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

ANNUAL REPORT

2008

CBK ANNUAL REPORT

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LIST OF ABREVIATIONS

BEC	Broad Economic Categories
BKT	Banka Kombëtare Tregtare
CBK	Central Bank of Republic of Kosovo
CEB	Central European Bank
CEFTA	Central European Free Trade Agreement
CRK	Credit Registry of Kosovo
CTPL	Compulsory Third Party Liability Insurance
EULEX	EU Mission in Kosovo
FDI	Foreign Direct Investment
FED	Federal Reserve in USA
GDP	Gross domestic product
ICS	Interbank Clearing System
IMF	International Monetary Fund
KEK	Kosovo Energy Corporation
KMB	Komercijalna Banka
KPA	Kosovo Privatization Agency
KPST	Kosovo Pension Saving Trust
KTA	Kosovo Trust Agency
MEF	Ministry of Economy and Finance
NFA	Net Foreign Assets
pp	Percentage point

LIST OF ABREVIATIONS

PTK	Post and Telecommunication of Kosovo
REER	Real exchange effective rate
SEE	South-East Europe
SKPF	Slovenian Kosovo Pension Fund
SOK	Statistical Office of Kosovo
TEB	Türk Ekonomi Bankasi
TPL	Third Party Liability Insurance
UE	European Union
UNMIK	United Nations Mission in Kosovo
VAT	Value added tax

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Dear President of the Republic of Kosovo,

It is my honor and pleasure to present to you the Annual Report for 2008, an extremely important year for Kosovo, the year that was marked with golden letters in the history of Kosovo as the Year of Independence. Annual Report, which includes the most important developments in the Kosovo economy, especially in the financial sector, is a result of work performed with high commitment by the qualified staff of the Central Bank of the Republic of Kosovo; therefore the Annual Report every year is becoming more comprehensive and of a better quality.

Year 2008 is characterized by the global financial crisis, which is considered as one of the most serious crises in the world. This crisis caused a recession in the global level. Due to this, the regulatory concept for banks and activities of other financial institutions, which for a very long time reigned in the world, is seriously questioned. More specifically, this crisis, which shook almost the whole world, raised the need to increase the supervisory role of central banks and to design an institution at the international level for supervision of the financial systems aiming at preventing of similar crises in the future.

Central Bank of the Republic of Kosovo has implemented the best international practices of risk-based supervision and a very conservative supervision of all financial institutions operating in Kosovo. Despite the recent financial crisis, Kosovo's financial sector remained sound and sustainable, marking an increase of deposits and loans. Interest of the new banks to enter the Kosovo market is another indicator of soundness and stability of the financial sector of the country.

Governing Board of the Central Bank, wholly composed of local members, undertook responsibilities as prescribed in the Law on the Central Bank, promptly and successfully implementing best international governance practices.

Prof. Dr. Gazmend Luboteni

Chairman of the Governing Board

Dear President of the Republic of Kosovo,

Year 2008 was a year of big challenges and achievements for Kosovo. The declaration of independence brought about new perspectives for sustainable economic development of our country. The approval of the Constitution of the Republic of Kosovo transformed the Central Banking Authority of Kosovo into the Central Bank of the Republic of Kosovo, supporting this way the institutional framework for an effective functioning of the financial sector and the economy. In addition, the transfer of all competences to the local authorities was associated with many achievements.

Despite the unfavorable external environment – characterized with the global financial crisis and the recession – financial sector and the economy of Kosovo continued the development path of previous years. In order to safeguard the financial sector, the Central Bank intensified its supervisory activities with a special focus in advancing risk assessment methods in financial institutions, enhanced cooperation among institutions aiming at coordinating the effort for solving potential problems, and followed an active communication policy with the public. Moreover, the Central Bank invested its assets in compliance with the principle of security, liquidity and return on assets, achieving this way positive returns.

Year 2008 was a year of prosperity for the banking sector, with substantial growth in deposits and loans contributing this way to the economic growth. The entry of new banks in the market increased competition in the sector. Consequently, the competition created more favorable conditions for borrowers and depositors and, at the same time, improved the quality and increased the quantity of banking services. This was accompanied with sustainability of the sector, ranking Kosovo's banking sector among the most stable sectors in the region. This year was also characterized with positive developments in the insurance industry, especially with the introduction of new products such as life insurance, as well as the introduction of the controlled liberalization of Third Party Liability tariffs. Furthermore, micro-finance institutions have continued to lend to the household sector, small businesses and agriculture sector. An exceptional case of the good performance of the financial sector is Kosovo Pension Savings Trust, assets of which marked a considerable decline as a result of the substantial drop in share prices globally.

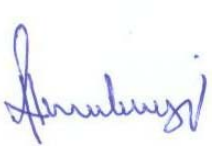
Substantial achievement is marked in the payments system that contributed to the reduction of the use of cash in the economy. In addition, the infrastructure that facilitates financial sector development further improved in 2008. In this regard, and in cooperation with international partners, preparations for the design of National Strategy for Payments System were made. Close cooperation with international partners, such as the International Monetary Fund, World Bank, USAID, etc., strengthened in building capacities at the Central Bank. During 2008, the Central Bank has also improved the compilation process and the quality of dissemination of financial and monetary statistics and balance of payments statistics in line with international standards. Furthermore, periodical and non-periodical analyses related to the

financial and economic developments in Kosovo were upgraded as well as the Central Bank contribution in supporting general economic policies.

A special engagement of the Central Bank during 2008 was the advancement of the legal framework of the financial system aiming at further enhancing the role of the Central Bank in the Kosovo economy. The Central Bank has been active in international cooperation and, as a result, signed several agreements with relevant authorities of different countries. In this regard, the Central Bank contributed to the preparations of the Republic of Kosovo to become a member of the International Monetary Fund.

Growth projections for 2009 indicate a slowdown compared to the previous year, while most sensitive segments of the economy will be remittances, foreign investments and a slowdown in the credit growth of the financial sector. Maintaining stability of the financial sector, pursuing sound fiscal policies, as well as the continuation of structural reforms in the economy may offset the implications from the deterioration in the above-mentioned segments. Consequently, there are many challenges ahead in order to overcome the possible impact of the crisis, to support a long-term economic development and to trace the path to European integration. Therefore, a lot of effort and cooperation among the institutions of the Republic of Kosovo is needed to cope with the challenges ahead.

In that context, I am pleased to submit to you the Annual Report of the Central Bank of the Republic of Kosovo for 2008.



Hashim Rexhepi

Governor

Members of the Governing Board, Audit Committee and Executive Committee

As at 31 December 2008, the Governing Board of the Central Bank of Republic of Kosovo was composed of following members:

GOVERNING BOARD OF THE CBK

Mr. Gazmend Luboteni, Chairman of the Governing Board;

Mr. Michel Svetchine, Managing Director and member of the Governing Board until 26th of March 2008;

Mr. Hashim Rexhepi, Governor and member of the Governing Board since 27th of March 2008;

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

Mrs. Chiara Bronchi, member of the Governing Board until 31st of January 2008;

Mr. Sejdi Rexhepi, member of the Governing Board since 13 June 2008;

EXECUTIVE COMMITTEE OF THE CBK (as at 31 December 2008):

Mr. Hashim Rexhepi, Governor;

Mr. Gani Gërguri, Vice Governor for Central Banking Functions;

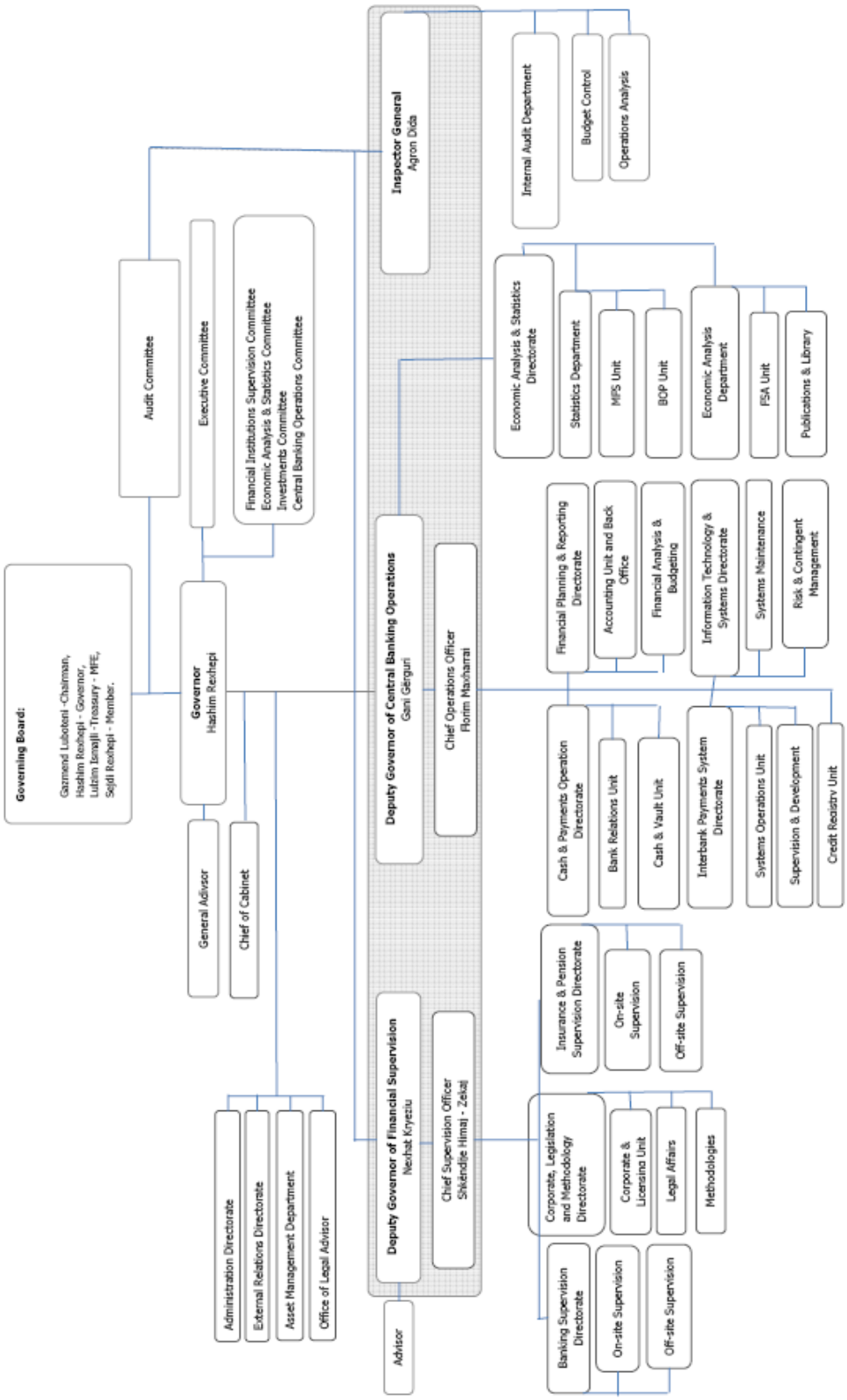
Mr. Nexhat Kryeziu, Vice Governor for Supervision of Financial Sector;

Mr. Agron Dida, Inspector General;

Ms. Shkendije Himaj, Chief Supervision Officer;

Mr. Florim Maxharraj, Chief Operations Officer.

Organizational Structure of the CBK as at 31 December 2008



1. Executive Summary

The world economy during 2008 was characterized with a severe financial crisis, which was reflected in the real sector causing slowdown in the economic activity. The recession in developed countries mostly affected the industrial production leading to a considerable growth in unemployment. In order to reduce the consequences of the crisis, developed countries undertook measures aimed at stimulating the aggregate demand, mainly by decreasing interest rates and by pursuing expansionary fiscal policies. Likewise, developed countries have been tackling the crisis in a coordinated way, proposing measures that were aimed at restoring the confidence in financial markets and stimulate the overall economic activity. The economic crisis was reflected also in South-East European countries, manifested with a decline in domestic consumption, exports and investments. Whereas, the impact of the crisis in the financial sectors in these countries was more limited.

Despite the crisis, Kosovo economy recorded a real GDP growth of 5.4 percent in 2008. The economic growth was mainly generated by the increase of private consumption and public investment, largely financed by banking sector loans, remittances, foreign assistance, and considerable increase of budget expenditures. During 2008, budget expenditures (especially capital outlays) recorded a considerable increase leading to a slight budget deficit of 0.2 percent of GDP. The financial sector of Kosovo continued the good performance. Deposits of the banking sector, which is the most important sector within the Kosovo financial sector, recorded an annual growth rate of 26.4 percent in 2008. On the other hand, loans grew by 32.7 percent, financing a large share of private sector consumption and investment. Besides the expansion of the activity, the banking sector remained sound. Capital adequacy ratio stood at 16.5 percent while non-performing loans represented only 3.3 percent of total portfolio in 2008. In general, Kosovo's financial sector continued to expand and at the same time maintaining the stability, with exception of the Kosovo Pensions Savings Trust, which recorded a significant decline in the value of its shares as a consequence of the financial crisis.

The high dependence of the Kosovo economy on imports continues to translate to high trade deficits (43 percent of GDP in 2008), consequently causing high current account deficit (19.5 percent of GDP). On the other hand, the unemployment rate of over 40 percent remains a problem and a challenge

for the economy. The Kosovo economy during 2009 is expected to face challenges because of the crisis that may be transmitted through the decline of migrant transfers, foreign direct investments, and possible credit tightening by commercial banks.

As a regulatory and supervising authority, one of the main objectives of CBK remains the development and modernization of the financial sector by implementing the best international principles. The approach to supervising financial institutions has evolved from a "rule-based" approach to a "risk-based" approach, formulated upon the Basel Core Principles and Pillar 2 of Basel II for banks. A risk-based approach was formulated also for insurance companies according to a solvency regime, which is based on the risk born by these companies. During 2008, there were significant developments in completion of legal regulations for banks, insurance companies, pensions and other non-bank financial institutions in compliance with a prudent regulatory and supervisory policy framework harmonized with EU/EC directives. In the framework of commitments to guarantee a stable financial sector, in 2008, the CBK continued inspections across all financial institutions operating in Kosovo. The year 2008 was also characterized by the engagement of the CBK in the process of establishment of the Deposit Insurance Agency, in cooperation with German Bank for Development (KfW) and Frankfurt School. The project for the insurance of financial institutions deposits is reviewed by the Ministry of Economy and Finance and the law is foreseen in the legislative plan for approval during 2009.

Besides the supervising activity, CBK provides the government and financial institutions as well as the public with services offered by central banks, with the exception of lending or providing temporary liquidity since CBK is not an issuing bank. During 2008, CBK responsibly provided the economy with euro coins and banknotes and in the same time provided other banking services such as management of government, public and financial institutions assets. As a very important function of the CBK, the interbank payments system marked further advancement. During 2008, Electronic Interbank Clearing System (EICS) moved into a web-based technological platform. Also, the Direct Debit Scheme was developed during that period, while it is expected to be functionalized as of 2009. Compared to the previous year, the number of EICS transactions increased by 107.2 percent, while the value of transactions increased by 28.7 percent. During 2008, the CBK continued to improve the functionality of credit registry, which has facilitated the exchange of information between credit institutions, thus contributing to the safeguarding of the stability in the financial sector. A significant progress was marked in the compilation of monetary and financial statistics, and balance of payments statistics. Also, the CBK continued to

inform the public on economic developments through periodical and non-periodical analyses published in the CBK publications and also supported the general economic policies in Kosovo.

Internal audit of the CBK, has acted based on the annual plan which in 2008 was more specific due to the global financial crisis. Consequently, CBK operations on securities and time deposits investments have been audited on weekly basis, resulting in the compilation of 53 special reports. During 2008, progress was achieved also in the governance of Human Resources of the CBK, which has developed and implemented a program of progressive development of human resource capacities ranging from analysis of staff training needs, development of training and employment policies; support of the staff to participate in various training, compliance with Code of Ethics and Conduct and performance evaluation.

2. External economic environment

2.1. World economy[1]

The world economy in 2008 was characterized with a deep financial crisis and contraction in the economic activity. The depth and the spread of the crisis made the growth forecasts more pessimistic, especially for the last quarter of 2008 and for 2009. The financial crisis evolved initially in the U.S. financial market, specifically in the sub-prime mortgage market (loans granted to clients with low credit rating). The long period of low interest rates as well as the deregulation of financial markets resulted in a rapid credit growth, including loans with lower quality. As a consequence, the inflationary pressures pushed FED to increase key interest rates. This primarily affected borrowers with low credit rating, making it difficult to pay back their loans. Default of a large number of loans brought about a drastic drop in real estate prices, worsening the quality of credit portfolios and pushing some banks into bankruptcy.

The high integration of financial systems caused a rapid spread of the financial crisis worldwide. This led to the loss of confidence in the interbank market resulting in the decrease in liquidity and increase in interbank interest rates such as Libor and Euribor.[2] Furthermore, the long-term interbank financing almost ceased to exist. As a result, a large number of banks were having serious financial difficulties, creating a general distrust in markets. Within a short period of time, problems in the financial sector were reflected in the real sector, mainly through the contraction of credit to households and enterprises, slowing down economic activity and creating uncertainties in capital markets. For instance, the Dow Jones Industrial Average index recorded a substantial drop at end 2008 and early 2009.

The decline in credit growth and the loss of confidence were associated with a drop in the overall demand, mainly through the decline of domestic consumption, exports, and investments. Developed countries, such as the U.S., EU, Japan, etc., as well as developing countries, such as China, India and Russia reported economic contraction. According to the World Bank estimates, the world economy grew by 1.9 percent in 2008, while in 2009 it is expected to decline by 1.7 percent. Based on the International

[1] The developments in the world economy and South East Europe are based on: IMF (2008), World Economic Outlook; IMF (2008), Regional Economic Outlook; EBRD (2008); Business Monitor International (2009); European Commission (2008); UNDP (2008); ECB (2009) and Eurostat (2009).

[2] Libor (London Interbank Offered Rate) and Euribor (Euro Interbank Offered Rate) are interest rates in the interbank loans that participating banks offer each other for short-term deposits in the money markets in London and 57 European Banks, respectively.

Monetary Fund (IMF) estimates, the world economy grew by 3.4 percent in 2008, while in 2009 the real GDP is expected to fall by 0.5 percent.

The recession in developed countries was characterized with a drop in industrial output by 12 percent, the largest decline in the last 18 years, which induced a substantial increase in unemployment. For instance, the U.S. recorded the largest increase in unemployment in the last 25 years, with over 5.1 million job losses – mainly in the services sector, processing industry, and the construction sector. As a result, in the first months of 2009, the unemployment rate increased to 7.6 percent compared to 4.9 percent one year earlier. Similar characteristics of recession occurred also in EU, where the unemployment rate reached eight percent in 2008 compared to 6.8 percent a year earlier. Persistent in the first quarter of 2009 as well, the elevated unemployment rate is expected to continue throughout the year and 2010. According to some projections, the unemployment rate in 2010 in the U.S. will reach 9.5 percent and in EU 10.2 percent, when a recovery of the global economy is expected to begin.

To overcome the consequences of the economic crisis, some developed countries such as the U.S. and EU undertook expansionary monetary and fiscal policies. The monetary policies were characterized with substantial cuts in key interest rates by central banks. For instance, FED, ECB and Bank of England, driven by the economic downturn, cut key interest rates several times during 2008 and the first quarter 2009. While FED cut key interest rate to 0.25 percent in December 2008 (compared to 4.25 percent in December 2007), the Bank of England and the ECB cut key interest rates to 2.0 and 2.5 percent, respectively (5.5 and 4.0 percent in December 2007). In addition, government and central bank measures to overcome the crisis included capital injections, purchase of toxic assets from commercial banks, guarantying of the financial institutions liabilities as well as partial nationalization of some financial institutions. Government interventions for stimulating demand were also characterized by expansionary fiscal policies, which mainly consisted of increase in government expenditures, cut in tax rates, etc., which, to some extent have been offsetting the impact of the crisis on consumption and investments. However, these policies may be translated into higher budget deficits with long-run macroeconomic consequences.

Another distinct feature of the current situation is the initiative for a coordinated response to the financial and economic crisis, especially by developed countries - members of G20. The main problems to be addressed are to restore the confidence in financial markets and stimulate the global economic activity.

This would be achieved by increasing transparency and accountability in the financial sector, strengthening the financial supervision regulations and reforming international financial institutions. Moreover, these countries agreed upon the allocation of 1.1 trillion U.S. dollars, intended to recover international finances, credit growth, international trade and the overall economic activity.

The world economy was also characterized by increased inflationary pressures during the first half of the year. Inflationary pressures were mainly caused by the substantial increase of oil, energy and food prices. As a consequence, the global annual average inflation reached 6.2 percent in 2008, compared to 3.9 percent in 2007. Energy and transport prices contributed substantially to the food crisis in 2008. In addition, food prices increased also due to the continuous production of alternative energy by developing countries, which reduced the available amount of corn in the market through the conversion of crops into fuels. After July 2008, oil prices declined quickly due to the negative implications of the crisis in the global demand, which induced a substantial drop in the demand for oil. The trend being followed by prices poses a risk for potential deflation, which can further depress the economic activity. The inflation forecasts for 2009 point to a decreasing trend in the first half of the year, mainly due to the recession. However, in the second half of the year, inflationary pressures may reappear due to the expansionary monetary and fiscal policies undertaken by most countries. This volatility in prices will increase further the uncertainty in markets, affecting negatively investments and economic activity.

The drop in global demand and the reported recession in most developed countries had a negative impact in the international trade in 2008. The decline in the overall level of international trade is mainly generated from the decline in the trade of services and industrial products. The IMF forecasts suggest a decline of 11 percent in the volume of global trade for 2009, while according to the World Bank, the volume of international trade is expected to decline by 6.1 percent. Regarding the foreign exchange market, the U.S. dollar vis-a-vis the euro was very volatile during 2008. While in the first half of the year, the U.S. dollar appreciated against the euro, the drop in oil prices in the second half of the year triggered a depreciation of the U.S. dollar. The depreciation of the U.S. dollar vis-a-vis the euro in recent years was partially as a result of the cyclical divergences between the U.S. and EU economies. Stable economic growth recorded in Europe in the recent years has contributed to the stability of the euro, while the slowdown of the economic growth in the U.S. has led to the depreciation of the U.S. dollar. Regarding the euro exchange rate with other currencies, euro appreciated against the British Pound and depreciated

against the Japanese Jen in 2008. The annual average exchange rate of euro was 1.47 U.S dollar (1.37 in 2007), 152.45 Japanese Jen (161.25 in 2007) and 0.80 British Pounds (0.68 in 2007).

2.2. South-East Europe

The global economic crisis was reflected also in the South-East European countries (SEE). The crisis has been transmitted mainly through the decline in consumption, exports and investments. The growth trend that SEE countries recorded in recent years has slowed down in the third quarter of 2008 and is expected to continue in 2009. According to the latest estimates, the SEE countries recorded a GDP growth of 5.7 percent in 2008, compared to 6.7 percent a year earlier. Industrial production marked the largest decline among economic sectors, decreasing annually by 21 percent. Countries that were mostly affected by the crisis are Croatia and Serbia, followed by Macedonia and Bosnia and Herzegovina. Forecasts for 2009 are more pessimistic, while the first quarter of 2009 proved that the negative implications of the economic crisis are more pronounced than initially expected. Growth projections for 2009 suggest a decline in the real GDP by 2.1 percent, on average, except Albania that is expected to grow by 0.4 percent. The economic slowdown in 2009 is expected to derive mainly from a decline of credit to the real sector, a further decline in exports and Foreign Direct Investments (FDI). Moreover, the recession reported in developed countries is expected to affect substantially the level of remittances to SEE, which represent an important financing item in these countries.

Inflationary pressures that EU countries experienced in the first half of 2008 were also reflected in SEE. However, the second half of the year was characterized with declining price pressures due to the monetary measures undertaken by these countries, as well as the decline in the global demand. The increase of oil and food prices during the first half of the year had a stronger impact in the SEE countries compared to developed countries. This happened mainly because food and energy represent the largest components of the consumer basket in the region. The annual average inflation in SEE reached 7.6 percent in 2008, compared to 3.3 percent in the previous year. Projections for 2009 indicate a further decline in prices due to the global recession.

The increase of prices in the first half of 2008 as well as the decline in exports due to the world economic crisis led to a further deepening of the current account deficit in the region. The average current

account deficit to GDP ratio in the SEE countries was around 16.6 percent in 2008, compared to 14.8 percent a year earlier. Besides the decline in exports, FDI declined in most of countries in the region. Furthermore, the recession reported in the EU countries will affect substantially countries which rely heavily on tourism revenues. Regarding the foreign exchange market, the exchange rates of the SEE countries' currencies vis-a-vis euro were highly volatile throughout 2008. On average, Albanian Lek and the Croatian Kuna appreciated against euro during year 2008, while the Macedonian Denar and Serbian Dinar depreciated. The latest data show a depreciation of all these currencies against euro in the first quarter of 2009, despite several interventions by the central banks in the foreign exchange inter-bank market.

Financial sector in the SEE countries was less affected by the financial crisis compared to the developed countries. However, the confidence in the banking system experienced a distraction, manifested mainly by deposit withdrawals in some countries, mainly in Western Balkans, what led to the need for liquidity injection by the central banks of those countries. Despite this distraction, the banking systems of these countries achieved to manage well this situation and continued to function normally. The state guarantees granted in parent banks' home countries enhanced the confidence in the banking systems of SEE countries. Moreover, almost all of these countries have raised the level of guarantees for saving deposits, what has reduced the level of uncertainty for depositors. In the first quarter of 2009, developments in the financial sectors of these countries were characterized with substantial decline in the growth rates of loans and deposits and an increase in non-performing loans.

3. Kosovo Economy

3.1 Real Sector

The Kosovo economy resisted the first wave of the financial crisis and the recession experienced in the world economy. The real GDP growth for 2008 was estimated at 5.4 percent, supported mainly by private consumption and public investments. During 2009, the impact of the crisis is expected to emerge in Kosovo as well, reflected mainly in lower growth rate. The IMF forecasts for 2009 suggest a real GDP growth of 3.8 percent that can be subject to a further revision. The situation in the labor market remains difficult, with prevailing high rate of unemployment. During the first half of the year, the Kosovo economy was facing inflationary pressures with negative implications for purchasing power of consumers and the external position. Nevertheless, due to the decline of demand at the global level and the decline in the oil prices, inflation pressures eased in the second half of the year. The declining trend in prices continued in first months of 2009 and this trend may continue in the coming months.

3.1.1. Gross Domestic Product

The latest IMF estimates indicate a real growth rate of 5.4 percent for 2008, compared to 3.9 percent in the previous year (Table 1). The economic growth in 2008 was driven by the increase in consumption and investments, largely financed by bank loans, remittances, public expenditures and foreign assistance.

The economic growth continued to rely in the private sector in 2008. Private sector consumption and investments account for 83.2 and 72 percent of total consumption and investments, respectively. Yearly growth in private consumption stood at 15.1 percent (compared to 11.4 percent in the previous year), while private sector investments grew by 3.6 percent only (compared to 21.7 percent in 2007). This resulted mainly from the decline in foreign direct investments and the stagnation of the privatization process. On the other side, public consumption marked an annual growth of 11.4 percent while investments in this sector grew by 141.4 percent. As a result, the main contributors to economic growth in 2008 were private consumption and public investments, followed by private investments and public consumption.

Table 1. Main macroeconomic indicators, in millions of euro, unless otherwise indicated.

Description	2005	2006	2007	2008
Real GDP growth (%)	3.8	3.9	3.9	5.4
Nominal GDP	3067.8	3192.0	3425.0	3804.0
Consumption	3443.2	3558.4	3877.1	4438.8
Private	2729.5	2881.7	3209.4	3694.8
Public	713.7	676.7	667.8	744.0
Investment	713.1	798.2	926.0	1142.0
Private	528.3	652.2	793.5	821.9
Public	184.8	146.0	132.6	320.0
Trade Balance	-1101.2	-1195.1	-1411.0	-1732.3
GDP per capita (in euro)	1482.1	1519.8	1611.0	1759.0

Source: International Monetary Fund.

Considering that Kosovo lacks data on GDP by activity, some indicators such as banking sector loans indicate that the economic activity continues to rely on the trading sector. Loans in this sector compose the largest share of total loans of the banking sector. However, loans to other sectors of the economy such as agriculture and industry are growing (29 percent and 4.9 percent, respectively). Despite this, the growth rate of loans in these sectors remains lower than the average growth rate of loans in the enterprise sector. On the other hand, the data on imports by broad economic categories (BEC) indicate a continuous increase in imports of unprocessed and capital goods suggesting an increase in the domestic production.

Regarding 2009, the IMF projections show a real GDP growth of 3.8 percent, which represents a slowdown in the economic activity compared to 2008. This mainly due to the negative effects that the world economic crisis may have on remittances, foreign direct investments and commercial bank lending in Kosovo. These important financing sources for the Kosovo economy have already shown a slowdown in first months of 2009. Moreover, the economic crisis might have a negative impact on the budget revenues because of a possible decline in imports – considering that the main source of budget revenues remain border taxes. This would be reflected in a lower level of budget expenditures, with negative implications for the economic activity. A decline in economic activity would also affect negatively the level of savings in the economy, which would be reflected in a lower level of deposits. Potential decline in

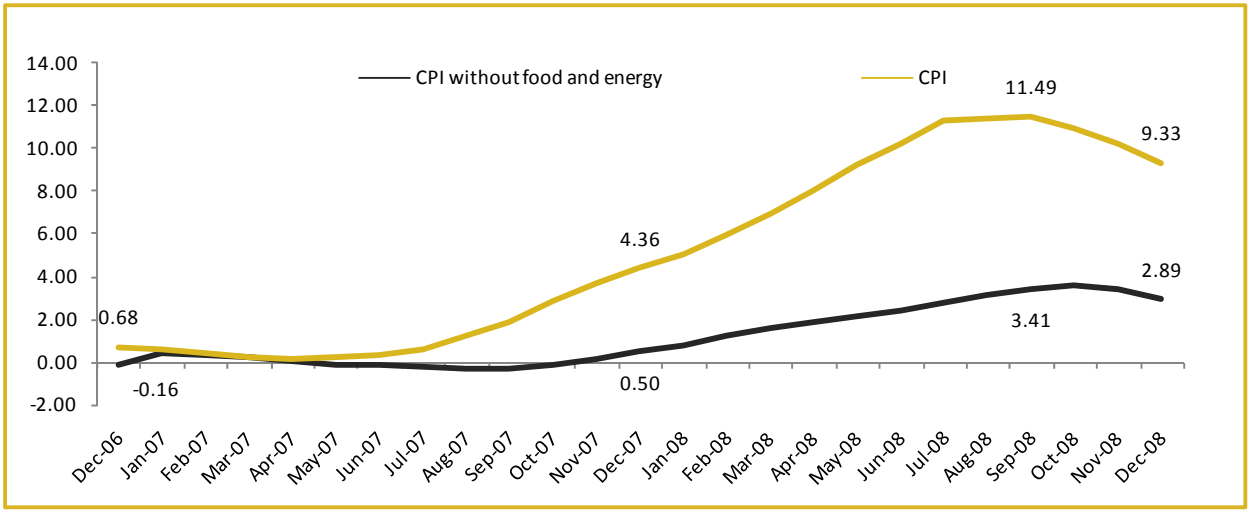
deposits and slowdown in economic activity would lead to credit tightening by the banking sector, which would have negative implications for consumption and investments. Therefore, the continuation of sound lending is important since it may reduce the possible negative implications of the crisis in the economy. Moreover, the cut in personal and corporate income tax rates since January 2009 represents an encouraging factor for the economy since it can stimulate both consumption and investments. Within the framework of efficient management of public spending, the increase of budget expenditures (especially capital outlays) would contribute significantly to the stimulation of economic activity. Likewise, the potential reduction of Kosovo's net foreign assets through investing part of them in the economy would provide a considerable level of liquidity. For instance, the payment of 20 percent of the value of the privatization fund to the workers of privatized enterprises would stimulate consumption and consequently the economic activity.

3.1.2. Prices

Price stability in Kosovo, present since 2002, was strongly affected by external inflationary pressures in the end of 2007 and during 2008. The annual average inflation rate in 2008 stood at 9.3 percent. The inflation rate was generated by the increase of prices globally. This signifies the sensitivity of prices in Kosovo against the external sector, what results from the high reliance of the economy on imports. Inflationary pressures were mainly triggered by the increase of food and partially energy prices in 2008. This is shown in Figure 1 where average inflation rate without food and energy prices stood at only 2.9 percent.

Inflation recorded in Kosovo during 2008 was higher compared to the inflation recorded in the EU (3.9 percent) and SEE (7.6 percent). Higher inflation rate in Kosovo was mainly as a consequence of higher weight of food in the consumer basket compared to the average weight of this category in EU and SEE countries. In addition, the countries from where Kosovo imports the largest amounts of food products applied quotas on the export of corn and other food products as a measure of protection against the food crisis. These measures where transmitted in higher food prices in Kosovo. The increase in energy prices affected less significantly the inflation rate in Kosovo compared to the countries in the region due to the lower weight of this sub-category in the consumer basket in Kosovo.

Figure 1. Consumer prices, annual average, in percent.



Source: Statistical Office of Kosovo.

The peak of inflation was recorded in September 2008, when the annual average rate reached 11.5 percent. The decline in the rate of inflation in the last months of the year reflected the rapid decline of oil prices and as a result, food, energy and transport prices. Expectations on price developments for 2009 suggest a decreasing trend, mainly as a consequence of the decline in the overall demand. In the first months of 2009, a deflation rate of 2.0 percent was evidenced. However, the fiscal policy changes since January 2009 might trigger an increase of the inflation rate in the remainder of the year. The changes in fiscal policy are characterized by the cut in personal and corporate income tax rates that may place upward pressure on prices. In addition, the increase of VAT rate from 15 to 16 percent can also affect prices, offsetting to some extent the deflationary pressures.

3.1.3. Labor Market

The conditions in the Kosovo labor market remain unfavorable, with a high level of unemployment consistently prevailing in the market. According to data from the Statistical Office of Kosovo (SOK), the unemployment rate in Kosovo was around 40 percent in 2008. However, these data should be considered with caution, considering that a substantial part of the economic activity in Kosovo remains informal. With a growing number of registered job-seekers, the majority of unemployed in Kosovo are categorized

as long-term unemployed (around 90 percent), which indicates limited capacities and dynamics of the Kosovo economy to generate new jobs.

The registered number of unemployed people in December 2008 was 335,942. This represents an increase of 0.4 percent compared to the same period in the previous year. Unemployed people that unqualified account for the largest number of newly registered job-seekers. Regarding age, age-group 15-24 years old represents the largest group in the total number of registered unemployed people. The categorization of unemployment according to sectors indicates that around 23.4 percent of job-seekers have been previously employed in industry, followed by trade with 16.8 percent and construction with 11 percent.[3]

The main generator of employment in Kosovo remains the private sector providing around 59 percent of new employments in 2008. The services sector generated around 64 percent of new job places offered by the private sector, while production sector provided around 19 percent. According to SOK, the average monthly wage in 2008 was around euro 248, that represents an increase of 2.5 percent compared to the previous year. Private sector offers higher wages (euro 258, on average) compared to the public sector (euro 237, on average). This remains the same despite the increase of 10 percent for the wages of public administration and around 35 percent for the wages of the education sector in the end of 2008. The high inflation rate that was present in the economy during 2008 might to some extent offset the increase of the nominal wages in the public administration and education.

3.1.4. Privatization

The privatization process in Kosovo started in 2003 and represented a good opportunity for the recovery of the industry of Kosovo. However, this process stagnated during 2008, which can be attributed to the process of transfer of competences from the Kosovo Trust Agency to the Privatization Agency of Kosovo, which took place after the declaration of independence in February 2008. Nevertheless, the privatization process resumed at the end of 2008, when few waves of privatization were announced. It is expected that the privatization of several companies of a strategic importance will take place in 2009.

[3] Unemployment by economic activity refers to the economic activity in which the actual job seekers have been engaged in their last job.

