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

Bank Lending Survey

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BANKA QENDRORE E REPUBLIKËS SË KOSOVËS

CENTRALNA BANKA REPUBLIKE KOSOVA

CENTRAL BANK OF THE REPUBLIC OF KOSOVO

Bank Lending Survey in Kosovo and Inflation Expectations

(Q4 2023 and inflation expectations for Q1 2024)

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Bank Lending Survey in Kosovo (BLSK)

Introduction[1]

In order to increase the analytical capabilities on a good assessment of lending dynamic activities in Kosovo and expectations on the price level, the Central Bank of the Republic of Kosovo (CBK) has designed and conducted a survey with commercial banks which operate in the banking sector of Kosovo. The report that will analyze the results of this survey will be published on a quarterly basis on the CBK website, in order to provide a broader overview of banks' risk perception and banks' willingness to lend, as well as, the behavior of households and enterprises against the dynamics in lending, as a consequence. This report records the credit behavior for the fourth quarter of 2023, and banks expectations for credit dynamics in the first quarter of 2024.

In addition to the standard questions, this survey has been supplemented with four additional questions in an attempt to identify possible risks in the banking sector in general, as well as the breakdown of credit supply and demand for enterprises by economic sectors.

Results Summary[2]

The stock of loans continued to grow until the third quarter of 2023, albeit at a slower pace compared to the same period of the previous year. New loans marked a higher increase compared to the same quarter of the previous year, while compared to the previous quarter, they marked a significant growth. This dynamic mainly reflected a more careful approach of consumers in undertaking additional debts, in an environment of the increase of cost of living and higher uncertainties, and also a more cautious approach and monitoring of the banks in lending activity, along 2023. These developments are also in line with the approach of the tightening the monetary policy as a response to inflationary pressures. Credit activity dynamics were influenced to a greater extent by credit demand, since credit supply had positive marginal changes during this quarter. For the next quarter, banks expect the credit demand to continue to be the driver of credit activity, while credit supply is expected to have positive marginal changes.

According to the banks, the dynamics of corporate lending during this quarter was influenced by the credit demand, which marked an increase to a certain extent, while the credit supply from the banks for this segment had marginal negative changes (slight tightening). Within the enterprise categories, banks stated that they will apply credit standards with negative marginal movement (slight tightening), both for large enterprises and for SMEs (table 1). In the context of the factors that influenced these developments, the increase in the EURIBOR rate and the poor outlook in the global markets resulted to have been the main negative contributors to credit standards (tightening to some extent). Conversely, the support from KCGF marked positive impact on credit standards (ease to some extent). Other factors that influenced credit standards had low positive/negative marginal movements and mainly relate to risk perception, cost of financing and balance sheet constraints, credit portfolio quality, competitive pressure and risk tolerance. For the first quarter of 2024, banks' expectations for lending activity consist of being similar to the developments in the last quarter of 2023, with marginal negative movements (slight tightening) in the credit standards applied by banks for SMEs and large enterprises as well (table 1). KCGF is expected to have easing effect, while uncertainties about the

[1] For more detailed information about the background of the CBK bank lending survey, please refer to the publication "Bank Lending Survey and Inflation Expectations" No. 1.

[2] The BLSK questionnaire, and time series of the bank lending survey results, are available on the CBK website, on the link of the Bank Lending Survey in Kosovo.

dynamics on (EURIBOR) financing rates and the capability to increase funds (an increase of deposits) may have tightening potential.

Terms and conditions applied by banks in granting loans to enterprises remained mainly unchanged (within the limit of +0.05/-0.05) for both segments of enterprises. However, for the SME segment, standards were eased to a certain extent in the applied interest rate, as well as a marginal ease in the demand for collateral. In large enterprises, it turns out that there was a marginal tightening in the applied interest rate, as well as in the demand for collateral. For both segments, the aggregated results suggest that there was marked a marginal ease as regards the loans maturity. Applied terms and conditions were negatively affected by the increase of EURIBOR rate and the unfavorable outlook in the global markets. On the other hand, the support from KCGF had a positive impact in terms conditions applied to enterprises (it was marked an ease). In the following quarter, in general, terms and conditions applied by banks are expected to remain unchanged (within the limits of +0.05/-0.05). For SMEs and large enterprises as well, the applied interest rate is not expected to change, whereas there is expected to be marked a marginal tightening in collateral requirements and loans maturity. The not so good outlook on the global markets and the quality of credit portfolio are expected to negatively impact banks' expectations on terms and conditions in the following quarter, which are expected to be neutralized by KCGF support through guarantying loans.

In the fourth quarter of 2023, there was generally an increase to a certain extent in the demand for bank loans driven by enterprises, representing a change compared to the dynamics of the previous quarter (a decrease to certain extent). The demand for loans turns out to have been higher from SMEs (increase to some extent), against the demand for loans from large enterprises (marginal increase). In general, the increase in the demand for loans, according to the banks' statements, was mainly driven by the increase in the demand for financing inventory and working capital, which was neutralized, to some extent, by the marginal decrease in the demand for fixed investments. The index generated for banks' expectations on credit demand during the next quarter shows an increase in credit demand from two categories of enterprises. Banks attributed these expectations to the expected increase in the demand for financing inventories and working capital and fixed investments, in accordance with the business cycle.

