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ANNUAL REPORT

2003 Annual Report

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BANKING AND PAYMENTS AUTHORITY OF KOSOVO
AUTORITETI BANKAR DHE I PAGESAVE TË KOSOVËS
BANKARSKI I PLATNI AUTORITET KOSOVA

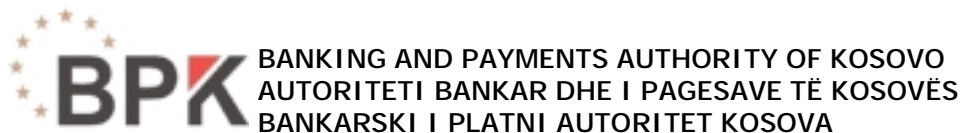
ANNUAL REPORT 2003

Prishtina, 2004

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March, 2004

Honorable Special Representative of the Secretary General of the United Nations

Over the past four years, Kosovo has achieved tremendous progress that many emerging countries might envy whereas it had to face a double challenge, on the one hand carrying out the transition toward a modern market driven economy and on the other hand overcoming the disruptive effects of the conflict.

Such performance has been made possible by the international mobilization, which has brought peace and stability, and technical and financial assistance. The efforts accomplished by the people of Kosovo, especially the dynamism of the younger generation, have been a critical factor in this success.

There is still a long way to go to overcome the obstacles toward achieving a modern and efficient economy providing employment and prosperity. As far as the Financial Sector is concerned the main obstacles are not financial or technical, but mainly the result of the current political status of Kosovo and the weight of former management habits. The current status of Kosovo continues to hamper economic and financial development due to the uncertainties that are restricting foreign investment and the difficulties to integrate Kosovo into international networks and forums. For example, as a result of not being part of the international payments and transfers systems or the Green Card insurance system, Kosovo is suffering from a damaging marginalization.

Regardless of the drawbacks during this transition period, the Financial Sector, which was established on a sound basis with a full set of rules in accordance with international best practices and standards and maintained by close supervision, has continued to gather momentum. To a certain extent, financial institutions have been protected by the political situation from serious international competition, which they have taken advantage of to strengthen their position during the startup phase. Time has now come where building new strategies, developing new products and controlling administrative expenses will require more effective management skills, especially if normalization of the current situation is successful in bringing in strong international competitors.

Financial institutions have already taken steps to face new challenges. Commercial banks are extending their foreign correspondent networks and developing partnerships for training their staffs. Some financial institutions are even offering significant stakes in their capital to foreign institutions and investors. This trend should be encouraged to continue.

Whereas the Kosovo economy has been run mainly on a cash basis, new modern means of payments have been emerging for some months following the introduction of ATM's. With IMF technical assistance, the BPK is actively supporting a reduction in the use of cash in Kosovo. The reduction in the use of cash along with reliable accounting and auditing standards are critical conditions for the development of sound financial activities and an effective deterrent against money laundering.

The development of the insurance industry should also be underlined. This is demonstrated by the effective cooperation developed by local players together with those coming from both Albania and Serbia, which has led to set a common IT platform and joint training sessions. On the other hand,

new projects in life insurance and re-insurance activities illustrate efforts undertaken to put an end to the TPL car insurance monoproduct era where some examples of excessive and unacceptable competition have been observed.

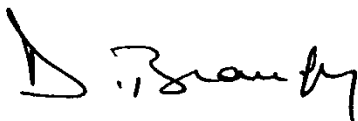
During this period, the BPK has been striving to adjust the regulations to new developments, enforce them with the appropriate rigor and initiate new moves towards modernization. The BPK has contributed to the expansion of cross-border freedom of movement by signing MOU's with insurance organizations and supervisors in several of the neighboring countries. The BPK has as well been meeting the requests of financial institutions that were looking for a skilled, neutral and reliable operator to run general interest services such as inter-bank clearings and credit information reporting. A special step forward has been accomplished in the Research and Statistics area in order to provide the decisions makers in Kosovo with data and surveys, the lack of which has been so desperately mentioned up to now. I would also like to mention that BPK has been maintaining fiduciary money in order to supply Kosovo with euro notes and coins in adequate quantity and quality, which has been a recurrent achievement considering that the BPK has no currency issuing power.

While performing duties usually run by Central Banks, and supervision mission as a Financial Services Authority in the full meaning of the word, the BPK has continued to adapt its internal organization and train its staff. After department manager responsibilities were handed over to local executives in June 2003, three senior management positions have been set at the beginning of 2004. The local incumbents for these positions will be trained to take over from the Internationals at the appropriate time and design the organization according the best principles of corporate governance.

These achievements are bringing a legitimate pride to the staff of the BPK and the international managers and experts who have participated. The special dedication and eagerness of all individuals to make things happen should be stressed as well as the wise advice and the technical assistance provided by the IMF, EU, USAID and the World Bank, without which the BPK would not have reached this level of capacity. The BPK has also benefited from the support of UNMIK and the PISG.

This stage of development and achievement was not a goal, just an intermediary step. The BPK will now demonstrate that it is a reliable and helpful institution able to take its share of the challenge, along with UNMIK and the PISG, towards developing a strong and efficient financial sector participating to build a modern market driven economy. Capacity building, both technical and managerial capacity, and effective independence are the critical conditions for the internal and international recognition of the BPK. These qualities are never definitively acquired; the BPK will have to demonstrate that it is able to take up this daily challenge.

I am pleased to submit to you the 2003 Annual Report of the BPK.



Donat Branger
Managing Director

Governing Board of the BPK

At 31 December 2003 the Governing Board of the Banking and Payments Authority of Kosovo comprised the following members:

Mr. Ajri Begu, Chairman of the Governing Board
Mr. Donat Branger, Managing Director of the BPK
Mr. David Weatherman, Deputy Managing Director for Financial Sector Supervision
Mr. Benoit Waelkens, Deputy Managing Director for Payments System
Mr. Nikolaus Graf Lambsdorff, DSRSG, EU – Pillar IV
Mr. Gazmend Luboteni, Professor, Faculty of Economics - University of Prishtina
Mr. Petraq Milo, Acting Head of Fiscal Affairs Office – EU pillar IV, UNMIK

Audit Committee of the Governing Board of the BPK:

Mr. Gazmend Luboteni, Professor, Faculty of Economics - University of Prishtina
Mr. Petraq Milo, Acting Head of Fiscal Affairs Office - EU pillar IV, UNMIK

Executive Committee of the BPK

Mr. Donat Branger, Managing Director of the BPK

Mr. David Weatherman, Deputy Managing Director for Financial Sector Supervision
Mr. Hashim Rexhepi, Chief Supervision Officer

Mr. Benoit Waelkens, Deputy Managing Director for Payments System
Mr. Gani Gërguri, Chief Operation Officer

Mr. Agron Dida, Inspector General

Executive Summary

The world economy continued experiencing slowdown for the third consecutive year, but the Western Balkans achieved another year of good economic performance in 2003, with expected GDP growth of around 4 percent (slightly below the 2002 growth), and inflation below 5 percent.

Estimated at 4.7 percent, the GDP growth of Kosovo economy in 2003 is one of the highest in the region and in Europe, but in spite of this the per capita GDP (estimated at around euro 700) is significantly below the levels recorded in other post-conflict countries in the region. At the same time, the unemployment rate (estimated at 50 percent) is the highest in the region. Foreign assistance (the main boost of the post-conflict economic recovery of Kosovo) declined in 2003, whereas inflow from Kosovo's Diaspora remained relatively stable. The balance of payments is quite vulnerable. Kosovo economy can cover less than one sixth of its imports by exports, and trade deficit accounts for more than 84 percent of the GDP. Therefore, it is urgent for Kosovo to prepare a comprehensive development strategy that will transform its aid-dependent economy to one of sustainable growth.

Money in circulation decreased around 51 percent during 2003 (according to cash import and export through banking sector only). One of the explanations for such a decline can be found in the increase in money deposits and negative balance in the balance of payments. Kosovo's fiscal position in 2003 remained sustainable with the overall balance in surplus for the third consecutive year. The surplus for 2003 is estimated to be around euro 75 million¹.

The financial intermediation in Kosovo, especially the banking sector, continued its rapid development. The number of commercial banks remained the same as in previous year, but the total number of bank branches increased further to 148 in 2003 and new banking products and services were also launched. Overall, the banking system is well capitalized, and the BPK increased minimum capital requirements for banks further in 2003, to bring capital standards more in line with EU directives. All banks successfully fulfilled the requirement.

The annual amount of inter-bank operations almost doubled in 2003, and the ratio of bank operations to assets increased eight times, from 0.33 to 2.67. Deposits experienced another upward shift in 2003 with an increase of 20.85 percent compared to last year.² This can be explained as being due to improvement in economic performance and therefore increase on saving capabilities of non-financial corporations, but also, as increase in confidentiality in banking sector in Kosovo.

Year 2003 is characterized by a substantial increase in bank lending to the private sector, equal to 40.1 percent of total assets of commercial banks in Kosovo. However, loans are mainly of short duration (up to one year) and at relatively high interest rates, and this is due to the fact that most of the deposits are sight deposits and time deposits with than one (1) year maturity, which do not support long-term investment loans.

The year 2003 was marked with the appointments of Kosovars at key managerial positions, a first step in the Kosovarisation process, were implemented on 1st of March 2003. In order to progress the Kosovarisation process further, and to ensure application of "best practices" in the governance of the BPK as a central bank, a new organization chart was implemented on 1 January 2004.

Apart from its activity on adequate currency supply and maintenance, BPK has continued with its effort to develop bank money in Kosovo. Four commercial banks including BPK itself have

¹ This figure is not final and is subject to change after the final report by MFE.

² These figures are presented as outstanding at the end of period (year), so they do not present complete information about changes in deposit accounts within respective years.

upgraded their participation at the ICS (Interbank Clearing System) through implementation of the automated link between their servers (accounting systems) and the ICS server. Further to the IMF support BPK has recently started with implementing a new project in order to develop new means of payments. Last commercial operations have been performed by BPK in the first quarter 2003, and from that time BPK act as a banker to the government and to some public companies offering public utilities.

In addition, BPK has taken a lead to set up a Banking Training Institute to meet the commercial banks needs. Currently, commercial banks have requested the BPK to establish and operate the Kosovo Credit Information System, which is in process. BPK has been member of the Kosovo Board on Standards for Financial Reporting (KBSFR), and is participating to enhance accounting standards in the financial sector.

Year 2003 was particularly characterized with the appointments of three IMF missions as a technical assistance at the BPK Research and Statistics Department. There are three main objectives of these missions: upgrade of the research function within the Research and Statistics Department (RSD), further improvement of monetary and financial statistics (six months peripatetic mission), and compilation of the balance of payments statistics (two years multi sectorial mission at the SOK and BPK).

The total amount of revenues that go to the Kosovo Consolidated Budget, generated from enforcement actions in the financial sector amounted at 174,250 EUR. During 2003, MOU' s were signed with Albania, FYROM and Croatia.

BPK training policy has been approved together with new Employment Policy and Code of Ethics.

I. International Economic Environment

1. World economy

The world economy in 2003 was characterized by uneven growth of the main economies. Slowdown that began in 2001 continued in 2002, and it was evident in first quarter of 2003. The weakness of economic recovery stemmed primarily from uncertainties surrounding geopolitical situation, the weak corporate sector, declining equity markets, and soaring oil prices.

Second quarter of 2003 was a period of recovery with stronger-than-expected expansion in USA, Japan and the emerging economies of Asia. The growth in the OECD countries, full year estimates by OECD¹, put year on year change in GDP in the OECD countries at 2.0 percent in 2003, USA (3.1%)² showing above average growth rates, while EU (0.7 %) and Japan (0.1%)³ falling significantly below the average. China recorded a remarkable economic growth, showing 8.8 percent change in GDP in 2003. This growth is considered to be consistent with increase in its exports. Although the first two quarters in emerging Asia were period of slump induced by SARS, a significant recovery was evident in the subsequent two quarters. GDP in developing and transition economies in 2003 showed an increase of 5.0 percent and 4.9 percent respectively. Latin America was characterized by improved macroeconomic policies, better investor sentiment, and stronger growth in 2003 (an estimate of 2.0 percent). Sub-Saharan Africa experienced slightly less than 5 percent GDP growth in 2003.

Corrections on the equity markets had their positive effect globally on business confidence, investment and growth, especially in the third and fourth quarters of 2003.

The US economic growth has been primarily a result of household spending and increased capital spending driven by rising optimism. High and increasing current account deficit throughout 2003 implied US dollar depreciation. This resulted in improvement in net exports in the third quarter, although current account deficit remained high. An increase in trade deficit, especially with China, resulted in application of more protectionist measures by USA. Introduction of these protectionist measures implied economic disputes mainly with the EU.

American economy expanded in the second half of 2003 mainly due to increase in foreign debt, a big portion of which has continued to be financed by Bank of Japan.

It might be expected that recent tax cuts approved by Congress have had a huge impact in rebounding the US economy. Furthermore, budget deficit is of great concern as it showed an upward trend over the entire year. This is also the case with leading EU economies (Germany, France and Italy).

After a long period of low inflation and strong dollar policy, the inflationary pressures reappeared in the US economy.

The CPI recorded 1.7 percent⁴ in 2003. The EU maintained its 2 percent average inflation target while in Japan the continuing deflation of the economy was of great concern. China's CPI was 0.9 percent in 2003. Developing countries had a CPI of 5.9 percent and transition economies of 9.7 percent.

Overall global unemployment rose in 2003 and reached 185.9 million, or about 6.2 percent of total labor force. It remained at record levels for men and women and

¹Source: OECD Main Economic Indicators, February 2004

²Source: Bureau of Economic Analysis, Department of Commerce, revised February 27, 2004.

³Source: Bank of Japan, Government Economic Outlook, Decision by the Cabinet on January 19, 2004 – percent change at current prices.

escalated more sharply among young people despite a pickup in economic growth after a two-year slump according to the International Labor Office (ILO) annual jobs report. ILO foresees that economic recovery in 2003 that appeared to stop deterioration of the global employment situation, if sustained, could continue to do so through 2004 also.

International trade values have shown a decreasing rate, from 3.2% in 2002 to 2.9% in 2003. This might have been a result of increasing uncertainty in the world economy. The U.S. trade deficit widened nearly 11 percent in December to leave the 2003 trade gap at a record \$489.4 billion, 17 percent wider than in 2002.

2. European Union

Contrary to the assumption that the euro area, as a large and relatively closed economy, would be resilient to external shocks, strong growth could not be maintained when the external environment was deteriorating.

In the euro-zone, growth momentum has been softening since late 2002 and in the first half of 2003 output was virtually stagnant in annual terms. Private and public consumption contributed positively to growth, while investment was still on the decline, although its pace appears to be diminishing. A negative contribution to growth can be attributed to net exports.

After three years of low growth in the euro area, with real GDP growth of 1.7 percent in 2001, 0.9 percent in 2002, and an estimated 0.5 percent (after revision of first estimate of 0.7 percent), a fourth year of weak growth is expected.

Relatively strong UK results contrast with a disappointing 0.5 percent year-on-year expansion of the euro-zone. The slowdown in exports and investment in second quarter 2003 was the main drag on growth, but household consumption also lost momentum.

Policy measures have remained very accommodative. The fiscal stance remains highly expansionary in euro-zone, where most countries were expected to miss their 2003 budget targets by sizeable margins due to lower-than-expected growth.

For the second year in a row France and Germany have broken the 3 percent budget deficit ceiling set by the Maastricht Criteria and, according to the latest European Commission estimates, they are very likely to violate the criteria in 2004 also.

Contrary to the year 2002, when continuous depreciation of the euro was observed, during 2003 euro appreciated about 25 percent against the US dollar. It still continues to appreciate because of the high Current Account Deficit of United States. The strengthening of the euro could impact negatively on company profits, especially of those companies that are exposed to trade with non-EMU countries. Thus, improvement of corporate balance sheets could be prolonged in the EU and this could in turn negatively impact the labor market in the near term.

Throughout 2003 unemployment remained high with seasonally adjusted rate reaching 8.9 percent, and is expected to further increase to 9.1 percent in 2004. According to the European Commission Business and Consumer Surveys household and business confidence has been gradually improving over the last months.

The Harmonized Index of Consumer Prices (HICP) remained at a 2.1 – 2.2 percent level in the third quarter of 2003. This was attributed mainly to very high food prices. CPI in the European Union (EU15) in December 2003 was 1.8 percent - down from 2.0 percent in November, mainly as a result of a huge deflation of over 20 percent of prices of information technology and electronic equipments. This shows that inflation in EU remained close to the limit targeted by the European Central Bank (ECB). Compared with November 2003, annual inflation fell in nine Member States, rose in one and remained stable in five. Fear of possible deflation was evident in Germany in the first half 2003, but

⁴Source: Bureau of Economic Analysis, Department of Commerce, revised February 27, 2004.

it subsided in the second half of the year. Among the accession countries, in December 2003, the highest inflation rate was in Slovakia (9.5 percent) and the lowest in Lithuania (-1.3 percent).

3. The Western Balkans

The Western Balkan region is composed of the relatively small size economies of Albania, Bosnia and Herzegovina (BiH), Croatia, Serbia and Montenegro, the Former Yugoslav Republic of Macedonia (FYROM) and Kosovo.

The largest economy, with a GDP of more than € 23 billion, is that of Croatia.

The Western Balkans achieved another year of good economic performance in 2003, with expected GDP growth of around 4 percent, slightly below the 2002 growth. Inflation continued to decline in 2003 to below 5 percent for the first time since disintegration of former Yugoslavia. A slight improvement of public finances can be seen in 2003. According to the European Commission, the Government Deficit for the region was expected to average 4 percent of GDP. External imbalances remain fairly large in all countries of the region with an average current account deficit of around 8 percent of GDP and trade deficit of 28 percent of GDP. Further progress is still needed for market-oriented reforms to achieve EU standards.

Political stabilization and reform processes that are underway continued to have positive effect on the economic performance of the countries in the region. The first full year estimates put the year-on-year real GDP growth at 4.2 percent in 2003, a slight decline from the 4.5 percent in 2002.

Table 1. The Western Balkans – Main macroeconomic indicators

		2001	2002	2003
Real GDP Growth	%	4.6	4.5	4.2
Inflation average	%	29.4	7.4	4.4
General Government balance	% of GDP	-5.5	-4.9	-4.1
Exports	billion EUR	10.3	10.8	11.1
Imports	billion EUR	21.8	25.0	25.4
Trade balance with the EU	billion EUR	-6.2	-7.9	-2.6
Current Account	% of GDP	-6.8	-9.0	-7.8
Foreign Direct Investment	billion EUR	2.8	2.1	2.9

Source: European Commission and IMF

Growth rates in the Western Balkans have converged over the past two to three years. The continued growth over the last four years is an encouraging sign that these economies have the potential to grow at a faster pace over the medium- to long-term.

The process of gradual disinflation in the region made further progress in 2003, due mainly to the policies that are based on external anchor and prudent macroeconomic frameworks. These measures were supported by the Bretton Woods institutions and by the EC balance of payments assistance.

For the whole of the Balkans, the inflation is estimated to have remained around 4 percent by the end of 2003.

In 2003, the average general government deficit for the whole region is expected to have decreased to around 4 percent of GDP, largely due to significant fiscal adjustments by more than 3 percentage points of GDP in Bosnia and Herzegovina and Former Yugoslav Republic of Macedonia.

On average, the revenue-to-GDP ratio is estimated to have dropped from 41.5 percent in 2002 to 40.7 percent in 2003, leaving the burden of the expected fiscal adjustment to cuts in public expenditure. The public expenditure as share of GDP, according to IMF projections, is expected to decline from 47 percent to around 45 percent in 2003. However, the average size of public sector remains large, hindering private sector development as a source of growth.

Generally large trade deficit shows that Western Balkans had not yet taken full advantages of the asymmetric trade measures granted by the EU, mainly due to lack of productive capacity, but also due to insufficient ability to comply with EU quality standards. In addition, total exports are expected to grow faster than imports. However, trade deficits remained large across the whole region and, according to European Commission, are expected to average 28 percent of GDP at the end of 2003. On the other hand, the positive balance of services and current transfers contributed to limiting current account deficits and are likely to have declined in most of the Western Balkan countries during 2003. Workers remittances are extremely important for the region's economy, and are presented through private transfers.

Market-oriented reforms, including privatization of SOEs, are almost complete in most of the Western Balkan economies, except Kosovo where it is in its initial phase.

Trade liberalization process that is led by the Stability Pact for South East Europe (SEE) has made some significant impact. Intra regional trade remains rather limited and the EU is the main trading partner for the Western Balkans (around 50 percent of exports). FYR Macedonia and Croatia have already signed Stabilization and Association Agreements (SAAs) with the EU, in April and October 2001 respectively. Negotiations with Albania were launched in early 2003 and for Bosnia and Herzegovina the feasibility study was finalized in November 2003. Croatia submitted an application for EU membership in February 2003.

Finally, additional measures toward improvement of the economic climate in the region, increase in credibility and reduction of investment risk, fight against corruption, the completion of the privatization process, and reform of the public sector are needed to improve the performance of the Western Balkan economies.

4. Kosovo Economy

4.1 Gross Domestic Product

GDP growth in the post-conflict Kosovo economy is one of the highest in the region and in Europe, but in spite of this the income level is still one of the lowest in Europe. The per capita GDP in 2003, which is estimated to be euro 696, is significantly below the levels recorded in other post-conflict countries in the region. The unemployment rate, at an estimated 50 percent, continues to be one of the highest in the region, and one of the main concerns for Kosovo economy.

Table 2. Kosovo: Selected Economic Growth Indicators, EUR million

	2000	2001	2002	2003
Main aggregates				
GDP	746	1,154	1,279	1,317
GDP per capita (euro units)	410	626	684	696
Workers remittances	550	600	549	568
Foreign assistance (FA)	1,138	1,051	806	579
Direct contribution of FA to GDP	130	248	173	97
GNP	1,425	1,872	1,934	1,960
GNP per capita (in euro units)	783	1,015	1,034	1,036
Population (in thousands)	1,820	1,845	1,870	1,892
Real growth rates (in percent)				
GDP	...	21.2	3.9	4.7
GNP	...	10.4	-1.9	2.4
Private sector disposable income	...	-1.1	-9.4	-2.6
Private sector consumption	...	1.5	1.4	-1.0
Commercial Imports	...	10.2	3.5	-7.4
GDP per capita	...	19.5	2.6	3.5
GNP per capita	...	8.9	-3.3	1.2
Private disposable income per capita	...	-2.4	-10.7	-3.7
Private consumption per capita	...	0.1	0.1	-2.2
CPI (in percent)	...	11.7	3.6	0.14
Savings/Investment balances (in percent of GDP)				
Domestic savings	-199	-115	-99	-85
Total investment	66.9	57.7	48.3	40.5
Workers remittances	73.7	52	42.9	43.2
Foreign assistance	152.5	91	63	44
External current account balance (after foreign assistance)	-39.3	-29.3	-41.8	-38.6

Source: IMF staff estimates/projections (IMF Mission, November 2003 – updated February 2004)

According to the IMF staff estimates³ for 2003 and available results for previous period, Kosovo's economy grew 4.7 percent in 2003, an increase compared to the 3.9 percent in 2002. Otherwise it was above the Western Balkans average growth rate of 4.2 percent and above growth rate of 2 percent of OECD countries. This recent strong economic growth was mainly driven by large foreign assistance (about 44 percent of GDP) and remittances from Kosovo Diaspora (about 43 percent of GDP).

As can be seen from the table above, foreign assistance shows a declining trend throughout the post-conflict period starting from 152 percent of GDP in 2000 and declining to 44 percent in 2003.

³ Preliminary results

On the other hand workers remittances remained stable in nominal values but showed a decreasing trend as percentage of GDP, falling from 73 percent in 2000, declining to about 43 percent in 2002, but remaining unchanged in 2003. These factors emphasize the need for a comprehensive development strategy that will enable a transformation from an aid-dependent economy to one of sustainable growth. In order to achieve this objective, establishment of feasible economic program and much better inter-sectors cooperation is required from all constituents of the Kosovo economy.

As in 2002, Gross National Product (GNP) in 2003 exceeded the actual GDP by euro 643 million, mainly due to workers remittances. Also, GNP increased by 2.4 percent compared to previous year, showing a shift from a decline by 1.9 percent in 2002. Total investments continued their downward trend of previous periods, declining to 40.5 percent of GDP. A similar effect was noticed in private consumption and commercial imports, which declined 1 percent and 7.4 percent respectively. These negative trends will continue to adversely impact economic recovery of Kosovo.

Apart from the economic activity that is driven by the donor-financed reconstruction of buildings and infrastructure, improvement in Kosovo's economy was slow. This can be attributed to delayed privatization and a static private sector that is mainly engaged in retail trade and services, small scale processing of agricultural goods, manufacturing of machinery parts, and production of soft beverages. As a result of lack of progress in industry, Kosovo continued to rely heavily on both imports and foreign assistance.

4.2. Money and Prices

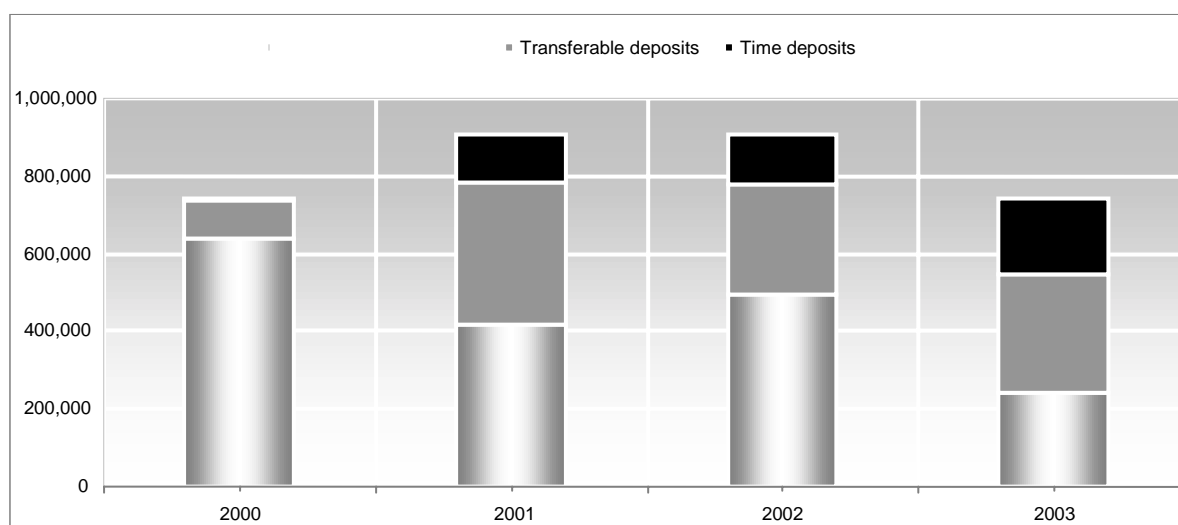
Kosovo does not have an independent monetary or exchange rate policy. The economy is *de facto* "euroised" since free use of DEM and then euro was permitted in September 1999, and January 2002 respectively. The acceptance of euro as official currency is one of the monetary policy choices made by Kosovo.

Broad money fluctuated widely. After an initial increase of 22.1 percent between 2000 and 2002, it decreased in 2003. These fluctuations can be explained through two different trends: change in money in circulation and change in deposits. Year-on-year currency in circulation (M_0) decreased 34.16 percent in 2001, increased 17.8 percent in 2002 and decreased again by 51.3 percent during 2003. This overall decreasing trend can be explained by two factors: first, continuous increase in deposits, 372.4 percent between 2000 and 2003; and second, the large negative trade balances. In 2003 alone a year-on-year increase of around 21 percent in bank deposits was recorded.

