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

Financial Stability Report

Number 21

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Number 21

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ABBREVIATIONS:

ARA	Average Return on Assets
ARC	Average Return on Capital
ATM	Automated Teller Machines
CBK	Central Bank of the Republic of Kosovo
CPR	Capital Adequacy Ratio
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
KAS	Kosovo Agency of Statistics
KCGF	Kosovo Credit Guarantee Fund
KPST	Kosovo Pension Savings Trust
MFI	Micro-Financial Institutions
MFLT	Ministry of Finance, Labor and Transfers
MTA	Money Transfer Agencies
NFA	Net Foreign Assets
NIM	Net Interest Margin
NPL	Nonperforming loans
ODC	Other Depository Corporations
POS	Point of Sales (*English: Point of Sales*)
PP	Percentage Points
RWA	Risk Weighted Assets
TPL	Third Party Liability
VAT	Value Added Tax

Note: Users of this data are required to cite the source.

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1. Governor's opening speech

The Central Bank of the Republic of Kosovo publishes the 21st edition of the Financial Stability Report (FSR), a periodic publication that aims to provide a balanced and risk-based assessment of the most recent developments in the country's financial system and the challenges it faces. The report contributes to the fulfillment of the CBK's mandate to maintain financial stability, by increasing transparency and public information, as well as stimulating professional discussion on issues important to the financial system and the real economy.

The year 2024 was characterized by a stabilization of overall global economic activity, nevertheless the escalation of trade tensions and geopolitical uncertainties has harmed prospects for 2025. During the same time period, the euro area economy experienced modest growth in a fragile macroeconomic environment and was exposed to new risks, such as trade tensions and geopolitical uncertainties, which could have macrofinancial consequences for both the euro area and the region. The euro area slowdown and ongoing geopolitical tensions impacted the outlook for the Western Balkan countries, which operated in a fragile external environment with weakened demand.

Kosovo's economy, on the other hand, grew steadily at 4.4 percent in 2024, driven primarily by private consumption, investments, and exports, and the outlook for 2025 remains positive, with growth around potential. The challenges in the global environment mentioned above pose potential risks to the growth rate and could exert additional pressures on inflation and macroeconomic balances.

During 2024, Kosovo's financial system continued to expand rapidly, marking a more accelerated increase against the real GDP growth. This dynamic has contributed to the growth of financial intermediation, strengthening the role of the financial system in the national economy.

The banking sector experienced accelerated growth in 2024, reflecting the country's positive macroeconomic outlook and stable demand for financing from households and businesses.

Key financial sustainability indicators remain within the regulatory requirements. Rapid credit growth has the potential to increase the accumulation of cyclical risks, while the sector's sustainability has been reinforced by macroprudential measures implemented in 2024, as well as the decision to increase the contribution of banks' premiums to the Deposit Insurance Fund, which is one of the mechanisms of the financial safety net.

Furthermore, the results of the solvency stress test show that the banking system is highly resilient to macroeconomic and financial shocks, even under the most severe scenarios.

Focused analyses around different dimensions of risks are still limited by the complete availability of data, which, in some cases (such as debt burden), has objectively limited the outcome for a complete and objective judgment, but has also guided our policies to advance methodological guidelines to include additional data in future analyses.

The banking system's liquidity remains stable, with key indicators falling within regulatory limits, aided primarily by an increase in private sector deposits.

Other financial sectors are also stable, with positive performance and regulatory compliance, as the legal framework advances in accordance with the strategic plan.

Finally, we conclude that the overall assessment confirms the country's financial sustainability and stability, prudent regulatory oversight, and effective risk management practices, which are being tested by global economic uncertainties and require ongoing attention. The CBK remains committed to carrying out its full mandate in achieving its constitutional and legal goals.

Ahmet ISMAILI

Governor

Chairman of the Executive Board

2. Summary

Global economic activity showed signs of stabilization in 2024, while escalating trade tensions and geopolitical uncertainties have undermined the outlook for 2025. According to the International Monetary Fund (IMF), global growth is expected to slow, while the outlook for inflation - despite the downward trend - is accompanied by high uncertainties as a result of trade tensions, geopolitical or deteriorating climatic conditions.

The euro area economy grew modestly in 2024, supported mainly by private consumption, as a result of improving real incomes and falling inflation. In a fragile macroeconomic environment and vulnerable to new risks such as trade tensions and geopolitical uncertainties, the European Central Bank (ECB) expects economic growth to remain stable in 2025. At the same time, as a result of lower energy prices and continued tight financial conditions, euro area inflation slowed in 2024, with the ECB forecasting a further decline to 2.0% in 2025. The European Central Bank (ECB) began easing monetary policy in June 2024, creating more favorable financial conditions; however, increased uncertainty about the future outlook due to increased risks may have implications for overall macrofinancial stability.

In 2024, the economies of the Western Balkans operated in a fragile external environment, characterized by the euro area slowdown and ongoing geopolitical tensions.

Domestic demand was the primary driver of economic activity in the Western Balkans, with the external sector weakly contributing due to falling external demand and trade barriers. The easing of inflationary pressures and improved financing conditions have helped to maintain a positive growth trajectory, but external uncertainties remain a significant source of risk to the region's macroeconomic stability.

Kosovo's economy recorded steady growth of 4.4 percent in 2024, supported mainly by private consumption, investments and exports.

Low inflation, wage growth, and increased financial intermediation all helped to support consumption growth, which is the primary driver of economic activity. The outlook for 2025 remains positive, with growth projected at 4.1%, driven primarily by private consumption and public and private investment. However, challenges in the international environment, such as geopolitical uncertainty, the slowdown in major European economies, trade barriers, and meeting additional energy needs at higher domestic prices, pose potential risks to the growth rate and may put additional pressure on inflation and macroeconomic balances.

Inflation in the country fell to 1.6 percent in 2024, mainly due to reduced external pressures on food and imported goods prices. Although domestic demand for services remained moderate, core inflation remained high due to non-seasonal price stability in services and goods. The production and construction cost indices rose by 4.6% and 3.4%, respectively, indicating possible domestic inflationary pressures. Furthermore, consumer price pressures are expected to rise in 2025, with the CBK projecting a 3.3 percent increase for the entire year.

The fiscal sector in Kosovo showed a steady increase in budget revenues and expenditures, resulting in a minimal primary deficit of -0.1 percent of GDP. In the same period, public debt reached 1.74 billion euros, an increase of 4.6 percent, while the higher growth in economic activity translated into a decrease in the ratio to GDP to 16.5 percent.

In 2024, the balance of payments showed a significant deepening of the current account deficit, which was primarily influenced by the expansion of the trade deficit and the decline in secondary income.

Despite an increase in goods and services exports, the sectoral concentration of these exports, as well as the impact of external factors such as geopolitical tensions and international prices, limited the balance of payments' positive effect. Remittances and foreign direct investment continued to play an important role in financing the deficit, but fluctuations in these sources pose a threat to medium-term stability.

During 2024, Kosovo's financial system continued to expand rapidly, marking a more accelerated increase than the real GDP growth. This dynamic has aided the growth of financial intermediation, thereby strengthening the financial system's role in the national economy.

The system's structure remains dominated by foreign capital, particularly in banking, microfinance, and insurance. However, the system maintains a low level of interconnections between its constituent segments, which can act as a risk buffer in the event of a systemic crisis. In this context, the banking sector remains a critical node of financial interconnections and the primary focus of overall financial stability.

The banking sector recorded accelerated growth during 2024, reflecting improved macroeconomic conditions and stable demand for financing from households and businesses.

In December 2024, the banking sector's lending activity marked a double digit increase of 18.3 percent year on year, financing both domestic consumption and investment. The lending dynamics appear to have been driven by the high demand for loans from businesses and households, particularly for investments in inventory and working capital, fixed investments, and consumer loans. Moderate easing has also been observed in the credit supply, primarily through an increase in the number of approvals and, to a lesser extent, improvements in lending conditions such as maturity extension, collateral reduction, and loan expansion. Within the household segment, which was characterized by rapid lending growth throughout the year, the level of financial intermediation - estimated as the ratio of the number of borrowers to the number of employees, reaches 40%, while the debt burden in this segment appears stable with some differences between banks.

Key financial sustainability indicators remain within the regulatory requirements. Rapid credit growth has the potential to increase the accumulation of cyclical risks as well as risk concentration in specific sectors or segments, particularly in an environment of macroeconomic uncertainty and increased competition.

Macroprudential measures have bolstered the sector's resilience, with all banks meeting the minimum requirements by raising their profit capitalization rates. Furthermore, the results of the solvency stress test show that the banking system is highly resilient to macroeconomic and financial shocks, even under the most severe scenarios. This resilience is primarily supported by profits realized and retained over time, as well as a high level of allocated provisions, which allow some banks to operate profitably even under difficult conditions. In addition to these factors, the structure of the banks' balance sheet plays an important role: the high share of interest-bearing assets allows banks to benefit from the applicable interest rates (fixed or variable), whereas the relatively lower share of interest-bearing liabilities contributes to a lower relative increase in funding costs. As a result, raising interest rates on variable rate loans boosts some banks' net income margins, reducing capital sensitivity to shocks and bolstering banking sector stability.

The banking system remains stable in terms of liquidity, with key indicators within regulatory requirements, supported mainly by the growth of private sector deposits. However, the rise in interest rates this year has made it difficult to fund costs and maintain a liquid position, particularly during a period of increased credit activity. The liquidity stress test results indicate that the sector is capable of withstanding a high level of withdrawals over the 30 calendar days of the stressed period, as well as having enough liquidity to withstand the withdrawal of large depositors at the sector level.

Box 1. Financial Stability Map[1]

The financial stability map[2] presents trends in key indicators of financial stability and risks against historical averages (chart 1). In 2024, risks to financial stability were slightly higher than in the previous year, but lower compared to the historical average. Overall, compared to the previous year, there is a slight upward trend in risk scores in the financial position indicators of households, enterprises and government. Meanwhile, the level of risks stemming from the macroeconomic environment remains largely unchanged: the more favorable domestic economic environment has neutralized the slightly higher risk from the external sector.
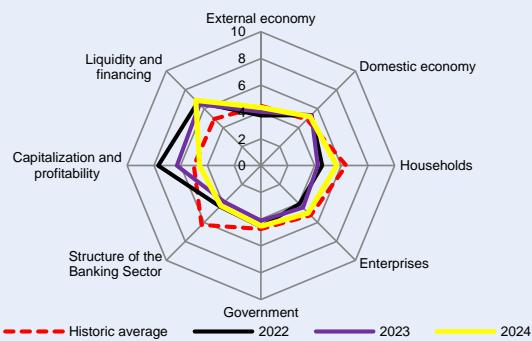
The capitalism and profitability indicator showed significant improvement, with a significant annual decrease in risk, whereas the household economy indicator showed the greatest increase in risk. While the liquidity and financing indicator showed a slight increase in risk, it remained the highest score among the risk dimensions. (chart 2).[3]

The **external economic indicator** for 2024 showed an increase in risk, owing primarily to the performance of global oil prices, which fell at a slower rate than the previous year. Furthermore, the increase in the risk score was influenced by developments such as the slowing of the GDP of our country's main trading partners, the higher level of unemployment in the countries where our diaspora is concentrated, and the higher level of international interest rates, despite the downward trend they have been on since the second quarter of 2024. Meanwhile, of the component sub-indicators, only positive sentiment from enterprises contributed to a slight risk reduction.

The risk from **the domestic economy** in 2024 has marked a slight decrease, mainly as a result of the more pronounced decline in the risk from consumer prices, reflecting a gradual stabilization of inflation. The output gap, although slightly lower compared to 2023, remains at stable levels, suggesting that the economy is operating close to its potential, which helps maintain macroeconomic stability. Meanwhile, the slight increase in the risk from the

current account balance and the external debt in relation to GDP have acted as neutralizing factors, limiting the improvement of this indicator.

Chart 1. Financial stability map

Source: CBK.

Enterprise sector indicator marked a slight increase in risk, driven mainly by the decline in the net sales index in the services sector and the decline in value added to GDP from trade. Meanwhile, the industrial turnover index, which reflects the state of manufacturing enterprises, and the sub-indicator of new enterprise registration made a neutralizing contribution by improving over the previous year, thereby limiting the further increase in risk for this indicator. In terms of financial components, the credit gap and the level of non-performing loans for enterprises increased slightly but remained low, indicating that this economic segment is financially stable overall.

The household sector indicator for 2024 showed a more pronounced increase in risk than the previous year, owing to a slowdown in the growth of remittances, which are one of the primary sources of financing for a large number of households. The borrowing gap widened significantly as a result of the year's rapid lending growth, contributing to an increase in the risk score and the value of non-performing loans. The unemployment rate decrease was the only sub-indicator that contributed to partial risk mitigation. The government sector indicator for 2024 showed a slight increase in risk over the previous year, owing to an increase in the sovereign risk premium. The eurozone's easing of monetary policies has resulted in lower interest rates on German government bonds, while rates on Kosovo government bonds have increased, widening

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[1] The calculation of the indicators is based on the value of GDP up to March 2021, and does not include the last revision of GDP in April 2021.

[2] The Financial Stability Map (FSM) graphically presents the movement of the risk level in the main categories of risk to financial stability in the banking sector of Kosovo, and allows for comparison with the historical average risk score for the respective categories. Increasing the distance from the center of the map for indicators

reflects increasing risk and decreasing the ability to withstand shocks to financial stability, and vice versa. The full methodology of the FSM model for Kosovo, which has undergone continuous revisions to the indicators and their calculation method, is presented in CBK Study Material No. 6.

[3] The risk performance of the Financial Stability Map indicators and the contribution of the constituent components to the respective risk level is presented in Annex 1.

the gap and, as a result, raising the sovereign risk premium. The increase in the cost of public debt and the decline in the budget balance to GDP both contributed to the slight increase in risk, while the decrease in public debt to GDP and the increase in tax revenues to GDP helped to mitigate the overall increase in risk.

Meanwhile, within the framework of risk and sustainability indicators in the banking sector, the capitalization and profitability indicator for 2024 improved significantly over 2023, indicating a strengthening of the financial position and increased sustainability of the banking system. Five of the six component sub-indicators decreased in risk, with the exception of non-performing loans, which increased slightly. The capital adequacy indicator and shareholder capital have improved significantly, indicating that the capital base is being consolidated and that potential losses can be absorbed. Profit before taxes and net interest income on assets show that income generation is becoming more sustainable. Meanwhile, the most significant improvement was observed in large credit exposures to first-class capital, indicating greater risk diversification and less reliance on larger clients.

The liquidity and funding indicator for 2024 increased risk compared to the previous year, owing to the deterioration of three of the four component sub-indicators. The loan-to-deposit sub-indicator increased as lending grew faster than deposits.

Furthermore, the sub-indicator of household deposits showed an increase in risk, indicating a slowdown in deposit growth, the primary source of

bank financing. Similarly, the indicator of liquidity expressed as liquid assets to short-term liabilities showed an increase in risk, indicating additional pressures on the sector's liquid capacity. The weight of non-resident liabilities in total liabilities showed a slight improvement, but remained low.

Chart 2. Financial stability map

Source: CBK.

The banking sector structure indicator for 2024 showed a slight increase in risk over the previous year, owing primarily to a decrease in the diversification of financing sources. In addition, the sub-indicator measuring the concentration of lending to the enterprise sector increased slightly, while the level of concentration of assets of the three largest banks to the sector's assets remained nearly unchanged, with a marginal increase. Meanwhile, there were minor improvements in the sub-indicator of the bank loan portfolio's deviation from the market and the negative deviation from the average capitalization rate, indicating increased diversification in the bank loan portfolio and an approximation of the bank capitalization rate to the sector average.

3. External environment and developments in the domestic economy
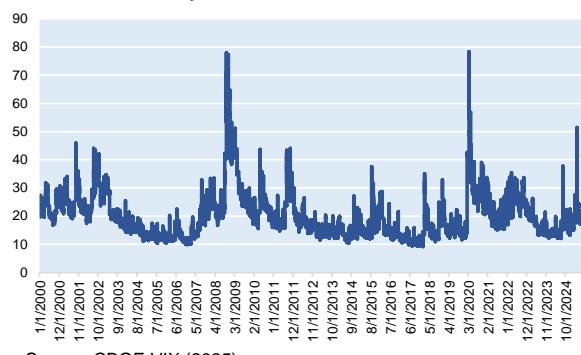
The International Monetary Fund (IMF) predicts that global economic activity will increase by 3.3% in 2024. Despite signs of stabilization in 2024, such as slowing inflation and stabilizing labor markets, the global economy in 2025 remained challenged by high geopolitical uncertainties and increased trade tensions. The imposition of trade tariffs by the United States in April caused significant financial market volatility and increased global uncertainty, particularly in economies most vulnerable to trade protectionist measures. Tariffs, despite temporary suspension in some cases, are expected to have a negative impact on global economic activity by increasing uncertainty about trade policies and impeding decision-making by businesses and other economic agents.

In these circumstances, the IMF projects global growth to slow to 2.8 percent in 2025, with the greatest impact on the US, the Eurozone and China. Short-term indicators, such as retail sales, business and consumer sentiment surveys, confirm a slowing of economic activity in 2025. Furthermore, the rise in public debt in many countries has reduced the scope for fiscal stimulus, raising the risk of a more severe economic slowdown in the event of new shocks.

The slowdown in economic activity caused by tight financing conditions and the stabilization of labor markets and global supply chains resulted in global inflation falling to 5.8% in 2024. Although inflationary progress remains on track, the rate of decline has slowed and is uneven, with emerging economies having greater difficulty restoring inflation to target levels than developed economies. According to IMF forecasts, global inflation will continue to fall, reaching 4.3 percent in 2025. However, there is still a risk of inflationary pressures returning, particularly if trade tensions, geopolitical tensions, or weather conditions worsen. On the other hand, a slowdown in global economic activity may cause downward pressures.

In response to these developments, central banks in most economies eased monetary policy during 2024, a trend that continued into 2025. However, trade tensions and tariff uncertainties have created additional pressures, which are expected to influence monetary policy direction based on their impact on global inflation. Anchoring inflation expectations remains critical and is dependent on economic agents' trust in central banks' ability to manage inflation. If these expectations are undermined, difficult trade-offs may emerge between the goal of price stability and supporting economic activity.

Chart 1. Volatility indices in financial markets

Source: CBOE VIX (2025)

The year 2024 was marked by increased risks to global financial stability as a result of high asset prices, increased financial leverage, and lower risk premia, combined with a weakened economic outlook. These risks began to materialize in 2025, when uncertainties about trade policies were reflected in an increase in the volatility index in global financial markets (chart 1), owing to falling asset values, widening risk premia, and increased volatility in financial markets.

According to the IMF, global financial stability remains fragile due to the continued high valuations in capital and debt markets, which could deteriorate in the event of an unexpected correction. Institutions that are heavily reliant on borrowing may struggle during periods of low liquidity. At the same time, developing economies with high financing costs may need to refinance debt at higher rates. Meanwhile, because of their ease of supervision, non-bank financial intermediaries may amplify these

risks through interactions with the banking industry.

The Economy of the Eurozone and the Western Balkans

Economic activity in the Eurozone improved slightly in 2024, with a modest 0.9% growth driven primarily by private consumption as real incomes rose and inflation fell. Investment remained low, while external demand and manufacturing activity declined, leaving the services sector as the primary driver of economic growth. The ECB predicts a 0.9 percent growth rate in 2025, despite a fragile macroeconomic environment and potential risks from trade barriers.

Inflation slowed to 2.4% in 2024 due to lower energy prices, higher financing costs, and labor market and supply chain stability. Pressures on the services sector persisted, but with a tendency to ease. According to ECB projections (June 2025), inflation will decrease to 2.0% in 2025. However, risks such as trade tensions with the US, geopolitical situations, exchange rate fluctuations, and climatic conditions may lead to inflationary pressures.

Against this backdrop, the ECB began cutting interest rates in 2024, easing financial conditions to revive economic growth. However, lending remained subdued, with lending standards for businesses and consumers tightening due to higher risk perceptions, while mortgage lending eased due to increased competition in the banking market. Credit demand improved gradually throughout the year, with a more noticeable increase in the second half, following the start of the easing of financing conditions.

The Western Balkans (WB) economies experienced moderate growth in 2024, with an average real GDP growth rate of 3.4 percent (3.7 percent in 2023). Kosovo experienced the highest economic growth in the region, at 4.4 percent, followed by Albania at 4.0 percent. Meanwhile, Bosnia and Herzegovina experienced the slowest growth of 2.5%. Domestic factors, such as increased private consumption, public investment, and wage growth, boosted regional economic

activity the most. These developments were influenced positively by lower inflationary pressures and gradual improvement in labor market conditions, which created more opportunities for consumption and investment.

On the other hand, the contribution of net exports was negative in all of the region's countries due to a decline in external demand, particularly from EU countries, which continue to be the region's main trading partner and source of financing. Also, the increase in imports to meet domestic demand has contributed to the widening of the trade deficit in the majority of BP countries.

The average inflation rate in the region slowed significantly to 3.2 percent in 2024, from 7.7 percent in the previous year. This slowdown was caused by the region's central banks' efforts to stabilize energy prices, improve supply chains, and implement prudent monetary policy. Kosovo had the lowest inflation rate (1.6%), while Serbia had the highest (4.8%).

According to the most recent IMF projections (April 2025), the BP economies will grow by an average of 3.4 percent in 2025, despite the challenging environment of continued global economic uncertainty and rising geopolitical tensions. Trade tensions with the United States remain one of the most significant sources of risk, with direct or indirect consequences through EU countries, which are the BP countries' primary trading partners.
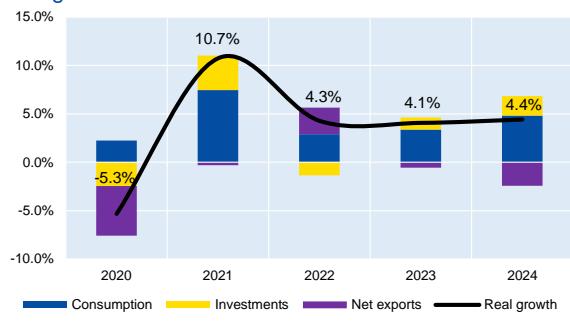
Lending activity in the Western Balkans increased significantly in 2024, with an average growth rate of 12.3%, reflecting favorable financing conditions from the banking sector and rising demand. Kosovo experienced the highest lending growth (18.3 percent), followed by Albania (13.3 percent) and North Macedonia (12.8 percent). These figures reflect positive banking sector dynamics and an improvement in credit portfolio quality across the region. However, the region's accelerated lending growth may indicate the accumulation of risks in the financial system. In this context, central banks took a proactive approach to financial stability by implementing key reforms and specific

measures, such as macroprudential measures and advancing regional payment system integration. These measures aim to strengthen the financial sector's resilience in the face of global uncertainty, as well as to bring financial systems closer to EU standards.

3.1 Domestic economy

Kosovo's economy experienced stable growth and improved overall macroeconomic dynamics in 2024. According to KAS's quarterly estimates, real GDP will rise by 4.4% in 2024, driven by increased consumption, investment, and exports of goods and services, while imports of goods and services had a significant negative impact on economic activity (chart 2).

Chart 2. Real GDP growth rate and contributors to the growth

Source: KAS and CBK calculations
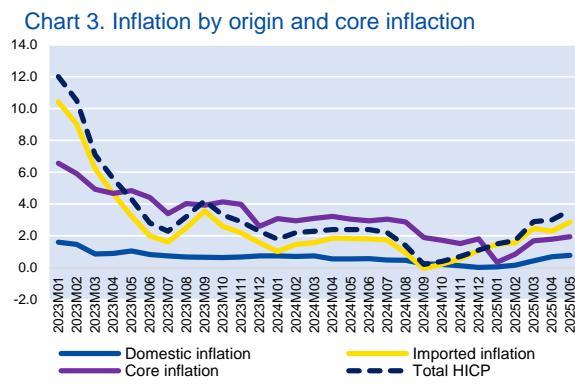
Consumption, as the primary component of domestic demand, contributed 4.8 percentage points to real GDP growth, owing primarily to an improvement in disposable income as a result of lower inflation, higher average wages, increased consumer credit, and increased external sources of financing such as remittances and employee compensation. During the same period, investment contributed 2.0 percentage points to real GDP growth, aided by an improved position of public investment, an increase in investment credit, and, to a lesser extent, FDI. Meanwhile, net exports contributed 2.4 percentage points less to GDP calculation in 2024, owing primarily to an increase in the need to finance domestic consumption, which was accompanied by an increase in the import of goods - as well as visa liberalization with the EU, which resulted in an increase in the import of travel services.

The macroeconomic outlook for 2025, based on CBK projections and new information released throughout the year, is positive but slowing down. While our projections indicate a real GDP growth rate of 4.1 percent (4.4 percent in 2024), ASK data for the first quarter of 2025 indicate a real GDP growth rate of 3.6 percent (5.6 percent in 2024). Economic growth in 2025 is expected to be supported by consumption and investment, as the main sources of financing for both components increase, while the slowdown in 2025 reflects a weaker dynamic in the consumption component's sources and expectations of a decline in goods exports.

Geopolitical tensions and rising uncertainties have created an environment of increased uncertainty for both the global and regional outlooks, making it difficult to make projections and forecast risks. At the same time, the country's economic outlook has been hampered by domestic factors such as rising energy and food prices, which have the potential to affect the fiscal and economic cycles.

Domestic inflation fell steadily in 2024, with an average annual rate of 1.6 percent, down from 4.9 percent in 2023 (chart 3). This slowdown was primarily caused by the easing of external inflationary pressures in the prices of food and other imported goods. Although there were fluctuations in the first half of the year, energy prices also helped to slow inflation in general. Despite the resurgence of economic activity in 2024, no significant pressures on domestic demand in services were observed. This reflects the more pronounced growth in investments and the dominant role of imported goods in the consumption basket, emphasizing the importance of external factors in the formation of inflation in 2024.

Core inflation, while also on a downward trend, remained higher than overall inflation, with an average rate of 2.6 percent versus 4.4 percent in 2023. Prices of services and goods that are not sensitive to seasonal fluctuations maintained inflationary pressures throughout 2024, owing to the more gradual dynamics in these categories.

Chart 3. Inflation by origin and core inflaction

Source: KAS (2025) and CBK calculations.

Kosovo's consumption structure is sensitive to the prices of imported goods, particularly food and oil, and serves as an important channel for the transmission of external shocks to the domestic economy. In 2024, imported inflation added 1.2 percentage points to the overall rate of 1.6 percent, while domestic inflation added 0.4 percentage point.

However, the acceleration of the producer price index (PPI) and construction price index (CPI) in 2024 - by 4.6% and 3.4%, respectively - indicates potential risks for domestic inflationary pressures in the medium term, with implications for consumer prices. Furthermore, developments in early 2025 indicate a return to inflationary pressures. In the period January-May 2025, inflationary pressures increased by 2.5 percent due to increases in import prices, primarily for some food items. This prompted the CBK to raise its inflation forecast for 2025 to 3.3 percent.

During 2024, the fiscal sector experienced a steady increase in budget revenues and expenditures, resulting in a small primary budget deficit of -0.1 percent of GDP. During the same period, the public debt increased by 4.6 percent to 1.74 billion euros. However, faster GDP growth than debt growth resulted in a reduction in the debt-to-GDP ratio to 16.5%.

During 2024, the current and financial account deficits widened, while the capital account balance fell from positive to negative. The current account deficit widened to 914.8 million euros (8.9 percent of GDP), representing a 25.4 percent annual increase. The widening of the current account balance is primarily due to a 7.1 percent
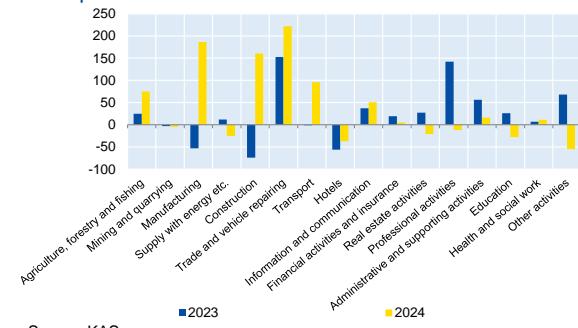
increase in the trade deficit in goods as a result of rapid import growth and the continued low base of exports despite growth, as well as a 1.9 percent decline in secondary income as a result of slower remittance growth. The 9.9 percent increase in the positive balance of services, as well as the 9.7 percent increase in primary income, helped to mitigate the current account deficit.

3.2. Financial position of enterprises

Based on enterprise turnover data, dynamism in entrepreneurial initiative, and dynamics in additional debt undertaking, businesses appear to have operated in a more active environment in 2024. In the trade sector, turnover increased by 6.2 percent per year, a slower rate than the 10.3 percent growth recorded in 2023, while value added increased by 3.2 percent during the same period.

In the manufacturing sector, turnover increased by 3.3%, while value added increased by 3.9%, indicating increased production capacity and gradual demand for processed products.

Chart 4. Annual change in the number of new enterprises
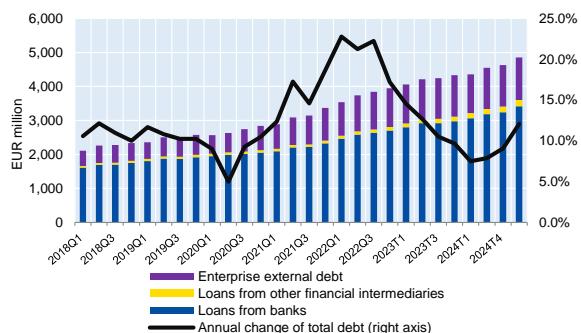
Source: KAS.

Entrepreneurship has shown a positive trend this year, with 12,051 new businesses registered, a 5.6% increase over the previous year. This dynamic reflects an improved environment for business development and the promotion of new investments. At the same time, 1,637 businesses closed, representing a 2.2 percent increase over 2023 (chart 4).

Corporate debt to financial institutions increased by 12.1 percent annually, reaching 47.0 percent of GDP (chart 5).

