

Analysis of Monitoring the competition in the Banking Sector in Kosovo



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Content

1. Introduction	3
2. History... ..	3
3. Goal.....	3
4. Financial stability and competitiveness of banks	4
4.1 The recommendations of IMF for financial stability	5
4.2 Report of progress for Kosovo, banking sector	6
5. Market characteristics.....	7
5.1 Demand in banking system	7
5.2 Offers in the banking system	7
6. Relevant market, its structure and mergers	8
6.1 Relevant market.....	8
6.2 Product market.....	8
6.3 Geographical market.....	9
6.4 Structure and merger	9
7. Structure of loans	11
7.1 The quality of loans portfolios.....	12
7.2 The quality of loans demand.....	13
8. Rates of interest	14
9. Structure of deposits	15
10. Factors that determine interest rates on loans and deposits.....	18
11. The reasons for the existence of differences between loans and deposits.....	18
12. Summary and Recommendations.....	20

Analysis of Monitoring the competition in the Banking Sector in Kosovo

The Kosovo Competition Authority thanks the Kosovo Central Bank for cooperation and assistance offered as well as commercial banks who expressed their willingness to cooperate and answers on timely manner to the questionnaires provided by our side as well as provision of other useful material. We will continue to monitor further this very important sector with the aim to assess the competition level, identification of problems or areas where the free and effective competition can be obstructed which is by all means for the well-being of the bank clients, commercial banks and the economy in general.

We hope that some of the findings and recommendation given from the standpoint of the competition and its development will be in the interest of the all participants of this sector.

1. INTRODUCTION

2. Background

The Kosovo Competition Authority, based on the obligation deriving from the Law on Protection of Competition no. 03/L-229, dated 07 October 2010, started with the monitoring of the commercial banks in Kosovo aiming at finding the violation of competition and development of the overall bank sector.

Concerns raised by the citizens, the business community related to the situation created in the banking sector, with a special view on the high interest rates for loans and low interest rates in deposits as well as the differences that exist between them, continue to be the object of our monitoring.

For this purpose, our Authority has continuously followed the condition in this sector. Initially we have determined the work methodology, then have gathered and analyzed the official publications of the Central Bank and the professional institutions (their reports), we have prepared two questionnaires for commercial banks and distributed them, have held conversations with experts in this field, and eventually have come up with findings and additional recommendations for this quite important sector.

3. Purpose

This market study's goal is to analyze the banking system in Kosovo, by determining and then analyzing the following: its structure, the focus level of the commercial banks in the banking market, their behaviour toward the price, the number of participants/banks that operate in this market, type of products and services they offer, in order to evaluate the competition level of this sector in implementing the right of the competition.

Analysis of Monitoring the competition in the Banking Sector in Kosovo

In function of this purpose, the study describes the way the overall bank system functions and its specific segments, the regulation of monitoring and their role not only in the operation of the banking system but also in the effective competition.

Regardless of the complexity of this market, we attempted to have this study not only informative, but also to analyze further tendencies and developments of this market, aiming at evaluation of the competition level and possibly to identify the problems and areas where the effective competition can be obstructed in this sector that is both important and “delicate”.

Likewise, being the first study in this sector, we have tried to determine a few sub-segments of this market that could be continuously monitored in response to their rapid development, but which can also be a subject of other separate, more specific studies in the future.

Methodology – This study analyzes several qualitative and quantitative elements that influence or determine the competition level such as: the structure of the market and its concentration, the consumers’ behaviour and their access to the system, the behaviour of the banks toward the price.

Challenges during the monitoring- During the monitoring of this sector, the Kosovo Competition Authority faced various challenges which have impact on the credibility of this analysis. Some of them were: the complexity of the banking system itself and insufficient experience, lack of sufficient communication of the Kosovo Competition Authority officials with the responsible people of the commercial banks, problems in assuring the trustful information and materials that have an impact on the quality of the analysis, some of the answers in the questionnaires did not provide sufficient information or due to the partial answers, etc.

4. Financial stability and the competition of banks in Kosovo

In order to assess competition in banks, it is important to stop at the financial stability and its impact on the development of the banking sector and the competition level. Factors that condition the financial stability are the following: sustainable macroeconomic environment; effective and secure supervision by the supervision authorities, functional infrastructure of the banking market which means banks, insurance companies and microfinance institutions and that their behaviour in the market is transparent, competitive and functional.

Main risks that bring financial instability are the following: loan risk, risk of liquidity, risk of interest rates and the risk of capital.

