



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

# Bank Lending Survey in Kosovo

Number 20

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# **Bank Lending Survey in Kosovo**

*(Q4 2024 and expectations for Q1 2025)*

Number 22

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**GLOSSARY**

**BLSK – Bank Lending Survey in Kosovo**

**KCGF – Kosovo Credit Guarantee Fund**

**SME - Small and Medium Enterprises**

## Bank Lending Survey in Kosovo (BLSK)

### Introduction<sup>1</sup>

In order to increase analytical capabilities on a good assessment of lending activities in Kosovo and expectations on the price developments, the Central Bank of the Republic of Kosovo (CBK) has designed and conducted a survey with commercial banks operating in the banking sector in Kosovo. The report that will analyse 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 behaviour of households and enterprises against the dynamics in lending, as a consequence. This report records the credit behaviour for the fourth quarter of 2024, and banks expectations for lending dynamics in the first quarter of 2025.

In addition to the standard questions, this survey has been supplemented with two 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.

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<sup>1</sup> 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.

## Summary

The fourth quarter of 2024 was characterized by a broadly unchanged lending offer, both to enterprises and households. On the other hand, credit demand was significantly higher, especially for the sector of enterprises. In Q1 2025, credit demand is expected to be lower, while credit offer is expected to be characterized by mixed developments – easing for standard households and broadly unchanged conditions for enterprises.

Lending to enterprises remained stable in the Q4 2024, with **credit standards largely unchanged**. SMEs benefited from minor easing, particularly in interest rates and collateral requirements, while conditions for large enterprises remained largely unchanged. **Credit demand was high**, driven mainly by the need to finance fixed investment and working capital, while credit **quality improved** slightly, with non-performing loans declining (Table 1). In the Q1 2025, banks expect poorer growth in credit demand and a slight tightening of credit standards for SMEs.

For households, according to bank statements in the survey, consumer and short-term loans have shown the highest growth compared to the growth of loans for house purchase and long-term loans. **While lending standards and conditions remained unchanged, the increase in credit demand** is estimated to have been influenced by consumer confidence and the positive outlook for the real estate market. In the Q1 2025, credit demand is expected to increase further, with some minor changes expected in lending conditions, such as easing of maturity requirements for mortgage loans (Table 1).

**Access to financing** from banks has improved for the second consecutive quarter, with increased deposits from households and non-financial corporations, as well as additional funding from international institutions. However, in the Q1 2025, this dynamic is expected to slow down, both for deposits and other funding sources.

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

	Supply (Credit standards)		Demand	
	Q4 2024	Q1 2025 (expectations)	Q4 2024	Q1 2025 (expectations)
<b>Enterprises</b>	➡	➡	⬆️	➡
SMEs	⬆️	➡	⬆️	➡
Large enterprises	➡	➡	⬆️	➡
<b>Households</b>	➡	⬆️	⬆️	➡
Housing loans	➡	⬆️	⬆️	➡
Consumer credit	➡	⬆️	⬆️	⬆️

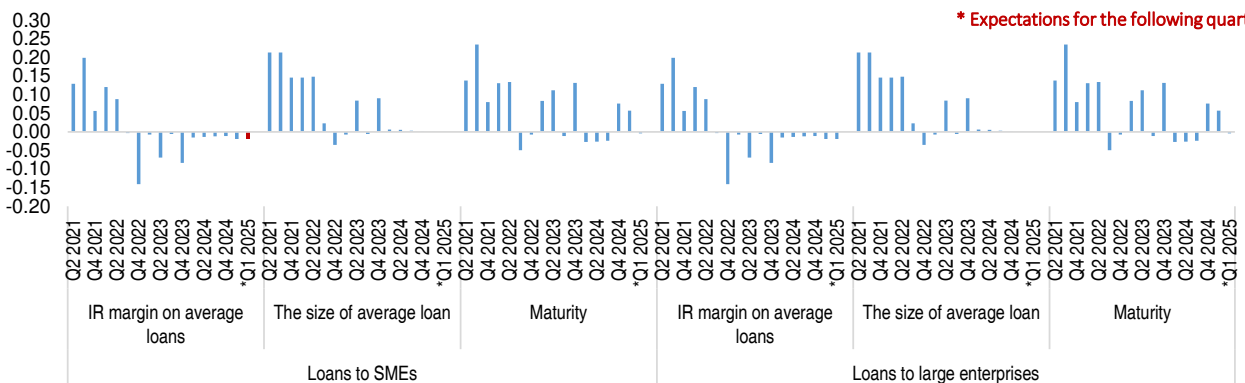
- ⬆️ Easing of credit standards/Increase in demand for loans (positive index over 0.20)
- ⬆️ Easing of credit standards/Increase in demand for loans (positive index below 0.20)
- ➡ Mainly unchanged (positive index /negative up to 0.05)
- ⬆️ Tightening of credit standards/Decrease in demand for loans (negative index below 0.20)
- ⬆️ Tightening of credit standards/Decrease in demand for loans (negative index over 0.20)

Source: CBK.