Chart 5. Enterprises debt
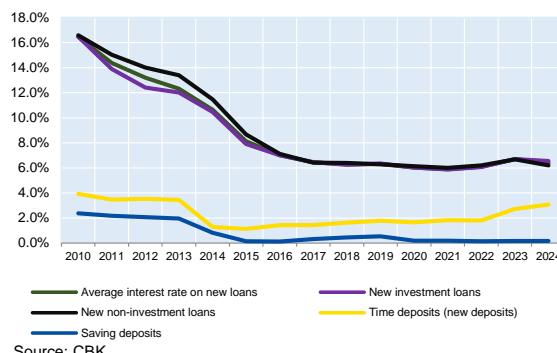
Source: CBK.

This growth was primarily driven by domestic debt, which increased by 15.7% as a result of the banking sector's lending expansion (14.9%), and loans from other financial intermediaries, which increased by 31.7%. Meanwhile, external debt increased at a more moderate rate of 2.9 percent, reducing its share of total corporate debt to 25.9 percent, down from 28.2 percent the previous year.

The increased lending from the banking sector to the enterprise sector has contributed to an increase in the level of financial intermediation, with the credit/GDP ratio reaching 33.0 percent, up from 30.7 percent in 2023. As a result, the net debtor position of enterprises to the banking sector increased by 18.2 percent, outpacing the 9.6 percent increase in 2023. Deposits rose by 12.3%, while lending to businesses increased by 15.7%. This trend of increased loan growth in relation to deposits has contributed to an increase in enterprises' debtor positions.

Chart 6. Interest rates for enterprises

Source: CBK.
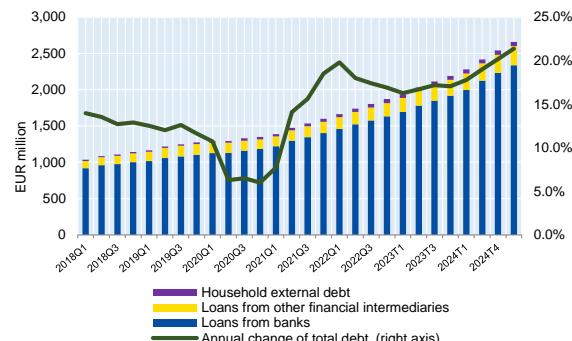
The cost of borrowing for businesses has fallen slightly, to an average of 6.4 percent, which, combined with other lending conditions, may have encouraged additional borrowing in this

segment. On the other hand, higher interest rates on time deposits have boosted deposit growth in the banking sector (chart 6).

3.3. Financial position of households

Household debt has grown at a faster pace than the corporate sector, reaching 25.1 percent of GDP in 2024, an annual growth rate of 21.4 percent. Domestic debt to the banking sector and microfinance institutions increased by 22.0 and 20.1 percent, respectively, while external debt, which accounts for only 2.1 percent of total household debt, increased by 5.7 percent (chart 7).

Chart 7. Households debt
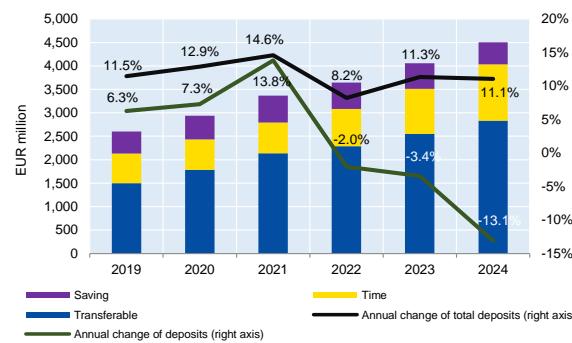
Source: CBK.

New loans to households increased by 27.9 percent, driven by growth in two segments: consumer loans (27.1 percent) and mortgage loans (37.9 percent).

Household credit has improved as a result of an increase in deposits, which now total 4.5 billion euros, representing an annual growth rate of 11.1 percent (chart 8).

Chart 8. Household deposits
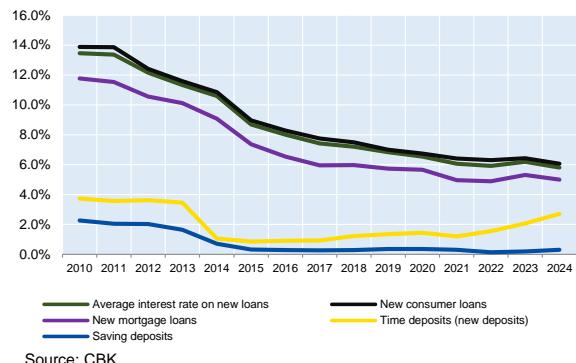
Source: CBK.

The increase in interest rates on time deposits has resulted in a 24.2 percent increase in time deposits, while demand deposits (savings) have decreased by 13.1%. The cost of borrowing for

households has decreased, with the average interest rate on new consumer loans dropping to 6.1 percent and mortgage loans to 5.0 percent (chart 9).

Chart 9. Interest rates for households

Source: CBK.

Household incomes rose, owing to improved labor market conditions and new sources of financing in the economy. In 2024, the average gross salary will be 639 euros, up 12.1 percent from the previous year, while the average gross salary in the private sector will be 598 euros, up 16.1 percent. In addition, social transfers, which include benefits and pensions, increased by 20.3%, while workers' compensation increased by 20.6% per year. In contrast, remittances increased by only 1.4 percent.

Other labor market indicators suggest that labor force participation will rise to 43.2 percent, a 2.5 percentage point increase. Furthermore, the employment rate reached 38.6 percent, up 2.3 percentage points from 2023. Meanwhile, the unemployment rate remained relatively stable at 10.8 percent. The economic dependency ratio, which represents the ratio of the inactive population (over 15 years old) to employment, has improved, falling to 191 percent from 211 percent in 2023.
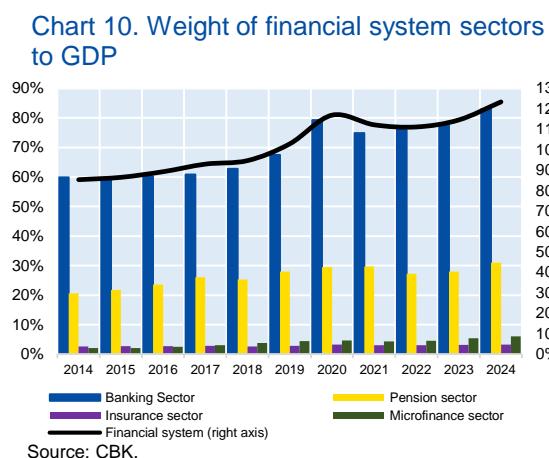
Table 1. Debt to banks and household performance

Description	2020	2021	2022	2023	2024
Household debt to banks (EUR million)	1,182.2	1,401.2	1,634.1	1,915.3	2,336.0
of which in foreign currency (EUR million)	2.3	2.2	1.7	1.3	-
Household deposits at banks (EUR million)	2,937.1	3,366.1	3,643.5	4,056.8	4,506.4
of which in foreign currency (EUR million)	155.4	176.1	115.1	155.7	159.7
Net position to banks (credit position), EUR million	1,754.9	1,964.9	2,009.4	2,141.5	2,170.4
Average value of loans per employees	3,406.3	3,655.7	4,046.6	4,433.2	5,663.3
Economic dependence rate	275.0%	248.0%	230.0%	211.0%	193.0%

Source: CBK.

4. Developments in the financial system
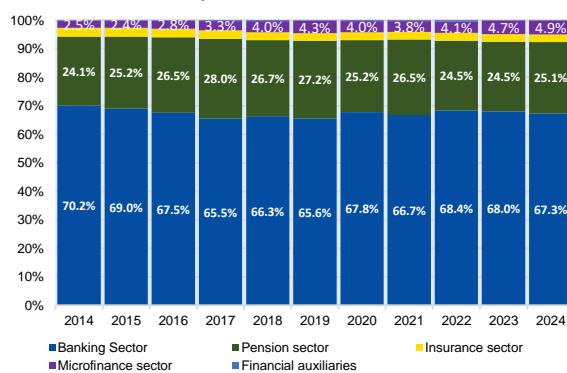
In 2024, the financial system in Kosovo continued to expand at high rates, marking an annual growth of 14.8 percent in total assets. The growth beyond the nominal GDP growth rate is reflected in the further expansion of financial intermediation to 123.4 percent of GDP - an annual increase of 8.8 percentage points. This dynamic indicates the strengthening of the role of the financial system in financing the economy, but at the same time raises the need for careful monitoring of the sustainability of this expansion (chart 10).

Chart 10. Weight of financial system sectors to GDP

Source: CBK.

The banking sector, which accounts for more than two-thirds of the financial system's assets, continues to grow at a rapid pace, increasing the sector's systemic weight. At the same time, the pension sector experienced strong asset growth and contributed to the strengthening of the long-term savings base, though it must remain vigilant against risks in international markets due to the weight of investments in these markets and high geopolitical uncertainty. Meanwhile, the microfinance and non-banking financial sectors, as well as the insurance sector, experienced a slowdown in annual growth following two years of rapid expansion. Despite its low weight in the system, the financial auxiliaries sector experienced significant

annual asset growth following structural reclassifications last year (chart 11).[4]
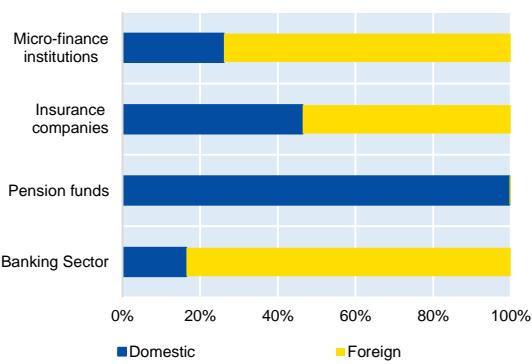
Chart 11. The share of respective sectors to total financial system assets

Source: CBK.

A structural characteristic of the financial system in Kosovo remains the marked dominance of foreign capital, especially in the banking, microfinance and insurance sectors (chart 12).

Chart 12. Ownership of financial system constituent sectors, December 2024

Source: CBK.

At the end of 2024, banks from EU countries accounted for the majority of the banking sector, with local capital accounting for only 16.4 percent - a 0.7 percentage point increase year on year. Meanwhile, banks from Albania and Turkey hold significant market shares (17.9 percent and 14.8%, respectively), reflecting the growing role of regional capital in the sector.

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[4] Reclassification of two operators from financial intermediaries to MFIs/NBFIs, in 2023.

The microfinance and non-banking financial sectors continued to rely heavily on foreign capital, with an annual decline of 4.8 percentage points in favor of domestic capital, while the three largest institutions owned more than half of the sector's assets. Foreign capital accounted for 53.6% of insurance assets, with the majority coming from Austria, Slovenia, and Albania.

Despite the gradual diversification of the system's ownership, foreign capital continues to be a potential channel for the transmission of developments from home countries via changes in parent banks' strategies. Specifically, the ownership structure may influence the transmission of effects resulting from the financial behavior of groups operating in the local market, particularly in the event of crises or worsening economic conditions in home countries.

Another structural risk is the relatively high level of concentration in the lending sector. Although competition in the banking sector has increased as new banks have entered the market and the weight of smaller banks has gradually increased, the three largest banks continue to hold the majority of the market. In the microfinance and non-banking financial sectors, three institutions own more than half of the assets. This increases the financial system's sensitivity to idiosyncratic shocks, particularly in large systemically important banks.

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Table 2. Number of financial institutions

Description	2017	2018	2019	2020	2021	2022	2023	2024
Commercial banks	10	10	10	11	11	12	12	11
Insurers	15	14	13	13	12	12	12	12
Pension funds	2	2	2	2	2	2	2	2
Financial auxiliaries	43	50	50	57	53	59	61	65
Insurance intermediaries	16	16	18	18	19	16	17	17
Microfinance institutions and non-bank financial institutions	25	29	29	29	30	30	32	32

Source: CBK.

Figure 1. Institutional interconnections of the Kosovo Financial System

Source: CBK.

Despite the financial system's overall expansion, its structure remains fragmented, with few cross-sectoral interconnections that could act as a buffer against systemic crises. Because of its size and centrality, the banking sector remains the most important hub of financial interconnection.

Inter-sectoral linkages did not change significantly in 2024, but some important dynamics were observed. In response to the government's increased supply of domestic financing, the banking sector increased its exposure to the Central Government by purchasing additional securities (figure 1). The relationship between the banking sector and the pension fund was also strengthened when the latter increased its investments in certificates of deposit.
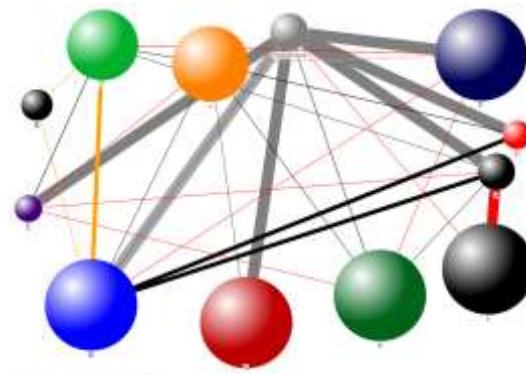
From a contagion risk perspective, the exposure of other financial sectors to commercial banks is still an important consideration. Microfinance and non-bank financial institutions, insurers, and pension funds are heavily reliant on bank deposits, making them vulnerable to industry changes. Banks' exposure to other financial sectors is limited, accounting for only 0.5 percent of total assets. This is not a direct threat to their stability.

The pension sector reduced its exposure to the CBK by withdrawing cash from the institution by the end of 2024, reorienting investments toward more profitable instruments such as securities and certificates of deposit. Meanwhile, insurance companies' ties to the CBK, the Central Government, and commercial banks improved, as opposed to the previous year when they weakened.

Interbank linkages are primarily used for short-term transactions like deposits and credit lines. During the reporting period, there was an increase in interaction between foreign-owned banks operating in Kosovo and local banks, as well as an increase in interaction between banks originating in the parent country within the local market, all of which contributed to the growth of interconnections within the banking sector and more pronounced interconnections among capital groups. Meanwhile, direct interconnections with parent banks, which remain the most common type of interbank interconnection, have increased in both directions: lending by local banks to parent banks and borrowing. These developments strengthen the importance of monitoring relations with entities abroad, due to the risk of transmitting financial shocks from abroad through these channels (figure 2).

Figure 2. Banking interconnections of Kosovo's banking sector

Source: CBK.

The size of each node (circle) represents the total assets of each banking institution, excluding parent banks, and is based on the total claims that parent banks have in the form of credit lines or subordinated debt to the respective banks in the country. The arrows' direction indicates claims against the banking institution to which they point, while the thickness of the dash and arrow reflects the level or size of the interconnection. The situation is as of December 2024.
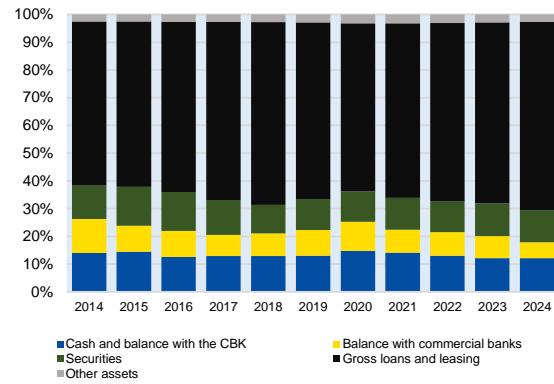
In general, the financial system's interconnectedness remains low; however, developments in the main risk transmission channels - interbank exposures, relationships with other financial sectors, and exposures to parent banks - require increased attention in the context of macroprudential supervision and contagion risk assessment.

4.1. Banking sector

The banking sector accelerated growth in 2024, reflecting improved macroeconomic conditions and sustained demand for financing from households and businesses. The sector's assets totaled 8.56 billion euros, representing a 13.5 percent annual growth rate (from 11.5 percent in 2023), driven by an increase in lending activity at an annual rate of 18.3 percent, up from 13.0 percent the previous year.

Liquid assets (cash and CBK balances) increased as well, while investments in securities slowed, owing primarily to a contraction in foreign market investments. Following a two-year decline, investments in Kosovo government securities have taken a positive turn. Balances with other commercial banks, on the other hand, fell, reflecting a shift in the use of liquid resources to support lending (chart 13).
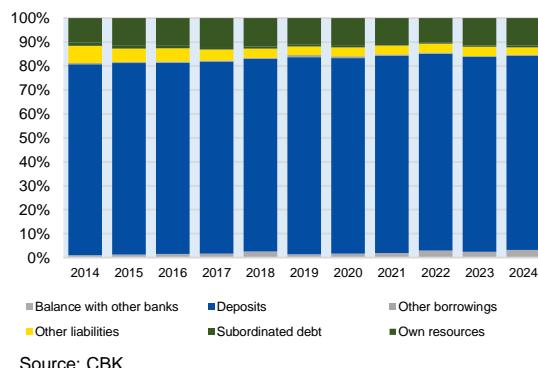
Chart 13. Share to assets structure

Source: CBK.

The financing of banking sector activity continues to be supported by deposits (chart 14)**, which were characterized by accelerated annual growth of 13.0 percent from 10.4 percent in December 2023.**

All sectors contributed to the overall increase in deposits, with a focus on financial and public corporations, which include institutions with a diverse asset base such as pension funds and public enterprises.
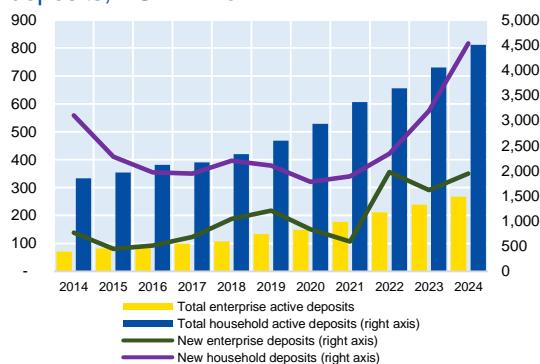
Chart 14. Share to liabilities structure and own resources

Source: CBK.

The segment of new deposits, namely time deposits, was marked by accelerated growth, reflecting more appealing interest rates and competition among banks to retain large depositors and institutional clients (chart 15).
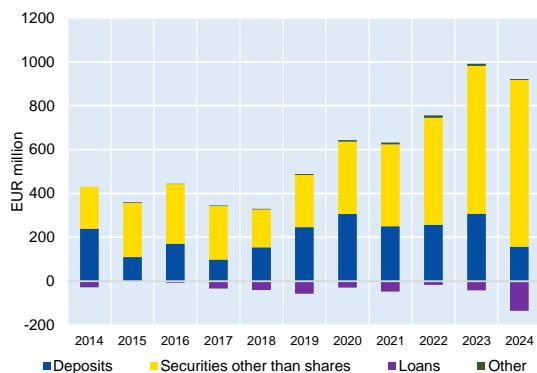
At the end of 2024, total deposits accounted for 80.9% of the banking sector's funding sources. Within this structure, household deposits are the largest category, accounting for 65.1% of the total, contributing to the sector's solid and stable funding base.

Chart 15. Stock of total deposits and new deposits, EUR million

Source: CBK.

However, as the sector's concentration on institutional clients grows, it becomes more vulnerable to sudden shifts in large deposits, necessitating continuous monitoring of the depositor weight and maturity profile.
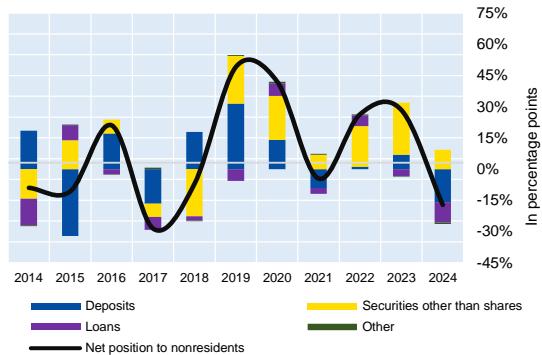
Chart 16. Net position to nonresidents

Source: CBK.

Chart 17. Items contribution in annual change activity with nonresidents

Source: CBK.

After two years of growth, the banking sector's net exposure to the external sector fell for the first time, to 786.3 million euros (see Chart 16). This decrease reflects a reduction in foreign placements (deposits and investments) while increasing foreign borrowing (chart 17).

Despite this, exposure to the external sector remains low and concentrated in low-risk instruments and the euro, limiting risk transmission from abroad. Non-resident claims accounted for 14.5 percent of total banking sector assets, while liabilities to non-residents accounted for only 5.3 percent.

Box 2. Debt Burden of Individual Borrowers in Kosovo

The debt burden for borrowers in Kosovo is estimated using data from all individual clients with at least one active credit product, as reported to the Kosovo Credit Registry (KCR) by all banking and microfinance institutions as of December 31, 2024. The data includes 365,209 clients and 651,766 active loans. In comparison to the previous year, the number of borrowers increased by 5.1%, while the number of active loans increased by 7.4%. The analysis followed the existing methodology, with indicators such as debt-to-income ratio, payment delays, and frequent loan use (Table 1).
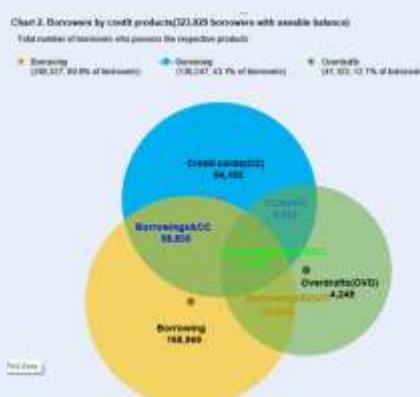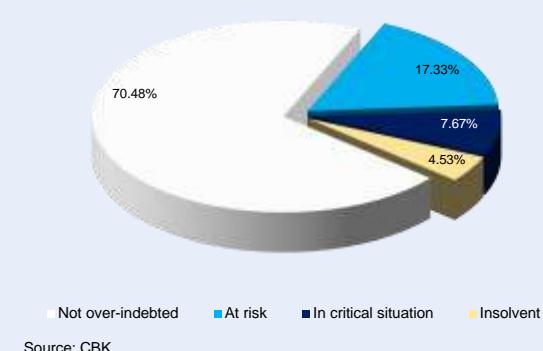
Table 1. The results of objective indicators of debt burden

Category	Indicator	Assessment/Indicator	Results
Cost of debt servicing: Debt to income ratio	Borrowers spending over 50% of their gross monthly income to pay secured and unsecured debt	*Indebtedness Index (amount of monthly installments of all credit products=>50% of monthly income of borrowers); (calculated for 282,771 borrowers)*	29.5% of borrowers use over 50% of their income to pay their installments
		Indebtedness Index (amount of monthly installments of active borrowings =>50% of gross monthly income of borrowers); (calculated for 225,500 borrowers)	27.4% of borrowers with active borrowing use over 50% of their income to pay their installments only for their borrowings
Arrears	Borrowers in arrears for more than 2 months in paying their credit contracts	*Borrowers are in arrears for more than 60 days (sample 365,209 debtor)*	11.9% e huamarrësve kanë vonesa më shumë se 1 muaj në pagesën e kësteve kreditore. While from 197,366 of borrowers who have only one credit contract 14.0% of them (or 7.5% of total borrowers) are in arrears for over 2 moths
Number of credit contracts	Households=>4 active credit contracts	*Borrowers=>4 active credit contracts (sample 365,209 borrowers)*	7.1% of borrowers have 4 or more than 4 active credit contracts

The Debt Burden Index, calculated as the ratio of monthly installments to the borrower's monthly income, is the primary indicator used to assess the debt burden. To ensure a more realistic measurement of the burden, appropriate treatments were applied to monthly income and installment data in some observations where this information was missing, using the same methodology as in previous analyses.

Chart 2. Borrowers by credit products(321,925 borrowers with possible balance)

Chart 1. Distribution of individual borrowers by burden index

Not over-indebted — At risk — In critical situation — Insolvent

Source: CBK.

Consequently, based on the availability of data and the relevant treatments applied, it was possible to estimate the level of debt burden for 77.4 percent of total borrowers in the credit register (RCR) [5].

The results of this assessment suggest that 29.5 percent of these borrowers[6] are over-indebted. Of these, 17.33 percent are in the first stage of over-indebtedness, i.e. at risk of over-indebtedness where the monthly installment constitutes 50 to 75 percent

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[5] Missing information on credit installments was treated differently by type of credit product. After these treatments, information on installments was available for 88.4% of borrowers, while in 11.6% of cases the installment resulted zero, reflecting unused balances of products such as credit cards and overdrafts. As a result of the lack of information on income for some borrowers and zero balances of credit
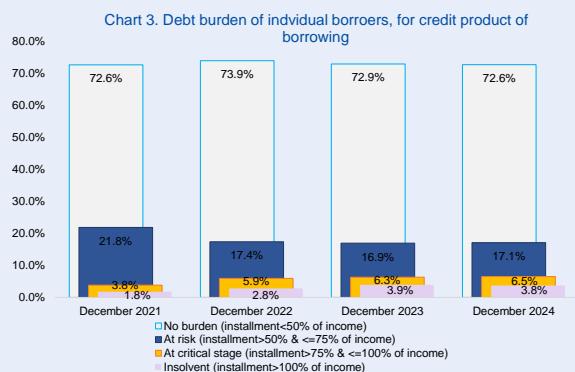
installments in other cases, the load index is missing for 13.1% of cases or takes a zero value for 9.4% of cases (representing unused balances).

[6] For whom the debt burden indicator was assessed.

of monthly income. Meanwhile, 7.67 percent of borrowers are in the critical stage, while 4.53 percent are insolvent, where monthly installments completely exceed gross monthly income (chart 3).

However, this assessment is based solely on the borrower's individual income and does not consider the income of the family unit, co-borrowers, or any other potential sources of income. As a result, this approach fails to accurately reflect borrowers' true solvency. As a result, the reported percentage of overburdened borrowers may be overestimated and should not be used as a direct and unbiased indicator of debt repayment ability. On the contrary, this assessment should be considered as a guiding and indicative indicator, and currently as the most potential indicator available, which informs about the level of debt burden of borrowers. The indicator has remained consistent over time, with a slight upward trend, while also emphasizing the need for more comprehensive data and a more integrated approach to assessing the burden.

(chart 3).

Chart 3. Debt burden of indvidual borroers, for credit product of borrowing

The probability of overdraft is higher among borrowers who have three or more active credit contracts (51.5 percent of them), as well as among those who have loans simultaneously in both the banking and microfinance sectors. This suggests that multiple borrowing, i.e. having several active credit contracts in different institutions, is associated with the highest level of overdraft (table 2). The proportion of borrowers with more than one contract has increased by 1.7 percentage points since the previous year (table 2). Borrowers with loans from multiple institutions accounted for 47.7 percent of overdraft cases, compared to 40.2 percent of borrowers with multiple credit contracts but only at one institution. The previous year's ratios were 45.9 and 39.7 percent, respectively.

When analyzing the level of burden by sector, the burden is higher among borrowers with active loans in the banking sector, where 29.2 percent are burdened, compared to 20.2 percent of borrowers with loans only in the microfinance sector, with a more pronounced increase in the latter of 2.2 percentage points from the previous year (an increase of 0.6 percentage points in the banking sector).

Credit history and collateral-backed contracts are associated with increased debt burden. Poorer installment payment performance may also indicate a high burden, as the majority of cases of overburdening occur among borrowers who are 90-180 days or more late in paying their installments (Table 3).

Table 3. Average and median of income, installment, of approved amount and remainder of borrowing

Income and installment (EUR)	Average			Median		
	2022	2023	2024	2022	2023	2024
Income	787	829	881	488	508	550
Total installments	203	242	251	127	141	153
Borrowing installment	169	203	209	106	117	132
Approved amount of borrowing	11,498	12,612	14,254	5,600	6,150	7,200
outstanding amount	8,334	9,377	10,767	3,432	4,000	4,604

Source: CBK

Among the socio-demographic factors influencing debt overburdening, marital status emerged as statistically significant, with married borrowers being more overburdened, possibly due to co-borrowing loans not being fully accounted for in the data.
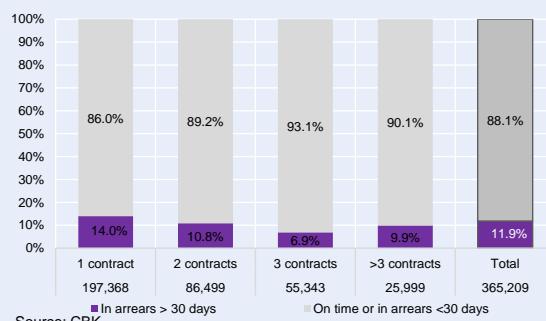
Overburdening is also higher in the Prizren and Prishtina regions, among borrowers aged 41 to 60, and with incomes ranging from 170-250 euros. In all of these categories, the proportion of overburdened borrowers has increased since last year (table 3).

