



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

# Balance of Payments and International Investment Position Methodology

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# **Balance of Payments and International Investment Position Methodology**

CENTRAL BANK OF THE REPUBLIC OF KOSOVO  
STATISTICS DEPARTMENT

MAY 2015



**PUBLISHER**

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## 1. INTRODUCTION

This aim of this document is to provide users with an overview of the main features of the methodological framework for Kosovo's balance of payments (b.i.p.) and international investment position (i.i.p.). Concepts and definitions are consistent with the sixth edition of the *Balance of Payments and International Investment Manual (BPM6)* published by the International Monetary Fund (IMF) in 2009 and the System of National Accounts 2008 (2008 SNA). This document contains general explanations for each component of the b.o.p. and i.i.p. that will help users of external sector statistics (ESS) in reading the statistics.

The Central Bank of the Republic of Kosovo (CBK) is responsible for compiling and disseminating b.o.p, i.i.p, and related external sector statistics such as the external debt, foreign direct investment statistics, and reserve assets statistics for Kosovo. These statistics represent the economic relations of Kosovo vis-à-vis the rest of the world and represent important indicators of economic performance.

The first comprehensive annual statement of the Kosovo's b.o.p. was published in 2006 with the data for the reference period 2004-2005. Since 2009 quarterly b.o.p. statistics was published. From 2015, the CBK has started to publish b.o.p. data on a monthly basis. The data for the i.i.p. and external debt statistics (e.d.s.) were published for the first time in 2011 with an annual periodicity starting from 2007. Now, i.i.p. and e.d.s. statistics are published on a quarterly basis with a timelines of  $t + 90$  days.

The preparation of b.o.p. statistics means collecting data from: government agencies, financial sector (CBK, commercial banks, insurance companies, pension funds, microfinance institutions, etc.), direct reports from large non-financial companies, international organizations in Kosovo, embassies and other sources.

This document is released under the responsibility of the CBK's Balance of Payments Division and published on the CBK's website ([www.bqk-kos.org](http://www.bqk-kos.org)).

## 2. BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION STATISTICS

### 2.1. Legislative framework

The responsibility of CBK for compiling the b.o.p. derives from Article 25 of the Law on the Central Bank of the Republic of Kosovo, no. 03/L-209. Under Article 25, the CBK has the following responsibilities to fulfil its objectives:

- collect, compile, analyze, summarize and publish statistics and information required to carry out its duties;
- the Board of the Central Bank defines, through regulations, statistical information required and the form in which this information will be provided to the Central Bank, persons and entities subject to reporting requirements, the confidentiality regime and administrative penalties that may be imposed by natural persons and entities acting in violation of these statistical requirements;
- cooperate with ministries and government agencies in the collection, compilation and publication of statistics and other relevant information;
- coordinate with bilateral and multilateral agencies in adopting international standards of data dissemination in order to achieve consistency and efficiency in the organization of statistics and information.

CBK Law can be found on the CBK's official website<sup>1</sup>. [With the aim to clearly specify the responsibility as well as the authority to the CBK for collecting, processing, and disseminating the external sector statistics, the CBK has extracted a Regulation on Balance of Payments and International Investment Position<sup>2</sup>](#). Furthermore, according to the "Law on Official Statistics of the Republic of Kosovo" the CBK is one of the main producers of official statistics in the Republic of Kosovo<sup>3</sup>. Statistics under direct responsibility of the CBK are monetary and financial statistics, and external sector statistics.

### 2.2. INTERNAL ORGANISATION

The CBK is managed by the Central Bank Board, which is composed of the Governor and four non-executive members, who are charged with the duty of approving and supervision for implementation of policies and overseeing the administration and activities of the CBK.

CBK is divided into departments and divisions. The Balance of Payments Division operates within the Statistics Department and currently consists of 7 employees, including the head of division, who are responsible for compilation, methodology and dissemination of b.o.p., the i.i.p., external debt statistics and other related external sectors statistics for Kosovo.

<sup>1</sup> To access the Law on the CBK, please follow the link: <http://www.bqk-kos.org/repository/docs/2010/Ligjii%20per%20BQK-ne.pdf>.

<sup>2</sup> To access the Regulation on BOP and IIP, please follow the link: [www.bqk-kos.org/repository/docs/korniza\\_ligjore/shqip/Statistika%20e%20BP%20dhe%20PIN.pdf](http://www.bqk-kos.org/repository/docs/korniza_ligjore/shqip/Statistika%20e%20BP%20dhe%20PIN.pdf)

<sup>3</sup> To access the Law on Official Statistics, please follow the link: <http://ask.rks-gov.net/media/1857/law-on-official-statistics-of-republic-of-kosovo.pdf>



## 2.3. EXTERNAL COOPERATION

The main external partners of the Statistics Department are:

- Financial corporations;
- Kosovo Agency of Statistics (KAS) - exchange of data needed for BoP
- Kosovo Customs - provider of Foreign Trade Statistics (FTS);
- Ministries (of foreign affairs, finance, government agencies);
- Kosovo Police - provides statistics border entry and exit of persons;

CBK keeps in regular contact with neighboring institutions such as the Bank of Albania and Central Bank of Montenegro. Albania and Montenegro are the most popular holiday destinations for Kosovars during the summer season and we share data for the valuation of the data for travel debits. CBK also keeps in touch with many large companies and organizations that supply the CBK with statistical data on an ad hoc basis.

## 2.4. USERS

Data on the b.o.p., i.i.p., external debt, and foreign direct investment are posted on the CBK's website, available to all users.

Moreover, data and publications are forwarded to the Parliament, Government, to the Kosovo Agency of Statistics (for the purposes of compiling GDP), private and public research institutes, universities, rating agencies, etc.

Economic Analysis and Financial Stability Department is an important user of our data within the CBK.

B.o.p., i.i.p. external debt and direct investment statistics are reported to Eurostat, IMF, and the World Bank on a regular basis.

## 3. STATISTICAL SYSTEM

### 3.1. TYPE OF COLLECTION SYSTEM

Compilation of the b.o.p, i.i.p, and external debt statistics is based on a mixed system, which uses a combination of settlement data and surveys.

One of the most important information sources for external statistics data collection is transactions recorded by the commercial banks (ITRS). The settlement system provides data for the compilation of the b.o.p. with detailed instrument/category and sector breakdowns. In the ITRS all credit and debit transactions are reported, country code, name of transactor (resident and nonresident), date of transaction, description and bank identifying code. The data are prepared and reported monthly. Until 2010, the threshold was over Euro 10,000, which was eliminated after 2010, since when all international transactions should be reported. Also since 2010 an additional information framework was added to the ITRS reports. In this addition are reported transaction made by debit/credit cards by non-residents in Kosovo and transactions of debit/credit cards by Kosovars abroad.

Other sources for the compilation of BOP statistics are: surveys, external trade statistics, and reports from government institutions. These data are further supplemented with information received from other sources (EULEX and Donors), estimates of the BoP Division - Department of Statistics and quarterly b.o.p. surveys. To identify main foreign companies in Kosovo we use information from the Kosovo Businesses Registration Agency, ITRS and other information from government institutions.

The Division of Monetary and Financial Statistics is an important internal source of data. It provides the BoP Statistics Division with the data regarding banks and other financial institutions.

### 3.2. REPORTING AGENTS

The b.o.p and i.i.p statistics are compiled on the basis of reports provided mainly by the following agents:

*CBK: Monetary and Financial Statistics* provides data regarding Sectoral Balance Sheet data of the CBK, the Official Reserve Assets and other transactions and state of assets belonging CBK activities. In addition, this division provides data on the activities of foreign credit institutions.

*Banking sector:* Banks are required to report all external transactions undertaken for their own account on an aggregate basis by transaction type, currency and country of the nonresident counterpart. They are also required to collect from their customers statistical reporting forms on external transactions and to send b.o.p. information electronically to the CBK, using a special network connecting the central bank and the reporting banks.

*Government Sector:* various ministries and governmental departments provide information about their transactions. Most important of these is the Ministry of Finance, - Kosovo Agency of Statistics and Kosovo Customs.

Other sectors: for some b.o.p and i.i.p items much of the data is collected directly from companies, e.g. for foreign direct investment, services components, etc. The type of survey forms that are sent to companies depend on the activity they perform. Currently, several different forms of surveys are in use. The names of these reporting forms are presented in table 1.

