



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

# Annual Report 2009

P R I S H T I N A , J U N E 2 0 1 0



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

# Annual Report



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## LIST OF ABBREVIATIONS

|       |  |
|-------|--|
| ATM   | Automated Teller Machine                       |
| BEC   | Broad Economic Categories                      |
| BKT   | Banka Kombëtare Tregtare                       |
| BPB   | Banka për Biznes                               |
| CBK   | Central Bank of the Republic of Kosovo         |
| CEFTA | Central European Free Trade Agreement          |
| CPI   | Consumer Price Index                           |
| CRK   | Credit Registry of Kosovo                      |
| DJI   | Dow Jones Industrial Average                   |
| DLE   | Department of Labor and Employment             |
| ECB   | European Central Bank                          |
| EU    | European Union                                 |
| EULEX | European Union Rule of Law Mission in Kosovo   |
| FDI   | Foreign Direct Investment                      |
| GDP   | Gross Domestic Product                         |
| HHI   | Herfindahl-Hirschman Index                     |
| IECS  | Interbank Electronic Clearing System           |
| IMF   | International Monetary Fund                    |
| KEK   | Kosovo Energy Corporation                      |
| KMB   | Komercijalna Banka                             |
| KPST  | Kosovo Pension Savings Trust                   |
| MEF   | Ministry of Economy and Finance                |
| MLSW  | Ministry of Labor and Social Welfare           |
| MPI   | Imports Price Index                            |
| MTPL  | Motor Third Party Liability Insurance          |
| NFA   | Net Foreign Assets                             |
| NLB   | Nova Ljubljanska Banka                         |
| NPHSO | Non-profitable Household Service Organizations |
| NPL   | Non-Performing Loans                           |
| ODC   | Other Depository Corporations                  |
| PAK   | Privatization Agency of Kosovo                 |
| PCB   | Procredit Bank                                 |
| POS   | Point of Sale                                  |
| pp    | Percentage point                               |
| PPI   | Producer Price Index                           |
| PTK   | Post and Telecommunication of Kosovo           |

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|       |                                  |
|-------|----------------------------------|
| RBK   | Raiffeisen Bank Kosovo           |
| REER  | Real Effective Exchange Rate     |
| ROAA  | Return on Average Assets         |
| ROAE  | Return on Average Equity         |
| SEE   | South-East Europe                |
| SKPF  | Slovenian-Kosovo Pension Fund    |
| SOK   | Statistical Office of Kosovo     |
| TEB   | Türk Ekonomi Bankasi             |
| TPL   | Third Party Liability            |
| UNMIK | United Nations Mission in Kosovo |
| VAT   | Value Added Tax                  |

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## Cover letter of the Chairman of Governing Board

It is my special honor and pleasure to present to you the Annual Report for 2009, a comprehensive report, which covers the most important developments in the Kosovo economy, including the real, fiscal, financial and external sector. Compared to the reports from the previous years, this report has an additional value since it elaborates also some other significant activities of Central Bank of the Republic of Kosovo, with the purpose of providing full information on all Central Bank functions to a wider public.

The impacts of global financial crisis continued to be reflected also in 2009, which is considered as one of the severest global crises. The world economy marked a decline of 0.8%, as well as the economies of South-East European countries, with exception of Kosovo and Albania. Kosovo's economy recorded a real growth of 3.8% in Gross Domestic Product, mainly as a result of the increase of public expenditures and the decrease of prices. This year was characterized by a deflation of 2.4% (an inflation of 9.3% was recorded a year ago).

Financial global crisis has not directly affected Kosovo, but its economy has indirectly been affected by the crisis impacts. The main Kosovo donors were hesitant to increase their assistance to Kosovo, since they had been facing internal problems. The unemployment growth in Europe, as well as in North America, has also affected the Kosovo diaspora. Year 2009 marked a decline of 5.6% in Kosovars' remittances.

During 2009, the Foreign Direct Investments marked a decline of over 20%, and exports recorded a decline from 18% to 1.5%.

The high rate of unemployment, which is considered to be around 45%, continues to remain a serious problem for Kosovo. Of course, a consideration should be given to the fact that a percentage of population reaching the employment age does not enter at all in the labor market. This problem becomes even more serious by the Kosovo population age structure, since the number of new jobseekers gets increased every year in Kosovo.

Kosovo financial sector in 2009 continued also to mark a growth, recoding a growth of 24% in assets, with the larges share coming from banks. A slowdown in lending by banks has been recorded as a result of the crisis and this slowdown is driving the commercial banks to orientate a part of their investments in other asset categories, mainly in securities. The loan structure was dominated by enterprise loans (over 70%), whereas among these enterprises the largest part of loans was used by trade enterprises (over 56%). A high increase in deposits has also been recorded during 2009 (around 21%), yet rather slower compared to the previous year. The deposit structure is dominated by household deposits with over 60%.

The Central Bank of Kosovo was proactive in undertaking numerous measures to ensure financial stability. As a result of the crisis, the on-site and off-site examination frequency has increased, there has been an enhanced cooperation with supervision authorities of the countries where the financial institutions operating in Kosovo come from, and a proactive public communication policy has been promoted as well.

The Central Bank of Kosovo is reviewing the regulatory and supervision framework; it is evaluating the supervision approach towards financial institutions from rule-based supervision to risk-based supervision.



Prof. Dr. Gazmend Luboteni  
Chairman of the Governing Board

## Cover letter of the Governor

The year we left behind was a year of new challenges for CBK, just like it was almost for all similar institutions and supervision authorities in different countries, as a result of facing the international financial crisis. The CBK role during this period was extraordinarily important and crucial in maintaining the financial stability in the country and providing an efficient payments system. Apart from being a year of challenges for CBK, it was also a year where CBK marked its 10th anniversary of its successful functioning in the Republic of Kosovo.

Developments in world economy in general and those in Western Balkans in particular during 2009 made our country's economy not absolutely immune towards impacts of these development which was reflected with a decline in foreign investments, remittances and exports. In spite of this negative impact that these developments had in global financial crisis, the country's economy has also marked a growth in 2009, which distinguishes it from economies in the region and other countries. Economic growth of the Republic of Kosovo during 2009 compared to previous years stands at a lower rate by 4%. The Central Bank activity towards these processes was very proactive and significant both in terms of undertaking concrete actions (establishment of the Crisis Committee within CBK and very effective supervision of all financial institutions in the country) and the initiative on countrywide actions through the establishment of National Crisis Impacts Prevention Committee composed of the Governor, Minister of Economy and Finance, Chairperson of Assembly Committee for Budget and Finance.

Following the successful implementation of its responsibilities through activities and initiatives undertaken, the CBK has successfully managed to prevent or diminish the possible financial crisis impacts. This has been achieved owing to the increased confidence of country's citizens in financial institutions operating in the Republic of Kosovo, the continuation of efficient supervision of financial institutions, the full transparency towards public and constant increase of cooperation with local institutions and international mechanisms to contribute in maintaining the financial stability in the country.

CBK has strongly contributed to Kosovo membership into the International Monetary Fund and the World Bank, in drafting national payments strategies, continuous development and perfection of payments system, qualitative advancement of monetary and financial statistics (which have been published by the IMF immediately after the Republic of Kosovo became its member), in approximation of legislation with EU and intensive international cooperation with similar institutions and different financial regulators from the region, EU and other countries.

The CBK Business Plan 2007-2009 was document of strategic character and served as guidance to CBK activity until the end of 2009. Successful implementation of this plan has directly raised the need to adopt the CBK development strategy for the future, which resulted in drafting 2010-2015 Strategic Plan, which foresees the basic CBK objective in compliance with law and other legal acts related to its functioning.

The CBK Strategic Plan is a document which established the CBK strategic orientation for the next five years and it has the following strategic goals: 1. Promoting and strengthening the financial stability in the Republic of Kosovo; 2. Supporting the general economic policies to achieve a sustainable economic growth in the Republic of Kosovo; 3. Ensuring the development of contemporary interbank systems and provision of effective banking services

to clients; 4. Promoting the sound development of financial sector in the Republic of Kosovo; 5. Contributing to integration processes into the European Union and other international organizations.

Implementation of these strategic Goals will be done through the action plan which clearly defines all CBK activities relating to implementation of 2010-2015 Strategic Plan.

Year 2009 was a successful year in the area of international cooperation. CBK has proactively engaged in fulfilling standards and challenges deriving from the European Commission 2009 Progress Report, which have been foreseen as challenges for 2009 and this made European Commission 2009 Progress Report highly appreciate the work done by our institution.

CBK has used a considerable number of technical assistance programs from IMF and WB, especially in the legislative area (introduction of law on CBK, law on insurances, law on pensions, law on banks etc).

During 2009, the CBK has signed memorandums of understanding with similar institutions from countries in the region and from EU (Albania, Turkey, Slovenia, Luxembourg etc).

In addition to the objectives established under the law and other legal acts, the CBK has set the important objectives for 2010 in accordance with 2010-2015 Strategic Plan, which are: standardization and harmonization of legislation with EU, efforts to become a member of SWIFT (*Society for the Worldwide Interbank Financial Telecommunication*) and the Green Card System, professional cooperation with local and international institutions, movements towards implementation of Basel II (for banks) and Solvency II (for insurances), establishment of deposit insurance scheme, project implementation for national payments strategy, entering cooperation agreements with counterpart institutions from countries in the region and EU, continues capacity building and CBK staff training, continuation to inform the wider public on developments in financial sector in the Republic of Kosovo.

All these objectives have been achieved owing to the effective work and constant support by the CBK Board, the effective work by the senior management and by very professional and motivated CBK staff.



Hashim Rexhepi  
Governor

## Governing Board, Management and Audit Committee

The Governing Board, with a view to a successful exercise of policies and powers established pursuant to the applicable legislation, held 15 meetings during 2009.

To exercise the powers and responsibilities which the Board has towards building an efficient and sound banking and financial system, the Governing Board's activities this year have also been constantly focused on the adoption of policies on exercise of CBK's powers, by having their implementation supervised by the management and staff; the adoption of rules, orders and directions issued by the CBK; the adoption of all reports and recommendations given to the competent Kosovo authorities by the CBK, the adoption of the CBK annual budget, the adoption of periodical reports together with the CBK financial state; the approval and rejection of applications for licensing or registration of the financial institutions as well as the revocation of licenses or registration of financial institutions; the adoption of all compulsory measures prepared by the CBK staff, prior to their enforcement, other than those which fall under the exclusive authority of the Governor; and other issues within the Governing Board's authority.

The Governing Board of the Central Bank of Republic of Kosovo, as of 31 December 2009, was composed of the following members:

Mr. Gazmend Luboteni, Chairman of the Governing Board;

Mr. Hashim Rexhepi, Governor and member of the Governing Board;

Mr. Lulzim Ismajli, Head of the Treasury (member of the Governing Board);

Mr. Sejdi Rexhepi, member of the Governing Board;

Mr. Mejdë Bektashi, member of the Governing Board.

The decision-making authority within the Central Bank is the Governing Board and the Governor. Governing Board establishes policies on CBK operations and supervises the implementation of objectives to develop and achieve a stable financial system based on a safe, sustainable and effective payment system, focusing on the principle of an open market economy and free competition. The Governor and the management report to the Governing Board on implementation of operations and policies established under the Law on CBK.

Pursuant to the Law on Central Bank of the Republic of Kosovo, the Governing Board is composed of five members. Members of the Board are appointed pursuant to Article 18 of Law on Central Bank of Kosovo. The Head of Treasury is one of the four non-executive Board members, whereas three other non-executive members and the Governor are appointed pursuant to provisions set forth in Article 18.2 of this Law.

### **CBK Management**

The CBK Management is composed of the Governor and two Deputy Governors. The Deputy Governor for Central Banking Functions and the Deputy Governor for Supervision of Financial Sector are appointed by the Governing Board following a proposition by the Governor.

### **Inspector General**

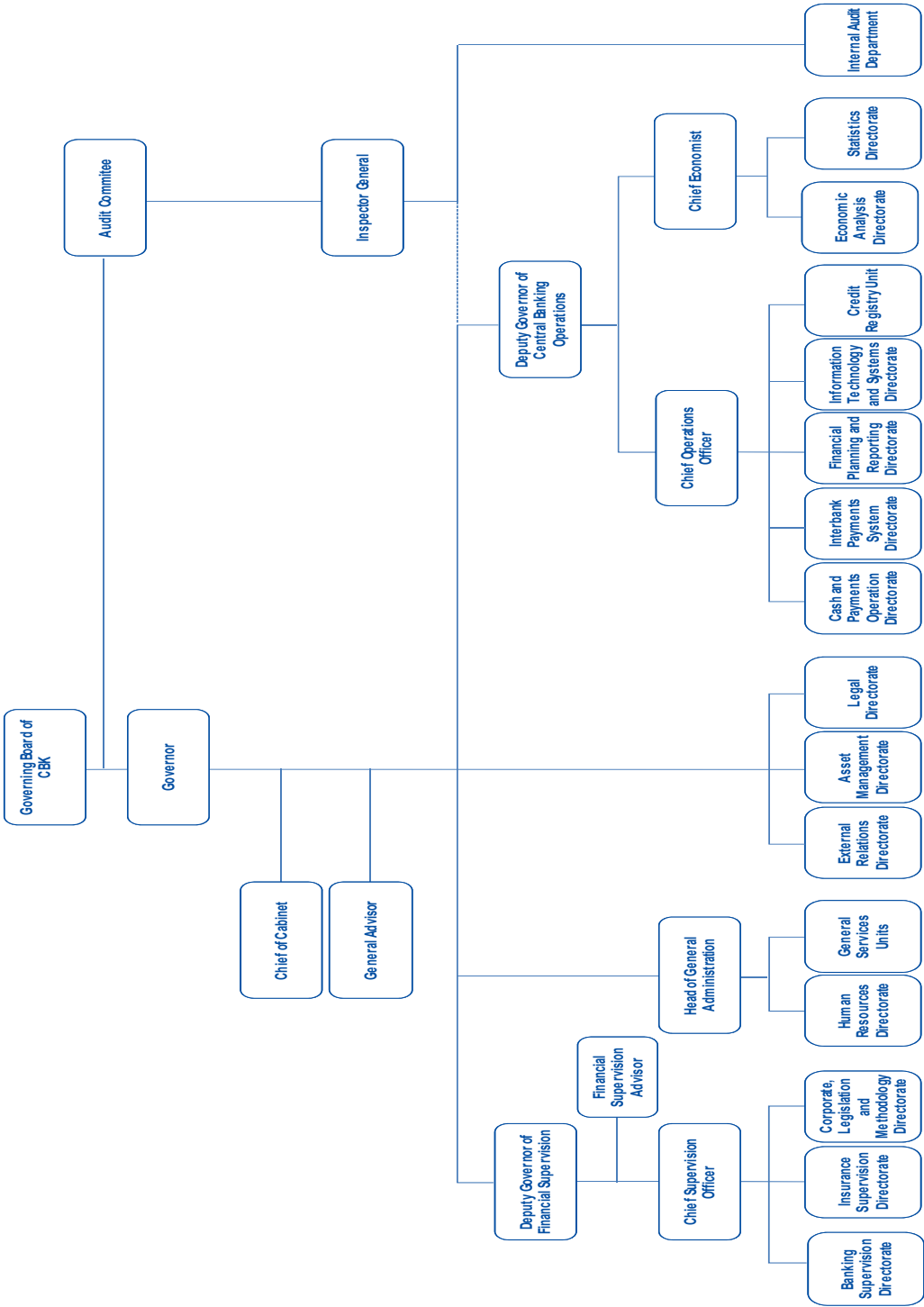
Another important pillar in the CBK organizational structure to ensure good and transparent governance is implemented through the function of CBK Inspector General

pursuant to Article 30 of Law on CBK. The Inspector General is appointed by the Governing Board following a proposition by the Governor.

**Audit Committee**

The Audit Committee, composed of two non-executive directors – members of the CBK Governing Board, operates within the CBK organizational structure with purpose of ensuring transparent governance. The objective of this Committee is to assist the CBK Governing Board in discharging its functions in relation to internal audit function, work ethics and transparent governance as well as the CBK financial statement.

Organizational Structure of the CBK as of 31 December 2009





## 1. Executive Summary

The world economy during 2009 continued to face the impact of the crisis, marking an economic decline of 0.8 percent. The effects of the crisis have been reflected on the decline of industrial production, investments, world trade volume and in the increase of unemployment. Aiming at overcoming the consequences of the crisis, many countries reacted by implementing monetary policy and fiscal policy measures, which resulted quite successful. The financial crisis, originating from developed countries, was also reflected in the South-East Europe (SEE) economies, causing an economic decline in most of the countries (with the exception of Kosovo and Albania). The increase of unemployment rate in the European Union (EU) countries and the decline of the aggregate demand led to a lower level of exports in SEE countries and lower level of migrant remittances to SEE. Deposit withdrawals have taken place in some SEE countries, but measures taken by respective states achieved to stabilize the situation and restore the confidence in the banking sector. However, the decline of economic activity led to more conservative lending policies applied by commercial banks.

In 2009, Kosovo economy recorded a positive real GDP growth (3.8 percent according to the IMF estimates and 4.4 percent according to MEF), mainly as a result of the increase of public expenditures and the decrease of prices. Kosovo economy, in 2009, recorded a deflation rate of 2.4 percent, which was mainly driven by the decrease of import prices. The situation in the labor market remains a challenging issue for the Kosovo economy, due to the high rate of unemployment. In 2009, the Budget of Kosovo recorded a deficit of euro 85.6 million (euro 8.1 million in 2008), which resulted mainly from the increase of expenditures for transfers and capital investments. According to the draft budget that was approved in the end of 2009, the Budget of Kosovo in 2010 will reach at euro 1.4 billion, which is an increase of 19.1 percent compared to 2009.

Financial sector assets amounted at euro 2.8 billion in 2009, marking an annual growth of around 24 percent. Dominated by foreign owned banks, the banking market continues to have a high degree of concentration, despite the declining trend during the recent periods. In 2009, loans issued by Kosovo banking sector increased by 8.9 percent, while deposits recorded an annual growth rate of 20.8 percent. Due to the weaker performance of the real sector of the economy, in 2009, banking sector applied a rather tightened lending policy. These policies were also reflected in the performance of the banking sector itself, leading to an annual decline of 31 percent in the net profit of commercial banks. Nevertheless, banking sector remained sustainable also in 2009 and contributed to the overall economic performance in the country through its lending activity, even though at slower rate.

The current account deficit of Kosovo recorded an annual growth of 7.2 percent in 2009. Including foreign assistance, the current account deficit was equivalent to 16 percent of GDP. Growth in the current account deficit resulted from the decline in remittances and migrant transfers, while the trade deficit, as the main component of the current account, marked a moderate increase. Capital and financial account, in spite of the decline in FDI, recorded a growth of 15.3 percent, which is attributed to the decline of reserve assets.

Year 2009 was characterized by Kosovo's membership into the International Monetary Fund and the World Bank, which represents a particular opportunity for new perspectives and challenges of economic development in Kosovo. On the other hand, the financial crisis evolving worldwide implied additional engagements for the CBK with the purpose of taking measures to deter the crisis effects in the financial sector. In this context, the CBK followed a rather conservative approach of risk assessment in the financial sector, especially in the banking sector, and increased the reporting frequency by the financial institutions. Also, an

active public communication and active cooperation policy with regulatory foreign institutions has been implemented. Furthermore, the National Crisis Management Committee was established, which is an inter-institutional committee composed of CBK, MEF and Kosovo Assembly; the CBK and MEF have signed a Memorandum of Understanding, which intends to conduct a regular monitoring of developments in the financial sector as well as developing contingency measures against possible negative developments in the financial sector.

Pursuant to the Law on Central Bank of the Republic of Kosovo, the CBK has a regulatory and supervision authority over all Kosovo financial institutions. The supervising approach towards financial institutions has been conducted in compliance with the best international practices, evolving from 'rule-based' approach towards the 'risk-based' approach formulated upon the Basel Core Principles and Pillar 2 of Basel II for banks, and this approach was formulated also for the insurance companies according to an internationally adopted solvency regime. During 2009, significant developments took place on the completion of financial supervision policies and procedures related to the approval of advising letters on the internal control system and liquidity risk management. Also, during 2009, the policy on the background check of relevant persons and companies interested to enter in the banking and financial system has been adopted. Aiming at the amortization of potential crisis effects originating from the real sector of the economy, the on-site and off-site examinations have become more frequent.

CBK provides the government and financial institutions as well as the public with the services offered by central banks. A significant development in the payments system area was the preparation of a strategy for development of the national payments system and its implementation. Through the Electronic Interbank Clearing System (EICS), during 2009 was noticed an increase in the volume and the value of EICS transactions and its further advancement was marked during 2009, where a special emphasis should be laid on the launch of the Direct Debit Scheme (DDS). During 2009, CBK responsibly provided the economy with euro coins and banknotes, which is one of its functions in the payments system. In the framework of services that the CBK provides to financial institutions it is also the credit registry, which has facilitated the exchange of information between credit institutions in Kosovo.

The CBK Investment Policy is based on the security of assets, liquidity and the rate of return on assets. Assets management is performed through monthly evaluation of banks, with which the CBK cooperates, and which comply with relevant criteria. As such, this enables CBK to timely comply with all the legal requirements towards each of its depositor. In spite of the financial crisis, all the banks with which the CBK cooperates, comply with the Investment Policy criteria according to the main evaluation categories (Aaa and Aa).

During 2009, the Internal Audit of the CBK has acted based on the annual plan proposed by the Inspector General following a prior approval by the Audit Committee and the Governing Board. Similarly to the previous years, the Internal Audit of the CBK prepared an Annual Audit Plan for 2009 in compliance with the international standards. Based on the risk assessment and reputation of the institutions, audits were performed on monthly, quarterly, biannual and annual basis.

## 2. External Economic Environment<sup>1</sup>

### 2.1. World Economy

The world economy continued to face the effects of the crisis also during 2009, marking a slump of 0.8 percent (Table 1). The negative growth rate of the world economy mainly reflects the developments in developed economies, which recorded a decline of 3.2 percent, while the economies of developing countries grew by 2.1 percent. The first half of the year was characterized by decreasing trade volume, decline in capital flows and lower level of investment. Most of developed countries entered into recession, which was manifested with a decline in the industrial production, decrease of prices and increase in the unemployment rate. On the other hand, the impact of the crisis was more limited in some developing countries, such as China and India. In global level, this represents the most severe economic crisis in the last 50 years.

**Table 1. GDP growth rate, in percent**

| Description                 | 2008       | 2009        | 2010       |
|-----------------------------|------------|-------------|------------|
| <b>World GDP</b>            | <b>3.0</b> | <b>-0.8</b> | <b>3.9</b> |
| <b>Developed countries</b>  | <b>0.5</b> | <b>-3.2</b> | <b>2.1</b> |
| USA                         | 0.4        | -2.5        | 2.7        |
| Euro-zone                   | 0.6        | -3.9        | 1.0        |
| Japan                       | -1.2       | -5.3        | 1.7        |
| United Kingdom              | 0.5        | -4.8        | 1.3        |
| <b>Developing countries</b> | <b>6.1</b> | <b>2.1</b>  | <b>6.0</b> |
| Russia                      | 5.6        | -9.0        | 3.6        |
| China                       | 9.6        | 8.7         | 10.0       |
| India                       | 7.3        | 5.6         | 7.7        |

Source: IMF (2010)

The second half of 2009 was characterized by more favorable economic conditions, as a result of the measures taken by countries that were affected by the crisis. As a consequence, some countries reported to have overcome the recession. The undertaken measures included a combination of expansionary monetary and fiscal policies, which were effective in offsetting the effects of the crisis by stimulating the overall economic activity. In most of the countries, policies were characterized by substantial interest rate cuts and higher supply of liquid assets by the central banks, whereas the fiscal policy was mainly characterized by the increase of capital outlays and transfers.

The IMF forecasts suggest that the world economy will grow by 3.9 percent in 2010. The uncertainties in developed economies will continue to be present despite the forecasts for an economic growth of 2.1 percent. Notwithstanding the recovery, there is a broad consensus that the return of employment and production to the pre-crisis levels will take time. The forecasts are more optimistic for the performance of developing economies which, in 2009, are expected to record an average growth rate of 6 percent, with the Chinese economy expected to lead with a GDP growth of 10 percent.

<sup>1</sup> Developments in the World Economy and South-East Europe are based on publications: Bank of England (2009), Business Monitor International (2009), ECB (2009), European Commission (2009), Eurostat (2009), IMF (2009), IMF (2010) and World Bank (2009).

As a response to the global financial crisis, central banks of developed countries took coordinated measures by cutting key interest rates, which were reduced to record levels (e.g. the US Federal Reserve cut the financing rates to 0.00–0.25 percent, while the Bank of England and ECB cut the key interest rate to 0.5 and 1.0, respectively). The reduction of key interest rate was reflected in the interbank market interest rates, where EURIBOR and LIBOR (12 month) recorded a continuous decline, dropping to 1.25 and 0.99, respectively. The reduction of key interest rates to such low levels limits the possibilities of authorities to take further measures through the monetary policy, should new complications evolve in the financial market or in the economy in general. However, the actual high unemployment rate and low economic growth will push the central banks to keep the interests rates at low levels, as long as they are not affected by inflationary pressures.

The higher decline of economic activity, during the first half of 2009, reduced the inflationary pressures in most developed countries (some countries have even recorded deflation), whereas, in the second half of 2009, improvement in the economic environment stimulated the aggregate demand, which had a positive impact on oil prices and hence on the overall level of prices. In addition to the increase of demand, the increase of oil prices was also a result of the reduction of oil production in the OPEC countries. According to the IMF, the annual inflation rate in developed countries during 2009 was 0.1 percent, while in developing countries the inflation rate was 5.2 percent. Based on the IMF projections, the inflation rate in developed countries and developing countries in 2010 is expected to reach at 1.3 and 6.2 percent, respectively.

The overcoming of recession in many countries was associated with budgetary difficulties, which resulted from the increase of budget deficit and public debt, following a substantial increase in government expenditures. According to the IMF projections, the public debt in developed countries by 2014 will exceed 110 percent of GDP, which represents a considerable increase compared to the pre-crisis period, when this figure stood at 80 percent. Fiscal consolidation represents one of the most difficult challenges for developed countries, especially for the eurozone countries, where public debt in the first quarter of 2009 reached at 77.6 percent of GDP (17.6pp above Maastricht criteria). Furthermore, the budget deficit in the eurozone countries reached at 6.3 percent by the end of 2009, comparing to 2.3 percent in 2008, thus exceeding the threshold of 3 percent determined by Maastricht criteria. Countries having the most severe budgetary problems, such as Greece (12.3 percent), are facing serious problems in paying-off their debts. In countries such as Greece, Portugal, Ireland and Spain, the high rate of budget deficit had a negative impact on the credit rating of these countries, leading to an increase in premiums for the bonds issued by these countries. In 2009, the premiums on the bonds of these countries, in some cases, were for 3 percent higher than the premiums on the bonds issued by Germany, which are considered to have the lowest level of risk. In order to reduce the budget deficit, some of the eurozone countries have to undertake drastic fiscal measures, such as to decrease public expenditures, increase VAT and indirect taxes as well as to conduct pension system reforms, which are not recognized as popular measures. In some cases, such as in Greece, the attempt to undertake these measures brought the Government in front of increased workers' union pressures.

The slowdown of economic activity led to a decline of income and aggregate demand. Unemployment rates increased substantially. For example, in the USA, unemployment rate reached 10 percent, increasing by 5pp compared to 2008. This represents the highest unemployment rate recorded in the last 26 years. A similar unemployment rate was recorded in the Great Britain, where it reached 7.8 percent, representing an increase of

2.6pp compared to 2008. The unemployment rate increased also in the eurozone economies, reaching at 9.7 percent, which represents a growth of 2pp compared to 2008. According to the EUROSTAT data, the sectors most affected in terms of job cuts were the industry and construction sectors. The increase of unemployment rate in eurozone countries followed a rather slower trend compared to countries like the USA and United Kingdom. This is due to the fact that the labor markets in eurozone are characterized by a lower degree of flexibility, as a consequence of the high cost related to of the removal of employees from work and the powerful workers' unions. In this context, many companies, especially in Germany, applied policies that reduced the working hours, which proved to be effective in preventing a more substantial growth in unemployment.

The euro exchange rate vis-a-vis other main currencies was quite volatile during 2009. Euro appreciated against U.S. dollar by 5.4 percent, while it marked a record appreciation against the British Pound by 11.4 percent. Depreciation of U.S. dollar and British Pound vis-à-vis euro can be attributed to higher interest rates prevailing in eurozone as well as the increase of trade deficit in the USA and United Kingdom. On the other hand, euro depreciated against Swiss Franc and Japanese Yen by 4.9 percent and 14.9 percent, respectively. In the beginning of 2010, euro is under constant depreciation pressures vis-a-vis other main global currencies. These pressures are arising as a result of increased fiscal problems in some of the eurozone member countries.

International stock exchanges in 2009 managed to recover the major part of losses incurred from the financial crisis. The volatility of stock markets declined, thus contributing to the restoring of the investors' confidence on markets. Also, the recovery was also driven by the more favorable prospects on corporate income. The performance of the major stock exchanges was positive; for example, DOW Jones (USA) and FTSE (United Kingdom) recorded an annual return of 18.8 percent and 24.0 percent, respectively. Within the eurozone, a better performance was recorded by DAX (Germany) and CAX (France), which marked an annual return of 23.8 percent and 22.3 percent, respectively.

Even though the world economy showed signs of recovery, the economic risks remain present. While the monetary and fiscal expansion has reached the peak, its long-term impact on the growth of private consumption and investments is still unclear. In spite of the injection of funds to the economy by central banks and the application of low interest rates, commercial banks are still reluctant to increase the credit to the economy. A serious problem would emerge if the high budget deficits would be associated with inflationary pressures and, as a consequence, central banks would have to apply restrictive monetary policies, such as to increase the interest rates. The increase of interest rates would discourage investments, which would lead to a slowdown of economic activity. Another issue, which is being strongly addressed, is the regulation of financial markets, where additional supervision competences, stricter control, limited use of financial products, such as derivatives and off-balance sheet items, are expected to take place.

## 2.2. South-East Europe

The effects of the crisis from developed countries were reflected also in the South-East European (SEE) economies.<sup>2</sup> Following a several years period of economic growth, the performance of the SEE economies was negatively affected by the crisis, which started to evolve during the third quarter of 2008. Most of the SEE countries recorded a decline of GDP in 2009, which resulted on an average decline of 2.6 percent for the entire region.

<sup>2</sup> Albania, Bosnia and Herzegovina, Croatia, Kosovo, Macedonia, Montenegro, Romania and Serbia.

Albania and Kosovo were an exception, recording positive rates of GDP growth (3.8 percent and 2.5 percent, respectively), but lower compared to the growth rates recorded in the previous year (Table 2).

**Table 2. Current account and budget balance in SEE**

| Description            | Real growth rate of GDP |      | Budget deficit as % GDP |      | Current Account Deficit as % GDP |       |
|------------------------|-------------------------|------|-------------------------|------|----------------------------------|-------|
|                        | 2008                    | 2009 | 2008                    | 2009 | 2008                             | 2009  |
| Albania                | 8.0                     | 2.5  | -6.0                    | -7.0 | -15.5                            | -15.8 |
| Bosnia and Herzegovina | 5.5                     | -3.0 | 1.4                     | -4.6 | -14.9                            | -6.9  |
| Bulgaria               | 5.9                     | -5.3 | 3.0                     | -1.5 | -26.1                            | -11.4 |
| Croatia                | 2.4                     | -5.1 | -1.9                    | -2.4 | -9.7                             | -5.1  |
| Kosovo                 | 5.4                     | 3.8  | -0.2                    | -0.9 | -16.0                            | -17.0 |
| Macedonia              | 5.0                     | -1.3 | -1.0                    | -7.4 | -13.1                            | -6.9  |
| Montenegro             | 6.9                     | -5.3 | 1.2                     | -2.3 | -29.0                            | -18   |
| Romania                | 7.1                     | -7.0 | -4.9                    | -6.5 | -11.8                            | -3.6  |
| Serbia                 | 5.4                     | -3.1 | -2.1                    | -4.8 | -18.4                            | -8.1  |

Source: BMI (2010), European Commission (2010) and IMF (2010)

The pre-crisis period was characterized with high rates of economic growth, record high Foreign Direct Investments (FDI) and two-digit rates of credit growth. The prospects for EU membership have encouraged the SEE countries to undertake substantial structural and macroeconomic reforms, which have contributed to the maintaining of economic stability. A rather serious challenge during this period was the current account deficit and unemployment, which are persisting problems in the entire region. The recent financial and economic crisis brought the SEE countries in front of new challenges that threatened the long-term economic growth and sustainability in these countries. The effects of the crisis were manifested mainly by decline in exports, lower levels of bank credit lending, and decline in FDI and remittances.

The decline in the aggregate demand in the countries affected by the crisis, especially in EU as the main trading partner of the SEE countries, triggered a considerable decline in the demand for the exports of these countries. In some countries, exports marked an annual decline of up to 30 percent. The slowdown in the overall economic activity forced banks to tighten their lending policies. Credit tightening was driven also by difficulties in the access to finance from external financial markets. This led to a lower level of credit for the real sector of the economy, which induced a further decline in consumption and investments. The weaker performance of the real sector of the economy affected negatively the banking sector performance, causing an increase in non-performing loans and decline of profit. Another important channel for the transmission of the crisis to the SEE countries consisted of the decline of remittances, which represent an important source of finance for these countries. The highest decline of remittances among the SEE countries was recorded in Bosnia and Herzegovina (11 percent), Albania (6 percent) and Kosovo (5.5 percent).

Similar to developed economies, prices in the SEE countries followed a declining trend, as a result of the decrease of oil prices and the decline of domestic demand. While before the crisis, SEE countries were challenged by high inflation rates, in 2009, most of these countries recorded substantial decline in inflation, whereas some recorded even deflation; for example, Bosnia and Herzegovina (0.4 percent), Kosovo (2.4 percent) and Macedonia (1.6 percent).

The decline of domestic demand in the SEE countries led to a lower level of imports, which contributed to the decrease of current account deficit in these countries (Table 2). Except Albania and Kosovo, all countries marked a decline in the current account deficit, compared to the previous year. As a consequence of the crisis, almost all SEE countries recorded lower levels of FDI (except Albania and Montenegro), which represent a very important source of finance for the current account deficit of these countries. A further decline of FDI will have negative implications for the balance of payments and also for the overall performance of the economy.

The decline of economic activity also had budgetary implications for the SEE countries (Table 2). Unlike developed countries, where the budget deficit increased as a result of higher expenditures designated for the overcoming of the crisis, the increase of budget deficit in the SEE countries is largely attributed to the poor performance of budget revenues. Budget deficit in most of the SEE countries was a problematic issue even before the crisis; therefore, possibilities to further increase budget expenditures in these countries were significantly limited. During this period, the rating agencies decreased the credit rating for some SEE countries, such as Montenegro, Romania and Serbia, making the financing of these countries from the capital markets more difficult and expensive.

During 2009, the central banks of the region countries were very active in terms of the crisis management, marking a particular success in the stabilization of the financial sector. None of the region countries incurred any bankruptcy of banks with systemic importance. In some cases (for example in Serbia and Bosnia and Herzegovina), there have been deposit withdrawals, which were only temporary. The central banks mainly concentrated on the reduction of the mandatory reserve as a way to increase the liquidity and credit. In some cases (for example in Serbia and Romania), central banks also intervened in the currency markets in order to protect their national currencies.

The management of the crisis in SEE countries was considerably supported also by the international financial institutions. During this period, some of the SEE countries have entered into arrangements with the IMF, in particular Romania (euro 13 billion), Serbia (euro 3 billion) and Bosnia and Herzegovina (euro 1.1 billion). Support was provided also by the World Bank, European Bank for Reconstruction and Development and the European Union.

In spite of the depreciation vis-à-vis the main world currencies, national currencies of the SEE countries have been stable throughout the year and there has been no uncontrolled depreciation that could have destabilized the currency markets of these countries. The value of Albanian Lek depreciated by 11 percent against euro, while Romanian Lev and Serbian Dinar depreciated by 8 and 5 percent, respectively. Macedonia, which applies a less flexible exchange rate policy, had a more stable currency during 2009.

An encouraging development for the SEE countries during 2009 was the good performance of stock markets, which marked a higher activity as a result of restoring investors' confidence. Some of the stock exchanges of the SEE countries recorded rates of return close to those realized in the stock exchanges of developed countries. Among the stock exchanges of the SEE countries, the highest rate of return was recorded in the stock exchange of Montenegro (36 percent) and the stock exchange of Macedonia (31.3 percent).

### 3. Kosovo Economy

#### 3.1. Real Sector

Despite the negative developments in the world economy, Kosovo's economy during 2009 was characterized by positive economic growth, even though the growth rate was lower than in 2008. Unlike the previous years, the public sector was the main contributor to the growth due to the increase in the public consumption and investment. The decrease of prices by 2.4 percent can be considered also as one of the factors that had a positive impact on the real economic growth during 2009. Gross national disposable income, which, apart of the Gross Domestic Product (GDP), also includes transfers and income from abroad, marked a decline of 2 percent, having negative implications for consumption and investments. Despite the decline of private sector consumption, gross domestic savings remain negative (-13 percent of GDP)<sup>3</sup>. Nevertheless, gross national savings were positive with an amount equivalent to 9.9 percent of GDP. This reflects the importance of transfers and income from abroad for Kosovo's economy.<sup>4</sup>

Labor market is characterized by a high rate of unemployment and continues to represent a serious challenge for Kosovo's economy. According to the Statistical Office of Kosovo (SOK), unemployment rate is over 45 percent of labor force and, in view of the current rate of economic growth, this unemployment rate is not expected to decline in the mid-term perspective. With respect to the privatization, the total amount of revenues collected through this process reached at euro 451 million (12 percent of GDP) in the end of 2009.

##### 3.1.1 Gross Domestic Product<sup>5</sup>

Kosovo's economy in 2009 marked a positive rate of economic growth. IMF estimates suggested an economic growth of 3.8 percent, whereas estimates by the Ministry of Economy and Finance (MEF) suggested a growth of 4.4 percent during 2009. The real GDP growth in 2009 was higher than the nominal rate, reflecting the decrease of prices. The economic growth in 2009 was mainly driven by the public sector that increased both consumption and investments. A slight growth was marked also in the private sector investments, whereas private consumption was lower compared to the previous year.

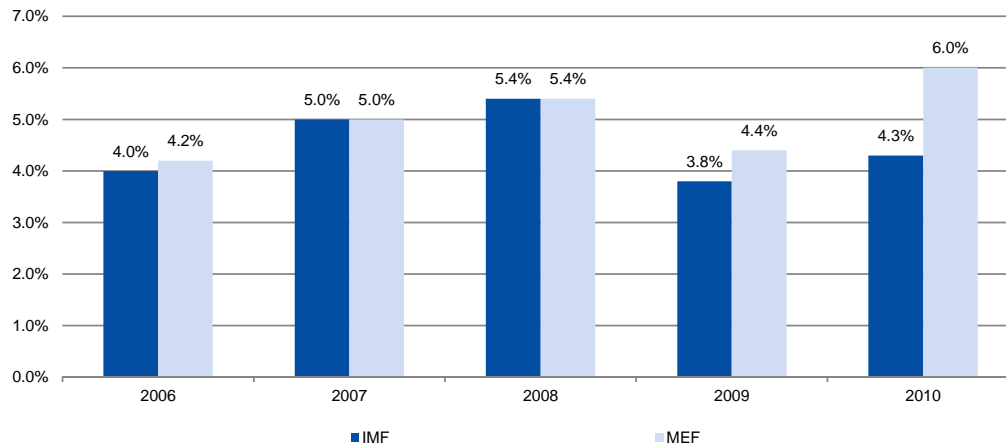
The overall consumption in Kosovo marked a slight increase, as a result of the increase in the public sector consumption, whereas the private sector consumption marked a slight decline mainly as a result of the decline of remittances (by 5.5 percent) and credit tightening by commercial banks (new loans for household decreased by 7.1 percent). However, the impact of these two factors was compensated to a certain extent by the increase of salaries in the public sector and in the increase of public consumption by 13.1 percent (excluding foreign assistance).

<sup>3</sup> Gross domestic savings = Consumption - GDP

<sup>4</sup> Gross national savings = Consumption - Gross national disposable income

<sup>5</sup> The data are IMF (2009) and MEF (2009) projections and they may not correspond with recent data in this sector. According to IMF, the nominal GDP is euro 3,792 million, whereas according to MEF, the nominal GDP is euro 3,838 million.

Figure 1. Real GDP growth



Source: IMF (2009) and MEF (2009)

Overall investments in 2009 marked a positive growth mainly as a result of the public investments increase by 15.4 percent. In 2009, also private sector investments marked a positive growth. As a consequence of the weaker performance of the real sector of the economy, banking sector was more cautious with respect to its credit policy in order to avoid potential negative effects in the quality of its loan portfolio. This resulted in a slowdown of credit growth, especially for enterprises, affecting negatively private sector investments. Private investments were negatively affected also by the decline of Foreign Direct Investments (FDI) by around 20 percent compared to the previous year.

Kosovo exports during 2009 remained at a low level (to some extent as a consequence of the problems related to the implementation of CEFTA), whereas imports marked a slight decline reflecting the decrease of prices in the world economy and the decrease of demand. In spite of these developments, the impact of trade balance on GDP remains negative due to the persisting high trade deficit.

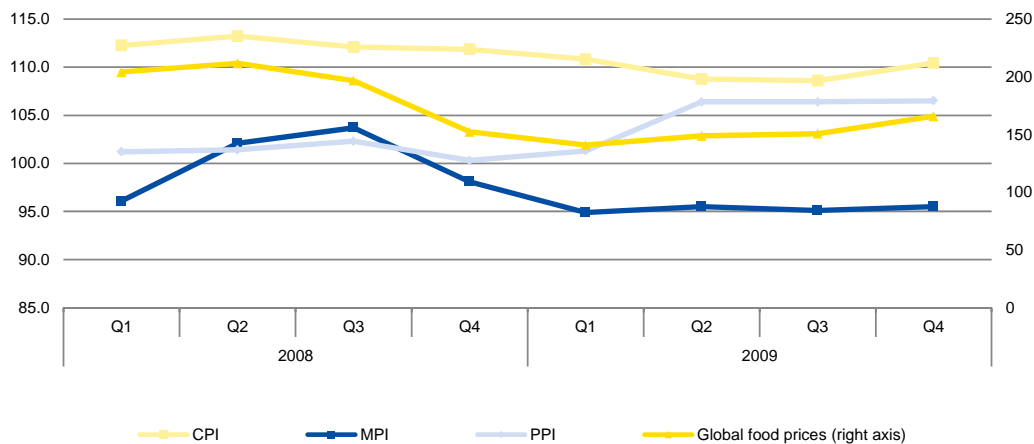
Initial IMF forecasts for 2010 suggest a real GDP growth of 4.3 percent, whereas MEF forecasts suggest a real growth rate of 6.0 percent. Based on these forecasts, economic growth in 2010 is expected to be generated mainly by private and public sector investments. Consumption is also expected to be an important component, despite that forecasts that public sector consumption will decline.

### 3.1.2. Prices

Price developments in Kosovo during the last two years were characterized by significant instability. Unlike year 2008, when inflation rate reached at 9.3 percent, year 2009 was characterized by an average inflation rate of 2.4 percent. Consumer Price Index (CPI) has followed a similar trend with the import price index, which declined by 4.7 percent, reflecting Kosovo's economy dependence on imports. The decrease of import prices during 2009 was largely driven by the decline in the prices of mineral products (mainly oil), food articles, machineries and equipment. On the other hand, production prices during this period were on average by 3.8 percent higher than in the previous year (Figure 2).

The increase of production prices resulted from the increase of energy prices, which have a large weight in the overall production price index (over 50 percent), while most of other prices that compose this index have decreased.

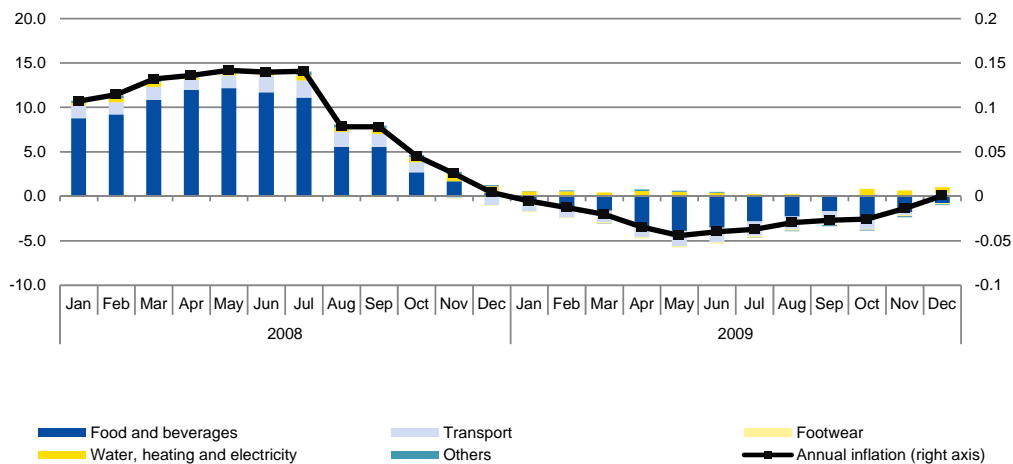
Figure 2. Consumer Price Index, import, production and global food prices



Source: SOK (2010b) and SOK (2010c)

Consumption prices in Kosovo marked a continuous decrease during 2009. Prices of food products, which have the largest weight in the consumer basket, had the largest impact on the decrease of consumption prices (Figure 3). The decrease of food product prices resulted from the decrease of food prices both internationally and domestically due to the decline of the overall demand. The decrease of prices was driven also by the decrease of prices for transport services, whereas the increase of prices for water, heating and energy had a positive impact on the overall level of prices.

Figure 3. CPI main components contribution in annual inflation



Sources: SOK (2010a)

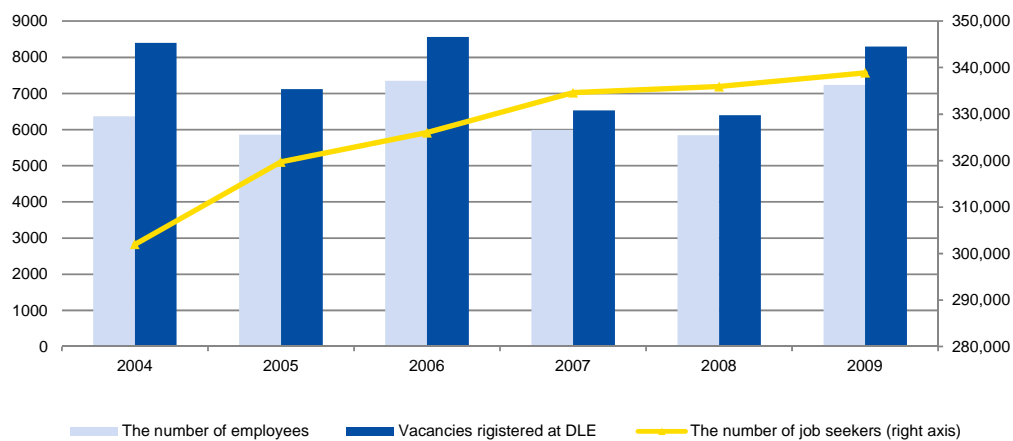
The forecasts for 2010 suggest that prices will be relatively stable compared to the last two years as a result of economic stabilization in many countries with which Kosovo has trade relations. This is as a result of the high sensitivity of prices in Kosovo against changes in import prices.

### 3.1.3. Labor Market

The Statistical Office of Kosovo (SOK), through the Labor Market Survey, estimated that the unemployment rate in Kosovo exceeds 45 percent of the labor force (for 2008), whereas the employment rate stands at 25 percent of the total number of population that are capable to work (age-group 16 to 64). Taking into account that over 20 percent of total population reaching the working age does not enter the labor market, a considerable part of population is comprised of the voluntarily unemployed.

Statistic data from the Department of Labor and Employment (DLE), within the Ministry of Labor and Social Welfare (MLSW), indicate that the number of registered job-seekers in Kosovo in the end of 2009 was 339.000. The structure of job-seekers in terms of qualification was as follows: unqualified (64.1 percent), secondary school qualification (34.4 percent) and 1.5 percent with university qualification. Structure of job-seekers by gender appears to be well balanced with 47 percent of them being female. Over 90 percent of registered job-seekers have been unemployed for a longer period than 12 months, which shows that unemployment in Kosovo has a long-term character.