Since 2002, the monetary aggregate M1 follows a similar trend as M_0 , despite the growth in current accounts (transferable deposits), which are outperformed by observed decrease of cash in circulation.

The trend of M2, which is considered as an appropriate definition of broad money, shows a slighter decrease than M1, as saving deposits grew at a faster pace than bank current accounts (transferable deposits).

Figure 1. Monetary aggregates, 000' euro



M0 = currency in circulation
M1 = M0 plus transferable deposits
M2 = M1 plus time deposits.

The especially impressive growth of deposits over the one year period that was recorded in 2001 was driven both by rapid development of the banking system and changeover to the euro. The stable level of deposits during 2002 and further increase of over 21 percent in 2003 confirms an improvement in credibility of the banking system.

Kosovo continues to find itself in a very unusual position regarding net domestic credit⁴. Domestic credit in Kosovo is permanently negative (around €123 million at the end of 2003). This is a direct result of both prudent fiscal policy and the fact that BPK does not issue currency and is not authorized to extend credit.

⁴ The sum of net claims on the government (including UNMIK deposit accounts) and claims on the domestic economy

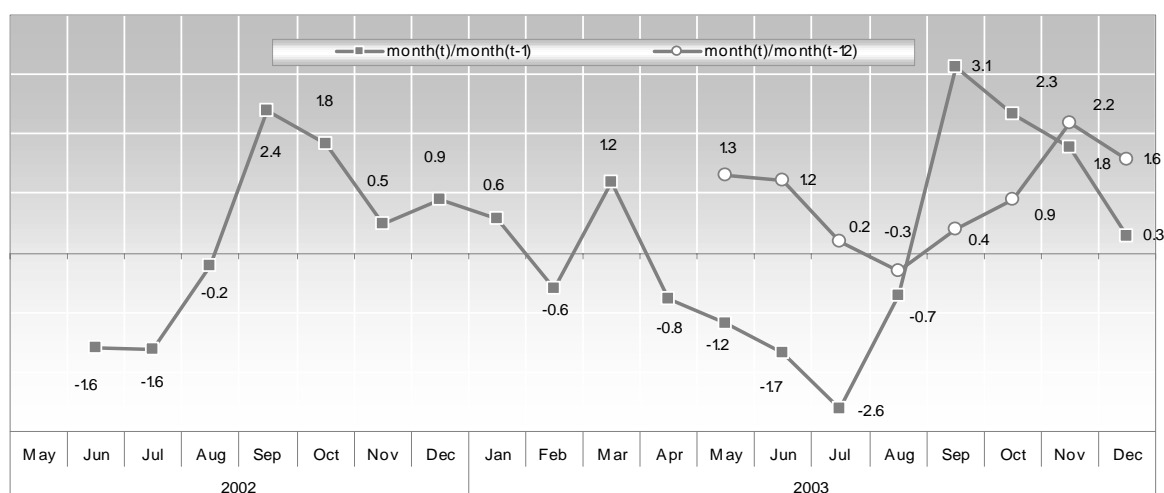
Table 3. Kosovo: Monetary Survey, in 000 EUR

Description	2000	2001	2002	2003
	Dec	Dec	Dec	Dec
Net foreign assets	122,577	583,134	649,305	696,751
BPK	52,116	293,470	345,226	453,418
Assets	61,697	296,235	345,773	453,990
Liabilities	9,581	2,765	547	572
Commercial banks	70,461	289,664	304,079	243,333
Assets	83,099	308,593	328,322	272,436
Liabilities	12,638	18,929	24,243	29,103
Net domestic assets	-5,770	-32,091	-177,499	-123,014
Net claims on the government	-8,741	-72,066	-258,917	-347,827
Deposits by Gov.	-8,741	-72,066	-258,917	-347,827
Net claims on other public sector	0	0	0	0
Net claims on financial institutions	0	0	0	0
Claims on the private sector	3,148	25,916	86,498	232,773
Other items net	-177	14,059	-5,080	-7,960
Broad money	743,314	906,254	907,672	741,516
Currency in circulation*	637,229	419,578	494,130	240,337
Deposits included in the broad money	106,085	486,676	413,542	501,179
Current account-enterprises	77,284	144,047	163,348	160,404
Current account-households	21,189	217,841	121,913	143,311
Terms and saving account-enterprises	4,579	31,318	23,921	74,758
Terms and saving account-households	3,034	93,471	104,359	122,706

*Currency in circulation is in the process of being estimated by IMF TA mission on Monetary and Financial Statistics, on the basis of BPK and commercial banks cash imports/exports and workers remittances, and is subject to change.

The introduction of euro has enabled rapid macroeconomic stabilization after many years of struggle with very high inflation in former Yugoslavia. The following graph, presents Consumer Price Index for the Kosovo economy.

Figure 2. Consumer Price Index (CPI), percent change



Data source: Statistical Office of Kosovo

Initial significant increases in prices at two-digit annual rates, followed in 2001-2002 by gradual price stabilization, continued to decline, down to an estimate of close to zero percent average inflation in 2003.

In the above figure, the line that cover period from May to December 2003 presents Inflation monthly change compared to same months previous year. The figure shows that Kosovo is experiencing a very low inflation with a peak of 2.2 percent on November and a trough (deflation) of -0.3 percent in August, adjusted for seasonality by comparing CPI of the particular month with the CPI of the same month previous year. From the macroeconomic point of view this means that there is no stimulus for further investments, which in turn suggests stagnation in future GDP growth.

4.3. Financial Intermediation

The last four years have witnessed rapid development of the financial intermediation in Kosovo, especially in the banking sector.

Table 4. Financial intermediation, end of year, EUR million, unless otherwise indicated

	2000	2001	2002	2003
Commercial banks, number of branches	5	24	112	148
MFIs and non-bank fin. inst., number of branches	10	29	40	25
Assets of commercial banks,	103	519	471	581
Of which: interest bearing, %	72	47	80	79
Of which: loans,	3.1	26	86.5	232.8
Liabilities of commercial banks,	96.8	498.5	438	536
Of which: Deposits	93	492	427	516
Of which: Legal entities	60	106	184	230
Households	24	312	228	266
Sight Deposits	85	366	296	316
Time deposits	8	126	131	200
Shareholders Equity	6.2	20.5	33	45
Commercial banks loans	3	26	87	233
Inter-bank operations, number of transactions		5,124	75,763	164,207
Inter-bank operations, total amount,		86	841	1,416
Annual average amount of assets,		260	439	531
Turnover ratio: operations to assets		0.33	1.91	2.67
Wire transfers (commercial): total turnover	468	1,141	1,591	2,591
Incoming – gross	293	630	854	1,286
Outgoing – gross	-175	-511	-737	-1,305
Incoming – net	117	119	118	-19
Total commercial exports of goods - gross	3	23	27	31
Total commercial imports of goods - gross euro	-1,134	-1,281	-1,349	-1,288
Total commercial imports of goods - net	-1,131	-1,285	-1,322	-1,257
Ratio: gross outgoing transfers to gross imports, %	15.4	39.9	54.6	101.3

Expansion of banking activities is illustrated by the increase in the number of bank locations (commercial banks and their branches) - almost five-fold increase between December 2000 and December 2001 and again another 4.6 fold increase between December 2001 and December 2002.

The total number of bank locations increased further in 2003 and in December 2003 stood at 148.

The annual amount of inter-bank operations increased almost ten fold between 2001 and 2002. It almost doubled in 2003, with more than double the number of transactions. During this time, the ratio of bank operations to assets increased eight times, from 0.33 in 2001 to 2.67 at the end of 2003.

These figures highlight the increase in importance of the banking system in Kosovo and its crucial role in the sustainable rebound of Kosovo economy.

The data also suggest that banks handled the payments for an increasing share of imports. According to the table above, the percentage gross outgoing transfers to gross imports was 101.3 percent in 2003, or 46.7 percent up from the previous year. This is a powerful indicator that shows increase in the role of the bank sector in Kosovo, especially in facilitating daily purchases and sales, cash transfers, and other diverse financial operations.

A rapid increase in bank deposits during 2000 and 2001 reflected, among other things, an increase in the savings of the population. A reduction of 13.2 percent in deposit account balances in 2002 may be attributed to increase in spending. Contrary to previous expectations of decrease in savings during 2003, based on the anticipated decline of donor activities and Diaspora remittances, bank deposits increased by 20.1 percent during the year.⁵ This can be explained as resulting from improvement in economic performance and the subsequent increase in saving capabilities of non-financial corporations, and also an increase in confidence in the banking sector in Kosovo.

Change in structure of deposits was not the same for sight deposits as for time deposits. Site deposits fluctuated, showing at first increase by 330 percent in 2001, followed by a modest decrease of 19 percent in 2002, and a further increase in 2003 of about 7 percent. Time deposits maintained an upward trend with substantial increase in 2001, followed by a modest increase of around 4 percent in 2002. Much better performance is evident in 2003 with an increase of 52 percent year-on-year, which is attributed mainly to a 212 percent increase in the time deposits of non-financial enterprises. One of the reasons for the increase may have been the desire of businesses to establish credibility with the commercial banks to gain easier access to bank loans in the future.

Despite the risks involved in the bank lending to private sector in Kosovo, although not very significant, bank lending to the sector shows a positive trend. In 2000 the share of credit to the private sector in total assets of the commercial banks was only 3 percent but in 2001 it had increased to 5 percent. In 2002 this increased even further to 18 percent. Year 2003 is characterized by a substantial increase in bank lending to private sector, with the share of credit rising to 40.2 percent of total bank assets.

The ratio of loans to deposits has reached 45% in 2003, an improvement compared to 21% in 2002. However, loans are mainly of short duration (up to one year) and at relatively high interest rates. The percentage of these loans to GDP at the end of 2003 was still modest (only 12.75 percent).

Yet, both the banking system and the non-financial enterprises are still not ready to initiate or support large investment projects in the private sector. During the last four years, there has been little private investment in Kosovo that can boost economic activity and enable sustainable growth.

About 80% of bank loans are of short-term nature and cannot be used as the basis for long-term investment. Conversely, most of the bank deposits are sight deposits and time deposits are, for most part, of one-year duration and cannot, therefore, be used to provide long-term loans to support investments.

⁵ These figures are presented as outstanding at the end of period (year), so they do not present complete information about changes in deposit accounts within respective years.

Table 5.
Commercial Banks Loans by Activity, outstanding amounts, end of period, in 000 EUR

	2000	2001	2002	2003
Agriculture	0	141	1,510	4,558
Civil Engineering	0	1	1,811	1,619
Trade	2,187	13,960	50,532	113,531
Services, Tourism	565	3,688	14,633	71,606
Industry	396	0	3,154	16,241
Real Estate / Construction	0	194	474	1,850
Administration, Other public services	0	0	3,822	191
Other	0	7,933	10,562	23,177
Total loans	3,148	25,917	86,498	232,773

Commercial banks loans were mainly concentrated in trading activities, and recorded an increase of 102 percent in 2003, compare to the end of 2002. Lending to services and tourism sector was particularly buoyant and reached euro 71.6 million by 2003 year-end, an almost 5 fold increase on 2002. Although loans to industry also recorded a similar increase, it only amounted to euro 16.2 million and hence did not represent significant investment or contribute much to economic recovery or job creation in Kosovo.

4.4. Foreign Trade and the Balance of Payments

Kosovo's balance of payments can be characterized as highly vulnerable. As in previous years, and also in 2003, Kosovo's economy continued to rely heavily on foreign assistance, remittances from abroad, and imports.

Remittances from abroad were relatively stable and, as in the past, they contributed to the very survival of around 75 percent of Kosovo families.

In 2003, the ratio of workers' remittances to GDP remained almost at the unchanged level of 43 percent of GDP. The remittances were mainly channeled into personal consumption and renovation of private housing, and therefore did not have any direct impact on investment.

Foreign assistance declined further to euro 579 million⁶ but still remained the main driving force of Kosovo's economic growth in 2003. Data from 2002, as well as preliminary estimates for 2003 prepared by IMF staff, show that foreign assistance lost around 20 percent of its importance in the Kosovo's GDP, declining from 63 percent in 2002 to 44 percent of GDP in 2003.

⁶ Estimation made from IMF staff mission – November 2003, revised in January 2004.

Table 6. Kosovo: Balance of Payments, EUR million, unless otherwise indicated

	2000	2001	2002	2003*
Trade Balance	-1,379	-1,300	-1,236	-1,157
Export	169	202	240	232
Imports	-1,547	-1,502	-1,476	-1,389
Non-factor services	-603	-689	-653	-483
Receipts	30	32	29	36
Payments	-633	-720	-682	-519
Factor income	679	717	654	643
Workers' remittances	550	600	549	568
Factor income from donor-related employment	129	117	105	75
Transfers				
Foreign assistance	1,138	1,051	806	579
<i>(in percent of GDP)</i>	152.5	91.0	63.0	40.7
PIP	571	532	375	174
Of which UNMIK	413	449	388	368
Current account balance (after grants)	-165	-221	-429	-418
<i>(in percent of GDP)</i>	-22.1	-19.1	-30.8	-29.4
Capital account balance	165	221	429	418
Donor capital participation	42	32	10	1
Changes in Gov. deposits abroad				
<i>(- increase)</i>	-73	5	78	13
Change in currency in circulation				
<i>(- increase)</i>	-84	218	-75	254**
Change in banking system NFA	-120	-461	-66	-47
Change in KPST's foreign assets	0	0	0	-35
Errors and omissions	400	427	482	197
Overall balance	0	0	0	0
Net change in international reserves				
<i>(- increase)</i>	234	679	701	587
Official reserves	92	87	32	32
Net international reserves of banking system	142	592	668	555

Source: IMF staff estimates.

*Data for 2003 are in process of revision and are subject to changes.

**Change in currency in circulation is calculated by the cash imports and exports through banking sector only, and does not take into consideration unrecorded cash imports/ exports.

This shows that Kosovo's dependence on foreign assistance remains very high although it is gradually reducing from year to year. Following the overall reduction in foreign assistance, the current account showed a deficit of 29.4 percent of GDP in 2003, slightly better than in the previous year.

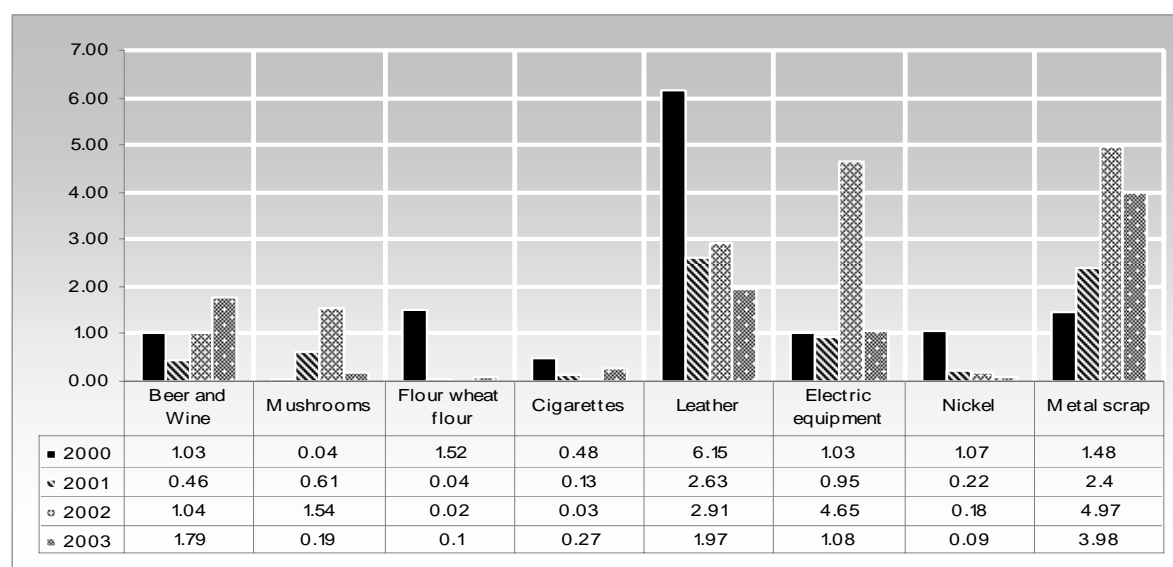
The performance of Kosovo's trade balance remains a cause for concern and in 2003 it did not show any significant improvement. The data for 2003 show that Kosovo economy can cover less than one sixth of its imports by exports and that the trade balance deficit accounts for more than 84 percent of the GDP.

Furthermore, the recent data show that regular exports (excluding the exports related to the expenditure of KFOR and consumption of expatriates), amounting to euro 36.2 million in 2003, can in fact cover only 2.6 percent of Kosovo's imports.

The above data express deep vulnerability of Kosovo's balance of payments. Therefore, it is extremely important for Kosovo to prepare a policy that favors investments in production capacity,

to gradually substitute import by covering more of Kosovo's consumption needs from local production. Otherwise, due to some specific financial conditions (Kosovo has no right to create fiat money, and therefore money supply is completely depending from foreign assistance and workers remittances) and due to extreme imbalance in foreign trade, in a very short period of time Kosovo may face such decrease in money in circulation such that any economic activity will become difficult.

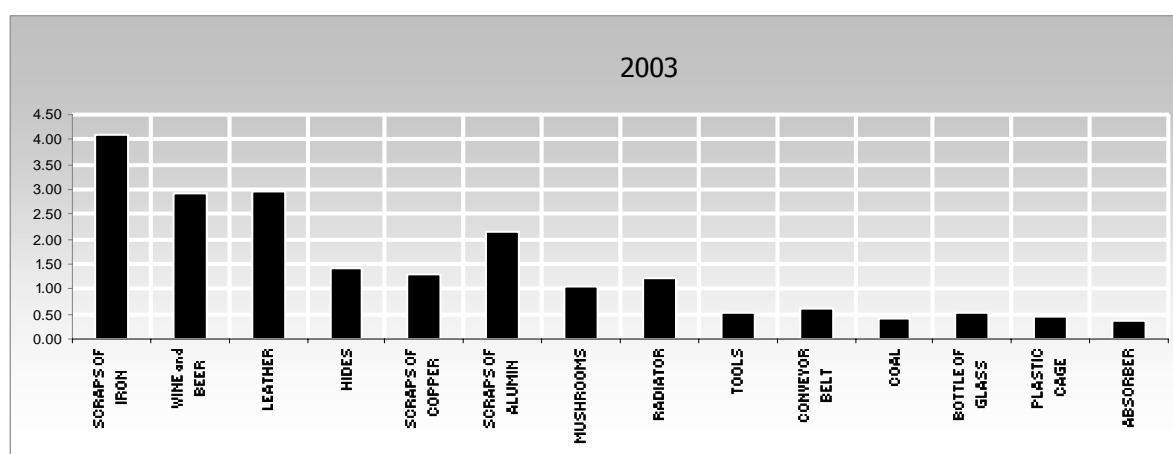
Figure 3. Foreign trade: Exports by selected commodities, EUR million



Data source: Customs Service of Kosovo

On the other hand, the return of exports to the balance of trade of Kosovo shows that there are some positive signs of basic structural improvements in the economy. Apart from goods classified as other exports, total of leather, beer, wine and mushrooms, represented 19.9 percent of all exports, while scrap metals with 16.5 percent showed an improvement in 2003. Main commodities exported in 2003 are shown in the chart below.

Figure 4. Foreign trade: Exports by main selected commodities, EUR million

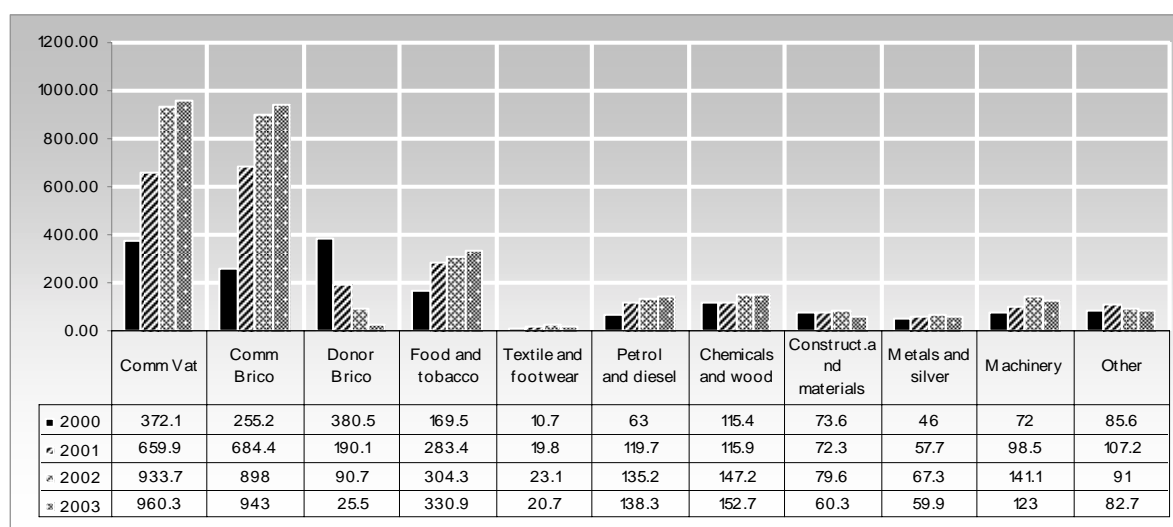


Data source: Customs Service of Kosovo and MFE - MEPD

Additional and more significant improvement in the export performance will be crucial in the coming years. As far as imports are concerned, share of food and tobacco in overall import has increased from 20.4 percent in 2002 to 24 percent in 2003 and is not consistent with the importance of agriculture in the economy of Kosovo. This high percentage should, and has the

potential to, decrease in the coming years. This may be done by substituting import with domestic production that may be achieved if domestic agricultural production is stimulated through tax policy as a priority sector. Such a measure will not only improve trade balance significantly, but also help in decreasing the high rate of unemployment in Kosovo.

Figure 5. Foreign trade: Imports by commodity group, EUR million

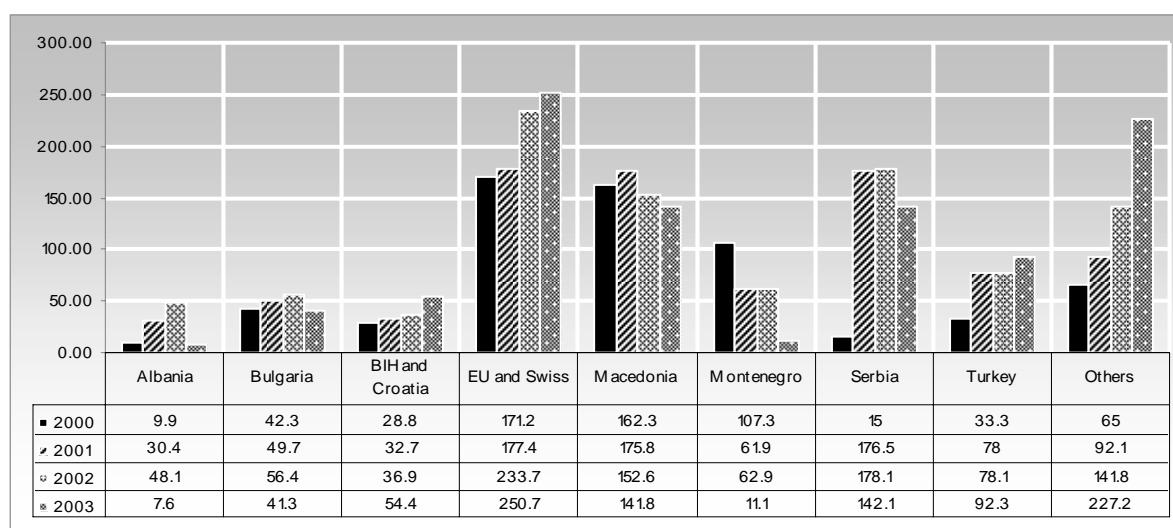


Data source: Customs Service of Kosovo and MFE – MEPD

Another phenomenon to be concerned about is the decrease in import of machinery during 2003. This is a result of fewer investments in production activities, which is not a good sign for economic growth in the coming year. Decline in import of machinery is also attributed to 'difficult to carry' investment conditions, including high borrowing cost, very short-term nature of loans and the levels of customs duties on imported machinery.

Kosovo's main trading partners are the European Union and Macedonia. While trading with EU, Turkey and BiH are increasing, trading with Macedonia and Serbia showed a declining trend. Trade relationships with Slovenia and Croatia are also increasing due to their higher presence in Kosovo's market especially after the establishment of their chambers of commerce representative offices in Kosovo (included in Others in the figure below).

Figure 6. Foreign trade: Imports by the place of loading, EUR million



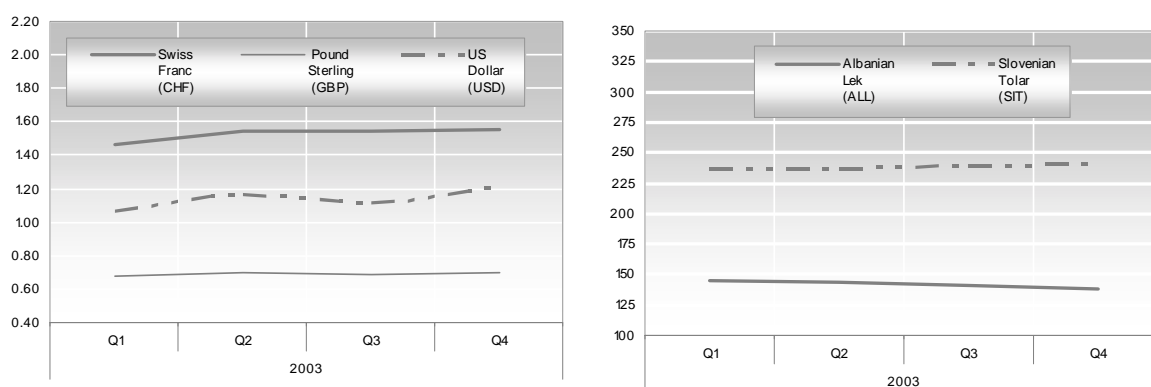
Data source: Customs Service of Kosovo

Data regarding the geographic structure of exports by country of destination are not yet available.

The geographic structure of imports seems to be blurred by lack of detailed data on imports by country of origin. In order to benefit as much as possible from the free trade agreement between FYROM and FRY (only 1% custom duty) which was signed in the pre-conflict period, Macedonian certificates of origin are often issued to cover goods originating from other countries, thus distorting the data.

An important factor to be mentioned while talking about foreign trade is the Free Trade Agreement reached between Kosovo and Albania at the end of 2003. This is the first agreement of its kind and represents a new era in creation of better trade relationships with neighboring countries and a regional open market economy. Similar agreements with other countries are being considered, but taking into account structure of the revenues of the Kosovo's budget, the expected consequences of the free trade agreement on Kosovo's budget should be also considered.

Figure 7. Euro exchange rate against selected currencies



Source: www.oanda.com

Foreign exchange markets in 2003 were characterized by an overall strengthening of the euro against all major currencies, and especially against US dollar. As the figures above show, euro has appreciated about 23 percent against US dollar and that is mainly attributed to pressure caused by large US current account deficit. Also, euro appreciated about 9.4 percent against Pound Sterling. Similarly slight appreciation was evident against Swiss Franc and Slovenian Tolar. Hence, Kosovo economy has benefited from the euro appreciation given the fact that Kosovo GDP is almost equal to its imports.

4.5. Fiscal Policy

Total revenues in 2003 exceeded revenues of 2002 by 16 percent. Major part of the government revenue was collected at the border and represented about 71.9 percent of total revenues. Municipal taxes have also increased significantly compared to last year (36.2 percent).