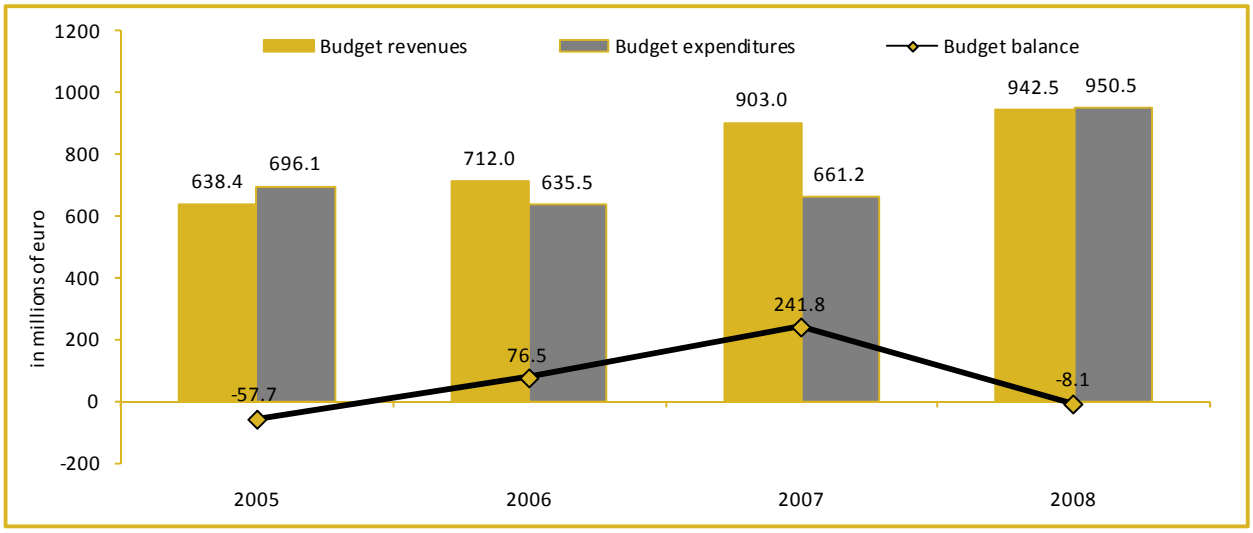
Until December 2008, the number of signed and pending contracts reached 513, while the total amount of privatization proceeds reached euro 405.9 million, representing an annual increase of 2.0 percent compared to the previous year. The share of privatization revenues to GDP reached 10.7 percent in 2008, compared to 11.6 percent in 2007. The total amount from signed and pending contracts reached euro 398 million in 2008, of which 88.5 percent are signed and 11.5 percent are pending. Out of the total amount of sales contracts (signed and pending), the amount of sales through the Special Spin-Off method is around euro 96 million. The amount invested in the privatized companies through Special Spin-Off has been estimated to be around euro 125 million until end 2008, while the total amount of Special Spin-Off investments contractually agreed was euro 196 million.

The privatization proceeds remain invested in the external sector, draining substantial amount of liquidity from the economy of Kosovo. More specifically, the amount of money which Kosovan companies have invested in the privatization process has not returned to Kosovo but has been invested in the external sector. Moreover, the financing of part of these investments by the banking sector loans implies that part of the savings in commercial banks was not used for financing the domestic economy.

3.2. Fiscal Sector

Fiscal stance in Kosovo was characterized mainly with budget surpluses in previous years. In the absence of the law on public debt and undefined political status, government was unable to borrow internally and externally. Therefore, more conservative fiscal policies were necessary. As a consequence, available sources to finance any budget deficit consisted of the accumulated surpluses from previous years. However, the membership of Kosovo in the IMF and other international financial institutions will facilitate access in external sources of finance in order to address eventual budgetary needs. Unlike the past two years which were characterized by surpluses, the budget in 2008 was balanced (with a deficit of euro 8.1 million only), resulting from a higher growth rate of the budget expenditures compared to revenues (Figure 2).

Figure 2. Budget balance, in millions of euro.

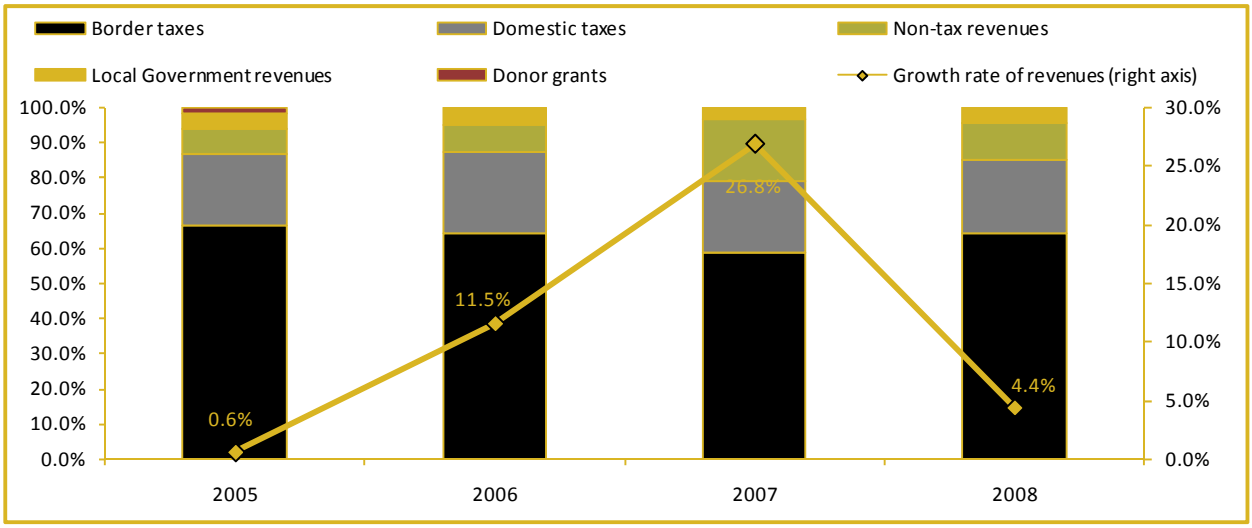


Source: Ministry of Economy and Finance.

3.2.1. Budget Revenues

The budget revenues in 2008 reached euro 942.5 million, representing an annual increase of 4.4 percent. However, the growth rate recorded in 2008 was lower compared to the previous year (the growth rate in 2007 over 2006 was 26.8 percent). This was mainly due to the licensing of the second mobile telephony operator in 2007 with revenues contributing to the budget amounting at euro 75 million. As a result, the share of budget revenues to GDP declined to 24.8 percent (from 26.4 percent in 2007). This ratio for Kosovo is lower compared to some countries in the region (Albania, Bosnia and Herzegovina, and Montenegro) suggesting that the budget revenues may increase further. This could be achieved by undertaking measures that reduce the informal economy and broaden the tax base. The reduction of tax rates effective from January 2009 may have a significant contribution in this respect.

Figure 3. Structure of Budget revenues, in percent.



Source: Ministry of Economy and Finance.

Border taxes continue to be the main source of the budget revenues, representing 64.1 percent of total budget revenues in 2008 (58.9 percent in 2007). Regarding the change in volume, border taxes recorded an annual growth of 13.7 percent. The high reliance on this source of revenues in Kosovo originates from a high dependence of the economy on imports, which is explained by the large share of income from VAT collected at the border in total budget revenues.

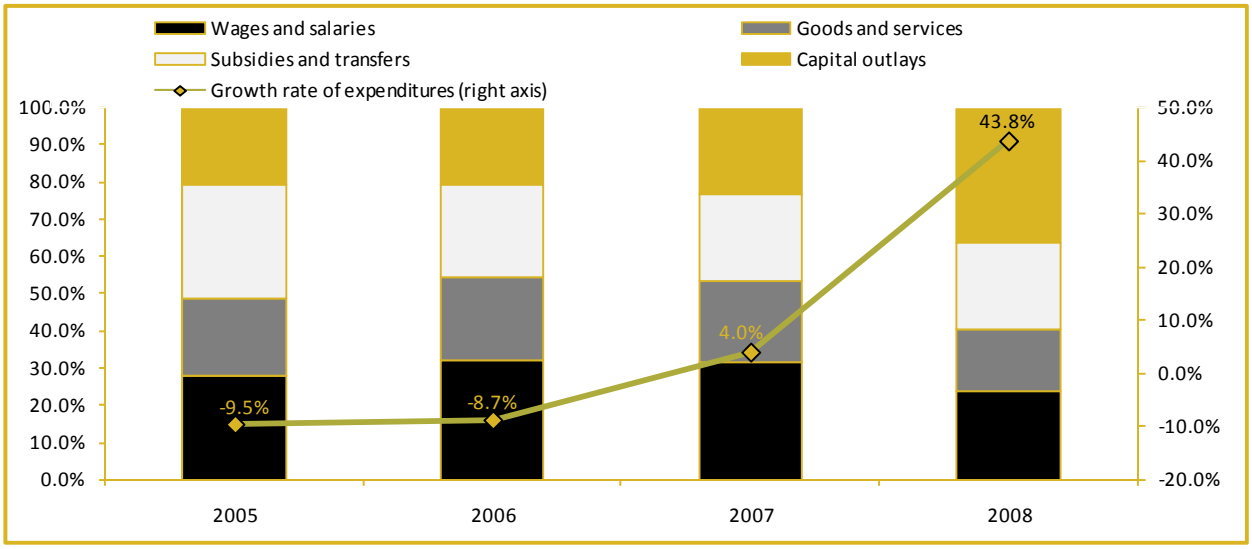
Another important source of the budget revenues are domestic taxes. In 2008, revenues generated from domestic taxes represented 21.3 percent of total revenues (20.2 percent in 2007), while in terms of volume the annual growth was 10 percent. The main source of domestic tax revenues are corporate income taxes, which represented 32.3 percent of total domestic taxes in 2008, followed by VAT with 29.4 percent. Non-tax revenues represented 10 percent of total revenues, which is a yearly decline of 7.7pp (decline of 40.7 percent in volume) mainly due to the licensing of second mobile telephony operator in 2007. Non-tax revenues primarily consist of fees, licenses, fines and other revenues.

Another source of the budget revenues consists of revenues collected by local governments. The importance of this source of revenues is continuously increasing. Local government revenues in 2008 marked an annual growth of 46.4 percent and the share of this category of income to total budget revenues in 2008 reached 4.5 percent (3.2 percent in 2007).

3.2.2. Budget Expenditures

During 2008, the budget expenditures grew rapidly recording the highest annual growth rate since 2002. The volume of budget expenditures in 2008 reached euro 950.5 million, representing an annual growth of 43.8 percent. As a share to GDP, budget expenditures reached 25 percent (compared with 19.3 percent in 2007). The increase in the total budget expenditures is mainly as a result of the increase in capital expenditures. Capital expenditures in 2008 amounted at euro 347.1 million, an annual increase of 124.3 percent. As a result, capital expenditures absorbed the largest share of the budget in 2008 representing 36.5 percent of the total budget expenditures compared to 23.4 percent in the previous year (Figure 4). Capital expenditures mainly consist of investments in infrastructure. This may have stimulated the aggregate demand and contributed to the higher employment (at least in the short run). In long run, capital investments will create more favorable conditions for development of the business activity, making Kosovo more attractive for foreign investments, thus improving the conditions for a sustainable economic development.

Figure 4. Structure of the budget expenditures, in percent.



Source: Ministry of Economy and Finance.

Another category that contributed significantly to the increase in total expenditures is the category of transfers and subsidies. In 2008, this category marked an annual growth of 42.8 percent,

reaching euro 218.5 million (23 percent of total expenditures). The growth of expenditures for transfers and subsidies resulted mainly from the increase of subsidies to public enterprises that reached euro 60.1 million in 2008 (28.6 percent of total subsidies and transfers) or twice more than in 2007. The continuous growth in subsidies to public enterprises implies the need for restructuring this sector. Expenditures on subsidies and transfers, among other, include also the payments for basic pensions (37 percent of total) and social assistance (12.4 percent of total).

In 2008, the share of expenditures on wages and salaries to total budget expenditures was 23.9 percent, which is for 7.6pp lower than in the previous year. This lower share is as a result of faster growth of capital expenditures that increased considerably in 2008. However, expenditures on wages and salaries increased in volume by 8.9 percent compared to 2007. This increase is mainly as a result of the increase in teachers' wages since September 2008 (in the primary and secondary schools) in the range from 20 to 40 percent, depending on the qualification. Consequently, the average wage of the primary and secondary schools employees increased from 191 euro in 2007 to 233 euro in 2008. In addition, wages of the public administration employees incurred an increase of 10 percent in year 2008.

Goods and services absorbed the smallest share of the budget expenditures during 2008. Their share to total budget expenditures was 16.6 percent, compared to 21.9 percent in 2007. Expenditures for goods and services represented a lower share of total expenditures compared to the previous year even though in volume they increased by 8.9 percent compared to 2007. The lower share of expenditures for wages and salaries to total expenditures is a consequence of the faster growth of capital expenditures.

Regarding the budget for 2009, expenditures are projected to reach euro 1.1 billion (16 percent higher than in 2008), while revenues are projected to reach euro 956.5 million (1.5 percent higher than in 2008). As a result, the budget deficit is expected to be euro 137.9 million. Nevertheless, the budget deficit may further increase as the performance of budget revenues may be affected negatively from effects of the economic crisis in the Kosovo economy. The first months of 2009 have shown a slowdown in imports, which is an indication of a slowdown in the economic activity in Kosovo, with negative implications for the budget revenues. A potential decline in imports would mostly affect border taxes which represent the main source of the budget revenues.

The Tax Administration of Kosovo has started implementing the changes in the tax system since January 2009. Tax rates on personal income decreased from 5, 10 and 20 percent to 4, 8 and 10 percent,

respectively. In addition, corporate income tax was reduced from 20 to 10 percent, placing Kosovo among countries with the lowest corporate income tax in the region. As a consequence, the budget revenues may be negatively affected. However, the Ministry of Economy and Finance estimates suggest that the potential decline will be offset by the increase in the VAT rate (from 15 to 16 percent) and excise on tobacco (from 17 to 21 euro) effective since January 2009.

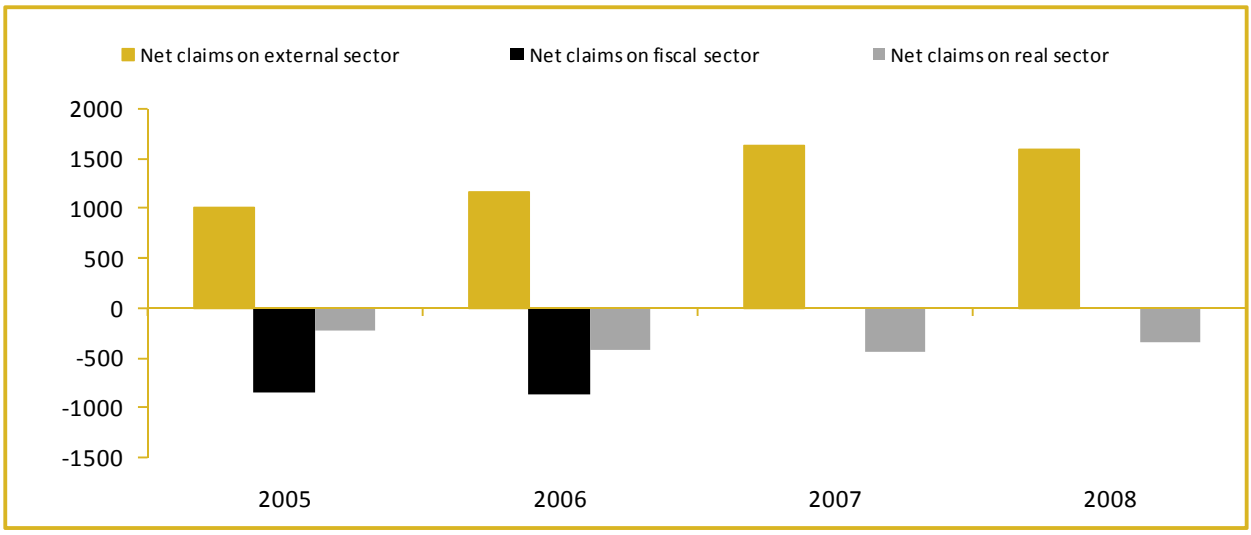
3.3. Financial Sector

Financial sector in Kosovo continued to expand its activities during 2008, despite negative developments in the financial markets worldwide. In the end of 2008, the value of financial sector assets reached euro 2.3 billion, an increase of 20.2 percent compared to 2007. This was mainly driven by the growth of the banking sector assets which compose around 80 percent of total financial sector assets. Pension funds compose 11.4 percent of total financial sector assets, followed by microfinance institutions with five percent, insurance companies with 3.4 percent and financial auxiliaries with 0.2 percent. The activity of financial institutions operating in Kosovo is not complex and is based mainly on the traditional financial activities such as lending and collection of deposits from citizens. The main activity of insurance industry is the Third Party Liability (TPL) insurance and life insurance was introduced during 2008. Because of the nature of the financial sector activities in Kosovo, the sector was to a large extent intact from the developments in the global financial markets, apart from the Kosovo Pension Savings Trust (KPST) whose assets marked a considerable decline because of the fall in share prices in international stock markets.

The value of financial sector Net Foreign Assets (NFA) reached euro 1.6 billion in the end of 2008.[4] During the third quarter of 2008, NFA recorded a decline in their volume for the first time. The value of NFA in this period was 9.5 percent lower than in the previous quarter (Figure 5). This is mainly attributed to the decline of the CBK and pension funds' NFA. Given that the CBK manages government deposits, the decline of CBK NFA is related to a considerable growth of government expenditures during the third quarter 2008, whereas the decline of pension funds' NFA is mainly attributed to the decline of KPST assets invested in the international financial markets.

[4] In this context, financial sector consists of CBK and all financial institutions operating in Kosovo.

Figure 5. Financial sector net claims to other sectors, in millions of euro.



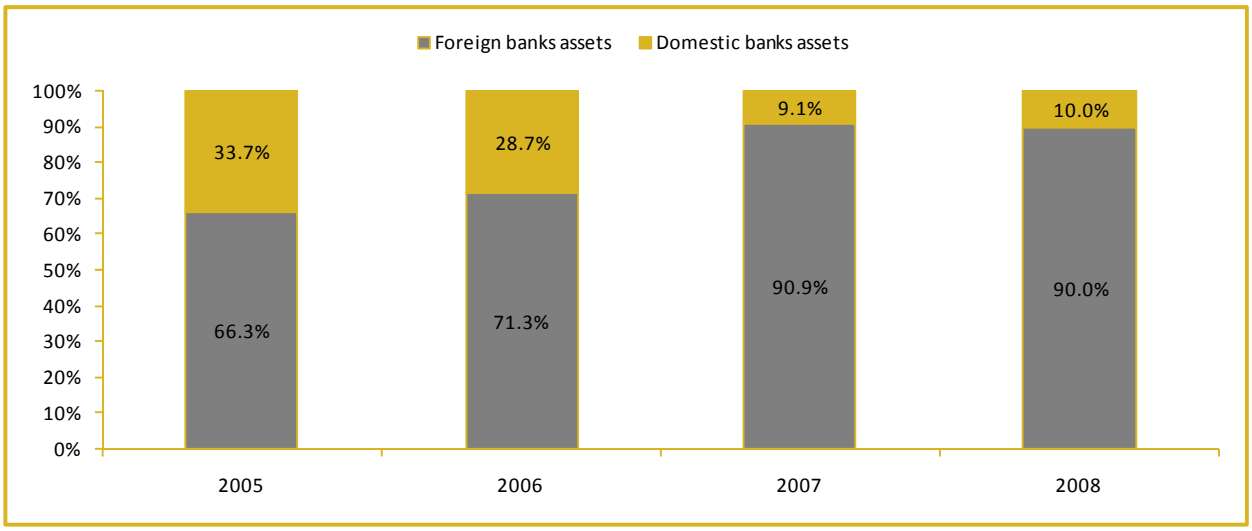
Regarding the structure of financial sector claims on the external sector, there was a shift from deposits to securities (mainly treasury bills) in the last quarter 2008. Consequently, deposits represented 66 percent of total claims in September 2008, and in the end of the year their share declined to 46 percent. On the other hand, the share of securities (other than shares) to total claims increased from 19 percent in September to 38 percent in the end of the year. These developments were mainly results of conditions created in the global financial markets, given that treasury bills are considered as less risky investments. Concerning the financial sector liabilities to the external sector, in 2008 they stood at euro 133.6 million, composed mainly from credit lines and non-resident deposits.

During 2008, liabilities to the fiscal sector recorded a lower growth rate. This was as a result of a high growth rate of government spending, especially in the last quarter. At the end of 2008, liabilities to the fiscal sector stood at euro 877.2 million, an annual growth of 2.4 percent. On the other hand, financial sector claims on the fiscal sector remain inexistent. Financial sector net claims to the real sector continued to record a negative balance (Figure 5). Liabilities to this sector stood at euro 1.63 billion (mainly consisting of deposits in the banking sector), while claims reached euro 1.29 billion (mainly consisting of loans issued by the banking sector). In 2008, the gap between liabilities and claims to the real sector was narrowing compared to the last year, mainly as a result of higher growth rate of credit to the private sector.

3.3.1. Structure and Activity of the Banking Sector

Since January 2008, two new banks with foreign ownership, Türk Ekonomi Bankasi (TEB) from Turkey and Nova Ljubljanska Banka (NLB) Prishtina from Slovenia, started to operate in the Kosovo banking market. TEB entered the market after being granted a full license by the CBK at the end of 2007. On the other hand, NLB Prishtina was established by the merger of two domestic banks (Kasabank and Banka e Re e Kosovës), after a purchase of majority of their shares by NLB. Out of eight commercial banks operating in Kosovo, only two have domestic ownership, while the share of foreign bank assets to total banking sector assets is around 90 percent (Figure 6).

Figure 6. Structure of assets by ownership, in percent.



The entry of new banks enhanced competition in the banking sector. This, to some extent, can be shown through the decline in the degree of concentration. For example, Herfindahl-Hirschman Index (an indicator that shows the degree of concentration in one industry) dropped to 2,747 in 2008 compared to 2,862 in 2007. Improved competition in the Kosovo banking sector can be also noticed from the narrower interest rate spread (the gap between interest rates on loans and deposits) during 2008 and the supply of new banking products and services in the market. Moreover, an expansion of the distribution network which improved citizens' access to banking services was noticed in 2008. For example, the number of commercial bank branches in 2008 reached at 46 (38 in 2007), while the number of sub-branches reached at 233 (189 in 2007). Year 2008 marked a significant increase in the provision of banking services such as

Automated Teller Machines (ATMs), points of sale, electronic banking accounts, etc., thus, facilitating clients' access to banking services (Table 2).

Table 2. Banking sector network.

Description	2005	2006	2007	2008
Number of branches and subbranches	230	214	227	279
Number of ATMs	102	116	155	240
Number of points of sale	1,406	1,767	2,554	3,426
Number of e-banking accounts	837	2,872	4,742	13,051

During 2008, the banking sector expanded its activity by increasing loans and deposits considerably. The growth of financial intermediation was reflected in higher profits for banks, while the system continues to be stable, liquid and solvent.

3.3.1.1. Balance sheet

Banking sector assets in 2008 reached at euro 1.8 billion or 47.5 percent of GDP, which represents an annual growth of 26.3 percent. The most important component of banking sector assets continue to be loans, which represented 65.4 percent of total assets in 2008. During 2008, investments in securities continued to decline. The share of securities to total banking sector assets was 2.2 percent in 2008, compared to 5.5 percent in 2007 (Table 3).

Marking an annual increase of 32.7 percent, at the end of 2008 loans issued by the banking system reached at euro 1.2 billion or 31.1 percent of GDP. Lending by the banking sector is of particular importance in this period since the possible tightening of credit may have a negative impact on the level of consumption and investments in Kosovo. This would intensify the impact of the global crisis in the economy. Consequently, the decline in economic activity could be negatively reflected in the sustainability of the banking sector itself. Therefore, lending growth that is in line with principles of sound lending is of special importance.

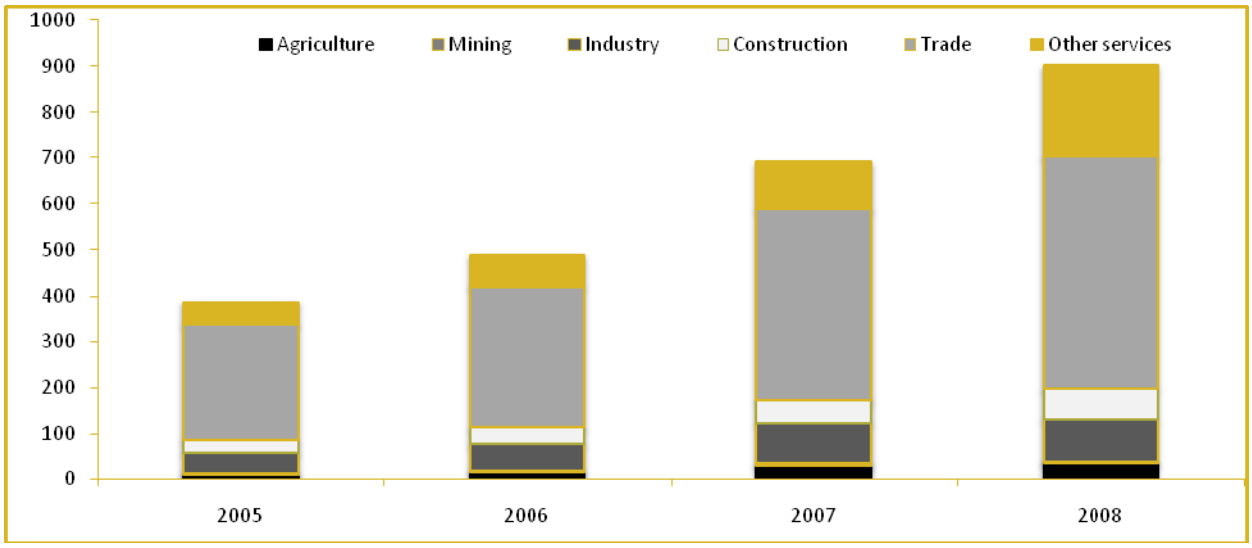
Table 3. Structure of assets, in millions of euro.

Description	2005	2006	2007	2008
Cash and balances with CBK	131.7	141.1	189.0	218.2
Balances with commercial banks	221.9	243.3	208.1	283.9
Securities	82.9	99.4	78.9	40.5
Gross loans and lease financing	513.9	636.6	892.1	1,183.4
Fixed assets	16.9	23.0	27.2	39.0
Other assets	17.0	17.9	39.7	43.1
Total assets	**984.4**	**1,161.2**	**1,435.0**	**1,808.2**

Despite the rapid growth of loans during 2008, the quality of loan portfolio remains sound with non-performing loans accounting for only 3.3 percent of total portfolio (4.1 percent in year 2007). This level of non-performing loans, as well as the sufficient level of provisioning and capital adequacy ensure that even in case of a more pronounced increase of non-performing loans, Kosovo banking system remains stable. This is supported also by the results generated through the Stress-Test Model for the Kosovo banking sector.

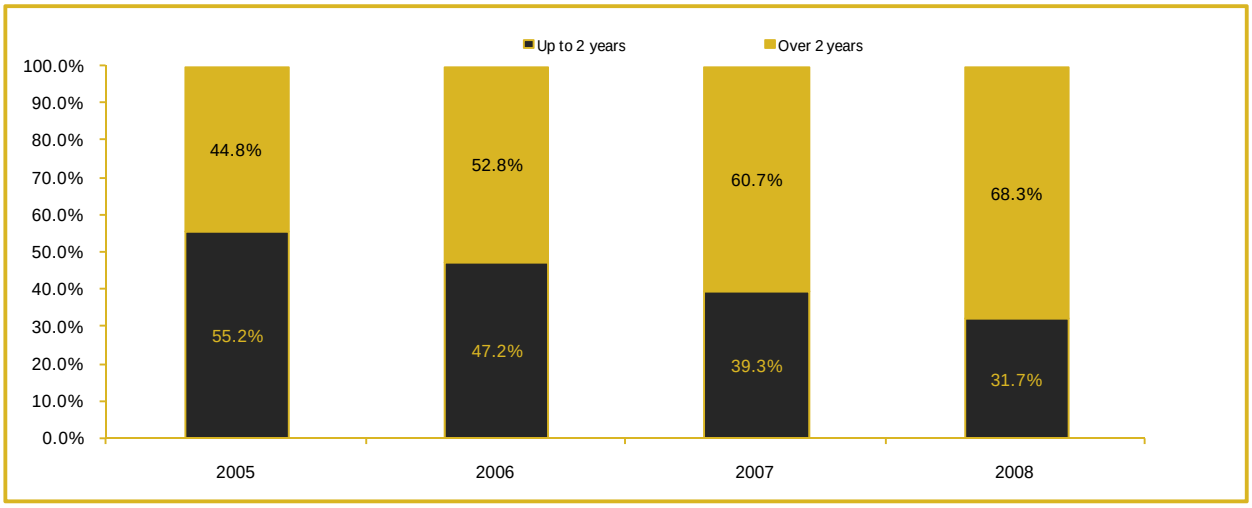
The structure of loans by sector remained similar compared to previous periods. The largest share of total loan portfolio is composed of loans issued to enterprises (76.3 percent of total loans in 2008), whereas loans to households represent 23.7 percent of total. Loans to enterprises are dominated by loans issued to the trading sector consisting of 42.6 percent in total banking sector loans (Figure 7). However, compared to 2007, the share of loans to the trading sector to total loans was for 4.3pp lower and this was mainly as a result of a faster growth of loans to enterprises in other services sector. The large share of loans to the trading sector reflects the structure of the Kosovo economy which is largely dominated by this sector. On the other hand, agriculture loans continue to have the lowest participation in total banking sector loans (only 4.1 percent of total loans). However, loans extended to this sector increased annually by 29 percent in 2008. Increased lending to agriculture and other industries of the economy may contribute to import substitution and export promotion, which would be reflected in the trade balance improvement and economic growth. However, the growth of credit to agriculture and other industries, among other, requires improvement in the planning and absorption capacities of these sectors.

Figure 7. Structure of loans to enterprises, in millions of euro.



The continuous growth of loans to the economy shows improvement in the maturity of business environment in Kosovo. This is shown also by the continuous growth of loans with longer maturity. Loans with maturity of longer than two years represent the largest share of total loans. The share of loans with maturity of longer than two years to total loan portfolio reached 68.3 percent in 2008 compared to 60.7 percent in 2007 (Figure 8).

Figure 8. Structure of loans by maturity, in percent.



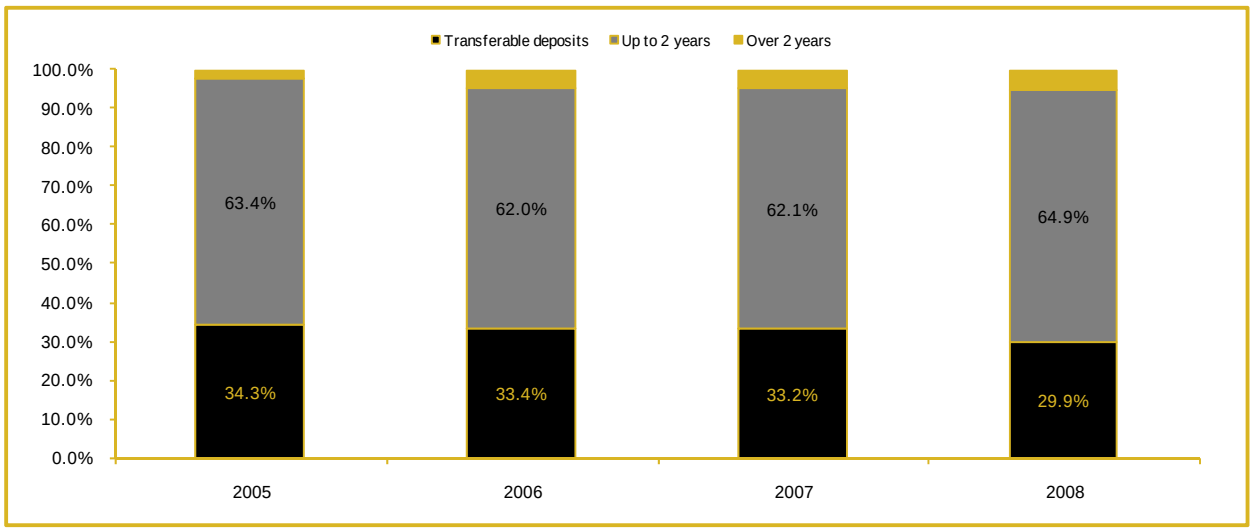
Liabilities of the banking sector consist mainly of deposits that represent 79.9 percent of total liabilities (Table 4). This shows that the activity of the banking sector mainly relies on domestic sources of finance and is less sensitive to fluctuations in the supply and cost of funds in the external sector. Balances from other banks in 2008 represented 1.9 percent of total banking sector liabilities.

Table 4. Structure of liabilities, in millions of euro.

Description	2005	2006	2007	2008
Balances from other banks	23.0	30.3	25.8	34.9
Deposits	836.7	924.3	1,143.1	1,444.1
Other borrowings	6.4	4.2	2.7	...
Other liabilities	37.3	92.1	103.7	129.8
Subordinated debt	7.0	7.0	7.0	7.0
Own resources	74.0	103.3	152.7	192.5
Total liabilities	**984.4**	**1,161.2**	**1,435.0**	**1,808.2**

During 2008, deposits marked a higher growth rate compared to previous years. Deposits in 2008 amounted at euro 1.4 billion or 38 percent of GDP, marking an annual increase of 26.4 percent. The main source of deposits continues to be households with a share of 58.4 percent to total deposits in 2008. Another important source of deposits are public enterprises representing 18.3 percent of total deposits, followed by the private sector enterprises composing 15.8 percent of total deposits. Regarding the maturity of deposits, 29.9 percent of deposits are transferable while the remainder consists of time and saving deposits where short-term deposits represent the largest share (Figure 9). Deposits with maturity of less than two years represented 64.9 percent of total deposits in 2008 (62.1 percent in 2007), while deposits with maturity of more than two years represented only 5.2 percent of the total (4.7 percent in 2007).

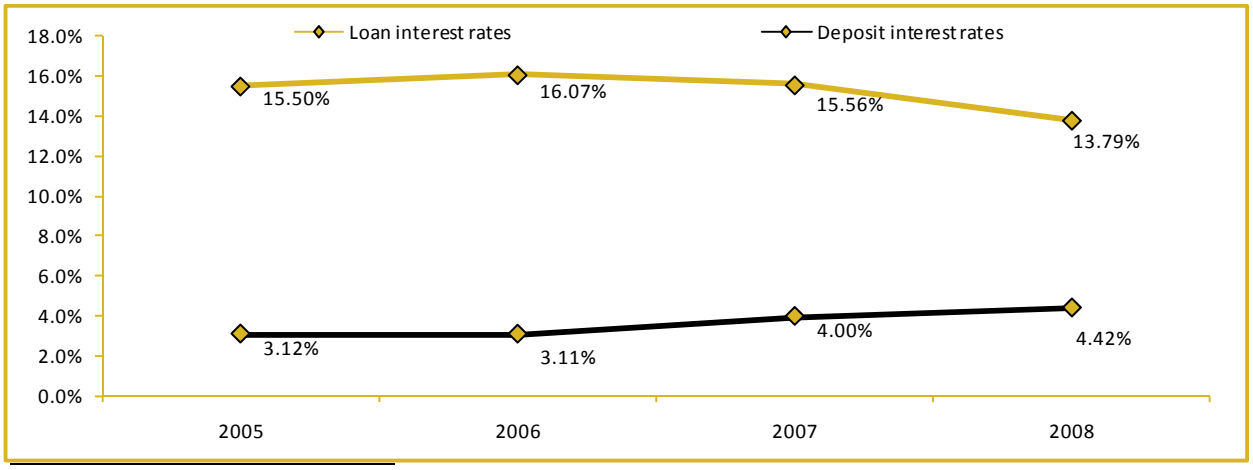
Figure 9. Structure of deposits by maturity, in percent.