Figure 4. Labor market

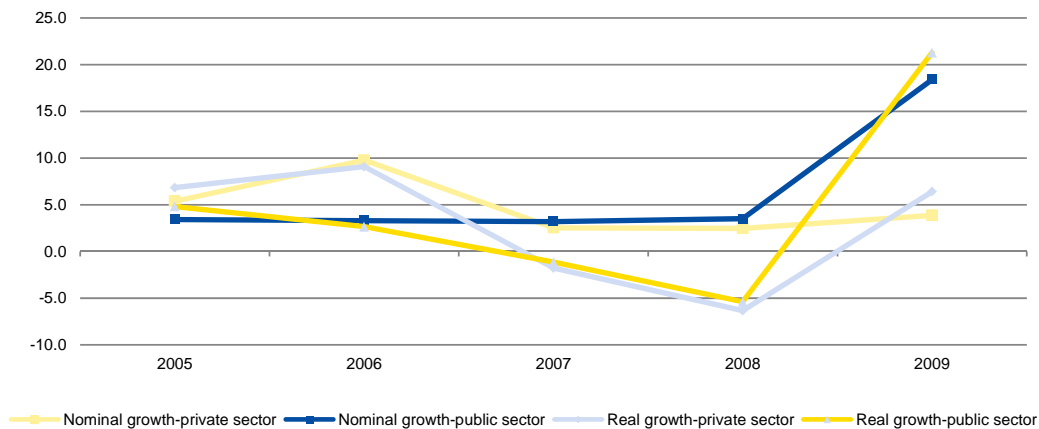


Source: MLSW (2010)

DLE, as an employment intermediary, managed to employ on average 6,400 registered job-seekers each year. Compared to 2008, employment through the DLE has considerably increased (from 5,842 employments in 2008 to 7,239 employments in 2009). Due to the young structure of population in Kosovo, a large number of young people enter the labor market each year, whereas the number of new jobs generated within a year is very low. For example, during the period 2004-2009, on average 25 thousand people a year have been registered at the DLE as new job-seekers, while the average number of new jobs reported each year to the DLE was around 7,500 each year. The registered jobseekers represent over 40 percent of the total labor force, but a consideration should be given to the fact that this picture may not reflect the real situation, since there may be unemployed people who have not been registered as job-seekers. In addition, there may also be employees in the informal sectors, who, with the intention of benefiting from the social assistance, remain listed as job-seekers in the DLE registers.

The nominal average wage in private sector in Kosovo during 2009 was euro 258, whereas the average wage in the private sector was euro 263. During 2009, the level of wages in Kosovo increased both in nominal and real terms. Real wages in the private sector marked an increase of around 6 percent, whereas the public sector wages increase by around 20 percent in real terms. As indicated in Figure 5, the highest increase of wages took place during 2009 as a result of deflation. The increase of real wages may have a negative impact on the competitiveness of Kosovo products and also may make the domestic market less attractive to the FDI, which target low-cost labor force.

Figure 5. Changes in real and nominal wages in private and public sector



Source: SOK (2010d), MLSW (2009)

### 3.1.4 Privatization

The amount of revenues collected through the privatization process reached at euro 451.0 million by the end of 2009, which represents an annual growth of 11.1 percent. During 2009, tender process was launched for a total of 114 Socially-Owned Enterprises (SOE), increasing the total number of enterprises tendered for privatization to 569 by the end of 2009. Sale contracts have been signed for 521 enterprises, whereas it is expected to have another 48 sale contracts signed soon. Out of the 569 SOEs that were tendered for privatization since the process began, 25 have been privatized by a special spin-off. As a result, the total amount of committed investments is euro 196.3 million, whereas 73 percent of committed investments have been realized by the end of 2009. The number of employees that the special spin-off privatized companies were committed to employ is 8114, whereas, until the end of 2009, 6577 employees have been employed. Regarding the distribution of the privatization fund share that belongs to the employees of privatized enterprises (20 percent of total sale price of the enterprise), around euro 20 million or around 4 percent of the total privatization revenues have been distributed by the end of 2009.

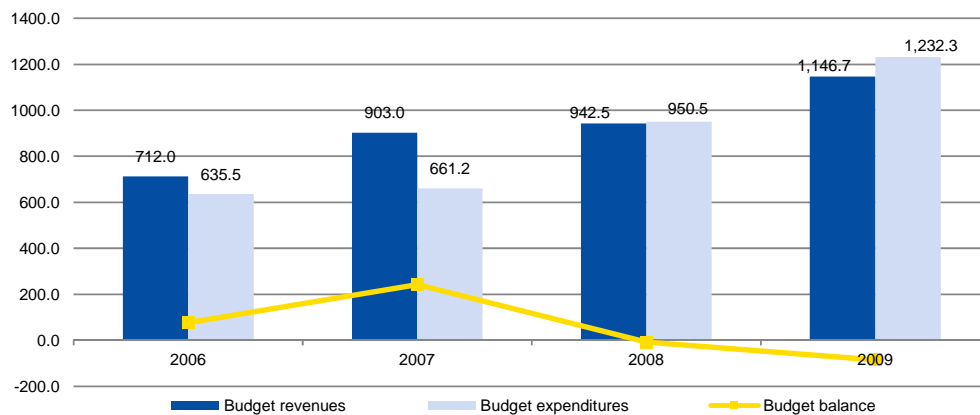
The amount of revenues collected from the privatization process in Kosovo by the end of 2009 reached at around 11.7 percent of GDP. This ratio is lower compared to countries in the region, where the average share of privatization revenues to GDP is around 18 percent. Among the countries in the region, Albania has the lowest level of privatization income (around 13 percent of GDP), whereas privatization revenues in Croatia and Serbia are higher than 20 percent of the GDP of these countries. However, it should be taken into

consideration that most of countries in the region have already privatized strategic economic sectors, such as telecommunication and energy companies, and have initiated the privatization process almost a decade before Kosovo.

### 3.2. Fiscal Sector

Kosovo Budget marked a deficit of euro 85.6 million or around 2.2 percent of GDP in 2009 (Figure 6). In general, fiscal policy in Kosovo during the post-war period has been quite conservative, mainly characterized with budget surplus or low levels of deficit. These policies, to some extent, were conditional to the limited capacities of Kosovo Government's to finance budget deficits. Any budget deficit during this period could be financed only by budget surpluses accumulated from previous years.

Figure 6. Budget balance, in millions of euro



Source: MEF (2010)

These limitations came as a consequence of the absence of the law on public debt and undefined Kosovo's political status until 2008, which made impossible eventual borrowings from international financial institutions. In the end of 2009, the Assembly of Kosovo approved the Law on Public Debt, which enables the Kosovo Government to enter into credit liabilities to finance eventual budget deficits and also enables the emission of securities. Pursuant to this law, Kosovo's public debt cannot exceed 40 percent of GDP. However, even prior to the adoption of this law, Kosovo inherited from the former Yugoslavia public debt amounting at euro 385.0 million euro. In the last quarter of 2009, a share of public debt, amounting euro 43.8 million, for which no interest charge was applied, was paid to the World Bank. In the same period of the year, Kosovo was discharged from the payment of another part of this debt, amounting at euro 89.1 million, out of which euro 84.1 million are donations from the United States of America and euro 5.0 million are donations by the European Commission. The remaining part of public debt is euro 252.1 million or 6.4 percent of GDP.

During 2009, Kosovo joined the International Monetary Fund (IMF) and World Bank (WB), which represents a unique opportunity for economic development and dealing with macroeconomic challenges. In the event that Kosovo enters into a financial arrangement with the IMF, this institution is expected to support the eventual budget needs of Kosovo, subject to the implementation of reforms in the economy, such as the public administration reform, improvement of macroeconomic policies, etc. (Box 1).

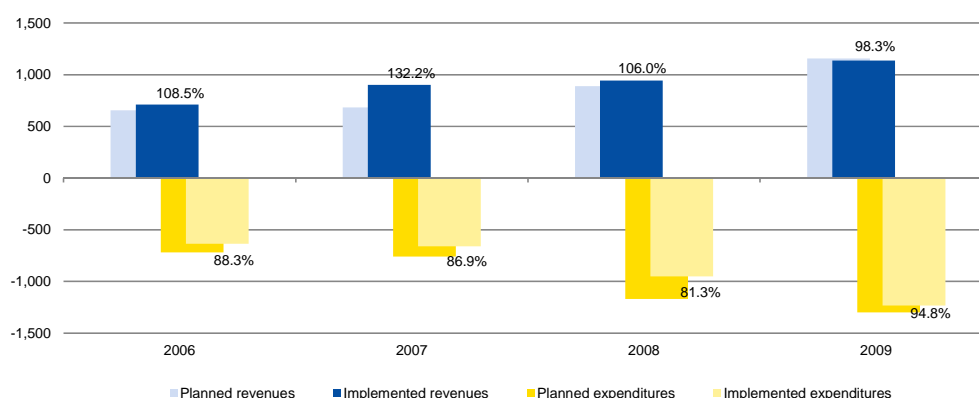
### Box 1. Kosovo's membership in the International Monetary Fund

The IMF is an international organization, which, through financial programs and technical assistance, assists the member states' economies to reach their macroeconomic objectives, such as sustainable economic growth, overcoming balance of payments difficulties, financial and price stability, etc. Kosovo became a member of IMF in June 2009, thus becoming its 189<sup>th</sup> member. Membership in the IMF represents a particular opportunity for new perspectives and challenges of economic development. Kosovo's initial quota is SDR 59 million (euro 4.6 million), which entitles it to 840 votes or 0.04 percent of total IMF votes. A share of 24 percent of the quota has been paid in euro, whereas 76 percent are liabilities (guarantees) in the IMF account opened at the CBK, which can be withdrawn automatically by the IMF if deemed necessary. Currently, Kosovo can receive loans up to 100 percent of its quota on annual basis, whereas the accumulated debt cannot exceed 300 percent of the quota. However, in extraordinary circumstances, IMF credit can be higher.

### 3.2.1. Budget Revenues

Budget revenues in 2009 reached euro 1,146.7 million or around 30 percent of GDP (24.5 percent of GDP in 2008). The budget revenues-to-GDP ratio in Kosovo stands below the average of countries in the region, which stands at 36 percent of GDP. The amount of collected budget revenues (with PTK dividend) was close to the level planned, but with a lower rate compared to 2008, when this ratio stood at 106.0 percent (Figure 7).

Figure 7. Planned and implemented budget, in millions of euro



Source: MEF (2010)

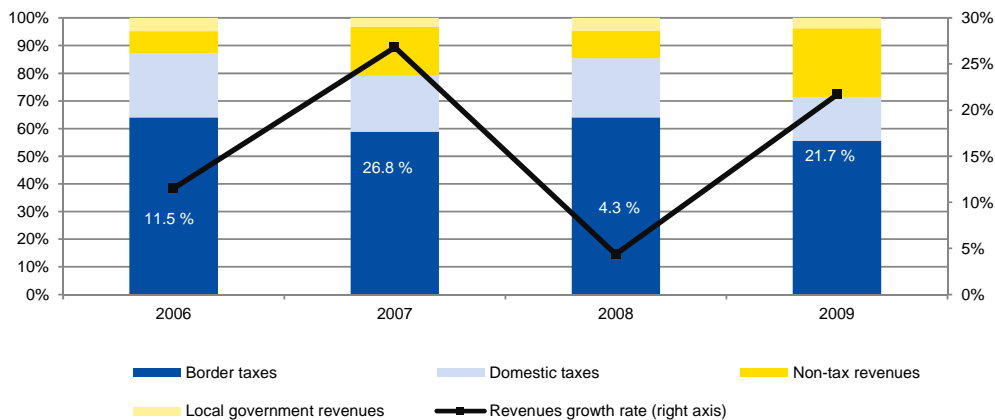
Compared to 2008, budget revenues marked an annual growth of 21.7 percent (Figure 8). This growth rate was mainly driven by the substantial increase of non-tax revenues, which resulted from the transfer of the PTK dividend amounting at euro 200.0 million. Consequently, non-tax revenues were tripled compared to 2008, amounting at euro 282.7 million in the end of 2009, whereby their share in the overall budget revenues reached 24.7 percent (10.3 percent in 2008). Apart of the dividend, the other part of non-tax revenues is composed of taxes, licenses, fines (around euro 47 million) and other revenues.

Border taxes continue to represent the main source of budget revenues. As a consequence of the increase in the share of non-tax revenues to total budget revenues, the share of border revenues decreased to 55.3 percent from 64.1 percent in 2008. Border taxes reached at euro 634.0 million, marking an annual growth of 5 percent, which is mainly a result of the increase of the VAT rate from 15 to 16 percent. Revenues generated from border VAT, in

2009, reached at euro 314.7 million, which is for 3.4 percent higher than in 2008. The increase of the VAT rate has notably compensated the negative impact of the decline of imports on border revenues. Excise revenues represented another important category of border revenues, increasing by 7.1 percent (euro 141.9 million in 2009), mainly due to the increase of the excise rate for products like alcohol, tobacco, coffee, fuel, etc.

Another important source of budget revenues consists of domestic taxes, the share of which to total revenues decreased to 15.8 percent (21.3 percent in 2008). The amount of revenues collected through domestic revenues, in 2009, was for 9.5 percent lower than in 2008. The decrease of these revenues reflects the lower rate of the overall economic activity in the country, which is also explained by the lower rate of economic growth for this year. Domestic revenues have also decreased as a consequence of the decrease of tax rates on personal income and corporate profit. The amount of budget revenues that is generated from personal income taxes, in 2009, was euro 38.0 million, which is an annual decline of 12.6 percent. Corporate profit tax represents the most important category of domestic taxes, generating 30.2 percent of these revenues.

Figure 8. The structure of budget revenues, in percent



Source: MEF (2010)

However, the value of revenues from corporate profit taxes in 2009 was euro 54.8 million, which is for 16.3 percent lower than in the previous year. It is worthy to mention that there is a high level of informal economy within the private sector due to businesses and employees being not registered. This has an impact on the decrease of the tax base and also makes the extension of banking sector loans to individuals and businesses more difficult.

Apart of the poorer performance and the decrease of the tax rates, the decline of profit tax revenues can be attributed also to the decrease of the overall level of prices. Aiming at improving the performance of tax collection, the fiscal cashiers project will be implemented in 2010, which is expected to further promote the importance of this source of revenues to the Kosovo Budget. The second most important category of domestic taxes, in terms of the generated level of revenues, consists of VAT revenues collected inside the country, which in 2009 represented 27.9 percent of total domestic taxes. Revenues generated from this tax category, in 2009, marked an annual increase of 36.6 percent, which is a result of the increase in the VAT rate.

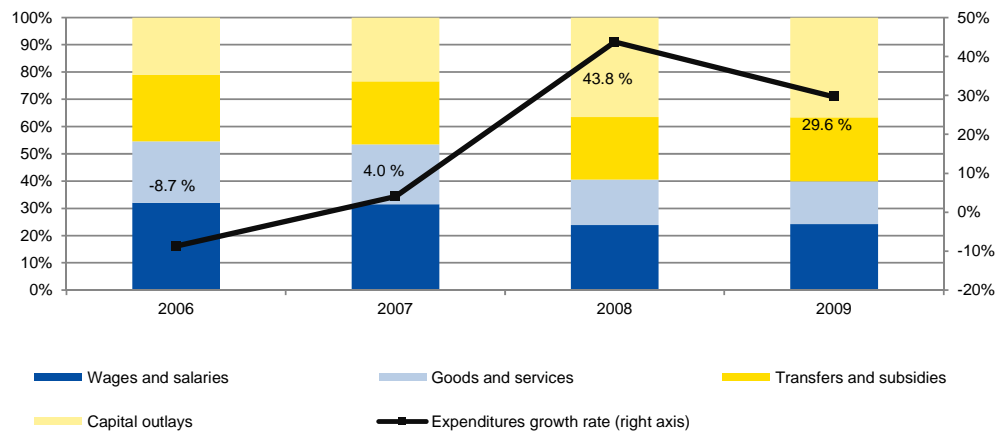
Another two relatively low-base categories of domestic taxes consist of the presumptive tax and the profit tax. Budget revenues generated from the presumptive tax, in 2009, were euro

2.1 million (euro 1.3 million in 2008), whereas revenues from the profit tax reached at euro 8.35 million (euro 4.4 million euro in 2008). Revenues collected from local governments in 2009 were similar to the previous year in terms of the share to total revenues (4.2 percent of total revenues), amounting at euro 42.8 million euro.

### 3.2.2. Budget Expenditures

Budget expenditures in 2009 reached at euro 1,232.3 million, which is an annual growth of 29.7 percent, thus reaching at 32 percent of GDP (24.7 percent of GDP in 2008). This represents the highest share of budget expenditures to GDP during the postwar period. However, Kosovo a lower budget expenditures-to-GDP ratio compared to the average of the region, which stands at around 38 percent of GDP. Budget expenditures dedicated for consumption during 2009 were equal to 11.2 percent of GDP, whereas capital outlays were 10.3 percent of GDP.

Figure 9. Structure of budget expenditures



Source: MEF (2010)

The level of budget expenditures also in 2009 was lower than the projected level, mainly due to the delays in the implementation of projects (Figure 7). Capital outlays represent one of the expenditure categories which, each year, were characterized with a lower rate of implementation. However, the implementation rate of capital outlays in 2009 increased to 81 percent of the projected level, compared to 68 percent in 2008.

Similar to the previous year, capital outlays absorbed of the largest share of budget expenditures. Capital outlays in 2009 amounted at euro 400.4 million, which represents an annual growth of 15.4 percent, whereas their share to total expenditures reached at 32.2 percent (36.5 percent in 2008). The largest part of capital outlays was designated for the construction of the road infrastructure (39.7 of capital outlays). In 2009, Kosovo's Government spent 4.2 percent of its budget in the education sector, which is a similar proportion with the average in the region. Whereas, investments in the health sector represent 6.0 percent of total expenditures and they are by 1pp lower than the average of the region. Subsidies and transfers marked a relatively high annual growth of 17.6 percent. The largest part of subsidies was designated to public companies (32.0 percent of subsidies), such as KEK, Termokos, etc., while transfers were mainly granted for basic pensions (33.5 of transfers). In the framework of these expenditures, KEK received a loan amounting euro

78.8 million euro. Expenditures on wages and salaries marked an annual growth of 16.4 percent, composing 21.5 percent of total budget expenditures in 2009. The expenditures for goods and services increased by 8.3 percent and accounted for 13.9 percent of total expenditures. Within the category of goods and services expenditures, in 2009, expenditures on contracting services for local and international consultants marked a considerable increase, amounting at euro 30.9 million (euro 19.2 million in 2008). Two other budget expenditure categories emerged during 2009. In the framework of these expenditures, in the last quarter of 2009, a part of public debt amounting at euro 43.8 million was paid to the World Bank and also an amount of euro 17.0 million was paid to the IMF and WB as a membership fee.

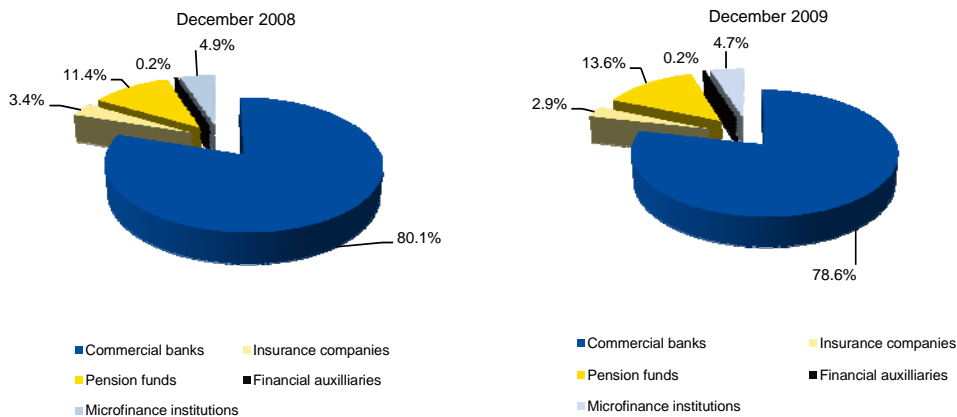
In the end-November 2009, the Kosovo Assembly approved in principle the draft budget for 2010 amounting at euro 1.4 billion, which represents an increase of 19.1 percent compared to the budget of 2009. According to this draft budget, budget revenues in 2010 will amount at euro 1,029.2 million, whereas the amount of budgeted expenditures is euro 1,156.6 million. Consequently, Kosovo Budget in 2010 is expected to have a deficit of euro 127.4 million. The budget framework also foresees the utilization of outside financing amounting at euro 50.0 million, while an amount of euro 200.0 million was allocated as a reserve. An amount of euro 70.0 million is budgeted as a loan for policy formulations, whereas euro 15 million were budgeted for foreign debt interest payments.

### 3.3. Financial Sector

#### 3.3.1. General Characteristics

Kosovo's financial sector continued to expand its activities during 2009, reaching a total value of assets of euro 2.8 billion (without considering CBK), which represents an annual growth of 24.2 percent. Banking sector continued to represent the largest part of financial sector assets (78.6 percent), even though with a lower share compared to the previous year (Figure 10). Pension funds manage 13.6 of total financial sector assets, whereas the remaining part (7.8 percent) of assets is shared between microfinance institutions (4.7 percent), insurance companies (2.9 percent) and financial intermediaries (0.2 percent).

Figure 10. Structure of financial system assets by sectors



Source: CBK (2010)

Regarding the number of financial institutions operating in Kosovo, year 2009 was not characterized by any substantial change. The number of commercial banks and pension

funds remained the same, whereas another two microfinance institutions started their activity during this year (Table 3).

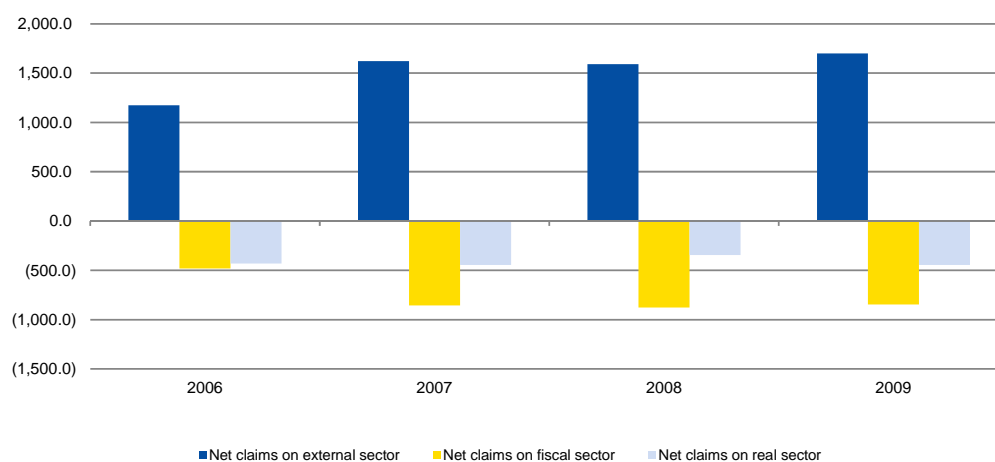
**Table 3. Number of financial institutions**

| Description                                  | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|
| Commercial banks                             | 6    | 7    | 8    | 8    |
| Insurance companies                          | 9    | 10   | 11   | 11   |
| Pension funds                                | 7    | 2    | 2    | 2    |
| Financial aux. and microfinance institutions | 38   | 46   | 45   | 46   |

Source: CBK (2010)

The value of Net Foreign Assets (NFA) continued to be high, reaching euro 1.7 billion or 43.6 percent of GDP in 2009. The largest part of financial sector assets (including CBK) was invested in deposits (44.7 percent) and securities (35.6 percent). The total value of claims to the external sectors in the end of 2009 was euro 2.04 billion or by 18 percent higher compared to last year. The increase of the claims to the external sector mainly took place during the third quarter, whereas, during the last quarter of the year, there was a substantially lower growth rate, which complies with the increase of government expenditures during this period.

Figure 11. Financial corporations survey



Source: CBK (2010)

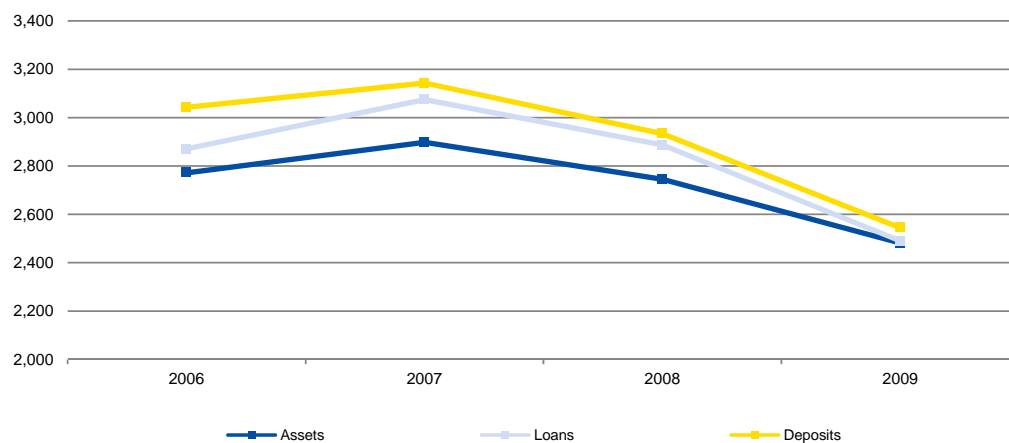
Assets of Kosovo financial sector invested outside the country are mainly composed of the CBK assets, which represent 58.8 percent of these assets, followed by commercial banks assets (29.2 percent) and pension funds (12 percent). During 2009, there has been a significant increase of liabilities to the external sector, which almost tripled compared to 2008, reaching euro 335.4 million. This resulted from the allocation of the IMF quota to Kosovo (around euro 60 million) as well as the increase in the amount of foreign loans used by commercial banks and other financial institutions operating in Kosovo.

Financial sector has liabilities to the fiscal sector, but not claims. These liabilities comprise of the government deposits at the financial sector (mainly in CBK), which amounted at euro 846.3 million in the end of 2009, representing an annual decrease of 2.9 percent (Figure 11). This decline of deposits mainly took place during the last quarter of the year, as a result of budget expenditures growth. Financial sector net claims to the real sector continued to have a negative balance. Financial sector claims to the real sector, largely comprising of loans issued by the banking sector, reached at euro 1.4 billion, whereas liabilities to the real sector, which mainly consist of deposits at commercial banks, reached at euro 1.8 billion (Figure 11).

### 3.3.2. Structure and Activity of the Banking Sector

The ownership structure of Kosovo's banking system in 2009 was similar to the previous year, consisting of six foreign-owned banks and two domestically-owned. The sector remains dominated by foreign-owned banks, which manage 91.5 percent of total banking sector assets. Kosovo's banking sector continues to be characterized by a high degree of concentration, with 80 percent of total assets being managed by the three largest banks. However, the entry of new banks in the market during 2008, as well as, the continuous growth in the activity of smaller banks has made the degree of concentration in the banking market to follow a declining trend. For example, the degree of concentration indicated through the Herfindahl-Hirschman Index (HHI) for assets dropped to 2,482 in 2009 compared to 2,745 in 2008 (Figure 12).

Figure 12. HHI for assets, loans and deposits



Source: CBK (2010)

A significant slowdown during 2009 has been evident with regard to the expansion of the number of commercial bank branches and sub-branches, whereas the number of employees in this sector decreased. These developments mainly reflect the measures undertaken by commercial banks to reduce their operational expenditures. The number of commercial bank branches and sub-branches in 2009 reached at 292 (287 in 2008), whereas the number of employees in this sector dropped to 3,444 from 3,607 recorded in the end of 2008. The expansion of bank infrastructure, in terms of the number of Automated Teller Machines (ATM), points of sale (POS) and electronic banking (e-banking), continued during 2009,

thus enhancing clients' access to banking services (Table 4). The number of e-banking accounts has even tripled, reaching at 40,924.

**Table 4. Banking sector network**

| Description                         | 2006  | 2007  | 2008   | 2009   |
|-------------------------------------|-------|-------|--------|--------|
| Number of branches and sub-branches | 220   | 235   | 287    | 292    |
| Number of employees                 | 2,416 | 2,715 | 3,607  | 3,444  |
| Number of ATM                       | 116   | 155   | 240    | 339    |
| Number of POS                       | 1,767 | 2,554 | 3,426  | 5,251  |
| Number of e-banking accounts        | 2,872 | 4,742 | 13,051 | 40,924 |

Source: CBK (2010)

### 3.3.2.1. Banking sector balance sheet

#### *i. Assets*

Kosovo's banking sector continued to expand also during 2009. The amount of assets managed by commercial banks in the end of 2009 reached at euro 2.2 billion, which represents an annual growth of 21.9 percent. The share of banking sector assets to GDP, in 2009, increased to 56.5 percent, compared to 47 percent of GDP in 2008.

The structure of banking sector assets in 2009 was similar to the previous periods, with loans representing the largest share (58.5 percent). However, the share of loans to total assets in 2009 was for 6.9pp lower than in 2008. On the other hand, almost all the other categories have increased their share in the overall structure of banking sector assets (Table 5).

**Table 5. Structure of banking sector assets**

| Description                    | 2006         |             | 2007         |             | 2008         |             | 2009         |             |
|--------------------------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
|                                | In millions  | In percent  | In millions  | In percent  | In millions  | In percent  | In millions  | In percent  |
| Cash and balances with CBK     | 141.1        | 12.1%       | 189.0        | 13.2%       | 218.2        | 12.1%       | 322.7        | 14.6%       |
| Balances with commercial banks | 243.3        | 20.9%       | 208.1        | 14.5%       | 283.9        | 15.7%       | 405.6        | 18.4%       |
| Securities                     | 99.4         | 8.6%        | 78.9         | 5.5%        | 40.5         | 2.2%        | 97.0         | 4.4%        |
| Gross loans and lease fin.     | 636.6        | 54.8%       | 892.1        | 62.2%       | 1,183.4      | 65.4%       | 1,289.0      | 58.5%       |
| Fixed assets                   | 23.0         | 2.0%        | 27.2         | 1.9%        | 39.0         | 2.2%        | 43.1         | 2.0%        |
| Other assets                   | 17.9         | 1.5%        | 39.7         | 2.8%        | 43.1         | 2.4%        | 46.7         | 2.1%        |
| <b>Total</b>                   | <b>1,161</b> | <b>100%</b> | <b>1,435</b> | <b>100%</b> | <b>1,808</b> | <b>100%</b> | <b>2,204</b> | <b>100%</b> |

Source: CBK (2010)

Banking sector loans during 2009 continued to grow, but at a significantly lower rate compared to the previous periods. The annual growth rate of banking sector loans in 2009 was 8.9 percent (32.7 percent in 2008). The credit tightening was mainly reflected in loans to enterprises, which in 2009 marked an annual growth of only 4.6 percent (30.4 percent in). Loans to households were less affected, marking an annual growth rate of 22.3 percent (40.1 percent in 2008). The amount of new loans issued in 2009 is lower compared to the

previous year. The average value of new loans issued within a month during 2009 was euro 52.5 million compared to euro 57.8 million in 2008.

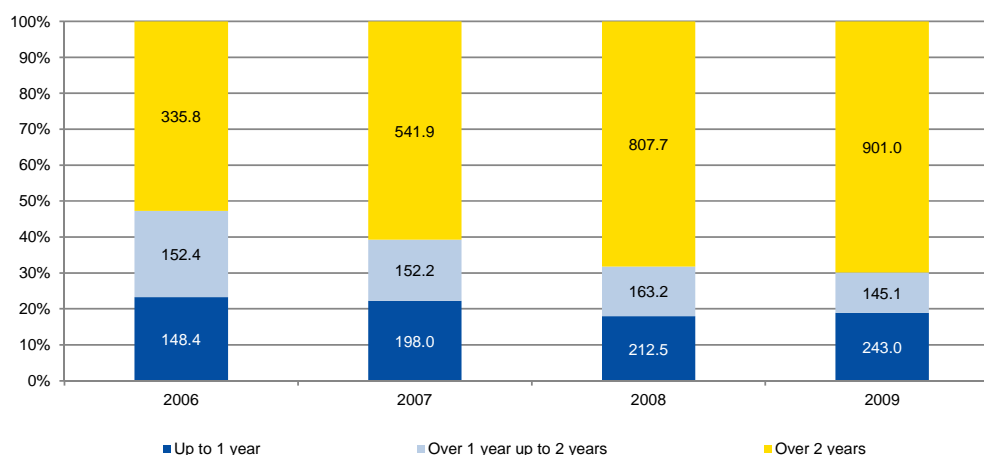
The slowdown of lending pushed the commercial banks to divert a part of their investments towards other assets. A higher growth rate is recorded in investments in securities, which reached at euro 97.0 million in 2009 from euro 40.5 million in 2008 (Table 5). The growth of these investments also resulted from the stabilization of capital markets in the external sector, which contributed to the security of these investments.

#### *ii. Structure of loans*

The structure of loans during 2009 was dominated by loans issued to enterprises. However, their share to the overall loan portfolio declined to 73.3 percent (76.3 percent in 2008), while the share of household loans decreased to 26.7 percent of total loan portfolio (23.7 percent in 2008). The low level of domestic production and the high dependence of Kosovo's economy on import are reflected also in the sectional distribution of loans issued to private enterprises. The largest part of these loans is absorbed by trading sector enterprises (56.4 of loans to enterprises), whereas loans issued to the industrial sector (including mines, production, energy and construction) compose 25.0 percent of total loans to enterprises. Loans issued to the agricultural sector continue to represent the lowest share, which is only 4.0 percent of total loans to enterprises. Compared to last year, it is noticed an increase in the share of industrial sector loans (7.5pp), whereas there has been no substantial change in the share of loans to other sectors. Credit tightening seems not to have affected loans to the industrial sector, which amounted at euro 236.7 million in 2009, increasing by 47.8 percent compared to the previous year. Credit tightening was mostly reflected in the trading sector, where the annual growth of loans was 5.7 percent, which is considerably lower compared to the growth rate of 21.3 percent in the previous year.

The structure of loans remained similar to last year also in terms of maturity. Loan portfolio is mainly composed of loans with maturity longer than two years, which represent 70 percent of total loan portfolio (Figure 13). The share of loans with longer maturity has followed a continuously increasing trend, reflecting the improvement of banking system confidence on the business environment in Kosovo. The other part of loans consists of loans with maturity between one and two years, which represent 11.2 percent of total loans. Loans with maturity up to one year compose 18.8 percent of banking sector loans. A significant slowdown of lending was noticed in the category of loans with maturity longer than one year and up to two years, which represent the only category which marked a decline of 11.1 percent.

Figure 13. Structure of loans



Source: CBK (2010)

### iii. Liabilities

The structure of banking sector liabilities during 2009 was dominated by deposits, which represent 79.5 percent of total liabilities. Deposits at the banking sectors, in 2009, recorded an annual growth of 20.8 percent (26.3 percent in 2008), amounting at euro 1.74 billion. This growth was a result from the increase of household deposits, while the deposits of enterprises declined by 20.7 percent. Within banking sector liabilities, in 2009, it was noticed a continuous increase of subordinated debt and placements from commercial banks abroad, indicating that Kosovo's banking sector is increasing the use of external financial resources (Table 6). However, the share of these categories to total banking sector liabilities remains low (3.8 percent).

Table 6. Structure of banking sector liabilities

| Description               | 2006        |            | 2007        |            | 2008        |            | 2009        |            |
|---------------------------|-------------|------------|-------------|------------|-------------|------------|-------------|------------|
|                           | In millions | In percent | In millions | In percent | In millions | In percent | In millions | In percent |
| Balances from other banks | 30.3        | 2.6%       | 25.8        | 1.8%       | 34.9        | 1.9%       | 58.5        | 2.7%       |
| Deposits                  | 924.3       | 79.6%      | 1,143.1     | 79.7%      | 1,444.1     | 79.9%      | 1,744.9     | 79.2%      |
| Other borrowings          | 4.2         | 0.4%       | 2.7         | 0.2%       | ...         | ...        | ...         | ...        |
| Other liabilities         | 92.1        | 7.9%       | 103.7       | 7.2%       | 129.8       | 7.2%       | 171.7       | 7.8%       |
| Subordinated debt         | 7.0         | 0.6%       | 7.0         | 0.5%       | 7.0         | 0.4%       | 24.4        | 1.1%       |
| Own resources             | 103.3       | 8.9%       | 152.7       | 10.6%      | 192.5       | 10.6%      | 204.6       | 9.3%       |
| Total                     | 1,161       | 100%       | 1,435       | 100%       | 1,808       | 100%       | 2,204       | 100%       |

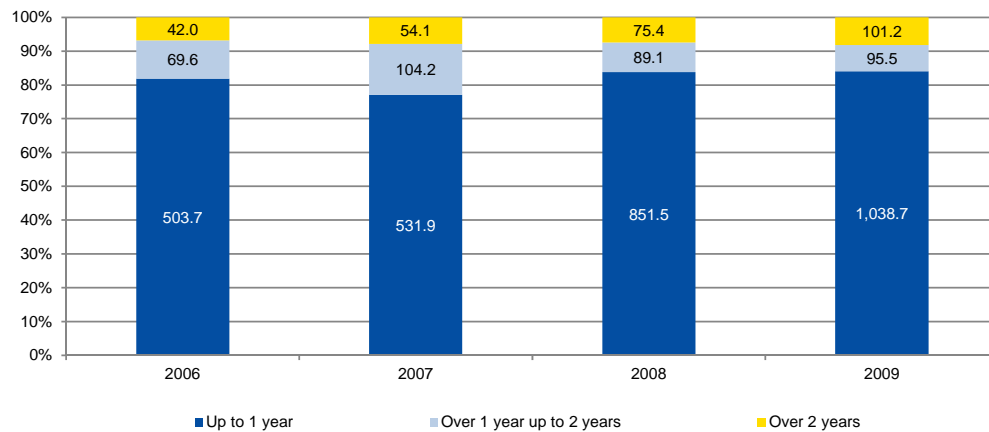
Source: CBK (2010)

A very important category of banking sector liabilities consists of commercial banks own resources, which are mainly composed of shareholders capital (77.9 percent of own resources). Commercial banks increased their shareholders capital to euro 159.4 million in 2009, which is an annual growth of 9.3 percent. Reinvested earnings (as part of own resources) almost doubled compared to 2008, reaching at euro 19.7 million, whereas the profit realized during 2009 was by 30 percent lower than in 2008.

#### iv. Structure of deposits

The largest part of deposits in the banking sector consists of household deposits, which participate with a share of 60 percent in total deposits, whereas the deposits of private sector enterprises compose 15.3 percent of total deposits. Up to 2009, a substantial part of deposits in the banking sector belonged to public enterprises; however, with the PTK dividend amounting euro 200 million having been transferred to the Kosovo Government, public enterprises deposits recorded a considerable decline. In the end of 2009, public enterprises deposits represented 7.0 percent of total deposits in the banking sector, compared to 18.3 percent in 2008. Consequently, the share of government deposits in commercial banks, in 2009, reached at 9.4 percent. The share of 4.1 percent of deposits belongs to other financial institutions.

Figure 14. Structure of deposits



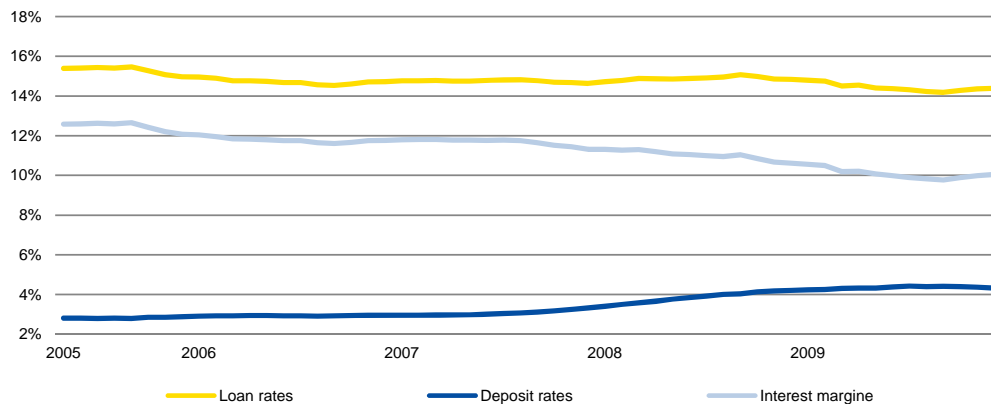
Source: CBK (2010)

In terms of maturity, 29.9 percent of deposits are transferable while the remainder consists of time and saving deposits. Deposits with maturity of up to one year dominate among these deposits, representing 84.1 percent of total time and saving deposits. Deposits with maturity of more than one year and up to two years compose 7.7 percent of time and saving deposits, whereas 8.2 of these deposits have maturity more than two years (Figure 14). As a result of increase of public confidence towards the banking system, and the continuous increase of interest rates on deposits, it is noticed a continuous shift from transferable deposits towards time and saving deposits. Furthermore, in 2009, it was noticed a considerable growth in the value of deposits with maturity of more than two years, which reached at euro 101.3 million, an annual growth of 34.2 percent. The largest part of deposits in Kosovo banking sector are in euro currency (93.6 of total deposits).

### 3.3.2.2. Interest rates

The interest rate spread in the end of 2009 was 10.1 pp, which represents an increase of 0.7pp compared to 2008, when there was a rather significant decrease.<sup>6</sup> The increase of the interest rate spread resulted from the slight increase of loan interest rates (0.3pp) and the decrease of deposit interest rates (0.4pp). One of the factors, which made banks more cautious with regard to offered interest rates was the slowdown of lending activity during 2009 (Figure 15).

Figure 15. Interest rates, in percent



Source: CBK (2010)

Note: Methodological change since 2008

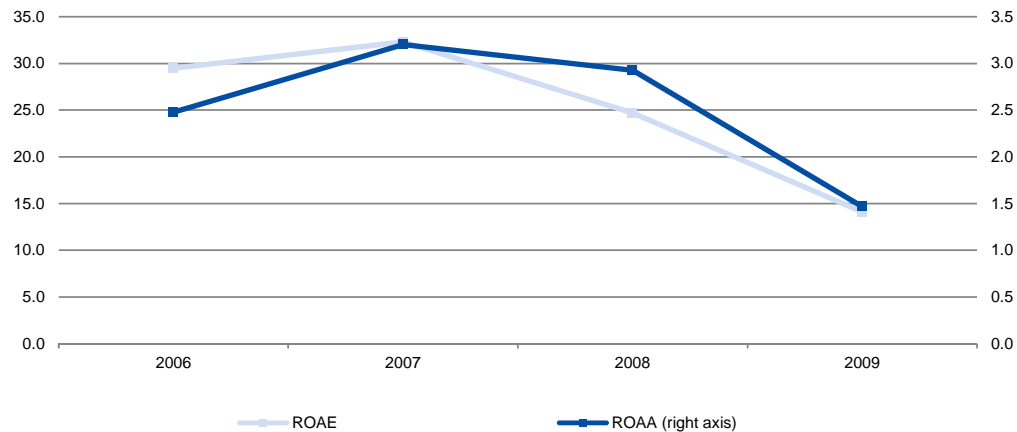
Loan interest rates for enterprises during 2009 continued to be higher than for households, whereas the opposite applies to deposit interest rates where higher rates are offered to enterprises. Another determinant of interest rates is the maturity. For example, with respect to enterprises, the difference between interest rates on loans up to one year and those more than one year is 5.19pp. Whereas, interest rates on household deposits with maturity of up to one year are for 1.21pp lower than those on deposits with maturity of more than two years.

### 3.3.2.3. Banking sector performance

Kosovo's banking sector concluded year 2009 with a net profit of euro 29.6 million. The profit realized in 2009 was for 30.5 percent lower compared to 2008, indicating a poorer performance of banking sector. The decrease of profit resulted from the lower growth of commercial banks income, mainly due to the slowdown of lending activity, whereas expenditures followed a faster growth trend compared to income. The decrease of net profit led to a decline of banking sector profitability indicators, such as Return on Average Assets (ROAA) and Return on Average Equity (ROAE), (Figure 16). The banking sector ROAA, in 2009, decreased to 1.4 percent compared to 2.4 percent in 2008. ROAE marked also such a significant decline, decreasing to 13 percent in 2009 (24.7 percent in 2008).

<sup>6</sup> Loan and deposit interest rates are weighted averages across specific products.

Figure 16. Performance indicators



Source: CBK (2010)

Banking sector income during 2009 marked a significantly slower growth compared to previous years. Income generated by banking sector in 2009 amounted at euro 201.5 million euro, which is only by 3.3 percent higher than the income generated in 2008 (annual growth in 2008 was 24.0 percent). The lower growth rate of banking sector income was mainly caused by the slowdown of lending by this sector, which led to a lower growth of income from loan interest. Income from loan interest in 2009 marked an annual growth of 13.9 percent, which is considerably lower compared to the growth rate of 36.3 percent in 2008. Another significant factor that negatively influenced the growth of banking sector income is the decline of EURIBOR rate in the European interbank market, which caused a significant decrease of income from placements in commercial banks abroad. The income from these sources in 2009 was only euro 2.8 million compared to euro 12.0 million in 2008. The structure of banking sector income remained similar to previous years, where interest income represents the main resource of banking sector income, representing 81 percent of total.

Banking sector expenditures in 2009 increased by 17.7 percent compared to 2008, amounting at euro 171.3 million. The growth rate of expenditures recorded in 2009 was lower compared to the growth rate of 26.3 percent recorded in 2008. This lower growth rate is mainly attributed to general and administrative expenditures, which in 2009 marked an annual growth of only 1.2 percent, compared to 23.4 percent in 2008. This is a result of the measures undertaken by commercial banks to reduce operational expenditures. General and administrative expenditures continue to represent the largest part of banking sector expenditures, composing 50.6 percent of total, while their share in 2009 was for 8.3pp lower than in the last year. A substantial increase is notices in expenditures for loan-loss provisions, belonging to interest-free expenditures, which in 2009 increased to euro 25.7 million, marking an annual growth of 51.3 percent.

**Table 7. Income statement, in millions of euro**

| Description                       | 2006  | 2007  | 2008  | 2009  |
|-----------------------------------|-------|-------|-------|-------|
| <b>Income</b>                     |       |       |       |       |
| Interest income                   | 88.8  | 117.9 | 155.7 | 163.2 |
| Non-interest income               | 25.2  | 39.5  | 39.3  | 38.2  |
| Total income                      | 114.0 | 157.3 | 195.0 | 201.5 |
| <b>Expenditures</b>               |       |       |       |       |
| Interest expenditures             | 19.9  | 26.0  | 37.3  | 51.6  |
| Non-interest expenditures         | 19.6  | 19.9  | 21.9  | 32.6  |
| General and admin. expend.        | 54.8  | 69.7  | 86.0  | 87.0  |
| Total expenditures                | 94    | 115.6 | 145   | 171.3 |
| <b>Net income</b>                 |       |       |       |       |
| Net operating income              | 25.5  | 41.7  | 49.0  | 29.6  |
| Net income before tax             | 26.6  | 41.3  | 47.6  | 28.9  |
| Tax provisions                    | 6.4   | 7.9   | 11.2  | 3.6   |
| Net profit/loss within the period | 20.2  | 33.5  | 36.4  | 25.3  |

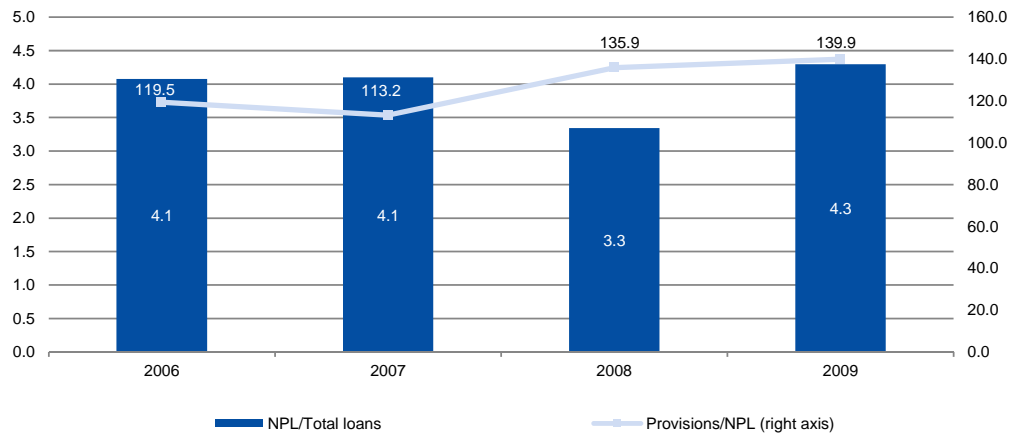
Source: CBK (2010)

The increase of loan-loss provisions resulted from the growth of non-performing loans (NPL) during 2009, which increased their share to total loans to 4.3 percent (3.3 percent in 2008). The increase of NPL mainly took place during the first half of the year, whereas, during the second half of the year, the quality of loan portfolio was broadly stable. Nevertheless, the current ratio of non-performing loans is well covered by provisions, which cover around 140 percent of the total amount of non-performing loans (Figure 17). Furthermore, the 'stress test' outputs (as of September 2009 data) suggest that the banking sector is capable of maintaining the Capital Adequacy Ratio (CAR) over 12 percent even if the NPL would increase by 150 percent. The Kosovo banking sector is well capitalized, with a CAR of 18 percent, exceeding the minimal level of 12 percent required by the Central Bank, indicating a satisfactory level of sustainability.