Table 7. Kosovo Consolidated Budget, end of period

	2000	2001	2002	2003
	<i>EUR million</i>			
Revenues	289.5	355.9	508.4	589.65
Central government	128.5	308.0	478.0	562.35
of which: VAT on imports	63.4	127.2	169.0	180.6
Customs	32.3	47.6	67.5	72.34
Excises at the boarder	19.5	77.0	125.6	171.34
Municipalities own taxes	0.0	15.0	19.9	27.31
Expenditures	234.9	281.3	429.2	570.8
Current expenditures	234.9	274.6	413.3	449.26
Wages	92.3	109.5	130.9	145.7
Goods and services	73.4	96.8	148.8	173.36
of which: DDG funded	31.1	35.5	26.9	25.16
Transfers and subsidies	64.8	61.6	77.0	118
of which: to State Enterprises ¹	34.2	27.6	18.0	36.4
of which for investment	17.0	14.0	16.0	27.5
Other	4.4	6.7	56.6	12.2
Capital expenditure	0.0	6.6	15.9	89.32
Overall balance	-106.4	41.7	68.7	18.82
Financing	106.4	-41.7	-68.7	-18.82
Budget grants	160.6	83.7	39.0	29.15
Donor Designated Grants	40.0	41.0	20.9	29.15
Budgetary support	120.6	41.1	18.1	0
Other (+ withdrawal)	-54.2	-125.5	-107.7	-47.97
Change in designated fund balances	-8.9	-7.2	6.0	0.0
Change in other bank balances	-45.3	-118.3	-113.7	-47.97
	<i>In % of GDP</i>			
Revenues	38.8	30.8	39.7	44.8
Expenditures	31.5	24.4	33.6	43.3
Current expenditures	31.5	23.8	32.3	34.1
Capital expenditure	-	0.6	1.2	6.8
Overall balance (before donor grants to budget)	-14.3	3.6	5.4	1.4
Budget grants	21.5	7.3	3.0	2.2
Overall balance (after donor grants to budget)	7.2	10.9	8.4	3.6

Source: MFE - MEPD and IMF Mission (November 2003 – updated February 2004)

Note: ¹In 2002 includes a one-off spending on KEK related to damage caused by lightning in mid-summer.

According to the Ministry of Finance and Economy, December revenue collection was above the monthly average. This was mainly due to transfer of municipal funds to the treasury and receipt of funds relating to the sale of Interim Credit Unit (ICU), which boosted non-tax revenue in amount of euro 5.7 million.

Due to the prudent fiscal policy, Kosovo's fiscal position in 2003 remained sustainable with the overall balance in surplus for the third consecutive year. The level of overall consolidated budget surplus (excluding budget grants) rose from euro 41.7 million (2.4 percent of GDP) in 2001 to euro 68.7 million (3.5 percent of GDP) in 2002. It rose further in 2003 to an estimated euro 75 million (5.7 percent of GDP)⁷.

The share of domestic VAT in total VAT revenue has remained at a low level, only 16.2 percent.

⁷ This figure is not final and is subject to change after the final report by MFE.

While revenues increased by 16 percent in 2003 on annual basis, the expenditures increased by 33 percent, compared to last year. This large increase in expenditures can be attributed mainly to increase in capital expenditure, from euro 15.9 million in 2002 to euro 89.3 million in 2003.

The Budget for 2004 is the first budget to be financed completely by the domestic revenues. As can be seen in the above table, the expenditures in the Kosovo General Budget more than doubled in 2003 compared to 2001. On the other hand, spending by UNMIK, PIP/NGO and KFOR decreased quite significantly.

II. BPK Activity

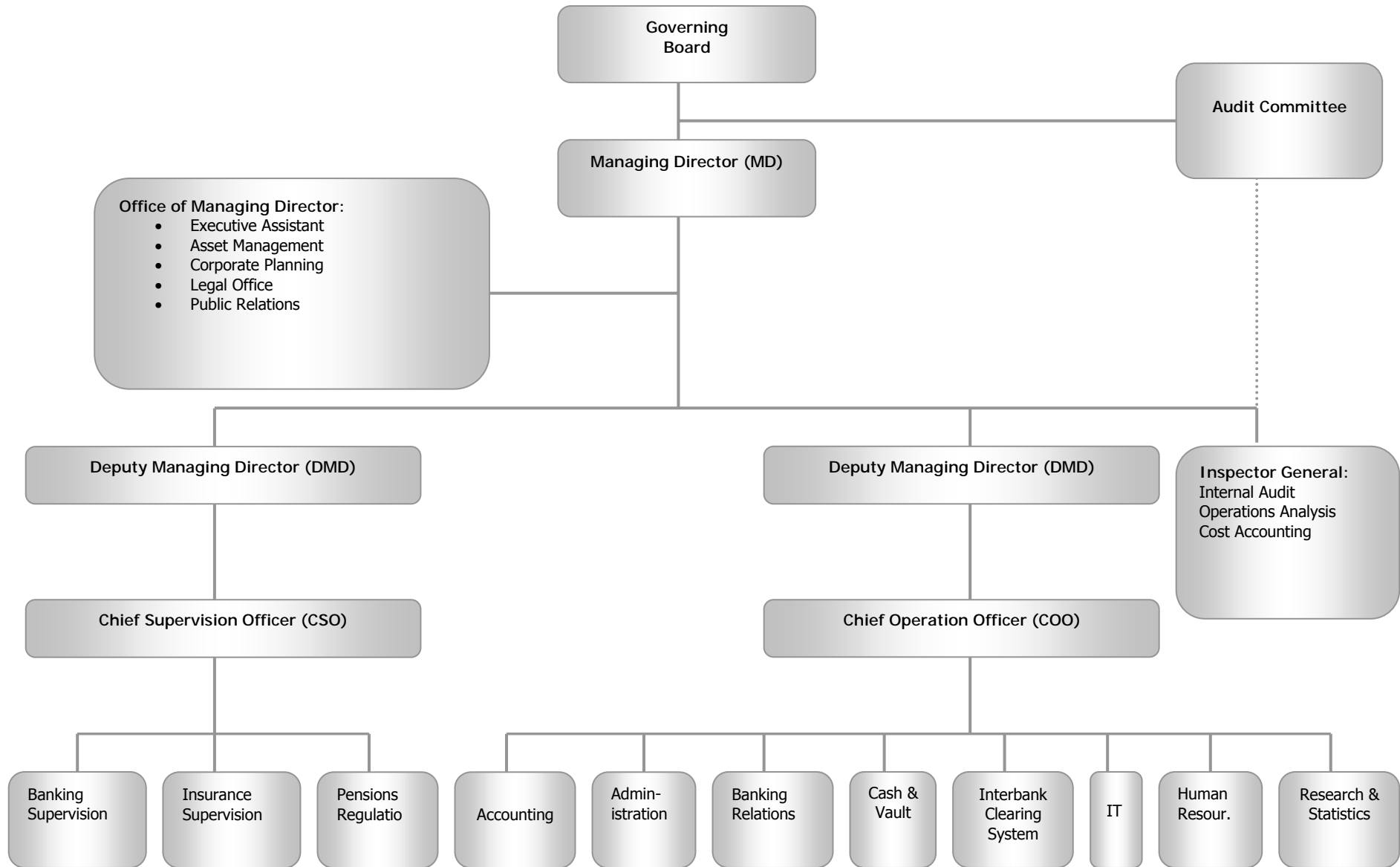
Introduction

Activities of the Banking and Payments Authority of Kosovo (BPK) fall into the following two main areas:

- BPK performs the usual functions of a central bank (banking operations and general interest services), and
- BPK acts as the Financial Services Authority of Kosovo.

On the eve of 2004, need for a new organization structure was recognized and a new organization chart (outlined below) was implemented on 1 January 2004. This formal structure has the objectives:

- Progress the Kosovarisation process further; and,
- Ensure application of "Best Practices" in the governance of the BPK as a central bank.



1. Banking Operations

In 1999, the Deutsche Mark became a currency of choice for Kosovo, and UNMIK Regulation 1999/04 and Administrative direction No.1999/02 formalized this decision. But, with the conversion of DEM to euro, euro became the currency of choice for Kosovo. Administrative direction No.2001/24 formalized this decision.

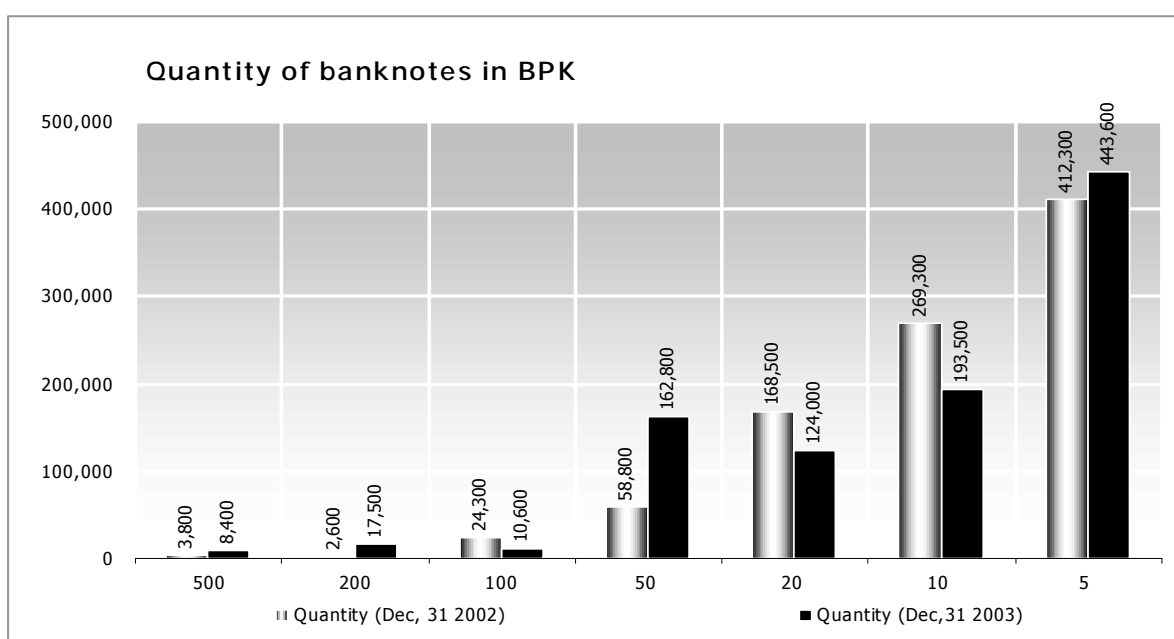
Following from this decision, BPK does not issue currency and, therefore, has no monetary or credit policy in the classical sense. It does however perform other functions that are usually associated with central bank operations. These include:

- Supply and maintenance of the fiduciary currency;
- Payments system;
- A banker for the government;
- Other services of general interest; and
- A public decision-makers advisor.

Supply and maintenance of the fiduciary currency

As for the currency supply, BPK is responsible to ensure that Kosovo economy is supplied with sufficient quantity and quality of euro banknotes and coins, and with adequate denominations, meeting the needs of the Kosovo's economy any time. The data shown in the graphs below illustrate that the structure of currency denominations is well performed by BPK, and it meets the real needs of the Kosovo economy.

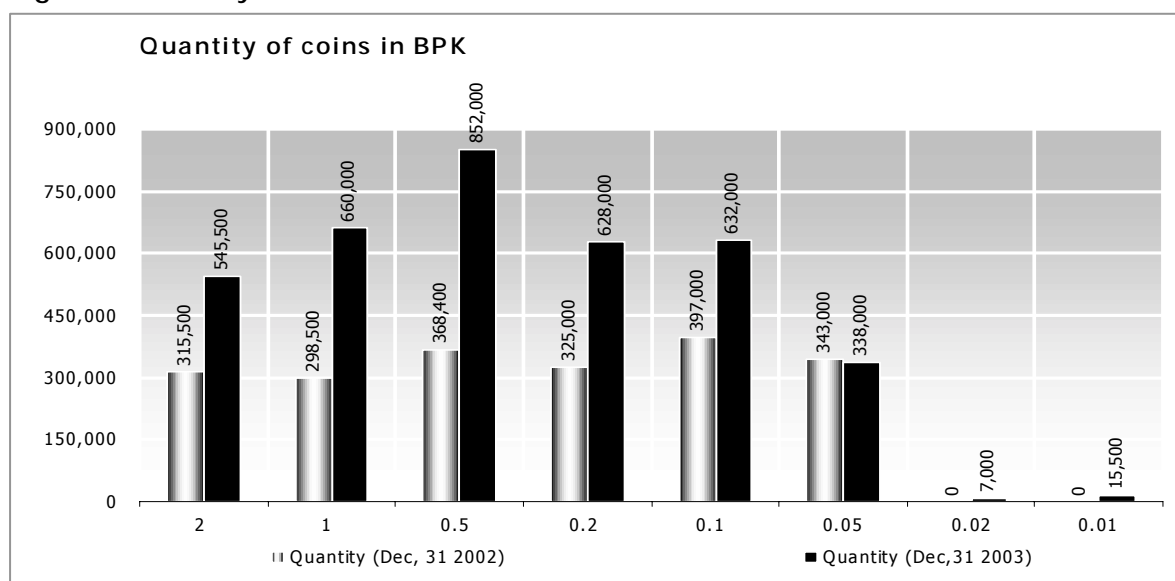
Figure 8. Quantity of banknotes in BPK



While small denominations of notes in 2003 have been less brought at the BPK, the quantity of all denominations in coins (except 0.05 cents) has increased. In 2003, we noticed that many retailers

were complaining about the lack of coins in circulation, but no demand has been expressed by commercial banks. The BPK is ready to supply all interested parties with sufficient denominations in coins.

Figure 9. Quantity of coins in BPK



In fact, BPK has no power to master the quantity of the fiduciary currency, and significant amounts of cash are brought in Kosovo mainly by worker remittances and other unofficial channels. Supported by IMF expert, BPK has recently started a survey on currency in circulation.

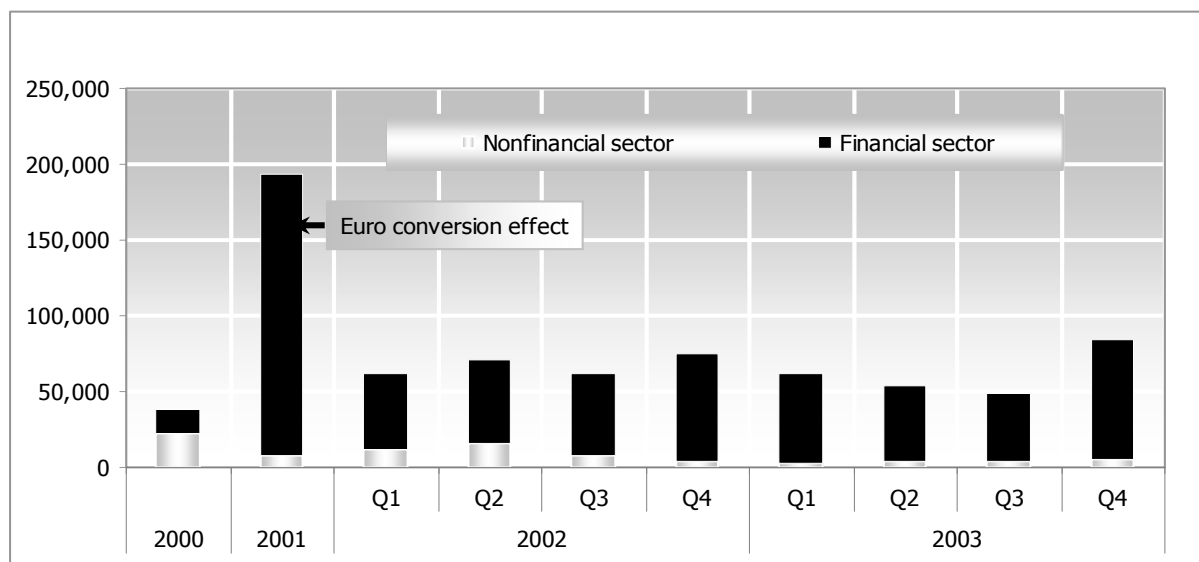
As for the maintenance side of the fiduciary currency, BPK, in 2003, dealt with a lot of cash operations (deposits, withdrawals, and export/import of cash), which means that it has processed more than 14 million euro-banknotes and more than 4.5 million euro-coins. It's not only a question of counting the amount of notes and coins going through the BPK, but it's a question of sorting out the counterfeit and soiled currency, as well. The share of counterfeit banknotes to total cash deposits processed and accepted by BPK in 2003 was 0.0021 percent. Having this ratio into consideration, one can consider that control for the detection of the counterfeit banknotes might have been not reliable, but the fact is that reliability of these controls comes from the huge investments of the BPK made in high tech for money processing ("De la Rue") and training of the staff. Additional justification to this high reliability derives from the fact that BPK has exported in cash around euro 188 million (cash coming from the deposits of commercial banks and mainly from tax collection), and imported in cash around euro 21 million, in 2003. All this was done without receiving any complaint from corresponding banks.

The BPK is keeping cash reserves in order to supply Kosovo not only at the normal conditions (generally speaking, BPK can have an order delivered within 24 hrs), but also at any unexpected event that might occur. As this represents a quite costly operation, the BPK is currently revisiting its overall security project. Also, there are costs related to the fact that content of the BPK vaults in the balance sheet is non-bearing interest assets, and this can be classified as opportunity cost not usually generated by central banks.

Payments system – bank money

Further to the decision to close its branch network, in 2002, BPK ended with its commercial activities. The evolution in transition from commercial activities (non-financial sector) to the traditional activities (financial sector) performed by BPK can be observed from the figure below:

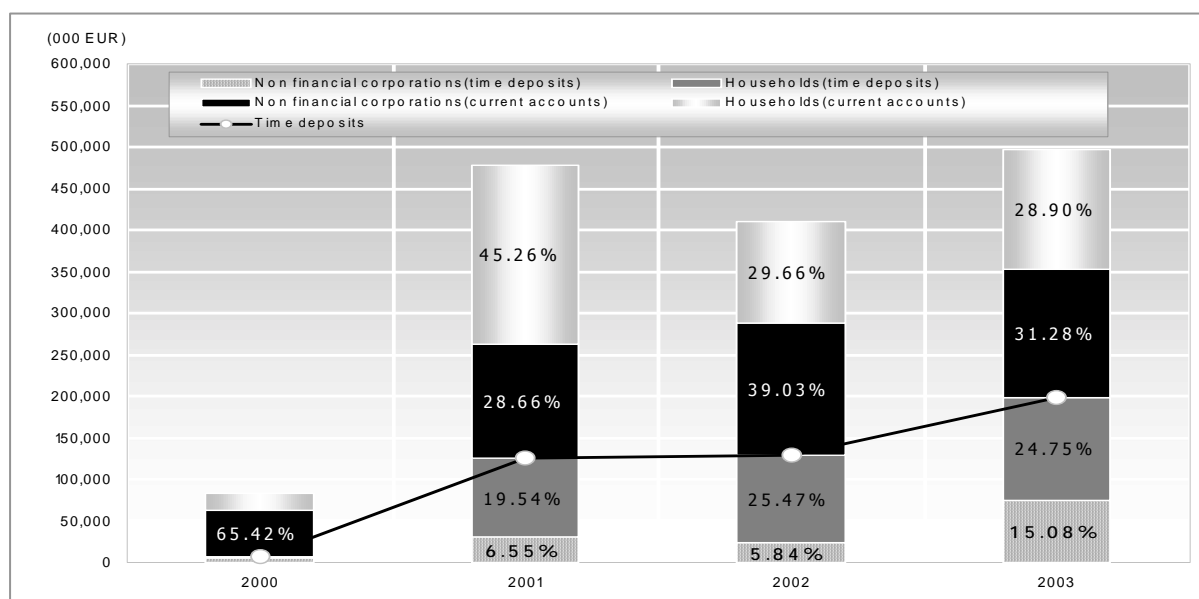
Figure 10. Evolution of payments system – sectoral shift



In 2003, BPK has continued with its effort to develop bank money in Kosovo. The progress made in this direction may be assessed from data describing the evolution of deposits with commercial banks, and that of interbank clearing operations.

The figure below shows not only the significant shift from fiduciary currency to bank money, but also the improvement in the structure of deposits, and moreover increasing confidence in the banking sector.

Figure 11. Evolution of deposits at the commercial banks



Further to the gradual transition to non-cash banking operations and the decrease in need for cash, the importance of an efficient Interbank Clearing System became much more evident.

BPK not only manages and monitors operations but also participates directly in the Inter Bank Clearing System (ICS), where all seven commercial banks are participants. The Clearing and Settlement procedures are defined based on the BPK Rule No.XVIII and on the Payment Transactions Regulation no. 2001/26.

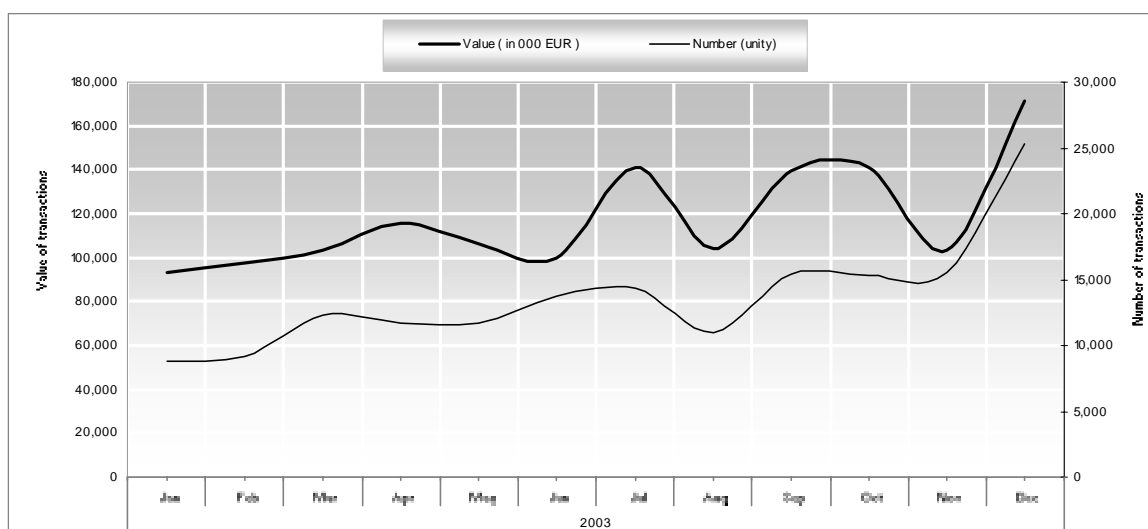
Four commercial banks including BPK itself have upgraded their participation at the ICS through implementation of the automated link between their servers (accounting systems) and the ICS server, during the year 2003.

The number of transactions routed through the inter bank clearing system has been steadily increasing and proves that the confidence of the Kosovars in the banking industry is coming back.

The ICS started with 4,888 transactions (EUR 79,535,000.00) in 2001 and 75,763 (EUR 840,605,000.00) in 2002, where in 2003 the total number of transactions reached at 164,207 (EUR 1,416,118,929.28).

In 2003, the average number of interbank transactions reached at 655 per month (average value: 5,619,519 euro), and this is an increase of 128 percent (in numbers) or 68 percent (in value), compared to the average in 2002.

Figure 12: Evolution of the ICS operations in 2003



Fees charged by the ICS, both for membership and transactions, remained unchanged during the course of the year. Apart from normal (bank-to-bank file-transfer) and priority (small number of individual transfers) payments, ICS operations also involve mass payments. It is expected that mass payment module will be finalized and implemented during the year 2004.

Through its banking services department, BPK has developed good relations with all its clients, especially with Treasury Department from the Ministry of Finance and Economy and Kosovo Pension Savings Trust (KPST), aimed toward the further optimization of the payments system. BPK has improved its services to the remaining clients (financial and governmental institutions) with all their needs (handling of payment orders, account statements, opening and closing of accounts etc.). As for these activities in 2003, BPK has processed 76,309 outgoing orders (payments on behalf of the BPK clients) and 35,650 incoming orders (funds received for BPK clients). Expressed in value, the amount of outgoing payments in 2003 reached euro 578 million, whereas the amount of incoming payments was euro 686 million.

Further to the IMF support (by the end of 2003), BPK has started with implementing a new project in order to develop new means of payments. A good environment for such a project has already taken place, thanks to the commercial banks efforts. Hence, 35 ATMs have been launched, and some of the commercial banks have started with e - banking, credit cards, and international credit cards (Master Card).

Currently, BPK is committed to introduce direct-debit orders and standing orders, dispense people from going to commercial banks for withdrawing money in order to pay utility bills (KEK, PTK, etc.).

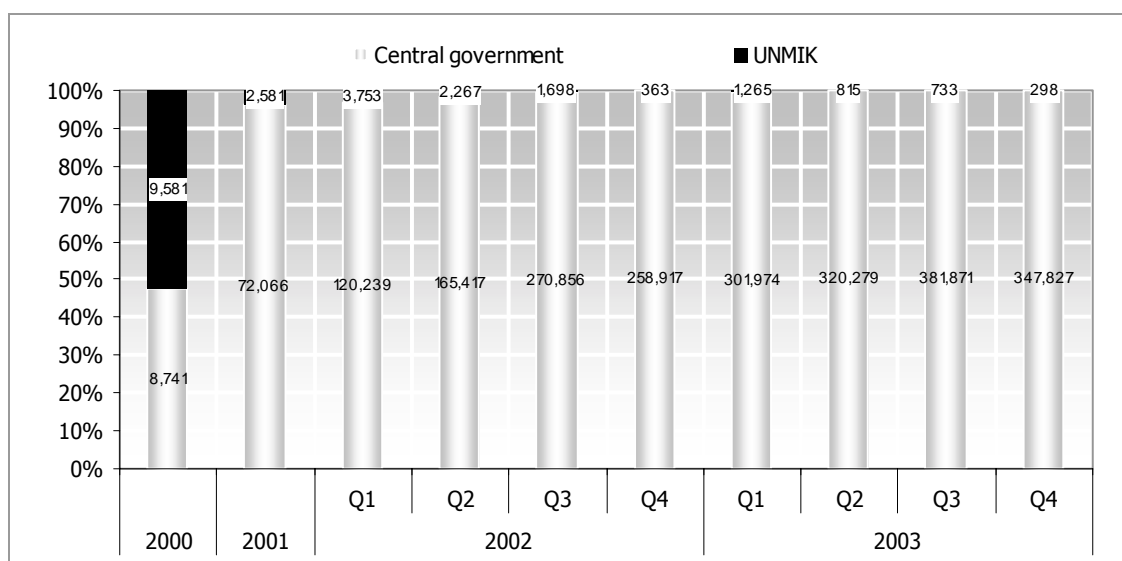
A banker for the government

The function of the banker to the government was given to the BPK based on the UNMIK Regulation no 1999/20, within the section on the specific powers of the BPK.

Last commercial operations have been performed by BPK in the first quarter 2003, and from that time BPK act mainly as a banker to government and to some public companies offering public utilities.

The increasing role of the BPK as authority's banker is quite observable looking into the BPK accounting figures, where deposits at the PISG accounts have an increasing trend, year after year. In fact, this is mainly budget money (amounted at euro 348 million, at the end of 2003) and cannot be considered simply as a budget surplus, since there are ongoing budgetary commitments, and preliminary estimations on budget surplus for 2003 have come to the amount of euro 75 million.