The stock of loans to households until the fourth quarter of 2023, recorded a same annual growth compared to the previous year. On annual basis, new loans result to have marked a significant increase in Q4 2023, whereas on quarterly basis a significantly slower increase. The activity was supported by the increase of demand for loans, while the credit offer in general results to have been unchanged. Credit standards eased to an extent for housing loans, while they tightened to some extent for consumer credit along the fourth quarter of 2023. Competitive pressure and the quality of the credit portfolio were two factors that influenced the easing of credit standards for households, while the potential increase in the cost of financing negatively affected the dynamics.

In the first quarter of 2024, banks in general expect marginal positive changes in credit standards. Banks expect an ease to some extent for loans with the purpose of purchasing real estate, while for consumer credit, the standards are expected to ease at marginal levels (table 1). The factors which are expected to positively affect credit standards (ease) are the perspective of local banks/local market, the performance of the real estate market as well as the consumer confidence. However, the factors that are expected to neutralize the easing of credit standards (tightening) are the quality of the credit portfolio, the EURIBOR rate and risk tolerance.

In general, terms and conditions tightened marginally for new loans to households during the fourth quarter of 2023. The generated results reflect proportional tightening for both housing loans and consumer credit, through an increase in interest rates. The main factor in the increase of the interest rate was the increase of the EURIBOR rate, while the improvement of the quality of the credit portfolio and the pressure from the competition were the factors with higher positive impact (ease) on terms and conditions applied to loans to household. For the first quarter of 2024, banks generally expect positive marginal movements (easing) in terms and conditions for loans to households, including an increase in the maturity of housing loans and a reduction in collateral requirements for consumer credit.

The demand for loans from households has increased during the fourth quarter of 2023, where the demand for consumer credit was much higher compared to the demand for housing loans. According to the banks, the need to finance consumption expenses and the increase in consumer confidence contributed to the increase in demand for consumer credit, while the positive perspective in the real estate market has influenced the increase in demand for loans for the purchase of real estate. In the first quarter of 2024, banks expect an increase in demand for loans from households at an approximate level compared to the current one (table 1). The demand for loans in general is expected to be driven mainly by the demand for consumer credit, which have the largest weight in total loans to the household segment. However, a high increase in demand is also expected for loans for houses purchase, supported by the good perspective in the real estate market.

Table 1. Banks assessment on credit supply and demand

	Supply (Credit standards)		Demand	
	Q4 2023	Q1 2024 (expectations)	Q4 2023	Q1 2024 (expectations)
Enterprises	→	→	↗	↗
SMEs	→	→	↗	↗
Large enterprises	→	→	→	↗
Households	→	→	↗	↗
Housing loans	↗	↗	↗	→
Consumer credit	↘	→	↗	↑

↑ Easing of credit standards/Increase in demand for loans (positive index over 0.20)
↗ Easing of credit standards/Increase in demand for loans (positive index below 0.20)
→ Mainly unchanged (positive index/negative up to 0.05)
↘ Tightening of credit standards/Decrease in demand for loans (negative index below 0.20)
↓ Tightening of credit standards/Decrease in demand for loans (negative index over 0.20)

Source: CBK.

The cautious monitoring of clients' financial performance and a more conservative assessment of new applications for loans by banks helped to maintain the satisfactory level of solvency. Banks for the fourth quarter of 2023 were more moderate in assessing new applications, especially for large enterprises and for consumer credit to households. Facilitation in the examination of new applications was for loans with short-term maturity, while for loans with long-term maturity, banks were more conservative for both segments (enterprises and households). In the first quarter (Q1 2024), the level of assessment of new applications for loans to enterprises was not expected to have significant changes compared to the previous quarter, while for households, banks are expected to ease the standards in new applications, with special emphasis on consumer credit.

Banks reported a significant increase of access to financing during the fourth quarter of 2023. The aggregated result of the banks' replies was affected by the responses of nine banks (of which five with systemic importance) that stated an increase in financing. Household deposits marked the highest increase, while financing from enterprises was characterized with a marginal increase. Financing from parent banks remained unchanged, while financing from international financial institutions had a marginal negative contribution to the overall position. By maturity, the short-term financing marked a significant increase, whereas the long-term maturity showed a slower growth.

During the next quarter, some banks expect slower growth in access to financing, a dynamic that is expected to be affected by expectations for a slowdown in household deposits. As for the maturity of financing, banks expect that the increase in financing will be mainly from long-term financing, while short-term financing will have a negative marginal contribution to financing.

Box 1. Methodology

The questionnaire of the Bank Lending Survey in Kosovo

The BLSK questionnaire is based on the standardized questionnaires used by Central Banks in the euro area and beyond. However, the BLSK questionnaire of the CBK has been modified and adopted to its best and comprehensive manner to represent lending developments in Kosovo's banking sector.