Loan risk- The loans mainly consist the largest group of profitable activities. The quality of the loans has an important impact on the actual and future income. The quality of the

Analysis of Monitoring the competition in the Banking Sector in Kosovo

loan portfolio can be checked through careful loan policies and administrative control as well as by not bypassing the efficiency of the judicial system.

Risk of interest rates- it is created by discrepancy between the active and the sensitive, liabilities toward the interest rate. The discrepancy level may considerably impact the income depending on its scale and the direction of movement of interest rates.

Risk of liquidity- it occurs when the bank is not in condition to fulfil the demands of the depositors and engagement to provide loans. Difficulties with liquidity can come as a result of large differences between maturity of loans and deposits, instability of deposits, bad quality of assets, and what is more important because of poor management of the daily liquidity and for a longer period.

Risk of capital- Insufficient sources of capital and limited opportunities for action in the market can result in the bank losing its depositors, to increase the cost of financing, not be able to support the extension of activities, to suffer reduction of capacity to absorb losses, to reduce cost-effectiveness and in some extreme cases to be unable to pay back or bankrupt.

4.1 Recommendation of IMF for the Protective Financial Stability in Kosovo

“- while the financial system in Kosovo was developed in a powerful way, the further process is obstructed by the limited judicial capacity and not respecting of definition of rights on the property. With the assistance of the World Bank, the authorities are improving the cadastre in order to increase the use of collateral and its quality in the loan operations. There are also reforms needed for accelerating the empowerment of the contracts by the courts.

- The full independence institutional and operational of the KCB is critical for preserving (saving) the financial stability. In this context, the appointment of the new governor of the Central Bank at the beginning of the year was characterized with a clear implementation of the regulations of appointment at the Central Bank.

- Financial supervision has made progress. By joining the model of basic supervision on risk under the Basel I framework, the supervision of banks is led by at least one comprehensive inspection in the field at every bank each year. There are also advance being made in the field of stress testing.

- Adoption of the new Law on banks will strengthen the institutional framework for banks and other microfinance institutions. The draft law improves the governance standards, narrow the restrictions for loaning for respective banks- parties as well as allow consolidated supervision of the bank groups. The law also equips the authorities with the best tools for resolutions (placements) of the banks. At this end, it is necessary to amend the Law on the deposit insurance in order to enable the funds of the insured deposits to

Analysis of Monitoring the competition in the Banking Sector in Kosovo

be used for purchasing of the supposed transactions (bonded ones). In relation to the microfinance institutions, the Law should request definition of the clear structure and determine the responsibility to the KCB for their licensing.

-It is necessary to give the opportunity to KCB to assure emergency liquidity assistance (in original: emergency liquidity assistance (ELA)). At the conceptual level ELA was presented in year 2010. Furthermore, it is necessary to complete the Memorandum of Understanding between the Government and KCB, in order to define duties and identify the sources that KCB can use for emergency liquidity assistance”.¹

4.1.1 2010 Progress Report for Kosovo, the banking sector

‘– Kosovo uses Euro as the official currency and the Kosovo Central Bank (KCB) has limited policy instruments. The increase of the amount of cash slowed down from 23.6% in December 2008 to 11.2% in December 2009, and entered into minus in May 2010, after the substantial reduction of public deposits of the non-financial corporations.

- Attempts of the Central Bank to mainly orient itself to the improvement of the supervision of the financial sector. In month of June it is amended the Law on Central Bank to enforce the independence and responsibility of KCB and to open the possibility for limited assistance for emergency liquidity.

- Overall, the monetary framework continued to function well and the financial stability is preserved.”

5. The market characteristics

5.1 DEMAND in the banking system –

¹ Final Declaration of IMF, Advisory Mission, 03.06.2011.

Analysis of Monitoring the competition in the Banking Sector in Kosovo

The demand side in the banks consists of individuals, small and medium businesses, corporations, public sector. Some of the characteristics of the demand that should be taken into account are the following:

Asymmetries in information- Individual clients or small enterprises have no possibility to acquire broad information so that they can make their choices. This is partially due to their inability to process the information and partially because of the lack of information presented by the banks themselves, thus limiting of client's choice but also pressure towards the banks to compete with the price of the quality of the specific products.

However, it should be said that lately, banks through various direct and indirect marketing channels, are promoting their products and services by also offering qualitative information that will enable clients to make their choices. A greater transparency in the direction of publication of additional information will help in this direction.

Inelasticity for specific products or services- Inelasticity of the demand is more obvious especially for products such as: current accounts. Often, the changes of accounts requests a lot of costs such as time, additional commission, engagement to inform the employer or other institutions in case of authorized payments, etc. as long as opening of an account in any bank is done quickly and with no numerous requests for documentations, usually there is resistance of the employer to change the bank.