Figure 13: Evolution of the government deposits

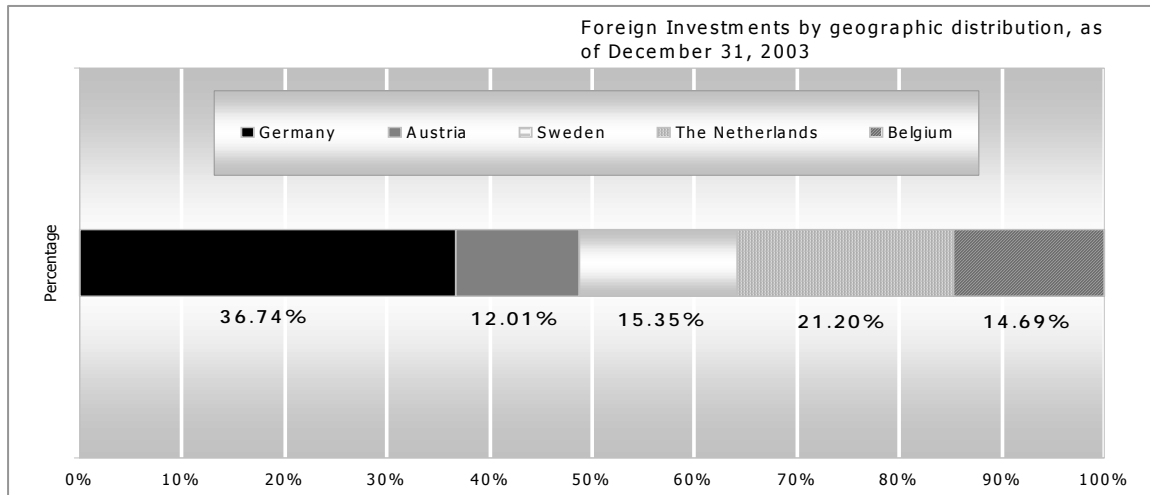


BPK has a power of **managing of all assets** according to the strict policy set up by the IMF standards. The Foreign Asset Management function was refocused and streamlined in the course of the year in line with the guidelines of a new BPK Investment Policy that was approved by the BPK Governing Board in May 2003. The Risk Management function was developed within the Asset Management Department to undertake evaluation of all risks associated with investment operations. This function has been run following three main principles: security, liquidity, and yield to investment.

As for the security aspect of the asset management activity, BPK invests only in EU central banks and commercial banks respecting all the time geographical diversification of the risk (see figure

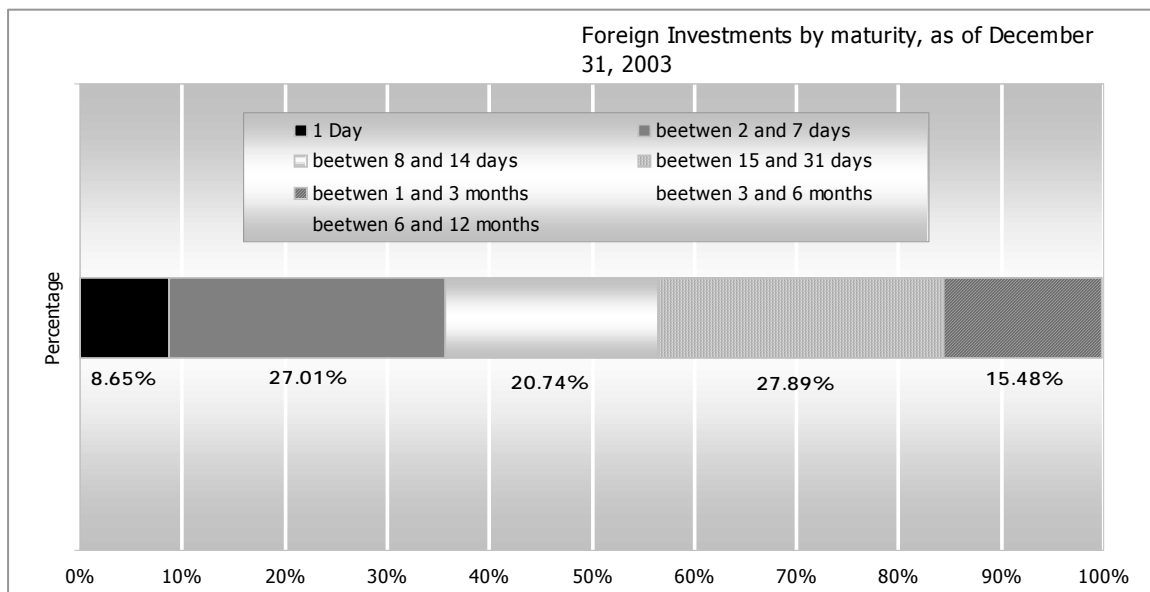
below). BPK continued its good and long-established working relationship with the Deutsche Bundesbank in Frankfurt and the other correspondent banks in Germany and Austria. BPK also expanded its business relationships by adding four highly rated commercial banks in Sweden, Belgium and the Netherlands to its list of investment counterparties.

Figure 14: Foreign investments by geographic distribution



In order to avoid any maturity mismatch, BPK has maintained a strong liquidity over its investments. As figure below shows, half of these investments have maturity falling within 14 days.

Figure 15: Foreign investments by maturity



While observing the stringent rules of prudence, maintaining security of its investments and providing adequate liquidity, BPK was also able to improve return on its investments. In fact, Asset Management represents the main source of the income for the BPK, and for 2003 it amounted at euro 8 million.

The number of foreign payments on behalf of the PISG and the financial institutions was relatively low in 2003, their overall value however continued to be significant. Providing the necessary day-to-day liquidity therefore remained one of the main tasks of the Asset Management Department. Segregation of duties between the dealing activities and settlements continued to be strictly observed. The Back Office supports operations of the Asset Management Department by providing

up-to-date information on balances of all nostro accounts, reconciliation of the cash movements, accurate recording of all transactions and executing payments.

Other activities of general interest

Because of its recognized expertise, neutrality, and independence, the BPK is not only providing the services usually found in central banks, but also it participates to the capacity building of the financial sector in general. Due to that, BPK was asked by the financial sector players to run a **Credit Information Bureau** within the BPK, which will benefit lenders, consumers, and the overall economy as a whole.

Currently, the Kosovo Credit Information System is utilized by a limited number of banks and micro finance institutions. Commercial banks have requested the BPK to establish and operate a credit reporting system, which is in process.

In addition, BPK has taken a lead to set up a **Banking Training Institute** to meet the commercial banks needs. In the near future, when the European Agency for Reconstruction (EAR) funded project regarding the Kosovo Bankers Association is completed, this Institute will be placed under the umbrella of the Kosovo Bankers Association.

BPK has been member of the Kosovo Board on Standards for Financial Reporting (KBSFR), and is participating to enhance accounting profession, (chartered accountants and external auditors) at the same time. In addition, BPK has been designated to be the accounting authority to set accounting standards and approve external auditors in the financial sector (commercial banks, insurance companies, and pension funds).

A public decision-makers advisor

Further to the Regulation No.1999/20, where amongst the important specific powers of the BPK are that "to recommend broad policy guidelines" and "to conduct regular economic and monetary analysis of the Kosovo economy", and "make public the results", BPK has developed a strong **research and statistics** capacity. At the first stage it has been collecting data on the financial sector, improving the data based on the IMF standards on monetary and financial statistics. These data are regularly published in the **Monthly Statistics Bulletin (MSB)**, which is distributed regularly to more than 75 different national and international institutions, and posted at the BPK web site, as well.

As in previous years, in 2003, the IMF has continued with providing a significant technical assistance to the BPK. Apart from the regular IMF staff visits and the ongoing missions (promotion of non-cash settlement payment systems, on-site supervision, security issue), year 2003 was particularly characterized with the appointments of three IMF missions as a technical assistance at the BPK Research and Statistics Department. There are three main objectives of these missions: upgrade of the research function within the Research and Statistics Department (RSD), further improvement of monetary and financial statistics (six months peripatetic mission), and compilation of the balance of payments statistics (two years multi sectorial mission at the SOK and BPK). Further to these objectives, two macroeconomic researchers (with MA from abroad) were recruited, and two new reports (Statistical Bank Report and Interest Rate Report) have been completed, whereas the first framework of the balance of payments statistics will be launched during the year 2004.

Apart from such typical "learning by doing" training coming from the mentioned IMF technical assistance, the RSD staff have gained also from the courses and seminars organized by the IMF Institute, and more details on this are specified within the section on trainings.

2. BPK - Financial Authority of Kosovo

Introduction

BPK has regulatory and enforcement powers for all financial institutions in Kosovo, and participates in developing and modernizing the financial sector, which currently covers the banking industry, insurance industry and pension funds.

The BPK's goal is to have a financial supervision and regulatory process that is effective, flexible and promotes a competitive market-based financial sector, which meets the best principles of international standards in the financial sector development.

The supervisory approach adopted by the BPK is based on a risk-based system. This approach is intended to enable the BPK to appropriately allocate its supervisory resources to those areas of greatest risk, within individual financial institutions and the financial sector in general. Supervision by risk focuses on the ability of management to identify, measure, monitor and control risk.

In accordance with legislation governing its statutory functions (UNMIK Regulations 1999/21 and 2001/24), the BPK has set out detailed supervisory standards and requirements in order to achieve a well-regulated banking sector. In addition, the Regulations give the Governing Board of the BPK the power to adopt prudential supervision rules, which establish limits, operating guidelines, procedures, and reporting requirements for banks and non-bank financial institutions. The legal framework includes provisions and powers for capital requirements, to approve or decline applications for license or authorization, to conduct on-site inspections, and to enforcement actions for non-compliance with legal requirements or for unsafe and unsound banking practices. Regulations and prudential rules are continuously reviewed and updated to ensure that they continue to be in line with international best practice and they strike the right balance in providing a well-regulated environment while not imposing undue burdens to end-users of financial services.

A comprehensive pension law (UNMIK Regulation No. 2001/35, on Pensions in Kosovo) was adopted in December 2001. The Regulation established the Department of Pensions Supervision within the BPK. The Department is charged with regulatory and supervisory oversight functions over the business activities of Supplementary Employer Pension (Pension Funds) and providers of Supplementary Individual Pensions.

These functions also apply to the service providers of pension entities, including the Kosovo Savings Pension Trust (KPST), asset managers and custodians of pension assets. The Pension Supervision Department was established and organized in June 2002.

2.1. BPK Financial Sector Regulation Activity

As a regulator, BPK participates in elaboration of UNMIK Regulations. The full set of rules that represent legal framework for governing of these activities, according to EU standards, have been adapted to the current development level of financial institutions in Kosovo. This legal framework has been regularly adjusted to the new evolution of the financial institutions and has been complemented by BPK rules and decisions.

The main rules enacted in 2003 were as following:

An important part of the supervisory process is the authority of bank supervisors to develop and utilize prudential regulations and requirements to control banking risks. In order to strengthen the regulatory framework and to improve the bank supervision function, the following Rules were amended or established by the Governing Board during 2003:

- Amended Rule XI on Reporting of Banks and Foreign Branches to require monthly reports on cash imports and export.
- Amended Rule XVI on the Licensing, Supervision and Operations of Foreign Exchange Offices and Money transfer Services Operating in Kosovo to require each applicant for a license to provide a surety bond, bank guaranty, or irrevocable letter of credit in the amount of € 100,000.
- Adopted Rule XXIII on Bank Powers to Hold Real Property. The rule states that banks can purchase and hold real estate only as shall be necessary for its accommodation in the transaction of its business, and real estate acquired through foreclosure on debts previously contracted. Under the Rule, the allowable holding period for real estate acquired through foreclosure is three years.
- Adopted Rule XXIV on Publishing of the Summary of the Quarterly Balance Sheets. The rule sets guidelines for and standardizes the publishing of quarterly balance sheets of banks in local media as well as on the BPK web site.
- Adopted Rule XXV on Establishment, Relocation and Closing of Branches. The rule establishes guidelines and requirements for establishing branches, relocation of branches, and for closing of branches.

It is relevant to emphasize an important indicator that Rule XXI on Increase of Minimum Capital of banks adopted in December 2001 required all banks to increase their minimum equity capital by the end of 2003 to 4 million Euros. All banks successfully fulfilled the requirement.

Seven Rules governing the licensing and operations of life insurance companies have been drafted in cooperation with international experts, which will be recommended for approval to the BPK Governing Board during 2004.

A sound legal framework has been established for the licensing and supervision of supplementary pension plans, and for the oversight of KPST requirements for mandatory pension savings contributions and reporting. In addition to the Pensions Regulation, at the end of December 2003 twenty-six Rules on Pensions had been adopted and issued by the BPK as secondary legislation. The Rules govern licensing requirements for supplementary pension plans, reporting requirements of the KPST, custodial oversight, and investment management requirements associated with second tier defined contribution system established under the Pensions Regulation. In November 2003, a draft Amendment to the Pensions Regulation was submitted to the UNMIK Legal Advisor, which will provide for the enforcement of decisions of the BPK Pensions Supervision Department with respect to the KPST and to supplementary pension schemes.

In addition, the anti-money laundering regulation recently approved by UNMIK (Regulation 2004/2 on Deterrence of Money Laundering and Related Criminal Offenses), defines money laundering as a criminal activity, which was not the case with previous administrative rules (BPK Rule No. X), when financial institutions had to make declarations on deposited amounts over 15,000 euro and suspicious transactions.

2.2. Supervisory and enforcement activity

2.2.1. Licensing and structure

Under Regulation 1999/21, the BPK has the authority to set criteria for a bank license and to reject applications for establishment of new banks, which do not meet the standards.

The BPK's strategy in the field of bank licensing is centered on attracting investors who, having a strong financial position, fit and proper shareholders and management, are able to pursue a cautious approach to banking to protect the interest of clients, thus helping to strengthen the banking system and increase its credibility.

Commercial Banks. Licensing activity during 2003 was primarily related to the opening of new bank branches, and changes in banks' ownership structures. With the requirement to increase capital to a minimum of euro 4 million by 31 December 2003, a large number of requests from local banks regarding changes in ownership structure were processed during 2003. By year-end 2003, all banks had successfully met the new capital requirements.

During 2003, the BPK revoked preliminary approval for a foreign branch license, which was extended in 2002. Since the promulgation of UNMIK Regulation 1999/20 (amended by Regulation 2001/24) on the Banking and Payments Authority of Kosovo in November 1999, the BPK has declined 11 bank license applications.

The number of banks during year 2003 has remained the same as it was in 2002 with 7 commercial banks. Thirty-four (34) branch license applications were processed by the Bank Supervision Department during the year. In addition, requests for three (3) branch closings were processed during the year. At the end of 2003, the 7 banks were operating 148 branch and sub-branches throughout Kosovo.

On 7 May 2003, the remaining shares of American Bank of Kosovo were sold to Vienna based Raiffeisen International Bank-Holding AG, the central institution of the Raiffeisen Banking Group (who bought previously 75% of shares in 2002) and from that period ownership structure has been changed and Raiffeisen Bank Banking Group became only shareholder with 100% of shares.

Exchange Bureaus and Money Transmitter offices. One (1) exchange bureau license was approved in 2003, making a total of four (4) exchange bureaus licensed by the BPK. At the end of 2003, two (2) money transmitter offices were operating. One money transmitter ceased operations during 2003 and its license was revoked.

Micro Finance Institutions. During 2003, two (2) non-bank micro finance institutions were registered by the BPK, and six (6) credit associations belonging to a certain micro finance institution were approved. At the end of 2003, 18 micro finance institutions were operating throughout of Kosovo.

According to the power given by Regulation 2001/25 on Licensing, Supervision and Regulation of Insurance Companies and Insurance Intermediaries, BPKs insurance licensing activity in 2003 was as the following table shows:

Table 8: Insurance Licensing Activity in 2003

Description	2002	Licensing Activities in 2003			
		Applications	Licensed	In process	Rejected
Insurance Companies	8	1	1	1	1
Life Insurance Companies	0	2	0	2	0
Surplus Lines Brokers	0	1	1	0	0
Licensed agents	339	126	154	64	53
Loss adjusters	0	35	30	4	1
Independent complaints adjusters	0	2	1	1	0
Voluntary insurance	4	12	10	2	0

No new **Supplementary Employer Pension** funds were licensed by the BPK during 2003; therefore, the number of licensed pension plans remains at six, the same number that existed at the end of 2002.

2.2.2. Financial Examinations

To carry out its responsibility for the licensing and supervision of all financial institutions, the BPK's Supervision Departments (Bank Supervision, Insurance Supervision, and Pension Funds Regulation) are following a supervisory approach of continuous supervision through on-site inspections and off-site monitoring.

During 2003, a Pensions Supervision Handbook was completed, which provides instructions and guidance for pensions examiners during onsite and offsite inspection activities. The Manual includes details inspection procedures and internal control questionnaires relating to regulatory requirements; pension fund governance; pension fund contributions; investments; pension fund financial soundness; assessment of internal controls; accounting principles; and pension actuarial principles.

On-site inspections

On-site inspection work done by examiners is structured in a manner that provides independent verification that adequate controls exist and that information provided by financial institutions is reliable. On-site inspections are conducted in accordance with an annual inspection plan, which is adjusted as needed due to unforeseen circumstances. Standardized on-site supervision procedures have been developed, and as for the banking system they are based on a five-scale CAMEL system for assigning bank ratings.

During 2003, a full scope on-site examination was conducted in each of the seven banks. In addition, 10 limited scope (targeted) inspections were carried out during the year, which focused on specific supervision concerns. Targeted inspections conducted during 2003 primarily focused on the following areas: (1) credit risk; (2) overdraft lending; (3) changes in shareholders and capital structure of banks; and (4) operational risks.

The application requests for opening of new branches or sub-branches were followed by 37 additional pre-opening examinations.

In addition, eleven (11) on-site inspections in non-bank financial institutions were conducted during the year.

Table 9. Financial sector: On-site examinations conducted during the year 2003

Type of examination		Number of examinations
Banking industry	1. Full scope – banks	7
	2. Limited examination - banks	10
	3. Pre-opening examination - branches	37
	4. MFI examinations	11
	5. Money Transmitters	1
Insurance Industry	1. Insurance companies	6
	2. Insurance companies-branches	4
	3. Insurance companies – agent offices	125

During 2003, the Pension Supervision Department conducted an extensive number of onsite and offsite inspections of the voluntary pension funds. Onsite inspections focused on governance of

pensions funds, accuracy of contributions, record keeping, pension fund investments, and internal controls.

Off-site examinations

A process for the identification and monitoring of potential problems in banks, particularly in the interval between on-site inspections, has been developed. **Off-site supervision and analyses of banks** includes the following: (1) ongoing monthly analyses of individual banks based on standardized bank regulatory reports; and (2) an overall analyses of the banking sector to detect systemic risk. During 2003, the Bank Supervision Department completed 28 off-site analyses for the 7 commercial banks.

Internal examinations represent a continuation form of the process of monitoring and supervising of **insurance company** activities. Through such examinations, information is gathered on insurance companies, their activities, and the level of compliance with insurance rules. Insurance companies are required to submit financial and statistics data to the BPK on a regular basis. Such reporting covers monthly and quarterly data on premiums, expenditures, investments, cash flow, and damages. Based on these reports, the Insurance Department compiles aggregated monthly insurance statistics reports, which cover the main developments within the insurance industry.

Offsite desk audits focused on financial soundness of **pension funds**, qualifications of new participants, and reconciliation of contributions and pension payments, were taken during the year 2003.

2.2.3. Formal Powers of Supervisors (Enforcement Actions)

Commercial banks. Despite the efforts of supervisors, situations have occurred where banks failed to meet supervisory prudential requirements or used unsafe and unsound banking practices. As a result of regulatory violations or unsafe and unsound banking practices, the BPK initiated 11 enforcement actions against banks in 2003. Enforcement actions included written warnings, administrative orders assessing monetary penalties (against institutions and individuals), and formal agreements requiring capital increases and restriction of certain activities. Examples of regulatory violations and deviations from sound banking practices that resulted in administrative penalties included: (1) violations of Rule II on maximum amount of credit allowed to one borrower or related borrowers; (2) violation of Rule VII on foreign exchange limits for net open positions; (3) violations of Rule IX on reporting requirements. A total of € 54,000 in fines was assessed against banks in 2003, which was credited to the Kosovo Consolidated Budget.

Insurance companies. During examinations of insurance companies conducted during 2003, violations of insurance rules were found, which resulted in written warnings and monetary penalties. The following disciplinary measures were taken against insurance companies and insurance intermediaries during 2003:

- 12 orders against insurance companies,
- 2 orders against shareholders,
- 9 orders against branch managers, and
- 8 orders against agents.

The total amount of revenues that go to the Kosovo Consolidated Budget, coming from these disciplinary measures during 2003 were €120,250.

As a result of serious violations of insurance rules and regulations, the BPK appointed a temporary administrator in October 2003 to take control of Drini 2000 Insurance Company. The license of the company was subsequently revoked by the BPK and operations of the company were taken over by Sigal Insurance Company from Albania, which received a license to operate a branch in Kosovo on 23 October 2003.

The receivership and liquidation process for Insurance Company Kosova, which commenced in April 2002, continued during 2003 and is now in its final stage. Through a public tender and auction, the Receiver sold the real estate owned by the company in December 2003.

2.3. International Cooperation

Cross-border bank supervision. In accordance with the Basle Core Principles for Effective Bank Supervision, the BPK's goal is to practice global consolidated bank supervision. A key component of consolidated supervision is establishing contact and information exchange with other supervisory authorities. An MOU on cross-border bank supervision and information sharing was signed between the BPK and Bank of Albania in 2002. In late 2003, discussions commenced with the National Bank of Serbia on establishing an MOU on mutual cooperation on bank supervision matters and sharing of information.

International Insurance Memorandums of Understanding. In parallel with other UNMIK structures, the BPK has been working aggressively to improve freedom of movement for citizens of Kosovo in order to travel in neighboring countries. Kosovo is not part of the international Green Card system; therefore, MOU's have been negotiated with other countries for open vehicle traffic and for mutual recognition of TPL insurance coverage. During 2003, MOU's were signed with Albania, Macedonia and Croatia. Also, negotiations with Bulgaria and Turkey on mutual recognition of TPL insurance are in the final stages.

Five insurance companies from other jurisdictions have been licensed by the BPK to operate branches in Kosovo. In order to formalize the cooperation with neighboring insurance supervisory authorities, an MOU on mutual cooperation on cross-border supervision matters was drafted during 2003 with the Albanian insurance supervision authority.

2.4. Main Developments of the Financial Sector

Developments in the Banking Industry. The development of the banking industry continued throughout 2003. While the number of banks remained the same as in the previous year, most banks continued to be aggressive in expanding their branch networks throughout Kosovo. As previously discussed, the number of branch offices at the end of 2003 had reached 148, making banking services more accessible to the citizens and enterprises of Kosovo.

As of 31 December 2003, aggregate total assets in banking system were euro 581,5 million compare with euro 471 million from the previous year, or euro 110,5 million higher. Loan growth was especially strong during 2003 with total loans outstanding for the banking sector increasing by euro 146,2 million to euro 232,7 million, an increase of 169%. At the same time, total deposits in the banking system at year end 2003 increased by euro 93,8 million or 22,4 % compare with the beginning of year. Deposits have reached their highest level since the re-establishment of the banking system in 2000, which reflects an increase of public confidence toward the banking system in Kosovo.

Overall, the banking system is well capitalized. The BPK increased minimum capital requirements for banks in 2002 and again in 2003, to bring capital standards more in line with EU directives. As previously discussed, all banks successfully increased their capital to or above the minimum required euro 4 million by the end of 2003. Based on Basel capital adequacy standards, total capital for the banking system at 31 December 2003 was equal to 17% of risk-weighted assets.

The former American Bank of Kosovo (now Raiffeisen Bank of Kosovo) has sold their shares to Raiffesien International Bank-Holding AG and is now 100% owned by the Austrian company.. The former MEB (Micro Enterprise Bank) changed its name to ProCredit Bank during the year without any negative consequences related to bank activities.

The ownership structure of the banking sector at 31 December 2003 measured by equity capital was 61% foreign capital and 39% domestic capital. There is no state-ownership of banks in Kosovo, and very small percentage of equity capital in the banking system is held by socially owned enterprises.

Other developments in the banking system during 2003 included the introduction of Automated Teller Machines (ATMs) by Raiffeisen Bank of Kosovo. At the end of year, two banks were operating 35 ATMs. In addition, ProCredit Bank installed a number of Point of Sale (POS) terminals during 2003.

New credit products introduced by banks during this year included loans for businesses for longer terms; and consumer loans for purchase of automobiles, renovation of houses, and for household goods.

Three banks currently have borrowing agreements with KfW for longer period of time (3-5 year), which provides a source of funds for longer-term loans.

Developments in the insurance industry. During 2003, there were 8 licensed insurance companies operating in Kosovo. Three of the companies are incorporated in Kosovo, whereas five companies are operating as branches of insurance companies licensed under other jurisdiction (3 from Albania and 2 from Serbia). Also, at the end of 2003, two licensed insurance intermediaries were operating, one a broker of additional lines for health insurance for travel abroad, and an organization for settlement of international claims.

Premium Written and Claims settlement. In 2003, the eight insurance companies wrote a total of 214,623 policies, a 22% increase over 2002. Total premium income in 2003 was euro 34.4 million, which was 10% higher than in 2002. During 2003, 8,582 claims were settle totaling euro 6.0 million, 70% higher than in 2002.

A Guarantee Fund has been established in conformity with Rule 3, section 4. The Fund was created from the paid contributions by insurance companies for TPL insurance. The Guarantee Fund is directed by a Governing Council, consisted by one representative of each insurance company, which is offering TPL compulsory insurance as well as from claims experts appointed by Governing Council. Appointment of members of Governing Council must have prior approval of the BPK.

Gross earnings in the Guarantee Fund during 2003 amounted at euro 1.0 million, which represents an increase of 94 percent, compared to 2002.

Evolution of Pension Funds. At the end of December 2003, the six licensed pension plans had a combined total of 3,521 participants. More enterprises are expected to establish Pension Funds for their employees as supplement to the mandatory individual savings pensions.

A USAID advisor served as acting head of the Pension Supervision Department until a local manager was appointed in March 2003. The pension examiners have undergone extensive training by the international advisor on both the legal and regulatory framework of pensions and on skills, techniques and methodologies that are applied in the prudential pensions oversight functions.

III. Highlights of BPK Internal Activities

Evolution of Human Resources

The abolishment of all commercial activities in the banking services and the appointments of Kosovars at key managerial positions, a first step in the Kosovarisation process, was implemented on 1st of March 2003. A first step towards the Kosovarisation of the BPK was to make the local staff fully responsible and accountable for the departments they are in charge of. The former international managers took the role as advisors for the local department heads.

The average number of employees per month in 2003 was 123, which results in total 381,420 man-days.

The share of sick leave man-days in total man-days in 2003 was 0.05%, whereas the share of annual leave man-days in total man-days was 0.23 percent.

In 2003, the share of the employees with university degree in the total number of employees in the BPK was 46.46 percent.

BPK Training Policy

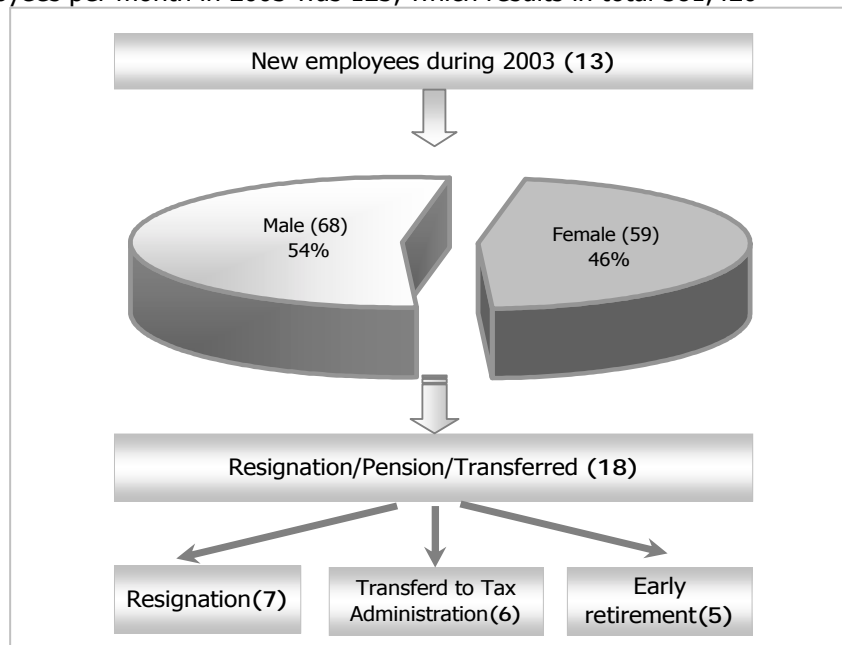


Figure 16. Staff fluctuations in 2003

The BPK recognizes that its most important resource is its staff. The BPK is fully committed to ensuring that all staff members have the relevant knowledge, skills and expertise to perform their duties to consistently high standards and to achieve their full potential.

