



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

# BALANCE OF PAYMENTS BULLETIN

Office of the Chief  
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Number 9



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**ABBREVIATIONS:**

BEC	Broad Economic Category
BOP	Balance of Payments
BOPM5	Balance of Payments Manual (Fifth Edition)
CBK	Central Bank of Republic of Kosovo
CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
ECB	European Central Bank
EU	European Union
EULEX	European Union Rule of Law Mission
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
IMF	International Monetary Fund
ITRS	International Transactions Reporting System
KFOR	NATO led-Kosovo Force
KPST	Kosovo Pension Saving Trust
MTA	Money Transfer Agencies
NEER	Nominal Effective Exchange Rate
pp	Percentage Point
REER	Real Effective Exchange Rate
SEE	South-Eastern Europe
UNMIK	United Nations Interim Administration Mission in Kosovo

**CONVENTIONS:**

" — "	event does not exist
" . "	event exists, data are not available
" ... "	nil or negligible
(e)	estimate
(p)	preliminary
(r)	revised

**NOTE:** For details on terminology, refer to methodological notes.



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## 1. Executive Summary

The year 2009 was characterized with the first signs of recovery from the recession in many countries that were affected by the crisis, including the eurozone and South-Eastern European (SEE) countries. As a result of the crisis, some of the eurozone countries marked significant economic downturn – the deepest since the Second World War. Among others, negative impact of the crisis has reflected also on the trade volume of these countries. The impact of the crisis was transmitted also in the SEE countries, causing decline in the level of exports, imports, Foreign Direct Investments (FDI) and remittances.

Kosovo economy recorded positive growth, however at a lower rate compared to the previous year. The impact of the crisis and the trade embargo by Serbia and Bosnia and Herzegovina led to a decline in the volume of exports. For the first time since the end of the War, imports of Kosovo have also marked a slight decline. Due to the weaker performance of the economy, commercial banks were more conservative in lending, which might have contributed to the slowdown in economic activity. Moreover, the level of FDI declined considerably, while the rising unemployment in developed countries affected negatively the level of remittances in Kosovo.

In the first half of 2009, the Balance of Payments of Kosovo continued to be characterized by a high current account deficit, mainly caused by the persistently low level of exports compared to imports. However, compared to the previous periods, current account deficit has marked a decline. Besides the decrease of imports, the lower current account deficit is also attributed to the higher surplus in the services account, whereas a slight decline is noted in net income as a result of the decline in net compensation of employees. A sharper decline is recorded in current transfers due to the lower inflows in remittances. The capital and financial account continues to have a positive balance, mainly composed of FDI, although they decreased significantly as a result of the crisis. As a result of loss of confidence in international financial markets, portfolio investments decreased and diverted towards other investments, such as deposits, which are considered to be safer.

Starting from this edition of the Balance of Payments Bulletin, the Central Bank of the Republic of Kosovo (CBK) publishes the balance of payments statistics on quarterly basis.

## 2. The Economic Developments in the Eurozone and South-Eastern Europe

The eurozone countries are facing the consequences of the global economic crisis which evolved since year 2008. However, since Q3 2009, the eurozone countries officially recovered from the recession reporting a positive GDP growth of 0.4 percent. Despite of the first signs of recovery, not all of the eurozone countries reported economic growth. The global crisis affected also the SEE countries, most of which recorded negative economic growth rates. Albania and Kosovo are the only countries in the SEE region which had positive growth rates, nevertheless lower than in the previous years. The impact of the economic crisis was mainly manifested with decreasing trade volume, lower level of FDI, decline in remittances and credit tightening, posing a negative impact on the employment rate, aggregate demand and prices.

The impact of the crisis was noticed also in the balance of payments in the eurozone countries as a consequence of the decrease in domestic and external demand and the downturn in the global economic activity. Consequently, during the year 2008 and the first half of 2009, these countries marked a considerable decline in exports and imports. However, at the end of Q2 2009 economic indicators improved in the eurozone for the first time since the beginning of the crisis. This improvement is mainly attributed to the trade surplus registered in the end of Q2 2009. During this period, for the first time since the crisis evolved, exports in the eurozone started to increase outreaching imports. The export growth resulted from the recovery in external demand and the reactivation of the international supply chain. On the other hand, imports in the eurozone continued to decline, but at a lower rate than in 2008. Services marked a positive balance, whereas the deficit in the income account deepened due the decline in income from investments abroad. As a result of the decline in remittance outflows from the eurozone towards developing countries, current transfers recorded a lower deficit compared to the previous periods. A negative balance was recorded also in the FDI account. Nevertheless, portfolio investments recorded a considerable growth, composed mainly by investments in financial markets and treasury bonds in the eurozone.

**Table1. Current account in SEE countries in 2009, cumulative within the calendar year**

	Current account balance (GDP %)	Exports (Year-on-year, in %)	Imports (year-on-year, in %)
<b>Albania</b>	-15.3	-20.5	-6.5
<b>Bosnia and Herzegovina</b>	-11.3	-23.4	-25.3
<b>Croatia</b>	-6.0	-18.9	-27.4
<b>Kosovo</b>	-16.0	-39.9	-1.6
<b>Macedonia</b>	-18.3	-33.4	-23.4
<b>Montenegro</b>	-20.6	-7.4	25.6
<b>Serbia</b>	-2.5	-32.4	-39.0

Source: European Commission; respective Central Banks.

The global crisis was also reflected in the balance of payments of SEE countries mainly through the negative impact on the level of exports, imports, FDI and remittances (Table 1). Until Q2 2009, Montenegro and Macedonia experienced the highest current account deficit in the region with 20.6 percent and 18.3 percent of GDP, respectively. However, the end of Q2 2009 was characterized by a softening of the current account deficit due to the lower imports, reflecting the decline of domestic demand. Until June 2009, the highest annual import decline was recorded in Serbia (39.0 percent), followed by Croatia and Bosnia and Herzegovina (27.4 percent 25.3 percent, respectively). Despite the positive impact of lower imports to the current account balance, in the first half of 2009 the level of exports in SEE countries remained low compared to the same period of the previous year. Countries with the sharpest annual decline of exports are Kosovo (39.9 percent) and Macedonia (33.9 percent), followed by Serbia whose exports decreased by 32.5 percent (Table 1). Current transfers in the SEE countries are mainly characterized with surpluses. However, in Q2 2009, remittances as the largest category of current transfers decreased by around 8 percent in SEE region, on average.

Some countries in SEE region recorded considerable decline in the level of FDI. For instance, in Croatia and Serbia, the decline was 53.7 and 39.1 percent, respectively. High rate of FDI decline is noticed also in Bosnia and Herzegovina and Macedonia, where the annual decline rate until June 2009 was 27.5 and 62.7 percent, respectively. During this period, only Albania marked a considerable FDI growth (119.3 percent), whereas FDI in Montenegro increased by 1.1 percent. Apart from FDI, portfolio investments also decreased. The reserve assets marked a decline in Macedonia and Bosnia and Herzegovina, whereas due to the shrinking current account deficit, reserve assets increased in Serbia. Reserve assets increased also in Albania, as a result of the increase of FDI.

### **3. Macroeconomic developments in Kosovo**

The global economic crisis was reflected in the Kosovo economy, causing a lower rate of economic growth, which is estimated at 3.8 percent in 2009 compared to the growth rate of 5.4 percent in 2008.<sup>1</sup> The impact of the crisis was manifested mainly with the decline of consumption and the private sector investments which primarily resulted from the decline of remittances, FDI and tighter credit by the banking sector.

The rising unemployment rate in the countries where kosovar emigrants are mostly concentrated had a negative impact on remittances in Kosovo, which represent an important source

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<sup>1</sup> GDP estimates are from the *IMF Concluding Statement, September 2009*.

of finance for the economy, e.g., limiting household consumption. The crisis had a negative impact also in the private sector investments. Investment capacities and plans of many potential foreign investors were negatively affected by the crisis, causing an annual decline of FDI during the first half of 2009 by 25 percent. Moreover, banking sector loans, which represent a very important source of finance for the business activity in Kosovo, had a lower growth rate due to more conservative lending policies applied by the commercial banks. This is mainly due to the more cautious behavior by commercial banks in response to the crisis and its potential implications for the real sector. The slowdown of credit growth in the first half of 2009 might have been driven by the lower growth rate of deposits, which to some extent reflects the decline of remittances and the weaker capacity of the economy in general to generate savings.

Kosovo economy is among few economies in the region that marked a positive growth in 2009, primarily driven by public expenditures that recorded an annual growth of around 20 percent in the first half of 2009. The positive impact in the real GDP growth rate had also prices and the lower trade deficit resulting from the decrease of imports (despite the registered decrease in exports). The decline of exports and imports reflects global developments which discouraged external as well as domestic demand.

The global recession also affected the price level as a consequence of the impact on the aggregate demand. As a result of the high reliance of Kosovo economy on imports, domestic prices showed high sensitivity to the global developments, thus being characterized with deflation during the year 2009. The main source of deflation in the Kosovo economy was the decline of food prices which have the largest share in the consumer basket in Kosovo and also represent one of the largest categories of imports. As a result, the price level in Kosovo was characterized with an average annual decline of 2.4 percent, which is a sharper decline compared to other countries in the region. As a consequence, the Real Effective Exchange Rate (REER) in Kosovo depreciated during the first half of 2009, with potential positive implications for the competitiveness of Kosovo products.

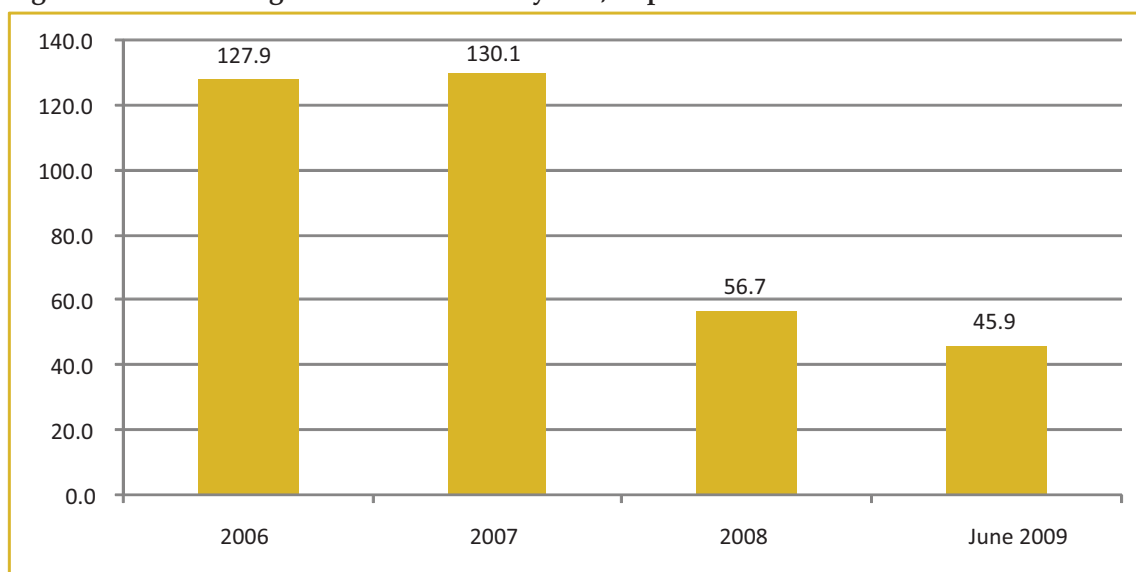
#### 4. Balance of Payments

The main characteristic of the Kosovo Balance of Payments remains the high level of imports compared to exports, leading to a high current account deficit (around 16 percent of GDP, including foreign assistance). Comparing to the previous year, the current account deficit marked a decline due to the lower trade deficit. The most important factor contributing to the softening of current account deficit are remittances. During the first half of 2009, the slight decrease of imports has also contributed to the decrease of the current account deficit. The capital and financial account continues to be in surplus, despite the decrease of FDI.