**Table 1. Enterprise Surveys - Reporting scheme for b.o.p. and i.i.p. data collection in Kosovo**

Target respondent population (e.g. commercial bank, etc.)	Name of reporting form	Contents of reporting form	Frequency of reporting	Timeliness (number of days for submission after the end of the reference period)
Commercial Banks	Form: TB	All banks transactions with non-resident.	Monthly	t + 15 calendar day
Commercial Banks	Form: TK	All customer bank transactions with nonresident. There are separate forms for transactions over 10 thousand euros (TK $\geq$ 10000) and those under 10 thousand euros (TK <10000).	Monthly	t + 15 calendar day
Commercial Banks	Form: TKK	Customer bank transactions with credit/debit cards	Monthly	t + 15 calendar day
Commercial Banks	Form: PI	Portfolio investments in equity and debt securities issued by non-residents and held by commercial banks.	Monthly	t + 15 calendar day
Direct investment enterprises	Form: General Information	General information like company name, activity, no. of employees, etc.	Quarterly	t + 30 calendar day
Direct investment enterprises	Form: Equity capital	The total of equity capital (beginning period, transaction, other changes, end of period, interest, etc.)	Quarterly	t + 30 calendar day
Direct investment enterprises	Form: Liabilities	Liabilities as loans, deposits, trade credits, money market instruments, financial derivatives that the company has to direct investors, other investors, and other non-residents.	Quarterly	t + 30 calendar day
Direct investment enterprises	Form: Investment abroad	Assets as loans, deposits, trade credits, money market instruments, financial derivatives that the company has invested abroad.	Quarterly	t + 30 calendar day
Direct investment enterprises	Form: Services	Services classified according to the standards set in BPM6.	Quarterly	t + 30 calendar day
Direct investment enterprises	Form: Other Receipts and payments to other countries	Export and import of goods, donations, grants, and other forms of receipts and payments.	Quarterly	t + 30 calendar day
The Kosovo Pension Savings Trust	Forma: PIA	Investment on equity.	Quarterly	t + 30 calendar day
The Kosovo Pension Savings Trust	Forma: PIA	Investments in debt securities - investments in treasury bonds and notes and investments in money market instruments.	Quarterly	t + 30 calendar day

### 3.3. THRESHOLDS of ITRS

The International Transactions Reporting System (ITRS) is the main source for the compilation of balance of payments and IIP. For the period 2004 to 2010, commercial banks have reported only transactions over 10,000 euros. These transactions contained the detailed information needed to compile b.o.p.. Below this value, the transactions were reported but only in total, separately for debit and credit, and number of transactions.

Since 2010 the threshold was eliminated. As commercial banks have the data in their financial systems, all transactions from Euros 0 to 10,000 will be reported. CBK works closely with officials of commercial banks to quality assure the data. . While for the rest of the report should be well checked by commercial banks before being sent to the CBK.

### 3.4. AVAILABILITY OF DATA

Starting from 2015 the b.o.p data are compiled on monthly basis and disseminated no later than sixty days after the end of the reference month. The i.i.p. and e.d.s are compiled and disseminated on a quarterly basis with a time lag of 90 days after the end of the reference quarter. Quarterly data to Eurostat are disseminated at a time lag of 83 days after the end of the reference quarter.

The b.o.p data have been available from 2004, which were compiled and published on annual basis until 2008. The quarterly b.o.p. is available with detailed instrument/category and sector breakdowns from 2009. I.i.p and external debt statistics were compiled from 2012 on quarterly basis. Annual data are available for the period 2007-2011.

Data published according to the previous calendar publications and guidelines Enhanced General Data Distribution System (e-GDDS) of IMF no later than three months after the end of the reference period (<http://www.bqk-kos.org/?cid=1.152>). The data are published based on the standard structure (including instruments), as recommended in the *BPM6*.

### 3.5. TIMELINESS

Preparation on BOP and IIP data results from several stages as: collection, compilation, validation and publication. The following table shows the deadlines for each stage:

**Table 2: Timeliness for external sector statistics compilation**

Description	Collection	Compilation	Validation	Publication
Current account – monthly	t+30	t+45	t+55	t+60
Capital account – monthly	t+30	t+45	t+55	t+60
Financial account – monthly	t+30	t+45	t+55	t+60
IIP and External Debt statistics - quarterly	t+60	t+75	t+80	t+90

### 3.6. COMPILATION FREQUENCY

The Kosovo's b.o.p. is compiled on a monthly basis. I.i.p and external debt are compiled on quarterly basis. Compilation and publication of statistics is according to latest international accepted standard, such as the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*.

### 3.7. IMPLEMENTATION OF BPM6 MANUAL

Since September 2014 CBK has started to compile and publish the b.o.p and i.i.p statistics according to the *BPM6*. The transition to the new edition is made in line with the requirements of the International Monetary Fund (IMF) and the guidelines of the European Union. All external sector statistics are compiled according to international standards.

CBK provided the full implementation of the *BPM6* with back data from 2004. Also all external debt statistics available have been converted according to new methodology. CBK also has prepared and published all documents related to the transition to BPM6 such as: methodology of the balance of payments and IIP, the matrix on the transition to the new edition (BPM6), the document "frequently asked questions", the glossary for BOP and IIP

### 3.8. DATA CONTROLS

Data are checked within the mainframe environment for validation purposes, as well as at the technical level, to verify their content (adequacy, completeness, etc.) and cohesion. Intermediate data and statistical outputs are regularly assessed and validated. Control procedures are aimed at increasing the quality and reliability of data. Systematic quality controls include: elimination of errors in data processing, inconsistencies, etc. Surveys, ITRS and other sources of information provide additional information from which can be derived cross checks, consistency checks and detailed analysis from which emerge the potential inaccuracies and inconsistencies in the initial reports.

Checking data quality at the lowest level starts with checks for each individual report (surveys, ITRS) as well as checking if data from surveys and ITRS transactions correspond with each other. The reports on flows from the ITRS are also compared with the external position of the reporting agent as reported from surveys. Any significant discrepancies between flows and stocks at the company level are investigated directly with the individual company. Large enterprises are monitored closely. In addition, statistical discrepancies and other potential indicators of problems in statistical outputs are investigated. Special attention is given to monitoring of errors and omissions.

### 3.9. REVISION POLICY

While there is no published revisions policy, CBK take on regular updates to data as they become available. Both regular and irregular reviews of data are made.

Regular review: previous quarter (or month) revisions are published along with the data in the following quarter (or month). While the revised annual data for the reference year are published together with the data for the first quarter of next year. More often the revision for the whole year is made for the direct investment components. Also for the goods account, the data are revised for the past year in the first quarter of the following year (when data for the corresponding year become



available, e.g at the end of March). In the case of major methodological changes or discrepancies between data sources, data for the past three years (t-3) will be revised.

Irregular reviews: where appropriate long-run revisions will be considered such as when the methodology has changed from *BPM5* to *BPM6*.

### **3.10. PUBLICATION AND DISSEMINATION**

The data are published in accordance to the framework of the IMF's GDDS requirements. The data are released simultaneously to all interested parties by posting them in the CBK's official webpage.

All BOP statistics are published on a regular basis in the web of Central Bank of the Republic of Kosovo in Time Series (<http://bqk-kos.org/?id=55>). Also statistics are available on different publications: the Monthly Statistical Bulletin (<http://bqk-kos.org/?id=97>), Annual Report (<http://bqk-kos.org/index.php?m=t&id=102>) and the Macroeconomic Developments Report (<http://bqk-kos.org/index.php?id=101>).

Also, CBK before the publication of statistics on the website in time series prepares a press release. It contains general information regarding the statistics that are published, and is intended to inform the public.

### **3.11. CONTRIBUTION TO OTHER STATISTICS**

External sector statistics compiled by the CBK contribute directly in the compilation of national accounts statistics for Kosovo compiled by the Kosovo Agency of Statistics. They are used also by the public and private sector for analysis and calculations different macroeconomic indicators.

## 4. CONCEPTS, DEFINITIONS AND AGREED PRACTICES

### 4.1. GENERAL PRINCIPLES OF BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION STATISTICS

As explained above, the Kosovo's b.o.p. and i.i.p. statistics follow the *BPM6* classifications.