3.3.1.2. Interest rates[5]

Competition in the banking sector contributed to some extent to the narrower interest rate spreads. Interest rate spread stood at 9.37pp in 2008 compared to 11.56pp in 2007. In December 2008, lending rates stood at 13.79 percent, falling by 1.8pp compared to December 2007 (Figure 10). In order to have a more substantial decrease in interest rates, an important role can play the business community by improving planning capacities and financial reporting. Consequently, banks' perception regarding the risk of the business environment in Kosovo will be reduced.

Figure 10. Interest rates, in percent.



[5] Interest rates are weight averaged between different products and maturities.

Increased competition was reflected also in deposit interest rates during 2008. In December 2008, interest rates on deposits stood at 4.42 percent compared to 4.00 percent in December 2007. However, further increase in deposit rates may slowdown the downward trend in lending rates, given that the deposit rates directly increase funding/intermediation costs of banks.

3.3.1.3. Banking sector performance

The Kosovo banking sector was profitable also during 2008 with a net profit of euro 36.4 million, which is for 8.7 percent higher compared to the previous year (Table 5). Consequently, return on average assets and return on average equity in 2008 stood at 2.2 and 20.2 percent, respectively.

Table 5. Income statement, in millions of euro.

Description	2005	2006	2007	2008
Income				
Interest income	74.6	88.8	117.9	155.7
Non-interest income 1/	19.7	25.2	39.5	39.3
Total income	94.3	114.0	157.3	195.0
Expenditures				
Interest expenditures	15.4	19.9	26.0	38.1
Non-interest expenditures	13.4	13.7	19.9	21.9
General and administrative expenditures 1/	49.2	54.8	69.7	86.0
Total expenditures	78.0	88.5	115.6	146.0
Net income				
Net operating income	16.3	25.5	41.7	49.0
Net income before tax	16.9	26.6	41.3	47.6
Provision for taxes	3.4	6.4	7.9	11.2
Net profit/loss for period	13.5	20.2	33.5	36.4

1/ Methodological break since 2007.

Total income of the banking sector amounted euro 195 million at end 2008, a yearly increase of 24 percent. Total income of the banking sector derives mainly from interest income, which represents 79.8 percent of total income. The largest share of income is generated by interest income on loans composing 72 percent of total income. The high reliance of the banking sector income on the income generated by interest on loans extended to the domestic economy makes the sector more sensitive to the developments

in this market. The continuous growth of competition puts downward pressure on lending rates directly affecting this type of income. However, the results generated by the Stress-Test Model suggest that the Kosovo banking sector is sustainable against the interest rate risk. This is mainly because of the satisfactory level of capital adequacy and also because the majority of loan contracts have fixed interest rates.

Banking sector expenditures reached euro 146.0 million in 2008, which is an annual increase of 26.3 percent. The structure of expenditures is mainly composed of general and administrative expenditures which in the end of 2008 represented 58.9 percent of total (60.3 percent in year 2007). During 2008, general and administrative expenditures have experienced a relatively sharp increase which may be attributed to the expenditures for the consolidation of the new entries in the banking sector as well as the expansion of the existing banks with new branches and sub-branches. Nevertheless, the increasing trend of these expenditures slowed down by the end of the year. A relatively fast increase was registered also in deposit interest expenditures which in 2008 represented 24.1 percent of total costs (20.0 percent in 2007). This is mainly attributed to the rapid increase in the amount and interest rates of deposits.

The share of general and administrative expenditures to average banking sector assets marked a slight decrease in 2008 which suggests an improvement in the efficiency of the sector. In 2008, this indicator stood at 5.3 percent compared to 5.4 percent in 2007. Improvement in the banking sector efficiency is also expressed through the amount of banking sector loans per employee. In 2008, the average amount of banking sector loans per employee was euro 315 thousand compared to euro 312 thousand in 2007. However, the ratio between banking sector expenditures and income marked a slight increase (74.9 percent in 2008 compared to 73.5 percent in 2007), what may indicate a slight deterioration in the efficiency of the sector. Nevertheless, this may be a result of the rapid growth in the number of banking sector employees during 2008, deriving from the expansion of the market with new banks as well as the expansion of existing banks network.

Kosovo banking sector continues to be liquid. Loan to deposit ratio in the end of 2008 stood at around 80 percent which is within the margins recommended by the CBK. Despite the fast credit growth during 2008, the share of liquid assets to total banking sector assets was 30 percent (33.2 percent in 2007). The satisfactory level of liquidity in the Kosovo banking sector is also shown by the results of the Stress-Test Model. In addition, banking sector remains solvent with a capital adequacy ratio of 16.5 percent

which is well above the minimum level of 12 percent determined by the CBK. Moreover, none of the banks operating in Kosovo has a capital adequacy ratio which is lower than required by the regulator.

3.3.2. Insurance Companies

One insurance company entered the insurance market in Kosovo in 2008, bringing the number of insurance companies at 10. Among the insurance companies operating in Kosovo, seven are foreign-owned and manage 73 percent of total assets of the sector. The main activity in the insurance industry remains vehicle insurance through Third Party Liability (TPL) policies. However, the insurance market of Kosovo introduced also the life insurance services in 2008 suggesting that insurance companies are expanding their activities, hence, contributing to further development of the financial sector. The CBK deregulated, to some extent, the insurance market by allowing a controlled liberalization of TPL tariffs, which is expected to further increase the competition in this sector.

Expansion of the insurance sector can be shown by the increased number of sold policies during 2008 compared to 2007. For instance, the total number of policies sold in 2008 reached 476,000, which is for 17.2 percent higher compared to 2007. The structure of sold policies remains similar compared to the previous year with more than 50 percent being TPL policies, 32 percent border policies and the remainder consisted of non-TPL policies. In 2008, the value of premiums received by insurance companies reached at euro 56.4 million, which is for 11 percent higher compared to 2007. On the other hand, in 2008, the amount of claims paid was for 37.8 percent higher than in 2007, reaching at euro 17.7 million. As a result, the ratio between paid claims and received premiums stood at 31.4 percent in 2008 compared to 25.2 percent in 2007.

The amount of insurance sector assets in 2008 reached at euro 78.4 million which is for 10.7 percent higher compared to year 2007. Deposits continue to dominate the assets side, while liabilities are dominated by shareholders equity (45.8 percent of total liabilities). This shows that capitalization level of insurance sector is relatively high, resulting in sustainability and stability in the sector.

3.3.3. Pension Funds

Kosovo pension system is a modern system which is organized in three main pillars. The first pillar includes the basic pension of 75 euro, which is paid from the budget of Kosovo for all people older than 65 years. The second pillar includes the individual pension contributions, managed by Kosovo Pension Savings Trust (KPST) and financed by both, employees and employers (five percent each), whilst the third pillar includes the voluntary pension schemes, managed by KPST and Slovenian-Kosovo Pension Fund and financed on voluntary basis by employees and/or employers.

The assets of pension funds operating in Kosovo amounted at euro 256.3 million in 2008, which represents an annual decrease of 10.4 percent. The decline in the pension funds assets during 2008 was a result of the global financial crisis, which directly hit the value of the shares of KPST, which is the fund that manages the largest part of pension contributions in Kosovo. In the end of 2008, KPST reported that the value of contributors' savings in this fund declined by euro 91 million or 29 percent. The value of the KPST shares fell mainly over the last quarter of 2008. However, the measures taken by developed countries to alleviate the crisis have started to contribute to the return of trust in international markets, what has resulted in the increase of stock prices in international stock markets recently. As a result of these developments, in April 2009, KPST reported a positive return of euro 12.4 million.

During 2008, the number of contributors in the second pillar (KPST) continued to increase. In the end of the year, the number of contributors in this pillar reached at around 270,000 while the benefits paid to the retired people reached euro 2.6 million. Regarding the funds managed by KPST, around 20 percent are deposited in Kosovo, of which almost half are deposited in two commercial banks, while the remainder is in CBK. The largest part of KPST assets (around 204 million or 80 percent) remains invested in international markets.

3.3.4. Microfinance Institutions and Financial Auxiliaries

Apart of commercial banks, the microfinance institutions play an important role in crediting the Kosovo economy. The main activity of these institutions is lending to households, small businesses and agro-businesses. These institutions are not allowed to receive deposits; therefore, credit lines from abroad are

their main source of finance, composing 55.1 percent of total assets, while the remaining part is mainly composed of equity.

In the end of 2008, 16 microfinance institutions have been operating in Kosovo, which altogether have granted 50,127 loans, amounting at euro 93.6 million. Microfinance institutions loans represented 7.3 percent of total loans granted by the financial sector in Kosovo (7.6 percent in 2007).

In addition to the above mentioned institutions, financial auxiliaries represent another component of Kosovo financial system, having the exchange of currencies and/or money transfer as main activities. During 2008, around euro 233 million have been transferred through money transfer agencies, of which over 90 percent were incoming transfers to Kosovo. Anyhow, most of the international transfers in Kosovo are conducted through commercial banks (around 73 percent of total international transfers).

3.4. External Sector

High current account deficit and the surplus in the capital and financial account remain the main characteristics of the Balance of Payments in Kosovo (Table 6). As of end 2008, the current account deficit, including foreign assistance, amounted at euro 743.8 million or 19.5 percent of GDP (12.5 percent of GDP in 2007). The deterioration of the current account deficit is driven by the large dependency of the economy on imports and a very low level of exports. Imports increased in 2008 as a result of higher domestic demand (higher public expenditures and private consumption). Credit growth in the banking sector is one explanation for the increase in private consumption, thus, deterioration in the current account. In addition, the appreciation of the Real Effective Exchange Rate (REER), primarily driven by a higher inflation rate in Kosovo relative to trading partners, may be another explanation for higher level of imports. [6] This development could have affected negatively the competitiveness of the economy by discouraging exports and stimulating imports. On the other hand, factors that contributed to the softening of the current account deficit are remittances and foreign assistance, amounting at euro 535.8 million (14.1 percent of GDP) and euro 288.9 million (7.6 percent of GDP), respectively.

[6] CPI based REER appreciated 2.9 percent against the currencies of trading partners, on average. This was caused mainly from the inflation differentials between Kosovo and its trading partners, while the effect of NEER is of a lesser importance. In the last quarter 2008 and early 2009, REER depreciated especially against trading partners in the EU. This trend is expected to continue in the remainder of 2009.

Table 6. Balance of payments, in millions of euro.

Description	2005	2006	2007	2008
1. CURRENT ACCOUNT	**-300.8**	**-329.8**	**-428.4**	**-743.8**
A. Goods and Services	**-1,087.8**	**-1,163.1**	**-1,371.2**	**-1,658.0**
1. Goods	-1,043.7	-1,141.3	-1,338.2	-1,638.5
2. Services	-44.2	-21.8	-33.0	-19.5
B. Income	**146.9**	**155.1**	**183.7**	**143.3**
1. Compensation of employees	141.5	142.8	149.6	160.2
2. Investment income	5.4	12.3	34.2	-16.9
C. Current transfers	**640.1**	**678.2**	**759.0**	**770.9**
1. General government	366.4	317.7	323.4	288.9
2. Other sectors	273.6	360.5	435.6	481.9
2. CAPITAL AND FINANCIAL ACCOUNT	**118.4**	**37.1**	**91.8**	**388.4**
A. Capital account	**2.0**	**3.2**	**2.6**	**-1.6**
1. Capital transfers	2.0	3.2	2.6	-1.6
B. Financial account	**116.4**	**33.9**	**89.2**	**390.0**
1. Direct investments	80.0	244.4	413.7	340.4
2. Portfolio investments	-17.5	-65.4	-36.6	16.8
3. Other investments	21.6	-67.3	2.4	27.3
4. Reserve assets	32.4	-77.9	-290.3	5.5
NET ERRORS AND OMISSIONS	**182.4**	**292.7**	**336.6**	**355.4**

The financial account continued to maintain its positive balance reaching 9.4 percent of GDP (Table 6). Foreign Direct Investments (FDI) in 2008 were for 14.6 percent lower compared to 2007. However, it should be noted that during 2007 more than ½ of FDI were related to the privatization process and the licensing of the second mobile telephony operator, while in 2008 the privatization process stagnated due to the transformation of the Kosovo Trust Agency into Kosovo Privatization Agency. Due to the fall of share prices in international markets, during 2008 there was a shift from portfolio investments towards other investments (mainly deposits). In year 2008, reserve assets marked a decline which was as a consequence of increased budget expenditures during this period.

3.4.1. Current Account

3.4.1.1. Goods

As a result of continuous increase in imports, the trade deficit in Kosovo reached 43 percent of GDP in 2008. During this year, imports increased by 22.2 percent (20.1 percent in 2007) while exports increased by 20.2 percent (49.1 percent in 2007). Consequently, the import/export coverage stood at 10.8 percent in 2008.

Table 7. Kosovo trade balance, in millions of euro, unless otherwise indicated.

Description	2005	2006	2007	2008
Exports	56.3	110.8	165.1	198.5
Imports	1100.0	1252.1	1503.3	1837.0
Trade Balance	-1043.7	-1141.3	-1338.2	-1638.5
Trade Balance (% of GDP)	-34.0	-35.8	-39.1	-43.0
Exports to imports ratio (in %)	5.1	8.8	11.0	10.8

The structure of exports in 2008 was dominated by base metals and mineral products composing 62.9 and 9.4 percent of total exports, respectively. Notwithstanding the annual increase of this category for 67.4 percent, in the last two months of 2008 exports of base metals marked a decline as a result of falling prices in international markets. Export of mineral products, as the second largest category of exports, decreased by 34.6 percent compared to the previous year. Food and beverages, third category with largest share on exports, accounted for 5.3 percent of total exports in 2008 (5.1 percent in 2007).

The structure of imports remains similar to the previous years with mineral products (dominated by oil) remaining the most important category of imports (19.6 percent of total). Reaching the amount of euro 378.6 million in 2008, the import of mineral products marked an annual increase of 19.2 percent. The import of food and beverages products amounted at euro 261.9 million in 2008 (13.2 percent of total imports) representing an annual increase of 17.6 percent. The imports of base metals and transport means represented 9.3 percent and 6.8 percent of total imports, respectively.

The data for the first quarter of 2009 indicate that exports declined by 42.6 percent compared to the same quarter of the previous year. This is due to the trade embargo which is being applied by Serbia and Bosnia and Herzegovina for products made in the Republic of Kosovo, as well as weaker demand and decline in prices in countries hit by the recession. Preliminary data for the first quarter 2009 show that imports have declined. This is due to the deflation in early 2009, while real imports are higher by 0.6 percent compared to the first quarter 2008.

Figure 11. Broad Economic Categories (BEC), in percent of total imports.

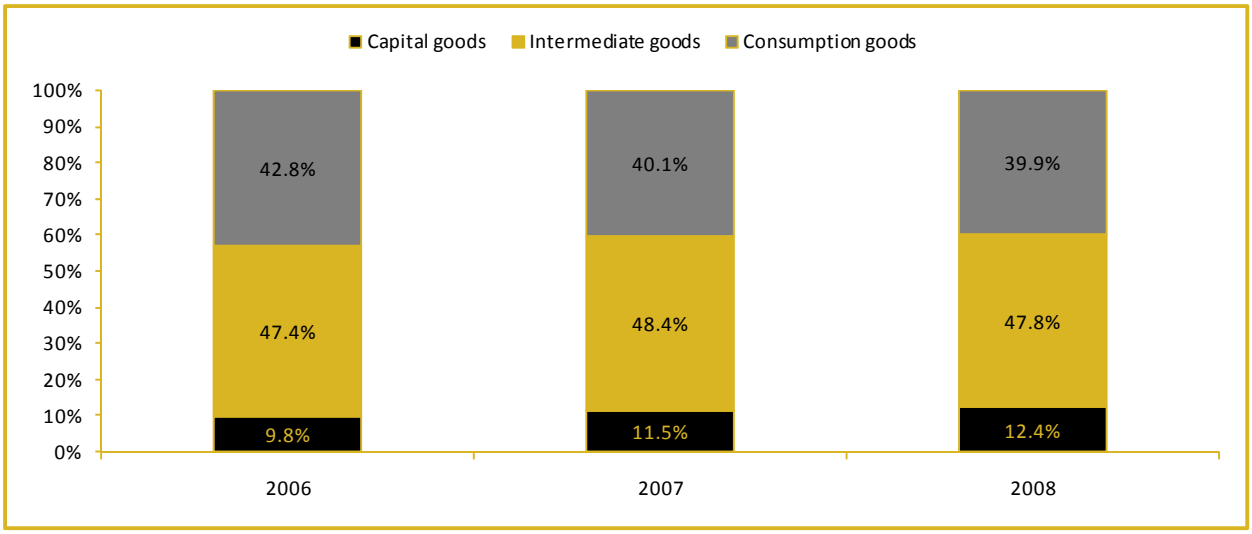
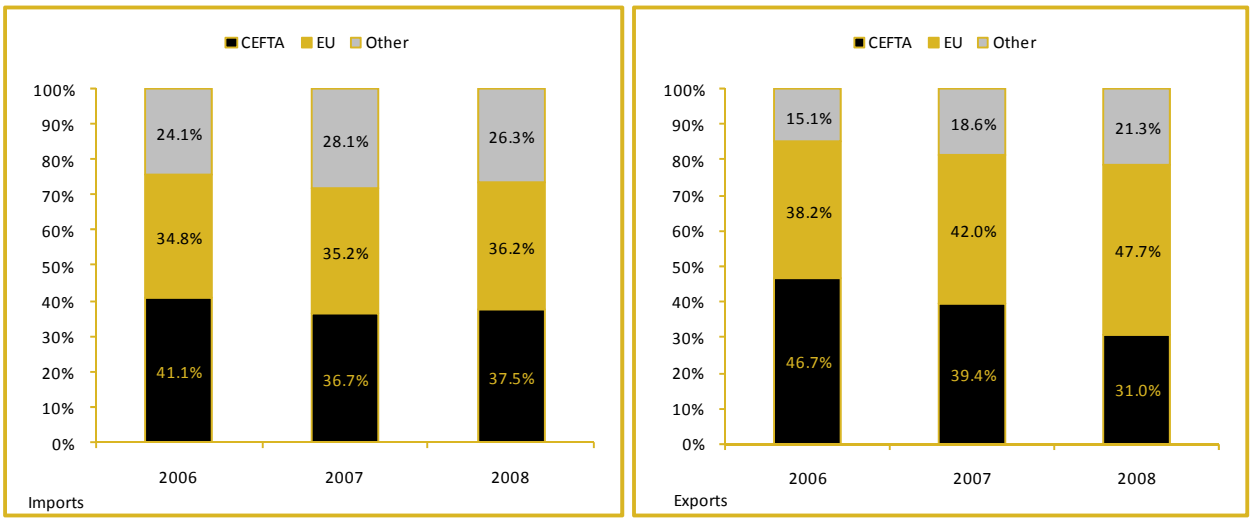


Figure 11 shows the structure of imports based on BEC classification which classifies imported goods based on the final use. As can be noticed, the share of intermediate and consumption goods to total imports declined from 90.2 percent in 2006 to 87.6 percent in 2008. On the other hand, import of capital goods continuously increased. The share of capital goods has increased from 9.8 in 2006 to 12.4 percent in 2008. The increase of import of capital goods consisting of machinery, tools and equipments, etc., used mainly for production, indicates that the production activity in Kosovo is increasing.

The main trading partners of Kosovo in terms of exports in 2008 were the EU countries and members of CEFTA with the share to total exports at 47.7 percent (42.0 percent in 2007) and 31 percent (39.0 percent in 2007), respectively (Figure 12). Change in the composition can be noticed as exports to EU increased the share to total exports by 5.7pp and exports to CEFTA declined by 8pp. The decline of

exports to CEFTA was as a result of trade embargo introduced by Serbia and Bosnia and Herzegovina for Kosovo products having as destination these two countries or had to use transit routes of these countries as.

Figure 12. Trade with EU and CEFTA members, in percent.



EU and CEFTA countries, from where Kosovo imports 36.2 percent (35.2 percent in 2007) and 37.5 percent (36.7 percent in 2007) of total imports, respectively, represent Kosovo's main trading partners for imports as well.

3.4.1.2. Services

The balance of services in 2008 improved compared to the previous year, thus decreasing the deficit to euro 19.5 million, compared to euro 33.0 million in 2007. The increase of exports in services during 2008 was 24.4 percent compared to 2007, while imports of services marked a decrease of 14.8 percent. The import of transport services continued its increasing trend, remaining the main source of deficit in services, which in 2008 had a negative balance of euro 85 million (an increase of 37.8 percent compared to 2007). On the other hand, factors which narrowed the deficit of services account are the decrease of deficit in travel services and the continuous increase of exports in communication services.

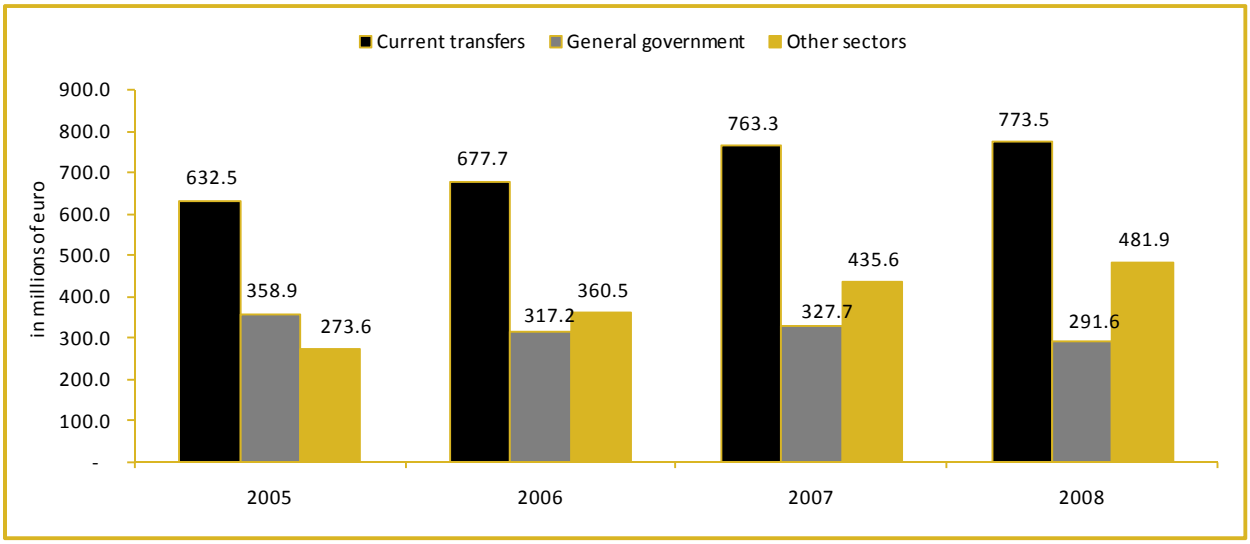
3.4.1.3. Income

The balance of income continued to be positive at the net amount of euro 143.3 million in year 2008. This balance derived from the income inflow of euro 218.3 million and the outflow of euro 75.0 million. Net income in 2008 recorded a decline of 22 percent compared to the previous year. This decline results from the increase of income by 4.9 percent and increase of outflows by 63.3 percent. The main source of the fall of income is the decrease of income from investments abroad to euro 57.3 million (lower by 28.4 percent). Furthermore, during 2008 the outflow of income from investments in Kosovo increased by 61.6 percent, reaching the amount of euro 74.2 million; a result of increased profit by foreign banks operating in Kosovo. The decrease of income was also affected by falling inflows from portfolio investments (72.9 percent lower) which might have been due to the lower level of portfolio investments, as well as increasing deposits. Income from other investments increased by 14.6 percent attributed to the CBK and commercial banks investments abroad. The largest share on income is represented by the compensation of employees which mainly come from Serbia and Afghanistan. The income inflows from Serbia are dedicated for the areas inhabited by Serbian minority. For 2008 these inflows were around euro 120 million.

3.4.1.4. Current Transfers

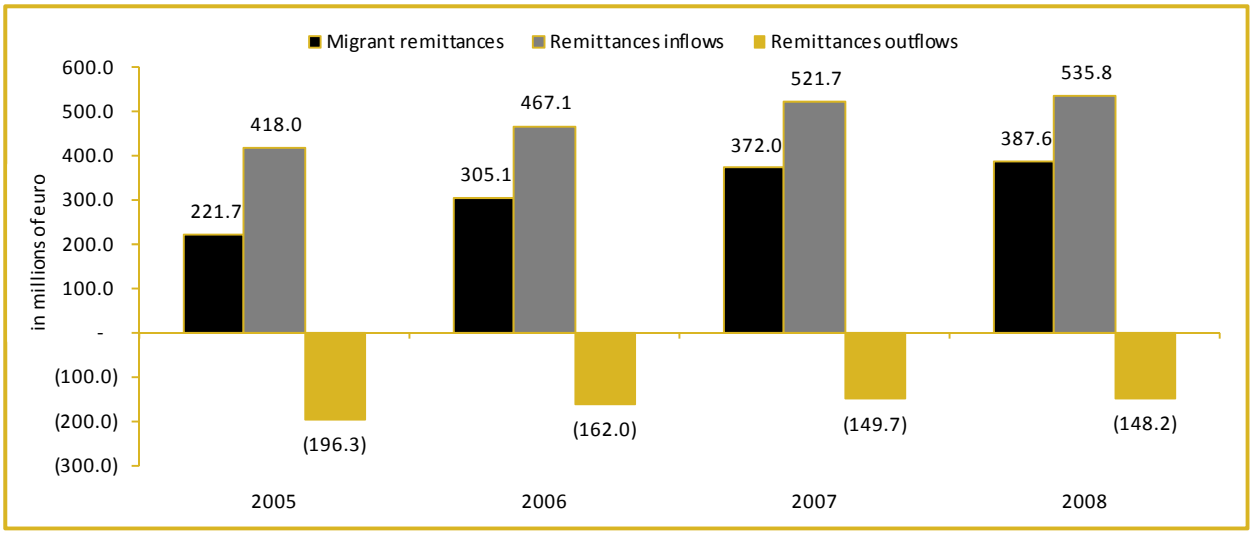
Net current transfers amounted at euro 770.9 million in 2008, which is for 1.6 percent higher than in 2007. The largest share of current transfers is represented by transfers of other sectors (non-government) composing 62.6 percent of total transfers, dominated by migrants' transfers.

Figure 13. Current transfers, in millions of euro.



The net amount of the other sectors transfers reached euro 481.9 million in 2008, an increase of 10.6 percent compared to 2007. This is due to the increase of transfer inflows by 6.0 percent and the decline of transfer outflows by 6.0 percent. The increase of inflows is attributed to the migrant transfers which amounted at euro 535.8 million (2.7 percent higher than 2007). The transfers outflow during 2008 amounted at euro 148.2 million being composed by money transfers sent abroad by the employees of foreign organizations in Kosovo (lower by 1.0 percent compared to 2007).

Figure 14. Inflows and outflows of migrant transfers, in millions of euro.



Migrant transfers are one of the main sources that contribute in narrowing the current account deficit and their share to GDP is 14.1 percent. Migrant transfers are 2.7 times larger than exports and 1.7 times larger than FDI. This shows that migrant transfers are of high importance for the economy of Kosovo. However, most of the countries where migrants from Kosovo are settled have reported that their economies have been affected by the current economic crisis. For example, projections suggest a real GDP growth of -0.6 percent for EU countries. This implies that the current crisis in EU might have impacted also the migrants from Kosovo. As a consequence, the growth rate of migrant transfers in 2008 was only 2.7 percent compared to the annual growth rate of 11.7 percent in year 2007. The data for the first quarter of 2009 show that migrant transfers have declined by around five percent compared to the same period of 2008.

3.4.2. Capital and Financial Account

In the last two years the capital and financial account had a positive balance. In 2008 capital and financial account increased by euro 296.5 million, reaching euro 388.4 million. This increase is attributed to the reserve assets which in 2007 increased by euro 290.3 million, while in 2008 reserve assets decreased by euro 5.5 million. The financial account balance in 2008 stood at euro 390 million, mainly composed of FDI amounting at euro 340.4 million. The developments in international financial markets entailed a switch where portfolio investments were transformed into other investments (mainly deposits), bringing the balance of portfolio investments at euro 16.8 million.

3.4.2.1. Foreign Direct Investments

The amount of net FDI in year 2008 reached at euro 340.4 million, which is a decrease of 17.7 percent compared to 2007. This decline is mainly attributed to the stagnation of the privatization process during 2008, while in the previous year this process was among the main attractors of FDI. In addition, the licensing and the investments of the second mobile telephony operator represented a substantial part of FDI inflows in the previous year.

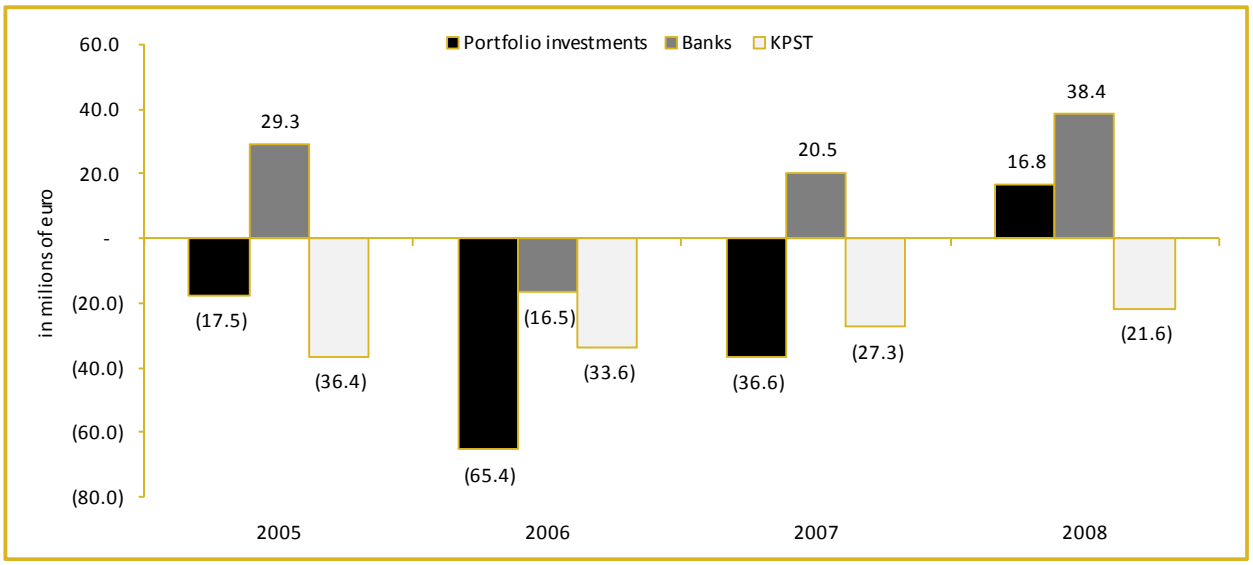
In 2008, the outflow of FDI amounted at euro 19.2 million, consisting mainly of investments of Kosovo's citizens in Albania. Whereas, FDI inflows consist mainly of capital investments (63.7 percent), other investments such as intercompany loans (21.4 percent) and reinvested earnings (14.9 percent). Based on sectors, FDI inflows are dominated by investments in the financial sector (34.9 percent), transport and telecommunication (13.8 percent), the processing industry (eight percent), and energy, water and gas sector as well as investments in the mining industry (each attracting around 5 percent). A substantial share of FDI inflows is represented by investments in real estate (16.8 percent of total FDI inflows).

The changes in the fiscal policy, effective since January 2009, may attract higher FDI inflows in Kosovo. In addition, a significant contribution in this respect is expected from the recommencement of the privatization process. Also membership of Kosovo in IMF and World Bank may be another positive signal for potential investors. Another important factor which may have a positive impact on increasing FDI inflows are increased capital investments which are improving the infrastructure and especially the roads infrastructure.

3.4.2.2. Portfolio Investments

In response to the developments in international financial markets, commercial banks shifted part of their portfolio investments into other investments (mainly deposits). In addition, a part of portfolio investments of commercial banks was withdrawn, bringing the portfolio investments balance to euro 16.8 million in 2008, compared to the negative balance of euro 36.6 million in 2007. The balance of euro 16.8 million has resulted from new portfolio investments amounting at euro 21.6 million, which may have been invested during the first part of the year as the signs of the crisis were not yet very evident, and the reduction of these investments by euro 38.4 million that took place during the same year (the reduction in year 2007 was euro 20.5 million).

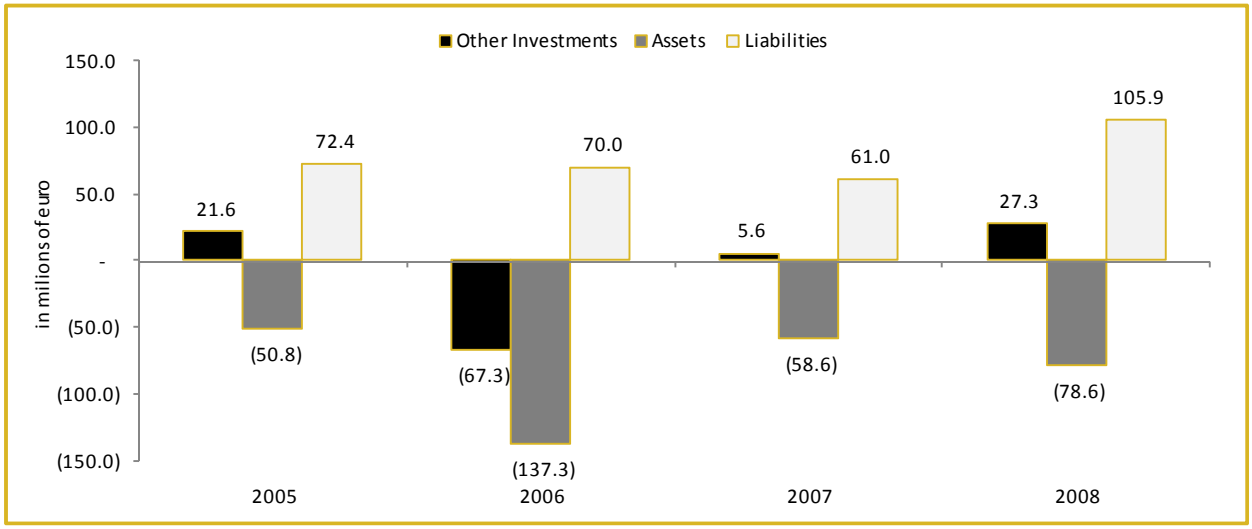
Figure 15. Portfolio investments, in millions of euro.



3.4.2.3. Other Investments

During 2008, the balance of other investments (composed of trade credits, loans and deposits) was positive amounting at euro 27.3 million. Kosovo's assets abroad were mainly composed of deposits of commercial banks, CBK and other sectors. The volume of assets abroad (which are not part of reserve assets) stood at euro 78.6 million in 2008, which is higher for 32.6 percent compared to 2007. Part of other investments abroad are in the form of trade credits which amounted at euro 10.8 million and the remaining part are loans granted abroad amounting at euro 3.8 million in 2008.

Figure 16. Other investments, in millions of euro.



On the other hand, Kosovo's liabilities to the external sector regarding the category of other investments reached the amount of euro 105.9 million (71.6 percent higher than 2007). Other investments in Kosovo are mainly composed of loans and trade credits reaching the amount of euro 48.5 million and euro 38.9 million, respectively. Compared to the previous year, trade credits marked a decrease of 40.6 percent. The remaining part is composed of deposits in domestic commercial banks amounting at euro 18.5 million in 2008.

4. Financial Supervision

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. Banking supervision by risk 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 (Law on Central Bank of the Republic of Kosovo No.03/ L-074 , Law No.03 /L -084 on pensions in Kosovo, UNMIK Regulations 1999/21 and 2001/25), 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 2008 remarkable changes were marked in completion of banking, insurance, and pension and non-bank financial regulation. During 2008, the CBK Governing Board approved the following for adequate supervision of financial institutions:

Banking supervision:

(a) **Rule XXVI on Interest Rate, Fees Disclosures and Advertisements -** This amended rule includes some small technical changes and addition of Paragraph 8 – **Other disclosures -** for this purpose financial institutions shall ensure that each of its branches dealing with retail customers shall have

printed price lists which contain the required information ready to be delivered to an inquiring customer.

