



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

Bank Lending Survey in Kosovo

Number 23

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(Q1 2025 and expectations for Q2 2025)

Number 23

BOTUES

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ABBREVIATIONS

AKBK– Bank Lending Survey in Kosovo

KCGF– Kosovo Credit Guarantee Fund

SMEs - Small Medium Enterprises

Bank Lending Survey in Kosovo (BLSK)

Introduction¹

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 2025, and banks expectations for credit dynamics in the second 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.

¹For 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 dynamic of lending during the first quarter was influenced by both sides as from the supply and demand. The lending supply side was eased to some extent for SMEs and households in general, meanwhile for large enterprises remained mainly unchanged. On the other hand, the demand was high from two segments, especially from households. In the following quarter, the lending supply is expected to ease to some extent for SMEs within enterprises, and for households as well in general. Meanwhile, the demand for loans is expected to mark a high increase for both segments.

Based on the survey results, credit standards for enterprises mainly remained unchanged, albeit with marginal ease only of SMEs. Terms and conditions offered were eased to some extent mainly for SMEs, especially regarding the requirement for the collateral and the average size of the loan (Table 1). An important element for the lending dynamic during this period was the increase of the approval level taken by banks for both categories of enterprises, especially for SMEs. The demand for loans remained high, mainly influenced by the need to finance the working capital and fixed investments. The quality of loans slightly improved, being characterized by the decline of the nonperforming loans level. *During Q2 2025, banks expect higher increase of demand for loans, whereas a marginal ease of credit standards for SMEs.*

As regards to households, credit standards were generally eased, as for house purchase and for consumer credit as well. Within terms and conditions offered by banks, there was marked a more significant ease of the maturity of loans and the collateral requirement for house purchase, and an increase of the average size of consumer credit. Moreover, there was marked an increase of the approval level by banks for both loans, especially for consumer credit. The demand for loans remained high, especially for housing loans and more specifically for loans with longer maturity. The increase of the demand for loans is estimated to have been impacted positively by the real estate market outlook, the increase of the expenditures for consumption and the increase of the clients confidence. The quality of loans improved, being characterized by a slight decline of the nonperforming loans level. *In Q2 2025, the demand for loans is expected to further mark an increase, and is expected a marginal ease of credit standards for households in general (Table 1).*

The access to financing marked an increase for Q1 2025, albeit in general was at a lower level compared to the previous quarter. Financing from Household deposits has continued to be high, whereas nonfinancial corporation deposits marked a decline, albeit of lower level than in the previous quarter. *In the following quarter, it is expected an accelerated increase of the access to financing.*

The bank expectations for inflation are considered to be of slight increase in the second quarter of 2025, whereas they expect that the general level of inflation in 2025 to be significantly higher compared to the previous year.

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

	Supply (Credit standards)		Demand	
	Q1 2025	Q2 2025 (expectations)	Q1 2025	Q2 2025 (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)

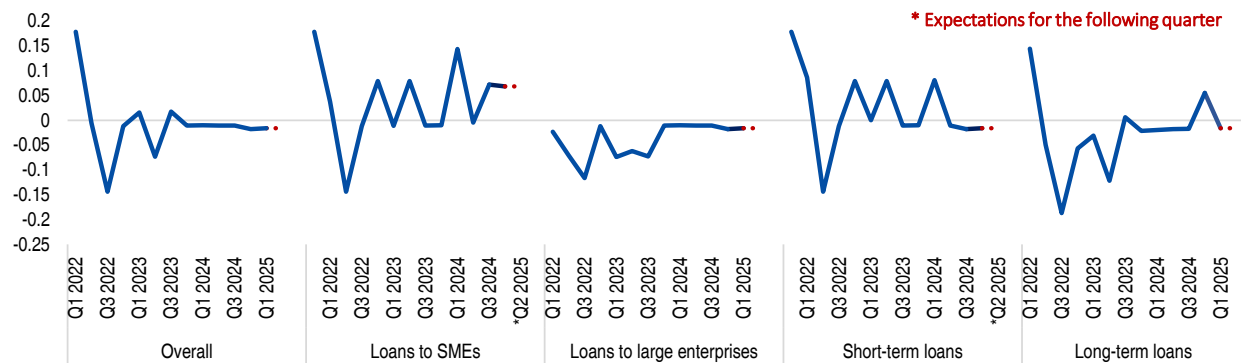
Source: CBK.

