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

Bank Lending Survey

Number 19

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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

(Q1 2024 and expectations for Q2 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 first quarter of 2024, and banks expectations for credit dynamics in the second 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 be characterized by a growth also in the third quarter of 2024, however at a slower pace compared to the same period of the previous year. New loans marked a higher annual growth, albeit a slower quarterly growth in Q1 2024. Dynamics in credit activity were influenced to a greater extent by credit demand, whereas credit supply had marginal changes in both directions (negative/positive) during this quarter. For the next quarter, banks expect the credit activity to continue to be influenced by the increased credit demand, while also the credit supply is expected to have positive marginal changes.

As for the enterprise segment, banks reported that the dynamics of lending to them was mainly determined by credit demand, which marked an increase to a certain extent, while the credit supply for this segment had marginal negative changes (slight tightening). Within the enterprise categories, banks stated that they will apply, to some extent, tightened credit standards, both for large enterprises and for SMEs (table 1). The quality of the credit portfolio, the declining rate - but still high rate of EURIBOR, the uncertain outlook in the global markets and the bank's liquidity position were the main factors that influenced the slight tightening of credit standards for these segments. Conversely, the support from KCGF marked positive impact on credit standards for this segment. For the second quarter of 2024, banks' expectations for credit standards do not suggest a change compared to the first quarter of 2024 for large enterprises (marginal tightening), while for SMEs, credit standards are expected to be more favorable and to ease to some extent (table 1). The support from the KCGF, the mitigation of perceived internal risk factors (required collateral) and the perspective of the local banks are expected to have an easing effect on credit standards. On the other hand, the progress in financing rates (EURIBOR), risk tolerance by banks as well as the banks' liquidity position may have tightening potential, but at marginal levels.

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 SMEs segment,

[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.

standards were eased to a certain extent in collateral requirements, as well as in the size of the loans (marginal ease). For large enterprises and SMEs as well, it turns out that there was a marginal ease in the average size of the loan. For both segments, the aggregated results suggest that there was marked a marginal tightening as regards to the loans maturity and in the margin of interest rate on loans. Applied terms and conditions were negatively affected to some extent by potential changes in the bank's risk tolerance, the quality of the credit portfolio, as well as by the EURIBOR rate, but at a lower level. On the other hand, applied terms and conditions were positively influenced by the support from the KCGF and the competition from non-banking institutions (an ease to some extent). In the next quarter, in general, applied terms and conditions by banks are expected to remain mainly unchanged, with the exception of collateral requirements that are expected to be eased to some extent. The liquidity position of the banks as well as the perspective of the local market have been specified as a factor that may negatively affect the terms and conditions of lending during the next quarter, factors that are expected to be neutralized by the competition and the support given by the KCGF.

In the first quarter of 2024, it was reported an increase to some extent in the demand for loans from enterprises, similar to the dynamics of the previous quarter. The demand for loans turns out to have been higher from SMEs, against the demand for loans from large enterprises. In general, the increased demand loans, according to bank statements, was mainly driven by the increase in demand for financing inventories and working capital and for financing fixed investments. The index generated for banks' expectations on credit demand during the next quarter suggests a high increase in credit demand from both categories of enterprises. Banks attributed these expectations to the expected increase in the demand for fixed investments and financing inventories and working capital, in accordance with the business cycle.

Lending activity to households has continued to expand with a high pace in Q1 2024, being supported by the supply and demand side as well. Credit standards eased to some extent for housing loans, and for consumer credit as well, during the first quarter of 2024. In the second quarter of 2024, the credit standards applied by banks are expected to be similar as in Q1 2024, implying an ease to some extent for both segments (table 1). The factors that determined the developments in credit standards during Q1 2024 are expected to remain unchanged and the same ones will determine the dynamics in Q2 2024.

In general, terms and conditions eased to some extent for new loans to households during the first quarter of 2024. The results generated reflect an ease to some extent in the interest margin on loans and maturity for housing loans, while for consumer credit was marked an ease in interest margin and the size of the average loan. The banks stated that in easing terms and conditions for new loans had an impact, to higher extent, the good prospects of local banks and the competition from other banks, and to a lesser extent, the credit quality, liquidity position and the borrowers confidence. For the second quarter of 2024, banks expect in general an ease of terms and conditions for new loans.