SMEs and collateral requirements were eased, influenced by the responses of one bank with systemic importance and four banks with non-systemic importance. Meanwhile, other terms such as loan size, loan maturity and payments, other than the interest rate, remained unchanged. For large enterprises, there were mainly easing in the amount of loans.

**Chart 3. Terms and conditions applied for credit standards for enterprises**



Source: CBK.

The positive impact on credit conditions is as a result of the support by KCGF, banking competition, good liquidity position and decrease of the Euribor rate, influenced by the responses of the two banks with systemic importance, and almost all banks with non-systemic importance. On the other hand, credit quality and competition from non-bank institutions had a neutral impact.

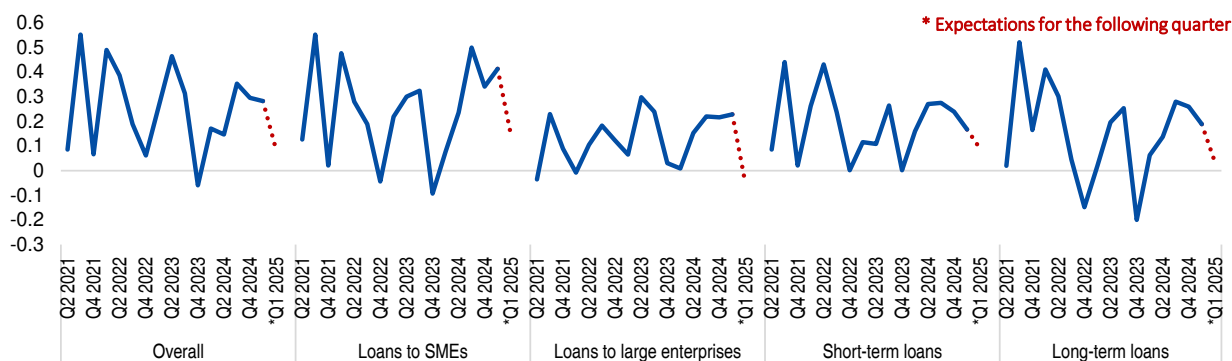
The level of corporate loan approvals increased in the Q4 2024, especially for SMEs, in line with the increase in credit demand.

*In the next quarter, terms and conditions that will be applied by banks are expected to remain almost unchanged, with an easing trend only in collateral requirements when applying for loans, influenced by the responses of the two banks with systemic importance and all banks with non-systemic importance. Factors, such as support given by the KCGF, decrease of the Euribor rate and competition are expected to continue to contribute to some extent in easing credit conditions.*

### 1.3 Demand for loans

During the fourth quarter of 2024, the demand for loans from enterprises remained high, in line with the trend of the two previous periods. The highest demand came from SMEs, while large enterprises also reported increased demand, but at a lower level (Chart 4).

**Chart 4. Household demand for loans**

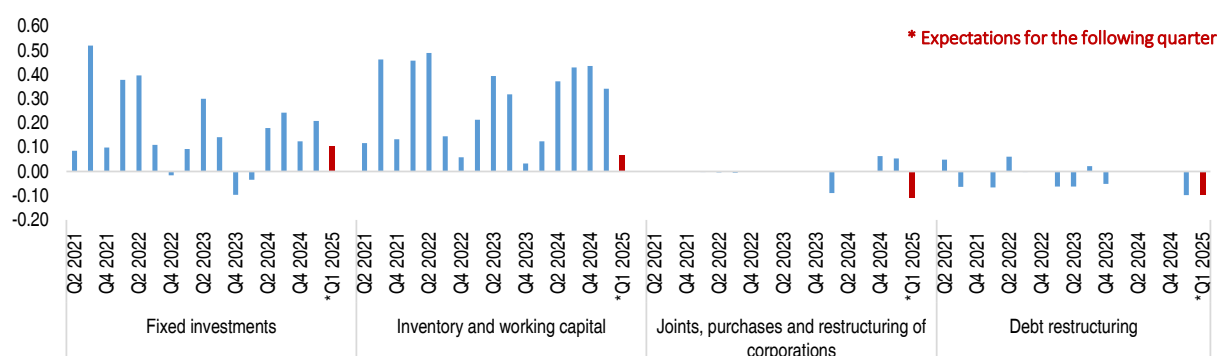


Source: CBK.