The BLSK questionnaire contains 19 questions, which cover the changes in credit supply, in the demand for loans, factors which contribute in these changes and the access of the banking sector to financing, on quarterly basis. Questions on bank lending are focused on two main categories: (i) loans to enterprises, and (ii) loans to households. Moreover, loans to enterprises are sub-categorized in to loans to SMEs and loans to large enterprises, while loans to households are sub-categorized in housing loans and consumer credit. For all the above mentioned categories, changes in loan supply conditions are defined by credit standards applied in the process of loans approval, terms and conditions applied for new loans, the approval rate of loans, and the factors which affect their changes. Meanwhile, the changes in the demand for loans are defined by the demand for loans (the number of applications for loans), the quality of the applications received, and the factors which affect the demand for loans. The questions of the survey primarily are designed to obtain a feedback for changes over the past three months and changes expected in the following three months. Also, questions cover loans in the aspect of their maturity and the currency in which they were granted.

Besides the standard questions, the BLSK questionnaire may contain also additional questions on specific issues in order to explain the developments in the banking sector. While standard questions cover a three-months period, additional questions may refer to changes occurred during a longer period of time. The survey conveys ten out of twelve banks operating in Kosovo. Consequently, the participating banks represent the general banking market and ensure a proper statistical representation, taking into account that they represent 98% of total assets of the banking sector, and 99.1% of total lending of the banking sector.

The survey participants are asked to indicate, in a qualitative manner, the strength of any tightening or easing or the strength of any decrease or increase, reporting changes using the following five-point scale: (i) tightened / decreased considerably, (ii) tightened / decreased somewhat , (iii) basically no change, (iv) eased / increased somewhat or (v) eased / increased considerably.

The generated results of the bank lending survey

Quantifying of the answers received from individual banks and their aggregation to present the changes on the level of the sector is achieved by generating the appropriate index. This index is generated for each category and sub-category of each of the questions, thus giving a quantifying unit for the answers received on the level of the sector. Initially, the answers are determined by a value based on the strength of the changes, namely answers where banks stated a considerable tightening/lowering are determined with a value - 1 a double value in size than the one defined for answers when banks state tightening/lowering to some extent (a value of -0.5). Similarly, answers have a value of 1 when there is a considerable ease/increase, while those with ease/increase to some extent are determined with a value of 0.5. Results are also weighed based on the weight that each of the bank has in total lending of the banking sector. Consequently, the weight of each bank based on its share on the credit market is multiplied with the value determined based on the intensity of the given answer, thus obtaining the index in question. Furthermore, the aggregation of the index on the sector's level is performed through the sum of the indices obtained for each of the bank. The values of indices are ranged from -1 to 1, where the positive values of the index represent ease, increase or positive contribution, whereas negative values represent tightening, decline or negative contribution.

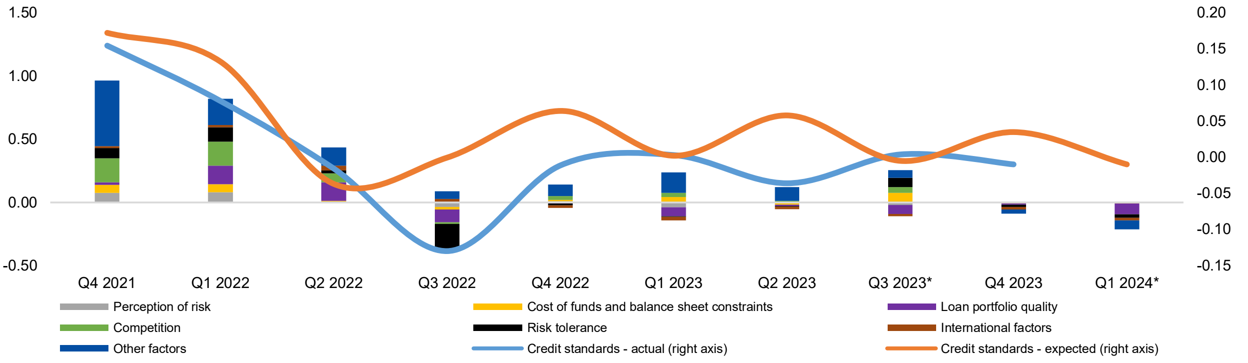
Developments in credit standards, credit terms and conditions, and in the demand for loans

Loans to enterprises

Credit standards

During the fourth quarter of 2023, the result on credit standards (credit policies) applied to enterprises in general represent no significant movements. Banks' expectations expressed in the previous survey (Q3 2023) for the credit standards applied to enterprises were more eased, but in the current survey (Q4 2023) they turn out to be somewhat tighter (chart 1).

Chart 1. Changes of credit standards applied for enterprises and contributing factors



*Expected value

Source: CBK.