The household demand for loans marked a high growth in the the first quarter of 2024, where the demand for consumer credit was much higher compared to the demand for housing loans. According to the banks, the need to finance expenses for consumption and investments and the increase in consumer confidence (more optimistic macroeconomic perspective) has influenced the high growth in demand for consumer credit. Meanwhile, it was the prospect of the real estate market that appears to have contributed to the increase in demand for real estate loans. Also, in the second 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, being impacted by the demand for consumer credit and the need to finance other household expenses. A high increase in demand is also expected for housing loans, supported by expectations for good perspective in the real estate market.

Table 1. Banks assessment on the change of credit supply and demand

	Supply (Credit standards)		Demand	
	Q1 2024	Q2 2024 (expectations)	Q1 2024	Q2 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.

In the first quarter of 2024, banks applied a more eased approach in assessing the new applications, especially for consumer credit for households and for loans to large enterprise. Facilitation in the examination of new applications was for loans with short-term maturity, while for loans with long-term maturity, banks were marginally more conservative for both segments (enterprises and households). In the second quarter of 2024, banks' approach to the assessment of new loans applications is expected to be more eased, especially for large enterprises and consumer credit.

Access to financing from banks, during Q1 2024, turns out to be lower compared to the results of the previous quarter. Banks stated a lower increase in being financed from household deposits in this quarter compared to the previous one, while a decrease in financing from enterprise deposits and financing from external financial markets. Regarding maturity, banks stated an increase to a certain extent in short-term financing (up to one year), while a marginal decrease in long-term financing (over one year). During the next quarter, banks generally expect higher increase of financing, mainly from the expected increase in deposits from both segments, households and enterprises. During the next quarter, an increase in financing with short-term maturity is expected, while the long-term maturity is not expected to change.

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. Further more, 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.

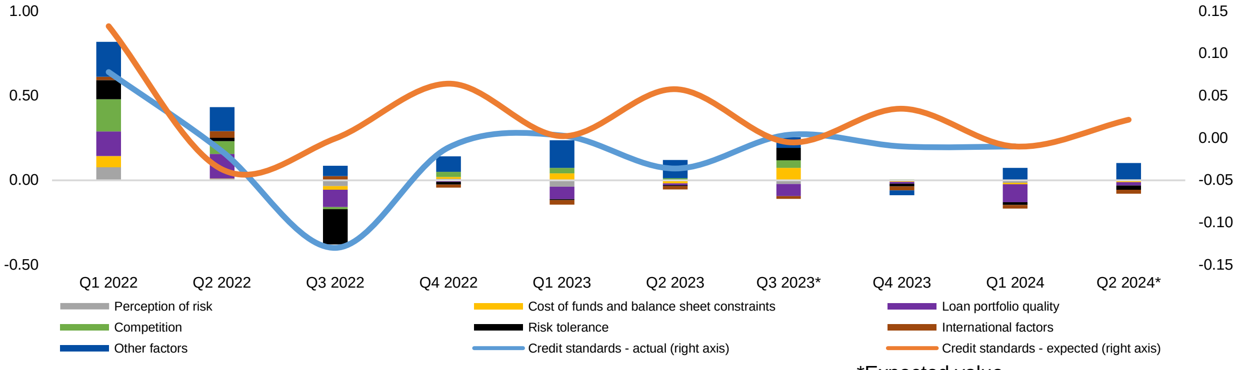
Developments in credit standards, credit terms and conditions, and in the demand for loans

Loans to enterprises

Credit standards

During the first quarter of 2024, the result on credit standards (credit policies) applied to enterprises in general represent no unexpected or large lending dynamics. Banks' expectations expressed in the previous survey (Q4 2023) for the credit standards applied to enterprises were in line with the current survey (Q1 2024), thus standing at marginal levels of negative territory (tightening) (chart 1).