#### 4.1.1. Balance of Payments

The balance of payments (b.o.p.) is a statistical statement of the economic transactions between residents and non-residents in an economy over a specific period of time. A transaction is an interaction between two institutional units which occurs by mutual agreement or through the operation of the law and involves an exchange of economic value or a transfer thereof.

In fact, international transactions recorded in the b.o.p. may not involve the transfer of money, and some are not paid for in any sense: a change in ownership is the relevant concept for recording transactions. This development from a financial towards an economic approach was deemed more appropriate in order to: (i) foster a sound economic interpretation of the figures; and (ii) make the b.o.p. concepts compliant with the national accounts (the b.o.p. corresponds to the "rest of the world" account).

The b.o.p. is organised in two main accounts:

- current and capital account;
- financial account.

The current account shows the flow of goods, services and income between residents and non-residents. The capital account shows the flow of non-produced, non-financial assets, and capital transfers between residents and non-residents. The financial account shows the net acquisitions and disposals of financial assets and liabilities grouped into the following five functional categories:

- direct investment;
- portfolio investment;
- financial derivatives;
- other investment;
- reserve assets.

The current and capital accounts record gross flows; the inward flows are classified as credits, whereas the outward flows are classified as debits. By contrast, the financial account records transactions in net terms, separately for each financial asset and liability (i.e. they reflect changes arising from all credit and debit entries during the accounting period). The net acquisition of financial assets records all acquisitions minus the disposal of assets, whereas the net incurrence of liabilities records all incurrences minus the redemption of liabilities.

The sum of the current and capital accounts balances corresponds to the net lending (surplus) or net borrowing (deficit) of an economy vis-à-vis the rest of the world. The same concept can be derived from the financial account as the net acquisition of financial assets minus the net incurrence of liabilities.

### 4.1.2. International investment position

The international investment position (i.i.p.) is a statistical statement that shows, at a specific point in time, the value of the stocks of residents' financial assets that are non-contingent claims on non-residents in that economy or gold bullion held as reserve assets, and of the non-contingent liabilities of the residents to non-residents in that economy. As with the b.o.p. financial account, financial assets and liabilities are grouped into five functional categories.

In addition to “normal” financial assets/liabilities, it also includes land, other real estate properties (e.g. dwellings) and other immovable assets.

The i.i.p. statistics of Kosovo are compiled and published on quarterly basis. The methodology for compiling is based on BPM6 recommendations. The i.i.p. is compiled for all financial account items (direct investment, portfolio investment, other investment and reserve assets). The data sources for compiling i.i.p. are mainly the same with those of b.o.p. For some specific items different data sources are used. For most items, the i.i.p. and b.o.p. is reconciled.

The assets and liabilities are compiled separately. The difference between the financial assets and liabilities is the net i.i.p. It represents either a net claim on or, a net liability to non-residents. Changes in the i.i.p. between consecutive periods can be due to transactions, as recorded in the b.o.p. financial account during that period, or to other flows (see below).

Associated with the i.i.p. is the concept of gross external debt, which is the outstanding amount of current, rather than contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy. A net external debt concept can also be derived by subtracting gross external assets in debt instruments from the gross external debt concept. In practice, the concept of “debt” corresponds to debt securities, currency, deposits, loans and trade credits.

### 4.1.3. Reconciliation of positions and flows

Changes in positions between consecutive periods are explained by the following flows during that period:

- (1) Transactions in the b.o.p. financial account;
- (2) Revaluations (changes in the euro exchange rate vis-à-vis the currencies in which the assets/liabilities are denominated and/or in the price of the assets/liabilities);
- (3) Other changes in the volume of assets and liabilities (such as reclassifications and write-offs).

The greater the level of detail of the basic information on both stocks and flows – namely currency breakdown, applicable market prices (especially for portfolio investment) and the timing of the

transaction (using the price and exchange rate for that date) – the more precise the reconciliation of consecutive positions will be.

Revaluations are holding gains or losses on international positions arising from changes in the exchange rate (in the case of assets and liabilities issued in foreign currency) and/or other prices, rather than from transactions.

For equity shares of unlisted companies, the transactions recorded in the b.o.p. financial account may differ from the change in the own funds at book value (OFBV) recorded in the i.i.p. Such differences are recorded as revaluations due to price changes.

For non-negotiable instruments, namely loans, deposits and other accounts receivable/payable, financial account transactions, which are valued at market prices, will differ from the change in the nominal values recorded in the i.i.p. Such differences are recorded as other price changes during the period in which the transaction occurs.

Other changes in the volume of assets and liabilities are recorded when new assets that were not in the beginning-of-period balance sheet appear in the end-of-period balance sheet, or when existing assets that were in the beginning-of-period balance sheet disappears from the end-of-period balance sheet, and these appearances/disappearances are not the result of transactions. These include write-offs of claims by creditors, statistical reclassifications (of instruments, sectors, etc.), and monetization and demonetization of gold bullion.

When writing off financial instruments that are valued at nominal values, the value recorded in the other changes in volume should correspond to their nominal value prior to being written off. For reclassifications (e.g. a sector reclassification), the values of both the new and the old instruments are in general identical.

#### **4.1.4. The main accounting principles for transactions and positions**

##### **4.1.4.1. Double entry system**

In the b.o.p. statement every transaction is recorded by two entries with equal values. One of these entries is designated a credit; the other is designated a debit. In principle, the sum of all credit entries is identical to the sum of all debit entries, and the net balance of all entries in the statement is zero. In practice, however, the accounts frequently do not balance. Timing and valuation effects along with a variety of other factors tend to cause imbalances in the information recorded.

##### **4.1.4.2. Time of recording the transactions**

All b.o.p. and i.i.p. items are recorded on accrual basis, meaning that transactions are recorded when economic value is created, transformed, exchanged, transferred or extinguished. Claims and liabilities arise when there is a change in ownership. The change may be legal or economic. In practice, when a change in ownership is not obvious, the change may be assessed at the time that parties to a transaction record it in their books or accounts.

##### **4.1.4.3. Valuation of transactions and stocks**

Market prices are the basis for valuation in the international accounts.

The market price of a transaction is the amount of money that buyers are willing to pay to acquire something from willing sellers. If these prices cannot be observed, valuation according to market-equivalent prices – market prices of the same or similar items, taken from the markets in which the same or similar items are currently traded in sufficient numbers and in similar circumstances – provides an acceptable approximation of market prices.

Imports and exports of general merchandise are recorded at free on board (f.o.b.) values.

Transactions of financial assets and liabilities should be recorded exclusive of any commissions, fees, and taxes. These should be recorded separately under the appropriate categories.

Positions in financial assets and liabilities should, in general, be valued as if they were acquired in the market on the balance sheet reporting date. Many financial assets are traded in markets on a regular basis and, therefore, can be valued directly by using the quotations from these markets. If the financial markets are closed on the balance sheet date, the market prices on the closest preceding date should be used.

Valuation according to the market-value equivalent is necessary for financial assets and liabilities that are not traded in financial markets or that are traded too seldom. Fair values that approximate market prices should be estimated for these assets and liabilities. The present value of future cash flows is one of the valid approximations.

Positions on loans, deposits and trade credits, and advances and other accounts receivable/payable are recorded at nominal value.

#### **4.1.4.4. Geographical allocation principle for change of ownership**

A detailed geographical breakdown is available for major component of b.o.p and i.i.p. Trade in goods, trade in services, remittances, direct investments, securities etc., are available by different geographical breakdown. Data are available from 2009, recorded in a detailed database with a lot of other information available. Almost, all major b.o.p items can be compiled by countries.

In order to achieve a more precise geographical allocation from a risk analysis perspective, *BPM6* requires the application of the debtor/creditor principle. According to this principle, transactions/positions in a country's financial assets are assigned to the country that incurs the liability (the debtor) and transactions/positions in a country's financial liabilities are assigned to the country of residence of the creditor.

By contrast, the application of the transactor principle translates into classifying transactions/positions according to the country of the non-resident first-known counterpart or by country of settlement, both of which may not reflect the country of residence of the actual owner of the asset/liability acquired/incurred in all cases.

#### **4.1.4.5. Aggregation and netting**

Aggregations or combinations in which all elementary items are shown for their full values are called gross recordings (e.g. all interest credits are aggregated separately from all interest debits). The international accounts show the gross recording in their current and capital accounts.