In order to achieve and develop this, BPK has developed a training policy in order to meet the need and set standards for professional training and development of its employees. The aimed training is long term structured and serves as capacity building. These processes will lead the BPK and its staff to acquire the highest standards of proficiency, beginning with basic training in word-processing, spreadsheet applications, principles in accounting and the English language. The short-term objective of this policy is that the staffs that require these skills will possess these in the shortest time frame.

The policy sets out the guidelines for the participation in training and the criteria for acceptance. Once accepted the staff has to comply with the set rules for each training like attendance and reporting to the BPK (passing on of obtained knowledge). The policy provides also a commitment from the staff for remaining with the BPK to ensure a guaranteed return of investment for the BPK.

During 2003, 27 staff participated in overseas training sessions absorbing 594 man-days and 28 staff participated in local training sessions. 250 hrs of English classes were given and 65 hrs of basic PC training inside the BPK as in-house training.

The RSD staff have gained from the courses and seminars organized by the IMF Institute, as well. Hence, in 2003, the staff from RSD participated at the IMF JVI in Vienna at the course on "Monetary and Financial Statistics" and at the seminar on "Balance of Payments Statistics", whereas another one participated at the "Government Finance Statistics" seminar organized jointly by the IMF and the Center for Excellence in Finance (CEF) from Ljubljana. In addition, the Head of RSD participated at course on "Financial Programming and Policies", organized at the IMF Institute Headquarters.

The BPK's goal continues to develop well-trained staff of bank supervisors. A training and development profile has been developed for each bank supervisor. Formal training initiatives during 2003 included the following: three (3) inspectors participated with the Bank of Albania in Tirana in training on Bank Internal Controls and in an on-site inspection; two inspectors participated in a seminar on "Money, Banking and Financial Markets" presented by international experts at the University of Pristina; and two (2) inspectors are participating in training organized by the Association of Certified Accountants in Kosovo.

In addition, the Director for Bank Supervision participated in two (2) international seminars outside Kosovo as follows: "Banking Supervision under the Basel II Accord" organized by Deutsche Bundesbank in Frankfurt, and "Deposit Insurance Systems in Western Balkan" organized by IADI/EBRD in Basel, Switzerland.

Four insurance inspectors have participated at the professional trainings abroad, whereas six inspectors have participated at the professional trainings organized in Kosovo.

During the fourth quarter of 2003, the Head of the Bank Supervision Department delivered two training programs for new inspectors on the following: (1) Basic Bank Supervision, and (2) Introduction to Credit Analysis.

The BPK also made it possible for its staff to attend a widely spread training program. One IT staff went to Canada to obtain the Micro Soft Certified Engineer certification, which is a premier in Kosovo. Further are 2 staff attending MBA programs abroad. One senior staff was able to participate in an intense training program of the IMF in Washington. In house courses for English and IT are being offered to the staff. Several staff are attending the local accounting courses under the supervision of the Society for Certified Accountants and Auditors in Kosovo (SCAAK).

Implementation of the Flexcube software

In the area of the technology BPK made a big step forwards with the implementation of a new global banking system, Flexcube, tailored to the specific needs of the BPK. For this project an international advisor was brought in to assist and manage the project. An upgrade was done in using Oracle as a data base system. The new Oracle database replaces the previous system that was based on an access database.

The new system provides a standard suite of banking reports with more information allowing a better decision taking and monitoring of the operations. For the implementation of this system the vendor provided the BPK with 2 consultants throughout the process. The actual implementation started in January 2003 after a 6 months procuring period and defining the requirements for the new banking system. The implementation phase was closely monitored with weekly progress meetings and reports. A three-week training session for key users from all departments of the new system was the kick off point for this phase showing what the system in its BPK configuration will be able to do and how the system should be operated. After the fine tuning subsequent the remarks from the training sessions a testing phase started with first crucial dates and cut over times like end of months and end of year processes. Based on the satisfactory results a parallel run was done during a full month with comparing the data of the new system and the old system.

Based on these results the date was set on 1 June 2003 when the new system went live. The vendor's consultants stayed for 10 more days as aftercare. An additional feature of the system is that there is the principle of 'checker / maker'. This implies that every single entry in the system will only be processed after duly being verified and approved by a supervisor.

Further the BPK had its IT Policy approved with "one desk one PC principle" and strict rules for the use of the network within the BPK. This policy sets the rights and obligations for the PC users in the BPK. The international advisor for the IT department left on 30 June 2003 and as from that date the department is running with local staff only.

The accounting department was restructured with the implementation of the new banking software. The reporting is much more simplified, accurate and meet the international reporting standards. The reporting is more accurate and reliable than previously. For the processing of the data the 'maker checker' principle has been introduced, combined with clear accountabilities for each staff member.

Recently approved, the new Employment Policy & Code of Ethic has defined reciprocal responsibilities in the relation between the employer and employees. Since the beginning of 2003 the staff of the BPK is legible for private health care coverage and offers its employees a supplementary pension by means of the BPK Pension Fund. There are 6 former staff who already take benefit of this BPK Pension Fund (2 retired and 4 staff who took early retirement).

The BPK was the first institution to have been able to meet the dead lines set in the various regulations for submitting both the audited annual accounts and the annual report before the set dead lines of the end of the fourth month of the year.

BPK web page and newsletter

Starting from 1st of June 2003, the BPK web page (<http://www.bpk-kos.org>) has been launched, completely designed and powered by the BPK staff. Up to date, the BPK web page has been visited by more than 17,000 guests.

Starting from 1st of February 2003, BPK has launched its regular monthly newsletter, which is edited and published by the Public Relations Office.

IV. Financial Statements of the Banking and Payments Authority of Kosovo

GENERAL INFORMATION

The Banking and Payments Authority of Kosovo (the "BPK") is a distinct public entity with the authority to license, supervise and regulate financial institutions in the territory of Kosovo. The BPK was established in accordance with the provisions of the United Nations Interim Administration Mission in Kosovo ("UNMIK") regulation no. 1999/20 issued on November 15, 1999 (as amended on October 1, 2001 by Regulation 2001/24) "On the Banking and Payments Authority of Kosovo". Under this regulation the BPK's principal objectives are to:

- Foster and efficient and safe system for domestic payments, and
- Foster the liquidity, solvency and efficient functioning of a stable market based financial system, including regulating banks, insurance companies and other financial institutions.

The BPK has the following specific powers to:

- Recommend broad policy guidelines to the Special Representative of the Secretary-General of the United Nations in areas under its responsibility, under the guidance of the Deputy Special Representative for Economic Reconstruction and Development;
- Formulate and implement measures for, and supervise and regulate, payments and settlement systems for transactions in domestic and foreign currency in Kosovo;
- Own and operate one or more payments systems;
- Act as banker to the Ministry of Economy and Finance and to provide financial advice at its request;
- Act as fiscal agent to the Ministry of Economy and Finance;
- Hold foreign currency deposits of banks, the Ministry of Economy and Finance and other entities;
- Ensure an adequate supply of bank notes and coins for the settlement of cash transactions;
- Maintain a depository for safe keeping of currency and securities;
- License, supervise and regulate financial institutions;
- Supervise and regulate dealers in foreign exchange, and
- Conduct regular economic and monetary analysis of the Kosovo economy, make public the results, and submit proposals and measures to the United Nations Interim Administration Mission in Kosovo on the basis of such analysis.

The BPK operates from the head office located in Prishtina.

GOVERNNING BOARD

The Governing Board determines policies for the operations of the Banking and Payments Authority of Kosovo and supervises their implementation. Under UNMIK regulations, the Board is composed of seven members appointed by the Special Representative of the Secretary-General.

At 31 December 2003 the Governing Board of the Banking and Payments Authority of Kosovo comprised the following members:

Mr. Ajri Begu, Chairman of the Governing Board
Mr. Donat Branger, Managing Director of the BPK since 30 June 2003
Mr. David Weatherman, Deputy Managing Director for Financial Sector Supervision
Mr. Benoit Waelkens, Deputy Managing Director for Payments System
Mr. Nikolaus Graf Lambsdorff, since 5 September 2003
Mr. Gazmend Luboteni
Mr. Petraq Milo, since 26 August 2003

During the year the following Board members resigned

Ms. Chaiha Kim Rhee, 29 June 2003

Mr. Andy Bearpark, 4 September 2003

INDEPENDENT AUDITORS' REPORT TO THE GOVERNING BOARD OF THE BANKING AND PAYMENTS AUTHORITY OF KOSOVO

We have audited the accompanying balance sheets of the Banking and Payments Authority of Kosovo (the "BPK") as at 31 December 2003 and the related statements of income, changes in paid-up capital and reserves and cash flows for the year ended 31 December 2003. These financial statements are the responsibility of the BPK's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Banking and Payments Authority of Kosovo as of 31 December 2003 and the results of its operations, changes in paid-up capital and reserves and cash flows for the year ended 31 December 2003 in accordance with International Financial Reporting Standards including International Accounting Standards and interpretations issued by the International Accounting Standards Board.

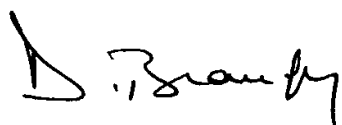
Without qualifying our opinion, we draw your attention to the fact that at present there is uncertainty in Kosovo surrounding the likely future direction of domestic economic policy, regulatory policy and political developments. We are unable to predict what changes in conditions will take place and what effect these might have on the financial position of the Banking and Payments Authority of Kosovo.

PricewaterhouseCoopers Audit SRL

Bucharest, 6 February 2004

	<u>Notes</u>	<u>31 December 2003</u> (EUR '000)	<u>31 December 2002</u> (EUR '000)
Assets			
Cash on hand		26,590	17,474
Current accounts with non-resident banks	0	23,784	65,321
Deposit accounts with non-resident banks	0	404,213	262,696
Property, plant and equipment, net	0	895	621
Other assets		<u>75</u>	<u>36</u>
Total assets		<u>455,557</u>	<u>346,148</u>
Liabilities			
Due to domestic banks	0	59,618	46,235
Due to local governmental institutions	0	351,453	268,869
Due to public and commercial entities	0	27,911	19,326
Other domestic liabilities	0	<u>2,107</u>	<u>1,782</u>
Total liabilities		<u>441,089</u>	<u>336,212</u>
Capital and reserves			
Statutory fund	0	2,556	2,556
Reserve fund	0	<u>11,912</u>	<u>7,380</u>
Total capital and reserves		<u>14,468</u>	<u>9,936</u>
Total liabilities and capital and reserves		<u>455,557</u>	<u>346,148</u>

These financial statements and accompanying notes, based on the statutory accounts and restated in accordance with International Financial Reporting Standards, were signed and approved on 18 March 2004 on behalf of the Governing Board of the BPK by:



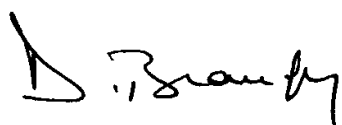
Donat Branger
Managing Director



Benoit Waelkens
Deputy Managing Director

	<u>Notes</u>	Year ended <u>31 December 2003</u> (EUR '000)	Year ended <u>31 December 2002</u> (EUR '000)
Interest income		8,110	6,765
Interest expense		<u>(2,832)</u>	<u>(3,044)</u>
Net interest income		5,278	3,721
Fee and commission income		684	3,041
Fee and commission expense		<u>(121)</u>	<u>(184)</u>
Net fee and commission income		563	2,857
Grant revenue	0	347	2,860
Other operating income	0	<u>552</u>	<u>369</u>
Net operating income		6,740	9,807
Other non-operating expenses			
Staff costs	0	837	929
Depreciation		512	329
General and administrative expenses	0	831	4,775
Other expenses		<u>28</u>	<u>337</u>
Total other non-operating expenses		<u>2,208</u>	<u>6,370</u>
Net profit for the period		<u><u>4,532</u></u>	<u><u>3,437</u></u>

These financial statements and accompanying notes based on the statutory accounts and restated in accordance with International Financial Reporting Standards, were signed and approved on 18 March 2004 on behalf of the Governing Board of the BPK by:



Donat Branger
Managing Director



Benoit Waelkens
Deputy Managing Director

	<u>Notes</u>	<u>31 December 2003</u> (EUR '000)	<u>31 December 2002</u> (EUR '000)
Cash flows from operating activities			
Net profit for the period		4,532	3,437
Non-cash items in the statement of income			
Depreciation		512	329
Grant revenue	0	(347)	(2,860)
Change in operating assets			
Increase in deposit accounts with foreign banks		(141,517)	(216,680)
(Increase)/decrease in other domestic assets		(39)	641
Change in operating liabilities			
(Decrease)/increase in due to domestic banks		13,383	(172,958)
Increase in amounts due to governmental institutions		82,584	189,247
Increase/(decrease) in amounts due to public and commercial entities		8,584	4,841
(Decrease)/increase in other domestic liabilities		<u>205</u>	<u>(21,106)</u>
Net cash from operating activities		(32,103)	(215,109)
Cash flows from investing activities			
Acquisition of tangible fixed assets		<u>(785)</u>	<u>(216)</u>
Net cash used in investing activities		(785)	(216)
Cash flows from financing activities			
Capital introduced		-	-
Grant funds received		<u>467</u>	<u>2,609</u>
Net cash from financing activities		467	2,609
(Decrease)/increase in cash and cash equivalents during the period		(32,421)	(212,716)
Cash and cash equivalents at the beginning of the period		<u>82,795</u>	<u>295,511</u>
Cash and equivalents at the end of the period		<u><u>50,374</u></u>	<u><u>82,795</u></u>

	<u>Capital</u> (EUR '000)	<u>General reserve</u> (EUR '000)	<u>Retained earnings</u> (EUR '000)	<u>Total</u> (EUR '000)
Balance as at 31 December 2001	<u>2,556</u>	<u>3,943</u>	<u>-</u>	<u>6,499</u>
Net profit for the year	-	-	3,437	3,437
Transfer to reserve fund	<u>-</u>	<u>3,437</u>	<u>(3,437)</u>	<u>-</u>
Balance as at 31 December 2002	<u>2,556</u>	<u>7,380</u>	<u>-</u>	<u>9,936</u>
Net profit for the year	-	-	4,532	4,532
Transfer to reserve fund	<u>-</u>	<u>4,532</u>	<u>(4,532)</u>	<u>-</u>
Balance as at 31 December 2003	<u>2,556</u>	<u>11,912</u>	<u>-</u>	<u>14,468</u>

BASIS OF PREPARATION AND FORMAT OF PRESENTATION

These financial statements of Banking and Payments Authority of Kosovo ("BPK") are prepared, in all material aspects, in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards and interpretations issued by the International Accounting Standards Board, except donor financed salaries which are not recorded as expenses in the financial statements of the BPK.

Currency of presentation

Up until 31 December 2001, the financial statements of the BPK were presented in the currency of the territory of Kosovo, the German Mark ("DEM") being then the measurement and reporting currency in the territory of Kosovo. In accordance with UNMIK regulation No.1999/4 the Euro ("EUR") was adopted as one of the official currencies in Kosovo from January 1, 2002 and consequently DEM denominated amounts were converted into EUR as at January 1, 2002 using the irrevocable fixed exchange rate of EUR 1 = DEM 1.95583. From January 1, 2002 BPK's books and records are maintained in EUR.

Basis of accounting

The BPK maintains its accounting records in accordance with the generally accepted accounting practices in the United Nations administered territory of Kosovo and prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS").

The financial statements of the Bank are prepared under the historical cost convention.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Reclassification of comparative amounts

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interest and commissions

Interest income and expense is recognized on an accrual basis.

Commission income is credited to income when received and commission expense is debited to expense when paid.

Foreign currency translation

Transactions denominated in foreign currency are translated into EUR at the BPK's official exchange rate on the date of the transaction.

Foreign currency monetary assets and liabilities are retranslated into EUR at the Bank's official exchange rate on the financial statements reporting period end. Unrealised foreign exchange gains/losses are credited/charged to the statement of income.

The applicable official exchange rates (EUR to the foreign currency unit) for the principal currencies as at December 31 were as follows:

	<u>31 December 2003</u>	<u>31 December 2002</u>
United States dollar ("USD")	1.263	0.938
Swiss franc ("CHF")	0.642	0.674
Pound sterling ("GBP")	1.419	1.502

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include cash in hand and current accounts with non-resident banks.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and provision for impairment when necessary.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the fair value of an item of property, plant and equipment is lower than its carrying amount, due to circumstances not considered to be temporary, the item of property, plant and equipment is written down to its fair value.

Gains and losses on disposal of property, plant and equipment are recognized in the statement of income in the year of disposal.

Depreciation is provided on all property, plant and equipment based on historic cost. The annual charge for depreciation is computed using the straight-line method using rates specified for each depreciable asset based on estimated useful lives. The estimated useful lives applied during the year ended 31 December 2003 and the period ended 31 December 2002 are:

	<u>Depreciation rate per annum</u>	<u>Useful life</u>
Vehicles	20%	5 years
Plant, office and other equipment	20%	5 years
Computer equipment	33.3%	3 years

Grant revenue

Grants received for the purpose of acquiring property, plant and equipment, or granted property, plant and equipment, are recorded as deferred grant in the balance sheet and released to grant revenue over the same period as the useful life of the item of property, plant and equipment. Grants received to fund the BPK's expenses are credited directly to grant revenue in the statement of income in the period that the related expenditure took place.

Fiduciary activities

In certain specific instances the Banking and Payments Authority of Kosovo acts as fiscal agent and paying agent of the Central Fiscal Authority (Ministry of Finance and Economy from 1 January 2003). Assets and income arising from these activities are excluded from these financial statements where the Banking and Payments Authority of Kosovo acts in fiduciary capacity such as nominee or agent.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Banking and Payments Authority of Kosovo's short-term assets are carried on the financial statements at cost, which approximates their fair value because these instruments have short maturity terms and are convertible into cash and are settled without significant transaction costs.

Taxation and profit allocation

The Bank is exempt from income tax according to the UNMIK regulation 1999/20 issued on November 15, 1999 (as amended on October 1, 2001) "On the Banking and Payments Authority of Kosovo" and is required by law to pay any balance of its net income directly to the Central Fiscal Authority ("CFA") after allocations to replenish the levels of reserve funds directed by the Governing Board.

General reserve

In accordance with UNMIK regulation 1999/20 (as amended) each year the BPK shall allocate net income to the general reserve account until the capital and general reserve accounts amount to 5% of the aggregate, amount of the credit balances of all accounts maintained on the books of the BPK by account holders shown on the balance sheet of the BPK for the end of each financial year.

CURRENT ACCOUNTS WITH NON-RESIDENT BANKS

	<u>31 December 2003</u> (EUR '000)	<u>31 December 2002</u> (EUR '000)
Deutsche Bundesbank	23,573	65,028
Raiffeisen Zentralbank Osterreich AG	22	77
Commerzbank AG	84	150
Svenska Handelsbanken	64	-
Dresdner Bank	<u>41</u>	<u>66</u>
Total	<u><u>23,784</u></u>	<u><u>65,321</u></u>

As at 31 December 2003 current accounts held with foreign banks are denominated in EUR and bear interest ranging between 1% at Deutsche Bundesbank and 1.04% at Raiffeisen Zentralbank Osterreich AG (31 December 2002: between 1.75% and 2.01%).

DEPOSIT ACCOUNTS WITH NON-RESIDENT BANKS

	<u>31 December 2003</u> (EUR '000)	<u>31 December 2002</u> (EUR '000)
Raiffeisen Zentralbank Osterreich AG	51,326	104,378
Commerzbank AG	3,400	48,852
Dresdner Bank	60,087	109,466
Deutsche Bundesbank	70,115	-
ING Bank	62,639	-
KBC	62,865	-
Rabobank	28,033	-
Svenska Handelsbanken	<u>65,748</u>	<u>-</u>
Total	<u><u>404,213</u></u>	<u><u>262,696</u></u>

PROPERTY, PLANT AND EQUIPMENT

	Plant and other <u>equipment</u> (EUR '000)	Office equipment (EUR '000)	Computer and software <u>equipment</u> (EUR '000)	Vehicles (EUR '000)	Total property, plant and <u>equipment</u> (EUR '000)
COST					
Balance at 1 January 2003	435	78	697	72	1,282
Additions	153	4	601	27	785
Disposals	<u>(176)</u>	<u>(37)</u>	<u>(17)</u>	<u>-</u>	<u>(230)</u>
Balance at 31 December 2003	412	45	1,281	99	1,837
ACCUMULATED DEPRECIATION					
Balance at 1 January 2003	140	20	483	18	661
Charge for the period	81	9	278	16	384
Disposals	<u>(80)</u>	<u>(10)</u>	<u>(13)</u>	<u>-</u>	<u>(103)</u>
Balance at 31 December 2003	141	19	748	34	942
NET BOOK VALUE					
Balance at 31 December 2003	<u>271</u>	<u>26</u>	<u>533</u>	<u>65</u>	<u>895</u>
Balance at 31 December 2002	<u>295</u>	<u>58</u>	<u>214</u>	<u>54</u>	<u>621</u>

Property, plant and equipment additions as at 31 December 2003 include EUR 467 thousand (31 December 2002: EUR 216 thousand) of property, plant and equipment purchased from the grant funds received from the Central Fiscal Authority, the United States Agency for International Development (USAID), the European Agency for Reconstruction, the European Union and the Government of Norway.

DUE TO DOMESTIC BANKS

	<u>31 December 2003</u> (EUR '000)	<u>31 December 2002</u> (EUR '000)
Total current accounts	<u>34,686</u>	<u>25,928</u>
Total	<u>59,618</u>	<u>46,235</u>

Under BPK supervision regulation Rule XVII commercial banks operating in Kosovo are required to maintain liquidity reserves amounting to 10% of their respective total customer deposits. At least half of these reserve balances must be kept in accounts at the BPK.

The reserve balances in excess of 5%, up to 10%, of total customer deposits bear interest of 0.5% as at 31 December 2003 (1.25% at 31 December 2002). Amounts falling under 5% and over 10% are non-interest bearing.

DUE TO LOCAL GOVERNMENTAL INSTITUTIONS

	<u>31 December 2003</u> (EUR '000)	<u>31 December 2002</u> (EUR '000)
Total	<u>351,453</u>	<u>268,869</u>

DUE TO PUBLIC AND COMMERCIAL ENTITIES

	<u>31 December 2003</u> (EUR '000)	<u>31 December 2002</u> (EUR '000)
Non-bank financial institutions	20,554	16,069
Public utilities	7,340	2,841
Non-commercial entities	17	416
Total	<u>27,911</u>	<u>19,326</u>

The interest rate applicable to current accounts as at 31 December 2003 was 0.5% (1.25% at 31 December 2002).

As at 31 December 2003 included in amounts due to insurance companies is one deposit amounting to EUR 5,480 thousand with maturity on 27 February 2004 and 1.6% p.a. interest rate and one deposit amounting to EUR 1,006 thousand with maturity on 26 August 2004 and 1.7% interest rate.

As at 31 December 2002 included in amounts due to insurance companies is one deposit amounting to EUR 5,112 thousand with maturity on 27 February 2003 and 2.41% p.a. interest rate and one deposit amounting to EUR 1,516 thousand with maturity on 22 August 2003 and 2.92% interest rate.

OTHER DOMESTIC LIABILITIES

	<u>31 December 2003</u> (EUR '000)	<u>31 December 2002</u> (EUR '000)
Due to Government (Note a)	795	384
Deferred grant revenue (Note b)	719	599
Due to the former National Bank of Kosovo (Note c)	450	450
Sundry creditors and accruals	108	340
Other domestic liabilities	<u>35</u>	<u>9</u>
Total	<u><u>2,107</u></u>	<u><u>1,782</u></u>

Note a: As at 31 December 2003 due to Government include EUR 565 thousand rent collected for public buildings until establishment of ownership (31 December 2002: EUR 331 thousand) and EUR 230 thousand supervisory penalties collected (31 December 2002: EUR 66 thousand).

Note b:

	<u>CFA</u> (EUR '000)	<u>CFA Grant</u> <u>Euro conversion</u> (EUR '000)	<u>USAID</u> (EUR '000)	<u>European</u> <u>Union</u> (EUR '000)	<u>Government</u> <u>of Norway</u> (EUR '000)	<u>EAR</u> (EUR '000)	<u>Total</u> (EUR '000)
Deferred grant revenue at 31 December 2002	282	94	60	35	15	113	599
Grant funds received in the year	388	-	79	-	-	-	467
Transfer to grant revenue	<u>(136)</u>	<u>(31)</u>	<u>(38)</u>	<u>(18)</u>	<u>(11)</u>	<u>(113)</u>	<u>(347)</u>
Deferred grant revenue at 31 December 2003	<u><u>534</u></u>	<u><u>63</u></u>	<u><u>101</u></u>	<u><u>17</u></u>	<u><u>4</u></u>	<u><u>-</u></u>	<u><u>719</u></u>

Note c: The amount due to the former National Bank of Kosovo relates to cash balances in various currencies belonging to that entity which were physically on hand at the inception of the Bank. These balances were converted into DEM on 22 December 2000, physically transferred to Commerzbank AG in Frankfurt and included in the BPK's current account balance at that entity.

STATUTORY FUND

In accordance with UNMIK regulation 1999/20 'On the Banking and Payments Authority of Kosovo' the capital of the BPK totalling DEM 5,000 thousand (EUR 2,556 thousand) was contributed by the Central Fiscal Authority on 31 March 2000.

RESERVE FUND

The reserve fund was created during the period to 31 December 2000, in accordance with UNMIK regulation 1999/20 and the Governing Board of the Bank's decision. Transfer of EUR 4.532 thousand was made in year 2003 (31 December 2002: EUR 3,437 thousand).

OTHER OPERATING INCOME

	Year ended <u>31 December 2003</u> (EUR '000)	Year ended <u>31 December 2002</u> (EUR '000)
Licensing fees	342	346
Rental income	2	16
Write off unclaimed liabilities	208	-
Other	<u>-</u>	<u>7</u>
Total	<u><u>552</u></u>	<u><u>369</u></u>

STAFF COST

Staff costs consist largely of employee salaries. As at 31 December 2003, the Bank had 124 employees (31 December 2002: 132 employees).

GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended <u>31 December 2003</u> (EUR '000)	Year ended <u>31 December 2002</u> (EUR '000)
Security and cash transportation expenses	216	3,258
Euro conversion expense	-	369
Repairs and maintenance	83	176
Audit and consulting expense	55	157
Communication expenses (telephone, telex and internet)	102	152
Utilities	68	122
Travel and transportation	88	199
Vehicle operating expenses	35	56
Stores and stationery	46	90
Software maintenance	53	49
Computer consumables expenses	22	35
Food and restaurant expenses	35	-
Insurance expenses	22	-
Other	<u>6</u>	<u>112</u>
Total	<u>831</u>	<u>4,775</u>

RELATED PARTY TRANSACTIONS

Total remuneration for members of the governing board included in staff costs was EUR 16 thousand in 2003 (EUR 11 thousand in 2002).