The higher growth rate of deposits compared to the growth rate of loans, in 2009, increased banks' liquidity. The loan-to-deposit ratio stood at 74 percent, which is well below the level of 80 percent recommended by the Central Bank. As a consequence of the slowdown of lending, the share of liquid assets of total banking sector assets increased to 37 percent from 30 percent in 2008. A satisfactory level of liquidity in the banking sector is indicated also by the 'stress test' outputs (as of September 2009 data). These outputs suggest that the banking system is capable of sustaining different rates of deposit withdrawal without needing additional liquid funds.

The developments that characterized the banking system during 2009 had also efficiency implications for this sector. In this context, the income-to-total assets ratio, in 2009, decreased to 9.1 percent from 10.8 percent in 2008. This suggests that commercial banks were less efficient to generate income from the utilization of their assets. On the other hand, banks proved to be more efficient with regard to the utilization of human resources. The average value of assets managed by an employee in 2009 was euro 637 thousand compared to euro 501 thousand in 2008. This difference was caused by the reduction in the number of banking sector employees during the last quarter of 2009.

Figure 17. Non-performing loans and provisions, in percent



Source: CBK (2010)

### 3.3.3 Insurance Companies

The sector of insurance companies continued to be stable, marking a moderate growth compared to last year. The number of insurance companies operating in Kosovo in the end of 2009 was 11, of which 10 exercise their activity in non-life insurance services, while one company offers life insurance activities only. Regarding the ownership structure, 8 companies are foreign owned whereas and the other 3 domestically owned. Total assets of the insurance sector reached at euro 81.1 million in 2009, recording an annual growth of 4.8 percent. The structure of assets is dominated from deposits, which compose 63.7 percent of total assets. Regarding liabilities, the shareholders equity represents the major category (45.5 percent of total liabilities).

The number of policies issued during 2009 reached at 511 thousand, which represents an increase by 7.4 compared to 2008. The received premiums also marked an increase, the amounting at euro 67.7 million in 2009, which is by 20.2 percent higher than in 2008. The activity of insurance companies is mainly based on the provision of three policies, of which the Third Party Liability (TPL) policy generates the largest share of received premiums (53.7 percent of total premiums). The premiums generated by TPL policies in 2009 amounted at euro 36 million, which represents a growth of 2.2 percent compared to the previous year. Premiums from the sale of voluntary insurance policies continued to increase their share to total received premiums (27.6 percent of total premiums). The value of premiums received from this category reached at euro 17.1 million in 2009, which represents a growth of 90 percent compared to 2008. The category of border policies marked an annual growth of 15.9 percent, amounting at euro 11.9 million (18 percent of total premiums).

The amount of claims paid, in 2009, was euro 18.8 million, which represents an annual growth of 6.5 percent. Despite the increase in the amount of claims paid, the ratio between paid claims and received premiums declined from 31.3 percent in the end of 2008 to 27.8 percent in the end of 2009, as a result of a faster growth in the amount of received premiums. Around 73 percent of the amount of claims paid consists of the compensation for

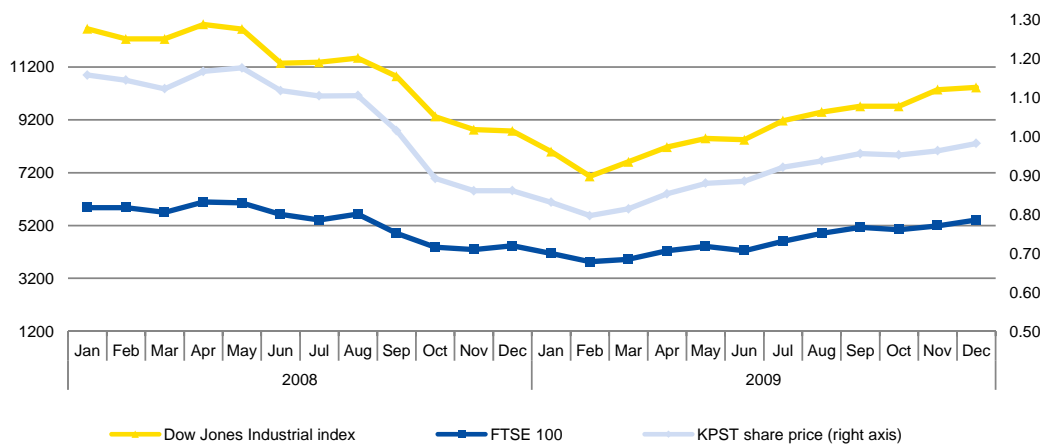
TPL policyholders, whereas claims paid to other policyholders (non-TPL) marked a substantial increase, reaching at 21 percent of total claims paid (11 percent in 2008).

### 3.3.4 Pension Funds

The Kosovo pension system is organized in three main pillars. The basic pension represents the first pillar, managed by the Government, the beneficiaries of which are all the people older than 65 years. The mandatory individual pension contributions are managed by Kosovo Pension Savings Trust (KPST) and represent the second pillar, while the third pillar includes the voluntary pension schemes, managed by KPST and the Slovenian-Kosovo Pension Fund (KSPF). Total assets of Kosovo pension system in 2009 reached at around 10 percent of GDP. The assets under the management of KPST amounted at euro 376 million, whereas those managed by KSPF amounted at euro 4.7 million euro. The KPST assets have largely been invested on bonds (84.0 percent) and bank deposits (15.0 percent), whereas the other part of 1.0 is kept in cash.

The performance of KPST during 2009 was more satisfactory compared to 2008, when the KPST share price declined from euro 1.22 to euro 0.86 per share (the basic price during contribution is counted euro 1.0 per share). The return on invested assets during 2009 was 14.1 percent (December 2008-December 2009). The developments related to the value of KPST shares were in line with the developments in international markets (Figure 18). The improvements of international equity markets during the second half of 2009 were reflected also on the KPST investments, which recorded a positive return. The value of KPST share in the end of 2009 reached at around euro 1.0.

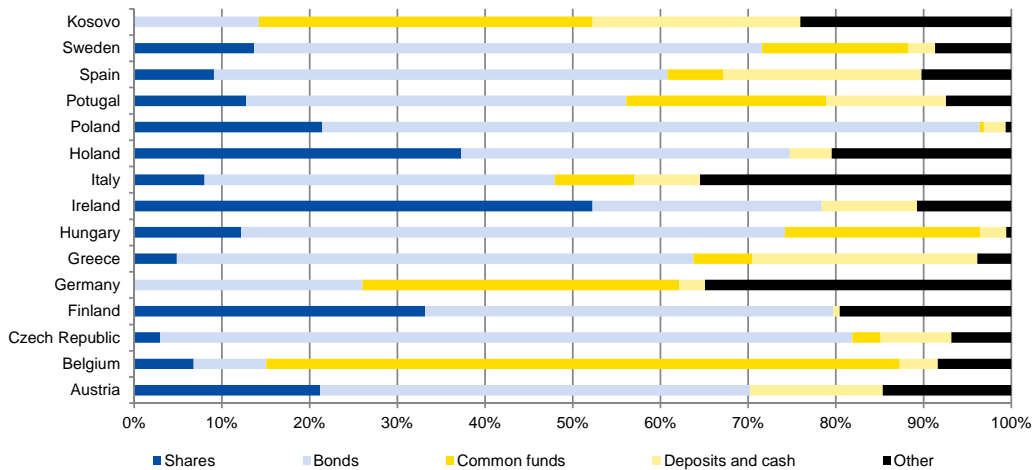
Figure 18. KPST share price, DJI and FTSE index



Source: Trust (2010), DJI and FTSE (2010)

As indicated in Figure 19, KPST investments are more concentrated on mutual funds, which represent 38.0 percent of total investments, whereas 23.7 percent of total KPST assets have been invested in cash and bank deposits. Investments in bonds represent 14.2 percent of total assets, whereas the remainder belongs to other categories. The structure of KPST investments is similar to the investments structure of pension funds in some of the EU countries (Figure 19).

Figure 19. Structure of pension funds investments



Source: OECD (2010) and Trust (2010)

### 3.3.5 Microfinance Institutions and Financial Auxiliaries

The number of microfinance institutions (MFI) operating in Kosovo in the end of 2009 was 19 (16 in 2008). The MFI activity continues to concentrate on the financing of small businesses and households. The number of loans issued by these institutions reached at 57500, which represents an annual growth of 14.6 percent. In the end of 2009, the amount of MFI loans reached at euro 109 million, which represents an annual growth of 16 percent. The share of MFI loans to total financial sector loans increased from 7.4 percent in 2008 to 7.9 percent in 2009.

Financial auxiliaries in Kosovo are composed of Exchange Bureaus and Money Transfer Agencies (MTA). The total amount of transfers through the MTA, in 2009, was euro 226.5 million euro or 2.7 percent less than in 2008. Out of this amount, 90 percent were incoming transfers to Kosovo. The MTA transfers compose 4.4 percent of total international transfers, whereas most of international transfers continue to be realized through commercial banks (around 70 percent of total transfers).

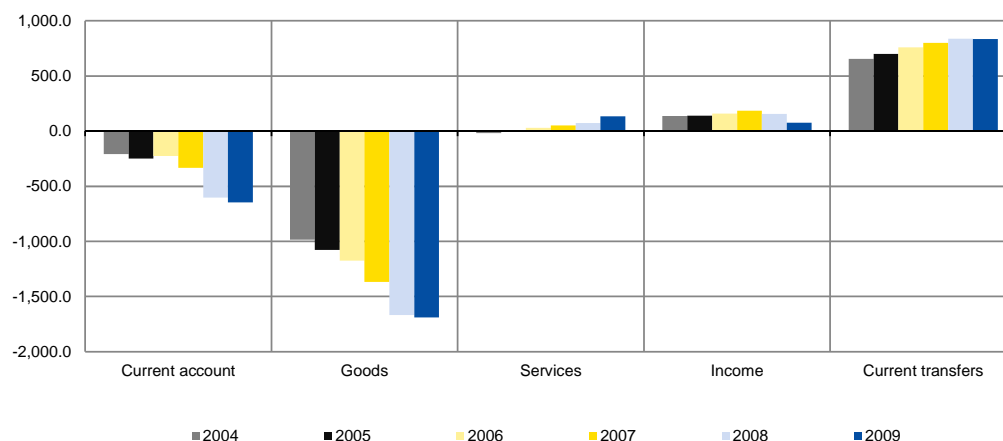
### 3.4. External Sector

The Balance of Payments of Kosovo during 2009 recorded an annual growth of 7.2 percent in the current account deficit, which reached at 16 percent of GDP (including foreign assistance), 1pp higher compared to 2008. Excluding the foreign assistance, the current account deficit is around 24 percent of GDP. The increase of current account deficit was driven from the decline of remittances and income, whereas the trade deficit, as the largest component of the current account, marked a moderate growth. The capital and financial account, despite the decline of FDI, marked an increase of 15.3 percent, which is attributed to the decline of reserve assets. During 2009, Kosovo serviced euro 132 million of its external debt, including a part of debt amounting euro 90 million that was granted by the USA.

### 3.4.1 Current Account

During 2009, current account was characterized by a deficit of euro 646.0 million. The current account deficit continues to be driven by the negative trade balance in goods, while the balance of services and income remained at a positive level. Despite the decrease, the positive balance in current transfers continues to contribute to the decrease of current account deficit (Figure 20).

Figure 20. Current account balance



Source: CBK (2010)

#### 3.4.1.1 Goods and services

The high dependence of the Kosovo economy on the import of goods and the fairly low level of exports led to persisting high trade deficit. As a consequence of the global crisis impact, in 2009, both imports and exports declined, whereas the trade deficit marked a moderate annual growth (Table 8). The share of trade deficit to GDP reached at 44.5 percent (45.0 percent in 2008), which represents a slight decline compared to the previous year as a result of the decline in imports.

Table 8. Kosovo trade balance, in millions of euro

| Description             | 2006     | 2007     | 2008     | 2009     |
|-------------------------|----------|----------|----------|----------|
| Exports                 | 110.8    | 165.1    | 198.5    | 162.6    |
| Imports                 | 1305.9   | 1576.2   | 1928.2   | 1898.7   |
| Trade balance           | -1,195.1 | -1,411.1 | -1,729.8 | -1,736.1 |
| Trade balance (GDP %)   | -38.3    | -41.4    | -45      | -44.5    |
| Export/import ratio (%) | 8.5      | 10.5     | 10.3     | 8.6      |

Source: CBK (2010)

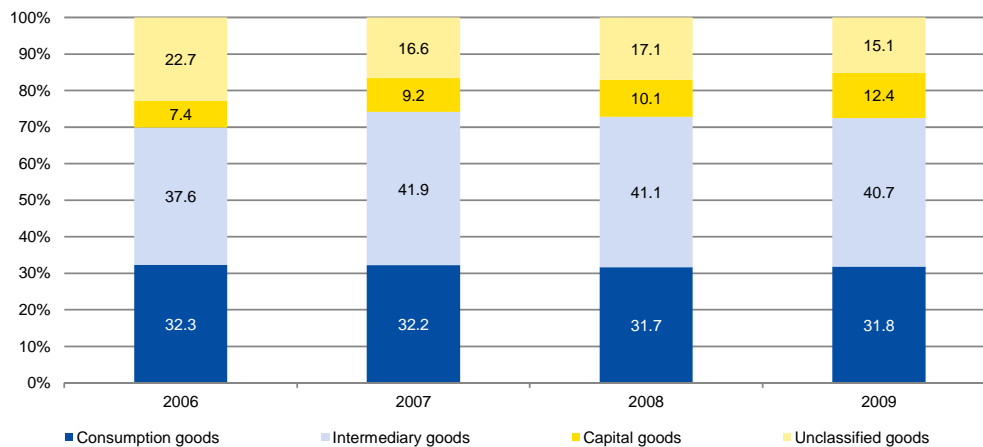
Kosovo exports in 2009 reached at euro 162.6 million, which represents a nominal decline of 18.1 percent, driven by the decline in the demand and prices internationally and also the problems relating to the implementation of the CEFTA agreement with Serbia and Bosnia and Herzegovina.

The value of imports in 2009 reached at euro 1,898.7 million, which represents an annual nominal decline of 1.6 percent, whereas in real terms, imports marked an annual growth of 3.0 percent, reflecting the decline of prices during period. However, this growth represents a significant slowdown in the growth rate of imports compared to the previous year, when the real growth rate was 17.3 percent. The slowdown in the growth of imports reflects the decline in the domestic demand, driven by the reflection of the global crisis in the Kosovo economy. The coverage of exports by imports continues to remain at a low level. In 2009, this indicator marked a decline of 1.7pp compared to the previous year, declining to the level of 8.6 percent (Table 8). This has resulted from the higher declining rate of exports compared to imports during 2009.

The structure of exports in 2009 was dominated by base metals, which accounted for 58.5 percent of total exports. However, the value of base metals export marked an annual decline of 33.8 percent, leading to a decline of 12.0pp in the share of base metals export to total exports. This was driven by the decline of demand and falling metal prices in international stock markets. Exports of mineral products, in 2009, reached at euro 24.1 million, representing 14.8 percent of total exports. The category that doubled its share to total exports consists of plastic and rubber products reaching at 6.4 percent of total exports or euro 10.3 million. The share of food and beverages products to total exports was similar to the previous period (5.3 percent), whereas the value of these exports marked an annual decline of 18.2 percent.

The structure of imports during 2009 was broadly similar to the previous year, with the exception of a considerable decline in the import of mineral products, especially oil, which marked an annual decline of 17.8 percent. Consequently, the share of mineral products import to total imports, in 2009, declined to 16.4 percent (19.6 percent in 2008). Machineries and equipment were the second largest category of imports in 2009, accounting for 13.7 percent of total imports. The import of food products during 2009 marked an annual decline of 13.0 percent, amounting at euro 227.9 million or 12.0 percent of total imports. Two other less significant categories in the structure of imports in 2009 were transportation vehicles and base metals, which participated with 8.9 percent and 7.8 percent, respectively.

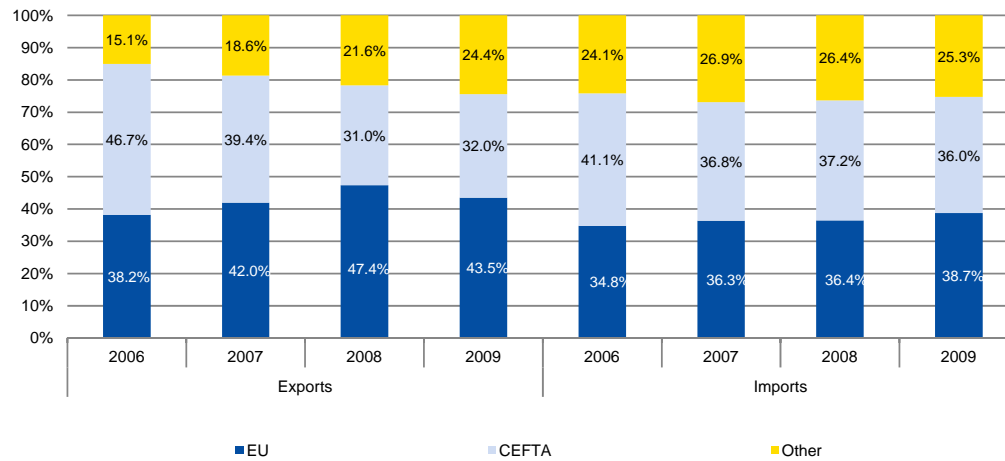
Figure 21. Imports by broad economic categories (BEC)



Source: CBK (2010)

Figure 21 shows the classification of imported products according to their final use or according to Broad Economic Categories (BEC). The most important category according to this classification consists of intermediate goods, which have a share of 40.7 percent in total imports. However, as a result of the increasing trend of capital goods, the share of intermediate goods has marked a continuous decline. The second most important category, according to BEC, is composed of consumption goods with a share of 31.8 percent in total imports. Capital goods increased their share to total imports at 12.4 percent in 2009 from 10.1 percent in 2008. The increasing trend in the import of capital goods during the last years is encouraging for the country's economy, since the import of these goods is an indication of production growth in the country. The growth in the import of capital goods, to a certain extent, might have been driven by the considerable growth of capital investments by the government in 2009.

Figure 22. Structure of trade by trading partners, in percent



Source: CBK (2010)

The European Union (EU) countries and CEFTA member states remain the main trade partners to Kosovo, with which Kosovo conducted 74.4 percent of trade in 2009. Kosovo exports to EU countries during 2009 declined by 24.7 percent, which is higher than the decline rate in the exports to CEFTA countries, reflecting the stronger impact of economic crisis in the EU countries. However, the share of exports to EU countries in total Kosovo exports reached at 41.5 percent in 2009, which represents a growth of 2.8pp compared to 2008. Regarding individual EU countries, Italy represents the main destination of Kosovo exports. Exports to this country represented 28.3 percent of total Kosovo exports in 2009, consisting mainly of base metals. In June 2009, the European Commission agreed to extend for five years the status of favored countries in the trade with EU to seven South-East European countries, including Kosovo. This contributes significantly to the further development of trade relations between Kosovo and the EU countries and also facilitates penetration of Kosovo manufacturers in the European markets.

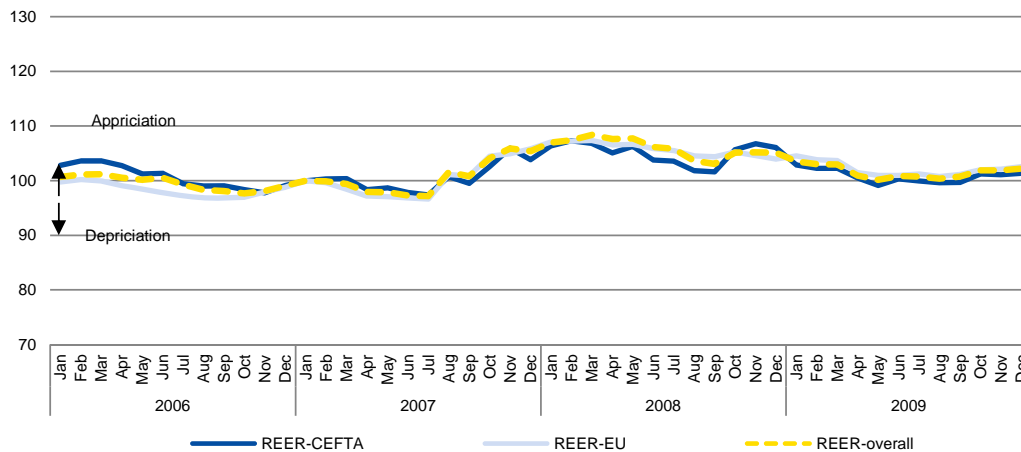
Exports destined for CEFTA countries had a similar share in total exports, compared to 2008 (32.0 percent), whereas their value marked an annual decline of 15.3 percent. Within these countries, Kosovo has mostly exported to Albania and Macedonia, which accounted for 15.3 percent and 10.6 percent of total exports, respectively. In 2009, the value of exports to Albania declined by 18.0 percent, whereas exports to Macedonia declined by 13.7 percent.

As a consequence of the embargo that was introduced by Serbia and Bosnia and Herzegovina to Kosovo products, the exports destined to these countries are following a declining trend. Kosovo exports to Serbia amounted at euro 3.5 million in 2009 (euro 9.9 million in 2008 and euro 19.3 million in 2007), whereas exports to Bosnia and Herzegovina amounted at euro 1.2 million (euro 5.9 million in 2008 and 4.8 million in 2008).

The EU and CEFTA countries were the main trade partners of Kosovo also in terms of imports, accounting for 38.7 percent and 36.0 percent of total imports, respectively. The largest part of imports from EU countries consists of products imported from Germany, which in 2009 amounted at euro 235.4 million or 12.4 percent of total imports. Within the CEFTA countries, imports from Macedonia represent the largest part, amounting at euro 290.7 million (15.3 percent of total imports), while imports from Serbia amounted at euro 209.1 million (11.0 percent of total imports). Imports from Albania and Montenegro accounted for euro 58.8 million and euro 13.1 million, respectively.

Despite the depreciation of the Real Effective Exchange Rate (REER) by approximately 4.2 percent compared to 2008 (Figure 23), Kosovo exports did not show any better performance and failed to reflect higher competitiveness over the trading partners. The REER depreciated both against the eurozone countries (3.4 percent) and against the CEFTA countries (4.1 percent), but, Kosovo exports to these countries declined as a result of the decline in the global demand and the failure to implement the CEFTA agreement. The REER depreciation during 2009 was mainly driven by the higher decrease of prices in Kosovo compared to other countries, while the exchange rate with the currencies of trade partners had a minimal impact.

Figure 23. REER index based on CPI



Source: CBK (2010)

Services represent another important category of the current account, which, in the period 2006-2009, was continuously characterized with a positive balance. In 2009, net income from services reached at euro 135.3 million (euro 72.1 million in 2008). The growth trend of income from services accelerated significantly in 2009, marking an annual growth of 21.8 percent and amounted at euro 434.5 million, whereas payments for services increased by 5.2 percent and amounted at euro 299.2 million. Income from services was mostly driven by the income generated by travel services (dominated by personal travel), the balance of

which, in 2009, almost doubled and reached at euro 126.4 million. Government services also recorded a positive balance (services provided to embassies and NATO military presence), which in 2009 recorded an annual growth of 12.9 percent and reached at euro 107.4 million.

In 2009, income from communication services marked a decline of 14.8 percent, whereas their amount reached at euro 49.7 million. Payments for communication services reached at euro 13.9 million, resulting in a communication services balance of euro 35.9 million. The services categories, which in 2009 had negative balance consist of other business services (- euro 79.3 million), transport services (- euro 59.6 million) and insurance services (- euro 5.8 million). Income from construction services recorded the highest growth rate within the services account, amounting at euro 15.7 million in 2009 (euro 6.6 million in 2008). Payments for these services declined to euro 5.0 million in 2009 from euro 5.7 million in 2008.

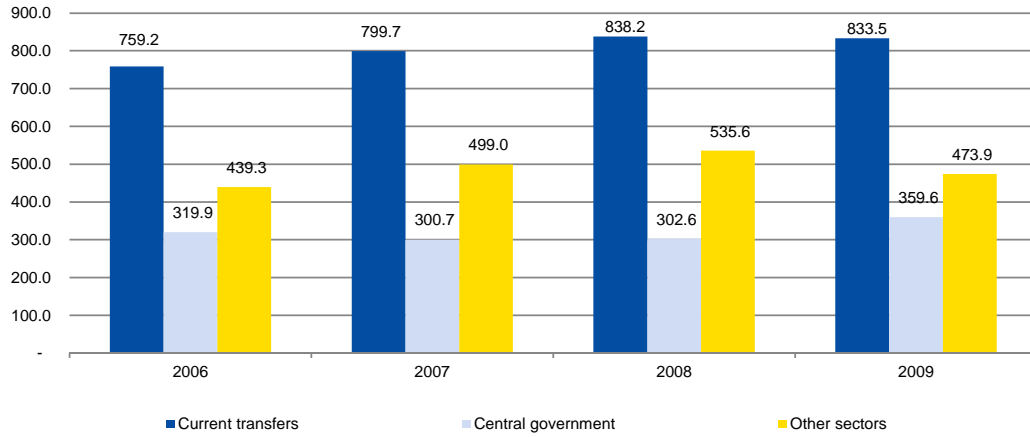
### 3.4.1.2 Income and Current Transfers

The income account consists of compensation of employees and income from abroad. In 2009, the income account recorded a positive balance of euro 75.1 million, which derived as from the income inflow of euro 159.9 million and the outflow of euro 84.9 million. However, the balance of income in 2009 recorded a decline of 51.7 percent, compared to the previous year, which came as a result of the decrease of income inflow by 28.8 percent and increase of outflows by 22.7 percent. The decrease of total income was also affected by falling inflows from government deposits and KPST investments abroad. In 2009, income from these investments amounted at euro 12.5 million, compared to euro 57.3 million in 2008. On the other hand, investment outflows amounted at euro 83.9 million, recording an annual growth of 22.7 percent, which was mainly driven by the dividend payments from foreign companies operating in Kosovo. Income from other investments reached euro 10.3 million, which also represents a considerable decline compared to the previous year, when these investments generated income amounting at euro 54.8 million, of which euro 2.2 million are income from CBK deposits invested abroad, whereas euro 3.8 million are income from CBK investments on securities.

Compensation of employees represents the largest share of the income account. Within this category, the largest share is composed by income generated by local staff employed in KFOR, compensation of Kosovo employees working in Afghanistan and Iraq, and transfers from Serbia financing the parallel structures in Kosovo. In 2009, total income from compensation of employees recorded an annual decline of 12.1 percent, which was mainly caused by the downsizing of local staff employed in KFOR.

Another important category of the balance of payments of Kosovo consists of current transfers, which have continuously been characterized with a positive balance, hence, contributing to the decrease of the current account deficit. In 2009, the balance of current transfers amounted at euro 833.5 million, which represents a decline of 0.6 percent compared to last year (Figure 24). This decline is mainly attributed to the decrease of incoming transfers of other sectors (mainly remittances), which compose 56.9 percent of total current transfers. The net amount of other sectors current transfers in 2009 was euro 473.9 million, which represents a decline of 11.5 percent that has mainly resulted from the decline of 5.5 percent in Kosovo migrants' transfers and the decrease of 16.7 percent of money transfers sent abroad by the employees of foreign organizations operating in Kosovo. The decline of migrants' transfers during 2009 reflects the impact of the economic crisis in developed countries, which resulted in the growth of unemployment rate that also affected Kosovo migrants (Box 2).

Figure 24. Current transfers (net), in millions of euro



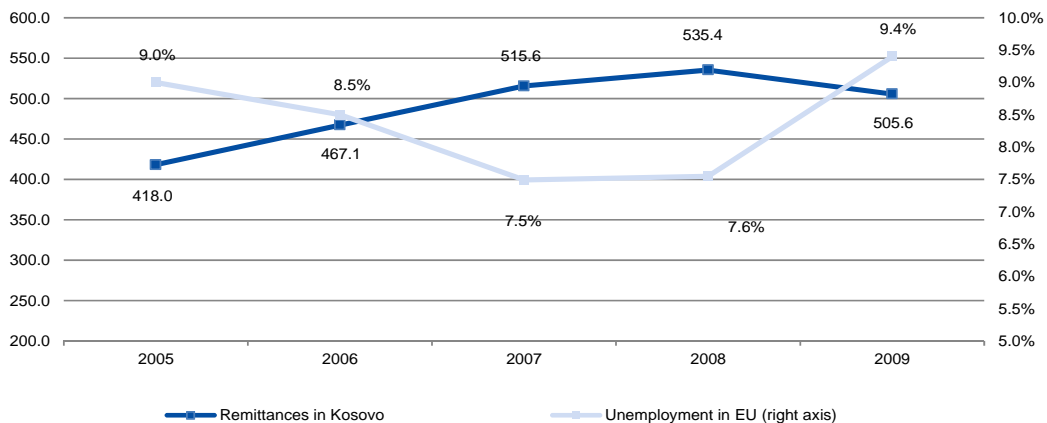
Source: CBK (2010)

The second most important category of current transfers is composed of government sector transfers (donors, EULEX and UNMIK), which in 2009, amounted at euro 359.6 million. Despite the declining trend of these transfers during the previous years (2004-2008), this category recorded an annual growth of 18.8 percent in 2009.

**Box 2. Unemployment in EU and migrant transfers to Kosovo**

Since the end of the war in Kosovo, the only period when migrant transfers to Kosovo recorded a decline was year 2009. The decline of migrant transfers resulted from the global economic crisis, which has considerably affected developed countries, where a large number of Kosovo migrants is concentrated. The effects of the crisis were manifested with significant job cuts, which also affected Kosovo migrants. Consequently, the amount of migrants' transfers in 2009 decreased by 5.5 percent, declining to euro 505.6 million. The decline of migrants' transfers has negative implication for Kosovo's economy, since a large number of families in Kosovo finance their consumption by these transfers.

Figure 25. Unemployment in EU and remittances to Kosovo



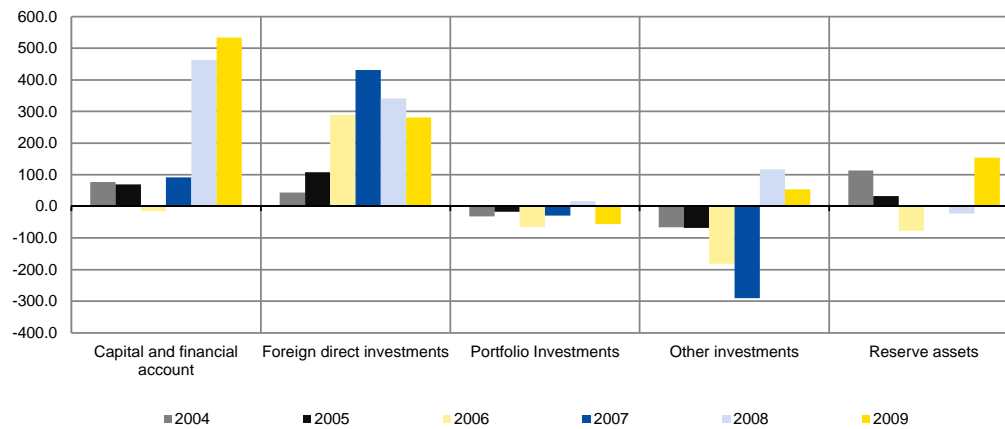
Source: Eurostat (2010) and CBK (2010)

In cases where there is growing unemployment in developed countries, migrants appear to be more exposed to job cuts. For example, in labor market of Switzerland, the unemployment rate among the migrants is around 7.2 percent, which is higher than the overall unemployment rate of 4.1 percent in 2009. The same situation prevails in the labor market of Germany, where the unemployment rate among the migrants is twice the overall unemployment rate, which in 2009 was 7.6 percent. As indicated in Figure 25, migrants' transfers to Kosovo are negatively correlated with the unemployment rate of EU.(the correlation multiplier is -0.76).

### 3.4.2 Capital and Financial Account

The capital and financial account during 2009 was characterized by a lower level of FDI, portfolio investments and other investments. However, the balance of capital and financial account during this year increased as a result of the decrease of euro 154.0 million in reserve assets. Net FDI, as the main component of capital and financial account, marked a decline of 17.6 percent during 2009 (Figure 26).

Figure 26. Financial account, net



Source: CBK (2010)

Investments from commercial banks in financial market instruments led to an increase of portfolio investments abroad. However, a considerable increase of other types of capital income was recorded in 2009, as a result of continuous growth in trade credits and credit lines of financial institutions operating in Kosovo.

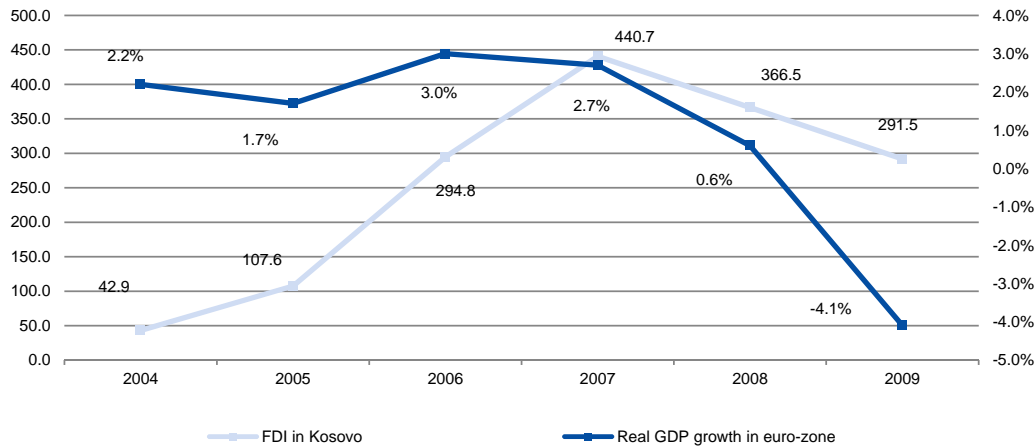
#### 3.4.2.1. Foreign Direct Investments

Foreign Direct Investments (FDI) in 2009 marked an annual decline of 20.4 percent. In this period, the amount of FDI inflows amounted at euro 291.5 million (Figure 27), whereas the FDI of Kosovo residents to other countries amounted at euro 10.6 million (mainly purchase of real estates in Albania). Consequently, the net amount of FDI in 2009 reached at euro 280.9 million euro.

The decline of FDI during 2009 was mainly driven by the global economic crisis, which negatively affected the investing plans and capacities of foreign investors. The EU countries, which represent a very important source of FDI for Kosovo, have considerably been affected by the economic crisis. Apart of the impact of the global crisis, the lack of full

implementation of the free trade agreement – CEFTA might also have a discouraging impact on foreign investments, because many investors who invest in a country in Balkans aim at covering the overall regional market, realizing that the size of individual economies in the region is relatively small. In this context, the embargo introduced by Serbia and Bosnia and Herzegovina on Kosovo exports make the access to the overall regional market more difficult.

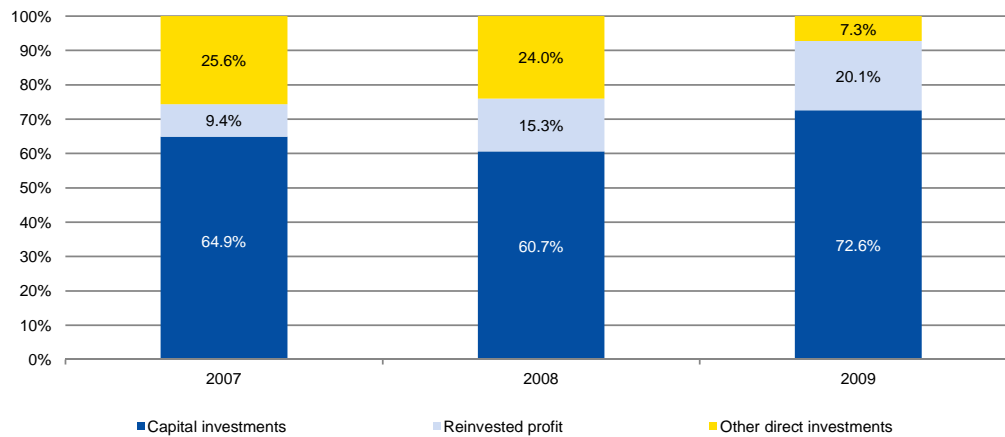
Figure 27. Foreign direct investments in Kosovo and economic growth in eurozone



Source: Eurostat (2010) and CBK (2010)

The structure of FDI continues to be dominated by capital investments, which represent 72.6 percent of total FDI (Figure 28). In 2009, capital investments marked a decline of 4.8 percent, amounting at euro 211.6 million. Reinvested earnings represent the second largest category of FDI (20.1 percent of total FDI), while, in the previous years, this type of investments represented the lowest share in the overall structure of FDI. In 2009, reinvested earnings increased by 4.5 percent, compared to 2008, reaching at euro 58.7 million. The category recording the most significant decline, within FDI, was 'other investments' category, which is mainly composed of inter-company loans. This decline may also be considered as a reflection of difficulties faced by companies abroad as a result of crisis. This category of investments decreased from euro 88.0 million in 2008 to euro 21.2 million in 2009, representing only 7.3 percent of total FDI.

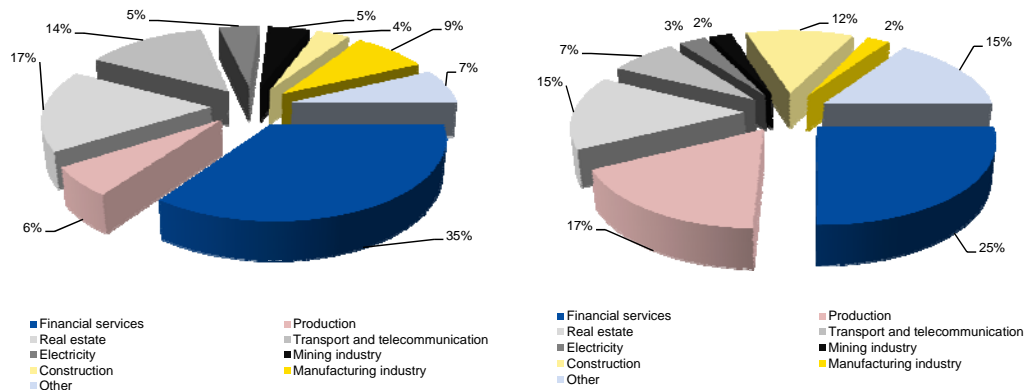
Figure 28. Structure of FDI by type of investment



Source: CBK (2010)

According to the economic activity, FDI continues to be dominated by financial sector investments, even though the share of this category of investments to total FDI marked an annual decline of 10pp, mainly caused by the decline of banking sector profit during this period. The real estate sector represents also an important destination for foreign investors. In 2009, the FDI in real estate represented 15.0 percent of total FDI inflows in Kosovo. A considerable growth was recorded in the share of manufacturing and construction sector FDI to the overall structure. FDI in the transport and telecommunication sectors continued to represent a considerable share in the overall structure of FDI, despite the decline in 2009 (Figure 29).

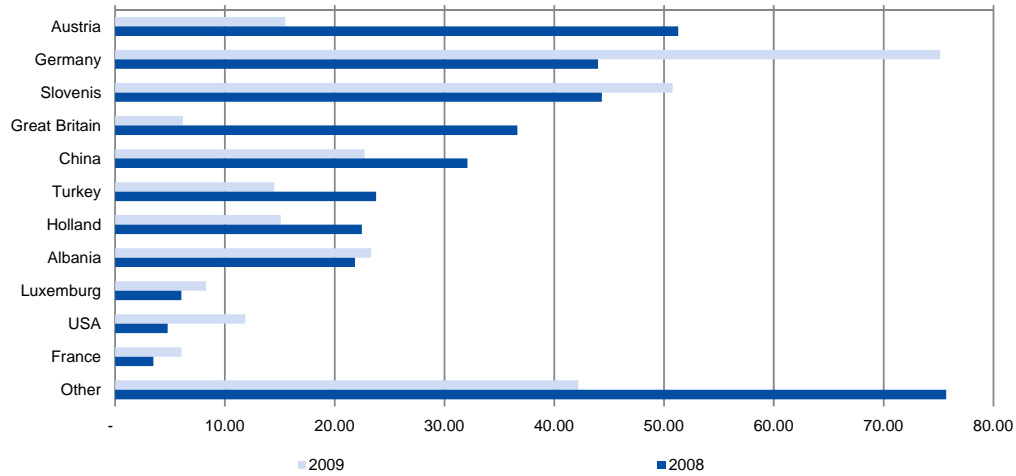
Figure 29. Structure of FDI by economic activity



Source: CBK (2010)

The largest part of FDI in Kosovo originates from the EU countries. As indicated in Figure 30, Germany represents the most important source of FDI in Kosovo, followed by Slovenia. In 2009, a significant decline has been recorded in investments originating from Austria, which in 2008 represented the largest part of foreign investment in Kosovo. The amount of FDI from Austria in 2009 was euro 15.5 million, representing 5 percent of total FDI.

Figure 30. Foreign direct investments by country of origin

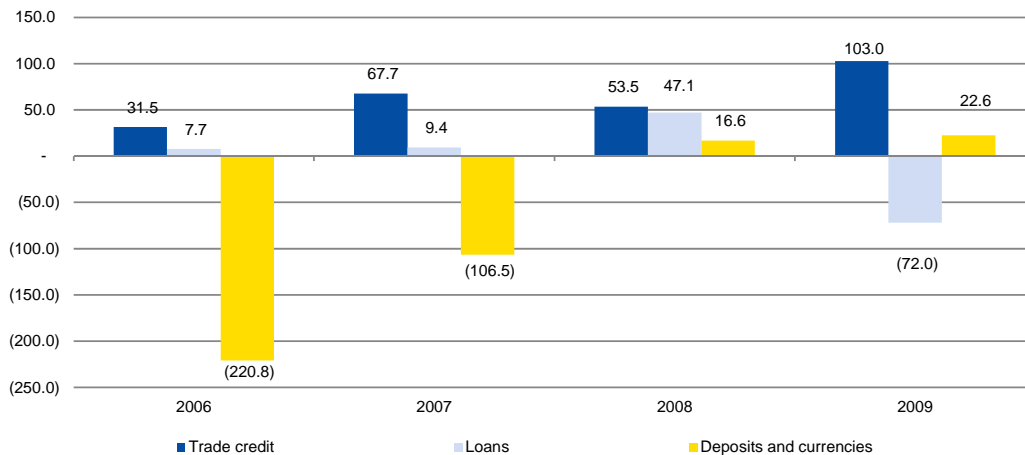


Source: CBK (2010)

### 3.4.2.2 Portfolio Investments, other investments and reserve assets

In 2009, portfolio investments had a balance of euro 56.6 million (Figure 26). These investments are mainly composed of commercial bank investments in financial market instruments abroad. As a consequence of turbulences in international financial markets, during the first half of 2009, banks withdrew a portion of their investments (euro 27.2 million), but since the recovery of these markets began, banks again invested a part of their assets (euro 83.7 million) in these markets.

Figure 31. Structure of other investments



Source: CBK (2010)

Regarding other investments, their balance was positive with an amount of euro 53.6 million, which entirely reflects the liability side. Within liabilities from other investments, this balance is mainly generated from trade credits, which amounted at euro 103.0 million, representing the liabilities of domestic enterprises to non-resident enterprises. Whereas, the crediting of banks operating in Kosovo by non-resident banks through credit lines, the crediting of other sectors as well as the payment of a part of public debt by Kosovo, which was inherited from the former Yugoslavia, have led to a balance of other investments of euro 53.6 million.

Trade credits received by domestic enterprises from non-resident enterprises increased in 2009 (Figure 31). To some extent, this indicates a weaker performance of enterprises during 2009, which is in line with the overall developments in the country's economy. Kosovo's reserve assets in 2009 decreased to euro 154.0 million, mainly as a result of the decrease of government deposits in CBK. A component of Kosovo's reserve assets consists of the position with the IMF, amounting to euro 15 million.

## 4. Supervision of Financial Institutions

CBK 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, pension funds and other financial institutions (micro finance institutions, non-bank financial institutions, exchange bureaus and money transmitters).

The CBK'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 of the financial institutions has evolved consistent with the evolution of international best practice for supervisors, from a "rules-based" approach to a "risk-based" approach, formulated upon the Basel Core Principles and Pillar 2 of Basel II for banks, and a risk-based solvency regime that is being adopted internationally for insurance companies

The risk based approach is intended to enable the CBK to appropriately allocate its supervisory resources to those areas of greatest risk, within individual financial institutions and the financial sector in general. Risk based banking supervision mainly focuses on the ability of management to identify, measure, monitor and control risk, whereas insurance supervision by risk focuses on solvency requirements and creates prudential framework that more accurately reflects the risks undertaken by insurers. The goal is to create an effective and well-balanced supervision of the insurance sector that will ensure the solvency perspective as well as other issues of importance for insurance supervision that could lead to tariff liberalization.

In accordance with legislation governing its statutory functions, the CBK has set out detailed supervisory standards and requirements in order to achieve a well-regulated financial sector. In addition, the Law on Central Bank and above-mentioned regulations give the Governing Board of the CBK power to adopt prudential supervision rules, which establish limits, operating guidelines, procedures and reporting requirements for financial institutions, and enforcement actions for non-compliance with legal requirements or for unsafe and unsound practices.

Prudent legal framework is continuously reviewed and updated to ensure that it continues to be in line with international best practices. This framework is also reviewed to ensure that it strikes the right balance in providing a well-regulated environment while not imposing undue burdens to end-users of financial services

### 4.1. Financial Sector Regulation Activity

As a regulator, CBK participates in the enforcement of the legal framework approved by the Kosovo Assembly and related UNMIK regulations. The legal framework for governing these activities, according to EU standards, has been adapted to the current level of development of financial institutions in Kosovo and has been complemented by CBK rules and decisions

Financial supervision rules framework is created early after establishment of the CBK. Since that time the financial sector has changed, as well as has CBK approach to supervision. Based on the above mentioned factors and as per recommendations of the technical assistance, CBK financial supervision has been working actively to review and revise the framework of rules, and establish policies and procedures. In addition, to guide

the financial industry in the implementation of “best practices”, CBK has issued “Advisory Letters” as additional supportive references.

During 2009, the activities have been undertaken in completion of policies and procedures on financial supervision. The CBK Financial Supervision Committee approved during 2009 advisory letters on internal control system and risk liquidity management, as well as on the licensing policy relating to background check of relevant persons and companies interest to enter in the banking and financial system.

**i. Advisory Letter on internal control** – establishes instructions for an additional support to banks and foreign bank branches, micro-financial institutions and other non-bank institutions in the internal control system, based on the best international practices for implementation of relevant aspects of internal control system in compliance with requirements set forth in Regulation 1999/21 on Internal Control System and Auditing, as well as the CBK Rule XXX on Internal Control System. An effective internal control system is the key component to financial management of covered institutions based on sound operating practices.

**ii. Advisory Letter on risk liquidity management** – establishes instructions for core principles of risk liquidity management which are considered essential by the CBK supervision. It also represents standards to be applied by CBK during on-site examinations in order to monitor and assess how good banks are managing risk liquidity. Therefore, the CBK expects from the banks to develop or review individually their policies, procedures and systems on risk liquidity management, so that they are essentially consistent with these standards.

**iii. Background check-fit and proper principles** - According to the legal framework on relevant corporate application, the CBK conducts a background check on persons proposed as shareholders, senior executive officers, directors and principal shareholders of banks and financial institutions, or managers of bank branches or sub-branches or any other officer, as deemed necessary by CBK. Background checks have also been conducted during 2009 to find out whether the proposed persons have the experience, authority, integrity, personality, financial capacities and will to lead and/or manage the financial institutions activities in a safe, sound and legal manner. CBK may share any with other regulators of financial institutions such information deriving from its background checks thereafter.

The Draft Law on Compulsory Motor Third Party Liability and the Draft Law on Amending the Law on Pensions in Kosovo have been prepared with the technical assistance of the World Bank. Both laws are under review procedure by all stakeholders and have been include in legislation framework for approval in 2009.

#### **4.2. Licensing and Structure**

In accordance with legislation governing its statutory function, the CBK has the authority to set criteria for the licensing of financial institutions and to reject those which do not meet these standards.