The international accounts show the net recording in their financial account and other respective changes, meaning aggregations or combinations that show net changes (increases minus reductions) in a particular financial asset or a liability. In general, the net recording of flows in financial assets and liabilities is recommended in the international accounts from both an analytical and a pragmatic perspective. Net acquisition of external financial claims and net incurrence of external liabilities are generally of more analytical interest than the gross flows. Gross reporting of data may not be possible for different classes of units and for some financial instruments. Furthermore, transactions in some financial assets and liabilities often have to be derived from balance sheet data because gross transactions are not available.

#### **4.1.4.6. Imputations**

While most transactions can be clearly observed, some transactions do not reflect the underlying economic relationships and need to be rearranged so that the accounts portray economic reality.

In the imputation of transactions, entries are created in the accounts when no separate transactions are identified by the parties involved. As a general rule, transactions are to be imputed only in specific cases to reflect underlying economic relationships.

The following are the most notable cases of imputation of transactions in the international accounts.

- (1) Retained earnings of direct investment enterprises are attributed to direct investors as if the retained earnings had been distributed in proportion to direct investors' shares in the earnings of the direct investment enterprises and then reinvested by them in the direct investment enterprise. The rationale behind this treatment is that because a direct investment enterprise is, by definition, subject to control or influence by a direct investor or investors, the decision to retain some of its earnings within the enterprise represents an investment decision on the part of the direct investor or investors.
- (2) Investment income earned on technical reserves held by insurance corporations is deemed to be payable to policyholders, who are then deemed to return the funds back to insurance corporations as premium supplements even though in terms of actual cash flows the property income is retained by the insurance corporations. The same treatment is applied for the income earned by investing the technical reserves for standardised guarantees. Investment income earned on technical reserves held by life insurance corporations and defined contribution pension schemes, as well as the increase in entitlements during the period for defined benefits pension schemes, are also deemed to be payable to policyholders, who are then deemed to acquire financial claims on the life insurance corporations and pension funds.
- (3) Retained earnings of investment funds are treated as if they were distributed to shareholders, who are then deemed to reinvest in the fund.

#### **4.1.5. Residence**

Kosovo residents are considered legal entities that are registered and active in Kosovo and individuals that live in Kosovo and do not leave the country for a period longer than a year (except for diplomats, military personnel, students and patients). Specific importance is given to the treatment of UNMIK, EULEX, FROR and other international staff in Kosovo.

In general, the term resident means having one's center of predominant economic interest in the economic territory of a country.

A centre of economic interest exists when a unit engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale in or from a location, dwelling, place of production or other premises within a territory. For practical reasons, actual or intended location for one year or more is used as an operational threshold. However, the following are examples of borderline cases in the determination of residency.

- Students who go abroad to study full-time generally continue to be resident in the territory in which they were resident prior to studying abroad. This treatment is adopted even though their course of study may exceed a year, assuming that the movement is temporary and thus their centre of predominant economic interest remains the home country.
- Patients who go abroad for medical treatment maintain their predominant center of interest in the territory in which they were resident before they received the treatment, even if the treatment lasts one year or more.
- Crews of ships, aircraft, oil rigs, space stations or other similar equipment which operate outside a territory or across several territories are treated as being resident in their home country.
- National diplomats, peacekeeping and other military personnel, and other civil servants employed abroad in government enclaves, as well as members of their households are considered to be residents of the economic territory of the employing government.
- Staff of international organizations, including those with diplomatic status and military personnel are resident in the territory of their principal dwelling.
- Border workers, seasonal workers and other short-term workers who cross borders for a short period to undertake a job are considered residents in the economic territory in which they maintain a dwelling used by members of the household as their principal dwelling.

When undertaking international transactions in land and/or buildings (e.g. holiday homes), property owners are treated as if they have transferred their ownership to a notional institutional unit resident in the country where the property is located. The notional unit is treated as being owned and controlled by the non-resident owner.

A legal entity is resident in the economic territory under whose laws the entity is incorporated or registered. This applies also to legal entities with little or no physical presence, e.g. investment funds (as distinct from their managers), securitisation vehicles, and some special purpose entities (SPEs). If the entity is not incorporated, it is considered to be resident in the country whose legal system governs the creation and continued existence of the entity.

Subsidiaries are separate institutional units with independent legal status, either wholly owned or with majority ownership held by another entity (the parent institution). Branches are entities without independent legal status (they are wholly owned by the parent). However, when branches are located in a country other than the one in which the company controlling them is located, they are deemed to be separate institutional units.

#### 4.1.6. UNMIK and EULEX residency in Kosovo

The statistical treatment of international organization is defined by international standards. In Kosovo the treatment UNMIK and EULEX, based on their functions and responsibilities in Kosovo it would be methodologically incorrect to treat them as international organizations. Therefore, a special attention is given to the treatment of these organizations in Kosovo.

Based on the residency criteria (BPM6, paragraph 4123 and 4124), UNMIK / EULEX is an international organization and therefore satisfies the conditions to be classified as a nonresident of Kosovo.

A significant distinction is made in the treatment UNMIK/EULEX as an institution and their staff:

- UNMIK and EULEX as an institution is considered as a non-resident in Kosovo;
- The residence of the UNMIK's and EULEX's international staff is defined based on the period the their stay in Kosovo:
  - UNMIK's and EULEX's international staff that have a contract that exceeds a year of stay in Kosovo are considered as Kosovo residents (further referred as: 'international resident staff');
  - UNMIK's and EULEX's international staffs that have a contract shorter than one year are considered as non-residents of Kosovo (further referred as 'international non-resident staff').

The methodology for calculating the costs of UNMIK / EULEX is based on the publication of UNMIK "Impact of UNMIK in Kosovo Economy" published in July 2006. The data on UNMIK / EULEX updated based to the information provided directly by UNMIK / EULEX and publications of the United Nations and the European commission.

Statistical treatment of these institutions is based on the following suppositions:

- UNMIK's and EULEX's expenditure (as an institution) for purchase of goods and services in Kosovo are considered as exports (export of government services).
- UNMIK's and EULEX's expenditures on wages of staff (local and international) are considered as technical assistance (grants) to the Government of Kosovo (current transfers) from international organizations.
  - UNMIK/EULEX's international staff with a contract of more than a year (Kosovo residents) are estimated to spend around 14% of their wages in Kosovo, 76% is sent back to their respective countries (remittance debits), whereas the remaining 10% is considered as spending on international travel (travel services/debit)
  - UNMIK/EULEX's international non-resident staff with a contract less than one year (non-residents), are estimated to spend 14% of their wage in Kosovo (travel services/credit).



Wages for international resident staff are registered under debit of the item 'other business services'.

On the table shown below is an example that illustrates the above suppositions and the impact of UNMIK and EULEX in Kosovo's BoP:

Hypothetically saying that the UNMIK /EULEX's budget is 100, the expenditure framework would be as follows:

International staff wages	63
International resident staff	60
International non-resident staff	3
Local staff wages	17
Imported goods	8
Goods bought in Kosovo	2
Imported services	6
<u>Services acquired in Kosovo</u>	<u>4</u>
Total UNMIK /EULEX's budget	100

Hence, by applying the basic principle of double-entry, in BoP we will have following recordings:

**Table 1. Hypothetical example of UNMIK/EULEX in BoP**

Current account	Credit	Debit
Travel services		
International non-resident staff expenditures in Kosovo (14%*3)	0.4	
International resident staff expenditures to travel abroad (10%*60)		6.0
Other business services		
Wages of international non-resident staff		3.0
Government Services		
Expenditures for local goods and services (2+4)	6.0	
Current transfers		
Total wages (63+17)	80.0	
Migrants transfers (76%*60)		45.6
<b>The impact on the current account</b>	<b>86.4</b>	<b>54.6</b>

As a result of the suppositions shown above the UNMIK/EULEX's transactions for imported goods and services (except for transactions made in Kosovo) are considered as transaction between non-residents, hence are not registered in BoP.

#### 4.1.7. KFOR's treatment in ESS

KFOR is an international peacekeeping force that is led by NATO, who is responsible for establishing a secure environment in Kosovo. KFOR entered Kosovo on 12 June 1999 mandated by United Nations. KFOR is a military contingent, therefore in Kosovo BoP is treated as non-resident.

In the balance of payments, data obtained from KFOR recorded on the credit side, as salaries, services, goods.