**Table 2. Balance of Payments, in millions of euro**

Description	2006	2007	2008	2009	
				Q1	Q2
<b>1. CURRENT ACCOUNT</b>	<b>-226.1</b>	<b>-331.3</b>	<b>-602.4</b>	<b>-90.2</b>	<b>-187.6</b>
<b>A. Goods and services</b>	<b>-1,144.1</b>	<b>-1,316.7</b>	<b>-1,596.1</b>	<b>-296.9</b>	<b>-403.5</b>
1. Goods	-1,173.1	-1,368.0	-1,668.2	-328.3	-434.7
2. Services	29.0	51.4	72.1	31.4	31.3
<b>B. Income</b>	<b>158.8</b>	<b>185.7</b>	<b>155.5</b>	<b>30.5</b>	<b>21.8</b>
1. Compensation of employees	146.5	154.3	166.6	40.1	39.6
2. Investment income	12.2	31.4	-11.1	-9.7	-17.7
<b>C. Current transfers</b>	<b>759.2</b>	<b>799.7</b>	<b>838.2</b>	<b>176.2</b>	<b>194.0</b>
1. Central government	319.9	300.7	302.6	73.9	73.9
2. Other sectors	439.3	499.0	535.6	102.2	120.0
2.1 Workers' remittances	372.3	425.9	441.3	80.9	101.3
<b>2. CAPITAL AND FINANCIAL ACCOUNT</b>	<b>-14.9</b>	<b>91.3</b>	<b>462.8</b>	<b>62.2</b>	<b>180.8</b>
<b>A. Capital account</b>	<b>20.8</b>	<b>16.5</b>	<b>10.4</b>	<b>1.8</b>	<b>5.3</b>
<b>B. Financial account</b>	<b>-35.7</b>	<b>74.8</b>	<b>452.4</b>	<b>60.4</b>	<b>175.4</b>
1. Direct investment	289.2	431.0	341.5	62.1	65.3
2. Portfolio investment	-65.4	-36.6	16.8	3.8	23.4
4. Reserve assets	-77.9	-290.3	-23.1	-43.7	27.9
<b>NET ERRORS AND OMISSIONS</b>	<b>240.9</b>	<b>240.0</b>	<b>139.6</b>	<b>28.0</b>	<b>6.9</b>

The coverage level of the current account deficit by FDI during the last two years has decreased as a consequence of the lower level FDI during this period (Figure 1). The decreasing FDI may have substantial implications for the economy leading to a slowdown in the overall economic activity.

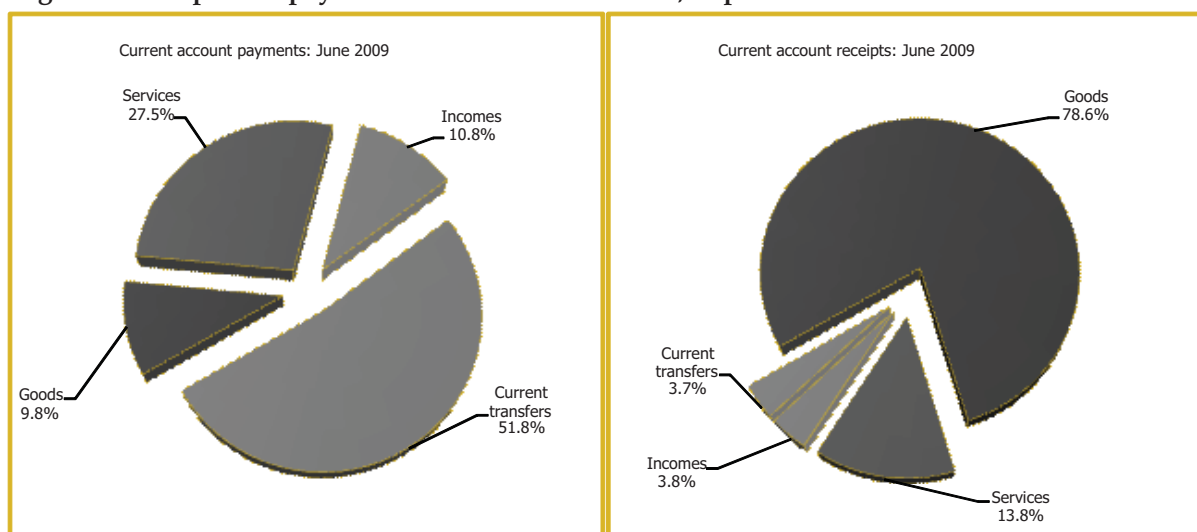
**Figure 1. The financing of current account by FDI, in percent**

\* The data for the period January-June 2009 are cumulative.

#### 4.1. Current account

Until June 2009, the current account was characterized with a deficit of euro 277.8 million. The current account deficit emanates from the high level of trade deficit, reflecting the high reliance of the Kosovo economy on imported goods. Nevertheless, compared to the previous year, the current account deficit has declined by around 8 percent, which is mainly attributed to the lower amount of imported goods. The surplus in current transfers, despite the decline, continues to have a positive effect on the current account balance. During the first half of 2009, surpluses were recorded also in the services and income accounts. The largest source of receipts in the current account is represented by current transfers (51.8 percent of total receipts in the current account), whereas the payments in the current account for imports represent 78.6 percent of total payments (Figure 2).



**Figure 2. Receipts and payments in the current account, in percent**

#### 4.1.1. Goods and services

The trade balance of Kosovo until June 2009 registered a deficit of 778.1 million euro (Table 3). This deficit is attributed to the large share of imports, which account for 93.1 percent of the overall traded goods compared to exports that account for 6.9 percent. The first half of 2009 was characterized with a considerable decrease of exports, which declined to 62.7 million euro (104.4 million euro in June 2008). The nominal rate of exports decline for this period was 39.9 percent, which is similar to other countries in the region.

**Table 3. Trade in Goods, in millions of euro (cumulative within the calendar year)**

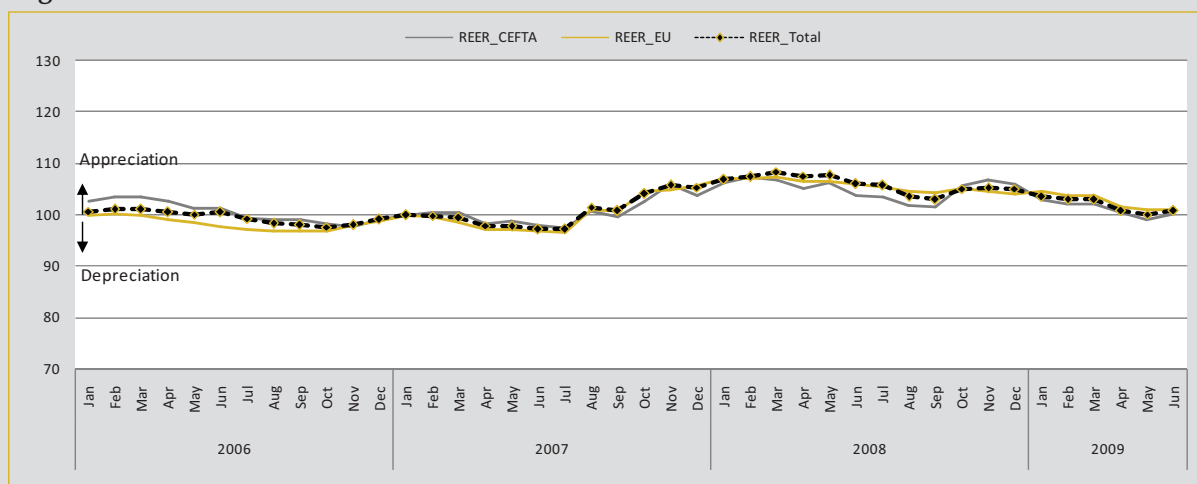
	June 2006	June 2007	June 2008	June 2009
<b>Exports</b>	48.3	74.9	104.4	62.7
<b>Imports</b>	-554.6	-697.0	-854.9	-840.8
<b>Trade balance</b>	-506.3	-622.1	-750.5	-778.1
<b>Exports/Imports (in percent)</b>	8.7	10.7	12.2	7.4

As a result of the deflation in the Kosovo economy since the beginning of the year, the real decline of exports was 37.5 percent. The deflation in the Kosovo economy during the first half of 2009 contributed to the depreciation of REER, positively affecting the competitiveness of Kosovo products (Box 1).

**Box 1. CPI- based Real Effective Exchange Rate (REER) based on the Consumption Price Index (CPI).**

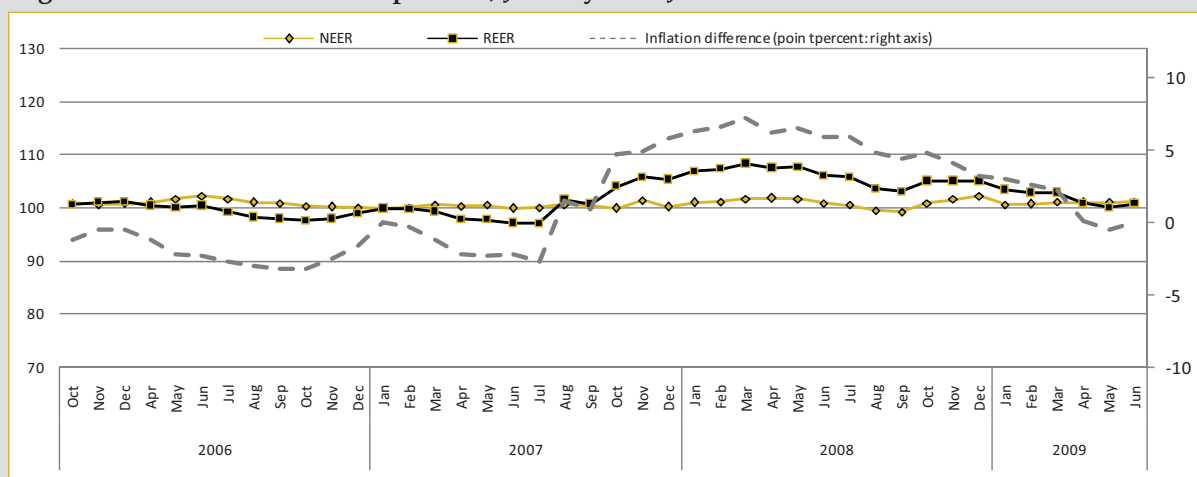
As presented in Figure 3, the CPI-based REER experienced an average appreciation of 2.0 percent for the period January 2006-June 2009. REER appreciated in relation to the European Union (1.6 percent) and CEFTA countries (1.9 percent).

**Figure 3. CPI-based REER Index**



In the period January 2006-June 2009, the REER appreciation was mainly driven by the higher inflation rate in Kosovo, especially during 2008, while the effect of the Nominal Effective Exchange Rate (NEER) was of a secondary importance due to the stability of trading partners NEER during the period (Figure 4).

