



Pursuant to Article 35, paragraph 1, subparagraph 1.1, of Law No.03/L-209 on Central Bank of the Republic of Kosovo (Official Gazette of the Republic of Kosovo, No.77/16 August 2010), and Articles 85 and 114 of the Law No.04/L-093 on Banks, Microfinance Institutions and Non-bank Financial Institutions (Official Gazette of the Republic of Kosovo, No.11/11 May 2012), and pursuant to Article 2, paragraph 2, subparagraph 2.3, and Article 12, paragraph 2, of Law No.05/L-110 on Late Payments in Trade Transactions (Official Gazette of the Republic of Kosovo, No.38/21 November 2016), the Central Bank Board, at its meeting held on 29 August 2019, approved this:

REGULATION ON INTEREST FOR LATE PAYMENTS FOR CREDIT INSTRUMENTS

Article 1

Purpose and scope

1. The purpose of this regulation is to set out the procedure to be followed by lending financial institutions to charge the interest for late payment, and set out the method for setting and calculating the amount of charged interest for late payment on credit instruments which are late.
2. This Regulation applies to all lending financial institutions licensed by the Central Bank of the Republic of Kosovo (hereinafter: the CBK) operating in Kosovo.

Article 2

Definitions

1. All terms used in this Regulation have the same meaning as those defined in Article 3 of Law No.04/L-093 on Banks, Microfinance Institutions and Non-bank Financial Institutions (hereinafter: the Law on Banks), Regulation on Credit Risk Management, Regulation on Bank Capital Adequacy, Regulation on Effective Interest Rate and Disclosure Requirements, and Law No.05/L-110 on Late Payments on Trade Transactions, and/or the as following definitions for the purpose of this Regulation:
 - 1.1. **Lending financial institution** - means financial institutions licensed or registered by the CBK to exercise lending activities.
 - 1.2. **Credit instrument** - means any loan or direct or indirect legal commitment to disburse money in exchange for a right to repayment of the amount disbursed and outstanding and to the payment of interest or other charges on such amount. For the

purpose of this regulation, the credit instrument includes loans, credit cards, overdrafts and other credit instruments.

- 1.3. **Reference rate** - represents the point between the effective interest rate on new loans received by banks and the effective interest rate on new deposits paid by banks. The reference rate is calculated based on the average in the last six months (January-June or July-December) of interest rates on new contracts in loans and deposits, calculated and published by the CBK.
- 1.4. **Creditor** - means the lending financial institution that lends money to the debtor and is the beneficiary of the debtor's payments received for payment under the terms and conditions of the loan agreement. The creditor is also known as the lender.
- 1.5. **Debtor** – means a natural or legal person who borrows money from a lending financial institution under the terms and conditions of the loan agreement or who is in debt to a lending financial institution according to a credit instrument. The debtor is also known as the borrower.
- 1.6. **Late payment** – if the debtor fails to make the payment duly, as set forth in the terms and conditions of the relevant credit instrument agreement, to the lending financial institution, the payment is late and the debtor shall be considered to be late.

Article 3

Calculation of overdue days

1. The lending financial institution may allow the debtor a period of tolerance from the due date under the terms of the agreement, during which the payment is not considered late for the purpose of applying the interest for late payment.
 - 1.1. The period of tolerance must be specified in the credit instrument agreement;
 - 1.2. The period of tolerance may not be longer than 21 calendar days;
 - 1.3. If the payment of the credit instrument is not made within the period of tolerance, the payment of the credit instrument will be considered to be late and the lending financial institution will charge the interest for late payment. In this case, the interest for late payment may be applied from the starting date of the period of tolerance.
2. The number of overdue days for any late payment will be calculated by the lending financial institution.
3. The start date of the payment overdue for the current month should be:
 - 3.1. Subsequent date of payment due date based on the terms and conditions of the credit instrument agreement, or
 - 3.2. Subsequent date of the end date of the period of tolerance.
4. The number of overdue days shall be calculated for all calendar days in the accounting period, which means the period from the first overdue date to the prior date of the effective date of payment of the overdue principal.

Article 4

Calculation of the rate of interest for late payment

1. If the debtor is late in fulfilling the obligation under the credit instrument, he shall pay the interest for late payment on the amount of the late principal at the rate specified in this regulation.
2. The calculation of the rate of interest for late payment will be the annual rate (Ar), which consists of the reference rate increased by 8 percentage points fixed rate. The reference rate will be published by the CBK every six months. The rate based on the average rate for the period of July-December shall be published on 1 February and shall apply for the forthcoming period from 10 February to 9 August; whereas on 1 August of the calendar year, the rate based on the average for the period of January-June shall be published and shall apply for the forthcoming period from 10 August to 9 February.
3. In case the CBK has not published the new reference rate, the recently published CBK reference rate should be used.
4. The actual rate of interest for late payment may be set by the lending financial institution at any lower percentage as set forth in paragraph 2 of this Article.

Article 5

Method of calculating interest for late payment

1. Interest for late payment shall be calculated on the amount of overdue principal along the number of calendar days overdue, depending on the number of calendar days of the year (365 or 366), applying the mathematical formula as follows:

$$LP = \frac{M * Ar * D}{Cd}$$

where:

LP – Interest for late payment for the accounting period;

M - Main late debt (principal);

Ar - Annual rate of the interest for late payment;

D - Number of calendar days of the interest for late payment during the accounting period;

Cd - Number of calendar days of the year (365 days - common year, 366 days - leap year).

2. Interest for late payment calculated for each accounting period (usually monthly) is added to the calculated interest for late payment, thus, the calculated interest for late payment is the total amount of all interests on late payments calculated for all late payments of the principal until the day of calculation.

Article 6
Disclosure

Agreements of all credit instruments should contain provisions that clearly and fully describe the consequences in case of late payments, including how the interest for late payment is charged, and ensure that the debtor understands all these potential consequences.

Article 7
Final Provisions

1. This Regulation shall apply to all credit instruments approved by financial institutions after the entry into force of this Regulation.
2. Except as provided in paragraph 1 of this Article, for credit instruments approved before the entry into force of this regulation, for cases of overdue that occur after the entry into force of the regulation, lending financial institutions may not apply a higher rate of interest for late payment than the defined level of interest for late payments under this regulation.
3. If the rate of interest for late payment set out in the agreements of credit instruments approved before the entry into force of this regulation, it is more advantageous for the customer than the rate set out by this Regulation, the lending financial institutions, in case of applying the late payment, shall apply the late payment rate set out in those agreements of credit instruments and in the overdue occurred after the entry into force of this Regulation.

Article 8
Implementation, remedial measures and civil penalties

Any violation of the provisions of this Regulation shall be subject to remedial and punitive measures, as defined in Law no. 03/L-209 on the Central Bank of the Republic of Kosovo and the Law on Banks.

Article 9
Entry into force

This regulation shall enter into force fifteen (15) days from the date of its adoption.

Flamur Mrasori

Chairman of the Board of the Central Bank of the Republic of Kosovo