#### 4.1.8. The treatment of other international staff

According to international standards, international staff in Kosovo (except for UNMIK and EULEX's staff) engaged in technical assistance or others forms of activities where Kosovo Institutions are the beneficiary are treated based on their period of stay in country. So, staff who stay more than one year are considered to have a centre of economic interest in Kosovo, so are treated as Kosovan residents. However, employees of embassies and other liaisons in Kosovo (diplomats, military personnel, and other employed of similar organizations and their family members that reside in Kosovo and have immunity and diplomatic privileges) are treated as non-resident in Kosovo.

#### 4.1.9. Allocation to institutional sectors

The sector breakdowns of Kosovo's b.o.p. and i.i.p. are consistent with the *BPM6* sectorisation, and they are presented as follows:

- (1) Central banks;
- (2) Deposit-taking corporations except the central bank;
- (3) General government;
- (4) Other sectors.

The full BPM6 sector breakdown will be implemented gradually, with the split of other sectors into financial corporations other than MFIs and non-financial corporations, households, and non-profit institutions serving households.

#### **Central Bank**

The central bank is the financial institution (or institutions) that exercises control over key aspects of the financial system. It carries out such activities as issuing currency, managing international reserves, transacting with the IMF, and providing credit to deposit-taking corporations.

#### ***Deposit-taking corporations except the central bank encompass:***

Deposit-taking corporations, except the central bank have financial intermediation as their principal activity. To this end, they have liabilities in the form of deposits or financial instruments (such as short-term certificates of deposit) that are close substitutes for deposits. In general, the following financial intermediaries are classified in this subsector:

- (a) commercial banks, "universal" banks, and "all purpose" banks;
- (b) savings banks (including trustee savings banks and savings and loan associations);
- (c) post office giro institutions, post banks, and giro banks;
- (d) rural credit banks and agricultural credit banks;
- (e) cooperative credit banks and credit unions;

- (f) traveler's check companies that mainly engage in financial activities; and
- (g) specialized banks or other financial institutions if they take deposits or issue close substitutes for deposits

### ***General government***

The general government sector consists of the following sub-sectors:

- Central government (excluding social security funds): all administrative departments of the state and other central agencies whose competence normally extends over the entire economic territory (with the exception of the administration of social security funds – see below);
- State government (excluding social security funds): institutional units exercising some of the functions of government at a level below that of central government and above that of local government (with the exception of the administration of social security funds – see below);
- Local government (excluding social security funds): those types of administrative departments, agencies, etc. of Member States, the competence of which covers only a restricted part of the economic territory of a country (excluding the local agencies for social security funds – see below);
- Social security funds: central, state and local institutional units whose principal activity is to provide social benefits and which fulfil the following criteria:
  - by law or by regulation certain groups of the population are obliged to participate in the scheme or to pay contributions;
  - General government is responsible for the management of the institution in respect of the settlement or approval of the contributions and benefits, independent of its role as supervisory body or employer.

Public non-financial corporations and quasi-corporations that are market producers principally engaged in the production of goods and non-financial services should be classified as other sectors. This also applies to public producers involved in the aforementioned activities and recognized as independent legal entities by virtue of special legislation. If included in the MFI list, public sector credit institutions should be included in the other MFIs sector, not under general government.

### ***Other sectors***

The other sectors category comprises:

- (a) Other financial corporations are institutional units providing financial services, where most of their assets or liabilities are not available on open financial markets. These corporations are included in the captive financial institutions and money lenders subsector.
- (b) Nonfinancial corporations: are corporations whose principal activity is the production of market goods or nonfinancial services.
- (c) Other financial intermediaries, except insurance corporations and pension funds: financial corporations and quasi-corporations that are principally engaged in financial intermediation

by incurring liabilities in forms other than currency, deposits or investment fund shares; or in relation to insurance, pension and standardised guarantee schemes from institutional units (includes financial vehicle corporations engaged in securitisation transactions, security and derivative dealers, financial corporations engaged in lending, and specialised financial corporations);

- a. Financial auxiliaries: financial corporations and quasi-corporations that are principally engaged in activities closely related to financial intermediation but that are not financial intermediaries themselves;
  - b. Captive financial institutions and money lenders: financial corporations and quasi-corporations that are engaged neither in financial intermediation nor in providing financial auxiliary services, and where most of either their assets or their liabilities are not transacted on open markets;
  - c. Insurance corporations: financial corporations and quasi-corporations that are principally engaged in financial intermediation as a consequence of the pooling of risks, mainly in the form of direct insurance or reinsurance;
  - d. Pension funds: all financial corporations and quasi-corporations that are principally engaged in financial intermediation as the consequence of the pooling of social risks and needs of the insured persons (social insurance). Pension funds as social insurance schemes provide income in retirement, and often also provide benefits in the case of death or disability.
- (b) Non-financial sub-sectors:
- i. Non-financial corporations (public, national private, and foreign controlled): institutional units that are independent legal entities and market producers, and whose principal activity is the production of goods and non-financial services;
  - ii. Households: individuals or groups of individuals as consumers and as entrepreneurs producing market goods and non-financial and financial services (market producers), provided that the production of goods and services is not carried out by separate entities treated as quasi-corporations. It also includes individuals or groups of individuals as producers of goods and non-financial services for exclusively own final use;
  - iii. Non-profit institutions serving households: non-profit institutions that are separate legal entities, that serve households and that are private non-market producers. Their principal resources are voluntary contributions in cash or in kind from households in their capacity as consumers, from payments made by general government and from property income.

Transactions and positions in external financial assets are assigned to the institutional sector to which the resident creditor (owner of the asset) belongs. Transactions and positions in external financial liabilities are assigned to the institutional sector to which the resident issuer of the liability belongs.

With regard to other investment flows and stocks, it should be added that:

- i. Government-guaranteed and/or bank-insured trade credits should be treated as private operations rather than as government or bank lending and should, therefore, be included under “other sectors”. In these cases the debtors have incurred liabilities, but have not as yet failed to discharge them; liability for such loans would not be transferred to the government or bank that guaranteed them until the loan recipient defaulted in payment.
- ii. Loans and deposits connected to repo-type agreements must be classified under the institutional sector to which the resident that extends or receives the financing belongs, regardless of the nature of the issuer of the securities acting as collateral. The residence of the borrower and lender is the decisive factor, not the residence of the issuer of the collateral.

#### **4.1.10. The Additional classification of financial assets and liabilities**

According to the BPM6, the financial assets and liabilities are classified according to three broad categories of instruments: (i) equity and investment fund shares, (ii) debt instruments, and (iii) other financial assets and liabilities.

Equity and investment fund shares include listed and unlisted shares, other equity, and investment fund shares units as components.

Debt instruments comprise an extensive array of financial instruments such as special drawing rights, currency and deposits (including repos), debt securities (bills, bonds, notes, negotiable certificates of deposit, commercial paper, debentures, asset-backed securities and money market instruments), loans (including financial leases), insurance technical reserves, pension and related entitlements, provisions for calls under standardized guarantees, trade credits and advances, and other accounts receivable/payable.

Other financial assets and liabilities include monetary gold, financial derivatives and employee stock options.

Transactions and positions in debt instruments are also classified by original maturity, into short-term (if payable on demand or with an original maturity of one year or less) and long-term (if it has a maturity of more than one year or no stated maturity).

## **4.2. GOODS**

Goods are physical, produced items for which a change of ownership occurs between residents and non-residents. The goods item of the euro area b.o.p. statistics covers general merchandise, net exports of goods under merchanting, and non-monetary gold. In accordance with general b.o.p. principles, change of ownership is the principle which determines the coverage and time of the recording of international transactions in goods.

General merchandise on a balance of payments (BOP) basis covers goods for which a change of economic ownership occurs between a resident and a non-resident and that are not included in other specific categories, such as goods under merchanting and non-monetary gold, or as part of some transactions in services. Exports and imports of goods are recorded on a free on board (f.o.b.) basis,

i.e. at market value at the customs frontiers of exporting economies (including charges for insurance and transport services up to the frontier of the exporting country).

The BPM6 recommends that the geographical allocation for exports be based on the country of final destination and that of imports be based on the country of origin.

Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a non-resident, combined with the subsequent resale of the same goods to another non-resident without the goods being present in the compiling economy. Net exports of goods under merchanting represent the difference between sales over purchases of goods for merchanting. This item includes merchants' margins, holding gains and losses, and changes in inventories of goods under merchanting. Acquisitions and subsequent resale of crude oil products when in transit between the production country and its final destination are typical examples of merchanting.