**Figure 4. CPI-based REER components, January 2006-June 2009**



During the period January 2006-June 2009, NEER in Kosovo appreciated for 0.8 percent, whereas the average inflation rate in Kosovo was 2.7 pp higher than the inflation rate of trading partners. Moreover, these general trends marked clear differences in REER components for different groups of countries. REER appreciation versus EU countries was a result of a higher inflation rate in Kosovo. During January 2006-June 2009, the average inflation rate in Kosovo compared to the EU average was higher by 3.1 pp. The NEER against EU countries is not so relevant because more than  $\frac{3}{4}$

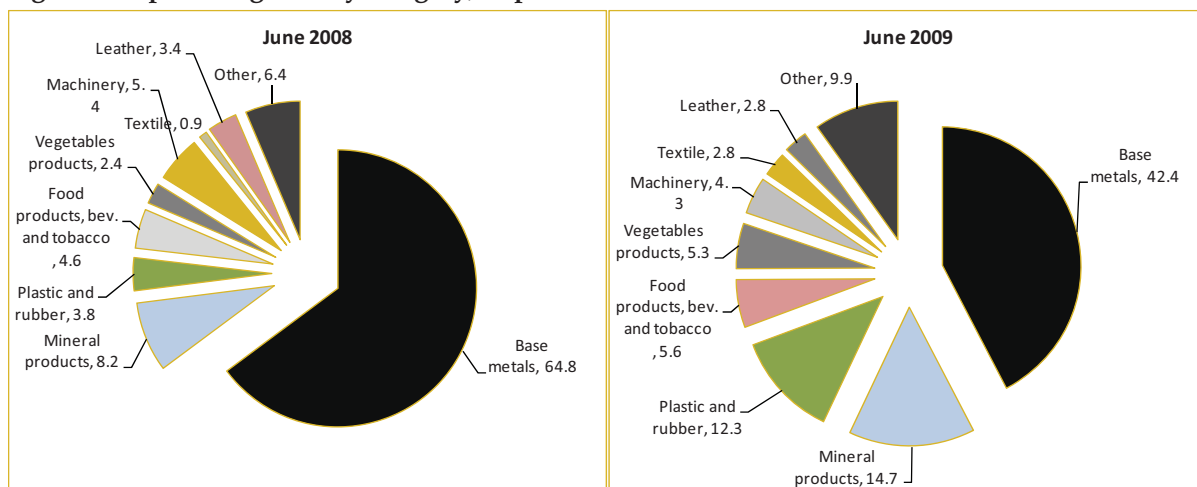
of trade takes place with EU countries that use euro. The appreciation of REER in relation to CEFTA countries was driven by the higher inflation rate in Kosovo and fluctuations in NEER. During January 2006-June 2009, the average inflation rate in Kosovo was for 2.5 pp higher than in CEFTA countries, whereas euro NEER in Kosovo appreciated by 0.8 percent against national currencies of CEFTA countries, on average.

It can be said that the appreciation of REER for the period January 2006-June 2009 was driven by the higher inflation rate in Kosovo. The higher inflation rate in Kosovo compared to its trading partners during this period was influenced by direct and indirect impact of rise in prices for food products and electricity in global markets – products which have higher share in the consumer's basket in Kosovo compared to its trading partners. The appreciation of euro in Kosovo may have had an impact on deepening the current account deficit during 2008, but recent depreciation may have influenced kosovar products to be cheaper than products from the other countries. Having in mind limitations of Kosovo authorities in exercising monetary policy due to euroisation, measures that may be used to affect REER are limited. Consequently, policies that contribute to enhance productivity represent the most appropriate ways to ensure competitiveness of domestic products.

Regarding imports, during the first half of 2009, it was recorded an annual decline of 1.6 percent in nominal terms. Nevertheless, in real terms, imports increased by 2.4 percent compared to June 2008. The slowdown in imports during the first half of 2009 (compared to the previous years' increase of 22.6 percent), reflects the slowdown in the economic activity and, as a consequence, lowers domestic demand. As a result of a sharper decline of exports compared to imports, the coverage of imports by exports decreased to 7.4 percent in June 2009 (compared to 12.2 percent in June 2008).

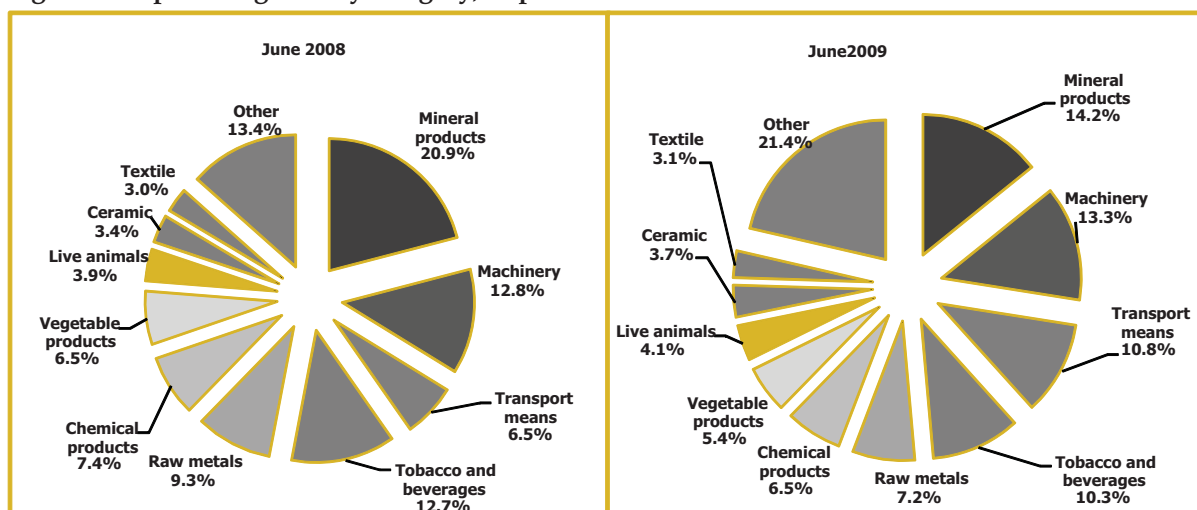
The decline of total exports in Kosovo is mainly attributed to the considerable decrease of exports of base metals. Comparing to the same period of the previous year, when the base metals represented 64.8 percent of total Kosovo exports, the share of this category in total exports decreased to 42.4 percent during the first half of 2009 (Figure 5). Since the beginning of year 2009, exports of base metals recorded a sharp decline, which until June 2009 reached 60.8 percent. This decline is a result of lower external demand as well as lower prices for these products. The export of prepared foodstuff and beverages, which represents 5.6 percent of total exports, marked a decrease of 26.4 percent compared to June 2008. Exports of mineral products, representing 14.7 percent of total exports, marked an annual increase of 7.8 percent. The share of plastic and rubber products to total exports increased considerably accounting for 12.3 percent of total exports in June 2009 (3.8 percent in June 2008). This increase resulted from the higher production of domestic companies.

Figure 5. Exports of goods by category, in percent



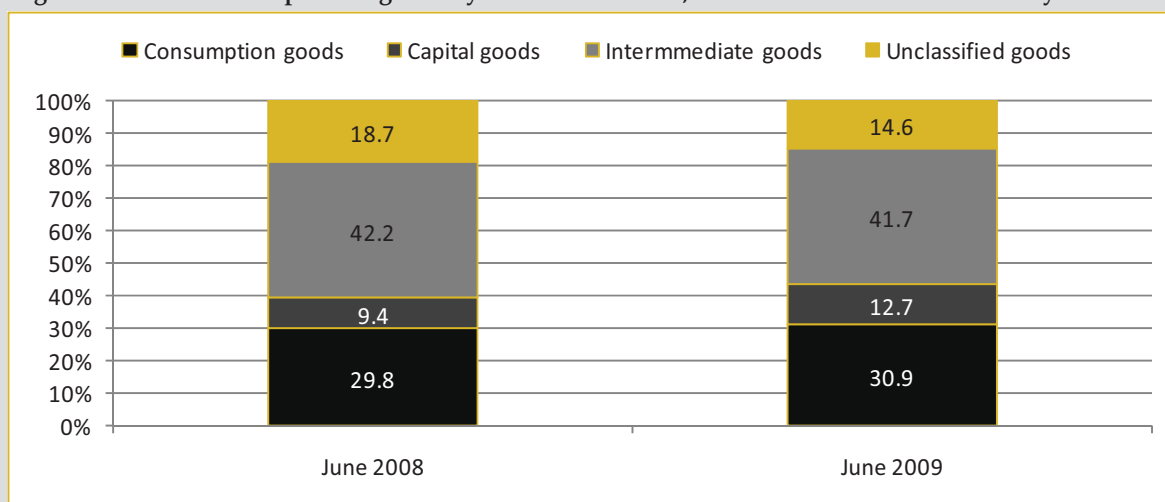
The decline of imports, on the other hand, is mainly attributed to the decrease in imports of mineral products, which represent the largest category of imports (Figure 6). Participation of mineral products to total imports, which represent the largest import category since 2006, decreased to 14.2 percent in June 2009 (20.9 percent in June 2008). The amount of mineral products imports recorded an annual decline of 33.3 percent. Decline is noticed also in the imports of base metals (24.6 percent) and the import of food products and beverages (20.1 percent). Whereas, two import categories which increased during the first half of 2009 consist of machinery and equipments and transportation means, which rose by 2.3 percent and 4.2 percent, respectively. The structure of imports, classified by broad economic categories, remains similar to the previous periods (Box 2).

Figure 6. Imports of goods by category, in percent



**Box 2. The structure of imports by Broad Economic Categories (BEC)**

Broad Economic Categories (BEC) represent an aggregated classification of imported products depending on their final usage. BEC is compiled according to Standard International Trading Classification (SITC) and the Central Bank of the Republic of Kosovo (CBK) started the compilation of external trade data in compliance with this standard since 2008. According to this standard, imported products can be classified into three broad economic categories, such as: capital goods, intermediate goods, and consumption goods.

**Figure 7. The share of import categories by BEC classification, cumulative within the calendar year**

The structure of imported goods, according to their final usage, indicates that the largest part of the products imported in Kosovo consists of intermediate goods, which account for 41.7 percent of total imports (Figure 7). The total value of intermediate goods imported by June 2009 was 350.3 million euro, representing an annual decrease of 2.8 percent. This decline is mainly attributed to the decrease of the production of base materials and processed industrial equipments.

Consumption goods comprise the second largest category, with a share of 30.9 percent of total imports. According to the data on imported goods, until June 2009, the participation of consumption goods in total imports marked an annual increase of 1.1 pp. The import of capital goods represents the category with the lowest share in total Kosovo imports (12.7 percent). The low participation of these goods reflects Kosovo economy structure which is characterized by a low level of domestic production. The share of this category of imports to total imports marked an annual increase of 3.3 pp in the first half of 2009. In monetary terms, the import of capital goods during this period was for 33.8 percent higher than in the same period of the previous year. The increasing trend of this category of imports in the recent years represents an encouraging indicator for the Kosovo economy.

The CEFTA and EU countries represent the main trading partners of Kosovo. Kosovo membership in CEFTA created the opportunities for a larger market and, at the same time, intensified the competition pressures for the domestic producers. Nevertheless, not all the CEFTA member countries are implementing the agreement in relation to Kosovo. Because of the political reasons,

Serbia and Bosnia and Herzegovina are obstructing Kosovo exports, thus not respecting the principal objective of this agreement – the free trade of goods among member countries. Kosovo also has a free trade agreement with the EU countries, which excludes 95 percent of products from customs tariffs. In addition, Kosovo has a free trade agreement with the U.S. that facilitates Kosovo exports.