Table 3. Borrowers' over-indebtedness by socio-demographic and socio-economic characteristics and borrowing models

Characteristics	Not over-indebted (monthly installment<50% of HH income)	Over-indebted (monthly installment> 50% of HH income)		
		At risk (debt/income= 50%-75%)	In critical situation (debt/income= 75%-100%)	Insolvent (debt/income= over 100%)
DEBT BURDEN BY SOCIO-DEMOGRAPHIC AND SOCIO-ECONOMIC CHARACTERISTICS OF INDIVIDUAL BORROWERS				
Borrower's gender				
Woman	70.9%	17.3%	7.7%	4.1%
Man	70.2%	17.4%	7.7%	4.7%
Marital status				
Married	67.8%	18.5%	8.6%	5.1%
Divorced	73.6%	15.7%	6.4%	4.4%
Not married	75.2%	15.3%	6.1%	3.4%
Type of borrower				
Individual residency	70.5%	17.3%	7.7%	4.5%
Individual non-resident	78.9%	10.5%	4.8%	5.8%
Region of respective borrower				
Ferizaj	71.5%	16.2%	8.1%	4.2%
Gjakovë	71.7%	16.7%	7.5%	4.1%
Gjilan	71.1%	17.0%	7.4%	4.5%
Mitrovica	71.3%	16.7%	7.8%	4.2%
Peja	72.3%	17.0%	6.7%	4.0%
Prishtina	70.6%	17.2%	7.8%	4.5%
Prizren	69.1%	18.2%	7.8%	4.9%
Age of respective borrower				
< 30 years of age	77.3%	13.9%	5.7%	3.2%
30 - 40 years of age	68.1%	18.8%	8.3%	4.9%
40 - 50 years of age	67.2%	19.0%	8.7%	5.2%
50- 60 years of age	67.7%	18.8%	8.6%	4.9%
> 60 years of age	81.9%	8.8%	4.6%	4.7%
Borrower's income level				
Up to 170 EUR	29.5%	22.6%	21.4%	26.5%
170 -249 EUR	57.4%	18.5%	13.4%	10.7%
250-449 EUR	66.2%	18.8%	9.8%	5.2%
450-749 EUR	67.6%	20.8%	8.0%	3.6%
750-999 EUR	75.1%	16.7%	5.5%	2.7%
1000-2000 EUR	82.2%	11.2%	3.6%	3.0%
over 2000 EUR	90.0%	5.6%	1.9%	2.5%
BORROWING MODELS				
Debt burden by number of credit contracts				
One active credit contract	87.7%	7.2%	3.1%	2.0%
Two active contracts	67.4%	20.9%	7.5%	4.2%
Three active contracts	51.5%	29.7%	12.7%	6.1%
Four or more active credit contracts	33.0%	31.4%	21.0%	14.7%
Burden by type of credit contracts				
Borrowing, leasing, mortgage loans	63.9%	21.3%	9.4%	5.5%
Overdraft with used balance	51.9%	25.4%	13.6%	9.1%
Credit card with positive used balance	66.8%	19.8%	8.7%	4.7%
Burden by type of lending institution				
Bank	70.8%	18.9%	6.8%	3.5%
Microfinance	79.8%	10.5%	5.7%	4.0%
Bank and microfinance simultanously	48.6%	24.7%	16.3%	10.4%
Burden by **multiple borrowing and in different insititutions**				
Many contracts - one lending institution	59.8%	26.8%	9.0%	4.4%
Many contracts - some lending institutions	52.3%	24.3%	14.3%	9.1%
Burden by **credit history**				
No closed contract	81.8%	11.1%	4.3%	2.7%
At least one closed contract	66.0%	19.8%	9.0%	5.2%
Burden by **collateralized contracts**				
No active collateralized contract	80.0%	12.5%	5.0%	2.6%
At least one collateralized contract	58.9%	23.2%	11.0%	6.9%
Burden indebtedness by credit classifications (delays in payments of credit obligations)				
On time, or in arrears <30 days	70.3%	17.6%	7.7%	4.3%
In arrears 30- 60 ditë	69.6%	16.1%	8.1%	6.2%
In arrears 60-90 days	69.9%	16.1%	7.8%	6.2%
In arrears 90 - 180 days	68.8%	16.3%	8.1%	6.8%
In arrears > 180 days	72.0%	14.3%	7.0%	6.7%
Write offs	79.1%	11.0%	6.6%	3.3%

Trends in late payment of installments follow similar patterns to those of overdraft, with the exception of **marital status**, where unmarried borrowers show more cases of default. Also, defaults are more frequent **in the 31–40 age group.**

Source: CBK.

Statistically significant factors influencing payment delays include the number of contracts, collateralization, lending sector, credit history, and multiple borrowing. Delays are more common among borrowers with one or two contracts, up from the previous year, while participation by those with more than three contracts has decreased (chart 4a). This year, delays are more common in contracts without collateral, compared to last year, when collateralized contracts dominated (chart 4b). Furthermore, borrowers with only microfinance loans exhibit higher trends in delays (chart 4c).

Chart 4b. Borrowers' payment performance, by collateral

Source: CBK.
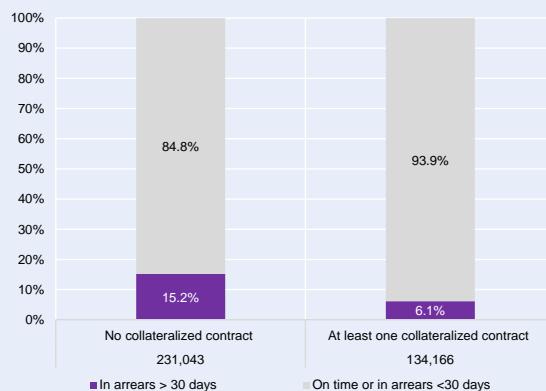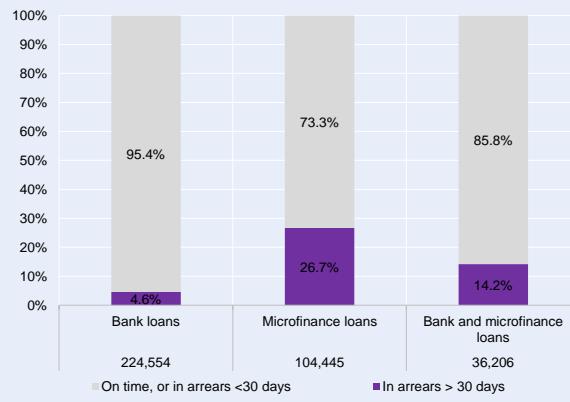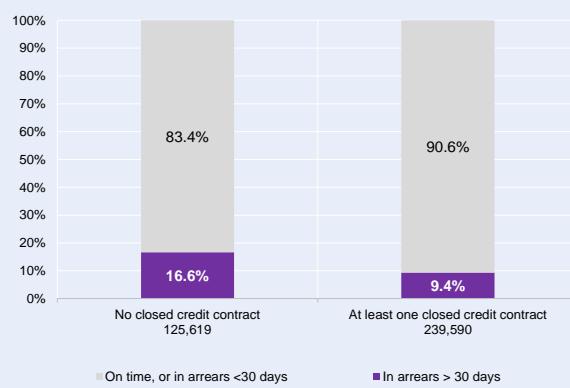
Chart 4c. Borrowers' payment performance by type of lending institution

Source: CBK.
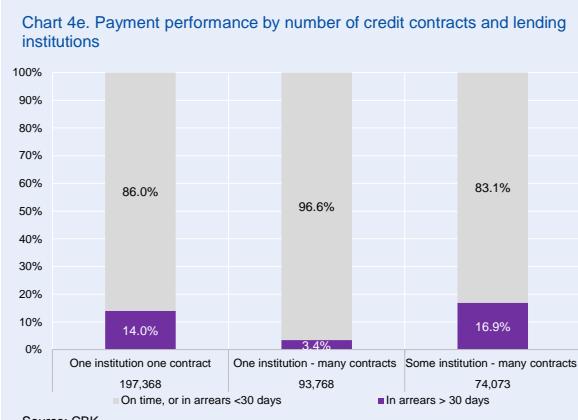
Delays are more pronounced among borrowers with no credit history, or those who have not closed credit contracts, indicating an opposite trend from last year. This behavior is in contrast to the debt overload pattern, which shows that those with a credit history have the highest number of overburdened borrowers. (chart 4d).
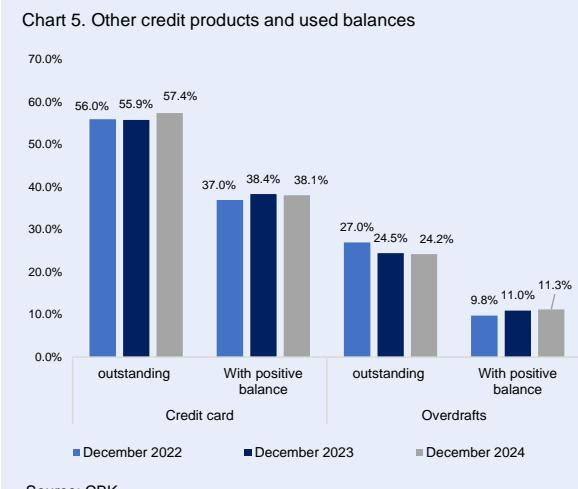
Chart 4d. Borrowers' payment performance, by credit history

Source: CBK.

Also, delinquencies are more common among borrowers with multiple active contracts and from different institutions (chart 4e). Approximately 16.9 percent of borrowers with credit products from various institutions are delinquent, compared to only 3.4 percent of those with multiple contracts at the same institution (chart 4e).

Chart 4e. Payment performance by number of credit contracts and lending institutions

Source: CBK.

The share of borrowers using overdrafts has increased slightly, while that of credit card users has decreased (chart 5). Also, the debt burden for the overdraft product has increased slightly compared to the previous year.

Chart 5. Other credit products and used balances

Source: CBK.

Finally, debt overburden is assessed using three main indicators: the burden index, arrears in installment payments, and the number of credit contracts, all of which provide valuable insight into the debt burden of Kosovo borrowers. Although the findings indicate a link between overburden, the number of credit products, and payment arrears, this cause-and-effect relationship is not conclusive and can develop in a variety of directions. Possession of additional contracts may increase the monthly burden, but the presence of multiple contracts or arrears in payments should not be interpreted as the borrower's inability to repay the debt.

Although the analysis's findings provide useful insight into the evolution of the debt burden, they may be limited due to data quality issues and assumptions made due to a lack of information. However, these concerns about data availability and quality have been addressed by the new methodological guide for credit reporting in the Kosovo Credit Registry (KCR), which goes into effect in June 2025 and will be used by banks going forward. This guide includes updates to the KCR's reporting methodology, which address both coverage expansion and data quality improvements. These developments will have a direct impact on the advancement of analysis, specifically the increase in statistical capacity for a more comprehensive, substantive, and relevant assessment of the debt burden. Given the complexity and importance of the debt issue, the CBK continues to focus on improving the quality and completeness of data in order to provide accurate information on the situation and inform policymaking.
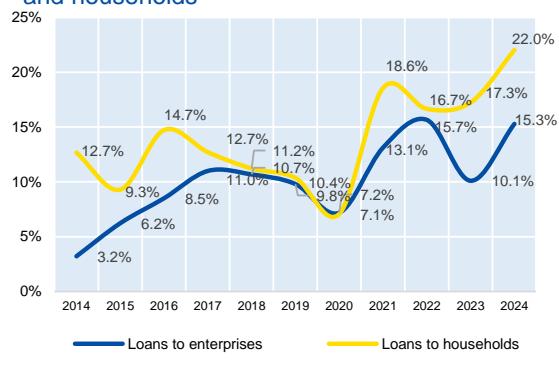
Table 5. Socio-demographic and soocio-economic characteristics and borrowing models

Socio-demographic and socio economic characteristics of individual borrower	Share (%)	Number / Frequency
Number of borrowers: 365.209		
Number of active credit contracts: 651.766		
Socio-demographic and socio-economic characteristics of individual borrower		
Borrower's gender		
Woman	33.9%	122,304
Man	66.1%	238,418
Marital status		
Married	60.1%	217,241
Divorced	0.5%	1,880
Not married	39.4%	142,633
Type of borrower		
Individual residency	99.7%	363,971
Individual non-resident	0.3%	1,238
Region of respective borrower		
Ferizaj	3.6%	13,073
Gjakovë	15.2%	55,598
Gjilan	13.2%	48,031
Mitrovica	6.1%	22,081
Peja	1.7%	6,033
Prishtina	30.1%	109,778
Prizren	30.2%	110,240
Age of respective borrower		
< 30 years of age	24.8%	90,625
30 - 40 years of age	26.9%	98,116
40 - 50 years of age	22.2%	80,928
50- 60 years of age	22.6%	82,440
> 60 years of age	3.6%	13,098
Borrowers income level		
Up to 170 EUR	1.6%	5,010
170 -249 EUR	5.5%	17,482
250-449 euro	28.7%	90,890
450-749 euro	33.5%	106,149
750-999 euro	10.8%	34,095
1000-2000 euro	13.7%	43,577
mbi 2000 euro	6.3%	19,986
BORROWING MODELS		
Number of borrowers by **number of credit contracts**		
One active credit contract	54.0%	197,368
Tow active credit contract	23.7%	86,499
Three active contracts	15.2%	55,343
Four or more active credit contracts	7.1%	25,999
Number of borrowers by **type of credit contracts**		
Borrowing, leasing, mortgage lonas	71.3%	260,327
Overdrafts with positive balance	11.3%	41,123
Credit cards with positiver balance	38.1%	139,247
Other credit contracts	0.01%	24
Number of borrowers by **number of institutions**		
Client with a contract in only one institution	79.7%	291,136
Clients with contracts in many institutions	20.3%	74,073
Number of borrowers by type of lending institution		
Bank	61.5%	224,554
Microfinance	28.6%	104,445
Bank and microfinance simultanously	9.9%	36,206
Number of borrowers by **credit history**		
No closed contract	34.4%	125,619
At least one closed contract	65.6%	239,590
Number of borrowers by **collateralized contracts**		
No active collateralized cotract	63.3%	231,043
At least on collateralized contract	36.7%	134,166

4.1.1 Credit developments

In 2024, the banking sector's lending activity recorded a nominal growth of 18.3 percent, accelerating the annual growth rate by 5.3 percentage points. This dynamic was influenced by developments in the second half of the year, which was characterized by higher annual growth, while the first half saw a slowdown in annual growth.
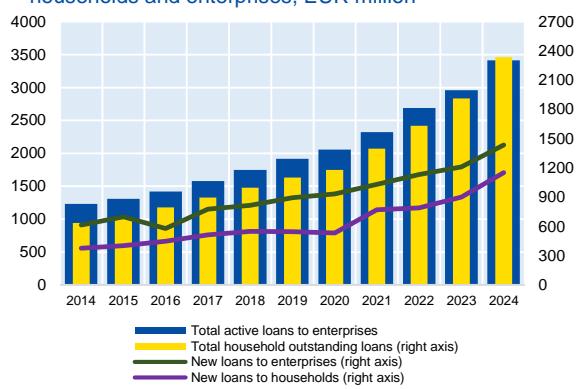
Chart 18. Annual growth of loans to enterprises and households

Source: CBK.

Growth was supported by higher demand for financing from both households and non-financial corporations (charts 18 and 19), reinforced by improving consumer confidence, falling interest rates (EURIBOR), and institutional support for broader financial inclusion.

Chart 19. Stock of total loans and new loans to households and enterprises, EUR million
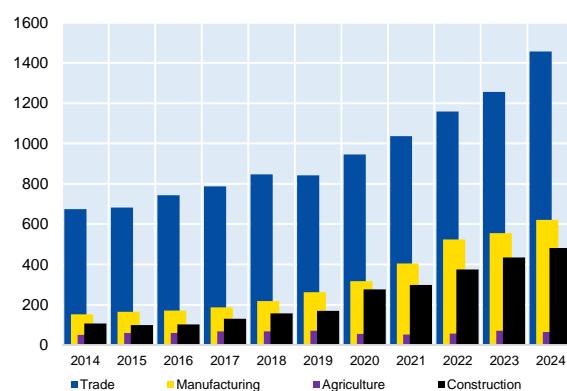
Source: CBK.

According to the Bank Lending Survey, demand for credit from households and SMEs remained high, while lending standards were eased in some segments, but with banks maintaining a prudent approach to risk.

The non-financial corporate segment recorded an annual growth of 15.3 percent in the loan stock, 5.2 percentage points higher than the previous year. This development was mainly driven by the growth of new investment loans, which increased by 42.2 percent from 3.6 percent a year earlier. Within these loans, loans to the services and industry sectors were characterized by growth, by 51.4 percent and 50.5 percent, respectively. Meanwhile, loans for non-investment purposes decreased by 10.5 percent from an increase of 15.6 percent a year earlier, and as a result had a negative contribution to the growth of total new loans to non-financial corporations.

Chart 20. Stock of loans by economic sectors
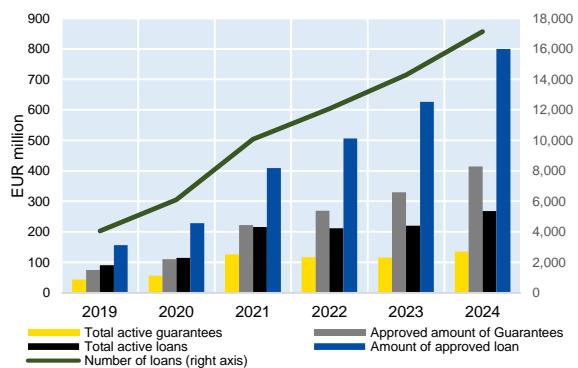
Source: CBK.

Lending activity to NFEs, by economic sector, was characterized by accelerated growth in certain sectors such as wholesale trade, financial services and manufacturing, despite the fact that the economic activity of these sectors has marked a slowdown in real growth. Meanwhile, lending to the agricultural sector has marked a decline, despite the increase in economic activity in this sector (chart 20). An important support for lending to SMEs was the Kosovo Credit Guarantee Fund (KCGF), which at the end of 2024 guaranteed 23.4 percent of the stock of loans to non-financial corporations – an annual increase of 2.2 percentage points. The structure of loans guaranteed by KCGF remains a representation of the overall structure of banking sector loans with a focus on sectors such as trade (41.9 percent), services (22.7 percent) and manufacturing (19.9 percent). The remainder consists of the construction sector (7.5 percent) and agriculture 8.0 percent of the total guarantee portfolio (chart 21).

In the household segment, lending marked accelerated growth, of 22.0 percent from 17.3 percent in the previous year. New consumer/personal loans marked accelerated growth, to 27.1 percent from 23.2 percent. In addition, unlike last year, new mortgage loans also had a positive impact on growth, which restored the growth trend, increasing by 37.9 percent, after a decrease of 11.3 percent in the previous year. Total new loans for this segment marked an increase of 27.9 percent (chart 21).
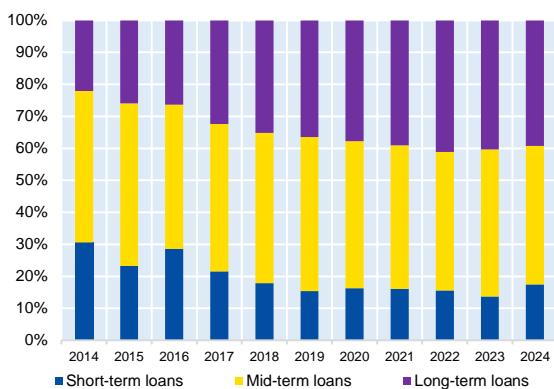
Chart 21. Loans approved and guaranteed by KCGF

Source: KCGF.

The maturity structure of the total loan stock shifted further towards long-term loans[7], which represented 55.6 percent of the loan portfolio. This dynamic was influenced by the annual growth of new mortgage loans from households as well as the growth of investment loans from non-financial corporations, as they are mainly loans with long maturities. Short-term loans also recorded a significant annual growth and increased participation. This dynamic was influenced by the growth of new consumer loans from households and new loans from non-financial corporations, which reflects increased demand for short-term liquidity (chart 22 and 23).
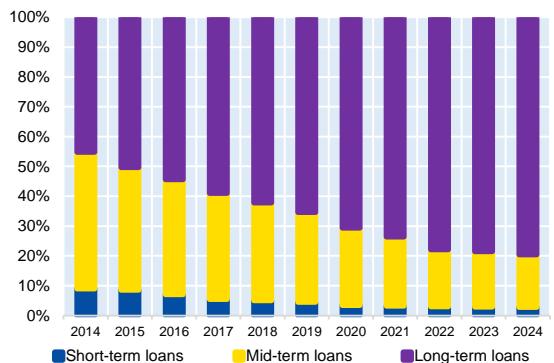
Chart 22. Loans to enterprises, share by maturity

Source: CBK.

The accelerated growth of lending in 2024, especially in the household segment and through long-term loans, has gradually changed the risk profile of the banking sector.

Chart 23. Loans to households, share by maturity

Source: CBK.

The shift towards longer-term loans increases banks' exposure to interest rate risks and uncertain economic cycles, while the growth of consumer and mortgage loans in the traditionally more stable household segment remains to be assessed from a long-term solvency perspective. This requires increased vigilance in credit risk management and the maintenance of prudent lending standards, in order to ensure the sustainability of credit expansion in the coming period.

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[7] Short-term includes maturities up to 1 year, medium-term includes maturities from 1 to 5 years, and long-term includes maturities over 5 years.

Box 3. Kosovo Bank Lending Survey[8]
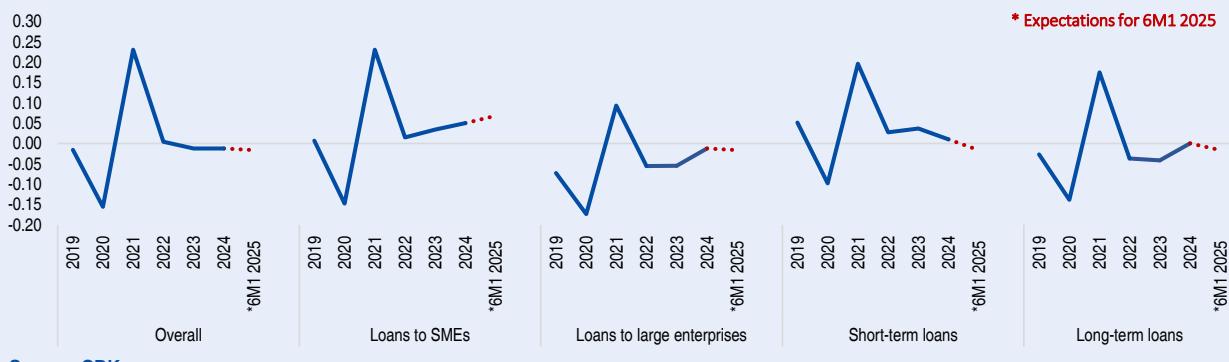
The results of the Kosovo Bank Lending Survey[9] reflect developments in bank lending activity during the period Q1 2024 – Q4 2024 (referred to as the year 2024), as well as expectations for lending activity in the period January - June 2025 (referred to as the first half of the following year - 6M1).

Based on the survey results, lending dynamics during 2024 were mainly influenced by credit demand, while credit supply had a lower impact. Large enterprises were characterized by a largely unchanged supply, while marginal relief was applied to SMEs. For households, the supply was generally eased, especially for consumer loans. On the other hand, credit demand continues

to be high from both segments, both from enterprises and from households.

Credit standards for enterprises generally remain unchanged, especially for large enterprises and long-term loans, while for SMEs and short-term loans there was a marginal easing of the applied standards (chart 1). The easing side of the credit supply was influenced by the support from the KCGF, the decline in the Euribor rate and the good liquidity position. Meanwhile, the tightening side was influenced to some extent by concerns regarding the outlook for global markets and the lower risk tolerance of banks. For the first half of 2025, the banks stated that they would apply marginal tightening of standards for large enterprises, while marginal easing for SMEs.

Chart 1. Credit standards applied for enterprises

Source: CBK.

In the context of credit supply, the terms and conditions applied when granting loans to both enterprise segments had positive movements in collateral requirements and average loan size, while marginal tightening in maturity. Meanwhile, regarding the interest rate, there was marginal easing for SMEs, while marginal tightening for large enterprises (chart 2).

In the first half of 2025, the conditions and rules applied by banks are expected to move in both directions. Specifically, relief is expected for both categories of enterprises in the collateral requirement, while tightening in the interest rate. Factors that are expected to support the easing of conditions are the support of the KCGF, the satisfactory liquidity position and competition from banking and

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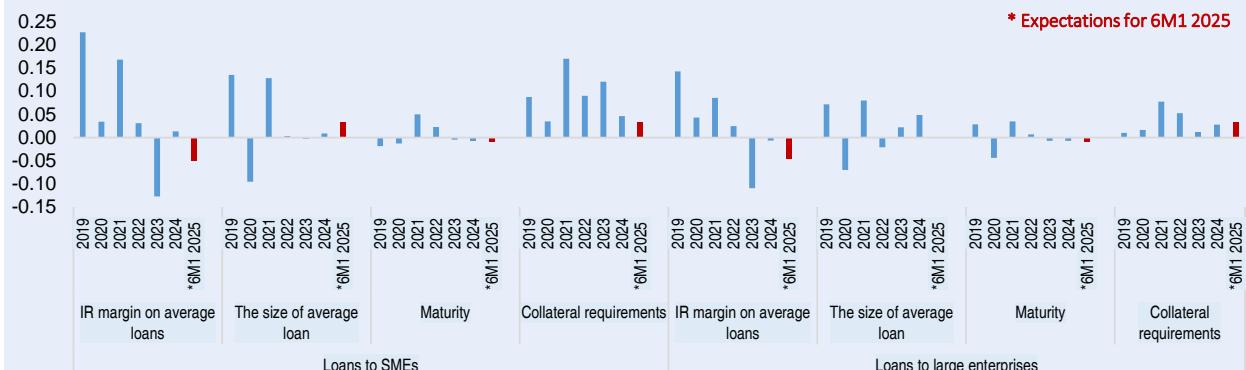
[8]The Kosovo Bank Lending Survey is conducted by the Central Bank of the Republic of Kosovo with 11 banks operating in Kosovo. The survey is conducted on a quarterly basis. This survey includes aggregated data for each quarter of 2024 as well as expectations for the first half of 2025.

[9]Individual bank responses are aggregated using the respective weight of each bank in the total banking sector credit portfolio. Positive values of the credit standards index indicate easing and negative values indicate tightening. Also, positive values of the credit demand index indicate increasing demand and negative values indicate decreasing demand. More details on the methodology used can be found in the Bank Lending Survey Report on the CBK website.

non-banking institutions. Meanwhile, lower risk tolerance is expected to affect the tightening to some extent.

During 2024, the level of approval for enterprises has marked a high increase, especially for SMEs, in line with the increase in credit demand.
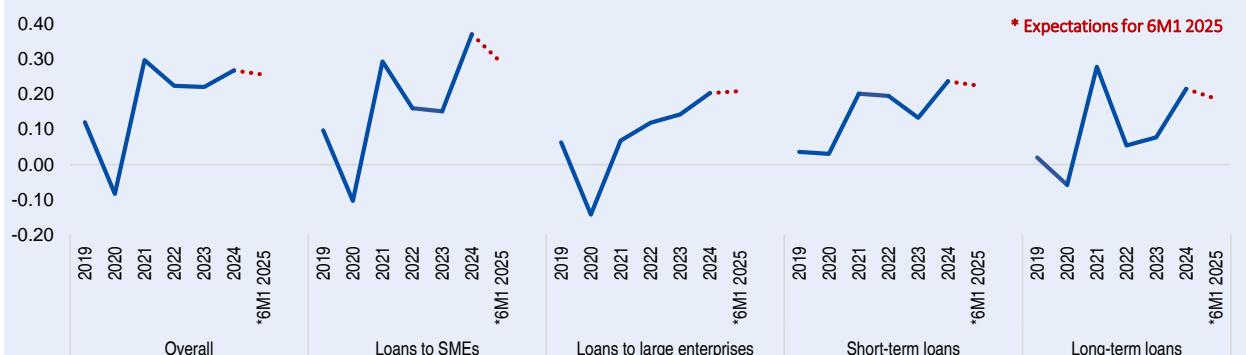
Chart 2. Terms and conditions applied for credit standards for enterprises

Source: CBK.

According to the survey results, demand for credit from enterprises was high in general, and from SMEs in particular (chart 3).

Chart 3. Household demand for loans
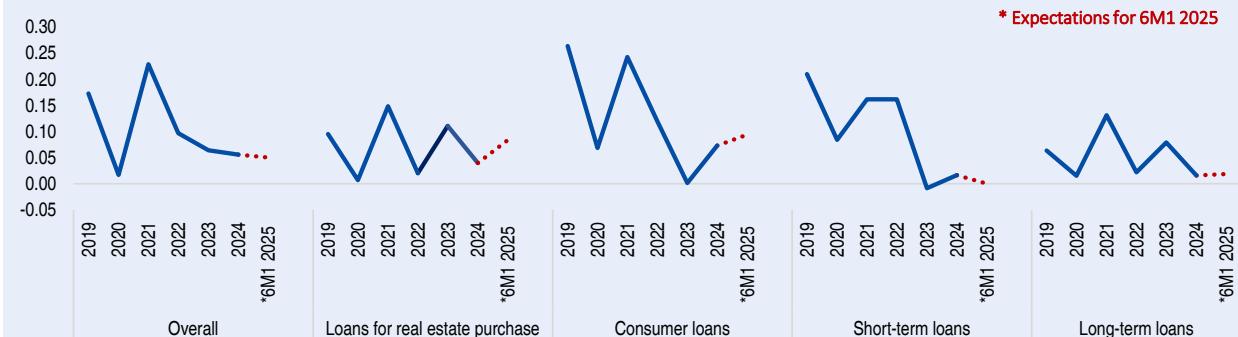
Source: CBK.

This increase in demand was mainly driven by the need to finance working capital and fixed investments. In the first half of 2025, banks expect credit demand from the corporate segment to be high, both from SMEs and large enterprises. As in the previous year, the increase in demand for financing working capital and fixed investments are the factors that will determine the demand for loan.

Regarding the quality of the corporate credit portfolio, banks reported a slight decrease in

the level of non-performing loans. For the first half of 2025, they expect the ratio of non-performing loans to total loans to remain almost the same, with a slight downward trend. Credit standards applied to households were eased to some extent in general, with particular emphasis on consumer loans (chart 4). The factors that influenced this dynamic were the improvement in market conditions, increased competition, increased consumer confidence, and a satisfactory liquidity position.

Chart 4. Credit standards applied for households

* Expectations for 6M1 2025
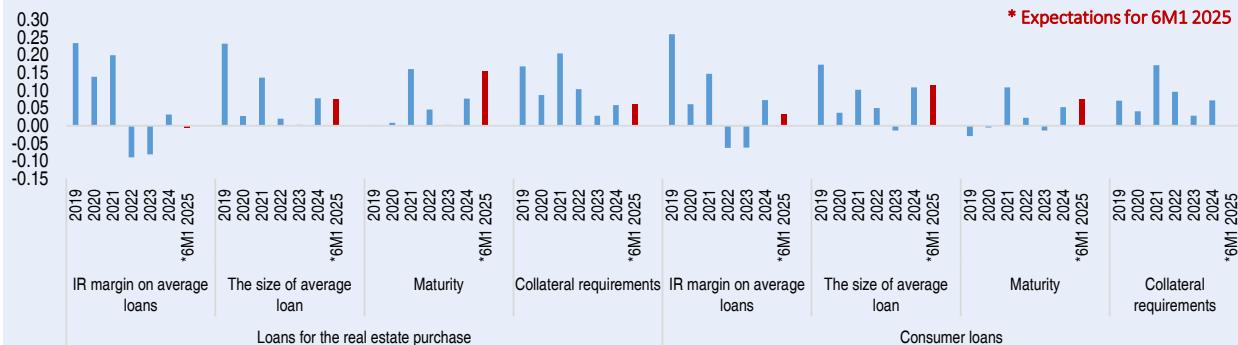
Source: CBK.