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



Source: CBK. *Expected value

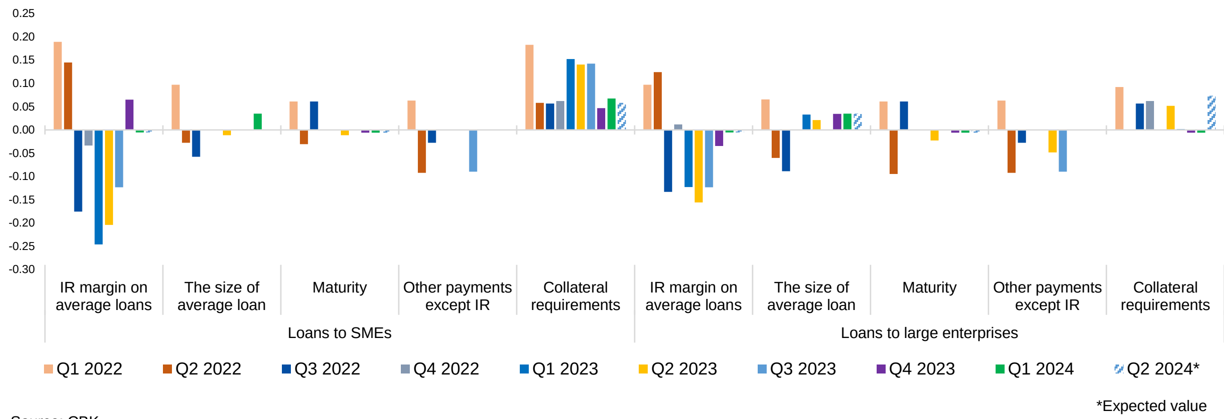
Within the enterprise categories, banks stated marginally tighter credit standards for large enterprises and SMEs with a negative index of 0.01 for each category. The main factors that negatively affected credit standards, tightening to some extent, were the potential changes in the regulation in the European Union, the quality of the credit portfolio, as well as the increase in the EURIBOR rate with negative indices of 0.11, 0.11 and 0.06, respectively. Whereas, the only factor which had an impact in easing credit standards, and giving security to the banking sector, was the support offered by the KCGF with a positive index of 0.13. Other factors that influenced credit standards had marginal low movements positive/negative, which mainly relate to risk perception, cost of financing and balance sheet constraints, competitive pressure and risk tolerance.

Overall credit standards are expected to mark negative marginal oscillations (tightening) in the following quarter, similar to the generated results of the current quarter. More specifically, ten out of eleven participating banks in the survey stated that they do not expect changes in credit standards for enterprises. The support given by the KCGF is expected to contribute positively to credit standards, while potential changes in regulations in the European Union are expected to contribute negatively to some extent. Other factors are expected to have marginal positive/negative oscillations in credit standards, such as the outlook in the local market, the liquidity of the banking sector, the quality of problem loans, competition from banks and non-banking institutions, the outlook of parent banks, etc.

Terms and conditions

In the first quarter of 2024, in general, terms and conditions applied by banks when granting loans to enterprises (terms and conditions specified for a specific loan contract) remained mainly unchanged for both categories of enterprises (within the limit +0.05/-0.05) (chart 2). Specifically, an ease to some extent was applied to collateral requirements for SMEs with a positive index of 0.07, while for large enterprises marginal tightening of 0.01. This result was influenced by the responses of a systemically important bank (an ease for SMEs), and a non-systemically important bank (to large enterprises). On the other hand, regarding the size of the average loan, both for SMEs and large enterprises, there will be favorable conditions at marginal levels, with a positive index of 0.04, expressed by a bank of non-systemic importance. Payments other than interest, result to be unchanged for all the banks. Applied terms and conditions were negatively affected to some extent by potential changes in regulations in the European Union, the quality of the credit portfolio, and at lower level by the EURIBOR rate. On the other hand, the competition from the non-banking sector and the support from the KCGF had a positive effect to some extent in easing applied terms and conditions.

Chart 2. Changes of terms and conditions applied to enterprises



Source: CBK.