In the first half of 2009, a decline in the Kosovo trade with its main trading partners was evident (Table 4 and 5). In June 2009, Kosovo exports towards EU were equivalent to 42.9 percent of total exports (51.5 percent in June 2008). Among EU countries, Italy absorbed the largest part of Kosovo exports amounting at 18.5 million euro, mainly consisting of base metals and mineral products. Exports of goods to the members of CEFTA account for 35.4 percent of total Kosovo exports. Regarding the trade with individual CEFTA members, Albania remains an important trading partner of Kosovo, with a participation of 17.4 percent in total Kosovo exports. In June 2009, exports to Albania increased by 28.7 percent comparing to the same period of the previous year. Exports to Macedonia marked an annual decrease of 22.6 percent, but their participation in total exports increased by 3.0 pp. As a result of the trade blockade, exports to Serbia and Bosnia and Herzegovina comprise only 1.5 percent of total exports, while at the same period of the previous year they represented about 8.4 percent of total exports.

**Table 4. Exports of Kosovo to EU and CEFTA, cumulative within the calendar year**

	June 2007		June 2008		June 2009	
	millions of euro	percent	millions of euro	percent	millions of euro	percent
<b>Eu countries</b>	<b>25.5</b>	<b>34.1</b>	<b>53.8</b>	<b>51.5</b>	<b>26.9</b>	<b>42.9</b>
Holland	1.3	1.7	1.2	1.2	0.8	1.2
Germany	3.0	4.0	4.3	4.1	2.7	4.2
Greece	3.8	5.0	8.0	7.7	0.2	0.3
Italy	5.6	7.4	9.1	8.7	18.5	29.6
Belgium	0.0	0.0	21.5	20.6	0.7	1.1
<b>CEFTA countries</b>	<b>33.1</b>	<b>44.2</b>	<b>30.7</b>	<b>29.4</b>	<b>22.2</b>	<b>35.4</b>
Albania	11.1	14.8	8.5	8.2	10.9	17.4
Bosnia and Herzegovina	2.6	3.5	4.0	3.9	0.5	0.8
Croatia	1.3	1.7	0.5	0.5	0.6	1.0
Macedonia	8.5	11.3	10.9	10.5	8.5	13.5
Serbia	8.4	11.2	4.7	4.5	0.5	0.8
Montenegro	1.3	1.7	2.0	1.9	1.3	2.1
<b>Other</b>	<b>16.2</b>	<b>21.7</b>	<b>19.8</b>	<b>19.0</b>	<b>13.5</b>	<b>21.6</b>
Turkey	1.4	1.9	1.4	1.4	3.1	4.9
Switzerland	6.6	8.9	4.7	4.5	2.9	4.6
India	0.0	0.0	8.5	8.2	4.6	7.3
<b>Total exports</b>	<b>74.9</b>	<b>100.0</b>	<b>104.4</b>	<b>100.0</b>	<b>62.7</b>	<b>100.0</b>

During the first half of 2009, the share of imports from EU countries to total Kosovo imports was 38.3 percent (Table 5). Among the EU countries, imports from Germany are the most important (13.0 of total imports). The monetary value of imports from Germany until June 2009 recorded annual

increase of 36.6 percent. Imports from CEFTA countries during the first half of 2009 represented 34.5 percent of total, while their monetary value decreased by 10.6 percent compared to the previous year. In June 2009, imports from Macedonia experienced the highest annual decline among the region countries. The value of the imported goods marked an annual decrease of 24.0 percent and their participation share to total Kosovo imports decreased to 15.1 percent (19.5 percent as it was in June 2008). Nevertheless, goods imported from Macedonia continue to represent the largest share of Kosovo imports.

**Table 5. Imports of Kosovo from EU and CEFTA, cumulative within the calendar year**

	June 2007		June 2008		June 2009	
	millions of euro	percent	millions of euro	percent	millions of euro	percent
<b>Eu countries</b>	<b>253.7</b>	<b>36.4</b>	<b>307.6</b>	<b>36.0</b>	<b>322.1</b>	<b>38.3</b>
Germany	70.4	10.1	79.8	9.3	109.0	13.0
Greece	32.1	4.6	35.1	4.1	35.6	4.2
Italy	26.6	3.8	33.3	3.9	34.6	4.1
Slovenia	26.3	3.8	30.1	3.5	30.2	3.6
Bullgaria	19.5	2.8	21.4	2.5	19.4	2.3
<b>CEFTA countries</b>	<b>253.3</b>	<b>36.3</b>	<b>324.2</b>	<b>37.9</b>	<b>290.0</b>	<b>34.5</b>
Albania	16.3	2.3	27.4	3.2	24.3	2.9
Bosnia and Herzegovina	12.1	1.7	16.3	1.9	20.8	2.5
Croatia	15.5	2.2	19.8	2.3	20.7	2.5
Macedonia	104.1	14.9	166.9	19.5	126.8	15.1
Montenegro	5.7	0.8	5.5	0.6	5.0	0.6
Serbia	99.5	14.3	88.2	10.3	92.3	11.0
<b>Other</b>	<b>190.0</b>	<b>27.3</b>	<b>223.1</b>	<b>26.1</b>	<b>228.7</b>	<b>27.2</b>
Turkey	49.7	7.1	60.2	7.0	68.4	8.1
China	45.3	6.5	47.2	5.5	57.5	6.8
<b>Total imports</b>	<b>696.9</b>	<b>100.0</b>	<b>854.8</b>	<b>100.0</b>	<b>840.8</b>	<b>100.0</b>

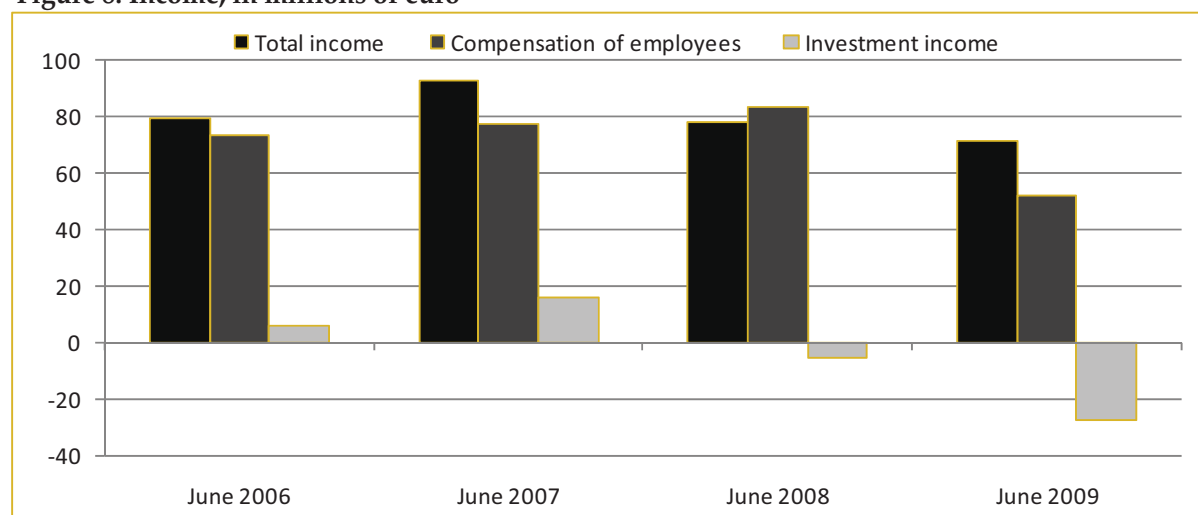
Regarding the trade of services, until June 2009, the receipts from services amounted at euro 220.9 million, whereas payments for services amounted euro 158.2 million. Consequently, services balance recorded a surplus of euro 62.7 million, thus contributing to the softening of the current account deficit. Since 2004, the positive balance of services basically expresses the surplus of travelling services (euro 57.3 million in June 2009) and that of government services (euro 62.9 million). With regard to the travelling services, the main contributors are the international personnel working in Kosovo and Kosovar emigrants. Regarding the government services, the main contribution is attributed to the provision of services to representatives of international organizations in Kosovo. Business services recorded a negative balance of euro 44.4 million, which mainly derives from payments for services provided in Kosovo in the form of international technical assistance. Another important category of services in Kosovo consists of the communication services, which recorded a

surplus of euro 14.0 million in the first half of 2009. Compared to the same period of the previous year, communication services recorded an annual decline of 33 percent.

#### 4.1.2. Income and current transfers

Income component of balance of payments covers two types of transactions: (1) those involving compensation of employees and (2) those involving investment income. Compensation of employees covers wages, salaries and other benefits paid to non-resident workers in the country, or received by resident workers abroad, while Investment income covers receipts and payments of income associated with external financial assets and liabilities, such as income from direct investments, portfolio and other investments. Until June 2009, the income account recorded a surplus of 52.3 million. euro, which derived from the positive balance of compensation of employees. The compensation of employees represents the dominant category of the overall income (Figure 8). This category of income amounted at euro 79.7 million euro in June 2009 (80 percent of total income). The income generated from investments amounted at 9.6 million euro in the first half of 2009. Net investment income recorded a negative balance of -27.4 million euro compared to -5.5 million euro in the same period of the previous year. The deepened deficit in the investment income is mainly a result of the decline in investments' value in international financial markets. The return from financial institutions investments, until June 2009, was 8.0 million euro compared to 26.4 million euro for the same period of 2008.

**Figure 8. Income, in millions of euro**



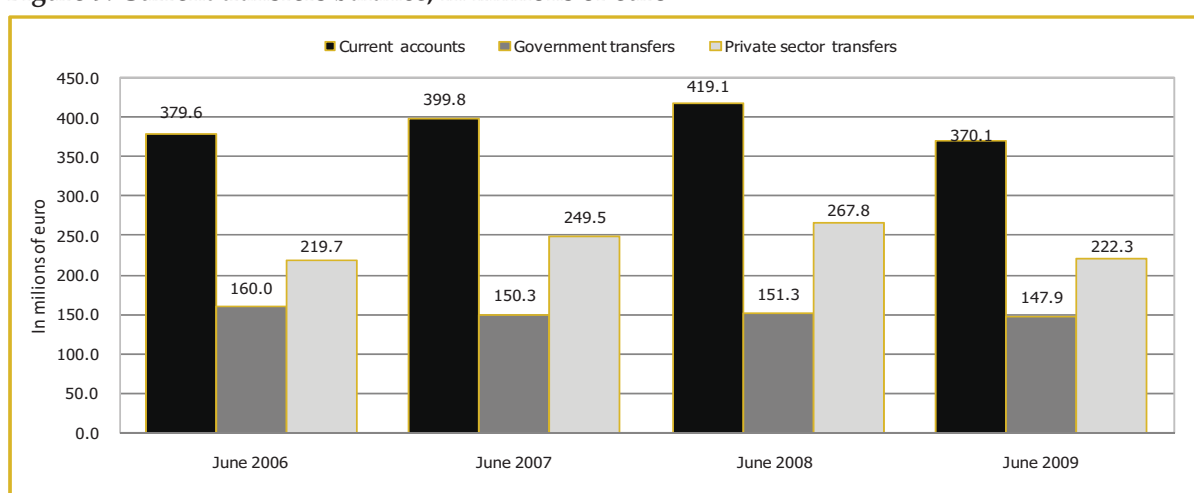
Nonresidents' profits from investments in Kosovo amounted at euro 33.4 million in June 2009 (euro 6 million June 2008). Nonresidents' income from investments in Kosovo is mainly composed by



the foreign owned commercial banks' profits. Out of this amount, euro 29.6 million consist of reinvested income, whereas the remaining part of euro 3.8 million is paid as dividend by the private enterprises to the nonresident parties.