Banks' expectations for the first half of 2025 reflect general easing for the household segment, both for consumer loans and home purchase loans.

The terms and conditions for new loans to households were eased to some extent (Figure 5). Specifically, banks applied interest rate easing, increased average loan sizes, extended maturities, and eased collateral requirements. Increased competition among banks, the outlook for the banking market, and a favourable liquidity position were the main factors contributing to the easing of terms and conditions for loans to households.

Chart 5. Terms and conditions applied for credit standards for households

* Expectations for 6M1 2025

Source: CBK.

For the first half of 2025, banks expected easing in the terms and conditions applied, with particular emphasis on maturity and average loan size, for both real estate purchase loans and consumer loans. Meanwhile, other terms and conditions are expected to have marginal changes in both directions. Specifically, a tightening of the interest rate for real estate purchase loans is expected, while easing in the collateral requirement is expected.

During 2024, the level of loan approvals for households has marked a high increase, especially for consumer loans.

Chart 6. Household demand for loans

* Expectations for 6M1 2025
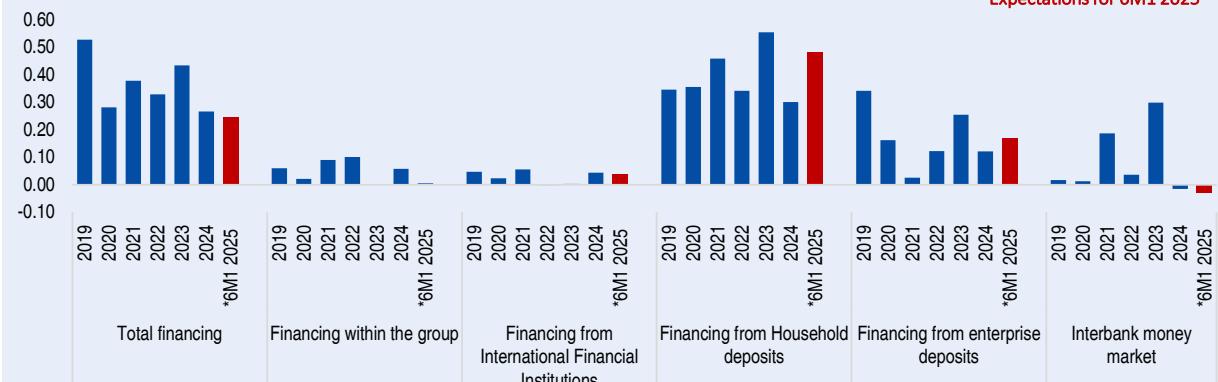
Source: CBK.

Based on the survey results, credit demand increased significantly for both segments, with the most pronounced increase for consumer loans (chart 6). The need to finance other consumption expenditures was the main contributor to the increase in credit demand, followed by the positive outlook for the real estate market and increased consumer confidence.

In the first half of 2025, demand for credit is expected to increase further, both for consumer loans and those for real estate purchases.

According to the survey, the ratio of non-performing loans to total loans to households marked a slight increase, while for the first half of 2025 it is expected to mark a decline.

Chart 7. Change of the banking sector financing

* Expectations for 6M1 2025

Source: CBK.

Regarding the dynamics of financing, banks reported an increase in **access to financing** during 2024, although lower compared to the previous year. Household deposits had the largest increase, followed by financing from

enterprises. Also, during 2024, financing from parent banks and international financial institutions also increased, unlike the previous year where financing from these sources remained unchanged from the previous year.
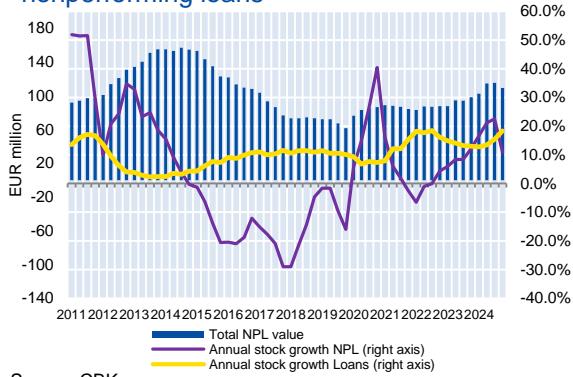
5. Banking sector risks

5.1. Credit risk

Credit risk remained stable during 2024, with stable indicators of portfolio quality at the overall level, despite the increase in the nominal value of non-performing loans (NPLs). The acceleration of lending activity against the growth of economic activity has increased the potential for credit risk accumulation, adding to expectations for an increase in the value of NPLs. However, the ratio of NPLs to the total loan portfolio decreased slightly to 1.9 percent in December 2024 from 2.0 percent at the end of the previous year, suggesting the resilience of the banking sector in the face of challenges such as high inflation and expected migration flows, which did not materialize and were not reflected in a deterioration in portfolio quality.

In value, NPLs reached 109.3 million euros, marking an annual increase of 11.0 percent (chart 24). The most pronounced increase was recorded in the second and third quarters (with 21.2 and 22.5 percent growth), periods in which the increase in the value of NPLs exceeded the growth in the loan stock. This increase, however, was mainly influenced by idiosyncratic factors of the two banks, which contributed unevenly to the increase in NPLs, and does not reflect a systemic deterioration in the quality of the portfolio.
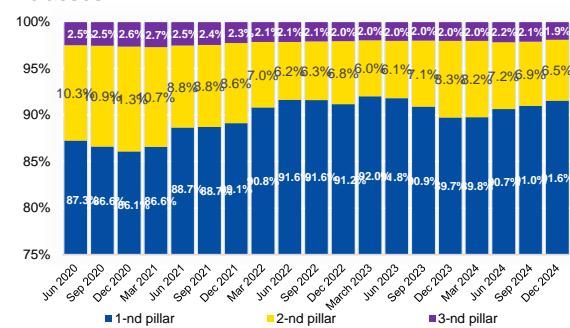
Chart 24. Annual growth of loans stock and nonperforming loans

Source: CBK.

In terms of portfolio classification by pillars, the structure has improved compared to the previous year, mainly

through the increase in the share of loans in the first pillar. Unlike 2023, when a more pronounced increase in loans categorized in the second pillar was recorded, during 2024 this category decreased, returning to its historical weight. Specifically, the share of loans in the first pillar increased to 91.6 percent from 89.7 percent a year earlier, while the share in the second pillar decreased to 6.5 percent from 8.2 percent. This development reflects the improvement in market sentiment and more favourable risk assessments by banks, which during 2024 reclassified to the first pillar sectors that had previously been treated as more sensitive. Meanwhile, in line with the increase in the value of NPLs during the second and third quarters, an increase in the share of loans categorized in the third pillar was also observed (chart 25).

Chart 25. Loans by new credit classification in three classes
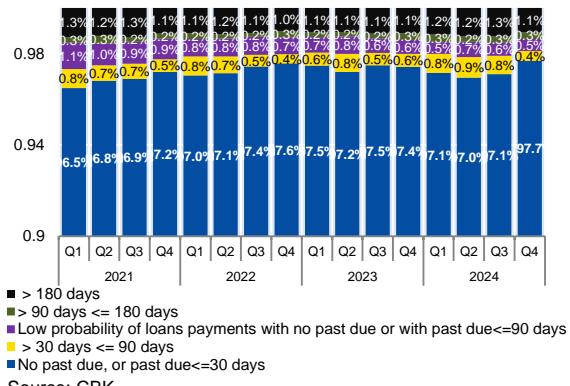
Source: CBK.

In December 2024, non-arrears credit exposures (with arrears of less than 30 days) increased slightly to 97.7 percent from 97.4 percent. Meanwhile, loans with arrears of more than 90 days, which have a lower probability of re-payment, decreased to 1.9 from 2.0 percent a year earlier (chart 26).

Households recorded a marginal increase in the ratio of non-performing loans, while the corporate segment recorded a decrease in this ratio. The results of the Bank Lending Survey support this development, with banks reporting a weakening of the solvency of household clients

during the year (with the exception of Q4), while for corporates they reported an improvement in it for most of the year.
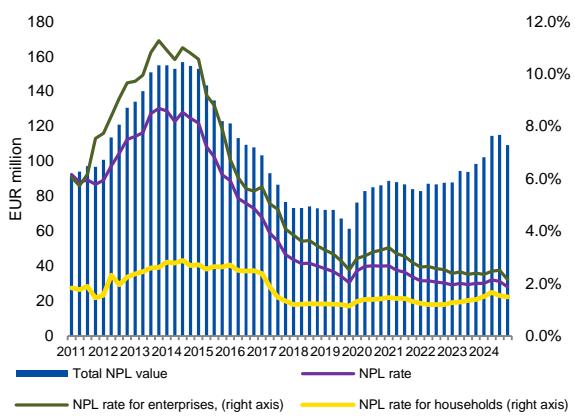
Chart 26. Structure of loans by arrears classification, new method

■ > 180 days
■ > 90 days <= 180 days
■ Low probability of loans payments with no past due or with past due<=90 days
■ > 30 days <= 90 days
■ No past due, or past due<=30 days
Source: CBK.

The value of non-performing loans to households marked a more pronounced annual increase, of 35.9 percent in December 2024, but with a higher growth trend during the second quarter of the year in which an annual increase in NPLs of 55.9 percent was recorded.
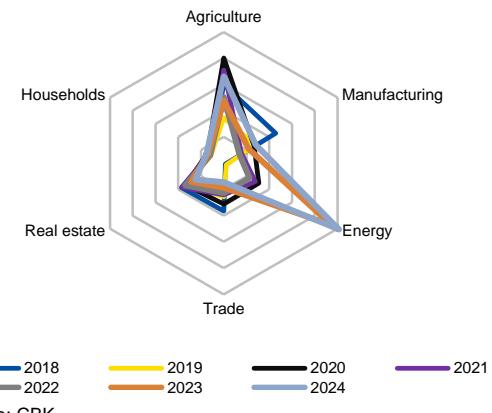
Chart 27. Nonperforming loans

Total NPL value — NPL rate
NPL rate for enterprises, (right axis) — NPL rate for households (right axis)
Source: CBK.

The nominal value of household savings accounts reached 35.7 million euros in December from 26.6 million euros a year earlier, reflecting an annual growth of 35.9 percent. However, as a result of the high credit growth, this dynamic was reflected in a marginal increase in the non-performing loan ratio for this segment, from 1.4 percent to 1.5 percent (chart 27). Meanwhile, for the corporate segment, the non-performing loan ratio decreased from 2.4 percent to 2.2 percent, despite a slight increase in the value of NPLs, thanks to the faster growth of the loan stock.
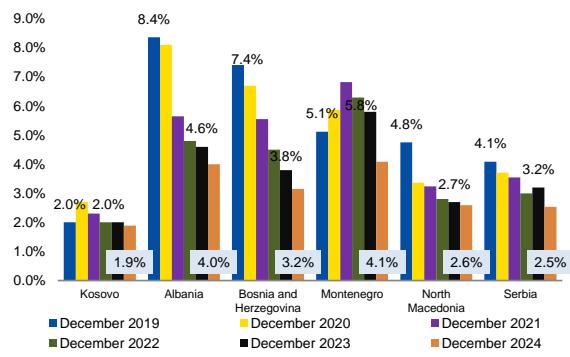
Chart 28. NPL ratio to loans stock, by sectors

— 2018 — 2019 — 2020 — 2021
— 2022 — 2023 — 2024
Source: CBK.

Changes in the ratio of non-performing loans (NPLs) of economic sectors were also marginal, mainly influenced by the increase in lending in most economic sectors despite the increase in the value of NPLs for some sectors (chart 28).

Chart 29. NPL to total loans ratio in the region countries

■ December 2019 ■ December 2020 ■ December 2021
■ December 2022 ■ December 2023 ■ December 2024
Source: IMF, respective Central Banks (2023)
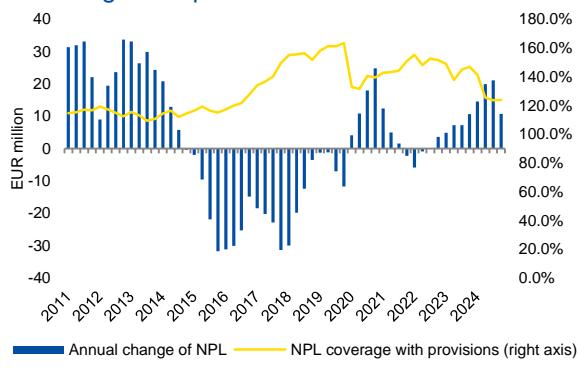
The energy sector resulted this year with the highest NPLs rate, at 10.1 percent, an increase of 0.7 percentage points. The manufacturing sector marked a more pronounced increase in non-performing loans, but due to the expansion of lending, the NPLs rate remained relatively stable, increasing by only 0.6 percentage points to 2.8 percent. The trade sector - which represents the most credited sector - marked an increase in lending of 15.0 percent and a decrease in the value of non-performing loans of 9.9 percent. As a result, the NPLs rate for this sector decreased to 1.5 percent from 1.9 percent. The real estate sector also marked a decrease in the NPLs rate.

Compared to the region, the country's banking sector continues to show a much better performance in loan repayment.

Over the years, Kosovo has had the lowest ratio of non-performing loans compared to countries in the region (chart 29).

Coverage of non-performing loans with provisions remains at high levels, despite the decline in the indicator. The sector's provision coverage ratio decreased by 23.1 percentage points to 123.9 percent, driven by the annual increase in the value of non-performing loans but also by the decline in provisions of 6.5 percent (chart 30). The specific provision rate also decreased, with the coverage of non-performing loans with third-pillar provisions falling to 67.7 percent from 71.7 percent a year earlier.
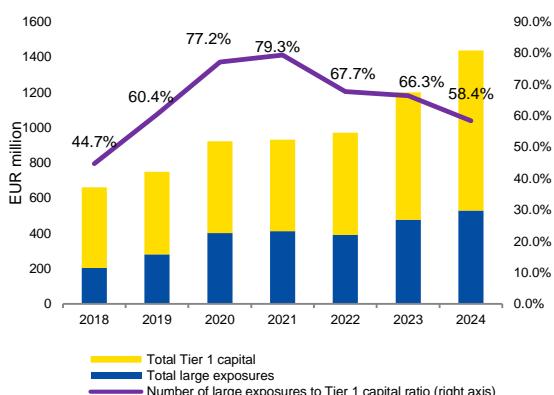
Chart 30. Annual change of NPL stock and coverage with provisions

Source: CBK.

The ratio of large credit exposures to Tier 1 capital has declined, decreasing to 58.4 percent from 66.3 percent a year earlier, and remains well below the regulatory maximum. The annual increase in the value of large exposures of 10.9 percent, alongside a higher growth in Tier 1 capital of 26.0 percent (only for the banks under analysis, excluding bank branches with large exposures), contributed to this decline (chart 31).

Chart 31. Concentration of credit risk
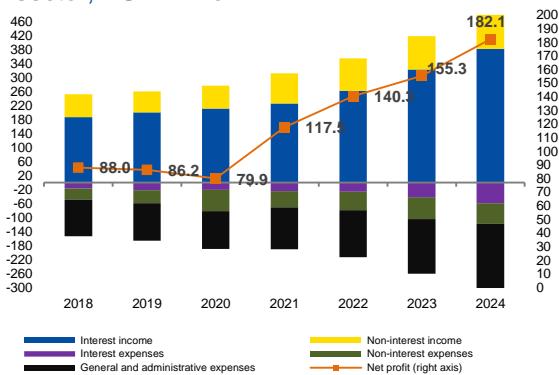
Source: CBK.

The average value of large exposures reached 9.6 million euros, up from 9.0 million euros a year earlier. The ratio of the three largest exposures to total large exposures reached 54.7 percent, up from 53.9 percent a year earlier. This change was driven by the higher annual growth of the three largest exposures of 12.3 percent, alongside the overall growth of large exposures. This level indicates that large exposures are relatively concentrated in a few important positions, which increases the potential exposure of the system to specific shocks to these positions.

5.2. Profit sustainability and interest rate risk

Accelerated lending growth has offset the impact of lower interest rates, supporting the growth of the sector's profits. Increased lending activity during 2024 contributed significantly to the growth of banking sector revenues, although it was accompanied by an increase in the cost of securing financing. Unlike the previous year, where profit sustainability was mainly supported by high interest rates, this year the high volume of lending has been the dominant factor in maintaining and accelerating net profit growth, which increased by 17.3 percent compared to 10.7 percent in 2023 (chart 32).

Chart 32. Profit structure of the banking sector, EUR million
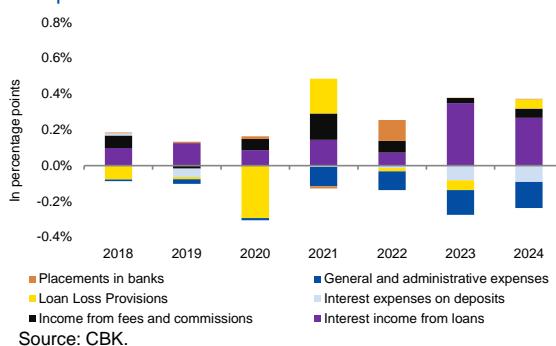
Source: CBK.

Interest income on loans and securities remained the main source of profit, while the increase in interest expenses on deposits reflected the increasing pressure on the cost of funds. In total, income increased by 15.7 percent, mainly due to the increase in interest income on loans and securities. Specifically, interest income increased by 18.1 percent, where interest income on loans increased by 17.4 percent, while income from investments in securities recorded an annual increase of 36.6 percent (chart 33).

Net interest income remained a key factor in the sector's profit growth, having a significant weight in the income structure, while net non-interest income also increased compared to the previous year.
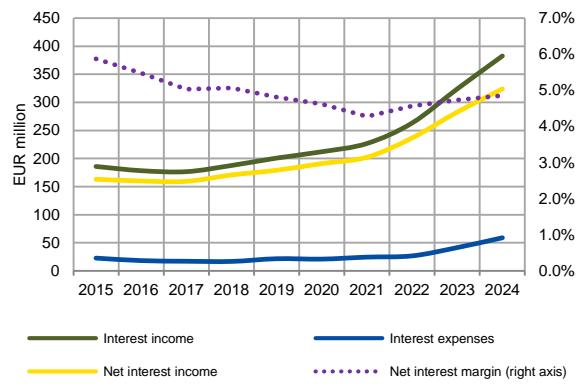
Chart 33. Main contributors to the growth / decline of the profit

Source: CBK.

Specifically, net interest income increased by 14.6 percent, while net non-interest income increased by 34.7 percent, or 11.4 million euros. In this context, the net interest margin remained stable, with a small annual increase of 0.2 percentage points, reaching 4.9 percent (chart 34).
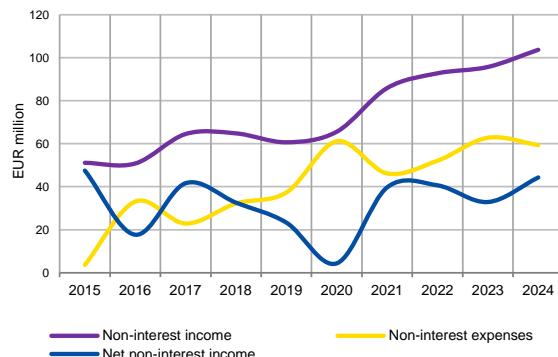
Chart 34. Interest income and expenses

Source: CBK.

Also, non-interest income, including fees, commissions and other operating income, recorded an increase of 8.4 percent, higher compared to the 3.2 percent increase in the previous year (charts 35 and 36).

Chart 35. Non-interest income and expenses
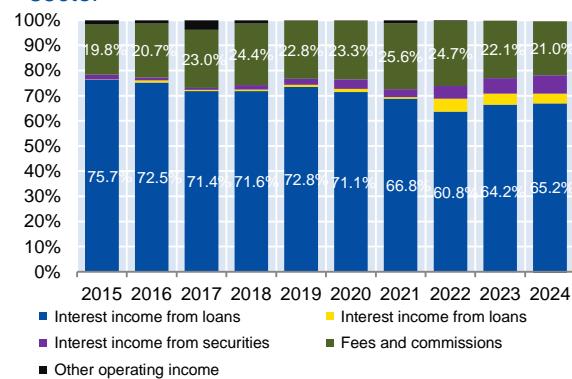
Source: CBK.

The increase in operating expenses and interest on deposits has put pressure on costs, while the decrease in provisions has helped maintain profit dynamics. During 2024, all expense categories increased, excluding expenses for provisions for loan losses.

The overall annual increase in spending of 14.9 percent was mainly affected by the increase in general and administrative expenses, as well as by interest expenses on deposits (chart 37).
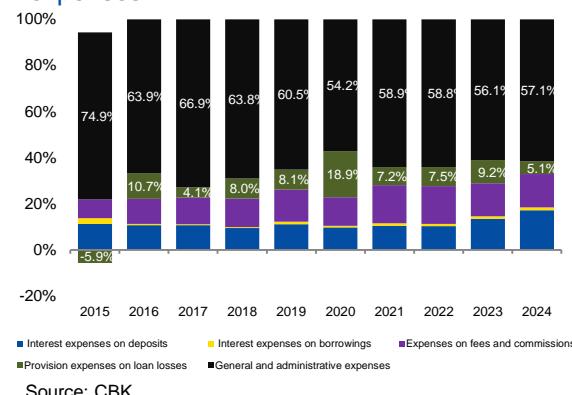
Chart 36. Income structure of the banking sector

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Top	19.8%	20.7%	23.0%	24.4%	22.8%	23.3%	25.6%	24.7%	22.1%	21.0%
Bottom	75.7%	72.5%	71.4%	71.6%	72.8%	71.1%	66.8%	60.8%	64.2%	65.2%

- Interest income from loans
- Interest income from loans
- Interest income from securities
- Fees and commissions
- Other operating income

Source: CBK.

Although non-interest expenses decreased in overall terms due to the decline in provisions, an increase was observed in fees and commission expenses. Interest expenses on deposits, which represent a significant component of the cost of funding, recorded an annual increase of 48.5 percent — a year lower than 58.7 percent the previous year. The slowdown in growth in this category, together with the decline in provisions, contributed to maintaining the acceleration of the sector's profit growth.

Chart 37. Banking sector structure of expenses

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Top	74.9%	63.9%	66.9%	63.8%	60.5%	54.2%	58.9%	58.8%	56.1%	57.1%
Mid	-5.9%	10.7%	4.1%	8.0%	8.1%	18.9%	7.2%	7.5%	9.2%	5.1%

- Interest expenses on deposits
- Interest expenses on borrowings
- Expenses on fees and commissions
- Provision expenses on loan losses
- General and administrative expenses
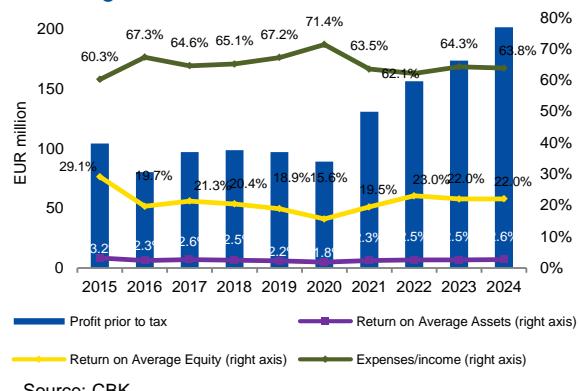
Source: CBK.

Profitability indicators remain at high levels, but are expected to be challenged by the lower interest rate environment and increased competition for funds. Return on assets (RoA) increased slightly to 2.6 percent of 2.5 percent a year earlier, while return on equity (RoE) remained unchanged at 22.0 percent, as capital growth was close to

profit growth (chart 38). Both indicators remain above the regional average, which recorded an average return on assets of 2.5 percent and a return on equity of 18.0 percent. All countries in the region recorded an increase in profitability indicators during this year, which has reduced the difference between Kosovo's average and these countries.[10]

Chart 38. Profitability indicators of the banking sector

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Expenses/income	60.3%	67.3%	64.6%	65.1%	67.2%	71.4%	63.5%	62.1%	64.3%	63.8%
RoAE	29.1%	19.7%	21.3%	20.4%	18.9%	15.6%	19.5%	23.0%	22.0%	22.0%
RoAA	3.2%	2.3%	2.6%	2.5%	2.2%	1.8%	2.3%	2.5%	2.5%	2.6%

- Profit prior to tax
- Return on Average Assets (right axis)
- Return on Average Equity (right axis)
- Expenses/income (right axis)

Source: CBK.

Going forward, earnings sustainability is expected to be pressured by uncertainties related to the lower interest rate environment. While strong lending growth may partially offset the decline in interest margins, it also creates a need for more funding sources, increasing the costs of supporting expanded activity. Furthermore, increasing competition in the banking market is expected to intensify pressure on funding costs, creating additional challenges for maintaining profitability at current levels.

5.2.1 Risk of interest rate fluctuations

The exposure of the Kosovo banking sector to interest rate risk has increased slightly, as a result of the reduction in the share of variable interest rate loans and the widening of the maturity gap. This change has reduced the possibility of transferring this risk to customers, increasing the direct exposure of banks. At the same time, this exposure has deepened due to the widening of the cumulative maturity gap between interest-bearing assets and liabilities,

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[10] The countries in the region include Albania, Serbia, Bosnia and Herzegovina, North Macedonia and Montenegro. The source of

information is the IMF Financial Soundness Indicators database and the respective central banks.

a development that has been influenced by the increase in long-term lending, while the banking sector continues to rely mainly on relatively short-term deposits.

The cumulative gap between interest rate-sensitive assets and liabilities in 2023 has widened to 0.18 percent of equity from 0.17 percent in the previous year. The maturity structure shows that interest rate-sensitive assets prevail in most time categories, except for the "1-5 years" segment, where liabilities are higher, especially in the 3-4 year maturity. This development has been influenced by the increase in deposit maturities, driven by offers for higher interest rates. In the composition of interest rate-sensitive assets, a higher increase is observed in the "1-5 years" segment, driven by lending and investments in securities. Meanwhile, liabilities have increased most in the "91-365 days" and "1-5 years" periods, due to the extension of deposit maturities.

During 2024, the trend of increasing the share of loans with variable interest rates changed in favour of increasing loans with fixed rates, where the share of loans with variable rates decreased from 33.8 percent to 29.7 percent in 2024. However, the banking sector balance sheet is dominated by positions with fixed interest rates, which are associated with the risk of reinvestment under less favourable conditions in the event of maturity of assets with higher rates, and the decline in interest rates on loans during 2024 to some extent increases the risk of reinvestment of maturing assets.
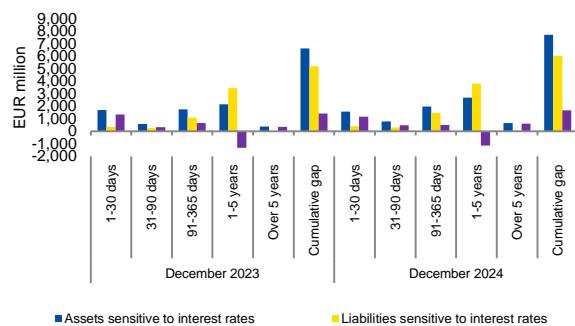
Consequently, compared to the previous year, the positive gap between assets and liabilities widened for the maturity terms "31-90 days" and "over 5 years", while the gap for the maturity terms "1 – 30 days" and "91-365 days" narrowed. Also, the negative gap for the category with a maturity of "1 to 5 years" narrowed as a result of the higher growth of assets with this maturity compared to the growth of liabilities (chart 39).

Overall, these developments imply an increase in the banking sector's exposure to interest rate fluctuations. At the same time, the increased share of fixed-rate loans versus variable-rate loans shifts some of the interest rate risk from borrowers to banks, making the banking sector more directly exposed to credit risk.

In the coming period, banks are expected to face a gradual increase in funding costs, due to the need to expand financial resources in order to support lending activity and due to increased interbank competition, which may increase the sector's expenses. At the same time, challenges in securing funding may contribute to a moderate upward trend in lending interest rates and potentially lead to a slowdown in lending activity during the second half of 2025.

Chart 39. Assets and liabilities gap sensitive to interest rates

Source: CBK.
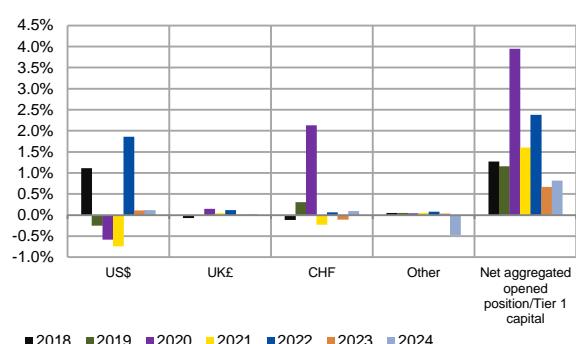
5.3. Risk from foreign currency positions

The banking sector's exposure to currency risk has increased slightly, but remains low and below regulatory limits. The aggregate net open position for all foreign currencies increased to € 7.4 million equivalent at the end of 2024, from € 5.4 million a year earlier, representing 0.8 percent of Tier 1 capital, compared to 0.7 percent in 2023 (chart 40). This increase reflects the expansion of positions in Swiss francs and US dollars, as a result of the increase in assets in these currencies.

The net open positions for the US dollar and the Swiss franc remained in positive territory, while the position in the British pound remained unchanged from the previous year

due to the marginal positive movement in this position. All individual net foreign exchange positions continue to remain well below the regulatory limit of 15 percent of Tier 1 capital, as defined in the relevant regulation. Consequently, the direct risk from exchange rate fluctuations is marginal and does not pose a concern for the financial stability of the banking sector.
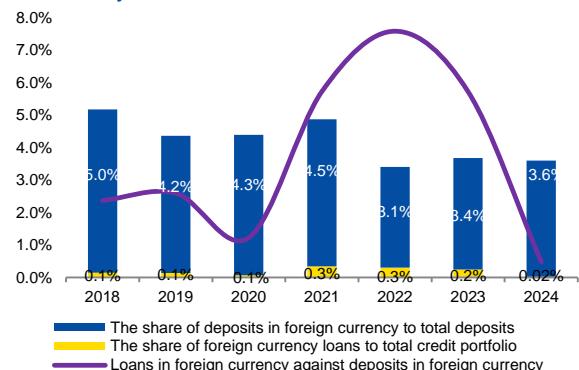
Chart 40. Opened positions in foreign currency to tier 1 capital

Source: CBK.