1.0. Loans to enterprises

1.1. Credit Standard

Based on the survey results for Q1 2025 credit standards applied for enterprises remain primarily unchanged (chart 1). For SMEs, there was reported an ease of credit standards from one bank with systemic importance aiming at diversifying the loans portfolio, whereas other banks stated mainly unchanged standards, as for SMEs and for large enterprises as well.

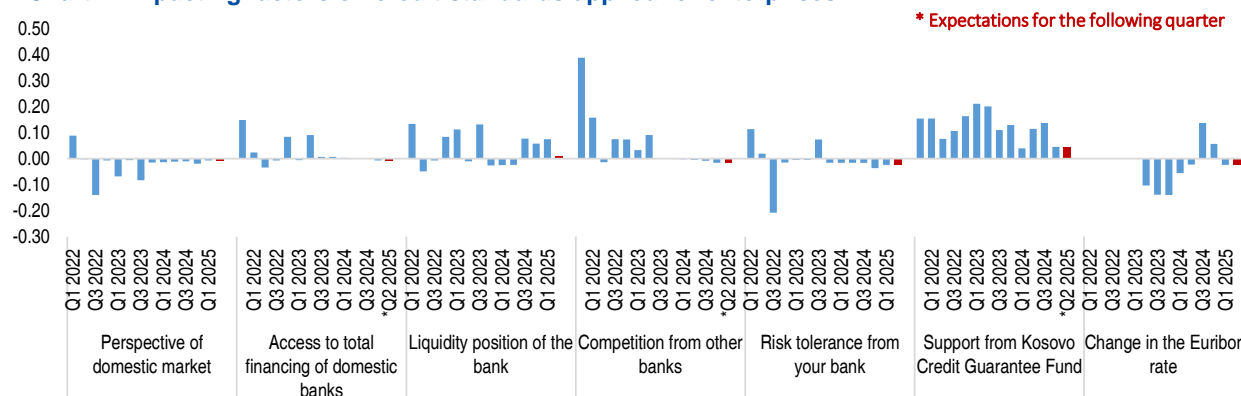
Chart 1. Credit standards applied for enterprises



Source: CBK.

The factors which a positive impact on credit standards during the first month of the year was the good position of liquidity and the support given by the KCGF. (chart 2).

Chart 2. Impacting factors on credit standards applied for enterprises



Source: CBK.

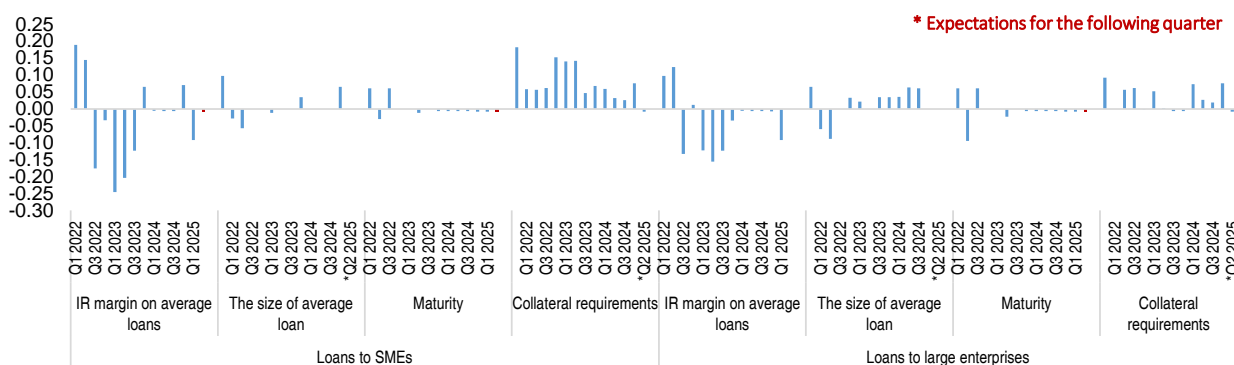
For Q2 2025, credit standards in general are expected to remain unchanged. According to the statement of a bank with systemic importance, credit standards for SMEs are expected to ease also during the following quarter. Meanwhile, other banks stated that they will continue to apply mainly unchanged credit standards. Determining factors of credit standards are not expected to have significant changes compared to the previous quarter.