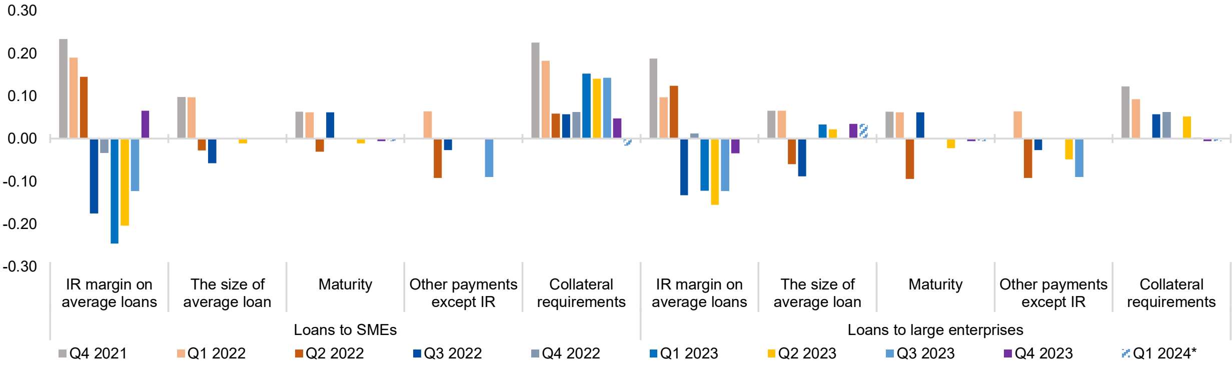
Within the enterprise categories, banks stated marginally tighter credit standards for large enterprises and SMEs with a negative index of 0.01 for each category. The main factors that had negative impacts on credit standards were the increase of EURIBOR rate and poor perspective in the global market with a negative index of 0.14 and 0.11, respectively. While, the factors which to some extent had positive impact on credit standards, providing security to the banking sector, were the support offered by the KCGF and the decrease of the risk for the required collateral with a positive index of 0.11 and 0.04, respectively. Whereas, the approval rate of loans is expected to mark an increase to some extent, primarily for loans to large enterprises.

Overall credit standards are expected to mark negative marginal oscillations (tightening) in the following quarter, similar to the previous quarter. More specifically, nine out of ten participating banks in the survey stated that they do not expect changes in credit standards. The support from the KCGF is expected to positively contribute to the credit standards, whereas the increase of the EURIBOR rate and the outlook of the global markets are expected to contribute negatively on the credit standards. The approval rate of loans is expected to mark an increase to some extent, primarily for loans to SMEs.

Terms and conditions

In the fourth quarter of 2023, in general, terms and conditions applied by banks when granting loans to enterprises (terms and conditions specified for a specific loan contract) remained unchanged for both categories of enterprises (within the limit +0.05/-0.05) (chart 2). Specifically, an ease to some extent was applied to the interest rate applied to SMEs with a positive index of 0.07, while for large enterprises marginal tightening of 0.03. This result was impacted by the replies of four banks, of which, one with systemic importance in the sector. On the other hand, collateral requirements for SMEs in general turn out to have marked an ease with a positive index of 0.05, expressed by a systemically important bank. Applied terms and conditions were negatively affected by the increase of EURIBOR rate and unfavorable outlook in the global markets. On the other side, the support given by the KCGF and the softening of the risk of the return of required collateral, affected positively the applied terms and conditions.

Chart 2. Changes of terms and conditions applied to enterprises



Source: CBK.

*Expected value

During the following quarter, terms and conditions applied by banks are expected to have marginal movements in both directions. More precisely, it is expected a tightening on a marginal level regarding the maturity of loans and collateral requirements for SMEs. For large enterprises, it was marked an ease at marginal levels for loans with average size, while regarding the maturity of the loans, there were marked similar developments as of SMEs. These positive changes are expected to be driven by the support from KCGF and the competitive pressure among banks, while the increase of EURIBOR rate and poor outlook in the global markets will negatively affected banks' expectations on terms and conditions during the next quarter.

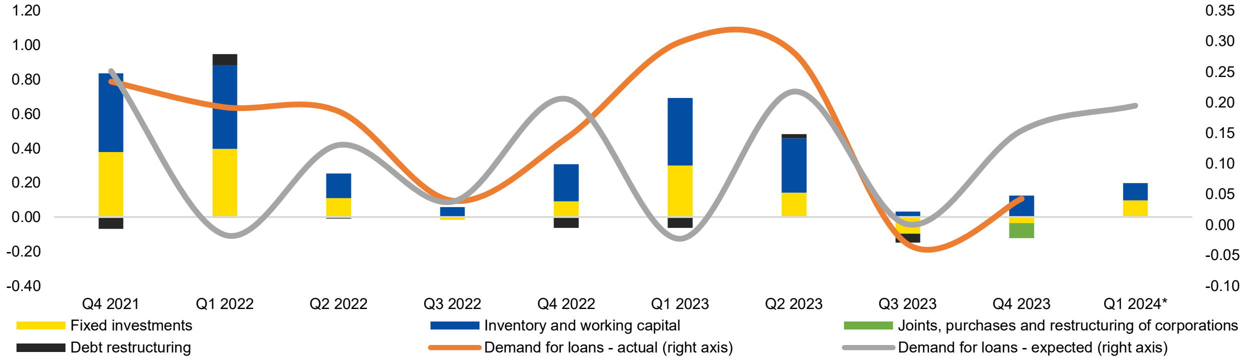
Demand for loans

During the fourth quarter of 2023, the demand for loans from enterprises marked an increase in contrast to the dynamics of the previous quarter, where there was a decrease to some extent in the demand for loans. Precisely, the replies generated a positive index of 0.17, expressed by six out of a total ten banks participating in the survey, where of them, two banks of systemic importance and four other banks of non-systemic importance stated an increase in the demand for loans. Also, the demand for loans turned out to have been similar to the banks' expectations for Q4 2023, expressed in the previous survey (Q3 2023) (chart 3).

According to the results of the survey, changes in the demand for loans from enterprises were mainly driven by the increase of demand for inventory and working capital of 0.12. Banks stated positive or unchanged results regarding the increase of demand for inventory and working capital, with a specific significance from banks with no systemic importance. The quality of applications received by enterprises had marginally positive changes, being presented by an improvement of applications throughout Q4 2023.