(b) **Rule on audit and external auditors of financial institution**- This amended rule includes some small technical changes requiring external auditors and external audit firms to be in compliance with licensing criteria applicable in Kosovo. The time limit for engagement of a same audit firm is extended to 5 years.

(c) **Rule XXX on Internal Control System-** The rule was drafted in accordance with the internal control system frame published by Basel committee for banking supervision. This Rule provides basic principles on the organization and operation of internal control system of all financial institutions. Through this Rule, the CBK requires that covered institutions establish a sound internal control system for the purpose of preventing losses, maintaining reliable financial and management reporting, enhancing their prudent operation, and promoting stability in financial system.

The CBK Board during 2008 has also approved the Policy on Capital Equivalency Deposits for branches of foreign banks. A foreign bank wishing to open a new branch in Kosovo, and not an incorporated office, in accordance with the banking Rule No. VI on Licensing and Restrictions on Branches of foreign banks, to initially deposit equivalent capital in form of paid-in capital. The capital equivalency deposit amount may be increased time after time, in accordance with capital requirements for risked assets and applies to all banks operating in Kosovo. The capital equivalency deposits are a guarantee for the CBK that the funds exist, and in case of a possible liquidation, the assets are safe.

On May 2008 entered into force the Regulation No. 2008/28 on Licensing, Supervision and Regulation of Micro Finance Institutions. Two other rules on activities of non-bank financial institutions and micro finance institutions become effective during the year: Amended Rule XIV on Licensing and Supervision of Microfinance Institutions and the Rule XVI on other non-bank financial institutions. With reentering into force of the Regulation and two rules has started the process of re-licensing of all micro finance institutions due to re-categorization of their activities.

Insurance supervision:

a) **Rule III on Compulsory Third Party Liability Insurance.** Changes in this rule are the result of partial liberalization of CTPL rates, respectively provisions on standards and structure for calculation of CTPL premiums and the aim of amending rule was: for approval of premiums applied, insurance companies in independent way will determine their rates pursuant to standards specified in the rule. Through this amendment was set the basis for premium calculation and criteria for CTPL premium approval.

b) **Rule X on Amending Rule on Establishment of Arbitration Forum.** In this amended rule all provisions were reviewed in order to make the rule applicable, to be more clear and concise. The amended rule closely determines the rights of policyholder to express his/her dissatisfaction for the insurance company decision and it also sets provisions regarding arbitration decision, which is compulsory and executor.

Pension supervision

Given the need for amending the Regulation in accordance with the Constitution of Republic of Kosovo and other important instruments, during 2008 the Kosovo assembly approved the Law No.03 /L -084 for Amending UNMIK Regulation 2005/20 on Pensions in Kosovo.

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 to 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.

Therefore, in order that the CBK effectively accomplishes its mission, regarding licensing and regulation of financial institution, and to continue its advancement of supervisors in regional and international level, in May 2008 was established Corporation, Legislation and Methodology Directorate. The primary objective of Corporate, Legal & 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 Basle Committee for Banking Supervision of 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 2008 was primarily related to the opening of new branches and incoming of new banks. During 2008 the CBK Governing Board has approved preliminary license of FIMA Validus from Croatia to open the bank in Kosovo. The increase of foreign banks number is an important aspect for increase of competition in banking system and for the increase of efficiency and quality in providing of various products and services. During 2008, banks network expanded in a network of eight banks with 287 branches and sub-branches.

Regarding insurance sector during 2008, the CBK governing board has approved the license to non-life insurance company Elsig and to life insurance company Dukagjini Life. In the same time, the Insurance Company Elsig entered in partnership with the Insurance Company Grawe AG Graz from Austria by selling 60% of its shareholder capital to the latter one.

Micro Finance Institutions. By the end of 2008 in Kosovo fourteen (14) micro finance institutions and eight (8) three other non-bank financial institutions were operating throughout Kosovo. During 2008 the CBK Governing Board approved the registration of four (4) non-bank financial institutions: Crimson Finance Fund and Lesna to conduct lending activities; and Raiffeisen Lizing and Factor Lizing to conduct financial and operational leasing activities. In 2008, with the request of institution was withdrawn registration of Balcanactie as micro finance institution.

Exchange Bureaus and Money Transfer Offices. During 2008 no registration of new exchange bureau or money transfer offices was marked. With the request of owners of the institution, in 2008 was withdrawn the registration of two exchange offices: "Pikon" in Prizren and "Ari" in Peja. At the end of 2008, 21 exchange bureaus and three agencies for money transfers were operating in Kosovo.

Table 8. Banks licensing activity.

Description	2004	2005	2006	2007	2008
Prior Licensed	7	7	6	8[1]	8
Preliminary approval*	0	0	2	1	1
Revocation of license	0	0	-1	0	0
TOTAL	**7**	**7**	**8**	**9**	**9**

Table 9. Insurance Companies licensing activity.

Description	2004	2005	2006	2007	2008
Prior Licensed	8	8	8	8	9
Licensed	2	1	1	0	2
Refused	-2	-1	0	0	0
TOTAL	**8**	**8**	**9**	**9**	**11**

Table 10. Pension Funds licensing activity.

Description	2004	2005	2006	2007	2008
Compulsory Pension Funds	1	1	1	1	1
Supplementary Pension Funds	6	6	6	1	0
Individual Pension Funds	0	0	1	2	1
TOTAL	**7**	**7**	**8**	**3**	**2**

Table 11. Microfinance and non bank financial institution registration Activity.

Description	2004	2005	2006	2007	2008
Prior Registered	15	18	19	18	19
Registered	3	1	1	1	4
Withdraw of Registration	0	0	-2	0	-1
TOTAL	**18**	**19**	**18**	**19**	**22**

Table 12: Insurance intermediaries licensing activity.

Description	2004	2005	2006	2007	2008
Agents	446	658	784	347	479
Insurance Brokers	0	2	2	3	3
Brokers	1	0	2	2	3
Loss adjusters	1	2	2	2	2
Independent Claim Adjusters	2	3	3	3	4

Table 13. Money transmitters agencies registration activity.

Description	2004	2005	2006	2007	2008
Prior Licensed	1	1	2	3	3
Registered	0	1	1	0	0
TOTAL	**1**	**2**	**3**	**3**	**3**

Table 14. Money exchange offices registration activity.

Description	2003	2004	2005	2006	2007
Prior registered	4	3	6	16	23
Registered	0	4	10	7	0
Registration withdraw	-1	-1	0	0	-2
TOTAL	**3**	**6**	**16**	**23**	**21**

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 creating 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, the Directorate of Corporation, legislation and Methodology for Banks, Insurance and Pension Supervision are responsible for licensing, regulation and control of financial institutions and non-bank financial institutions that operate in Kosovo.

Banking Supervision has the aim of safeguarding the funds of depositors and maintaining a stable financial system by looking after an efficient and financial competitive environment. Promoting a secure, sound and stable financial system is one of the essential reasons of supervision and regulation of financial institutions. A stable financial system ensures depositors a secure place to maintain their money. It also ensures businesses and individuals a reliable framework for the performance of monetary transactions. Another main purpose of supervision and regulation of financial institutions is the establishment of a competitive financial system. A competitive financial system ensures consumers products and financial services with lower prices, better financial goods and services.

Another very important objective of regulation is the protection of consumers. Adequate rules and regulations require financial institutions to unfold information that helps consumers value open product options, such as loan cost, their rights and potential obligations, as well as the real scale of return in their deposits.

CBK Rules and UNMIK Regulations direct a lot of financial, banking and non-banking institutional aspects. Issues such as: who owns; controls and administers financial institutions; what loan amounts can financial institutions give to an only consumer or a group of consumers; how much capital financial institutions should have; where can financial institutions establish their offices, and what kind of services can they offer, are all issues that are regulated by banking and non-banking rules and regulations.

The main objective of the supervision process is the security and efficiency evaluation of financial institutions. This evaluation includes valuing the risk management systems of the institution, the

financial condition, loan portfolio as well as the compliance with applicable banking and non-banking rules and regulations. .

The supervision process includes on-site examination and off-site examination through external analysis. In general, the CBK staff performs on-site examinations of banks and non-bank financial institutions at least every 12 months. This routine can be supported with more "limited" frequent examinations, depending on the risk profile of financial institution being supervised.

a. Off-site examination – Analysis of financial reports

Off-site examination has to do with gathering of information (reports, information and data that are submitted to CBK by banks and non-bank financial institutions), and indicator evaluations of their operations and their comparison with determined limits, previous data and international accepted standards. External analysis is a valid supervision instrument for estimation of financial condition and bank operation results.

The primary functions of review and external analysis are to identify changes and conditions of the institution, to identify financial trends in each institution and in the financial system, to monitor the weakness and deficiency improvement progress, to monitor compliance with the supervision orders as well as obligatory measures/supervision directives, and to determine compliance with laws and regulations.

The review and external analysis system is one of the primary means by which the CBK monitors the institution in the financial system by generating inputs for information of the CBK management and on-site examination.

b. On-site examination of financial institutions

On-site examination estimates the performance of qualitative evaluation of the activities of banks and non-bank financial institutions through control of their internal data in conformity with the risk profile of the institution.

The CBK on-site examination team performs in-depth evaluations of formal scopes of policies, procedures and practices that were used by financial institutions to manage the activity of the institution in general and risks to which are exposed financial institutions.

On-site examination is the supervision phase for finding facts. Facts are analyzed to determine the condition of the financial institution. By using these facts, the risk profile of the financial institution is determined, which determines the manner in which the institution will be treated by supervisors during the future supervisory cycle. These findings are summarized in the Examination Report. The Examination Report serves for information of Governing Board of the examined institution, the actual condition, problems, progress and future direction. The Examination Report also provides the Governing Board of the institution a summary of the issues that require corrective measures. On-site supervision and off-site analysis coordinate their activities in order to enhance the supervision of financial institutions.

c. Financial supervision approach – promoting a risk-based supervision

Given that banking and non-banking financial institutions are increasing in size also in complexity, CBK is slowly moving towards a risk-based supervision, through manuals and other required procedures, tending to rationally use existing resources for more effective supervision of financial sector. The purpose of the risk-based supervision is the identification of larger risks of a financial institution and estimating the institution's management ability to identify, monitor and control these risks.

Risk estimation is done based on risk parameters, management practices and risks tendencies in the future.

4.3.1. Significant Developments in Banking Supervision during 2008

During 2008 Banking Supervision was active in close monitoring of developments in banking and micro finance industry. The existing banking industry structure reflected a system leveled in three 'peer groups[7]'

[7] Groups with financiar parameteres of the same level.

1. Three systemic banks representing 85% of total of assets in banking industry, with foreign ownership, (Procredit Bank, Raiffeisen and NLB)

2. Two banks with domestic ownership (Banka për Biznes and Banka Ekonomike)

3. New banks, incorporated recently in banking market Turkish Economic Bank -TEB, Banka Kombëtare Tregtare -BKT andKomercijalna Banka – KMB.

During 2008, banking supervision during, based on risk profiles of these three banks set, achieved:

- To conduct comprehensive examinations and increase the number of focused ones in the 3 systemic banks.

- Through a comprehensive examination of the bank has successfully validated merge of two banks (ex Kasabank and Banka e Re of Kosovo) in NLB Prishtina. The merge process and consolidation was estimated as successful taking into consideration the short period and the minor mistakes that have associated this process. This examination is considered as successful also for the fact that it was a "joint" examination with colleges from bank of Slovenia and lots of supervision experiences were shared.

- Close supervision and assurance for implementation of requirements and recommendations from prior focused examinations.

- Following the license approval, Komercijalna Banka has consolidated its sub-branches in the level of branch in Kosovo, by integrating reporting system and fulfillment of all CBK regulatory requirements.

- TEB and BKT – continued their operations pursuant to Budgeted parameters and by increasing the competition in providing qualitative services to clients.

Regarding the liquidation process of Credit Bank in Liquidation, the CBK remains proactive in coordination of its activities with the office of the liquidator. During 2008, 2.3 million € was amount of priority payments to small depositors and categories in need, as it is stated in the legal framework in force. Since the beginning of liquidation process, total reimbursed deposits are 14.4 million €, respectively 43% of total amount. The total of liquidated (repaid) deposit accounts is 99.6%.

Reimbursement is enabled by the credit collection. Current situation of judicial system has a significant impact in secondary loan payments through court procedures in collecting collaterals of different categories.

A) Basel Core Principles for banking supervision - BCP

At the beginning of 2008, the CBK, respectively Banking S underwent an estimation of legal framework and supervision practices in context of compliance with the Basel core Principles for banking supervision.

Results documented in International Monetary Fund and the World Bank reports were encouraging in continuing the update of the CBK and Banking Supervision legal structure.

Consequently, banking supervision issued new rules, directives and documents with minimum standards/banking supervision best practices. These documents were implemented through an interactive process with financial industry, in coordination with Banks Association, and every document prior its finalization was the subject of comments and estimations by financial industry.

The CAMEL is supervisory system is a supervision tool of the evaluation system. This supervisory system is an acronym for five components of the evaluation system: C-Capital Adequacy, A-Quality of Assets, M-Management and Administration, E-Incomes, and L-Liquidity.

Table 15. Banking supervision: on-site examinations during 2008.

Description	No. of examinations
Banks – comprehensive	5
Bank – focused	3
Banks – branches – pre-openings and re-displacements	69 (48 pre-openings, 21 re-displacements)
Micro Finance Institutions – comprehensive	5
Non-bank financial institutions – comprehensive	18
Non-bank financial institutions - pre-openings and re-displacements	4 (2 pre-openings, 2 re-displacements)

Year 2008 has marked big turbulences in global financial markets, therefore the CBK in close coordination with banking industry and other interested parties, has continued to promote a proactive standing. The CBK widened regulatory requirement regarding existing limits of banks exposure in financial institutions abroad as well as contingency plans. There were immediate requirements for increase of banking managing capacities in accordance with assets increase trends.

Banking Supervision has also increased the frequency of monitoring of banking industry performance, even though banking system continues to be have proper capital and liquidity. Trends of assets quality reflect ongoing development by generating best indicators in region as far as loan return is considered. Banks continue to show high rates of profit a d liquid assets.

B) Financial parameters of Banking system generated during 2008

Proper use of financial resources, enabled also by the increased requests for loans has brought results. Due to this banking system achieved very good profitability performance. Main performance indicators, respectively Returns from Average Assets (ROA) and Return on Average Equity (ROE), during 2008 continues to be satisfactory.

Even though it has a slight decrease comparing to previous year due to a faster increase of ROA and ROE than the net profit. Returns from Average Assets (ROA) in December 2008 was 2.4%, comparing comparing to 2.7% marked in pervious year, whereas the ROE last year was 25.9% comparing to 20.2% of this year . The stable trend of capital adequacy in banking sector continued during 2008. Indictors of liquidity and capital adequacy were positive and pursuant to regulation requirements. During this period, has continued entry of foreign capital in banking system and has been functionalized the agreement for merge of two banks in one, consolidating this way the competition in financial market. Banking sector Capital Adequacy Ratio at the end of the period stood 16.49%, which is well above the minimum level of 12% required by the regulator. .

Liquid assets of banking sector amounted 30.16% of total assets and 36.01% of total deposits.

Loan activity is 67.17% of total assets in banking industry; last year this indicator was 63.47%. Indicators of assets quality, show a better situation of assets in banking system comparing to previous year. The trend of non-performing loans and past due loans marked a slight decline: 0.8% for non-

performing loans and 0.4% for past due loans (from 4.1% to 3.3% regarding non-performing loans and from 7.1% to 6.7% for past due) comparing to previous year. Ongoing quality increase of assets in banking system in Kosovo appears to generate best indicators in region as far as non-performing loans are considered.

4.3.2. Main Developments in Insurance Supervision during 2008

The main objective of CBK is maintaining a secure, stable and efficient market, the protection of policyholders, offering an adequate environment for shareholders and the development of fair competition.

In compliance with the governance legislation (UNMIK Regulation 2001/25) at the end of 2006, CBK has set supervision standards and requests with the purpose of achieving an Insurance Industry well-regulated and oriented towards qualitative service and product offers.

The supervision process includes on-site examination and examination and monitoring through external analysis (off-site).

In general, the CBK staff performs on-site examinations of insurance companies at least every 12 months, pursuant to On-site inspection program (Manual).

This routine can be supported with more "limited" frequent examinations, with the purpose of following up on the application of previous recommendations.

CBK examines the activities of financial institutions through:

External analysis (off-site) – gathers data (reports, information and data that are offered by Insurance Companies on daily, weekly, monthly, quarterly and annual basis. These data are valued and serve to calculate the different financial indicators that present the progress of IC activities such as:

- Minimum Solvency Margin

- Financial power - Liquidity

- Variable capital adequacy

- Report on Losses, Expenses, and paid Claims, profitability margin, report on assets and equity return

- Technical provisions, exposed risk and maximum risk holding

- Re-insurance and a comparison as to how much they comply with International standards

The review and external analysis system is one of the primary means of the CBK for monitoring an institution in the financial system, between two on-site examinations.

Same as with financial institutions and banks, insurance companies' On-site Examinations are an essential part of the supervision process, closely tied to External Analysis. In order to perform this activity, CBK uses the grading (evaluation) system which contains grades from 1 to 5. Grade 1 is identified with high risk; grade 2 with lower risk, grade 3 with medium risk, grade 4 is valued as good whereas grade 5 is valued as excellent. This type of inspection offers CBK the possibility to value the quality of assets, internal controls, and technical provisions, re-insurance and risk management.

On-site examination is the supervision stage for finding of facts. Facts are analyzed to determine the condition of the financial institution. By using these facts, the risk profile of the financial institution is determined, which determines the manner in which the institution will be treated by supervisors during the future supervisory cycle. These findings are summarized in the Examination Report. The Examination Report serves to communicate to CBK and to the Governing Board of the examined institution, the actual condition, problems, progress and future direction. The Examination Report also is submitted to the Governing Board of the institution, addressing key findings that need corrective measures. On-site inspections can be complete and partial.

a) **Financial Performance of Insurance Industry**

During 2008, the Insurance Industry in Kosovo has marked a progress in financial strength.

Table 16. Gross premiums, in millions of euro, unless otherwise indicated.

Description	2008	2007	Changes in %	2008	2007
Premiums					
TPL	35,008,412	35,519,170	-1.44	66.75	73.51
Border Insurance	9,800,771	7,609,230	28.8	18.69	15.75
Non - TPL	9,117,255	6,184,518	47.42	17.38	12.8
Returns	-1,477,886	-995,258	48.49	-2.82	-2.06
BPSH	**52,448,552**	**48,317,660**	**8.55**	100.00	100.00

Above table shows that gross premiums marked an increase of 8, 55% in 2008 comparing to 2007. In 2008 comparing to 2007, the biggest increase was due non-TPL (voluntary) insurance: 47, 42% for non-TPL voluntary insurance; 25, 80% for border insurance and the rest is CTPL insurance.

In 2008 participation of voluntary insurance in total portfolio was 17.38%, comparing to 12.80% in 2007. Moving of industry towards voluntary insurance portfolio is an indicator of Kosovo insurance industry development. There was marked also an increase in percentage of total claims paid (9.28%) in 2008 comparing to 2007 (13,388,000 euro was the total of claims paid in 2007, comparing to 14,630,000 euro in 2008).

As the result of controlled liberalization of CTPL premium rates, insurance companies have been more careful in managing operational expenses, marking a drastic decrease of expenses during 2008 comparing to 2007 (form 73.31% in 2007 decreased in 51.12% in 2008. Below are presented coefficients of claims paid, claims incurred and some other industry coefficients.

Table 17. Loss ratios, in millions of euro, unless otherwise indicated.

Discription	2008	2007
Ratio of paid claims	27.35%	26.77%
Incurred claims ratio	27.72%	43.71%
Ratio of expenses	51.12%	73.31%
Combined ratio	82.64%	138.97%
Gross loss ratio	23.20%	39.08%
Net loss ratio	25.80%	43.67%

Combined ratio = Claims incurred paid and expenses to net earned premiums

Gross loss ratio = Claims Paid + difference of claims reserve /Gross written premium plus difference of unearned premium reserve.

Net loss ratio = Claims paid plus difference of claims reserve / net earned premium.

Returns from Average Assets and equities are very important coefficients in Kosovo insurance industry for financial year 2008 comparing to 2007 and are presented below:

Table 18. Return on average assets and equity.

Discription	Standard	2008	2007
Return of assets (ROA)	9.00%	5.54%	2.97%
Return on Equity (ROE)	15.00%	11.44%	3.44%

Table 19. Insurance companies: on-site examination performance.

Discription	2007	2008
	No. of examinations	
Insurance company - comprehensive	8	9
Insurance Company - focused	18	12
Insurance Company -agents offices	226	
Surplus line brokers	3	
Insurance brokers	0	
CIU & GFK	2	

Same as banking supervision, insurance supervision is designed as a risk-based supervision in order to provide the CBK with appropriate instruments for development of industry that leads to maintain required capital in an optimal level. This approach provides needed infrastructure for liberalization of Compulsory Third Party Liability Insurance, and in the same creates financial strength of insurance companies. During 2008, the CBK in cooperation with insurance industry have started implementation of controlled CTPL tariffs liberalization, establishing this way the basis for full liberalization of TPL tariffs.

The essence of this approach was the CBK requirement for insurance companies to share insurance risk (variable collateral).

The Risk-based approach is based on:

- Minimum capital requirement
- Variable capital adequacy
- Minimum Solvency Margin
- Investment management and maximum risk holding

All above requirements are related to minimum capital requirements that are essential for financial stability. Moreover, insurance companies besides the required 3 million paid-in capital are obliged to keep reserves for variable capital for operational and financial insurance risk.

b) **Controlled liberalization of third party liability insurance tariffs**.

Process of partial liberalization of TPL tariffs means that the CBK would set minimum basis of the insurance risk level based on Risk Insurance, Insurance companies and would set the their limits based on actuarial calculations. The main objectives of controlled liberalization are:

- Ensure that TPL tariffs that would be fair, adequate and non-discriminatory
- Stimulate development and increase of insurance market based on risk exposure
- Control insurance risk as determined in CTPL insurance policy

Transition from controlled tariffs into partially liberalized tariffs, where the price would be determined by the market could lead to a fair competition.

With this Rule, the CBK creates an adequate infrastructure for liberalization of CTPL tariffs and insurance market in general; in the same time increases minimum solvency margin and gives the opportunity for the easier move to Solvency II that will enter in force by UE in 2012.

c) **Liquidation process of Insurance Company "Kosova"**

The CBK continues its activity in process finalization of IC "Kosova" liquidation, by supervising and providing assistance to Liquidator in order to properly close the liquidation process.

During 2008, the liquidator has managed to pay claims up to 89,687 euro, including domestic and international claims (Green Card). Total amount of claims paid from 2004 until 31 December 2008 is 2,577,446 euro.

On 31 December 2008 all accounts of IC "Kosova" in Liquidation were closed, and also was audited the period April 2004 - May 2008. The period May – December 2008 is still to be audited. At the

end of liquidation process, monetary amount left shall be distributed to shareholders in accordance with their legal rights.

4.3.3. Remarkable Developments in Pension Supervision during 2008

2008 has marked one of the most serious crises in international financial market history. The crisis evolved by the end of 2007 and shortly after was spread in banking systems in almost all developed countries. Besides financial sector, the crisis was also transmitted into the real sector causing this way a considerable decrease in stock markets.

Despite the difficulties in the international financial market, Kosovo financial system continued its normal operations, although the Kosovo Pension Savings Trust (KPST) recorded decline in the value

of its assets that were invested in stock markets abroad. During 2008 continued the liquidation process of supplementary pension funds operating in public companies like KEK and PTK. Liquidation of these funds was due to unfulfilled liabilities towards the Funds. During the liquidation process, pension assets were transferred in KPST and FSKP as decided by each participator-pensioner.

However, negative effects of financial crisis in Kosovo were marked in Kosovo Pension Saving Trust and only a bit in Slovenian-Kosovo Pension Fund, shares of which has marked a considerable value decrease in international stocks market.

Quick development and evolving of global financial crisis, especially during September and October, in the time when the Trust was left without Board, caused a negative investment return for -29.3% regarding 2008. The value of one share of Trust in December 2008 was 0.86 euro comparing to 1.22 euro in December 2007. This is pre-calculated loss. Therefore, value of pension savings, by the end of 2008 29% lower than at the end of 2007. This is pre-calculated loss. If for any reason, during this period, when the value of shares in financial market was low, the Trust would have sold these shares, then "pre-calculated" loss would become "real loss". Real loss amount of the Trust, as of 31 December 2008 was 240 thousand euro, a loss that has an impact in pension payments by the Trust until now. However, investment developments of the Trust are in line with the global developments, where the financial crisis

had an impact in all shares prices, stock markets and investments. Moreover, Trust investments were in accordance with the law and investment policy in force.

The table below shows the investment activity of the Trust assets, investment classes and geographical spread, for 2007 and 2008.

Table 20. Trust Investments, in millions of euro.

Asssets Manager	Investment class	Place	Placement	Dec-07	Dec-08
Vanguard	Shares Treasury Bonds	Belgium	Global	158.4	112.3
Schroders	Treasury/ Corporations	Luksemburg	Global	49.9	49.2
European Credit Management-ECL	Credit market (Securities)	Great Britain	Europë	23.7	14.2
European Credit Management-DEC	Credit market (Securities)	Great Britain	Europë	23.6	12.3
Raiffeisen Bank Kosova	Bank deposits	Kosovo	Kosovo	-	10.4
FX Concepts	Currency market	SHBA	Globale	6.5	7.4
ProCredit Bank Kosova	Bank deposits	Kosovo	Kosovo	-	5.2
Fortis (ish Abn-Amro)	Cash market	Belgium	Global	3.9	4.1
Auriel Capital Management	Currency market	Great Britain	Global	6.5	4.4
Invested				**272.5**	**219.4**
Not invested (in CBK)				7.1	36.3
Total assets managed				**279.6**	**255.7**

From the table below it can be seen assets investment activity managed by the Trust. There are amounts of the end of 2007 and 2008. As the result of global financial crisis of 2008, the biggest declines were caused by the investment in stocks markets, credit markets and securities. The table also shows the individual managers performances in other markets, through which the Trust invests.

In the role of the financial institution supervisor, including the Trust also, the Central Bank of the Republic of Kosovo has undertaken several measures in order to minimize further decline in the values of Trust investments.

By monitoring financial crisis development and its impact in Trust investments, the CBK, by the mid of 2008, intensified contacts and monitoring of Kosovo Pension Saving Trust.

First preventive step taken by the CBK was discussions with the Trust Board and Management, prior the mandate expiry of the Board, recommending them not to continue with investment of contributions in international financial markets but to keep them in Kosovo within parameters determined with the existing regulation and policies that limit possibility of investments of substantial assets in Kosovo due to the lack of securities market, ratings, etc. Therefore, accumulated assets from September until now, in amount of 59 million euro are deposited in the Trust account in the CBK. With the consolidation of the Governing board of the Trust, shall be determined the new destination of assets, that can also be deposited in commercial banks in Kosovo.

Given the deepening of financial crisis and its great impact in Trust assets, the CBK in accordance with the legal framework issued an Order in writing, requiring that:

1. KPST Management to report in the CBK in weekly basis on invested assets performance, in order to get closely informed on the tend of assets movement, and

2. Asset Holders and Asset Mangers of the Trust to directly report to the CBK, and they are doing that regularly.

The CBK examines activities of the Trust and pension funds through: External analysis (Off-Site) – gathers information (reports, data provided in daily, weekly, monthly, quarterly and annually basis). These data are being estimated and serve for calculation of different financial indicators that show activities of the Trust and other pension funds. At the same time, on-site examination (comprehensive and focused) of the Trust and SKPF conducted at least once a year has helped the close monitoring of financial situation of these institutions.

Table 21. Pension funds: on-site examination performance

Discription	2008
	No. of examinations
KPST	1
Supplementary Pension funds in Liquidation - governing the liquidation process, KEK, PTK	aktivë
SKPF- focused, comprehensive	1+1

4.4. Obligatory Enforcement Measures for Financial Institutions

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 2008 there were situations when financial institutions have failed to achieve prudent supervision requests or when insecure or unsound banking and insurance practices where 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 practices, CBK has initiated 2 obligatory actions towards banks during 2008, whereas insurance supervision has initiated 16 obligatory actions against insurance companies.

Compulsory actions undertaken in 2008 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. Process of Establishment of Deposit Insurance Agency

Central Bank of Republic of Kosovo (CBK) in cooperation with German Bank for Development (KfW) and Frankfurt School (FS), during 2008 proceedet their endeavors in establishing the deposit insurance system in Kosovo.

Contacts and continual coordination with the KfW were essential in providing the support to the German Government, through a grant of 5 million EUR.

Activities were also coordinated with other parties of interest such as: Banking Association of Kosovo and commercial banks, Microfinance Institution Association and Microfinance Institutions, Ministry of Economy and Finance, USAID, World Bank, International Monetary Fund, European Commission, Accounting and Audits Association of Kosovo, Kosovo Bar Chamber.

The Law on deposit insurance as well as financial model, and deposit structure were prepared by the experts team, through analyze of the received data's from commercial banks in Kosovo. According to preconditions, hereinafter the requirement for this law, initially a prepared law was in the form of UNMIK Regulation, since this scope was under the reserved UNMIK competences.

After analyzing documents, the CBK Board has supported the establishment of the deposit insurance system, as a result of reaching one of its strategic points in creating the mechanisms for strengthening the financial sector. Since the precondition to continue with the deposits insurance system was the Basel Assessment on CBK banking oversight, at the beginning of 2008, a team of experts was engaged through the assistance of the International Monetary Fund and the World Bank for drafting the assessment report according to Basel.

The Basel report which was finalized at the beginning of May 2008 resulted as positive in all related criteria to the deposit insurance and in this manner was concluded that the establishment of the deposit insurance system may continue.

In the meanwhile, essential changes pursued in Kosovo, thereafter the proclamation of the Kosovo independency on 17th February, 2008, Institutions received competencies from UNMIK, and as a result, the Law on Deposit Insurances had to be amended in accordance to the procedures for drafting laws in accordance to the Kosovo's Government requirements.

The CBK in cooperation with Ministry of Economy and Finance (MEF) has fulfilled the legal requirements for sponsoring the law by the MEF. The Law on deposit insurances was referred to the laws in the region such as: Albania, Montenegro, Bosnia and Herzegovina, Slovenia, European and American

countries. The best international practice was followed referring to inclusive proposals within the Law on deposit insurances as well as European Directive on deposit guarantees.

The Project on Deposit Insurance for financial institutions was reviewed by MEF, and the law was foreseen in the legislative plan for approval in 2009.

4.6. International Cooperation in the Scope of Financial Supervision

In 2008, special attention has been dedicated to international cooperation with international authorities on banking and insurance supervision.

Cooperation with the Central Bank of Albania, Slovenia, Croatia, and Regulative Oversight Authority in Turkey and Austry was extended even more during 2008, on the occassion of the CBK staff visit to these countries and vice versa.

These mutual visits influenced a lot in strengthening the cooperation in the banking system, in the aspekt of foreign investments, which arised during the year. As a result of this cooperation, in May 2008, was signed a Memorandum of Understanding with the Regulative Oversight Authority in Turkey, and this contributed even more in extending the cooperation and exhange of oversight information between the two countries..

Also, many oversight information were exhanged with the Central Bank of Croatia upon reviewing the process of application of Fima Validus from Croatia, to open a bank in Kosovo.

Also, the cooperation with the Oversight Insurance Authority of Albania, Slovenia, Croatia, and Austria was extended more in the aspect of exchange of regulative and oversight information.

In particular, information with the Oversight Authority of Austria was exchanged; on the occasion of entrance of the strategic partner GRAWE AG from Austria to Kosovo, especially in purchasing shares of the currently licensed insurance company "Elsig".

Since 2005, the CBK is a member of the International Oversight Insurance Association (IAIS) and of pension (IOPS). The affiliation of CBK in these professional Associations is relevant and quite favourable. During 2008, the CBK personnel has gained a lot from its participation in committees and in sub-committees of these associations for actual issues on insurance industrial trends, as well as from various trainings in the scope of insurances.

It's worth mentioning also the cooperation and technical assistance provided from International and Advisory Financial Institutions such as: World Bank, International Monetary Fund, USAID, etc, in increasing the oversight capacities and in amending the legal regulative, which proceeded in a fruitful, dinamic and very effective manner during 2008.

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 publik, excluding crediting and temporary liquidity offer, since the CBK is not an emiting bank.

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, initially are related to Euro.

Figure 17. Supply with euro banknotes (partition numbers).

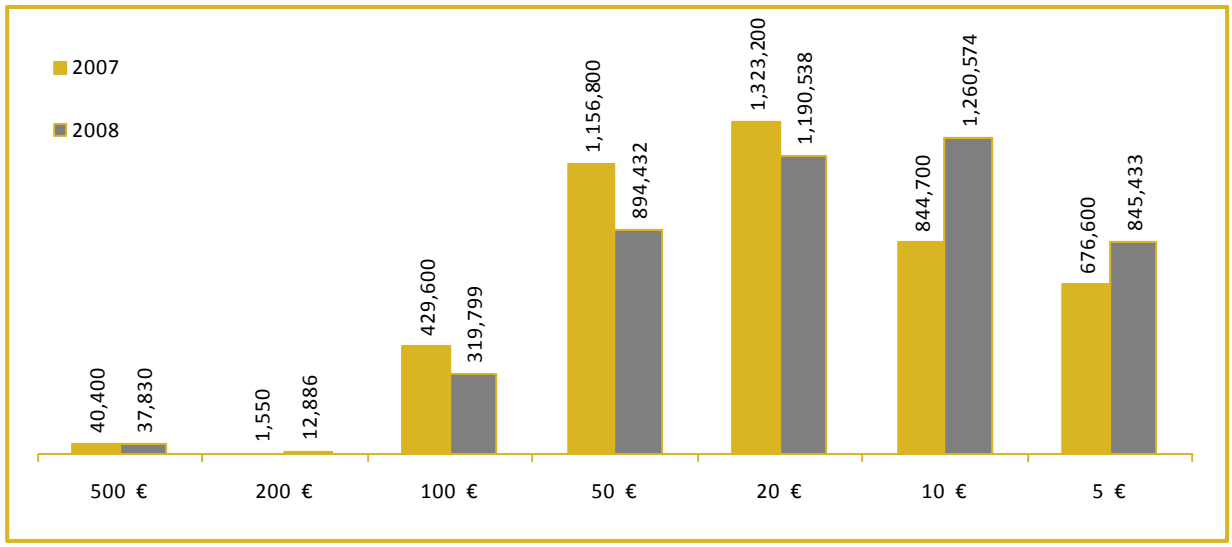


Figura 18. Supply with the euro coins (partition numbers).

