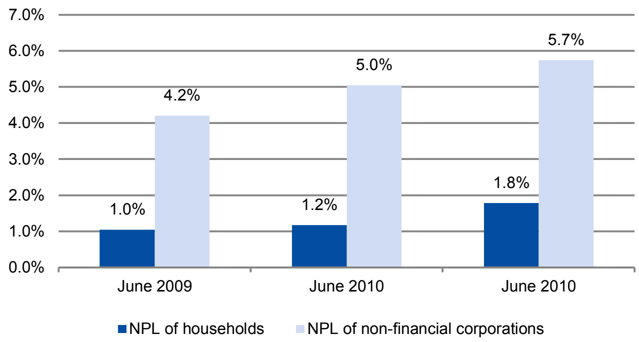
The structure of NPL by economic operators shows a higher rate of NPL both for loans issued to households and loans issued to businesses (Figure 48). In June 2011, out of total loans issued to households, 1.8 percent was consisted of nonperforming loans compared to 1.2 percent in June 2010. On the other hand, regarding loans issued to enterprises, 5.7 percent were nonperforming loans in June 2011, compared to 5.0 percent in June 2010. This structure of NPL shows that, compared to loans issued to households, loans issued to enterprises continue to be more problematic regarding the repayment.

Figure 47. Structure of NPL, in percent



Source: CBK (2011)

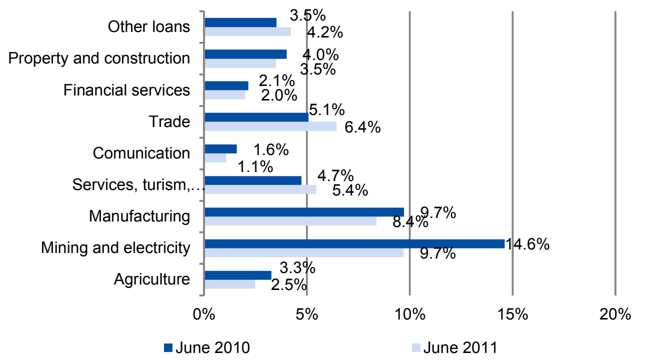
Figure 48. NPL by sectors, in percent



Source: CBK (2011)

In terms of industries, the trade sector represents the sector which absorbs the largest share of total banking system loans in Kosovo. Deterioration in the quality of loans during this period was also present in loans issued to the trade sector, where NPL increased their share to 6.4 percent of total loans to this sector, compared to 5.1 percent in June 2010 (Figure 49). Another important sector that has recorded increase in the NPL ratio consists of the services sector, where NPL increased its share from 4.7 percent in June 2010 to 5.4 in June 2011. An improvement in the loan portfolio quality was evidenced in loans to the mining sector, production, agriculture and construction. During this period, banks were more prudent in crediting these sectors by reducing the credit exposure.

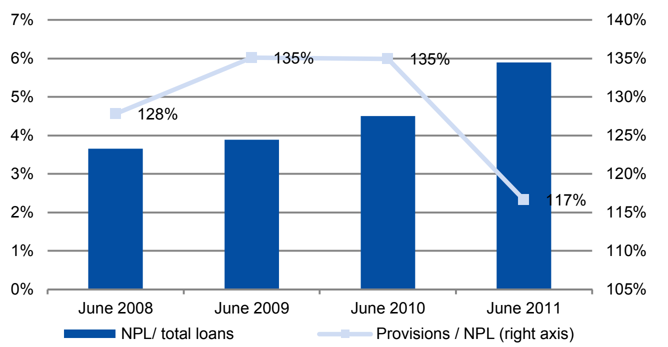
Figure 49. NPL by industry



Source: CBK (2011)

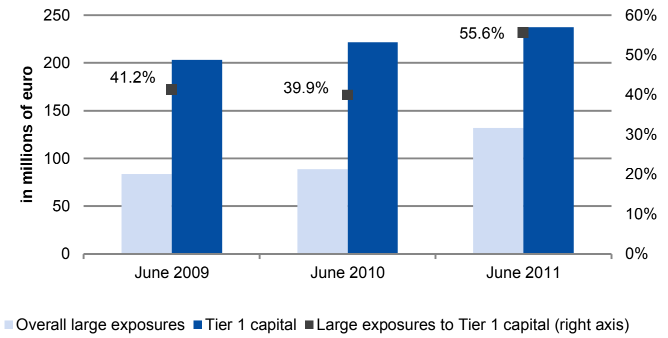
Kosovo's banking system has constantly shown to be quite conservative regarding the NPL coverage by provisions for loan losses. However, the increase of the share of NPL to total loans has been reflected in a decline of the coverage by provisions. Nevertheless, the current level of provisions continues to cover by over 100 percent the total value of non-performing loans, which makes the current level of NPL not threatening for the financial stability. In June 2011, the level of NPL coverage by provisions for loan losses was 117 percent, whereas the average for the last four years was 129 percent (Figure 50). The total amount of provisions in June 2011 reached at euro 109.9 million or euro 25.9 million higher than in the previous year.

Figure 50. NPL and Loan loss provisions



Source: CBK (2011)

Figure 51. Concentration of credit risk



Source: CBK (2011)

6.4.2.1 Concentration of Credit Risk

The analysis of the concentration of credit risk enables the identification of potential vulnerabilities for the banking system, arising from large credit exposures to a certain number of borrowers, which threaten the stability of the banking system in case of default. The increase of large exposures increases the credit risk, because the system becomes more sensitive against the performance of a certain number of loans, which have larger weight in the total loan portfolio. In this context, the increase of the concentration of credit risk represents a higher sensitivity of the banking system against the performance of a particular branch of industry or a certain group of borrowers.

According to the CBK rules, loans that exceed 10 percent of Tier 1 capital are classified as large exposures. The amount of loans that were classified as large exposures continued to increase in the period under observation. In this period, the amount of large exposures reached at euro 131.7 million, which represents an annual growth of 49.0 percent (Figure 51). On the other hand, the number of loans classified as large exposures in June 2011 was 41 compared to 43 in June 2010. The increase of the amount of exposures, and on the other hand, the decrease of the number of such exposures indicates a growth of the credit concentration rate. The growth of concentration rate is also expressed through the ratio between large exposures and Tier 1 capital, which in June 2011 reached at 55.6 percent from 39.9 percent in June 2010.

6.4.3 Solvency Risk

6.4.3.1 Capital Adequacy Ratio

Kosovo's banking system continues to be characterized with a high level of solvency, with a Capital Adequacy Ratio (CAR) which has constantly exceeded the required minimum regulatory level. Capital adequacy ratio represents one of the most important indicators of the banking system sustainability, taking into consideration the fact that capital is considered to be the main pillar for covering potential losses in case of negative shocks to the banking system. Furthermore, the structure of capital in banking system contains a considerable level of Tier 1 capital, which shows a good quality of Kosovo's banking system capital.

The current level of Kosovo's banking system capitalization, expressed through the Capital Adequacy Ratio (CAR)[14]**,** is quite satisfactory considering that it significantly exceeds the minimum 12 percent level required by the Central Bank. In June 2011, the CAR of Kosovo's banking system stood at 17.2 percent (Figure 52). However, compared to the same period of the previous year, CAR recorded a decline of 0.5 pp, which is mainly attributed to the faster increase of the Risk Weighted Assets (RWA) compared to the capital growth. In June 2011, the annual growth rate of capital was 9.4 percent while the RWA growth rate recorded an annual growth of 19.2 percent. The increase of RWA during this period mainly reflects the high growth rate of loans issued by banking system and off-balance shhet items, which represent the main RWA components.

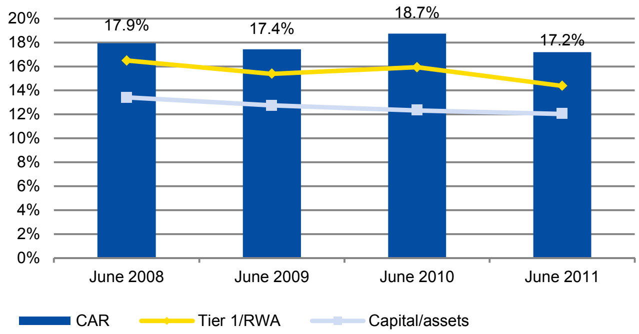
Table 10. Distribution of banking system assets by CAR level

Description	Number of banks			Share of total assets managed by banks		
	12-15 %	15-18%	> 18 %	12-15 %	15-18%	> 18 %
2008	1	1	6	38.9%	35.6%	25.5%
2009	0	6	2	0.0%	84.6%	15.4%
2010	3	1	4	13.9%	14.7%	71.4%
2011	2	2	3	14.6%	19.3%	61.2%

Source: CBK (2011)

Besides the reporting of CAR on the overall system, it is also important to analyse this indicator in the context of individual banks. During the observing period, six banks recorded a decrease of CAR, while two banks recorded an increase. However, it is important that all banks operating in Kosovo are well capitalized and have not incurr any difficulties to comply

Figure 52. Banking system capitalisation indicators



Source: CBK (2011)

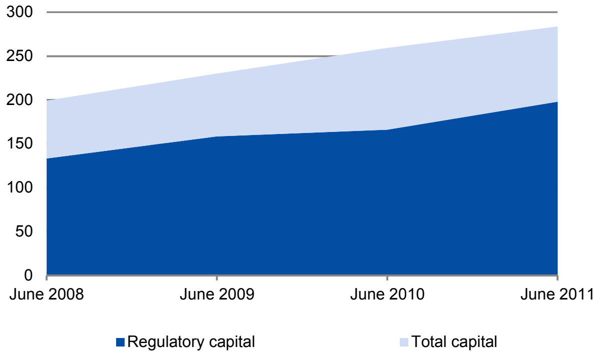
14 According to CBK rules, banks are obliged to maintain a minimum level of 12 percent of Capital to RWA ratio.

with the criterion of the 12 percent CAR level. In June 2011, the largest share of Kosovo's banking system assets were managed by banks having a CAR level higher than 18 percent (Table 10). Four of the banks operating in Kosovo, which collectively manage 66.1 of total assets of the banking system, reported a CAR higher than 18 percent.

Two of total banks, which manage 19.3 percent of total assets, have reported a CAR level in the intervak from 15 up to 18 percent.

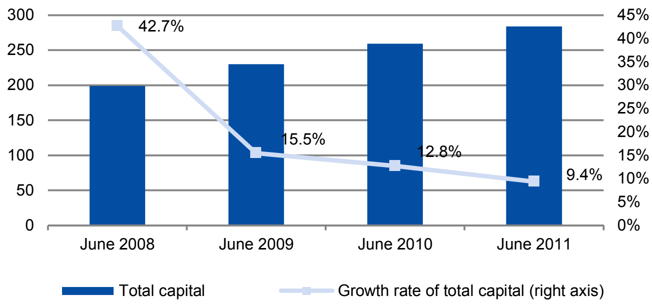
Commercial banks operating in Kosovo continue to keep higher capital levels than those required by the CBK regulation on banks' capitalization. In June 2011, the total capital of banks was euro 283.7 million, while the total regulatory capital required by the CBK regulation was euro 197.9 million (Figure 53). Capital held by banks, in June 2011, exceeded by euro 85.8 million the amount of required regulatory capital.

Figure 53. Total capital and regulatory capital, in millions of euro



Source: CBK (2011)

Figure 54. Total capital and its annual growth rate, in millions of euro



Source: CBK (2011)

6.4.3.2 Capital

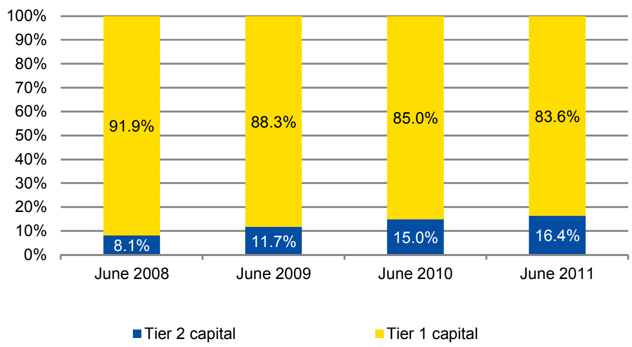
In June 2011, the capital of the banking system recorded an annual growth of 9.4 percent reaching the value of euro 283.7 million (euro 259.3 million in June 2010). As of June 2008, the banking system capital followed a growing trend, but the growth rate marked a constant slowdown (Figure 54). Slowdown of the growth of total capital was mainly a result of the slower increase of shareholders' capital, which at the same time comprises the largest share of total banking system capital.

The capital of Kosovo's banking system continues to have the shareholder capital and the profit earned by banks as the main sources of financing. Banks have also started to use alternative ways to finance the capital, where we can specify the increase of the use of subordinated debt, which is classified as a component of Tier 2 capital. On the other hand, banks operating in Kosovo continue not using more sophisticated financial instruments, such as hybrid financial instruments. This fact can be considered positive because these financial instruments bear a higher risk level (as established in the last financial crisis), with possible negative implications for the banking system sustainability.

In addition to the value, another important element for the banking system sustainability is the quality of capital possessed by the bank. The quality of capital of a bank mainly refers to the share of shareholder capital to total capital of a bank, where the larger is the share of shareholder capital the more qualitative is estimated to be the quality of capital.

Kosovo's banking system can be considered to have a very good quality of capital, given the fact that the shareholder capital comprises around 60 percent of total capital of this system. The quality of capital, among the others, has an important role to the credit ranking of banks, having direct impact on the external financing cost as well as on the facilitation of banks to access external financing. The good quality of capital can also be one of the factors enabling Kosovo's banking system a constant increase of external financing, where one of the present instruments is the subordinated debt as well.

Figure 55. Structure of the banking system capital



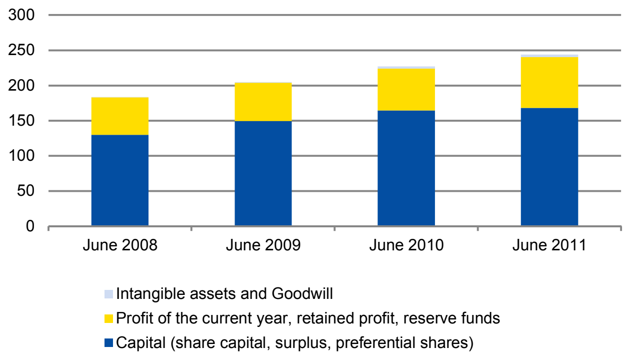
Source: CBK (2011)

In June 2011, the structure of the banking system capital was dominated by Tier 1 capital that amounted at euro 237.1 million, while Tier 2 capital recorded the amount of euro 46.5 million (Figure 55). During the last four years, the share of Tier 1 capital to total capital of the banking system has constantly declined. In June 2011, Tier 1 capital consisted 83.6 percent of total banking system capital (85.0 percent in June 2011). The decrease was driven by the increase of the share of Tier 2 capital, which reached at 16.4 percent in June 2011 from 15.0 percent in June 2010. Within Tier 2 capital, a more significant increase was recorded by subordinated debt and general provisions. In June 2011, the subordinated debt recorded an annual growth of 26.5 percent (59.3 percent in June 2010), while General provisions increased by 9.0 percent (15.2 percent in June 2010).

6.4.3.3. Tier 1 Capital

Shareholder capital continued to be a dominating category in the overall structure of Tier 1 capital, with a share of 70.8 percent. The profit for the current year, the retained profit and the reserve funds also represent an important category of Tier 1 capital. In June 2011, this category represented around 30.6 percent of total Tier 1 capital. Whereas intangible assets and goodwill had a share of 1.4 percent to total Tier 1 capital.

Figure 56. Structure of Tier 1 capital, in millions of euro



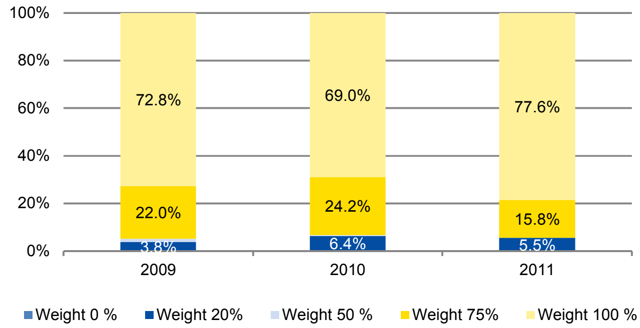
Source: CBK (2011)

In June 2011, Tier 1 capital amounted at euro 37.1 million, which represents an annual growth of 7.5 percent. Shareholder capital, as the main category of Tier 1 capital, recorded an annual growth of 2.2 percent, reaching the value of euro 167.95 million euro (Figure x). This growth rate of shareholder capital is lower than in June 2010, where the growth rate stood at 10.0 percent. On the other hand, the value of the profit for the current year, retained profit and reserve funds amounted at euro 72.51 million, recording an annual growth of 22.1 percent. Intangible assets and goodwill recorded a value of euro 3.32 million, which represents a similar level to the previous year (3.28 million in June 2010).

6.4.3.4 Risk-Weighted Assets

The total value of the banking system RWA amounted at euro 1.65 billion in June 2011, which represents an annual growth of 19.2 percent (16.3 percent in June 2010). The structure of RWA is dominated by assets with risk weight of 100 percent, the share of which reached at 77.6 percent from 69.0 that was in June 2010 (Figure 57). The increase of the share of this category has been a result of a higher growth rate of loans and off-balance items. On the other hand, risk-weighted assets of 75 percent reduced their share to 15.8 percent of total RWA, compared to 24.2 percent in June 2010. This category consists of loans secured by first mortgage on real estate with less than 30 days past due. The category with the lowest share in the structure of RWA consists of risk-weighted assets of 50 percent, the share of which reached at 1 percent of total RWA from 0.4 that was in June 2010.[15]

Figure 57. Structure of risk-weighted assets by risk category



Source: CBK (2011)

6.5. Stress-Test Analysis

Parallel to the analysis of the actual state of banking system exposure to credit risk, liquidity risk, and solvency risk, the stress-test analysis represents an additional tool through which it is assessed the sustainability of the sector against potential shocks, both in credit portfolio and in liquid assets. Results elaborated below consider the banking system data as of June 2011. During this analysis, it was tested the Kosovo's banking system sustainability against the credit risk, combined with the interest rate risk and the exchange rate risk, as well as the ability of the banking system to preserve the liquidity level under hypothetical assumptions on withdrawal of deposits.

6.5.1 Credit Risk

Methodology

The analysis is based on a hypothetical scenario that the economic crisis in the European Union countries will continue to be reflected in Kosovo's economy through the decrease of remittances and exports, thus discouraging the aggregate demand in the country. Consequently, it is supposed that economic growth will be adversely affected, expanding as such the output gap and affecting negatively the quality of credit portfolio. In this scenario

[15] This category consists of requests with maturity of 1 or less in banks operating in OECD countries, but which are not classified or ranked by Standard & Poor's with B or lower grade are classified by Moody's with P-3 or a lower grade.

is taken into account the average rate of economic growth in Kosovo of 4 percent in the last five years and it is assumed a significant economic decline of 2.0 percent for 2011, which would have raised the output gap for 6.0 percent. To assess the impact of output gap in the quality of loan portfolio, namely in non-performing loans (NPL), elasticity coefficients for several countries in Central and Southeastern Europe[16] are used from an IMF published analysis. Consequently, considering a coefficient of 0.8 for the elasticity of NPL against output gap, the share of NPL to total banking system loans would increase by 4.8pp. Credit risk is combined with the interest rate and exchange rate risk, where it is assumed a decline of interest rates and a depreciation of euro against other currencies as a result of developments in some Eurozone countries. Consequently, in addition to the increase of the share of NPL to total loans, in this scenario it is also considered the depreciation of the euro against the U.S. dollar by 20 percent [17] and the reduction of interest rates by 2.0 pp. The increase of NPL ratio to total loans leads to an increase of provisions; the depreciation of euro affects the loss/profit from net open positions; and the reduction of interest rates affects the loss/profit in net interest income by considering the maturity gap between loans and deposits. Apart from the assumptions on the abovementioned shocks, the expected profit as a potential for loss absorption from these shocks is also taken into account. In this context, it is assumed that revenues from 'commissions and fees' and other non-interest revenues in 2011 would be equivalent to 60 percent of the level realized in 2010 (because it is assumed that there is no increase of loans – they remain constant), while other components of the income statement are assumed to be of similar level to those in 2010.

The assumed increase of NPL is expressed through the migration of loans from performing categories (standard, watch, substandard) towards non-performing categories (doubtful and loss). NPL growth was proportionally distributed in the two non-performing categories, taking into account the initial distribution of NPL in these categories. NPL growth is reflected in the level of provisions based on the CBK regulations for loan provisioning. The assumption for the NPL growth is applied also to off-balance sheet items, including unused commitments, guarantees available letters of credit and commercial letters of credit.

Despite the fact that in the scenario it is considered the depreciation of the euro against the U.S. dollar in order to assess the exchange rate risk, it must be emphasized that the impact of this risk in the balance sheet of banking system remains quite negligible. Most of the loan portfolio is in euro, so lending in foreign currency virtually is nonexistent, which minimizes the exchange rate risk.

The assumption on the interest rate risk implies a reduction of interest rates by 2pp (for assets and for liabilities on the balance sheet). The reduction of interest rates may affect Net Interest Margin (NIM), taking into account the maturity of loans and deposits. Kosovo's banking system has a low exposure also to this risk, since the majority of loans and deposits in the banking system in Kosovo have fixed interest rate. Therefore, the banking system is less sensitive to short-term interest rate fluctuations.

Sustainability of the banking system in this analysis is assessed in terms of the impact of NPL increase, euro depreciation and interest rate decline, on the level of the banking system regulatory capital, risk-weighted assets, and consequently Capital Adequacy Ratio (CAR). (CAR).

[16] IMF unpublished note "CESE Bank Loss Projection and Stress Testing Exercise", July 2009.

[17] Assumption based on historical data on the volatility of the currency exchange rate Euro-U.S. dollars.

Results

The current situation of Kosovo's banking system with regard to capitalization of banks is very favorable, with a capital adequacy ratio standing at 17.2 percent. Banking system continues to remain stable also in terms of the level of non-performing loans to total loans (5.9 percent) and in terms of coverage of NPL by provisions for loan losses, which cover stood at 117 percent. Therefore, the banking system shows a high level of sustainability against the credit risk even under the conditions of the shock introduced in the hypothetical scenario described above.