According to the survey, during Q4 2023, the nonperforming loans to total loans ratio of enterprises decreased, resulting with a negative index of 0.16, which turns out to have changed direction compared to the outcome of the previous survey, where the replies given by banks generated a positive index of 0.13 of this ratio. This outcome was impacted by the replies of four banks, where two of the banks (both of them with systemic importance) stated a decline of nonperforming loans, while three other banks with systemic importance stated that the level of nonperforming loans remained unchanged.

Chart 3. Changes in demand for loans from enterprises and contributing factors



Source: CBK.

*Expected value

Similar to the current quarter, banks expect an increase of loans demand from enterprises during the following quarter. This result was impacted by replies of six banks (two of them with systemic importance) which stated that they expect an increase for loans demand from SMEs and large enterprises, as well. The banks attributed these expectations mainly to the increase in the demand for financing fixed investments and working capital. The quality of received applications for loans is expected to mark marginal positive changes for SMEs and, to some extent, positive changes for large enterprises.

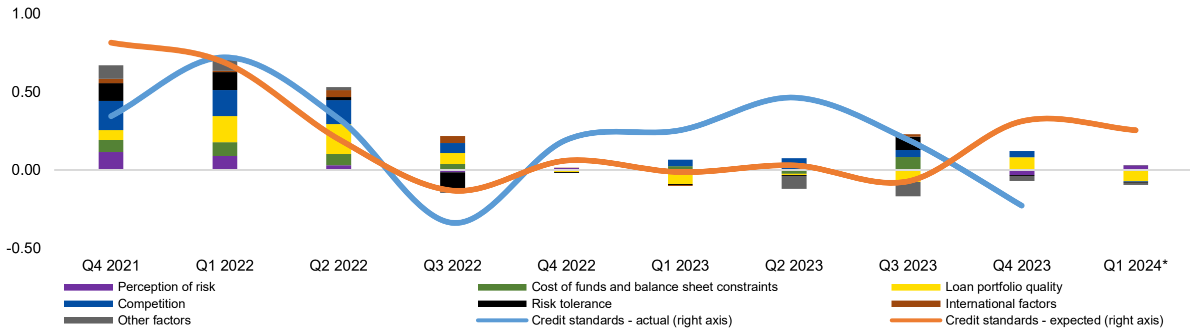
During the next quarter, banks expect the nonperforming loans ratio to total loans to enterprises to increase to marginal levels, with a positive index of 0.08. Three banks, where one of them with systemic importance, expect an increase of enterprise nonperforming loans ratio, whereas another bank expect this ratio to remain unchanged.

Loans to households

Credit standards

Credit standards applied for households, during the fourth quarter of 2023, generally remained unchanged. An ease to an extent was applied for housing loans with a positive index of 0.09, based on the reply of a bank with systemic importance. Expectations for the current quarter, stated by banks in the previous survey (Q3 2023), resulted to be similar to the actual values (chart 4). The pressure from the competition and the good quality of the credit portfolio were the factors with the most significant impact on the easing of credit standards for households.

Chart 4. Changes in credit standards applied for households and contributing factors



*Expected value

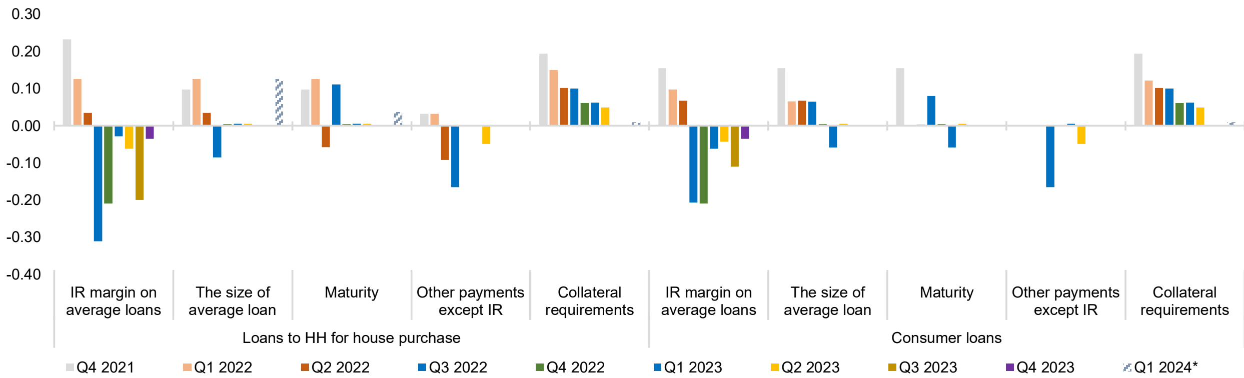
Source: CBK.

In the first quarter of 2024, banks expect marginal positive changes in credit standards, which were more pronounced for housing loans, while for consumer credit the changes were of marginal positive movements. The factors that are expected to positively affect credit standards are the perspective of banks in the domestic market, the positive movement of the real estate market as well as the increase of consumer confidence . Banks expect an increase in the level of loans approval for households. More specifically, banks stated that they expect an increase of the demand for housing loans with a positive index of 0.04 and especially for consumer credit with a positive index of 0.23.