The goods acquired under merchanting are shown as a negative export/credit of the economy of the merchant. The sale of goods is shown under goods sold under merchanting as a positive export/credit of the economy of the merchant.

Non-monetary gold covers all cross-border transactions in gold other than monetary gold. Monetary gold is owned by monetary authorities and held as reserve assets. Non-monetary gold can be in the form of bullion, gold powder, and gold in other unwrought or semi-manufactured forms.

Statistics for international trade in goods are compiled based on the data received by Kosovo Customs. Import and export of goods are valued at market prices on the border of the exporting country for b.o.p. purposes (FOB). The compilation on imported goods by country is based on the country of origin of goods, whereas the compilation of exported goods is based on the final destination country.

The import of goods is recorded by Customs of Kosovo on CIF basis. To convert imports from CIF to FOB valuation for international accounts purposes, the value of freight and insurance premiums incurred from the frontier of the exporting country to the border of the importing country should be deducted. For goods when the customs points of the exporting and importing territory are contiguous, the CIF and FOB values would be the same. The FOB valuation point means that export taxes are payable by the exporter and that import duties and other taxes of the importing economy are payable by the importer. To the extent that this is not the case, adjustments like those for freight and insurance are necessary. The freight on imports is obtained by Customs of Kosovo, whereas the information on insurance of imported goods is estimated to be 1.5 % of the total imported goods. This assessment is done based on a survey that was conducted with the largest importer companies in Kosovo.

### **4.3. SERVICES**

Services are the result of a production activity that changes the conditions of the consuming units, or facilitates the exchange of products or financial assets. Services are not generally separate items over which ownership rights can be established and they cannot generally be separated from their production.

The services account of euro area b.o.p. statistics consists of the following items, which are to be recorded the moment they are delivered. Trade in services shows the provision of services by residents to non-residents and vice versa. In BoP services are subcategorized as follows:

- Manufacturing services on physical inputs owned by others;
  - Maintenance and repair services n.i.e.;
  - Transport;
  - Travel;
  - Construction;
  - Insurance and pension services;
  - Financial services;
  - Charges for the use of intellectual property n.i.e.;
  - Telecommunications, computer, and information services;
  - Other business services;
  - Personal, cultural, and recreational services;
  - Government goods and services n.i.e.
- **Manufacturing services on physical input owned by others:** Manufacturing services on physical inputs owned by others cover processing, assembly, labeling, packing, and so forth undertaken by enterprises that do not own the goods concerned. The manufacturing is undertaken by an entity that does not own the goods and that is paid a fee by the owner. In these cases, the ownership of the goods does not change, so no general merchandise transaction is recorded between the processor and the owner.

**Maintenance and repair services n.i.e.:** includes repair and maintenance of goods from Kosovar companies that are owned by non-residents and vice versa. However, some types of repairs and maintenance are not considered as such, for example: the maintenance and repair of computers are included under computer services, maintenance of transport vehicles in ports and airports is registered under transport services

- **Transport:** Transport is the process of carriage of people and objects from one location to another as well as related supporting and auxiliary services. Also included are postal and courier service. Transport can be classified according to:
- (a) mode of transport, namely, sea, air, or other (“other” may be further broken down into rail, road, internal waterway, pipeline, and space transport as well as electricity transmission);
  - (b) what is carried—passengers or freight.

Passenger transport is estimated based on data from surveys with agencies and companies flying based on ITRS data. The value of services for the transportation of goods is done based on the differences between the value of goods imported at CIF and FOB (debit side). Data sources for the costs of goods transporting used customs data and surveys of companies. Making provisions and agent fees for transport related services and airport landing fees are recorded in credit side;

- **Travel:** include services provided to nonresidents during their stay in Kosovo (credit), and the services offered to residents of Kosovo while staying abroad (debit). Services provided to the military and diplomatic personnel (e.g. KFOR and embassies) are considered as government services. Travel services in BoP are divided in two main subcategories: business travel and personal travel.
  - Business travel includes all modes of travel related to business activities, official travel of government employees, official travel of the international organizations (e.g. technical assistance), and employees of companies that are non-resident. Data on business travel is estimated based on information from companies through surveys and data from ITRS.
  - Personal travel includes the costs of Kosovo residents, on the travel abroad who return to Kosovo, that are not included in the travel business. This also includes accommodation costs of non-resident international staff in Kosovo (credit) and travel expenses for international resident staff (debit). It is assumed that non-resident international staff spends about 14% of their salary in Kosovo. This assessment is based on a study of the Office of Economic Policy former UNMIK 4th Pillar The main source of information for compiling the debit side of personal travel is a direct survey with Diaspora conducted by CBK.. The expenditure of Kosovars for holidays abroad is made by combining the information from central banks in the region (the Bank of Albania and Central Bank of Montenegro), as well as other information provided through the ITRS.
- **Construction:** covers the creation, renovation, repair, or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other such engineering constructions as roads, bridges, dams, and so forth. It also includes related installation and assembly work. It includes site preparation and general construction as well as specialized services such as painting, plumbing, and demolition. It also includes management of construction projects. Acquisition of goods and services by the enterprises undertaking that construction work from the economy of location of the construction work is also recorded under construction. Two main sources of the data for construction services are enterprise surveys and ITRS data. The ITRS is used to identify the construction companies. All major companies are requested to complete the survey, which are then checked with ITRS data through business number. The data for companies that have small activity on construction services are taken directly from the ITRS.
- **Insurance and pension services:** include all types of insurance that resident insurance companies provide to nonresidents and vice versa. Insurance services can be: insurance for imported or exported goods, other types of direct insurance (e.g. life insurance, non-life insurance and pension funds, healthcare insurance), and reinsurance. The data for the evaluation of insurance services are taken from customs data, monthly reports from insurance companies and from ITRS. The evaluation of insurance of goods is done according F.O.B evaluation on the value for imports. The ratio of insurance of goods value to the total amount of imports CIF considered to be 1.5%.
- **Financial services:** cover financial intermediary and auxiliary services, except insurance and pension fund services. These services include those usually provided by banks and other financial corporations. They include deposit taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting, and clearing of payments. Also included are financial advisory services, custody of financial assets or bullion,



financial asset management, monitoring services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services, and trust services include services of intermediaries and financial intermediaries, except for insurance and pension fund services.

Financial services may be charged for by:

- ✓ Explicit charges (financial counseling, financial leasing, asset management, brokerage, etc.).
- ✓ Margins on buying and selling transactions (Foreign exchange, shares, bonds, notes, financial derivatives, and other financial instruments are often bought and sold in this way.).
- ✓ Asset management costs deducted from property income receivable in the case of asset-holding entities; or
- ✓ Margins between interest payable and the reference rate on loans and deposits (called financial intermediation service charges indirectly measured, abbreviated as FISIM).

FISIM is calculated as follows:

For loans from financial corporations—the difference between the interest actually payable on loans and the amount that would be payable if the reference rate were used, and

For deposits with financial corporations — the difference between the interest that would be earned if a reference rate were used and the interest actually earned.

Table 3. Calculation of FISIM

The data required for the calculation of FISIM are:

- (1) values of loans and deposits (available from the IIP);
- (2) the corresponding interest payable / receivable ( available from the primary income account); and
- (3) the applicable reference rate (usually available from central bank bulletins and other publications).

In this example, all loans and deposits are denominated in domestic currency and are issued by financial corporations. The interbank interest rate is 5 percent per annum.

Average value of loans during the year = 1000

Actual interest receivable by financial corporations on loans = 70

partitioned into:

50 pure interest receivable (derived as 1000 at 5 percent)

20 FISIM receivable (derived as 70 – 50)

Average value of deposits during the year = 500

Actual interest payable by financial corporations on deposits =10

partitioned into:

25 pure interest payable (derived as 500 at 5 percent)

15 FISIM receivable (derived as 25 – 10)

Total FISIM receivable by financial corporations = 35 (20+15)

Main sources of data for this category of services are: monetary and financial services (credit, deposits, interest rates) and BoP statistics (primary income).