Another highly important category in the current account is represented by current transfers, which account for the receipts or payments of real or financial resources, services or financial assets without compensation or assets given as gift. Current transfers, until June 2009, reached the amount of euro 370.1 million. Comparing to the same period of the previous year, current transfers recorded an annual decrease of 11 percent (Figure 9). This decrease is mainly be attributed to the decline of private sector net transfers by around 17 percent, which in June 2009 amounted at euro 222.3 million.

**Figure 9. Current transfers balance, in millions of euro**



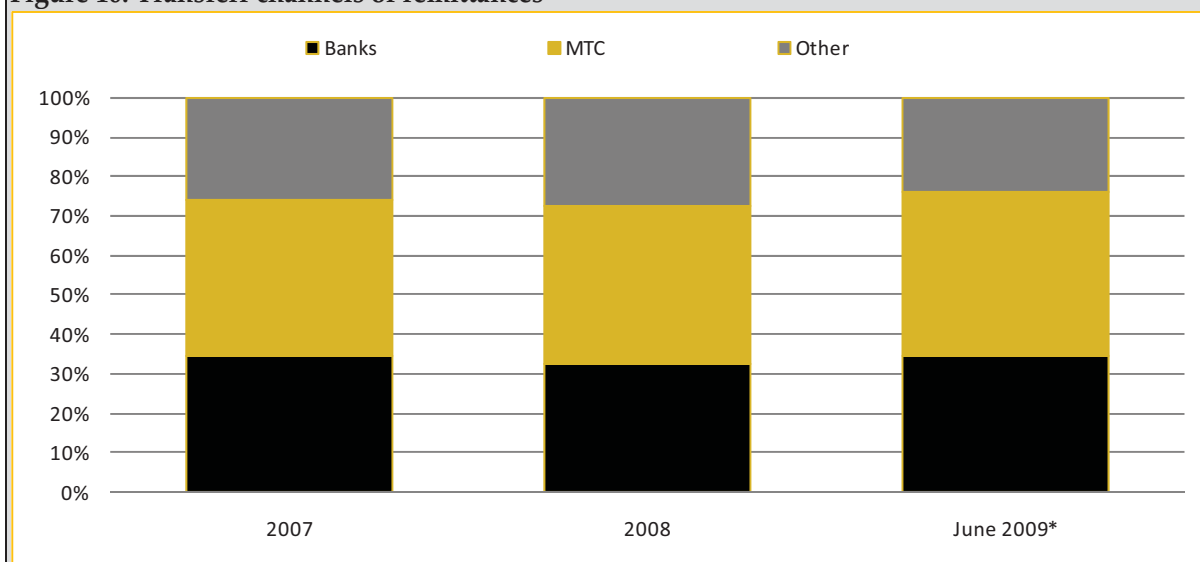
The private sector transfers essentially are comprised of remittances. The amount of remittances in the first half of 2009 reached at euro 222.8 million, representing an annual decline of 11.0 percent. The declining rate of remittances in Kosovo is similar to other countries in the region. This decline is basically a result of the global crisis, which increased the unemployment rate also in eurozone countries, where the majority part of Kosovar emigrants is located. The decline of remittances can have substantial negative implications for the general economic activity in Kosovo, bearing in mind that a considerable part of consumption is financed by remittances. On the other hand, outgoing transfers of the foreign residents working in Kosovo (mainly international personnel) amounted at euro 40.6 million in June 2008 from around euro 47 million in the first half of 2008.

### Box 3. The statistics methodology on remittances

The amount of remittances in Kosovo accounts for a substantial share of GDP (14 percent), and considerably exceeds the level of Foreign Direct Investments, reaching at about 1.5 times larger than the level of FDI recorded in 2008.

Remittances can be goods or financial means from emigrants living and working abroad, being transferred to Kosovo residents. An emigrant is a person who goes to another economy and stays there for one or more years. In compliance with the definition for the estimation of emigrant remittances, the transfers from workers staying for less than one year abroad and the transfers from emigrants sent to Kosovo for the purpose of purchasing real estate or dedicated to other investment purposes, are not considered as remittances. Regarding the transferring channels of remittances, besides the institutional route, referring to the financial institutions (commercial banks and money transfer agencies), in estimating the total amount of remittances it was also taken into account the non-institutional channel which refers to transfers in the form of goods and to transfers that emigrants bring in the form of cash upon visits to their families.

Figure 10. Transferr channels of remittances



The decrease of transfer costs encourages the transfer of remittances through the institutional channels, contributing to a higher shift from non-institutional channels towards the institutional ones. Money transfer agencies represent the most largely used institutional channel for the transferring of remittances, accounting for 40 percent of total remittances, whereas around 26 percent of total remittances are transferred to Kosovo through commercial banks.

The transfer of remittances through the non-institutional channels has continuously decreased. This may partly be as a result of the customs regulation, according to which people carrying over 10,000 euro must declare once they are in the territory of Kosovo.

## 4.2. Capital and financial account

The capital and financial account continues to have a positive balance. Until June 2009, this balance reached euro 243.0 million, which is for around 5 percent higher compared to the previous year. The

capital account marked a slight increase during the first half of 2009, but still amounting at a low value (euro 7.1 million until June 2009). The financial account marked an annual growth of around 4 percent, which basically results from the increase of trade credits and the decline of portfolio investments abroad.

#### **4.2.1. Foreign direct investments**

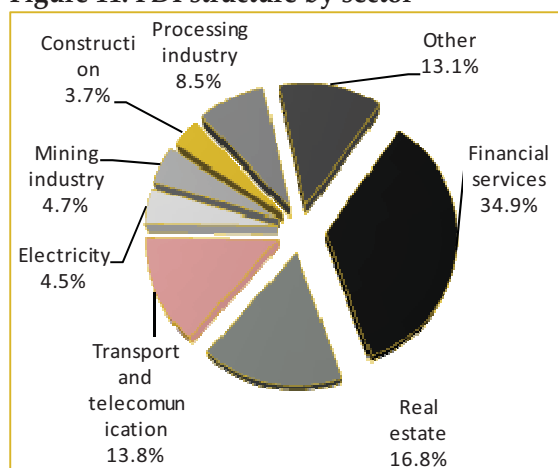
Foreign direct investments represent an important category in the Kosovo balance of payments. Until June 2009, the net value of FDI amounted at euro 127.4 million, representing an annual decline of around 25 percent. The FDI inflows in Kosovo during the first half of 2009 amounted at euro 133.1 million, whereas investments of Kosovo residents in other countries, mainly dedicated to the purchase of real estate, amounted at euro 5.7 million.

As a result of the economic crisis, a considerable number of foreign companies encountered losses, which led to the revision of their investment plans. Capital investments comprise the largest part of FDI inflows in Kosovo accounting for around 66.8 percent (euro 85.2 million). Until June 2009, investments belonging to this category decreased by around 13 percent compared to the same period of the previous year. Another important form of FDI inflows consists of reinvested earnings of foreign companies operating in Kosovo. This form composes around 23 percent of total FDI or euro 29.6 million. Compared to the same period of 2008, the amount of reinvested earnings has marked a decline of around 5 percent. Other forms of FDI account for around 9.8 percent of total FDI inflows. These investments mainly consist of loans extended to companies operating in Kosovo from companies located abroad, which in June 2009 reached at euro 12.6 million (euro 44 million in June 2008).

Lower profits realized by foreign owned commercial banks and other non-financial institutions operating in Kosovo might substantially affected the level of FDI inflows during the first half of 2009. A decrease of foreign investments was noticed also in the telecommunication sector; nevertheless this is rather due to the considerably high level of investments in this sector during years 2007 and 2008, when the second mobile telephone operator was licensed. The resuming of the privatization process at the end of 2008 had a positive impact on the level of FDI inflows. The privatization of socially owned enterprises during the first half of 2009 generated FDI inflows amounting at 15.2 million euro (4.3 million in the first half of 2008).

Until the end of 2008, FDI were mainly focused on the financial sector, representing around 35 percent of total FDI. During 2008, in addition to the investments of foreign banks that were currently operating in Kosovo, there were also new foreign bank entries in the Kosovo banking market. Real estate investments have considerably increased their share to total FDI inflows. As presented in figure 11, real estate investments represent a substantial share, accounting for around 16.8 percent of total FDI in 2008.

**Figure 11. FDI structure by sector**



The energy sector increased its share to total FDI, while it can also be considered as one of the most attractive sectors for potential investments, having into consideration the plans for construction of the hydroelectric and power plant "Kosova e Re". The prospects for the privatization of Post and Telecommunications of Kosovo and the concessioning of the Prishtina International Airport represent investment opportunities for the foreign investors, having into consideration their profitability.

#### **4.2.2. Portfolio investments and other investments**

Commercial banks portfolio investments decreased as a result of decrease in their claims on nonresidents, whereas Kosovo Pension Saving Trust (KPST) has not undertaken any investment during this period. This happened as a result of the unfavorable performance in the markets for securities, capital and of other financial market instruments during the first half of 2009. Funds which

were previously invested in securities were diverted towards other investments, mainly deposits, which are considered to be safer. Portfolio investments decreased by euro 27.2 million during the first half of 2009. Other investments are comprised of trade credits, loans, deposits and investments in the currency markets. During the first half of 2009, this category of investments marked a positive balance, which approximately is as high as the double amount of the previous year balance. The main source of growth for these investments comprises of the trade credits growth.

The outflows of other investments from Kosovo recorded a substantial growth during the first half of 2009, amounting at euro 42.4 million, compared to 19.8 million euro in June 2008. Over 98 percent of these investments comprise of CBK deposits, whereas a relatively small part consists of trade credits and other loans. Regarding the inflows of other investments in Kosovo, the largest share is comprised of investments of foreign companies through trade credits to the companies operating in Kosovo (64.1 percent of total other investments). The second largest category of other investments inflows in Kosovo consists of loans, representing 25.3 percent of the total amount of other investments. These are long term loans which have been issued to other sectors in Kosovo from abroad. Deposits represent a smaller share of other investments inflows in Kosovo (10 percent of total) and mainly consist of the deposits of nonresidents at the commercial banks in Kosovo (mainly the international personnel in Kosovo and the deposits of Kosovo emigrants). Reserve assets of Kosovo increased by euro 15.8 million in the first half of 2009, after an increase of euro 43.7 million in the first quarter and a decrease of euro 27.9 million in the second quarter of 2009.



## 5. Methodological notes

The Central Bank of the Republic of Kosovo (CBK) is responsible for compiling the Balance of Payments Statistics for Kosovo. The legal basis for collecting the information and compiling BOP statistics rely on the law on Central Bank of Republic of Kosovo. The main data sources for compiling BOP are: International Transaction Reporting System (ITRS), International Trade Statistics (ITS), Enterprises Survey (ES), and other reports of Governmental Institutions. The data are supplemented with other information received from other sources (UNMIK, EULEX and Donors) including CBK estimates. The compilation of BOP statistics is made in accordance with IMF BOP Manual, fifth edition (BPM5). BOP statistics started to be compiled for the first time by CBK in 2006 covering the period from 2004 to 2005. BOP statistics have been published on annual basis, but since 2009 (Balance of Payments no. 9) these statistics are compiled and published on quarterly basis.

Balance of Payments is one of the key economic statistical information that systematically summarizes economic transactions of Kosovo residents with the rest of the world. Economic transactions are inward transactions (receipts) and outward transactions (payments). Receipts from the rest of the world are recorded in the credit side and include economic transactions such as exports of goods, exports of services, income flows, financial flows and other transfers. Conversely, payments by residents to the rest of the world (non-residents) are recorded in the debit side and include economic transactions such as imports of goods, imports of services, income flows, financial flows and outward transactions.