Indirect credit risk from foreign currency exposure also remains low, as foreign currency loans constitute a minimal part of the portfolio. At the end of 2024, foreign currency loans accounted for only 0.02 percent of the total, down by € 11 million from the previous year. Foreign currency deposits represented 3.6 percent of total deposits, up by € 39.9 million, but still maintaining a low level of exposure (chart 41).

Chart 41. Loans and deposits in foreign currency

Source: CBK.
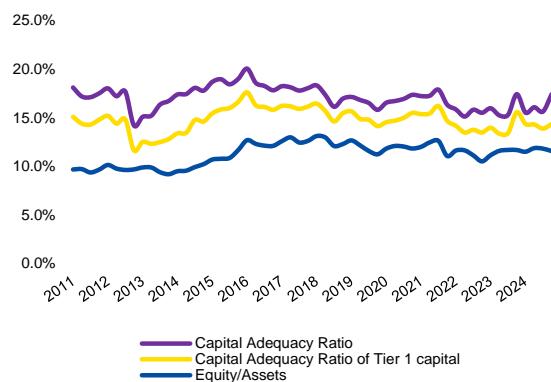
5.4. Sector Sustainability - Capital

Banking sector capitalization remained stable during 2024, with the capital adequacy indicator[11] (CAI) which was maintained at 17.4 percent, the same as the previous year. This reflects the matched pace of growth in risk-weighted assets and regulatory capital, while maintaining the stability of the indicator at the sector level. In this context, systemically important banks continue to have higher capitalization rates than the sector average. However, the variance between individual banks has narrowed, indicating convergence towards a more homogeneous capital structure within the sector (chart 42).

The increase in risk-weighted assets contributed 2.31 percentage points to the decline in the capital adequacy ratio, while the increase in regulatory capital contributed 2.28 percentage points to the increase in the CAI (chart 43). The higher, but marginal, effect of the decline in capital than the increase in risk-weighted assets contributed a higher downward contribution to the capital adequacy ratio, of 0.02 percentage points.

Chart 42. Banking sector capitalization
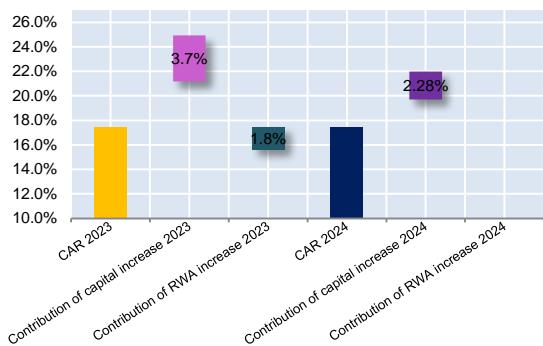
Source: CBK.

Macroprudential measures adopted in September 2024 – Positive Neutral Countercyclical Capital Add-ons and Add-ons for Systemically Important Banks (O-SII) – remain unchanged and enter into full force in June 2025. During 2024, banks have continued to accumulate

capital reserves, gradually meeting the transitional requirements. Monitoring the performance of risks also during 2025, on a quarterly basis, suggests that the current calibration of buffers remains adequate.
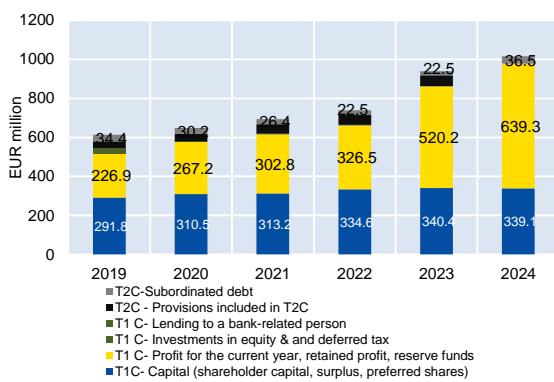
Chart 43. Contribution of Regulatory Capital and RWA to capitalization ratio

Source: CBK.

The regulatory capital of the banking sector remains of high quality and supported mainly by retained and realized profits, which also made the main contribution to capital growth during 2024. Realized profits marked an annual increase of 38.5 percent, while retained profits increased by 15.6 percent, serving as the main source of capitalization, also supported by the increase in other income and reserve funds (chart 44).

Chart 44. Structure of regulatory capital
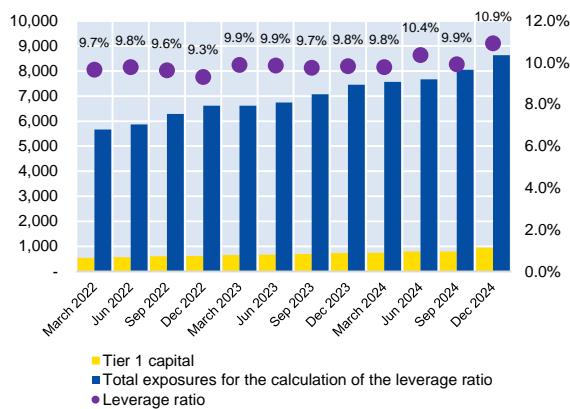
Source: CBK.

Within the regulatory capital structure, 89.3 percent is comprised of Tier 1 capital, with retained earnings accounting for 66.3 percent – a key component for strengthening the sector's resilience. At year-end, the ratio of Tier 1 capital to risk-weighted assets stood at 15.5 percent, marking a slight decline of 0.1

percentage points compared to a year earlier (chart 45).

Chart 45. Leverage ratio
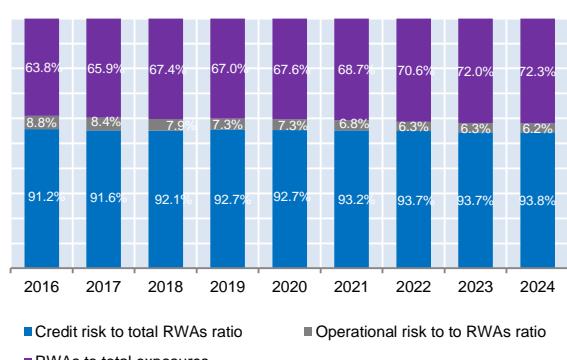
Source: CBK.

These developments reflect the sector's capacity to generate and accumulate high-quality capital – an essential element for maintaining financial stability in an environment of increasing risks.

The financial leverage ratio increased to 10.9 percent from 9.8 percent a year earlier, remaining significantly above the minimum threshold of 3.0 percent required by the Leverage Ratio Regulation. This ratio further reinforces the assessment of the quality and protective capacity of capital in the sector, reflecting good capital structure and quality (chart 46).

Chart 46. RWAs to total sector assets ratio
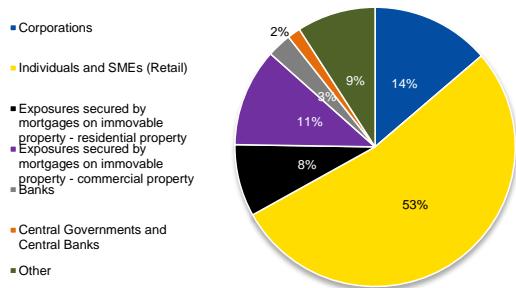
Source: CBK.

Risk-weighted assets (RWAs) continued their upward trend, mainly as a result of faster lending growth. In 2024, RWAs for credit risk increased by 15.3 percent from 13.4 percent in the previous year, reflecting faster lending growth. RWAs for operational risk also increased by 14.7 percent from 12.6 percent,

while RWAs for market risk remained negligible. The structure of RWAs remained similar to the previous year: 93.8 percent for credit risk, 6.2 percent for operational risk and only 0.001 percent for market risk (chart 47).[12]

Chart 47. Credit risk-Weighted assets, share

Source: CBK.
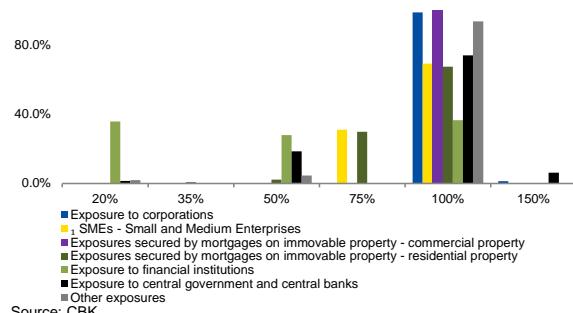
Within credit risk-weighted assets, individual and SMEs loans have the largest share with 53.2 percent, followed by corporate loans with 13.7 percent. Mortgage loans backed by commercial real estate and residential real estate have a share of 11.4 and 8.4 percent, respectively. Exposure to other banks, governments and central banks was relatively low at 2.8 percent and 1.5 percent, respectively. Other exposures, which include local authorities, the public sector, development banks and international organizations, account for 9.1 percent of the total (chart 48).

RWAs remain concentrated mainly in the highest risk weight category – 100 percent – which recorded the highest growth during the year, followed by the growth of mortgage loans with a risk weight of 50 percent. This development reflects an intensification of lending activity in the retail and mortgage segments.

The 100 percent weighted category accounts for 77.4 percent of total RWAs and marked the largest increase during the year, by 503.2 million euros. A significant increase was also observed in the 50 percent category (residential mortgage loans and exposure to
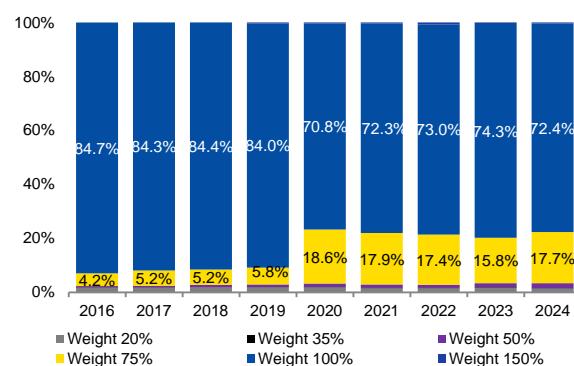
financial institutions), with an annual increase of 30 percent.

Chart 48. Assets classification by risk weight

Source: CBK.

Meanwhile, the 20 percent weighted category (exposures to financial institutions and public authorities) had a more moderate increase, of 2 percent.

Chart 49. RWA structure for credit risk, by risk weight

Source: CBK.

5.5. Financing and Liquidity Risk

The banking system remains stable in terms of liquidity, with key indicators within regulatory requirements, supported mainly by the growth of private sector deposits. However, the increase in interest rates during the year has brought challenges to funding costs and maintaining the liquidity position, especially during the period of acceleration of credit activity.
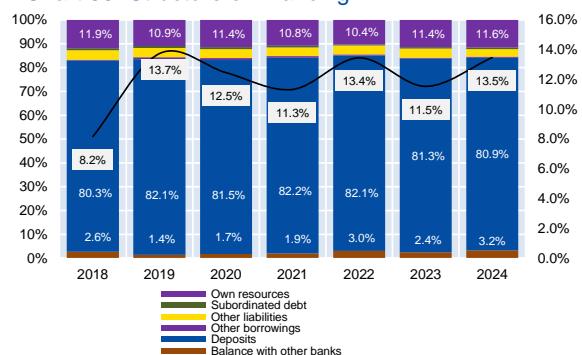
Private sector deposits expanded gradually during 2024, accelerating towards the end of the year, mainly due to the increase in time deposits from individuals and corporations as

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[12] Market risk-weighted assets were reported for the first time starting in 2020, according to the new reporting format required by the CBK.

a result of higher interest rates. Meanwhile, transferable deposits, which hold the largest share of the deposit structure, continued to grow at a slower pace.

The continued growth of long-term lending, together with the high share of deposits with relatively short maturities, has highlighted the mismatches between asset and liability maturities in some maturity categories. However, the dominant share of household deposits, which are characterized by a more stable nature due to their primary purpose as 'savings/preservation' of funds, contributes to the sustainability of the sector. In addition, the high level of liquidity reserves in the CBK and of liquid assets in total make the sector resistant to the negative impacts that may arise from these mismatches. Banks also have room to meet potential liquidity needs through other mechanisms, such as liquidity reserve management, interbank liquidity arrangements, and funding from parent banks (chart 50).

Chart 50. Structure of financing

Source: CBK.
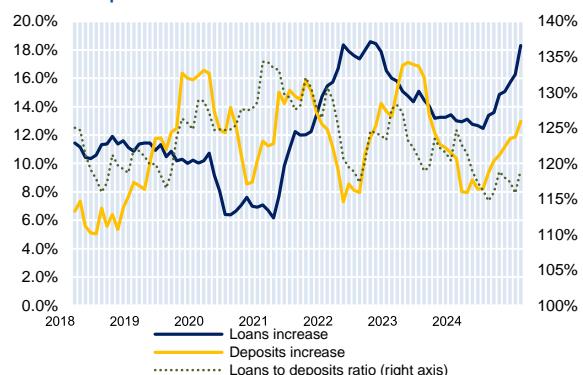
Liquidity indicators at the sector level show stability, although there are differences in liquidity surpluses between individual banks. Despite the high level of liquidity in the sector, most banks have recorded a decrease in liquidity ratios compared to the previous year, despite being significantly above the regulatory required level. This decrease stems from the higher growth of short-term liabilities, supported by the more accelerated growth of deposits during the year.

Four banks have reported an increase in the liquidity ratio, while several others remain more vulnerable due to their balance sheet structure and more limited funding sources, being less flexible to operate in an environment with increased interest rates.

5.5.1 Bank financing

During 2024, deposits exceeded loans by 119.1 percent, an indicator that decreased by 5.6 percentage points compared to the previous year, due to the faster growth of lending compared to deposits. The growth of total deposits during 2024 was accelerated, with household deposits expanding more slowly, while those of enterprises accelerated growth, with a more noticeable seasonality in the third and fourth quarters, especially during the months of August and December (chart 51). Deposits of other financial institutions also increased, while deposits of public corporations and the government decreased.

Chart 51. Increase of banking sector loans and deposits
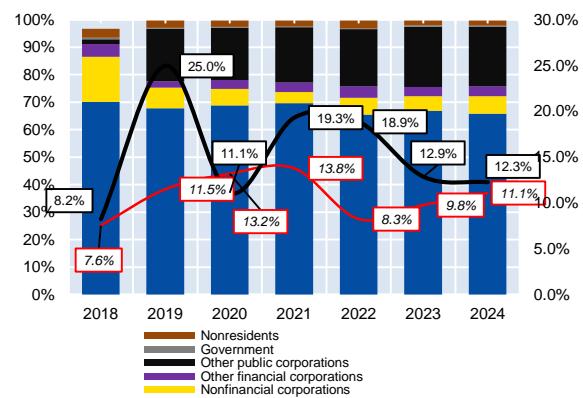
Source: CBK.

The structure of deposits by maturity continues to be dominated by transferable deposits, with a share of 62.6 percent.

However, time deposits recorded the highest growth of 23.7 percent, increasing their share in the total to 28.9 percent, from 26.1 percent in the previous year. The mismatch between the maturity of deposits and loans is particularly pronounced in the categories 'up to 1 year' and 'over 2 years'. Deposits with a maturity of over 2 years decreased to 37.8 percent of the time deposit structure, while

loans with a maturity of 5-10 years accounted for 36.6 percent of total loans (chart 52).
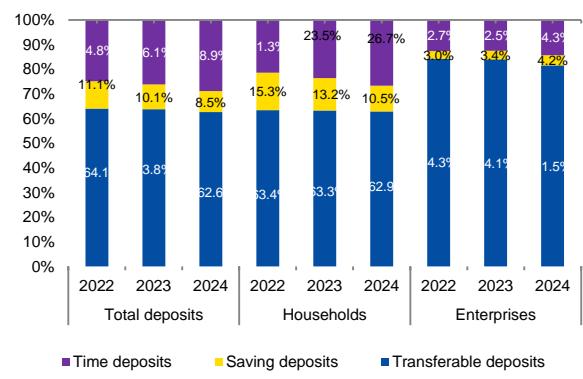
Chart 52. Structure of deposits

Source: CBK.

Deposits with maturity 'up to 1 year' recorded the largest increase, reaching 41.0 percent from 31.6 percent in the previous year.

Chart 53. Structure of deposits by maturity
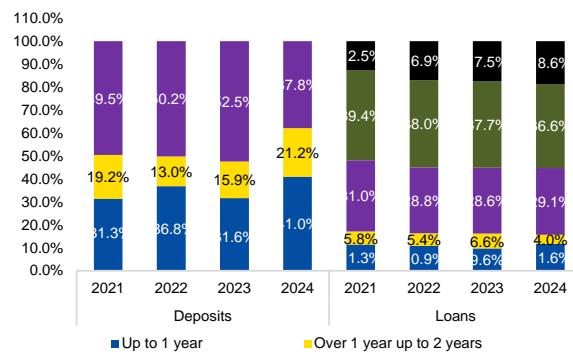
Source: CBK.

At year-end, the net sustainable funding ratio (NSFR) stood at 136.0 percent, indicating that the sector has managed to maintain a level of sustainable funding above the regulatory minimum of 100 percent, with small differences between large and smaller banks. The level of this indicator was lower in some new banks or those challenged by competition for deposits.

Unlike the previous year, the sector has reduced financing through subordinated debt. As financing from external sources remains at low levels and competition for deposits is high, financing costs continue to pose a challenge to the banking activity.

Chart 54. Maturity structure of deposits and loans
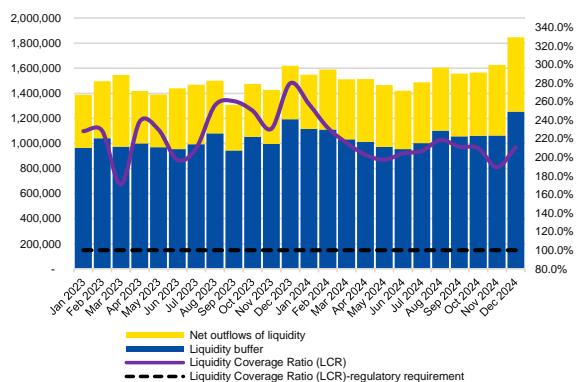
Source: CBK.

5.5.2 Liquidity Risk

The liquidity position of the banking sector remained stable, despite the downward trend of the Liquidity Coverage Ratio (LCR). Despite a significant decline throughout 2024, the LCR remained at high levels and significantly above the regulatory threshold of 100 percent, reflecting a solid liquidity position in the banking sector. Specifically, this indicator decreased by 68.9 percentage points compared to the previous year, falling to 210.9 percent (chart 55). This high level is mainly supported by the high liquidity reserve, which consists largely of domestic and foreign government securities (53.8 percent), as well as cash and reserves at the central bank. During the year, the liquidity reserve increased by 5.1 percent, while the net outflow, which mainly includes movements of deposits from customers, marked a significant increase of 39.4 percent compared to the previous year, contributing to the fluctuations of the ratio.

Also, in 2024 the ratio of liquid assets to short-term liabilities decreased to 32.6 percent, from 34.7 percent in 2023. This result was influenced by the higher growth of short-term liabilities compared to the growth of liquid assets, which increased by 14.4 percent, while liquid assets increased by 7.6 percent.
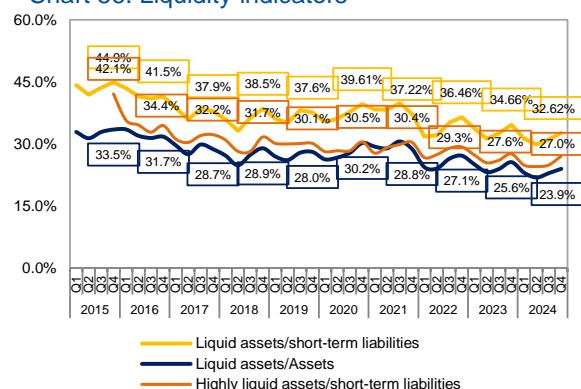
Chart 55. Liquidity- coverage-ratio ((LCR)

Source: CBK.

The narrow liquidity ratio, which includes only highly liquid assets (cash and cash equivalents, current accounts, and placements) as a percentage of short-term liabilities, declined slightly to 27.0 percent from 27.6 percent a year earlier, due to higher growth in liabilities compared to highly liquid assets. The ratio of liquid assets to total assets declined to 23.9 percent from 25.6 percent in 2023, as assets grew faster than liquid assets (chart 56).

Chart 56. Liquidity indicators

Source: CBK.
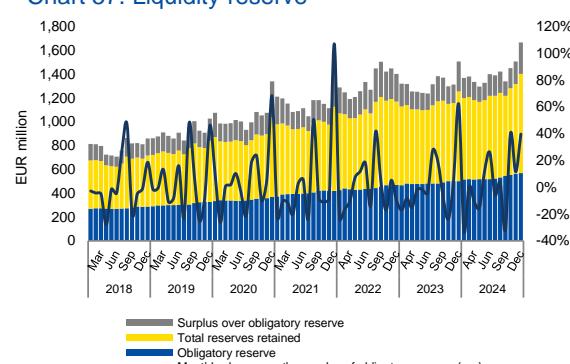
The increase in liquid assets during the period was mainly driven by the increase in investments in marketable securities of foreign governments by 134.1 million euros (an increase of 38.9 percent) and balances with the CBK by 61.9 million euros. Also, a significant contribution was made by the increase of 56.4 million euros in cash.

Meanwhile, a downward effect on liquid assets was the category of deposits and placements in local banks, which decreased by 53.7 million euros or 97.6 percent, investments in Kosovo government bonds, which decreased by 30.8

million euros (an annual decrease of 16.0 percent), as well as current accounts with banks, which decreased by 26.3 million euros or 17.9 percent.

At the end of December, banks' liquidity reserves continued to be at high levels, exceeding by 46.6 percent the amount of required reserves (10 percent) that must be held in liquid form with the Central Bank of Kosovo (CBK). The level of excess bank reserves has decreased compared to the same period of the previous year (50.0 percent), reflecting the dynamics of credit growth and investment in securities (chart 57).

Chart 57. Liquidity reserve

Source: CBK.
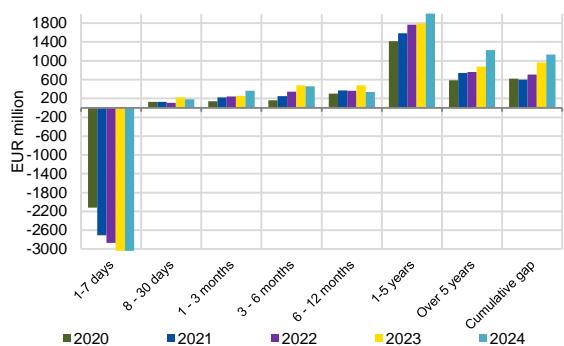
The CBK applies a deposit rate to the reserves that banks hold above the minimum reserve requirement. The level of the rate depends on the rates that eurozone banks apply to the CBK, as well as on the investment returns on the current investment portfolio. This rate has remained the same since August 2023, and is 0.3 percent. Maturity mismatches between investments and financing in some maturity categories have increased further, while deposit maturities are extending, and long-term lending is increasing.

This move has added to the challenges in liquidity management. The cumulative liquidity gap in 2024 widened to € 1,130.1 million, from € 963.6 million a year earlier. This result was mainly driven by the widening of the positive gap between assets and liabilities in the '1-3 months', '1-5 years', and 'over 5 years' maturities.

The highest negative gap between assets and liabilities remains in the "1-7 days" maturity. The high share of transferable deposits in the

sector's total liabilities means that 68.3 percent of liabilities are categorized in the "1-7 days" maturity, while assets with this maturity account for only 16.9 percent of total assets.

Chart 58. Liquidity gap
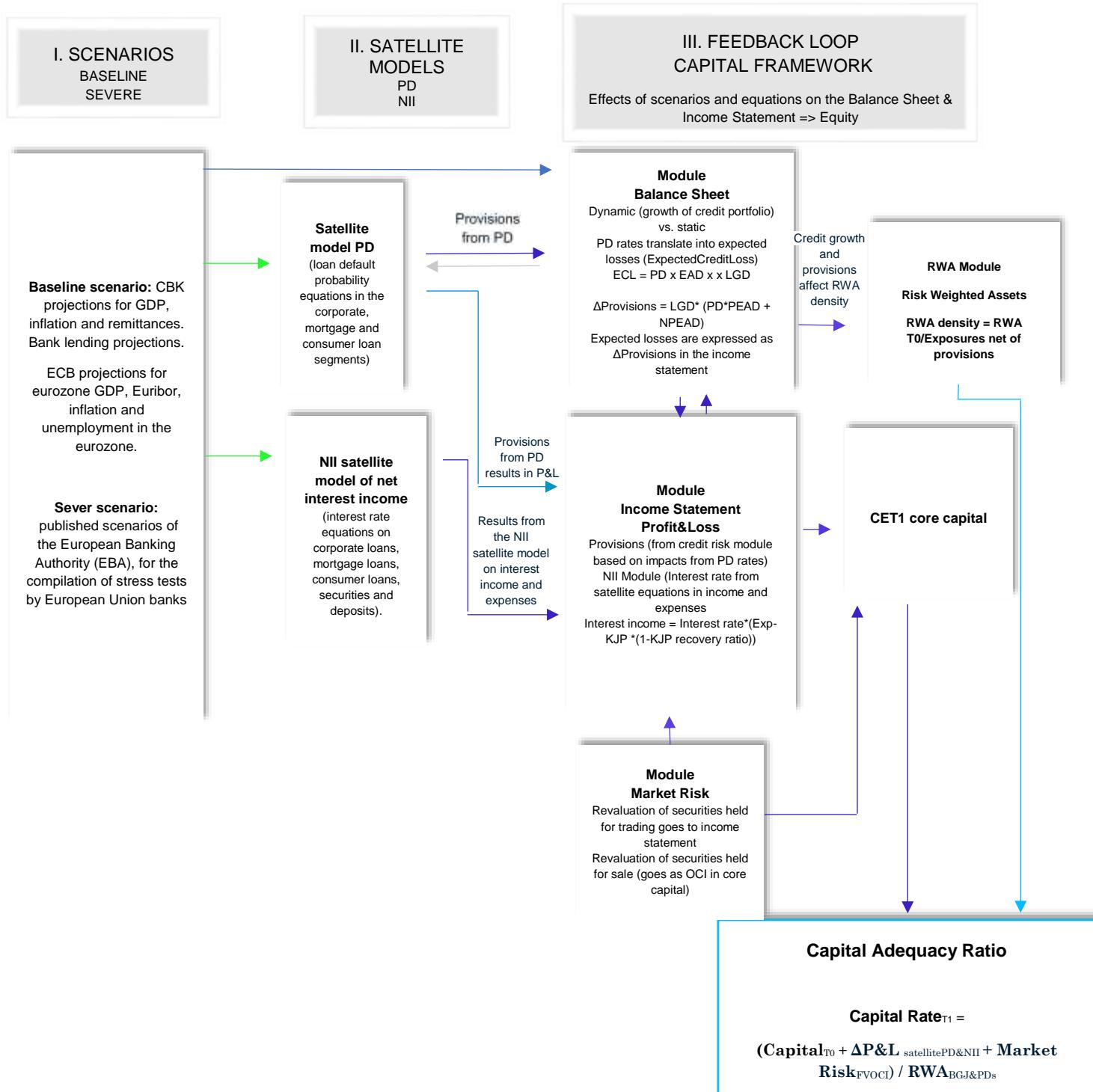
Source: CBK.

Meanwhile, the largest positive gap remains in the "1-5 years" maturity range, where about 36.8 percent of assets are categorized with this term, compared to liabilities of this maturity range that constitute 13.0 percent of total liabilities. This category also had the highest expansion compared to other maturity categories.

Maturity mismatches of balance sheet items remain most pronounced in the maturity categories "1-7 days" and "1-5 years" (chart 58). Given that the gap has widened in these two categories compared to last year, challenges remain in securing financing, even longer-term, in a competitive environment to support long-term lending and other investments.

Macro-financial stress test for credit risk

Diagram 1. Stress Test model infrastructure for credit risk (solvency risk)

I. SCENARIOS	II. SATELLITE MODELS	III. FEEDBACK LOOP CAPITAL FRAMEWORK
BASELINE SEVERE	PD NII	Effects of scenarios and equations on the Balance Sheet & Income Statement => Equity

Baseline scenario: CBK projections for GDP, inflation and remittances. Bank lending projections.

ECB projections for eurozone GDP, Euribor, inflation and unemployment in the eurozone.

Sever scenario: published scenarios of the European Banking Authority (EBA), for the compilation of stress tests by European Union banks

Satellite model PD (loan default probability equations in the corporate, mortgage and consumer loan segments)

Provisions from PD

NII satellite model of net interest income (interest rate equations on corporate loans, mortgage loans, consumer loans, securities and deposits).

Provisions from PD results in P&L

Results from the NII satellite model on interest income and expenses

Module Balance Sheet
Dynamic (growth of credit portfolio) vs. static
PD rates translate into expected losses (ExpectedCreditLoss)
ECL = PD x EAD x x LGD

ΔProvisions = LGD* (PD*PEAD + NPEAD)
Expected losses are expressed as ΔProvisions in the income statement

Credit growth and provisions affect RWA density

RWA Module
Risk Weighted Assets
RWA density = RWA T0/Exposures net of provisions

Module Income Statement Profit&Loss
Provisions (from credit risk module based on impacts from PD rates)
NII Module (Interest rate from satellite equations in income and expenses
Interest income = Interest rate*(Exp-KJP *(1-KJP recovery ratio))

CET1 core capital

Module Market Risk
Revaluation of securities held for trading goes to income statement
Revaluation of securities held for sale (goes as OCI in core capital)

Capital Adequacy Ratio

$$\text{Capital Rate}_{T1} =$$

$$(\text{Capital}_{T0} + \Delta P\&L_{\text{satellitePD\&NII}} + \text{Market Risk}_{\text{FVOCI}}) / \text{RWA}_{\text{BGJ\&PDs}}$$

The purpose of the stress test framework is to assess the resilience of financial institutions to adverse market developments. In this context, stress test analysis represents an important instrument that, through measuring and assessing the sensitivity and resilience of financial institutions to adverse economic and financial shocks, contributes to the identification of systemic risks and to the strengthening of macroprudential policymaking in order to manage the identified systemic risk.