- **Charges for the use of intellectual property n.i.e.:** Charges for the use of intellectual property n.i.e. include:
  - ✓ Charges for the use of proprietary rights (such as patents, trademarks, copyrights, industrial processes and designs including trade secrets, franchises). These rights can arise from research and development, as well as from marketing; and

- ✓ Charges for licenses to reproduce or distribute (or both) intellectual property embodied in produced originals or prototypes (such as copyrights on books and manuscripts, computer software, cinematographic works, and sound recordings) and related rights (such as for live performances and television, cable, or satellite broadcast).

The data are compiled using the data from ITRS and enterprise surveys.

▪ **Telecommunications, computer, and information services:**

- ✓ Telecommunications services encompass the broadcast or transmission of sound, images, data, or other information by telephone, telex, telegram, radio and television cable transmission, radio and television satellite, electronic mail, facsimile, and so forth, including business network services, teleconferencing, and support services.
- ✓ Computer services include provisions paid or received by non-residents on services as follows: payments for development of databases, data storage, 'on-line' services, time series, data processing, data inputs; software design, development, implementation, programming; consultancy on electronic parts; repair and maintenance of computer hardware/peripherals and other related services.
- ✓ Information services include payments related to services received from news agencies, information provision and dissemination etc.

Main sources of data for this category of services are: surveys with telecommunication enterprises, TV stations and other related enterprises and ITRS.

- **Other business services:** here are included various business services such are: research and development services, professional and management consulting services, technical, trade-related, and other business services, waste treatment and depollution, agricultural, and mining services, operating leasing, trade-related services, and other business services.
- **Personal, cultural, and recreational services:** these services consist of (a) audiovisual and related services and (b) other personal, cultural, and recreational services. Audiovisual and related services consist of services and fees related to the production of motion pictures (on film, videotape, disk, or transmitted electronically, etc.), radio and television programs (live or on tape), and musical recordings. Other personal, cultural, and recreational services include health services, education services, and other services. Other personal, cultural, and recreational services include those associated with museums and other cultural, sporting, gambling, and recreational activities, except those included in travel. The fees and prizes of athletes are included.
- **Government goods and services n.i.e.:** includes all transactions with embassies, consulates, international organizations, military units and defense agencies with resident staff or military personnel in economies in which they are located. All the transaction with foreign Embassies and the export of goods and services with KFOR are registered under credit in BoP. Main sources of

data for this category of services are: ITRS, Embassies, Government and Government Agencies, UNMIK and EULEX.

Government goods and services n.i.e cover the following categories:

- ✓ goods and services supplied by and to enclaves, such as embassies, military bases, and international organizations;
- ✓ goods and services acquired from the host economy by diplomats, consular staff, and military personnel located abroad and their dependents; and
- ✓ Services supplied by and to governments and not included in other categories of services.

## 4.6. PRIMARY INCOME

The primary income component relates to income earned by the three factors of production: labor, capital and land. Consequently, the income consists of compensation of employees working abroad and investment income.

### 4.4.1 Compensation of Employees

Compensation of employees comprises wages, salaries, allowances and other benefits payable by resident enterprises to nonresident employees or earned by residents employed abroad for work performed for and paid for by residents of those economies. This includes seasonal workers or other short-term workers (less than one year) and border workers who are residents of one economy and work in another economy.

Remunerations paid by international organizations and KFOR to the residents employers are registered in the credit side of the compensation of employees (except the compensation earned by residents employed in UNMIK and EULEX which is registered under the current transfers). Compensation of employees is calculated based on the different source of information, including data collected directly from UNIK, EULEX, KFOR, Ministries, Embassies and other international organizations. Hence, data of the compensation of employees are registered as gross salaries including contributions and taxes.

### 4.4.2 Investment Income

Investment income is derived from a resident's ownership of a financial asset issued by a non-resident (credit) or conversely, from a non-resident's ownership of a financial asset issued by a resident (debit). Investment income includes income on equity (dividends, withdrawals from income of quasi-corporations, reinvested earnings and investment income attributable to investment fund shareholders) and on debt (interest), as well as investment income attributable to policyholders in insurance, pension schemes, and standardized guarantee schemes. Capital holding gains and losses

(realized or unrealized) are not classified as income on investments, but as revaluations (due to exchange rate or other price changes).

#### 4.4.2.1 Direct Investment Income

Direct investment income includes all investment income arising from direct invested capital and intercompany lending between resident and nonresident institutional units.

Credit side of direct investment represents income earned from direct investments abroad. While the debit side represents income earned by non-resident direct investors in Kosovo. Data are presented separately for income from capital and income from debt. Incomes from capital are divided into "dividends and profit distribution branches" and "reinvested earnings and undistributed branch profits".

The main sources of data on direct investment income are quarterly enterprise surveys and data from International Transactions Reporting System (ITRS).

#### 4.4.2.2 Portfolio Investment Income

Portfolio investment income includes income flows between residents and nonresidents arising from positions in equity (dividends) and debt securities (bonds, notes, and money market instruments) other than those classified under direct investment or reserve assets, as defined in BPM6.

Up to now there has not been any income registered from portfolio investments abroad in the form of equity. While the source of data on income from investments in debt securities are CBK, commercial banks, insurance companies, pension funds and ITRS.

#### 4.4.2.3 Other Investment Income

Other investment income covers flows between resident and nonresident institutional units in regard to interest on deposits, loans, trade credit and advances, and other accounts receivable/payable; income on equity and investment fund shares that are not classified in any other functional categories; and investment income attributable to policyholders in insurance, standardized guarantees, and pension funds. Interest payable on SDR allocations is also recorded under other investment income.

Income from loans, deposits and reserve assets are registered on the accrual basis. Loans are calculated based on the enterprise surveys and ITRS.

#### 4.4.3 Income on reserve assets

Investment income on reserve assets includes income on equity and investment fund shares, and interest. Fees on security lending and monetary gold loans and interest on unallocated gold accounts are also included under interest on reserve assets. Income on equity and investment fund shares can

be further classified into dividends on equity securities and income attributable to investment fund shareholders. The latter includes both distributed and reinvested earnings. Interest receivable can also be further classified by type of financial instruments. The data source for income on reserve assets are monetary and financial statistics.

#### 4.5 SECONDARY INCOME

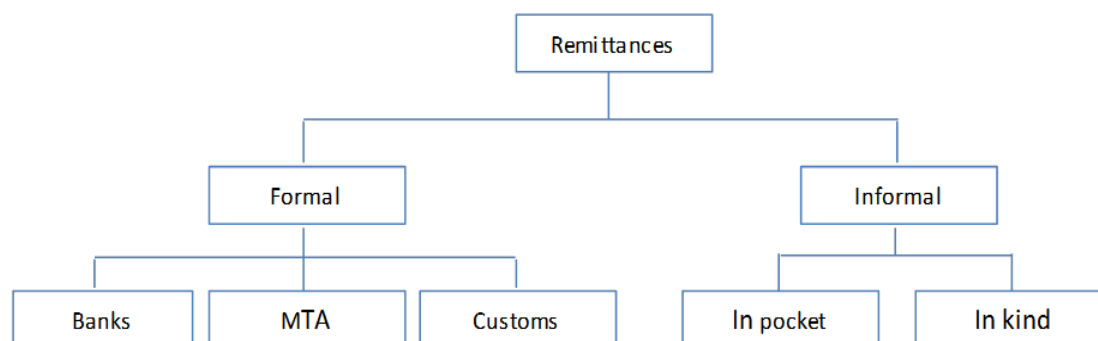
This category consists of unilateral transactions that Kosovo receives from another country without providing any real resource or financial item in exchange to this transaction. Transactions might be in the form of real resource, such as goods or services, or a financial item. Transfers are identified separately as current and capital transfers. Current transfers are recorded under current account of the balance of payments while capital transactions are recorded under capital account.

Transfers separation in these two categories is necessary in order to harmonize the balance of payments with the national accounts. Current transfers directly affect the level of disposable income and should influence the consumption of goods or services. Capital transfers are the transfer of ownership of fixed assets and debt forgiveness. Secondary income represents redistribution of income through current transfers, such as government and other transfers (charities or remittances etc.)

- **Governmental sector:** consist of state aid from abroad. Such as, current transfers of the government sector are aids in the form of technical assistance (grants, aid donors, and costs directly EULEX). The main sources of data for the evaluation of current transfers to government sector in Kosovo are the Agency for Coordination of Development and European Integration (Ministry of European Integration), other government institutions, the EU and the ITRS report.
- **Financial and non-financial corporations, households and NPISH:** contain transactions such as personal transfers (including remittances), other current transfers (social contributions and benefits, other taxes on income and wealth. Since remittances are a major item within the personal transfers, a special attention has been given on the method for compiling statistics of remittances.