Terms and conditions

Terms and conditions for new loans to households, generally were characterized with marginal negative movements in the fourth quarter of 2023. The generated results mainly reflect proportional marginal tightenings for housing loans and consumer credit, as well. Specifically, banks applied higher marginal interest rates for housing loans and consumer credit with a negative index of 0.03, a result influenced by the reply of one bank (of non-systemic importance), while other banks stated that interest rates were mostly unchanged for both of these household subcategories. The main factor in increasing the interest rate (tightening applied by banks on terms and conditions) was the increase of the EURIBOR rate, a rate primarily applied for loans with variable interest rate (chart 5).

Chart 5. Changes of terms and conditions applied to households



Source: CBK. *Expected value

For the first quarter of 2024, banks in general do not expect significant movements in terms and conditions for loans to households. For the first quarter of 2024, banks generally expect positive marginal movements in terms and conditions for loans to households, including an increase in the maturity of housing loans and a reduction in collateral requirements for consumer credit.

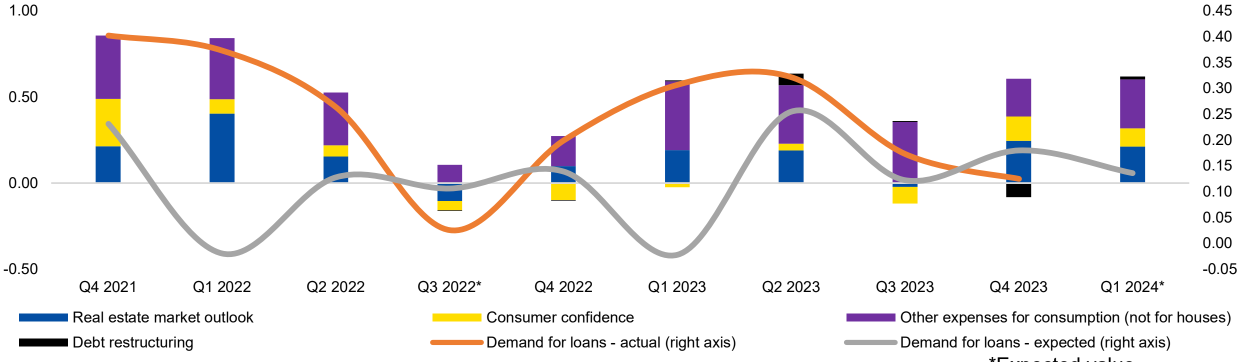
Demand for loans

After generating the results for the credit demand in this quarter, it turns out that the credit demand from households in general has marked an increase, albeit of a lower rate compared to the previous quarter. If the loan demand is broken down by types of loans to households, it turns out that the demand for consumer credit marked an increase with a positive index of 0.16, whereas the demand for housing loans marked a growth with a positive index of 0.09. More precisely, three banks, of which one with systemic importance, reported an increase in demand for loans for house purchase, while another bank (with a systemic importance) stated a decrease in demand for the same ones. For consumer credit, four banks, of which two with systemic importance, stated an increase in demand and one bank (of no systemic importance) stated a decrease in demand for the same ones. If the results of the actual demand for loans are compared with the expectations of banks stated in the previous survey for the same period, the actual level of the increase of the demand is lower (chart 6).

The need for financing consumption expenses and the increase in consumer confidence contributed to the increase in demand for consumer credit. However, the positive perspective in the real estate market influenced an increase in demand for loans for real estate purchases. At the same time, the quality of applications submitted by households for house purchase and consumer credit marked positive marginal increase, with a positive index of 0.03 each.

Banks stated an improvement of credit portfolio quality for households, based on the negative index of 0.03. Dynamics influenced by the responses of three banks, where two of them with non-systemic importance, which stated an increase in the nonperforming loans ratio, whereas a bank with systemic importance stated a decrease in nonperforming loans ratio.

Chart 6. Changes in demand for loans from households and contributing factors



Source: CBK.

*Expected value

In the first quarter of 2024, the demand for loans from households is expected to have an approximate increase as in the actual quarter. More specifically, banks expect an increase in demand for consumer credit with a positive index of 0.23 and for housing loans with a positive index of 0.04. Expectations for this dynamic, were affected by replies of five banks (two of them with systemic importance) which expect an increase in demand for consumer credit, and three banks (one of them with systemic importance) which expect an increase in demand for housing loans. The survey results suggest that mainly the need to cover consumer spending is expected to drive this increase of the demand and to a lower level the good outlook in real estate market. Banks do not expect a significant change regarding the quality of applications for loans.

During Q1 2024, banks expect that the credit portfolio quality of households will be characterized by a further deterioration (albeit at a lower level compared to the statement of the previous quarter), based on the positive value of the index. More precisely, banks' expectations on nonperforming loans ratio resulted in a positive index of 0.07, stated by two banks, where one of them is with high weight in lending and with systemic importance.