Assuming that the share of NPL to total loan portfolio of the sector would increase by 4.8 pp, euro would depreciate against U.S. Dollar by 20 percent, and the interest rates would decrease by 2.0 pp, stress-test results suggest that CAR of the total banking system would remain above the level of 12 percent, while in the individual bank level only one of the banks would have a CAR under the level of 12 percent that is required by the Central Bank. Nevertheless, for the CAR of this bank to reach the minimum regulatory level of 12 percent, it would be needed a capital injection equivalent to only 0.14 percent of Kosovo's GDP.

Under this scenario, the share of NPL to total banking system loans would reach 10.7 percent, while in the individual bank level the NPL ratio would vary from 4.9 percent up to 14.2 percent. The abovementioned shock assumptions, such as the increase of NPL ratio, euro depreciation against U.S. Dollar and the decrease of interest rates would make the total loss of the banking system amount to euro 43.9 million. However, not all this amount can be considered as an eventual loss, given the fact that a large share of these losses would be absorbed by the expected profit for the period taken into consideration.

6.5.2 Liquidity Risk

Methodology

The stress-test analysis on the liquidity risk is based on the scenario of a more significant withdrawal of deposits from banking system, and its sustainability against such shocks. It is considered the withdrawal of deposits over a period of five days, not taking into account the possibility of banks' access to external financing. Liquidity risk scenario is based on a very conservative scenario: withdrawal of deposits at the rate of 8 percent of total deposits on a daily basis, over a period of five consecutive days. The scenario is also built on the assumption that during this period, the possibility of converting liquid assets into cash will be 80 percent, while the possibility of converting illiquid assets would be 1 percent within a day. In this scenario it is assumed that banks have full access to their reserves, but it was not considered the possibility of banks to have access to external financing sources.

In this analysis, the sustainability of the banking system was tested by assessing the adequacy of banks' liquid assets to withstand such a deposit withdrawal.

The assessment of the banking system sustainability based on the above scenario, is done by assessing the adequacy of banks' liquid assets to meet the deposit withdrawal.

Results

In the previous sections of this publication it is mentioned that Kosovo's banking system is considered to have a good liquidity position, which is also confirmed by the high level of liquidity indicators. Core liquid assets and broad liquid assets consist of 24.3 percent, respectively 29.8 of total assets of banking system. Therefore, also under the assumption that the abovementioned scenario is likely to happen, the banking system shows a very high sustainability against the liquidity risk. In general, the stress-test results, based on a scenario on withdrawal of deposits for five consecutive days, suggest that Kosovo's banking system appears to have a satisfactory sustainability level even after a considerable withdrawal of deposits.

Table 11. Summary of stress-test results: Liquidity Risk

Description	Number of banks 1/	Additional liquid needed assets (in thousands of euro)	Loan-to-deposit ratio, in percent
After the first day	0	0	84.7
After the second day	1	1,754	97.5
After the third day	1	4,573	105.9
After the fourth day	4	20,342	115.1
After the fifth day	4	41,301	125.2

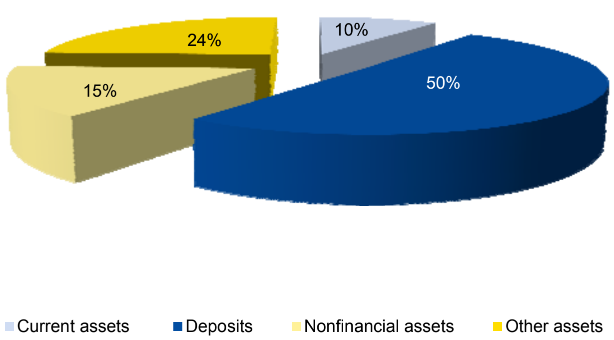
Note 1/ Number of banks which would need additional liquid assets.

Under the hypothetical assumptions on the withdrawal of deposits over a period of five consecutive days with the abovementioned hypothethical rate, the first liquidity problems in banks would start appearing after the second day, and that only in one of the banks. The level of deposits withdrawal from each bank is considered to be 8 percent of their total deposits. After the second day, the amount of additional liquid assets for the affected bank would be euro 1.75 million (0.038 percent of GDP). Whereas, the loan-to-deposit ratio would reach 97.5 percent (assuming that the level of loans would remain constant during this period). After the fourth day, liquidity problems would also be present in three other banks, thus bringing to four the number of affected banks. In this case, additional liquid assets needed to fulfill the liquidity needs would amount at euro 20.3 million (Table 11). After the period of five days of the deposits withdrawal, the number of banks facing liquidity problems would remain at four, while the value of additional liquid assets would amount to euro 41.3 million (0.9 percent of GDP). At this point, under the assumption that the value of loans remains unchanged, the loan-to-deposit ratio would reach 125.2 percent for overall banking system.

7. Other Financial Institutions

7.1. Insurance Companies

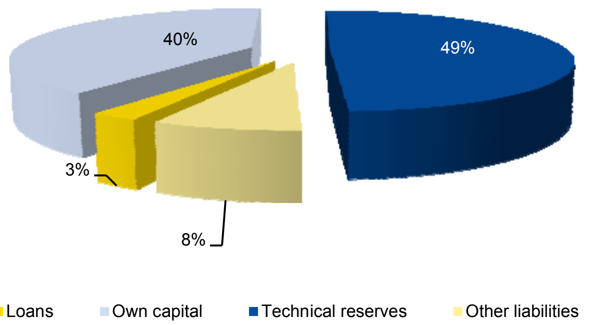
Figure 57. Structure of insurance companies assets



Source: CBK (2011)

The system of insurance companies continued to expand its activity during the first half of 2011. Nevertheless, the insurance companies manage only 3.1 percent of total financial sector assets. Until June 2011, the insurance industry consisted of total 11 companies, of which, 10 insurance companies exercise their activity in nonlife insurance whereas only one company has the license to provide life insurance policies. Meanwhile, two other companies are in the process of applying for a life insurance license. The ownership structure of insurance companies remains similar with the structure of the previous years, where 8 insurance companies are foreign-owned, and the rest of three others are of domestically-owned. Assets of foreign-owned insurance companies represent e 77.5 of total assets of this sector.

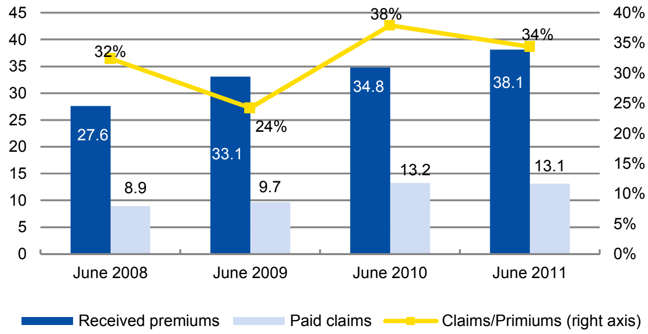
Figure 58. Structure of insurance comapanies liabilities



Source: CBK (2011)

In the first half of 2011, total assets of the insruance companies reached the amount of euro 103.4 million and recorded an annual growth of 14.8 percent. Deposits represent the dominant category within the insurance assets, which comprise around 50 percent of total assets (Figure 57). Until June 2011, deposits of insurance companies amounted at euro 52 million and recorded an annual growth of 6.5 percent. Deposits of insurance companies are mainly invested in commercial banks operating in Kosovo. On the side of the liabilities, the shareholder capital and technical reserves are the categories with the largest share, comprising 40 percent and 49 percent of the total insurance liabilities, respectively (Figure 58). The shareholder capital during this period recorded an annual growth rate of 11.6 percent, whereas the technical reserves recoded an annual growth of 16.9 percent.

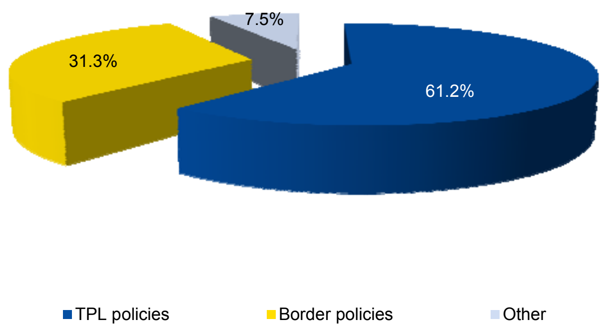
Figure 59. Received premiums and paid claims, in millions of euro



Source: CBK (2011)

The ratio between the insurance capital and assets, which is an indicator of insurance companies' capitalization level, in June 2011, stood at 41.1 percent that is consistent with the same period of the previous

Figure 60. Structure of received premiums of the insurance companies



Source: CBK (2011)

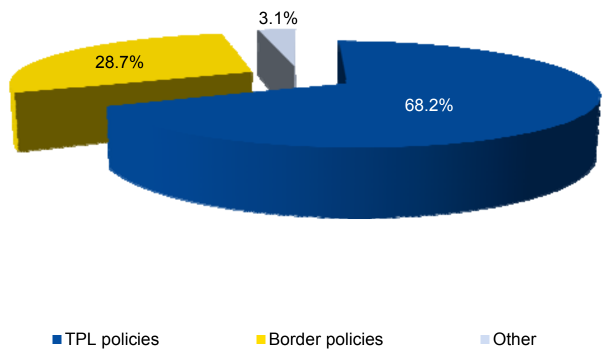
year. On the other hand, the ratio between the capital and technical reserves, which indicates the capacity of insurance companies to withstand potential losses, in June 20110 was 81.1 percent, compared to 84.9 percent in June 2010.[18]

Net profit of insurance companies, until June 2011 was euro 1.2 million compared to euro 0.7 million in June 2010. The improvement of the financial outcome was also reflected in the improvement of the two performance indicators, namely the Return on Average Assets (ROAA) and the Return on Average Equity (ROAE). ROAA indicator increased at 1.1 percent compared to 0.8 percent in June 2010. ROAE also increased to 2.8 percent, compared with 1.9 percent in June 2010.

In June 2011, the number of policies sold by insurance companies operating in Kosovo reached at 243.7 thousand, which represents an annual growth of 6.1 percent. The value of the premiums received during this period was euro 38.1 million and recorded an annual growth of 9.3 percent (Figure 59). The ratio between the received premiums and the total assets of the insurance companies in June 2011 was 34 percent (38.7 percent in June 2010).

Within the received premiums, only around 1 percent has been generated from life insurance policies. The activity of insurance companies in Kosovo is mainly concentrated on the issuance of Third Party Liability (TPL) policies, which generate the largest part of received premiums (61.2 percent of total premiums) (Figure 60). The amount of TPL premiums reached at euro 23.3 million euro, which represents an annual growth of 9.2 percent. The largest share of premiums of TPL policies is paid by citizens through commercial banks operating in Kosovo. Another important part of the received premiums derives from the sale of voluntary insurance policies (31.4 percent of total premiums), which generated premiums amounting at euro 11.9 million (annual growth of 18.9 percent).

Figure 61. Structure of paid claims of insuramce companies



Source: CBK (2011)

The amount of claims paid by insurance companies until June 2011 reached at euro 13.1 million and decreased annually by 0.9 percent. Bearing in mind that in the same period of the previous year, the paid claims had recorded a growth rate of 65 percent, it can be noticed that the increase of the amount of the paid claims has considerably slowed down. The slowing trend of the claims paid was mainly influenced by the reduction of payments for TPL policies, which during this period marked an annual decline of 11.9 percent (annual growth of 56.2 percent in June 2010) (Figure 59). Payments for TPL policy holders comprise the largest share of paid claims (68.2 percent of total paid claims). A share of 28.7 percent consists of payments for voluntary policies. The ratio between paid claims and received premiums, in June 2011 was 35.3 percent compared to the ratio of 38 percent in June 2010, which reflects a slower growth of paid claims against premiums received from insurance companies.

[18] Technical reserves are necessary to ensure a permanent fulfillment of liabilities of insurance companies against the policy holders until the expiration of the insurance agreement.

7.2. Pension Funds

Total assets of Kosovo's pension system until June 2011 reached the value of euro 551.5 million, compared with euro 412.5 million in June 2010. The largest share of pension assets consists of Kosovo Pension Savings Trust (KPST) assets, while a smaller part of them is managed by Slovenian-Kosovo Pension Fund.

Figure 62. KPST share price and the DJI index

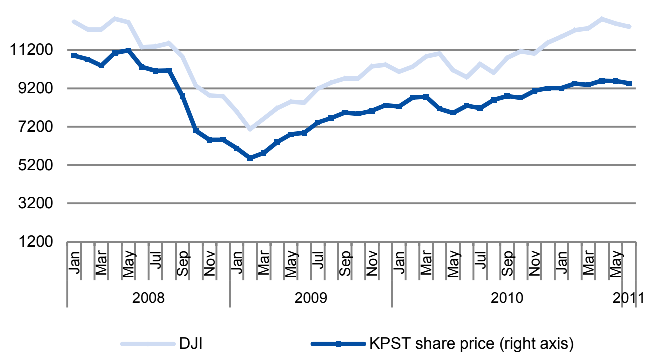
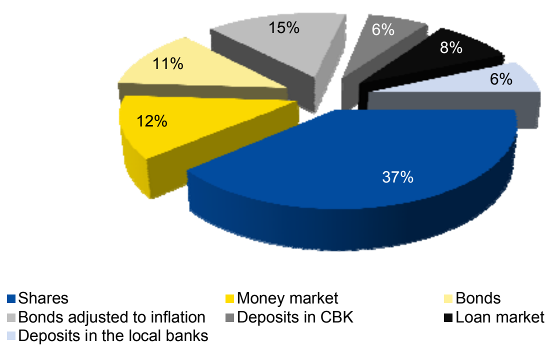


Figure 63. Structure of KPST investments



Source: CBK (2011)

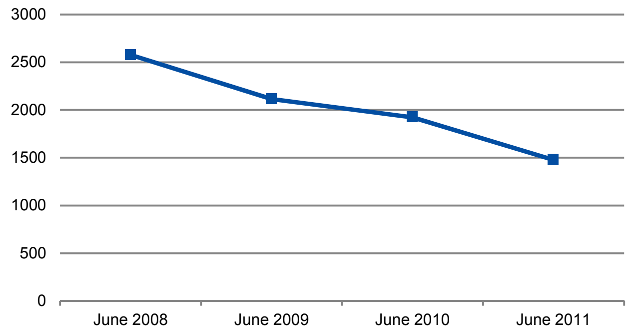
In the first part of 2011, the KPST performance improved significantly compared to the same period of the last year (Figure 62). In June 2011, the KPST share price reached at euro 1.059 compared to euro 0.955 in June 2010 (the base price euro 1.0 per share). Consequently, unlike the first half of 2010, when KPST recorded negative returns on investments, in the first half of 2011, KPST realized positive return amounting at euro 14.5 million (euro 9.5 million losses in the period January-June 2010). Positive returns of KPST investments can be attributed to the diversification of invested assets as well as to the improvements in the global markets. During the second quarter of 2011, KPST increased investments in other instruments, namely in bonds and securities, since these instruments provided higher rates pf return. Moreover, since the largest share of the KPST investments is concentrated in financial markets of developed countries, the positive movements in these markets were significantly reflected in the performance of KPST investments.

Within the assets of KPST, 6.2 percent are invested in commercial banks in Kosovo and other 6.2 percent are deposited in CBK (Figure 63). The rest of the KPST assets is invested abroad (mainly in USA, Great Britain and Japan), of which, around 36 percent were invested in equities, whereas a considerable part is invested in bonds (around 25.5 percent) and in monetary market (around 11.6 percent). On the other hand, the Slovenian-Kosovo Pension Fund allocated the largest part of its investments in bank deposits and bonds (around 95 percent), whereas the other part of investments is usually kept in cash, shares, etc.

7.3. Microfinance Institutions and Financial Auxiliaries

The activity of microfinance institutions (MFI) is mainly concentrated in financing small businesses and households. This sector comprises a relatively low share of Kosovo's financial sector, which in June 2011 stood at 4.1 percent. Until June 2011, the microfinance sector in Kosovo numbered 17 microfinance institutions.

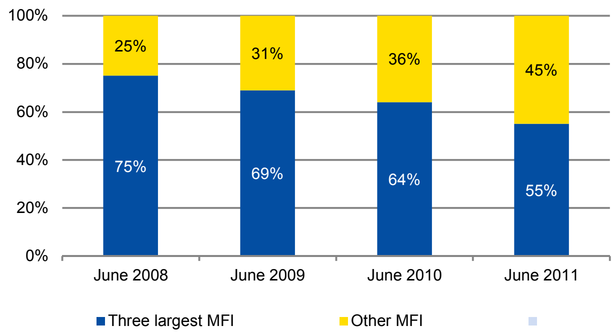
Figure 64. HHI for the assets of microfinance institutions



Source: CBK (2011)

Microfinace industry in Kosovo has traditionally been characterized with a relatively high market concentration rate. However, during the first half of 2011, the concentration rate marked a continuous and significant decline. This trend is also suggested by the Herfindahl-Hirschman Index for assets, which indicates that in June 2011 the concentration rate has decreased to 1,479 points, compared to 1,924 points in June 2010 (Figure 64). The decline of the concentration rate in the MFI market is also suggested by Figure 65, which shows that three largest MFIs have decreased their share to total MFI assets by 9 pp. This decrease of the market concentration rate may imply that the competitive pressures between microfinance institutions in Kosovo are intensifying.

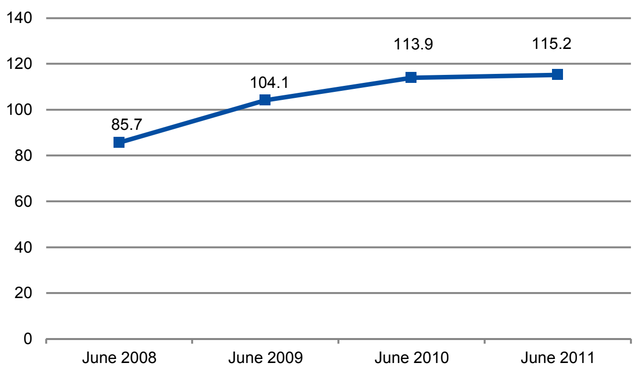
Figure 65. Structure of the MFI assets by size of the institutions, in percent



Source: CBK (2011)

The number of loans issued by these institutions until June 2011 reached at 63,834, which represents an annual growth of 4 percent. On the other hand, the amount of loan portfolio issued by microfinance institutions reached at euro 115.2 million and recorded an annual growth of only 1.2 percent, which indicates a modest expansion of the MFI lending activity during this period (Figure 66). The share of loans issued by MFIs to total loans issued by

Figure 66. Loans issued by MFI, in millions of euro



Source: CBK (2011)

Kosovo's financial sector was 6.6 percent in June 2011, which represents a lower level compared to the same period of the previous year (7.5 percent). The average amount of a loan issued by microfinance institutions during the first part of 2011 was euro 1,804, compared to euro 1,896.2 in the first part of 2010.

In the first half of 2011, MFIs improved their performance significantly. While in June 2010 MFIs had recorded losses amounting at euro 1.1 million, in June 2011, MFIs managed to realize a net profit of euro 0.8 million. In the beginning of the year 2011, one of the largest MFIs in Kosovo, namely the KEP Trust, incurred problems related to the internal governance, which prohibited the normal functioning of this institution. Nevertheless, as a regulator, CBK was active in solving this contest, by putting KEP Trust into temporary administration. CBK managed to successfully complete the temporary administration of the KEP Trust and to restore the well-functioning of this institution (Box 6).

Box 6. Temporary Administration of the KEP Trust – Governing Reinstatement

The microfinance institution KEP Trust was put under the temporary administration of the CBK in January 2011, after the dissolution of the self-governance and the failure of the founders to restore this function in accordance with the the institution's statute. The board of the Directors and the managers could not represent the KEP Trust institution, as they were not reelected according to the statute of the institution.

Under the terms of engagement, the temporary administrator, except managing the institution with all the foreseen executive rights, was also required to restore the governing structures within this institution. Due to the inability to realize this objective within the foreseen period, the interim administration was extended several times, until CBK organized a meeting in October 2011 with all the stakeholders involved in the KEP Trust. This meeting resulted with an agreement between the founders to reelect the board of directors, whose members would be tested by the CBK concerning the suitability for the position to be taken, prior to the transfer of the executive rights from the administrator to the directing board in November 2011.

The temporary administration was completed in November 9th, 2011 after the positive results of the CBK's test regarding the suitability of the board members and the executive director that were nominated by the founders of KEP Trust. Consequently, the right was transferred from the executive administrator to the new board of directors. Administration process during this period managed to preserve the continuity of the institution's activity, meanwhile servicing the contractual obligations to the creditors in the amount of euro 12 million, maintaining the levels of liquidity, loan portfolio quality and capital.

Financial auxilliaries in Kosovo consist of exhange bureaus and money tranfer agencies (MTA). The number of the financial auxiliaries operating in Kosovo in June 2011 was 32, showing an increase of three more institutions in June 2011. Until June 2011, an amount of euro 115.8 million was transferred through financial auxilliaries, which is an annual increase of 7 percent. Out of this amount, euro 99.8 million are incoming transfers to Kosovo, whereas euro 16 million are outgoing transfers. The amount of transfers processed through MTA represents 4.1 percent of total transfers realized through Kosovo's financial sector. Commercial banks remain the largest transferring channel in Kosovo (80.5 percent of total transfers until June 2011).

Special Topics*

*The views expressed in the Special Topics are those of the author(s) and do not necessarily reflect views of the Central Bank of the Republic of Kosovo. The Special Topics describe research in progress by the author(s) and are published to elicit discussions and comments.

8. Bank Lending Survey for Kosovo

Astrit PANXHA* and Arben MUSTAFA†

8.1. Introduction

In order to increase the capacities for a better assessment of credit developments in Kosovo, the Central Bank of the Republic of Kosovo (CBK) started to conduct the Bank Lending Survey, which is expected to provide greater insight on the developments of credit standards, credit terms and conditions, risk perception of banks and the willingness of banks to lend. Considering the importance of credit developments for the economy, a more detailed analysis of bank lending behaviour will enhance the understanding of the factors affecting the banks' willingness to lend and, therefore, will increase the capacities for predicting the developments on credit volumes and GDP growth. The bank lending survey for Kosovo was based on the methodology applied by European Central Bank, which was developed to assess the lending behaviour of banks operating within the Eurozone.