1.2. Terms and conditions

In Q1 2025, terms and conditions applied for enterprises changed slightly in both directions, offsetting to high extent the effect of these factors on the overall level (chart 3). More specifically, for SMEs there was marked an ease regarding the average size of loans and collateral requirements, based on the statements of two banks with systemic importance, where there was marked a tightening in the interest rate as reported by a bank with systemic importance and another one with no systemic importance. As regards the large enterprises, one bank with systemic importance stated an ease for

collateral requirements, whereas two banks, one of them with systemic importance, stated a tightening on interest rate.

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



Source: CBK.

Credit terms and conditions were impacted positively by the support of Kosovo Credit Guarantee Fund (KCGF), the good liquidity position and the competition among banks. On the other hand, the access to total financing of domestic banks has influenced the tightening of credit terms and conditions, according to the statement given by a systemically important bank.

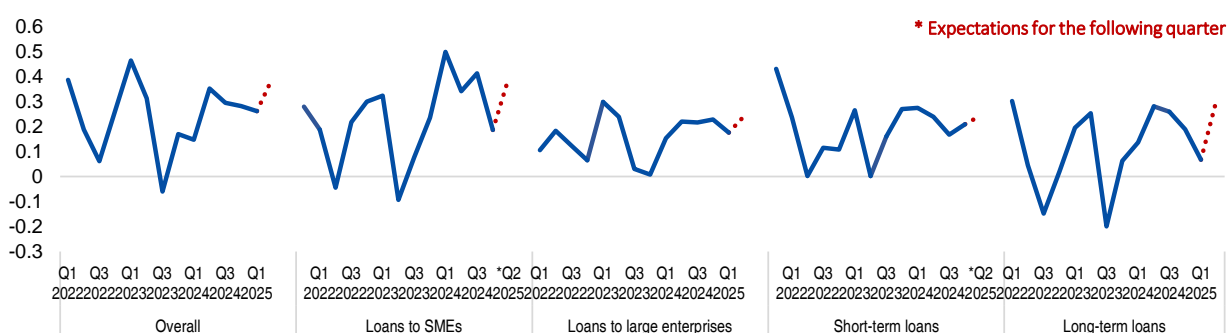
In the following quarter, terms and conditions applied by banks are expected to remain mainly unchanged. Only two non-systemic banks have stated that they expect a slight tightening in the requirement for collateral, maturity and interest rate. In general, no significant changes are expected in the factors determining the terms and conditions applied to enterprises.

In Q1 2025, the level of approval of loans to enterprises marked a high increase. Loans to SMEs and long-term loans were characterized by a relatively higher level of approval, compared to loans to large enterprises and short-term loans.

1.3. Demand for loans

According to the survey results for Q1 2025, the demand for loans from enterprises remained high, but at a lower level compared to the previous quarter. The demand for loans was higher from SMEs, against the demand for loans from large enterprises (chart 4).

Chart 4. Household demand for loans



Source: CBK.

The main factors that generally influenced the demand for loans from enterprises were the need to finance inventory and working capital as well as fixed investments, while one systemically important bank also stated the need to finance mergers, acquisitions and corporate restructuring.

As in the previous quarter, banks reported an unchanged quality of applications received, a dynamic that is expected to remain unchanged in Q2 2025 (chart 5).

Chart 5. Factors which affected the credit demand from enterprises



Source: CBK.

In Q2 2025, the demand for loans is expected to be even higher, where eight of the banks involved in the survey stated an increase. A more significant increase is expected to be marked for SMEs and long-term loans than for large enterprises and for short-term loans. The demand for loans from enterprises is expected to be highly affected by the need to finance the working capital, whereas also the demand to invest fixed investments is expected to mark an increase albeit with a smaller impact.

1.4. Credit quality

In general banks stated a decline in the level of nonperforming loans (NPL). This decline was impacted by the results of three banks, two of them with systemic importance. Meanwhile, one non-systemic bank stated an increase in the level of NPLs, while other banks stated a stability of this indicator.