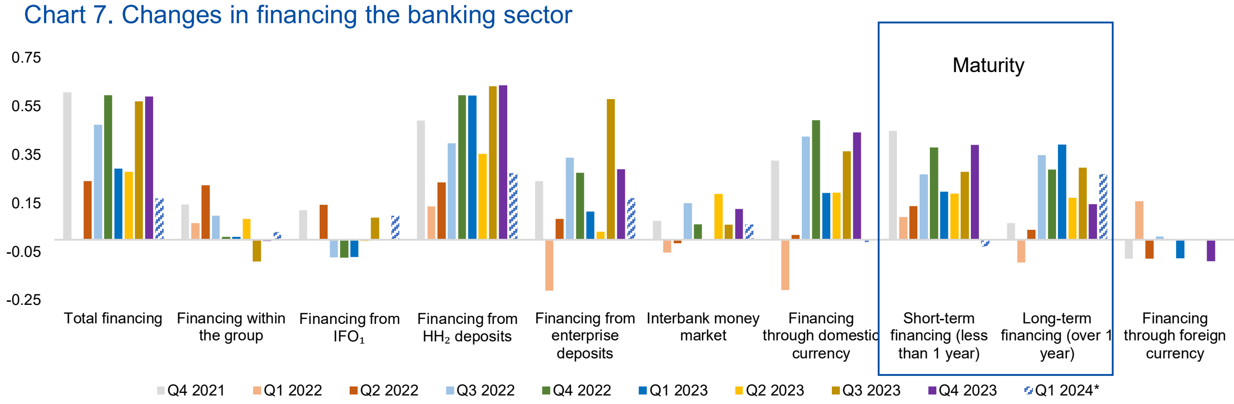
Financing

Banks reported a significant increase of access to financing also during the fourth quarter of 2023, similar to the statement of the previous quarter. The aggregated result of the banks' replies was affected by the responses of nine banks (of which five with systemic importance) that stated an increase in financing.

Based on the aggregated result of the replies, during this quarter the total financing increased similar to the level of the previous quarter and almost at double rate marked in Q2 2023, more precisely a positive index 0.59 (positive index 0.57 in Q3 2023 and 0.28 in Q2 2023). Similarly, household deposits generated a positive index of 0.64 (0.63 in Q3 2023), representing almost a double higher index compared to Q2 2023 (positive index of 0.35). This result was affected by the replies of nine participating banks in the survey, where five of them are with systemic importance, and further, two of these banks stated a considerable increase of household deposits. Unlike the previous quarter, financing from enterprise deposits, despite the increase marked, was significantly at a lower level; with a positive index of 0.29 (positive index of 0.58 in Q3 2023 and 0.03 in Q2 2023), reflecting the replies of six participating banks, three of which are systemically important banks. Financing from the parent banks and from international financial institutions remain mainly unchanged (chart 7). Regarding the maturity of financing, in this quarter a higher increase was marked for short-term maturities. More specifically, short-term deposits generated a positive index of 0.39, while long-term deposits generated a positive index of 0.15.

For the following quarter, in general, banks expect an increase to total access to financing, albeit at a significantly lower level compared to the current quarter with a positive index of 0.17, stated by seven participating banks in the survey. Financing through household deposits is expected to lead the increase of financing of the banking sector with a positive index of 0.27, followed by financing from enterprise deposits with a positive index of 0.17, stated by six banks which expect an increase in these sources of financing. Regarding the maturity of financing, banks expect the increase of financing to come from long-term maturities. More specifically, there is expected an increase in long-term financing with a positive index of 0.27, whereas a marginal decline from short-term financing with a positive index of 0.03 (chart 7).

Chart 7. Changes in financing the banking sector



Source: CBK.

*Expected value

Results of focused questions

The questionnaire of the survey, for the fourth quarter of 2023, has been supplemented with four additional questions in an attempt to identify possible risks in the banking sector in general, as well as to break down the credit supply and demand by economic sectors.

The survey questionnaire carried out in Q4 2023 aims to measure the sentiment of banks about the main developments and challenges of the financial sector in the first half of 2024. The potential effect of visa liberalization, banking policies on the real estate market, as well as exposure/management of liquidity in the first six months of 2024, were some of the additional questions that CBK has posed to banks. The banks in their replies stated that they do not expect any significant change in the demand for loans from enterprises and households, related to the effect of visa liberalization. Regarding the real estate sector, bank policies are generally expected to be more favorable, while credit demand for this segment is expected to increase to some extent - in line with macroeconomic developments in the country. As regards to liquidity, banks have generally stated a cautious approach to liquidity management, and there is an attitude of not expecting difficulties during the following six months.

The disaggregated replies of banks for enterprises, classified by sectors, indicate the direction of financing the economy and dynamics in certain sectors. During the fourth quarter of 2023, credit standards marked negligible marginal changes in some of the economic sectors. The sector of construction was characterized with marginal negative results with a negative index of 0.02, implying a tightening of credit standards. Whereas, for the manufacturing, trade and services sector the negative index was 0.01. Terms and conditions at a higher extent were tightened for the construction sector, whereas there was marked an ease to some extent for the manufacturing, and trade sector. For the real estate sector, terms and conditions result to have tightened to some extent, being impacted by developments in commercial real estate, since the residential ones were characterized with an ease to some extent. Conversely, the demand for loans marked an increase during this period. The sector with the most increased demand for financing was the one of trade, with a positive index of 0.22, an increase stated by five banks. At the same time, the second sector by increase of the demand was the construction sector with a positive index of 0.09, an increase stated by three banks.