One of the most important features of the bank lending behaviour is related to the credit standards, which reflect the bank's criteria for the loan approvals. The tightening of credit standards is found to have a negative impact on the credit growth, while laxer credit standards lead to higher credit growth (Lown et al., 2000). The credit standards and credit growth appear to be important factors for the economic activity, based on the studies suggesting that they represent important determinants of business cycles. According to Asea and Blomberg (1998), banks tend to apply laxer credit standards during expansions, thus leading to higher credit growth and more intense economic activity. Also, in a study on 11 euro area countries for the period 1999 – 2008, Cappiello et al. (2010) found that credit standards (lagged twice) had a significantly negative impact on real GDP growth. Cappiello et al. controlled separately also for the impact of credit growth on real GDP growth and found a significantly positive impact. The importance of credit growth as a determinant of business cycles is acknowledged also by other studies, such as Erckstein and Sinai (1986) and Wojnilower (1985), who found that most of that credit crunches represented important determinants of recessions in the United States.

The correlation between credit growth and GDP growth was apparent also in Kosovo. This correlation was especially apparent in years 2009 and 2010. The evolution of the global crisis that started in 2007/2008 to some extent was reflected also in Kosovo, where both, credit growth and the GDP growth marked a slowdown,

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while maintaining the positive growth rates. Whereas, year 2010, which is considered as a year when global economy started to recuperate, in Kosovo was characterized with a picking up of both credit and GDP growth. Even though no empirical study has been conducted so far on this issue, the observed trends of loans and the real GDP suggest a positive correlation between the two. Given the absence of a capital market, the possibilities of firms in Kosovo to raise funds heavily depend on the provision of credit by banks. Therefore, the relationship between credit growth and the economic activity in Kosovo can be even stronger than in more developed countries. Hence, the analysis of the bank lending behaviour in Kosovo is of a paramount importance for a better prediction of business cycles in the country. In addition, the decomposition of factors affecting the bank lending behaviour represents a good tool for a better identification of specific factors affecting changes in the willingness of banks to lend, interest rates, other terms and conditions as well as factors affecting the demand for loans.

With the quantitative data on banks' lending being already available to the CBK, the survey will provide additional qualitative information that can be used to comprehensively analyse the credit market developments in Kosovo. The survey is very important also for the better understanding of general developments in the economy of Kosovo, bearing in mind that the information will be obtained directly from the banks, which closely follow the general economic developments. This issue becomes even more important considering the lack of official statistical data on many sectors of the economy, such as performance of enterprises and households. In order to increase the transparency towards the public, the aggregated results of the survey will be publically available on a quarterly basis. Nevertheless, taking into the account that this survey is being implemented for the first time, the results of the survey may not accurately reflect the development in the economy, as such, the results should be interpreted very carefully.

The remainder of this article is organised as follows. Section 2 describes the methodology of the survey used to collect the data. Section 3 presents the survey results and section 4 concludes.

8.2. Methodology

The design of the lending survey for the banking system of Kosovo has been based on the survey developed by the ECB. In addition, some minor modifications were adopted in order to make the survey more applicable to the current conditions in the banking system of Kosovo. [21] The main part of the survey is the questionnaire, which is designed to cover changes in credit standards, credit terms and conditions and demand for credit. The questionnaire consists of 18 questions, which are

[21] The Bank Lending Survey for the Euro Area" Occasional paper series no.23", February 2005, ECB

formulated to capture the credit developments for the two sectors of the economy, enterprises and households. Moreover, ten questions are related to supply factors (seven on credit standards and three on terms and conditions of new loans), and seven are related to demand factors. The survey will be conducted on quarterly basis and the questions are designed in a specific way to explain the developments in the past three months and the bank's expectations on the credit market developments over the next three months.

The questions are formulated by using scales to reflect the changes in the credit standards, credit terms and conditions as well as changes in the demand for loans. Two scales are used: 'eased considerably' and 'eased somewhat' which imply that the banks have eased the credit standards and terms and conditions. Similarly, there are two scales: 'tightened considerably' and 'tightened somewhat' which imply that the banks have tightened the credit standards and terms and conditions.[22] There are also the options 'remained basically unchanged' and 'not applicable (NA)', where the first one represents neutral option, whereas the latter one implies that bank does not know what was the impact on credit standard, terms and conditions.

The sample group for the bank lending survey consists of seven banks that operate in Kosovo. Because of the qualitative nature of the survey, weighting of the results is not applied. Also the sample is adequately representative and ensures proper statistical representation, taking into account that the banks which responded to the survey represent around 97 percent of total banking sector lending activity. The results in this survey are aggregated and presented in such a form that it protects the confidentiality of the individual banks that responded to the survey.

The first survey was completed in July 2011 and was based on the development for the second quarter 2011 (March to June 2011), whereas the second survey was completed in October 2011 and covered the credit market developments for the third quarter 2011 (July to September 2011).

8.3. Overview of results Result

8.3.1 Enterprises

Credit standards[23]**:** The results reported in the October survey overall indicate a net easing of credit standards applied to the approvals for loans or credit lines to enterprises over the past three months. In the October survey, 29 percent of the all

[22] In the questions related to demand for loans, options 'eased' and 'tightened' are replaced with 'increased' and 'decreased'.

[23] Credit standards represent the internal criteria of the bank's, which reflect bank's lending policy. These criteria could be written or unwritten, which define the types of loans a bank considers desirable or undesirable to approve.

responding banks reported a net easing[24] of credit standards to enterprises. The overall net easing is higher compared to the July survey, when all banks reported broadly unchanged standards for loans to the enterprises (Table 1).

The results on the changes of credit standards for the approval of loans to enterprises differ substantially with regard to the size of the enterprises. For small and medium sized enterprises (SME), it was reported a significant net easing of credit standards. In the October survey, the net easing of banks' credit standards for SMEs was 29 percent, which is substantially higher compared to the previous survey, when 14 percent of banks reported a net tightening of credit standard. With regard to large enterprises, all the responding banks reported that credit standards remained basically unchanged. However, this result is quite different compared to the July survey, when 14 percent of the banks indicated net tightening of credit standards for loans to large enterprises. In terms of loans maturity, banks reported that credit standards for both, short-term and long-term loans remained basically unchanged.

Table1. Changes in credit standards as applied to the approval of loans or credit lines in the past three months (in %)

	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	Jun 2011	Sep 2011	Jun 2011	Sep 2011	Jun 2011	Sep 2011	Jun 2011	Sep 2011	Jun 2011	Sep 2011
Tightened onsiderably c	0	0	0	0	0	0	0	0	0	0
Tightened omewhat s	0	0	14	0	14	14	0	0	0	0
Remained basically unchanged	100	71	86	71	86	71	100	100	100	100
Eased omewhat s	0	29	0	14	0	14	0	0	0	0
Eased onsiderably c	0	0	0	14	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
Net n ercent i p	0	-29	14	-29	14	0	0	0	0	0
Number f banks hat œspondetd r	7	7	7	7	7	7	7	7	7	7

Source: CBK (2011)

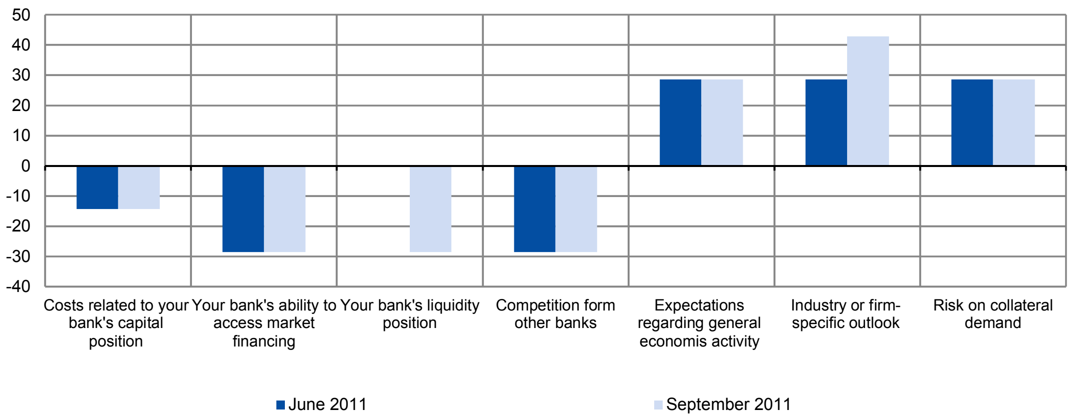
Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

The net easing of standards for loans to enterprises was mainly driven by the supply side factors of credit, transmitted through the bank's balance sheet. Both factors, bank's costs related to the capital position and the availability of access finance were reported to have contributed to the net easing of credit standards (Figure 1). The net easing of these factors remained same at 14 percent, compared to the second quarter of 2011. Banks liquidity position represents another factor that contributed to the net easing of credit standards standing at 29 percent, which is higher compared to the second quarter of 2011, when it stood at 14 percent. Moreover, the competitive pressures from other banks, which generally are expected to contribute to the easing of credit standards, in the third quarter of

24 Positive net percentage result indicated that larger proportion of banks have tightened credit standards (net tightening), whereas a negative net percentage indicates that larger proportion of banks have eased credit standards (net easing).

2011, marked a net effect of 29 percent, which is similar to the second quarter of 2011.

Figure 1. Factors affecting in credit standards as applied for approving loans or credit lines to enterpises over the last three months (in %)



Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably"

Whereas, factors such as the perceptions on the overall economic environment and firm specific risk contributed to the tightening of credits standards for loans to enterprises. In the third quarter of 2011, the bank's expectations on the general economic activity and the risk on the collateral demanded indicated a net tightening of credit standards by 29 percent. Also, industry or firm specific risks contributed to the tightening of the credit standards during the third quarter of 2011. The net tightening of this category rose to 43 percent (29 percent in the second quarter of 2011).

Regarding the expectations for the next three months, all banks reported that they generally do not expect to apply any changes to standards for loans or credit lines to SMEs. However, on net basis, 14 percent of banks reported that they will tighten credit standards for loan or credit lines to large enterprises.

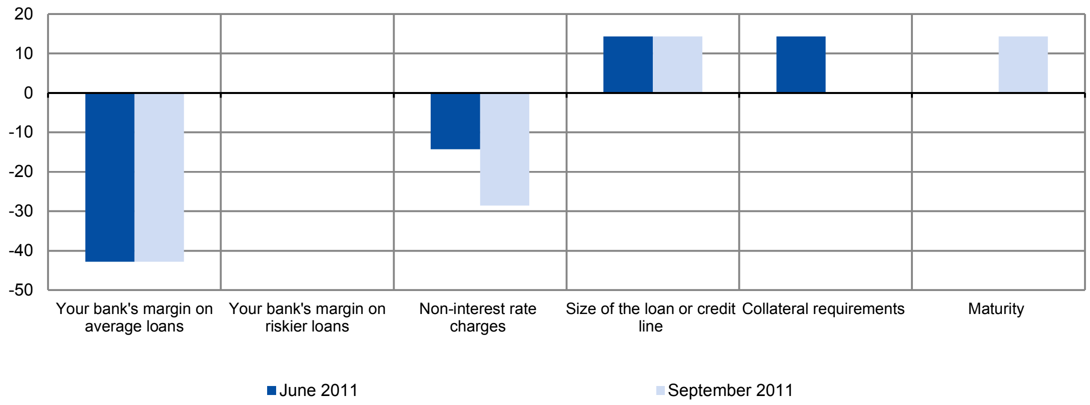
Terms and conditions[25]**:** The results of the October survey regarding the changes in terms and conditions for loans or credit lines to enterprises over the third quarter 2011 indicate that banks in overall eased their terms and conditions, compared to the previous quarter.

In the third quarter of 2011, the net percentage of banks reporting a narrowing of interest margin for average loans to enterprises stood at 43 percent, which is the same level as in the second quarter of 2011 (Figure 2). Also, a net easing of other non-interest charges was reported by 29 percent of the banks, which is higher

[25] The terms and conditions of loans represents specific obligations agreed upon by the banks and the borrower. In this survey, terms and conditions reflect interest rates, size of loan, non-interest rate charges maturity, collateral requirements, etc.

compared to the second quarter when it stood at 14 percent. However, in terms of the size and the maturity of loans for enterprises, a net tightening of 14 percent was reported by the banks, suggesting that banks have in general favoured smaller amount and shorter maturity loans during the third quarter of 2011.

Figure 2. Changes in terms and conditions for approving loans or credit lines to enterprises over the past three months (in %)



Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably" .

Demand: The results of the October survey for changes in the demand for loans or credit lines by enterprises during the third quarter 2011 indicate that demand decreased considerably compared to the second quarter of 2011. The decrease in demand for loans was more marked for large enterprises, where 43 percent of banks (on net basis)[26] reported a decrease in the demand, compared to the second quarter of 2011, when 29 percent of banks (on net basis) reported increase in the demand (Table 2). Similarly, the demand for loans by SMEs experienced a decrease, albeit at slower pace compared to large enterprises. In the October survey, 29 percent of banks (on net basis) reported a decrease in the demand for SMEs compared to the second quarter when 57 percent of banks (on net basis) reported increase in the demand. In terms of the original maturity of loans, both, for short-term and long term loans demand remained basically unchanged.

[26] A positive net percentage indicates that a larger proportion of banks have reported an increase in loan demand ("net increase"), whereas a negative net percentage indicates that a larger proportion of banks have reported a decline in loan demand ("net decrease").

Table 2. Changes in demands for loans or credit lines to enterprises over the past three months (in %)

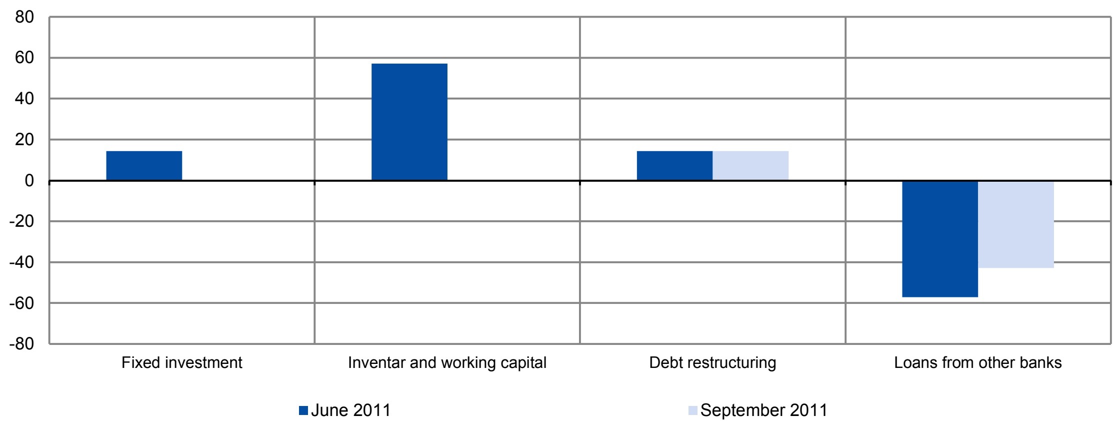
	Overall		Loans to small and medium-sized enterprises		Loans to large enterprises		Short-term loans		Long-term loans	
	Jun 2011	Sep 2011	Jun 2011	Sep 2011	Jun 2011	Sep 2011	Jun 2011	Sep 2011	Jun 2011	Sep 2011
Decreased onsiderably c	0	0	0	0	0	0	0	0	0	0
Decreased somew hat	14	57	0	57	29	57	0	29	29	29
Remained basically unchanged	14	14	43	14	14	29	43	43	29	43
Increased somew hat	71	29	57	29	57	14	57	29	43	29
Increased onsiderably c	0	0	0	0	0	0	0	0	0	0
Total	100	100	100	100	100	100	100	100	100	100
Net percent	57	-29	57	-29	29	-43	57	0	14	0
Number f banks hat cespondetd r	7	7	7	7	7	7	7	7	7	7

Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for “increased considerably” and ”increased somewhat” and the sum of percentages for “decreased somewhat” and “decreased considerably”.

In the October survey, 57 percent of banks reported that competition had no impact in changes in demand for loans, while 43 percent of banks reported that competition led to a decrease in demand for loans or credit lines to enterprises. This indicates that, on a net basis, 43 percent of banks reported that competition has had a negative impact on the demand for loans or credit lines to enterprise (Figure 3).

Figure 3. Factors affecting changes in demand for loans or credit lines to enterprises over the past three months (in %)



Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for “ increased considerably” and ”increased somewhat” and the sum of percentages for “decreased somewhat” and “decreased considerably”.

Whereas, a net positive impact on increase in demand had restructuring of existing debt for enterprise. On the net basis, this category contributed by 14 percent, which means that some enterprises have increased demand for loans in order to restructure existing debt.

In October’s analysis, banks were quite optimistic in terms of changes in demand for loans or credit lines to enterprise over the next three months. In October, 71 net percentage of banks reported that they expect increase in the demand for loans to enterprises over the next three months (in June survey was 29 percent). In terms of the size of enterprises, banks expect that demand for loans to SMEs will increase substantially (on net basis 71 percent of banks). Also, on a net basis, 43 percent of banks reported that they expect demand to increase for large enterprises. However, demand for loans for large enterprises is expected to increase at slower pace compared to demand for loans to SMEs.

8.3.2 Households

8.3.2.1 Loans to households for house purchase

Credit standards: Banks in Kosovo reported net tightening of credit standards on loans to households for house purchase. In total, the net percentage of banks that reported net tightening declined from 29 percent in June 2011 to 14 percent September 2011(Table 3)[27]. The largest proportion of the banks (86 percent) reported that the credit standards to loans for house purchase remained basically unchanged. (in June 2011, 71 percent).

The factor contributing most to the net easing of credit standards on loans to households for house purchase was pressure from competition. In the October survey, 29 percent of the banks reported net easing, which is the same result compared to the July survey (Figure 4). On the other hand, expectations regarding general economic outlook was reported to have contributed to net tightening of the credit standards. The result show that 14 percent of the banks (on net basis) reported tightening of credit standards because of the general economic outlook (in June survey for all responding banks this indicator remained broadly neutral). In the October survey, housing market prospects indicate that did not contribute to changes in credit standards and it remained basically unchanged, whereas in the June survey, 14 percent of banks (on net basis) reported that his factor contributed to easing of credit standards for loans to households for house purchase.

[27] Positive net percentage result indicated that larger proportion of banks have tightened credit standards (net tightening), whereas a negative net percentage indicates that larger proportion of banks have eased credit standards (net easing).

Table 3. Changes in credit standards as applied to the approval of loans to households for house purchase over the past three months (in %)

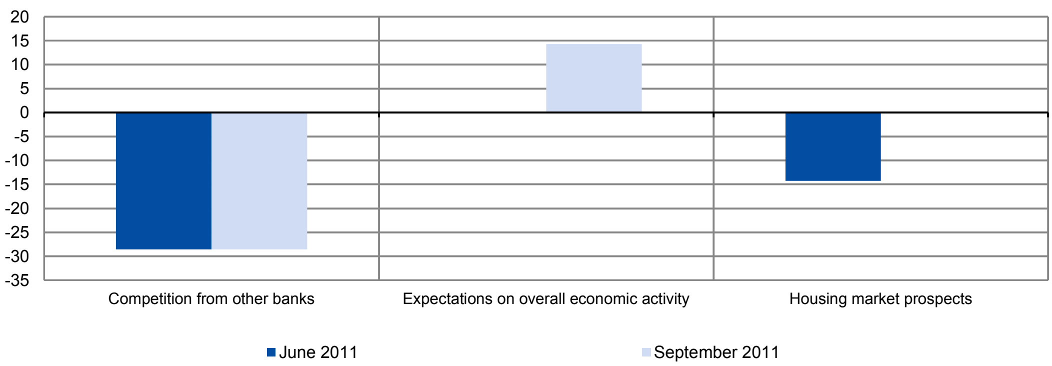
	Loans for house purchase	
	June 2011	September 2011
Tightened considerably	0	0
Tightened somew hat	0	0
Remained basically unchanged	71	86
Eased somew hat	29	14
Eased considerably	0	0
Total	100	100
Net in percent	-29	-14
Number of banks that responded	7	7

Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

The cost of funds and balance sheet constraints and housing market prospect were reported to have been broadly neutral.

Figure 4. Factors affecting credit standards applied to the approval of loans to households for house purchase over the past three months (in %)



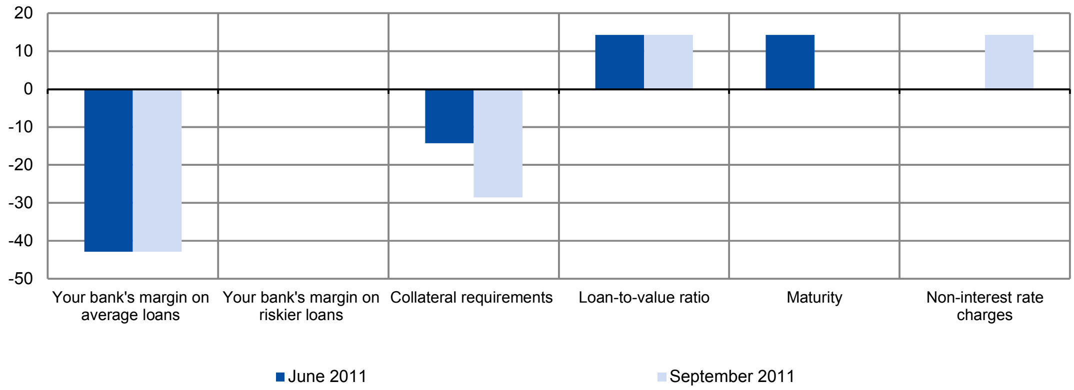
Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "itightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

Looking forward, the result of October survey, show that all responding banks are expecting that credit standards to households for house purchase will remain basically unchanged over the next three months.

Terms and conditions: In the October survey, the results show that banks have narrowed the interest margin on average loans for house purchase over the past three months banks (Figure 5). Also, a net easing of 14 percent was reported on non-interest charges. While, during the reporting period, the most evident changes in credit terms and conditions were applied to the collateral requirements. Percentage of banks who reported net easing on collateral requirement for loans to households for house purchase rose from 14 percent in the second quarter to 29 percent in the third quarter of 2011. However, in some segments, banks tightened terms and conditions for loans to households for house purchase. These changes were focused on reducing the loan to value ratio and the maturity of the loan for house purchase.