Relationship with the bank- The clients' requests determine the importance of the various competition parameters in this sector. For instance, if the clients evaluate in a specific way the location of their bank, then the location of the bank becomes of the special importance as a parameter for evaluating the competition.

Client's system access level- The access level to the banks by the clients can be impacted by many factors such as: direct and indirect transfer costs; lack of transparency; presence (geographic spreading, density) of the banks, etc. In the latest years, majority of the banks have expanded their investments, not only with the physical presence of their units in all cities and places with large population, but also by offering a number of possibilities for completion of bank services from distance.

5.2 OFFER in the banking system

The banking sector in Kosovo consists of two levels where the Kosovo Central Bank operates as the first level bank and the commercial banks as the second level banks. The banking system was formed as an important component of the Kosovar financial system which consists of the Banking Sector, the Insurance Market and the Microfinance Institutions.

Analysis of Monitoring the competition in the Banking Sector in Kosovo

The participants (the number of institutions) in the Kosovo financial system are presented below:

Banks and the foreign banks branches	8
Microfinance institutions	15
Non-banking institutions	5
Agencies for money transfer	6
Money exchange offices	28
Insurance companies	11

6. Relevant Market, Structure and its Concentration in Banking Sector

6.1. Relevant Market

So far, Kosovo Competition Authority is relatively new institution for the operation, in its decision for mergers has taken analysis and assessed the banking system as a whole, although in 2008 we had merger between two banks, in Kasa Bank and New Bank of Kosovo NLB (we have not analyzed this merger because the old law 2004/36 has not treated at all mergers).

Regarding the Anti-cartel practice has been not any concrete case to require more details analysis in level of product or special banking service. Thus, since the aim of this study is not to decide on one merger or case anti-cartel, but to present an overview of the Banking market in Kosovo today and its features.

6.2. Product Market

For the above banking products and services are grouped into: (1) Deposits; (2) Loans; (3) Other products, (4) services payments and transfers, 5) Securities. In order to specify, banks in Kosovo offer a considerable number of Products and banking services. Although most of these products enter in the group of classical banking services, recently banks have begin expansion of the games of their services, with some innovations for market, such as: Leasing, electronic banking services (Mobile Banking) and other services.

In general products, products and services offered by Banks include:

- Deposit,
- Loans,
- Service of payment /transfers internal and external,
- Business documentary (Guarantees and letter of credit),
- Electronic services,
- Other products.

6.3. Geographic market

Analysis of Monitoring the competition in the Banking Sector in Kosovo

Regarding the relevant geographic market, it is defined as all territory of Republic of Kosovo, taking into consideration: aim of study, the fact that the collected data are aggregated in level of Central Bank, Commercial Banks and not branches or geographical area (region/town), heterogeneous geographical spreading network of branches or agencies.

6.4. Structure and Mergers

During 2010 has operated eight (8) Banks in territory Republic of. Kosovo Geographical spreading of the branches of these Banks is different for each Bank explaining this in power of their investment, longevity in the market, strategies that they follows in the first years of their existence (for new banks), etc.

Greater geographical spreading has Pro Credit Bank and Raiffeisen Bank, because of the potential they have.

Considerable geographic presence also have NLB, TEB, BpB, BE, BKT, whereas the Commercial Bank has its branches in few country's and regions. [1]

In 2010 the banking system was characterized by the expansion of infrastructure, the number of branches and sub-branches of the commercial banks reached 303, which denote an annual increase for 16 units. The structure of the Kosovo banking system was similar to the one of the previous year, both regarding the number of banks and the structure of their ownership. In year 2010, in the Kosovo banking market, as it was mentioned before, operated eight commercial banks out of which six were owned by foreigners, whereas two of them were in local ownership.

The banks owned by foreigners dominate the Kosovo banking system managing 90.2 percent of the total assets of the banking system (91.1 percent in 2009). The remaining part of the asset (9.8 percent in December 2010) is managed by the local ownership.

The banking system in Kosovo continues to be characterized by a high level of market concentration, where 77.4 percent of the total bank assets are managed by the three largest banks. The two largest banks, Pro Credit Bank and Raiffeisen Bank, have a share of 68% in the overall loan market.

Based on the Law on Competition Protection, none of these banks have a dominant position since they do not exceed the 40% limit of the market share. However, it should be mentioned that the continuous increase of activities of the smaller banks resulted in the continuous decrease of the concentration level in the banking system as of last year.