The CBK's vision is a stable and growing financial sector driven by market forces, but operating within a prudent regulatory and supervisory policy framework harmonized with the EU/EC directives.

The CBK's strategy in the field of financial institutions licensing is centered on attracting investors who have strong financial positions, meet the criteria of fit and proper for shareholders and management, are able to pursue a cautious approach to business to

protect the interest of clients, thus helping to strengthen the financial system and increase its credibility.

The duty of Corporate, Legal and Methodologies Directorate is the completion of the legislative platform for financial supervision to make it consistent with the Directives of the European Union and international best practice as presented in “Core Principles for Effective Banking Supervision issued by the Bank for International Settlements (BIS), as well as Core Principles for Effective Insurance Supervision issued by International Association of Insurance Supervisors (IAIS). In carrying out this mission, the Corporate, Legal & Methodologies Directorate is responsible for licensing and regulating commercial banks, insurance companies, intermediaries, supplementary pension funds and other non-bank financial institutions.

Banking licensing activity of the CBK during 2009 was primarily related to the opening of new branches and incoming of new banks. During 2009 the CBK Governing Board, following the request of Fima Validus from Croatia, which was not able to finance its activity in Kosovo, has canceled the preliminary license of FIMA bank in Kosovo. During 2009, the banks network expanded in a network of eight banks with 296 branches and sub-branches.

**Insurance Companies.** During 2009 eleven (11) insurance companies, 10 non-life insurance companies and one life insurance company were operating in Kosovo. The CBK approved the change of ownership of the non-life insurance company Dukagjini and the life insurance company Dukagjini Life. Now, both companies are 100% owned by the Slovenian company Sava RE from Ljubljana. During 2009 the CBK Governing Board has approved the licenses for insurance intermediaries WVP, ENB GmbH, as well as to ANSIIA for loss settlement and repair.

**Microfinance Institutions.** By the end of 2009 fourteen (14) micro finance institutions and six (6) other non-bank financial institutions were operating throughout Kosovo. In 2009, upon the request of the institutions ABU (Agro Business Unit) and Efikasiteti dhe Siguria as non-bank financial institutions their registration has been withdrawn.

**Exchange Bureaus and Money Transfer Agencies.** During 2009 the CBK Governing Board approved the registration of two new exchange bureaus or money transfer agencies, Edona in Peja and Sara in Prishtina. In the end of 2009, 23 exchange bureaus and three money transfer agencies were operating in Kosovo.

**Table 9. Banks licensing activity, 2005 – 2009**

| Description              | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------------------|------|------|------|------|------|
| Prior licenced           | 7    | 7    | 8    | 8    | 9    |
| Preliminary approval     | 0    | 2    | 1    | 1    | 0    |
| Withdraw of registration | 0    | (1)  | 0    | 0    | (1)  |
| Total                    | 7    | 8    | 9    | 9    | 8    |

Source: CBK (2010)

**Table 10. Insurance Companies licensing activity, 2005 – 2009**

| Description    | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------------|------|------|------|------|------|
| Prior licenced | 8    | 8    | 9    | 9    | 11   |
| Licenced       | 1    | 1    | 0    | 2    | 0    |
| Cancelled      | (1)  | 0    | 0    | 0    | 0    |
| Total          | 8    | 9    | 9    | 11   | 11   |

Source: CBK (2010)

**Table 11. Pension funds licensing activity, 2005 – 2009**

| Description                 | 2005 | 2006 | 2007 | 2008 | 2009 |
|-----------------------------|------|------|------|------|------|
| Compulsory Pension Funds    | 1    | 1    | 1    | 1    | 1    |
| Supplementary Pension Funds | 6    | 6    | 1    | 0    | 0    |
| Individual Pension Funds    | 0    | 1    | 2    | 1    | 1    |
| Total                       | 7    | 8    | 4    | 2    | 2    |

Source: CBK (2010)

**Table 12. Microfinance and non-bank financial institutions registration activity, 2005 – 2009**

| Description              | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------------------|------|------|------|------|------|
| Prior registered         | 18   | 19   | 18   | 19   | 22   |
| Registered               | 1    | 1    | 1    | 4    | 0    |
| Withdraw of registration | 0    | (2)  | 0    | (1)  | (2)  |
| Total                    | 19   | 18   | 19   | 22   | 20   |

Source: CBK (2010)

**Table 13. Insurance intermediaries licensing activity, 2005-2009**

| Description       | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------------------|------|------|------|------|------|
| Agents/operators  | 658  | 784  | 347  | 479  | 528  |
| Insurance brokers | 2    | 2    | 2    | 2    | 4    |
| Damage adjusters  | 2    | 2    | 2    | 3    | 4    |

Source: CBK (2010)

**Table 14. Money transfer agencies registration activity, 2005 – 2009**

| Description      | 2005 | 2006 | 2007 | 2008 | 2009 |
|------------------|------|------|------|------|------|
| Prior registered | 1    | 2    | 3    | 3    | 3    |
| Registered       | 1    | 1    | 0    | 0    | 0    |
| Total            | 2    | 3    | 3    | 3    | 3    |

Source: CBK (2010)

**Table 15. Money exchange bureaus registration activity, 2005 – 2009**

| Description              | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------------------|------|------|------|------|------|
| Prior registered         | 3    | 6    | 16   | 23   | 21   |
| Registered               | 4    | 10   | 7    | 0    | 2    |
| Withdraw of registration | (1)  | 0    | 0    | (2)  | 0    |
| Total                    | 6    | 16   | 23   | 21   | 23   |

Source: CBK (2010)

### 4.3 Financial Supervision Activity

One of the main functions of CBK is to ensure supervision and regulation of financial institutions, with the purpose of establishing a sound financial system, achievable as well as competitive, a system that is reliable and that offers a wide scope of financial services. In achieving this mission, Corporate, Legal and Methodologies Directorate and Insurance and Pension Supervision Directorate are responsible for licensing, regulation and control of financial institutions and non-bank financial institutions that operate in Kosovo.

#### 4.3.1 Significant developments of banking supervision

Banking system continued to mark a growth throughout 2009, although the growth trend was lower compared to previous years. Due to the specifications of establishment and development of banking system, the impact of the international financial crisis was mostly indirectly reflected. The banking industry remained financially sound, liquid and solvent.

The focus of supervision activity during 2009 was articulated in response to a need for closer banking system supervision in order to depreciate the potential impacts in real economic sector. The increase of frequency of on-site and off-site examinations through financial analysis unit, joint examinations with regulatory and supervision authorities, examinations focused on institution profile and maintaining regular contacts with managing structures of banks and other supervision authorities were an integral part of this dimension.

Banking industry continued to be dominated by banks having foreign capital, three of which – the systematic banks (ProCredit Bank, Raiffeisen Bank and NLB) compose 81% of total assets in this industry, whereas banks with domestic capital and banks incorporated later in the market consolidated their positions.

The supervision activity during 2009 was mainly focused in raising the banks awareness on potential impacts from the international financial crisis to ensure additional prudence in bank risk management. Assessment of banking risk management capacities in the framework of an unsustainable economic environment was a referring supervision point.

Central Bank of the Republic of Kosovo (CBK) and KfW – German Bank for Development, following the CBK Board support, the feasibility study in 2007-8, and after the Basel Assessment on Financial Supervision, which resulted to be in favor, continued their efforts to establish a Deposit Security Fund, and hired the project manager as well.

Stakeholders which have continuously been consulted and included in this process include: Kosovo Banks Association, Commercial Banks, Association of Microfinance Institutions and Microfinance Institutions, Ministry of Economy and Finance, World Bank, USAID, International Monetary Fund, European Commission, Society of Certified Auditors and Accountants of Kosovo – SCAAK, Kosovo Chamber of Advocate, European Bank for Reconstruction and Development (EBRD), etc. During 2009, CBK made efforts to put in place a system, such as the application for additional funds from donors, supported by the Kosovo Government, amendments in laws as requested by MEF, close cooperation with MEF and other stakeholders, especially with Kosovo Banks Association.

Amendments in the draft law continued also during 2009, with MEF and the International Monetary Fund (IMF) comments being incorporated in the draft law. The draft law received positive feedback through a statement required pursuant to procedures on approximation and harmonization with European legislation, which is issued by Agency for Coordination of Development and European Integration within the Office of the Prime Minister, and MEF is expected to precede it to the Kosovo Assembly during 2010. The draft law is

drafted pursuant to the European Directive 2009/14/EC<sup>7</sup>, on deposits security, the international and regional practice and has been finalized in accordance with applicable law in Kosovo.

Deposits security in many countries has proven to be indispensable, especially in case of financial crisis, where it served as a tool to increase the depositors' confidence in their banks, thus preventing the deposits withdrawal from banks. Deposits security funds have increased the ratio of deposits guarantee<sup>8</sup> (see table on the level of deposits guarantee), whereas in Kosovo it is started at the ratio of euro 2,000, which is gradually expected to increase upon the accumulation of funds.

### Off-site examinations-financial analysis

To follow up the tendencies of higher frequency indicators, the banking supervision increased the reporting requirements – the frequency and content of reporting indicators. Monitoring the higher frequency indicators facilitated 'the early warning system' to identify on time the level of sustainability of individual banks and the banking system in general. Based on this, a daily monitoring has been conducted on credit exposures abroad, liquidity, loan and deposit performance (structure of deposits and changes in interest rates) financial analysis of these indicators evidenced a common flow trend, mainly driven by a rather consolidated market competition.

### On-site examinations

18 full examinations have been conducted during 2009 and 17 of them were focused on financial institutions. Application of risk based supervision approach<sup>9</sup> enabled more effective examinations through banks profiling and more rational adaption to supervision activity. Through risk based supervision are frequently monitored the levels of instant credit risk, liquidity, market, operational risk and adequacy of risk management. This approach has enabled undertaking timely measures to ensure sound and safe operation of banks.

**Table 16. Examinations of financial institutions during 2009**

| Financial institutions (comprehensive and focused examinations) |               |         |
|---|---------------|---------|
| Description   | comprehensive | focused |
| Bank  | 7             | 17      |
| Microfinance institution  | 4             |         |
| Non-bank institutions   | 7             |         |
| Total   | 18            | 17      |

Source: BQK (2010)

<sup>7</sup>

See <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2009:068:SOM:EN:HTML>

<sup>8</sup> Increase of guarantee from €25,000 to €50,000 has been recorded in Europe, in some countries there is unlimited guarantee; in USA from \$150,000 to \$250,000.

<sup>9</sup> "Risk based supervision" training organized by the Central Bank of the Republic of Kosovo and the Federal Reserve System of the United States of America was an additional opportunity to learn the most advanced risk based supervision practices. The banking supervision staff took part in similar training outside Kosovo, such as the United States of America, Germany and France.

### Financial parameters of banking system generated during 2009

Banking system continued to record a growth during 2009. Proper use of financial recourses made the banking sector mark a positive performance in profitability indicators. Main profitability indicators, respectively Return from Average Assets (ROA) and Return on Average Equity (ROE), during 2009 continued to mark relatively high level of satisfaction. Even though it has a slight decline comparing to previous year due to a faster increase of average equity and average assets than the net profit, Return from Average Assets (ROA) in the end of 2009 was 1.4%, while last year it stood at 2.4%, whereas Return on Equity (ROE) was 20.2% compared to 13 % of this year.

The stable trend of capital adequacy in banking sector continued during 2009. Indicators of liquidity and capital adequacy were positive and pursuant to regulation requirements. Capital adequacy in banking sector determined according to capital adequacy indicator was 18% in the end of this period, resulting in an increase of 1.4pp<sup>10</sup> compared to the end of 2009.

Liquid assets in banking sector represent 37% of total equity and 44.59% of total deposits. An increase or improvement was recorded in relation to the share of liquid assets in total equity and deposits by respectively 9.3 and 11.1pp, compared to last year. The level of liquid assets in banking system was satisfactory in general. Even though the banking system continued to have a capital adequacy and be liquid, the Banking Supervision was very active increasing the monitoring frequency of financial and banking industry performance.

Lending activity (net loans) is 60.4% of total assets in banking system, whereas last year this share was 67.17%. The assets quality indicators evidenced a rather worsened situation of assets compared to last year. The share of pass-due loans and non-performing loans in total loans is now evidenced with 10.2% and 4.3%, compared to last year when their share was 6.7% and 3.3%.

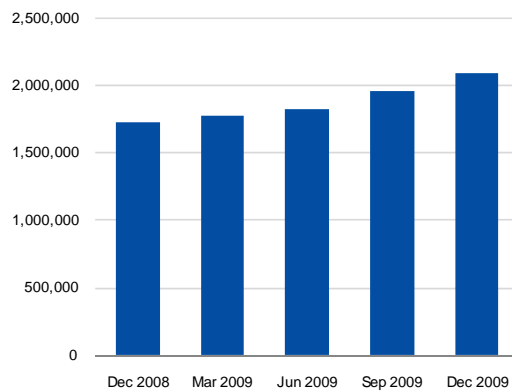
### Assets and liability developments in banking system

The total equity in banking system in 2009 marked an increase of euro 371 million euro or 21% compared to 2008. The trend of total equity is (indicated in thousands of euro) for the period December 2008 – December 2009 is presented below.

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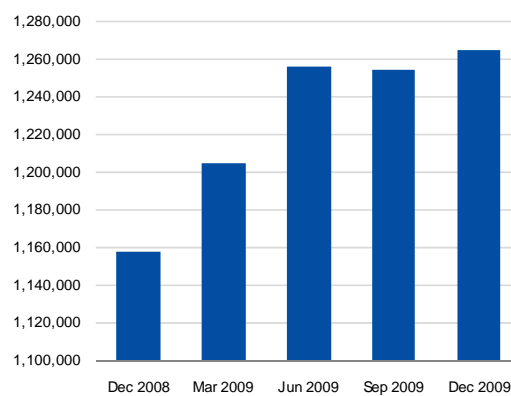
<sup>10</sup> Point percent refers to the arithmetic difference between two percentages

Figure 32. Value of assets in financial sector



Source: CBK (2010)

Figure 33. Trend of loans in banking sector



Source: CBK (2010)

The main equity items in banking sector evidenced the following changes:

“Cash and balance with CBK” marked a growth reaching at euro 104.6 million or 48% compared to last year. As a result of significant changes, the weight of this item within the total equity recorded a growth from 13% last year to 15% recorded this year.

“Profitable equities”<sup>11</sup> during 2009 continued to have the largest weight in total equity, marking a growth in absolute amount by euro 260 thousand or 18.22% compared to last year. However, as a result of rapid growth in item “Cash and balance with CBK”, the weight of “Profitable equities” in total equities marked a slight decline from 82.91% recorded last year to 80.65% in the end of this year. Other equities, which do not belong to profitable equities and item “Cash and balance with CBK”, continue to have a share of only 4.34% of total equity in the end of current year, compared to 4.08% during last year. The item of (net) loans with 70% continues to dominate in the structure of profitable equities. Whereas the other items share is as follows: 24% from claims to banks (placements), 2.69% from trading assets and 4.4% from securities. The following was the structure of profitable equities during the last year: 77.31% from (net) loans, 19.86% from claims to banks (placements), 1.57% trading assets and 1.26% from securities. According to this description it is indicated that net loan item marked a decline by 7.31pp compared to last year, whereas, on the other hand, the placements item marked a growth by 4.14pp. The decline of loans weight in the structure of profitable equities was driven by a faster increase of placements than loans as well as due to the impact of loan reserve increase of 6.1% in gross total loans this year from 4.6% recorded last year. The abovementioned developments in profitable equities had a direct impact in banking sector profit, generating lower profitability indicators compared to last year.

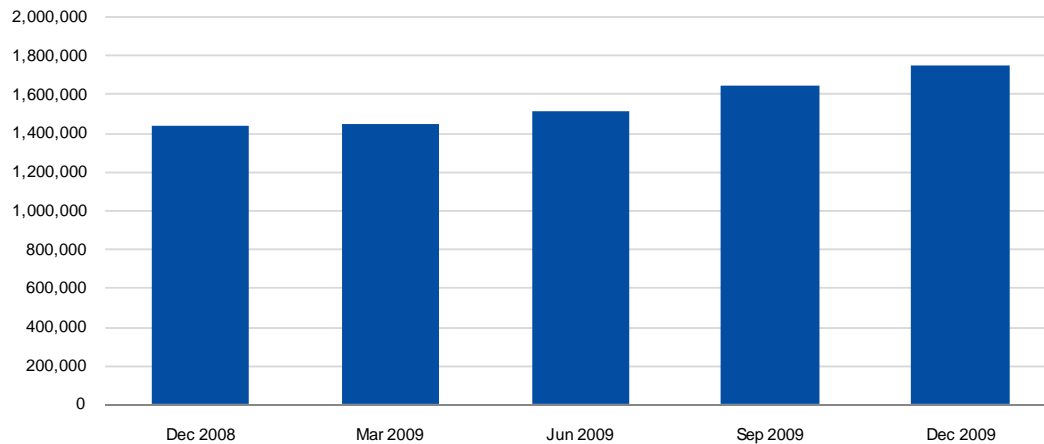
Financing resources – The banking system deposits evidenced the following changes during 2009: Total deposits increased to around euro 309.5 million or 21% compared to last year. With view to this increase, the interest free deposits increased to euro 39.4 million or 11.6%, whereas interest deposits increased to euro 269.9 million or 24.5% compared to last year. The following changes have been recorded in interest free deposits: bank deposits decrease by euro 294 thousand or 3.8%, individual deposits increased to euro 41.6 million or

<sup>11</sup> Structure of profitable equities includes the following items: Loans, Claims to Banks (Placements), Trading Assets and Securities.

22.1% and the enterprise deposits decreased by 1.8 million euro or 1.3%. The following changes have been recorded in the structure of interest deposits: bank deposits which in December stood at euro 6.7 million, their amount in December 2009 was euro 3.1 million, individual deposits increased to euro 172.5 million or 26.1% and enterprise deposits (excluding only banking institutions and households) increased to euro 101.1 million or 23.2%.

Deposits in country's banking industry continued increasing despite the declining trend in equity resources – deposits in global markets, driven by the financial crisis in global markets and economic recession in most developed countries in world. This growth in deposits has preserved a high weight of deposits item within equities and liabilities with 92.7%. As indicated in the Figure below, the trend of deposits from December 2008 to December 2009 has recorded continuous stable growth sustainability.

Figure 34. Trend of deposits in financial sector



Source: CBK (2010)

### Financial parameters generated during 2009 – Microfinance Industry

Microfinance Institutions (MFI) recorded the following changes during 2009 compared to last year: Total equities recorded a growth of euro 25.2 million or 25.7% compared to previous year, amounting at euro 123 million. Net loans increased by euro 18.5 million or 21%. The quality indicator of loans, respectively the share of non-performing loans in total loan portfolio has recorded improvements compared to previous year. The share of these problematic loans in total loans in the end of December 2009 reached at 3.04%. Last year these indicators were much higher, reaching at 6.30%. However, this is mostly driven by the withdrawal of ABU license<sup>12</sup> in 2009, which had a loan portfolio amounting at euro 5 million, of which euro 4.7 million were non-performing loans. The credit activity in MFI sector continued to be the main equity within the total equity, reaching at 88.4%. The MFI sector recorded also positive profitability indicators during 2009. Return from Average Assets (ROA) and Return on Average Equity (ROE) reached at 1.53% and 4.59%, respectively. These indicators marked a significant decline compared to 6.19% and 14.92% respectively, recorded last year and driven by the impact of increase in loan provision

<sup>12</sup> Based on an agreement signed between the European Agency for Reconstruction (AER) and the Kosovo Foundation for Open Society (KFOS) and following the KFOS petition on 13 October 2009, the Central Bank of the Republic of Kosovo withdrew the registration of Agro Business as non-finance institution.

expenditures of around euro 3 million. The MFI sector continues to have proper capital adequacy. The total of equities relies on capital with 30.4%.

### 4.3.2 Insurance and Pension Supervision

The number of insurance companies operating in insurance industry was 11, of which, 10 are non-life insurance companies and one life insurance company.

Regarding the ownership structure of non-life companies during this period, there were changes in insurance company Dukagjini, where following the sale of shares among the shareholders, this company comes under 100% ownership of Sava e RE, thus becoming a company with foreign ownership, whereas 6 were with mixed ownership (domestic and foreign), and three others have a clear domestic ownership.

Also, a change in ownership structure during 2009 marked the life insurance company "Dukagjini Life", where following the sale of shares, currently this company is under 100% ownership of SAVA Re, i.e. it is clearly with foreign ownership.

Compared to 2008, the growth in insurance activities is justified by the increase of policies number in 2009. The total number of insurance policies sold by the end of 2009 amounted at 629,444, which resulted in an increase of 32.11% compared to 2008.

Structure of insurance portfolio in 2009 was characterized by 40.11% compulsory policies, 29% border insurance policies, 12.24% other (voluntary) policies and 18.45 border health insurance policies. The life insurance market in 2009 still remained lower and its share in total insurance portfolio was 0.39% of policies.

Premiums amounting at euro 68.3 million or 21.3% more than in 2008 have been collected during 2009. The amount for losses paid in 2009 was euro 18.5 million, or 6.4 % higher than in 2008.

#### 4.3.2.1. Main developments in Insurance Supervision during 2009

Considering the role and objectives of Insurance and Pension Supervision Directorate, which are focused on protection of rights of the policyholders (clients) and on general maintenance and suitability of financial system, the directorate has also performed risk based supervision through its instruments of on-site examinations and off-site monitoring.

Besides on-site examinations, the monitoring of insurance companies was also conducted through off-site monitoring by receiving reports from companies on monthly, quarterly and annual basis. Based on these reports the following different financial indicators which show the normal flow of insurance companies activity have been measured: minimum solvency margin, financial power – liquidity, technical reserve calculation, exposed risk, maximum risk held by insurance companies, reinsurance quality and other relevant financial indicators.

**Table 17. Examinations conducted during 2009**

| Description                                     | Number of examinations in 2009 |
|---|--------------------------------|
| Insurance companies - comprehensive             | 10                             |
| Insurance companies - focused                   | 23                             |
| Insurance companies - operators, agents offices | 82                             |
| Border insurance (CIU), Guarantee Fund (GFK)    | 2                              |

Source: BQK (2010)

During 2009, the Rule 8 of CBK on “Deposit of asset as security, capital adequacy, financial reporting, risk management, investment and liquidation”, respectively Section 3 of this Rule governing the investment in variable collateral of non-life insurance companies has been changed. Taking into account that the insurance companies have previously been obliged to keep 60% of its variable collateral in CBK and invest 40% of it in commercial banks in Kosovo, the CBK decided that the insurance companies should keep 10% of their variable collateral in CBK and invest 90% of it in Kosovo commercial banks, but no more than 30% of assets of a single bank with purpose of risk diversification.

In addition to activities resulting from the operational plan of insurance supervision, the CBK issued during 2009 two Administrative Instructions: one relating to regulation and type of investment of guarantee fund assets (variable collateral) by life insurance companies. The other instruction related to certification of technical reserve for non-life insurance companies on quarterly basis pursuant to instructions on technical reserve accounting methodology.

According to this instruction, the non-life insurance companies will be obliged to submit to CBK on quarterly and annual basis the technical reserves certified by a certified company’s or foreign actuary and based on this the CBK will assess and safeguard the reserve adequacy.

In accordance with the Memorandum of Understanding between the CBK and the Financial Supervision Authorities of Albania and Slovenia in the area of insurance supervision, examiners from the abovementioned authorities joined this year the team of examiners from Insurance and Pension Supervision Directorate during the examination process, and this cooperation contributed in exchanging and advancing the professional experience in insurance area.

### Financial Performance of Insurance Industry during 2009

The insurance industry performance during 2009 marked a sustainable growth.

**Table 18. Gross premiums 2009 – 2008**

| Premiums         | 2009        | 2008        | Changes in % | Index  | Index  |
|------------------|-------------|-------------|--------------|--------|--------|
|                  |             |             |              | 2008   | 2009   |
| TPL              | 35,394,753  | 35,008,412  | 1.10         | 56%    | 67%    |
| Border insurance | 11,992,789  | 9,800,771   | 22.37        | 19%    | 19%    |
| Non-TPL          | 17,133,899  | 9,117,255   | 87.93        | 27%    | 17%    |
| Returns          | (1,365,724) | (1,477,866) | (7.59)       | (0.02) | (0.03) |
| BPSH             | 63,155,717  | 52,448,552  | 20.41        | 100%   | 100%   |

Source: CBK (2010)

The table above shows that gross premiums marked an increase of 20.41% in 2009 compared to 2008.

A significant growth marked the voluntary insurance which in 2009 reached at 88% compared to 2008. While the voluntary insurance marked a growth by 22.4%, the other part is composed of Motor Liability Insurance (compulsory).

It is worthy to mention that the share of voluntary insurance in total insurance portfolio reached at 27% in 2009 compared to 17% in 2008. The orientation towards voluntary insurance shows a developing indicator for Kosovo insurance industry

**Table 19. Loss ratios paid and incurred during 2008-2009**

| Description            | 2009    | 2008   |
|------------------------|---------|--------|
| Ratio of paid claims   | 32.60%  | 27.35% |
| Incurred claims ration | 42.20%  | 37.72% |
| ratio of expenses      | 59.32%  | 51.12% |
| Combined ratio         | 101.52% | 78.84% |

Source: CBK (2010)

**Table 20. Return on average assets (ROA) and return on average equity (ROE)**

| Description | Standard | 2009  | 2008   |
|-------------|----------|-------|--------|
| ROA         | 9%       | 3.60% | 5.54%  |
| ROE         | 15%      | 8.86% | 11.44% |

Source: CBK (2010)

**Table 21. Insurance industry equities 2008-2009**

| Assets            | 2009       | 2008       | Change in % | Index 2009 | Index 2008 |
|-------------------|------------|------------|-------------|------------|------------|
| Cash              | 56,605,434 | 56,977,603 | (0.65)      | 66%        | 73%        |
| Current asset     | 18,407,987 | 12,756,152 | 44.31       | 22%        | 16%        |
| Fixed assets      | 10,149,660 | 7,735,167  | 31.21       | 12%        | 10%        |
| Intangible assets | 62,806     | 782,765    | (91.98)     | 0%         | 1%         |
| Total assets      | 85,225,888 | 78,251,687 | 8.91        | 100%       | 100%       |

Source: CBK (2010)

The Kosovo insurance equities have generally marked a growth of 8.91% in 2009 compared to 2008. Liquid equities in 2009 composed 22% of total assets, whereas in 2008 they composed 16%. Physical assets in 2009 have also marked a growth of 31% compared to 12% of total assets in 2008.

#### 4.3.3 Main developments in Pension Supervision during 2009

The Kosovo pension system is organized in three main pillars.

First Pillar                      Basic pension

Second Pillar                  Individual pension contributions managed by KPST

Third Pillar                    Fully funded voluntary pension funds

Basic pensions are provided by the Ministry of Labor and Social Welfare. Individual pension contributions are provided by Kosovo Pension Savings Trust from mandatory fully funded contributions by employer and employee, whereas the additional voluntary fully funded pension contributions are in place.

Kosovo Pension Savings Trust (KPST) operates based of defined contributions. Contributions are paid by the employer who pays 5% of total wages of all employees and each employee will have to contribute with 5% of his total wage. Following a drastic decline in the amount of Trust assets (contributions) in 2008, driven by the Global Financial Crisis, in 2009 the amount of KPST assets invested outside Kosovo resulted in positive returns compared to the loss ratio of assets invested outside Kosovo.

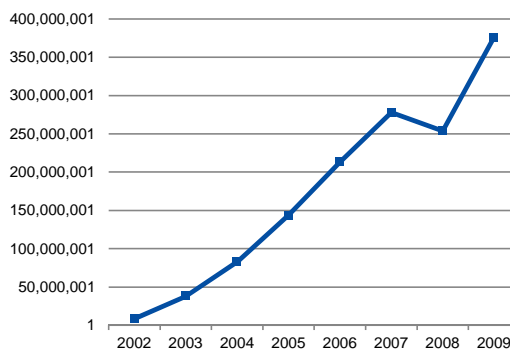
The overall balance of KPST pension assets in the end of 2009 was €375,967,679.65, or issued in numbers it was 382,643,494.67, whereas the share value was 0.9818, and the number of contributors reached 301,710.

**Table 22. KPST asset growth as of its establishment**

| KPST assets values from its establishment |           |            |            |             |             |             |             |             |
|---|-----------|------------|------------|-------------|-------------|-------------|-------------|-------------|
| Year                                      | 2002      | 2003       | 2004       | 2005        | 2006        | 2007        | 2008        | 2009        |
| Value of assets                           | 8,620,010 | 37,856,290 | 82,933,196 | 143,724,854 | 213,385,342 | 278,047,877 | 253,842,714 | 375,967,680 |

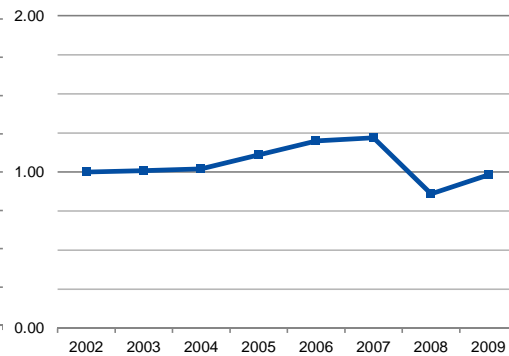
Source: Trust (2010)

**Figure 35. Trend of KPST assets as of its establishment**



Source: CBK (2010)

**Figure 36. KPST share price as of its establishment**



Source: Trust (2010)

**Table 23. Share prices as of the establishment of KPST**

| KPST share price as from its establishment |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Year                                       | 2002   | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   |
| Price                                      | 1.0002 | 1.0081 | 1.0209 | 1.1093 | 1.1983 | 1.2184 | 0.8605 | 0.9818 |

Source: Trust (2010)

The third Pillar which is represented by the Slovenian-Kosovo Pension Fund has exercised the following activity in 2009:

- Collection of contributions or assets in individual accounts,
- Maintenance and administration of individual accounts,
- Management of collected assets,
- Payment of supplementary pensions.

The general balance of SKPF pension assets in 2009 is shown in the following table:

**Table 24. KPST pension assets balance in 2009**

|                |              |
|----------------|--------------|
| Fund 1         | 3,155,289.54 |
| Fund 2         | 1,598,650.68 |
| Assets manager | 4.004,543.00 |

Source: Slovenian-Kosovo Fund

Fund 1 represents the pension contribution balance by voluntary contributors, whereas Fund 2 represents the pension asset balance of employers PTK and KEK transferred to SKPF, following the closure of these Funds upon the request of Fund Board.

The second and the third pillars are supervised by CBK, through off-site examinations by reports submitted in compliance with the legal framework on monthly, quarterly and annual basis. These data are assessed and serve to measure various financial indicators, which show the proper flow activity of the Trust and SKPF. Also, the on-site examination (general and focused) conducted at least once a year in the Trust and SKPF has closely considered the financial situation in these institutions and the risk being hold.

#### **4.4. Compulsory Actions**

The spread and frequency of internal and external supervision activities will increase in cases when the risk profile of an institution worsens. The more the risk profile is unfavorable, the larger will the supervision interference scale be, and the larger will the probabilities be of undertaking corrective measures and fines as enforcement measures of reconcilability or securing the return in a safe and sound condition.

Regardless of the attempts of supervisors, during 2009 there were situations when financial institutions have failed to achieve prudent supervision requests or when insecure or unsound banking and insurance practices were used. Special supervision, improvement measures and fines were imposed in a manner so that they are transparent and impartial; what has reflected the worry of CBK, taking into account collaboration and perception of the institutions management competency.

As a result of the violation of regulations or insecure or unsound banking practice, the CKB continued to keep under memorandums of understanding two banks during 2009, whereas insurance supervision has initiated 18 obligatory actions against insurance companies. Compulsory undertaken actions related to failure to comply with voluntary insurance product fees (premiums) during the tender bidding process in public organizations, sale of green card product, involvement of unlicensed persons in insurance activities and their operation in unlicensed offices. The total amount of fines imposed on insurance companies in 2009 reached at euro 500,000 as revenues to Kosovo consolidated budget. Due to difficult financial situation of the insurance company "Dardania", in May 2009, the CBK Board put it under temporary administration with purpose to recover the financial situation and keep under custody the company's assets, which will result in protection of policyholders' interests.

Compulsory actions undertaken in 2009 based on Regulation No. 1999/21 and 2001/25 extend starting from remarks in writing, administrative instructions and were based on the violation, risk exposure, repeated violations, etc. The types of obligatory actions undertaken by CBK included oral communications and in writing, restriction of certain activities, formal agreements between CBK and financial institutions, and requests in increasing of the share capital, increasing technical reserves, claims payment and monetary

punishments. Compulsory actions towards financial institutions have resulted in better financial positions of financial institutions and have reduced the risk.

#### **4.5. International Cooperation in the Scope of Financial Supervision**

In 2009, special attention has been paid to international cooperation with international authorities on banking and insurance supervision.

Cooperation with the Central Bank of Albania, Slovenia, and Regulatory Oversight Authority in Turkey and Austria was extended even more during 2009, on the occasion of the CBF meetings with these countries, workshops, and seminars organized by Regulatory Oversight Authorities in Albania, Slovenia, Turkey, and Austria and vice versa. All these developments contributed even more in further extending cooperation and information exchange between two countries.

Also, the cooperation with the Oversight Insurance Authority of Albania, Slovenia, Macedonia, Croatia, and Austria was extended more in the aspect of exchange of regulative and oversight information. In particular, information with the Oversight Authority of Slovenia was exchanged; on the occasion of purchasing shares, up to 100% of ownership, of insurance company "Dukagjini" and "Dukagjini Life" by the "Sava RE" from Slovenia.

A very important component that characterized the Directorate during 2009 was the technical assistance offered to it by the World Bank.

Technical assistance was provided in some area of insurance: including the preparation of draft of law on compulsory insurance, which draft has been included in the legal framework to be adopted in 2010. It is worth mentioning also the technical assistance provided in the area of life insurance, through which the current legal framework was reviewed and respective recommendations were proposed, then manuals about on-site examinations and on external monitoring from which a risk based supervision is enabled.

Also, technical assistance was provided with regard to liberalization of tariffs on mandatory insurance, on which occasion an expert from the World Bank conducted an evaluation of the controlled process of liberalization, and recommendations were given for the further process towards a full liberalization. Simultaneously, a manual was prepared on the policy and procedures for insurance supervision which will be used as a guideline in the supervision process of the insurance in theoretical and practical aspect.

Based on the 'basic principles of effective banking supervision<sup>13</sup>', memorandums of understanding, multilateral agreements signed, as well as developments in financial markets, during 2009 special attention was paid to increasing the communication and cooperation of our supervision authority with regulatory and oversight authorities of the countries from where owners of banks operating in Kosovo are coming such as Slovenia, Austria, Turkey, and Germany. In this field, our banking oversight has carried out two joint examinations and has taken part on oversight trainings organized by the 'host' regulatory and oversight authorities. This approach has also ensured relevant information for the actions taken by the regulatory and supervision authorities against the impact of financial crises as well as for the practices risk based supervision.

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<sup>13</sup> "Basic principles of effective banking supervision" - Basel Committee on banking supervision.

#### 4.6 Financial Supervision Committees

In 2009, as a part of financial supervision, three advising committees were active:

Financial Supervision Committee

Steering Committee of Banka Kreditorė in Liquidation

Steering Committee of Insurance Company Dardania in Administration

Financial Supervision Committee has been functional since 2006. Its primary objective is to serve as an advising body in providing recommendations to the Governor during the decision-making process. In the course of regular meetings of the Financial Supervision Committee during the year 2009 a number of eight sessions were held where issues, regarding the oversight of all financial institutions operating in our country, were discussed, to start with licensing, oversight, and regulation of these institutions.

Steering Committee of Banka Kreditorė in Liquidation was established in the course of the liquidation process by the Liquidator and Management of CBK to monitor the smooth flow of the process. The committee meets on monthly basis to discuss and coordinate matters of common interest. The discussed and elaborated issues are the reimbursement of deposits, the cost of liquidation, collection, etc.

Steering Committee of Insurance Company Dardania in Administration started working following the decision of the Governing Board of CBK to put KS Dardania under measures of Temporary Administration pursuant to Article 77 Point j of UNMIK Regulation 2001/25. During this period of time, a team from Steering Committee in cooperation with the provisional Administrator held regular meetings through which they followed the situation after the establishment of temporary administration.

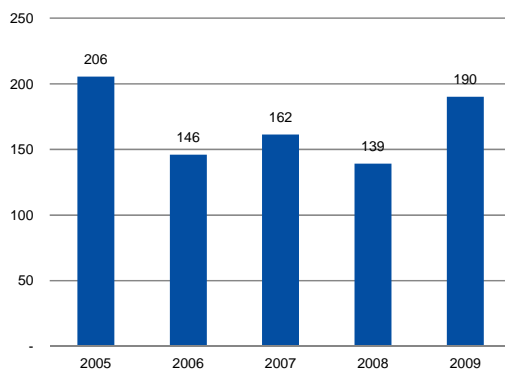
## 5. Services Provided to the Authorities, to the Financial Community and to the Public

The Central Bank of the Republic of Kosovo (CBK) provides the basic services which are to be offered by a central bank to the state institutions, financial institutions and wide public. In general these services have to do with cash flow, account transactions, managing the financial means, interbank payment system, credit registration as well as economic statistics and analysis.

### 5.1. Operations and Cash Management

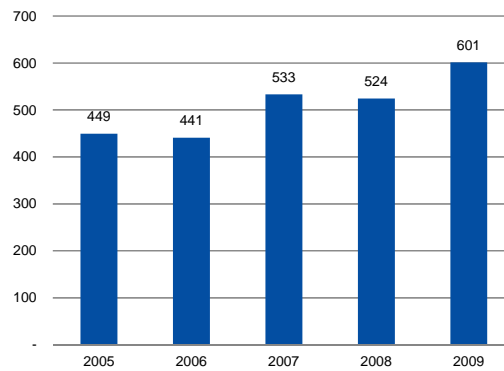
The CBK is competent to provide proper supply of banknotes and coins to the domestic economy, for execution of cash transactions. Since the Euro is a currency that is being used in Kosovo, the CBK responsibilities related to operations and cash management are related to Euro in first place.

Figure 37. Cash supply, in millions of euro



Source: CBK (2010)

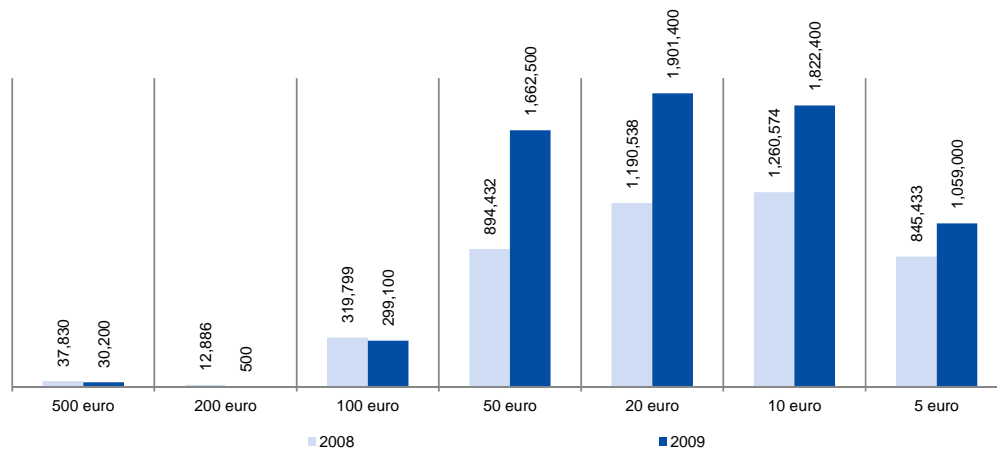
Figura 38. Cash admission, in millions of euro



Source: CBK (2010)

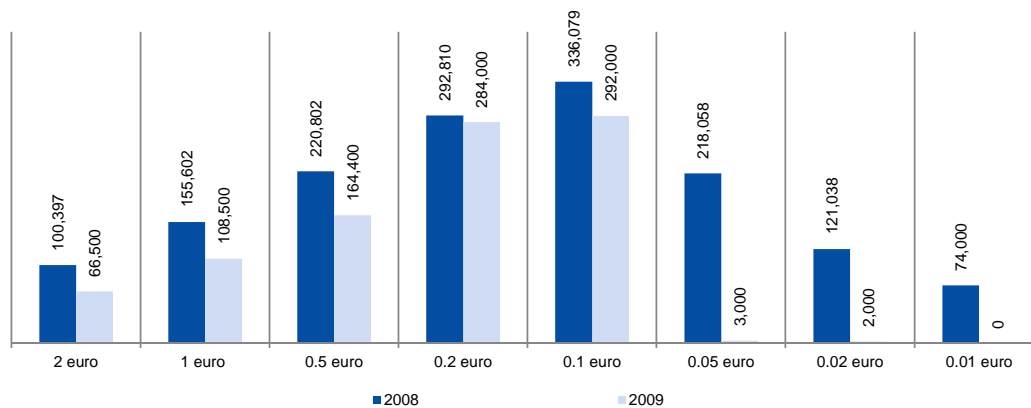
Regarding general amount, cash supply during 2009, had an increase from 37 percent compared to 2008, whereas the structure of the cash supply in accordance to denominations, that is determined by the requirements of banking sector in first place, didn't have any evident change from year 2008 to year 2009. As to the euro banknotes low denominations - 5, 10, 20 and 50 euro, kept dominating, while higher denomination volumes of 200 and 500 euro remain evidently lower. As to the euro coins supply is mainly dominated by the coins with medium value from 5 eurocent to 50 eurocent, while low denomination volumes not only they have decreased evidently but they had a considerable decrease in comparing to previous year.

Figure 39. Supply with euro banknotes by denominations, number of pieces



Source: CBK (2010)

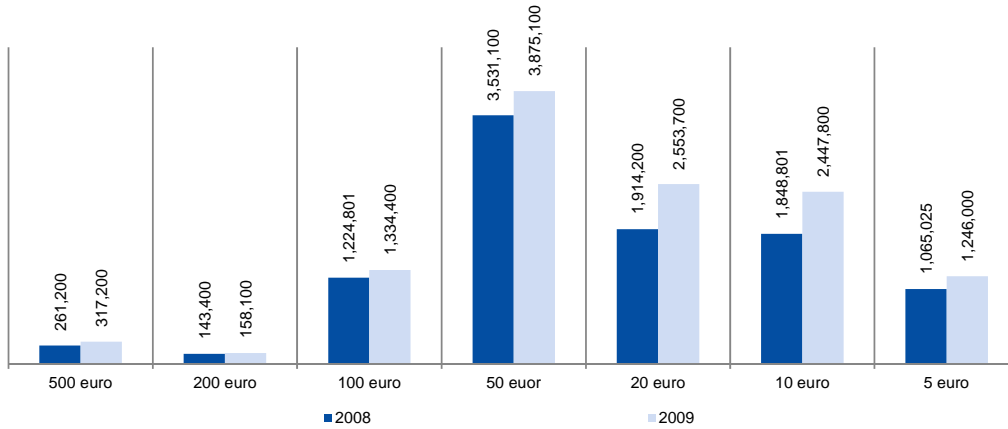
Figure 40. Supply with euro coins by denominations, number of pieces



Source: CBK (2010)

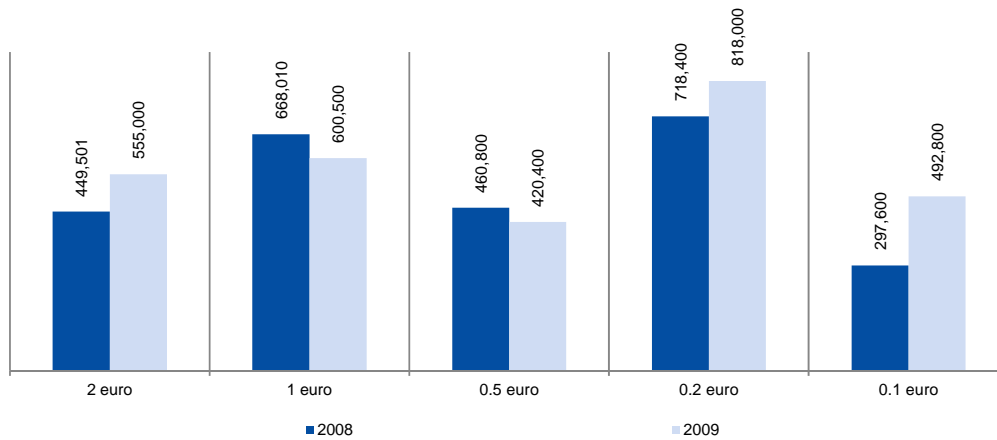
As presented in the figures above, during 2009, CBK supplied commercial banks and other institutions with approximately 6.8 million pieces of euro banknotes (in an approximate amount of euro190 million and over 0.92 million pieces of euro coins (in an approximate amount of 0.4 million euro). In 2009, the overall value of cash received as deposits marked a considerable increase of 15 percent compared to previous year. CBK received around 12 million pieces of euro banknotes (an average of 48,000 pieces of banknotes per day) and around 2.9 million pieces euro coins (an average of around 12,000 pieces of coins per day) as cash deposits from commercial banks and other institutions. Expressed as a value, these deposits have approximately reached the amounts of euro 599 million and 2.1 million, respectively. The structure of euro banknotes and coins received does not have a great difference compared to previous year.

Figure 41. Euro banknotes received by denominations, number of pieces



Source: CBK (2010)

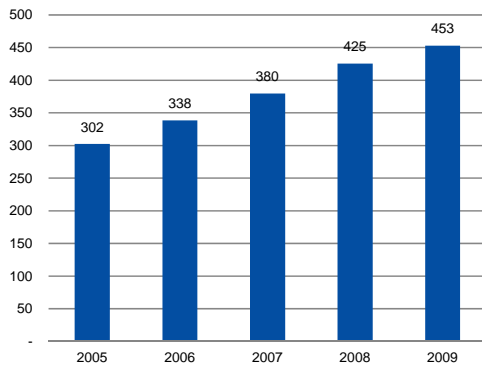
Figure 42. Euro coins by denominations, number of pieces



Burimi: BQK (2010)

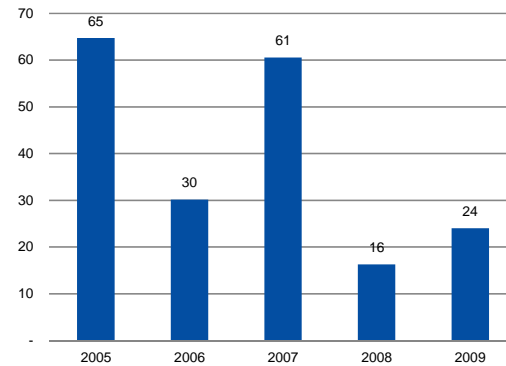
Same as in previous years, in 2009, the deposited cash were in evidently higher amount than the cash supply. In fact, by reaching at nearly euro 411 million, the variation of cash deposit was considerably higher compared to the previous year when it was around euro 385 million.

Figure 43. Export of cash, in millions of euro



Source: CBK (2010)

Figura 44. Import of cash, in in millions of euro

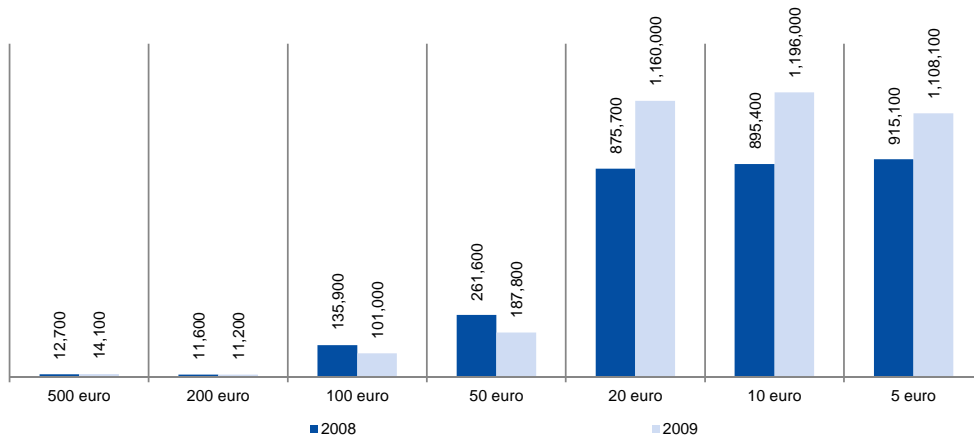


Source: CBK (2010)

Since, the CBK keeps in its treasury only the minimum required level of cash by remitting the overflow to the Euro-zone banks, wherein they are refunded into the interest assets, the annual increase of the deposited cash against the cash supplies, has also resulted in net increase of cash remittances outside the country. The net remittances of cash outside the country in 2009, reached the amount of 429 million euro being quite higher than in previous year, when they were 409 million euro. The cash export and import situation during the recent years are depicted in the figures below.