Figure 5. Changes in terms and conditions for approving loans to households for house purchase over the past three months (in %)



Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

Demand: In the October survey, banks mainly reported increase in demand for loans to households for house purchase, but with a slower pace compared with the second quarter. In the third quarter, on a net basis[28], 14 percent of banks reported that demand for loans for house purchases increased, compared with 43 percent as reported in the July survey (Table 4).

Results from the October survey, suggest that expectations for the future development in housing market had a positive impact in increase of demand for loans to households for house purchase (Figure 6). Also, on a net basis, 29 percent of banks reported that household's savings contributed to increase in demand for loans to households for house purchase. In the October survey, 57 percent of banks reported that competition had no impact in changing the demand, whereas 43 percent of banks reported that competition led to a reduction in demand for loans to households for house purchase.

[28] A positive net percentage indicates that a larger proportion of banks have reported an increase in loan demand ("net increase"), whereas a negative net percentage indicates that a larger proportion of banks have reported a decline in loan demand ("net decrease").

Table 4. Changes in demand for loans to households for housepurchase over the past three months (in %)

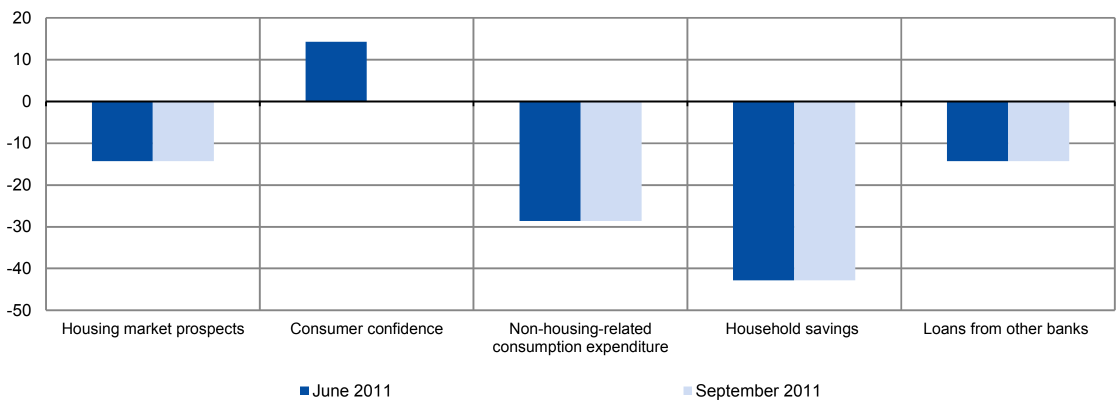
	Loans for house purchase	
	June 2011	September 2011
Eased considerably	0	0
Eased somewhat	0	14
Remained basically unchanged	57	57
Increased somewhat	43	29
Increased considerably	0	0
Total	100	100
Net in percent	43	14
Number of banks that responded	7	7

Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of percentages for "decreased somewhat" and "decreased considerably".

This indicates that, on a net basis, 43 percent of banks reported that competition had a negative impact in the demand for loans to households for house purchase. Regarding non-housing related consumer expenditure, consumer confidence and other sources of finance, banks mainly reported that the impact of these categories in demand for loans remained basically unchanged.

Figure 6. Factors affecting changes in demand for loans to households for house purchase over the past three months (in %)



Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " increased considerably" and "increased somewhat" and the sum of percentages for "decreased somewhat" and "decreased considerably".

In the October survey, the majority of responding banks reported that demand for loans to households for house purchase over the next three months is expected to remain basically unchanged.

8.3.2.2 Consumer credit and other lending

Credit Standards. The result of October survey indicate that most of the banks continued to ease their credit standards applied to the approval of consumer loans and other lending households over the past three months (Table 5). The results of the survey show that net percentage of banks reporting easing of credit standards stood at 43 percent[29]. This level is same as in the previous quarter. From the survey, it can be observed, that the net easing of credit standards for consumer credit and other lending is stronger compared than that for loans for house purchase.

Table 5. Changes in credit standards as applied to the approval of consumer credit and other lending to households over the past three months (in %)

	Consumer credit and other lending	
	June 2011	September 2011
Tightened considerably	0	0
Tightened somew hat	0	0
Remained basically unchanged	57	57
Eased somew hat	43	43
Eased considerably	0	0
Total	100	100
Net in percent	-43	-43
Number of banks that responded	7	7

Source: CBK (2011)

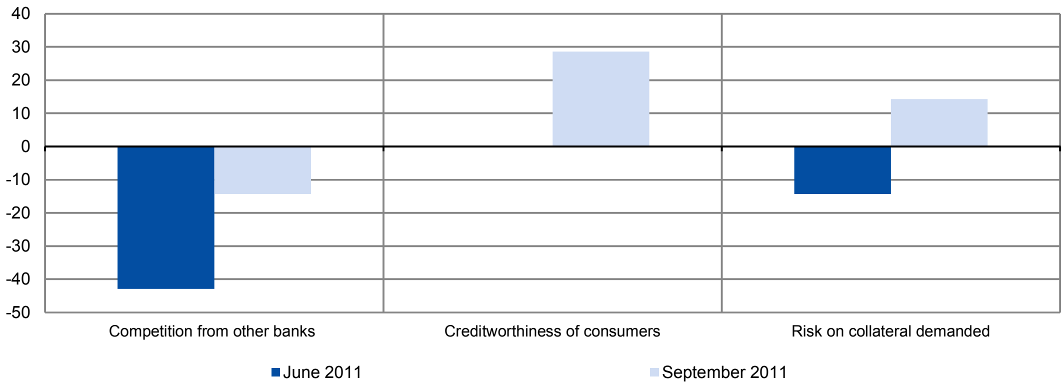
Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

The net easing of the credit standards for consumer credit and other lending to households was mainly driven by competition from other banks. In the October survey, the net percentage of banks that reported easing of credit standards as a result of pressure from competition stood at 14 percent (Figure 7). On the contrary, creditworthiness of consumers and risk on collateral demand were reported to have contributing to net tightening of credit standards. The net tightening was more evident for the creditworthiness of consumers, less so for risk on collateral demand. The net percentage of banks reporting tightening of credit standards as a result worsening of creditworthiness of consumers stood at 29 percent, whereas regarding the risk on collateral demand stood at 14 percent. The cost of funds and balance sheet constraints and competition from non-banks housing were reported to have been broadly neutral. Also, expectation on general economic activity remained basically unchanged and did not contribute to changes in credit standards for consumer credit and other lending to households. This is in contrast to the result reported by banks for loans for house purchase to households. The result from the

[29] A positive net percentage indicates that a larger proportion of banks have tightened credit standards ("net tightening"), whereas a negative net percentage indicates that a larger proportion of banks have eased credit standards ("net easing").

October survey, indicate that the banks reported higher perceived risk regarding expectations on general economic activity for loans for house purchase compared to consumer loans and other lending to households over the past three months.

Figure 7. Factors affecting credit standards applied to the approval of consumer credit over the past three months (in %)



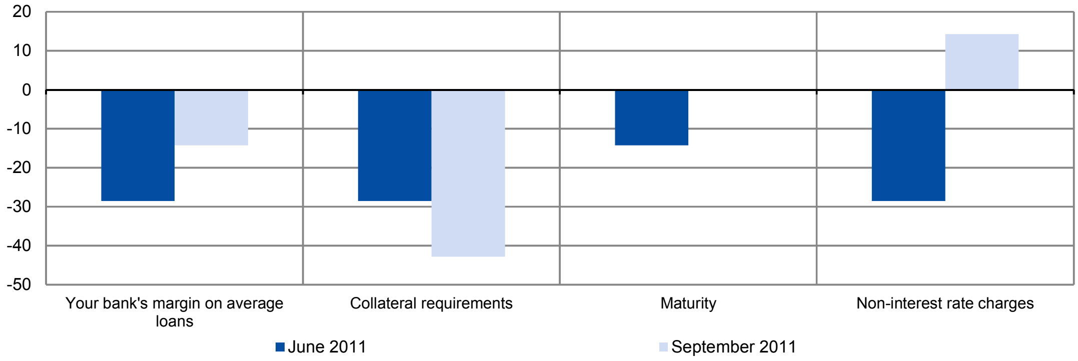
Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

The result of October survey, indicate that net percentage of banks expecting to ease the credit standards for consumer credit and other lending to households over the next three months stood at 29 percent. This indicates that lower proportion of the banks is expecting to ease the credit standard compared over the next three months compared to the result from previous survey (in June survey, net percentage of banks expecting to ease credit standard over the next three months stood at 43 percent).

Terms and Conditions: In the third quarter of 2011, banks reported an easing of terms and conditions for consumer credit and other borrowing for households over the past three months. Based on the answers from the survey, easing of credit terms and conditions for consumer loans was mainly related to collateral requirements (Figure 7). In the October survey, 43 percent of banks (net basis) reported on the easing of collateral requirements. This level is higher compared to the previous quarter (in the June survey, the net percentage of banks that reported easing in collateral requirement stood at 29 percent). In addition, banks reported that terms and conditions also were eased in terms of narrowing interest margin on average consumer credit. In the October survey, on net basis 14 percent of banks reported that have interest margin on average loan decreased, compared to 29 percent in the July survey. On the other hand, according to responding bank, terms and conditions were tightened for non-interest rate charges.

Figure 8. Changes in terms and conditions for approving consumer loans and other lending to households over the past three months (in %)



Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " tightened considerably" and "tightened somewhat" and the sum of percentages for "eased somewhat" and "eased considerably".

Demand: In the October survey, 43 percent of banks reported that household demand for consumer credit and other lending remained basically unchanged compared to the previous quarter (Table 6)[30].

Table 6. Changes in demand for credit consumer and other lending to households over the past three months (in %)

	Consumer credit and other lending	
	June 2011	Sheptember 2011
Decreased considerably	0	0
Decreased somewhat	0	29
Remained basically unchanged	29	43
Increased somewhat	57	29
Encreased considerably	14	0
Total	100	100
Net in percent	71	0
Number of banks that responded	7	7

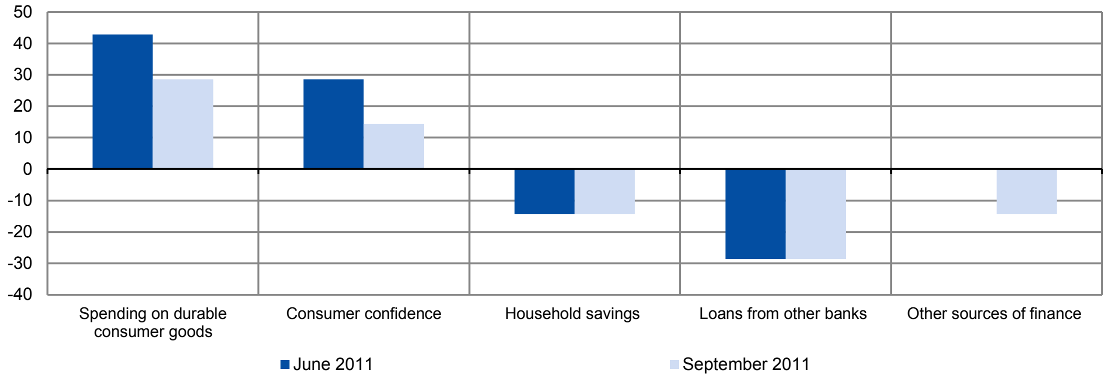
Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of percentages for "decreased somewhat" and "decreased considerably".

[30] A positive net percentage indicates that a larger proportion of banks have reported an increase in loan demand ("net increase"), whereas a negative net percentage indicates that a larger proportion of banks have reported a decline in loan demand ("net decrease").

In terms of specific factors that affected household demand for consumer credit, banks reported that increase in the spending for consumer goods was most frequent factor that contributed to the increase in demand for consumer credit for households (Figure 9). Also, on the net basis, 14 percent of banks reported that consumer confidence had an impact in increasing the demand for consumer credit to households. In the October survey, 71 percent of banks reported that competition had no influence in changes in the level of demand, whereas 29 percent of banks reported that completion led to a decrease in the demand for consumer credit and other lending. This implies that, on a net basis, 29 percent of banks reported that competition had negative impact in the demand for consumer credit and other borrowing for households. On the other hand, household's savings and other sources of finance had negative contribution to decrease in demand for consumer credit and other lending for households.

Figura 9. . Factors affecting changes in demand for consumer loans and other lending to households over the past three months (in %)



Source: CBK (2011)

Note: Net percentage is defined as the difference between the sum of the percentages for " increased considerably" and "increased somewhat" and the sum of percentages for "decreased somewhat" and "decreased considerably".

Regarding the expectation over the next three months, the net percentage of banks reporting that they expect increase in the demand for consumer credit and other lending stood at 14 percent, same as in the June survey.

8.4. Summary

This article presented the results and methodology of the first survey on banks' lending in Kosovo, which The Central Bank of Republic of Kosovo had begun to implement with commercial banks operating in Kosovo. The main purpose of this survey is to monitor closely development in credit market in Kosovo, from supply and demand side of credit. In the October survey results suggest that during the third quarter of 2011 in general banks have eased the credit standards for enterprises. However, the pronounced easing was reported for SMEs, whereas credit standards for large enterprises remained basically unchanged. Also, the responding banks reported that during this period, terms and conditions for applied for loans to enterprise were eased compared to the previous quarter. Despite the easing of credit standards and terms and condition for loans to enterprises, the survey results suggest that during the third quarter there was a significant decrease in the demand for loans to enterprises. The decrease in the demand was more pronounced for large enterprises compared to SMEs.

In regard to households, banks reported for two segments of lending, loans for house purchase and consumer credit and other borrowing. In the October survey, in general, results show that during the third quarter of 2011, banks have eased credit standard applied for loans to households for house purchase. Also, banks reported that they have eased the terms and condition applied for house purchase, especially in terms of reducing the interest margin, which implies that households were offered loans with lower interest rates for house purchase. However, banks have reported that during the third quarter, there was a slowdown in the demand for loans to households for house purchase compared with the July survey. Similar results were reported also for consumer credit and other lending for households, where easing was reported for credit standards and terms and conditions, while demand have remained basically unchanged.

The survey on bank lending in Kosovo is at the initial phase of implementation, therefore the result presented in this article may not reflect accurately current economic developments. Hence, these results should be interpreted with caution.

9. The Determinants of Non-Performing Loans in TransitionCountries

Albulenë KASTRATI*

9.1. Introduction

This article investigates the determinants of the Non-Performing Loans (NPL) in transition economies (TE), using country level data from the EBRD for the period spanning from 1994-2009. Given that the NPL ratio may serve as a measure of bank stability (King, 1997; Rinaldi and Sanchis-Arellano 2006) and given the importance of banking system to the overall economic activity, it is of utmost interest to find the main drivers of loan performance, focusing on transition countries. A part of the NPL behaviour in transition economies (TE) could be explained by the history of the transition process in TEs. All banking systems in transition economies have evolved from single institutions, i.e. the monobanks (Berglof and Bolton, 2001). With the beginning of the transition process, the financial sector of the TEs transformed from a centralized system, into a market-oriented system, i.e. privatization of the state owned banks units into commercial private banks and the new entries in the market. This process involved significant entries of new banks, most of which were foreign owned. By privatizing the units of the state owned banks, commercial private banks also inherited balance sheets which included household deposits, loans from the central bank and a portfolio of enterprise loans of unknown quality. Given that the state owned banks in TEs have generated relatively high levels of credit, with the purpose of inducing economic growth, they did not properly screen and monitor the projects, as well as they did not enforce the repayment of defaulted loans. Thus, the units with a lower proportion of the NPL were luckier to privatize by private owners earlier in the stages of transition process (mainly during early '90s). The residual units with higher levels of NPLs eventually privatized later. Thus, the inherited NPLs were rather a consequence of history and inertia than of the market conditions. NPL might have increased also because of the new entries, due to the lack of proper licensing criteria and proper supervision. However, later during the process of transition (during the 2000s), besides the intern management of the banks, other factors, such as the level of the reforms in banking system, the enforcement of the law, or even the level of economic growth in TEs became important determinants of the NPLs. In addition, the recent recession that followed the global financial crisis, has lowered the ability of firms and households to repay the loans, which has led to a significant increase of the NPLs.

9.2. Literature Review

The ratio of NPL to total loans is considered as the conventional risk-taking measure, which proxies the quality of the operating environment as well as risk assessment capacity of the banks (Podpiera and Weill, 2007). One of the main factors affecting the loan portfolio quality may be the overall economic growth in the country. In times of economic growth, the performance of the enterprises, as well as the income of the households tend to increase.

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Hence, the ability to repay the loan rises. Therefore, economic growth is expected to reduce the rate of NPLs (Hou, 2007).

Besides economic growth, the presence of foreign-owned banks is considered as important determinants of the NPLs. Foreign-owned banks have become a major player in the financial system of TEs. Bonin et al. (2004) suggest that the foreign ownership should result in a better performing, more efficient banks, and hence on lower rate of the NPL. Foreign investors usually bring technology and human capital to domestic banks that are still encumbered by the legacies of the centrally planned era (Buch, 1997). Having in mind that most of the Foreign-owned Banks in countries to be analysed originate from EU countries, it is expected that they have better risk assessment techniques which may lead to a better bank performance and a decline of the NPLs over time. On the other hand, the presence of the State Owned Banks in TEs is considered as a factor that may lead to an increased level of NPLs, mainly because of the mismanagement of resources and inappropriate incentives to the personnel (Berglof and Bolton, 2001).

Another important factor that may impact the level of NPLs is considered to be the level of competition in the banking market. However, concerning the direction of the impact of competition on the NPLs, the literature is largely inconclusive. Based on the 'charter-value' hypothesis, increased competition would lower the opportunity cost of the banks going bankrupt, i.e. would encourage banks to take higher risks in order to maintain the profits. Therefore, the financing of more risky projects could lead to a higher rate of NPLs (Keely, 1990). On the other hand, Boyd and De Nicolo (2005) argue that a competitive banking system is less likely to suffer from NPLs. This view stems the beneficial effect of competition for the bank soundness, since increased competition would lower the level of loan interest rates, so the borrowers would not need to engage in riskier projects to return their loans.

Besides the level of banking competition, an important determinant which could affect the incidence of NPLs can be the share of loans granted to the private sector. This is because the private sector may be considered as more risky which may lead to a higher rate of loan defaults. On the other side, government is considered as a safer borrower.

One the macroeconomic factors considered to have a profound impact on the loan performance, are also the nominal interest rates (Roe et al., 1997). High interest rates are considered to intensify adverse selection among borrowers, with the 'worst' borrowers seeking to borrow more and the 'best' borrowers seeking to borrow less. The higher the lending interest rate, due to the moral hazard, the firm may undertake high-risk decisions to increase the expected returns. The undertaking of higher risks, in turn, increases the probability of the failure for the borrower and, therefore, increases the probability of loan default (Williamson, 1986, 1987).

Inflation is another macroeconomic factor that may affect the borrower's behaviour. The literature provides evidence of a positive relationship between the inflation rate and NPLs (Fofack, 2005), since inflation may be responsible for the rapid erosion of commercial banks' equity and consequently higher credit risk in the banking systems. The higher the inflation rate may be, the possibility that the borrower will default may increase, since it may become harder for the borrower to repay the loan upon originally agreed terms (in case of fixed wages) or the collateral backing the loan. However, in the cases when due to the increased inflation the real interest rate that the borrower will return will become negative, based on the 'Fisher equation', it will be easier for the borrower to repay the loan, thus the loan default may decrease (Cziráky and Gillman, 2006).

Besides the macroeconomic determinants, institutional quality factors, such as the implementation of the rule of law are also important factors in determining the NPLs in TEs. However, the implementation of the rule of law in TEs may have ambiguous impact on the incidence of NPLs. Countries with less efficient judicial system are expected to have a higher rate of NPLs since the execution of collateral is not easily implemented and the borrowers may not be forced to repay the loan, acknowledging that their collateral may not be executed. On the other hand, strong creditor rights seem to affect financial contracts by enhancing loan availability as lenders are more willing to provide credit on favourable terms (Qian and Strahan, 2007), even at the cost of increasing the NPLs. Thus, as banks rely more on the implementation of the rule of law, they may tend to increase the credit growth faster, while lowering the screening criteria, thus raising the probability of adverse selection.

Another institutional factor that is considered important in TEs is the extent of banking system reforms (Roe, Siegelbaum and King, 1997). It is expected that the more reforms that are undertaken in the banking system, the lower the NPL ratio will be, since a reformed banking system (approximation of the banking laws and regulations towards Bank for International Settlements standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises and substantial financial deepening etc.) applies better techniques in issuing loans and assessing market risk, hence diminishing asymmetric information problems. In this regard, countries with more reformed banking systems should have lower ratio of NPL.

