

Financial Stability

BQK

BAN, CIENDRORE E REPUBLIKES SE KOSOVES
CENTRALNA BANKA REPUBLIKE KOSOVA
CENTRAL BANK OF THE REPUBLIC OF KOSOVO



How is Financial Stability defined?

Financial stability can be defined as a condition in which ***the components of the financial system (financial markets, financial intermediaries and financial infrastructure)*** function with the capability to withstand shocks without causing financial imbalances, which further adversely impacts the entire real economy.

<https://www.ecb.europa.eu/pub/financial-stability/html/index.en.html>

Components of the financial system:

Financial intermediaries: Banks, Insurance Companies, Microfinance Institutions, Non-Banking Financial Institutions, Exchange offices, etc.

Financial markets: Money market, Capital market

Financial infrastructure: Payment system¹

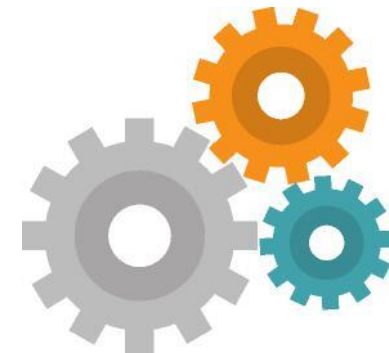


The importance of financial

Financial stability is of particular importance, both economically and socially, as a prerequisite for healthy economic development and the well-being of all because the majority of transactions in the country's economy are carried out through the financial system.

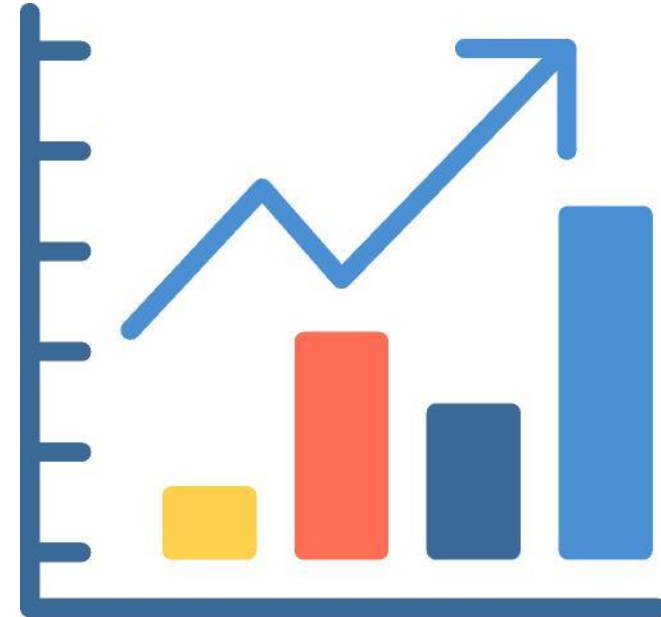
An unstable financial system can cause a financial crisis with adverse consequences spread throughout the economy.

Therefore, it is essential that a financial system is sound and stable, that supports the efficient distribution of resources through its intermediation functions and that ensures the absorption capacities against possible risks that threaten its stability. (<https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/financial-stability>)



When a financial system is considered stable?

The financial system can be considered stable when it performs its functions of financial intermediation and risk management, helping the public and economic entities in carrying out financial transactions related to saving, investing, borrowing, making payments and managing risks from adverse and unpredictable events (such as the global financial crisis in 2008 and currently the crisis with the COVID 19 pandemic).



What is the role of CBK in maintaining Financial Stability?

The Central Bank has a fundamental role in promoting and maintaining financial stability in Kosovo, as a regulatory and supervisory authority of the financial sector (commercial banks, microfinance institutions, non-banking financial institutions, insurance companies, pension funds, etc.), as well as promoting a safe, stable and efficient payment system.



How does the CBK monitor the implementation of policies in maintaining Financial Stability

CBK sets the general regulations and policies of the operation of the financial system and then through them monitors their application in practice.

CBK evaluates and monitors whether the general policies of the financial system are in harmony with legal acts and provides a stable financial system through:

- *deposit insurance,*
- *market operations,*
- *emergency liquidity;*
- *regulation, licensing, registration and supervision of financial institutions;*
- *supervision of safe, stable and efficient payment systems;*
- *ensuring the supply of banknotes and coins in Kosovo.*



In order to maintain financial stability, CBK has approved the Macroprudential Policy <https://bqk-kos.org/repository/docs/2015/Politika%20per%20Makroprudence%2010%2008%202016.pdf> for the continuous identification, monitoring and analysis of systemic risk (*the risk of disruptions in the provision of financial services, which have adverse consequences for the economy in general*).

The identification of potential risks is done through the continuous analysis of economic and financial indicators as well as macroeconomic forecasts.



The main risks which can destabilize a financial system and which are regularly monitored by the Central Bank are:

- *credit risk,*
- *liquidity risk,*
- *solvency risk,*
- *market risk,*
- *operational risk.*



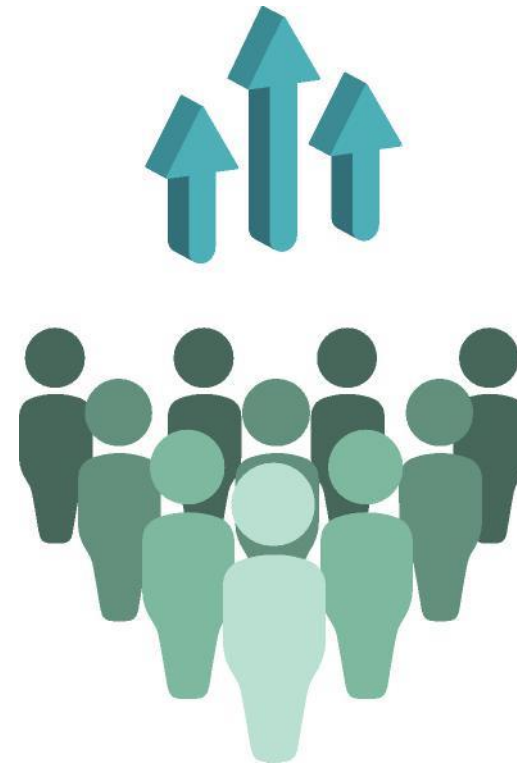
CBK publications

The Central Bank of the Republic of Kosovo (CBK) constantly analyzes and publishes periodic and non-periodic reports on economic developments in the country, with special emphasis on developments in the financial sector. <https://bqk-kos.org/publikimet/>. The publication of this information is very important for the public to understand the general situation of the financial system in general and its sectors in particular.



Who benefits from financial stability?

Everyone benefits from financial stability (citizens, businesses and the economy as a whole), because in conditions of financial stability all economic actors interact without obstacles, with easy access to financial services and products (making various payments and transactions, credit opportunities, safe deposits, investment in business, etc.), which results in the continuous increase of confidence in the financial system and consequently in the economic growth of the country.





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