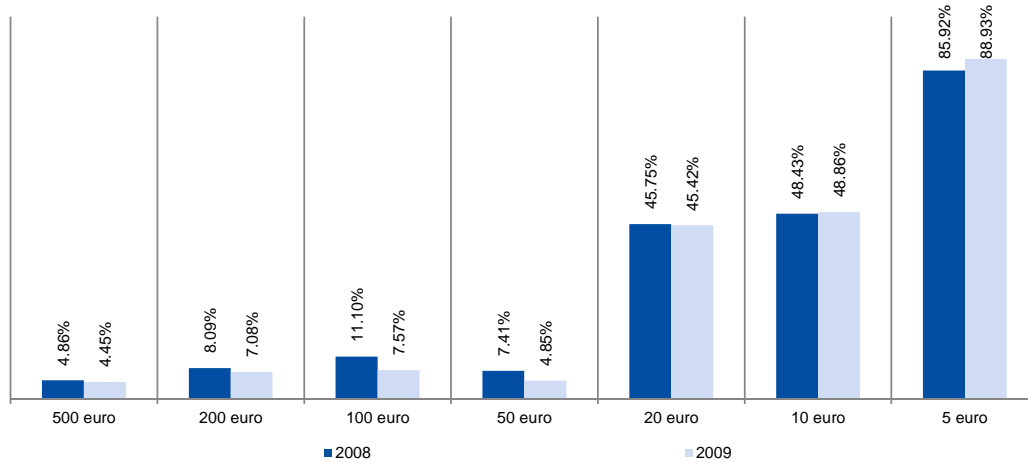
The cash operations kept being executed, through modern processing equipment and in compliance with standard rules. All the cash received by commercial banks and other institutions are processed and classified in accordance to the extent of their age. During the year, around 3.8 million euro banknotes (32 percent of deposited euro banknotes number) were classified as outdated and were excluded from the circulation by being remitted towards the central Euro-zone banks. Such capacity of considerable outdated euro banknotes excluded from circulation has evidently contributed to the improvement of the quality of cash in circulation in the Republic of Kosovo. Banknotes that mainly were classified as highly outdated and were excluded from circulation were those of denominations 20, 10 and 5 euro, due to their higher circulation in the economy.

Figure 45. Number of outdated banknotes withdrawn from circulation



Source: CBK (2010)

Figure 46. Proportion of outdated banknotes from the total received ones

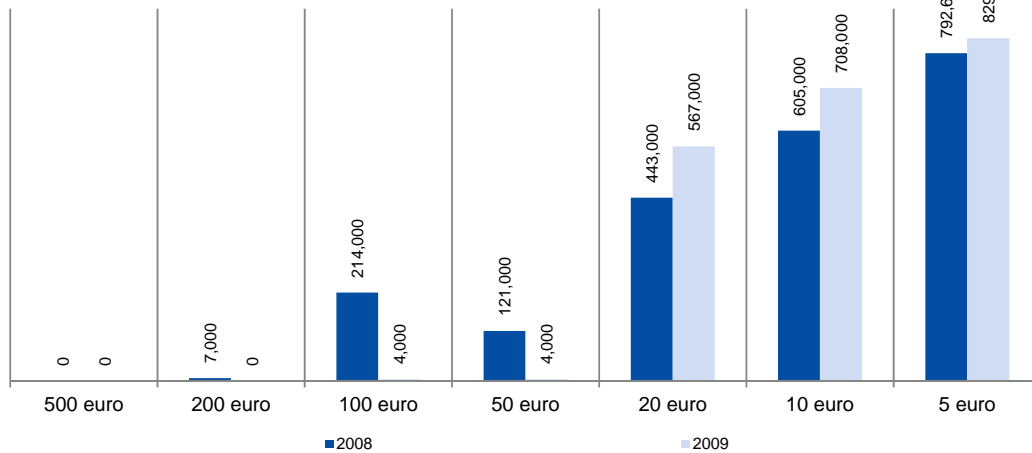


Source: CBK (2010)

The quality of cash in circulation was also improved through the supply with completely new euro banknotes, which were brought from Euro-zone. During 2009, CBK supplied the banking sector with over 2.1 million pieces of new euro banknotes (31 percent of the overall number of euro banknotes supplied).

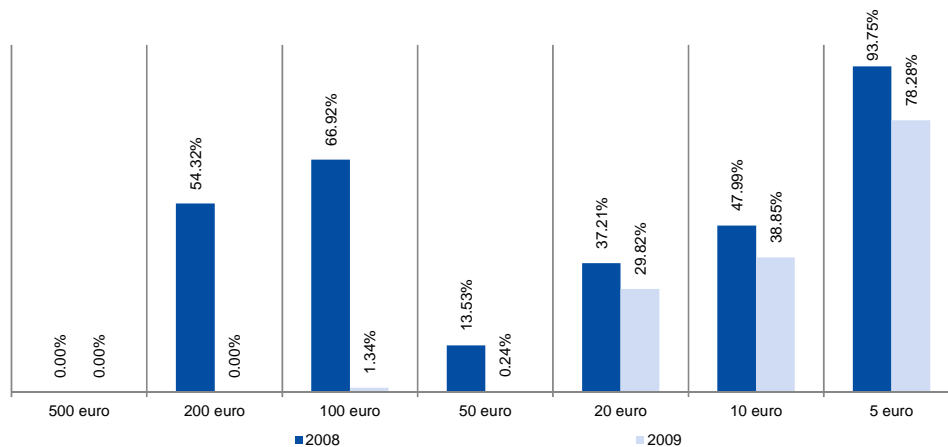
Most of the new banknotes supplied were those of low denominations (20, 10 and 5 euro), and mainly commercial banks were supplied with them aiming at equipping their ATM machines. In addition, all the used euro banknotes that were supplied were of the highest standard quality (proper quality for ATMs).

Figur 47. Supply of new banknotes



Source: CBK (2010)

Figure 48. Proportion of new banknotes induced in circulation from the total supplied ones



Source: CBK (2010)

Regarding measures against the counterfeiting, the CBK proceeded on following up the cases of counterfeit money in 2009. Furthermore, it proceeded with its cooperation with authorities in charge to advance the reporting of cash suspected as counterfeit and with organizing relevant trainings for the staff of financial institutions. It's worth mentioning, the finalizing of terms of reference of a joint committee with police for counterfeit money analyzing.

## 5.2. Account Maintenance and Transactions

CBK provides banking service for Treasury and other government institutions of the Republic of Kosovo, such as Privatization Agency of Kosovo (PAK), public enterprises, financial institutions, and international organizations. In 2009, similarly to the previous years, these services consisted mainly of account maintenance and payments execution, excluding any form of crediting.

In 2009, CBK kept supporting the advancement of the execution process of transaction and accordance of Treasury and PAK. The payment methods and ways of communications have been adapted to their requirements. It's worth mentioning here the electronic form of transfer orders on behalf of PAK.

**Table 25. Amount of transactions by the main type of payments 2005-2009**

| Description                      | 2005    | 2006    | 2007      | 2008      | 2009      |
|----------------------------------|---------|---------|-----------|-----------|-----------|
| Cash transactions                |         |         |           |           |           |
| Cash deposits                    | 456,279 | 440,975 | 533,178   | 524,346   | 601,207   |
| Cash withdrawal                  | 206,375 | 145,875 | 161,433   | 139,233   | 190,152   |
| Local transfers                  |         |         |           |           |           |
| Incoming local transfers         | 828,633 | 998,128 | 1,055,472 | 1,076,145 | 1,225,527 |
| Outgoing local transfers         | 698,779 | 769,460 | 697,290   | 998,067   | 1,184,358 |
| International transfers          |         |         |           |           |           |
| Incoming international transfers | 100,592 | 260,267 | 335,613   | 203,113   | 202,755   |
| Outgoing international transfers | 321,600 | 325,810 | 322,489   | 567,908   | 666,571   |

Source: CBK (2010)

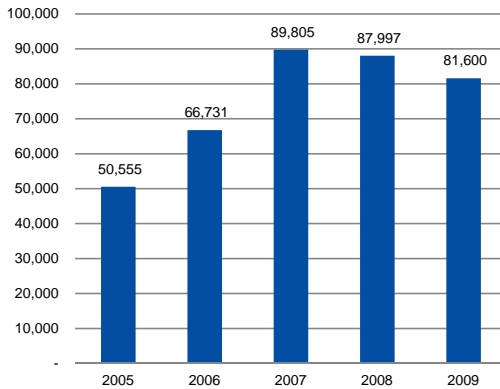
While almost all cash operations of CBK are related to the commercial banks, the vast majority of domestic payments of CBK are executed in the name and the account of Treasury.

As a direct participant in Inter-banking Electronic Clearing System (IECS), the CBK takes part in channeling the domestic payment orders on behalf and on the account of accountholders. During 2009, the CBK through the IECS has remitted over 145.8 thousand outgoing payment orders, on behalf of its clients (an increase of 8 percent compared to the previous year) and has received, in the account of its clients, nearly 81.6 thousand incoming ordering payments (a decrease of 7 percent compared to the previous year). Expressed in an amount, in 2009, the amount of outgoing ordering payments, reached over euro 1.1 billion (an increase of 19% compared to the previous year) and the ordering payment amount reached over 1.2 billion euro (an increase of 14 % in comparison to the previous year).

CBK has remained the largest participant in IECS in reference to the value and volume of transactions.

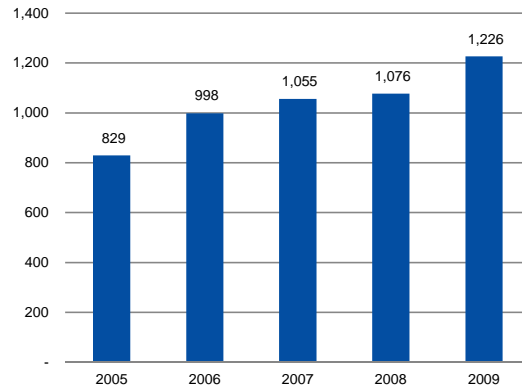
When considering transactions of domestic payments, it should be emphasized that all commercial banks generate these transactions by themselves as being participants in IECS, while insurance institutions execute most of their payments through commercial banks. Indeed, all other account holders of CBK utilize payment services offered by CBK in a limited way, as all of them have their accounts in commercial banks.

Figure 49. Volume of domestic incoming transactions, number



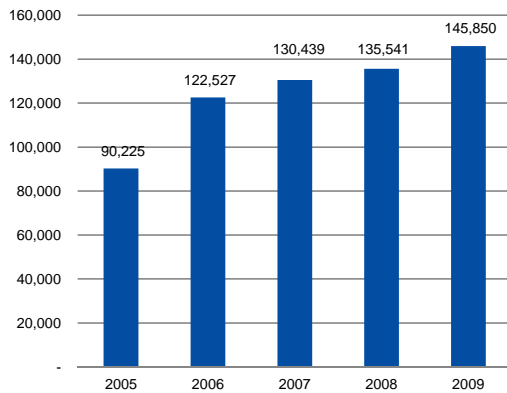
Source: CBK (2010)

Figure 50. Value of domestic incoming transactions, in millions of euro



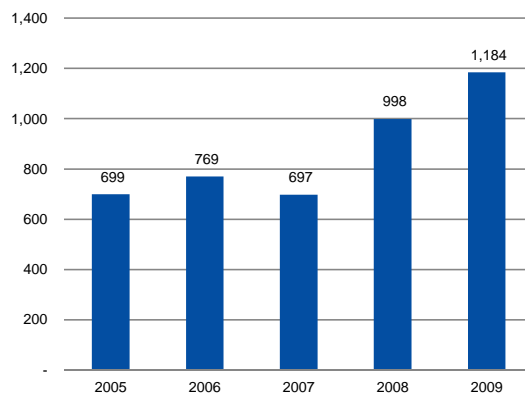
Source: CBK (2010)

Figure 51. Volume of domestic outgoing transactions, number



Source: CBK (2010)

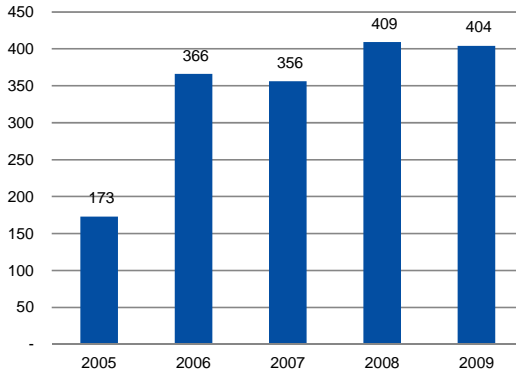
Figure 52. Value of domestic outgoing transactions, in millions euro



Source: CBK (2010)

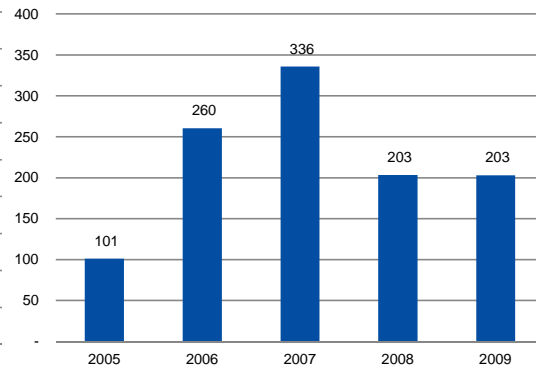
As to the international transactions, in 2009, most of them were executed by CBK as ordered by the Treasury. In the other hand, considering their value, most of the international transactions carried out by CBK have to do with fund transfer by the commercial banks. The annual data for the last five years on international transactions are presented in the four following figures.

Figure 53. Volume of international incoming transactions, number



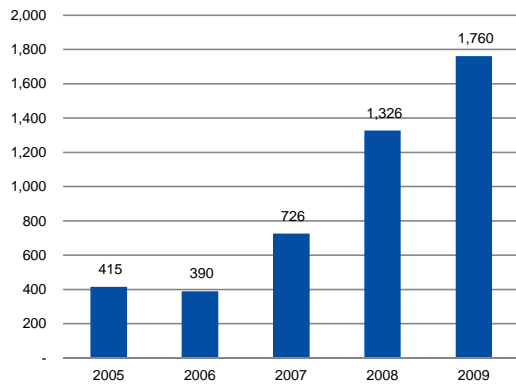
Source: CBK (2010)

Figure 54. Value of international incoming transactions, in millions of euro



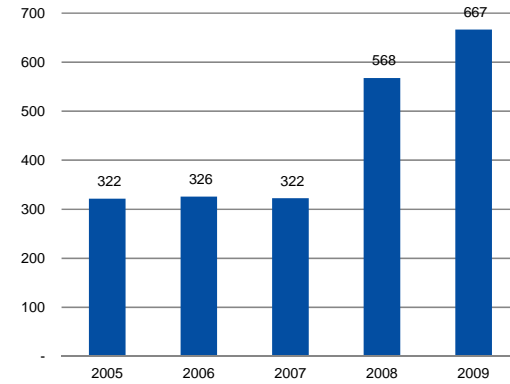
Source: CBK (2010)

Figure 55. Volume of international outgoing transactions, number



Source: CBK (2010)

Figure 56. Value of international outgoing transactions, in millions of euro

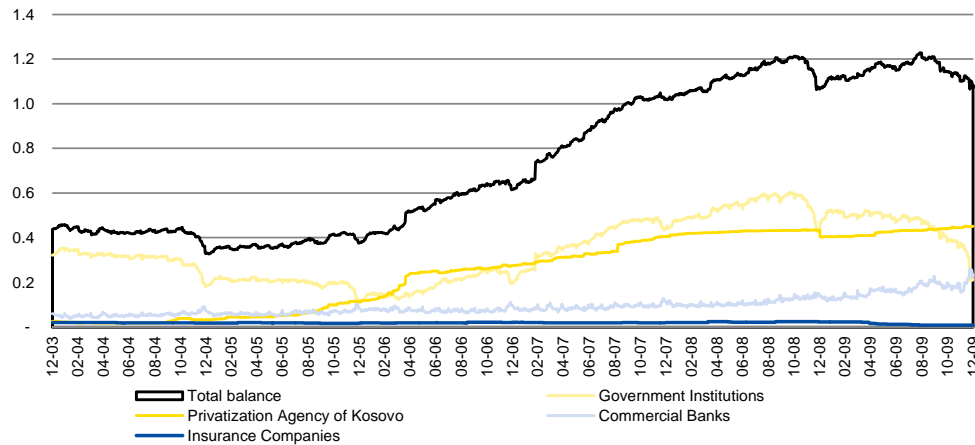


Source: CBK (2010)

Deposits of the Kosovo Government institutions along with the deposits of PAK compose the major part of the overall deposits held in CBK by the end of 2009 (61 percent). On 31 December 2009, deposits of institutions of the Government of the Republic of Kosovo reached the amount of euro 213.8 million, while those of PAK reached the amount of euro 451 million.

Among other accountholders, the commercial banks and insurance institutions are the most important ones in regard to the deposits level that are kept in the CBK account. Deposits of commercial banks and of insurance institutions kept in CBK mainly have to do with their regulatory obligations. They represent 22 percent of the overall deposits held in CBK during 2009. On 31 December 2009, deposits of commercial banks and of insurance institutions reached at euro 240.9 million.

Figure 57. Deposit motion of the key accountkeepers of the CBK, in billions



Source: CBK (2010)

Level of Kosovo Pension Savings Trust (KPST) kept in CBK increased also during 2009. They composed 11 percent of overall deposits kept in CBK during 2009 and reached the amount of euro 122 million in the end of the year.

### 5.3. Asset Management

Pursuant to of Law on Central Bank of the Republic of Kosovo (Article 6), the Central Bank of the Republic of Kosovo (CBK) is authorized to act as a financial agent of the Ministry of Economy and Finance and provide financial advices upon the request of this Ministry. At the same time, pursuant to of Law on Public Finance Management and Responsibilities (Article 7), the Central Bank of the Republic of Kosovo (CBK) is authorized to invest the Government assets. This form of financial investments enables the return on investments, which is collected in for of interest into the Kosovo Consolidated Budgeted.

Deposited funds mainly belong to the government institutions, where the Ministry of Economy and Finance (budgetary reserves) and the Privatization Agency of Kosovo (PAK) are the main depositors of CBK. The other part of funds mainly relates to the compulsory reserve which the commercial banks keep with the CBK. Moreover, CBK is in charge of the deposited funds management from public agencies, financial institutions and donor organizations. The Asset Management Directorate manages the Treasury portfolio as a separate portfolio, based on an agreement with the Treasury, through the Liquidation Committee, which holds regular meetings on monthly basis. The other part of portfolio contains all the other CBK's assets. However, all assets are managed in compliance with Investment Policy and are approved by the Governing Board of CBK with a special emphasis on *security, liquidity and finally return on investments*.

Risk Management is conducted through the monthly evaluation of the banks CBK cooperates with. All investment activities take place with banks fulfilling the criteria envisaged in the Investment Policy. Despite the financial crisis, continuous evaluations on financial sustainability conducted by International Financial Agencies it's revealed that all banks CBK cooperates with, do fulfill the criteria of the Investment Policy with main evaluation categories (Aaa and Aa).

The CBK invests assets within the instruments of the cash market. During 2009, special attention was dedicated to the risk distribution. All assets have been invested in central

and commercial banks of the EU countries. Amongst these three Central Banks, from these European countries, are the following banks that CBK cooperates with: German Central Bank (Deutsche Bundesbank), France Bank (Banque de France) and Central Bank of Luxemburg (Banque Centrale du Luxemburg) which have a minimal credit risk and four commercial banks from the EU member states that have a credit classification Aa or Aaa according to the evaluations of international financial agencies Moody's, Fitch, and Standard & Poor's.

Asset Management Directorate, through reports on risk management, obtains the credit information for each bank cooperating with it, and it includes the report of International Financial Agencies (Moody's) and/or (Standard & Poor's), and whenever possible review reports as well. Each bank cooperating with CBK is reviewed on monthly basis in this regard. Separate review reports focused on recent developments, as well as reporting any improvement of irregularities in general concerning financial situation of a bank cooperating with CBK, are prepared on monthly basis to ensure that criteria defined by Investment Policy are met. If the classification of short-term liabilities of the bank cooperating with CBK has fallen down P1 (Moody's) or A-1 (Standard & Poor's) it will then be reviewed by the Risk Manager and such a review will immediately be submitted to the Investment Committee.

In the case of securities, the Investment Committee will decide whether they should be sold or should be let to reach the maturity. Once it has been found out that bank cooperating with CBK has fallen down in the required classifications, it will be excluded from the approved list. Pursuant to examinations conducted in banks cooperating with CBK, those failing to comply with credit classification criteria have been removed from the approved list. No investment is carried out with banks cooperating with CBK without being considered, reviewed, and approved by the Investment Committee, which meets regularly every month, who will decide to get it back to the approved list of CBK.

Investment of assets presented in euro currency as of the end of 2009 was conducted in financial instruments such as bank deposits (50%) and securities (50%) guaranteed by the countries of European Union. Determination of investment boundaries for each bank, cooperating with CBK, and for countries of investment is strictly limited. The compliance with the internal investment rules has been elaborated in a daily base, as all activities are separated by the "back office" and reported to the Governor. Risk analyses as well as asset management audit functions were conducted on regular basis.

The accepted deposits by the CBK were paid on the basis of the *interest rate* of the European Central Bank (ECB), and the current value in which lies the global financial system that is based on the Policy on the Interest Rate of the CBK. Return from investments achieved by CBK is on average the minimum of provided interest rates, where the CBK keeps a difference which contributes to the return from its investments.

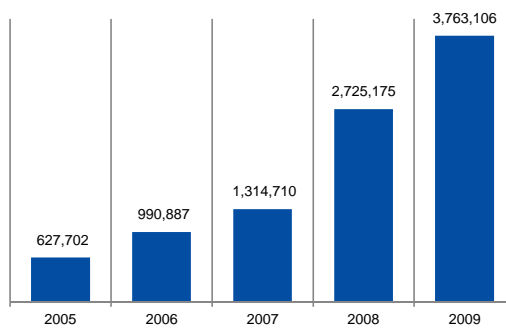
According to the report of 31 December 2009, the value of amount invested by the Treasury with CBK reaches at euro 213 million. These investments have been carried out in compliance with Investment Policy and Policy on Interest Rate approved by the Governing Board of CBK. This portfolio is invested in securities guaranteed by the States of European Union and bank time deposits.

According to the report of 31 December 2009, the total of managed assets was euro 1,084 billion, out of which deposits by the Treasury are euro 213 million (20%), PAK euro 451 million (42%), KPST euro 122 million (11%) and other depositors cover around euro 298 million euro (27%).

#### 5.4. Inter-banking Payments System

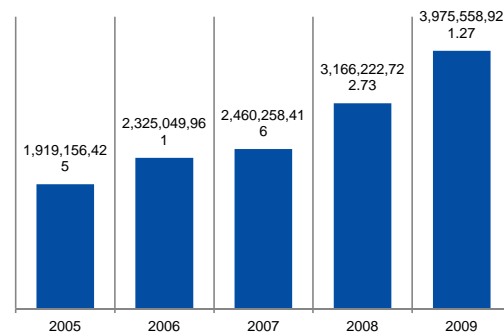
Development of an efficient and safe system for domestic payments, as a key standard of the financial infrastructure, is the CBK primary function. Inter-banking Electronic Clearing System (IECS) operated by CBK is the only inter-banking payment system in the Republic of Kosovo. In 2009, an increase was marked in volume, as well as in IECS transaction rate and a further advancement was carried out, where we must especially emphasize launching the direct debit scheme. Another important development in the area of payments system was the preparation of the Strategy for developing a national payments system and beginning of its application.

Figure 58. Annual IECS transaction number



Source: CBK (2010)

Figure 59. Annual IECS transaction value

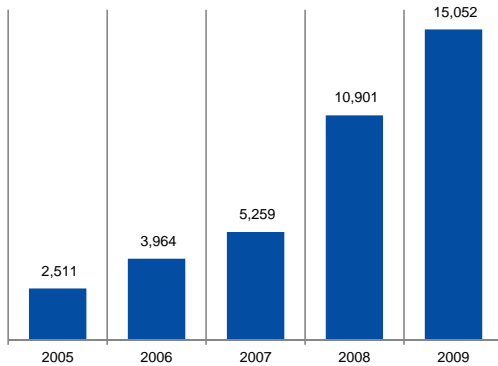


Source: CBK (2010)

In continuation, the volume and amount of transactions prescribed through the IECS were increased by reflecting the relative payment increase without cash and the increase of confidence in the domestic banking system. As in previous years, in 2009, the annual increase of volume as well as amount of IECS transactions was evident. Around 3.8 million transactions with an overall amount of euro 3.98 billion were channelized through IECS. The transaction volume increased by 38 percent and transaction amount increased by 26 percent compared to IECS transaction in the previous year.

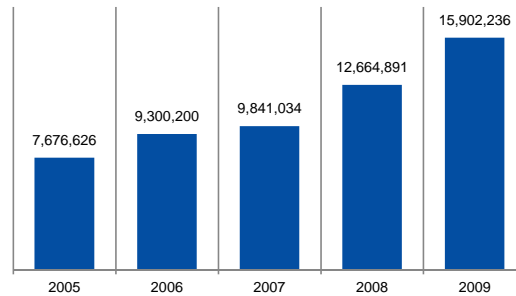
IECS considerable transaction increase can be seen also from the average daily data. In 2009, the IECS daily transaction amount was around euro 15.9 million, compared to around euro 12.7 million in 2008. Furthermore, in 2009 the IECS daily transaction volume was nearly 15.1 thousand, compared to around 10.9 thousand transaction in 2008.

Figure 60. Average daily IESC transaction value



Source: CBK (2010)

Figure 61. Average daily IESC transaction value

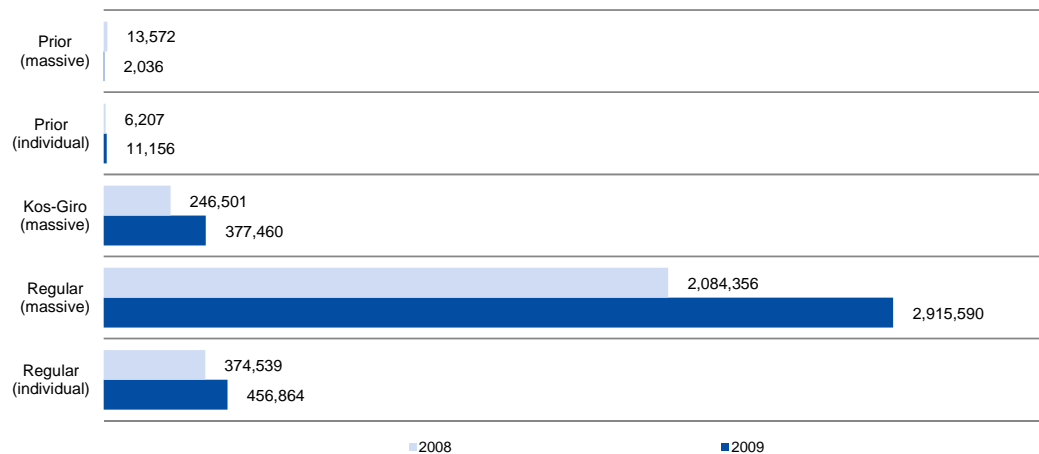


Source: CBK (2010)

There are some specific types of IECS transactions, such as prior (individual and massive), the Kos-Giro (massive), regular (individual, and massive). The comparable volume and the amount levels for 2009 and 2008 are presented in the figures bellow.

Regular payments compose around 90 percent of IECS transactions volume and around 70 percent of the IECS transactions value. They are channelized through the IECS either as individual transactions (one-to-one) or as massive transactions (one-to-many or many-to-one). They are processed through regular clearing sessions and cleared on net basis.

Figure 62. Annual IECS transaction volume according to its types

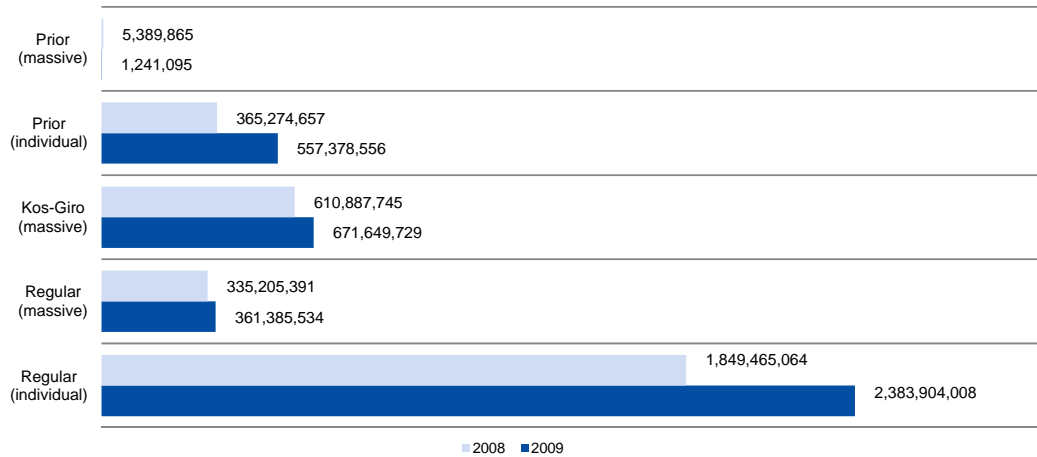


Source: CBK (2010)

The Kos-Giro transactions represent a special type of regular transactions, which are also processed through clearing sessions and cleared on the net basis. They are channelized through the IECS as massive transactions (many-to-one). While regular individual transactions are meant for payments in general the massive regular payments are meant for payments and collections of different enterprises and institutions, the Kos-Giro

transactions are meant for standardized and automated cashing of the large recipient institutions.

Figure 63. Annual IECS transaction amount according to its types



Source: CBK (2010)

Prior transactions are processed and immediately cleared on the gross basis. Same as regular transactions, prior transactions can be channelized through IECS or as individual or massive transactions. They still represent a small part of overall IECS transactions. In 2009, in reference to their volume, they represented less than 1 percent of IECS transactions, while in terms of their amount; they achieved to represent more than 14 percent of IECS transactions. This type keeps mainly being used for urgent payment transactions and for those with high amounts.

During 2009, some technological and procedural developments took place in IECS. The biggest achievement at IECS was the *launching of direct debit scheme*. The use of direct debit scheme provides an advanced method of periodical payment execution without any cash needed. The Scheme in general is characterized with a very high standardization and automation. Periodical payments that are executed through this scheme have to do, in first place, with regular services in regard with residential or working buildings such as electrical supply, water supply, telephony, heating, maintenance, etc. Such services can be paid by customers in an easy way using the direct debit schema. By initially signing a contract with the company offering services, a citizen or an organization can execute automatic payments from his bank account, every month, at a specific date, without any authorization or additional actions.

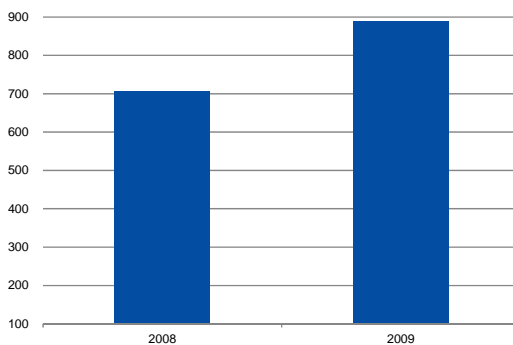
In 2009, a development strategy on national payments system was prepared with the support of the World Bank. This strategy has its vision and its respective action plan and is structured according to nine pillars: i) legal framework, ii) large amount and urgent payments, iii) low amount payments, iv) governmental transactions, v) securities, vi) monetary market, vii) remittances, viii) supervision of payment system, and ix) cooperation. As such, this strategy is comprehensive and is estimated to be implemented within a mid-term framework.

## 5.5. Credit Registry

Credit Registry especially represents the backbone of the national financial infrastructure. The Credit Registry of Kosovo (CRK), which is managed by CBK, has a responsive role in the development of banking system, in advancement of the credit market, as well as in promoting in general the financial stability in the Republic of Kosovo. In first place, it aims at personal credit information exchange between institutions providing loans. Except banks and other credit institutions, also debtors themselves and applicants of credit as the crediting subjects may obtain specific personal information through CRK in extraordinary cases. The supervisors of credit institutions may approach to the CRK for the purpose of carrying out their official duties.

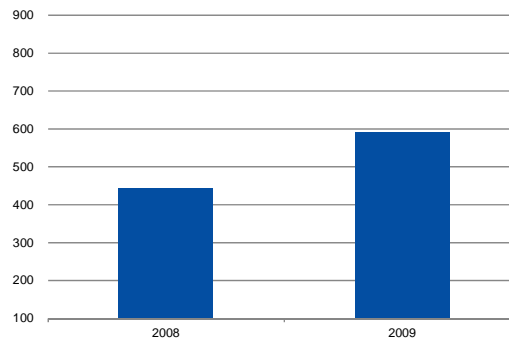
In the end of 2009, CRK had around 900 thousand credit records in regard with active and paid credits, respectively 25 percent more in comparing to the previous year. While the number of credit institutions remained the same, the number of individual credit users reached above 1 thousand or it was increased by one fourth as compared to the previous year.

Figure 64. Number of credit records in CRK by the end of the year



Source: CBK (2010)

Figure 65. Number of searches in CRK during the year



Source: CBK (2010)

Also the number of searches by the credit institutions for debtors or individual applicants for credit increased by one third compared to the previous year almost reaching the number 600 thousand. Also, number of searches by the debtor subjects increased evidently in relative terms, even though in absolute terms it remains below 1 thousand.

Similarly to previous years, ever since it was launched in 2006, the role of CRK during this year has also been evidently enhanced. Office of Credit Registry, despite the system management, has also coordinated further development and has monitored the action referring to technical requirements of the responsible staff from Credit Institutions and Banking Supervision Directorate. A number of meetings were held with Credit Institutions and other relevant stakeholders.

During this year a special attention was paid on the communication and cooperation with relevant institutions from European countries. Except contacts with the Credit Registries in the region and other countries, preparations are made for a membership in the well-known European association of credit registries - ACCIS (Association of Consumer Credit Information Suppliers). Membership will be achieved in the beginning of 2010 and this will contribute to the formal and functional advancement of CRK especially in the engagement towards the European integration.

## 5.6. Research and Statistics Activities

Year 2009 was characterized by multidimensional achievements in the area of statistics and economic analyses. August 2009 had a special importance for the statistical function of the CBK, as immediately after the membership of the Republic of Kosovo in the IMF, monetary and financial statistics of the state of Kosovo were published in the prestigious IMF publication: *International Financial Statistics (IFS)*. An integral part of this success, apart from the highly dedicated and professional personnel, was also the technical assistance and relevant trainings provided by international institutions, especially by the IMF.

Year 2009 represents a period of accelerated development also in the field of external sector statistics. For the first time, balance of payments statistics have been compiled and published on quarterly basis. This precedes the publication of these statistics in the IFS in 2010, which at the same time encompasses the statistical function of CBK in compliance with the international standards.

In compliance with the developments in the Kosovo banking sector and international standards in statistics, and also with the purpose to continuously enhance the quality of the monetary, financial, and balance of payments statistics, during 2009, new versions of Statistical Bank Report, Interest Rate Report and International Transactions Reporting System were prepared. The implementation of these statistical projects commenced as of January 2010.

Regarding economic analyses, year 2009 was characterized by the compilation of the report on quick economic indicators. This is an internal report which is prepared on monthly basis, aiming at informing the Governing Board and Management of the CBK on the recent economic developments in the country.

Year 2009 also marks the start of work on the development of the "Macroeconomic Model". This model aims at establishing a framework, which enables the analyzing and forecasting of macroeconomic developments in the country. Year 2009 was also characterized with further advancement of the 'Stress-Test' model for banking sector, as well as with the formulation of different internal reports and analyses; all of these in the function of ensuring financial stability and supporting general economic policies in the country.

Amongst publications we could underline the jubilee edition number 100 of Monthly Statistical Bulletin. This marks a further advancement of the bulletin in terms of the volume and quality of statistics and analytical part published in this publication. Moreover, apart from monetary and financial statistics, and balance of payment statistics, there is a larger inclusion of fiscal and real sector statistics. Starting from this edition, Monthly Statistical Bulletin and other CBK publications will be published in a new design.

As a part of other periodical publications, also the Balance of Payments Bulletin and Financial Sector Bulletin were published during 2009. Compared to the previous editions, the last edition of the Balance of Payments Bulletin has marked improvement in quality and was published based on quarterly data of balance of payment. Quality improvement was encountered also in the Financial Sector Bulletin in terms of more comprehensive and qualitative analyses. In 2010, this publication will be upgraded into the Financial Stability Report.

In 2009, progress was marked also in the research function, where two working papers have been published, including: (i) *Determinants of Remittances: The Case of Kosovo* and (ii) *Efficiency of Banks in South-East Europe: with Special Reference to Kosovo*. Year 2009 is

also characterized with the participation and presentations of CBK staff in different conferences and workshops inside and outside Kosovo. It is worth emphasizing the participation and the presentations CBK staff working papers in international conferences held in Great Britain and Croatia. In addition, CBK organized a conference in the occasion of the 10<sup>th</sup> anniversary of its foundation and four workshops on economic policies, where local and international experts elaborated different subjects.

## 6. Internal Developments

### 6.1. Internal Control

Pursuant to the duties and responsibilities established under the Law on Central Bank (Article 30), the Inspector General offered the summary of findings and his suggestions in regard to reports which are presented every six months to the Audit Committee of the CBK Governing Board.

The Office of Inspector General includes internal auditing, control, budgeted implementation and operational analyses.

#### Internal Audit

The Internal Audit as in the previous years also in 2009 has acted on the bases of annual plan proposed by the General Inspector with the preliminary approval by the Audit Committee as an independent body and final approval by the Governing Board.

Internal Audit in CBK as in the previous years, in 2009 has prepared Annual Audit Plan in compliance with International Standards of Professional Practices of Internal Audit of the Internal Auditors' Institute-IIA (Institute of Internal Auditors, Altamonte Springs, Florida, USA). Specifically the Annual Plan was prepared based on the following standards:

Standard 1110.A1; Standard 2010; Standard 2010.A1; Standard 2010.C1 and Standard 2020 in this Annual Plan was compiled based on the Annual Risk Assessment, an assessment that identifies the risks and classifies them according to the level of risk. The risk based plan defines the priorities of the activities of Internal Audit and is consistent with the goals and objectives of CBK.

The risk levels are determined based on key factors of the risk, which are the probability and impact. Based on these factors it is determined how frequently the audit activity should be performed in specific activities or actions of the CBK, i.e. wherever material loss and reputation damage is higher we have to focus the audit there more often. As a summary we can conclude that risk in CBK serves as a starting point for audit.

Based on risk assessment and taking into consideration the material loss and reputation damage in an institution, audits were conducted monthly, quarterly, biannually, and annually. The following fields are considered to have more evident risk:

- Asset management (foreign investments)
- Cash operations
- Information Technology and systems
- Payroll system
- Procurement, etc.

Except planned audit, upon the request of the Governor and of the General Inspector, some ad hoc audits were conducted.

The aim of internal audit is to examine, asses, and report on the adequacy of Internal Control System, by addressing suggestions and recommendations for improvements. On the bases of internal control examinations and assessments, transaction assessment, and verification of compliance with applicable laws, rules, and regulations, the internal audit prepares reports in writing, which include the management responses on findings and recommendations. After the approval of internal audit reports by the Inspector General, they are delivered to the management and the Governor.

In order to follow up the implementation of recommendations, the internal audit continually updates the follow-up table form on implementation of recommendations in a chronological manner with all the relevant information. Such reports are used as transparent and communication means for transmission of status of recommendation implementation to the Governing Board of the through the Audit Committee.

As an additional inevitable activity now, requested by the Inspector General with the objective to permanent monitoring the investment portfolio of CBK, is the weekly audit of the investment operations of the securities and time deposits. For this purpose during 2009 a total of 52 special reports were produced to keep track of all investments in the money and securities trade. This field was given a special importance especially since last year due to the global financial crisis.

During 2009, the internal audit has continually monitored the process of cash renumbering for remittances outside the country, then it has continued to audit the IT Department in relation to the external covering system (data saving), by addressing important recommendations and following up their implementation.

In the course of the professional development of the staff attention has been paid to continual professional advancement of all Internal Audit personnel, through trainings, international and local seminars, postgraduate studies and continual cooperation with the Central Banks in the region, and professional institutions such as "IBFI" institute - in the framework of the Bank de France, CEF in Slovenia, affiliation in different international associations for Internal Audit, such as the Institute of Internal Auditors-IIA (Internal Audit Institute), and recently affiliation in the ISACA (Information Systems Audit and Control Association).

### **6.1.1 Control, Budget Implementation and Operational Analyses**

Also, during 2009, the control and budget implementation contributed in such a way that makes the utilization of available resources more rational and effective and in compliance with the budget approved by Governing Board, since by implementing the budgeted the CBK must achieve the most rational and effective use of resources in compliance with the budgetary lines approved.

Budget implementation control along with operational analyses present a continual and undivided ensemble of processes and initial work of the preliminary years, that are developed today and will continue to develop in the future in the CBK, as a very important "ring" in internal chain of controls, which were installed and act within the Office of Inspector General and sticking to the business plan objectives for 2007/09, and;

- Supervision and approval of operational and capital expenditures in compliance with the approved and assigned lines according to the Budget has been conducted.
- CBK revenues, especially those collected through time deposits interest and securities have also been controlled and followed up.
- Entire monitoring and maintenance of the CBK expenditures.

Control and budget implementation reports and operational analyzes were prepared and elaborated each month, and according to periods on the basis of the accrual principle, whereas qualitative achievements have been reached on the CBK income, notably:

- Control/verification and supervision of income, in particular the income generated from the interest in time placements in foreign banks and from securities, and the

maintenance and monthly evidence on clients deposits and CBK placements in foreign banks/income and expenditures interests.

During 2008, implementation of target objectives in the budgeted implementation control for the period 2007/09 has proceeded, and the following activities have been undertaken in this direction:

- Improvements and increased information on data relating to income and expenditures reports produced on weekly, monthly, and annual basis.
- Follow-up, expenditure evidence of official trips, inside and outside the country for each unit, department and directorate, separately and in total, as well as comparisons with weekly periods regarding daily allowance fee inside the country, and
- Special follow-up of controls and budgetary line accomplishment for professional advancement of staff, trainings inside and outside the country.

## 6.2. Human Resources

Human resources kept developing in compliance with objectives of Central Bank of Kosovo and relevant policies focused on training, code of ethics and conduct, providing human resources in timely manner, performance evaluation, wages and benefits. This has been achieved based on a close cooperation with senior management and working groups.

In order to enhance the performance efficiency, advanced software was provided to the human resources during 2009, as well as a functional database which enabled the increase of quantity and quality of information used by senior management and employees and it is continuously maintained by the human resources.

Following the support provided by the World Bank; the project "Support to CBK for functional assessment and mid-term development of the employment plan and considerations for the staff motivation" is being implemented. In applying this Project, objectives were identified on staff training and development in compliance with strategic objectives for 2010 - 2015.

During 2009, 17 vacancies were announced in relevant Kosovo daily newspaper and in the CBK web page (in three languages; Albanian, Serbian, and English). Based on these announcements 16 persons were recruited, three of them with Master degree from well-known foreign universities, 16 with university diploma and one with high school diploma and internationally recognized certificates in the Information Technology area. While during this year only one employee resigned voluntarily.

During 2009, the average number of CBK employees was 161; out of them 46% are female and 54% male staff with an average age of 39-year old. Female participation in managerial positions reaches at 37% in total, while male participation is 63%.

The CBK continued to be promoted as an employer offering equal opportunities by applying correct and non-discriminating treatment while recruiting new staff, regardless gender, age, race, political opinion, and other statuses provided by law.

In terms of qualification structure of the employees as of the end of 2009, we have the following data:

**Table 26. Qualification structure of CBK employees as of the end of 2009**

| Type of qualification  | Number of qualified staff | Number of qualified female staff | Number of qualified male staff |
|------------------------|---------------------------|----------------------------------|--------------------------------|
| PhD                    | 1                         |                                  | 1                              |
| Master                 | 24                        | 9                                | 15                             |
| University diploma     | 66                        | 28                               | 38                             |
| Bachelor               | 26                        | 13                               | 13                             |
| High school            | 1                         | 1                                |                                |
| Secondary school       | 45                        | 23                               | 22                             |
| Primary school         | 4                         | 3                                | 1                              |
| Total nr. of employees | 167                       | 77                               | 90                             |

Source: CBK (2010)

Central Bank of Kosovo continually offers opportunity for students from universities/colleges, from the country and from abroad, to gain working experience in different CBK functional and operational activities as well as to enhance the levels of theory and practice in universities. During 2009, 17 students completed also their practice work successfully at CBK.

The CBK is also engaged continually to provide the staff with adequate knowledge, skills and expertise to discharge their duties and responsibilities in accordance with the best standards towards achieving their full potential through trainings, courses, seminars and relevant academic and post-academic programs, by supporting financially the development of its staff. In addition to assistance provided by CBK own revenues, a considerable financial support for this purpose has been provided by the World Bank.

During 2009 the CBK staff attended relevant trainings outside the country in a total of 367 working days with an overall number of 62 trainings attended and 76 staff members trained, mainly organized by the IMF, Joint Vienna Institute, European Central Bank, Deutsche Bundesbank, Banque de France, Austrian National Bank, Federal Reserve Bank of New York, Bank of England, Bank of the Netherlands, Czech Bank, Toronto Center etc.

Trainings attended by the staff have mainly been from the following areas: Macroeconomic Modeling and Forecasting II, Balance of Payments Statistics, Risk Focused Supervision and Risk Assessment, Fight against financial delinquency and Money Laundering, Banking Leadership program, Payment Systems, Financial Derivatives and Reserve Management, Legal Aspects of International Financial Institutions, Banking Supervision under Basel II, Financial Stability in Central European Economics, Instruments of Financial Markets, Internal Audit and risks management in a Central Bank, Risk Based IT Audit, CISA, The Basel Capital Accord for Banks etc.

### 6.3. Legal Activity of the CBK

During 2009, legal activity of the CBK is focused in the development and advancement of the legal regulatory framework as a function to achieve the objectives and competencies of CBK in compliance with the applicable law. During this year evident developments have taken place towards advancement of legal framework of CBK and its harmonization with international standards and practices and with legal framework of European Union. To this end, through the technical support offered by the International Monetary Fund and the World Bank during this year all the necessary preparations have been made towards drafting the laws as provided by the CBK legal strategy. In cooperation with the IMF, a

new law was drafted on Central Bank where all the necessary elements of the modern bank legislation have been included, and it is considered as a step forward towards the European integration. This law is expected to be adopted next year. Also, all necessary preparations have been made to supplement the legal framework and draft other laws in the financial area which would supplement the legal framework on establishing and developing a financial system in Kosovo.

Furthermore, with purpose of a proper and efficient functioning of the financial system, the CBK activities continued towards drafting and harmonizing legal acts, memorandums of understanding with local and international institutions, as well as other activities by having an impact in the development and sustainability of the financial system in Kosovo.

Legal activities and harmonization with international standards and EU rights at all times was oriented not only in the modernization of the CBK legal infrastructure in the course of latest developments, but also in its adequate implementation in practice in compliance with the highest standards of responsibility and transparency. All the above have brought to the development and preservation of stable, secure, and competitive financial sector.

## 7. Regional and International Cooperation

Regional and international cooperation is continuously represented as a relevant component of the Central Bank of the Republic of Kosovo. Being driven also by the financial global crisis, year 2009 was characterized by an increased activity among the financial sector shareholders. Central Bank of the Republic of Kosovo also was not excluded from these activities, even though it was slightly impacted by this crisis, CBK undertook necessary preventive measures to avoid the crisis impact. During 2009, many international experts visited the CBK, likewise many CBK experts and managers went abroad with the purpose of improving the processes in the CBK aiming at being more efficient and supporting the improvement of financial system in Kosovo.

Year 2009 was also characterized by the 10<sup>th</sup> CBK anniversary whereby a two-day conference was held on this occasion, where many delegations from different countries of the region, from Europe and elsewhere attended it. In this context, it is especially worthy to mention the attendance of the four former international General Directors who used to serve in the CBK. Except the general directors of CBK who have been an important part of the development of financial system in Kosovo, this anniversary was attended by many local and international personalities, including the President of Kosovo, the President of Assembly, the Prime Minister, the Minister of MEF, members of Economy and Finance Committee, ambassadors, diplomats and representatives of different local and international financial institutions. In this context, it is also worth mentioning the presence of the Governor of the Bank of Albania, the Head of Banking Regulatory and Supervision Agency of Turkey. The event was also attended by ambassadors of different countries, including the US Ambassador.