INTEREST RATE RISK

The table below summarizes the effective interest rates for monetary financial instruments:

	<u>31 December 2003</u>	<u>31 December 2002</u>
Current accounts non-resident banks	1.02%	2.30%
Term deposits non-resident banks	2.04%	2.92%
Due to domestic banks	0.5%	1.25%
Due to governmental institutions	0.5%	1.25%
Due to public and commercial entities	0.5%	1.25%
Insurance institutions	1.62%	2.67%

RISK MANAGEMENT

Through its normal operations, the BPK is exposed to a number of risks, the most significant of which are currency, operating, credit, interest rate, and liquidity risks. The structure of the BPK's assets and liabilities is primarily determined by the nature of the Bank's statutory functions, rather than commercial considerations. At the same time the BPK continually manages its exposure to risk, through a variety of risk management techniques. Risk management of the BPK is regulated by its internal instructions, and is closely monitored by the Governing Board of the BPK.

Operating risk is the risk of loss arising from the breakdown of internal controls. The BPK manages this risk through the Internal Audit Department of the BPK, which exercises control over accounting policies and procedures and the effective functioning of the system of internal controls of the BPK.

Interest rate risk

The BPK is exposed to interest rate price risk in domestic and foreign markets, principally as a result of investing international foreign exchange reserves at fixed interest rates, in amounts and for periods which differ from those of term deposits and other borrowed funds.

Liquidity risk

Liquidity risk is defined as the risk of loss arising due to the mismatch of the maturities of assets and liabilities. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the BPK and its exposure to changes in interest and exchange rates.

Credit risk

The BPK takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The BPK's maximum exposure to credit risk, excluding the value of collateral, is generally reflected in the carrying value of financial assets. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Management of credit risk. Credit risk on transactions with currency reserves is managed through the approval of transactions and placements of funds, the establishment of limits restricting risk and constant monitoring of positions. Counterparty limits are set based on credit ratings and are subject to regular review.

RISK MANAGEMENT (CONTINUED)

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The table below analyses assets and liabilities of the BPK into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date, as of 31 December 2003:

	<u>Up to</u> <u>1 month</u> (EUR '000)	<u>1 to 3</u> <u>months</u> (EUR '000)	<u>3 months</u> <u>to 1 year</u> (EUR '000)	<u>1 to 5</u> <u>years</u> (EUR '000)	<u>Total</u> (EUR '000)
Assets					
Cash on hand	26,590	-	-	-	26,590
Current accounts non-resident banks	23,784	-	-	-	23,784
Deposit accounts with non-resident banks	357,074	46,131	1,008	-	404,213
Property and equipment	-	-	-	895	895
Other assets	<u>75</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75</u>
Total assets	<u>407,523</u>	<u>46,131</u>	<u>1,008</u>	<u>895</u>	<u>455,557</u>
Liabilities					
Due to domestic banks	59,618	-	-	-	59,618
Due to governmental institutions	351,453	-	-	-	351,453
Due to public and commercial entities	19,224	5,480	1,006	2,201	27,911
Other liabilities	<u>2,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,107</u>
Total liabilities	<u>432,402</u>	<u>5,480</u>	<u>1,006</u>	<u>2,201</u>	<u>441,089</u>
Net liquidity gap	<u>(24,879)</u>	<u>40,651</u>	<u>2</u>	<u>(1,306)</u>	<u>14,468</u>

COMMITMENTS AND CONTINGENCIES

General claims

From time to time and in the normal course of business, claims against the BPK are received from its partners. The Management resists such claims and considers that no material losses will be incurred.

Legal proceedings

As at 31 December 2003, the Banking and Payments Authority of Kosovo was not engaged in any material litigation proceedings.

Credit related commitments

As at 31 December 2003, BPK had commitments to place deposits with ING, KBC, Deutsche Bundesbank and Svenska Handelsbanken in total amount of EUR 49,598 thousand.

SUBSEQUENT EVENTS

Starting 1 January 2004 interest rate for customer's current accounts is 1%.

V. APPENDICES

Glossary of terms

ATM	Automated Teller Machines
BPK	Banking and Payments Authority of Kosovo
CEF	Center of Excellence in Finance
CSK	Customs Service of Kosovo
DDG	Donor Designated Grants
EAR	European Agency for Reconstruction
ECB	European Central Bank
EU	European Union
FDI	Foreign Direct Investment
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GNP	Gross National Product
HICP	Harmonized Index of Consumer Prices
IAS	International Accounting Standards
ICS	Interbank Clearing System
ICU	Interim Credit Unit
ILO	International Labor Organization
IMF	International Monetary Fund
JVI	Joint Vienna Institute
KBSFR	Kosovo Board on Standards for Financial Reporting
KCB	Kosovo Consolidated Budget
KEK	Kosovo Energy Corporation
KTA	Kosovo Trust Agency
MFE	Ministry of Finance and Economy
MFI	Micro Finance Institutions
MOU	Memorandum of Understanding
MSB	Monthly Statistics Bulletin
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
PIP	Public Investment Program
PISG	Provisional Institutions of Self Government
PTK	Post and Telecommunications of Kosovo
RSD	Research and Statistics Department
SAA	Stabilization and Association Agreement
SCAAK	Society for Certified Accountants and Auditors in Kosovo
SOE	Socially Owned Enterprises
SOK	Statistical Office of Kosovo
SPSEE	Stability Pact for South East Europe
TPL	Third Party Liability
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development

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Table 1

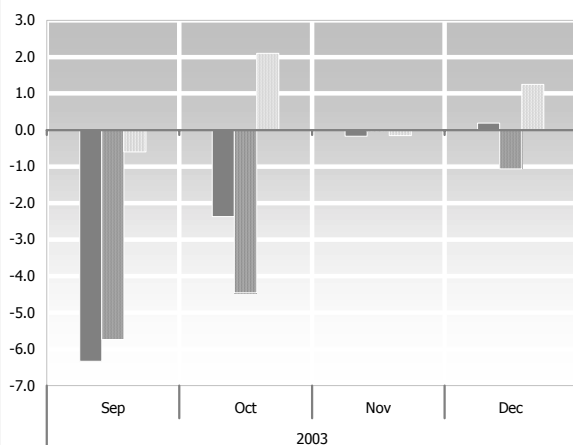
DEPOSITORY CORPORATIONS SURVEY (outstanding amounts, end of period, in 000 EUR)										
Description	2000	2001	2002				2003			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net foreign assets	122,577	583,134	502,360	528,333	643,662	649,305	665,687	657,980	729,059	696,751
Assets	144,796	604,828	528,130	553,365	670,017	674,095	692,604	687,779	757,814	726,426
Liabilities	22,219	21,694	25,771	25,032	26,356	24,790	26,918	29,799	28,755	29,675
Net claims on central government	-8,741	-72,066	-120,239	-165,417	-270,856	-258,917	-301,974	-320,279	-381,871	-347,827
Deposits	8,741	72,066	120,239	165,417	270,856	258,917	301,974	320,279	381,871	347,827
Net claims on Other financial corporations	0	0	0	0	0	0	0	0	0	0
Claims on other private sectors	3,148	25,916	47,555	59,048	68,247	86,498	115,760	162,713	188,269	232,773
Nonfinancial corporations and households	3,148	25,916	47,555	59,048	68,247	86,498	115,760	162,713	188,269	232,773
Deposits included in broad money	106,085	486,676	388,626	380,174	388,296	413,542	421,480	438,271	475,499	501,179
Transferable deposits	98,472	361,888	269,038	270,874	285,262	277,330	290,576	282,219	303,715	303,715
Non financial corporations	77,284	144,047	124,560	138,267	148,309	163,348	145,071	154,241	147,958	160,404
Households	21,189	217,841	144,478	130,668	122,565	121,913	132,259	136,335	134,261	143,311
Other deposits	7,613	124,788	119,588	111,239	117,422	128,280	144,150	147,695	193,280	197,464
Non financial corporations	4,579	31,318	23,423	22,116	25,879	23,921	38,276	41,485	71,661	74,758
Households	3,034	93,471	96,165	89,123	91,543	104,359	105,874	106,210	121,619	122,706
Securities included in broad money	-	-	-	-	-	-	-	-	-	-
Deposits, securities excluded from broad money	0	11,087	13,075	12,946	15,711	24,619	17,375	21,078	21,699	27,403
Own funds	11,077	25,163	28,817	33,019	40,106	43,805	44,322	50,802	49,611	61,075
of which share capital	7,156	21,023	23,132	26,209	30,910	33,320	33,563	36,252	37,239	46,617
Other Items (net)	-177	14,059	-843	-4,175	-3,060	-5,080	-3,703	-9,738	-11,352	-7,960
Other liabilities	2,121	25,495	4,336	6,611	7,842	5,957	7,649	8,150	10,152	11,190
less: Other assets	4,352	8,547	5,262	8,988	10,851	11,519	21,814	15,012	21,403	19,193
plus: Consolidation Adjustments	2,053	-2,889	83	-1,798	-51	482	10,461	-2,876	-102	43
Memorandum Item:										
Broad Money components	743,314	906,254	826,842	837,028	863,788	907,672	888,161	853,347	757,553	741,516
Currency outside DC (e)	637,229	419,578	438,216	456,854	475,492	494,130	466,681	415,076	282,054	240,337
Deposits included in broad money	106,085	486,676	388,626	380,174	388,296	413,542	421,480	438,271	475,499	501,179

Graph 1.1

Contribution to the growth rate of broad money

(percentage points)

- Broad money (monthly percentage change)
- Currency in circulation
- Private sector's deposits



Graph 1.2

Deposits of nonfinancial corporations and households

(percentage points)

- Total Deposits at DC (monthly growth rate)
- Transferable deposits - nonfinancial corporations (contribution to growth rate)
- Transferable deposits - households (contribution to growth rate)
- Other deposits - nonfinancial corporations (contribution to growth rate)
- Other deposits - households (contribution to growth rate)

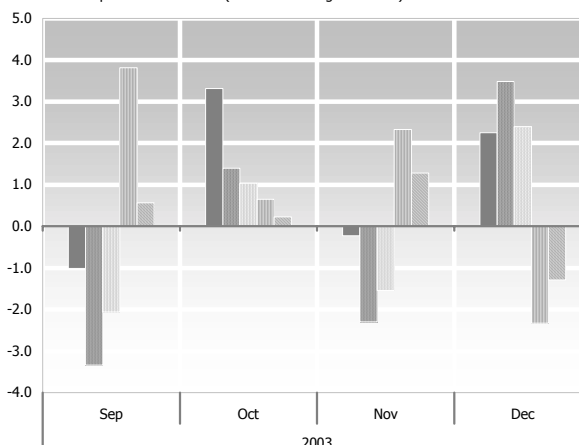


Table 2

Description	BPK SURVEY (outstanding amounts, end of period, in 000 EUR)									
	2000	2001	2002				2003			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net foreign assets	52,116	293,470	189,361	245,195	342,762	345,226	369,495	394,255	450,919	453,418
Assets	61,697	296,235	193,297	247,646	344,643	345,773	371,042	395,344	451,926	453,990
Cash	15,828	249,685	47,808	31,098	37,122	17,474	14,851	24,137	41,511	26,590
Transferable deposits	6,755	536	415	470	60,021	66,249	79,841	73,507	84,399	23,784
Other deposits	39,114	46,014	145,075	216,077	247,500	262,050	276,350	297,700	326,016	403,616
Liabilities	9,581	2,765	3,937	2,451	1,882	547	1,548	1,089	1,007	572
Deposits of foreign entities	N/A	184	184	184	184	184	283	274	274	274
Deposits of UNMIK	9,581	2,581	3,753	2,267	1,698	363	1,265	815	733	298
Claims on ODC	-	-	-	-	-	-	-	-	-	-
Net claims on central government	-8,741	-72,066	-120,239	-165,417	-270,856	-258,917	-301,974	-320,279	-381,871	-347,827
Transferable deposits	8,741	72,066	120,239	165,417	270,856	258,917	301,974	320,279	381,871	347,827
Claims on other sectors	0	0	0	0	0	0	0	0	0	0
Monetary base	15,753	173,904	36,012	43,250	37,403	46,222	41,822	38,785	33,284	59,612
Liabilities to ODC	15,753	173,904	36,012	43,250	37,403	46,222	41,822	38,785	33,284	59,612
Transferable deposits	15,753	173,904	36,012	43,250	37,403	46,222	41,822	38,785	33,284	59,612
of which : minimum liquidity reserves	N/A	N/A	19,963	22,429	24,738	26,908	29,701	27,627	30,800	26,908
Transferable deposits included in broad money	22,796	8,304	12,414	15,281	8,311	3,882	2,301	4,123	3,496	5,299
Public non financial corporations	22,796	6,959	11,426	14,384	7,879	3,467	1,966	4,105	3,479	5,282
Other non financial corporations	N/A	1,346	988	896	433	415	336	18	17	17
Securities included in broad money	-	-	-	-	-	-	-	-	-	-
Deposits excluded from broad money	0	11,087	13,075	12,946	15,711	24,619	17,066	17,978	18,348	25,652
Transferable deposits	0	11,087	13,075	12,946	15,711	24,619	17,066	11,552	11,898	19,180
Insurance companies	-	10,562	12,804	12,729	14,151	15,999	16,464	9,602	10,035	13,925
KPST	-	-	-	-	1,560	8,620	602	823	295	3,054
Pension Funds	-	-	-	-	N/A	N/A	N/A	1,127	1,568	2,201
Other financial corporations	N/A	525	271	217	0	0	0	0	0	0
Other deposits	0	0	0	0	0	0	n/a	6,426	6,450	6,472
Insurance companies	0	0	0	0	0	0	n/a	6,426	6,450	6,472
Securities excluded from broad money	0	0	0	0	0	0	0	0	0	0
Own funds	4,925	4,727	4,779	4,779	7,130	10,561	10,937	12,843	13,806	16,068
of which share capital	2,556	2,556	2,556	2,556	2,556	2,556	2,556	2,556	2,556	2,556
Other Items (net)	-99	23,381	2,841	3,522	3,351	1,025	-4,606	246	114	-1,040
Other liabilities	1,236	24,245	1,367	1,965	4,182	1,911	2,371	1,575	1,662	1,448
less: Other assets	1,334	864	1,474	1,557	831	886	6,977	1,329	1,549	2,488

Graph 2

Contribution to the growth rate of net foreign assets of BPK

(percentage points)

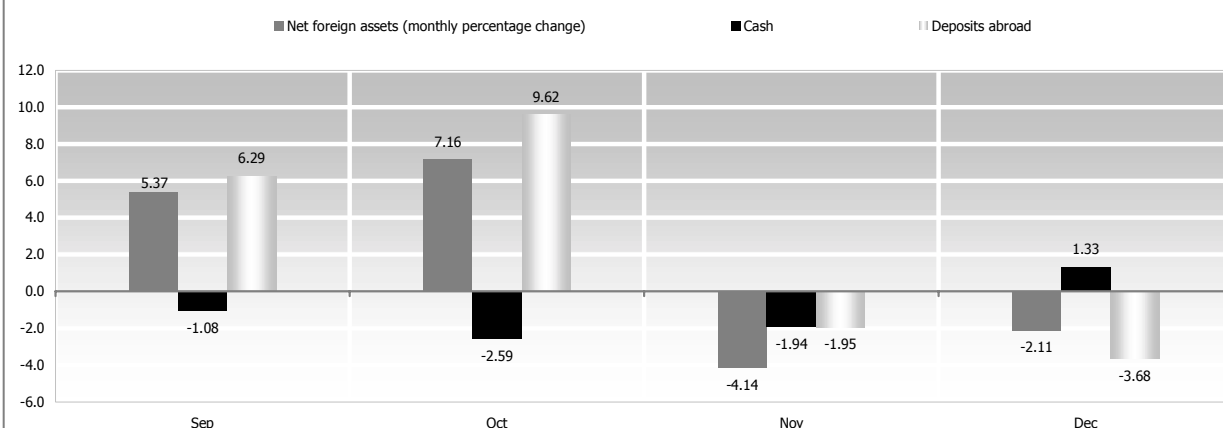
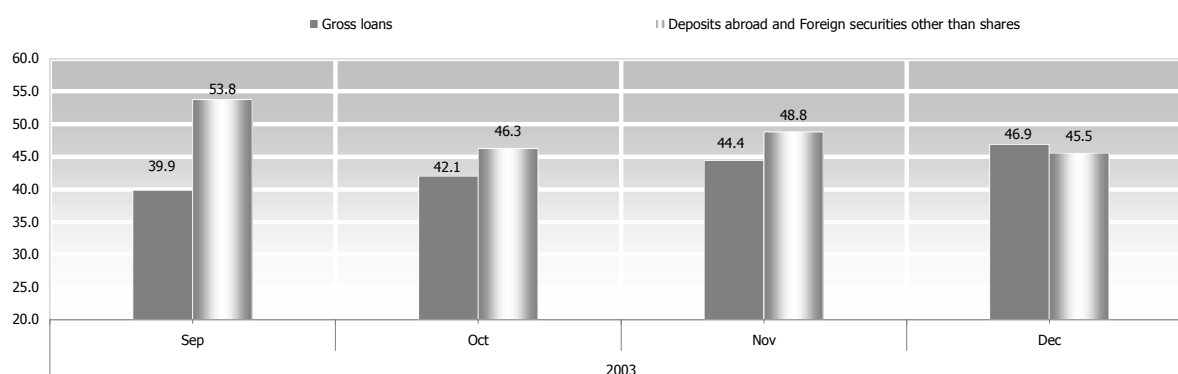


Table 3
OTHER DEPOSITORY CORPORATIONS SURVEY (outstanding amounts, end of period, in 000 EUR)

Description	2000	2001	2002				2003			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net foreign assets	70,461	289,664	312,999	283,138	300,900	304,079	296,192	263,725	278,140	243,333
Assets	83,099	308,593	334,833	305,719	325,374	328,322	321,562	292,435	305,888	272,436
Cash	11,671	88,342	41,723	46,963	49,002	35,597	40,516	47,706	52,038	46,611
Deposits in foreign banks	6,215	33,239	40,001	28,712	48,903	17,365	29,226	12,722	12,823	18,035
Placements	65,214	179,514	245,611	222,445	227,366	275,360	219,852	200,165	209,301	88,170
Securities other than shares	0	7,498	7,498	7,599	103	0	31,968	31,842	31,726	119,620
Liabilities	12,638	18,929	21,834	22,581	24,474	24,243	25,370	28,710	27,748	29,103
Transferable deposits	9,635	12,307	14,954	15,968	16,355	14,529	13,794	18,381	16,065	16,238
Other deposits	79	1,577	1,774	1,568	1,645	3,005	2,973	1,726	1,835	1,927
Borrowings	2,924	5,045	5,104	3,000	4,429	5,418	6,558	6,558	7,803	8,893
Subordinated debt	0	0	2	2,045	2,045	1,291	2,045	2,045	2,045	2,045
Net claims on central bank	13,700	176,793	35,929	45,048	37,454	45,740	31,361	41,661	33,386	59,569
Deposits at BPK	13,700	176,793	35,929	45,048	37,454	45,740	31,361	41,661	33,386	59,569
Net claims on central government	0	0	0	0	0	0	0	0	0	0
Net claims on OFC	0	0	0	0	0	0	0	0	0	0
Claims on other private sectors	3,148	25,916	47,555	59,048	68,247	86,498	115,760	162,713	188,269	232,773
Nonfinancial corporations and households	3,148	25,916	47,555	59,048	68,247	86,498	115,760	162,713	188,269	232,773
Gross loans	3,148	25,916	47,555	59,048	68,247	86,498	115,760	162,713	188,269	232,773
Net loans	3,148	25,135	46,476	57,700	66,231	83,976	112,160	157,228	181,301	225,058
Deposits included in broad money	83,289	478,372	376,212	364,893	379,985	409,660	419,179	434,148	472,003	495,880
Transferable deposits	75,676	353,583	256,624	253,654	262,563	281,380	275,029	286,453	278,723	298,416
Non financial corporations	54,487	137,089	113,134	123,883	140,431	159,882	143,105	150,136	134,244	155,122
Households	21,189	216,495	143,490	129,771	122,132	121,498	131,924	136,317	144,479	143,294
Other deposits	7,613	124,788	119,588	111,239	117,422	128,280	144,150	147,695	193,280	197,464
Non financial corporations	4,579	31,318	23,423	22,116	25,879	23,921	38,276	41,485	71,661	74,758
Households	3,034	93,471	96,165	89,123	91,543	104,359	105,874	106,210	121,619	122,706
Securities included in broad money	-	-	-	-	-	-	-	-	-	-
Deposits, securities excluded from broad money	0	0	0	0	0	0	309	3,100	3,351	1,751
Own funds	6,152	20,435	24,038	28,240	32,976	33,244	33,385	37,959	35,805	45,007
of which share capital	4,600	18,467	20,576	23,653	28,354	30,764	31,007	33,696	34,683	44,061
Other Items (net)	-2,132	-6,434	-3,767	-5,899	-6,360	-6,587	-9,559	-7,108	-11,364	-6,963
Other liabilities	885	1,249	2,969	4,646	3,660	4,046	5,278	6,575	8,490	9,742
less: Other assets	3,017	7,683	6,736	10,545	10,020	10,633	14,837	13,683	19,854	16,705

Graph 3**Gross domestic loans, deposits in foreign banks and foreign securities as a part of liabilities to private sector**

(in percentage)



DESCRIPTION	2000	2001	2002				2003			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ASSETS										
Cash	11,671	88,342	41,723	46,963	49,002	35,597	40,516	47,706	52,036	46,611
Balance with BPK	13,700	176,793	35,929	45,048	37,454	45,740	31,361	41,661	33,386	59,569
Interest bearing accounts with other banks	6,215	33,239	40,001	28,712	48,903	17,365	29,226	12,722	12,823	18,035
Nonresidents	6,215	33,239	40,001	28,712	48,903	17,365	29,226	12,722	12,823	18,035
Loans to financial institutions (placement)	65,214	179,514	245,611	222,445	227,366	275,360	219,852	200,165	209,301	88,170
Securities	0	7,498	7,498	7,599	103	0	31,968	31,842	31,726	119,620
Nonresidents	0	7,498	7,498	7,599	103	0	31,968	31,842	31,726	119,620
Gross loans to non-financial institutions	3,148	25,916	47,555	59,048	68,247	86,498	115,760	162,713	188,269	232,773
/less: Provisions for loan losses	0	781	1,079	1,348	2,016	2,522	3,600	5,485	6,968	7,715
Net loans	3,148	25,135	46,476	57,700	66,231	83,976	112,160	157,228	181,301	225,058
Property and equipment, net of depreciation	441	4,544	5,568	7,096	8,369	9,498	9,506	10,942	11,282	12,265
Interest receivable and other assets	2,576	3,920	2,247	4,797	3,667	3,657	8,931	8,226	15,540	12,155
Total Assets	102,964	518,985	425,053	420,360	441,095	471,193	483,520	510,492	547,397	581,483
Liabilities :										
Deposits by banks and OFC	0	0	0	0	0	0	309	3,100	3,351	1,751
Costumer deposits	93,003	492,255	392,940	382,429	397,985	427,194	435,946	454,255	489,903	514,045
Transferable deposits in EURO	85,311	365,890	271,578	269,622	278,918	295,909	288,823	304,834	294,788	314,654
Residents	75,676	353,583	256,624	253,654	262,563	281,380	275,029	286,453	278,723	298,416
Non financial corporations	54,487	137,089	113,134	123,883	140,431	159,882	143,105	150,136	144,479	155,122
Households	21,189	216,495	143,490	129,771	122,132	121,498	131,924	136,317	134,244	143,294
Nonresidents	9,635	12,307	14,954	15,968	16,355	14,529	13,794	18,381	16,065	16,238
Other deposits in EURO	7,692	126,365	121,362	112,807	119,067	131,285	147,123	149,421	195,115	199,391
Residents	7,613	124,788	119,588	111,239	117,422	128,280	144,150	147,695	193,280	197,464
Non financial corporations	4,579	31,318	23,423	22,116	25,879	23,921	38,276	41,485	71,661	74,758
Households	3,034	93,471	96,165	89,123	91,543	104,359	105,874	106,210	121,619	122,706
Nonresidents	79	1,577	1,774	1,568	1,645	3,005	2,973	1,726	1,835	1,927
Total deposits	93,003	492,255	392,940	382,429	397,985	427,194	436,255	457,355	493,254	515,796
Borrowings	2,924	5,045	5,104	3,000	4,429	5,418	6,558	6,558	7,803	8,893
Nonresidents	2,924	5,045	5,104	3,000	4,429	5,418	6,558	6,558	7,803	8,893
Interest payable and other liabilities	885	1,249	2,969	4,646	3,660	4,046	5,278	6,575	4,890	9,742
Subordinated debts	0	0	2	2,045	2,045	1,291	2,045	2,045	2,045	2,045
Nonresidents	0	0	2	2,045	2,045	1,291	2,045	2,045	2,045	2,045
Total liabilities	96,812	498,549	401,015	392,120	408,119	437,949	450,136	472,533	511,592	536,476
Total shareholder's equity	6,152	20,435	24,038	28,240	32,976	33,244	33,385	37,959	35,805	45,007
Total (liabilities and shareholder's equity)	102,964	518,985	425,053	420,360	441,095	471,193	483,520	510,492	547,397	581,483

Table 5

ODC NONRESIDENT DEPOSITS (outstanding amounts, end of period, in 000 EUR)										
DESCRIPTION	2000	2001	2002				2003			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. Total resident deposits	83,289	478,371	376,212	364,893	379,985	409,660	419,488	437,248	475,354	495,783
Nonresidents										
Households	1,742	4,844	5,680	5,035	4,706	5,101	5,629	6,399	7,190	7,125
Time deposits	66	1,549	1,656	1,540	1,617	1,977	1,945	1,681	1,804	1,859
Sight deposits	1,676	3,296	4,024	3,495	3,089	3,124	3,684	4,718	5,386	5,266
Legal entities	7,972	9,039	11,048	12,501	13,294	12,433	11,138	13,708	10,710	12,888
Time deposits	13	28	118	28	28	1,028	1,028	45	31	1,077
Sight deposits	7,959	9,011	10,930	12,473	13,266	11,405	10,110	13,663	10,679	11,811
Banks	0	0	0	0	0	0	0	0	0	0
Time deposits	0	0	0	0	0	0	0	0	0	0
Sight deposits	0	0	0	0	0	0	0	0	0	0
2. Total nonresident deposits	9,714	13,884	16,728	17,536	18,000	17,534	16,767	20,107	17,900	20,013
TOTAL (1+2)	93,003	492,255	392,940	382,429	397,985	427,194	436,255	457,355	493,254	515,796

Table 6
ODC LOANS BY INSTITUTIONAL SECTORS (outstanding amounts, end of period, in 000 EUR)

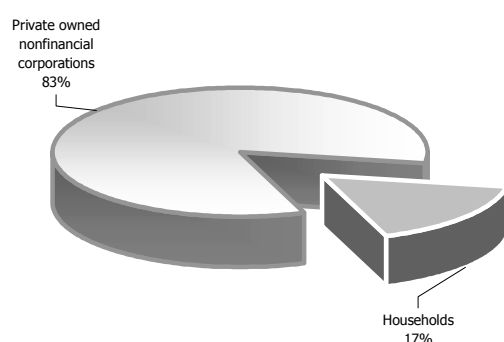
DESCRIPTION	2000	2001	2002				2003			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Government Units	0	0	0	0	0	0	0	4,635	0	0
Financial corporations	0	0	0	0	0	0	0	507	0	0
Loans to Non-Profit Organizations	0	0	0	0	0	0	0	29	0	0
Publicly owned nonfinancial corporations	0	0	0	15	11	54	0	1,188	224	173
Social owned nonfinancial corporations	0	1,000	2,554	1,723	1,658	1,283	1,881	1,722	603	564
Private owned nonfinancial corporations	3,148	24,916	45,001	56,978	66,578	79,469	101,853	132,516	156,434	193,151
Households	N/A	N/A	N/A	N/A	N/A	5,692	12,026	22,116	31,008	38,885
Total	3,148	25,916	47,555	58,716	68,247	86,498	115,760	162,713	188,269	232,773