Conceptually, an economic transaction has two sides: something of economic value is provided and something of equal value is received, through the double entry recording system. When an economic value is provided (e.g. Kosovo exports) a credit entry is made, and when an economic value is received (e.g. Kosovo imports) a debit entry is made. Where something of economic value is provided without something of economic in exchange the double entry system requires an offset to be imputed (a transfer entry) of equivalent value. For instance, food imported as aid requires a debit entry for the goods item, and a credit transfer as offset. The example below illustrates how the double entry system is applied. By definition, under the double entry system credit entries must equal debit entries.

Credit entries	Debit entries
Changes in all economic resources provided by Kosovars to nonresidents, including:	Changes in all economic resources received by Kosovars from nonresidents, including:
<ul style="list-style-type: none"> <li>- Exports of goods and services</li> <li>- Receivable incomes</li> <li>- Transfers which are offsets to debit entries</li> <li>- Increase in financial liabilities to nonresidents</li> <li>- Decrease of financial assets of Kosovo to nonresidents</li> </ul>	<ul style="list-style-type: none"> <li>- Imports of goods and services</li> <li>- Payable incomes</li> <li>- Transfers which are offsets to credit entries</li> <li>- Increase in financial claims of Kosovo to nonresidents</li> <li>- Decrease of financial claims to nonresidents</li> </ul>

## Residency Criteria

Kosovo residents are legal entities registered and operating in Kosovo and natural people whose domiciles (households) are located in Kosovo and who do not leave Kosovo for a period exceeding one year (except students and medical patients). Due to its specification, special emphasis has been put on the treatment of UNMIK, EULEX, KFOR, and the rest of international staff in Kosovo.

## Treatment of UNMIK /EULEX

Based on the residency criteria as stated in the balance of payments manual (BOP5 paragraph 88), UNMIK and EULEX are international organizations, thus fulfilling conditions of being classified as nonresidents of Kosovo. In this case, distinction should be made between UNMIK/EULEX institutions and UNMIK/EULEX staff. Hence, UNMIK/EULEX as institutions are treated as nonresidents of Kosovo, whereas the staff working for them is treated as (1) residents, if the duration of their staying in Kosovo is one year or more, and (2) nonresidents, if their staying duration is less than one year.

The methodology for calculations of UNMIK/EULEX expenditures is based on the UNMIK publication "UNMIK's Impact on the Kosovo Economy" published in July 2006. UNMIK/EULEX data are updated based on the information directly provided by UNMIK/EULEX.

The assumptions and estimates related to transactions of UNMIK/EULEX as institutions and the staff is as follows:

- a. UNMIK/EULEX spending (as institutions) for goods and services purchased from Kosovar companies are considered as exports of government services.
- b. UNMIK/EULEX international staff that is considered as residents spend about 14 percent of their salaries in Kosovo. The remaining part of 76 percent are sent in their home countries (remittances) and 10 percent is spent for travelling abroad (travel services).
- c. UNMIK/EULEX international staff as nonresident (short term international staff of UNMIK/EULEX) spend 14 percent of their salary in Kosovo for living allowance.

Through a hypothetical example we tried to show implication of UNMIK/EULEX in the BOP of Kosovo, based on our above mentioned assumptions:

Assuming that UNMIK/EULEX budget is 100 euro, of which:

— Wages to resident international staff	60
— Wages to nonresident international staff	3
— Wages to local staff	17
— Imported goods	8
— Local imported goods	2
— Imported services	6
— Local imported services	4
Total budget of UNMIK/EULEX	100



By applying the previous example into the double entry system, records in BOP will be as follows:

	Credit	Debit
Current account		
Travel services		
Short term nonresident staff spending for living allowance (14% * 3)	0.4	
Long term resident staff spending for travelling abroad (10% * 60)		-6.0
Wages of nonresident staff		-3.0
Other business services		
Goods and services procured local (2+4)	6.0	
Current transfers		
Total wages (60+3+17)	80.0	
Emigrants' remittances (76%*60)		-45.6

Due to mentioned treatment of UNMIK/EULEX, their expenditures for import of goods and services are considered as nonresident transactions, besides them bought in Kosovo, are considered as transactions among nonresidents, thus are not presented in BOP statistics.

#### Treatment of KFOR

KFOR is a NATO led international force responsible for establishing a safe and secure environment in Kosovo. KFOR entered Kosovo on June 12, 1999 under a United Nations Mandate, two days after the adoption of UN Security Council Resolution 1244. KFOR is a military contingent, and as such is considered as nonresident of Kosovo.

#### Treatment of International Staff in Kosovo excluding UNMIK/EULEX staff

In accordance with the SNA 93 and the BPM5, international staff in Kosovo engaged in technical assistance or other activities on behalf of the Kosovo institutions is treated based on the length of their stay. The international staff of Embassies and other offices of international organizations in Kosovo (diplomats, military personnel, and other employees of such organizations and their family members, who reside in Kosovo and enjoy immunity and diplomatic privileges) are treated as nonresidents of Kosovo.

### CURRENT ACCOUNT

The current account comprises the acquisition and provision of goods and services, incomes, and current transfers between the country and the rest of the world.

- 1) **Goods.** The source of the data on international trade statistics are Kosovo Customs, processed by SOK. CBK receives, on a monthly basis, the data on international trade statistics from the SOK, based on the SLA between the two institutions. CBK makes adjustments for coverage and classification implementing the report c.i.f. / f.o.b. from 7.1% (5.6% for transport 1.5% for insurance), excluding imports from neighbouring countries which are valued based on f.o.b. the

adjustments are done based on the value analysis c.i.f. against total value of imports of the goods for a specific period based on the Custom Unique Document (CUD);

2) **Services.** Trade in services covers the provision of services by residents to nonresidents and vice-versa. The services component of the BOP consists of: transportation, travel, government services (not included elsewhere), and other services, which are subdivided into further items (communication, construction, insurance, financial, computer and information, royalties and license fees, other business services and government services);

a. *Transportation.* Covers sea, air and other (i.e. rail, land and pipeline). It includes movements of passengers and freight and other related transport services such as: chartering of air craft with crew, cargo handling, storage and warehousing, towing, pilotage and navigation, maintenance and cleaning, and commissions and agents' fees associated passengers/freight transportation. The passengers transport is estimated based on the number of average passenger air fares travelling through Prishtina Airport multiplied with the average cost of one ticket. The data on passenger transportation are retrieved from the Prishtina Airport. The ratio freight transport to the total amount of c.i.f. imports is considered to be 5.6 percent. Receipts for commissions and agent fees for transport related services including landing fees are recorded in credit side;

b. *Travel Services.* Cover services provided to nonresidents during trips in Kosovo (credit), and provided to Kosovo residents during similar trips abroad (debit). The exceptions are the military and diplomatic personnel (i.e. KFOR and Embassies), whose expenditure are recorded under government services.

1. *Business travel.* Covers all type of business activities such as carrier crews stopping off or lying over; government employees on official travel; employees of international organizations on official business (e.g. technical assistance); and employees doing work for enterprises that are not residents in the economies in which the work occurs. Business travel is estimated based on the data from enterprise surveys and data from ITRS.

2. *Personal travel.* Includes all travelers going abroad (coming in Kosovo) other than business travel. This also includes the expenditures for accommodation of UNMIK/EULEX short term staff in Kosovo (in credit side) and spending for travelling abroad of UNMIK/EULEX long term staff considered as residents of Kosovo (in debit side). It is assumed that the short term international staff spends about 14 percent of their salaries for commodities in Kosovo. This estimate is done based on the study conducted by Economic Policy of UNMIK Pillar 4. Another important source of information for personal travel is derived from Household Budget Survey regarding consumption by Kosovar diaspora during their visits in Kosovo. The expenditure of Kosovars going for vacation is done by combining the information from central banks in the region (Bank of Albania and The Central Bank of Montenegro), not leaving aside the ITRS data.

- c. *Governmental Services*. (not included elsewhere). Is a residual category covering government service transactions (including those of international organizations) not contained in the previous classifications. Government services also include all transactions made by Embassies and export of local goods and services to KFOR. Sources of the data for this category are different, such as UNMIK, EULEX, ITRS, Embassies, Municipalities etc.
  - d. *Other services*. Under this category are included exports and imports of communication services, construction services, insurance services, financial services, royalties and license fees, personal, cultural and recreational services and other business services. Source of data are enterprise surveys and ITRS. Within other business services (debit) are registered the salaries of UNMIK/EULEX employees according to the contract signed on less than one year term and who are treated as nonresidents. Source of data are enterprise surveys and ITRS.
- 3) **Incomes**. The income component relates to income earned from two factors of production: labor and capital. Consequently, the income consists of compensation of employees and investment income.
- a. *Compensation of employees*. Covers wages, salaries and other benefits paid to nonresident workers in the country, or received by resident workers abroad. In this context, includes seasonal or short-term workers (less than one year) and boarder workers who have centers of economic interest in their own economies. Compensation of employees paid to Kosovars working for intentional organizations, and KFOR are recorded under credit side (excluding local employees working for UNMIK/EULEX which are recorded under current transfers). The compensation of employees is calculated based on various sources of information including data collected directly from UNMIK/EULEX, KFOR, MEF, Embassies, and from other international organizations;
  - b. *Investment income*. Covers receipts and payments of income associated with external financial assets and liabilities. The main component of investment income represents income from direct investments, portfolio and other investments. The most typical form of income from abroad is interest earned from deposits or securities with foreign banks. In the debit side are included payments to direct investors in Kosovo like dividends, reinvested earnings, interest paid for loans borrowed from abroad, etc. The main source of information on the investment income are reports of commercial banks, insurance companies and CBK;
- 4) **Transfers**. Transfers are offsetting entries for real resources or financial items provided without receiving in return any good, service, or financial item. Transfers are separately identified as either current or capital transfers;
- a. *Capital transfers* consists of those involving transfers of ownership of fixed assets, transfers of funds associated with the acquisition or disposal of fixed assets, and cancellation of liabilities by creditors without any counterparts being received in return.

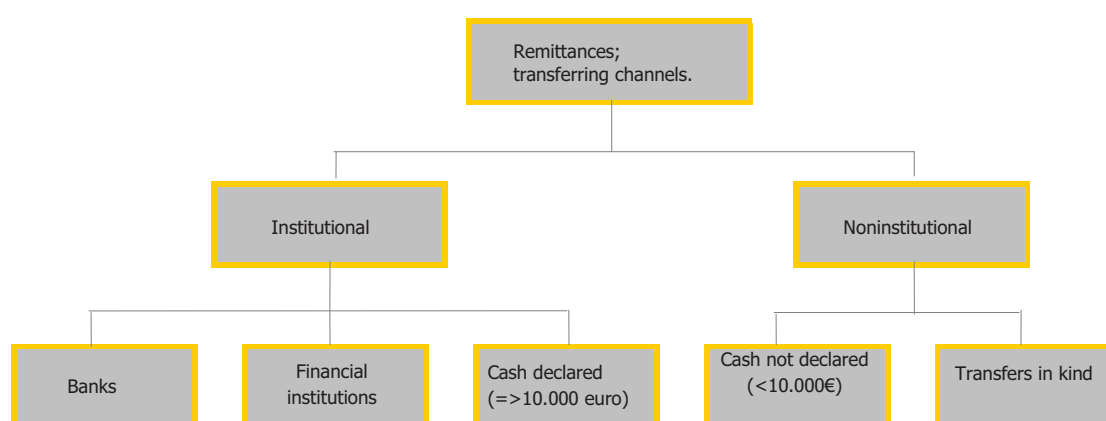
b. *Current transfers* are subdivided into those of central government and other sectors;

- i. General government includes:
  - (1) Grants to the Kosovo Budget;
  - (2) Donors aid, in kind, (Public Investment Project);
  - (3) Direct spending of UNMIK/EULEX;
- ii. Other sectors – whose current transfers are further divided into:
  - (1) Worker remittances (mainly emigrants' transfers); and
  - (2) Other transfers – include insurance premiums and claims, pensions, some grants related to different institutions.