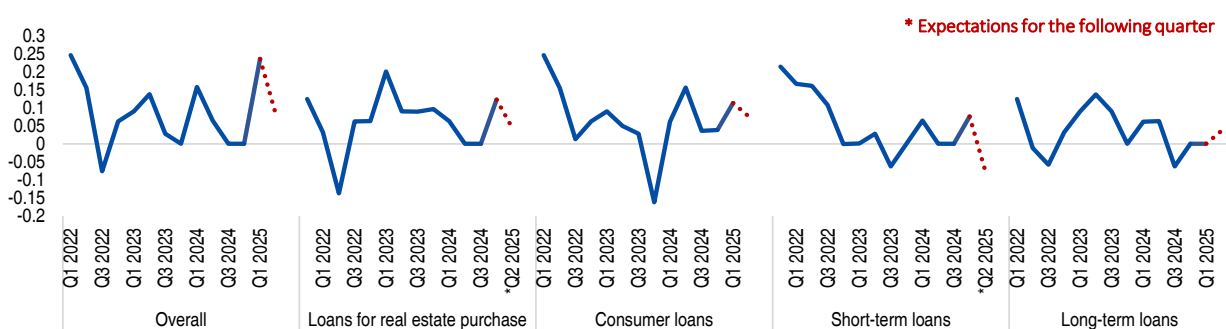
During Q2 2025, there is expected a slight increase of NPL, being impacted by a statement of one bank with systemic importance and another non-systemic bank.

2.0. Loans to households

2.1. Credit Standard

According to the survey results for Q1 2025, credit standards applied to households were eased to some extent, both for house purchase loans and for consumer credit (chart 6). One systemically important bank stated an easing of credit standards for housing loans to some extent. Two banks, one of which was systemically important, also announced an easing of credit standards applied to consumer credit.

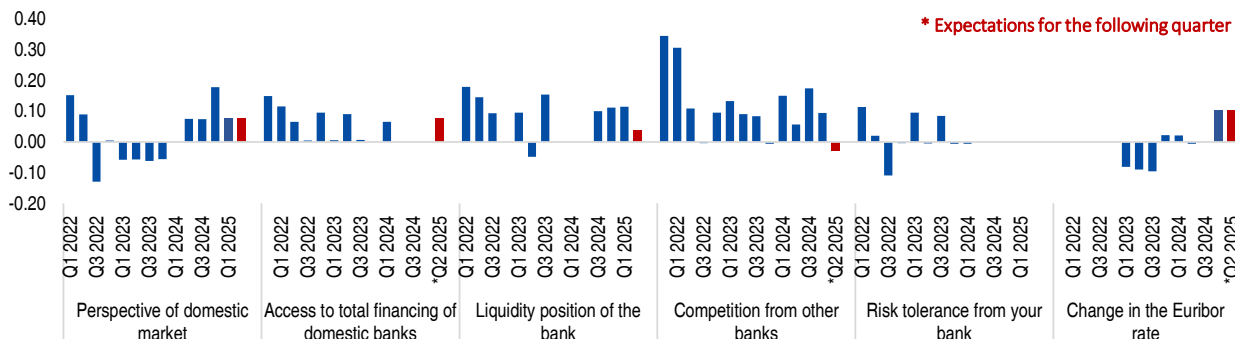
Chart 6. Credit standards applied for households



Source: CBK.

Factors that positively affected credit standards include the bank’s liquidity position, increased interbank competition, increased creditworthiness towards borrowers and the decrease in the Euribor rate. However, these positive effects were offset to some extent by concerns regarding the quality of the loan portfolio (chart 7).

Chart 7. Impacting factors on credit standards applied for households



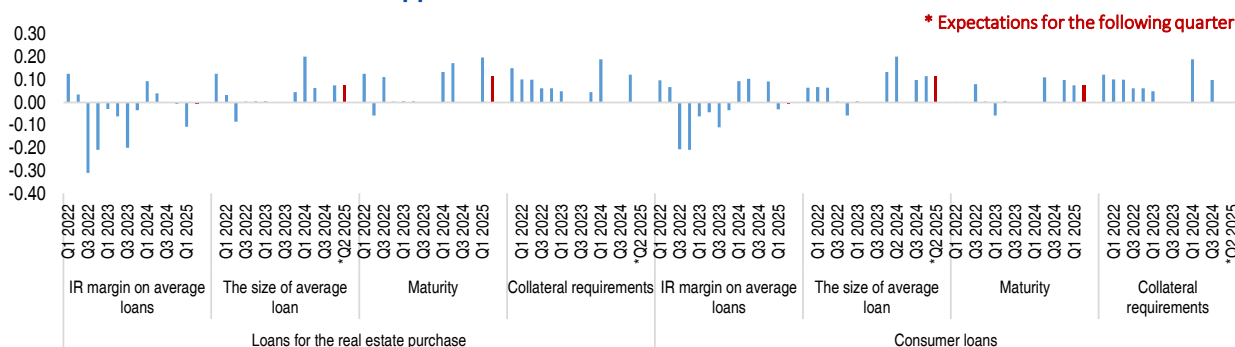
Source: CBK.