Based on the generated results, during the following quarter banks are expected to apply minor changes in the credit supply (marginal tightening) for all economic sectors included in the survey. Terms and conditions are also expected to have marginal tightening. At the same period, the demand for loans is expected to mark positive movements. More specifically, there is expected an increase in demand from the trade and manufacturing sector (positive index of 0.13 and 0.10, respectively).

Inflation Expectations

In order to enhance analytical capacities and based on the advanced regional and more comprehensive experiences, the CBK surveys financial institutions in the country. This happens based on the hypothesis that financial institutions carry the best practices from parent banks and have the appropriate expertise to project inflation dynamics. Since the third quarter of 2019, BLSK has been enriched with supplementary questions, which address commercial banks expectations on price developments in the country. This helps complement our publications in terms of analysis, modeling and forecasting.

In the last questionnaire, besides the statements of the banks relating their estimates on the level of inflation for the previous quarter, the questionnaire addresses also the overall expectations of the banks for the first quarter of 2024 and for the whole year of 2024 in general. The survey serves also as a tool to identify specific factors, which potentially may affect bank expectations for the specified level of inflation.

Methodology

Inflation expectations have at least two important roles. First, they offer summarized quantitative series for inflation rate in the future, and secondly, they may be used to assess the confidence of the objective of inflation set by the central banks.

The importance of inflation expectations is higher for the countries which have adopted the strategy of targeting the inflation. For these countries, inflation expectations, among others, serve also as an indicator of the public confidence towards central banks. If it is believed that the central bank will act in order to achieve the objective, then, also the expectations of the economic agents on the inflation rate would be closer to the objective.

Inflation expectations are important also for banks which do not have monetary policy, given that they serve as an important input in defining the prices and salaries, and in the process of modeling and forecasting. Moreover, inflation expectations have an impact on the aggregate demand, which later affect the inflation trend.

Unlike the current inflation which is measured in a direct way, inflation expectations are assessed with indirect methods. Among the mostly used is the survey of economic agents: consumers, businesses, commercial banks, etc. The Central Bank of the Republic of Kosovo, for the first time began with the assessment of inflation expectations in the third quarter of 2019, initially with commercial banks.

Estimates which are performed by commercial banks are of quantitative forms associated also with the spread of the profitability. Inflation expectations are estimated for different time frameworks, where initially are performed the estimates on the actual quarter and the expectations for the following quarter and the current year in general. The summarizing of inflation through the surveys is followed by a systemic process, elaboration and aggregation in order to find the average of inflation expectations from the commercial banks.

Results Summary

Based on the survey conducted in January 2024, banks have estimated the level of inflation in the first quarter of 2024 similar to that of the previous quarter, while for the whole year 2024, they stated that they expect the level of inflation to be 3.5%, compared to 4.9% marked in 2023.

Table 2. Inflation expectations of banks, annual change in per cent

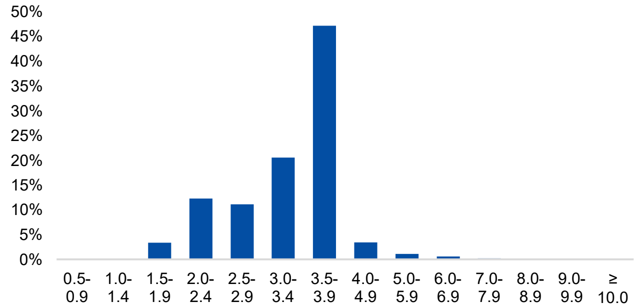
Banks	Q4 2023	Q1 2024	2024
1	4.3%	3.9%	3.5%
2	2.3%	2.2%	2.0%
3	4.2%	2.6%	5.2%
4	3.4%	3.3%	3.2%
5	2.3%	3.5%	3.5%
6	4.2%	3.7%	3.8%
7	3.1%	3.9%	3.9%
8	2.3%	3.7%	2.7%
9	3.3%	3.4%	3.3%
10	4.9%	4.0%	4.5%
Average	***3.4%***	***3.4%***	***3.5%***

Source: Commercial banks and CBK calculations.

Chart 8 depicts the spread of reported probability, shown by a relatively high certainty concerning the result of the upcoming inflation. This is because the spread of banks' probability is concentrated in the expected inflation.

In their qualitative comments, banks have mentioned several key factors that have affected and are expected to affect the rate of inflation, including interest rate increases by the US Federal Reserve, the European Central Bank, and the Bank of England. The drop in prices in the international markets as well as the slowdown in the growth of the global economy, may have influenced the slowing down of the rise of inflation, given the high dependence of Kosovo's economy on the import of goods, etc.

Chart 8. Probability of inflation for Q1 2024 (axis-x: inflation expectations, annual change in percent; axis-y: probability)



Source: Commercial banks and CBK calculations.

In addition, other factors that have influenced inflation to still remain high include the war in Ukraine, with significant influence from

Russia and Ukraine as they represent the supplying countries of raw materials, the war in Gaza, and the domestic pressures to increase the salaries.

As a conclusion, banks expect to have a slowdown increase of inflation during the year of 2024. Also, the data from the Statistics Agency of Kosovo for the first two months of 2024 show an even more pronounced slowdown in the inflation rate (an average rate of 2.0%). However, expectations for a slowdown may be negatively affected by global developments and the uncertainty surrounding them.

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