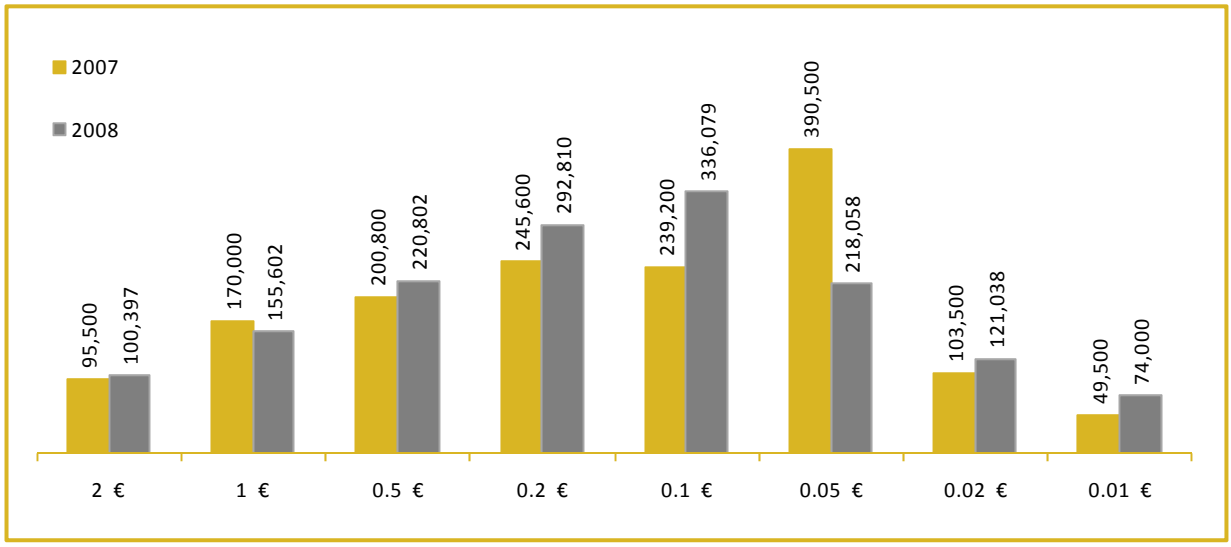
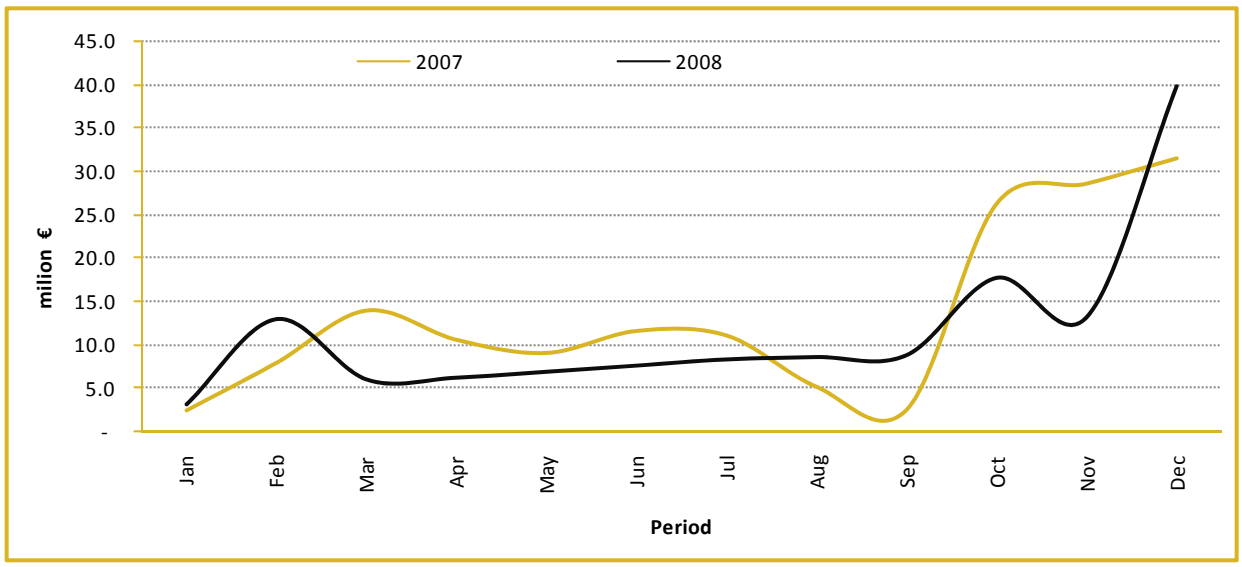


Figure 19. Cash supply (monthly flow).



As described in the above figures, during 2008, the CBK had supplied the commercial banks and other institutions with over 4,5 million banknotes in euro in the amount approximate to 140 million euro, and with over 1,5 million coins in euro, in the amount approximate to 0,6 million euro.

Regarding general amount, cash supply during 2008, had a decrease from 13 percent in comparing to 2007, whereas the strukture of the cash supply in accordance to denominations has evidently changed from year to year.

As the banknote supply increased for 5 and 10 euro, banknote supply with higher denominations has decreased.

Then, while the coins supply 1 and 0.05 has decreased, the coins supply of other denomination increased (2,1,0.2,0.1,0.02 and 0.01 euro).

Coin supply with 1 and 2 eurocent marked an increase since the CBK has supported its use and set under disposal of economic actors same as in the previous years their additional quantity. The increase of the coin supply 1 and 2 eurocent reflects an indespensable increase for it, mainly caused by a competitive strukture sale pricez at retail.

Figure 20. Euro banknotes received (partition number).

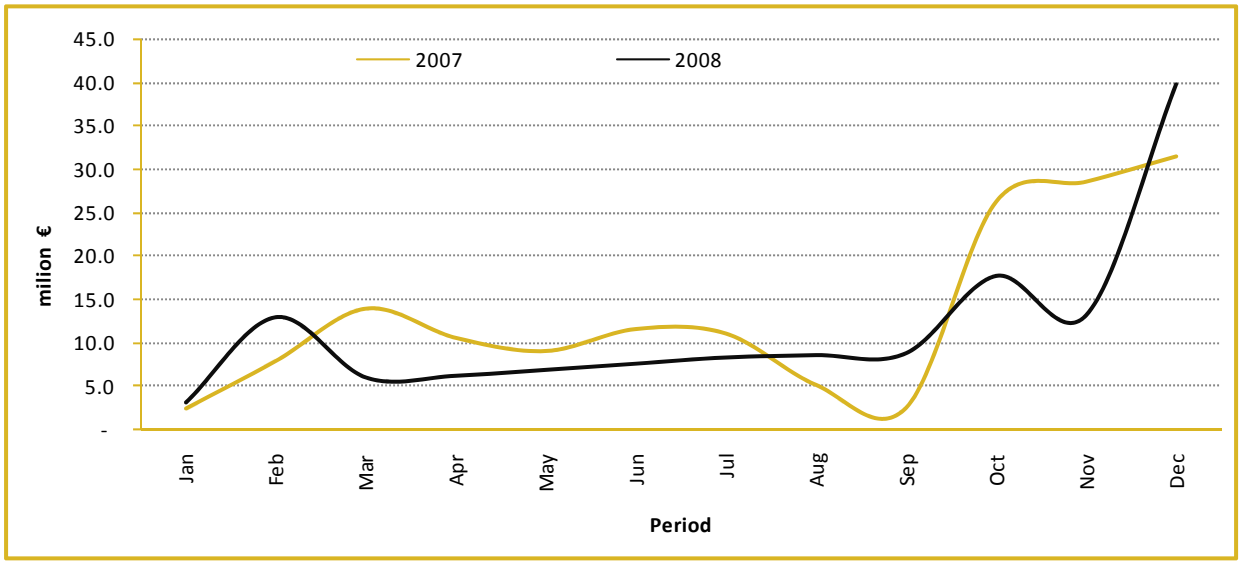
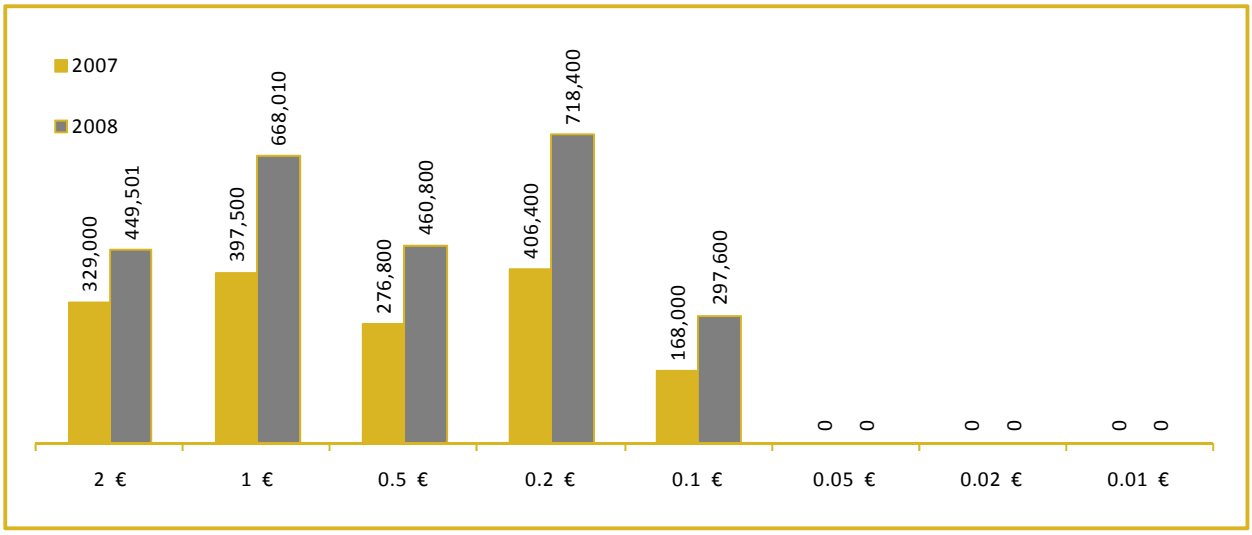
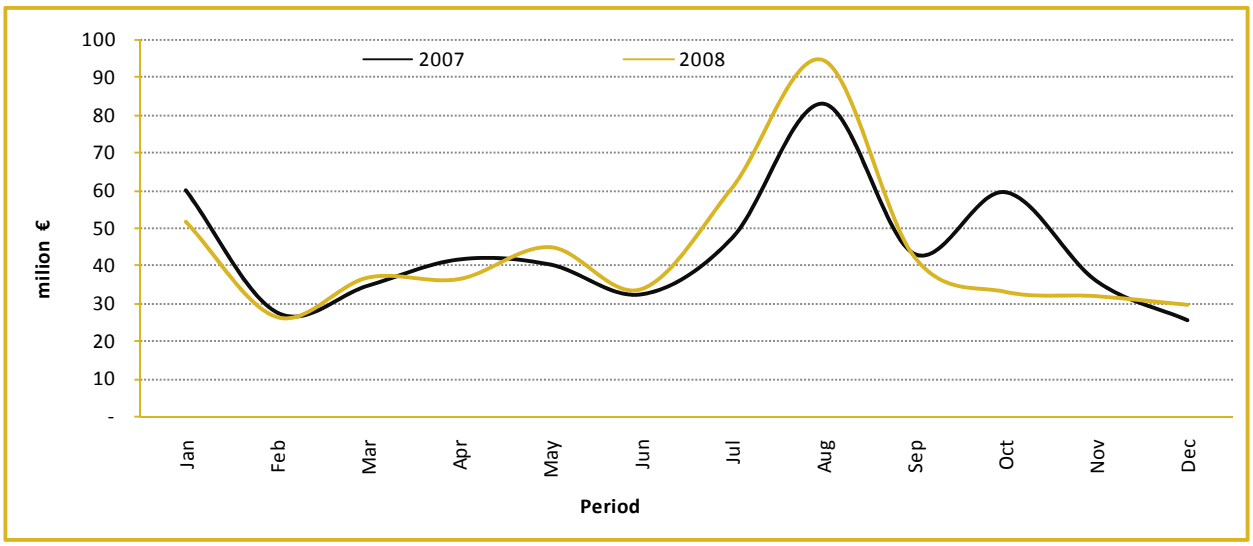


Figure 21. Euro coins received (piece number).



In 2008, the CBK received nearly 10 million pieces of banknotes in euro and nearly 2,6 million pieces in euro as deposits in cash from the commercial banks and other institutions. These deposits, expressed in values reached nearly the amounts from 520,4 million euro and respectivelly 1,9 million .Similarly, the cash supply, in total amount of deposited cash was decreased, by marking a modest decrease from 1,92 percent in comparing to the previous year.

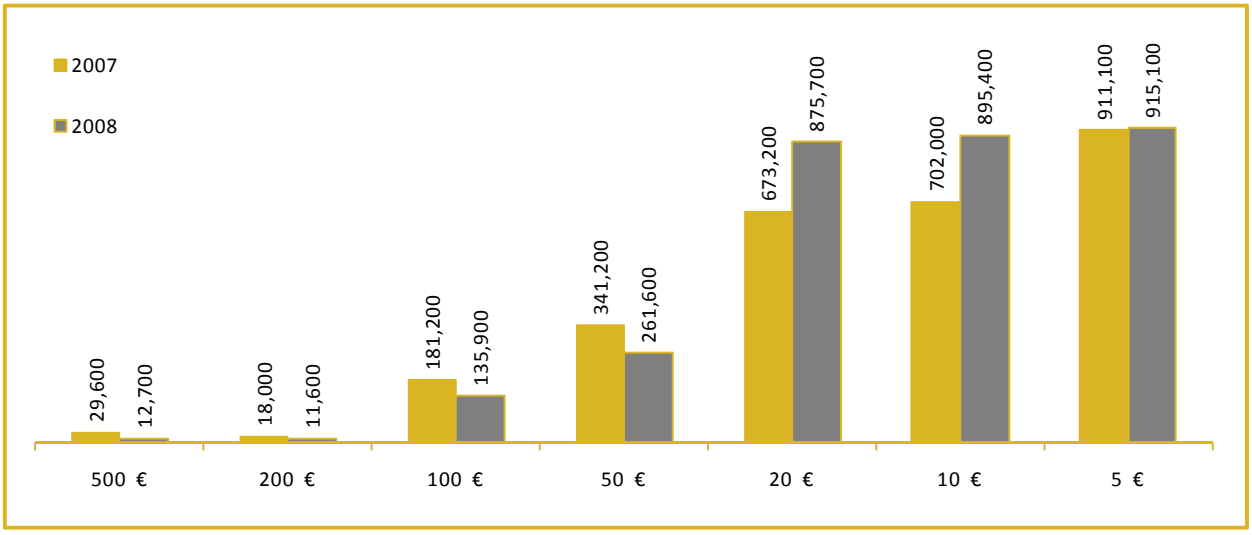
Figure 22. Cash admission (monthly flow), in millions of euro.



Same as in previous years, in 2008, the deposited cash were in evidently high amount than the cash supply. In fact, by reaching nearly 383 million euro, this variation was high in a considerable manner in comparing to the previous two years, respectivelly when it contained amounts approximate to 371,7 million euro and approximate to 294,7 million euro.

Since, the CBK keeps in its treasure only the minimum required level of cash by remiting the overflow in the eurozone banks, wherein into the interest bearer means were refunded, an annual increase of the deposited cash beside the cash supplies, that also resulted in net increase of remittances outside the country of cash. The net remitances outside the country of cash in 2008, in the amount from 409,1 million euro altogether were quite higher than in previous years- 2007, and 2006, wherein respectively 318,9 million euro and 308,0 million euro.

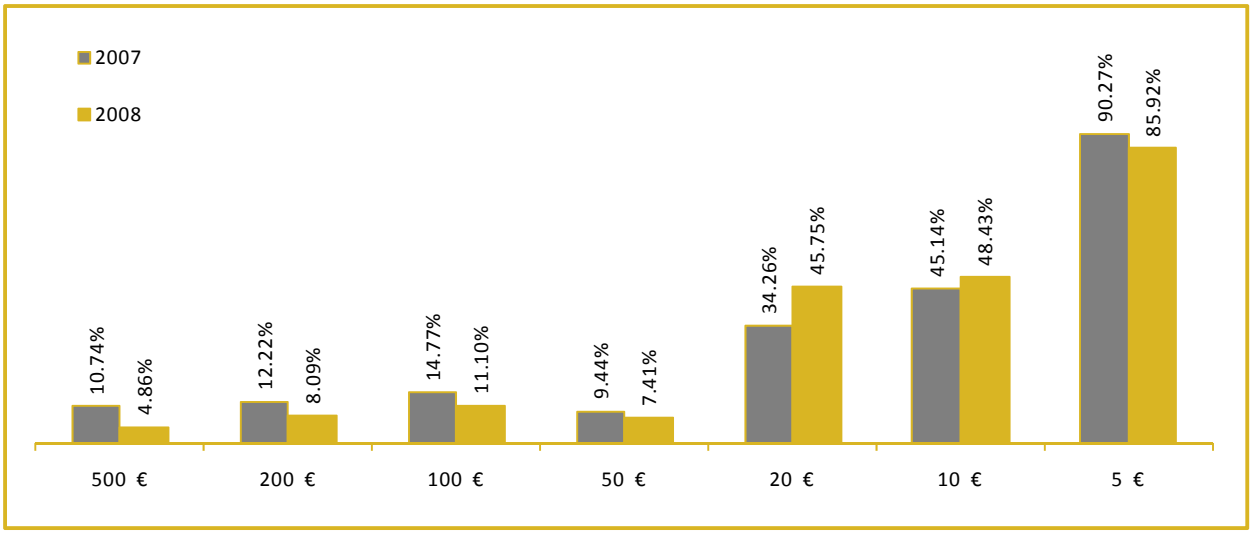
Figure 23. Number of outdated banknotes excluded from circulation.



During 2008, the cash operations were executed consecutively, through modern processing equipment and in conformity with the standard rules. The CBK has further advanced the cash processing equipments, and operations of the Operation Unit with cash and Treasure, which gained in efficiency and full utilization of new cash processing spaces and cash transactions, which were set in use a year ago.

During the year, around 3,1 million euro banknotes (31,1 percent of deposited euro banknotes number) were classyfied as outdated and were excluded from the circulation by being remitted towards the emiting banks. Such capacity of considerable outdated euro banknotes excluded from the circulation has contributed in an evident manner to improve the quality of cash in the Republic of Kosova.

Figure 24. Proportion of the outdated banknotes from the total received ones.



Cash in circulation has marked a quality improvement and thanks to the new banknote supply in euro, which were induced from the eurozone. During 2008, the CBK has supplied the economic actors with around 2, 2 million pieces of the unused euro banknotes (34,4 percent of all supplied euro banknotes). Most of the supplied new banknotes were the banknotes of low denominations, mainly through which were supplied the commercial banks aiming at equiping their bankomates. In addition, also all the used euro banknotes that were supplied were of the highest standard quality.

Figure 25. Proportion of new banknotes (unused) induced in circulation from the total supplied ones.

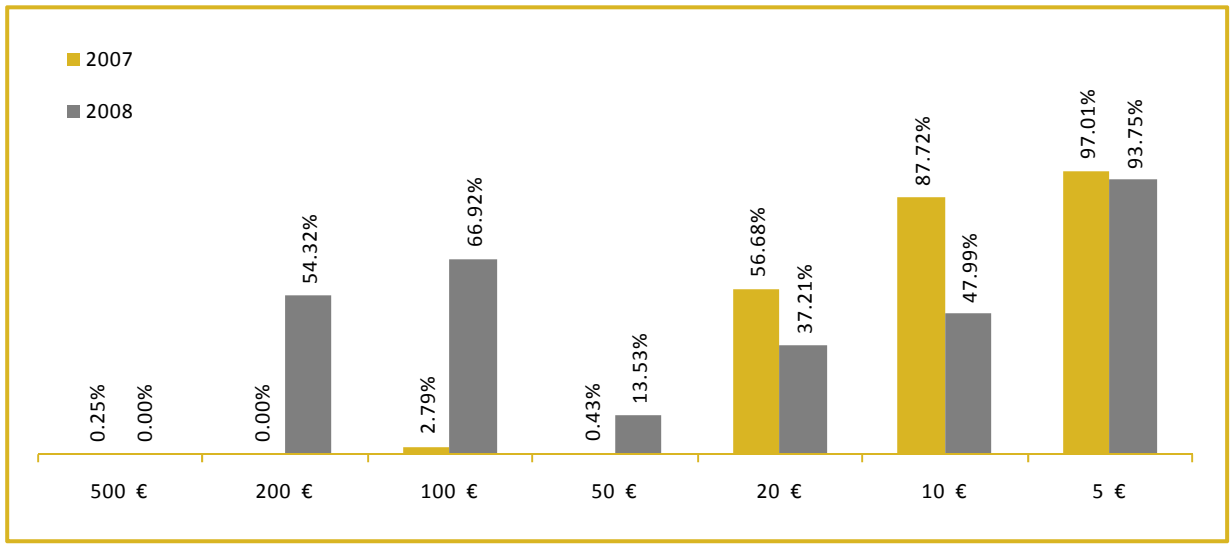
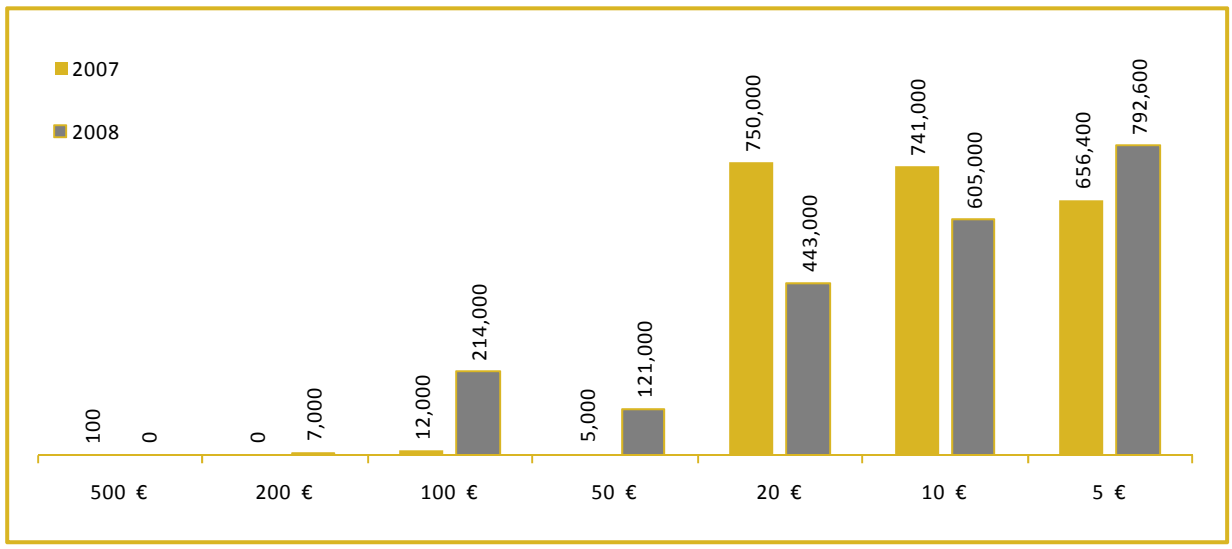


Figure 26. Supply of new banknotes (unused).



In regard to the fight against the counterfeit cash, the CBK proceeded on following up the counterfeit currency cases that were reported by commercial banks. Furthermore, it proceedet cooperation with authorities in charge to report counterfeits and organize trainings on identyfing counterfeits. It's worth mentioning, a specialized two day's training on this field, which was organized by the Kosovo Police, wherein the representatives of all commercial banks and other financial institutions that cash operation executives took part.

5.2. Account Maintenance and Transactions

The banking service bidder competence for Treasure and other Government Institutions of the Republic of Kosovo such as: Kosovo Privatization Agency (KPA), publik enterprizes, financial institutions, and international organizations was transferred to CBK in accordance with the law. In 2008, in a same manner as in previous years, these services were consisted mainly of: account maintainance and payments operations, by excluding any form of crediting.

Table 22. Summarized data's on banking transactions.

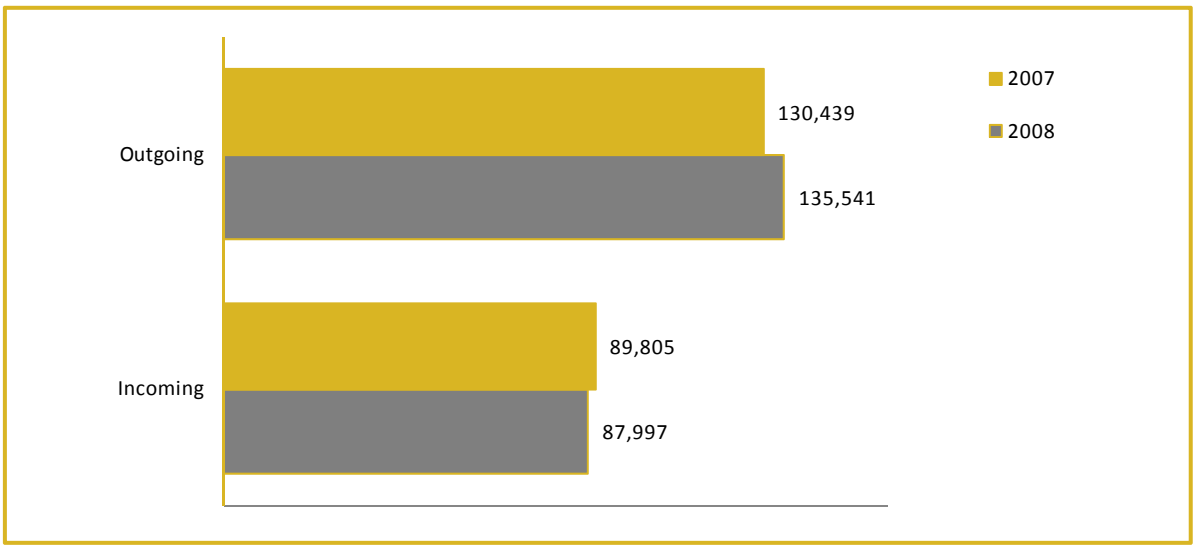
Description	Number of transactions		Amount of transactions	
	2007	2008	2007	2008
Cash Transactions				
Cash deposits	2,475	951	533,177,716	524,346,149
Cash withdrawals	2,199	374	-161,432,875	-139,233,327
The state changes as a result of cash transactions	4,674	1,325	371,744,841	385,112,822
2. Local payments				
Domestic incoming payments	89,805	87,997	1,055,471,937	1,076,145,138
Local outgoing payments	130,439	135,541	-697,289,660	-998,066,861
The state changes as domestic payments	220,244	223,538	358,182,277	78,078,278
3. International payments				
International incoming payments	356	409	335,613,000	203,113,260
International outgoing payments	726	1,326	-322,488,656	-567,908,323
The state changes as a result of International payments	1,082	1,735	13,124,344	-364,795,063

As it was previously emphasized, almoust all cash transactions were executed on behalf and on the account of commercial banks, whereas, the highest number of payment transactions were executed on behalf and on the account of Department of Treasure under the Ministry of Economy and Finance. The Treasure dominates on incoming and outgoing domestic payments as by their payments volume also by their amount. Also, it exist a key command in regard to the volume of international outgoing payments. Whereas, in regard to international payments amount, the commercial banks lead. Certainlly, commercial banks generate domestic payment transactions itself.

Insurance Institutions, which are also required to have the open accounts in CBK, in a mass does not use the CBK banking services, and almoust all their payments are executed through the commercial

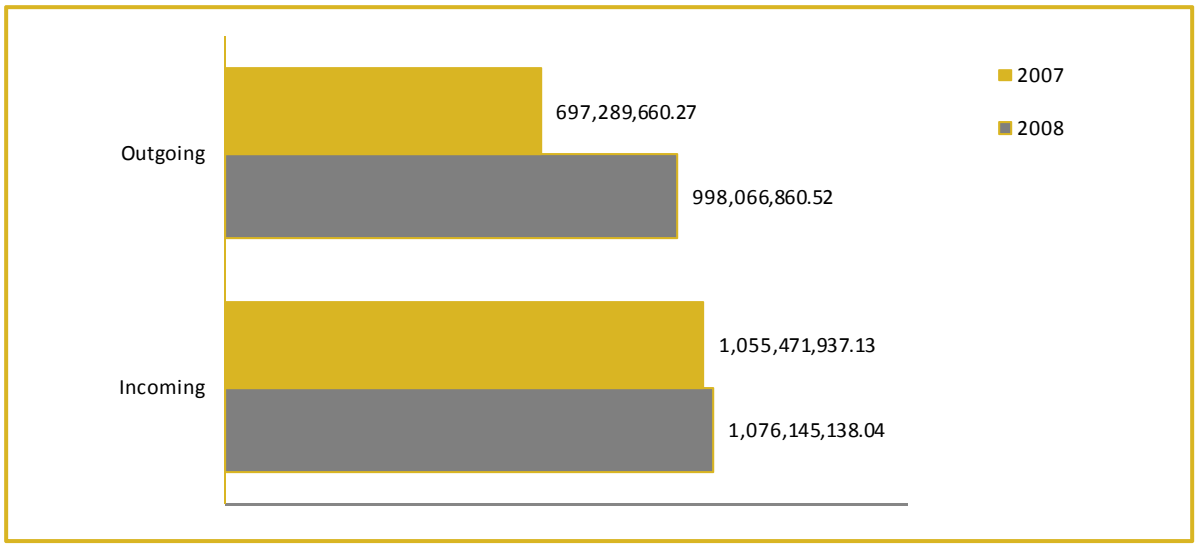
banks. Actually, also all the other account holder's use the operations into the accounts offered by the CBK in a limited manner, since all of them possess accounts in the commercial banks.

Figure 27. Annual volume of generated domestic payments and of those received through the CBK.



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 account holder's. During 2008, the CBK through the IECS has remitted over 135,5 thousand outgoing payment order's, on behalf of its client's (an increase from 3,91% in comparison to the previous year) and in the account of its clients has received nearly 88 thousand incoming ordering payment's (a decrease from 2,01% in comparison to the previous year). Expressed in the amount, in 2008, the amount of outgoing ordering payment's, was almost 1 billion euro (an increase from 43,14% in comparison to previous year). And the ordering payment's amount was over 1 billion euro (an increase from 1,96% in comparison to the previous year).

Figure 28. Generated domestic annual payment's amount and of received ones through the CBK.



The Treasure and other Government Institution deposits of the Republic of Kosovo along with the KPA deposits consist the largest part of overall deposits that are kept into the CBK account books.

On 31st December 2008, the Treasure and other Government institution deposits reached the sum of 470 million euro. During the year the KPA deposits increased as a result of new privatizations, by reaching the sum of 405.9 million euro at the end of the year. The Treasury and other government institution deposit development as well as of the KPA, which are kept in the CBK accounts as described below:

Figure 29. Deposit motion of the key accountkeeper of the CBK, in billions of euro.

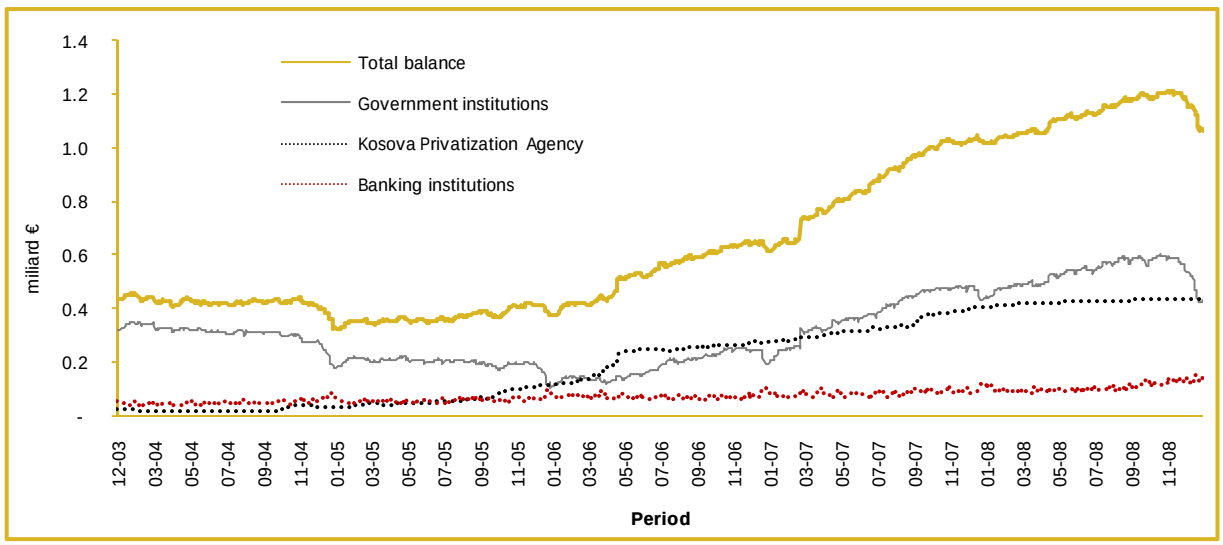
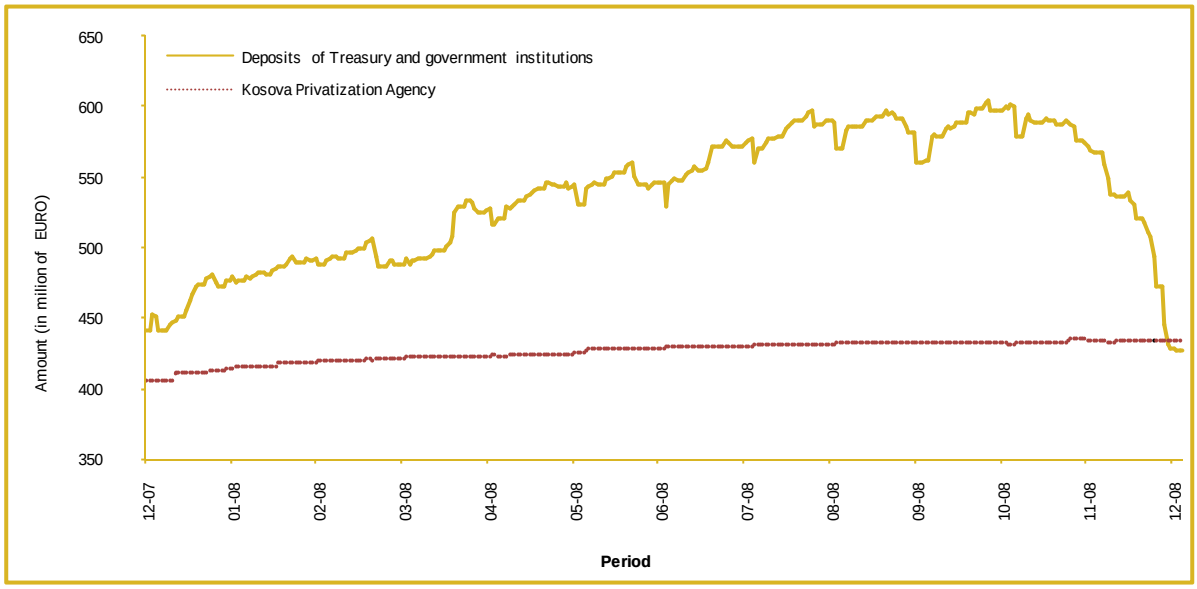
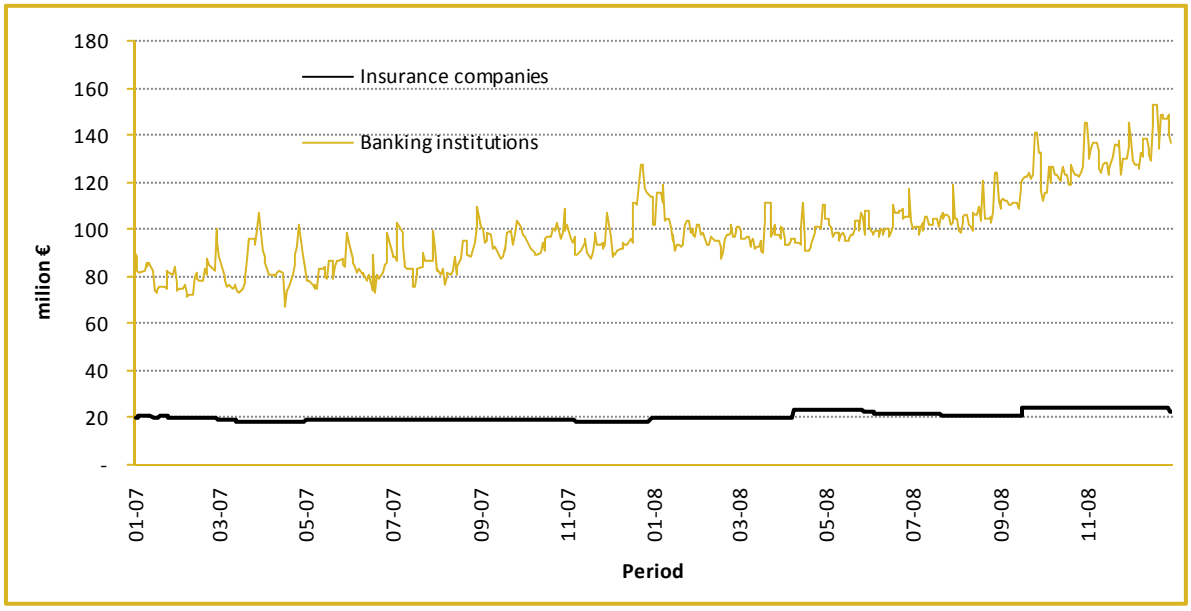


Figure 30. The motion of Treasury and other government institution deposits including the KPA during 2008, in millions of euro.