During 2009, the CBK was visited by different international delegations, such as representatives of Financial Market Authority – FMA and of Österreichische Nationalbank OeNB, where cooperation in the area of banking supervision and mutual information exchange were discussed.

The visit to the headquarters of European Bank for Reconstruction and Development in London thereafter, where the annual conference of this bank took place and the Governor of Central Bank of Kosovo attended it as a special guest among the other representatives from 62 countries of the world. Except attending different sessions the Governor of the CBK also attended the meeting of Governing Board of this bank.

The Governor of the CBK with a delegation participated in the spring meeting of IMF and a series of meetings with senior officials of the International Monetary Fund were held, such as that with Managing Deputy Director of IMF, with Executive Directors from many IMF member states, as well as with officials from World Bank. Other meetings were held with Deputy President of the World Bank for Euro-Asia, officials from the State Department, and with officials from USAID, etc. Then the Governor of CBK also attended the 6<sup>th</sup> Economic Forum in Vienna, respectively the third session – a session for governors and bankers as well as the conference “20 years after the collapse of socialist economy, transformation, economic development, and convergences in Poland and other countries of Central and Eastern Europe” in Warsaw, where the Governor had a separate meeting with Mr. Trichet, President of the Central European Bank where situation and developments in the CBK were discussed, then membership in IMF, World Bank, and in the other financial institutions, as well as the possibilities of getting technical assistance by the Central European Bank. Also, the Central Bank of the Republic of Kosovo in cooperation with German Bank for Development KfW, Association of Microfinance Institutions of Kosovo

(AMIK), Frankfurt School for Finance and Management (EFSE) and the representative of commercial banks in Kosovo and other relevant financial institutions, held a one-day conference with the subject “General Financing in Kosovo”.

During 2009, the Governor of the Central Bank of Luxemburg visited the CBK where an Agreement on mutual cooperation between the two institutions was signed therein. Also, the CBK has been visited by the Austrian Ambassador to Kosovo.

The Central Bank of the Republic of Kosovo worked throughout 2009 towards its membership in different international organizations and associations. In this context, it should necessarily be mentioned the CBK' proactive contribution in expediting the membership of the Republic of Kosovo in the International Monetary Fund and in the World Bank (June 2009).

### **7.1. International Agreements**

The Central Bank of the Republic of Kosovo with intention of strengthening the relations with different financial institutions has undertaken initiatives to sign agreements with different countries in the region and other countries. The CBK signed Memorandums of Understanding with the following institutions in 2009:

The current Memorandum of Understanding with the Financial Oversight Authority of Albania (AMF) has been supplemented and it has to do with cooperation and exchange of experiences and information in the area of finance, insurance, pensions, and other areas of relevance for parties included in the MoU.

The Central Bank of Luxemburg – Memorandum of Understanding on provision of trainings, as well as on technical support.

## 8. Financial Statements of the CBK





**Central Bank of the Republic of Kosovo**

**Financial statements**

**as at and for the year ended 31 December 2009**

# Central Bank of the Republic of Kosovo

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## **Independent Auditors' Report**

To the Governing Board of  
the Central Bank of the Republic of Kosovo

Pristina, 19 May 2010

We have audited the accompanying financial statements of the Central Bank of the Republic of Kosovo ("the Bank"), which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

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 comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 4(f) to the financial statements which states that according to Law No. 03/L-074 on the Central Bank of the Republic of Kosovo, the Capital and General Reserve Account of the Bank shall be at least equivalent to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of the Bank at the end of each financial year. As at 31 December 2009 and 2008 this requirement was not satisfied.

*KPMG Albania Shpk Kosovo Branch*

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14, Sulejman Vokshi Street  
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Kosovo

# Central Bank of the Republic of Kosovo

## Statement of financial position

As at 31 December

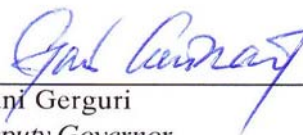
| <i>In thousands of EUR</i>                      | <b>Note</b> | <b>2009</b>      | <b>2008</b>      |
|---|-------------|------------------|------------------|
| <b>Assets</b>                                   |             |                  |                  |
| Cash on hand                                    | 7           | 21,806           | 39,674           |
| Current accounts with non-resident banks        | 8           | 34,899           | 10,403           |
| Treasury bills                                  | 9           | 529,652          | 541,019          |
| Deposit accounts with non-resident banks        | 10          | 487,529          | 519,276          |
| Assets with International Monetary Fund ("IMF") | 11          | 124,482          | -                |
| Property and equipment                          | 12          | 2,115            | 2,087            |
| Intangible assets                               | 13          | 174              | 86               |
| Other assets                                    | 14          | 351              | 406              |
| <b>Total assets</b>                             |             | <b>1,201,008</b> | <b>1,112,951</b> |
| <b>Liabilities</b>                              |             |                  |                  |
| Due to domestic banks                           | 15          | 233,246          | 137,158          |
| Due to IMF related accounts                     | 16          | 124,786          | -                |
| Due to governmental institutions                | 17          | 665,187          | 908,212          |
| Due to public and commercial entities           | 18          | 130,847          | 24,400           |
| Other domestic liabilities                      | 19          | 2,019            | 1,978            |
| <b>Total liabilities</b>                        |             | <b>1,156,085</b> | <b>1,071,748</b> |
| <b>Capital and reserves</b>                     |             |                  |                  |
| Statutory fund                                  | 20          | 30,000           | 30,000           |
| Reserve fund                                    | 21          | 14,923           | 11,203           |
| <b>Total capital and reserves</b>               |             | <b>44,923</b>    | <b>41,203</b>    |
| <b>Total liabilities, capital and reserves</b>  |             | <b>1,201,008</b> | <b>1,112,951</b> |

The notes on pages 5 to 40 are an integral part of these financial statements.

These financial statements set out on pages 1 to 40 were approved by the management of CBK on 24 March 2010 and signed on its behalf by:



Hashim Rexhepi  
Governor



Gani Gerguri  
Deputy Governor

# Central Bank of the Republic of Kosovo

## Statement of comprehensive income

For the year ended 31 December

| <i>In thousands of EUR</i>                       | Note  | 2009           | 2008           |
|--|-------|----------------|----------------|
| Interest income                                  |       | 6,629          | 42,841         |
| Interest expense                                 |       | (2,500)        | (34,063)       |
| Net interest income                              | 22    | 4,129          | 8,778          |
| Fee and commission income                        |       | 2,462          | 884            |
| Fee and commission expense                       |       | (269)          | (215)          |
| Net fee and commission income                    | 23    | 2,193          | 669            |
| Grant revenue                                    | 24    | 24             | 85             |
| Other operating income                           | 25    | 1,340          | 1,087          |
| <b>Operating income</b>                          |       | <b>7,686</b>   | <b>10,619</b>  |
| Personnel expenses                               | 26    | (2,160)        | (1,771)        |
| Depreciation and amortization                    | 12,13 | (505)          | (458)          |
| General and administrative expenses              | 27    | (998)          | (923)          |
| <b>Operating expenses</b>                        |       | <b>(3,663)</b> | <b>(3,152)</b> |
| <b>Profit for the year</b>                       |       | <b>4,023</b>   | <b>7,467</b>   |
| <b>Other comprehensive income/(loss)</b>         |       | <b>(303)</b>   | <b>-</b>       |
| <b>Total comprehensive income for the period</b> |       | <b>3,720</b>   | <b>7,467</b>   |

The notes on pages 5 to 40 are an integral part of these financial statements.

# Central Bank of the Republic of Kosovo

## Statement of changes in equity

| <i>In thousands of euro</i>                                      | <b>Statutory fund</b> | <b>Reserve fund</b> | <b>Retained Earnings</b> | <b>Total</b>  |
|--|-----------------------|---------------------|--------------------------|---------------|
| <b>Balance at 1 January 2008</b>                                 | <b>20,000</b>         | <b>4,590</b>        | <b>9,146</b>             | <b>33,736</b> |
| <b>Total comprehensive income for the period</b>                 |                       |                     |                          |               |
| Profit or loss   | -                     | -                   | 7,467                    | 7,467         |
| <b>Total comprehensive income for the period</b>                 | <b>-</b>              | <b>-</b>            | <b>7,467</b>             | <b>7,467</b>  |
| <b>Transactions required by law, recorded directly in equity</b> |                       |                     |                          |               |
| Transfer to statutory fund                                       | 10,000                | (854)               | (9,146)                  | -             |
| <b>Total transfers to statutory fund</b>                         | <b>10,000</b>         | <b>(854)</b>        | <b>(9,146)</b>           | <b>-</b>      |
| <b>Balance at 31 December 2008</b>                               | <b>30,000</b>         | <b>3,736</b>        | <b>7,467</b>             | <b>41,203</b> |
| <b>Balance at 1 January 2009</b>                                 | <b>30,000</b>         | <b>3,736</b>        | <b>7,467</b>             | <b>41,203</b> |
| <b>Total comprehensive income for the period</b>                 |                       |                     |                          |               |
| Profit or loss   | -                     | -                   | 3,720                    | 3,720         |
| <b>Total comprehensive income for the period</b>                 | <b>-</b>              | <b>-</b>            | <b>3,720</b>             | <b>3,720</b>  |
| <b>Transactions required by law, recorded directly in equity</b> |                       |                     |                          |               |
| Transfer to reserve fund   | -                     | 7,467               | (7,467)                  | -             |
| <b>Total transfer to reserve fund</b>                            | <b>-</b>              | <b>7,467</b>        | <b>(7,467)</b>           | <b>-</b>      |
| <b>Balance at 31 December 2009</b>                               | <b>30,000</b>         | <b>11,203</b>       | <b>3,720</b>             | <b>44,923</b> |

The notes on pages 5 to 40 are an integral part of these financial statements.

# Central Bank of the Republic of Kosovo

## Statement of cash flows

For the year ended 31 December

| <i>In thousands of EUR</i>                         | Note | 2009             | 2008           |
|--|------|------------------|----------------|
| <b>Cash flows from operating activities</b>        |      |                  |                |
| <b>Profit for the period</b>                       |      | 3,720            | 7,467          |
| <i>Adjustments for:</i>                            |      |                  | -              |
| Depreciation                                       | 12   | 444              | 378            |
| Amortization                                       | 13   | 61               | 80             |
| Grant revenue                                      | 24   | (24)             | (85)           |
| Gain on sale of equipment                          |      | (11)             | (5)            |
| Interest income                                    | 22   | (6,629)          | (42,841)       |
| Interest expense                                   | 22   | 2,500            | 34,063         |
|  |      | 61               | (943)          |
| Change in treasury bills                           |      | (15,959)         | (145,749)      |
| Change in deposit accounts with non resident banks |      | (61,824)         | 197,908        |
| Change in assets with IMF                          |      | (124,458)        | -              |
| Change in other assets                             |      | 31               | (111)          |
| Change in due to domestic banks                    |      | 96,088           | 23,604         |
| Change in due to IMF related accounts              |      | 124,761          | -              |
| Change in due to governmental institutions         |      | (243,129)        | 51,482         |
| Change in due to public and commercial entities    |      | 106,648          | (23,835)       |
| Change in other domestic liabilities               |      | 32               | (5,717)        |
|  |      | <b>(117,749)</b> | <b>96,639</b>  |
| Interest received                                  |      | 9,160            | 47,329         |
| Interest paid                                      |      | (2,574)          | (34,209)       |
| <b>Net cash from operating activities</b>          |      | <b>(111,163)</b> | <b>109,759</b> |
| <b>Cash flows from investing activities</b>        |      |                  |                |
| Proceeds from sale of equipment                    |      | 11               | 5              |
| Purchase of equipment                              | 12   | (472)            | (357)          |
| Purchase of intangible assets                      | 13   | (149)            | (44)           |
| <b>Net cash used in investing activities</b>       |      | <b>(610)</b>     | <b>(396)</b>   |
| <b>Cash flows from financing activities</b>        |      |                  |                |
| Proceeds from grants                               | 24   | 33               | 36             |
| <b>Net cash from financing activities</b>          |      | <b>33</b>        | <b>36</b>      |
| <b>Net increase in cash and cash equivalents</b>   |      | <b>(111,740)</b> | <b>109,399</b> |
| Effect of exchange rate                            |      | (303)            | -              |
| Cash and cash equivalents at 1 January             |      | 730,878          | 621,479        |
| <b>Cash and cash equivalents at 31 December</b>    | 28   | <b>618,835</b>   | <b>730,878</b> |

The notes on pages 5 to 40 are an integral part of these financial statements.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

*(in thousands of EUR, unless otherwise stated)*

### 1. Reporting entity

The Central Bank of the Republic of Kosovo (hereinafter "CBK"), the successor to the Central Banking Authority of Kosovo, is an independent juridical entity with full capacity as a legal person under the law applicable in the Republic of Kosovo. CBK is a distinct public entity with the authority to license, supervise and regulate financial institutions in the Republic of Kosovo. The initial predecessor entity of the CBK – the Banking and Payments Authority of Kosovo was established in accordance with the provisions of the United Nations Interim Administration Mission in Kosovo (hereinafter "UNMIK") Regulation no. 1999/20 issued on 15 November 1999, as amended on 1 October 2001 (UNMIK Regulation 2001/24). On 24 August 2006, a new regulation (UNMIK Regulation no. 2006/47) entered into force transforming the Banking and Payments Authority of Kosovo into the Central Banking Authority of Kosovo. On 5 June 2008, Law no. 03/L-074 on the Central Bank of the Republic of Kosovo was adopted by the Assembly of the Republic of Kosovo. As per this law, the principal objectives of CBK are to:

- foster the soundness, solvency and efficient functioning of a stable market-based financial system, encouraging market emergence of safe financial instruments; and
- without prejudice to this, support the general economic policies in Kosovo with a view to contributing to an efficient allocation of resources in accordance with the principle of an open market economy.

CBK has, amongst others, the powers:

- to recommend broad policy guidelines to the assembly and the government in areas under its responsibility;
- to formulate and implement measures for, and oversee and regulate, payments and settlement systems for transactions in domestic and foreign currency in Kosovo;
- to own and operate one or more payment systems;
- to act as banker to the Ministry of Finance and Economy and to provide financial advice at its request;
- to act as fiscal agent to Ministry of Finance and Economy;
- to hold foreign currency deposits of banks, the Ministry of Finance and Economy, and other public entities;
- to ensure an adequate supply of bank notes and coins for the settlement of cash transactions;
- to maintain a depository for safe keeping of currency and securities;
- to license, supervise and regulate financial institutions;
- to conduct regular economic and monetary analysis of the Kosovo economy, make public the results, and submit proposals and measures to the assembly and government on the basis of such analysis;
- to supervise and regulate dealers in foreign exchange, broker-dealers, and mutual funds;
- to approve external auditors of the financial institutions; and
- to set accounting standards for financial institutions in Kosovo in line with international financial reporting standards.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 1. Reporting entity (continued)

CBK operates from its premises located in Pristina. The address of the registered office of CBK is as follows:

33 Garibaldi Street

Pristina, Kosovo.

### *Governing Board*

The Governing Board formulates policies for the operations of CBK and supervises their implementation. The management of CBK is required to report, not less than ten times each year, to the Governing board on the conduct of its operations and policies, on the soundness of the financial system, and on the state of the money, capital and foreign exchange markets, including all events and conditions that have or are expected to have a significant effect on the administration or operations of CBK, the conduct of its policies, the financial system or on the before-mentioned markets and on any other matter that affects or would potentially affect the policies of CBK.

The Governing Board determines policies for the operations of CBK and supervises their implementation. Under the Law No. 03/L-074, the Governing Board is composed of five members. The governing board has the following powers:

- to approve the policies for the execution of the powers of CBK and to supervise their implementation;
- to adopt all rules, orders and guidelines issued by CBK;
- to approve all reports and recommendations that CBK makes to the Assembly and Government;
- to designate, by resolution, at least two non-executive directors to constitute an Audit Committee;
- to approve the organization of CBK;
- to appoint two Deputy Governors upon proposal by the Governor for a term of up to five years;
- to approve the appointment of the Inspector General of CBK for a term of up to five years;
- to approve the budget of CBK;
- to approve the accounting policies of CBK and to approve the periodic reports and financial statements of CBK;
- to decide on the incurrence of debt in material amounts by CBK and the terms and conditions of such debt;
- to approve the categories of assets that shall be suitable for investment by CBK;
- to approve or deny applications for financial institution licenses or registrations and to revoke financial institution licenses or registrations;
- to adopt internal structures, policies and procedures for licensing, registering, supervising and regulating financial institutions, including delegating powers to CBK staff to take corrective actions; and
- to ratify, before their implementation, all enforcement measures prepared by CBK staff, with the exception of those which are specifically under the competence of the Governor by law.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 1. Reporting entity (continued)

#### *Governing Board (continued)*

As at 31 December 2009, the Governing Board of CBK comprised the following members:

- Gazmend Luboteni – Chairman
- Hashim Rexhepi – Governor
- Lulzim Ismajli – Member, Director of Treasury of Ministry of Finance and Economy
- Sejdi Rexhepi – Member
- Mejdin Bektashi – Member

### 2. Basis of preparation

#### **a) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

#### **b) Basis of measurement**

The financial statements have been prepared on the historical cost basis.

#### **c) Functional and presentation currency**

These financial statements are presented in Euro (“EUR”), which is CBK’s functional currency. Except as indicated, financial information presented in Euro has been rounded to the nearest thousand.

#### **d) Use of estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 5.

The accounting policies set out below have been applied consistently to all the periods presented in these financial statements.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies

#### a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

CBK deals predominantly in EUR, while the foreign currencies CBK deals with are predominantly Special Drawing Rights ("SDR") and United States Dollars (USD). The exchange rates used for translation at 31 December 2009 and 2008 were as follows:

|       | <b>2009</b> | <b>2008</b> |
|-------|-------------|-------------|
|       | <b>EUR</b>  | <b>EUR</b>  |
| 1 USD | 0.694       | 0.7 18      |
| 1 SDR | 0.918       | n/a         |

#### b) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the profit or loss include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

#### c) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including transaction fees for operating accounts, fund transfers and licensing fees are recognized as the related services are performed.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### d) Employee benefits

##### *i. Defined contribution plans*

CBK makes compulsory social security contributions that provide pension benefits for employees upon retirement. These contributions are classified under defined contribution plans based on Kosovo legislation. CBK's contributions are charged to profit or loss as incurred.

Additionally CBK recognizes fixed contributions payable into external pension funds. The supplementary contribution rate is 10% of gross salary. These amounts are recognized as expenses when they are due. CBK has no legal or constructive obligation to pay further contributions.

##### *ii. Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

#### e) Taxation and profit allocation

CBK is exempt from income tax according to Law No. 03/L-074 issued on 5 June 2008 which requires CBK to pay any balance of its net income directly to the Ministry of Finance and Economy after allocation to replenish the levels of reserve funds (see note 4 f).

#### f) Financial assets and liabilities

##### *i. Recognition*

CBK initially recognizes deposits on the date they originate. All other financial assets and liabilities are initially recognized on the trade date at which CBK becomes a party to the contractual provisions of the instrument.

##### *ii. Derecognition*

CBK derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by CBK is recognized as a separate asset or liability.

CBK derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

##### *iii. Offsetting*

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position when, and only when, CBK has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### f) Financial assets and liabilities (continued)

##### *iv. Amortized cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction of impairment.

##### *v. Fair value measurement*

The determination of fair values of financial assets and financial liabilities is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. CBK uses widely recognised valuation models for determining the fair value of common and simpler financial instruments. For these financial instruments, inputs into models are market observable.

##### *vi. Identification and measurement of impairment*

At each reporting date CBK assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a placement or advance by CBK on terms that CBK would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in CBK, or economic conditions that correlate with defaults in CBK.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

#### g) Cash and cash equivalents

Cash and cash equivalents include cash balance on hand, demand deposits with banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by CBK in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### h) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for as held-to-maturity.

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that CBK has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss. Held-to-maturity investments include treasury bills.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent CBK from classifying investment securities as held-to-maturity for the current and the following two financial years.

#### i) Property and equipment

##### *i. Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

##### *ii. Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to CBK and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### i) Property and equipment (continued)

##### iii Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:

|                         | 2009     | 2008     |
|-------------------------|----------|----------|
| · Leasehold improvement | 20 years | 20 years |
| · Equipment             | 5 years  | 5 years  |
| · Computers             | 3 years  | 3 years  |
| · Vehicles              | 5 years  | 5 years  |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

#### j) Intangible assets

Software acquired by CBK is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three years (2008: 3 years).

#### k) Impairment

##### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### k) Impairment (continued)

##### (i) Financial assets (continued)

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

##### (ii) Non-financial assets

The carrying amounts of CBK's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### l) Financial liabilities

CBK's sources of funding are from international, governmental, public, banking and other financial institutions. They are initially measured at transaction costs, and subsequently measured at their amortized cost using the effective interest method.

#### m) Grant revenue

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that CBK will comply with the conditions associated with the grant. Grants that compensate CBK for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate CBK for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### n) Donor financed salaries

Certain individuals engaged at CBK are international experts appointed and funded for a short term by international organisations. The funding from these international organisations includes but it is not limited to the payment of salaries to these international experts. As this assistance is paid by the international organisations directly to the appointee, the extent of the payments are not known nor are they included in these financial statements.

#### o) Provisions

A provision is recognised if, as a result of a past event, CBK has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by CBK from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, CBK recognises any impairment loss on the assets associated with that contract.

#### p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective or are not relevant for the year ended 31 December 2009, and have not been applied in preparing these financial statements:

- Amendments to IFRS 2 *Share-based Payment* - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). This revised Standard requires that an entity receiving goods or services in a share-based payment transaction that is settled by any other entity in the group or any shareholder of such an entity in cash or other assets to recognise the goods or services received in its financial statements. Previously group cash-settled share-based payment transactions were not addressed directly in IFRS 2. CBK does not incur any share-based transactions. As such the amendment to this standard is not applicable to CBK
- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. The revised Standard also includes a number of other potentially significant changes including:
  - All items of consideration transferred by the acquirer are recognised and measured at fair value as of the acquisition date, including contingent consideration.
  - Subsequent change in contingent consideration will be recognized in profit or loss.
  - Transaction costs, other than share and debt issuance costs, will be expensed as incurred.
  - The acquirer can elect to measure any non-controlling interest at fair value at the acquisition date (full goodwill), or at its proportionate interest in the fair value of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

This Standard is not relevant to CBK operations.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 3. Significant accounting policies (continued)

#### p) New standards and interpretations not yet adopted

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013, early adoption is permitted) This Standard replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement*, about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable.

- Financial assets will be classified into one of two categories on initial recognition:

- Financial assets measured at amortized cost or financial assets measured at fair value.

A financial asset is measured at amortized cost if the following two conditions are met: the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and, its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Gains and losses on remeasurement of financial assets measured at fair value are recognised in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognised in OCI is ever reclassified to profit or loss at a later date. CBK is in the process of determining the impact of this standard to its operations.

- Revised IAS 24 *Related Party Disclosure* (effective for annual periods beginning on or after 1 January 2011) The amendment exempts government-related entities from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption.

The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. CBK is in the process of determining the impact of this amendment to its operations.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### Significant accounting policies (continued)

#### p) New standards and interpretations not yet adopted

- Revised IAS 27, *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The revisions made to the standard are not expected to impact CBK operations.
- Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010) The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. IAS 32 is not relevant to CBK operations.
- Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 July 2009). The amended standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances. The amendments to IAS 39 are not relevant to the CBK operations as CBK does not apply hedge accounting.
- IAS 17, *Leases* (effective for annual periods beginning on or after 1 January 2010). IAS 17 is amended to delete paragraph 14, which stated that a lease of land with an indefinite economic life is normally classified as an operating lease, unless at the end of the lease term title is expected to pass to the lessee. Under the amendments, a land lease with a lease term of several decades or longer may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangements substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered negligible. The amendment is not expected to be relevant to CBK operations.
- Amendment to IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendment is not expected to be relevant to CBK operations.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### Significant accounting policies (continued)

#### p) New standards and interpretations not yet adopted

- IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective prospectively for annual periods beginning on or after 15 July 2009). The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners. In accordance with the Interpretation a liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity and shall be measured at the fair value of the assets to be distributed. The carrying amount of the dividend payable shall be remeasured at each reporting date, with any changes in the carrying amount recognised in equity as adjustments to the amount of the distribution. When the dividend payable is settled the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable shall be recognised in profit or loss. The amendment is not expected to be relevant to CBK operations.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are *consideration paid* in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The amendment is not expected to be relevant to CBK operations

#### q) Comparatives

The comparative information is presented consistently applying CBK's accounting policies.

## 4. Financial risk management

### a) Introduction and overview

CBK has exposure to the following risks from its use of financial instruments:

- credit risk
- operational risk
- liquidity risk
- market risk

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

This note presents information about CBK's exposure to each of the above risks, CBK's objectives, policies and processes for measuring and managing risk, and CBK's management of capital. Further quantitative disclosures are included throughout these financial statements.

#### *Risk management framework*

The Governing Board has overall responsibility for the establishment and oversight of CBK's risk management framework. CBK management reports regularly to the Governing Board on risk management practice. The Executive Committee and Investment Committee have obligations for developing and monitoring CBK risk management policies. These policies are implemented by the respective organisational units.

CBK's risk management policies are established to identify and analyze the risks faced by CBK, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. CBK, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

CBK's Audit Committee is responsible for monitoring compliance with CBK's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by CBK. CBK's Audit Committee is assisted in these functions by the Internal Audit Directorate. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported through the Inspector General to the Audit Committee.

#### **b) Credit risk**

Credit risk is the risk of financial loss to CBK if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from CBK's investments in securities and deposits in other banks.

#### *Management of credit risk*

##### *i. Investments and exposure to other banks*

CBK limits its exposure to credit risk by investing only in securities issued by the governments of EU countries and having deposits with foreign banks whose short term liabilities are rated in one of the two highest categories by internationally recognized credit rating agencies. Given the high credit ratings, management does not expect any counterparty to fail to meet its obligations.

##### *ii. Exposure to credit risk*

The maximum exposure to credit risk as at 31 December 2009 and 31 December 2008 is presented by the carrying amount of its cash on hand, current accounts with non resident banks, treasury bills and deposit accounts with non resident banks. For details on the exposures see Notes 7, 8, 9 and 10.

None of CBK's exposures are past due or impaired. There are no changes in the credit risk management policies from previous years. CBK does not hold any collateral or other credit enhancements against its exposure to credit risk.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### c) Liquidity risk

Liquidity risk is the risk that CBK will encounter difficulty in meeting obligations from its financial liabilities.

#### *Management of liquidity risk*

CBK's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to CBK's reputation.

Policies to monitor and address liquidity risk are set by the Governing Board. CBK manages its liquidity risk by investing in short term deposits with non resident banks and holding adequate quantity of cash in its vaults. Liquidity management policies are set to ensure that even under adverse conditions, CBK is in a position to meet its obligations.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by CBK management. Daily reports covering the liquidity position of CBK are regularly submitted to the Investment Committee members by the Asset Management Directorate.

#### *Exposure to liquidity risk*

#### Residual contractual maturities of financial liabilities

|                                       | Note | Carrying amount  | Less than 1 month | 1-3 months     | 3 Months to 1 year |
|---------------------------------------|------|------------------|-------------------|----------------|--------------------|
| <b>31 December 2009</b>               |      |                  |                   |                |                    |
| <i>Non-derivative liabilities</i>     |      |                  |                   |                |                    |
| Due to domestic banks                 | 15   | 233,246          | 233,246           | -              | -                  |
| Due to IMF related accounts           | 16   | 124,786          | 124,786           | -              | -                  |
| Due to governmental institutions      | 17   | 665,187          | 540,084           | 50,024         | 75,079             |
| Due to public and commercial entities | 18   | 130,847          | 130,847           | -              | -                  |
| Other domestic liabilities            | 19   | 2,019            | 2,019             | -              | -                  |
|                                       |      | <b>1,156,085</b> | <b>1,030,982</b>  | <b>50,024</b>  | <b>75,079</b>      |
| <b>31 December 2008</b>               |      |                  |                   |                |                    |
| <i>Non-derivative liabilities</i>     |      |                  |                   |                |                    |
| Due to domestic banks                 | 15   | 137,158          | 137,158           | -              | -                  |
| Due to governmental institutions      | 17   | 908,212          | 640,642           | 109,714        | 157,855            |
| Due to public and commercial entities | 18   | 24,400           | 22,554            | 1,846          | -                  |
| Other domestic liabilities            | 19   | 1,978            | 1,978             | -              | -                  |
|                                       |      | <b>1,071,748</b> | <b>802,332</b>    | <b>111,560</b> | <b>157,855</b>     |

The previous table shows the undiscounted cash flows of CBK's financial liabilities on the basis of their earliest possible contractual maturity. The Gross nominal inflow / (outflow) disclosed in the previous table represents the contractual undiscounted cash flows relating to the financial liability or commitment. To manage the liquidity risk arising from financial liabilities, the CBK holds liquid assets comprising cash and cash equivalent and investment in securities for which there is an active and liquid market.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### c) Liquidity risk (continued)

##### *Volatility in the global and Kosovo 's financial markets*

The global financial and economic crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, central banks interest rate cuts to help borrowers, government capital injection, higher interbank saving rates and volatility in stock markets. Further adverse developments resulting from the crisis might result in negative implications on the financial and liquidity position of the CBK.

#### d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect CBK's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

##### *Management of market risks*

CBK's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities, there is exposure to basis risk, which is the difference in repricing characteristics of the various floating rate indices.

Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with CBK's operations strategies.

CBK exposure to market risk is related only to non-trading portfolios.

##### *Exposure to interest rate risk non-trading portfolios*

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Investment Committee is the monitoring body for compliance with these limits. A summary of CBK's interest rate gap position on non-trading portfolios is as follows:

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### (d) Market risks (continued)

##### Exposure to interest rate risk-non-trading portfolios (continued)

|  | Note | Carrying amount    | Less than 3 months | 3-6 months       | 6-12 months     |
|--|------|--------------------|--------------------|------------------|-----------------|
| <b>31 December 2009</b>                  |      |                    |                    |                  |                 |
| Cash on hand                             | 7    | 21,806             | 21,806             | -                | -               |
| Current accounts with non-resident banks | 8    | 34,899             | 34,899             | -                | -               |
| Treasury bills                           | 9    | 529,652            | 149,940            | 379,712          | -               |
| Deposit accounts with non-resident banks | 10   | 487,529            | 412,270            | 50,208           | 25,051          |
| Assets with IMF                          | 11   | 124,482            | 124,482            | -                | -               |
| <b>Total</b>                             |      | <b>1,198,368</b>   | <b>743,397</b>     | <b>429,920</b>   | <b>25,051</b>   |
|  |      | (233,246)          | (233,246)          | -                | -               |
| Due to domestic banks                    | 15   |                    |                    |                  |                 |
| Due to IMF related accounts              | 16   | (124,786)          | (124,786)          | -                | -               |
| Due to governmental institutions         | 17   | (665,187)          | (590,108)          | (50,028)         | (25,051)        |
| Due to public and commercial entities    | 18   | (130,847)          | (130,847)          | -                | -               |
| Other domestic liabilities               | 19   | (2,019)            | (2,019)            | -                | -               |
| <b>Total</b>                             |      | <b>(1,156,085)</b> | <b>(1,081,006)</b> | <b>(50,028)</b>  | <b>(25,051)</b> |
| <b>Gap</b>                               |      | <b>42,283</b>      | <b>(337,610)</b>   | <b>379,892</b>   | <b>-</b>        |
| <b>31 December 2008</b>                  |      |                    |                    |                  |                 |
| Cash on hand                             | 7    | 39,674             | 39,674             | -                | -               |
| Current accounts with non-resident banks | 8    | 10,403             | 10,403             | -                | -               |
| Treasury bills                           | 9    | 541,019            | 175,559            | 335,881          | 29,579          |
| Deposit accounts with non-resident banks | 10   | 519,276            | 505,242            | 1,829            | 12,205          |
| <b>Total</b>                             |      | <b>1,110,372</b>   | <b>730,878</b>     | <b>337,710</b>   | <b>41,784</b>   |
|  |      | (137,158)          | (137,158)          | -                | -               |
| Due to domestic banks                    | 15   |                    |                    |                  |                 |
| Due to governmental institutions         | 17   | (908,212)          | (750,357)          | (157,855)        | -               |
| Due to public and commercial entities    | 18   | (24,400)           | (24,400)           | -                | -               |
| Other domestic liabilities               | 19   | (1,978)            | (1,978)            | -                | -               |
| <b>Total</b>                             |      | <b>(1,071,748)</b> | <b>(913,893)</b>   | <b>(157,855)</b> | <b>-</b>        |
| <b>Gap</b>                               |      | <b>38,624</b>      | <b>(183,015)</b>   | <b>179,855</b>   | <b>41,784</b>   |

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### d) Market risks (continued)

Overall non-trading interest rate risk positions are managed by the Asset Management Directorate, which uses investment securities and placements with banks to manage the overall position arising from CBK's non-trading activities.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant financial position) is as follows:

| 2009                           | up to 1 Year scenarios |                    | over 1 Year scenarios |                    |
|--------------------------------|------------------------|--------------------|-----------------------|--------------------|
|                                | 100 bp<br>Increase     | 100 bp<br>decrease | 100 bp<br>increase    | 100 bp<br>Decrease |
| Estimated Profit (loss) effect | 124                    | (124)              | -                     | -                  |

| 2008                           | up to 1 Year scenarios |                    | over 1 Year scenarios |                    |
|--------------------------------|------------------------|--------------------|-----------------------|--------------------|
|                                | 100 bp<br>Increase     | 100 bp<br>decrease | 100 bp<br>increase    | 100 bp<br>Decrease |
| Estimated Profit (loss) effect | 95                     | (95)               | -                     | -                  |

#### Exposure to other market risks/currency risk-non-trading portfolios

CBK is exposed to currency risk through transactions in foreign currencies. CBK ensures that the net exposure is kept to an acceptable level by buying or selling foreign currency at spot when necessary to address short-term imbalances. CBK's exposure to foreign currency risk is as follows:

| 31 December 2009                         | EUR              | SDR            | Total            |
|--|------------------|----------------|------------------|
| <b>Assets</b>                            |                  |                |                  |
| Cash on hand                             | 21,806           | -              | 21,806           |
| Current accounts with non-resident banks | 34,899           | -              | 34,899           |
| Treasury bills                           | 529,652          | -              | 529,652          |
| Deposit accounts with non-resident banks | 487,529          | -              | 487,529          |
| Assets with IMF                          | -                | 124,482        | 124,482          |
| Other assets                             | 351              | -              | 351              |
| <b>Total</b>                             | <b>1,074,237</b> | <b>124,482</b> | <b>1,198,719</b> |
| <b>Liabilities</b>                       |                  |                |                  |
| Due to domestic banks                    | 233,246          | -              | 233,246          |
| Due to IMF related accounts              | 49,099           | 75,687         | 124,786          |
| Due to governmental institutions         | 665,187          | -              | 665,187          |
| Due to public and commercial entities    | 130,847          | -              | 130,847          |
| Other domestic liabilities               | 2,019            | -              | 2,019            |
| <b>Total</b>                             | <b>1,080,398</b> | <b>75,687</b>  | <b>1,156,085</b> |
| <b>Net foreign currency position</b>     | <b>(6,161)</b>   | <b>48,795</b>  | <b>42,634</b>    |

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### (d) Market risks (continued)

##### Exposure to other market risks/currency risk – non-trading portfolios (continued)

|  | EUR              | SDR      | Total            |
|--|------------------|----------|------------------|
| <b>31 December 2008</b>                  |                  |          |                  |
| <b>Assets</b>                            |                  |          |                  |
| Cash on hand                             | 39,674           | -        | 39,674           |
| Current accounts with non-resident banks | 10,403           | -        | 10,403           |
| Treasury bills                           | 541,019          | -        | 541,019          |
| Deposit accounts with non-resident banks | 519,276          | -        | 519,276          |
| Other assets                             | 406              | -        | 406              |
| <b>Total</b>                             | <b>1,110,778</b> | <b>-</b> | <b>1,110,778</b> |
| <b>Liabilities</b>                       |                  |          |                  |
| Due to domestic banks                    | 137,158          | -        | 137,158          |
| Due to governmental institutions         | 908,212          | -        | 908,212          |
| Due to public and commercial entities    | 24,400           | -        | 24,400           |
| Other domestic liabilities               | 1,978            | -        | 1,978            |
| <b>Total</b>                             | <b>1,071,748</b> | <b>-</b> | <b>1,071,748</b> |
| <b>Net foreign currency position</b>     | <b>39,030</b>    | <b>-</b> | <b>39,030</b>    |

#### (e) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with CBK's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of CBK's operations and are faced by all organization units.

CBK's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to CBK's reputation with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to managerial staff within each organization unit. This responsibility is supported by the development of overall CBK standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial actions;
- development of contingency plans;
- training and professional development;
- ethical and conduct standards; and
- risk mitigation, including insurance where this is effective.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

*(in thousands of EUR, unless otherwise stated)*

### 4. Financial risk management (continued)

#### e) Operational risks (continued)

Compliance with CBK standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management of the organization unit to which they relate, with summaries submitted to the Audit Committee and CBK management.

#### f) Capital management

##### *Regulatory capital*

Law no. 03/L-074 on the Central Bank of the Republic of Kosovo, approved on 5 June 2008 by the Assembly of the Republic of Kosovo, sets the capital requirements of CBK. According to this law, the authorised capital of CBK is EUR 30 million. According to legal provisions, the capital and the general reserve accounts shall be at least equivalent to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of CBK by account holders shown on the statement of financial position of CBK for the end of each financial year. The capital may be increased by such amounts as may be determined by the CBK Governing Board and approved by the Government. CBK capital is not subject to encumbrance.

No reduction of capital can be effected except by promulgation of legislation adopted by the Assembly. Whenever:

- on a monthly pro forma statement of financial position of CBK the value of its assets falls below the sum of its liabilities and its unimpaired authorised capital;
- the net profit of CBK for any financial year is insufficient to increase the capital and general reserve accounts of CBK to a level equivalent to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of CBK by account holders shown on the statement of financial position of CBK at the end of that financial year. The Ministry of Economy and Finance shall, within one month after publication of those financial statements, make a capital contribution to CBK in such amount or amounts as shall be necessary to remedy this deficit.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

(in thousands of EUR, unless otherwise stated)

### 4. Financial risk management (continued)

#### f) Capital management (continued)

##### Regulatory capital (continued)

CBK's regulatory capital position at 31 December is as follows:

|                                    | Note | 2009          | 2008          |
|------------------------------------|------|---------------|---------------|
| <b>Capital and general reserve</b> |      |               |               |
| Statutory fund                     | 20   | 30,000        | 30,000        |
| Reserve fund                       | 21   | 11,203        | 3,736         |
| Retained earnings                  |      | 3,720         | 7,467         |
| <b>Total</b>                       |      | <b>44,923</b> | <b>41,203</b> |

##### Accounts maintained in the books of CBK as at 31 December

|                                       |    |                  |                  |
|---------------------------------------|----|------------------|------------------|
| Due to domestic banks                 | 15 | 233,246          | 137,158          |
| Due to IMF related accounts           | 16 | 124,786          | -                |
| Due to governmental institutions      | 17 | 665,187          | 908,212          |
| Due to public and commercial entities | 18 | 130,847          | 24,400           |
| Other domestic liabilities            | 19 | 1,745            | 1,695            |
| <b>Total</b>                          |    | <b>1,155,811</b> | <b>1,071,465</b> |

**Capital/Accounts maintained in the books of CBK as at 31 December** **3.89%** **3.85%**

**Ratio required as per law** **5%** **5%**

Other domestic liabilities disclosed in the previous table do not include the balances which related to 'Deferred grant revenue' and 'Sundry creditors and accruals.'

As per Law no. 03/L-074, the net income or the net loss of CBK is calculated in accordance with International Financial Reporting Standards (IFRS).

Net income is allocated in each year to a general reserve account until the capital and general reserve accounts are equal to five percent of the aggregate amount of the credit balances of all accounts maintained on the books of the CBK by account holders shown on the Statement of financial position of the CBK for the end of each financial year.

Any balance of net realized income is required to be transferred to the Ministry of Economy and Finance. If there is a net realized loss, it is required to be charged to the general reserve account or to capital, in that order.

# Central Bank of the Republic of Kosovo

## Note to the financial statements

*(in thousands of EUR, unless otherwise stated)*

### 5. Use of estimates and judgments

Management discusses with the Governing Board the development, selection and disclosure of CBK's critical accounting policies and estimates, and the application of these policies and estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

These disclosures supplement the commentary on financial risk management (see note 4).

### Key sources of estimation uncertainty

#### Allowances for impairment losses on loans and advances

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(f)(vi).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation. In case any asset is impaired, it is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by management.

### Critical accounting judgments in applying CBK's accounting policies

Critical accounting judgements made in applying CBK's accounting policies include:

#### Financial asset and liability classification

CBK's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets as held-to-maturity, CBK has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(h).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

### 6. Financial assets and liabilities

#### Accounting classifications and fair values

The table below sets out CBK's classification of each class of financial assets and liabilities, and their fair values.

| <i>In thousands of EUR</i>               | Note | Loans and<br>receivables | Held-to-maturity | Other<br>amortized cost | Total carrying<br>amount | Fair value       |
|--|------|--------------------------|------------------|-------------------------|--------------------------|------------------|
| <b>31 December 2009</b>                  |      |                          |                  |                         |                          |                  |
| Cash on hand                             | 7    | 21,806                   | -                | -                       | 21,806                   | 21,806           |
| Current accounts with non-resident banks | 8    | 34,899                   | -                | -                       | 34,899                   | 34,899           |
| Treasury bills                           | 9    | -                        | 529,652          | -                       | 529,652                  | 529,275          |
| Deposit accounts with non-resident banks | 10   | 487,529                  | -                | -                       | 487,529                  | 487,529          |
| Assets with IMF                          | 11   | 124,482                  | -                | -                       | 124,482                  | 124,482          |
|  |      | <b>668,716</b>           | <b>529,652</b>   | <b>-</b>                | <b>1,198,368</b>         | <b>1,197,991</b> |
| Due to domestic banks                    | 15   | -                        | -                | 233,246                 | 233,246                  | 233,246          |
| Due to IMF related accounts              | 16   | -                        | -                | 124,786                 | 124,786                  | 124,786          |
| Due to governmental institutions         | 17   | -                        | -                | 665,187                 | 665,187                  | 665,187          |
| Due to public and commercial entities    | 18   | -                        | -                | 130,847                 | 130,847                  | 130,847          |
| Other domestic liabilities               | 19   | -                        | -                | 1,745                   | 1,745                    | 1,745            |
|  |      | <b>-</b>                 | <b>-</b>         | <b>1,155,811</b>        | <b>1,155,811</b>         | <b>1,155,811</b> |
| <b>31 December 2008</b>                  |      |                          |                  |                         |                          |                  |
| Cash on hand                             | 7    | 39,674                   | -                | -                       | 39,674                   | 39,674           |
| Current accounts with non-resident banks | 8    | 10,403                   | -                | -                       | 10,403                   | 10,403           |
| Treasury bills                           | 9    | -                        | 541,019          | -                       | 541,019                  | 541,759          |
| Deposit accounts with non-resident banks | 10   | 519,276                  | -                | -                       | 519,276                  | 519,276          |
|  |      | <b>569,353</b>           | <b>541,019</b>   | <b>-</b>                | <b>1,110,372</b>         | <b>1,111,112</b> |
| Due to domestic banks                    | 15   | -                        | -                | 137,158                 | 137,158                  | 137,158          |
| Due to governmental institutions         | 17   | -                        | -                | 908,212                 | 908,212                  | 908,212          |
| Due to public and commercial entities    | 18   | -                        | -                | 24,400                  | 24,400                   | 24,400           |
| Other domestic liabilities               | 19   | -                        | -                | 1,695                   | 1,695                    | 1,695            |
|  |      | <b>-</b>                 | <b>-</b>         | <b>1,071,465</b>        | <b>1,071,465</b>         | <b>1,071,465</b> |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

### 7. Cash on hand

Cash on hand is all denominated in EUR.

### 8. Current accounts with non-resident banks

These accounts were held at the following banks:

|                        | 2009          | 2008          |
|------------------------|---------------|---------------|
| Deutsche Bundesbank    | 34,369        | 9,436         |
| Raiffeisen Zentralbank | 145           | 161           |
| Svenska Handelsbanken  | -             | 130           |
| Commerzbank            | 381           | 676           |
| Banque De France       | 4             | -             |
| <b>Total</b>           | <b>34,899</b> | <b>10,403</b> |

All current accounts have credit rating as per 2009 ranking of and above A-1/P-1 (Standard & Poors/Moody' s ratings) at 29 December.

### 9. Treasury bills

Treasury bills are debt securities issued by governments of European Union countries. They have maturities up to twelve months and they are to be held until maturity. All bills are denominated in EUR and have effective interest rates ranging from 0.199% to 1.490% (2008: 1.83% to 4.37%).

Treasury bills are issued by governments of European Union countries as follows:

|                 | 2009           | 2008           |
|-----------------|----------------|----------------|
| Germany         | 99,924         | 69,537         |
| France          | 164,952        | 84,929         |
| The Netherlands | 99,929         | 54,904         |
| Italy           | -              | 67,128         |
| Portugal        | -              | 43,836         |
| Belgium         | 164,847        | 220,685        |
| <b>Total</b>    | <b>529,652</b> | <b>541,019</b> |

The CBK invests in treasury bills with a minimum credit rating of AA (Standard & Poor's rating).

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 9. Treasury bills (continued)

Treasury bills at 31 December 2009 include an amount of EUR nil (2008: EUR 267,893 thousand) that represents treasury bills purchased by the CBK for the Ministry of Finance and Economy (the "Ministry"). Based on a Memorandum of Understanding (MoU) signed with the Ministry the CBK acts as an Investment Manager of the funds of the Ministry. In January 2010 the parties made changes to the MoU, article III - *Allocation of Risk*. Based on this change for investments made pursuant to this MoU that are in compliance with risk management provisions of the CBK Investment Policy, the related credit risk will be borne by the CBK and these investments will be recorded in the CBK accounts. Based on the MoU, the CBK also assumes responsibility for the proper operation of the Assets Management Directorate, a CBK division, and for the timely purchase, settlement, payment and accounting of all invested amounts of the Kosovo Consolidated Budget.

## 10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed of:

|  | 2009           | 2008           |
|--|----------------|----------------|
| <b>Time deposits</b>                     |                |                |
| Raiffeisen Zentralbank                   | 56,500         | 29,700         |
| Svenska Handelsbanken                    | -              | 166,200        |
| ING Bank                                 | -              | 21,735         |
| Deutsche Bundesbank                      | -              | 50,300         |
| KBC                                      | 48,835         | 41,571         |
| Rabobank                                 | 10,003         | 96,579         |
| Danske Bank                              | 87,097         | 46,813         |
| Commerzbank                              | 4,100          | 65,700         |
| Banque de France                         | 150,824        | -              |
| Banque Centrale du Luxembourg            | 130,057        | -              |
|  | <b>487,416</b> | <b>518,598</b> |
| <b>Interest accrued on time deposits</b> |                |                |
| Raiffeisen Zentralbank                   | -              | 153            |
| Svenska Handelsbanken                    | -              | 92             |
| ING Bank                                 | -              | 2              |
| Deutsche Bundesbank                      | -              | 95             |
| KBC                                      | 52             | 5              |
| Rabobank                                 | -              | 319            |
| Danske Bank                              | 2              | 6              |
| Commerzbank                              | -              | 6              |
| Banque de France                         | 31             | -              |
| Banque Centrale du Luxembourg            | 28             | -              |
|  | <b>113</b>     | <b>678</b>     |
| <b>Total</b>                             | <b>487,529</b> | <b>519,276</b> |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

*(In thousands of EUR, unless otherwise stated)*

#### 10. Deposit accounts with non-resident banks (continued)

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 0.05% to 2.05% (2008: 1.41% to 5.00%) and have original maturities from 1 to 186 days (2008: from 1 to 355 days). All deposits have credit rating as per 2009 ranking of A-1/P-1 (Standard & Poors/Moody's ratings) at 29 December.

#### 11. Assets with IMF

|                  | 2009           | 2008     |
|------------------|----------------|----------|
| IMF quota        | 64,205         | -        |
| SDR Holdings     | 60,253         | -        |
| Accrued Interest | 24             | -        |
| <b>Total</b>     | <b>124,482</b> | <b>-</b> |

The assets listed above relate to the admission of Kosovo to the IMF in June 2009. In relation to the membership of Kosovo in the IMF, the CBK acts as depository and the fiscal agent. This is in accordance with the Law No. 03/L-074 on the Central Bank of the Republic of Kosovo and the Law No. 03-L-152 on Membership of the Republic of Kosovo in the International Monetary Fund and World Bank Group Organizations.