During the following quarter (Q2 2024), in general, terms and conditions applied by banks are expected to remain unchanged (within the limits of +0.05/-0.05). For both SMEs and large enterprises, the applied interest rate is expected to have negative marginal changes, followed by the average size of loans. Meanwhile, an ease to some extent for both categories of enterprises is expected to be in the requirements for collateral. The liquidity position of the banks, the potential increase of the EURIBOR rate and the perspective of the local market negatively affected terms and conditions applied by the banks, which were offset by the competition from non-banking institutions, the support from the KCGF and the reduction of the risk in the required collateral.

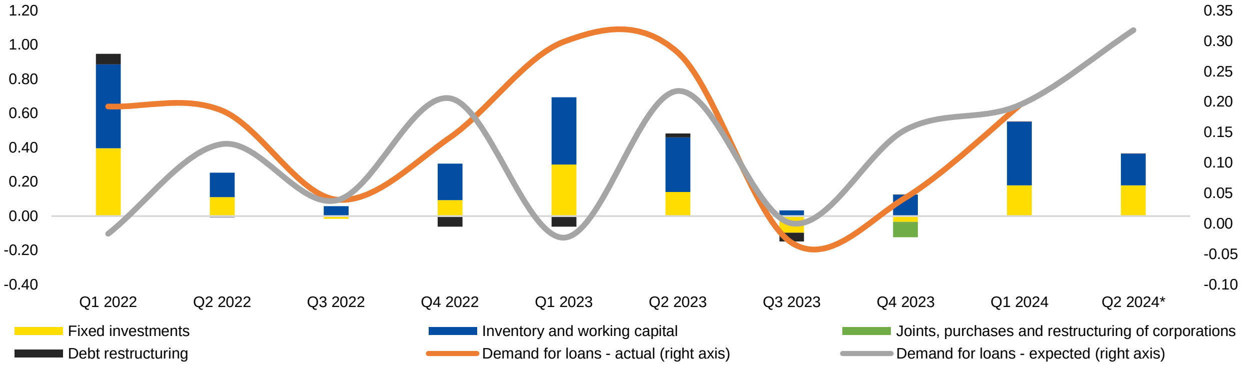
Demand for loans

During the first quarter of 2024, the demand for loans from enterprises increased to some extent, representing a similar dynamic to the previous quarter. Precisely, the replies generated a positive index of 0.15, expressed by seven out of a total eleven banks participating in the survey, where two of the banks were with systemic importance and five 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 Q1 2024, expressed in the previous survey (Q4 2023) (chart 3).

According to the results of the survey, changes in the demand for loans from enterprises were mainly driven by the demand for financing inventories and working capital with a positive index of 0.37, and for financing fixed investments with a positive index of 0.18. The quality of applications received by enterprises had marginal positive changes, implying an improvement of applications throughout Q1 2024, more specifically improvement in the quality of applications submitted by large enterprises.

According to the survey, during Q1 2024, nonperforming loans ratio of enterprises marked an improvement, resulting with a negative index of 0.22. 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 (one 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

Unlike the current quarter, where banks stated an increase in the demand for loans to some extent, banks expect a significant increase in the demand for loans from enterprises during the next quarter (Q2 2024). This result was impacted by replies of eight 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 the inventory and working capital. The quality of loan applications received in the next quarter is expected to have marginal improvements in general, with better quality from large enterprises.

During the next quarter, banks expect the nonperforming loans ratio to total loans to enterprises to decline to some extent, which resulted with a negative index of 0.08. Three banks, where one of them with systemic importance, expect a decline of enterprise nonperforming loans ratio, whereas another bank expect this ratio to remain unchanged.