During 2008, the CBK has continually supported the progress of transaction execution processes and the consent of Treasure and other government entities. In particular, it has been worked on further automatism as in relation to the CBK basic banking system same in relation to SEKN.

Figure 31. Deposit motion of commercial banks and insurance companies.



Among other account holder's, the commercial banks and insurance institutions are the most important in regard to the deposits level that are kept in the CBK account. These two types of financial institutions hold compulsory reserves in the CBK, and in general the level of their deposits in the CBK is equal to the required reserve levels.

Banking and insurance company reserves consists 15 percent from the total deposits that were kept in CBK during 2008. On 31st December 2008, they were in the amount from 159,6 million euro.

During the year, the commercial bank deposits in CBK increased mainly as a result of depositing base increase of most commercial banks. The increase of the depositing base (deposits from citizens and businesses) of commercial banks caused the increase of compulsory reserve level that must be kept in CBK.

The Insurance Institution Deposits remain relatively unchanged during the whole year. Certainly, they were on a such level during the previous years.

5.3. Asset Management

The Central Bank of the Republic of Kosovo (CBK) based on the Law on Central Bank of the Republic of Kosovo No.03/L-074, Article 6 is authorized to act as a financial agent of the Ministry of Economy and Finance and offer financial advices upon the request of this Ministry.

Whereas, according to the Law on Public Finance Management and responsibilities No.03/L-048, Article 7, the Central Bank of the Republic of Kosovo (CBK) is authorized to invest the Government assets.

This manner of financial investments enables the refund in investments, creation of paid assets from the interest, assets which afterwards inflow into the Consolidated Kosovo Budged.

In practice, deposited funds mainly belong to the Government Institutions, whereas the Ministry of Economy and Finance (Budgetary reserves) is one of main depositors of the Central Bank of the Republic of Kosovo(CBK), Kosovo Privatization Agency (KPA) (incomes from the privatization process) and Financial institutions (liquidity mandatory reserves.

Moreover, the Central Bank of the Republic of Kosovo (CBK) is in charge with the deposited funds management from: public agencies, financial institutions and sponsoring organizations.

Until 31st December 2008, the total asset management was over 1 billion euro, from these depositing from the Ministry of Economy and Finance and relevant entities were around 470 million euro(44% of general amount), Kosovo Privatization Agency (KPA) 403 million euro (38%) and financial institutions 197 million euro (18%)

The approved Investment Policy from the Governing Board of the Central Bank of the Republic of Kosovo (CBK) is followed up from the Management, and under its control, it is implemented by the Asset Management Department. Since a major part of the managed funds are public fund assets or may be refund within a short term, wherein a special concentration has been dedicated to *security*, *liquidity* and *refund in investments.*

The Central Bank of the Republic of Kosovo (CBK) invests assets within the instruments of the cash market. During 2008, the process of asset investments has faced the change on the investment strategy as a result of the global financial crises.

The Department of the Asset Management during this period has been concentrated in the short term asset investments, initially from asset investments with maturity term till one year according to the Investment Policy of the Central Bank of the Republic of Kosovo (CBK), in its investments within short term banking deposits of one week, two weeks and securities with a maturity term no longer than three months.

During this period, special attention was dedicated to the risk distribution, wherein a major concentration of the invested assets was executed with the Central Banks of the European Union Countries which cooperate with the Central Bank of the Republic of Kosovo as well. (CBK).

All investment processes were executed with banks, which possess high qualification (Aaa and Aa or equivalent). Asset investment introduced in euro currency, or in bank depositing (49% at the end of 2008), or in the government securities (51% at the end of 2008), with maturity not longer than three months and with a high level of investment (Aaa and Aa or equivalent), and at the end in current

accounts. Determination of investment boundaries for each corresponding bank and for countries of investment are 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 done regularly.

The accepted deposits by the Central Bank of the Republic of Kosovo (CBK) were paid on the bases of the interest norm of the European Central Bank (ECB), and the actual amount in which lies the global financial system that is based on the Policy for the Interest Norm of the Central Bank of the Republic of Kosovo (CBK).

Refund from the attained investments by the Central Bank of the Republic of Kosovo (CBK) in average, present the minimum of the offered interest norm, wherein the Central Bank of the Republic of Kosovo (CBK) prohibits a difference which contributs in refund from its investments.

5.4. Inter-banking Payments System

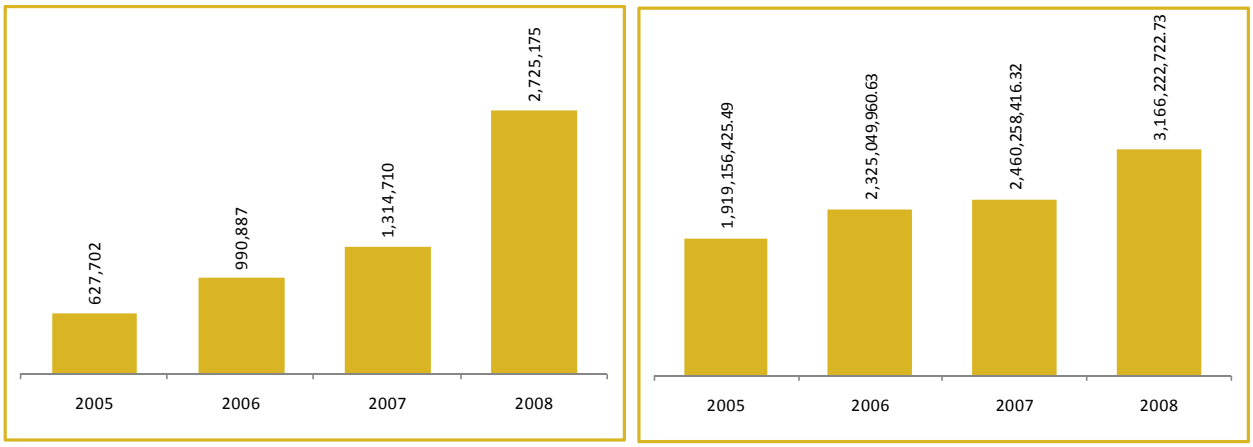
Development of an efficient and safe system for domestic payments is the CBK primary function. Creation of an Interbanking-Electronic Clearing System (IECS) in 2001, as a first inter-banking payment system, was a major step towards facilitating domestic payment operations through the banking system.

The IECS continues to be the only inter-banking payments system, since then, but it has been advanced evidently these last years, in particular in 2008, aiming to modernize and enrich the transaction executions manners. Concretely, during 2008, it has passed on the web technological platform, so the direct debit sheme was developed. The direct debit sheme will be functional in 2009

In continuation, the volume and prescribed transaction rate through the IECS were increased by reflecting the relative payment increase without cash, and the trust increase in the domestic banking system.

As in previous years, in 2008, the annual increase such as of volume, and the same as of the IECS transaction rate was evident.

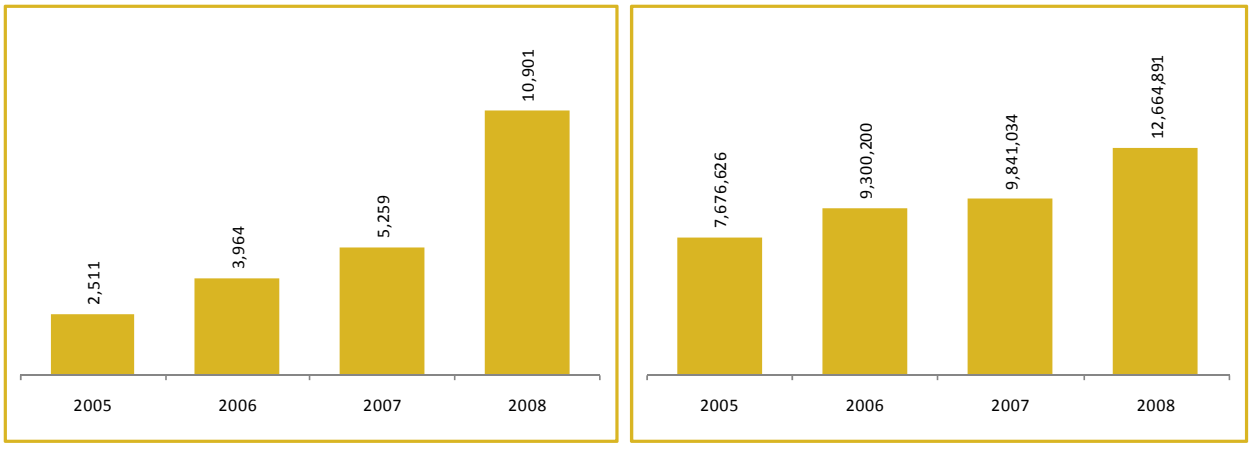
Figure 32. Volume and the annual transaction rate of IECS.



Around 2,7 million transactions with a general amount from 3,16 miliard euro were channalised through IECS. In comparing to IECS transaction in the previous year, the transaction volume increased for 107,2 percent, and transaction amount increased for 28,7 percent.

IECS important transaction increase could be observed also from the average daily data's. In 2008 , the IECS daily transaction amount was around 12,7 million euro, in comparing to around 9,8 million euro in 2007. Later on, in 2008 the IECS daily transaction volume was nearly 10,9 thousand, in comparing to around 5,3 thousand transaction in 2007.

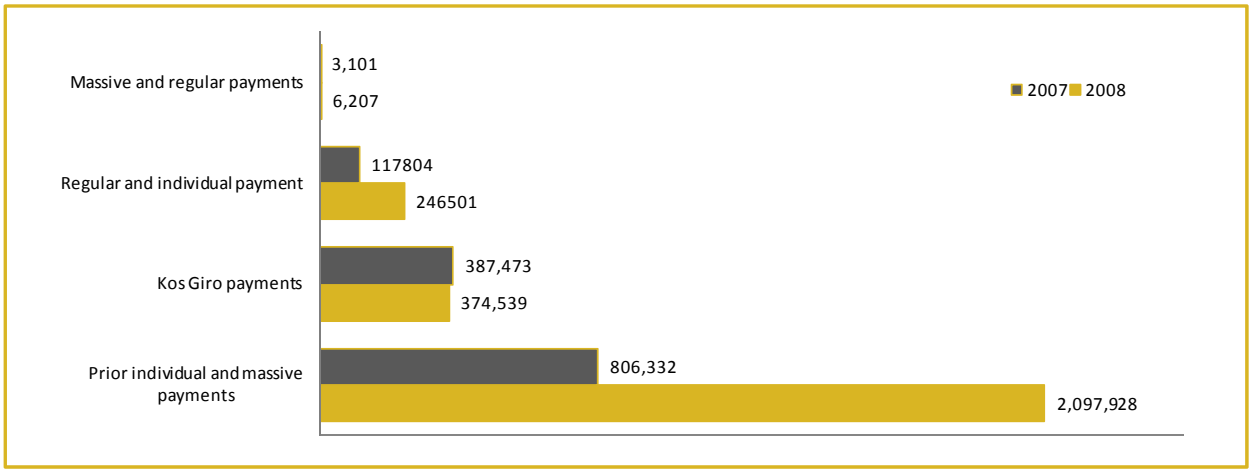
Figure 33. The volume and the average amount of IECS daily transaction.



There are some specific types of IECS transactions, such as:prior-individual and massive, the Kos Giro, regular-individual, and regular- massive. The comparable volume and the amount levels for 2008 and 2007, are presented in the bellow figures.

Regular payments consist around 90 percent of IECS transactions, which are channalised through the IECS or as individual transactions (one to one) or as masive transactions (one- to- many or many –to-one). They are processed through regular clearing sessions and cleaned on net bases.

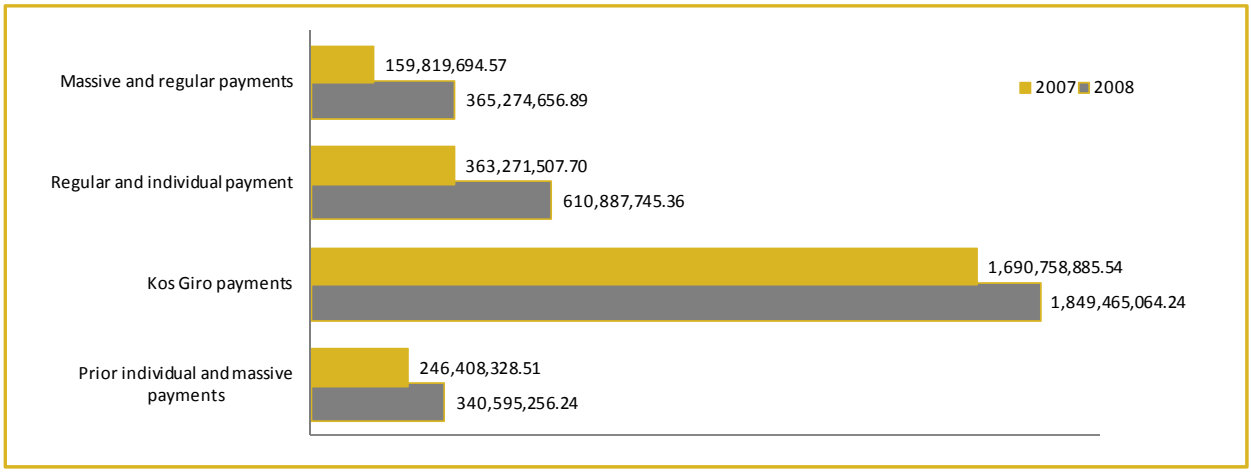
Figure 34: Annual transaction of IECS volume according to its types.



The Kos Giro transactions present a special type of regular transactions, which are processed also through clearing sessions and cleaned on the net bases. They are chanalized through the IECS as masive transactions(many-to-one). As regular individual transactions are meant for payments in generalm the massive regular payments are meant for payments and various entity cash, the Kos Giro transactions are meant for standardized and automate cash of the large receipi institutions.

During 2008, the insurance sektor institutions have joined to the Kos Giro, whereas the progress occured also related to the Kos Giro Transactions of KEK.

Figure 35: Annual IECS transaction amount according to its types.



Prior Transactions are processed and immediately cleaned on the gross bases. Same as regular transactions, prior transactions could be channelized through IECS or as individual or masive transactions. Those still present a small part of overall IECS transactions, even though in 2008, the volume and its amount was over reduplicated. Regarding the volume, they continue to present less than one percent of IECS transactions. While as regards the amount, they achieved to prezent more than 10 percent of IECS transactions. This type is mainly used in continuity for urgent payment transactions and of those with high amounts.

5.5. Credit Registry

Enabling the creditor's information echange among the credit's institution is a multilateral engagement of the CBK in the function of inter-banking infrastrukture development, credit's market advancement and financial stability advancement.

The Credit Registry of Kosovo (CRK) is a contemporary technological system developed by the CBK, which aims at credit information exhange on debitor and applicant for the credit of related creditor. Also the debtor's itsels and the applicants of credit as the crediting subjects may provide the relevant personal information. The RKK has been designed as an application based on internet, which

enables the direct approach in a real time to the Credit's Institutions. Whereas, from the credit subjects may approach to the relevant information only through the CBK. The Supervisors of Credit Institutions may also approach to the KRK.

The CRK provides an important mean for credit trade functioning. Enables better assesment to credit possibilities and debtor's risks/applicant for credit and, as a result it facilitates a lot the process of credit permittion. This was proven as for banks the same for other credit institutions in the Republic of Kosovo.

During 2008, the CRK has improved its functioning and its role has been further refined.

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 Directorate of Banking Supervision. A number of meetings were held with Credit Institutions and other relevant actors. Latter on were established and developed contacts with the Credit Registries in the region.

5.6. Research and statistics activities

Compilation and the quality of dissemination of monetary and financial statistics and external sector statistics further improved during 2008. Moreover, starting from January 2008, new versions of the Statistical Bank Report and Interest Rate Report have been implemented. Monetary and financial statistics are compiled on a monthly and quarterly frequency, which is in line with international standards. In this context, an important achievement can be considered the fulfillment of the IMF requirements for publication of monetary and financial statistics in the International Financial Statistics. This will result in the publication of monetary and financial statistics along with statistics of other countries in the publications of the IMF, once the membership in this organization is concluded.

Regarding the balance of payments (BOP) statistics, since February 2008 new version of the International Transactions Reporting System is in place. In addition, the number of companies surveyed for BOP statistics purposes expanded considerably. In addition, there was a progress in the cooperation within the Interagency Committee on Foreign Trade Statistics, which is composed by CBK, Kosovo

Customs, Ministry of Trade and Industry, and SOK. These activities improved the quality of BOP statistics published on a yearly basis since 2006. In order to be in line with international standards of publication of BOP statistics, the main objective for 2009 is compilation and publication of balance of payments statistics on quarterly basis.

Analysis related to economic developments in Kosovo, with particular emphasis on the financial and external sector, further improved and are published in the periodical and non periodical publications of the Central Bank. In 2008, the Stress-Test Model was implemented for the first time aiming at analyzing the sensitivity of the banking sector to potential shocks in the economy. This analysis concentrated upon liquidity risk, credit risk and interest rate risk. Furthermore, a number of internal analyses have been conducted aiming at supporting the decision-making process at the Central Bank as well as to support general economic policies. Also the participation in international conferences and presentation of working papers constitutes an important activity during 2008.

Economic analysis and statistics produced by the Central Bank are published in periodical and non-periodical publications such as the Monthly Statistical Bulletin, Balance of Payments Bulletin, Financial Sector Bulletin, Annual Report of the CBK, etc. Research and statistical activities in 2008 were performed within the Directorate for Economic Analysis and Statistics consisting of Economic Analysis Department and Statistics Department. Since January 2009, Directorate for Economic Analysis and Statistics was promoted to the Office of the Chief Economist consisting of Economic Analysis Directorate and Statistics Directorate. Economic Analysis Directorate is composed of Financial Sector Analysis Unit, Macroeconomic Analysis Unit and Publications and Library Unit. Statistics Directorate is composed of Monetary and Financial Statistics Unit and External Sector Statistics Unit.

6. Internal Developments

6.1. Governance and Internal Control

General Governing Structure

The Governing Board formulates policies for the CBK operations and supervizes its implementation. The management reports to the Governing Board for implementing operations and policies as well as for the relevant economic terms in Kosovo.

On the bases of the Law on Central Bank of Kosovo, the CBK Governing Board is consisted of 5 members. The Board members are appointed on the bases of Article 18 of the CBK Law. The Director of Treasure is one of four non-executive Board members. Whereas, other non-executive members and the Guvernor were appointed as foreseen in the Article 18.2 of this Law. The Chairman of the Governing Board who is a non-executive director and another non-executive director have been appointed in 2007.

Whereas in 2008, the General Director, respectivelly the Governor as the only executive director and another member for the position of non executive director were appointed, in the proces is the appointment of the fourth non-executive member, as this position is vacant since the resignation of the Board Member of the UNMIK Representative of Pilar IV. After the proclamation of the Republic of Kosovo Constitution and gradual withdrow of UNMIK from the governance of the Kosovo Indipendent and Sovereign State Institutions.

The CBK management is comprised of the: Governor and two executive Pilars, respectivelly two Deputy-Governors, of central bank operations and the Deputy Governors from Financial Supervision are appointed by the Governing Board.

Third Pilar in the Organization strukture, respectivelly good and transaprent governance is represented by the General Inspector of CBK on the bases of Article 30 of the Law on CBK.

The Office of General Inspector

The General Inspector is nominated by the Governor with the approval of the Governing Board, and he or she may be dismissed from the Office only according to the CBK Governing Board decision.

The Current General Inspector was appointed in February of 2007. Duties and responsibilities of the General Inspector include:

- Quality assessment of existing systems and of proposed ones by the managment and financial controle.
- Assesment of the work of those systems and integrity trustfulness of information and executed transaction.
- Assessment of control Suitability for preservation of the CBK activities and according to necessities, confirmation on existing asset ;
- The assesment of compliance with laws, regulations, administrative instructions, rules, orders and policies through which the CBK activities are governed.
- Application of reviews on effective and prompt use of the CBK resources and offering proper recommandations to the Management and
- Application of special reviews upon the management request and cooperation with the CBK external auditors.

The General Inspektor offers the summary of findings and his suggestions in regard to reports which are presented every six months to the Audit Committee./Governing Board. Despite this, the General Inspektor reports to the Audit Committee/Governing Board at any time when he or she considers necessary.

The Office of General Inspector includes internal auditing, controle, budged implementation and operative analyzes(accountability of expenditures was transferred in operations for action after the formalitation by the Governing Board in March 2008.)

Internal Audit

The Internal Audit as in the previous years also in 2008, has acted on the bases of annual plan proposed by the General Inspector with the preliminary approval by the Audit Committee as an independend body and final approval from the Governing Board.

The Internal Audit in CBK has acted on the bases of this plan, which is compiled by the Auditing Directorate, and it had an aproach based on risk which was in conformity with the international standards on professional practise and Internal Audit, more concretely the Standard 2010-Planning. Also, the Internal Audit Plan was compiled in a harmonized manner in line to the CBK objektives 2007/09, and it was adjusted to changes in the organizational strukture of some Directorates and Departments in the frame of general organization strukture of CBK.

On the bases of the risk assesment and by taking into consideration possible material and reputation losses of institution, the audit has been conducted on a monthly, quarterly, semiannual and annual bases. The following fields are considered to contain the emphasized risk:

- Accountability
- Cash operations
- Asset Management (External Investments)
- Inter-banking Clearing System
- Procurements
- Human Resources etc.

Despite the foreseen audit, also some ad hoc auditings were conducted, upon the request of the Governor and General Inspector.

The aim of Internal Audit is to examine, asses, and report the adjustability of Internal Controle System, by addressing suggestions, recommandations for improvements.

On the bases of internal controle examinations and assesments, transaction assesment, and approximation verification with the laws, rules, and regultions in force, the internal Audit has prepared the reports in writting, which include the management responses on findings and recommandations.

After approval of Internal Audit Reports by the General Inspector, they were delivered to the management and the Governor

In order to follow up the implemenattion of recommandation, the internal audit continualy adjours the follow up table form on implementation of recommandations in a chronological manner with

all the relevant information. Such reports are used as transparent and communication means for transmission of implementation and recommandation status through the Governing Bord of the Audit Committee.

. By mentioning that, during 2008, the internal Audit has continualy monitored the process of cash renumbering for remittances outside the country in order to increase the controle of the relevant operations. Afterwards, in a sucessful way has continued to audit the IT Department in relation to the external covering system (note saving), by addressing important recommandations for its full implementation.

Despite this, the Internal Audit has examined and revized on a weekly bases the investment operations in securities and has updated deposits. A particular importance has been griven to this scope due to the financial global crises. Through special emphasize ordered by the General Inspector has been conducted the portofolio controle of the CBK investments and for this sake in 2008, were compiled 53 special reports to follow up all investments, whether in the money market or securities.

The Special Audit Report on accounts audit in the CBK books, deposits/collections has been compiled also, cash movements(export and import of Money), paid and gained interests etc.

In trak of the mentioned developments has been paid an attention to continual professional advancement of all internal audit personel, through trainings, seminars, inside and outside Kosovo, postgraduate studies and continual cooperation with the Central Banks in the region, aiming to exhange experiences in internal audit field and also implementation of international audit standards.

Cooperations with the Central Banks and professional institutions as"IBFI"institute-in the frame of the Bank de France, CEF in Slovenia, FED-US, affiliation in the " Institute of Internal Audit"US, training program for"anti-corruption" managed by the USAID, has facilitated the capacity and professional practise advancement in the Audit field.

Control and Budget Implementation & Operational Analyzes

Budget Implementation control along with operational analyzes also during 2008, 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 in the frame of the General Chief Inspector. Also during 2008, the control and Budget implementation has contributed through work in the manner of enabling the most rational and effective use of disposable resources and in harmony with the approved budged by the Governing Board, since by implementing the budged the CBAK, respectively CBK should aim at achieving the most balanced Budget.

Also, control and Budget implementation for 2008, has been restrained for the business plan objektives for 2007/09.

During the Budget control a special attention has been paid to the most rational and effective use of resources in compliance with the Budgetary lines.

Controle and Budget Implementation Unit has generated reports on a monthly bases, which after being approved from the General Inspector were delivered to the Governor.

Oversight and approval of operative and capital expenditures in compliance with the approved and assigned lines according to the Budget, was conducted towards implementation and Budged execution.

Also, the CBK realized incomes were controled and pursued, especialy interest incomes from the updated deposits and securities.

During controle/the budged implementation was conducted, including monitoring processes, oversight and expenditure approval/operative and capital/in comparing to the approved Budgetary lines, and in this manner through controle and Budget implementation the entire maintainance of the CBK expenditures has been done.

Controle and Budget implementation reports and operational analyzes were prepared and elaborated in each month, and according to periods on the bases of the acrual principle "show the Budget performance on aktual base".

In regard to the CBK incomes the quality achievements have been conducted.

- Controle/verification of incomes, in particular incomes that were attained from the interest in the updated placemans in foreign banks and from securtities.

- Maintainance and monthly evidence on client's deposits and on the CBK Placemans in foreign banks/incomes and expenditures of interest/

During 2008, implementation of target objektives in the budged implementation controle for the period 2007/09,has proceedet., some of the following works were executed in this direction:

- Improvements and data information enhancement on incomes and expenditures in a weekly, monthly, and annual reports.

- Preparing monthly, semiannual and annual reports on Controles and Budget Implementation&operational analyzes according to the actual "base", as well as operational analyze strenthening through the graphic presentation of incomes and expenditures-actualities&Budgeting/Budget performance;

- Follow up, expenditure evidence of official trips, inside and outside the country for each unit, departament and directorate, one by one and in total, as well as comparisons with weekly periods regarding per diem's inside the country, and

- Special follow up of controles and Budgetary line accomplishment for professional advancement of staff, trainings inside and outside the country.

Cost Accountability Project was developed and implemented entirely by lokal staff. This project was initiated and recommendet by the IMF, whereas the development and implementation burden was completely carried out by the lokal staff of the Department of Controles and Budget Implemenations under the managment of the General Inspector. This project has been monitored and supervized continualy by the IMF experts, who marked pozitive recommandations for each development phase until the final phase.

Since from 2003, the project was developed and adopted beside challenges and changes in the CBK organization strukture, finaly until December 2007, respectivelly till March 2008, when the KIB Department initiated to generate expenditure accountability reports for the CBK Senior Management. In March 2008, an official implementation of accountability reports on expenditures has been approved, and at the same time, the Governing Board of the CBK took a decision according to which the Cost Accountability shall pass under operations and in the Planning and Financial Reporting Directorate.

The B&F-Department, Operational Analyzes and Cost Accountability in the following periods 2008-2009, will engage in accomplishing other objektives as well, in the most qualitative and professional manner, which were initiated in 2007 and foreseen in the business plan of 2007-2009, .

6.2. Human Resources Development

Human resources department plays an important role within the CBK, and its primary aim is development and implementation of a progressive program of Human Resources starting with the Staff Training and Development Policy, compliance with the Code of Ethics and Conduct, providing human resources in timely manner, staff assessment, salaries and benefits, based in close cooperation with senior management and working groups.

During 2008, 23 vacancies were announced in Kosovo daily newspaper and in the CBK web page. Based on these announcements 20 persons were recruited, three of them with Master gained in well-known foreign universities, 16 with university diploma and one with high school diploma.

During this year 3 employees resigned voluntarily.

It should be mentioned that for each position, for newly created and for existing, a detailed description of duties and responsibilities was provided.

During 2008, the number of CBK employees stood at 147; 73 of them female and 74 men; average age 39 years old.

In terms of qualification, 2008 data are as below:

PhD	1 employee
Master	16 employees
University Diploma	81 employees
Higher education	1 employee

High school	44 employees
Primary school	4 employees

Same as previous years, during 2008 the Central Bank of Republic of Kosovo organized the Student Internship Program for 23 students, offering them a unique opportunity to gain working experience in different CBK functional and operational activities.

The CBK estimates the staff is one of most important resources, therefore it is engaged to provide the staff with adequate knowledge, skills and expertise so that they can accomplish their duties and responsibilities in accordance with best standards and in order to achieve their full potential through trainings, courses, seminars and relevant academic programs.

During the year 2008 the CBK staff participated in relevant trainings (270 working days) organized by international institutions (IMF - Joint Vienna Institute, European Central Bank, Deutsche Bundesbank, Banque de France, Austrian National Bank, The Federal Reserve Bank of New York, Bank of England, Bank of Holland,) whereas FSI on-line studies attended 10 employees.

6.3. Reorganization of CBK

Having into consideration the development course on financial sector and adequate manner to supervise it, the Pillar for Financial Supervision has conducted a review on existing skills and on necessary ones, in order to attain proper supervision for financial sector. Also, referring to financial sektor expansion as by dimension also by complexity, the CBK instructed by supervising approach based on risk, deemed as necessary to change the existing organization strukture based on the process that provides persistency to financial institution supervision.

In January 2008, referring to these assesments, an idea for restructuring existing organization strukture into a more functional structure has been formalized, by including: development adequacy and implementation methodology, which arise from insurence solvency, Basel II on banking and banking

produkt complexity along with insurence products, new company presentations and investing funds, presentation of companies for life insurances and other types of products and activities.

Main objectives of this reorganization were: Legislative platform completion for financial supervizion in compliance to the European Union Directives and the best international practices, as introduced in "Main Principles on Efficient Banking Supervision" issued by the Basel Committee for Banking Supervision of BIS, and Core Principles on Efficient Supervision for Insurences issued by IAIS.

Competent staff qualification can be attained through assessing existing needs for trainings, foreseeing future and further training needs, by developing proper training plans for personnel to advance skills and by insuring that the CBK personnel has been trained in an adequate manner towards performing all supervision functions in accordance to financial system necessities.

As a result, by fulfiling development necessities, the managment would be in position to easily implement the Advancement and Employee Remuneration Plan, which would enable a transparent course for employees regarding their career advancement and corresponding remuneration, which will be directly linked with performance, on which the staff shall be properly prepared.

For accomplishing the CBK objektives, the CBK Governing Board through restructuring existing responsibilities and through establishing responsibilities, took a decision on establishing the following three Directorates and Units:

Banking Supervision Directorate

Insurence & Pension Supervision Directorate

Corporate, Legal and Methodology Directorate

Such restructuring, aims at contributing in institutional development process, that would offer equity between regulation and supervision, market disipline, and good governance to financial institutions, by creating a favoravle climate for rational development of financial sector.

In April 2008, in the scope of central banking operations, and aiming at functional development, advancement, professional capacity consolidation as well, were restructured three organizational units by being promoted on the level of Directorate.

In a frame of Inter-banking Payments System Unit, and its promotion on the directorate level, has been established the function of supervision and payments system development .Risk management as a new additional function and function proceedings in a frame of a promoted unit into directorate, became in charge with technology and information systems. Latter on, expenditure accountability function in the scope of General Inspector Liabilities and in a frame of a competent Unit for Planing and Financial Reporting this organizational unit was transfered as well, by resulting in advancement on the directorate level.

6.4. Regional and International Cooperation

Regional and International Cooperation persists to be one of the relevant issues of significance for the Central Bank of the Republic of Kosova. In this aspect, during 2008, new relations with the Regional and EU Central Banks were established but also the existing ones were advanced, especially in relation to supervising authorities, and other international financial institutions. It exist a CBK readiness to accept and implement standards, methodologies, and the best international practices, in order to benefit from practices in the region through exchanging views and information on regular bases.

The acquired practice through regional and international cooperation, as a significant component for approximation with the European Principles, involves participation of the CBK personnel in seminars conferences and trainings as well. In this context, it's worth mentioning those of: US Federal Reserve-FED, European Central Bank, JVI-Vienna, Deutsche Bundesbank, Bank of England, IMF-Washington, Banque de France, but also in many other countries of experience, whereas the acquired experience would have an impact in improving the CBK processes and flows, through which the course towards standard accomplishment is faster and efficient.

Year 2008 has marked many engagements of the CBK personnel, as in the aspect of participation in the science work, seminars, and conferences, same in many interactive professional trainings. In this respect, the presentation of the science work "The Determinants of Emigrant Earnings and Remittances: Evidence from Kosova" should be emphasized. This workshop was organized by the Albanian Bank,

whereas on this occasion this science work has won a prestigious prize "Olga Radzyner" that is shared by the National Austrian Bank on behalf of young economists.

6.4.1. International Agreements

As in previous years, also in 2008, the CBK proceeded it's affords towards signing memorandums of understanding with the parent supervisors of foreign financial institutions that act in Kosovo. The Acquis Communautaire as a covering platform for the CBK in compiling memorandums on international agreements enable the Central Bank of the Republic of Kosovo, and foreign supervisors to exchange sensitive and confidential information on legal bases. Many affords were undertaken in this direction, so in May 2008, the CBK has signed a memorandum of understanding with the "Croatian Financial Service Supervising Agency"(CFSSA), also in May 2008, it was signed a memorandum of understanding with the Turkish "Banking Regulating Supervising Agency"(BRSA), whereas with the Albanian Financial Supervising Authority was signed the annex to the existing memorandum.

In line with fulfilment of required international standards, despite all, it's worth mentioning the following Mechanism for Stabilization and Association, as a subsidiary and facilitating mechanism for the Kosovo Institutions towards faster fulfilment of required standards by the European Commission in order to join EU, wherein the CBK plays a significant and substantial role.

6.4.2. Affiliation in Associations and International Organizations

During 2008, the CBK uninterruptedly and constantly gave affords to guarantee its affiliation in various international mechanisms, but two of the following are of a major importance and influence in increasing the efficiency of its processes: SWIFT-Society for Worldwide Inter-bank Financial Telecommunication and Green Card .

7. Financial Statements of the Central Bank of the Republic of Kosovo

Central Bank of the Republic of Kosovo

Financial statements

as at and for the year ended 31 December 2008

(with independent auditor's report thereon)

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, 2 June 2009

We have audited the accompanying financial statements of the Central Bank of the Republic of Kosovo ("the Bank"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement 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.

KPMG Albania Sh.p.k. - Kosovo Branch is a branch of KPMG Albania Sh.p.k., a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

Registered with the Kosovo Business Registration Agency with Business no. 70291840

KPMG

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance 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 2008 and 2007 this requirement was not satisfied.

KPMG Albania Sh.p.k. Kosovo Branch

KPMG Albania Sh.p.k. - Kosovo Branch
14, Sulejman Vokshi Street
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Kosovo

Central Bank of the Republic of Kosovo

Balance sheet

As at 31 December

In thousands of EUR	Note	2008	2007
Assets			
Cash on hand	7	39,674	63,817
Current accounts with non-resident banks	8	10,403	1,946
Treasury bills	9	541,019	229,277
Deposit accounts with non-resident banks	10	519,276	762,579
Property and equipment	11	2,087	2,108
Intangible assets	12	86	122
Other assets	13	406	295
Total assets		**1,112,951**	**1,060,144**
Liabilities			
Due to domestic banks	14	137,158	113,554
Due to local governmental institutions	15	908,212	856,730
Due to public and commercial entities	16	24,400	48,381
Other domestic liabilities	17	1,978	7,743
Total liabilities		1,071,748	1,026,408
Capital and reserves			
Statutory fund	18	30,000	20,000
Reserve fund	19	11,203	13,736
Total capital and reserves		**41,203**	**33,736**
Total liabilities, capital and reserves		**1,112,951**	**1,060,144**

The notes on pages 5 to 37 are an integral part of these financial statements.