Expressed thought index Herfindahl-Hirschman (IHH) for total assets, banking market was level of concentration from 2,241 point in December 2010 that, compared with 2009, shows that level of concentration is for

Analysis of Monitoring the competition in the Banking Sector in Kosovo

224, 1 point lowers to IHH ²

Table no 1. Participation of Banks in Market - 2009

Source: data gathered from Kosovo Competition Authority, June 2011

Table no. 2. Participations of banks in market - 2010

Participations of Banks in MARKET - 2009							
In million euro							
No.	Name of Bank	Active	Deposits	Loans	% e Active	% Deposits	% Loans
1	Raiffeisen Bank	672	544	378	32.5	31.3	30.3
2	ProCredit Bank	732.5	638.3	472.5	35.5	36.7	37.9
3	NLB	298.8	249.1	162.9	14.5	14.3	13.1
4	TEB	117.1	105.7	77.4	5.7	6.1	6.2
5	BKT	56.8	39.9	38.1	2.7	2.3	3.1
6	BpB	86.6	76.6	50.5	4.2	4.4	4.1
7	Economic Bank	98.6	84.5	64.7	4.8	4.9	5.2
8	Commercial Bank	3.2		1.66	0.2		0.1
	Total	2065.6	1738.1	1245.76	100.0	100.0	100.0

Participations of Banks in Market - 2010							
In million euro							
Nr.	Name of Bank	Active	Deposits	Loans	% e Active	% Deposits	% Loans
1	Raiffeisen Bank	660	544	396	28.1	27.9	26.5
2	ProCredit Bank	744	626	476	37.7	32.1	31.9
3	NLB	355	295	209	15.1	15.1	14.0
4	TEB	208	183	149	8.8	9.4	10.0
5	BKT	114	60	93	4.9	3.1	6.2
6	BpB	101	87	73	4.3	4.5	4.9
7	Economic Bank	125	123	93	5.3	6.3	6.2
8	Commercial Bank	4.1	32	4	1.7	1.7	0.3
	Total	2.348	1949	1493	100.0	100.1	100.0

Sources: data published in web-page of CBK, June 2011

7. Structure of loans

² Specific measure of merger in market, it means the degree to which one small number of enterprises has a big percent of product market. IHH- is used as possible indicator of market power or competition among enterprises. This index measures the merger market gathering the market rates. As much as IHH- is for determined market, as much more is concentrated product of market in a small amount of enterprises. In general, when one IHH is less than 1 000, than merger in market can be consider low, where is between 1 000 and 1 800 can be considered as average merger, if it is bigger than 1 800 can be considered as high.

Analysis of Monitoring the competition in the Banking Sector in Kosovo

The recovery of the world economy and, consequently, the improvement of perception of banks' for economic environment in a country, were reflected in a higher growth rate of loans during 2010 compared to 2009, an annual growth 13.2 percent compared with growth from 8.9 percent in 2009.

The highest growth rate continued to register households loans nevertheless, loans of enterprises even they have a positive rate of growth continued to growth at lower rate compared to household loans.

As whole, the structure of active loans during 2010 was dominated by loans issued to enterprises, which represented from 70.5 percent of total loans issued by the banking system. However, household loans during the last two years have increased their share to total loans.

The sectorial distribution of loans remained similar to the previous years, with the services sector that absorbing the largest share of loans (70.1 percent of total loans to enterprises). The majority of loans for sector of services consist by loans of trade sector, followed by loans of industry sector including mines, production, industry and construction.

The agriculture sector continued to participate only with a low share, in issued loans to enterprises, receiving only 3.7 percent of total loans. Loans issued to the trade sector and financial services were characterized with an increasing trend in 2010, while lending to other sectors recorded a slowdown compared to the previous year.

Regarding the maturity, the structure of loans issued by the banking system remains dominated by longer maturity loans. In 2010, loans with maturity of over two years and up to five represented 43.5 percent of total loans, followed by loans with maturity from five up ten years, which consist 25.4 percent to total loans. Total loans with maturity of two years, in 2010 represented over 73.1 percent to total loans of banking system. Considerable participation to total loans of banking system have and loans with maturity up to one year, that represented 20.6 percent to a total loans.³

The remainder is shared among loans with maturity from one to two years (6.3 percent) and over ten years (4.3 percent). In 2010 it has been noticed a decline in loans with period of maturity from one to two years. Amounting at euro 91.2 million euro, loans from maturity from one to two years recorded annual decline of 37.1 percent. As consequence, the distributions of loans with period of maturity from one to two years decreased by around 5.0 pp.