9.3. The data and methodology

General macroeconomic variables are taken into account in attempt to capture the effect of several factors that affect the bank efficiency and stability, i.e. NPL in transition economies (TE). The main aim of this article is to investigate the determinants of NPL in the following TEs: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Georgia, Bulgaria, Croatia, Macedonia, Moldova, Montenegro, Kosovo, Romania, Serbia and Ukraine. The reason for choosing this group of countries is their broadly similar economic developments, ingeneral, as well as similar banking system characteristics, in particular (European Commission, 2009; UNDP, 2009). For each country there will be 5 to 15 yearly observations from 1994 to 2009. The overall number of observations in this sample is 190. The sources of the data set are from EBRD Transition Report (2010), IMF World Economic Outlook (2009), World Bank and central banks of the respective countries. NPL ratio is considered to have a dynamic nature, since it is suggested that the past level of NPL can explain the current level of the NPL (Sanchis-Arellano and Rinaldi, 2006). Therefore, the dynamic panel method of estimation will be used to estimate the model (system GMM). For the purpose of improving the diagnostics, the estimated model was differenced (first order). The model that is estimated has the following form:[32]

[32] As it will be seen in the following chapter, the estimated model takes the differenced form (first order) of the system GMM, as it avoids autocorrelation in the model.

$$\mathbf{lnNPL}_{it} = \alpha_i + \mathbf{lnNPL}_{it-1} + \beta_1\mathbf{GDP}_{it} + \beta_2\ \mathbf{FB}_{it} + \beta_3\mathbf{SOB}_{it} + \beta_4\ \mathbf{NB}_i{}^{33}{}_t + \beta_5\mathbf{LB}_{it} + \beta_6\ \mathbf{I}_{it} + \beta_7\mathbf{CPI}_{it} + \beta_8\mathbf{RLI}_{it} + \beta_9\mathbf{BSRI}_{it} + \beta_{10}\mathbf{T}_t + \mathbf{u}_{it} \ldots\ldots \mathit{(1)}$$

i-*individual country* ***(i=1,2,...15)***

t- *year dummy* ***(T=1,2...14)***

Table 1. Description of the variables of the dataset

Variables	Description
Dependent Variable	
NPL	The ratio of non-performing loans to total loans.
Independent variables	
NB	Total number of banks.
SOB	The percentage of the assets owned by state to total banking assets.
FB	The percentage of foreign assets to total banking assets.
LPS	Total outstanding loans to enterprises and households, in percent of GDP.
INT	Nominal interest rate.
GDP	Real GDP growth rate.
GDPt-1	Previous year real GDP growth rate.
CPI	Consumer prices (annual average).
RLI	*Judicial system efficiency and implementation of the rule of law.
BSRI	**The level of functioning of regulations, standards, effective supervision etc.
D1995	Dummy variable.
D1996	Dummy variable.
D1997	Dummy variable.
D1998	Dummy variable.
D1999	Dummy variable.
D2000	Dummy variable.
D2001	Dummy variable.
D2002	Dummy variable.
D2003	Dummy variable.
D2004	Dummy variable.
D2005	Dummy variable.
D2006	Dummy variable.
D2007	Dummy variable.
D2008	Dummy variable.
D2009	Dummy variable.

*RLI index ranks from -2.5 to 2.5. RLI=-2.5 means lowest institutional quality and banking sector law appliance; RLI=2.5 means the highest institutional efficiency.

**BSRI Index ranks from 1 to 4. BSRI=1 indicates little progress with establishment of banking reforms; BSRI=4 indicates the highest progress in establishing banking reforms.

[33] Number of banks serve as a proxy for competition in this study.

9.4. Results

This chapter includes the estimated results of the dynamic panel model (first order differenced system GMM). The benchmark year will be year 1994. Based on the estimated model the results are as follows:

Table 2. The regression results

Variables	Dependent variable LnNPL
	Coefficients
Constant	1.45
LnNPLt-1	18.2***
Number of Banks	10.1*
State-owned Banks	-0.00481
Foreign Banks	0.00521
Loans to Private Sector	0.0144
Nominal Interest Rate	0.0971
GDP	-0.262**
GDPt-1	-0.027
Inflation	-0.0451**
Banking Sector Reforms Index	-0.899
Rule of Law Index	-0.356
Year 1995	1.81
Year 1996	-1.81
Year 1997	0.496
Year 1998	2.23
Year 1999	4.08
Year 2000	0.406
Year 2001	0.866
Year 2002	0.396
Year 2003	-0.212
Year 2004	0.613
Year 2005	-0.194
Year 2006	0.594
Year 2007	-0.222
Year 2008	2.76
Year 2009	5.10*

***p<0.01, **p<0.05, *p<0.1*

Previous year NPL rate appears highly significant in the model, indicating the dynamic nature of the NPL (Table 2). Previous years' NPL ratio appears to be an important determinant as it may be persistent over years. The result suggests that a higher ratio of NPL in the previous year, the higher the current year NPL ratio will be. The data in the model start from late '90s, which is considered as a period of financial distortions, especially in the Baltic and CIS countries and a period of turbulences in Balkan countries. Therefore, the banks of these countries may have inherited default loans from the previous years, which may have deteriorated the quality of loan portfolio. In addition, the result suggests that a higher real GDP growth rate has a highly significant and negative impact on the NPL ratio. The result for current GDP growth rate is in line with the expectations (negative), since in times of economic growth, the ability of enterprises and households to repay the loan is expected to increase, thus leading to a lower NPL ratio. The number of banks, as a proxy for competition, has positive and significant impact on the ratio of NPLs. This suggests that if number of banks operating in the TEs increases, the rate of NPL will also increase. This result is in line with the 'charter-value' hypothesis, which suggests that the increased competition provides incentives for higher risk taking by the banks, which leads to a higher level of NPLs. Inflation rate turns out to have negative and significant impact on the NPL rate, at 5 percent level of significance. This finding is in line with the theory which suggests that increased inflation, in some cases may cause negative real interest rate, which would make it easier for the borrower to repay the loan, especially in the cases when interest rates are fixed ex ante. In addition to other variables, the model also controlled the incidence of NPLs with time dummies. All of the years in the dataset (1995-2008) appear to have an insignificant impact on the NPL rate, compared to the benchmark year (1994), except of the year dummy 2009, which has a significant and positive impact on the level of NPLs. Year 2009 is a distinguished year for the incidence of NPLs, having in mind the start of the financial crisis 2008, whose effects were mainly transferred during the year 2009.

On the other hand, important indicators turned out to have an insignificant impact on the NPLs of the transition countries in the sample are: State-Owned Banks, Foreign Banks, Loans to Private Sector, Nominal Interest Rate, Previous Year GDP, Banking system Reform and the implementation of the Rule of Law. However, we should also acknowledge potential limitations of this study, such the quality of the data due to less efficient reporting of transition economies compared to the developed countries, as well as the relatively short time series, which is usually the case in transition economies.

9.5. Conclusions

The aim of this article was to investigate the determinants of Non-Performing Loans in transition economies. NPLs are important performance and fragility indicator of the banking system which may impact the overall financial stability, as was recently witnessed with the financial crisis that originated in 2008. We used data from 15 transition economies, with a time series spanning from 1994 to 2009. In order to examine the determinants of NPLs, dynamic panel estimation was employed. Based on the findings of this article, previous year's NPLs have the tendency to persist in the current year, implying that banks should carry out tighter lending policies. On the other side, real growth rates, inflation rates and competition indicate that the factors which are outside the banks' control may also impact the ratio of NPLs. Finally, an important finding of this article is that the variable taking into account the year 2009 resulted with significant effect in increasing the NPLs. This is in line with the developments that characterized year 2009, especially the first part of the year, having in mind the development of financial crisis 2008-2009 and the recessions that followed.

10. Determinants of Migrant Investments: is there Room for Policy-Making?

Sokol HAVOLLI*[34] and Boštjan JAZBEC†[35]

10.1. Introduction

Kosovo is among the last countries that started the process of transition and economic recovery. However, given the absence of creditors rating and the lack of mechanisms for information dissemination in international circles for its overall economic environment, the necessary confidence and information of foreign investors who see Kosovo as a potential location for their investments remains limited. The investment process in recent years in most of the cases was undertaken by domestic private sector and public investment, while to a lesser extent by foreign investors. On the other hand, Kosovo has an unused potential in attracting investments in the country given that about half a million Kosovars live abroad. An important share of FDI in Kosovo was diaspora investments who have participated in the privatization process and other direct investments including cooperation with foreign partners.

Regarding investment, even migrants may hesitate and have a limited desire to invest in the economy. A significant impact on the decision of the migrant to invest in Kosovo is caused by the perceptions of the migrants for the business environment in Kosovo, which given the level of migrants investments, has not ensured a satisfactory level for their investments. Although one could argue that remittances represent an important item in supporting consumption and the overall demand for consumer goods and services, it remains important to analyze the behavior of migrants regarding investments given their perceptions for the business environment in Kosovo. This paper aims to treat this question, and findings are not surprising. Particularly important factor in migrants' decision to undertake investments in the country turns out to be the perception of the migrant about business environment in Kosovo; this factor may also affect the attraction of FDI in general. Although positive economic growth and flexible labor force may present good indicators of economic development of Kosovo and a positive signal for the general environment, improvements are needed especially in the legal environment, financial intermediation, and general perceptions about the functioning of market institutions.

This paper is organized as follows. The second chapter provides some figures on the economic potential of diaspora. The data suggest that 25 percent of the population living abroad realize income of over 4 billion euros over a year. An important part of the migrants' income is sent to Kosovo as remittances. However, despite several important migrants' investments identified, the data are not yet of a good quality regarding migrants investments. In chapter 3 of this paper, a simple model for the determinants of investment by migrants is presented. Findings show that perceptions of the migrants about the business environment in Kosovo are one of the main determinants of investment.

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Therefore, expectations are that improvements in the business environment in Kosovo will have a positive impact on attracting migrants and consequently, foreign investment, given the signals that may be transmitted by migrants to potential foreign investors. The fourth chapter offers some general conclusions.

10.2. Potential of Kosovo's Diaspora

The estimated figures show that migrants from Kosovo represent 20 to 25 percent of total population (UNDP, 2010; Riinvest, 2006). This suggests that around half a million Kosovars live abroad. With a relatively large share of migration which is mostly concentrated in developed countries (around 90 percent in European Union countries according to UNDP 2010), Kosovar emigrants appear to have a substantial earning power. Estimates (author's calculations based on UNDP, 2010, Nexus, 2009 and Riinvest, 2006) indicate that the yearly earnings of Kosovar emigrants are over euro 4 billion. Based on estimates from several surveys (UNDP, 2010; Riinvest 2007 and 2007; Nexus, 2010), it may be suggested that savings and remittances comprise around 28 and 12 percent of total emigrant earnings, respectively. Consequently, the potential of the Kosovar emigrants to invest in their home countries is substantial. However, the investments of the emigrants in home country are dependent on the relationship that the emigrants have with their families and relatives. Other social and economic factors play a role, however, most importantly, it is expected that the overall economic environment in the country is also equally important factor. With savings and remittances level at nearly 2 billion EUR per year, migrants could be the main source for economic development in Kosovo. Moreover, with the FDI level of around 7-8 percent of the GDP, around 30 percent is capital of emigrants from Kosovo who jointly invested with foreign companies (Ministry of Trade and Industry, 2010). Therefore, based on what we elaborated above, and using the data from Riinvest (2006) survey with migrants, the following model is constructed:

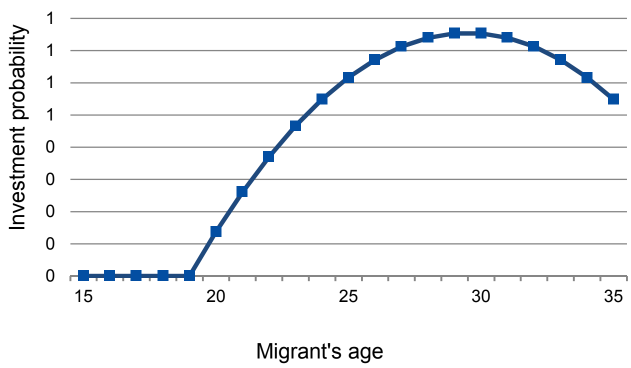
$$\boldsymbol{Minv = \beta + \beta_1 M + \beta_2 Y + \beta_3 B + \beta_4 D + \beta_5 R + \mu_i} \,\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

where, Minv represents the dummy dependent variable which indicates whether the migrant has invested in a business or property in Kosovo. Personal characteristics of the migrant such as Age, Gender, Education and Marital status have been taken into account by the vector $\beta 1M$. Income of the migrant is represented by $\beta 2Y$, whereas $\beta 3B$ depicts the perceptions of the migrant about the business environment in Kosovo. Distance between Kosovo and the destination country is controlled by $\beta 4D$ while the amount of remittances the migrant sends yearly is represented by $\beta 5R$. Error term is denoted by μi.

10.3. Empirical Model for Migrants Investments

Having in mind that Kosovo's emigrants have a relatively large earning power (as well as savings accumulated), the potential of Kosovar emigrants to invest in the home country is considerable. As mentioned already, a

Figure 1. The relationship between age and investment in home country by migrants



significant proportion of the current FDI in Kosovo are joint investment of migrants and foreign investors. Based on individual data, Table 1 presents the findings of the factors affecting the migrants' decision to invest in Kosovo. However, before reviewing the findings, we should note that diagnostic problems arising from the model have been considered and the tests suggest that the model is well specified and jointly significant with no serious problems. According to the findings, Age of the migrant plays an important role in determining the decision to invest in Kosovo. The findings suggest that an additional year of the migrant working abroad will result in a higher probability to invest in Kosovo. However, this relationship is not linear as suggested by the square value of the Age variable. It actually suggests that probability to invest increases at a decreasing rate (inverse U shaped function). This relationship is presented in Figure 1. This suggests that if emigrants are of age 20, the probability that they will invest in home country will continuously increase for the next 10 years (until they reach the age of 30). This may be explained by various reasons such as the higher entrepreneurial behavior of younger emigrants and the higher risk taking attitude when at younger age. While at a later age (i.e. over 30) emigrants might have started new family and therefore, their willingness (incentives) to risk their earnings is much lower and their risk taking continuously decreases.

Table 4. Estimated Empirical model for the migrants investments

Variables	(1) investment	(2) investment	(3) investment
Age 0	.137**		0.124**
	(0.0656)		(0.0528)
Age^2	-0.00137*		-0.00115*
	(0.000770)		(0.000643)
Gender (1=male)	0.0196	0.147	-7.21e-05
	(0.238)	(0.230)	(0.203)
Years of Schooling	-0.0658	-0.0613	-0.0545
	(0.0538)	(0.0536)	(0.0452)
Married	-0.00541	0.425	0.122
	(0.326)	(0.283)	(0.238)
Business Environment Perceptions	0.616***	0.636***	0.652***
	(0.199)	(0.198)	(0.169)
Income	0.0001***	0.0001***	0.0001***
	(2.75e-05)	(2.80e-05)	(2.51e-05)
Monthly Remittances	0.000453*	0.000452*	0.000399**
	(0.000250)	(0.000244)	(0.000185)
Distance to home country	-0.000122	-0.000107	-9.66e-05
	(8.25e-05)	(8.70e-05)	(6.93e-05)
Years since migration	-0.0625	-0.0325	
	(0.0712)	(0.0690)	
Years since migration^2	0.00373	0.00328	
	(0.00327)	(0.00324)	
Constant	-3.533***	-1.256	-3.896***
	(1.311)	(0.808)	(1.075)
Observations	663	663	974

Regarding the gender and the marital status of the emigrant, none of them has any statistically significant impact on the probability to invest in Kosovo. Income of the emigrant, even though statistically significant, has a relatively low effect on the probability to invest. This may come as the consequence of the structure of the economy (which is almost entirely composed by micro and small enterprises) which may not require large amounts for investment. However, a more reasonable explanation why this variable has a small effect on the probability to invest is that there is a lack of information at individual level in this data set on the amount that migrants invested and as a result, income may lose its size effect.

One of the main findings in this model comes from the perceptions of the migrant for the business environment in Kosovo, which is also considered as the main determinant of the probability to invest their income and savings. This suggests that the probability to invest in Kosovo increases positively and substantially, if the migrant perceives the business environment as favorable. Such finding is important because policies could be oriented into reflecting positively to the migrants and making Kosovo's environment favorable and easier in order to attract migrants' investments. However, it is important to take into consideration the importance of legal framework in Kosovo that in many cases can be considered as one of the obstacles of doing business by not supporting investors to the necessary level, in this case migrants as well. As noted in Jazbec and Kastrati (2011), it is the lack of institutional development in the region – not only in Kosovo - that one may blame for the lack of stronger economic growth, consequently attracting FDI. Although one could argue that the SEE countries were successful in establishing macroeconomic stability and market liberalization and privatization, it is important to note that slower growth to some extent can be addressed to the institutional framework oriented towards market economy. Through strengthening the implementation of contracts, property rights, rule of law implementation, support to economic activity would be higher. This is particularly important, given that among the 27 countries of Eastern Europe and Central Asia, in terms of ease of doing business (World Bank Doing Business Report, 2009), Kosovo ranked last (Table 5). Therefore, there is an important area for policy in improving the procedures of doing business.

Table 2. Business Environment Measures in the region

	Ease of doing business rank	Starting business	Construction permits	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing business
Macedonia	5	2	14	9	14	11	3	1	9	19	22
Bulgaria	10	12	11	8	12	1	7	12	17	21	11
Montenegro	15	18	19	6	24	11	6	19	8	26	5
Albania	18	11	22	16	17	4	2	18	11	22	27
Serbia	19	15	23	14	21	1	15	17	13	23	21
Kosovo	22	27	24	4	16	11	27	6	19	27	2

Source: Doing Business Report, World Bank (2010)

Private investors in the region do not have the necessary protection which may be considered as the factor with high influence in investing in the region. Despite these indicators, Kosovo represents an important place for foreign investors when comparing FDI in proportion to the size of the economy. During 2010, among the regional countries, Kosovo is ranked fourth by the FDI performance index (CBK, 2010). Kosovo moreover, has a comparative advantage in some sectors of the economy to attract FDI, such as mining industry but also a flexible labor force and low cost compared to the SEE countries as Macedonia, Serbia, and Bosnia and Herzegovina etc. which could affect the overall growth of FDI and attracting capital of Kosovo's diaspora.

10.4. Conclusions

Given that migrants' investments in businesses and real estate have continuously been an important source for economic development in Kosovo, this article aimed to find the main determinants of these investments. Empirical results obtained in this study suggest that the most influential factor in determining the migrants to invest in Kosovo are the perceptions of the migrants about the business environment in Kosovo, which means that the likelihood that migrants will invest in Kosovo grows as their perceptions about the business environment in Kosovo improve. Therefore, undertaking the appropriate policies to further improve business environment in the country may affect and improve the perception of migrants about investment opportunities that Kosovo offers, and thus to utilize of Kosovar diaspora's financial potential. A greater flow of migrants' investments to Kosovo represents a positive signal also for foreign investors, which may well lead to increased FDI in Kosovo and also joint investment between foreign investors and Kosovo migrants. Very strong ties to the home country and the high financial potential of Kosovo's diaspora present good prospects for higher level of investment in Kosovo.

Statistical Appendix

Table 1. Financial Stabiltiy Indicators

Banking system	Core set	2008	2009	2010	June 2011
Capital adequacy	Regulatory capital to risk-weighted assets	16.5	18.1	18.8	17.2
	Regulatory Tier I capital to risk-weighted assets	15.3	15.2	15.8	14.4
	Nonperforming loans net of provisions to capital	2.3	2.9	3.7	5.7
Asset quality	Nonperforming loans to total gross loans	2.8	4.3	5.2	5.9
	Sectoral distribution of loans to total loans				
	Other financial corporations	0.1	0.2	0.4	0.4
	Public nonfinancial corporations	0.01	0.02	0.43	0.02
	Other nonfinancial corporations	76.2	73.1	69.6	69.9
	Households	23.7	26.7	29.5	29.7
	Total	100.0	100.0	100.0	100.0
Earnings and profitability	Return on assets (ROA)	3.0	1.5	1.8	1.4 *
	Return on equity (ROE)	27.3	15.0	18.8	14.2 *
	Interest margin to gross income	75.0	74.4	74.5	75.9
	Noninterest expenses to gross income	68.7	80.2	74.3	79.9
Liquidity	Liquid assets (core) to total assets	26.8	34.6	32.3	24.3
	Liquid assets (broad) to total assets	28.0	37.3	36.8	29.8
	Liquid assets (core) to short-term liabilities	33.4	43.6	40.6	31.1
	Liquid assets (broad) to short-term liabilities	35.0	47.0	46.2	38.1
Sensitivity to market risk	Net open position in foreign exchange to capital	13.1	12.4	0.1	1.3
	Encouraged set				
	Capital to assets	11.2	9.8	10.1	10.2
	Large exposures to capital	56.5	64.6	72.4	82.7
	Personnel expenses to noninterest expenses	36.2	39.4	39.4	39.8
	Spread between reference lending and deposit rates	9.4	10.1	10.9	10.6
	Customer deposits to total (noninterbank) loans	117.1	129.8	126.2	114.2
	Foreign-currency-denominated liabilities to total liabilities	4.7	5.4	4.9	5.2

* ROA and ROE data for June 2011 are annualised

Table 2. Balance Sheets of Commercial Banks, June 2011, in millions of euro

Procredit Bank

(In millions of euro)

Assets		Liabilities	
Cash and balances with CBK	90.1	Balance from other banks	2.4
Balance with commercial banks	40.3	Deposits	623.1
Securities	107.8	Other borrowings	0.0
Loans	476.3	Other liabilities	19.6
Fixed assets	17.2	Subordinated debt	24.5
Other assets	12.0	Own resources	74.0
TOTAL ASSETS	**743.7**	**TOTAL LIABILITIES**	**743.7**

Source: CBK (2011)

Raiffeisen Bank

(In millions of euro)

Assets		Liabilities	
Cash and balances with CBK	71.4	Balance from other banks	17.5
Balance with commercial banks	111.5	Deposits	543.9
Securities	66.2	Other borrowings	...
Loans	396.2	Other liabilities	16.6
Fixed assets	8.0	Subordinated debt	...
Other assets	6.7	Own resources	82.0
TOTAL ASSETS	**660.0**	**TOTAL LIABILITIES**	**660.0**

Source: CBK (2011)

Banka për Biznes

(In millions of euro)

Assets		Liabilities	
Cash and balances with CBK	16.0	Balance from other banks	1.2
Balance with commercial banks	9.0	Deposits	85.6
Securities	...	Other borrowings	...
Loans	72.9	Other liabilities	1.4
Fixed assets	2.2	Subordinated debt	2.5
Other assets	1.0	Own resources	10.4
TOTAL ASSETS	**101.1**	**TOTAL LIABILITIES**	**101.1**

Source: CBK (2011)

Banka Ekonomike

(In millions of euro)

Assets		Liabilities	
Cash and balances with CBK	12.9	Balance from other banks	3.4
Balance with commercial banks	24.4	Deposits	119.0
Securities	...	Other borrowings	...
Loans	92.8	Other liabilities	2.9
Fixed assets	1.7	Subordinated debt	...
Other assets	5.7	Own resources	12.1
TOTAL ASSETS	**137.5**	**TOTAL LIABILITIES**	**137.5**

Source: CBK (2011)

Banka Kombëtare Tregtare

(In millions of euro)