During the second quarter of 2025, it is expected an ease in credit standards for households, to some extent. Based on the results of the survey, one bank with systemic importance expects to have an ease of standards in consumer credit, whereas two banks non-systemic importance expect ease of housing loans standards.

2.2. Terms and conditions

In Q1 2025, terms and conditions applied to new loans to households moved in both directions, with a dominant effect in the positive direction (chart 8). Two systemically important banks reported some easing in average loan size, maturity and collateral requirements. On the other hand, interest rates tightened to some extent, especially for housing loans. Factors that influenced the easing of terms and conditions applied were competition from other banking institutions, a good liquidity position and the outlook for the real estate market.

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



Source: CBK.

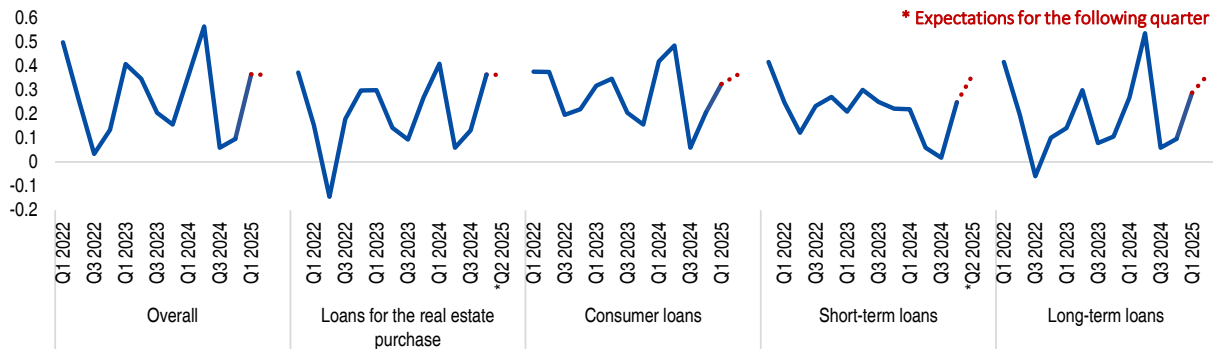
During Q2 2025, there is expected an ease in the average size of loans, maturity and the collateral requirements, for both, for housing loans and consumer credit as well.

The approval of applications for loans from households marked a high increase in the first quarter of 2025. Consumer credit and those with long-term maturities were characterized by a higher level of approval, compared to housing loans and those with short-term maturities.

2.3. Demand for loans

Based on the survey results for Q1 2025, credit demand from households was high, both for consumer credit and for housing loans (chart 9). Housing loans and those with long-term maturities were characterized by higher demand, in contrast to the previous quarter, when demand was more pronounced for consumer credit and those with short-term maturities.

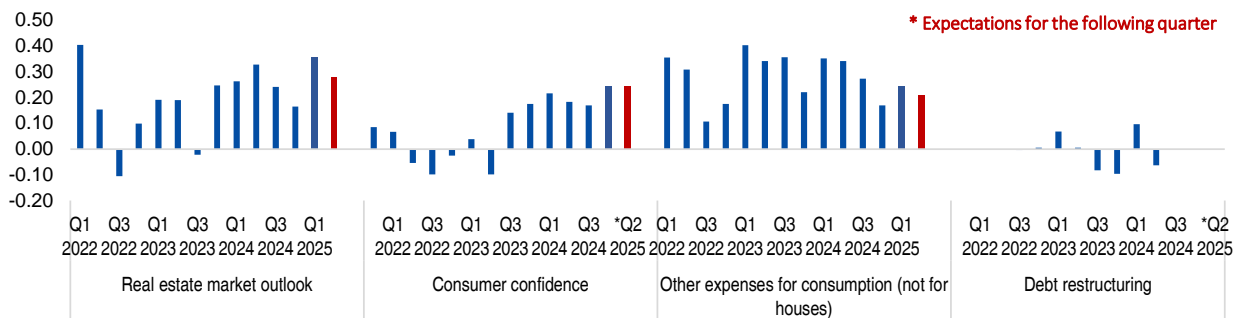
Chart 9. Household demand for loans



Source: CBK.