Table no. 3 Structure of Banking costumers

Structure of Banking Costumers in %

Banks

³ Source : CBK, annual report 2010, page 36

Analysis of Monitoring the competition in the Banking Sector in Kosovo

No.	Banking Costumers	Raiffeisen Bank	ProCredit Bank	NLB	TEB	BKT	BpB	Economic Bank.	Commercial Bank.	In %
1	Individuals	93.5	76.17	90.7	26.0	89.0	48.3	75	95	74.2
2	SME	6.3	23.45	8.8	32.0	8.0	9.3	8	0	12.0
3	Corporations	0.18	0.24	0.3	42.0	2.0	0.0	4	0	6.1
4	State Admin.	0.002	0.001	0.2	0.0	1.0	0.0	10	0	1.4
5	others	0.007	0.15	0	0.0	0.0	42.4	3	5	6.3

Source: data collected from Kosovo Competition Authority, June 2011

Table no. 4 Report between local and foreign capital

Report between local and foreign capital										
Nr.	Banks	Raiffeisen Bank	ProCredit Bank	NLB	TEB	BKT	BpB	Economic Bank.	Commercial Bank.	In %
1	Foreign capital	100	100	81.58	100.0	100.0	5.0	0	100	90.2
2	Local Capital	0	0	18.48	0.0	0.0	95.0	100	0	9.8

Source: data collected from Kosovo Competition Authority, June 2011

7.1 Portfolios of loans quality

While the quality of portfolios loans in Kosovo continues to be within acceptable rate, in previous years, loans are in decrease compared 2010 and 2009, classified loans (loans in delay) have had a considerable decrease.

Most significant increase recorded classified loans in the categories as "suspicious" and "lost". Both two categories consider non-performing loans. In the end of 2010, NPL consist 5.9 percent in total loans of banking system in Kosovo. This level of NPL is 0.9 pp higher than in 2009, were NPL represented 4.3 percent total loans.⁴

Further deviation of portfolio loans quality needs further capacity in commercial banks for estimate of loans risk, in manner that further expansion of loans by banks to become under healthy loans, without risking performance of system. The NPL structure in continuance is dominated by classified loans "lost". But, in December 2010, participations of these loans in total NPL was 59.5 percent or 12.5 pp lower comparing with 2009. While, the participation of classified loans as "suspected" the NPL in total increase, 40.5 percent. In 2010, classified loans as 'lost' reached euro 10.8 million (27.3

⁴ Sourcer : CBK , Annual Report 2010, page 37

Analysis of Monitoring the competition in the Banking Sector in Kosovo

percent), while classified loans as "suspected" recorded growth to euro 19 million (122.5 percent).⁵

Except the need for quality analysis growth respectively better estimation of loans risk, stop the deteriorating trend, of loans portfolios or decrease rates mention above will indicate in better function of judicial system legal reduce.

In one acceleration of finality of procedure, not to indicate directly to a non-performing client's, but would send signal to all clientele or contractual obligations must be performed in time and it would be better for all.

7.2 The Quality of loans demands

Regarding the quality of loans demands is difficult to conclude, because of statistics lack. In real, loans rate refused in relation with total loans number applications, as one of the indicators of quality demands, does not seem accurate.

This is because based on information by banks, some of them do not keep records on requirements of rejected, the banks reject them before they even apply, thus not giving them opportunity of applying.

This is done since the people responsible for the creditor activity assess that the potential clients who are interested in the creditor products do not fulfil the basic conditions for applying. The table below presents the percentage of the rejected loans compared to the overall number of applications through individual banks.

Table no. 5 Report of applications and refusals -2010

Report of applications and refusals -2010			
Nr.	Name of Bank	Accepta %	Refusals %
1	Raiffeisen Bank		3
2	ProCredit Bank		13.29
3	NLB		5
4	TEB		15
5	BKT		15
6	BpB		20
7	Economic Bank		
8	Commercial Bank		10

Source: data collected by Kosovo Competition Authority, June 2011

8. Interest rate

⁵ Sourcer : CBK , Annual Report 2010, page 37

Analysis of Monitoring the competition in the Banking Sector in Kosovo

The movement of interest rate during 2010 were characterized with a decline of deposits rates, while interest rates on loans recorded a slight increase. The average interest rate on deposits (12 month-moving average) decreased from 4.3 percent as it was in December 2009 to 3.7 percent in December 2010, while the average interest rate on loans increased to 14.6 percent in December 2010 from 14.4 percent in December 2009. the decline of deposits rates during 2010 may be result of slowdown of lending activity by the banking system in the first half of the year, which has reduced the demands of banks for deposits.