In this regard, the macro-financial stress test framework for credit risk has advanced to a new framework/modality[13], based on a more structured and dynamic approach using satellite models to measure the sensitivity of credit risk measurement parameters and interest rates to macroeconomic and financial factors.

The new framework is built on three main pillars **(diagram 1)** that comprise the entire process of conducting a stress test: **The first pillar** of the new framework includes the construction of macro-financial scenarios, **The second pillar** consists of "Satellite Models", models that translate macroeconomic and financial scenarios into the projection of the trajectory of the probability of default of loans - PDs, as well as the projection of net interest income (NII) through the trajectory of effective interest rates. The focus of satellite models lies in assessing the impacts of macro-financial shocks and reflecting their effects on the balance sheets and capital position of banks. **The third pillar** introduces the "Feedback Loop", which is the final process that dynamically integrates all components with an impact on the level of capital, more specifically it involves the combination of expected gains/losses resulting from satellite models based on macro-financial scenarios by recalculating the new capital position. However, the construction of this framework

remains an open and ongoing process, requiring continuous improvement, methodological advancement and a more complete integration of macro-financial factors, in order to strengthen the sustainability of the banking sector in an increasingly challenging financial environment.

First pillar: Construction of macro-financial scenarios

The construction of macroeconomic and financial scenarios is the first process in the entire stress test framework/model, on which satellite models were based to assess the impact of various economic and financial variables on the probability of loan default and effective interest rates – net interest margin, under realistic projections and hypothetical scenarios. These are the scenarios on the basis of which the response coefficient of credit risk parameters is measured and consequently the resilience capacity of banks to these developments or negative market shocks (table 3)

The baseline macro-financial scenario is based on real projections made by the CBK for macroeconomic variables such as: economic growth in the country, inflation and remittances for the next two years, as well as bank projections for credit growth in the next three years[14]. While for other variables such as: economic growth in the eurozone, inflation, unemployment, the interbank funding rate in the eurozone - 3-month Euribor, and the rate of return on government bonds, the macroeconomic projections of the European Central Bank (ECB) are taken as a basis.[15]

The adverse scenario is based on hypothetical scenarios, which describe the development of key economic and financial variables in an adverse situation, based on hypothetical assumptions of the risks to which

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[13] Supported by technical assistance from the International Monetary Fund (IMF) in 2023 and 2024.

[14] Information provided by banks on their forecasts of balance sheet positions, on an annual basis.

[15] ECB macroeconomic projections - Eurosystem staff macroeconomic projections for the euro area, June 2025

the banking sector will be exposed. The stress test represents a scenario-based analysis, which measures how the banking sector will react in the face of hypothetical adverse economic developments. Therefore, it implies that this scenario should not be considered as a forecast of adverse developments in the financial system, but as an assessment of how the variables tend to react to shocks, based on their historical behaviour.

The adverse scenario is based on the scenarios published by the European Banking Authority (EBA) for 2025 [16]that banks in the European Union are required to apply during their macro-financial stress test. In the absence of an adverse macroeconomic shock scenario, for macroeconomic variables in the country, the scenarios published by the EBA were used as reference levels, where the change in the shock from the current level was taken as the basis, and the same relative magnitude of the shock was applied to the current data for Kosovo. While the shock to the real growth rate of gross domestic product for the adverse scenario was determined following a pragmatic approach, which is considered appropriate for stress testing purposes. Specifically, the standard deviation of the real economic growth rate over

the last 13 years, multiplied by a coefficient of 2.5, was used to generate a scenario with a significant decline in economic activity. This approach aims to simulate a severe situation under stressful conditions, without relying directly on predictive models, but reflecting a high sensitivity of the economy to external shocks.

Narrative of scenarios

The narrative of the severe scenarios (table 3) by the Central Banking Authority and the European Systemic Risk Board (ESRB) focuses on the increasing risks to the EU banking sector, which are mainly driven by external factors such as increased geopolitical tensions and the fragmentation of global trade. These factors have contributed to the contraction of economic activity and the decline in EU exports.

In addition to external influences, internal factors – such as uncertainties about economic performance and negative market prospects – have contributed to reduced business investment, job losses and declining consumer confidence, which has overall led to a weakening of domestic demand.

Table 3. Projections-baseline scenario and hypothetical assumed scenarios-severe scenario

Description	Base projected scenarios				Severe hypothetic scenarios			
	2024	2025	2026	2027	2024	2025	2026	2027
investment return rate on government instrument of 1 year	3.00%	3.80%	4.10%	4.30%	3.00%	4.90%	4.70%	4.60%
investment return rate on government treasury bonds of 10 year	2.30%	3.10%	3.40%	3.60%	2.70%	4.60%	4.50%	4.30%
ECB referent rate	3.60%	2.10%	1.90%	2.20%	3.60%	3.80%	3.40%	3.30%
Euribor_1month	3.60%	2.10%	1.90%	2.20%	3.60%	3.80%	3.40%	3.30%
Euribor_3months	3.60%	2.10%	1.90%	2.20%	3.60%	3.40%	3.10%	3.00%
Euribor_6months	3.50%	2.00%	1.80%	2.10%	3.50%	4.40%	4.00%	4.00%
Real GDP growth KS	4.40%	4.10%	4.20%	4.40% *	4.40%	-8.80%	-10.50%	-6.50%
Inflation rate KS	1.60%	3.30%	3.00%	2.70% *	1.60%	3.70%	2.50%	1.20%
Unemployment KS*	10.90%	10.80%	10.70%	10.40%	10.90%	12.60%	15.10%	16.40%
Remittances KS	1.44%	6.34%	6.48%	2.46%**	1.44%	-14.93%	6.48%	5.02%
Real GDP growth rate _ euro area	0.80%	0.90%	1.10%	1.30%	0.70%	-2.30%	-4.00%	0.00%
Inflation rate _ euro area	2.40%	2.00%	1.60%	2.00%	2.40%	4.50%	3.30%	2.00%
Unemployment _ european union	6.40%	6.30%	6.30%	6.00%	6.40%	8.10%	10.60%	11.90%

*Adjusted by projected growth from ECB
**economic variables for KS are projected only for two years. For 2027 are not projected but adjusted by trends

Source: CBK, ECB and EBA.

Inflationary pressures are expected to be fuelled by rising energy prices and concerns about global supply chains, linked to geopolitical tensions, particularly in the Middle East. These effects, however, are partly mitigated by weaker demand, with inflation consequently following a downward trajectory after 2025. The scenarios are constructed under the principle of "no policy change", assuming that the initial increase in interest rates in the first year reflects the reaction of markets to existing inflationary pressures and not a further tightening of monetary policy. As a result, this increase in rates affects the prices of assets and liabilities, creating revaluation pressures. In addition, concerns about the level and sustainability of non-financial corporate debt are expected to be reflected in the increase in required rates of return in corporate bond markets, reducing their value and increasing the financing costs for companies.

Pillar II. Satellite models

The second pillar of the stress test process consists of building "Satellite Models," which translate the impact of these macro-financial scenarios on the credit portfolio, balance sheet, performance, level of risk-weighted assets, and ultimately the core capital of banks. To assess this transmission of shocks and to measure the sensitivity of the dependent variables (Probability of Default and Net Interest Income), two satellite models have been built for the three-year projection period 2025-2027:

1) *the satellite model of the probability of loan default (PD satellite model)* that translates macroeconomic and financial scenarios into the behavior/trajectory of the probability of loan default with an impact on credit risk, net profit and consequently the level of capital of banks, as well as 2) *the satellite model of net interest income* that assesses the response of effective interest rates to macroeconomic and financial variables with an impact on net interest

income, affecting the core Tier 1 capital of banks.

1) Credit default probability satellite model – PD satellite model

The probability of default satellite model (PD satellite model) translates macroeconomic and financial scenarios into the behavior/trajectory of the probability of default of loans with an impact on credit risk, net profit and consequently the level of capital of banks. The dependent variable – probability of default – is defined as the ratio of the transition/passage of credit exposures from current performing positions to non-performing loans, categorized according to the classifications "A, B, C"- performing and "D, E, W"-non-performing, to the stock of total loans in the previous quarter. This ratio is the most appropriate and approximate proxy/substitute for the theoretical definition of default rates. The transition calculations have been carried out for all banks since 2010[17], with the data available in the Kosovo credit register through the following formula.

$$DR_t = \frac{KJP\,flow_{[A,B,C]\rightarrow[D,E,W],t}}{EP\,stock_{[A,B,C],\,t-1}}$$

DR_t: *Default* rate in period t

$KJP\,flow_{[A,B,C]\rightarrow[D,E,W],t+1}$: The amount of loans that move from performing categories (categories A, B and C) to non-performing categories (categories D, E and W) during the period from t to t+1.

$EP\,stock_{[A,B,C],\,t}$ − Total stock of performing loans (categories A, B and C) at the end of period t under analysis.

The rates of transition of credit exposures from performing to non-performing categories are calculated on a quarterly basis and then annualized to be equivalent to an annual rate. These rates are transformed into the so-called logit form (logarithmic transformation of the dependent variable). The logarithmic transformation ensures that the projected probability of credit default (PD) remains within the limits 0 and 1. This means that this logarithmic transformation is appropriate

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[17] Data were taken into consideration from 2010 because they are considered more stable/accurate and to eliminate some extreme values in the initial reporting periods.

when the variable has a lower bound of zero, and cannot have negative values. Also, this transformation introduces nonlinearity into the model - so that changes in macroeconomic or financial variables do not always bring about uniform changes in PD. e.g. the higher the PD at the starting point, the more pronounced its sensitivity to macro-financial shocks will be.

The transformation of the PD variable is done through the formula:

$$Y_t = ln\left(\frac{PD_t}{1 - PD_t}\right)$$

After the model regression, the logit ratios of the PDs are restored to their initial state through the formula:

$$\widehat{PD}_t = \frac{1}{1 + e^{-\widehat{Y}_t}}$$

Projections of expected credit losses using the satellite PD model are based on **three equations for three segments of banks' credit exposures - credit exposure to non-financial institutions, exposure to households for the purpose of purchasing real estate, and exposure to households for the purpose of financing consumption.** No satellite models have been developed for the remaining segments, they have been kept in the same proportion, and in the event of an increase in lending, the other segments are simply adjustable/adaptable to changes in the credit portfolio, with respect to their previous participation in total assets.

The regression methods used are a linear fixed-effects model, which includes automatic selection of model combinatorics and averages the most effective models. The elasticities of the variables are estimated using the ordinary least squares (OLS) method. Fixed effects specific to each bank are included through dummy variables to control for time-invariant differences across banks. This model tests different combinations of independent variables through an extended model selection process (model dredging) and selects the best models based on the Akaike Information Criterion (AIC). AIC strikes a balance between

model fit and complexity to avoid overfitting. **The analysis is based on a panel of quarterly data for 11 banks, for the period from 2010 to 2024.** This model also allows for the projection of the trajectories of the dependent variables predicted for each bank.

The basic satellite model for estimating the elasticity coefficients of the dependent variables is expressed in the form below:

$$\ln\left(\frac{Y_{t,i}}{1 - Y_{t,i}}\right) = \beta_0 + \sum_{k=i}^{K} \beta_k X_{k,t,i} + \sum_{b} \gamma_b Bank_{b,i} + \varepsilon_{t,i}$$

$Y_{t,i}$**:** dependent variable for bank i in period t in logarithmic form

β_0**:** constant

β_k**:** The coefficient for the "k" variable in turn assesses how changes in the $X_{k\,variables}$ affect the dependent variable.

$X_{k,t,i}$**:** independent variables (macroeconomic and financial) for bank i in period t.

γ_b**:** fixed effects coefficients for bank b, which controls for bank-specific effects that do not vary over the period.

$Bank_{b,i}$**:** binary variables – dummy, to control for unobservable differences between banks.

$\varepsilon_{t,i}$**:** error term that controls for unexplained variations

The selection of independent macro-financial variables X_t was made taking into account the specific sensitivity of each credit segment to macroeconomic and financial conditions. Initially, a wide range of macroeconomic and financial variables were tested, such as: real GDP growth, inflation rate, unemployment, remittances, short-term and long-term government bond yields, the European Central Bank reference rate, the Euribor rate, credit growth and banking concentration.

Due to the different characteristics of each segment of the loan portfolio, separate specifications have been constructed for three main categories: loans to individuals, loans to businesses and mortgage loans. For each of these models, the final selection of variables has been made on the basis of statistical significance and economically justifiable direction of the coefficients.

In the mortgage loan model, the variable that was found to be statistically significant **included the 6-month Euribor - the eurozone interbank lending rate,** which reflects the sensitivity of this segment to the cost of financing. **For consumer loans, variables such as remittances and the Euribor rate were found to be key factors,** while for business loans, the variable **long-term government bond yield** had a statistically significant impact. Finally, for each model, the specification that provided the best statistical fit and a reliable economic interpretation of the results was selected.

2) The NII satellite model

In the satellite model for net interest income, the dependent variables are the effective interest rates for specific segments of interest-bearing assets and liabilities. Data on effective rates are collected for all banks from 2010 to 2024. Five separate equations are constructed, each corresponding to a specific segment of the balance sheet: (i) the interest rate on corporate loans, (ii) mortgage loans, (iii) consumer loans, (iv) securities, and (v) the interest rate on deposits.

Effective interest rates are regressed on a set of macroeconomic and financial variables (Xt). The macroeconomic variables include, among others, real gross domestic product (GDP) growth, unemployment and remittances. On the other hand, the financial variables include the euro area interbank lending rate (6-month Euribor), the banking concentration index (measured through the Herfindahl-Hirschman index – HHI in the relevant segments, such as corporate loans, household loans and deposits), and the government bond yield.

For the final assessment, variables that have proven to be statistically significant and with an economically reasonable direction for each equation have been selected. In the case of interest rates for **corporate loans,** the most important variables are **the interbank funding rate in the euro area - 6-month Euribor and the HHI index of banking concentration in the corporate loan segment.** For interest rates for **mortgage loans,** variables such as **unemployment, the**

6-month Euribor rate and the HHI index of banking concentration in the household loan segment have shown high sensitivity. In the **consumer loan segment,** variables such as **the 6-month Euribor rate, the HHI index** of banking concentration in the household loan segment and **remittances** have proven to be statistically significant factors. The equation for securities is mainly influenced by **long-term interest rates** - government bonds in the euro area with a maturity of 10 years. While in the case of interest rates on deposits, **the HHI index for deposits, the interbank funding rate in the eurozone - 6-month Euribor, remittances and the GDP growth rate had a significant impact.**

Pillar III. Capital Framework

The final process consists of the dynamic integration of all components and sub-processes to determine the effect of shocks on the capital position. This is accomplished through two main modules and auxiliary modules:

- **Balance sheet module,** where expected losses are processed in the balance sheet credit portfolio and reflected in equity through the income statement;
- **Net interest income (NII) module,** where net income is processed in the income statement and reflected directly in equity.

The first effect on capital is influenced by the balance sheet related to the probability of credit default (PD), which is calculated by satellite models for PD and is reflected in expected credit losses. These appear in balance sheet through the formula: **ECL=EAD×PD×LGD,** where:

- *EAD (Exposure at Default)* represents the total credit exposures of banks;
- *PD (Probability of Default)* is predicted by the satellite model and describes the trajectory of the risk of default;
- *LGD (Loss Given Default)* indicates losses from non-payment, and for this purpose the value of irrecoverable losses is used, reflected through provisions allocated for exposures categorized as non-performing (stage 3).

The process of processing expected losses from the satellite model to capital involves several sub-processes. Expected losses from credit exposures are applied to each bank's income statement through the change in provisions: **ΔProvisions=LGD×(PD×EAD+NPEAD),** where, unlike previous versions of the stress test [18], the gain/loss is first fully recognized in the income statement and then reflected in core capital.

The risk-weighted assets (RWA) component would be directly affected, being recalculated based on new credit exposures – assuming increased lending – and being reduced for expected losses (i.e. increased provisions as a result of increased probability of default, PD).

In the baseline scenario, lending growth is based on banks' projections provided at the beginning of 2025 for the period 2025–2027, while other asset positions are adjusted to the increases based on their initial proportion.

On the liabilities side, the balancing is done in this way: capital in period T_1 is affected by expected credit losses, which are reflected in liabilities in period T_2. Assuming the absence of external capital injection by banks, the coverage of losses incurred in capital in T_1 must be ensured through other financial sources. This increase in financing is accompanied by an increase in cost, due to higher interest rates, derived from the satellite models constructed.

Total liabilities $_{T1}$ = (TotalAssets $_{T+1}$ - TotalAssets $_{T0}$) + (Equity $_{T0}$ – Capital affected $_{T1}$) Consequently, in the second year, capital is affected by two key modules:

- the output of the probability of default model (PD Satellite), and
- model result for net interest income (NII Satellite).

The second effect on equity comes from net interest income. The income statement is projected based on the construction of satellite models of net interest income (NII satellite model) to generate the effects on income and expense positions. The results of interest rates on a quarterly basis are averaged, while the calculation of interest income in T_1 will also include income from the recovery of lost loans, based on the average of the last four quarters of the recovery rates (cured ratio) which are calculated from the Credit Registry data in the same methodology as the transition rate for the probability of loan failure (the transition rate or recovery ratio that expresses the transition of loans from non-performing categories in T_1 to performing categories in T_0). Also, the fixed interest rate portfolio will continue to maintain the same interest rate as in T_0, while only the variable interest rate exposures will be affected by the predicted interest rates resulting from the satellite model. Meanwhile, for the rest of the income and expense components, the impact on non-interest income is realized by taking the historical share of the ratio of each interest income component to the assets of each bank, using a scaling factor/reducing factor of ±1 standard deviation, while excluding personnel and other administrative expenses which are assumed to remain constant. Also, the current level of taxes remains constant and changes in tax rates are not considered. Interest income is recalculated as follows:

$$Të\ hyrat\ nga\ interesi$$
$$= \left(Eksp - KJP * (1 - CurR)\right)$$
$$* \left(Eksp_{fikse} \cdot IR_{t0} + Eksp_{variabile}\right.$$
$$\left. \cdot IR_{t1}^{satellite}\right)$$

Exp - total credit exposures

NPE - non-performing credit exposures

CurR - Cure ratio of non-performing exposures

Fixed_exp - share of fixed interest rate exposures

Variable_exp - share of variable interest rate exposures

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[18] In the previous version of the ST, losses generated by provisions were applied directly to the capital adequacy level, without being initially treated through the profit and loss statement.

IR_{t0} - effective interest rate in the base year (for fixed rate exposures)

$IR_{t1}^{satellite}$ - effective interest rate projected by the satellite model (for variable rate exposures)

Interest expenses are recalculated as follows:

$$Shpenzimet\ e\ Intersit_{t1} = Ekspozimet_{t1} * IR_{t1}^{satellite\ IR\ deposits}$$

The assessment of the effects on capital also includes **market risk.** In this regard, potential losses from the revaluation of investment positions "held for trading" reflected in the income statement (P&L) have been calculated, as well as from instruments "available for sale" reflected in other comprehensive income (OCI). The trajectory of market rates of return is assumed to increase, in line with accepted practice in stress scenarios, where increased risk perception and a decrease in economic activity (GDP) translate into increased market yields and, consequently, a decrease in the value of instruments held in the portfolio. Capital will be recalculated by adding to existing capital, expected losses from PD and expected gains and losses from NII satellite equations, plus other comprehensive income from financial instruments revalued by market risk (OCI), as follows.

$$Norma\ e\ Kapitalit_{T1} = (Kapitali\ ekzistues_{T0} + \Delta P\&L_{satellite\ PDs\&NII} + Rreziku\ i\ Tregut_{\Delta FVOCI}) / RWA_{BGJ,PDs}$$

Results of the sustainability exercise - Solvency Stress Test

In the baseline scenario, the capitalization ratio is expected to be at 18.4 percent in 2025 and reach 21.4 percent in 2027 (chart 59). The increase in capital in this scenario is the result of positive projections for the coming years, which result in a much lower response coefficient of the probability of loan default. Also, the projections for credit growth cause net interest income to have a dominant effect on capital growth. Furthermore, RWAs (risk-weighted assets) do not increase to the same extent/magnitude as credit growth, since these exposures (RWAs) are deducted by the value of higher provisions that are allocated as a result of the increase in the probability of loan default and the estimates for expected loss coverage. Provisions are deducted from exposures in the calculation of risk-weighted assets (RWAs), as they represent the coverage of expected losses that are recognized and allocated through the income statement, while capital remains as free absorption capacity to cover only unexpected and unidentified losses that could hypothetically occur.

The severe scenarios in the domestic context follow the same narrative as the scenarios used by banks in the European Union, elaborated above. The effects of these scenarios are reflected in the country through the decline in remittances, influenced by the weakening of economic activity in the euro area. Given that the market is exposed to external developments, the increase in inflationary pressures in the euro area and consequently the increase in interest rates will affect inflation and interest rates in the domestic market, following the same direction as developments abroad. The unemployment rate is assumed to increase in the severe scenario, due to the decline in economic activity, the decline in domestic consumption, the weak economic outlook and the decline in market confidence. In the severe scenario, very conservative assumptions have been made for lending, keeping the level unchanged, which means that no increase in lending is assumed.

The stress test results show that the banking system has a high level of resilience to macroeconomic and financial shocks, even under the severe scenario. This resilience is mainly based on the profits realized and maintained over the years, as well as on the high level of allocated provisions, which enable some banks to continue to operate profitably even in difficult conditions. In addition to these factors, the balance sheet structure plays a key role: the high share of interest-earning assets gives banks the opportunity to benefit from rising interest rates. As a result, rising interest rates

improve the net income margin for some banks, reducing the sensitivity of capital to shocks and strengthening the stability of the banking sector.
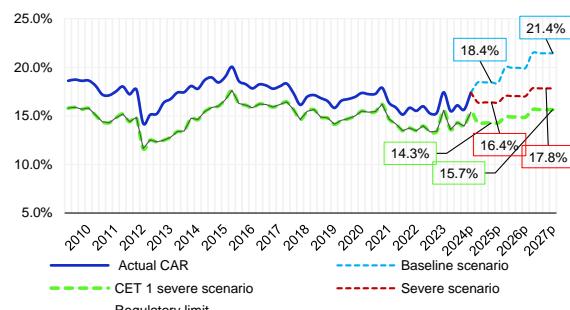
However, although most banks have sufficient capital levels and quality to absorb expected losses, including the macroprudential capital requirements that are expected to come into effect from June 2025[19], four banks are expected to need recapitalization to cover the capital shortfall under the stressed scenario assumptions, where hypothetical profit realization and capital accumulation projections are made. Of these, two banks will need to increase their Tier 1 capital. The total capital needed to meet the regulatory minimum of 15.5 percent (including macroprudential capital requirements) is € 24.4 million, of which € 11.9 million is Tier 1 capital. At the end of the projection period, the total capital shortfall could reach 49.9 million euros in the severe scenario, which for the purposes of this exercise has been estimated, although it represents an assumption without any indication or expectation that something like this will occur.

In a crisis situation, given the releasable nature of macroprudential capital buffers, their release would significantly reduce the pressure on banks. In this case, only two banks would face difficulties in meeting the regulatory minimum level of 12 percent of capital. The Tier 1 capital gap would decrease to € 8.3 million in 2025 and € 33.1 million in 2027, while the total capital gap would decrease to € 11.7 million in 2025 (from € 24.4 million in the buffer scenario) and € 36.1 million in 2027.

In **the severe scenario,** the capital adequacy ratio will slightly decrease by 1.0 percentage point to 16.4 percent in 2025 from the current level of 17.4 percent in 2024. In the following two years, the capital ratio is projected to gradually increase to 17.8 percent, as a result of the assumption of improvement in several macro-financial variables after 2025, positively impacting the reduction of expected losses and

the improvement of net interest income for this period.
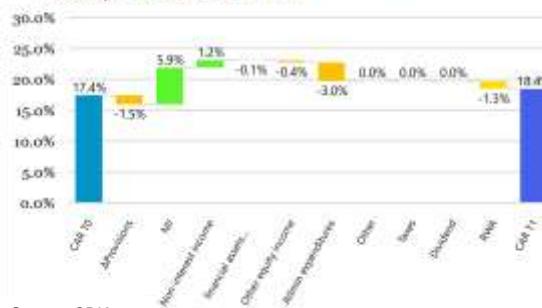
Chart 59. Capital Adequacy Ratio, by scenarios

Source: CBK.

Core Tier 1 capital (CET 1) at the sector level in the stressed scenario would decline to 14.3 percent and 15.7 percent at the end of the projection period from the current level of 15.4 percent (chart 59).

Source: CBK.

In the charts below 60A1 and 60A2 (baseline and severe scenarios) are presented the contributing categories that affect the level of banks' capital. Provisions and administrative expenses have a negative impact on the projected capital for 2025, while net interest income has a positive effect, mitigating the negative impact of other parameters. In chart 61B are presented the values of the main categories of the capital adequacy ratio, for the three projected years.

The non-performing loan ratio at the sector level has a high level of sensitivity, resulting in 11.2 percent in 2027 from the current level of 1.9 percent. Meanwhile, the cumulative value of non-performing loans for the entire sector would increase sixfold to
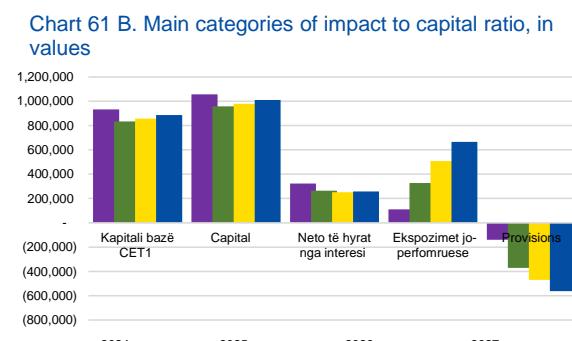

666.2 million euros from 111.3 million at the initial level, at the end of the projection period. At the bank level, the non-performing loan ratio would vary between the lower range at the end of 2027 of 8.3 percent to 43.6 percent.

Chart 60A2. Severe scenario, impacting positions on the capital level of CAR in T1

Source:

Finally, the low initial probability of loan default in almost all banks, together with the relatively high share of higher-interest-bearing assets compared to liabilities, has led to banks' capital levels showing low sensitivity – under the constructed macroeconomic and financial scenarios.

Chart 61 B. Main categories of impact to capital ratio, in values

Source: CBK.

More specifically, expected losses are mitigated or compensated by the increase in interest income, driven by the reaction coefficients of projected interest rates according to satellite models, without significantly affecting the level of capital. Although the value of capital falls in the stressed scenario by 4.4 percent at the end of 2027, the capital ratio increases due to the higher decline in risk-weighted assets (RWA) by 6.6 percent, which will be affected by the increase in provisions for expected losses.

Liquidity Risk Stress Test

The previous Financial Stability Report introduced the new liquidity risk stress test framework, based on the LCR as an instrument with a micro- and macroprudential perspective. The historical context of the LCR and the assumptions for the weights/margins of liquidity positions, which will be used for the hypothetical cases for 2024, were also reviewed in this report.

Although the regulatory level of 100 percent LCR is based on the experience of the global crisis, the banking crisis of March 2023 showed that this level may be insufficient in the conditions of massive withdrawals, accelerated by digitalization and the spread of panic through instant information.

This highlights the limitations of relying solely on historical assumptions and the need to strengthen banks' response capacity. Consequently, the stress test model aims to assess the sensitivity to extreme scenarios and identify potential liquidity shortages for the purposes of early intervention and monitoring. The following will be presented: **the first baseline scenario,** considered more realistic, based on the parametric VaR method as a function of daily deposit movements. Then the scenario of a decline in the value of liquid assets and the scenario of massive deposit withdrawals at two levels of shocks: **severe and extreme,** supported also by a sensitivity analysis to assess the need for assistance from the emergency liquidity fund. Finally, **the third scenario focuses on early withdrawals** from the five largest depositors of each bank (table 4).

1. Baseline scenario

The baseline scenario, as the most realistic scenario, simulates the impact only on the outflows component, based on the daily fluctuations of each bank's deposits. For this purpose, the Parametric VaR method is used, which assesses the risk of deposit withdrawals as a function of their daily volatility. Meanwhile, for the liquid assets (liquidity buffer) and inflows component, the same weights/haircuts are applied that are used in the calculation of the LCR by the banks themselves.

The Value at Risk (VaR) parameter in this scenario is used to estimate changes in the level of deposits (their volatility), within a time period of 30 days and with a confidence level of 99 percent (respectively Z-score ≈ 2.33). The calculations are based on historical daily deposit data since 2020 and are applied individually for each bank, to reflect the specificities and differences between banks.

$$\text{VaR } p,t = \mu \cdot \delta t - Z\alpha \cdot \sigma \cdot \sqrt{\delta t}$$

Where:

- **$VaR_{p,t}$** is the Value at Risk for the period **δt,** which indicates the maximum expected declines in deposits for a given confidence level.
- **μ** (mu) is the average daily drift of deposits.
- **δt** is the time period for which VaR is calculated (in this case 30 days).
- **Z_α** is the critical value from the standard normal distribution for the confidence level **α** (here for 99% confidence, $Z_\alpha \approx 2.33$).
- **σ** (sigma) is the standard deviation of daily changes/increases/decreases, to measure volatility.
- **$\sqrt{\delta t}$** is the square root of the time period, increasing or decreasing volatility proportionally with time, meaning that the standard deviation of returns over several days does not increase linearly, but increases according to the square root of time.

Parametric VaR has been selected over the other two VaR methods - historical and Monte Carlo - due to its simplicity and efficiency in assessing the risk from deposit fluctuations in short-term periods. This method is based on the average and standard deviation of deposits, calculating the maximum expected declines with a given probability, under the assumption of normal distribution of fluctuations and without the need for complex historical data.

In addition to this basic scenario, two additional scenarios have been developed, of a hypothetical nature, but based on real experiences that occurred in banking systems in other countries.