These financial statements set out on pages 1 to 37 were approved by the management of CBK on 4 May 2009 and signed on its behalf by:

Hashim Rexhepi

Governor

Gani Gerguri

Deputy Governor

Central Bank of the Republic of Kosovo

Income statement

For the year ended 31 December

In thousands of EUR	**Note**	**2008**	**2007**
Interest income		42,841	34,275
Interest expense		(34,063)	(24,371)
Net interest income	20	8,778	9,904
Fee and commission income		884	743
Fee and commission expense		(215)	(226)
Net fee and commission income	21	669	517
Grant revenue	22	85	453
Other operating income	23	1,087	954
Operating income		**10,619**	**11,828**
Personnel expenses	24	(1,771)	(1,412)
Depreciation and amortization	11,12	(458)	(447)
General and administrative expenses	25	(923)	(823)
Operating expenses		**(3,152)**	**(2,682)**
Profit for the period		**7,467**	**9,146**

The notes on pages 5 to 37 are an integral part of these financial statements.

Central Bank of the Republic of Kosovo

Statement of changes in equity for the year ended 31 December

In thousands of EUR	Note	Statutory fund	Reserve fund	Retained Earnings	Total
Balance at 1 January 2007		**10,000**	**14,590**	**-**	**24,590**
Profit for the period		-	-	9,146	9,146
Total recognized income and expense		-	-	9,146	9,146
Transfer to statutory fund	18	10,000	(10,000)	-	-
Balance at 31 December 2007		**20,000**	**4,590**	**9,146**	**33,736**
Balance at 1 January 2008		**20,000**	**4,590**	**9,146**	**33,736**
Profit for the period		-	-	7,467	7,467
Total recognized income and expense		-	-	**7,467**	**7,467**
Transfer to statutory fund	18	10,000	(854)	(9,146)	-
Balance at 31 December 2008		**30,000**	**3,736**	**7,467**	**41,203**

The notes on pages 5 to 37 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

In thousands of EUR	**Note**	**2008**	**2007**
Cash flows from operating activities			
Profit for the period		7,467	9,146
Adjustments for:			
Depreciation	11	378	353
Amortization	12	80	94
Grant revenue	17	(85)	(252)
Gain on sale of equipment		(5)	(4)
Interest income	20	(42,841)	(34,275)
Interest expense	20	34,063	24,371
		(943)	(567)
Change in treasury bills		(145,749)	(117,269)
Change in deposit accounts with non resident banks		197,908	(182,467)
Change in other assets		(111)	(118)
Change in due to domestic banks		23,604	19,077
Change in due to local governmental institutions		51,482	380,909
Change in due to public and commercial entities		(23,835)	3,305
Change in other domestic liabilities		(5,717)	5,337
		96,639	**108,207**
Interest received		47,329	29,912
Interest paid		(34,209)	(24,371)
Net cash from operating activities		**109,759**	**113,748**
Cash flows from investing activities			
Proceeds from sale of equipment		5	4
Purchase of equipment	11	(357)	(1,199)
Purchase of intangible assets	12	(44)	(72)
Net cash used in investing activities		**(396)**	**(1,267)**
Cash flows from financing activities			
Proceeds from grants	17	36	-
Net cash from financing activities		**36**	**-**
Net increase in cash and cash equivalents		**109,399**	**112,481**
Cash and cash equivalents at 1 January		621,479	508,998
Cash and cash equivalents at 31 December	26	**730,878**	**621,479**

The notes on pages 5 to 37 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 payments 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 of the 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 the financial institutions in Kosovo in line with international financial reporting standards.

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 or on the conduct of its policies or on 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 by the management and staff;
- 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 the 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 of the financial resources of 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

1. Reporting entity (continued)

Governing Board (continued)

As at 31 December 2008, the Governing Board of CBK comprised the following members:

Gazmend Luboteni – Chairman
Hashim Rexhepi – Governor
Lulzim Ismajli – Director of Treasury of Ministry of Finance and Economy
Sejdi Rexhepi – 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 except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment property is measured at fair value
- liabilities for cash-settled share-based payment arrangements are measured at fair value
- recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

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.

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 United States Dollars (USD). The exchange rates used for translation at 31 December 2008 and 2007 were as follows:

	2008 EUR	2007 EUR
1 USD	0.718	0.679

b) Interest

Interest income and expense are recognised in the income statement 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 income statement 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.

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. The local authorities are responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan. CBK's contributions are charged to the income statement 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.

3. Significant accounting policies (continued)

f) Financial assets and liabilities (continued)

iii. Offsetting

Financial assets and liabilities are set off and the net amount is presented in the balance sheet 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.

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 balance sheet 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.

3. Significant accounting policies (continued)

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 balance sheet.

h) Investment securities

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

i. 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 or available-for-sale. 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.

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:

	2008	2007
• 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 assets 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 (2007: 3 years).

k) Impairment of 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.

3. Significant accounting policies (continued)

l) Deposits and other financial liabilities

Deposits are CBK's sources of funding. They are initially measured at fair value plus transaction costs, and subsequently measured at their amortized cost using the effective interest method, except where CBK chooses to carry the liabilities at fair value through profit or loss.

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.

n) Donor financed salaries

Certain individuals engaged at CBK are international experts appointed by international organisations who provide financial support to CBK. In addition, these international organisations also appoint short term experts and consultants as the need arises. The financial support of these international organisations includes but it is not limited to the payment of the salaries to these management and consultant appointments. 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 for the year ended 31 December 2008, and have not been applied in preparing these financial statements:

- Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009). The revised Standard will clarify the definition of *vesting* conditions and *non-vesting* conditions. Based on the revised Standard, failure to meet non-vesting conditions will generally result in treatment as a cancellation. Revised IFRS 2 is not relevant to CBK's operations as CBK does not have any share-based compensation plans.

3. Significant accounting policies (continued)

p) New standards and interpretations not yet adopted

- 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 recognized 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.

  CBK does not expect this revised Standard to be relevant to its operations.
- IFRS 8 Operating Segments (effective from 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. CBK has not yet completed its analysis of the impact of this revised Standard.
- Revised IAS 1 Presentation of Financial Statements (effective from 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). CBK is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 Borrowing Costs (effective from 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Revised IAS 23 is not relevant to CBK's operations as the CBK does not have any qualifying assets for which borrowing costs would be capitalised.
- Amendments to IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2009). The amendments remove the definition of "cost method" currently set out in IAS 27, and instead require all dividends from a subsidiary, jointly controlled entity or associate to be recognised as income in the separate financial statements of the investor when the right to receive the dividend is established. In addition, the amendments provide guidance when the receipt of dividend income is deemed to be an indicator of impairment. IAS 27 is not relevant to CBK's operations as CBK does not have interests in subsidiaries that will be affected by the revisions to this Standard.

3. Significant accounting policies (continued)

p) New standards and interpretations not yet adopted (continued)

- 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. IAS 27 is not relevant to CBK's operations as CBK does not have interests in subsidiaries that will be affected by the revisions to this Standard.

- Amendments to IAS 32 Financial Instruments: Presentation, and IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). The amendments introduce an exemption to the principle otherwise applied in IAS 32 for the classification of instruments as equity; the amendments allow certain puttable instruments issued by an entity that would normally be classified as liabilities to be classified as equity if, and only if, they meet certain conditions. The subject of these revisions is not relevant to CBK's operations as CBK does not issue puttable instrument.

- 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 CBK's operations as CBK does not apply hedge accounting.

- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. IFRIC 13 is not relevant to CBK's operations as CBK does not have customer loyalty programmes.

- IFRIC 15 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 clarifies that revenue arising from agreements for the construction of real estate is recognised by reference to the stage of completion of the contract activity in the following cases:

  - the agreement meets the definition of a construction contract in accordance with IAS 11.3;
  - the agreement is only for the rendering of services in accordance with IAS 18 (e.g., the entity is not required to supply construction materials); and
  - the agreement is for the sale of goods but the revenue recognition criteria of IAS 18.14 are met continuously as construction progresses.

  In all other cases, revenue is recognised when all of the revenue recognition criteria of IAS 18.14 are satisfied (e.g., upon completion of construction or upon delivery). IFRIC 15 is not relevant to the CBK's operations as the CBK does not provide real estate construction services or develop real estate for sale.

3. Significant accounting policies (continued)

p) New standards and interpretations not yet adopted (continued)

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The Interpretation explains the type of exposure that may be hedged, where in entity the hedged item may be held, whether the method of consolidation affects hedge effectiveness, the form the hedged instrument may take and which amounts are reclassified from equity to profit or loss on disposal of the foreign operation. CBK does not expect the Interpretation to have any impact on the financial statements.
- 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. As the Interpretation is applicable only from the date of application, it will not impact the financial statements for periods prior to the date of adoption of the interpretation. Further, since CBK does not distribute dividends, CBK does not expect the Interpretation to have any impact on the financial statements.
- IAS 40 Investment Property (effective for annual periods beginning on or after 1 January 2009). IAS 40 is amended to include property under construction or development for future use as investment property in its definition of “investment property”. This results in such property being within the scope of IAS 40; previously it was within the scope of IAS 16. IAS 40 is not relevant to current CBK’s operations as they have no investment property.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank’s 2009 financial statements. The Bank does not expect these amendments to have any significant impact on the financial statements.

q) Comparatives

The comparative information is presented consistently applying the CBK’s accounting policies. When necessary, comparative figures are reclassified for the purposes of comparability.

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 risks

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 Department. 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.

4. Financial risk management (continued)

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 2008 and 31 December 2007 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.

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 Department.

4. Financial risk management (continued)

c) Liquidity risk (continued)

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
31 December 2008					
Non-derivative liabilities					
Due to domestic banks	14	137,158	137,158	-	-
Due to local governmental institutions	15	908,212	640,642	109,715	157,855
Due to public and commercial entities	16	24,400	22,554	1,846	-
Other domestic liabilities	17	1,978	1,978	-	-
		1,071,748	**802,332**	**111,561**	**157,855**
31 December 2007					
Non-derivative liabilities					
Due to domestic banks	14	113,554	113,554	-	-
Due to local governmental institutions	15	856,730	856,730	-	-
Due to public and commercial entities	16	48,381	37,825	-	10,556
Other domestic liabilities	17	7,743	7,743	-	-
		1,026,408	**1,015,852**	**-**	**10,556**

The previous table shows the discounted 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 is the contractual, undiscounted cash flow of the financial liability or commitment.

Volatility in global and Kosovo's financial markets

The ongoing 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, and, at times, higher interbank lending 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.

4. Financial risk management (continued)

d) Market risks (continued)

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:

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
31 December 2008					
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
Total		**1,110,372**	**730,878**	**337,710**	**41,784**
Due to domestic banks	14	(137,158)	(137,158)	-	-
Due to local governmental institutions	15	(908,212)	(750,357)	(157,855)	-
Due to public and commercial entities	16	(24,400)	(24,400)	-	-
Other domestic liabilities	17	(1,978)	(1,978)	-	-
Total		**(1,071,748)**	**(913,893)**	**(157,855)**	**-**
Gap		**38,624**	**(183,015)**	**179,855**	**41,784**
31 December 2007					
Cash on hand	7	63,817	63,817	-	-
Current accounts with non-resident banks	8	1,946	1,946	-	-
Treasury bills	9	229,277	9,924	199,591	19,762
Deposit accounts with non-resident banks	10	762,579	545,792	77,287	139,500
Total		**1,057,619**	**621,479**	**276,878**	**159,262**
Due to domestic banks	14	(113,554)	(113,554)	-	-
Due to local governmental institutions	15	(856,730)	(856,730)	-	-
Due to public and commercial entities	16	(48,381)	(43,225)	-	(5,156)
Other domestic liabilities	17	(7,743)	(7,743)	-	-
Total		**(1,026,408)**	**(1,021,252)**	**-**	**(5,156)**
Gap		**31,211**	**(399,773)**	**276,878**	**154,106**

4. Financial risk management (continued)

d) Market risks (continued)

Overall non-trading interest rate risk positions are managed by the Asset Management Department, 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 balance sheet position) is as follows:

2008	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp decrease	100 bp increase	100 bp decrease
Estimated Profit (loss) effect	95	(95)	-	-

2007	**up to 1 Year scenarios**		**over 1 Year scenarios**	
	100 bp Increase	100 bp decrease	100 bp increase	100 bp Decrease
Estimated Profit (loss) effect	268	(268)	-	-

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:

	EUR	**USD**	**Total**
31 December 2008			
Assets			
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
Total	**1,110,778**	**-**	**1,110,778**
Liabilities			
Due to domestic banks	137,158	-	137,158
Due to local governmental institutions	908,212	-	908,212
Due to public and commercial entities	24,400	-	24,400
Other domestic liabilities	1,978	-	1,978
Total	**1,071,748**	**-**	**1,071,748**
Net foreign currency position	**39,030**	**-**	**39,030**

4. Financial risk management (continued)

(d) Market risks (continued)

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

	EUR	USD	Total
31 December 2007			
Assets			
Cash on hand	63,805	12	63,817
Current accounts with non-resident banks	1,946	-	1,946
Treasury bills	229,277	-	229,277
Deposit accounts with non-resident banks	762,579	-	762,579
Other assets	295		295
Total	**1,057,902**	**12**	**1,057,914**
Liabilities			
Due to domestic banks	113,554	-	113,554
Due to local governmental institutions	856,730	-	856,730
Due to public and commercial entities	48,381	-	48,381
Other domestic liabilities	7,743	-	7,743
Total	**1,026,408**	**-**	**1,026,408**
Net foreign currency position	**31,494**	**12**	**31,506**

(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.

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. Acording 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 balance sheet 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 balance sheet 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 balance sheet of CBK for the end of that financial year, the Ministry of Finance and Economy shall, within one month after publication of that balance sheet, make a capital contribution to CBK in such amount or amounts as shall be necessary to remedy this deficit.

4. Financial risk management (continued)

f) Capital management (continued)

Regulatory capital (continued)

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

	Note	2008	2007
Capital and general reserve			
Statutory fund	18	30,000	20,000
Reserve fund	19	3,736	4,590
Retained earnings	19	7,467	9,146
Total		**41,203**	**33,736**
Accounts maintained in the books of CBK as at 31 December			
Due to domestic banks	14	137,158	113,554
Due to local governmental institutions	15	908,212	856,730
Due to public and commercial entities	16	24,400	48,381
Other domestic liabilities	17	1,695	1,612
Total		**1,071,465**	**1,020,277**
Capital/Accounts maintained in the books of CBK as at 31 December		**3.85%**	**3.31%**
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', 'Sundry creditors and accruals' and 'Transit accounts'.

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 balance sheet 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 Finance and Economy as revenue for the budget. If there is a net realized loss, it is required to be charged to the general reserve account or to capital, in that order.

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 judgements about 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 the 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)(i).

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.

In thousands of EUR	Note	Loans and receivables	Held-to-maturity	Other amortized cost	Total carrying amount	Fair value
31 December 2008						
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
		569,353	**541,019**	**-**	**1,110,372**	**1,111,112**
Due to domestic banks	14	-	-	137,158	137,158	137,158
Due to local governmental institutions	15	-	-	908,212	908,212	908,212
Due to public and commercial entities	16	-	-	24,400	24,400	24,400
Other domestic liabilities	17	-	-	1,978	1,978	1,978
		-	**-**	**1,071,748**	**1,071,748**	**1,071,748**
31 December 2007						
Cash on hand	7	63,817	-	-	63,817	63,817
Current accounts with non-resident banks	8	1,946	-	-	1,946	1,946
Treasury bills	9	-	229,277	-	229,277	229,315
Deposit accounts with non-resident banks	10	762,579	-	-	762,579	762,579
		828,342	**229,277**	**-**	**1,057,619**	**1,057,657**
Due to domestic banks	14			113,554	113,554	113,554
Due to local governmental institutions	15	-	-	856,730	856,730	856,730
Due to public and commercial entities	16	-	-	48,381	48,381	48,381
Other domestic liabilities	17	-	-	7,743	7,743	7,743
		-	-	**1,026,408**	**1,026,408**	**1,026,408**

7. Cash on hand

Cash on hand is denominated as follows:

	2008	2007
EUR	39,674	63,805
USD	-	12
Total	**39,674**	**63,817**

8. Current accounts with non-resident banks

These accounts were held at the following banks:

	2008	2007
Deutsche Bundesbank	9,436	1,343
Raiffeisen Zentralbank	161	255
Svenska Handelsbanken	130	197
Dresdner Bank	-	112
Commerzbank	676	39
Total	**10,403**	**1,946**

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 1.83% to 4.37% (2007: 3.83% to 4.18%).

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

	2008	2007
Germany	69,537	54,572
France	84,929	39,627
Finland	-	35,786
The Netherland	54,904	-
Italy	67,128	24,738
Portugal	43,836	19,890
Belgium	220,685	54,664
Total	**541,019**	**229,277**

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

Treasury bills at 31 December 2008 include an amount of 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 with the Ministry, the CBK will act as an Investment Manager of the funds of the Ministry. The parties are in the process of seeking clarification on the agreement, including accounting implications such as whether the investments are assets or liabilities of the CBK, if they should be recognized in the balance sheet and whether the CBK is exposed to any credit risk relating to such investments.

10. Deposit accounts with non-resident banks

Deposit accounts with non-resident banks are composed of:

	2008	2007
Time deposits		
Raiffeisen Zentralbank	29,700	103,800
Svenska Handelsbanken	166,200	90,800
HBOS Treasury Service	-	70,268
ING Bank	21,735	107,330
Dresdner Bank	-	92,600
Deutche Bundesbank	50,300	101,800
KBC	41,571	66,488
Rabobank	96,579	32,754
Danske Bank	46,813	20,016
Commerzbank	65,700	71,200
	518,598	**757,056**
Interest accrued on time deposits		
Raiffeisen Zentralbank	153	426
Svenska Handelsbanken	92	971
HBOS Treasury Service	-	825
ING Bank	2	901
Dresdner Bank	-	701
Deutche Bundesbank	95	477
KBC	5	540
Rabobank	319	214
Danske Bank	6	337
Commerzbank	6	131
	678	**5,523**
Total	**519,276**	**762,579**

Deposits placed with non-resident banks are denominated in EUR and earn interest at effective interest rates ranging from 1.41% to 5.00% (2007: 3.00% to 4.80%) and have original maturities from 1 to 355 days (2007: from 1 to 368 days).

11. Property and equipment

Property and equipment is composed as follows:

	Leasehold improvement	Equipment	Computers	Vehicles	Assets in course of construction	Total
Cost						
At 1 January 2007		**469**	**351**	**87**	**1,041**	**1,948**
Acquisitions	-	68	94	32	1,005	1,199
Transfers	1,279	767	-	-	(2,046)	-
Disposals	-	(33)	-	-	-	(33)
At 31 December 2007	**1,279**	**1,271**	**445**	**119**	**-**	**3,114**
At 1 January 2008	1,279	1,271	445	119	-	3,114
Acquisitions	-	188	169	-	-	357
Disposals	-	-	(1)	(12)	-	(13)
At 31 December 2008	**1,279**	**1,459**	**613**	**107**	**-**	**3,458**
Depreciation						
At 1 January 2007	**-**	**405**	**229**	**52**	**-**	**686**
Charge for the period	64	200	74	15	-	353
Disposals	-	(33)	-	-	-	(33)
At 31 December 2007	**64**	**572**	**303**	**67**	**-**	**1,006**
At 1 January 2008	64	572	303	67	-	1,006
Charge for the period	64	203	94	17	-	378
Disposals	-	-	(1)	(12)	-	(13)
At 31 December 2008	**128**	**775**	**396**	**72**	**-**	**1,371**
Carrying amounts						
At 1 January 2007	**-**	**64**	**122**	**35**	**1,041**	**1,262**
At 31 December 2007	**1,215**	**699**	**142**	**52**	**-**	**2,108**
At 31 December 2008	**1,151**	**684**	**217**	**35**	**-**	**2,087**

Assets in course of construction 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 2008 (2007: none).

12. Intangible assets

Intangible assets are composed as follows:

	Software under development	Software	Total
Cost	-		
Balance at 1 January 2007	-	945	945
Acquisitions	-	72	72
Balance at 31 December 2007	**-**	**1,017**	**1,017**
Balance at 1 January 2008	-	1,017	1,017
Acquisitions	25	19	44
Balance at 31 December 2008	**25**	**1,036**	**1,061**
Amortization			
Balance at 1 January 2007	-	801	801
Amortization for the period	-	94	94
Balance at 31 December 2007	**-**	**895**	**895**
Balance at 1 January 2008	-	895	895
Amortization for the period	-	81	80
Balance at 31 December 2008	**-**	**976**	**975**
Carrying amounts			
Balance at 1 January 2007	**-**	**144**	**144**
Balance at 31 December 2007	**-**	**122**	**122**
Balance at 31 December 2008	**25**	**60**	**86**

13. Other assets

Other assets are composed as follows:

	2008	2007
Accrued fee income	357	264
Accounts receivable and prepayments	49	31
Total	**406**	**295**

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

14. 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 2008 was 1.25% (31 December 2007: 3%).

	2008	2007
ProCredit Bank	25,117	21,889
Raiffeisen Bank	23,875	19,219
NLB Prishtina	7,699	6,865
Commercial Bank	1,132	-
Economic Bank	2,191	1,927
Bank for Business	2,025	1,460
Banka Kombetare Tregtare	352	124
Turkish Economic Bank	1,381	-
Total required liquidity reserves	**63,772**	**51,484**
ProCredit Bank	34,242	12,551
Raiffeisen Bank	12,438	18,854
NLB Prishtina	7,023	15,243
Economic Bank	1,520	1,701
Bank for Business	10,164	5,869
Credit Bank of Pristina	226	72
Banka Kombetare Tregtare	4,852	5,731
Commercial Bank	1,179	2,029
Turkish Economic Bank	1,742	20
Total current accounts	**73,386**	**62,070**
Total	**137,158**	**113,554**

15. Due to local governmental institutions

Due to local governmental institutions include current accounts from the following:

	2008	2007
Privatization Agency of Kosovo	403,610	405,895
Ministry of Finance and Economy	498,425	447,469
Other governmental institutions	6,177	3,342
UNMIK	-	24
Total	**908,212**	**856,730**

The effective interest rate for current accounts as at 31 December 2008 is 1.25% (31 December 2007: 3%).

16. Due to public and commercial entities

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

	2008	2007
Current accounts		
Insurance companies	15,394	14,866
Public utility corporations	1,535	20,986
Pension funds	67	1,916
Other	2	2
	16,998	**37,770**
Time deposits		
Insurance companies	7,402	5,204
Public utility corporations	-	5,407
Pension funds	-	-
	7,402	**10,611**
Total	**24,400**	**48,381**

The effective interest rate for current accounts as at 31 December 2008 is 1.25% (31 December 2007: 3%) and for time deposits is between 3.95% and 4.45% (31 December 2007: 1.6% and 4.05%).

17. Other domestic liabilities

	2008	2007
Liabilities to the Kosovo Government	1,162	1,094
Deferred grant revenue	-	49
Liabilities to the former National Bank of Kosovo	495	480
Sundry creditors and accruals	283	178
Transit account	-	5,904
Other domestic liabilities	38	38
Total	**1,978**	**7,743**

The balance due to the Kosovo Government represents rent and supervisory penalties which were collected by the Bank. At the date of the approval of these financial statements the beneficiary of such revenue was not yet determined.

Liabilities to the former National Bank of Kosovo arise from the following. Upon inception, CBK inherited certain amounts in 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 transferred and deposited in CBK's account at Commerzbank AG Frankfurt. The balance of the account as at 1 January 2002 was converted to EUR 446 thousand and the resulting balance as at 31 December 2008 and 31 December 2007 includes this balance and interest earned as at those dates.

17. Other domestic liabilities (continued)

The transit account amounting to EUR 5,904 thousand in 2007 relates to an outgoing transfer for Kosovo Energy Corporation (KEK). The amount was settled on 2 January 2008.

The movement in deferred grant revenue was as follows:

	Central Fiscal Authority/Ministry of Economy and Finance/EU	World Bank/ Other	Total
Deferred grant revenue at 1 January 2007	149	152	301
Grants received during the year	-	-	-
Grant revenue for the year	(149)	(103)	(252)
Deferred grant revenue at 31 December 2007	**-**	**49**	**49**
Deferred grant revenue at 1 January 2008	-	49	49
Grants received during the year	36	-	36
Grant revenue for the year	(36)	(49)	(85)
Deferred grant revenue at 31 December 2008	**-**	**-**	**-**

18. Statutory fund

Based on provisions of the UNMIK Regulation no. 1999/20, 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.

19. 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. 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 Finance and Economy account.

20. Net interest income

Net interest income is composed as follows:

	2008	2007
Interest income		
From fixed term placements	33,290	25,447
From treasury bills	9,467	8,639
From current account placements (balances)	84	189
	42,841	**34,275**
Interest expense		
On current account deposits of non-bank entities	22,011	20,477
On eligible current account deposits of banks	3,066	1,624
On fixed term deposits	8,986	2,270
	34,063	**24,371**
Net interest income	**8,778**	**9,904**

21. Net fee and commission income

Net fee and commission income is composed as follows:

	2008	2007
Fee income		
From cash deposits	124	124
From foreign incoming transfers	96	197
From foreign outgoing transfers	356	283
From inter-bank clearing system	145	122
From credit registry system	67	-
Other fees	96	17
	884	**743**
Fee expenses		
For cash transportation	182	197
For correspondent bank transactions	33	29
	215	**226**
Net fee and commission income	669	**517**

22. Grant revenue

Grant revenue is composed as follows:

	2008	2007
World Bank	49	275
EU	36	178
Total	**85**	**453**

23. 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.

24. Personnel expenses

Personnel expenses are composed as follows:

	2008	2007
Wages and salaries	1,219	999
Social security and health insurance cost	326	259
Staff training	132	87
Governing Board remuneration	58	37
Other	36	30
Total	**1,771**	**1,412**

The number of employees at CBK as at 31 December 2008 is 158 (31 December 2007: 141).

25. General and administrative expenses

General and administrative expenses are composed as follows:

	2008	2007
Insurance expenses	234	191
Repairs and maintenance	69	67
Software maintenance	108	93
Communication expense (telephone, telex and internet)	79	62
Utilities	70	80
Audit and consulting expense	23	20
Security and cash transportation expenses (guard services)	44	46
Travel and transportation	68	75
Vehicle operating expenses	25	20
Stores and stationery	22	18
Food and restaurant expenses	12	10
Computer and other consumables expense	58	38
Publication and literature expenses	51	29
Other	60	74
Total	**923**	**823**

26. Cash and cash equivalents

Cash and cash equivalents are composed as follows:

	Note	2008	2007
Cash on hand	7	39,674	63,817
Current accounts with non-resident banks	8	10,403	1,946
Treasury bills with maturity up to three months		175,559	9,924
Deposit accounts with non-resident banks with maturity up to three months		505,242	545,792
Total		**730,878**	**621,479**

27. 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 results.

Credit related commitments

As at 31 December 2008, CBK had commitments to place deposits in total amount of EUR nil (31 December 2007 EUR 28,191thousand).

Other commitments

Other commitments are composed as follows:

2008

	Not later than 1 year
Purchase of vehicles	144
Purchase of computer applications	50
Repair - Installation of the voicing system	42
Total	**236**

2007

	Not later than 1 year
Premises security upgrade (works and consulting)	92
Purchase of equipment	48
Total	**140**

28. Related party transactions

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

	2008	2007
Governing Board remuneration	58	37
Management remuneration	100	65
Total	**158**	**102**

29. Subsequent events

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

8. Statistical Appendix

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Table 1.

Financial corporations survey

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

Description	2005	2006	2007	2008
Net foreign assets	827.3	1,173.6	1,622.4	1,593.1
Claims on nonresidents	890.9	1,245.7	1,704.6	1,726.7
Currency	75.6	64.4	147.7	127.7
Deposits	422.6	660.0	955.0	795.1
Securities other than shares	242.4	341.3	408.9	661.6
Loans	4.7	7.7	12.1	13.5
Shares and other equities	145.3	170.8	175.4	128.2
Other	0.2	1.5	5.5	0.7
less: Liabilities to nonresidents	63.6	72.1	82.3	133.6
Deposits	21.5	21.5	17.9	42.0
Loans	42.1	50.6	64.3	91.4
Domestic claims	348.9	231.7	124.5	419.6
Net claims on central government	-225.7	-475.0	-853.3	-871.8
Claims on central government	—	—	—	—
less: Liabilities to central government	225.7	475.0	853.3	871.8
Deposits	225.7	475.0	853.3	871.8
Claims on other sectors	574.6	706.6	977.8	1,291.5
Loans	565.6	694.3	965.9	1,276.8
Public nonfinancial corporations	...	...	0.2	0.1
Other nonfinancial corporations	439.6	548.2	765.1	995.7
Households	126.0	146.1	200.6	281.0
Other claims	9.1	12.3	11.9	14.7
Deposits	830.6	886.4	1,110.9	1,351.9
Transferable deposits	315.0	300.5	386.1	390.9
Local government	4.5	5.4	3.4	5.4
Public nonfinancial corporations	67.6	34.8	49.6	15.4
Other nonfinancial corporations	76.8	96.4	133.5	176.0
Households	155.5	156.2	187.5	186.2
NPISH	10.7	7.8	12.0	8.0
Other deposits	515.6	586.0	724.8	961.0
Public nonfinancial corporations	181.3	193.3	188.4	250.1
Other nonfinancial corporations	33.7	27.6	43.8	51.4
Households	298.9	359.5	489.3	656.7
NPISH	1.6	5.5	3.3	2.8
Loans	3.0	3.4	...	...
Insurance technical reserves	174.5	251.4	316.1	288.6
Net equity of households in life insurance reserves	—	—	—	—
Net equity of households in pension funds	152.4	223.9	286.2	256.3
Prepayment of premiums and reserves against outst. claims	22.1	27.5	29.9	32.3
Shares and other equity	165.8	209.3	273.8	311.1
Funds contributed by owners	120.1	143.6	197.0	229.9
Retained earnings	13.3	27.7	32.6	30.6
General and special reserves	14.0	15.6	6.7	10.8
Profit/loss of the year	17.6	21.8	37.5	39.6
Grants from donors	0.8	0.7	0.0	0.2
Other items (net)	2.2	54.7	46.0	61.1
Other liabilities	42.3	99.8	119.5	154.1
less: Other assets	40.9	50.4	79.2	97.2
plus: Consolidation adjustment	0.9	5.3	5.7	4.2

Table 2.

Depository corporations survey

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

Description	2005	2006	2007	2008
Net foreign assets	695.1	975.4	1,377.5	1,436.1
Claims on nonresidents	744.5	1,035.6	1,426.1	1,512.0
Currency	74.6	63.4	145.3	121.1
Deposits	422.6	660.0	955.0	794.9
Securities other than shares	242.4	303.1	308.2	581.8
Loans	4.7	7.7	12.1	13.5
Other	0.2	1.5	5.5	0.7
less: Liabilities to nonresidents	49.3	60.2	48.6	75.9
Deposits	21.5	21.5	17.9	42.0
Loans	27.9	38.7	30.7	33.7
Domestic claims	289.0	162.2	39.1	311.9
Net claims on central government	-225.7	-475.0	-853.3	-871.8
less: Liabilities to central government	225.7	475.0	853.3	871.8
Deposits	225.7	475.0	853.3	871.8
Claims on other sectors	514.6	637.1	892.4	1,183.8
Loans	513.9	636.6	892.1	1,183.4
Other financial corporations	...	...	...	0.6
Public nonfinancial corporations	...	...	0.2	0.1
Other nonfinancial corporations	387.9	490.5	691.3	901.7
Households	126.0	146.1	200.6	281.0
Claims on other sectors	0.8	0.5	0.3	0.3
Deposits included in broad money	865.4	912.8	1,126.6	1,393.0
Transferable deposits	345.6	336.4	413.7	454.6
Other financial corporations	30.5	35.9	27.7	63.7
Local government	4.5	5.4	3.4	5.4
Public nonfinancial corporations	67.6	34.8	49.6	15.4
Other nonfinancial corporations	76.8	96.4	133.5	176.0
Households	155.5	156.2	187.5	186.2
NPISH	10.7	7.8	12.0	8.0
Other deposits	519.9	576.3	712.8	938.3
Other financial corporations	24.3	30.5	40.3	47.6
Public nonfinancial corporations	181.3	193.3	188.4	250.1
Other nonfinancial corporations	33.1	24.6	41.8	44.2
Households	279.6	322.4	439.0	593.8
NPISH	1.6	5.5	3.3	2.8
Deposits excl. from broad money 1/	19.9	40.6	53.7	74.9
Other financial corporations	—	0.5	1.4	4.6
Other nonfinancial corporations	0.7	3.0	2.0	7.3
Households	19.3	37.1	50.3	63.0
Shares and other equity	94.4	128.8	186.5	233.8
Funds contributed by owners	72.4	88.4	134.9	175.9
Retained earnings	0.4	11.8	12.5	18.0
General and special reserves	7.2	7.8	5.0	3.4
Grants from donors	0.8	0.7	...	0.2
Profit/loss of the year	13.5	20.2	34.0	36.3
Other Items (net)	4.3	55.4	49.8	46.4
Other liabilities	37.9	92.4	109.9	129.9
less: Other assets	34.4	42.3	69.1	84.3
plus: Consolidation adjustments	0.9	5.3	9.0	0.8

1/ Deposits with the original maturity over 2 years.

Table 3.

CBK Survey

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

Description	2005	2006	2007	2008
Net foreign assets	394.4	641.1	1,057.6	1,110.7
Claims on nonresidents	397.5	641.2	1,057.6	1,110.7
Currency	24.5	11.1	63.8	39.7
Deposits	213.4	424.9	759.0	529.0
Securities other than shares	159.5	203.6	229.3	541.3
Other	0.1	1.5	5.5	0.7
less: Liabilities to nonresidents	3.1	0.1	...	...
Net claims on central government	-225.7	-472.9	-849.4	-870.5
Claims on central government	—	—	—	—
less: Liabilities to central government	225.7	472.9	849.4	870.5
Deposits	225.7	472.9	849.4	870.5
Claims on other sectors	0.8	0.5	0.3	0.3
Liabilities to ODC	82.5	94.5	113.6	137.2
Deposits included in broad money	66.6	49.9	57.2	63.9
Transferable deposits	62.5	41.9	46.7	56.7
Other financial corporations		31.0	22.4	49.9
Local government	23.3	0.4	3.2	5.3
Public nonfinancial corporations	...	10.5	21.1	1.5
Other deposits	4.1	8.0	10.6	7.2
Other financial corporations	4.1	8.0	10.6	7.2
Deposits excluded from broad money	—	—	—	—
Shares and other equity	20.4	25.5	33.8	41.4
Funds contributed by owners	10.0	10.0	20.0	30.0
Retained earnings	3.0	6.4	9.2	7.5
General and special reserves	6.6	8.5	4.5	3.7
Grants from donors	0.8	0.7	...	0.2
Other items (net)	0.0	-1.2	3.9	-2.0
Other liabilities	0.5	0.2	6.1	0.2
less: Other assets	0.5	1.4	2.2	2.2

Table 4.