The difference between interest rates in deposits and loans in the end of 2010 reached at 10.9 pp, which represent an annual increase of 0.8 pp.

Interest rates on household deposits and enterprises were similar during 2010. the highest average interest rate on enterprise deposits in December 2010 was 5.14 percent, which is offered for enterprises deposits amounting over euro 250 thousand and with a maturity of over two years. While, the highest average interest rate for household deposits reached at 5.14 percent, which also applies to deposit with maturity of more than two years. Regarding the average interest rates on loans, loans to enterprises continue to have highest interest rates compared to household loans. Standing at 13.8 percent, the average interest rate on loans to enterprise was by 1.4 pp higher than the average interest rate on household loans.⁶

Table no. 6 Loan interest rate -2010

Loan rate							
Description		Investments loans		Business loans		Consumer loan	
Year	Interest rate	Up to 1 year	Over 1to 5	Up to 1 year	Over 1-5vite		Over 5 year
2004	15.7	15.16	14.47	15.4	15.32	12.53	
2005	14.5	17.34	13.29	15.18	14.38	11.51	
2006	14.7		14.5	13.6	15.18	12.36	13.36
2007	14.1		13.76		14.64	13.72	12.36
2008	13.8		13.92	14.2	13.45	13.5	10.82
2009	14.1		14.34			13.31	10.67
2010	14.3	16.13	13.95	18.66	14.44	14.56	11.67
MAJ 2011	13.2	17.3	13.98	17.72	15.4	11.85	11.85

Source: CBK, Annual report r 2010, page 153

Table no. 7 personal loans, business loans and household

Personal loans

⁶ Source : CBK, Annual Report 2010, page 40

Analysis of Monitoring the competition in the Banking Sector in Kosovo

<i>Value</i>	Banks						
	PCB	RBKO	BKT	BpB	NLB	BEK	TEB
1.000€	11.90%	11.50%	11.50%	11.50%	11.50%	11.90%	10.80%
2.000€	11.90%	11.50%	11.50%	11.50%	11.50%	11.90%	10.80%
5.000€	11.40%	11.50%	11.50%	11.50%	11.50%	12%	10.80%
Business loans							
<i>Value</i>	Banks						
	PCB	RBKO	BKT	BpB	NLB	BEK	TEB
10.000€	15.60%	14.00%	13.80%	12.50%	12%	15.30%	-
25.000€	13.80%	14%	13%	12.50%	12%	14.30%	-
50.000€	12.80%	13.50%	13%	12.50%	12%	13.30%	-
100.000€	Neg.	13.50%	13%	12.50%	10.50%	12.30%	-
Household loans							
<i>Value</i>	Banks						
	PCB	RBKO	BKT	BpB	NLB	BEK	TEB
5.000€	11.40%	10.90%	8.90%	11.00%	9.80%	10.90%	10.80%
10.000€	10.90%	10.90%	8.90%	11.00%	9.80%	10.90%	10.80%
25.000€	9.90%	10.90%	8.90%	11%	9.80%	10.90%	10.80%
50.000€	9.50%	10.90%	8.90%	11%	9.80%	10.90%	10.80%
100.000€	9.50%	10.90%	8.90%	11%	9.80%	-	10.80%

Source: Publication GAP, august 2011, barometer of interest's rate in personal loans for business and household

9. Structure of deposits

The largest share of deposits in the banking system of Kosovo consists of household deposits which in December 2010 reached the amount of 1.3 billion Euros. Household deposits recorded an annual growth of 25.0 percent in 2010, compared to the growth of 23.3 percent in previous year. Reaching at euro 526.6 million, the deposits of enterprises recorded an annual growth of 14.0 percent. Structure of enterprises deposits, in the end of 2010, was dominated by the deposits of private enterprises (76.0 percent of total enterprises' deposits). regarding of the government deposits, continuous withdrawal from commercial banks during 2010 led to a decline in the value of this deposits in the end of year to be 11.7 million euro compared to the value of euro 164.9 million in December 2009.

Regarding of total deposits structure, in 2010 household deposits increased their share by 7.5 pp reaching to 67.1 percent of total deposits, meanwhile participation of deposits of

Analysis of Monitoring the competition in the Banking Sector in Kosovo

enterprises recorded slowly increase to 0.7 pp reached to 27.2 percent total deposits of banking system.

The Increase in the share of household deposits mainly reflects the decline in share of government deposits in this period. Compared to previous year, share of government deposits in total deposits of banking sector reached to 0.6 percent that shows for decline of share to 8.8 pp in 2010.