The increase in demand for loans is estimated to have been mainly driven by the need for financing fixed investment and working capital. Banks reported that the quality of applications received

remained unchanged during this quarter, a dynamic that is expected to remain unchanged during the Q1 2025 (Chart 5).

**Chart 5. Factors which affected the credit demand from enterprises**



Source: CBK.

*In Q1 2025, demand for loans is expected to be significantly lower, with an increase to some extent for SMEs and a decrease to some extent for large enterprises.<sup>3</sup> Lower increase is expected for financing fixed investments, while demand for working capital will remain unchanged. Meanwhile, demand for debt restructuring is expected to decline. This trend is in line with the business cycle, where Q1 typically has a lower level of lending compared to other quarters of the year.*

#### 1.4 Credit quality

During the fourth quarter of 2024, the banks reported a decline in the non-performing loans (NPLs) ratio. This decline was impacted by the replies of four banks, two with systemic importance, while other banks reported stability in this indicator. *For Q1 2025, the level of NPLs is expected to remain unchanged.*

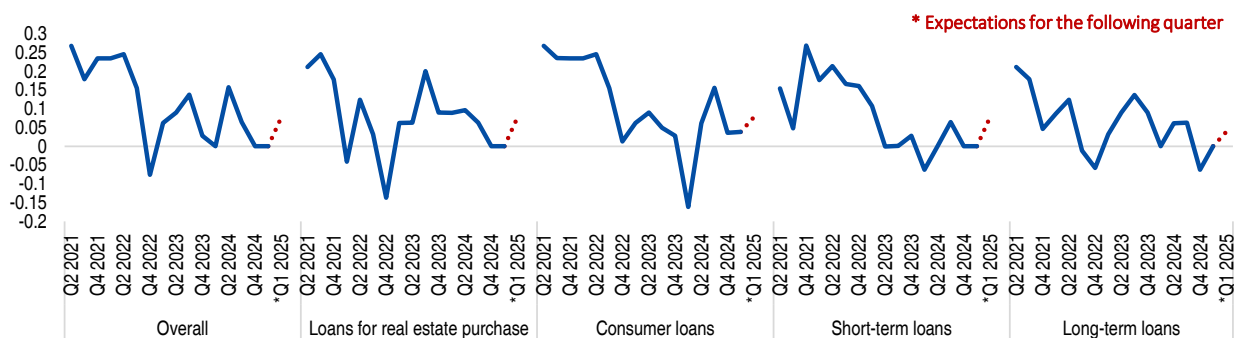
## 2.0 Loans to households

### 2.1 Credit standards

Credit standards applied for households remain largely unchanged, both loans for house purchase and consumer loans (Chart 6). 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. However, according to the response of one bank with systemic importance and one bank with non-systemic importance, these positive effects were neutralized by concerns regarding the quality of the credit portfolio, which resulted in credit standards remaining unchanged (Chart 7).

<sup>3</sup> The results were influenced by the responses of two systemically important banks and three non-systemically important banks. The other banks reported no change in credit demand.

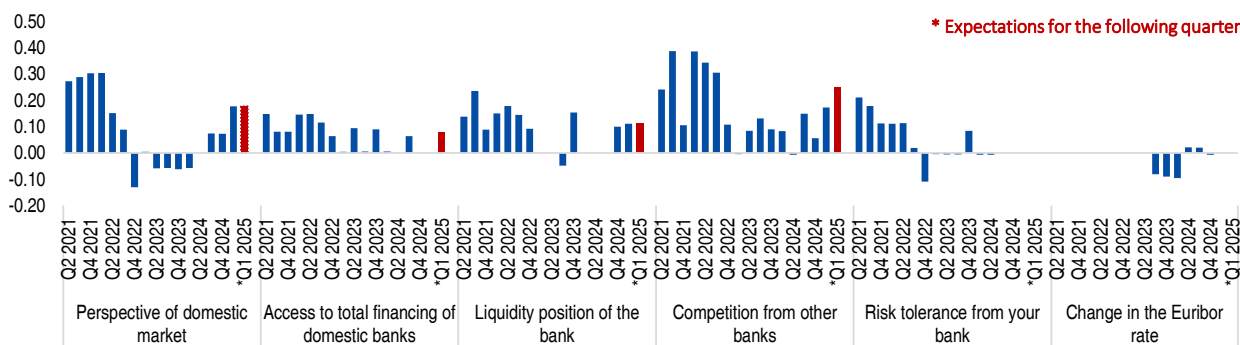
Chart 6. Credit standards applied for households



Source: CBK.