2. Severe and extreme scenario

The liquidity stress scenarios are based on assumptions of a possible geopolitical crisis with a knock-on effect on the economy and financial sector of Kosovo, as well as on the idiosyncratic risk of a bank spreading to the banking sector. The magnitude of this shock is assumed to be amplified by factors such as the low level of deposit insurance and limited mechanisms for emergency liquidity assistance. The effects of these hypothetical scenarios are divided into two resulting categories: market and reputational risk and two levels: severe and extreme with specific weightings (haircuts) for key positions.

2.1) Market risk: Rising interest rates reduce the value of more liquid instruments, such as government bonds, weakening the value of these banks' liquid assets and their ability to meet short-term obligations.

2.2) Reputational risk: Massive deposit withdrawals, driven by panic, weaken confidence in the banking sector and put pressure on banks' liquidity to cope with unexpected demands.

Table 4. Scenarios and weights (haircuts) used in each scenario for the main categories of TML - LCR

MAIN CATEGORIES OF LIQUIDITY COVERAGE RATIO (LCR)	Standard weight	Skenari bazë kombinuar me VaR të luhatjeve ditore të depozitave (për outflows)	Severe scenario	Extreme scenario	Skenari i tërheqjeve të parakohshme të pesë depozitorëve më të mëdhenjë	Weights applied by banks
LIQUIDITY BUFFERS	99.6%	98.5%	93.5%	87.4%	98.5%	98.5%
Central Government Assets	100%	100%	90%	80%	100%	100%
Regional government / local authorities assets	100%	100%	90%	80%	100%	100%
Recognizable domestic and foreign currency central government and central bank assets	100%	85%	90%	80%	85%	85%
OUTFLOWS	15.6%	**13.1%**	23.8%	32.1%	**25.1%**	15.5%
Retail deposits	8.7%	9.2%	16.7%	23.4%	8.6%	8.6%
Deposits subject to higher outflows	16%	41%	18%	26%	15%	15%
Stable deposits	5%	9%	7%	12%	5%	5%
Other retail deposits	10%	8%	25%	35%	10%	10%
Operational deposits	15%	26%	21%	30%	25%	25%
Maintained for clearing, custody, cash management or other comparable services in the context of an established operational relationship	25%	56%	35%	49%	25%	25%
Non-operational deposits	29%	13%	32%	38%	52%	52%
Not covered by DGS	40%	23%	45%	60%	40%	40%
Other products and services	17%	23%	32%	49%	17%	17%
INFLOWS	77.7%	77.7%	67.3%	55.2%	77.7%	77.7%
Monies due from non-financial customers (except for central banks))	54%	54.1%	47.2%	31.4%	54.1%	54%
Monies due from retail customers	50%	50.0%	45.0%	30.0%	50.0%	50%
Monies due from non-financial corporations corporates	50%	50.0%	40.0%	20.0%	50.0%	50%
Monies due from central banks and financial customers	100%	99.6%	84.7%	69.7%	99.5%	100%
Monies due from financial customers	100%	100.0%	85.0%	70.0%	100.0%	100%
Loans with an undefined contractual end date	20%	20.0%	10.0%	0.0%	20.0%	20%

Source: CBK simulated/hypothetical model.

Both scenarios - the decline in the value of government bonds and the withdrawal of deposits - are based on the experiences of other countries and are applied simultaneously to hit the liquidity position of banks. No alternative sources of refinancing or reinvestment are foreseen, reflecting the inability to replace funding that matures in times of crisis (table 4). The components of the LCR indicator hit according to the specific reduction margins for each category are elaborated below.

2.1. Impacts on the Liquidity Buffer and Inflows

The scenario is based on the European Banking Authority (EBA) guidance on the decline in the value of government securities collateral, which reduces banks' liquidity reserves and ability to meet obligations. Given the high share of these instruments in liquid reserves (41.3 percent on average, and up to 90 percent for some banks), a haircut on them is expected to have a significant impact on banks' liquidity position.

The combination of factors with a high probability of occurrence, such as rising interest rates, rising country risk premiums, and economic slowdown, may negatively impact the value of collateral in the form of government securities for REPO financing.

Two levels of shocks are built into this scenario:

Severe scenario: Assumes a 10 percent haircut on high-quality government bonds, reflecting restrictions on their use as collateral at the central bank. This scenario is accompanied by moderate reductions in inflows: 85 percent from financial clients (from 100 percent), 18.3 percent from non-financial clients, and 10 percent from open-ended credit agreements.

Extreme scenario: Assumes a higher haircut of 20 percent, which reduces the overall level of high-quality reserves from 99.6 percent to 87.4 percent. In this scenario, inflows from financial customers are assumed to be realized at 70

percent, while for non-financial customers (households/individuals and corporates), inflows are reduced to 30 percent and 20 percent, respectively.

All other positions remain unchanged and in line with the standardized regulatory LCR restrictions (table 4).

Table 5. Scenarios and corresponding outcomes

Pozicionet	Vlerat e pozicioneve fillestare	REDUCED MARGINE SCENARIOS					Actual values	Results				
		Weights applied by banks	1. Scenario the base VaR of real fluctuation of deposits	2.1. Severe scenario	2.2. Skenari ekstreme	3. scenario of Withdrawal of 5 largest borrowers	Actual Values	Values by regulatory margins / weights	1. Values by base scenarios-VaR of real fluctuation of deposits	2.1. LCR categories by severe scenario	2.2. Value by severe scenario	3. value by withdrawals scenario of 5 largest depositors
Liquidity reserves	1,272,708	98.5%	98.5%	93.5%	87.4%	98.5%	1,253,595	1,268,176	1,253,595	1,190,458	1,112,740	1,253,595
OUTFLOWS	7,332,772	15.5%	13.1%	23.8%	32.1%	25.1%	1,139,307	1,140,831	961,620	1,741,700	2,351,469	1,839,094
INFLOWS	743,983	77.7%	77.7%	67.3%	55.2%	77.7%	577,878	577,787	398,542	500,606	410,850	577,878
LCR Ratio							210.9%	225.2%	222.6%	95.9%	57.3%	99.4%
LCR weighted average ratio							227.3%	230.4%	573.7%	96.3%	57.8%	106.5%

Source: CBK.

2.2. Deposit withdrawals (impact on outflows) - Reputational risk[20]

The March 2023 banking crisis and the failure of Credit Suisse, caused by a massive deposit run and accelerated by the rapid spread of information and digitalization, served as the basis for determining the weights of outflows in the idiosyncratic shock scenario in Kosovo.

Household deposits, which are usually more stable, are estimated to have a higher risk of withdrawals of 7–12 percent due to the low coverage by the deposit insurance scheme. For the "other retail deposits" category, which constitute the main category of outflows, withdrawals of 25 percent are assumed in the stressed scenario and 35 percent in the extreme one. For the portion of household deposits that are treated by the LCR framework as subject to higher withdrawals, withdrawals in the range of 18–26 percent are assumed for both scenarios, compared to the 15 percent that banks have used in their reporting.

In the case of *non-financial corporate deposits,* the dynamic and more volatile nature of these entities makes them more sensitive and responsive to shocks, therefore withdrawals in the range of 21–38 percent are assumed for both scenarios and for both categories of deposits: those for operational and non-operational purposes, which approximates the

withdrawal experience before the banking crisis of March 2023 and similar to the weight according to the regulatory standard.

3. Scenario of early withdrawals of the five largest depositors from each bank

The third scenario is based on the assumption of premature withdrawal of the five largest depositors of each bank, hitting only the outflows component.

Results according to the scenarios of the sustainability exercise - Stress Test for liquidity risk

In the severe and extreme scenario and the withdrawal of the largest depositors, the analysis is based on hypothetical scenarios that measure how the banking sector will react in the face of adverse situations of liquidity decline. Therefore, in this context, the scenarios and results elaborated for the second and third scenarios explained above should not be understood as a forecast or expected situation, but only as an assessment/exercise of the reaction of the liquidity position of banks to negative shocks to the liquidity position.

The standard weights (haircuts) set by regulations guide banks to stress/hit financial positions, setting ranges within which they can

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[20] The "dash for cash 20" situation based on the experience of the banking crisis in America and Switzerland in March 2023

operate, but without significant deviations from the applied weights. In general, banks have applied the weights referred to in the standards, with small variations between them. Liquidity reserves according to these weights[21] are 99.6 percent, while banks apply slightly more conservative weights, at 98.5 percent, mainly due to some banks with exposures to instruments categorized in the second-level liquidity group, estimated at 50 percent liquid (level 2B) and 85 percent (level 2A). Regarding deposit withdrawals and current income, almost the same recommended weights have been used. The overall level of withdrawals is 15.6 percent, compared to the 15.5 percent reported by the sector. For inflows, the sector has applied a weight of 77.7 percent, which is at the same level as that recommended by the LCR framework.

The Liquidity Coverage Ratio (LCR) according to standard weights results to be 225.2 percent, while banks have reported an LCR of 210.9 percent, due to higher haircuts used in some cases (tables 4 and 5).
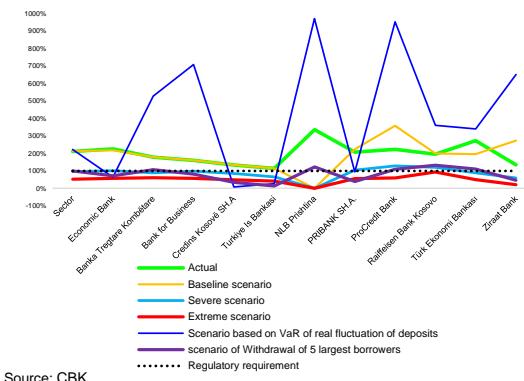
In **the baseline scenario,** only the outflow component is affected, based on the daily fluctuations of each bank's deposits, through the parametric VaR method. Based on this method, the volatility of deposits results higher in legal entities' deposits and the overall level of outflows results at 13.1 percent - a level not very different from the reduction margin of 15.5 percent reported by banks within the framework of the LCR. However, there are very pronounced differences between banks, especially between those that have resulted in a high level of daily fluctuations and consequently higher shocks and those that have been more conservative in determining the outflow weights in the LCR reporting, while in reality they have very low deposit volatility and would consequently result in a very high LCR ratio.

The liquidity coverage ratio (LCR), at the level of the balanced average for the entire sector,

would be 573.7 percent. As mentioned in the previous paragraph, some banks report higher outflows in the LCR than the historical data on their daily deposit movements/outflows indicate (tables 4 and 5, Chart 62). If these historical levels of daily deposit outflows were considered in the calculation of the LCR, then the LCR level would result much higher than the one currently reported.

2.1. In the severe scenario, the level of withdrawals for the sector reached 23.8 percent[22], while the rate of revenue realization for the 30-day period, according to the assumptions in table 4, resulted in 67.3 percent. Liquidity reserves result in a reduction margin of 93.5 percent. As a result, the Liquidity Coverage Ratio (LCR) drops to 96.3 percent, from the level of 210.9 percent in December 2024, falling below the regulatory limit of 100 percent (Tables 4 and 5, Chart 62).

Chart 62. Liquidity Coverage Ratio

Source: CBK.

2.2. In the extreme scenario, liquidity reserves are assumed to be at 87.4 percent, while withdrawals reach 32.1 percent, as a result of the application of more rigorous weights to the main groups. The revenue realization rate is calculated at 55.2 percent. As a result, the Liquidity Coverage Ratio drops to 57.8 percent (tables 4 and 5, chart 62).

2.3. Sensitivity analysis for emergency liquidity assistance.

In order to assess the loss-absorbing capacity through emergency liquidity, a sensitivity analysis, namely an analysis of the threshold for the reduction of reserves and the corresponding liquidity needs, in relation to the value of emergency liquidity assistance (ELA), was simulated. If the level of reserves that could be withdrawn were increased to include 4.0 percent[23] of the minimum reserve requirement (2), in the severe scenario the liquidity shortfall to reach the regulatory level would be reduced from € 111.8 million to € 42.9 million. **In the extreme scenario, the liquidity needs would be higher, exceeding the ELA fund.**

3. In the scenario of withdrawals by the five largest depositors in each bank, the level of withdrawals would reach 25.1 percent and the liquidity coverage ratio (LCR) would drop to 106.5 percent (tables 4 and 5, chart 62).

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[23] One of the criteria for granting Emergency Liquidity Assistance is the reduction of the reserve requirement, more specifically point 1.3 of Article 4 which stipulates that "The maximum reduction in a bank's minimum reserve that can be approved is four percentage points."
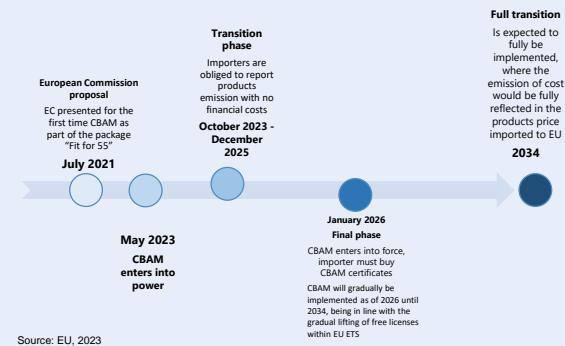
Box 4. Carbon Boundary Adjustment Mechanism (CBAM):

Impacts on Kosovo's Economy and Banking Sector Stability

The Carbon Border Adjustment Mechanism (CBAM) represents a new dimension included in this Financial Stability Report, within the framework of the analysis of the implications of climate change on the country's financial system. For Kosovo, a country with a small economy and open to the EU, the implementation of the CBAM carries a direct impact on the country's economy and an indirect impact on the financial system, especially the banking sector. This analytical box aims to elaborate on the concept of the CBAM as a regulatory instrument, identify the sectors most affected by its implementation, assess its importance for the local economy, and analyse the degree of exposure of the banking sector to activities that will be affected through lending.

Diagram 1: Implementation strategy of CBAM

Source: EU, 2023

From the EU perspective, the CBAM is a central instrument of the European Green Deal that aims to preserve the effectiveness of EU climate policies and prevent "carbon leakage".[24] This mechanism places a carbon price on imports of emission-intensive goods, aiming at equal treatment between domestic and foreign producers. For countries outside the EU and the EU Emissions Trading System (EU ETS)[25], this translates into additional costs for the exports of the affected sectors, with potential consequences for their competitiveness on the EU market and for the economic structure of the exporting countries.

The CBAM mechanism currently covers several emission-intensive sectors, including iron and steel, aluminium, cement, fertilisers, hydrogen and electricity. It also includes indirect emissions related to the use of electricity in the production process, except where the goods benefit from indirect cost compensation under the EU Emissions Trading Directive (EU ETS).

The implementation of CBAM is envisaged to take place in successive phases. The initiative was proposed in 2021 as part of the "Fit for 55" legislative package and entered into force in May 2023 after institutional approval by the EU. The transitional phase started in October 2023 and will last until the end of 2025. During this period, the relevant entities (importers and exporters to the EU) are obliged to report on a quarterly basis the greenhouse gas emissions contained in their goods, without financial implications in this phase. From January 2026, CBAM will enter the final phase of implementation, where payments for reported emissions will be required to be made through the purchase of CBAM certificates. These payments will be determined based on the volume of greenhouse gas emissions reported for the relevant goods, the tariffs applied in the EU ETS, and the regulatory policies for emissions in the country of origin of the goods. The period 2026–2034 is envisaged to be used for a full transition, where the 'Free


Allocation' of carbon permits within the EU ETS[26] will be gradually replaced by the CBAM mechanism (Diagram 1).[27]

For Kosovo, which is not part of the EU ETS and does not have a domestic carbon pricing mechanism, this regulatory change is expected to have an impact on foreign trade and the competitiveness of the country's economy. This sensitivity is further amplified by Kosovo's export profile, which remains largely EU-oriented. In 2024, 34.0 percent of exports were directed to EU countries, with Germany and Austria as the main destinations, reflecting the trade link with the European bloc and the dependence on markets that are already directly affected by policies to manage/reduce carbon emissions (chart 1).

Chart 1. Structure of exports by countries, December 2024

Category	Value
Europe	93.8%
a) European Union	34.0%
b) CEFTA/Region	47.7%
c) Other European countries	12.1%
Non-European countries	6.2%

Source: CBK.

The sectorial structure of exports highlights the increased risk from exposure to sectors affected by CBAM. During 2024, the growth dynamics of goods exports were mainly supported by the performance of the base metals sector. This sector accounts for 20.3 percent of exports and has reached a value of 52.9 million euros[28]. At the same time, categories such as 'Stone, mortar, ceramic and glass articles' and 'Mineral products', which include cement production, represented 10.8

percent of exports with a value of 7.5 million euros.

Given that the base metals and cement production sectors are characterized by high carbon intensity, Kosovo's exports from these segments may face additional trade challenges and higher costs in the EU market under the implementation of the CBAM.

In broader macroeconomic terms, the manufacturing industry - including the production of base metals - remains among the main contributors to GDP growth. A deterioration in the terms of trade for this industry, as a result of carbon tariffs that increase production costs and negatively affect competitiveness in EU markets, could be reflected in a deterioration in the trade balance, reduced fiscal revenues and difficulties in the labour market.

The implementation of CBAM and the related economic risks could create dynamics with an impact on financial stability. Transition risk, stemming from additional carbon costs and the challenges in maintaining competitiveness by exporting companies, could affect their ability to meet their financial obligations. In the absence of sufficient adjustment, these developments could be reflected in a deterioration in the quality of the credit portfolio, increasing the need for provisions and putting pressure on the level of bank capital. Moreover, a significant part of these loans are covered by collateral, assets that could suffer losses in value if industrial activities slow down or become unprofitable, affecting the sector's absorption capacity in the event of losses from these exposures.

As part of efforts to address the risks arising from the implementation of the CBAM, the CBK has undertaken an initiative to monitor

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[26] Free Allocation within the EU ETS is the distribution of carbon allowances (permits to emit) to certain industries at no cost. This policy aims primarily to prevent "carbon leakage" by protecting the competitiveness of EU industries that are at risk of relocating to regions with less demanding climate regulations.

[27] In June 2025, the European Parliament and the Presidency of the Council of the EU reached a provisional agreement on the 'Omnibus I' legislative package, which aims to simplify and strengthen the implementation of the CBAM. The main changes include: the
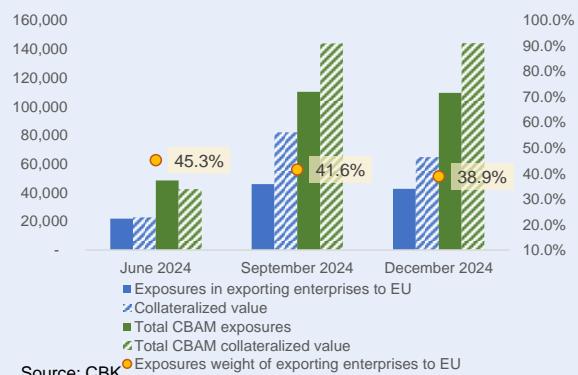
exemption of small imports (≤50 tonnes/year), the postponement of the payment of certificates until February 2027, the extension of the declaration deadline until 31 August, the reduction of the obligation to hold certificates from 80% to 50%, the exclusion/modification of certain products in the calculation of emissions. This provisional agreement is expected to be formalised in September 2025.

[28] For more information regarding exports, you can refer to the 'Quarterly Economic Assessment (Q4 2024)' report.

the banking sector's exposures to enterprises included in the relevant sectors. Starting from the second quarter of 2024, banks have been instructed to report detailed data on these exposures on a quarterly basis. This has enabled the construction of a more complete picture of the nature and extent of potential risk.

The data collected shows that 38.9 percent of exposures to sectors affected by CBAM belong to companies exporting to the EU market. Although this percentage represents a slight decrease compared to previous periods, it remains an important indicator of the banking sector's dependence on the performance of carbon-intensive activities (chart 2).

Chart 2. Exposures to CBAM sectors

Source: CBK

On the other hand, collateral coverage for these exposures is estimated to be relatively high, with a ratio of 151.9 percent, implying that the value of the collateral exceeds the value of the respective exposures.

In general terms, the banking sector's exposure to sectors affected by CBAM represents around 2.5 percent of the total loan portfolio, or around 4.0 percent of the corporate loan portfolio. This low level of concentration suggests limited systemic risk to the banking sector related to the impacts of CBAM.

However, to enable a more accurate monitoring and assessment of the risks arising from climate policies - including CBAM, further improvement of data quality and addressing existing information gaps is needed. Given that this area of analysis is still in the early stages of information collection and the availability of time series is limited, the CBK intends to intensify efforts to advance the collection and analysis of relevant data.
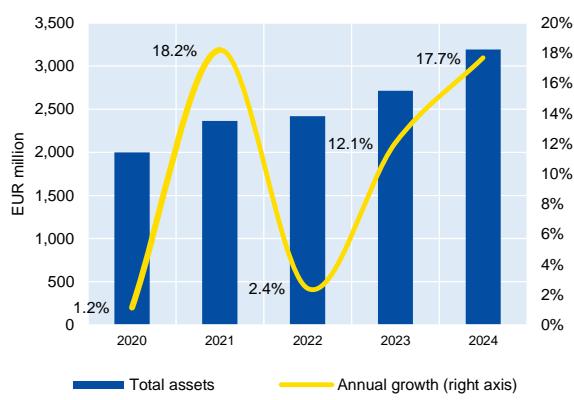
Furthermore, integrating climate risks into the banking sector's risk management frameworks is an important step to strengthen financial resilience. At the same time, inter-institutional coordination - between the private sector, supervisory authorities and public institutions - would play a key role in supporting a sustainable transition and mitigating potential economic and social impacts.

6. Non-bank financial institutions

6.1 Pension Sector

The pension sector recorded accelerated annual asset growth of 17.7 percent from 12.1 percent a year earlier, reaching a total value of 3.2 billion euros (chart 63).

Chart 63. Assets of the pension sector

Source: CBK.

In 2024, pension funds benefited from positive developments in international markets, with high investment returns reaching 248.4 million euros, compared to 88.5 million euros a year earlier.

Chart 64. Financial performance of Kosovo Pension Saving Trust

*Base price of the share is: € 1.0
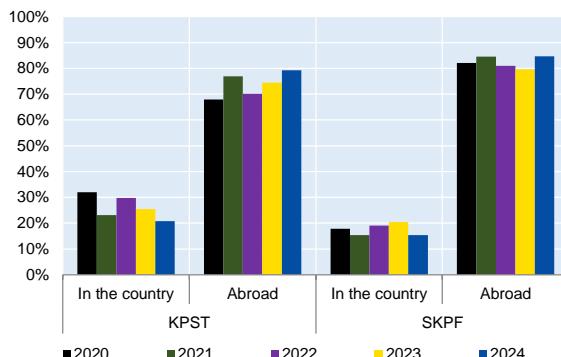
Source: CBK.

This performance was supported by improving global macroeconomic conditions, more accommodative monetary policy, and the growth of the technology sector, especially in the field of artificial intelligence. At the same time, contributions collections remained a

sustainable source of asset growth, with an annual growth of 10.4 percent, reaching 316.5 million euros. As a result, the share price increased from 1.67 to 1.82 euros for the FKPK and from 1.96 to 2.15 euros for the FSKP, reflecting an improvement in the value of contributors' savings (charts 64 and 65).[29]

Chart 65. Structure of pension sector investments

Source: CBK.

The international exposure of the Kosovo Pension Savings Fund expanded in 2024, reaching 2.5 billion euros or 79.2 percent of the total portfolio, from 74.5 percent a year earlier (chart 65). Almost all of these investments were concentrated in mutual funds (99.9 percent). Increased participation in international markets brings benefits in terms of long-term returns, but at the same time increases the sensitivity of the pension sector to global market volatility and geopolitical risks.
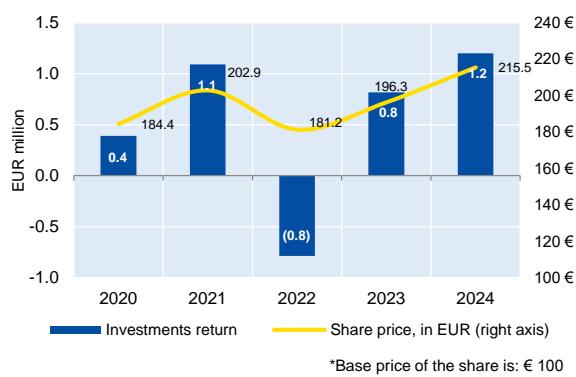
Domestically, the KPSF has significantly reduced its holdings of cash and deposits at the CBK (annual decreases of 45.2 and 92.8 percent, respectively), while an increase in investments in debt instruments of the Government of Kosovo, namely bonds and certificates of deposit (11.4 percent and 68.8 percent). This reorientation has been driven by market conditions, where the banking sector's increased demand for liquidity has created opportunities for the pension fund to increase its negotiating power for more favourable rates of return on these short-term instruments,

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[29] The sector is dominated by the Kosovo Pension Savings Fund (KPSF), which represents 99.7 percent of assets, while the Slovenian-Kosovar Pension Fund (SKPF) represents 0.3 percent.

while also improving the efficiency of the use of free funds within the domestic financial system.

The Slovenian Pension Savings Fund (SPSF) continued to have a portfolio composition dominated by international equities (96.7 percent), while domestic investments remain focused mainly on Kosovo Government securities. The annual growth rate of contributions to this fund slowed to 0.7 percent from 9.6 percent, and contributions remained at a low level of 0.67 million euros, with a marginal impact on financial sector developments in the country (chart 66).

Chart 66. Financial performance of Slovenian-Kosovo Pension Fund


*Base price of the share is: € 100

Source: CBK.
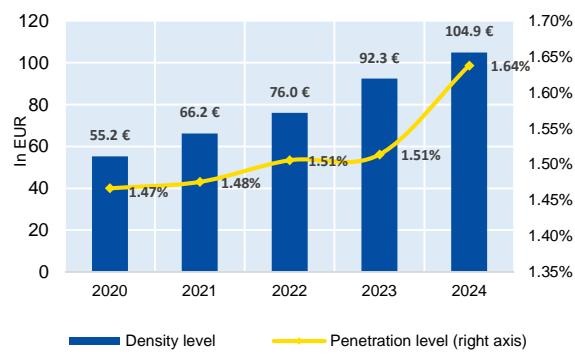
In 2025, uncertainties in the global economy remain significant, with a potential impact on the performance of the pension sector due to its high exposure to international markets. Trade tensions, fuelled by new tariff measures announced by the US administration in April 2025, have contributed to a decline in consumer confidence and a slowdown in economic activity in several developed economies. Although these effects are assessed to be mainly short-term, they may contribute to increased volatility in international financial markets and, consequently, to volatility in investment returns. In this context, it is important that pension funds continue to be proactive in adapting their investment strategy and risk management, in order to maintain long-term stability and

protect the interests of contributors. In the face of these developments, the structure of the KPSF investment portfolio, divided by age group (conservative, balanced and standard), plays an important protective role against short-term fluctuations in the markets. Older contributors are allocated to the conservative portfolio, which contains a higher percentage of low-risk investments, minimizing exposure to possible declines in the stock markets. This age-differentiated approach increases the effectiveness of risk management and maintains the long-term stability of pension funds in uncertain economic conditions.

6.2 Insurance Sector

Throughout 2024, the insurance sector continued to expand, supported mainly by the growth of *non-life segment premiums.*[30] This was reflected in the gradual increase in insurance penetration, with the ratio of gross written premiums to GDP increasing to 1.64 from 1.51 percent and insurance density – premiums per capita – to 104.9 euros from 92.3 euros a year earlier (chart 67).

Chart 67. Development indicators of insurance sector

Source: CBK.
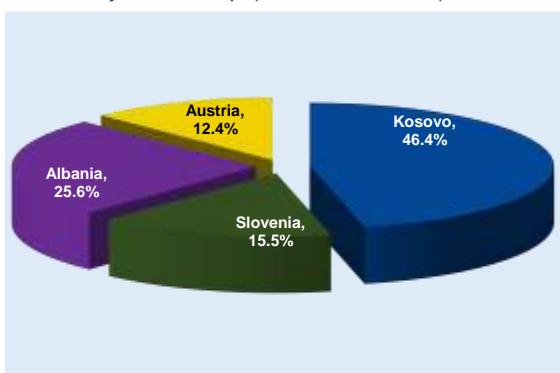
The market maintained a stable competitive structure with minor changes in concentration indicators[31], and a relatively balanced distribution of ownership between local and foreign capital (chart 68).

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[30] The asset structure is dominated by non-life insurance, with a share of 91.6 percent, while 'life' insurance represents 8.4 percent of assets.

[31] The Herfindahl index for gross written premiums marked a modest increase to 1000 points from 992, while that for assets to 957 points

from 954. The CR5 index showed a slight decrease for premiums to 59.1 percent from 59.6 percent, and an increase for assets to 56.1 percent from 55.5 percent.

Chart 68. Structure of assets of insurance sector, by ownership (December 2024)


Source: CBK.

The sector's assets recorded an annual growth of 10.0 percent (chart 69) and the asset structure remained mainly concentrated in low-risk and high-liquidity instruments, namely bank deposits and Kosovo Government securities.

This composition reflects the sector's traditional orientation towards providing stable returns to meet short-term liabilities. During 2024, bank deposits grew by 16.0 percent, driven by relatively higher interest rates.

**Chart 69. Assets of insurance sector**
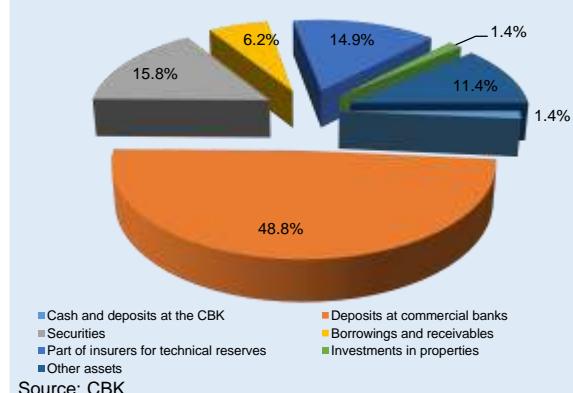
Source: CBK.

Investments in Kosovo Government securities also increased, albeit at a more moderate rate of 3.7 percent, while investments in property and other assets declined (chart 69).

Although the overall investment structure remains focused on low-risk, high-liquidity instruments, there are slight differences in the way assets are allocated between companies with local and foreign capital. Local companies show a stronger tendency towards holding

assets in bank deposits, compared to companies with foreign capital, which have a higher share of assets in securities.