Assets		Liabilities	
Cash and balances with CBK	8.5	Balance from other banks	46.3
Balance with commercial banks	0.1	Deposits	60.0
Securities	8.1	Other borrowings	...
Loans	93.3	Other liabilities	1.1
Fixed assets	2.7	Subordinated debt	...
Other assets	1.6	Own resources	6.9
TOTAL ASSETS	**114.3**	**TOTAL LIABILITIES**	**114.3**

Source: CBK (2011)

NLB Prishtina

(In millions of euro)

Assets		Liabilities	
Cash and balances with CBK	30.8	Balance from other banks	15.0
Balance with commercial banks	81.8	Deposits	295.2
Securities	21.5	Other borrowings	...
Loans	209.4	Other liabilities	9.8
Fixed assets	7.7	Subordinated debt	...
Other assets	3.7	Own resources	34.8
TOTAL ASSETS	**354.8**	**TOTAL LIABILITIES**	**354.8**

Source: CBK (2011)

TEB Bank

(In millions of euro)

Assets		Liabilities	
Cash and balances with CBK	25.9	Balance from other banks	...
Balance with commercial banks	25.2	Deposits	183.0
Securities	2.1	Other borrowings	...
Loans	148.6	Other liabilities	3.5
Fixed assets	3.9	Subordinated debt	6.5
Other assets	2.0	Own resources	14.5
TOTAL ASSETS	**207.5**	**TOTAL LIABILITIES**	**207.5**

Source: CBK (2011)

Komercijalna Banka

(In millions of euro)

Assets		Liabilities	
Cash and balances with CBK	9.3	Balance from other banks	...
Balance with commercial banks	27.3	Deposits	32.4
Securities	...	Other borrowings	...
Loans	3.7	Other liabilities	3.3
Fixed assets	...	Subordinated debt	...
Other assets	0.5	Own resources	5.1
TOTAL ASSETS	**40.8**	**TOTAL LIABILITIES**	**40.8**

Source: CBK (2011)

Table 3.1. FC survey – net foreign assets and domestic claims

Description	Net foreign assets								Domestic claims								
		Claims on nonresidents	of which:					Less: liabilities to nonresidents		Net claims on central government				Claims on other sectors	of which:		
			Monetary gold and SDR holdings	Deposits	Securities other than shares	IMF Quota	Shares and other equities				Claims on central government	Less: Liabilities to central			Loans of which:		
													Deposits			Other non financial	Households
2004 December	722.8	772.0	__	384.0	236.7	__	83.3	49.2	202.5	-216.8	__	216.8	216.8	419.3	413.5	329.8	83.7
2005 December	827.3	890.9	__	422.6	242.4	__	145.3	63.6	348.9	-225.7	__	225.7	225.7	574.6	565.6	439.6	126.0
2006 December	1,173.6	1,245.7	__	660.0	341.3	__	170.8	72.1	231.7	-475.0	__	475.0	475.0	706.6	694.3	548.2	146.1
2007 December	1,622.4	1,704.6	__	955.0	408.9	__	175.4	82.3	124.5	-853.3	__	853.3	853.3	977.8	965.9	765.1	200.6
March	1,621.8	1,720.7	__	996.0	384.8	__	173.5	98.9	140.8	-919.6	__	919.6	919.6	1,060.5	1,045.6	834.7	210.7
June	1,638.9	1,749.5	__	1,054.2	369.6	__	173.7	110.6	226.4	-963.0	__	963.0	963.0	1,189.4	1,175.4	936.6	238.6
September	1,761.0	1,892.4	__	1,244.9	361.3	__	159.3	131.5	238.8	-998.3	__	998.3	998.3	1,237.1	1,223.6	961.0	262.4
2008 December	1,593.1	1,726.7	__	795.1	661.6	__	128.2	133.6	419.6	-871.8	__	871.8	871.8	1,291.5	1,276.8	995.7	281.0
March	1,605.4	1,758.1	__	658.4	838.4	__	115.8	152.7	446.7	-898.4	__	898.4	898.4	1,345.1	1,327.6	1,038.1	289.4
June	1,610.7	1,789.3	__	654.7	862.5	__	132.1	178.6	501.2	-900.6	__	900.6	900.6	1,401.8	1,384.0	1,072.7	311.2
September	1,740.1	2,009.2	__	768.0	895.1	__	138.3	269.1	535.3	-871.9	__	871.9	871.9	1,407.2	1,387.8	1,055.6	329.7
2009 December	1,700.5	2,036.2	60.3	910.1	724.5	64.3	144.3	335.7	573.7	-846.3	__	846.3	846.3	1,420.1	1,398.4	1,052.3	343.5
March	1,759.2	2,116.8	62.4	1,003.7	635.3	66.5	211.5	357.6	592.7	-878.3	__	878.3	878.3	1,471.0	1,449.6	1,056.3	386.2
June	1,732.6	2,098.1	67.0	961.2	568.5	71.4	252.3	365.5	604.4	-940.7	__	940.7	940.7	1,545.1	1,522.2	1,103.3	412.3
September	1,956.3	2,345.2	63.0	1,196.7	566.1	67.3	244.7	389.0	564.4	-993.2	__	993.3	993.3	1,557.6	1,534.9	1,105.6	422.8
2010 December	1,958.3	2,387.7	64.0	1,257.8	525.2	68.5	269.3	429.4	765.8	-824.8	__	824.8	824.8	1,590.6	1,567.3	1,126.7	434.2
March	2,042.5	2,463.2	61.8	1,250.7	586.5	66.2	294.0	420.7	721.2	-913.5	__	913.5	913.5	1,634.7	1,607.6	1,168.3	438.8
2011 June	1,987.8	2,420.5	60.9	1,171.3	640.0	65.4	293.9	432.6	839.2	-905.2	__	905.2	905.2	1,744.4	1,715.4	1,232.5	482.1

Source: CBK (2011)

Table 3.2 FC survey – Liabilities

Description	Deposits									Loans	Insurance technical reserves			Shares and other equity	Other items (net)
		Transferable deposits	of which:			Other deposits	of which:								
			Public non financial corporations	Other non financial corporations	Households		Public nonfinancial corporations	Other nonfinancial corporations	Households			Net equity of households in pension funds	Pre payment of premiums and reserves		
2004 Dhjetor	670.7	273.7	34.6	81.3	145.5	396.9	149.3	24.4	222.5	2.3	106.5	88.7	17.9	145.1	0.7
2005 December	830.6	315.0	67.6	76.8	155.5	515.6	181.3	33.7	298.9	3.0	174.5	152.4	22.1	165.8	2.2
2006 December	886.4	300.5	34.8	96.4	156.2	586.0	193.3	27.6	359.5	3.4	251.4	223.9	27.5	209.3	54.7
2007 December	1,110.9	386.1	49.6	133.5	187.5	724.8	188.4	43.8	489.3	...	316.1	286.2	29.9	273.8	46.0
March	1,142.3	367.1	62.7	117.3	174.9	775.2	190.8	45.9	536.2	...	306.9	276.5	30.4	279.2	34.3
June	1,209.6	387.9	57.6	127.3	189.9	821.7	198.3	44.5	576.1	...	323.2	291.8	31.4	298.1	34.4
September	1,335.3	475.0	115.9	148.6	195.7	860.2	148.6	53.3	655.8	...	312.8	280.7	32.1	303.7	48.0
2008 December	1,351.9	390.9	15.4	176.0	186.2	961.0	250.1	51.4	656.7	...	288.6	256.3	32.3	311.1	61.1
March	1,378.6	378.0	19.6	134.3	215.3	1,000.6	249.7	69.4	678.9	...	292.3	261.1	31.2	318.1	63.1
June	1,393.2	381.9	25.4	136.4	211.2	1,011.3	245.4	72.2	690.7	...	337.7	303.6	34.1	328.3	52.6
September	1,512.3	435.4	39.9	157.6	225.7	1,076.9	256.8	75.7	742.3	...	385.3	350.0	35.4	324.4	53.5
2009 December	1,444.3	483.2	50.1	184.0	237.7	961.0	73.9	82.9	801.9	...	422.3	380.8	41.5	326.1	78.3
March	1,474.3	457.8	51.4	145.2	251.6	1,016.5	91.4	75.6	848.6	...	454.5	412.6	41.9	340.4	79.3
June	1,454.8	477.8	44.8	153.8	270.2	977.0	31.3	76.7	868.1	...	456.2	412.5	43.8	351.4	71.3
September	1,573.1	520.4	55.9	170.3	281.4	1,052.8	38.6	76.8	936.4	...	500.8	454.7	46.1	346.3	97.0
2010 December	1,744.2	621.2	83.8	218.6	303.5	1,123.1	42.8	83.4	995.9	...	540.5	493.7	46.8	358.3	81.1
March	1,737.8	596.2	107.5	178.2	295.9	1,141.6	34.7	80.0	1,025.9	...	572.6	524.2	48.3	359.1	94.3
2011 June	1,757.4	591.4	72.0	185.9	315.2	1,166.0	48.0	75.0	1,039.9	...	602.7	551.5	51.1	373.1	93.7

Source: CBK (2011)

Table 4.1. ODC balance sheet – assets

Description	Total assets													
		Cash and balances with CBK	Balances with commercial banks			Securities	Gross loans and lease financing	of which in euro:				Gross loans in non euro currency	Fixed assets	Other assets
				In euro currency	In non euro currencies			Other financial corporations	Public non financial corpo	Other non financial corporations	House holds			
2000 December	103.1	25.4	71.4	71.4	.	__	3.3	__	__	3.3	__	__	0.4	2.6
2001 December	519.8	265.1	212.8	212.8	.	7.5	25.9	__	__	25.9	__	__	4.5	3.9
2002 December	473.7	81.3	292.7	292.7	.	...	86.5	__	__	80.8	5.7	__	9.5	3.7
2003 December	589.2	106.2	106.2	106.2	.	119.6	232.8	__	0.2	193.5	39.0	__	12.3	12.2
2004 December	816.5	116.5	186.0	169.2	16.8	112.3	373.7	__	...	289.9	83.7	__	15.9	12.2
2005 December	984.4	131.7	221.9	201.0	21.0	82.9	513.9	__	...	387.9	126.0	__	16.9	17.0
2006 December	1,161.2	141.1	243.3	218.8	24.5	99.4	636.6	__	...	490.5	146.1	__	23.0	17.9
2007 December	1,435.0	189.0	208.1	173.4	34.7	78.9	892.1	__	0.2	691.3	200.6	__	27.2	39.7
2008 December	1,808.2	218.2	283.9	236.3	47.6	40.5	1,183.4	0.6	0.1	901.7	281.0	__	39.0	43.1
May	1,909.9	249.3	269.1	209.2	59.9	38.1	1,267.9	1.7	0.1	964.7	301.4	__	39.4	45.9
June	1,927.1	241.9	286.7	213.9	72.7	34.1	1,280.9	1.0	0.1	968.5	311.2	__	40.1	43.5
July	1,959.5	242.3	318.4	243.1	75.3	36.9	1,274.1	1.0	0.1	956.3	316.7	__	40.5	47.4
August	2,024.1	282.3	349.5	278.2	71.3	40.8	1,264.6	1.5	0.1	939.4	323.6	__	40.3	46.6
September	2,066.3	297.6	350.0	276.0	73.9	40.4	1,279.0	2.2	0.3	946.8	329.7	__	40.5	58.9
October	2,066.9	273.0	341.5	275.1	66.5	73.8	1,291.5	2.4	0.3	955.0	333.8	__	42.5	44.5
November	2,087.0	246.4	370.2	305.8	64.5	84.1	1,298.6	2.3	0.3	962.6	333.4	__	41.7	46.0
2009 December	2,204.1	322.7	405.6	326.7	78.8	97.0	1,289.0	2.3	0.3	942.9	343.5	__	43.1	46.7
January	2,206.1	305.8	435.1	358.7	76.4	99.3	1,292.7	2.2	0.3	946.9	343.4	0.0	42.9	30.4
February	2,228.3	309.8	430.3	358.8	71.4	118.3	1,297.5	1.9	7.5	908.0	377.4	1.5	42.6	29.8
March	2,240.1	289.1	410.5	338.0	72.5	128.7	1,336.2	2.4	6.9	937.9	386.2	1.6	42.4	33.2
April	2,203.7	259.0	381.9	312.6	69.3	123.9	1,359.9	4.2	6.9	951.4	394.2	2.0	42.6	36.4
May	2,208.1	258.3	372.8	306.8	66.1	122.5	1,380.8	4.1	6.4	965.3	400.9	2.8	42.5	31.2
June	2,218.8	268.1	351.6	282.6	69.0	114.0	1,404.6	4.0	6.4	977.6	412.3	3.1	42.6	37.8
July	2,215.5	283.5	322.2	259.2	63.0	115.8	1,413.1	3.9	6.3	980.1	418.6	2.9	42.4	38.3
August	2,270.5	311.9	355.5	293.7	61.8	115.3	1,406.8	3.8	6.3	972.8	419.1	3.0	42.2	38.7
September	2,295.4	280.1	368.7	306.0	62.7	155.0	1,418.6	3.9	6.3	981.6	422.8	2.3	42.3	30.6
October	2,273.0	270.8	331.3	266.4	64.9	166.4	1,428.1	6.6	9.8	980.1	427.7	2.1	43.2	33.1
November	2,352.0	270.9	385.7	311.9	73.8	168.4	1,452.6	6.5	9.8	1,000.2	431.3	3.0	43.3	31.1
2010 December	2,455.0	307.5	439.0	367.2	71.8	173.4	1,458.7	5.7	6.3	1,008.3	434.2	2.5	44.0	32.3
January	2,422.4	273.4	445.8	369.9	75.9	165.6	1,460.2	6.7	6.3	1,008.8	434.2	2.4	43.6	33.7
February	2,452.8	279.0	445.4	364.5	80.9	169.9	1,484.0	6.0	0.3	1,037.2	436.0	2.7	43.7	30.9
March	2,466.4	278.1	425.1	343.3	81.8	170.1	1,513.2	7.0	0.2	1,062.8	438.8	2.5	43.3	36.7
April	2,465.0	281.7	383.5	320.8	62.7	168.1	1,541.0	5.5	0.6	1,077.1	453.6	2.3	45.0	45.7
May	2,496.8	265.6	357.6	271.1	86.5	187.8	1,599.9	5.5	0.4	1,104.0	468.5	2.4	44.9	41.1
2011 June	2,501.1	265.3	319.5	243.9	75.6	205.6	1,624.9	5.8	0.3	1,115.0	482.1	2.4	45.0	40.8

Source: CBK (2011)

Table 4.2. ODC balance sheet – assets

Description	Total liabilities	Balances from other banks	Deposits W	Transferable deposits	Other deposits:	Saving deposits	Other borrowings (incl. non neg. CD)	rite - downs, provisions	Other liabilities	Subordinated debt	Own resources	of which: Share capital
2000 December	103.1	.	93.0	93.0	.	_	2.9	...	1.1	__	6.2	4.6
2001 December	519.8	.	492.3	365.4	126.8	_	5.0	...	2.0	...	20.4	18.4
2002 December	473.7	.	427.2	295.9	131.3	_	5.4	...	6.6	1.3	33.2	30.8
2003 December	589.2	1.8	514.0	290.5	223.5	_	8.9	...	17.5	2.0	45.0	44.1
2004 December	816.5	14.3	694.5	281.0	413.5	_	1.4	...	27.9	9.3	69.1	57.7
2005 December	984.4	23.0	836.7	296.6	540.1	_	6.4	...	37.3	7.0	74.0	62.4
2006 December	1,161.2	30.3	924.3	308.9	615.4	_	4.2	...	92.1	7.0	103.3	78.4
2007 December	1,435.0	25.8	1,143.1	380.7	762.4	_	2.7	...	103.7	7.0	152.7	114.9
2008 December	1,808.2	34.9	1,444.1	429.8	1,014.2	_	...	...	129.8	7.0	192.5	145.9
May	1,909.9	51.8	1,500.8	472.0	1,028.9	_	...	...	147.8	7.0	202.4	149.4
June	1,927.1	41.8	1,513.0	417.4	1,095.5	_	...	...	152.1	16.9	203.3	149.4
July	1,959.5	41.1	1,552.9	443.6	1,109.3	_	...	...	147.7	16.9	201.0	149.4
August	2,024.1	40.8	1,616.9	477.5	1,139.4	_	...	...	154.8	16.9	194.5	159.4
September	2,066.3	50.5	1,646.2	485.8	1,160.4	_	...	...	148.9	24.4	196.3	159.4
October	2,066.9	45.0	1,640.1	521.8	1,118.3	_	...	...	161.9	24.4	195.4	159.4
November	2,087.0	44.3	1,648.3	514.8	1,133.5	_	...	...	166.8	24.4	203.1	159.4
2009 December	2,204.1	58.5	1,744.9	517.8	1,229.5	_	...	...	171.7	24.4	204.6	159.4
January	2,206.1	59.1	1,754.1	482.7	1,271.4	_	...	...	159.0	24.4	209.4	160.4
February	2,228.0	68.2	1,775.4	513.5	992.4	269.5	...	1.1	147.0	24.4	211.8	160.4
March	2,240.1	66.4	1,777.1	511.9	992.3	272.9	...	1.1	155.4	24.4	215.6	162.4
April	2,203.7	67.7	1,746.3	496.0	967.6	282.8	...	1.1	148.9	24.4	215.3	162.4
May	2,208.1	68.6	1,749.3	536.2	914.9	298.2	...	1.1	146.7	24.4	218.0	163.4
June	2,218.8	65.1	1,751.5	525.8	923.6	302.0	...	1.1	152.4	24.4	224.3	164.4
July	2,215.5	75.2	1,733.9	560.6	864.8	308.5	...	0.9	153.2	24.4	227.8	164.4
August	2,270.5	74.3	1,796.4	576.3	901.6	318.5	...	0.7	152.9	24.5	221.7	169.4
September	2,295.4	74.3	1,804.4	558.6	927.0	318.7	...	0.7	166.7	25.5	223.9	169.4
October	2,273.0	91.3	1,757.3	563.2	876.9	317.1	...	0.4	164.0	32.0	228.1	169.4
November	2,352.0	88.3	1,836.2	600.7	905.9	329.5	...	0.1	165.3	32.0	230.2	169.4
2010 December	2,455.0	94.0	1,936.9	671.0	923.2	342.7	...	0.1	160.0	33.5	230.5	170.4
January	2,422.4	89.6	1,902.1	623.6	929.9	348.6	...	0.1	161.9	33.5	235.2	170.4
February	2,452.8	100.2	1,918.2	648.2	923.0	346.9	...	0.1	166.8	33.5	234.0	170.4
March	2,466.4	105.3	1,919.4	645.0	928.8	345.7	...	0.1	172.4	33.5	235.6	170.4
April	2,465.0	109.2	1,909.5	632.6	936.2	340.7	...	0.1	174.4	33.5	238.3	170.4
May	2,496.8	93.4	1,949.4	638.8	968.6	342.0	...	0.1	184.4	33.5	236.0	170.4
2011 June	2,501.1	86.6	1,957.8	640.9	978.1	338.8	...	0.1	183.1	33.5	239.9	170.4

Source: CBK (2011)

Table 5.1. ODC deposits – euro deposits

Description	Total deposits in euro	Government	Financial corporations						Non financial corporations			Other domestic sectors			Nonresidents
				Other depository corporations	Other financial intermediaries	Insurance companies	Pension funds	Financial auxilliaries		Public nonfinancial corporations	Other nonfinancial corporations		Households	NPISH	
2000 December	93.0		_ _	__	__	__	.	__	93.0	__	93.0	__	__	__	__
2001 December	492.3	__	_ _	__	__	__	.	__	165.2	__	165.2	313.1	313.1	__	13.9
2002 December	427.2	__	_ _	__	__	__	.	__	183.6	__	183.6	226.1	226.1	__	17.5
2003 December	515.8	__	1.8	1.8	__	__	.	__	226.1	__	226.1	267.9	267.9	__	20.0
2004 December	674.9	1.3	25.6	3.7	3.5	15.5	.	2.9	275.3	173.5	101.8	360.3	350.7	9.6	12.3
2005 December	815.3	2.9	35.4	8.1	5.8	18.8	.	2.8	319.0	211.3	107.7	440.7	428.7	12.0	17.3
2006 December	890.4	7.0	28.1	0.1	2.4	24.7	0.4	0.5	337.8	217.4	120.5	499.2	486.1	13.1	18.2
2007 December	1,092.0	4.1	39.1	3.1	5.6	28.3	0.4	1.7	386.2	215.5	170.7	647.0	631.9	15.2	15.6
2008 December	1,366.9	1.4	62.9	5.0	6.5	31.5	19.4	0.4	479.7	263.8	215.9	785.0	774.5	10.5	37.9
May	1,421.3	2.3	66.3	4.1	5.9	34.0	21.7	0.6	459.3	258.6	200.7	835.4	822.1	13.3	58.0
June	1,427.2	1.5	67.7	4.4	5.2	35.8	21.5	0.7	468.0	270.1	197.9	836.0	824.8	11.3	54.0
July	1,459.5	0.9	68.8	3.5	6.3	36.7	21.2	1.1	473.2	273.1	200.0	858.1	845.7	12.4	58.6
August	1,523.7	1.5	73.3	3.4	6.2	41.3	21.3	1.1	504.0	285.2	218.8	893.5	880.2	13.3	51.4
September	1,549.5	3.2	75.7	3.1	6.0	44.2	21.5	0.9	516.1	296.5	219.5	898.2	884.5	13.7	56.4
October	1,543.1	180.8	75.2	2.7	6.3	42.9	22.4	0.8	330.4	102.2	228.3	908.6	895.0	13.6	48.0
November	1,549.8	174.4	73.0	2.6	5.5	41.7	21.8	1.4	332.0	108.8	223.2	920.3	908.7	11.6	50.1
2009 December	1,640.1	165.0	78.2	6.1	5.9	43.1	22.6	0.4	371.5	121.6	249.9	962.2	948.8	13.4	63.2
January	1,650.9	152.3	79.1	7.2	5.0	43.9	21.8	1.1	361.0	136.8	224.2	982.9	968.7	14.2	75.7
February	1,667.5	152.2	76.4	4.3	5.3	43.7	22.4	0.7	355.6	136.8	218.8	1,005.2	995.0	10.1	78.3
March	1,670.6	152.3	77.9	4.1	5.5	45.1	22.5	0.7	347.7	140.8	206.9	1,022.0	1,012.0	10.0	70.6
April	1,640.2	113.7	77.3	3.4	5.6	45.0	22.5	0.7	348.4	142.0	206.3	1,037.3	1,028.5	8.7	63.6
May	1,652.9	147.9	84.8	4.2	7.5	44.1	28.4	0.6	283.3	69.6	213.7	1,055.8	1,046.6	9.3	81.2
June	1,653.8	138.2	88.2	4.0	5.4	45.6	32.5	0.8	291.0	73.3	217.7	1,066.3	1,057.1	9.2	70.0
July	1,637.8	74.0	90.3	4.4	5.3	47.3	32.6	0.7	312.1	87.6	224.5	1,095.2	1,085.7	9.5	66.1
August	1,700.4	73.6	97.3	4.2	5.5	49.4	37.6	0.7	327.9	87.7	240.2	1,132.8	1,121.2	11.6	68.8
September	1,707.6	70.6	97.0	4.1	5.6	48.5	38.1	0.7	329.1	91.4	237.7	1,146.4	1,134.8	11.6	64.5
October	1,658.0	17.3	99.6	4.0	5.8	47.7	41.3	0.8	333.7	95.7	238.0	1,149.6	1,138.5	11.1	57.9
November	1,728.3	17.1	102.4	4.0	6.5	49.7	41.5	0.7	367.2	110.6	256.6	1,170.6	1,157.8	12.8	71.0
2010 December	1,831.1	11.7	105.0	7.3	7.9	47.6	41.6	0.6	414.9	122.3	292.6	1,220.1	1,206.1	14.0	79.4
January	1,793.0	7.1	104.3	4.3	10.3	47.1	41.9	0.7	385.3	124.3	261.0	1,223.4	1,210.2	13.2	73.0
February	1,808.3	7.3	103.6	7.7	7.1	46.1	42.1	0.7	397.4	137.6	259.8	1,232.9	1,219.8	13.1	67.0
March	1,806.0	7.4	108.5	7.3	8.1	50.1	42.3	0.7	385.1	137.6	247.5	1,234.0	1,220.6	13.4	71.0
April	1,795.7	8.2	106.4	5.9	7.4	50.0	42.6	0.7	360.1	113.7	246.3	1,255.9	1,242.7	13.3	65.0
May	1,829.7	2.0	107.4	5.3	7.5	51.4	42.6	0.6	369.2	109.0	260.2	1,251.3	1,236.5	14.8	99.7
2011 June	1,833.7	1.6	107.6	5.0	6.6	52.6	42.8	0.6	363.8	115.9	247.9	1,264.8	1,246.6	18.2	95.9