During the first quarter of 2025, credit standards are expected to remain unchanged, with the exception of one bank with systemic importance, which has announced an easing of credit standards during the next quarter, both to loans for house purchase and consumer loans.

Chart 7. Impacting factors on credit standards applied for households

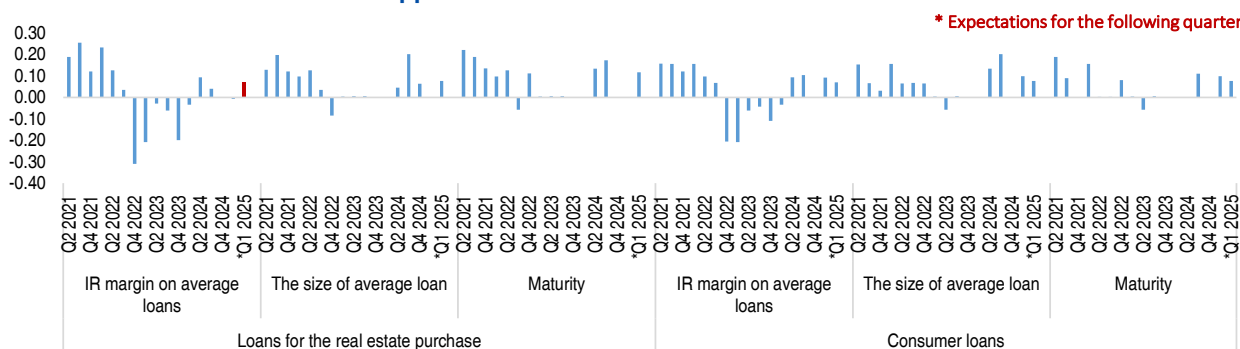


Source: CBK.

## 2.2 Terms and conditions

Terms and conditions for new loans to households remain unchanged in general, with the exception of one banks with systemic importance, which has announced an easing of the terms and conditions applied to consumer credit (Chart 8). The factors that influenced the easing of the terms and conditions applied were the good perspective of domestic banks and competition from other banking and non-banking institutions. On the other hand, concerns about the quality of the credit portfolio and lower tolerance for risks influenced the tightening.

Chart 8. Terms and conditions applied for credit standards for households



Source: CBK.

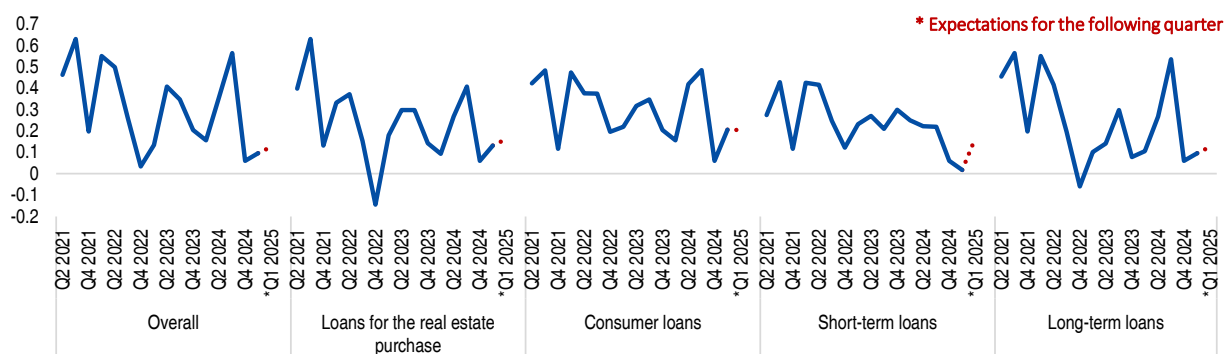
*During the first quarter of 2025, banks expect an ease of the maturity of loans for house purchase, while other terms and conditions are expected to remain unchanged.*

The quality of credit applications averagely remained unchanged, while the approval rate of household loan applications increased during this quarter. In line with the increase in demand, consumer loans and short-term maturities were characterized by higher approval rates, compared to the increase in the approval rate of loans for house purchase and long-term maturities.