Worker remittances include current transfers by migrants who are employed abroad and are considered resident in the economy in which they are working. A migrant 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 non-resident; their transactions are suitable mainly for compensation of employees' component.

Assessment of income from remittances is made based on the main channels of the flows. A variety of data sources is used for measuring the inflow of remittances. Special focus is given on identifying remittances from institutional channels (banks, funds transfer agencies, and money declared crossings) and remittances coming through non-institutional channels (undeclared cash at border points, and remittances in goods from migrants living abroad. The scheme of compilation of Kosovo's remittances statistics (credit side) is shown below:

**Figure 2. Channels of remittances**

On the debit side of the balance of payments remittances include money send abroad from the international staff already resident in Kosovo. It is estimated that international staff do remit abroad to their relatives about 76% of their wages. Data sources for foreign workers residents in Kosovo are budget of UNMIK / EULEX and the Agency for Coordination of Development and European Integration (OPM).

The main sources of data for the evaluation of non-governmental sectors transfers are ITRS report, other data from banks, Kosovo Customs, Household Budget Survey (conducted by KAS) and other administrative sources.

#### 4.6. CAPITAL ACCOUNT

The capital account covers the acquisition/disposal of non-produced, non-financial assets and capital transfers. The sum of the current and capital account balances can also be shown as a balancing item, which is labelled as net lending (+)/net borrowing (-).

##### 4.6.1. Acquisition and disposal of non-produced, non-financial assets

Non-produced, non-financial assets consist of: (i) natural resources (land, mineral rights, forestry rights, water, fishing rights, air space, and electromagnetic spectrum); (ii) contracts, leases and licences; and (iii) marketing assets (brand names, trademarks) and goodwill.

The main sources of data for the evaluation of capital transfers are ITRS report, data from KFOR, as well as evaluations from various other sources identified by the BOP Division of the CBK.

##### 4.6.2. Capital transfers

Capital transfers consist of: (i) transfers of ownership of fixed assets; (ii) transfers of funds linked to, or conditional on the acquisition or disposal of fixed assets; and (iii) the cancellation, without any consideration being received in return, of liabilities by creditors (such as debt forgiveness).

Data collection for capital account compilation is part of the overall reporting system. Within this category are recorded all receipts or payments transactions of the: (1) capital transfers and (2) transactions in non-productive assets and non-financial (such as patents and copyrights). Source of data are mainly the Ministry of Finance and ITRS.

Capital transfers are associated with the transfer of ownership of a fixed assets, or forgiveness of a liability by a creditor unilaterally without reward. Debt forgiveness is considered as voluntary debt deletion between a creditor and a debtor from another country. Data sources are the data obtained from government institutions, ITRS and other administrative data.

## 4.7. FINANCIAL ACCOUNT

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

### 4.7.1. DIRECT INVESTMENT

Direct investment inflows are recorded in the basis of assets / liabilities:

- **Direct investment in the country:** includes net investment by foreign companies in their affiliates enterprises located in Kosovo. CBK uses various sources of information for the compilation of the FDI. Key source of information for the evaluation of FDI in Kosovo are the Privatization Agency of Kosovo (PAK), reports of commercial banks to CBK (ITRS) and Enterprise Surveys.
- **Direct investment abroad:** covers net investment made by parent companies resident in Kosovo in the foreign affiliate's enterprises, subsidiaries and associated companies.

#### 4.7.1.1. Definition of FDI

Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. In compiling BOP statistics CBK uses criteria as below:

- Control exists if the direct investor owns more than 50 percent of the voting power in the company's direct investment and
- A considerable degree of influence existed if the direct investor owns 10-50 percent of the voting power in the direct investment enterprise.

Using these criteria, a direct investment relationship can exist between a number of enterprises, regardless of whether the connection string includes a single chain or a number of chains. Components of direct investment transactions are:

- Share capital: investments in companies involved mother - daughter, shares in subsidiaries and partnership (except non-participating preferred shares that are treated as debt securities), and other capital contributions;



- Reinvested earnings - Revenues consist compensated for the corresponding current account income item: it is the direct investor's share of retained earnings of branches, subsidiaries and associates;

Debt instruments: covers all financial transactions between branches (borrowing and lending of funds), including debt securities and trade credits.

Due to the complex nature of direct investment initial estimates are often revised as annual accounts become available. In such cases, the companies will be contacted in order to verify the information. Also, some gaps may arise regarding the identification of indirect relations companies.

#### 4.7.1.2. Estimation methods

Reinvested earnings derived as net profit of the reporting period after deducted the amount of dividends paid to shareholders. However, the actual amount of dividend to be paid is not available until the end of the year, when the decision to distribute dividends is taken. Assessment of net income reinvested included as preliminary data on BOP, and replaced with the latest data when the actual amount of dividends paid is available.

### 4.7.2. PORTFOLIO INVESTMENT

Portfolio investments are part of the overall reporting system. Debt securities include bonds and notes with the maturity term of more than one year and money market instruments with maturity of one year or less. The data on debt securities, in the case of Kosovo, include investments in securities outside the CBK and commercial banks. The collection of these statistics is done regularly in quarterly basis.

The main source of information on portfolio investment data are obtained from the relevant departments within CBK, commercial banks operating in Kosovo and pension funds.

#### 4.7.2.1. DEFINITION

This category covers the acquisition and disposal of equity and debt securities, which cannot be classified under direct investment transactions or reserve assets. The included debt securities are traded (or tradable) in organized markets and other financial markets.

### 4.7.3. OTHER INVESTMENTS

Other investments are part of the overall reporting system. Information about other capitals, currency and deposits, loans and technical reserves of guaranties are obtained from balance sheet of commercial banks, the balance sheet of the CBK, MEF (government deposits abroad), the balance sheet of institutions other financial, ITRS (deposits and loans of non-financial entities outside) and enterprise surveys (other accounts payable / receivable).

#### 4.7.3.1. DEFINITION

Other investment covers assets and liabilities other than those classified as direct investment, portfolio investment or reserve assets. Other investments include other equity, short and long term loans, currency and deposits, commercial loans and advances, technical reserves guarantees. Short-term trade credits include subscriptions by non-residents for future exports (on the liability side) and expected payments overdue for export by non-residents (on the estate). These data are available on a monthly basis.

#### 4.7.3.2. ESTIMATION METHODS

Evaluation of commercial loans is made by taking into account the data received from customs and ITRS and by using daily estimation.

Evaluation of the money in circulation is based on combination of data obtained from KAS and CBK Statistics department estimations.

### 4.7.4. RESERVE ASSETS

Collecting data on reserve assets is part of the overall reporting system. The data source is the Division of Monetary and Financial Statistics of the CBK. Reserve assets are available on a monthly basis.

#### 4.7.4.1. DEFINITION

Reserve assets consist of external assets that are controlled by the monetary authorities and are ready for direct financing of international payments imbalances, for indirectly regulating the magnitude of such deficit through intervention in exchange markets to influence the rate of foreign exchange and / or for other purposes. Reserve assets consist of:

- Monetary gold
- Special Drawing Rights (SDR)
- Reserve position in the IMF
- Foreign exchange
- Other reserve assets

In the case of Kosovo, the reserve assets consist of SDRs, reserve position in the IMF, and the claims on nonresidents (in euro currency). Reserve assets are composed of CBK claims on non-residents in the form of cash at CBK, CBK's deposits invested abroad, as well as securities. This concept constitutes gross international reserves. Then to this amount is deducted the value of deposits from Kosovo Privatization Agency and the value of Pension Funds CBK, because these deposits held with the CBK do not comply the essential feature of 'control' on international reserves.

#### **4.7.5. NET ERRORS AND OMISSIONS**

Theoretically, the amount of income on the credit side must equal the sum of incomes in the debit side during the referred period. In practice, due to the fact that some transactions may not be included or because of differences in coverage, valuation and timing of transactions there will not be exact symmetry and the balancing item net errors and omissions appear in order to balance the general account. The size of this item should be relatively small in relation to the combined value of all credit and debit transactions denominated in absolute terms.



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