Source: CBK (2011)

Table 5.2. ODC deposits – euro deposits

Description	Non-euro deposits	Financial corporations	of which: CBK	Other depository corporations	Other financial intermediaries	Insurance companies	Nonfinancial corporations	Public nonfinancial corporations	Other nonfinancial corporations	Other domestic sectors	Households	Transferable deposits	Saving account	Other deposits	NPISH	Non residents
2004 December	23.4	1.1	__	...	...	1.1	4.4	0.5	4.0	17.5	17.3	8.7	__	8.7	0.1	0.3
2005 December	29.4	...	__	...	...	...	2.8	__	2.8	26.0	25.7	10.8	__	14.9	0.3	0.5
2006 December	34.3	...	__	...	...	...	3.7	0.3	3.5	29.8	29.6	12.4	__	17.2	0.2	0.5
2007 December	53.3	0.5	__	...	0.1	0.4	8.1	1.5	6.6	44.3	44.2	16.2	__	28.0	0.1	0.4
2008 December	81.9	0.9	__	...	...	0.9	11.6	0.1	11.5	68.4	68.2	22.9	__	45.2	0.3	1.0
May	83.9	1.5	__	0.6	...	0.9	10.3	0.1	10.2	71.1	70.9	22.5	__	48.4	0.2	1.0
June	90.7	1.7	__	0.7	...	0.9	11.1	0.3	10.7	77.1	76.9	25.9	__	51.0	0.2	0.9
July	97.5	1.9	__	1.0	...	0.9	11.7	0.6	11.2	83.1	82.9	30.8	__	52.1	0.2	0.8
August	97.3	2.0	__	1.1	...	0.9	12.9	0.1	12.9	81.6	81.3	27.2	__	54.1	0.2	0.9
September	100.5	1.9	__	1.0	...	0.9	13.9	0.1	13.8	83.5	83.3	28.3	__	55.0	0.2	1.3
October	100.9	2.1	__	1.2	...	0.9	14.5	0.1	14.4	83.3	83.1	26.0	__	57.1	0.2	1.0
November	101.9	1.8	__	1.0	...	0.9	14.7	0.5	14.2	84.3	84.1	27.1	__	57.1	0.2	1.1
2009 December	112.1	2.1	__	1.2	...	0.9	18.3	1.3	17.0	91.1	90.9	29.7	__	61.1	0.2	0.7
January	111.4	2.3	__	1.4	...	0.9	18.5	1.3	17.2	89.6	89.0	26.3	__	62.7	0.6	1.0
February	111.9	3.5	__	1.4	__	__	15.5	0.7	14.9	90.0	89.8	27.3	25.3	37.2	0.2	2.9
March	110.2	3.3	__	1.4	__	__	15.4	1.5	13.8	88.5	88.2	26.9	24.5	36.7	0.3	3.0
April	109.4	2.7	__	1.3	__	__	14.8	2.3	12.5	89.2	88.9	28.5	24.0	36.4	0.3	2.8
May	99.8	2.0	__	1.8	__	__	16.4	2.1	14.3	78.5	78.1	26.0	20.8	31.3	0.4	2.8
June	101.2	1.7	__	1.5	__	__	15.2	2.4	12.8	81.8	81.2	27.7	21.9	31.6	0.6	2.5
July	99.6	1.8	__	1.6	__	__	14.0	2.3	11.7	81.3	80.7	29.5	21.4	29.8	0.6	2.6
August	99.8	1.9	__	1.8	__	__	11.3	2.8	8.5	83.9	83.2	28.7	22.6	31.9	0.7	2.7
September	100.4	1.9	__	1.8	__	__	12.2	2.8	9.4	83.4	83.0	30.0	22.6	30.3	0.4	2.8
October	103.2	2.4	__	2.2	__	__	12.4	3.8	8.6	84.8	84.3	29.3	23.4	31.6	0.5	3.5
November	112.3	2.9	__	2.8	__	__	14.6	4.0	10.6	91.8	91.4	31.7	26.2	33.4	0.4	3.0
2010 December	113.8	3.1	__	2.9	__	__	13.7	4.3	9.4	93.8	93.3	33.1	25.9	34.3	0.5	3.1
January	113.3	3.5	__	3.2	__	__	12.6	4.0	8.6	93.9	93.2	33.0	26.8	33.4	0.7	3.1
February	118.3	3.3	__	3.0	__	__	14.2	4.9	9.3	97.0	96.5	34.8	28.1	33.7	0.5	3.6
March	122.3	2.0	__	1.7	__	__	15.2	4.5	10.7	101.7	101.1	38.6	28.5	34.0	0.6	3.3
April	121.5	2.0	__	1.9	__	__	13.3	0.3	13.0	102.2	101.7	38.2	29.2	34.2	0.6	3.8
May	126.9	2.2	__	1.9	__	__	13.9	2.4	11.5	106.5	106.1	39.0	30.8	36.3	0.5	4.2
2011 June	131.2	2.2	__	2.1	__	__	16.2	3.1	13.1	109.0	108.5	41.5	30.9	36.1	0.5	3.8

Source: CBK (2011)

Table 6.1. Deposits at ODC – nonfinancial corporations, euro deposits

Description	Nonfinancial corporations	Public nonfinancial corporations				of which:				Other nonfinancial corporations				of which:				
			Transferable deposits	Saving account	Other deposits	Up to 1 month	Over 1 month and up to 3 month	Over 3 months and up to 6	Over2 years		Transferable deposits	Saving account	Other deposits	Up to 1 month	Over 1 month and up to 3 month	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over2 years
2000 December	93.0	__	__	...	__	__	__	__	__	93.0	93.0	...	__	__	__	__	__	__
2001 December	165.2	__	__	...	__	__	__	__	__	165.2	133.9	...	31.3	__	__	__	__	__
2002 December	183.6	__	__	...	__	__	__	__	__	183.6	159.7	...	23.9	__	__	__	__	__
2003 December	226.1	__	__	...	__	__	__	__	__	226.1	139.0	...	87.1	__	__	__	__	__
2004 December	275.3	173.5	24.2	...	149.3	34.0	0.0	__	...	101.8	78.2	...	23.6	9.0	6.0	0.2	2.1	__
2005 December	319.0	211.3	29.9	...	181.3	23.9	12.8	__	...	107.7	74.4	...	33.4	6.3	8.3	5.1	0.7	__
2006 December	337.8	217.4	24.0	...	193.3	19.9	19.4	__	...	120.5	93.6	...	26.9	6.2	6.8	1.7	3.0	__
2007 December	386.2	215.5	27.1	...	188.4	105.6	21.4	__	...	170.7	128.4	...	42.3	18.0	10.4	3.7	2.0	__
2008 December	479.7	263.8	13.7	...	250.1	21.8	47.2	__	...	215.9	170.2	...	45.8	18.7	4.7	2.0	7.0	__
May	459.3	258.6	62.8	...	195.8	11.3	29.5	149.7	...	200.7	127.1	...	73.6	26.8	5.1	...	5.1	10.1
June	468.0	270.1	24.8	...	245.3	36.8	23.7	172.8	...	197.9	130.8	...	67.0	27.1	3.6	...	5.2	10.0
July	473.2	273.1	25.3	...	247.9	0.6	34.2	201.0	...	200.0	138.8	...	61.3	26.7	4.3	...	4.8	10.0
August	504.0	285.2	34.7	...	250.5	0.7	30.1	204.2	...	218.8	153.0	...	65.7	29.1	5.0	...	5.2	9.9
September	516.1	296.5	39.8	...	256.8	4.6	2.5	234.2	...	219.5	151.3	...	68.3	28.2	7.5	...	5.9	10.0
October	330.4	102.2	85.7	...	16.5	0.9	4.0	1.3	...	228.3	155.9	...	72.4	30.7	9.0	...	5.2	11.5
November	332.0	108.8	87.0	...	21.8	1.7	4.0	5.8	...	223.2	149.1	...	74.2	32.0	8.7	...	5.7	10.9
2009 December	371.5	121.6	47.6	...	73.9	0.7	10.7	52.3	...	249.9	178.0	...	71.9	31.2	11.1	...	5.3	10.9
January	361.0	136.8	48.5	...	88.3	0.3	10.2	54.9	12.6	224.2	150.5	...	73.7	31.3	12.3	...	8.9	7.3
February	355.6	136.8	47.6	0.6	88.6	0.6	14.7	5.3	12.6	218.8	144.2	8.3	66.3	22.5	8.5	11.8	6.3	8.7
March	347.7	140.8	49.4	0.3	91.1	3.0	4.5	16.2	12.6	206.9	137.7	7.5	61.8	18.8	7.1	11.1	6.7	8.9
April	348.4	142.0	43.4	0.3	98.3	4.5	3.0	15.2	12.9	206.3	130.2	8.2	67.9	22.3	6.2	13.5	6.7	8.0
May	283.3	69.6	40.3	0.3	29.0	0.1	0.0	8.2	12.9	213.7	140.8	7.8	65.1	24.6	6.4	13.2	6.5	8.1
June	291.0	73.3	42.0	0.3	31.0	0.0	0.0	10.6	12.6	217.7	144.5	7.7	65.4	26.8	5.8	15.1	6.1	8.3
July	312.1	87.6	56.3	0.3	31.0	0.0	1.0	10.7	12.6	224.5	156.4	6.3	61.8	20.6	9.3	13.3	6.1	8.6
August	327.9	87.7	52.5	0.3	34.9	5.9	3.1	6.7	12.6	240.2	170.0	8.6	61.5	20.4	7.3	14.8	7.6	7.4
September	329.1	91.4	52.8	0.3	38.3	4.7	13.2	1.2	12.6	237.7	164.4	7.8	65.4	24.1	7.1	15.3	7.7	6.8
October	333.7	95.7	60.4	0.3	35.0	0.9	12.2	6.1	12.6	238.0	162.3	7.3	68.4	22.0	11.0	15.2	7.7	7.8
November	367.2	110.6	64.8	...	45.8	9.7	19.1	1.1	12.6	256.6	172.4	15.1	69.1	24.3	7.9	17.3	8.1	9.4
2010 December	414.9	122.3	79.5	...	42.8	2.7	21.7	3.1	12.6	292.6	212.6	16.9	63.1	19.0	5.3	17.1	8.8	9.7
January	385.3	124.3	81.6	...	42.7	2.5	21.7	2.1	12.6	261.0	183.6	15.9	61.5	17.5	8.8	18.3	5.6	8.3
February	397.4	137.6	96.6	...	41.0	8.0	15.0	2.1	12.6	259.8	182.0	14.6	63.2	19.3	7.1	19.6	5.6	8.1
March	385.1	137.6	103.0	...	34.6	0.2	13.8	5.2	12.6	247.5	170.9	14.7	61.9	20.6	4.5	19.9	5.6	7.0
April	360.1	113.7	70.0	...	43.7	0.2	21.9	6.3	12.6	246.3	171.8	13.6	60.9	15.7	6.1	20.9	5.2	7.0
May	369.2	109.0	63.3	...	45.6	0.3	21.0	9.1	12.6	260.2	190.3	12.7	57.2	10.2	8.5	19.3	5.9	7.1
2011 June	363.8	115.9	67.8	...	48.0	4.2	23.0	5.8	12.6	247.9	175.9	12.5	59.6	14.5	5.1	19.6	6.0	7.7

Source: CBK (2011)

Tablel 6.2. Deposits at ODC – households and NPISH, euro deposits

Description	Other domestic sectors													
		Households									NPISH			
			Transferable deposits	Saving account	Other deposits	of which:						Transferable deposits	Saving account	Other deposits
						Up to 1 month	Over 3 months and up to 6 months	Over 3months and up to 1 year	Over 1 year and up to 2 years	Over 2 years				
2000 December	__	__	__	...	__	__	__	__	__	__	__	__	...	__
2001 December	313.1	313.1	219.2	...	93.9	__	__	93.9	__	__	__	__	...	__
2002 December	226.1	226.1	121.7	...	104.4	__	__	104.4	__	__	__	__	...	__
2003 December	267.9	267.9	134.4	...	133.5	__	__	133.5	__	__	__	__	...	__
2004 December	360.3	350.7	136.9	...	213.8	63.8	__	91.8	14.2	1.9	9.6	8.9	...	0.7
2005 December	440.7	428.7	144.7	...	284.0	87.2	__	109.3	26.5	19.3	12.0	10.4	...	1.6
2006 December	499.2	486.1	143.8	...	342.3	122.2	__	127.9	26.5	37.1	13.1	7.6	...	5.5
2007 December	647.0	631.9	170.6	...	461.3	156.2	__	141.6	74.6	50.3	15.2	11.9	...	3.3
2008 December	785.0	774.5	163.3	...	611.2	189.6	__	234.6	64.8	61.6	10.5	7.7	...	2.8
May	835.4	822.1	187.6	...	634.5	213.9	247.5	...	61.3	68.3	13.3	10.2	...	3.1
June	836.0	824.8	185.3	...	639.4	215.8	250.9	...	62.6	69.1	11.3	8.2	...	3.1
July	858.1	845.7	194.4	...	651.4	218.5	258.4	...	64.7	70.7	12.4	10.1	...	2.3
August	893.5	880.2	202.8	...	677.4	225.2	276.7	...	63.8	73.9	13.3	11.1	...	2.2
September	898.2	884.5	197.4	...	687.2	224.7	282.6	...	62.7	76.0	13.7	11.6	...	2.1
October	908.6	895.0	196.9	...	698.1	228.1	289.8	...	60.8	77.1	13.6	11.4	...	2.2
November	920.3	908.7	192.6	...	716.1	231.3	301.7	...	63.7	78.3	11.6	9.4	...	2.2
2009 December	962.2	948.8	208.0	...	740.8	242.4	315.9	...	63.2	80.5	13.4	11.1	...	2.3
January	982.9	968.7	198.4	...	770.3	252.1	329.0	...	62.8	85.2	14.2	11.7	...	2.5
February	1,005.2	995.0	217.6	224.2	553.3	29.9	66.4	266.0	54.0	94.1	10.1	8.9	0.7	0.5
March	1,022.0	1,012.0	224.7	231.7	555.6	27.8	91.4	245.5	53.0	95.3	10.0	9.2	0.3	0.5
April	1,037.3	1,028.5	229.6	241.2	557.7	29.1	94.7	240.4	54.1	100.1	8.7	7.9	0.3	0.5
May	1,055.8	1,046.6	238.2	248.7	559.7	29.6	75.7	260.8	53.1	101.9	9.3	8.4	0.3	0.5
June	1,066.3	1,057.1	242.5	251.9	562.8	28.5	76.2	265.8	52.5	103.0	9.2	8.3	0.4	0.5
July	1,095.2	1,085.7	248.1	260.6	577.0	30.6	75.0	279.7	52.3	104.9	9.5	8.6	0.4	0.5
August	1,132.8	1,121.2	250.5	261.9	608.8	31.5	73.9	303.9	56.9	107.0	11.6	10.7	0.4	0.5
September	1,146.4	1,134.8	251.4	262.7	620.7	29.7	74.9	314.6	57.0	107.4	11.6	10.6	0.5	0.5
October	1,149.6	1,138.5	248.3	260.4	629.8	29.0	75.6	322.3	58.0	108.1	11.1	10.1	0.5	0.5
November	1,170.6	1,157.8	250.3	263.2	644.3	31.0	76.6	333.4	58.8	107.8	12.8	11.8	0.5	0.5
2010 December	1,220.1	1,206.1	270.4	274.5	661.2	30.0	76.1	347.8	61.1	108.3	14.0	13.0	0.5	0.5
January	1,223.4	1,210.2	254.8	279.8	675.6	28.9	76.0	359.1	62.4	110.8	13.2	12.2	0.6	0.5
February	1,232.9	1,219.8	259.3	278.1	682.4	32.2	81.3	355.8	63.9	110.5	13.1	12.0	0.6	0.5
March	1,234.0	1,220.6	257.3	276.6	686.8	31.0	82.4	351.6	69.2	111.6	13.4	12.4	0.4	0.6
April	1,255.9	1,242.7	279.9	271.8	690.9	29.9	83.9	349.8	75.7	112.5	13.3	11.1	0.4	1.7
May	1,251.3	1,236.5	266.4	273.1	697.0	23.9	67.0	245.3	195.5	135.7	14.8	12.6	0.4	1.9
2011 June	1,264.8	1,246.6	273.7	270.1	702.8	34.3	62.7	245.7	201.7	137.1	18.2	15.8	0.4	2.0

Source: CBK (2011)

Table 6.3. ODC loans – by maturity, in euro

Description	Total															
		Financial corporations	of which:		Nonfinancial corporations	of which:					Other domestic corporations	nga të cilat:				Loans in Non Euro Currency
			Other financial intermediaries	Insurance companies		Public nonfinancial corporations	Other nonfinancial corporations					Households				
								Up to 1 year	Over 1 year and up to 2 years	Over 2 years			Up to 1 year	Over 1 year and up to 2 years	Over 2 years	
2000 December	3.3	__	__	__	3.3	__	3.3	3.3	...	__	__	__	__	__	__	__
2001 December	25.9	__	__	__	25.9	__	25.9	24.6	1.3	__	__	__	__	__	__	__
2002 December	86.5	__	__	__	80.8	__	80.8	67.3	13.5	__	5.7	5.7	1.4	4.3	__	__
2003 December	232.8	__	__	__	193.7	0.2	193.5	124.7	68.7	0.2	39.0	39.0	11.4	16.0	11.6	__
2004 December	373.7	__	__	__	289.9	...	289.9	111.5	111.3	67.2	83.7	83.7	15.9	15.2	52.6	__
2005 December	513.9	__	__	__	387.9	...	387.9	117.9	125.2	144.7	126.0	126.0	19.5	21.0	85.4	__
2006 December	636.6	__	__	__	490.5	...	490.5	128.7	127.7	234.1	146.1	146.1	19.7	24.7	101.7	__
2007 December	892.1	__	__	__	691.5	0.2	691.3	174.0	122.6	394.6	200.6	200.6	24.0	29.6	147.1	__
2008 December	1,183.4	0.6	__	0.6	901.8	0.1	901.7	191.0	132.3	578.4	281.0	281.0	20.9	30.9	229.2	__
May	1,268.0	1.7	__	1.7	964.8	0.1	964.7	246.5	117.3	600.8	301.4	301.4	25.4	29.7	246.3	__
June	1,280.9	1.0	0.2	0.8	968.7	0.1	968.5	238.9	123.9	605.8	311.2	311.2	26.4	30.8	254.0	__
July	1,274.1	1.0	0.2	0.8	956.4	0.1	956.3	238.2	119.7	598.4	316.7	316.7	26.0	29.2	261.5	__
August	1,264.6	1.5	0.2	1.2	939.5	0.1	939.4	227.7	112.0	599.7	323.6	323.6	25.4	31.1	267.1	__
September	1,279.0	2.2	0.2	1.2	947.2	0.3	946.8	235.5	110.6	600.8	329.7	329.7	27.7	31.7	270.3	__
October	1,291.5	2.4	1.2	1.1	955.3	0.3	955.0	236.8	108.0	610.3	333.8	333.8	26.8	32.0	275.0	__
November	1,298.6	2.3	1.2	1.1	962.9	0.3	962.6	242.7	107.1	612.8	333.4	333.4	28.5	29.0	275.9	__
2009 December	1,289.0	2.3	1.2	1.1	943.2	0.3	942.9	215.7	113.0	614.2	343.5	343.5	27.0	32.1	284.5	__
January	1,292.7	2.2	1.2	1.0	942.2	0.3	941.9	219.9	111.8	610.2	343.4	343.4	27.7	31.4	284.3	__
February	1,297.5	1.9	1.2	0.8	915.5	7.5	908.0	224.9	74.2	608.9	377.6	377.4	17.4	29.6	330.4	1.5
March	1,336.2	2.4	1.2	1.2	944.7	6.9	937.9	244.1	72.1	621.8	386.4	386.2	22.0	30.0	334.2	1.6
April	1,359.9	4.2	2.9	1.2	958.2	6.9	951.4	250.7	72.6	628.1	394.4	394.2	23.0	29.4	341.8	2.0
May	1,380.8	4.1	2.8	1.2	971.7	6.4	965.3	254.0	72.4	639.0	401.1	400.9	24.0	29.3	347.6	2.8
June	1,404.6	4.0	2.7	1.2	984.0	6.4	977.6	262.4	71.6	643.6	412.5	412.3	24.7	29.2	358.4	3.1
July	1,413.1	3.9	2.7	1.2	986.4	6.3	980.1	262.2	69.1	648.8	418.8	418.6	25.2	30.6	362.8	2.9
August	1,406.8	3.8	2.6	1.1	979.2	6.3	972.8	258.2	67.0	647.6	419.2	419.1	24.7	30.3	364.1	3.0
September	1,418.6	3.9	2.6	1.2	987.9	6.3	981.6	267.8	66.4	647.4	423.0	422.8	24.9	29.7	368.2	2.3
October	1,428.1	6.6	2.8	3.7	989.9	9.8	980.1	267.1	60.4	652.7	427.9	427.7	26.0	30.4	371.3	2.1
November	1,452.6	6.5	2.4	4.1	1,010.0	9.8	1,000.2	274.0	59.3	667.0	431.5	431.3	26.0	31.1	374.2	3.0
2010 December	1,458.7	5.7	2.6	3.0	1,014.5	6.3	1,008.3	259.4	64.3	684.5	434.3	434.2	26.5	30.7	377.0	2.5
January	1,460.2	6.7	3.5	3.1	1,015.1	6.3	1,008.8	268.2	61.2	679.4	434.3	434.2	27.5	30.5	376.2	2.4
February	1,484.0	6.0	3.0	2.9	1,037.5	0.3	1,037.2	287.8	61.6	687.8	436.2	436.0	28.1	30.2	377.7	2.7
March	1,513.2	7.0	3.4	3.5	1,063.0	0.2	1,062.8	295.4	58.6	708.8	439.1	438.8	25.7	29.5	383.6	2.5
April	1,541.0	5.5	3.3	2.2	1,077.7	0.6	1,077.1	304.5	57.9	714.7	453.8	453.6	30.1	30.2	393.3	2.3
May	1,599.9	5.5	3.6	1.8	1,104.3	0.4	1,104.0	313.5	93.3	697.1	468.9	468.5	32.4	43.2	392.9	2.4
2011 June	1,624.9	5.8	3.6	2.1	1,115.3	0.3	1,115.0	342.3	81.9	690.8	482.5	482.1	34.6	45.7	401.8	2.4