IMF Quota represents an one-time subscription determined at the time of admission. SDR Holdings represent assets approved by IMF Board of Governors as per allocations of SDRs to IMF's member countries on 28 August and 9 September 2009.

IMF quota – reserve tranche position and SDR Holdings bear annual interest rates of 0.22% - 0.31%.

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 12. Property and equipment

Property and equipment is composed as follows:

|                                    | Leasehold<br>improvement | Equipment    | Computers  | Vehicles   | Total        |
|------------------------------------|--------------------------|--------------|------------|------------|--------------|
| <b>Cost</b>                        |                          |              |            |            |              |
| Balance at 1 January 2008          | 1,279                    | 1,271        | 445        | 119        | 3,114        |
| Acquisitions                       | -                        | 188          | 169        | -          | 357          |
| Disposals                          | -                        | -            | (1)        | (12)       | (13)         |
| <b>Balance at 31 December 2008</b> | <b>1,279</b>             | <b>1,459</b> | <b>613</b> | <b>107</b> | <b>3,458</b> |
| Balance at 1 January 2009          | 1,279                    | 1,459        | 613        | 107        | 3,458        |
| Acquisitions                       | -                        | 84           | 166        | 222        | 472          |
| Disposals                          | -                        | -            | -          | (43)       | (43)         |
| <b>Balance at 31 December 2009</b> | <b>1,279</b>             | <b>1,543</b> | <b>779</b> | <b>286</b> | <b>3,887</b> |
| <b>Depreciation</b>                |                          |              |            |            |              |
| Balance at 1 January 2008          | 64                       | 572          | 303        | 67         | 1,006        |
| Depreciation for the period        | 64                       | 203          | 94         | 17         | 378          |
| Disposals                          | -                        | -            | (1)        | (12)       | (13)         |
| <b>Balance at 31 December 2008</b> | <b>128</b>               | <b>775</b>   | <b>396</b> | <b>72</b>  | <b>1,371</b> |
| Balance at 1 January 2009          | 128                      | 775          | 396        | 72         | 1,371        |
| Depreciation for the period        | 64                       | 217          | 127        | 36         | 444          |
| Disposals                          | -                        | -            | -          | (43)       | (43)         |
| <b>Balance at 31 December 2009</b> | <b>192</b>               | <b>992</b>   | <b>523</b> | <b>65</b>  | <b>1,772</b> |
| <b>Carrying amounts</b>            |                          |              |            |            |              |
| <b>Balance at 1 January 2008</b>   | <b>1,215</b>             | <b>699</b>   | <b>142</b> | <b>52</b>  | <b>2,108</b> |
| <b>Balance at 31 December 2008</b> | <b>1,151</b>             | <b>684</b>   | <b>217</b> | <b>35</b>  | <b>2,087</b> |
| <b>Balance at 31 December 2009</b> | <b>1,087</b>             | <b>551</b>   | <b>256</b> | <b>221</b> | <b>2,115</b> |

Lease hold improvement of assets relate to security improvements of CBK's office building. According to article three of Law no. 03/L-074, CBK, for its official business purposes, utilizes and administers the property and facilities, including moveable and immovable property, located at Garibaldi Street 33, Pristina, Kosovo.

There are no assets pledged as collateral as at 31 December 2009 (2008: none).

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

#### 13. Intangible assets

Intangible assets are composed as follows:

|                                    | Software Under<br>Development | Software     | Total        |
|------------------------------------|-------------------------------|--------------|--------------|
| <b>Cost</b>                        |                               |              |              |
| Balance at 1 January 2008          | -                             | 1,017        | 1,017        |
| Acquisitions                       | 25                            | 19           | 44           |
| <b>Balance at 31 December 2008</b> | <b>25</b>                     | <b>1,036</b> | <b>1,061</b> |
| Balance at 1 January 2009          | 25                            | 1,036        | 1,061        |
| Acquisitions                       | -                             | 149          | 149          |
| <b>Balance at 31 December 2009</b> | <b>25</b>                     | <b>1,185</b> | <b>1,210</b> |
| <b>Amortization</b>                |                               |              |              |
| Balance at 1 January 2008          | -                             | 895          | 895          |
| Amortization for the period        | -                             | 80           | 80           |
| <b>Balance at 31 December 2008</b> |                               | <b>975</b>   | <b>975</b>   |
| Balance at 1 January 2009          | -                             | 975          | 975          |
| Amortization for the period        | -                             | 61           | 61           |
| <b>Balance at 31 December 2009</b> | <b>-</b>                      | <b>1,036</b> | <b>1,036</b> |
| <b>Carrying amounts</b>            |                               |              |              |
| <b>Balance at 1 January 2008</b>   | <b>-</b>                      | <b>122</b>   | <b>122</b>   |
| <b>Balance at 31 December 2008</b> | <b>25</b>                     | <b>61</b>    | <b>86</b>    |
| <b>Balance at 31 December 2009</b> | <b>25</b>                     | <b>174</b>   | <b>174</b>   |

#### 14. Other assets

Other assets are composed as follows:

|                                     | 2009       | 2008       |
|-------------------------------------|------------|------------|
| Accrued fee income                  | 333        | 357        |
| Accounts receivable and prepayments | 18         | 49         |
| <b>Total</b>                        | <b>351</b> | <b>406</b> |

Accrued fee income represents the estimated license renewal fee and other fees for the fourth quarter from local financial institutions.

#### 15. Due to domestic banks

Under CBK supervision Banking Rule XVII, commercial banks operating in Kosovo are required to maintain a liquidity reserve amounting to 10% of their qualifying customer deposits. At least half of these reserve balances must be kept in accounts at CBK.

CBK shall pay interest on the balances held at CBK up to the amount of the 10% minimum required reserve ratio. The annual interest rate as at 31 December 2009 was 0.10% (31 December

# Central Bank of the Republic of Kosovo

2008: 1.25%).

(In thousands of EUR, unless otherwise stated)

## 15. Due to domestic banks

|  | 2009           | 2008           |
|--|----------------|----------------|
| ProCredit Bank Kosovo                        | 54,138         | 25,117         |
| Raiffeisen Bank Kosovo                       | 53,005         | 23,875         |
| NLB Prishtina                                | 18,697         | 7,699          |
| Komercijalna Banka Bg Mitrovica Branch       | 2,396          | 1,132          |
| Banka Ekonomike e Prishtinës                 | 5,913          | 2,191          |
| Banka për Biznes                             | 5,578          | 2,025          |
| Banka Kombëtare Tregtare e Shqipërisë        | 3,354          | 352            |
| Turk Ekonomi Bankasi Sh.A                    | 9,226          | 1,381          |
| <b>Total liquidity required reserves</b>     | <b>152,307</b> | <b>63,772</b>  |
| <b>Additions on current accounts</b>         |                |                |
| ProCredit Bank Kosovo                        | 42,777         | 34,242         |
| Raiffeisen Bank Kosovo                       | 2,568          | 12,438         |
| NLB Prishtina                                | 1,838          | 7,023          |
| Banka Ekonomike e Prishtinës                 | 8,096          | 1,520          |
| Banka për Biznes                             | 16,868         | 10,164         |
| Banka Kreditore e Prishtinës in Receivership | 59             | 226            |
| Banka Kombëtare Tregtare Prishtina Branch    | 2,518          | 4,852          |
| Komercijalna Banka - Mitrovica Branch        | 130            | 1,179          |
| Turk Ekonomi Bankasi Sh.A                    | 6,085          | 1,742          |
| <b>Total additions to current accounts</b>   | <b>80,939</b>  | <b>73,386</b>  |
| <b>Total on current accounts</b>             | <b>233,246</b> | <b>137,158</b> |

## 16. Due to IMF Related accounts

|                      | 2009           | 2008     |
|----------------------|----------------|----------|
| IMF Security Account | 49,099         | -        |
| Reserve Position     | 15,409         | -        |
| IMF SDR Allocation   | 60,253         | -        |
| Accrued Interest     | 25             | -        |
| <b>Total</b>         | <b>124,786</b> | <b>-</b> |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

#### 16. Due to IMF Related accounts (continued)

The amounts mentioned above relate to the admission of Kosovo to the IMF in June 2009. IMF Security Account represents a promissory note to be paid by the Kosovo Government upon IMF's request.

Reserve Position corresponds to the reserve asset portion of the IMF Quota subscription (see Note 11), which was paid by the Kosovo Government.

SDR Allocation represent allocations of SDRs to IMF's member countries as approved by IMF Board of Governors on 28 August and 9 September 2009.

SDR Allocations are interest-bearing with annual interest rates of 0.22% - 0.31%.

#### 17. Due to governmental institutions

Due to governmental institutions include current accounts from the following:

| <i>Current accounts</i>         | <b>2009</b>    | <b>2008</b>    |
|---------------------------------|----------------|----------------|
| Ministry of Finance and Economy | 88,245         | 403,610        |
| Privatization Agency of Kosovo  | 451,041        | 498,425        |
| Interim institutions            | 797            | 6,177          |
| <b>Total current accounts</b>   | <b>540,083</b> | <b>908,212</b> |

| <i>Time Deposits</i>            | <b>2009</b>    | <b>2008</b>    |
|---------------------------------|----------------|----------------|
| Ministry of Finance and Economy | 125,104        | -              |
| <b>Total time deposits</b>      | <b>125,104</b> | -              |
| <b>Total</b>                    | <b>665,187</b> | <b>908,212</b> |

The effective interest rate for current accounts as at 31 December 2009 is 0.10% (31 December 2008: 1.25%). For time deposits is 0.20% - 1.30% in 2009, (for 2008 not applicable).

#### 18. Due to public and commercial entities

Due to public and commercial entities include current accounts and time deposits from the following:

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 19. Due to public and commercial entities (continued)

|                                | 2009           | 2008          |
|--------------------------------|----------------|---------------|
| <b><i>Current accounts</i></b> |                |               |
| Insurance companies            | 7,664          | 15,394        |
| Public utility corporations    | 506            | 1,535         |
| Pension funds                  | 122,676        | 67            |
| Other                          | 2              | 2             |
|                                | <b>130,847</b> | <b>16,998</b> |
| <b><i>Time deposits</i></b>    |                |               |
| Insurance companies            | -              | 7,402         |
|                                | -              | <b>7,402</b>  |
| <b>Total</b>                   | <b>130,847</b> | <b>24,400</b> |

The effective interest rate for current accounts as at 31 December 2009 is 0.10% (31 December 2008: 1.25%) and for time deposits is not applicable (31 December 2008: 3.95 and 4.45%).

## 20. Other domestic liabilities

|   | 2009         | 2008         |
|---|--------------|--------------|
| Other liabilities to the government               | 1,210        | 1,162        |
| Deferred grant revenue                            | 9            | -            |
| Liabilities to the former National Bank of Kosovo | 496          | 495          |
| Sundry creditors and accruals                     | 265          | 283          |
| Other domestic liabilities                        | 39           | 38           |
| <b>Total</b>                                      | <b>2,019</b> | <b>1,978</b> |

The balance due to the government represents rent and supervisory penalties which were collected by the CBK.

Liabilities to the former National Bank of Kosovo arise from the following. Upon inception, CBK inherited certain amounts of cash, in various currencies, from the former National Bank of Kosovo. Also included in this balance is the related interest accumulated since 5 January 2004. The cash was initially converted into DEM 872 thousand on 22 December 2000 and subsequently translated to euro. The balance of the account as at 1 January 2002 was converted to EUR 446 thousand and the resulting balance as at 31 December 2009 and 31 December 2008 includes this balance and interest earned as at those dates.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

#### 19. Other domestic liabilities (continued)

The movement in deferred grant revenue was as follows:

|   | Ministry of Economy<br>and Finance | World Bank | Total    |
|---|------------------------------------|------------|----------|
| Deferred grant revenue at 1 January 2008          | -                                  | 49         | 49       |
| Grants received during the year                   | 36                                 | -          | 36       |
| Grant revenue for the year                        | (36)                               | (49)       | (85)     |
| <b>Deferred grant revenue at 31 December 2008</b> | <b>-</b>                           | <b>-</b>   | <b>-</b> |
| Deferred grant revenue at 1 January 2009          | -                                  | -          | -        |
| Grants received during the year                   | 33                                 | -          | 33       |
| Grant revenue for the year                        | (24)                               | -          | (24)     |
| <b>Deferred grant revenue at 31 December 2009</b> | <b>9</b>                           | <b>-</b>   | <b>9</b> |

#### 20. Statutory fund

Based on provisions of the UNMIK Regulation no. 2006/47, the initial statutory fund of CBK, totaling DEM 5,000 thousand (EUR 2,556 thousand), was contributed by the Central Fiscal Authority on 31 March 2000. As at 8 June 2004, based on the decision of DSRSG (Deputy of Special Representative of the Secretary General) Pillar IV, the statutory fund was increased from EUR 2,556 thousand to EUR 10,000 thousand.

Further to UNMIK Regulation no. 2006/47, on 15 June 2007 EUR 10,000 was transferred from the reserve fund to the statutory fund upon the approval of the Governing Board. Further to Law no 03/L-074, on 29 July 2008 the Governing Board approved the transfer of another EUR 10,000 thousand from the reserve fund.

CBK reports directly to the Assembly of Kosovo. CBK capital is not subject to encumbrance.

#### 21. Reserve fund

The reserve fund was created in accordance with UNMIK Regulation no. 1999/20. Subsequently, it was also addressed by replacing UNMIK regulations.

At present, the level of the reserve fund is regulated by Law no. 03/L-074 on the Central Bank of the Republic of Kosovo. Net profit of each financial year, in accordance with this law and with the authorization of the Governing Board, is transferred to the reserve fund or to the Ministry of Economy and Finance account.

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 22. Net interest income

Net interest income is composed as follows:

|  | 2009         | 2008          |
|--|--------------|---------------|
| <b>Interest income</b>                           |              |               |
| From fixed term placements                       | 2,414        | 33,290        |
| From treasury bills                              | 4,010        | 9,467         |
| From current account placements (balances)       | 205          | 84            |
|  | <b>6,629</b> | <b>42,841</b> |
| <b>Interest expense</b>                          |              |               |
| On current account deposits of non-bank entities | 1,780        | 22,011        |
| On eligible current account deposits of banks    | 360          | 3,066         |
| On fixed term deposits                           | 360          | 8,986         |
|  | <b>2,500</b> | <b>34,063</b> |
| <b>Net interest income</b>                       | <b>4,129</b> | <b>8,778</b>  |

## 23. Net fee and commission income

Net fee and commission income is composed as follows:

|                                      | 2009         | 2008       |
|--------------------------------------|--------------|------------|
| <b>Fee income</b>                    |              |            |
| From cash deposits                   | 220          | 124        |
| From foreign incoming transfers      | 75           | 96         |
| From foreign outgoing transfers      | 344          | 356        |
| From inter-bank clearing system      | 196          | 145        |
| From credit registry system          | 93           | 67         |
| From management of treasury fund     | 1,500        | 77         |
| Other fees                           | 34           | 19         |
|                                      | <b>2,462</b> | <b>884</b> |
| <b>Fee expenses</b>                  |              |            |
| For cash transportation              | 203          | 182        |
| For correspondent bank transactions  | 66           | 33         |
|                                      | <b>269</b>   | <b>215</b> |
| <b>Net fee and commission income</b> | <b>2,193</b> | <b>669</b> |

## 24. Grant revenue

Grant revenue is composed as follows:

|                                 | 2009      | 2008      |
|---------------------------------|-----------|-----------|
| World Bank                      | -         | 49        |
| Ministry of Finance and Economy | 24        | 36        |
| <b>Total</b>                    | <b>24</b> | <b>85</b> |

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

### Notes to the financial statements

(In thousands of EUR, unless otherwise stated)

#### 25. Other operating income

Other operating income includes mainly fees charged to financial institutions in Kosovo as part of issuing or renewing licenses as well as other statutory fees related to their activities.

#### 26. Personnel expenses

Personnel expenses are composed as follows:

|   | 2009         | 2008         |
|---|--------------|--------------|
| Wages and salaries                        | 1,495        | 1,219        |
| Social security and health insurance cost | 380          | 326          |
| Staff training                            | 147          | 132          |
| Governing Board                           | 108          | 58           |
| Other                                     | 30           | 36           |
| <b>Total</b>                              | <b>2,160</b> | <b>1,771</b> |

The number of employees at CBK as at 31 December 2009 is 167 (31 December 2008: 158).

#### 27. General and administrative expenses

General and administrative expenses are composed as follows:

|   | 2009       | 2008       |
|---|------------|------------|
| Insurance expenses                                    | 240        | 234        |
| Repairs and maintenance                               | 48         | 69         |
| Software maintenance                                  | 111        | 108        |
| Communication expense (telephone, telex and internet) | 85         | 79         |
| Utilities   | 80         | 70         |
| Audit and consulting expense                          | 24         | 23         |
| Security and guard services                           | 44         | 44         |
| Travel and transportation                             | 95         | 68         |
| Vehicle operating expenses                            | 28         | 25         |
| Stores and stationery                                 | 28         | 22         |
| Restaurant (cafeteria) expenses                       | 16         | 12         |
| Computer and other consumables expense                | 41         | 58         |
| Publication and literature expenses                   | 38         | 51         |
| Official representation expenses                      | 93         | 27         |
| Other   | 27         | 33         |
| <b>Total</b>  | <b>998</b> | <b>923</b> |

# Central Bank of the Republic of Kosovo

(In thousands of EUR, unless otherwise stated)

## 28. Other Comprehensive income/(loss)

Other comprehensive loss of EUR 303 thousand for the year ended 31 December 2009 [2008: nil] represents unrealized foreign exchange gains and losses in relation to foreign exchange differences resulting upon translation of SDR assets and liabilities on the CBK books.

## 29. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

|   | Note | 2009           | 2008           |
|---|------|----------------|----------------|
| Cash on hand  | 7    | 21,806         | 39,674         |
| Current accounts with non-resident banks                                  | 8    | 34,899         | 10,403         |
| Treasury bills with maturity up to three months                           |      | 149,893        | 175,559        |
| Deposit accounts with non-resident banks with maturity up to three months |      | 412,237        | 505,242        |
| <b>Total</b>  |      | <b>618,835</b> | <b>730,878</b> |

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. An investment qualifies as a cash equivalent when it has a short maturity, three months or less from the date of acquisition.

## 30. Commitments and contingencies

### *Legal*

CBK is involved in routine legal proceedings in the ordinary course of business. It is management's opinion that the final outcome of these lawsuits will not have a material effect on CBK's financial statements as at and for the year ended 31 December 2009.

### *Other commitments*

Other commitments are composed as follows:

|   | 31 December 2009 | 31 December 2008 |
|---|------------------|------------------|
| Purchase of computer applications           | 10               | 50               |
| Upgrade the core accounting system          | 765              | -                |
| Purchase of vehicles                        | -                | 144              |
| Repair - Installation of the voicing system | -                | 42               |
| <b>Total</b>                                | <b>775</b>       | <b>236</b>       |

In 2009, the Kosovo became member of the World Bank Group organizations - International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the Multilateral Investment Guarantee Agency (MIGA). In relation to this membership, the CBK acts as depository. This is in accordance with the Law No. 03/L-074 on the Central Bank of the Republic of Kosovo and the Law No. 03-L-152 on Membership of the Republic of Kosovo in the International Monetary Fund and World Bank Group Organizations.

In June 2009, the Government of Kosovo issued promissory notes to make payments concerning membership subscription to the above mentioned organizations upon their requests and payment instructions. The total balance at 31 December 2009 of these promissory notes is EUR 4,007 thousand.

# Central Bank of the Republic of Kosovo

## Notes to the financial statements

*(In thousands of EUR, unless otherwise stated)*

### 31. Related party transactions

Related parties include management and the Governing Board. Their compensations are presented below:

|   | <b>2009</b> | <b>2008</b> |
|---|-------------|-------------|
| Compensation to Governing Board members | 98          | 58          |
| Compensation to Management              | 133         | 100         |
| <b>Total</b>                            | <b>231</b>  | <b>158</b>  |

### 32. Subsequent events

There are no events after the reporting date that would require either adjustments or additional disclosures in the financial statements.

## 9. Statistical Appendix



## 1.1. Financial corporations survey – net foreign assets and domestic claims

(Outstanding amounts, end of period, in millions of euro)

| Description   | Net foreign assets      |                                |          |                              |           |                           |                                   | Domestic claims                  |   |          |                         |                               |                                  |            |         |         |       |
|---------------|-------------------------|--------------------------------|----------|------------------------------|-----------|---------------------------|-----------------------------------|----------------------------------|---|----------|-------------------------|-------------------------------|----------------------------------|------------|---------|---------|-------|
|               | of which:               |                                |          |                              |           |                           |                                   | Net claims on central government |   |          | Claims on other sectors |                               |                                  |            |         |         |       |
|               | Claims on non residents | Monetary gold and SDR holdings | Deposits | Securities other than shares | IMF Quota | Shares and other equities | Less: liabilities to nonresidents | Claims on central government     | Less: Liabilities to central government | Deposits | Loans                   | of which:                     |                                  |            |         |         |       |
|               |                         |                                |          |                              |           |                           |                                   |                                  |   |          |                         | Public financial corporations | Other non financial corporations | Households |         |         |       |
| 2004 December | 722.8                   | 772.0                          | ---      | 384.0                        | 236.7     | ---                       | 83.3                              | 49.2                             | 202.5                                   | -216.8   | ---                     | 216.8                         | 216.8                            | 419.3      | 413.5   | 329.8   | 83.7  |
| 2005 December | 827.3                   | 890.9                          | ---      | 422.6                        | 242.4     | ---                       | 145.3                             | 63.6                             | 348.9                                   | -225.7   | ---                     | 225.7                         | 225.7                            | 574.6      | 565.6   | 439.6   | 126.0 |
| 2006 December | 1,073.6                 | 1,245.7                        | ---      | 660.0                        | 341.3     | ---                       | 170.8                             | 72.1                             | 231.7                                   | -475.0   | ---                     | 475.0                         | 475.0                            | 706.6      | 694.3   | 548.2   | 146.1 |
| 2007 December | 1,622.4                 | 1,704.6                        | ---      | 955.0                        | 408.9     | ---                       | 175.4                             | 82.3                             | 124.5                                   | -853.3   | ---                     | 853.3                         | 853.3                            | 977.8      | 965.9   | 765.1   | 200.6 |
| 2008 December | 1,593.1                 | 1,726.7                        | ---      | 795.1                        | 661.6     | ---                       | 128.2                             | 133.6                            | 419.6                                   | -871.8   | ---                     | 871.8                         | 871.8                            | 1,291.5    | 1,276.8 | 995.7   | 281.0 |
| 2009 December | 1,700.6                 | 2,036.0                        | 60.3     | 910.1                        | 724.3     | 64.3                      | 144.3                             | 335.4                            | 573.7                                   | -846.3   | ---                     | 846.3                         | 846.3                            | 1,420.0    | 1,398.4 | 1,052.3 | 343.5 |

## 1.2. Financial corporations survey – liabilities

(Outstanding amounts, end of period, in millions of euro)

| Description   | Deposits              |                                   |      |       |                                  |       |       |            |       | Loans | Insurance technical reserves              |   | Shares and other equity | Other items (net) |      |
|---------------|-----------------------|-----------------------------------|------|-------|----------------------------------|-------|-------|------------|-------|-------|---|---|-------------------------|-------------------|------|
|               | of which:             |                                   |      |       |                                  |       |       |            |       |       | Net equity of households in pension funds | Pre payment of premiums and reserves against outstanding claims |                         |                   |      |
|               | Transferable deposits | Public non financial corporations |      |       | Other non financial corporations |       |       | Households |       |       |   |   |                         |                   |      |
|               |                       |                                   |      |       |                                  |       |       |            |       |       |   |   |                         |                   |      |
| 2004 December | 670.7                 | 273.7                             | 34.6 | 81.3  | 145.5                            | 396.9 | 149.3 | 24.4       | 222.5 | 2.3   | 106.5                                     | 88.7  | 17.9                    | 145.1             | 0.7  |
| 2005 December | 830.6                 | 315.0                             | 67.6 | 76.8  | 155.5                            | 515.6 | 181.3 | 33.7       | 298.9 | 3.0   | 174.5                                     | 152.4   | 22.1                    | 165.8             | 2.2  |
| 2006 December | 886.4                 | 300.5                             | 34.8 | 96.4  | 156.2                            | 586.0 | 193.3 | 27.6       | 359.5 | 3.4   | 251.4                                     | 223.9   | 27.5                    | 209.3             | 54.7 |
| 2007 December | 1,110.9               | 386.1                             | 49.6 | 133.5 | 187.5                            | 724.8 | 188.4 | 43.8       | 489.3 | ...   | 316.1                                     | 286.2   | 29.9                    | 273.8             | 46.0 |
| 2008 December | 1,351.9               | 390.9                             | 15.4 | 176.0 | 186.2                            | 961.0 | 250.1 | 51.4       | 656.7 | ...   | 288.6                                     | 256.3   | 32.3                    | 311.1             | 61.1 |
| 2009 December | 1,444.3               | 483.2                             | 50.1 | 184.0 | 237.7                            | 961.0 | 73.9  | 82.9       | 801.9 | ...   | 418.7                                     | 380.8   | 37.9                    | 328.7             | 82.7 |

## 2.1 Depository corporations survey – net foreign assets and domestic claims

(Outstanding amounts, end of period, in millions of euro)

| Description   | Net foreign assets      |                                |          |          |                              |           |                                    | Domestic claims                  |                                   |          |                         |                               |                                  |            |     |       |       |
|---------------|-------------------------|--------------------------------|----------|----------|------------------------------|-----------|------------------------------------|----------------------------------|-----------------------------------|----------|-------------------------|-------------------------------|----------------------------------|------------|-----|-------|-------|
|               | of which:               |                                |          |          |                              |           |                                    | Net claims on central government |                                   |          | Claims on other sectors |                               |                                  |            |     |       |       |
|               | Claims on non residents | Monetary gold and SDR holdings | Currency | Deposits | Securities other than shares | IMF Quota | Less: Liabilities to non residents | Claims on central gov.           | Less: Liabilities to central gov. | Deposits | Loans                   | of which:                     |                                  |            |     |       |       |
|               |                         |                                |          |          |                              |           |                                    |                                  |                                   |          |                         | Public financial corporations | Other non financial corporations | Households |     |       |       |
| 2004 December | 648.7                   | 687.9                          | ---      | 55.3     | 384.0                        | 236.7     | ---                                | 39.2                             | 156.9                             | -216.8   | ---                     | 216.8                         | 373.8                            | 373.7      | ... | 289.9 | 83.7  |
| 2005 December | 695.1                   | 744.5                          | ---      | 74.6     | 422.6                        | 242.4     | ---                                | 49.3                             | 289.0                             | -225.7   | ---                     | 225.7                         | 514.6                            | 513.9      | ... | 387.9 | 126.0 |
| 2006 December | 975.4                   | 1,035.6                        | ---      | 63.4     | 660.0                        | 303.1     | ---                                | 60.2                             | 162.2                             | -475.0   | ---                     | 475.0                         | 637.1                            | 636.6      | ... | 490.5 | 146.1 |
| 2007 December | 1,377.5                 | 1,426.1                        | ---      | 145.3    | 955.0                        | 308.2     | ---                                | 48.6                             | 39.1                              | -853.3   | ---                     | 853.3                         | 892.4                            | 892.1      | 0.2 | 691.3 | 200.6 |
| 2008 December | 1,436.1                 | 1,512.0                        | ---      | 121.1    | 794.9                        | 581.8     | ---                                | 75.9                             | 311.9                             | -871.8   | ---                     | 871.8                         | 1,183.8                          | 1,183.4    | 0.1 | 901.7 | 281.0 |
| 2009 December | 1,531.6                 | 1,782.2                        | 60.3     | 111.4    | 910.0                        | 626.4     | 64.3                               | 250.6                            | 442.9                             | -846.3   | ---                     | -846.3                        | 846.3                            | 1,289.2    | 0.3 | 942.9 | 343.5 |

Table 2.2. Depository corporations survey - liabilities

(Outstanding amounts, end of period, in millions of euro)

| Description   | Deposits included in broad money |                              |                                   |                                  |            |                |                              |                                   |                                  |            |       | Deposits excluded from broad money | Shares and other equity | Other items net |
|---------------|----------------------------------|------------------------------|-----------------------------------|----------------------------------|------------|----------------|------------------------------|-----------------------------------|----------------------------------|------------|-------|------------------------------------|-------------------------|-----------------|
|               | of which:                        |                              |                                   |                                  |            | of which:      |                              |                                   |                                  |            |       |                                    |                         |                 |
|               | Transferable deposits            | Other financial corporations | Public non financial corporations | Other non financial corporations | Households | Other deposits | Other financial corporations | Public non financial corporations | Other non financial corporations | Households |       |                                    |                         |                 |
| 2004 December | 719.5                            | 303.5                        | 29.8                              | 34.6                             | 81.3       | 145.5          | 416.0                        | 19.1                              | 149.3                            | 24.4       | 222.5 | ---                                | 87.1                    | -1.0            |
| 2005 December | 865.4                            | 345.6                        | 30.5                              | 67.6                             | 76.8       | 155.5          | 519.9                        | 24.3                              | 181.3                            | 33.1       | 279.6 | 19.9                               | 94.4                    | 4.3             |
| 2006 December | 912.8                            | 336.4                        | 35.9                              | 34.8                             | 96.4       | 156.2          | 576.3                        | 30.5                              | 193.3                            | 24.6       | 322.4 | 40.6                               | 128.8                   | 55.4            |
| 2007 December | 1,126.6                          | 413.7                        | 27.7                              | 49.6                             | 133.5      | 187.5          | 712.8                        | 40.3                              | 188.4                            | 41.8       | 439.0 | 53.7                               | 186.5                   | 49.8            |
| 2008 December | 1,393.0                          | 454.6                        | 63.7                              | 15.4                             | 176.0      | 186.2          | 938.3                        | 47.6                              | 250.1                            | 44.2       | 593.8 | 74.9                               | 233.8                   | 46.4            |
| 2009 December | 1,548.5                          | 621.4                        | 138.2                             | 50.1                             | 184.0      | 237.7          | 927.0                        | 60.7                              | 73.9                             | 71.7       | 718.5 | 98.1                               | 249.0                   | 79.0            |

Table 3.1. CBK survey – net foreign assets and domestic claims

(Outstanding amounts, end of period, in millions of euro)

| Description   | Net foreign assets      |          |          |                              |           |       |                 |              |                                    |      |      | Net claims on central government |   | Claims on other sectors | Liabilities to ODC |       |
|---------------|-------------------------|----------|----------|------------------------------|-----------|-------|-----------------|--------------|------------------------------------|------|------|----------------------------------|---|-------------------------|--------------------|-------|
|               | Claims on non residents |          |          |                              |           |       |                 |              | Less: liabilities to non residents |      |      | Claims on central government     | Less: liabilities to central government |                         |                    |       |
|               | Monetary gold and SDR   | Currency | Deposits | Securities other than shares | IMF Quota | Other | SDR allocations | IMF Accounts |                                    |      |      |                                  |   |                         |                    |       |
| 2004 December | 344.7                   | 349.9    | ---      | 12.1                         | 213.2     | 124.4 | ---             | 0.2          | 5.2                                | 5.2  | ---  | -216.8                           | ---                                     | 216.8                   | 0.1                | 72.9  |
| 2005 December | 394.4                   | 397.5    | ---      | 24.5                         | 213.4     | 159.5 | ---             | 0.1          | 3.1                                | 3.1  | ---  | -225.7                           | ---                                     | 225.7                   | 0.8                | 82.5  |
| 2006 December | 641.1                   | 641.2    | ---      | 11.1                         | 424.9     | 203.6 | ---             | 1.5          | 0.1                                | 0.1  | ---  | -472.9                           | ---                                     | 472.9                   | 0.5                | 94.5  |
| 2007 December | 1,057.6                 | 1,057.6  | ---      | 63.8                         | 759.0     | 229.3 | ---             | 5.5          | ---                                | ---  | ---  | -849.4                           | ---                                     | 849.4                   | 0.3                | 113.6 |
| 2008 December | 1,110.7                 | 1,110.7  | ---      | 39.7                         | 529.0     | 541.3 | ---             | 0.7          | ---                                | ---  | ---  | -870.5                           | ---                                     | 870.5                   | 0.3                | 137.2 |
| 2009 December | 1,088.0                 | 1,198.3  | 60.3     | 21.8                         | 522.3     | 529.4 | 64.3            | 0.1          | 110.2                              | 60.3 | 49.1 | -681.4                           | ---                                     | 681.4                   | 0.2                | 233.2 |

Table 3.2. CBK survey - liabilities

(Outstanding amounts, end of period, in millions of euro)

| Description   | Deposits included in broad money |                  |                                   |                                  |                              |                |      |      | Deposits excluded from broad money |            |                             | Shares and other equity | of which:                 |     | Other items (net) |
|---------------|----------------------------------|------------------|-----------------------------------|----------------------------------|------------------------------|----------------|------|------|------------------------------------|------------|-----------------------------|-------------------------|---------------------------|-----|-------------------|
|               | Transferable deposits            |                  |                                   |                                  |                              | Other deposits |      |      | Other financial corporations       | Local gov. | Funds contributed by owners |                         | Profit/losses of the year |     |                   |
|               | Other financial corporations     | Local government | Public non financial corporations | Other non financial corporations | Other financial corporations |                |      |      |                                    |            |                             |                         |                           |     |                   |
| 2004 December | 37.7                             | 32.6             | 20.7                              | 1.9                              | 9.9                          | ...            | 5.1  | 5.1  | ---                                | ---        | ---                         | 18.0                    | 10.0                      | 3.0 | -0.6              |
| 2005 December | 66.6                             | 62.5             | 23.3                              | 1.6                              | 37.6                         | ...            | 4.1  | 4.1  | ---                                | ---        | ---                         | 20.4                    | 10.0                      | 3.0 | ...               |
| 2006 December | 49.9                             | 41.9             | 31.0                              | 0.4                              | 10.5                         | ...            | 8.0  | 8.0  | ---                                | ---        | ---                         | 25.5                    | 10.0                      | 6.4 | -1.2              |
| 2007 December | 57.2                             | 46.7             | 22.4                              | 3.2                              | 21.1                         | ...            | 10.6 | 10.6 | ---                                | ---        | ---                         | 33.8                    | 20.0                      | 9.2 | 3.9               |
| 2008 December | 63.9                             | 56.7             | 49.9                              | 5.3                              | 1.5                          | ...            | 7.2  | 7.2  | ---                                | ---        | ---                         | 41.4                    | 30.0                      | 7.5 | -2.0              |
| 2009 December | 130.8                            | 130.8            | 129.7                             | ...                              | 1.1                          | ...            | ...  | ...  | ---                                | ---        | ---                         | 44.8                    | 30.0                      | 3.6 | -2.1              |

**Table 4.1. Other depository corporations survey – net foreign assets and domestic claims**

(Outstanding amounts, end of period, in millions of euro)

| Description   | Net foreign assets      |           |          |                              |                                    |       |       | Claims on CBK | Net claims on central government | Claims on other sectors |                           |                          |            |       |       |
|---------------|-------------------------|-----------|----------|------------------------------|------------------------------------|-------|-------|---------------|----------------------------------|-------------------------|---------------------------|--------------------------|------------|-------|-------|
|               | Claims on non residents | of which: |          |                              | Less: liabilities to non-residents |       | Loans |               |                                  | Loans                   | of which:                 |                          |            |       |       |
|               |                         | Currency  | Deposits | Securities other than shares | Deposits                           | Loans |       |               |                                  |                         | Public nonfinancial corp. | Other nonfinancial corp. | Households |       |       |
| 2000 December | 81.2                    | 84.1      | 12.7     | 71.4                         | —                                  | 2.9   | —     | 2.9           | 12.7                             | —                       | 3.3                       | 3.3                      | —          | 3.3   | —     |
| 2004 December | 304.0                   | 338.0     | 43.2     | 170.8                        | 112.3                              | 34.0  | 12.7  | 21.3          | 73.2                             | —                       | 373.7                     | 373.7                    | —          | 289.9 | 83.7  |
| 2005 December | 300.7                   | 346.9     | 50.1     | 209.2                        | 82.9                               | 46.2  | 18.4  | 27.9          | 81.6                             | —                       | 513.9                     | 513.9                    | —          | 387.9 | 126.0 |
| 2006 December | 334.4                   | 394.5     | 52.3     | 235.1                        | 99.4                               | 60.1  | 21.4  | 38.7          | 88.8                             | -2.1                    | 636.6                     | 636.6                    | —          | 490.5 | 146.1 |
| 2007 December | 319.9                   | 368.5     | 81.5     | 196.0                        | 78.9                               | 48.6  | 17.9  | 30.7          | 107.5                            | -3.9                    | 892.1                     | 892.1                    | 0.2        | 691.3 | 200.6 |
| 2008 December | 325.4                   | 401.3     | 81.4     | 265.9                        | 40.5                               | 75.9  | 42.0  | 33.7          | 136.8                            | -1.3                    | 1,183.4                   | 1,183.4                  | 0.1        | 901.7 | 281.0 |
| 2009 December | 443.6                   | 583.9     | 89.6     | 387.7                        | 97.0                               | 140.3 | 65.5  | 74.5          | 233.1                            | -164.9                  | 1,289.0                   | 1,289.0                  | 0.3        | 942.9 | 343.5 |

**Table 4.2. Other depository corporations survey – liabilities**

(Outstanding amounts, end of period, in millions of euro)

| Description   | Deposits included in broad money |                              |                           |                          |            |                              |                |                           |                          |            | Deposits excluded from broad money | Other nonfinancial corporations | Households | Other items (net) |      |      |
|---------------|----------------------------------|------------------------------|---------------------------|--------------------------|------------|------------------------------|----------------|---------------------------|--------------------------|------------|------------------------------------|---------------------------------|------------|-------------------|------|------|
|               | Transferable deposits            | of which:                    |                           |                          |            |                              | Other deposits | of which:                 |                          |            |                                    |                                 |            |                   |      |      |
|               |                                  | Other financial corporations | Public nonfinancial corp. | Other nonfinancial corp. | Households | Other financial corporations |                | Public nonfinancial corp. | Other nonfinancial corp. | Households |                                    |                                 |            |                   |      |      |
| 2000 December | 93.0                             | 93.0                         | —                         | —                        | —          | 93.0                         | —              | —                         | —                        | —          | —                                  | —                               | —          | —                 | —    | -2.0 |
| 2004 December | 681.9                            | 270.9                        | 9.0                       | 24.7                     | 81.3       | 145.5                        | 410.9          | 14.0                      | 149.3                    | 24.4       | 222.5                              | 0.0                             | 0.0        | 0.0               | 0.0  | -0.1 |
| 2005 December | 798.8                            | 283.0                        | 7.2                       | 30.0                     | 76.8       | 155.5                        | 515.8          | 20.2                      | 181.3                    | 33.1       | 279.6                              | 19.9                            | 0.7        | 19.3              | 3.4  |      |
| 2006 December | 862.9                            | 294.5                        | 4.9                       | 24.3                     | 96.4       | 156.2                        | 568.4          | 22.5                      | 193.3                    | 24.6       | 322.4                              | 40.6                            | 3.0        | 37.1              | 50.9 |      |
| 2007 December | 1,069.3                          | 367.1                        | 5.3                       | 28.5                     | 133.5      | 187.5                        | 702.3          | 29.8                      | 188.4                    | 41.8       | 439.0                              | 53.7                            | 2.0        | 50.3              | 39.8 |      |
| 2008 December | 1,329.0                          | 397.9                        | 13.8                      | 13.8                     | 176.0      | 186.2                        | 931.1          | 40.4                      | 250.1                    | 44.2       | 593.8                              | 74.9                            | 7.3        | 63.0              | 48.1 |      |
| 2009 December | 1,417.8                          | 490.6                        | 8.5                       | 48.9                     | 48.9       | 237.7                        | 927.2          | 60.8                      | 73.9                     | 71.7       | 718.5                              | 97.9                            | 11.2       | 83.5              | 81.0 |      |

**Table 5.1. Other depository corporations balance sheet - assets**

(Outstanding amounts, end of period, in millions of euro)

| Description   | Total assets               |                                |                        |       |            |                                 |                                   |                                  |            |              |              |      |      |
|---------------|----------------------------|--------------------------------|------------------------|-------|------------|---------------------------------|-----------------------------------|----------------------------------|------------|--------------|--------------|------|------|
|               | Cash and balances with CBK | Balances with commercial banks |                        |       | Securities | Gross loans and lease financing |                                   |                                  |            | Fixed assets | Other assets |      |      |
|               |                            | In euro currency               | In non euro currencies |       |            | Other financial corporations    | Public non financial corporations | Other non financial corporations | Households |              |              |      |      |
| 2000 December | 103.1                      | 25.4                           | 71.4                   | 71.4  | —          | —                               | 3.3                               | —                                | —          | 3.3          | —            | 0.4  | 2.6  |
| 2004 December | 816.5                      | 116.5                          | 186.0                  | 169.2 | 16.8       | 112.3                           | 373.7                             | —                                | —          | 289.9        | 83.7         | 15.9 | 12.2 |
| 2005 December | 984.4                      | 131.7                          | 221.9                  | 201.0 | 21.0       | 82.9                            | 513.9                             | —                                | —          | 387.9        | 126.0        | 16.9 | 17.0 |
| 2006 December | 1,161.2                    | 141.1                          | 243.3                  | 218.8 | 24.5       | 99.4                            | 636.6                             | —                                | —          | 490.5        | 146.1        | 23.0 | 17.9 |
| 2007 December | 1,435.0                    | 189.0                          | 208.1                  | 173.4 | 34.7       | 78.9                            | 892.1                             | —                                | 0.2        | 691.3        | 200.6        | 27.2 | 39.7 |
| 2008 December | 1,808.2                    | 218.2                          | 283.9                  | 236.3 | 47.6       | 40.5                            | 1,183.4                           | 0.6                              | 0.1        | 901.7        | 281.0        | 39.0 | 43.1 |
| 2009 December | 2,204.1                    | 322.7                          | 405.6                  | 326.7 | 78.8       | 97.0                            | 1,289.0                           | 2.3                              | 2.3        | 942.9        | 343.5        | 43.1 | 46.7 |

Table 5.2. Other depository corporations balance sheet – liabilities

(Outstanding amounts, end of period, in millions of euro)

| Description   | Total liabilities         |                       |                           |             |       |                |                           |                           |            |                                      |                   |                   |               |               |                           |
|---------------|---------------------------|-----------------------|---------------------------|-------------|-------|----------------|---------------------------|---------------------------|------------|--------------------------------------|-------------------|-------------------|---------------|---------------|---------------------------|
|               | Balances from other banks | Deposits              |                           |             |       |                |                           |                           |            |                                      | Other liabilities | Subordinated debt | Own resources | of which:     |                           |
|               |                           | Transferable deposits | of which                  |             |       | Other deposits | of which                  |                           |            | Other borrowings (incl. non neg. CD) |                   |                   |               | Share capital | Profit/losses of the year |
|               |                           |                       | Other non financial corp. | House holds |       |                | Public nonfinancial corp. | Other non financial corp. | Households |                                      |                   |                   |               |               |                           |
| 2000 December | 103.1                     | 93.0                  | 93.0                      | 93.0        | ...   | ...            | ...                       | ...                       | ...        | 2.9                                  | 1.1               | ...               | 6.2           | 4.6           | 1.6                       |
| 2004 December | 816.5                     | 14.3                  | 694.5                     | 281.0       | 81.3  | 145.5          | 413.5                     | 149.3                     | 24.4       | 222.5                                | 1.4               | 27.9              | 9.3           | 69.1          | 11.0                      |
| 2005 December | 984.4                     | 23.0                  | 836.7                     | 296.6       | 76.8  | 155.5          | 540.1                     | 181.3                     | 33.7       | 298.9                                | 6.4               | 37.3              | 7.0           | 74.0          | 13.5                      |
| 2006 December | 1161.2                    | 30.3                  | 924.3                     | 308.9       | 96.4  | 156.2          | 615.4                     | 193.3                     | 27.6       | 359.5                                | 4.2               | 92.1              | 7.0           | 103.3         | 20.2                      |
| 2007 December | 1435.0                    | 25.8                  | 1,143.1                   | 380.7       | 133.5 | 187.5          | 762.4                     | 188.4                     | 43.8       | 489.3                                | 2.7               | 103.7             | 7.0           | 152.7         | 34.0                      |
| 2008 December | 1,808.2                   | 34.9                  | 1,444.1                   | 429.8       | 176.0 | 186.2          | 1,014.2                   | 250.1                     | 51.4       | 656.7                                | ...               | 129.8             | 7.0           | 192.5         | 36.3                      |
| 2009 December | 2,204.1                   | 58.5                  | 1,744.9                   | 517.8       | 184.0 | 237.7          | 1,229.5                   | 73.9                      | 82.9       | 801.9                                | ...               | 171.7             | 24.4          | 204.6         | 25.3                      |

Table 6.1. Euro deposits at other depository corporations

(Outstanding amounts, end of period, in millions of euro)

| Description   | Total deposits in euro |                               |                                |                     |               |                       |                                  |                                 |            |                        |       | Nonresidents |       |      |      |
|---------------|------------------------|-------------------------------|--------------------------------|---------------------|---------------|-----------------------|----------------------------------|---------------------------------|------------|------------------------|-------|--------------|-------|------|------|
|               | Government             | Financial corporations        |                                |                     |               |                       |                                  | Non financial corporations      |            | Other domestic sectors |       |              |       |      |      |
|               |                        | Other depository corporations | Other financial intermediaries | Insurance companies | Pension funds | Financial auxiliaries | Public nonfinancial corporations | Other nonfinancial corporations | Households | NPISH                  |       |              |       |      |      |
| 2004 December | 674.9                  | 1.3                           | 25.6                           | 3.7                 | 3.5           | 15.5                  | ...                              | 2.9                             | 275.3      | 173.5                  | 10.8  | 360.3        | 350.7 | 9.6  | 12.3 |
| 2005 December | 815.3                  | 2.9                           | 35.4                           | 8.1                 | 5.8           | 18.8                  | ...                              | 2.8                             | 319.0      | 211.3                  | 10.7  | 440.7        | 428.7 | 12.0 | 17.3 |
| 2006 December | 890.4                  | 7.0                           | 28.1                           | 0.1                 | 2.4           | 24.7                  | 0.4                              | 0.5                             | 337.8      | 217.4                  | 120.5 | 499.2        | 486.1 | 13.1 | 18.2 |
| 2007 December | 1,092.0                | 4.1                           | 39.1                           | 3.1                 | 5.6           | 28.3                  | 0.4                              | 1.7                             | 386.2      | 215.5                  | 170.7 | 647.0        | 631.9 | 15.2 | 15.6 |
| 2008 December | 1,366.9                | 1.4                           | 62.9                           | 5.0                 | 6.5           | 31.5                  | 19.4                             | 0.4                             | 479.7      | 263.8                  | 215.9 | 785.0        | 774.5 | 10.5 | 37.9 |
| 2009 December | 1,640.1                | 165.0                         | 78.2                           | 6.1                 | 5.9           | 43.1                  | 22.6                             | 0.4                             | 371.5      | 121.6                  | 249.9 | 10.9         | 962.2 | 13.4 | 63.2 |

Table 6.2. Non-euro deposits at other depository corporations

| Description   | Non-euro deposits      |                               |                                |                     |     |                                  |                                 |            |                        |                |       |      |      | Non residents |     |
|---------------|------------------------|-------------------------------|--------------------------------|---------------------|-----|----------------------------------|---------------------------------|------------|------------------------|----------------|-------|------|------|---------------|-----|
|               | Financial corporations |                               |                                |                     |     | Nonfinancial corporations        |                                 |            | Other domestic sectors |                |       |      |      |               |     |
|               | CBK                    | Other depository corporations | Other financial intermediaries | Insurance companies |     | Public nonfinancial corporations | Other nonfinancial corporations | Households | Transferable deposits  | Other deposits | NPISH |      |      |               |     |
| 2004 December | 23.4                   | 1.1                           | ...                            | ...                 | 1.1 | 4.4                              | 0.5                             | 4.0        | 17.5                   | 17.3           | 8.7   | 8.7  | 0.1  | 0.3           |     |
| 2005 December | 29.4                   | ...                           | ...                            | ...                 | ... | 2.8                              | ...                             | 2.8        | 26.0                   | 25.7           | 10.8  | 14.9 | 0.3  | 0.5           |     |
| 2006 December | 34.3                   | ...                           | ...                            | ...                 | ... | 3.7                              | 0.3                             | 3.5        | 29.8                   | 29.6           | 12.4  | 17.2 | 0.2  | 0.5           |     |
| 2007 December | 53.3                   | 0.5                           | ...                            | ...                 | 0.1 | 0.4                              | 8.1                             | 1.5        | 6.6                    | 44.3           | 44.2  | 16.2 | 28.0 | 0.1           | 0.4 |
| 2008 December | 81.9                   | 0.9                           | ...                            | ...                 | ... | 0.9                              | 11.6                            | 0.1        | 11.5                   | 68.4           | 68.2  | 22.9 | 45.2 | 0.3           | 1.0 |
| 2009 December | 112.1                  | 2.1                           | ...                            | 1.2                 | ... | 0.9                              | 18.3                            | 1.3        | 17.0                   | 91.1           | 90.9  | 29.7 | 61.1 | 0.2           | 0.7 |