Table 7
ODC LOANS BY ECONOMIC ACTIVITY (outstanding amounts, end of period, in 000 EUR)

DESCRIPTION	2000	2001	2002				2003			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
By economic activity										
Agriculture	0	141	386	589	1,412	1,510	2,034	3,129	3,839	4,558
Civil Engineering	0	0	1,657	715	722	1,811	57	853	1,256	1,619
Trade	2,187	13,960	21,455	30,083	35,930	50,532	67,749	92,335	89,355	113,531
Services, Tourism, Hotel/ Restaurants	565	3,688	9,031	12,822	13,826	14,633	18,926	27,277	56,226	71,606
Industry	396		2,149	4,059	665	3,154	8,233	10,337	13,378	16,241
Real Estate/ Real Estate Construction	0	194	647	735	1,263	474	0	86	184	1,850
Administration, Other Public Services	0	0	0	58	4,092	3,822	0	1,050	51	191
Other	0	7,933	12,230	9,655	10,337	10,562	18,761	27,646	23,980	23,177
Total loans	3,148	25,916	47,555	58,716	68,247	86,498	115,760	162,713	188,269	232,773

Graph 4

Gross Loans by Institutional Sector, as of end December 2003

**Graph 5**

Gross Loans by Economic Activity, as of end December 2003

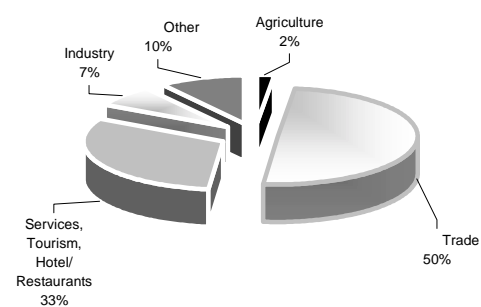


Table 8

ODC INCOME STATEMENT										
(cumulative within calendar year, in 000 EUR)										
DESCRIPTION	2000	2001	2002				2003			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
INCOME										
Interest income	1,829	7,179	2,965	7,194	12,225	17,818	5,890	13,355	21,352	30,695
Loans	0	2,150	1,314	3,404	6,174	9,373	3,839	9,416	15,749	23,780
Placement with banks	0	5,029	1,598	3,675	5,801	8,257	2,051	3,939	5,603	6,090
Securities	0	0	53	115	250	188	0	0	0	823
Non-Interest income	5,274	9,402	3,804	6,888	9,893	14,034	3,456	7,932	12,990	17,984
Fees and commissions	5,274	9,212	3,424	6,099	9,252	13,194	3,253	7,407	12,026	16,750
Other operating income	0	190	380	789	641	840	203	525	964	1,234
TOTAL INCOME	7,104	16,581	6,769	14,082	22,118	31,852	9,346	21,287	34,342	48,679
EXPENDITURES										
Interest expenditures	207	1,312	1,010	1,879	2,756	3,470	968	1,946	3,381	5,279
Deposits	207	855	719	1,707	2,488	3,102	862	1,721	3,006	4,782
Borrowings	0	458	291	172	268	368	106	225	375	497
Non-Interest expenditures	338	1,507	629	1,738	3,491	5,792	2,343	4,696	10,724	10,223
Provision for losses on loans (placement)	166	616	181	763	1,883	3,282	1,659	3,594	5,719	7,720
Depreciation on fixed assets	172	891	448	975	1,608	2,510	684	1,102	5,005	2,503
General and administrative expenses	2,707	7,271	3,755	7,668	12,695	19,130	5,786	11,639	14,872	25,379
TOTAL EXPENDITURES	3,252	10,090	5,394	11,285	18,942	28,392	9,097	18,281	28,977	40,881
NET INCOME										
Net operating income	3,852	6,491	1,375	2,797	3,176	3,460	249	3,006	5,365	7,798
Net gains/losses from dealing securities	0	0	0	0	0	0	0	0	0	0
Net gains/losses from dealing in foreign exchange	577	699	229	348	459	509	174	384	418	658
Net gains losses from foreign currency revaluations	33	-19	8	-58	44	53	-10	-32	-56	-85
Net income from banking activities before taxes	4,462	7,172	1,612	3,087	3,679	4,022	413	3,358	5,728	8,713
Provision from taxes	610	456	137	431	919	1,306	288	958	1,406	1,912
Net profit / loss for period	3,852	6,716	1,475	2,656	2,760	2,716	125	2,400	4,322	6,801
/less: dividend paid	2,300	5,260	0	0	0	2,118	0	0	0	0
Retained profit	1,552	1,457	1,475	2,656	2,760	598	125	2,400	4,322	6,801

Graph 6

Commercial banks income and expenditure

(quarterly data, 000 EUR)

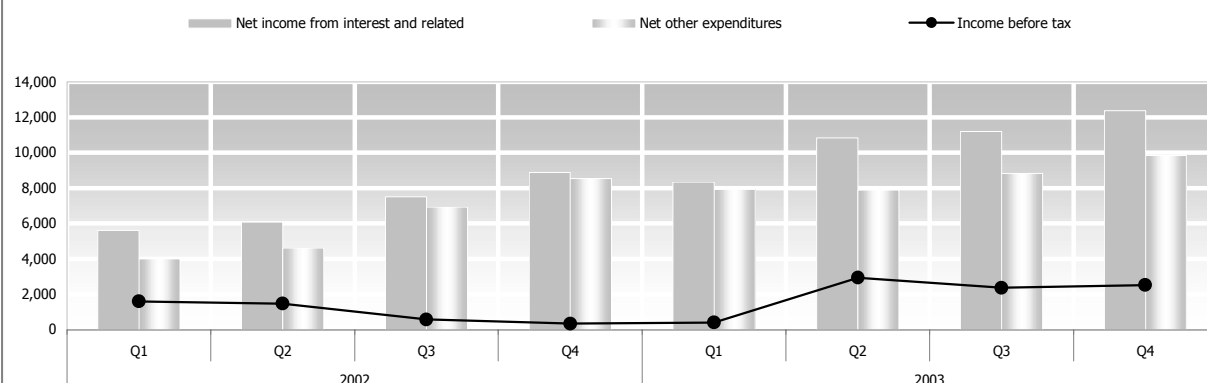


Table 9

OPERATIONS ON CURRENT ACCOUNTS HELD WITH BPK (volume by period, in 000 EUR)						
Period	Outstanding end of previous period	Net cash transactions	Net domestic transfers	Net international transfers	Total net transactions	
2003	Jan	334,003	8,181	9,069	17,250	
	Feb	351,253	-842	9,193	8,351	
	Mar	359,604	-11,039	15,863	4,824	
	Apr	364,428	1,712	1,509	3,221	
	May	367,649	10,647	-9,754	893	
	Jun	368,542	13,157	49	-6,193	7,013
	Jul	375,554	25,412	141	-5,725	19,828
	Aug	395,383	47,236	-362	-33,233	13,641
	Sep	409,024	45,357	219	-23,318	22,258
	Oct	431,282	23,597	306	7,563	31,466
	Nov	462,749	6,583	5,786	-26,152	-13,783
	Dec	448,966	6,195	-3,203	-19,743	-16,751

Graph 7**Net operations on current accounts held with BPK**

(in 000 EUR)

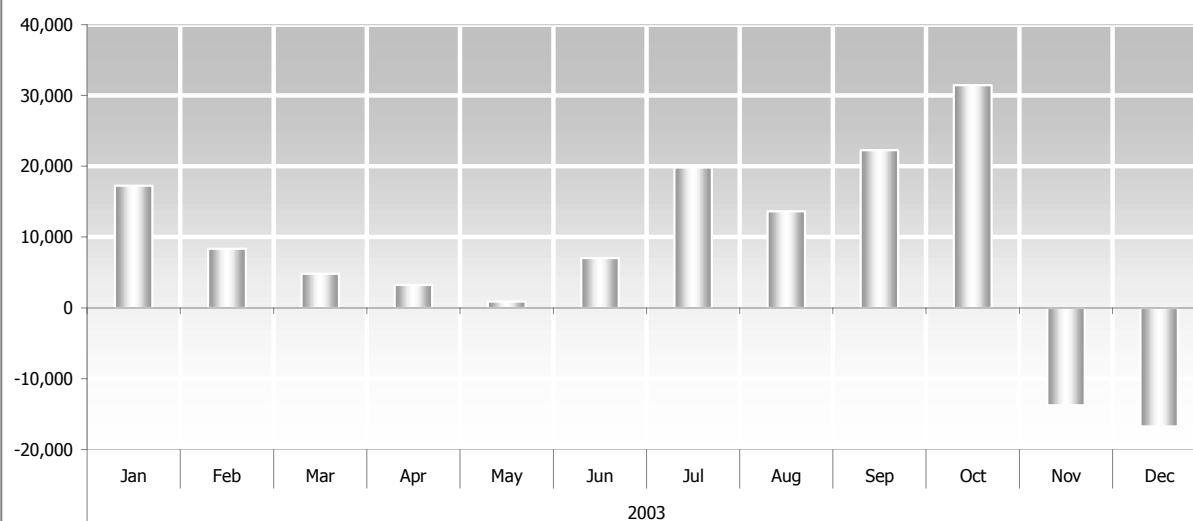


Table 10**CASH DEPOSITS HELD WITH BPK CURRENT ACCOUNTS** (volume by period, in 000 EUR)

Period	Government Agencies	Public Utilities	Banks and other fin. Institutions	Insurance Companies	Enterprises	NGO-s	Donor Agencies	Total Deposits	
Total 2000	227,810	50,349	9,790	5,468	16,313	10,878	7,149	327,757	
Total 2001	235,199	72,761	205,642	18,654	6,887	3,281	4,826	547,250	
Total 2002	87,340	27,375	291,656	2,021	0	608	143	409,143	
Total 2003	3,040	15,587	400,820	3,327	0	92	0	422,866	
2003	Jan	357	1,394	19,928	629	0	12	0	22,320
	Feb	223	1,215	16,024	916	0	29	0	18,407
	Mar	422	1,378	18,567	60	0	8	0	20,435
	Apr	303	1,361	29,404	36	0	21	0	31,125
	May	182	1,480	32,550	333	0	10	0	34,555
	Jun	358	1,165	33,609	95	0	3	0	35,231
	Jul	219	1,213	45,036	131	0	2	0	46,601
	Aug	138	1,178	58,024	220	0	1	0	59,561
	Sep	151	1,267	60,012	275	0	0	0	61,705
	Oct	146	1,465	34,739	222	0	0	0	36,572
	Nov	189	1,195	23,434	136	0	1	0	24,955
	Dec	352	1,276	29,493	274	0	5	0	31,400

Graph 8**Cash deposits held with BPK current accounts**

(in 000 EUR)

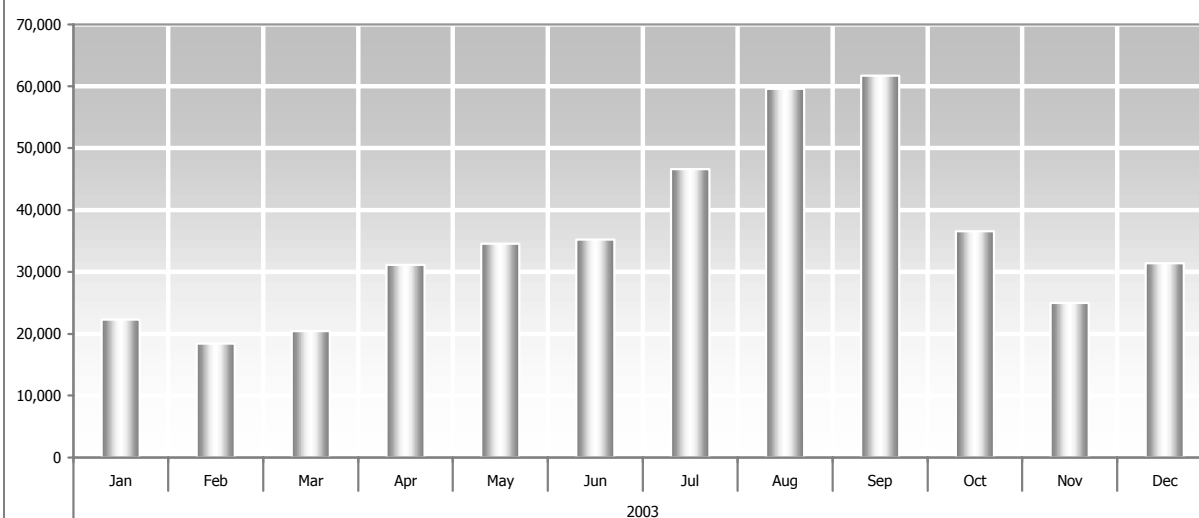


Table 11**CASH WITHDRAWALS HELD WITH BPK CURRENT ACCOUNTS** (volume by period, in 000 EUR)

Period	Government Agencies	Banks and other fin. Institutions	Public Utilities	Donor Agencies	NGO-s	Enterprises	Insurance Companies	Total Withdrawals	
Total 2000	214,924	2,124	43,554	82,756	31,284	12,238	1,408	388,288	
Total 2001	193,832	65,351	49,883	150,047	37,299	5,170	3,504	505,086	
Total 2002	127,888	309,016	17,699	26,190	7,885	0	702	489,380	
Total 2003	18,153	220,912	5,609	0	1,996	0	0	246,671	
2003	Jan	5,445	7,467	1,098	0	129	0	0	14,139
	Feb	1,332	16,904	786	0	227	0	0	19,249
	Mar	1,112	29,420	696	0	245	0	0	31,474
	Apr	1,287	26,730	1,172	0	224	0	0	29,413
	May	1,566	21,475	583	0	284	0	0	23,908
	Jun	1,305	20,302	268	0	199	0	0	22,074
	Jul	1,329	19,471	234	0	155	0	0	21,189
	Aug	1,227	10,902	120	0	77	0	0	12,326
	Sep	1,099	14,900	239	0	110	0	0	16,348
	Oct	839	11,851	176	0	109	0	0	12,975
	Nov	744	17,398	92	0	138	0	0	18,372
	Dec	868	24,092	145	0	99	0	0	25,204

Graph 9**Cash withdrawals held with BPK current accounts**

(in 000 EUR)

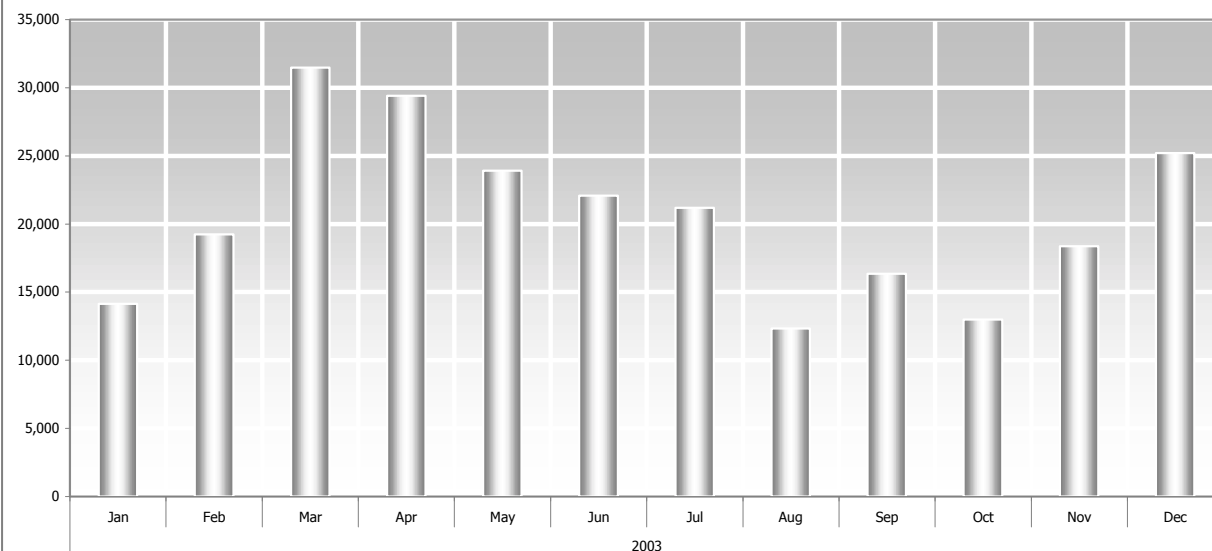


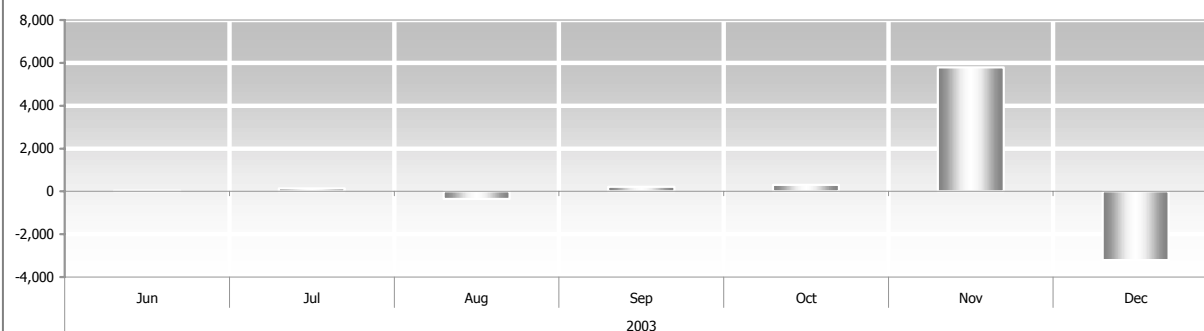
Table 12

NET DOMESTIC AND NET INTERNATIONAL TRANSFERS WITH BPK CURRENT ACCOUNTS (volume by period, in 000 EUR)																
Period	NET DOMESTIC TRANSFERS HELD WITH BPK CURRENT ACCOUNTS								NET INTERNATIONAL TRANSFERS HELD WITH BPK CURRENT ACCOUNTS							
	Government Agencies	Public Utilities	Banks and other fin. Institutions	Insurance Companies	Enterprises	NGO-s	Other	Total domestic transfers (net)	Government Agencies	Public Utilities	Banks and other fin. Institutions	Insurance Companies	Enterprises	NGO-s	Donor Agencies	Total international transfers (net)
Up to month 2003	58,568	-3,787	-47,617	2,618	0	-6,845	0	2,938	-14,487	-1,999	-97,682	-174	0	7,540	0	-106,801
2003																
Jun	13,716	-212	-12,349	-536	0	-568	0	49	-3,805	-161	-2,727	-83	0	583	0	-6,193
Jul	4,883	-1,932	-1,939	610	0	-1,481	0	141	3,391	-315	-10,743	0	0	1,943	0	-5,725
Aug	13,673	-480	-12,860	-250	0	-445	0	-362	1,633	109	-35,636	-3	0	662	0	-33,233
Sep	43,219	-785	-41,169	-537	0	-510	0	219	-2,958	-288	-20,515	-14	0	456	0	-23,318
Oct	7,286	-841	-5,367	-89	0	-683	0	306	6,869	-462	679	-33	0	510	0	7,563
Nov	7,617	-979	-4,803	5,090	0	-1,140	0	5,786	-14,928	-178	-12,713	0	0	1,666	0	-26,152
Dec	-31,827	1,442	30,870	-1,670	0	-2,018	0	-3,203	-4,690	-703	-16,028	-40	0	1,719	0	-19,743

Graph 10

Net domestic transfers with BPK current accounts

(in 000 EUR)



Graph 11

Net international transfers with BPK current accounts

(in 000 EUR)

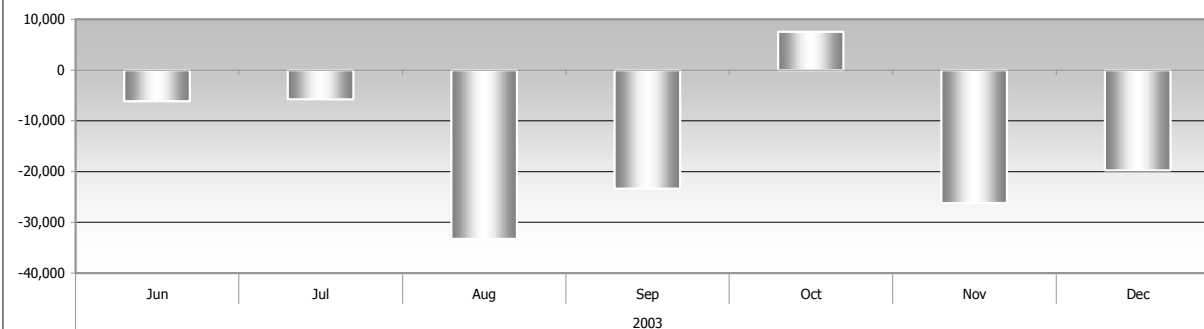


Table 13

INTERBANK CLEARING SYSTEM (volume by period)

Period	Transactions	
	Number (unity)	Value (in 000 EUR)
2001	4,888	79,535
2002	75,763	840,605
Up to Dec 2002	75,763	840,605
Up to Dec 2003	164,207	1,416,109
Jan	8,833	93,540
Feb	9,121	97,336
Mar	12,253	103,662
Apr	11,713	115,426
May	11,657	106,388
Jun	13,724	99,912
Jul	14,394	141,038
Aug	10,942	104,217
Sep	15,372	139,365
Oct	15,303	141,032
Nov	15,575	103,093
Dec	25,320	171,100

Graph 12

Interbank Clearing System

(in 000 EUR)

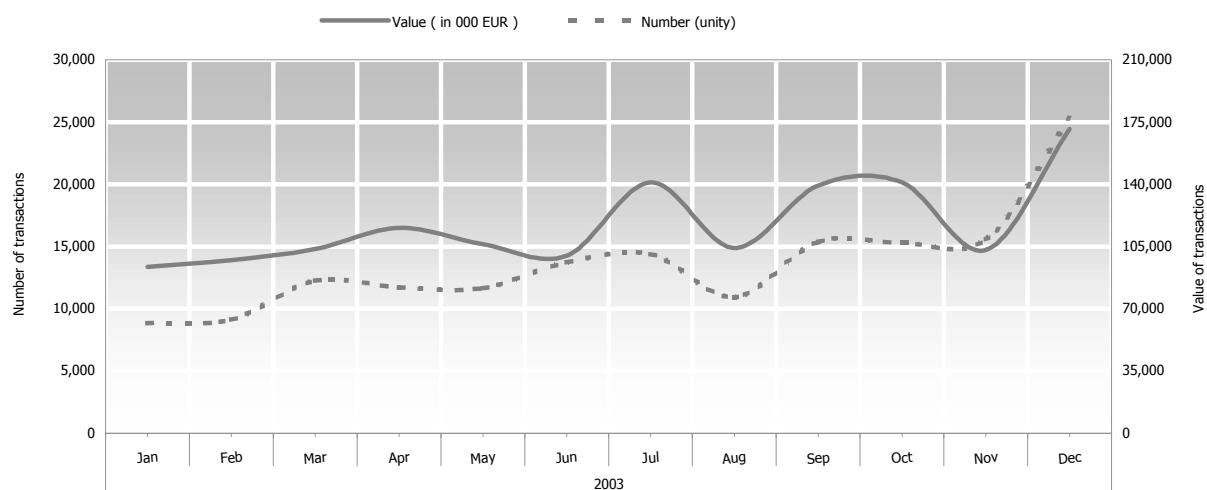


Table 14

FOREIGN TRANSFERS (volume by period in 000 EUR)

Period	Outgoing				Incoming			
	BPK	Commercial Banks	Wire transfers Agencies	Total	BPK	Commercial Banks	Wire transfers Agencies	Total
Total 2000	8,553	173,463	1,746	183,762	117,213	286,096	6,370	409,679
Total 2001	77,295	500,522	10,094	587,911	226,980	588,229	41,841	857,050
Total 2002	241,718	754,473	14,484	1,010,675	239,706	779,899	106,524	1,126,129
Up to Dec 2002	241,718	754,473	14,484	1,010,675	239,706	779,899	106,524	1,126,129
Up to Dec 2003	275,412	1,014,780	13,032	1,303,224	220,929	916,724	137,232	1,274,885
Jan	3,806	63,871	1,171	68,848	26,802	58,900	8,876	94,578
Feb	367	72,923	1,048	74,338	21,157	62,553	9,117	92,827
Mar	13,619	95,738	894	110,251	30,231	92,411	10,163	132,805
Apr	19,486	66,020	1,044	86,550	11,744	66,896	10,404	89,044
May	17,625	83,789	1,106	102,520	17,287	80,035	11,691	109,013
Jun	26,733	90,169	1,010	117,912	20,539	92,661	10,646	123,846
Jul	32,270	82,039	1,161	115,470	26,545	78,969	10,384	115,898
Aug	41,452	87,679	1,076	130,207	8,218	72,678	11,540	92,436
Sep	33,516	87,264	994	121,774	10,198	69,808	13,905	93,911
Oct	14,940	96,835	1,262	113,037	22,502	85,453	14,955	122,910
Nov	35,756	79,956	1,063	116,775	9,604	73,539	14,015	97,158
Dec	35,843	108,497	1,203	145,543	16,101	82,821	11,536	110,458

Graph 13

Foreign transfers

(in 000 EUR)

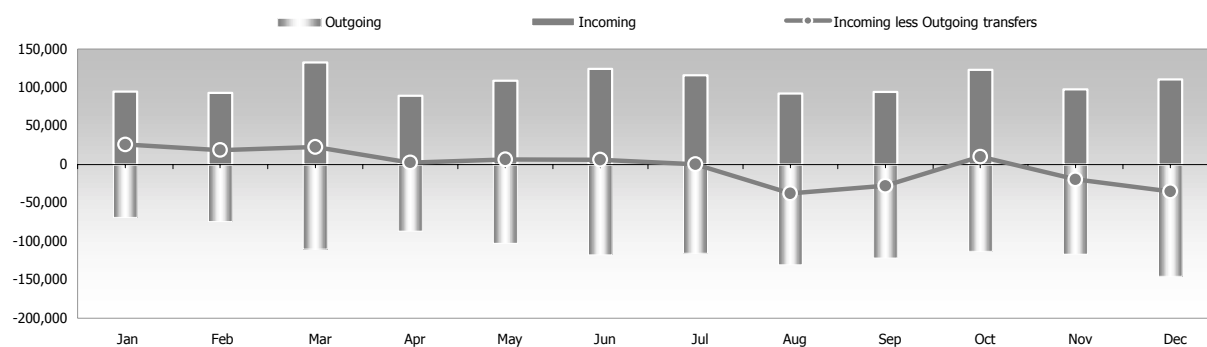


Table 15

INSURANCE COMPANIES ACTIVITY (volume by period, amounts in 000 EUR, numbers in unity)