Increase of share recorded non-resident deposits reaching an amount of euro 84.8 million, which is an annual growth of 32.3 percent (December 2010).

Structure of deposits in banking system in Kosovo, in term of currency, is dominated from deposits of euro, which account for 94.5 percent of total deposits. This indicates that risk of rate exchange between the euro and other currencies to be minimal.

In term of maturity, deposits in banking system of Kosovo in 2010 they had a similar structure with previous year. The largest shares in total deposits continue to have term deposits, composing around 47.7 percent of total deposits. The remaining share consist of transferable and saving deposits, that in 2010 composed around 34.6 and 17.6 percent of total deposits, respectively.

The structures of time deposits continue to be dominated by deposits with short term maturity. In December 2010, deposits with term of maturity up to one year represented 76.2 percent of total time deposits, followed by deposits with maturity of over two years, which represent 15.3 percent of total time deposits.

Remaining share of time deposits are mainly deposits with time of maturity of over one year and up to two years, which represented 8.5 percent of total time deposits in 2010. Regarding the trend of time deposits, it is worth mentioning that in 2010 is observed that deposits with shorter maturity decreased their share in total deposits, while the deposits with longer maturity increased their share.⁷

Thus, deposits with maturity of up to one year decreased their share by 8.3 pp, while deposits with maturity of over two years increased their share in total deposits to 8.2 pp. continued increase time deposits with longer maturity will have a positive impact in the extension of longer term lending and at the same time, it will improve the liquidity position in the banking system.

Table no. 8 Deposits interest rates in 2010

⁷ Source : CBK, Annual Report 2010, page 36

Analysis of Monitoring the competition in the Banking Sector in Kosovo

<i>Deposits Rate of</i>							
Non-financial corporations						Household	
Description		Les than 250.000		More than 250.000			
year	Deposits rate	To 1 month	Over 6 month up to 1 year	Up to 1 month	over 6 month up to 1 year	over 1 to 3 month	over 2 years
2004	2.8	1.8	3	3.3	0	2.1	4
2005	3.1	2.1	3.4	2.9	0	2.2	4
2006	3.1	2.1	4.3	3.1	0	2.3	4.5
2007	4	2.7	4.4	4.3	0	2.7	5.3
2008	4.4	3.1	5.3	3.6	0	4.6	3.9
2009	4	3.4	5	3.9	5.5	3.3	5.5
2010	3.4	2.4	5	0	5.2	2.6	5.1
MAJ 2011	3.4	2.4	3.9	0	0	2.6	5

Source: CBK, Annual report 2010, page 153

Table no 9 Deposits – interest rate for 12 month

Value	Banks						
	PCB	RBKO	BKT	BpB	NLB	BEK	TEB
1.000€	2.40%	2.20%	3.70%	4.30%	4.20%	4.90%	3.40%
5.000€	2.40%	2.20%	3.70%	4.30%	4.20%	4.90%	3.40%
50.000€	4.00%	2.9-3.30%	4.60%	4.80%	4.20%	E neg.	4.40%
100.000€	4.00%	E neg.	4.60%	4.80%	4.20%	E neg.	4.40%

Source: Publication of GAP, august 2011, barometer for interest rate in deposits for 12 month

10. Factors that determine the setting of interest rates on loans and deposits

The Kosovo Competition Authority have analyzed and factors in base of which commercial banks determined the interest rate in loans and deposits, has identified several key factors. Is important to note that main financial source of loans activity in Kosovo are citizen's deposits. Banks compete among themselves to benefit as much from clients deposits which are limited.

With other word, interest rates on deposits are indicated from fact that amount of deposits that is available is limited, respectively lead by bid.

Regarding the factors that indicate to interest rate on loan, are several factors, from which more important are:

1. Funding costs (deposits, loans that bank gets from other institutions and capital costs),

Analysis of Monitoring the competition in the Banking Sector in Kosovo

2. Risk rate calculated,
3. Operating expenses on loans proceeding ,
4. Market conditions

11. Reasons for differences between interest rates and deposits loans

During the monitoring of banks we have analyzed and big differences that exist among interest rates on deposits and loans that commercial banks applied in Kosovo (10.9 pp) which difference is higher than in neighbouring countries (5pp). During interest rates analyse on deposits loans and reasons gives by commercial banks, we have identified several factors which indicate in their level, as more important are:

- The maturity of gap (loans have an average maturity much longer than the average maturity of term deposits gives with short term period).
- The risk on lending loans - there is a great uncertainty of lending loans and higher risk of loans default,
- Lack of deposits insurance from abroad- there is no insurance that deposits to be collected by abroad for political reasons and the funds received from abroad are with higher rates up to 10.5%.
- No possibility of receiving funds from banks abroad- most of assets (loans) that our banks do not get loans from other foreign banks but from international financial institutions as BERZH- of, IFC.
- Lacks of projects – do not exist god projects that justify getting of loans and their return in time.
- The low level of competition as consequence of the small number of commercial banks, which passed by high merger scale to a several of biggest banks.