According to the banks' statements in the survey, the increase in credit demand from households was positively influenced by the real estate market outlook, the increase in other consumption expenditures and the increase in consumer confidence (chart 10).

Chart 10. Factors which affected the credit demand from households



Source: CBK.

Banks expect an acceleration in the growth of credit demand in the second quarter of 2025, both for consumer credit and for housing loans.

In Q1 2025, two systemically important banks highlighted an increase in the quality of applications received from households, while other banks stated that there were no changes in the quality of applications received.

2.4. Credit quality

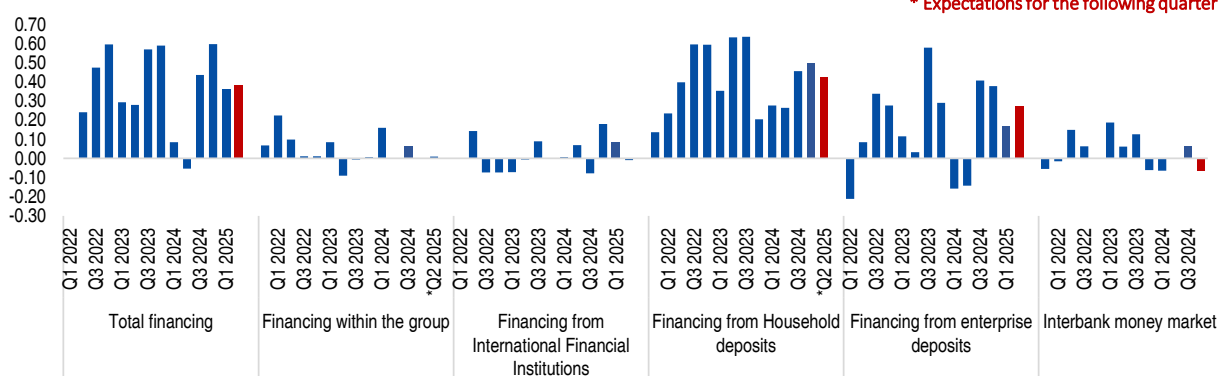
Regarding the quality of the household credit portfolio, three systemically important banks reported a decrease in the level of non-performing loans, while one non-systemic bank stated an increase in the level of non-performing loans. The other banks reported a largely unchanged level.

The quality of the household credit portfolio is expected to improve further during the second quarter of 2025.

3.0. Financing

In Q1 2025, the survey results indicate an increase to some extent in access to financing in general, in contrast to the previous quarter where there was a significant increase. Financing from household deposits continues to be high, while deposits from non-financial corporations recorded an increase but lower than the previous quarter. By maturity, long-term financing recorded a higher increase compared to the increase in short-term financing (chart 11).

Chart 11. Change of the banking sector financing



Source: CBK.

In the next quarter, an acceleration in the growth of access to financing is expected, both from household deposits and non-financial corporations deposits, as well as from other sources of financing.

3.1. Summary of focused questions.

The survey questionnaire for Q1 2025 has been supplemented with two additional questions, which aim to identify the impact of credit supply on the accelerated growth of lending over the past year (2024) and the assessment of credit risk by banks as a result of the freezing/termination of financing by US government organizations.

According to bank statements, in 2024 there were no major structural changes in credit supply and that the growth in lending was driven mainly by the increased need of businesses and households for financing. However, the accelerated growth in lending has been influenced to some extent by a number of factors that have improved the conditions of credit supply. Campaigns for credit products and support from the KCGF have facilitated access to financing for clients. In addition, competition between banks has intensified, which has brought more favorable conditions for clients. Moreover, the stability of the financial system in the country has played a positive role, creating a suitable environment for further credit expansion. Meanwhile, regarding the question on the effect of the freeze/termination of financing by US government organizations on credit risk, most banks reported that they had no direct impact from these developments. Some banks did not have exposure to customers in this category, while those banks that had exposure emphasized that they did not observe any deterioration in payments from customers, and that most of this exposure is covered by collateral. However, banks that have exposures will continue to monitor the situation to assess possible impacts in the future. Regarding the disaggregated responses of banks for enterprises by economic sectors, for credit standards and the terms and conditions applied, they remained largely unchanged, with a slight tightening trend for the construction sector, but at a lower level than the previous quarter. Credit demand increased across all sectors, with particular emphasis on the residential real estate sector. *In the next quarter, credit standards are expected to ease for the services sector, according to a statement from a systemically important bank, while no changes are expected for other sectors. Credit demand is expected to increase, particularly for the manufacturing, services, trade and real estate sectors.*