Other depository corporations survey

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

Description	2005	2006	2007	2008
Net foreign assets	300.7	334.4	319.9	325.4
Claims on nonresidents	346.9	394.5	368.5	401.3
Currency	50.1	52.3	81.5	81.4
Deposits	209.2	235.1	196.0	265.9
Securities other than shares	82.9	99.4	78.9	40.5
Loans	4.7	7.7	12.1	13.5
less: Liabilities to nonresidents	46.2	60.1	48.6	75.9
Deposits	18.4	21.4	17.9	42.0
Loans	27.9	38.7	30.7	33.7
Claims on CBK	81.6	88.8	107.5	136.8
Deposits	81.6	88.8	107.5	136.8
Net claims on central government	—	-2.1	-3.9	-1.3
Claims on other sectors	513.9	636.6	892.1	1,183.4
Loans	513.9	636.6	892.1	1,183.4
Other financial corporations	—	—	—	0.6
Public nonfinancial corporations	—	—	0.2	0.1
Other nonfinancial corporations	387.9	490.5	691.3	901.7
Households	126.0	146.1	200.6	281.0
Deposits included in broad money	798.8	862.9	1,069.3	1,329.0
Transferable deposits	283.0	294.5	367.1	397.9
Other financial corporations	7.2	4.9	5.3	13.8
Local government	2.9	5.0	0.2	0.1
Public nonfinancial corporations	30.0	24.3	28.5	13.8
Other nonfinancial corporations	76.8	96.4	133.5	176.0
Households	155.5	156.2	187.5	186.2
NPISH	10.7	7.8	12.0	8.0
Other deposits	515.8	568.4	702.3	931.1
Other financial corporations	20.2	22.5	29.8	40.4
Public nonfinancial corporations	181.3	193.3	188.4	250.1
Other nonfinancial corporations	33.1	24.6	41.8	44.2
Households	279.6	322.4	439.0	593.8
NPISH	1.6	5.5	3.3	2.8
Deposits excluded from broad money	19.9	40.6	53.7	74.9
Other financial corporations	.	0.5	1.4	4.6
Other nonfinancial corporations	0.7	3.0	2.0	7.3
Households	19.3	37.1	50.3	63.0
Shares and other equity	74.0	103.3	152.7	192.3
Funds contributed by owners	62.4	78.4	114.9	145.9
Retained earnings	-2.6	5.5	3.3	10.5
General and special reserves	0.6	-0.7	0.5	-0.3
Profit/loss of the year	13.5	20.2	34.0	36.3
Other items (net)	3.4	50.9	39.8	48.1
Other liabilities	37.3	92.1	103.7	129.8
less: Other assets	33.9	40.8	66.9	82.1
plus: Consolidation adjustment	...	-0.4	3.0	0.5

Table 5.

Other financial corporations survey

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

Description	2005	2006	2007	2008
Net foreign assets	132.1	198.1	244.9	157.0
Claims on nonresidents	146.4	210.0	278.5	214.7
Currency	1.0	0.9	2.4	6.6
Securities other than shares	—	38.3	100.7	79.8
Shares and other equity	145.3	170.8	175.4	128.2
less : Liabilities to nonresidents	14.3	11.9	33.6	57.7
Loans	14.3	11.9	33.6	57.7
Claims on depository corporations	54.8	66.9	72.8	113.0
CBK	27.4	39.0	32.9	57.1
Transferable deposits	23.3	31.0	22.4	49.9
Other deposits	4.1	8.0	10.6	7.2
Other depository corporations	27.4	28.0	39.8	55.9
Transferable deposits	7.2	4.9	6.2	7.9
Other deposits	20.2	23.0	33.6	48.0
Net claims on central government	—	—	—	—
Claims on other sectors	60.0	69.5	85.4	108.3
Loans	51.7	57.7	73.8	94.0
Other claims	8.3	11.8	11.6	14.3
Deposits	—	—	—	—
Loans	3.0	3.4	...	1.0
Insurance technical reserve	174.5	251.4	316.1	288.6
Net equity of households in life insurance reserves	—	—	—	—
Net equity of households in pension funds	152.4	223.9	286.2	256.3
Prepayment of premiums and reserves against outstanding claims	22.1	27.5	29.9	32.3
Shares and other equity	71.4	80.5	87.4	77.4
Funds contributed by owners	47.7	55.2	62.1	54.0
Retained earnings	12.9	15.8	20.1	12.7
General and special reserves	6.7	7.9	1.7	7.4
Profit/Loss of the year	4.0	1.6	3.5	3.4
Other items (net)	-2.1	-0.7	-0.4	11.3
Other liabilities	4.4	7.4	9.6	24.2
less: Other assets	6.5	8.2	10.0	12.9
plus: Consolidation adjustment	—	—	—	—

Table 6.

Other depository corporations balance sheet

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

Description	2005	2006	2007	2008
Cash and balances with CBK	131.7	141.1	189.0	218.2
Cash	50.1	52.3	81.5	81.4
In EUR currency	43.3	41.5	68.0	64.2
In non-EUR currencies	6.8	10.8	13.5	17.2
Balances with CBK	81.6	88.8	107.5	136.8
Balances with commercial banks	221.9	243.3	208.1	283.9
In EUR currency	201.0	218.8	173.4	236.3
of which: Nonresidents	192.9	218.2	173.4	232.3
In non-EUR currencies	21.0	24.5	34.7	47.6
Securities	82.9	99.4	78.9	40.5
Gross loans and lease financing	513.9	636.6	892.1	1,183.4
In EUR currency	513.9	636.6	892.1	1,183.4
Other financial corp.	—	—	—	0.6
Public nonfinancial corp.	...	...	0.2	0.1
Other nonfinancial corp.	387.9	490.5	691.3	901.7
Households	126.0	146.1	200.6	281.0
Fixed assets	16.9	23.0	27.2	39.0
Other assets	17.0	17.9	39.7	43.1
TOTAL ASSETS	984.4	1,161.2	1,435.0	1,808.2
Balances from other banks	23.0	30.3	25.8	34.9
Of which: Nonresidents	15.0	30.2	22.9	29.8
Deposits	836.7	924.3	1,143.1	1,444.1
Transferable deposits	296.6	308.9	380.7	429.8
Central government	0.0	1.1	1.5	1.3
Local government	2.9	5.0	0.2	0.1
Other financial corp.	7.2	4.9	5.3	13.8
Public nonfinancial corp.	30.0	24.3	28.5	13.8
Other nonfinancial corp.	76.8	96.4	133.5	176.0
Households	155.5	156.2	187.5	186.2
NPISH	10.7	7.8	12.0	8.0
Nonresidents	13.5	13.3	12.1	30.6
Other deposits	540.1	615.4	762.4	1,014.2
Central government	0.0	1.0	2.4	...
Other financial corp.	20.2	23.0	31.2	45.0
Public nonfinancial corp.	181.3	193.3	188.4	250.1
Other nonfinancial corp.	33.7	27.6	43.8	51.4
Households	298.9	359.5	489.3	656.7
NPISH	1.6	5.5	3.3	2.8
Nonresidents	4.3	5.4	4.0	8.3
Other borrowings (incl non-neg. CD)	6.4	4.2	2.7	...
Other liabilities	37.3	92.1	103.7	129.8
of which: Prov. on loans and related	21.1	31.2	41.4	53.0
Subordinated debt	7.0	7.0	7.0	7.0
Own resources	74.0	103.3	152.7	192.5
In EUR currency	74.0	103.3	152.7	192.3
Share capital	62.4	78.4	114.9	145.9
Contingency reserve	0.6	-0.7	0.5	-0.3
Profit/loss of the year	13.5	20.2	34.0	36.3
Retained profit/loss	-2.6	5.5	3.3	10.5
TOTAL LIABILITIES	984.4	1,161.2	1,435.0	1,808.2

Table 7.

Euro deposits at other depository corporations, by original maturity

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

Description	2005	2006	2007	2008
Government	2.9	7.0	4.1	1.4
Transferable deposits	2.9	6.0	1.7	1.4
Other deposits	...	1.0	2.4	...
over 3 months and up to 1 year	...	1.0	2.4	...
Financial corporations	35.4	34.0	39.1	62.9
Other depository corporations	8.1	0.1	3.1	5.0
Transferable deposits	1.1	0.1	0.1	2.7
Other deposits	7.0	...	2.9	2.3
up to 1 month	0.5	...	2.9	2.3
Other financial intermediaries	5.8	2.4	5.6	6.5
Transferable deposits	3.7	1.9	2.2	2.0
Other deposits	2.1	0.5	3.4	4.5
up to 1 month	0.0	...	...	2.6
over 1 month and up to 3 months	0.8	0.5	2.7	...
over 3 months and up to 1 year	1.3	0.0	0.7	0.9
Insurance companies 1/	18.8	24.7	28.3	31.5
Transferable deposits	3.5	2.4	2.2	5.8
Other deposits	15.3	22.3	26.2	25.8
up to 1 month	5.3	0.5	2.0	2.1
over 1 month and up to 3 months	1.9	2.9	0.2	0.7
over 3 months and up to 1 year	8.2	17.3	16.5	15.8
over 1 year and up to 2 years	...	1.0	6.1	3.4
over 2 years	...	0.5	1.4	3.7
Pension funds	.	0.4	0.4	19.4
Transferable deposits	.	0.4	0.4	5.9
Other deposits	.	...	...	13.5
over 1 month and up to 3 months	.	...	...	0.1
over 3 months and up to 1 year	.	...	...	3.4
over 1 year and up to 2 years	.	...	...	10.0
Financial auxiliaries	2.8	0.5	1.7	0.4
Transferable deposits	0.0	0.2	0.4	0.2
Other deposits	2.8	0.3	1.2	0.3
over 1 month and up to 3 months	...	...	0.6	...
over 3 months and up to 1 year	2.8	0.3	0.7	0.3
Nonfinancial corporations	319.0	337.8	386.2	479.7
Public nonfinancial corporations	211.3	217.4	215.5	263.8
Transferable deposits	29.9	24.0	27.1	13.7
Other deposits	181.3	193.3	188.4	250.1
up to 1 month	23.9	19.9	105.6	21.8
over 1 month and up to 3 months	12.8	19.4	21.4	47.2
over 3 months and up to 1 year	119.5	114.3	44.8	175.8
over 1 year and up to 2 years	25.3	39.7	16.7	5.3
Other nonfinancial corporations	107.7	120.5	170.7	215.9
Transferable deposits	74.4	93.6	128.4	170.2
Other deposits	33.4	26.9	42.3	45.8
up to 1 month	6.3	6.2	18.0	18.7
over 1 month and up to 3 months	8.3	6.8	10.4	4.7
over 3 months and up to 1 year	13.0	9.1	8.2	13.4
over 1 year and up to 2 years	5.1	1.7	3.7	2.0
over 2 years	0.7	3.0	2.0	7.0
Other domestic sectors	440.7	499.2	647.0	785.0
Households	428.7	486.1	631.9	774.5
Transferable deposits	144.7	143.8	170.6	163.3
Other deposits	284.0	342.3	461.3	611.2
up to 1 month	87.2	111.2	156.2	189.6
over 1 month and up to 3 months	41.7	39.6	38.5	60.6
over 3 months and up to 1 year	109.3	127.9	141.6	234.6
over 1 year and up to 2 years	26.5	26.5	74.6	64.8
over 2 years	19.3	37.1	50.3	61.6
NPISH	12.0	13.1	15.2	10.5
Transferable deposits	10.4	7.6	11.9	7.7
Other deposits	1.6	5.5	3.3	2.8
up to 1 month	0.1	3.5	2.2	2.3
over 1 month and up to 3 months	1.5	2.0	1.0	0.2
over 3 months and up to 1 year	0.0	...	...	0.2
Nonresidents	17.3	18.2	15.6	37.9
TOTAL	815.3	890	1,092	1,366.9

Table 8.

Non-euro deposits at other depository corporations, by original maturity

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

Description	2005	2006	2007	2008
Government	—	—	—	—
Financial corporations	...	...	0.5	0.9
Other financial intermediaries	...	...	0.1	...
Transferable deposits	...	...	0.1	...
Insurance companies	...	...	0.4	0.9
Transferable deposits	...	...	...	...
Other deposits	—	—	0.4	0.9
over 3 months and up to 1 year	—	—	0.4	0.5
Nonfinancial corporations	2.8	3.7	8.1	11.6
Public nonfinancial corporations	0.0	0.3	1.5	0.1
Transferable deposits	0.0	0.3	1.5	0.1
Other nonfinancial corporations	2.8	3.5	6.6	11.5
Transferable deposits	2.4	2.7	5.1	5.8
Other deposits	0.4	0.7	1.5	5.7
up to 1 month	0.0	0.3	0.3	4.8
over 1 month and up to 3 months	0.1	0.2	0.2	0.2
over 3 months and up to 1 year	0.2	0.2	0.8	0.3
over 1 year and up to 2 years	—	0.1	0.2	0.1
over 2 years	...	...	...	0.4
Other domestic sectors	26.0	29.8	44.3	68.4
Households	25.7	29.6	44.2	68.2
Transferable deposits	10.8	12.4	16.2	22.9
Other deposits	14.9	17.2	28.0	45.2
up to 1 month	3.9	6.8	12.4	17.8
over 1 month and up to 3 months	2.5	1.8	1.8	3.8
over 3 months and up to 1 year	8.0	8.5	11.1	19.2
over 1 year and up to 2 years	0.5	0.1	2.7	3.1
over 2 years	...	...	0.0	1.4
NPISH	0.3	0.2	0.1	0.3
Transferable deposits	0.3	0.2	0.1	0.3
Nonresidents	0.5	0.5	0.4	1.0
TOTAL	29.4	34.3	53.3	81.9

Table 9.

Other depository corporations loans, by original maturity

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

Description	2005	2006	2007	2008
Government	—	—	—	—
Financial corporations	—	—	—	0.6
Insurance companies	—	—	—	0.6
Up to 1 year	—	—	—	0.6
Over 2 years	—	—	—	—
Nonfinancial corporations	387.9	490.5	691.5	901.8
Public nonfinancial corporations	...	...	0.2	0.1
Over 2 years	...	...	0.2	0.1
Other nonfinancial corporations	387.9	490.5	691.3	901.7
Up to 1 year	117.9	128.7	174.0	191.0
Over 1 year and up to 2 years	125.2	127.7	122.6	132.3
Over 2 years	144.7	234.1	394.6	578.4
Other domestic sectors	126.0	146.1	200.6	281.0
Households	126.0	146.1	200.6	281.0
Up to 1 year	19.5	19.7	24.0	20.9
Over 1 year and up to 2 years	21.0	24.7	29.6	30.9
Over 2 years	85.4	101.7	147.1	229.2
TOTAL	513.9	636.6	892.1	1,183.4

Table 10.

Other depository corporations loans, by industry

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

Description	2005	2006	2007	2008
Agriculture	12.5	16.4	29.0	37.4
Up to 1 year	4.1	3.4	4.1	4.1
Over 1 year	8.4	13.0	24.9	33.3
Industry, energy and construction	74.2	97.7	144.5	160.2
Mining	0.5	0.5	5.6	0.8
Up to 1 year	0.5	0.5	0.5	0.8
Over 1 year	...	...	5.1	...
Industry	48.1	61.9	89.4	93.8
Up to 1 year	11.6	12.2	16.7	13.9
Over 1 year	36.6	49.7	72.7	79.9
Manufacturing (Food, Textile, etc)	44.0	54.9	72.2	75.1
Up to 1 year	10.4	10.7	12.6	9.3
Over 1 year	33.6	44.2	59.6	65.9
Manufacturing (Oil,Chem., etc)	3.5	6.3	16.1	17.1
Up to 1 year	0.9	1.1	3.7	4.4
Over 1 year	2.6	5.1	12.3	12.8
Electricity, gas and water	0.6	0.7	1.2	1.6
Up to 1 year	0.2	0.3	0.4	0.3
Over 1 year	0.4	0.4	0.8	1.3
Construction	25.6	35.3	49.5	65.6
Up to 1 year	12.5	15.3	15.6	14.2
Over 1 year	13.1	20.0	33.9	51.3
Services	301.1	376.4	518.0	704.8
Trade	249.7	307.3	416.1	504.7
Up to 1 year	81.1	92.4	110.1	87.9
Over 1 year	168.6	215.0	306.1	416.8
Wholesale and retail trade	209.6	259.5	344.6	437.5
Up to 1 year	64.0	74.5	88.7	79.1
Over 1 year	145.5	185.0	256.0	358.4
Hotel and restaurants	28.0	29.5	44.9	45.1
Up to 1 year	12.2	10.5	14.5	6.4
Over 1 year	15.8	19.0	30.4	38.7
Other trade	12.1	18.3	26.6	22.0
Up to 1 year	4.8	7.4	6.8	2.4
Over 1 year	7.3	11.0	19.7	19.6
Fin. Services	2.7	1.1	1.5	6.0
Up to 1 year	0.1	0.2	0.3	1.5
Over 1 year	2.6	0.9	1.2	4.5
Other services	48.7	68.0	100.4	194.2
Up to 1 year	11.2	28.1	39.2	37.0
Over 1 year	37.5	39.9	61.2	157.2
TOTAL	387.9	490.5	691.5	902.4

Table 11.

Other depository corporations effective interest rates

(new businesses, unless otherwise indicated)

Description	2005	2006	2007	2008
DEPOSIT interest rates	**3.12**	**3.11**	**4.00**	**4.42**
Nonfinancial corporations	3.26	3.29	4.23	4.51
Households	2.89	2.95	3.31	4.34
LOAN interest rates 1/	**14.00**	**14.57**	**14.06**	**13.79**
Nonfinancial corporations	14.30	14.82	14.41	13.93
Households	11.51	12.48	13.41	12.70
DEPOSITS				
Nonfinancial corporations				
Transferable deposits (outstanding amounts)	0.26	0.39	0.48	0.53
Other deposits				
Less than 250.000 euro				
Up to 1 month	2.07	2.06	2.68	3.09
Over 1 month and up to 3 months	2.37	2.85	2.93	3.97
Over 3 months and up to 1 year	3.40	4.32	4.35	5.32
Equal or more than 250.000 euro				
Up to 1 month	2.90	3.11	4.27	3.61
Over 1 month and up to 3 months	*	*	4.15	4.92
Over 3 months and up to 1 year	3.52	3.85	*	5.69
Savings deposits (outstanding amounts)	1.71	1.53	2.45	2.85
Households				
Transferable deposits (outstanding amounts)	0.04	0.03	0.02	0.11
Other deposits				
Up to 1 month	1.85	1.93	2.55	3.21
Over 1 month and up to 3 months	2.24	2.35	2.75	4.60
Over 3 months and up to 1 year	3.33	3.44	3.60	4.45
Over 1 year and up to 2 years	3.87	4.16	4.72	4.99
Over 2 years	4.04	4.51	5.27	3.95
Savings deposits (outstanding amounts)	1.74	1.65	2.25	2.74
LOANS				
Nonfinancial corporations				
Investment business loans				
Over 1 year	13.29	14.50	13.76	13.92
Other business loans				
Up to 1 year	15.18	13.60	*	14.20
Over 1 year	14.38	15.18	14.64	13.45
Credit lines/overdrafts (oustanding amounts)	11.51	12.36	13.72	15.03
Households				
Consumer Loans	*	*	12.92	13.50
Mortgage loans				
<= 5 years	*	*	12.92	9.81
> 5 years and <= 10 years	*	13.36	12.36	10.82
> 10years	*	*	*	8.13

* Conditions for publication are not fulfilled.

1/ Since January 2008 interest rate on loans includes disbursement fee charged by banks. Deposits and loans are calculated in weighted average across maturities and products;

Table 12.

Other depository corporations income statement

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

Description	2005	2006	2007	2008
INCOME				
Interest income	74.6	88.8	117.9	155.7
Loans	68.0	79.4	103.0	140.4
Placement with banks	4.0	6.6	11.1	12.0
Securities	2.7	2.8	3.6	2.3
Other	...	...	0.2	1.0
Non-Interest income	19.7	25.2	39.5	39.3
Fees and commissions	17.4	22.5	23.8	30.2
Other operating income	2.3	2.7	15.7	9.1
TOTAL INCOME	94.3	114.0	157.3	195.0
EXPENDITURES				
Interest expenditures	15.4	19.9	26.0	38.1
Deposits	13.9	17.5	23.2	35.1
Borrowings	1.5	2.4	2.8	2.1
Other	...	...	...	0.8
Non-Interest expenditures	13.4	13.7	19.9	21.9
General and administrative expenses	49.2	54.8	69.7	86.0
TOTAL EXPENDITURES	78.0	88.5	115.6	146.0
NET INCOME				
Net operating income	16.3	25.5	41.7	49.0
Trading profit (loss)	0.6	1.0	-0.4	-1.2
Net income from banking activities before taxes	16.9	26.6	41.3	47.6
Provision for taxes	3.4	6.4	7.9	11.2
Profit / loss of the year	13.5	20.2	33.5	36.4

Table 13.

Balance of payments of Kosovo

(In millions of euro)

Description	2005	2006	2007	2008
1. CURRENT ACCOUNT	**-300.8**	**-329.8**	**-428.4**	**-743.8**
A. Goods and services	**-1,087.8**	**-1,163.1**	**-1,371.2**	**-1,658.0**
1. Goods	-1,043.7	-1,141.3	-1,338.2	-1,638.5
2. Services	-44.2	-21.8	-33.0	-19.5
2.1. Transportation	-49.4	-49.7	-61.7	-85.0
2.2. Travel	-29.1	-32.6	-39.5	-30.5
2.3. Communications	7.1	28.3	41.3	41.4
2.4. Construction	-8.7	-5.3	-13.3	0.8
2.5. Insurance	-7.1	-6.0	-8.6	-11.3
2.6. Financial services	-0.6	-0.8	-1.5	0.1
2.7. Computer and information	-4.7	-1.2	0.1	-1.8
2.8. Royalties and license fees	0.0	0.0	0.0	-3.2
2.9. Other business	-17.6	-16.8	-12.0	6.6
2.10. Personal, cultural and recreational	0.0	0.0	0.0	0.1
2.11. Government	65.9	62.2	62.0	63.1
B. Income	**146.9**	**155.1**	**183.7**	**143.3**
1. Compensation of employees	141.5	142.8	149.6	160.2
2. Investment income	5.4	12.3	34.2	-16.9
2.1. Direct investment	-16.8	-24.9	-41.9	-66.2
2.2. Portfolio investment	16.3	23.8	43.3	11.7
2.3. Other investment (including earnings on reserve assets)	6.0	13.4	32.7	37.5
C. Current transfers	**640.1**	**678.2**	**759.0**	**770.9**
1. Central government	366.4	317.7	323.4	288.9
2. Other sectors	273.6	360.5	435.6	481.9
2.1 Workers' remittances	221.7	305.1	372.0	387.6
2.1.1. Of which: migrants abroad	418.0	467.1	521.7	535.8
2.2 Other transfers	52.0	55.4	63.7	94.3
2. CAPITAL AND FINANCIAL ACCOUNT	**118.4**	**37.1**	**91.8**	**388.4**
A. Capital account	2.0	3.2	2.6	-1.6
1. Capital transfers	2.0	3.2	2.6	-1.6
2. Acquisition/disposal of non-produced, non-financial assets	0.0	0.0	0.0	0.0
B. Financial account	116.4	33.9	89.2	390.0
1. Direct investment	80.0	244.4	413.7	340.4
1.1. Equity capital	63.2	206.1	300.5	210.0
1.2. Reinvested earnings	16.8	24.8	41.6	53.5
1.3. Other capital	0.0	13.5	71.6	77.0
2. Portfolio investment	-17.5	-65.4	-36.6	16.8
2.1. Assets	-17.5	-65.4	-36.6	16.8
2.1.1. Equity securities	0.0	0.0	0.0	0.0
2.1.2. Debt securities	-17.5	-65.4	-36.6	16.8
2.2.Liabilities	0.0	0.0	0.0	0.0
2.2.1. Equity securities	0.0	0.0	0.0	0.0
2.2.2. Debt securities	0.0	0.0	0.0	0.0
3. Other investment	21.6	-67.3	2.4	27.3
3.1. Assets	-50.8	-137.3	-58.6	-82.7
3.1.1. Trade credits	12.2	5.2	-0.9	-10.8
3.1.2. Loans	6.9	0.4	9.4	3.8
3.1.3. Currency and deposits	-69.9	-142.8	-67.0	-75.7
3.1.4. Other assets	0.0	0.0	0.0	0.0
3.2.Liabilities	72.4	70.0	61.0	109.9
3.2.1. Trade credits	51.9	62.8	65.5	38.9
3.2.2. Loans	17.2	7.4	-0.7	52.5
3.2.3. Currency and deposits	3.4	-0.2	-3.9	18.4
3.2.4. Other liabilities	0.0	0.0	0.0	0.0
4. Reserve assets	32.4	-77.9	-290.3	5.5
NET ERRORS AND OMISSIONS	**182.4**	**292.7**	**336.6**	**355.4**

Table 14.

Current account balance

(In millions of euro)

Description	2005	2006	2007	2008
Credit				
Export of goods and services				
Export of goods	56.3	110.8	165.1	198.5
Export of services	158.3	174.8	192.0	238.9
Total export of goods and services	214.6	285.5	357.1	437.4
Income				
Compensation of employers	141.5	142.8	149.6	161.0
Investment income	24.5	40.5	80.1	57.3
Total income	166.1	183.3	229.6	218.3
Current transfers				
Central government	366.4	317.7	323.4	288.9
Other sectors	489.1	538.3	601.4	637.7
Total current transfers	855.5	856.0	924.8	926.7
Total	**1,236.2**	**1,324.9**	**1,511.5**	**1,582.3**
Debits				
Import of goods and services				
Import of goods	-1,100.0	-1,252.1	-1,503.3	-1,837.0
Import of services	-202.5	-196.6	-225.0	-258.4
Total import of goods and services	-1,302.5	-1,448.6	-1,728.3	-2,095.4
Income				
Compensation of employers	0.0	0.0	0.0	-0.8
Investment income	-19.1	-28.2	-45.9	-74.2
Total income	-19.1	-28.2	-45.9	-75.0
Current transfers				
Central government	0.0	0.0	0.0	0.0
Other sectors	-215.4	-177.8	-165.7	-155.8
Total current transfers	-215.4	-177.8	-165.7	-155.8
Total	**-1,537.0**	**-1,654.7**	**-1,939.9**	**-2,326.2**
Balances				
Trade in goods and services				
Trade in goods	-1,043.7	-1,141.3	-1,338.2	-1,638.5
Trade in services	-44.2	-21.8	-33.0	-19.5
Trade in goods and services	-1,087.8	-1,163.1	-1,371.2	-1,658.0
Income				
Compensation of employers	141.5	142.8	149.6	160.2
Investment income	5.4	12.3	34.2	-16.9
Total income	146.9	155.1	183.7	143.3
Current transfers				
Central government	366.4	317.7	323.4	288.9
Other transfers	273.6	360.5	435.6	481.9
Total current transfers	640.1	678.2	759.0	770.9
Total (Current balance)	**-300.8**	**-329.8**	**-428.4**	**-743.8**

Table 15.

Capital account

(In millions of euro)

Description	2005	2006	2007	2008
Credit				
Capital transfers	2.0	3.2	4.5	2.2
Acquisition/disposal of nonproduced nonfinancial assets	0.0	0.0	0.0	0.0
Total	**2.0**	**3.2**	**4.5**	**2.2**
Debits				
Capital transfers	0.0	0.0	-1.9	-3.8
Acquisition/disposal of nonproduced nonfinancial assets	0.0	0.0	0.0	0.0
Total	**0.0**	**0.0**	**-1.9**	**-3.8**
Balance	**2.0**	**3.2**	**2.6**	**-1.6**

Table 16.

Financial account, by instrument

(In millions of euro)

Description	2005	2006	2007	2008
Investment abroad				
Direct investment abroad				
Equity capital	n/a	-4.3	-7.5	-19.2
Reinvested earnings	n/a	n/a	n/a	n/a
Other capital transactions	n/a	n/a	n/a	n/a
Total direct investment abroad	0.0	-4.3	-7.5	-19.2
Portfolio investment abroad				
Debt securities	-17.5	-65.4	-36.6	16.8
Total direct investment abroad	-17.5	-65.4	-36.6	16.8
Other investment abroad				
Trade credit	12.2	5.2	-0.9	-10.8
Loans	6.9	0.4	9.4	3.8
Currency and deposits	-69.9	-142.8	-67.7	-71.6
Other assets	0.0	0.0	0.0	0.0
Total other investments abroad	-50.8	-137.3	-59.3	-78.6
Reserves assets				
Foreign Exchange	32.4	-77.9	-290.3	5.5
Total reserves assets	32.4	-77.9	-290.3	5.5
Total	-35.9	-284.8	-393.6	-75.5
Investments in Kosovo				
Direct Investments in Kosovo				
Equity capital	63.2	210.4	308.0	229.2
Reinvested earnings	16.8	24.8	41.6	53.5
Other capital transactions	0.0	13.5	71.6	77.0
Total direct investment in Kosovo	80.0	248.7	421.2	359.6
Portfolio investment abroad				
Other investments in Kosovo				
Trade credit	51.9	62.8	65.5	38.9
Loans	17.2	7.4	0.0	48.5
Currency and deposits	3.4	-0.2	-3.9	18.4
Total other investment in Kosovo	72.4	70.0	61.7	105.9
Total	152.4	318.7	482.8	465.5
Net transactions(net credits less net debits)				
Direct investments				
Equity capital	63.2	206.1	300.5	210.0
Reinvested earnings	16.8	24.8	41.6	53.5
Other capital transactions	0.0	13.5	71.6	77.0
Total direct investment abroad	80.0	244.4	413.7	340.4
Portfolio investment				
Debt securities	-17.5	-65.4	-36.6	16.8
Total net portfolio investment	-17.5	-65.4	-36.6	16.8
Other investments				
Trade credit	64.1	68.0	64.6	28.1
Loans	24.1	7.7	9.4	56.4
Currency and deposits	-66.5	-143.0	-71.9	-52.3
Other assets	0.0	0.0	0.0	0.0
Total net other investments	21.6	-67.3	2.4	27.3
Reserve assets	**32.4**	**-77.9**	**-290.3**	**5.5**
Total reserve assets	32.4	-77.9	-290.3	5.5
Total	**116.4**	**33.9**	**89.2**	**390.0**

Table 17.

Imports and exports, by commodity group

(Cumulative within the calendar year, in millions of euro)

Description		2005		2006		2007		2008	
		Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Total		**1,157.5**	**56.3**	**1,305.9**	**110.8**	**1,576.2**	**165.1**	**1,928.2**	**195.9**
I	Live animals and animal products	54.0	0.5	50.5	0.3	61.2	13.8	85.4	1.1
II	Vegetable products	57.2	2.9	73.0	5.1	83.4	26.2	103.6	8.9
III	Animal or veget. fats and oils - edib.	11.0	...	15.3	0.1	17.3	4.7	22.7	...
IV	Prepared foodstuffs, bever. and tob.	163.3	4.6	180.6	6.2	222.7	44.9	261.9	10.5
V	Mineral products	207.3	3.2	241.7	18.8	317.6	90.0	378.6	17.9
VI	Products of the chem. or allied indust.	91.1	1.2	107.7	1.2	118.9	27.9	138.8	1.8
VII	Plastics, rubber and articles thereof	51.0	1.0	60.7	3.2	72.5	13.5	86.1	6.4
VIII	Hides, skins, leather, articles thereof	1.5	6.1	2.2	7.2	2.5	0.4	2.8	4.8
IX	Wood and articles of wood	30.5	0.4	30.3	0.8	35.3	5.5	41.7	1.7
X	Cellulosic material, pap. and articles	23.5	0.4	27.6	0.7	31.7	6.7	39.0	1.1
XI	Textiles and textile articles	35.9	0.6	45.1	0.7	52.4	10.2	64.0	2.5
XII	Footwear	11.3	0.1	14.3	0.1	16.3	3.6	18.3	0.1
XIII	Artic. of stone, plast.ceramic, glass	51.5	0.4	57.0	0.7	62.9	10.6	67.2	1.4
XIV	Pearls, precious, stones, jewelry, etc.	0.3	0.2	0.4	0.2	0.6	0.1	1.0	0.1
XV	Base metals and artic. of base metal	90.3	24.8	122.6	53.1	144.3	32.5	179.6	124.1
XVI	Machinery, appliances, electrical, etc	129.2	6.5	153.3	7.7	196.6	44.9	239.9	8.4
XVII	Transport means	104.2	2.3	79.3	1.4	82.1	23.3	131.1	2.1
XVIII	Optical, medical, musical instruments	15.3	0.4	14.3	0.3	19.1	3.7	21.4	0.6
XIX	Arms and ammunition	0.1	...	0.5	2.5	0.4	...	0.4	...
XX	Miscellaneous manufactured articles	28.9	0.4	29.5	0.6	37.7	5.5	44.5	2.3
XXI	Work of art	0.1	0.3	0.1	...	0.1	...	0.1	...

Source: Kosovo Customs and Statistical Office of Kosovo.

Table 18.

Imports and exports, by trading partners

(Cumulative within the calendar year, in millions of euro)

Description	2005		2006		2007		2008	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
Total Export	**1,157.5**	**56.3**	**1,305.9**	**110.8**	**1,576.2**	**165.1**	**1,928.2**	**195.9**
Europe	1,017.5	54.2	1,153.6	109.4	1,350.4	156.8	1,655.8	169.1
European Union (EU)	439.7	21.8	454.3	42.3	572.9	69.3	698.1	93.6
EU 15	**296.3**	**19.2**	**286.5**	**23.4**	**1,576.2**	**53.1**	**486.1**	**80.6**
of which:								
Austria	20.7	1.0	23.5	1.2	26.8	2.0	1.1	2.0
France	20.1	0.5	15.9	0.2	25.0	0.1	1.1	0.2
Germany	123.8	3.2	122.7	4.0	155.0	16.2	10.3	7.1
Greece	44.0	5.4	37.6	3.9	63.7	8.4	3.9	10.8
Italy	49.6	5.7	52.5	12.7	57.7	9.7	2.5	25.5
Netherlands	7.8	0.1	7.0	1.1	9.7	2.3	1.1	1.9
United Kingdom	7.5	...	6.4	...	9.5	0.2	1.1	0.2
Belgium	...	...	...	...	...	5.6	...	28.1
EU 10	**98.5**	**1.5**	**104.9**	**5.2**	**118.0**	**5.1**	**150.8**	**10.4**
of which:								
Czech Republic	8.7	...	11.5	0.4	11.4	0.2	15.4	1.1
Poland	14.8	...	13.8	...	14.1	0.1	22.2	0.1
Hungary	16.2	...	20.0	...	25.5	0.1	37.7	0.1
Slovakia	2.5	...	2.4	...	3.7	0.4	7.2	0.2
Slovenia	55.0	1.2	56.0	4.5	62.4	4.3	66.8	6.2
EU 2	**44.9**	**1.2**	**62.9**	**13.7**	**72.3**	**11.1**	**60.6**	**2.6**
Bulgaria	37.8	1.0	58.5	13.5	42.0	10.0	53.8	2.6
Romania	7.1	0.2	4.4	0.2	30.3	1.1	6.8	...
CEFTA	**440.4**	**29.9**	**536.3**	**51.7**	**579.6**	**65.1**	**723.9**	**60.5**
Albania	18.1	5.8	23.1	12.6	35.3	20.8	59.6	21.1
Bosnia and Hercegovina	18.4	3.4	18.5	5.1	29.8	4.8	38.7	5.7
Croatia	25.0	0.9	28.1	1.1	39.0	1.8	50.0	0.8
Macedonia	220.1	10.8	257.8	9.7	237.9	15.4	346.5	19.4
Montenegro	6.4	0.7	17.8	2.2	15.1	2.9	14.4	3.7
Serbia	152.3	8.2	191.1	20.9	222.5	19.3	214.5	9.9
Other European Countries	118.4	2.6	138.9	15.4	233.8	22.4	233.8	14.9
of which:								
Russia	10.8	...	9.9	...	4.7	0.1	6.9	0.1
Turkey	85.4	1.0	97.1	1.6	101.8	2.7	128.2	3.1
Ukraine	12.0	...	12.0	...	16.3	0.1	11.7	...
Norway (EFTA)	0.6	...	1.2	...	4.8	0.1	2.8	...
Switzerland (EFTA)	18.4	0.7	22.8	7.0	23.9	12.4	32.4	6.8
Other non-European Countries	139.9	2.0	152.3	1.3	272.4	8.3	272.4	26.9
of which:								
Argentna	1.1	...	1.8	...	3.1	...	1.5	...
Brazil	16.8	...	18.6	...	30.3		43.5	...
China	54.9	...	74.7	...	105.0	0.1	121.1	...
Egyp	0.5	...	0.9	0.2	1.3	...	1.0	...
India	2.5	...	2.2	...	3.9	3.1	3.5	23.7
Taiwan	2.2	....	2.0	...	2.8	...	2.9	...
Thailand	0.7	....	1.1	...	2.3	...	1.8	...
Indonesia	0.5	....	1.0	...	9.2	...	11.0	...
Japan	13.5	....	8.7	...	10.1	...	10.8	...
United States of America	17.7	0.2	11.6	...	14.7	...	23.6	...
Other	29.5	1.9	29.8	1.2	43.1	5.0	51.8	3.2

Source: Kosovo Customs and Statistical Office of Kosovo.

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