While, during the analyse we compared and level of interest rates for loans and deposits for each banks and we note that each bank has its own rate which are not the same with other banks, but differ in small percentage.

These differences existing depending of loans and deposits type their duration and coast associated with provisions and other administrative services.

Besides other reasons, the difference of interest rates on loans and deposits, there is the fact that each bank intends certain increase in market and achievement of these goals requires some specific measures, among them and interest rates.

To be more specific, banks with lower participation in market, aiming to increase their participation, while aware that interest rate are factor that potentially lead more or les clients, they provide higher rate that average of interest rate on deposits and lower rates in loans.

12. Summary and recommendations

Analysis of Monitoring the competition in the Banking Sector in Kosovo

Kosovo Competition Authority, during the monitoring of the banking sector, in order to increase the competition, after a six-month monitoring, detailed study of the main banking transactions, from the position of a client, banker and supervisor, in order to understand, above all, the complexity of the sector, its way of functioning, furthermore way of behaving of this market, it came up with some findings and recommendations aiming at the financial stability and increase of competition.

- Growth and development of the banking sector (2000-2010) was associated with the creation of banks and increase of their numbers, expansion of their products, expansion of their geographical presence covering the whole territory of the country. Although it is ascertained a continuous effort of the bank operators to ensure a wider base of clients by increasing the competition, this growth did not have yet considerable effect on decreasing the interest rates for loans and reduction of difference between the interest on loans and the deposits, which difference is high.
- The capital of the banks is dominated by the foreign capital and the percentage of domestic capital is low, there is need for growth of the new banks and its spreading country wide.
- The liberalization of the banking should be done, respectively it should be increased the number of banks that operate in Kosovo.
- Asymmetry of information, expressed in inability of mainly individual clients and small businesses to find summarized, comparative and updated information, for all banks, in order to secure all information required from the banks in order to make their choices. This partly comes from their limited abilities to process the information and partly because of the lack of effective informing provided by banks. This makes harder the choosing of the product and its provider for consumer and reduces the pressure of the banks to compete with prices, at least for certain products and service quality.
- Lack of transparency, more clearly presented through inability of consumer to compare efficiently services offered by banks contributed to a lower level of consumer possibilities to move around. These circumstances create opportunities for providers to increase the prices above the market competition level without losing a part of the market. Furthermore, the process of changing the bank for consumer is a difficult and costly process and it is usually time consuming. Lack of information forces the client to remain “blocked” in a particular bank and the “transfer costs” for him to be higher.
- In a condition of rather inactive cash market and almost total lack of market capital, the clients’ deposits continue to be the primary source of generation of funds in the banking system. In spite of decrease of their concentration level at ProCredit Bank and Raiffeisen Bank, they hold about 68% of the market and it would be of interest to analyze their

Analysis of Monitoring the competition in the Banking Sector in Kosovo

interest rates offered for deposits (low) and interest on loans (high), their evaluation as a strategy of liquidity management or abuse?

- The strength of the banks in the loan market where the competition is also higher, it can be said that it is “shared” among the banks. In general, they preserve a large profit margin compared to the costs (base interest) with aggressiveness or withdrawal from the market. Here, it would be very valuable the analysis of the structure of the loan portfolio through products. Therefore, a greater range of sub-products and the lack of analytical data make the analysis and drawing conclusion I inaccurate.
- An interactive process of Government bonds and saving funds, insurance agencies will play an important role in alleviating the dominant position of commercial banks in this market. This creates competition and pressure for more transparency and information. Lack of the Law on securities as well as its promulgation should be done immediately in order to open the way for functioning of the securities market, with which will be increased the room for capital investments.
- There is need to be determined the rating of the banks so that international creditor institutions provide funds through which the interest rates will be directly impacted.
- It is needed that the effective interest rates be more transparent and realistic. Likewise, it should be known how the price of the loan is formed (both for fixed-interest loans and those with varying interest), at the same time, determination of administrative costs that burden the loan price should be more transparent.
- There should be more impact on the faster solution of cases in the courts and the issues relating to the mortgages.