Loans to households

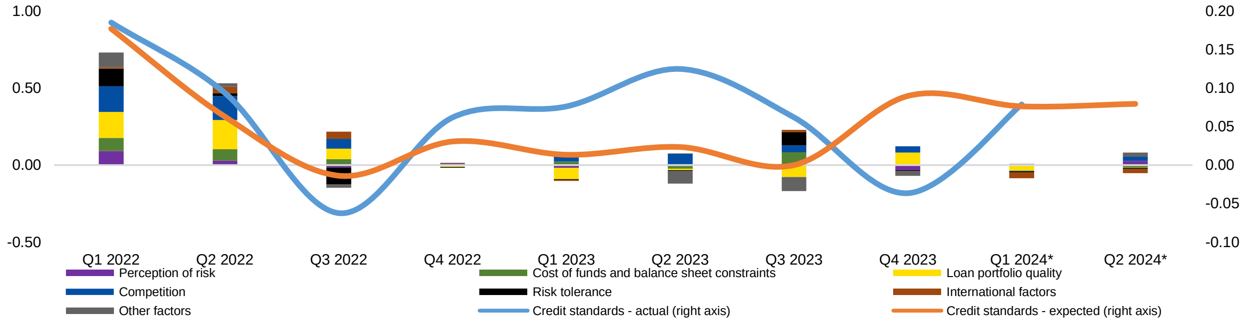
Credit standards

Credit standards applied for households, during the first quarter of 2024, were eased to some extent. An ease to some extent was applied to housing loans with a positive index of 0.10, based on the response of a systemically important bank, as well as for consumer credit with a positive index of 0.06, based on the statement of another systemically important bank. Expectations for the current quarter, stated by banks in the previous survey (Q4 2023), resulted to be approximate to the actual values, especially for loans for house purchase (chart 4). The positive perspective of local banks in the market was the factor with the most significant impact on easing the credit standards for households.

In the second quarter of 2024, banks expect similar developments in credit standards applied to households: positive changes to some extent (easing) in credit standards, which is more pronounced for housing loans (positive index of 0.10) and personal/consumer credit (positive index 0.06). The factors that are expected to positively affect credit standards are the perspective of banks in the local market, the increase in the borrowers confidence, competition from other banks, as well as the

EURIBOR rate, which is not expected to be greatly affected by inflationary pressures, since the central banks have given a positive signal, if not a decline, not to increase the basic interest rates.

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



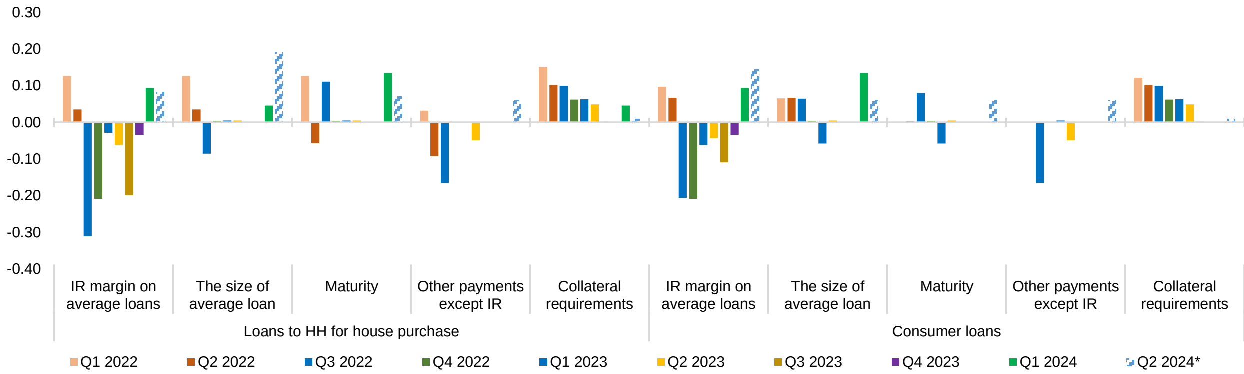
*Expected value

Source: CBK.

Terms and conditions

Terms and conditions for new loans to households, generally were characterized with positive movements in the first quarter of 2024. The results generated mainly reflect better conditions for housing loans compared to the conditions for consumer credit, albeit the difference among them is not significant. Precisely, banks applied more favorable marginal interest rates for housing loans and consumer credit with a positive index of 0.09, a result influenced by the responses of two banks (one with systemic importance), while two other non-systemic banks stated marginal tightening in terms of interest rate. Banks offered better conditions for housing loans through the extension of the maturity (an ease to some extent), while in terms of the value of the loan it was marked a positive marginal ease. On the other hand, for consumer credit, there was an ease to some extent in the average size of the loan, while regarding the maturity of the loan, payments other than the interest rate and the demand for collateral remained unchanged. The main factor that positively influenced terms and conditions were the perspective of the banks in the local market, banking competition, the borrowers confidence as well as the good credit quality (chart 5).