4.0. Results summary on inflation expectations

According to the survey conducted in April 2025, banks expect a slight increase in inflation in the second quarter of 2025, compared to the previous quarter. For the whole year of 2025, they expect the inflation rate to reach 2.7%, which shows a significant increase compared to the inflation rate of 1.6% in 2024.

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

Banks	Q1 2025	Q2 2025	2025
1	2.9%	3.4%	4.0%
2	2.0%	2.3%	2.3%
3	2.7%	2.7%	3.1%
4	2.9%	2.0%	2.0%
5	0.7%	1.3%	2.0%
6	2.3%	2.8%	3.3%
7	1.7%	2.2%	2.7%
8	1.8%	1.9%	2.3%
9	2.0%	2.5%	3.0%
10	1.7%	1.9%	2.0%
Average	2.1%	2.3%	2.7%

Source: Commercial banks and the CBK calculations.

Chart 12 depicts the spread of probability stated by banks, showed a relatively high certainty concerning the level of the expected inflation. The probability spread is centered around expected inflation, suggesting a broad consensus among banks on the future level of inflation.

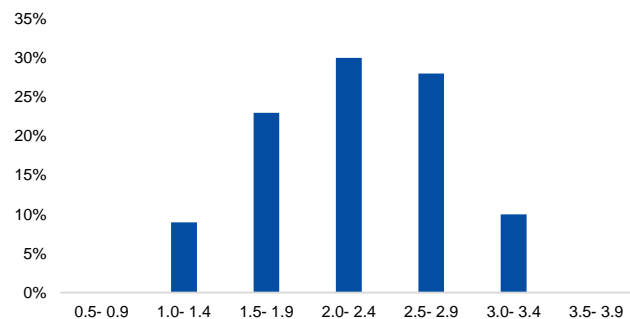
Banks emphasize that inflation expectations are sensitive to developments in international markets, due to the high dependence of the domestic economy on imports, especially energy prices.

The decline of interest rates by the European Central Bank and the trade policies of the United States may have an impact on the increase in inflation. The prices of food, energy and other imported materials have caused a significant increase in consumer prices. Also, the increase in energy costs, international uncertainty and diaspora spending may exert additional pressure on inflation. Moreover, the increase in energy tariffs may trigger a further increase in prices in the coming months, further worsening inflationary pressures and affecting consumer spending.

In conclusion, the data of the Kosovo Agency of Statistics for the first quarter of 2025 show a significant increase in inflation, with an average rate of 2.0%, compared to 0.7% in the previous quarter.

For 2025, banks expect an inflation rate of 2.7%. These expectations for an increase in inflation are in line with the upward trend in inflation, which, in March 2025 alone, has marked an increase of 2.8%.

Chart 12. Probability of inflation for Q2 2025 (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 more significant 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 the central bank. If the public believes that the central bank will take the necessary actions to achieve the inflation target, then the expectations of economic agents for the inflation rate will be closer to the set target.

Inflation expectations are also important for banks that do not have monetary policy, as they serve as an important input for determining prices and wages, as well as for the process of economic modeling and forecasting. Furthermore, inflation expectations affect aggregate demand, which then affects the inflation performance.

Unlike actual inflation, which is measured directly, inflation expectations are estimated using indirect methods. One of the most widely used methods is the survey of economic agents: consumers, businesses, commercial banks, etc. The CBK, for the first time, has started assessing inflation expectations in the third quarter of 2019, initially with commercial banks.

The estimates obtained from commercial banks are quantitative in form and are accompanied by probability distributions. Inflation expectations are assessed for different time horizons: initially for the current quarter, then for the next quarter and for the whole year in general. The collection of information through surveys is followed by the process of systematization, processing and aggregation of data to find the average of inflation expectations from commercial banks.



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