### 2.3 Demand for loans

Based on the results of the Q4 2024 survey, the credit demand for households marked an increase compared to the previous quarter, both for consumer credit and loans for house purchase (Chart 9). Consumer credit and short-term loans were characterized by higher demand, compared to the demand for loans for house purchase and those with long maturities. The increase in consumer confidence, the increase in other consumption expenditures and good perspective for the real estate market are estimated to have influenced the increase in demand (Chart 10).

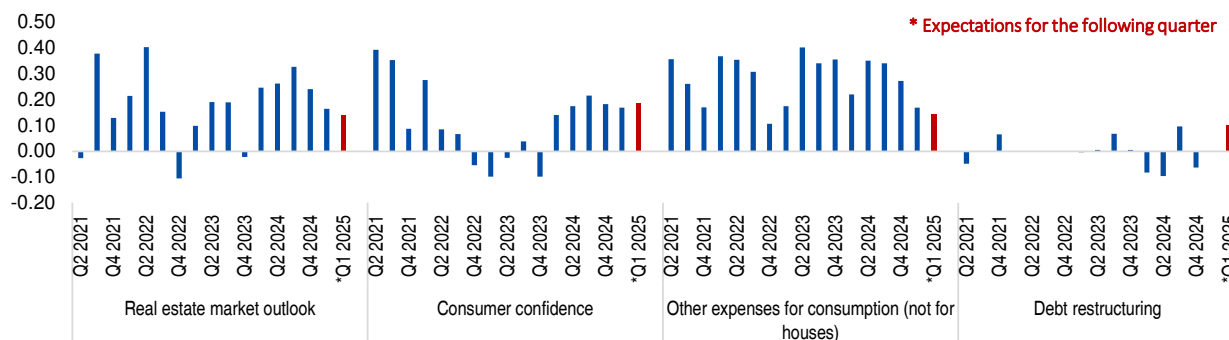
**Chart 9. Household demand for loans**



Source: CBK.

*Banks expect an acceleration in increase of the demand for loans during the first quarter of 2025, with particular emphasis on consumer credit and short-term maturities.*

**Chart 10. Factors which affected the credit demand from households**



Source: CBK.

According to the banks' statements in the survey, only one bank with systemic importance has declared an increase in the quality of applications received from households, while another bank, also with systemic importance, has declared a decrease in the quality of applications received from households.

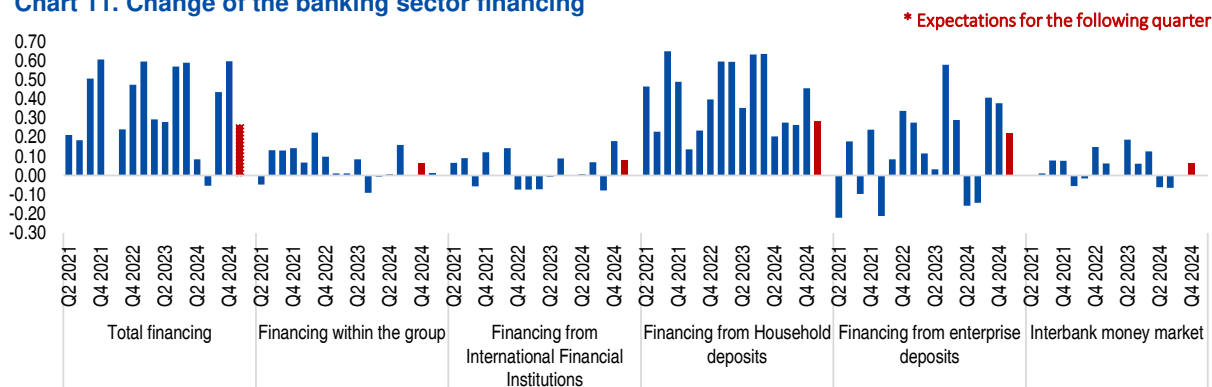
### 2.4 Credit quality

Regarding the quality of the household credit portfolio, two banks with systemic importance reported a decrease in the level of non-performing loans. While other banks reported a largely unchanged level. *According to the banks' statements, the quality of the household credit portfolio is not expected to change during the first quarter of 2025.*

### 3.0 Financing

For the second consecutive quarter, banks reported a significant increase in access to financing. Financing from household deposits marked a significant increase from the previous quarter, while deposits from non-financial corporations increased, but less than the previous quarter. Moreover, several banks reported an increase in financing from international financial institutions during the fourth quarter of 2024 (Chart 11).