Chart 5. Changes of terms and conditions applied to households



Source: CBK.

*Expected value

For the second quarter of 2024, banks in general expect an ease to some extent in terms and conditions for loans to households. Banks expect an ease to some extent in terms of the internal interest rate margin in the loan, loan size, maturity as well as in the payments other than the interest rate, both for consumer credit and those for house purchase (slightly more favorable conditions), while the demand for collateral for both categories of loans is expected to ease at marginal levels.

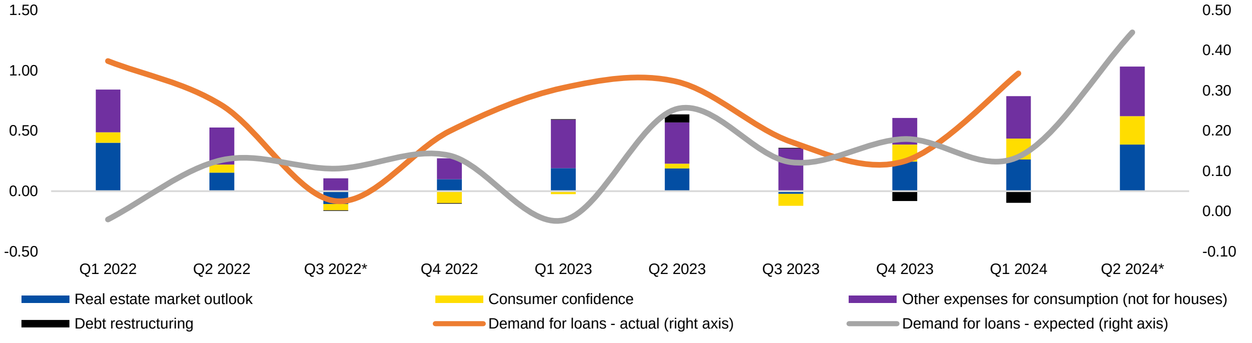
Demand for loans

The results of the Q1 2024 survey suggest that the credit demand from households has marked a significantly higher increase compared to the results generated in the previous quarter (Q4 2023). If the loan demand is broken down by types of loans to households, it turns out that the demand for consumer credit marked a significant increase with a positive index of 0.42, whereas the demand for housing loans marked a growth with a positive index of 0.27. More precisely, six banks, of which two with systemic importance, reported an increase in the demand for loans for house purchase, while other banks stated that the demand for loans remained unchanged. Regarding consumer credit, eight banks, four of them with systemic importance, declared an increase in the demand for loans, while the other three banks reported that the credit demand was unchanged. 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 higher (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 has influenced an increase in the demand for housing loans. At the same time, the quality of the applications received by households showed a positive increase to some extent for consumer credit, with a positive index of 0.08, while for the housing loans it showed a marginal decrease, with a negative index of 0.01.

Banks stated a deterioration of credit portfolio quality for households, based on the positive index of 0.13. Dynamics influenced by the responses of four banks, where one of them with systemic importance, which stated an increase in the nonperforming loans ratio, whereas another bank with systemic importance stated a decrease in nonperforming loans ratio. On the other hand, the other six banks, two of which are of systemic importance, stated that there were no changes in the level of nonperforming loans.

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



Source: CBK. *Expected value

Even in the second quarter of 2024, the demand for loans from households is expected to be high, exceeding the demand level of the current quarter (Q1 2024). More specifically, banks expect an increase in demand for consumer credit with a positive index of 0.49 and for housing loans with a positive index of 0.40. The expectations for this dynamic, were impacted by replies of nine banks (four of them with systemic importance) which expect an increase for consumer credit. Also, nine banks (four of them of systemic importance) expect an increase in the demand for housing loans. The results of the survey suggest that mainly the need to cover consumption expenses and the consumer confidence are expected to drive this increase of the demand for consumer credit, and the good outlook expected in the real estate market, is expected to drive the demand for housing loans. Banks expect some improvement in the quality of applications received for housing loans and consumer credit, with a better quality for long-term loans.