(Outstanding amounts, end of period, in millions of euro)

Table 6.3. Other depository corporations loans – main sectors

(Outstanding amounts, end of period, in millions of euro)

| Description   | Total                  |                                |                     |                                  |                                 |                               |              |            |              |                               |              |              |                               |              |       |
|---------------|------------------------|--------------------------------|---------------------|----------------------------------|---------------------------------|-------------------------------|--------------|------------|--------------|-------------------------------|--------------|--------------|-------------------------------|--------------|-------|
|               | Financial corporations |                                |                     | Nonfinancial corporations        |                                 |                               |              |            |              | Other domestic corporations   |              |              |                               |              |       |
|               |                        | Other financial intermediaries | Insurance companies | Public nonfinancial corporations | Other nonfinancial corporations |                               |              | Households | Up to 1 year | Over 1 year and up to 2 years | Over 2 years | Up to 1 year | Over 1 year and up to 2 years | Over 2 years |       |
|               |                        |                                |                     |                                  | Up to 1 year                    | Over 1 year and up to 2 years | Over 2 years |            |              |                               |              |              |                               |              |       |
| 2004 December | 373.7                  | ---                            | ---                 | ---                              | 289.9                           | ...                           | 289.9        | 111.5      | 111.3        | 67.2                          | 83.7         | 83.7         | 15.9                          | 15.2         | 52.6  |
| 2005 December | 513.9                  | ---                            | ---                 | ---                              | 387.9                           | ...                           | 387.9        | 117.9      | 125.2        | 144.7                         | 126.0        | 126.0        | 19.5                          | 21.0         | 85.4  |
| 2006 December | 636.6                  | ---                            | ---                 | ---                              | 490.5                           | ...                           | 490.5        | 128.7      | 127.7        | 234.1                         | 146.1        | 146.1        | 19.7                          | 24.7         | 101.7 |
| 2007 December | 892.1                  | ---                            | ---                 | ---                              | 691.5                           | 0.2                           | 691.3        | 174.0      | 122.6        | 394.6                         | 200.6        | 200.6        | 24.0                          | 29.6         | 147.1 |
| 2008 December | 1,183.4                | 0.6                            | ---                 | 0.6                              | 901.8                           | 0.1                           | 901.7        | 191.0      | 132.3        | 578.4                         | 281.0        | 281.0        | 20.9                          | 30.9         | 229.2 |
| 2009 December | 1289.0                 | 2.3                            | 1.2                 | 1.1                              | 943.2                           | 0.3                           | 942.9        | 215.7      | 113.0        | 614.2                         | 343.5        | 343.5        | 27.0                          | 32.1         | 284.5 |

Table 6.4. Other depository corporations loans – new loans

(Outstanding amounts, end of period, in millions of euro)

| Description | Nonfinancial corporations |                                |               |                      |                                  |                             |              |                  | Households       |                |             |                |                                 |                |
|-------------|---------------------------|--------------------------------|---------------|----------------------|----------------------------------|-----------------------------|--------------|------------------|------------------|----------------|-------------|----------------|---------------------------------|----------------|
|             | Investment Business Loans |                                |               | Other Business Loans |                                  |                             |              | Credit lines/OVD | Credit lines/OVD | Consumer loans | Other loans | Mortgage loans |                                 |                |
|             | Up to 1 year              | Above 1 year and up to 3 years | Above 3 years | Up to 1 year         | Above 1 month and up to 3 months | Above 3 month and up 1 year | Above 1 year |                  |                  |                |             | Up to 5 years  | Above 5 year and up to 10 years | Above 10 years |
| 2004        | 1.8                       | 9.0                            | 0.2           | 5.7                  | 2.6                              | 4.2                         | 11.2         | 6.2              | 4.1              | 1.7            | -           | -              | -                               | 0.2            |
| 2005        | 0.7                       | 8.6                            | 4.9           | 2.1                  | 0.6                              | 2.2                         | 13.4         | 7.5              | 4.8              | 10             | 0.4         | ...            | ...                             | 0.1            |
| 2006        | 0.5                       | 7.2                            | 10.6          | 1.2                  | 0.4                              | 3.5                         | 12.8         | 8.2              | 4.7              | 2.0            | 0.6         | ...            | ...                             | 0.2            |
| 2007        | 3.6                       | 4.2                            | 12.1          | 0.4                  | 1.9                              | 1.8                         | 16.6         | 10.2             | 6.6              | 2.7            | 0.6         | ...            | -                               | 0.4            |
| 2008        | 1.1                       | 7.1                            | 7.1           | 1.1                  | 0.3                              | 4.1                         | 19.1         | 135.5            | 13.6             | ...            | 2.3         | 0.8            | 0.6                             | 5.7            |
| 2009        | 0.9                       | 7.0                            | 10.0          | 0.8                  | 0.3                              | 3.7                         | 23.9         | 140.8            | 12.2             | ...            | 1.6         | 1.1            | 0.8                             | 6.2            |

Table 6.5. Other depository corporations loans – main economic sectors

| Description   | Total        |      |             |      |                                   |      |             |       |              |             |
|---------------|--------------|------|-------------|------|-----------------------------------|------|-------------|-------|--------------|-------------|
|               | Agriculture  |      |             |      | Industry, energy and construction |      |             |       | Services     |             |
|               | Up to 1 year |      | Over 1 year |      | Up to 1 year                      |      | Over 1 year |       | Up to 1 year | Over 1 year |
| 2004 December | 289.9        | 7.9  | 3.9         | 4.1  | 47.8                              | 22.5 | 25.3        | 234.2 | 89.5         | 144.8       |
| 2005 December | 387.9        | 12.5 | 4.1         | 8.4  | 74.2                              | 24.5 | 49.7        | 301.1 | 92.4         | 208.8       |
| 2006 December | 490.5        | 16.4 | 3.4         | 13.0 | 97.7                              | 28.0 | 69.7        | 376.4 | 120.6        | 255.8       |
| 2007 December | 691.5        | 29.0 | 4.1         | 24.9 | 144.5                             | 32.8 | 111.7       | 518.0 | 149.5        | 368.5       |
| 2008 December | 902.4        | 37.4 | 4.1         | 33.3 | 160.2                             | 28.9 | 131.2       | 704.8 | 126.4        | 578.4       |
| 2009 December | 945.5        | 38.2 | 3.8         | 34.4 | 236.7                             | 54.8 | 181.9       | 670.5 | 113.2        | 557.3       |

(Outstanding amounts, end of period, in millions of euro)

Table 6.6. Other depository corporations effective interest rates – Interest on

| Description   | Deposit rates | Nonfinancial corporations |                        |                                 |                                |                                 |                                 |                                |                 | Households            |                |                                |                               |              |                 |
|---------------|---------------|---------------------------|------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|--------------------------------|-----------------|-----------------------|----------------|--------------------------------|-------------------------------|--------------|-----------------|
|               |               | Transferable deposits     | Other deposits         |                                 |                                |                                 |                                 |                                | Saving deposits | Transferable deposits | Other deposits |                                |                               |              | Saving deposits |
|               |               |                           | Less than 250.000 euro |                                 |                                | Equal or more than 250.000 euro |                                 |                                |                 |                       | Up to 1 month  | Over 3 months and up to 1 year | Over 1 year and up to 2 years | Over 2 years |                 |
|               |               |                           | Up to 1 month          | Over 1 month and up to 3 months | Over 3 months and up to 1 year | Up to 1 month                   | Over 1 month and up to 3 months | Over 3 months and up to 1 year |                 |                       |                |                                |                               |              |                 |
| 2004 December | 2.8           | 0.1                       | 1.8                    | 2.3                             | 3.0                            | 3.3                             | *                               | *                              | 2.0             | ...                   | 1.7            | 2.9                            | 3.8                           | *            | 1.6             |
| 2005 December | 3.1           | 0.3                       | 2.1                    | 2.4                             | 3.4                            | 2.9                             | *                               | 3.5                            | 1.7             | ...                   | 1.8            | 3.3                            | 3.9                           | 4.0          | 1.7             |
| 2006 December | 3.1           | 0.4                       | 2.1                    | 2.9                             | 4.3                            | 3.1                             | *                               | 3.8                            | 1.5             | ...                   | 1.9            | 3.4                            | 4.2                           | 4.5          | 1.7             |
| 2007 December | 4.0           | 0.5                       | 2.7                    | 2.9                             | 4.4                            | 4.3                             | 4.1                             | *                              | 2.4             | ...                   | 2.6            | 3.6                            | 4.7                           | 5.3          | 2.3             |
| 2008 December | 4.4           | 0.5                       | 3.1                    | 4.0                             | 5.3                            | 3.6                             | 4.9                             | 5.7                            | 2.9             | 0.1                   | 3.2            | 4.5                            | 5.0                           | 3.9          | 2.7             |
| 2009 December | 4.0           | 0.7                       | 3.4                    | 3.4                             | 5.0                            | 3.9                             | 4.9                             | 5.2                            | 2.6             | 0.3                   | 3.1            | 4.4                            | 5.0                           | 5.5          | 2.5             |

deposits

(Outstanding amounts, end of period, in millions of euro)

Table 6.7. Other depository corporations effective interest rates – interest on loans

| Description   | Interest rates | Nonfinancial corporations (Loans) |             |                      |             |                           | Households (Loans) |                |                               |               |
|---------------|----------------|-----------------------------------|-------------|----------------------|-------------|---------------------------|--------------------|----------------|-------------------------------|---------------|
|               |                | Investment business loans         |             | Other business loans |             | Credit lines / overdrafts | Consumer loans     | Mortgage loans |                               |               |
|               |                | Up to 1 year                      | Over 1 year | Up to 1 year         | Over 1 year |                           |                    | Up to 5 years  | Over years and up to 10 years | Over 10 years |
| 2004 December | 15.7           | 15.16                             | 14.47       | 15.04                | 15.32       | 15.06                     | 12.53              | *              | *                             | *             |
| 2005 December | 14.5           | 17.34                             | 13.29       | 15.18                | 14.38       | 15.11                     | 11.51              | *              | *                             | *             |
| 2006 December | 14.7           | *                                 | 14.50       | 13.60                | 15.18       | 15.72                     | 12.36              | *              | 13.36                         | *             |
| 2007 December | 14.1           | *                                 | 13.76       | *                    | 14.64       | 15.09                     | 13.72              | 12.92          | 12.36                         | *             |
| 2008 December | 13.8           | *                                 | 13.92       | 14.20                | 13.45       | 15.03                     | 13.50              | 9.81           | 10.82                         | 8.13          |
| 2009 December | 14.1           | 14.24                             | 14.34       | *                    | 13.99       | 12.76                     | 13.31              | *              | 10.67                         | *             |

(Outstanding amounts, end of period, in millions of euro)

Table 7.1. Balance of payments

(In millions of euro)

| Description | Current account    |          |          |        |                   |                 | CAPITAL AND FINANCIAL ACCOUNT |      |       | NET ERRORS AND OMISSIONS |
|-------------|--------------------|----------|----------|--------|-------------------|-----------------|-------------------------------|------|-------|--------------------------|
|             | Goods and services |          |          | Income | Current transfers | Capital Account | Financial Account             |      |       |                          |
|             | Goods              | Services |          |        |                   |                 |                               |      |       |                          |
| 2004        | -208.9             | -1,002.1 | -983.1   | -19.0  | 138.3             | 654.9           | 76.9                          | 19.3 | 57.6  | 132.0                    |
| 2005        | -247.6             | -1,087.0 | -1,078.5 | -8.5   | 139.1             | 700.3           | 69.6                          | 15.8 | 53.8  | 178.1                    |
| 2006        | -226.1             | -1,144.1 | -1,173.1 | 29.0   | 158.8             | 759.2           | -14.9                         | 20.8 | -35.7 | 240.9                    |
| 2007        | -331.3             | -1,316.7 | -1,368.0 | 51.4   | 185.7             | 799.7           | 91.3                          | 16.5 | 74.8  | 240.0                    |
| 2008        | -602.4             | -1,596.1 | -1,668.2 | 72.1   | 155.5             | 838.2           | 462.8                         | 10.4 | 452.4 | 139.6                    |
| 2009Q1      | -94.0              | -296.9   | -328.3   | 31.4   | 26.7              | 176.2           | 66.0                          | 1.8  | 64.2  | 28.0                     |
| 2009Q2      | -185.9             | -403.5   | -434.7   | 31.2   | 23.6              | 194.0           | 179.0                         | 5.3  | 173.7 | 6.9                      |
| 2009Q3      | -152.2             | -409.3   | -451.6   | 42.3   | 15.4              | 241.6           | 121.1                         | 3.9  | 117.2 | 31.2                     |
| 2009Q4      | -213.8             | -444.8   | -475.3   | 30.4   | 9.4               | 221.7           | 167.4                         | 90.6 | 76.8  | 46.4                     |

Table 7.2. Services – net

(In millions of euro)

| Description | Balance   |        |                         |                        |                    |                    |                                   |                            |                         |   |                             |      |
|-------------|-----------|--------|-------------------------|------------------------|--------------------|--------------------|-----------------------------------|----------------------------|-------------------------|---|-----------------------------|------|
|             | Transport | Travel | Communications services | Constructions services | Insurance services | Financial services | Computer and information services | Royalties and licence fees | Other business services | Personal, cultural, and recreational services | Government services, n.i.e. |      |
| 2004        | -19.0     | -28.1  | 27.0                    | 12.0                   | 0.4                | -7.3               | -1.6                              | -2.9                       | -1.7                    | -99.0   | -0.3                        | 82.4 |
| 2005        | -8.5      | -29.4  | 36.9                    | 7.4                    | 0.6                | -7.5               | -1.8                              | -4.1                       | -1.3                    | -91.1   | -1.1                        | 83.1 |
| 2006        | 29.0      | -26.8  | 56.7                    | 28.9                   | -0.8               | -5.6               | -2.4                              | 0.2                        | 0.2                     | -103.7  | -0.2                        | 82.4 |
| 2007        | 51.4      | -36.3  | 54.9                    | 42.1                   | -17.3              | -8.7               | -4.4                              | -2.8                       | -1.7                    | -58.1   | -0.1                        | 83.8 |
| 2008        | 72.1      | -61.7  | 85.6                    | 42.1                   | 0.8                | -12.1              | 0.1                               | -5.2                       | -3.2                    | -69.8   | 0.1                         | 95.1 |
| 2009Q1      | 31.4      | -15.8  | 28.6                    | 7.7                    | 0.8                | -2.6               | 4.2                               | -0.3                       | 0.4                     | -22.9   | 0.2                         | 31.1 |
| 2009Q2      | 31.2      | -11.4  | 28.7                    | 6.3                    | 3.7                | -3.0               | 0.0                               | -0.5                       | -2.6                    | -21.5   | 0.0                         | 31.7 |
| 2009Q3      | 42.3      | -14.5  | 32.0                    | 12.5                   | 4.0                | 1.7                | -0.5                              | -0.7                       | -0.3                    | -17.0   | 0.3                         | 24.7 |
| 2009Q4      | 30.4      | -17.9  | 37.1                    | 9.4                    | 2.3                | -2.0               | -0.2                              | 0.0                        | -0.4                    | -18.0   | 0.3                         | 19.8 |

Table 7.3. Income

(In millions of euro)

| Description | Balance | Credit                    |                   | Debit                     |                   |      |       |
|-------------|---------|---------------------------|-------------------|---------------------------|-------------------|------|-------|
|             |         | Compensation of employees | Investment income | Compensation of employees | Investment income |      |       |
| 2004        | 138.3   | 155.5                     | 143.0             | 12.5                      | -17.2             | -0.7 | -16.5 |
| 2005        | 139.1   | 164.7                     | 145.9             | 18.8                      | -25.6             | -0.7 | -24.9 |
| 2006        | 158.8   | 187.7                     | 147.3             | 40.5                      | -28.9             | -0.7 | -28.2 |
| 2007        | 185.7   | 233.6                     | 155.0             | 78.6                      | -47.9             | -0.8 | -47.2 |
| 2008        | 155.5   | 224.7                     | 167.4             | 57.3                      | -69.2             | -0.8 | -68.4 |
| 2009Q1      | 26.7    | 44.8                      | 40.4              | 4.4                       | -18.1             | -0.2 | -17.9 |
| 2009Q2      | 23.6    | 45.0                      | 39.8              | 5.2                       | -21.4             | -0.2 | -21.2 |
| 2009Q3      | 15.4    | 36.4                      | 35.6              | 0.9                       | -21.0             | -0.2 | -20.8 |
| 2009Q4      | 9.4     | 33.7                      | 31.8              | 2.0                       | -24.4             | -0.3 | -24.1 |

Table 7.4. Current account

(In millions of euro)

| Description | Balance | Credit             |                 | Debit              |                 |      |        |
|-------------|---------|--------------------|-----------------|--------------------|-----------------|------|--------|
|             |         | Central government | Other transfers | Central government | Other transfers |      |        |
| 2004        | 654.9   | 823.8              | 379.5           | 444.2              | -168.8          | -7.6 | -161.2 |
| 2005        | 700.3   | 859.0              | 354.1           | 504.8              | -158.7          | -6.2 | -152.4 |
| 2006        | 759.2   | 885.1              | 327.4           | 557.7              | -125.9          | -7.5 | -118.4 |
| 2007        | 799.7   | 917.8              | 307.0           | 610.8              | -118.1          | -6.3 | -111.9 |
| 2008        | 838.2   | 945.1              | 307.8           | 637.3              | -106.9          | -5.2 | -101.7 |
| 2009Q1      | 176.2   | 198.9              | 75.2            | 123.7              | -22.8           | -1.3 | -21.5  |
| 2009Q2      | 194.0   | 216.5              | 75.2            | 141.3              | -22.5           | -1.3 | -21.2  |
| 2009Q3      | 241.6   | 278.9              | 107.1           | 171.8              | -37.3           | -1.3 | -36.0  |
| 2009Q4      | 221.7   | 258.6              | 107.1           | 151.5              | -36.9           | -1.3 | -35.6  |

Table 7.5. Financial account – net

| Description | Balance            |                     |                            |              |       |                       |                       |              |        |        |      |                |
|-------------|--------------------|---------------------|----------------------------|--------------|-------|-----------------------|-----------------------|--------------|--------|--------|------|----------------|
|             | Direct investments |                     |                            |              |       | Portfolio investments | Other investments     |              |        |        |      | Reserve assets |
|             | Equity capital     | Reinvested earnings | Other capital transactions | Trade credit | Loans |                       | Currency and deposits | Other assets |        |        |      |                |
| 2004        | 57.6               | 42.9                | 30.4                       | 9.1          | 3.5   | -32.1                 | -66.0                 | 63.4         | 3.7    | -133.1 | 0.0  | 112.7          |
| 2005        | 53.8               | 107.6               | 65.6                       | 16.8         | 25.2  | -17.5                 | -68.7                 | 64.1         | 24.1   | -156.9 | 0.0  | 32.4           |
| 2006        | -35.7              | 289.2               | 185.6                      | 24.8         | 78.8  | -65.4                 | -181.6                | 31.5         | 7.7    | -220.8 | 0.0  | -77.9          |
| 2007        | 74.8               | 431.0               | 276.4                      | 41.6         | 113.0 | -36.6                 | -29.4                 | 67.7         | 9.4    | -106.5 | 0.0  | -290.3         |
| 2008        | 452.5              | 341.5               | 197.4                      | 56.2         | 88.0  | 16.8                  | 117.3                 | 53.5         | 47.1   | 16.6   | 0.1  | -23.1          |
| 2009 Q1     | 64.2               | 65.9                | 43.9                       | 15.1         | 6.9   | 3.8                   | 38.2                  | 22.6         | 16.7   | -1.1   | 0.0  | -43.7          |
| 2009 Q2     | 173.6              | 63.6                | 41.3                       | 16.5         | 5.7   | 23.4                  | 58.8                  | 64.3         | 20.1   | -25.6  | -0.1 | 27.9           |
| 2009 Q3     | 117.2              | 69.6                | 50.4                       | 17.9         | 1.2   | -27.1                 | 95.4                  | 29.4         | 10.1   | 55.9   | 0.0  | -20.7          |
| 2009 Q4     | 76.8               | 81.9                | 65.3                       | 9.1          | 7.4   | -56.6                 | -138.9                | -13.3        | -118.9 | -6.7   | 0.0  | 190.5          |

(In millions of euro)

Table 7.6. Financial account – investments in reporting economy

(In millions of euro)

| Description | Investments in reporting economy |                     |                            |              |       |                                 |                       |       |        |      |
|-------------|----------------------------------|---------------------|----------------------------|--------------|-------|---------------------------------|-----------------------|-------|--------|------|
|             | Direct investments               |                     |                            |              |       | Portfolio investments in Kosovo | Other investments     |       |        |      |
|             | Equity capital                   | Reinvested earnings | Other capital transactions | Trade credit | Loans |                                 | Currency and deposits |       |        |      |
| 2004        | 80.8                             | 18.6                | 9.6                        | 9.1          | 0.0   | 0.0                             | 62.1                  | 49.2  | 15.3   | -2.4 |
| 2005        | 152.4                            | 80.0                | 63.2                       | 16.8         | 0.0   | 0.0                             | 72.4                  | 51.9  | 17.2   | 3.4  |
| 2006        | 318.7                            | 248.7               | 210.4                      | 24.8         | 13.5  | 0.0                             | 70.0                  | 62.8  | 7.4    | -0.2 |
| 2007        | 482.8                            | 421.2               | 308.0                      | 41.6         | 71.6  | 0.0                             | 61.7                  | 65.5  | 0.0    | -3.9 |
| 2008        | 465.5                            | 359.6               | 229.2                      | 53.5         | 77.0  | 0.0                             | 105.9                 | 38.9  | 48.5   | 18.4 |
| 2009 Q1     | 114.9                            | 69.0                | 47.0                       | 15.1         | 6.9   | 0.0                             | 45.9                  | 23.7  | 26.7   | -4.5 |
| 2009 Q2     | 159.8                            | 66.2                | 43.9                       | 16.5         | 5.7   | 0.0                             | 93.6                  | 65.6  | 8.5    | 19.4 |
| 2009 Q3     | 109.1                            | 71.9                | 52.8                       | 17.9         | 1.2   | 0.0                             | 37.2                  | 28.9  | 7.4    | 0.9  |
| 2009 Q4     | -38.7                            | 84.5                | 67.9                       | 9.1          | 7.4   | 0.0                             | -123.2                | -12.3 | -118.5 | 7.6  |

Table 7.7. Financial account – investments abroad

(In millions of euro)

| Description | Investments abroad |                     |                            |              |       |                       |                       |              |       |        |     |                |
|-------------|--------------------|---------------------|----------------------------|--------------|-------|-----------------------|-----------------------|--------------|-------|--------|-----|----------------|
|             | Direct investments |                     |                            |              |       | Portfolio investments | Other investments     |              |       |        |     | Reserve assets |
|             | Equity capital     | Reinvested earnings | Other capital transactions | Trade credit | Loans |                       | Currency and deposits | Other assets |       |        |     |                |
| 2004        | -47.4              | 0.0                 | 0.0                        | 0.0          | 0.0   | -32.1                 | -128.0                | 14.2         | -11.7 | -130.6 | 0.0 | 112.7          |
| 2005        | -126.5             | 0.0                 | 0.0                        | 0.0          | 0.0   | -17.5                 | -141.3                | 12.2         | 6.9   | -160.5 | 0.0 | 32.4           |
| 2006        | -367.5             | -5.6                | -5.6                       | 0.0          | 0.0   | -65.4                 | -218.7                | 5.2          | -2.9  | -220.9 | 0.0 | -77.9          |
| 2007        | -444.9             | -9.7                | -9.7                       | 0.0          | 0.0   | -36.6                 | -108.3                | -0.9         | -4.5  | -102.9 | 0.0 | -290.3         |
| 2008        | -51.1              | -25.0               | -25.0                      | 0.0          | 0.0   | 16.8                  | -19.8                 | -10.8        | -1.4  | -7.7   | 0.0 | -23.1          |
| 2009 Q1     | -50.7              | -3.1                | -3.1                       | 0.0          | 0.0   | 3.8                   | -7.7                  | -1.2         | -10.0 | 3.5    | 0.0 | -43.7          |
| 2009 Q2     | 13.9               | -2.6                | -2.6                       | 0.0          | 0.0   | 23.4                  | -34.7                 | -1.3         | 11.6  | -45.0  | 0.0 | 27.9           |
| 2009 Q3     | 8.1                | -2.3                | -2.3                       | 0.0          | 0.0   | -27.1                 | 58.2                  | 0.5          | 2.7   | 55.0   | 0.0 | -20.7          |
| 2009 Q4     | 115.5              | -2.6                | -2.6                       | 0.0          | 0.0   | -56.6                 | -15.7                 | -1.0         | -0.5  | -14.3  | 0.0 | 190.5          |

Table 8.1. Migrant remittances - by channel of transfer

| Description | Total |                  |       |       |
|-------------|-------|------------------|-------|-------|
|             |       | Commercial Banks | MTC   | Other |
| 2004        | 357.0 | -                | -     | -     |
| 2005        | 418.0 | -                | -     | -     |
| 2006        | 467.1 | 135.1            | 184.7 | 147.3 |
| 2007        | 515.6 | 137.1            | 198.7 | 179.8 |
| 2008        | 535.4 | 126.3            | 213.1 | 196.0 |
| 2009Q1      | 101.2 | 22.3             | 45.8  | 33.1  |
| 2009Q2      | 121.6 | 26.1             | 51.6  | 43.8  |
| 2009Q3      | 150.4 | 27.6             | 50.7  | 72.1  |
| 2009Q4      | 132.4 | 24.0             | 58.7  | 49.7  |

(In millions of euro)

Table 8.2. Migrant remittances – by country

(in percent)

| Description | Total |         |             |       |         |         |     |        |        |        |        |          |         |         |             |          |       |
|-------------|-------|---------|-------------|-------|---------|---------|-----|--------|--------|--------|--------|----------|---------|---------|-------------|----------|-------|
|             |       | Germany | Switzerland | Italy | Austria | Belgium | USA | Sweden | France | Norway | Canada | Un. King | Denmark | Finland | Netherlands | Slovenia | Other |
| 2008        | 535.4 | 38%     | 16%         | 13%   | 6%      | 3%      | 3%  | 4%     | 4%     | 2%     | 2%     | 1%       | 2%      | 1%      | 1%          | 1%       | 3%    |
| 2009Q1      | 101.2 | 35%     | 21%         | 11%   | 5%      | 4%      | 3%  | 3%     | 3%     | 2%     | 2%     | 1%       | 1%      | 1%      | 1%          | 1%       | 4%    |
| 2009Q2      | 121.6 | 39%     | 20%         | 11%   | 6%      | 3%      | 3%  | 3%     | 4%     | 2%     | 2%     | 1%       | 1%      | 1%      | 1%          | 1%       | 1%    |
| 2009Q3      | 150.4 | 37%     | 21%         | 10%   | 6%      | 3%      | 3%  | 4%     | 4%     | 3%     | 2%     | 1%       | 1%      | 1%      | 1%          | 2%       | 2%    |
| 2009Q4      | 132.4 | 38%     | 22%         | 10%   | 5%      | 3%      | 2%  | 3%     | 4%     | 3%     | 2%     | 1%       | 1%      | 1%      | 1%          | 1%       | 2%    |

Table 9.1. Foreign direct investments – by activity

(in percent)

| Description | Total |                    |            |             |                               |             |        |              |                     |             |                                      |       |
|-------------|-------|--------------------|------------|-------------|-------------------------------|-------------|--------|--------------|---------------------|-------------|--------------------------------------|-------|
|             |       | Financial services | Production | Real estate | Transport & Telecommunication | Electricity | Mining | Construction | Processing industry | Agriculture | Trade services, cleaning, collection | Other |
| 2007        | 440.7 | 23.1%              | 9.0%       | 7.0%        | 29.3%                         | 0.6%        | 9.4%   | 12%          | 8.0%                | 1.8%        | 2.9%                                 | 7.7%  |
| 2008        | 366.5 | 34.9%              | 6.0%       | 16.8%       | 13.8%                         | 4.5%        | 4.7%   | 3.7%         | 8.5%                | 2.3%        | 2.7%                                 | 2.0%  |
| 2009        | 291.5 | 25.5%              | 17.1%      | 14.9%       | 7.4%                          | 2.9%        | 2.4%   | 12.0%        | 2.4%                | 4.4%        | 5.5%                                 | 5.5%  |

Table 9.2. Foreign direct investments – by country

(In millions of euro)

| Description | Total  | of which: |         |         |             |               |        |             |         |            |        |
|-------------|--------|-----------|---------|---------|-------------|---------------|--------|-------------|---------|------------|--------|
|             |        | Slovenia  | Germany | Austria | Switzerland | Great Britain | Turkey | Netherlands | Albania | Un. States | France |
| 2007        | 440.74 | 56.56     | 48.14   | 35.39   | 9.74        | 116.16        | 5.44   | 41.24       | 3.44    | 8.81       | 8.56   |
| 2008        | 366.45 | 46.32     | 43.97   | 51.30   | 32.09       | 36.65         | 23.78  | 22.47       | 21.85   | 4.79       | 3.48   |
| 2009        | 291.53 | 52.31     | 75.15   | 15.50   | 22.71       | 6.16          | 14.49  | 15.07       | 23.32   | 11.85      | 6.03   |

Table 10.1. Imports by trading partners

(Outstanding amounts, end of period, in millions of euro)

| Description   | Total imports       |         |       |       |                          |      |       |                        |       |
|---------------|---------------------|---------|-------|-------|--------------------------|------|-------|------------------------|-------|
|               | Europe              |         |       |       |                          |      |       | Non-european countries |       |
|               | European union (EU) |         |       | CEFTA | Other European countries |      |       |                        |       |
|               |                     |         | EU 15 | EU 10 | EU 2                     |      |       |                        |       |
| 2004 December | 1,063.3             | 947.1   | 424.7 | 284.0 | 93.4                     | 47.3 | 368.7 | 153.6                  | 116.2 |
| 2005 December | 1,157.5             | 1,017.5 | 439.7 | 296.3 | 98.5                     | 44.9 | 440.4 | 137.5                  | 139.9 |
| 2006 December | 1,305.9             | 1,153.6 | 454.3 | 286.5 | 104.9                    | 62.9 | 536.3 | 163.0                  | 152.3 |
| 2007 December | 1,576.2             | 1,350.4 | 572.9 | 382.7 | 118.0                    | 72.3 | 579.6 | 197.9                  | 225.8 |
| 2008 December | 1,928.2             | 1,654.8 | 702.0 | 490.4 | 150.9                    | 60.6 | 717.8 | 235.0                  | 273.4 |
| 2009 December | 1,898.7             | 1,627.5 | 734.4 | 543.0 | 137.8                    | 53.5 | 684.5 | 208.7                  | 271.1 |

Table 10.2. Exports by commodity group

(Outstanding amounts, end of period, in millions of euro)

| Description   | Total exports                       |                        |  |  |                     |  |  |                                 |  |                                  |  |   |   |                      |     |
|---------------|-------------------------------------|------------------------|--|--|---------------------|--|--|---------------------------------|--|----------------------------------|--|---|---|----------------------|-----|
|               | I. Live animals and animal products | II. Vegetable products | III. Animal or veg. fats and oil - edib. | IV. Prepared foodstuffs, beverages, and tob. | V. Mineral products | VI. Products of the chem. Or allied industry | VII. Plastics, rubber and articles thereof | VIII. Wood and articles of wood | IX. Cellulosic material, paper, and articles | X. Textiles and textile articles | XI. Art. Of stone, plastic, ceramic, glass | XII. Base metals and articles of base metal | XIII. Machinery, appliances, electrical, etc. | XIV. Transport means |     |
| 2004 December | 56.5                                | ...                    | 2.6                                      | 3.8  | 2.4                 | 1.0  | 3.7  | 5.9                             | 0.4  | 0.4                              | 1.4  | 1.8   | 19.7  | 9.2                  | 2.0 |
| 2005 December | 56.3                                | 0.5                    | 2.9                                      | 4.6  | 3.2                 | 1.2  | 1.0  | 6.1                             | 0.4  | 0.4                              | 0.6  | 0.4   | 24.8  | 6.5                  | 2.3 |
| 2006 December | 110.8                               | 0.3                    | 5.1                                      | 6.2  | 18.8                | 1.2  | 3.2  | 7.2                             | 0.8  | 0.7                              | 0.7  | 0.7   | 53.1  | 7.7                  | 1.4 |
| 2007 December | 165.1                               | 0.6                    | 9.1                                      | 8.4  | 27.3                | 0.9  | 6.5  | 6.5                             | 1.7  | 1.0                              | 1.2  | 1.2   | 74.1  | 21.3                 | 1.5 |
| 2008 December | 198.5                               | 1.2                    | 9.0                                      | 10.6   | 18.7                | 1.8  | 6.5  | 4.9                             | 1.7  | 1.1                              | 2.5  | 1.5   | 124.8   | 8.8                  | 2.3 |
| 2009 December | 162.6                               | 1.1                    | 8.9                                      | 0.5  | 8.7                 | 24.1   | 1.4  | 10.3                            | 0.9  | 1.0                              | 4.8  | 1.4   | 82.7  | 7.3                  | 1.5 |

Table 10.3. Imports by commodity group

| Description   | Total imports of which              |                        |  |  |                     |  |  |                                 |  |                                  |  |   |   |                      |       |
|---------------|-------------------------------------|------------------------|--|--|---------------------|--|--|---------------------------------|--|----------------------------------|--|---|---|----------------------|-------|
|               | I. Live animals and animal products | II. Vegetable products | III. Animal or veg. fats and oil - edib. | IV. Prepared foodstuffs, beverages, and tob. | V. Mineral products | VI. Products of the chem. Or allied industry | VII. Plastics, rubber and articles thereof | VIII. Wood and articles of wood | IX. Cellulosic material, paper, and articles | X. Textiles and textile articles | XI. Art. Of stone, plastic, ceramic, glass | XII. Base metals and articles of base metal | XIII. Machinery, appliances, electrical, etc. | XIV. Transport means |       |
| 2004 December | 1,063.2                             | 52.4                   | 68.1                                     | 7.3  | 165.4               | 173.1  | 98.0                                       | 42.5                            | 29.9   | 33.4                             | 31.2                                       | 54.9  | 77.5  | 116.8                | 50.2  |
| 2005 December | 1,157.5                             | 54.0                   | 57.2                                     | 11.0   | 163.3               | 207.3  | 91.1                                       | 51.0                            | 30.5   | 23.5                             | 35.9                                       | 51.5  | 90.3  | 129.2                | 104.2 |
| 2006 December | 1,305.9                             | 50.5                   | 73.0                                     | 15.3   | 180.6               | 241.7  | 107.7                                      | 60.7                            | 30.3   | 27.6                             | 45.1                                       | 57.0  | 122.6   | 153.3                | 79.3  |
| 2007 December | 1,576.2                             | 61.2                   | 83.4                                     | 17.3   | 222.2               | 295.3  | 119.9                                      | 72.8                            | 35.4   | 31.9                             | 53.0                                       | 63.0  | 144.3   | 203.4                | 95.9  |
| 2008 December | 1,928.2                             | 85.4                   | 103.6                                    | 22.7   | 261.9               | 378.6  | 138.8                                      | 86.1                            | 41.7   | 39.0                             | 64.0                                       | 67.2  | 179.6   | 239.9                | 131.1 |
| 2009 December | 1,898.7                             | 84.7                   | 84.9                                     | 20.7   | 227.9               | 311.3  | 130.3                                      | 99.7                            | 55.0   | 38.9                             | 65.3                                       | 71.9  | 147.6   | 259.7                | 168.2 |

(Outstanding amounts, end of period, in millions of euro)

Table 10.4. Imports by trading partners and commodity group

(Outstanding amounts, end of period, in millions of euro)

| Description                      | Total  | of which:                           |                        |  |  |                     |  |  |                                     |  |  |                     |   |
|----------------------------------|--------|-------------------------------------|------------------------|--|--|---------------------|--|--|-------------------------------------|--|--|---------------------|---|
|                                  |        | I. Live animals and animal products | II. Vegetable products | III. Animal or veg. fats and oil - edib. | IV. Prepared foodstuffs, beverages, and tob. | V. Mineral products | VI. Products of the chem. Or allied industry | VII. Plastics, rubber and articles thereof | VIII. Textiles and textile articles | IX. Art. Of stone, plastic, ceramic, glass | X. Machinery, appliances, electrical, etc. | XI. Transport means | XII. Optical, medical and musical instruments |
| Total                            | 1898.8 | 84.7                                | 88.8                   | 18.2                                     | 240.6  | 330.8               | 141.1  | 93.7                                       | 69.2                                | 73.2                                       | 262.2                                      | 156.6               | 21.9  |
| Europe                           | 1576.3 | 50.1                                | 70.4                   | 17.8                                     | 218.5  | 271.4               | 132.3  | 80.0                                       | 46.1                                | 62.0                                       | 202.0                                      | 141.1               | 16.6  |
| European Union (EU)              | 734.3  | 40.4                                | 17.1                   | 8.0                                      | 87.7   | 69.3                | 71.9   | 45.3                                       | 9.1                                 | 22.6                                       | 123.1                                      | 135.8               | 14.1  |
| EU 15                            | 543.0  | 15.3                                | 13.6                   | 0.8                                      | 61.2   | 52.5                | 46.2   | 34.2                                       | 7.1                                 | 17.0                                       | 99.5                                       | 133.4               | 11.2  |
| Austria                          | 37.0   | 0.6                                 | 0.5                    | 0.1                                      | 14.4   | 0.6                 | 6.6  | 1.3  | 0.2                                 | 0.5  | 6.4  | 0.4                 | 0.7   |
| France                           | 25.5   | 0.1                                 | 0.3                    | 0.0                                      | 0.9  | 0.1                 | 4.8  | 2.3  | 0.1                                 | 0.3  | 5.0  | 9.8                 | 0.6   |
| Germany                          | 235.4  | 5.5                                 | 0.3                    | 0.1                                      | 15.7   | 4.1                 | 11.5   | 20.6                                       | 1.6                                 | 1.6  | 43.7                                       | 106.3               | 6.2   |
| Greece                           | 78.9   | 0.2                                 | 4.8                    | 0.1                                      | 6.0  | 44.7                | 6.5  | 4.0  | 0.4                                 | 1.7  | 3.5  | 0.1                 | 0.3   |
| Italy                            | 86.4   | 1.0                                 | 4.3                    | 0.5                                      | 7.6  | 2.4                 | 9.6  | 3.0  | 1.4                                 | 7.8  | 24.9                                       | 7.1                 | 2.2   |
| Netherlands                      | 30.8   | 7.2                                 | 2.6                    | 0.0                                      | 13.8   | 0.3                 | 0.7  | 1.1  | 1.1                                 | 0.0  | 1.5  | 0.6                 | 0.3   |
| Spain                            | 11.5   | 0.0                                 | 0.7                    | 0.0                                      | 0.2  | 0.0                 | 0.8  | 0.1  | 0.6                                 | 4.9  | 2.0  | 1.0                 | 0.0   |
| Sweden                           | 9.2    | 0.0                                 | 0.0                    | 0.0                                      | 0.2  | 0.0                 | 0.4  | 0.4  | 0.1                                 | 0.0  | 3.6  | 3.8                 | 0.1   |
| United Kingdom                   | 13.9   | 0.0                                 | 0.0                    | 0.0                                      | 1.4  | 0.0                 | 2.2  | 0.3  | 0.1                                 | 0.0  | 4.1  | 4.0                 | 0.5   |
| EU 10, of which:                 | 137.8  | 23.7                                | 2.3                    | 0.2                                      | 21.1   | 0.8                 | 21.4   | 8.3  | 0.9                                 | 2.2  | 21.1                                       | 2.2                 | 2.7   |
| Czech Republic                   | 16.0   | 0.9                                 | 0.0                    | 0.0                                      | 0.3  | 0.4                 | 2.4  | 1.4  | 0.1                                 | 0.6  | 3.3  | 1.5                 | 0.2   |
| Poland                           | 23.9   | 4.0                                 | 0.1                    | 0.0                                      | 4.3  | 0.0                 | 2.0  | 1.7  | 0.0                                 | 0.3  | 2.9  | 0.3                 | 0.2   |
| Hungary                          | 26.4   | 10.2                                | 1.5                    | 0.2                                      | 3.6  | 0.1                 | 1.6  | 1.3  | 0.1                                 | 0.5  | 2.8  | 0.1                 | 0.7   |
| Slovenia                         | 65.1   | 8.7                                 | 0.7                    | 0.0                                      | 11.6   | 0.3                 | 14.1   | 3.3  | 0.5                                 | 0.8  | 10.6                                       | 0.3                 | 1.6   |
| EU 2                             | 53.5   | 1.4                                 | 1.2                    | 7.0                                      | 5.4  | 16.0                | 4.4  | 2.7  | 1.2                                 | 3.4  | 2.5  | 0.2                 | 0.2   |
| Bulgaria                         | 44.1   | 1.3                                 | 1.0                    | 6.7                                      | 4.3  | 14.3                | 2.0  | 2.2  | 1.1                                 | 2.6  | 1.6  | 0.1                 | 0.1   |
| Romania                          | 9.5    | 0.0                                 | 0.1                    | 0.3                                      | 1.0  | 1.7                 | 2.4  | 0.5  | 0.1                                 | 0.8  | 0.9  | 0.1                 | 0.0   |
| Other european countries         | 172.5  | 0.8                                 | 9.7                    | 0.6                                      | 21.5   | 3.1                 | 13.2   | 11.0                                       | 33.2                                | 3.7  | 28.2                                       | 3.8                 | 1.8   |
| of which:                        |        |                                     |                        |  |  |                     |  |  |                                     |  |  |                     |   |
| Turkey                           | 139.9  | 0.4                                 | 9.5                    | 0.6                                      | 20.3   | 1.6                 | 7.5  | 8.8  | 32.6                                | 2.7  | 19.7                                       | 2.8                 | 0.6   |
| Switzerland                      | 20.4   | 0.4                                 | 0.1                    | 0.0                                      | 0.9  | 0.7                 | 3.5  | 1.8  | 0.6                                 | 0.1  | 6.9  | 0.9                 | 1.2   |
| CEFTA                            | 669.4  | 8.9                                 | 43.7                   | 9.2                                      | 109.3  | 199.0               | 47.2   | 23.7                                       | 3.8                                 | 35.8                                       | 50.7                                       | 1.5                 | 0.7   |
| Albania                          | 43.7   | 0.3                                 | 1.8                    | 0.3                                      | 0.8  | 8.8                 | 0.2  | 1.1  | 0.0                                 | 0.2  | 0.1  | 0.0                 | 0.0   |
| Bosnia and Herzegovina           | 58.8   | 2.7                                 | 0.2                    | 0.2                                      | 7.8  | 15.1                | 3.6  | 0.5  | 0.0                                 | 0.6  | 3.4  | 0.0                 | 0.0   |
| Croatia                          | 54.3   | 1.0                                 | 1.4                    | 0.2                                      | 12.8   | 6.1                 | 8.3  | 1.7  | 0.1                                 | 1.6  | 14.9                                       | 0.5                 | 0.3   |
| Montenegro                       | 13.0   | 0.0                                 | 0.1                    | 0.0                                      | 2.5  | 1.0                 | 0.0  | 0.1  | 0.0                                 | 0.0  | 0.5  | 0.0                 | 0.0   |
| Republic of Macedonia            | 290.6  | 2.1                                 | 10.3                   | 0.5                                      | 40.0   | 155.4               | 16.2   | 9.1  | 1.6                                 | 5.2  | 14.0                                       | 0.1                 | 0.0   |
| Serbia                           | 209.0  | 2.8                                 | 29.9                   | 8.1                                      | 45.6   | 12.6                | 18.8   | 11.3                                       | 2.0                                 | 28.1                                       | 17.8                                       | 0.9                 | 0.3   |
| Other non european countries, of | 232.1  | 34.1                                | 5.7                    | 0.3                                      | 21.1   | 3.3                 | 8.6  | 10.6                                       | 20.0                                | 10.8                                       | 52.6                                       | 12.7                | 4.8   |
| of which:                        |        |                                     |                        |  |  |                     |  |  |                                     |  |  |                     |   |
| USA                              | 25.5   | 10.9                                | 0.1                    | 0.0                                      | 0.8  | 0.5                 | 3.2  | 0.2  | 0.1                                 | 0.1  | 5.2  | 2.6                 | 1.2   |
| China                            | 126.6  | 0.1                                 | 1.8                    | 0.0                                      | 1.0  | 0.1                 | 3.4  | 7.5  | 17.7                                | 10.4                                       | 35.8                                       | 2.4                 | 2.2   |
| Brazil                           | 37.9   | 18.9                                | 1.7                    | 0.0                                      | 16.2   | 0.0                 | 0.5  | 0.1  | 0.0                                 | 0.0  | 0.3  | 0.0                 | 0.0   |
| Japan                            | 14.7   | 0.0                                 | 0.0                    | 0.0                                      | 0.0  | 0.0                 | 0.5  | 0.5  | 0.0                                 | 0.0  | 5.8  | 6.8                 | 1.0   |
| Other                            | 90.4   | 0.5                                 | 12.8                   | 0.0                                      | 1.0  | 56.0                | 0.3  | 3.1  | 3.1                                 | 0.3  | 7.6  | 2.8                 | 0.5   |

Table 10.5. Imports by broad economic categories (BEC)

(Outstanding amounts, end of period, in millions of euro)

| Description   | Total imports                              |       |       |                                 |                    |   |  |  |                   |  |   |   |  |               |
|---------------|--|-------|-------|---------------------------------|--------------------|---|--|--|-------------------|--|---|---|--|---------------|
|               | Capital goods                              |       |       |                                 | Intermediary goods | of which:   |  |  | Consumption goods | of which:  |   |   |  | Omitted goods |
|               | Capital goods (Except transport equipment) |       |       | Transport equipment, industrial |                    | Food and beverage s, primary, mainly for industry | Food and beverage s, processe d, mainly for industry | Industrial supplies not elsewhere specified, primary |                   | Food and beverage s, primary, mainly for household consumption | Food and beverage s, processe d, mainly for household consumption | Consumers goods elsewhere specified, semi-durable | Consumers goods not elsewhere specified, non-durable |               |
|               |  |       |       |                                 |                    |   |  |  |                   |  |   |   |  |               |
| 2005 December | 1,157.5                                    | 91.2  | 74.3  | 16.9                            | 397.9              | 11.4  | 25.3   | 279.4  | 382.8             | 44.0   | 165.6   | 41.1  | 94.9   | 285.5         |
| 2006 December | 1,305.9                                    | 96.3  | 80.1  | 16.2                            | 491.2              | 22.4  | 35.1   | 336.4  | 421.9             | 46.8   | 169.1   | 51.6  | 114.3  | 296.5         |
| 2007 December | 1,576.2                                    | 145.4 | 127.6 | 17.8                            | 660.6              | 25.0  | 44.0   | 426.7  | 508.1             | 52.4   | 199.7   | 63.6  | 131.5  | 262.0         |
| 2008 December | 1,928.3                                    | 195.1 | 164.0 | 31.0                            | 792.0              | 42.1  | 42.2   | 520.6  | 611.2             | 60.7   | 250.7   | 73.0  | 158.0  | 329.9         |
| 2009 December | 1,898.8                                    | 235.1 | 189.9 | 45.1                            | 772.1              | 24.7  | 34.1   | 26.9   | 604.7             | 60.8   | 254.5   | 75.4  | 144.6  | 286.9         |

Table 11. Nominal and real effective exchange rate

(Cumulative data, end of period, in millions of euro)

| Description   | Index |              |              |           |
|---------------|-------|--------------|--------------|-----------|
|               | NEER  | REER (Total) | REER (CEFTA) | REER (EU) |
| 2006 December | 100.1 | 99.1         | 99.1         | 98.8      |
| 2007 December | 100.2 | 105.4        | 103.8        | 105.8     |
| 2008 December | 102.2 | 105.1        | 106.1        | 103.9     |
| 2009 December | 101.6 | 102.2        | 101.3        | 102.6     |

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