**Chart 11. Change of the banking sector financing**



Source: CBK.

*During the next quarter, it is expected a slowdown in the increase of access to financing, both from household and non-financial corporate deposits, as well as from other sources of financing.*

### 3.1 Summary of focused questions.

The questionnaire of the survey, for the fourth quarter of 2024, has been supplemented with one additional question in an attempt to identify risks that may implicate the growth model of banks for 2025.

Banks with systemic and non-systemic importance foresee risks for 2025, which derive from macroeconomic factors - mainly inflation and, to some extent, real estate prices, as well as from factors within the banking sector, such as changes in interest rates, non-performing loans and liquidity position. Banks with systemic importance are more exposed to geopolitical developments and global trends, while non-systemic banks face regulatory, operational and increased competition risks. In order to maintain the stability, banks have stated that they are continuously monitoring the market and taking adequate measures to prevent potential risks.

Whereas, in terms of disaggregated replies of banks on credit activity to enterprises by economic sectors, for credit standards as well as the terms and conditions applied, they remained largely unchanged, with a tightening trend for the construction sector. Meanwhile, demand for loans turns out to have been higher from the manufacturing sector. *In the following quarter, no major changes are expected in demand for loans, with credit standards mainly slightly tightened for all economic sectors; while demand for loans is expected to increase, especially from the manufacturing, services, trade and real estate sectors.*

#### 4.0 Results summary for inflation expectations

Based on the survey conducted in January 2025, banks expect that the level of inflation in the first quarter of 2025 to be slightly higher than the previous quarter. For the entire year 2025, the banks expect that the level of inflation will be 1.9 percent, which indicates a moderate increase compared to the level of inflation by 1.6 percent in 2024.

**Table 2. Inflation expectations of banks, annual change in percent**

Banks	Q3 2024	Q4 2024	2024
1	2.7%	2.8%	2.8%
2	2.4%	2.1%	2.1%
3	2.1%	1.6%	2.1%
4	3.1%	3.1%	3.1%
5	0.2%	2.1%	3.5%
6	1.3%	1.2%	1.7%
7	1.3%	1.7%	2.0%
8	2.4%	0.2%	1.1%
9	2.2%	2.3%	3.1%
10	1.3%	2.4%	2.1%
11	2.4%	2.5%	2.5%
<b>Average</b>	<b>1.9%</b>	<b>2.0%</b>	<b>2.4%</b>

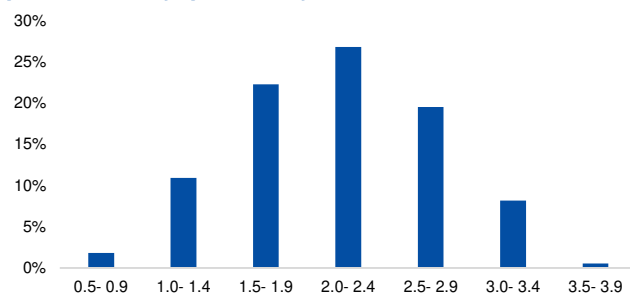
Source: Commercial banks and CBK calculations.

Chart 12 depict the reported spread of probability by banks, indicating a relatively high certainty concerning the result of the upcoming inflation. The probability distribution is concentrated around expected inflation, suggesting a broad consensus among banks about the future level of inflation.

In their comments, banks have mentioned factors that could contribute to a slight increase in the level of inflation, including the dependence of the Kosovo economy on imports and developments in international prices, particularly energy. Rising prices for food, beverages, furniture and other imported materials have led to a slight increase in consumer prices. However, factors, such as high energy costs and international uncertainty could bring negative changes in inflation, affecting the consumer basket. In addition, the impacts of diaspora spending, public spending and monetary policies, such as the European Central Bank's interest rate cuts, could boost consumption and contribute to higher inflation in the coming months.

As a conclusion, data from the Kosovo Agency of Statistics for 2024 show a slowdown in inflation, with an average rate of 1.6 percent, compared to 4.9 percent in the previous year. Meanwhile, for 2025, banks expect that the level of inflation to be 1.9 percent. Banks' expectations may be affected by global developments and the uncertainties related to them, but they remain in line with the inflation trend, which, until November 2024, has marked a gradual slowdown, while in December it has started to increase.

**Chart 12. Probability of inflation for Q4 2024 (axis-x: inflation expectations, annual change in percent; axis-y: probability)**



Source: Commercial banks and CBK calculations.

## 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.

## Inflation expectations

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.



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