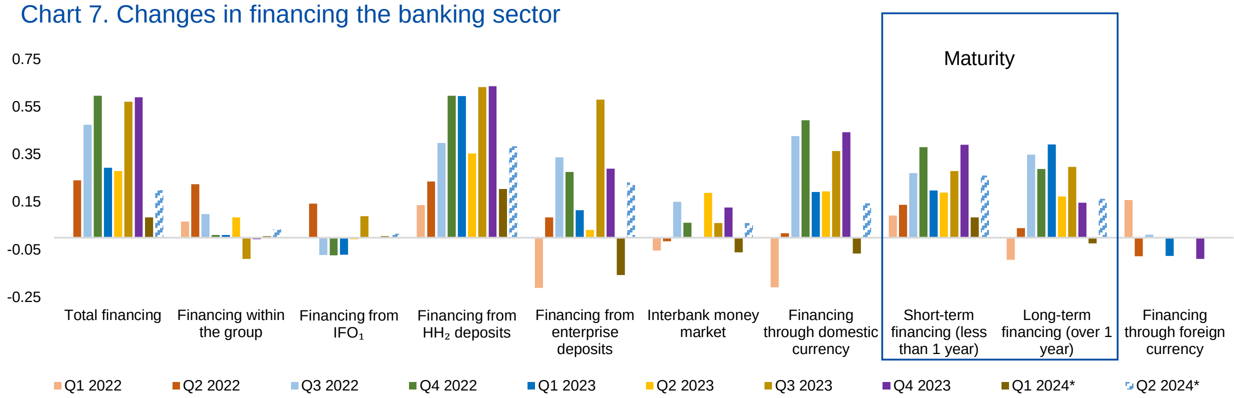
Credit portfolio quality of households is expected to deteriorate on marginal levels, in Q2 2024. Specifically, banks' expectations for the nonperforming loans ratio resulted in a positive index of 0.01, stated by one bank, which has a low weight in total bank lending, while other banks stated that during Q2 2024, the level of problem loans will not to undergo changes.

Financing

Banks reported an increase to some extent of the access to financing during the first quarter of 2024. The aggregated result of the banks' replies was affected by the responses of six banks, of which one with systemic importance that stated an increase in financing.

Based on the aggregated result of the responses, financing was characterized by an increase to some extent in Q1 2024, albeit at a slower level compared to the previous two quarters, exactly a positive index of 0.09 (positive index of 0.59 in Q4 2023 and 0.57 in Q3 2023). Household deposits generated a positive index of 0.20 (0.64 in Q4 2023), representing almost a three fold lower index compared to Q4 2023. This result was driven by the responses of eleven banks participating in the survey, of which five banks stated an increase to a certain extent in financing, one of which was of systemic importance. Unlike the previous quarter, financing from enterprise deposits marked a decline to some extent with a negative index of 0.16 (positive index of 0.29 in Q4 2023 and 0.58 in Q3 2023), reflecting the replies of seven participating banks, three of which are systemically important banks. Financing from the parent banks and from international financial institutions remain mainly unchanged (chart 7). As for the maturity of financing, in this quarter there was an increase to some extent for short-term maturities, whereas for long-term maturities there was a marginal decrease. More specifically, short-term deposits generated a positive index of 0.09, while long-term deposits generated a negative index of 0.02.

Chart 7. Changes in financing the banking sector



Source: CBK.

For the next quarter, banks generally expect higher financing increase compared to the current quarter, with a positive index of 0.20 (Q2 2024) from 0.09 in Q1 2024. Financing through household deposits is expected to lead the increase of financing of the banking sector with a positive index of 0.38, followed by financing from enterprise deposits with a positive index of 0.23, stated by eight 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 and short-term maturities as well, albeit with lower impact from the latter ones. More specifically, there is expected an increase in long-term financing with a positive index of 0.26, whereas from short-term financing it was marked a positive index of 0.16 (chart 7).

Results of focused questions

The questionnaire of the survey, for the first quarter of 2024, has been supplemented with four additional questions in an attempt to identify possible risks in the banking sector, as well as to break down the credit supply and demand by economic sectors.