**Chart 70. Assets structure to total (December 2024)**
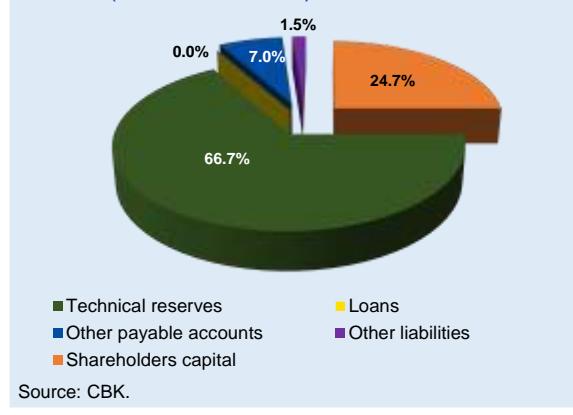
Source: CBK.

On the liabilities side, the structure continues to be dominated by technical provisions, which represent 66.7 percent of total liabilities and capital, followed by shareholders' equity.

Technical provisions recorded an annual increase of 10.9 percent, while shareholders' equity increased by 9.9 percent, both at more moderate rates compared to a year earlier (chart 70).

Despite the sector's low weight in the financial system and relatively limited direct exposure between financial sectors, the significant presence in public sector debt instruments (Government of Kosovo securities) and commercial banks implies a moderate sensitivity to developments in these sectors, creating a potential – albeit limited – channel of risk transmission.
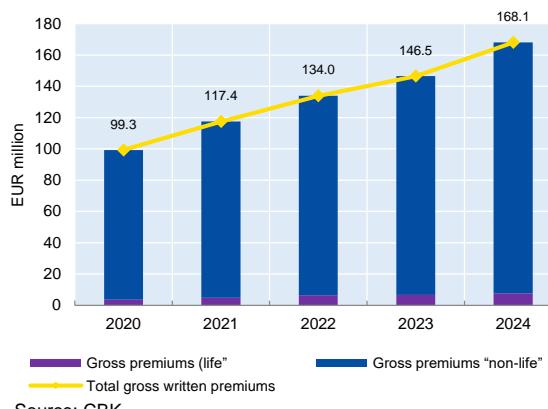
Chart 71. Liabilities and capital of insurance sector (December 2024)

Source: CBK.

The sector's gross written premiums recorded the highest annual growth in the last five years (chart 72)[32], driven mainly by the strong growth of 33.1 percent in the number of non-life insurance policies.

Chart 72. Gross collected premiums
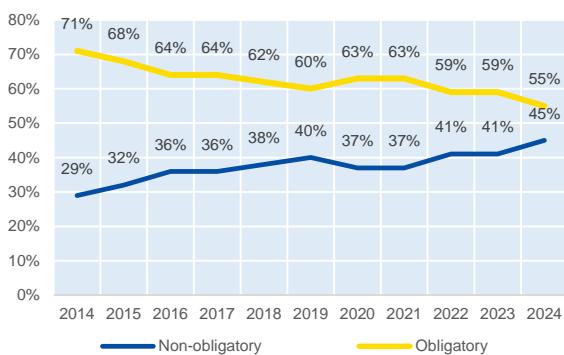
Source: CBK.

The non-life insurance segment continues to be dominated by mandatory motor liability insurance, which accounts for 55.5 percent of total gross premiums, however, their share is gradually softening due to the continued growth of voluntary insurance (chart 73).

Life insurance also recorded accelerated annual growth, but remained a smaller segment with 4.5 percent of total premiums.

Meanwhile, claims paid grew more slowly, by 5.3 percent, due to the high comparative base of the previous year that was affected by the payment of a high-value voluntary claim.

Chart 73. Obligatory and other voluntary insurances
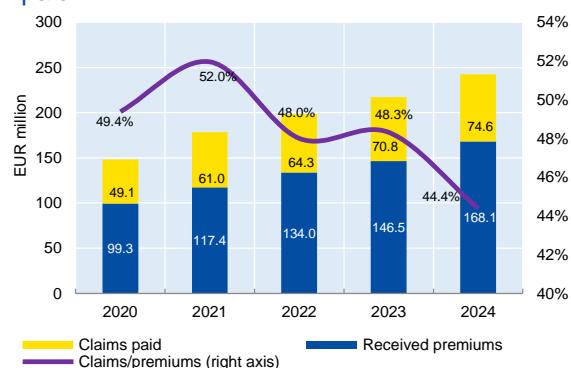

Source: CBK.

The structure of claims reflects the

composition of premiums, with the dominance of claims from mandatory MTPL insurance (48.3 percent) and a gradual increase in the participation of the "accident and health" category, in line with higher consumer awareness and economic development.

Chart 74. Received premiums and claims paid

Source: CBK.

The increase in premium income, combined with a more moderate growth rate of claims paid, led to a decrease in the claims ratio by 3.9 percentage points compared to the year (chart 74). The combined ratio was also characterized by a decrease, which is gradually decreasing over the years, suggesting an increase in the efficiency of the sector. These developments supported the improvement in the financial position, with a net profit of 14.7 million euros (from 11.0 million euros in 2023), an increase in capital and a decrease in accumulated losses to 34.7 million euros (from 43.6 million in 2020). Return on assets and equity improved to 4.03 percent and 17.38 percent, respectively. Capital utilization indicators – the ratio of net and gross written premiums to capital – remained at a similar level (PSHN at 1.87 and PShB at 2.26), within acceptable levels for small markets.[33]

The liquidity position improved slightly, with an increase in the ratios of cash to technical reserves and total liabilities, while capital adequacy indicators declined but at the sector level remained in line with the legal

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[32] Excluding 2021 where the increase was a result of the easing of COVID-19 measures and the increase in mandatory auto liability product fees.

[33] Compared to international practices, a PSHN below 3.0 is usually considered within acceptable risk limits for insurers operating in small, conservatively structured markets.

requirements for coverage of technical reserves, guarantee fund and solvency.

6.3. Microfinance and non-banking financial sector. Financial assistance sector.
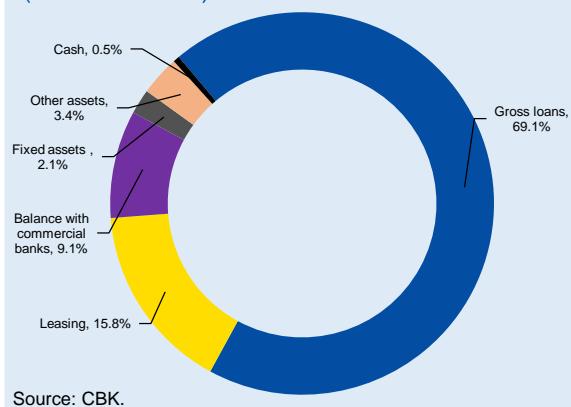
The microfinance and non-banking financial sector continued to expand its activity at a rapid pace.

Chart 75. Assets of the microfinance sector

Source: CBK.

Sector assets increased by 20.5 percent (chart 75)[34], supported mainly by the high growth in lending activity, whereas leasing activity marked a slowdown in growth trend (chart 76).

Chart 76. Assets structure of microfinance sector (December 2024)

Source: CBK.
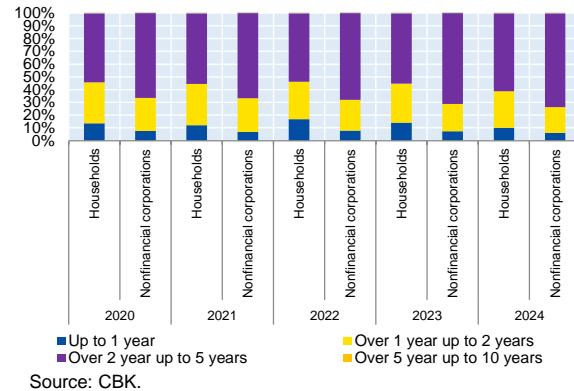
This sector continues to rely mainly on borrowing from external sources with a share of over 60 percent of financing sources. This makes the sector particularly exposed to fluctuations in global interest rates and tightening financial conditions. While

financing through own capital and domestic borrowing – mainly from the banking sector – remains at lower levels despite a slight increase during the reporting period.

Chart 77. Loans by economic sectors, by maturity

Source: CBK.

In terms of ownership, 73.9 percent of assets remain in foreign ownership, while in terms of concentration, a slight improvement has been noted, with a decrease in the Herfindahl index and a decrease in the share of assets of the largest institutions to 53.3 percent.

Chart 78. Structure of loans to nonfinancial corporations, by economic sectors (December 2024)
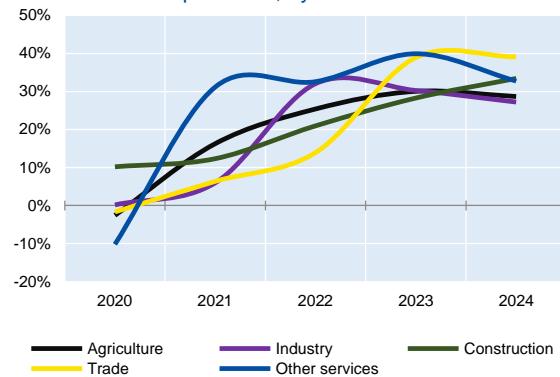
Source: CBK.

Lending to the economy from the microfinance and non-banking financial sector remained at a high rate of 24.6 percent, which was slightly lower than the previous year.

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[34] As of November 2023, two financial institutions have been reclassified from financial assistance to other financial intermediaries (MFIs and IFIBs). This reclassification has had the effect of increasing

the value of assets in the microfinance and non-bank financial sector, specifically in the balance sheet item with other banks, and affecting the income statement, a significant increase in income from services.

Chart 79. Microfinance sector growth rate of loans to nonfinancial corporations, by economic sectors
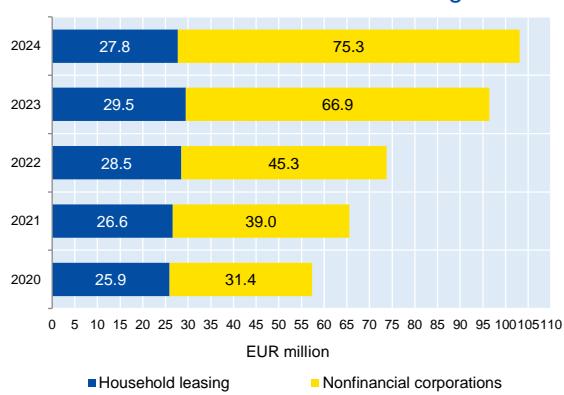
Source: CBK.

The growth was supported by both lending to households – an annual growth of 20.1 percent, and a share that holds the dominant weight in the portfolio with 58.9 percent, and by lending to non-financial corporations – an annual growth of 28.6 percent. The growth was distributed across all economic sectors with the trade sector having the highest growth during this period (chart 79). The agriculture sector continues to have a high lending share which is also supported by the loan guarantee scheme from the KCGF (chart 79).
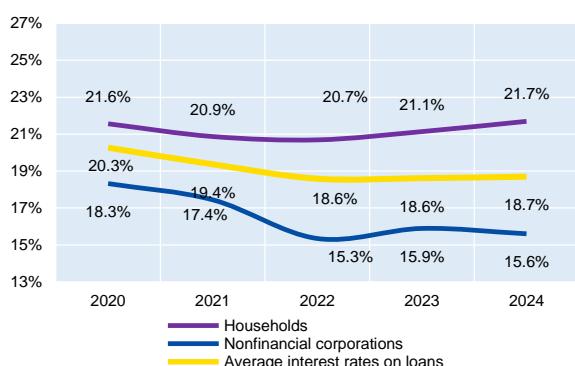
Leasing maintained a significant share in the asset structure, but the growth rate slowed significantly to 6.9 percent from 30.8 percent in the previous year. The slowdown was particularly marked for non-financial corporations, which dominate the share of total leasing (chart 80).

Chart 80. Microfinance sector leasing

Source: CBK.

Chart 81. Average interest rate on microfinance sector loans
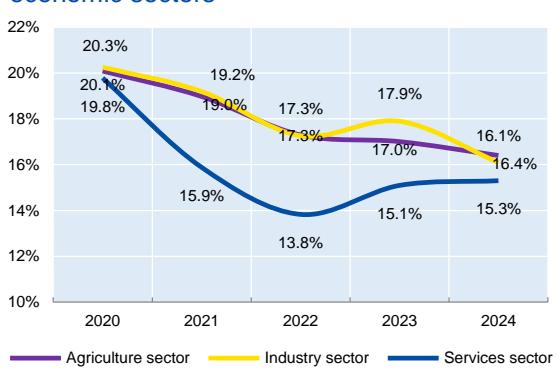

Source: CBK.

Financing conditions in the microfinance and non-banking financial sectors remained affected by developments in international markets, with relatively high interest rates. The average interest rate on loans to households increased further during 2024 (chart 81).

Meanwhile, interest rates on loans to non-financial corporations, especially in the agricultural and industrial sectors, declined (chart 82).

The microfinance and non-banking sectors recorded a doubling of the annual rate of net profit growth to 12.5 percent, as a result of increased income from the expansion of lending activity and an increase in the lending rate.
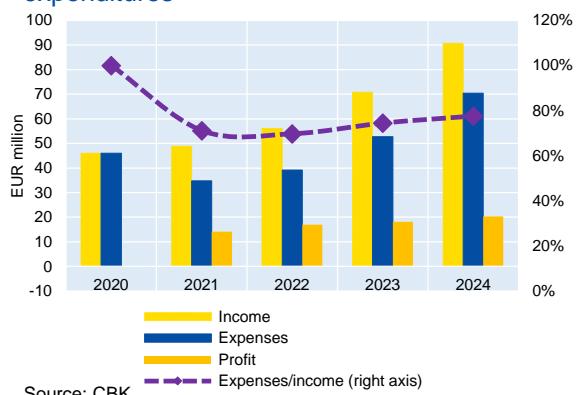
Chart 82. Average interest rate on loans, by economic sectors

Source: CBK.
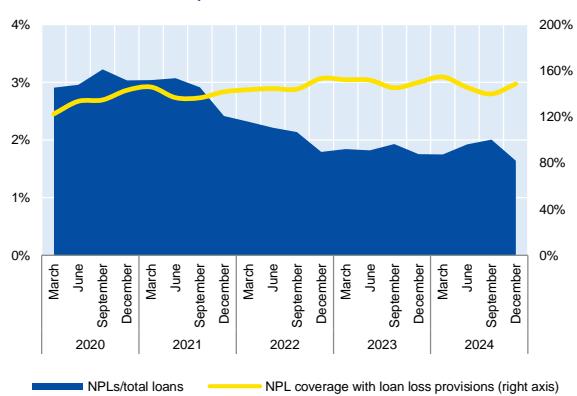
However, the high increase in interest and provision expenses reflects the continued impact of unfavourable financing conditions in international markets and potential expectations for increased credit risk (chart 83).

Chart 83. Microfinance sector income and expenditures

Source: CBK.

The doubling of provisions, while helping to strengthen sustainability, signals a higher perception of risk, despite the slight decline in the level of non-performing loans to 1.6 percent. However, the coverage of NPLs with provisions remains at a high level despite a slight downward trend, providing a protective measure in circumstances of increased uncertainties (chart 84).

Chart 84. Credit portfolio indicators

Source: CBK.

As a result of the higher relative growth of expenses compared to revenues, the expense-to-income ratio has deteriorated. Consequently, key profitability indicators such as Return on Average Assets (ROA) and Return on Average Capital (ROE) have decreased to 3.6 and 13.3 percent, respectively.

The financial auxiliaries sector, consisting of exchange bureaus and money transfer agencies (MTA), remains with limited impact on the financial system, representing only 0.1 percent of total assets at the end of 2024. Although the number of institutions is high, the financial activity of this sector is modest and relies mainly on equity with a share of more than 65 percent in the total balance sheet of the sector. In terms of financial performance, the sector marked a halving of net profit compared to the previous year, due to the faster growth of expenses compared to revenues. The increase in costs, especially in salaries and operating expenses, negatively affected financial performance, signalling pressures on the sustainability of the sector, especially considering the digitalization of payment and transfer services and the decline in the cost of services provided by these institutions.

7. Financial infrastructure in Kosovo

7.1. Payment system

During 2024, the interbank payment system in Kosovo continued to operate with a high level of stability, security and efficiency, supporting the smooth functioning of the financial sector and contributing to systemic stability. The

increase in activity in this system – with an annual increase of 9.5 percent in the number of transactions and 16.3 percent in value, reaching 25.4 billion euros – testifies to the improvement of the payment infrastructure and the deepening of financial inclusion (table 6). In addition, the number of bank accounts[35] increased by 4.2 percent and reached 2.6 million.

Table 6. Share of payment instruments in total IPS transactions, in percentage

| Description	Number of total transactions		Value of total transactions	
	2023	2024	2023	2024
Regular	14.8%	17.3%	12.6%	13.1%
Prioritized	3.3%	3.3%	44.2%	43.4%
Regular - massive (payments from taxes, fees, customs, etc)	31.4%	30.5%	6.0%	5.6%
Priorities - massive (salaries and pensions from the government)	46.5%	44.7%	8.7%	8.6%
Giro payments	3.8%	4.1%	7.8%	7.5%
Securities	0.0%	0.0%	2.7%	2.9%
Direct debiting	0.0%	0.0%	0.0%	0.0%
Bank-Bank	0.0%	0.0%	18.0%	18.9%
Returned	0.2%	0.1%	0.1%	0.0%
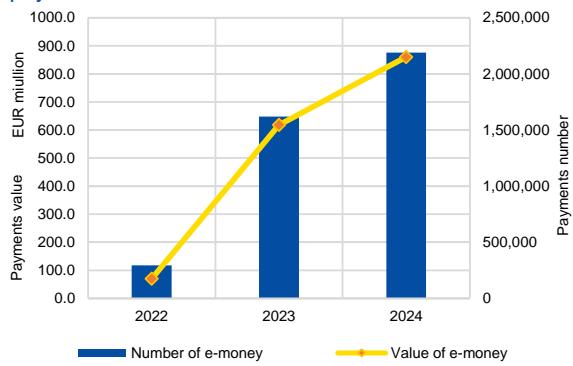
Source: CBK.

The digitalization of payments has continued its rapid growth pace during 2024, both in the banking sector and through non-banking financial institutions (NBFIs), reflecting significant progress in financial inclusion and payment system efficiency, but at the same time increasing the importance of monitoring cyber and operational risks.

The use of digital instruments intensified further, reflected in the 21.0 percent annual growth in e-banking accounts, which reached over 1 million (table 7). The total number of cards also increased, with credit cards in particular growing by 8.2 percent after a decline a year earlier. Point-of-sale (POS) payments increased by 39.4 percent in number and 31.8 percent in value, while ATM transactions also recorded moderate growth. This indicates a strong shift towards digital and automated channels for everyday financial

transactions, supporting the further formalization of the economy.

Chart 85. Number and value of e-money payments
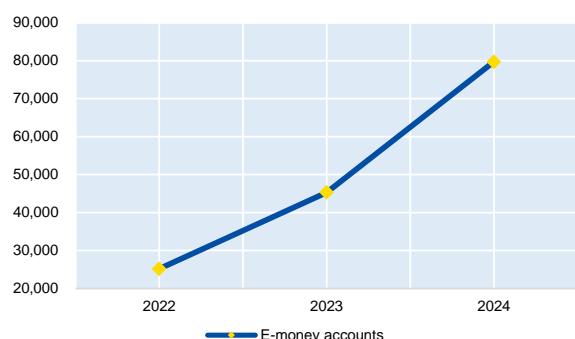
Source: CBK.

The growth of digitalization has also been contributed to by the NBFIs licensed to issue electronic money. At the end of 2024, these institutions reported over 79 thousand active electronic money accounts, which corresponds to an annual growth of 75.9 percent (chart 86). Together, these institutions have carried out a volume of 2.2 million electronic money

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[35] The total number of bank accounts includes: the number of current, savings and other accounts in the bank.

payments, with a value of around 860 million euros (chart 85).

Chart 86. Number of e-money accounts

Source: CBK.

Developments in this segment not only increase inclusion and efficiency for users, but also imply the need for increased oversight of new risks, especially in the field of cybersecurity and data protection. In this context, increased investments in cybersecurity as well as strengthening capacities for operational risk management, appear as necessary conditions to ensure that digitalization translates into sustainable benefits for the financial system.

Table 7. Banking sector network
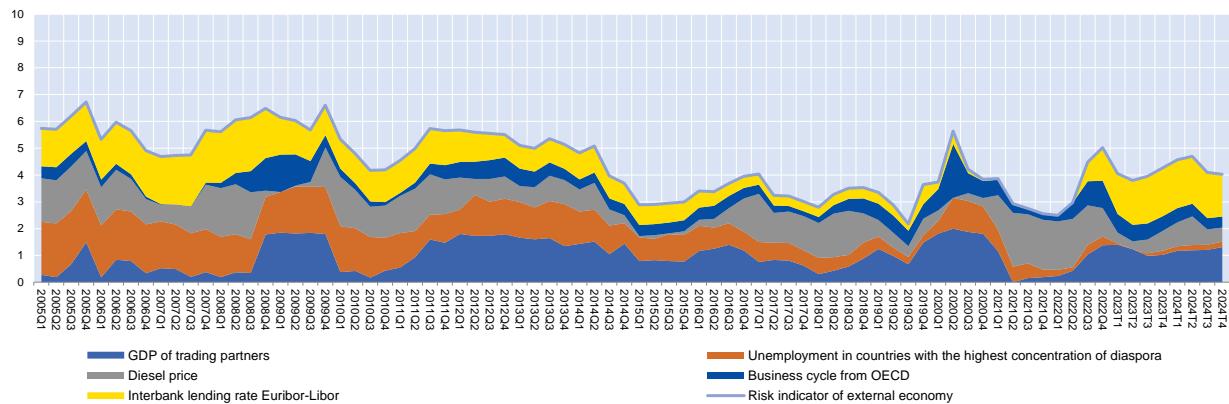
Description	2020	2021	2022	2023	2024
Number of bank branches	50	43	49	50	56
Number of bank sub-branches	149	145	141	152	160
ATM number	513	516	534	583	635
POS number	13,421	13,836	14,769	17,187	20,828
Number of E-banking accounts	411,346	537,733	688,891	851,645	1,030,357

Source: CBK.

8. Statistical Annex
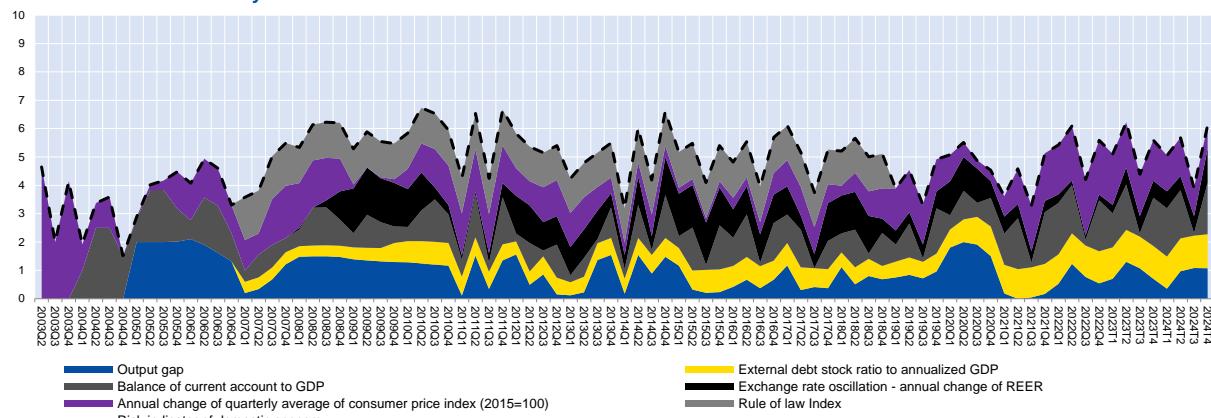
Annex 1. Financial Stability Map - Dynamics of risk change of indicators and contribution to risk by respective components

Figura 1. External economy

- GDP of trading partners
- Unemployment in countries with the highest concentration of diaspora
- Diesel price
- Business cycle from OECD
- Interbank lending rate Euribor-Libor
- Risk indicator of external economy
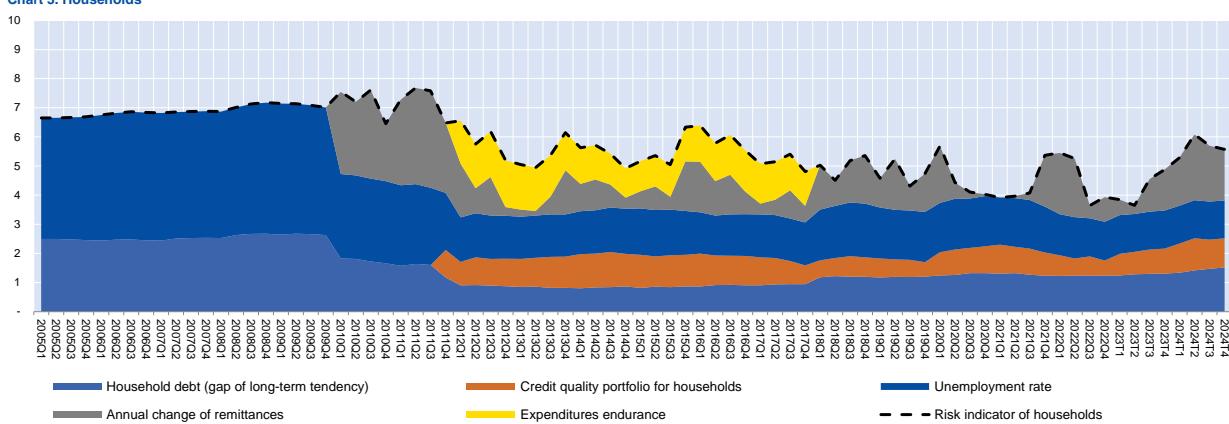
Source: CBK.

Chart 2. Domestic economy

- Output gap
- External debt stock ratio to annualized GDP
- Balance of current account to GDP
- Exchange rate oscillation - annual change of REER
- Annual change of quarterly average of consumer price index (2015=100)
- Rule of law Index
- Risk indicator of domestic economy

Source: CBK.

Chart 3. Households

- Household debt (gap of long-term tendency)
- Credit quality portfolio for households
- Unemployment rate
- Annual change of remittances
- Expenditures endurance
- Risk indicator of households

Source: CBK.

Chart 4. Enterprises

Household debt (gap of long-term tendency)
Credit quality portfolio for business
Industrial turnover index
Added value on GDP by trade sector
Enterprises trend
Business confidence
Net sales index of services sector
Risk indicator of enterprises

Source: CBK.

Chart 5. Government

The size of public debt
Debt cost
Sovereign premium risk
Budget balance to GDP ratio
Tax income to GDP ratio
Risk indicator of the Government

Source: CBK.

Chart 6. Structure of the Banking Sector

Assets concentration
Concentration of loans to enterprises
Diversification of credit portfolio
Diversification of credit portfolio
Negative deviation to average rate of capitalization of the banking sector
Risk indicator of the banking sector

Source: CBK.

Chart 7. Capitalization and profitability

Legend:
- Capitalization rate (the difference from the regulative minimum)
- Shareholders capital to assets
- NPL rate
- Net interest income to assets
- Before tax net income to assets
- Large exposures
- Risk indicator of capitalization and profitability

Source: CBK.

Chart 8. Liquidity and financing

Legend:
- Loans to deposits ratio
- Household deposits (annual change)
- Non-resident liabilities to total liabilities
- Liquidity ratio
- Liquidity gap
- Liquidity and financing risk indicator

Source: CBK.

Table 1. Financial sustainability indicators, in percentage

Banking Sector	Core set	December 2020	December 2021	December 2022	December 2023	December 2024
Capital adequacy	Regulatory capital ti risk-weighted assets	16.5	16.1	15.5	16.5	17.4
	Regulatory tier 1 capital to risk-weighted assets	14.7	14.4	13.5	14.6	15.5
	Net nonperforming loans to capital	4.6	3.4	3.4	3.2	3.3
Assets quality	Nonperforming loans to total loans	2.5	2.1	1.9	1.9	1.9
Sectoral distribution of loans to total loans	Other financial corporations	0.2	0.3	0.3	0.4	0.8
	Public nonfinancial corporations	0.00	0.00	0.00	0.00	0.00
	Other nonfinancial corporations	63.3	62.3	62.1	60.2	58.8
	Households	36.4	37.4	37.6	39.2	40.2
	NPISH	0.03	0.02	0.01	0.02	0.04
	Nonresidents	0.1	0.0	0.1	0.2	0.1
	Total	100.0	100.0	100.0	100.0	100.0
Profitability	Return on assets (ROA)	1.7	2.1	2.6	2.5	2.6
	Return on equity (ROE)	14.0	17.3	20.7	19.8	19.7
	Interest margin to gross income	79.2	76.5	76.4	79.4	80.6
	Non-interest expenses to gross income	46.1	45.4	43.8	44.0	45.7
Liquidity	Liquid assets (core) to total assets	30.1	28.8	26.8	25.1	23.8
	Liquid assets (broad) to total assets	23.2	23.7	21.5	20.0	19.7
	Liquid assets (core) to short-term liabilities	31.1	30.6	29.3	27.6	27.0
	Liquid assets (broad) to short-term liabilities	40.4	37.2	36.5	34.7	32.7
Sensitivity to market risk	Net opened position in foreign currency to capital	3.5	1.5	1.8	0.6	0.4
	Encourage set					
	Capital to assets	11.7	11.1	9.4	10.4	11.1
	Credit exposure to capital	89.5	89.8	78.2	61.7	56.4
	Personnel expenses to non-interest expenses	43.3	43.2	44.4	44.3	43.0
	Loans to deposits interest rate spread	4.7	4.5	3.9	3.2	2.5
	Client deposits to total (non-interbank) loans	133.9	130.9	127.9	124.8	119.0
	Foreign-currency-denominated liabilities to total liabilities	4.2	4.3	3.0	3.3	3.4

Data from January 2022 are in line with the new methodology recommended for FSIs (FSI Guidelines 2019).