The main data sources for the estimate of current transfers are UNMIK, MEF (donor coordination unit), ITRS, and Household Budget Survey (conducted from the SOK).

*Workers' remittances.* Covers current transfers by emigrants who are employed in new economies and considered residents there. An emigrant is a person who comes to an economy and stays for a year or more. People who stay in new economies for less than one year are considered nonresidents; their transactions are appropriate mainly to the component for compensation of employees (BPM5, paragraph 269 through 272).

*Estimate of inflows from Kosovo emigrants living abroad.* The estimate of incoming remittances is done based on main channels of the flows. A variety of data sources is used to measure income flow. We were mainly focused in identifying registered flows coming through official channels (Banks, MTC, Kosova Customs) and remittances coming through informal channels (not declared such as cash passed through customs, non-cash transactions like goods transferred from emigrants living abroad (see scheme below).



*Estimate of outflows of resident foreigners.* In debit side of remittances, the estimate includes remittances related to (1) international staff-long term workers of UNMIK/EULEX. It is estimated that resident foreigners send 76 percent of their salaries to their relatives. Data source in debit side are the budget of UNMIK/EULEX.

*Other Donor Assistance (ODA) to the government.* Technical assistance is ongoing support of the international community to strengthen the institutional aspect of Kosovo Institutions, through capital

investments, technical assistance, equipments supply, crediting (infrastructure investments), trainings and the like. Records in BOP are made based on the study conducted by the Donor Coordination Centre. The main assumptions and estimates related to ODA are the same as in UNMIK/EULEX case.

### **CAPITAL ACCOUNT**

Under capital account are included some investments in construction made by KFOR and migrants' transfers. The main source of information for migrants' transfers is ITRS data.

### **FINANICAL ACCOUNT**

Covers transactions in foreign financial assets (claims on nonresidents) and foreign financial liabilities (liabilities to nonresidents). The four categories (direct investment, portfolio investment, other investments and reserve assets) are primarily based on the relationship between the parties, and secondly on the nature of the instrument involved.

1. **Direct Investments** - is a category of international investment that is based on the equity ownership of at least 10 percent, reflecting a lasting interest by resident in one economy (the direct investor) in the resident enterprise in another economy (the direct investment enterprise). Using this criteria, a direct investment relationship can exist between a number of affiliated enterprises, whether the linkage involves a single chain or number of chains. The components of direct investment transactions are:

- a. Equity Capital- comprises investment in branches, shares in subsidiaries and associates (except non-participating preferred shares that are treated as debt securities), and other capital contributions;
- b. Reinvested earnings - consist of the off-setting entry to the corresponding current account income item: it is the direct investor's share of the undistributed earnings of its branches, subsidiaries and associates;
- c. Other capital – covers all other inter-affiliate financial transactions (borrowing and lending of funds), including debt securities and trade credit.

Following the recommendations of the IMF, ECB, Eurostat and OECD, direct investments flows are recorded on directional basis (rather than the more usual assets/liabilities basis): direct investment abroad covers net investment by parent companies resident in Kosovo in their foreign branches, subsidiaries and associated companies. Direct investment in Kosovo covers the net investment by foreign companies in their affiliates located in Kosovo. The CBK uses different sources of information for the calculation of FDI. The main sources of information for the estimate of FDI in Kosovo are Kosovo Trust Agency (KTA), commercial banks reports to CBK, ITRS and enterprises surveys.

2. **Portfolio investment**- covers the acquisition and disposal of equity and debt securities, which cannot be classified under direct investment or reserve assets transactions. The securities involved are traded (or tradable) in organized and other financial markets. Debt securities covers bonds and notes which have an original maturity term of more than one year, and money market instruments with original maturity of one year or less. Data on debt securities in the case of Kosovo includes

investments in securities abroad from CBK and commercial banks. The main sources of information on portfolio investment are the data provided by the CBK, and commercial banks operating in Kosovo.

3. **Other investment** - covers assets and liabilities other than those classifiable to direct investment, portfolio investment or reserve assets. It comprises long and short-term loans, currency and deposits, trade credits and other assets and liabilities. Short-term trade credits comprise the advance payments by nonresidents for the future exports (on the liability side) and expected post-payments from nonresidents for exports (on the asset side). The estimate of trade credits is done by using the ratio of those two categories to total imports and exports reported in ITRS. Information about currency and deposits, loans and other assets are obtained from balance sheet of commercial banks, balance sheet of CBK, MEF (government deposits abroad) balance sheet of other financial institutions, ITRS (deposits and loans of nonfinancial entities with abroad) and enterprise surveys (other accounts payable/receivable).
4. **Reserve assets.** Based on BOPM 5 (paragraph 424) reserve assets consist of those external assets that are readily available to, and controlled by monetary authorities for direct financing of payments imbalance, for indirectly regulating the magnitude of such imbalance through intervention of in exchange markets to affect the currency exchange rate and/or for other purposes.

Reserve assets consist of:

- Monetary gold,
- Special Drawing Rights (SDR),
- Reserve position in the fund,
- Foreign currency,
- Other claims.

Reserve assets consist of almost all the CBK claims to nonresidents (Currency, Deposits and Securities other than shares), deducting for the amount of KTA and Pension Fund deposits in CBK.

#### NET ERROR AND OMISSIONS

The sum of the credit entries should in principle equal the sum of the debit entries over the period. In practice, because some transactions may not be captured or because of differences in coverage, valuation and timing of transactions, exact symmetry does not occur and the balancing item *net errors and omissions* is inserted to balance the overall account. Ideally, the scale of this item should be relatively small in relation to combined value of all credit and debit transactions expressed in absolute terms.

## 6. Statistical appendix





Table 1. Balance of Payments of Kosovo

(in millions of euro)

Description	2006	2007	2008	2009	
				Q1	Q2
<b>1. CURRENT ACCOUNT</b>	<b>-226.1</b>	<b>-331.3</b>	<b>-602.4</b>	<b>-90.2</b>	<b>-187.6</b>
<b>A. Goods and services</b>	<b>-1,144.1</b>	<b>-1,316.7</b>	<b>-1,596.1</b>	<b>-296.9</b>	<b>-403.5</b>
1. Goods	-1,173.1	-1,368.0	-1,668.2	-328.3	-434.7
2. Services	29.0	51.4	72.1	31.4	31.3
2.1. Transportation	-26.8	-36.3	-61.7	-15.8	-11.4
2.2. Travel	56.7	54.9	85.6	28.6	28.7
2.3. Communications	28.9	42.1	42.1	7.7	6.3
2.4. Construction	-0.8	-17.3	0.8	0.8	3.7
2.5. Insurance	-5.6	-8.7	-12.1	-2.6	-3.0
2.6. Financial services	-2.4	-4.4	0.1	4.2	0.0
2.7. Computer and information	0.2	-2.8	-5.2	-0.3	-0.5
2.8. Royalties and license fees	0.2	-1.7	-3.2	0.4	-2.6
2.9. Other business	-103.7	-58.1	-69.8	-22.9	-21.5
2.10. Personal, cultural and recreational	-0.2	-0.1	0.1	0.2	0.0
2.11. Government	82.4	83.8	95.1	31.1	31.7
<b>B. Income</b>	<b>158.8</b>	<b>185.7</b>	<b>155.5</b>	<b>30.5</b>	<b>21.8</b>
1. Compensation of employees	146.5	154.3	166.6	40.1	39.6
2. Investment income	12.2	31.4	-11.1	-9.7	-17.7
2.1. Direct investment	-24.9	-43.1	-60.4	-11.7	-21.7
2.2. Portfolio investment	18.4	33.0	2.5	0.3	0.2
2.3. Other investment (including earnings on reserve asset)	18.7	41.5	46.8	1.7	3.8
<b>C. Current transfers</b>	<b>759.2</b>	<b>799.7</b>	<b>838.2</b>	<b>176.2</b>	<b>194.0</b>
1. Central government	319.9	300.7	302.6	73.9	73.9
2. Other sectors	439.3	499.0	535.6	102.2	120.0
2.1 Workers' remittances	372.3	425.9	441.3	80.9	101.3
2.1.1. Migrants abroad	467.1	515.6	535.4	101.2	121.6
2.2 Other transfers	67.1	73.1	94.3	21.3	18.7
<b>2. CAPITAL AND FINANCIAL ACCOUNT</b>	<b>-14.9</b>	<b>91.3</b>	<b>462.8</b>	<b>62.2</b>	<b>180.8</b>
<b>A. Capital account</b>	<b>20.8</b>	<b>16.5</b>	<b>10.4</b>	<b>1.8</b>	<b>5.3</b>
1. Capital transfers	20.8	16.5	10.4	1.8	5.3
2. Acquisition/disposal of non-produced, non-financial assets	0.0	0.0	0.0	0.0	0.0
<b>B. Financial account</b>	<b>-35.7</b>	<b>74.8</b>	<b>452.4</b>	<b>60.4</b>	<b>175.4</b>
1. Direct investment	289.2	431.0	341.5	62.1	65.3
1.1. Equity capital	185.6	276.4	197.4	43.9	41.3
1.2. Reinvested earnings	24.8	41.6	56.2	11.4	18.2
1.3. Other capital	78.8	113.0	88.0	6.9	5.7
2. Portfolio investment	-65.4	-36.6	16.8	3.8	23.4
2.1. Assets	-65.4	-36.6	16.8	3.8	23.4
2.1.1. Equity securities	0.0	0.0	0.0	0.0	0.0
2.1.2. Debt securities	-65.4	-36.6	16.8	3.8	23.4
3. Other investment	-181.6	-29.4	117.2	38.2	58.9
3.1. Assets	-218.7	-108.3	-19.8	-7.7	-34.7
3.1.1. Trade credits	5.2	-0.9	-10.8	-1.2	-1.3
3.1.2. Loans	-2.9	-4.5	-1.4	-10.0	11.6
3.1.3. Currency and deposits	-220.9	-102.9	-7.7	3.5	-45.0
3.1.4. Other assets	0.0	0.0	0.0	0.0	0.0
3.2. Liabilities	37.0	78.9	137.0	45.9	93.6
3.2.1. Trade credits	26.3	68.7	64.3	23.7	65.6
3.2.2. Loans	10.7	13.8	48.4	26.7	8.5
3.2.3. Currency and deposits	0.0	-3.6	24.2	-4.5	19.4
3.2.4. Other liabilities	0.0	0.0	0.0	0.0	0.0
4. Reserve assets	-77.9	-290.3	-23.1	-43.7	27.9
<b>NET ERRORS AND OMISSIONS</b>	<b>240.9</b>	<b>240.0</b>	<b>139.6</b>	<b>28.0</b>	<b>6.9</b>

**Table 2. Current account**

(in millions of euro)