The survey questionnaire carried out in Q1 2024 aims to measure the sentiment of banks about the main developments and challenges of the financial sector in the following six months and the whole year of 2024. The potential effect of visa liberalization, banking policies on the real estate market, as well as exposure/management of liquidity, were 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, disregarding the additional movements of the citizens after the visa liberalization. As for the real estate sector, the banks' policies are generally expected to be favorable and will be in line with the general macroeconomic developments in the country. Whereas, as regards to liquidity, banks have generally stated a cautious approach to liquidity management, and do not expect 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 first quarter of 2024, credit standards marked negligible marginal changes in all 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 were tightened to some extent for the construction sector, while marginal tightening for the manufacturing, services, real estate and trade sector. Conversely, the demand for loans marked an increase during this period. The sector with the most increased demand for financing was the one of real estate, with a positive index of 0.10, an increase stated by three banks, one of them with systemic importance. At the same time, the second sector by increase of the demand was the trade sector with a positive index of 0.09, where the services sector had marked the same level of increase.

Based on the generated results, during the following quarter banks are expected to apply minor changes in the credit supply (marginal tightenings) for all economic sectors included in the survey. Terms and conditions are also expected to have marginal tightenings. At the same period, the demand for loans is expected to mark positive movements (an increase to some extent). More specifically, there is expected an increase in demand from the trade, manufacturing and real estate sector (positive index of 0.13, 0.13 and 0.12, 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 second 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 banks 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 April 2024, banks expect that the level of inflation in the second quarter of 2024 to be slightly higher than the previous quarter, while for the whole year 2024, the banks' expectations suggest that the level of inflation will be 2.7%. Consequently, there is a reduction in inflation expectations compared to the previous survey, when banks expected the inflation rate to be 3.5% in 2024.

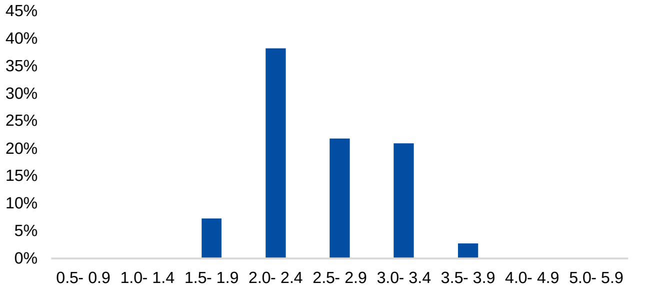
Table 2. Inflation expectations of banks, annual change in per cent

Banks	Q1 2024	Q2 2024	2024
1	2.1%	2.5%	2.8%
2	2.3%	1.7%	2.1%
3	1.1%	0.1%	2.1%
4	2.7%	2.7%	2.7%
5	2.3%	3.1%	3.5%
6	2.1%	2.4%	2.8%
7	2.3%	3.3%	3.9%
8	2.2%	2.2%	1.2%
9	2.3%	2.4%	3.4%
10	2.2%	2.9%	3.3%
11	2.2%	2.0%	1.8%
Average	***2.2%***	***2.3%***	***2.7%***

Source: Commercial banks and CBK calculations.

Chart 8 depicts the reported spread of probability, showing 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.

Chart 8. Probability of inflation for Q2 2024 (axis-x: inflation expectations, annual change in percent; axis-y: probability)



Source: Commercial banks and CBK calculations.

In their qualitative comments, banks have mentioned several key factors that have affected and are expected to affect the inflation rate, including the decline in prices in international markets, along with the slowdown in the growth of the global economy, taking into account the high dependence of Kosovo's economy on the import of goods, etc.

On the other hand, banks emphasized that the risk still remains high for the increase in inflation as a result of geopolitical developments, especially the war in Ukraine, since Russia and Ukraine are important suppliers of raw materials. Also, banks expect the ECB to decline the interest rate, which would have an impact on inflation rise. Also, internal pressures to increase wages contribute to this risk.

As a conclusion, banks expect to have a slowdown increase of inflation during the year of 2024. In addition, the data from the Kosovo Agency of Statistics for the first two months of 2024 show a slowdown in inflation rate (an average rate of 2.2%). However, expectations for a slowdown may be negatively affected by global developments and the uncertainty surrounding them.

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