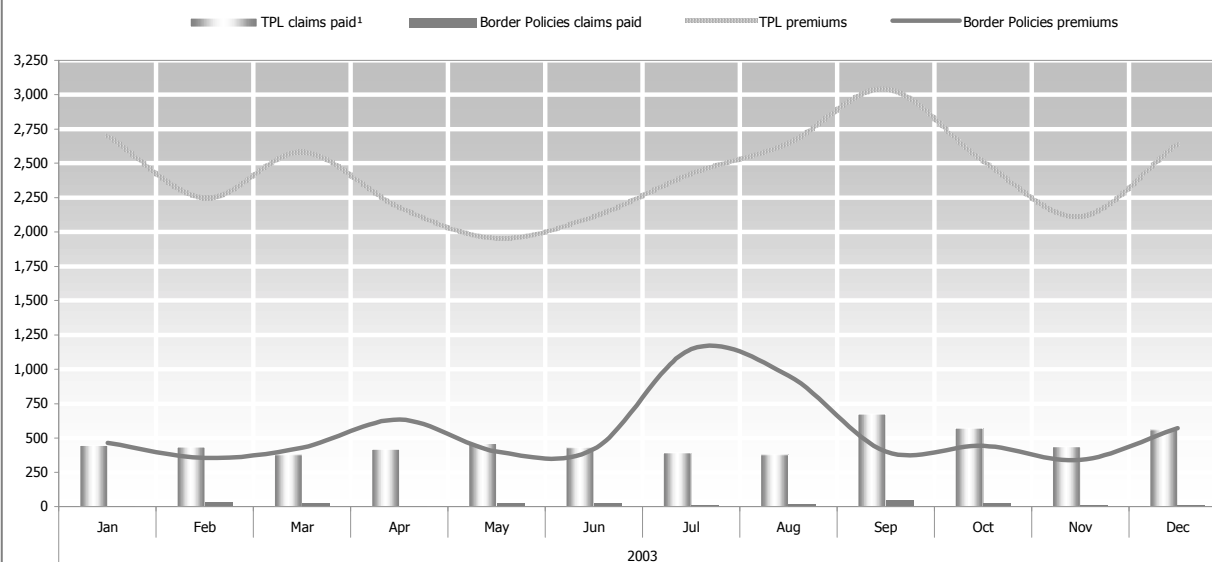
Period	Amount of Premiums received				Number of Policies sold				Amount of Claims paid	
	Total	TPL	Border Policies	Other	Total	TPL	Border Policies	Other	TPL ¹	Border Policies
2001	N/A	31,161	N/A	N/A	N/A	179,864	N/A	N/A	2,655	N/A
2002	30,983	27,231	3,686	66	247,366	175,008	72,358	67	3,540	395
Up to Sep 2003	28,169	21,891	5,202	1,076	208,342	143,775	62,073	3,013	4,008	216
Jan	3,190	2,702	464	24	22,390	18,123	4,041	223	446	9
Feb	2,676	2,248	355	73	18,984	14,189	4,284	511	433	33
Mar	3,193	2,582	429	182	21,047	15,331	4,814	120	379	28
Apr	2,867	2,179	633	55	17,224	12,987	4,237	899	417	9
May	2,437	1,954	401	82	16,686	12,571	4,115	193	459	28
Jun	2,616	2,113	420	83	19,686	14,788	4,898	211	430	26
Jul	3,827	2,424	1,147	256	30,576	16,805	13,600	171	390	14
Aug	3,755	2,647	953	155	36,164	18,721	17,334	110	379	20
Sep	3,608	3,042	400	166	25,585	20,260	4,750	575	675	49
Oct	2,983	2,516	443	24	19,798	19,721	N/A	77	572	26
Nov	2,598	2,113	341	144	15,582	15,253	N/A	329	436	15
Dec	3,310	2,643	571	96	20,882	20,474	N/A	408	560	15

¹ Included the claims paid by the Kosovo Guarantee Fund

Graph 14

Insurance premiums and paid claims

amounts in 000 EUR



¹ Included the claims paid by the Kosovo Guarantee Fund

Table 16																			
MFI'S AND OTHER NONBANK CREDIT INSTITUTIONS LOAN ACTIVITY (Outstanding amounts, end of period, value in 000 EUR)																			
Period	Micro Financial Institutions (MFI-s)														Other nonbank credit institutions			TOTAL	
	FINCA	KEP	GRAM MEN - MA	MCI-AFK	CORD-AID	BESĚ-LIDHJA	ADIE	KOSINV-EST	MESH-TEKNA	Ce.L.I.M	Perspektiva (4)	Balkanctie	IOM	START	ICU	DEG	ABU		
2000	560	1,282	234	0	111	373	101	0	0	0	-	-	0	0	0	0	0	2,661	
2001*	2,169	3,638	957	854	143	729	1,069	84	163	71	-	-	0	0	6,217	0	3,624	19,718	
2002**	3,349	4,788	2,389	900	138	1,426	1,922	400	207	121	-	-	215	141	5,277	2,596	9,220	33,089	
2003	Q1	3,371	5,281	2,095	1,050	138	1,684	2,418	420	195	119	-	-	350	138	5,048	2,596	9,027	33,930
	Q2	3,258	6,187	2,276	1,114	125	1,839	2,619	487	278	133	-	-	388	320	4,747	2,596	8,869	35,236
	Jul	3,285	6,253	2,303	1,194	125	1,825	2,624	428	274	143	-	-	402	340	1,948	2,596	8,399	32,139
	Aug	3,465	6,000	2,371	1,260	125	1,746	2,685	455	288	149	-	-	413	343	1,903	2,596	8,561	32,360
	Sep	3,374	5,949	2,464	1,297	125	1,673	2,708	477	301	151	-	-	406	352	1,926	2,499	8,527	32,229
	Oct	3,555	6,098	2,702	1,333	125	1,731	2,698	527	283	161	-	-	418	320	1,892	2,499	8,410	32,752
	Nov	3,660	6,527	2,914	1,368	125	1,634	2,787	547	289	176	10	3	385	332	1,865	2,499	8,532	33,653
	Dec	3,963	6,527	3,006	1,359	125	1,534	2,816	624	280	176	10	3	385	281	1,852	2,459	8,474	33,874
Note:																			
*/In Year 2002 KBFF has operated and has given 5 loans with an amount of 241 thousands euro.																			
**/ In Year 2001 MFI DRC has operated and has given 124 loans with an amount of 152 thousands euro whereas for Year 2002 with 317 loans and 348 thousands euro.																			
Table 17																			
MFI'S AND OTHER NONBANK CREDIT INSTITUTIONS NUMBER OF LOANS (outstanding number, end of period, in unity)																			
Period	Micro Financial Institutions (MFI-s)														Other nonbank credit institutions			TOTAL	
	FINCA	KEP	GRAM MEN - MA	MCI-AFK	CORD-AID	BESĚ-LIDHJA	ADIE	KOSINV-EST	MESH-TEKNA	Ce.L.I.M	Perspektiva (4)	Balkanctie	IOM	START	ICU	DEG	ABU		
2000	520	925	488	0	12	668	109	0	0	0	-	-	0	0	0	0	0	2,722	
2001	1,569	4,452	2,345	173	18	910	1,597	73	103	76	-	-	0	0	50	0	7	11,373	
2002	1,795	4,921	4,650	254	18	1,284	2,035	396	258	146	-	-	62	215	56	3	21	16,114	
2003	Q1	1,841	4,917	4,700	268	18	1,171	2,470	472	204	112	-	-	119	257	56	3	22	16,630
	Q2	1,824	5,527	4,671	319	18	1,314	2,820	413	187	145	-	-	158	487	58	3	26	17,970
	Jul	1,842	5,557	4,746	339	18	1,320	2,797	405	205	118	-	-	178	543	23	3	25	18,119
	Aug	1,859	5,562	4,874	359	18	1,300	2,785	427	222	157	-	-	196	573	23	3	27	18,385
	Sep	1,864	5,471	4,710	386	18	1,291	2,805	431	242	129	-	-	209	581	24	3	27	18,191
	Oct	1,914	5,457	4,748	427	17	1,339	2,793	466	259	133	-	-	240	564	24	3	27	18,411
	Nov	1,978	5,607	4,758	449	17	1,353	2,954	474	282	125	8	1	245	565	24	3	27	18,870
	Dec	2,106	5,607	4,733	467	17	1,335	2,998	510	289	125	9	1	245	541	24	3	27	19,037

Table 18

ODC - GEOGRAPHICAL DISTRIBUTION

As of end Dec, 2003

Region	Banks Issued Final License Approval							Applications in process of review	Total Licensed		
	PCB	BRK	BPB	BE	KSB	RBKO	BKP	CEDB* Komerrijalna Banka	Banks	Branches	Sub - branches
Prishtina	HQ+SB	HQ+2SB	HQ+4SB	HQ+2SB	HQ+2SB	HQ+2SB	HQ+2SB	HQ	7		15
Prizren	BR	BR+SB	BR+SB	BR+SB	BR+2SB	BR	BR			7	5
Peja	BR	BR+SB	BR+SB	BR+2SB	BR+SB	BR	BR			7	5
Gjilani	BR	BR+SB	BR+SB		BR	BR	BR+3SB			6	5
Gjakova	BR	BR	BR	BR+SB	BR+SB	BR	BR			7	2
Mitrovica	BR + SB	BR+SB	BR+SB	BR	BR+3SB	BR+SB				5	7
Ferizaj	BR	BR	BR+SB	BR	BR	BR	BR+SB			7	2
Podujevë		SB	2SB		BR+SB					1	4
Lipjan			SB		SB		SB				3
Vitia		SB	SB		SB						3
Rahovec		SB	SB				2SB				4
Kamenicë		SB	SB		SB	SB	2SB				6
Kaçanik			SB		SB	SB					3
Dragash			SB								1
Shtime			SB				SB				2
Klinë			SB		SB						2
Shtërpce						SB					1
Elez Han		SB			2SB		SB				4
Fushë Kosovë					2SB		SB				3
Gillogovcë		SB			SB		2SB				4
Graçanicë						SB					1
Deçan					SB						1
Vushtri		SB	SB		SB	SB	SB				5
Zveçan											
Theranda		SB	SB		SB						3
Skenderaj		SB					SB				2
Istog			SB	SB	SB						3
Malishevë			SB				SB	SB			3
Obiliq					SB						1
TOTAL									7	40	100

Table 19

EXCHANGE BUREAUX AND MONEY TRANSFER SERVICES - GEOGRAPHICAL DISTRIBUTION

As of end Dec, 2003

Region	Exchange Bureau				Transfer Services	
	ABD	Euro-Cufa	EURO B	NBS	Union Financial Tiranë	MEB - Western Union
Prishtina	HQ + BR	HQ		HQ	HQ	BR
Prizren						BR
Peja						BR
Gjilani						BR
Gjakova						BR
Mitrovica						
Ferizaj						
Gillogovc (Drenas)			BR			

Note :

PCB = ProCredit Bank, BRK = New Bank of Kosovo, BPB = Bank for Private Business, BE = Economic Bank, KSB = Kasa Banka,

BKP= Credit Bank of Prishtina, RBKO =Raiffeisen Bank Kosovo, CEDB= Central European Development Bank

HQ= Headquarter, BR = Branches, SB = Sub - branches, MU = Mobile Unit.

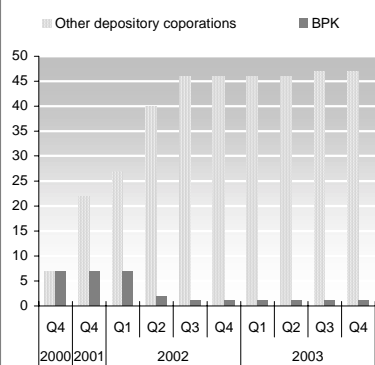
Table 20

EMPLOYMENT AND BRANCHES: ODC AND BPK As end of period

Period	Other depository corporations			BPK			
	Number of branches ¹	Number of sub-branches	Number of full-time equivalent employees	Number of Branches ¹	Number of sub-branches	Number of full-time equivalent employees	
2000	Q4	7	1	139	7	15	338
2001	Q4	22	6	637	7	15	339
2002	Q1	27	16	700	7	15	346
	Q2	40	34	972	2	2	118
	Q3	46	56	1,329	1	-	130
	Q4	46	64	1,393	1	-	132
2003	Q1	46	81	1,452	1	-	124
	Q2	46	89	1,546	1	-	120
	Q3	47	99	1,643	1	-	122
	Q4	47	100	1,676	1	-	124

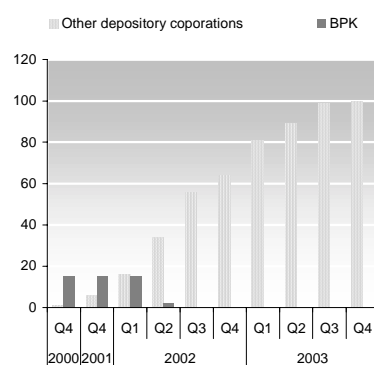
Graph 15.1

Number of branches¹



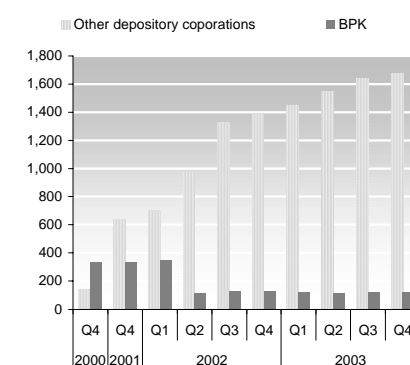
Graph 15.2

Number of sub-branches



Graph 15.3

Number of employees



^{1/} Head office is counted as branch

Graph 16

Degree of concentration in ODC: Herfindahl index

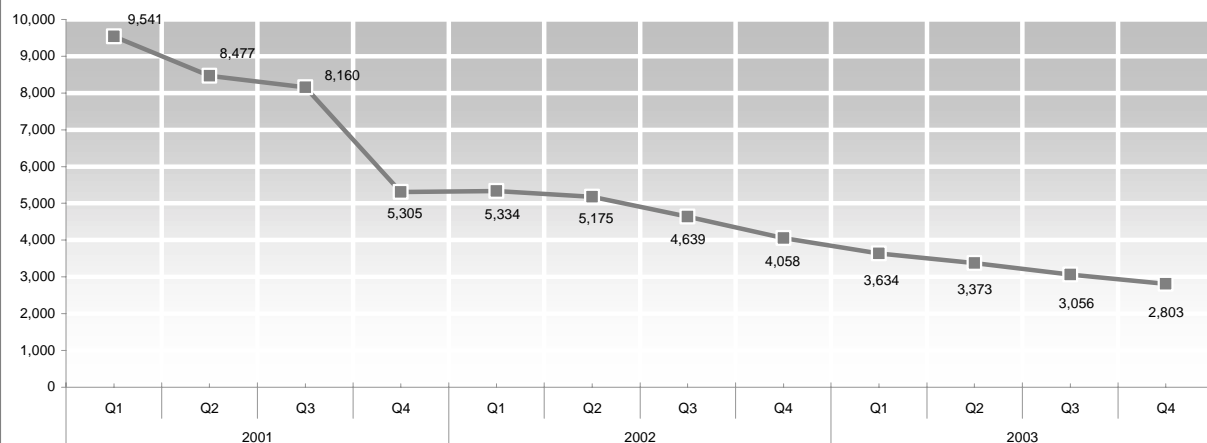


Table 21												
MICRO FINANCE AND NON-BANK FINANCIAL INSTITUTIONS - GEOGRAPHICAL DISTRIBUTION												As of end Dec, 2003
	Prishtinë	Prizren	Pejë	Gjakovë	Klinë	Mitrovicë	Vushtrri	Ferizaj	Gjilan	Graçanica	Dragash	Shtime
Micro Finance Institutions												
FINCA Kosovo		√		√				√	√			
Kosovo Enterprise Program (KEP)	√	√	√	√	√	√			√			
Gramen Trust	√		√									
Mercy Corps International SED Program			√									
Cordaid				√								
Besëlidhja Micro Finance (W. Relief)	√									√		
ADIE	√				√		√					
Kosinvest / World Vision		√										
Mëshstekna (Society for Farmers and Individual Producers)											√	
Centro Laici Italiani per le Mission (Ce.L.I.M.)				√								
IOM (International Organization for Migration)	√											
START NGO (Islamic Relief in Kosovo)	√											
Balkanactie												√
Perspektiva 4					√							
Other non-bank credit institutions												
UNMIK ICU	√											
German Investment and Development Co (DEG)	√											
EAR AgroBusiness Development Unit	√											
Note :												
√ = Predominant representation												

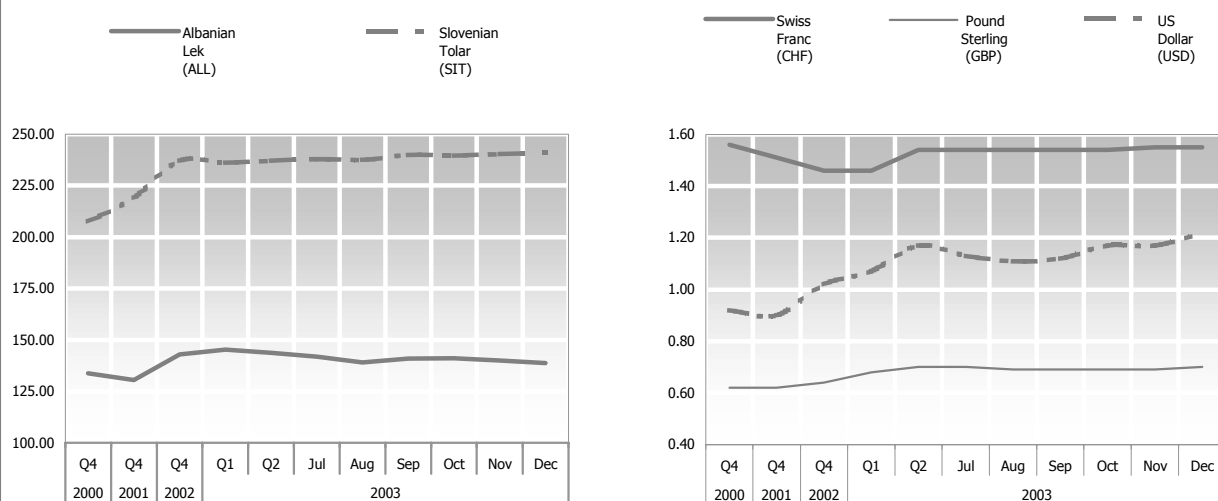
Table 22

EURO EXCHANGE RATE AGAINST SELECTED CURRENCIES ¹ (average by period)

Period	Albanian Lek (ALL)	Croatian Kuna (HRK)	Slovenian Tolar (SIT)	Swiss Franc (CHF)	Turkish Lira (TRL) (millions)	US Dollar (USD)	Pound Sterling (GBP)	Yugoslavian Dinar (YUN)	
2000 Q4	133.72	7.66	207.44	1.56	0.58	0.92	0.62	10.74	
2001 Q4	130.60	7.53	219.03	1.51	1.11	0.90	0.62	42.12	
2002 Q4	142.85	7.74	237.18	1.46	1.65	1.02	0.64	61.89	
2003	Q1	145.29	7.97	236.16	1.46	1.82	1.07	0.68	62.14
	Q2	143.70	7.83	237.11	1.54	1.70	1.17	0.70	67.26
	Jul	141.95	7.80	237.96	1.54	1.62	1.13	0.70	65.97
	Aug	139.09	7.82	237.49	1.54	1.56	1.11	0.69	64.86
	Sep	140.98	7.84	239.83	1.54	1.57	1.12	0.69	63.65
	Oct	141.18	7.90	239.52	1.54	1.71	1.17	0.69	67.34
	Nov	140.10	7.92	240.41	1.55	1.75	1.17	0.69	67.48
	Dec	138.74	7.98	240.98	1.55	1.79	1.22	0.70	70.83

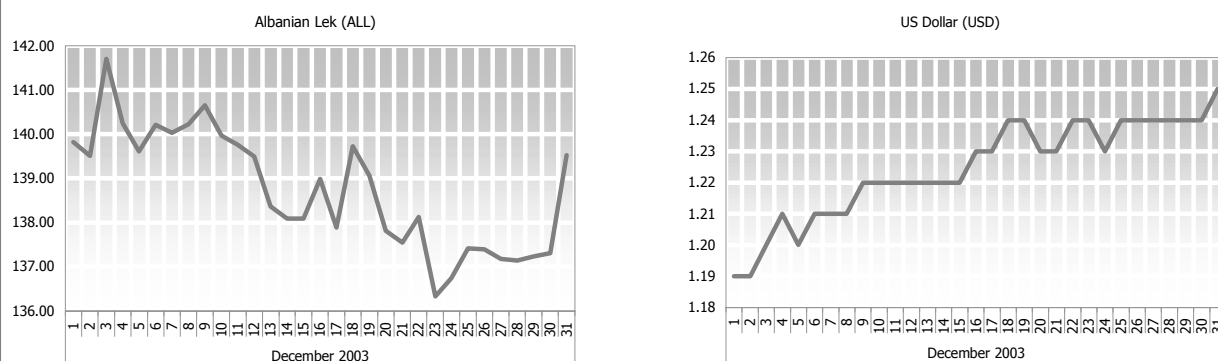
Graph 17.1

Euro exchange rate against selected currencies (average by period) ¹



Graph 17.2

Daily Euro exchange rate ¹



¹ Source: www.oanda.com/convert/fxhistory

Table 23

CONSUMER PRICE INDEX (CPI)¹ (index)

Period	Index (May.2002=100)	Monthly percentage change	
2002	May	100.0	
	Jun	98.4	-1.6
	Jul	96.8	-1.6
	Aug	96.6	-0.2
	Sep	98.9	2.4
	Oct	100.7	1.8
	Nov	101.2	0.5
	Dec	102.1	0.9
2003	Jan	102.7	0.6
	Feb	102.1	-0.6
	Mar	103.3	1.2
	Apr	102.5	-0.8
	May	101.3	-1.2
	Jun	99.6	-1.7
	Jul	97.0	-2.6
	Aug	96.3	-0.7
	Sep	99.3	3.1
	Oct	101.6	2.3
	Nov	103.4	1.8
	Dec	103.7	0.3

^{1/} Data source: SOK

Graph 18

Consumer inflation rate

(in percentage)

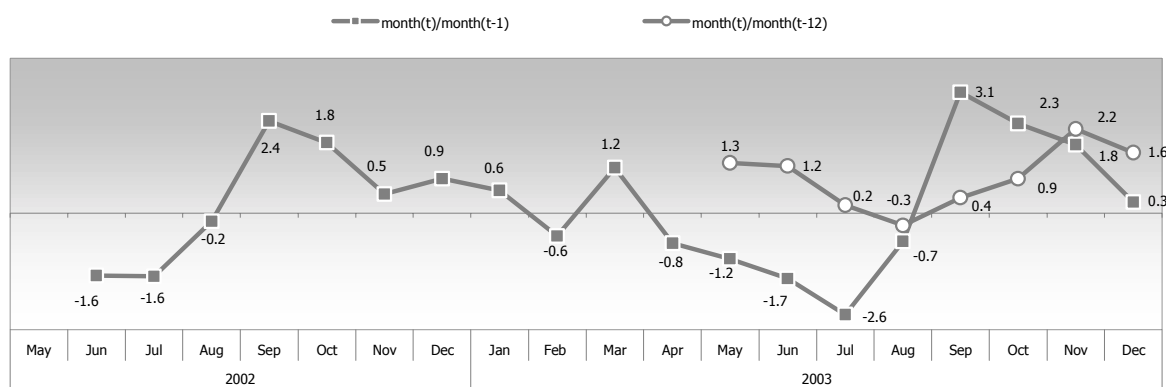


Table 24

FOREIGN TRADE: EXPORT AND IMPORT BY TRADING PARTNERS¹ (amounts by period, in million EUR)

Period	Total			Albania		Bulgaria		BIH and Croatia		EU and Switzerland		Macedonia		Montenegro		Serbia		Turkey		Others		
	Export	Import	Trade balance	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	
2000	18.9	635.2	-616.3	3.9	9.9	0.3	42.3	0.3	28.8	5.7	171.2	5.1	162.3	0.3	107.3	0.0	15.0	1.5	33.3	1.9	65.0	
2001	10.7	874.4	-863.8	1.3	30.4	0.1	49.7	0.4	32.7	4.9	177.4	2.0	175.8	0.7	61.9	0.4	176.5	0.3	78.0	0.7	92.1	
2002	27.3	988.7	-961.4	1.4	48.1	0.2	56.4	3.3	36.9	11.8	233.7	3.4	152.6	0.2	62.9	4.5	178.1	1.2	78.1	1.5	141.8	
2002	Q1	3.9	233.3	-229.4	0.1	8.0	0.0	8.7	0.1	10.0	2.3	67.0	0.3	33.0	0.0	16.9	0.4	40.6	0.4	16.9	0.2	32.1
	Q2	9.5	255.9	-246.4	0.4	15.6	0.1	20.2	2.0	6.7	4.1	57.9	1.1	37.1	0.0	15.6	1.1	48.6	0.3	20.3	0.3	33.6
	Q3	5.7	255.0	-249.3	0.6	14.3	0.0	13.9	0.2	7.8	2.3	52.3	0.9	45.5	0.0	15.4	1.1	46.3	0.3	20.5	0.3	39.1
	Q4	8.2	244.5	-236.3	0.3	10.1	0.1	13.6	1.0	12.3	3.0	56.5	1.0	37.0	0.1	15.0	1.9	42.7	0.1	20.3	0.8	37.0
2003	Q1	6.2	177.4	-171.2	0.4	1.0	0.0	10.6	0.6	8.1	2.6	47.6	0.8	21.2	0.2	1.2	0.9	26.8	0.3	16.2	0.5	44.7
	Q2	9.1	265.6	-256.5	0.5	2.0	0.0	10.2	0.8	14.2	3.4	65.8	1.8	40.7	0.3	4.5	1.4	42.2	0.4	26.8	0.6	59.3
	Q3	9.2	286.3	-277.1	0.4	1.9	0.0	10.7	0.3	19.2	3.2	75.5	2.5	44.9	0.3	3.4	1.5	42.4	0.6	25.2	0.4	63.0
	Q4	11.5	239.2	-227.7	0.6	2.7	0.1	9.8	1.0	12.9	4.8	61.9	1.9	35.1	0.2	2.1	2.1	30.7	0.5	24.0	0.4	60.2

Table 25

FOREIGN TRADE: EXPORTS BY COMMODITY GROUP¹ (amounts by period, in million EUR)

Period	Total	Food	Plastics and wood	Metals and scrap	Other	
2000	18.7	5.3	7.7	3.8	2.0	
2001	10.6	1.5	3.6	3.3	2.3	
2002	27.3	3.8	9.6	12.4	1.6	
2002	Q1	3.9	0.4	1.7	1.8	0.1
	Q2	9.5	1.1	3.6	4.5	0.4
	Q3	5.7	1.1	1.7	2.7	0.2
	Q4	8.2	1.3	2.6	3.5	0.8
2003	Q1	6.2	1.2	1.8	1.8	1.4
	Q2	9.1	1.8	2.1	3.1	2.2
	Q3	9.2	2.0	2.1	4.3	0.8
	Q4	11.5	2.0	2.8	5.7	1.0

Table 26

FOREIGN TRADE: IMPORTS BY COMMODITY GROUP¹ (amounts by period, in million EUR)

Period	Brico Data									Tax data Total	
	Total	Food	Textile	Petrol	Chemicals and wood	Construction materials	Metals	Machinery	Other		
2000	635.7	169.5	10.7	63.0	115.4	73.6	46.0	72.0	85.6	372.1	
2001	874.5	283.4	19.8	119.7	115.9	72.3	57.7	98.5	107.2	659.9	
2002	988.7	304.3	23.1	135.2	147.2	79.6	67.3	141.1	91.0	933.7	
2002	Q1	233.3	69.9	5.1	29.0	28.0	16.1	15.9	49.8	19.6	203.7
	Q2	255.8	75.2	5.5	33.7	44.0	21.1	15.9	35.7	24.7	223.0
	Q3	255.1	75.4	6.9	37.4	37.5	25.7	18.0	28.8	25.5	259.3
	Q4	244.5	83.8	5.7	35.1	37.7	16.7	17.4	26.9	21.3	247.7
2003	Q1	177.4	67.6	3.4	29.9	25.1	8.9	7.6	20.1	14.8	186.0
	Q2	265.6	94.1	5.0	35.4	40.5	18.8	18.4	33.2	20.1	254.4
	Q3	286.3	93.3	5.4	38.8	44.9	20.8	19.7	39.4	23.8	299.7
	Q4	239.3	75.8	6.8	34.1	42.2	11.7	14.2	30.2	24.1	237.7

¹ Source: Ministry of Finance and Economy