Description	2006	2007	2008	2009	
				Q1	Q2
<b>Credit</b>					
Export of goods and services					
Export of goods	122.5	177.2	217.5	27.9	41.1
Export of services	319.0	337.6	356.7	105.9	115.0
Total export of goods and services	441.4	514.8	574.2	133.8	156.1
Income					
Compensation of employers	147.3	155.0	167.4	40.4	39.8
Investment income	40.5	78.6	57.3	4.4	5.2
Total income	187.7	233.6	224.7	44.8	45.0
Current transfers					
Central government	327.4	307.0	307.8	75.2	75.2
Other sectors	557.7	610.8	637.3	123.7	141.3
Total current transfers	885.1	917.8	945.1	198.9	216.5
<b>Total</b>	<b>1,514.3</b>	<b>1,666.3</b>	<b>1,743.9</b>	<b>377.6</b>	<b>417.6</b>
<b>Debits</b>					
Import of goods and services					
Import of goods	-1,295.6	-1,545.2	-1,885.7	-356.2	-475.8
Import of services	-289.9	-286.3	-284.7	-74.5	-83.7
Total import of goods and services	-1,585.5	-1,831.5	-2,170.3	-430.7	-559.6
Income					
Compensation of employers	-0.7	-0.8	-0.8	-0.2	-0.2
Investment income	-28.2	-47.2	-68.4	-14.1	-22.9
Total income	-28.9	-47.9	-69.2	-14.3	-23.1
Current transfers					
Central government	-7.5	-6.3	-5.2	-1.3	-1.3
Other sectors	-118.4	-111.9	-101.7	-21.5	-21.2
Total current transfers	-125.9	-118.1	-106.9	-22.8	-22.5
<b>Total</b>	<b>-1,740.4</b>	<b>-1,997.6</b>	<b>-2,346.3</b>	<b>-467.8</b>	<b>-605.2</b>
<b>Balances</b>					
Trade in goods and services					
Trade in goods	-1,173.1	-1,368.0	-1,668.2	-328.3	-434.7
Trade in services	29.0	51.4	72.1	31.4	31.3
Trade in goods and services	-1,144.1	-1,316.7	-1,596.1	-296.9	-403.5
Income					
Compensation of employers	146.5	154.3	166.6	40.1	39.6
Investment income	12.2	31.4	-11.1	-9.7	-17.7
Total income	158.8	185.7	155.5	30.5	21.8
Current transfers					
Central government	319.9	300.7	302.6	73.9	73.9
Other transfers	439.3	499.0	535.6	102.2	120.0
Total current transfers	759.2	799.7	838.2	176.2	194.0
<b>Total (Current balance)</b>	<b>-226.1</b>	<b>-331.3</b>	<b>-602.4</b>	<b>-90.2</b>	<b>-187.6</b>

**Table 3. Services**

(in millions euro)

Description	2006	2007	2008	2009	
				Q1	Q2
<b>Credit</b>					
Transport	22.8	31.6	28.9	6.6	6.7
Travel	109.3	111.5	136.8	41.9	50.1
Communications services	48.9	56.6	55.9	11.2	11.8
Construction services	14.0	2.9	6.6	3.4	4.9
Insurance services	10.2	11.5	12.1	2.5	2.9
Financial services	2.1	1.5	2.7	4.5	0.7
Computer and information services	2.8	1.7	1.4	0.3	0.3
Royalties and license fees	0.3	0.1	0.5	0.9	0.1
Other business services	22.2	32.4	13.6	2.6	5.8
Personal, cultural, and recreational servi	0.9	0.5	0.8	0.2	0.0
Government services, n.i.e.	85.4	87.3	97.5	31.7	31.7
<b>Total</b>	<b>319.0</b>	<b>337.6</b>	<b>356.7</b>	<b>105.9</b>	<b>115.0</b>
<b>Debits</b>					
Transport	-49.6	-67.9	-90.6	-22.3	-18.1
Travel	-52.5	-56.6	-51.2	-13.3	-21.4
Communications services	-20.0	-14.5	-13.8	-3.5	-5.6
Construction services	-14.8	-20.2	-5.7	-2.7	-1.2
Insurance services	-15.8	-20.2	-24.2	-5.1	-5.8
Financial services	-4.5	-5.9	-2.5	-0.4	-0.7
Computer and information services	-2.5	-4.5	-6.5	-0.6	-0.8
Royalties and license fees	-0.1	-1.8	-3.7	-0.5	-2.7
Other business services	-125.9	-90.5	-83.3	-25.5	-27.3
Personal, cultural, and recreational servi	-1.1	-0.7	-0.7	-0.1	-0.1
Government services, n.i.e.	-3.0	-3.5	-2.4	-0.6	0.0
<b>Total</b>	<b>-289.9</b>	<b>-286.3</b>	<b>-284.7</b>	<b>-74.5</b>	<b>-83.7</b>
<b>Balance</b>					
Transport	-26.8	-36.3	-61.7	-15.8	-11.4
Travel	56.7	54.9	85.6	28.6	28.7
Communications services	28.9	42.1	42.1	7.7	6.3
Construction services	-0.8	-17.3	0.8	0.8	3.7
Insurance services	-5.6	-8.7	-12.1	-2.6	-3.0
Financial services	-2.4	-4.4	0.1	4.2	0.0
Computer and information services	0.2	-2.8	-5.2	-0.3	-0.5
Royalties and license fees	0.2	-1.7	-3.2	0.4	-2.6
Other business services	-103.7	-58.1	-69.8	-22.9	-21.5
Personal, cultural, and recreational servi	-0.2	-0.1	0.1	0.2	0.0
Government services, n.i.e.	82.4	83.8	95.1	31.1	31.7
<b>Total</b>	<b>29.0</b>	<b>51.4</b>	<b>72.1</b>	<b>31.4</b>	<b>31.3</b>

**Table 4. Income**

(in millions of euro)

Description	2006	2007	2008	2009	
				Q1	Q2
<b>Credit</b>					
Compensation of employees	147.3	155.0	167.4	40.4	39.8
Investment income	40.5	78.6	57.3	4.4	5.2
<b>Total</b>	<b>187.7</b>	<b>233.6</b>	<b>224.7</b>	<b>44.8</b>	<b>45.0</b>
<b>Debit</b>					
Compensation of employees	-0.7	-0.8	-0.8	-0.2	-0.2
Investment income	-28.2	-47.2	-68.4	-14.1	-22.9
<b>Total</b>	<b>-28.9</b>	<b>-47.9</b>	<b>-69.2</b>	<b>-14.3</b>	<b>-23.1</b>
<b>Balance</b>	<b>158.8</b>	<b>185.7</b>	<b>155.5</b>	<b>30.5</b>	<b>21.8</b>

**Table 5. Current transfers**

(in millions of euro)

Description	2006	2007	2008	2009	
				Q1	Q2
<b>Credit</b>					
Central government	327.4	307.0	307.8	75.2	75.2
Other transfers	557.7	610.8	637.3	123.7	141.3
<b>Total</b>	<b>885.1</b>	<b>917.8</b>	<b>945.1</b>	<b>198.9</b>	<b>216.5</b>
<b>Debit</b>					
Central government	-7.5	-6.3	-5.2	-1.3	-1.3
Other transfers	-118.4	-111.9	-101.7	-21.5	-21.2
<b>Total</b>	<b>-125.9</b>	<b>-118.1</b>	<b>-106.9</b>	<b>-22.8</b>	<b>-22.5</b>
<b>Balance</b>	<b>759.2</b>	<b>799.7</b>	<b>838.2</b>	<b>176.2</b>	<b>194.0</b>

**Table 6. Capital account**

(in millions of euro)

Description	2006	2007	2008	2009	
				Q1	Q2
<b>Credit</b>					
Capital transfers	21.1	18.5	14.3	7.5	9.8
Acquisition/disposal of nonproduced nonfinancial assets	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>21.1</b>	<b>18.5</b>	<b>14.3</b>	<b>7.5</b>	<b>9.8</b>
<b>Debit</b>					
Capital transfers	-0.3	-1.9	-3.8	-5.7	-4.4
Acquisition/disposal of nonproduced nonfinancial assets	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>-0.3</b>	<b>-1.9</b>	<b>-3.8</b>	<b>-5.7</b>	<b>-4.4</b>
<b>Balance</b>	<b>20.8</b>	<b>16.5</b>	<b>10.4</b>	<b>1.8</b>	<b>5.3</b>

**Table 7. Financial account**  
(in millions of euro)

Description	2006	2007	2008	2009	
				Q1	Q2
<b>Investment abroad</b>					
<b>Direct investment abroad</b>					
Equity capital	-5.6	-9.7	-25.0	-3.1	-2.6
Reinvested earnings	0.0	0.0	0.0	0.0	0.0
Other capital transactions	0.0	0.0	0.0	0.0	0.0
Total direct investment abroad	-5.6	-9.7	-25.0	-3.1	-2.6
<b>Portfolio investment abroad</b>					
Debt securities	-65.4	-36.6	16.8	3.8	23.4
Total direct investment abroad	-65.4	-36.6	16.8	3.8	23.4
<b>Other investment abroad</b>					
Trade credit	5.2	-0.9	-10.8	-1.2	-1.3
Loans	-2.9	-4.5	-1.4	-10.0	11.6
Currency and deposits	-220.9	-102.9	-7.7	3.5	-45.0
Other assets	0.0	0.0	0.0	0.0	0.0
Total other investments abroad	-218.7	-108.3	-19.8	-7.7	-34.7
<b>Reserves assets</b>					
Foreign Exchange	-77.9	-290.3	-23.1	-43.7	27.9
Total reserves assets	-77.9	-290.3	-23.1	-43.7	27.9
<b>Total</b>	<b>-367.5</b>	<b>-444.9</b>	<b>-51.1</b>	<b>-50.7</b>	<b>13.9</b>
<b>Investments in Kosovo</b>					
<b>Direct Investments in Kosovo</b>					
Equity capital	191.2	286.1	222.3	47.0	43.9
Reinvested earnings	24.8	41.6	56.2	11.4	18.2
Other capital transactions	78.8	113.0	88.0	6.9	5.7
Total direct investment in Kosovo	294.8	440.7	366.5	65.2	67.9
<b>Portfolio investment abroad</b>					
Total portfolio investments in Kosovo	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Other investments in Kosovo</b>					
Trade credit	26.3	68.7	64.3	23.7	65.6
Loans	10.7	13.8	48.4	26.7	8.5
Currency and deposits	0.0	-3.6	24.2	-4.5	19.4
Total other investment in Kosovo	37.0	78.9	137.0	45.9	93.6
<b>Total</b>	<b>331.8</b>	<b>519.6</b>	<b>503.5</b>	<b>111.1</b>	<b>161.5</b>
<b>Net transactions(net credits less net debits)</b>					
<b>Direct investments</b>					
Equity capital	185.6	276.4	197.4	43.9	41.3
Reinvested earnings	24.8	41.6	56.2	11.4	18.2
Other capital transactions	78.8	113.0	88.0	6.9	5.7
Total direct investment abroad	289.2	431.0	341.5	62.1	65.3
<b>Portfolio investment</b>					
Debt securities	-65.4	-36.6	16.8	3.8	23.4
Total net portfolio investment	-65.4	-36.6	16.8	3.8	23.4
<b>Other investments</b>					
Trade credit	31.5	67.7	53.5	22.6	64.3
Loans	7.7	9.4	47.1	16.7	20.1
Currency and deposits	-220.8	-106.5	16.6	-1.1	-25.6
Other assets	0.0	0.0	0.1	0.0	-0.1
Total net other investments	-181.6	-29.4	117.3	38.2	58.8
<b>Reserve assets</b>					
Foreign Exchange	-77.9	-290.3	-23.1	-43.7	27.9
Total reserve assets	-77.9	-290.3	-23.1	-43.7	27.9
<b>Total</b>	<b>-35.7</b>	<b>74.8</b>	<b>452.5</b>	<b>60.4</b>	<b>175.4</b>