Source: CBK (2011)

Table 6.4. ODC loans – main economic sectors

Description	Total	Agriculture			Industry, energy and construction			Services		
			Up to 1 year	Over 1 year		Up to 1 year	Over 1 year		Up to 1 year	Over 1 year
2000 December	3.3	—	—	—	0.8	0.8	...	2.5	2.5	...
2001 December	25.9	...	...	—	3.8	3.8	...	22.2	22.2	...
2002 December	86.5	1.5	1.5	—	13.6	13.6	...	71.4	71.4	...
2003 December	232.8	4.7	3.9	0.8	22.2	12.6	9.7	205.8	119.7	86.1
2004 December	289.9	7.9	3.9	4.1	47.8	22.5	25.3	234.2	89.5	144.8
2005 December	387.9	12.5	4.1	8.4	74.2	24.5	49.7	301.1	92.4	208.8
2006 December	490.5	16.4	3.4	13.0	97.7	28.0	69.7	376.4	120.6	255.8
2007 December	691.5	29.0	4.1	24.9	144.5	32.8	111.7	518.0	149.5	368.5
2008 December	902.4	37.4	4.1	33.3	160.2	28.9	131.2	704.8	126.4	578.4
May	966.5	38.6	4.6	34.0	223.7	65.8	157.9	704.2	131.7	572.5
June	969.7	38.9	4.6	34.3	222.9	65.1	157.8	707.9	125.3	582.6
July	957.4	41.6	4.3	37.3	225.3	66.8	158.5	690.5	123.8	566.7
August	941.0	40.9	4.1	36.8	223.2	66.5	156.7	677.0	117.1	559.9
September	949.3	40.4	4.2	36.2	220.5	64.1	156.3	688.4	123.2	565.2
October	957.7	40.2	4.1	36.0	227.7	66.2	161.5	689.8	120.5	569.3
November	965.2	39.7	3.9	35.8	230.0	64.7	165.3	695.5	125.5	569.9
2009 December	945.5	38.2	3.8	34.4	236.7	54.8	181.9	670.5	113.2	557.3
January	944.3	38.1	3.9	34.1	238.9	57.2	181.7	667.4	113.9	553.5
February	918.9	38.1	2.7	35.4	254.4	79.1	175.3	626.4	151.2	475.2
March	948.8	38.7	2.9	35.9	263.7	80.9	182.8	646.3	161.4	484.9
April	964.5	39.5	3.1	36.4	266.8	82.4	184.5	658.1	167.1	491.0
Maj	978.7	39.6	3.0	36.5	263.0	80.5	182.5	676.1	173.1	503.0
Qershor	991.1	39.7	3.0	36.8	268.8	82.4	186.4	682.6	179.9	502.7
July	993.3	39.4	2.7	36.7	268.6	83.9	184.7	685.3	179.4	505.9
August	985.9	38.6	2.3	36.3	275.8	85.8	190.0	671.6	175.2	496.4
September	994.1	38.1	2.2	35.9	278.2	88.8	189.4	677.8	182.3	495.4
October	998.6	37.9	1.9	36.0	268.3	83.0	185.3	692.4	190.0	502.4
November	1,019.6	37.9	1.8	36.1	270.6	83.2	187.4	711.0	197.8	513.2
2010 December	1,022.8	38.2	1.7	36.5	269.3	77.1	192.2	715.3	188.5	526.8
January	1,024.2	37.4	1.8	35.7	268.6	78.2	190.4	718.2	195.5	522.7
February	1,046.2	37.6	2.0	35.6	268.4	76.3	192.1	740.1	211.0	529.1
March	1,073.5	38.8	2.8	36.0	265.5	73.2	192.3	769.2	220.2	549.0
April	1,086.6	39.0	2.6	36.4	265.5	73.7	191.8	782.1	229.5	552.6
May	1,112.3	39.5	2.1	37.5	279.6	76.2	203.4	793.2	229.2	564.0
2011 June	1,123.6	40.1	2.4	37.7	281.8	77.0	204.8	801.8	227.6	574.1

Source: CBK (2011)

Table 7.1. ODC loans – main economic sectors

Description	Deposit rates	Nonfinancial corporations									Households							
		Transferable deposits	Other deposits							Saving deposits	Transferable deposits	Other deposits					Saving deposits	
			Less than 250.000 euro				More than 250.000 euro					Up to 1 month	Over 1 month and up to 3 months	Over 6 months and up 1 year	Over 1 year and up 2 years	Over 2years		
			Up to 1 month	Over 1 month and up to 3	Over 6 months and up 1 year	Over 2years	Up to 1 month	Over 1 month and up to 3	Over 6 months and up 1 year									
2004 December	2.75	0.10	1.79	2.30	3.02	*	3.31	*	*	1.99	0.04	1.65	2.06	2.91	3.80	*	1.63	
2005 December	3.12	0.26	2.07	2.37	3.40	*	2.90	*	*	1.71	0.04	1.85	2.24	3.33	3.87	4.04	1.74	
2006 December	3.11	0.39	2.06	2.85	4.32	*	3.11	*	*	1.53	0.03	1.93	2.35	3.44	4.16	4.51	1.65	
2007 December	4.00	0.48	2.68	2.93	4.35	*	4.27	4.15	*	2.45	0.02	2.55	2.75	3.60	4.72	5.27	2.25	
2008 December	4.42	0.53	3.09	3.97	5.32	*	3.61	4.92	*	2.85	0.11	3.21	4.60	4.45	4.99	3.95	2.74	
May	3.99	*	2.87	3.85	5.10	*	3.44	*	*	3.10	0.11	3.53	3.43	4.39	4.91	5.24	2.71	
June	4.66	0.75	3.14	3.66	4.66	*	*	*	*	2.99	0.22	3.36	3.61	4.40	4.90	5.26	2.61	
July	4.64	0.79	3.09	3.93	4.90	*	3.51	*	*	3.14	0.23	3.19	3.83	4.42	3.88	4.60	2.71	
August	4.12	0.90	3.29	4.16	5.03	*	3.58	*	*	3.00	0.34	3.33	3.52	4.46	4.64	5.37	2.71	
September	4.05	0.89	3.04	3.68	4.43	*	*	*	*	2.64	0.29	3.26	3.45	4.35	4.90	5.37	2.49	
October	4.78	0.80	3.01	3.09	5.41	*	3.75	4.55	*	2.81	0.32	3.24	3.32	4.44	4.89	5.30	2.54	
November	4.19	*	3.32	3.59	4.58	5.83	4.40	*	*	2.62	0.50	3.05	3.11	4.51	5.56	5.37	2.47	
2009 December	3.98	0.72	3.42	3.42	5.03	*	3.88	4.88	*	2.63	0.34	3.09	3.28	4.39	5.00	5.50	2.51	
January	4.11	*	3.22	3.05	5.22	*	3.62	*	5.86	2.60	0.29	3.14	3.44	4.35	4.97	5.56	2.49	
February	3.77	*	3.09	2.99	4.94	4.62	3.77	*	*	2.22	0.18	2.90	2.87	4.52	4.63	5.50	2.24	
March	3.59	0.85	3.09	3.01	4.56	5.84	3.06	*	*	2.61	0.14	2.82	3.02	4.22	4.31	4.87	2.27	
April	3.55	0.89	2.88	2.61	4.71	5.25	*	*	4.79	2.23	0.13	2.66	2.80	4.12	4.56	5.68	2.19	
May	3.42	1.08	2.64	2.91	4.53	*	2.49	*	5.35	2.46	0.38	2.70	2.67	4.23	4.26	5.24	2.27	
June	3.75	0.94	2.60	3.10	5.27	*	*	*	5.14	2.36	0.34	2.59	2.97	4.35	4.58	5.22	2.19	
July	3.80	0.89	2.77	*	4.94	*	3.41	2.66	5.72	2.45	0.35	2.85	2.66	4.41	4.44	5.09	2.25	
August	3.91	2.74	3.00	3.56	*	*	2.92	*	5.57	2.42	0.36	3.03	2.80	4.31	4.68	5.02	2.27	
September	3.72	0.90	2.75	3.41	5.20	4.99	2.71	3.75	5.36	2.36	0.36	2.76	2.91	4.45	4.70	5.16	2.37	
October	3.60	*	2.43	2.94	*	*	2.88	3.28	5.14	2.45	0.37	2.68	2.76	4.47	4.56	5.26	2.24	
November	3.75	0.90	2.59	3.32	5.38	5.04	*	3.84	5.50	2.33	0.27	2.66	2.76	4.52	4.82	5.27	2.30	
2010 December	3.38	0.63	2.44	3.08	4.96	5.14	*	3.74	*	2.07	0.55	2.58	2.63	4.49	4.77	5.14	2.21	
January	3.44	0.97	2.36	2.93	4.05	*	3.02	3.43	4.78	2.30	0.39	2.54	2.51	4.09	4.34	5.42	2.11	
February	3.32	1.06	2.12	2.84	4.89	*	2.53	3.59	*	2.10	0.42	2.53	2.51	4.09	4.31	4.85	1.92	
March	3.36	1.01	1.99	3.26	4.31	*	2.33	*	5.11	2.30	0.43	2.48	2.74	3.94	4.16	5.22	2.11	
April	3.48	0.92	2.14	3.51	4.91	*	2.35	3.82	5.42	2.19	0.40	2.53	2.50	4.15	4.25	5.13	2.04	
May	3.41	0.91	2.39	3.67	3.89	4.61	*	3.36	*	2.26	0.41	2.64	2.61	4.13	4.65	4.97	2.10	
2011 June	3.50	0.84	2.17	2.81	4.94	*	2.10	3.92	5.30	2.20	0.40	2.51	2.75	4.21	4.62	5.03	2.03	

Source: CBK (2011)

Table 7.2. ODC effective interest rate – deposits interest rate

Description	Loan rates	Nonfinancial corporations						Households					
		Investment business loans		Kredi tjera biznesi (jo-investive)		Overdrafts	Credit lines	Loans covered by deposits	Overdrafts	Consumer loans	Mortgage loans		
		Up to 1 year	Over 1 year up to 5 years	Up to 1 year	Over 1 year up to 5 years						Up to 5 years	Over 5 years up to 10 years	Over 10 years
2004 December	15.17	15.16	14.47	15.04	15.32	15.06	12.53	...	...	12.53	*	*	*
2005 December	14.47	17.34	13.29	15.18	14.38	15.11	11.51	...	...	11.51	*	*	*
2006 December	14.70	*	14.50	13.60	15.18	15.72	12.36	...	...	12.36	*	13.36	*
2007 December	14.06	*	13.76	*	14.64	15.09	13.72	...	...	13.72	12.92	12.36	*
2008 December	13.79	*	13.92	14.20	13.45	15.03	13.50	...	...	13.50	9.81	10.82	8.13
May	12.74	18.74	13.65	*	15.91	12.49	13.32	...	...	13.32	10.04	9.94	9.76
June	15.01	20.39	14.41	10.32	16.99	12.09	13.27	...	...	13.27	10.91	9.91	9.05
July	14.67	16.44	15.76	14.22	16.57	12.54	12.49	...	...	12.49	11.86	10.76	9.99
August	13.83	*	13.13	12.44	15.52	12.43	12.78	...	...	12.78	9.94	*	9.22
September	14.88	12.29	15.25	*	16.11	*	26.13	...	...	12.99	9.85	10.79	*
October	13.63	11.31	13.98	*	12.96	*	*	...	...	13.04	11.10	9.74	10.23
November	14.14	*	14.22	*	13.76	30.83	*	...	...	12.88	10.87	11.25	9.20
2009 December	14.09	*	14.34	*		*	*	...	...	13.31	*	10.67	*
January	13.42	19.96	14.76	15.67	15.47	12.66	*	...	...	13.36	11.38	11.41	*
February	14.62	18.00	14.57	17.37	16.82	11.82	14.94	6.72	5.84	14.02	14.76	12.25	11.10
March	14.30	14.17	14.06	19.04	16.88	12.86	14.30	6.22	7.29	13.16	13.11	11.99	10.50
April	15.29	19.14	15.47	19.53	17.19	12.72	13.62	6.69	6.66	13.42	14.54	12.37	10.96
May	14.60	17.30	13.83	18.93	15.97	12.87	14.46	7.20	6.91	13.80	16.98	12.30	10.67
June	13.99	19.66	14.90	15.55	16.68	12.55	13.58	6.77	7.18	13.69	*	12.16	10.72
July	14.86	18.96	16.75	16.29	17.17	11.12	14.32	7.47	7.01	13.83	*	12.35	11.22
August	15.23	18.87	14.10	20.10	18.01	12.56	7.92	4.04	6.80	13.97	*	12.43	10.70
September	15.55	18.69	16.67	20.67	17.45	12.29	14.72	6.31	6.67	13.82	*	12.06	10.72
October	15.10	17.11	15.16	19.88	16.47	12.76	13.42	7.06	6.70	13.67	*	12.04	10.44
November	14.33	18.42	14.32	17.17	15.69	12.39	13.57	7.07	7.15	14.11	*	12.26	10.74
2010 December	14.31	16.13	13.95	18.66	14.44	12.65	13.27	7.69	6.55	14.56	*	11.67	10.26
January	15.42	17.36	15.03	21.82	16.81	12.44	13.51	8.03	7.07	13.58	18.15	12.00	10.80
February	14.41	*	14.57	17.42	15.80	11.48	13.56	7.19	6.56	14.37	*	12.25	10.10
March	14.19	18.23	13.81	18.49	14.93	11.88	13.13	7.02	5.31	13.76	*	12.22	9.83
April	14.38	*	15.23	17.65	15.47	12.69	11.98	6.50	5.68	13.51	*	11.59	10.51
May	13.25	17.28	13.98	17.72	15.40	12.70	13.32	6.66	7.23	11.47	*	11.85	11.52
2011 June	14.13	18.69	13.83	19.02	15.42	11.85	12.77	3.64	6.25	13.91	*	11.88	11.00

Source: CBK (2011)

Table 8.1. ODC income statement – income and expenditures

Description	Net Income	Income	Interest income	of which: Loans	of which: Securities	Non-Interest income	of which: Fees and commissions	Expenditures	Interest expenditures	Deposits	Borrowings	Other P	Non-Interest expenditures	of which: Provisions for loan and other assets losses	General and administrative expenses
2000 December	3.9	7.1	1.8	...	...	5.3	5.3	3.3	0.2	0.2	...	...	0.2	0.2	2.9
2001 December	6.5	16.6	7.2	2.1	...	9.4	9.2	10.1	1.3	0.8	0.5	...	0.6	0.6	8.2
2002 December	3.5	31.9	17.8	9.4	0.2	14.0	13.2	28.4	3.5	3.1	0.4	...	3.3	3.3	21.6
2003 December	7.8	48.7	30.7	23.8	0.8	18.0	16.8	40.9	5.3	4.8	0.5	...	7.7	7.7	27.9
2004 December	14.6	73.4	54.0	48.1	3.4	19.4	17.5	58.9	10.0	9.2	0.7	...	11.1	11.1	37.8
2005 December	16.3	94.3	74.6	68.0	2.7	19.7	17.4	78.0	15.4	13.9	1.5	...	13.4	13.4	49.2
2006 December	25.5	114.0	88.8	79.4	2.8	25.2	22.5	88.5	19.9	17.5	2.4	...	13.7	13.7	54.8
2007 December	41.7	157.3	117.9	103.0	3.6	39.5	23.8	115.6	26.0	23.2	2.8	...	19.9	17.8	69.7
2008 December	49.0	195.0	155.7	140.4	2.3	39.3	30.2	146.0	38.1	35.1	2.1	0.8	21.9	17.0	86.0
May	11.4	84.7	66.4	64.2	0.4	18.2	12.7	73.3	20.3	18.9	1.2	0.2	13.0	10.4	40.0
June	12.4	102.0	79.9	77.3	0.5	21.7	15.4	89.6	24.6	22.9	1.5	0.2	17.3	14.2	47.7
July	16.6	120.2	94.4	90.9	0.5	24.9	18.3	103.6	29.3	27.2	1.9	0.2	19.1	15.4	55.2
August	19.4	137.9	108.2	104.2	0.6	28.2	21.3	118.5	34.1	31.6	2.2	0.3	22.1	17.8	62.3
September	21.4	156.0	122.1	117.5	0.7	33.9	24.0	134.6	38.8	36.1	2.4	0.3	25.9	21.0	69.9
October	20.4	172.3	134.6	130.7	0.9	37.7	26.6	151.9	43.0	39.7	2.8	0.5	31.3	25.7	77.6
November	27.6	190.5	148.8	144.7	1.0	41.6	29.3	162.8	47.6	43.8	3.2	0.5	29.7	23.4	85.6
2009 December	29.6	201.5	163.2	158.6	1.2	38.2	32.5	171.8	52.2	48.0	3.6	0.6	32.6	25.7	87.0
January	2.8	16.9	14.2	13.8	0.2	2.7	2.6	14.1	5.0	4.6	0.4	...	2.4	1.9	6.7
February	5.9	33.3	27.7	26.4	0.4	5.6	5.3	27.4	9.7	8.7	0.8	0.1	4.1	3.1	13.6
March	8.0	51.3	42.0	40.3	0.7	9.3	8.5	43.2	14.7	13.3	1.3	0.1	7.5	5.8	21.0
April	11.0	68.3	55.7	53.9	1.0	12.6	11.5	57.3	19.5	17.6	1.7	0.2	9.8	7.4	28.1
May	13.8	85.8	69.7	67.4	1.2	16.2	14.7	72.0	24.2	21.9	2.1	0.2	12.6	9.6	35.3
June	19.4	103.2	84.5	81.8	1.4	18.7	17.3	83.8	28.4	25.9	2.5	0.1	13.2	9.5	42.2
July	23.4	121.9	99.6	96.4	1.7	22.3	20.6	98.5	33.2	30.0	2.9	0.3	16.0	11.5	49.3
August	27.7	140.9	115.0	111.3	1.9	25.9	24.1	113.2	37.6	33.9	3.3	0.4	18.6	13.5	56.9
September	30.5	159.3	129.7	125.5	2.2	29.6	27.3	128.8	42.0	37.9	3.6	0.4	22.8	16.9	64.1
October	35.3	178.4	144.9	140.1	2.5	33.5	30.5	143.0	46.4	42.0	4.0	0.5	25.2	18.7	71.4
November	38.0	197.3	160.2	154.7	2.8	37.1	33.8	159.2	50.9	45.9	4.4	0.6	29.7	22.3	78.7
2010 December	37.8	217.2	175.8	169.6	3.1	41.4	37.5	179.4	55.3	49.4	4.8	1.1	36.0	28.3	88.1
January	2.1	18.7	15.4	14.7	0.3	3.3	3.0	16.6	4.8	4.2	0.4	0.2	4.7	4.1	7.1
February	1.5	36.0	29.7	28.4	0.6	6.4	5.9	34.5	9.1	7.9	0.7	0.5	11.0	9.7	14.4
March	6.0	55.6	45.5	43.7	0.8	10.0	9.2	49.6	13.9	12.1	1.2	0.7	13.9	12.0	21.8
April	9.1	74.5	61.1	58.7	1.1	13.5	12.5	65.4	18.5	16.1	1.6	0.8	17.6	15.1	29.2
May	12.3	94.5	77.2	74.1	1.4	17.3	15.9	82.2	23.4	20.2	2.1	1.1	21.4	18.1	37.4
2011 June	16.8	114.8	93.7	89.9	1.7	21.1	19.4	98.0	28.2	24.4	2.5	1.3	23.9	19.7	45.9

Source: CBK (2011)

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